Annual Report 2001

SHINSEI BANK

Shinsei Bank, Limited
Annual Report 2001

We are pleased to extend greetings to our customers and many business associates in Japan and around the world. We wish to thank you for your continued interest in our services and operations, and provide you with our Annual Report for fiscal 2000, ended March 31, 2001.

A year has passed since the Bank recommenced operations under a new management group in March 2000 and subsequently changed its name to Shinsei Bank, Limited, on June 5, 2000. This Annual Report presents a detailed summary of the current condition of the Bank and its performance over the past fiscal year, as well as an outline of the strategies we have embarked upon to create a competitive financial institution.

July 2001
Shinsei Bank, Ltd.

Contents

Forward-Looking Statements

This Annual Report contains statements that constitute forward-looking statements. These statements appear in a number of places in this Annual Report and include statements regarding our intent, belief, or current expectations and/or the current belief or current expectations of our officers with respect to the results of our operations and the financial condition of the Bank and its subsidiaries. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Our forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and actual results may differ from those in such forward-looking statements as a result of various factors.

Shinsei Financial Center (Head Office)

Opening of the first Shinsei Financial Center on June 5, 2001 (Head Office)

Hibiya Branch (opened July 2, 2001)

Summary of Events Since the Inauguration of Shinsei Bank

2000

March	New bank launched
	New Board of Directors and management appointed
April	Commencement of counter sales of investment trusts
May	Commencement of three-year coupon debenture issuance (market offering)
June	Name changed from The Long-Term Credit Bank of Japan, Limited, to Shinsei Bank, Ltd.
	Change of the Bank's corporate mark
	Commencement of operations by The Shinsei Card Co., Ltd. (start of issuance of combination credit and ATM card)
	Introduction of management information system (MIS)
	Commencement of monthly accounts closing
July	Adoption of new human resources system (based on the three pillars of performance-based reward, decentralized authority over appointments and proactive utilization of external human resources)
October	Commencement of cooperation with the postal savings system (ATM networks, fund transfers)
November	Start of operation of wide area network (WAN) connecting all domestic offices (for data and voice traffic)
	Cooperation with six trust banks (ATM networks)

2001

April	Business alliance with Monex, Inc.
May	Commencement of operations by Shinsei Securities Co., Ltd.
June	Start of new retail banking services
	Launch of *PowerFlex* comprehensive account
	Opening of Shinsei Financial Center (Head Office)
	Launch of Internet banking
	Start of 24-hour/365-day ATM service
July	Opening of Hibiya Branch

Consolidated Financial Highlights

Shinsei Bank, Ltd. (formerly The Long-Term Credit Bank of Japan, Limited) and Subsidiaries
For the Years Ended March 31, 2001 and 2000

	Billions of Yen		Millions of U.S. Dollars
	2001	2000	**2001**
For the Year			
Total Income	**¥ 308.0**	¥ 1,887.7	**$ 2,486.0**
Total Expenses	**217.0**	1,776.6	**1,751.9**
Income before Income Taxes and Minority Interests	**90.9**	111.0	**734.1**
Net Income	**90.4**	111.3	**730.1**
Per Share (in Yen and U.S. Dollars)			
Net Income	**¥ 31.87**	¥ 45.60	**$ 0.26**
Cash Dividends:			
Common Stock	**1.11**	—	**0.01**
Preferred Stock:			
Series 2	**13.00**	—	**0.10**
Series 3	**4.84**	—	**0.04**
Total Stockholders' Equity	**90.52**	50.31	**0.73**
Balances at Year-End			
Total Assets	**¥9,485.7**	¥13,206.7	**$76,559.4**
Loans and Bills Discounted	**6,187.3**	7,711.0	**49,938.0**
Debentures	**3,670.4**	6,730.7	**29,624.0**
Deposits, Including NCDs	**3,218.8**	2,777.5	**25,979.2**
Total Stockholders' Equity	**582.8**	473.5	**4,704.1**
Ratios (%)			
Return on Total Income	**29.37%**	5.90%	
Return on Total Assets	**0.83**	0.72	
Capital Adequacy Ratio (Domestic Criteria)	**16.99**	12.21	

Notes: 1. Unless otherwise specified, dollar figures in this annual report refer to U.S. currency and are presented solely for the reader's convenience. U.S. dollar amounts are translated at ¥123.90=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2001.
2. Since all yen figures have been truncated rather than rounded, some totals may not add up.
3. Cash dividends are declared on both common stock and preferred stock.

Non-Consolidated Information

Shinsei Bank, Ltd. (formerly The Long-Term Credit Bank of Japan, Limited)
For the Years Ended March 31, 2001 and 2000

	Billions of Yen		Millions of U.S. Dollars
	2001	2000	**2001**
For the Year			
Net Business Profit <*gyomu jun-eki*>	**¥38.7**	¥ 49.2	**$313**
Net Business Profit (Loss) <Before General Reserve for Loan Losses >	**38.7**	(46.9)	**313**
Net Operating Income (Loss) <*keijo rieki*>	**96.0**	(112.7)	**775**
Net Stock Gains	**56.7**	338.4	**458**
Total Credit Cost Included in Net Operating Income (Loss)	**(5.9)**	1,043.6	**(48)**

Notes: 1. Definitions:
Net Business Profit *(gyomu jun-eki)*: ((Net interest income + Corresponding expenses for money held in trust) + Fees and commissions, net + Trading revenue, net + Other operating income, net) – Expenses (excluding extraordinary items) – Net addition to general loan loss reserve
Net Operating Income *(keijo rieki)*: Net income before deducting extraordinary items, such as disposal of premises. Net stock gains are included here.
Credit Cost: Write-off of loans, Net provision of specific reserve, Loss on sale of loans, etc.
2. All U.S. dollar amounts above, presented solely for the reader's convenience, are translated at ¥123.90=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2001.

Message from the President

Introduction

Shinsei Bank, formerly The Long-Term Credit Bank of Japan, Limited (LTCB), commenced business in March 2000 with new shareholders and under a new management structure. In June of the same year, the Bank changed its name to Shinsei Bank, Ltd., making it a new bank in both name and substance.

It is my pleasure to report on the first full operating year of the new Bank, ended March 31, 2001.

As a result of progress in improving funding structures and lending interest margins, and increases in fee-based business and other non-interest income, the Bank posted a gross business profit of ¥100.2 billion, a substantial improvement on the previous year.

After subtracting operating expenses, the Bank recorded a net business profit (before general reserve for loan losses) of ¥38.7 billion. Several items were posted in addition to the above, including a ¥55.0 billion gain on the sale of stock to the Deposit Insurance Corporation of Japan (DIC), leading to a net operating income of ¥96.0 billion and net income of ¥91.2 billion.

Accordingly, the capital adequacy ratio (domestic criteria) was 16.99%, as of March 31, 2001, a further improvement on the previous year's figure. We were thus able to close our first full year having surpassed the targets in our original plan. These achievements were made possible only through the unstinting support the Bank has received from its customers and all other parties with which it has dealt, to whom I wish to offer my sincerest thanks.

A New Kind of Bank for Japan—Expanding Capabilities in Retail and Investment Banking

For many years, the Bank has fostered close relationships with many corporate customers, financial institutions and private individuals. The Bank must endeavor to realize the maximum benefits possible from its unique position as the first Japanese bank to commence operations with investment from leading European and North American financial institutions. The Bank aims to utilize advanced know-how to expeditiously offer the products and services that best meet the needs of Japanese customers.

We have already embarked on building a new corporate culture that creates a solid foundation for incorporating completely new ideas. These efforts have included adopting a flat organizational structure that enables the Bank to execute rational and swift decisions and respond flexibly to customer needs, and the delegation of wide-ranging authority to group heads.

The Bank is expanding capabilities and adding new services in two strategic areas—retail and investment banking. This is designed to substantially increase the scope of our operations, which until now has been mainly limited to the issue of bank debentures and provision of financing to corporate customers. We are aiming to create a distinctive organization combining the strengths of both a commercial and an investment bank, to offer optimal solutions to a variety of customer issues.

Commencement of New Retail Banking Service

As well as offering a range of savings and investment trust products to complement our debentures, we have sought to expand our lineup of products and services tailored to individuals. As part of our efforts to increase the level of convenience for customers, we instituted an alliance with the postal savings system (*Yucho*) for automatic teller machine (ATM) access and mutual fund transfers.

Our goal is to offer products and services that can provide even greater customer satisfaction. To mark the first anniversary of our name change to Shinsei Bank, we commenced a new retail banking service in June. Every aspect of the new service was designed from the customer's perspective, from the actual products and services offered to channels, including the branches, and style of operation, and has been implemented with the aim of achieving the best possible outcome for our customers.

Specifically, we began offering a new type of Shinsei comprehensive account called *PowerFlex*, through which customers can conduct yen- and foreign currency-denominated savings transactions, as well as debenture and investment trust transactions, with a single account. Customers can also choose their preferred service channel whenever they want, including access to our ATM network 24 hours a day, 365 days a year without transaction fees, and telephone and Internet banking. Thus, we are providing products and services in a way that places customer convenience as the highest priority.

Furthermore, in February 2001, we converted The Shinsei Card Co., Ltd., which commenced operations in June 2000, to a wholly owned subsidiary. Shinsei Card offers an enhanced level of convenience to customers using the dual-purpose credit and ATM card.

With customer comfort and pleasure in mind, we opened the Shinsei Financial Center at our head office in June, which seeks to go beyond the traditional concept of a banking environment. During fiscal 2001 we plan to convert all of our branches to this new format.

Increasing Our Competitive Strength in Investment Banking Services

In the field of Investment Banking Services, we established the Financial Engineering Group (FEG) right after the new bank was inaugurated in March 2000. Since then, we have endeavored to enhance our product provision capabilities by hiring specialists from outside the Bank and remodeling the organization to enable quick, optimal responses to customer needs.

The FEG has built operations that provide a range of new products and leading-edge advisory services. These include securitization, non-recourse loans, syndicated loans, corporate advisory, asset management and enhanced financial market activities. With our corporate customers' switch to a management approach that places the utmost importance on obtaining maximum asset efficiency, we look forward to serving their needs in the areas of asset sale and business divestiture, which are expected to increase in the future.

In May 2001, Shinsei Securities Co., Ltd., a wholly owned subsidiary of the Bank, began operations. This new operation was created for the purpose of offering customers high-value-added, innovative financial products.

We are forecasting fee-based income from these activities during fiscal 2001 will account for a significantly higher proportion of total income than in the past, as we are able to serve a wider range of customer needs.

Establishment of a New Corporate Governance Framework

The Bank has introduced a system of corporate executive officers clarifying the respective responsibilities and roles of the Board of Directors and the management team. This system incorporates check and balance along with risk management, and is intended to help build a management structure that can respond quickly to customer needs.

The Board of Directors includes four full-time directors and 12 non-executive directors, who have a wealth of experience and who are drawn from the top echelon of Japan's corporate world or are representatives of our major stockholder institutions worldwide. By having such board members, we hope to foster strategically sound and high-caliber decision making, as well as supervise the management of corporate executive officers.

Along with a substantial strengthening of comprehensive risk management, including credit risk and market risk, we have implemented a management structure that enhances transparency and soundness. A strengthening of compliance systems is one example of the measures undertaken.

Organizational Reform and Enhanced Business Development Capabilities

To meet the challenge of more diverse and sophisticated customer needs with speed and precision, and provide technically advanced financial services, we introduced a new group system within the Bank in May 2000, which includes the relationship management divisions and branches. As well as bolstering collaboration between head office sections and the branches, we have established systems to respond quickly and meticulously to customer needs through such measures as giving group heads the power to flexibly assign resources within their area of responsibility.

Enhancing Management Infrastructure

To appropriately assess and measure performance at the group and product levels, we are promoting an increased sophistication in profit and loss management techniques. As part of this process, the Bank has created a new Management Information System (MIS).

By providing management with necessary information in a timely fashion, proactive decision making is made possible. Furthermore, through an accurate picture of profitability broken down by group, branch and product levels, management resources will be efficiently allocated, with the ultimate goal of maximizing overall profitability.

To enhance our competitive strength as a financial institution and provide customers with quick and precise solutions, we have adopted bold information technology (IT) investments.

Left to right: Masamoto Yashiro, David M. Fite, Hidebumi Mori, Teruaki Yamamoto

For these investments, we are aggressively bringing in outside human resources and know-how, while making use of appropriate outsourcing to give the Bank a high-performance system at a low cost.

Introducing a New Human Resources System

In July 2000, the Bank introduced a new human resources system based on the three pillars of performance-based reward, decentralized authority and proactive utilization of external human resources. These reforms are part of the Bank’s drive to create a new corporate culture and establish an infrastructure to develop competitive human resources.

To make greatest possible use of the Bank’s human-resource talents, we have phased out the traditional practice of rotational assignment and have designated each member of staff to a specific sphere of business or “franchise.” By putting in place a system that lets us offer superior products and services, we are targeting an increased level of customer satisfaction.

During fiscal 2000, we recruited approximately 200 new staff, mainly professionals possessing specialized skills and experience, and added 63 new graduates who started in April 2001. At the same time as stimulating a renewed corporate culture, we are embracing a variety of measures to unify our staff and bring innovation to our business.

Raising Profitability and Improving Financial Strength

Through innovations in operating structures, we are aiming to grow income from new products and businesses. To increase the Bank’s fundamental profitability and improve soundness of our assets, we are working to optimize return versus risk in our lending operations.

From a financial perspective, we are reducing funding costs by reassessing and diversifying our basic funding structures and improving capital efficiency by reducing subordinated debt and other measures. We are also focusing on conducting fund investment that curtails market risk as much as possible.

Further, the Bank is working to reduce operational expenses through such measures as the revision of operational work and administrative flows, the reduction of branch space and an overhaul of information systems management.

Aiming to Be an Effective Partner for Our Customers

The operating environment surrounding corporations and financial institutions in Japan is changing at an unprecedented pace. Many sectors of the economy are seeing their traditional structures swept away. The relationship between a bank and its customers is no exception to this trend.

Since my appointment as President, we have constantly dealt with the issue of how a bank should go about winning the trust and appreciation of its customers. We have thus initiated management change and fostered a corporate culture as outlined above. To meet our customers’ diverse needs, we are constantly looking for new ways to meet new challenges. By providing the most advanced products and services, we aim to be a truly effective partner for all our customers.

We request your continued support for our endeavors.

July 2001

Masamoto Yashiro
President and CEO

A New Start for Retail Banking

The Bank's new retail banking services commenced in June 2001, coinciding with the first anniversary of the name change to Shinsei Bank. The Bank is expanding its retail banking operation as one of its strategic business areas. Determined to achieve maximum customer satisfaction by providing the best range of solutions, the Bank has repositioned many of its retail products and services, branches and other remote channels, and style of delivery, and is introducing new products and services to enhance value for its customers.

We are developing a retail banking service totally unlike traditional Japanese banks. We want our customers to experience Shinsei's unique products and services.

K. Sajeeve Thomas
Retail Banking

Everything about our new retail banking service is designed with the customer in mind—speed, convenience and ease of use.

Dhananjaya Dvivedi
Banking Infrastructure

Shinsei Style: The New Retail Banking Experience

Four key themes were chosen to communicate the principles underlying the Bank's drive to create a completely new banking experience.

Empowering the customer

Allowing customers to bank on their terms: This means customers can get cash 24 hours a day, 365 days a year, and visit branches when it's convenient for them. The Bank is also consciously designing customer sessions so that choice and control over an interaction remains with the customer, thereby offering greater satisfaction.

Unique products and services

Developing a number of "firsts" for Japanese banking: This includes giving customers full access to their accounts, including cash card, ATM and Internet access, within 10 minutes of opening their account; free ATM access 24 hours a day, 365 days a year; and remittance to millions of postal savings accounts via ATMs

Accessibility

Allowing customers to have complete access to their account and banking services anytime, anywhere

Fun

Transforming the dull gray of banking to a colorful new look: This can be found at our Financial Centers, ATMs and retail Internet site, as well as on our forms and brochures

PowerFlex

Since June 2001, the Bank has offered a new retail account called *PowerFlex*. After a simple set-up procedure, customers are able to conduct the transactions they want when they want to, through the channel most convenient for them.

1. One-page account application

A quick and easy one-page account opening procedure that gives customers immediate access to yen deposits, foreign currency deposits, bank debentures and investment trusts. Accounts can also be opened through our call center or via the Internet.

2. Broad range of transactions through a single account

After setting up one account to manage all transactions, the branch then issues an ATM card on the spot. In place of a passbook, the account-holder receives a monthly statement, which shows the transactions made through the *PowerFlex* account. This is particularly convenient for customers to manage their assets in an integrated way.

3. Access anywhere and anytime

Customers can conduct a range of transactions 24 hours a day, 365 days a year, using Shinsei *PowerCall* telephone banking and Shinsei *PowerDirect* Internet banking. No special application procedure is needed to take advantage of these services. In particular, since foreign exchange rates are updated almost in real-time, *PowerFlex* is ideal for customers sensitive to foreign exchange market fluctuations. Also, fund transfers using Shinsei *PowerDirect* are not subject to transaction fees.

4. No ATM transaction fees

Customers can make yen withdrawals from Shinsei ATMs 24 hours a day, 365 days a year without paying transaction fees. Cash withdrawals can also be made at 56,000 ATMs throughout Japan operated by other banks and the Post Office, dramatically increasing customer convenience. Postal savings ATMs can also be used for deposits. Shinsei Gold Card (a combination ATM and credit card) members and *PowerFlex* account customers with month-end account balances of at least one million yen are exempt from withdrawal fees. As well, no fees are incurred by customers using cards issued by cooperating financial institutions at Shinsei ATMs.

Shinsei Financial Centers

Most people think of banks simply as places to make deposits and withdrawals and deal with various transactions and procedures. In developing the Shinsei Financial Center concept, the Bank has tried to move away from this stereotype to create a completely new customer experience that emphasizes fun and comfort in routine banking activities.

Please try our "Shinsei Style" customer-oriented quality products and services at the Financial Center nearest you.

Satoru Katayama
Retail Distribution

Expansion of Investment Banking Services

Shinsei Bank has determined that the expansion of investment banking services is a priority task. The Bank will endeavor to meet the diverse needs of corporate and financial institution customers by providing superior products and services.

To maximize organizational effectiveness in the investment banking area, the Bank is concentrating on investment banking functions in the FEG and recruiting highly qualified specialists from outside. Through such measures, the Bank is seeking to enhance its ability to provide product and service proposals for customers.

Shinsei would like to offer the optimal product mix by utilizing its skill in Japan, as well as North America and Europe.

Brian F. Prince
Financial Engineering and Corporate Business Strategy

Securitization

The Bank dramatically expanded its capabilities in the securitization field during fiscal 2000. A number of specialists were added to the existing team to broaden product coverage and deepen the level of institutional and product expertise.

The volume of transactions processed through the Bank's asset-backed commercial paper (ABCP) program increased significantly. A new approach to risk evaluation for ABCP transactions involving large numbers of obligors was adopted, leading to the completion of innovative transactions for several customers. The Bank also increased its operations for private placements of trust certificates based on securitization.

The Bank now offers various securitization products to its customers, and can bring to market transactions based on any underlying asset class for which such transactions are appropriate.

Shinsei Securities

Since last year, a key element of the Bank's management strategy has been to establish a securities subsidiary. To meet customers' fund-raising and fund management needs, the extension of valuable and innovative financial products and services are crucial. After extensive preparations by the Bank, wholly owned subsidiary Shinsei Securities Co., Ltd., commenced operations on May 1, 2001.

As a wholesale securities house focusing on bond-related transactions, Shinsei Securities offers a service lineup including securitized instrument sales, bond underwriting, and structured bond origination and sales. The company has also established stringent risk management and compliance systems. As a consolidated subsidiary, Shinsei Securities' operations are subject to the same internal control systems as the rest of the Shinsei Group.

The launch of Shinsei Securities increases the Bank's capabilities in investment banking, a strategically important area. By closely coordinating operations with the FEG and other operating units, Shinsei Securities will strive to offer high-quality services that take advantage of the Bank's strengths in financial technology and product development.

Loan Origination

The Bank has built strong relationships with a broad range of investors—including domestic financial institutions—over many years, particularly through the sale of debentures.

Today, the Bank is working to strengthen its capabilities in loan origination, intermediating between investors and corporate borrowers. Services include syndicated loans, committed lines of credit and non-recourse loans.

All such instruments differ from standard loans, especially since each transaction is tailored to the specific needs of investors and corporate customers. During fiscal 2000, the Bank was retained as agent in several transactions, establishing a strong reputation with both customers and the marketplace.

The Bank is also expanding efforts in project finance origination, which includes management buy-out (MBO) and leveraged buy-out (LBO) financing with sophisticated analysis and risk management techniques.

By utilizing leading-edge technology from global investment banks, we are offering unique products and services beyond traditional loans to corporate customers.

Teruaki Yamamoto
Corporate Banking Business and Corporate Business Strategy

Non-Recourse Loans

The FEG's non-recourse lending business had a successful first year, achieving attractive yields and fee income. The group has provided non-recourse loans on most major property types, including office, retail, residential and hotel, as well as problem assets. Further growth is expected from the increasing use of non-recourse financing in Japan, as well as such new initiatives as sale-leaseback financing, a small loan origination product named *W-QLICK,* and corporate restructurings for off-balance-sheet financing. The Bank has established itself as a market leader in terms of both performance and know-how, and aims to establish a firm position in financial business coming into Japan.

Project-Leverage Finance

Many factors are contributing to the rapid transformation of Japan's business environment and the establishment of an infrastructure to enhance the restructuring and recovery of Japan's economy and companies. These include:

- Expansion of the initial public offering (IPO) market, broadening funding opportunities for start-up ventures and small and medium-sized companies (Tokyo Stock Exchange's Mothers and Osaka Securities Exchange's Nasdaq Japan markets)
- Such legislative reforms as the Civil Rehabilitation Law, and the Commercial Law to establish a system for corporate separation
- The globalization of accounting principles, including the introduction of consolidated accounting and fair market value accounting methods, and new accounting standards for retirement benefits

As these changes occur, the Bank will be committed to playing a leading role in the restructuring and revitalization process. The Bank offers global-standard corporate financial services, including MBO finance, which emphasize the future cash flows and economic rationality of businesses. These services utilize analysis and risk management techniques developed in project finance and garnered in the United States and other overseas corporate finance markets.

Corporate Advisory (M&A)

Awareness within Japan's industrial sector of the necessity for business restructuring—essential to maintaining a competitive advantage and often to survival—is rapidly increasing. Most firms are expected to adopt management strategies that place primary importance on stockholder value. In this environment there has been dramatic growth in Japanese corporations' needs in business restructuring and development using M&A and alliance strategies.

In 1985, the Bank established an M&A advisory division for the first time among Japanese banks. Since then, the Bank has provided appropriate and high-quality M&A-related advice to Japanese corporations at home and abroad, utilizing its technical strengths, impartiality, extensive experience and network of relationships.

The Bank has emphasized restructuring-related advice involving disposal of non-core businesses and strategies for enhancing business value. It has also provided support for several projects involving the revitalization of bankrupt companies. To increase its depth of specialization, the Bank has focused on specific industries undergoing realignment. These include leasing and non-bank financial institutions, hotel and leisure facilities (golf courses and sports clubs), the distribution and food sectors, and energy. To meet customers' restructuring needs beyond industrial and regional boundaries, the Bank has collaborated with a large network of outside parties, such as lawyers, accountants and regional banks.

Loan Trading

Loan trading operations, used by financial institutions to improve their asset portfolios, have become significant in Japan. The Bank launched its loan trading business in a short time by recruiting core specialists from outside, and built up business results comparable to those of more experienced overseas-based financial institutions and investment funds.

Since commencing operations in the second half of fiscal 2000, the Bank has acquired a large number of assets at appropriate, transparent prices. A variety of purchase modes for such assets have been employed, including plain asset purchases and transfers of business rights. In addition, the Bank has fully exploited its non-price competitiveness by providing know-how in M&A and securitization.

Currently, the disposal of problem assets by financial institutions is one of Japan's most pressing economic issues. By utilizing its business strength in loan trading and its balance sheet resources, the Bank intends to take an active role in Japan's economic recovery.

We would like to strengthen our client relationships through the expansion of our investment banking franchise, which offers innovative solutions to our customers.

Masazumi Kato
Financial Institutions Business

Market Operations

The Markets Division encompasses the Bank's wholesale treasury, own-account corporate treasury and securities company activities. The division offers a range of foreign exchange, debt and interest-rate risk management services to corporate, financial and retail customers. To meet the growing needs of customers and enhance product capabilities, the Markets Division is now working closely with the customer relationship and operational support areas to re-establish the Bank as a full-service, multiproduct provider. When efficient, products will be introduced through partnership arrangements.

