

Annual Report

2000



SHINSEI BANK

SHINSEI BANK, LTD.

Annual Report 2000

We are pleased to extend greetings to our customers and many business associates in Japan and around the world. We would like to thank you for your continuing interest in our services and provide you with our Annual Report for fiscal 1999, ended March 31, 2000.

The Long-Term Credit Bank of Japan, Limited, passed from temporary nationalization to private ownership again in March 2000. We have begun a re-genesis with new objectives and strategies. We heralded this momentous development with a change in our Bank's name to Shinsei Bank, Limited, on June 5, 2000. This Annual Report provides a detailed summary of the current condition of the Bank and our performance over the past fiscal year as well as an introduction to the financial products and services we can provide.

August 2000

SHINSEI BANK, LTD.

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Consolidated Financial Highlights

Shinsei Bank, Ltd. (formerly The Long-Term Credit Bank of Japan, Limited) and Subsidiaries
For the Years Ended March 31, 2000 and 1999

	Billions of Yen		Millions of U.S. Dollars
	2000	1999	2000
For the Year			
Total Income	¥ 1,974.2	¥ 3,661.2	\$ 18,598.6
Total Expenses	1,863.1	4,430.0	17,552.0
Income (Loss) before Income Taxes and Minority Interests	111.0	(768.7)	1,046.6
Net Income (Loss)	111.3	(1,010.1)	1,049.0
Per Common Share (in Yen and U.S. Dollars)			
Net Income (Loss)	¥ 45.60	¥ (418.03)	\$ 0.43
Cash Dividends	—	—	—
Total Stockholders' Equity	50.31	n.m.	0.47
Balances at Year-End			
Total Assets	¥13,206.7	¥22,609.1	\$124,416.2
Loans and Bills Discounted	7,711.0	13,690.5	72,642.7
Debentures	6,730.7	7,965.7	63,408.3
Deposits, including NCDs	2,777.5	3,371.9	26,166.0
Total Stockholders' Equity	473.5	9.7	4,461.5
Ratios (%)			
Return on Total Income	5.64%	n.m.	
Return on Total Assets	0.72	n.m.	
Risk-Weighted Capital Ratio (BIS Criteria)	/	0.12%	
Risk-Weighted Capital Ratio (Domestic Criteria)	12.21	/	

Notes: 1) Unless otherwise specified, all dollar figures in this annual report refer to U.S. currency. All U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥106.15=U.S.\$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2000.

2) All yen figures have been truncated rather than rounded. Therefore, totals may not add up.

3) The risk-weighted capital ratio for regulatory purposes of the Bank was changed from BIS Criteria to Domestic Criteria in the year ended March 31, 2000.

4) n.m.: not meaningful

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.

Introduction

On June 5, 2000, we changed the name of The Long-Term Credit Bank of Japan, Limited (LTCB), to Shinsei Bank, Limited. At that time, the temporary nationalization of LTCB had already ended, and we had begun operations anew as a private bank under new management. But with the change of the Bank's name, we made a new beginning—both in fact and in name. To emphasize this, we selected the name “Shinsei,” which, in Japanese, means “new birth.” Going back several months to March 2000, the former LTCB—which was under temporary nationalization at that time—was acquired by New LTCB Partners C.V., an investment group comprising leading U.S. and European financial institutions and other investors.

As the person who has assumed responsibility for continuing the operations of the former LTCB, I would like to express my deepest thanks for your unwavering support and understanding during the period of uncertainties and concerns surrounding the process of acquisition that led to the recommencement of the Bank's operations as a private financial institution.

I would like to explain my ideas for managing Shinsei Bank now that it has resumed its activities as a private-sector institution.

Sound, Transparent Management

The general public in Japan was obliged to bear a substantial burden, as large amounts of public-sector funds were infused into the Bank to deal with the losses of the former LTCB. As the individual charged with the duties of managing the Shinsei Bank following its transfer to the private sector, I am keenly aware of this fact and feel strongly the weight of my responsibilities. I believe I must fulfill these responsibilities by restructuring Shinsei Bank as a sound and profitable institution as well as establishing its presence as a bank performing an important role in Japan's financial system.

First, to conduct the Bank's activities soundly and with a high degree of transparency, I believed that a complete renewal of management systems was necessary. And, after I became President in March this year, I implemented a reorganization of managerial functions. The essence of this step was to clearly separate the responsibilities and roles of the Board of Directors and Corporate Executive Officers. Under the new organization, the Corporate Executive Officers are responsible for the day-to-day operations of the Bank. A majority of the members of the Board of Directors are Nonexecutive Directors, and their role is to oversee the activities of the Corporate Executive Officers. I have also already taken steps to significantly improve the Bank's overall risk management capabilities, including those for managing credit and market risk. Furthermore, I have also seen to it that compliance systems are being greatly strengthened and that other measures are being implemented. These measures will ensure the transparency and soundness of our operations.

Masamoto Yashiro
President and CEO



A New Kind of Bank for Japan

To increase the profitability of Shinsei Bank, we must offer our customers higher-value-added products and services. Shinsei Bank is the first Japanese bank to begin its operations with the ownership of leading international financial institutions and other interests. This means that we are truly unique and transcend the conventional framework of “Japanese banks” and “foreign banks.” We of Shinsei Bank are committed to using our unique position, making use of advanced know-how from the United States and Europe and offering products and services that meet the needs of Japanese customers nimbly and responsively.

If I may take the liberty of comparing the Bank to an aircraft, we view the debenture-issuing business developed by the former LTCB and its corporate lending business as the fuselage of the aircraft. To fly higher and faster, we plan to add stronger retail banking and investment banking services as the wings of the craft. In short, we are aiming to become a hybrid bank, of a type that has not existed in Japan before.

More specifically, in addition to previous services for individuals, we plan to offer a diverse range of investment instruments, loans, and other products and services. We also plan to take a major leap forward by expanding our array of service delivery channels to enhance convenience for our customers. For corporations and financial institutions, we plan to offer corporate advisory, securitization, and other services that will enable us to propose truly high-value-added solutions to meet their many management needs and assist them in implementation.

To respond to a broader range of customer needs, we are considering a change in our status from a long-term credit bank to an ordinary bank at an early date, while continuing to issue debentures.

Preparation of Plan for Restoring Sound Management

When the Bank re-inaugurated its operations as a private bank in March this year, we prepared our Plan for Restoring Sound Management to enable us to establish a strong financial position and provide credit more smoothly. Following the review by and approval from the Financial Reconstruction Commission, the Bank received an investment of public funds amounting to ¥240 billion through the issuance of preferred shares. The ideas for the management of Shinsei Bank that I outlined previously are expressed specifically in the Plan for Restoring Sound Management, and we are exerting our fullest efforts to implement these policies and reach our objectives.

Rebuilding the Bank and Contributing to the Japanese Economy

The environment for Japan's financial institutions was characterized by rising uncertainty regarding the stability of the financial system following the insolvency of a number of major financial institutions beginning in 1997. Thereafter, a number of legal and fiscal measures were adopted, including the passage of the Financial Reconstruction Law and the Financial Revitalization Law. As a result of these measures and major restructuring efforts implemented by financial institutions on their own initiatives, including mergers and alliances, the situation is steadily returning to normal, but the task has not yet been completed. Moreover, Japan's industrial sector has numerous problems that need to be addressed before it fully resolves the issues left by the collapse of Japan's bubble economy and returns to the path of full-scale recovery.

I believe Shinsei Bank can make a unique and important contribution as the Japanese economy moves toward recovery. We will therefore press forward to restructure our operations as quickly as possible, build a sound and profitable position, and offer our customers high-value-added products and services.

Accordingly, we request your continuing support for our endeavors.

August 2000



Masamoto Yashiro
President and CEO

The Bank (the former Long-Term Credit Bank of Japan, Limited) was declared to be in temporary nationalization under the provisions of the Financial Reconstruction Law (the Law) in October 1998. While in temporary nationalization, the Bank implemented management policies to fully resolve nonperforming loans and undertake the rationalization of its operations. Thereafter, in March 2000, the Bank was transferred to New LTCB Partners C.V. ("Partners"), and the temporary nationalization was terminated. Following this, the Bank's name was changed to Shinsei Bank, Ltd. The details of this transition are described below.

CORPORATE RESTRUCTURING PLAN IMPLEMENTED DURING THE PERIOD OF TEMPORARY NATIONALIZATION

Implementation of the Corporate Restructuring Plan

Under the temporary nationalization, which began in October 1998, the former LTCB undertook to fully dispose of its nonperforming loans, withdraw completely from overseas operations, and implement other management rationalization measures.

To deal with nonperforming loans, the Financial Reconstruction Commission (FRC) conducted an examination of the Bank's assets, and those that were deemed inappropriate for the Bank to carry on its balance sheet (¥4,241.5 billion on a book value basis) were sold to the Resolution and Collection Corporation (RCC). In addition, other measures were adopted to achieve a full resolution of the Bank's nonperforming loans.

Selection of the Most Preferred Candidate for the Acquisition

To terminate the temporary nationalization at the earliest possible date, work began on the selection of the most preferred acquirer for the Bank in February 1999. Thereafter, the FRC conducted careful examinations of the purchasing strategies and conditions of candidates interested in purchasing the Bank. As a result, Partners, an investment group formed by Ripplewood Holdings, L.L.C., and other investors, was selected by the FRC as the most preferred candidate for the acquisition. Thereupon, in February 2000, an acquisition agreement (Share Purchase Agreement) was concluded with Partners. (For a Summary of the Share Purchase Agreement, refer to page 31.)

Major Items Implemented under the Temporary Nationalization

► Corporate Restructuring Plan

- Reduction in Number of Staff and Expenses
- Complete Withdrawal from Overseas Operations
- Disposal of Employee Welfare Related and Other Properties
(Please refer to the section on the Rationalization of the Bank's Operations on page 15.)

► Full Disposal of Nonperforming Loans

- Determination of Inappropriate Assets for the Bank to Hold
- Sale of Inappropriate Assets to the RCC

► Clarification of the Responsibility of Former Management

- Investigation of Criminal Accusations and Civil Claims against the Former Management
- Lawsuits and Other Actions against the Former Management



● TERMINATION OF TEMPORARY NATIONALIZATION

Following the selection of the preferred acquirer of the Bank, on March 1, 2000, all common shares of the Bank were transferred to Partners, and the temporary nationalization came to an end.

In view of the large amount of losses incurred in the disposal of nonperforming assets, at the time of the termination of temporary nationalization the Bank made an application for Special Financial Assistance (a monetary grant and a supplement to offset losses incurred in the conduct of the activities of a bank under temporary nationalization) to the Deposit Insurance Corporation (DIC) as provided for under the Law. The total amount of this assistance was ¥3,588.0 billion.

Partners was established as a partnership by Ripplewood Holdings, L.L.C., of the United States, and other leading international financial institutions as well as other investors with the aim of acquiring LTCB. All investor groups participating in Partners have a long-term view of the Bank's development and most plan to sustain their investment for 10 to 15 years or longer.

Principal Investors in Partners

- Paine Webber (United States)
- Deutsche Banc Alex Brown (Germany)
- Mellon Bank Corporation (United States)
- The Bank of Nova Scotia (Canada)
- Banco Santander (Spain)
- St. James Place Capital plc (United Kingdom)
- GE Capital Commercial Finance, Inc. (United States)
- Travelers Investment Group, Inc. (United States)
- ABN-Amro Bank (Netherlands)
- Ripplewood Group (United States)

● COMMENCEMENT OF THE NEW BANK'S OPERATIONS

New Management Systems

Accompanying the transfer of the Bank to Partners, on March 2, 2000, a new management group was appointed, and the Bank began its operations anew. The management group that assumed office under the temporary nationalization, headed by Takashi Anzai, President, was replaced by Masamoto Yashiro, President, and 14 Directors. Of these Directors at that time, 11 were External Directors, including Akira Aoki (Chairman, Japan Securities Finance Co., Ltd.), Takashi Imai (Chairman, Nippon Steel Corporation), Hirotaro Higuchi (Honorary Chairman, Asahi Breweries, Ltd.), and Minoru Makihara (Chairman, Mitsubishi Corporation). The remaining External Directors of the total of 11 included representatives of Partners. (As of July 3, 2000, the Bank had 15 members of the Board of Directors, including 12 External Directors.)

In addition, Paul A. Volcker, former Chairman of the Federal Reserve Board of the United States, and Vernon E. Jordan, Jr., Senior Managing Director of Lazard Frères & Co. LLC, have been appointed as Senior Advisers.

Increase in Capitalization

In accordance with the Share Purchase Agreement, the Bank increased its capital after the transfer of shares to Partners. First, on March 1, 2000, the Bank issued new shares to Partners, thus raising ¥120 billion in new capital. Also in March, under the Financial Function Early Strengthening Law the Bank made an application for ¥240 billion in public funds (through the issuance of preferred stock). This application was approved by the FRC, and the proceeds were duly received on March 31, 2000. As a result of these increases in capital, the Bank's risk-weighted capital ratio on a consolidated basis was 12.21%.

● CHANGE OF THE BANK'S NAME AND INTRODUCTION OF A NEW CORPORATE IDENTITY

When the Bank began its operations anew, a change of corporate name was deemed to be the best means of expressing and gaining public understanding of our new management policies and directions. Accordingly, beginning June 5, 2000, the Bank's name was changed from The Long-Term Credit Bank of Japan to Shinsei Bank, and a new logo and corporate symbol were introduced to herald the restarting of the Bank's operations.

● NEW CORPORATE NAME AND NOMENCLATURE FOR DEBENTURES

Although the Bank's name has changed, the nomenclature on its debentures remains the same. Thus, as in the past, the debenture certificates will contain the syllable “-cho” and the words “Choki Shinyo” in Japanese, which mean “long” and “long-term credit,” respectively. Thus, the debentures will still be called “Waricho,” “Riccho Wide,” and “Riccho” as well as “Waribiki Choki Shinyo Saiken,” “Choki Shinyo Saiken (Rishi Ikkatsu Barai),” and “Choki Shinyo Saiken.”



SHINSEI BANK

SHINSEI BANK, LTD.

The Bank's new corporate name, Shinsei, or “new birth,” signifies our commitment to reviving ourselves with a new sense of life in every respect, including attitudes, ways of thinking, and behavior. It also expresses our resolution to develop new and closer relationships with our customers by offering them new products and services. We will endeavor to sustain this drive to constantly renew ourselves and the Bank at all times into the future.

The new corporate mark of the Bank uses an “S” motif, coming from the first letter in the word “Shinsei.” This symbolizes our intention to be dynamic and global in the development of our activities. The “S” also represents the way the Bank walks together with its customers, showing the way to new services and new banking techniques. The gradations of blue symbolize the coexistence and mutual prosperity of the earth and its communities and peoples. The gradation also represents the transparent, sound banking practices that Shinsei Bank strives to achieve.

The Bank began its operations anew as a private financial institution in March 2000 and is working to develop its activities in line with the management policies described below. These policies are generally in line with the Bank's Plan for Restoring Sound Management, which was approved by the FRC in March 2000.

BASIC POLICIES

Management Objectives

The foremost management objective of Shinsei Bank is to offer its customers value-added financial services that meet their needs, based upon long-term bonds of trust and confidence. By working to attain this objective, the Bank will endeavor to enhance the satisfaction and contribute to the prosperity of its customers.

Moreover, in view of the role of financial institutions within society and the public nature of their activities, we will seek to maintain transparency and soundness in the conduct of our activities to ensure that we maintain the trust of our customers and the confidence of financial markets. Thereby, we will seek to contribute broadly to the development of the economy.

In specific terms, in addition to the services offered thus far by LTCB, through alliances and other cooperative activities with the U.S. and European financial institutions investing in the Bank, we plan to expand our services in retail banking as quickly as possible. Also, by actively providing services in advanced fields and activities where, in Japan, foreign financial institutions have traditionally played a leading role, we plan to make a major leap forward in the services we can offer our customers. Therefore, we aim to provide types of financial services that are completely new to Japan.

Business Strategies

In addition to the products and services previously offered, we will draw on advanced financial know-how from the United States and Europe and work to offer high-value-added, innovative products and services.

For corporate customers, in addition to the lending services previously offered, we will actively engage in providing new types of financing, advice on industrial reorganization and corporate restructuring, as well as other services.

To our customers among financial institutions, in addition to the sales of our debentures previously offered, we plan to provide a diverse range of investment products and strengthen our capabilities for offering advisory services to meet a broad range of customer needs.

For individual customers, we plan to greatly expand the range of investment products we provide and structure efficient and convenient service delivery channels. We also intend to expand the selection of products to include loans and other services that meet customer needs at various stages of their lives.

Moreover, to respond to the increasingly diverse and sophisticated requirements of our customers, we are considering making the transition from a long-term credit bank to an ordinary bank, as provided for under the Law Concerning Mergers and Changes in Status of Financial Institutions. Regarding debentures, however, even if we become an ordinary bank, we plan to continue to issue them in view of the needs of our customers for such debentures and to maintain this source of funding.

The Bank is working to attain the following objectives for profitability and its balance sheet over the coming three years.

Profit Objectives

We will be working to attain recovery in profitability on earning assets. One factor contributing to this will be the gradual maturing of liabilities with relatively high interest rates. In addition, we will endeavor to obtain a return on assets appropriate to the credit risk and expand our loan portfolio among small, medium-sized, and upper-middle market companies as well as individuals.

In addition, by strengthening our offerings of high-value-added products and services, we will aim to expand fee and commission income. Similarly, we intend to enhance profitability by aggressively entering new service areas, drawing on the advanced know-how of the U.S. and European financial institutions that are investors in Shinsei Bank through Partners.

At the same time, we will make strategic investments to expand customer service delivery channels, develop new products, and add highly skilled professionals to our staff—all of which will contribute directly to profitability. We will also be reviewing existing expenditures and conduct our operations to achieve a balance with the enhancement of earnings power.

As a consequence of these policies, for the fiscal year ending March 31, 2003, we are aiming for net business profit (before taking account of provisions to the general reserve for loan losses) of ¥68.6 billion.

Profit Objectives (Plan for Restoring Sound Management, Non-Consolidated)

(Billions of Yen)

For the Fiscal Year Ended/Ending	March 31, 2000 (Actual)	March 31, 2001 (Projected)	March 31, 2002 (Projected)	March 31, 2003 (Projected)
Gross Business Profit	¥ 14.8	¥86.0	¥121.8	¥144.6
Operating Expenses	60.9	67.0	74.0	76.0
Net Business Profit	¥(46.9)	¥19.0	¥ 47.8	¥ 68.6

Note: Net business profit is calculated before taking account of provisions to the general reserve for loan losses.

Objectives for Assets and Liabilities

Regarding loan assets, the Bank will respond actively to sound demand for funds from its customers while aiming to sustain the quality of its loan portfolio and increase profitability. Similarly, the Bank will review less profitable loans and securitize certain loans to restructure its portfolio.

For its securities portfolio, the Bank will consider its objectives in holding various securities, seek to achieve a balance with market risk, and reduce the overall size of its holdings.

On the liabilities side of the balance sheet, in view of the prospect of continued low interest rates in Japan, we believe it is likely that the fund management needs of customers will shift from long-term fixed rate investment products to short-term instruments. Accordingly, the focus in the Bank's funding is expected to shift gradually from bank debentures to deposits. In particular, we plan to increase the range of deposit products we offer for individuals and aim to substantially expand our funding from deposits.

Objectives for Assets and Liabilities (Plan for Restoring Sound Management, Non-Consolidated)

(Billions of Yen)

	Amounts Outstanding at March 31, 2000	Projected Average Amount Outstanding for the Year Ending March 31, 2001	Projected Average Amount Outstanding for the Year Ending March 31, 2002	Projected Average Amount Outstanding for the Year Ending March 31, 2003
Assets				
Loans and Bills				
Discounted	¥ 7,704.7	¥ 8,200.0	¥ 8,300.0	¥ 8,500.0
Securities	2,810.1	2,600.0	1,000.0	1,000.0
Liabilities				
Deposits, including				
NCDs	2,824.2	2,700.0	3,100.0	3,500.0
Debentures	6,481.8	5,300.0	3,400.0	3,500.0
Total Assets	¥13,755.7	¥12,600.0	¥10,900.0	¥11,100.0

NEW CORPORATE GOVERNANCE STRUCTURE

Shinsei Bank aims to enhance check and balance functions and risk management systems while establishing new management frameworks that can respond nimbly and quickly to customer needs. For this purpose, in March 2000 the Bank introduced a Corporate Executive Officer System to make the transition to a management system that clarifies the responsibilities and roles of members of the Board of Directors on the one hand and the duties of the management group in charge of day-to-day operations on the other.

In specific terms, the role of the Board of Directors is to evaluate and supervise the management group while making decisions regarding long-term management strategy from a broader perspective. Under this system, the members of the management group (the Bank's Internal Directors and Corporate Executive Officers), who have been delegated the responsibility for day-to-day management, make decisions based on the authority and responsibility vested in them and respond quickly and appropriately to customer needs.

Moreover, in the conduct of day-to-day business for particularly important matters, the Management Committee, which is the President's consultative group, provides for full discussion and deliberation.

The members of the Board of Directors, 15 in total, include three Internal Directors and 12 External Directors. The External, Nonexecutive Directors include persons with extensive business experience (such as Takashi Imai, Chairman of the Keidanren, and others) as well as representatives of the financial institutions with investments in the Bank through Partners (as of July 3, 2000).

The Bank is aiming to ensure a rational corporate governance and decision-making system under which these members of the Board of Directors—with their extensive business experience—make strategic and sophisticated decisions while looking after the interests of shareholders and supervising the conduct of operations.

In addition, the Bank has established a Nomination and Compensation Committee, a majority of whose members are Nonexecutive Directors as an adjunct committee to the Board of Directors. The committee's role is to ensure the transparency of the process for selecting Directors and Corporate Executive Officers as well as others in key positions, evaluating performance, and deciding compensation.

Also, the Bank has established the Audit Committee, in addition to the Statutory Auditors' Meeting, consisting of all the Bank's Statutory Auditors and its Nonexecutive Directors. The objective of this committee is to strengthen the functions for auditing the conduct of operations.



Industrial Corporations

The Bank has established transactions relationships, focusing on lending operations, with a broad range of corporate customers, from large companies to small, medium-sized, and upper-middle market companies. In addition to these services, the Bank will introduce leading-edge financial technologies in such high-value-added fields as securitization, derivatives, and M&A with the objective of deepening its relationships with corporate customers.

