

FISCAL YEAR ENDED MARCH 31, 2008 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2007 (CONSOLIDATED)

Fiscal year 2007 was marked by both successes and disappointments. Loan balances and net interest income continued to grow in all businesses. Our Consumer Finance businesses in APLUS and Shinki reaped the benefits of restructuring. However, financial performance was impacted by dislocation in the credit markets and the need to record additional provisions related to our consumer finance business as a result of the significant legislative and market changes affecting the industry.

We reported total revenue of ¥262.6 billion for fiscal year 2007, ¥6.3 billion or 2.5% higher than the previous fiscal year, even though we recorded mark-downs relating to our U.S. residential mortgage portfolio amounting to ¥15.6 billion (or US\$157.1 million). The increase was partly due to the inclusion of Shinki's revenue from the second half of fiscal year 2007.

General and administrative expenses in fiscal year 2007 were ¥158.7 billion, ¥8.5 billion higher than the same period in the prior fiscal year. This is partly due to the consolidation of Shinki's expenses of ¥5.5 billion for the second half of fiscal year 2007, including allocated expenses. These factors resulted in an expense-to-revenue ratio of 60.4% for fiscal year 2007, as compared to an expense-to-revenue ratio of 58.6% in fiscal year 2006.

Net credit costs of ¥73.5 billion for fiscal year 2007 were ¥21.6 billion higher than fiscal year 2006 largely due to additional credit costs of ¥13.4 billion (or US\$134.6 million) relating to our U.S. residential mortgage portfolio, higher credit provisions in Showa Leasing Co., Ltd. (Showa Leasing), in part for less creditworthy customers, and consolidation of Shinki's credit provisions amounting to ¥4.6 billion in the second half of fiscal year 2007. Higher credit provisions were needed in other credit portfolios in our Institutional Banking business as well. The increase in net credit costs was partly offset by lower credit provisions in APLUS.

Amortization of goodwill and other intangible assets associated with the acquisition of consumer and commercial finance companies was ¥12.5 billion for fiscal year 2007 as compared with ¥20.8 billion in the previous fiscal year. The decline largely relates to the significant write-down of goodwill and other intangible assets related to APLUS in the previous fiscal year.

Other gains of ¥74.7 billion largely consisted of (i) gain on sale of our headquarters building of ¥61.7 billion, after write-offs and restoration costs and (ii) gains from the sale of Life Housing Loan of ¥20.3 billion, net of consolidation adjust-

ments. In addition, the tax impact of these gains has been reflected in income taxes (benefit).

Minority interests in net income of subsidiaries for fiscal year 2007, amounting to ¥18.0 billion, largely reflected dividends paid on perpetual preferred securities, minority interests relating to APLUS' preferred shareholders, subsidiaries of Shinseigin Finance Co., Ltd. and Shinki.

As a result, consolidated net income was ¥60.1 billion in fiscal year 2007, as compared to a net loss of ¥60.9 billion in fiscal year 2006, and consolidated cash basis net income for 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.

Our Tier I capital ratio of 7.4% and total capital adequacy ratio of 11.7% as of March 31, 2008, on a Basel II basis, are in line with our corporate targets for maintaining strong capital ratios.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)
SUPPLEMENTAL FINANCIAL DATA AND RECONCILIATIONS TO JAPANESE GAAP MEASURES

Shinsei Bank, Limited and Consolidated Subsidiaries

For the fiscal year ended March 31, 2008

Billions of yen (except per share data and percentages)

Amortization of goodwill and other intangible assets		
Amortization of other intangible assets	¥	3.2
Associated deferred tax liability		(1.3)
Amortization of goodwill		9.2
Total amortization of goodwill and other intangible assets, net of tax benefit	¥	11.2
Reconciliation of net income to cash basis net income		
Net income	¥	60.1
Amortization of goodwill and other intangible assets, net of tax benefit		11.2
Cash basis net income	¥	71.3
Reconciliation of basic net income per share to cash basis basic net income per share		
Basic net income per share	¥	38.98
Effect of amortization of goodwill and other intangible assets, net of tax benefit		7.32
Cash basis basic net income per share	¥	46.31
Reconciliation of return on assets to cash basis return on assets		
Return on assets		0.5%
Effect of amortization of goodwill and other intangible assets, net of tax benefit		0.1
Cash basis return on assets		0.6%
Reconciliation of return on equity to cash basis return on equity		
Return on equity (fully diluted)		8.8%
Effect of amortization of goodwill and other intangible assets, net of tax benefit		1.7
Cash basis return on equity (fully diluted)		10.5%
Reconciliation of return on equity to return on tangible equity		
Return on equity (fully diluted)		8.8%
Effect of goodwill and other intangible assets ⁽¹⁾		5.0
Return on tangible equity (fully diluted)		13.8%

