CRITICAL ACCOUNTING POLICIES (continued)

2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new standard prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill;
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss;
(3) Capitalization of other intangible assets arising from development phases;
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and other intangible assets;
(5) Retrospective application when accounting policies are changed; and
(6) Accounting for net income attributable to minority interest.

The new task force is effective for fiscal years beginning on or after April 1, 2008.

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2008, we had consolidated total assets of ¥11,525.7 billion. This represented a 6.3% increase from ¥10,837.6 billion as of March 31, 2007. The increase was principally attributable to an increase in loans and bills discounted and securities. Shinsei Bank's balance of loans and bills discounted was ¥5,622.2 billion at the end of March 31, 2008 as compared to ¥5,146.3 billion as of March 31, 2007. Corporate loans increased 1.0% to ¥2,856.1 billion, the non-recourse real estate finance balance decreased 9.6% to ¥695.6 billion as more non-recourse loans shifted to bond structures, other institutional loans increased 21.8% to ¥736.7 billion, loans to retail customers, including high net worth individuals, grew 41.9% to ¥907.4 billion due mainly to an increase in housing loans, and a loan balance of ¥95.5 billion related to Shinki was added. The loan growth was partly offset by the absence of lending to Life Housing Loan's customers, following the sale of this subsidiary in fiscal year 2007. Life Housing Loan's balance of loans amounted to ¥99.9 billion at March 31, 2007.

SECURITIES

The following table sets forth the composition of our consolidated portfolio of trading securities in the banking book, available-for-sale equity and debt securities and held-to-maturity debt securities as of March 31, 2008. As reflected below, almost 69% of the securities will mature during the next five years. The balance of securities as of March 31, 2008 amounted to ¥1,980.2 billion as compared to ¥1,854.6 billion as of March 31, 2007. The increase relates in part to investments in Japanese corporate bonds.

TABLE 14. SECURITIES BY MATURITY (CONSOLIDATED) [1]

Billions of yen

	As of March 31, 2008							
	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Unspecified term	Total
Japanese national government bonds	**¥ 298.6**	**¥ 179.2**	**¥ 121.4**	**¥ —**	**¥ —**	**¥ 46.0**	**¥ —**	**¥ 645.3**
Japanese local government bonds	**0.0**	**—**	**1.7**	**—**	**0.5**	**—**	**—**	**2.2**
Japanese corporate bonds	**164.1**	**228.5**	**140.4**	**17.2**	**10.0**	**—**	**—**	**560.4**
Japanese equity securities	**—**	**—**	**—**	**—**	**—**	**—**	**34.3**	**34.3**
Foreign bonds and other	**28.2**	**104.0**	**109.5**	**42.1**	**130.6**	**170.5**	**152.5**	**737.7**
Total securities	**¥ 491.0**	**¥ 511.8**	**¥ 373.1**	**¥ 59.4**	**¥ 141.2**	**¥ 216.6**	**¥ 186.8**	**¥ 1,980.2**

Billions of yen

	As of March 31, 2007							
	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Unspecified term	Total
Japanese national government bonds	¥ 319.0	¥ 233.9	¥ 150.4	¥ —	¥ —	¥ 46.9	¥ —	¥ 750.4
Japanese local government bonds	51.5	0.0	0.5	1.1	—	—	—	53.2
Japanese corporate bonds	139.7	103.1	65.9	15.9	11.4	9.5	—	345.7
Japanese equity securities	—	—	—	—	—	—	33.5	33.5
Foreign bonds and other	8.8	59.3	81.8	46.5	123.4	179.0	172.6	671.7
Total securities	¥ 519.2	¥ 396.4	¥ 298.7	¥ 63.6	¥ 134.9	¥ 235.4	¥ 206.1	¥ 1,854.6

Note: (1) Please see Note 8 on page 121 for redemption schedules for securities being held to maturity and available-for-sale.

LOAN PORTFOLIO

As of March 31, 2008, we had ¥5,622.2 billion in loans and bills discounted. This represented 48.8% of total consolidated assets and a 9.2% increase from the ¥5,146.3 billion of loans and bills discounted as of March 31, 2007. Installment receivables of APLUS, Showa Leasing and our other non-bank subsidiaries are classified in our consolidated balance sheet as other assets, and are not reflected in our data on loans and bills discounted.

Most of our loan portfolio was originated by Shinsei and our domestic subsidiaries. Of loans we originated, loans to the finance and insurance industry and the real estate industry constituted close to one-half of our balance of loans as of March 31, 2008. About one-half of loans to the real estate industry as of March 31, 2008 consisted of non-recourse and project finance loans. Loans to this industry decreased by 6.9%, to ¥1,295.1 billion, or 23.6% of total domestic loans as of March 31, 2008, primarily because of an increase in loans to government-related institutions.

Loans to others of ¥1,597.9 billion as of March 31, 2008 included loans extended to Shinsei's, APLUS' and Shinki's individual customers amounting, in aggregate, to ¥1,174.7 billion.

TABLE 15. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

	Billions of yen (except percentages)			
As of March 31	2008		2007	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	¥ 191.8	3.5%	¥ 189.4	3.8%
Agriculture	0.0	0.0	0.0	0.0
Forestry	—	—	0.0	0.0
Fishers	2.9	0.0	0.9	0.0
Mining	4.5	0.1	6.6	0.1
Construction	20.4	0.4	19.9	0.4
Electric power, gas, heat supply and water supply	74.6	1.4	80.1	1.6
Information and communications	50.0	0.9	27.5	0.5
Transportation	379.4	6.9	391.9	7.8
Wholesale and retail	138.0	2.5	117.5	2.3
Finance and insurance	1,248.0	22.7	1,091.6	21.6
Real estate	1,295.1	23.6	1,390.4	27.5
Services	374.0	6.8	369.9	7.3
Local government	118.1	2.1	63.8	1.3
Others	1,597.9	29.1	1,302.1	25.8
Total domestic (A)	¥ 5,495.3	100.0%	¥ 5,052.2	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	¥ 1.1	0.9%	¥ 0.9	1.0%
Others	125.6	99.1	93.1	99.0
Total overseas (B)	¥ 126.8	100.0%	¥ 94.0	100.0%
Total (A+B)	¥ 5,622.2		¥ 5,146.3	

LOAN MATURITY

The following table sets forth the composition of Shinsei's non-consolidated loan portfolio by type of interest rate and maturity as of the dates indicated. In the fiscal year ended March 31, 2008, the increase in total loans resulted from increases in both variable-interest rate loans and fixed-interest rate loans.

