Results of Operations

Six-Month Period Ended September 30, 2005 Compared with Six-Month Period Ended September 30, 2004

Overview

For the six months ended September 30, 2005, total revenue increased 79.5% to ¥130.4 billion, resulting from increased contributions to revenue from both net revenue on interest-earning assets and non-interest revenue. Non-interest revenue increased to 69.2% of total revenue for the first half of this fiscal year.

Our general and administrative expenses increased by ¥27.7 billion to ¥67.0 billion in the six months ended September 30, 2005 mainly due to the inclusion of expenses of APLUS and Showa Leasing. This increase in expenses was partly offset by continued expense rationalization across all businesses. During the six months ended September 30, 2005, our ratio of general and administrative expenses to total revenue improved from 54.0% to 51.4%.

Our net credit costs for the six months ended September 30, 2005 were ¥14.5 billion, as compared to net credit recoveries of ¥10.6 billion for the same period in the prior fiscal year. The net credit recoveries during the six months ended September 30, 2004 were primarily attributable to a reduction in Shinsei's historical default ratio due to improvement in overall asset quality. The net credit costs in the first half of this fiscal year mainly relate to net credit costs of APLUS and Showa Leasing. On a non-consolidated basis, Shinsei's total reserve for credit losses was ¥114.5 billion as of September 30, 2005. Our total reserve for credit losses to total claims ratio was 2.9% on a non-consolidated basis as of September 30, 2005.

We made further progress in reducing our non-performing loans (NPLs) balance under the Financial Revitalization Law and as of September 30, 2005, total NPLs of Shinsei were ¥46.0 billion, a decline of ¥27.6 billion or 37.5% as compared to September 30, 2004. NPLs were 1.16% of total claims outstanding at September 30, 2005 on a non-consolidated basis.

Our total capital adequacy ratio was at 12.2% and our Tier I ratio stood at 7.5% as of September 30, 2005, after taking into account our recent acquisitions of APLUS and Showa Leasing. Our capital mostly consists of Tier I capital and as of September 30, 2005, net deferred tax assets constituted 1.8% of our Tier I capital.

Table 1. Interest-Earning Assets and Interest-Bearing Liabilities (Consolidated)

	Billions of yen (except percentages)					
	Six months ended September 30, 2005			Six months ended September 30, 2004		
	Average balance	Interest	Yield/Rate(2)	Average balance	Interest	Yield/Rate(2)
Interest-earning assets:						
Loans and bills discounted	**¥3,576.5**	**¥50.8**	**2.83%**	¥2,967.9	¥29.6	1.99%
Leased assets and installment receivables	**781.4**	**23.6**	**6.04**	31.3	1.1	7.03
Securities	**1,698.5**	**8.3**	**0.98**	1,310.8	7.0	1.08
Other interest-earning assets	**470.4**	**2.1**	**0.90**	547.0	4.8	1.76
Total revenue on interest-earning assets	**¥6,527.0**	**¥84.9**	**2.60%**	¥4,857.1	¥42.6	1.75%
Interest-bearing liabilities:						
Deposits and negotiable certificates of deposit	**¥3,548.5**	**¥ 8.0**	**0.45%**	¥2,910.1	¥ 7.2	0.50%
Debentures	**1,198.9**	**2.6**	**0.44**	1,325.2	3.2	0.48
Subordinated debt	**251.6**	**3.0**	**2.41**	219.3	3.6	3.35
Borrowed money and corporate bonds	**967.3**	**6.5**	**1.36**	141.2	1.5	2.15
Other interest-bearing liabilities	**225.8**	**0.8**	**0.79**	343.1	0.4	0.28
Total interest expenses	**¥6,192.4**	**¥21.2**	**0.68%**	¥4,939.2	¥16.1	0.65%
Non-interest-bearing sources of funds:						
Non-interest-bearing (assets) liabilities, net	**¥ (469.0)**	**—**	**—**	¥ (828.9)	—	—
Shareholders' equity(1)	**803.6**	**—**	**—**	746.8	—	—
Total interest-bearing liabilities and non-interest-bearing sources of funds	**¥6,527.0**	**—**	**—**	¥4,857.1	—	—
Net interest margin	**—**	**—**	**1.91%**	—	—	1.10%
Impact of non-interest-bearing sources	**—**	**—**	**0.04**	—	—	(0.01)
Net revenue on interest-earning assets/yield on interest-earning assets	**—**	**¥ 63.7**	**1.95%**	—	¥26.4	1.09%
Note:						
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	**¥6,527.0**	**¥ 84.9**	**2.60%**	¥4,857.1	¥42.6	1.75%
Less: Income on leased assets and installment receivables	**781.4**	**23.6**	**6.04**	31.3	1.1	7.03
Total interest income	**¥5,745.5**	**¥ 61.3**	**2.13%**	¥4,825.8	¥41.5	1.72%
Total interest expense	**—**	**21.2**	**—**	—	16.1	—
Net interest income	**—**	**¥ 40.1**	**—**	—	¥25.3	—

Notes:
(1) Represents a simple average of the balance at the end of the current period and the balance at the end of the previous period
(2) Calculated on an annualized basis

Table 2. Analysis of Changes in Net Revenue on Interest-Earning Assets (Consolidated)

	Billions of yen		
	From the six months ended September 30, 2004 to the six months ended September 30, 2005		
	Due to change in[1]		
	Volume	Rate	Net change
Increase (decrease) in interest revenue:			
Loans and bills discounted	¥ 6.0	¥15.0	¥21.1
Leased assets and installment receivables	26.3	(3.8)	22.5
Securities	2.0	(0.8)	1.2
Other interest-earning assets	(0.6)	(2.0)	(2.6)
Total revenue on interest-earning assets	¥14.6	¥27.5	¥42.3
Increase (decrease) in interest expenses:			
Deposits and negotiable certificates of deposit	¥ 1.5	¥(0.8)	¥ 0.7
Debentures	(0.3)	(0.2)	(0.5)
Subordinated debt	0.5	(1.1)	(0.6)
Borrowed money and corporate bonds	8.8	(3.8)	5.0
Other interest-bearing liabilities	(0.1)	0.5	0.4
Total interest expenses	¥ 4.0	¥ 0.9	¥ 5.0
Net increase in net revenue on interest-earning assets			¥37.2
Note:			
Reconciliation of total revenue on interest-earning assets to total interest income			
Total revenue on interest-earning assets	¥14.6	¥27.5	¥42.3
Less: Income on leased assets and installment receivables	26.3	(3.8)	22.5
Total interest income	¥ 7.8	¥11.8	¥19.7
Total interest expense	4.0	0.9	5.0
Net increase in net interest income			¥14.7

Note:
(1) The changes in interest income and expense for each category are divided into the portion of change attributable to the variance in volume or rate for that category. The attribution of the volume variance is calculated by multiplying the change in volume by the previous year's rate. The attribution of the rate variance is calculated by multiplying the change in rate by the current year's balance.