Moreover, the Bank will substantially upgrade its capabilities for providing restructuring advisory services to contribute to an early recovery of the Japanese economy.

In our lending operations, we intend to continue to respond actively to the sound financing needs of our customers. We are also reviewing the composition of our overall loan portfolio from the perspectives of company size, industry, and credit rating with the objective of structuring an optimal portfolio from the points of view of profitability and soundness.

To this end, we are actively working to adjust lending rates to levels appropriate to credit risk, supported by proper credit analysis and evaluation capabilities. Other related initiatives include the securitization of a portion of loan assets.

Financial Institutions

The Bank is continuing its close relationships with regional financial institutions, life and non-life insurance companies, agricultural cooperative banks, and other financial institutions, which are major purchasers of the Bank's debentures issues.

In addition to one-, two-, and five-year debentures, which the Bank has issued in the past, beginning in May 2000 a three-year debenture was added to the lineup of debenture products. Going forward, the Bank is planning to offer a broad range of investment products to meet customer needs.

For example, the Bank plans to go beyond the issuance of bank debentures to offer its customers securitized investment products, structured bonds, and a range of other high-value-added, innovative financial services through the establishment of a new securities subsidiary. In addition, the Bank will draw on the sophisticated know-how of the financial institutions investing in Partners to develop new financial products and engage actively in providing advisory services.

Individual Customers

In the past, our services for individual customers were mainly the offering of bank debentures and certain types of deposits. Now, the Shinsei Bank has positioned services for individuals as a strategic area and plans to take thoroughgoing steps to enhance its services in this area.

Our specific initiatives have included the development and marketing of a new type of foreign currency deposit, "Kawase Jozu" (Master of Forex), and the commencement of sales of investment trusts in April 2000.

In parallel with these activities, we established Shinsei Card Co., Ltd., and this company began credit card operations in June 2000. Shinsei Card is primarily issuing credit cards that may also be used as bank ATM cards as well as in a range of other service applications. We plan to expand this company's activities to include other services that will make the Shinsei Card a high-value-added, attractive card for our customers.

Moreover, with the objectives of enhancing convenience for customers and expanding our transactions base, we are making active investments in information technology (IT) to enhance remote access channels via telephone and the Internet. We are also expanding and strengthening our cooperation with other financial institutions for ATM services.

In consumer lending, we plan to expand our lineup of products and services to meet the needs of customers at various stages of their lives.

Our goal is to establish long-term relationships with our customers and be considered a reliable partner. Therefore, we want to offer more than just savings products and will aggressively expand our activities to include consultative services.

DEVELOPMENT OF NEW PRODUCTS AND SERVICES

We have identified the activities described in the following section as strategic areas and plan to strengthen and expand our presence and capabilities in these fields through the introduction of new products and services.

Corporate Advisory Services

The evolution of Japan's industrial sector and the restructuring of corporate activities are proceeding rapidly. The development of business strategies has been a significantly more important issue for all types of companies, from leading corporations to venture businesses. Moreover, the number of M&A arrangements is expected to expand quite rapidly, particularly among Japanese corporations.

We have restructured and enhanced our capabilities and are actively responding to customer needs in this area. Our specific services include restructurings involving M&As, LBOs, and MBOs and related advisory services. In addition, in connection with these advisory services we are looking to offer project finance and other non-recourse financing.

Securitization

The financial strategies of corporations are becoming increasingly sophisticated, as their attention has shifted from simply securing funds in the necessary volumes at low cost to profit maximization through management of the overall balance sheet. At the same time, investors for their part are actively comparing a broad range of risk products when making investment decisions.

Securitization is one of the measures for matching the needs of corporations and investors, and we believe it has considerable potential for further expansion. In view of these developments, the Bank will formulate plans to establish a securities subsidiary and strengthen its capabilities in securitization. Specific plans call for focusing on the development of new products, especially in the areas of securitization of loans and real estate, which are closely tailored to customer needs.

Asset Advisory Services

Corporations have a growing need to streamline their assets by shifting commercial real estate off their balance sheets. Investors, on the other hand, are also actively looking for opportunities to invest in good-quality properties. To meet the needs of corporations and investors, the Bank is active in providing advice and arrangement services, and, depending on the real estate asset, may provide funds for securitization. The Bank will also make full use of the capabilities of the new securities subsidiary that it plans to establish for securitization and other purposes.

Investment Trust Business

The investment behavior of individuals in Japan is shifting from deposits and other low-risk market instruments toward more sophisticated investments that require judgment regarding risk and return. As this shift in behavior progresses, the proportion of funds placed in investment trusts is expected to rise significantly.

The Bank began to offer investment trust products in April 2000. To provide customers with the best selection of investment products, the Bank will expand the variety of investment trusts it offers with the aim of meeting increasingly diverse customer needs. Along with the introduction of these products, the Bank is improving its staff training programs and strengthening its compliance systems.



Loan Trading

In the United States, the loan-trading market has already grown to major proportions as it has become an important method allowing financial institutions to attain their portfolio policy objectives. This is expected to become a new growth business in Japan's financial sector, as well.

The Bank plans to draw on personnel and know-how from the financial institutions investing in Partners and—while strengthening its risk management systems, which are a key element in pursuing this type of activity—actively build its presence in the loan-trading field.

Derivatives

Requirements for hybrid derivative products are expected to rise as financial strategies, especially of large corporations, become increasingly sophisticated. At the same time, the use of derivatives among small, medium-sized, and upper-middle market companies is also likely to expand, and the interest of individual customers in new types of investment products that employ derivatives is also rising. Moreover, the need for credit derivatives and other new products as a means to hedge credit risk is also expected to increase, principally among financial institutions.

The Bank will therefore work to greatly expand its services in this area, based on the competitiveness of products it has developed thus far and its ability to offer related information services. Specific initiatives will include concentrating on the development of the credit derivatives business, while working in partnership with the securities subsidiary that the Bank plans to establish to enhance the Bank's presence in capital market related businesses.

Market Operations

The Bank's market operations have been conducted primarily to meet the needs of industrial corporations. Plans call for further enhancing the Bank's product delivery capabilities and actively expanding these operations through the creation of systems to respond quickly to the needs of a broader range of customers.

In foreign currency operations, customer relationship managers in the Bank's Head Office and branches will follow closely the needs of customers and offer high-value-added products not only for large corporations but also for small, medium-sized, and upper-middle market customers.

Moreover, the Bank plans to develop new products that can be offered to individual customers and expand its currency-related market operations through increased emphasis on foreign currency deposits, foreign currency investment trusts, and other products.

In the commercial paper (CP) market, the Bank intends to maintain its presence as a leading dealer, handling not only plain products but also structured products as well.

RENEWING THE MANAGEMENT INFRASTRUCTURE

Organizational and Management Systems

For the Bank to respond quickly and accurately to diverse customer needs with sophisticated, professional financial services, a new Group system will be introduced for organizational units, including those interfacing with customers and branches.

Specific initiatives include the establishment of an organization along market and functional lines. This will include the creation of Groups to respond to the needs of industrial corporations, financial institutions, and individuals as well as functional Groups for financial products, risk management, and other activities. These Groups will be organized to allow the management of these organizational units to make resource allocation decisions flexibly, including those related to personnel assignments and compensation.

In addition, divisions interfacing with customers and sections within the Bank's branches will be organized by customer segment, namely industrial corporations, financial institutions, and individuals. This new organizational framework will have the aim of shortening the distance between the Head Office and operating sections and facilitating quick responses to customer needs that are closely tailored to their requirements.

Furthermore, to develop new products for individuals and shorten time from development through marketing, the Bank will expand the number of its divisions engaged in product development. A reorganization is also in progress to strengthen the Bank's activities in the housing loan area.

Development of a New Management Information System

To properly measure and evaluate the performance of each Group and product, the Bank is currently developing a new management information system (MIS). The goal of this new MIS will be to increase the accuracy of information on profitability both on a financial accounting and a managerial accounting basis and provide quickly the information needed by management. For managerial accounting and management information, the system will provide performance evaluations by division and by office. Moreover, it will significantly increase the sophistication of information on the profitability of each product and transaction with customers. The Bank will make use of this information in allocating management resources.

In addition, in the years to come the MIS will be further upgraded to provide information on various indicators of risk, productivity, and efficiency, and plans call for making use of such information in supervising personnel and performance.

Introduction of a New Human Resource Policy

Accompanying the recommencement of its activities, the Bank is undertaking a thorough reform of its human resource policies as part of overall activities to enhance its operating infrastructure. The aims of the new human resource policies will be to create a new corporate culture and promote a renewed awareness of the roles and objectives of corporations.

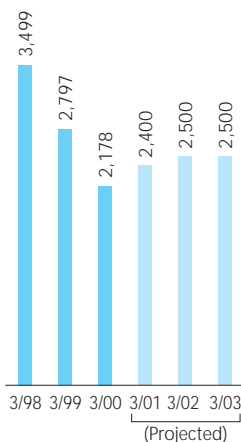
Thoroughgoing Emphasis on Performance With the aims of better motivating staff members and promoting greater emphasis on profitability in its operations, the Bank has introduced personnel evaluation on the basis of performance for all employees.

Delegation of Authority for Personnel Matters Authority for personnel matters will be delegated to Groups, to the greatest extent possible, and the heads of the Groups will make decisions regarding employment, job assignments and transfers, evaluation, compensation, and other matters. Thereby, the Bank will enhance its capabilities for meeting customer needs responsively and appropriately.

Active Recruitment of Staff from Outside the Bank To facilitate entry into new areas and strengthen capabilities in strategic businesses, the Bank is aggressively recruiting outside personnel with sophisticated professional knowledge and skills, especially in such advanced fields as financial products, risk management, and IT.

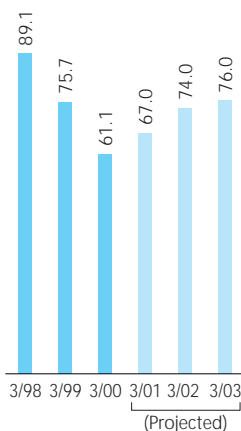
Rationalization of the Bank's Operations

Number of Employees



Note: "Employees" does not include part-time or temporary employees or staff hired overseas.

Operating Expenses (billion ¥)



The Bank has implemented a thorough rationalization of its operations based on its Corporate Restructuring Plan—which was prepared following the commencement of the temporary nationalization and received government approval based on the Financial Reconstruction Law. Since that time, the Bank has made steady progress toward the objectives of the plan and had reached all of its goals by the end of March 2000.

As the Bank makes progress toward its objectives of entering new business areas and strengthening strategic activities, it will invest actively in the necessary human resources and infrastructure. In addition, by continuing to promote the rationalization of its operations and allocate management resources with close attention to detail, the Bank plans to enhance and strengthen its financial position and profitability.

Personnel

As of March 31, 2000, the Bank had 2,178 staff members, below the final objective of 2,500 set in the Corporate Restructuring Plan prepared at the beginning of the temporary nationalization. Personnel necessary to raise the level of customer service and strengthen the operating base and profitability will be recruited as appropriate. Plans call for a total staff of 2,500 as of March 31, 2002.

Operating Expenses

As a result of a review of personnel compensation and other measures, personnel expenses have been reduced significantly. Non-personnel expenses have also been subject to overall reductions. For the year ended March 31, 2000, operating expenses had been lowered to ¥61.1 billion (¥60.9 billion excluding debenture expenses), substantially below the final objective of ¥65.0 billion.

As investments in strategic information technology systems will be increased, total operating expenses will be on a rising trend in the coming years, but the Bank will continue to review existing expenditures and conduct its operations to achieve a balance with the enhancement of earnings power.

Overseas Operations

The Bank closed its New York Branch (converting it to a representative office) in December 1999. This completed the closure of all overseas operations and marked the attainment of the objective of completely withdrawing from all overseas operations set under the Corporate Restructuring Plan.

Disposal of Properties

Also, as provided for under the plan the Bank disposed of dormitories and other staff housing that were not necessary for its activities while consolidating and increasing the efficiency of other properties. In addition, the Bank has disposed of overseas housing for staff accompanying the withdrawal from overseas operations.

Moreover, all resort houses and other welfare facilities have been disposed of, and certain other assets, such as golf club memberships and artworks, have also all been sold.

Shinsei Bank has established the ALM Committee to manage its assets and liabilities comprehensively and implement strategic management of the balance sheets. In principle, the committee meets once a month to discuss ALM policies. The chairman of the committee is the President of the Bank and other members are heads of Groups. Final decisions on ALM policy are made by the President.

In addition, under the ALM Committee, the Market Risk Management Committee meets weekly to review the Bank's overall market risk positions arising from trading and other market-related activities, including ALM activities, and reports to management.

● ALM POLICY

Regarding market risk, the ALM Committee sets market risk limits for the banking and trading accounts and decides on risk management policies. The committee also makes decisions on policies for managing liquidity risk, including funding gap limits, and the allocation of capital to individual operating divisions with the objective of achieving improved return for risk taken.

Through these activities, the Bank aims to optimize its balance sheet and capital by implementing the ALM policies decided by the ALM Committee and thereby maximize its profitability in the medium-to-long term.

● ALM METHODOLOGY

Between the ALM division (Treasury Group) and funding and lending divisions, the Bank sets an in-house interest rate based on market rates and supervises interest rate risk and profitability in an integrated manner. In the various operating divisions, the spread between lending and funding rates and the in-house interest rate is defined as the profit or loss of that division. Management of risk arising from interest rate fluctuations is the responsibility of the ALM division.

In the management of interest rate risk, the Bank monitors both on-balance-sheet transactions, such as lending and other activities, and off-balance-sheet transactions, such as swaps. A number of different methods are used to analyze and manage such risk, from the points of view of fair market value and profit for the period.

Fair market value is the present value of future cash flows discounted to the present at market interest rates. Profit for the period is the actual gain or loss realized during a specified accounting period.

In specific terms, to restrain the fluctuations in profit or loss (fair market value and profit for the period) owing to movements in market interest rates within a prescribed limit, interest rate risk limits are established. Similarly, limits are set for fair market value risk based on the basis-point-value (Bpv) method* to restrain the risk of fluctuations in fair market value owing to changes in interest rates within a predetermined amount of the Bank's capital. (Please refer to the accompanying table on page 17 for more details on Bpv.)

****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 on page 17 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.

Regarding profit for the period, risk limits are set based on net interest income. The amounts of assets, liabilities, and derivatives are classified by period to maturity, and the profit for the period arising from gaps in maturities is analyzed, using the so-called “Gap Method” for analysis of interest rate risk. In addition, the Bank’s future balance sheet is estimated based on expected rollovers of loans and deposits, the specific features of the Bank’s balance sheet, business plans, and other information. Next, using a range of scenarios for fluctuations in market interest rates generated making use of statistical techniques, simulations of future net interest income are prepared. The resulting computations of the magnitude of net interest income over the coming one-year period are employed as indicators for risk limits.

In the ALM Group, various ALM operations are conducted, including interest rate swaps, within interest rate risk limits, with the aim of maximizing profitability in the medium-to-long term. Looking forward, the Bank will continue to enhance the sophistication of its risk management methods and the precision of its simulations to further substantially upgrade its ALM activities.

Impact of a 10 Basis-Point-Value Change on Fair Market Value (As of March 31, 2000)

(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	0.4	0.2	(1.6)	(2.0)	2.0	(1.0)
Off-balance-sheet	(0.1)	(0.4)	0.7	2.4	0.7	3.3
Total	0.3	(0.2)	(0.9)	0.4	2.7	2.3

Note: When figures are positive, this means that the fair market value increases when interest rates decline. When figures are negative, this means that the fair market value declines along with interest rates.

Shinsei Bank regards risk management as an activity with the highest priority and is continually working to substantially enhance its systems for measuring and controlling the risks in its operations.

● INTEGRATED RISK MANAGEMENT SYSTEMS

Basic Concepts of the System

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

To this end, internal control functions are required to confirm that risk is being taken in accordance with the Bank's overall policies and the policies for individual operational areas, that risk is being contained within appropriate limits, and that operational units responsible for risk are managing it properly.

Financial institutions confront a range of different kinds of risk. These include credit risk, market risk, liquidity risk, operational and administration risk, systems risk, as well as legal and compliance risk. In recent years, credit risk, market risk, and liquidity risk have been quantified, management methods have become more sophisticated, and risk management systems have been put into place. For these types of risk, certain industry standards have been established. The Bank has developed risk management policies and created management systems for these types of risk.

On the other hand, for operational and administration, systems, legal and compliance, and certain other types of risk, industry standards have yet to be established.

Aiming for Comprehensive Risk Management

At Shinsei Bank, a number of divisions are responsible for managing the various types of risk. The Risk Management Division is responsible for the integrated management of credit and market risk and for the management of liquidity risk. Similarly, the Legal and Compliance Division is in charge of managing risks in the legal and compliance fields, while the Operations Planning and Administration Division is responsible for managing operational and administration risk. The Information Technology Division deals with systems risk.

By appointing specific divisions to take responsibility for managing various risks, the Bank aims to promote safety and reliability in its operations. In addition, in January 2000 the Bank established an operational risk section within the Risk Management Division to be in charge of the study of the quantification of operational risk and risk transfer methodologies of our operational risk.

Integrated risk management is not only the precise monitoring of risk in various operations but also the quantification of risk to the greatest extent possible and the computation of the total volume of risk. For those risks that do not lend themselves to or are, in fact, difficult to measure, it is necessary to adopt policies to minimize such risks by making sure the segregation of duties is implemented and by enlarging audit activities.

The Bank is engaged in constant study on risk management to determine what should be recognized as risk in view of changes in the operating environment for financial institutions, changes in technology, and other trends. The Bank believes this fundamental approach to risk constitutes truly comprehensive risk management.

Integrated Risk Management at Shinsei Bank

The Bank has established various committees that have been commissioned by the Management Committee to manage risks. These are the Credit Committee, the ALM Committee, and the Market Risk Management Committee. Their activities include

consideration and discussion of risk-related matters drawing on the extensive experience and professional knowledge of committee members and deciding on basic risk management policies.

Moreover, in May 2000 a new Chief Risk Officer (CRO) was appointed from outside the Bank to be in overall charge of all types of risk. The objective of this appointment was to bring the most advanced risk management know-how and experience into the Bank from Europe and the United States and establish them within the new Bank. The Bank will work to strengthen its integrated risk management capabilities under the leadership of the new CRO.

CREDIT RISK MANAGEMENT

Credit risk arises when counterparties in transactions experience deterioration in their credit condition and become unable to meet their contractual obligations. Among the various types of risk, credit risk may have the greatest impact on a bank's performance, and it is found in a range of transactions, including lending and guarantees as well as in market-related transactions, such as derivatives. Effective management of credit risk therefore requires integrated, cross-divisional management systems.

There are three major policies for conducting sound credit operations. These are securing a sufficient return on risk, avoiding unacceptable concentrations of risk in certain sectors, and managing the loan portfolio with an awareness of losses under worst-case scenarios. To meet these requirements, the Bank has formulated the Credit Policy Manual and the Business Operation Standards for Credit Control Manual that spell out procedures, including basic credit policy and specific guidelines for credit risk management.

As the following sections explain, the credit risk management process can be divided into two parts, the management of risk in individual transactions and risk management at the portfolio level.

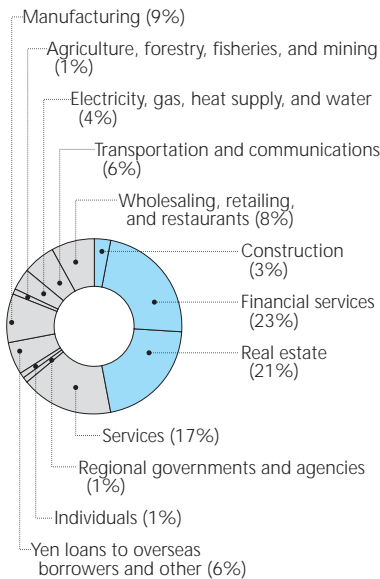
Credit Risk Management in Individual Transactions

Organization and Systems In managing the risk of individual credits, the important issue is establishing effective check and balance relationships throughout the process, from the identification of credit business opportunities to credit analysis/approval, and through the follow-up stages. In the Bank's case, in principle, credit approval authority is delegated to the Risk Management Group. In addition, the Credit Assessment Division is responsible for conducting examinations to check on the appropriateness of procedures. The Credit Assessment Division is independent of the credit-related divisions, such as business promotion, credit, and operations.

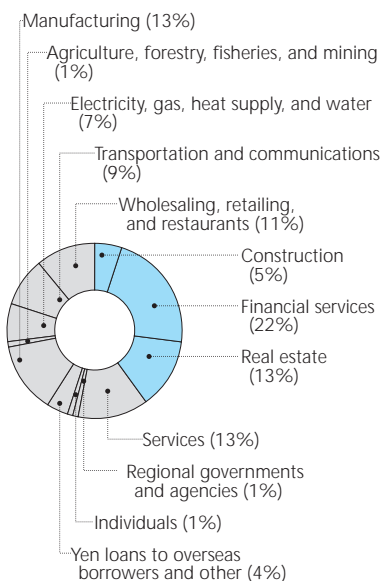
In the past, credit approval authority was delegated to individuals in certain positions. However, with the aim of increasing the objectivity and transparency of the approval process, the Credit Committee is now responsible for approvals. The Credit Committee is composed of the President, Senior Managing Directors, the Director in charge of business promotion, the Head of the Risk Management Group, and the General Manager of the Credit Division as well as other executives with responsibilities related to credit matters. The committee approves individual credits that exceed specified amounts and terms. In addition, the committee approves credit limits for individual customers, customer groups, and types of transactions. Looking forward, the committee is scheduled to take the initiative in correcting concentrations of exposure to certain industries and companies with the objective of substantially enhancing the Bank's industry strategy.

Composition of the Credit Portfolio by Industry

► As of March 31, 1999



► As of March 31, 2000



To respond to increasingly diverse customer needs and expand business opportunities, the Bank is actively engaging in loan trading, asset securitization, and other new, credit-related activities. In the conduct of these operations also, the Bank has hired experienced staff from outside of the Bank and taken in the necessary know-how regarding optimal risk management methods.

In addition, the Bank has formed a team of specialists within the Credit Division to deal with nonperforming loans and is strengthening its systems for early identification of problem credits as well as taking appropriate remedial action. The early identification of problem credits is not only advantageous for the Bank but also enables customers to begin to recover their credit standing while they still have a range of options.

