Notes to Consolidated Financial Statements

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2006 and 2005

1. Basis of Presentation

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

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

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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

In the fiscal year ended March 31, 2004, the Bank completed an initial public offering (IPO) of its shares and became listed on the First Section of the Tokyo Stock Exchange on February 19, 2004. The Bank's then controlling shareholder, New LTCB Partners C.V., offered the shares sold in the IPO. Following the IPO, the Bank also completed a secondary offering on February 17, 2005. Prior to the secondary offering, the Bank's then controlling shareholder, New LTCB Partners C.V., distributed most of its shareholdings to its investors. The investors, in turn, sold an aggregate of 36.9% of the Bank's outstanding common shares in the secondary offering.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

The number of consolidated subsidiaries and affiliates as of March 31, 2006 and 2005 was as follows:

	2006	2005
Consolidated subsidiaries	82	76
Unconsolidated subsidiaries	79	75
Affiliates accounted for by the equity method	13	9

Unconsolidated subsidiaries are mainly operating companies that undertake leasing business based on the *Tokumei Kumiai* system (Silent Partnership). These subsidiaries are excluded from consolidation because they are not material to the financial condition or results of operations of the Group.

Major consolidated subsidiaries as of March 31, 2006 were as listed below:

Name	Location	Percentage ownership
APLUS Co., Ltd.	Japan	63.5%
Showa Leasing Co., Ltd.	Japan	96.3%
Shinsei Trust & Banking Co., Ltd.	Japan	100.0%
Shinsei Securities Co., Ltd.	Japan	100.0%

All significant inter-company transactions, related account balances and unrealized gains and losses have been eliminated in consolidation. As of March 31, 2006, the fiscal year ending dates of consolidated subsidiaries are March 31 for 56 subsidiaries, January 31 for 3 subsidiaries and December 31 for 23 subsidiaries. Those consolidated subsidiaries whose fiscal years end at dates other than March 31 are consolidated using their fiscal year-end financial statements with appropriate adjustments made for significant transactions during the period from the ending dates of their fiscal years to the date of the Group's consolidated financial statements, except that 3 subsidiaries whose fiscal years end at December 31 are consolidated using their March 31 financial statements.

(b) Goodwill and Other Intangible Assets

The Bank recognized certain identifiable intangible assets in connection with the acquisition of APLUS Co., Ltd. ("APLUS") and Showa Leasing Co., Ltd. ("Showa Leasing"), because they arose from contractual or other legal rights, or were separable. The identified intangible assets with amortization method and period are listed below:

APLUS Co., Ltd.

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

Showa Leasing Co., Ltd.

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

The excess of the purchase price over the fair value of the net assets acquired, including identified intangible assets, was recorded as consolidation goodwill and is being amortized on a straight-line basis over 20 years. The amortization period is the maximum period allowed under accounting principles generally accepted in Japan and was determined based upon the Bank's business strategy. However, both APLUS and Showa Leasing had significant tax loss carryforwards and deductible temporary differences for which no deferred tax assets were recognized by the Bank at the time of the acquisition due to uncertainty concerning their ultimate realization. Had the Bank recognized the related deferred tax assets at the time of the acquisition, consolidation goodwill would have been reduced. Under Japanese GAAP, any future recognition of such benefits of the tax loss carryforwards or temporary differences (the carryforward period for tax loss carryforwards being generally limited to seven years) would result in accelerated goodwill amortization. The unamortized balances of identified intangible assets and consolidation goodwill are subject to impairment testing.

(c) Translation of Foreign Currency Financial Statements and Transactions

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

(i) Foreign currency-denominated assets and liabilities and the accounts of overseas branches are translated into Japanese yen at the exchange rates prevailing at the balance sheet date, except for investments in unconsolidated subsidiaries and affiliates which 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 period-end exchange rates.

(d) Cash and Cash Equivalents

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

(e) Other Monetary Claims Purchased

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

(f) 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 derivative financial instruments related to trading positions are stated at fair value based on estimated amounts that would be settled in cash if such positions were terminated at the end of the fiscal year, which reflects liquidation and credit risks.

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

(g) Monetary Assets Held in Trust

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

Instruments held in trust classified as available-for-sale for which fair value is not readily determinable are carried at cost.

(h) Securities

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

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

Securities being held to maturity are debt securities for which the Group has both the positive intent and ability to hold until maturity. Securities being held to maturity are carried at amortized cost determined by the moving average method.

Securities available-for-sale are securities other than trading securities and securities being held to maturity. Securities available-for-sale are carried at fair value with the corresponding unrealized gains and losses recorded directly in a separate component of shareholders' equity. The cost of sales of these securities is determined by the moving average method. Securities available-for-sale for which fair value is not readily determinable are carried at moving average cost or amortized cost determined by the moving average method.

In addition, investments in unconsolidated subsidiaries that are not accounted for by the equity method are carried at cost determined by the moving average method.

Individual securities are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary.

(i) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of the Group's buildings and the Bank's computer equipment (including ATMs) other than personal computers is computed principally using the straight-line method, and depreciation of other equipment is computed principally using the declining-balance method. Principal estimated useful lives of buildings and equipment as of March 31, 2006 were as follows:

Buildings .... 3 years to 50 years
Equipment .... 2 years to 15 years

(j) Software

Capitalized software for internal use is depreciated using the straight-line method based on the Group's estimated useful lives (mainly five or eight years). Capitalized software for internal use is included in other assets.

(k) Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. No impairment loss was recognized for the fiscal years ended March 31, 2006 and 2005.

(l) Deferred Charges

Deferred discounts on the Bank's corporate bonds are amortized using the straight-line method over the terms of the corporate bonds.

Deferred issuance expenses for the Bank's corporate bonds are amortized using the straight-line method over the shorter of the terms of the corporate bonds or the maximum three-year period stipulated in the Japanese Commercial Code (the "Code") and its regulations.

Deferred discounts on debentures are amortized using the straight-line method over the terms of the debentures.

Deferred issuance expenses for debentures are amortized using the straight-line method over the shorter of the terms of the debentures or the maximum three-year period stipulated in the Code and its regulations.

Consolidated subsidiaries' deferred issuance expenses for corporate bonds are amortized using the straight-line method over the terms of the corporate bonds.

Formation costs and stock issuance costs of consolidated subsidiaries are charged to income as incurred.

(m) Reserve for Credit Losses

The reserve for loan losses of the Bank and the consolidated domestic trust and banking subsidiary has been established as detailed below based on the Bank's internal rules for establishing the reserve.

For claims to obligors who are legally bankrupt (due to bankruptcy, special liquidation, etc.) or virtually bankrupt, a specific reserve is provided based on the amount of claims, after the charge-off stated below, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims to obligors who are possibly bankrupt, a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The Bank applies the "discounted cash flow method" (the "DCF method") in calculating the loan loss reserve amounts for most of the claims against obligors categorized as possibly bankrupt or substandard under the self-assessment guidelines. Under the DCF method, the loan loss reserve is determined as the difference between (a) relevant estimated cash flows discounted by the original contractual interest rate and (b) the book value of the claim. In cases where it is difficult to reasonably estimate future cash flows, the Bank sets aside as reserves the product of the estimated loss ratios on the claims and either (a) the balance of the claims, in the case of claims against substandard obligors, or (b) the unsecured, unguaranteed portion of the claims, in the case of claims against possibly bankrupt obligors.

For other claims, the Bank provides a general reserve based on historical loan loss experience.

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

All claims are assessed by business divisions and branches based on the internal rules for the self-assessment of asset quality. The Credit Assessment Division, which is independent from business divisions and branches, conducts audits of these assessments, and additional reserves may be provided based on the audit results.

The reserve for other credit losses primarily consists of reserves on amounts, included in accounts receivable, that the Bank believes the DIC is obligated to reimburse to it in accordance with certain indemnification clauses in the Share Purchase Agreement but which the DIC has not yet accepted, as well as a reserve taken on the Bank's contribution to an industry-wide fund set up to purchase and collect loans and certain litigation claims.

The consolidated subsidiaries other than the domestic trust and banking subsidiary calculate the general reserve for "normal" and "caution, including substandard" categories based on the specific actual historical loss ratio, and the specific reserve for the "possibly bankrupt," "virtually bankrupt" and "legally bankrupt" categories based on estimated losses, considering the recoverable value.

For collateralized or guaranteed claims of the Bank and a certain consolidated subsidiary to obligors who are legally bankrupt or virtually bankrupt, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off and totaled ¥28,106 million (U.S.$239,268 thousand) and ¥8,401 million as of March 31, 2006 and 2005, respectively.

(n) Accrued Bonuses for Employees and Directors

Accrued bonuses for employees and directors are provided in the amount of the estimated bonuses which are attributable to each fiscal year.

(o) Reserve for Retirement Benefits

The Bank, APLUS and Showa Leasing each have a non-contributory defined benefit pension plan and certain of the Bank's consolidated domestic subsidiaries have unfunded severance indemnity plans, which cover substantially all of the Group's employees. The reserve for retirement benefits is provided for the payment of employees' retirement benefits based on the estimated amounts of the actuarial retirement benefit obligation net of the estimated value of pension assets. Net actuarial gains and losses and prior service costs are amortized using the straight-line method over the average remaining service period mainly from the fiscal year of occurrence.

