Quarterly Consolidated Financial Statements and Notes

For the Nine-Month Period Ended December 31, 2010

*This is an English translation of quarterly consolidated financial statements and notes prepared in Japanese under JGAAP in accordance with Rule 12g3-2(b) under the U.S. Securities Exchange Act of 1934. The notes for the previous periods can be found in the respective documents from the previous fiscal year.

Shinsei Bank, Limited

(Code 8303, TSE First Section)

Quarterly Consolidated Balance Sheets

Shinsei Bank, Limited, and Consolidated Subsidiaries

As of December 31, 2010 and March 31, 2010

(Millions of yen)

		December 31, 2010	March 31, 2010
ASSETS			
Cash and due from banks	※2	¥ 519,078	¥ 493,141
Call loans		8,625	19,129
Collateral related to securities borrowing transactions		33,578	2,801
Other monetary claims purchased		163,731	252,761
Trading assets	※2	210,676	223,279
Monetary assets held in trust	※2	262,047	292,227
Securities	※2	3,153,811	3,233,312
Loans and bills discounted	※1,※2	4,411,390	5,163,763
Foreign exchanges		15,098	10,976
Lease receivables and leased investment assets	※2	203,582	213,702
Other assets	※1,※2,※3	869,406	863,272
Premises and equipment	※2,※4	54,593	52,154
Intangible assets	※5,※6	98,877	109,953
Deferred issuance expenses for debentures		181	176
Deferred tax assets		20,391	18,969
Customers' liabilities for acceptances and guarantees		593,934	623,786
Reserve for credit losses		(190,786)	(196,642)
[Total assets]		¥ 10,428,218	¥ 11,376,767
LIABILITIES AND EQUITY			
Liabilities:			
Deposits	※2	¥ 5,451,722	¥ 6,190,477
Negotiable certificates of deposit		232,720	284,909
Debentures		384,402	483,713
Call money	※2	165,482	310,487
Payables under repurchase agreements		-	8,430
Collateral related to securities lending transactions	※2	315,496	548,479
Trading liabilities		167,430	177,835
Borrowed money	※2	1,291,271	1,186,837
Foreign exchanges		89	17
Short-term corporate bonds		28,100	17,700
Corporate bonds	※2	176,934	188,278
Other liabilities	※2	1,002,619	619,201
Accrued employees' bonuses		5,807	8,842
Accrued directors' bonuses		35	126
Reserve for employees' retirement benefits		7,257	7,718
Reserve for directors' retirement benefits		268	244
Reserve for losses on interest repayments		39,413	70,088
Reserve for losses on disposal of premises and equipment		-	7,212
Reserve for losses on litigation		-	5,873
Reserve under special law		3	3
Deferred tax liabilities		561	1,547
Acceptances and guarantees	※2	593,934	623,786
[Total liabilities]		9,863,553	10,741,812
Equity:			
Shareholders' equity:			
Capital stock		476,296	476,296
Capital surplus		43,554	43,554
Retained earnings		76,522	12,438
Treasury stock, at cost		(72,558)	(72,558)
[Total shareholders' equity]		523,814	459,730
Net unrealized gain (loss) and translation adjustments:			
Unrealized gain (loss) on available-for-sale securities		(10,495)	1,398
Deferred gain (loss) on derivatives under hedge accounting		(12,607)	(3,327)
Foreign currency translation adjustments		(2,864)	(741)
[Total net unrealized gain (loss) and translation adjustments]		(25,967)	(2,669)
Stock acquisition rights		1,588	1,672
Minority interests in subsidiaries		65,229	176,221
[Total equity]		564,665	634,954
[Total liabilities and equity]		¥ 10,428,218	¥ 11,376,767

Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2009 and 2010

(Millions of yen)

	December 31, 2009 (9 months)		December 31, 2010 (9 months)
ORDINARY INCOME			
Interest income	¥ 222,565		¥ 161,514
Interest on loans and bills discounted	190,752		138,708
Interest and dividends on securities	25,205		17,895
Fees and commissions income	37,283		35,819
Trading profits	7,986		12,179
Other business income	160,891	※1	137,799
Other ordinary income	12,902	※2	13,799
Total ordinary income	441,629		361,112
ORDINARY EXPENSES			
Interest expenses	60,177		38,672
Interest on deposits	40,801		26,415
Interest on borrowings	8,258		5,359
Interest on corporate bonds	5,219		3,853
Fees and commissions expenses	20,039		17,498
Trading losses	2,560		4,288
Other business expenses	107,522	※3	81,923
General and administrative expenses	145,660	※4	120,338
Other ordinary expenses	90,019	※5	55,575
Total ordinary expenses	425,980		318,298
NET ORDINARY INCOME	15,648		42,813
Extraordinary gains	24,124	※6	39,928
Extraordinary losses	5,549	※7	6,436
Income before income taxes and minority interests	34,223		76,306
Income taxes - current	981		1,610
Income taxes - deferred	2,881		3,429
Total Income taxes (benefit)	3,862		5,039
Income before minority interests	–		71,266
Minority interests in net income of subsidiaries	8,110		7,182
NET INCOME	¥ 22,250		¥ 64,083

Quarterly Consolidated Statements of Cash Flows

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2009 and 2010

(millions of yen)