Note: (1) Net income excludes amortization of goodwill and other intangible assets, net of tax benefit. Average equity excludes goodwill and other intangible assets, net of associated deferred tax liability.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)
TABLE 1. INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen (except percentages)					
	2008			2007		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	¥ 5,390.3	¥ 186.7	3.46%	¥ 4,613.4	¥ 126.8	2.75%
Leased assets and installment receivables	765.6	52.1	6.81	831.3	51.1	6.15
Securities	2,058.7	42.7	2.08	1,750.6	32.3	1.85
Other interest-earning assets ⁽¹⁾	988.2	12.6	n.m. ⁽³⁾	721.4	13.6	n.m.
Total revenue on interest-earning assets	¥ 9,202.9	¥ 294.3	3.20%	¥ 7,916.8	¥ 223.9	2.83%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	¥ 5,734.4	¥ 47.9	0.84%	¥ 4,834.0	¥ 34.3	0.71%
Debentures	679.5	3.3	0.50	795.6	3.0	0.38
Subordinated debt	451.4	15.3	3.39	399.5	9.8	2.47
Borrowed money and corporate bonds	1,105.8	15.2	1.38	1,118.1	11.8	1.06
Other interest-bearing liabilities ⁽¹⁾	1,094.5	22.5	n.m.	674.4	18.2	n.m.
Total expense on interest-bearing liabilities	¥ 9,065.8	¥ 104.3	1.15%	¥ 7,821.8	¥ 77.3	0.99%
Non-interest-bearing sources of funds:						
Non-interest-bearing (assets) liabilities, net	¥ (543.1)	—	—	¥ (654.3)	—	—
Total equity excluding minority interest in subsidiaries ⁽²⁾	680.2	—	—	749.4	—	—
Total interest-bearing liabilities and non-interest-bearing sources of funds	¥ 9,202.9	—	—	¥ 7,916.8	—	—
Net interest margin	—	—	2.05%	—	—	1.84%
Impact of non-interest-bearing sources	—	—	0.02	—	—	0.01
Net revenue on interest-earning assets/yield on interest-earning assets	—	¥ 189.9	2.06%	—	¥ 146.6	1.85%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	¥ 9,202.9	¥ 294.3	3.20%	¥ 7,916.8	¥ 223.9	2.83%
Less: Income on leased assets and installment receivables	765.6	52.1	6.81	831.3	51.1	6.15
Total interest income	¥ 8,437.3	¥ 242.1	2.87%	¥ 7,085.5	¥ 172.8	2.44%
Total interest expenses	—	104.3	—	—	77.3	—
Net interest income	¥ —	¥ 137.7	—	¥ —	¥ 95.4	—

Notes: (1) Other interest-earning assets and other interest-bearing liabilities include interest swaps and fund swaps.

(2) Represents a simple average of the balance at the end of the current period and the balance at the end of the previous period.

(3) n.m. is not meaningful.

Net revenue on interest-earning assets includes net interest income as well as revenue earned on the average balance of leased assets and installment receivables. We consider income on leased assets and installment receivables to be a component of interest income, but Japanese GAAP does not include income on leased assets and installment receivables in net interest income. Under Japanese GAAP, therefore, income on leased assets and installment receivables is reported in net other business income in our consolidated statement of income.

NET REVENUE ON INTEREST-EARNING ASSETS

Net revenue on interest-earning assets for fiscal year 2007 was ¥189.9 billion, an increase of ¥43.3 billion compared to the prior fiscal year. This is partly attributable to the consolidation of Shinki's net revenue on interest-earning assets totaling ¥13.8 billion for the second half of the year. Total revenue on interest-earning assets increased by ¥70.4 billion and total interest expense increased by ¥27.0 billion in fiscal year 2007 compared to the previous fiscal year. The net yield on interest-earning assets was 2.06% in fiscal year 2007, an increase from 1.85% in fiscal year 2006.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)
TABLE 2. ANALYSIS OF CHANGES IN NET REVENUE ON INTEREST-EARNING ASSETS (CONSOLIDATED)

From fiscal year ended March 31, 2007 to fiscal year ended March 31, 2008	Billions of yen		
	Due to change in ⁽¹⁾		Net Change
	Volume	Rate	
Increase (decrease) in interest revenue:			
Loans and bills discounted	¥ 21.3	¥ 38.5	¥ 59.9
Leased assets and installment receivables	(4.0)	5.0	1.0
Securities	5.6	4.7	10.4
Other interest-earning assets	5.0	(6.1)	(1.0)
Total revenue on interest-earning assets			¥ 70.4
Increase (decrease) in interest expenses:			
Deposits, including negotiable certificates of deposit	¥ 6.3	¥ 7.1	¥ 13.5
Debentures	(0.4)	0.8	0.3
Subordinated debt	1.2	4.1	5.4
Borrowed money and corporate bonds	(0.1)	3.4	3.3
Other interest-bearing liabilities	11.3	(7.0)	4.2
Total expense on interest-bearing liabilities			¥ 27.0
Net increase in net revenue on interest-earning assets			¥ 43.3
Reconciliation of total revenue on interest-earning assets to total interest income			
Total revenue on interest-earning assets			¥ 70.4
Less: Income on leased assets and installment receivables			1.0
Total interest income			¥ 69.3
Total interest expenses			27.0
Net increase in net interest income			¥ 42.2

Note: (1) The changes in net 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 fiscal year's rate. The attribution of the rate variance is calculated by multiplying the change in rate by the current fiscal year's balance.

The ¥70.4 billion increase in total revenue on interest-earning assets in fiscal year 2007 is attributable primarily to higher volume of and yield on loans and bills discounted and securities, and the inclusion of net interest income of Shinki for the second half of fiscal year 2007. The increase in the average balance of loans and bills discounted was primarily the result of an increase in demand for institutional loans and growth in retail housing loans as well as the addition of Shinki's interest-earning assets.

The ¥27.0 billion increase in total interest expense was primarily due to the increased average rates on and increased average balances of deposits, negotiable certificates of deposit (NCD) and subordinated debt, interest-bearing liabilities of Shinki and an increase in other interest-bearing liabilities. The increase in deposits and NCD interest expense was primarily due to an increase in the average rate to 0.84% for fiscal year 2007 from 0.71% for the previous fiscal year that reflected an

interest rate increase by the Bank of Japan and, to a lesser extent, an increase in the average balance to ¥5,734.4 billion from ¥4,834.0 billion.