The Markets Division maintains a commitment to provide innovative and high-quality tailored solutions. In addition to its original lineup of derivative products—including long-term prime rate interest swaps, new cap loans and extendable deposits—the division has developed more flexible hybrid products, including multi-callable and periodic caps.

In the commercial paper (CP) market, the division has established a leading position as a dealer of plain and structured products.

The Bank has invested in its equities team to more actively pursue new customer business and trading opportunities. These initiatives are expected to provide more significant revenue in the second half of fiscal 2001.

The Bank has also invested in extending its capabilities to manage the sensitivity of its net interest income to interest rate fluctuations.

The trading and sales initiatives of the Markets Division are complemented by the Bank's increased investment in the FEG's investment banking activities.

We have put together a carefully chosen lineup of asset management products covering the full spectrum of portfolio needs.

Jun Daikuhara
Asset Management Service

Asset Management Services

As a major transformation occurs in the investment environment—evidenced by historically low interest rates and the adoption of fair market value accounting and implementation of pay off—a corresponding shift is apparent in portfolio strategies. From a reliance on such principal-protected instruments as deposits and debentures, the investment community spotlight is turning to a more balanced approach consistent with investment objectives, term requirements and risk tolerance limits.

From an early stage, the Bank embarked on the full-fledged development of its asset management services to cope with changes in market needs.

The Bank's product strategy aims to exploit its neutral position of not having an asset management company within the Shinsei Group. This allows the Bank to offer the best product lineup from the investors' perspective. The Bank also emphasizes full and proper reporting on the customer's asset management situation, and follows a policy of not including too many different products in its lineup.

The Bank offers such carefully selected and diverse products as publicly and privately placed investment trusts, as well as alternative investment products, including hedge funds. The Bank works to meet its customers' various needs, from short-term cash management to medium- and long-term portfolio building.

Stability-Oriented Fund Management Product Lineup

To meet the needs of customers whose focus is on planning and stability-oriented fund management, the Bank offers a lineup of fixed-rate products, including interest-bearing bank debentures, discount bank debentures and a range of deposit products. The Bank's debentures have long been accepted as the leading products in Japan's public and corporate debenture market. The Bank will endeavor to respond to customer portfolio needs in the area of debenture issuance through such measures as adjusted maturity periods to meet investor requirements.

Progress Toward Restoring Sound Management (Non-Consolidated)

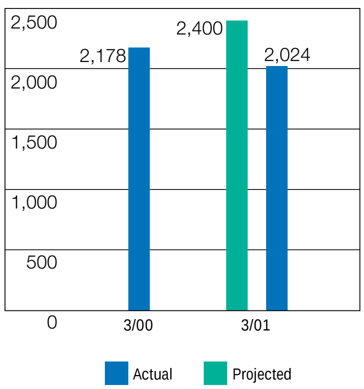
To achieve smooth credit operations founded on a stable financial base, in March 2000 the Bank received public funds through the issuance of preferred shares. This was carried out in accordance with the Financial Function Early Strengthening Law, following review and approval by the Financial Reconstruction Commission.

The Bank is making the utmost effort to achieve the objectives set out in the *Plan for Restoring Sound Management* formulated at the time it applied for public funds.

Progress in Rationalization of Operations

During the period of temporary nationalization, the Bank thoroughly rationalized its operations based on the *Corporate Restructuring Plan* and achieved the goals set in the plan. While seeking further rationalization, the Bank will strive to enhance profitability and strengthen its financial position through effective allocation of management resources.

Number of Employees



Personnel

As of March 31, 2001, the Bank had 2,024 staff, approximately 50% down from the peak in April 1993, when the former LTCB had 4,060 staff.

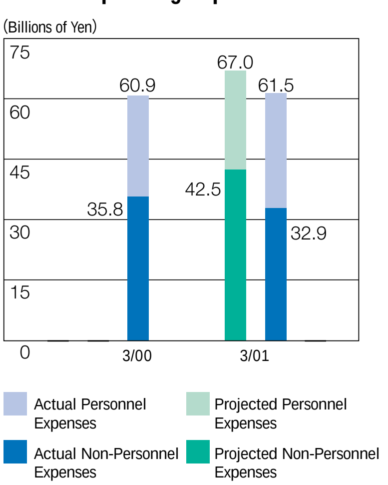
The Bank plans to increase staff due to the launch of several new businesses and expansion of strategic areas. This will involve recruiting outside personnel in such fields as financial engineering, risk management, IT and retail banking.

Operating expenses

Through efforts to achieve further operational efficiency, the Bank reduced operating expenses to ¥61.5 billion for the year ended March 31, 2001, much lower than the target of ¥67.0 billion set in the original plan. Non-personnel expenses were ¥32.9 billion, approximately 48% lower than the peak of ¥62.9 billion in the year ended March 31, 1993. This reduction was a result of a range of cost-cutting measures, including reassessment of operational workflow, a reduction in branch office space and an overhaul of information management systems. The Bank expects non-personnel expenses to rise in coming years because of a full operation of new retail banking services and investments in information systems infrastructure.

Personnel expenses were ¥28.6 billion, approximately 38% below the peak of ¥45.9 billion in the year ended March 31, 1996, thanks to efforts to control total costs. Measures included a strong emphasis on performance-based evaluation and the promotion of well-balanced employee benefits.

Operating Expenses



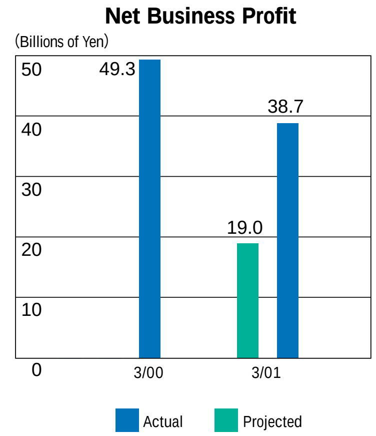
Profitability

Gross business profit increased significantly, to ¥100.2 billion. This was achieved through redemption of high coupon interest-bearing bank debentures at maturity and a shift in funding sources to deposits and negotiable certificate of deposits (NCDs), as well as efforts to increase interest margins on lending. These combinations substantially lifted net interest income.

Thorough operational efficiency and rationalization reduced operating expenses and led to a net business profit of ¥38.7 billion.

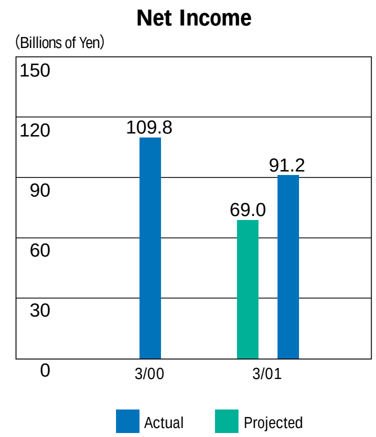
Various other items contributed in addition to the above, including a ¥55.0 billion gain on the sale of equity portfolio to DIC and a gain of ¥6.0 billion on the reversal of reserves for loan losses. This resulted in a net operating income of ¥96.0 billion and net income of ¥91.2 billion. Both figures surpassed the target of ¥69.0 billion stated in the *Plan for Restoring Sound Management*.

Financial Position



Capital adequacy ratio

For the year ended March 31, 2001, the capital adequacy ratio (domestic criteria) was 16.99%, an increase of 4.78 percentage points from the previous year. The Bank will pursue appropriate policies to ensure its capital adequacy ratio remains above the internationally acceptable level of 8%.

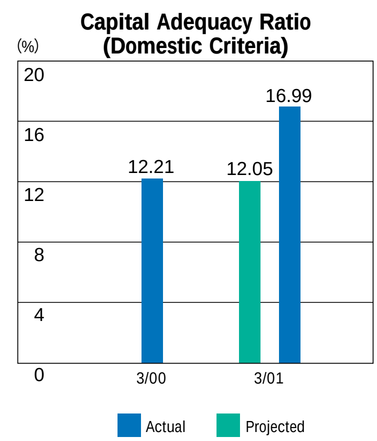


Problem assets

Claims classified under the Financial Revitalization Law decreased to ¥1,295.9 billion, by ¥568.7 billion, compared with the end of March 2000. This was the result of the disposal of several large debts, as well as debt forgiveness and assignment for obligors' restructuring. An amount of ¥1,037.7 billion out of ¥1,295.9 billion claims classified under the Financial Revitalization Law was reserved against or secured, thus the total coverage ratio was 80.1%. Total reserve for loan losses accounted for ¥476.2 billion.

The Bank intends to continue its effort to reduce problem assets and to build a sound loan portfolio.

By achieving the proper risk-return balance in lending operations, the Bank intends to increase profitability and soundness of assets. In addition, the Bank aims to further improve overall profitability and financial position by actively utilizing syndication, non-recourse financing, loan trading, and asset securitization with appropriate return on risk profile.



Coverage Ratios for Claims Classified under the Financial Revitalization Law

	Millions of Yen				
	Amounts of Coverage				
Years Ended March 31	**2001**				2000
	Amount of Claims	Total Coverage	Reserve for Loan Losses	Coverage Ratio	Amount of Claims
Bankrupt and Quasi-Bankrupt	**¥ 472,945**	**¥ 472,945**	**¥199,080**	**100.0%**	¥ 289,050
Doubtful	**370,088**	**316,784**	**143,552**	**85.6**	774,211
Substandard	**452,950**	**247,988**	**133,594**	**54.7**	801,480
Total	**¥1,295,983**	**¥1,037,717**	**¥476,226**	**80.1%**	¥1,864,742

Asset-Liability Management (ALM)

Shinsei Bank established the ALM Committee to comprehensively manage its assets and liabilities and to undertake strategic balance sheet management. The committee meets monthly to review ALM policies. The Bank president holds the committee chairmanship, while the committee is made up of group heads and general managers of divisions whose operations are closely related to balance sheet management. The president retains final decision-making authority over ALM policy.

Subordinate to the ALM Committee is the Market Risk Management Committee, which convenes weekly to report on the Bank's overall market risk position. Management receives updates concerning exposure arising from trading and other market-related operations, as well as ALM activities.

ALM Policy

In addition to determining ALM policy for both banking and trading accounts, the ALM Committee sets policy for managing liquidity risk as well as deciding on capital allocation to individual operating divisions to improve the return on risk taken.

Following the ALM policies determined by the ALM Committee, the Bank aims to optimize its balance sheet and capital structures, maximizing its medium-to-long-term profitability.

ALM Methodology

By setting an in-house interest rate between the ALM Division and the respective funding and lending divisions based on prevailing market rates, the Bank consistently manages interest risk and profitability. The margin achieved by each operating division in excess of the in-house rate is treated as that division's own profit or loss, while risk management arising from interest rate fluctuation is the responsibility of the ALM Division.

In managing interest rate risk, the Bank takes an integrated approach to both on-balance-sheet transactions, such as lending activities, and off-balance-sheet transactions, such as swaps. Risk is analyzed and managed from the points of view of both fair market value and profit and loss for a given period.

Fair market value is defined as the present value of future cash flows discounted to reflect market interest rates, while profit or loss for the period is defined as the actual gain or loss realized during a specific accounting period.

Limits are set for fair market value risk according to the basis point value (Bpv) method*, whereby fair market value fluctuation risk arising from interest rate fluctuation is restricted to a predetermined proportion of the Bank's shareholder equity.

For profit or loss within a specific period, risk limits are set based on net interest income (NII). The Bank's future balance sheet is estimated by constructing a hypothetical model that includes expected rollover of lending and deposits, together with information from the Bank's current balance sheet and operational plans. Using various statistically generated scenarios for market interest rate fluctuations, NII simulations are carried out. Based on these calculations, fluctuations of net interest income over a year are restricted to a predetermined range, with the objective of stabilizing interest income and expenses.

In collaboration with the market operational divisions, the ALM Division has worked to strengthen balance sheet profitability through flexible ALM operations within risk limits. The Bank will continue its efforts to further improve risk analysis methodology and simulations. As well as developing more effective ALM operational methods, the Bank is seeking to maximize medium-to-long-term profitability.

***Bpv Method**

The Bpv method measures the risk of changes in fair market value accompanying fluctuations in interest rates. For example, 10 Bpv means the change of fair market value when interest rates move 10 basis points, or 0.1%. The figures in the table at the right show the impact on the value of on-balance-sheet and off-balance-sheet items for the maturities shown when interest rates move 10 basis points.

Impact of a 10 Bpv on Fair Market Value (As of March 31, 2001)

(Billions of Yen)

	Three Months or Less	Six Months or Less	Over Six Months to One Year	Over One Year to Three Years	Over Three Years	Total
On-Balance-Sheet	¥ 0.1	¥ 0.3	¥(0.9)	¥(0.2)	¥ 1.3	¥ 0.6
Off-Balance-Sheet	(0.1)	(0.2)	1.2	1.2	0.4	2.5
Total	¥ 0	¥ 0.1	¥ 0.3	¥ 1.0	¥ 1.7	¥ 3.1

Note: When figures are positive, a decline in interest rates will result in an increase in fair market value.
When figures are negative, a decline in interest rates will result in a decrease in fair market value.

Integrated Risk Management

Shinsei Bank places risk management at the highest priority level within overall bank management and is continually working to improve its systems to accurately track and manage risks further.

Basic Underlying Philosophy of the Risk Management System

For financial institutions to conduct highly profitable operations, risk control—knowing how to take and deal with risk—is a major management issue that must be addressed.

To this end, internal control mechanisms are required to confirm whether risk is being taken in accordance with the Bank's overall policies and the policies for individual business operations, whether risk is being contained within the proper limits and whether operational units responsible for risk are managing it appropriately.

Financial institutions confront various kinds of risk, including credit risk, market risk, liquidity risk, operational risk, computer system risk, and legal and compliance risk.

Working toward Integrated Risk Management

In order to gain an accurate picture of the aggregate risk held by the Bank and undertake proactive risk management, the Bank issued its *Risk Management Policy* in November 2000, which sets out basic awareness regarding each type of risk and fundamental policies for management of these risks. In this policy, risk is recognized as being the lifeblood of a financial institution's business, and risk management is defined as a fundamental principle capturing the risk to which the Bank is exposed. Furthermore, the Bank is conducting a comprehensive reconstruction of all types of risk policies and administrative systems under the *Risk Management Policy*.

Integrated risk management involves not only precisely monitoring risks in various operations but also fully comprehending risks and quantifying them to the greatest extent possible.

For those types of risk that do not lend themselves easily to quantitative measurement or are, in fact, very difficult to measure, the Bank continues to minimize risk through such policies as the segregation of duties, and the expansion and enhancement of internal audit functions.

Integrated Risk Management at Shinsei Bank

Commissioned by the Management Committee, the Bank has established several committees to oversee management of the various types of risk. These are the Risk/Investment Committee, the Credit Committee, the ALM Committee and the Market Risk Committee. Their activities include the examination and discussion of risk-related matters, drawing on the extensive experience and professional knowledge of committee members, and determining risk management policies.

Moreover, the Bank has appointed the Chief Risk Officer (CRO) from outside to preside over the above risk management functions. The Bank further strives for the enhancement of integrated risk management under the control and leadership of the CRO.

Compliance Measures

As a financial institution with a public mission and social responsibilities, the Bank is striving to implement a compliance system commensurate with its obligations. The Bank's management regards compliance as one of its most vital issues.

Compliance Systems

At Shinsei Bank, the Legal and Compliance Division systematically manages compliance risk. Overall compliance policy planning and advocacy is also handled by the division.

In July 2001, individual compliance officers in the division were assigned responsibility for one of each of the Bank's nine groups, for the purpose of promoting a compliance policy to meet the particular requirements of each group's operations. Of particular note is permanently stationed compliance officers in the Retail Banking Group and the FEG, whose operations often entail the handling of new products.

Additionally, all divisions, departments and branches have had one staff member assigned as a compliance manager to handle communications and enquiries relating to compliance issues. The aim of this system is to raise awareness and thoroughness regarding compliance within each of these operating units. Each of the assigned compliance managers is required to report regularly on the compliance situation within their division, department or branch to the compliance officer in the Legal and Compliance Division.

In addition to these measures, the Compliance Committee is convened regularly to discuss and deliberate on substantive compliance-related issues. The Compliance Committee has invited two lawyers as outside members to obtain the third-party checks to be made on the Bank's compliance advocacy situation.

Preparation of a Compliance Code and Other Guidelines

The effective functioning of the compliance system depends on awareness and dissemination of compliance issues among employees. To this end, the Bank has formulated the following compliance code of ethics, guidelines and manual.

Code of Ethics

Sets out the Bank's policy for corporate behavior premised on the Bank's various existing rules and procedures, and basic rules pertaining to standards of behavior for management and staff

Compliance Guidelines

Based upon the basic policies and rules set out in the Code of Ethics; contains judgement and behavior standards, in accordance with various legal rules and obligations, to be adhered to in operations

Compliance Manual

A comprehensive handbook that contains explanations of various important laws in this field

Compliance Activities

Each year compliance-related practice plans, including compliance promotion activities, are produced as the *Compliance Program*. Training and systems are implemented based on this document.

In particular, training programs are conducted on an ongoing basis to raise awareness and firmly entrench the necessity for compliance among management and employees.

Specifically, training programs are held to address particular and important compliance issues, such as money laundering prevention. Curricula for training programs conducted by each group (corporate banking, retail banking, financial institutions, etc.) include specific compliance material related to their respective operations.

The Bank will continue to strive for the most thorough compliance systems possible, through the programs described above, and will make all possible efforts to justify the trust placed in the Bank by its customers.

Financial Section

Shinsei Bank, Ltd. and Consolidated Subsidiaries

Contents

Consolidated Six-Year Summary

Shinsei Bank, Ltd. and Consolidated Subsidiaries

Statements of Operations Data

Years Ended March 31	Millions of Yen (Except Common Share Data and Number of Shares Issued) 2001	2000	1999	1998	1997	1996
Net Interest Income:						
Interest Income	**¥211,468**	¥ 254,002	¥ 704,186	¥ 966,312	¥1,780,373	¥2,010,154
Interest Expenses	**125,624**	233,272	545,614	765,865	1,567,427	1,896,252
	¥ 85,843	¥ 20,729	¥ 158,572	¥ 200,447	¥ 212,945	¥ 113,901
Fees and Commissions, Net:						
Fees and Commissions (Income)	**¥ 12,819**	¥ 9,289	¥ 40,641	¥ 64,141	¥ 35,326	¥ 36,607
Fees and Commissions (Expenses)	**2,278**	4,398	9,918	43,299	12,206	11,904
	¥ 10,541	¥ 4,891	¥ 30,722	¥ 20,842	¥ 23,120	¥ 24,702
Trading, Net:						
Trading Revenue	**¥ 4,672**	¥ 2,728	¥ 3,252	¥ 5,422	¥ —	¥ —
Trading Expenses	**—**	79	27,637	6,204	—	—
	¥ 4,672	¥ 2,649	¥ (24,385)	¥ (781)	¥ —	¥ —
Other Operating Income (Loss), Net:						
Other Operating Income	**¥ 3,890**	¥ 7,841	¥ 48,877	¥ 140,952	¥ 187,210	¥ 304,603
Other Operating Expenses	**4,697**	17,156	50,953	134,380	141,770	178,810
	¥ (807)	¥ (9,315)	¥ (2,075)	¥ 6,572	¥ 45,439	¥ 125,792
Net (Loss) Gain on Sales, Redemption and Devaluation of Bonds	**¥ (1,920)**	¥ (1,271)	¥ (12,390)	¥ (9,561)	¥ 40,892	¥ 100,979
General and Administrative Expenses	**63,899**	62,735	85,462	107,965	133,320	131,604
Other Income	**75,167**	1,613,896	2,864,273	270,112	363,756	478,769
Income from Special Monetary Support	**—**	821,671	—	—	—	—
Transfer to Temporary Nationalization Account	**—**	—	2,786,889	—	—	—
Gain on Sales of Stocks and Other Equity-Related Securities	**58,258**	486,234	17,685	219,451	330,815	441,182
Other Expenses	**20,560**	1,459,017	3,710,444	644,648	484,982	679,075
Loss on Sales of Stocks and Other Equity-Related Securities	**304**	145,531	72,286	33,540	22,003	18,882
Loss on Devaluation of Stocks and Other Securities	**1,394**	2,215	285,679	14,522	247,787	9,677
Provision for Loan Losses	**—**	365,473	1,191,480	305,348	47,023	158,402
Written-Off Claims	**29**	948	3,963	51,507	19,679	302,251
Provision for Retirement Allowances	**—**	—	—	7,815	—	—
Reversal of Special Statutory Reserves	**—**	6	7	13,752	2,521	2
Provision for Special Statutory Reserves	**—**	—	—	0	861	1,784
Total Income	**308,018**	1,887,758	3,661,239	1,460,694	2,369,188	2,830,136
Total Expenses	**217,060**	1,776,659	4,430,031	1,702,362	2,340,568	2,899,433
Income (Loss) before Income Taxes and Other	**¥ 90,958**	¥ 111,098	¥ (768,792)	¥ (241,667)	¥ 28,619	¥ (69,296)
Net Income (Loss)	**¥ 90,464**	¥ 111,346	¥(1,010,172)	¥ (148,651)	¥ 19,473	¥ (34,854)
Per Share (Yen)						
Net Income (Loss)	**¥31.87**	¥45.60	¥(418.03)	¥(62.12)	¥ 8.13	¥(14.56)
Cash Dividends:						
Common Stock	**1.11**	—	—	6.00	6.00	6.00
Preferred Stock:						
Series 2	**13.00**	—	—	—	—	—
Series 3	**4.84**	—	—	—	—	—
Total Stockholders' Equity	**90.52**	50.31	n.m.	343.96	442.32	439.29
Number of Shares Issued (Thousands)						
Common Stock	**2,717,075**	2,717,075	2,417,075	2,392,904	2,392,904	2,392,904
Preferred Stock	**674,528**	74,528	100,000	100,000	—	—

Notes: 1. n.m.: not meaningful
2. The Bank had been under temporary nationalization from October 23, 1998, to March 1, 2000, under the Financial Revitalization Law.

Balance Sheet Data

March 31	2001	2000	1999	1998	1997	1996
	Millions of Yen (Except Key Ratios)					
Assets						
Cash and Due from Banks	**¥ 477,482**	¥ 1,930,219	¥ 817,247	¥ 1,281,887	¥ 1,342,134	¥ 1,398,480
Call Loans	**276,000**	363,492	586,007	558,877	239,757	916,017
Commercial Paper and Other Debt Purchased	**18,555**	1,189	5,266	126,428	10,873	5,716
Trading Account Securities	**—**	—	—	—	390,203	2,138,171
Trading Assets	**382,222**	545,120	865,931	1,243,291	—	—
Money Held in Trust	**96,477**	—	59,213	560,159	679,131	909,982
Securities	**1,988,518**	2,804,703	2,074,839	4,073,479	5,084,716	5,345,160
Loans and Bills Discounted	**6,187,320**	7,711,024	13,690,599	15,990,706	19,174,126	19,175,855
Foreign Exchanges	**10,771**	14,294	21,057	47,280	70,957	67,301
Temporary Nationalization Account	**—**	—	2,786,889	—	—	—
Other Assets	**409,708**	366,778	1,116,029	1,622,992	1,475,396	1,434,260
Premises and Equipment	**28,852**	35,865	82,425	127,438	140,851	148,458
Deferred Discounts on and Issuance Expenses for Debentures	**1,425**	1,981	3,906	9,465	18,162	22,912
Deferred Tax Assets	**30**	—	—	230,652	106,723	112,912
Customers' Liabilities for Acceptances and Guarantees	**172,238**	298,624	499,695	693,032	773,742	866,422
Reserve for Loan Losses	**(563,891)**	(866,518)	—	—	—	—
Total Assets	**¥9,485,711**	¥13,206,776	¥22,609,110	¥26,565,691	¥29,506,775	¥32,541,653
Liabilities, Minority Interests in Subsidiaries and Stockholders' Equity						
Debentures	**¥3,670,417**	¥ 6,730,795	¥ 7,965,770	¥12,268,677	¥15,511,565	¥16,180,815
Deposits, Including NCDs	**3,218,835**	2,777,516	3,371,968	5,955,224	8,294,252	7,116,148
Call Money	**255,200**	245,206	1,663,974	864,267	561,824	2,985,979
Commercial Paper	**62,000**	500	1,500	—	—	—
Trading Liabilities	**253,684**	277,876	553,342	799,198	—	—
Borrowed Money	**550,835**	902,995	3,633,587	1,477,071	1,135,558	1,018,465
Foreign Exchanges	**107**	270	1,001	1,393	4,199	3,680
Other Liabilities	**685,929**	1,482,460	1,043,589	2,694,300	1,669,978	2,773,725
Reserve for Loan Losses	**—**	—	3,664,716	741,932	447,540	501,273
Reserve for Derivative-Related Credit Risk	**—**	1,295	—	—	—	—
Reserve for Retirement Benefits	**19,612**	15,512	20,184	27,544	19,755	19,438
Reserve for Contingencies on Loans Sold	**—**	—	97,521	17,526	14,340	—
Reserve for Disposition of Specific Assets	**—**	—	79,714	—	—	—
Reserve for Loss on Disposition of Premises and Equipment	**3,921**	80	—	—	—	—
Other Reserve	**—**	0	6	14	13,766	15,427
Deferred Tax Liabilities	**10,084**	—	2,586	—	—	—
Minority Interests in Subsidiaries	**—**	—	—	663	1,798	9,088
Acceptances and Guarantees	**172,238**	298,624	499,695	693,032	773,742	866,422
Total Liabilities	**8,902,865**	12,733,132	22,599,159	25,540,845	28,448,322	31,490,465
Minority Interests in Subsidiaries	**—**	59	167	—	—	—
Total Stockholders' Equity	**582,846**	473,584	9,782	1,024,845	1,058,453	1,051,188
Total Liabilities, Minority Interests in Subsidiaries and Stockholders' Equity	**¥9,485,711**	¥13,206,776	¥22,609,110	¥26,565,691	¥29,506,775	¥32,541,653
Key Ratios (%)						
Return on Total Income	**29.37%**	5.90%	n.m.	n.m.	0.82%	n.m.
Return on Total Assets	**0.83**	0.72	n.m.	n.m.	0.06	n.m.
Return on Total Stockholders' Equity	**19.06**	n.m.	n.m.	n.m.	1.86	n.m.
Capital Adequacy Ratio (BIS Criteria)	**—**	—	0.12%	10.32%	9.22	8.85%
Capital Adequacy Ratio (Domestic Criteria)	**16.99**	12.21	—	—	—	—

Notes: 1. n.m.: not meaningful
2. The Bank had been under temporary nationalization from October 23, 1998, to March 1, 2001, under the Financial Revitalization Law.