	December 31, 2009 (9 months)		December 31, 2010 (9 months)
I. Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 34,223		¥ 76,306
Depreciation (other than leased assets as lessor)	10,986		8,937
Amortization of goodwill	10,033		6,392
Amortization of intangible assets	5,873		3,616
Equity in net (income) loss of affiliates	4,928		(1,482)
Net change in reserve for credit losses	2,352		(5,856)
Net change in reserve for losses on interest repayments	(112,060)		(30,675)
Interest income	(222,565)		(161,514)
Interest expenses	60,177		38,672
Net (gain) loss on securities	(17,516)		(6,083)
Net exchange (gain) loss	1,163		28,256
Gains from the cancellation of issued corporate bonds and other instruments	(15,211)		(28,984)
Net change in trading assets	137,052		12,409
Net change in trading liabilities	(112,178)		(10,405)
Net change in loans and bills discounted	719,959		775,502
Net change in deposits	450,707		(738,755)
Net change in negotiable certificates of deposit	(19,201)		(52,188)
Net change in debentures	(172,424)		(99,311)
Net change in borrowed money (other than subordinated debt)	(229,362)		105,239
Net change in corporate bonds (other than subordinated corporate bonds)	(21,749)		7,104
Net change in deposits (other than non-interest-bearing deposits)	(2,561)		24,927
Net change in call loans	(25,966)		10,503
Net change in other monetary claims purchased	89,766		53,090
Net change in collateral related to securities borrowing transactions	(4,654)		(30,776)
Net change in call money	(24,837)		(153,434)
Net change in collateral related to securities lending transactions	(64,669)		(232,982)
Net change in short-term corporate bonds (liabilities)	19,000		10,400
Net change in net trust account	(4,932)		(5,513)
Interest received	222,976		163,740
Interest paid	(42,686)		(31,723)
Net change in securities for trading purposes	12,587		(552)
Net change in monetary assets held in trust for trading purposes	23,882		25,541
Net change in lease receivables and leased investment assets	19,140		11,780
Other, net	58,216		(5,162)
Subtotal	790,451		(232,979)
Income taxes paid	(3,065)		(1,135)
Net cash provided by (used in) operating activities	787,385		(234,114)
II. Cash flows from investing activities:			
Purchase of securities	(2,744,818)		(2,643,173)
Proceeds from sales of securities	1,219,147		1,839,509
Proceeds from maturity of securities	599,218		1,186,283
Investment in monetary assets held in trust	(34,828)		(31,101)
Proceeds from disposal of monetary assets held in trust	39,977		38,592
Purchase of premises and equipment (other than leased assets as lessor)	(3,715)		(4,903)
Purchase of intangible assets (other than leased assets as lessor)	-		(5,516)
Proceeds from sale of subsidiary's stocks resulting exclusion from consolidation	-		698
Other, net	(8,816)		(325)
Net cash provided by (used in) investing activities	(933,833)		380,064
III. Cash flows from financing activities:			
Proceeds from issuance of subordinated corporate bonds	4,951		-
Payment for redemption of subordinated corporate bonds	(23,351)		(3,607)
Proceeds from minority shareholders of subsidiaries	9,000		8
Repayments to minority shareholders	(11,772)		(79,448)
Dividends paid to minority shareholders of subsidiaries	(9,254)		(9,745)
Other, net	(0)		-
Net cash provided by (used in) financing activities	(30,427)		(92,792)
IV. Foreign currency translation adjustments on cash and cash equivalents	2		(37)
V. Net change in cash and cash equivalents	(176,872)		53,118
VI. Cash and cash equivalents at beginning of period	483,259		334,238
VII. Cash and cash equivalents at end of period	¥ 306,386	※1	¥ 387,357

Changes in Basic Matters Concerning Preparation of Quarterly Consolidated Financial Statements

1. Change in the scope of consolidation

(a) Change in the scope of consolidated subsidiaries

From this quarterly period, Shinsei Corporate Support Co., Ltd. and four other companies are included in the scope of consolidation as newly established subsidiaries.

Also, the following companies are excluded from the scope of consolidation:

Rock Limited and three other companies due to liquidation

Shinsei Business Finance Co., Ltd. due to a merger into Showa Leasing Co., Ltd.

Shinsei Asset Management (India) Private Limited due to sale of shares

(b) Consolidated subsidiaries after the change

124 companies

2. Change in the application of the equity method

(a) Change in the scope of affiliates accounted for using the equity method

From this quarterly period, Comox Holdings Ltd. and Bosworth Run-off Limited are included in the scope of affiliates accounted for using the equity method due to acquisition of shares, and Jih Sun Securities Co., Ltd. is also included due to increase of our influence on the entity.

The following companies are excluded from affiliates accounted for using the equity method:

Lamitta B.V. due to decline of our influence on the entity

Raffia Capital Co., Ltd. and four other companies due to liquidation

Hillcot Holdings Limited and UTI International (Singapore) Private Limited due to sales of shares

(b) Affiliates accounted for using the equity method after the change

17 companies

3. Change in accounting policy

(Adoption of accounting standard for asset retirement obligations)

Effective April 1, 2010, “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) are applied.

As a result, income before income taxes and minority interests decreased by ¥3,954 million for the nine-month period ended December 31, 2010, and the amount of asset retirement obligations recognized with the adoption of these standards was ¥5,761 million.