The increase in subordinated debt interest expense was due to an increase in the average rate, which was 3.39% for fiscal year 2007, compared to 2.47% for the previous fiscal year and, to a lesser extent, an increase in the average balance outstanding to ¥451.4 billion for fiscal year 2007 compared to ¥399.5 billion for the previous fiscal year. The increase in the average balance outstanding was primarily due to an increase in subordinated debt related to the issuance of £400 million of Upper Tier 2 Perpetual Subordinated Notes in December 2006. The interest expense increase of ¥4.2 billion in other interest-bearing liabilities primarily relates to funding through call money and interest and currency swap expenses associated with foreign currency-denominated and overseas transactions.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET FEES AND COMMISSIONS

Net fees and commissions mainly includes fees on non-recourse real estate finance, consumer finance related guarantees and other financing products and commissions on sales of asset management products. Net fees and commissions of ¥40.8 billion were earned in fiscal year 2007, a

decrease of ¥5.6 billion compared to the previous fiscal year, mainly reflecting absence of fees from securitization business and lower fees in APLUS from shopping credit and other financing products due to rationalization of its customer base. However, Retail Banking's asset management business continues to grow, with total fees of ¥9.6 billion during fiscal year 2007, an increase of ¥0.3 billion compared to fiscal year 2006.

NET TRADING INCOME

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

TABLE 3. NET TRADING INCOME (CONSOLIDATED)

Fiscal year ended March 31	Billions of yen		
	2008	2007	% Change
Income (loss) from trading securities	¥ (0.6)	¥ 1.5	(140.2)
Income from securities held to hedge trading transactions	0.3	6.3	(94.5)
Income from trading-related financial derivatives	9.3	10.2	(8.7)
Other, net	(0.0)	(0.3)	93.7
Net trading income	¥ 9.0	¥ 17.8	(49.0)

Please see Note 27 on page 134 for details.

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.

During the fiscal year ended March 31, 2008, we earned ¥9.0 billion in net trading income, as compared to ¥17.8 billion in the prior fiscal year. The decline in income (loss) from trading

securities of ¥2.1 billion was attributable to trading Japanese government bonds and equity derivatives activities. Income from securities held to hedge trading transactions declined to ¥0.3 billion, mainly as a result of lower bond trading activities. In fiscal year 2007, the overall decline in income from trading-related financial derivatives resulted mainly from a decrease in option income generated in connection with interest-linked structured deposits provided mainly to retail customers; such option income declined from ¥5.7 billion to ¥1.3 billion due to lower demand for these products.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET OTHER BUSINESS INCOME

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

TABLE 4. NET OTHER BUSINESS INCOME (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen		
	2008	2007	% Change
Income on monetary assets held in trust, net	¥ 20.9	¥ 14.7	42.4
Net gain (losses) on securities	(10.4)	15.1	(168.9)
Net gain on foreign exchange	2.7	10.4	(74.1)
Net gain on other monetary claims purchased	15.4	19.9	(22.9)
Other business income (losses), net ⁽¹⁾			
Income (losses) from derivatives for banking purposes, net	0.5	(6.7)	107.9
Equity in net income (losses) of affiliates	(8.3)	(12.7)	34.7
Gain on lease cancellation and other lease income, net	2.7	2.3	17.6
Other, net	(0.7)	2.3	(133.3)
Net other business income before income on leased assets and installment receivables, net	22.8	45.4	(49.8)
Income on leased assets and installment receivables, net	52.1	51.1	2.0
Net other business income	¥ 74.9	¥ 96.6	(22.4)

Note: (1) Please see Note 28 on page 134 for details.

Net other business income mainly includes income on leased assets and installment receivables, net gain (losses) on securities and foreign exchanges, net gain on other monetary claims purchased for trading purposes, income on monetary assets held in trust and equity in net income (losses) of affiliates. 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 fiscal year ended March 31, 2008 was ¥74.9 billion. This included income of ¥52.1 billion from the leased assets and installment receivables business of APLUS and Showa Leasing. Excluding such income, our net other business income for fiscal year 2007 was ¥22.8 billion, a decline of ¥22.6 billion compared with the previous fiscal year. The principal reason for the decline was the incurrence of ¥10.4 billion of net losses on securities as compared to net gain on securities of ¥15.1 billion in the prior fiscal year. In fiscal year 2007, we recorded mark-downs relating to the U.S. residential mortgage portfolio amounting to ¥15.6 billion. In addition, the decline reflects subdued securities activities in our capital markets business. This was partly offset by income from corresponding equity derivatives included in income from derivatives for banking purposes, net of ¥0.5 billion, which improved ¥7.3 billion as compared with the prior fiscal year.

Equity in net losses of affiliates declined to ¥8.3 billion,

largely reflecting a decline in the net loss of our equity-method affiliate (until September 30, 2007), Shinki, from ¥14.6 billion to ¥6.8 billion, net of consolidation adjustments. Shinki's net loss was due primarily to additional credit and grey zone provisions required for its business restructuring.

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 revenue. In fiscal year 2007, we completed 53 new credit trading transactions with an aggregate investment amount of ¥101.7 billion. In fiscal year 2007, income on monetary assets held in trust for trading purposes increased from ¥14.7 billion to ¥20.9 billion and net gain on other monetary claims purchased for trading purposes amounted to ¥15.4 billion as opposed to ¥19.9 billion in the previous fiscal year, consisting primarily of income from credit trading transactions.

Net gain on foreign exchange declined from ¥10.4 billion to ¥2.7 billion due, in part, to lower fees on foreign exchange transactions as well as lower option income in connection with currency-linked structured deposits provided to retail customers, which declined from ¥5.6 billion to ¥4.4 billion.