Effective April 1, 2000, the Bank adopted a new accounting standard for employees' retirement benefits and accounts for the liabilities for retirement benefits based on the projected benefit obligations net of plan assets at the balance sheet date. The transitional unrecognized net retirement benefit obligation for the Bank of ¥9,081 million is being amortized using the straight-line method over 15 years.

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

The reserve for loss on disposition of premises and equipment includes the estimated amount of loss reasonably calculable with respect to expenses for the relocation of branches and offices.

(q) Reserve under Special Law

The reserve under special law is provided for contingent liabilities from brokering of securities transactions in accordance with Article 51 of the Securities and Exchange Law of Japan.

(r) Accounting for Lease Transactions

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 certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements. All leases entered into by the Bank and its consolidated domestic subsidiaries as lessee have been accounted for as operating leases.

Lease and rental income is recognized at the due date of each lease payment according to the lease contracts. Leased assets held by consolidated domestic subsidiaries as lessor are depreciated using the straight-line method over the leasing periods.

(s) Installment Sales Finance and Credit Guarantees

Fees from installment sales finance have principally been prorated by the respective number of installments, and the prorated amounts have been recognized as income either when they become due (the "sum-of-the-months digits method"), or by using the credit-balance method depending on the contract terms.

Fees from credit guarantees have been recognized either by the sum-of-the-months digits method, the straight-line method, or the credit-balance method depending on the contract terms.

(t) Income Taxes

Deferred income taxes relating to temporary differences between financial reporting and tax bases of assets and liabilities and tax loss carryforwards have been recognized. The asset and liability approach is used to recognize deferred income taxes.

The Bank files its corporate income tax return under the consolidated corporation tax system, which allows companies to base tax payments on the combined profits and losses of the Bank and its wholly owned domestic subsidiaries.

A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized.

(u) Appropriation of Retained Earnings

Cash dividends and transfers to legal reserve are recorded in the fiscal year that the relevant proposed appropriation of retained earnings is approved by the Board of Directors and noticed at the general meeting of shareholders.

After the June 2004 annual general meeting of shareholders, the Bank adopted a company with board committees model as stipulated in the Code. In this model, the appropriation of retained earnings is approved by the Board of Directors with notification to shareholders at the general meeting of shareholders, whereas it used to require approval of the shareholders as well as the Board of Directors.

(v) Derivatives and Hedge Accounting

Derivatives are stated at fair value. Derivative transactions that meet the hedge accounting criteria are primarily accounted for using a deferral method whereby unrealized gains and losses are deferred as assets or liabilities until the gains and losses on the hedged items are realized.

The gross amounts of deferred hedge losses and deferred hedge gains recorded as a result of the application of deferral hedge accounting were ¥15,654 million (U.S.$133,260 thousand) and ¥4,143 million (U.S.$35,273 thousand) as of March 31, 2006, respectively, and ¥2,486 million and ¥3,726 million as of March 31, 2005, respectively. The net amounts were included in either other assets or other liabilities.

(i) Hedge of interest rate risks

Derivative transactions that meet the hedge accounting criteria for mitigating interest risks of the Bank's financial assets and liabilities are accounted for using the deferral method. Prior to April 1, 2003, the Bank principally applied a "macro hedge" approach for interest rate derivatives used to manage interest rate risks and its ALM activities based on the transitional treatment prescribed in Industry Audit Committee Report No. 24 issued by the Japanese Institute of Certified Public Accountants (the "JICPA"). Effective April 1, 2003, the Bank adopted portfolio hedging to determine the effectiveness of its hedging instruments in accordance with Report No. 24. Under portfolio hedging, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedge is assessed by each group.

Deferred hedge losses and deferred hedge gains previously recorded on the consolidated balance sheets as a result of macro hedge accounting before implementation of portfolio hedging are being amortized as interest expense or income over the remaining lives of the hedging instruments. The unamortized balances of deferred hedge losses and deferred hedge gains attributable to macro hedge accounting were ¥72 million (U.S.$621 thousand)

and ¥0 million (U.S.$0 thousand) as of March 31, 2006, respectively, and ¥391 million and ¥261 million as of March 31, 2005, respectively. The net amounts were included in deferred losses on derivatives for hedging purposes in other assets.

The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

The consolidated domestic leasing subsidiaries partially apply deferral hedge accounting in accordance with Industry Audit Committee Report No. 19 of the JICPA.

(ii) Hedge of foreign exchange fluctuation risks

Fund swaps and certain currency swap transactions are accounted for using either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 of the JICPA.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts bought or sold.

Under the deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

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

(iii) Inter-company and intra-company derivative transactions

Gains and losses on inter-company and intra-company derivative hedging transactions between the trading book and the banking book are not eliminated since offsetting transactions with third parties are appropriately entered into in conformity with the non-arbitrary and strict hedging policy in accordance with Industry Audit Committee Reports No. 24 and No. 25. As a result, in the banking book, realized gains and losses on such inter-company and intra-company transactions are reported in current earnings and valuation gains and losses which meet the hedge accounting criteria are deferred as assets or liabilities. On the other hand, in the trading book, realized gains and losses and valuation gains and losses on such inter-company and intra-company transactions are substantially offset with covering contracts entered into with third parties.

(w) Per Share Information

Basic net income per common share calculations represent net income available to common shareholders, divided by the weighted average number of outstanding shares of common stock during the respective fiscal year, retroactively adjusted for stock splits and reverse stock splits.

Diluted net income per common share calculations consider the dilutive effect of common stock equivalents, which include preferred shares and stock acquisition rights, assuming that all preferred shares were converted into common shares at the beginning of the fiscal year with an applicable adjustment for related dividends on preferred stock, and that stock acquisition rights were fully exercised at the time of issuance for those issued during the fiscal year and at the beginning of the fiscal year for those previously issued and outstanding at the beginning of the fiscal year.

Cash dividends per common share and per Class A and Class B preferred shares presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year, which are retroactively adjusted for stock splits and reverse stock splits.

(x) New Accounting Pronouncements

(i) Business combination and business separation

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the Accounting Standards Board of Japan (the "ASBJ") issued Accounting Standard for Business Separations and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

(ii) Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

(y) Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the fiscal year ended March 31, 2005 to conform to the presentation for the fiscal year ended March 31, 2006.

3. Acquisitions

The acquisition of both APLUS and Showa Leasing was made in line with the Bank's business strategy to expand Consumer and Commercial Finance which is now the third pillar of Shinsei's businesses together with Institutional Banking and Retail Banking.

APLUS Co., Ltd.

On September 29, 2004, the Bank acquired a controlling interest in APLUS, a consumer credit company in Japan. The Bank acquired 129,653,631 shares, or approximately 67%, of APLUS's common stock, primarily through a third-party allotment of new shares, for ¥35.0 billion, and acquired all of APLUS's Class A, Class B and Class C preferred stock from UFJ Bank Limited for ¥30.0 billion.

Following the investment in APLUS, the Bank conducted a fair value review of APLUS's assets and liabilities, and also conducted a fair value review of its intangible assets for purposes of preparing the consolidated balance sheet as of September 30, 2004 (deemed acquisition date). The excess of the purchase price over the net asset fair value after recognized identified intangible assets and their associated deferred tax liability was accounted for as consolidation goodwill.

On February 28, 2005, APLUS issued 49,000,000 shares (¥98 billion) of Class D preferred stock and 71,500,000 shares (¥143 billion) of Class E preferred stock, of which 22,000,000 shares (¥44 billion) of Class D preferred stock and 500,000 shares (¥1 billion) of Class E preferred stock were allocated to third parties. Subsequently, 2,750,000 shares (¥5.5 billion) of Class D preferred stock and 1,000,000 shares (¥2 billion) of Class E preferred stock were sold to third parties. As a result, 24,750,000 shares (¥49.5 billion) of Class D preferred stock and 1,500,000 shares (¥3 billion) of Class E preferred stock were held by third parties as of March 31, 2005.

As the capital injection made in February 2005 was considered to be the second step in a step acquisition, the fair value of APLUS assets and liabilities, including intangible assets and goodwill, was updated and was as follows:

	Billions of yen
Cash and due from banks	¥ 168.8
Monetary assets held in trust	64.1
Securities	10.8
Loans	122.9
Other assets (including ¥178.7 billion of installment receivables and ¥70.9 billion of intangible assets)	330.3
Premises and equipment	14.7
Customers' liabilities for guarantees	1,200.7
Total assets acquired, excluding consolidation goodwill	1,912.4
Commercial paper	(11.0)
Borrowed money	(577.2)
Other liabilities	(241.2)
Deferred tax liabilities, net	(18.6)
Guarantees	(1,200.7)
Total liabilities assumed	(2,048.9)
Net asset fair value before capital injection	(136.4)
Capital injection	241.0
Net asset fair value after capital injection	104.5
Minority interest (Class D)	(49.5)
Minority interest (Class E)	(0.1)
Net asset fair value attributable to Shinsei	54.8
Purchase price	253.5
Consolidation goodwill	198.6
Consolidation goodwill amortization (Second half of fiscal 2004)	(4.9)
Consolidation goodwill outstanding as of March 31, 2005	¥ 193.6

Although approximately 33.0% of APLUS's common stock was held by minority shareholders at the completion of the acquisition, none of APLUS's income will be attributed to minority common shareholders until such time as the aggregate amount of APLUS's cumulative net income subsequent to September 30, 2004 (adjusted for fair value of net assets at acquisition), less dividends paid on preferred stock, and net asset fair value after capital injection exceeds the aggregate amount of the preferred stock of APLUS.