Changes in Presentation of Quarterly Consolidated Financial Statements

(Quarterly Consolidated Statement of Income)

"Income before minority interests" is presented for the nine-month period ended December 31, 2010 in accordance with the "Cabinet Office Ordinance on Partial Revision of Regulations for Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 5, March 24, 2009) aligned with "Accounting Standards for Consolidated Financial Statements" (ASBJ No. 22, December 26, 2008).

(Quarterly Consolidated Statement of Cash Flows)

"Purchase of intangible assets (other than leased assets as lessor)" (¥7,599 million for the nine-month period ended December 31, 2009), which was previously included in "Other, net" under "Cash flows from investing activities," is presented separately for the nine-month period ended December 31, 2010.

Simplified Accounting Methods

1. Depreciation of premises and equipment

Depreciation expenses for the declining-balance method are calculated by proportionally allocating the estimated expenses for the consolidated fiscal year to the nine-month period.

2. Reserve for credit losses

For claims to obligors other than legally bankrupt, virtually bankrupt, possibly bankrupt and substandard obligors, for which specific reserve is provided, a general reserve is provided based on the expected loss ratio at the end of the latest interim consolidated period ended September 30, 2010.

3. Judgment on the realizability of deferred tax assets

In circumstances where no significant change is recognized in the status of timing differences since the end of the latest interim period, future earnings projections and the tax planning at the end of the latest interim period are used as the basis for the judgment on the realizability of deferred tax assets.

Accounting Method Specific to Quarterly Consolidated Financial Statements

Income taxes

Income taxes (benefit) are calculated based on income before income taxes and minority interests for the nine-month period and the reasonably estimated effective tax rate for the fiscal year that includes the current quarterly period.

Notes to Quarterly Consolidated Financial Statements

(Quarterly Consolidated Balance Sheet as of December 31, 2010)

1. Risk-monitored loans included in “loans and bills discounted” are as follows:

(Millions of yen)

Loans to bankrupt obligors	¥ 16,916
Non-accrual delinquent loans	330,224
Loans past due for three months or more	3,729
Restructured loans	59,927

Risk-monitored loans included in installment receivables in “Other assets” are as follows:

(Millions of yen)

Credits to bankrupt obligors	¥ 506
Non-accrual delinquent credits	3,215
Credits past due for three months or more	512
Restructured credits	2,963

The above amounts represent the outstanding balance before the reduction of the reserve for credit losses.

2. Assets pledged as collateral are as follows:

(Millions of yen)

Cash and due from banks	¥ 864
Trading assets	502
Monetary assets held in trust	1,752
Securities	1,236,208
Loans and bills discounted	362,226
Lease receivables and leased investment assets	68,177
Other assets	31,172
Premises and equipment	1,581

Liabilities related to pledged assets are as follows:

(Millions of yen)

Deposits	¥ 480
Call money	160,000
Collateral related to securities lending transactions	307,143
Borrowed money	946,239
Corporate bonds	18,973
Other liabilities	38
Acceptances and guarantees	910

In addition, securities of ¥262,746 million are pledged as collateral for transactions including exchange settlements and swap transactions, and as the margin for future trading.

Also, ¥215 million of margin deposits for futures transactions outstanding, ¥15,967 million of security deposits and ¥10,951 million of cash collateral pledged for derivative transactions are included in "Other assets."

3. Installment receivables of ¥340,846 million are included in "Other assets."

4. Accumulated depreciation on premises and equipment is ¥65,100 million.

5. Goodwill and negative goodwill are offset and the net amount is included in "Intangible assets." The gross amounts are as follows:

	(Millions of yen)
Goodwill	¥ 57,582
Negative goodwill	6,077
Net	¥ 51,505

6. "Intangible assets" include ¥21,632 million of other intangible assets that have been recognized by applying the purchase method to the acquisition of certain consolidated subsidiaries.

(Quarterly Consolidated Statement of Income for the nine-month period ended December 31, 2010)

1. "Other business income" includes revenue on lease transactions of ¥76,204 million.
2. "Other ordinary income" includes income on monetary assets held in trust of ¥5,859 million.
3. "Other business expenses" includes costs on lease transactions of ¥65,496 million.
4. "General and administrative expenses" includes amortization of goodwill of ¥6,392 million and amortization of other intangible assets of ¥3,616 million that have been recognized by applying the purchase method to the acquisition of consolidated subsidiaries.
5. "Other ordinary expenses" includes provision of reserve for credit losses of ¥42,855 million, and loss on monetary assets held in trust of ¥114 million.
6. "Extraordinary gains" includes recoveries of written-off claims of ¥10,296 million and gains from the cancellation of issued corporate bonds and other instruments of ¥28,984 million.
7. "Extraordinary losses" includes the cumulative effect of ¥3,576 million recognized at the beginning of this consolidated fiscal year by applying "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008) .

   "Extraordinary losses" also includes the impairment losses on fixed assets of ¥1,514 million.

(Quarterly Consolidated Statement of Cash Flows for the nine-month period ended December 31, 2010)

1. The reconciliation between "cash and cash equivalents at end of period" and "cash and due from banks" in the quarterly consolidated balance sheet is as follows:

	(Millions of yen)
"Cash and due from banks"	¥ 519,078
Interest bearing deposits included in "due from banks"	(131,721)
"Cash and cash equivalents"	¥ 387,357

(Shareholders Equity)

1. The types and numbers of issued shares and treasury stock as of December 31, 2010

(Thousands of shares)

	Number of shares
Issued shares	
Common shares	2,060,346
Total	2,060,346
Treasury stock	
Common shares	96,427
Total	96,427

2. Stock acquisition rights

All of the stock acquisition rights are Shinsei Bank’s stock options.

