

## FINANCIAL CONDITION (continued)

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

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).

(4) 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.

(5) Based on ratings as of March 31, 2008.

(6) 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).

(7) Includes undrawn portion of commitment lines.

(8) 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.

(9) No remaining exposure at the end of FY2007 due to the sale of the security.

(10) 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).

(11) The security sold during FY2007 (please see Note 8) is excluded from the net exposure calculation.

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

**TABLE 36. BALANCE OF SECURITIZED PRODUCTS  
(BREAKDOWN BY REGION AND TYPE OF SECURITIES)<sup>(1)</sup> (NON-CONSOLIDATED)**

	Credit Ratings of Securities <sup>(2)</sup> (Mar 31, 2008)				Billions of yen		
	AAA	AA	A or lower	N/A	Mar 31, 2008 (a)	Sep 30, 2007 (b)	Change (a)-(b)
	<b>RMBS</b>	26%	13%	2%	59%	<b>76.2</b>	98.7
Japan	12%	5%	3%	81%	<b>45.6</b>	55.4	(9.7)
U.S. <sup>(3)</sup>	46%	1%	1%	52%	<b>15.9</b>	23.5	(7.6)
Europe	0%	100%	0%	0%	<b>7.3</b>	9.4	(2.1)
Other <sup>(4)</sup>	100%	0%	0%	0%	<b>7.2</b>	10.2	(2.9)
<b>CMBS<sup>(5)</sup></b>	0%	12%	87%	0%	<b>30.3</b>	35.2	(4.9)
Japan	0%	6%	94%	1%	<b>17.6</b>	18.5	(0.8)
U.S.	—	—	—	—	—	—	—
Europe	0%	0%	100%	0%	<b>10.0</b>	13.3	(3.3)
Other	0%	100%	0%	0%	<b>2.6</b>	3.4	(0.7)
<b>CDO</b>	54%	39%	6%	2%	<b>149.5</b>	183.8	(34.3)
Japan	—	—	—	—	—	—	—
U.S. <sup>(6)</sup>	50%	47%	0%	3%	<b>87.6</b>	116.8	(29.2)
Europe	57%	28%	15%	0%	<b>59.1</b>	63.6	(4.4)
Other	100%	0%	0%	0%	<b>2.7</b>	3.4	(0.6)
<b>ABS CDO (Re-securitized Products)</b>	0%	10%	20%	70%	<b>8.9</b>	10.0	(1.0)
Japan <sup>(7)</sup>	0%	0%	23%	77%	<b>8.0</b>	8.1	(0.0)
U.S. <sup>(3)</sup>	0%	100%	0%	0%	<b>0.8</b>	1.8	(0.9)
Europe	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
<b>Total</b>	38%	27%	15%	20%	<b>265.1</b>	327.9	(62.7)
Japan	8%	4%	27%	61%	<b>71.4</b>	82.1	(10.7)
U.S.	49%	41%	0%	10%	<b>104.4</b>	142.2	(37.8)
Europe	44%	31%	25%	0%	<b>76.5</b>	86.4	(9.9)
Other	79%	21%	0%	0%	<b>12.7</b>	17.0	(4.3)
<b>Securities</b>					<b>199.1</b>	260.4	(61.2)
RMBS					<b>30.6</b>	52.3	(21.7)
CMBS					<b>18.1</b>	22.3	(4.2)
CDO					<b>149.5</b>	183.8	(34.3)
ABS CDO					<b>0.8</b>	1.8	(0.9)
<b>Other monetary claims purchased</b>					<b>66.0</b>	67.5	(1.4)
RMBS					<b>45.6</b>	46.4	(0.7)
CMBS					<b>12.2</b>	12.9	(0.6)
CDO					—	—	—
ABS CDO					<b>8.0</b>	8.1	(0.0)
<b>Total</b>					<b>265.1</b>	327.9	(62.7)

Notes: (1) The amount is the outstanding balance, after mark-downs and other comprehensive income (OCI) adjustments, at the end of each period.

(2) Based on ratings as of March 31, 2008. The "N/A" rating for Japanese RMBS represents senior portions of other monetary claims purchased for the purpose of warehousing for future securitization.

The "N/A" rating for U.S. RMBS is for a security where U.S. Treasury Note-based security represents 82% of the value and various other securities including U.S. RMBS represent the remaining 18% at inception.

(3) Securities related to U.S. residential mortgage market. Of the ¥15.9 billion in U.S. RMBS outstanding as of March 31, 2008, subprime-related exposure is ¥2.9 billion. In addition, subprime-related exposure includes ABS CDO (one security) of ¥0.8 billion.

(4) Includes exposures guaranteed by a monoline insurer (¥1.4 billion as of March 31, 2008 and ¥2.0 billion as of September 30, 2007).