Showa Leasing Co., Ltd.

On March 23, 2005, the Bank acquired a controlling interest in Showa Leasing, one of the largest leasing companies in Japan. In connection with the acquisition, the Bank acquired 233,000,000 shares, or approximately 97%, of Showa Leasing's common stock, primarily through a third-party allotment of new shares and purchase of existing shares, for approximately ¥75.9 billion.

Following the investment in Showa Leasing, the Bank conducted a fair value review of Showa Leasing's assets and liabilities, and also conducted a fair value review of its intangible assets for purposes of preparing the consolidated balance sheet as of March 31, 2005 (deemed acquisition date). The excess of the purchase price over the net asset fair value after recognized identified intangible assets and their associated deferred tax liability was accounted for as consolidation goodwill.

The following table summarizes the fair value of the assets acquired and liabilities assumed as of March 31, 2005:

	Billions of yen
Cash and due from banks	¥ 1.9
Securities	11.5
Loans and bills discounted	0.7
Other assets (including ¥132.1 billion of installment receivables and ¥10.1 billion of intangible assets)	223.4
Premises and equipment	313.4
Total assets acquired, excluding consolidation goodwill	551.1
Consolidation goodwill	51.2
Total assets acquired	602.4
Commercial paper	(6.0)
Borrowed money	(458.8)
Other liabilities	(52.4)
Reserve for retirement benefit	(2.1)
Deferred tax liabilities	(6.1)
Total liabilities assumed	(525.5)
Minority interest	(0.9)
Net assets acquired (Total purchase price)	¥ 75.9

4. Cash and Cash Equivalents

The reconciliation of cash and cash equivalents at the end of the fiscal year and cash and due from banks in the consolidated balance sheets as of March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash and due from banks	**¥ 488,601**	¥ 277,593	**$ 4,159,375**
Interest-bearing deposits included in due from banks	**(147,887)**	(115,367)	**(1,258,941)**
Cash and cash equivalents at end of year	**¥ 340,713**	¥ 162,226	**$ 2,900,434**

5. Other Monetary Claims Purchased

(a) Other monetary claims purchased as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Trading purposes	**¥177,314**	¥189,908	**$1,509,443**
Other	**96,623**	130,471	**822,535**
Total	**¥273,937**	¥320,379	**$2,331,978**

(b) The fair value and the unrealized (loss) gain of other monetary claims purchased for trading purposes as of March 31, 2006 and 2005 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		**2006**	
	Fair value	Unrealized loss	Fair value	Unrealized gain	Fair value	Unrealized loss
Trading purposes	**¥177,314**	**¥(5,028)**	¥189,908	¥2,137	**$1,509,443**	**$(42,803)**

6. Trading Assets

Trading assets as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Trading securities	**¥ 7,609**	¥ 666	**$ 64,780**
Derivatives for trading securities	**16,000**	799	**136,206**
Securities held to hedge trading transactions	**34,768**	104,657	**295,981**
Derivatives for securities held to hedge trading transactions	**1,726**	0	**14,702**
Trading-related financial derivatives	**133,475**	62,378	**1,136,251**
Total	**¥193,581**	¥168,501	**$1,647,920**

7. Monetary Assets Held in Trust

(a) Monetary assets held in trust as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Trading purposes	**¥277,434**	¥218,258	**$2,361,749**
Other	**178,732**	153,965	**1,521,519**
Total	**¥456,167**	¥372,224	**$3,883,268**

(b) The fair value and the unrealized loss of monetary assets held in trust for trading purposes as of March 31, 2006 and 2005 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		**2006**	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Trading purposes	**¥277,434**	**¥(5,730)**	¥218,258	¥(6,016)	**$2,361,749**	**$(48,781)**

(c) The acquisition cost, which is the same as the book value, of other monetary assets held in trust for other than trading purposes as of March 31, 2006 and 2005 was ¥178,732 million (U.S.$1,521,519 thousand) and ¥153,965 million, respectively.

8. Securities

(a) Securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Trading securities	¥ 162,665	¥ 48,550	$ 1,384,743
Securities being held to maturity	160,454	525	1,365,922
Securities available-for-sale:			
Marketable securities, at fair value	854,925	1,182,543	7,277,816
Securities whose fair value is not readily determinable, at amortized cost	280,939	223,501	2,391,581
Investments in unconsolidated subsidiaries, at cost and affiliates using the equity method	35,505	23,097	302,249
Total	¥1,494,489	¥1,478,219	$12,722,311

The above balances do not include securities held in relation to securities borrowing transactions with or without cash collateral, securities purchased under resale agreements or securities accepted as collateral based on derivative transactions, where the Group has the right to sell or pledge such securities without restrictions. The balances of those securities as of March 31, 2006 and 2005 were ¥59,797 million (U.S.$509,042 thousand) and ¥13,749 million, respectively.

The classification of SHINKI's securities (stocks and convertible bonds), ¥21,145 million, was changed from "Securities available-for-sale" to "Investments in unconsolidated subsidiaries, at cost and affiliates using the equity method," subsequent to the exercise of bond conversion rights in the fiscal year ended March 31, 2005.

(b) The amortized cost and the fair value of marketable securities (other than trading securities) as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:								
Japanese national government bonds	¥160,454	¥ 0	¥2,505	¥157,949	¥ 25	¥ 0	¥ —	¥ 26
Japanese corporate bonds	—	—	—	—	499	—	0	499
Total	¥160,454	¥ 0	¥2,505	¥157,949	¥ 525	¥ 0	¥ 0	¥ 525
Securities available-for-sale:								
Equity securities	¥ 19,087	¥5,678	¥ 114	¥ 24,652	¥ 16,910	¥1,788	¥ 3	¥ 18,695
Japanese national government bonds	322,705	4	4,587	318,123	586,890	859	50	587,790
Japanese local government bonds	81,164	0	32	81,132	134,619	1	71	134,548
Japanese corporate bonds	275,164	62	140	275,085	354,366	170	118	354,419
Other, mainly foreign debt securities	153,281	3,390	715	155,931	84,260	3,494	812	87,089
Total	¥851,404	¥9,136	¥5,590	¥854,925	¥1,177,047	¥6,314	¥1,056	¥1,182,543

	Thousands of U.S. dollars			
	2006			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:				
Japanese national government bonds	$1,365,922	$ 1	$21,331	$1,344,592
Japanese corporate bonds	—	—	—	—
Total	$1,365,922	$ 1	$21,331	$1,344,592
Securities available-for-sale:				
Equity securities	$ 162,490	$48,343	$ 974	$ 209,859
Japanese national government bonds	2,747,135	38	39,049	2,708,124
Japanese local government bonds	690,942	0	276	690,666
Japanese corporate bonds	2,342,419	530	1,199	2,341,750
Other, mainly foreign debt securities	1,304,860	28,865	6,092	1,327,417
Total	$7,247,846	$77,776	$47,590	$7,277,816

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 impaired loss. Impaired loss of marketable securities available-for-sale for the fiscal years ended March 31, 2006 and 2005 was ¥10 million (U.S.$85 thousand) and ¥1,225 million, respectively.

Gross unrealized gains and losses as of March 31, 2006 and 2005, as presented above, do not include the valuation gains or losses related to certain securities with embedded derivatives, which are carried at ¥25 million (loss) (U.S.$216 thousand) and ¥238 million (gain), respectively, and for which the gains or losses have been recorded in other business income, net.

(c) Securities available-for-sale sold during the fiscal years ended March 31, 2006 and 2005 were as follows:

	Millions of yen					
	2006			2005		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Securities available-for-sale sold	¥688,993	¥8,054	¥2,403	¥634,605	¥5,796	¥3,656

	Thousands of U.S. dollars		
	2006		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Securities available-for-sale sold	$5,865,268	$68,569	$20,464

In addition to the above, profit and loss resulting from the cancellation of derivative instruments executed to hedge these investments were recorded in other business income, net for the fiscal year ended March 31, 2005.

(d) The amortized cost of securities available-for-sale whose fair value was not readily determinable as of March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Equity securities	¥ 5,969	¥ 6,214	$ 50,820
Japanese local government bonds	4	17,085	34
Japanese corporate bonds	212,439	174,881	1,808,457
Foreign securities	52,879	21,988	450,151
Other	9,646	3,331	82,119
Total	¥280,939	¥223,501	$2,391,581

(e) Redemption schedules for securities being held to maturity and available-for-sale as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Bonds:								
Japanese national government bonds	¥146,674	¥282,916	¥ 2,431	¥46,556	¥225,573	¥321,895	¥ 5,172	¥35,174
Japanese local government bonds	81,122	4	9	—	147,819	3,805	9	—
Japanese corporate bonds	319,974	167,512	36	—	257,503	270,360	1,938	—
Subtotal	547,772	450,434	2,477	46,556	630,896	596,060	7,120	35,174
Other	7,125	102,566	53,078	22,953	6,283	66,555	28,334	6,282
Total	¥554,897	¥553,000	¥55,555	¥69,509	¥637,179	¥662,616	¥35,455	¥41,456

	Thousands of U.S. dollars			
	2006			
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Bonds:				
Japanese national government bonds	$1,248,612	$2,408,416	$ 20,696	$396,322
Japanese local government bonds	690,584	38	77	—
Japanese corporate bonds	2,723,886	1,426,006	315	—
Subtotal	4,663,082	3,834,460	21,088	396,322
Other	60,655	873,126	451,847	195,397
Total	$4,723,737	$4,707,586	$472,935	$591,719

9. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans on deeds	¥3,257,148	¥2,820,518	$27,727,491
Loans on bills	124,915	171,338	1,063,379
Bills discounted	401	30	3,421
Overdrafts	705,095	438,535	6,002,347
Total	¥4,087,561	¥3,430,421	$34,796,638

(a) Loans and bills discounted include loans to bankrupt obligors totaling ¥1,889 million (U.S.$16,084 thousand) and ¥2,622 million as of March 31, 2006 and 2005, respectively, as well as non-accrual delinquent loans totaling ¥36,347 million (U.S.$309,422 thousand) and ¥48,181 million as of March 31, 2006 and 2005, respectively.

