QUESTIONS & ANSWERS

Q What has changed for Shinsei after J.C. Flowers & Co. LLC and affiliates became your largest shareholder?

A In November 2007, Shinsei announced plans to deepen ties with key new and existing shareholders and to raise new capital to enhance its financial stability. This included a tender offer bid for 358.4 million common shares outstanding and a third-party allotment of 117.6 million new common shares of Shinsei both at ¥425 per share to the group of investors led by J.C. Flowers & Co. LLC and affiliates. Both transactions were concluded by February 2008 and marked the successful completion of a capital-raising initiative at a premium to the share price at that time, despite it being a very difficult time in the markets. After the completion of the third-party allotment and tender offer and considering the number of shares held prior to this, this group of investors now holds 32.6% of our outstanding common shares, making them the largest shareholder.

Regarding changes for Shinsei, this symbolizes a vote of confidence by our key investors and positions us to put Shinsei Bank on a new growth trajectory. The new capital will allow Shinsei to make active investments in strategically important areas across its Institutional and Individual pillars with a primary focus on Japan. This may also include acquisitions to allow us to expand the scale of our business in certain areas while considering synergies with our existing operations. By having internationally renowned investors committed to Shinsei Bank, a business alliance and/or an enhancement to our product line is also another possibility. These factors are expected to have a positive impact on our profitability and ultimately on our corporate value.

Q Considering that the Japanese government is now your second largest shareholder, could you let us know what your policy is on the repayment of public funds?

A Prior to its nationalization in October 1998, Shinsei Bank's predecessor, the Long Term Credit Bank (LTCB), received an injection of public funds of ¥96.9 billion, after capital reduction without compensation of 74,528,000 Class-A preferred shares issued on March 31, 1998. Furthermore, upon its establishment, Shinsei Bank received ¥240 billion through the issuance of 600,000,000 Class-B preferred shares issued on April 1, 2000. As a result, the Bank, as well as the LTCB, has received a total of ¥336.9 billion in public funds. On July 31, 2006, the Japanese government converted 300,000,000 Class-B preferred shares, or half of the Class-B preferred shares initially issued, into 200,033,338 common shares and sold them at ¥753 per share on August 17, 2006. From this transaction, the government collected ¥150.6 billion for half, or ¥120 billion, of the Class-B preferred shares initially issued, resulting in a partial repayment of public money. Later, the remaining 300,000,000 Class-B preferred shares held by the Japanese government were mandatorily converted into 200,000,000 common shares on August 1, 2007. Furthermore, the Japanese government converted the total issued 74,528,000 Class-A preferred shares that it held into 269,128,888 common shares on March 31, 2008.

As a result, the Japanese government now holds 469,128,888 common shares, or 23.9% of the 1,963,910,456 Shinsei Bank common shares outstanding (excluding treasury shares), as at the end of March 2008, making it the second largest shareholder.

Shinsei Bank continues to focus on delivering returns to all our shareholders. As a bank receiving public funds, we look to execute the revitalization plan agreed upon with the Japanese government, and we will consult the government in our quest for swift repayment of public funds.

Q **Why were you only able to achieve ¥60.1 billion in consolidated net income in fiscal year 2007 considering that the sale of your headquarters building contributed ¥56 billion to net income?**

A On March 13, 2008 Shinsei Bank announced that the sale of its headquarters building would contribute about ¥56 billion to net income. At that time, Shinsei Bank also revised its net income forecast from ¥50 billion to ¥65 billion and later on May 8, 2008 announced that it had changed its forecast for net income to ¥60.1 billion. Subsequently, we announced a net income of ¥60.1 billion on May 14, 2008. There are primarily four reasons why we were only able to achieve about ¥4 billion net income apart from the ¥56 billion recognized on the sale of our headquarters building.

First, due to the market turmoil caused by the problems surrounding the U.S. residential mortgage market, Shinsei was required to make mark-downs and reserves related to this market that were higher than originally anticipated.

Second, we have delayed the recognition of sales involving large transactions overseas, which we originally expected to realize this fiscal year, to sometime in the future due to the prevailing market environment.

Third, we booked additional reserves associated with a small number of business loans in Japan and in Europe.

Fourth, there were additional costs, including branch write-offs in the Retail Banking operations, as well as general corporate software and hardware write-offs.

For the fiscal year ending March 31, 2009 we are forecasting a net income of ¥62.0 billion.

Q Please give us the details of your exposure to the U.S. residential mortgage market.

A The U.S. subprime mortgage crisis had a substantial direct impact upon many global financial institutions in the fiscal year ended March 31, 2008. Shinsei did not escape this turmoil, despite our relatively limited exposure. While only a small portion of our operations are overseas, we originally invested in the U.S. residential mortgage market to diversify our earnings stream in 2003. The continued volatility and lack of liquidity in the market prompted S&P to downgrade (including multi-notch downgrades) securities in October 2007 of which the status of a portion of our exposure immediately changed from investment grade to non-investment grade, necessitating significant mark-downs and reserves of our portfolio in fiscal year 2007. We have continued to closely monitor our exposure and believe that we have taken prudent actions in light of the prevailing market environment.

Overall, we incurred $157 million (¥15.6 billion) of mark-downs and $134 million (¥13.4 billion) of reserves for a total of $291 million (¥29.1 billion) related to our U.S. residential mortgage portfolio in fiscal year 2007.