TOTAL REVENUE

Due to the factors described above, total revenue in the fiscal year ended March 31, 2008 was ¥262.6 billion, as compared with ¥256.3 billion in the previous fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

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

TABLE 5. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen		
	2008	2007	% Change
Personnel expenses	¥ 64.5	¥ 62.7	2.9
Premises expenses	18.6	17.3	7.6
Technology and data processing expenses	21.8	20.1	8.4
Advertising expenses	9.9	10.9	(9.2)
Consumption and property taxes	8.4	7.3	14.5
Deposit insurance premium	3.4	2.8	21.0
Other general and administrative expenses	31.9	28.8	10.5
General and administrative expenses	158.7	150.2	5.7
Amortization of goodwill and other intangible assets	12.5	20.8	(39.7)
Total general and administrative expenses	¥ 171.2	¥171.0	0.2

General and administrative expenses (excluding amortization of goodwill and other intangibles) for fiscal year 2007 were ¥158.7 billion compared with ¥150.2 billion for the previous fiscal year. The increase was partly due to the inclusion of Shinki's expenses of ¥5.5 billion, including allocated expenses, for the second half of the fiscal year as Shinki became a consolidated subsidiary from October 1, 2007. The increase in expenses was also the result of the continued need for strategic investments to grow the Institutional and Retail Banking businesses.

The expense increase was partly offset by continual expense rationalization activities in APLUS.

As a result, in fiscal year 2007, our expense-to-revenue ratio was 60.4% as compared to an expense-to-revenue ratio of 58.6% in fiscal year 2006.

Personnel expenses of ¥64.5 billion were ¥1.8 billion higher than the previous fiscal year. The increase was largely due to new employees hired in the Institutional Banking business to support its business expansion and the inclusion of Shinki's personnel expenses for the six months ended March 31, 2008. This was partly offset by lower personnel expenses in APLUS reflecting expense savings realized through a voluntary retirement program initiated during fiscal year 2006.

Non-personnel expenses increased by ¥6.7 billion compared to the prior fiscal year. The increase was largely related to cus-

tommer-driven activities such as the deposit insurance premium on retail deposits, consumption tax and outsourcing expenses and the inclusion of Shinki's non-personnel expenses of ¥4.0 billion for the six months ended March 31, 2008. Advertising expenses were ¥1.0 billion lower than the previous fiscal year, reflecting optimization of advertising activities in the Retail Banking business. Other general and administrative expenses, consisting of outsourcing and temporary staff expenses, professional fees, printing and stationery expenses, were ¥31.9 billion compared to ¥28.8 billion in the prior fiscal year. The increase of ¥3.0 billion is partly attributable to higher outsourcing expenses and professional fees.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES

The acquisition of majority stakes in APLUS (including Zen-Nichi Shinpan Co., Ltd. (Zen-Nichi Shinpan)), Showa Leasing and Shinki resulted in the creation of goodwill and other intangibles. The amortization of goodwill and other intangibles was ¥12.5 billion for the fiscal year ended March 31, 2008. This includes amortization of goodwill and other intangibles attributable to APLUS (including Zen-Nichi Shinpan), Showa Leasing and Shinki in the amount of ¥8.7 billion, ¥3.3 billion and ¥0.4 billion, respectively.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET CREDIT COSTS

The following table sets forth our net credit costs on a consolidated basis for the fiscal years ended March 31, 2008 and 2007.

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen		
	2008	2007	% Change
Losses on write-off of loans	¥ 3.1	¥ 1.5	99.8
Net provision of reserve for loan losses:			
Net provision of general reserve for loan losses	22.8	33.5	(32.0)
Net provision of specific reserve for loan losses	50.4	15.6	222.7
Net provision of reserve for loan losses to restructuring countries	0.0	0.0	69.4
Subtotal	73.3	49.2	48.9
Net provision (reversal) of specific reserve for other credit losses	(6.3)	(0.8)	(683.2)
Other credit costs relating to leasing business	3.4	1.9	79.8
Net credit costs	¥73.5	¥51.9	41.7

Please see Note 29 on page 134 for details.

The principal components of net credit costs are provisions or reversals of loan loss 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, particularly APLUS, Showa Leasing and Shinki, also maintain general and specific reserves for loan losses.

We recorded net credit costs of ¥73.5 billion for the fiscal year ended March 31, 2008 compared with net credit costs of ¥51.9 billion for the fiscal year ended March 31, 2007. The increase in credit costs was partly due to credit costs related to the U.S. residential mortgage portfolio amounting to ¥13.4 billion, as well as the inclusion of Shinki's credit provisions of ¥4.6 billion for the second half of fiscal year 2007.

OTHER GAINS, NET

Other gains, net were ¥74.7 billion for the fiscal year ended March 31, 2008, as compared to other losses, net of ¥99.1 billion during the previous fiscal year. Other gains, net in fiscal year 2007 mainly consisted of (i) gain on sale of the headquarters building of ¥61.7 billion, after write-offs and restoration costs, and (ii) gains from the sale of Life Housing Loan of ¥20.3 billion. In addition, the tax impact of these gains has been reflected in income taxes (benefit).

This was partly offset by the absence of gains on the sale of shares of BlueBay Asset Management Limited amounting to ¥11.6 billion, recorded in fiscal year 2006.

Please see Note 30 on page 134 for details.

INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS

As a result of the foregoing, income before income taxes and minority interests totaled ¥92.5 billion for the fiscal year ended March 31, 2008, as compared to losses before income taxes and minority interests of ¥65.7 billion in the previous fiscal year.