Non-accrual delinquent loans include loans classified as "possibly bankrupt" and "virtually bankrupt" under the Bank's self-assessment guidelines.

In addition to non-accrual delinquent loans as defined, certain other loans classified as "substandard" under the Bank's self-assessment guidelines include loans past due for three months or more.

Loans past due for three months or more consist of loans for which the principal and/or interest is three months or more past due but exclude loans to bankrupt obligors and non-accrual delinquent loans. The balances of loans past due for three months or more as of March 31, 2006 and 2005 were ¥3,125 million (U.S.$26,605 thousand) and ¥5,599 million, respectively.

Restructured loans are loans where the Group relaxes lending conditions, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower's reorganization, but exclude loans to bankrupt obligors, non-accrual delinquent loans or loans past due for three months or more. The outstanding balances of restructured loans as of

March 31, 2006 and 2005 were ¥42,832 million (U.S.$364,626 thousand) and ¥23,614 million, respectively.

(b) The total outstanding amounts deducted from the loan account for loan participations as of March 31, 2006 and 2005 were ¥124,475 million (U.S.$1,059,639 thousand) and ¥118,143 million, respectively. This "off-balance sheet" treatment was in accordance with a guideline issued by the JICPA.

(c) The amount of loans sold through senior certificates under a collateralized loan obligation (CLO) securitization totaled ¥252,812 million (U.S.$2,152,146 thousand) and ¥252,812 million as of March 31, 2006 and 2005, respectively, with the subordinated certificates retained by the Bank totaling ¥97,622 million (U.S.$831,038 thousand) and ¥98,091 million as of March 31, 2006 and 2005, respectively, recorded as loans.

A reserve for credit losses was established based on the aggregate amount of the senior and subordinated certificate portions described above, taking into consideration all credit risks to be absorbed by the subordinated certificates.

(d) Bills discounted, such as bank acceptances bought, commercial bills discounted, documentary bills and foreign exchange contracts bought, are accounted for as financing transactions in accordance with the Industry Audit Committee Report No. 24 of the JICPA, although the Bank has the right to sell or pledge them without restrictions. The face values of such bills discounted held as of March 31, 2006 and 2005 were ¥401 million (U.S.$3,421 thousand) and ¥38 million, respectively.

10. Other Assets

Other assets as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Accrued income	**¥ 33,565**	¥ 40,850	**$ 285,738**
Prepaid expenses	**5,519**	5,365	**46,988**
Fair value of derivatives	**49,055**	23,846	**417,602**
Deferred losses on derivatives for hedging purposes	**11,510**	—	**97,987**
Financial stabilization fund contribution	**70,239**	70,239	**597,931**
Accounts receivable	**75,828**	62,524	**645,510**
Installment receivables	**472,901**	377,300	**4,025,725**
Intangible assets	**68,181**	77,229	**580,420**
Intangible leased assets	**43,694**	43,507	**371,965**
Other	**143,901**	149,576	**1,225,008**
Total	**¥974,398**	¥850,440	**$8,294,874**

Conventionally, although the investment share of investment limited liability association was included in "Other" in "Other assets," from the fiscal year ended March 31, 2005, it is included in "Securities" in relation with the investment share having been defined as securities by "The Law which Revises the Parts of the Securities Exchange Act etc." (June 9, 2004, Law No. 97). This amount was ¥16,426 million as of March 31, 2005.

Installment receivables in other assets as of March 31, 2006 and 2005 include credits to bankrupt obligors totaling ¥1,301 million (U.S.$11,083 thousand) and ¥1,442 million, non-accrual delinquent credits totaling ¥3,631 million (U.S.$30,914 thousand) and ¥4,256 million, credits past due for three months or more of ¥1,337 million (U.S.$11,384 thousand) and ¥1,041 million, and restructured credits of ¥16,265 million (U.S.$138,465 thousand) and ¥18,270 million, respectively.

11. Premises and Equipment

Premises and equipment as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥ 43,927	¥ 43,619	$ 373,947
Buildings	50,512	48,145	430,003
Equipment	15,626	15,751	133,023
Security deposits	14,663	16,634	124,824
Tangible leased assets	425,336	309,217	3,620,813
Other	304	966	2,593
Subtotal	550,370	434,335	4,685,203
Accumulated depreciation	(134,847)	(15,397)	(1,147,934)
Net book value	¥ 415,522	¥418,938	$ 3,537,269

12. Reserve for Credit Losses

Reserve for credit losses as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Reserve for loan losses:			
General reserve	¥ 89,043	¥ 65,410	$ 758,009
Specific reserve	22,574	51,807	192,171
Reserve for loans to restructuring countries	5	5	48
Subtotal	111,623	117,223	950,228
Specific reserve for other credit losses	33,245	32,576	283,012
Total	¥144,868	¥149,799	$1,233,240

13. Deposits, Including Negotiable Certificates of Deposit

Deposits, including negotiable certificates of deposit, as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current	¥ 47,771	¥ 42,013	$ 406,672
Ordinary	1,197,965	884,322	10,198,053
Notice	23,128	17,016	196,886
Time	2,336,231	1,785,817	19,887,896
Negotiable certificates of deposit	157,373	372,607	1,339,690
Other	309,288	351,036	2,632,919
Total	¥4,071,758	¥3,452,813	$34,662,116

14. Debentures

Debentures as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Coupon debentures	**¥1,018,909**	¥1,214,372	**$8,673,781**
Discount debentures	**—**	28,260	**—**
Total	**¥1,018,909**	¥1,242,632	**$8,673,781**

Annual maturities of debentures as of March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 384,741	$3,275,234
2008	139,868	1,190,674
2009	168,220	1,432,028
2010	144,426	1,229,472
2011 and thereafter	181,652	1,546,373
Total	¥1,018,909	$8,673,781

15. Trading Liabilities

Trading liabilities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Derivatives for trading securities	**¥ 23,682**	¥ 2,091	**$ 201,606**
Derivatives for securities held to hedge trading transactions	**494**	12	**4,208**
Trading-related financial derivatives	**124,525**	66,463	**1,060,066**
Other	**1,287**	534	**10,963**
Total	**¥149,990**	¥69,101	**$1,276,843**

16. Borrowed Money

Borrowed money as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Subordinated debt	**¥ 144,000**	¥ 175,000	**$ 1,225,845**
Borrowings from financial institutions	**1,061,765**	985,265	**9,038,609**
Total	**¥1,205,765**	¥1,160,265	**$10,264,454**

The weighted average interest rate applicable to the balance of total borrowed money as of March 31, 2006 was 0.86%.

Annual maturities of borrowed money as of March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 509,524	$ 4,337,490
2008	141,349	1,203,283
2009	153,286	1,304,902
2010	63,133	537,447
2011 and thereafter	338,470	2,881,332
Total	¥1,205,765	$10,264,454

17. Foreign Exchanges

The assets and liabilities related to foreign currency trade financing activities of the Bank as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Foreign exchange assets:			
Foreign bills bought	¥ —	¥ 8	$ —
Foreign bills receivable	1,280	1,674	10,897
Due from foreign banks	10,860	6,868	92,452
Total	¥12,140	¥8,550	$103,349
Foreign exchange liabilities:			
Foreign bills payable	¥ 37	¥ 18	$ 321
Due to foreign banks	1	1	16
Total	¥ 39	¥ 20	$ 337

18. Corporate Bonds

Corporate bonds as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Corporate bonds	¥ 35,708	¥15,509	$ 303,984
Subordinated bonds	262,293	72,834	2,232,855
Total	¥298,002	¥88,344	$2,536,839

In February 2006, the Bank issued €1.0 billion of step-up callable subordinated notes. The subordinated notes bear interest at a fixed rate of 3.75% for five years.

