

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated and non-consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP") for banks, including the notes to those financial statements, included elsewhere in this annual report. Except as otherwise indicated, the financial information in the following discussion is based on our consolidated financial statements.

The discussion below contains forward-looking statements regarding the intent, belief or current expectations of management with respect to our financial condition and future results of operations. In many cases, but not all, we use such words as "anticipate," "believe," "estimate," "expect," "intend," "plan," "probability," "risk" and similar expressions in relation to us or our management to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those we currently anticipate or target. We do not intend to update these forward-looking statements.

In this section, except where the context indicates otherwise, "we" or "our" means Shinsei Bank, Limited and its subsidiaries and affiliates accounted for by the equity-method, and "Shinsei" or "the Bank" refers to Shinsei Bank, Limited alone.

Financial and operational data that are stated in multiples of ¥0.1 billion have been truncated. All percentages have been rounded to the nearest 0.1%.

"Fiscal year 2007" refers to our fiscal year ended March 31, 2008, and other fiscal years are referred to in a similar manner.

OVERVIEW

Shinsei Bank, Limited is a leading diversified financial institution in Japan. We believe our unique history and business strategy have made us more global than local financial institutions in Japan and more local than foreign financial institutions having a presence in Japan.

Our focus is to grow sustainable revenues by offering innovative products and solutions to meet the needs of our customers. Our businesses cover a broad range of products and customer segments which provide us with diversified revenues.

FISCAL YEAR 2007

We reported consolidated net income of ¥60.1 billion in fiscal year 2007, as compared to a net loss of ¥60.9 billion in the previous fiscal year. Fiscal year 2007 was marked by both successes and disappointments. In our consumer finance businesses, APLUS Co., Ltd. (APLUS) reaped the benefits of restructuring in fiscal year 2006 and returned to profitability in fiscal year 2007 and Shinki Co., Ltd. (Shinki), after completion of its restructuring in the first half of fiscal year 2007, generated steady results from the second half of fiscal year 2007. However, our Institutional Banking business was severely impacted by dislocation in the credit markets and our Retail Banking business continued to face slower revenue growth. The decline in net income from such factors was largely offset by the net gain from the sale of our headquarters building amounting to ¥55.7 billion, net of associated expenses, write-offs and reversal of deferred taxes, as well as gains from the sale of Life Housing Loan Co., Ltd. (Life Housing Loan) of ¥11.0 billion, net of taxes and consolidation adjustments.

Consolidated cash basis net income in fiscal year 2007 was ¥71.3 billion. Cash basis net income is defined as Japanese GAAP net income (loss) adjusted to exclude the amortization and impairment of goodwill and other intangible assets, net of tax benefit, attributable to our consumer and commercial finance companies.

U.S. RESIDENTIAL MORTGAGE PORTFOLIO

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.

During fiscal year 2007 we recorded mark-downs of investments related to U.S. residential mortgages of approximately US\$157.1 million (¥15.6 billion) during the fiscal year. In addition, we recorded total credit costs related to U.S. residential mortgages amounting to US\$134.6 million (¥13.4 billion).

As of March 31, 2008, our net exposure to the U.S. residential mortgage market amounted to less than US\$280.8 million, or less than 0.3% of our total assets of approximately US\$115.5 billion.

For additional information, see "Exposure to U.S. Residential Mortgage, Securitized Products and Related Investments" on page 100.

GREY ZONE AND CREDIT RESERVES - APLUS AND SHINKI

Legislative changes relating to consumer loan interest rates approved by the Japanese Diet in December 2006 and other developments, including changes in market conditions, have

continued to significantly impact the consumer finance sector. As a result, APLUS and Shinki made additional provisions during fiscal year 2007. APLUS recorded additional grey zone reserves for losses on interest repayments of ¥3.7 billion in connection with grey zone refunds recorded during this period. As of March 31, 2008, APLUS' grey zone reserve balance amounted to ¥8.6 billion.

In fiscal year 2007, Shinki, as part of its business transformation, reviewed its credit reserving policy for less creditworthy customers and recorded incremental credit reserves of ¥12.3 billion and increased its grey zone reserves by ¥8.4 billion. Shinki's total outstanding grey zone reserve balance amounted to ¥30.6 billion as of March 31, 2008.

SIGNIFICANT EVENTS

IMPAIRMENT OF INVESTMENT IN APLUS AND SHINKI COMMON SHARES

Legislative changes relating to consumer loan interest rates approved by the Japanese Diet in December 2006 and other developments have had a significant impact on the consumer finance industry.