TABLE 16. LOAN MATURITY (NON-CONSOLIDATED)

	Billions of yen	
As of March 31	2008	2007
Fixed-interest loans:		
One year or less[(1)]	¥ —	¥ —
Over one year to three years	113.1	87.5
Over three years to five years	125.2	178.4
Over five years to seven years	94.8	99.5
Over seven years	740.1	616.1
Indefinite term	9.6	6.8
Variable-interest loans:		
One year or less[(1)]	¥ —	¥ —
Over one year to three years	1,388.6	1,096.1
Over three years to five years	552.3	804.8
Over five years to seven years	228.5	246.3
Over seven years	483.4	475.8
Indefinite term	21.1	3.4
Total loans:		
One year or less	¥ 1,599.1	¥ 1,459.9
Over one year to three years	1,501.8	1,183.6
Over three years to five years	677.5	983.2
Over five years to seven years	323.3	345.9
Over seven years	1,223.6	1,092.0
Indefinite term	30.8	10.3
Total loans	¥ 5,356.3	¥ 5,075.2

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

ASSET QUALITY AND DISPOSAL OF PROBLEM LOANS OF SHINSEI

At March 31, 2008, 50.8% of our consolidated problem loans, as disclosed in accordance with the guidelines of the Japanese Bankers Association (JBA), were held by Shinsei and most of the rest were held by APLUS and Shinki. This discussion of our asset quality presents information of Shinsei on a non-consolidated basis unless specified otherwise. In particular, problem claims as defined in the Financial Revitalization Law are only disclosed on a non-consolidated basis, and therefore do not include problem loans held by APLUS, Showa Leasing and Shinki. For a discussion of the problem claims of APLUS, Showa Leasing and Shinki see "—Asset Quality of APLUS, Showa Leasing and Shinki" on page 90.

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

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

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

Obligor type	Claims under the Financial Revitalization Law[(1)(2)]	Risk-monitored loans[(1)]
Legally bankrupt	Claims against bankrupt and quasi-bankrupt obligors	Loans to bankrupt obligors
Virtually bankrupt		Non-accrual delinquent loans
Possibly bankrupt	Doubtful claims	
(Substandard)	Substandard claims	Loans past due for three months or more
		Restructured loans
	(Other claims against substandard obligors)	
Need caution	Normal claims	
Normal		

Notes: (1) The Financial Revitalization Law requires us to classify and disclose "claims," which include, in addition to loans and bills discounted, foreign exchange claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees. By comparison, the format devised by the Japanese Bankers Association only classifies, and calls for disclosure of, certain loans.
(2) Shaded claims denote claims that are considered to be non-performing under the Financial Revitalization Law.

In October 2002, the FSA announced a new "Program for Financial Revival" that has led to more stringent evaluations of claims. This program required banks to use discounted cash flow analyses, among other measures, when providing loan loss reserves against major borrowers with substandard claims. Through the program, the FSA also sought greater scrutiny of the effect of recording large amounts of deferred tax assets on the quality of a bank's regulatory capital. We have gone well beyond the FSA's requirements by employing the discounted cash flow method, applying it to approximately 90%, by principal amount, of our claims against substandard obligors and possibly bankrupt obligors.

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

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

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DEFINITIONS OF CATEGORIES OF RISK-MONITORED LOANS

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

RESERVE POLICIES

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

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of problem loans. Shinsei's total amount of problem claims as disclosed pursuant to the Financial Revitalization Law increased ¥25.2 billion, or 90.3%, to ¥53.1 billion, between March 31, 2007 and 2008. During the fiscal year ended March 31, 2008, claims against bankrupt and quasi-bankrupt obligors increased from ¥0.9 billion to ¥8.0 billion and doubtful claims increased from ¥10.7 billion to ¥15.5 billion, and substandard claims increased from ¥16.2 billion to ¥29.5 billion as a result of our self assessment. The ratio of non-performing claims disclosed under the Financial Revitalization Law to total non-consolidated claims as of March 31, 2008 increased to 1.0%, compared to 0.5% as of March 31, 2007.

Shinsei's other claims against need caution obligors, excluding substandard claims, totaled ¥106.2 billion as of March 31, 2008, a 14.0% decrease from ¥123.6 billion as of March 31, 2007. These include private placement bonds guaranteed by Shinsei and classified other claims against need caution obligors. These claims represented 1.9% of total non-consolidated claims as of March 31, 2008, down from 2.3% as of March 31, 2007.

TABLE 17. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2008	2007
Claims against bankrupt and quasi-bankrupt obligors	¥ 8.0	¥ 0.9
Doubtful claims	15.5	10.7
Substandard claims	29.5	16.2
Total claims disclosed under the Financial Revitalization Law[1]	53.1	27.9
Normal claims and claims against need caution obligors excluding substandard claims	5,512.8	5,266.7
Total claims	¥ 5,566.0	¥ 5,294.6
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	1.0%	0.5%

Note: (1) Total claims disclosed under the Financial Revitalization Law include loans and bills discounted, customers' liabilities for acceptances and guarantees and other exposures to or in respect of bankrupt and quasi-bankrupt obligors and doubtful claims, as well as loans and bills discounted classified as substandard claims.