Financial Review

Operating Environment

Financial and Economic Conditions

Financial and economic conditions during fiscal 2000, ended March 31, 2001, were mixed. On the economic front, the first half of the term heralded signs of gradual recovery in Japan, highlighted by increased private capital expenditure, especially in industries dealing with information technology, and by expanding exports, paralleling favorable business climates in Europe and the United States.

From the middle of the fiscal year however, private consumption shifted into low gear again, prompted by a succession of major bankruptcies, notably in the insurance and distribution sectors, which dampened consumer and corporate confidence, and by falling stock prices and a tougher employment situation.

In addition, private capital expenditure, another pillar of the economy, retreated, led by fears of a worldwide slump triggered by a slowdown in the U.S. economy. Delayed structural reforms for domestic industry and the economy, as well as government instability and unease regarding financial instituions' problem assets, further handicapped the incentive to expend capital. It is clear that too much unpredictability remains for full-scale recovery in Japan.

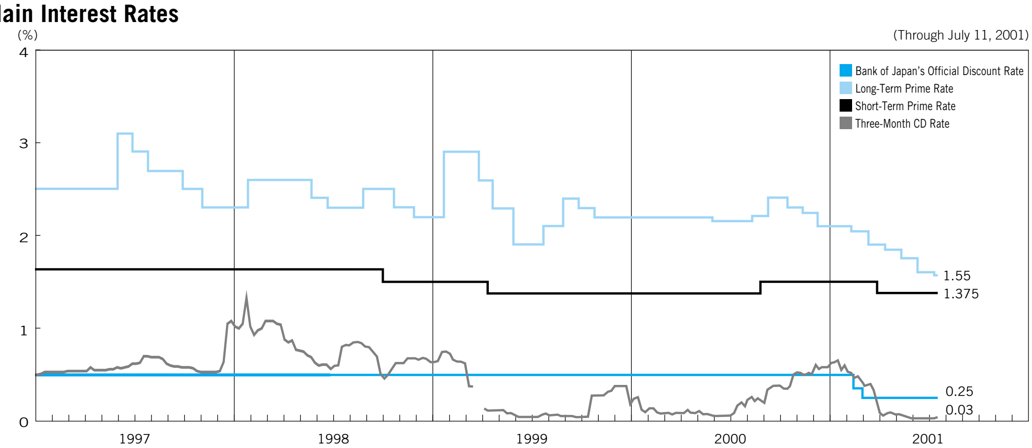
The domestic financial environment mirrored the economic landscape. In the first half of the fiscal year, interest rates were upwardly revised when anticipation of brighter business prospects led to the end of the Bank of Japan's zero interest rate policy. But obvious anxiety over another slowdown prompted the central bank to reestablish its zero interest rate policy through a reduction in the official discount rate at the end of March 2001. Short-term interest rates held steady throughout the fiscal year, hovering at historical lows.

Long-term interest rates soared into the 2% realm for a time in the first half of fiscal 2000, but fell within the 1% range in the second half as business sentiment deteriorated.

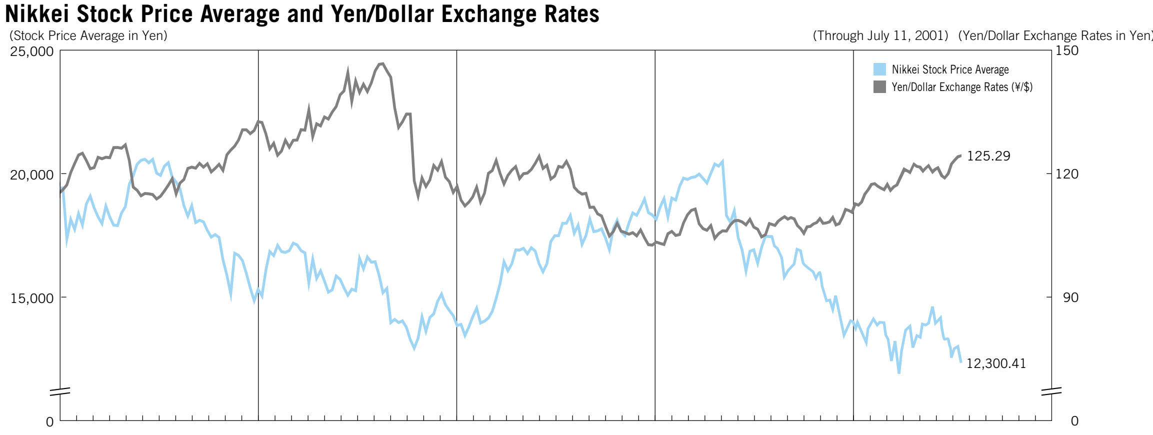
The yen-dollar exchange rate weakened and moved into the ¥120 range against the U.S. dollar, largely because of the uncertainty in economic recovery in Japan. However, exchange rates have recently stabilized, reflecting a round of monetary policy relaxation in Japan and repeatedly lowered U.S. interest rates.

Principal Economic Indicators

Main Interest Rates



Nikkei Stock Price Average and Yen/Dollar Exchange Rates



Summary of Performance

Main Indicators of Performance (Consolidated)

	Millions of Yen (Except per Share Figures and Ratios)					
Years Ended March 31	**2001**	2000	1999	1998	1997	1996
Operating Income	**¥ 299,281**	¥ 866,159	¥ 821,495	¥ 1,410,055	¥ 2,363,908	¥ 2,828,752
Net Operating Income (Loss)	**95,546**	(112,499)	(1,591,645)	(282,669)	26,497	(67,012)
Net Income (Loss)	**90,464**	111,346	(1,010,172)	(148,651)	19,473	(34,854)
Capital Stock	**451,296**	229,296	390,710	387,229	322,229	322,229
Stockholders' Equity	**582,846**	473,584	9,782	1,024,845	1,058,453	1,051,188
Total Assets	**9,485,711**	13,206,776	22,609,110	26,565,691	29,506,775	32,541,653
Debentures	**3,670,417**	6,730,795	7,965,770	12,268,677	15,511,565	16,180,815
Deposits, Including NCDs	**3,218,835**	2,777,516	3,371,968	5,955,224	8,294,252	7,116,148
Loans and Bills Discounted	**6,187,320**	7,711,024	13,690,599	15,990,706	19,174,126	19,175,855
Securities	**1,988,518**	2,804,703	2,074,839	4,073,479	5,084,716	5,345,160
Stockholders' Equity per Common Share (Yen)	**90.52**	50.31	n.m.	373.96	442.32	439.29
Net Income (Loss) per Common Share (Yen)	**31.87**	45.60	(418.03)	(62.12)	8.13	(14.56)
Capital Adequacy Ratio (BIS Criteria) (%)	**—**	—	0.12%	10.32%	9.22%	8.85%
Capital Adequacy Ratio (Domestic Criteria) (%)	**16.99%**	12.21%	—	—	—	—

Notes: 1. Consolidated stockholders' equity per common share is determined by multiplying the number of preferred shares outstanding at the end of the fiscal year by the issue price of such shares, subtracting the result from net assets and dividing by the number of common shares (excluding treasury stock) outstanding at the end of the fiscal year.
2. Consolidated net income (loss) per common share is determined by subtracting total dividends on preferred shares from net income (loss) and dividing by the average number of common shares (excluding treasury stock) outstanding during the fiscal year.
3. Consolidated net income per common share after adjustment for diluted shares is not included at March 31, 1997, 1998 and 1999, because net losses were recorded at March 31, 1998 and 1999, and because net income per common share did not decrease through reconciliation of diluted shares for the term ended March 31, 1997.
4. The consolidated capital adequacy ratio is determined according to the formula set forth in Ministry of Finance notification, based on the preamble to Article 17 of the Long-Term Credit Bank Law, which follows the provisions of Article 14-2 of the Banking Law. Note that the Bank applied BIS capital adequacy criteria in years through fiscal 1998, ended March 31, 1999, but has applied domestic criteria from fiscal 1999, ended March 31, 2000.
5. n.m.: not meaningful

Description of Consolidated Business

(As of March 31, 2001)

The Shinsei Bank Group (Shinsei Bank, Ltd., its subsidiaries and affiliated companies) comprises 13 subsidiaries, including Shinsei Trust & Banking Co., Ltd., and three affiliated companies accounted for by the equity method, including Value Management Institute, Inc. The Group is engaged in the financial services, principally banking services, as well as other services, including securities business, trust business and credit card operations. The Group's main services are as follows:

Banking: At its headquarters and domestic branches, the Bank handles a variety of financial products, including debentures, deposits, loans and guarantees, and such services as financial futures transactions, domestic remittance services and foreign exchange transactions. In addition, an overseas subsidiary, Shinsei Bank Finance N.V. issues medium- to long-term bonds and books derivative transactions.

Securities Business: The Bank's Financial Engineering Group (FEG) engages in investment and trading of securities. In addition, a domestic subsidiary, Shinsei Securities Co., Ltd., offers such services as securitization and the underwriting and sale of bonds. (Operations commenced May 2001.)

Trust Business: A domestic subsidiary, the Shinsei Trust & Banking covers services for such products as monetary claims trusts, securities trusts and specified money trusts.

Other Activities: A domestic subsidiary, The Shinsei Card Co., Ltd., provides credit card services. Value Management Institute, Inc., an affiliate accounted for by the equity method, performs such services as consulting and development research.

Highlights of the Statements of Operations Data (Consolidated)

Years Ended March 31	Millions of Yen 2001	Millions of Yen 2000	Millions of U.S. Dollars 2001
Net Operating Income (Loss)	**¥ 95,546**	¥(112,499)	**$ 771,156**
Net Interest Income	**85,843**	20,729	**692,848**
Fees and Commissions, Net	**10,541**	4,891	**85,079**
Trading, Net	**4,672**	2,649	**37,710**
Other Operating (Loss), Net	**(807)**	(9,315)	**(6,514)**
General and Administrative Expenses	**(63,899)**	(62,735)	**(515,734)**
Other Income (Expenses), Net	**59,196**	(68,719)	**477,767**
Net Extraordinary Income (Expenses)	**(4,588)**	223,598	**(37,030)**
Income before Income Taxes and Minority Interests	**90,958**	111,098	**734,126**
Current Income Taxes	**442**	1,526	**3,572**
Deferred Income Taxes	**56**	(1,786)	**459**
Minority Interests in Net Income (Loss) of Subsidiaries	**(6)**	11	**(50)**
Net Income (Loss)	**¥ 90,464**	¥ 111,346	**$ 730,145**

Note: Net extraordinary income (expenses) comprises income (expense) on sale of properties, bad debt recovered and other extraordinary items.

Highlights of Balance Sheet Data (Consolidated)

March 31	Billions of Yen 2001	2000	1999
Assets			
Loans and Bills Discounted	**¥6,187.3**	¥ 7,711.0	¥13,690.5
Securities	**1,988.5**	2,804.7	2,074.8
Trading Assets	**382.2**	545.1	865.9
Other Assets	**409.7**	366.7	1,116.0
Reserve for Loan Losses	**(563.8)**	(866.5)	—
Total Assets	**¥9,485.7**	¥13,206.7	¥22,609.1
Liabilities			
Debentures	**¥3,670.4**	¥ 6,730.7	¥ 7,965.7
Deposits	**2,165.3**	2,046.0	2,715.1
NCDs	**1,053.4**	731.4	656.8
Trading Liabilities	**253.6**	277.8	553.3
Other Liabilities	**685.9**	1,482.4	1,043.5
Reserve for Loan Losses	—	—	3,664.7
Total Liabilities	**¥8,902.8**	¥12,733.1	¥22,599.1
Minority Interests in Subsidiaries	—	0.0	0.1
Total Stockholders' Equity	**582.8**	473.5	9.7
Total Liabilities, Minority Interests in Subsidiaries and Stockholders' Equity	**¥9,485.7**	¥13,206.7	¥22,609.1

Note: From the fiscal year ended March 31, 2000, reserve for loan losses is shown on the balance sheets as a deduction from assets.

Review of Consolidated Performance

The Bank's consolidated profit position for fiscal 2000 was approximately the same as its non-consolidated status, as the performances of new subsidiaries under the new bank structure are not yet reflected even though the Bank made progress in its liquidation of subsidiaries as the former LTCB.

The Bank recorded net operating income of ¥95.5 billion, a turnaround from net operating loss of ¥112.4 billion a year earlier. This achievement reflects improved net interest income, which increased to ¥85.8 billion, primarily due to an improvement in the Bank's funding structure, as well as other income, net, of ¥59.1 billion, compared with other expenses, net, of ¥68.7 billion in fiscal 1999, owing to the sale of stocks and other securities to DIC. Net income reached ¥90.4 billion.

In assets, loans and bills discounted decreased to ¥6.1 trillion, the result of weak demand for funds used in capital expenditure and the disposal of problem assets, such as write-offs, debt forgiveness and assignments. On the liabilities side, debentures decreased to ¥3.6 trillion, while deposits, including negotiable certificates of deposit (NCDs), increased ¥441.3 billion. This reflects a funding structure more attuned to the short-term nature of assets held.

Highlights of the Statements of Operations Data (Non-Consolidated)

		Millions of Yen		
Years Ended March 31		**2001**	2000	1999
Gross Business Profit *(gyomu-sorieki)*	a	**¥100,256**	¥ 14,839	¥ 170,054
Net Interest Income		**88,283**	19,376	147,509
Fees and Commissions, Net		**10,015**	3,365	14,689
Trading, Net		**2,340**	277	2,710
Other Business Income, Net		**(382)**	(8,179)	5,145
General Reserve for Loan Losses	b	**—**	(96,219)	77,777
General and Administrative Expenses	c	**61,492**	61,785	382,918
Net Business Profit (Loss) *(gyomu jun-eki)*	d = a – b – c	**38,764**	49,272	(290,640)
Other Operating Income (Loss), Net	e	**57,264**	(162,039)	(1,311,592)
Net Operating Income (Loss) *(keijo-rieki)*	f = d + e	**96,027**	(112,767)	(1,602,233)
Extraordinary Income (Expenses)	g	**(4,537)**	223,710	822,757
Income (Loss) before Income Taxes	h = f + g	**91,490**	110,943	(779,475)
Income Taxes	i	**222**	1,088	7,474
Net Income (Loss)	j = h – i	**91,267**	109,855	(786,949)

Notes: 1. Interest expenses related to money held in trust (¥0.4 billion in 2001, ¥0.8 billion in 2000, ¥5.4 billion in 1999) have been deducted from other operating income.
2. Expenses related to debentures (¥0.1 billion in 2000, ¥0.4 billion in 1999) were included in general and administrative expenses until 2000, which is included in other business expenses effective from 2001 (¥0.4 billion).
3. General reserve for fiscal 2000 is included in extraordinary income (expenses), since reversal of the general reserve for loan losses exceeded the provision to the specific reserve for loan losses.

Summary of Non-Consolidated Financial Results

The Bank made a fresh start, with new stockholder and management structures, in March 2000 and adopted the name Shinsei Bank in June 2000. Fiscal 2000, ended March 31, 2001, is the Bank's first full accounting period as a private financial institution.

In fiscal 2000, both net business profit (before general reserve for loan losses) and net operating income became positive mainly due to increased net interest income. The Bank also benefited from an injection of public funds—¥240.0 billion—on March 31, 2000, for 600 million shares of series 3 preferred stock issued the following day, April 1, 2001.

In non-consolidated assets and liabilities, loans and bills contributed to a decline, owing to such factors as lackluster demand for funds applied to capital expenditure and the disposal of problem assets. Debentures decreased, following such measures as a review of the Bank's liabilities structure, but deposits, including NCDs, expanded. These changes reflect a funding structure more attuned to the short-term nature of assets held.

Dividends were paid at the prescribed levels for shares of series 2 and 3 preferred stock, while the dividend per share of common stock was ¥1.11. This is the first common dividend after a hiatus that began after the interim distribution in fiscal 1997, ended March 31, 1998. An interim dividend was not paid out during fiscal 2000 as profits for distribution were not available at the end of fiscal 1999, ended March 31, 2000.

Indicators of Performance (Non-Consolidated)

Principal indicators of the Bank's performance include gross business profit, net business profit, net operating income, and net income.

Gross business profit measures profitability of a bank's core businesses. Its four components are: net interest income, which shows the margin between funds sourced and funds used; fees and commissions, net, which is derived through guarantees, securities-related business and other fee-based activities; trading, net, which represents income obtained from buying and selling securities and derivatives; and other operating income, net, comprising net gains or losses from such activities as foreign exchange transactions and bond trading in the investment account.

Net business profit is defined as gross business profit minus the general reserve for loan losses and expenses. Operating income is obtained by adding net gains from equity trading, subtracting the costs of disposal of problem assets, and adding certain other special net gains to gross business profit. After taking into account other extraordinary items, income taxes are subtracted to obtain net income.

Results of Operations (Non-Consolidated)

Improvements to the Bank's funding structure and an enhanced interest rate margin on loans and bills discounted led to net interest income of ¥88.2 billion, from ¥19.3 billion in fiscal 1999. This contributed to an increase in gross business profit, which reached ¥100.2 billion.

General and administrative expenses decreased to ¥61.4 billion, as cost-cutting efforts, such as rationalization of overall operations and a review of branches and infrastructure costs, offset the higher costs associated with the hiring of skilled individuals, especially those with expertise in financial products, risk management, information technology, retail banking and other new businesses.

Net business profit (before general reserve for loan losses) decreased to ¥38.7 billion. Proceeds, including ¥55.0 billion in gains from the April 2000 sale of equity portfolio to the DIC, resulted in net operating income of ¥96.0 billion and net income of ¥91.2 billion.

Assets, Liabilities and Stockholders' Equity (Non-Consolidated)

Total assets at March 31, 2001, were ¥10.0 trillion, a drop of ¥3.7 trillion from the previous year. Loans and bills discounted decreased to ¥6.1 trillion. The decline is the result of three factors: a trend among major clients to reduce interest-bearing liabilities as part of respective financial restructuring strategies; weak demand in fiscal 2000 for funds normally allocated to capital expenditure and repayment of long-term borrowings at the maturities; and the collection of problem assets, such as loans to borrowers facing serious declines in business results, along with the write-off and transfer of problem assets.

Based on the increasingly short-term nature of assets, the Bank has placed more emphasis on deposits, including NCDs, in its funding activities. Consequently, debentures outstanding decreased to ¥3.4 trillion, while deposits, including NCDs, increased to ¥3.3 trillion.

Stockholders' equity was ¥577.4 billion at the end of fiscal 2000, reflecting the increase in net income and a ¥16.3 billion net unrealized gain on securities available-for-sale, following implementation of current-value accounting in fiscal 2000. Losses at the end of fiscal 1999 were cleared by gnawing at capital surplus processing in fiscal 1999.

Issues to Be Addressed

As a new kind of financial service provider, boasting health, flexibility and high profitability, the Bank secures a unique and firm position in the financial community. The Bank's primary business objective is to contribute to the national economy in the 21st century.

Under the new management leadership, the Bank is working to transform its corporate culture, utilizing human resources both from inside and outside of the Bank, and through the active development of new products and services.

The Bank aims to quickly and accurately meet the needs of customers. The Bank will raise the level of customer satisfaction by providing high-value added products and services, while forging a stronger profitability base.

In June 2001, the Bank launched a new retail banking business in order to broaden its lineup of products for individuals and further improve service quality.

Disposal of Problem Assets

Disposal of Problem Assets in Fiscal 2000 (Non-Consolidated)

As noted earlier, the Bank has made progress in the disposal of problem assets through such measures as write-offs, debt forgiveness and assignment. Consequently, the Bank's risk-monitored loans decreased ¥575.9 billion, to ¥1,214 billion, on a non-consolidated basis, as of March 31, 2001, while disclosure of claims under the Financial Revitalization Law revealed a decrease of ¥568.8 billion from the previous fiscal year-end. Details are described below.

In regard to credit costs incurred on the disposal of problem assets, the Bank recorded ¥113 million for write-offs and other losses on loan sales, as the bulk of nonperforming loans had already been secured. In addition, reversal of the general reserve for loan losses exceeded the provision to the specific reserve for loan losses. As a result, the Bank posted a net reversal of ¥6.0 billion in the reserve for loan losses, and realized a surplus of ¥5.9 billion in the account for credit and related costs on the disposal of problem assets.

Breakdown of Disposal of Problem Assets (Non-Consolidated)

	Millions of Yen	
Years Ended March 31	**2001**	2000
Write-Offs	**¥ 29**	¥ 948
Provisions to Reserve for Losses on Loan Sales	**—**	196,719
Losses on Sales of Loans to the CCPC	**—**	—
Other Losses on Loan Sales	**83**	15,215
Reserve for Losses on Disposal of Specified Assets	**—**	(13,162)
Losses on Sales of Inappropriate Assets	**—**	843,967
Total Credit Costs	**113**	1,043,688
General Reserve for Loan Losses	**(39,688)**	(96,219)
Specific Reserve for Loan Losses	**33,683**	—
Provisions to Country Risk Reserve	**(55)**	(9,081)
Total Credit and Related Costs	**¥ (5,947)**	¥ 938,388

Risk-Monitored Loans

The balance of risk-monitored loans on a non-consolidated basis stood at ¥1,214 billion as of March 31, 2001, or ¥575.9 billion less than a year earlier. Loans to borrowers in bankruptcy and past due loans decreased to ¥761.9 billion, down ¥227.4 billion, while past due loans three months or more and restructured loans were ¥452.9 billion, down ¥348.5 billion. These results, as noted previously, stem from progress in the disposal of problem assets through such means as write-offs, debt forgiveness and assignment.

On a consolidated basis, risk-monitored loans totaled ¥1,214 billion, on a par with the non-consolidated result.

Risk-Monitored Loans (Consolidated)

March 31	Millions of Yen 2001	2000
Loans and Bills Discounted	**¥6,187,320**	¥7,711,024
Loans to Borrowers in Bankruptcy (A)	**358,653**	188,166
Past Due Loans (B)	**402,880**	800,716
Total (A) + (B)	**761,533**	988,882
(Ratio to Total Loans and Bills Discounted) (%)	**12.31%**	12.82%
Past Due Loans Three Months or More (C)	**¥ 12,853**	¥ 22,665
Restructured Loans (D)	**440,250**	778,815
Risk-Monitored Loans (E)		
(A) + (B) + (C) + (D)	**1,214,637**	1,790,362
(Ratio to Total Loans and Bills Discounted) (%)	**19.63%**	23.22%
Reserve for Loan Losses	**¥ 563,891**	¥ 866,518
Reserve Coverage Ratio (%)	**46.40%**	48.40%

Definitions of Risk-Monitored Loan Categories

Risk-monitored loan is the collective term referring to loans to borrowers in bankruptcy, past due loans, past due loans three months or more, and restructured loans.