Net Revenue on Interest-Earning Assets

Our net revenue on interest-earning assets includes net interest income and revenue earned on our average balance of leased assets and installment receivables, which we consider to be a component of our interest-earning assets as both leased assets and installment receivables generate interest income. However, because Japanese GAAP does not include income on leased assets and installment receivables in net interest income, we calculate net interest income excluding income on leased assets and installment receivables and reconcile this with net revenue on interest-earning assets which we calculate including income on leased assets and installment receivables in our statements of income. Our principal interest-earning assets include loans and bills discounted, securities (other than securities held for trading purposes), consisting mainly of Japanese government bonds and bonds issued by non-Japanese corporations, as well as leased assets and installment receivables generated in our consumer and commercial finance business. Our principal interest-bearing liabilities are deposits (including negotiable certificates of deposit and foreign-currency deposits), debentures, subsidiaries' borrowing from other financial institutions, and subordinated bonds and debt.

Net revenue on interest-earning assets for the six months ended September 30, 2005 was ¥63.7 billion, an increase of ¥37.2 billion compared with the same period in the prior fiscal year. Total revenue on interest-earning assets increased by ¥42.3 billion while total interest expenses increased by ¥5.0 billion. The net yield on interest-earning assets increased to 1.95%, an increase of 0.86% compared with the same period in the prior fiscal year. Yields on interest-earning assets increased by 0.85% while yields on interest-bearing liabilities increased by 0.03%. Based on an attribution analysis which divides revenue and expense changes into either a variance in the volume of assets or liabilities or a variance in interest rate, the ¥42.3 billion increase in total revenue on interest-earning assets is attributable primarily to inclusion for the first time of income from leased assets and installment receivables of APLUS and Showa Leasing and an increase in interest rates on loans and bills discounted. The average rate for loans and bills discounted increased to 2.83% for the six months ended September 30, 2005 from 1.99% for the same period in the previous fiscal year primarily as a result of the inclusion of loans generated by APLUS's consumer finance businesses. Partially offsetting the impact from these higher margin businesses was the maturing of fixed interest rate loans that were originated in a higher interest rate environment.

The ¥5.0 billion increase in total interest expense was attributable primarily to the increased average balances of borrowed money and corporate bonds and deposits and negotiable certificates of deposit (NCD). The increase in borrowed money and corporate bonds interest expense was due entirely to an increase in the average balance outstanding to ¥967.3 billion for the six months ended September 30, 2005 from ¥141.2 billion for the same period in the previous fiscal year mainly due to the inclusion of borrowed money of APLUS and Showa Leasing. A reduction in the average interest rate on borrowed money and corporate bonds of 0.79% to 1.36% for the six months ended September 30, 2005, from 2.15% for the same period in the previous fiscal year, partially offset the increase in interest expense arising from the higher average balance outstanding. The increase in deposits and NCD interest expense came entirely from an increase in the average balance outstanding to ¥3,548.5 billion for the six months ended September 30, 2005 from ¥2,910.1 billion for the same period in the previous fiscal year. This growth reflected Shinsei's continued focus on increasing retail deposit balances. A reduction in the average rate paid on deposits and NCD of 0.05% to 0.45% for the six months ended September 30, 2005 from 0.50% for the same period in the previous fiscal year partially offset the increase in interest expense arising from the higher average balance outstanding. A decline in the average debenture balance outstanding to ¥1,198.9 billion for the six months ended September 30, 2005 from ¥1,325.2 billion for the same period in the previous fiscal year, coupled with a reduction in the average interest rate on debentures of 0.04% to 0.44% for the six months ended September 30, 2005 from 0.48% for the same period in the previous fiscal year, partially offset the increase in interest expenses on deposits and NCD and borrowed money and corporate bonds. The decline in the average debenture balance outstanding was consistent with our strategy of increasing retail deposits and the reduction in average interest rate on debentures was primarily the result of the maturing of debentures that were issued in a higher interest rate environment.

Net Fees and Commissions

Fees and commissions primarily include fees on non-recourse real estate finance, consumer and commercial finance loans and other financing products, fees for securities services, particularly for structuring and underwriting securitization transactions, and commissions on sales of asset management products.

Net fees and commissions for the six months ended September 30, 2005 were ¥23.4 billion, an increase of ¥15.1 billion as compared to the same period in the previous fiscal year. The main factor was an increase of ¥12.2 billion in fees from installment shopping credit, credit cards, guarantees and other financing to APLUS customers. Fees and commissions also increased from non-recourse real estate finance and from securitization, other capital markets activities for institutional banking clients and from sales of asset management products such as mutual funds and variable annuities to retail customers.

Net Trading Income

The table below shows the principal components of net trading income.

Table 3. Net Trading Income

	Billions of yen	
	Six months ended September 30, 2005	Six months ended September 30, 2004
Income from trading securities	**¥ 2.8**	¥ 1.3
Income from securities held to hedge trading transactions	**1.5**	0.7
Income from trading-related financial derivatives	**8.4**	13.1
Other, net	**(0.0)**	0.0
Net trading income	**¥12.7**	¥15.3

Net trading income reflects revenues from customer-driven transactions as well as transactions undertaken for our own trading purposes (that is, transactions seeking to capture gains arising from short-term changes in market value). In addition to investments in securities, it encompasses income we derive from providing derivative products, including structured deposits, to retail and institutional customers.