COVERAGE RATIOS

As of March 31, 2008, Shinsei's non-consolidated coverage ratios for claims classified under the Financial Revitalization Law, which for each category of claims is the total of collateral pledged against claims, guarantees for claims and reserve for loan losses, measured against total claims, were 100.0% for claims against bankrupt and quasi-bankrupt obligors, 87.1% for doubtful claims and 38.9% for substandard claims. For all claims classified under the Law, the coverage ratio was 62.2%, a decrease from 79.3% as of March 31, 2007.

Shinsei directly writes off, rather than reserves, the portion of claims against virtually and legally bankrupt obligors that are estimated to be uncollectible. In the fiscal years ended March 31, 2008 and 2007, ¥34.5 billion and ¥6.3 billion, respectively, of such claims were written off on a non-consolidated basis.

TABLE 18. COVERAGE RATIOS FOR NON-PERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

Billions of yen (except percentages)

		Amounts of coverage			
	Amount of claims	Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
As of March 31, 2008:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 8.0	¥ —	¥ 8.0	¥ 8.0	100.0%
Doubtful claims	15.5	7.6	5.8	13.5	87.1
Substandard claims	29.5	9.2	2.2	11.5	38.9
Total	¥ 53.1	¥ 16.8	¥ 16.1	¥ 33.0	62.2%
As of March 31, 2007:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 0.9	¥ —	¥ 0.9	¥ 0.9	100.0%
Doubtful claims	10.7	8.0	0.9	9.0	84.1
Substandard claims	16.2	6.5	5.6	12.1	75.0
Total	¥ 27.9	¥ 14.6	¥ 7.5	¥ 22.1	79.3%

CHANGES IN AMOUNT OF PROBLEM CLAIMS

The table below sets forth Shinsei's experience since March 31, 2006 with the removal of problem claims and the emergence of new claims on a non-consolidated basis:

TABLE 19. CHANGES IN AMOUNT OF PROBLEM CLAIMS (NON-CONSOLIDATED)

	Billions of yen			
	Substandard claims	Doubtful claims	Claims against bankrupt and quasi-bankrupt obligors	Total
Balance of problem claims as of March 31, 2006	¥ 21.0	¥ 20.7	¥ 0.7	¥ 42.5
Claims newly added April 1, 2006 to March 31, 2007	2.7	8.2	0.8	11.7
Claims removed April 1, 2006 to March 31, 2007	(7.5)	(14.7)	(4.0)	(26.3)
Claims migrating between classifications April 1, 2006 to March 31, 2007	—	(3.4)	3.4	—
Net change	(4.8)	(9.9)	0.2	(14.6)
Balance of problem claims as of March 31, 2007	¥ 16.2	¥ 10.7	¥ 0.9	¥ 27.9
Claims newly added April 1, 2007 to March 31, 2008	**23.4**	**6.3**	**8.0**	**37.8**
Claims removed April 1, 2007 to March 31, 2008	**(10.1)**	**(1.5)**	**(0.9)**	**(12.5)**
Claims migrating between classifications April 1, 2007 to March 31, 2008	**—**	**(0.0)**	**0.0**	**—**
Net change	**13.3**	**4.7**	**7.0**	**25.2**
Balance of problem claims as of March 31, 2008	**¥ 29.5**	**¥ 15.5**	**¥ 8.0**	**¥ 53.1**

In the fiscal year ended March 31, 2008, ¥37.8 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥12.5 billion of claims in these categories during the same period. Of the newly added problem claims, ¥23.4 billion were classified as substandard claims.

For the fiscal year ended March 31, 2007, ¥11.7 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥26.3 billion of claims in these categories during the same period. The ¥14.7 billion in doubtful claims removed during the period was primarily attributable to collections and upgrading of claims to a higher category.

RESERVE FOR CREDIT LOSSES

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

TABLE 20. RESERVE FOR CREDIT LOSSES (NON-CONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	**2008**	2007
General reserve for loan losses	**¥ 57.9**	¥ 65.4
Specific reserve for loan losses	**9.6**	9.1
Reserve for loans to restructuring countries	**0.0**	0.0
Subtotal reserve for loan losses	**67.5**	74.5
Specific reserve for other credit losses	**26.0**	32.4
Total reserve for credit losses	**¥ 93.6**	¥ 106.9
Total claims[1]	**¥ 5,566.0**	¥ 5,294.6
Ratio of total reserve for loan losses to total claims	**1.2%**	1.4%
Ratio of total reserve for credit losses to total claims	**1.7%**	2.0%

Note: (1) Total claims include loans and bills discounted, foreign exchange claims, securities lent, accrued interest income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees.

As of March 31, 2008 and 2007, our total reserve for credit losses on a non-consolidated basis was ¥93.6 billion and ¥106.9 billion respectively, constituting 1.7% and 2.0% of total claims as of these respective dates.

RISK-MONITORED LOANS

Consolidated risk-monitored loans increased by 61.2% during the fiscal year ended March 31, 2008 to ¥104.4 billion. The increase of ¥20.6 billion in non-accrual delinquent loans and the ¥18.5 billion in restructured loans added during the period were primarily attributable to Shinki and downgrading of other consolidated loans.

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

TABLE 21. RISK-MONITORED LOANS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2008	2007
Loans and bills discounted	¥ 5,622.2	¥ 5,146.3
Loans to bankrupt obligors (A)	2.1	1.7
Non-accrual delinquent loans (B)	42.5	21.8
Total loans (A)+(B)	¥ 44.7	¥ 23.5
Ratio to total loans and bills discounted	0.8%	0.5%
Loans past due for three months or more (C)	¥ 4.7	¥ 4.7
Restructured loans (D)	54.9	36.4
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 104.4	¥ 64.8
Ratio to total loans and bills discounted	1.9%	1.3%
Reserve for credit losses	¥ 145.9	¥ 147.2