These disclosure categories do not take account of possible recoveries through the disposal of collateral pledged against such loans. Therefore, these figures are not meant to imply that the full amounts are uncollectible. Definitions of risk-monitored loans are as follows.

Loans to Borrowers in Bankruptcy

Loans to borrowers in bankruptcy are those loans for which interest is not being accrued, because payments of interest and/or principal have been in arrears for a substantial period or, for other reasons, the collection or payment of the principal and/or interest is deemed unlikely and for which at least one of the following circumstances is applicable:

- The borrower has requested protection under the provisions of the Corporate Reorganization Law.
- The borrower has requested liquidation procedures under the Commercial Code of Japan or similar legal provisions.
- The borrower has begun liquidation/reorganization procedures under bankruptcy laws of a foreign country or under similar legal provisions.
- The borrower's transactions with the promissory note clearinghouse in Japan have been suspended.

Past Due Loans

Past due loans are those loans for which interest is not being accrued, after the exclusion of loans to borrowers in bankruptcy and loans for which delays in interest payments have been granted with the objective of corporate restructuring or assisting the obligor.

Please note that from the previous fiscal year, unpaid interest on loans classified in self-assessments under the criteria of the Financial Revitalization Law as loans to borrowers in bankruptcy, loans under quasi-bankruptcy, or doubtful has not been accrued.

Past Due Loans Three Months or More

Past due loans three months or more are those loans for which principal or interest has not been received for a period of three months or more from the contractual payment date. This category excludes loans to borrowers in bankruptcy and past due loans as defined above.

Restructured Loans

Restructured loans are those loans for which the Bank has made certain concessions to borrowers with the objectives of restoring the soundness of their operations, including the reduction of interest, the granting of a grace period for interest and/or principal payments, the forgiveness of the Bank's claims, or the employment of other measures favorable to the borrower. This category excludes loans to borrowers in bankruptcy, past due loans, and past due loans three months or more as described above.

Disclosure of Claims under the Financial Revitalization Law (Non-Consolidated)

The Bank's exposure, according to the disclosure criteria of the Financial Revitalization Law, was ¥1,295 billion, down ¥568.7 billion from the previous fiscal year-end. It is comprised of bankrupt and quasi-bankrupt claims of ¥472.9 billion, doubtful claims of ¥370.0 billion, and substandard claims of ¥452.9 billion.

Coverage ratios were 100.0% for bankrupt and quasi-bankrupt claims, 85.6% for doubtful claims, and 54.7% for substandard claims, providing an overall coverage ratio of 80.1%. The Bank does not perform the partial write-offs, but if it were to do so, the coverage ratio would be 76.5% with write-offs of ¥197.1 billion.

Disclosure of Claims under the Financial Revitalization Law (Non-Consolidated)

	Millions of Yen	
March 31	**2001**	2000
Bankrupt and Quasi-Bankrupt (A)	**¥ 472,945**	¥ 289,050
Doubtful (B)	**370,088**	774,211
Substandard (C)	**452,950**	801,480
Total (A) + (B) + (C)	**¥1,295,983**	¥1,864,742
Reserve for Loan Losses	**¥ 564,290**	¥ 866,981
Reserve Coverage Ratio (%)	**43.54%**	46.49%

Definitions of Claims Classified under the Financial Revitalization Law

The asset quality of the following balance sheet items is assessed under the Financial Revitalization Law: loans and bills discounted, foreign exchange, securities lent, accrued income and suspense payment in other assets, and customers' liabilities for acceptances and guarantees. The quality of these assets is categorized as follows on the basis of the financial condition and operating performance of the obligor.

Bankrupt and Quasi-Bankrupt

Claims against obligors under bankruptcy as provided for under the Bankruptcy Law, the Corporate Reorganization Law, the Composition Law and similar laws, and obligors in similar condition

Doubtful

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

Past due loans three months or more and restructured loans, excluding those categorized as bankrupt, quasi-bankrupt, or doubtful

Normal

Claims against obligors that are experiencing no particular problems with financial condition or operating performance and excluding claims in the three categories just defined

Reserve for Loan Losses (Non-Consolidated)

As of March 31, 2001, the Bank's reserve for loan losses decreased ¥302.6 billion to ¥564.2 billion, with a general reserve of ¥220.4 billion, a specific reserve of ¥343.5 billion and a reserve for loans to restructuring countries of ¥296 million. This was due to the reversal in the general reserve for loan losses, according to objectives in the aforementioned disposal of problem assets, as well as a reduction in designated claims, including loans.

Reserve for Loan Losses (Non-Consolidated)

	Millions of Yen	
March 31	**2001**	2000
General Reserve	**¥220,455**	¥317,480
Specific Reserve	**343,537**	549,191
Reserve for Loans to Restructuring Countries	**296**	308
Total	**¥564,290**	¥866,981

Definitions of Reserve for Loan Losses

The Bank makes provisions to the reserve for loan losses based on established criteria for write-offs and reserves according to the types of claims specified in the operating guidelines set forth by the Japanese Institute of Certified Public Accountants, as follows:

- For claims on borrowers in the normal and caution, including the special supervision segment self-assessment categories, provisions are made to the general reserve for loan losses, based on the Bank's own historical experience of defaults.
- For claims on borrowers in the possible bankruptcy category, the expected amount of recoveries from collateral and guarantees is subtracted from the claim, and the portion of the remaining amount is made as a provision to the specific reserve for loan losses. Similarly, for claims on borrowers in the virtual bankruptcy and legal bankruptcy categories, the expected amount of recoveries from collateral and guarantees is subtracted from the claim, and the remaining amount is made as a provision to the specific reserve.

These provisions are made on the basis of self-assessments, which are performed by the operating unit in charge of the asset and then audited by an asset-auditing section independent of the operating unit. Provisions to the reserve are based on the results of this review and auditing process.

Specific Reserve for Loan Losses

When certain facts make it clear that the collection of individual loans and other claims is likely to be impossible, the Bank makes provisions to the specific reserve for loan losses to provide for future losses.

When such claims appear likely to be uncollectible because of an application for commencement of bankruptcy proceedings under the Corporate Reorganization Law, or the obligor has shown negative net worth for an extended period, or other standards become applicable under tax laws, the Bank subtracts the amount of collateral or other coverage from the amount of the loan and is allowed to make provisions for the remainder on a nontaxable or taxable basis.

Reserve for Loans to Restructuring Countries

Provisions are made to the reserve for loans to restructuring countries to provide for losses expected due to political and economic conditions in the countries where the loans are outstanding.

Capital Adequacy Ratio

As of March 31, 2001, the Bank's consolidated capital adequacy ratio increased 4.78 percentage points, to 16.99%, while the non-consolidated ratio increased 4.02 percentage points, to 15.57%.

Consolidated Capital Adequacy Ratio (Domestic Criteria)

	Millions of Yen	
March 31	**2001**	2000
Basic Items (Tier I)		
Capital	**¥ 451,296**	¥ 229,296
(Non-Cumulative, Perpetual Preferred Stock)	**270,443**	48,443
Proceeds from Issues of New Stock	**—**	240,000
Capital Surplus	**18,558**	558
Consolidated Retained Earnings	**87,305**	3,729
Minority Interests in Consolidated Subsidiaries	**—**	59
(Including Preferred Securities Issued by an Overseas Special-Purpose Company)	**—**	—
Foreign Currency Translation Adjustments	**2,455**	—
Value of Goodwill	**—**	—
Consolidated Adjustment Account	**—**	—
Total (A)	**559,615**	473,643
Supplementary Items (Tier II)		
Difference in Book Value Arising from Revaluation, after 55% Discount	**—**	—
General Loan Loss Reserve	**41,162**	48,472
Subordinated Debt	**561,535**	806,338
Total	**602,697**	854,811
(Amount Eligible for Inclusion in Capital) (B)	**559,615**	473,643
Items to be Deducted		
Amount of Subordinated Debt Held of Other Financial Institutions (C)	**—**	—
Total Capital (D) [(A) + (B) – (C)]	**¥1,119,057**	¥ 947,287
Risk Assets		
On-Balance-Sheet Items	**¥6,350,103**	¥7,416,240
Off-Balance-Sheet Items	**235,908**	339,407
Total (E)	**¥6,586,011**	¥7,755,647
Consolidated Capital Adequacy Ratio (Domestic Criteria) (D)/(E) (%)	**16.99%**	12.21%

Risk Management

(For Integrated Risk Management, please refer to page 17.)

Credit Risk Management

Credit risk is the risk that a transaction counterparty will become unable to meet its contractual obligations due to deterioration in its credit situation. Among the various forms of risk held by a bank, credit risk represents the largest potential impact on performance and is found in a range of transactions, from lending and guarantees to such market-related transactions as derivatives. Effective management of credit risk therefore requires integrated, cross-divisional management systems.

Three major policies are called for in order to conduct sound credit operations. These are 1) securing sufficient return on risk taken; 2) avoiding concentration of credit within a particular sector; and 3) managing the lending portfolio with an awareness of potential losses under the worst-case scenario. To meet these requirements, the Bank has two operational manuals detailing procedures for basic credit policy and specific guidelines for credit risk management, entitled *Credit Policy* and *Business Operation Standards for Credit Control*.

As explained below, the credit risk management process is divided into two broad categories: the management of risk within individual transactions and risk management at the portfolio level.

Credit risk management in individual transactions

Organization and systems

In credit risk management for individual transactions, it is imperative to establish effective check and balance relationships throughout the process, from development of transaction opportunities to credit analysis and approval, and post-closing account management. At the Bank, credit approval authority is, in principle, delegated to independent credit sections in the Risk Management Group. In addition, the Credit Assessment Division examines overall credit procedures independently from relationship management divisions and credit divisions. An independent watchdog function is thus ensured for credit operations.

Credit approval authority is not delegated to individuals in certain positions, but rather based on a committee system to achieve greater objectivity and transparency within the decision process. Each level of credit authority is strictly enforced, with each body having a defined sphere of authority depending on such factors as approval amount, total credit amount for a customer's corporate group, and the conditions associated with a particular transaction. Authority is divided among the Risk/Investment Committee, the Credit Committee, the group heads' council, the divisional general managers' council and the business divisional general managers' council.

The Risk/Investment Committee also handles decision making for investment transactions.

To meet increasingly diversified customer needs and expand profit generation opportunities, the Bank is actively seeking out business in such new areas as loan trading and asset securitization. To disseminate necessary knowledge and skills for implementing optimal risk management methods, the Bank has hired staff from outside the organization who are experienced in such fields.

Credit rating system

In February 2001, the Bank introduced a new internal credit rating system. The new system was the result of changes in the Bank's portfolio as well as adjustments in light of ratings published by third-party credit rating agencies. Below is an outline of the new system's features.

- Improved precision of financial modeling and properly reflected qualitative factors to ensure creditworthiness rating
- Assured consistency with third-party credit rating agencies
- Compliance with consolidated accounting practices
- Consistency of credit rating among different sectors

In practice, the credit rating model, based on credit rating data from third-party agencies, calculates credit rating estimates. Where necessary, aggregate adjustments are added and the ratings are derived. The final credit ratings are decided through a committee process, ensuring transparency. The Bank also ensures the consistency of the credit ratings and the obligor category determined by self-assesments.

Credit ratings are used as a standard during the credit approval process and for portfolio management, thus forming the nucleus of the credit risk management system.

Credit risk management at the portfolio level

Monitoring analysis system

In addition to individual transactions managed on the basis of proper risk analysis, it is essential to maintain a prudent risk diversification over a range of different industries and credit ratings at the portfolio level. At the Bank, the Portfolio Risk Management Division carries out portfolio risk analysis and monitors the risk diversification among different categories, including industries, credit ratings and specific customers, and corporate groups. It also tracks and analyzes factors affecting credit ratings of clients within the portfolio, reporting to management on a monthly basis.

Credit risk measurement
Credit risk measurement is the quantification of the possibility of losses occurring due to a change in the credit standing of customers. "Expected loss" is calculated using default and recovery ratios estimated from historical data and forecasts.

A loss that exceeds the forecast extent of expected loss due to a worst-case scenario is generally called "unexpected loss". By calculating such an outcome, it is possible to grasp the level of risk capital.

Calculation of expected loss and unexpected loss is reflected in the lending spread and enables the Bank to obtain the appropriate level of return necessary for the risk associated with each particular transaction. Furthermore, changes in risk capital and the return obtainable from risk incurred are analyzed in order to assist sound portfolio management and rational resource allocation.

Credit risk in market transactions
The Bank manages credit risk associated with derivatives and other market transactions based on estimates of fair market value and future changes in market value. Risk associated with market transactions may change in magnitude as a result of changes in market rates after transaction terms have been concluded. For this reason, the Bank strictly manages this type of risk based on forecasts of volatility of future value.

Self-assessments
Since the introduction of the Prompt Corrective Action System in April 1998, Japanese financial institutions have been required to assess their asset base including loan portfolios ("self-assessments") and make appropriate write-offs and provisions to reserves for loan losses.

The Bank has established a self-assessment system under the Credit Assessment Division, which takes ultimate responsibility for fulfilling the self-assessment requirements. The Credit Assessment Division reports directly to management and is independent from the relationship management and credit sections.

Specifically, based on *Inspection Manuals for Deposit-taking Financial Institutions* published by the Financial Services Agency, the Bank has formulated a set of standards and procedures for self-assessments. Initial assessments are carried out by relationship management sections, secondary assessments are conducted by credit sections, and the final assessment is made by the Credit Assessment Division.

The Bank will strengthen and maintain its systems to prevent loans from becoming non-performing and to take early and appropriate actions to deal with problem assets. Such efforts include timely reviews of obligor category and loan asset classifications in response to changes in the financial position of customers.

Market Risk Management

Market risk is defined as the risk associated with changes in the value of financial instruments, which arise due to fluctuations in foreign exchange rates, interest rates, stock prices and other market-determined price mechanisms. Market risk is inherent in all assets and liabilities as well as off-balance-sheet transactions. The Bank regards market risk management as a key element of its risk management activities. Accordingly, the Bank is working to improve its management systems.

Market risk management methods
By quantifying market risk on a daily and hourly basis and objectively and visually tracking it, the Bank has built a system capable of facilitating risk recognition, management and adjustments alongside market trends.

Market risk management involves a five-step process that is continually repeated. The first step is the construction of a transaction information database. The second is data classification according to risk management unit. The third step involves risk quantification grouped by risk characteristic and unit. The fourth step is risk position reporting, while the fifth step is the assessment of reported risk position and implementation of any necessary adjustments. In order to obtain a precise picture of the current risk position, transaction data must be accurate and complete. Measurement definitions must be valid and such valuation criteria as rates and prices must be reliable. The Bank has introduced a market risk measurement system that incorporates objective validity verification. In practice, the Bank pays careful attention to the accuracy and validity of transaction data and valuation criteria.

Risk management units are determined by organizational structure, nature of operations and products. Each unit is assigned risk limits through the allocation of loss amount limits and permitted risk exposure amount limits. By having all risk units fulfil their market operations within assigned risk limits, the Bank achieves the market risk management objectives intended by top management.

For market risk measurement methodology, the Bank uses the value at risk (VaR) method* in its trading operations, and the Bpv and NII simulation methods in its banking operations, as the principal risk indicators. The appropriateness of the VaR model is tested 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 the year ending March

31, 2001, confirmed the continued reliability of the Bank's VaR model.

The VaR method is used to statistically forecast the maximum loss and risk that is likely to be sustained based on estimates of the degree to which fair value of the overall portfolio may be impaired, using a specified holding period and confidence level, and based on analysis of past data of market fluctuations.

Market risk management system and organization

Market risk is divided into two broad categories. One is a passive risk arising from banking operations such as lending and debenture issuance. The other is an active risk taken and managed in trading operations. The Bank carries out effective and efficient market risk management by concentrating jurisdiction for market risk on both banking and trading operations in the Markets Division. On the other hand, the Market Risk Management Division is responsible for objective and timely risk recognition, monitoring and reporting.

The Market Risk Management Division comprehensively tracks market risks in both trading and banking operations. As well as providing risk information to meet the needs of management, administrative divisions and front office units, it carries out risk analyses and recommendations.

In order for senior management to take a leading role in market risk management, the Bank has established the Market Risk Management Committee, which is responsible for the functions of overall examination and evaluation of market risk. The committee is a deliberative body charged with reporting to and consulting with the ALM Committee, to whom it is subordinate. The Market Risk Management Committee is chaired by the Head of the Risk Management Group, and is made up of corporate executive officers and general managers responsible for market-related operations.

In actual trading operations, by making each of the transaction execution sections, operation sections and risk management sections independent, the Bank is able to establish a system that realizes effective checks and balances.

Market risk management commitment

Since the critical importance of market risk management became generally recognized in the early 1990s, the Bank has consistently worked to improve its market risk management and practice.

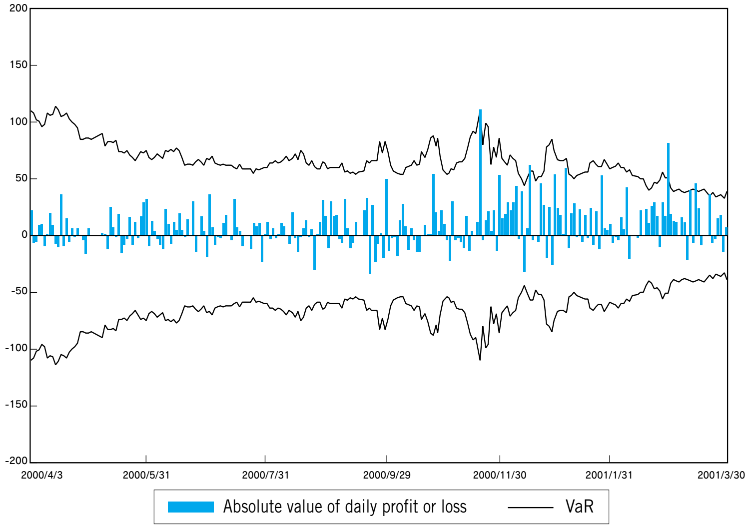
The Bank's awareness has been maintained regarding the importance of risk management. In addition to raising internal control standards, the Bank intends to further develop its strengths. In keeping with the Bank's mission to provide its customers with the financial products and know-how that meet their actual needs, the Bank is confident that maintaining a precise understanding of risk and utilizing advanced risk management, intermediary and hedging techniques will make such products and services even more attractive.

Liquidity risk management

Liquidity risk refers to the danger that fund-raising may become difficult or the cost of funds may become unacceptably high due to a fall in credit standing. Liquidity risk affects not only financial institutions but all enterprises equally, since funds with which transactions must be settled are a prerequisite part of all economic activity. Liquidity risk is therefore a critical factor for the survival of companies.

VaR and Daily Profit or Loss (Back-Testing)

(Millions of Yen) (For the Year Ended March 31, 2001)



Back-Testing on the VaR Model Applied to Trading Divisions' Transactions

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

Assumptions of the Bank's VaR Model

Method: Variance-covariance
Confidence interval: 2.33 standard deviations (99% confidence interval)
Holding period: One day
Number of days of observations: 250
Coverage: Trading divisions
Number of data points: Approximately 850 per day

***VaR Method**

The VaR method forecasts statistically the maximum loss and risk that may be sustained based on estimates of the degree to which the fair value of the overall portfolio may be impaired, with a specified holding period and probability, based on analysis of past data on market fluctuations.

The Bank recognizes that liquidity risk is highly dependent on the credibility it enjoys in the financial markets. Accordingly, the Bank constantly strives to maintain and enhance its financial credibility through all its business operations.

Notwithstanding, the Bank is building and implementing management systems that quantify liquidity risks and allow adjustments depending on each situation.

Other Types of Risk Management

Operational risk

Operational risk is the risk that the Bank may incur loss or damage as a result of errors or inappropriate treatment in customer service activities. Expanding retail banking services, and thereby creating a wide variety of administrative opportunities, has become vital for banks. In such a context, paying proper attention to operational risk becomes crucial to the Bank.

In order to appropriately deal with such risk, the Operations Planning and Administration Division plays a central role in simplifying administrative operations and implementing thorough customer service and administration training programs. In the unlikely event the Bank should suffer serious loss or damage, the Bank has undertaken such preparations as risk diversification. As well, the Bank maintains backup systems to ensure continual service for customers even during a major natural disaster or other emergency situation.

Computer system risk

Computer system risk has come under the spotlight in recent years as online systems for banks play an increasingly vital role in the social infrastructure. To deal with emergency situations, the Bank has formulated contingency plans that include emergency communications plans and operational manuals.

In the computer systems area, the Bank has taken thorough and prudent steps to deal with natural disasters and criminal acts. The Bank has implemented crisis management systems and facilities to ensure uninterrupted service under a wide range of contingencies. For instance, the Bank has been preparing a backup center to function alongside the main computer centers, a complete duplication of computer hardware, software and data, and backup telecommunication lines and power generating equipment.

The year 2000 (Y2K) computer problem passed without any serious failures or damage, and monitoring by the Bank-wide project team has been concluded. The Bank will continue to exercise the necessary caution on related issues, including several other computer “trigger dates.”

Internal audit

As the risks associated with banking operations have become more diverse and complex, risk management in each operational unit has become increasingly critical. Because the role of internal audit is to examine such risk management, there is a need for more substantial internal audit systems.

The Internal Audit Division, which reports directly to the Audit Committee, is independent from the operational line. The division comprehensively examines the risk management situation of each operating unit and reports its findings and recommendations to the Audit Committee, the president and managing directors in all line divisions.

The audit method is currently undergoing a transition from the past practice of visits to the Bank’s offices and branches to a more effective method that closely examines the degree of risk and level of preparedness associated with each particular operating unit.

To strengthen internal examination capabilities, the Bank has upgraded necessary infrastructure and developed a new audit methodology. The Bank is also currently utilizing outside professional advisers to further improve audit standards.

At the same time, to ensure credit operations are conducted in a sound and appropriate manner, the Credit Assessment Division carries out audits based on the *Credit Policy* and *Business Operation Standards for Credit Control*. Audits focus on whether proper credit and assessment processes are being effected, and the credit rating from the point of view of detecting any decline in the quality of the Bank’s assets at the earliest possible time.

Legal and compliance risk

Legal and compliance risk refers to the risk that the Bank may infringe statutes or ordinances in its business operations, or enter into inappropriate contractual agreements that can lead to losses or disputes.

As the liberalization of the Japanese banking industry progresses, the Bank’s operations are becoming more diverse and technical. The Bank considers legal risk and compliance management as critical issues for business operations.

The Bank has established the Legal and Compliance Division as a specialized unit charged with managing these issues in a unified fashion. This division is pursuing a range of measures to satisfy the Bank’s compliance requirements. In particular, the Legal Department within the division is responsible for providing preventative legal advice and dealing with lawsuits.