Annual maturities of corporate bonds as of March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 1,680	$ 14,302
2008	2,048	17,438
2009	11,204	95,383
2010	4,387	37,347
2011 and thereafter	278,682	2,372,369
Total	¥298,002	$2,536,839

19. Other Liabilities

Other liabilities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Accrued expenses	¥ 47,436	¥ 46,326	$ 403,821
Unearned income	2,031	1,959	17,295
Income taxes payable	4,238	2,541	36,085
Fair value of derivatives	51,991	16,977	442,592
Deferred gains on derivatives for hedging purposes	—	1,240	—
Matured debentures, including interest	36,174	41,223	307,947
Due to trust account	40,448	39,511	344,327
Accounts payable	99,434	62,655	846,469
Deferred gains on installment receivables	48,713	56,171	414,688
Deposits payable	106,011	93,417	902,459
Other	99,272	50,738	845,087
Total	¥535,753	¥412,763	$4,560,770

20. Reserve for Retirement Benefits

The following table presents the funded status of the plans as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥(69,904)**	¥(68,122)	**$(595,082)**
Fair value of plan assets	**71,339**	61,539	**607,303**
Funded status (projected benefit obligation in excess of plan assets)	**1,435**	(6,582)	**12,221**
Unrecognized pension assets	**—**	(160)	**—**
Unrecognized prior service cost	**(4,867)**	(5,138)	**(41,437)**
Unrecognized net actuarial losses	**1,251**	8,667	**10,651**
Unrecognized obligation at transition	**5,470**	6,054	**46,567**
Net amount accrued on the balance sheets	**3,289**	2,839	**28,002**
Prepaid pension cost	**6,599**	6,216	**56,178**
Reserve for retirement benefits	**¥ (3,309)**	¥ (3,376)	**$ (28,176)**

The following table provides the components of net periodic retirement benefit cost for the fiscal years ended March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥ 3,149**	¥3,077	**$ 26,812**
Interest cost	**1,347**	1,395	**11,468**
Expected return on plan assets	**(1,265)**	(1,327)	**(10,769)**
Amortization of prior service cost	**(382)**	(340)	**(3,259)**
Amortization of net actuarial losses	**521**	934	**4,436**
Amortization of unrecognized obligation at transition	**610**	605	**5,200**
Other (extraordinary severance benefit expensed, etc.)	**364**	3,307	**3,099**
Net periodic retirement benefit cost	**¥ 4,344**	¥7,650	**$ 36,987**

Assumptions used in calculation of the above information were as follows:

	2006	2005
Discount rate	**1.50–2.20%**	2.00–2.20%
Expected rate of return on plan assets	**1.50–3.50%**	2.20–3.50%
Method of attributing the projected benefits to periods of service	**Straight-line basis**	Straight-line basis
Period of amortization of prior service cost	**5.00–14.74 years**	9.49–14.74 years
Period of amortization of net actuarial losses	**5.00–14.74 years**	9.49–14.74 years
Period of amortization of unrecognized obligation at transition	**15 years**	15 years

The table includes benefit obligations of consolidated subsidiaries that calculate their obligations based on the full amount due to eligible employees as of the fiscal year-end.

21. Acceptances and Guarantees

Acceptances and guarantees as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Guarantees	**¥813,480**	¥1,058,159	**$6,925,002**
Letters of credit	**0**	2	**7**
Total	**¥813,480**	¥1,058,161	**$6,925,009**

22. Assets Pledged as Collateral

Assets pledged as collateral and debts collateralized as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Assets:			
Cash and due from banks	**¥ 70**	¥ 103	**$ 596**
Securities	**284,378**	376,310	**2,420,857**
Loans and bills discounted	**—**	280	**—**
Other assets	**—**	82,077	**—**
Premises and equipment	**—**	321	**—**
Debts:			
Deposits, including negotiable certificates of deposit	**¥ 2,500**	¥ 11,059	**$ 21,288**
Borrowed money	**602**	128,764	**5,125**
Other liabilities	**910**	921	**7,751**

A total of ¥455 million (U.S.$3,876 thousand) and ¥38,669 million of unearned lease claims are pledged as collateral for the above-mentioned borrowed money as of March 31, 2006 and 2005, respectively.

In addition, ¥173,124 million (U.S.$1,473,780 thousand) of securities as of March 31, 2006 and ¥128,356 million of securities as of March 31, 2005, were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for future trading.

Also, ¥15,322 million (U.S.$130,441 thousand) and ¥4,540 million of margin deposits for futures transactions outstanding were included in other assets as of March 31, 2006 and 2005, respectively.

23. Preferred Securities Issued by Subsidiaries Outside Japan

In February 2006, Shinsei Finance (Cayman) Limited, the Bank's wholly owned subsidiary, issued U.S.$775 million of step-up non-cumulative perpetual preferred securities. Dividends on the securities are payable on a non-cumulative basis annually in arrears at a rate of 6.418% until July 2016. After July 2016, dividends on the securities will be calculated at a floating rate of LIBOR plus 2.22%. On July 20, 2016 or any dividend payment date thereafter, Shinsei Finance (Cayman) Limited may redeem the securities at a price equal to the liquidation preference together with any dividends otherwise payable.

In March 2006, Shinsei Finance II (Cayman) Limited, the Bank's wholly owned subsidiary, issued U.S.$700 million of non-cumulative perpetual preferred securities. Dividends on the securities are payable on a non-cumulative basis annually in arrears at a rate of 7.160% until July 2016. After July 2016, dividends on the securities will be calculated at a floating rate of LIBOR plus 1.87%. On July 25, 2016 and on each dividend payment date falling at ten year intervals thereafter, Shinsei Finance II (Cayman) Limited may redeem the securities at a price equal to the liquidation preference together with any dividends otherwise payable.

These preferred securities are accounted for as minority interests in the consolidated financial statements of the Bank.

24. Shareholders' Equity

The authorized number of shares of capital stock (common stock and preferred stock) as of March 31, 2006 was as follows:
(a) 2,500,000 thousand common shares.
(b) 674,528 thousand preferred shares, non-voting and ranking prior to common shares with respect to payment of dividends and distribution on liquidation or winding-up of the Bank. The dividend rate and redemption and conversion rights, if any, are to be determined by the Board of Directors of the Bank prior to issuance.

The following table shows changes in the capital stock, capital surplus and treasury stock accounts for the fiscal years ended March 31, 2005 and 2006:

	Millions of yen							
	Common stock		Preferred stock Class A		Preferred stock Class B		Capital surplus	Treasury stock
	Outstanding number of shares (thousands)	Stated value	Shares (thousands)	Stated value	Shares (thousands)	Stated value	Stated value	Cost
Fiscal year ended March 31, 2005:								
Beginning of year	1,358,536	¥180,853	74,528	¥48,443	600,000	¥222,000	¥18,558	¥ (1)
Increase in treasury stock	(12)							(8)
End of year	1,358,523	¥180,853	74,528	¥48,443	600,000	¥222,000	¥18,558	¥ (9)
Fiscal year ended March 31, 2006:								
Beginning of year	**1,358,523**	**¥180,853**	**74,528**	**¥48,443**	**600,000**	**¥222,000**	**¥18,558**	**¥ (9)**
Increase in treasury stock	**(2)**							**(3)**
End of year	**1,358,520**	**¥180,853**	**74,528**	**¥48,443**	**600,000**	**¥222,000**	**¥18,558**	**¥(12)**
Thousands of U.S. dollars		**$1,539,574**		**$412,388**		**$1,889,844**	**$157,984**	**$(106)**

Through May 1, 2006, Japanese banks are subject to the Code and the Banking Law.

The Code requires that all shares be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as stated capital and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Banking Law provides that an amount of 20% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 100% of stated capital. The amount of total legal reserve and additional paid-in capital that exceeds 100% of stated capital may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of stated capital, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code and the Banking Law was ¥290,464 million (U.S.$2,472,669 thousand) as of March 31, 2006, based on the amount recorded in the Bank's general books of account. The Bank's legal reserve amount totaled ¥7,777 million (U.S.$66,195 thousand) as of March 31, 2006.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. The Bank is a company with board committees as stipulated in the Code. For companies with board committees, such dividends can be approved by the Board of Directors subsequent to the end of the fiscal year. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code and the Banking Law.

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

Class A preferred shares are convertible up to and including March 31, 2008, at the option of the shareholders, into fully paid shares of common stock of the Bank at a conversion price of ¥360.

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

Holders of Class B preferred shares issued on April 1, 2000 are entitled to priority over holders of common stock and an equal ranking with holders of Class A preferred shares as to the payment of dividends and as to distributions on liquidation of the Bank. Holders of Class B preferred shares are to receive non-cumulative dividends of ¥4.84 and a distribution of ¥400 per preferred share upon liquidation.

Class B preferred shares are convertible on or after August 1, 2005, and up to and including July 31, 2007, at the option of shareholders, into fully paid shares of common stock of the Bank. Effective August 1, 2005, the initial conversion price of Class B preferred shares was determined at ¥599.90 based on the conversion condition. The initial conversion price may be adjusted on August 1, 2006, at the average market price per share during a specified period preceding August 1, 2006. At no time, however, shall the conversion price be less than ¥599.90 or more than ¥799.90.

Unless previously converted at the option of Class B preferred shareholders, all outstanding Class B preferred shares will be mandatorily converted for fully paid shares of common stock on August 1, 2007, at the number of common shares calculated by dividing ¥400 by the average market price per share during a specified period preceding August 1, 2007, as applicable, or “net asset value”, as defined, per common share if the shares are not publicly traded. The maximum number of share of common stock to one share of preferred stock at the time of simultaneous conversion to common stock is 2/3 shares, and the minimum is 1/2 share.

On May 1, 2006, a new corporate law (the “Corporate Law”) became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(i) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Board of Directors of companies with board committees (an appointment committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Corporate Law, even though such companies have an audit committee instead of the Board of Corporate Auditors.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

(ii) Increases/decreases and transfer of stated capital, reserve and surplus

The Corporate Law and the revised Banking Law which was revised on November 2, 2005 and effective on May 1, 2006 require that an amount of 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 100% of stated capital.