3. Dividends

There is no item to be disclosed.

(Segment Information)

(Supplementary information)

Effective April 1, 2010, "Accounting Standard for Segment Information Disclosures" (ASBJ Statement No. 17, March 27, 2009) and "Guidance on Accounting Standard for Segment Information Disclosures" (ASBJ Guidance No. 20, March 21, 2008) are applied.

1. Overview of Reporting Segments

Our reporting segments are components of the Group about which separate financial information is available and such information is evaluated regularly by the Executive Committee in deciding how to allocate resources and in assessing performance.

The Group provides a wide variety of financial products and services to institutional and individual customers through our Institutional Group, Markets and Investment Banking Group and Individual Group. These groups consist of business segments which provide their respective financial products and services. The Institutional Group consist of the "Institutional Business Sub-Group" and "Showa Leasing" and the Markets and Investment Banking Group consists of the "Real Estate Finance Sub-Group," "Principal Transactions Sub-Group," "Markets Sub-Group", "Treasury Sub-Group" and the "Other Markets and Investment Banking Group" as reporting segments. The Individual Group consists of the "Retail Banking Sub-Group," "Shinsei Financial" and "APLUS FINANCIAL."

In the Institutional Group, the "Institutional Business Sub-Group" provides financial products and services for corporate banking business, financial institutions business and public sector finance. "Showa Leasing" primarily provides leasing related financial products and services.

In the Markets and Investment Banking Group, the "Real Estate Finance Sub-Group" provides real estate finance, such as non-recourse loans, and financial products and services for the real state and construction industries. The "Principal Transactions Sub-Group" provides financial products and services related to credit trading and specialty finance, such as leveraged finance or acquisition finance. The "Markets Sub-Group" is engaged in foreign exchange, derivatives, equity trading, securitization and other capital markets transactions, including Shinsei Securities' businesses. The "Treasury Sub-Group" provides ALM related transactions. The "Other Markets and Investment Banking Group" consists of asset backed investment, alternative investment, trust business, wealth management, advisory service and other products and services in the Markets and Investment Banking Group.

In the Individual Group, the "Retail Banking Sub-Group" provides financial products and services for retail customers, "Shinsei Financial" provides consumer finance, and "APLUS FINANCIAL" provides installment sales credit, credit cards, guarantees and settlement services. “Other” consists of profit and loss attributable to the Consumer Finance Sub-Group and other subsidiaries and affiliates.

2. Revenue and profit (loss) by reporting segment for the nine-month period ended December 31, 2010

(Millions of yen)

	Institutional Group		Market and Investment Banking Group				
	Institutional Business Sub-Group	Showa Leasing	Real Estate Finance Sub-Group	Principal Transactions Sub-Group	Markets Sub-Group	Treasury Sub-Group	Other Market and Investment Banking Group
Revenue	¥ 10,008	¥ 11,255	¥11,187	¥ 18,726	¥ 12,522	¥11,610	¥ 12,651
Net interest income	7,939	(2,598)	12,502	3,919	2,309	971	5,068
Non-interest income	2,068	13,853	(1,315)	14,806	10,213	10,638	7,582
Expenses	6,833	6,001	2,788	3,443	5,271	613	4,683
Net credit cost (recoveries)	(2,920)	(103)	14,820	16,671	(857)	-	(790)
Segment profit(loss)	¥ 6,095	¥ 5,358	¥(6,420)	¥ (1,388)	¥ 8,108	¥ 10,997	¥ 8,758

	Individual Group				Corporate / Other	Total
	Retail Banking Sub-Group	Consumer Finance Sub-Group				
		Shinsei Financial	APLUS FINANCIAL	Other		
Revenue	¥ 32,812	¥ 54,969	¥ 39,602	¥ (2,710)	¥ 29,515	¥ 242,152
Net interest income	25,634	59,531	12,051	(2,833)	(1,658)	122,841
Non-interest income	7,177	(4,562)	27,551	122	31,173	119,311
Expenses	24,562	29,315	24,880	357	(262)	108,488
Net credit cost (recoveries)	1,330	10,586	9,778	561	224	49,300
Segment profit(loss)	¥ 6,919	¥ 15,067	¥ 4,943	¥ (3,628)	¥ 29,553	¥ 84,364

（Note）

1. “Revenue,” which represents gross operating profit under our management reporting, is presented as a substitute for sales in other industries. “Revenue” is defined as the total of net interest income, net fees and commissions, net trading income, net other business income, net profit and loss on monetary assets held in trust and equity related transactions. “Revenue” represents income and related cost attributable to our core business.

   Interest on inter-segment transactions is calculated using an inter-office rate. Indirect expense is allocated, based on the predefined rule, to each reporting segment according to the budget which is set at the beginning of the fiscal year.
2. “Expenses” are general and administrative expenses deducting amortization of goodwill and other intangible assets, amortization of net actuarial gains or losses of retirement benefit cost and lump-sum payments.
3. “Credit cost” includes provision/reversal of reserve for credit losses, losses on write-off or sales of loans.
4. “Corporate/Other” includes company-wide accounts including profit/losses on equity financing, allocation variance of indirect expense and elimination amount of inter-segment transactions.