Credit-Ranking System To manage credit risk systematically, the Bank has adopted a credit-ranking system based on the creditworthiness of its customers. These credit ranks indicate the overall creditworthiness of corporations based on judgments regarding quantitative and qualitative information. Ranks are assigned by the Credit Division, and they are reviewed on a regular basis. Credit ranks are used as criteria for credit approval procedures and as the basis for pricing guidelines. The credit-ranking system is therefore the basis for credit risk management.

Risk Management of the Credit Portfolio

Monitoring Analysis System Individual transactions are managed based on appropriate risk analysis, but proper control is essential to have diversification in the overall portfolio by industry and credit ranking. To this end, the Risk Management Division conducts risk analysis on the portfolio to determine the diversification of risk by industry, ranking, specific customers, groups, and other categories. The division also prepares an analysis of factors accounting for changes in credit rankings of customers and monitors other trends in the portfolio. A report on the division's findings is presented to management on a monthly basis. To provide timely information to management, activities are under way to develop management information systems that provide automatic reports.

The accompanying charts show the composition of the Bank's portfolio by industry. As of March 31, 2000, exposure to the construction, real estate, and financial services sectors accounted for 40% of the portfolio. This represented a seven percentage point improvement compared with the previous fiscal year-end. Plans call for the implementation of aggressive measures to rebalance the Bank's portfolio.

Measurement of Risk The measurement of credit risk is the quantification of the possibility of losses that may arise from changes in the credit standing of customers. The "expected loss" is calculated using historical default and recovery ratios. In general, the expected loss is a concept similar to the reserve for loan losses, and it is understood that this is a type of risk that should be factored in the price of transactions. The Bank takes account of expected losses in its lending spreads and makes use of them in deciding on an appropriate return.

Losses that occur under worst-case conditions and exceed expectations based on past experience are known as "unexpected losses." By estimating these unexpected losses, it is believed to be possible to compute risk capital. The Bank computes unexpected losses and analyzes changes in risk capital and profitability on risk capital and works to use this information in managing its portfolio soundly and allocating resources.

Credit Risk in Market Transactions The Bank manages credit risk of 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 contracts have been concluded. For this reason, the Bank strictly manages this type of risk based on the 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 loans and other assets (known as “self-assessments”) and make appropriate write-offs and provisions to reserves for loan losses.

The Bank has structured a self-assessment system under which the Credit Assessment Division, which is independent of business promotion and credit divisions and reports directly to management, has the final responsibility for self-assessments.

In more specific terms, based on the notification issued by the Financial Services Agency, titled Concerning the Inspection Manuals for Deposit-Taking Financial Institutions, the Bank has determined standards for self-assessments and related procedures, and these assessments are being conducted appropriately. The initial assessments are made by the Bank’s branches and divisions responsible for relationship management; secondary assessments are conducted by the Credit Division; and the final assessments are made by the Credit Assessment Division.

Looking forward, the Bank will conduct timely reviews of the classifications of customers by type of borrower and type of loan exposure in response to changes in financial position and other conditions. Thereby, the Bank will strengthen and upgrade its systems for taking early and accurate measures to prevent loan exposure from becoming nonperforming.

MARKET RISK MANAGEMENT

Market risk is defined as the fluctuation of value in financial products accompanied by the movement of foreign exchange rates, interest rates, stock prices, and other indicators. Market risk is inherent in all assets and liabilities, including off-balance-sheet transactions. The Bank regards market risk management as a key part of its risk management activities. Accordingly, the Bank has established systems for this purpose and continues to work to upgrade them.

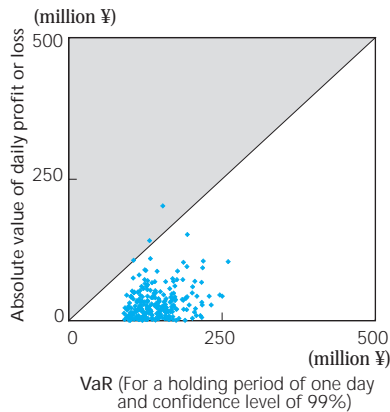
Market Risk Management Methods

By quantifying market risk on a daily and hourly basis along with changes in market trends, the Bank is able to understand risk volumes objectively and visually. The Bank’s market risk management systems allow for timely and proactive awareness, management, and adjustment.

Management of market risk involves a five-stage process that is implemented repetitively. The first stage is the preparation of a database of information on transactions. The second is the classification of data according to risk management unit. The third stage involves the quantification of risk volumes by risk feature and by risk management unit. In the fourth stage, reports are made on risk quantifications. The fifth stage is the evaluation of risk conditions and the making of appropriate adjustments, if necessary. To measure risk conditions accurately, transactions data must be recognized as accurate and complete, the definitions for measurement must be correct, and the criteria (evaluation rates and prices) must be reliable. The Bank has introduced market risk measuring systems, the appropriateness of which has been certified objectively. In the implementation of market risk management, careful attention is paid to the accuracy and appropriateness of transactions data and evaluation criteria.

Results of Back-Testing

(For the year ended March 31, 2000)



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. As the chart above indicates, in fiscal 1999, actual profits and losses exceeded VaR on three days, or 1.2% of the total number of trading days. This suggests that these results are consistent with the 99% confidence interval assumed in the Bank's VaR model and that the model is appropriate.

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 risk management units are determined by the organizational structure, content of operations, and products handled. Each such unit is assigned risk limits through the allocation of comprehensive loss limits and permissive risk exposure amounts authorized by the management. Under this system, when the various units conduct their operations within the assigned limits, the risk management objectives of management are attained.

To measure market risk, the Bank uses the Value-at-Risk (VaR) method* in its trading and the basis-point-value (Bpv) method in its banking business as the principal risk indicators. The validity of the VaR measurement model is confirmed through back-testing, which involves examining how frequently actual daily profit and loss exceed daily VaR (for a holding period of one day). Back-testing on the sample of actual results for the year ended March 31, 2000, continued to confirm the reliability of the Bank's VaR model.

System for Market Risk Management

Market risk can be divided into two types. One is market risk arising passively from lending, debt issuance, and certain other banking operations. The other type of market risk arises from active risk taking and the management of risk in trading business.

The Bank manages market risk effectively and efficiently by concentrating market risk arising from banking activities in the Treasury Group and market risk arising from trading operations in the Trading Division. At the same time, the Risk Management Division is in charge of recognizing, monitoring, and reporting on risk objectively and in a timely manner.

The Risk Management Division measures market risk of both banking and trading operations comprehensively. In addition, in response to the requirements of management, administrative divisions, and front office units, the Risk Management Division provides timely information on risk, conducts analyses of risk, and makes proposals based on this information and analysis.

To enable management to take a substantive role in market risk management, the Bank has established the Market Risk Management Committee. This committee has been assigned the functions of overall examination and evaluation of market risk by the Management Committee. The committee discusses related issues in detail and has the duty to report to and advise the ALM Committee, which stands above it in the organization. The Market Risk Management Committee is led by the Head of the Risk Management Group and its members are the Corporate Executive Officers and General Managers in charge of market-related divisions.

In the actual conduct of trading, the divisions executing transactions—the operations and administrative divisions—and the risk management units act independently. This organizational system with its segregation of duties makes possible effective mutual checking of activities.

Market Risk Management in the New Bank

We have worked consistently since market risk management was generally recognized as a critical issue in the early 1990s to upgrade our market risk management and put the latest approaches into practice. Our recognition of the importance and necessity of risk management remained completely unchanged during the period of temporary nationalization and activities have continued to maintain and upgrade the Bank's risk management systems.

Under the new management as well, the previous recognition of the importance of market risk management continues, and plans call for further efforts to enhance internal supervision and implement the latest approaches. In accordance with our corporate objective of proposing financial products and financial technologies that truly meet customers' needs, we have a high degree of confidence in being able to provide even more attractive products and services that embody an accurate appraisal of risk and make use of sophisticated risk management, intermediary, and hedging techniques.

Management of Liquidity Risk

Liquidity risk arises when it becomes difficult to raise funds because of a decline in credit standing and other factors, or, alternatively, the danger of having to pay a high cost for funding. For all types of companies, not just financial institutions, cash is essential for making monetary settlements and for economic activities. Liquidity risk is therefore an important issue affecting the continuing existence of business entities.

Based on its previous experience, the Bank recognizes that liquidity risk is highly dependent on the credibility it enjoys in financial markets. Accordingly, the Bank works constantly to maintain and enhance credibility in the activities of all its businesses.

To manage liquidity risk effectively, the Bank has structured management systems that allow the qualification of this risk and adjustments in response to changing conditions.

OTHER TYPES OF RISK

Operational and Systems Risk

Operational risk arises when, in the course of administrative or clerical and other processing activities, errors are made or operations are conducted improperly, thus leading to losses or some other form of damage. The Bank's Operations Planning and Administration Division takes the initiative in restraining the incidence of errors to the minimum. The division's activities include simplifying administration, upgrading processing lines, strengthening checking and inspection functions, and providing guidance and training to all personnel involved in these activities. To deal effectively with major operational damage, if it should arise, the division is working on action plans through quantifying operational risk and other measures.

The division also focuses on providing backup systems in the event of major natural disasters and other emergency situations in order to reassure customers that they can continue to rely on the Bank's services at all times.

Computer and other systems risks have received growing attention as bank on-line services have become increasingly important for society. In response, the Bank has prepared contingency plans, including operating manuals, to deal with natural disasters, such as the Plan for Responding to Emergencies, a contact system for times of emergency, and prepared other contingency measures.

In the computer systems area, the Bank has implemented a full range of measures to deal with natural disasters and criminal activity. The Bank has established a backup center for its computer systems and has provided duplicate systems for computer mainframes and related equipment, telecommunications network, power generators, and important software and data. When main computer systems become inoperative, backup systems come on-line immediately. Through these and other measures, the Bank has made thoroughgoing preparations to allow continuation of operations under a wide range of contingencies.

Regarding the Year 2000 problem, the Bank took a full range of necessary countermeasures, and no major problems have occurred to date, but the Bank is continuing to exercise sufficient caution regarding this issue.

Internal Inspection

In recent years, the range of risks that banks confront has grown in diversity and complexity. In addition to the risk management and internal supervision mentioned previously, banks are required to reinforce their internal inspection systems as well. Whereas risk management systems are intended to prevent risks, the Bank's Inspection Division checks the individual activities and processing operations of various business divisions. The Inspection Division is also responsible for examining the risk management sections and for confirming the effectiveness of the segregation of duties and the level of supervision and management. The results of these inspection activities and proposals for improvement are made through the Audit Committee. The risk management system, for example, can only prevent unethical behavior and incidents in advance if it is supported by an appropriate inspection system. The inspection system also contributes to maintaining the level of internal supervision and processing operations and to sustaining the confidence of society. The Inspection Division has been positioned under the Audit Committee, which was newly created with the aim of enhancing the effectiveness of corporate governance.

The Inspection Division implements examinations and audits of the Bank's Head Office and branches, also including certain subsidiaries. In parallel with the growing diversity of operations in recent years, emphasis has been placed on expanding the inspection system. Activities are also in progress to strengthen inspection capabilities by shifting from the former system, which focused upon on-site examinations of operations in the Bank's offices (using static methods and after-the-fact inspections) to examinations that take account of the degree of potential risk and focus on operational and processing flows (a dynamic method).

On the other hand, the Credit Assessment Division is engaged in auditing the appropriateness of the credit approval process, the credit-ranking/self-assessment activities, and other activities to verify the quality of assets that are based on the Bank's Credit Policy. The objectives of these audits are to secure a sound and proper credit business and to detect any decline in the quality of the Bank's assets at the earliest opportunity.

Legal Risk

Accompanying the diversity and complexity of banking businesses, management of legal risk has taken on greater importance.

Under these circumstances, it has become increasingly essential to examine contracts governing various types of transactions that are employed in the Bank's operations to avoid unexpected losses and disputes. The Bank's Legal and Compliance Division has full responsibility for various types of compliance risk, including legal risk and societal risk. The Legal Department within the Legal and Compliance Division reviews contracts and other legal documents in advance to minimize legal risk. In addition to these preventive measures for legal risk, the department is also readying a system to manage lawsuits and other legal actions.

Accompanying the commencement of the operations of the new bank, the social responsibilities and public mission of banking institutions have been reaffirmed, and maintaining effective compliance systems has been targeted as the management objective with the highest priority. Based on this stance, the Bank will work to substantially improve its compliance systems, as explained below, and, while aiming for full compliance with all relevant laws and regulations in all areas, will seek to maintain transparent and sound management.

● IMPROVEMENTS IN THE BASIC COMPLIANCE SYSTEMS

The Bank established the Legal and Compliance Division in September 1999 to concentrate the management of compliance risk, including legal and societal risk, and to strengthen its compliance system in all phases of its operations.

The Legal and Compliance Division was created by combining the Compliance Office, which is responsible for the planning and implementation of compliance matters, judging related issues, and the management of the Bank's compliance officers; the Legal Department, which provides interpretations of and advice regarding the application of laws and regulations that must be followed, supervises lawsuits, and provides other services; and the Customer Relations Department, which responds to complaints and requests from customers.

The Bank has assigned compliance officers* to each of its divisions, offices, and branches to ensure that relevant laws and regulations are followed throughout the Bank. The compliance officers also have the duty to report on compliance status and actions to the Legal and Compliance Division.

*Both compliance officers and compliance managers, who assist compliance officers, are assigned to the Bank's branches.

● ESTABLISHMENT AND IMPLEMENTATION OF COMPLIANCE PROGRAM

Major action plans related to compliance were issued in the Bank's Compliance Program in the latter half of fiscal 1999 and have been implemented. This practice is repeated every six months. Compliance officers conduct a primary check on the implementation of this program, and the Legal and Compliance Division is responsible for a second check. In addition, the results of these checks are reported to the Board of Directors and others and reflected in the performance of divisions, offices, and branches and in the evaluation of individual staff.

● THIRD-PARTY CHECKS ON COMPLIANCE

In the latter half of fiscal 1999, two external legal counselors were engaged to conduct a detailed review of the Compliance Program before it was implemented and to present their opinions to the Compliance Committee* and Board of Directors. A Compliance Program Deliberation Council was also formed. The two external counselors also participated in the Compliance Committee as observers and provided their opinions. Also, in fiscal 2000, the two external legal counselors were appointed as regular members of the Compliance Committee, the frequency of the committee's meetings was increased, and decision-making functions were delegated to the committee. The objective of these measures was to expand and strengthen the checking functions of the compliance promotion program through the participation of third parties.

**The Compliance Committee*

The Compliance Committee, which is chaired by the President of the Bank, was formed in November 1998 as a forum for communication and coordination. Its principal objectives were to ensure observance of the Anti-Monopoly Law, adopt strict measures for information control, maintain trust, and assure observance of other laws and regulations.

Accompanying the strengthening of the functions of the Compliance Committee and expansion in the number of committee members, the Compliance Program Deliberation Council was absorbed into the committee.

● PREPARATION OF COMPLIANCE AND OTHER GUIDELINES

To promote a greater awareness of compliance throughout the Bank and conduct operations properly, the following internal guidelines and other publications have been prepared.

Code of Ethics (Statement of Corporate Ethics, Guidelines for Behavior of Management and Staff) This publication was issued in May 1998 and contains the Bank's basic policies, including guidelines for corporate behavior and guidelines for the behavior of management and staff, which are the basis for the Bank's various rules and systems. This publication was issued to all staff, and steps were taken to acquaint all employees with its content.

Compliance Guideline Issued in April 1999 and based on the basic policies and principles contained in the Code of Ethics, this publication contains standards for making judgments and for behavior in the conduct of operations based on various legal provisions and internal rules.

Compliance Manual Issued in October 1999, this publication is a comprehensive guide to compliance, including interpretations of various major laws. Training programs based on this manual are conducted in all offices and for all employees.

● COMPLIANCE TRAINING PROGRAMS

With the aim of promoting a thorough awareness of compliance matters throughout the Bank, three types of training programs are conducted: for compliance officers, for individual divisions and branches, and for employees in various business groups (industrial corporations, financial corporations, individuals, and others).

Beginning in the latter half of fiscal 1999, accompanying the growing sophistication and specialization of the Bank's operations, compliance courses were included as compulsory curriculum items in existing training programs for various operational divisions for the purpose of nurturing a better appreciation of compliance matters and the observance of laws and regulations pertaining to those specific operational areas.

Plans call for substantially expanding the content of such training courses and systems in view of their importance and holding them on a continuing basis.

Shinsei Bank provides a broad range of services for its corporate customers. In addition to responding to the needs of corporations for financing, the Bank offers investment instruments, including coupon and discount bank debentures. Other services include derivative transactions, asset securitization, and advisory services, including M&A.

Moreover, the Bank is making preparations to establish a securities subsidiary to strengthen the capabilities of the Shinsei Bank Group as it seeks to offer comprehensive financial services. We are working to offer services that accurately meet the needs of our corporate customers to assist them in dealing with evolution in the industrial structure, new accounting criteria, and other changes in the operating environment through strategic alliances with leading financial institutions in Europe and the United States and through other means.

FINANCING TO MEET DIVERSE CUSTOMER NEEDS

The Bank meets the needs of its customers for corporate finance by drawing on its know-how as a bank for industrial finance, a field where it has provided stable financing for many years, principally long-term lending for capital investment and other needs. In the area of corporate finance, we also offer new services, such as commitment lines, syndicated loans, and non-recourse financing, and are actively engaged in investment in growth industries and companies as well as securities-related services reflecting the needs of capital market financing. By continuing to offer new products and services, we will respond to the diverse financing requirements of our customers.

Offering Fund Management Products

The Bank issues coupon debentures (subscription basis) with maturities of one, two, and five years, principally for corporate customers. In addition, to respond to the diverse investment needs of its customers, the Bank began to issue three-year coupon debentures in May 2000.

The Bank's five-year coupon debentures are one of Japan's best-known investment instruments and are issued by long-term credit banks and other financial institutions on a monthly basis. Customers may therefore subscribe to them on a steady, ongoing basis. One-, two-, and three-year coupon debentures respond to the recent increased attention in short- to medium-term investment instruments in view of the prospect of a possible rise in interest rates.

Discount Debentures, Large Time Deposits, NCDs, and CP

For customers interested in short-term investments, the Bank offers one-year coupon debentures, discount debentures, time deposits (large time deposits, "Super" time deposits), negotiable certificates of deposit (NCDs), foreign currency deposits, CP, and other products.



● FINANCIAL STRATEGY PROPOSALS TO ACHIEVE CUSTOMERS' FINANCIAL GOALS

The Bank offers Financial Strategy Proposals tailored to provide solutions to individual customers' goals. These proposals can be divided into two types: comprehensive proposals and proposals to meet specific needs. Comprehensive proposals focus especially on increasing corporate value and achieving enhanced stability. Specifically, these proposals place emphasis on the analysis of the impact of various strategies on customers' stock prices and debt ratings. The Bank's analysts identify specific financial issues based on examinations of past financial statements and help customers set goals for the future. The Bank then assists its customers by recommending specifically the best financial approaches for reaching these goals.

The Bank has developed a simulation system, B/S Manager, to estimate stock prices and debt ratings. Using this system, the Bank's analysts provide advice and assistance to customers in planning and implementing their financial strategies.

Proposals to meet specific needs draw on the Bank's various products and services, such as derivatives and asset securitization. The Bank's officers make proposals to meet various requirements, such as methods for averting interest rate risk and effective ways to improve their financial position through streamlining their balance sheets.

Also, for foreign currency risk, in particular, the Bank has developed F/X Manager, a system for quantifying and managing such risk. The system provides numerical measurement of risk volumes and performs simulations of ways to avert risk. By offering these services, the Bank can make effective proposals for assisting customers in risk management.

● TOP-RANKING RECORD OF ACCOMPLISHMENTS IN DERIVATIVES

Financial derivative products have come into wide use in Japan, as elsewhere, as effective tools for appropriate management of interest rate and foreign currency risks. The Bank became aggressively involved in this area at an early date and by offering practical proposals to meet customer needs has secured a strong reputation in this area.

The Bank has provided its customers with many products it has developed, including the Long-Term Prime Rate Interest Swap PRISM Series. Plans call for continuing to develop and offer derivative products that respond to customer requirements.

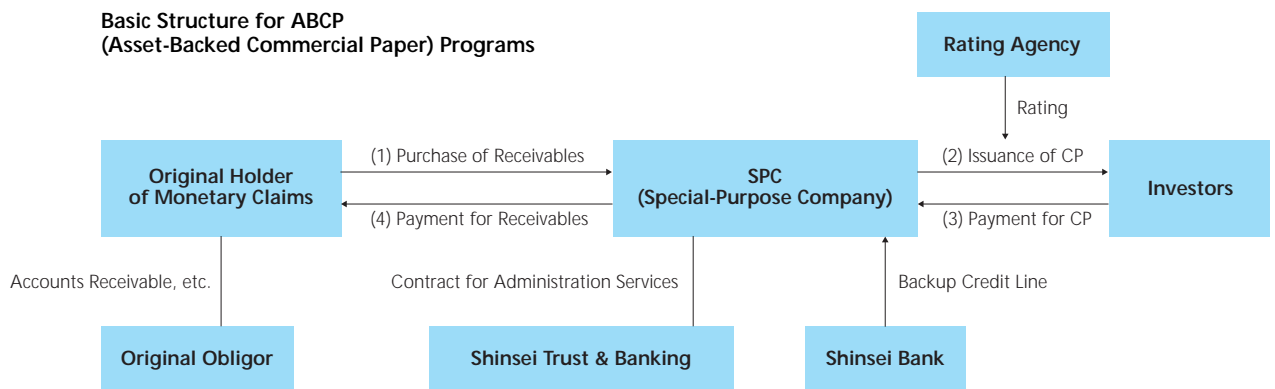
Accompanying the introduction of market price accounting in Japan, derivatives will have an impact on the balance sheets and statements of income that customers must file to meet disclosure requirements.

The Bank is endeavoring to offer its customers accurate information, and the content of derivative transactions, including their merits and possible demerits, are explained to customers in detail. The Bank believes that providing sufficient information to have customers gain a full understanding is one of its most important roles. Based on this belief, the Bank holds seminars and study sessions to offer information covering a full range of topics related to derivatives. In addition, the Bank has prepared and distributed its Derivatives Handbook, which contains basic information on derivatives and cautionary statements regarding their use. This publication is widely used by the Bank's customers.