TABLE 22. RISK-MONITORED LOANS (NON-CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2008	2007
Loans and bills discounted	¥ 5,356.3	¥ 5,075.2
Loans to bankrupt obligors (A)	0.5	0.6
Non-accrual delinquent loans (B)	22.8	10.6
Total loans (A)+(B)	¥ 23.4	¥ 11.2
Ratio to total loans and bills discounted	0.4%	0.2%
Loans past due for three months or more (C)	¥ 0.1	¥ 0.0
Restructured loans (D)	29.4	16.1
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 53.0	¥ 27.4
Ratio to total loans and bills discounted	1.0%	0.5%
Reserve for credit losses	¥ 93.6	¥ 106.9

ASSET QUALITY OF APLUS, SHOWA LEASING AND SHINKI

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

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

TABLE 23. RISK-MONITORED LOANS BREAKDOWN FOR LARGE ENTITIES (CONSOLIDATED)

	Billions of yen				
	Shinsei	APLUS	Shinki	Other subsidiaries	Total
As of March 31, 2008:					
Loans to bankrupt obligors	**¥ 0.5**	**¥ —**	**¥ 0.1**	**¥ 1.3**	**¥ 2.1**
Non-accrual delinquent loans	**22.8**	**3.2**	**5.1**	**11.2**	**42.5**
Loans past due for three months or more	**0.1**	**4.5**	**—**	**0.0**	**4.7**
Restructured loans	**29.4**	**18.6**	**6.8**	**0.0**	**54.9**
Total	**¥ 53.0**	**¥ 26.3**	**¥ 12.2**	**¥ 12.7**	**¥ 104.4**
As of March 31, 2007:					
Loans to bankrupt obligors	¥ 0.6	¥ —	¥ —	¥ 1.0	¥ 1.7
Non-accrual delinquent loans	10.6	3.5	—	7.7	21.8
Loans past due for three months or more	0.0	4.6	—	0.1	4.7
Restructured loans	16.1	19.7	—	0.4	36.4
Total	¥ 27.4	¥ 27.8	¥ —	¥ 9.4	¥ 64.8

TABLE 24. RISK-MONITORED INSTALLMENT RECEIVABLES INCLUDED IN OTHER ASSETS (CONSOLIDATED)(1)

	Billions of yen			
	APLUS	Showa Leasing	Other subsidiaries	Total
As of March 31, 2008:				
Credits to bankrupt obligors	**¥ 0.0**	**¥ 2.5**	**¥ 0.0**	**¥ 2.6**
Non-accrual delinquent credits	**1.9**	**2.9**	**—**	**4.9**
Credits past due for three months or more	**1.2**	**0.0**	**—**	**1.3**
Restructured credits	**6.6**	**0.1**	**—**	**6.7**
Total	**¥ 9.8**	**¥ 5.7**	**¥ 0.0**	**¥ 15.6**
As of March 31, 2007:				
Credits to bankrupt obligors	¥ 0.0	¥ 0.2	¥ —	¥ 0.2
Non-accrual delinquent credits	2.1	1.0	—	3.1
Credits past due for three months or more	1.6	0.0	—	1.7
Restructured credits	10.0	0.1	—	10.2
Total	¥ 13.8	¥ 1.5	¥ —	¥ 15.4

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

FUNDING AND LIQUIDITY

FUNDING AND LIQUIDITY MANAGEMENT

The focus of liquidity management is to ensure sufficient cash to meet both normal and unanticipated funding needs. Successful liquidity management requires being able to fund all requirements without disruption to our normal business operations. Funding requirements may include contractual obligations, future asset growth, liability maturities and deposit withdrawals.

Our liquidity management strategy includes the following key components:

- maintaining a portfolio of surplus cash and liquid assets;
- developing retail customer deposits as a long-term, stable source of funding;
- maintaining unutilized funding capacity; and
- maintaining diverse sources of funding.

We continuously seek to improve our liquidity management strategy and minimize refinancing risk by enhancing the stability and diversity of our funding sources. Our Treasury Division is responsible for our liquidity management and funding execution.

In accordance with its role as a special purpose long-term credit bank in Japan, LTCB relied heavily on domestic debentures for funding. Over the past seven years, however, we have transformed ourselves into a full-service financial institution and as part of that process have increased our retail deposit balances. We formally converted from a long-term credit bank to an ordinary bank on April 1, 2004. In connection with this conversion, the FSA has allowed us to continue issuing debentures for ten years after the conversion. Our long-term funding strategy is to eventually replace debenture issuances with customer deposits and ordinary debt financing.

Shinsei provides funding to its subsidiaries and affiliates, and expects to continue to do so. However, our subsidiaries and affiliates may rely on other sources of funds, including financing from other banks as well as capital markets financing, where doing so would be sound from a cost and Group cash management perspective. In particular, APLUS, Showa Leasing and Shinki borrow, and expect to continue to borrow, from a number of banks other than Shinsei and also make direct issuances of debt securities.

The table below shows changes in the proportion of our funding overall represented by funds raised from debentures and deposits in our Retail and Institutional Banking businesses, as well as from our collateralized loan obligation program at the end of the periods indicated. As seen below, funds from retail deposits have become an increasingly important source of funding.

TABLE 25. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

	Billions of yen			
Fiscal year ended March 31	2008	2007	2006	2005
Retail deposits[1]	¥ 3,993.7	¥ 3,573.8	¥ 3,103.4	¥ 2,300.4
Retail debentures	342.2	381.9	435.3	559.3
Institutional funding	2,133.0	2,168.5	1,551.8	1,835.7
Collateralized loan obligation	—	155.0	255.0	255.0

Note: (1) Includes wealth management customers' deposits.

DEPOSITS

Shinsei Bank maintains a diversified funding base. Total deposits and negotiable certificates of deposit increased ¥385.7 billion or 7.1% to ¥5,806.6 billion in fiscal year 2007. The retail deposits balance, including high net worth customers, totaled ¥3,993.7 billion at March 31, 2008, an increase of ¥419.9 billion compared to March 31, 2007. Retail Banking's customer funding represents 67.0% of the Bank's total funding through customer deposits and negotiable certificates of deposit and debentures.