INCOME TAXES (BENEFIT)

For the fiscal year ended March 31, 2008, we recorded ¥4.9 billion in current income tax, ¥1.6 billion higher than for the previous fiscal year mainly related to local income tax of ¥2.8 billion paid by our subsidiary, Shinsei Property Finance Ltd. in connection with the sale of Life Housing Loan. We also recorded a deferred income tax expense of ¥9.5 billion, largely arising from sale of Life Housing Loan and the headquarters building.

MINORITY INTERESTS IN NET INCOME (LOSS) OF SUBSIDIARIES

Minority interests in net income (loss) of subsidiaries of ¥18.0 billion for the fiscal year ended March 31, 2008 largely reflects interest payments relating to our issuance of hybrid Tier I capital in the international market in February and March 2006 amounting to US\$1,475 million and minority interests relating to APLUS' preferred shareholders, subsidiaries of Shinseigin Finance Co., Ltd. and Shinki.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET INCOME (LOSS)

As a result, our consolidated net income was ¥60.1 billion for fiscal year 2007, as compared to a net loss of ¥60.9 billion for fiscal year 2006.

We report both Japanese GAAP net income (loss) and cash basis net income in order to provide greater transparency and understanding of our underlying performance. For fiscal year 2007, consolidated cash basis net income was ¥71.3 billion, as compared to ¥35.3 billion in the previous fiscal year. 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.

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 goodwill and other intangibles, certain revenue items, amortization of net actuarial losses and lump-sum payments. 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 (loss) 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)

Fiscal years ended March 31	Billions of yen					
	2008			2007		
	Reported-basis	Reclassifications	Operating-basis	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	¥ 137.7	¥ —	¥ 137.7	¥ 95.4	¥ —	¥ 95.4
Non-interest income ⁽¹⁾	124.9	0.0	125.0	160.8	11.9	172.8
Total revenue	262.6	0.0	262.7	256.3	11.9	268.3
General and administrative expenses ⁽²⁾	158.7	(0.9)	157.8	150.2	(0.2)	149.9
Amortization of goodwill and other intangible assets	12.5	(12.5)	—	20.8	(20.8)	—
Total general and administrative expenses	171.2	(13.4)	157.8	171.0	(21.0)	149.9
Net business profit/Ordinary business profit ⁽³⁾	91.3	13.5	104.9	85.3	33.0	118.3
Net credit costs	73.5	—	73.5	51.9	—	51.9
Amortization of goodwill and other intangible assets	—	12.5	12.5	—	20.8	20.8
Other gains (losses), net ⁽¹⁾⁽²⁾	74.7	(1.0)	73.7	(99.1)	(12.2)	(111.3)
Income (loss) before income taxes and minority interests	92.5	—	92.5	(65.7)	—	(65.7)
Income taxes (benefit) and minority interests	32.4	—	32.4	(4.7)	—	(4.7)
Net income	¥ 60.1	¥ —	¥ 60.1	¥ (60.9)	¥ —	¥ (60.9)

Notes: (1) Reclassifications consist principally of adjustments relating to other business income between other gains (losses), net and non-interest income.

(2) Reclassifications consist principally of adjustments relating to lump-sum compensation and amortization of net actuarial gains or 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 expand our products and broaden our customer base through our business lines: Institutional Banking, Consumer and Commercial Finance and Retail Banking. During the fiscal year we promoted interaction between various businesses, leading to an increase in synergies in terms of business enhancing cross-sales and referrals, joint business ventures and cost-saving opportunities.

Management monitors the performance of these business lines on an operating basis. The business lines discussion below covers the operating-basis ordinary business profit (loss) after net credit costs (recoveries) of these business lines and a

fourth category of ALM/Corporate/Other.

Our business lines cover a broad range of businesses and customer segments which provide us with diversified revenues.

In fiscal year 2007, ordinary business profit after net credit costs was ¥31.3 billion, or ¥35.0 billion lower than the previous fiscal year largely due to mark-downs and credit costs for exposure to the U.S. residential mortgage market totaling ¥29.1 billion, absence of gain from sale of Shinsei's investment in BlueBay of ¥11.6 billion, higher credit costs in Showa Leasing and lower revenues in Retail Banking. This was partly offset by improvement in APLUS' and Shinki's ordinary business profit (loss) as compared to the prior fiscal year.

TABLE 8. OPERATING-BASIS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS LINE (CONSOLIDATED)

For the fiscal year ended March 31	Billions of yen				
	2008				
	Institutional Banking	Consumer and Commercial Finance	Retail Banking	ALM/Corporate/Other ⁽¹⁾	Total
Net interest income	¥ 46.4	¥ 53.5	¥ 21.0	¥ 16.7	¥ 137.7
Non-interest income (expense)	44.7	73.7	13.0	(6.5)	125.0
Total revenue	91.2	127.3	34.0	10.1	262.7
General and administrative expenses	49.6	66.2	40.1	1.7	157.8
Ordinary business profit (loss)	41.5	61.0	(6.0)	8.3	104.9
Net credit costs	19.6	52.3	0.3	1.3	73.5
Ordinary business profit (loss) after net credit costs	¥ 21.9	¥ 8.7	¥ (6.3)	¥ 7.0	¥ 31.3

For the fiscal year ended March 31	Billions of yen				
	2007				
	Institutional Banking	Consumer and Commercial Finance	Retail Banking	ALM/Corporate/Other ⁽¹⁾	Total
Net interest income	¥ 29.3	¥ 43.0	¥ 17.5	¥ 5.4	¥ 95.4
Non-interest income (expense)	87.9	69.1	18.5	(2.8)	172.8
Total revenue	117.3	112.2	36.1	2.6	268.3
General and administrative expenses	43.4	68.1	37.7	0.6	149.9
Ordinary business profit (loss)	73.8	44.0	(1.5)	2.0	118.3
Net credit costs (recoveries)	(4.0)	53.8	0.1	1.9	51.9
Ordinary business profit (loss) after net credit costs (recoveries)	¥ 77.8	¥ (9.8)	¥ (1.6)	¥ 0.0	¥ 66.4

Note: (1) ALM/Corporate/Other largely consists of results of corporate treasury activities and corporate level expenses.