Shinsei Bank's net exposure to the U.S. residential mortgage market was $280.8 million (¥28.0 billion), or less than 0.3% of the Bank's total assets of $115 billion (¥11.5 trillion), as of March 31, 2008.

Q **Considering that you have a relatively high exposure to domestic real estate, what is your view on the real estate market in Japan going forward?**

A Nationwide land prices have gone up for the second consecutive year in 2007 after falling for 15 years in a row, according to data from the Ministry of Land, Infrastructure and Transport. Land prices were pushed up in the first half of 2007 due to soaring demand for condominiums and office buildings, and the recovering Japanese economy. However, in the latter half of 2007, the pace of growth became sluggish amid the implementation of the Building Standards Law that went into effect in June 2007, as well as growing uncertainties about the economy and financial markets triggered by the U.S. subprime mortgage crisis later in August 2007. There has been the emergence of a bipolarizing trend in land prices between city centers (Tokyo, Osaka and Nagoya), which have increased for the third year in a row, and regional areas, which have continued to slide. While commercial real estate prices were up more than 10% in 21 out of 23 wards and residential real estate prices were up more than 10% in 14 out of 23 wards in Tokyo in 2007, the overall rate of growth has slowed compared to 2006. In 2006, three wards recorded an increase of over 20% in both commercial and residential real estate prices, but there were no such ward increases in 2007.

Shinsei's largest exposure to the real estate market in Japan is related to our non-recourse lending business, with ¥974.8 billion in loans and bonds outstanding at the end of March 2008. Since our launch in 2000 as a pioneer in the market, we have successfully grown our non-recourse lending business and have shifted our focus from a stock to a flow business. Shinsei Bank is one of the few players in the market that can take advantage of the entire value chain from origination, including syndication, to securitization, distribution and ultimately servicing capabilities. For example, in fiscal year 2007, we were able to securitize two non-recourse loan pools in the amount of ¥165.2 billion into commercial mortgage-backed securities and sell off to the market. Recently we have seen opportunities in the Japanese market as international players have reduced their exposure due in part to the difficulties in their home markets. We will continue to focus on this business, while being prudent to limit our exposure in terms of the allocation of our Risk Capital, while allowing us to maximize our returns.

Q Considering you have made substantial losses in your consumer finance and installment sales credit or "*shinpan*" businesses in the past, why are you continuing to focus on this area?

A Shinsei Bank has taken a contrarian approach to consumer finance and has been making efforts to restructure this business while actively considering acquisitions. While we did record substantial losses in this business in the past, due to legislative changes implemented in December 2006, as well as shifts in the market environment, we believe there are opportunities to grow this business especially at a time when many other companies are looking to exit.

We have two major subsidiaries related to installment sales credit and consumer finance that include APLUS (invested in September 2004) and Shinki (concluded business alliance agreement in March 2002 and made a consolidated subsidiary in December 2007). These companies will be included within the Individual pillar, where there will be one management structure, to allow us to focus our resources around the customer. This will also better enable us to leverage the synergies with our retail bank in terms of product and service offerings.

Our first goal within the installment sales credit business area has been to restructure our operations by appointing new management and reducing operating costs through measures such as the implementation of a new IT infrastructure at APLUS. Ultimately, we are looking to build a next generation installment sales credit company with best-in-class corporate governance, compliance, risk management and IT infrastructure systems. To capitalize on the wealth of synergies to be generated by the close relationship between APLUS and Shinsei, we have started to leverage APLUS' operations to benefit the Retail Banking business with the launch of Shinsei Visa Card, with more collaboration planned in the future.

We are looking to put further emphasis on our consumer finance operations by utilizing the excellent credit scoring and collection systems capabilities of Shinki. Complementing the services offered by APLUS and enhancing its coordination with the Shinsei Bank Group, Shinki is expected to play a significant role in our consumer finance operations as we work to meet the ever-diversifying needs of our customers.

Recent trends for grey zone claims at both APLUS and Shinki have generally been flat since the second half of fiscal year 2007. While our view on the grey zone outlook remains inconclusive, as it is still probably too early to say claims have peaked, the trend is encouraging.

Finally, we are actively pursuing opportunities to grow our consumer finance business and expand the scope of these operations by making selective acquisitions to take advantage of economies of scale. We would like to play an important part in the industry consolidation and believe that we can increase our corporate value by effectively leveraging the synergies created between our banking and non-banking businesses.

Q Why is one of the best retail banks in Japan unprofitable and what measures are you taking to bring it back to profitability?

A Shinsei Bank has been ranked as the number one or two bank in Japan for customer satisfaction over the last four years, and number two for retail bank strength, according to two annual *Nihon Keizai Shimbun* surveys. However, the bank has not been profitable for the last two years due mainly to lower revenues related to structured deposits, as a result of lower demand for this product. While we have been able to increase the balance of housing loans, mutual funds and variable annuities, larger revenues from these products were not enough to offset the decline related to structured deposits. Our strategy for returning to profitability focuses on four major themes. First, our retail banking operations will be included in the Individual pillar, where there will be one management structure, to allow us to focus our resources around the customer. Second, we are making efforts to reduce costs by closing unprofitable branches/ATMs and reexamining how to provide services in the mass retail customer segment. Third, we look to continue to expand on the success of our growing housing loan portfolio going forward and also focus on strengthening the mass affluent customer segment. Finally, we will market a bank-branded card loan, introduced in June 2008. We believe these fundamental activities will play significant roles in turning our Retail Banking operations around.