For the six months ended September 30, 2005, we earned ¥12.7 billion in net trading income, as compared to ¥15.3 billion in the same period of the prior fiscal year. The decline was due to a decrease of ¥4.7 billion in income from trading-related financial derivatives as option income generated in connection with interest-linked structured deposits provided to retail customers declined by approximately ¥5.5 billion to ¥6.2 billion due to changes in interest rates affecting the profitability of these products. This decrease was partially offset by increases in income from trading securities and income from securities held to hedge trading transactions of ¥1.5 billion and ¥0.7 billion, respectively, consisting primarily of Japanese government bonds.

Net Other Business Income

The table below shows the principal components of net other business income.

Table 4. Net Other Business Income

	Billions of yen	
	Six months ended September 30, 2005	Six months ended September 30, 2004
Income on monetary assets held in trust	**¥ 6.6**	¥ 8.3
Net gain on securities and foreign exchanges	**14.0**	3.1
Other business income (losses):		
Net gain on other monetary claims purchased for trading purposes	**7.2**	9.5
Losses from derivatives for banking purposes, net	**(1.4)**	(0.7)
Equity in net income of affiliates	**2.0**	0.1
Income from equity-related derivatives	**0.1**	0.2
Amortization of deferred issuance cost for debentures	**(0.1)**	(0.1)
Other, net	**1.8**	1.9
Net other business income before income on leased assets and installment receivables	**30.4**	22.5
Income on leased assets and installment receivables	**23.6**	1.1
Net other business income	**¥54.0**	¥23.6

Net other business income includes income on leased assets and installment receivables, net gain on securities and foreign exchanges, net gain on other monetary claims purchased for trading purposes and income on monetary assets held in trust. Income on monetary assets held in trust and net gain on other monetary claims purchased for trading purposes are largely comprised of income on credit trading and securitization activities as well as gains on equity securities-related transactions. For purposes of our analysis of results of operations, we include income on leased assets and installment receivables in our discussion of net revenue on interest-earning assets because we consider such income to be similar in character to our interest income.

Net other business income for the six months ended September 30, 2005 increased to ¥54.0 billion compared with ¥23.6 billion for the same period in the previous fiscal year. This increase was mainly a result of income of ¥23.6 billion from the leased assets and installment receivables business of APLUS and Showa Leasing. Excluding such income on leased assets and installment receivables, our net other business income for the six months ended September 30, 2005 was ¥30.4 billion, an increase of ¥7.8 billion compared with the same period in the previous fiscal year. The principal reason for the increase was the ¥10.8 billion increase in net gain on securities and foreign exchanges, which was partly attributable to an increase in option income in connection with customers' currency-linked structured deposits provided to retail customers of ¥3.9 billion, as well as gains on sale of bonds and loans and fees on foreign exchange transactions with retail customers.

Income on monetary assets held in trust decreased to ¥6.6 billion for the six months ended September 30, 2005 from ¥8.3 billion for the same period in the previous fiscal year largely due to lower gains on equity securities transactions. Income on monetary assets held in trust should be considered together with net gains on other monetary claims purchased for trading purposes as both of these income categories include credit trading and securitization income. Net gain on other monetary claims purchased for trading purposes also decreased ¥2.2 billion to ¥7.2 billion, reflecting primarily lower transaction volume in the six months ended September 30, 2005.

The increase of ¥1.9 billion in equity in net income of affiliates is primarily attributable to Shinki, which became an equity method affiliate on October 1, 2004, and from which we earned ¥1.2 billion in the six months ended September 30, 2005.

Total Revenue

Total revenue for the six months ended September 30, 2005 was ¥130.4 billion, an increase of 79.5% compared with the same period in the previous fiscal year. Higher total revenue was principally the result of the significant increase in net other business income and the increase in net fees and commissions attributable to the acquisitions of APLUS and Showa Leasing as well as to an increase in net interest income. This was partly offset by a reduction in net trading income.

General and Administrative Expenses

The table below sets forth the principal components of our general and administrative expenses:

Table 5. General and Administrative Expenses

	Billions of yen	
	Six months ended September 30, 2005	Six months ended September 30, 2004
Personnel expenses	**¥28.8**	¥18.2
Premises expenses	**9.9**	4.7
Technology and data processing expenses	**8.1**	4.3
Advertising expenses	**4.1**	2.0
Consumption and property taxes	**3.9**	2.6
Deposit insurance premium	**1.1**	1.0
Other	**10.7**	6.1
Total general and administrative expenses	**¥67.0**	¥39.2

General and administrative expenses for the six months ended September 30, 2005 were ¥67.0 billion, an increase of ¥27.7 billion, as compared to the same period in the previous fiscal year. The increase was largely due to the inclusion of expenses of APLUS and Showa Leasing, increased customer and product support required as a result of growth in retail banking activity and the expansion of retail banking distribution channels.

Personnel expenses increased by ¥10.5 billion for the six months ended September 30, 2005 due to the inclusion of APLUS and Showa Leasing personnel expenses of ¥10.9 billion. This increase in personnel expenses was partly offset by continued expense rationalization across all businesses. Similarly, premises expenses increased by ¥5.1 billion, of which ¥5.0 billion is APLUS and Showa Leasing premises expenses and the remainder is attributable to retail banking facilities established during the first half of the current fiscal year and in the second half of the fiscal year ended March 31, 2005.

Technology and data processing expenses increased by ¥3.7 billion to ¥8.1 billion during the six months ended September 30, 2005 compared to the same period in the previous fiscal year. The increase was due mainly to the inclusion of APLUS's technology and data processing expenses of ¥2.9 billion as well as increased investments in new information technology systems and an increase in related maintenance and depreciation expenses.

Advertising expenses were ¥4.1 billion in the six months ended September 30, 2005, an increase of ¥2.1 billion compared to the same period in the previous fiscal year, reflecting inclusion of APLUS's advertising expenses of ¥2.4 billion. This was partly offset by a decrease in retail banking advertising expenses of ¥0.3 billion as a result of decreased marketing activity.