3. Reconciliation between the total of “Total segment profits” and “Net ordinary income on the quarterly consolidated statement of income” for the nine-month period ended December 31, 2010

(Millions of yen)

Profit	Amount
Total segment profits	¥ 84,364
Amortization of goodwill	(6,392)
Amortization of other intangibles	(3,616)
Lump-sum payments	(1,841)
Gains from the cancellation of issued corporate bonds and other instruments	(28,984)
Other	(715)
Net ordinary income on the quarterly consolidated statement of income	¥ 42,813

4. Change of Reporting Segment

(a) Change in classification of reporting segment

Based on the Medium-Term Management Plan revised on September 28, 2010, in order to accurately grasp customer needs, to develop and provide necessary products and service, certain organizational changes were implemented on October 1, 2010. As a result of these organizational changes, classification of reporting segments was changed during the nine-month period ended December 31, 2010. The asset-backed investment business was transferred from the “Markets Sub-Group” to the “Other Markets and Investment Banking Group” and the real estate principal investment business was transferred from the “Principal Transactions Sub-Group” to the “Real Estate Finance Sub-Group”.

(b) Important change in measurement method of revenue and profit (loss) by reporting segment

Previously, the revenues of certain financial products and/or services for customers of the “Institutional Business Sub-Group” in the “Institutional Group” provided by another reporting segment in the “Markets and Investment Banking Group” were recognized as the revenue of the reporting segment which provided those products and/or services.

On October 1, 2010, the organizational changes divided the former “Institutional Group” into a new “Institutional Group” and a “Markets and Investment Banking Group”.

Related to these organizational changes, we changed the revenue allocation method, and such revenues described above are equally allocated to the “Institutional Business Sub-Group” in the “Institutional Group” and the reporting segment in the “Markets and Investment Banking Group” that provided those products and/or services.

As a result of this change, Non-Interest income and Segment Profit of the

"Institutional Business Sub-Group" increased by ¥1,797 million, and those of the "Markets Sub-Group" and the "Other Markets and Investment Banking Group" decreased by ¥1,690 million, and ¥107 million, respectively, for the nine-month period ended December 31, 2010.

(Financial Instruments)

Fair values of financial instruments as of December 31, 2010

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased (*1)	¥162,770	¥162,888	¥118
(2) Trading assets	37,774	37,774	—
(3) Monetary assets held in trust (*1)	261,890	264,124	2,234
(4) Securities (*2)	3,042,902	3,058,037	15,135
(5) Loans and bills discounted (*3)	4,411,390		
Reserve for credit losses	(137,461)		
Net	4,273,928	4,432,562	158,633
(6) Deposit	5,451,722	5,496,338	(44,616)
(7) Negotiable certificates of deposit	232,720	232,695	25
(8) Debentures	384,402	386,712	(2,310)
(9) Borrowed money	1,291,271	1,280,676	10,594
(10) Corporate bonds	176,934	162,059	14,874
(11) Derivative instruments (*4)			
Hedge accounting is not applied	(28,220)	(28,220)	—
Hedge accounting is applied	(12,593)	(12,593)	—
Derivative instruments total	¥(40,813)	¥ (40,813)	¥ —

(*1) Carrying amount of “Other monetary claims purchased” and “Monetary assets held in trust” are presented as the amount net of reserve for credit losses, because they are immaterial.

(*2) Equity securities without readily available market price and some of investments in partnerships and others are out of the scope of fair value disclosure because their fair values cannot be reliably determined.

(*3) For consumer loans of ¥621,123 million held by consolidated subsidiaries included in “Loans and bills discounted,” reserve for losses on interest repayments of ¥39,413 million is recognized for possible losses arising from reimbursement of excess interest payments.

(*4) “Derivative instruments” include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. “Derivative instruments” are presented as net of assets and liabilities, and presented with ( ) when a liability stands on a net basis.

（Note） Valuation methodology for financial instruments

(1) Other monetary claims purchased

The fair values of other monetary claims purchased are measured at the quoted prices from third parties, or determined using the discounted cash flow method.

(2) Trading assets

The fair values of securities, mainly bonds, held for trading purposes are measured at observable market prices or quoted prices from third parties.

(3) Monetary assets held in trust

The fair values of monetary assets held in trust are determined using the discounted cash flow method based on the characteristics of the components of the entrusted assets.

Information on monetary assets held in trust for other than trading purposes is included in the note on “Monetary assets held in trust.”

(4) Securities

The fair values of marketable equity securities are measured at market prices. The fair values of bonds are measured at market prices or quoted prices from third parties, or determined using the discounted cash flow method.

Information on securities being held to maturity and available for sale is included in the note on “Securities.”

(5) Loans and bills discounted

The fair values of loans and bills discounted with fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with floating interest rate are determined by discounting expected cash flows based on the forward rates, using the risk free rate adjusted to account for credit risk (after consideration of collateral) with CDS spreads etc. corresponding to the internal credit rating. The fair values of housing loans are determined by discounting expected cash flows at the rates that would be applied for the new housing loans with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk free rate and the rate of certain costs, by group of similar product types and consumer segments.