Under the Code and the revised Banking Law, the aggregate amount of additional paid-in capital and legal reserve that exceeds 100% of the stated capital may be made available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that stated capital, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(iii) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

25. Stock Acquisition Rights and Acquisition of Treasury Stock

(a) Stock acquisition rights

The Bank issues stock acquisition rights as a stock option plan to directors, statutory executive officers and employees of the Bank and its subsidiaries as well as its senior advisors.

Stock acquisition rights provide eligible individuals (the "holders") with the right to purchase common stock of the Bank without any consideration at an exchange rate of one thousand common shares to one stock acquisition right. The amount of money to be paid upon exercising stock acquisition rights is the amount calculated by multiplying the payment amount per share (the "exercise price") and the number of common shares that can be purchased through the exercise of one stock acquisition right. Conditions are stipulated in the "Agreement on the Grant of Stock Acquisition Rights" entered into between the Bank and the holders to whom stock acquisition rights were allotted based on the resolution of the annual general meeting of shareholders and the meetings of the Board of Directors which resolves the issuance of stock acquisition rights afterwards.

Total number of stock acquisition rights outstanding as of March 31, 2006 and 2005 was 19,794 and 9,641, respectively. Stock acquisition rights were issued to the holders during the fiscal years ended March 31, 2006 and 2005 as shown in the following schedule:

Date of issuance	Total number of stock acquisition rights issued	Total number of the holders	Exercise period	Exercise price
July 1, 2004	9,455	2,196	July 1, 2006–June 23, 2014	¥684
October 1, 2004	161	3	July 1, 2006–June 23, 2014	¥646
December 10, 2004	25	1	July 1, 2006–June 23, 2014	¥697
June 1, 2005	250	1	July 1, 2006–June 23, 2014	¥551
June 27, 2005	4,922	462	July 1, 2007–June 23, 2015	¥601
June 27, 2005	2,856	40	July 1, 2005–June 23, 2015	¥601
June 27, 2005	1,287	135	July 1, 2007–June 23, 2015	¥601
June 27, 2005	561	35	July 1, 2005–June 23, 2015	¥601
September 28, 2005	157	2	July 1, 2007–June 23, 2015	¥697
September 28, 2005	53	2	July 1, 2007–June 23, 2015	¥697
March 1, 2006	50	2	July 1, 2007–June 23, 2015	¥774
March 1, 2006	17	2	July 1, 2007–June 23, 2015	¥774

On May 25, 2006, the Bank issued a total of 10,139 stock acquisition rights with an exercise price of ¥825, whose exercise period is from June 1, 2006 to June 23, 2015.

At the Board of Directors meeting held on May 23, 2006, the Bank resolved to submit a proposal at the annual general meeting of shareholders to be held on June 27, 2006, for the issuance of up to a total of 12,000 stock acquisition rights. The exercise period for the stock acquisition rights is to be from the allocation date to June 23, 2017.

(b) Acquisitions of treasury stock

At the Board of Directors meeting held on May 23, 2006, the Bank approved a proposal to be submitted at the annual general meeting of shareholders to be held on June 27, 2006, authorizing the Bank to acquire up to 30 million of its common shares at an aggregate acquisition price of up to ¥30 billion as treasury stock in order to execute the stock option plan. The acquisitions can be made within one year from the closing of the annual general meeting of shareholders on June 27, 2006.

26. Net Trading Income

Net trading income for the fiscal years ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Income from trading securities	**¥ 7,796**	¥ 1,870	**$ 66,368**
Income from securities held to hedge trading transactions	**2,236**	2,197	**19,039**
Income from trading-related financial derivatives	**17,632**	19,845	**150,105**
Other, net	**(152)**	77	**(1,298)**
Total	**¥27,513**	¥23,992	**$234,214**

27. Other Business Income, Net

"Other, net" in other business income, net, for the fiscal years ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Income (losses) from derivatives for banking purposes, net	**¥ 957**	¥ (582)	**$ 8,147**
Equity in net income of affiliates	**4,114**	1,762	**35,025**
Gain on lease cancellation and other lease income, net	**2,309**	—	**19,661**
Other, net	**7,159**	4,395	**60,949**
Total	**¥14,540**	¥5,575	**$123,782**

28. Net Credit Costs (Recoveries)

Net credit costs (recoveries) for the fiscal years ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Losses on write-off of loans	**¥ 1,174**	¥ 3,532	**$ 9,999**
Losses on sale of loans	**372**	—	**3,175**
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**30,000**	(2,780)	**255,391**
Net reversal of specific reserve for loan losses	**(5,146)**	(1,215)	**(43,809)**
Net reversal of reserve for loan losses to restructuring countries	**(0)**	(0)	**(0)**
Subtotal	**24,854**	(3,995)	**211,582**
Net provision (reversal) of specific reserve for other credit losses	**1,107**	(234)	**9,429**
Reversal of reserve for losses on sale of bonds	**—**	(291)	**—**
Other credit costs relating to leasing business	**2,680**	—	**22,822**
Total	**¥30,190**	¥ (989)	**$257,007**

29. Other Losses, Net

Other losses, net, for the fiscal years ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net loss on disposal of premises and equipment	¥ (203)	¥ (517)	$ (1,730)
Pension-related costs	(878)	(3,253)	(7,483)
Gain on prescription of debentures	197	334	1,679
Recoveries of written-off claims	989	779	8,425
Provision for loss on disposition of premises and equipment	—	(153)	—
Gain on sales of subsidiary's stock	2,570	—	21,880
Issuance costs of preferred securities	(2,139)	—	(18,212)
Other, net	(3,996)	(4,247)	(34,020)
Total	¥(3,460)	¥(7,057)	$(29,461)

30. Lease Transactions

(a) Finance lease transactions, under which the ownership of the property is not deemed to transfer to the lessee as of March 31, 2006 and 2005 consisted of the following:

As Lessee

The assumed amounts of acquisition cost, accumulated depreciation and net balance of leased assets as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
Leased assets	2006	2005	2006
Acquisition cost:			
Equipment	¥2,983	¥2,799	$25,395
Other	267	248	2,277
Total	¥3,250	¥3,048	$27,672
Accumulated depreciation:			
Equipment	¥1,029	¥ 285	$ 8,767
Other	141	126	1,203
Total	¥1,171	¥ 411	$ 9,970
Net balance:			
Equipment	¥1,953	¥2,513	$16,629
Other	126	122	1,074
Total	¥2,079	¥2,636	$17,703

Lease obligations as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Obligations:			
Due within one year	¥ 796	¥ 759	$ 6,778
Due after one year	1,365	1,957	11,623
Total	¥2,161	¥2,717	$18,401

For the fiscal years ended March 31, 2006 and 2005, total lease payments were ¥835 million (U.S.$7,113 thousand) and ¥444 million, assumed depreciation expenses were ¥768 million (U.S.$6,541 thousand) and ¥410 million, and assumed interest expenses were ¥77 million (U.S.$657 thousand) and ¥45 million, respectively.

Assumed depreciation expense is calculated using the straight-line method over the useful life of the respective leased assets with zero residual value. The difference between total lease payments and the assumed acquisition cost of leased assets is charged to assumed interest expense, and is allocated to each fiscal year using the interest method.

As Lessor

Acquisition cost, accumulated depreciation and net balance of leased assets as of March 31, 2006 and 2005 were as follows:

Leased assets	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Acquisition cost:			
Equipment	¥383,009	¥283,416	$3,260,486
Other	67,011	50,318	570,456
Total	¥450,020	¥333,735	$3,830,942
Accumulated depreciation:			
Equipment	¥102,461	¥ 898	$ 872,232
Other	16,685	116	142,045
Total	¥119,147	¥ 1,014	$1,014,277
Net balance:			
Equipment	¥280,548	¥282,518	$2,388,253
Other	50,325	50,202	428,412
Total	¥330,873	¥332,720	$2,816,665

Future lease payment receivables as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Future lease payment receivables:			
Due within one year	¥113,478	¥120,555	$ 966,025
Due after one year	226,059	226,576	1,924,403
Total	¥339,538	¥347,131	$2,890,428

For the fiscal years ended March 31, 2006 and 2005, total lease revenues were ¥144,213 million (U.S.$1,227,661 thousand) and ¥1,256 million, depreciation expenses were ¥120,067 million (U.S.$1,022,113 thousand) and ¥1,017 million, and assumed interest income was ¥14,832 million (U.S.$126,263 thousand) and ¥193 million, respectively.

Depreciation expense is calculated using the straight-line method over the leasing period. The differences between total lease revenues and acquisition cost of leased assets were charged to assumed interest income, and were allocated to each period using the interest method.

(b) Non-cancelable operating leases obligations as lessee and future lease payment receivables as lessor as of March 31, 2006 and 2005 consisted of the following:

As Lessee

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Obligations:			
Due within one year	¥1,374	¥1,367	$11,703
Due after one year	4,934	5,728	42,003
Total	¥6,308	¥7,096	$53,706

As Lessor

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Future lease payment receivables:			
Due within one year	¥ 7,814	¥163	$ 66,523
Due after one year	7,437	765	63,316
Total	¥15,252	¥928	$129,839

31. Segment Information

(a) Business Segment Information

The Group is engaged in banking and other related activities such as trust, securities and other businesses. Business segment information, however, has not been presented as the percentage of the other activities is not material to the banking business.

