SHINSEI BANK

The Next Chapter

Annual Report 2010

For the fiscal year ended March 31, 2010

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Shinsei Bank is a leading diversified Japanese financial institution providing a full range of financial products and services to both institutional and individual customers. The Bank has total assets of ¥11.3 trillion (US$122.0 billion) on a consolidated basis (as of March 2010) and a network of 42 outlets that includes 31 branches and 11 annexes in Japan. Shinsei Bank demands uncompromising levels of integrity and transparency in all its activities to earn the trust of customers, staff and shareholders. The Bank is committed to delivering long-term profit growth and increasing value for all its stakeholders.

Fiscal year 2009 was another year of progress and setbacks for Shinsei Bank. Over the past year, we have gone "back to basics" to focus on businesses that meet the needs of our institutional and individual customers primarily in Japan. However, we also took a series of necessary actions aimed at resolving legacy issues and returning the Bank to a stable and normalized growth trajectory. This led to a substantial net loss for a second consecutive year and our decision to forgo a dividend on common shares. We deeply regret that shareholders and many other of our stakeholders have suffered as a result.

The Next Chapter

Fiscal year 2010 marks Shinsei Bank's tenth anniversary. We are ready to begin the next chapter in our history. Reflecting on the past, we have renewed our top management and corporate governance framework and are implementing drastic cost rationalization measures. At the same time, we have formulated a new Medium-Term Management Plan. With a renewed awareness that we are in receipt of public funds, going forward the Shinsei Bank Group will fulfill our primary role of offering access to financial services to the customers who need them, aiming to "rebuild our customer franchise in Japan" and "establish a stabilized earnings base."

SHINSEI TIMELINE

Management Timeline (calendar year) (Products and services in blue)

00

- **Launched as innovative Japanese bank under new management and new ownership**
- Commenced counter sales of investment trusts
- Commenced three-year coupon debenture issuance (market offering)
- Name changed from The Long-Term Credit Bank of Japan, Limited, to Shinsei Bank, Limited
- Changed the Bank's corporate mark
- Adopted new human resources system
- Commenced cooperation with Postal Savings system
- Cooperation with six trust banks

01

- Business alliance with Monex, Inc.
- Commenced operations of Shinsei Securities Co., Ltd.
- Began offering new retail banking services
- Launched *PowerFlex* comprehensive banking account service
- Opening of Shinsei Financial Center (Head Office)
- Launched Internet banking service
- Began offering 24-hour/365-day ATM service
- Extended retail branch business hours to 7:00 p.m.
- Extended Postal Savings ATM operating hours
- Commenced ATM tie-up with Seven Bank, Ltd.

02

- Established Institutional Banking Group
- Began offering new type of housing loan
- ATM tie-up with Keihin Electric Express Railway Co., Ltd.
- Formation of business tie-up with Ramius Capital Group, LLC, enabling the Bank to exclusively offer its clients investment vehicles managed by Ramius
- Began offering four annuity products for individuals
- Commenced operations of Shinsei Business Finance Co., Ltd., which focuses on lending to small businesses

03

- Commenced operations of Shinsei Investment Management Co., Ltd.
- Selected as sponsor of corporate revitalization process for Matsuyadenki Co., Ltd.

04

- Listed Bank's common stock on First Section of the Tokyo Stock Exchange
- Acquired consumer installment credit business of Teijin Finance Limited
- Entered into advisory services agreement with Taiwan's Chiao Tung Bank Co., Ltd.
- Converted the Bank's long-term credit bank charter to an ordinary bank charter
- Achieved one million retail accounts
- Converted to "Company with Committees" (*iinkai-tou setchi-gaisha*) board model
- Acquired controlling interest in APLUS Co., Ltd. from UFJ Bank Limited
- Installed ATMs that accept foreign bank cards and credit cards

Total Revenue (Billions of yen) / Number of retail accounts (thousands)

	00	01	02	03	04
Non-interest income		16.1	31.3	41.6	66.4
Net interest income		85.8	88.4	66.1	57.1
Total Revenue	19.0				
Number of retail accounts (thousands)		469	553	666	953

* As of March 31

* Total revenue for the fiscal year ended March 31, 2000, came to ¥19.0 billion, which includes net interest income of ¥20.7 billion and non-interest income of ¥-1.7 billion.

External Recognition

02

- Received *FinanceAsia*'s Best Local Bank (Japan) award

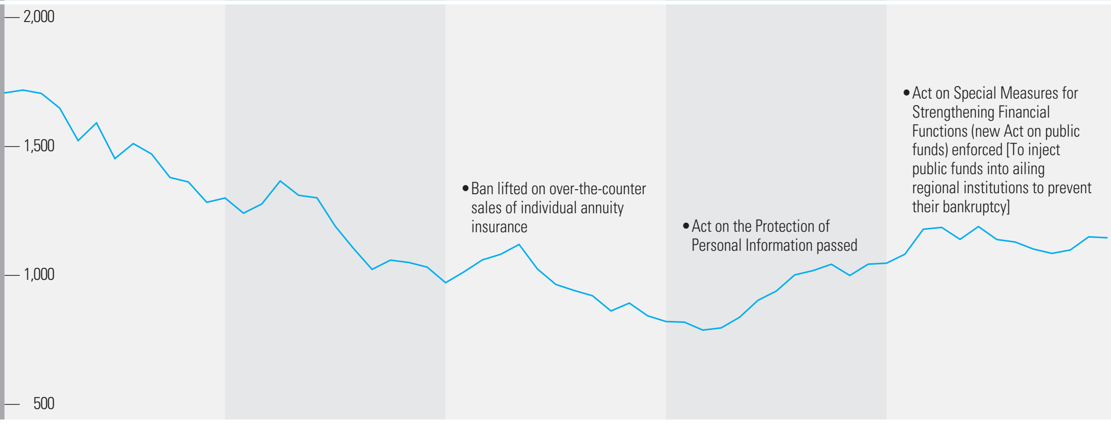
03

- Received *FinanceAsia*'s Best Local Bank (Japan) award for the second year running
- Received *The Banker*'s 2003 Bank of the Year for Japan award
- Received *International Financing Review (IFR)*'s 2003 awards for "Best Securitization Deal and Team"

04

- Received *Nikkei Bonds & Financial Weekly*'s 2003 Best Securitized Product award
- Received *EUROMONEY*'s Best Bank in Japan 2004 award
- Ranked No. 1 in *Nihon Keizai Shimbun* (Nikkei) customer satisfaction survey

External Environment (Trends in Topix in blue)



02

- Ban lifted on over-the-counter sales of individual annuity insurance

03

- Act on the Protection of Personal Information passed

04

- Act on Special Measures for Strengthening Financial Functions (new Act on public funds) enforced [To inject public funds into ailing regional institutions to prevent their bankruptcy]

05

111.1
66.8
1,313

- Acquired controlling interest in Showa Leasing Co., Ltd. from Resona Bank Limited
- Installed ATMs at major Tokyo Metro stations
- Commenced operations of Shinsei International Limited
- Launched sales of 32 color cash cards
- Launched online securities brokerage agent services with Rakuten Securities, Inc.
- Formed alliance with AXA Financial Co., Ltd. (successor of Credit Suisse Life Insurance Co., Ltd.)
- Commenced sales of three investment-type (variable) individual annuity insurance products
- Launched *PowerBuilder*, an automatic installment-type foreign currency time deposit
- Acquired all shares of Aioi Insurance Company of Europe Limited

- Ranked No. 1 in *Nikkei* customer satisfaction survey for second straight year

- The full deposit guarantee terminated
- Act on the Protection of Personal Information enforced

06

191.4
82.2
1,717

- Issued USD-denominated preferred securities and subordinated notes outside Japan
- Signed an agreement for non-performing loan servicing company joint venture with Woori F&I in Korea
- Launched *PowerSmart Home Mortgage Loan* (Long-Term Fixed-Rate Type)
- Commenced offering *Shinsei PowerDirect Nenkin*, the first Japanese online annuity developed by AXA Financial Co., Ltd. (successor of Winterthur Swiss Life Insurance)
- Commenced resolution of public funds
- Executed strategic investment in Jih Sun Financial Holding Co., Ltd. in Taiwan
- Launched *Power Step Up Yokin*, yen time deposit
- Partially canceled Shinsei Bank common shares held as treasury stock
- Issued GBP-denominated perpetual subordinated notes
- Commenced offering *Shinsei UTI India Fund*

- Received *EUROMONEY*'s Best Bank in Japan 2006 award
- Ranked No. 1 in *Nikkei* customer satisfaction survey for third straight year

- Bank agency business system relaxed [General companies became able to conduct banking business]
- Financial Instruments and Exchange Act passed
- The revised Money-Lending Business Control and Regulation Law passed

07

172.8
95.4
1,994

- Shinsei Retail Banking and APLUS partnered to launch Shinsei VISA Card
- Achieved two million retail accounts
- Launched New *Shinsei Platinum Services*
- Launched securities brokerage services in partnership with Shinsei Securities Co., Ltd.
- Made an equity investment in Duff & Phelps Corporation and signed an agreement to share their customer base
- Acquired a controlling interest in SHINKI Co., Ltd. via full subscription to rights offering

- Shinsei Servicing Co. received "Above Average" CMBS Servicer Ranking from S&P
- Ranked second in *Nikkei* fourth annual customer satisfaction survey

- Basel II commenced (with operational risk included for risk-weighted assets)
- Financial Instruments and Exchange Act enforced

08

125.0
137.7
2,196

- Reached mutual agreement with Seven Bank, Ltd. to share sales channels and develop products and services together
- Completed tender offer bid for the Bank's common shares and third-party allotment of new common shares of the Bank to investor group led by J.C. Flowers & Co. LLC and affiliates
- Concluded Operational Alliance Agreement with Towa Bank, Ltd.
- Launched Shinsei *MobileDirect* mobile banking service
- Launched Shinsei Bank *SmartCard Loan* service
- Established a business alliance with So-net M3, Inc.
- Opened first joint ATM corner with Seven Bank, Ltd.
- Acquired GE Consumer Finance Co. Ltd. (changed company name to Shinsei Financial Co., Ltd. on April 1, 2009)

- Ranked third in *Nikkei* fifth annual customer satisfaction survey

- Act on Special Measures for Strengthening Financial Functions extended (December) [For the injection of public funds to increase loans for small and medium-sized companies (Countermeasures for credit crunch and credit withdrawal)]
- The subprime loan crisis occurred

09

55.2
202.9
2,401

- Launched *Shinsei Step Up* Program
- Concluded tender offer for the shares of common stock of SHINKI Co., Ltd.
- Issued JPY-denominated Tier I Preferred Securities
- Partially repurchased and cancelled USD Preferred Securities
- Launched 8 Shinsei Consulting Spots
- Issued non-dilutive subordinated bonds to retail investors

- Received "Best Retail Bank in Japan" award from The Asian Banker
- Selected for inclusion in first Dow Jones Sustainability Asia Pacific Index

- Financial Instruments and Exchange Act partially revised. As a result, the regulations on banking and securities operations were eliminated
- The revised Installment Sales Act enforced

10

77.5
207.9
2,524

- Opened Jiyugaoka Consulting Spot (Tokyo)
- Lowered foreign currency exchange commission fees
- Increased ownership of APLUS FINANCIAL Co., Ltd.
- Partially repurchased and cancelled Tier I preferred securities
- Opened Ashiya Consulting Spot (Hyogo)
- Opened Takatsuki Consulting Spot (Osaka)
- Moved to a "Company with Board of Statutory Auditors" board model

- Received "Best Retail Bank in Japan" award from The Asian Banker

- Full enforcement of the revised Money-Lending Business Control and Regulation Law (June) [The maximum interest rate of unsecured loans was set at a maximum of 15-20% a year as provided by the Interest Rate Restriction Act. Also, the lender requirement limiting loans to one-third of a borrower's annual income was enforced]

2,000
1,000
500

OUR BUSINESS MODEL

Management Principles

- A banking group that has stable earnings power, is truly depended upon by customers and that contributes to the development of both domestic and international industrial economies
- A banking group that has built on its past experiences and history, values diverse talents and cultures and continually takes on new challenges
- A banking group that strives for transparent management, valued and trusted by all stakeholders, including customers, investors and employees

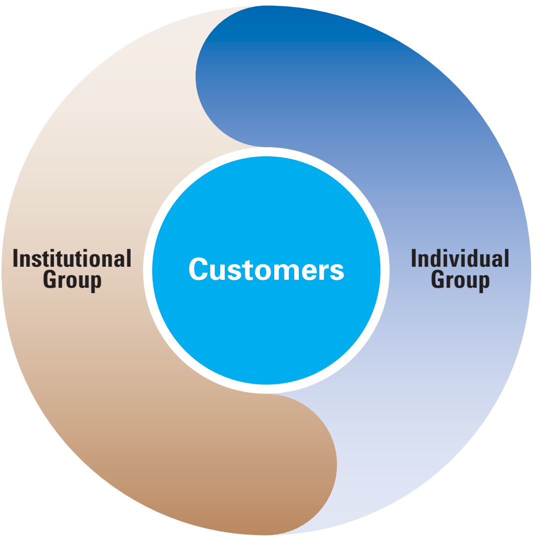
Medium-Term Goals

Rebuilding the Customer Franchise and Establishing a Stabilized Earnings Base

Institutional Group

Concentrate Resources in Core Businesses

- Build customer-centric organization
- Provide financial services with added value and rebuilding domestic customer franchise by strengthening relationships
- Improve ability to provide solutions and cross-selling
- Reduce divestible non-core business assets by 50%
- Enhance abilities of relationship managers, promote appropriate reallocation of the workforce and upgrade risk assessment capability



Individual Group

Enhance Core Businesses

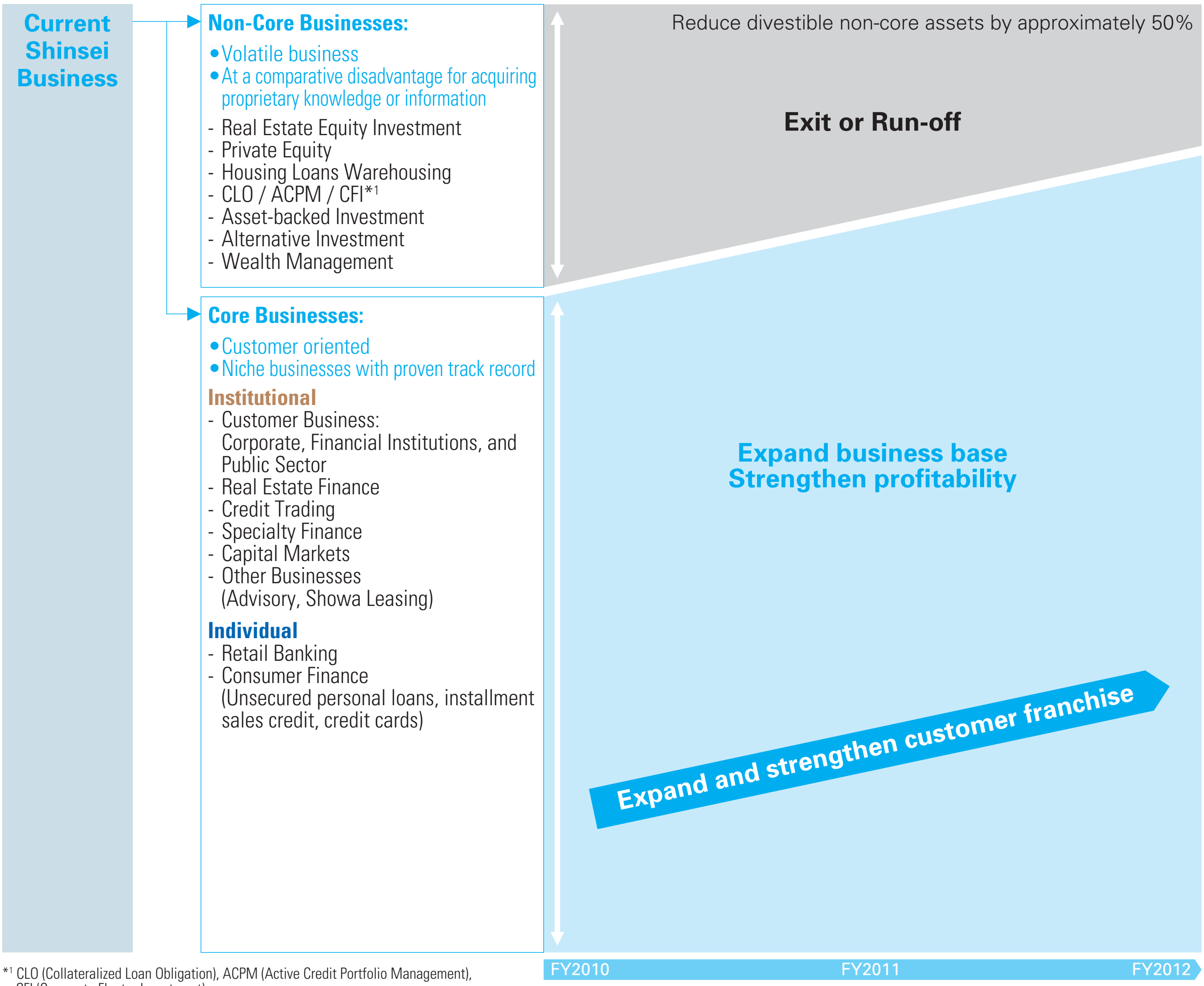
- Retail Banking
  - Stabilize funding base and promote lower funding costs
  - Strengthen asset management business by expanding access points (Consulting Spots)
  - Expand housing loan business
- Consumer Finance
  - Appropriate measures to comply with Money-Lending Business Control and Regulation Law (MLBL)
  - Draw up and implement strategy by taking into consideration industry trends and performance
- Explore synergy between retail banking and consumer finance operations

Strengths	Opportunities
• Diversity • Tailor made solutions • High customer satisfaction • Swift decision making, agile execution	• New customers • "Responsible consumer lending" • Niche businesses • Ever-changing lending and investment needs of customers
Weaknesses	**Threats**
• Volatility of earnings • Smaller customer base	• Fierce competition • Political, legislative and economic uncertainties

OUR STRATEGY

Basic Concepts of Medium-Term Management Plan

- Period: Three years from fiscal year 2010 to fiscal year 2012 (ending March 31, 2013)
- Focus on rebuilding customer franchise, stabilizing earnings and cost reductions, having reflected on lessons learned and past events
- Targets at the end of management plan
  - Achieve external credit ratings of A/A-
  - Realize total capital adequacy ratio of 10%, Tier I capital ratio of 8%, core Tier I capital ratio of 6%
- Goals for each fiscal year
  - Fiscal year 2010: lay groundwork for stabilized earnings
  - Fiscal year 2011: Measures for diversification of revenues through new businesses
  - Fiscal year 2012: Record stable earnings at operating speed
- Enhance management control (including renewal of corporate governance structure)
- Establish an organizational framework to devise detailed plans for the repayment of public funds
  - Speedy and stringent execution to ensure the achievement of the targets set in the financial projection
  - Foster healthy organizational culture with emphasis on the importance of compliance



*1 CLO (Collateralized Loan Obligation), ACPM (Active Credit Portfolio Management), CFI (Corporate Floater Investment)

FINANCIAL HIGHLIGHTS

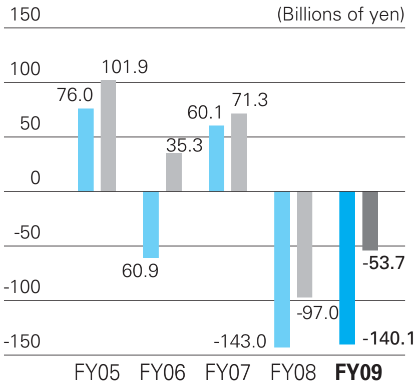
Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2006, 2007, 2008, 2009 and 2010*1

	Billions of yen				
	2006	2007	2008	2009	**2010**
For the fiscal year:					
Net interest income	¥ 82.2	¥ 95.4	¥ 137.7	¥ 202.9	**¥ 207.9**
Non-interest income	191.1	160.8	124.9	(19.8)	**56.2**
Net fees and commissions	45.4	46.4	40.8	26.5	**25.1**
Net trading income (loss)	27.5	17.8	9.0	(4.6)	**9.0**
Net other business income (loss)	118.0	96.6	74.9	(41.7)	**22.1**
Total revenue	273.4	256.3	262.6	183.1	**264.2**
General and administrative expenses	136.5	150.2	158.7	182.0	**170.8**
Ordinary business profit	107.3	85.3	91.3	(16.4)	**72.5**
Net credit costs	30.1	51.9	73.5	129.0	**112.2**
Ordinary business profit (Loss) after net credit costs	77.1	33.4	(17.8)	(145.5)	**(39.7)**
Net income (loss)	76.0	(60.9)	60.1	(143.0)	**(140.1)**
Cash basis net income (loss) *2	101.9	35.3	71.3	(97.0)	**(53.7)**
Balances at fiscal year-end:					
Securities	1,494.4	1,854.6	1,980.2	2,174.1	**3,233.3**
Loans and bills discounted	4,087.5	5,146.3	5,622.2	5,876.9	**5,163.7**
Total assets	9,405.0	10,837.6	11,525.7	11,949.1	**11,376.7**
Deposits and negotiable certificates of deposit	4,071.7	5,420.9	5,806.6	6,272.1	**6,475.3**
Debentures	1,018.9	703.2	662.4	675.5	**483.7**
Total liabilities	8,287.8	9,904.4	10,560.5	11,181.7	**10,741.8**
Total equity*3	—	933.2	965.2	767.4	**634.9**
Total liabilities and equity	¥ 9,405.0	¥ 10,837.6	¥ 11,525.7	¥ 11,949.1	**¥ 11,376.7**
			Yen		
Per share data:					
Common equity*3	¥ 380.20	¥ 308.60	¥ 364.35	¥ 284.95	**¥ 232.72**
Fully diluted equity*3,*4	421.62	355.09	364.35	284.95	**232.72**
Basic net income (loss)	53.16	(45.92)	38.98	(72.85)	**(71.36)**
Diluted net income	37.75	—	32.44	—	**—**
Dividends	2.96	2.66	2.94	0.00	**0.00**
Cash basis per share data:					
Basic net income	¥ 72.16	¥ 23.82	¥ 46.31	¥ (49.39)	**¥ (27.37)**
Diluted net income	50.55	18.41	38.50	—	**—**
			%		
Ratios:					
Return on assets*5	0.8	(0.6)	0.5	(1.2)	**(1.2)**
Cash basis return on assets	1.2	0.4	0.6	(0.8)	**(0.5)**
Return on equity (fully diluted)*3,*6	9.3	(8.1)	8.8	(22.4)	**(27.6)**
Cash basis return on equity (fully diluted)	12.4	4.7	10.5	(15.2)	**(10.6)**
Expense-to-revenue ratio	50.0	58.6	60.4	99.4	**64.6**
Total capital adequacy ratio	15.53	13.13	11.74	8.35	**8.35**
Tier I capital ratio	10.27	8.11	7.37	6.02	**6.35**
Core Tier I capital ratio*7	7.64	5.35	5.52	4.03	**4.05**
Tangible common equity ratio*8	2.45	1.72	4.28	3.00	**3.09**

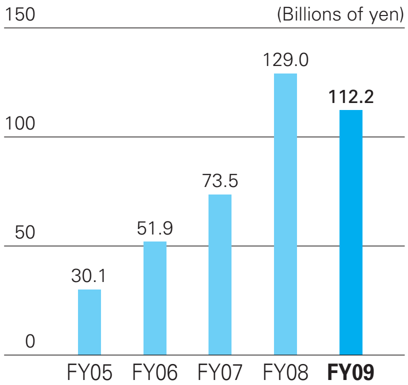
*1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.
*2 Cash basis net income is calculated by excluding impairment and amortization of goodwill and other intangible assets, net of tax benefit, from net income (loss) under Japanese Generally Accepted Accounting Principles (GAAP).
*3 As required by a new accounting standard published by the Accounting Standards Board of Japan (ASBJ), certain items which were previously presented outside of shareholders' equity are now presented as components of equity. Such items included stock acquisition rights, minority interests and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ended on or after May 1, 2006. Reclassification of the prior period amounts is not permitted under Japanese GAAP.
*4 Fully diluted equity per share is calculated by dividing equity at the end of the periods presented by the number of common shares that would have been outstanding had all securities convertible into or exercisable for common shares been converted or exercised with an applicable conversion or exercise price within the predetermined range at the end of the period.
*5 Return on assets is calculated by dividing net income (loss) by the average of total assets at the beginning and end of the period presented.
*6 Return on equity (fully diluted) is calculated by dividing net income (loss) by the average of fully diluted equity at the beginning and end of the period presented.
*7 Core Tier I capital ratio: Tier I, excluding preferred securities and preferred stock minus deferred tax assets (net) divided by risk weighted assets.
*8 Tangible common equity ratio: Net assets minus preferred stock, intangible assets and minority interests divided by total assets, excluding intangible assets.

EARNINGS

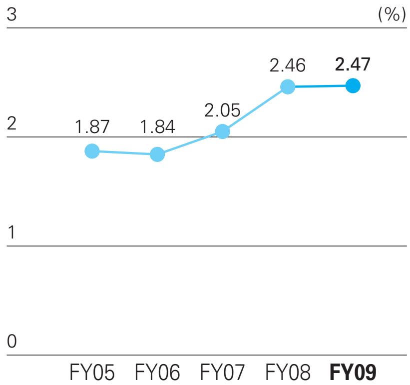
Net Income (Loss) and Cash Basis Net Income (Loss)



Net Credit Costs

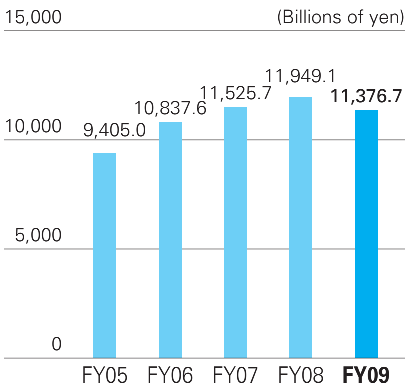


Net Interest Margin

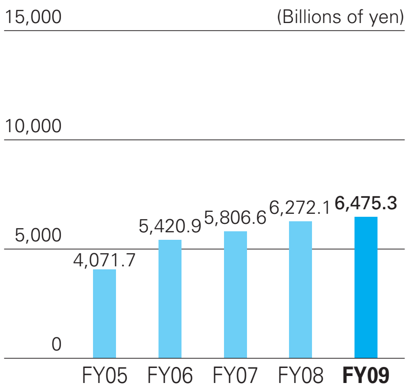


ASSETS AND LIABILITIES

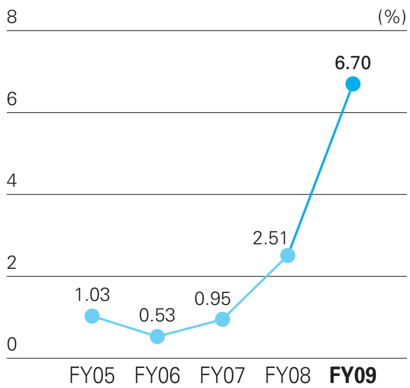
Total Assets



Deposits and Negotiable Certificates of Deposit

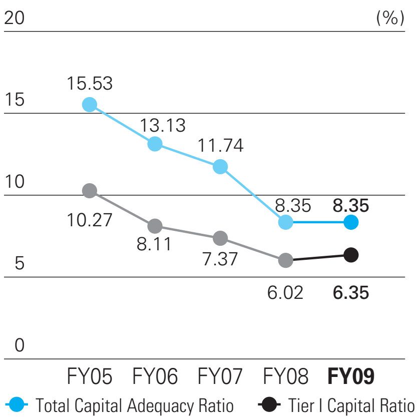


Ratio of Non-Performing Claims to Total Claims (Non-Consolidated)

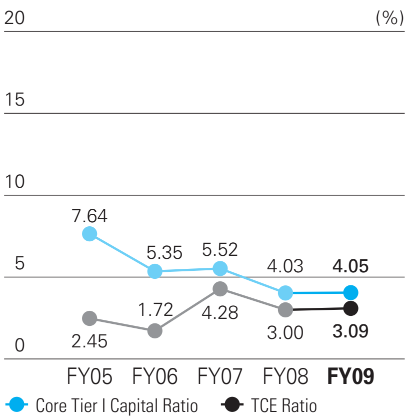


CAPITAL

Total Capital Adequacy Ratio and Tier I Capital Ratio

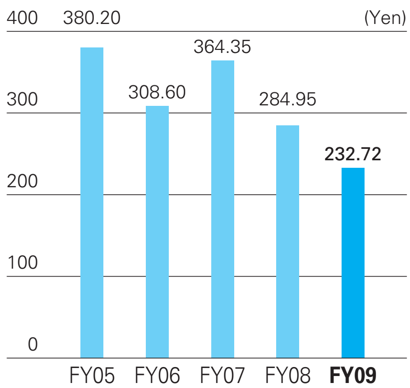


Core Tier I Capital Ratio*1 and Tangible Common Equity Ratio*2



*1 Core Tier I capital ratio: Tier I, excluding preferred securities and preferred stock minus deferred tax assets (net) divided by risk weighted assets.
*2 Tangible common equity ratio: Net assets minus preferred stock, intangible assets and minority interests divided by total assets, excluding intangible assets.

Common Equity per Share



TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES

Shigeki Toma
President and Chief Executive Officer

Following approval at Shinsei Bank's Annual General Meeting of Shareholders for the tenth term and a subsequent board of directors meeting, both held on June 23, 2010, I, Shigeki Toma, have been appointed as president and chief executive officer of Shinsei Bank, Limited, taking over from the previous president, Masamoto Yashiro. I would like to share some of my plans with you upon my appointment.

Overview of Fiscal Year 2009

Fiscal year 2009 was another difficult year for the Shinsei Bank Group. Over the past year, the Bank has gone back to basics, striving to provide the right products and services to meet the needs of our institutional and individual customers, focusing on our domestic customers in particular. However, under the leadership of the former president and CEO, Masamoto Yashiro, the Bank took additional reserves and charges in the fourth quarter of fiscal year 2009 in relation to domestic real estate exposures, legacy risk assets and proprietary investments in order to provide greater stability to its performance and return to a growth trajectory from fiscal year 2010 onwards. Furthermore, prior to full implementation of the Revised Money-Lending Business Control and Regulation Law (MLBL) in June 2010, the Bank posted additional reserves for potential losses on repayments of excess interest to individual customers, as well as taking impairment charges on the goodwill and intangible assets related to consumer finance subsidiaries, in an effort to deal with these issues as thoroughly as possible at this point in time. As a result, Shinsei Bank recorded a substantial consolidated net loss in fiscal year 2009 and made the regrettable decision to forgo a dividend on common shares. We sincerely apologize for the distress this has caused to all our stakeholders.

Our Strategy and Direction Going Forward

We have formulated a Medium-Term Management Plan that sets the direction that the Bank will follow going forward over the next three fiscal years up to March 31, 2013. Incorporating lessons learned from past errors of management policy, the Plan incorporates a renewal of the Bank's management framework and radical rationalization measures while simultaneously aiming to "rebuild the customer franchise in Japan" and "establish a stabilized earnings base." Over the three-year period we plan to first lay the groundwork for stabilized earnings, then implement measures for diversification of revenues through new businesses, and finally record stable earnings at operating speed.

More specifically, we aim to achieve external credit ratings of A/A- and raise our total capital adequacy ratio from the current 8.35% to 10%, our Tier I capital ratio from 6.35% to 8% and our core Tier I capital ratio from 4.05% to 6% by the end of the Plan on March 31, 2013. In terms of profitability, we are targeting consolidated net income of at least ¥32.0 billion for fiscal year 2012 ending on March 31, 2013 and we will work to improve on this through additional expense reductions of around ¥10.0 billion and other measures.

The Institutional and Individual Groups will each focus on the following key strategies in order to achieve these goals.

The Institutional Group will clearly divide its operations into "core" customer-centric businesses, and "non-core businesses" centered on proprietary investments. Going forward, it will focus resources in core businesses while working to reduce non-core legacy assets. The Group will also review its organizational structure from a customer-centric viewpoint, and provide financial services with high added value in order to rebuild the domestic customer base.

In most advanced economies, traditional commercial banking is fast becoming a low profit business model. Back in the days of the high-growth period when industrialization was still advancing apace, corporate lending was absolutely essential for industrial development, and banks, as key lenders, were able to grow in tandem with the expansion of their corporate customers' operations. However, that era is long over. Corporate lending has become commoditized and margins are thin. As financial institutions around the world scrambled to find a new business model, they veered towards financial engineering, invested in derivative-linked securitized products and other vehicles in pursuit of higher returns, and ultimately racked up huge losses as a result.

Today, we live in an age of information, both tangible and intangible. As the traditional commercial banking model falters, one approach to doing business in an advanced economy is to understand the importance of building information-gathering capabilities on specific industries and sectors, and using this to add value to products and services for customers. As a first step in this direction, Shinsei Bank has stepped up its efforts in the corporate restructuring business.

In the Individual Group, the Retail Banking business will concentrate on stabilizing our funding base and promoting lower funding costs while strengthening the asset management business through opening further Consulting Spots, and expanding the housing loan business. As customer needs have shifted from deposits to include a wider range of asset management options, we have expanded our line-up of financial products to include foreign currency deposits, structured deposits, investment trusts, stocks and housing loans in addition to yen deposits. We also continue to provide customers with a high level of convenience and attractive services, leveraging our unique, highly flexible and lightweight IT infrastructure to offer benefits such as competitive pricing and a variety of transaction channels, including Internet and mobile banking services, that supplement our compact branch network.

While it is feeling the impact of regulatory change, the Consumer Finance business is performing one of the important functions expected of banks in terms of providing access to financial services for customers, and I intend to strengthen the business going forward as one of the Shinsei Bank Group's strengths. We will work to secure profitability in the unsecured personal loan business of Shinsei Financial and other subsidiaries while fully complying with the revised MLBL, and we will strive to improve the profitability of the installment sales credit, settlement and credit card businesses at APLUS FINANCIAL.

While the Basel Commission on Banking Supervision has not yet finalized proposals for stricter capital requirements for banks, Shinsei Bank is aiming to raise its total capital adequacy ratio to 10%, its Tier I capital ratio to 8% and its core Tier I capital ratio to 6% by March 31, 2013 at the latest. We plan to achieve this by implementing measures to boost earnings and recording profits, as well as by taking other capital enhancement measures and by working to reduce non-core operating assets which in turn will lead to a decrease in risk weighted assets and capital deductions. As a bank whose operations are supported by public funds, we remain fully aware of the background and significance of this fact, and will work with a sense of urgency to faithfully fulfill our role as a Japanese bank, and provide high quality financial services to society.

Furthermore, following the conclusion of the Annual General Meeting of Shareholders held on June 23, 2010, Shinsei Bank has moved from a "Company with Committees" board model to a "Company with Board of Statutory Auditors" board model. We believe that this will allow us to achieve (1) the consolidation of business execution authority and responsibility in the Board of Directors, the highest decision-making body, and (2) the establishment of a corporate governance framework that enhances checks-and-balances to facilitate appropriate business execution while maintaining flexibility of management judgment by assigning responsibility for auditing duties to statutory auditors that are independent of business execution and the Board of Directors.

In Conclusion

As a financial intermediary responsible for credit creation, we must fulfill our fundamental role of providing access to financial services to those people who need them. By leveraging our strengths to the maximum, using resources efficiently and focusing our efforts to differentiate Shinsei from its peers under a fair and transparent management framework, I believe we can contribute to the development of the economy and become a bank trusted by all.

Fiscal year 2010 marks Shinsei Bank's tenth anniversary. We are ready to begin the next chapter in our history and I will do my utmost to improve our performance, restore stability, and meet the expectations of you, our stakeholders.

I would like to sincerely thank our shareholders, customers and all other stakeholders for your continued support and guidance.

July 2010

Shigeki Toma

President and Chief Executive Officer

QUESTIONS & ANSWERS

Why has the "back to basics" strategy resulted in another year of losses?

We deeply regret that fiscal year 2009 ended with a substantial loss. This is, however, primarily the result of decisive actions taken in relation to our consumer finance business, domestic real estate and overseas lending and investments to position ourselves more solidly for enduring long-term profitability.

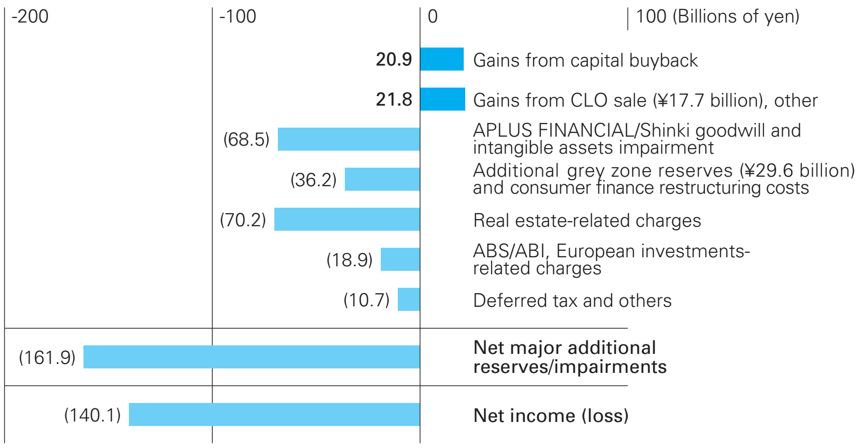
1. Amidst the uncertainty surrounding the impact of full implementation of the Revised Money-Lending Business Control and Regulation Law (MLBL) in June 2010, we posted additional reserves of ¥29.6 billion for potential losses on repayments of excess interest to individual customers at our consumer finance subsidiaries. As Shinsei Financial enjoys a GE-backed indemnity on a significant portion of its grey zone liabilities, the additional provisioning has been directed primarily at APLUS FINANCIAL and Shinki, bringing their reserve levels in line with industry standards.

   At the consolidated level, these actions have additional implications. Due in part to the impact of the "grey zone" provisioning described above, compounded by the severe operating environment, Shinsei Bank has taken impairment charges of ¥66.0 billion on the goodwill and intangible assets related to our investment in APLUS FINANCIAL, and ¥2.5 billion on intangible assets related to Shinki. Following impairment of intangibles in fiscal year 2006 and accelerated amortization of goodwill in fiscal year 2008, we have essentially written off APLUS FINANCIAL's goodwill in entirety*, meaning it will no longer have a material impact on consolidated earnings.

* As of March 31, 2010, APLUS FINANCIAL holds ¥5.0 billion of goodwill on its investment in ZEN-NICHI SHINPAN Co., Ltd.

2. We have incurred ¥70.2 billion in charges related to our domestic real estate business. Despite the continuing severity of market conditions, characterized by rising vacancy rates and declining rents, our experience in this market has helped us steer clear of the major credit events of fiscal year 2009. However, as uncertainty over the outlook for the real estate market persists, we took impairment and other charges of ¥37.4 billion related to real estate principal investments, together with ¥32.8 billion of credit reserves for our domestic real estate non-recourse finance portfolio. Based on asset valuations that are far more conservative than those previously used, these are preemptive measures that position us robustly in case of a prolonged downturn. As such, there is inherently some upside potential for

Major Non-Recurring Items Impacting FY2009 Results (Consolidated Basis)



reserve reversal depending on the success of work-out efforts and future market trends. Domestic real estate finance remains one of our core competencies and a business where we see both ongoing customer demand for financing and adequate risk-adjusted earnings opportunities over the long-term.

3. As we continue to work through the legacy assets in our Institutional Group, we have taken further mark-downs, impairments and credit reserves against our European investments and overseas and domestic asset-backed securities and asset-backed investments of ¥18.9 billion.

The negative impact of these actions should not detract from the achievements we have made over the past year in remodeling the bank for future growth. As pledged, we have largely completed the clean-up in our institutional businesses by using proceeds from strategic sales of non-core assets, such as ¥17.7 billion in gains from sales of marked-down collateralized loan obligations (CLOs), to offset mark-downs, impairments and reserves for legacy portfolios. In the Individual Group, we moved forward with the realignment of our consumer finance businesses, most notably through the integration of Shinki into Shinsei Financial in March 2010 and by increasing our common share ownership of APLUS FINANCIAL to take greater control over the company. Our profitable retail banking operations have shown ongoing momentum as we build out our customer base through the *Shinsei Step Up* program which provides incentives for customers to do more of their banking with Shinsei. In addition, we have launched a new two week maturity deposit and expanded our branch network with the roll-out of Consulting Spots.

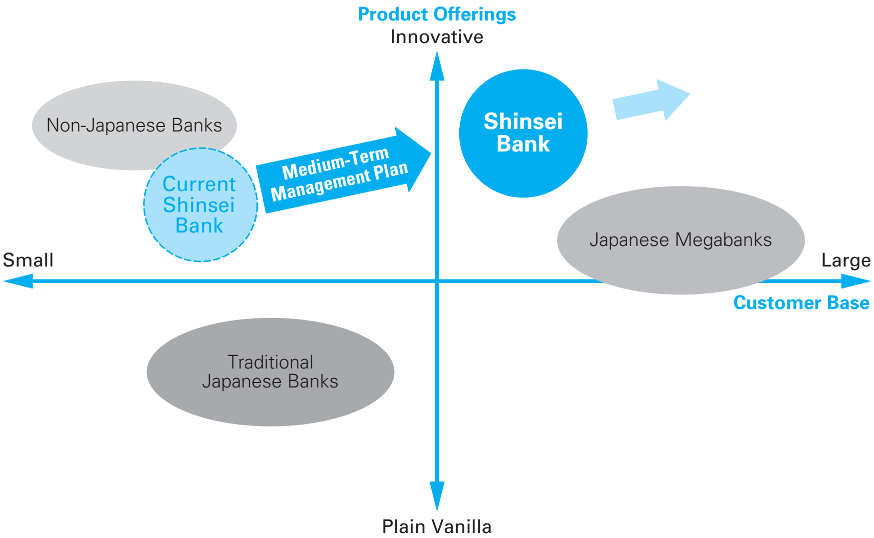
Group-wide, the cost rationalization strategies that we began implementing in fiscal year 2008 have born fruit, with normalized expenses (excluding Shinsei Financial) down 16.7% year-on-year as headcount fell by almost 900 employees over fiscal year 2009. We continue to upgrade our risk management function. Finally, despite our full-year loss, our capital adequacy ratios have remained stable or improved over fiscal year 2008, following a 20% reduction in our risk weighted assets that was achieved without significant scale-backs in lending.

Thus, Shinsei has begun its next chapter having taken appropriate provisions for legacy portfolios, and fortified with ample reserves, stable liquidity and a substantially improved balance sheet.

"Shinsei has begun its next chapter fortified with ample reserves, stable liquidity and a substantially improved balance sheet."

Please give a detailed explanation of Shinsei Bank's strategy going forward.

We believe that our two pillar strategy that serves institutional and individual customers is fundamentally sound. We recognize, however, that there is room for refinement of focus and improvement in execution. Therefore, we have drafted a medium-term management plan that sets out to rebuild our customer base in Japan and stabilize earnings over the next three years. We will achieve this by winding down non-core businesses and assets in the Institutional Group to focus on providing high value-added financial services in customer-driven businesses as well as on selected niche operations where Shinsei has an established presence. In the Individual Group, we will work to stabilize our funding base and promote lower funding costs, strengthen the asset management business, and further expand the housing loan business, while maximizing profitability from our consumer finance operations.



Let's look at some specific measures in more detail. In the Institutional Group, firstly we will accelerate the run-off of non-core legacy assets using proceeds from opportunistic divestitures to promote the overall clean-up. We are currently expediting strategic withdrawals from the real estate investment, private equity, housing loan warehousing, CLO, active credit portfolio management, wealth management and asset-backed investments businesses.

Secondly, we will focus on growing our corporate restructuring business and providing support to growth companies, focusing primarily on small- and medium-sized enterprises, and leveraging the capabilities and expertise of Showa Leasing and other Group companies. At the same time, we will channel resources into expanding our customer base, one of the Bank's most pressing challenges. To achieve this, we will invest more in personnel development to strengthen solution-based sales, maintain a close working relationship with the Risk Management Group, and look into streamlining the credit approval process.

Thirdly, we will further refine our specialties in high value-added products and services that offer the opportunity to earn steady and chiefly fee-based returns with medium risk. Working with Shinsei Securities, Capital Markets will expand its client-driven business by strengthening our product offering with timely and appropriate proposals and flexible product composition based on customer needs. In Real Estate Finance, we will look to reduce our overall portfolio slightly, while concentrating on senior loans with a target loan-to-value (LTV) ratio of 65% in the future. In Credit Trading we will target customers in work-out situations, seeking attractive investment opportunities while observing strict limits on the amount of capital to be deployed. Specialty Finance will accelerate collections from past investments while actively seeking new opportunities to provide leveraged and management buy out (LBO/MBO) and acquisition/recapitalization financing. Finally, the Advisory business will continue serving its customers in the niche mid-tier domestic market, while enhancing our cross-border transaction capabilities.

Our Individual Group strategy centers around Retail Banking and Consumer Finance. In retail banking, we aim to stabilize our funding base through deposit products, while continuing to upgrade customer protection measures as we strengthen our asset management business to target increased fee-based income from structured deposits, investment trusts and insurance products. In addition, we plan to grow disbursements in our housing loan business where we offer customers a unique value proposition. In consumer finance, we will target lowest-risk customers for personal loans at "white zone" rates, and increase profitability in our installment credit and credit card businesses through customer activation strategies and improvement of transaction terms with merchant partners while prudently managing expenses and credit costs.

"We have drafted a medium-term management plan that sets out to rebuild our customer base in Japan and stabilize earnings over the next three years."

Our "back to basics" strategy has fostered greater unity between all businesses within the Shinsei Bank Group as we pull together to push down costs and increase efficiency. Going forward, we will take every opportunity to deepen our collaboration and draw out further synergies. Internally, we have embarked on a radical business rationalization project that will harness Shinsei's IT infrastructure to automate previously manual processes, create centralized back-office functions that service multiple entities and drastically reduce personnel costs. For our customers, we will transcend traditional business domain boundaries and look for new ways to add value, such as offering consumer finance services and operational consulting to regional bank customers.

How will the Institutional Group differentiate itself, while remaining focused on customer-driven businesses, to succeed amidst strong competition?

For over half a century, Shinsei has leveraged its neutral position as a bank free from affiliations with other financial conglomerates to serve corporate, financial institution and public sector clients. Going forward, we remain committed to making institutional customer-focused business the main source of stable revenues over the long-term. Providing domestic institutions with financial services, including but by no means limited to loans, forms the core of our business, and is an important basis for sales of other value-added products, services and specialized solutions.

Multi-faceted relationships with almost all major domestic financial institutions, including megabanks and life insurance companies, represent one of Shinsei's distinct advantages. We serve regional financial institutions in particular in various areas such as derivatives and asset management products, advisory and collaboration in product development. We have also maintained a strong franchise in public sector finance, providing funding to many governmental organizations and local governments, as well as being selected as a bond underwriting syndicate member. We will continue to provide products and services to meet customer needs by utilizing the relationships backed by this track record.

Going forward, we will look for opportunities to serve more small- and mid-size corporate customers. Large enough to offer a comprehensive product range, but small enough to provide individualized service, Shinsei will build an incubator-style model to support younger unlisted companies as they grow, while carving out a niche in certain key sectors that have previously struggled to access bank financing. We will approach these potential customers once equipped with a thorough knowledge of their industry, their needs and the challenges they face, and offer not only traditional loan products, but also comprehensive advisory services on issues ranging from regulatory matters and management, to growth and IPO strategies.

We will complement this core lending and leasing based business with a selective focus on core strengths: niche finance including real estate finance, credit trading, specialty finance, and advisory services; and client-focused, client-enabling businesses centered around capital markets. Each of these businesses is primarily customer-driven, non-capital intensive, contributes to fee-based income and draws on Shinsei's proven strengths.

"We will build an incubator-style model to support younger companies, while carving out a niche in key sectors that have previously struggled to access bank financing."

As your competitors continue to enhance their services for individual customers, how confident are you that Shinsei's retail banking operations will remain profitable?

Operating in one of the world's most over-banked economies, Shinsei believes we differentiate our retail banking offering by leveraging our unique IT infrastructure to efficiently provide financial products and services that meet customers' needs over a choice of sales channels (branches, Internet banking, telephone banking, mobile banking). In addition, we maintain a sharp focus on cost reduction in order to ensure stable profit generation.

In asset management, we are focused on providing consulting services that are tailored to individual customers' needs, and we continue to enhance our capacity to develop the products our customers require. In June 2009, for example, we introduced a two week maturity deposit for customers looking for better returns than offered by regular savings deposits. We are building and deepening customer relationships both through the *Shinsei Step Up* program, which offers incentives for customers to bring more of their banking to Shinsei, and by providing a richer variety of information to customers via remote channels such as the Internet and e-mail.

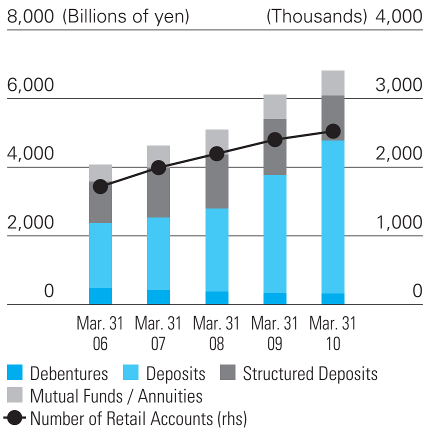
In order to provide customers with optimal solutions while maintaining the highest standards of compliance, in the fourth quarter of fiscal year 2009 we ran a wide-ranging training program as part of our continued commitment to employee development.

We believe that these initiatives in our asset management business, together with the expansion of our housing loan business where we leverage a strong product offering and efficient advertising strategies, will allow us to build a stable and highly profitable customer base.

From June 2009, we have been rolling out a new small-scale Consulting Spot branch format which specializes in asset management consulting. As of July 1, 2010, we currently have 11 Consulting Spots. As Consulting Spots typically require only 15%-25% of the running costs of a regular branch, and generate strong fee-based revenue through sales of structured deposits, structured bonds and investment trusts, this new branch expansion initiative has made steady progress. Going forward, we will continue strategic branch expansion in select locations.

Our retail banking operations are conducted with strict cost discipline. As a result of appropriate and efficient employee deployment and a review of our branch network, retail banking expenses decreased from ¥37.3 billion in fiscal year 2008 to ¥35.2 billion in fiscal year 2009. We will build on our stable earnings base in retail banking through continued attention to cost management going forward.

AUM* Composition and Number of Retail Accounts



*Assets under management

"We differentiate our retail banking offering by leveraging our unique IT infrastructure to efficiently provide financial products and services that meet customers' needs over a choice of sales channels."

Despite a shrinking market and formidable profitability challenges, why do you remain committed to the consumer finance business?

At Shinsei, we believe that consumer finance is an enduring need. The regulatory changes of recent years do present significant challenges. However, they also represent a unique opportunity for the Group to take a leading position in the industry by leveraging our ability to reduce grey zone, credit, funding and operating expenses, while attracting and retaining low risk customers. We remain confident that we can maintain and grow our profitable business in the new operating environment.

Firstly, let us look at the impact of the regulatory changes that have capped interest rates on personal loans at 20% and limited individual customers' borrowing to one-third of their annual income. Although claims for repayment of interest charged at previous "grey zone" rates appear to have peaked, they continue to run at a high level. As a result of these changes, estimates suggest that the market is now roughly half the size (approximately ¥5 trillion) of what it was in March 2004. On the other hand, the toughened regulatory regime means that the number of market participants has already decreased, from over 47,000 in 1986 to below 5,000 today. The market for installment sales credit, such as auto loans, also continues to shrink. While the number of market participants is falling, as the market itself is also contracting, competition for lower risk customers looks set to increase. As a result, brand equity and product features, and quality of customer service and operations will become increasingly important. However, we believe the Shinsei Bank Group is well positioned to take the advantage amidst this competition.

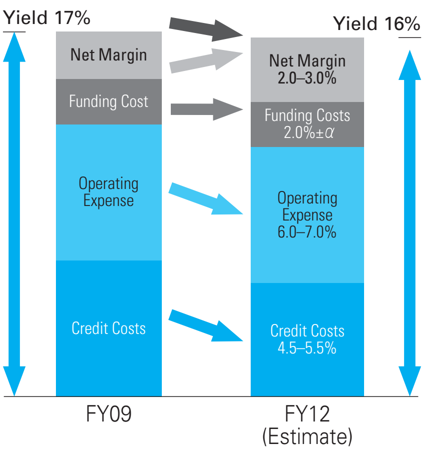
A unique GE-guaranteed indemnity against "grey zone" interest repayment liabilities exceeding ¥203. 9 billion on the greater portion of our unsecured consumer loan portfolio at Shinsei Financial is clearly one of the Shinsei Bank Group's most powerful advantages. At APLUS FINANCIAL and Shinki, we substantially increased our reserves in the fourth quarter of fiscal year 2009 to bring levels in line with industry peers. We have also seen a directional decline in borrower claims for disclosure of grey zone records across subsidiaries since the second half of fiscal year 2009.

"The regulatory changes of recent years do present significant challenges. However, they also represent a unique opportunity ..."

Credit costs are linked closely to customer profile; the lower risk the customer profile, the lower the level of credit costs incurred. Shinsei Financial continues to lead the market in new customer acquisition, with "LE0" borrowers accounting for over a half of new customers, meaning that they are not borrowing from any other companies. At APLUS FINANCIAL and Shinki, we have continued to tighten credit policy and refine credit scoring models, with centralized oversight from the Individual Pillar Risk Management Division.

On the cost front, we are funding an ever greater portion of our consumer finance business through stable low-cost retail banking deposits. Consumer lending involves high transaction volumes at low ticket amounts, implying abundant opportunity for cost reduction through computerized automation. Leveraging the unique IT models and methodologies that have enabled us to provide revolutionary financial solutions, we are systematically cutting operating costs across subsidiaries through technology deployment. However, strict cost discipline does not come at the expense of customer service. We maintain a constant focus on improving convenience for customers.

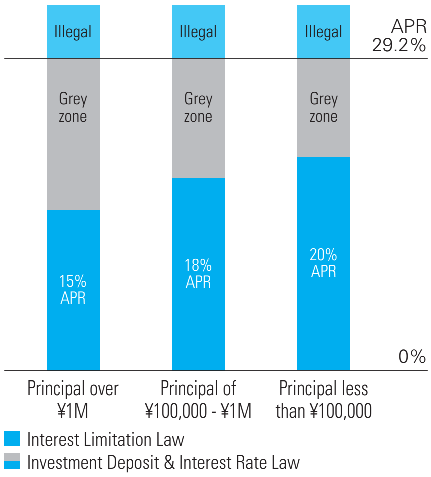
Margin Projections for Unsecured Personal Lending



Through these initiatives, we aim to achieve a 2.0%–3.0% return on operating assets in our unsecured personal loan business.

Finally, while consumer finance is often equated with unsecured personal loans, our consolidated subsidiary APLUS FINANCIAL also maintains leading positions in the installment sales credit and credit card businesses. Having raised our common share ownership of the company to 93.5%, we are working to drastically reduce costs through further technology deployment and business process rationalization, while implementing marketing-based strategies to improve profitability in the installment sales credit and credit cards businesses.

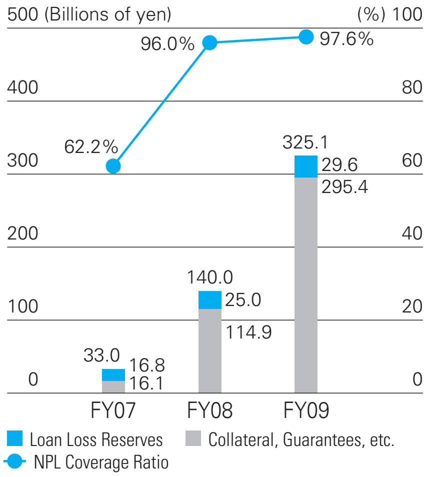
Overview of Interest Rate Laws



Source: Financial Services Agency, The Japanese Government
http://www.fsa.go.jp/teach/kou3.pdf
*This chart depicts the situation prior to implementation of the Money Lending Business Control and Regulation Law effective on June 18, 2010.

Why has your non-performing loan (NPL) ratio increased to such a high level and what are you doing to decrease it going forward?

Non-Performing Loan Reserves and Coverage Ratio (Financial Revitalization Law Basis; non-consolidated)



As of March 31, 2010, Shinsei Bank's non-performing loan ratio for claims classified under the Financial Revitalization Law on a non-consolidated basis was 6.70%, compared with 2.51% at March 31, 2009.

The increase is largely due to the conservative view we have taken on the Japanese real estate market when reviewing our domestic real estate finance portfolio in the fourth quarter of fiscal year 2009. This led us to downgrade our internal credit ratings for certain obligors in the non-recourse finance business.

When considering a bank's non-performing loan ratio, it is important to look at it in conjunction with the coverage ratio, which represents the percentage of a loan's value that is backed by collateral, guarantees or reserves. In adopting this conservative outlook on Japanese real estate, we have recorded ¥32.8 billion of reserves for non-recourse finance in fiscal year 2009. Together with collateral and guarantees, this translates to a coverage ratio of over 97% for total NPL claims, and of 98% for real-estate related NPL claims as at March 31, 2010.

At the same time, we are taking proactive steps to manage our real estate exposures. Over the course of fiscal year 2009, we have reduced our real estate loan balances from ¥1,234.0* billion as at March 31, 2009 to ¥1,048.9 billion by March 31, 2010. Our portfolio centers on prime real estate in the Tokyo and Osaka areas and is diversified by asset category. In addition, we have long been committed to "first person underwriting"; we know our customers well and have the capabilities to perform all the screening, contract-related administration, property appraisals, origination and management for our non-recourse lending in-house. As a result, we have a strong track record in collections and work-out situations, and believe that there may be opportunities to reverse a portion of the reserves we have recorded in the future.

* Includes non-recourse bonds and monetary assets held in trust and other monetary claims purchased which are subject to credit reserves.

"The increase is largely due to the conservative view we have taken on the Japanese real estate market."

Review of Operations

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AT A GLANCE

Institutional Group

With robust credit reserves, reduced legacy assets, a leaner headcount and a lower expense base, the Institutional Group has delivered on its promise to enter fiscal year 2010 better positioned for profitability despite ongoing challenges in the operating environment. We have sharpened our focus to complement our core lending business with niche finance products and services that offer customers added value. While the focus of our operations will remain in Japan, we will continue to operate in certain overseas markets where we possess intimate knowledge. Throughout our transformation, we have never lost sight of our customers and retain well-established positions in the financial institutions and public finance sectors, and are working to grow our base of corporate customers. Under the newly formulated Medium-Term Management Plan, the Institutional Group will clearly divide its operations into core customer-centric businesses, and non-core businesses centered on proprietary investments. Going forward, it will focus resources in core businesses while working to reduce non-core legacy assets. The Group will also review its organizational structure from a customer-centric viewpoint, and provide financial services with high added value to rebuild the domestic customer base.

Major Business*

- Basic banking
- Real estate finance
- Credit trading
- Principal investments
- Foreign exchange, derivatives, equity-related
- Securitization
- Other capital markets
- ALM activities
- Leasing (Showa Leasing)
- Others

*Based on items stated on page 67.

Major Subsidiaries

SHINSEI TRUST
SHINSEI SECURITIES
SHINSEI SERVICER
SHINSEI INVESTMENT MANAGEMENT
SHOWA LEASING CO.,LTD.

Individual Group

Shinsei's integrated retail banking and consumer finance strategy remains unique in Japan. In fiscal year 2009, we completed the realignment of our Individual Group businesses to focus on three distinct areas: retail banking, unsecured personal loans, and installment sales credit. In retail banking, constant customer-focus coupled with rigorous cost discipline have almost tripled year-on-year ordinary business profit after net credit costs, and earned us the accolade of "Best Retail Bank in Japan" from *The Asian Banker* for a second consecutive year (and for four out of six years). In consumer finance, we face the revised Money-Lending Business Control and Regulation Law (MLBL) with robust protection against "grey zone" interest liabilities through a GE-guaranteed indemnity on the majority of our biggest loan portfolio at Shinsei Financial, and extensive reserves against non-indemnified legacy assets. Having restructured Shinsei Financial and Shinki's personal loans businesses, we are confident of continued profitability in the "white zone" interest rate environment. At APLUS FINANCIAL — renamed upon its conversion to a holding company structure—Shinsei has taken a super-majority stake and written off residual goodwill and intangible assets as we support the company in making radical reforms for sustainable profitability in the mid-term. Under the newly formulated Medium-Term Management Plan, we will continue to strengthen retail banking and consumer finance as core businesses in the Shinsei Bank Group.

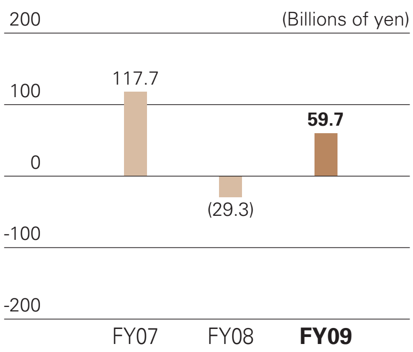
Major Business

- Retail Banking
  - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
  - Asset management (consultation, mutual funds, annuity products)
  - Housing loans
- Unsecured personal loans (Shinsei Financial, Shinki)
- Installment sales credit, settlement, credit cards (APLUS FINANCIAL)

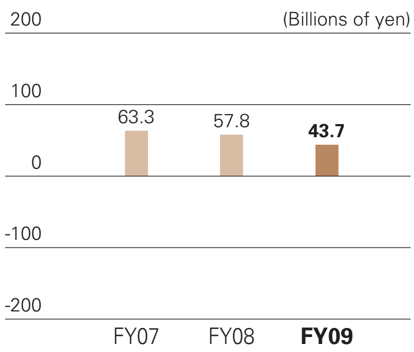
Major Subsidiaries

SHINSEI FINANCIAL
レイク
Service provided by Shinsei Financial
A Financial Venture シンキ株式会社
1週間無利息キャッシング NOLOAN
Service provided by Shinki
APLUS FINANCIAL

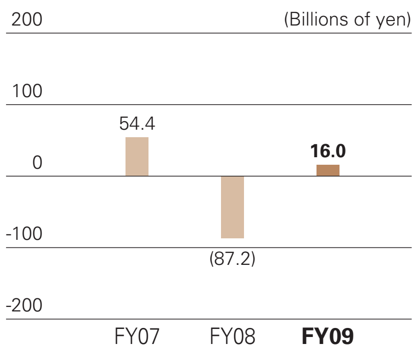
Total Revenue (Loss)



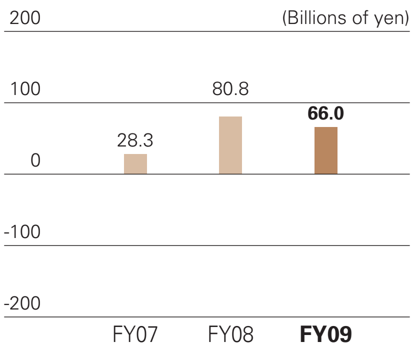
General and Administrative Expenses



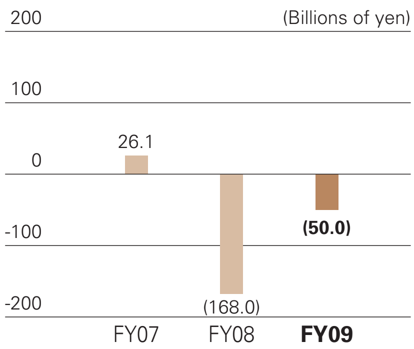
Ordinary Business Profit (Loss)



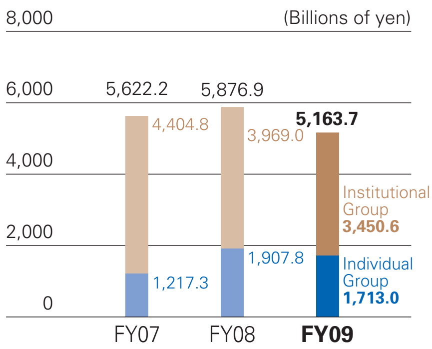
Net Credit Costs



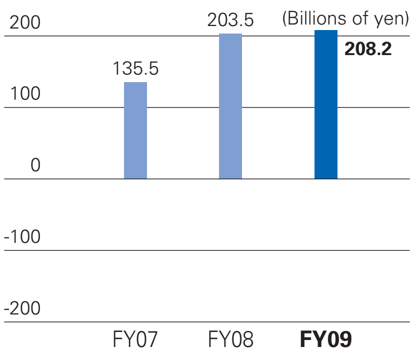
Ordinary Business Profit (Loss) after Net Credit Costs



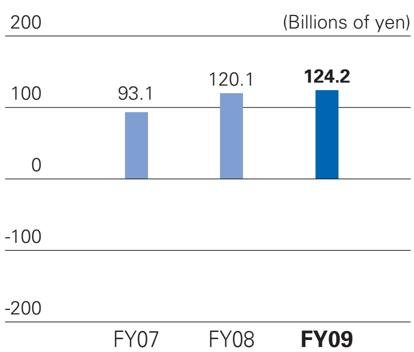
Total Loans and Bills Discounted



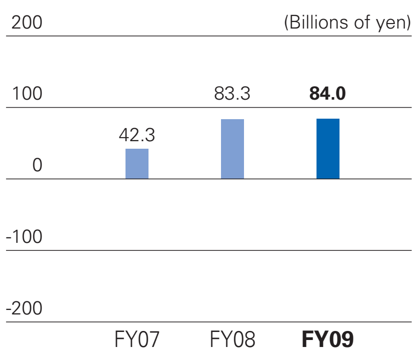
Total Revenue



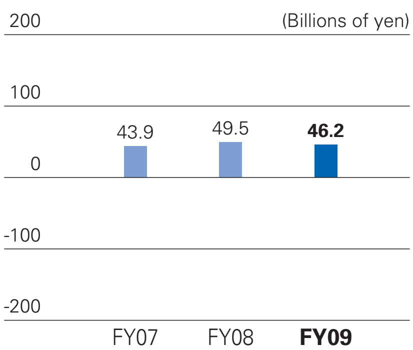
General and Administrative Expenses



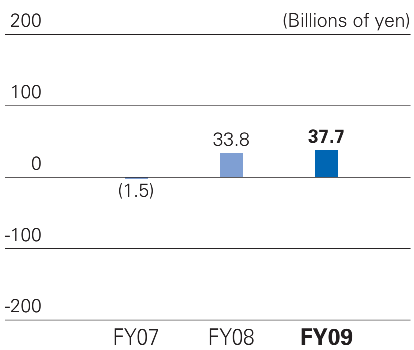
Ordinary Business Profit



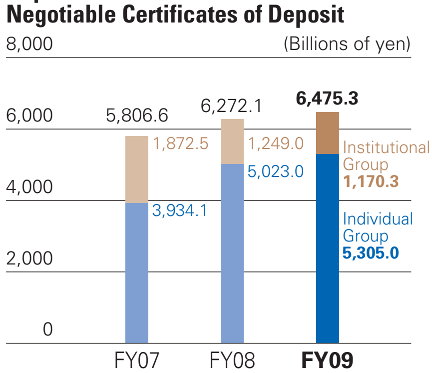
Net Credit Costs



Ordinary Business Profit (Loss) after Net Credit Costs



Deposits and Negotiable Certificates of Deposit



INSTITUTIONAL GROUP

Shigeki Toma
Head of Institutional Group

Izumi Ogura
Head of Institutional Group

With robust credit reserves, reduced legacy assets, a leaner headcount and a lower expense base, the Institutional Group has delivered on its promise to enter fiscal year 2010 better positioned for profitability despite ongoing challenges in the operating environment. We have sharpened our focus to complement our core lending business with niche finance products and services that offer customers added value. While the focus of our operations will remain in Japan, we will continue to operate in certain overseas markets where we possess intimate knowledge. Throughout our transformation, we have never lost sight of our customers and retain well-established positions in the financial institutions and public finance sectors, and are working to grow our base of corporate customers. Under the newly formulated Medium-Term Management Plan, the Institutional Group will clearly divide its operations into core customer-centric businesses, and non-core businesses centered on proprietary investments. Going forward, it will focus resources in core businesses while working to reduce non-core legacy assets. The Group will also review its organizational structure from a customer-centric viewpoint, and provide financial services with high added value to rebuild the domestic customer base.

Results

The Institutional Group comprises the Institutional Banking business and Showa Leasing.

Total revenue in the Institutional Group rebounded to ¥59.7 billion in fiscal year 2009, from negative ¥29.3 billion in fiscal year 2008. General and administrative expenses were ¥43.7 billion, down ¥14.1 billion or 24.5% year-on-year, reflecting stricter cost controls and cost reduction measures, and the effects of the restructuring carried out in fiscal year 2008. As a result, the Institutional Group recorded an ordinary business profit of ¥16.0 billion for fiscal year 2009, compared to an ordinary business loss of ¥87.2 billion in fiscal year 2008. While the Institutional Group recorded an ordinary business loss after net credit costs of ¥168.0 billion in fiscal year 2008, this narrowed to ¥50.0 billion in fiscal year 2009.

Operating Environment

There has been a tangible improvement in the global economy throughout fiscal year 2009. In Japan, GDP rebounded and business sentiment improved steadily, mainly on the back of increased exports. The benefits of governmental economic and monetary stimulus measures have improved funding conditions for corporations. Risk appetite has gradually returned to global markets and the dislocation that prevailed in fiscal year 2008 has largely been resolved.

In spite of the general upturn, however, operating conditions for Japanese banks remain challenging while other economic indicators suggest that the recovery is far from complete. In Japan, deflationary pressures have returned. Bank lending began declining in the second half of fiscal year 2009, as companies continued to maintain excess cash on hand, capital markets reopened and political uncertainty added further downward pressure to already low levels of capital investment. As a result, competition in the lending business has heightened as banks vied to find avenues of investment for record levels of deposits. The real estate market, and particularly the commercial sector, has still not recovered, as vacancy rates for prime commercial property continued to rise and rents declined. A recent return in liquidity does suggest, however, that the market may be showing signs of bottoming out. As regulatory oversight has been stepped up in the wake of the financial crisis, the Act on Provisional Measures for the Facilitation of Financing to Small- and Medium-Sized Businesses presents an additional challenge for financial institutions, although its impact on Shinsei Bank has been limited.

Against this backdrop, Shinsei's Institutional Group has struggled with weak demand across the board for our products and services, and the ongoing slump in the domestic real estate market has been particularly challenging. In responding to these conditions and to ensure against future volatility, the Institutional Group has made substantial progress in restructuring its balance sheet, making clear divisions between core and non-core businesses, formulating plans for strategic divestiture of legacy businesses, and posting defensive reserves based on asset valuations that are far more conservative than those previously used in our real estate business. At the same time, we work closely with our customers, looking for opportunities to serve them through these challenging times, while minimizing risks to our loan portfolio.

Challenges

Having refocused its operations on customer-driven business, the Institutional Group will return to stable, normalized profitability provided there is a sustained and broad-based economic recovery. Throughout fiscal year 2009, demand has been weak both in the lending and fee-based businesses, and competition has intensified. Any dramatic drop in asset valuations would have negative consequences for all financial institutions both in terms of client demand for financial services, and from potential losses relating to current exposure and ongoing loan workout efforts.

To date, we have been taking advantage of increased liquidity in markets for non-core assets to accelerate divestiture and our withdrawal from these operations, while endeavoring to minimize the impact on profitability. Given the competition in lending businesses, it is imperative that the Institutional Group continue to free up risk capital from non-core assets in order to seize opportunities to work with clients in profitable core businesses.

As our domestic and global competitors launch recruitment drives to fuel new expansion plans, we are keenly aware of the need to retain talent in key franchises. We undertook radical restructuring in fiscal year 2008 but have been successful in managing our core businesses without losing key staff for the past year.

Strategy

The Institutional Group is fully committed to its role as a trusted financial intermediary, providing financing and value-added financial solutions to customers primarily in the Japanese market. We aim to optimize risk-adjusted margins by capitalizing on our access to stable, low-cost funding, focusing on "first-person" underwriting and developing client relationships that extend across multiple product and service categories.

In our core lending businesses, we aim to grow our customer base and loans balance by placing greater emphasis on support to small- and medium-sized enterprises. At the same time, we are working to develop business and cultivate transactions that leverage unique synergies by matching the balance sheet needs of clients in the financial institutions and public sectors, where we have special relationships. This will not only allow us to realize better lending spreads but also provide a broader basis on which to cross-sell additional products and services. To ensure that potentially higher spreads are not jeopardized by increased cost of risk, we will review the organizational framework of our sales offices in order to strengthen front-line credit

assessment capabilities. In our Financial Institutions practice, we will work harder to address clients' fund raising, investment and capital needs, while leveraging our neutral position to offer a variety of additional support. As these strategies bear fruit, we will increase resources in line with customer growth, and enhance our ability to provide comprehensive solution-oriented consulting.

Alongside these activities, we will also look to leverage Group-wide resources to provide consulting and staffing services to restructuring and start-up companies, and renew our efforts to grow our Corporate Restructuring business. By partnering with leading legal and accounting professionals, we will offer assistance to restructuring companies, companies in need of recapitalization due to succession difficulties and companies requiring bridge financing or credit enhancement to restructure debt or rebuild businesses.

Real Estate Finance will continue to be a pillar of the business, albeit with a less aggressive risk focus. We will systematically reduce our current exposure by about 20% over the next three years. Eschewing the volatility of proprietary equity-based investments going forward, we will concentrate on opportunities in senior loans with a target loan-to-value (LTV) ratio of around 65% while maintaining our strict policy of "first person" underwriting.

Working with a broader range of customers will bring new opportunities for our Capital Markets and Advisory divisions as we seek to supplement interest income with fee-based revenue. Building on the momentum of our foreign exchange and interest rate derivatives business, we will offer a broader range of credit-related products and explore the possibility of entering the debt and equity capital markets businesses to better fulfill clients' fund-raising needs. At the same time, we will continue to partner with the Individual Group to strengthen the product mix for retail banking customers in search of superior returns.