Consumption and property taxes increased by ¥1.3 billion to ¥3.9 billion in the six months ended September 30, 2005 as compared to the same period in the previous fiscal year. This increase is largely attributable to consumption and property taxes of APLUS and a general increase in consumption taxes from our increased business activities. Other general and administrative expenses, consisting of outsourcing and temporary staff expenses, professional fees, printing, communication and stationery expenses, increased ¥4.6 billion, compared to the same period in the previous fiscal year, due primarily to an increase of ¥3.6 billion attributable to APLUS and Showa Leasing and an increase of ¥0.5 billion in retail banking pertaining to outsourcing, printing and stationery expenses to support business growth.

As a result of the above, our overhead ratio, or the ratio of general and administrative expenses to total revenue, improved 2.6% to 51.4% during the six months ended September 30, 2005, compared to 54.0% for the same period in the prior fiscal year.

Net Credit Costs (Recoveries)

The following table sets forth our credit costs and credit recoveries on a consolidated basis for the six months ended September 30, 2005 and 2004.

Table 6. Net Credit Costs (Recoveries)

	Billions of yen	
	Six months ended September 30, 2005	Six months ended September 30, 2004
Losses on write-off of loans	**¥ 10.5**	¥ 0.9
Net provision (reversal) of reserve for loan losses:		
Net provision (reversal) of general reserve for loan losses	**27.6**	(10.4)
Net provision (reversal) of specific reserve for loan losses	**(26.2)**	0.2
Net provision of reserve for loans to restructuring countries	**0.0**	0.0
Subtotal	**1.3**	(10.2)
Net provision (reversal) of specific reserve for other credit losses	**1.1**	(2.5)
Other, net	**1.5**	1.1
Net credit costs (recoveries)	**¥ 14.5**	¥(10.6)

The principal components of net credit costs (recoveries) are losses on loan write-offs and provisions or reversals of reserves. In accordance with Japanese regulatory requirements, Shinsei maintains general and specific reserves for loan losses, a reserve for loans to restructuring countries, as well as a specific reserve for other credit losses. Certain of our subsidiaries, including particularly APLUS and Showa Leasing, also maintain general and specific reserves for loan losses.

We recorded net credit costs of ¥14.5 billion for the six months ended September 30, 2005 compared with net credit recoveries of ¥10.6 billion for the six months ended September 30, 2004. The increase in net credit costs in the first half of fiscal 2005 was largely due to the inclusion of APLUS and Showa Leasing's net credit costs, including losses on write-off of loans, in the amount of ¥16.0 billion for the six months ended September 30, 2005. The principal reason for the net credit recoveries in the first half of fiscal 2004 was a net reversal of general reserve for loan losses of ¥10.4 billion arising from an improvement in Shinsei's historical default ratio, which led to a decrease in the expected loss ratio used to calculate reserves for claims against normal and need caution obligors.

The increase in the net provisions of general reserve for loan losses was due largely to the provisions of APLUS. This was mainly offset by reversal of specific reserve for loan losses in APLUS of ¥19.0 billion and ¥7.1 billion in Shinsei as the credit quality of the loan portfolio in our consumer and commercial finance and banking businesses continues to improve. In APLUS, specific reserves that are attributable to loan write-offs are reversed instead of offset against the corresponding credit. As a result, reversal of specific reserve relates to corresponding loan write-offs and overall improvement in credit quality in APLUS.

Amortization of Acquired Goodwill and Intangible Assets

The acquisition of majority stakes in APLUS and Showa Leasing resulted in the creation of acquired goodwill and intangible assets. The amortization of acquired goodwill and intangible assets was ¥14.6 billion for the first half of fiscal 2005. This includes acquired goodwill and intangible assets attributable to both APLUS and Showa Leasing in the amount of ¥12.8 billion and ¥1.8 billion, respectively. The amortization of fair value adjustments for assets and liabilities has been incorporated in the respective revenue and expense categories.

Other (Losses) Gains, Net
Other gains, net were ¥1.6 billion for the six months ended September 30, 2005, as compared to other losses, net of ¥3.1 billion during the same period in the previous fiscal year. Other gains, net for the six months ended September 30, 2005 mainly included net gain on the partial sale of APLUS's common shares. This was partly offset by increases in pension-related and other costs.

Income before Income Taxes and Minority Interests
As a result of the foregoing, income before income taxes and minority interests was ¥35.8 billion for the six months ended September 30, 2005, a ¥5.1 billion decrease as compared to the same period in the previous fiscal year.

Income Taxes
For the six months ended September 30, 2005, we recorded current income taxes of ¥1.7 billion. During the same period, we recorded a deferred income tax benefit of ¥4.8 billion mainly to reflect the tax benefit on the amortization of fair value adjustments to net assets and intangible assets and impact of deferred tax asset recognition calculated based on our one future year taxable income. This was partially offset by local income tax paid by our subsidiaries.

Minority Interest in Net Income (Loss) of Subsidiaries
Total minority interest in net income (loss) of subsidiaries of ¥1.2 billion for the six months ended September 30, 2005 mainly reflects minority interests in net income of APLUS and Showa Leasing. This was partly offset by small losses in Shinsei Business Finance.

Net Income
Our net income for the six months ended September 30, 2005 was ¥37.7 billion, as compared to ¥40.7 billion for the same period in the prior fiscal year. We report both Japanese GAAP net income and a cash basis net income in order to provide greater transparency and understanding of our underlying performance. For the six months ended September 30, 2005, consolidated cash basis net income was ¥50.5 billion, an increase of 24.0% compared to the same period in the previous fiscal year. Cash basis net income is defined as Japanese GAAP net income adjusted to exclude the amortization of acquired goodwill and intangible assets, net of tax benefit, attributable to APLUS and Showa Leasing.

Reconciliation from Reported-Basis Results to Operating-Basis Results
In addition to analyzing our results of operations in the format used for our financial statements, which we refer to as the "reported basis," our management also reviews our results on an "operating basis" to assess each of our business lines and to measure our results against targeted goals. Operating basis results are calculated by adjusting the reported-basis results principally for the amortization of net actuarial losses, lump-sum payments, and certain revenue items. In essence, the operating basis results represent what we consider to be "core" business results and are in conformity with Japanese GAAP at the net income level. The following summary table provides a reconciliation between our results on a reported and operating basis.