For loans to obligors “legally bankrupt,” “virtually bankrupt” and “possibly bankrupt,” a reserve is provided based on the discounted cash flow method, or based on amounts expected to be collected through the disposal of collateral or execution of guarantees, so that the carrying amount net of the reserve as of the consolidated balance sheet date is a reasonable estimate of the fair values of those loans.

(6) Deposits and (7) Negotiable certificates of deposit

The fair values of demand deposits, such as current deposits and ordinary deposits are recognized as the payment at the date of the consolidated balance sheet. The carrying amounts of the deposits with maturity of less than 6 months approximate fair values, because of their short term maturity. The fair values of time deposits are determined by discounting the contractual cash flows at the rates that would be applied for new contracts with the same terms at the consolidated balance sheet date.

(8)Debentures and (10) Corporate bonds

The fair values of marketable corporate bonds are measured at the quoted market prices.

The fair values of non-marketable corporate debentures and corporate bonds under the Medium Term Note program are determined by discounting expected cash flows at the actual average funding rates of corporate time deposits and debentures funded in the past three months of the consolidated balance sheet date. The fair values of retail debentures are determined by discounting contractual cash flows at the actual funding rate of the latest issuance.

The fair values of step-up callable subordinated bonds are determined by discounting expected cash flows which reflect the probability of early redemption at the rates that consist of the risk free rate and the CDS spread of the Bank.

(9) Borrowed money

The fair values of borrowed money with fixed interest rates are primarily determined by discounting contractual cash flows (for the borrowed money hedged by interest rate swaps which meets specific matching criteria, the contractual cash flows include the cash flows of the interest rate swaps), and the fair values of borrowed money with floating interest rates are determined by discounting expected cash flows based on forward rates, at the rates that reflect the credit risk of the borrower.

The fair values of step-up callable subordinated borrowings are determined by discounting expected cash flows that reflect the probability of early redemption at the rates that consist of the risk free rate and the CDS spread of the Bank.

(11) Derivative instruments

The fair values of derivative instruments are measured at the market prices or determined using the discounted cash flow method or option pricing models.

(Securities)

Securities below include beneficiary certificates included in other monetary claims purchased that are accounted for as securities.

1. Securities being held to maturity whose fair value can be reliably determined as of December 31, 2010

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 293,200	¥ 297,591	¥ 4,390
Japanese corporate bonds	69,527	70,387	860
Other	49,006	51,463	2,457
Total	¥ 411,734	¥ 419,443	¥ 7,708

2. Securities available for sale whose fair value can be reliably determined as of December 31, 2010

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (fair value)	Unrealized gain (loss)
Equity securities	¥ 17,796	¥ 15,189	¥ (2,607)
Domestic bonds	2,309,765	2,305,879	(3,886)
Japanese national government bonds	1,986,795	1,985,359	(1,435)
Japanese local government bonds	1,727	1,793	66
Japanese corporate bonds	321,242	318,725	(2,516)
Other	315,437	317,454	2,017
Total	2,642,999	2,638,522	¥ (4,476)

(Note)

Individual securities are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss. Impairment losses on available-for-sale securities carried at fair value for the nine-month period ended December 31, 2010 is ¥3,325 million, including ¥535 million for the equity securities, ¥2,742 million for the Japanese corporate bonds and ¥47 million for other securities.

To determine whether an other-than-temporary impairment has occurred, the Bank applies the following rule by obligor classification of the security issuer based on the Bank's self-assessment guidelines.

Securities issued by "legally bankrupt," "virtually bankrupt," and "possibly bankrupt" obligors	The fair value of securities is lower than the amortized/acquisition cost
Securities issued by "need caution" obligors	The fair value of securities is 30% or more lower than the amortized/acquisition cost
Securities issued by "normal" obligors	The fair value of securities is 50% or more lower than the amortized/acquisition cost

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

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

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

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

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

(Monetary assets held in trust)

1. There are no monetary assets held in trust being held to maturity as of December 31, 2010.

2. Other monetary assets held in trust, for other than trading purposes and held-to-maturity, as of December 31, 2010

(Millions of yen)

	Amortized/Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 87,378	¥ 87,378	—

(Derivative transactions)

(a) Interest rate-related transactions as of December 31, 2010

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 34,746	¥ (41)	¥ (41)
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	7,284,949	30,842	30,842
	Interest rate swaptions	1,771,917	(18,685)	(8,719)
	Interest rate options	234,429	(266)	(600)
	Other	—	—	—
	Total	—	¥11,849	¥ 21,481

(Note)

1. Derivatives included in the table above are measured at fair value and the unrealized gains and losses are recognized in income. Derivatives for which hedge accounting is adopted in accordance with Industry Audit Committee Report No.24 of JICPA are excluded from the table above.
2. The fair values of derivatives on the quarterly consolidated balance sheet as of December 31,2010 are adjusted for credit risk by reducing ¥1,714 million, and also adjusted for liquidity risk by reducing ¥2,921 million.
   Regardless of these accounting treatments, these adjustments are not reflected in the fair values shown in each table down to (f) Credit related transactions.

(b) Currency-related transactions as of December 31, 2010

(Millions of yen)

	Contract type	Contract/ Notional principal	Fair value	Unrealized gain (loss)
Listed	Future foreign exchange contracts	—	—	—
	Currency options	—	—	—
Over the counter	Currency swaps	¥ 795,892	¥ (41,180)	¥ (41,180)
	Forward foreign exchange contracts	2,496,634	14,578	14,578
	Currency options	10,483,998	(19,885)	14,565
	Other	—	—	—
	Total	—	¥ (46,486)	¥ (12,035)

(Note) Derivatives included in the table above are measured at fair value and the unrealized gains and losses are recognized in income. Fund swap transactions and currency swap transactions for which hedge accounting is adopted in accordance with Industry Audit Committee Report No.25 of JICPA are excluded from the table above.