Asset liquification and securitization have drawn strong interest in recent years, both as a means of financing and balance sheet management. As a result of the passage of such basic legislation as the Special Purpose Company Law and the Special Measures Law for Transfer of Monetary Claims and the growing awareness among investors of securitized products as investments, the market for these products has expanded dramatically.

Along with these developments, the Bank has conducted research on methods of securitization and examples in the United States. Because of these and other efforts, the Bank was one of the first entrants into this area. Although temporarily suspended, the Bank began to provide asset-backed commercial paper (ABCP) programs again in December 1999. Through the liquification and securitization of monetary claims, such as loans and accounts receivable, the Bank supports the financing activities of its customers while also responding to the needs of investors.

The Bank will continue to draw on its accumulated know-how in financial technology and product development to offer services and advice that are truly useful to its customers and contribute to their financing and investing activities. In these endeavors, the Bank will seek to design sophisticated products and structures relying both on the specialist staff of the Financial Engineering Group and the capabilities of Shinsei Trust & Banking Co., Ltd. (the former LTCB Trust & Banking Co., Ltd., which was established originally in November 1996 and was renamed on June 5, 2000). Moreover, the Bank will work in cooperation with the European and U.S. financial institutions that have invested in Partners to introduce advanced financial know-how from overseas.



Note: The SPC agrees to purchase the accounts receivable, issues CP backed by the receivables, then uses the proceeds from the issue of CP to pay for the receivables. The Bank provides a backup credit line (to cover funding requirements when receivables are amortized) and provides credit support for the CP issue. In addition, Shinsei Trust and Banking takes custody of and administers the accounts receivable.

ADVISORY SERVICES TO ASSIST CUSTOMERS IN THEIR BUSINESS STRATEGIES

As deregulation proceeds rapidly across all industries, the existing framework of corporate activities, that is, the “domains” of businesses and marketing activities, is disappearing or being redefined, and competition among different types of business entities is becoming intense.

The Bank is actively engaged in offering various types of advisory services, including M&A assistance, to assist its customers in implementing strategic initiatives, such as withdrawing from existing businesses, expanding current operations, entering new businesses, and restructuring. Looking forward, through new alliances with the top financial institutions in Europe and the United States the Bank will be working to provide cutting-edge services to meet customer needs.

● SERVICES FOR EMPLOYEES OF CORPORATE CUSTOMERS

For employees of corporate customers, the Bank will continue to offer asset formation savings plans, including those for housing, pension, and general use, as well as housing loans through tie-ups. In addition, the Bank is now developing a new type of housing loan that will require no guarantee fee and offer more-flexible repayment features.

● SERVICES FOR FINANCIAL INSTITUTIONS

Besides the services previously mentioned for nonfinancial corporations, for its broad customer base among financial institutions, the Bank provides advice and assistance from a neutral standpoint in addressing a range of management issues based on its advanced know-how.

Derivative Products

The Bank is highly regarded for its financial technology, and many financial institutions make use of the hybrid and many other products that the Bank has developed. Plans call for continuing to provide customers with accurate information and proceed with the development as well as offering of derivative products that meet their needs.

Assistance in Advisory Services

The Bank makes use of the know-how it has accumulated in advisory services, including M&A, to offer information and assistance to the customers of other financial institutions in restructuring their operations.

Support for Introducing New Accounting Standards

To provide advice to customers regarding changes in accounting standards, such as the introduction of market price accounting principles, the Bank works with the Comprehensive Value Research Institute. By offering information to customers at an early date, the Bank provides support for the smooth transition to and compliance with new standards. The Bank also supports financial institution customers in cash flow accounting by using its know-how from its lending business and its credit capability.

Advice for Improved Risk Management

Along with the introduction of the Financial Inspection Manuals by the Financial Supervisory Agency and more stringent requirements for self-responsibility and accountability, the Bank provides a broad range of advisory services for its customers among financial institutions. This includes advice on all aspects of risk management, from structuring systems to the measurement of credit risk.

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. (Refer to page 5.)

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, Hirotao 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.

FINANCIAL SECTION

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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)					
	2000	1999	1998	1997	1996	1995
Net Interest Income:						
Interest Income	¥ 340,486	¥ 704,186	¥ 966,312	¥1,780,373	¥2,010,154	¥1,844,713
Interest Expenses	319,756	545,614	765,865	1,567,427	1,896,252	1,774,526
	¥ 20,729	¥ 158,572	¥ 200,447	¥ 212,945	¥ 113,901	¥ 70,186
Fees and Commissions, Net:						
Fees and Commissions (Income)	¥ 9,289	¥ 40,641	¥ 64,141	¥ 35,326	¥ 36,607	¥ 32,486
Fees and Commissions (Expenses)	4,398	9,918	43,299	12,206	11,904	13,253
	¥ 4,891	¥ 30,722	¥ 20,842	¥ 23,120	¥ 24,702	¥ 19,232
Trading, Net:						
Trading Revenue	¥ 2,728	¥ 3,252	¥ 5,422	¥ /	¥ /	¥ /
Trading Expenses	79	27,637	6,204	/	/	/
	¥ 2,649	¥ (24,385)	¥ (781)	¥ /	¥ /	¥ /
Other Operating Income (Loss), Net:						
Other Operating Income	¥ 7,841	¥ 48,877	¥ 140,952	¥ 187,210	¥ 304,603	¥ 110,072
Other Operating Expenses	17,156	50,953	134,380	141,770	178,810	80,011
	¥ (9,315)	¥ (2,075)	¥ 6,572	¥ 45,439	¥ 125,792	¥ 30,061
Net (Loss) Gain on Sales, Redemption and Devaluation of Bonds						
	¥ (1,271)	¥ (12,390)	¥ (9,561)	¥ 40,892	¥ 100,979	¥ 32,482
General and Administrative Expenses	62,735	85,462	107,965	133,320	131,604	126,732
Other Income	1,613,896	2,864,273	270,112	363,756	478,769	458,178
Income from Special Monetary Support... Transfer to Temporary Nationalization Account	821,671	/	/	/	/	/
	—	2,786,889	/	/	/	/
Gain on Sales of Stocks and Other Equity-Related Securities	486,234	17,685	219,451	330,815	441,182	427,873
Other Expenses	1,459,017	3,710,444	644,648	484,982	679,075	436,431
Loss on Sales of Stocks and Other Equity-Related Securities	145,531	72,286	33,540	22,003	18,882	20,827
Loss on Devaluation of Stocks and Other Securities	2,215	285,679	14,522	247,787	9,677	46,574
Provision for Loan Losses	365,473	1,191,480	305,348	47,023	158,402	97,822
Claims Written Off	948	3,963	51,507	19,679	302,251	12,052
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	2,106
Total Income	1,974,242	3,661,239	1,460,694	2,369,188	2,830,136	2,445,451
Total Expenses	1,863,143	4,430,031	1,702,362	2,340,568	2,899,433	2,433,062
Income (Loss) before Income Taxes and Other	¥ 111,098	¥ (768,792)	¥ (241,667)	¥ 28,619	¥ (69,296)	¥ 12,388
Net Income (Loss)	¥ 111,346	¥(1,010,172)	¥ (148,651)	¥ 19,473	¥ (34,854)	¥ 7,081
Per Common Share (Yen)						
Net Income (Loss)	¥45.60	¥(418.03)	¥ (62.12)	¥ 8.13	¥ (14.56)	¥ 2.95
Cash Dividends	—	—	6.00	6.00	6.00	8.00
Total Stockholders' Equity	50.31	n.m.	373.96	442.32	439.29	463.74
Number of Shares Issued (Thousands)						
Common Stock	2,717,075	2,417,075	2,392,904	2,392,904	2,392,904	2,392,904
Preferred Stock	74,528	100,000	100,000	—	—	—

Note: n.m.: not meaningful

Balance Sheet Data

March 31	Millions of Yen (Except Key Ratios)					
	2000	1999	1998	1997	1996	1995
Assets						
Cash and Due from Banks	¥ 1,930,219	¥ 817,247	¥ 1,281,887	¥ 1,342,134	¥ 1,398,480	¥ 4,784,145
Call Loans	363,492	586,007	558,877	239,757	916,017	1,156,873
Commercial Paper and Other Debt Purchased ...	1,189	5,266	126,428	10,873	5,716	6,716
Trading Account Securities				390,203	2,138,171	1,301,134
Trading Assets	545,120	865,931	1,243,291			
Money Held in Trust	—	59,213	560,159	679,131	909,982	788,119
Securities	2,804,703	2,074,839	4,073,479	5,084,716	5,345,160	4,836,375
Loans and Bills Discounted	7,711,024	13,690,599	15,990,706	19,174,126	19,175,855	19,039,127
Foreign Exchanges	14,294	21,057	47,280	70,957	67,301	52,599
Temporary Nationalization Account		2,786,889				
Other Assets	366,778	1,116,029	1,622,992	1,475,396	1,434,260	973,184
Premises and Equipment	35,865	82,425	127,438	140,851	148,458	149,265
Deferred Discounts on and Issuance Expenses for Debentures	1,981	3,906	9,465	18,162	22,912	55,782
Deferred Income Taxes	—	—	230,652	106,723	112,912	58,692
Customers' Liabilities for Acceptances and Guarantees	298,624	499,695	693,032	773,742	866,422	902,365
Reserve for Loan Losses	(866,518)					
Total Assets	¥13,206,776	¥22,609,110	¥26,565,691	¥29,506,775	¥32,541,653	¥34,104,381
Liabilities, Minority Interests in Consolidated Subsidiaries and Stockholders' Equity						
Debentures	¥ 6,730,795	¥ 7,965,770	¥12,268,677	¥15,511,565	¥16,180,815	¥17,798,494
Deposits, including NCDs	2,777,516	3,371,968	5,955,224	8,294,252	7,116,148	7,610,940
Call Money	245,206	1,663,974	864,267	561,824	2,985,979	2,758,204
Commercial Paper	500	1,500	—	—	—	—
Trading Liabilities	277,876	553,342	799,198			
Borrowed Money	902,995	3,633,587	1,477,071	1,135,558	1,018,465	981,324
Foreign Exchanges	270	1,001	1,393	4,199	3,680	3,037
Other Liabilities	1,482,460	1,043,589	2,694,300	1,669,978	2,773,725	2,500,646
Reserve for Loan Losses		3,664,716	741,932	447,540	501,273	400,030
Reserve for Derivative-Related Credit Risk	1,295	—	—	—	—	—
Reserve for Retirement Allowances	15,512	20,184	27,544	19,755	19,438	18,743
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	80	—	—	—	—	—
Other Reserves	0	6	14	13,766	15,427	13,645
Deferred Tax Liabilities	—	2,586	—	—	—	—
Minority Interests in Consolidated Subsidiaries			663	1,798	9,088	7,264
Acceptances and Guarantees	298,624	499,695	693,032	773,742	866,422	902,365
Total Liabilities	12,733,132	22,599,159	25,540,845	28,448,322	31,490,465	32,994,697
Minority Interests in Consolidated Subsidiaries	59	167				
Total Stockholders' Equity	473,584	9,782	1,024,845	1,058,453	1,051,188	1,109,683
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Stockholders' Equity	¥13,206,776	¥22,609,110	¥26,565,691	¥29,506,775	¥32,541,653	¥34,104,381
Key Ratios (%)						
Return on Total Income	5.64%	n.m.	n.m.	0.82%	n.m.	0.29%
Return on Total Assets	0.72	n.m.	n.m.	0.06	n.m.	0.02
Return on Total Stockholders' Equity	n.m.	n.m.	n.m.	1.86	n.m.	0.64
Risk-Weighted Capital Ratio (BIS Criteria)		0.12%	10.32%	9.22	8.85%	8.51
Risk-Weighted Capital Ratio (Domestic Criteria)...	12.21					

Note: n.m.: not meaningful

OPERATING ENVIRONMENT

Financial and Economic Conditions

During fiscal 1999, ended March 31, 2000, the U.S. economy continued its strong expansion led principally by growth in private consumption and private capital expenditure. Similarly, Europe and Asia escaped from recession in part because of the recovery of exports accompanying lower currency values and other factors. Another contributing factor was the worldwide IT investment boom, which has begun to act as a driving force for economic expansion. Amid this environment, as the rise in crude oil prices suggests, the demand and supply balance for raw materials and finished products is growing tighter. Central banks in Europe and the United States are shifting from relaxed to tighter monetary policies and have announced a series of increases in interest rates.

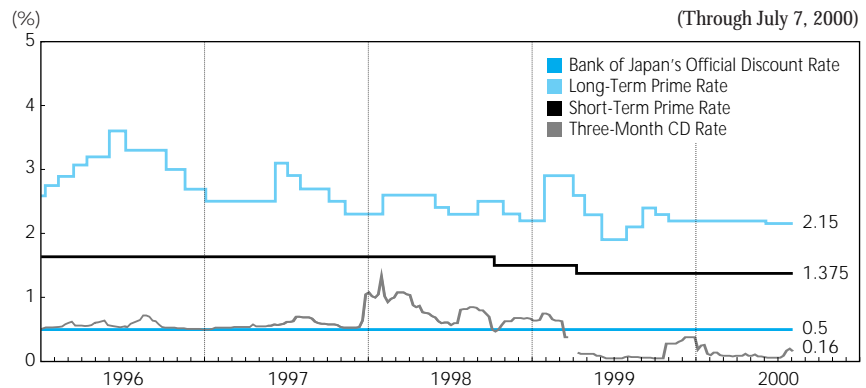
Along with these developments, the Japanese economy began to show gradual signs of improvement. This was evidenced by the ending of the decline in private capital expenditure, as corporate profitability took a turn for the better. In addition, signs of improvement also emerged in private consumption as consumer confidence improved. Similarly, private housing investment increased owing to the expansion of the favorable tax treatment for housing loans. In summary, it appears that as government policies have provided support for the economy, private-sector demand has moved just a few steps from self-sustaining recovery. Moreover, prices have remained stable, and the surplus in the current account of the balance of payments began to decline owing to the strengthening of the yen and the sharp rise in imports along with an overall improvement in economic conditions.

Turning to financial conditions in Japan, interest rates remained at extremely low levels as the Bank of Japan implemented a zero interest rate policy. Long-term interest rates were around one percent, and short-term rates hovered at about zero percent. After financial institutions made significant progress toward the disposal of nonperforming loans, large institutions announced a series of plans for mergers, and Japan's financial services sector moved into a period of full-scale consolidation. The yen exchange rate strengthened from around ¥120 to about ¥105 per one U.S. dollar in summer 1999 and subsequently fluctuated in the ¥100 to ¥110 range.

As economic conditions brighten, the focus of the government's economic policy is shifting from giving priority to economic recovery to the restructuring of government finances in the aftermath of fiscal policies aimed at achieving recovery at any cost and the task of increasing economic efficiency, which had been difficult to address under recessionary conditions.

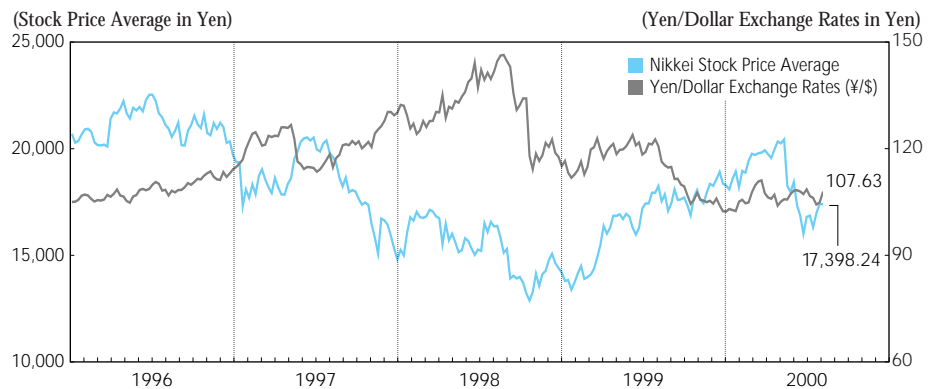
Principal Economic Indicators

► Main Interest Rates



► Nikkei Stock Price Average and Yen/Dollar Exchange Rates

(Through July 7, 2000)



SUMMARY OF PERFORMANCE

Summary of Financial Results

Accompanying the commencement of the temporary nationalization, the Bank's stocks were transferred to DIC, and the Bank came under government ownership. The government then selected the management group for the Bank, and, based on the Corporate Restructuring Plan and the Credit and Other Business Policies, the Bank undertook measures to significantly improve its operating and financial positions and the quality of its assets as well as maintain and enhance its corporate value, with the ultimate aim of ending the temporary nationalization.

During fiscal 1999, in August 1999 and February 2000, the Bank sold loans deemed inappropriate for it to hold on its balance sheet to the RCC. In addition, most stocks held in the Bank's equity portfolio were sold to DIC.

To withdraw from overseas operations, the Bank took steps to systematically dispose of its overseas assets and close offices. This process was completed with the closure of the New York Branch and its conversion to a representative office.

Accompanying these developments, the Bank also disposed of properties, reviewed its operations, and took steps to reduce expenses. As a result, the Bank had reached its goal set under the Corporate Restructuring Plan of reducing the number of personnel to 2,500 and operating expenses to ¥65 billion by the end of the interim term—ended September 30, 1999—of fiscal 1999.

In February 2000, Partners became the acquirer of the Bank, and, following the sale of the remaining inappropriate assets and the disposal of other matters, the Bank received a supplementary grant from DIC to cover losses incurred during the temporary nationalization and repaid its loans to DIC in full. On March 1, 2000, accompanying the transfer of the Bank's stocks to the acquirer, the temporary nationalization came to an end.

Following the termination of temporary nationalization, the Bank sold new shares to Partners in the amount of ¥120 billion, and, on the last day of March 2000, the Bank received an infusion of public funds amounting to ¥240 billion through the subscription of preferred stocks. As a consequence, the Bank's stockholders' equity amounted to ¥469.8 billion (non-consolidated basis) as of March 31, 2000.

Trends in Principal Indicators of Consolidated Performance

Years Ended March 31	Millions of Yen, Except per Share Figures and Ratios					
	2000	1999	1998	1997	1996	1995
Operating Income	¥ 866,159	¥ 821,495	¥ 1,410,055	¥ 2,363,908	¥ 2,828,752	¥ 2,444,150
Net Operating Income (Loss)	(112,499)	(1,591,645)	(282,669)	26,497	(67,012)	13,765
Net Income (Loss)	111,346	(1,010,172)	(148,651)	19,473	(34,854)	7,081
Capital Stock	229,296	390,710	387,229	322,229	322,229	322,229
Stockholders' Equity	473,584	9,782	1,024,845	1,058,453	1,051,188	1,109,683
Total Assets	13,206,776	22,609,110	26,565,691	29,506,775	32,541,653	34,104,381
Debentures	6,730,795	7,965,770	12,268,677	15,511,565	16,180,815	17,798,494
Deposits, including NCDs	2,777,516	3,371,968	5,955,224	8,294,252	7,116,148	7,610,940
Loans and Bills Discounted	7,711,024	13,690,599	15,990,706	19,174,126	19,175,855	19,039,127
Securities	2,804,703	2,074,839	4,073,479	5,084,716	5,345,160	4,836,375
Stockholders' Equity per Common Share (Yen).....	50.31	n.m.	373.96	442.33	439.29	463.74
Net Income (Loss) per Common Share (Yen).....	45.60	(418.03)	(62.12)	8.13	(14.56)	2.95
Risk-Weighted Capital Ratio (BIS Criteria) (%)		0.12%	10.32%	9.22%	8.85%	8.51%
Risk-Weighted Capital Ratio (Domestic Criteria) (%)	12.21%					

Notes: 1) Stockholders' equity per common share is computed by first subtracting the number of preferred shares outstanding at the end of the fiscal year times the issue price of such shares from net assets, then dividing the remainder by the number of common shares (excluding treasury stock) outstanding at the end of the fiscal year.

2) Net income (loss) per common share is computed by dividing net income (loss) by the average number of common shares outstanding during the fiscal year (excluding treasury stock).

3) The risk-weighted capital ratio is computed according to the formula set forth in the Ministry of Finance Ordinance relating to capital ratios which is 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. Please note that the BIS capital adequacy criteria were applicable to the Bank in previous fiscal years, but beginning with the fiscal year under review domestic criteria are applicable.

4) n.m.: not meaningful

Description of Business

(Fiscal Year Ended March 31, 2000)

The Shinsei Bank Group (Shinsei Bank, Limited, its subsidiaries, and affiliated companies) comprises seven subsidiaries, including Shinsei Trust & Banking Co., Ltd., and five affiliated companies (accounted for by the equity method), including Value Management Institute, Inc. The Group is engaged in providing financial services, including principally banking and trust business services. The main services provided include the following:

Banking: At its Head Office and domestic branches, the Bank issues debentures, takes deposits, makes loans and provides guarantees, handles financial futures transactions, provides domestic remittance services, handles foreign exchange transactions, and offers certain other services.

In addition, overseas subsidiary The Long-Term Credit Bank of Japan Finance N.V. (now Shinsei Bank Finance N.V.) issues medium- to long-term bonds and books derivative transactions.

Trust Business: Domestic subsidiary LTCB Trust & Banking (now Shinsei Trust & Banking) offers monetary claims trusts, securities trusts, specified money trusts, and certain other services.

Other Activities: An affiliate (accounted for by the equity method), Value Management Institute, offers consulting, development research, and certain other services.

Review of Consolidated Statements of Operations Data

Highlights of the Statements of Operations Data

Years Ended March 31	Millions of Yen		
	2000	1999	1998
Net Operating Loss	¥(112,499)	¥(1,591,645)	¥(282,669)
Net Interest Income.....	20,729	158,572	200,447
Fees and Commissions, Net.....	4,891	30,722	20,842
Trading, Net.....	2,649	(24,385)	(781)
Other Operating (Loss) Income, Net.....	(9,315)	(2,075)	6,572
General and Administrative Expenses	(62,735)	(85,462)	(107,965)
Other Expenses, Net.....	(68,719)	(1,669,017)	(401,784)
Net Special Gains	223,598	822,853	41,001
Net Income (Loss) before Income Taxes and Other...	111,098	(768,792)	(241,667)
Current Income Tax Expenses.....	1,526	8,295	2,745
Deferred Income Tax Expenses	(1,786)	233,389	(96,085)
Minority Interests in Net Income.....	11	(304)	(131)
Equity in Earnings of Affiliated Companies			(454)
Net Income (Loss).....	¥ 111,346	¥(1,010,172)	¥(148,651)

Indicators of the Bank's Profitability (Non-Consolidated, please refer to page 76)

The principal indicators of the Bank's profit position include gross business profit, net business profit, net operating income, and net income.