Table 7. Reconciliation from Reported-Basis Results to Operating-Basis Results (Consolidated)

	Billions of yen					
	Six months ended September 30, 2005			Six months ended September 30, 2004		
	Reported-basis	Reclassifications	Operating-basis	Reported-basis	Reclassifications	Operating-basis
Revenue						
Net interest income	**¥ 40.1**	**¥ —**	**¥ 40.1**	¥ 25.3	¥ —	¥ 25.3
Net fees and commissions	**23.4**	**0.0**	**23.5**	8.3	0.0	8.4
Net trading income	**12.7**	**—**	**12.7**	15.3	—	15.3
Net other business income(1)	**54.0**	**0.0**	**54.1**	23.6	0.1	23.7
Total revenue	**¥130.4**	**¥ 0.1**	**¥130.5**	¥ 72.6	¥0.2	¥ 72.8
General and administrative expenses(2)	**(67.0)**	**0.3**	**(66.6)**	(39.2)	0.7	(38.5)
Net business profit/Ordinary business profit(3)	**63.4**	**0.4**	**63.8**	33.3	0.9	34.3
Net credit (recoveries) costs	**14.5**	**—**	**14.5**	(10.6)	—	(10.6)
Amortization of acquired goodwill and intangible assets	**14.6**	**—**	**14.6**	—	—	—
Other gains (losses), net(1)(2)	**1.6**	**(0.4)**	**1.2**	(3.1)	(0.9)	(4.0)
Income before income taxes and minority interests	**35.8**	**—**	**35.8**	40.9	—	40.9
Income tax (benefit) and minority interests	**(1.8)**	**—**	**(1.8)**	0.1	—	0.1
Net income	**¥ 37.7**	**¥ —**	**¥ 37.7**	¥ 40.7	¥ —	¥ 40.7

Notes:
(1) Reclassifications consist principally of adjustments of lease-related income between other gains (losses), net and net other business income.
(2) Reclassifications consist principally of adjustments relating to lump-sum payments and amortization of net actuarial losses from general and administrative expenses to other gains (losses), net.
(3) Ordinary business profit is derived after reclassifying certain items from net business profit.

Business Lines Results

We continue to focus on our product offerings in three business lines: Institutional Banking, Consumer and Commercial Finance and Retail Banking. Management monitors the performance of these business lines on an operating basis. The business lines discussion below covers the operating-basis ordinary business profit of the three business lines and a fourth category of ALM/ Corporate/Other. During the first half of fiscal 2005, all three businesses grew revenue in line with our customer-focused, solution-driven business model.

Table 8. Operating-Basis Ordinary Business Profit by Business Line(1)(2)

	Billions of yen				
	For the six months ended September 30, 2005				
	Institutional Banking	Consumer and Commercial Finance	Retail Banking	ALM/ Corporate/ Other	Total
Net interest income	**¥ 17.6**	**¥ 17.8**	**¥ 8.4**	**¥(3.8)**	**¥ 40.1**
Non-interest income	**35.0**	**39.8**	**13.0**	**2.5**	**90.4**
Total revenue	**52.6**	**57.6**	**21.5**	**(1.3)**	**130.5**
General and administrative expenses	**(19.5)**	**(29.8)**	**(17.5)**	**0.2**	**(66.6)**
Ordinary business profit (loss)	**¥ 33.1**	**¥ 27.8**	**¥ 4.0**	**¥(1.0)**	**¥63.8**

	Billions of yen				
	For the six months ended September 30, 2004				
	Institutional Banking	Consumer and Commercial Finance	Retail Banking	ALM/ Corporate/ Other	Total
Net interest income	¥ 17.2	¥ 1.9	¥ 7.1	¥(1.0)	¥ 25.3
Non-interest income	32.3	1.3	14.0	(0.3)	47.4
Total revenue	49.5	3.3	21.2	(1.3)	72.8
General and administrative expenses	(19.0)	(2.9)	(15.9)	(0.5)	(38.5)
Ordinary business profit (loss)	¥ 30.5	¥ 0.3	¥ 5.3	¥(1.8)	¥ 34.3

Notes:
(1) Certain prior period amounts have been reclassified to conform to current period presentation.
(2) Represents results on an operating-basis

Institutional Banking

Our Institutional Banking business offers a wide range of financial products and services, including lending, non-recourse financing, credit trading, securitization, capital markets and corporate advisory services relating to corporate revitalization and mergers and acquisitions, to domestic and international corporations, financial institutions and government entities. We serve our customers primarily from our offices in key metropolitan areas of Japan.

The Institutional Banking business is benefiting from its “solution banking” approach and bringing investment banking services and expertise to target customers quickly and efficiently through an integrated team of product specialists and relationship managers. This business is now positioned in Japan as a hybrid commercial and investment banking franchise. The Institutional Banking business generated total revenue of ¥52.6 billion in the first half of this fiscal year, an increase of ¥3.0 billion, or 6.2%, from the same period in the previous fiscal year. Total Institutional Banking expenses increased to ¥19.5 billion for the six months ended September 30, 2005, or ¥0.5 billion higher than the same period in the previous fiscal year. The expense to revenue ratio of the Institutional Banking business improved to 37.1% for the six months ended September 30, 2005 compared with 38.4% for the same period in the previous fiscal year.

Table 9. Institutional Banking Revenue by Product

	Billions of yen	
	Six months ended September 30, 2005	Six months ended September 30, 2004
Institutional Banking:		
Non-recourse real estate finance	**¥11.2**	¥ 8.9
Foreign exchange, derivatives, equity-related	**9.4**	7.4
Corporate loans	**8.6**	7.1
Securitization	**8.1**	8.2
Credit trading	**5.9**	9.2
Principal investments	**4.3**	3.7
Other capital markets	**3.3**	3.3
Others	**1.4**	1.3
Total revenue	**¥52.6**	¥49.5

The Institutional Banking business delivered strong results in non-recourse real estate finance, securitizations, corporate loans and capital markets activities. The balance of non-recourse real estate finance obligations grew 14.4% to ¥851.8 billion as of September 30, 2005, with 80 new transactions concluded during six months ended September 30, 2005. As a result, revenue from non-recourse real estate finance increased 26.2%, or ¥2.3 billion, to ¥11.2 billion for the six months ended September 30, 2005.