Consolidated Balance Sheets

Shinsei Bank, Ltd. (formerly The Long-Term Credit Bank of Japan, Limited) and Subsidiaries
March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
ASSETS			
Cash and Due from Banks (Notes 3 and 19)	**¥ 477,482**	¥ 1,930,219	**$ 3,853,770**
Call Loans	**276,000**	363,492	**2,227,603**
Other Debt Purchased	**18,555**	1,189	**149,764**
Trading Assets (Notes 4 and 32)	**382,222**	545,120	**3,084,931**
Money Held in Trust (Note 5)	**96,477**	—	**778,675**
Securities (Notes 6 and 19)	**1,988,518**	2,804,703	**16,049,380**
Loans and Bills Discounted (Notes 7 and 19)	**6,187,320**	7,711,024	**49,938,016**
Foreign Exchanges (Note 15)	**10,771**	14,294	**86,939**
Other Assets (Notes 8 and 19)	**409,708**	366,778	**3,306,764**
Premises and Equipment (Note 9)	**28,852**	35,865	**232,867**
Deferred Discounts on and Issuance Expenses for Debentures	**1,425**	1,981	**11,502**
Deferred Tax Assets (Note 29)	**30**	—	**242**
Customers' Liabilities for Acceptances and Guarantees (Note 18)	**172,238**	298,624	**1,390,143**
Reserve for Loan Losses (Note 10)	**(563,891)**	(866,518)	**(4,551,179)**
Total Assets	**¥9,485,711**	¥13,206,776	**$76,559,417**
LIABILITIES, MINORITY INTERESTS IN SUBSIDIARIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Debentures (Note 11)	**¥3,670,417**	¥ 6,730,795	**$29,624,029**
Deposits, Including NCDs (Notes 12 and 19)	**3,218,835**	2,777,516	**25,979,298**
Call Money (Note 19)	**255,200**	245,206	**2,059,726**
Commercial Paper	**62,000**	500	**500,404**
Trading Liabilities (Notes 13 and 32)	**253,684**	277,876	**2,047,490**
Borrowed Money (Note 14)	**550,835**	902,995	**4,445,803**
Foreign Exchanges (Note 15)	**107**	270	**867**
Other Liabilities (Notes 16 and 19)	**685,929**	1,482,460	**5,536,151**
Reserve for Derivative-Related Credit Risk	**—**	1,295	**—**
Reserve for Retirement Benefits (Note 17)	**19,612**	15,512	**158,295**
Reserve for Loss on Disposition of Premises and Equipment	**3,921**	80	**31,653**
Other Reserve	**—**	0	**—**
Deferred Tax Liabilities (Note 29)	**10,084**	—	**81,391**
Acceptances and Guarantees (Notes 18 and 19)	**172,238**	298,624	**1,390,143**
Total Liabilities	**8,902,865**	12,733,132	**71,855,250**
Minority Interests in Subsidiaries	**—**	59	**—**
Stockholders' Equity:			
Capital Stock (Note 20):			
Common Stock	**180,853**	180,853	**1,459,675**
Preferred Stock	**270,443**	48,443	**2,182,754**
Preferred Stock Subscription (Note 20)	**—**	240,000	**—**
Capital Surplus (Note 20)	**18,558**	281,413	**149,785**
Earned Surplus (Deficit) (Note 21)	**94,194**	(277,125)	**760,243**
Net Unrealized Gains on Securities Available-for-Sale, Net of Taxes	**16,341**	—	**131,896**
Foreign Currency Translation Adjustments	**2,455**	—	**19,814**
Treasury Stock, at Cost	**(0)**	(0)	**(0)**
Total Stockholders' Equity	**582,846**	473,584	**4,704,167**
Total Liabilities, Minority Interests in Subsidiaries and Stockholders' Equity	**¥9,485,711**	¥13,206,776	**$76,559,417**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Shinsei Bank, Ltd. (formerly The Long-Term Credit Bank of Japan, Limited) and Subsidiaries
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
Income			
Interest Income	**¥211,468**	¥ 254,002	**$1,706,768**
Interest on Loans and Discounts	**169,142**	213,314	**1,365,154**
Interest and Dividends on Securities	**16,141**	25,359	**130,279**
Interest on Deposits with Banks	**11,687**	8,240	**94,333**
Other Interest Income	**14,496**	7,088	**117,002**
Fees and Commissions	**12,819**	9,289	**103,470**
Trading Revenue (Note 22)	**4,672**	2,728	**37,710**
Other Operating Income (Note 23)	**3,890**	7,841	**31,400**
Other Income (Note 24)	**75,167**	1,613,896	**606,678**
Total Income	**308,018**	1,887,758	**2,486,026**
Expenses			
Interest Expenses	**125,624**	233,272	**1,013,920**
Interest and Discounts on Debentures	**82,809**	149,020	**668,355**
Interest on Deposits	**13,376**	27,519	**107,960**
Interest on Borrowings and Rediscounts	**20,594**	45,615	**166,215**
Interest on Commercial Paper	**53**	8	**430**
Other Interest Expenses	**8,791**	11,108	**70,960**
Fees and Commissions	**2,278**	4,398	**18,391**
Trading Expenses	**—**	79	**—**
Other Operating Expenses (Note 25)	**4,697**	17,156	**37,914**
General and Administrative Expenses	**63,899**	62,735	**515,734**
Other Expenses (Note 26)	**20,560**	1,459,017	**165,941**
Total Expenses	**217,060**	1,776,659	**1,751,900**
Income before Income Taxes and Minority Interests	**90,958**	111,098	**734,126**
Income Taxes (Note 29):			
Current	**442**	1,526	**3,572**
Deferred	**56**	(1,786)	**459**
Minority Interests in Net Income (Loss) of Subsidiaries	**(6)**	11	**(50)**
Net Income	**¥ 90,464**	¥ 111,346	**$ 730,145**
Net Income per Common Share (in Yen and U.S. Dollars)	**¥ 31.87**	¥ 45.60	**$ 0.26**
Diluted Net Income per Common Share (in Yen and U.S. Dollars)	**¥ 21.35**	¥ 37.09	**$ 0.17**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

Shinsei Bank, Ltd. (formerly The Long-Term Credit Bank of Japan, Limited) and Subsidiaries
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
Common Stock			
Balance at Beginning of Year	**¥ 180,853**	¥ 325,710	**$ 1,459,675**
Issuance of Common Stock	**—**	60,000	**—**
Capital Reduction without Repayment	**—**	(204,856)	**—**
Balance at End of Year	**180,853**	180,853	**1,459,675**
Preferred Stock			
Balance at Beginning of Year	**48,443**	65,000	**390,986**
Issuance of Preferred Stock	**222,000**	—	**1,791,768**
Capital Reduction without Repayment	**—**	(16,556)	**—**
Balance at End of Year	**270,443**	48,443	**2,182,754**
Preferred Stock Subscription			
Balance at Beginning of Year	**240,000**	—	**1,937,046**
Issuance of Preferred Stock	**(240,000)**	240,000	**(1,937,046)**
Balance at End of Year	**—**	240,000	**—**
Capital Surplus			
Balance at Beginning of Year	**281,413**	300,263	**2,271,292**
Issuance of Common Stock	**—**	60,000	**—**
Capital Reduction without Repayment	**—**	221,413	**—**
Transfer to Deficit	**(280,854)**	(300,263)	**(2,266,785)**
Issuance of Preferred Stock	**18,000**	—	**145,278**
Balance at End of Year	**18,558**	281,413	**149,785**
Earned Surplus (Deficit)			
Balance at Beginning of Year	**(277,125)**	(681,190)	**(2,236,687)**
Transfer from Capital Surplus	**280,854**	300,263	**2,266,785**
Increase Due to Exclusion in Consolidated Subsidiaries	**—**	7,827	**—**
Increase Due to Exclusion in Affiliates under the Equity Method	**—**	20	**—**
Decrease Due to Exclusion in Consolidated Subsidiaries	**—**	(14,670)	**—**
Decrease Due to Exclusion in Affiliates under the Equity Method	**—**	(722)	**—**
Net Income	**90,464**	111,346	**730,145**
Balance at End of Year	**94,194**	(277,125)	**760,243**
Net Unrealized Gains on Securities Available-for-Sale			
Balance at Beginning of Year	**—**	—	**—**
Net Change during the Year	**16,341**	—	**131,896**
Balance at End of Year	**16,341**	—	**131,896**
Foreign Currency Translation Adjustments			
Balance at Beginning of Year	**—**	—	**—**
Net Change during the Year	**2,455**	—	**19,814**
Balance at End of Year	**2,455**	—	**19,814**
Treasury Stock			
Balance at Beginning of Year	**(0)**	—	**(0)**
Purchase of Treasury Stock	**—**	(0)	**—**
Balance at End of Year	**(0)**	(0)	**(0)**
Total	**¥ 582,846**	¥ 473,584	**$ 4,704,167**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Shinsei Bank, Ltd. (formerly The Long-Term Credit Bank of Japan, Limited) and Subsidiaries
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
Cash Flows from Operating Activities:			
Net Income before Income Taxes and Minority Interests	**¥ 90,958**	¥ 111,098	**$ 734,126**
Depreciation	**865**	849	**6,986**
Equity in Losses of Affiliates	**82**	653	**663**
Decrease in Reserve for Loan Losses	**(302,608)**	(2,798,198)	**(2,442,363)**
Decrease (Increase) in Reserve for Derivative-Related Credit Risk	**(1,295)**	1,295	**(10,454)**
Increase (Decrease) in Reserve for Retirement Benefits	**4,100**	(4,672)	**33,096**
Decrease in Reserve for Loss on Disposition of Specific Assets	**—**	(79,714)	**—**
Decrease in Reserve for Losses from Loans Sold to CCPC	**—**	(97,521)	**—**
Increase in Reserve for Loss on Disposition of Premises & Equipment	**3,841**	80	**31,004**
Decrease in Other Reserve	**(0)**	(6)	**(0)**
Interest Income	**(211,468)**	(254,002)	**(1,706,768)**
Interest Expenses	**125,624**	233,272	**1,013,920**
Gain on Securities Sold	**(54,639)**	(337,215)	**(440,995)**
Loss (Gain) on Money Held in Trust	**(340)**	3,939	**(2,752)**
Net Exchange Losses	**11,930**	6,816	**96,289**
Net Loss (Gain) on Sale of Premises and Equipment	**2,589**	(436)	**20,901**
Net Loss on Transfer of Specific Assets to Resolution and Collection Corporation, etc.	**—**	678,206	**—**
Net Decrease in Trading Assets	**162,897**	320,810	**1,314,751**
Net Increase in Trading Liabilities	**(24,192)**	(275,446)	**(195,255)**
Net Decrease in Loans and Bills Discounted	**1,528,145**	2,273,804	**12,333,704**
Net (Decrease) Increase in Deposits, Including NCDs	**441,318**	(594,452)	**3,561,896**
Net Decrease in Debentures	**(2,997,923)**	(1,187,788)	**(24,196,316)**
Net Decrease in Borrowed Money (other than Subordinated Debt)	**(47,243)**	(2,743,815)	**(381,300)**
Net Decrease (Increase) in Due from Banks (other than Deposit with the Bank of Japan)	**479,624**	(488,344)	**3,871,060**
Net Decrease in Call Loans, Commercial Paper and Other Debt Purchased	**70,125**	226,592	**565,988**
Net Decrease (Increase) in Collateral under Securities Borrowing Transactions	**100,109**	(100,109)	**807,988**
Net Increase (Decrease) in Call Money and Commercial Paper	**71,493**	(1,419,768)	**577,029**
Net Increase (Decrease) in Collateral under Securities Lending Transactions	**(707,692)**	646,213	**(5,711,801)**
Net Decrease in Foreign Exchange Assets	**3,522**	4,774	**28,433**
Net Decrease in Foreign Exchange Liabilities	**(163)**	(730)	**(1,318)**
Interest Received	**204,082**	469,311	**1,647,154**
Interest Paid	**(157,782)**	(371,024)	**(1,273,465)**
Proceeds from Sale of Specific Assets to Resolution and Collection Corporation	**—**	698,475	**—**
Net Increase in Money Held in Trust	**(94,455)**	—	**(762,350)**
Others, Net	**(236,127)**	2,081,995	**(1,905,791)**
Subtotal	**(1,534,618)**	(2,995,076)	**(12,385,940)**
Income Taxes Paid	**(618)**	(2,097)	**(4,989)**
Net Cash Used in Operating Activities	**(1,535,236)**	(2,997,173)	**(12,390,929)**
Cash Flows from Investing Activities:			
Purchases of Securities	**(7,192,332)**	(2,901,597)	**(58,049,493)**
Proceeds from Sale of Securities	**4,136,735**	2,361,707	**33,387,699**
Proceeds from Redemption of Securities	**3,996,997**	137,645	**32,259,869**
Investment in Money Held in Trust	**(1,681)**	(310,169)	**(13,573)**
Proceeds from Disposition of Money Held in Trust	**—**	365,443	**—**
Proceeds from Sale of Premises and Equipment	**6,332**	44,929	**51,107**
Purchases of Premises and Equipment	**(1,238)**	—	**(9,997)**
Proceeds from Acquisiton of New Subsidiary	**1,118**	—	**9,031**
Net Cash Provided by (Used in) Investing Activities	**945,932**	(302,041)	**7,634,643**
Cash Flows from Financing Activities:			
Repayment of Subordinated Borrowings	**(309,900)**	—	**(2,501,211)**
Payment for Redemption of Subordinated Debts	**(74,188)**	(24,110)	**(598,779)**
Decrease of Issuance of Foreign Bonds	**(3)**	—	**(28)**
Proceeds from Issuance and Subscription of Shares	**—**	360,000	**—**
Proceeds on Temporary Nationalization Account	**—**	3,587,951	**—**
Net Cash Provided by (Used in) Financing Activities	**(384,092)**	3,923,841	**(3,100,018)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(973,396)**	624,626	**(7,856,304)**
Cash and Cash Equivalents at Beginning of Year	**1,040,698**	416,071	**8,399,501**
Increase in Cash and Cash Equivalents Due to Inclusion of Subsidiaries in Consolidation	**0**	—	**0**
Cash and Cash Equivalents at End of Year (Note 3)	**¥ 67,302**	¥ 1,040,698	**$ 543,197**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements of Shinsei Bank, Ltd. (the "Bank", formerly The Long-Term Credit Bank of Japan, Limited) and subsidiaries are prepared on the basis of accounting principles and practices generally accepted in Japan and in conformity with the Consolidated Financial Statements Regulation and are compiled from the consolidated financial statements prepared under the standards of the Securities and Exchange Law of Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain reclassifications and rearrangements have been made to present the accompanying consolidated financial statements in a form that is familiar to readers outside Japan. In addition, the accompanying notes include information that is not required under accounting principles and practices generally accepted in Japan, but is presented herein as additional information.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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.

References to fiscal 2000 and fiscal 1999 are to the Bank's fiscal years ended March 31, 2001 and 2000, respectively.

As permitted by the Securities and Exchange Law of Japan, amounts less than one million yen have been omitted. As a result, the totals do not necessarily agree with the sum of the individual amounts.

Yen amounts, other than per share amounts, have been rounded down to millions of yen. All U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥123.90=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 30, 2001.

The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could have been converted, realized or settled in dollars at that or at any other rate.

The Bank was placed under temporary nationalization by the prime minister of Japan on October 23, 1998, under Section 1 of Article 36 of the Financial Revitalization Law, and had continued its operations in accordance with Articles 47 and 48 of the same law. The Bank's status of temporary nationalization was terminated on March 1, 2000, when all common shares of the Bank held by the Deposit Insurance Corporation of Japan ("DIC") were transferred to New LTCB Partners C.V. in accordance with the Share Purchase Agreement dated February 9, 2000 ("Share Purchase Agreement").

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements of the Bank include accounts of the Bank and subsidiaries. Major subsidiaries for fiscal 2000 are listed below:

Name	Location	Percentage Ownership
Shinsei Trust & Banking Co., Ltd.	Tokyo	100%
Shinsei Securities Co., Ltd.	Tokyo	100%
Shinsei Bank Finance N.V.	Curaçao	100%

The Bank applied 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 to be fully consolidated and those companies in which the Bank, directly or indirectly, is able to exercise significant influence over operations are to be accounted for by the equity method.

The number of subsidiaries and affiliates at March 31, 2001 and 2000, were as follows:

	Fiscal 2000	Fiscal 1999	Net Change
Subsidiaries	13	7	6
Affiliates Accounted for Using the Equity Method	3	5	(2)

The increase from fiscal 1999 in the number of subsidiaries listed above is due to acquisition of stocks and/or control of operations.

The decrease in the number of equity method affiliates listed above is due to stock sales or dissolution whereby equity method accounting for certain affiliates was no longer required.

All significant intercompany transactions, account balances and unrealized profits and losses have been eliminated in consolidation. The fiscal year-ends for 12 subsidiaries are March 31 and for one subsidiary is December 31, which prepared trial balances as of March 31 and is included in the consolidated financial statements on the basis of a fiscal year ended March 31.

Any differences between the cost of an investment in subsidiaries and the Bank's share of the underlying equity in the net assets of the subsidiaries is charged to income in the year incurred as long as such differences are considered to be immaterial.

(b) Translation of Foreign Currency Financial Statements and Transactions

The financial statements of foreign subsidiaries are translated into Japanese yen at exchange rates as of the balance sheet date, except for stockholders' equity, which is translated at the historical exchange rate. Effective April 1, 2000, differences arising from such translation are shown as foreign currency translation adjustments as a separate component of stockholders' equity in the accompanying consolidated balance sheet in accordance with a revised accounting standard for foreign currency transactions. Prior to April 1, 2000, the differences were shown as other assets or other liabilities. In the consolidated balance sheet for fiscal 1999, ¥1,912 million of translation differences were included in other liabilities.

(i) Foreign currency-denominated assets and liabilities and the accounts of overseas branches are translated into yen at the exchange rates prevailing at the balance sheet date, except that certain assets and liabilities are translated at the relevant historical exchange rates.

(ii) Foreign currency accounts held by consolidated foreign subsidiaries are translated into the currency of the subsidiary at the respective year-end exchange rates.

(c) Other Debts Purchased

Components of other debts purchased are loans for trading purposes. The loans are recorded at estimated fair value and unrealized gains and losses are recorded in other operating income/expenses.

(d) 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 securities 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 stated at market value and financial derivatives related to trading positions are stated at the amounts that would be settled if such positions were terminated at the end of the fiscal year, which reflects liquidation and credit risks.

Trading revenue and trading expenses include interest received and paid, the amount of increases/decreases in valuation gains/losses on the balance sheet date for securities and monetary claims, and net change in valuation gains/losses during the year using the estimated settlement price assuming settlement in cash on the balance sheet date for derivatives.

(e) Money Held in Trust

The Bank holds money held in trust principally for trading purposes. The components of trust assets are accounted for based on the standard appropriate for each asset type. Instruments held in the trust for trading purposes are recorded at estimated fair value and unrealized gains and losses are recorded in other income/expenses.

(f) Classification and Valuation of Securities

Prior to April 1, 2000, although trading securities were stated at market value, other listed securities were carried at the lower of moving average cost or market and other unlisted securities were carried at cost determined by the moving average method. Effective April 1, 2000, securities other than investments in affiliates are classified into three categories, based principally on the Bank'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 market value with corresponding unrealized gains/losses recorded in income.

Securities being held to maturity are debt securities for which the Bank and subsidiaries have positive intent and ability to hold until maturity. Securities being held to maturity are carried at amortized cost.

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 corresponding unrealized gains/losses recorded directly in a separate component of stockholders' equity. Securities available-for-sale for which fair value is not readily determinable are carried at moving average cost or amortized cost determined by the moving average method.

(g) Depreciation Method

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of premises and equipment owned by the Bank is computed using the straight-line method for premises and the declining-balance method for equipment over the estimated useful lives of the relevant assets.

Depreciation of premises and equipment owned by subsidiaries is principally computed using the straight-line method over the estimated useful lives of the relevant assets.

Capitalized software for internal use is depreciated using the straight-line method based on the Bank and subsidiaries' estimated useful lives (five years). Capitalized software for internal use is included in other assets.

The estimated useful lives at March 31, 2001, are principally as follows:

Buildings .... 17 years to 44 years
Equipment .... 5 years to 15 years

(h) Accounting for Lease Transactions

All leases have been accounted for as operating leases. Under Japanese accounting standards for leases, finance leases where the ownership of the property is deemed to transfer to the lessee are capitalized, while other finance leases can be accounted for as operating leases if the required information is disclosed in the notes to the lessee's consolidated financial statements.

(i) Deferred Charges

The Bank's deferred charges are amortized as follows.

Discounts on discount debentures are amortized by the straight-line method over the terms of the debentures.

Debenture issuance expenses are amortized by the straight-line method over the shorter of the terms of the debentures or the maximum three-year period stipulated in the Commercial Code of Japan.

The issuance cost of new capital stock is expensed when incurred. As for preferred stock subscribed as of March 31, 2000, all the related issuance cost, based on estimated actual payments, was expensed in the year ended March 31, 2000.

Subsidiaries' deferred charges on the issuance of debentures are amortized by the straight-line method over the terms of the debentures.

(j) Reserve for Loan Losses

The reserve for loan losses of the Bank and the domestic trust and banking subsidiary have been established based on the Bank's internal rules for establishing the reserve, in accordance with the criteria released by the Japanese Institute of Certified Public Accountants related to self-assessment of asset quality for financial institutions.

The Bank has also taken into account the precondition of exercise of the cancellation right in estimating the reserve amount. Under the warranty of loan-related assets described in the Share Purchase Agreement, a precondition of exercise of the cancellation right is the existence of a defect and a 20% reduction of value.

All loans and commitments that the Bank has extended to its customers are classified into one of five categories for self-assessment purposes: "normal," "caution, including special supervision segment," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy".

The reserve for loan losses for the "normal" and "caution" categories is calculated based on the specific actual past loss ratios and is recorded as a general reserve.

The reserve for the "possible bankruptcy" category is calculated based on the residuals, if any, considering the debtor's ability to pay, which residual is the debt amount after deducting the estimated recoverable value from disposition of collateral and enforcement of any guarantees. The reserve for the "possible bankruptcy" category is recorded as a specific reserve.

The reserve for the "virtual bankruptcy" and "legal bankruptcy" categories is the amount in excess of the estimated value of collateral or guarantees, if any, and is recorded as a specific reserve.

All claims are assessed by the branches and credit supervision divisions based on the Bank's internal rules for the self-assessment of asset quality. The Credit Assessment Division, which is independent from the branches and the credit supervision divisions, conducts audits of these assessments.

For foreign claims, there is a reserve for loans to restructuring countries, which has been established based on losses estimated by considering the political and economic conditions in those countries.

The other subsidiaries provide reserves for loan losses at the amounts considered reasonable in accordance with local accounting standards and based on prior experience with loan losses.

(k) Derivatives and Hedge Accounting

Prior to April 1, 2000, although derivatives recorded in trading positions were stated at fair value, other derivatives were principally accounted for by the accrual method. Effective April 1, 2000, derivatives are stated at fair value in principal. The derivative transactions that meet the hedge accounting criteria are accounted for under a deferral method whereby unrealized gains and losses are deferred as assets or liabilities until the profits and losses on the hedged items are realized. The Bank principally applies a "macro hedge" for interest rate derivatives to manage interest rate risks and its asset/liability management activities based on the report issued by the

Japanese Institute of Certified Public Accountants, "Tentative Treatments in Accounting and Audit for Banks on Application of Accounting Standard for Financial Instruments." The effectiveness of the macro hedge is reviewed for a reduction in interest rate risk exposure and the actual risk amount of derivatives within the pre-approved limit under the Bank's risk control policies.

In addition to macro hedge accounting, the Bank and a subsidiary applied deferral hedge accounting for part of assets and liabilities. At March 31, 2001, the gross deferred gains and losses were ¥67,519 million and ¥62,391 million, respectively, and the net amount is included in other liabilities.

In fiscal 1999, the Bank provided a reserve for credit risk on non-listed derivatives held in non-trading accounts. In fiscal 2000, such credit risk is reflected in the fair value of derivatives by adoption of the Accounting Standard for Financial Instruments.

The effect of the adoption of the new standard for financial instruments, including changes in valuation of securities and derivatives and application of hedge accounting, was to increase income before income taxes and minority interests for fiscal 2000 by ¥1,761 million.

(l) Reserve for Retirement Benefits

Prior to April 1, 2000, the accrued provision for retirement allowances of the Bank was calculated to state the estimated liability at the amount which would be required to be paid if all employees eligible for the retirement allowance plan were to terminate their employment voluntarily at the balance sheet date. Effective April 1, 2000, the reserve for retirement benefits is provided for the payment of employees' retirement benefits based on the estimated amounts of the actuarial retirement benefit obligation and pension assets at the end of the fiscal year. Net actuarial gain/loss is amortized using the straight-line method over the average remaining service period from the fiscal year of occurrence. The transitional unrecognized net retirement benefit obligation of ¥16,753 million is amortized using the straight-line method over 15 years.

The effect of the adoption of the new standard for retirement benefits was to decrease income before income taxes and minority interests for fiscal 2000 by ¥2,232 million.

(m) Reserve for Loss on Disposition of Premises and Equipment

The reserve for loss on disposition of premises and equipment is established based on an estimate of loss on sale of dormitories and company houses of the Bank and an estimate of expenses to restore offices leased by the Bank and the domestic trust and banking subsidiary.

(n) Income Taxes

Deferred income taxes relating to temporary differences between financial and tax reporting have been recognized.

(o) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with the Bank of Japan and non-interest bearing deposits.

(p) Appropriation of Earned Surplus

Cash dividends and transfer to legal reserve are recorded in the fiscal year that the relevant proposed appropriation of earned surplus is approved by the Board of Directors and/or at the General Meeting of Stockholders.

(q) Net Income Per Share

Net income per common share calculations represent net income less dividends on preferred shares, divided by the weighted average number of outstanding shares of common stock during the respective year.

The calculation considers the dilutive effect of common stock equivalents, which include preferred shares, assuming that all preferred shares were converted into common stock.

(r) New Accounting Pronouncements

Effective April 1, 2001, *gensaki* transactions (securities purchased under resale agreements and securities sold under repurchase agreements) that are not for trading purposes are to be accounted for as financing transactions and not as purchases and sales. This change is required based on the Accounting Standard for Financial Instruments issued by the Business Accounting Deliberation Council in January 1999.

The effect on the Bank's consolidated financial statements of the adoption of the new standard is not known and cannot be reasonably estimated until additional analysis is completed.