(c) Equity-related transactions as of December 31, 2010

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 9,393	¥ (2)	¥ (2)
	Equity index options	227,014	2,138	2,136
	Equity options	—	—	
Over the counter	Equity options	474,245	504	(410)
	Equity index swaps	—	—	—
	Other	163,200	7,811	7,850
	Total	—	¥ 10,452	¥ 9,573

(Note) Derivatives included in the table above are measured at fair value and unrealized gains and losses are recognized in income. Derivatives for which hedge accounting is adopted are excluded from the table above.

(d) Bond-related transactions as of December 31, 2010

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 3,353	¥ 20	¥ 20
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
	Total	—	¥ 20	¥ 20

(Note) Derivatives included in the table above are measured at fair value and the unrealized gains and losses are recognized in income. Derivatives for which hedge accounting is adopted are excluded from the table above.

(e) Commodity derivatives transactions as of December 31, 2010

There are no commodity derivatives transactions as of December 31, 2010.

(f) Credit derivatives transactions as of December 31, 2010

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 1,658,792	¥ 580	¥ 580
	Other	—	—	—
	Total	—	¥ 580	¥ 580

(Note) Derivatives included in the table above are measured at fair value and the unrealized gains and losses are recognized in income. Derivatives for which hedge accounting is adopted are excluded from the table above.

(Stock options)

For the period from October 1, 2010 to December 31, 2010

1. Expensed amount and the account name related to stock options for this period are not presented because of immaterial impact on the quarterly consolidated financial statements.

2. No stock option was vested during this quarterly period.

(Earnings per share information)

1. Equity per share

(Yen)

	The end of the third quarter of this consolidated fiscal year (December 31, 2010)	The end of the prior consolidated fiscal year (March 31, 2010)
Amount of net assets per share	¥ 253.49	¥ 232.72

2. Net income per common share for the quarter

(Yen)

	Nine-month period ended December 31, 2009 (April 1, 2009 to December 31, 2009)	Nine-month period ended December, 312010 (April 1, 2010 to December 31, 2010)
Basic net income per common share	¥ 11.32	¥ 32.63

(Note)

(a) Diluted net income per share is not presented because there is no dilutive effect.

(b) The calculation basis for basic net income per common share for the quarter is as follows:

		Nine-month period ended December 31, 2009 (April 1, 2009 to December 31, 2009)	Nine-month period ended December 31, 2010 (April 1, 2010 to December 31, 2010)
Basic net income per common share for the nine-month period			
Net income for the nine-month period	(Millions of yen)	¥ 22,250	¥ 64,083
The amount which is not attributable to common shareholders	(Millions of yen)	—	—
Net income from operations for the nine-month period attributable to common shares	(Millions of yen)	¥ 22,250	¥ 64,083
The average number of common shares during the period	(Thousands of shares)	1,963,919	1,963,919

Financial Information for the third quarter period ended December 31, 2010 and 2009

Consolidated Statements of Operations

(Millions of yen)

	The third quarter period (from October 1 2009, to December 31, 2009)	The third quarter period (from October 1 2010, to December 31, 2010)
ORDINARY INCOME		
Interest Income	¥ 71,110	¥ 48,676
Interest on loans and bills discounted	60,537	42,112
Interest and dividends on securities	8,364	5,131
Fees and commissions income	12,341	11,393
Trading profits	3,864	(445)
Other business income	52,628	40,677
Other ordinary income	3,895	6,024
Total ordinary income	143,842	106,326
ORDINARY EXPENSES		
Interest expenses	18,125	12,012
Interest on deposits	12,869	8,140
Interest on borrowings	2,234	1,597
Interest on corporate bonds	1,502	1,370
Fees and commissions expenses	5,998	5,367
Trading losses	1,564	(1,154)
Other business expenses	34,586	26,082
General and administrative expenses	46,825	39,403
Other ordinary expenses	26,481	15
Total ordinary expenses	133,583	81,726
NET ORDINARY INCOME	10,258	24,599
Extraordinary gains	6,424	*1 28,107
Extraordinary losses	2,610	1,112
Income before income taxes and minority interests	14,072	51,594
Income taxes - current	465	432
Income taxes - deferred	(500)	1,644
Total income taxes (benefit)	(35)	2,077
Income before minority interests	—	49,517
Minority interest in net income of subsidiaries	2,919	2,317
NET INCOME	¥ 11,188	¥ 47,200

(Notes)

1. “Extraordinary gains” includes recoveries of written-off claims of ¥3,276 million and gains from the cancellation of issued corporate bonds of ¥24,647 million.