We will also pursue a number of additional customer-oriented businesses where we have an established track record, and which offer the potential for highly selective international exposure and better returns on relatively low balance sheet usage. We will continue domestic and overseas credit trading activities that support customers' balance sheet restructuring, and specialty finance such as leveraged buy-out (LBO) and management buy-out (MBO) funding. We will also develop our Advisory business by rebuilding capabilities in cross-border transactions to support Japanese companies while strengthening our niche position in the mid-tier market.

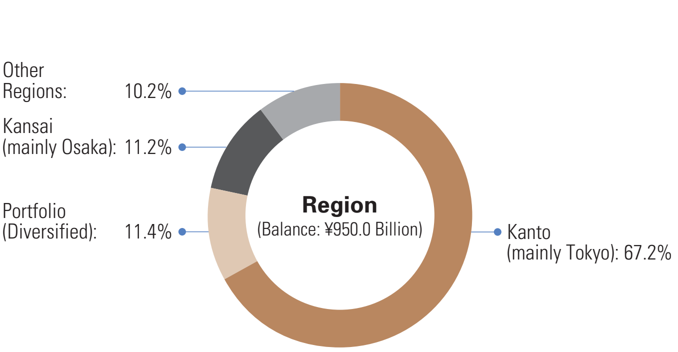
We plan to expand the low-risk asset management business of Shinsei Investment Management, and our subsidiary Showa Leasing, where there is further potential to cooperate in servicing SME clients.

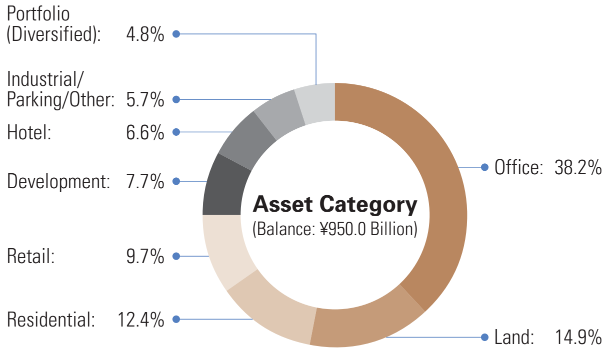
Progress

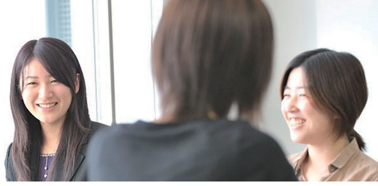
Derisking our Balance Sheet and Managing Costs

In fiscal year 2009, we have largely completed the final stages of our balance sheet restructuring. Most notably, we have taken substantial credit reserves, mark-downs and impairments related to our domestic real estate portfolio in light of the ongoing pressures in this sector. This provisioning is based on far more conservative asset valuations than previously and represents a preemptive measure to ensure that earnings in fiscal year 2010 are not compromised by the ongoing uncertainty in the real estate market. Considering our track record in recent years, there may be

Non-Recourse Real Estate Exposure by Region and Asset Category (as of March 31, 2010)





some upside potential to recognize reversals of these reserves in the future, depending on market trends. In addition, we are gradually scaling back our exposure to this sector, with the overall real estate loan balances declining from ¥1,234.0* billion at March 31, 2009 to ¥1,048.9 billion at March 31, 2010.

Having closed down or restructured unprofitable businesses, we have also made clear distinctions between core businesses that we will continue to pursue, and non-core assets that we will divest or run-off going forward. These non-core assets include Real Estate Principal Investments and Private Equity Investments, Housing Loan Warehousing, collateralized loan obligations (CLO), Active Credit Portfolio Management/Corporate Floater Investments, asset-backed investments (ABI), Alternative Investments and Wealth Management.

We are continually pursuing opportunities to divest these non-core assets, and in fiscal year 2009, for example, we were able to record a gain of ¥17.7 billion on the sale of a legacy CLO portfolio. We are confident that residual exposures have been appropriately marked and provisioned for where necessary through adequate mark-downs, impairments and credit reserves against our European investments, and overseas and domestic ABI and asset-backed securities (ABS) in the past fiscal year. As of March 31, 2010, the balance of our overseas ABI and ABS (including CLOs) was approximately ¥168 billion, down from roughly ¥206 billion at March 31, 2009 and a 65% reduction compared with a peak of almost ¥474 billion in fiscal year 2007.

In the fourth quarter of fiscal year 2009, we were also able to reach an agreement to divest our asset management business in India, a field that no longer matches our strategic focus.

On the expenses front, the cost benefits of the restructuring, right-sizing and the early retirement program implemented in fiscal year 2008 really became apparent in the past fiscal year. Institutional Group staff numbers have remained flat while our expenses continue to underrun 2005 levels.

* Includes non-recourse bonds and monetary assets held in trust and other monetary claims purchased which are subject to credit reserves.

Supporting Customers in Core Businesses

We have maintained resources and key talent in our core lending operations which serve a broad range of institutional, corporate and public sector clients. While funding demand has remained weak, we have kept in close contact with our customers, drawing on expertise across the organization to offer solutions to meet their current needs, and tap new fee-based income streams for Shinsei.

Shinsei has maintained a strong franchise in public sector finance, providing funding to many governmental organizations and local governments, as well as being selected as a bond underwriting syndicate member. Currently, in addition to the loan business, we have ramped up cross-sell efforts by offering customers various fee-based financial products and services in response to their needs for diversified fund-raising or for hedging against interest rate hikes.

As an independent and neutral organization, Shinsei is one of the few banks in Japan to boast long-standing relationships with almost all major domestic financial institutions including all megabanks, insurance companies, and especially close ties with regional and *shinkin* banks. As these regional institutions grapple with the dual challenge of weak local economies and increasing competition, Shinsei Bank has stepped up support for these institutions in their efforts to address the issues they face and promote new business. Specifically, in addition to capital markets transactions, our Advisory business has won mandates from a number of regional banks to develop capital enhancement solutions or provide consultation on business expansion, risk management and IT and operations. In addition, the Financial Institutions business has teamed up with Shinsei Financial, APLUS FINANCIAL and other Shinsei subsidiaries to provide advice and products to regional financial institutions that are considering expanding their retail business lines and services.

In response to the demand for credit amongst smaller borrowers, in September 2009 we established a unit dedicated to SME (small- and medium-sized enterprises) lending and work closely with the Risk Management Group to ensure appropriate pricing for the risks we assume. In this sector, we also benefit greatly from a close working relationship with Showa Leasing. A consolidated subsidiary with 40 years of SME underwriting experience and steady profitability, Showa Leasing has continued to pursue operational efficiency in fiscal year 2009 while promoting new initiatives such as its "one-stop asset disposal" business. Going forward, Shinsei Bank intends to leverage its unique advantage as an independent and neutral institution, in partnership with Showa Leasing, to secure more business from our SME and financial institution customers.

INDIVIDUAL GROUP

Shinsei's integrated retail banking and consumer finance strategy remains unique in Japan. In fiscal year 2009, we completed the realignment of our Individual Group businesses to focus on three distinct areas: retail banking, unsecured personal loans, and installment sales credit. In retail banking, constant customer-focus coupled with rigorous cost discipline have almost tripled year-on-year ordinary business profit after net credit costs, and earned us the accolade of "Best Retail Bank in Japan" from *The Asian Banker* for a second consecutive year (and for four out of six years). In consumer finance, we face the revised Money-Lending Business Control and Regulation Law (MLBL) with robust protection against "grey zone" interest liabilities through a GE-guaranteed indemnity on the majority of our biggest loan portfolio at Shinsei Financial, and extensive reserves against non-indemnified legacy assets. Having restructured Shinsei Financial and Shinki's personal loans businesses, we are confident of continued profitability in the "white zone" interest rate environment. At APLUS FINANCIAL —renamed upon its conversion to a holding company structure— Shinsei has taken a super-majority stake and written off residual goodwill and intangible assets as we support the company in making radical reforms for sustainable profitability in the mid-term. Under the newly formulated Medium-Term Management Plan, we will continue to strengthen retail banking and consumer finance as core businesses in the Shinsei Bank Group.

Results

The Individual Group consists of the Retail Banking business as well as the subsidiaries Shinsei Financial, Shinki, APLUS FINANCIAL and Shinsei Property Finance. Shinsei Financial was acquired on September 22, 2008 from GE Japan Holdings Corporation and Shinsei Financial's results have been incorporated in our consolidated financial results from the third quarter of fiscal year 2008.

Total revenue increased 2.3% to ¥208.2 billion in fiscal year 2009, compared to ¥203.5 billion in fiscal year 2008, due mainly to the full year contribution of Shinsei Financial, whose revenues were only included for six months of fiscal year 2008.

The Individual Group's overall operations have been negatively impacted by the revised MLBL. Specifically, we have taken ¥29.6 billion in "grey zone" charges, or provisions for possible losses on reimbursements of excess interest payments, in the current period. In addition, interest rates have been reset below the legal maximum rates as stipulated in the revised MLBL.

Despite the above factors, the Individual Group generated ordinary business profit after net credit costs of ¥37.7 billion compared to ¥33.8 billion during the prior fiscal year. This increase of ¥3.9 billion, or 11.6%, reflects a substantial improvement in ordinary business profit after net credit costs in our Retail Banking business.

Operating Environment

Japanese consumers reined in their spending and remained generally risk-averse in fiscal year 2009, amid lingering concerns over the uncertain economic outlook and persistently high unemployment and corporate bankruptcy levels. For retail banking, this meant ongoing demand for relatively low-risk deposit products, while stock market rallies and the strong yen did provide some impetus to mutual fund sales and foreign currency deposits. In consumer finance, the weak economy posed the dual challenges of heightened default risk on personal lending and lower revenues. The number of claims for disclosure of "grey zone" payments has remained high, although there are directional signs of a downward trend.

In retail banking, we have stepped up marketing of asset management products and housing loans, while promoting our two week maturity deposit as a more cost-effective alternative to yen time deposit campaigns. In consumer finance, we continue to calibrate our credit standards to the prevailing economic environment, while reducing costs across our operations.

Challenges

While we have continued to improve profitability, our greatest challenge in retail banking is sustaining our growth momentum in one of the world's most over-banked economies. However, we believe that our combination of attractive pricing, a 24/7 bilingual banking platform and asset management consulting services tailored to individual needs amounts to a compelling customer proposition in a country with over ¥1,400 trillion in household financial assets. We have ample opportunities to grow the franchise and its profitability by deepening our relationship with existing customers, through strategic and sustainable branch expansion, and by building further on our strengths in housing loans and structured and asset management products.

In consumer finance, the impact of the final installment of the revised MLBL in June 2010 remains the single biggest challenge for all industry participants. However, Shinsei Financial stands apart from its peers, with a GE-guaranteed indemnity on the majority of its "grey zone" liabilities, and unique status as a wholly-owned bank subsidiary that is fully funded through retail deposits. We are confident that cost synergies generated through ongoing operational integration and process automation, coupled with access to low cost funding and the peace-of-mind afforded by bank affiliation, position us favorably to become the lender of choice among lowest risk borrowers.

Strategy

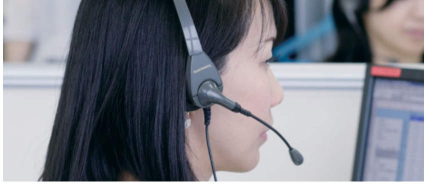
Retail Banking Business

In retail banking, we strive to offer consultation services that help customers find the financial solutions that best meet their individual needs. By leveraging our customer-empowering, low-cost distribution platform, we plan to grow our share of the mass-affluent market and deepen our relationships with current customers to achieve a stable mix of net interest and fee-based income. Going forward, Shinsei Bank will emphasize asset management, housing loans and card loans, all relatively low-risk areas where we offer a distinctive proposition and can forge long-term relationships with our customers. Towards this goal, we are gradually building out our physical presence through new, highly cost-effective Shinsei Consulting Spots, while utilizing our IT capabilities to provide Internet and mobile banking services that deliver new levels of customer convenience and operational efficiency in branches.

Consumer Finance

Shinsei's Individual Group is committed to becoming the leading provider of a full range of responsible consumer finance services in Japan. Our strategy centers around attracting and retaining lowest risk customers and maximizing cost efficiency to secure sustainable profits. Now robustly provisioned against "grey zone" liabilities, we are managing the business in 100% compliance with the revised regulatory framework.

Wholly-owned Shinsei Financial and Shinki focus on unsecured personal loans, while our majority-owned subsidiary APLUS FINANCIAL concentrates on the installment sales credit, credit card and settlement businesses.



We are funding an ever greater portion of our consumer finance business through low-cost retail banking deposits. We are also pursuing further operational efficiency by maximizing use of Shinsei Bank's low-cost IT infrastructure, and identifying additional areas where we can consolidate functions and expenses.

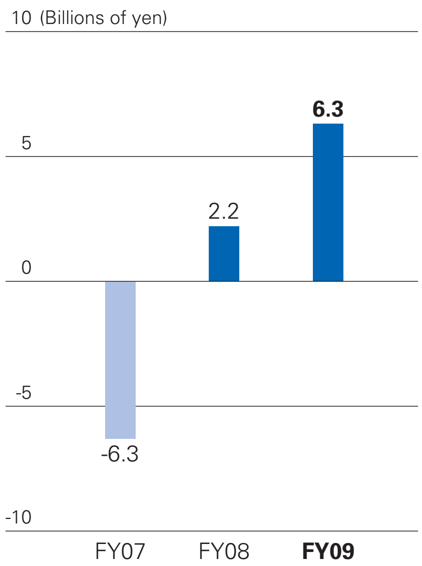
By bringing retail banking and bank-owned consumer finance services together in the Individual Group, Shinsei aims to fulfill all of our customers' financial needs, whatever their life stage or goals. We will continue working to integrate our proposition further in the future.

Progress

Retail Banking

Retail Banking has made solid progress in its strategic shift from deposit-gathering to asset management. Customer demand for structured deposits and structured bonds was strong in fiscal year 2009, while we have further room to grow in mutual funds and annuities. As the Bank seeks to manage its ample liquidity reserves, we have channeled maturing time deposits into an innovative, lower-cost two week deposit product, and increased marketing activity for our housing loans leading to increased disbursements from the second half of the fiscal year. While new account openings have slowed from the record levels achieved during our yen time deposit campaigns, we continue to welcome a steady flow of new customers. Per-customer assets under management remain stable as our relationship rewards program, *Shinsei Step Up*, encourages both existing and new customers to bring more business to the bank.

Retail Banking Ordinary Business Profit after Net Credit Costs



Retail Banking's most important initiative in fiscal year 2009 was the successful launch of our branch expansion strategy with the roll-out of new Shinsei Consulting Spots. We understand the importance of face-to-face contact when customers make major financial decisions. These new, compact branches are bringing us closer to customers throughout Japan without major capital expenditure or staff increases. As of June 2010, we have Consulting Spots in 11 locations, with the latest additions opening in Jiyugaoka, Tokyo in February, 2010, in Ashiya, Hyogo Prefecture in April, 2010 and in Takatsuki, Osaka Prefecture in June 2010. Generating strong upfront fee income from sales of structured bonds, structured deposits and mutual funds while typically keeping operating expenses down to around 15–25% of a regular Financial Center, this new branch format is enabling us to achieve our branch expansion plans without a material increase in expenses. Retail Banking's general and administrative expenses actually decreased from ¥37.3 billion in fiscal year 2008 to ¥35.2 billion in fiscal year 2009.

Alongside the Consulting Spot roll-out, we have enhanced our Web-based capabilities in line with customers' increasing use of the Internet to inform their financial decisions. On our external website and in our e-mail communications, for example, we have added various investment tools and reference materials for customers considering asset management products. In our housing loan business, we have increased our online marketing presence in line with the emergence of the Internet as an important source of information for first-time home buyers as well as customers looking to refinance their mortgage.

We maintain a disciplined and balanced approach to product development, rationalizing our portfolio to simplify customers' choices and ensuring new launches meet clearly defined needs. Adding to the variety of innovative, new products we have introduced to date, in fiscal year 2009 we offered customers a new investment option and contributed to the Bank's capital management with the debut issuance of ¥5 billion in Shinsei Bank subordinated bonds for individual investors in Japan.

We are constantly aware of our responsibility to customers when providing asset management solutions. A highly focused sales process and product portfolio mean that sales staff have in-depth knowledge of both individual customers' needs and product features to ensure customer suitability and protection. In the fourth quarter of fiscal year 2009, we launched an extensive training program to ensure that we always meet the highest standards of compliance in customer interactions.

Shinsei Financial and Shinki

On March 29, 2010, wholly owned group company Shinsei Financial acquired Shinsei Bank's stake in Shinki, marking the final stages in the integration of our two subsidiaries specializing in unsecured personal loans for low-risk customers. Combined, their earnings contributed ¥27.5 billion in ordinary business profit after net credit costs in fiscal year 2009.

Shinsei Financial's Lake brand has maintained a top three position in new customer acquisition while keeping costs-per-application among the lowest of the top five players in the industry. While implementing stricter credit standards in the run up to full implementation of the revised MLBL, over a half of new applications continue to come from customers with no existing borrowing relationships. As the majority of Shinsei Financial's "grey zone" liabilities are guaranteed by an indemnity from GE, we are only required to book reserves for potential losses on the non-indemnified portion, which amounted to a minimal charge of ¥0.9 billion in fiscal year 2009.

The continued momentum in Shinsei Financial's business reflects both the power of the Lake brand and our unwavering focus on customer needs. Through a tie-up with APLUS FINANCIAL, Lake customers can now make interest repayments by direct debit, and in a first for the Japanese consumer finance industry, new customers may complete the entire application and contract process for a personal loan online.

Shinki, on the other hand, has been strategically shrinking its loan portfolio to focus on new origination at "white zone" interest rates. As a result of prudent provisioning for potential losses, Shinki's reserves for "grey zone" interest related liabilities stood at ¥23.7 billion at the end of fiscal year 2009.

We have largely completed the restructuring and integration of these two companies, including right-sizing staff levels and integrating the branch network. Looking to the future, Shinsei Financial is teaming up with the Bank's Institutional Business Sub-Group to offer guarantee and consulting services for regional banks who are looking to expand their personal loans business.

APLUS FINANCIAL

As of April 1, 2010, APLUS has been renamed APLUS FINANCIAL Co., Ltd., a holding company under which APLUS Co., Ltd. focuses on the installment sales credit, credit cards and settlement businesses, and APLUS PERSONAL LOAN Co., Ltd. manages the personal loan portfolio. APLUS FINANCIAL ranks No. 3 in both the automobile loans and settlement business by market share. In fiscal year 2009, however, posting additional reserves for "grey zone" liabilities (¥15.1 billion as at the end of fiscal year 2009) to bring them in line with industry-average levels, compounded by other non-recurring losses resulted in the company recording a net loss of ¥7.7 billion for the full fiscal year (before consolidation to Shinsei Bank).

Shinsei has continued to implement drastic reforms in fiscal year 2009 aimed at restoring APLUS FINANCIAL's profit base. Most importantly, the Bank has increased its common share stake to 93.5% to secure flexibility in further business realignment and capital strategy, while impairing ¥66.0 billion of goodwill and intangible assets from our investment in APLUS FINANCIAL, net of taxes, to eliminate their impact on Group profitability going forward.

On the business front, APLUS FINANCIAL has continued to improve margins in its auto financing business, where it commands a 21% market share, while introducing annual fees and tightening credit standards on certain co-branded credit cards. We are drawing out further synergies within the Group as APLUS FINANCIAL now provides Shinsei Financial's Lake customers with direct debit interest repayment and online application services. Shinsei Bank's low-cost retail deposits provide for a growing proportion of the company's funding needs, and as a result, the company's average funding rate has fallen 60 basis points over the course of the fiscal year.

In light of its fiscal year 2009 performance and current operating conditions, APLUS FINANCIAL has drafted a new medium-term plan, setting itself the vision of "becoming a *shinpan* company chosen by customers, supported by business partners and fit for the new age." In terms of strategic direction, APLUS FINANCIAL will strive to "break away from dependence on consumer finance loan income, and to increase income from core operations including installment sales credit business, credit card business and guarantee and settlement business through a business model that only a *shinpan* company can achieve." As the core concepts of its mid-term business plan, APLUS FINANCIAL aims to "establish a sales structure that will grow the volume and quality of its business" and "establish a system of low-cost operations that outstrips the competition."

Two Years in a Row: Shinsei Bank Named "Best Retail Bank in Japan" for the Fourth Time in Six Years

THE ASIAN BANKER EXCELLENCE IN RETAIL FINANCIAL SERVICES AWARDS 2010

Shinsei has been named Japan's Best Retail Bank for a second consecutive year in the prestigious Excellence in Retail Financial Services Awards Programme organized by *The Asian Banker*, an independent industry research and intelligence company.

The Asian Banker made the following comments on our performance in 2009:

"For the fourth time, Shinsei Bank wins the Best Retail Bank in Japan award, having maintained its market leadership in a difficult year."

"Shinsei Bank won the Best Retail Bank in Japan award for its strong and sustainable performance in 2009…"

"Shinsei is well-known for its high level of automation and its approach to integrate the touch and feel of its branches with its Internet banking proposition…"

"Shinsei Bank outperformed its peers through continuous innovation in the Japanese retail segment. The new mini branch [Consulting Spot] concept has a very high potential in terms of reaching out to customers, while managing cost."

The Asian Banker "Excellence in Retail Financial Services Awards Programme" Japan Rankings

	2004	2005	2006	2007	2008	2009
1	SHINSEI BANK	SHINSEI BANK	Sumitomo Mitsui Banking Corporation	Mizuho Bank	SHINSEI BANK	SHINSEI BANK
2	Tokyo Star Bank	Sumitomo Mitsui Banking Corporation	SHINSEI BANK	Sumitomo Mitsui Banking Corporation	Mizuho Bank	Bank of Tokyo-Mitsubishi UFJ
3	Sumitomo Mitsui Banking Corporation	UFJ Bank	Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank (Tie)	SHINSEI BANK	Sumitomo Mitsui Banking Corporation	Mizuho Bank
4	UFJ Bank	Mizuho Bank		Bank of Tokyo-Mitsubishi UFJ	Resona Bank	Sumitomo Mitsui Banking Corporation
5	Mizuho Bank	Bank of Tokyo-Mitsubishi	Resona Bank	Resona Bank	Bank of Tokyo-Mitsubishi UFJ	Resona Bank

BANKING INFRASTRUCTURE GROUP

Since Shinsei Bank's inception, the Banking Infrastructure Group (BIG) has been deploying a unique IT methodology that rapidly delivers highly secure and scalable systems at low development and operating costs, enabling our business groups to offer competitive financial products and services to customers. More recently, we have been steadily applying the same approach in our consumer finance subsidiaries as we work to provide even higher levels of competitive advantage and customer services across the Shinsei Bank Group.

Shinsei Bank's IT Methodology

Shinsei Bank's IT methodology is based on a "path based approach"; instead of taking years and investing huge amounts of money in designing and building large-scale systems, Shinsei focuses on building a "path" that enables us to adapt our systems swiftly, flexibly and inexpensively in response to ever-changing business needs. Parity is another key concept, reflecting the priority we give to ensuring customer security above all else. When introducing a new system, we first build a system that features the same capabilities as the existing platform and run these in parallel. New capabilities are only added after confirming the safety of the new system by checking that its performance shows parity with the existing system.

When responding to requests from the business groups, the Banking Infrastructure Group first collates relevant information to understand what functionality is actually needed. At times, we arrange all the data collected on a large table to visualize the situation and hold discussions with the business side and management to ensure everyone shares the same understanding. Next, we break down the requested functionality into smaller parts called "modules" and develop solutions for each, striving to reuse existing, standardized modules and components wherever possible, and making it a basic principle to use the simplest technology available.

These methods are the key to our ability to rapidly develop highly reliable systems at low-cost: we reuse standardized, existing components based on simple technologies. And because our systems are modular, they have the important advantage of being easy to modify, expand and improve, allowing us to support the business as it grows, which is the ultimate goal of the systems the Banking Infrastructure Group's provides.

When introducing new functionality or moving to new systems in order to improve customer service, we first run the new system in parallel with the existing one and conduct thorough checks to ensure parity. In this way, we are able to upgrade our systems safely, and seamlessly provide customers with a higher level of service.

Fiscal Year 2009 Overview

In fiscal year 2009, the Banking Infrastructure Group continued to apply Shinsei Bank's IT methodology to respond promptly to requests from the business groups. In the Individual Group, for example, we renewed our Internet banking site to improve visibility and usability and increase the number of browsers supported for a safer and more convenient customer experience. Supporting the introduction of the two week maturity deposit, aimed at customers looking for a savings product with an attractive interest rate, we increased the number of service channels via which customers can choose how to manage funds maturing from yen deposits. We also worked together with the Institutional Group to respond to customer inquiries related to Shinsei's IT methodology.

In fiscal year 2009, we also stepped up our support for Group companies, as part of the progressive roll-out of Shinsei's IT across our consumer finance subsidiaries.

APLUS FINANCIAL migrated systems and processes for key products such as auto finance, other product loans, credit card issuance, card loans, and collection to Shinsei IT-driven solutions. Throughout the migration process, APLUS FINANCIAL employees worked hand-in-hand with Shinsei Bank BIG members. The first step was to gather relevant data, then use this to identify the necessary functionality. After breaking this functionality down into modules, the optimal solution was constructed reusing

business process modules from the Bank's existing toolkit, to complete the migration at maximum speed and minimum cost. The new business processes introduced in APLUS FINANCIAL not only provide the same capabilities at lower cost, but will also improve process safety and radically shorten the time taken to deliver data to customers. The flexibility of Shinsei Bank's IT methodology, in terms of both additional functionality and modification, has also enabled APLUS FINANCIAL to respond to the requirements of the revised Money Lending Business Control and Regulation Law rapidly and at low cost.

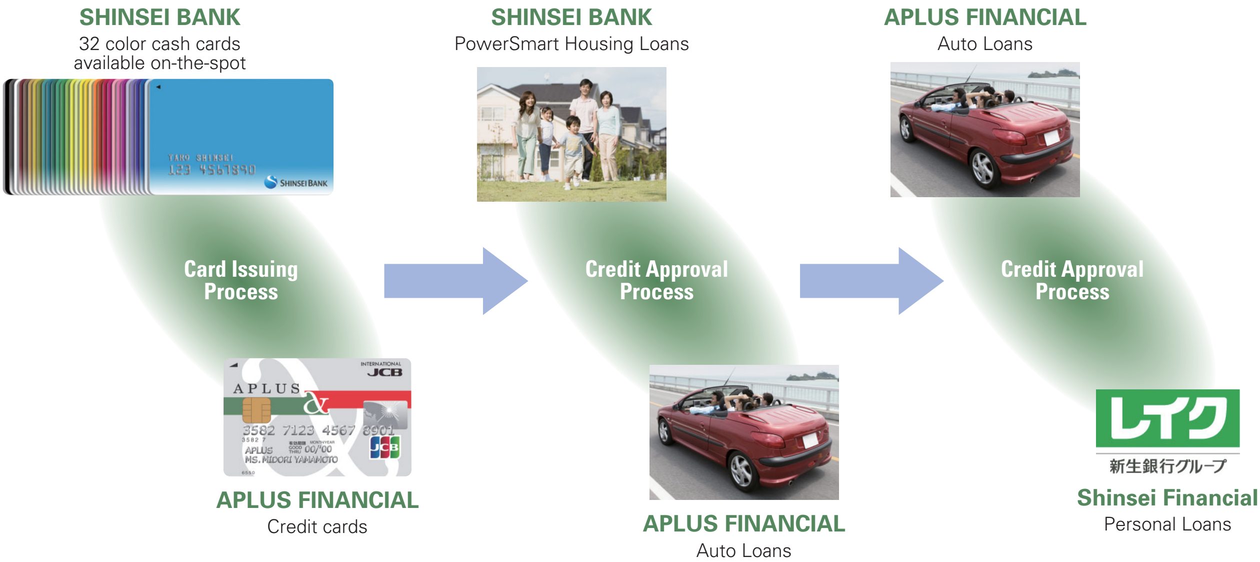
Shinsei Financial, on the other hand, has already introduced Shinsei Bank's general ledger and expense payment systems. Now, we are moving forward with the same kind of business process reengineering as at APLUS FINANCIAL. For example, we have set about automating the calculation of overpaid interest, a task formerly outsourced for manual processing by an external vendor. We have built a system that delivers quicker and more accurate results, and have begun running this in parallel with the existing process. Currently, the Banking Infrastructure Group and Shinsei Financial have set up a joint project team to collect data and determine the necessary functionality for the various business processes related to the company's unsecured personal loan business operating under the Lake brand. Utilizing the standardized systems and processes built up through the work accomplished at Shinsei Bank and APLUS FINANCIAL, we plan to reduce processing costs and improve customer service at Shinsei Financial going forward.

Looking further ahead, we believe that by rolling out Shinsei Bank's IT methodology across the Group and its various business processes, we will be able to leverage shared human and physical resources, such as operators and operation centers. We will use systems to monitor, manage and ultimately optimize the efficiency of these resources, aiming to process each individual task at a lower unit cost.

The Banking Infrastructure Group's ongoing endeavor is to support the Shinsei Bank Group's businesses in providing competitive and timely products and services to meet customers' ever-evolving financial needs.

Deploying IT Methodology and Business Processes Across Group Companies

A toolkit of standardized components is being reused across businesses



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DIRECTORS AND EXECUTIVES

As of July 1, 2010

BOARD OF DIRECTORS (6)

Shigeki Toma

Representative Director, President

Jun. 2010 Representative Director, President, Shinsei Bank, Limited (Current)
May 2010 Advisor, Shinsei Bank, Limited
Jun. 2007 Director, Isuzu Motors Limited
Nov. 2002 Executive Vice President and Director, Isuzu Motors Limited
Apr. 2002 Managing Executive Officer, Mizuho Corporate Bank, Ltd.
May 2001 Managing Executive Officer, The Dai-Ichi Kangyo Bank, Ltd.
Jun. 2000 Corporate Executive Officer, The Dai-Ichi Kangyo Bank, Ltd.
Apr. 1972 Joined The Dai-Ichi Kangyo Bank, Ltd. (Predecessor of Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd.)

Yukio Nakamura

Representative Director, Senior Managing Executive Officer

Jun. 2010 Representative Director, Senior Managing Executive Officer, Head of Risk Management Group, Chief Risk Officer, Shinsei Bank, Limited (Current)
Oct. 2009 Managing Executive Officer, Executive Head of Institutional Business Sub-Group, Shinsei Bank, Limited
Jun. 2008 Statutory Executive Officer, Executive Head of Institutional Business Sub-Group, Shinsei Bank, Limited
Apr. 2007 General Manager, Risk Management Planning and Policy Division, Portfolio and Risk Management Division, Operational Risk Management Division, Shinsei Bank, Limited
Oct. 2000 General Manager, Risk Management Planning and Policy Division, Portfolio and Risk Management Division, Shinsei Bank, Limited
Apr. 1978 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)

J. Christopher Flowers*1

Director,
Chairman, J. C. Flowers & Co. LLC

Sep. 2008 Chairman and Director, Flowers National Bank (Current)
Aug. 2007 Director, The Kessler Group (Current)
Nov. 2002 Chairman, J.C. Flowers & Co. LLC (Current)
Mar. 2000 Director, Shinsei Bank, Limited (Current)
Oct. 1996 Director, Enstar Group Limited (Current)
Dec. 1988 Partner, Goldman, Sachs & Co.
Mar. 1979 Joined Goldman, Sachs & Co.

Shigeru Kani*1

Director,
Former Director, Administration Department, The Bank of Japan, Professor, Yokohama College of Commerce

Apr. 2006 Professor, Yokohama College of Commerce (Current)
Jun. 2004 Director, Shinsei Bank, Limited (Current)
Apr. 2002 Advisor, NEC Corporation
May 1999 Executive Managing Director, Tokyo Stock Exchange
May 1996 Director, Administration Department, The Bank of Japan
May 1992 Executive Advisor and Senior Advisor to the Chairman, The Tokyo International Financial Futures Exchange (Predecessor of Tokyo Financial Exchange Inc.)
Apr 1966 Joined The Bank of Japan

Oki Matsumoto*1

Director,
CEO, Monex Group, Inc.

Jun. 2008 Director, Shinsei Bank, Limited (Current)
Jun. 2008 Director, Tokyo Stock Exchange Group, Inc. (Current)
May 2005 CEO, Monex Beans, Inc. (Predecessor of Monex, Inc.) (Current)
Aug. 2004 CEO, Monex Beans Holdings, Inc. (Predecessor of Monex Group, Inc.) (Current)
Apr. 1999 CEO, Monex, Inc.
Nov. 1994 General Partner, The Goldman Sachs Group, L.P.
Apr. 1987 Joined Salomon Brothers Asia Ltd., Tokyo Branch

Hiroyuki Takahashi*1

Director,
Former Director, Japan Corporate Auditors Association

Jun. 2007 Auditor, Kyowa Hakko Kogyo Co., Ltd. (Predecessor of Kyowa Hakko Kirin Co., Ltd.) (Current)
Jun. 2006 Auditor, Matsushita Electric Industrial Co., Ltd. (Predecessor of Panasonic Corporation) (Current)
Jun. 2006 Director, Shinsei Bank, Limited (Current)
Oct. 2005 Director, Japan Corporate Auditors Association
Jun. 2000 Counselor, Mitsui & Co., Ltd.
Jun. 1997 Corporate Auditor, Mitsui & Co., Ltd.
Jun. 1996 Executive Managing Director, General Manager, Personnel Division, Mitsui & Co., Ltd.
Apr. 1959 Joined Mitsui & Co., Ltd.

STATUTORY AUDITORS (3)

Akira Watanabe

Standing Statutory Auditor

Jun. 2010 Standing Statutory Auditor, Shinsei Bank, Limited (Current)
Jan. 2009 General Manager, Finance Group, Shinsei Bank, Limited
Apr. 2006 General Manager, Office of Audit Committee, Shinsei Bank, Limited
Sep. 2005 General Manager, IB Business Division and Capital Markets Division, Shinsei Bank, Limited
Nov. 2003 General Manager, Treasury Division and Capital Markets Division, Shinsei Bank, Limited
Jul. 2003 General Manager, Markets Division, Shinsei Bank, Limited
Apr. 1983 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)

Kozue Shiga*2

Statutory Auditor
Lawyer

Jun. 2010 Statutory Auditor, Shinsei Bank, Limited (Current)
Sep. 2009 Director, Toyoko Inn Co., Ltd. (Current)
Apr. 2007 Auditor, Tokushu Tokai Holdings Co., Ltd. (Predecessor of Tokushu Tokai Paper Co., Ltd.) (Current)
Mar. 2007 Auditor, FX Prime Corporation (Current)
Oct. 2005 Partner, Shiraishi & Partners (Current)
Jun. 2004 Auditor, Nipponkoa Insurance Company, Limited (Current)
Jun. 2002 Partner, Son Sogo Law Office
Aug. 1999 Established Shiga Law Office
Apr. 1998 Registered Daiichi Tokyo Bar Association
Apr. 1993 Prosecutor, Yokohama District Public Prosecutors' Office
Nov. 1967 Joined Japan Airlines Corporation

Tatsuya Tamura*2

Statutory Auditor
Former Executive Director, The Bank of Japan, and President, Global Management Institute, Inc.

Jun. 2010 Statutory Auditor, Shinsei Bank, Limited (Current)
Jun. 2009 Director, Nipponkoa Insurance Company, Limited (Current)
Jun. 2008 Director, Autobacs Seven Co., Ltd. (Current)
Mar. 2003 Chairman, Japan Independent Directors Network (Current)
May 2002 President, Global Management Institute Inc. (Current)
Apr. 1996 Chairman, A.T. Kearney
Jan. 1992 Executive Director, The Bank of Japan
Apr. 1961 Joined The Bank of Japan

*1 Outside Directors
*2 Outside Statutory Auditors

EXECUTIVE OFFICERS (13)

Shigeki Toma
Representative Director, President,
Chief Executive Officer,
Head of Institutional Group

Yukio Nakamura
Representative Director,
Senior Managing Executive Officer,
Head of Risk Management Group,
Chief Risk Officer

Sanjeev Gupta
Senior Managing Executive Officer,
Head of Individual Group

Akira Kagiichi
Senior Managing Executive Officer,
Chief of Staff

Izumi Ogura
Senior Managing Executive Officer,
Head of Institutional Group

Michiyuki Okano
Senior Managing Executive Officer,
Group Chief Information Officer,
Head of Banking Infrastructure Group

Shigeru Tsukamoto
Senior Managing Executive Officer,
Chief Financial Officer

Norio Funayama
Managing Executive Officer,
Executive Head of Institutional
Business Sub-Group

Kazuya Fujimoto
Executive Officer,
Head of Institutional Business Sub-Group

Michimasa Honda
Executive Officer,
Head of Institutional Business Sub-Group

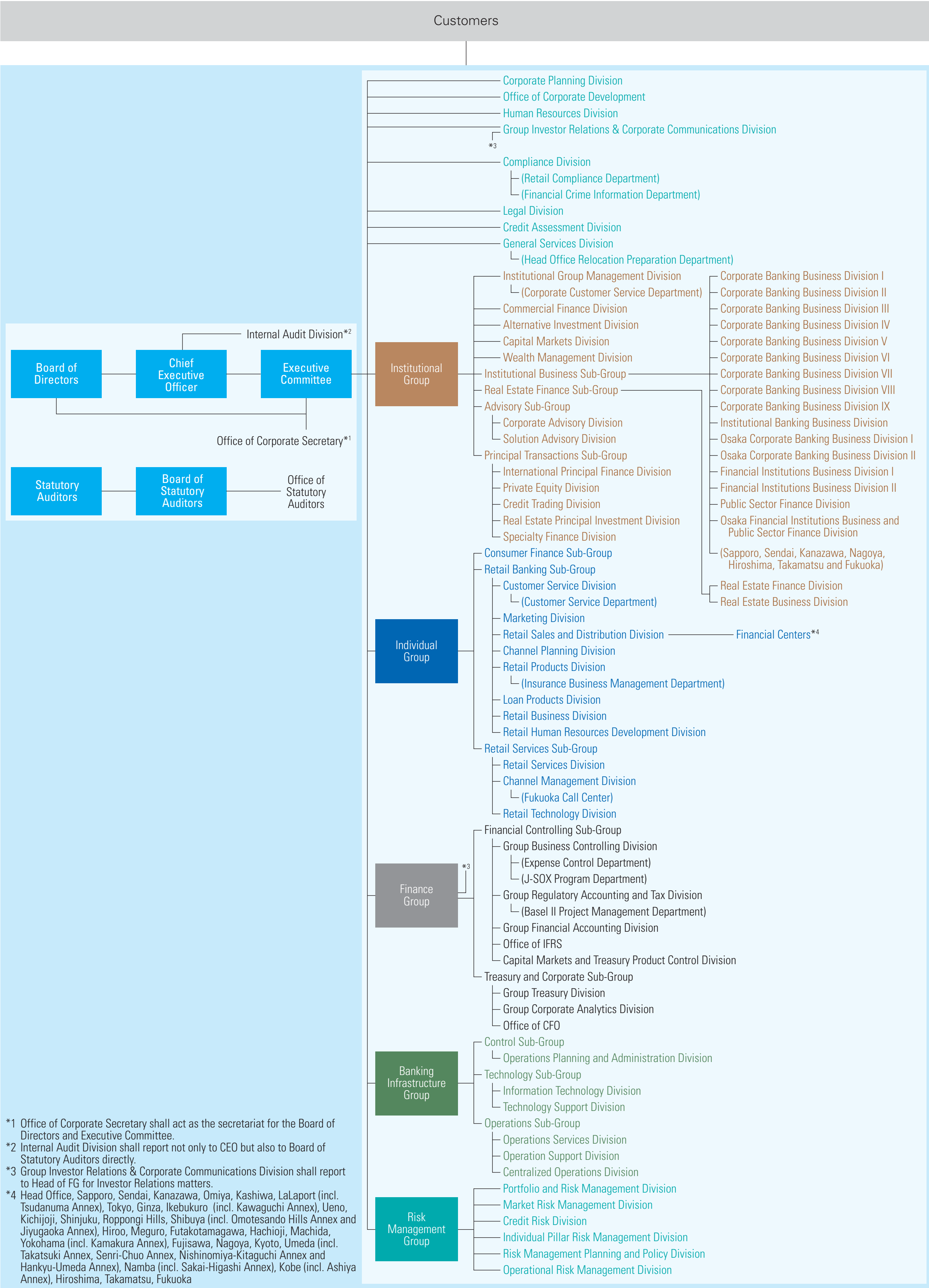
Takao Matsuzaki
Executive Officer,
General Manager, Osaka Branch

Shigeru Oishi
Executive Officer,
Head of Consumer Finance Sub-Group

Takashi Tsuchiya
Executive Officer,
Head of Advisory Sub-Group

ORGANIZATION

As of July 1, 2010



*1 Office of Corporate Secretary shall act as the secretariat for the Board of Directors and Executive Committee.
*2 Internal Audit Division shall report not only to CEO but also to Board of Statutory Auditors directly.
*3 Group Investor Relations & Corporate Communications Division shall report to Head of FG for Investor Relations matters.
*4 Head Office, Sapporo, Sendai, Kanazawa, Omiya, Kashiwa, LaLaport (incl. Tsudanuma Annex), Tokyo, Ginza, Ikebukuro (incl. Kawaguchi Annex), Ueno, Kichijoji, Shinjuku, Roppongi Hills, Shibuya (incl. Omotesando Hills Annex and Jiyugaoka Annex), Hiroo, Meguro, Futakotamagawa, Hachioji, Machida, Yokohama (incl. Kamakura Annex), Fujisawa, Nagoya, Kyoto, Umeda (incl. Takatsuki Annex, Senri-Chuo Annex, Nishinomiya-Kitaguchi Annex and Hankyu-Umeda Annex), Namba (incl. Sakai-Higashi Annex), Kobe (incl. Ashiya Annex), Hiroshima, Takamatsu, Fukuoka

CORPORATE GOVERNANCE

On June 23, 2010, Shinsei Bank changed its corporate governance framework from a "Company with Committees" board model (*iinkai-setchi-gaisha*) to a "Company with Board of Statutory Auditors" board model (*kansayakukai-setchi-gaisha*). In a "Company with Committees" board model, statutory executive officers are engaged in ordinary business execution while directors are mainly responsible for supervising business execution. The switch to a "Company with Board of Statutory Auditors" board model aims to ensure appropriate managerial decision-making and business execution and to establish a governance framework with sufficient organizational checking functions. These are achieved by 1) the consolidation of business execution authorities and responsibilities in the Board of Directors and 2) Assigning responsibility for auditing duties that include auditing and monitoring of the Board of Directors, to statutory auditors and a Board of Statutory Auditors that are independent of business execution and the Board of Directors.

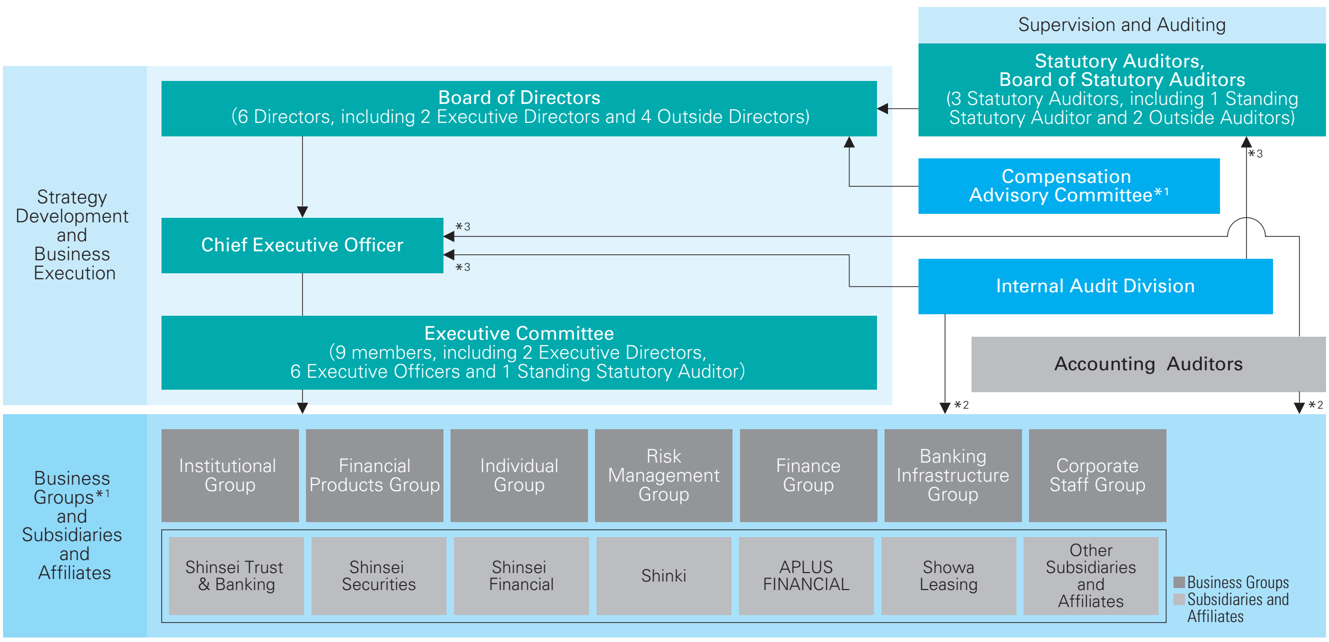
Change to a "Company with Board of Statutory Auditors"

"Company with Board of Statutory Auditors"

Shinsei Bank adopted the governance framework of a "Company with Committees" board model (*iinkai-setchi-gaisha*) on June 24, 2002, based on the then applicable Commercial Code. Under this framework, the Bank established an effective supervisory framework and aimed at efficient and transparent management by achieving speedy and flexible business execution by statutory executive officers and ensuring that the Board of Directors is engaged in decision-making on important managerial matters and business execution monitoring and supervision.

However, the Bank is now expected to ensure more active involvement by the Board of Directors in internal control system establishment and risk management as well as to enhance business execution-based managerial judgment functions in determining its management policies. It also recognizes the need to strengthen its audit functions, such as daily business execution audit activities by full-time audit officers, and supervision of business execution and director activities by audit officers responsible for audits and independent from directors. For these reasons, the Bank amended its Articles of Incorporation and changed its governance framework from a "Company with Committees" board model to a "Company with Board of Statutory Auditors" board model (*kansayakukai-setchi-*

Corporate Governance System Chart (as of July 1, 2010)



*1 Organizational chart after the completion of the reform scheduled at the end of August 2010 *2 Audit *3 Report *gaisha*) at the completion of the June 23, 2010 annual general meeting of shareholders.

In a "Company with Board of Statutory Auditors" board model, directors are responsible for both business decision-making and execution. Therefore, business execution authority and responsibility is centralized in the Board of Directors. Moreover, the Bank will entrust the Board of Directors' audit/supervisory functions to statutory auditors and the Board of Statutory Auditors, who are independent from business execution and the Board of Directors, in order to ensure adequate business execution based on flexible managerial judgment and to establish a governance framework placing more emphasis on checks-and-balances.

Board of Directors

The Board of Directors maintains the appropriate business promotion framework through determining long-term management strategy, ensuring that management is working to maximize shareholder returns, evaluating and supervising business execution by executive directors, and making decisions on management and business execution after ample deliberation by the Board. Under the new framework established on June 23, 2010, the Board of Directors is composed of the following members: two inside directors who are responsible for daily business execution and four outside directors with advanced expertise, such as extensive financing experience and risk management or audit knowledge. These four outside directors play an important role in corporate governance, such as providing independent and objective opinions to management and supervising business execution by directors. As seen above, the Bank maintains the transparency of its management strategy determination process.

Furthermore, the Bank is looking into establishing a "Compensation Advisory Committee" to opine on officer/employee compensation policies from an objective standpoint.

Executive Committee and Executive Officers

As a result of the switch to a "Company with Board of Statutory Auditors" board model, the scope of the Board of Directors' decision-making expanded without any clear distinction between decisions on and supervision over business execution. On the other hand, Shinsei Bank has adopted an Executive Officer system in order to ensure flexible daily business execution. Under this system as well as the leadership of executive directors including the CEO, executive officers and business group heads entrusted by the Board of Directors will execute their operations in an efficient manner. In addition, based on the Board of Directors' approval, the Bank established the Executive Committee consisting of executive directors and executive officers who are group heads, with a view to achieving swift and efficient business administration. Under the new framework established on June 23, 2010, 13 executive officers including executive directors were appointed by the Board of Directors.

With the Bank's expanding specialized offerings, we have established Group-wide committees to enable swift and appropriate responses. Shinsei Bank's primary committees include ALM (Asset and Liquidity Management), Compliance, Risk Policy, Transaction Approval, Credit, New Business/Product, SME Loan, IT, Basel II Steering and J-SOX Program Steering, and Management Development Committees, and are chaired by the CEO, executive directors, executive officers and group heads.

Transactions with Directors and Major Shareholders

In January 2008, a group of investors led by J.C. Flowers & Co. LLC and affiliates completed a tender offer for Shinsei Bank. In February 2008, the Bank increased its capital through a third-party allotment to the same group of investors. As a result, this group of investors, with which Mr. Flowers is influential, became Shinsei Bank's largest shareholder. In accordance with the Bank Rule, the Bank established a process for obtaining approval from the Board of Directors for transactions with parties related to the Bank that may involve a conflict of interest. Furthermore, in order to ensure the Bank's independence from major shareholders, as required by the Banking Law, the Bank established the Bank Rule requiring the Board of Directors to judge transactions with major shareholders in accordance with a set of guidelines. The Bank also established adequate control frameworks to maintain and enhance the Board of Directors' checking functions over transactions with directors and major shareholders, such as preparing a structure for the business execution side to verify transaction fairness and conflict of interest and strengthening post-approval follow-up functions. The Bank prepared and implemented such frameworks to protect the interests of stakeholders based on objective judgment.

Ensuring Internal Control

To enable appropriate corporate governance, it is necessary to prepare a system that ensures proper governance of internal audit and legal/compliance functions and a structure for monitoring business execution and decision-making centered on the Board of Directors. Putting in place the internal control system required by the Corporation Act, and ensuring internal control so that financial statements comply with the accuracy requirements of the Financial Instruments and Exchange Law are also important elements of corporate governance. Even though internal control is the responsibility of management, the overall internal control system takes measures to ensure specific internal control in each of the groups that carry out actual operations. Basic policies on internal control systems to ensure appropriate and efficient daily operations are stipulated in our "Internal Control Rules" established by the Board of Directors. Moreover, the Board of Directors periodically reviews the status of internal control systems. In this process, the Board of Directors establishes a framework to ensure effective audits by statutory auditors, establishes the Subsidiaries and Affiliates Policy, the Information Security Policy, the Shinsei Bank Risk Management Policy, the Regulations of Business Execution, the Shinsei Bank Code of Conduct and the Internal Audit Policy as the basic rules, and endeavors to ensure appropriate, transparent and efficient operations in the Shinsei Bank Group as a whole. In addition, the Internal Control Rules prohibit relationships with anti-social organizations and establish a framework to prevent various types of damage by such organizations and to ensure appropriate operations.

Statutory Auditors/Board of Statutory Auditors

As stated above, on June 23, 2010, Shinsei Bank changed its corporate governance framework to a "Company with Board of Statutory Auditors." The Board of Statutory Auditors of Shinsei Bank, which is composed of a full-time auditor with a background in and business experience at Shinsei Bank and two outside auditors who are highly specialized in legal affairs and governance, shall audit the Directors' execution of their duties as a body that is completely independent from the Board of Directors. The appointment of a full-time auditor will permit full-time monitoring of the Bank's operations, access to detailed internal data and a timely and appropriate response to external changes thereby enhancing the audit function. By providing opinions from a more independent and objective viewpoint at meetings of the Board of Statutory Auditors and the Board of Directors, the outside statutory auditors contribute to enhanced auditing activities.

The statutory auditors shall systematically and efficiently audit the state of business execution at the Shinsei Bank Group as a whole, including Shinsei Bank and its subsidiaries. The statutory auditors will achieve this by cooperating with the internal control groups, such as the Internal Audit Division, and by using staff of the Office of Statutory Auditors in addition to attending the Bank's important meetings, such as meetings of the Board of Directors, reviewing important documents and undertaking audits of their own, such as interviewing the directors, the executive officers and the accounting auditor.

Legal and Compliance Activities

The Compliance Division and Legal Division work closely together and play a central role in our corporate governance.

Compliance Systems Organization

We have, with a strong belief that thorough compliance must be one of the most important management missions, established a robust compliance system to help enable sound and proper management that earns public trust. The Compliance Committee, Compliance Division and individual compliance managers within various business and support units constitute the main elements of our compliance organization. The Compliance Committee, with our CEO as its chairman, examines and discusses important compliance matters. The Compliance Division plans various measures concerning compliance risk and implements these measures through central management. Every division, department or branch in the Bank also has a compliance manager to act as the point of contact for compliance-related matters. These managers' duties also include periodical reporting to the Compliance Division on compliance-related issues. This enables the Compliance Division to conduct Bank-wide monitoring of how various measures are being implemented as well as to provide centralized compliance guidance.

Compliance Activities

We implement an annual compliance program that outlines our compliance-related plans, including compliance enhancement activities such as creating and updating internal rules. We place special focus on training programs for compliance awareness, including periodic training on important subjects, and are working to increase the effectiveness of this training by introducing active e-learning courses alongside classroom training.

Legal Supervision

Banks are required to comply with a wide variety of laws and regulations in their day-to-day business operations. Violations may severely damage not only our credibility and reputation as a financial institution, but that of the overall banking system itself. In terms of individual transactions, we may face unexpected claims for damages if our contracts are unreasonable or we act inadvisably during the process of negotiation leading up to contract execution. Prevention and proper management of these legal risks are now the most important mandate for a bank's business conduct. The Legal Division is in charge of legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision. The Legal Division, working with the Compliance Division, also supports our overall compliance systems.

Internal Audit

The importance of risk management is becoming increasingly acute with the increased diversification and complexity of risks relating to the Bank's operations. The role of the internal audit is to independently assess the effectiveness of risk management measures and internal controls. This, in turn, helps maintain and enhance our corporate governance.

The Internal Audit Division (IAD) of the Bank reports directly to the CEO and also to the Board of Statutory Auditors. IAD supports the CEO in his responsibility for controlling business execution, and in particular for establishing an effective system of internal controls. IAD provides independent and objective assessments of the effectiveness of risk management, control and governance processes; the reliability of information and information technology systems; and compliance with statutory, legal and regulatory requirements as well as internal policy and procedure requirements of the Bank; consequently, IAD provides solutions to management. IAD also maintains a close relationship with the Board of Statutory Auditors and provides them with internal audit-related information.

IAD is independent from all the organizations subject to internal audits, and from day-to-day operational activities and control processes including regular preventive and detective controls.

IAD adopts a risk-based audit approach and conducts a comprehensive risk assessment based on macro-risk assessment—to capture high-level risks across the Bank—and micro-risk assessment to assess the risks inherent in each business or process audited. IAD prioritizes the allocation of audit resources to businesses or processes with higher risk profiles.

It is important to gather relevant information about the business to improve effectiveness and efficiency of internal audit activities. IAD has been enhancing off-site monitoring activities by attending key management meetings, reviewing internal control documents and holding regular meetings with senior management.

Comprising the Business Audit Team, the IT Audit Team and the Quality Control and Planning Team, IAD takes the initiative in developing our internal auditors' expertise, and in particular, strongly encourages them to obtain professional certifications such as Certified Internal Auditor and Certified Information Systems Auditor. IAD has also been enhancing its infrastructure in addition to developing new audit methodologies.

An external consulting firm conducts a quality review on IAD's internal audit activities in order to objectively identify opportunities for improvement periodically. IAD also involves Group subsidiaries' internal audit divisions in its drive for continuous improvement.

RISK MANAGEMENT

Turning point

Under the leadership of a new management, the foundations for a stronger risk management framework were defined during the course of the past 18 months. Risk policies that are now more aligned with the back to basics business philosophy and more considered risk taking will ensure the Bank's recurrent credit costs will be normalized.

Asset quality is expected to gradually improve, due to a three pronged approach:

- First, the past weak policies and practices were terminated and replaced by a comprehensive decision making framework.
- Second, the risk appetite has been redefined and clear guidelines stated in a Core Credit Risk Policy and several specific risk policies for real estate finance, consumer finance, and market risk amongst others.
- Third, the portfolio is now being comprehensively risk managed, to mitigate losses and optimize recoveries on individual assets or products. Naturally, this close scrutiny of the books has given rise to some additional credit reserves.

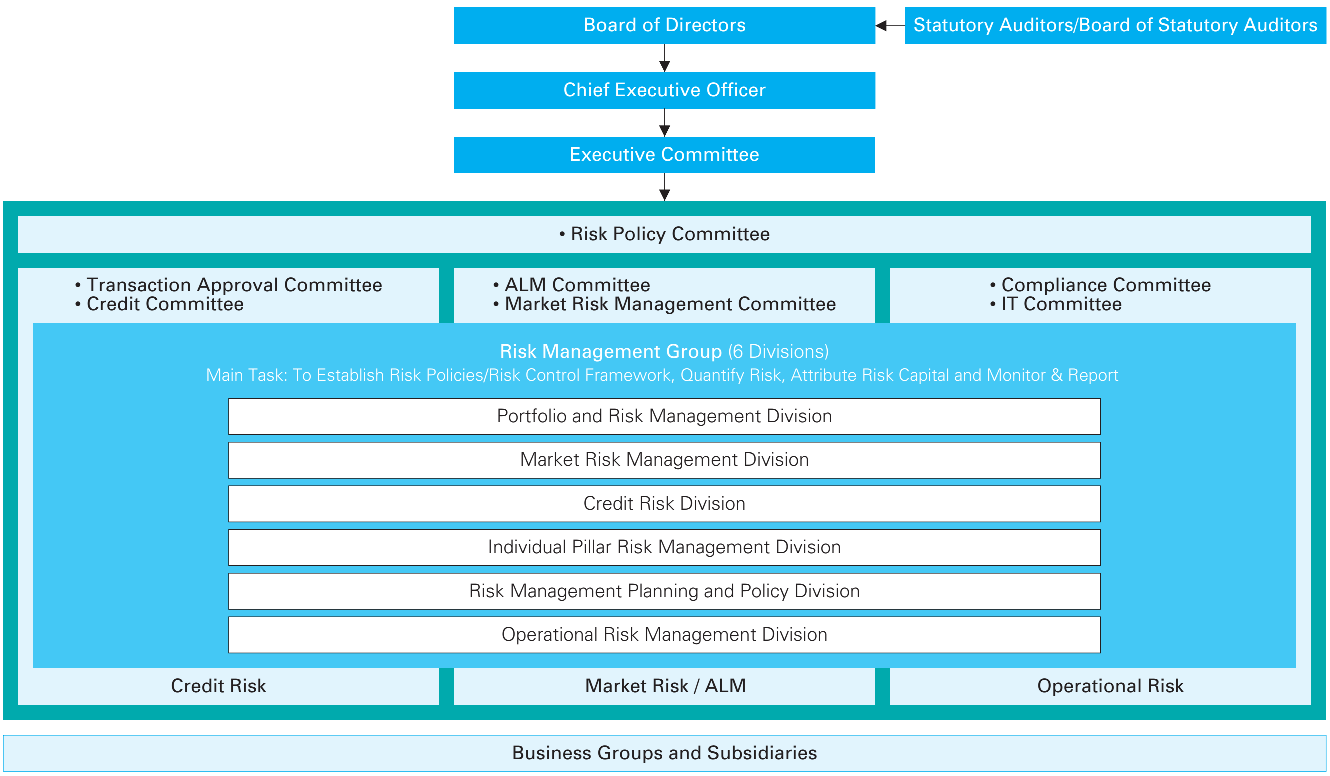
As stated in last year's report, it will take time for the full benefits of the new risk practices to show. As expected, the exposure to overseas investments and bias towards domestic real estate non-recourse lending, would cause additional credit costs in fiscal year 2009. It was as anticipated, that the difficult market conditions and balance sheet mix would cause continued abnormal credit costs. Due to the size and complexity of the portfolio, the full extent of the reserving requirements could not be determined until late in the final quarter of fiscal year 2009.

The sensitivity to a further decline in the domestic real estate market remains, but is now somewhat diminished as the loan book is now conservatively marked to "lenders' valuation" levels and comfortably reserved.

As seen in the last fiscal year, the management have taken the decision to allocate further prudential reserves on some overseas investments. This significantly reduces the risk of unexpected credit losses going forward. Indeed, it should be possible to reverse some of the existing credit reserves, as legacy assets run off, or are restructured or sold. In particular, recoveries are expected from the European asset-backed investments and from domestic real estate non-recourse lending.

Despite the heavy credit costs, there have been some notable successes in the last fiscal year. The opportunistic sale of the majority of the legacy "available-for-sale" CLO and CDO book, allowed the Bank to recover a portion of the prior fiscal year markdowns. The Bank was also successful to anticipate a few of the large non-bank financial institution defaults, and had already hedged these exposures at effective levels in the default swap market.

Risk Management System Chart (as of July 1, 2010)



Risk Management has also played a role in the balance sheet optimization, which has produced significant reductions in risk weighted assets through more rigorous and accurate measurement as well as a comprehensive clean up of risk data. This joint Finance / Risk Management project has benefited the reduction of risk assets and succeeded in maintaining capital ratios in spite of the decrease in capital in the last fiscal year.

Although a lot of focus has been given to the Institutional Group assets, the risks taken by the Individual Group, and in particular the consumer finance subsidiaries, have not escaped attention.

Following a Group-level review of the consumer finance risk policies, the Bank has brought considerable influence on the subsidiaries' credit underwriting and collections. Positive trends can already be seen in the cost of risk, with the main benefits expected through fiscal year 2010 and 2011. In between, the industry will come to terms with the final phase of the Money-Lending Business Control and Regulation Law (MLBL), that will cap borrowing at one third of income, and will cause some contraction in total market size. After the initial short-term challenge to credit costs, the income restriction is expected to lead to an overall long-term sector-wide improvement in credit quality.

Risk Management will continue to build on best practices, by developing advanced stress testing models that will more accurately predict the impact of external change on the Bank's overall performance. Measuring the sensitivities will allow the Bank's management to better understand, anticipate and manage its risks. The Bank is also investing in the best technology available to support its advanced approach for risk capital measurement: counterparty risk and issuer risk monitoring; and a credit rating early warning system, amongst others.

In line with international best practice, the Bank has taken initiatives to further reinforce the already strong risk governance. Shinsei Bank is amongst the leaders by creating a truly independent risk management function where the chief risk officer (CRO) has a full veto power for risk matters and provides reports directly to the Board of Directors. As the next step, the Bank strengthened risk oversight, by having the CRO attend and present to every regular Board of Directors meeting and bi-monthly to the Audit Committee. In June 2010, the Bank moved from a "Company with Committees" to a "Company with Board of Statutory Auditors" board model and renewed its senior management. Currently, the chief risk officer is both a representative director and senior managing executive officer, and sits on the Bank's Board of Directors.

With the increased oversight, the independence and the autonomy, Shinsei Bank has created the ideal risk governance standard, which clearly demonstrates commitment to put prudential risk management first, alongside its back to basics business strategy.

The redefinition of risk management and recalibration of risk appetite is also largely complete, so the Bank can now focus on its core domestic business and rebuild its franchise based on corporate banking relationships and retail / consumer finance channels.

Comprehensive Risk Management

Basic Concept of Risk Management Systems

In order to run highly profitable operations, a financial institution must understand the basic challenges of risk management, namely, how to take and how to face risks.

For this reason, it is necessary to monitor whether risks are taken in line with Bank-wide policies as well as individual operational policies, whether risks remain within appropriate limits and whether they are adequately controlled by the respective sections in charge.

Financial institutions are exposed to various risks, including credit risk, market risk, liquidity risk, operational risk, systems risk, legal risk and compliance risk.

To Achieve Comprehensive Risk Management

Shinsei Bank sets forth its "Shinsei Bank Risk Management Policy" as a basic management policy in order to recognize risks and implement proactive controls based on an understanding of the total risks faced by the Bank as a whole. Amidst severe competition and an evolving regulatory and market environment, the risks which Shinsei Bank faces are increasingly complex. Shinsei Bank has undertaken a detailed analysis of its performance during the financial crisis. In the fall of 2009, the Bank revised its "Risk Management Policy" and redefined the fundamental principles of risk management including a rebuilding of the risk culture within the Bank.

Comprehensive risk management means detailed monitoring of each risk involved in individual operations, as well as the understanding of total bank-wide risks, and quantifying risks to the greatest extent possible based on analysis and insight into a bank's markets and customers. Estimating "Risk Capital," which is an integrated control approach, requires measurements for each risk category, namely (1) credit risk, (2) structured credit and other investment risk, (3) market risk, (4) interest rate risk, and (5) operational risk. In this way, our management capabilities and risk acquisition activities are controlled in an integrated manner by monitoring the Bank-wide risk volume and Group-specific capital attribution status.

Shinsei Bank's senior management has delegated certain risk management authority to specific committees including the "Credit Committee," "Asset and Liability Management (ALM) Committee" and "Market Risk Management Committee." Recently, the Bank has reviewed the structure of committees and reorganized them into a more appropriate framework. In addition to the existing "ALM Committee" and "Market Risk Management Committee," a "Risk Policy Committee" (RPC) and "Transaction Approval Committee" (TAC) were established in 2009. The Risk Policy Committee involves the top management of the Bank (including the CEO, CFO and CRO), and reviews business strategy alongside risk appetite. Its decisions help define and calibrate appropriate and optimal risk taking for the Group.

Categories of Risk Capital

Risk Capital	Unexpected Loss calculated by subtracting expected loss from estimated maximum loss of which time horizon is one year.
Credit Risk	Measured by subtracting expected loss from Credit Value at Risk (Credit VaR). Credit VaR is the estimated maximum loss calculated by a simulation utilizing data including probability of default, exposure at default, loss given default, etc.
Structured Credit and Other Investment Risk	Measured by the most appropriate combination chosen for each investment from some methods such as default loss distribution, value range distribution, sensitivity to other factors, etc.
Market Risk	Measured by calculating estimated maximum loss from market risk based on Value at Risk method (VaR method), of which time horizon is one year.
Interest Rate Risk	Sum of Japanese yen interest rate risk measured by Value at Risk method (VaR method), and other currencies interest rate risk measured by BPV method.
Operational Risk	Estimated maximum loss calculated by a simulation based on frequency and sensitivity distributions which will be derived from historical internal loss records and scenario loss data.
Total Risk Capital	Calculated by subtracting effect of correlation across risk categories from simple sum of Risk Capital for each risk category.

Institutional Credit Risk Management

Credit risk is defined as the risk of loss due to a counterpart defaulting on contractual debt obligations.

Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular obligors, and managing the credit portfolio with an awareness of potential losses under a worst-case scenario.

To achieve these goals, Shinsei Bank established a comprehensively revised "Credit Risk Policy" which defines specific policy on customer attributes, products, markets, industries and transaction types where risks should be taken or limited, and clarifies basic policies for credit provision operations and specific guidelines for credit risk management together with the Bank's "Credit Risk Policy," "Credit Procedures" and other related procedures.

Credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management, as follows.

Credit Risk Management for Individual Transactions

(1) ORGANIZATION/SYSTEMS

There are two main categories of decision—a credit risk for an appropriate amount and maximum duration of an obligor or counterparty risk; and a deal risk on an appropriate type and structure of a transaction. In general, the decisions are taken jointly by the business stakeholder and the risk delegation holder. The Risk Management Group is independent of the business line, to provide objectivity and impartiality and has the power of veto on any risk decision.

Credit approval authorities are only awarded to the most senior and experienced business heads, group heads, subgroup heads, and general managers, to be exercised jointly with the chief risk officer, chief credit officer or senior credit officers, according to the amount and type of risk. Naturally the business has the right to appeal an unfavorable credit decision, but the final authority and decision will rest with the CRO.

Transactions can be very diverse and complex in nature, and hence Shinsei Bank has adopted a specific approval process for dealing with them. Recognizing that risk can emerge from not only credit, market or operational aspects, on occasion, Finance, Compliance, Legal or other specialized functions, will be invited to participate in the decision process, in the format of a Transaction Approval Committee. This allows for the thorough evaluation of reputational risk, compliance risk, suitability risk, legal risk or tax/regulatory aspects to ensure that the Bank and its customers avoid inappropriate deals. It is possible for any member of a Transaction Approval Committee to express an objection, although the final decision rests with the business stakeholder and the risk delegation holder, with the latter having the power to veto.

To ensure comprehensive monitoring and proactive management of weak assets, a Doubtful Debt Committee has been established.

At the meetings of this Committee, we monitor the business conditions and discuss the future outlook and action plans for obligors whose ratings are below a certain level and whose borrowings outstanding are above a certain amount, or of obligors for which Shinsei Bank has set aside a certain amount of reserves. Through this preemptive monitoring and alertness to deterioration in obligors' business environment, Shinsei Bank is striving to minimize credit costs and improve our overall asset quality.

(2) OBLIGOR RATING SYSTEMS

Obligor rating systems, which are Shinsei Bank's internal rating systems, are outlined as follows.

CHARACTERISTICS OF SHINSEI BANK'S OBLIGOR RATING SYSTEMS

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarked against external ratings
- Properly reflecting obligors' consolidated-basis accounting systems
- Ensuring conformity with rating systems among industry classifications

More specifically, obligor ratings are determined by applying adjustments with qualitative factors to the model ratings calculated by our estimation models, which are created using data from external rating agencies. Obligor ratings shall be discussed at the "Credit Rating Review Committee" and determined with transaction approval in order to ensure objectivity and transparency. Moreover, we ensure conformity of obligor ratings with obligor categories based on the regulatory self-assessment requirements.

Obligor ratings are used in the standards of credit approval authority procedures and portfolio controls, and are the foundation for credit risk management.

Furthermore, we also apply a facility rating system based on expected losses that allows for improvement in the credit status, such as collateral and/or covenants, from the perspective of obligor ratings and the credit status of individual transactions.

Portfolio-Based Credit Risk Management

(1) MONITORING ANALYSIS SYSTEM

Controls must be carried out in such a way that risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At Shinsei Bank, the Portfolio and Risk Management Division undertakes risk analyses of portfolios, and monitors the segment-specific risk diversification status including industry classifications, ratings, specific customers/groups and also rating fluctuations related to customers within the portfolios. The Division uses this information to provide reports to senior management and the CRO on a monthly as well as ad hoc basis.

(2) QUANTITATIVE MEASUREMENT OF CREDIT RISK

Quantitative measurement of credit risk means measuring and assessing the likelihood of losses that may be incurred from changes in a customer's creditworthiness. The probability of default, an assumption based on past experiences and future outlook, and expected loss amounts based on collection ratios, are generally called "expected losses."

Losses that could be incurred in the worst case scenario and cannot be estimated based on past experiences are generally called "unexpected losses." It is generally considered that risk capital can be quantified by measuring both "expected losses" and "unexpected losses."

Shinsei Bank ensures adequate return levels against risks involved in each transaction by measuring expected losses and unexpected losses and reflecting them in the interest rate margin on loans. Moreover, changes in risk capital and profitability against risks are analyzed to achieve sound portfolio operations and asset allocation.

(3) CONCENTRATION GUIDELINES

Our concentration management framework consists of industry concentration guidelines, obligor group concentration guidelines, as well as effective review and countermeasures for matters outside the scope of the guidelines. These procedures are designed to insulate our credit portfolio against systemic shock or other extraordinary events.

Credit Risks Involved in Market-Related Transactions

Credit risks involved in market transactions, such as derivative transactions, are controlled based on fair value and estimations of future value fluctuations. The volume of risks associated with market transactions changes according to fluctuations in market rates after the transaction is closed and Shinsei Bank undertakes strict controls based on future value fluctuation forecasts.

Self-Assessments

As a result of introducing the "Prompt Corrective Action" system, financial institutions conduct self-assessment of their assets, such as loans, in order to adequately write off or set aside reserves.

Shinsei Bank has established a self-assessment system wherein the Credit Assessment Division, which is independent from the business promotion and credit analysis sections, is the section ultimately responsible for assessment.

More specifically, the criteria and procedures for self-assessment adhere to the Financial Services Agency's "Inspection Manual for Deposit-Taking Institutions." Accordingly, primary assessments and final assessments are conducted by the credit analysis section and the Credit Assessment Division, respectively. For some obligors, the business promotion sections and the credit analysis section carry out the primary assessments and secondary assessments, respectively.

Obligor categories and categorizations are reviewed in a timely manner according to changes in the obligors' financial fundamentals so as to mitigate the emergence of problem loans and to strengthen and update systems to ensure the timely and accurate management of troubled loans.

Measures to Meet Basel II Requirements

In order to comply with the credit risk regulations under Basel II, which came into effect at the end of March 2007, Shinsei Bank has adopted the F-IRB (The Foundation Internal Ratings-Based) Approach. This framework ensures strict internal controls for our internal rating systems, the basis of credit risk management, by the execution of the design and operations of internal rating systems and parameter estimations such as probability of default. The results of the internal rating systems are reflected not only in credit risk management, but also in calculations of capital levels required under the regulations.

Individual Pillar Risk Management

The Bank created the Individual Pillar Risk Management Division in March 2009, in consideration of the increasing importance in the balance sheet of the consumer finance businesses operated by the Bank's subsidiaries including Shinsei Financial, Shinki and APLUS FINANCIAL. Risk management in consumer finance has been embedded into the business operations, from credit scoring to collections. Each subsidiary has a dedicated head of risk, who reports into the head of Individual Pillar Risk Management Division and is ultimately supervised by the CRO.

The Individual Pillar Risk Management Division co-ordinates credit management in each of the subsidiaries, monitors performance and advises on credit policy and strategy.

The subsidiaries make use of several sophisticated credit scoring models, credit bureau data and behavior scores to determine credit line limits. Other public data records may also be used to enrich the decision criteria used in the score.