(5) Breakdown of collateral: office building (42%), multi-family (44%), retail and shops (8%), hotel and others (6%)

(6) One security amounting to ¥2.2 billion is hedged using a credit default swap index in the amount of approximately ¥2.0 billion; counterparty is a European investment bank (AA-rated).

(7) Backed by domestic RMBS and CMBS and does not include subprime-related exposure.

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

**TABLE 37. SECURITIZED PRODUCTS  
RECORDED UNDER "SECURITIES" AND "OTHER MONETARY CLAIMS PURCHASED" AND OCI  
[NON-CONSOLIDATED]**

SECURITIES	Billions of yen, %			
	As of March 31, 2008			
	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/ Losses (OCI)	Price Decline Ratio (%)
Trading Securities	19.7	12.7	/	/
RMBS (Japan)	—	—	/	/
RMBS (U.S.) <sup>(1)</sup>	7.3	2.3	/	/
RMBS (Other foreign countries)	5.6	5.4	/	/
CDO (U.S.)	3.7	2.1	/	/
CDO (Other foreign countries)	2.9	2.7	/	/
Securities available-for-sale	202.8	178.0	(24.8)	(12.2)
Other	202.8	178.0	(24.8)	(12.2)
Foreign securities	202.8	178.0	(24.8)	(12.2)
Foreign currency denominated foreign corporate and government bonds	197.4	172.6	(24.8)	(12.6)
RMBS	15.2	14.4	(0.7)	(4.9)
U.S. <sup>(1)</sup>	5.2	5.2	0.0	—
Europe	8.1	7.3	(0.7)	(9.3)
Other foreign countries	1.8	1.8	0.0	(0.2)
CMBS	15.7	12.7	(3.0)	(19.5)
U.S.	—	—	—	—
Europe	12.7	10.0	(2.7)	(21.6)
Other foreign countries	2.9	2.6	(0.3)	(10.7)
CDO	165.5	144.5	(20.9)	(12.7)
U.S.	103.0	85.4	(17.6)	(17.1)
Europe	62.4	59.1	(3.3)	(5.3)
Other foreign countries	—	—	—	—
ABS CDO	0.8	0.8	0.0	—
U.S. <sup>(1)</sup>	0.8	0.8	0.0	—
Europe	—	—	—	—
Other foreign countries	—	—	—	—
Yen-denominated foreign corporate and government bonds	5.4	5.4	0.0	—
RMBS (Japan)	—	—	—	—
CMBS (Japan)	5.4	5.4	0.0	(0.1)
ABS CDO (Japan)	—	—	—	—
Book value of securities whose fair value is not readily determinable	8.3	8.3	0.0	—
Foreign Securities	8.3	8.3	0.0	—
RMBS (U.S.) <sup>(1)</sup>	8.3	8.3	0.0	—
Securities	230.8	199.1	/	/
RMBS	36.5	30.6	/	/
CMBS	21.1	18.1	/	/
CDO	172.2	149.5	/	/
ABS CDO	0.8	0.8	/	/
<b>OTHER MONETARY CLAIMS PURCHASED</b>				
	Billions of yen, %			
	As of March 31, 2008			
	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/ Losses (OCI)	Price Decline Ratio (%)
Trading Purposes	18.3	18.3	/	/
RMBS (Japan)	13.5	13.7	/	/
CMBS (Japan)	4.7	4.5	/	/
Others	47.6	47.6	0.0	—
RMBS (Japan)	31.8	31.8	0.0	—
CMBS (Japan)	7.7	7.7	0.0	—
ABS CDO (Japan)	8.0	8.0	0.0	—
Total	65.9	66.0	/	/
RMBS (Japan)	45.4	45.6	/	/
CMBS (Japan)	12.4	12.2	/	/
ABS CDO (Japan)	8.0	8.0	/	/
<b>RMBS, CMBS, CDO, ABS CDO Total</b>	296.8	265.1	/	/
Securities	230.8	199.1	/	/
Other monetary claims purchased	65.9	66.0	/	/

Note: (1) Securities with exposure to U.S. residential mortgage market.

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

TABLE 38. LBO, MONOLINE, SIV, ABCP [NON-CONSOLIDATED]

	Billions of yen		
	Mar 31, 2008 (a)	Sep 30, 2007 (b)	Change (a)-(b)
<b>LBO<sup>(1)</sup></b>	<b>277.1</b>	309.7	(32.6)
Japan	<b>258.6<sup>(2)</sup></b>	288.8	(30.2)
U.S.	<b>3.6</b>	4.4	(0.8)
Europe	—	—	—
Other	<b>14.8</b>	16.5	(1.7)
<b>(Breakdown by Industry Sector as of March 31, 2008)</b>			
Manufacturing	<b>8.6%</b>		
Information and communications	<b>16.3%</b>		
Wholesale and retail	<b>10.8%</b>		
Finance and insurance	<b>26.0%</b>		
Services	<b>38.4%</b>		
Others	<b>0.0%</b>		
Total	<b>100.0%</b>		

Notes: (1) The amount includes an unfunded commitment line.