INSTITUTIONAL BANKING

In the Institutional Banking business, the product specialists and relationship managers work closely together to increase the number of products per customer. Corporate lending increased as we continue to offer new solutions. Relationships with regional banks and local financial institutions, with whom the business works as partners, continue to strengthen. The Institutional Banking business continues to forge long-standing relationships with its real estate customers. The Japanese public sector has been showing strong potential as we offer various innovative solutions.

During fiscal year 2007, the Institutional Banking business generated total revenue of ¥91.2 billion. This is ¥26.0 billion lower than the previous fiscal year. The business' generally steady per-

formance was negatively impacted by mark-downs of ¥15.6 billion for exposure to the U.S. residential mortgage market and absence of gain from investment in BlueBay of ¥11.6 billion.

In fiscal year 2007, general and administrative expenses were ¥49.6 billion, a ¥6.1 billion increase compared to the previous fiscal year. The increase was largely due to new employees hired to support business expansion. As a result, ordinary business profit for fiscal year 2007 was ¥41.5 billion, a decline of ¥32.2 billion, or 43.7%, as compared to the previous fiscal year. Net credit costs for the period of ¥19.6 billion were partly attributable to credit costs of ¥13.4 billion related to the U.S. residential mortgage portfolio. Higher credit provisions were also required in other structured credit portfolios.

The expense-to-revenue ratio of this business was 54.4% for fiscal year 2007.

TABLE 9. INSTITUTIONAL BANKING REVENUE BY PRODUCT (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen		
	2008	2007 ⁽¹⁾	% Change
Institutional Banking:			
Credit trading	¥ 22.0	¥ 17.1	29.1
Non-recourse real estate finance	19.2	17.8	7.9
Basic banking ⁽²⁾	16.4	18.4	(10.8)
Foreign exchange, derivatives, equity-related	12.6	12.8	(2.2)
Principal investments	11.5	14.1	(18.4)
Other capital markets	1.2	6.3	(80.9)
Securitization	0.5	11.2	(95.4)
Other products	7.5	19.2	(60.9)
Total revenue	¥ 91.2	¥ 117.3	(22.2)

Notes: (1) Prior period has been adjusted to conform to current period presentation.

(2) Basic Banking mainly consists of corporate loans, deposits and debentures revenue.

During fiscal year 2007, the Institutional Banking business delivered strong results in credit trading and non-recourse finance activities. The capital markets and securitization businesses were impacted by the dislocation in credit markets generally and volatility in the foreign exchange and equity markets challenged the foreign exchange, derivatives and equity-related revenues.

Revenue diversification is essential to ensure earnings stability in this business line. The business continued to see an increase in demand for institutional loans and ongoing growth in asset prices contributed to strong performance in the credit trading business.

In credit trading, we invest in various kinds of credit—primarily distressed assets, non-performing loans and sub-performing loans—in both the domestic and international markets. The

business momentum in this business resulted in the conclusion of 53 new transactions with an aggregate investment amount of ¥101.7 billion and generated total revenues of ¥22.0 billion in fiscal year 2007, an increase of ¥4.9 billion compared to the previous fiscal year.

The non-recourse real estate finance business concluded 159 transactions. The non-recourse real estate balance, both loans and bond structures, increased ¥52.6 billion to ¥974.8 billion in fiscal year 2007. This business generated revenue of ¥19.2 billion as compared to ¥17.8 billion during the previous fiscal year.

Basic Banking includes revenue from corporate loans, deposits and debentures. In fiscal year 2007, the balance of corporate loans increased by 1.0% to reach ¥2,856.1 billion at March 31, 2008. As a result, revenues from corporate loans amounted to ¥14.2 billion for the fiscal year ended March 31,

2008 despite margin compression.

The decline in securitization and other capital markets revenues largely relates to mark-downs of ¥15.6 billion relating to the U.S. residential mortgage portfolio and general slow-down in the business due to the dislocation in credit markets. The decrease in revenue from other products largely relates to the absence in fiscal year 2007 of the ¥11.6 billion gain on the sale of our strategic investment in BlueBay Asset Management Limited recorded in fiscal year 2006.

CONSUMER AND COMMERCIAL FINANCE

The Consumer and Commercial Finance (CCF) business provides consumer finance, commercial finance and specialty property finance for both consumers and small businesses. This business has been built up through the acquisition of a number of subsidiaries which now form an integral part of the Shinsei Bank Group with a dedicated team providing operational and managerial direction to each subsidiary to leverage core competencies and intra-group synergies.

The legislative and market changes affecting the consumer finance industry during the fiscal year 2006 continued to have a significant impact on the financial performance of our consumer finance subsidiary, APLUS, and our 36.4% owned affiliate, Shinki, which became a 67.7% owned consolidated subsidiary from the second half of fiscal year 2007. APLUS reaped the benefits of various restructuring initiatives in fiscal year 2006 and returned to profitability in fiscal year 2007. Shinki's restructuring initiatives during fiscal year 2006 and in the first half of fiscal year 2007 resulted in its business achieving profitability from the second half of fiscal year 2007. Core financial performance of Showa Leasing remained steady, although the overall performance of Showa Leasing's business was impacted by higher credit reserves related to less creditworthy customers.