The portfolio performance is then measured by product type and by ageing bucket*[1] to detect trends in delinquency, which then feedback into the calibration of the scorecard and credit actions. New customer trends are also followed using vintage curves, which represent the aggregate delinquency rate by number of months since loan disbursement.

Credit cost optimization also depends on efficient collections. The subsidiaries make use of the best available technology including predictive dialers and, more recently, collection scores to improve the early stage collections. In addition, they also use a flexible staffing system to optimize resource deployment through the monthly collection cycle.

Since the cost of risk has a pivotal importance in the overall profitability of the consumer finance business, a dedicated Risk Policy Committee involving the CEO, CFO and CRO as well as the CEOs of the consumer finance subsidiaries, now convenes at least once a year to ensure business strategy and risk-taking are properly aligned. The action plans defined in the Risk Policy Committee are reported monthly to the CRO and refined as necessary.

The Group maintains a medium-term objective to grow business volume, but reduce the net cost of risk to a range of 5.0% to 5.5% through the cycle for loan cards and credit cards. However this objective may only be fully realized after the full implementation of the MLBL, has been absorbed by the industry, and grey zone claims have declined.

*1 Ageing buckets refer to exposures grouped by delinquency period.

Market Risk Management

Market risk, which is the risk associated with changes in the value of financial instruments from fluctuations in bond prices, exchange rates, interest rates, stock prices, credit spreads and other market-determined price mechanisms, is inherent in all assets and liabilities, and in off-balance sheet transactions as well.

Market Risk Management Policy

We manage market risk by segregating the overall balance sheet into a trading book and a banking book. The ALM Committee, chaired by our CEO, is the senior review and decision-making body for the management of all market risks related to asset/liability management.

The actual risk limits for asset/liability management as well as trading, such as the value-at-risk (VaR) method, are approved by the ALM Committee. The VaR is the amount at risk for a specific time horizon and confidence interval. The Market Risk Management Committee serves as an arm of the ALM Committee and is chaired by the head of the Risk Management Group with senior representatives from related divisions. The Committee meets weekly to review detailed market risk and liquidity risk reports from the Market Risk Management Division, which is responsible for the objective and timely recognition, monitoring and reporting of market risk in both our trading and banking operations. In addition to reporting risk information to management, administrative divisions and front office units, the Market Risk Management Division carries out regular risk analyses and makes recommendations.

Trading Book

We use the VaR method in our trading operations (our trading activity is carried out mainly on behalf of customers). Based on FSA approval, we use internal models for our General Market Risk calculations for Basel II purposes. The VaR uses a 99% confidence level, 10 day holding period and 250 observation days. See the table below for VaR data.

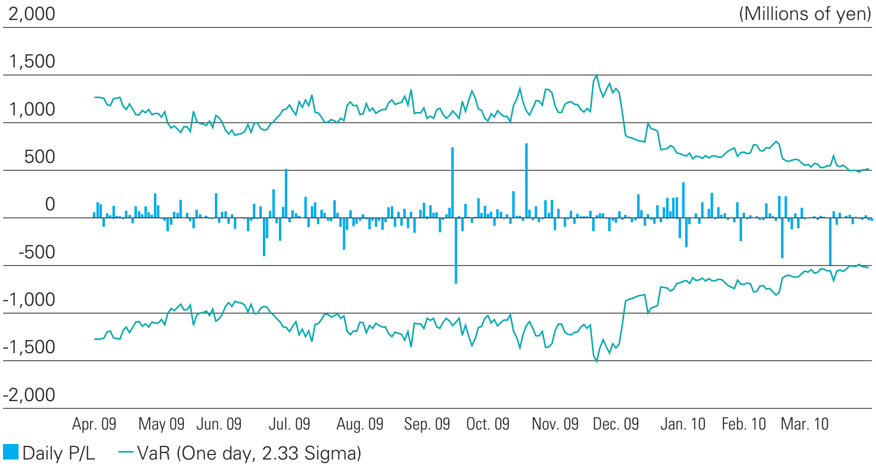
The validity of the VaR model is verified through back testing, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period. The back-testing results for fiscal year 2009 show that there was no day in which the loss amount exceeded VaR on a consolidated basis. We conduct stress tests using more than 40 scenarios. Stress tests are conducted on a weekly basis and reported to senior management at the Market Risk Management Committee meetings.

In addition, we monitor sensitivities and positions (delta, vega, gamma, credit exposure and notional amount), and report daily to the CRO and management, and weekly at Market Risk Management Committee meetings.

VaR data for Fiscal Year End, Maximum, Minimum and Average during the fiscal year 2009 and 2010

		Millions of yen			
		2009		**2010**	
		Consolidated	Non-Consolidated	Consolidated	Non-Consolidated
FYE VaR		4,081	3,359	**1,627**	**1,585**
FY	Maximum	7,654	6,454	**4,744**	**4,535**
	Average	3,899	3,263	**3,094**	**2,831**
	Minimum	2,136	1,883	**1,528**	**1,475**

VaR and Daily Profit and Loss (Back-Testing) (Fiscal year ended March 31, 2010, Consolidated basis)



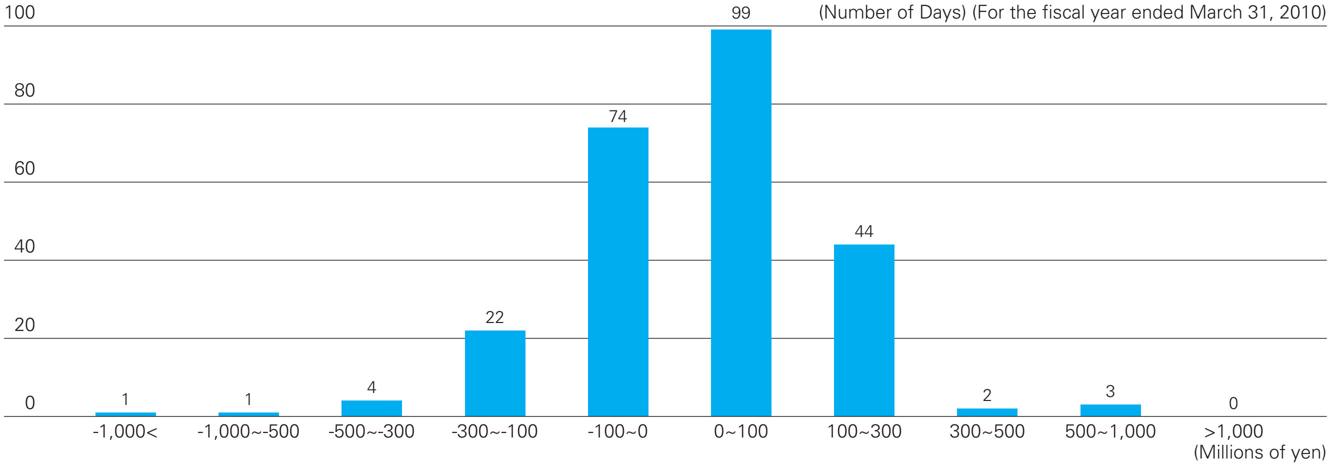
BACK-TESTING ON THE VaR MODEL APPLIED TO THE TRADING BUSINESS

Back-testing involves comparing the actual losses to estimated VaR to confirm the reliability of the VaR method.

ASSUMPTIONS OF SHINSEI'S VaR MODEL

Method:	A historical simulation method
Confidence interval:	2.33 standard deviations
Confidence level:	99%
Holding period:	1 day
Observation days:	250 days
Coverage:	Trading business (except for retail customer margin)

Histogram of Daily Trading-Related Revenue (Excluding Customer Margin)



Banking Book

In our banking book, we use the basis point value (bpv) method and net interest income as principal risk indicators. The bpv method measures the risk of changes in fair market value resulting from fluctuations in interest rates. Net interest income measures the risk of changes in net interest income during a specified period, usually one year, due to fluctuations in interest rates.

Basis point value (bpv) method:
The bpv method measures the risk of changes in fair market value due to fluctuations in interest rates. For example, 10 bpv indicates the change in fair market value when interest rates move 10 basis points, or 0.1%. The table below sets forth the impact on the fair market value of yen-denominated on-balance sheet and off-balance sheet items when interest rates change by 10 basis points.

100 Basis Point Value for JPY Balance Sheet (Fiscal year ended March 31, 2010, Non-Consolidated)

	Billions of yen					
	to one year	One year over to three years	Three years over to five years	Five years over to ten years	Ten years over	Parallel Shift
On-balance sheet	-6.3	6.6	12.9	-19.1	-7.4	-11.8
Off-balance sheet	-0.4	0.6	0.7	11.0	2.4	14.2
Total	-6.8	7.2	13.7	-8.2	-5.1	2.4

Note: Positive figures indicate where an increase in interest rate will result in an increase in fair market value.
Negative figures indicate where an increase in interest rates will result in a decrease in fair market value.

Liquidity Risk

Our ALM Committee is the senior review and decision-making body for the management of liquidity risk. The ALM Committee manages liquidity risk by establishing the short-term liquidity gap structure limits and minimum liquidity reserve levels.

Our Liquidity Management Policy, reviewed and approved periodically by the ALM Committee, stipulates the guidelines and norms for appropriate liquidity risk management.

To quantify liquidity risk, we have developed three liquidity forecast estimations:

- Business-as-usual model: This model forecasts the liquidity situation on an ongoing basis. The output of this model is an estimate of the funds we need to raise under normal circumstances.
- Stress/event model: This is a liquidity forecast under extraordinary severe circumstances. The output of this methodology is the cash on hand under stressed circumstances.
- Net Gap Measurement: Basically we measure the future net funding gap based on business-as-usual assumptions for assets and retail funding, and contractual maturities for wholesale funding.

The output of these measurements are carefully analyzed and presented weekly to the Market Risk Management Committee and monthly to the ALM Committee together with a recommendation on the liquidity gap structure and minimum reserve level, which is determined as follows:

- The first requirement is that we should be able to survive in a crisis or emergency situation; based on the assumptions relating to inflow and outflow in a stress situation, the net cumulative outflow over a specified period should not exceed available reserves.
- If available reserves are insufficient to meet the test, then action to remedy the situation, such as increasing reserves or changing our liability profile, must be taken.
- If available reserves are sufficient to meet the test, then minimum liquidity level reserves may be reduced, but only in such a way that the first stress test (emergency survival test) is still met and the liquidity gap at various times is within approved gap limits.

Interest Rate Risk

We take an integrated approach to managing interest rate risk, incorporating both on-balance sheet transactions, such as lending activities, and off-balance sheet transactions, such as swaps. We analyze and manage risk both in terms of fair market value and profit or loss for a given accounting period.

We set limits for fair market value risk according to the bpv method, whereby risk arising from interest rate fluctuation is restricted to a predetermined proportion.

For profit or loss within a specific period, risk limits are set based on net interest income. Our future balance sheet is estimated by constructing a hypothetical model that includes expected rollover of lending and deposits, together with information from our current balance sheet and operational plans.

Net interest income simulations are carried out using various scenarios for market interest rate fluctuations.

Operational Risk Management

1. Management of Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk requires organization-wide management, because it is inherent in any business activity and covers extensive risk areas.

To comprehensively manage operational risk, an Operational Risk Management Policy has been established to clarify the definitions of risk, our basic policy and system for risk management and a framework for identifying, evaluating, monitoring, reporting and controlling/mitigating risk.

The Operational Risk Management Division, which is responsible for Group-wide operational risk management, evaluates, analyzes and reports on the overall operational risks. Specific management divisions have been designated for respective risk areas comprising operational risk, such as operational and administrative risk and systems risk. They are implementing various controls, including the formulation of cross-organizational measures, standards and procedures for managing risk according to the risk characteristics of each area. The Operational Risk Management Division and specific management divisions hold monthly meetings to share information on risk management issues and measures and to discuss how to manage the common elements across the risk areas, thereby ensuring the effective management of operational risk.

Regarding measurement of operational risk, we have adopted the standardized approach for regulatory capital under Basel II. On the other hand, we have also quantified operational Risk Capital for internal use based on our internal model, by utilizing risk scenarios which reflect risk perception of business lines as well as historical losses. This quantification result has been used as part of the overall Risk Capital system.

2. Management of Operational and Administrative Risk and Systems Risk

Operational and administrative risk refers to the risk of incurring losses resulting from executives' or employees' failure to perform accurate clerical work or from their errors or misconduct. Although we have expanded our retail banking and consumer finance businesses and developed our institutional banking business, we realize that appropriately addressing such operational risk is of crucial importance in order to offer reliable services to our customers.

As measures for such risk, the Operational Planning and Administration Division, responsible for control over the overall operational errors and losses, have established various guidelines such as an "Operations Guideline" and have also implemented operational flow improvement and supervision/training to improve our operational levels. When errors do occur, we try to prevent recurrences by compiling a database of such cases and analyzing the causes. Our extensive automation, computerization and customer self-service have succeeded in minimizing the occurrence of such mistakes/errors.

We believe that the following three factors are crucial for our information systems strategy: security and reliability, flexibility and scalability. In particular, we have kept our information technology infrastructure robust, secure and reliable in order to ensure the security of customers' transactions. We have also established a flexible system that enables us to provide new products and services to meet customers' constantly changing needs. In addition, we have endeavored to ensure scalability in order to respond to possible future increases in the number of our customers and transactions.

We have set up a special team tasked with minimizing systems risk. We have also improved our risk management in terms of continuity of business planning, disaster recovery planning and safeguards against personal information leakage and unauthorized access.

With regard to continuity of business planning, we have undertaken a review by conducting regular tests in light of the growing social importance of banks' online systems.

In March 2005, we extended the scope of ISMS certification, which we received in March 2004, from the Information Technology Division to the entire Banking Infrastructure Group and Retail Services Sub-Group.

Furthermore, we have received certification to migrate to ISO/IEC27001, which became the international and domestic information security management system standard in March 2007, and have strived to enhance our approaches to information security measures.

We provide regular status reports to management and continue to make Bank-wide efforts to manage and minimize operational and administrative risk and systems risk.

HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

Human Resources - An Engine for Growth

In our management principles, Shinsei Bank has articulated our goal of becoming a banking group that is valued by customers and that contributes to the development of the domestic and international industrial economy. We believe that attracting and developing high-caliber people who can consistently deliver value-added solutions and superior services is essential in order to differentiate ourselves in a fiercely competitive environment and live up to our principles. With talented people as the driving force of our business, we will continue to meet the challenge of new changes and fulfill our customers' ever-changing needs with accuracy and agility. By doing so, we believe we can build trust and grow as a diversified financial institution that offers comprehensive support to our customers.

Attracting and Retaining Top-Class Talent

At Shinsei Bank, we have built a performance-based human resources (HR) framework that makes no distinctions based on age, gender, nationality or length of time with the company. We respect diverse ways of thinking, and work to enhance our people's motivation. Employing a business group-based organization that reflects the differences in customer profile and characteristics of individual businesses, Shinsei aims to develop professionals who have a deep understanding of both their field and their customers. To this end, we promote individual specialization from the moment a new recruit enters the Bank and provide various development programs and on-the-job training aligned to specific positions and individual employees' development levels, at timely intervals, in order to deepen our employees' skills and expertise. At the same time, we encourage our people to utilize an internal job posting program to take charge of their own career development by taking on new challenges in different fields.

In our efforts to build a corporate culture powered by diversity, we have promoted the advancement of talented female employees by offering a variety of support including a child-care leave and benefits program, and "Shinsei Women's Network," a support group for working mothers throughout the Bank. As a result of these measures, the proportion of female managers at Shinsei Bank remains among the highest in our industry with women representing approximately 23% of all titled managers as at the end of March 2010. In addition, we also provide free counseling services provided by external specialists to promote mental health care. In this way, we are working to create an environment where our people are empowered to fully demonstrate their capabilities and potential, and are motivated to give their best everyday.

A Human Resources Strategy that Supports Corporate Management

Given our difficult financial condition, we recognize that constant effort is required to increase business efficiency. We are focused on cost reduction by improving operational efficiency through further outsourcing of HR administration and IT deployment. At the same time, we believe that we need to further enhance our organizational strength through additional initiatives to develop and efficiently deploy our human resources in order to improve the Bank's profitability and stabilize our earnings base. Maintaining our business group-based structure, going forward, we will work to energize the organization by leveraging human resources across these groups. The primary mission of banks in society is to act as financial intermediaries. As we strive to fulfill this role, we will place particular importance on further developing employees' corporate credit screening and retail asset management consultation skills.

At the end of fiscal year 2008, we established a Management Development Committee to decide important HR-related policies and monitor HR management. The Committee enables management to make timely decisions on Bank-wide HR-related challenges. Going forward, we plan to introduce various HR initiatives, including a more appropriate and effective evaluation and compensation structure, boost employee morale and motivation, and follow highly transparent management practices. In this way, we will strive to earn the trust of our customers and shareholders and continuously grow our corporate value over the long-term.

Contributing to Society

As part of our commitment to acting as a responsible corporate citizen and contributing to societal development, Shinsei Bank actively promotes CSR initiatives. From the second half of fiscal year 2008, we have been working more closely with subsidiaries to organize these activities on a Group-wide basis, focusing on opportunities that allow our employees to participate in volunteer activities and share the Bank's technical expertise. We have given particular priority to activities centered on the themes of "children" and "the environment," while continuing existing activities, such as charity runs and disaster relief fundraising, that have been strongly supported by our employees, and finance-related initiatives including support for microfinance projects.

Supporting Children in Care

Since fiscal year 2008, Shinsei Bank has undertaken various initiatives to support children in care. These have included organizing rice-planting, *taiko* (Japanese drum) playing sessions and other activities in cooperation with other companies and non-profit organizations, as well as sending employee-donated gifts to children living in children's homes. In fiscal year 2010, we will be working with Hands On Tokyo, a non-profit organization, to arrange additional support programs that will include opportunities for employees to volunteer at children's homes.

MoneyConnection® - A Financial Literacy Program


Employee volunteers take part in a MoneyConnection® workshop

As a responsible consumer credit provider, our subsidiary Shinsei Financial has been involved in financial literacy promotion since fiscal year 2006. Together with the non-profit organization Sodateage.net, Shinsei Financial runs MoneyConnection®, a financial literacy program for high school students that aims to prevent young people from becoming NEETs (people Not in Employment, Education or Training) - a growing social problem in Japan. To date, the program has reached approximately 28,000 students nationwide (as of March 2010). Shinsei Financial and Shinsei Bank employee volunteers take part in the program by acting as facilitators in classroom-based workshops. Going forward, we plan to extend similar volunteer opportunities to employees in other Group companies as we strive to give back more to our local communities.

Supporting Special Olympics Nippon Tokyo (SONT)


Christmas party choral performance by SONT athletes

Special Olympics Nippon Tokyo is the Japan branch of Special Olympics, the international sports organization that provides a range of coaching and competitive events for people with intellectual disabilities. Shinsei Bank has been an active supporter of the organization since fiscal year 2004. In fiscal year 2009, we invited SONT athletes to a Christmas party held at our Tokyo headquarters. Athletes staged choral and dance performances at the party, and took part in various activities organized by Shinsei Bank Group employee volunteers. In fiscal year 2010, employee volunteers will provide hands-on support to SONT athletes by taking part in a motor skills development program and other day-to-day sports training.

Clean-Up of Arakawa Riverbank and Environmental Education Program


Employee volunteers and their families clean up Arakawa riverbank

With support from Arakawa Clean Aid Forum, a non-profit organization, Shinsei Bank and Shinsei Financial employees organized a clean-up of Arakawa riverbank (Tokyo) and environmental education program in October 2009. Attended by Group employees and their families, the program aimed to raise awareness of environmental issues through providing an opportunity to discover the rich biodiversity of an urban riverbank while learning about environmental problems, such as garbage, firsthand.

Our Commitment to Environmental Sustainability

Shinsei Bank has been working to reduce our CO_2 emissions as a member of "Team Minus 6%," a national, Japanese government-led campaign to halt global warming, since 2005. Following Japan's announcement in September 2009 of a new national target to reduce greenhouse gas emissions by 25% by 2020 compared with 1990 levels, "Team Minus 6%" was recast as the "Challenge 25" campaign. Embracing the spirit of the campaign, Shinsei Bank believes that it is a company's social responsibility to help tackle global warming, and we are committed to progressive action to reduce our carbon footprint. In addition, the Bank has developed a dedicated intranet site featuring environmental information in order to raise employees' awareness.

At Shinsei, we continue to work hard to minimize the environmental impact of our offices and work style. When opening new Retail Banking branches, we take care to consider the environment in our choices of everything from construction materials and methods, to interior fixtures and fittings. In fiscal year 2010, the Bank plans to relocate to a new headquarters building featuring advanced environmental design elements such as state-of-the-art energy-efficient facilities, a rooftop garden and "green" electricity procurement.

Reducing our Impact on the Environment

As part of our efforts to lighten our burden on the environment, we provide various relevant data including real-time information on the Bank's CO_2 emissions via a Bank-wide intranet to boost employee awareness of this important issue. From fiscal year 2009, we have been calculating data on our environmental impact in compliance with legal changes, and we intend to expand the scope and accuracy of this data collection going forward to provide stakeholders with more useful guidance.

Shinsei Bank is committed to promoting the 3R's of "reducing," "reusing" and "recycling." In fiscal year 2009 we collected various surplus items or items no longer being used at the Bank, and donated them to non-profit organizations. For instance, we donated pocket tissues, umbrellas, poster frames and stands, work gloves and children's goods to non-profit organizations including Family House, Living Dreams, Hands On Tokyo, Arakawa Clean Aid Forum and Shibukasa, a project that promotes the reuse of discarded umbrellas. With the help of our employees, we also collected 156,000 PET bottle caps in fiscal year 2009 as part of the Ecocap Movement, which will fund 195 child vaccinations through donation to the Japan Committee for Vaccines for the World's Children (JCV).

Environmental Impact Data

	Unit	FY2009
CO_2 Emissions	t	1,939
Electricity Usage	kwh	4,046,486
Gas Usage	m^2	23,292
Water Usage	t	14,962

Notes: (1) CO_2 emissions data has been calculated using tenant energy estimation tools provided by The Energy Conservation Center, Japan in June 2009.
(2) Data is for Shinsei Bank headquarters only.

Amount of Waste Generated / Recycling Rate

	Unit	FY2008	FY2009
Waste Generated	t	440.66	406.88
Amount Recycled	t	260.91	229.13
Amount of Waste Disposal	t	179.75	177.75
Recycling Rate	%	59.2	56.3

Notes: (1) Waste generation data has been calculated according to Chiyoda City (Tokyo) bylaws.
(2) Data is for Shinsei Bank headquarters only.

Shinsei Bank Selected for Inclusion in the Dow Jones Sustainability Asia Pacific Index for Two Consecutive Years

Dow Jones Sustainability Indexes
Member 2009/10

Shinsei Bank has been selected for inclusion in the Dow Jones Sustainability Asia Pacific Index for two consecutive years, on March 31, 2009 and September 21, 2009. Jointly managed by Dow Jones Indexes and sustainability investment specialist Sustainable Asset Management (SAM), the DJSI Asia Pacific Index tracks the 20% most sustainable companies out of the 600 largest stocks in the region by free float market capitalization. As socially responsible investment continues to attract growing global attention, we believe that our inclusion in this authoritative index is an important achievement for Shinsei Bank.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated and non-consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP") for banks, including the notes to those financial statements, included elsewhere in this annual report. Except as otherwise indicated, the financial information in the following discussion is based on our consolidated financial statements.

The discussion below contains forward-looking statements regarding the intent, belief or current expectations of management with respect to our financial condition and future results of operations. In many cases, but not all, we use such words as "anticipate," "believe," "estimate," "expect," "intend," "plan," "probability," "risk" and similar expressions in relation to us or our management to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those we currently anticipate or target. We do not intend to update these forward-looking statements.

In this section, except where the context indicates otherwise, "we" or "our" means Shinsei Bank, Limited and its subsidiaries and affiliates accounted for by the equity-method, and "Shinsei" or "the Bank" refers to Shinsei Bank, Limited alone.

Financial and operational data that are stated in multiples of ¥0.1 billion have been truncated. All percentages have been rounded to the nearest 0.1%.

"Fiscal year 2009" refers to our fiscal year ended March 31, 2010, and other fiscal years are referred to in a similar manner.

OVERVIEW

Shinsei Bank, Limited is a diversified financial institution in Japan bringing innovative banking practices to the Japanese market. Our business is organized around two business groups, an Individual Group and an Institutional Group:

- The Individual Group, which consists of retail banking and our consumer finance subsidiaries, brings innovative financial solutions to more than six million active customers in Japan. We continue to improve the quality of our retail banking services, and expand our branch network through opening Consulting Spots to efficiently develop asset management operations for our customers. We are also focused on promoting a strategy in light of recent market and revenue trends of consumer finance business, with a particular emphasis on appropriate expense management and credit cost reduction.
- The Institutional Group consists of our Institutional Bank and Showa Leasing Co., Ltd. (Showa Leasing). We have designated domestic customer-related operations as our core business and focus for management resources, and are actively exiting or running off non-core businesses, such as non-customer-related proprietary transactions which have resulted in large losses in the past.

FISCAL YEAR 2009

We reported a consolidated net loss of ¥140.1 billion in fiscal year 2009, as compared to a consolidated net loss of ¥143.0 billion for fiscal year 2008.

The Shinsei Bank Group's fiscal year 2009 results were significantly impacted by three major items which were partially offset by gains: First, changes to the Japan consumer finance regulations and the Japan economic recession have impacted our consumer finance businesses, leading to charges of approximately ¥104.7 billion against these businesses. Second, the Japan economic recession has significantly impacted Japanese commercial real-estate, leading to charges of approximately ¥70.2 billion against our domestic real estate businesses. Third, we have taken further mark-downs, impairments and credit reserves against our European investments and overseas and domestic asset-backed securities and asset-backed investments of ¥18.9 billion.

To offset the above, the Bank generated ¥42.7 billion of gains through opportunistic preferred and subordinated securities buy-backs, and sales of collateralized loan obligations (CLO) and corporate debt and equities.

Other highlights include: Top-line revenues up 44.3% due mainly to improvements in the Institutional Group and a full-year contribution from Shinsei Financial Co. (Shinsei Financial). Overall expenses down 6.2%, and normalized expenses down 16.9% year-over-year and 20.5% over two years through business right-sizing. Funding costs declined to 0.81% and net interest margin improved to 2.47%.

We maintained or improved the level of our capital ratios despite the net loss in fiscal year 2009 mainly by reducing risk weighted assets: Total capital adequacy ratio was maintained at 8.35% and the Tier I capital ratio improved to 6.35% at March 31, 2010 from 6.02% at March 31, 2009 as risk weighted assets declined from ¥9.6 trillion at March 31, 2009 to ¥7.7 trillion at March 31, 2010. Loans and bills discounted decreased by ¥713.1 billion to ¥5,163.7 billion and non Japanese government bond securities decreased by ¥98.2 billion to ¥871.7 billion as at March 31, 2010.

Basic net loss per share for fiscal year 2009 was ¥71.36, as compared to basic net loss per share of ¥72.85 for fiscal year 2008. Cash basis basic net loss per share for fiscal year 2009 was ¥27.37, as compared to cash basis basic net loss per share of ¥49.39 for fiscal year 2008.

SIGNIFICANT EVENTS

STRENGTHENING THE OPERATIONAL STRUCTURE OF CONSUMER FINANCE BUSINESSES AND IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS RELATED TO APLUS FINANCIAL AND SHINKI

We are continuing to realign our consumer business in order to provide customers with an integrated value proposition. As one step in this strategy, Shinki Co., Ltd. (Shinki) was made a wholly-owned subsidiary in July 2009 and Shinsei Financial is working to integrate the unsecured personal loans of Shinki.

On March 16, 2010, we submitted conversion requests to APLUS Co., Ltd. (APLUS) to convert Shinsei's holdings of APLUS Class E and Class F preferred shares and a portion of its holdings of APLUS Class G preferred shares into APLUS common shares. These conversions resulted in Shinsei owning 93.5% of APLUS common shares. On April 1, 2010, APLUS transitioned to an operating holding company system. APLUS transferred installment sales credit, credit card and settlement service businesses to APLUS Credit Co., Ltd. (APLUS Credit), a consolidated subsidiary of the company, and a part of its consumer loan business to APLUS PERSONAL LOAN Co., Ltd. (APLUS PERSONAL LOAN), a consolidated subsidiary of the company. APLUS as the operating holding company also changed its company name to APLUS FINANCIAL Co., Ltd (APLUS FINANCIAL), and APLUS Credit, one of the succeeding companies, changed its company name to APLUS.

Under the above new operational structure, APLUS FINANCIAL announced a mid-term business plan on May 10, 2010. We are actively supporting APLUS FINANCIAL as it focuses on steady execution of this mid-term business plan by pursuing further operational efficiencies. This includes streamlining operational procedures through the implementation of our low-cost and highly flexible IT infrastructure across our consumer finance subsidiaries to integrate functions and reduce expenses.

Given that claims for repayment of "grey zone" interest are at a high level, and the revised Money-Lending Business Control and Regulation Law has been fully implemented from June 2010, APLUS FINANCIAL, Shinki and other consumer finance subsidiaries have recorded ¥29.6 billion of incremental reserve for losses on interest repayments in line with industry standards while Shinsei Bank recorded ¥66.0 billion of impairment losses on goodwill and other intangible assets, net of taxes, against our investment in APLUS FINANCIAL and ¥2.5 billion of impairment loss on other intangible assets, net of taxes, against our investment in Shinki. This is expected to enhance stable business performance from fiscal year 2010 onward.

ISSUANCE OF PREFERRED SECURITIES AND NON-DILUTIVE SUBORDINATED BONDS TO RETAIL INVESTORS

On October 2, 2009, we raised a total of ¥9.0 billion in capital through two private placements of preferred securities to a limited number of select institutional and corporate investors in Japan in order to strengthen Shinsei Bank's Tier I Capital. The securities are non-step up, non-cumulative perpetual preferred securities that qualify for inclusion in Tier I Capital as outlined under the Basel Capital Accord. The preferred securities are not convertible into common stock of Shinsei Bank.

On December 28, 2009, we issued non-dilutive subordinated bonds of ¥5.0 billion to retail investors in Japan. The amount is not material from a capital perspective. Shinsei is constantly exploring opportunities to meet the ever-evolving investment needs of its retail customers while further diversifying the Group's sources of capital and this issuance will enable us to achieve both of these objectives.

From October 2009 to March 2010, we repurchased and cancelled U.S. dollar-denominated non-cumulative perpetual preferred securities and Japanese yen-denominated non-cumulative perpetual preferred securities, issued by three of our subsidiaries, in the aggregate issue amount of $119.0 million and ¥3.1 billion.

MERGER WITH AOZORA BANK

On July 1, 2009, Shinsei Bank and Aozora Bank, Ltd. announced that the banks agreed to a merger of equals.

Although the merger was originally contemplated to be consummated in fiscal year 2010, on May 14, 2010, Shinsei Bank and Aozora Bank, Ltd. subsequently mutually agreed on termination of the merger agreement.

RECEIPT OF A BUSINESS IMPROVEMENT ORDER

On June 30, 2010, Shinsei Bank received a Business Improvement Order ("Order") from the Financial Services Agency ("FSA") based on Article 20, Paragraph 2 of the Act on Emergency Measures for Early Strengthening of Financial Functions and Article 26, Paragraph 1 of the Banking Act.

In July 2009, the Bank received a Business Improvement Order from the FSA due to its financial performance falling substantially short of the targets for fiscal year 2008 set out in the Bank's Plan for Restoring Sound Management ("Revitalization Plan") that was agreed with the Japanese government. While we have implemented various measures to rebuild and strengthen our business since then, we recorded a net loss of ¥47.6 billion on a non-consolidated basis in fiscal year 2009 due mainly to proactively cleaning up legacy portfolios focusing on domestic real estate and overseas asset-backed investments. This performance fell far short of the targets set in the Revitalization Plan for fiscal year 2009, and as a result, the FSA issued the Order.

RECENT DEVELOPMENTS

MANAGEMENT RENEWAL AND FORMULATION OF MEDIUM-TERM PLAN

On May 14, 2010, we announced an overhaul of our top management structure, including a change of representative, and the implementation of rationalization measures, together with the formulation of a Medium-Term Management Plan focused on businesses for institutional and individual customers. Under this Plan, we will focus on rebuilding our customer franchise in Japan and establishing a stabilized earnings base to regain the confidence of our customers and the market during the three-year period covered.

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and Consolidated Subsidiaries
As of or for the fiscal years ended March 31, 2010, 2009, 2008, 2007 and 2006

	Billions of yen (except per share data and percentages)				
	2010	2009	2008	2007	2006
Statements of operations data:					
Net interest income	**¥ 207.9**	¥ 202.9	¥ 137.7	¥ 95.4	¥ 82.2
Net fees and commissions	**25.1**	26.5	40.8	46.4	45.4
Net trading income (loss)	**9.0**	(4.6)	9.0	17.8	27.5
Net other business income (loss)	**22.1**	(41.7)	74.9	96.6	118.0
Total revenue	**264.2**	183.1	262.6	256.3	273.4
General and administrative expenses	**170.8**	182.0	158.7	150.2	136.5
Amortization of goodwill and other intangible assets	**20.9**	17.5	12.5	20.8	29.4
Total general and administrative expenses	**191.7**	199.5	171.2	171.0	166.0
Net credit costs	**112.2**	129.0	73.5	51.9	30.1
Other gains (losses), net	**(83.3)**	26.4	74.7	(99.1)	(3.4)
Income (loss) before income taxes and minority interests	**(123.0)**	(119.0)	92.5	(65.7)	73.7
Current income tax	**1.5**	3.4	4.9	3.2	3.7
Deferred income tax (benefit)	**6.7**	7.0	9.5	(24.6)	(11.4)
Minority interests in net income of subsidiaries	**8.8**	13.5	18.0	16.6	5.2
Net income (loss)	**¥ (140.1)**	¥ (143.0)	¥ 60.1	¥ (60.9)	¥ 76.0
Balance sheet data:					
Trading assets	**¥ 223.2**	¥ 375.1	¥ 315.2	¥ 303.3	¥ 193.5
Securities	**3,233.3**	2,174.1	1,980.2	1,854.6	1,494.4
Loans and bills discounted	**5,163.7**	5,876.9	5,622.2	5,146.3	4,087.5
Customers' liabilities for acceptances and guarantees	**623.7**	675.2	701.7	754.4	813.4
Reserve for credit losses	**(196.6)**	(192.5)	(145.9)	(147.2)	(144.8)
Total assets[1]	**11,376.7**	11,949.1	11,525.7	10,837.6	9,405.0
Deposits, including negotiable certificates of deposit	**6,475.3**	6,272.1	5,806.6	5,420.9	4,071.7
Debentures	**483.7**	675.5	662.4	703.2	1,018.9
Trading liabilities	**177.8**	307.5	205.0	99.2	149.9
Borrowed money	**1,186.8**	1,012.3	1,127.2	1,122.6	1,205.7
Acceptances and guarantees	**623.7**	675.2	701.7	754.4	813.4
Total liabilities	**10,741.8**	11,181.7	10,560.5	9,904.4	8,287.8
Capital stock	**476.2**	476.2	476.2	451.2	451.2
Total equity[1]	**634.9**	767.4	965.2	933.2	—
Total liabilities and equity	**¥ 11,376.7**	¥ 11,949.1	¥ 11,525.7	¥ 10,837.6	¥ 9,405.0
Per share data:					
Common equity[1][2]	**¥ 232.72**	¥ 284.95	¥ 364.35	¥ 308.60	¥ 380.20
Fully diluted equity[1][2][3]	**232.72**	284.95	364.35	355.09	421.62
Basic net income (loss)	**(71.36)**	(72.85)	38.98	(45.92)	53.16
Diluted net income	**—**	—	32.44	—	37.75
Capital adequacy data:					
Total capital adequacy ratio	**8.4%**	8.4%	11.7%	13.1%	15.5%
Tier I capital ratio	**6.4%**	6.0%	7.4%	8.1%	10.3%
Core Tier I capital ratio[4]	**4.1%**	4.0%	5.5%	5.4%	7.6%
Tangible common equity ratio[5]	**3.1%**	3.0%	4.3%	1.7%	2.5%
Average balance data:					
Securities	**¥ 3,212.6**	¥ 2,388.7	¥ 2,058.7	¥ 1,750.5	¥ 1,721.4
Loans and bills discounted	**5,457.6**	5,910.3	5,390.3	4,613.4	3,730.7
Total assets	**11,662.9**	11,737.4	11,181.7	10,121.3	8,990.6
Interest-bearing liabilities	**9,354.5**	9,303.7	9,065.8	7,821.8	6,418.3
Total liabilities	**10,961.7**	10,871.1	10,232.4	9,096.1	8,011.8
Total equity	**701.2**	866.3	949.2	894.2	—
Other data:					
Return on assets	**(1.2)%**	(1.2)%	0.5%	(0.6)%	0.8%
Return on equity (Fully diluted)[1][2]	**(27.6)%**	(22.4)%	8.8%	(8.1)%	9.3%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**60.3%**	56.1%	55.0%	54.7%	49.1%
Expense-to-revenue ratio[6]	**64.6%**	99.4%	60.4%	58.6%	50.0%
Non-performing claims, non-consolidated	**¥ 333.0**	¥ 145.8	¥ 53.1	¥ 27.9	¥ 42.5
Ratio of non-performing claims to total claims, non-consolidated	**6.7%**	2.5%	1.0%	0.5%	1.0%
Net deferred tax assets	**¥ 17.4**	¥ 20.5	¥ 23.9	¥ 37.3	¥ 16.3
Net deferred tax assets as a percentage of Tier I capital	**3.5%**	3.5%	3.5%	6.0%	2.2%

Notes: (1) As required by an accounting standard published by the Accounting Standards Board of Japan (ASBJ), certain items which were previously presented outside of shareholders' equity are now presented as components of equity. Such items include stock acquisition rights, minority interests and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ended on or after May 1, 2006. Reclassification of the prior period amount is not permitted under Japanese GAAP.
(2) Stock acquisition rights and minority interests in subsidiaries are excluded from equity in calculating per share data.
(3) Fully diluted equity per share is calculated by dividing equity at the end of the periods presented by the number of common shares that would have been outstanding had all securities convertible into or exercisable for common shares been converted or exercised with an applicable conversion or exercise price within the predetermined range at the end of the period.
(4) Core Tier I capital ratio: Tier I, excluding preferred securities and preferred stock minus deferred tax assets (net) divided by risk weighted assets.
(5) Tangible common equity ratio: Net assets minus preferred stock, intangible assets and minority interests divided by total assets, excluding intangible assets.
(6) The expense-to-revenue ratio is calculated by dividing general and administrative expenses for the periods presented by the total revenue for such period.

RESULTS OF OPERATIONS (CONSOLIDATED)

FISCAL YEAR ENDED MARCH 31, 2010 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2009 (CONSOLIDATED)

Total revenue for fiscal year 2009 was ¥264.2 billion. This was ¥81.1 billion, or 44.3% higher than for the prior fiscal year.

Net interest income revenues rose to ¥207.9 billion in fiscal year 2009 from ¥202.9 billion in fiscal year 2008. This increase was primarily driven by the ¥92.5 billion in net interest income contribution from Shinsei Financial which has been incorporated into our financial results from the third quarter of fiscal year 2008 and which contributed ¥65.3 billion to net interest income for the second half of the prior period. The increase in Shinsei Financial net interest income offset declines in net interest income within our other consumer finance subsidiaries as we have worked to comply with the revised Money-Lending Business Control and Regulation Law. Non-interest income increased to ¥56.2 billion in the current period versus a non-interest loss of ¥19.8 billion in the prior period. Our net fees and commissions income remained nearly flat at ¥25.1 billion during the current period from ¥26.5 billion during fiscal year 2008 despite the inclusion of Shinsei Financial customer ATM usage and other customer related fees of ¥4.8 billion in the current period versus ¥2.7 billion in the prior period. We generated net trading income of ¥9.0 billion in fiscal year 2009 compared to incurring a net trading loss of ¥4.6 billion in the prior period. Net other business income for fiscal year 2009 increased to ¥22.1 billion from a net other business loss of ¥41.7 billion in fiscal year 2008. This included income of ¥43.0 billion from the leased assets and installment receivables businesses of Showa Leasing, APLUS FINANCIAL and Shinsei Financial. Major non-recurring items included in net other business income are gains of ¥17.7 billion on the sale of collateralized loan obligations (CLOs) and gains of ¥3.5 billion on the sale of corporate bonds and equities. These gains were largely offset by mark-downs and impairments of ¥35.5 billion on our legacy Japanese real estate principal investments, ¥3.8 billion of equity in the net loss of our affiliate, Jih Sun Financial Holding Co., Ltd. (Jih Sun), and mark-downs and impairments of ¥3.2 billion on asset-backed investments, asset-backed securities and European investments. During fiscal year 2008, in the net trading loss and net other business loss accounts we incurred ¥50.7 billion in impairments of our collateralized loan obligation (CLO) portfolio, ¥27.9 billion of losses related to our holdings of European investments, asset-backed investments and asset-backed securities, ¥11.6 billion of impairments within our capital markets area, ¥11.5 billion of impairments of Japanese equities, ¥8.7 billion in losses on bonds incurred upon the bankruptcy of Lehman Brothers Holdings, Inc. (Lehman Brothers) and ¥7.0 billion of losses on other asset-backed investments.

General and administrative expenses (excluding amortization of goodwill and other intangible assets) were ¥170.8 billion in fiscal year 2009, a decrease of ¥11.1 billion compared to the prior fiscal year. Expenses declined from fiscal year 2008 despite the inclusion of Shinsei Financial's expenses from October 1, 2008, as we have placed a significant focus upon reducing expenses across all areas of our business. Excluding Shinsei Financial's direct expenses for fiscal year 2009, our expenses declined to ¥129.5 billion from ¥155.9 billion in the prior period, a decrease of ¥26.3 billion or 16.9% from fiscal year 2008. Excluding both Shinsei Financial's and Shinki's direct expenses for fiscal year 2009 for direct comparison purposes to fiscal year 2007, our expenses declined to ¥121.8 billion from ¥153.2 billion in fiscal year 2007, a decrease of ¥31.4 billion (20.5%) over the two-year period. Our expense-to-revenue ratio was 64.6% for fiscal year 2009. This compares to an expense-to-revenue ratio of 99.4% in fiscal year 2008 and reflects the progress that we have made in reducing our expense base over the past twelve months. Prior period results were impacted by reduced revenues in fiscal year 2008 resulting from the Lehman Brothers' bankruptcy and resulting financial market turmoil.

Net credit costs of ¥112.2 billion for fiscal year 2009 were ¥16.7 billion, or 13.0% lower compared to the prior fiscal year, primarily due to ¥20.6 billion in credit costs incurred in the prior period for a loan to a subsidiary of Lehman Brothers. Current period results were significantly impacted by declines in the domestic commercial real estate market, changes to the domestic consumer finance market, and continued weakness in domestic and overseas asset-backed investments. Net credit costs included net provisions of ¥32.8 billion for domestic real estate non-recourse finance, ¥25.3 billion net credit costs within Shinsei Financial, ¥21.0 billion net credit costs within APLUS FINANCIAL, and ¥15.6 billion in net provisions associated with our holdings of domestic and overseas asset-backed investments. The results of fiscal year 2008 were impacted by ¥20.6 billion of credit costs incurred for a loan to a subsidiary of Lehman Brothers, ¥18.9 billion of reserves for real estate finance and ¥15.7 billion in credit costs associated with our holdings of European asset-backed investments.

Amortization of goodwill and other intangible assets associated with the acquisition of consumer and commercial finance companies was ¥20.9 billion for fiscal year 2009 as compared with ¥17.5 billion in the prior fiscal year. The higher amounts reflect the amortization of goodwill and other intangible assets associated with our acquisition of Shinsei Financial, partially offset by reduced amortization of goodwill and other intangible assets of APLUS FINANCIAL due to APLUS FINANCIAL's accelerated goodwill amortization taken at the end of fiscal year 2008.

Other losses of ¥83.3 billion included impairment losses of goodwill and other intangible assets in our investment in APLUS FINANCIAL of ¥66.0 billion, net of taxes, and impairment loss on Shinki other intangible assets of ¥2.5 billion, net of taxes, grey zone provisions of ¥17.8 billion at Shinki, ¥10.8 billion at APLUS FINANCIAL and ¥0.9 billion at Shinsei Financial, which were partially offset by gains of ¥20.9 billion on the repurchase of our preferred securities and subordinated debt and recoveries of written-off claims of ¥10.7 billion.

The Shinsei Financial grey zone charges incurred during fiscal year 2009 were for the portion of the portfolio not covered by GE Japan Holdings Co., Ltd. ("GE") indemnity included in the purchase of Shinsei Financial from GE. Fiscal year 2008 results included a gain of ¥74.1 billion on the repurchase of our preferred securities and subordinated debt, a gain of ¥8.2 billion on the sale of Showa Auto Rental & Leasing and a ¥7.2 billion gain on the sale of the Bank's Meguro Production Center, net of restoration and future relocation costs. These gains were offset by a ¥30.9 billion accelerated goodwill amortization charge in APLUS FINANCIAL, restructuring expenses of ¥20.3 billion, and grey zone expenses of ¥15.0 billion at APLUS FINANCIAL and Shinki, as well as a ¥3.6 billion provision for litigation losses.

Current and deferred income taxes reflected a net expense of ¥8.2 billion compared to a net expense of ¥10.4 billion in the prior fiscal year.

Minority interests in net income of subsidiaries for fiscal year 2009 amounting to ¥8.8 billion largely reflected dividends paid on perpetual preferred securities, minority interests relating to APLUS FINANCIAL's preferred shareholders and minority interests in other subsidiaries.

As a result, the Bank recognized a consolidated net loss of ¥140.1 billion on a reported basis for fiscal year 2009, compared to a consolidated net loss of ¥143.0 billion for the prior fiscal year.

Shinsei's non-performing loans (NPL) balance under the Financial Revitalization Law totaled ¥333.0 billion as of March 31, 2010. NPLs were 6.70% of total claims outstanding at March 31, 2010 on a non-consolidated basis.

Our Tier I capital ratio was 6.35% and total capital adequacy ratio was 8.35% as of March 31, 2010, on a Basel II basis.

SUPPLEMENTAL FINANCIAL DATA AND RECONCILIATIONS TO JAPANESE GAAP MEASURES

Shinsei Bank, Limited and Consolidated Subsidiaries

For the fiscal year ended March 31, 2010	Billions of yen (except per share data and percentages)
Impairment and amortization of goodwill and other intangible assets	
Amortization of other intangible assets	¥ 7.6
Associated deferred tax income	(3.1)
Amortization of goodwill	13.2
Impairment of other intangible assets	11.8
Associated deferred tax income	(4.8)
Impairment of goodwill	61.5
Total impairment and amortization of goodwill and other intangible assets, net of tax benefit	¥ 86.3
Reconciliation of net income (loss) to cash basis net income (loss)	
Net income (loss)	¥ (140.1)
Impairment and amortization of goodwill and other intangible assets, net of tax benefit	86.3
Cash basis net income (loss)	¥ (53.7)
Reconciliation of basic net income (loss) per share to cash basis basic net income (loss) per share	
Basic net income (loss) per share	¥ (71.36)
Effect of impairment and amortization of goodwill and other intangible assets, net of tax benefit	43.98
Cash basis basic net income (loss) per share	¥ (27.37)
Reconciliation of return on assets to cash basis return on assets	
Return on assets	(1.2%)
Effect of impairment and amortization of goodwill and other intangible assets, net of tax benefit	0.7%
Cash basis return on assets	(0.5%)
Reconciliation of return on equity to cash basis return on equity	
Return on equity	(27.6%)
Effect of impairment and amortization of goodwill and other intangible assets, net of tax benefit	17.0%
Cash basis return on equity (fully diluted)	(10.6%)
Reconciliation of return on equity to return on tangible equity	
Return on equity	(27.6%)
Effect of impairment and amortization of goodwill and other intangible assets	13.9%
Return on tangible equity[1]	(13.7%)

Note: (1) Net income excludes impairment and amortization of goodwill and other intangible assets, net of tax benefit. Average equity excludes goodwill and other intangible assets, net of associated deferred tax liability.

TABLE 1. INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES (CONSOLIDATED)

	Billions of yen (except percentages)					
	2010			2009		
Fiscal years ended March 31	Average Balance	Interest	Yield/Rate	Average Balance[1]	Interest	Yield/Rate[1]
Interest-earning assets:						
Loans and bills discounted	¥ 5,457.6	¥ 245.2	4.49%	¥ 5,910.3	¥ 256.1	4.33%
Lease receivables and leased investment assets/ installment receivables	619.0	43.0	6.95	689.0	49.2	7.15
Securities	3,212.6	30.5	0.95	2,388.7	37.9	1.59
Other interest-earning assets[2]	664.6	7.7	n.m.[4]	963.0	9.2	n.m.[4]
Total revenue on interest-earning assets	¥ 9,953.9	¥ 326.5	3.28%	¥ 9,951.2	¥ 352.7	3.54%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	¥ 6,803.0	¥ 52.9	0.78%	¥ 6,195.6	¥ 52.2	0.84%
Debentures	562.5	3.8	0.69	706.3	5.0	0.71
Borrowed money	933.6	10.2	1.09	1,135.9	17.0	1.50
Subordinated debt	102.0	1.1	1.09	107.9	1.4	1.33
Other borrowed money	831.6	9.0	1.09	1,028.0	15.5	1.51
Corporate bonds	229.3	6.5	2.84	351.6	11.5	3.27
Subordinated bonds	166.8	5.7	3.45	272.4	10.1	3.71
Other corporate bonds	62.4	0.7	1.21	79.2	1.3	1.76
Other interest-bearing liabilities[2]	825.9	2.0	n.m.[4]	914.0	14.5	n.m.[4]
Total expense on interest-bearing liabilities	¥ 9,354.5	¥ 75.5	0.81%	¥ 9,303.7	¥ 100.4	1.08%
Non-interest-bearing sources of funds:						
Non-interest-bearing (assets) liabilities, net	¥ 89.3	¥ —	—	¥ 8.3	¥ —	—
Total equity excluding minority interest in subsidiaries[3]	510.0	—	—	639.1	—	—
Total interest-bearing liabilities and non-interest-bearing sources of funds	¥ 9,953.9	¥ —	—	¥ 9,951.2	¥ —	—
Net interest margin	—	—	2.47%	—	—	2.46%
Impact of non-interest-bearing sources	—	—	0.05	—	—	0.07
Net revenue on interest-earning assets/ yield on interest-earning assets	—	250.9	2.52%	—	252.2	2.54%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	¥ 9,953.9	¥ 326.5	3.28%	¥ 9,951.2	¥ 352.7	3.54%
Less: Income on lease transactions and installment receivables	619.0	43.0	6.95	689.0	49.2	7.15
Total interest income	¥ 9,334.9	¥ 283.5	3.04%	¥ 9,262.1	¥ 303.4	3.28%
Total interest expenses	—	75.5	—	—	100.4	—
Net interest income	¥ —	¥ 207.9	—	¥ —	¥ 202.9	—

Notes: (1) Previous period figures for average balance and yield are adjusted to conform to recalculation of the average balance of securities.
(2) Other interest-earning assets and other interest-bearing liabilities include interest swaps and funding swaps.
(3) Represents a simple average of the balance at the end of the current period and the balance at the end of the previous period.
(4) n.m. is not meaningful.

Net revenue on interest-earning assets includes net interest income as well as revenue earned on the average balance of lease receivables and leased investment assets and installment receivables. We consider income on lease transactions and installment receivables to be a component of interest income, but Japanese GAAP does not include income on lease transactions and installment receivables in net interest income. Under Japanese GAAP, therefore, income on lease transactions and installment receivables is reported in net other business income in our consolidated statements of operations.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET REVENUE ON INTEREST-EARNING ASSETS

Net revenue on interest-earning assets for fiscal year 2009 was ¥250.9 billion, a decrease of ¥1.2 billion compared to the prior fiscal year. Total revenue on interest-earning assets decreased by ¥26.1 billion and total expense on interest-bearing liabilities decreased by ¥24.8 billion in fiscal year 2009 from the prior fiscal year. The net interest margin and net yield on interest-earning assets were 2.47% and 2.52%, respectively, in fiscal year 2009, compared with 2.46% and 2.54%, respectively, for fiscal year 2008.

The changes in net interest margin and net yield reflect the lower volume of loans and bills discounted, lease receivables and leased investment assets and installment receivables and lower yields on securities that have been invested for liquidity purposes, offset by lower expense for other borrowed money and other interest-bearing liabilities and lower subordinated bond interest expense.

NET FEES AND COMMISSIONS

Net fees and commissions mainly include fees on non-recourse real estate finance, consumer finance related guarantees and other financing products and commissions on sales of asset management products. Net fees and commissions of ¥25.1 billion were earned in fiscal year 2009, a decrease of ¥1.3 billion compared to the prior fiscal year. Net fees and commissions remained nearly flat despite the inclusion of Shinsei Financial customer ATM usage and other customer related fees of ¥4.8 billion in the current period versus ¥2.7 billion in the prior period.

NET TRADING INCOME

The table below shows the principal components of net trading income.

TABLE 2. NET TRADING INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal year ended March 31	**2010**	2009	% Change
Income (loss) from trading securities	**¥ 3.8**	¥ (5.8)	166.6
Income (loss) from securities held to hedge trading transactions	**4.4**	(10.7)	141.0
Income from trading-related financial derivatives	**0.3**	11.9	(97.2)
Other, net	**0.3**	0.0	16,007.8
Net trading income (loss)	**¥ 9.0**	¥ (4.6)	293.3

Net trading income reflects revenues from customer-driven transactions, such as option trading income, as well as transactions undertaken for trading purposes. During fiscal year 2009, net trading income showed a gain of ¥9.0 billion, compared to a loss of ¥4.6 billion in the prior fiscal year. The prior period net trading loss includes ¥3.9 billion of losses on Lehman Brothers bonds and related swaps. In the current period, we booked a gain of ¥0.5 billion on the sale of the Lehman Brothers bonds.

NET OTHER BUSINESS INCOME

The table below shows the principal components of net other business income.

TABLE 3. NET OTHER BUSINESS INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2010**	2009	% Change
Net gain (loss) on monetary assets held in trust	**¥ (8.1)**	¥ 5.1	(259.1)
Net gain (loss) on securities	**0.9**	(106.9)	100.8
Net gain on foreign exchange	**8.8**	8.4	4.1
Net gain (loss) on other monetary claims purchased	**(17.2)**	6.4	(367.3)
Other business income (loss), net			
Income (loss) from derivatives for banking purposes, net	**(0.6)**	(2.8)	77.3
Equity in net income (loss) of affiliates	**(4.1)**	(2.7)	(53.8)
Gain on lease cancellation and other lease income (loss), net	**(0.7)**	1.1	(167.8)
Other, net	**0.4**	0.2	58.2
Net other business income (loss) before income on lease transactions and installment receivables, net	**(20.8)**	(91.0)	77.1
Income on lease transactions and installment receivables, net	**43.0**	49.2	(12.7)
Net other business income (loss)	**¥ 22.1**	¥ (41.7)	153.1

Net other business income for fiscal year 2009 was ¥22.1 billion. This included income of ¥43.0 billion from the leased assets and installment receivables businesses of Showa Leasing, APLUS FINANCIAL, Shinsei Financial and others. Excluding such income, net other business income for fiscal year 2009 showed a loss of ¥20.8 billion, an improvement of ¥70.1 billion from the prior fiscal year. Major items included in net other business income are gains of ¥17.7 billion on the sale of collateralized loan obligations (CLOs) and gains of ¥3.5 billion on the sale of corporate bonds and equities. These gains were offset by mark-downs and impairments of ¥35.5 billion on our legacy Japanese real estate principal investments, ¥3.8 billion of losses on our equity method affiliate Jih Sun and mark-downs and impairments of ¥3.2 billion on asset-backed investments, asset-backed securities and European investments. Fiscal year 2008 net other business income includes ¥50.7 billion in impairments of our CLO portfolio, ¥27.9 billion of losses related to our holdings of European investments, asset-backed investments and asset-backed securities, ¥11.6 billion of impairments within our capital markets area, ¥11.5 billion of impairments of Japanese equities, ¥7.0 billion of losses on other asset-backed investments and ¥4.7 billion in losses on bonds incurred upon the bankruptcy of Lehman Brothers.

TOTAL REVENUE

Due to the factors described above, total revenue in fiscal year 2009 was ¥264.2 billion, as compared with ¥183.1 billion in the prior fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

The table below sets forth the principal components of our general and administrative expenses.

TABLE 4. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

Billions of yen

Fiscal years ended March 31	2010	2009	% Change
Personnel expenses	¥ 64.8	¥ 72.2	(10.2)
Premises expenses	27.4	27.4	(0.0)
Technology and data processing expenses	23.9	24.4	(2.2)
Advertising expenses	12.2	12.5	(2.4)
Consumption and property taxes	9.0	8.2	10.8
Deposit insurance premium	4.3	3.8	12.8
Other general and administrative expenses	28.9	33.2	(13.0)
General and administrative expenses	170.8	182.0	(6.2)
Amortization of goodwill and other intangible assets	20.9	17.5	19.2
Total general and administrative expenses	¥ 191.7	¥ 199.5	(3.9)

From the fiscal year which commenced on April 1, 2006, amortization of goodwill and other intangible assets is recorded in total general and administrative expenses.

General and administrative expenses (excluding amortization of goodwill and other intangible assets) were ¥170.8 billion in fiscal year 2009, a decrease of ¥11.1 billion or 6.2% compared to the prior fiscal year.

Expenses declined despite our acquisition of Shinsei Financial from GE Japan Holdings Corporation on September 22, 2008 and the inclusion of Shinsei Financial's expenses from October 1, 2008, as we have placed a significant focus upon reducing expenses across all of our business lines. Excluding Shinsei Financial's direct expenses for fiscal year 2009, our expenses declined to ¥129.5 billion from ¥155.9 billion in the prior period, a decrease of ¥26.3 billion or 16.9% from fiscal year 2008. Excluding both Shinsei Financial's and Shinki's direct expenses for fiscal year 2009 for direct comparison purposes to fiscal year 2007, our expenses declined to ¥121.8 billion from ¥153.2 billion in fiscal year 2007, a decrease of 20.5% over the two-year period.

Personnel expenses of ¥64.8 billion decreased by ¥7.3 billion from the prior fiscal year. Despite the inclusion of Shinsei Financial's personnel expenses of ¥13.7 billion for the current period versus ¥9.1 billion for the prior period, we were able to reduce our personnel expense through ongoing personnel expense reductions across our business, as group employees decreased from 7,006 at March 2009 to 6,116 at March 2010, a reduction of 890 employees.

Non-personnel expenses declined to ¥105.9 billion compared to ¥109.7 billion in the prior fiscal year mainly through strict control of our other general and administrative expenses. Premises expenses were largely flat, mainly due to increased Shinsei Financial premises expenses offset by lower premises expenses in other areas of our business. Advertising expenses and technology and data processing expenses were lower than the prior fiscal year despite the inclusion of Shinsei Financial's expenses, as we have offset these expenses through continued optimization of expenses in other businesses. Consumption and property taxes were ¥0.8 billion higher mainly due to the inclusion of consumption and property taxes incurred by Shinsei Financial.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS

The acquisition of majority stakes in Shinsei Financial, APLUS FINANCIAL (including Zen-Nichi Shinpan Co., Ltd. (Zen-Nichi Shinpan)), Showa Leasing and Shinki resulted in the creation of goodwill and other intangible assets. The amortization of goodwill and other intangible assets was ¥20.9 billion for the fiscal year ended March 31, 2010, compared to ¥17.5 billion in the prior fiscal year. The ¥3.3 billion net increase in amortization of goodwill and other intangible assets reflects our acquisition of Shinsei Financial on September 22, 2008 and associated amortization of goodwill and other intangible assets resulting from the acquisition, partially offset by a reduction in APLUS FINANCIAL's amortization of goodwill resulting from accelerated amortization of APLUS FINANCIAL's goodwill at the end of fiscal year 2008.

TABLE 5. AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	2010	2009	% Change
Shinsei Financial	¥ 10.7	¥ 5.6	90.8
APLUS FINANCIAL	6.5	8.6	(24.6)
Shinki	0.7	0.8	(13.8)
Showa Leasing	2.9	2.9	3.0
Others	(0.0)	(0.4)	99.9
Amortization of goodwill and other intangible assets	¥ 20.9	¥ 17.5	19.2

NET CREDIT COSTS

The following table sets forth our net credit costs on a consolidated basis for the fiscal years ended March 31, 2010 and 2009.

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	2010	2009	% Change
Losses on write-off or sales of loans	¥ 18.5	¥ 3.1	482.3
Net provision of reserve for loan losses:			
Net provision of general reserve for loan losses	40.0	56.1	(28.7)
Net provision of specific reserve for loan losses	55.5	73.6	(24.6)
Net provision (reversal) of reserve for loan losses to restructuring countries	(0.0)	(0.0)	(14.9)
Subtotal	95.5	129.7	(26.4)
Net provision (reversal) of specific reserve for other credit losses	(0.1)	(4.7)	97.6
Other credit costs (recoveries) relating to leasing business	(1.7)	0.8	(297.3)
Net credit costs	¥ 112.2	¥ 129.0	(13.0)

The principal components of net credit costs are provisions or reversals of loan loss reserves. In accordance with Japanese regulatory requirements, Shinsei maintains general and specific reserves for loan losses, a reserve for loans to restructuring countries, as well as a specific reserve for other credit losses. Certain of our subsidiaries, particularly Shinsei Financial, APLUS FINANCIAL, Shinki and Showa Leasing, also maintain general and specific reserves for loan losses.

Net credit costs of ¥112.2 billion for fiscal year 2009 were ¥16.7 billion lower compared to the prior fiscal year. Net credit costs included net provisions of ¥32.8 billion for domestic real estate non-recourse finance, ¥25.3 billion net credit costs within Shinsei Financial, ¥21.0 billion net credit costs within APLUS FINANCIAL, and ¥15.6 billion in net provisions associated with our holdings of domestic and overseas asset-backed investments. The fiscal year 2009 net credit costs decrease from the prior period resulted primarily from higher prior period credit costs driven by ¥20.6 billion of credit costs incurred for a loan to a subsidiary of Lehman Brothers, ¥18.9 billion of reserves for real estate finance and ¥15.7 billion in credit costs associated with our holdings of European asset-backed investments. We also recorded ¥0.8 billion of net credit recoveries within Shinki in fiscal year 2009 due to better collections within that business.

OTHER GAINS (LOSSES), NET

The table below sets forth the principal components of our other gains (losses).

TABLE 7. OTHER GAINS (LOSSES), NET (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2010	2009	% Change
Net gain (loss) on disposal of premises and equipment	¥ (1.9)	¥ 8.7	(122.3)
Provision for losses on disposal of premises and equipment	(0.2)	(3.9)	93.2
Pension-related costs	(0.3)	(2.1)	83.2
Gain on write-off of unclaimed debentures	0.5	1.2	(59.4)
Recoveries of written-off claims	10.7	5.7	85.8
Gain on sale of subsidiary's stock	—	8.2	(100.0)
Provision of reserve for losses on interest repayments	(29.6)	(15.0)	(97.3)
Impairment losses on goodwill and other intangible assets	(73.3)	—	n.m
Accelerated goodwill amortization	—	(30.9)	100.0
Gain from the cancellation of issued corporate bonds and other instruments	21.2	75.1	(71.7)
Business restructuring cost	—	(12.5)	100.0
Provision for litigation losses	(2.2)	(3.6)	39.7
Other, net	(8.0)	(4.5)	(76.3)
Total	¥ (83.3)	¥ 26.4	(414.6)

Other losses of ¥83.3 billion included impairment losses of goodwill and other intangible assets in our investment in APLUS FINANCIAL of ¥66.0 billion, net of taxes, impairment loss of Shinki other intangible assets of ¥2.5 billion, net of taxes, grey zone provisions of ¥17.8 billion at Shinki, ¥10.8 billion at APLUS FINANCIAL and ¥0.9 billion at Shinsei Financial offset by gains of ¥20.9 billion on the repurchase of our preferred securities and subordinated debt and recoveries of written-off claims of ¥10.7 billion at Shinsei Financial, Shinsei Bank, Shinki and APLUS FINANCIAL. The Shinsei Financial grey zone charges incurred during fiscal year 2009 were for the portion of the portfolio not covered by the GE indemnity included in the purchase of Shinsei Financial from GE. Fiscal year 2008 other losses include a gain of ¥74.1 billion on the repurchase of our preferred securities and subordinated debt, a gain of ¥8.2 billion on the sale of Showa Auto Rental & Leasing and a ¥7.2 billion gain on the sale of the Bank's Meguro Production Center, net of restoration and future relocation costs, offset by a ¥30.9 billion accelerated goodwill amortization charge in APLUS FINANCIAL, restructuring expenses of ¥20.3 billion, and grey zone expenses of ¥15.0 billion at APLUS FINANCIAL and Shinki, as well as a ¥3.6 billion provision for litigation losses.

INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS

As a result of the foregoing, a loss before income taxes and minority interests of ¥123.0 billion was recorded for fiscal year 2009, as compared to a loss before income taxes and minority interests of ¥119.0 billion recorded in the prior fiscal year.

INCOME TAXES (BENEFIT)

Current and deferred income taxes reflected a net expense of ¥8.2 billion compared to a net expense of ¥10.4 billion in the prior fiscal year. For the current fiscal year, we recorded ¥1.5 billion in current tax expense. We also recorded a deferred income tax expense of ¥6.7 billion, which includes a Shinsei Bank ¥8.3 billion charge for a reversal of deferred tax assets. For the prior fiscal year, we recorded ¥3.4 billion in current income tax expense and ¥7.0 billion in deferred income tax expense.

MINORITY INTERESTS IN NET INCOME (LOSS) OF SUBSIDIARIES

Minority interests in net income of subsidiaries for fiscal year 2009 amounting to ¥8.8 billion largely reflected dividends paid on perpetual preferred securities and minority interests relating to APLUS FINANCIAL's preferred shareholders as well as minority interests in other subsidiaries. Lower APLUS FINANCIAL preferred stock dividends were paid in fiscal year 2009 as a result of the redemption of APLUS FINANCIAL's preferred securities which occurred during the fourth quarter of fiscal year 2008.

TABLE 8. MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2010	2009	% Change
Dividends on preferred securities (hybrid Tier I capital) issued by foreign SPCs	¥ 10.3	¥ 9.8	5.1
Dividends on APLUS FINANCIAL's preferred stock	0.4	3.2	(86.4)
Others	(1.9)	0.5	(467.4)
Minority interests in net income of subsidiaries	¥ 8.8	¥ 13.5	(35.0)

NET INCOME (LOSS)

Shinsei Bank recognized a consolidated net loss of ¥140.1 billion for fiscal year 2009, compared to a consolidated net loss of ¥143.0 billion for fiscal year 2008.

We report both Japanese GAAP net income (loss) and cash basis net income (loss) in order to provide greater transparency and understanding of our underlying performance. Consolidated cash basis net loss for fiscal year 2009 was ¥53.7 billion, compared to a cash basis net loss of ¥97.0 billion for fiscal year 2008. The cash basis net income (loss) is calculated by excluding amortization and impairment of goodwill and other intangible assets, net of tax benefit, from net income under Japanese generally accepted accounting principles (Japanese GAAP).

RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS

In addition to analyzing our results of operations in the format used for our financial statements, which we refer to as the "reported-basis," our management also reviews our results on an "operating-basis" to assess each of our business lines and to measure our results against targeted goals. Operating-basis results are calculated by adjusting the reported-basis results principally for the amortization of goodwill and other intangible assets, certain revenue items, amortization of net actuarial losses and lump-sum payments. In essence, the operating-basis results represent what we consider to be "core" business results and are in conformity with Japanese GAAP at the net income (loss) level. The following summary table provides a reconciliation between our results on a reported- and operating-basis.

TABLE 9. RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS (CONSOLIDATED)

	Billions of yen					
	2010			2009		
Fiscal years ended March 31	Reported-basis	Reclassifications	Operating-basis	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	¥ 207.9	¥ —	¥ 207.9	¥ 202.9	¥ —	¥ 202.9
Non-interest income (loss)[1]	56.2	21.2	77.5	(19.8)	75.1	55.2
Total revenue	264.2	21.2	285.5	183.1	75.1	258.2
General and administrative expenses[2]	170.8	(2.4)	168.3	182.0	(3.2)	178.7
Amortization of goodwill and other intangible assets	20.9	(20.9)	—	17.5	(17.5)	—
Total general and administrative expenses	191.7	(23.3)	168.3	199.5	(20.8)	178.7
Net business profit/Ordinary business profit (loss)[3]	72.5	44.6	117.1	(16.4)	95.9	79.4
Net credit costs	112.2	—	112.2	129.0	—	129.0
Amortization of goodwill and other intangible assets	—	20.9	20.9	—	17.5	17.5
Other gains, net[1][2]	(83.3)	(23.7)	(107.0)	26.4	(78.3)	(51.8)
Income (loss) before income taxes and minority interests	(123.0)	—	(123.0)	(119.0)	—	(119.0)
Income taxes and minority interests	(17.0)	—	(17.0)	24.0	—	24.0
Net income (loss)	¥ (140.1)	¥ —	¥ (140.1)	¥ (143.0)	¥ —	¥ (143.0)

Notes: (1) Reclassifications consist principally of adjustments relating to other business income between other gains (losses), net and non-interest income.
(2) Reclassifications consist principally of adjustments relating to lump-sum compensation and amortization of net actuarial gains or losses from general and administrative expenses to other gains (losses), net.
(3) Ordinary business profit (loss) is derived after reclassifying certain items from net business profit.

BUSINESS LINES RESULTS

In June 2008 we reorganized our business around two business groups: an Institutional Group and an Individual Group. Management monitors the performance of these business lines on an operating-basis. The business line discussion below covers the operating-basis ordinary business profit (loss) after net credit costs (recoveries) of the two business lines and a third category of Corporate/Other.

TABLE 10. OPERATING-BASIS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS LINE (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	2010	2009	% Change
Institutional Group:			
Net interest income	¥ 43.3	¥ 44.6	(2.9)
Non-interest income (loss)	16.3	(74.0)	122.1
Total revenue (loss)	59.7	(29.3)	303.4
General and administrative expenses	43.7	57.8	(24.5)
Ordinary business profit (loss)	16.0	(87.2)	118.4
Net credit costs	66.0	80.8	(18.3)
Ordinary business profit (loss) after net credit costs	¥ (50.0)	¥ (168.0)	70.2
Individual Group:			
Net interest income	¥ 167.1	¥ 152.8	9.4
Non-interest income	41.0	50.7	(19.0)
Total revenue	208.2	203.5	2.3
General and administrative expenses	124.2	120.1	3.4
Ordinary business profit	84.0	83.3	0.8
Net credit costs	46.2	49.5	(6.6)
Ordinary business profit after net credit costs	¥ 37.7	¥ 33.8	11.6
Corporate/Other[(1)]:			
Net interest income (expense)	¥ (2.5)	¥ 5.5	(146.4)
Non-interest income	20.1	78.5	(74.3)
Total revenue	17.5	84.0	(79.1)
General and administrative expenses	0.4	0.7	(40.7)
Ordinary business profit	17.1	83.2	(79.4)
Net credit costs (recoveries)	(0.0)	(1.3)	97.0
Ordinary business profit after net credit costs (recoveries)	¥ 17.1	¥ 84.6	(79.7)
Total:			
Net interest income	¥ 207.9	¥ 202.9	2.5
Non-interest income	77.5	55.2	40.5
Total revenue	285.5	258.2	10.6
General and administrative expenses	168.3	178.7	(5.8)
Ordinary business profit	117.1	79.4	47.5
Net credit costs	112.2	129.0	(13.0)
Ordinary business profit (loss) after net credit costs	¥ 4.8	¥ (49.6)	109.8

Note: (1) Corporate/Other largely includes results of equity and sub-debt finance activities, corporate level expenses and credit costs.

INSTITUTIONAL GROUP

The Institutional Group consists of the Institutional Banking business and Showa Leasing.

TABLE 11. INSTITUTIONAL GROUP REVENUE BY PRODUCT (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	2010	2009[(1)]	% Change
Institutional Group:			
Basic banking[(2)]	¥ 12.5	¥ 11.3	10.2
Real estate finance	23.9	24.1	(0.8)
Credit trading	(10.0)	11.5	(187.1)
Principal investments	(25.6)	(13.6)	(88.4)
Foreign exchange, derivatives, equity-related	11.4	(19.4)	159.1
Securitization	5.2	(11.9)	144.2
Other capital markets	20.4	(61.1)	133.4
ALM Activities	1.2	5.1	(76.2)
Leasing (Showa Leasing)	15.8	21.0	(25.1)
Others	4.7	3.4	35.1
Total revenue (loss)	¥ 59.7	¥(29.3)	303.4

Notes: (1) Prior period has been adjusted to conform to current period presentation.
(2) Basic banking mainly consists of corporate loans, deposit and debentures revenue.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Overall, our Institutional Group businesses were severely impacted by the slump in Japanese commercial real estate and by continued deterioration of our overseas and domestic asset-backed investments and asset-backed securities. Declines in commercial real estate caused the Institutional Group to record Real Estate Principal Investment impairment and other charges of ¥37.4 billion and Real Estate Non-Recourse Finance credit costs of ¥32.8 billion, for a total of ¥70.2 billion in losses. We recorded a further ¥18.9 billion in mark-downs, impairments and credit costs on our European investments and domestic and overseas asset-backed investments and asset-backed securities. Offsetting these losses, we booked gains of ¥17.7 billion on the sale of our CLO portfolio and ¥4.0 billion on the sale of corporate bonds, equities and others.

Performance of each of our Institutional businesses is discussed below:

The Institutional Group businesses recorded total revenue of ¥59.7 billion in fiscal year 2009, compared to total revenue of negative ¥29.3 billion in fiscal year 2008.