The following table sets forth the composition of our time deposits in the fiscal years ended March 31, 2008 and 2007 by remaining maturity as of the dates indicated:

TABLE 26. TIME DEPOSITS BY MATURITY (CONSOLIDATED)

	Billions of yen	
As of March 31	2008	2007
Less than three months[1]	¥ 695.0	¥ 881.3
Three months or more, but less than six months	503.8	473.1
Six months or more, but less than one year	734.3	160.5
One year or more, but less than two years	695.5	50.0
Two years or more, but less than three years	580.9	690.4
Three years or more	313.9	676.0
Total	¥ 3,523.7	¥ 2,931.6

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

DEBENTURES AND CORPORATE BONDS

As of March 31, 2008, we had ¥662.4 billion in debentures outstanding. This represented 6.3% of our consolidated total liabilities and constituted a decline of 5.8% from March 31, 2007. As of March 31, 2008, corporate bonds stood at ¥426.2 billion.

As of March 31, 2008, scheduled repayments of debentures and corporate bonds over the periods indicated below were as follows:

TABLE 27. MATURITY SCHEDULE OF DEBENTURES AND CORPORATE BONDS (CONSOLIDATED)

DEBENTURES

Fiscal year ending March 31	Billions of yen
2009	¥ 147.6
2010	122.6
2011	175.0
2012	111.7
2013 and thereafter	105.2
Total	¥ 662.4

Please see Note 19 on page 125 for details.

CORPORATE BONDS

Fiscal year ending March 31	Billions of yen
2009	¥ 21.3
2010	14.9
2011	33.0
2012	1.3
2013 and thereafter	355.5
Total	¥ 426.2

Please see Note 15 on page 124 for details.

While we will continue to issue debentures where we are able to minimize funding costs, we will also continue diversifying our funding sources by raising funds through other means, such as deposits.

OTHER

The securitization of loans and other assets is another important component of our funding strategy. In the fiscal year ended March 31, 2002, we established a collateralized loan obligation program under which we receive the net proceeds from the issuance of notes that are backed by interests in loans we transferred to a master trust.

CREDIT RATINGS

Our borrowing costs and ability to raise funds are impacted directly by our credit ratings and changes thereto. Shinsei's credit ratings are set forth in the table below:

TABLE 28. SHINSEI'S CREDIT RATINGS AS OF MAY 2008

Rating agency	Long-term	Short-term
Moody's	Deposits: A2 Senior debt: A2	P-1
Standard & Poor's	A–	A-2
Fitch	BBB+	F2
R&I	A–	—
JCR	A	—

On May 4, 2007, Moody's raised our long-term credit rating from A3 to A2. On June 18, 2007, Standard and Poor's raised the long-term counter-party credit rating from BBB+ to A–.

CONTRACTUAL CASH OBLIGATIONS

We use contractual cash obligations for funding purposes. The following table sets forth a summary of our primary consolidated contractual cash obligations as of March 31, 2008 and 2007:

TABLE 29. CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

	Billions of yen		
Payments due by period as of March 31, 2008	One year or less	Over one year	Total
Borrowed money	**¥ 472.7**	**¥ 654.4**	**¥ 1,127.2**
Capital lease obligations	**0.8**	**0.5**	**1.4**
Total	**¥ 473.6**	**¥ 655.0**	**¥ 1,128.6**

	Billions of yen		
Payments due by period as of March 31, 2007	One year or less	Over one year	Total
Borrowed money	¥ 470.4	¥ 652.2	¥ 1,122.6
Capital lease obligations	0.7	0.6	1.4
Total	¥ 471.2	¥ 652.8	¥ 1,124.1

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

Our tax loss carryforwards have principally resulted from the realization of credit losses for tax purposes since our emergence from temporary nationalization. As of March 31, 2008, Shinsei had ¥42.3 billion in tax loss carryforwards. Tax reforms implemented in the fiscal year ended March 31, 2004 extended the period of tax loss carryforwards from five years to seven years. As this extension was applied retroactively for the three previous tax years, the expiration date for our tax loss carryforwards generated in the fiscal year ended March 31, 2003 has been extended to March 31, 2010. This amendment is beneficial to us as it provides more time to utilize these tax loss carryforwards. The table below sets forth a schedule of tax loss carryforwards related to corporate taxes and their expiration dates:

TABLE 30. SCHEDULE OF TAX LOSS CARRYFORWARDS (NON-CONSOLIDATED)

	Billions of yen	
Year tax loss carryforwards generated/renewed	Amount	Date of expiry
Shinsei Bank		
Fiscal year ended March 31, 2003	42.3	March 31, 2010

Because APLUS, Showa Leasing and Shinki are not wholly owned subsidiaries, we are unable to include their results in our consolidated tax returns. As a result, their tax losses are not reflected in the table above. The table below sets forth a schedule of tax loss carryforwards of APLUS, Showa Leasing and Shinki as of March 31, 2008.

Year tax loss carryforwards generated/renewed	Billions of yen	
	Amount	Date of expiry
APLUS		
Fiscal year ended March 31, 2005	¥ 157.7	March 31, 2012
Fiscal period ended September 30, 2005	2.9	March 31, 2013
Fiscal period ended March 31, 2006	4.6	March 31, 2013
Fiscal year ended March 31, 2007	30.1	March 31, 2014
Fiscal year ended March 31, 2008	10.4	March 31, 2015
Total	¥ 205.9	
Showa Leasing		
Fiscal year ended March 31, 2005	¥ 26.9	March 31, 2012
Fiscal year ended March 31, 2007	10.0	March 31, 2014
Fiscal year ended March 31, 2008	0.4	March 31, 2015
Total	¥ 37.3	
Shinki		
Fiscal year ended March 31, 2007	¥ 0.3	March 31, 2014
Fiscal year ended March 31, 2008	20.0	March 31, 2015
Total	¥ 20.3	

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

We record deferred tax assets for tax loss carryforwards and evaluate them in accordance with the JICPA guidelines. See "— Critical Accounting Policies — Valuation of Deferred Tax Assets" on page 78.