Gross business profit is regarded as the best measure of profitability of a bank's core businesses. Along with gross business profit, its four components also measure profitability by type of business. These are net interest income, which shows net earnings generated from funds sourced and funds used; fees and commissions, net, which is generated through guarantees, securities-related, and other fee-based activities; trading, net, which is income obtained from buying and selling securities and derivatives; and other operating income, net, comprising net gains or losses from foreign exchange transactions, bond trading in the investment account, and other activities.

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

Profit for the Period

Consolidated statement of operations data for fiscal 1999 are virtually the same as for the Parent owing to the implementation—during the period of temporary nationalization—of the Bank's Corporate Restructuring Plan, which led to a decline in the number of subsidiaries accompanying the withdrawal from international operations and a review of the Bank's operations.

Although net interest income declined ¥137.8 billion, the Bank reported gains from the sale of stocks to DIC, and credit costs decreased significantly, and, therefore, other expenses, net, declined substantially. As a consequence, the net operating loss declined ¥1,479.1 billion from fiscal 1998, to an operating loss of ¥112.4 billion. However, net income for the fiscal year amounted to a positive ¥111.3 billion.

Profit for the Period (Non-Consolidated, please refer to page 76)

Gross business profit declined ¥155.2 billion, to ¥14.8 billion, in fiscal 1999, owing to a decline in net interest income and losses on the sale of performing loans accompanying the withdrawal from overseas operations. However, as a result of the management rationalization, the reduction in expenses, and the reversals of the general reserve for loan losses, net business profit amounted to ¥49.2 billion.

In addition, looking toward the termination of the temporary nationalization, the Bank disposed of ¥1,043.6 billion in nonperforming loans. Moreover, the Bank recorded gains from the sale of stocks to DIC and received a grant from DIC to cover losses incurred during the temporary nationalization. Therefore, although net operating income was negative (a loss of ¥112.7 billion) for the third consecutive fiscal year, net income moved into the positive range and amounted to ¥109.8 billion.

Please note that no profits were available for distribution as dividends; therefore, no cash dividends were paid for either the first or second six months of fiscal 1999.

Review of Consolidated Balance Sheet Data

Among assets and liabilities, as a result of the examination and classification of assets by the FRC, those assets that were judged to be inappropriate for the Bank to hold were sold to the RCC, resulting in a significant decline in assets and liabilities. In addition, as a result of the sale of new shares to Partners and the infusion of public funds from the Japanese government, the Bank's stockholders' equity rose ¥463.8 billion, to ¥473.5 billion.

Highlights of Consolidated Balance Sheet Data

March 31	Billions of Yen		
	2000	1999	1998
Assets			
Loans and Bills Discounted	¥ 7,711.0	¥13,690.5	¥15,990.7
Securities	2,804.7	2,074.8	4,073.4
Trading Assets.....	545.1	865.9	1,243.2
Other Assets	366.7	1,116.0	1,622.9
Reserve for Loan Losses.....	(866.5)		
Total Assets	¥13,206.7	¥22,609.1	¥26,565.6
Liabilities			
Debentures	¥ 6,730.7	¥ 7,965.7	¥12,268.6
Deposits.....	2,046.0	2,715.1	4,522.8
NCDs	731.4	656.8	1,432.3
Trading Liabilities	277.8	553.3	799.1
Other Liabilities	1,482.4	1,043.5	2,694.3
Reserve for Loan Losses.....		3,664.7	741.9
Minority Interests in Subsidiaries.....			0.6
Total Liabilities	¥12,733.1	¥22,599.1	¥25,540.8
Minority Interests in Subsidiaries.....	0.0	0.1	
Total Stockholders' Equity	473.5	9.7	1,024.8
Total (Liabilities, Minority Interests in Subsidiaries and Stockholders' Equity)	¥13,206.7	¥22,609.1	¥26,565.6

Assets, Liabilities, and Stockholders' Equity (Non-Consolidated, please refer to page 77)

Total assets declined ¥9,438.6 billion, to ¥13,755.7 billion, at the end of fiscal 1999. This drop was due to three principal factors: the sale of loans deemed inappropriate for the Bank to hold on its balance sheet to the RCC, the sale of securities held to the RCC, and the disposal of overseas assets accompanying the withdrawal from international operations.

Loans and bills discounted were down ¥5,910.0 billion, to ¥7,704.7 billion. Total securities increased ¥715.3 billion, to ¥2,810.1 billion. Although equity holdings fell ¥1,296.0 billion, the Japanese government bond portfolio expanded ¥2,187.9 billion.

Accompanying the decline in assets, debentures outstanding fell ¥1,185.1 billion, to ¥6,481.8 billion. Deposits and NCDs were down ¥538.8 billion, to ¥2,824.2 billion.

Borrowed money decreased ¥2,772.3 billion, including ¥2,700.0 billion in repayment of loans to DIC.

Please note that beginning with the fiscal year under review, the reserve for loan losses is now shown as a deduction from assets. The decline in total assets therefore includes ¥866.9 billion in the reserve for loan losses at the fiscal year-end.

Stockholders' equity amounted to ¥469.8 billion at the end of fiscal 1999. After the termination of the temporary nationalization, the Bank sold new shares to Partners, which generated proceeds of ¥120 billion, and, on the last day of March 2000, received an infusion of public funds through the issuance of ¥240 billion in preferred shares. In addition, simultaneously with the receipt of proceeds from the issuance of new shares, the Bank amortized at zero cost the amount in excess of the par value of common shares and 25,472 thousand of the 100 million preferred stocks outstanding, for a total reduction in capital at zero cost of ¥221.4 billion.

Issues to Be Addressed

Following the termination of the temporary nationalization, the Bank began its operations anew as a private financial institution owned by new stockholders.

Looking to the future, the Bank would like to contribute broadly to the development of the national economy by working to increase customer satisfaction as it provides customers with value-added financial services while maintaining transparency and soundness in its management to secure the trust of its customers and the confidence of financial markets.

The Bank has also renewed its management systems, clarifying the responsibilities and roles of the members of the Board of Directors and the management team. Steps are being taken to build close teamwork with the investors in Partners, which are among the world's leading financial institutions, to expand the Bank's capabilities and services in retail banking and actively enter new and sophisticated financial areas. The ultimate objective of these initiatives is to create a completely new type of financial services provider.

DISPOSAL OF NONPERFORMING LOANS

Disposal of Nonperforming Loans in Fiscal 1999 (Non-Consolidated)

Beginning from the fiscal year under review, the Bank began to conduct self-assessments based on the Financial Inspection Manuals that became applicable during the fiscal year and, accordingly, made provisions for losses on individual loans of ¥196.7 billion for the fiscal year under review. In addition, the Bank reported losses on sales of Inappropriate Assets (which were judged to be inappropriate for the Bank to hold) of ¥843.9 billion, including losses on sales to the RCC and losses on the disposition in December 1999 of all claims to loans sold to the Cooperative Credit Purchasing Company, Limited (CCPC). Total costs of the disposal of nonperforming loans and other claims for the fiscal year, including the above-mentioned items, were ¥1,043.6 billion.

As a result of the measures previously mentioned, the Bank disposed of inappropriate assets and completed the making of provisions to the reserve for losses on Appropriate Assets (which were judged to be appropriate for the Bank to hold).

This completed the thoroughgoing measures to improve the quality of the Bank's assets under the temporary nationalization.

Breakdown of Disposal of Nonperforming Loans (Non-Consolidated)

Years Ended March 31	Millions of Yen	
	2000	1999
Write-Offs	¥ 948	¥ 3,761
Provisions to Specific Reserve for Loan Losses.....	196,719	2,624,375
Losses on Sales of Loans to the CCPC	—	9,585
Provisions to Reserve for Losses on Loan Sales.....	—	82,172
Other Losses on Loan Sales	15,215	31,938
Reserve for Losses on Disposal of Specified Assets.....	(13,162)	79,714
Losses on Sales of Inappropriate Assets.....	843,967	—
Total (Credit Costs)	1,043,688	2,831,545
General Reserve for Possible Loan Losses	(96,219)	382,918
Provisions to Country Risk Reserve	(9,081)	9,813
Total (Credit and Related Costs)	¥ 938,388	¥3,224,276

Status of Risk-Monitored Assets

The total amount of risk-monitored assets outstanding on a non-consolidated basis as of March 31, 2000, was ¥1,790.9 billion, representing a decline of ¥1,685.3 billion from the previous fiscal year-end. The principal reason for this decline was the sale of assets judged to be inappropriate to the RCC and other purchasers.

The breakdown of risk-monitored loans was as follows: loans to borrowers in bankruptcy, ¥188.1 billion; past due loans (excluding past due loans three months or more), ¥801.2 billion; past due loans three months or more, ¥22.6 billion; and restructured loans, ¥778.8 billion. Risk-monitored loans accounted for 23.24% of the Bank's total loans and bills discounted at fiscal year-end.

Beginning with the fiscal year under review, the criteria for disclosing risk-monitored loans are based on self-assessment. Therefore, doubtful loans are classified as past due loans regardless of whether payments of principal or interest are in arrears. As a result of this change in disclosure criteria, total risk-monitored loans are ¥175.7 billion higher than under the previous criteria.

On a consolidated basis, risk-monitored loans amounted to ¥1,790.3 billion in total.

Risk-Monitored Loans (Consolidated)

March 31	Millions of Yen	
	2000	1999
Loans and Bills Discounted	¥7,711,024	¥13,690,599
Loans to Borrowers in Bankruptcy (A).....	188,166	763,633
Past Due Loans (B)	800,716	2,262,274
Total (A)+(B)	988,882	3,025,907
(Ratio to Total Loans and Bills Discounted) (%).....	12.82%	22.10%
Past Due Loans Three Months or More (C)	22,665	231,727
Restructured Loans (D)	778,815	228,781
Risk-Monitored Loans (E)		
(A)+(B)+(C)+(D)	1,790,362	3,486,417
(Ratio to Total Loans and Bills Discounted) (%).....	23.22%	25.47%
Total Loan Loss Reserve.....	866,518	3,664,716
Reserve Coverage Ratio (%).....	48.40%	105.11%

Definitions of Risk-Monitored Loan Categories Risk-monitored loans 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 fiscal year under review, unpaid interest on loans classified in self-assessments under the criteria of the Financial Reconstruction 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 Reconstruction Law (Non-Consolidated)

Under the disclosure criteria of the Financial Reconstruction Law, the Bank had the following amounts of exposure in various categories as of March 31, 2000: bankrupt and quasi-bankrupt, ¥289.0 billion; doubtful, ¥774.2 billion; and substandard, ¥801.4 billion, for a total of ¥1,864.7 billion, representing a decrease of ¥2,817.5 billion.

Assessment of Claims under the Financial Reconstruction Law

March 31	Millions of Yen	
	2000	1999
Bankrupt and Quasi-Bankrupt (A)	¥ 289,050	¥3,542,054
Doubtful (B)	774,211	1,011,068
Substandard (C)	801,480	129,183
Total (A)+(B)+(C)	¥1,864,742	¥4,682,305
Total Loan Loss Reserve	¥ 866,981	¥3,656,791
Reserve Coverage Ratio (%)	46.49%	78.10%

Definitions of Claims Classified under the Financial Reconstruction Law The asset quality of the following balance sheet items is assessed under the Financial Reconstruction 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 concerning 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, 2000, the Bank's reserve for loan losses was as follows: general reserve, ¥317.4 billion; specific reserve, ¥549.1 billion; reserve for loans to restructuring countries, ¥308 million; for a total of ¥866.9 billion, a decline of ¥2,789.8 billion from the previous fiscal year-end. This was due to the reversal of a substantial portion of the specific reserve for loan losses accompanying the sale of inappropriate loans to the RCC and others and a reduction in loans eligible for reserve provisions in international banking owing to the withdrawal from overseas operations.

Please note that beginning with the fiscal year under review, the reserve for loan losses is shown as an item deducted from assets.

Reserve for Loan Losses

March 31	Millions of Yen	
	2000	1999
General Reserve	¥317,480	¥ 413,700
Specific Reserve	549,191	3,232,604
Reserve for Loans to Restructuring Countries	308	10,487
Total	¥866,981	¥3,656,791

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 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 such facts as 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.

RISK-WEIGHTED CAPITAL RATIOS

Based on the Corporate Restructuring Plan prepared under temporary nationalization, the Bank withdrew from international operations. With the closure of the New York Branch in December 1999 (and its conversion to a representative office), the Bank completed the closure of its overseas branches and banking subsidiaries where Bank personnel were stationed on a regular basis.

Accordingly, beginning with the year ended March 31, 2000, the Bank has changed from BIS Criteria for the computation of its risk-weighted capital ratio to Domestic Criteria.

The principal points related to this change are as follows.

- The minimum capital adequacy ratio has changed from 8% or more to 4% or more.
- Market risk requirements no longer apply.
- The Bank is no longer able to include 45% of unrealized gains on securities among supplementary items.
- The limit on the inclusion of the general reserve for loan losses as a supplementary item as a percentage of risk assets has been changed from 1.25% to 0.625%.

The Bank's risk-weighted capital ratio of March 31, 2000, after the increase in capital following the termination of temporary nationalization was 12.21% on a consolidated basis and 11.55% on a non-consolidated basis.

Consolidated Risk-Weighted Capital Ratio (Domestic Criteria)

From March 31, 2000, the consolidated risk-weighted capital ratio is calculated under Domestic Criteria.

	Millions of Yen
March 31	2000
Basic Items (Tier I)	
Capital.....	¥ 229,296
(Non-Cumulative, Perpetual Preferred Stock).....	48,443
Proceeds from Issues of New Stock	240,000
Capital Surplus	558
Consolidated Retained Earnings.....	3,729
Minority Interests in Consolidated Subsidiaries	59
(Including Preferred Securities Issued by Overseas Special-Purpose Company).....	—
(Value of Goodwill).....	—
(Consolidated Adjustment Account).....	—
Total (A)	<u>473,643</u>
Supplementary Items (Tier II)	
Difference in Book Value Arising from Revaluation, after 55% Discount	—
General Loan Loss Reserve	48,472
Subordinated Debt	806,338
Total.....	<u>854,811</u>
(Amount Eligible for Inclusion in Capital) (B).....	<u>473,643</u>
Items to Be Deducted	
Amount of Subordinated Debt Held of Other Financial Institutions (C)	—
Total Capital	
(D) [(A)+(B)-(C)].....	¥ 947,287
Risk Assets	
On-Balance-Sheet Items.....	¥7,416,240
Off-Balance-Sheet Items	339,407
Total (E)	¥7,755,647
Consolidated Risk-Weighted Capital Ratio	
(Domestic Criteria) (D)/(E) (%)	12.21%

Consolidated Risk-Weighted Capital Ratio (BIS Criteria)

March 31	Millions of Yen	
	1999	1998
Basic Items (Tier I)		
Capital	¥ 390,710	¥ 387,222
(Including Non-Cumulative, Perpetual Preferred Stock)	65,000	65,000
Proceeds from Issues of New Stock	—	—
Capital Surplus	—	296,782
Consolidated Retained Earnings (Deficit)	(380,927)	333,661
Minority Interests in Consolidated Subsidiaries	167	663
(Including Preferred Securities Issued by Overseas Special-Purpose Company)	—	—
(Value of Goodwill)	—	—
(Consolidated Adjustment Account)	—	—
Total (A)	9,950	1,018,330
Supplementary Items (Tier II)		
Unrealized Gains on Securities, after 55% Discount	40,005	622
General Loan Loss Reserve	206,014	34,366
Subordinated Debt	488,522	988,516
Total	734,541	1,023,504
(Amount Eligible for Inclusion in Capital) (B)	9,950	1,018,330
Quasi-Supplementary Items		
Short-Term Subordinated Debt	—	—
(Amount Eligible for Inclusion in Capital) (C)	—	—
Items to Be Deducted		
Amount of Subordinated Debt Held of Other Financial Institutions (D)	—	—
Total Capital		
(E) [(A)+(B)+(C)-(D)]	¥ 19,900	¥ 2,036,660
Risk Assets		
On-Balance-Sheet Items	¥15,327,111	¥17,787,344
Off-Balance-Sheet Items	1,001,656	1,777,152
Credit Risk Assets (F)	16,328,767	19,564,497
Market Risk Equivalent Assets (G) [(H)/8%]	152,411	162,686
(Ref.): Market Risk Assets (H)	12,192	13,014
Total (I) [(F)+(G)]	¥16,481,179	¥19,727,183
Risk-Weighted Capital Ratio (BIS Criteria) (E)/(I)x100 (%)	0.12%	10.32%

Consolidated Balance Sheet

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

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2000	2000
ASSETS		
Cash and Due from Banks (Note 18)	¥ 1,930,219	\$ 18,183,885
Call Loans	363,492	3,424,326
Commercial Paper and Other Debt Purchased	1,189	11,204
Trading Assets (Notes 4 and 32)	545,120	5,135,380
Securities (Notes 5, 18 and 31)	2,804,703	26,422,081
Loans and Bills Discounted (Notes 6 and 18)	7,711,024	72,642,720
Foreign Exchanges (Note 14)	14,294	134,664
Other Assets (Notes 7 and 18)	366,778	3,455,286
Premises and Equipment (Note 8)	35,865	337,873
Deferred Discounts on and Issuance Expenses for Debentures	1,981	18,670
Customers' Liabilities for Acceptances and Guarantees (Note 17)	298,624	2,813,228
Reserve for Loan Losses (Note 9)	(866,518)	(8,163,151)
Total Assets	¥13,206,776	\$124,416,166
LIABILITIES, MINORITY INTERESTS IN SUBSIDIARIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Debentures (Note 10)	¥ 6,730,795	\$ 63,408,337
Deposits, including NCDs (Notes 11 and 18)	2,777,516	26,165,955
Call Money (Note 18)	245,206	2,309,997
Commercial Paper	500	4,710
Trading Liabilities (Notes 12 and 32)	277,876	2,617,769
Borrowed Money (Note 13)	902,995	8,506,783
Foreign Exchanges (Note 14)	270	2,550
Other Liabilities (Notes 15 and 18)	1,482,460	13,965,718
Reserve for Derivative-Related Credit Risk	1,295	12,202
Reserve for Retirement Allowances	15,512	146,134
Reserve for Loss on Disposition of Premises and Equipment	80	757
Other Reserve (Note 16)	0	1
Acceptances and Guarantees (Notes 17 and 18)	298,624	2,813,228
Total Liabilities	12,733,132	119,954,141
Minority Interests in Subsidiaries	59	559
Stockholders' Equity:		
Capital Stock (Note 19):		
Common Stock	180,853	1,703,757
Preferred Stock	48,443	456,366
Preferred Stock Subscription (Note 19)	240,000	2,260,951
Capital Surplus (Note 19)	281,413	2,651,089
Deficit (Note 20)	(277,125)	(2,610,697)
Treasury Stock, at Cost	(0)	(0)
Total Stockholders' Equity	473,584	4,461,466
Total Liabilities, Minority Interests in Subsidiaries and Stockholders' Equity	¥13,206,776	\$124,416,166

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Income

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

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2000	2000
Income		
Interest Income.....	¥ 340,486	\$ 3,207,596
Interest on Loans and Discounts.....	213,314	2,009,558
Interest and Dividends on Securities.....	25,359	238,901
Interest on Deposits with Banks.....	8,240	77,629
Other Interest Income.....	93,572	881,508
Fees and Commissions.....	9,289	87,511
Trading Revenue (Note 21).....	2,728	25,707
Other Operating Income (Note 22).....	7,841	73,871
Other Income (Note 23).....	1,613,896	15,203,925
Total Income	1,974,242	18,598,610
Expenses		
Interest Expenses.....	319,756	3,012,311
Interest and Discounts on Debentures.....	149,020	1,403,868
Interest on Deposits.....	27,519	259,250
Interest on Borrowings and Rediscounts.....	45,615	429,731
Interest on Commercial Paper.....	8	77
Other Interest Expenses.....	97,592	919,385
Fees and Commissions.....	4,398	41,432
Trading Expenses (Note 24).....	79	748
Other Operating Expenses (Note 25).....	17,156	161,624
General and Administrative Expenses.....	62,735	591,008
Other Expenses (Note 26).....	1,459,017	13,744,869
Total Expenses	1,863,143	17,551,992
Income before Income Taxes and Minority Interests	111,098	1,046,618
Income Taxes (Note 29):		
Current.....	1,526	14,383
Deferred.....	(1,786)	(16,828)
Minority Interests in Net Income of Subsidiaries.....	11	109
Net Income	¥ 111,346	\$ 1,048,954
Net Income per Common Share (in Yen and U.S. Dollars).....	¥ 45.60	\$ 0.43
Diluted Net Income per Common Share (in Yen and U.S. Dollars).....	¥ 37.09	\$ 0.35

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Stockholders' Equity

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

	Millions of Yen						
	Common Stock (Note 19)	Preferred Stock (Note 19)	Preferred Stock Subscription (Note 19)	Capital Surplus (Note 19)	Deficit	Treasury Stock	Total Stockholders' Equity
Balance at Beginning of Year	¥325,710	¥65,000	¥ —	¥300,263	¥(681,190)	¥—	¥ 9,782
Issuance of Common Stock	60,000	—	—	60,000	—	—	120,000
Subscription of Preferred Stock	—	—	240,000	—	—	—	240,000
Capital Reduction without Repayment	(204,856)	(16,556)	—	221,413	—	—	—
Transfer of Capital Surplus	—	—	—	(300,263)	300,263	—	—
Increase Due to Exclusion in Consolidated Subsidiaries	—	—	—	—	7,827	—	7,827
Increase Due to Exclusion in Affiliates under Equity Method	—	—	—	—	20	—	20
Decrease Due to Exclusion in Consolidated Subsidiaries	—	—	—	—	(14,670)	—	(14,670)
Decrease Due to Exclusion in Affiliates under Equity Method	—	—	—	—	(722)	—	(722)
Net Income	—	—	—	—	111,346	—	111,346
Treasury Stock Transactions	—	—	—	—	—	(0)	(0)
Balance at End of Year	¥180,853	¥48,443	¥240,000	¥281,413	¥(277,125)	¥(0)	¥473,584