(s) Reclassifications

Certain reclassifications have been made in the fiscal 1999 consolidated financial statements to conform to the presentation in fiscal 2000.

3. Cash and Cash Equivalents

The reconciliation of cash and cash equivalents at end of year and cash and due from banks in the consolidated balance sheets at March 31, 2001 and 2000, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Cash and Due from Banks	**¥ 477,482**	¥1,930,219	**$ 3,853,770**
Interest-Bearing Deposits Included in Due from Banks (Other than Deposits with the Bank of Japan)	**(410,180)**	(889,521)	**(3,310,573)**
Cash and Cash Equivalents at End of Year	**¥ 67,302**	¥1,040,698	**$ 543,197**

4. Trading Assets

Trading assets at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Trading Assets:			
Trading Securities	**¥ 1,086**	¥224,184	**$ 8,772**
Trading-Related Financial Derivatives	**272,685**	315,938	**2,200,848**
Other	**108,451**	4,997	**875,311**
Total	**¥382,222**	¥545,120	**$3,084,931**

5. Money Held in Trust

Money held in trust at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Money Held in Trust:			
Trading Purposes	**¥94,455**	¥—	**$762,350**
Other	**2,022**	—	**16,325**
Total	**¥96,477**	¥—	**$778,675**

6. Securities

Securities at March 31, 2001, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Securities Being Held to Maturity	**¥ 20**	**$ 167**
Securities Available-for-Sale		
Marketable Securities, at Estimated Fair Value	**1,902,885**	**15,358,240**
Securities Whose Fair Value is Not Readily Determinable, at Amortized Cost	**85,590**	**690,802**
Equities in Affiliated Companies, Using the Equity Method	**21**	**171**
Total	**¥1,988,518**	**$16,049,380**

Amortized cost and estimated fair value of marketable securities at March 31, 2001, were as follows:

	Millions of Yen			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities:				
Securities Being Held to Maturity				
(Japanese Government Bonds Only)	**¥ 20**	**¥ 1**	**¥ —**	**¥ 22**
Securities Available-for-Sale:				
Equity Securities	**1,750**	**258**	**22**	**1,986**
Japanese Government Bonds	**1,328,351**	**1,596**	**80**	**1,329,868**
Japanese Local Government Bonds	**119**	**4**	**—**	**124**
Japanese Corporate Bonds	**80,725**	**1,503**	**95**	**82,133**
Other	**465,511**	**24,310**	**1,049**	**488,772**
Total Securities Available-for-Sale	**¥1,876,459**	**¥27,673**	**¥1,247**	**¥1,902,885**

	Thousands of U.S. Dollars			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities:				
Securities Being Held to Maturity				
(Japanese Government Bonds Only)	**$ 167**	**$ 15**	**$ —**	**$ 182**
Securities Available-for-Sale:				
Equity Securities	**14,132**	**2,087**	**183**	**16,037**
Japanese Government Bonds	**10,721,162**	**12,886**	**649**	**10,733,400**
Japanese Local Government Bonds	**968**	**33**	**—**	**1,001**
Japanese Corporate Bonds	**651,537**	**12,137**	**768**	**662,905**
Other	**3,757,155**	**196,212**	**8,469**	**3,944,897**
Total Securities Available-for-Sale	**$15,144,953**	**$223,355**	**$10,068**	**$15,358,240**

Securities at March 31, 2000, consisted of the following:

	Millions of Yen
Securities:	
Japanese Government Bonds	¥2,385,948
Japanese Local Government Bonds	11,994
Japanese Corporate Bonds	31,029
Equity Securities	357,591
Other	18,139
Total	¥2,804,703

Estimated fair values and unrealized gains and losses of marketable securities at March 31, 2000, were as follows (classification by the Bank's holding purposes was not applied):

	Millions of Yen			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities:				
Japanese Government Bonds	¥ 713,775	¥ 76	¥296	¥ 713,556
Japanese Local Government Bonds	90	6	—	96
Japanese Corporate Bonds	3,551	3,101	—	6,652
Equity Securities	338,626	55,069	0	393,696
Other	6,779	525	—	7,304
Total	¥1,062,822	¥58,780	¥296	¥1,121,306

7. Loans and Bills Discounted

Loans and bills discounted at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Loans and Bills Discounted:			
Loans on Deeds	**¥3,709,984**	¥4,792,852	**$29,943,376**
Loans on Bills	**1,756,376**	2,104,750	**14,175,762**
Bills Discounted	**8,441**	6,154	**68,131**
Overdrafts	**712,512**	807,267	**5,750,703**
Other	**5**	—	**44**
Total	**¥6,187,320**	¥7,711,024	**$49,938,016**

Past due loans includes loans classified as “possible bankruptcy” and “virtual bankruptcy” under the Bank’s self-assessment guidelines.

Loans and bills discounted include loans held by the Bank and its subsidiaries to borrowers in bankruptcy totaling ¥358,653 million and ¥188,166 million as of March 31, 2001 and 2000, respectively, as well as past due loans totaling ¥402,880 million and ¥800,716 million as of March 31, 2001 and 2000, respectively.

In addition to past due loans as defined, certain other loans classified as “caution” under the Bank’s self-assessment guidelines include past due loans (3 months or more).

Past due loans (3 months or more) consisted of loans for which the principal and/or interest is three months or more past due but exclude loans to borrowers in bankruptcy and past due loans. The balances of past due loans (3 months or more) as of March 31, 2001 and 2000, were ¥12,853 million and ¥22,665 million, respectively.

Restructured loans are loans where the Bank and subsidiaries are relaxing lending conditions, such as reduction of the original interest rate, forbearance of interests payments or principal repayments to support the borrowers’ reorganization, but exclude loans to borrowers in bankruptcy, past due loans or past due loans (3 months or more). The outstanding balances of restructured loans as of March 31, 2001 and 2000, were ¥440,250 million and ¥778,815 million, respectively.

8. Other Assets

Other assets at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Other Assets:			
Accrued Income	**¥ 49,155**	¥ 41,342	**$ 396,736**
Prepaid Expenses	**623**	1,128	**5,036**
Fair Value of Derivatives	**66,283**	—	**534,978**
Other	**293,644**	324,306	**2,370,015**
Total	**¥409,708**	¥366,778	**$3,306,764**

9. Premises and Equipment

Premises and equipment at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Premises and Equipment:			
Land	**¥ 4,623**	¥ 10,268	**$ 37,316**
Buildings	**22,091**	26,877	**178,305**
Equipment	**6,775**	5,527	**54,688**
Security Deposits	**10,998**	11,601	**88,766**
Other	**167**	—	**1,350**
Total	**44,656**	54,275	**360,424**
Accumulated Depreciation	**(15,804)**	(18,409)	**(127,558)**
Net Book Value	**¥ 28,852**	¥ 35,865	**$ 232,867**

10. Reserve for Loan Losses

Reserve for loan losses at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Reserve for Loan Losses:			
General Reserve	**¥220,677**	¥317,557	**$1,781,095**
Specific Reserve	**342,916**	548,652	**2,767,690**
Reserve for Loans to Restructuring Countries	**296**	308	**2,394**
Total	**¥563,891**	¥866,518	**$4,551,179**

11. Debentures

Debentures at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Debentures:			
Coupon Debentures	**¥2,949,633**	¥5,932,523	**$23,806,563**
Discount Debentures	**518,924**	528,868	**4,188,251**
Subordinated Debentures	**188,545**	250,525	**1,521,757**
Other	**13,314**	18,876	**107,458**
Total	**¥3,670,417**	¥6,730,795	**$29,624,029**

12. Deposits, Including NCDs

Deposits, including NCDs, at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Deposits:			
Current	**¥ 62,474**	¥ 69,327	**$ 504,233**
Ordinary	**241,584**	268,123	**1,949,831**
Notice	**140,355**	166,642	**1,132,816**
Time	**1,621,203**	1,375,249	**13,084,771**
Negotiable Certificates of Deposit (NCDs)	**1,053,493**	731,470	**8,502,771**
Other	**99,724**	166,702	**804,875**
Total	**¥3,218,835**	¥2,777,516	**$25,979,298**

13. Trading Liabilities

Trading liabilities at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Trading Liabilities:			
Derivatives of Trading Securities	**¥ —**	¥ 0	**$ —**
Trading-Related Financial Derivatives	**253,684**	277,875	**2,047,490**
Total	**¥253,684**	¥277,876	**$2,047,490**

14. Borrowed Money

Borrowed money at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Borrowed Money:			
Subordinated Debt	**¥483,100**	¥794,000	**$3,899,112**
Borrowings from the Bank of Japan and Other Financial Institutions	**67,735**	108,995	**546,691**
Total	**¥550,835**	¥902,995	**$4,445,803**

15. Foreign Exchanges

The assets and liabilities related to foreign currency trade financing activities of the Bank at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Foreign Exchange Assets:			
Foreign Bills Bought	**¥ 661**	¥ 1,136	**$ 5,341**
Foreign Bills Receivable	**4,205**	5,875	**33,939**
Due from Foreign Banks	**5,904**	7,282	**47,659**
Total	**¥10,771**	¥14,294	**$86,939**
Foreign Exchange Liabilities:			
Foreign Bills Sold	**¥ 2**	¥ 6	**$ 21**
Advances from Foreign Banks	**3**	7	**29**
Due to Foreign Banks	**101**	256	**817**
Total	**¥ 107**	¥ 270	**$ 867**

16. Other Liabilities

Other liabilities at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Other Liabilities:			
Accrued Expenses	¥ 85,970	¥ 114,388	$ 693,868
Unearned Income	11,525	11,160	93,025
Income Taxes Payable	230	766	1,859
Fair Value of Derivatives	67,412	—	544,092
Deferred Gains on Derivatives	5,127	—	41,387
Other	515,662	1,356,145	4,161,921
Total	¥685,929	¥1,482,460	$5,536,151

17. Reserve for Retirement Benefits

The Bank and certain of its subsidiaries have contributory and non-contributory defined benefit plans as well as unfunded severance indemnities plans covering most of its regular employees.

The following table presents the funded status and actuarial assumptions at March 31, 2001.

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Projected Benefit Obligation	¥ (78,417)	$ (632,911)
Fair Value of Plan Assets	41,012	331,016
Funded Status (Projected Benefit Obligation in Excess of Plan Assets)	(37,404)	(301,894)
Unrecognized Obligation at Transition	15,636	126,202
Unrecognized Net Actuarial Losses	2,155	17,398
Reserve for Retirement Benefits	(19,612)	(158,295)
Actuarial Assumptions		
Discount Rate	2.80%	
Assumed Rate of Long-Term Return on Plan Assets	3.10%	

The following table provides the components of net periodic retirement benefit cost for the plans included in general and administrative expenses for the year ended March 31, 2001.

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Service Cost	¥ 2,267	$ 18,303
Interest Cost	2,350	18,974
Expected Return on Plan Assets	(1,293)	(10,437)
Amortization of Net Actuarial Losses (Amortized over 14.74 Years)	156	1,267
Amortization of Unrecognized Obligation at Transition (Amortized over 15 Years)	1,116	9,014
Net Periodic Retirement Benefit Cost	¥ 4,599	$ 37,122

18. Acceptances and Guarantees

Acceptances and guarantees at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Acceptances and Guarantees:			
Guarantees	**¥148,043**	¥294,387	**$1,194,860**
Letters of Credit	**1,593**	4,225	**12,862**
Acceptances	**—**	11	**—**
Other	**22,602**	—	**182,421**
Total	**¥172,238**	¥298,624	**$1,390,143**

19. Assets Pledged as Collateral

Assets pledged as collateral and debts collateralized at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Assets:			
Securities	**¥875,405**	¥325,405	**$7,065,417**
Loans and Bills Discounted	**146,466**	109,851	**1,182,131**
Cash and Due from Banks	**3,255**	2,853	**26,272**
Other Assets (Margin for Repo Transactions)	**10**	100,109	**89**
Debts:			
Deposits	**¥ 2,535**	¥ 23,551	**$ 20,468**
Call Money	**185,200**	220,900	**1,494,754**
Acceptances and Guarantees	**6,194**	28,287	**49,996**
Other Liabilities (Borrowed Securities)	**47**	92,400	**383**

In addition, securities of ¥485,426 million as of March 31, 2001, and securities of ¥197,258 million and loans of ¥209,944 million as of March 31, 2000, are pledged as collateral for transactions, including exchange settlements, swap transactions and the replacement of margin for future trading.

Further, cash and due from banks of ¥12,390 million and ¥10,615 million as of March 31, 2001 and 2000, respectively, are pledged to the buyer for loans sold in a bulk sales transaction conducted in closing branches.

Also, ¥10,998 million of security deposits is included in premises and equipment as of March 31, 2001, and ¥775 million and ¥1,027 million of margin deposits for futures transactions outstanding are included in other assets as of March 31, 2001 and 2000, respectively.

20. Capital Stock and Capital Surplus

The authorized number of shares of capital stock (common stock and preferred stock) as of March 31, 2001, was as follows:

(i) 5,000,000 thousand common shares

(ii) 678,528 thousand preferred shares, non-voting and ranking prior to common shares with respect to payment of dividends and distributions on liquidation or winding-up of the Bank. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the Board of Directors of the Bank.

The changes in the capital stock and capital surplus accounts for the years ended March 31, 2000 and 2001, were as follows:

	Millions of Yen						
	Common Stock		Preferred Stock		Preferred Stock Subscription		Capital Surplus
	Shares (Thousands)	Stated Value	Shares (Thousands)	Stated Value	Shares (Thousands)	Stated Value	Stated Value
Fiscal 1999							
Beginning of Year	2,417,075	¥ 325,710	100,000	¥ 65,000	—	—	¥ 300,263
Issuance of New Stocks	300,000	60,000	—	—	—	—	60,000
Capital Reduction	—	(204,856)	(25,472)	(16,556)	—	—	221,413
Transfer to Deficit	—	—	—	—	—	—	(300,263)
Subscription	—	—	—	—	600,000	240,000	—
End of Fiscal 1999	2,717,075	¥ 180,853	74,528	¥ 48,443	600,000	¥ 240,000	¥ 281,413
Thousands of U.S. Dollars (106.15)	—	$1,703,757	—	$ 456,366	—	$2,260,951	$2,651,089
Fiscal 2000							
Beginning of Year	**2,717,075**	**¥ 180,853**	**74,528**	**¥ 48,443**	**600,000**	**¥ 240,000**	**¥ 281,413**
Issuance of New Stocks	**—**	**—**	**600,000**	**222,000**	**(600,000)**	**(240,000)**	**18,000**
Transfer to Deficit	**—**	**—**	**—**	**—**	**—**	**—**	**(280,854)**
End of Fiscal 2000	**2,717,075**	**¥ 180,853**	**674,528**	**¥ 270,443**	**—**	**¥ —**	**¥ 18,558**
Thousands of U.S. Dollars (123.90)	**—**	**$1,459,675**	**—**	**$2,182,754**	**—**	**$ —**	**$ 149,785**

Under the Japanese Commercial Code,

(i) At least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital have been credited to capital surplus.

(ii) The Bank may, by resolution of the stockholders, transfer a portion of earned surplus available for dividends to the capital stock account, and

(iii) The Bank may, by resolution of the Board of Directors, issue new shares of common stock to the existing stockholders without consideration to the extent that the amount calculated by multiplying the number of outstanding shares after the issuance by par value per share does not exceed the stated capital, or that the amount calculated by dividing the total amount of stockholders' equity by the number of outstanding shares after the issuance shall not be less than ¥50. These issuances of the new shares are treated as stock splits.

During fiscal 1999, the Bank transferred capital surplus to reduce the deficit in accordance with the resolution of the stockholders' meeting held on June 29, 1999. Also, the Bank made a capital reduction by the retirement of 25,472 thousand preferred shares and a decrease in the stated value of common stock on March 31, 2000. Because this capital reduction was made without repayment to stockholders, the corresponding amount was transferred to capital surplus from capital stock.

Holders of Series 2 preferred shares issued on March 31, 1998, are entitled to priority over common stock as to the payment of dividends and as to distributions on liquidation of the Bank, to receive noncumulative dividends of ¥13 per preferred share and a distribution of ¥1,300 per preferred share upon liquidation.

Series 2 preferred shares are convertible on or after October 1, 1998, and up to and including March 31, 2008, at the option of the stockholders, into fully paid shares of common stock of the Bank at an initial exchange price of ¥326 per share which was subsequently adjusted to ¥180 per share on or after October 1, 1999.

Unless previously converted at the option of Series 2 preferred stockholders, all outstanding Series 2 preferred shares will be mandatorily exchanged for fully paid shares of common stock on April 1, 2008, at the number of common shares calculated by dividing ¥1,300 by the average market price per share during a certain period preceding April 1, 2008, with maximum cap of four common shares per one Series 2 preferred share.

Holders of preferred shares are not entitled to execute voting rights if the prescribed dividend is paid. Since no dividend was declared at the stockholders' meeting held on June 28, 2000 and June 29, 1999, holders of Series 2 preferred shares have voting rights as of March 31, 2001.

On March 1, 2000, the Bank received the proceeds from the offering of 300,000 thousand common shares issued on March 2, 2000, at a price of ¥400 per share for gross proceeds of ¥120,000 million, of which ¥60,000 million was transferred to the capital surplus account. The issuance costs were expensed when incurred.

On March 31, 2000, the Bank received the proceeds from the subscription of 600,000 thousand Series 3 preferred shares, subsequently issued on April 1, 2000, in accordance with the Financial Function Early Strengthening Law, at a price of ¥400 per share for gross proceeds of ¥240,000 million, of which ¥18,000 million was transferred to the capital surplus account. The issuance costs were expensed when incurred. The Series 3 preferred stockholders are entitled, with priority over common stock and ranking equally with Series 2 preferred stocks over any payment of dividends and distributions upon liquidation, to receive noncumulative dividends of ¥4.84 per preferred share and a distribution of ¥400 per preferred share upon liquidation. Series 3 preferred shares are convertible on or after August 1, 2005, and up to and including July 31, 2007, at the option of stockholders, into fully paid shares of common stock of the Bank. On August 1, 2007, the Series 3 preferred shares become mandatorily convertible. The conversion shall be for the number of common shares calculated by dividing ¥400 by the average market price per share during a certain period preceding August 1, 2005, 2006 or 2007, as applicable, or net asset value, as defined, per common share if the shares are not publicly traded. At no time, however, shall the conversion price be less than ¥300 nor more than ¥400.

The Bank issued Series 3 preferred stock to the Resolution and Collection Corporation on April 1, 2000; as a result, the capital stock amount increased by ¥222,000 million.

During fiscal 2000, the Bank transferred capital surplus to reduce the deficit in accordance with the resolution of the stockholders' meeting held on June 28, 2000.

21. Earned Surplus (Deficit)

Under the Banking Law of Japan, an amount equivalent to at least 20% of any distribution of profits must be appropriated as a legal reserve until such reserve equals 100% of stated capital. This reserve is not available for dividends, but may be used to reduce a deficit by resolution of the stockholders or may be transferred to the capital stock account by resolution of the Board of Directors.

The legal reserve of the Bank at March 31, 2001 and 2000, was nil.

22. Trading Revenue

Trading revenue for the years ended March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Trading Revenue:			
Revenue from Trading Securities	**¥ 102**	¥ —	**$ 823**
Revenue from Derivatives of Trading Securities	**66**	—	**539**
Revenue from Trading-Related Financial Derivatives Transactions	**3,960**	2,037	**31,968**
Other	**542**	691	**4,380**
Total	**¥4,672**	¥2,728	**$37,710**

23. Other Operating Income

Other operating income for the years ended March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Other Operating Income:			
Gain on Foreign Exchange Transactions	**¥1,449**	¥2,272	**$11,698**
Gain on Sales of Bonds	**1,098**	3,350	**8,862**
Gain on Redemption of Bonds	**1**	221	**14**
Other	**1,341**	1,996	**10,826**
Total	**¥3,890**	¥7,841	**$31,400**

24. Other Income

Other income for the years ended March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Other Income:			
Gain on Sales of Stocks and Other Securities	**¥58,258**	¥ 486,234	**$470,207**
Gain on Money Held in Trust	**1,928**	16,416	**15,561**
Gain on Disposal of Premises and Equipment	**2,014**	2,043	**16,260**
Recoveries of Written-Off Claims	**703**	101	**5,677**
Income from Special Monetary Support (*)	—	821,671	—
Reversal of the Excess Portion of the Specific Reserve for Loan Losses on Transfer to the RCC (Inappropriate Assets)	—	271,097	—
Reversal of the Excess Portion of the Reserve for Disposition of Specific Assets	—	13,162	—
Other	**12,262**	3,169	**98,973**
Total	**¥75,167**	¥1,613,896	**$606,678**

(*) Income from special monetary support represents monetary grants from the Deposit Insurance Corporation (DIC) for the compensation of losses incurred during the part of fiscal 1999 until the temporary nationalization period ended, pursuant to Articles 62 and 72 of the Financial Revitalization Law.

25. Other Operating Expenses

Other operating expenses for the years ended March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Other Operating Expenses:			
Amortization of Debenture Issuance Expenses	**¥ 870**	¥ 1,178	**$ 7,030**
Loss on Sales of Bonds	**2,825**	3,910	**22,809**
Loss on Redemption of Bonds	**1**	864	**14**
Loss on Devaluation of Bonds	**192**	69	**1,551**
Other	**806**	11,134	**6,510**
Total	**¥4,697**	¥17,156	**$37,914**

26. Other Expenses

Other expenses for the years ended March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Other Expenses:			
Provision for Loan Losses	**¥ —**	¥ 365,473	**$ —**
Written-Off Claims	**29**	948	**241**
Loss on Sales of Stocks and Other Securities	**304**	145,531	**2,460**
Loss on Devaluation of Stocks and Other Securities	**1,394**	2,215	**11,256**
Loss on Money Held in Trust	**1,587**	20,356	**12,809**
Equity in Net Loss of Affiliates	**82**	653	**663**
Loss on Disposal of Premises and Equipment	**4,604**	1,607	**37,162**
Expenses Related to Withdrawal from Overseas Business	**—**	6,250	**—**
Loss on Transfer to the RCC of Inappropriate Assets (*1)	**—**	678,206	**—**
Loss on Transfer of the Balance of the Temporary Payment for Additional Corporate Tax (*2)	**—**	137,208	**—**
Prior Year Adjustment of Interest Swap Cancellations (*3)	**—**	28,485	**—**
Loss on Sales of Loans to CCPC	**—**	23,924	**—**
Loss on Sales of Loans to Overseas Companies	**—**	8,693	**—**
Loss on from Write-Off of Due from DIC (*4)	**4,868**	—	**39,296**
Loss on Sales of Loans Other than Inappropriate Assets	**—**	15,215	**—**
Provision of Reserve for Derivative-Related Credit Risk (*5)	**—**	1,295	**—**
Other (*4)	**7,688**	22,949	**62,054**
Total	**¥20,560**	¥1,459,017	**$165,941**

Notes: (*1) The loss on assets sold to the RCC, which the Financial Revitalization Commission determined to be inappropriate for the Bank to hold, except the tax-related asset transferred to the RCC as described in (*2) below, including other losses that arose due to trading and other specified transactions which the Bank contracted with counterparties

(*2) This loss was incurred on the transfer of the balance of the temporary payment for additional corporate tax of ¥133,317 million, that was included in other assets in the previous fiscal year, and other refundable taxes transferred to the RCC.

(*3) Prior year adjustment of interest swap cancellations that were made in the previous fiscal year for which the gain for the full remaining period was recognized in the previous fiscal year was made in order to allocate the gain over the remaining period of cancelled interest rate swaps.

(*4) Due from DIC was a claim for the compensation of losses incurred during the temporary nationalization period pursuant to Article 62 and 72 of the Financial Revitalization Law. This loss was incurred as a result of the settlement pursuant to an agreement dated January 5, 2001, between the Bank, DIC and the New LTCB Partners C.V.

(*5) The Bank established a reserve for credit risk on non-listed derivatives held in non-trading accounts from fiscal 1999. For fiscal 2000, credit risk is reflected in fair value of derivatives by adoption of the Accounting Standard for Financial Instruments.