As a result of these changes, the common share price of APLUS and Shinki declined substantially in the six months ended September 30, 2007, adversely impacting our non-consolidated financial results for that period. This triggered an impairment of Shinsei's investment in APLUS' and Shinki's common shares. Shinsei owned 156,690,390 common shares of APLUS and 25,607,524 common shares of Shinki as of September 30, 2007.

As of September 30, 2007, APLUS' per share common stock price was ¥82 as compared to ¥184 as of March 31, 2007. As a result, an impairment of ¥15.9 billion was recorded in our non-consolidated financial results. This is in addition to a valuation allowance of ¥9.2 billion recorded as of March 31, 2007, which represented the decline in value of these shares between the time of our acquisition of APLUS and March 31, 2007.

As of September 30, 2007, Shinki's per share common stock price was ¥97 as compared to ¥333 as of March 31, 2007. As a result, an impairment of ¥6.0 billion was recorded in our non-consolidated financial results. This is in addition to a valuation allowance of ¥6.6 billion assessed at March 31, 2007, which represented the difference between the book value of these shares and the common share price of Shinki on March 31, 2007.

On March 31, 2008, APLUS' common share price was ¥86 per share and Shinki's common share price was ¥99 per share, representing increases of ¥4 and ¥2 respectively, compared to September 30, 2007.

MANDATORY CONVERSION AND CANCELLATION OF SERIES 3 CLASS-B PREFERRED SHARES

We continued to optimize our capital base during fiscal year 2007.

On August 1, 2007, pursuant to the provisions of Shinsei Bank's Articles of Incorporation concerning the mandatory conversion of its Series 3 Class-B preferred shares owned entirely by the Resolution and Collection Corporation (RCC), we acquired all relevant 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.

MANDATORY CONVERSION AND CANCELLATION OF SERIES 2 CLASS-A PREFERRED SHARES

On March 31, 2008, we acquired and cancelled all of Shinsei's 74,528,000 Series 2 Class-A preferred shares and issued in exchange 269,128,888 of the Bank's common shares at an exchange price of ¥360 per share, pursuant to a request by the Deposit Insurance Corporation of Japan (DIC).

As a result, the DIC and the RCC together now hold 23.89% of the voting rights of Shinsei Bank, making them the second largest shareholder group after the group of investors, including affiliates of J.C. Flowers & Co. LLC. (JCF & Co.), which hold 32.62% of the Bank's voting rights.

NEW CAPITAL RAISING AND TENDER OFFER

During fiscal year 2007, we raised new capital, enhanced our financial stability and deepened ties with key new and existing shareholders. A plan centered on a tender offer from a series of investment vehicles (the Investors) whose investors include affiliates of JCF & Co. and a third-party allotment to the Investors was concluded.

The Investors made a tender offer bid of ¥425 per share for up to 22.7% of our outstanding common shares. In addition, upon approval by Japan's regulatory authorities, we issued ¥50 billion of new common shares by third-party allotment to the Investors. The issue price of the allotment was ¥425 per common share, the same as the price in the tender offer bid. As a result of these transactions, the Investors and affiliates of JCF & Co. now hold 32.62% of Shinsei's common shares.

The new capital will bolster our financial resources, improve our capital ratios and position our Institutional Banking arm to take advantage of investment and acquisition opportunities going forward.

RIGHTS OFFERING OF NEW SHARES BY SHINKI

In December 2007, Shinki raised capital through a rights offering to all shareholders registered as of October 17, 2007, consisting of three new shares of common stock, at ¥100 per share, for every existing share. Shinsei Bank subscribed to the rights offering of new shares proposed by Shinki (76,822,572 shares with a subscription amount of ¥7,682,257,200) on November 27, 2007.

After the completion of the rights offering, Shinsei Bank held 102,430,096 common shares, or 67.7% of Shinki's outstanding shares. Shinki officially became the Bank's subsidiary on December 13, 2007, and was accounted for as a consolidated subsidiary of Shinsei Bank from the second half of fiscal year 2007.

We believe that by deploying our financial and risk management expertise, our advanced information technology know-how and our access to capital, we have started to further improve operational efficiency in our consumer finance business, including Shinki. During the second half of fiscal year 2007, Shinki and its consolidated subsidiaries recorded net income of ¥2.7 billion.