In fiscal year 2007, the CCF business contributed total revenue of ¥127.3 billion, an increase of ¥15.1 billion, or 13.5%, as compared to fiscal year 2006. This includes Shinki's revenues of ¥13.2 billion for the second half of fiscal year 2007. The expense decrease was largely due to continued expense rationalization activities in APLUS, partly offset by inclusion of Shinki's expenses of ¥5.5 billion for the second half of fiscal year 2007, including allocated expenses. As a result, the business generated ordinary business profit of ¥61.0 billion in fiscal year 2007, an increase of ¥16.9 billion from the previous fiscal year. Fiscal year 2007 credit costs reflect inclusion of Shinki's credit costs of ¥4.6 billion for the six months ended March 31, 2008 and higher credit provisions in Showa Leasing partly relating to less creditworthy customers. The increases in credit costs of Shinki and Showa Leasing were offset by the decline in APLUS' credit costs due to rationalization of its customer base. As a result, ordinary business profit after net credit costs was ¥8.7 billion in fiscal year 2007, an increase of ¥18.5 billion compared to the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)
TABLE 10. CONSUMER AND COMMERCIAL FINANCE ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS BY SUBSIDIARY (CONSOLIDATED)⁽¹⁾

For the fiscal year ended March 31	Billions of yen				
	2008				
	APLUS	Showa Leasing	Shinki	Other Subsidiaries	Consumer and Commercial Finance
Net interest income (expense)	¥ 41.8	¥ (6.2)	¥ 13.7	¥ 4.2	¥ 53.5
Non-interest income (expense)	48.2	32.1	(7.4)	0.8	73.7
Total revenue	90.0	25.8	6.3	5.0	127.3
General and administrative expenses	45.1	12.8	5.6	2.6	66.2
Ordinary business profit	44.8	13.0	0.7	2.4	61.0
Net credit costs	38.2	8.7	4.6	0.7	52.3
Ordinary business profit (loss) after net credit costs	¥ 6.6	¥ 4.3	¥ (3.9)	¥ 1.6	¥ 8.7

For the fiscal year ended March 31	Billions of yen				
	2007 ⁽²⁾				
	APLUS	Showa Leasing	Shinki	Other Subsidiaries	Consumer and Commercial Finance
Net interest income (expense)	¥ 39.4	¥ (3.5)	¥ —	¥ 7.1	¥ 43.0
Non-interest income (expense)	53.8	28.6	(14.6)	1.3	69.1
Total revenue	93.2	25.0	(14.6)	8.5	112.2
General and administrative expenses	53.3	11.2	—	3.5	68.1
Ordinary business profit (loss)	39.8	13.7	(14.6)	4.9	44.0
Net credit costs	49.1	3.0	—	1.7	53.8
Ordinary business profit (loss) after net credit costs	¥ (9.2)	¥ 10.7	¥ (14.6)	¥ 3.2	¥ (9.8)

Notes: (1) Net of consolidation adjustments, if applicable.

(2) Prior period has been adjusted to conform to current period presentation.

For the fiscal year ended March 31, 2008, APLUS recorded total revenue of ¥90.0 billion on a consolidated basis from its installment shopping credit, credit cards businesses and loan guarantees. This represented 70.7% of total CCF business revenue. APLUS' ordinary business profit after net credit costs of ¥6.6 billion was ¥15.9 billion higher than for fiscal year 2006. APLUS recorded net credit costs of ¥38.2 billion in fiscal year 2007, or ¥10.9 billion lower than for fiscal year 2006. This reflects rationalization of APLUS' business model and stricter credit management. APLUS and its consolidated subsidiaries generated net income of ¥6.1 billion, including Zen-Nichi Shinpan, in fiscal year 2007.

Showa Leasing is our commercial finance platform and provides general and auto leasing, lending and other financing solutions to small- and medium-sized companies and automobile dealerships. Showa Leasing recorded revenue of ¥25.8 billion for fiscal year 2007, an increase of ¥0.7 billion, or 3.1%, compared to fiscal year 2006. The increase in revenue in fiscal year 2007 is comprised of continued growth in business and synergies with Institutional Banking. Higher credit provisions and write-offs were required in Showa Leasing in fiscal year 2007 partly in relation to less creditworthy customers.

Revenue of ¥6.3 billion attributed to Shinsei for fiscal year 2007 reflects both Shinsei's equity in the non-consolidated net loss of Shinki for the first half of the fiscal year, amounting to ¥6.8 billion net of consolidation adjustments, as well as Shinki's revenues of ¥13.2 billion for the second half of the fiscal year. Shinki's net loss for the first half of the fiscal year related to its recording of additional credit provisions and grey zone reserves as part of its business restructuring. Shinki and its consolidated subsidiaries generated net income of ¥2.7 billion for the six months ended March 31, 2008.

Other subsidiaries mainly include financial results of Shinsei Property Finance and the CCF headquarters.

APLUS' grey zone payments and write-offs amounted to ¥5.4 billion in fiscal year 2007. The business made new grey zone related provisions of ¥3.7 billion and, as a result, the total balance of the grey zone reserve was ¥8.6 billion as of March 31, 2008, as compared to ¥10.3 billion as of March 31, 2007.

On a consolidated basis, Shinki's grey zone payments and write-offs amounted to ¥14.1 billion. The business made new grey zone related provisions of ¥8.4 billion and, as a result, the total balance of the grey zone reserve was ¥30.6 billion as of March 31, 2008, as compared to ¥36.4 billion as of March 31, 2007.