(Segment information)

1. Revenue and profit (loss) by reporting segment for the three-month period ended December 31, 2010

(Millions of yen)

	Institutional Group		Market and Investment Banking Group				
	Institutional Business Sub-Group	Showa Leasing	Real Estate Finance Sub-Group	Principal Transactions Sub-Group	Markets Sub-Group	Treasury Sub-Group	Other Market and Investment Banking Group
Revenue	¥ 2,999	¥ 3,742	¥ 3,730	¥ 7,704	¥ 1,877	¥ 4,197	¥ 1,337
Net interest income	2,675	(835)	3,630	1,365	559	3,509	1,013
Non-interest income	323	4,578	100	6,338	1,317	687	323
Expenses	2,211	2,005	867	1,179	1,719	209	1,493
Net credit cost (recoveries)	(1,196)	(1,626)	708	(1,000)	(184)	-	(277)
Segment profit(loss)	¥ 1,984	¥ 3,363	¥ 2,154	¥ 7,525	¥ 343	¥ 3,987	¥ 121

	Individual Group				Corporate/ Other	Total
	Retail Banking Sub-Group	Consumer Finance Sub-Group				
		Shinsei Financial	APLUS FINANCIAL	Other		
Revenue	¥ 10,649	¥ 16,635	¥ 12,606	¥ (3,479)	¥ 24,486	¥ 86,486
Net interest income	8,332	18,049	3,246	(3,523)	(1,361)	36,664
Non-interest income	2,316	(1,414)	9,360	43	25,848	49,822
Expenses	8,367	9,309	7,957	199	138	35,659
Credit Cost (recoveries)	38	(1,721)	1,832	252	116	(3,059)
Segment Profit(loss)	¥ 2,243	¥ 9,046	¥ 2,817	¥ (3,932)	¥ 24,232	¥ 53,886

（Note）

1. “Revenue,” which represents gross operating profit under our management reporting, is presented as a substitute for sales in other industries. “Revenue” is defined as the total of net interest income, net fees and commissions, net trading income, net other business income, and net profit and loss on monetary assets held in trust and equity related transactions. “Revenue” represents income and related cost attributable to our core business.

   Interest on inter-segment transactions is calculated using an inter-office rate. Indirect expense is allocated, based on the predefined rule, to each reporting segment according to the budget which is set at the beginning of the fiscal year.
2. “Expenses” are general and administrative expenses deducting amortization of goodwill and other intangible assets, amortization of net actuarial gains or losses of retirement benefit cost and lump-sum payments.
3. “Credit cost” includes provision/reversal of reserve for credit losses, losses on write-off or sales of loans.
4. “Corporate/Other” includes company-wide accounts including profit/losses on equity financing, allocation variance of indirect expense and elimination amount of inter-segment transactions.

2. Reconciliation between the total of "Total segment profits" and "Net ordinary income" on the quarterly consolidated statement of income for the three-month period ended June 30, 2010

(Millions of yen)

Profit	Amount
Total segment profits	¥ 53,886
Amortization of goodwill	(2,008)
Amortization of other intangibles	(1,135)
Lump-sum payments	(599)
Gains from the cancellation of issued corporate bonds and other instruments	(24,647)
Other	(895)
Net Ordinary Income on the Consolidated Statement of Income	¥ 24,599

3. Change of Reporting Segment

(a) Change in classification of reporting segment

Based on the Medium-Term Management Plan revised on September 28, 2010, in order to accurately grasp customer needs, to develop and provide necessary products and service, certain organizational changes were implemented on October 1, 2010. As a result of these organizational changes, classification of reporting segments was changed during the three-month period ended December 31, 2010. The asset-backed investment business was transferred from the "Markets Sub-Group" to the "Other Markets and Investment Banking Group" and the real estate principal investment business was transferred from the "Principal Transactions Sub-Group" to the "Real Estate Finance Sub-Group".

(b) Important change in measurement method of revenue and profit (loss) by reporting segment

Previously, the revenues of certain financial products and/or services for customers of the "Institutional Business Sub-Group" in the "Institutional Group" provided by another reporting segment in the "Markets and Investment Banking Group" were recognized as the revenue of the reporting segment which provided those products and/or services.

On October 1, 2010, the organizational changes divided the former "Institutional Group" into a new "Institutional Group" and a "Markets and Investment Banking Group".

Related to these organizational changes, we changed the revenue allocation method, and such revenues described above are equally allocated to the "Institutional Business Sub-Group" in the "Institutional Group" and the reporting segment in the "Markets and Investment Banking Group" that provided those products and/or services.

As a result of this change, non-interest income and segment profit of the "Institutional Business Sub-Group" and the "Other Markets and Investment Banking Group" increased by ¥555 million and ¥2 million, respectively, and those of the "Markets Sub-Group" decreased by ¥558 million for the three-month period ended December 31, 2010.

(Net income per share for the quarter)

(Yen)

	The third quarter period (From October 1, 2009 To December 31, 2009)	The third quarter period (From October 1, 2010 To December 31, 2010)
Basic net income per common share	¥ 5.69	¥ 24.03

(Notes)

(a) Diluted net income per share is not presented because there is no dilutive effect.

(b) The calculation basis for net income per common share for the quarters is as follows:

		The third quarter period (From October 1, 2009 To December 31, 2009)	The third quarter period (From October 1, 2010 To December 31, 2010)
Basic net income per common share for the three-month period			
Net Income for the three-month period	(Millions of yen)	¥11,188	¥47,200
The amount which is not attributable to common shareholders	(Millions of yen)	—	—
Net income from for the three-month period attributable to common shares	(Millions of yen)	¥11,188	¥47,200
The average number of common shares during the period	(Thousands of shares)	1,963,919	1,963,919