(b) Geographic Segment Information

Since the proportion of business that the Group conducts in Japan exceeds 90% of operating income and total assets, geographic segment information is not presented.

(c) Foreign Operating Income

Foreign operating income comprises of income from transactions at overseas branches and consolidated overseas subsidiaries. The composition of this volume of transactions for the Group did not reach 10% of its operating income, therefore foreign operating income information is not presented.

32. Income Taxes

The Group is subject to a number of taxes based on income, such as corporation tax, inhabitant tax and enterprise tax, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for each of the fiscal years ended March 31, 2006 and 2005.

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal years ended March 31, 2006 and 2005 was as follows:

	2006	2005
Normal effective statutory tax rate	40.7 %	40.7 %
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	(20.3)	(1.6)
Amortization of consolidation goodwill	11.2	3.0
Minority interests in net income of subsidiaries	(2.2)	—
Other non-deductible expenses	0.9	1.0
Change in valuation allowance	(105.3)	(46.2)
Expiration of tax loss carryforwards	69.7	—
Other	(5.1)	0.0
Actual effective tax rate	(10.4)%	(3.1)%

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Tax loss carryforwards	¥ 173,435	¥ 250,481	$ 1,476,426
Reserve for credit losses	99,277	104,118	845,132
Securities	20,618	7,575	175,521
Losses on impairment of premises and equipment	13,547	14,015	115,327
Reserve for retirement benefits	8,888	9,491	75,665
Deferred income on installment receivables	7,212	14,358	61,395
Accrued employees' bonuses	5,950	4,018	50,656
Deferred gains on installment receivables	3,750	3,920	31,923
Other	23,394	15,959	199,155
Subtotal	356,075	423,939	3,031,200
Valuation allowance	(310,214)	(382,631)	(2,640,796)
Total deferred tax assets	45,860	41,308	390,404
Offset with deferred tax liabilities	(15,838)	(16,684)	(134,830)
Net deferred tax assets	¥ 30,022	¥ 24,623	$ 255,574

Deferred tax liabilities:			
Temporary differences due to application of overall fair value adjustments (mainly related to identified intangible assets)	**¥ 28,084**	¥ 33,344	**$ 239,081**
Net unrealized gain on securities available-for-sale	**1,472**	2,128	**12,536**
Other	**—**	1,474	**—**
Total deferred tax liabilities	**29,557**	36,947	**251,617**
Offset with deferred tax assets	**(15,838)**	(16,684)	**(134,830)**
Net deferred tax liabilities	**¥ 13,718**	¥ 20,262	**$ 116,787**

The Bank had ¥217,628 million (U.S.$1,852,631 thousand) of tax loss carryforwards related to corporation tax as of March 31, 2006. The schedule of tax loss carryforwards and their expiration dates is as follows:

	Amount		
Fiscal year ended March 31	Millions of yen	Thousands of U.S. dollars	Date of expiry
2002	¥ 63,096	$ 537,125	March 31, 2009
2003	154,532	1,315,506	March 31, 2010
Total	¥217,628	$1,852,631	

In addition, other important tax loss carryforwards of major subsidiaries are as follows:

Subsidiary	Fiscal period ended	Millions of yen	Date of expiry
APLUS Co., Ltd.	March 31, 2005	¥157,722	March 31, 2012
	September 30, 2005	2,988	March 31, 2013
	March 31, 2006	4,674	March 31, 2013
	Total	¥165,385	
Showa Leasing Co., Ltd.	March 31, 2005	¥ 32,230	March 31, 2012
	Total	¥ 32,230	

The Bank cannot add the tax loss carryforwards of APLUS and Showa Leasing to its own tax loss carryforwards because, as less than wholly owned subsidiaries, they are not included in the Bank's consolidated corporation tax system.

33. Off-Balance Sheet Lending-Related Financial Instruments

The Bank and certain of its consolidated subsidiaries issue commitments to extend credit and establish credit lines for overdrafts to meet the financing needs of their customers. The unfunded amounts of these commitments were ¥4,092,758 million (U.S.$34,840,886 thousand) and ¥3,277,644 million as of March 31, 2006 and 2005, out of which the amounts with original agreement terms of less than one year or which were cancelable were ¥3,922,148 million (U.S.$33,388,513 thousand) and ¥3,095,283 million as of March 31, 2006 and 2005, respectively. Since a large majority of these commitments expire without being drawn upon, the unfunded amounts do not necessarily represent future cash requirements. Many of such agreements include conditions granting the Bank and consolidated subsidiaries the right to reject the drawdown or to reduce the amount on the basis of changes in the financial circumstances of the borrower or other reasonable grounds.

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

34. Related Party Transactions

Related party transactions for the fiscal years ended March 31, 2006 and 2005 were as follows:

			Amounts of the transactions			Balance at end of year		
			Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
Related party	Category	Description of the transactions	2006	2005	2006	2006	2005	2006
New NIB Partners LP(*1)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Equity investment(*5)	¥25,002	¥—	$212,839	—	—	—
Hillcot Holdings Ltd.(*2)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Capital increase	5,105	—	43,463	—	—	—
JCF Services & Co., LLC(*3)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Expense for advisory service on M&A(*6) Income from sublease of office rent, including office space, office equipment and sharing of administrative expenses(*7)	—	59	—	—	—	—
Hillcot Re Ltd.(*4)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Guarantee(*8)	—	—	—	¥410	—	$3,492

Notes: (*1) J.C. Flowers & Co., LLC of which a director of the Bank, J. Christopher Flowers, serves as chairman, acts as a general partner of the limited partnership.
(*2) A director of the Bank, J. Christopher Flowers, indirectly holds a majority of the voting interests of the company. Also, the company is the affiliate of the Bank accounted for by the equity method.
(*3) A director of the Bank, J. Christopher Flowers, holds a majority of the voting interests and serves concurrently as a managing member of the company.
(*4) The company is a wholly owned subsidiary of Hillcot Holdings Ltd.
(*5) The investment was made through SHINSEI NIB (CAYMAN) LIMITED, which is a wholly owned subsidiary of the Bank.
(*6) The terms and conditions for the advisory service were decided based on the negotiation with the party referring to the terms and conditions generally used in the public.
(*7) The contract was terminated in July 2004.
(*8) Even after the acquisition by Hillcot Holdings Ltd., the seller continues to guarantee Hillcot Re Ltd. against contingent liability arising from reinsurance agreements which Hillcot Re assumed, and the Bank guarantees the seller against the contingent payment to be made by Hillcot Re Ltd. This is part of the agreement reached at the acquisition and a guarantee fee is not specified. The remaining period of the guarantee is 4 years.

35. Derivative Financial Instruments

Purposes

The Bank uses derivative financial instruments primarily to hedge risk for customers, to maximize the profit of its own trading account and to manage the potential risks in its own portfolios of assets and liabilities as a part of asset liability management.

Risk Exposure

Derivative transactions may be subject to complex risk factors, including market risk, credit risk, liquidity risk, operational risk and legal risk. The Bank controls these risks under its risk management system. To manage market risk, the Bank uses Value-at-Risk ("VaR") modeling to quantify the maximum total exposure. In its internal model, the Bank measures the VaR based on one year's historical data and the assumptions of a ten-days 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 ¥1,656 million (U.S.$14,102 thousand) in the fiscal year ended March 31, 2006 and the average was ¥951 million (U.S.$8,101 thousand). In the fiscal year ended March 31, 2005, the maximum VaR was ¥1,540 million and the average was ¥941 million.

Also, to manage credit risk, the Bank utilizes the current exposure and potential exposure for derivatives, particularly for over-the-counter transactions such as swap contracts.

The consolidated credit risk asset under the capital adequacy ratio for domestic banking was calculated as ¥98,897 million (U.S.$841,899 thousand) and ¥46,845 million as of March 31, 2006 and 2005, respectively. In addition, the fair value estimates for derivatives as of March 31, 2006 and 2005 are adjusted for credit risk by reducing ¥1,227 million (U.S.$10,452 thousand) and ¥791 million, respectively, and also adjusted for liquidity risk by reducing ¥3,630 million (U.S.$30,907 thousand) and ¥2,878 million, respectively, although the amounts of those risks are not reflected in the fair value shown in the following tables.

Risk Management System

The Market Risk Management Division, which is independent of the front office, has the responsibility to manage the risk of the whole Bank. This division controls the measurement of market risk on a daily basis, monitors the market risk status on both the banking and trading divisions and reports periodically to the management. Credit risk is also controlled by the unified credit line and major derivative products are dealt with within the established limits. Credit exposure is monitored accordingly and the Bank may require such things as collateral to reduce credit risk on a case by case basis.

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 such things as market risk or credit risk.