RETAIL BANKING

In Retail Banking, the business continues to expand its product range and enhance consultative services for retail customers while working closely with Institutional Banking to better serve the needs of its customers, including high net worth individuals. Furthermore, the Retail Bank and APLUS are working together to offer new products and services such as the Shinsei VISA Card launched in March 2007.

Our retail customers interact and transact with us not only through our physical branches but also via our Internet banking portal, with over 60,000 ATMs located throughout Japan and call centers servicing our customers 24 hours a day, 7 days a week, including Japanese national holidays. We have been installing ATMs in Tokyo Metro stations to provide further convenience to our customers. Our 76 ATMs at 49 stations represent the largest ATM network in the Tokyo Metro. The retail customer base continues to grow at a significant rate, reaching close to 2.2 million accounts as of the end of March 2008, an increase of over 202,000 since March 2007. The Bank continued to launch new products, such as the *Power Step-up Yokin*, an extendable yen time deposit, and the Emerging Currency Bond Fund, a publicly-offered domestic investment trust that invests in emerging market fixed-income securities and investment products through Shinsei Bank's partnership with UTI Asset Management.

Although savings and time deposits as well as mutual fund products continued to grow steadily, during the period under review, weaker demand for structured deposits following the Bank of Japan's change in interest rate policy adversely

impacted revenue.

Shinsei Bank considerably improved its ranking and reached second overall in the *Nihon Keizai Shimbun's* third survey of retail bank strength in July 2007 from twentieth position in last year's survey.

During fiscal year 2007, total revenue was ¥34.0 billion as compared to ¥36.1 billion during the previous fiscal year. The main sources of revenue were interest income internally allocated based on funding of other businesses from retail deposits, fees from asset management products, income from structured deposits and fees and net interest income from loan products. The ability to successfully sell an increasingly wide range of products such as mutual funds and variable annuities is contributing to more balanced and recurrent revenue growth. The decline in revenue resulted mainly from a decrease in structured deposits related option income by ¥5.6 billion from ¥11.3 billion to ¥5.7 billion due to lower demand for structured deposits. This was partly offset by a ¥3.4 billion increase in net interest income associated with the growth in deposits and loan balances. Revenue from asset management products increased from ¥9.3 billion to ¥9.6 billion for fiscal year 2007.

Retail Banking incurred general and administrative expenses of ¥40.1 billion during fiscal year 2007, an increase of ¥2.4 billion, as compared to the previous fiscal year. Strict expense discipline in the business mitigated the expense increase necessary to expand distribution channels. The business generated an ordinary business loss after net credit costs of ¥6.3 billion for fiscal year 2007, as compared to an ordinary business loss after net credit costs of ¥1.6 billion in fiscal year 2006.

TABLE 11. RETAIL BANKING REVENUE BY PRODUCT (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen		
	2008	2007	% Change
Retail Banking:			
Deposits and debentures net interest income	¥ 17.3	¥ 14.6	18.9
Asset management	9.6	9.3	3.6
Loans	3.7	2.6	42.4
Deposits and debentures non-interest income	3.3	9.6	(65.4)
Total revenue	¥ 34.0	¥ 36.1	(5.8)

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Deposits of retail customers increased by over 11% and the total of retail deposits surpassed ¥3.9 trillion as of March 31, 2008. Deposits and debentures net interest income relates to the internal interest spread we credit to our Retail Banking business on customer deposits and debentures. Deposits and debentures net interest income grew ¥2.7 billion to ¥17.3 billion in the fiscal year ended March 31, 2008 as a result of growth in retail deposits.

Deposits and debentures non-interest income mainly includes revenue from structured deposits and commissions on foreign exchange transactions. This is partly offset by fees we incur in connection with ATMs and funds transfers. In fiscal year 2007, we recorded revenue of ¥3.3 billion from deposits and debentures non-interest income, a decline of ¥6.3 billion compared to the previous fiscal year, mainly reflecting lower option income generated in connection with structured deposits.

Fees from asset management products increased 3.6% to ¥9.6 billion for the fiscal year ended March 31, 2008 compared to the previous fiscal year. Loans to retail customers grew 44.2% to ¥817.4 billion as of March 31, 2008. This resulted in Retail Banking recording ¥3.7 billion in revenue from housing loans and other lending products during fiscal year 2007.

ALM/CORPORATE/OTHER

ALM, Corporate and Other primarily consists of results of corporate treasury activities, inter-company adjustments, and corporate level expenses. In fiscal year 2007, ordinary business profit after net credit costs was ¥7.0 billion.

RESULTS OF OPERATIONS (NON-CONSOLIDATED)

OVERVIEW

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 FSA to update and report on Shinsei's non-consolidated performance in relation to targets set forth in its Revitalization Plan on a quarterly basis, and to publicly disclose that information semi-annually. Shinsei's plan was initially prepared by LTCB upon its emergence from nationalization and we have subsequently updated the plan in August 2001, August 2003, August 2005 and August 2007.

Shinsei Bank accounts for a substantial portion of our consolidated financial condition and results of operations. For the fiscal year ended March 31, 2008, Shinsei Bank accounted for 82.8% of our consolidated assets.

Fiscal year 2007 results of operations, on a non-consolidated basis, were significantly impacted by dislocation in the credit markets and the legislative and market changes affecting the consumer finance industry.

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 continued to have a significant impact on the consumer finance industry.

As a result of these conditions, 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 share 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 the shares between the time of our acquisition of APLUS and March 31, 2007.

As of September 30, 2007, Shinki's per share common share 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 the shares and the common share price of Shinki on March 31, 2007.