Basic Banking generated total revenue of ¥12.5 billion in fiscal year 2009, an increase of ¥1.1 billion or 10.2% compared to the ¥11.3 billion generated in fiscal year 2008.

Our real estate finance business generated revenue of ¥23.9 billion, a decrease of ¥0.2 billion or 0.8% compared to fiscal year 2008. While our total real estate exposure declined in fiscal year 2009, we were able to maintain our revenues through higher fees and net interest income on our non-recourse loans.

Credit Trading incurred negative revenue of ¥10.0 billion in fiscal year 2009, a decrease of ¥21.5 billion from the prior fiscal year due to mark-downs of certain international credit trading positions, mainly in Europe.

Principal Investments recorded a loss of ¥25.6 billion compared to a loss of ¥13.6 billion in fiscal year 2008, as we took mark-downs and impairments of ¥35.5 billion on our legacy Japanese real estate principal investments. In addition, Principal Investments recorded ¥3.8 billion of losses on our investment in Jih Sun.

Foreign Exchange, Derivatives and Equity-Related Transactions recorded a gain of ¥11.4 billion in the current period, up from a ¥19.4 billion loss recorded in the prior fiscal year. Positive foreign exchange, derivatives and equity-related transactions revenues reflect our efforts to de-emphasize proprietary trading starting in fiscal year 2008.

Securitization recognized a gain of ¥5.2 billion during fiscal year 2009 as compared to a loss of ¥11.9 billion during fiscal year 2008.

Our Other Capital Markets businesses generated revenue of ¥20.4 billion for the current period including ¥17.7 billion of gains from the sale of CLOs, compared to a loss of ¥61.1 billion in the prior fiscal year. Fiscal year 2008 results included impairments of ¥50.7 billion on our CLO portfolio and a loss of ¥4.7 billion related to Lehman Brothers bonds.

TABLE 12. INSTITUTIONAL GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS BY BUSINESS (CONSOLIDATED)[1]

	Billions of yen		
Fiscal years ended March 31	**2010**	2009	% Change
Institutional Banking:			
Net interest income	**¥ 47.4**	¥ 49.7	(4.6)
Non-interest income (loss)	**(3.5)**	(100.1)	96.5
Total revenue (loss)	**43.9**	(50.4)	187.0
General and administrative expenses	**35.5**	46.9	(24.4)
Ordinary business profit (loss)	**8.3**	(97.4)	108.6
Net credit costs	**60.9**	72.7	(16.3)
Ordinary business profit (loss) after net credit costs	**¥ (52.5)**	¥ (170.1)	69.1
Showa Leasing:			
Net interest income (expense)	**¥ (4.0)**	¥ (5.0)	20.1
Non-interest income	**19.8**	26.1	(24.1)
Total revenue	**15.8**	21.0	(25.1)
General and administrative expenses	**8.1**	10.8	(24.8)
Ordinary business profit	**7.6**	10.1	(25.4)
Net credit costs	**5.1**	8.1	(36.0)
Ordinary business profit after net credit costs	**¥ 2.4**	¥ 2.0	15.6
Institutional Group:			
Net interest income	**¥ 43.3**	¥ 44.6	(2.9)
Non-interest income (loss)	**16.3**	(74.0)	122.1
Total revenue (loss)	**59.7**	(29.3)	303.4
General and administrative expenses	**43.7**	57.8	(24.5)
Ordinary business profit (loss)	**16.0**	(87.2)	118.4
Net credit costs	**66.0**	80.8	(18.3)
Ordinary business profit (loss) after net credit costs	**¥ (50.0)**	¥ (168.0)	70.2

Note: (1) Net of consolidation adjustments, if applicable.

In fiscal year 2009, Institutional Banking general and administrative expenses were ¥35.5 billion, a ¥11.4 billion or 24.4% decrease from the prior fiscal year. The decrease was largely due to the restructuring that we carried out during fiscal year 2008, as well as stricter cost controls and cost reduction measures enacted during the current period.

Net credit costs were ¥60.9 billion in the current period as compared to ¥72.7 billion in the prior period. Current period net credit costs included ¥32.8 billion of net credit costs related to our domestic real estate non-recourse finance portfolio and ¥15.6 billion of net credit costs related to our holdings of domestic and overseas asset-backed investments. During fiscal year 2008, we recorded net credit costs of ¥20.6 billion incurred for a loan to a subsidiary of Lehman Brothers, ¥18.9 billion of reserves for real estate finance and ¥15.7 billion in net credit costs associated with our holdings of European asset-backed investments.

As a result, Institutional Banking showed an ordinary business loss after net credit costs of ¥52.5 billion for fiscal year 2009, compared to an ordinary business loss after net credit costs of ¥170.1 billion in fiscal year 2008.

Showa Leasing's ordinary business profit after net credit costs was ¥2.4 billion for fiscal year 2009 compared to ¥2.0 billion in the prior fiscal year. While revenues have declined, in part due to our sale of Showa Auto Rental & Leasing at the end of the second quarter of fiscal year 2008, we have reduced our expenses and net credit costs for the period in line with the reduced revenue in this business.

INDIVIDUAL GROUP

The Individual Group consists of the Retail Banking business as well as the subsidiaries Shinsei Financial, APLUS FINANCIAL, Shinki and Shinsei Property Finance Co., Ltd. Shinsei Financial was acquired on September 22, 2008 from GE Japan Holdings Corporation and Shinsei Financial's results have been incorporated in our Results of Operations from the third quarter of fiscal year 2008.

The Individual Group's overall operations have been negatively impacted by the revised Money-Lending Business Control and Regulation Law. Specifically, we have taken ¥29.6 billion in grey zone charges, or provisions for possible losses on reimbursements of excess interest payments, in the current period. In addition, interest rates have been or will be reset below the legal maximum rates by June 2010 as stipulated in the revised Money-Lending Business Control and Regulation Law and as agreed in our acquisition of Shinsei Financial from GE Japan Holdings Corporation. The impact upon our business of the combination of grey zone reserves and lower interest rates has led us to record ¥66.0 billion in impairment losses of goodwill and other intangible assets, net of taxes, against our investment in APLUS FINANCIAL and ¥2.5 billion in impairment loss of Shinki other intangibles assets, net of taxes, as well as an additional ¥6.5 billion in APLUS FINANCIAL and Shinki restructuring charges in the current period.

Despite the current period loss due to the above factors, the Individual Group generated ordinary business profit after net credit costs of ¥37.7 billion compared to ¥33.8 billion during the prior fiscal year, an improvement of ¥3.9 billion, or 11.6%. The improved ordinary business profit after net credit costs for the current period reflects higher ordinary business profit after net credit costs within our Retail Banking and Shinki businesses, offset by lower ordinary business profit after net credit costs within Shinsei Financial and APLUS FINANCIAL. Our strong Retail Banking results reflect the steps that we have made to restructure our business and focus upon providing profitable value-added products and services to our customer base.

During fiscal year 2009, total Retail Banking revenue was ¥41.5 billion as compared to ¥39.6 billion during the prior fiscal year. The main sources of revenue were interest income from retail deposits, income from structured deposits, net interest income from loan products, and fees from asset management products. During the current period, we generated net interest income of ¥32.0 billion compared to ¥28.4 billion during the prior fiscal year. The increase in net interest income comes primarily from increases in deposits and debentures net interest income.

Non-interest income declined slightly to ¥9.4 billion from ¥11.1 billion in the prior fiscal year as revenue from structured deposits decreased.

TABLE 13. INDIVIDUAL GROUP REVENUE BY PRODUCT/ENTITY (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	2010	2009	% Change
Retail Banking:	**¥ 41.5**	¥ 39.6	4.8
Deposits and Debentures Net Interest Income	**25.3**	22.4	12.7
Deposits and Debentures Non-Interest Income	**5.2**	6.1	(14.3)
Asset management	**4.9**	4.7	4.5
Loans	**6.0**	6.3	(4.9)
(Reference) Revenue from Structured Deposits	**6.2**	7.0	(11.5)
Shinsei Financial	**88.5**	64.9	36.3
APLUS FINANCIAL	**62.6**	74.9	(16.5)
Shinki	**14.0**	19.7	(28.7)
Other Subsidiaries	**1.4**	4.1	(64.7)
Total revenue	**¥ 208.2**	¥ 203.5	2.3

Retail Banking incurred general and administrative expenses of ¥35.2 billion during fiscal year 2009, a decrease of 5.6% as compared to the prior fiscal year. The business generated ordinary business profit after net credit costs of ¥6.3 billion for fiscal year 2009, as compared to an ordinary business profit after net credit costs of ¥2.2 billion during the prior fiscal year.

For fiscal year 2009, Shinsei Financial generated total revenue of ¥88.5 billion, incurred general and administrative expenses of ¥42.6 billion and incurred net credit costs of ¥25.3 billion. As a result, Shinsei Financial's ordinary business profit after net credit costs was ¥20.6 billion for the current period.

For fiscal year 2009, APLUS FINANCIAL generated total revenue of ¥62.6 billion, compared to ¥74.9 billion in the prior fiscal year. The decline in revenue was largely due to the slowdown in economic activity. The revenue shortfall was partially offset by lower general and administrative expenses and net credit costs. General and administrative expenses declined to ¥37.9 billion from ¥43.3 billion in the prior fiscal year, while net credit costs declined to ¥21.0 billion from ¥24.3 billion in the prior period. As a result, the business generated ordinary business profit after net credit costs of ¥3.5 billion in fiscal year 2009, compared to ¥7.2 billion in the prior fiscal year.

For fiscal year 2009, Shinki recorded total revenue of ¥14.0 billion and general and administrative expenses of ¥8.0 billion. Shinki recorded net credit recoveries of ¥0.8 billion, including ¥6.4 billion of credit recoveries due to better than forecast collections within that business. As a result, Shinki recorded an ordinary business profit after net credit costs of ¥6.9 billion. This compares to an ordinary business profit after net credit costs of ¥4.9 billion in fiscal year 2008.

Shinsei Financial's usage of reserve for grey zone payments and write-offs amounted to ¥130.8 billion in fiscal year 2009. The Shinsei Financial purchase agreement from GE includes an indemnity from GE that provides protection for potential losses beyond ¥203.9 billion from the majority of the legacy accounts with grey zone interest exposure. The business made new grey zone related provisions of ¥0.9 billion for the non-indemnified portion, and as a result, the total balance of Shinsei Financial's grey zone reserves was ¥31.1 billion as of March 31, 2010, as compared to ¥161.0 billion as of March 31, 2009.

APLUS FINANCIAL's usage of reserve for grey zone payments and write-offs amounted to ¥6.7 billion in fiscal year 2009. The business made ¥10.8 billion in grey zone related provisions and the total balance of the grey zone reserve was ¥15.1 billion as of March 31, 2010, as compared to ¥11.0 billion as of March 31, 2009. APLUS FINANCIAL made ¥8.7 billion of grey zone related provisions and incurred ¥6.3 billion in usage of reserve for grey zone payments and write-offs in fiscal year 2008.

Shinki's usage of reserve for grey zone payments and write-offs amounted to ¥15.8 billion in fiscal year 2009. The business made new grey zone related provisions of ¥17.8 billion in fiscal year 2009. The total balance of the grey zone reserve was ¥23.7 billion as of March 31, 2010, as compared to ¥21.7 billion as of March 31, 2009. Shinki made ¥6.3 billion of grey zone related provisions and incurred ¥15.2 billion in usage of reserve for grey zone payments and write-offs in fiscal year 2008.

Other subsidiaries' financials mainly include the financial results of Shinsei Property Finance Co., Ltd.

TABLE 14. INDIVIDUAL GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS BY SUBSIDIARY (CONSOLIDATED)(1)

Fiscal years ended March 31	2010 (Billions of yen)	2009 (Billions of yen)	% Change
Retail Banking:			
Net interest income	¥ 32.0	¥ 28.4	12.5
Non-interest income	9.4	11.1	(15.1)
Total revenue	41.5	39.6	4.8
General and administrative expenses	35.2	37.3	(5.6)
Ordinary business profit	6.3	2.3	172.7
Net credit costs (recoveries)	(0.0)	0.0	(141.9)
Ordinary business profit after net credit costs	¥ 6.3	¥ 2.2	186.6
Shinsei Financial:			
Net interest income	¥ 92.5	¥ 65.3	41.6
Non-interest income (loss)	(3.9)	(0.3)	(925.9)
Total revenue	88.5	64.9	36.3
General and administrative expenses	42.6	26.6	59.8
Ordinary business profit	45.9	38.3	19.9
Net credit costs	25.3	14.9	69.1
Ordinary business profit after net credit costs	¥ 20.6	¥ 23.3	(11.6)
APLUS FINANCIAL:			
Net interest income	¥ 25.9	¥ 34.2	(24.2)
Non-interest income	36.6	40.6	(9.9)
Total revenue	62.6	74.9	(16.5)
General and administrative expenses	37.9	43.3	(12.4)
Ordinary business profit	24.6	31.6	(22.1)
Net credit costs	21.0	24.3	(13.4)
Ordinary business profit after net credit costs	¥ 3.5	¥ 7.2	(51.3)
Shinki:			
Net interest income	¥ 15.2	¥ 21.0	(27.3)
Non-interest income (loss)	(1.1)	(1.2)	5.0
Total revenue	14.0	19.7	(28.7)
General and administrative expenses	8.0	10.8	(26.1)
Ordinary business profit	6.0	8.9	(32.0)
Net credit costs (recoveries)	(0.8)	3.9	(122.7)
Ordinary business profit after net credit costs	¥ 6.9	¥ 4.9	39.4
Other Subsidiaries(2):			
Net interest income	¥ 1.2	¥ 3.6	(64.5)
Non-interest income	0.1	0.5	(66.0)
Total revenue	1.4	4.1	(64.7)
General and administrative expenses	0.3	1.9	(80.8)
Ordinary business profit	1.0	2.1	(50.0)
Net credit costs	0.7	6.1	(87.3)
Ordinary business profit (loss) after net credit costs	¥ 0.3	¥ (3.9)	107.9
Total Individual Group:			
Net interest income	¥ 167.1	¥ 152.8	9.4
Non-interest income	41.0	50.7	(19.0)
Total revenue	208.2	203.5	2.3
General and administrative expenses	124.2	120.1	3.4
Ordinary business profit	84.0	83.3	0.8
Net credit costs	46.2	49.5	(6.6)
Ordinary business profit after net credit costs	¥ 37.7	¥ 33.8	11.6

Notes: (1) Net of consolidation adjustments, if applicable.
(2) Includes Shinsei Property Finance and unallocated Consumer Finance Sub-Group financials.

CORPORATE/OTHER

Corporate/Other primarily includes results of corporate treasury activities, inter-company adjustments, and corporate level expenses. For the fiscal year ended March 31, 2010, ordinary business profit after net credit recoveries was ¥17.1 billion, including a gain of ¥20.9 billion on the repurchase of our preferred securities and subordinated debt.

RESULTS OF OPERATIONS (NON-CONSOLIDATED)

OVERVIEW

We disclose non-consolidated financial information of Shinsei in addition to our consolidated financial statements. As a recipient of public funds, we are required by the FSA to update and report on Shinsei's non-consolidated performance in relation to targets set forth in our Revitalization Plan on a quarterly basis, and to publicly disclose that information semi-annually. Shinsei's plan was initially prepared by LTCB upon its emergence from nationalization and we have subsequently updated the plan in August 2001, August 2003, August 2005, August 2007 and October 2009.

Shinsei recorded a net loss for fiscal year 2009 of ¥47.6 billion on a non-consolidated basis. Current results on a non-consolidated basis differ from our consolidated results primarily because our non-consolidated results do not include the net income or loss from our consolidated subsidiaries, including Showa Leasing, Shinsei Financial, APLUS FINANCIAL and Shinki, nor do they include the loss from our share in the net loss of our equity method affiliate, Jih Sun Financial Holding Co., Ltd. We received dividends of ¥19.3 billion from our consolidated subsidiaries in fiscal year 2009.

The non-consolidated financial performance of Shinsei for fiscal year 2009 was substantially below the targets set in our Revitalization Plan agreed with the Japanese government due to significant charges arising from the loss on our Japanese real estate principal investments and credit costs within our domestic real estate non-recourse finance business. Consequently, we failed to meet the non-consolidated net income target set in our Revitalization Plan for two years continuously, i.e. fiscal year 2008 and fiscal year 2009.

We will further strive to strengthen our business franchise and profitability to enable us to complete our Revitalization Plan and repay all outstanding public funds.

TABLE 15. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NON-CONSOLIDATED)

Billions of yen (except percentages)

	2010		2009	
Fiscal years ended March 31	Target	Actual	Target	Actual
Net income (loss)	**¥ 10.0**	**¥(47.6)**	¥ 70.0	¥ (157.0)
Total expenses (without taxes) (1)	**71.5**	**63.8**	89.3	75.0
Return on equity based on net business profit (loss) (2)	**2.4%**	**3.8%**	9.4%	(10.1)%

Notes: (1) Equals Shinsei's total general and administrative expenses excluding business taxes such as consumption tax.
(2) Equals net business profit (loss) before general reserve for credit losses, as such term is defined under "Supplemental Non-Consolidated Measures" below, divided by average total equity.

SUPPLEMENTAL NON-CONSOLIDATED MEASURES

In addition to the reporting items set forth in our non-consolidated financial statements, Japanese banking law requires us to disclose gross business profit (*gyomu sorieki*) on a non-consolidated basis.

Furthermore, in the Japanese banking industry, net business profit before general reserve for credit losses (*jisshitsu gyomu jun-eki*) has traditionally been used as a measure of the profitability of core banking operations. We review these non-Japanese GAAP performance measures in monitoring the results of our operations.

Gross business profit is the sum of:

- net interest income;
- net fees and commissions, which consist of:
  - — fees on loans as well as on sales of asset management products,
  - — other fee-based activities, and
  - — net gain (loss) on monetary assets held in trust (in keeping with the definition of gross business profit in our Revitalization Plan);
- net trading income; and
- net other business income, which includes, among other things, gains or losses on securities and foreign exchange.

Net business profit before general reserve for credit losses is gross business profit minus non-consolidated total expenses, which corresponds to our consolidated general and administrative expenses.

While these business profit measures should not be viewed as a substitute for net income, management believes that these non-Japanese GAAP measures provide a meaningful way of comparing a number of the important components of Shinsei's revenues and profitability from year to year. The table below sets forth such supplemental financial data and corresponding reconciliations to net income under Japanese GAAP for the fiscal years ended March 31, 2010 and 2009.

TABLE 16. OPERATING-BASIS RESULTS (NON-CONSOLIDATED)

	Billions of yen	
Fiscal years ended March 31	2010	2009
Gross business profit *(gyomu sorieki)* [1] :		
Net interest income	¥ 80.5	¥ 93.9
Net fees and commissions[1]	(8.8)	11.3
Net trading income (loss)	7.7	(5.6)
Net other business income (loss)	8.8	(86.5)
Total gross business profit[1]	88.2	13.0
Total expenses	67.3	78.4
Net business profit (loss)[1][2] *(jisshitsu gyomu jun-eki (sonshitsu))*	20.9	(65.3)
Other operating expenses, net[3]	(65.1)	(99.5)
Net operating income (loss) *(keijo rieki (sonshitsu))*	(44.2)	(164.8)
Extraordinary income (loss)	4.8	13.4
Income (loss) before income taxes	(39.3)	(151.3)
Current income taxes (benefit)	(0.0)	(4.1)
Deferred income tax expense (benefit)	8.3	9.8
Net income (loss)	¥ (47.6)	¥ (157.0)

Notes: (1) Includes net gain (loss) from monetary assets held in trust of ¥(15.9) billion in the fiscal year ended March 31, 2010 and ¥5.7 billion in the fiscal year ended March 31, 2009.
(2) Excludes provisions for or reversals of general reserve for credit losses.
(3) Excludes net gain (loss) from monetary assets held in trust.

CRITICAL ACCOUNTING POLICIES

GENERAL

Our financial statements are prepared in accordance with Japanese GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. In addition, certain accounting principles require significant judgment by management in applying complex accounting principles to individual transactions to determine the most appropriate accounting treatment. We have established procedures and processes to facilitate making the estimates and assumptions necessary to value assets and liabilities, record transactions and prepare the financial statements. On an ongoing basis, management evaluates its estimates and judgments, including those related to the valuation of assets and liabilities. Although actual results may differ from these estimates under different assumptions and conditions and future changes in the key assumptions could change future valuations and results, we have used the best information available at the time to make our estimates. Significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in this annual report.

Management believes the following are our critical accounting policies. These policies were considered "critical" because:

- the estimates involved in these policies require us to make assumptions about matters that are uncertain at the time the estimates are made; and
- different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, or changes in our financial condition or results of operations.

RESERVE FOR CREDIT LOSSES

The reserve for loan losses, a separate component of the reserve for credit losses, is management's estimate of the credit losses to be incurred in the lending portfolio and is discussed in further detail in "—Financial Condition—Asset Quality and Disposal of Problem Loans of Shinsei." We establish a specific reserve, a general reserve and a reserve for loans to restructuring countries based on our self-assessment guidelines to absorb estimated credit losses in the lending portfolio.

A specific reserve is provided for specific claims against obligors in the possibly bankrupt, virtually bankrupt and legally bankrupt categories. For claims against obligors in the virtually and legally bankrupt categories, the unsecured, unguaranteed portion of the claim is written off or otherwise fully reserved because such portion is deemed unlikely to be collected. For claims against obligors in the possibly bankrupt category, a specific reserve is principally determined by estimating discounted future cash flows, other than in cases where it is difficult to reasonably estimate future cash flows.

A general reserve is provided for claims against normal obligors, as well as claims against need caution obligors (including substandard obligors). Shinsei applies the discounted cash flow method in calculating the amount of a general reserve for most of its claims against substandard obligors. The amount of the reserve for claims against normal obligors and claims against need caution obligors (other than substandard obligors of Shinsei which are subject to the discounted cash flow method) is based on the total amount of, as well as the expected loss ratios for, claims against each category of obligor. Shinsei calculates expected loss ratios based on historical losses on claims against each obligor category. Using the expected loss ratios, Shinsei reserves for the estimated amount of losses for the next three years for claims against substandard obligors, for the remaining term of the claims with respect to claims against normal obligors given ratings of 5A through 6C in Shinsei's credit ratings system and claims against need caution obligors other than substandard obligors, or other need caution obligors, and for the next year for claims against normal obligors given ratings higher than 5A.

The historical loan loss ratio is calculated by taking the greater result from the following two calculation methods: (1) the average loss ratio for three consecutive calculation periods, or (2) the average loss ratio for 7 years.

Shinsei reviews its classification of obligors quarterly, although every month it downgrades obligors whose financial condition has deteriorated based on the results of its self-assessment process. A reserve for loans to restructuring countries is provided for estimated losses on those loans due to political and economic conditions in the countries where the loans are outstanding, based on losses estimated using the secondary market price of similar loans.

Estimating Shinsei's specific reserve for claims against obligors in the possibly bankrupt category and the general reserve for claims against obligors in the substandard category is subject to a number of significant judgments and uncertainties regarding discounted cash flows due to the changing financial conditions of the obligors and general economic conditions surrounding the obligors' business operations. In addition, because the secured portion of claims is not covered by a specific reserve, actual losses on such claims are also subject to significant judgments and uncertainties regarding the fair value of collateral. Estimating the general reserve for claims against obligors in the normal and other need caution categories could be affected by changes made by management in the methodologies used to calculate the migration analyses of obligors or the assumptions used in the calculation of the reserve. As a result, actual losses in the lending portfolio could be greater or less than we have estimated. If the estimated credit losses are not enough to cover actual losses incurred from the ultimate disposition of the portfolio, it would result in additional write-offs or additional reserves in the future for the lending portfolio, increasing our reported total credit costs. If the estimate is in excess of actual losses, it would result in a reduction of our total credit costs.

The reserve for other credit losses consists primarily of reserves, including a reserve taken on our contribution to an industry-wide fund set up to purchase and collect loans. A specific reserve has been established for each exposure based on our estimate of the prospects for recovery. Although we believe our existing reserves are sufficient to cover the risk from items we have identified, actual losses related to these items could be more or less than we have estimated, which could result in an increase or a decrease in our total credit costs.

APLUS FINANCIAL establishes loan loss reserves based on the historical loss ratio for delinquent and non-delinquent accounts. The amount of reserves in the case of delinquent accounts primarily depends on the number of months for which a particular account is past due. In addition, APLUS FINANCIAL writes off the entire amount of any claims it deems uncollectible, either as a result of personal bankruptcy or otherwise. Showa Leasing, Shinki and Shinsei Financial establish loan loss reserves in the same manner as APLUS FINANCIAL except that with respect to customers with exposure above a specified amount, and Showa Leasing establishes reserves on the basis of obligor classification in accordance with its self-assessment guidelines.

RESERVE FOR LOSSES ON INTEREST REPAYMENTS

On October 13, 2006, the Japanese Institute of Certified Public Accountants (the "JICPA") issued "Audit Guidelines on Consumer Finance Companies' Provisions for Possible Losses on Reimbursements of Excess Interest Payments" (the "Guidelines"). These guidelines stipulate that consumer and commercial finance companies make certain provisions for possible losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Law of Japan. The reserve is established in the amount of the estimated future reimbursement requests based on past experience. If any of the assumptions change due to changes in circumstances, an additional reserve could become necessary.

In addition, a reserve for losses on interest repayments of Shinsei Financial is calculated considering the terms stipulated in the share transfer agreement entered into by and between the Bank and the seller, GE Japan Holdings Co., Ltd. ("GE"), for the acquisition of Shinsei Financial, under which the sharing of interest repayment costs between the Bank and GE is determined.

VALUATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

We have various types of financial instruments in our trading and banking books. Pursuant to Japanese GAAP, we record some of our financial instruments at their fair values, which are measured based on market prices or third-party quotes or, if both are unavailable, our internal valuation methodologies.

Although we strive to follow market standards in making assumptions and determining scenarios necessary for these valuation methodologies, the outcomes of our methodologies could differ from those derived from other methodologies.

AVAILABLE-FOR-SALE SECURITIES

We generally record available-for-sale securities, both debt and equity, at their fair values. The net unrealized gains or losses on these securities are included in and presented as a separate component of equity.

Available-for-sale securities include some securities without readily obtainable market prices or quotes. These securities primarily consist of residual interests and debt investments in collateralized debt obligations as well as illiquid corporate bonds. We estimate the fair values of these securities based on historical data concerning market prices and quotes. In some cases, we determine fair value using internal valuation methodologies that are subject to complex assumptions, including those relating to scenarios, interest rates and volatility.

In March 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." Effective March 31, 2010, this revised accounting standard and the guidance are applied to financial instruments and related disclosures.

The revised accounting standard requires securities available-for-sale to be recorded at their fair values except for securities whose fair values cannot be reliably determined, such as non-marketable equity securities etc.

As a result, as of March 31, 2010, securities decreased by ¥7.2 billion, other monetary claims purchased decreased by ¥4.6 billion, deferred tax liability decreased by ¥0.6 billion, unrealized gain (loss) on available-for-sale securities decreased by ¥3.5 billion, reserve for credit losses decreased by ¥12.7 billion, and loss before income taxes and minority interests for the fiscal year ended March 31, 2010 decreased by ¥5.0 billion, respectively, as compared to what would have been if there was no such accounting change.

As of March 31, 2010, the amortized/acquisition cost of our available-for-sale securities whose fair value cannot be reliably determined was ¥92.4 billion while the amortized/acquisition cost of available-for-sale securities whose fair value is not readily determinable was ¥455.7 billion as of March 31, 2009. The total fair value of our available-for-sale securities as of March 31, 2010 and 2009 was ¥2,661.3 billion and ¥1,300.0 billion, respectively. Net unrealized gain recognized in fiscal year 2009 was ¥8.7 billion and net unrealized loss recognized in fiscal year 2008 was ¥30.1 billion.

IMPAIRMENT IN VALUE OF DEBT AND EQUITY SECURITIES

Available-for-sale debt and equity securities, and held-to-maturity debt securities are both exposed to the risk of decline in their fair values. If the decline in fair value of available-for-sale securities and held-to-maturity securities whose fair value can be reliably determined is deemed to be significant, impairment loss is recognized in the amortized/acquisition cost of the securities since the decline in fair values is deemed to be other than temporary. To determine whether an other-than-temporary impairment has occurred, the Bank applies the following rule, which depends on the credit risk category of the security issuer based on the Bank's self-assessment guidelines:

Issuer Credit Risk Category	Fair Value Test for Related Security
Securities issued by "legally bankrupt," "virtually bankrupt" and "possibly bankrupt" obligors	The fair value of securities is lower than the amortized/acquisition cost
Securities issued by "need caution" obligors	The fair value of securities is 30% or more lower than the amortized/acquisition cost
Securities issued by "normal" obligors	The fair value of securities is 50% or more lower than the amortized/acquisition cost

"Legally bankrupt" obligors are obligors who have already gone bankrupt from a legal and/or formal perspective.

"Virtually bankrupt" obligors are obligors who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.

"Possibly bankrupt" obligors are obligors who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" obligors are obligors who require close attention because there are problems with their borrowings.

"Normal" obligors are obligors whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

For available-for-sale securities whose fair value cannot be reliably determined, if the net asset value of a security has declined by an amount ranging from 30% to 50% of its acquisition cost we consider the possibility of recovery of net asset value in order to determine whether an other-than-temporary impairment has occurred, but if the net asset value has declined in excess of 50% of its acquisition cost we deem the impairment to be other-than-temporary. Our judgment of the possibility and magnitude of a future recovery in net asset value relies on our subjective views concerning market uncertainties, the creditworthiness of the issuers of the securities and various other factors. Different judgments could lead to different conclusions regarding the need to recognize impairments in value.

For the fiscal year ended March 31, 2010, we recognized losses of ¥22.0 billion on debt and equity securities available-for-sale due to impairment, as compared to ¥52.9 billion on debt and equity securities available-for-sale and ¥50.7 billion on debt securities held-to-maturity for the fiscal year ended March 31, 2009.

SECURITIES RECLASSIFIED FROM AVAILABLE-FOR-SALE TO HELD TO MATURITY

On December 5, 2008, the ASBJ issued Practical Issues Task Force (PITF) No. 26, "Tentative Solution on Reclassification of Debt Securities." PITF No. 26 was effective upon issuance and expired March 31, 2010. PITF No. 26 permits an entity to reclassify certain debt securities when in rare circumstances the entity changes its accounting classification according to the change of holding purpose and the securities meet the definition of the held-to-maturity category.

Among the securities that were previously classified as available-for-sale, certain of the foreign bonds with high credit ratings were reclassified to held-to-maturity securities on October 1, 2008 at their fair value of ¥102.6 billion. This reclassification was pursuant to the change in the investment policy based on the judgment that it would have been difficult to sell these securities at their fair values under the extremely illiquid market condition which existed at that time.

Subsequent to this reclassification on March 31, 2009, the Bank recognized impairment losses of ¥50.7 billion for certain of these reclassified securities as a result of the worsening credit environment, and such impaired securities (¥19.6 billion) were reclassified from held-to-maturity back to available-for-sale.

FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING PURPOSES

Our trading book assets and liabilities consist of derivative financial instruments, securities, short-term money market investments and other monetary claims maturing within a short period of time.

In addition, we hold certain securities investments, such as foreign fund trusts and corporate bonds, financial assets backed by loans and receivables as well as mortgages included in securities, other monetary claims purchased and monetary assets held in trust that are not recorded in the trading book, but are held for trading purposes in the banking book. All of these trading-purpose assets and liabilities are booked at their fair values, and changes in value are reflected in our net income (loss). The fair values of trading-purpose assets that are traded actively in open markets are based on observable market prices of the same or similar securities and monetary claims.

When actively traded market prices are not available, we estimate the fair values of the assets and liabilities held for trading purposes using our internal valuation methodologies. These methodologies require us to use our judgment in both making assumptions regarding market parameters, such as swap rates for interest rate and currency swaps with longer maturities, as well as determining the required scenarios, such as future cash flow projections for financial assets underlying purchased monetary claims. In addition, we adjust the fair value estimates for derivative financial instruments to reflect credit and liquidity risks.

As of March 31, 2010, the net fair value of our trading assets and liabilities was ¥45.4 billion and the net balance of revaluation gains on those assets and liabilities was ¥51.1 billion. This compared with a net fair value of ¥67.5 billion and a net balance of revaluation gains of ¥23.4 billion as of March 31, 2009.

The fair value of securities held in our banking book for trading purposes was ¥2.9 billion and ¥17.3 billion as of March 31, 2010 and 2009, respectively. The fair value of other monetary claims purchased for trading purposes was ¥157.9 billion and ¥212.1 billion as of March 31, 2010 and 2009, respectively. The fair value of monetary assets held in trust for trading purposes was ¥200.2 billion and ¥235.7 billion as of March 31, 2010 and 2009, respectively.

CREDIT TRADING ACTIVITIES

We are engaged in credit-trading activities in Japan and foreign countries, in which we purchase monetary claims such as loans, bonds, guarantees, receivables and lease receivables without intending to hold them to maturity. To recover our investment, we either collect on the claim, including through repayments, legal proceedings and discounted payoffs, or resell or securitize the claim. Claims purchased are recorded either in monetary assets held in trust or other monetary claims purchased, depending on the structure used for the purchase, and are principally measured at fair value. Fair value is estimated in the same way as it is for assets held for trading purposes. The internal valuation methodology we use to calculate the fair value of these claims primarily relies on a discounted cash flow method based on cash flow projections and implied market discount rates. As estimations of future cash flows and discount rates are based on complex processes and contain an element of judgment, changes in assumptions could lead to different estimates of the fair value of monetary assets held in trust and other monetary claims purchased, which could in turn impact the related gain or loss amounts in our financial statements. As of March 31, 2010 and 2009, balances related to credit trading of ¥200.2 billion and ¥235.7 billion, respectively, were included in monetary assets held in trust and ¥145.5 billion and ¥194.4 billion, respectively, were included in other monetary claims purchased for trading purposes. As of March 31, 2010 and 2009, net unrealized losses of ¥31.1 billion and ¥14.3 billion were recorded in those accounts, respectively.

VALUATION OF DEFERRED TAX ASSETS

We record deferred tax assets for deductible temporary differences and tax loss carry-forwards and evaluate them in accordance with the guidelines of the JICPA. Under the JICPA guidelines for the valuation of deferred tax assets, if a company records a material amount of tax loss carry-forwards, in most cases, it is deemed difficult to reasonably estimate future "Taxable Income" (which, for the purpose of utilizing deferred tax assets, is treated as income before adjustments for existing temporary differences and tax loss carry-forwards). If, however, a company is able to reasonably estimate future Taxable Income for the next fiscal year, it may record deferred tax assets based on deductible temporary differences and tax loss carry-forwards to the extent that it is probable that those differences or carry-forwards would be used during the next fiscal year. In addition, the JICPA guidelines provide that a company with a material amount of tax loss carry-forwards could recognize deferred tax assets as realizable based on future Taxable Income, reasonably estimated, for up to the next five fiscal years if the tax loss carry-forwards had been incurred due to certain non-recurring events, such as the restructuring of businesses, and there was not necessarily any significant doubt as to the company's ability to earn Taxable Income in the future.

As a result of Taxable Income (as defined in the previous paragraph) recorded in recent periods, we could have recorded deferred tax assets realizable based on a reasonable estimate of income for at least a part of the next five fiscal years if we would have demonstrated that we would record actual income for the foreseeable future. We have evaluated the available evidence concerning our future Taxable Income and other possible sources of the realization of deferred tax assets, and have concluded that we should record deferred tax assets that are realizable only in the following fiscal year for Shinsei and most of its subsidiaries. We have recorded a valuation allowance to reduce deferred tax assets accordingly. The actual Taxable Income amount for the fiscal year ending March 31, 2011 may be different from our estimate, which would result in a larger or smaller amount of deferred tax assets that should have been recognized.

As of March 31, 2010 and 2009, our balances of net deferred tax assets, or the difference between our deferred tax assets and our deferred tax liabilities, were ¥17.4 billion and ¥20.5 billion, respectively. The amount of net deferred tax assets was 3.5% of our Tier I capital as of March 31, 2010 and 3.5% of our Tier I capital as of March 31, 2009. If we had concluded that we could reasonably estimate Taxable Income for the next five fiscal years, as of March 31, 2010, the balance of net deferred tax assets could have been significantly higher.

RESERVE FOR RETIREMENT BENEFITS

Shinsei, APLUS FINANCIAL, Showa Leasing and Shinki each have a non-contributory defined benefit pension plan, and Shinsei Financial and certain of Shinsei's consolidated domestic subsidiaries have unfunded severance indemnity plans, which cover substantially all of our employees. A reserve for retirement benefits is provided for payment in future years. We follow guidelines for accounting for employee retirement benefit plans issued by the JICPA and estimate the amounts of the projected retirement benefit obligations and plan assets at the end of the fiscal year using assumptions for the expected rate of return on plan assets and the discount rate.

We determine the expected rate of return on plan assets based on the targeted average long-term performance of the assets. Because assumptions regarding the rate of return on assets are affected by changing general economic and market conditions, we need to make significant judgments to determine appropriate assumptions underlying the estimate of long-term performance, which also impact the estimate of the reserve for retirement benefits and net periodic retirement benefit cost. The expected rate of return was between 0.75% and 3.5% for both the fiscal year ended March 31, 2010 and 2009.

We have selected the interest rate for Japanese government bonds with a maturity which is the closest to the period of time for effective settlement of the benefit obligation under the pension plan as the basis for the discount rate. The Bank has determined that the interest rate for Japanese government bonds with a 20-year maturity is the best estimate of the discount rate because we estimated that the period of time for effective settlement of the benefit obligation under the pension plans would be approximately 17 years on average and the discount rate for a period of 17 years was assumed to be substantially the same as the interest rate for a 20-year maturity Japanese government bond. This assumption could change if we become aware of information that leads us to determine that a different period for settling the benefit obligation is required. A change in that assumption could, in turn, change the discount rate and the related amounts reported in our financial statements. Changing our methodologies for calculating the estimated settlement period would also affect our estimate of the discount rate and related amounts in our financial statements. The discount rate of each pension plan was between 1.5% and 2.2% for both the fiscal year ended March 31, 2010 and 2009. Had the discount rate decreased 0.5 percentage points, net periodic retirement benefit cost for the fiscal year ended March 31, 2010 would have increased materially.

HEDGE ACCOUNTING

We follow guidelines issued by the JICPA regarding hedge accounting applicable to financial assets and liabilities exposed to a risk of change in fair value or cash flow. Derivative transactions that meet the hedge accounting criteria are primarily accounted for under a deferral method whereby unrealized gains and losses are deferred in a separate component of equity until the gains and losses on the hedged items are realized. For the fiscal year ended March 31, 2010 and 2009, net losses on hedging instruments which were deferred and recorded in equity amounted to ¥3.3 billion and ¥2.9 billion respectively.

We adopted portfolio hedging in accordance with Industry Audit Committee report No. 24 issued by the JICPA ("Report No. 24"). Under portfolio hedging activities to mitigate the change of fair value of a hedged items portfolio such as deposits or loans with common maturities is matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities, and are designated as a hedge of the portfolio. The effectiveness of the portfolio hedge is assessed by each group.

As for portfolio hedging activities to fix the cash flows, the effectiveness is assessed based on the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument. The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not measured at fair values but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

Shinsei accounts for fund swap and certain currency swap transactions using either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 of the JICPA. Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts sold or bought. Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designated derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

Shinsei also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency assets of net investments in foreign unconsolidated subsidiaries, affiliates and securities available-for-sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities exceed the acquisition cost of such foreign currency assets.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Impairment losses on an individual asset or an asset group establish a new cost basis for the assets. We evaluate our long-lived assets for impairment using our best estimates based on reasonable and supportable assumptions and projections. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of an asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. For the fiscal year ended March 31, 2010, an impairment loss of ¥1.2 billion was recognized in Shinki for unused properties whose fair value declined significantly and assets that are planned to be disposed of in consequence of IT integration. For the fiscal year ended March 31, 2009, Shinsei Financial recognized an impairment loss of ¥0.4 billion based on the decision to close certain of the branches for its personal loan and mortgage businesses. In addition, due to consecutive years of operating losses of the credit card business of Shinsei Financial, an impairment loss of ¥0.9 billion was recognized, assuming their recoverable amount to be zero.

BUSINESS COMBINATIONS

For consolidated financial statement purposes, assets and liabilities of acquired subsidiaries are recorded primarily on the basis of their estimated fair values at the date of the acquisition.

We acquired controlling interests in APLUS FINANCIAL and Showa Leasing on September 29, 2004 and March 23, 2005, respectively. On December 13, 2007, we acquired a controlling interest in Shinki, which was previously an affiliate, through the purchase of additional shares. On September 22, 2008, the Bank, together with APLUS FINANCIAL, acquired 100% of the controlling interest (equity and debt) in Shinsei Financial, a consumer finance company in Japan, and its subsidiaries.

In connection with the consolidation of APLUS FINANCIAL, Showa Leasing, Shinki and Shinsei Financial, we recognized the assets (including intangibles) and liabilities of those entities primarily at their fair values. We used quoted market prices in active markets as the best evidence of fair value, where available. If quoted market prices were not available, the estimate of fair value was based on the best information available, including prices for similar assets and liabilities and the results using other fair value measurement methodologies. We adopted the following methodologies based on the nature of the assets and liabilities being valued and the availability of information:

- market approach: market transactions involving the sale of comparable assets;
- income approach: present value of earnings attributable to the asset; and
- cost approach: reproduction or replacement costs adjusted for depreciation and obsolescence.

As a result of fair value recognition, reserves for credit losses were offset with the corresponding loans or other assets.

We also recognized certain identifiable other intangible assets in connection with the acquisition of APLUS FINANCIAL, Showa Leasing, Shinki and Shinsei Financial because they arose from contractual or other legal rights, or were separable. The identified other intangible assets consist of trade names and customer and/or merchant relationships, among others, which are valued using variations of the income approach and which are being amortized over various periods and using different methodologies depending on the nature of the asset. See Note 2 (C) to the Consolidated Financial Statements.

The excess of the purchase price over the fair value of the net assets acquired, including identified other intangible assets, was recorded as goodwill and is being amortized on a consistent basis primarily over 20 years. The amortization period of 20 years is the maximum period allowed under Japanese GAAP and was determined based upon the Bank's business strategy. When the purchase price is lower than the fair value of the net assets acquired, including identified other intangible assets, the difference is recorded as negative goodwill and primarily amortized on a straight-line basis over 20 years, which is the maximum period allowed under Japanese GAAP. Any unamortized balances of identified other intangible assets and goodwill are subject to impairment testing periodically.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

We conduct impairment testing for goodwill and other intangible assets as a result of certain triggering events such as:

- An expectation of an operating loss or negative cash flow for two consecutive years;
- Impairment of underlying investment securities is recognized;
- A significant adverse change in the environment surrounding the business operations of the subsidiary, such as a change in the law which significantly impacts the business in a negative way;
- Management decisions that could have an adverse effect on the value of goodwill and other intangible assets.

As the first step of the impairment test, we estimate the undiscounted future cash flows of the business. If the value of the undiscounted future cash flows is less than the book value of the net assets, including goodwill and other intangible assets, of the business, it is determined that impairment exists and the next step of the impairment test is performed to measure the amount of impairment loss, if any.

The next step of the impairment test compares the "value in use," which is calculated as the discounted value of future cash flows of the business, and the net asset book value which includes unamortized balances of goodwill and other intangible assets. Impairment loss for the total of goodwill and other intangible assets (A) is recognized as the amount by which the net asset book value exceeds the "value in use." The fair value of other intangible assets (and any other assets) is determined in the same manner used to apply purchase accounting at the time of the initial acquisition, and the impairment loss of other intangible assets (B) is determined as the difference between the fair value and book value. Finally the impairment loss of goodwill is calculated as (A) less (B) above.

For the fiscal year ended March 31, 2010, impairment losses of goodwill and other intangible assets for APLUS FINANCIAL of ¥61.5 billion and ¥7.6 billion, and an impairment loss of other intangible assets for Shinki of ¥4.2 billion were recognized.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

BUSINESS COMBINATIONS

In December, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under this accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires all business combinations to be accounted for by the purchase method.

(2) The current accounting standard requires research and development costs to be charged to expense as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in a business combination is capitalized as an intangible asset.

(3) The current accounting standard requires a bargain purchase gain (negative goodwill) to be systematically amortized to income within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010.

UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN AFFILIATES USING THE EQUITY METHOD

The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of foreign affiliates that have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policy.

In December, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliates in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010.

ASSET RETIREMENT OBLIGATIONS

In March, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and the ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability.

The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010.

ACCOUNTING CHANGES AND ERROR CORRECTIONS

In December, 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows;

(1) Changes in Accounting Policies:

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentation
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors
When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applied to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

SEGMENT INFORMATION DISCLOSURES

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applied to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2010, we had consolidated total assets of ¥11,376.7 billion, representing a 4.8% decrease from March 31, 2009. Our loans and bills discounted totaled ¥5,163.7 billion as at March 31, 2010 as compared to ¥5,876.9 billion as at March 31, 2009. The decrease mainly occurred due to a decline of ¥518.4 billion in our Institutional Group loans outstanding as we worked to optimize our Institutional Group risk assets during the current period.

Corporate loans decreased 11.2% to ¥2,141.1 billion at March 31, 2010 compared to ¥2,409.8 billion at March 31, 2009, and the real estate finance balance decreased 9.1% to ¥750.3 billion at March 31, 2010 from ¥825.7 billion at March 31, 2009 as we have continued to work to optimize our loan exposures and risk assets.

Excluding non-recourse real estate loans, other real estate finance loans decreased from ¥180.9 billion to ¥98.9 billion, or approximately 45.3% during the fiscal year ended March 31, 2010.

Loans to individual customers, which include loans in retail banking, loans at Shinsei Financial, APLUS FINANCIAL and Shinki, decreased 10.2% to ¥1,713.0 billion at March 31, 2010 from ¥1,907.8 billion at March 31, 2009. Retail housing loans remained flat at ¥882.3 billion at March 31, 2010 compared to ¥882.6 billion at March 31, 2009 as ¥67.5 billion in housing loans were transferred from Shinsei Financial to Retail Banking during the fourth quarter of fiscal year 2009.

Loans to Shinsei Financial customers decreased by 24.0% to ¥512.1 billion at March 31, 2010 from ¥673.6 billion at March 31, 2009. Loans to APLUS FINANCIAL customers decreased by 15.9% to ¥166.6 billion at March 31, 2010 from ¥198.1 billion at March 31, 2009, and loans to Shinki customers decreased by 10.9% to ¥79.5 billion at March 31, 2010 from ¥89.3 billion at March 31, 2009.

SECURITIES

The following table sets forth the composition of our consolidated portfolio of trading securities in the banking book, available-for-sale equity and debt securities and held-to-maturity debt securities as of March 31, 2010. As reflected below, almost 88.8% of the securities will mature during the next five years. The balance of securities as of March 31, 2010 amounted to ¥3,233.3 billion as compared to ¥2,174.1 billion as of March 31, 2009. The increase occurred largely due to purchases of short-term Japanese national government bonds, the balance of which increased to ¥2,361.6 billion at March 31, 2010 from ¥1,204.2 billion at March 31, 2009, for liquidity purposes. Shinsei Bank continues to optimize its funding base through deposits from retail customers. Total deposits and negotiable certificates of deposit increased from ¥6,272.1 billion at March 31, 2009 to ¥6,475.3 billion at March 31, 2010.

TABLE 17. SECURITIES BY MATURITY (CONSOLIDATED)

Billions of yen

	As of March 31, 2010							
	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Unspecified term	Total
Japanese national government bonds	**¥ 131.0**	**¥ 1,486.3**	**¥ 676.0**	**¥ —**	**¥ 56.3**	**¥ 11.8**	**¥ —**	**¥ 2,361.6**
Japanese local government bonds	**—**	**1.2**	**—**	**0.5**	**—**	**—**	**—**	**1.7**
Japanese corporate bonds	**143.0**	**218.1**	**22.1**	**6.9**	**2.0**	**—**	**—**	**392.3**
Japanese equity securities	**—**	**—**	**—**	**—**	**—**	**—**	**27.2**	**27.2**
Foreign bonds and other	**53.3**	**106.2**	**33.0**	**55.9**	**50.1**	**45.3**	**106.2**	**450.3**
Total securities	**¥ 327.4**	**¥ 1,812.0**	**¥ 731.1**	**¥ 63.4**	**¥ 108.5**	**¥ 57.1**	**¥ 133.5**	**¥ 3,233.3**

Billions of yen

	As of March 31, 2009							
	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Unspecified term	Total
Japanese national government bonds	¥ 439.1	¥600.2	¥ 84.9	¥ —	¥ 35.4	¥ 44.4	¥ —	¥ 1,204.2
Japanese local government bonds	—	—	1.2	—	0.5	—	—	1.7
Japanese corporate bonds	77.6	267.9	87.7	7.5	2.0	—	—	442.9
Japanese equity securities	—	—	—	—	—	—	26.9	26.9
Foreign bonds and other	45.8	85.5	70.1	33.4	82.6	69.0	111.5	498.2
Total securities	¥ 562.7	¥ 953.7	¥ 244.0	¥ 40.9	¥ 120.5	¥ 113.5	¥ 138.5	¥ 2,174.1

LOAN PORTFOLIO

As of March 31, 2010, loans and bills discounted totaled ¥5,163.7 billion. This represented 45.4% of total consolidated assets and a 12.1% decrease from the ¥5,876.9 billion of loans and bills discounted as of March 31, 2009. Installment receivables of APLUS FINANCIAL, Showa Leasing and our other non-bank subsidiaries are classified in our consolidated balance sheets as other assets, and are not reflected in our data on loans and bills discounted.

Most of our loan portfolio was originated by Shinsei and our domestic subsidiaries. Of loans we originated, loans to the finance and insurance industry and the real estate industry constituted nearly 40% of total loans as of March 31, 2010. Loans to the real estate industry as of March 31, 2010 consisted, in part, of non-recourse and project finance loans. Loans to this industry decreased by 13.4%, to ¥875.6 billion. Loans to others of ¥1,956.2 billion as of March 31, 2010 included loans extended to Shinsei's, Shinsei Financial's, APLUS FINANCIAL's and Shinki's individual customers amounting, in aggregate, to ¥1,667.0 billion.

TABLE 18. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2010		2009	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	**¥ 249.0**	**4.9%**	¥ 243.1	4.2%
Agriculture and Forestry	**0.0**	**0.0**	0.0	0.0
Fishery	**2.5**	**0.0**	2.7	0.0
Mining, quarrying and gravel extraction	**2.7**	**0.1**	3.6	0.1
Construction	**8.7**	**0.2**	13.0	0.2
Electric power, gas, heat supply and water supply	**32.3**	**0.6**	45.4	0.8
Information and communications	**17.0**	**0.3**	48.1	0.8
Transportation and postal service	**293.6**	**5.8**	336.9	5.9
Wholesale and retail	**109.6**	**2.2**	132.1	2.3
Finance and insurance	**1,095.9**	**21.6**	1,152.7	20.0
Real estate	**875.6**	**17.2**	1,011.3	17.6
Services	**262.7**	**5.2**	332.7	5.8
Local government	**171.3**	**3.4**	156.5	2.7
Others	**1,956.2**	**38.5**	2,280.8	39.6
Total domestic (A)	**¥ 5,077.6**	**100.0%**	¥ 5,759.5	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	**¥ 1.9**	**2.3%**	¥ 1.4	1.3%
Financial institutions	**1.8**	**2.2**	—	—
Others	**82.2**	**95.5**	115.8	98.7
Total overseas (B)	**¥ 86.0**	**100.0%**	¥ 117.3	100.0%
Total (A+B)	**¥ 5,163.7**		¥ 5,876.9	

Note: Presentation of some industries has changed with the revision of the Japan Standard Industry Classification (November 2007).
The figures on March 31, 2009 were not adjusted as the impact from this change is negligible.

TABLE 19. OVERSEAS AND OFFSHORE LOANS BY REGION (NON-CONSOLIDATED)

As of March 31	Billions of yen 2010	2009
United States	¥ 39.8	¥ 103.1
Asset-backed investments in the U.S.	3.7	5.4
Europe	135.7	166.1
Asset-backed investments in Europe	95.6	122.2
Others	120.9	191.7
Total overseas and offshore loans	¥ 296.5	¥ 460.9
Total asset-backed investments	¥ 99.4	¥ 127.7

Note: "Asset-backed investments" is another term for the Asset-Backed Investments Program, one of our former product programs. Under this program, the loans backed mainly by collateral (including infrastructure related assets or equipment, real estate, business and operating assets) are referred to as "asset-backed investments" for disclosure purposes. For the asset-backed securities which we disclose as securitized products, please see table 41 "Balance of Securitized Products (Breakdown by Region and Type of Securities)" on page 99.

LOAN MATURITY

The following table sets forth the composition of Shinsei's non-consolidated loan portfolio by type of interest rate and maturity as of the dates indicated. In the fiscal year ended March 31, 2010, the decrease in total loans resulted from a decrease in both variable-interest rate loans and fixed-interest rate loans.

TABLE 20. LOAN MATURITY (NON-CONSOLIDATED)

As of March 31	Billions of yen 2010	2009
Fixed-interest loans:		
One year or less[1]	¥ —	¥ —
Over one year to three years	64.7	104.6
Over three years to five years	92.7	83.6
Over five years to seven years	51.7	80.7
Over seven years	584.8	719.5
Indefinite term	13.6	29.7
Variable-interest loans:		
One year or less[1]	¥ —	¥ —
Over one year to three years	896.7	1,265.3
Over three years to five years	436.9	397.2
Over five years to seven years	226.8	203.5
Over seven years	526.1	481.4
Indefinite term	130.3	100.2
Total loans:		
One year or less	¥ 1,708.0	¥ 1,701.6
Over one year to three years	961.4	1,370.0
Over three years to five years	529.7	480.9
Over five years to seven years	278.6	284.3
Over seven years	1,111.0	1,201.0
Indefinite term	144.0	129.9
Total loans	¥ 4,732.8	¥ 5,168.0

Note: (1) Loans with maturities of one year or less are not broken down by type of interest rate.

ASSET QUALITY AND DISPOSAL OF PROBLEM LOANS OF SHINSEI

At March 31, 2010, 70.8% of our consolidated problem loans as disclosed in accordance with the guidelines of the Japanese Bankers' Association (JBA) were held by Shinsei and most of the remaining problem loans were held by Shinsei Financial, APLUS FINANCIAL and Shinki. This discussion of our asset quality presents information of Shinsei on a non-consolidated basis unless specified otherwise. In particular, problem claims as defined in the Financial Revitalization Law are only disclosed on a non-consolidated basis, and therefore do not include problem loans held by Shinsei Financial, APLUS FINANCIAL, Showa Leasing and Shinki. For a discussion of the problem claims of Shinsei Financial, APLUS FINANCIAL, Showa Leasing and Shinki see "—Asset Quality of Shinsei Financial, APLUS FINANCIAL, Showa Leasing and Shinki."

We classify our obligors and assess our asset quality based on our self-assessment manual developed in accordance with guidelines published by the FSA. We generally perform our self-assessment quarterly. The self-assessment process involves classifying obligors based on their financial condition and then categorizing claims against obligors in order of collection risk. Based on these classifications, we establish reserves and disclose our problem loans and other claims using criteria specified in the Financial Revitalization Law. We also disclose our problem loans under a format devised by the JBA for the disclosure of risk-monitored loans.

The following table compares the scope of each category of claim under the Financial Revitalization Law and each type of risk-monitored loan, as well as the obligor type to which they relate:

COMPARISON OF CATEGORIES OF OBLIGORS, CLAIMS UNDER THE FINANCIAL REVITALIZATION LAW AND RISK-MONITORED LOANS (NON-CONSOLIDATED)

(Billions of yen)

Obligor Classifications		Internal Ratings	Reserve Ratios for Borrowers Type	Claims Classified under the Financial Revitalization Law[2][3] Total loans and bills discounted: 4,732.8 / Other 237.3	Risk-monitored Loans[2] Total loans and bills discounted: 4,732.8
Legally bankrupt		9E	100.00% for unsecured portion	Claims against bankrupt and quasi-bankrupt obligors 112.2 (Amount of coverage, coverage ratio) (112.2*, 100.0%)[4] *Amount of reserve for loan losses is 5.7, collateral and guarantees is 106.4	Loans to bankrupt obligors 11.1
Virtually bankrupt		9D	100.00% for unsecured portion		Non-accrual delinquent loans 290.0
Possibly bankrupt		9C	78.75% for unsecured portion	Doubtful claims 215.6 (Amount of coverage, coverage ratio) (208.8*, 96.8%)[4] *Amount of reserve for loan losses is 22.3, collateral and guarantees is 186.5	
Need caution	Substandard	9B	70.44% for unsecured portion	Substandard claims (loan account only) 5.1 (Amount of coverage, coverage ratio) (4.0*, 79.0%)[4] *Amount of reserve for loan losses is 1.6, collateral and guarantees is 2.4	Loans past due for three months or more Restructured loans 5.1
	Other need caution	9A	6.60% for total claims		
Normal		0A–6C	0.45% for total claims	Normal claims 4,637.1	Normal 4,426.5
				Total non-performing claims and NPL ratio 333.0, 6.7% (Total amount of coverage, coverage ratio) (325.1*, 97.6%)[4] *Total amount of reserve for loan losses is 29.6, collateral and guarantees is 295.4	Total risk-monitored loans and ratio to total loans and bills discounted 306.2, 6.5%

Notes: (1) Financial and operational data that are stated in multiples of ¥0.1 billion have been truncated. All percentages have been rounded to the nearest 0.1% or nearest 0.01%.
(2) The Financial Revitalization Law requires us to classify and disclose "claims" which include, in addition to loans and bills discounted, foreign exchange claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees. By comparison, as for risk-monitored loans, the format devised by the Japanese Bankers' Association only classifies, and calls for disclosure of, certain loans.
(3) Shaded claims denoted claims that are considered to be non-performing under the Financial Revitalization Law.
(4) Total amounts of coverage (reserve for loan losses and collateral/guarantees) and coverage ratio.

In October 2002, the FSA announced a new "Program for Financial Revival" that has led to more stringent evaluations of claims. This program required banks to use discounted cash flow analyses, among other measures, when providing loan loss reserves against major borrowers with substandard claims. Through the program, the FSA also sought greater scrutiny of the effect of recording large amounts of deferred tax assets on the quality of a bank's regulatory capital. We have gone well beyond the FSA's requirements by employing the discounted cash flow method, applying it to approximately 90%, by principal amount, and ¥500 million or more in outstanding balance, of our claims against substandard obligors and possibly bankrupt obligors, excluding non-Japanese transactions and transactions with individuals as their future cash flows cannot be reasonably estimated.

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

OBLIGOR CLASSIFICATION	DEFINITION
Legally bankrupt *(hatan-saki)*	Obligors who have already gone bankrupt, from a legal and/or formal perspective.
Virtually bankrupt *(jisshitsu hatan-saki)*	Obligors who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.
Possibly bankrupt *(hatan kenen-saki)*	Obligors who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future because they are having difficulty implementing their management improvement plans. This includes obligors who are receiving ongoing support from financial institutions.
Need caution *(youchui-saki)*	Obligors who require close attention because there are problems with their borrowings, such as reduced or suspended interest payments, problems with fulfillment, such as substantial postponements of principal or interest payments, or problems with their financial position as a result of their poor or unstable business conditions. The term "need caution obligors" includes "substandard obligors" *(youkanri-saki)*, which refers to obligors with "substandard claims," that is, loans past due for three months or more or restructured loans. Claims against need caution obligors that are not substandard claims are sometimes referred to as "other claims against need caution obligors" *(sono ta youchui-saki)*.
Normal *(seijou-saki)*	Obligors whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

CATEGORY	DEFINITION
Claims against bankrupt and quasi-bankrupt obligors *(hasan kosei saiken oyobi korera ni junzuru saiken)*	Claims against obligors under bankruptcy and similar claims, as provided for under the Bankruptcy Law, the Corporate Reorganization Law, the Civil Rehabilitation Law and similar laws.
Doubtful claims *(kiken saiken)*	Claims against obligors that are not yet in bankruptcy but have experienced deterioration in their financial condition and operating performance and for which there is a high probability of contractual defaults on principal and interest payments.
Substandard claims *(youkanri saiken)*	Loans past due for three months or more and restructured loans, excluding those categorized as claims against bankrupt and quasi-bankrupt obligors or doubtful claims.
Normal claims *(seijou saiken)*	Claims against obligors that are experiencing no particular problems with their financial condition or operating performance, other than claims in any of the three categories above.

DEFINITIONS OF CATEGORIES OF RISK-MONITORED LOANS

CATEGORY	DEFINITION
Loans to bankrupt obligors *(hatan-saki saiken)*	Loans to legally bankrupt obligors.
Non-accrual delinquent loans *(entai-saki saiken)*	Loans to virtually bankrupt and possibly bankrupt obligors.
Loans past due for three months or more *(san-ka-getsu ijou entai saiken)*	Loans on which principal and/or interest are past due three months or more.
Restructured loans *(kashidashi jouken kanwa saiken)*	Loans with lending terms that have been changed in ways favorable to the borrower, including reducing interest rates, providing grace periods for repayment and forgiving a portion of the debt.

RESERVE POLICIES

CLAIMS AGAINST OBLIGORS, AS CATEGORIZED UNDER SELF-ASSESSMENT GUIDELINES	RESERVE POLICY
Claims against virtually and legally bankrupt obligors	We either write off directly or make a provision for, in the specific reserve for loan losses, the full amount of the unsecured, unguaranteed portion of the claim.
Claims against possibly bankrupt obligors	For most claims against possibly bankrupt obligors, we make a provision in the specific reserve for loan losses in an amount calculated based on the discounted cash flow method. See "—Reserve for Credit Losses." For the remaining claims, we make a provision to that reserve for the unsecured, unguaranteed portion of the claims in the amount of the product of that portion and the higher of 70% or the estimated loss ratio, based on historical losses on claims in this category, for the next three years.
Claims against substandard obligors	For most claims against substandard obligors, we make a provision in the general reserve for loan losses in an amount calculated based on the discounted cash flow method. See "—Reserve for Credit Losses." For the remaining claims, we make a provision to that reserve for the estimated amount of losses over three years computed based on the expected loss ratio for claims in this category.
Claims against need caution obligors, other than claims against substandard obligors	We make a provision, in the general reserve for loan losses, for the estimated amount of losses over the average remaining term of the loans computed based on the expected loss ratio for claims in this category.
Claims against normal obligors	For claims against obligors rated 5A through 6C under our credit rating system, we make a provision, in the general reserve for loan losses, for the estimated amount of losses over the average remaining term of the loans computed based on the expected loss ratio for claims in this category. For the remaining claims, we make a provision to that reserve for the estimated amount of losses over a year computed based on the expected loss ratio for claims in this category.

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Under the Financial Revitalization Law, Japanese banks categorize their total claims in four categories by reference to the nature of the relevant assets. In addition to loans and bills discounted, claims that are subject to disclosure under the Financial Revitalization Law include foreign exchange claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees.

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of problem loans. Shinsei's total amount of problem claims as disclosed pursuant to the Financial Revitalization Law increased by ¥187.1 billion, or 128.3%, to ¥333.0 billion, between March 31, 2009 and 2010. Non-accrual delinquent loans increased by ¥168.1 billion, driven primarily by real estate non-accrual delinquent loans. During the fiscal year ended March 31, 2010, claims against bankrupt and quasi-bankrupt obligors increased from ¥83.2 billion to ¥112.2 billion, doubtful claims increased from ¥55.7 billion to ¥215.6 billion, and substandard claims decreased from ¥6.8 billion to ¥5.1 billion as a result of our self assessment. The ratio of non-performing claims disclosed under the Financial Revitalization Law to total non-consolidated claims as of March 31, 2010 increased to 6.7%, compared to 2.5% as of March 31, 2009.

Shinsei's other claims against need caution obligors, excluding substandard claims, totaled ¥406.6 billion as of March 31, 2010, a 19.8% increase from ¥339.5 billion as of March 31, 2009. These include private placement bonds guaranteed by Shinsei and classified other claims against need caution obligors. These claims represented 8.2% of total non-consolidated claims as of March 31, 2010, up from 5.8% as of March 31, 2009.

TABLE 21. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	2010	2009
Claims against bankrupt and quasi-bankrupt obligors	¥ 112.2	¥ 83.2
Doubtful claims	215.6	55.7
Substandard claims	5.1	6.8
Total claims disclosed under the Financial Revitalization Law(1)	333.0	145.8
Normal claims and claims against need caution obligors excluding substandard claims	4,637.1	5,669.7
Total claims	¥ 4,970.1	¥ 5,815.5
Loans and bills discounted	4,732.8	5,168.0
Others(2)	237.3	647.6
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	6.7%	2.5%

Notes: (1) Total claims disclosed under the Financial Revitalization Law include loans and bills discounted, customers' liabilities for acceptances and guarantees and other exposure to or in respect of bankrupt and quasi-bankrupt obligors and doubtful claims, as well as loans and bills discounted classified as substandard claims.
(2) Others include foreign exchange claims, securities lent, accrued interest and prepaid expense in other assets as well as customers' liabilities for acceptance and guarantees.

COVERAGE RATIOS

As of March 31, 2010, Shinsei's non-consolidated coverage ratios for claims classified under the Financial Revitalization Law, which for each category of claims is the total of collateral pledged against claims, guarantees for claims and reserve for loan losses, measured against total claims, were 100.0% for claims against bankrupt and quasi-bankrupt obligors, 96.8% for doubtful claims and 79.0% for substandard claims. For all claims classified under the Financial Revitalization Law, the coverage ratio was 97.6%, an increase from 96.0% as of March 31, 2009.

Shinsei directly writes off, rather than reserves, the portion of claims against virtually and legally bankrupt obligors that are estimated to be uncollectible. In the fiscal years ended March 31, 2010 and 2009, ¥96.7 billion and ¥71.2 billion, respectively, of such claims were written off on a non-consolidated basis.

TABLE 22. COVERAGE RATIOS FOR NON-PERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

Billions of yen (except percentages)

	Amount of claims	Amounts of coverage: Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
As of March 31, 2010:					
Claims against bankrupt and quasi-bankrupt obligors	**¥ 112.2**	**¥ 5.7**	**¥ 106.4**	**¥ 112.2**	**100.0%**
Doubtful claims	**215.6**	**22.3**	**186.5**	**208.8**	**96.8**
Substandard claims	**5.1**	**1.6**	**2.4**	**4.0**	**79.0**
Total	**¥ 333.0**	**¥ 29.6**	**¥ 295.4**	**¥ 325.1**	**97.6%**
As of March 31, 2009:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 83.2	¥ —	¥ 83.2	¥ 83.2	100.0%
Doubtful claims	55.7	23.3	27.2	50.5	90.7
Substandard claims	6.8	1.6	4.4	6.1	90.0
Total	¥ 145.8	¥ 25.0	¥ 114.9	¥ 140.0	96.0%

CHANGES IN AMOUNT OF PROBLEM CLAIMS

The table below sets forth Shinsei's experience since March 31, 2008 with the removal of problem claims and the emergence of new claims on a non-consolidated basis:

TABLE 23. CHANGES IN AMOUNT OF PROBLEM CLAIMS (NON-CONSOLIDATED)

Billions of yen

	Substandard claims	Doubtful claims	Claims against bankrupt and quasi-bankrupt obligors	Total
Balance of problem claims as of March 31, 2008	¥ 29.5	¥ 15.5	¥ 8.0	¥ 53.1
Claims newly added April 1, 2008 to March 31, 2009	4.1	48.1	74.1	126.5
Claims removed April 1, 2008 to March 31, 2009	(7.2)	(6.9)	(19.5)	(33.7)
Claims migrating between classifications April 1, 2008 to March 31, 2009	(19.6)	(0.9)	20.6	—
Net change	(22.7)	40.2	75.2	92.7
Balance of problem claims as of March 31, 2009	¥ 6.8	¥ 55.7	¥ 83.2	¥ 145.8
Claims newly added April 1, 2009 to March 31, 2010	**2.6**	**209.3**	**53.8**	**265.8**
Claims removed April 1, 2009 to March 31, 2010	**(1.1)**	**(31.4)**	**(46.0)**	**(78.6)**
Claims migrating between classifications April 1, 2009 to March 31, 2010	**(3.2)**	**(18.0)**	**21.2**	**—**
Net change	**(1.7)**	**159.9**	**28.9**	**187.1**
Balance of problem claims as of March 31, 2010	**¥ 5.1**	**¥ 215.6**	**¥ 112.2**	**¥ 333.0**

In the fiscal year ended March 31, 2010, ¥265.8 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥78.6 billion of claims in these categories during the same period. Of the newly added problem claims, ¥209.3 billion were classified as doubtful claims, and ¥53.8 billion were classified as claims against bankrupt and quasi-bankrupt obligors.

For the fiscal year ended March 31, 2009, ¥126.5 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥33.7 billion of claims in these categories during the same period.

RESERVE FOR CREDIT LOSSES

The following table sets forth a breakdown of our total reserve for credit losses on a non-consolidated basis as of the dates indicated:

TABLE 24. RESERVE FOR CREDIT LOSSES (NON-CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2010	2009
General reserve for loan losses	¥ 50.6	¥ 65.5
Specific reserve for loan losses	30.3	32.1
Reserve for loans to restructuring countries	0.0	0.0
Subtotal reserve for loan losses	81.0	97.6
Specific reserve for other credit losses	21.1	21.2
Total reserve for credit losses	¥ 102.2	¥ 118.9
Total claims[(1)]	¥ 4,970.1	¥ 5,815.5
Ratio of total reserve for loan losses to total claims	1.6%	1.7%
Ratio of total reserve for credit losses to total claims	2.1%	2.0%

Note: (1) Total Claims include foreign exchange claims, securities lent, accrued interest and prepaid expense in other assets as well as customers' liabilities for acceptance and guarantees.

As of March 31, 2010 and 2009, Shinsei's total reserve for credit losses on a non-consolidated basis was ¥102.2 billion and ¥118.9 billion, respectively, constituting 2.1% and 2.0%, respectively, of total claims.

TABLE 25. RESERVE RATIOS BY BORROWERS' CATEGORY (NON-CONSOLIDATED)

Percentages

As of March 31		2010	2009
Legally and virtually bankrupt	(unsecured portion)	100.00%	100.00%
Possibly bankrupt	(unsecured portion)	78.75%	81.89%
Substandard	(unsecured portion)	70.44%	83.41%
Need caution	(total claims)	6.60%	6.85%
	(unsecured portion)	17.24%	46.26%
Normal	(total claims)	0.45%	0.37%

RISK-MONITORED LOANS

Consolidated risk-monitored loans increased by 52.4% during the fiscal year ended March 31, 2010 to ¥432.3 billion. The increase of ¥168.1 billion in non-accrual delinquent loans added during the period was primarily attributable to downgrading of non-consolidated loans.

The following tables set forth information concerning our consolidated and non-consolidated risk-monitored loans as of the dates indicated:

TABLE 26. RISK-MONITORED LOANS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2010	2009
Loans and bills discounted	¥ 5,163.7	¥ 5,876.9
Loans to bankrupt obligors (A)	21.5	39.5
Non-accrual delinquent loans (B)	346.7	178.5
(A)+(B)	¥ 368.2	¥ 218.0
Ratio to total loans and bills discounted	7.1%	3.7%
Loans past due for three months or more (C)	¥ 2.7	¥ 5.9
Restructured loans (D)	61.3	59.6
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 432.3	¥ 283.6
Ratio to total loans and bills discounted	8.4%	4.8%
Reserve for credit losses	¥ 196.6	¥ 192.5

TABLE 27. RISK-MONITORED LOANS (NON-CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2010	2009
Loans and bills discounted	¥ 4,732.8	¥ 5,168.0
Loans to bankrupt obligors (A)	11.1	23.9
Non-accrual delinquent loans (B)	290.0	110.2
(A)+(B)	¥ 301.1	¥ 134.1
Ratio to total loans and bills discounted	6.4%	2.6%
Loans past due for three months or more (C)	¥ 2.0	¥ 3.7
Restructured loans (D)	3.0	3.1
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 306.2	¥ 141.0
Ratio to total loans and bills discounted	6.5%	2.7%
Reserve for credit losses	¥ 102.2	¥ 118.9

TABLE 28. RISK-MONITORED LOANS BY BORROWER INDUSTRY (NON-CONSOLIDATED)

As of March 31	Billions of yen 2010	2009
Domestic offices (excluding Japan offshore market account):		
Manufacturing	¥ 1.5	¥ 1.6
Agriculture and Forestry	—	—
Fishery	—	—
Mining, quarrying and gravel extraction	—	—
Construction	—	1.0
Electric power, gas, heat supply and water supply	—	—
Information and communications	0.5	0.5
Transportation and postal service	14.2	6.0
Wholesale and retail	0.0	0.0
Finance and insurance	34.4	51.1
Real estate	231.6	32.0
Services	3.7	3.4
Local government	—	—
Others	—	—
Individual	4.8	5.3
Overseas yen loan and overseas loans booked domestically	15.2	39.8
Total domestic (A)	¥ 306.2	¥141.0
Overseas offices (including Japan offshore market accounts):		
Governments	¥ —	¥ —
Financial institutions	—	—
Commerce and industry	—	—
Others	—	—
Total overseas (B)	¥ —	¥ —
Total (A+B)	¥ 306.2	¥141.0

Note: Presentation of some industries has changed with the revision of the Japan Standard Industry Classification (November 2007). The figures on March 31, 2009 were not adjusted as the impact from this change is negligible.