	Thousands of U.S. Dollars						
	Common Stock (Note 19)	Preferred Stock (Note 19)	Preferred Stock Subscription (Note 19)	Capital Surplus (Note 19)	Deficit	Treasury Stock	Total Stockholders' Equity
Balance at Beginning of Year	\$3,068,394	\$612,342	\$ —	\$2,828,672	\$(6,417,249)	\$—	\$ 92,159
Issuance of Common Stock	565,238	—	—	565,238	—	—	1,130,476
Subscription of Preferred Stock	—	—	2,260,951	—	—	—	2,260,951
Capital Reduction without Repayment	(1,929,875)	(155,976)	—	2,085,851	—	—	—
Transfer of Capital Surplus	—	—	—	(2,828,672)	2,828,672	—	—
Increase Due to Exclusion in Consolidated Subsidiaries	—	—	—	—	73,744	—	73,744
Increase Due to Exclusion in Affiliates under Equity Method	—	—	—	—	191	—	191
Decrease Due to Exclusion in Consolidated Subsidiaries	—	—	—	—	(138,202)	—	(138,202)
Decrease Due to Exclusion in Affiliates under Equity Method	—	—	—	—	(6,807)	—	(6,807)
Net Income	—	—	—	—	1,048,954	—	1,048,954
Treasury Stock Transactions	—	—	—	—	—	(0)	(0)
Balance at End of Year	\$1,703,757	\$456,366	\$2,260,951	\$2,651,089	\$(2,610,697)	\$(0)	\$4,461,466

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

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

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2000	2000
I. Cash Flows from Operating Activities:		
Net Income before Income Taxes and Minority Interests	¥ 111,098	\$ 1,046,618
Depreciation	849	8,002
Decrease in Reserve for Loan Losses	(2,798,198)	(26,360,794)
Increase in Reserve for Derivative-Related Credit Risk	1,295	12,202
Decrease in Reserve for Retirement Allowances	(4,672)	(44,018)
Decrease in Reserve for Losses from Loans Sold to CCPC	(97,521)	(918,709)
Decrease in Reserve for Loss on Disposition of Specific Assets	(79,714)	(750,965)
Increase in Reserve for Loss on Disposition of Premises and Equipment	80	757
Decrease in Other Reserve	(6)	(60)
Equity in Losses of Affiliates	653	6,154
Interest Income	(340,486)	(3,207,596)
Interest Expenses	319,756	3,012,311
Income on Securities	(337,215)	(3,176,782)
Loss on Money Held in Trust	3,939	37,115
Net Exchange Losses	6,816	64,218
Net Gain on Sale of Premises and Equipment	(436)	(4,113)
Net Loss on Transfer of Specific Assets to Resolution and Collection Corporation, etc.	678,206	6,389,136
Net Decrease in Trading Assets	320,810	3,022,237
Net Decrease in Trading Liabilities	(275,466)	(2,595,065)
Net Decrease in Loans and Bills Discounted	2,273,804	21,420,672
Net Decrease in Deposits	(594,452)	(5,600,118)
Net Decrease in Debentures	(1,187,788)	(11,189,718)
Net Decrease in Borrowed Money (Other than Subordinated Debt)	(2,743,815)	(25,848,474)
Net Decrease in Call Loans, Commercial Paper and Other Debt Purchased	226,592	2,134,642
Net Increase in Collateral under Securities Borrowing Transactions	(100,109)	(943,097)
Net Decrease in Call Money	(1,418,768)	(13,365,691)
Net Decrease in Commercial Paper	(1,000)	(9,421)
Net Increase in Collateral under Securities Lending Transactions	646,213	6,087,740
Net Increase in Due from Banks (Other Than Demand Deposit with the Bank of Japan)	(488,344)	(4,600,517)
Net Decrease in Foreign Exchanges (Assets)	4,774	44,981
Net Decrease in Foreign Exchanges (Liabilities)	(730)	(6,881)
Interest Received	469,311	4,421,215
Interest Paid	(371,024)	(3,495,281)
Proceeds from Sale of Specific Assets to Resolution and Collection Corporation	698,475	6,580,079
Other, Net	2,081,995	19,613,713
Subtotal	(2,995,076)	(28,215,508)
Income Taxes Paid	(2,097)	(19,757)
Net Cash Used in Operating Activities	(2,997,173)	(28,235,265)
II. Cash Flows from Investing Activities:		
Purchases of Securities	(2,901,597)	(27,334,883)
Proceeds from Sale of Securities	2,361,707	22,248,778
Proceeds from Redemption of Securities	137,645	1,296,703
Investment in Money Held in Trust	(310,169)	(2,921,991)
Proceeds from Disposition of Money Held in Trust	365,443	3,442,708
Proceeds from Sale of Premises and Equipment	44,929	423,263
Net Cash Used in Investing Activities	(302,041)	(2,845,422)
III. Cash Flows from Financing Activities:		
Payment for Redemption of Subordinated Debts and Convertible Bonds	(24,110)	(227,131)
Proceeds from Issuance and Subscription of Shares	360,000	3,391,427
Proceeds on Temporary Nationalization Account	3,587,951	33,800,767
Net Cash Provided by Financing Activities	3,923,841	36,965,063
IV. Net Increase in Cash and Cash Equivalents	624,626	5,884,376
V. Cash and Cash Equivalents at Beginning of Year	416,071	3,919,658
VI. Cash and Cash Equivalents at End of Year (Note 3)	¥1,040,698	\$ 9,804,034

See accompanying 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 its 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 which is familiar to readers outside Japan. In addition, the accompanying notes include information which 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.

Reference to fiscal 1999 and fiscal 1998 are to the Bank’s fiscal years ended March 31, 2000 and 1999, 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 off to millions of yen. All U.S. dollar amounts, presented solely for the readers’ convenience, are translated at ¥106.15=U.S.\$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2000.

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 Reconstruction 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”).

Other Assets includes “Due from the Deposit Insurance Corporation” (“Due from DIC”) amounting to ¥20,609 million for the compensation of losses incurred during the temporary nationalization period pursuant to Articles 62 and 72 of the Financial Reconstruction Law.

The amount of this Due from DIC is subject to change due to the subsequent review process by each party, the share purchaser and seller, for the final determination of the balance sheet as at February 29, 2000, (“Definitive Base Date Balance Sheet”) in accordance with the procedures prescribed in the Share Purchase Agreement dated February 9, 2000. The financial statements do not include adjustments that might result from the outcome of this uncertainty.

(a) Principles of Consolidation

The consolidated financial statements of the Bank include accounts of the Bank and its subsidiaries. Major subsidiaries for fiscal 1999 are listed below:

Name	Location	Percentage Ownership
Shinsei Trust & Banking 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, 2000 was as follows:

	Fiscal 1999	(Net Decrease from Fiscal 1998)
Subsidiaries	7	(12)
Affiliates accounted for using the equity method	5	(6)

The decrease from fiscal 1998 in the number of subsidiaries and equity method affiliates listed above is mainly due to stock sales or dissolution whereby consolidation or equity method accounting for certain subsidiaries or 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 6 subsidiaries are March 31 and 1 subsidiary whose fiscal year-end is December 31 are included in the consolidated financial statements on the basis of their respective fiscal years after making appropriate adjustments of significant transactions during the periods from their respective year-ends to the date of the consolidated financial statements.

Any difference between the cost of an investment in a subsidiary and the Bank's share of the underlying equity in the net assets of the subsidiary is charged or credited to income, as the case may be, in the year incurred.

(b) Translation of Foreign Currency Financial Statements

- (1) 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. Differences arising from such translation are shown as other assets in the accompanying consolidated balance sheets.
- (2) (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) 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 are 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.

Prior to April 1, 1999, no provision was made for liquidation and credit risks embedded in financial derivatives held for trading purposes. However, the Bank changed its accounting estimate to take these risks into account in the determination of the market value for purposes of determining the amounts that would be settled if the financial derivatives in trading accounts were terminated at the balance sheet date.

The effect of this change was to decrease “Income before Income Taxes and Minority Interests” for the fiscal year ended March 31, 2000, by ¥4,189 million.

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 amounts of increases/decreases in valuation gains/losses incurred from the estimated settlement price assuming settlement in cash on the balance sheet date for derivatives, compared with that at the end of the previous period.

(d) Valuation of Securities

Securities held by the Bank are valued as follows:

The listed securities are carried at the lower of moving average cost or market, and other securities are carried at cost determined by the moving average cost method. The above-mentioned “lower of cost or market” value is based on the method of “renewed cost or market whichever is the lower basis.” Using this method, writedowns to market establish a new cost basis and any subsequent recoveries in value are not recognized.

Among the listed securities quoted on recognized exchanges, certain shares are designated for sale to DIC at fixed prices under the Share Purchase Agreement. The “market” value for the “lower of cost or market” method is based on the quoted price on the Stock Exchange or the fixed price under the Share Purchase Agreement, whichever is higher. The total unrealized gain at March 31, 2000 on securities quoted on the exchanges or over-the-counter for those securities which are designated for sale to DIC is summarized as follows:

Book Value at the fiscal year-end	¥338,354 million
Aggregate value at fixed prices under the Share Purchase Agreement	¥393,314 million
Unrealized gain	¥54,960 million

The “in-advance-agreed fair value for sale” of certain non-listed shares held by the Bank are to be determined by the specific formula prescribed in the Share Purchase Agreement. At such time as the Bank sells those shares to DIC and/or the third parties, any difference arising from the actual sales prices as compared to the “in-advance-agreed fair value for sale” are reimbursed to or compensated by DIC under the Share Purchase Agreement.

Certain non-listed securities have been written down to the “in-advance-agreed fair value for sale” if related book values were higher than the “in-advance-agreed fair value for sale.”

Securities held by subsidiaries are principally carried at mark to market or at cost, determined by the moving average method.

(e) Depreciation Method

Premises and equipment are stated at cost less accumulated depreciation.

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

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

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

(f) 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.

(g) 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 stocks is expensed when incurred. As for "Preferred Stock Subscribed" as of March 31, 2000, all the related issuance cost, based on the estimated actual payments, was expensed in the year ended March 31, 2000.

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

(h) 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 in 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 amount considered reasonable in accordance with local accounting standards and also based on prior experience with loan losses.

(i) Reserve for Derivative-Related Credit Risk in Non-Trading Accounts

The reserve for credit risk on non-listed derivatives held in non-trading accounts is established by the Bank based on estimates of possible losses that it may sustain due to the credit risk of the parties with whom the Bank maintains derivative positions.

Credit risk embedded in financial derivatives held in trading accounts is reflected in the determination of the market value of trading accounts.

The Bank changed its accounting policy in the year ended March 31, 2000 to provide an allowance for credit risk of derivatives. Prior to April 1, 1999, the Bank recorded credit losses on derivatives primarily as the claims by counterparties became realizable by the Bank. The effect of this change was to decrease "Income before Income Taxes and Minority Interests" for the fiscal year ended March 31, 2000, by ¥1,295 million.

(j) Reserve for Retirement Allowances and Pension Plans

Under most circumstances, employees terminating their employment are entitled to certain severance payments based on the rate of pay at the time of termination, years of service and certain other factors. If the termination is involuntary, employees are usually entitled to greater payments than in the case of voluntary termination. The accrued provision for retirement allowances of the Bank is calculated to state the estimated liability at the amount which would be required to be paid if all employees eligible for the retirement allowances plan were to terminate their employment voluntarily at the balance sheet date.

In addition, the Bank has a contributory pension plan for eligible employees.

The unamortized balance of prior service costs at March 31, 1999 (based on the latest available accounts of the pension plan) was ¥2,746 million. Prior service costs are being amortized and the remaining period is 8 years and 11 months.

(k) Reserve for Losses on Disposition of Premises and Equipment

Reserve for Losses on Disposition of Premises and Equipment is established based on an estimate of loss on disposition of premises (leasehold improvements) and equipment owned by the domestic trust and banking subsidiary expected to be incurred in moving its office which is scheduled to occur subsequent to March 31, 2000.

(l) Income Taxes

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

(m) Cash and Cash Equivalents

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

(n) Appropriation of Earned Surplus

Cash dividends and transfer to the 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.

(o) Net Income per Common 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 includes preferred shares, assuming that all preferred shares were converted into common stock.

(p) New Accounting Pronouncements

In June 1998, the Business Accounting Deliberation Council ("BADC") issued the Accounting Standard for Employees' Retirement Benefits, which requires that an employer recognize the cost of employees' retirement benefits by actuarial computation for defined benefit retirement plans. Also, in January 1999, the BADC issued the Accounting Standard for Financial Instruments, which establishes new criteria and accounting methods for financial instruments including recognition, derecognition and valuation. These standards become effective for the fiscal years beginning on or after April 1, 2000. The effect on the Bank's consolidated financial statements of the adoption of these new standards is not known and cannot be reasonably estimated until additional analysis is completed.

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 Sheet is as follows:

	Millions of Yen	Thousands of U.S. Dollars
“Cash and Due from Banks”	¥1,930,219	\$18,183,885
Interest-Bearing Deposits Included in “Due from Banks” (Other than Deposits with the Bank of Japan)	(889,521)	(8,379,851)
“Cash and Cash Equivalents”	¥1,040,698	\$ 9,804,034

4.

Trading Assets

Trading Assets at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Trading Assets:		
Trading Securities	¥224,184	\$2,111,960
Trading-Related Financial Derivatives	315,938	2,976,339
Other	4,997	47,081
Total	¥545,120	\$5,135,380

5.

Securities

Securities at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Securities:		
Japanese Government Bonds	¥2,385,948	\$22,477,142
Japanese Local Government Bonds	11,994	112,997
Japanese Corporate Debentures	31,029	292,316
Japanese Corporate Stocks	357,591	3,368,741
Other	18,139	170,885
Total	¥2,804,703	\$26,422,081

6.

Loans and Bills Discounted

Loans and Bills Discounted at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Loans and Bills Discounted:		
Loans on Deeds	¥4,792,852	\$45,151,691
Loans on Bills	2,104,750	19,828,082
Bills Discounted	6,154	57,977
Overdrafts	807,267	7,604,970
Total	¥7,711,024	\$72,642,720

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

Until fiscal 1998, the Bank applied non-accrual criteria, by which the Bank discontinued the accrual for interest income for accounting purposes, on loans in legal bankruptcy or past due loans more than six months, based on the Corporate Tax Law criteria. From fiscal 1999, the Bank applied new criteria for the determination of non-accrual status based on self-assessment results. Under the self-assessment guidelines, the definition of non-accrual loans’ status is expanded to include loans classified as legal bankruptcy, in virtual bankruptcy and in possible bankruptcy.

7. Other Assets

If the former criteria (the Corporate Tax Law criteria) had been applied for fiscal 1999, non-accrual loans would have been decreased by ¥426,069 million. Accrued interest receivable for these categories is not recognized for accounting purposes.

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

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 balance of “past due loans (3 months or more)” as of March 31, 2000 was ¥22,665 million.

“Restructured loans” are loans in respect of which the Bank and its subsidiaries are relaxing lending conditions, such as reduction of the original interest rate, forbearance of interest 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 balance of restructured loans as of March 31, 2000 was ¥778,815 million.

Other Assets at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Other Assets:		
Accrued Income	¥ 41,342	\$ 389,475
Prepaid Expenses	1,128	10,636
Other	324,306	3,055,175
Total	¥366,778	\$3,455,286

Other includes Due from DIC amounting to ¥20,609 million for the compensation of losses incurred during the temporary nationalization period pursuant to Articles 62 and 72 of the Financial Reconstruction Law.

The amount of this Due from DIC is subject to change due to the subsequent review process by each party, the share purchaser and seller, for the final determination of the balance sheet as of February 29, 2000, (Definitive Base Date Balance Sheet) in accordance with the procedures prescribed in the Share Purchase Agreement of February 9, 2000. The financial statements do not include adjustments that might result from the outcome of this uncertainty.

The balance of the temporary payment for additional corporate tax of ¥133,317 million, included in Other Assets at March 31, 1999, was transferred to the Resolution and Collection Corporation (“RCC”); therefore, no outstanding balance remained at March 31, 2000.

The above-mentioned temporary payment was made in accordance with the notice of reassessment dated August 23, 1996. This reassessment was related to certain write-offs of loans totaling ¥236,720 million that the Bank granted forgiveness to the borrowers (the Specialized Housing Loan Companies) during the fiscal period ended March 31, 1996. The Bank appealed to the Tokyo District Court on November 14, 1997, requesting the cancellation of the reassessment and this case succeeded to the RCC due to the transfer mentioned above. This legal case was terminated by the RCC on January 19, 2000.

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

	Millions of Yen	Thousands of U.S. Dollars
Premises and Equipment:		
Land	¥10,268	\$ 96,735
Buildings	26,877	253,201
Equipment	5,527	52,073
Security Deposits	11,601	109,296
Total	54,275	511,305
Accumulated Depreciation	(18,409)	(173,432)
Net Book Value	¥35,865	\$337,873

8. Premises and Equipment

9.

Reserve for Loan Losses

Reserve for Loan Losses at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Reserve for Loan Losses:		
General Reserve	¥317,557	\$2,991,589
Specific Reserve	548,652	5,168,651
Reserve for Loans to Restructuring Countries	308	2,911
Total	¥866,518	\$8,163,151

The reserve for loan losses of the Bank was reported on the liability side of the balance sheet in the previous period. Beginning this period, the reserve for loan losses is presented on the last line of the asset side of the balance sheet in a lump sum as a deduction from the accounts subject to the reserve, because of the amendment of the Long-Term Credit Banking Law Ministerial Ordinance No. 13, 1982. This change in method decreased the asset and liability amounts by ¥866,518 million.

10.

Debentures

Debentures at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Debentures:		
Coupon Debentures	¥5,932,523	\$55,888,120
Discount Debentures	528,868	4,982,277
Subordinated Debentures	250,525	2,360,108
Other	18,876	177,832
Total	¥6,730,795	\$63,408,337

Deposits at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Current	¥ 69,327	\$ 653,111
Ordinary	268,123	2,525,888
Notice	166,642	1,569,879
Time	1,375,249	12,955,719
Negotiable Certificates of Deposit	731,470	6,890,916
Other	166,702	1,570,442
Total	¥2,777,516	\$26,165,955

11.

Deposits, Including NCDs

Trading Liabilities at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Trading Liabilities:		
Derivatives of Trading Securities	¥ 0	\$ 4
Trading-Related Financial Derivatives	277,875	2,617,765
Total	¥277,876	\$2,617,769

12.

Trading Liabilities

Borrowed Money at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Borrowed Money:		
Subordinated Debt	¥794,000	\$7,479,981
Borrowings from the Bank of Japan and Other Financial Institutions	108,995	1,026,802
Total	¥902,995	\$8,506,783

13.

Borrowed Money

14.

Foreign Exchanges

The assets and liabilities included under this caption relate to the foreign currency trade financing activities of the Bank which, at March 31, 2000, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Foreign Exchange Assets:		
Foreign Bills Bought.....	¥ 1,136	\$ 10,704
Foreign Bills Receivable.....	5,875	55,353
Advances to Foreign Banks.....	0	4
Due from Foreign Banks.....	7,282	68,603
Total	¥14,294	\$134,664
Foreign Exchange Liabilities:		
Foreign Bills Sold.....	¥ 6	\$ 60
Foreign Bills Payable.....	0	1
Advances from Foreign Banks.....	7	74
Due to Foreign Banks.....	256	2,415
Total	¥ 270	\$ 2,550

Other Liabilities at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Other Liabilities:		
Accrued Expenses.....	¥ 114,388	\$ 1,077,612
Unearned Income.....	11,160	105,138
Income Taxes Payable.....	766	7,218
Other.....	1,356,145	12,775,750
Total	¥1,482,460	\$13,965,718

Other Reserve at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Reserve for Contingent Liabilities from		
Brokering of Financial Futures Transactions.....	¥0	\$1

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

	Millions of Yen	Thousands of U.S. Dollars
Acceptances and Guarantees:		
Guarantees.....	¥294,387	\$2,773,312
Letters of Credit.....	4,225	39,807
Acceptances.....	11	109
Total	¥298,624	\$2,813,228

Assets Pledged as Collateral and Debts Collateralized at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Assets:		
Securities.....	¥325,405	\$3,065,529
Loans and Bills Discounted.....	109,851	1,034,870
Cash and Due from Banks.....	2,853	26,884
Other Assets (Margin for Repo Transactions).....	100,109	943,097
Debts:		
Deposits.....	23,551	221,865
Call Money.....	220,900	2,081,017
Acceptances and Guarantees.....	28,287	266,488
Other Liabilities (Borrowed Securities).....	92,400	870,466

15.

Other Liabilities

16.

Other Reserve

17.

Acceptances and Guarantees

18.

Assets Pledged as Collateral

In addition, securities of ¥177,258 million and loans of ¥209,944 million are collateral for transactions, including exchange settlements, swap transactions and the replacement of margin for future trading.

Further, cash and due from banks of ¥10,615 million is pledged to the buyer for the loans sold in a bulk sales transaction conducted in closing the branches.

Also, ¥1,027 million of margin deposits for futures transactions outstanding is included in Other Assets.

The authorized number of shares of capital stock (common stock and preferred stock) as of March 31, 2000, was as follows:

- (i) 5,000,000 thousand common shares
- (ii) 674,528 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 year ended March 31, 2000 was as follows:

	Millions of Yen						
	Common Stock		Preferred Stock		Preferred Stock Subscribed		Capital Surplus
	Shares (thousands)	Stated Value	Shares (thousands)	Stated Value	Shares (thousands)	Stated Value	Stated Value
Beginning of Year.....	2,417,075	¥ 325,710	100,000	¥ 65,000	—	¥ —	¥ 300,263
Issuance of New Stocks.....	300,000	60,000	—	—	—	—	60,000
Transfer of Capital Surplus ...	—	—	—	—	—	—	(300,263)
Capital Reduction	—	(204,856)	(25,472)	(16,556)	—	—	221,413
Subscription.....	—	—	—	—	600,000	240,000	—
End of Year	2,717,075	¥ 180,853	74,528	¥ 48,443	600,000	¥ 240,000	¥ 281,413
Thousands of U.S. Dollars....	—	\$1,703,757	—	\$456,366	—	\$2,260,951	\$2,651,089

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.
- (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 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 which was subsequently adjusted to ¥180 on or after October 1, 1999.

19.

Capital Stock and
Capital Surplus

20.

Earned Surplus
(Deficit)

21.

Trading Revenue

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 of the Bank 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 4 common shares per 1 Series 2 preferred share.

Under the Code, holders of preferred shares are not entitled to execute voting rights if the prescribed dividend is paid. Holders of Series 2 preferred shares currently have voting rights since the June 29, 1999 stockholders' meeting, as no dividend was declared.