(2) As of March 31, 2008, the unfunded commitment line (only domestic) is ¥23.0 billion.

	Billions of yen		
	Mar 31, 2008 (a)	Sep 30, 2007 (b)	Change (a)-(b)
<b>Monoline</b>	<b>1.4</b>	2.0	(0.6)
Japan	—	—	—
U.S.	—	—	—
Europe	—	—	—
Other	<b>1.4</b>	2.0	(0.6)
<b>SIV</b>	—	—	—
<b>ABCP</b>	—	—	—

TABLE 39. CREDIT DEFAULT SWAPS (CDS) [NON-CONSOLIDATED]<sup>(1)</sup>

	Billions of yen							
	As of March 31, 2008							FY2007
	Nominal Amount		Fair Value		Netted Nominal Amount and Fair Value <sup>(2)</sup>			Realized profits (losses)
	Protection (buy)	Protection (sell)	Protection (buy)	Protection (sell)	Notional Value	Fair Value	Fair Value	
					Protection (buy)	Protection (sell)		
Total	1,387.3	1,454.9	53.0	(46.9)	1,160.1	39.8	(36.0)	5.1
Japan	1,252.6	1,325.6	46.8	(41.2)	107.1	35.9	(33.2)	6.1
U.S.	75.2	83.2	3.8	(4.2)	47.6	2.2	(1.5)	(1.5)
Europe	28.4	19.8	1.3	(0.4)	16.2	0.6	(0.3)	0.4
Other	30.9	26.2	1.0	(0.9)	25.2	1.0	(0.9)	0.0

Notes: (1) Represents transactions under trading book and differs from the figures of credit derivatives transactions in P144, which include the banking book as well as trading book.

(2) Transactions which are netted with buy and sell.

TABLE 40. DEFINED TERMS FOR TABLES 35-39

Names	Definitions
<b>RMBS</b>	Residential mortgage-backed securities and other related assets, including beneficial interests backed by mortgage loans. Recorded in "trading securities," "securities available-for-sale" and "other monetary claims."
<b>CMBS</b>	Commercial mortgage-backed securities. Recorded in "securities available-for-sale" and "other monetary claims." We have no U.S. CMBS exposure.
<b>CDO</b>	Collateralized loan obligations (CLO) mainly backed by LBO debt, corporate loans and high-yield securities. Recorded in "trading securities" and "securities available-for-sale."
<b>ABS CDO</b> (Re-securitized Products)	CDO backed by asset-backed securities (ABS) such as RMBS. Recorded in "securities available-for-sale" and "other monetary claims." We are holding one foreign currency-denominated ABS CDO backed by U.S. RMBS.
<b>LBO</b>	Loans for leveraged buyout for acquisition finance including refinancing of past acquisitions.
<b>Subprime-Related</b>	Subprime-related exposure is the total book value of securities whose underlying assets include U.S. subprime, Alt-A and/or second-lien loans, with the exception of one security whose underlying assets are comprised of a AAA-rated U.S. Treasury Note-based security and U.S. RMBS ("STRIPS-RMBS"). In the case of STRIPS-RMBS, which had a book value of \$83.3 million (or ¥8.3 billion) as of March 31, 2008, the fair value of the U.S. Treasury Note-based security (\$78.1 million as of March 31, 2008) is excluded from the calculation of subprime-related exposure (related footnotes can be found in Note 3 and Note 7 of Table 35 and Note 2 and Note 3 of Table 36). As of March 31, 2008, total subprime-related exposure stood at ¥3.7 billion.
<b>Monoline</b>	Monolines are insurance companies that insure against the risk of a bond or other security defaulting. As of March 31, 2008, the exposure guaranteed by monoline insurers is ¥1.4 billion in Asia.
<b>SIV</b>	A structured investment vehicle (SIV) is a fund which borrows money by issuing short-term securities at low interest rates, then lends that money by buying long-term securities (such as securitization products) at higher interest rates, making a profit for investors from the difference. We have no exposure to SIVs.
<b>ABCP</b>	An asset-backed commercial paper (ABCP) conduit is a limited-purpose entity that issues CP to finance the purchase of assets or to make loans. Some asset types include receivables generated from trade, credit card, auto loan, auto, and equipment leasing obligors, as well as collateralized loan obligations (CLOs) and collateralized bond obligations (CBOs). We have no exposure to ABCP.
<b>CDS</b>	Credit default swap is a type of derivative in which the buyer receives credit protection by making periodic payments to a counterparty and the seller provides credit protection by giving the promise of a payoff if a third-party defaults.