TABLE 29. RISK-MONITORED OVERSEAS AND OFFSHORE LOANS BY REGION (NON-CONSOLIDATED)

As of March 31	Billions of yen 2010	2009
United States	¥ —	¥ 0.7
Asset-backed investments in the U.S.[1]	—	0.7
Europe	15.1	38.9
Asset-backed investments in Europe[1]	14.0	37.0
Others	0.0	0.0
Total overseas and offshore loans	¥ 15.2	¥ 39.8
Total asset-backed investments[1][2]	¥ 14.0	¥ 37.8

Notes: (1) "Asset-backed investments" is another term for the Asset-Backed Investments Program, one of our former product programs. Under this program, the loans backed mainly by collateral (including infrastructure related assets or equipment, real estate, business and operating assets) are referred to as "asset-backed investments" for disclosure purposes. For the asset-backed securities which we disclose as securitized products, please see table 41 "Balance of Securitized Products (Breakdown by Region and Type of Securities)" on page 99.
(2) As of March 31, 2010, reserve for loan losses and collateral/guarantees for risk monitored loans related to asset-backed investments were ¥5.4 billion and ¥8.5 billion, respectively, and the coverage ratio was 100.0%.

ASSET QUALITY OF SHINSEI FINANCIAL, APLUS FINANCIAL, SHOWA LEASING AND SHINKI

Shinsei Financial, APLUS FINANCIAL, Showa Leasing and Shinki classify their obligors and assess their asset quality on a semi-annual basis based on the self-assessment manual developed in accordance with guidelines published by the FSA. Shinsei Financial's, APLUS FINANCIAL's, Showa Leasing's and Shinki's assessments, where applicable, include, among other things, an assessment of credit extended to credit card customers as well as lease obligors, unsecured personal loans and customer guarantees.

The following tables set forth information concerning consolidated risk-monitored loans and risk-monitored installment receivables held by Shinsei, Shinsei Financial, APLUS FINANCIAL, Showa Leasing, Shinki and other subsidiaries as of the dates indicated:

TABLE 30. RISK-MONITORED LOANS BREAKDOWN FOR LARGE ENTITIES (CONSOLIDATED)

	Billions of yen					
	Shinsei	Shinsei Financial	APLUS FINANCIAL	Shinki	Other subsidiaries	Total
As of March 31, 2010:						
Loans to bankrupt obligors	**¥ 11.1**	**¥ 3.7**	**¥ 0.0**	**¥ 0.0**	**¥ 6.5**	**¥ 21.5**
Non-accrual delinquent loans	**290.0**	**20.5**	**13.1**	**3.7**	**19.2**	**346.7**
Loans past due for three months or more	**2.0**	**0.0**	**0.6**	**—**	**0.0**	**2.7**
Restructured loans	**3.0**	**37.7**	**13.7**	**5.6**	**1.1**	**61.3**
Total	**¥306.2**	**¥ 62.1**	**¥ 27.4**	**¥ 9.4**	**¥ 26.9**	**¥432.3**
As of March 31, 2009:						
Loans to bankrupt obligors	¥ 23.9	¥ 5.6	¥ 0.0	¥ 0.1	¥ 9.8	¥ 39.5
Non-accrual delinquent loans	110.2	26.5	12.9	4.9	23.8	178.5
Loans past due for three months or more	3.7	0.7	0.8	0.0	0.5	5.9
Restructured loans	3.1	33.7	16.3	6.1	0.2	59.6
Total	¥141.0	¥ 66.6	¥ 30.2	¥11.2	¥ 34.4	¥283.6

TABLE 31. RISK-MONITORED INSTALLMENT RECEIVABLES INCLUDED IN OTHER ASSETS (CONSOLIDATED)[1]

	Billions of yen				
	APLUS FINANCIAL	Showa Leasing	Shinsei Financial	Other subsidiaries	Total
As of March 31, 2010:					
Credits to bankrupt obligors	**¥ 0.0**	**¥ 0.1**	**¥ 0.0**	**¥ 0.8**	**¥ 1.0**
Non-accrual delinquent credits	**0.7**	**2.3**	**0.2**	**0.7**	**4.1**
Credits past due for three months or more	**0.5**	**0.4**	**—**	**—**	**0.9**
Restructured credits	**2.6**	**0.8**	**0.0**	**0.0**	**3.4**
Total	**¥ 3.9**	**¥ 3.7**	**¥ 0.3**	**¥ 1.6**	**¥ 9.5**
As of March 31, 2009:					
Credits to bankrupt obligors	¥ 0.0	¥ 0.5	¥ 0.0	¥ 0.1	¥ 0.7
Non-accrual delinquent credits	0.5	2.2	0.4	1.0	4.3
Credits past due for three months or more	0.6	0.2	—	0.1	1.0
Restructured credits	4.1	5.1	0.0	0.1	9.4
Total	¥ 5.3	¥ 8.2	¥ 0.4	¥ 1.4	¥ 15.5

Note: (1) Shinsei and Shinki have no such installment receivables.

FUNDING AND LIQUIDITY

Shinsei Bank continues to optimize its funding base through deposits from retail customers. Total deposits and negotiable certificates of deposit increased from ¥6,272.1 billion at March 31, 2009 to ¥6,475.3 billion at March 31, 2010. The retail deposits balance totaled ¥5,305.0 billion at March 31, 2010, an increase of ¥281.9 billion compared to March 31, 2009. Retail Banking represents 80.3% of the Bank's total funding through customer deposits and debentures. The table below shows changes in the proportion of our overall funding represented by funds raised from debentures and deposits in our Retail and Institutional Banking businesses.

TABLE 32. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

	Billions of yen		
As of March 31	**2010**	2009[1]	2008[1]
Retail deposits	**¥ 5,305.0**	¥ 5,023.0	¥ 3,934.1
Retail debentures[2]	**285.9**	308.1	342.2
Institutional deposits	**1,170.3**	1,249.0	1,872.5
Institutional debentures	**197.7**	367.4	320.2
Total	**¥ 6,959.1**	¥ 6,947.6	¥ 6,469.0

Notes: (1) Prior period has been adjusted to conform to current period presentation.
(2) Excludes unclaimed matured debentures.

DEPOSITS

The following table sets forth the composition of our time deposits in the fiscal years ended March 31, 2010 and 2009 by remaining maturity as of the dates indicated:

TABLE 33. TIME DEPOSITS BY MATURITY (CONSOLIDATED)

	Billions of yen	
As of March 31	**2010**	2009
Less than three months[1]	**¥ 1,430.6**	¥ 710.1
Three months or more, but less than six months	**590.7**	636.8
Six months or more, but less than one year	**452.8**	995.2
One year or more, but less than two years	**515.4**	884.7
Two years or more, but less than three years	**452.1**	487.9
Three years or more	**978.9**	720.7
Total	**¥ 4,420.7**	¥ 4,435.7

Note: (1) Less than three months includes time deposits that have matured but have not yet been paid.

FINANCIAL CONDITION (continued)

DEBENTURES AND CORPORATE BONDS

As of March 31, 2010, we had ¥483.7 billion in debentures outstanding. This represented 4.5% of our consolidated total liabilities and constituted a decline of 1.5% from March 31, 2009. As of March 31, 2010, corporate bonds stood at ¥188.2 billion.

On December 28, 2009, we issued non-dilutive subordinated bonds of ¥5.0 billion to retail investors in Japan. The amount is not material from a capital perspective. Shinsei is constantly exploring opportunities to meet the ever evolving investment needs of its retail customers while further diversifying the Group's sources of capital.

As of March 31, 2010, scheduled repayments of debentures and corporate bonds were as follows:

TABLE 34. MATURITY SCHEDULE OF DEBENTURES AND CORPORATE BONDS (CONSOLIDATED)

DEBENTURES

Fiscal year ending March 31	Billions of yen
2011	¥ 173.4
2012	100.9
2013	74.7
2014	66.9
2015 and thereafter	67.6
Total	¥ 483.7

Please see Note 16 on page 124 for details.

CORPORATE BONDS

Fiscal year ending March 31	Billions of yen
2011	¥ 13.1
2012	0.3
2013	0.1
2014	—
2015 and thereafter	174.7
Total	¥ 188.2

Please see Note 19 on page 125 for details.

While we will continue to issue debentures at cost effective levels, we will also continue diversifying our funding sources by raising funds through other means, such as deposits.

OTHER

The securitization of loans and other assets is another component of our funding strategy. We launched the first residential mortgage backed security public offering in December 2008. We will continue to explore additional issuance opportunities subject to market conditions.

CREDIT RATINGS

Our borrowing costs and ability to raise funds are impacted directly by our credit ratings and changes thereto. In the period from April 1, 2009 to May 11, 2010, several rating agencies revised their credit ratings on Shinsei. On May 14, 2009, JCR downgraded Shinsei's long-term credit rating to BBB+ from A- and short-term credit rating to J-2 from J-1. On April 1, 2010, R&I downgraded Shinsei's long-term credit rating to BBB+ from A- and short-term credit rating to a-2 from a-1. On May 11, 2010, Moody's downgraded Shinsei's long-term credit rating to Baa1 from A3. Shinsei's credit ratings as of July 1, 2010 are set forth in the table below:

TABLE 35. SHINSEI'S CREDIT RATINGS AS OF JULY 2010

Rating agency	Long-term	Short-term
Moody's	Deposits: Baa1	P-2
	Senior debt: Baa1	P-2
Standard & Poor's	BBB+	A-2
R&I	BBB+	a-2
JCR	BBB+	J-2

CONTRACTUAL CASH OBLIGATIONS

We use contractual cash obligations for funding purposes. The following table sets forth a summary of our primary consolidated contractual cash obligations as of March 31, 2010 and 2009:

TABLE 36. CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

	Billions of yen		
Payments due by period as of March 31, 2010	One year or less	Over one year	Total
Borrowed money	**¥ 878.6**	**¥ 308.1**	**¥ 1,186.8**
Capital lease obligations	**0.4**	**3.3**	**3.8**
Total	**¥ 879.1**	**¥ 311.5**	**¥ 1,190.6**

	Billions of yen		
Payments due by period as of March 31, 2009	One year or less	Over one year	Total
Borrowed money	¥ 534.8	¥ 477.5	¥ 1,012.3
Capital lease obligations	0.6	0.2	0.9
Total	¥ 535.5	¥ 477.7	¥ 1,013.2

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

Our tax loss carryforwards have principally resulted from losses recognized on securities due to recent instability in the financial markets. As of March 31, 2010, Shinsei had ¥108.0 billion in tax loss carryforwards (consolidated tax basis).

TABLE 37. SCHEDULE OF TAX LOSS CARRYFORWARDS

	Billions of yen	
Year tax loss carryforwards generated/renewed	Amount	Date of expiry
Shinsei Bank		
March 31, 2009	¥ 108.0	March 31, 2016
APLUS FINANCIAL		
March 31, 2005	¥ 144.2	March 31, 2012
September 30, 2005	2.6	March 31, 2013
March 31, 2006	4.3	March 31, 2013
March 31, 2007	29.5	March 31, 2014
March 31, 2008	11.8	March 31, 2015
Total	¥ 192.6	
Shinsei Financial		
December 31, 2007	¥ 28.3	March 31, 2014
December 31, 2008	38.7	March 31, 2016
March 31, 2009	27.5	March 31, 2016
March 31, 2010	169.0	March 31, 2017
Total	¥ 263.6	
Showa Leasing		
March 31, 2005	¥ 4.6	March 31, 2012
March 31, 2007	10.0	March 31, 2014
Total	¥ 14.6	
Shinki		
March 31, 2008	¥ 19.0	March 31, 2015
March 31, 2009	9.2	March 31, 2016
March 31, 2010	5.4	March 31, 2017
Total	¥ 33.8	

The table above sets forth a schedule of tax loss carryforwards of Shinsei Bank, APLUS FINANCIAL, Showa Leasing, Shinki and Shinsei Financial as of March 31, 2010. Because APLUS FINANCIAL, Showa Leasing, Shinki and Shinsei Financial are not wholly-owned subsidiaries, we are unable to include their results in our consolidated tax returns.

In the event that Shinsei, APLUS FINANCIAL, Showa Leasing, Shinki or Shinsei Financial, as the case may be, generates less taxable income in a given fiscal year than the tax loss carryforward that will expire at year-end, the benefit of the unused portion of the expiring tax loss carryforward will be lost.

We record deferred tax assets for tax loss carryforwards and evaluate them in accordance with the JICPA guidelines. See "—Critical Accounting Policies—Valuation of Deferred Tax Assets" on page 77.

CONSOLIDATED CORPORATE TAX SYSTEM

We have filed our tax returns under the consolidated corporate tax system since the fiscal year ended March 31, 2004. Under the consolidated system, we base corporate tax payments on the combined profits or losses of Shinsei and its wholly-owned domestic subsidiaries.

Showa Leasing has also adopted the consolidated corporate tax system beginning with the fiscal year ended March 31, 2007.

CAPITAL RESOURCES AND ADEQUACY

EQUITY

The following table sets forth a summary of our equity as of March 31, 2010 and 2009:

TABLE 38. EQUITY (CONSOLIDATED)

As of March 31	Millions of yen (except percentages) 2010	2009
Common stock	¥ 476,296	¥ 476,296
Capital surplus	43,554	43,554
Stock acquisition rights	1,672	1,808
Retained earnings	12,438	152,855
Unrealized gain (losses) on available-for-sale securities	1,398	(38,813)
Deferred loss on derivatives under hedge accounting	(3,327)	(2,996)
Foreign currency translation adjustments	(741)	1,297
Treasury stock, at cost	(72,558)	(72,558)
Total	¥ 458,733	¥ 561,443
Minority interests in subsidiaries	176,221	206,037
Total equity	¥ 634,954	¥ 767,481
Ratio of total equity to total assets	5.6%	6.4%

CAPITAL RATIOS

From the fiscal year ended March 31, 2007, the Basel II methodology has been adopted to calculate capital ratios. For credit risk, the Foundation Internal Ratings Based Approach (FIRB) has been applied. For operational risk, the Standardized Approach (TSA) has been adopted and the Internal Model Method has been used for market risk.

Our total capital adequacy ratio as of March 31, 2010 was 8.35%, compared with 8.35% as of March 31, 2009. Our Tier I capital ratio, or the ratio of Tier I capital to risk assets, increased from 6.02% as of March 31, 2009 to 6.35% as of March 31, 2010. Given the distressed credit markets, securities included in both Tier I and Tier II capital were opportunistically repurchased and gains realized upon cancellation also had some impact on our capital ratios. While repurchasing capital securities did reduce the amount of capital outstanding, the decline was partially offset by a related increase in retained earnings as the repurchases were done at levels significantly below par value.

In total, we repurchased ¥49.7 billion of Tier I and Tier II securities and recorded a gain of ¥20.9 billion from these repurchases in fiscal year 2009. In addition, we were able to raise new Tier I capital in an extremely challenging environment which partially offset the decrease in existing Tier I capital.

TABLE 39. CAPITAL RATIOS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2010	2009
Basic items (Tier I):		
Capital stock	¥ 476.2	¥ 476.2
Common stock	476.2	476.2
Preferred stock	—	—
Capital surplus	43.5	43.5
Retained earnings	12.4	152.8
Treasury stock, at cost	(72.5)	(72.5)
Expected income distribution	—	—
Unrealized losses on available-for-sale securities(1)	—	—
Foreign currency translation adjustments	(0.7)	1.2
Stock acquisition rights	1.6	1.8
Minority interests in subsidiaries	168.9	183.7
Preferred securities issued by foreign SPC	159.8	171.3
Goodwill	(57.8)	(132.9)
Intangible assets acquired in business combinations	(25.2)	(44.7)
Gain on sale of securitization	(9.4)	(14.0)
50% of expected loss provision shortfall	(46.3)	(15.1)
Total Tier I (A)	490.7	580.0
Step-up preferred securities	83.4	88.9
Supplementary items (Tier II):		
General reserve for loan losses	10.9	13.0
Perpetual preferred stocks	—	16.5
Perpetual subordinated debt and bonds	38.0	47.7
Non-perpetual preferred stocks	—	—
Non-perpetual subordinated debt and bonds	219.6	249.9
Total	¥ 268.7	¥ 327.3
Amount eligible for inclusion in capital (B)	268.7	327.3
Deduction (C)	¥ 114.0	¥ 103.9
Intentional capital investment to other financial institutions	7.5	11.3
Capital investment to affiliated companies	36.6	33.2
50% of expected loss provision shortfall	46.3	15.1
Expected losses on exposures under PD/LGD measures such as equities	0.1	1.1
Unrated securitization exposure	23.3	43.0
Exclusion from deductions	—	—
Total capital (D) [(A)+(B)-(C)]	¥ 645.4	¥ 803.4
Risk assets:		
On-balance sheet items	¥ 5,988.0	¥ 7,068.9
Off-balance sheet items	994.2	1,750.4
Market Risk(2)	164.3	340.2
Operational Risk(2)	575.4	461.4
Total (E)	¥ 7,722.1	¥ 9,621.0
Consolidated capital adequacy ratio (D) / (E)	8.35%	8.35%
Consolidated Tier I capital ratio (A) / (E)	6.35%	6.02%

Notes: (1) In accordance with Japanese FSA Notification Number 79 (issued in 2008 as a special treatment of the FSA Notification Number 19 issued in 2006), as of March 31, 2010, unrealized losses on securities available-for-sale were not included in the Tier I capital of Japanese banks that use a domestic standard for calculating capital adequacy ratios.
(2) Derived by multiplying the capital requirement by 12.5 (i.e., the reciprocal of the minimum capital ratio of 8%).

COMPOSITION OF TIER I CAPITAL

We executed an innovative securities exchange transaction in which investors holding APLUS FINANCIAL Class-D preference shares, which were included in our Tier II capital, were given an opportunity to exchange their holdings for newly issued Shinsei hybrid Tier I securities. In connection with this securities exchange and with a new hybrid Tier I securities issuance, we issued ¥48.2 billion of new hybrid Tier I securities. Of this amount, ¥39.1 billion was placed with investors who exchanged their holdings of APLUS FINANCIAL Class-D preferred shares for Shinsei hybrid Tier I securities. In addition, ¥9.1 billion was issued to new hybrid Tier I investors. In connection with this securities exchange, Shinsei made an investment of ¥64.5 billion in APLUS FINANCIAL Class-H preference shares.

The issuance of hybrid Tier I securities domestically at attractive levels facilitated our strategy of selectively repurchasing our outstanding capital securities. In particular, we repurchased a total of ¥14.1 billion of our U.S. dollar and JPY denominated hybrid Tier I step-up and non step-up securities and recorded a gain of ¥7.5 billion in connection with these repurchases in fiscal year 2009.

PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN

On February 23, 2006, we issued US$775.0 million of step-up non-cumulative perpetual preferred securities. The dividend on the preferred securities is 6.418% for the initial ten years. In addition, on March 23, 2006, we issued US$700.0 million of non-step-up non-cumulative perpetual preferred securities. The dividend on the non-step-up perpetual preferred securities is 7.16% for the initial ten years.

On March 26, 2009, we issued ¥22.6 billion in step-up non cumulative perpetual preferred securities. The dividend on the preferred securities is 5.00% for the initial ten years. In addition, we also issued on March 26, 2009 ¥25.6 billion in non-step-up non-cumulative perpetual preferred securities. The dividend on the non-step-up perpetual preferred securities is 5.50% for the initial ten years.

On October 2, 2009 we issued ¥9.0 billion of non-step-up non-cumulative perpetual preferred securities. The dividend on the preferred securities is 5.5% for the initial 6 years of ¥4.0 billion of preferred securities and floating rate (JPY base Libor+4.55%) of ¥5.0 billion of preferred securities.

All of these issuances are consistent with our strategy to strengthen our Tier I capital ratio. The proceeds from the offerings of the preferred securities are recorded as minority interests in consolidated subsidiaries and counted towards Tier I capital. The amount of such proceeds which may be counted towards Tier I capital is constrained by the amount of other Tier I capital outstanding. Our ability to raise additional regulatory capital in this manner could be constrained in the future.

COMPOSITION OF TIER II CAPITAL

The composition of our Tier II capital changed significantly as a result of our repurchases of upper Tier II and lower Tier II subordinated bonds. Our principal buybacks included ¥9.7 billion of our sterling upper Tier II bonds. We also repurchased ¥25.8 billion of our JPY and EUR lower Tier II bonds. While the repurchases reduced the amount of Tier II securities outstanding, we recorded a gain of ¥13.3 billion in connection with the repurchase of our Tier II bonds.

The principal components of our Tier II capital are subordinated debt and bonds. As of March 31, 2010, we had ¥69.0 billion of dated subordinated bonds issued by Shinsei (excluding the €0.5 billion of step-up callable subordinated notes and £0.1 billion of step-up callable perpetual subordinated notes) and ¥102.0 billion in subordinated debt from private lenders, ¥17.0 billion of which were perpetual loans. None of our current Tier II capital consists of public funds.

The other major element of our Tier II capital is the general reserve for loan losses. Tier II capital is subject to the limitation that it cannot exceed the amount of Tier I capital, and non-perpetual subordinated debt and bonds cannot exceed half of the amount of Tier I capital. Subject to those ceilings, the entire amount of perpetual subordinated debt and bonds can be included in Tier II capital and a portion of non-perpetual subordinated debt and bonds cannot be included in Tier II capital as of March 31, 2010. The table below sets forth the amount of our subordinated debt and bonds, as well as the portion included in our Tier II capital:

TABLE 40. SUBORDINATED DEBT AND BONDS (CONSOLIDATED)

	Billions of yen					
As of March 31, 2010	Perpetual	Perpetual included in Tier II	Non-perpetual[1]	Non-perpetual included in Tier II[2]	Total	Total included in Tier II[2]
Subordinated debt	**¥ 17.0**	**¥ 17.0**	**¥ 85.0**	**¥ —**	**¥ 102.0**	**¥ —**
Subordinated bonds	**21.1**	**21.0**	**141.9**	**—**	**163.0**	**—**
Total	**¥ 38.1**	**¥ 38.0**	**¥ 226.9**	**¥ 219.6**	**¥ 265.0**	**¥ 257.7**

	Billions of yen					
As of March 31, 2009	Perpetual	Perpetual included in Tier II	Non-perpetual[1]	Non-perpetual included in Tier II[2]	Total	Total included in Tier II[2]
Subordinated debt	¥ 17.0	¥ 17.0	¥ 85.0	¥ —	¥ 102.0	¥ —
Subordinated bonds	31.1	30.7	168.5	—	199.7	—
Total	¥ 48.1	¥ 47.7	¥ 253.5	¥ 249.9	¥ 301.7	¥ 297.7

Notes: (1) Stated at par value.
(2) Non-perpetual subordinated debt and bonds included in Tier II and total subordinated debt and bonds included in Tier II are not broken down by type of debt and bonds.

During the fiscal year ended March 31, 2010, we repaid ¥22.3 billion and €50.8 million of non-perpetual subordinated debt and bonds. Interest rates on ¥21.5 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2010 will increase between January 2013 and December 2015.

¥21.5 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2010 will become prepayable between January 2013 and December 2015. ¥0.5 billion of perpetual subordinated bonds are currently prepayable.

Interest rates on ¥22.0 billion of non-perpetual subordinated debt will increase between March 2011 and June 2011. Interest rates on the remaining ¥63.0 billion of non-perpetual subordinated debt are fixed rates until maturity.

¥77.0 billion of non-perpetual subordinated debt will become prepayable between July 2010 and July 2013 and the remaining ¥8.0 billion of non-perpetual subordinated debt cannot be repaid until maturity.

Shinsei issued ¥50.0 billion of dated subordinated bonds for the first time as Shinsei, not LTCB, on March 25, 2005. These dated subordinated bonds cannot be repaid until maturity, on March 25, 2015, and bear interest at a fixed rate of 1.96%. Shinsei issued an additional ¥50.0 billion of dated subordinated bonds on October 31, 2005. These dated subordinated bonds cannot be repaid until maturity, on October 30, 2015, and bear interest at a fixed rated of 2.01%.

Shinsei issued €1.0 billion of step-up callable subordinated notes bearing interest at a fixed rate of 3.75% on February 23, 2006. In February 2011, interest rates on these notes will increase and these notes will become prepayable.

In December 2009, Shinsei issued ¥5.0 billion of callable dated non-perpetual subordinated bonds to retail investors bearing interest at a fixed rate of 3.4%.The maturity is December 28, 2017 and the bonds are redeemable at the principal amount prior to the maturity date, contingent upon approval by the FSA, on any coupon payment date falling on or after December 28, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet arrangements, including investments through special purpose entities, securitizations, lines and letters of credit, loan commitments and loan participations, in the ordinary course of business, including in our securitization and financing businesses, as well as to manage our own liquidity risk. The main purposes of such off-balance sheet arrangements are to develop our Institutional Banking business as well as to diversify our sources of liquidity. The following is a discussion of the principal off-balance sheet arrangements we use.

SECURITIZATION

We structure, arrange, distribute and service mortgage-backed securities and asset-backed securities both for third-parties and ourselves. Our securitization services utilize special purpose entities, which may be organized in the form of trusts, partnerships or corporations, mainly to protect the securitized assets from creditors of transferors even in bankruptcy. Assets securitized include commercial loans, residential mortgage loans, installment receivables and lease receivables.

REPACKAGING

One aspect of our securitization business involves our repackaging of assets purchased by special purpose entities that we establish into new financial instruments that represent undivided interests in the underlying assets. Repackaging the assets generally entails analyzing the cash flows from the underlying assets, using various means to rearrange the timing and order of cash flows, and then combining them with other cash flows to create new financial instruments that can be tailored to meet the demands of a broad range of investors.

Often the assets are repackaged into residual or subordinated interests, mezzanine interests and senior interests. The residual interests are the first to suffer any losses as a result of any decline in the value of the underlying financial assets, while the senior interests are structured to be the last to absorb such losses. In instances where we repackage assets on our own initiative, rather than for our customers, we generally retain the residual interests and either sell the senior or mezzanine interests immediately to third-parties or hold them temporarily before placing them with investors. Revenues on these transactions consist of gains on sales of the repackaged senior and mezzanine interests, transaction arrangement fees received from the originators of the assets, fees for underwriting the senior instruments, and returns on the residual interests.

The principal risk inherent in these repackagings is credit risk on the securitized financial instruments that is absorbed by the retained residual interests. We may record losses on the residual interests due to declines in the value of the underlying financial assets. We manage this credit risk through semi-annually assessing our retained interests and providing valuation allowances for them based on those assessments, taking into consideration how much we believe we will be able to collect on the underlying assets. We generally transfer financial assets to special purpose entities on a “true sale” basis, which means that we would neither be entitled nor required to reacquire the financial assets so transferred.

ARRANGEMENT

We also securitize customers' assets on their behalf, drawing on our know-how and experience in establishing securitization vehicles tailored to accommodate clients' needs, analyzing cash flows from the financial assets, structuring them into classes of securitized interests, arranging credit enhancements and locating investors for the securities to be issued. We generally place the securities representing the senior interests from these transactions with third-party investors. We may choose, however, to acquire temporarily a portion of these senior securities for later sale and often structure financial arrangements, including repackaging, that enhance the liquidity of these senior securities in order to attract third-party investors. These securities are recorded in other monetary claims purchased and recorded at fair value.

Our revenue on these transactions consists of fees, generally fixed, for arranging the transaction and for underwriting the sale of the financial instruments. We typically record those fees as having been received at the completion of all arrangements for the customer.

On these transactions, we act as an arranger, an underwriter, a servicer, a trustee or an administrator, or combination of some of these roles, for our corporate customers. As our customers usually retain the residual interests and the related risk of loss on them, we are not exposed to risks of incurring losses inherent in such residual interests.

RESIDUAL INTERESTS

As of March 31, 2010 and 2009, we held ¥26.1 billion and ¥54.7 billion, respectively, of debt securities and residual interests from securitization transactions. As of March 31, 2010 and 2009, ¥3.5 billion and ¥35.3 billion of such amounts, respectively, were attributable to securitization transactions of APLUS.

LOAN PARTICIPATIONS

We have sold or transferred participation interests in certain of our loans. Loan participation involves the original lender under the loans transferring economic interests in the loan to others, while the original lender retains title to the loan itself.

Under Japanese GAAP, where substantially all of the economic interest in and risks of the loans are transferred to the participants, the original lenders are not deemed to bear recourse obligations for the participating interests or to have any rights to repurchase such interests. As a result, the original lender may remove the loans from its balance sheet as if the loans were sold to the participants. Because substantially all of the economic interest and risks have been transferred to the participants, we believe that we are not taking any substantial economic risk on the portions of loans in which we have sold participating interests.

As of March 31, 2010 and 2009, the total principal amount of participation interests in loans transferred to third-parties was ¥40.2 billion and ¥50.8 billion, respectively.

OFF-BALANCE SHEET ARRANGEMENTS TO EXTEND CREDIT, ACCEPTANCES AND GUARANTEES

We have off-balance sheet commitments to extend credit to customers up to certain predetermined amounts at current market rates, in consideration of which we receive fee income that is recorded on an accrual basis for the period of the commitments. As of March 31, 2010 and 2009, we had ¥5,306.9 billion and ¥5,596.4 billion, respectively, of these commitments, of which ¥5,113.8 billion and ¥5,343.1 billion had agreement terms of less than one year, respectively.

In addition, we provide acceptances and guarantees, which include lines and letters of credit and guarantees on customers' borrowings from other creditors. These acceptances and guarantees require us to satisfy our customers' obligations in the event they fail to do so, although we would have a claim for reimbursement against them. Under Japanese GAAP for banks, these commitments are deemed to be both contingent assets and liabilities, and are recorded as both assets and liabilities in the principal amount of the acceptances and guarantees. We record the fees we earn from providing acceptances and guarantees on an accrual basis over the period of the acceptance or guarantee. As of March 31, 2010 and 2009, we had ¥623.7 billion and ¥675.2 billion, respectively, of outstanding acceptances and guarantees.

APLUS FINANCIAL extends credit in the form of guarantees. The most significant component of APLUS FINANCIAL's guarantee business is providing guarantees on installment shopping credit provided by other lenders to customers of APLUS FINANCIAL's partner merchants. APLUS FINANCIAL also offers collection guarantees for foreign automobile dealers. Providing guarantees allows APLUS FINANCIAL to limit its balance sheet exposure, while continuing to maintain its relations with its partner merchants. Off-balance sheet commitments and acceptances and guarantees increased as a result of our acquisition of APLUS FINANCIAL and its inclusion in our consolidated balance sheet from September 30, 2004. As of March 31, 2010 and 2009, ¥611.6 billion and ¥663.2 billion of our outstanding acceptances or guarantees, respectively, were attributable to this guarantee business.

EXPOSURE TO SECURITIZED PRODUCTS AND RELATED INVESTMENTS

Tables 41 through 44 below set forth certain information regarding our exposure to securitized products and related investments as of March 31, 2009, as of September 30, 2009 and as of and for the fiscal year ended March 31, 2010. Table 45 provides definitions for the defined terms used in Tables 41 through 44.

TABLE 41. BALANCE OF SECURITIZED PRODUCTS (BREAKDOWN BY REGION AND TYPE OF SECURITIES)[1] (NON-CONSOLIDATED)

Billions of yen

	Credit Ratings of Securities[2] (Mar 31, 2010)				Mar 31 2010 (a)	Mar 31 2009 (b)	Change (a)-(b)	Sep 30 2009 (c)	Change (a)-(c)
	AAA	AA	A or lower	N/A					
RMBS	17%	13%	7%	63%	¥ 53.7	¥ 52.2	¥ 1.4	¥ 48.7	¥ 4.9
Japan	18%	6%	8%	68%	49.9	49.3	0.6	47.5	2.3
U.S.	—	—	—	—	0.0	0.9	(0.9)	0.0	0.0
Europe	0%	100%	0%	0%	3.7	1.1	2.5	1.1	2.5
Other	—	—	—	—	—	—	(0.8)	0.0	0.0
CMBS[3]	0%	14%	86%	0%	¥ 19.0	¥ 19.4	¥ (0.3)	¥ 19.4	¥ (0.3)
Japan	0%	0%	100%	0%	10.9	13.1	(2.2)	13.1	(2.2)
U.S.	—	—	—	—	—	—	—	0.0	—
Europe	0%	0%	100%	0%	5.5	3.9	1.6	4.0	1.5
Other	0%	100%	0%	0%	2.5	2.3	0.2	2.2	0.3
CLO	2%	91%	5%	3%	¥ 56.7	¥ 69.1	¥ (12.4)	¥ 62.7	¥ (6.0)
Japan	—	—	—	—	—	—	—	0.0	—
U.S.	2%	94%	0%	4%	42.3	53.2	(10.8)	47.5	(5.1)
Europe	0%	91%	9%	0%	12.9	14.5	(1.6)	13.9	(1.0)
Other	0%	0%	100%	0%	1.4	1.3	0.1	1.3	0.1
ABS CDO (Resecuritized Products)	—	—	—	—	¥ —	¥ 7.9	¥ (7.9)	¥ 4.9	¥ (4.9)
Japan	—	—	—	—	—	7.9	(7.9)	4.9	(4.9)
U.S.	—	—	—	—	—	—	—	—	—
Europe	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Total	8%	47%	18%	27%	¥ 129.5	¥ 148.9	¥ (19.3)	¥ 135.8	¥ (6.3)
Japan	15%	5%	24%	55%	¥ 60.8	¥ 70.4	¥ (9.5)	¥ 65.6	¥ (4.7)
U.S.	2%	94%	0%	4%	42.3	54.2	(11.8)	47.5	(5.1)
Europe	0%	70%	30%	0%	22.2	19.6	2.5	19.1	3.0
Other	0%	64%	36%	0%	4.0	4.5	(0.5)	3.5	0.4
Securities					¥ 74.3	¥ 81.7	¥ (7.4)	¥ 73.7	¥ 0.5
RMBS					5.8	2.9	2.9	1.1	4.6
CMBS					11.6	9.5	2.1	9.8	1.8
CLO					56.7	69.1	(12.4)	62.7	(6.0)
ABS CDO					—	0.0	0.0	0.0	0.0
Other monetary claims purchased[4]					¥ 55.2	¥ 67.2	¥ (11.9)	¥ 62.0	¥ (6.8)
RMBS (Japan)					47.8	49.3	(1.5)	47.5	0.2
CMBS (Japan)					7.3	9.8	(2.4)	9.6	(2.2)
CLO (Japan)					—	—	—	—	—
ABS CDO (Japan)					—	7.9	(7.9)	4.9	(4.9)
Total					¥ 129.5	¥ 148.9	¥ (19.3)	¥ 135.8	¥ (6.3)

Notes: (1) The amount is the outstanding balance, after mark-downs and other comprehensive income (OCI) adjustments, at the end of each period. This table excludes securitized products backed by consumer loans, credit card loans, and other similar exposure to individuals.
(2) Based on ratings by S&P or ratings equivalent to S&P ratings matrix as of March 31, 2010. The "N/A" rating for Japanese RMBS represents senior portions of other monetary claims purchased for the purpose of warehousing for future securitization.
(3) Breakdown of collateral: office building (46.5%), multi-family (33.8%), retail and shops (10.8%), hotel and others (8.9%)
(4) Includes Japanese RMBS recorded as monetary assets held in trust of ¥4.2 billion as at March 31, 2010.

EXPOSURE TO SECURITIZED PRODUCTS AND RELATED INVESTMENTS (continued)

TABLE 42. SECURITIZED PRODUCTS RECORDED UNDER "SECURITIES" AND "OTHER MONETARY CLAIMS PURCHASED" AND OCI[1] (NON-CONSOLIDATED)

SECURITIES

Billions of yen, %

	As of March 31, 2010			
	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/Losses (OCI)	Price Increase (Decrease) Ratio (%)
Trading Securities		¥ 2.4		
RMBS (U.S.)		0.0		
CLO (U.S.)		0.9		
CLO (Other foreign countries)		1.4		
Securities Being Held to Maturity with Readily Determinable Fair Value		¥ 45.4		
CLO (U.S.)		34.3		
CLO (Europe)		11.1		
Securities Available for Sale	¥ 17.1	¥ 26.4	¥ 9.2	53.6
Other	17.1	26.4	9.2	53.6
Foreign Securities	17.1	26.4	9.2	53.6
Foreign Currency Denominated Foreign Corporate and Government Bonds	11.4	20.7	9.2	81.1
RMBS	1.1	3.7	2.5	225.0
Europe	1.1	3.7	2.5	225.0
CMBS	6.4	8.1	1.7	27.3
Europe	3.6	5.5	1.9	54.1
Other foreign countries	2.7	2.5	(0.2)	(7.3)
CLO	3.9	8.8	4.9	126.8
U.S.	2.9	7.0	4.0	137.2
Europe	0.9	1.7	0.8	93.6
Yen-Denominated Foreign Corporate and Government Bonds	5.7	5.6	0.0	(1.4)
RMBS (Japan)	2.1	2.1	0.0	0.0
CMBS (Japan)	3.6	3.5	0.0	(2.2)
Securities		¥ 74.3		
RMBS		5.8		
CMBS		11.6		
CLO		56.7		

OTHER MONETARY CLAIMS PURCHASED[2]

Billions of yen, %

	As of March 31, 2010			
	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/Losses (OCI)	Price Increase (Decrease) Ratio (%)
Trading Purposes		¥ 16.5		
RMBS (Japan)[2]		13.4		
CMBS (Japan)		3.1		
Others	¥ 38.4	¥ 38.6	—	—
RMBS (Japan)	34.3	34.4	—	—
CMBS (Japan)	4.1	4.2	—	—
Total		¥ 55.2		
RMBS (Japan)		47.8		
CMBS (Japan)		7.3		
RMBS, CMBS, CLO, ABS CDO Total		¥ 129.5		
Securities		74.3		
Other Monetary Claims Purchased		55.2		

Notes: (1) This table excludes securitized products backed by consumer loans, credit card loans, and other similar exposure to individuals.
(2) Includes Japanese RMBS recorded as monetary assets held in trust of ¥4.2 billion as at March 31, 2010.

TABLE 43. LBO, MONOLINE, SIV, ABCP, CDS (NON-CONSOLIDATED)

Billions of yen

	Mar 31, 2010 (a)	Mar 31, 2009 (b)	Change (a)-(b)	Sep 30, 2009 (c)	Change (a)-(c)
LBO[1]	¥ 194.4	¥ 291.7	¥ (97.3)	¥ 266.0	¥ (71.6)
Japan	189.8[2]	278.6	(88.8)	252.2	(62.4)
U.S.	2.8	3.2	(0.4)	2.8	0.0
Europe	—	—	—	—	—
Other	1.7	9.8	(8.1)	10.8	(9.1)
(Breakdown by Industry Sector)					
Manufacturing	17.1%	12.3%			
Information and communications	0.0%	12.6%			
Wholesale and retail	12.6%	8.7%			
Finance and insurance	55.0%	49.4%			
Services	11.4%	8.5%			
Others	3.8%	8.5%			
Total	100.0%	100.0%			

Notes: (1) The amount includes unfunded commitment line.
(2) As of March 31, 2010, unfunded commitment line (only domestic) is ¥5.0 billion.

Billions of yen

	Mar 31, 2010 (a)	Mar 31, 2009 (b)	Change (a)-(b)	Sep 30, 2009 (c)	Change (a)-(c)
Monoline	¥ —	¥ 0.8	¥ (0.8)	¥ —	¥ —
Japan	—	—	—	—	—
U.S.	—	—	—	—	—
Europe	—	—	—	—	—
Other	—	0.8	(0.8)	—	—
SIV	—	—	—	—	—
ABCP	—	—	—	—	—

TABLE 44. CREDIT DEFAULT SWAPS (CDS)[1] (NON-CONSOLIDATED)[1]

Billions of yen

	As of March 31, 2010							FY2009
	Notional Amount		Fair Value		Netted Notional Amount and Fair Value[2]			Realized profits (losses)
					Notional Amount	Fair Value		
	Protection (buy)	Protection (sell)	Protection (buy)	Protection (sell)		Protection (buy)	Protection (sell)	
Total	¥ 894.6	¥ 934.6	¥ 9.3	¥ (9.8)	¥ 777.0	¥ 7.3	¥ (8.7)	¥ (7.6)
Japan	773.4	817.6	11.6	(11.7)	668.2	9.8	(10.5)	(7.3)
U.S.	55.8	56.7	(0.5)	0.2	51.5	(0.6)	0.2	0.6
Europe	28.3	24.3	(0.6)	0.7	23.9	(0.6)	0.7	(0.3)
Other	37.0	35.8	(1.0)	0.8	33.2	(1.0)	0.7	(0.6)

Notes: (1) Represents transactions under both banking book and trading book. The above table is based on provisional financial and operational data at the time of the financial results announcement and may differ slightly from the final data.
(2) Transactions which are netted with buy and sell.

TABLE 45. DEFINED TERMS FOR TABLES 41-44

Names	Definitions
RMBS	Residential mortgage-backed securities and other related assets, including beneficial interests backed by mortgage loans. Recorded in "trading securities," "securities available-for-sale" and "other monetary claims."
CMBS	Commercial mortgage-backed securities. Recorded in "securities available-for-sale" and "other monetary claims." We have no U.S. CMBS exposure.
CLO	Collateralized loan obligations (CLO) mainly backed by LBO debt, corporate loans and high-yield securities. Recorded in "trading securities," "securities being held to maturity with readily determinable fair value," and "securities available-for-sale."
ABS CDO (Re-securitized Products)	CDO backed by asset-backed securities (ABS) such as RMBS. Recorded in "securities available-for-sale" and "other monetary claims." We have no exposure to ABS CDO as at March 31, 2010.
Subprime-Related	Subprime-related exposure refers to the total book value of securities whose underlying assets include U.S. subprime, Alt-A and/or second-lien loans. We have no subprime-related exposure as at March 31, 2010.
LBO	Loans for leveraged buyout for acquisition finance including refinancing of past acquisitions.
Monoline	Monolines are insurance companies that insure against the risk of a bond or other security defaulting. We have no exposure to Monoline as at March 31, 2010.
SIV	A structured investment vehicle (SIV) is a fund which borrows money by issuing short-term securities at low interest rates, then lends that money by buying long-term securities (such as securitization products) at higher interest rates, making a profit for investors from the difference. We have no exposure to SIVs.
ABCP	An asset-backed commercial paper (ABCP) conduit is a limited-purpose entity that issues CP to finance the purchase of assets or to make loans. Some asset types include receivables generated from trade, credit card, auto loan, auto, and equipment leasing obligors, as well as collateralized loan obligations (CLOs) and collateralized bond obligations (CBOs). We have no exposure to ABCP.
CDS	Credit default swap is a type of derivative in which the buyer receives credit protection by making periodic payments to a counterparty and the seller provides credit protection by giving the promise of a payoff if a third-party defaults.

CONSOLIDATED BALANCE SHEETS

Shinsei Bank, Limited, and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
ASSETS			
Cash and due from banks (Notes 4, 23 and 38)	¥ 493,141	¥ 605,089	$ 5,291,784
Call loans (Note 38)	19,129	—	205,275
Collateral related to securities borrowing transactions (Note 38)	2,801	280	30,065
Other monetary claims purchased (Notes 5, 23 and 38)	252,761	408,035	2,712,325
Trading assets (Notes 6, 23, 36 and 38)	223,279	375,107	2,395,963
Monetary assets held in trust (Notes 7 and 38)	292,227	348,840	3,135,821
Securities (Notes 8, 23 and 38)	3,233,312	2,174,198	34,695,916
Loans and bills discounted (Notes 9, 23, 34 and 38)	5,163,763	5,876,910	55,411,129
Foreign exchanges (Note 10)	10,976	37,138	117,786
Lease receivables and leased investment assets (Notes 23, 31 and 38)	213,702	232,554	2,293,192
Other assets (Notes 11, 23, 36 and 38)	863,272	1,125,768	9,263,580
Premises and equipment (Notes 12, 23 and 31)	52,154	50,964	559,660
Intangible assets (Notes 13 and 31)	109,953	209,175	1,179,882
Deferred issuance expenses for debentures	176	161	1,898
Deferred tax assets (Note 33)	18,969	22,254	203,555
Customers' liabilities for acceptances and guarantees (Note 22)	623,786	675,225	6,693,711
Reserve for credit losses (Note 14)	(196,642)	(192,511)	(2,110,127)
Total assets	¥ 11,376,767	¥ 11,949,196	$ 122,081,415
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 15, 23 and 38)	¥ 6,475,387	¥ 6,272,115	$ 69,485,861
Debentures (Notes 16 and 38)	483,713	675,567	5,190,619
Call money (Notes 23 and 38)	310,487	281,513	3,331,767
Payables under repurchase agreements (Notes 23 and 38)	8,430	53,805	90,463
Collateral related to securities lending transactions (Notes 23 and 38)	548,479	569,566	5,885,601
Commercial paper (Note 23)	—	198	—
Trading liabilities (Notes 17, 36 and 38)	177,835	307,562	1,908,308
Borrowed money (Notes 18, 23 and 38)	1,186,837	1,012,324	12,735,679
Foreign exchanges (Note 10)	17	4	188
Short-term corporate bonds	17,700	11,500	189,935
Corporate bonds (Notes 19, 23 and 38)	188,278	266,489	2,020,371
Other liabilities (Notes 20, 23, 36 and 38)	619,201	819,900	6,644,501
Accrued employees' bonuses	8,842	10,425	94,887
Accrued directors' bonuses	126	318	1,361
Reserve for employees' retirement benefits (Note 21)	7,718	18,219	82,823
Reserve for directors' retirement benefits	244	234	2,624
Reserve for losses on interest repayments	70,088	193,850	752,108
Reserve for losses on disposal of premises and equipment	7,212	7,559	77,390
Reserve for losses on litigation	5,873	3,662	63,026
Reserve under special law	3	4	39
Deferred tax liabilities (Note 33)	1,547	1,665	16,606
Acceptances and guarantees (Notes 22, 23 and 38)	623,786	675,225	6,693,711
Total liabilities	10,741,812	11,181,714	115,267,868
Equity:			
Capital stock (Note 25):			
Common stock	476,296	476,296	5,111,031
Capital surplus	43,554	43,554	467,371
Stock acquisition rights (Note 26)	1,672	1,808	17,945
Retained earnings	12,438	152,855	133,472
Unrealized gain (loss) on available-for-sale securities	1,398	(38,813)	15,006
Deferred gain (loss) on derivatives under hedge accounting	(3,327)	(2,996)	(35,703)
Foreign currency translation adjustments	(741)	1,297	(7,952)
Treasury stock, at cost (Note 25)	(72,558)	(72,558)	(778,611)
Total	458,733	561,443	4,922,559
Minority interests in subsidiaries (Note 24)	176,221	206,037	1,890,988
Total equity	634,954	767,481	6,813,547
Total liabilities and equity	¥ 11,376,767	¥ 11,949,196	$ 122,081,415

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Interest income:			
Interest on loans and bills discounted	**¥ 245,404**	¥ 257,063	**$ 2,633,373**
Interest and dividends on securities	**30,560**	37,997	**327,934**
Interest on deposits with banks	**210**	1,887	**2,257**
Other interest income	**7,406**	6,472	**79,479**
Total interest income	**283,581**	303,421	**3,043,043**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**52,983**	52,297	**568,552**
Interest and discounts on debentures	**3,880**	5,026	**41,645**
Interest on other borrowings	**10,505**	21,899	**112,732**
Interest on corporate bonds	**6,517**	11,509	**69,934**
Other interest expenses	**1,708**	9,692	**18,335**
Total interest expenses	**75,595**	100,425	**811,198**
Net interest income	**207,985**	202,995	**2,231,845**
Fees and commissions income	**51,190**	52,676	**549,312**
Fees and commissions expenses	**26,060**	26,162	**279,651**
Net fees and commissions	**25,129**	26,514	**269,661**
Net trading income (loss) (Note 27)	**9,014**	(4,663)	**96,727**
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	**43,009**	49,290	**461,529**
Net gain (loss) on monetary assets held in trust	**(8,171)**	5,134	**(87,690)**
Net gain (loss) on foreign exchanges	**8,802**	8,457	**94,460**
Net gain (loss) on securities	**900**	(106,921)	**9,658**
Net gain (loss) on other monetary claims purchased	**(17,234)**	6,446	**(184,937)**
Other, net (Note 28)	**(5,153)**	(4,150)	**(55,303)**
Net other business income (loss)	**22,152**	(41,742)	**237,717**
Total revenue	**264,282**	183,104	**2,835,950**
General and administrative expenses:			
Personnel expenses	**64,861**	72,252	**696,018**
Premises expenses	**27,401**	27,403	**294,043**
Technology and data processing expenses	**23,941**	24,489	**256,910**
Advertising expenses	**12,215**	12,516	**131,078**
Consumption and property taxes	**9,089**	8,204	**97,541**
Deposit insurance premium	**4,386**	3,888	**47,067**
Other general and administrative expenses	**28,948**	33,287	**310,645**
General and administrative expenses	**170,845**	182,043	**1,833,302**
Amortization of goodwill and other intangible assets	**20,927**	17,553	**224,565**
Total general and administrative expenses	**191,772**	199,597	**2,057,867**
Net business profit (loss)	**72,509**	(16,493)	**778,083**
Net credit costs (Note 29)	**112,298**	129,039	**1,205,045**
Other gains (losses), net (Note 30)	**(83,300)**	26,478	**(893,879)**
Income (loss) before income taxes and minority interests	**(123,089)**	(119,054)	**(1,320,841)**
Income taxes (benefit) (Note 33):			
Current	**1,540**	3,466	**16,530**
Deferred	**6,713**	7,004	**72,043**
Minority interests in net income of subsidiaries	**8,807**	13,558	**94,511**
Net income (loss)	**¥ (140,150)**	¥(143,084)	**$ (1,503,925)**
	Yen		U.S. dollars (Note 1)
Basic net income (loss) per common share (Note 37)	**¥ (71.36)**	¥ (72.85)	**$ (0.77)**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Common stock:			
Balance at beginning of year	¥ 476,296	¥ 476,296	$ 5,111,031
Balance at end of year	476,296	476,296	5,111,031
Capital surplus:			
Balance at beginning of year	43,554	43,558	467,371
Disposal of treasury stock	—	(4)	—
Balance at end of year	43,554	43,554	467,371
Stock acquisition rights:			
Balance at beginning of year	1,808	1,257	19,402
Net change during the year	(135)	550	(1,457)
Balance at end of year	1,672	1,808	17,945
Retained earnings:			
Balance at beginning of year	152,855	302,535	1,640,253
Dividends paid	—	(5,773)	—
Net income (loss)	(140,150)	(143,084)	(1,503,925)
Changes by inclusion of subsidiaries (former non-consolidated subsidiaries)	(0)	—	(2)
Changes by exclusion of consolidated subsidiaries	(266)	(822)	(2,854)
Balance at end of year	12,438	152,855	133,472
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of year	(38,813)	(35,073)	(416,495)
Net change during the year	40,211	(3,739)	431,501
Balance at end of year	1,398	(38,813)	15,006
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of year	(2,996)	(1,057)	(32,153)
Net change during the year	(330)	(1,938)	(3,550)
Balance at end of year	(3,327)	(2,996)	(35,703)
Foreign currency translation adjustments:			
Balance at beginning of year	1,297	1,872	13,923
Net change during the year	(2,038)	(575)	(21,875)
Balance at end of year	(741)	1,297	(7,952)
Treasury stock, at cost:			
Balance at beginning of year	(72,558)	(72,566)	(778,610)
Purchase of treasury stock	(0)	(0)	(1)
Disposal of treasury stock	—	9	—
Balance at end of year	(72,558)	(72,558)	(778,611)
Minority interests in subsidiaries:			
Balance at beginning of year	206,037	248,437	2,210,944
Net change during the year	(29,816)	(42,399)	(319,956)
Balance at end of year	176,221	206,037	1,890,988
Total equity	¥ 634,954	¥ 767,481	$ 6,813,547

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ (123,089)	¥ (119,054)	$ (1,320,841)
Adjustments for:			
Income taxes paid	(3,407)	(6,358)	(36,569)
Depreciation (other than leased assets as lessor)	14,532	15,158	155,947
Amortization of goodwill and other intangible assets	20,927	48,458	224,565
Impairment losses on goodwill, other intangible assets and other long-lived assets	75,746	1,456	812,815
Net change in reserve for credit losses	4,131	46,628	44,334
Net change in reserve for losses on interest repayments	(123,761)	(68,420)	(1,328,051)
Net change in other reserves	(10,311)	9,256	(110,652)
Interest income	(283,581)	(303,421)	(3,043,043)
Interest expenses	75,595	100,425	811,198
Investment (gains) losses	11,149	104,826	119,640
Net exchange (gain) loss	4,221	(5,594)	45,300
Gains from the cancellation of issued corporate bonds and other instruments	(21,269)	(75,106)	(228,241)
Net change in trading assets	153,064	(59,820)	1,642,502
Net change in trading liabilities	(129,727)	102,551	(1,392,078)
Net change in loans and bills discounted	714,081	439,904	7,662,644
Net change in deposits, including negotiable certificates of deposit	202,869	465,481	2,176,948
Net change in debentures	(191,853)	13,132	(2,058,737)
Net change in borrowed money (other than subordinated debt)	174,826	(77,753)	1,876,024
Net change in corporate bonds (other than subordinated corporate bonds)	(24,082)	(14,572)	(258,426)
Net change in interest-bearing deposits with banks	(37,469)	(18,445)	(402,080)
Net change in call loans, receivables under resale agreements, collateral related to securities borrowing transactions and other monetary claims purchased	107,856	55,911	1,157,379
Net change in call money, payables under repurchase agreements, collateral related to securities lending transactions, commercial paper and short-term corporate bonds (liabilities)	(31,486)	62,444	(337,875)
Net change in foreign exchange assets and liabilities	26,175	(19,321)	280,882
Interest received	296,156	307,784	3,177,982
Interest paid	(58,660)	(99,252)	(629,470)
Net change in securities for trading purposes	14,421	45,761	154,756
Net change in monetary assets held in trust for trading purposes	35,585	12,957	381,857
Net change in lease receivables and leased investment assets	22,674	22,799	243,319
Other, net	42,951	119,926	460,901
Total adjustments	1,081,355	1,226,799	11,603,771
Net cash provided by (used in) operating activities	958,266	1,107,745	10,282,930
Cash flows from investing activities:			
Purchase of investments	(3,390,711)	(2,814,469)	(36,384,925)
Proceeds from sales of investments	1,530,735	1,130,550	16,425,964
Proceeds from maturity of investments	812,391	1,316,087	8,717,582
Purchase of premises and equipment (other than leased assets as lessor)	(5,167)	(4,391)	(55,454)
Proceeds from sales of premises and equipment (other than leased assets as lessor)	332	19,598	3,573
Purchase of intangible assets (other than leased assets as lessor)	(9,615)	(9,454)	(103,184)
Purchase of investments in subsidiaries	(485)	(70,405)	(5,210)
Payment for acquisition of new subsidiaries	—	(574,179)	—
Proceeds from sale of subsidiary's stocks	—	13,989	—
Other, net	(816)	(15,965)	(8,757)
Net cash provided by (used in) investing activities	(1,063,336)	(1,008,640)	(11,410,411)
Cash flows from financing activities:			
Repayment of subordinated debt	—	(6,000)	—
Proceeds from issuance of subordinated corporate bonds	4,951	—	53,132
Payment for redemption of subordinated corporate bonds	(23,351)	(39,706)	(250,578)
Proceeds from minority shareholders of subsidiaries	9,001	50,247	96,589
Payment for capital returned to minority shareholders of subsidiaries	(25,174)	(6,143)	(270,143)
Dividends paid	—	(5,773)	—
Dividends paid to minority shareholders of subsidiaries	(9,374)	(14,349)	(100,596)
Purchase of treasury stock	(0)	(0)	(1)
Proceeds from sale of treasury stock	—	4	—
Net cash provided by (used in) financing activities	(43,948)	(21,721)	(471,597)
Foreign currency translation adjustments on cash and cash equivalents	(3)	(50)	(34)
Net change in cash and cash equivalents	(149,021)	77,332	(1,599,112)
Cash and cash equivalents at beginning of year	483,259	405,926	5,185,743
Cash and cash equivalents at end of year (Note 4)	¥ 334,238	¥ 483,259	$ 3,586,631

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.
Note: Investments consist of securities and monetary assets held in trust for other than trading purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2010 and 2009

1. BASIS OF PRESENTATION

CONSOLIDATED

The accompanying consolidated financial statements of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group"), stated in Japanese yen, have been prepared on the basis of generally accepted accounting principles in Japan ("Japanese GAAP") and in conformity with the Banking Law of Japan (the "Banking Law"), and compiled from the consolidated financial statements prepared under the provisions set forth in the Accounting Standards for Consolidated Financial Statements (the Business Accounting Council, June 24, 1975) and the Financial Instruments and Exchange Act of Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include information that is not required under Japanese GAAP, but is presented herein for the convenience of readers.

The preparation of consolidated financial statements in conformity with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As permitted by the Financial Instruments and Exchange Act of Japan, yen amounts, except for per share amounts, are presented in millions of yen and are rounded down to the nearest million. As a result, the totals do not necessarily agree with the sum of the individual amounts.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥93.19 to U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED

(A) PRINCIPLES OF CONSOLIDATION

The Group applies its consolidation scope using the control and influence concept. Under the control and influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies in which the Bank, directly or indirectly, is able to exercise significant influence over operations are accounted for by the equity method.

The numbers of subsidiaries and affiliates as of March 31, 2010 and 2009 were as follows:

	2010	2009
Consolidated subsidiaries	125	126
Unconsolidated subsidiaries	88	99
Affiliates accounted for by the equity method	22	30

Unconsolidated subsidiaries are primarily operating companies that undertake leasing business based on the *Tokumei Kumiai* system (silent partnerships). *Tokumei Kumiai*'s assets, liabilities, profit and loss virtually belong to each silent partner, and the Group does not have any material transactions with these subsidiaries. Therefore, these subsidiaries are excluded from consolidation in order to avoid any material misunderstanding by the Bank's stakeholders.

Other unconsolidated subsidiaries are excluded from consolidation because they are not material to the financial condition or results of operations of the Group.

Major consolidated subsidiaries as of March 31, 2010 were as listed below:

Name	Location	Percentage ownership
APLUS FINANCIAL Co., Ltd. (*)	Japan	93.6%
Showa Leasing Co., Ltd.	Japan	97.0%
Shinsei Financial Co., Ltd.	Japan	100.0%
Shinki Co., Ltd.	Japan	100.0%
Shinsei Trust & Banking Co., Ltd.	Japan	100.0%
Shinsei Securities Co., Ltd.	Japan	100.0%

(*) APLUS FINANCIAL Co., Ltd ("APLUS FINANCIAL") was renamed from APLUS Co., Ltd, along with the transformation to the holding company on April 1, 2010.

All significant inter-company transactions, related account balances and unrealized gains and losses have been eliminated in consolidation. As of March 31, 2010, the fiscal year ending dates are March 31 for 67 subsidiaries, September 30 for 1 subsidiary, December 31 for 52 subsidiaries, January 31 for 1 subsidiary, and February 28 for 4 subsidiaries. Except for 12 subsidiaries which are consolidated as of March 31 rather than their fiscal year ends, those consolidated subsidiaries whose fiscal years end at dates other than March 31 are consolidated using their fiscal year end financial statements with appropriate adjustments made for significant transactions during the period from the ending dates of their fiscal years to the date of the Group's consolidated financial statements.

Major affiliates accounted for by the equity method as of March 31, 2010 were as listed below:

Name	Location	Percentage ownership
Hillcot Holdings Ltd	Bermuda	49.9%
Jih Sun Financial Holding Co., Ltd.	Taiwan	30.5%

(B) BUSINESS COMBINATION

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

The Group acquired 100% of the net assets of Shinsei Financial Co., Ltd. ("Shinsei Financial") on September 22, 2008, and accounted for the acquisition by the purchase method of accounting. The related goodwill is being amortized over 10 years using the sum-of-the-years digits method.

(C) GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank recognized certain identifiable intangible assets in connection with the acquisition of APLUS FINANCIAL, Showa Leasing Co., Ltd. ("Showa Leasing"), Shinki Co., Ltd. ("Shinki"), Shinsei Financial and their consolidated subsidiaries, because they arose from contractual or other legal rights, or were separable.

The identified intangible assets with amortization method and period are as listed below:

APLUS FINANCIAL CO., LTD.

Identified intangible assets	Amortization method	Amortization period
Trade name and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years
Merchant relationship	Sum-of-the-years digits	20 years

SHOWA LEASING CO., LTD.

Identified intangible assets	Amortization method	Amortization period
Trade name	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	20 years
Maintenance component contracts	Straight-line	Subject to the remaining contract years
Sublease contracts	Straight-line	Subject to the remaining contract years

SHINKI CO., LTD.

Identified intangible assets	Amortization method	Amortization period
Trade name and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years

SHINSEI FINANCIAL CO., LTD.

Identified intangible assets	Amortization method	Amortization period
Trade names and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years

The excess of the purchase price over the fair value of the net assets acquired, including identified intangible assets, was recorded as goodwill and is being amortized on a consistent basis primarily over 20 years. The amortization period of 20 years is the maximum period allowed under Japanese GAAP and was determined based upon the Bank's business strategy. The unamortized balances of identified intangible assets and goodwill are subject to impairment testing periodically. As a result, the outstanding goodwill and other intangible assets of APLUS FINANCIAL, and other intangible assets of Shinki were fully impaired at March 31, 2010, as described in Note 30 "OTHER GAINS (LOSSES), NET."

When the purchase price is lower than the fair value of the net assets acquired, including identified intangible assets, the difference is recorded as negative goodwill and primarily amortized on a straight-line basis over 20 years, which is the maximum period allowed under Japanese GAAP.

(D) IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank conducts impairment testing for goodwill and other intangible assets as a result of certain triggering events including:

– An expectation of an operating loss or negative cash flow for two consecutive years;
– Impairment of underlying investment securities is recognized;
– A significant adverse change in the environment surrounding the business operations of the subsidiary, such as a change in law which significantly impacts the business in a negative way;
– Management decisions that could have an adverse effect on the value of goodwill and other intangible assets.

As the first step of the impairment test, we estimate the undiscounted future cash flows of the business. If the value of the undiscounted future cash flows is less than the book value of the net assets, including goodwill and other intangible assets, of the business, it is determined that impairment exists and the next step of the impairment test is performed to measure the amount of the impairment loss.

The next step of the impairment test compares the "value in use," which is calculated as the discounted value of future cash flows of the business, and the net asset book value which includes unamortized balances of goodwill and other intangible assets. Impairment loss for the total of goodwill and other intangible assets (A) is recognized as an amount by which the net asset book value exceeds the "value in use." The fair value of other intangible assets is determined in the same manner used to apply purchase accounting at the time of the initial acquisition, and the impairment loss of other intangible assets (B) is determined as the difference between the fair value and book value. Finally, the impairment loss of goodwill is calculated as the residual calculated as (A) less (B) above.

In addition, Report No. 7 issued by the Accounting Practice Committee of the Japanese Institute of Certified Public Accountants ("JICPA") may require the recognition of accelerated amortization of goodwill if certain conditions are met, when the parent company recognizes impairment on its investment in the subsidiary on the parent company's non-consolidated financial statements.

(E) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS AND TRANSACTIONS

(i) The financial statements of consolidated foreign subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for equity, which is translated at historical exchange rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity in the accompanying consolidated balance sheets.

(ii) Foreign currency accounts held by consolidated foreign subsidiaries are translated into the currency of the subsidiary at exchange rates as of their respective balance sheet dates.

(iii) Foreign currency-denominated assets and liabilities of the Bank and domestic subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for investments in unconsolidated subsidiaries and affiliates which are translated at the relevant historical exchange rates.

(F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and non-interest-bearing deposits.

(G) OTHER MONETARY CLAIMS PURCHASED

The components of other monetary claims purchased are principally loans held for trading purposes. Other monetary claims purchased held for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other business income (loss), net.

(H) VALUATION OF TRADING ACCOUNT ACTIVITIES

Trading account positions entered into to generate gains arising from short-term changes in interest rates, currency exchange rates or market prices of financial instruments and other market-related indices, or from price differences among markets, are included in trading assets and trading liabilities on a trade date basis.

Trading securities and monetary claims purchased for trading purposes are stated at market value and derivative financial instruments related to trading positions are stated at fair value based on estimated amounts that would be settled in cash if such positions were terminated at the end of the fiscal year, which reflects liquidity and credit risks.

Trading revenue and trading expenses include interest received and paid during the fiscal year and unrealized gains and losses resulting from the change in the value of securities, monetary claims purchased, and derivatives between the balance sheet dates.

(I) MONETARY ASSETS HELD IN TRUST

The components of trust assets are accounted for based on the standard appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other business income (loss), net. Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains and losses recorded directly in a separate component of equity.

Instruments held in trust classified as available-for-sale for which fair value cannot be reliably determined are carried at cost.

(J) SECURITIES

Securities other than investments in unconsolidated subsidiaries and affiliates are classified into three categories, based principally on the Group's intent, as follows:

Trading securities are securities held in anticipation of gains arising from short-term changes in market value and/or held for resale to customers. Trading securities are carried at fair value with corresponding unrealized gains and losses recorded in income (loss).

Securities being held to maturity are debt securities for which the Group has both the positive intent and ability to hold until maturity. Securities being held to maturity are carried at amortized cost determined by the moving average method.

Securities available-for-sale are securities other than trading securities and securities being held to maturity. Securities available-for-sale are carried at fair value with the corresponding unrealized gains and losses recorded directly in a separate component of equity. The cost of these securities upon sale is determined by the moving average method. Securities available-for-sale for which fair value cannot be reliably determined are carried at cost determined by the moving average method.

In addition, investments in unconsolidated subsidiaries that are not accounted for by the equity method are carried at cost determined by the moving average method.

Individual securities are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary.

On December 5, 2008, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 26, "Tentative Solution on Reclassification of Debt Securities." PITF No. 26 was effective upon issuance and expired on March 31, 2010. PITF No. 26 permits an entity to reclassify certain debt securities when in rare circumstances the entity changes its accounting classification according to the change of holding purpose and the securities meet the definition of the held-to-maturity category, if the case is, as follows:

(i) Trading debt securities can be reclassified to available-for-sale securities at their fair value on the date of reclassification and any difference between the carrying amount and the fair value will be charged to profit or loss.

(ii) Trading debt securities can be reclassified to held-to-maturity debt securities at their fair value on the date of reclassification and any difference between the carrying amount and the fair value will be charged to profit or loss.

(iii) Available-for-sale securities can be reclassified to held-to-maturity debt securities at their fair value on the date of reclassification and any difference between the amortized cost and the fair value will be recorded directly in a separate component of equity and will be amortized and charged to profit or loss over the period through the maturity date.

Based on PITF No. 26, the Bank reclassified certain foreign bonds classified as available-for-sale securities to held-to-maturity on October 1, 2008, as described in Note 8 "SECURITIES." As a result of this reclassification, securities increased and unrealized losses decreased by ¥8,598 million as of March 31, 2009, than they would have been if they had remained as available-for-sale.

(K) PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of the Group's buildings and the Bank's computer equipment (including ATMs) other than personal computers is computed principally using the straight-line method, and depreciation of other equipment is computed principally using the declining-balance method. Principal estimated useful lives of buildings and equipment as of March 31, 2010 were as follows:

Buildings .... 3 years to 50 years
Equipment ..... 2 years to 15 years

(L) SOFTWARE

Capitalized software for internal use is depreciated using the straight-line method based on the Group's estimated useful lives (primarily 5 or 8 years).

(M) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of an asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

For the fiscal year ended March 31, 2010, an impairment loss of ¥1,283 million (U.S.$ 13,773 thousand) was recognized in Shinki for unused properties whose fair value declined significantly and assets that are planned to be disposed in consequence of IT integration. The recoverable amount of the assets were primarily measured at the net selling price at disposition.

For the fiscal year ended March 31, 2009, primarily due to a decision to close certain of the branches for the personal loan and mortgage businesses of Shinsei Financial, an impairment loss of ¥438 million was recognized. The recoverable amount of the asset group was primarily measured at its value in use. The future cash flows used for computation of the value in use were not discounted because of the short duration for the continued use of the asset group. In addition, due to consecutive years of operating losses of the credit card business of Shinsei Financial, an impairment loss of ¥908 million was recognized, assuming their recoverable amount to be zero.

(N) DEFERRED CHARGES

Deferred issuance expenses for debentures and corporate bonds are primarily amortized using the straight-line method over the term of the debentures and corporate bonds.

Formation costs and stock issuance costs of consolidated subsidiaries are charged to expense as incurred.

(O) RESERVE FOR CREDIT LOSSES

The reserve for loan losses of the Bank and the consolidated domestic trust and banking subsidiary has been established as described below based on the Bank's internal rules for establishing the reserve.

For claims to obligors who are legally bankrupt (due to bankruptcy, special liquidation, etc.) or virtually bankrupt, a specific reserve is provided based on the amount of claims, after the charge-off stated below, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims to obligors who are possibly bankrupt, a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The Bank applies the discounted cash flow method (the "DCF method") in calculating the loan loss reserve amounts for most of the claims against obligors categorized as possibly bankrupt or substandard under the self-assessment guidelines. Under the DCF method, the loan loss reserve is determined as the difference between (a) relevant estimated cash flows discounted by the original contractual interest rate and (b) the book value of the claim. In cases where it is difficult to reasonably estimate future cash flows, the Bank sets aside, as reserves, the product of the estimated loss ratios on the claims and either (A) the balance of the claims, in the case of claims against substandard obligors, or (B) the unsecured, unguaranteed portion of the claims, in the case of claims against possibly bankrupt obligors.

For other claims, the Bank provides a general reserve based on historical loan loss experience.

For specific foreign claims, there is a reserve for loans to restructuring countries which has been provided based on losses estimated by considering the political and economic conditions in those countries.

All claims are assessed by business divisions based on the predetermined internal rules for self-assessment of asset quality. The Credit Assessment Division, which is independent from business divisions, conducts verifications of these assessments, and additional reserves may be provided based on the verification results.

The reserve for other credit losses primarily consists of a reserve taken on the Bank's contribution to an industry-wide fund set up to purchase and collect loans.

The consolidated subsidiaries other than the domestic trust and banking subsidiary calculate the general reserve for "normal" and "caution, including substandard" categories based on the actual historical loss ratio, and the specific reserve for the "possibly bankrupt," "virtually bankrupt" and "legally bankrupt" categories based on estimated losses, considering the recoverable value.

For collateralized or guaranteed claims of the Bank and certain consolidated subsidiaries to obligors who are legally bankrupt or virtually bankrupt, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off and totaled ¥198,293 million (U.S.$2,127,842 thousand) and ¥158,361 million as of March 31, 2010 and 2009, respectively.

(P) ACCRUED BONUSES FOR EMPLOYEES AND DIRECTORS

Accrued bonuses for employees and directors are provided in the amount of the estimated bonuses which are attributable to each fiscal year.

(Q) RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

The Bank, APLUS FINANCIAL, Showa Leasing, and Shinki each have a non-contributory defined benefit pension plan, and Shinsei Financial and certain of the other consolidated domestic subsidiaries have unfunded severance indemnity plans, which cover substantially all of the Group's employees. The reserve for employees' retirement benefits is provided for the payment of employees' retirement benefits based on the estimated amounts of the projected benefit obligation and the estimated value of pension plan assets. Net actuarial gains and losses and prior service costs are amortized using the straight-line method over the average remaining service period primarily from the fiscal year of occurrence.

Effective April 1, 2000, the Bank adopted a new accounting standard for employees' retirement benefits and accounts for the liabilities for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The transitional unrecognized net retirement benefit obligation for the Bank of ¥9,081 million is being amortized using the straight-line method over 15 years.

(R) RESERVE FOR DIRECTORS' RETIREMENT BENEFITS

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

(S) RESERVE FOR LOSSES ON INTEREST REPAYMENTS

The reserve for losses on interest repayments is provided for possible losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Law of Japan. The reserve is established in the amount of the estimated future reimbursement requests based on past experience.

In addition, a reserve for losses on interest repayments of Shinsei Financial is calculated considering the terms stipulated in the share transfer agreement entered into by and between the Bank and the seller, GE Japan Holdings Co., Ltd. ("GE"), for the acquisition of Shinsei Financial, under which the sharing of interest repayment costs between the Bank and GE is determined.

(T) RESERVE FOR LOSSES ON DISPOSAL OF PREMISES AND EQUIPMENT

The reserve for losses on disposal of premises and equipments is established based on reasonable estimates primarily for the restoration cost associated with the planned relocation of the headquarters of the Bank and some of the consolidated subsidiaries and the Bank's Meguro financial center.

(U) RESERVE FOR LOSSES ON LITIGATION

The reserve for losses on litigation is provided in the amount of the estimated losses on litigation in progress.

The litigation which the reserve was recognized for was settled out of court on April 8, 2010. On April 21, 2010, all the payable was settled and the reserve for losses on litigation was reversed at the same time. There is no impact on the net income (loss) for the following fiscal year.

(V) RESERVE UNDER SPECIAL LAW

The reserve under special law is provided for contingent liabilities from brokering of securities transactions in accordance with section 1 of Article 46-5 of the Financial Instruments and Exchange Act of Japan.

(W) STOCK OPTIONS

On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

(X) LEASE TRANSACTIONS

Effective April 1, 2008, the Bank and its consolidated subsidiaries applied the revised accounting standard for lease transactions. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet.

(Lessee)

All finance lease transactions were capitalized recognizing lease assets and lease obligations in the balance sheet.

Depreciation of leased assets from finance lease transactions that do not deem to transfer ownership of the leased property to the lessee is computed using the straight-line method over the leasing period. Residual values of leased assets are the guaranteed value determined in the lease contracts or zero for assets without such guaranteed value.

With regard to finance lease transactions entered into prior to April 1, 2008, that do not deem to transfer ownership of the leased property to the lessee, leased assets are recognized at the amount of lease obligations as of March 31, 2008.

(Lessor)

All finance lease transactions that deem to transfer ownership of the leased property to the lessee are recognized as lease receivables, and all finance lease transactions that do not deem to transfer ownership of the leased property to the lessee are recognized as leased investment assets.

Lease revenue is recognized at the due date of each lease payment according to the lease contracts and the cost and net income on each lease transaction is calculated on the basis of the internal rate of return.