27. Lease Transactions

(1) Finance lease transactions, under which the ownership of the property is not deemed to transfer to the lessee, at March 31, 2001 and 2000, consisted of the following:

As Lessee

Acquisition cost, accumulated depreciation and net balance of the leased property at March 31, 2001 and 2000, were as follows:

Leased Assets	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Acquisition Cost:			
Equipment	**¥3,585**	¥6,980	**$28,936**
Other	**813**	1,173	**6,567**
Total	**¥4,398**	¥8,153	**$35,503**
Accumulated Depreciation:			
Equipment	**¥2,043**	¥3,861	**$16,496**
Other	**532**	681	**4,300**
Total	**¥2,576**	¥4,542	**$20,796**
Net Balance:			
Equipment	**¥1,541**	¥3,118	**$12,440**
Other	**280**	492	**2,267**
Total	**¥1,822**	¥3,611	**$14,707**

Lease obligations at March 31, 2001, consisted of the following:

	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Obligations:			
Due within One Year	**¥ 849**	¥1,609	**$ 6,858**
Due after One Year	**1,048**	2,145	**8,462**
Total	**¥1,898**	¥3,754	**$15,320**

Total lease payments during fiscal 2000 and 1999 were ¥1,518 million and ¥1,901 million, respectively, and depreciation was ¥1,425 million and ¥1,772 million.

Depreciation is calculated using the straight-line method over the life of the respective leased assets with zero residual value.

As Lessor

Acquisition cost, accumulated depreciation and net balance of leased property at March 31, 2001 and 2000, were as follows:

Leased Assets	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Acquisition Cost:			
Equipment	**¥25,496**	¥—	**$205,780**
Other	**3,123**	—	**25,212**
Total	**¥28,619**	¥—	**$230,991**
Accumulated Depreciation:			
Equipment	**¥ 279**	¥—	**$ 2,260**
Other	**—**	—	**—**
Total	**¥ 279**	¥—	**$ 2,260**
Net Balance:			
Equipment	**¥25,216**	¥—	**$203,520**
Other	**3,123**	—	**25,211**
Total	**¥28,339**	¥—	**$228,732**

Future lease payment receivables as of March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Receivables:			
Due within One Year	**¥13,481**	¥—	**$108,812**
Due after One Year	**14,901**	—	**120,268**
Total	**¥28,383**	¥—	**$229,080**

Total lease revenues during fiscal 2000 were ¥39 million and depreciation was ¥36 million.
Depreciation is calculated using the straight-line method over the lease term with zero residual value.

(2) Non-cancelable operating leases as lessee at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Obligations:			
Due within One Year	**¥0**	¥8	**$ 6**
Due after One Year	**2**	1	**24**
Total	**¥3**	¥9	**$30**

28. Segment Information

(a) Business Segment Information
The Bank and its subsidiaries are engaged in banking and other related activities such as the trust and other business. Such segment information, however, has not been presented as the percentages of other activities are not material to the banking business.

(b) Geographic Segment Information
Since more than 90 percent of the Bank's business activities are conducted in Japan, geographic segment information is not presented.

29. Income Taxes

The Bank is subject to a number of taxes based on income, such as the corporation tax, inhabitants tax and enterprise tax, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.7% for fiscal 2000 and 40.8% for fiscal 1999.

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Income Taxes (Corporation, Inhabitants and Enterprise) (a)	**¥ 499**	¥ (260)	**$ 4,031**
Income before Income Taxes and Minority Interests (b)	**¥90,958**	¥111,098	**$734,126**
Actual Effective Tax Rate (a)/(b) (%)	**0.6%**	(0.2)%	**0.6%**

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for fiscal 2000 and 1999 was as follows:

	2000	1999
Normal Effective Statutory Tax Rate	**38.7%**	40.8%
Increase (Decrease) in Taxes Resulting from:		
Permanently Non-Deductible Expenses	**0.1**	0.0
Non-Taxable Dividends Received	**(0.4)**	(2.7)
Write-Off of Temporary Payment for Additional Corporate Tax	—	52.9
Increase in Loss Carryforward Determined by Tax Assessment	—	(94.3)
Valuation Allowance	**(42.8)**	(22.3)
Change in Enacted Tax Rate	**4.2**	27.8
Other	**0.7**	(2.5)
Effective Income Tax Rate (%)	**0.6%**	(0.2)%

The tax effects of significant temporary differences and loss carryforwards, which resulted in deferred income taxes (assets and liabilities), at March 31, 2001 and 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Deferred Tax Assets:			
Reserve for Loan Losses	**¥ 159,142**	¥ 281,632	**$ 1,284,443**
Tax Loss Carryforwards	**269,953**	168,404	**2,178,802**
Securities	**2,272**	27,377	**18,338**
Unamortized Gain on Swap Cancellation	**7,105**	10,966	**57,349**
Reserve for Retirement Benefits	**7,056**	5,491	**56,954**
Non-Accrued Interest on Non-Performing Loans	—	1,785	—
Not Currently Deductible Liabilities	—	1,784	—
Past Service Cost for Retirement of Pension Plan	—	1,157	—
Other	**11,043**	4,323	**89,133**
Subtotal	**456,573**	502,921	**3,685,018**
Valuation Allowance	**(456,543)**	(494,987)	**(3,684,776)**
Total Deferred Tax Assets	**30**	7,933	**242**
Deferred Tax Liabilities:			
Due from DIC	—	7,933	—
Unrealized Gains on Securities Available-for-Sale	**10,084**	—	**81,391**
Total Deferred Tax Liabilities	**10,084**	7,933	**81,391**
Net Deferred Tax Assets	**30**	—	**242**
Net Deferred Tax Liabilities	**¥ 10,084**	¥ —	**$ 81,391**

30. Off-Balance Sheet Lending-Related Financial Instruments

The Bank issues commitments to extend credit and establishes credit lines for overdraft by making agreements to meet the financing needs of its customers. Unfunded amounts of these commitments are ¥1,590,303 million, with the remaining agreement term is less than one year of ¥1,578,467 million. Since a large majority of these commitments expire without being draw upon, the unfunded amounts do not necessary represent future cash requirements. Many of such agreements include conditions to the effect that the Bank has the right to reject the draw down or to reduce the amount depending on changes in financial circumstances, protection of claims or other reasonable grounds.

In addition, the Bank obtains collateral when necessary to reduce credit risk related to these commitments.

31. Related Party Transactions

Related party transactions for the years ended March 31, 2001 and 2000, are as follows:

			Amounts of the Transactions		
			Millions of Yen		Thousands of U.S. Dollars
Related Party	Category	Description of the Transactions	**2001**	2000	**2001**
Ripplewood Holding Management L.L.C. (*1)	Companies in which the majority vote is owned by directors	Expense for advisory service	**¥ 472**	¥ 1,110	**$ 3,813**
JCF Management L.L.C. (*2)	Companies in which the majority vote is owned by directors	Expense for advisory service	**176**	1,110	**1,421**
JCF Management LP (*2)	Companies in which the majority vote is owned by directors	Expense for advisory service	**334**	—	**2,698**
New LTCB Partners C.V.	Major stockholder	Income from investors for costs incurred in previous year (*3)	**2,100**	—	**16,949**
Resolution and Collection Corporation	Major stockholder	Time deposit	**140,000**	—	**1,129,944**
New (LTCB) BV (*4)	Companies in which the majority vote is owned by directors	Expenses for advisory service	**—**	2,691	**—**
Deposit Insurance Corporation	Major stockholder	Gain on sale of stocks and other equity-related securities	**—**	252,935	**—**
		Loss on sale of stocks and other equity-related securities	**—**	125,466	**—**
		Income from special monetary support	**—**	821,671	**—**
		Interest on borrowings	**—**	8,880	**—**

Notes: (*1) A director of the Bank, Mr. Timothy C. Collins, essentially holds the majority vote and serves concurrently as senior managing director and CEO of the company.

(*2) A director of the Bank, Mr. J. Christopher Flowers, essentially holds the majority vote and serves concurrently as a member of the companies.

(*3) The investors to New LTCB Partners C.V. (Partners) assumed the cost of the fee in the amount of ¥2,100 million, which was paid to Ripplewood Holdings Management L.L.C. and JCF Management L.L.C. in fiscal 1999.

(*4) Two directors of the Bank, Mr. Timothy C. Collins and Mr. J. Christopher Flowers, essentially hold the majority vote and serve concurrently as managing directors of the company.

32. Derivative Financial Instruments

Purposes

The Bank and its subsidiaries use derivative financial instruments primarily to hedge risks for customers and to manage the potential risks in its own portfolio of assets and liabilities as part of its asset and liability management.

Risk Exposure

Derivative transactions may be subject to complex risk factors, including market risk, credit risk, liquidity risk, operational risk, legal risk, etc. The Bank controls these risks under its risk management system. To manage market risk, the Bank and its subsidiaries use value-at-risk (VaR) modeling to quantify the maximum total exposure. In the internal model, the VaR is measured based on one year of historical data and the assumptions of a ten-day holding period and a 99% confidence interval. According to this model, the maximum VaR due to general market risk in the Bank's trading account, including derivatives, was ¥407 million in fiscal 2000, the minimum was ¥113 million and the average was ¥233 million. In fiscal 1999, the maximum VaR was ¥260 million, the minimum was ¥90 million and the average was ¥140 million. To manage credit risk, the Bank utilizes the current exposure and potential exposure, particularly for OTC derivatives such as swap transactions. The consolidated credit risk amount under the capital adequacy ratio for domestic banking was calculated as ¥306.9 billion
and ¥321.8 billion as of March 31, 2001 and 2000, respectively.

Risk Management System

The Risk Management Division, which is independent of the front office, is responsible for risk management for the entire Bank. This division controls the market risk measures on a daily basis, monitors the market risk status on both the Banking and Trading divisions and reports to the directors in charge periodically. Credit risk is also controlled by the unified credit line established for major derivative products. Credit exposure is monitored accordingly and the Bank may require collateral, etc. to reduce credit risk as the case may be.

It should be noted that the nominal contract value or notional principal amount is used in determining the value of receipts or payments of interest and as an indicator representative of the volume of transactions, but those values do not necessarily reflect market risk or credit risk, etc.

(a) Interest Rate-Related Transactions

	Millions of Yen			
	Contractual Value or Notional Principal Amount			
At March 31, 2001	Total	Maturity over One Year	Market Value	Unrealized Gain (Loss)
Forward Rate Agreements (Listed):				
Sold	¥ 15,996	¥ —	¥ 15,964	¥ (1)
Bought	58,917	1,468	58,951	34
Interest Rate Swap (Over-the-Counter):				
Receive Fixed and Pay Floating	5,306,030	3,569,858	256,094	256,094
Receive Floating and Pay Fixed	4,378,647	3,027,089	(200,877)	(200,877)
Receive Floating and Pay Floating	322,173	259,042	2,364	2,364
Receive Fixed and Pay Fixed	5,302	4,302	41	41
Interest Rate Options (Over-the-Counter):				
Sold	428,154	364,597	(2,846)	(2,846)
Bought	214,443	187,200	938	938
Total			¥ 130,630	¥ 55,747

At March 31, 2001	Thousands of U.S. Dollars: Contractual Value or Notional Principal Amount: Total	Maturity over One Year	Market Value	Unrealized Gain (Loss)
Forward Rate Agreements (Listed):				
Sold	$ 128,864	$ —	$ 128,850	$ (15)
Bought	475,521	11,849	475,799	279
Interest Rate Swap (Over-the-Counter):				
Receive Fixed and Pay Floating	42,825,109	28,812,418	2,066,943	2,066,943
Receive Floating and Pay Fixed	35,340,176	24,431,713	(1,621,286)	(1,621,286)
Receive Floating and Pay Floating	2,600,268	2,090,740	19,080	19,080
Receive Fixed and Pay Fixed	42,800	34,729	333	333
Interest Rate Options (Over-the-Counter):				
Sold	3,455,572	2,942,672	(22,973)	(22,973)
Bought	1,730,778	1,510,896	7,573	7,573
Total			**$ 1,054,319**	**$ 449,993**

(1) Derivatives mentioned above were marked to market and the unrealized gains and losses were reported in the consolidated statements of income. Derivatives for which hedge accounting was adopted were excluded from the table above.

(2) Market Values:
The market values listed represent the closing price on the Tokyo International Financial Futures Exchange and other exchanges at the consolidated balance sheet date. The market values of over-the-counter transactions are calculated mainly by using the discounted present value or an option pricing model.

(b) Currency-Related Transactions

At March 31, 2001	Millions of Yen: Contractual Value or Notional Principal Amount: Total	Maturity over One Year	Market Value	Unrealized Loss
Currency Swaps:				
Total	**¥897,139**	**¥583,535**	**¥(5,970)**	**¥ (5,970)**

At March 31, 2001	Thousands of U.S. Dollars: Contractual Value or Notional Principal Amount: Total	Maturity over One Year	Market Value	Unrealized Loss
Currency Swaps:				
Total	**$7,240,837**	**$4,709,732**	**$(48,191)**	**$(48,191)**

(1) Derivatives mentioned above were marked to market and the unrealized gains and losses were reported in the consolidated statements of income. Swaps for which hedge accounting was adopted and are mentioned in (3) below were excluded from the table above.

(2) Market values:
Market values are calculated by using discounted present value.

(3) Certain swaps were accounted for on an accrual basis based on the report issued by the Japanese Institute of Certificate Public Accountants, "Tentative Treatments in Audit for Banks on Applications of New Accounting Standard for Foreign Exchange Transactions," dated April 10, 2000.

Contract value or notional principal of the currency swaps described in (3) above are as follows:

At March 31, 2001	Millions of Yen: Contractual Value or Notional Principal Amount: Total	Market Value	Unrealized Loss
Currency Swaps:			
Total	**¥207,129**	**¥(12,665)**	**¥(12,655)**

At March 31, 2001	Thousands of U.S. Dollars		
	Contractual Value or Notional Principal Amount		
	Total	Market Value	Unrealized Loss
Currency Swaps:			
Total	**$1,671,747**	**$(102,226)**	**$(102,226)**

Forward foreign exchange contracts and currency options that were market to market and reported in the consolidated statements of income based on "Applications of New Accounting Standard for Foreign Exchange Transactions" were excluded from the table mentioned on page 60.

Contract value of the forward foreign exchange contracts and currency options described above are as follows:

At March 31, 2001	Millions of Yen	Thousands of U.S. Dollars
	Contractual Value	Contractual Value
Foreign Exchange		
Forward Contracts:		
Sold	**¥212,472**	**$1,714,872**
Bought	**106,105**	**856,380**
Currency Options:		
Sold	**23,156**	**186,896**
Bought	**24,706**	**199,403**

(c) Equity-Related Transactions

The Bank and its subsidiaries have no outstanding positions arising from equity-related transactions.

(d) Bond-Related Transactions

At March 31, 2001	Millions of Yen		Thousands of U.S. Dollars	
	Notional Principal Amount	Market Value	Notional Principal Amount	Market Value
Bond Futures (Listed):				
Sold	**¥1,492**	**¥1,491**	**$12,049**	**$12,038**
Bought	—	—	—	—

(1) Derivatives mentioned above were marked to market and the unrealized gains and losses were reported in the consolidated statements of income.

(2) Market values:
The market values listed represent the closing price on the Tokyo International Financial Futures Exchange and other exchanges at the consolidated balance sheet date.

(e) Commodity Derivatives Transactions

The Bank and its subsidiaries have no outstanding positions arising from commodity derivatives transactions.

(f) Credit Derivatives Transactions

The Bank and its subsidiaries have no outstanding positions arising from credit derivatives transactions.

33. Subsequent Event

The following appropriation of earned surplus of the Bank for fiscal 2000 was approved at the stockholders' meeting held on June 29, 2001.

	Millions of Yen	Thousands of U.S. Dollars
Transfer to Legal Reserve	**¥1,378**	**$11,122**
Dividends:		
Series 2 Preferred (¥13.00 per Share)	**968**	**7,820**
Series 3 Preferred (¥4.84 per Share)	**2,904**	**23,438**
Common (¥1.11 per Share)	**3,015**	**24,342**
Total	**¥8,266**	**$66,722**

Independent Auditors' Report

Deloitte Touche Tohmatsu

To the Board of Directors and Stockholders of
Shinsei Bank, Limited

We have audited the accompanying consolidated balance sheets of Shinsei Bank, Limited (the "Bank") and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan and 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial position of the Bank and subsidiaries at March 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 2 to the consolidated financial statements, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions.

Our audit 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

Tokyo, Japan
June 29, 2001

Non-Consolidated Balance Sheets

Shinsei Bank, Ltd.
March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
ASSETS			
Cash and Due from Banks	**¥ 558,891**	¥ 1,969,712	**$ 4,510,825**
Call Loans	**276,000**	363,492	**2,227,603**
Other Debt Purchased	**20**	1,189	**165**
Trading Assets	**596,450**	785,219	**4,813,971**
Money Held in Trust	**154,638**	—	**1,248,095**
Securities	**2,052,403**	2,810,164	**16,564,997**
Loans and Bills Discounted	**6,183,585**	7,704,725	**49,907,870**
Foreign Exchanges	**10,771**	14,294	**86,939**
Other Assets	**374,237**	365,021	**3,020,479**
Premises and Equipment	**28,482**	35,631	**229,880**
Deferred Discounts on and Issuance Expenses for Debentures	**1,062**	1,236	**8,574**
Customers' Liabilities for Acceptances and Guarantees	**378,993**	571,997	**3,058,864**
Reserve for Loan Losses	**(564,290)**	(866,981)	**(4,554,400)**
Total Assets	**¥10,051,246**	¥13,755,705	**$81,123,862**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Debentures	**¥ 3,483,957**	¥ 6,481,884	**$28,119,109**
Deposits, Including NCDs	**3,302,808**	2,824,226	**26,657,051**
Call Money	**255,200**	245,206	**2,059,726**
Commercial Paper	**62,000**	500	**500,404**
Trading Liabilities	**491,856**	564,910	**3,969,785**
Borrowed Money	**773,458**	1,093,646	**6,242,599**
Foreign Exchanges	**142**	270	**1,151**
Other Liabilities	**692,113**	1,486,654	**5,586,067**
Reserve for Derivative-Related Credit Risk	**—**	1,295	**—**
Reserve for Retirement Benefits	**19,322**	15,255	**155,953**
Reserve for Loss on Disposition of Premises and Equipment	**3,844**	—	**31,025**
Other Reserve	**—**	0	**—**
Deferred Tax Liability	**10,084**	—	**81,391**
Acceptances and Guarantees	**378,993**	571,997	**3,058,864**
Total Liabilities	**9,473,781**	13,285,849	**76,463,125**
Stockholders' Equity:			
Capital Stock:			
Common Stock	**180,853**	180,853	**1,459,675**
Preferred Stock	**270,443**	48,443	**2,182,754**
Preferred Stock Subscription	**—**	240,000	**—**
Capital Surplus	**18,558**	281,413	**149,785**
Earned Surplus (Deficit)	**91,267**	(280,854)	**736,625**
Net Unrealized Gain or Loss on Securities Available-for-Sale, Net of Taxes	**16,342**	—	**131,898**
Total Stockholders' Equity	**577,465**	469,855	**4,660,737**
Total Liabilities and Stockholders' Equity	**¥10,051,246**	¥13,755,705	**$81,123,862**

Non-Consolidated Statements of Income

Shinsei Bank, Ltd.
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Income			
Interest Income	**¥214,418**	¥ 249,946	**$1,730,579**
Interest on Loans and Discounts	**167,174**	209,750	**1,349,266**
Interest and Dividends on Securities	**21,953**	25,126	**177,185**
Interest on Deposits with Banks	**12,182**	7,980	**98,325**
Other Interest Income	**13,109**	7,088	**105,803**
Fees and Commissions	**12,222**	8,431	**98,652**
Trading Revenue	**2,340**	591	**18,891**
Other Operating Income	**3,336**	7,731	**26,929**
Other Income	**75,235**	1,613,163	**607,225**
Total Income	**307,554**	1,879,863	**2,482,276**
Expenses			
Interest Expenses	**126,599**	231,435	**1,021,789**
Interest and Discounts on Debentures	**72,246**	140,470	**583,106**
Interest on Deposits	**16,296**	28,728	**131,526**
Interest on Borrowings and Rediscounts	**29,211**	49,801	**235,769**
Interest on Commercial Paper	**53**	8	**430**
Other Interest Expenses	**8,791**	12,427	**70,958**
Fees and Commissions	**2,231**	5,178	**18,010**
Trading Expenses	**—**	313	**—**
Other Operating Expenses	**3,695**	16,665	**29,827**
General and Administrative Expenses	**63,163**	61,116	**509,795**
Other Expenses	**20,373**	1,454,209	**164,436**
Total Expenses	**216,063**	1,768,919	**1,743,857**
Income before Income Taxes	**91,490**	110,943	**738,419**
Income Taxes	**222**	1,088	**1,794**
Net Income	**¥ 91,267**	¥ 109,855	**$ 736,625**
Net Income per Common Share (in Yen and U.S. Dollars)	**¥ 32.17**	¥ 44.99	**$ 0.26**
Diluted Net Income per Common Share (in Yen and U.S. Dollars)	**¥ 21.55**	¥ 36.60	**$ 0.17**

Non-Consolidated Statements of Earned Surplus (Deficit)

Shinsei Bank, Ltd.
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	1999
Balance at Beginning of Year	**¥(280,854)**	¥(749,553)	**$(2,266,785)**
Appropriation:			
Transfer from Legal Reserve	**280,854**	358,843	**2,266,785**
Dividends Paid	**—**	—	**—**
Net Income	**91,267**	109,855	**736,625**
Balance at End of Year	**¥ 91,267**	¥(280,854)	**$ 736,625**

Summary of the Share Purchase Agreement (February 9, 2000)

The following is a translation of a Summary of the final Share Purchase Agreement for the sale of the former Long-Term Credit Bank of Japan, Ltd.

1. Basic Nature of the Final Agreement

(1) The Deposit Insurance Corporation (hereinafter referred to as "DIC"), The Long-Term Credit Bank of Japan, Ltd. (hereinafter referred to as "LTCB"), and New LTCB Partners C.V. (hereinafter referred to as "Partners") agreed and executed the Share Purchase Agreement (hereinafter, "Agreement") summarized herein on February 9, 2000. [Preamble to Agreement]

(2) Under the Agreement, Partners will purchase approximately 2.4 billion issued and outstanding common shares in LTCB for ¥1 billion and 300 million new common shares in LTCB for ¥120 billion on a date, scheduled for March 1, 2000 (hereinafter the "Closing"). [Article 1]

(3) Partners will fulfill its obligations related to the Closing and concomitant transactions under certain conditions, which include the payment of an offset of deficit and a monetary donation by DIC, the occurrence of no developments having a material adverse effect on LTCB, and the absence of any breach of the provisions of the Agreement on the part of DIC or LTCB, which has a material adverse effect on LTCB on or prior to the Closing. [Article 4.1]

(4) DIC will fulfill its obligations related to the Closing and concomitant transactions under certain conditions, which include the absence of any material breach of the provisions of the Agreement on the part of Partners that has a material adverse effect and the absence of any breach of Partners' representation to submit the list of proposed directors on or prior to the Closing. [Article 4.2]

(5) Except in the event that the parties to the Agreement decide to postpone the Closing, the Agreement will terminate if not executed by June 1, 2000. However, if DIC and Partners agree in writing, the Agreement can terminate. If the Closing does not take place on the specified date as a result of non-satisfaction of the conditions specified in (3) and (4), all the parties to the Agreement shall make their best endeavor to satisfy such condition(s). [Article 12]

2. Method of Acquisition, Payment, and Related Matters

(1) Partners will purchase from DIC within the issued and outstanding shares of LTCB (which comprise approximately 2.4 billion common shares and 100 million preferred shares) the full amount of common shares (excluding 212 shares that are less than the minimum trading unit of 1,000 shares) for consideration of ¥1 billion. [Article 3.1]

(2) DIC will continue to hold approximately 74.5 million issued and outstanding preferred shares of LTCB, and the remaining approximately 25.5 million preferred shares will be canceled without compensation. [Article 3.2]

Note: The outstanding preferred shares were originally underwritten by the Resolution and Collection Bank (so-called at that time) under the provisions of the Law Concerning Special Measures for Early Stabilization of Finance (repealed) for consideration of ¥130 billion. Accompanying the commencement of the temporary nationalization of LTCB, these shares were transferred to DIC without consideration. The current terms of these preferred shares are: Dividend rate, 1% per annum; convertible to common shares at a conversion price of ¥180 per share, which became effective on October 1, 1999, and remains in effect through mandatory conversion; mandatory conversion date, 2008, but conversion is possible at any time before that date.

3. Capital Reinforcement and Capital Ratio

(1) Partners will subscribe for 300 million newly issued common shares of the Reprivatized LTCB for consideration of ¥120 billion (¥400 per share). [Article 3.2]

(2) The Reprivatized LTCB will request the government to subscribe to 600 million newly issued nonvoting, preferred, and non-par value shares for consideration of ¥240 billion (¥400 per share). These shares will be issued under the Law concerning Earlier Sound Operation of Financial Functions and with the condition that the Reprivatized LTCB is a financial institution categorized as having sound shareholder equity (subject to the condition that as of the date of approval, the Reprivatized LTCB will have achieved a capital adequacy ratio of 4%). Other terms and conditions of this issue will be as follows. [Article 3.2 and 3.4]

- Holders may convert the preferred shares into common shares on or after the August 1 following the fifth anniversary of the date of issuance.
- On the August 1 following the fifth, sixth, and seventh anniversaries of the date of issuance, the conversion price will be adjusted to the lower of ¥400 or market price (or net asset value per share prior to listing) but under no circumstances will the conversion price be less than ¥300 per share.
- Conversion of the preferred shares will be mandatory on the August 1 following the seventh anniversary date of the issuance.
- Dividends will be decided by the Financial Reconstruction Commission (hereinafter "FRC").