Foreign exchange, derivatives and equity-related revenue in the first six months of fiscal 2005 grew 28.3%, or ¥2.0 billion, to ¥9.4 billion. Revenues came from diversified capital markets activities with derivatives business being the most successful and earning over ¥5.0 billion.

Corporate loans increased by 6.8%, or ¥167.4 billion, to reach over ¥2.6 trillion at September 30, 2005 compared with March 31, 2005. As a result, revenues from corporate loans increased to ¥8.6 billion for the six months ended September 30, 2005, an increase of ¥1.5 billion, or 21.4%, compared to the same period in the previous fiscal year.

The securitization business closed 10 transactions during the six months ended September 30, 2005 with a total issuance amount of about ¥235.6 billion, and revenue from securitization was ¥8.1 billion for the six months ended September 30, 2005. In this business, we structure, arrange, distribute, and service mortgage-backed securities and asset-backed securities, both from third parties and ourselves. We cover all major assets classes, ranging from relatively small and homogeneous credit-card loans and residential loans to non-performing loans on which collection depends primarily on selling the collateral. The continual success of this business earned Shinsei and Shinsei Securities in May 2005 the "Commercial Mortgage-backed Securities Deal of the Year" for 2004.

Consumer and Commercial Finance
The acquisition of APLUS and Showa Leasing during the fiscal year ended March 31, 2005 strengthened our Consumer and Commercial Finance (CCF) business into one that is now contributing significantly to our overall revenues while adding new customers, experienced personnel and technical capabilities and taking advantage of Shinsei's expertise and know-how. In the six months ended September 30, 2005, our CCF business generated revenue of ¥57.6 billion, or over 44% of our total revenue. Continued expense rationalization coupled with revenue growth improved the expense to revenue ratio of this business to 51.8% in the six months ended September 30, 2005 compared to 88.5% for the same period in the previous fiscal year. The CCF business generated ordinary business profit of ¥27.8 billion in the six months ended September 30, 2005, an increase of ¥27.4 billion compared to the same period in the previous fiscal year primarily due to the addition of profits of APLUS and Showa Leasing.

***Table 10. Consumer and Commercial Finance Ordinary Business Profit by Subsidiary*[1]**

	Billions of yen			
	Six months ended September 30, 2005			
	APLUS	Showa Leasing	Other Subsidiaries[2]	Consumer and Commercial Finance
Consumer and Commercial Finance:				
Total revenue	**¥ 40.4**	**¥12.1**	**¥ 5.0**	**¥ 57.6**
General and administrative expenses	**(21.1)**	**(5.3)**	**(3.3)**	**(29.8)**
Ordinary business profit	**¥ 19.2**	**¥ 6.7**	**¥ 1.7**	**¥ 27.8**

Notes:
(1) Net of consolidation adjustment, if applicable
(2) Includes profits of Shinki, an affiliate, and unallocated consumer and commercial finance sub-group expense

For the six months ended September 30, 2005, APLUS recorded total revenue of ¥40.4 billion on a consolidated basis from its installment shopping credit, credit cards businesses and loan guarantees. This represents 70.1% of total consumer and commercial finance business revenue and is ¥4.1 billion, or 11.6%, higher than the six months ended March 31, 2005. Showa Leasing is our commercial finance platform and provides general and auto leasing, lending and other financing solutions to small and medium-size companies. Showa Leasing recorded revenue of ¥12.1 billion for the six months ended September 30, 2005, or over 21% of total CCF revenue.

Retail Banking
The Retail Banking business continued to expand its range of innovative products and focus on empowering the customer. During the first half of fiscal 2005, following the successful launch of Shinsei's "Color your life" campaign, Shinsei added more than 247,000 new *PowerFlex* retail customers, compared to about 194,000 over the same period in the previous fiscal year. As of September 30, 2005, the Retail Banking business had more than 1.5 million retail accounts. Our Retail Banking business was also ranked first in the Nihon Keizai Shimbun's customer satisfaction survey of Japanese financial institutions for the second consecutive year. Total revenue of Retail Banking increased 1.3% to ¥21.5 billion for the six months ended September 30, 2005. The Retail Banking business had total expenses of ¥17.5 billion in the six months ended September 30, 2005, an increase of ¥1.5 billon compared to the same period in the previous fiscal year due primarily to the expansion of distribution channels and increase in customer and product support as a result of growth in retail banking activities. Ordinary business profit was ¥4.0 billion for the six months ended September 30, 2005.

Table 11. Retail Banking Revenue by Product

	Billions of yen	
	Six months ended September 30, 2005	Six months ended September 30, 2004
Retail Banking:		
Deposit-related and foreign exchange fees	**¥ 9.8**	¥11.4
Net fund transfer revenue[(1)]	**6.8**	6.1
Asset management	**3.2**	2.7
Loans	**1.5**	0.9
Total revenue	**¥21.5**	¥21.2

Note:
(1) Related to customer deposits and debentures

Deposit-related and foreign exchange fees mainly include derivatives income on structured deposits and commissions on foreign exchange transactions. This is partly offset by fees we incur in connection with ATMs and funds transfers. Deposits of retail customers increased by over 23% in the six months ended September 30, 2005 due in part to the success of structured deposits, and the total of retail deposits was over ¥2.8 trillion as of September 30, 2005. In the six months ended September 30, 2005, we recorded revenue of ¥9.8 billion from deposits and foreign exchange fees, a decrease of ¥1.5 billion compared to the same period in the previous fiscal year reflecting changes in interest rates affecting the profitability of structured deposits.

Net funds transfer revenue relates to the interest spread on customer deposits and debentures. Net funds transfer revenue grew ¥0.7 billion to ¥6.8 billion in the six months ended September 30, 2005 as a result of growth in retail deposits.

Fees from asset management products increased 16.6% to ¥3.2 billion for the six months ended September 30, 2005 compared to the same period in the previous fiscal year. Loans to retail customers grew 36.4%, or ¥112.2 billion, to ¥420.3 billion as of September 30, 2005. This resulted in Retail Banking recording ¥1.5 billion in revenue from housing loans and other lending products during the six months ended September 30, 2005.