(a) Interest Rate-Related Transactions

Interest rate-related transactions as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Future contracts (listed):								
Sold	¥ 301,098	¥ 33,357	¥ 734	¥ 734	¥ 2,453	¥ 1,414	¥ 11	¥ 11
Bought	335,842	46,737	(597)	(597)	—	—	—	—
Interest rate options (listed):								
Sold	23,765	—	(26)	(13)	—	—	—	—
Bought	20,034	—	33	18	—	—	—	—
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	3,933,423	3,481,987	(78,260)	(78,260)	2,865,019	2,223,459	34,033	34,033
Receive floating and pay fixed	2,528,672	2,002,349	33,658	33,658	2,413,627	1,728,094	(27,130)	(27,130)
Receive floating and pay floating	614,399	563,692	3,470	3,470	696,218	625,548	6,965	6,965
Receive fixed and pay fixed	4,732	—	(0)	(0)	5,460	5,222	1	1
Interest rate swaptions (over-the-counter):								
Sold	1,591,499	1,519,853	(28,749)	(11,716)	689,806	679,306	(13,698)	(465)
Bought	2,028,730	1,912,083	86,178	81,734	1,410,626	1,207,276	13,590	12,716
Interest rate options (over-the-counter):								
Sold	365,478	252,535	(1,316)	2,263	460,636	298,114	(724)	4,594
Bought	325,500	200,205	571	(529)	337,349	212,381	266	(1,632)
Total			¥ 15,697	¥ 30,761			¥ 13,314	¥ 29,093

	Thousands of U.S. dollars			
	2006			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Future contracts (listed):				
Sold	$ 2,563,199	$ 283,968	$ 6,251	$ 6,251
Bought	2,858,966	397,864	(5,084)	(5,084)
Interest rate options (listed):				
Sold	202,310	—	(222)	(116)
Bought	170,550	—	288	158
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	33,484,495	29,641,500	(666,217)	(666,217)
Receive floating and pay fixed	21,526,111	17,045,625	286,531	286,531
Receive floating and pay floating	5,230,268	4,798,604	29,545	29,545
Receive fixed and pay fixed	40,287	—	(0)	(0)
Interest rate swaptions (over-the-counter):				
Sold	13,548,139	12,938,227	(244,740)	(99,744)
Bought	17,270,198	16,277,209	733,619	695,790
Interest rate options (over-the-counter):				
Sold	3,111,247	2,149,787	(11,206)	19,265
Bought	2,770,923	1,704,309	4,868	(4,510)
Total			$ 133,633	$ 261,869

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income in the period of change. Derivatives for which hedge accounting was adopted were excluded from the table above.

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

(b) Currency-Related Transactions

Currency-related transactions as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	¥505,296	¥439,175	¥ 3,442	¥ 3,442	¥232,447	¥156,265	¥(3,038)	¥(3,038)
Forward foreign exchange contracts (over-the-counter):								
Sold	513,678	68,290	(8,071)	(8,071)	189,052	26,369	(839)	(839)
Bought	275,672	170,701	10,993	10,993	72,297	31,331	(108)	(108)
Currency options (over-the-counter):								
Sold	393,870	268,803	(17,767)	(1,013)	91,918	21,300	(1,909)	438
Bought	451,841	254,277	18,939	6,245	92,382	11,412	1,597	84
Total			¥ 7,536	¥11,595			¥(4,297)	¥(3,462)

	Thousands of U.S. dollars			
	2006			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	$4,301,491	$3,738,620	$ 29,303	$ 29,303
Forward foreign exchange contracts (over-the-counter):				
Sold	4,372,848	581,347	(68,711)	(68,711)
Bought	2,346,746	1,453,148	93,584	93,584
Currency options (over-the-counter):				
Sold	3,352,944	2,288,270	(151,252)	(8,624)
Bought	3,846,438	2,164,615	161,230	53,163
Total			$ 64,154	$ 98,715

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

(2) Fair Values:
The fair values are calculated mainly by using the discounted present values or option pricing models.

(c) Equity-Related Transactions

Equity-related transactions as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Equity index futures (listed):								
Sold	¥ —	¥ —	¥ —	¥ —	¥14,987	¥ —	¥ (192)	¥ (192)
Bought	36,576	—	2,605	2,605	—	—	—	—
Equity index options (listed):								
Sold	3,692	—	(1,396)	(970)	1,279	—	(653)	(626)
Bought	12,127	—	2,129	1,382	2,593	—	463	69
Equity options (over-the-counter):								
Sold	198,324	81,292	(20,082)	(10,244)	44,165	—	(2,246)	386
Bought	121,705	39,460	11,833	7,097	13,125	—	341	53
Other (over-the-counter):								
Sold	9,003	8,300	(47)	30	—	—	—	—
Bought	169,726	161,915	10,328	7,723	91,876	90,376	1,367	1,367
Total			¥ 5,368	¥ 7,624			¥ (919)	¥1,056

	Thousands of U.S. dollars			
	2006			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Equity index futures (listed):				
Sold	$ —	$ —	$ —	$ —
Bought	311,367	—	22,176	22,176
Equity index options (listed):				
Sold	31,436	—	(11,892)	(8,263)
Bought	103,240	—	18,124	11,772
Equity options (over-the-counter):				
Sold	1,688,295	692,030	(170,960)	(87,212)
Bought	1,036,054	335,916	100,738	60,421
Other (over-the-counter):				
Sold	76,641	70,656	(405)	260
Bought	1,444,851	1,378,358	87,924	65,751
Total			$ 45,705	$ 64,905

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income in the period of change. Derivatives for which hedge accounting was adopted were excluded from the table above.

(2) Fair Values:
The fair values of listed transactions represent the closing price on the Tokyo Stock Exchange and other exchanges at the consolidated balance sheet date. The fair values of over-the-counter transactions are calculated mainly by using the discounted present values or option pricing models.

(d) Bond-Related Transactions

Bond-related transactions as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Bond futures (listed):								
Sold	¥ 4,547	¥—	¥10	¥ 10	¥ 963	¥—	¥(12)	¥(12)
Bought	63,939	—	(7)	(7)	1,670	—	2	2
Bond futures options (listed):								
Sold	3,578	—	4	(2)	—	—	—	—
Bought	3,073	—	11	5	—	—	—	—
Total			¥18	¥ 6			¥ (9)	¥ (9)

	Thousands of U.S. dollars			
	2006			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Bond futures (listed):				
Sold	$ 38,714	$—	$ 87	$ 87
Bought	544,302	—	(62)	(62)
Bond futures options (listed):				
Sold	30,464	—	40	(19)
Bought	26,161	—	96	47
Total			$161	$ 53

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income in the period of change. Derivatives for which hedge accounting was adopted were excluded from the table above.

(2) Fair Values:
The fair values of listed transactions represent the closing price on the Tokyo Stock Exchange and other exchanges at the consolidated balance sheet date.

(e) Commodity Derivatives Transactions

Commodity derivatives transactions as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Commodity swaps (over-the-counter):								
Receive floating and pay fixed	¥—	¥—	¥—	¥—	¥26	¥—	¥ 0	¥ 0
Receive fixed and pay floating	—	—	—	—	26	—	(0)	(0)
Total			¥—	¥—			¥ 0	¥ 0

	Thousands of U.S. dollars			
	2006			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Commodity swaps (over-the-counter):				
Receive floating and pay fixed	$—	$—	$—	$—
Receive fixed and pay floating	—	—	—	—
Total			$—	$—

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income in the period of change. Derivatives for which hedge accounting was adopted were excluded from the table above.

(2) Fair Values:
The fair values are calculated by using factors such as price of the relevant commodity and contract term.

(3) Commodity derivatives were transactions on fuel.

(f) Credit Derivatives Transactions

Credit derivatives transactions as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):								
Sold	**¥695,368**	**¥673,907**	**¥ 1,355**	**¥ 1,355**	¥439,368	¥422,203	¥ 1,516	¥ 1,516
Bought	**679,636**	**659,850**	**(1,797)**	**(1,797)**	399,875	373,375	(1,452)	(1,452)
Total			**¥ (442)**	**¥ (442)**			¥ 64	¥ 64

	Thousands of U.S. dollars			
	2006			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):				
Sold	**$5,919,540**	**$5,736,848**	**$ 11,536**	**$ 11,536**
Bought	**5,785,616**	**5,617,181**	**(15,301)**	**(15,301)**
Total			**$ (3,765)**	**$ (3,765)**

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income in the period of change. Derivatives for which hedge accounting was adopted were excluded from the table above.

(2) Fair Values:
The fair values are calculated by using the discounted present values or other models.

(3) “Sold” stands for accepting credit risk and “Bought” stands for transferring credit risk.

36. Net Income per Common Share

A reconciliation of the differences between basic and diluted net income per common share ("EPS") for the fiscal years ended March 31, 2006 and 2005 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average shares	EPS	EPS
For the fiscal year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	**¥72,226**	**1,358,521**	**¥53.16**	**$0.45**
Effect of dilutive securities				
Preferred stock	**3,872**	**656,350**		
Stock acquisition rights	**—**	**960**		
Diluted EPS				
Net income for computation	**¥76,099**	**2,015,832**	**¥37.75**	**$0.32**
For the fiscal year ended March 31, 2005:				
Basic EPS				
Net income available to common shareholders	¥63,562	1,358,529	¥46.78	
Effect of dilutive securities				
Preferred stock	3,872	569,128		
Stock acquisition rights	—	1		
Diluted EPS				
Net income for computation	¥67,435	1,927,658	¥34.98	

37. Subsequent Events

The following appropriation of retained earnings of the Bank for the fiscal year ended March 31, 2006 was approved at the Board of Directors meeting held on May 23, 2006:

	Millions of yen	Thousands of U.S. dollars
Transfer to legal reserve	**¥ 790**	**$ 6,725**
Dividends:		
Class A preferred share (¥6.50 per share)	**484**	**4,124**
Class B preferred share (¥2.42 per share)	**1,452**	**12,361**
Common share (¥1.48 per share)	**2,010**	**17,116**
Total	**¥4,737**	**$40,326**