With regard to finance lease transactions entered into prior to April 1, 2008, that do not deem to transfer ownership of the property to the lessee, leased investment assets are recognized at the amount of book values of those leased assets as of March 31, 2008.

As a result, loss before income taxes and minority interests decreased by ¥2,525 million (U.S.$27,103 thousand) for the fiscal year ended March 31, 2010, and increased by ¥10,220 million for the fiscal year ended March 31, 2009, as compared to what would have been reported if the revised accounting standard was applied retroactively to all finance lease transactions.

(Y) INSTALLMENT SALES FINANCE AND CREDIT GUARANTEES

Fees from installment sales finance have principally been prorated over the respective installment periods by using the sum-of-the-months digits method, or by using the credit-balance method.

Fees from credit guarantees have been recognized either by the sum-of-the-months digits method, the straight-line method or the credit-balance method over the contract terms.

(Z) REVENUE RECOGNITION FOR INTEREST ON CONSUMER LENDING BUSINESS

In a consolidated subsidiary specialized in consumer lending business, accrued interest income at the balance sheet date is accrued at the lower of the amount determined by using a rate permissible under the Interest Rate Restriction Law of Japan or the amount determined by using rates on contracts with customers.

(AA) INCOME TAXES

Deferred income taxes relating to temporary differences between financial reporting and tax bases of assets and liabilities and tax loss carryforwards have been recognized. The asset and liability approach is used to recognize deferred income taxes.

The Bank files its corporate income tax return under the consolidated corporation tax system, which allows companies to base tax payments on the combined profits and losses of the Bank and its wholly-owned domestic subsidiaries.

A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized.

(AB) DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are stated at fair value. Derivative transactions that meet the hedge accounting criteria are primarily accounted for using a deferral method whereby unrealized gains and losses are deferred in a separate component of equity until the gains and losses on the hedged items are realized.

(i) Hedge of interest rate risks

Derivative transactions that meet the hedge accounting criteria for mitigating interest rate risks of the Bank's financial assets and liabilities are accounted for using the deferral method. Prior to April 1, 2003, the Bank principally applied a "macro hedge" approach for interest rate derivatives used to manage interest rate risks, and its ALM activities based on the transitional treatment prescribed in Industry Audit Committee Report No. 24 issued by the JICPA. Effective April 1, 2003, the Bank adopted portfolio hedging to determine the effectiveness of its hedging instruments in accordance with Report No. 24. Under portfolio hedging activities to mitigate the change in fair value, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedging is assessed by each group.

As for portfolio hedging activities to fix cash flows, the effectiveness is assessed based on the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

Deferred hedge losses and/or gains previously recorded on the consolidated balance sheets as a result of macro hedge accounting before implementation of portfolio hedging are being amortized as interest expense or income over the remaining lives of the hedging instruments. There is no outstanding unamortized balance of deferred hedge losses and/or gains as of March 31, 2010. The unamortized balance of deferred hedge losses attributable to macro hedge accounting, before deduction of tax benefit, as of March 31, 2009 was ¥4 million.

The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

(ii) Hedge of foreign exchange fluctuation risks

Fund swap and certain currency swap transactions are accounted for using either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 of the JICPA.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts sold or bought.

Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

The Bank also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency assets of net investments in foreign unconsolidated subsidiaries, affiliates and securities available-for-sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities exceed the acquisition cost of such foreign currency assets.

(iii) Inter-company and intra-company derivative transactions

Gains and losses on inter-company and intra-company derivative hedging transactions between the trading book and the banking book are not eliminated since offsetting transactions with third parties are appropriately entered into in conformity with the non-arbitrary and strict hedging policy in accordance with Industry Audit Committee Reports No. 24 and No. 25. As a result, in the banking book, realized gains and losses on such inter-company and intra-company transactions are reported in current earnings and valuation gains and losses which meet the hedge accounting criteria are deferred. On the other hand, in the trading book, realized gains and losses and valuation gains and losses on such inter-company and intra-company transactions are substantially offset with covering contracts entered into with third parties.

(AC) PER SHARE INFORMATION

Basic net income (loss) per common share calculations represent net income (loss) available to common shareholders, divided by the weighted average number of outstanding shares of common stock during the respective fiscal year, retroactively adjusted for stock splits and reverse stock splits.

Diluted net income per common share calculations consider the dilutive effect of common stock equivalents, which include stock acquisition rights, assuming that stock acquisition rights were fully exercised at the time of issuance for those issued during the fiscal year and at the beginning of the fiscal year for those previously issued and outstanding at the beginning of the fiscal year.

For the fiscal year ended March 31, 2010 and 2009, diluted net income per share is not disclosed because of the Group's net loss position.

(AD) ACCOUNTING CHANGE

Prior to March 31, 2010, under Japanese accounting standards for financial instruments, securities available-for-sale for which fair value was not readily determinable were carried at moving average cost or amortized cost determined by the moving average method.

In March 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This revised accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010.

The revised accounting standard requires securities available-for-sale to be recorded at their fair values except for securities whose fair values cannot be reliably determined, such as non-marketable equity securities etc.

As a result, as of March 31, 2010, securities decreased by ¥7,248 million (U.S.$77,777 thousand), other monetary claims purchased decreased by ¥4,662 million (U.S.$50,035 thousand), deferred tax liability decreased by ¥606 million (U.S.$6,513 thousand), unrealized gain (loss) on available-for-sale securities decreased by ¥3,591 million (U.S.$38,542 thousand), reserve for credit losses decreased by ¥12,753 million (U.S.$136,855 thousand), and loss before income taxes and minority interests for the fiscal year ended March 31, 2010 decreased by ¥5,041 million (U.S.$54,099 thousand), respectively, as compared to what would have been reported if there was no such accounting change.

(AE) NEW ACCOUNTING PRONOUNCEMENTS

Business Combinations

In December, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under this accounting standard are as follows;

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires all business combinations to be accounted for by the purchase method.

(2) The current accounting standard requires research and development costs to be charged to expense as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in a business combination is capitalized as an intangible asset.

(3) The current accounting standard requires a bargain purchase gain (negative goodwill) to be systematically amortized to income within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010.

Unification of Accounting Policies Applied to Foreign Affiliates using the Equity Method

The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of foreign affiliates that have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policy.

In December, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliates in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. The standard is applicable to equity method of accounting for investment effective on or after April 1, 2010.

Asset Retirement Obligations

In March, 2008, the ASBJ published a new accounting standard for asset retirement obligations, the ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and the ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability.

The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Overtime, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010.

Accounting Changes and Error Corrections

In December, 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows;

(1) Changes in Accounting Policies:

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applied to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applied to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

(AF) RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements for the fiscal year ended March 31, 2009 to conform to the presentation for the fiscal year ended March 31, 2010.

3. ACQUISITION

CONSOLIDATED

Shinsei Financial Co., Ltd.

On September 22, 2008, the Bank, together with APLUS acquired 100% of the controlling interest (equity and debt) in Shinsei Financial Co., Ltd. ("Shinsei Financial"), which was renamed from GE Consumer Finance Co., Ltd., on April 1, 2009, a consumer finance company in Japan, and its subsidiaries. This acquisition was made in line with the Bank's business strategy to expand the Individual Group and pursue further synergy between its retail banking and consumer finance operations.

The purchase price reflects the following terms under which excess interest ("grey zone") repayment costs will be shared between the Bank and the Seller (GE).

– The Bank will absorb the first loss from grey zone repayment up to ¥201.5 billion
– Risk sharing between the Bank and the Seller (GE) for the loss from grey zone repayment between ¥201.5 billion and ¥258.0 billion
– The Seller (GE) will cover the loss from grey zone repayment beyond ¥258.0 billion

The Bank's maximum grey zone repayment liability subject to these terms is ¥203.9 billion. In connection with the investment in Shinsei Financial, on September 24, 2008, securitization of ¥402.9 billion (senior beneficial interest of ¥362.1 billion, rated A3 and mezzanine beneficial interest of ¥40.8 billion, rated Baa3) of Shinsei Financial's unsecured personal loan assets was implemented. The Bank purchased all of the senior and mezzanine beneficial interests issued by Shinsei Financial, which allows those assets to be funded directly through the stable retail deposits and other internal funding resources of the Bank. The securitization did not, however, impact Shinsei's consolidated financial statements as no portion of the beneficial interests was sold to a third party.

In connection with the acquisition, the Bank conducted a fair value review of Shinsei Financial's assets and liabilities, including intangible assets, for the purpose of preparing the consolidated balance sheet as of September 30, 2008 (deemed acquisition date). The excess of the purchase price over the fair value of assets acquired and liabilities assumed, including intangible assets is accounted for as goodwill. The following table is the summary of the fair value of the assets acquired and liabilities assumed, including intangible assets and goodwill as of September 30, 2008.

	Millions of yen
Cash and due from banks	¥ 33,100
Securities	300
Loans and bills discounted	696,655
Other assets	40,283
Premises and equipment	11,443
Intangible assets (Including ¥27,077 million of intangible assets recognized through fair value review)	29,270
Deferred tax assets	15,870
Total assets acquired	826,923
Other liabilities	(31,334)
Reserve for losses on interest repayments	(222,936)
Deferred tax liabilities	(11,017)
Total liabilities assumed	(265,288)
Net assets acquired	561,635
Total consideration	597,701
Goodwill	36,066

Payment for acquisition of new subsidiary:

	Millions of yen
Subscription price of shareholder rights	¥ 597,701
Cash and cash equivalent of Shinsei Financial	(25,218)
Payment for acquisition of new subsidiary	572,482

4. CASH AND CASH EQUIVALENTS CONSOLIDATED

The reconciliation of cash and cash equivalents and cash and due from banks in the consolidated balance sheets as of March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and due from banks	¥ 493,141	¥ 605,089	$ 5,291,784
Interest-bearing deposits included in due from banks	(158,903)	(121,829)	(1,705,153)
Cash and cash equivalents	¥ 334,238	¥ 483,259	$ 3,586,631

5. OTHER MONETARY CLAIMS PURCHASED CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Trading purposes	¥ 157,915	¥ 212,130	$ 1,694,554
Other	94,846	195,905	1,017,771
Total	¥ 252,761	¥ 408,035	$ 2,712,325

(b) The fair value and the unrealized loss which is included in income (loss) of other monetary claims purchased for trading purposes as of March 31, 2010 and 2009 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2010		2009		2010	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Trading purposes	¥ 157,915	¥ 22,008	¥ 212,130	¥ 7,914	$ 1,694,554	$ 236,165

6. TRADING ASSETS CONSOLIDATED

Trading assets as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Trading securities	¥ 9,602	¥ 9,167	$ 103,041
Derivatives for trading securities	4,891	27,611	52,486
Securities held to hedge trading transactions	13,836	19,532	148,482
Derivatives for securities held to hedge trading transactions	39,239	22,506	421,074
Trading-related financial derivatives	154,971	291,268	1,662,958
Other trading assets	738	5,022	7,922
Total	¥ 223,279	¥ 375,107	$ 2,395,963

7. MONETARY ASSETS HELD IN TRUST

CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Trading purposes	**¥ 200,209**	¥ 235,795	**$ 2,148,405**
Other	**92,017**	113,045	**987,416**
Total	**¥ 292,227**	¥ 348,840	**$ 3,135,821**

(b) The fair value and the unrealized loss which is included in income (loss) of monetary assets held in trust for trading purposes as of March 31, 2010 and 2009 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2010		2009		**2010**	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Trading purposes	**¥ 200,209**	**¥ 10,037**	¥ 235,795	¥ 6,936	**$ 2,148,405**	**$ 107,709**

(c) The acquisition cost, which is the same as the book value, of monetary assets held in trust for other than trading purposes as of March 31, 2010 and 2009 was ¥92,017 million (U.S.$987,416 thousand) and ¥113,045 million, respectively.

8. SECURITIES

CONSOLIDATED

(a) Securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Trading securities	**¥ 2,939**	¥ 17,361	**$ 31,542**
Securities being held to maturity	**479,542**	362,701	**5,145,860**
Securities available-for-sale:			
Securities carried at fair value	**2,617,552**	1,300,093	**28,088,342**
Securities carried at cost whose fair value is not readily determinable	**—**	455,704	**—**
Securities carried at cost whose fair value cannot be reliably determined	**92,400**	—	**991,523**
Investments in unconsolidated subsidiaries at cost and affiliates using the equity method	**40,877**	38,338	**438,649**
Total	**¥ 3,233,312**	¥ 2,174,198	**$ 34,695,916**

The above balances do not include securities held in connection with securities borrowing transactions with or without cash collateral, securities purchased under resale agreements or securities accepted as collateral of derivative transactions, where the Group has the right to sell or pledge such securities without restrictions. The balances of those securities as of March 31, 2010 and 2009 were ¥36,301 million (U.S.$389,545 thousand) and ¥54,083 million, respectively. In addition, ¥76,017 million of those securities were further pledged as of March 31, 2009.

The amount of guarantee obligations for privately-placed bonds (Item 3 of Article 2 of the Financial Instruments and Exchange Act) included in securities as of March 31, 2010 and 2009 were ¥48,283 million (U.S.$518,122 thousand) and ¥64,362 million, respectively.

(b) The amortized cost, acquisition cost and the fair value of securities whose fair value can be reliably determined (other than trading securities) as of March 31, 2010 and 2009 were as follows:

	Millions of yen							
	2010				2009			
	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:								
Japanese national government bonds	¥ 353,322	¥ 4,659	¥ —	¥ 357,982	¥ 229,197	¥ 1,881	¥ —	¥ 231,079
Japanese corporate bonds	70,432	1,390	—	71,823	75,292	1,329	—	76,622
Other	55,786	3,233	1,112	57,907	58,208	1,904	8,598	51,513
Total	¥ 479,542	¥ 9,284	¥ 1,112	¥ 487,714	¥ 362,698	¥ 5,115	¥ 8,598	¥ 359,214
Securities available-for-sale:								
Equity securities	¥ 17,790	¥ 1,193	¥ 3,249	¥ 15,734	¥ 18,499	¥ 440	¥ 3,919	¥ 15,020
Japanese national government bonds	2,004,879	6,048	2,647	2,008,280	974,716	1,085	709	975,092
Japanese local government bonds	1,721	66	—	1,787	1,712	37	—	1,749
Japanese corporate bonds	326,550	313	4,971	321,892	36,205	108	1,229	35,084
Other, primarily foreign debt securities	301,604	16,281	4,280	313,605	299,102	1,937	27,893	273,146
Total	¥ 2,652,547	¥ 23,903	¥ 15,150	¥ 2,661,300	¥ 1,330,235	¥ 3,609	¥ 33,751	¥ 1,300,093

	Thousands of U.S. dollars			
	2010			
	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:				
Japanese national government bonds	$ 3,791,424	$ 50,003	$ —	$ 3,841,427
Japanese corporate bonds	755,799	14,923	—	770,722
Other	598,637	34,701	11,943	621,395
Total	$ 5,145,860	$ 99,627	$ 11,943	$ 5,233,544
Securities available-for-sale:				
Equity securities	$ 190,907	$ 12,808	$ 34,873	$ 168,842
Japanese national government bonds	21,513,895	64,909	28,413	21,550,391
Japanese local government bonds	18,469	712	—	19,181
Japanese corporate bonds	3,504,142	3,365	53,349	3,454,158
Other, primarily foreign debt securities	3,236,451	174,709	45,937	3,365,223
Total	$ 28,463,864	$ 256,503	$ 162,572	$ 28,557,795

Note: Other monetary claims purchased whose fair value can be reliably determined that were previously carried at cost are measured at fair value with the adoption of revised ASBJ statement No. 10 "Accounting Standards for financial Instruments" and included in "Other, primarily foreign debt securities" as of March 31, 2010. Fair value and unrealized gain for those other monetary claims purchased are ¥43,748 million (U.S. $469,453 thousand) and ¥156 million (U.S. $1,675 thousand), respectively.

Individual securities are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss. Impairment losses on securities available-for-sale carried at fair value for the fiscal years ended March 31, 2010 and 2009 were ¥47 million (US$506 thousand) and ¥36,193 million, respectively.

To determine whether an other-than-temporary impairment has occurred, the Bank applies the following rule by credit risk category of the security issuer based on the Bank's self-assessment guidelines.

Securities issued by "legally bankrupt," "virtually bankrupt" and "possibly bankrupt" obligors	The fair value of securities is lower than the amortized/acquisition cost
Securities issued by "need caution" obligors	The fair value of securities is 30% or more lower than the amortized/acquisition cost
Securities issued by "normal" obligors	The fair value of securities is 50% or more lower than the amortized/acquisition cost

"Legally bankrupt" refers to obligors who have already gone bankrupt from a legal and /or formal perspective.

"Virtually bankrupt" refers to obligors who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.

"Possibly bankrupt" refers to obligors who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" refers to obligors who require close attention because there are problems with their borrowings.

"Normal" refers to obligors whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

On March 31, 2009, the fair values of floating rate Japanese government bonds, which were measured at their market prices in the previous fiscal year, were determined based on the values reasonably estimated by a broker dealer with the management judgment that current market prices were not indicative of the fair values upon consideration of the market environment and the rapidly expanding spread between market price and theoretical price. As a result, securities increased and unrealized losses on available-for-sale securities decreased by ¥3,230 million than they would have been if valued at the market prices as of March 31, 2009.

The reasonably estimated values by a broker dealer were computed as the sum of discounted future cash flow based on the convexity-adjusted forward curve and zero-floor option value of floating rate Japanese government bonds. Major variables in that measurement methodology were the yield of government bonds and volatility of those yields.

However, as the expanded spread continued more than 1 year, management no longer believes that the market prices were not appropriate as fair values. Therefore, the fair values of those bonds as of March 31, 2010 were measured at the market prices. As a result, securities and unrealized gain on available-for-sale securities decreased by ¥3,037 million (U.S.$32,591 thousand), respectively, than they would have been if valued at the reasonably estimated values as of March 31, 2010.

(c) Securities available-for-sale sold during the fiscal year ended March 31, 2010 were as follows:

	Millions of yen		
	2010		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Securities available-for-sale sold:			
Equity securities	¥ 4,492	¥ 593	¥ 14
Japanese national government bonds	1,231,037	5,356	1
Japanese local government bonds	20,865	6	29
Japanese corporate bonds	32,212	262	37
Other	185,963	22,334	457
Total	¥ 1,474,571	¥ 28,554	¥ 539

	Thousands of U.S. dollars		
	2010		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Securities available-for-sale sold:			
Equity securities	$ 48,210	$ 6,372	$ 150
Japanese national government bonds	13,209,973	57,484	18
Japanese local government bonds	223,902	70	312
Japanese corporate bonds	345,661	2,821	401
Other	1,995,532	239,669	4,906
Total	$ 15,823,278	$ 306,416	$ 5,787

Securities available-for-sale sold during the fiscal year ended March 31, 2009 were as follows:

	Millions of yen		
	2009		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Securities available-for-sale sold	¥ 1,075,747	¥ 6,070	¥ 4,097

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(d) The book value (amortized/acquisition cost) of securities being held to maturity and securities available-for-sale whose fair values were not readily determinable as of March 31, 2009 was as follows:

	Millions of yen
	2009
Securities being held to maturity:	
Japanese corporate bonds	¥ 3
Total	¥ 3
Securities available-for-sale:	
Equity securities	¥ 11,769
Japanese corporate bonds	332,552
Foreign securities	54,617
Other	56,764
Total	¥ 455,704

Note: Securities whose fair value cannot be reliably determined as of March 31, 2010, are described in Note 38 "FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES."

(e) Reclassification of securities under extremely illiquid market conditions

Among the securities that were previously classified as available-for-sale, certain of the foreign bonds with high credit ratings were reclassified to held-to-maturity on October 1, 2008 at their fair values of ¥102,670 million. This reclassification was pursuant to a change in the investment policy based on management's judgment that it would have been difficult to sell these securities at their fair values under the extremely illiquid market condition which existed.

Subsequent to this reclassification, on March 31, 2009 the Bank recognized impairment losses of ¥50,728 million for certain of these reclassified securities as a result of the worsening credit environment, and such impaired securities (¥19,666 million) were reclassified from held-to-maturity back to available-for-sale.

The reclassified foreign bonds which are accounted for as held-to-maturity as of March 31, 2010 and 2009 were as follows:

	Millions of yen					
	2010			2009		
	Fair value	Amortized cost	Unrealized loss on available-for-sale securities	Fair value	Amortized cost	Unrealized loss on available-for-sale securities
Other (foreign debt securities)	**¥ 46,502**	**¥ 45,498**	**¥ 7,309**	¥ 38,757	¥ 47,356	¥ 8,463

	Thousands of U.S. dollars		
	2010		
	Fair value	Amortized cost	Unrealized loss on available-for-sale securities
Other (foreign debt securities)	**$ 499,005**	**$ 488,232**	**$ 78,440**

9. LOANS AND BILLS DISCOUNTED

CONSOLIDATED

Loans and bills discounted as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Loans on deeds	**¥ 3,996,131**	¥ 4,460,271	**$ 42,881,547**
Loans on bills	**146,165**	244,579	**1,568,466**
Bills discounted	**5,482**	1,125	**58,830**
Overdrafts	**1,015,983**	1,170,933	**10,902,286**
Total	**¥ 5,163,763**	¥ 5,876,910	**$ 55,411,129**

(a) Loans and bills discounted included loans to bankrupt obligors totaling ¥21,526 million (U.S.$230,993 thousand) and ¥39,549 million as of March 31, 2010 and 2009, respectively, as well as non-accrual delinquent loans totaling ¥346,705 million (U.S.$3,720,416 thousand) and ¥178,540 million as of March 31, 2010 and 2009, respectively.

Non-accrual delinquent loans include loans classified as "possibly bankrupt" and "virtually bankrupt" under the Bank's self-assessment guidelines.

In addition to non-accrual delinquent loans as defined, certain other loans classified as "substandard" under the Bank's self-assessment guidelines include loans past due for three months or more.

Loans past due for three months or more consist of loans for which the principal and/or interest is three months or more past due but exclude loans to bankrupt obligors and non-accrual delinquent loans. The balances of loans past due for three months or more as of March 31, 2010 and 2009 were ¥2,739 million (U.S.$29,395 thousand) and ¥5,917 million, respectively.

Restructured loans are loans where the Group relaxes lending conditions, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower's reorganization, but exclude loans to bankrupt obligors, non-accrual delinquent loans or loans past due for three months or more. The outstanding balances of restructured loans as of March 31, 2010 and 2009 were ¥61,369 million (U.S.$658,540 thousand) and ¥59,669 million, respectively.

(b) The total outstanding amounts deducted from the loan account for loan participations as of March 31, 2010 and 2009 were ¥40,254 million (U.S.$431,963 thousand) and ¥50,839 million, respectively. This "off-balance sheet" treatment is in accordance with guidelines issued by the JICPA. The total amounts of such loans in which the Bank participated were ¥33,357 million (U.S.$357,953 thousand) and ¥78,450 million as of March 31, 2010 and March 31, 2009, respectively.

(c) Bills discounted, such as bank acceptances bought, commercial bills discounted, documentary bills and foreign exchange contracts bought, are accounted for as financing transactions in accordance with Industry Audit Committee Report No. 24 issued by the JICPA, although the Group has the right to sell or pledge them without restrictions. The face amounts of such bills discounted held as of March 31, 2010 and 2009 were ¥5,937 million (U.S.$63,713 thousand) and ¥1,276 million, respectively.

10. FOREIGN EXCHANGES

CONSOLIDATED

The assets and liabilities related to foreign currency trade financing activities of the Bank as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Foreign exchange assets:			
Foreign bills bought	**¥ 454**	¥ 150	**$ 4,882**
Due from foreign banks	**10,521**	36,988	**112,904**
Total	**¥ 10,976**	¥ 37,138	**$ 117,786**
Foreign exchange liabilities:			
Foreign bills payable	**¥ 15**	¥ 1	**$ 162**
Due to foreign banks	**2**	2	**26**
Total	**¥ 17**	¥ 4	**$ 188**

11. OTHER ASSETS

CONSOLIDATED

Other assets as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Accrued income	¥ 27,879	¥ 35,378	$ 299,165
Prepaid expenses	3,929	5,808	42,168
Fair value of derivatives	239,003	351,682	2,564,685
Financial stabilization fund contribution	70,239	70,239	753,718
Accounts receivable	46,595	115,717	500,001
Installment receivables	347,845	404,702	3,732,650
Security deposits	19,397	24,308	208,151
Suspense payments	28,168	34,653	302,274
Other	80,214	83,278	860,768
Total	¥ 863,272	¥ 1,125,768	$ 9,263,580

Installment receivables in other assets as of March 31, 2010 and 2009 included credits to bankrupt obligors totaling ¥1,043 million (U.S.$11,197 thousand) and ¥766 million, non-accrual delinquent credits totaling ¥4,154 million (U.S.$44,584 thousand) and ¥4,318 million, credits past due for three months or more of ¥919 million (U.S.$9,864 thousand) and ¥1,030 million, and restructured credits of ¥3,464 million (U.S.$37,179 thousand) and ¥9,437 million, respectively.

12. PREMISES AND EQUIPMENT

CONSOLIDATED

Premises and equipment as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings	¥ 27,237	¥ 36,032	$ 292,277
Land	9,134	9,667	98,017
Tangible leased assets	58,622	72,714	629,060
Other	25,300	28,957	271,491
Subtotal	120,293	147,372	1,290,845
Accumulated depreciation	(68,139)	(96,408)	(731,185)
Net book value	¥ 52,154	¥ 50,964	$ 559,660

13. INTANGIBLE ASSETS

CONSOLIDATED

Intangible assets as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Software	¥ 25,216	¥ 29,099	$ 270,595
Goodwill, net			
Goodwill	64,193	139,708	688,848
Negative goodwill	(6,349)	(6,756)	(68,134)
Intangible assets acquired in business combinations	25,249	44,791	270,943
Intangible leased assets	206	755	2,211
Other	1,436	1,576	15,419
Total	¥ 109,953	¥ 209,175	$ 1,179,882

14. RESERVE FOR CREDIT LOSSES

CONSOLIDATED

Reserve for credit losses as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Reserve for loan losses:			
General reserve	**¥ 110,058**	¥ 105,630	**$ 1,181,016**
Specific reserve	**65,389**	65,572	**701,684**
Reserve for loans to restructuring countries	**13**	14	**142**
Subtotal	**175,462**	171,217	**1,882,842**
Specific reserve for other credit losses	**21,180**	21,294	**227,285**
Total	**¥ 196,642**	¥ 192,511	**$ 2,110,127**

15. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT

CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current	**¥ 29,116**	¥ 26,018	**$ 312,444**
Ordinary	**1,449,465**	1,273,763	**15,553,873**
Notice	**11,589**	15,289	**124,362**
Time	**4,420,782**	4,435,756	**47,438,384**
Negotiable certificates of deposit	**284,909**	259,659	**3,057,297**
Other	**279,523**	261,628	**2,999,501**
Total	**¥ 6,475,387**	¥ 6,272,115	**$ 69,485,861**

16. DEBENTURES

CONSOLIDATED

Debentures as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Coupon debentures	**¥ 483,713**	¥ 675,567	**$ 5,190,619**

Annual maturities of debentures as of March 31, 2010 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 173,441	$ 1,861,160
2012	100,917	1,082,920
2013	74,731	801,921
2014	66,944	718,371
2015 and thereafter	67,678	726,247
Total	¥ 483,713	$ 5,190,619

17. TRADING LIABILITIES

CONSOLIDATED

Trading liabilities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Derivatives for trading securities	**¥ 3,638**	¥ 12,401	**$ 39,043**
Derivatives for securities held to hedge trading transactions	**19,184**	6,447	**205,865**
Trading-related financial derivatives	**155,012**	288,653	**1,663,400**
Other trading liabilities	**—**	61	**—**
Total	**¥ 177,835**	¥ 307,562	**$ 1,908,308**

18. BORROWED MONEY

CONSOLIDATED

Borrowed money as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Borrowings from the Bank of Japan and other financial institutions	**¥ 1,084,837**	¥ 910,324	**$ 11,641,141**
Subordinated debt	**102,000**	102,000	**1,094,538**
Total	**¥ 1,186,837**	¥ 1,012,324	**$ 12,735,679**

The weighted average interest rate applicable to the balance of total borrowed money as of March 31, 2010 was 0.69%.

Annual maturities of borrowed money as of March 31, 2010 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 878,655	$ 9,428,641
2012	89,738	962,961
2013	49,500	531,174
2014	17,780	190,793
2015 and thereafter	151,164	1,622,110
Total	¥ 1,186,837	$ 12,735,679

19. CORPORATE BONDS

CONSOLIDATED

Corporate bonds as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Corporate bonds	**¥ 25,312**	¥ 70,211	**$ 271,628**
Subordinated bonds	**162,965**	196,278	**1,748,743**
Total	**¥ 188,278**	¥ 266,489	**$ 2,020,371**

In February 2006, the Bank issued €1.0 billion of step-up callable subordinated notes. The issue price was 99.486% of the principal amount. The notes bear interest at the fixed rate per annum of 3.75% through February 23, 2011, and at the floating rate per annum equal to three-month EURIBOR plus 1.95% thereafter. The notes are redeemable at the Bank's option in whole but not in part on any interest payment date on or after February 23, 2011, subject to the prior approval of the Financial Services Agency of Japan.

In December 2006, the Bank issued £400 million of step-up callable perpetual subordinated notes. The issue price was 99.669% of the principal amount. The notes bear interest at the fixed rate per annum of 5.625% through December 6, 2013, and at the floating rate per annum equal to the LIBOR for six-month deposits in British pounds plus 2.12% thereafter. The notes are redeemable at the Bank's option in whole but not in part on any interest payment date on or after December 6, 2013, subject to the prior approval of the Financial Services Agency of Japan.

During the fiscal year ended March 31, 2010 and 2009, the Bank repurchased €51 million and £391 million of step-up callable subordinated notes, and £71 million and £214 million of step-up callable perpetual subordinated notes, respectively, in open-market transactions and cancelled all of the repurchased notes.

Annual maturities of corporate bonds as of March 31, 2010 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 13,122	$ 140,811
2012	300	3,229
2013	138	1,490
2014	—	—
2015 and thereafter	174,716	1,874,841
Total	¥ 188,278	$ 2,020,371

20. OTHER LIABILITIES

CONSOLIDATED

Other liabilities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Accrued expenses	**¥ 49,964**	¥ 33,473	**$ 536,162**
Unearned income	**1,111**	1,448	**11,926**
Income taxes payable	**1,388**	2,821	**14,902**
Fair value of derivatives	**295,218**	401,861	**3,167,923**
Matured debentures, including interest	**19,648**	23,441	**210,838**
Trust account	**6,858**	6,288	**73,601**
Accounts payable	**71,899**	68,442	**771,532**
Deferred gains on installment receivables and credit guarantee	**28,961**	32,532	**310,774**
Deposits payable	**100,076**	182,397	**1,073,896**
Other	**44,073**	67,193	**472,947**
Total	**¥ 619,201**	¥ 819,900	**$ 6,644,501**

21. RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

CONSOLIDATED

The following table presents the funded status of the plans as of March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥ 72,473**	¥ 83,323	**$ 777,694**
Fair value of plan assets	**(56,114)**	(49,227)	**(602,149)**
Funded status (projected benefit obligation in excess of plan assets)	**16,359**	34,096	**175,545**
Unrecognized prior service cost	**2,983**	3,403	**32,019**
Unrecognized net actuarial losses	**(13,777)**	(21,297)	**(147,841)**
Unrecognized obligation at transition	**(3,027)**	(3,632)	**(32,483)**
Net amount accrued on the balance sheets	**2,538**	12,569	**27,240**
Prepaid pension cost	**(5,179)**	(5,649)	**(55,583)**
Reserve for retirement benefits	**¥ 7,718**	¥ 18,219	**$ 82,823**

The table includes benefit obligations of certain consolidated subsidiaries that calculate their obligations based on the full amount due to eligible employees as of the fiscal year-end.
As of March 31, 2009, "Projected benefit obligation" included ¥9,271 million of special retirement benefits as a part of a business restructuring at Shinsei Financial.

The following table provides the components of net periodic retirement benefit cost for the fiscal years ended March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥ 4,122**	¥ 4,611	**$ 44,235**
Interest cost	**1,548**	1,489	**16,619**
Expected return on plan assets	**(1,148)**	(1,407)	**(12,324)**
Amortization of prior service cost	**(419)**	(419)	**(4,504)**
Amortization of net actuarial losses	**2,773**	2,922	**29,763**
Amortization of unrecognized obligation at transition	**605**	605	**6,497**
Other (primarily consists of extraordinary severance benefit)	**688**	11,680	**7,386**
Net periodic retirement benefit cost	**¥ 8,170**	¥ 19,482	**$ 87,672**

For the fiscal year ended March 31, 2009, "Other (primarily consists of extraordinary severance benefit)" included ¥9,271 million of special retirement benefits as a part of a business restructuring at Shinsei Financial.

21. RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS (CONTINUED) CONSOLIDATED

Assumptions used in calculation of the above information were as follows:

	2010	2009
Discount rate	**1.50-2.20%**	1.50-2.20%
Expected rate of return on plan assets	**0.75-3.50%**	0.75-3.50%
Method of attributing the projected benefits to periods of service	**Straight-line basis**	Straight-line basis
Period of amortization of prior service cost	**5.00-14.74 years**	5.00-14.74 years
Period of amortization of net actuarial losses	**5.00-14.74 years**	5.00-14.74 years
Period of amortization of unrecognized obligation at transition	**15 years**	15 years

22. ACCEPTANCES AND GUARANTEES CONSOLIDATED

Acceptances and guarantees as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Guarantees	**¥ 623,786**	¥ 675,225	**$ 6,693,711**

23. ASSETS PLEDGED AS COLLATERAL CONSOLIDATED

Assets pledged as collateral and liabilities collateralized as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Assets:			
Cash and due from banks	**¥ 876**	¥ 783	**$ 9,401**
Other monetary claims purchased	**—**	47,380	**—**
Trading assets	**—**	15,669	**—**
Securities	**1,499,840**	964,554	**16,094,437**
Loans and bills discounted	**293,388**	438,946	**3,148,283**
Lease receivables and leased investment assets	**55,515**	20,034	**595,725**
Other assets	**436**	842	**4,682**
Premises and equipment	**1,887**	1,398	**20,255**
Liabilities:			
Deposits, including negotiable certificates of deposit	**¥ 790**	¥ 988	**$ 8,478**
Call money	**310,000**	250,000	**3,326,537**
Payables under repurchase agreements	**8,430**	53,805	**90,463**
Collateral related to securities lending transactions	**548,479**	569,205	**5,885,601**
Commercial paper	**—**	198	**—**
Borrowed money	**708,999**	225,754	**7,608,105**
Corporate bonds	**—**	9,868	**—**
Other liabilities	**24**	24	**266**
Acceptances and guarantees	**920**	909	**9,876**

In addition, ¥231,818 million (U.S.$2,487,590 thousand) and ¥215,813 million of securities as of March 31, 2010 and 2009, were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for future trading.

Also, ¥227 million (U.S.$2,440 thousand) and ¥1,339 million of margin deposits for futures transactions outstanding were included in other assets as of March 31, 2010 and 2009, respectively. In addition, ¥13,776 million (U.S.$147,836 thousand) and ¥6,865 million of cash collateral pledged for derivative transactions were included in other assets as of March 31, 2010 and 2009, respectively.

24. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN

CONSOLIDATED

In February 2006, Shinsei Finance (Cayman) Limited, the Bank's wholly owned subsidiary, issued U.S.$775 million of step-up non-cumulative perpetual preferred securities. Dividends on the securities are payable on a non-cumulative basis annually in arrears at a rate of 6.418% until July 2016. After July 2016, dividends on the securities will be calculated at a floating rate of LIBOR plus 2.22%. On July 20, 2016 or any dividend payment date thereafter, Shinsei Finance (Cayman) Limited may redeem the securities at a price equal to the liquidation preference together with any dividends otherwise payable.

In March 2006, Shinsei Finance II (Cayman) Limited, the Bank's wholly owned subsidiary, issued U.S.$700 million of non-cumulative perpetual preferred securities. Dividends on the securities are payable on a non-cumulative basis annually in arrears at a rate of 7.160% until July 2016. After July 2016, dividends on the securities will be calculated at a floating rate of LIBOR plus 1.87%. On July 25, 2016 and on each dividend payment date falling at ten year intervals thereafter, Shinsei Finance II (Cayman) Limited may redeem the securities at a price equal to the liquidation preference together with any dividends otherwise payable.

On March 30, 2009, Shinsei Finance III (Cayman) Limited, the Bank's wholly owned subsidiary, issued ¥39,100 million of non-cumulative perpetual preferred securities. Dividends on ¥19,000 million of the securities are payable annually in arrears at a rate of 5.50% until July 2014 and at a floating rate of LIBOR plus 4.56% after July 2014. Dividends on ¥20,100 million of the securities are payable annually in arrears at a rate of 5.00% until July 2019 and at a floating rate of LIBOR plus 4.70% after July 2019.

Also on March 30, 2009, Shinsei Finance IV (Cayman) Limited, the Bank's wholly owned subsidiary, issued ¥9,100 million of non-cumulative perpetual preferred securities. Dividends on ¥2,500 million of the securities are payable annually in arrears at a rate of 5.00% until July 2019 and at a floating rate of LIBOR plus 4.70% after July 2019. Dividends on ¥6,600 million of the securities are payable annually in arrears at a rate of 5.50% until July 2014 and at a floating rate of LIBOR plus 4.56% after July 2014.

On October 2, 2009, Shinsei Finance V (Cayman) Limited, the Bank's wholly owned subsidiary, issued ¥9,000 million of non-cumulative perpetual preferred securities. Dividends on ¥4,000 million of the securities are payable annually in arrears at a rate of 5.50% until July 2015 and at a floating rate of Yen LIBOR plus 4.55% after July 2015. Dividends on ¥5,000 million of the securities are payable annually in arrears at a floating rate of Yen LIBOR plus 4.55%.

The Bank repurchased $22 million and $100 million of non-cumulative perpetual securities of Shinsei Finance (Cayman) Limited, and $97 million and $121 million of non-cumulative perpetual preferred securities of Shinsei Finance II (Cayman) Limited in open-market transactions and cancelled all of the repurchased securities during the fiscal years ended March 31, 2010 and 2009, respectively. Also, the Bank repurchased ¥3,100 million of non-cumulative perpetual preferred securities of Shinsei Finance III (Cayman) Limited in open-market transactions and cancelled all of the repurchased securities during the fiscal years ended March 31, 2010.

These preferred securities are accounted for as minority interests in the consolidated financial statements of the Bank. The amounts recognized as minority interests as of March 31, 2010 and 2009 were ¥167,154 million (U.S.$1,793,697 thousand) and ¥177,158 million, respectively.

25. EQUITY

CONSOLIDATED

The authorized number of shares of capital stock as of March 31, 2010 was 4,000,000 thousand common shares.

The following table shows changes in the number of shares of common stock and treasury stock.

	Thousands	
	Issued number of shares	Number of treasury stock
	Common stock	Common stock
Fiscal year ended March 31, 2009:		
Beginning of year	2,060,346	96,436
Increase	—	4
Decrease	—	(13)
End of year	2,060,346	96,427
Fiscal year ended March 31, 2010:		
Beginning of year	**2,060,346**	**96,427**
Increase	**—**	**0**
Decrease	**—**	**—**
End of year	**2,060,346**	**96,427**

Japanese banks are subject to the Companies Act of Japan (the "Companies Act") and the Banking Law. The significant provisions in the Companies Act and the Banking Law that affect financial and accounting matters are summarized below:

(a) Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Board of Directors of companies with board committees (nomination committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Companies Act, even though such companies have an audit committee instead of the Board of Corporate Auditors. The Bank is organized as a company with board committees.

Subject to approval at the Annual General Meeting of Shareholders on June 23, 2010, the Bank plans to revise its Article of Incorporation and move from a "Company with Committees" to a "Company with Board of Corporate Auditors" to renew its corporate governance framework.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain-limitations and additional requirements.

Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act and the Banking Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

(b) Increases/decreases and transfer of common stock, reserve and surplus
The Banking Law requires that an amount equal to 20% of dividends must be appropriate as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 100% of the common stock.

The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights
The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

26. STOCK ACQUISITION RIGHTS

CONSOLIDATED

The Bank issues stock acquisition rights as a stock option plan to directors, statutory executive officers and employees of the Bank and its subsidiaries as well as to its senior advisors.

Stock acquisition rights provide eligible individuals (the "holders") with the right to purchase common stock of the Bank without any consideration at an exchange rate of one thousand common shares to one stock acquisition right. The amount of money to be paid upon exercising stock acquisition rights is the amount calculated by multiplying the payment amount per share (the "exercise price") and the number of common shares that can be purchased through the exercise of one stock acquisition right. Conditions are stipulated in the "Agreement on the Grant of Stock Acquisition Rights" entered into between the Bank and the holders to whom stock acquisition rights were allotted based on the resolution of the annual general meeting of shareholders and the meetings of the Board of Directors which resolves the issuance of stock acquisition rights subsequent to the shareholders' meeting.

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance, which requires companies to recognize compensation expense for stock acquisition rights based on the fair value at the date of grant and over the vesting periods for stock acquisition rights newly granted on and after May 1, 2006.

Stock-based compensation expenses were ¥94 million (U.S.$1,009 thousand) and ¥636 million for the fiscal years ended March 31, 2010 and 2009. Gain on unexercised and forfeited stock acquisition rights was included in other gains (losses), net was ¥229 million (U.S.$2,466 thousand) for the fiscal year ended March 31, 2010. There were no stock acquisition rights issued during the fiscal year ended March 31, 2010.

(a) Details of stock options

Stock options outstanding as of March 31, 2010 were as follows:

	Date of issuance	Total number of stock options (shares) at the issuance	Total number of holders at the issuance	Exercise period	Exercise price
1st	July 1, 2004	9,455,000	2,196	July 1, 2006-June 23, 2014	¥684
2nd	October 1, 2004	161,000	3	July 1, 2006-June 23, 2014	¥646
3rd	December 10, 2004	25,000	1	July 1, 2006-June 23, 2014	¥697
4th	June 1, 2005	250,000	1	July 1, 2006-June 23, 2014	¥551
5th	June 27, 2005	4,922,000	462	July 1, 2007-June 23, 2015	¥601
6th	June 27, 2005	2,856,000	40	July 1, 2007-June 23, 2015	¥601
7th	June 27, 2005	1,287,000	135	July 1, 2008-June 23, 2015	¥601
8th	June 27, 2005	561,000	35	July 1, 2008-June 23, 2015	¥601
9th	September 28, 2005	157,000	2	July 1, 2007-June 23, 2015	¥697
10th	September 28, 2005	53,000	2	July 1, 2008-June 23, 2015	¥697
11th	March 1, 2006	50,000	2	July 1, 2007-June 23, 2015	¥774
12th	March 1, 2006	17,000	2	July 1, 2008-June 23, 2015	¥774
13th	May 25, 2006	5,342,000	588	June 1, 2008-June 23, 2015	¥825
14th	May 25, 2006	3,027,000	31	June 1, 2008-June 23, 2015	¥825
15th	May 25, 2006	1,439,000	171	June 1, 2009-June 23, 2015	¥825
16th	May 25, 2006	331,000	19	June 1, 2009-June 23, 2015	¥825
17th	May 25, 2007	3,306,000	135	June 1, 2009-May 8, 2017	¥555
18th	May 25, 2007	1,480,000	26	June 1, 2009-May 8, 2017	¥555
19th	July 2, 2007	140,000	32	July 1, 2009-June 19, 2017	¥527
20th	May 30, 2008	2,830,000	124	June 1, 2010-May 13, 2018	¥416
21st	May 30, 2008	2,081,000	30	June 1, 2010-May 13, 2018	¥416
22nd	July 10, 2008	203,000	43	July 1, 2010-June 24, 2018	¥407
23rd	December 1, 2008	97,000	17	December 1, 2010-November 11, 2018	¥221

(b) Number of stock options and movement therein

Numbers of stock options and per share price information are as follows:

	1st	2nd	3rd	4th
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	6,343,000	42,000	25,000	250,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	398,000	—	—	—
Exercisable at the end of the year	5,945,000	42,000	25,000	250,000
Exercise price (Yen)	684	646	697	551
Weighted average stock price at the date of exercise	—	—	—	—
Fiscal year ended March 31, 2010				
Non-vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	5,945,000	42,000	25,000	250,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	647,000	35,000	—	—
Exercisable at the end of the year	5,298,000	7,000	25,000	250,000
Exercise price (Yen)	684	646	697	551
Weighted average stock price at the date of exercise	—	—	—	—

	5th	6th	7th	8th
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	1,298,000	996,000	715,000	360,000
Granted during the year	—	—	—	—
Forfeited during the year	43,000	110,000	31,000	88,000
Vested during the year	1,255,000	886,000	314,000	139,000
Outstanding at the end of the year	—	—	370,000	133,000
Vested (share)				
Outstanding at the beginning of the year	2,291,000	1,404,000	232,000	26,000
Vested during the year	1,255,000	886,000	314,000	139,000
Exercised during the year	—	—	—	—
Forfeited during the year	178,000	137,000	9,000	3,000
Exercisable at the end of the year	3,368,000	2,153,000	537,000	162,000
Exercise price (Yen)	601	601	601	601
Weighted average stock price at the date of exercise	—	—	—	—
Fiscal year ended March 31, 2010				
Non-vested (share)				
Outstanding at the beginning of the year	—	—	370,000	133,000
Granted during the year	—	—	—	—
Forfeited during the year	—	—	107,000	24,000
Vested during the year	—	—	2,000	—
Outstanding at the end of the year	—	—	261,000	109,000
Vested (share)				
Outstanding at the beginning of the year	3,368,000	2,153,000	537,000	162,000
Vested during the year	—	—	2,000	—
Exercised during the year	—	—	—	—
Forfeited during the year	675,000	232,000	111,000	34,000
Exercisable at the end of the year	2,693,000	1,921,000	428,000	128,000
Exercise price (Yen)	601	601	601	601
Weighted average stock price at the date of exercise	—	—	—	—

26. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

	9th	10th	11th	12th
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	78,000	53,000	20,000	14,000
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	78,000	27,000	20,000	7,000
Outstanding at the end of the year	—	26,000	—	7,000
Vested (share)				
Outstanding at the beginning of the year	79,000	—	21,000	—
Vested during the year	78,000	27,000	20,000	7,000
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	157,000	27,000	41,000	7,000
Exercise price (Yen)	697	697	774	774
Weighted average stock price at the date of exercise	—	—	—	—
Fiscal year ended March 31, 2010				
Non-vested (share)				
Outstanding at the beginning of the year	—	26,000	—	7,000
Granted during the year	—	—	—	—
Forfeited during the year	—	8,000	—	7,000
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	18,000	—	—
Vested (share)				
Outstanding at the beginning of the year	157,000	27,000	41,000	7,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	49,000	9,000	41,000	7,000
Exercisable at the end of the year	108,000	18,000	—	—
Exercise price (Yen)	697	697	774	774
Weighted average stock price at the date of exercise	—	—	—	—

	13th	14th	15th	16th
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	3,836,000	2,609,000	1,055,000	192,000
Granted during the year	—	—	—	—
Forfeited during the year	275,000	151,000	93,000	76,000
Vested during the year	2,116,000	2,022,000	5,000	—
Outstanding at the end of the year	1,445,000	436,000	957,000	116,000
Vested (share)				
Outstanding at the beginning of the year	296,000	5,000	80,000	2,000
Vested during the year	2,116,000	2,022,000	5,000	—
Exercised during the year	—	—	—	—
Forfeited during the year	151,000	23,000	—	—
Exercisable at the end of the year	2,261,000	2,004,000	85,000	2,000
Exercise price (Yen)	825	825	825	825
Weighted average stock price at the date of exercise	—	—	—	—
Fiscal year ended March 31, 2010				
Non-vested (share)				
Outstanding at the beginning of the year	1,445,000	436,000	957,000	116,000
Granted during the year	—	—	—	—
Forfeited during the year	124,000	109,000	184,000	77,000
Vested during the year	1,321,000	327,000	456,000	22,000
Outstanding at the end of the year	—	—	317,000	17,000
Vested (share)				
Outstanding at the beginning of the year	2,261,000	2,004,000	85,000	2,000
Vested during the year	1,321,000	327,000	456,000	22,000
Exercised during the year	—	—	—	—
Forfeited during the year	762,000	287,000	110,000	4,000
Exercisable at the end of the year	2,820,000	2,044,000	431,000	20,000
Exercise price (Yen)	825	825	825	825
Weighted average stock price at the date of exercise	—	—	—	—

26. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

	17th	18th	19th	20th
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	3,085,000	1,457,000	140,000	—
Granted during the year	—	—	—	2,830,000
Forfeited during the year	456,000	232,000	—	522,000
Vested during the year	373,000	712,000	—	10,000
Outstanding at the end of the year	2,256,000	513,000	140,000	2,298,000
Vested (share)				
Outstanding at the beginning of the year	47,000	—	—	—
Vested during the year	373,000	712,000	—	10,000
Exercised during the year	—	—	—	—
Forfeited during the year	1,000	—	—	—
Exercisable at the end of the year	419,000	712,000	—	10,000
Exercise price (Yen)	555	555	527	416
Weighted average stock price at the date of exercise	—	—	—	—
Fair value at the grant date	—	—	—	158 or 169
Fiscal year ended March 31, 2010				
Non-vested (share)				
Outstanding at the beginning of the year	2,256,000	513,000	140,000	2,298,000
Granted during the year	—	—	—	—
Forfeited during the year	612,000	143,000	—	294,000
Vested during the year	975,000	205,000	88,000	37,000
Outstanding at the end of the year	669,000	165,000	52,000	1,967,000
Vested (share)				
Outstanding at the beginning of the year	419,000	712,000	—	10,000
Vested during the year	975,000	205,000	88,000	37,000
Exercised during the year	—	—	—	—
Forfeited during the year	232,000	36,000	—	—
Exercisable at the end of the year	1,162,000	881,000	88,000	47,000
Exercise price (Yen)	555	555	527	416
Weighted average stock price at the date of exercise	—	—	—	—

	21st	22nd	23rd
Fiscal year ended March 31, 2009			
Non-vested (share)			
Outstanding at the beginning of the year	—	—	—
Granted during the year	2,081,000	203,000	97,000
Forfeited during the year	446,000	—	—
Vested during the year	—	—	—
Outstanding at the end of the year	1,635,000	203,000	97,000
Vested (share)			
Outstanding at the beginning of the year	—	—	—
Vested during the year	—	—	—
Exercised during the year	—	—	—
Forfeited during the year	—	—	—
Exercisable at the end of the year	—	—	—
Exercise price (Yen)	416	407	221
Weighted average stock price at the date of exercise	—	—	—
Fair value at the grant date	158 or 169	127 or 137	53 or 57
Fiscal year ended March 31, 2010			
Non-vested (share)			
Outstanding at the beginning of the year	1,635,000	203,000	97,000
Granted during the year	—	—	—
Forfeited during the year	665,000	10,000	21,000
Vested during the year	—	10,000	—
Outstanding at the end of the year	970,000	183,000	76,000
Vested (share)			
Outstanding at the beginning of the year	—	—	—
Vested during the year	—	10,000	—
Exercised during the year	—	—	—
Forfeited during the year	—	—	—
Exercisable at the end of the year	—	10,000	—
Exercise price (Yen)	416	407	221
Weighted average stock price at the date of exercise	—	—	—

26. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

(c) Measurement of the fair value of stock options

There were no stock options granted or whose fair value was changed with the modification to the terms and conditions during the fiscal year ended March 31, 2010.

The following shows the assumptions used to measure the fair value of stock options granted during the fiscal year ended March 31, 2009.

a) Method used: Black-Scholes option pricing model

b) Major inputs and variables to the model

	20th		21st		22nd		23rd	
Exercise period	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018	From July 1, 2010 to June 24, 2018	From July 1, 2012 to June 24, 2018	From December 1, 2010 to November 11, 2018	From December 1, 2012 to November 11, 2018
Expected volatility (Note 1)	40.80%	40.80%	40.80%	40.80%	40.80%	40.80%	54.40%	54.40%
Expected life (Note 2)	6 Years	7 Years	6 Years	7 Years	6 Years	7 Years	6 Years	7 Years
Expected dividends (Note 3)	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share
Risk-free interest rate (Note 4)	1.42%	1.48%	1.42%	1.48%	1.19%	1.25%	0.88%	0.91%

Notes: (1) Measurement based on the historical stock price of the past 2 years (from May 2006 to May 2008 for the 20th and 21st, from June 2006 to June 2008 for the 22nd, from November 2006 to November 2008 for the 23rd)
(2) Estimated based on the assumptions that the option is exercised at the mid point of the exercise period.
(3) Based on the actual dividend for the fiscal year ended March 31, 2008.
(4) Used the yield of JGB with the maturity equivalent to expected life of the option.

(d) Method of determining the vested number of stock options

Incorporated only the actual forfeited options, as the reasonable estimate of future forfeitures is not determinable.

27. NET TRADING INCOME (LOSS) CONSOLIDATED

Net trading income (loss) for the fiscal years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Income (loss) from trading securities	**¥ 3,879**	¥ (5,826)	**$ 41,625**
Income (loss) from securities held to hedge trading transactions	**4,407**	(10,756)	**47,294**
Income (loss) from trading-related financial derivatives	**328**	11,916	**3,526**
Other, net	**399**	2	**4,282**
Total	**¥ 9,014**	¥ (4,663)	**$ 96,727**

28. OTHER BUSINESS INCOME (LOSS), NET CONSOLIDATED

"Other, net" in other business income (loss), net, for the fiscal years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Income (loss) from derivatives entered into for banking purposes, net	**¥ (644)**	¥ (2,837)	**$ (6,913)**
Equity in net income (loss) of affiliates	**(4,181)**	(2,717)	**(44,866)**
Gain on lease cancellation and other lease income (loss), net	**(765)**	1,128	**(8,216)**
Other, net	**437**	276	**4,692**
Total	**¥ (5,153)**	¥ (4,150)	**$ (55,303)**

29. NET CREDIT COSTS
CONSOLIDATED

Net credit costs for the fiscal years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Losses on write-off or sales of loans	¥ 18,588	¥ 3,192	$ 199,473
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	40,012	56,134	429,366
Net provision (reversal) of specific reserve for loan losses	55,535	73,609	595,939
Net provision (reversal) of reserve for loan losses to restructuring countries	(1)	(1)	(13)
Subtotal	95,547	129,743	1,025,292
Net provision (reversal) of specific reserve for other credit losses	(113)	(4,770)	(1,218)
Other credit costs (recoveries) relating to leasing business	(1,724)	874	(18,502)
Total	¥ 112,298	¥ 129,039	$ 1,205,045

30. OTHER GAINS (LOSSES), NET
CONSOLIDATED

Other gains (losses), net for the fiscal years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net gain (loss) on disposal of premises and equipment	¥ (1,961)	¥ 8,787	$ (21,053)
Provision for losses on disposal of premises and equipment	(266)	(3,900)	(2,857)
Pension-related costs	(359)	(2,146)	(3,859)
Gain on write-off of unclaimed debentures	525	1,295	5,644
Recoveries of written-off claims	10,760	5,791	115,472
Gain on sale of subsidiary's stock	—	8,226	—
Provision of reserve for losses on interest repayments	(29,656)	(15,029)	(318,238)
Impairment losses on goodwill and other intangible assets	(73,396)	—	(787,600)
Accelerated goodwill amortization	—	(30,905)	—
Gain from the cancellation of issued corporate bonds and other instruments	21,269	75,106	228,241
Business restructuring cost	—	(12,544)	—
Provision for litigation losses	(2,210)	(3,662)	(23,720)
Other, net	(8,005)	(4,542)	(85,909)
Total	¥ (83,300)	¥ 26,478	$ (893,879)

Impairment losses on goodwill and other intangible assets were associated with Bank's investment in its consolidated subsidiaries APLUS FINANCIAL and Shinki and their subsidiaries. The amount of impairment loss for goodwill and other intangible assets associated with APLUS FINANCIAL group was ¥61,538 million (U.S. $660,360 thousand) and ¥7,638 million (U.S. $81,966 thousand), respectively, and the amount of impairment loss for other intangible assets associated with Shinki group was ¥4,219 million (U.S. $45,247 thousand) for the fiscal year ended March 31, 2010.

Impairment testing was conducted for the business of APLUS FINANCIAL group and Shinki group as a result of the significant adverse environment of their consumer finance business caused by the revised Money-Lending Business Control and Regulation Law in Japan and continuous reimbursement request of excess interest payments.

Impairment losses on goodwill and other intangible assets were recognized based on the recoverable amount measured at their "value in use." The "value in use" of APLUS FINANCIAL group was calculated using the discounted cash flow method with a 5 year future cash flow projection, no growth terminal value and a 13.0% discount rate, and the "value in use" of Shinki group was calculated using the discounted cash flow method with a 5 year future cash flow projection and a 20.0% discount rate.

As a result of testing, outstanding goodwill and other intangible assets associated with APLUS FINANCIAL group and Shinki group were fully impaired.

Business restructuring cost contained an extraordinary severance benefit due to the business restructuring of Shinsei Financial amounting to ¥9,271 million for the fiscal year ended March 31, 2009.

31. LEASE TRANSACTIONS

CONSOLIDATED

(a) Disclosures for finance lease transactions as of March 31, 2010 and 2009 are as follows:

AS LESSEE

For finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee,

(1) Leased assets are primarily buildings, tools, equipment and fixtures included in "Premises and equipment," and software included in "Intangible assets."

(2) Depreciation method is described in "(X) LEASE TRANSACTIONS" in "2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

AS LESSOR

(1) Breakdown of leased investment assets

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2010**	2009	**2010**
Lease payment receivables	**¥ 213,254**	¥ 247,887	**$ 2,288,379**
Estimated residual value	**9,512**	10,539	**102,072**
Interest equivalent	**(29,284)**	(38,647)	**(314,249)**
Leased investment assets	**¥ 193,481**	¥ 219,778	**$ 2,076,202**

(2) Lease payment receivables for "Lease receivables and leased investment assets"

	Lease receivables		Leased investment assets	
As of March 31, 2010	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Due within one year	**¥ 5,057**	**$ 54,272**	**¥ 78,765**	**$ 845,211**
Due after one year within two years	**5,516**	**59,198**	**55,434**	**594,856**
Due after two years within three years	**4,110**	**44,112**	**37,278**	**400,030**
Due after three years within four years	**3,896**	**41,814**	**20,305**	**217,893**
Due after four years within five years	**1,969**	**21,134**	**9,199**	**98,715**
Due after five years	**1,511**	**16,220**	**12,270**	**131,674**
Total	**¥ 22,062**	**$ 236,750**	**¥ 213,254**	**$ 2,288,379**

(b) Non-cancelable operating lease obligations as lessee and lease payment receivables as lessor as of March 31, 2010 and 2009 consisted of the following:

AS LESSEE

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2010**	2009	**2010**
Obligations:			
Due within one year	**¥ 5,060**	¥ 5,193	**$ 54,301**
Due after one year	**4,861**	4,056	**52,169**
Total	**¥ 9,921**	¥ 9,250	**$ 106,470**

AS LESSOR

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2010**	2009	**2010**
Lease payment receivables:			
Due within one year	**¥ 5,603**	¥ 2,933	**$ 60,131**
Due after one year	**11,515**	10,136	**123,569**
Total	**¥ 17,118**	¥ 13,069	**$ 183,700**

32. SEGMENT INFORMATION — CONSOLIDATED

(A) BUSINESS SEGMENT INFORMATION

The Group is engaged in banking and other related activities such as trust, securities and other businesses. Business segment information, however, has not been presented as the percentage of the other activities is not material to the banking business.

(B) GEOGRAPHIC SEGMENT INFORMATION

Since the proportion of business that the Group conducts in Japan exceeds 90% of operating income and total assets, geographic segment information is not presented.

(C) FOREIGN OPERATING INCOME

Foreign operating income is comprised of income from transactions at overseas branches and consolidated overseas subsidiaries. The composition of the volume of such transactions for the Group did not reach 10% of its operating income, therefore foreign operating income information is not presented.

33. INCOME TAXES — CONSOLIDATED

The Group is subject to a number of taxes based on income, such as corporation tax, inhabitant tax and enterprise tax, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for each of the fiscal years ended March 31, 2010 and 2009.

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal years ended March 31, 2010 and 2009 was as follows:

	2010	2009
Normal effective statutory tax rate	(40.7)%	(40.7)%
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	(0.8)	(1.8)
Amortization and impairment of goodwill	24.7	14.6
Equity in net loss of affiliates	1.4	0.2
Other non-deductible expenses	0.3	0.5
Change in valuation allowance	13.6	37.7
Expiration of tax loss carryforwards	13.2	—
Other	(5.0)	(1.7)
Actual effective tax rate	6.7 %	8.8 %

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Tax loss carryforwards	¥ 241,524	¥ 201,073	$ 2,591,740
Reserve for credit losses	220,429	212,130	2,365,376
Securities	50,898	41,217	546,184
Reserve for losses on interest repayments	28,519	78,877	306,033
Valuation of monetary assets held in trust	19,517	9,636	209,436
Deferred loss on derivatives under hedge accounting	6,251	8,433	67,087
Other	44,104	74,086	473,273
Subtotal	611,245	625,455	6,559,129
Valuation allowance	(573,394)	(574,627)	(6,152,960)
Total deferred tax assets	37,850	50,828	406,169
Offset with deferred tax liabilities	(18,881)	(28,573)	(202,614)
Net deferred tax assets	¥ 18,969	¥ 22,254	$ 203,555
Deferred tax liabilities:			
Temporary differences due to business combination (primarily related to identified intangible assets)	¥ 11,254	¥ 17,888	$ 120,770
Deferred gain on derivatives under hedge accounting	8,006	11,907	85,916
Net unrealized gain on securities available-for-sale	121	—	1,309
Other	1,046	442	11,225
Total deferred tax liabilities	20,429	30,238	219,220
Offset with deferred tax assets	(18,881)	(28,573)	(202,614)
Net deferred tax liabilities	¥ 1,547	¥ 1,665	$ 16,606

33. INCOME TAXES (CONTINUED) CONSOLIDATED

The Bank has ¥108,010 million (U.S.$1,159,038 thousand) of tax loss carryforward related to corporation tax as of March 31, 2010. The schedule of tax loss carryforward and its expiration date are as follows:

	Amount		
Fiscal year ended March 31	Millions of yen	Thousands of U.S. dollars	Date of expiry
2009	¥ 108,010	$ 1,159,038	March 31, 2016

In addition, other significant tax loss carryforwards of major subsidiaries are as follows:

Subsidiary	Fiscal period ended	Millions of yen	Date of expiry
APLUS FINANCIAL Co., Ltd.	March 31, 2005	¥ 144,207	March 31, 2012
	September 30, 2005	2,649	March 31, 2013
	March 31, 2006	4,399	March 31, 2013
	March 31, 2007	29,537	March 31, 2014
	March 31, 2008	11,826	March 31, 2015
	Total	¥ 192,621	
Shinsei Financial Co., Ltd.	December 31, 2007	¥ 28,327	March 31, 2014
	December 31, 2008	38,731	March 31, 2016
	March 31, 2009	27,540	March 31, 2016
	March 31, 2010	169,016	March 31, 2017
	Total	¥ 263,616	
Showa Leasing Co., Ltd.	March 31, 2005	¥ 4,631	March 31, 2012
	March 31, 2007	10,018	March 31, 2014
	Total	¥ 14,650	
Shinki Co., Ltd.	March 31, 2008	¥ 19,037	March 31, 2015
	March 31, 2009	9,280	March 31, 2016
	March 31, 2010	5,491	March 31, 2017
	Total	¥ 33,810	

The Bank cannot include the tax loss carryforwards of APLUS FINANCIAL, Shinsei Financial, Showa Leasing and Shinki in its own tax loss carryforwards because they are not wholly-owned subsidiaries and, therefore, cannot be included in the Bank's consolidated corporation tax return.

34. OFF-BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS CONSOLIDATED

The Bank and certain of its consolidated subsidiaries issue commitments to extend credit and establish credit lines for overdrafts to meet the financing needs of their customers. The unfunded amounts of these commitments were ¥5,306,934 million (U.S.$56,947,466 thousand) and ¥5,596,451 million as of March 31, 2010 and 2009, out of which the amounts with original agreement terms of less than one year or which were cancelable were ¥5,113,865 million (U.S.$54,875,695 thousand) and ¥5,343,168 million as of March 31, 2010 and 2009, respectively. Since a large majority of these commitments expire without being drawn upon, the unfunded amounts do not necessarily represent future cash requirements. Many of such agreements include conditions granting the Bank and consolidated subsidiaries the right to reject the drawdown or to reduce the amount on the basis of changes in the financial circumstances of the borrower or other reasonable grounds.

In addition, the Bank obtains collateral when necessary to reduce credit risk related to these commitments.

35. RELATED PARTY TRANSACTIONS

CONSOLIDATED

Related party transactions for the fiscal years ended March 31, 2010 and 2009 were as follows:

			Amounts of the transactions			Balance at end of fiscal year		
			Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
Related party	Category	Description of the transactions	2010	2009	2010	2010	2009	2010
J.C. Flowers II L.P.(1)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Receipt of management fee(2)	¥ 138	¥ 216	$ 1,485	¥ 22	¥ 26	$ 240
		Investment(3)	104	11,088	1,126	—	—	—
		Dividend	439	432	4,720	—	—	—
J.C. Flowers III L.P.(4)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Investment(5)	3,918	468	42,044	—	—	—
		Dividend	4,172	—	44,778	—	—	—
NIBC Bank Ltd.(6)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Loan participation(7)	257	724	2,761	1,001	1,093	10,742
NIBC Bank N.V.(8)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Commitment line(9)	—	13,009	—	—	—	—
Hillcot Holdings Limited(10)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Redemption of investment(10)	—	715	—	—	—	—

Notes: (1) The fund is operated by J.C. Flowers & Co. LLC, of which a director of the Bank, J. Christopher Flowers, serves as chairman.
(2) The management fee is determined based on proportion of investment amounts by limited liability partner.
(3) The committed investment amounts are U.S.$200 million based on the limited partnership agreement.
(4) The fund is operated by J.C. Flowers & Co. LLC, of which a director of the Bank, J. Christopher Flowers, serves as chairman.
(5) The committed investment amounts are U.S.$99.95 million based on the limited partnership agreement.
(6) NIBC Holding N.V. owns 100% of voting rights of the NIBC Bank Ltd., and New NIB Limited, 49% of which is owned by J. Christopher Flowers, director of the Bank, indirectly controls NIBC Holding N.V.
(7) Considering the market circumstances, the transaction was concluded with the general terms and conditions that are identical to ones with independent third parties. Drawdown under the loan participation facility was fully completed in this fiscal year.
(8) NIBC Holding N.V. indirectly owns 100% of voting rights of the NIBC Bank N.V., and New NIB Limited, 49% of which is owned by J. Christopher Flowers, director of the Bank, indirectly controls NIBC Holding N.V.
(9) Considering the market circumstances, the transaction was concluded with the general terms and conditions that are identical to ones with independent third parties. The transaction amounts indicated herein are established commitment line amounts.
(10) Investment in capital of Hillcot Holdings Limited, which a director of the Bank, J. Christopher Flowers indirectly owns the majority of the voting rights of and is an affiliate of the Bank, was redeemed.

36. DERIVATIVE FINANCIAL INSTRUMENTS

(1) Derivative transactions to which hedge accounting was not applied

The fair value of derivatives on the consolidated balance sheets as of March 31, 2010 and 2009 are adjusted for credit risk by reducing ¥1,737 million (U.S.$18,641 thousand) and ¥1,703 million, respectively, and also adjusted for liquidity risk by reducing ¥3,190 million (U.S.$34,237 thousand) and ¥7,111 million, respectively.

Regardless of this accounting treatments, the amounts of those risks are not reflected in the fair value shown in the following tables.

(A) INTEREST RATE-RELATED TRANSACTIONS

Interest rate-related transactions as of March 31, 2010 and 2009 were as follows:

	Millions of yen							
	2010				2009			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Futures contracts (listed):								
Sold	**¥ 23,310**	**¥ 1,136**	**¥ (211)**	**¥ (211)**	¥ 36,759	¥ 9,595	¥ (175)	¥ (175)
Bought	**6,240**	**1,144**	**147**	**147**	140,269	5,876	209	209
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	**4,507,719**	**3,617,134**	**91,704**	**91,704**	5,853,395	4,831,444	147,897	147,897
Receive floating and pay fixed	**3,282,392**	**2,526,447**	**(57,073)**	**(57,073)**	4,264,034	3,214,516	(87,796)	(87,796)
Receive floating and pay floating	**731,076**	**490,287**	**483**	**483**	583,772	450,087	2,297	2,297
Interest rate swaptions (over-the-counter):								
Sold	**1,059,851**	**549,351**	**(25,168)**	**(8,066)**	2,223,348	1,181,848	(23,837)	971
Bought	**1,596,240**	**1,354,115**	**(14,587)**	**(21,023)**	2,571,248	2,401,494	(28,202)	(42,463)
Interest rate options (over-the-counter):								
Sold	**101,795**	**87,602**	**(310)**	**318**	103,114	86,023	(261)	989
Bought	**128,902**	**120,902**	**55**	**(664)**	121,125	92,445	48	(1,048)
Total			**¥ (4,960)**	**¥ 5,613**			¥ 10,179	¥ 20,882

	Thousands of U.S. dollars			
	2010			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Futures contracts (listed):				
Sold	**$ 250,137**	**$ 12,195**	**$ (2,275)**	**$ (2,275)**
Bought	**66,968**	**12,283**	**1,584**	**1,584**
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	**48,371,284**	**38,814,626**	**984,061**	**984,061**
Receive floating and pay fixed	**35,222,581**	**27,110,718**	**(612,443)**	**(612,443)**
Receive floating and pay floating	**7,845,009**	**5,261,158**	**5,184**	**5,184**
Interest rate swaptions (over-the-counter):				
Sold	**11,373,022**	**5,894,967**	**(270,079)**	**(86,563)**
Bought	**17,128,882**	**14,530,691**	**(156,532)**	**(225,595)**
Interest rate options (over-the-counter):				
Sold	**1,092,346**	**940,047**	**(3,329)**	**3,416**
Bought	**1,383,228**	**1,297,381**	**597**	**(7,130)**
Total			**$ (53,232)**	**$ 60,239**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Tokyo Financial Exchange and other exchanges at the consolidated balance sheet date. The fair values of over-the-counter transactions are calculated primarily by using the discounted cash flow method or option pricing models.

(B) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions as of March 31, 2010 and 2009 were as follows:

	Millions of yen							
	2010				2009			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	¥ 670,952	¥ 451,296	¥ 8,251	¥ 8,251	¥1,313,495	¥1,016,161	¥ (70,665)	¥ (70,665)
Forward foreign exchange contracts (over-the-counter):								
Sold	1,447,325	457,316	15,794	15,794	1,822,420	625,260	19,561	19,561
Bought	1,381,546	573,041	(6,436)	(6,436)	1,301,959	615,715	(25,905)	(25,905)
Currency options (over-the-counter):								
Sold	6,529,980	3,034,586	(170,493)	12,758	7,521,139	3,707,441	(223,046)	(19,620)
Bought	6,713,695	3,034,846	142,679	3,474	7,456,566	3,838,642	258,572	66,802
Total			¥ (10,204)	¥ 33,842			¥ (41,484)	¥ (29,827)

	Thousands of U.S. dollars			
	2010			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	$ 7,199,838	$ 4,842,759	$ 88,546	$ 88,546
Forward foreign exchange contracts (over-the-counter):				
Sold	15,530,906	4,907,352	169,488	169,488
Bought	14,825,049	6,149,169	(69,068)	(69,068)
Currency options (over-the-counter):				
Sold	70,071,686	32,563,436	(1,829,529)	136,911
Bought	72,043,091	32,566,230	1,531,059	37,284
Total			$ (109,504)	$ 363,161

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values are calculated primarily by using the discounted cash flow method or option pricing models.

(C) EQUITY-RELATED TRANACTIONS

Equity-related transactions as of March 31, 2010 and 2009 were as follows:

	Millions of yen							
	2010				2009			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Equity index futures (listed):								
Sold	¥ 2,251	¥ —	¥ (45)	¥ (45)	¥ 37	¥ —	¥ (3)	¥ (3)
Bought	2,092	—	230	230	16,192	—	753	753
Equity index options (listed):								
Sold	126,470	51,910	(5,580)	(1,548)	46,475	8,850	(2,226)	187
Bought	124,055	62,130	12,192	(122)	44,895	9,795	5,145	582
Equity options (over-the-counter):								
Sold	156,457	85,052	(12,327)	(2,061)	47,802	7,291	(9,998)	(1,661)
Bought	164,007	94,662	14,628	1,585	69,493	14,988	21,958	10,342
Equity index swaps (over-the-counter):								
Receive floating and pay index	1,000	1,000	46	46	1,000	1,000	85	85
Other (over-the-counter):								
Sold	22,900	22,900	(4,737)	(4,737)	24,998	24,900	(6,289)	(6,289)
Bought	165,185	157,778	18,331	18,309	166,436	159,429	26,822	26,800
Total			¥ 22,737	¥ 11,655			¥ 36,248	¥ 30,797

	Thousands of U.S. dollars			
	2010			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Equity index futures (listed):				
Sold	$ 24,160	$ —	$ (490)	$ (490)
Bought	22,456	—	2,479	2,479
Equity index options (listed):				
Sold	1,357,125	557,039	(59,885)	(16,612)
Bought	1,331,210	666,708	130,838	(1,319)
Equity options (over-the-counter):				
Sold	1,678,911	912,681	(132,285)	(22,118)
Bought	1,759,928	1,015,796	156,970	17,014
Equity index swaps (over-the-counter):				
Receive floating and pay index	10,731	10,731	494	494
Other (over-the-counter):				
Sold	245,735	245,735	(50,841)	(50,841)
Bought	1,772,568	1,693,081	196,712	196,470
Total			$ 243,992	$ 125,077

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Tokyo Stock Exchange and other exchanges at the consolidated balance sheet date. The fair values of over-the-counter transactions are calculated primarily by using the discounted cash flow method or option pricing model.