ALM/Corporate/Other

ALM, Corporate and Other primarily includes results of corporate treasury activities, income from proprietary investments, intercompany eliminations, and corporate level expenses. The ordinary business loss of ¥1.0 billion for the six months ended September 30, 2005 is an improvement of ¥0.8 billion as compared to the same period in the previous fiscal year largely due to lower expenses.

Financial Condition

Total Assets

As of September 30, 2005, we had consolidated total assets of ¥9,142.7 billion, a 6.6% increase compared with March 31, 2005. The increase was attributable to loan growth in all key businesses as well as increases in securities and premises and equipment. As of September 30, 2005, our loans and bills discounted balance was ¥3,828.0 billion, ¥397.6 billion, or 11.6%, higher than at March 31, 2005. Corporate loans increased 6.8%, or ¥167.4 billion, to over ¥2.6 trillion and loans to retail customers grew 36.4%, or ¥112.2 billion, to ¥420.3 billion at September 30, 2005. Loans to consumer and commercial finance customers increased ¥42.3 billion to ¥315.0 billion at September 30, 2005.

Total Liabilities

Our total liabilities, as of September 30, 2005, were ¥8,261.6 billion, an increase of ¥525.8 billion as compared to March 31, 2005. Total deposits, including negotiable certificate of deposits, increased ¥511.5 billion, or 14.8%, to ¥3,964.3 billion at September 30, 2005 mainly due to an increase in retail deposits. Retail deposits grew ¥536.4 billion, or 23.3%, to over ¥2.8 trillion yen as of September 30, 2005. As a result, retail funding as of September 30, 2005 represented 64.7% of total customer deposits and debentures, an increase from 60.9% as of March 31, 2005.

Shareholders' Equity

Total shareholders' equity as of September 30, 2005 increased ¥33.9 billion, or 4.3%, to ¥820.6 billion compared with March 31, 2005 due largely to an increase of ¥34.0 billion in retained earnings. This was due to profits in each of our three key business lines.

Summary of Non-Consolidated Interim Statements of Income and Balance Sheets

We disclose non-consolidated financial information of Shinsei in addition to our consolidated financial statements. As a recipient of public funds, we are required by the Financial Services Agency (the "FSA") to update and report on Shinsei's achievement of non-consolidated performance targets set forth in its revitalization plan on a quarterly basis, and publicly disclose that information semiannually. Shinsei's plan was initially prepared by the LTCB upon its emergence from nationalization, and we have subsequently updated the plan in August 2001, August 2003 and August 2005.

Shinsei accounts for a substantial portion of our consolidated financial condition and results of operations. For the six months ended September 30, 2005, Shinsei accounted for 103.8% of our consolidated net income and 75.9% of our consolidated total assets. The additional portion of our consolidated assets is attributable to APLUS, Showa Leasing and other subsidiaries. While the consolidated results of operations included profits from APLUS, Showa Leasing and other subsidiaries and affiliates, our consolidated net income is slightly lower than non-consolidated net income due to the amortization of acquired goodwill and intangible assets caused by the consolidation of APLUS and Showa Leasing.

Asset Quality and Disposal of Problem Loans (Non-Consolidated)

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 Japanese Bankers Association for the disclosure of risk-monitored loans.

The table below shows the reduction in the balance of our non-performing loans on a non-consolidated basis:

Table 12. Claims Classified under the Financial Revitalization Law (Non-Consolidated)

	Billions of yen, except percentages		
	As of September 30, 2005	As of September 30, 2004	As of March 31, 2005
Claims against bankrupt and quasi-bankrupt obligors	**¥ 2.3**	¥ 9.9	¥ 3.1
Doubtful claims	**28.2**	57.0	42.1
Substandard claims	**15.4**	6.6	6.4
Total claims disclosed under the Financial Revitalization Law(1)	**46.0**	73.7	51.7
Normal claims and claims against caution obligors excluding substandard claims	**3,920.9**	3,598.5	3,569.3
Total claims	**¥3,967.0**	¥3,672.2	¥3,621.0
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	**1.2%**	2.0%	1.4%

Note:
(1) Total claims disclosed under the Financial Revitalization Law includes loans and bills discounted, customers' liabilities for acceptances and guarantees and other exposure 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 September 30, 2005, Shinsei's non-consolidated coverage ratios for claims classified under the Financial Revitalization Law, which 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, 90.4% for doubtful claims and 73.6% for substandard claims. For all claims classified under the law, the coverage ratio was 85.3% compared to 94.3% as of March 31, 2005. The decrease in coverage ratio is mainly due to the collection and upgrading of certain claims with high coverage ratios and the increase of claims disclosed with low coverage ratios.

Shinsei directly writes off, rather than reserving, the portion of claims against bankrupt and quasi-bankrupt obligors that are estimated to be uncollectible. In the six months ended September 30, 2005 and the fiscal year ended March 31, 2005, ¥6.7 billion and ¥5.9 billion, respectively, of such claims were written off on a non-consolidated basis.

Table 13. 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 September 30, 2005					
Claims against bankrupt and quasi-bankrupt obligors	**¥ 2.3**	**¥ —**	**¥ 2.3**	**¥ 2.3**	**100.0%**
Doubtful claims	**28.2**	**21.5**	**4.0**	**25.5**	**90.4**
Substandard claims	**15.4**	**5.5**	**5.8**	**11.3**	**73.6**
Total	**¥ 46.0**	**¥27.0**	**¥12.2**	**¥ 39.2**	**85.3**
As of September 30, 2004					
Claims against bankrupt and quasi-bankrupt obligors	¥ 9.9	¥ 5.9	¥ 4.0	¥ 9.9	100.0%
Doubtful claims	57.0	42.0	13.7	55.7	97.8
Substandard claims	6.6	2.9	3.6	6.6	100.0
Total	¥ 73.7	¥51.0	¥21.4	¥ 72.4	98.3
As of March 31, 2005					
Claims against bankrupt and quasi-bankrupt obligors	¥ 3.1	¥ —	¥ 3.1	¥ 3.1	100.0%
Doubtful claims	42.1	30.3	9.5	39.8	94.6
Substandard claims	6.4	2.7	3.0	5.8	89.5
Total	¥ 51.7	¥33.0	¥15.7	¥ 48.8	94.3