SUBSCRIPTION TO APLUS CLASS-G PREFERRED SHARES

Shinsei subscribed to ¥50 billion in APLUS' Class-G preferred shares. APLUS plans to use the funds to strengthen its capital base as it builds out its portfolio of financial services and upgrades its IT infrastructure.

APLUS is building a new model for consumer finance in Japan and we fully support them in this endeavor. There is a great deal of synergy to be generated from the close relationship between APLUS and Shinsei.

Since acquiring APLUS in September 2004, we have moved quickly to adjust to challenging changes in the market and rebuilding the business in order to deliver top-quality consumer finance services under a new business model. We have worked with APLUS to upgrade its management team, augment risk and compliance controls and strengthen the core sales finance business with a greater focus on partnering with leading local merchants and multinationals. APLUS has also leveraged Shinsei's unique IT systems to redesign its sales finance delivery platform for merchant partners while cutting costs significantly.

We have started to leverage APLUS' consumer finance operations to the benefit of our Retail Banking business with the launch of Shinsei Visa Card and more collaboration is planned. We believe that the subscription to APLUS Class-G preferred shares will help APLUS achieve its medium-term strategies by further enhancing its financial strength.

REGIONAL ASSET MANAGEMENT**JOINT VENTURE WITH UTI**

On August 8, 2007, we signed a joint venture with UTI International Ltd. (based in Guernsey, a British crown dependency), a 100% subsidiary of UTI Asset Management Company Pvt. Ltd. of India, to set up UTI International (Singapore) Pte Limited (UTI Singapore).

UTI Singapore engages in investment management and distribution of financial products for a broad range of customers. In addition to structuring investment products for customers in Japan, it will also launch and manage funds investing in other jurisdictions throughout Southeast Asia.

SALE OF HEADQUARTERS BUILDING

Our business operations have expanded in recent years and our current headquarters building in the Uchisaiwaicho district of Tokyo no longer meets the needs of our staff and various businesses. As a result, we sold our headquarters building and will move to a new, more cost-efficient location within three years. This is a strategic move that positions us to deploy assets and staff more effectively and will contribute to a broader re-engineering of our business processes. We believe that ownership of a headquarters building is not the most efficient way to deploy our capital. The sale of our headquarters building is an opportunity to realign our front- and back-office operations, invest in Japanese assets and better position ourselves to build greater shareholder value going forward.

Dolphin Japan Investment Y.K., a special purpose company and a consolidated entity within the Shinsei Group, held a beneficiary interest in the headquarters building. As a result of this transaction, Dolphin Japan Investment recorded a gross gain of ¥66.8 billion and Shinsei Bank, as an equity investor in Dolphin Japan Investment through a silent partnership (Tokumei Kumiai), recorded a net gain of approximately ¥55.7 billion.

BUSINESS IMPROVEMENT ORDER

On June 28, 2007, we received a Business Improvement Order (the Order) from the Financial Services Agency (FSA) based on the law concerning Emergency Measures for Strengthening of Financial Functions and the Banking Law.

The non-consolidated financial performance of Shinsei for fiscal year 2006 was substantially below the targets set in our Revitalization Plan agreed with the Japanese government due to significant charges arising from the impairment and valuation allowances relating to our investments in APLUS and Shinki. Consequently, we failed to meet the non-consolidated net income target set in our Revitalization Plan, and as a result, the FSA issued the Order.

OVERVIEW (continued)

The Order required the Bank to submit to the FSA a Business Improvement Plan that incorporates measures to strengthen its profitability, which was duly submitted on July 27, 2007.

We take this Order seriously and will further strive to strengthen our business franchise and profitability to enable us to complete our Revitalization Plan and repay all outstanding public funds.

In fiscal year 2007, we recorded non-consolidated net income of ¥53.2 billion, representing 88.7% of the target set in our Revitalization Plan for that fiscal year.

RECENT DEVELOPMENTS

SALE OF MEGURO BUILDING

On May 14, 2008 the Bank agreed to sell its Meguro Production Center together with the land for ¥19.2 billion. The Bank has entered into a lease contract with the purchaser, an affiliate of the Lone Star Real Estate Fund, which will allow us to remain in the building until March 2011.

The sale, which closed on May 30, 2008, allows the Bank to carry out its intention to relocate the Production Center as a part of the Bank's ongoing effort to realign its operations and improve efficiency. A gain on disposal of premises and equipment of approximately ¥10.2 billion will be recognized in fiscal year 2008. In addition, restoration and other costs associated with future relocation will be estimated and recognized.