(D) BOND-RELATED TRANSACTIONS

Bond-related transactions as of March 31, 2010 and 2009 were as follows:

	Millions of yen							
	2010				2009			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Bond futures (listed):								
Sold	¥ 6,672	¥ —	¥ 38	¥ 38	¥ 418	¥ —	¥ 3	¥ 3
Bought	2,074	—	(1)	(1)	1,381	—	(0)	(0)
Total			¥ 36	¥ 36			¥ 3	¥ 3

	Thousands of U.S. dollars			
	2010			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Bond futures (listed):				
Sold	$ 71,598	$ —	$ 408	$ 408
Bought	22,260	—	(16)	(16)
Total			$ 392	$ 392

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Tokyo Stock Exchange and other exchanges at the consolidated balance sheet date.

(E) CREDIT DERIVATIVES TRANSACTIONS

Credit derivatives transactions as of March 31, 2010 and 2009 were as follows:

	Millions of yen							
	2010				2009			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):								
Sold	¥ 1,067,151	¥ 810,720	¥ (9,717)	¥ (9,717)	¥ 1,422,708	¥ 1,037,520	¥ (123,107)	¥ (123,107)
Bought	1,033,237	820,127	10,411	10,411	1,352,852	1,028,922	139,688	139,688
Total			¥ 694	¥ 694			¥ 16,580	¥ 16,580

	Thousands of U.S. dollars			
	2010			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):				
Sold	$ 11,451,357	$ 8,699,653	$ (104,271)	$ (104,271)
Bought	11,087,428	8,800,595	111,723	111,723
Total			$ 7,452	$ 7,452

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values are calculated by using the discounted cash flow method or other models.

(3) "Sold" stands for accepting credit risk and "Bought" stands for transferring credit risk.

36. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(2) Derivative transactions to which hedge accounting was applied

As described in "(AD) ACCOUNTING CHANGE" in "2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," the revised accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010, therefore, the required information is disclosed only for 2010.

(A) INTEREST RATE RELATED TRANSACTIONS

Interest rate swaps which are accounted for using deferral method as of March 31, 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
	Contractual/Notional principal			Contractual/Notional principal		
	Total	Maturity over one year	Fair value	Total	Maturity over one year	Fair value
Interest rate swaps :						
Receive fixed and pay floating	¥ 457,590	¥ 303,900	¥ 19,076	$ 4,910,291	$ 3,261,088	$ 204,707
Receive floating and pay fixed	695,506	396,966	(12,091)	7,463,313	4,259,752	(129,749)
Total			¥ 6,985			$ 74,958

Notes:

(1) Most of hedged items are interest-bearing assets and liabilities such as loans and bills discounted, securities available-for-sale (bonds) and deposits, including negotiable certificate of deposit.

(2) Interest rate swaps are primarily accounted for using deferral method in accordance with Industry Audit Committee Report No. 24 of the JICPA.

(3) The fair values are calculated primarily by using the discounted cash flow method.

Interest rate swaps which meet specific matching criteria as of March 31, 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
	Contractual/Notional principal			Contractual/Notional principal		
	Total	Maturity over one year	Fair value	Total	Maturity over one year	Fair value
Interest rate swaps :						
Receive floating and pay fixed	¥ 103,910	¥ 57,150	¥ —	$ 1,115,034	$ 613,263	$ —

Notes:

(1) Hedged item is borrowed money.

(2) Interest rate swaps which meet specific matching criteria are accounted for as component of hedged borrowed money. Therefore, the fair value of those interest rate swaps is included in the fair value of borrowed money in fair value information shown in Note 38 "FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES."

36. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(B) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions as of March 31, 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
	Contractual/Notional principal			Contractual/Notional principal		
	Total	Maturity over one year	Fair value	Total	Maturity over one year	Fair value
Currency swaps	**¥ 786,170**	**¥ 405,899**	**¥ (45,309)**	**$ 8,436,210**	**$ 4,355,607**	**$ (486,207)**

Notes:

(1) Most of hedged items are foreign currency denominated loans and bills discounted, securities, deposits and foreign exchanges.

(2) Currency swap transactions are primarily accounted for using deferral method in accordance with Industry Audit Committee Report No. 25 of the JICPA.

(3) The fair values are calculated primarily by using the discounted cash flow method.

37. NET INCOME (LOSS) PER COMMON SHARE CONSOLIDATED

Diluted net income per share for the fiscal years ended March 31, 2010 and 2009 is not disclosed because of the Group's net loss position.

Basic net income (loss) per common share ("EPS") for the fiscal years ended March 31, 2010 and 2009 is as follows:

	Net income (loss) (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)	EPS (U.S. dollars)
For the fiscal year ended March 31, 2010:				
Basic EPS				
Net income (loss) available to common shareholders	**¥ (140,150)**	**1,963,919**	**¥ (71.36)**	**$ (0.77)**
For the fiscal year ended March 31, 2009:				
Basic EPS				
Net income (loss) available to common shareholders	¥ (143,084)	1,963,916	¥ (72.85)	

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

CONSOLIDATED

In March 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." As described in "(AD) ACCOUNTING CHANGE" in "2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," the revised accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010, therefore, the required information is disclosed only for 2010.

(1) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The group is comprised of the Bank, subsidiaries and affiliates, and conducts total financial service, primarily basic banking business and other financial services such as securities business, trust business, consumer finance business, and commercial finance business.

For conducting these businesses, the Bank obtains retail customer deposits as a long-term and stable source of funding. In addition, the Bank maintains bonds issuance as a cost effective source of funding and diversifies sources of funding by securitization of loans or other assets. Subsidiaries and affiliates also use loans from other financial institutions as one source of funding.

(2) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The financial assets held by the Group are exposed to the following risks:

Loans and bills discounted

Loans and bills discounted, which are primarily provided to domestic institutional and individual customers, and the Group are exposed to customer's credit risk and risk of fluctuation in interest rates.

Securities

Securities primarily consist of bonds and stocks, and other investments such as foreign securities and investment in partnerships. They are exposed to risk of fluctuation in interest rates, foreign exchange rates, and prices in the bond/stock markets and in addition, credit risk arising from downgrading of issuer's credit rating, default, etc.

Monetary claims purchased, Monetary assets held in trust

Monetary claims purchased and Monetary assets held in trust consist of investments in various assets such as housing loans, non performing loans, and receivables in credit trading and securitization businesses, with a purpose of collection, sale, or securitization. These investments are exposed to risk of fluctuation in market size and price of these assets.

Lease receivables and leased investment assets, Installment receivables

Lease receivables, leased investment assets, and installment receivables held by subsidiaries are exposed to risk arising from customer's credit risk.

Derivative transactions

The Group enters into the following derivative transactions, to provide products for customer needs, to maximize the profit of the Bank's own trading account, and for asset and liability management, hedging transactions and other purposes.

(1) Interest rate related	Interest rate swap, Future contracts, Interest rate option, and Interest rate swaption
(2) Currency related	Currency swap, Forward foreign exchange contracts, Currency option
(3) Equity related	Equity index future, Equity index option, Equity option, and other
(4) Bond related	Bond futures
(5) Credit derivative	Credit default option

Among the risks associated with derivative transactions, market risk, credit risk, and liquidity risk are to be specially noted for risk management.

(1) Market Risk	Risk that losses are incurred associated with changes in the value of financial instruments from fluctuation in market price, as well as volatilities inherent in derivative instruments
(2) Credit Risk	Risk that losses are incurred associated with the counterparty defaulting on contractual terms
(3) Liquidity Risk	Risk that additional costs are incurred associated with closing out the position of the financial instrument held

To appropriately reflect the risk mitigation effect of derivative transactions to the financial statements, we adopt hedge accounting where risks are hedged by interest rate swap, currency swap, etc.

In hedge accounting, effectiveness of hedging is assessed based on the conditions determined in the accounting standards such as "Accounting Standard for Financial Instruments."

(3) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

Credit Risk Management

Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular obligors, and managing the credit portfolio with an analysis of potential losses under a worst-case scenario. Concrete policies and guidelines are clarified in the "Core Group Credit Risk Policy," "Credit Procedures" and other procedures, and credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management.

As for individual transactions, approval authority level is determined by transaction amount, aggregate credit exposure to obligor's group companies, credit rating and so on. We have the approval system in which the decisions are made jointly by the risk delegation holders of the business promotion division and the risk management division and the final authority and decision rest with the risk management division.

On a portfolio basis, to diversify risks in terms of industries as well as ratings, the Portfolio and Risk Management Division monitors the segment-specific risk diversification status including industry classifications, ratings, specific customers/groups and also rating fluctuations related to customers within the portfolios. The Division uses this information to provide comprehensive reports to the Risk Policy Committee on a quarterly basis.

Credit risks in credit transactions are quantified based on probability of default by obligor rating, loss given default, expected loss ratio, and facility rating. In order to decrease credit risk of obligors, the Group secures collateral and guarantees for the protection of our claim, the value of which are checked more than once a year.

Credit risks involved in market transactions, such as derivative transactions, are controlled based on fair value and estimations of future value fluctuations.

Market risk management

Market risk which is associated with changes in the value of financial instruments from fluctuations in bond prices, exchange rates, interest rates, stock prices, credit spreads and other market-related indices, have an effect on our financial performance.

The group manages market risk by segregating the overall balance sheet, including off-balance sheet transactions, into a trading book and a banking book. At the ALM Committee, the senior review and decision-making for the management of all market risks related to asset/liability management are performed.

"Asset Liability Management Policy for Banking Account" manages the interest rate risk of asset and/or liability in banking account which has interest rate sensitivity.

The actual risk limits for asset/liability management as well as trading, such as the value-at-risk (VaR) method, are approved by the ALM Committee. The Market Risk Management Committee serves as an arm of the ALM Committee and meets weekly to review detailed market risk and liquidity risk reports from the Market Risk Management Division, which is responsible for the objective and timely recognition, monitoring and reporting of market risk in both our trading and banking operations. In addition to reporting risk information to management, administrative divisions and front office units, the Market Risk Management Division carries out regular risk analyses and makes recommendations. Market risk of the balance sheet involved in the ordinary banking business operation is managed by the Group Treasury Division, and market risk involved in the trading transactions is more actively managed by the Capital Markets Division.

Market risk is managed by quantifying on a daily basis and making risk adjustments in response to market conditions.

Liquidity risk management

The ALM Committee, which is the senior review and decision-making body for the management of liquidity risk, manages liquidity risk by establishing short-term liquidity gap limits and minimum liquidity reserve levels.

In accordance with the "Cash Liquidity Risk Management Policy," the Bank has a structure to conduct two or more liquidity measurements and to secure available reserves over the net cumulative outflow forecasted in an emergency situation.

(4) CONCENTRATION OF CREDIT RISK

As of March 31, 2010, loans to the financial and insurance industry were approximately 21% of the total loans and bills discounted, and those to the real estate industry were approximately 17%, 70% of which are non recourse loans for domestic real estate.

(5) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

Fair value of financial instruments as of March 31, 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and due from banks	¥ 493,141	¥ 493,141	¥ —	$ 5,291,784	$ 5,291,784	$ —
(2) Call loans	19,129	19,129	—	205,275	205,275	—
(3) Collateral related to securities borrowing transactions	2,801	2,801	—	30,065	30,065	—
(4) Other monetary claims purchased						
Other monetary claims purchased held for trading purpose	157,915	157,915	—	1,694,554	1,694,554	—
Other[2]	93,750	93,817	67	1,006,012	1,006,734	722
(5) Trading assets						
Securities held for trading purpose	24,177	24,177	—	259,444	259,444	—
(6) Monetary assets held in trust	292,227	292,300	72	3,135,821	3,136,604	783
(7) Securities						
Trading securities	2,939	2,939	—	31,542	31,542	—
Securities being held to maturity	479,542	487,714	8,171	5,145,860	5,233,544	87,684
Securities available-for-sale	2,617,552	2,617,552	—	28,088,342	28,088,342	—
(8) Loans and bills discounted[1]	5,163,763			55,411,129		
Reserve for credit losses	(142,817)			(1,532,546)		
Net	5,020,945	5,215,953	195,008	53,878,583	55,971,176	2,092,593
(9) Lease receivables and leased investment assets[2]	208,729	213,735	5,006	2,239,823	2,293,544	53,721
(10) Other assets						
Installment receivables	347,845			3,732,650		
Deferred installment revenue	(11,923)			(127,950)		
Reserve for credit losses	(11,485)			(123,247)		
Net	324,436	348,209	23,773	3,481,453	3,736,560	255,107
Total assets	¥ 9,737,288	¥ 9,969,388	¥ 232,099	$ 104,488,558	$ 106,979,168	$ 2,490,610
(1) Deposit, including negotiable certificates of deposit	¥ 6,475,387	¥ 6,571,761	¥ (96,374)	$ 69,485,861	$ 70,520,030	$ (1,034,169)
(2) Debentures	483,713	487,061	(3,347)	5,190,619	5,226,544	(35,925)
(3) Call money	310,487	310,487	—	3,331,767	3,331,767	—
(4) Payables under repurchase agreements	8,430	8,430	—	90,463	90,463	—
(5) Collateral related to securities lending transactions	548,479	548,479	—	5,885,601	5,885,601	—
(6) Borrowed money	1,186,837	1,181,436	5,401	12,735,679	12,677,714	57,965
(7) Corporate bonds	188,278	168,909	19,368	2,020,371	1,812,528	207,843
Total liabilities	¥ 9,201,614	¥ 9,276,565	¥ (74,951)	$ 98,740,361	$ 99,544,647	$ (804,286)
Derivative instruments[3]						
Hedge accounting is not applied	¥ 3,375	¥ 3,375	¥ —	$ 36,222	$ 36,222	$ —
Hedge accounting is applied	(38,324)	(38,324)	—	(411,249)	(411,249)	—
Derivative instruments total	¥ (34,948)	¥ (34,948)	¥ —	$ (375,027)	$ (375,027)	$ —

	Contract amount	Fair value	Contract amount	Fair value
Other				
Guarantee contract[4]	¥ 623,786	¥ (4,571)	$ 6,693,711	$ (49,052)

Notes: (1) For consumer loans of ¥758,156 million (U.S.$8,135,597 thousand) held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥70,088 million (U.S.$752,108 thousand) is recognized for possible losses arising from reimbursement of excess interest payments.
(2) Other monetary claims purchased, Lease receivables and leased investment assets are presented as the amount net of reserve for credit losses, because they are immaterial.
(3) Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities associated with derivative transactions, and presented with ( ) when a liability stands on net basis.
(4) Contract amount for guarantee contract presents the amount of "Acceptances and guarantees" on the consolidated balance sheet.

(Note 1) Valuation methodology for financial instruments

Assets

(1) Cash and due from banks

The carrying amounts of due from banks with no maturities approximate fair values because they have no maturity. For due from banks with maturities, the carrying amounts approximate fair values because most of them have short maturities of 6 months or less.

(2) Call loans, and (3) Collateral related to securities borrowing transactions

The carrying amounts of Call loans, and Collateral related to securities borrowing transactions approximate fair values because most of these instruments have short maturities of 3 months or less.

(4) Other monetary claims purchased

The fair values for other monetary claims purchased are measured at the quoted price from third party, or determined using the discounted cash flow method.

(5) Trading assets
The fair values of securities held for trading purposes are measured at observable market prices or quoted price from third party.

(6) Monetary assets held in trust
The fair values of monetary assets held in trusts are determined using the discounted cash flow method based on the characteristics of the components of the entrusted assets.

(7) Securities
The fair values of marketable equity securities are measured at market prices. The fair values of bonds are measured at market prices or quoted price from third party, or determined using the discounted cash flow method.

(8) Loans and bills discounted
The fair value of loans and bills discounted with fixed interest rate is determined by discounting contractual cash flows, and the fair value of loans and bills discounted with floating interest rate is determined by discounting expected cash flows based on the forward rate for loans at the rates that consist of the risk free rate and the CDS spread that corresponds to the internal credit rating. The fair value of housing loans is determined by discounting expected cash flows at the rates that would be applied for the new same contract. The fair value of consumer loans is determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk free rate and the rate of certain costs, by group of similar product types and customer segments.

For loans to obligors "legally bankrupt," "virtually bankrupt" and "possibly bankrupt," the reserve is provided based on the discounted cash flow method, or based on amounts expected to be collected through the disposal of collateral or execution of guarantees, carrying value net of the reserve as of the consolidated balance sheet date is the reasonable estimate of the fair values of those loans.

(9) Lease receivables and leased investment assets
The fair values of lease receivables and leased investment assets are primarily determined by discounting contractual cash flows at the rates that consist of risk free rate, credit risk and certain costs, by group of major product categories.

(10) Installment receivables
The fair values of installment receivables are primarily determined by discounting expected cash flows that reflects the probability of prepayment at the rates that consist of risk free rate, credit risk and certain costs, by group of major product categories.

Liabilities

(1) Deposit, including negotiable certificates of deposit
The fair values of demand deposits, such as current deposit and ordinary deposit are recognized as the payment at the date of the consolidated balance sheets. The carrying amounts of the deposits with maturity less than 6 months approximate fair values, because of their short term maturity. The fair values of time deposit is determined by discounting the contractual cash flows at the rates that would be applied for new same contract.

(2) Debentures, and (7) Corporate bonds
The fair value of marketable corporate bonds is measured at the quoted market price. The fair values of non-marketable debenture and corporate bonds under the Medium Term Note program are determined by discounting expected cash flows at the actual average funding rate of corporate time deposit and debenture funded in the past 3 months of the consolidated balance sheet date.

The fair value of retail debentures is determined by discounting contractual cash flow at the actual funding rate in the most recent month of the consolidated balance sheet date.

The fair values of step-up callable subordinated bonds are determined by discounting expected cash flow which reflects the probability of early redemption at the rates that consist of the risk free rate and the CDS spread.

(3) Call money, (4) Payables under repurchase agreements and (5) Collateral related to securities lending transactions
The carrying amounts approximate fair values of Call money, Payables under repurchase agreements and Collateral related to securities lending transactions because most of these instruments are with short maturities of 3 months or less.

(6) Borrowed money
The fair value of borrowed money with fixed interest rate is primarily determined by discounting contractual cash flows, and the fair value of borrowed money with floating interest rate is determined by discounting expected cash flow based on forward rate, at the rates that reflect the credit risk of the borrower.

The fair value of step-up callable subordinated borrowing is determined by discounting expected cash flow that reflects the probability of early redemption at the rates that consist of the risk free rate and the CDS spread.

Derivative instruments

The fair values of derivative instrument are measured at the market prices or determined using the discounted cash flow method or option pricing models.

Others

Guarantee contract
The fair value of guarantee is determined by discounting the amount of difference between the contractual cash flow and the expected cash flow that would be applied for the new contract at risk free rate.

(Note 2) Financial instruments whose fair value cannot be reliably determined

	Millions of yen	Thousands of U.S. dollars
As of March 31, 2010	Carrying amounts	Carrying amounts
Equity securities without readily available market price[(1)(2)]	¥ 52,846	$ 567,084
Investment in partnerships and others[(2)(3)]	80,431	863,088
Total	¥ 133,277	$ 1,430,172

Notes: (1) Equity securities without readily available market price are out of the scope of fair value disclosure because their fair values cannot be reliably determined.
(2) Investments in partnerships and others, the assets of which comprise equity securities without readily available market price, are out of scope of fair value disclosure because fair value of those investments cannot be reliably determined.
(3) In this fiscal year, impairment loss on equity securities without readily available market price of ¥889 million (U.S.$9,547 thousand), that on investment in partnerships and others of ¥21,117 million (U.S.$226,611 thousand) were recognized, respectively.

(Note 3) Maturity analysis for financial assets and liabilities with contractual maturities

	Millions of yen			
As of March 31, 2010	Less than 1 year	More than 1 year Less than 3 years	More than 3 years Less than 5 years	More than 5 years
Cash and due from banks	¥ 493,141	¥ —	¥ —	¥ —
Call loans	19,129	—	—	—
Collateral related to securities borrowing transactions	2,801	—	—	—
Other monetary claims purchased				
Other than trading purpose	8,377	12,495	17,380	36,821
Securities				
Held-to-maturity	91,000	129,799	203,000	63,058
Available-for-sale security	231,809	1,676,983	520,867	179,964
Loans and bills discounted	1,406,002	1,148,108	603,760	1,518,857
Lease receivables and leased investment assets	74,021	90,246	31,789	10,468
Installment receivables	182,085	109,897	26,422	17,737
Total	¥ 2,508,369	¥ 3,167,530	¥ 1,403,221	¥ 1,826,908

	Thousands of U.S. dollars			
As of March 31, 2010	Less than 1 year	More than 1 year Less than 3 years	More than 3 year Less than 5 years	More than 5 years
Cash and due from banks	$ 5,291,783	$ —	$ —	$ —
Call loans	205,275	—	—	—
Collateral related to securities borrowing transactions	30,064	—	—	—
Other monetary claims purchased				
Other than trading purpose	89,897	134,081	186,508	395,126
Securities				
Held-to-maturity	976,500	1,392,843	2,178,345	676,671
Available-for-sale security	2,487,492	17,995,313	5,589,307	1,931,156
Loans and bills discounted	15,087,487	12,320,088	6,478,817	16,298,504
Leased receivables and leased investment assets	794,303	968,419	341,126	112,335
Installment receivables	1,953,918	1,179,280	283,533	190,334
Total	$ 26,916,720	$ 33,990,023	$ 15,057,636	$ 19,604,127

Note: The financial instruments whose cash flow cannot be estimated such as loans with credit risk categories of "legally bankrupt," "virtually bankrupt" and "possibly bankrupt," and the financial instruments with no contractual maturity are not included.

	Millions of yen			
As of March 31, 2010	Less than 1 year	More than 1 year Less than 3 years	More than 3 years Less than 5 years	More than 5 years
Deposits, including negotiable certificates of deposit	¥ 4,539,884	¥ 956,384	¥ 901,767	¥ 77,350
Debentures	173,441	175,648	133,423	1,200
Call money	310,114	279	93	—
Payables under repurchase agreements	8,430	—	—	—
Collateral related to securities lending transactions	533,479	8,000	7,000	—
Borrowed money	878,655	139,238	27,253	141,690
Corporate bonds	13,122	439	33,300	141,416
Total	¥ 6,457,127	¥ 1,279,990	¥ 1,102,838	¥ 361,657

	Thousands of U.S. dollars			
As of March 31, 2010	Less than 1 year	More than 1 year Less than 3 years	More than 3 year Less than 5 years	More than 5 years
Deposits, including negotiable certificates of deposit	$ 48,716,436	$ 10,262,740	$ 9,676,653	$ 830,032
Debentures	1,861,160	1,884,841	1,431,741	12,877
Call money	3,327,767	3,000	1,000	—
Payables under repurchase agreements	90,463	—	—	—
Collateral related to securities lending transactions	5,724,640	85,846	75,115	—
Borrowed money	9,428,641	1,494,135	292,453	1,520,450
Corporate bonds	140,811	4,720	357,334	1,517,506
Total	$ 69,289,918	$ 13,735,282	$ 11,834,296	$ 3,880,865

Note: The cash flow of demand deposits is included in "Less than 1 year."

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Shinsei Bank, Limited:

We have audited the accompanying consolidated balance sheets of Shinsei Bank, Limited (the "Bank") and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC.

June 15, 2010

Member of
Deloitte Touche Tohmatsu

NON-CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note)
	2010	2009	**2010**
ASSETS			
Cash and due from banks	**¥ 310,022**	¥ 411,999	**$ 3,326,778**
Call loans	**19,129**	—	**205,275**
Collateral related to securities borrowing transactions	**2,801**	131	**30,065**
Other monetary claims purchased	**621,271**	666,126	**6,666,717**
Trading assets	**211,020**	326,038	**2,264,409**
Monetary assets held in trust	**463,467**	573,032	**4,973,356**
Securities	**3,674,523**	2,626,047	**39,430,448**
Valuation allowance for investments	**(3,370)**	(3,370)	**(36,170)**
Loans and bills discounted	**4,732,858**	5,168,004	**50,787,190**
Foreign exchanges	**10,976**	37,138	**117,786**
Other assets	**506,855**	977,924	**5,438,949**
Premises and equipment	**17,890**	18,856	**191,979**
Intangible assets	**11,891**	13,477	**127,602**
Deferred issuance expenses for debentures	**176**	161	**1,898**
Deferred tax assets	**—**	4,329	**—**
Customers' liabilities for acceptances and guarantees	**11,266**	12,556	**120,901**
Reserve for credit losses	**(102,213)**	(118,960)	**(1,096,830)**
Total assets	**¥ 10,488,567**	¥ 10,713,494	**$ 112,550,353**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	**¥ 6,824,464**	¥ 6,897,491	**$ 73,231,726**
Debentures	**487,513**	676,767	**5,231,396**
Call money	**310,487**	281,513	**3,331,767**
Payables under repurchase agreements	**8,430**	53,805	**90,463**
Collateral related to securities lending transactions	**548,479**	569,566	**5,885,601**
Trading liabilities	**176,668**	316,068	**1,895,791**
Borrowed money	**811,100**	425,371	**8,703,724**
Foreign exchanges	**222**	226	**2,385**
Corporate bonds	**342,518**	402,453	**3,675,488**
Other liabilities	**392,414**	495,016	**4,210,906**
Accrued employees' bonuses	**5,423**	7,191	**58,197**
Reserve for employees' retirement benefits	**—**	55	**—**
Reserve for losses on disposal of premises and equipment	**7,011**	6,911	**75,242**
Reserve for losses on litigation	**5,873**	3,662	**63,026**
Deferred tax liability	**745**	—	**8,002**
Acceptances and guarantees	**11,266**	12,556	**120,901**
Total liabilities	**9,932,620**	10,148,658	**106,584,615**
Equity:			
Capital stock:			
Common stock	**476,296**	476,296	**5,111,031**
Capital surplus	**43,558**	43,558	**467,414**
Stock acquisition rights	**1,672**	1,808	**17,945**
Retained earnings:			
Legal reserve	**11,035**	11,035	**118,422**
Unappropriated retained earnings	**95,773**	143,418	**1,027,725**
Unrealized gain (loss) on available-for-sale securities	**361**	(38,049)	**3,882**
Deferred gain (loss) on derivatives under hedge accounting	**(192)**	(672)	**(2,070)**
Treasury stock, at cost	**(72,558)**	(72,558)	**(778,611)**
Total equity	**555,947**	564,836	**5,965,738**
Total liabilities and equity	**¥ 10,488,567**	¥ 10,713,494	**$ 112,550,353**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥93.19=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2010.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note)
	2010	2009	**2010**
Interest income:			
Interest on loans and bills discounted	**¥ 86,578**	¥ 110,770	**$ 929,052**
Interest and dividends on securities	**51,251**	59,458	**549,971**
Interest on deposits with banks	**66**	1,488	**713**
Other interest income	**15,154**	11,019	**162,618**
Total interest income	**153,051**	182,737	**1,642,354**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**53,037**	52,419	**569,135**
Interest and discounts on debentures	**3,880**	5,026	**41,645**
Interest on other borrowings	**3,240**	10,166	**34,776**
Interest on corporate bonds	**16,472**	20,266	**176,760**
Other interest expenses	**1,287**	8,488	**13,812**
Total interest expenses	**77,918**	96,368	**836,128**
Net interest income	**75,132**	86,368	**806,226**
Fees and commissions income	**16,937**	18,963	**181,752**
Fees and commissions expenses	**9,843**	13,415	**105,630**
Net fees and commissions	**7,093**	5,548	**76,122**
Net trading income (loss)	**7,706**	(5,690)	**82,696**
Other business income (loss), net:			
Net gain (loss) on monetary assets held in trust	**(15,972)**	5,770	**(171,393)**
Net gain (loss) on foreign exchanges	**4,389**	13,336	**47,100**
Net gain (loss) on securities	**3,867**	(103,884)	**41,497**
Net gain (loss) on other monetary claims purchased	**(185)**	(65)	**(1,992)**
Other, net	**(891)**	(4,574)	**(9,571)**
Net other business income (loss)	**(8,793)**	(89,416)	**(94,359)**
Total revenue (loss)	**81,139**	(3,190)	**870,685**
General and administrative expenses:			
Personnel expenses	**25,549**	33,137	**274,167**
Premises expenses	**9,968**	10,583	**106,971**
Technology and data processing expenses	**9,799**	10,715	**105,158**
Advertising expenses	**1,600**	1,649	**17,176**
Consumption and property taxes	**3,420**	3,452	**36,705**
Deposit insurance premium	**4,386**	3,888	**47,067**
Other general and administrative expenses	**15,055**	18,313	**161,553**
Total general and administrative expenses	**69,780**	81,741	**748,797**
Net business profit (loss)	**11,358**	(84,931)	**121,888**
Net credit costs	**52,638**	77,968	**564,849**
Other gains (losses), net	**1,969**	11,501	**21,136**
Income (loss) before income taxes	**(39,309)**	(151,399)	**(421,825)**
Income taxes (benefit):			
Current	**(34)**	(4,184)	**(365)**
Deferred	**8,369**	9,833	**89,806**
Net income (loss)	**¥ (47,644)**	¥(157,048)	**$ (511,266)**

	Yen		U.S. dollars (Note)
Basic net income (loss) per common share	**¥ (24.26)**	¥ (79.96)	**$ (0.26)**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥93.19=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2010.

NON-CONSOLIDATED
STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note)
	2010	2009	**2010**
Common stock:			
Balance at beginning of year	**¥ 476,296**	¥ 476,296	**$ 5,111,031**
Balance at end of year	**476,296**	476,296	**5,111,031**
Capital surplus:			
Balance at beginning of year	**43,558**	43,558	**467,414**
Balance at end of year	**43,558**	43,558	**467,414**
Stock acquisition rights:			
Balance at beginning of year	**1,808**	1,257	**19,402**
Net change during the year	**(135)**	550	**(1,457)**
Balance at end of year	**1,672**	1,808	**17,945**
Retained earnings:			
Legal reserve:			
Balance at beginning of year	**11,035**	9,880	**118,422**
Transfer from unappropriated retained earnings	**—**	1,154	**—**
Balance at end of year	**11,035**	11,035	**118,422**
Unappropriated retained earnings:			
Balance at beginning of year	**143,418**	307,395	**1,538,991**
Appropriation:			
Dividends paid	**—**	(6,928)	**—**
Net income (loss)	**(47,644)**	(157,048)	**(511,266)**
Balance at end of year	**95,773**	143,418	**1,027,725**
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of year	**(38,049)**	(35,024)	**(408,305)**
Net change during the year	**38,411**	(3,025)	**412,187**
Balance at end of year	**361**	(38,049)	**3,882**
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of year	**(672)**	1,896	**(7,213)**
Net change during the year	**479**	(2,568)	**5,143**
Balance at end of year	**(192)**	(672)	**(2,070)**
Treasury stock, at cost:			
Balance at beginning of year	**(72,558)**	(72,557)	**(778,610)**
Purchase of treasury stock	**(0)**	(0)	**(1)**
Balance at end of year	**(72,558)**	(72,558)	**(778,611)**
Total equity	**¥ 555,947**	¥ 564,836	**$ 5,965,738**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥93.19=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2010.

BASEL II PILLAR III (MARKET DISCIPLINE) DISCLOSURE

This section describes the information consistent with the Japanese FSA Notification Number 15, based on Article 19.2.1.5.d of the Bank Law Enforcement Rule (Refer to Ministry of Finance Ordinance Number 10), herein referred to as Basel II Pillar III, issued on March 23, 2007. The Accord in this section refers to the Japanese FSA Notification Number 19, herein referred to as Basel II Pillar I, issued on March 27, 2006.

QUALITATIVE DISCLOSURE

1. RANGE OF CONSOLIDATION

(1) DIFFERENCES BETWEEN COMPANIES WHICH BELONG TO A GROUP OF COMPANIES (CONSOLIDATED GROUP) SUBJECTED TO CALCULATION OF CAPITAL RATIOS BASED ON THE ACCORD'S ARTICLE 26 OR 38 AND COMPANIES INCLUDING RANGE OF CONSOLIDATION BASED ON RULE WITH REGARD TO WORD, FORMAT AND PLAN OF CONSOLIDATED FINANCIAL STATEMENT RULE (REFER TO MINISTRY OF FINANCE ORDINANCE NUMBER 28)

- There are no subsidiaries excluding from consolidated group as "Insurance subsidiaries" of the Accord's Article 26.2 in companies including range of consolidation based on Consolidated Financial Statement Rule.
- Non-consolidated subsidiaries based on Article 5 of Consolidated Financial Statement Rule are financial related corporations. Their holdings of capital are parts of deductions from capital in the calculation of the consolidated capital ratios.
- In accordance with the Accord's Article 38, the Bank Group's five foreign special purpose companies, which issued preferred securities, are included in the calculation of the non-consolidated capital ratio.

(2) NUMBER OF CONSOLIDATED SUBSIDIARIES AND NAME AND BUSINESS OF MAJOR CONSOLIDATED SUBSIDIARIES

i) Number of consolidated subsidiaries

As of March 31, 2010, there were 125 consolidated subsidiaries.

ii) Major consolidated subsidiaries

- Shinsei Trust & Banking Co., Ltd. (trust banking)
- Shinsei Securities Co., Ltd. (securities)
- APLUS FINANCIAL Co., Ltd. (installment credit)
- Showa Leasing Co., Ltd. (leasing)
- SHINKI Co., Ltd. (consumer finance)
- SHINSEI FINANCIAL Co., Ltd. (consumer finance)

(3) NUMBER OF FINANCIAL AFFILIATES UNDER THE ACCORD'S ARTICLE 32 AND NAME AND BUSINESS OF MAJOR FINANCIAL AFFILIATES

As of March 31, 2010, there were no financial affiliates applied for proportional consolidation method.

(4) NUMBER OF UNCONSOLIDATED SUBSIDIARIES SUBJECTED TO DEDUCTIONS FROM CAPITAL BASED ON THE ACCORD'S ARTICLE 20.1.2.A TO C AND NAME AND BUSINESS OF MAJOR UNCONSOLIDATED SUBSIDIARIES

As of March 31, 2010, there were 88 unconsolidated subsidiaries. 73 of these unconsolidated subsidiaries are subsidiaries of Showa Leasing Co., Ltd. The majority of the Showa Leasing subsidiaries are partnerships set up to accommodate leveraged leases.

(5) NUMBER OF COMPANIES WHICH DO NOT BELONG TO CONSOLIDATED GROUP BUT EXCLUSIVELY ENGAGE IN DEPENDENT BUSINESS OF ARTICLE 16.2.1.11 OR ARTICLE 16.2.1.12 OF BANKING ACT (ACT NUMBER 59 OF 1981) AND NAME AND BUSINESS OF MAJOR THOSE COMPANIES

As of March 31, 2010, there were no companies which did not belong to consolidated group but came under above Banking Act.

(6) SUMMARY OF RESTRICTIONS ON TRANSFER OF CASH AND CAPITAL IN CONSOLIDATED GROUP

As of March 31, 2010, there were no restrictions excluding restrictions under general regulations such as regulations on large-lot credit based on Banking Act.

2. TYPES OF CAPITAL INSTRUMENTS

The Bank has issued common shares, preferred securities, perpetual subordinated bonds and loans, and dated subordinated bonds and loans. Please see "Management Discussion and Analysis of Financial Condition and Results of Operations - Capital Ratios" on page 88 for details on the amount outstanding for each type of capital instrument.

3. ASSESSMENT OF CAPITAL ADEQUACY OF THE BANK GROUP

As part of its comprehensive risk management, the Bank, at the start of its fiscal year, determines a Risk Capital budget in consideration of its regulatory capital. This Risk Capital budget is allocated to each business line and monitored. Each month the Executive Committee receives a report on the amount of Risk Capital used and the relevant regulatory capital. In this way, senior management can monitor and assess the availability of capital to support current and future activities. At least once a year, the Bank performs stress tests on its estimates of

Risk Capital and regulatory capital.

While the capital ratios remain at a sufficient level that does not affect day-to-day operations, the Bank will aim to improve its capital ratios through improving profitability and other necessary measures, further reducing the risk weighted assets, capital raising and other appropriate initiatives.

4. CREDIT RISK MANAGEMENT POLICIES AND PROCEDURES

CREDIT RISK MANAGEMENT SYSTEM

Credit risk is defined as the risk of loss due to a counterpart defaulting on contractual debt obligations. Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular obligors, and managing the credit portfolio with an awareness of potential losses under a worst-case scenario.

To achieve these goals, the Bank established a comprehensively revised "Credit Risk Policy" which defines the concrete policy regarding customer attributes to gain or control risks, products, markets, the type of industry and the form of transaction etc. and clarifies basic policies of credit operations and specific guidelines for credit risk management in this "Credit Risk Policy," "Credit Procedures" and other procedures. The credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management, as follows.

CREDIT RISK MANAGEMENT FOR INDIVIDUAL TRANSACTIONS

(1) Organization and Systems

What is important in credit risk management for individual transactions is to establish effective check and balance framework in the processes of transaction screening/assessment, approvals, ongoing monitoring, action in the event of deterioration, and repayment or termination of transactions. As a general rule, Shinsei Bank assigns approval authorities to the credit analyses sections in the Risk Management Group independent from Business Groups.

In principle, Credit transactions can be approved by unanimous decision by Business Groups and Risk Management Groups to maintain objectivity and transparency. This means that credit transactions can not be approved by a single person, and that the Risk Management Group has veto right for any credit transactions.

Once a corporate loan transaction opportunity has been identified, the approval process begins. Based on the size, Obligor/Facility Ratings, and total exposure amount for obligor groups, the Bank's rules stipulate whether approval will be given by the Credit Committee (CC) or other approval authorities.

When risk can emerge from not only credit, market or operational aspects, on occasion, Finance, Compliance, Legal or other specialized functions, will be invited to participate in the decision process, in the format of a Transaction Approval Committee (TAC). This allows for the thorough evaluation of reputational risk, compliance risk, suitability risk, legal risk or tax/regulatory aspects to ensure that the Bank and its customers avoid inappropriate deals.

To ensure comprehensive monitoring and proactive management of weak assets, a Doubtful Debt Committee has been established. At the meetings of this Committee, the Bank monitors the business conditions and discuss the future outlook and action plans for obligors whose ratings are below a certain level and whose borrowings outstanding are above a certain amount, or of obligors for which the Bank has set aside a certain amount of reserves. Through this preemptive monitoring and alertness to deterioration in obligors' business environment, the Bank is striving to minimize credit costs and improve the Bank's overall asset quality.

(2) Obligor Rating System

For corporate exposures, the Bank uses an internal obligor rating system with the following characteristics:

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarked against external ratings
- Properly reflecting obligors' consolidated-basis accounting system
- Ensuring conformity with rating systems among industry classifications

More specifically, obligor ratings are determined by applying adjustments with qualitative factors to the model ratings calculated by our estimation models, which are created using data from external rating agencies. Obligor ratings shall be discussed at the "Credit Rating Review Committee" and determined with transaction approval in order to ensure objectivity and transparency. Moreover, we ensure conformity of obligor ratings with obligor categories based on the regulatory self-assessment requirements.

Obligor ratings are used in the standards of credit approval authority procedures and portfolio controls, and are the foundation for credit risk management.

Furthermore, the Bank also applies a facility rating system based on expected losses that allows for improvement in the credit status, such as collateral and/or covenants, from the perspective of obligor ratings and the credit status of individual transactions.

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Since January 2007, an obligor rating system and facility rating system similar to those adopted in the Bank have been introduced in the analysis of major customers of leasing receivables at Showa Leasing.

(3) Pool Classification
Given the large number of retail exposures, the Bank pools these exposures based on characteristics that create reasonably homogeneous sub-portfolios of borrowers. In this way, the Bank conducts timely and regular analysis of both sub-portfolios of exposures as well as the entire Bank Group's portfolio. The principal retail exposures to which pool classification is applied are housing loans originated by the Bank itself, the installment credit receivables of APLUS and Zen-Nichi Shinpan, and small-lot leasing transactions of Showa Leasing.

PORTFOLIO-BASED CREDIT RISK MANAGEMENT

Controls must be carried out in such a way that risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At Shinsei Bank, the Portfolio and Risk Management Division undertakes risk analyses of portfolios, and monitors the segment-specific risk diversification status including industry classifications, ratings, specific customers/groups and also rating fluctuations related to customers within the portfolios. The Division uses this information to provide reports to senior management and the Chief Risk Officer on a monthly as well as ad hoc basis.

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

For Basel II, the Foundation Internal Ratings-Based Approach (F-IRB) has been adopted by the Bank for calculation of credit risk-weighted assets. In accordance with this approach, the Bank established "Credit Risk Management Standards," which document the framework. This documentation also covers the details of the Bank's internal rating system, which covers rating design and operation, internal control, use of internal rating and risk quantification.

These Standards contain "Basic Principles of the Internal Rating System for Credit Risk," and also provide the details of management policy and procedures in the form of specific rules for each group of exposures in the portfolio.

INTERNAL CONTROL ROLES AND RESPONSIBILITIES

The Bank Group's internal control system for credit risk management has been set up in accordance with current regulations.

(1) Credit Risk Management Divisions
The risk management divisions of the Bank and its subsidiaries undertake the roles and responsibilities for the Bank's management of credit risk. Functions are divided into Credit Risk Management Sections, responsible for the management of each asset category, and the Credit Risk Control Section (a section specified in the Risk Management Group of the Bank), responsible for management across asset categories.

(2) Senior Management Control/Oversight
Control and oversight for internal rating systems by senior management is defined in "Credit Risk Management Standards," and is performed in an appropriate manner.

(3) Audit Section
The Internal Audit Section evaluates the Bank's internal rating system and ensures the system is in compliance with existing regulations.

APPLICATION OF THE INTERNAL RATING SYSTEM

The Bank uses its own internal rating systems for portfolios to which the F-IRB Approach are applied. These items are listed in the "Exhibit" for each portfolio.

The internal rating system is applied to corporate and retail exposures as categorized below. The rules for applying the internal rating system are part of the Bank's overall "Credit Risk Management Standards."

(1) Corporate Exposure
- Corporate exposure
- Financial institution exposure
- Sovereign exposure
- Non-recourse real estate loans (specialized lending using slotting criteria)
- Credit trading claims
- Claims not subject to pool management
- Claims against individuals for the purpose of funding a business
- Claims against a business with exposure after "aggregation" (*nayose*) on a consolidated basis of ¥100 million or more

(2) Retail Exposure
Retail exposures are defined as:
- Exposures subject to pool management
- Claims against an individual (except for a claim for the purpose of funding business operations), or claims against a corporation (including an individual with the purpose of funding a business) with an outstanding amount of less than ¥100 million after the "aggregation" (*nayose*) on a consolidated basis.

Features of these products and credit analysis standards may vary between the Bank and its subsidiaries. As such, specific pool classification systems for each product are applied at each entity, in accordance with established guidelines.

QUALITATIVE DISCLOSURE (CONTINUED)

ESTIMATION AND VALIDATION OF PARAMETERS

The approach for estimation and validation of parameters such as Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) is set forth in "Credit Risk Management Standards." Ratings, pool classifications and estimated parameters are also used for internal control. Depending on the specific characteristics of the Bank Group's portfolios, the parameters used for internal control may differ from the parameters used in the course of calculating the regulatory capital ratio of the Bank Group. The existence of differences and the rationale for such differences is stated in the guidelines for parameter estimation and validation.

STRESS TESTS

Specific implementation guidelines are established for stress tests used in the assessment of capital adequacy, and credit risk stress tests to assess the effect of certain specific conditions on the Bank's regulatory capital requirements. Stress test results are reported to senior management at least once a year.

RESERVE POLICY

A reserve for credit losses of the Bank and its subsidiaries is provided as detailed below, pursuant to the predetermined internal rules for providing such reserves according to the obligor categorizations based on the self assessment of their assets.

A general reserve for claims against normal obligors, need-caution obligors and substandard obligors is provided based on the specific actual past loss experience.

A specific reserve for claims to possibly bankrupt, virtually bankrupt and legally bankrupt obligors is provided based on the full amount of the unsecured, un-guaranteed portion of the respective claims after a solvency assessment.

For claims against obligors that are possibly bankrupt (that is, those that are not presently bankrupt but are likely to go bankrupt in the future), a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims against obligors that are legally bankrupt (due to bankruptcy and special liquidation) or virtually bankrupt, a specific reserve is provided based on the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The reserve for loans to restructuring countries is provided based on the amount of expected losses due to the political and economic situation in each country.

Additionally, with regard to claims against possibly bankrupt obligors and substandard obligors, a reserve is provided based on the discounted cash flow method when the obligor's future cash flows for debt service are reasonably estimable and the balance of claims to such obligors is large.

TRANSITION PLAN FOR MOVING A PORTION OF THE BANK'S PORTFOLIO, WHICH HAS NOT YET APPLIED F-IRB, FROM THE STANDARDIZED APPROACH TO THE F-IRB APPROACH

The F-IRB Approach will be applied at a future date to the two portfolios and two entities listed below. Currently, these portfolios and entities are considered to be comprised of "roll-out" exposures. The Bank follows the Standardized Approach for evaluating these exposures.

(1) Residential mortgages at the Bank: because this business started in 2003, the Bank has not collected enough historical default data (especially for estimation of LGD) for F-IRB calculation. Once the Bank has collected sufficient historical default data (in two years), IRB (retail) will be applied to this portfolio.

(2) Shinki: a subsidiary consolidated to the Bank in fiscal year 2007. To secure historical data for a longer period and to further develop its internal rating system, the Bank Group plans to apply IRB (retail) for this subsidiary two years from now, the same period as expected IRB roll-out of its parent company, Shinsei Financial.

(3) Unsecured personal loans at the Bank: the business was started in fiscal year 2008. A detailed roll-out plan for IRB (retail) adoption will be finalized based on data accumulation for parameter estimates and an examination of business development.

(4) Shinsei Financial: a subsidiary consolidated to the Bank in fiscal year 2008. To secure historical data for a longer period and to further develop its internal rating system, the Bank Group plans to apply IRB (retail) for this subsidiary two years from now.

In the case of portfolios to which the Standardized Approach is applied, the Bank will use ratings from the following qualified rating agencies to determine exposure risk weights:

S&P, Moody's, Fitch, R&I and JCR

5. CREDIT RISK MITIGATION POLICIES AND PROCEDURES

(1) Policies and framework for mitigating credit risk

The Bank mitigates credit exposure with collateral and guarantees to reduce the credit risk of obligors. The Bank has a clear framework regarding methods for mitigating credit risk. Basic procedures and descriptions of controls, as well as types of standard collateral, guarantees necessary in granting credit, evaluation methods for different types of credit and collateral, possible "haircuts" to collateral and regular revaluation of collateral, are stipulated in the Bank's credit procedures.

(2) Controls concerning overall methods to mitigate credit risk
The Bank uses net exposure for capital calculations after netting deposit and loan claims. All collateral and guarantees are registered in a dedicated system. The information is linked to obligor and credit account data. Collateral and guarantees are revalued at least once a year. Perfection of security interest, currency, date and correlation between collateral and counterparty are checked. The Bank uses credit derivatives for credit risk mitigation in required regulatory capital calculations as active credit portfolio management.

(3) Eligible financial asset collateral
Financial asset collateral types are defined by the Bank to include deposits, fixed income securities, equities and commercial paper.

(4) Eligible collateralized claims
Collateral types in this category include commercial bills, rights to claim return of security deposits, rights to claim return of construction funds, loan receivables, leasing and sales installment receivables and beneficial interests in trust.

(5) Eligible real estate collateral
Collateral types in this category include land and buildings, plants and foundations including industrial foundations.

(6) Other asset-backed collateral
Eligible other asset-backed collateral is defined by the Bank as aircraft and ships.

(7) Guarantees
Guarantors are classified into the following categories: governments, central banks, municipalities, public institutions, credit guarantee associations, banks, general business entities and individuals.

6. POLICIES AND PROCEDURES FOR COUNTERPARTIES OF DERIVATIVE PRODUCT AND TRANSACTIONS WITH LONG-HORIZON SETTLEMENT PERIODS

COUNTERPARTY RISK

Credit risk arising from market trading, such as derivatives, is controlled based on fair market value and estimation of future price volatility.

ALLOCATION OF CREDIT LIMITS

In order to accurately reflect the Bank's overall exposure, counterparty limits are added to any other credit exposure for each obligor. As risk embedded in market transactions changes with market movement, the Bank strictly manages its exposures using estimation of future market volatilities.

CREDIT ENHANCEMENT BASED ON COLLATERAL AND RESERVES

Credit enhancement measures are taken to mitigate the Bank's concerns regarding certain obligors' credit quality as well as concentration risk in the Bank's portfolio.

The Bank follows the guidelines outlined in the ISDA Credit Support Annex (CSA), which has been accepted by many financial institutions. Reserves are calculated based on expected losses according to the counterparty's credit quality, and are taken into consideration in the mark-to-market process.

POSSIBILITY OF THE BANK POSTING ADDITIONAL COLLATERAL DUE TO A DECLINE IN THE BANK'S CREDIT QUALITY

If the Bank's credit quality were to decline and be reflected as such in the assignment of lower external ratings, the Bank may be required to provide additional collateral to counterparties in transactions subject to the ISDA Credit Support Annex (CSA).

7. EQUITY RISK MANAGEMENT

The Bank's equity investments are mainly composed of strategic merger/acquisition or business alliance related transactions, which are approved by the Executive Committee, and investment business related transactions, which are approved by the Transaction Approval Committee (TAC).

The risk management methodologies for these investments are determined based on their investment types and purposes. Each risk is recognized and monitored appropriately by evaluating underlying assets/enterprise value. For securities that do not have fair market value, self assessment is conducted every quarter.

Securities of subsidiaries and affiliated companies are stated at cost calculated by the moving-average method. Securities available-for-sale whose fair value is readily determinable are stated at fair value at the end of the fiscal year (sales cost is determined by the moving-average method) and other nonmarketable securities are stated at cost or amortized cost computed by the moving-average method.

8. SECURITIZATION EXPOSURE RISK MANAGEMENT POLICIES AND PROCEDURES

BANK RULES

The Bank manages securitization transactions as follows:

(1) Originator
For fundraising, mitigation of exposure concentration, transfer of credit risk and balance sheet management purposes, the Bank securitizes loans and the Bank's subsidiaries securitize financial assets such as credit card and consumer loan receivables.

QUALITATIVE DISCLOSURE (CONTINUED)

As an originator, the Bank manages the credit risk of its securitized transactions using the assumption that original assets are maintained on its books. Since the purpose of these transactions includes acquiring funds, mitigating exposure concentration, transferring credit risk and managing the Bank's balance sheet, securitization transactions are a tool to control liquidity risk.

(2) Investor

In order to invest in assets whose credit risks are different from those of existing corporate exposure and to enhance the profit-earning opportunity, the Bank invests in securitization transactions which are backed by various financial products.

The Bank also re-securitizes some securitized products of which the Bank has purchased and may hold the subordinated/residual portion.

As a general rule, the Risk Management Group which is fully independent from the Business Group, manages the risks arising from securitization exposure, and risk management/monitoring methodologies and risk taking/reduction policies are specified according to the types of products. Although the Bank does not actively intend to increase securitization exposure at this moment, aforementioned procedure defined in "4. Credit Risk Management and Procedures, Credit Risk Management of Specific Transactions" will be followed for new investments after specifying and recognizing the risk profile, product specifics, nature of underlying assets and structure including credit enhancement, etc.

When the Bank invests in and monitors securitization exposures, the Bank focuses on external ratings and their changes as one of the effective indicators. The Bank not only refers to the external ratings but also monitors the actual performance of underlying assets through trustee reports and independently analyzes the forecasted performance of underlying assets to assign an internal rating to each transaction.

The risks related to securitization exposures are properly identified and managed. Risk Capital is calculated based on the internal rating assigned to each transaction. In addition, if the investments fall under the category of securities that do not have fair value or market value, the Bank recognizes and manages the risk through self-assessment. The investment judgment is determined based on those analyses and expected return. After the investment is executed, the performance of underlying assets is monitored on an ongoing basis and the Bank monitors the impact of covenants and "triggers" on the risk of each securitization exposure.

In terms of the reporting, transactions to be watched because of changes in environment/markets or for specific reasons are reported to the senior management, together with the Bank's overall portfolio including securitization exposure. The report comprehensively covers the amount of credit risk, outstanding amount of investments, change in portfolio, characteristics of risk profile, and new/exit transactions, etc. Situations on the portfolio are reported to the Risk Policy Committee by the Risk Management Group every quarter.

(3) Servicer

The Bank acts as a servicer when loans, which were originated by the Bank, are used as underlying assets in securitization.

Similarly, when financial assets such as credit card and consumer loan receivables originated by the Bank's subsidiaries are used as underlying assets for a securitization, the subsidiary serves as a servicer.

(4) Swap provider

In some transactions wherein the Bank is the arranger, the Bank provides swaps in order to mitigate interest rate risk within a specified range or to manage any cashflow difference between interest from underlying assets and coupons from the securities backed by the same assets.

CALCULATION METHODS FOR DETERMINING THE AMOUNT OF CREDIT RISK IN THE CONTEXT OF SECURITIZATION EXPOSURE

Risk weights are calculated based on internal rules entitled "Standards for Administering Risk Weight Calculation for Securitization Exposure." In general, the amount of credit risk assets related to securitization exposures is calculated using the Ratings-Based Approach (RBA).

In certain cases, where ratings have not been assigned by qualified rating agencies, the Risk Management Group and Finance Group may approve exceptions to using the RBA. For such transactions, the Bank has sufficient data to estimate PDs and LGDs of the original assets, and therefore can calculate the transaction-specific PDs, LGDs and credit risk amount based on the Supervisory Formula Approach.

Where no ratings are assigned by qualified rating agencies and no data are available for estimating the PDs and LGDs of original assets, the Bank's investment amount is deducted from the Bank's capital.

ACCOUNTING POLICY ADOPTED FOR SECURITIZATION TRANSACTIONS

(1) When assets to be securitized are owned by the Bank, securitization assets are removed from the balance sheet and assignment of gains and losses are calculated based on the financial component (*zaimu-kousei-youso*) approach.

The assets sold and retained interests are recognized as separate components of a transfer of financial assets. Those components in the transferred assets are measured by allocating the previous carrying amount between the assets sold and retained interests based on the relative fair values at the time of transfer. Based on the calculated values of assets that are sold, gains or losses on the transfer are recognized.

However, when assets are securitized for fundraising purposes, the book value to be credited on the balance sheet is adjusted in order to prevent generating any initial profits, after removing the assets from the balance sheet using the financial component approach.

(2) When the Bank purchases securitized products, Accounting Standards for Financial Products apply to each financial asset.

(3) Fee income earned by the Bank in arranging securitization for other parties (no investment) is treated as non-interest income.

QUALIFIED RATING AGENCIES WHOSE RATINGS ARE USED BY THE BANK IN DETERMINING SECURITIZED EXPOSURE TYPE-SPECIFIC RISK WEIGHTS:

S&P, Moody's, Fitch, R&I, and JCR.

9. MARKET RISK MANAGEMENT POLICIES AND PROCEDURES

DEFINITION OF MARKET RISK

Market risk, which is the risk associated with changes in the value of financial instruments from fluctuations in bond prices, foreign exchange rates, interest rates, stock prices, credit spread and other market-determined price mechanisms, is inherent in all assets and liabilities, as well as off-balance sheet transactions.

MARKET RISK MANAGEMENT POLICY

We manage market risk by segregating the overall balance sheet into a trading book and a banking book. The ALM Committee, chaired by the Bank's CEO, is the senior review and decision-making body for the management of all market risks related to asset/liability management. The actual risk limits for asset/liability management as well as trading, such as the Value-at-Risk (VaR) method, are approved by the ALM Committee. The VaR is the amount at risk for a specific time horizon and confidence level.

The Market Risk Management Committee serves as an arm of the ALM Committee and is chaired by the head of the Risk Management Group, with senior representatives from related divisions. The committee meets weekly to review detailed market risk and liquidity reports from the Market Risk Management Division, which is responsible for the objective and timely recognition, monitoring and reporting of market risk in both the Bank's trading and banking operations. In addition to reporting risk information to management, administrative divisions and front office units, the Market Risk Management Division carries out regular risk analyses and recommendations.

MARKET RISK MANAGEMENT FRAMEWORK

We have asset and liability risk arising from normal banking operations and the risk from the Bank's actively trading operations. Each unit within the front section is assigned overall risk limits.

The Market Risk Management Division is responsible for the objective and timely recognition, monitoring and reporting of market risk in both the Bank's trading and banking operations. In addition to reporting risk information to management, administrative divisions and front office units, this division carries out regular risk analyses and recommendations. The transaction execution, operations and risk management sections operate independently, establishing a system of effective checks and balances.

QUALITATIVE MARKET RISK MANAGEMENT

The Bank has built a system capable of facilitating the recognition and management of market risk by quantifying this risk frequently, tracking it objectively, and making adjustments according to market trends.

Market risk management relies on a five-step process.

1. Construct a transaction information database.
2. Clarify data according to the nature of the risk.
3. Quantify the risk based on the characteristics and nature of the risk.
4. Summarize and report the overall risk calculation.
5. Determine appropriate adjustments and monitoring based on the reported risk calculations.

To obtain a precise picture of the current risk position, transaction data must be accurate and complete. Measurement definitions must be valid, and valuation criteria such as rates and prices must be reliable. The Bank's market risk measurement system meets all of these requirements.

MARKET RISK MEASUREMENT METHODOLOGY

The Bank uses a Value-at-Risk (VaR) approach in its trading operations. For general market risk, the internal-model VaR calculation started from March 31, 2007 for Shinsei Bank and Shinsei Securities. This internal model makes use of a Historical Simulation Method for all books. Specific risk is reported using the Standardized Method. The VaR calculation uses a 99% confidence level, 10-day holding period and 250 observation days. Risk Capital is measured on a presumed one-year holding period basis.

Please refer to the VaR data table.

Market Risk Methodologies

		Trading	FX-related Risks except Trading
Shinsei Bank	General Market Risk	Internal Model Method • Historical Simulation Method	Standardized Method
	Specific Risk	Standardized method	
Shinsei Securities	General Market Risk	Internal Model Method •Historical Simulation Method	Standardized Method
	Specific Risk	Standardized Method	
Other Subsidiaries		—	Standardized Method

(VaR data table) VaR amounts as calculated at the end of March 2010 together with the high, mean and low VaR in fiscal year 2009 (99% confidence level, 10 day holding period).

	Millions of yen	
	Consolidated	Non-consolidated
VaR at the end of year	1,627	1,585
VaR through this year		
High	4,744	4,535
Mean	3,094	2,831
Low	1,528	1,475

EXPECTED HOLDING PERIOD AND ADEQUATE PRICING METHOD TAKING POSSIBILITIES INTO CONSIDERATION THAT ACTUAL HOLDING PERIOD MAY EXCEED EXPECTED HOLDING PERIOD

The expected length of time necessary to close a position in the trading books is ten days. The VaR framework is using this 10-day holding period to accommodate this fact.

INTERNAL MODEL VALIDATION

The validity of the Bank's market-risk VaR model is verified through back-testing, which examines how frequently actual daily profit or loss exceeds daily VaR for a one-day holding period. Back-testing of the sample data for fiscal year 2009 confirmed the continued reliability of the Bank's VaR model.

The back-testing results are reported daily to the trading divisions and quarterly to senior management. The back-testing results for fiscal year 2009 show that the number of days in which Loss Amount exceeded VaR on a consolidated basis was zero.

Complementing the Internal Model method, the Bank has implemented stress testing using more than 40 scenarios. Stress tests are produced on a weekly basis and reported to the Market Risk Management Committee.

ASSUMPTIONS AND VALUATION METHOD FOR INTERNAL CHECK OF CAPITAL EFFICIENCY

When we evaluate capital sufficiency for market risk using risk capital, we convert the above mentioned calculation method using a one year horizon.

10. LIQUIDITY RISK MANAGEMENT

The Bank's ALM Committee is the senior review and decision-making body for the management of liquidity risk. The ALM Committee manages liquidity risk by establishing the short-term liquidity gap structure limits and minimum liquidity reserve levels.

The Bank's "Cash Liquidity Risk Management Policy," reviewed and approved periodically by the ALM Committee, stipulates the guidelines and norms for appropriate liquidity risk management.

To quantify liquidity risk, we have implemented following liquidity forecast calculation:

- Business as Usual model: This model forecasts the liquidity situation on an ongoing basis. The output of this model is an estimate of the funds we need to raise under normal circumstances.
- Stress model: This is a liquidity forecast under extraordinary circumstances. The output of this methodology is the estimated cash in hand under the stressed circumstances.
- Net Gap Measurement: Basically we measure future Net Funding Gap based on business as usual assumptions for Assets and Retail Funding, and Contractual maturities for wholesale funding.

  The output of these calculation is carefully analyzed and presented weekly to Market Risk Management Committee and monthly to the ALM Committee together with a recommendation on the liquidity gap structure and minimum reserve level, as well as the underlying rationale, which is determined as follows:
- The first requirement of the test is that we should be able to hold adequate liquidity even in a crisis or emergency situation; based on the assumptions relating to inflow and outflow in a stress situation, the net cumulative outflow over a specified period should not exceed available reserves.
- If available reserves are insufficient to meet the test, actions to remedy the situation, such as increasing reserves etc., must be taken.

- If available reserves are sufficient to meet the test, then available reserves may be reduced, but only if the first stress test (emergency survival test) is still met and the liquidity gap at various times is within approved gap limits.

11. BANKING BOOK INTEREST RATE RISK MANAGEMENT

(1) Interest Rate Risk Management

The Bank's risk management of banking book assets and liabilities is managed based on our "Asset Liability Management Policy for Banking Account." Risk is monitored on a daily basis. The ALM Committee meets on a monthly basis in order to provide management with appropriate and timely reports on the status of the Bank's interest rate risk exposure. This committee also reviews and makes decisions on ALM policies and related topics. The purpose of comprehensively managing assets and liabilities is to optimize the overall interest income for the medium- to long-term by appropriately balancing interest rate risks on assets and liabilities and liquidity risks arising in the ordinary course of operations. This optimization is achieved by maintaining the appropriate balance between the following two approaches.

- Static point of view: Stabilize fluctuations and the range of changes in interest income based on the Bank's estimation by adjusting interest rate risks resulting from gaps in the amount of assets and liabilities, terms and the current interest rate conditions.
- Active point of view: Increase interest income by restructuring the present combination of assets and liabilities into a structure to generate more return per unit of risk.

For banking book interest rate risk management, in addition to limits or guidelines including net 100bpv, net interest income simulation is used. Interest income is simulated in order to monitor risk status on both a net present value and accounting basis. The Bank monitors the shape of the yield curve and regularly analyzes scenarios such as sudden steepening or flattening of the yield curve. The impact of these scenario changes on assets and liabilities is also evaluated.

(2) Stress scenarios and outlier criteria

In the context of the outlier criteria for the second pillar of Basel II, the Bank has adopted a 2% parallel-shift scenario. This measures fluctuation in the economic value of assets and liabilities on the banking book as a result of a 2% interest rate shock. This scenario is consistent with the Bank's interest rate risk sensitivity analysis, which is used for internal control purposes. This approach enhances the clarity of the scenario analysis.

(3) Calculation method for interest rate risk

- Housing loan prepayments

Instead of using contractual maturity, the cash flows for housing loans are based on a particular prepayment ratio, which is determined using actual prepayment data for similar loans and pricing in the housing loan securitization market. This data is incorporated into the interest rate risk calculation for the banking book. Prepayment rates are reviewed as appropriate.

- Definition of core deposits

The Bank has adopted an internal model for determining the maturity of core deposits. This system defines customer-specific and currency-specific maturities of ordinary deposits. In particular, the anticipated residual maturity model, wherein a probability distribution is applied, has been used for determining the maturity of yen-denominated retail ordinary deposits which account for the majority of the Bank's deposits.

According to this model, the average term is about 2.9 years (the longest term is 5 years).

Regarding other corporate deposits and liquid foreign currency deposits, an average term of 10.5 months has been reflected in the interest rate risk calculation in the banking book.

The parameters and models for core deposits are reviewed as necessary.

(4) Banking book interest rate risk calculation method by consolidated subsidiaries for internal management purpose

In general, consolidated subsidiaries conduct risk management under the supervision of the Board of Directors or ALM committee except for SPVs and other such entities whose risk management is integrated into the Bank's business.

Interest rate risk of consolidated subsidiaries, which have interest rate-sensitive assets and liabilities, are based on each subsidiary's interest rate risk management method and included in consolidated interest rate risk. At this time, a 2% interest-rate shock is adopted and used for outlier criteria calculation.

The decline in economic values for applied interest rate shock of 2% (parallel shift) in the banking book at the end of March 2010:

	Billions of yen	
	Consolidated	Non-consolidated
JPY	¥11.0	¥4.4
USD	0.0	0.8
Other	0.1	0.4
Total	¥11.2	¥5.7

12. OPERATIONAL RISK MANAGEMENT POLICIES AND PROCEDURES

MANAGEMENT POLICIES AND PROCEDURES

(1) Definition of Operational Risk

The Bank classifies operational risk into several risk categories, such as operational and administrative risk, compliance risk, labor-related risk, systems risk, extensive disaster risk and material object risk, which are applied across the Bank and its consolidated subsidiaries.

(2) Operational Risk Management System

The Bank manages operational risk at multiple levels as follows:

- Management by business lines according to the nature of each business
- Cross-organizational management by designated management divisions for respective risk categories mentioned above (hereinafter "designated management divisions") and by the firm-wide management division of operational risk (hereinafter "firm-wide management division")
- Verification by the Internal Audit Division on the appropriateness and effectiveness of the overall risk management system
- Based on reports and proposals, the Board of Directors etc. makes decisions on important items, including general rules and organizational changes related to operational risk management

The designated management divisions and the firm-wide management division are independent from business lines, which are accountable for earnings, and promoting management of overall operational risk and each risk category. The divisions develop uniform management standards and procedures, capture and evaluate errors and irregularities, conduct causal analysis and support establishment of recurrence prevention measures. Moreover, the divisions meet on a monthly basis to discuss challenges and measures for operational risk management, as well as to share information.

Operational risk is recognized and evaluated through review of internal errors and irregularities that have occurred, as well as through consideration of potential errors and irregularity scenarios that may occur less frequently but may have a significant impact. Uniform standards for collection and evaluation of errors and irregularities are established to capture and/or evaluate significant actual errors and/or irregularities on a regular basis. Procedures are determined to ensure that potential errors and irregular scenarios for each business operation are specified and their frequency and severity are evaluated in a complete and appropriate manner on an at least an annual basis.

Such identified and evaluated risks are reported to senior management by the designated management divisions and the firm-wide management division and are used in Risk Capital measurement for internal management purposes.

(3) "Operational Risk Management Standards"

"Operational Risk Management Standards" are a set of policies and procedures used to define the organizational framework, specific methods and processes for operational risk management. They are composed of the following:

- "Operational Risk Management Policy"
- Specific management rules
- Management rules at consolidated subsidiaries

"Operational Risk Management Policy" is the highest set of rules on operational risk management. To ensure comprehensive and consistent operational risk management within the Bank Group, the Policy establishes risk definitions, governance and basic policies on operational risk management, and the basic framework for risk capture, evaluation, monitoring, reporting, control and mitigation.

Specific management rules include management standards and procedures for each respective operational risk category, and for new businesses and products.

Management rules at each consolidated subsidiary are composed of comprehensive rules on overall operational risk management and specific rules for respective operational risk categories. Consolidated subsidiaries establish, revise and repeal rules by the approval of their Board of Directors, according to their risk characteristics and specific internal controls. Their establishment, revision and repeal are subject to prior discussions with and after-the-fact reports to the Bank to ensure consistency with the Bank's risk management rules.

METHODOLOGY TO CALCULATE OPERATIONAL RISK UNDER BASEL II

The Standardized Approach is adopted by the Bank.