CONSOLIDATED CORPORATE TAX SYSTEM

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

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

CAPITAL RESOURCES AND ADEQUACY

EQUITY

The following table sets forth a summary of our equity as of March 31, 2008:

TABLE 31. EQUITY (CONSOLIDATED)

As of March 31	Millions of yen (except percentages)	
	2008	2007
Common stock	**¥ 476,296**	¥ 291,853
Preferred stock	**—**	159,443
Capital surplus	**43,558**	18,558
Stock acquisition rights	**1,257**	517
Retained earnings	**302,535**	245,499
Net unrealized gain (losses) on securities available-for-sale, net of taxes	**(35,073)**	5,091
Deferred loss on derivatives under hedge accounting	**(1,057)**	(7,744)
Foreign currency translation adjustments	**1,872**	2,952
Treasury stock, at cost	**(72,566)**	(72,560)
Total shareholders' equity	**¥ 716,823**	¥ 643,611
Minority interests in subsidiaries	**248,437**	289,642
Total equity	**¥ 965,261**	¥ 933,253
Ratio of total equity or shareholders' equity to total assets	**8.4%**	8.6%

The primary reason for the increase in our equity during fiscal year 2007 was the issuance of ¥50.0 billion of new common shares by a third-party allotment to investors, including affiliates of J.C. Flowers & Co. LLC. This was partly offset by a decrease of ¥40.1 billion in net unrealized losses on securities available-for-sale, net of taxes.

CAPITAL RATIOS

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

Our total capital adequacy ratio as of March 31, 2008 was 11.74%, compared with 13.13% as of March 31, 2007. Our Tier I capital ratio, or the ratio of Tier I capital to risk assets, decreased from 8.11% as of March 31, 2007 to 7.37% as of March 31, 2008. The decreases in our capital ratios as of March 31, 2008 are primarily the result of an increase in risk assets due to the increase in assets on our balance sheet. This was partly offset by an increase in Tier I capital, which was mainly the result of our new capital raising.

TABLE 32. CAPITAL RATIOS (CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2008	2007
Basic items (Tier I):		
Capital stock	¥ 476.2	¥ 451.2
Common stock	476.2	291.8
Preferred stock	—	159.4
Capital surplus	43.5	18.5
Retained earnings	302.5	245.4
Treasury stock, at cost	(72.5)	(72.5)
Expected income distribution	(5.7)	(2.5)
Net unrealized losses on securities available-for-sale, net of taxes	(35.0)	—
Foreign currency translation adjustments	1.8	2.9
Share warrant	1.2	0.5
Minority interests in consolidated subsidiaries	160.5	180.7
Preferred securities issued by foreign SPC	147.1	173.7
Consolidation goodwill	(142.2)	(158.0)
Other intangibles	(23.6)	(19.8)
Gain on sale of securitization	(15.3)	(16.5)
50% of expected loss provision shortfall	(11.6)	(9.1)
Total Tier I (A)	679.7	620.8
Step-up preferred securities	77.2	91.2
Supplementary items (Tier II):		
General reserve for loan losses	5.7	13.9
Perpetual preferred stocks	81.0	81.0
Perpetual subordinated debt and bonds	103.5	116.6
Non-perpetual preferred stocks	—	19.7
Non-perpetual subordinated debt and bonds	344.6	348.3
Total	¥ 535.0	¥ 579.7
Amount eligible for inclusion in capital (B)	¥ 530.2	¥ 522.0
Deduction (C)	128.0	137.7
Intentional capital investment to other financial institutions	15.9	10.1
Capital investment to affiliated companies	42.1	54.4
50% of expected loss provision shortfall	11.6	9.1
Expected losses on exposures under PD/LCD measures such as equities	1.2	0.3
Unrated securitization exposure	61.6	68.7
Exclusion from deductions	4.6	5.1
Total capital (D) [(A)+(B)-(C)]	¥ 1,081.9	¥ 1,005.0
Risk assets:		
On-balance sheet items	¥ 6,629.6	¥ 5,585.8
Off-balance sheet items	1,868.0	1,458.1
Market Risk(1)	251.3	196.2
Operational Risk(1)	463.4	411.8
Total (E)	¥ 9,212.5	¥ 7,652.0
Consolidated capital adequacy ratio (D) / (E)	11.74%	13.13%
Consolidated Tier I capital ratio (A) / (E)	7.37%	8.11%

Note: (1) Derived by multiplying the capital requirement by 12.5 (i.e., the reciprocal of the minimum capital ratio of 8%).

COMPOSITION OF TIER I CAPITAL

Common stock and retained earnings : As a result of the conversion of our Class-A preferred stock into common shares as described below, our equity was composed of only common stock as of March 31, 2008. In addition, we issued ¥50 billion of new common shares in fiscal year 2007. As a result, both our capital stock and capital surplus increased by ¥25 billion. As a result of our recording net income of ¥60.1 billion in fiscal year 2007, retained earnings increased to ¥302.5 billion as of March 31, 2008.

Preferred stock: As of March 31, 2007, Shinsei had two classes of preferred stock outstanding. All shares of Class-A preferred stock were initially issued to the RCC by LTCB. Upon LTCB's nationalization, the RCC transferred those shares to the DIC. At the time of sale of LTCB's common shares to New LTCB Partners in March 2000, a portion of the Class-A preferred shares was redeemed without any consideration paid and cancelled. The DIC continued to own the remaining 74,528,000 shares. At the same time, Shinsei issued 600,000,000 new shares of Class-B preferred stock to the RCC. At our request, the RCC converted 300,000,000 shares of the Class-B preferred stock into 200,033,338 common shares in July 2006 and subsequently disposed of them. In connection with these transactions, we repurchased 175,466,000 of our common shares for aggregate consideration of ¥132.1 billion and subsequently cancelled 85 million of those common shares. The remainder of the repurchased common shares are included in treasury stock.