Note: After conversion of the outstanding preferred shares mentioned in 2. (2), the maximum percentage of ownership by DIC will be 33.0%.

(3) The capital adequacy ratio will be approximately 13% (on the basis described as follows, which is after realization of unrealized gains on shareholdings).

4. Offset of the Deficit by DIC and Related Matters

(1) DIC will make an offset of the deficit and a monetary donation based on the Temporary Nationalization Account of the non-consolidated balance sheet of LTCB. The balance sheet will be prepared based on Japanese GAAP applicable to the fiscal year ending March 31, 2000. [Article 2.1 and 2.2]

(2) DIC will make an initial payment to LTCB prior to the Closing based on the Preliminary Base Date Balance Sheet (scheduled for February 29, 2000, the date prior to the Closing) under Articles 62 and 72 of the Financial Reconstruction Law. Following the Closing, the final payment will be confirmed and adjustment will be made based on the Definitive Base Date Balance Sheet. [Article 2.3 and 2.4]

(3) The Definitive Base Date Balance Sheet will be prepared by LTCB and audited by LTCB's independent public accounting firm, then presented to Partners following approval by DIC. Partners will have its accounting firm examine the balance sheet, and, if there are differences of opinion regarding any items (other than loan assets and certain other items) the accounting firm appointed by Partners will discuss the points of difference with LTCB's accounting firm. If the discussions do not resolve the differences, a third accounting firm will be asked to provide an opinion. DIC and Partners will respect the judgment of the third accounting firm. However, rights to file a suit to solve the difference of opinions should be reserved by both parties. [Article 2.4]

(4) If the receipt by LTCB of any payments from DIC result in a duty to pay corporate income or other taxes, this will be taken into consideration in setting the final amount of the offset of the deficit and monetary donation. [Article 2.5]

5. Treatment of Shares Held by LTCB

(1) Listed shares held by LTCB will be sold as provided for in items (2) through (7) below. The unrealized value of these shares, a total of ¥250 billion will be realized and used to boost the capital of the Reprivatized LTCB.

(2) LTCB has prepared a list of its shareholdings as of January 31, 2000, and provided it to Partners, showing the issuer, the number, the book value, and the market value on that date. Those shares showing unrealized losses on that date will be sold before the Closing to DIC (if they are the type of shares covered in (5) below) or sold in the market. (The sales price to DIC will be that shown in the list.) [Article 7.1]

(3) Partners will select listed shares from the list prepared by LTCB that have sufficient unrealized gains to raise the capital ratio of the Reprivatized LTCB to 4%, and these will be designated Shares for First Sale. Partners will then prepare a list of Shares for Second Sale with total unrealized gains equivalent to the gains obtained from the first sales subtracted from ¥250 billion. Partners will notify DIC and LTCB of the content of these lists of shares for sale. [Article 7.3]

(4) Listed stocks with unrealized gains other than those in the Shares for First Sale and Shares for Second Sale will be sold prior to the Closing. Shares for First Sale will be sold on the day of the Closing, and Shares for Second Sale will be sold within 90 days following the Closing. These stocks will be sold to DIC (if they are the type of shares covered in (5) below) or in the market. (Whether sales will be made to DIC or into the market will be decided at the time that the list mentioned in (3) is prepared.) Sales to DIC will all be made at the prices contained in the list. [Article 7.4]

(5) Shares whose ownership is deemed necessary for the businesses of the Reprivatized LTCB will be purchased by DIC and then entrusted to LTCB Trust & Banking. DIC will not sell these shares for five years without the consent of the Reprivatized LTCB. The nominal ownership and actual voting rights of these shares will be retained by LTCB or LTCB Trust & Banking, and the Reprivatized LTCB will be able, in principle, to purchase these from DIC at a fair price at any time. In the event the purchase of these shares from DIC results in a loss for DIC, DIC will have the right to refuse such purchase requests from the Reprivatized LTCB. (When these shares enter their fifth year or longer of being held in trust and DIC refuses an offer from the Reprivatized LTCB to sell, the term in trust will be extended one year from the time of refusal. The same pertains to refusals made during the period of extension.) However, for specified stocks for which LTCB gives notice in writing (up to two notifications are possible) following such notice DIC may sell the specified stocks without the consent of LTCB. In such cases, for a period of five years from the date these shares are so specified, LTCB will have first priority purchase rights for such stocks (the right to purchase such stocks on the same conditions as the most favorable offer to DIC from a third party). [Article 7.6]

(6) LTCB may sell those stocks not necessary for its businesses at a fair price into the market or to DIC (as specified in (7) below). In the event DIC purchases such stocks, it will not be obligated to place these in trust with LTCB Trust & Banking. [Article 7.6]

(7) When LTCB is thinking of selling stocks held by LTCB to a third party, consultations shall be held with DIC in advance. DIC will not oppose such sales, but it will have the right, depending on stock market conditions, to designate itself as a purchaser, and purchases of such stocks can be made at fair market price. [Article 7.5]

(8) LTCB will endeavor to sell unlisted stock—with the exceptions of shares of designated subsidiaries, restricted shares (fractional shares, numbers of stock less than the trading unit, and shares which cannot be sold for legal reasons for at least five years even with the consent of the issuer), and shares of failed issuers—prior to the Closing and for five years following the Closing to DIC or third parties. The profit or loss on such sales (the difference between the fair price at the time of sale and the value at the base date) over the five-year period following the Closing will belong to DIC. For such stock that cannot be sold, the difference five years after the Closing between the fair price and the book value on the base date will belong to DIC. [Article 7.1 and 7.2]

(9) LTCB will continue to hold shares of designated subsidiaries, restricted shares, and shares of failed issuers. [Article 7.1]

6. Sale of Reprivatized LTCB Shares Held by DIC

(1) When the market value of shares in the Reprivatized LTCB held by DIC exceeds ¥500 billion, the Reprivatized LTCB can request DIC to sell a certain number of its common shares at fair market price and to convert the preferred shares held by DIC into common stock. [Article 3.5]

Notes: 1. If the price of the Reprivatized LTCB's common stock reaches ¥440 per share, the market value of stock held by DIC on a common stock conversion basis will reach ¥500 billion.
2. If the price of the Reprivatized LTCB's common stock rises to ¥465 per share and all preferred shares mentioned in 2. (2) above are converted to common shares at this price and then sold, the capital gain of DIC on outstanding preferred shares would be ¥250 billion.

(2) Consent to such requests shall not be unreasonably withheld by DIC. [Article 3.5]

7. Continuous Ownership of Loan-Related Assets

(1) The Reprivatized LTCB will retain ownership of all loan-related assets that were determined by the FRC to be "assets appropriate for LTCB to continue to own" (hereinafter, "Appropriate Assets"). [Article 10]

(2) For the Reprivatized LTCB to maintain good relationships with borrowers of loan-related assets, Partners represents that it will have the Reprivatized LTCB manage its loans based on the following basic policies for at least three years from the Closing. Specifically, unless compelling reasons otherwise require, the Reprivatized LTCB (i) will not sell the loan-related assets, (ii) will not collect loans abruptly, and (iii) will meet the proper finance needs of borrowers by, for example, renewals and provision of seasonal funds. [Article 11]

Notes: 1. The term "not collect abruptly" in (2) above means that the Reprivatized LTCB will honor borrowers' contractual rights in respect of the relevant due date and will not change the due date adversely against the borrower.
2. Instances of "compelling reasons" referred to above shall mean in the case of (i) arranging loan participations, securitization of loans, and other similar activities that are undertaken for providing supplementary sources of financing for the Reprivatized LTCB's operations and are not contrary to the intent of protecting the borrower. In the cases of (ii) and (iii), compelling reasons include circumstances where it is reasonably foreseeable that the Reprivatized LTCB would incur losses if it did not collect or it consented to renewals.

8. Reserves

Reserves will be provisioned according to the results of self-assessments conducted under the Financial Inspection Manuals issued by the Financial Supervisory Agency and the reserve guidelines established by the Japanese Institute of Certified Public Accountants.

9. Warranty of Loan-Related Assets

(1) Under the Agreement, DIC will be deemed to have transferred loan-related assets to the Reprivatized LTCB as of the Closing. [Article 8.1(1)]

(2) If, during the three years after the Closing, a Defect is found with respect to any loan-related assets and the value of the asset declines 20% or more, the Reprivatized LTCB shall have the right to cancel its purchase of such assets of the relevant borrower(s) by exercise of this right, retroactively to the Closing. [Article 8.1 (1)]

(3) If the cancellation right is exercised, the Reprivatized LTCB will transfer the asset to DIC, and DIC shall pay the Reprivatized LTCB the Original Value of the asset (after subtracting reserves set aside against the loan, hereinafter, "Original Value" shall mean the value of assets net of loan loss reserves). (If there have been repayments of principal, these will also be subtracted from Original Value.) [Article 8.2 (5)]

(4) The decline in asset value of 20% or more, mentioned in (2) above, shall mean that total Current Value (after deduction of reserves, hereinafter "Current Value" shall mean the value net of loan loss reserves) of all claims against a single borrower has declined 20% or more in comparison with Original Value. [Article 8.1 (4)]

(5) "Defect," mentioned in (2) above, shall mean that for those loans judged to be "Appropriate for LTCB to continue to own" by the FRC prior to Closing circumstances are deemed to have changed or become untrue within three years from the base date. Defects will not include those cases where event(s) causing the change or leading to circumstances no longer being true are attributable solely to Partners or the Reprivatized LTCB after the purchase of LTCB. [Article 8.1 (2)]

(6) In cases where the basis for judging certain assets to be Appropriate used by the FRC is not clearly indicated (for example, claims on normal borrowers are, in principle, deemed to be Appropriate), and certain objective event(s) indicating problems related to specific borrowers is (are) identified, such event(s) shall be deemed as prima facie evidence of the existence of a Defect. [Article 8.1 (2)]

Note: For example, if, within three years of the Closing, principal or interest on loans to a borrower classified immediately prior to the Closing as normal become overdue three months or longer, the Reprivatized LTCB can presume that a Defect exists.

(7) If the Reprivatized LTCB receives a formal request from a borrower for forgiveness of indebtedness and accepts this request, the cancellation rights can no longer be exercised by the Reprivatized LTCB for this borrower. [Article 8.1 (5)]

(8) Loan-related assets for which the cancellation right applies shall be those in excess of ¥100 million to a single borrower and shall apply to loan-related assets renewed and rolled over after the Closing, which are effectively the same as loan-related assets at the time of the Closing, but excluding new ones. [Article 8.1 (1)]

(9) If an event of force majeure, such as war, natural calamity, or economic depression, occurs within three years from the Closing leading to a deterioration of the condition of borrowers, the payment responsibilities of DIC will be limited. If an event that appears to be force majeure occurs, DIC and the Reprivatized LTCB shall hold discussions in good faith as to whether the event constitutes force majeure and whether the deterioration of the condition of the obligor was due to force majeure and then seek to determine a fair sharing of the burden between DIC and the Reprivatized LTCB. [Article 8.3]

(10) If cancellation rights are exercised, the Reprivatized LTCB shall give notice to DIC on a quarterly basis. If DIC does not consent to the Reprivatized LTCB's determination and discussions do not lead to a resolution of the disagreement, the matter will be considered by an independent accounting firm chosen jointly in agreement by DIC and the Reprivatized LTCB. Both parties will respect the results of the accounting firm's deliberations, but, in the event the dispute is not resolved, the parties may present the matter to courts of law. [Article 8.2]

(11) The Agreement also deals with the details of Defects in loan-related assets, including commitment lines and other arrangements. [Article 8.1 and other sections of the Agreement]

10. Measures to Reduce Credit Risk of Derivatives

DIC will reimburse the Reprivatized LTCB for losses incurred when counterparties to derivative transactions with LTCB go into bankruptcy or otherwise cannot meet their obligations. This applies to derivative transactions outstanding at the base date and covers losses of ¥5 billion or more incurred within five years from the Closing.

11. Board of Directors and Management [Article 9]

(1) Masamoto Yashiro is scheduled to become Chairman and Representative Director, President, and Chief Executive Officer.
(2) A majority of the directors will be Japanese nationals.
(3) The following are scheduled to become directors of the Board: Takashi Imai, Hirotaro Higuchi, Timothy Collins, and J. Christopher Flowers.
(4) Paul Volcker has consented to serve as senior advisor.

12. Representations and Indemnification [Article 5]

(1) As is common in corporate acquisition contracts, the Agreement includes representations and indemnification matters related to DIC and Partners.

Note: For example, DIC represents to Partners that certain matters related to LTCB are true and correct. These include compliance with relevant laws, possession of necessary permits and licenses for its operations, absence of violations of intellectual property rights, appropriateness and validity of its lending transactions, accuracy and fairness of its financial statements for the year ended March 31, 1999, and the six months ended September 30, 1999, accuracy of its tax returns, and other matters. Partners represents as true and correct the names of investors in Partners, the percentage ownership, authority, summary of the decision-making processes, and the adequacy of funds to complete the acquisition.

(2) DIC also agrees to indemnify Partners in the event that certain representations are subsequently found incorrect. For example, if there is any incorrectness of any of the representations for corporate tax, etc., with respect to LTCB that causes the Reprivatized LTCB to pay any corporate tax, etc., DIC guarantees to indemnify Partners if DIC's representations are found incorrect at any time during the five-year period following the Closing. For matters other than taxation, the period for indemnification is three years. (The Reprivatized LTCB must notify DIC of the exact circumstances—occurring within the three-year period—which lead to losses, but determination of the amount of damages through litigation may go beyond three years.) Indemnity for breach of representations for matters other than taxation shall not be paid if the total amount of damages is ¥5 billion or less, but when damages exceed ¥5 billion, DIC is liable to pay ¥100 million or more per breach of representation. Indemnification for corporate tax, etc., is based on the amount of tax actually paid.

(3) Partners is liable for breach of representations for three years following the Closing. (DIC must provide notice to Partners of any breach that occurs within the three-year period and leads to damages, but determination of the amount of damages through litigation may go beyond three years.) Indemnity for breach of representations shall not be paid if the total amount of damages is ¥5 billion or less, but, when damages exceed ¥5 billion, Partners is liable to pay ¥100 million or more per breach of representation.

13. Covenants [Article 6]

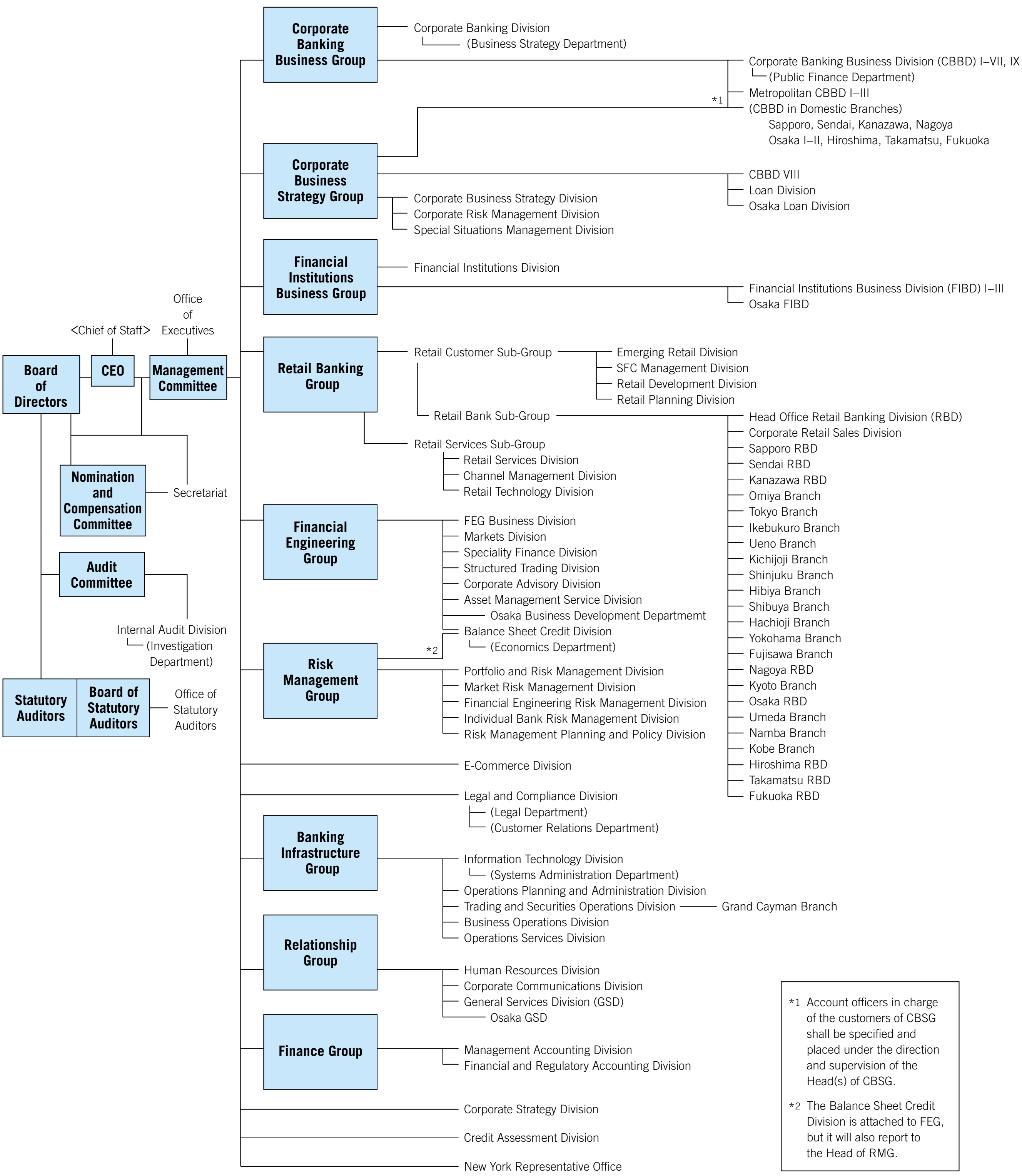
DIC and LTCB promise to abide by covenants that are normally included in corporate acquisition contracts from the time of the signing of the Agreement through the Closing.

Note: For example, DIC promises to cause LTCB to continue to operate its business in a proper manner consistent with sound banking practices. DIC also promises not to allow LTCB to sell important assets, with the exception of assets that are not Appropriate for LTCB to own, change its Articles of Incorporation, or engage in any action that would lead to breach of representations. For its part, LTCB promises not to conduct any capital-related transactions, such as stock splits or issuance of new stocks, incur any indebtedness that would be inconsistent with sound bank management, make any acquisition, or execute any contract or agreement which would have a material adverse effect. From the time of the signing of the Agreement through the Closing, LTCB must provide reasonable access to information related to LTCB's finances and operations in response to reasonable requests from Partners.

Notes: I. Information in brackets, such as [Article 6], refers to sections of the Agreement.
II. The source of the information contained herein is a document prepared by the Secretariat of the Financial Reconstruction Commission entitled Summary of the Final Agreement Regarding the Acquisition of The Long-Term Credit Bank of Japan.

Organization

As of July 2, 2001



Board of Directors

As of July 10, 2001

Title	*Name*	
Chairman and President	Masamoto Yashiro	
Senior Managing Director	Hidebumi Mori	
Senior Managing Director	David M. Fite	
Managing Director	Teruaki Yamamoto	
Director	Timothy C. Collins	CEO, Ripplewood Holdings, L.L.C.
Director	J. Christopher Flowers	Vice Chairman, The Enstar Group, Inc.
Director	Akira Aoki	Chairman, Japan Securities Finance Co., Ltd.
Director	Hirotaro Higuchi	Honorary Chairman, Asahi Breweries, Ltd.
Director	Takashi Imai	Chairman, Nippon Steel Corporation Chairman, Japan Federation of Economic Organizations
Director	Minoru Makihara	Chairman, Mitsubishi Corporation Vice Chairman, Japan Federation of Economic Organizations
Director	Nobuaki Ogawa	Lawyer
Director	Michael J. Boskin	Professor, Stanford University
Director	Emilio Botín	Chairman, Banco Santander Central Hispano S.A.
Director	Donald B. Marron	Chairman and CEO, UBS PaineWebber Group Inc.
Director	Martin G. McGuinn	Chairman and CEO, Mellon Financial Corporation
Director	David Rockefeller	Chairman, Rockefeller Center Properties, Inc. Trust

Board of Statutory Auditors

Title	*Name*	
Standing Statutory Auditor	Shunji Nishida	
Statutory Auditor	Akira Sudo	CPA
Statutory Auditor	Makiko Yasuda	Lawyer

Senior Advisers

Paul A. Volcker	
Vernon E. Jordan, Jr.	Managing Director, Lazard Frères & Co. L.L.C.

Corporate Executive Officers

Masamoto Yashiro	Chief Executive Officer
Hidebumi Mori	
David M. Fite	Head of Finance Group
K. Sajeeve Thomas	Chief of Staff, Head of Retail Banking Group and General Manager of Retail Customer Sub-Group
Teruaki Yamamoto	Head of Corporate Banking Business Group, Head of Corporate Business Strategy Group, and General Manager of Corporate Banking Division
Fumio Inaba	In Charge of East Japan
Kunihiko Shibano	General Manager of Osaka Branch and In Charge of West Japan
Koji Saito	General Manager of Corporate Banking Business Division IX
Brian F. Prince	Head of Financial Engineering Group, Head of Corporate Business Strategy Group, General Manager of FEG Business Division, General Manager of Structured Trading Division, General Manager of Balance Sheet Credit Division and General Manager of Corporate Advisory Division
Masazumi Kato	Head of Financial Institutions Business Group, General Manager of Financial Institutions Division and General Manager of Financial Institutions Business Division I
Satoru Katayama	General Manager of Retail Bank Sub-Group
Jun Daikuhara	General Manager of Asset Management Service Division
Janak Raj	Head of Risk Management Group and General Manager of Individual Bank Risk Management Division
Scott C. Galliher	General Manager of E-Commerce Division
Dhananjaya Dvivedi	Head of Banking Infrastructure Group, General Manager of Information Technology Division, General Manager of Systems Administration Department and General Manager of Retail Services Sub-Group
Koichiro Nakaya	Head of Relationship Group and General Manager of Human Resources Division
Tadashi Ishikuro	General Manager of Corporate Strategy Division

Major Subsidiaries and Affiliated Company

As of March 31, 2001

Major Subsidiaries	Voting Interest (%)
Shinsei Trust & Banking Co., Ltd.	100.00%
Shinsei Information Technologies Co., Ltd.	100.00
Shinsei Business Service Co., Ltd.	100.00
Shinsei Real Estate Valuation Services Co., Ltd.	100.00
The Shinsei Card Co., Ltd.	100.00
The Shinsei Securities Co., Ltd.	100.00
Shinsei Bank Finance N.V.	100.00
BM Finance Co., Ltd.	0.00
BM Enterprise Co., Ltd.	0.00
Major Affiliated Company under Equity Method	
Value Management Institute, Inc.	40.00

Corporate Information

Established
1952

Fiscal Year
From April 1 to March 31

Paid-in Capital
¥451,296 million

Number of Shares Authorized
Common Stock:
5,000,000,000
Preferred Stock:
674,528,000

Number of Shares Issued
Common Stock:
2,717,075,212
Preferred Stock:
Series 2 74,528,000
Series 3 600,000,000

Number of Stockholders 3

Stockholders
New LTCB Partners C.V.
Deposit Insurance Corporation of Japan
Resolution and Collection Corporation

(As of March 31, 2001)

Network
Americas:
New York Representative Office
Grand Cayman Branch
Shinsei Bank Finance N.V.
Domestic:
Head Office (Tokyo)
Sapporo Branch
Sendai Branch
Kanazawa Branch
Omiya Branch
Tokyo Branch
Ikebukuro Branch
Ueno Branch
Kichijoji Branch
Shinjuku Branch
Hibiya Branch
Shibuya Branch
Hachioji Branch
Yokohama Branch
Fujisawa Branch
Nagoya Branch
Kyoto Branch
Osaka Branch
Umeda Branch
Namba Branch
Kobe Branch
Hiroshima Branch
Takamatsu Branch
Fukuoka Branch

(As of July 2, 2001)

For further information, please contact
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