Amount of required capital for Operational Risk at the end of fiscal year 2009:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
The Standardized Approach	¥ 46,036	¥ 14,217

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

<table>
<tr><td></td><td colspan="3">Corporate Exposures</td><td colspan="5">Retail Exposures</td></tr>
<tr><td></td><td colspan="2">Shinsei Bank
(Corporate, Sovereign, Bank, Specialized Lending, Equity)</td><td colspan="2">Showa Leasing
(Corporate, Other Retail)</td><td>APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN
(Residential Mortgage, Qualifying Revolving Retail, Other Retail)</td><td>Zen-Nichi Shinpan
(Residential Mortgage, Other Retail)</td><td colspan="2">Shinsei Bank
(Purchased Residential Mortgage, Purchased Other Retail; Residential Mortgage (roll-out asset to IRB))</td></tr>
<tr><td rowspan="2">Overall</td><td colspan="8">Basic Principles of the Internal Rating System for Credit Risk</td></tr>
<tr><td colspan="3">Internal Controls on Internal Rating System of Corporate Exposures</td><td colspan="5">Comprehensive Standards for Internal Rating System for Retail Exposures</td></tr>
<tr><td rowspan="4">Internal Rating System Design/ Operations</td><td rowspan="2">Obligor Rating Standards</td><td rowspan="3">Internal Rating System Preparation and Operation Standards for Specialized Lending</td><td colspan="2">Standards for Internal Rating System</td><td>Credit Policy/Credit Risk Management Official Regulations</td><td>Credit Policy/Credit Risk Management Official Regulations</td><td rowspan="3">Pool Categorization Methods and Parameter Estimation/Verification on Criteria regarding Purchased Housing Loans</td><td rowspan="3">Shinsei Housing Loan Pool Category Handling Standards</td></tr>
<tr><td rowspan="2">Internal Rating System Operation Standards for Specialized Lending</td><td>Credit Rating Standards</td><td>Credit Risk Estimation Rules</td><td>Credit Risk Estimation Rules</td></tr>
<tr><td>Facility Rating Standards</td><td>Facility Rating Standards</td><td>Guidelines of Pool Classification</td><td>Guidelines of Pool Classification</td></tr>
<tr><td colspan="2">Self-Assessment Standards/Manual</td><td colspan="2">Self-Assessment Manual/Procedures</td><td>Self-Assessment Standards</td><td>Self-Assessment Standards</td><td colspan="2">Self-Assessment Standards/Manual</td></tr>
<tr><td rowspan="2">Risk Quantification/ Validation</td><td colspan="3">Estimation/Validation Standards (for Corporate Exposures)</td><td colspan="4">Estimation/Validation Standards (for Retail Exposures)</td><td rowspan="2">Parameter Estimation and Validation Standards for Housing Loan Exposure</td></tr>
<tr><td colspan="2"></td><td colspan="2">Parameter Estimation Standards</td><td>Guidelines of Parameter Estimation</td><td>Guidelines of Parameter Estimation</td><td>Pool Categorization Methods and Parameter Estimation/Verification on Criteria regarding Purchased Housing Loans</td></tr>
<tr><td rowspan="3">Others</td><td colspan="8">Standards for Implementing Stress Tests in Basel II Regulatory Capital Measurement</td></tr>
<tr><td colspan="8">Comprehensive Standards for Measuring and Managing Dilution Risks</td></tr>
<tr><td colspan="2">Standards for Measuring and Managing Dilution Risks of Purchased Loans</td><td colspan="6"></td></tr>
</table>

EXHIBIT

Type of Exposures			Shinsei Bank (Non-Consolidated) (a) Corporate Exposures, (b) Sovereign Exposures, (c) Exposures to Banks, and (d) Equity Exposures (Exposures to which Internal Rating and PD/LGD approach is applied)	Shinsei Bank (Non-Consolidated) (e) Specialized Lending
Type of Internal Rating Approaches to be Used			• Obligor rating based on the rating estimation model • Facility rating based on the obligor ratings/expected losses	Rating in accordance with the capital rating structure model based on LTV.
Summary of Internal Rating System	Structure of Internal Rating System	Summary of Rating System	An internal obligor rating system has been adopted since February 2001. The characteristics of the rating system are: • Increasing model accuracy and reflecting appropriate qualitative factors • Benchmarked against external ratings • Properly reflecting obligors' consolidated-basis accounting systems • Ensuring conformity with rating systems among industry classifications For categorizing each individual transaction, an obligor rating and a facility rating system, based on expected losses taking into account the status of the preservation of claims, has been implemented since May 2001. Also, a facility rating, in addition to the total amount of credit to an obligor group, has been introduced to enable more appropriate credit judgment.	"Specialized Lending" refers to a claim whose source of recovery is solely dependent on the cash flow generated from a transaction such as a real estate non-recourse loan. As the risk profile is different from that of general corporate exposure and also the frequency of occurrence of actual default is quite low, the framework of Basel II permits the classification into a designated category by using the Guideline for Judging Risks based on FSA Notification ("Slotting Criteria") and calculation of risk assets. This "Slotting Criteria" is applied for calculating required regulatory capital, and internal ratings are estimated through the following process. • Quantitative rating is estimated based on LTV. • Qualitative adjustments are made on quantitative rating.
		Obligor Rating (Corporate) Facility Rating (Corporate)	**Obligor Rating** i) Model score: A quantitative model score is derived based on the financial data of a customer by applying a neural network model prepared by using external ratings as a benchmark. Financial data from "Nikkei Needs Financial Information" and "Shinsei Financial Analysis System Data" were used for calculation of model scores. ii) Verification of reliability of obligor financial data. iii) Overall adjustment: Unrealized profit or loss future financial projection, etc. Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules as "Obligors Subject to Special Treatment." **Facility Rating** Derived on the basis of expected loss rate by taking into account the following factors. i) Probability of Default (PD) corresponding to an obligor rating/term of credit. ii) Loss Given Default (LGD) corresponding to the status of credit enhancement of a facility. Facility rating system is not implemented for equity exposures.	**Obligor Rating and Facility Rating** The obligor rating is derived based on the rating approach in line with the foregoing framework. However, as the facility rating is directly calculated, no particular distinction is made between the obligor rating and the facility rating.
	Usage of Various Estimated Values (Use Test)		Facility rating is derived and assigned based on Expected Loss (EL) calculated from the PD corresponding to the credit rating. EL using the foregoing PD is also applied to pricing. PDs are used for calculating and allocating Risk Capital. No specific pricing rule with PD/LGD Approach for Equity exposures.	In the rating system, a rating derived in accordance with the above is also used for credit assessment of a transaction.
	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	Portfolio and Risk Management Division (PRMD) of the Bank is in charge of designing the rating system and ratings are assigned by the Credit Rating Review Committee and credit facility meeting. PRMD is in charge of estimation and validation of parameters. Internal Audit Division (IAD) of the Bank audits all these processes.	Credit Risk Division (CDRD) of the Bank is in charge of the design/management of the rating system. CDRD and PRMD are jointly in charge of validation. IAD audits all these processes.
		Validation Procedures	**Quantitative Validation** Model ratings and final credit ratings are validated in a manner as multifaceted as possible using Shinsei Bank data, Showa Leasing data and external databases. 1) Back Testing: using historical data, credit ratings goodness of fit, and Accuracy Ratio (AR) by segments, such as industry and sales scale, are validated. 2) Benchmarking: Comparison between internal and external ratings and mapping analysis are performed for the obligors with external ratings. **Qualitative Validation** Examinations of the newly defaulting obligors and rating transition analyses are conducted, and operations of individual assessments are examined.	The Bank validates the process by comparing simulated quantitative rating (based on quantitative data only) with a rating assigned by external agencies for CMBS transactions whose terms and conditions are available.
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		The assigned rating is approved by the Credit Rating Committee and credit facility meeting. Ratings are revised at least once a year.	CDRD is in charge of the assignment of internal ratings and mapping to the slotting criteria.
	Estimation of Parameters		PDs of corporate exposures are estimated by defining a default as any of the following: i) obligor categorization under self assessment falls to sub-standard (9B) or lower, ii) sale of claims at 30% economic loss, iii) amount of overdraft exceeds the maximum amount of the overdraft facility for 3 months. 1) Characterization of the Bank's internal data: Observation period is from end of March 2001, and population is obligors with loan exposures in (a) - (c). 2) Estimated PD data of the population that is treated as the corporate exposures at Showa Leasing (observation period: from end of March 2003). 3) For obligors at 3 rank or higher where track record of default is scarce, the PDs are estimated based on cumulative default rates from internal data, corporate bond spreads and data published by external rating agencies. 4) For Sovereign exposures, estimated PD for 0A and 1A is 0.00% and 0.01% respectively for required regulatory capital calculation purposes.	The mapping of internal ratings to the slotting criteria is as follows: i) Strong: 1AF - 4BF ii) Good: 4CF iii) Satisfactory: 5AF iv) Weak: 5BF - 6CF and 9A v) Default: 9B - 9E

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT

Type of Exposures			Shinsei Bank (Non-Consolidated): (f) Residential Mortgage Exposures (Housing Loans) [Roll-out Assets from Standardized Approach to IRB Approach]	Shinsei Bank (Non-Consolidated): (g) Purchased Residential Mortgage Exposures (A portion is classified as Purchased Other Retail Exposures)	Showa Leasing: (h) Exposures to Corporate, etc.
Type of Internal Rating Approaches to be Used			Pool classification based on a matrix of obligor and transaction attribute and delinquency (Expected roll-out period: End of FY2011)	Pool classification by portfolio and by delinquency status	Obligor rating based on a rating estimation model Facility rating based on an obligor rating/ expected loss
Summary of Internal Rating System	Structure of Internal Rating System	Summary of Rating System	The criteria for pool classification is LTV (Loan to Value ratio) and DTI (Debt to Income ratio).	These exposures are housing loans originated by lenders other than the Bank, and purchased as portfolios by the Bank. Pools are classified on a portfolio basis and delinquency basis. Business purpose loans collateralized by real estate to retail customers are classified as purchased other retail exposures or purchased corporate exposures.	An obligor rating system has been introduced that is identical to the system used at the Bank. Facility ratings based on EL for each transaction are established.
Summary of Internal Rating System	Structure of Internal Rating System	Obligor Rating (Corporate) Facility Rating (Corporate) Pool Classification (Retail)	**Pool Classification** Criteria for pool classification are: i) LTV, ii) DTI, and iii) delinquency.	**Pool Classification** Normal, Delinquent and Default pools are established for each portfolio.	**Obligor Rating** Same as (a) (b) and (c). **Facility Rating** The facility rating is established based on the EL of each transaction by reflecting the characteristics of risk profile of a transaction as well as the risk profile of an obligor.
Summary of Internal Rating System	Usage of Various Estimated Values (Use Test)		PDs and LGDs are used for calculating and allocating Risk Capital.	PDs and LGDs are used for calculating and allocating Risk Capital.	• The facility rating is assigned based on EL using PD corresponding to the credit rating. • EL using PD is also applied to pricing. • PDs are used for calculating and allocating Risk Capital.
Summary of Internal Rating System	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	Individual Pillar Risk Management Division (IPRM) is in charge of rating system design. Retail Services Division (RSD) is in charge of the pool assignment, with confirmation by the Loan Product Division (LPD). IPRM oversees pool assignment process. PRMD estimates/validates parameters. IAD audits all these processes.	CDRD is in charge of rating system design and pool assignment. CDRD estimates/validates parameters with support by PRMD. IAD audits all these processes.	PRMD of the Bank and Credit Risk Management Section (CRMS) of the Company are jointly responsible for the design of the rating system, and CRMS of the Company is in charge of rating assignment. PRMD of the Bank is in charge of the final approval process of parameter estimation and validation. Audit Division (AD) of the Company and IAD of the Bank jointly audit all these processes.
Summary of Internal Rating System	Management of Internal Rating System and Validation Procedures	Validation Procedures	**PD/LGD** Comparison of external data with internal historical data.	**PD** Binominal test, comparison with track record of defaults in other housing loan portfolios. **LGD** Validation if estimated LGDs remain within a certain confidence level, and comparison with the track record of loss rate in other housing portfolios.	Same as (a) (b) and (c).
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		As part of loan approval process, RSD: assigns exposures to specific pools LPD: confirms pool assignment IPRM: oversees and controls pool assignment process	CDRD is in charge of pool assignment.	CRMS of the Company is in charge of rating assignment.
Summary of Rating Assignment Procedures for Each Portfolio	Estimation of Parameters		**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) loan sales at 30% economic loss. **PD** Pools of Normal obligors: PDs on six month delinquency basis are estimated using financial data from the Japan Housing Finance Agency, and are adjusted to estimate PDs on three month delinquency. Pools of Need Caution obligors: PDs are estimated using the Bank Group data. **LGD** LGD estimation model is developed for each collateral property type. **Exposure at Default (EAD)** EAD for on-balance sheet items is the outstanding amount of mortgages, and utilized amount of overdraft facilities. EAD for off-balance sheet items is 100% of undrawn amount of overdraft facilities.	**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) payment in subrogation by guarantors, v) acceleration, vi) loan sales at 30% economic loss. **PD** PDs are estimated based on historical data of each purchased housing loan portfolio. Period before loan purchase is also included in data observation period. **LGD** LGDs are estimated based on historical data of each purchased housing loan portfolio. **EAD** EAD for on-balance sheet items is the outstanding balance of beneficiary interest in trust. EAD for off-balance sheet items is zero, since no undrawn amount exists.	Default is defined as any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) sales of receivables at 30% economic loss, v) Special Supervision or lower in self assessment of assets. PD estimation process is same as (a) (b) and (c).

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT

Type of Exposures			Showa Leasing (i) Other Retail Exposures	APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN, and Zen-Nichi Shinpan (j) Residential Mortgage/Qualifying Revolving Retail/Other Retail Exposures
Type of Internal Rating Approaches to be Used			Pool classification based on a matrix of obligor and transaction attributes and delinquency	Pool classification based on a matrix of obligor and transaction attributes and delinquency
Summary of Internal Rating System	Structure of Internal Rating System	Summary of Rating System	Small-lot lease receivables to corporate obligors in the Company are managed on a pool basis, and are treated as "retail" exposures. A credit rating is assigned to each obligor based on such factors as whether equity of obligor is listed or not, size of annual income, length of business history, credit score assigned by a credit agency. In addition, classification by type of asset leased is also implemented.	Main portfolio of the Group (APLUS FINANCIAL (including APLUS and APLUS PERSONAL LOAN), and Zen-Nichi Shinpan) is installment credit receivable, classified as other retail exposures. Credit is also extended through credit/loan cards, part of which are classified as qualifying revolving retail exposures. The Group retains but no longer originates housing loans. R-rating is assigned to each exposure of APLUS. R-ratings are risk grades based on obligor attributes, borrowing behavior information provided by credit information agencies and transaction history with the Company. For installment credit receivables, pool classification is also determined by type of asset being financed. For card exposures, card type and card limit amount is employed as criteria of pool classification. In APLUS FINANCIAL, a holding company, and APLUS and APLUS PERSONAL LOAN, subsidiaries, risks are managed comprehensively by APLUS FINANCIAL, as well as in each company, and major Credit Risk Management Standards, pool classification and parameter estimates are shared by these 3 companies. In Zen-Nichi Shinpan, which started adopting Foundation IRB from the end of March 2010, pool classification is established by portfolio such as installment credit receivables and card exposures.
		Pool Classification (Retail)	Criteria for pool classification are i) credit rating, ii) type of asset leased, and iii) obligor classification including delinquency.	Key criteria for pool classification are as follows: i) Obligor attributes such as R-rating ii) Transaction attributes such as type of assets financed for installment credit receivables, or card limit amount for card exposures iii) Delinquency
	Usage of Various Estimated Values (Use Test)		PDs are reflected in pricing. For pricing purposes, LGDs are calculated assuming that defaulted exposures do not recover to non-default status. PDs and LGDs are used for calculating and allocating Risk Capital.	PDs, LGDs and Credit Conversion Factors (CCFs) are used for calculating and allocating Risk Capital.
	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	CRMS of the Company and PRMD of the Bank are jointly in charge of the rating system design. Business Divisions/Branches of the Company assign exposures to pools, and CRMSs confirm and oversee pool assignment. CRMS and PRMD of the Bank jointly estimate and validate parameters, based on data provided by the Company. AD of the Company and IAD of the Bank jointly audit all these processes.	CRMS of the Group and PRMD of the Bank are jointly in charge of the rating system design. Business Divisions/Branches of the Group assign exposures to pools, and CRMS confirms and oversees pool assignment. CRMS and PRMD of the Bank jointly estimate and validate parameters, based on data provided by the Group. Internal Audit Section of the Group and IAD of the Bank jointly audit all these processes.
		Validation Procedures	**PD** Binominal test and verification of PDs and ratings goodness of fit. **LGD** Validation if estimated LGDs are remaining within a certain confidence level. **Pool Classification** Validation by Accuracy Ratio (AR).	**PD** Binominal test and verification of PDs and ratings goodness of fit. **LGD** Validation if estimated LGDs are remaining within a certain confidence level. **Pool Classification** Validation by Accuracy Ratio (AR).
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		As part of the approval process, Business Divisions/Branches of the Company assign exposures to pools, and CRMSs of the Company confirm pool assignment and oversee and control overall pool assignment processes.	Business Divisions/Branches of the Group assign exposures based on guidance provided by CRMS of the Group, and CRMS confirms pool assignment and controls overall pool assignment processes.
	Estimation of Parameters		**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) sales of receivables at 30% economic loss, v) Special Supervision or lower in self assessment of assets. **PD** PDs are estimated on the Company's historical data. **LGD** LGDs are estimated on the Company's historical data. **EAD** EAD for on-balance sheet items is defined as outstanding balance in compliance with U.S. Financial Accounting Standards Board (FASB). EAD for off-balance sheet items is zero, since no undrawn amount exists. **Data Observation Period** From April 2002 to March 2009.	**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) sales of claims at 30% economic loss. **PD** PDs are estimated using the Group's historical data. **LGD** LGDs are estimated using the Group's historical data. **EAD** EAD for on-balance sheet items is the outstanding amount of principal plus uncollected commissions/interest/guarantee fee. EAD for off-balance sheet items is calculated by committed line amount of card exposures multiplied by Credit Conversion Factors (CCFs). CCFs are estimated for each card type, using historical data of the Group. **Data Observation Period** From April 2001 to March 2009 for installment credit receivables and card exposures of APLUS.

QUALITATIVE DISCLOSURE (CONTINUED)

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A		1. Japanese Government, BOJ 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	Very high capability to meet its financial commitment on the obligation and other positive factors.
2B	AA	
2C	AA-	
3A	A+	High capability to meet its financial commitments on the obligations and some good factors.
3B	A	
3C	A-	
4A	BBB+	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4B	BBB	
4C	BBB-	
5A	BB+	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5B	BB	
5C	BB-	
6A	B+	No problem regarding the certainty of the fulfillment of obligations in the present situation, but special supervision is needed to monitor the trends in business performance and the protection of credit exposure.
6B	B	
6C	B-	
9A		Classified as "Other Need Caution" at the self-assessment
9B		Classified as "Sub-Standard" at the self-assessment
9C		Classified as "Possibly Bankrupt" at the self-assessment
9D		Classified as "Virtually Bankrupt" at the self-assessment
9E		Classified as "Bankrupt" at the self-assessment

QUANTITATIVE DISCLOSURE

1. NAMES OF UNCONSOLIDATED SUBSIDIARIES WITH LOWER LEVEL OF CAPITAL THAN REQUIRED LEVEL OF ADEQUACY CAPITAL AND AMOUNT OF SHORTAGE

Most of the 88 unconsolidated subsidiaries are special purpose companies (SPCs) or Limited Partnerships (LPs) for leverage leasing. As the economic risk associated with leveraged leasing has been hedged in these subsidiaries, the amount of invested equity is equal to applicable loss limits.

2. CAPITAL STRUCTURE

Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations"-"Capital Ratios" on page 95 for capital calculation details. The Bank was not required to deduct any excess deferred tax assets which banks are prohibited from including in their Tier I capital. The Bank has no Tier III capital.

3. CAPITAL ADEQUACY

AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

(1) Portfolios under the Standardized Approach (SA)

Millions of yen

	2010		2009	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Shinsei Home Loans	**¥ 31,296**	**¥ 31,296**	¥ 30,419	¥ 30,419
Subsidiaries of APLUS FINANCIAL[1]	**41**	**—**	6,873	—
Subsidiaries of Showa Leasing	**1,403**	**—**	1,836	—
Shinki[2]			7,255	—
Shinsei Financial Group	**42,557**	**—**	48,165	—
Other subsidiaries	**5,858**	**—**	7,978	—

Notes: (1) Zen-Nichi Shinpan, one of subsidiaries of APLUS FINANCIAL, has shifted to IRB since FY2009.
(2) Shinki has been included in Shinsei Financial Group since FY2009.

(2) Portfolios under the Internal Ratings-Based Approach (IRB)

Millions of yen

	2010		2009	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Corporate (Excluding Specialized Lending)[1]	**¥ 204,804**	**¥ 215,386**	¥ 223,852	¥ 222,871
Specialized Lending[2]	**264,724**	**262,960**	173,679	172,130
Sovereign	**8,298**	**8,265**	8,247	8,225
Bank	**18,395**	**16,732**	81,211	80,738
Residential mortgages	**3,564**	**—**	1,934	—
Qualified revolving retails	**65,054**	**—**	60,883	—
Other retails	**155,580**	**—**	141,768	—
Equity	**25,378**	**157,068**	25,562	155,308
Regarded (Fund)	**30,195**	**22,958**	40,290	32,959
Securitization[3]	**68,578**	**74,775**	100,700	103,750
(Unrated securitization exposure)	**(32,779)**	**(32,684)**	(57,109)	(56,816)
Purchase receivables	**98,803**	**98,803**	139,485	139,485
Other assets	**6,689**	**2,707**	7,687	3,319
Total	**¥ 950,067**	**¥ 859,659**	¥ 1,005,304	¥ 918,789

Notes: (1) "Corporate" includes "Small and Medium-sized Entities"
(2) "Specialized Lending" refers to a claim whose source of recovery is solely dependent on the cash flow generated from a transaction such as a real estate non-recourse loan.
(3) "Securitization" includes a part of amounts based on the Standardized Approach

QUANTITATIVE DISCLOSURE (CONTINUED)

AMOUNT OF REQUIRED CAPITAL FOR EQUITY EXPOSURE UNDER IRB

Millions of yen

As of March 31	2010 Required capital amount (Consolidated)	2010 Required capital amount (Non-consolidated)	2009 Required capital amount (Consolidated)	2009 Required capital amount (Non-consolidated)
Market-Based Approach				
Simplified Method	**¥ 18,181**	**¥ 21,724**	¥ 16,974	¥ 20,543
PD/LGD Method	**6,410**	**133,688**	7,835	133,059
Grandfathering Rule	**786**	**1,656**	752	1,706
Total	**¥ 25,378**	**¥ 157,068**	¥ 25,562	¥ 155,308

AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

Millions of yen

As of March 31	2010 Required capital amount (Consolidated)	2010 Required capital amount (Non-consolidated)	2009 Required capital amount (Consolidated)	2009 Required capital amount (Non-consolidated)
Look Through	**¥ 3,363**	**¥ 3,363**	¥ 4,311	¥ 4,311
Revised Naivete Majority	**23,400**	**14,921**	28,303	19,343
Simplified [400%]	**2,119**	**3,575**	4,091	5,953
Simplified [1,250%]	**1,311**	**1,097**	3,582	3,350
Total	**¥ 30,195**	**¥ 22,958**	¥ 40,290	¥ 32,959

AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

Millions of yen

As of March 31	2010 Required capital amount (Consolidated)	2010 Required capital amount (Non-consolidated)	2009 Required capital amount (Consolidated)	2009 Required capital amount (Non-consolidated)
The Standardized Approach				
(Specific Risk)	**¥ 7,212**	**¥ 6,804**	¥ 15,627	¥ 15,276
Interest rate risk	**5,243**	**4,889**	7,372	7,080
Equity position risk	**12**	**11**	11	—
FX risk	**1,956**	**1,903**	8,243	8,196
The Standardized Approach (General Market Risk)	**—**	**—**	—	—
The Internal Models Approach (IMA) (General Market Risk)	**5,932**	**5,728**	11,590	9,373

AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

Millions of yen

As of March 31	2010 Required capital amount (Consolidated)	2010 Required capital amount (Non-consolidated)	2009 Required capital amount (Consolidated)	2009 Required capital amount (Non-consolidated)
The Standardized Approach	**¥ 46,036**	**¥ 14,217**	¥ 36,919	¥ 17,503

TOTAL CAPITAL ADEQUACY RATIO AND TIER I CAPITAL RATIO

As of March 31	2010 Consolidated	2010 Non-consolidated	2009 Consolidated	2009 Non-consolidated
Total capital adequacy ratio	**8.35%**	**11.44%**	8.35%	10.95%
Tier I capital ratio	**6.35%**	**9.04%**	6.02%	8.40%

TOTAL REQUIRED CAPITAL (DOMESTIC CRITERIA)

Millions of yen

As of March 31	2010 Consolidated	2010 Non-consolidated	2009 Consolidated	2009 Non-consolidated
Total required capital	**¥ 550,801**	**¥ 434,058**	¥ 682,667	¥ 455,731
Total risk assets x 4%	**¥ 308,884**	**¥ 289,672**	¥ 384,841	¥ 355,021

4. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity (Consolidated)

Millions of yen

	2010				2009			
	Total	Amount of Credit Risk Exposure			Total	Amount of Credit Risk Exposure		
As of March 31		Loans,etc.[1]	Securities[2]	Derivatives[3]		Loans,etc.[1]	Securities[2]	Derivatives[3]
Manufacturing	¥ 403,154	¥ 395,550	¥ —	¥ 3,935	¥ 401,806	¥ 398,633	¥ 0	¥ 3,172
Agriculture	3,028	3,028	—	—	3,232	3,232	—	—
Mining	3,677	3,677	—	—	4,622	4,622	—	—
Construction	28,627	28,590	36	—	41,861	41,824	36	—
Electric power, gas, water supply	46,967	46,878	35	53	61,921	61,832	35	53
Information and communication	39,595	39,595	—	—	72,137	72,137	—	—
Transportation	293,660	269,572	4,030	20,057	289,375	266,869	3,089	19,417
Wholesale and retail	185,299	184,881	—	417	209,922	209,430	—	491
Finance and insurance	1,230,819	1,144,231	54,011	32,576	1,515,365	1,341,945	71,334	102,085
Real estate	1,185,290	891,158	290,498	3,633	1,398,196	1,084,364	310,052	3,778
Services	481,540	450,345	27,561	3,633	630,928	521,593	98,272	11,063
Government	2,512,322	148,930	2,363,391	—	1,341,996	132,026	1,206,039	3,930
Individuals	2,807,124	2,806,521	—	602	3,168,307	3,167,542	—	765
Others	6,142	2,409	3,732	—	3,270	1,161	2,109	—
Domestic Total	9,227,249	6,415,373	2,746,966	64,909	9,142,945	7,307,217	1,690,969	144,757
Foreign	845,171	322,674	224,160	298,335	1,548,419	385,630	221,757	941,031
Consolidated Total	¥ 10,072,421	¥ 6,738,048	¥ 2,971,127	¥ 363,245	¥ 10,691,364	¥ 7,692,848	¥ 1,912,727	¥ 1,085,789
To 1 year	2,144,783	1,770,529	306,332	67,921	2,639,357	1,785,514	588,918	264,925
1 to 3 years	3,575,676	1,621,216	1,800,557	153,902	3,371,399	1,999,135	932,504	439,758
3 to 5 years	1,929,382	1,152,899	712,365	64,117	1,875,595	1,408,678	211,803	255,113
Over 5 years	1,553,625	1,333,742	142,579	77,303	1,796,086	1,496,027	174,067	125,991
Undated	868,953	859,661	9,291	—	1,008,925	1,003,491	5,433	—
Consolidated Total	¥ 10,072,421	¥ 6,738,048	¥ 2,971,127	¥ 363,245	¥ 10,691,364	¥ 7,692,848	¥ 1,912,727	¥ 1,085,789

Geographic, Industries or Maturity (Non-consolidated)

Millions of yen

	2010				2009			
	Total	Amount of Credit Risk Exposure			Total	Amount of Credit Risk Exposure		
As of March 31		Loans,etc.[1]	Securities[2]	Derivatives[3]		Loans,etc.[1]	Securities[2]	Derivatives[3]
Manufacturing	¥ 317,221	¥ 309,617	¥ —	¥ 3,935	¥ 307,025	¥ 303,852	¥ 0	¥ 3,172
Agriculture	2,500	2,500	—	—	2,700	2,700	—	—
Mining	3,090	3,090	—	—	3,988	3,988	—	—
Construction	7,563	7,563	—	—	22,232	22,232	—	—
Electric power, gas, water supply	46,758	46,670	35	53	61,067	60,978	35	53
Information and communication	20,557	20,557	—	—	47,831	47,831	—	—
Transportation	275,914	251,826	4,030	20,057	268,315	245,810	3,088	19,417
Wholesale and retail	117,168	116,750	—	417	132,269	131,777	—	491
Finance and insurance	1,624,860	1,528,434	54,011	42,415	1,881,274	1,692,401	71,337	117,534
Real estate	1,158,772	864,640	290,498	3,633	1,357,723	1,043,892	310,052	3,778
Services	431,391	399,575	27,665	4,150	546,001	426,743	108,195	11,063
Government	2,501,521	138,165	2,363,356	—	1,332,686	122,751	1,206,004	3,930
Individuals	884,632	884,029	—	602	874,684	873,918	—	765
Others	—	—	—	—	—	—	—	—
Domestic Total	7,391,953	4,573,421	2,743,266	75,265	6,837,800	4,978,880	1,698,714	160,206
Foreign	857,346	316,387	241,539	299,419	1,558,204	376,745	239,840	941,618
Bank Total	¥ 8,249,299	¥ 4,889,808	¥ 2,984,806	¥ 374,685	¥ 8,396,005	¥ 5,355,625	¥ 1,938,554	¥ 1,101,825
To 1 year	2,261,047	1,880,339	306,558	74,149	2,730,719	1,875,022	589,549	266,147
1 to 3 years	3,013,788	1,056,547	1,800,557	156,684	2,691,166	1,317,354	932,469	441,342
3 to 5 years	1,529,402	750,665	712,365	66,371	1,439,408	964,218	212,700	262,490
Over 5 years	1,317,201	1,079,762	159,958	77,480	1,440,815	1,108,258	200,710	131,845
Undated	127,858	122,492	5,366	—	93,896	90,772	3,123	—
Bank Total	¥ 8,249,299	¥ 4,889,808	¥ 2,984,806	¥ 374,685	¥ 8,396,005	¥ 5,355,625	¥ 1,938,554	¥ 1,101,825

Notes: (1) Including total exposure, operating assets and securitized original assets originated from these exposures, excluding purchased receivables
(2) Excluding equity exposures
(3) Credit equivalent amount basis

AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

Millions of yen

As of March 31	2010 Default Exposure Consolidated	2010 Default Exposure Non-consolidated	2009 Default Exposure Consolidated	2009 Default Exposure Non-consolidated
Manufacturing	¥ 4,905	¥ 1,578	¥ 4,370	¥ 1,625
Agriculture	68	—	5	—
Mining	31	—	16	—
Construction	853	11	2,279	1,661
Electric power, gas, water supply	1	—	1	—
Information and communication	1,761	564	742	585
Transportation	19,679	19,217	6,363	6,012
Wholesale and retail	1,101	39	1,240	193
Finance and insurance	50,967	50,876	69,595	69,587
Real estate	311,791	300,549	100,099	80,275
Services	6,893	2,879	6,816	2,041
Government	—	—	—	—
Individuals	174,847	7,355	168,542	6,794
Others	3,948	2,227	523	—
Domestic Total	576,851	385,301	360,595	168,776
Foreign	37,799	40,531	61,191	64,531
Total	¥ 614,650	¥ 425,832	¥ 421,787	¥ 233,308

AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

Consolidated

Millions of yen

As of March 31	2010 Start Amount	2010 Change Amount	2010 End Amount	2009 Start Amount	2009 Change Amount	2009 End Amount
General	¥ 105,619	¥ 6,445	¥ 112,064	¥ 96,650	¥ 8,968	¥ 105,619
Specific	261,108	20,972	282,080	145,679	115,428	261,108
Country	14	(1)	13	15	(1)	14
Total	¥ 366,741	¥ 27,416	¥ 394,157	¥ 242,345	¥ 124,396	¥ 366,741

Non-consolidated

Millions of yen

As of March 31	2010 Start Amount	2010 Change Amount	2010 End Amount	2009 Start Amount	2009 Change Amount	2009 End Amount
General	¥ 65,544	¥ (14,867)	¥ 50,677	¥ 57,903	¥ 7,641	¥ 65,544
Specific	124,696	23,627	148,323	70,305	54,390	124,696
Country	14	(1)	13	15	(1)	14
Total	¥ 190,255	¥ 8,759	¥ 199,013	¥ 128,224	¥ 62,031	¥ 190,255

Geographic (Consolidated)

Millions of yen

As of March 31	2010 Total	2010 Reserve Amount General	2010 Reserve Amount Specific	2010 Reserve Amount Country	2009 Total	2009 Reserve Amount General	2009 Reserve Amount Specific	2009 Reserve Amount Country
Domestic	¥ 342,156	¥ 94,550	¥ 247,606	¥ —	¥ 317,446	¥ 97,042	¥ 220,404	¥ —
Foreign	52,000	17,513	34,474	13	49,295	13,515	35,764	14
Total	¥ 394,157	¥ 112,064	¥ 282,080	¥ 13	¥ 366,741	¥ 110,557	¥ 256,169	¥ 14

Geographic (Non-consolidated)

Millions of yen

As of March 31	2010 Total	2010 Reserve Amount General	2010 Reserve Amount Specific	2010 Reserve Amount Country	2009 Total	2009 Reserve Amount General	2009 Reserve Amount Specific	2009 Reserve Amount Country
Domestic	¥ 147,210	¥ 33,361	¥ 113,848	¥ —	¥ 140,171	¥ 52,104	¥ 88,067	¥ —
Foreign	51,803	17,316	34,474	13	50,083	13,440	36,628	14
Total	¥ 199,013	¥ 50,677	¥ 148,323	¥ 13	¥ 190,255	¥ 65,544	¥ 124,696	¥ 14

QUANTITATIVE DISCLOSURE (CONTINUED)

Industries

As of March 31	2010 Reserve Amount Consolidated	2010 Reserve Amount Non-consolidated	2009 Reserve Amount Consolidated	2009 Reserve Amount Non-consolidated
	Millions of yen			
Manufacturing	¥ 11,556	¥ 4,587	¥ 7,731	¥ 3,045
Agriculture	100	25	80	20
Mining	37	14	101	21
Construction	1,948	275	2,777	1,382
Electric power, gas, water supply	112	109	190	180
Information and communication	2,336	457	1,518	619
Transportation	7,247	6,467	6,927	6,042
Wholesale and retail	4,149	847	4,639	1,122
Finance and insurance	33,059	32,728	33,840	41,857
Real estate	75,773	70,159	46,602	39,570
Services	12,099	4,601	29,515	19,270
Government	112	—	100	—
Individuals	171,309	5,698	161,302	5,681
Others	21,386	21,235	21,400	21,357
Foreign	52,000	51,803	49,295	50,083
Non-classified	927	—	719	—
Total	¥ 394,157	¥ 199,013	¥ 366,741	¥ 190,255

AMOUNT OF WRITE-OFFS

Industries

	FY2009 Amount of write-off Consolidated	FY2009 Amount of write-off Non-consolidated	FY2008 Amount of write-off Consolidated	FY2008 Amount of write-off Non-consolidated
	Millions of yen			
Manufacturing	¥ 401	¥ —	¥ 99	¥ —
Agriculture	—	—	—	—
Mining	8	—	—	—
Construction	776	649	11	0
Electric power, gas, water supply	—	—	—	—
Information and communication	71	—	35	—
Transportation	1,007	936	36	—
Wholesale and retail	327	147	67	—
Finance and insurance	7,307	7,307	725	725
Real estate	6,015	6,004	54	27
Services	320	27	211	—
Government	—	—	—	—
Individuals	127,199	120	67,718	39
Others	3	—	—	—
Foreign	2,387	2,387	3,370	3,370
Non-classified	—	—	—	—
Total	¥ 145,828	¥ 17,581	¥ 72,331	¥ 4,163

AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen							
	2010				2009			
	Consolidated		Non-consolidated		Consolidated		Non-consolidated	
As of March 31	Rated	Unrated	Rated	Unrated	Rated	Unrated	Rated	Unrated
0%	¥ 352	¥ 8,582	¥ —	¥ —	¥ 35	¥ 11,365	¥ —	¥ —
10%	—	—	—	—	—	929	—	—
20%	61,624	10	—	—	105,670	12	—	—
35%	—	668,179	—	664,386	—	716,060	—	646,833
50%	921	13,557	—	1,561	6,888	21,681	—	271
75%	—	857,511	—	206,127	—	1,090,056	—	202,769
100%	1,244	105,858	—	2,499	525	156,500	—	1,605
150%	1	7,199	—	532	4	13,932	—	26
350%	—	—	—	—	—	—	—	—
Capital Deduction	—	—	—	—	—	—	—	—
Total	¥ 64,144	¥ 1,660,899	¥ —	¥ 875,107	¥ 113,123	¥ 2,010,539	¥ —	¥ 851,506

QUANTITATIVE DISCLOSURE (CONTINUED)

SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

(1) Specialized lending excluding high-volatility commercial real estate

Millions of yen

As of March 31	2010		2009	
	Amount of Exposure		Amount of Exposure	
Risk weight ratio	Consolidated	Non-consolidated	Consolidated	Non-consolidated
50%	¥ 44,981	¥ 44,275	¥ 157,733	¥ 157,733
70%	151,928	149,427	209,989	209,111
90%	63,386	63,386	63,328	63,328
115%	189,527	189,527	127,083	125,268
250%	144,177	138,782	171,827	167,493
0% (Default)	160,195	160,195	5,645	5,645
Total	¥ 754,197	¥ 745,594	¥ 735,607	¥ 728,581

(2) Specialized lending for high-volatility commercial real estate

Millions of yen

As of March 31	2010		2009	
	Amount of Exposure		Amount of Exposure	
Risk weight ratio	Consolidated	Non-consolidated	Consolidated	Non-consolidated
70%	¥ 93	¥ 93	¥ 10,358	¥ 10,358
95%	7,973	7,973	85,696	85,696
120%	9,000	9,000	—	—
140%	13,750	13,750	39,438	39,438
250%	95,789	95,789	181,665	181,665
0% (Default)	140,477	140,477	25,326	25,326
Total	¥ 267,084	¥ 267,084	¥ 342,486	¥ 342,486

(3) Equity exposure under Market-Based Simplified Method

Millions of yen

As of March 31	2010		2009	
Risk weight ratio	Amount Consolidated	Amount Non-consolidated	Amount Consolidated	Amount Non-consolidated
300%	¥ 791	¥ 627	¥ 5,259	¥ 5,147
400%	53,008	63,574	46,097	56,703
Total	¥ 53,799	¥ 64,201	¥ 51,356	¥ 61,851

PORTFOLIOS UNDER IRB EXCLUDING THE AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

(1) Estimated average PD, LGD, Risk Weight Ratio and Exposure at Default (EAD) (on-balance and off-balance) for Corporate, Sovereign and Bank exposure

Corporate (Consolidated)

Millions of yen (except percentages)

As of March 31	2010					2009				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	25.55%	¥ 17,301	¥ —	0.04%	45.00%	29.96%	¥ 18,874	¥ 4,567
1	0.03%	45.00%	21.55%	39,456	—	0.04%	45.00%	26.47%	35,297	—
2	0.06%	44.32%	19.94%	156,489	40,585	0.07%	44.89%	21.40%	195,295	42,034
3	0.15%	44.90%	36.67%	497,548	56,959	0.14%	44.94%	34.10%	682,304	74,117
4	0.42%	44.86%	57.37%	441,643	75,471	0.40%	44.89%	50.08%	763,461	77,556
5	1.31%	44.69%	85.62%	505,375	40,881	1.00%	50.64%	93.18%	336,160	27,709
6	3.12%	41.32%	112.00%	177,508	15,559	3.32%	44.79%	132.25%	251,772	13,106
9A	12.20%	46.71%	209.44%	234,823	17,853	13.27%	44.81%	212.99%	192,710	17,184
Default	100.00%	44.32%	—	75,568	297	100.00%	47.89%	—	91,559	—

QUANTITATIVE DISCLOSURE (CONTINUED)

Sovereign (Consolidated)

Millions of yen (except percentages)

As of March 31	2010					2009				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.00%	45.00%	—	¥ 2,947,411	¥ —	0.00%	45.00%	—	¥ 2,051,781	¥ —
1	0.01%	45.00%	8.05%	47,312	37	0.04%	45.00%	21.02%	40,254	39
2	0.06%	45.00%	26.74%	119,531	918	0.07%	45.00%	31.42%	165,035	6,945
3	0.10%	44.97%	37.47%	145,697	2,871	0.10%	44.93%	30.01%	76,241	5,757
4	0.41%	45.00%	82.26%	4,529	74	0.40%	45.00%	75.54%	3,232	2,276
5	0.96%	45.00%	71.74%	5	—	0.74%	45.00%	71.00%	275	1,621
6	3.52%	45.00%	116.02%	0	—	3.64%	45.00%	166.24%	0	—
9A	12.20%	45.00%	197.22%	301	—	13.27%	45.00%	241.23%	983	—
Default	100.00%	45.00%	—	53	—	100.00%	45.00%	—	47	—

Bank (Consolidated)

Millions of yen (except percentages)

As of March 31	2010					2009				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	17.62%	¥ 38,412	¥ 1	0.04%	45.00%	22.27%	¥ 36,045	¥ 251
1	0.03%	45.00%	7.58%	13	—	0.04%	45.00%	15.37%	4,790	37
2	0.06%	45.15%	21.10%	171,354	193,619	0.07%	45.09%	23.62%	111,179	372,533
3	0.12%	45.52%	29.53%	166,206	133,988	0.13%	45.00%	33.24%	129,406	267,011
4	0.37%	45.00%	58.93%	10,027	5,937	0.35%	45.56%	60.10%	79,535	129,957
5	1.31%	45.00%	101.35%	874	2,132	0.77%	45.00%	83.26%	11,810	137,523
6	3.39%	45.00%	152.92%	12,302	663	3.36%	45.00%	155.24%	8,332	660
9A	12.20%	45.03%	223.90%	1,141	688	13.27%	45.00%	208.08%	5,121	144,947
Default	100.00%	45.00%	—	—	150	100.00%	45.00%	—	852	—

Corporate (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2010					2009				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	25.55%	¥ 17,301	¥ —	0.04%	45.00%	29.53%	¥ 18,874	¥ 5,296
1	0.03%	45.00%	21.56%	39,308	135	0.04%	45.00%	27.37%	44,587	—
2	0.06%	44.29%	20.20%	147,409	40,635	0.07%	44.88%	21.64%	181,283	42,034
3	0.15%	44.89%	36.71%	487,235	56,959	0.15%	44.93%	34.02%	640,318	74,117
4	0.44%	44.91%	53.92%	722,353	77,423	0.39%	44.91%	48.45%	916,884	78,681
5	1.37%	44.68%	85.85%	490,882	40,881	1.08%	50.55%	93.94%	342,125	27,709
6	3.21%	40.25%	111.78%	128,407	21,130	3.39%	44.74%	136.13%	200,554	13,106
9A	12.20%	46.54%	206.41%	262,358	17,918	13.27%	44.81%	208.97%	194,607	17,184
Default	100.00%	44.29%	—	73,122	297	100.00%	47.89%	—	90,559	879

Sovereign (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2010					2009				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.00%	45.00%	—	¥ 2,928,349	¥ —	0.00%	45.00%	—	¥ 2,045,285	¥ —
1	0.01%	45.00%	8.05%	47,312	37	0.04%	45.00%	21.06%	40,039	39
2	0.06%	45.00%	27.07%	116,694	918	0.07%	45.00%	31.49%	163,890	6,945
3	0.10%	44.97%	37.47%	145,679	2,871	0.10%	44.93%	30.01%	76,241	5,757
4	0.41%	45.00%	82.26%	4,529	74	0.40%	45.00%	75.54%	3,232	2,276
5	0.96%	45.00%	71.74%	5	—	0.74%	45.00%	71.00%	275	1,621
6	—	—	—	—	—	3.64%	45.00%	166.24%	0	—
9A	12.20%	45.00%	197.22%	301	—	13.27%	45.00%	241.23%	983	—
Default	100.00%	45.00%	—	53	—	100.00%	45.00%	—	47	—

QUANTITATIVE DISCLOSURE (CONTINUED)

Bank (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2010					2009				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	**0.03%**	**45.00%**	**18.55%**	**¥ 35,176**	**¥ 1**	0.04%	45.00%	24.05%	¥ 31,451	¥ 251
1	**0.03%**	**45.00%**	**7.58%**	**13**	**—**	0.04%	45.00%	15.37%	4,790	37
2	**0.06%**	**45.15%**	**21.18%**	**163,430**	**193,619**	0.07%	45.09%	23.74%	102,405	372,533
3	**0.11%**	**45.76%**	**31.63%**	**72,163**	**133,702**	0.13%	45.00%	37.21%	33,396	266,336
4	**0.30%**	**45.00%**	**47.35%**	**20,701**	**21,147**	0.32%	45.41%	54.76%	131,775	152,239
5	**1.43%**	**45.00%**	**112.65%**	**—**	**2,132**	0.77%	45.00%	83.27%	11,680	137,523
6	**3.49%**	**45.00%**	**161.27%**	**10,248**	**663**	3.53%	45.00%	162.98%	7,278	660
9A	**12.20%**	**45.04%**	**235.02%**	**685**	**688**	13.27%	45.00%	208.37%	639	144,947
Default	**100.00%**	**45.00%**	**—**	**—**	**150**	100.00%	45.00%	—	852	—

Note: LGD after credit risk mitigation

(2) Estimated average PD, risk weight ratio and amount of exposure for equity exposure under PD/LGD method

(Consolidated)

Millions of yen (except percentages)

As of March 31	2010				2009			
Credit rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0	**0.00%**	**90.00%**	**—**	**¥ 9**	0.04%	90.00%	300.00%	¥ 9
1	**—**	**—**	**—**	**—**	—	—	—	—
2	**0.06%**	**90.00%**	**200.02%**	**5,431**	0.06%	90.00%	200.02%	4,771
3	**0.18%**	**90.00%**	**200.24%**	**2,220**	0.16%	90.00%	239.17%	3,205
4	**0.48%**	**90.00%**	**269.25%**	**4,026**	0.40%	90.00%	270.55%	7,727
5	**1.68%**	**90.00%**	**389.76%**	**8,087**	1.09%	90.00%	334.56%	2,613
6	**2.63%**	**90.00%**	**418.42%**	**1,385**	3.64%	90.00%	332.49%	310
9A	**12.20%**	**90.00%**	**330.44%**	**2,974**	13.27%	90.00%	418.49%	7,434
Default	**100.00%**	**90.00%**	**—**	**29**	100.00%	90.00%	—	589

(Non-consolidated)

Millions of yen (except percentages)

As of March 31	2010				2009			
Credit rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0	**0.00%**	**90.00%**	**—**	**¥ 9**	0.04%	90.00%	300.00%	¥ 9
1	**—**	**—**	**—**	**—**	—	—	—	—
2	**0.06%**	**90.00%**	**200.02%**	**5,431**	0.06%	90.00%	200.02%	4,771
3	**0.19%**	**90.00%**	**200.00%**	**2,215**	0.16%	90.00%	239.07%	3,199
4	**0.43%**	**90.00%**	**277.06%**	**431,807**	0.35%	90.00%	296.62%	446,846
5	**1.73%**	**90.00%**	**408.21%**	**6,708**	1.09%	90.00%	334.60%	2,610
6	**2.34%**	**90.00%**	**447.73%**	**9,959**	2.10%	90.00%	440.79%	14,539
9A	**12.20%**	**90.00%**	**671.67%**	**35,668**	13.27%	90.00%	482.78%	22,327
Default	**100.00%**	**90.00%**	**—**	**325**	100.00%	90.00%	—	1,026

(3) Estimated average PD, LGD, risk weight ratio, Exposure at Default (EAD) (on- and off-balance), amount of undrawn commitments and estimated average Credit Conversion Factors (CCF) of undrawn commitments for residential mortgage exposure, qualified revolving retail exposure and other retail exposure

Residential mortgage exposure

Millions of yen (except percentages)

As of March 31	2010							2009						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	**1.29%**	**72.13%**	**100.54%**	**¥ 15,876**	**¥ 12,093**	**¥ —**	**—**	1.97%	55.00%	106.36%	¥ 15	¥ 13,384	¥ —	—
Need caution	**80.31%**	**50.10%**	**115.10%**	**6**	**302**	**—**	**—**	81.11%	55.00%	121.57%	6	368	—	—
Default	**100.00%**	**60.14%**	**—**	**967**	**335**	**—**	**—**	100.00%	51.00%	—	428	307	—	—

QUANTITATIVE DISCLOSURE (CONTINUED)

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2010							2009						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	**5.30%**	**85.68%**	**99.11%**	**¥ 137,924**	**¥ 23,062**	**¥ 2,723,960**	**0.85%**	5.64%	85.14%	104.24%	¥ 121,032	¥ 25,879	¥ 2,738,224	0.94%
Need caution	**77.57%**	**87.28%**	**156.22%**	**5,066**	**—**	**—**	**—**	80.28%	86.35%	139.14%	6,399	—	—	—
Default	**100.00%**	**85.78%**	**—**	**46,701**	**—**	**—**	**—**	100.00%	84.58%	—	42,101	—	—	—

Other retail exposure

Millions of yen (except percentages)

As of March 31	2010							2009						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	**2.61%**	**61.60%**	**76.16%**	**¥ 328,363**	**¥ 728,336**	**¥ 206,902**	**1.16%**	2.39%	60.57%	73.02%	¥ 295,625	¥ 773,649	¥ —	—
Need caution	**81.51%**	**59.37%**	**81.98%**	**8,681**	**3,535**	**—**	**—**	77.74%	60.14%	95.80%	6,301	4,152	—	—
Default	**100.00%**	**58.50%**	**—**	**106,171**	**1,065**	**—**	**—**	100.00%	57.20%	—	92,867	1,480	—	—

Note: LGD is shown after credit risk mitigation

COMPARATIVE RESULTS OF ACTUAL LOSSES AND EXPECTED LOSSES FOR THE LAST TWO YEARS UNDER F-IRB APPROACH

Millions of yen

	FY2009	FY2008
Results of actual losses (a)	**¥ 8,570**	¥ 33,434
Expected losses (b)	**16,757**	10,830
Differences ((b) - (a))	**8,187**	(22,603)

The above matrix shows the results of default (downgrade below substandard) losses (increase of reserve, write-offs and loss on sale) for the fiscal years 2008 and 2009 for the Bank's non-default corporate exposure at the start of the fiscal year, with expected losses calculated using estimated PD at the end of March 2010.

In fiscal year 2008, actual losses greatly exceeded the expected losses due to the credit cost increase caused by the bankruptcy of Lehman Brothers.

5. CREDIT RISK MITIGATION (CRM)

COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

Millions of yen

	2010		2009	
As of March 31	Eligible financial collateral	Other eligible FIRB collateral	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 19,784**	**¥ 149,900**	¥ 8,549	¥ 181,033
Sovereign	**—**	**107**	—	160
Bank	**—**	**—**	—	—
Total	**¥ 19,784**	**¥ 150,007**	¥ 8,549	¥ 181,194

COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

Millions of yen

	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
SA Exposures	**¥ —**	**¥ —**	¥ —	¥ —
IRB Exposures	**214,332**	**214,332**	219,457	219,457
Corporate	**56,088**	**56,088**	67,449	67,449
Sovereign	**86,939**	**86,939**	77,784	77,784
Bank	**71,305**	**71,305**	74,223	74,223
Residential mortgages	**—**	**—**	—	—
Qualified revolving retail	**—**	**—**	—	—
Other retail	**—**	**—**	—	—

6. COUNTERPARTY CREDIT RISK OF DERIVATIVES

(1) Measurement of EAD
Current Exposure Method
(2) Total amount of gross positive fair value
Refer to below table
(3) EAD before CRM
Refer to below table
(4) Net of: (2) + amount of gross add-on - (3)
Zero
(5) Amount covered collateral
Zero
(6) EAD after CRM
Refer to below table

	Millions of yen			
	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Total amount of gross positive fair value	¥ 740,072	¥ 745,564	¥ 641,387	¥ 612,501
Amount of gross add-on	344,670	333,692	678,991	667,193
EAD before CRM	1,084,742	1,079,257	1,320,379	1,279,695
FX-related	563,393	564,916	630,693	631,404
Interest-related	242,566	242,803	259,561	276,757
Equity-related	43,392	40,880	31,024	80
Commodity-related	—	—	—	—
Credit derivatives	235,232	230,498	398,782	371,135
Others	159	159	317	317
Amount of net	689,615	704,412	163,713	177,551
EAD after net	395,127	374,844	1,156,666	1,102,143
Amount covered collateral	—	—	—	—
EAD after CRM	395,127	374,844	1,156,666	1,102,143

(7) Notional amount of credit derivatives which have counterparty risk

	Millions of yen			
As of March 31	2010		2009	
Notional amount	Protection-buy	Protection-sell	Protection-buy	Protection-sell
Single name	¥ 600,186	¥ 688,750	¥ 792,504	¥ 939,898
Multi name	294,450	245,936	402,918	342,313

(8) Notional amount of credit derivatives which cover exposures by CRM

	Millions of yen			
	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Notional amount	¥ 12,058	¥ 12,058	¥ 11,227	¥ 11,227

7. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK GROUP

(1) Amount of original assets
Securitization by transfer of assets

Consolidated

	Millions of yen	
As of March 31	2010	2009
Type of original assets	Amount of original asset	Amount of original asset
Residential mortgages	¥ 291,931	¥ 358,414
Consumer loans	42,404	114,777
Commercial real estate loans	39,346	161,193
Corporate loans	33,614	73,346
Others	33	12,979
Total	¥ 407,330	¥ 720,711

QUANTITATIVE DISCLOSURE (CONTINUED)

Non-consolidated

As of March 31	2010	2009
	Millions of yen	
Type of original assets	Amount of original asset	Amount of original asset
Residential mortgages	¥ 291,931	¥ 358,414
Consumer loans	439,372	577,231
Commercial real estate loans	39,346	161,193
Corporate loans	33,614	73,346
Others	383,263	393,191
Total	¥ 1,187,527	¥ 1,563,377

Synthetic Securitization

Consolidated/Non-consolidated

As of March 31	2010	2009
	Millions of yen	
Type of original assets	Amount of original asset	Amount of original asset
Corporate loans	¥ 30,100	¥ 30,100
Total	¥ 30,100	¥ 30,100

Note: Includes originally securitized assets originated by the Bank Group, even though the Bank Group had no exposure to these particular assets.

(2) Amount of default exposure including original assets

Securitization by transfer of assets

Consolidated

As of March 31	2010	2009
	Millions of yen	
Type of original assets	Amount of Default	Amount of Default
Residential mortgages	¥ 5,600	¥ 8,117
Consumer loans	2	—
Commercial real estate loans	24,594	945
Corporate loans	33,614	30,773
Others	—	—
Total	¥ 63,812	¥ 39,836

Non-consolidated

As of March 31	2010	2009
	Millions of yen	
Type of original assets	Amount of Default	Amount of Default
Residential mortgages	¥ 5,600	¥ 8,117
Consumer loans	—	—
Commercial real estate loans	24,594	945
Corporate loans	33,614	30,773
Others	—	—
Total	¥ 63,809	¥ 39,836

Synthetic Securitization

Consolidated/Non-consolidated

As of March 31	2010	2009
	Millions of yen	
Type of original assets	Amount of Default	Amount of Default
Corporate loans	¥ —	¥ —
Total	¥ —	¥ —

(3) Amount of securitization exposure the Bank Group has by type of original assets

Securitization by transfer of assets

Consolidated

As of March 31	Millions of yen	
	2010	2009
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	¥ 10,040	¥ 23,627
Consumer loans	42,404	98,333
Commercial real estate loans	2,706	3,386
Corporate loans	29,672	58,273
Others	—	1,831
Total	¥ 84,823	¥ 185,452

Non-consolidated

As of March 31	Millions of yen	
	2010	2009
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	¥ 10,040	¥ 23,627
Consumer loans	253,008	391,478
Commercial real estate loans	2,706	3,386
Corporate loans	29,672	58,273
Others	309,219	123,686
Total	¥ 604,647	¥ 600,452

Synthetic Securitization

Consolidated/Non-consolidated

As of March 31	Millions of yen	
	2010	2009
Type of original assets	Amount of Exposure	Amount of Exposure
Corporate loans	¥ 13,353	¥ 15,608
Total	¥ 13,353	¥ 15,608

(4) Amount of securitization exposure and required capital the Bank Group has by risk weight ratio

Securitization by transfer of assets

Consolidated

As of March 31	Millions of yen			
	2010		2009	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ 30,290	¥ 182	¥ 31,469	¥ 193
Over 12% to 20%	6,146	104	19,687	333
Over 20% to 50%	—	—	—	—
Over 50% to 75%	—	—	14,465	700
Over 75% to 100%	9,871	788	26,800	2,007
Over 100% to 250%	35,661	3,860	68,971	7,515
Over 250% to 425%	74	16	24,056	6,764
Over 425%	2,778	1,482	—	—
Total	¥ 84,823	¥ 6,434	¥ 185,452	¥ 17,514

Non-consolidated

As of March 31	Millions of yen			
	2010		2009	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ 456,818	¥ 4,150	¥ 80,825	¥ 615
Over 12% to 20%	12,446	211	372,865	6,323
Over 20% to 50%	—	—	—	—
Over 50% to 75%	129,400	6,652	70,079	3,566
Over 75% to 100%	3,275	277	44,189	3,747
Over 100% to 250%	—	—	15,000	1,368
Over 250% to 425%	—	—	17,491	5,222
Over 425%	2,706	1,434	—	—
Total	¥ 604,647	¥ 12,726	¥ 600,452	¥ 20,843

QUANTITATIVE DISCLOSURE (CONTINUED)

Synthetic Securitization

Consolidated/Non-consolidated

	Millions of yen			
As of March 31	**2010**		2009	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	**¥ —**	**¥ —**	¥ —	¥ —
Over 12% to 20%	**—**	**—**	—	—
Over 20% to 50%	**—**	**—**	15,608	289
Over 50% to 75%	**13,353**	**746**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**—**	**—**	—	—
Over 250% to 425%	**—**	**—**	—	—
Over 425%	**—**	**—**	—	—
Total	**¥ 13,353**	**¥ 746**	¥ 15,608	¥ 289

(5) Amount of increase of capital by securitization (to be deducted from Tier I capital)

	Millions of yen			
As of March 31	**2010**		2009	
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	**¥ 9,337**	**¥ 9,337**	¥ 9,946	¥ 9,946
Consumer loans, installment receivables	**65**	**—**	342	84
Commercial real estate loans	**0**	**0**	0	0
Others	**—**	**—**	3,770	3,770
Total	**¥ 9,402**	**¥ 9,337**	¥ 14,060	¥ 13,801

(6) Amount of securitization exposure which should be deducted from capital under the Accord Article 247

	Millions of yen			
As of March 31	**2010**		2009	
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	**¥ 1,052**	**¥ 1,052**	¥ 784	¥ 784
Consumer loans, installment receivables	**—**	**—**	1,289	1,289
Commercial real estate loans	**185**	**185**	752	752
Others	**29**	**—**	1,278	1,241
Total	**¥ 1,267**	**¥ 1,237**	¥ 4,104	¥ 4,067

(7) Securitization exposure subject to early amortization

None.

(8) Summary of current year's securitization activities including amount of exposure securitized, and recognized gain/loss by original asset type.

None.

(9) Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15

None.

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS

(1) Amount of securitization exposure the Bank Group has by type of original asset

Consolidated

	Millions of yen	
As of March 31	**2010**	2009
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	**¥ 17,277**	¥ 16,466
Consumer loans	**—**	6,444
Commercial real estate loans	**87,147**	91,011
Corporate loans	**55,262**	68,367
Others	**145,806**	138,049
Total	**¥ 305,494**	¥ 320,339

QUANTITATIVE DISCLOSURE (CONTINUED)

Non-consolidated

As of March 31	Millions of yen	
	2010	2009
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	¥ 17,277	¥ 16,466
Consumer loans	—	6,444
Commercial real estate loans	87,147	91,011
Corporate loans	55,262	68,844
Others	145,806	138,049
Total	¥ 305,494	¥ 320,816

(2) Amount of securitization exposure and required capital for the Bank Group by risk weight ratio

Consolidated

As of March 31	Millions of yen			
	2010		2009	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ 186,188	¥ 1,555	¥ 197,132	¥ 1,628
Over 12% to 20%	22,701	298	24,932	326
Over 20% to 50%	10,163	354	37,246	1,289
Over 50% to 75%	12,872	818	14,726	936
Over 75% to 100%	1,268	107	57	4
Over 100% to 250%	28,605	4,376	—	—
Over 250% to 425%	8,227	2,310	11,743	3,350
Over 425%	35,465	18,817	34,500	18,285
Total	¥ 305,494	¥ 28,638	¥ 320,339	¥ 25,821

Non-consolidated

As of March 31	Millions of yen			
	2010		2009	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ 186,188	¥ 1,555	¥ 197,132	¥ 1,628
Over 12% to 20%	22,701	298	24,932	326
Over 20% to 50%	10,163	354	37,723	1,303
Over 50% to 75%	12,872	818	14,726	936
Over 75% to 100%	1,268	107	57	4
Over 100% to 250%	28,605	4,376	—	—
Over 250% to 425%	8,227	2,310	11,743	3,350
Over 425%	35,465	18,817	34,500	18,285
Total	¥ 305,494	¥ 28,638	¥ 320,816	¥ 25,835

(3) Amount of securitization exposure which should be deducted from capital under the Accord Article 247

As of March 31	Millions of yen			
	2010		2009	
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	¥ 3,686	¥ 3,686	¥ 4,598	¥ 4,598
Consumer loans, installment receivables	—	—	—	—
Commercial real estate loans	2,167	2,167	3,625	3,625
Corporate loans	16,254	16,254	16,578	16,578
Others	—	—	14,142	14,145
Total	¥ 22,109	¥ 22,109	¥ 38,944	¥ 38,946

(4) Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15.

None.

8. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

VAR AT THE END OF MARCH 2010 AND 2009 AND THE HIGH, MEAN AND LOW VAR

Millions of yen

	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
VaR at term end	**¥ 1,646**	**¥ 1,603**	¥ 3,629	¥ 2,934
VaR through this term				
High	**4,744**	**4,535**	7,654	6,454
Mean	**3,124**	**2,848**	3,878	3,252
Low	**1,528**	**1,475**	1,518	1,286

Concerning the back testing for trading account in FY2008, the actual daily loss exceeded the VaR twice.
In both cases, significant discrepancy with the VaR was generated, but this was due to the bankruptcy of Lehman Brothers.

9. EQUITY EXPOSURE IN BANKING BOOK

BOOK VALUE AND FAIR VALUE

Millions of yen

	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Market-based approach				
Listed equity exposure	**¥ 791**	**¥ 627**	¥ 5,259	¥ 5,147
Unlisted equity exposure	**53,008**	**63,574**	46,097	56,703
PD/LGD method				
Listed equity exposure	**15,900**	**113,701**	10,639	35,872
Unlisted equity exposure	**8,263**	**378,423**	16,020	459,457

GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

Millions of yen

	FY2009		FY2008	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Gain (loss) on sale	**¥ 2,771**	**¥ 2,445**	¥ 2,048	¥ 3,854
Loss of depreciation	**4,595**	**4,552**	12,762	11,549

UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

Millions of yen

	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Unrealized gain (loss)	**¥ 105**	**¥ (189)**	¥ (2,575)	¥ (1,936)

UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

Millions of yen

	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Equity to subsidiaries and affiliates	**¥ —**	**¥ 2,511**	¥ —	¥ (6,645)

AMOUNT OF EQUITY EXPOSURE UNDER GRANDFATHERING RULE SUBJECT TO THE ACCORD SUPPLEMENTARY PROVISION 13

Millions of yen

	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Grandfathering rule (100% risk weight apply)	**¥ 9,278**	**¥ 19,537**	¥ 8,868	¥ 20,120

10. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

	Millions of yen			
	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Regarded exposure (fund)	**¥ 85,017**	**¥ 64,111**	¥ 110,082	¥ 88,935

11. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) — THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB

The decline in economic values for applied interest rate shock of 2% in the banking book is shown below:

	Billions of yen			
	2010		2009	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
JPY	**¥ 11.0**	**¥ 4.4**	¥ 5.3	¥ 30.4
USD	**0.0**	**0.8**	0.0	1.2
Others	**0.1**	**0.4**	1.5	0.6
Total	**¥ 11.2**	**¥ 5.7**	¥ 6.9	¥ 32.3

CORPORATE INFORMATION

SHINSEI BANK GROUP

AS OF MARCH 31, 2010

As of March 31, 2010, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 213 subsidiaries (comprising 125 consolidated companies including APLUS FINANCIAL Co., Ltd., Showa Leasing Co., Ltd. and Shinsei Financial Co., Ltd. and 88 unconsolidated subsidiaries) and 22 affiliated companies (affiliates accounted for using the equity method, such as Jih Sun Financial Holding Co., Ltd.). The Shinsei Bank Group is an integrated financial services group which engages principally in the banking business and conducts securities, trust and other businesses.

Shinsei Bank, Limited

- **Banking** ------ Head office and domestic branch offices
  Major subsidiaries:
  - APLUS FINANCIAL Co., Ltd.
  - Showa Leasing Co., Ltd.
  - SHINKI Co., Ltd.
  - Shinsei Financial Co., Ltd.
- **Securities** ------ Major subsidiary:
  - Shinsei Securities Co., Ltd.
- **Trust business** ------ Major subsidiary:
  - Shinsei Trust & Banking Co., Ltd.
- **Other business** ------ Major subsidiaries:
  - Shinsei Investment Management Co., Ltd.
  - Shinsei Servicing Company

MAJOR SUBSIDIARIES AND AFFILIATES

AS OF MARCH 31, 2010

Name	Location	Main business	Capital (in millions)	Established (Acquired)	Equity stake held by Shinsei Bank and consolidated subsidiaries (%)	Equity stake held by Shinsei Bank	Equity stake held by consolidated subsidiaries of Shinsei Bank
Major Domestic Subsidiaries							
Shinsei Property Finance Co., Ltd.	Tokyo, Japan	Real estate collateral finance	¥ 2,750	1959.5	100.0%	100.0%	—%
Shinsei Information Technology Co., Ltd.	Tokyo, Japan	Information technology	100	1983.8	100.0	100.0	—
Shinseigin Finance Co., Ltd.	Tokyo, Japan	Finance	10	1993.1	100.0	100.0	—
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking	5,000	1996.11	100.0	100.0	—
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities	8,750	1997.8	100.0	100.0	—
Shinsei Servicing Company	Tokyo, Japan	Servicing business	500	2001.10	100.0	—	100.0
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advisory	495	2001.12	100.0	100.0	—
APLUS FINANCIAL Co., Ltd.	Osaka, Japan	Installment credit	15,000	(2004.9)	93.6	93.6	—
Zen-Nichi Shinpan Co., Ltd.	Okayama, Japan	Installment credit	1,000	(2006.3)	97.3	—	97.3
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing	29,360	(2005.3)	97.0	97.0	—
SHINKI Co., Ltd.	Tokyo, Japan	Finance	16,709	(2007.12)	100.0	—	100.0
Shinsei Financial Co., Ltd.	Tokyo, Japan	Finance	66,518	(2008.9)	100.0	99.8	0.2
Major Overseas Subsidiaries							
Shinsei Bank Finance N.V.	Curaçao, Netherlands Antilles	Finance	$ 2.1	1976.3	100.0%	100.0%	—%
Shinsei International Limited	London, UK	Securities	£ 3	2004.9	100.0	100.0	—
Shinsei Finance (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	$ 673	2006.2	100.0	100.0	—
Shinsei Finance II (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	$ 497	2006.3	100.0	100.0	—
Shinsei Finance III (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	¥ 36,013	2009.3	100.0	100.0	—
Shinsei Finance IV (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	9,107	2009.3	100.0	100.0	—
Shinsei Finance V (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	9,008	2009.9	100.0	100.0	—
Major Affiliates Accounted for Using the Equity Method							
Jih Sun Financial Holding Co., Ltd.	Taipei, Taiwan	Finance	NT$ 49,628	2002.2	30.4%	—%	32.9%
Raffia Capital Co., Ltd.	Tokyo, Japan	Private equity fund management	¥ 10	2002.7	50.0	50.0	—
Hillcot Holdings Limited	Hamilton, Bermuda	Holding company	$ 0.01	2002.11	49.9	49.9	—

STOCK INFORMATION

AS OF MARCH 31, 2010

Shares Outstanding and Capital

1,000 shares, millions of yen

Date	Shares outstanding		Capital		Capital surplus		Notes
	Change	Balance	Change	Balance	Change	Balance	
July 29, 2003	(1,358,537)	2,033,065*	—	451,296	—	18,558	2-for-1 reverse share split for common shares Post reverse split common shares outstanding 1,358,537 thousand shares
July 31, 2006	(99,966)	1,933,098*	—	451,296	—	18,558	Use of call feature for Series 3 Class-B preferred shares Issuance of 200,033 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
November 16, 2006	(85,000)	1,848,098*	—	451,296	—	18,558	Cancellation of treasury shares (common) -85,000 thousand shares
August 1, 2007	(100,000)	1,748,098*	—	451,296	—	18,558	Mandatory acquisition of Series 3 Class-B preferred shares Issuance of 200,000 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
February 4, 2008	117,647	1,865,746*	25,000	476,296	25,000	43,558	Third party allocation of shares (common shares) Subscription price ¥425, par value ¥212.5
March 31, 2008	194,600	2,060,346	—	476,296	—	43,558	Use of call feature for Series 2 Class-A preferred shares Issuance of 269,128 thousand common shares Retirement of Series 2 Class-A preferred shares -74,528 thousand shares

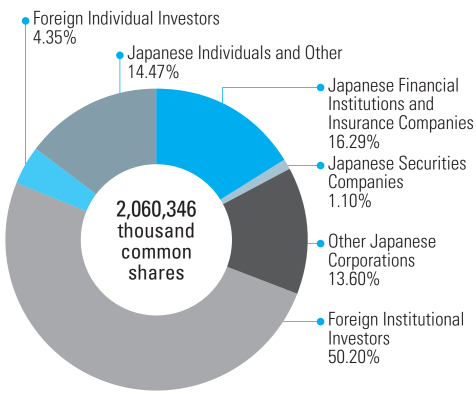
* Figure includes number of preferred shares outstanding

Largest Shareholders(1)(2)

Rank	Shareholders	Thousands of Common Shares	%
1	SATURN IV SUB LP (JPMCB 380111)	322,964	15.67
2	Deposit Insurance Corporation of Japan	269,128	13.06
3	THE RESOLUTION AND COLLECTION CORPORATION	200,000	9.70
4	SATURN JAPAN III SUB C.V. (JPMCB 380113)	110,449	5.36
5	SHINSEI BANK,LIMITED	96,427	4.68
6	J.CHRISTOPHER FLOWER	88,571	4.29
7	SANTANDER INVESTMENT SA,C.CENTRAL VALORES	63,539	3.08
8	CREDIT SUISSE SEC (EUROPE) LTD PB SEC INT NON–TR CLT	49,705	2.41
9	MORGAN STANLEY & CO. INC	40,872	1.98
10	GOLDMAN,SACHS & CO.REG	40,518	1.96
11	THE MASTER TRUST BANK OF JAPAN,LTD. (TRUST ACCOUNT)	31,473	1.52
	Total (includes treasury shares)	2,060,346	100.00

(1) As of March 31, 2010, a group of investors, including affiliates of J.C. Flowers & Co. LLC., holds 564,674,699 common shares or 28.8% of Shinsei's outstanding common shares, excluding treasury shares.
(2) As of March 31, 2010, in total, the Deposit Insurance Corporation and the Resolution and Collection Corporation hold 469,128,888 common shares or 23.9% of Shinsei's outstanding common shares, excluding treasury shares.

Breakdown of Shareholders



EMPLOYEES

AS OF MARCH 31, 2008, 2009 AND 2010

	2008	2009	2010
Consolidated			
Number of Employees	5,245	7,006	**6,116**
Non-Consolidated			
Number of Employees	2,394	2,259	**2,011**
Male	1,300	1,208	**1,085**
Female	1,094	1,051	**926**
Average age	38 years 3 months	38 years 6 months	**39 years**
Average years of service	9 years 1 month	9 years 7 months	**10 years 7 months**
Average monthly salary	¥505 thousand	¥495 thousand	**¥498 thousand**

"Average monthly salary" includes overtime wages but excludes annual bonus.

NETWORK

DOMESTIC OUTLETS:	AS OF JULY 1, 2010
42 outlets (31 branches including head office, 11 annexes)	
30 Shinsei Financial Centers (branches including head office) and 11 Shinsei Consulting Spots (annexes) for the retail banking business	

HOKURIKU

Kanazawa Branch

KINKI

Kyoto Branch
Osaka Branch (for Institutional Group business only)
Umeda Branch
Umeda Branch—Hankyu Umeda Annex
Umeda Branch—Senri Chuo Annex
Umeda Branch—Takatsuki Annex
Umeda Branch—Nishinomiya Kitaguchi Annex
Namba Branch
Namba Branch—Sakai Higashi Annex
Kobe Branch

CHUGOKU

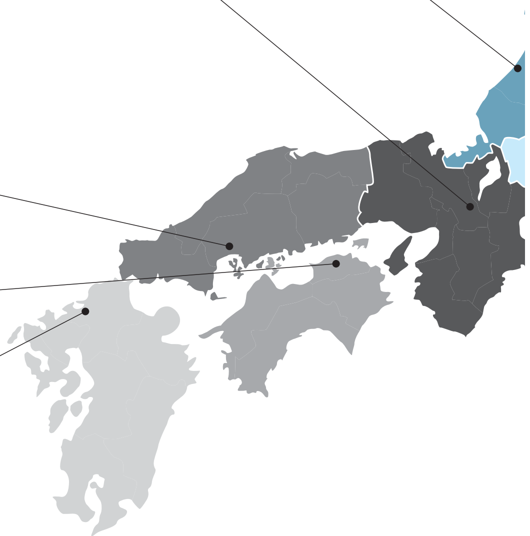
Hiroshima Branch

SHIKOKU

Takamatsu Branch

KYUSHU

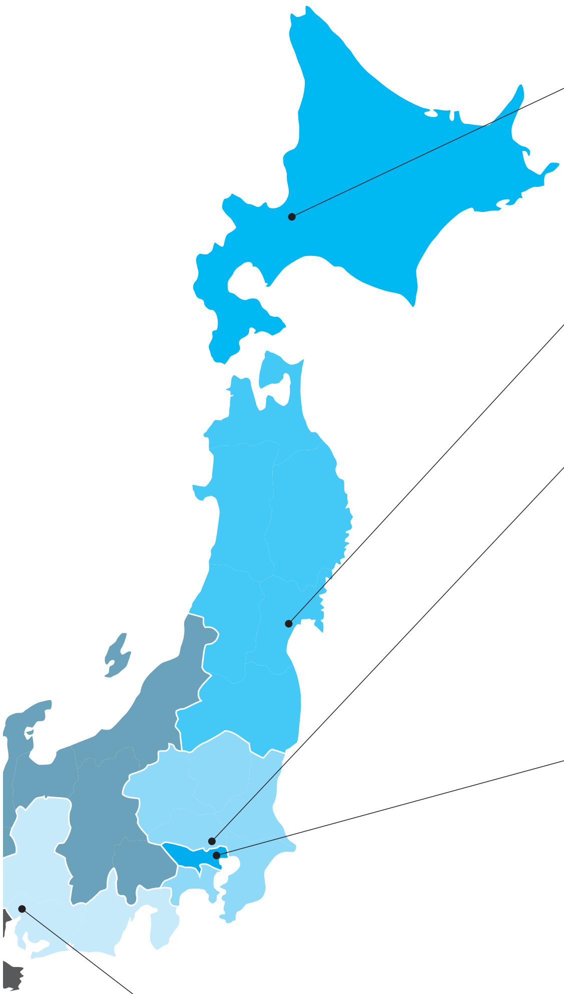
Fukuoka Branch



DOMESTIC SUB-BRANCHES (ATM ONLY):	AS OF JULY 1, 2010
Tokyo Metro stations	52 locations
Other train stations	10 locations
Other	80 locations

ACCESS TO SEVEN BANK, LTD. ATMS	AS OF JULY 1, 2010
Access to Seven Bank, Ltd. ATMs	13,470 locations

AS OF JULY 1, 2010



HOKKAIDO

Sapporo Branch

TOHOKU

Sendai Branch

KANTO (EXCEPT TOKYO)

Omiya Branch
Ikebukuro Branch—Kawaguchi Annex
Kashiwa Branch
Lalaport Branch
Lalaport Branch—Tsudanuma Annex
Yokohama Branch
Yokohama Branch—Kamakura Annex
Fujisawa Branch

TOKYO

Head Office
Tokyo Branch
Ginza Branch
Ikebukuro Branch
Ueno Branch
Kichijoji Branch
Shinjuku Branch
Roppongi Hills Branch
Shibuya Branch
Shibuya Branch—Omotesando Hills Annex
Shibuya Branch—Jiyugaoka Annex
Hiroo Branch
Meguro Branch
Futakotamagawa Branch
Hachioji Branch
Machida Branch

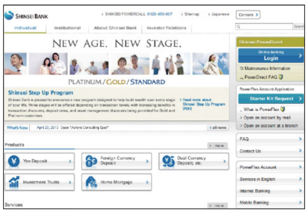
TOKAI

Nagoya Branch

WEBSITE

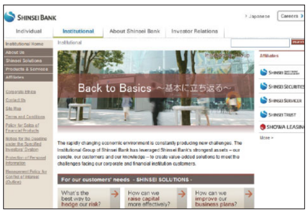
Our English and Japanese websites provide a wide range of information for individual and Institutional customers, corporate data and investor relations.

RETAIL



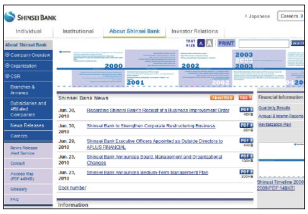
http://www.shinseibank.com/english/
The website for individual customers provides information on our comprehensive retail account, *PowerFlex*. Customers can log on to our Internet banking service, Shinsei *PowerDirect*, submit requests for information on *PowerFlex* and apply to open an account. Product offerings, campaigns, branch and ATM information, and detailed explanations on foreign currency deposits and investment trusts are covered here.

INSTITUTIONAL



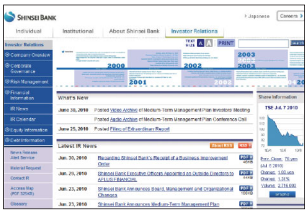
http://www.shinseibank.com/institutional/en/
Our website for institutional customers provides information for our institutional customers on our products, services and solutions. It also contains details of our branches and affiliates.

ABOUT SHINSEI BANK



http://www.shinseibank.com/investors/en/about/
This website provides information on our corporate and management profiles, history, subsidiaries as well as CSR initiatives. It also contains news releases.

INVESTOR RELATIONS



http://www.shinseibank.com/investors/en/ir/
The Investor Relations website contains a company and management overview, information on corporate governance, shareholders, financial information, IR news and IR calendar. It also provides equity- and debt-related information.

For further information, please contact:

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Shinsei Bank, Limited
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Tel: 81-3-5511-8303 Fax: 81-3-4560-1706 URL: http://www.shinseibank.com E-mail: Shinsei_IR@shinseibank.com

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