On August 1, 2007, we acquired all of our Class-B preferred shares (300,000,000 shares) and issued common shares (200,000,000 shares) based on the exchange price of ¥600 per share in exchange for these preferred shares. We cancelled all the relevant preferred shares immediately after acquiring them. On March 31, 2008, we acquired and cancelled all of our Class-A preferred shares and issued in exchange 269,128,888 of our common shares at an exchange price of ¥360 per share.

As a result of the above transactions, our capital stock did not include any preferred stock as of March 31, 2008.

TABLE 33. DIVIDENDS AND DISTRIBUTION AMOUNTS ON SHARES OF PREFERRED STOCK (NON-CONSOLIDATED)

	Yen per share	
Class of preferred shares	Amount of Annual dividend	Amount of Distribution of residual assets
Class-A preferred shares	¥ 6.5	¥ —
Class-B preferred shares	—	—

The Class-A preferred shares were converted into common shares in the second half of fiscal year 2007, and the Class-B preferred shares were wholly converted into common shares in the first half of fiscal year 2007. Therefore we paid only interim dividends on our Class-A preferred shares in fiscal year 2007.

PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN

On February 23, 2006, we issued US$775.0 million of step-up non-cumulative perpetual preferred securities. The dividend on the preferred securities is 6.418% for the initial ten years. In addition, on March 23, 2006, we issued US$700.0 million of non-step-up non-cumulative perpetual preferred securities. The dividend on the non-step-up perpetual preferred securities is 7.16% for the initial ten years. These issuances are consistent with our strategy to strengthen our Tier I capital ratio. The proceeds from the offerings of the preferred securities are recorded as minority interests in consolidated subsidiaries and counted towards Tier I capital. The amount of such proceeds which may be counted towards Tier I capital is constrained by the amount of other Tier I capital outstanding. Our ability to raise additional regulatory capital in this manner could be constrained in the future.

COMPOSITION OF TIER II CAPITAL

The principal component of our Tier II capital is subordinated debt and bonds. As of March 31, 2008, we had ¥100.0 billion of dated subordinated bonds issued by Shinsei (excluding the EUR0.9 billion of step-up callable subordinated notes and £0.4 billion of step-up callable perpetual subordinated notes discussed above) and ¥108.0 billion in subordinated debt from private lenders, ¥17.0 billion of which were perpetual loans. None of our current Tier II capital consists of public funds.

Other major elements of our Tier II capital are general reserve for loan losses and ¥81.0 billion of class-D perpetual preferred shares of APLUS held by third-parties as of March 31, 2008. Tier II capital is subject to the limitation that it cannot exceed the amount of Tier I capital, and non-perpetual subordinated debt and bonds cannot exceed half the amount of Tier I capital. Subject to those ceilings, the entire amount of perpetual subordinated debt and bonds can be included in Tier II capital and a portion of non-perpetual subordinated debt and bonds cannot be included in Tier II capital as of March 31, 2008. The table below sets forth the amount of our subordinated debt and bonds, as well as the portion included in our Tier II capital:

TABLE 34. SUBORDINATED DEBT AND BONDS (CONSOLIDATED)

	Billions of yen					
As of March 31, 2008	Perpetual	Perpetual included in Tier II	Non-perpetual[1]	Non-perpetual included in Tier II[2]	Total	Total included in Tier II[2]
Subordinated debt	**¥ 17.0**	**¥ 17.0**	**¥ 91.0**	**¥ —**	**¥ 108.0**	**¥ —**
Subordinated bonds	**86.8**	**86.5**	**255.0**	**—**	**341.9**	**—**
Total	**¥ 103.8**	**¥ 103.5**	**¥ 346.0**	**¥ 339.8**	**¥ 449.9**	**¥ 443.4**

	Billions of yen					
As of March 31, 2007	Perpetual	Perpetual included in Tier II	Non-perpetual[1]	Non-perpetual included in Tier II[2]	Total	Total included in Tier II[2]
Subordinated debt	¥ 17.0	¥ 17.0	¥ 91.0	¥ —	¥ 108.0	¥ —
Subordinated bonds	99.9	99.6	258.1	—	358.0	—
Total	¥ 116.9	¥ 116.6	¥ 349.1	¥ 293.7	¥ 466.0	¥ 410.3

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

During the fiscal year ended March 31, 2008, we repaid ¥1.0 billion and EUR15.0 million of non-perpetual subordinated bonds. Interest rates on ¥24.0 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2008 will increase between January 2013 and December 2015. Interest rates on ¥0.5 billion of perpetual subordinated bonds will increase in December 2008.

¥24.0 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2008 will become prepayable between January 2013 and December 2015. ¥0.5 billion of perpetual subordinated bonds are currently prepayable.

Interest rates on ¥28.0 billion of non-perpetual subordinated debt will increase between March 2011 and June 2011. Interest rates on the remaining ¥63.0 billion of non-perpetual subordinated debt are fixed rates until maturity.

¥83.0 billion of non-perpetual subordinated debt will become prepayable between July 2010 and July 2013 and the remaining ¥8.0 billion of non-perpetual subordinated debt cannot be repaid until maturity.

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

Shinsei issued EUR1.0 billion of step-up callable subordinated notes bearing interest at a fixed rate of 3.75% on February 23, 2006. In February 2011, interest rates on these notes will increase and these notes will become prepayable.

In December 2006, Shinsei issued £0.4 billion of step-up callable perpetual subordinated notes bearing interest at a fixed rate of 5.625%. In December 2013, interest rates on these notes will increase and these notes will become prepayable.

OFF-BALANCE SHEET ARRANGEMENTS

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

SECURITIZATION

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

REPACKAGING

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

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

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

ARRANGEMENT

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

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

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

RESIDUAL INTERESTS

As of March 31, 2008 and 2007, we held ¥59.1 billion and ¥66.3 billion, respectively, of debt securities and residual interests from securitization transactions. As of March 31, 2008 and 2007, ¥38.6 billion and ¥40.9 billion of such amounts, respectively, were attributable to securitization transactions of APLUS.