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 in accordance with the Code. 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 in accordance with the Code. 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 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.

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, 2000 was nil.

Trading Revenue for the year ended March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Trading Revenue:		
Revenue from Trading-Related Financial Derivatives Transactions	¥2,037	\$19,190
Other	691	6,517
Total	¥2,728	\$25,707

22.

Other Operating Income

Other Operating Income for the year ended March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Other Operating Income:		
Gain on Foreign Exchange Transactions	¥2,272	\$21,412
Gain on Sales of Bonds	3,350	31,564
Gain on Redemption of Bonds	221	2,090
Other	1,996	18,805
Total	¥7,841	\$73,871

23.

Other Income

Other Income for the year ended March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Other Income:		
Gain on Sales of Stocks and Other Securities on Transfer to the RCC	¥ 486,234	\$ 4,580,632
Gain on Money Held in Trust	16,416	154,658
Gain on Disposal of Premises and Equipment	2,043	19,254
Recoveries of Written-Off Claims	101	953
Income from Special Monetary Support*	821,671	7,740,663
Reversal of the Excess Portion of the Specific Reserve for Loan Losses on Transfer to the RCC (Inappropriate Assets).....	271,097	2,553,909
Reversal of the Excess Portion of the Reserve for Disposition of Specific Assets.....	13,169	124,000
Other.....	3,169	29,856
Total	¥1,613,896	\$15,203,925

* 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 Reconstruction Law. The amount of this income from DIC (Due from DIC) is subject to change as described in Note 7.

24.

Trading Expenses

Trading Expenses for the year ended March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Trading Expenses:		
Expenses on Trading Securities and Derivatives	¥66	\$626
Expenses on Securities and Derivatives Related to Trading Transactions	12	122
Total	¥79	\$748

25.

Other Operating Expenses

Other Operating Expenses for the year ended March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Other Operating Expenses:		
Amortization of Debenture Issuance Expenses	¥ 1,178	\$ 11,100
Loss on Sales of Bonds.....	3,910	36,837
Loss on Redemption of Bonds.....	864	8,140
Loss on Devaluation of Bonds	69	653
Other	11,134	104,894
Total	¥17,156	\$161,624

26.

Other Expenses

Other Expenses for the year ended March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Other Expenses:		
Provision for Loan Losses	¥ 365,473	\$ 3,442,993
Written-Off Claims	948	8,938
Loss on Sales of Stocks and Other Securities	145,531	1,371,001
Loss on Devaluation of Stocks and Other Securities.....	2,215	20,873
Loss on Money Held in Trust	20,356	191,773
Equity in Net Loss of Affiliates.....	653	6,154
Loss on Disposal of Premises and Equipment.....	1,607	15,141
Expenses Related to Withdrawal from Overseas Business	6,250	58,880
Loss on Transfer to the RCC of Inappropriate Assets ^(*1)	678,206	6,389,136
Loss on Transfer of the Balance of the Temporary Payment for Additional Corporate Tax ^(*2)	137,208	1,292,595
Prior Year Adjustment of Interest Swap Cancellations ^(*3)	28,485	268,354
Loss on Sales of Loans to CCPC	23,924	225,388
Loss on Sales of Loans to Overseas Companies	8,693	81,903
Other ^(*4)	39,460	371,740
Total	¥1,459,017	\$13,744,869

(*1) The loss on assets sold to the RCC, which the Financial Reconstruction 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, as described in Note 7, 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 canceled interest rate swaps.

(*4) "Other" includes the following:

	Millions of Yen	Thousands of U.S. Dollars
Loss on Sale of Loans Other Than Inappropriate Assets	¥15,215	\$143,339
Provision of Reserve for Derivative-Related Credit Risk ^(*5)	1,295	12,202

(*5) The Bank established a reserve for credit risk on non-listed derivatives held in non-trading accounts from the fiscal year ended March 31, 2000, as stated in Note 2 (i).

27.

Lease Transactions

As Lessee

(1) Finance lease transactions under which the ownership of the property is not deemed to transfer to the lessee, at March 31, 2000, consisted of the following: acquisition cost, accumulated depreciation and net balance of the leased property which at March 31, 2000 were as follows:

Leased Assets	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost:		
Equipment.....	¥6,980	\$65,758
Other	1,173	11,057
Total	¥8,153	\$76,815
Accumulated depreciation:		
Equipment.....	¥3,861	\$36,376
Other	681	6,417
Total	¥4,542	\$42,793
Net balance:		
Equipment.....	¥3,118	\$29,382
Other	492	4,640
Total	¥3,611	\$34,022

28.

Segment Information

Lease obligations at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Obligations:		
Due within One Year	¥1,609	\$15,162
Due after One Year	2,145	20,210
Total	¥3,754	\$35,372

Total lease payments during fiscal 1999 were ¥1,901 million and consisted of depreciation of ¥1,772 million and interest expense of ¥130 million.

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

(2) Non-cancellable operating lease at March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Obligations:		
Due within One Year	¥8	\$78
Due after One Year	1	10
Total	¥9	\$88

(a) Business Segment Information

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

(b) Geographic Segment Information

Ordinary Income and Expenses for the year ended March 31, 2000 and Assets at March 31, 2000 are presented by geographic segment as follows:

	Millions of Yen						Reclassifi- cation	Consoli- dated Total
	Japan	Americas	Asia	Combined Total	Interarea Eliminations	Subtotal		
Ordinary Income/ Total Income:								
Customers.....	¥ 781,661	¥ 84,355	¥ 143	¥ 866,159	¥ —	¥ 866,159	¥1,108,083	¥ 1,974,242
Intersegment	1	8,970	—	8,971	(8,971)	—	—	—
Total.....	781,662	93,325	143	875,131	(8,971)	866,159	1,108,083	1,974,242
Ordinary Expenses/ Total Expenses.....	911,943	86,174	305	998,422	(19,763)	978,659	884,484	1,863,143
Ordinary Profit (Loss)/ Income before Income Taxes and Minority Interests.....	¥ (130,281)	¥ 7,151	¥(161)	¥ (123,291)	¥ 10,791	¥ (112,499)	¥ 223,597	¥ 111,098
Assets.....	¥13,509,974	¥786,176	¥ —	¥14,296,151	¥(1,089,375)	¥13,206,776	¥ —	¥13,206,776

	Thousands of U.S. Dollars							
	Japan	Americas	Asia	Combined Total	Interarea Eliminations	Subtotal	Reclassification	Consolidated Total
Ordinary Income/								
Total Income:								
Customers	\$ 7,363,742	\$ 794,679	\$ 1,350	\$ 8,159,771	\$ —	\$ 8,159,771	\$ 10,438,839	\$ 18,598,610
Intersegment	12	84,509	—	84,521	(84,521)	—	—	—
Total	7,363,754	879,188	1,350	8,244,292	(84,521)	8,159,771	10,438,839	18,598,610
Ordinary Expenses/								
Total Expenses	8,591,084	811,814	2,875	9,405,773	(186,183)	9,219,590	8,332,402	17,551,992
Ordinary Profit (Loss)/								
Income before								
Income Taxes and								
Minority Interests	\$ (1,227,330)	\$ 67,374	\$(1,525)	\$ (1,161,481)	\$ 101,662	\$ (1,059,819)	\$ 2,106,437	\$ 1,046,618
Assets	\$127,272,490	\$7,406,278	\$ —	\$134,678,768	\$(10,262,602)	\$124,416,166	\$ —	\$124,416,166

Ordinary Income (Expenses) represents Total Income (Expenses) excluding Gain (Loss) on Disposal of Premises and Equipment, Recoveries of Written-Off Claims, Provision for (Reversal of) Special Statutory Reserves, Income from Special Monetary Support, Reversal of Specific Reserve, Loss on Transfer to RCC of Inappropriate Assets, Loss on Transfer of the Balance of the Temporary Payment, etc.

The Bank reported ordinary income and ordinary profit (loss) which correspond to sales and operating profit for other types of enterprises according to the classification of domestic and country or region, in view of the geographical proximity, similarities in economic activities, and interrelationships among these activities.

Countries or economies in the regions shown include, but are not limited to, the following: Americas: the United States; and Asia: the People's Republic of China (including Hong Kong).

(c) Ordinary Income from Overseas Operations

Ordinary Income from Overseas Operations for the year ended March 31, 2000 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
(1) Ordinary Income from Overseas Operations	¥ 84,498	\$ 796,029
(2) Consolidated Ordinary Income	866,159	8,159,771
(1) As a Percentage of (2)	9.8%	9.8%

Ordinary Income from Overseas Operations comprises transactions at the Bank's overseas branches and income from overseas consolidated subsidiaries. The composition of this substantial volume of transactions is not broken down by counterparty, and therefore, data by region and country have not been included.

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 40.8% for fiscal 1999.

	Millions of Yen	Thousands of U.S. Dollars
Income Taxes (Corporation, Inhabitants' and Enterprise) (a)	¥ (260)	\$ (2,445)
Income before Income Taxes and Minority Interests (b)	111,098	1,046,618
Actual Effective Tax Rate (a)/(b) (%)	(0.2)%	(0.2)%

29.

Income Taxes

A reconciliation for the actual effective tax rate with the normal effective statutory tax rate is as follows:

Normal Effective Statutory Tax Rate.....	40.8%
Increase (Decrease) in Taxes Resulting from:	
Permanently Non-Deductible Expenses	0.0
Non-Taxable Dividends Received	(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	(22.3)
Change in Enacted Tax Rate.....	27.8
Other	(2.5)
Effective Income Tax Rate (%).....	(0.2)%

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

	Millions of Yen	Thousands of U.S. Dollars
Deferred Tax Assets:		
Reserve for Loan Losses	¥281,632	\$2,653,153
Tax Loss Carryforwards	168,404	1,586,473
Securities	27,377	257,909
Unamortized Gain on Swap Cancellation	10,966	103,308
Reserve for Retirement Allowance.....	5,491	51,730
Non-Accrued Interest on Non-Performing Loans	1,785	16,822
Not Currently Deductible Liabilities	1,784	16,807
Past Service Cost for Retirement of Pension Plan	1,157	10,905
Other.....	4,323	40,734
Subtotal.....	502,921	4,737,841
Valuation Allowance.....	(494,987)	(4,663,098)
Total Deferred Tax Assets.....	7,933	74,743
Deferred Tax Liabilities:		
Due from DIC	(7,933)	(74,743)
Net Deferred Tax Assets.....	¥ —	\$ —

Due to the establishment of the Tokyo Metropolitan Government's ordinance concerning the special treatment for the standard for enterprise taxes to banking industries on March 31, 2000, the normal statutory tax rate for the computation of deferred tax assets and liabilities decreased from 40.8% to 38.5%. This change decreased the amount of deferred tax assets by ¥30,971 million. However, there is no impact on income tax-deferred because of the fully established valuation allowance.

30.

Related Party Transactions

Related Party	Category	Description of the transactions	Amounts of the transactions (Millions of Yen)	Amounts of the transactions (Thousands of U.S. Dollars)
Deposit Insurance Corporation	Major Stockholder	Gain on sale of stocks and other equity-related securities	¥252,935	\$2,382,807
		Loss on sale of stocks and other equity-related securities	125,466	1,181,976
		Income from special monetary support	821,671	7,740,663
		Interest on borrowings	8,880	83,663
New (LTCB) BV(*1)	Companies in which the majority vote is owned by directors	Advisory service	2,691	25,353
Ripplewood Holding Management LLC(*2, 4)	Companies in which the majority vote is owned by directors	Advisory service	1,110	10,459
JCF Management LLC(*3, 4)	Companies in which the majority vote is owned by directors	Advisory service	1,110	10,459

(*1) 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.

(*2) 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.

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

(*4) The Bank paid advisory service cost to the related parties (Ripplewood Holding Management LLC and JCF Management LLC) during fiscal 1999. See Note 33 (e).

31.

Market Values of Marketable Securities

Market Values of Marketable Securities at March 31, 2000 consisted of the following:

(a) Listed Securities

Bonds included in Securities consisted of Japanese Government Bonds, Japanese Local Government Bonds and Japanese Corporate Debentures.

The following Securities have been valued at their closing prices on the respective stock exchanges.

	Millions of Yen				
	Book Value	Market Value	Net Unrealized Gain	Unrealized Gain	Unrealized Loss
Securities:					
Bonds	¥ 29,656	¥ 32,772	¥ 3,116	¥ 3,117	¥1
Stocks	338,160	392,746	54,586	54,586	0
Other	6,778	7,277	499	499	—
Total	¥374,594	¥432,797	¥58,202	¥58,203	¥1

	Thousands of U.S. Dollars				
	Book Value	Market Value	Net Unrealized Gain	Unrealized Gain	Unrealized Loss
Securities:					
Bonds	\$ 279,382	\$ 308,740	\$ 29,358	\$ 29,370	\$12
Stocks	3,185,684	3,699,921	514,237	514,237	0
Other	63,854	68,560	4,706	4,706	—
Total	\$3,528,920	\$4,077,221	\$548,301	\$548,313	\$12

(b) Unlisted Securities

The table below presents the fair market value of the Bank and consolidated subsidiaries' marketable securities not listed on exchanges, when it is possible to calculate such market value.

The market value of the unlisted securities was estimated by the following methods:

Securities traded over-the-counter are principally valued at the selling prices announced by the Japan Securities Dealers Association, publicly placed bonds at the prices calculated at the indicated yield rates announced by the Japan Securities Dealers Association and securities in investments held in trust at the market prices announced by the authorized fund management companies.

	Millions of Yen				
	Book Value	Market Value	Net Unrealized Gain (Loss)	Unrealized Gain	Unrealized Loss
Securities:					
Bonds.....	¥687,760	¥687,532	¥(227)	¥ 67	¥295
Stocks.....	465	949	483	483	—
Other.....	1	27	25	25	—
Total.....	¥688,227	¥688,509	¥ 282	¥577	¥295

	Thousands of U.S. Dollars				
	Book Value	Market Value	Net Unrealized Gain (Loss)	Unrealized Gain	Unrealized Loss
Securities:					
Bonds.....	\$6,479,136	\$6,476,993	\$(2,142)	\$ 637	\$2,779
Stocks.....	4,388	8,944	4,556	4,556	—
Other.....	14	259	244	244	—
Total.....	\$6,483,538	\$6,486,196	\$ 2,658	\$5,437	\$2,779

(c) Other Securities

Securities excluded from the above information of (a) and (b) on values in the Consolidated Balance Sheet are principally as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Book Value	Book Value
Bonds.....	¥1,711,556	\$16,123,938
Stocks.....	18,965	178,662
Other.....	11,359	107,009

Figures on Trading Account Securities and Securities Related to Trading Transactions are omitted from the above tables of (a) and (b) because those securities are valued at market prices and evaluation gains (losses) are stated in the Consolidated Statement of Income.

(d) Money Held in Trust

The Bank and consolidated subsidiaries had no outstanding balance of Money Held in Trust at March 31, 2000.

Purposes

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

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, we measure the VaR based on one year of historical data and the assumptions of a one-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 ¥260 million in fiscal 1999, 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 as of March 31, 2000, under the Capital Adequacy Ratio for domestic banking was calculated as ¥321.8 billion.

32.

Derivative Financial Instruments

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.

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.

Derivative Financial Instruments

Outstanding Derivative Financial Instruments at March 31, 2000 consisted of the following:

(a) Interest Rate Related Transactions (Listed)

The Bank and subsidiaries have no positions for Interest Rate Related Transactions (Listed) other than for trading purposes.

(b) Interest Rate Related Transactions (Over-the-Counter)

	Millions of Yen			
	Contractual Value or Notional Principal Amount		Market Value	Unrealized Gain (Loss)
	Total	Maturity over One Year		
Forward Rate Agreements:				
Sold.....	¥ —	¥ —	¥ —	¥ —
Bought	—	—	—	—
Interest Rate Swaps:				
Receive Fixed and Pay Floating.....	3,108,273	2,074,480	91,078	91,078
Receive Floating and Pay Fixed.....	895,529	536,290	(38,499)	(38,499)
Receive Floating and Pay Floating.....	150,853	71,494	(129)	(129)
Receive Fixed and Pay Fixed	1,389	1,120	16	16
Interest Rate Swaptions:				
Sold.....	—	—	—	—
	(—)			
Bought	—	—	—	—
	(—)			
Caps:				
Sold.....	3,259	1,136	4	(4)
	(—)			
Bought	3,259	1,136	4	4
	(—)			
Floors:				
Sold.....	3,359	1,236	6	(6)
	(—)			
Bought	3,359	1,236	6	6
	(—)			
Total				¥52,467

	Thousands of U.S. Dollars			
	Contractual Value or Notional Principal Amount		Market Value	Unrealized Gain (Loss)
	Total	Maturity over One Year		
Forward Rate Agreements:				
Sold	\$ —	\$ —	\$ —	\$ —
Bought	—	—	—	—
Interest Rate Swaps:				
Receive Fixed and Pay Floating	29,281,902	19,542,914	858,017	858,017
Receive Floating and Pay Fixed	8,436,449	5,052,191	(362,687)	\$(362,687)
Receive Floating and Pay Floating	1,421,135	673,519	(1,216)	(1,216)
Receive Fixed and Pay Fixed	13,090	10,551	160	160
Interest Rate Swaptions:				
Sold	—	—	—	—
	(—)			
Bought	—	—	—	—
	(—)			
Caps:				
Sold	30,710	10,710	43	(43)
	(—)			
Bought	30,710	10,710	43	43
	(—)			
Floors:				
Sold	31,652	11,652	61	(61)
	(—)			
Bought	31,652	11,652	59	59
	(—)			
Total				\$494,273

- 1) Amounts in parentheses in the total column of Contractual Value or Notional Principal Amount represent option premiums reflected in the Consolidated Balance Sheet.
- 2) Included in the net unrealized gain for interest rate swaps is ¥17,251 million, which is recorded in the Consolidated Statement of Income as accrued interest.

(c) Interest Rate Related Transactions for Trading Purposes (Listed)

The following Interest Rate Related Transactions for Trading Purposes (Listed) are excluded from (a) because the unrealized gain (loss) is reflected in the Consolidated Statement of Income. Interest Rate Related Transactions for Trading Purposes (Listed) are valued at their closing prices on the financial futures markets.

	Millions of Yen		Thousands of U.S. Dollars	
	Contractual Value or Notional Principal Amount	Market Value	Contractual Value or Notional Principal Amount	Market Value
Interest Rate Futures:				
Sold	¥20,982	¥20,924	\$197,665	\$197,119
Bought	10,793	10,781	101,680	101,568
Interest Rate Options:				
Sold				
Call	—	—	—	—
	(—)			
Put	—	—	—	—
	(—)			
Bought				
Call	—	—	—	—
	(—)			
Put	—	—	—	—
	(—)			

Amounts in parentheses in the Contractual Value or Notional Principal Amount column represent option premiums.

(d) Interest Rate Related Transactions for Trading Purposes (Over-the-Counter)

The following Interest Rate Related Transactions for Trading Purposes (Over-the-Counter) are excluded from (b) because the unrealized gain (loss) is reflected in the Consolidated Statement of Income.

	Millions of Yen		Thousands of U.S. Dollars	
	Contractual Value or Notional Principal Amount	Market Value	Contractual Value or Notional Principal Amount	Market Value
Forward Rate Agreements:				
Sold	¥ —	¥ —	\$ —	\$ —
Bought	—	—	—	—
Interest Rate Swaps:				
Receive Fixed and Pay Floating	7,448,419	271,194	70,168,811	2,554,822
Receive Floating and Pay Fixed	6,186,950	(198,657)	58,284,980	(1,871,483)
Receive Floating and Pay Floating	256,840	1,802	2,419,602	16,980
Receive Fixed and Pay Fixed	3,490	33	32,879	317
Interest Rate Swaptions:				
Sold	38,000	(1,540)	357,984	(14,513)
	(918)		(8,652)	
Bought	1,000	17	9,421	162
	(—)		(—)	
Caps:				
Sold	295,753	(931)	2,786,187	(8,772)
	(5,660)		(53,327)	
Bought	207,307	552	1,952,967	5,202
	(3,635)		(34,245)	
Floors:				
Sold	—	—	—	—
	(—)		(—)	
Bought	6,000	115	56,524	1,085
	(193)		(1,826)	

Amounts in parentheses in the Contractual Value or Notional Principal Amount column represent option premiums.

(e) Currency Swaps

	Millions of Yen			
	Contractual Value or Notional Principal Amount		Market Value	Unrealized Loss
	Total	Maturity over One Year		
Currency Swaps:				
U.S. Dollars	¥799,917	¥334,301	¥1,322	¥1,322
Great Britain Pounds	66,688	49,823	1,725	1,725
Euros	19,648	—	(2,338)	(2,338)
Deutsche Marks	24,070	24,070	1,086	1,086
Other	63,076	13,383	(1,163)	(1,163)
Total	¥973,401	¥421,579	¥ 631	¥ 631
Thousands of U.S. Dollars				
	Contractual Value or Notional Principal Amount		Market Value	Unrealized Loss
	Total	Maturity over One Year		
	Currency Swaps:			
U.S. Dollars	\$7,535,726	\$3,149,336	\$12,454	\$12,454
Great Britain Pounds	628,251	469,372	16,252	16,252
Euros	185,099	—	(22,028)	(22,028)
Deutsche Marks	226,763	226,763	10,234	10,234
Other	594,218	126,077	(10,963)	(10,963)
Total	\$9,170,057	\$3,971,548	\$ 5,949	\$ 5,949

Included in the net unrealized loss for currency swaps is ¥6,261 million which is recorded in the Consolidated Statement of Income as accrued interests.

The above amounts do not include Currency Swaps for Trading Purposes (see table below) because the unrealized gain (loss) on such transactions has been reflected in the Consolidated Statement of Income.

Currency Swaps for Trading Purposes

	Millions of Yen		Thousands of U.S. Dollars	
	Notional Principal Amount	Market Value	Notional Principal Amount	Market Value
Currency Swaps:				
U.S. Dollars.....	¥626,051	¥(6,096)	\$5,897,802	\$(57,430)
Great Britain Pounds.....	—	—	—	—
Euros.....	—	—	—	—
Deutsche Marks.....	34,807	333	327,910	3,140
Other	107,657	(2,094)	1,014,205	(19,731)
Total.....	¥768,517	¥(7,857)	\$7,239,917	\$(74,021)

(f) Foreign Exchange Related Transactions (Over-the-Counter)

The following Foreign Exchange Related Transactions (Over-the-Counter) have been valued at market rates for accounting purposes and the gain (loss) has been reflected in the Consolidated Statement of Income.