Disposal of Problem Claims

Shinsei uses a variety of methods for removing problem loans from its balance sheet, including sales, collections and, prior to the third anniversary of the closing date of the acquisition of LTCB, the return of loans to the DIC pursuant to the cancellation right regarding loan-related assets held by our predecessor, provided by the DIC in connection with the acquisition of our common shares by New LTCB Partners, C.V. in March 2000. The following table sets forth a breakdown of disposals of substandard claims, doubtful claims and claims against bankrupt and quasi-bankrupt obligors on a non-consolidated basis:

Table 14. Reduction of Problem Claims as Disclosed under the Financial Revitalization Law (Non-Consolidated)

	Billions of yen		
	Six months ended September 30, 2005	Six months ended September 30, 2004	Year ended March 31, 2005
Write-off/forgiveness	**¥3.9**	¥ 0.1	¥ 2.7
Sale	**0.2**	7.2	8.3
Transferred to the DIC via exercise of cancellation right	**—**	—	2.3
Collections, net	**1.5**	16.2	32.0
Total	**¥5.7**	¥23.6	¥45.5

For the six months ended September 30, 2005, Shinsei disposed of ¥5.7 billion in non-performing claims. Of the total decline, 69.4%, or ¥3.9 billion, was attributable to partial write-offs.

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 15. Reserve for Credit Losses (Non-Consolidated)

	Billions of yen, except percentages	
	As of September 30, 2005	As of March 31, 2005
General reserve for loan losses	**¥ 59.3**	¥ 56.1
Specific reserve for loan losses	**21.6**	35.7
Reserve for loans to restructuring countries	**0.0**	0.0
Subtotal of reserve for loan losses	**81.0**	91.9
Specific reserve for other credit losses	**33.5**	32.5
Total reserve for credit losses	**¥ 114.5**	¥ 124.4
Total claims(1)	**¥3,967.0**	¥3,621.0
Ratio of total reserve for loan losses to total claims	**2.0%**	2.5%
Ratio of total reserve for credit losses to total claims	**2.9%**	3.4%

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

Risk-Monitored Loans

We had ¥90.1 billion in consolidated risk-monitored loans as of September 30, 2005, an increase of ¥10.1 billion compared to March 31, 2005. This increase is a result of new financing for obligors under rehabilitation.

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

Table 16. Risk-Monitored Loans (Consolidated)

	Billions of yen, except percentages	
	As of September 30, 2005	As of March 31, 2005
Loans and bills discounted	**¥3,828.0**	¥3,430.4
Loans to bankrupt obligors (A)	**¥ 3.3**	¥ 2.6
Non-accrual delinquent loans (B)	**48.2**	48.1
Total loans (A)+(B)	**51.5**	50.8
Ratio to total loans and bills discounted	**1.3%**	1.5%
Loans past due for three months or more (C)	**¥ 2.5**	¥ 5.5
Restructured loans (D)	**36.0**	23.6
Total risk-monitored loans (A)+(B)+(C)+(D)	**¥ 90.1**	¥ 80.0
Ratio to total loans and bills discounted	**2.4%**	2.3%
Reserve for credit losses	**¥ 155.9**	¥ 149.7

Table 17. Risk-Monitored Loans (Non-Consolidated)

	Billions of yen, except percentages	
	As of September 30, 2005	As of March 31, 2005
Loans and bills discounted	**¥3,788.0**	¥3,443.7
Loans to bankrupt obligors (A)	**¥ 1.5**	¥ 2.3
Non-accrual delinquent loans (B)	**27.5**	41.2
Total loans (A)+(B)	**29.1**	43.5
Ratio to total loans and bills discounted	**0.8%**	1.3%
Loans past due for three months or more (C)	**¥ 0.1**	¥ 3.1
Restructured loans (D)	**15.2**	3.3
Total risk-monitored loans (A)+(B)+(C)+(D)	**¥ 44.5**	¥ 50.0
Ratio to total loans and bills discounted	**1.2%**	1.5%
Reserve for credit losses	**¥ 114.5**	¥ 124.4

Capital Ratios

Our consolidated capital adequacy ratio as of September 30, 2005 was 12.16%, compared with 11.78% as of March 31, 2005. Our Tier I capital ratio, or the ratio of Tier I capital to risk assets, also increased from 7.00% as of March 31, 2005 to 7.47% as of September 30, 2005. The principal reason for improvement in the capital ratios at September 30, 2005 was the increase of Tier I capital as the result of earnings recorded in the six months ended September 30, 2005, and amortization of intangible assets and acquired goodwill as the result of the purchase of APLUS and Showa Leasing, in spite of increase of risk assets.

The amount of our net deferred tax assets, or the difference between our deferred tax assets and our deferred tax liabilities, represented 1.8% of our Tier I capital as of September 30, 2005, compared to 0.9% as of March 31, 2005. The increase of our net deferred tax assets ratio was mainly caused by a decrease of deferred tax liabilities resulting from the amortization of intangible assets.

Table 18. Consolidated Capital Ratios

	Billions of yen, except percentages	
	As of September 30, 2005	As of March 31, 2005
Basic items (Tier I):		
Capital stock	**¥ 451.2**	¥ 451.2
Intangible assets and goodwill	**(302.2)**	(321.2)
Total Tier I (A)	**517.6**	463.0
Supplementary items (Tier II):		
General reserve for loan losses	**43.2**	41.3
Perpetual subordinated debt and bonds	**248.7**	246.3
Non-perpetual subordinated debt and bonds	**61.0**	51.0
Total	**353.0**	338.6
Amount eligible for inclusion in capital (B)	**353.0**	338.6
Deduction (C)	**(28.6)**	(22.7)
Total capital (D) [(A)+(B)–(C)]	**¥ 842.0**	¥ 778.9
Risk assets:		
On-balance sheet items	**¥4,876.0**	¥4,624.6
Off-balance sheet items	**2,044.6**	1,986.2
Total (E)	**¥6,920.7**	¥6,610.9
Consolidated capital adequacy ratio (D) / (E)	**12.16%**	11.78%
Consolidated Tier I capital ratio (A) / (E)	**7.47**	7.00