LOAN PARTICIPATIONS

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

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

As of March 31, 2008 and 2007, the total principal amount of participation interests in loans transferred to third-parties was ¥61.1 billion and ¥83.1 billion, respectively.

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

We have off-balance sheet commitments to extend credit to customers up to certain predetermined amounts at current market rates, in consideration of which we receive fee income that is recorded on an accrual basis for the period of the commitments. As of March 31, 2008 and 2007, we had ¥4,436.5 billion and ¥4,456.5 billion of these commitments, of which ¥4,064.7 billion and ¥4,118.3 billion had agreement terms of less than one year, respectively.

In addition, we provide acceptances and guarantees, which include lines and letters of credit and guarantees on customers' borrowings from other creditors. These acceptances and guarantees require us to satisfy our customers' obligations in the event they fail to do so, although we would have a claim for reimbursement against them. Under Japanese GAAP for banks, these commitments are deemed to be both contingent assets and liabilities, and are recorded as both assets and liabilities in the principal amount of the acceptances and guarantees. We record the fees we earn from providing acceptances and guarantees on an accrual basis over the period of the acceptance or guarantee. As of March 31, 2008 and 2007, we had ¥701.7 billion and ¥754.4 billion, respectively, of outstanding acceptances and guarantees.

APLUS extends credit in the form of guarantees. The most significant component of APLUS' guarantee business is providing guarantees on installment shopping credit provided by other lenders to customers of APLUS' partner merchants. APLUS also offers collection guarantees for foreign automobile dealers. Providing guarantees allows APLUS to limit its balance sheet exposure, while continuing to maintain its relations with its partner merchants. Off-balance sheet commitment and acceptances and guarantees increased as a result of our acquisition of APLUS and its inclusion in our consolidated balance sheet from September 30, 2004. As of March 31, 2008 and 2007, ¥693.7 billion and ¥738.7 billion of our outstanding acceptances or guarantees, respectively, were attributable to this guarantee business.

EXPOSURE TO U.S. RESIDENTIAL MORTGAGE, SECURITIZED PRODUCTS AND RELATED INVESTMENTS

EXPOSURE TO U.S. RESIDENTIAL MORTGAGE, SECURITIZED PRODUCTS AND RELATED INVESTMENTS

The slowdown in the U.S. economy, deterioration in global credit markets, liquidity worries surrounding financial institutions and the collapse of the structured products markets caused us to record significant mark-downs and credit provisions during fiscal year 2007.

Tables 35 through 39 below set forth certain information regarding our exposure to the U.S. residential mortgage market, securitized products and related investments as of September 30, 2007 and as of and for the fiscal year ended March 31, 2008. Table 40 provides definitions for the defined terms used in Tables 35 through 39.

TABLE 35. U.S RESIDENTIAL MORTGAGE EXPOSURE (SECURITIES AND LOANS) [CONSOLIDATED]

	Millions of dollars, %				Billions of yen
	Balance Before Evaluation[1]	Mark-Down During FY2007 or Credit Reserve as of Mar 31, 2008		**Net Exposure Mar 31, 2008**	**Net Exposure Mar 31, 2008**
	(a)	(b)	% Decline	**(c) = (a) - (b)**	**(c) x ¥99.73**
Mark-to-Market Exposure	242.6	157.1[2]	(64.8)	85.4	8.5
Securities[3]	167.0	81.6	(48.9)	85.4	8.5
AAA[4]	98.5	24.0	(24.4)	74.4	7.4
AA[4]	24.0	14.6	(60.9)	9.4	0.9
Other (A or lower)[4]	44.5	42.9	(96.4)	1.5	0.1
Equities and Warrants	75.5	75.5	(100.0)	0.0	0.0
Loans and Other Credit Exposure	342.6	122.1[5]		**195.4**[10]	19.4
Loans	234.3	119.8		114.4	11.4
Loans funded prior to 4QFY2007	112.3	112.3		—	—
New loans funded in 4QFY2007[6]	122.0	7.5		114.4	11.4
Securities whose fair value is not readily determinable[7]	83.3	2.3		80.9	8.0
Securities sold during FY2007[8]	25.0	—		—	—
Total	585.2	279.3[9]		**280.8**[10]	28.0

Notes: (1) Except for one security sold during FY2007 (please see Note 8), figures are balances as of March 31, 2008 (end of fiscal year 2007) before mark-to-market adjustments or credit reserves.
(2) Mark-downs of U.S. residential mortgage exposure during FY2007 totaled ¥15.6 billion ($157.1 million, using the March 31, 2008 exchange rate of ¥99.73/$1).
(3) Comprised of 2007-vintage securities except for one AAA-rated security of 2006-vintage amounting to $21.3 million (¥2.1 billion).
Of the total ¥16.8 billion of securities exposure, subprime-related exposure is ¥3.7 billion, including the security discussed in Note 7, as of March 31, 2008. Please see the definition of "subprime-related" in table 40.
(4) Based on ratings as of March 31, 2008.
(5) Net provision for credit reserves and others for the U.S. residential mortgage market exposure during FY2007 totaled ¥13.4 billion ($122.1 million minus credit reserves as of March 31, 2007 plus $20.5 million of loss on the sale of a security, using an exchange rate of ¥99.73/$1).
(6) Includes undrawn portion of commitment lines.
(7) At inception, 82% of the fair value of original investment could be attributed to a U.S. Treasury Note-based security (rated AAA) in the underlying assets; the remainder was comprised of various other securities including U.S. RMBS. As of March 31, 2008, the U.S. Treasury Note-based security accounted for nearly all of the underlying asset value. Please see the definition of "subprime-related" in table 40.
(8) No remaining exposure at the end of FY2007 due to the sale of the security.
(9) Mark-downs and credit reserves for the U.S residential mortgage market exposure during FY2007 totaled ¥29.1 billion (also see Notes 2 and 5).
(10) The security sold during FY2007 (please see Note 8) is excluded from the net exposure calculation.