	Millions of Yen	Thousands of U.S. Dollars
	Contractual Value	Contractual Value
Foreign Exchange		
Forward Contracts:		
Sold.....	¥204,557	\$1,927,057
Bought	48,803	459,762
Currency Options:		
Sold		
Call.....	1,996	18,806
	(7)	(75)
Put	1,746	16,454
	(60)	(570)
Bought		
Call.....	1,608	15,158
	(25)	(240)
Put	2,268	21,370
	(189)	(1,786)

Amounts in parentheses in the Contractual Value or Notional Principal Amount column represent option premiums reflected in the Consolidated Balance Sheet.

(g) Equity-Related Transactions

The Bank and subsidiaries have no outstanding positions arising from Equity-Related Transactions.

(h) Bond-Related Transactions

The Bank and subsidiaries have no outstanding positions arising from Bond-Related Transactions other than for trading purposes.

(i) Bond-Related Transactions for Trading Purposes (Listed)

	Millions of Yen		Thousands of U.S. Dollars	
	Notional Principal Amount	Market Value	Notional Principal Amount	Market Value
Bond Futures:				
Sold	¥ 394	¥ 394	\$ 3,712	\$ 3,712
Bought	1,319	1,329	12,432	12,522

33.

Subsequent Events

(j) Bond-Related Transactions for Trading Purposes (Over-the-Counter)

The Bank and subsidiaries have no positions arising from Bond-Related Transactions for Trading Purposes (Over-the-Counter).

(k) Commodity Derivatives Transactions

The Bank and subsidiaries have no outstanding positions arising from Commodity Derivatives Transactions.

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

(1) Shares Issued	600,000 thousand shares
(2) Issued Price per Share	¥400
(3) Amount for Designation of Capital Stock per Share	¥370

(b) On May 19, 2000, Life Co., Ltd., a borrower from the Bank, filed a petition with the Tokyo District Court under the Company Rehabilitation Law. The Bank's outstanding credit (before deduction of the reserve for loan losses) to Life Co., Ltd. amounted to ¥130,815 million at March 31, 2000, including ¥125,232 million in loans. Such loans are included in "restructured loans" as of March 31, 2000.

On May 26, Dai-Ichi Hotel, Ltd., a borrower from the Bank, also filed a petition with the Tokyo District Court under the Company Rehabilitation Law. Outstanding loans to the Dai-Ichi Hotel group, including 6 other affiliate companies, totaled ¥70,555 million at March 31, 2000. Those affiliates, such as Dai-Ichi Hotel Enterprise Co., Ltd., have also entered bankruptcy proceedings. Such loans are either included in "restructured loans" or "past due loans."

If the effect of the above filings was included at March 31, 2000, "loans under bankruptcy" would increase by ¥195,787 million, to ¥383,953 million, "past due loans" would decrease by ¥51,491 million, to ¥749,224 million, and "restructured loans" would decrease by ¥140,362 million, to ¥683,452 million.

(c) The following disposition of deficit as of March 31, 2000 was approved at the annual meeting of the stockholders held on June 28, 2000:

Transfer from Capital Surplus ¥280,854 million

(d) On June 28, 2000, the Bank notified DIC of the exercise of its right to cancel the transfer of the loan-related assets from DIC for a borrower and its affiliated companies pursuant to Article 8 of the Share Purchase Agreement contracted between DIC and the Bank on February 9, 2000. There are 35 relevant borrowers stipulated in the Agreement, which are all included in "past due loans" with a total amount of ¥193,213 million as of March 31, 2000.

(e) As of August 2, 2000, the Bank and New LTCB Partners CV have agreed, in principle, that investors will bear the transaction fee portion of the advisory service cost in the amount of ¥2,100 million, provided by Ripplewood Holding Management LLC and JCF Management LLC, which is included in the advisory service cost as described in Note 30.

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

We have audited the accompanying consolidated balance sheet of Shinsei Bank, Limited (the "Bank", formerly The Long-Term Credit Bank of Japan, Limited) and subsidiaries as of March 31, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2000, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 2 to the consolidated financial statements, the Bank changed its method of accounting for the reserve for derivative-related credit risk in the year ended March 31, 2000.

As described in Note 1 to the consolidated financial statements, Other Assets include ¥20,609 million representing amounts due from the Deposit Insurance Corporation. This may change as a result of prescribed procedures as stipulated in the Share Purchase Agreement.

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.



Tokyo, Japan

June 30, 2000
(August 2, 2000 as to Note 33(e))

Non-Consolidated Six-Year Summary

Shinsei Bank, Ltd.

	Millions of Yen (Except Common Share Data and Number of Shares Issued)					
	2000	1999	1998	1997	1996	1995
STATEMENTS OF OPERATIONS DATA						
Years Ended March 31						
Net Interest Income:						
Interest Income	¥ 334,310	¥ 672,847	¥934,621	¥1,770,984	¥1,993,962	¥1,803,298
Interest Expenses	315,800	525,337	740,222	1,548,188	1,830,832	1,669,599
	¥ 18,510	¥ 147,509	¥194,399	¥ 222,795	¥ 163,130	¥ 133,698
Fees and Commissions, Net:						
Fees and Commissions (Income)	¥ 8,431	¥ 23,410	¥ 46,302	¥ 23,264	¥ 30,538	¥ 26,076
Fees and Commissions (Expenses)	5,065	8,721	10,529	7,648	8,181	9,669
	¥ 3,365	¥ 14,689	¥ 35,773	¥ 15,616	¥ 22,357	¥ 16,406
Trading, Net:						
Trading Revenue	¥ 591	¥ 2,988	¥ 1,477	¥ /	¥ /	¥ /
Trading Expenses	313	277	6,158	/	/	/
	¥ 277	¥ 2,710	¥ (4,681)	¥ /	¥ /	¥ /
Other Operating Income, Net:						
Other Operating Income	¥ 7,731	¥ 47,214	¥139,874	¥ 190,745	¥ 288,530	¥ 107,661
Other Operating Expenses	15,911	42,069	132,897	136,024	169,670	71,414
	¥ (8,179)	¥ 5,145	¥ 6,976	¥ 54,720	¥ 118,860	¥ 36,247
Net Gain (Loss) on Sales, Redemption and Devaluation of Bonds						
	¥ (1,319)	¥ (10,637)	¥ (13,279)	¥ 40,034	¥ 98,565	¥ 31,428
Gross Business Profit	¥ 14,839	¥ 170,054	¥232,468	¥ 293,131	¥ 304,347	¥ 186,353
General and Administrative Expenses	61,116	75,768	89,140	94,409	97,144	97,581
Net Business Profit (Loss) (<i>gyomu jun-eki</i>)	49,272	(290,640)	164,682	196,599	203,663	80,929
Income from Special Monetary Support	821,671	/	/	/	/	/
Other Income	1,613,156	2,860,053	268,631	349,080	469,632	457,262
Transfer to Temporary Nationalization Account						
	—	2,786,889	/	/	/	/
Gain on Sales of Stocks and Other Equity-Related Securities						
	486,234	17,685	219,353	319,830	441,153	427,531
Other Expenses	1,454,209	3,725,880	683,401	479,370	717,735	434,338
Loss on Sales of Stocks and Other Equity-Related Securities						
	145,531	72,216	33,540	20,587	18,882	20,827
Loss on Devaluation of Stocks and Other Securities						
	2,215	309,671	27,134	247,784	36,032	46,554
Credit Costs	1,043,688	2,831,545	616,528	208,657	649,970	343,319
Provision for Retirement Allowances	—	—	7,815	—	—	—
Net Operating Income (Loss)	(112,767)	(1,602,233)	(320,005)	18,081	(110,476)	18,146
Income (Loss) before Income Taxes	110,943	(779,475)	(279,175)	20,431	(112,934)	16,729
Net Income (Loss)	109,855	(786,949)	(280,049)	19,659	(112,968)	20,080
Per Common Share (Yen)						
Net Income (Loss)	¥44.99	¥(325.65)	¥(117.03)	¥ 8.21	¥(47.20)	¥ 8.39
Cash Dividends	—	—	6.00	6.00	6.00	8.00
Total Stockholders' Equity	48.94	0.00	274.63	397.66	394.44	449.65
Number of Shares Issued (Thousands)						
Common Stock	2,717,075	2,417,075	2,392,904	2,392,904	2,392,904	2,392,904
Preferred Stock	74,528	100,000	100,000	—	—	—
BALANCE SHEET DATA						
March 31						
Total Assets	¥13,755,705	¥23,194,401	¥26,190,005	¥29,164,608	¥29,515,431	¥31,720,185
Loans and Bills Discounted	7,704,725	13,614,752	15,765,016	18,860,703	18,981,796	18,889,719
Securities	2,810,164	2,094,811	4,134,587	5,172,033	5,399,802	4,915,322
Debentures	6,481,884	7,667,067	11,939,192	15,154,786	16,005,151	17,673,990
Deposits, including NCDs	2,824,226	3,363,049	5,912,211	8,072,196	6,949,256	7,387,668
Total Stockholders' Equity	469,855	0	787,167	951,574	943,880	1,075,991

Note: Interest expenses related to money held in trust (¥0.8 billion in 2000, ¥5.4 billion in 1999, ¥16.3 billion in 1998, ¥43.6 billion in 1997, ¥66.5 billion in 1996 and ¥83.4 billion in 1995) have been deducted from interest expenses. Expenses related to debentures (¥0.1 billion in 2000, ¥0.4 billion in 1999, ¥0.7 billion in 1998, ¥0.7 billion in 1997, ¥0.8 billion in 1996 and ¥0.9 billion in 1995) have been deducted from fees and commissions (expenses). The amortization of debenture issuance expenses (¥0.7 billion in 2000, ¥1.9 billion in 1999, ¥4.2 billion in 1998, ¥5.3 billion in 1997, ¥2.9 billion in 1996 and ¥8.4 billion in 1995) has been deducted from other operating expenses.

Non-Consolidated Balance Sheets

Shinsei Bank, Ltd.
March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
ASSETS			
Cash and Due from Banks	¥ 1,969,712	¥ 970,202	\$ 18,555,937
Call Loans	363,492	562,585	3,424,326
Commercial Paper and Other Debt Purchased	1,189	2,548	11,204
Trading Assets.....	785,219	1,218,889	7,397,266
Money Held in Trust.....	—	59,213	—
Securities	2,810,164	2,094,811	26,473,527
Loans and Bills Discounted	7,704,725	13,614,752	72,583,376
Foreign Exchanges	14,294	21,022	134,664
Other Assets	365,021	3,745,509	3,438,730
Premises and Equipment	35,631	81,539	335,676
Deferred Discounts on and Issuance Expenses for Debentures	1,236	2,676	11,647
Customers' Liabilities for Acceptances and Guarantees.....	571,997	820,651	5,388,582
Reserve for Loan Losses.....	(866,981)	—	(8,167,511)
Total Assets	¥13,755,705	¥23,194,401	\$129,587,424
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Debentures	¥ 6,481,884	¥ 7,667,067	\$ 61,063,445
Deposits, including NCDs	2,824,226	3,363,049	26,606,000
Call Money	245,206	1,649,500	2,309,997
Commercial Paper	500	1,500	4,710
Trading Liabilities	564,910	940,545	5,321,816
Borrowed Money	1,093,646	3,865,994	10,302,843
Foreign Exchanges	270	1,016	2,550
Other Liabilities	1,486,654	1,030,983	14,005,226
Reserve for Loan Losses.....	—	3,656,791	—
Reserve for Derivative-Related Credit Risk.....	1,295	—	12,202
Reserve for Retirement Allowances.....	15,255	20,057	143,718
Reserve for Contingencies on Loans Sold.....	—	97,521	—
Reserve for Disposition of Specific Assets.....	—	79,714	—
Other Reserve	0	6	1
Acceptances and Guarantees	571,997	820,651	5,388,582
Total Liabilities	13,285,849	23,194,401	125,161,091
Stockholders' Equity:			
Capital Stock			
Common Stock	180,853	325,710	1,703,757
Preferred Stock	48,443	65,000	456,366
Preferred Stock Subscription.....	240,000	—	2,260,951
Capital Surplus.....	281,413	300,263	2,651,089
Legal Reserve	—	58,580	—
Deficit	(280,854)	(749,553)	(2,645,829)
Total Stockholders' Equity	469,855	0	4,426,333
Total Liabilities and Stockholders' Equity	¥13,755,705	¥23,194,401	\$129,587,424

Non-Consolidated Statements of Operations

Shinsei Bank, Ltd.

For the Years Ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Income			
Interest Income	¥ 334,310	¥ 672,847	\$ 3,149,415
Interest on Loans and Discounts	209,750	346,901	1,975,987
Interest and Dividends on Securities	25,126	75,690	236,707
Interest on Deposits with Banks	7,980	19,005	75,183
Other Interest Income	91,452	231,250	861,538
Fees and Commissions	8,431	23,410	79,426
Trading Revenue	591	2,988	5,571
Other Operating Income	7,731	47,214	72,833
Other Income	1,613,163	2,860,055	15,197,017
Total Income	1,964,227	3,606,517	18,504,262
Expenses			
Interest Expenses	315,800	530,833	2,975,037
Interest and Discounts on Debentures	140,470	199,323	1,323,325
Interest on Deposits	28,728	68,322	270,639
Interest on Borrowings and Rediscunts	49,801	75,217	469,159
Interest on Commercial Paper	8	4	77
Other Interest Expenses	96,791	187,965	911,837
Fees and Commissions	5,178	9,193	48,788
Trading Expenses	313	277	2,952
Other Operating Expenses	16,665	44,037	157,001
General and Administrative Expenses	61,116	75,768	575,756
Other Expenses	1,454,209	3,725,880	13,699,569
Total Expenses	1,853,283	4,385,992	17,459,103
Income (Loss) before Income Taxes	110,943	(779,475)	1,045,159
Income Taxes	1,088	7,474	10,253
Net Income (Loss)	¥ 109,855	¥ (786,949)	\$ 1,034,906
Net Income (Loss) per Common Share (in Yen and U.S. Dollars)	¥ 44.99	¥ (325.65)	\$ 0.42
Diluted Net Income per Common Share (in Yen and U.S. Dollars)	36.60	n.m.	0.34

Note: n.m.: not meaningful

Non-Consolidated Statements of Earned Surplus (Deficit)

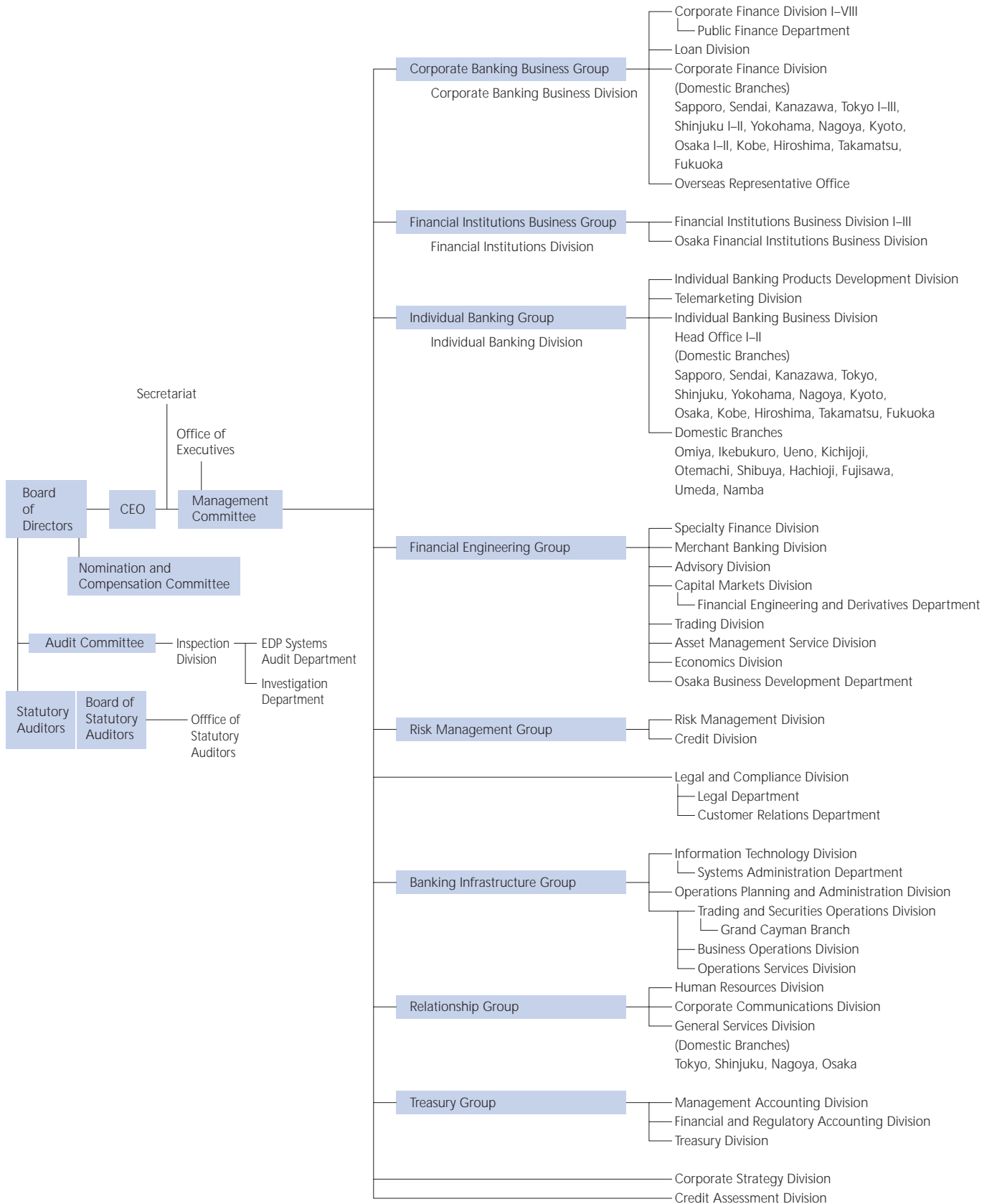
Shinsei Bank, Ltd.

For the Years Ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Balance at Beginning of Year	¥(749,553)	¥ 46,014	\$(7,061,271)
Appropriation (Disposition):			
Transfer from (to) Legal Reserve	358,843	(1,440)	3,380,536
Dividends Paid	—	(7,178)	—
Net Income (Loss)	109,855	(786,949)	1,034,906
Balance at End of Year	¥(280,854)	¥(749,553)	\$(2,645,829)

Organization

As of July 3, 2000



<i>Title</i>	<i>Name</i>	
Chairman and President	Masamoto Yashiro	
Senior Managing Director	Hidebumi Mori	
Senior Managing Director	David M. Fite	
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	Hirotarō 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, Paine Webber 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

<i>Title</i>	<i>Name</i>	
Standing Statutory Auditor	Shunji Nishida	
Statutory Auditor	Akira Sudo	CPA
Statutory Auditor	Makiko Yasuda	Lawyer

Senior Advisers

Paul A. Volcker	
Vernon E. Jordan, Jr.	Senior Managing Director, Lazard Frères & Co. LLC

Corporate Executive Officers

Masamoto Yashiro	Chief Executive Officer
Hidebumi Mori	
David M. Fite	Head of Financial Engineering Group and Treasury Group
K. Sajeev Thomas	Chief of Staff
Teruaki Yamamoto	Head of Corporate Banking Business Group and General Manager of Corporate Banking Business Division
Fumio Inaba	General Manager of Tokyo Branch
Kunihiko Shibano	General Manager of Osaka Branch
Masazumi Kato	Head of Financial Institutions Business Group and General Manager of Financial Institutions Division
Satoru Katayama	Head of Individual Banking Group and General Manager of Individual Banking Division
Steven S. Stuart	
Janak Raj	Head of Risk Management Group and General Manager of Credit Division
Dhananjaya Dvivedi	Head of Banking Infrastructure Group, General Manager of Information Technology Division and Chief Manager of Systems Administration Department
Koichiro Nakaya	Head of Relationship Group and General Manager of Human Resources Division
Tadashi Ishikuro	General Manager of Corporate Strategy Division

Subsidiaries and Affiliated Companies

As of March 31, 2000

<i>Name of Subsidiaries/Affiliate Companies</i>	<i>Voting Interest (%)</i>
Subsidiaries (seven companies)	
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
Shinsei Operations Agency Co., Ltd.	100.00
CSD Solution Co., Ltd.	4.90
Shinsei Bank Finance N.V.	100.00
Affiliated Companies under Equity Method (five companies)	
Value Management Institute, Inc.	40.00
Vietnam Leasing Company Limited	30.00
Marceau Investissements	24.56
The Chogin Card Co., Ltd.	5.00
Chowa Tatemono, Co.	—

Corporate Information

Established 1952	Number of Shares Issued Common Stock: 2,717,075,212	Network Americas: New York Representative Office Grand Cayman Branch Shinsei Bank Finance N.V.	Kichijoji Branch Shinjuku Branch Otemachi Branch Shibuya Branch Hachioji Branch Yokohama Branch
Fiscal Year From April 1 to March 31	Preferred Stock: 74,528,000	Domestic: Head Office (Tokyo) Sapporo Branch Sendai Branch Kanazawa Branch Omiya Branch Tokyo Branch Ikebukuro Branch Ueno Branch	Fujisawa Branch Nagoya Branch Kyoto Branch Osaka Branch Umeda Branch Namba Branch Kobe Branch Hiroshima Branch Takamatsu Branch Fukuoka Branch
Paid-in Capital ¥229,296 million	Number of Stockholders 2		
Number of Shares Authorized Common Stock: 5,000,000,000 Preferred Stock: 674,528,000	Stockholders New LTCB Partners C.V. Deposit Insurance Corporation of Japan (As of March 31, 2000)		

(As of June 30, 2000)

For further information, please contact
Corporate Communications Division
SHINSEI BANK, LTD.
1-8, UCHISAIWAICHO 2-CHOME,
CHIYODA-KU, TOKYO 100-8501, JAPAN
Tel: 81-3-5511-5111 Fax: 81-3-5511-5505
URL: <http://www.shinseibank.co.jp>
E-mail: webmaster@shinseibank.co.jp



SHINSEI BANK, LTD.

1-8, UCHISAIWAICHO 2-CHOME, CHIYODA-KU, TOKYO 100-8501, JAPAN