

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.

RESULTS OF OPERATIONS (NON-CONSOLIDATED) (continued)
TABLE 12. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NON-CONSOLIDATED)

Fiscal years ended March 31	Billions of yen (except percentages)			
	2008		2007	
	Target	Actual	Target	Actual
Net income (loss)	¥ 60.0	¥ 53.2	¥ 73.0	¥ (41.9)
Total expenses (without taxes) ⁽¹⁾	82.3	80.5	77.2	74.0
Return on equity based on net business profit ⁽²⁾	9.6%	9.7%	8.7%	7.3%

Notes: (1) Equals Shinsei's total general and administrative expenses excluding business taxes such as consumption tax.

(2) Equals net business profit before general reserve for loan losses, as such term is defined under "—Supplemental Non-Consolidated Measures" below, divided by average total equity.

SUPPLEMENTAL NON-CONSOLIDATED MEASURES

In addition to the reporting items set forth in our non-consolidated financial statements, Japanese banking law requires us to disclose gross business profit (*gyomu sorieki*) on a non-consolidated basis. Furthermore, in the Japanese banking industry, net business profit before general reserve for loan losses (*jishitsu gyomu jun-eki*) has traditionally been used as a measure of the profitability of core banking operations. We review these non-Japanese GAAP performance measures in monitoring the results of our operations.

Gross business profit is the sum of:

- net interest income;
- net fees and commissions, which consist of:
 - fees on loans as well as on sales of asset management products,
 - other fee-based activities, and
 - income on monetary assets held in trust (in keeping with

the definition of gross business profit in our revitalization plan);

- net trading income; and
- net other business income, which includes, among other things, gains or losses on securities and foreign exchanges.

Net business profit before general reserve for loan losses is gross business profit minus non-consolidated total expenses, which corresponds to our consolidated general and administrative expenses.

While these business profit measures should not be viewed as a substitute for net income, management believes that these non-Japanese GAAP measures provide a meaningful way of comparing a number of the important components of Shinsei's revenues and profitability from year to year. The tables below set forth these supplemental financial data and corresponding reconciliations to net income under Japanese GAAP for the fiscal years ended March 31, 2008 and 2007.

TABLE 13. SUPPLEMENTAL MEASURES (NON-CONSOLIDATED)

Fiscal years ended March 31	Billions of yen	
	2008	2007
Gross business profit (<i>gyomu sorieki</i>) ⁽¹⁾ :		
Net interest income	¥ 107.5	¥ 59.7
Net fees and commissions ⁽¹⁾	48.8	45.8
Net trading income	6.9	14.9
Net other business (loss) income	(11.4)	12.0
Total gross business profit ⁽¹⁾	152.0	132.5
Total expenses	84.7	77.6
Net business profit ⁽¹⁾⁽²⁾ (<i>jishitsu gyomu jun-eki</i>)	67.2	54.9
Other operating expenses, net ⁽³⁾	(34.7)	(7.8)
Net operating income (<i>keijo rieki</i>)	32.5	47.1
Extraordinary income (loss)	25.7 ⁽⁴⁾	(102.1) ⁽⁵⁾
Income (loss) before income taxes	58.3	(55.0)
Current income taxes (benefit)	(7.6)	(2.7)
Deferred income tax expense (benefit)	12.7	(10.2)
Net income (loss)	¥ 53.2	¥ (41.9)

Notes: (1) Includes income from monetary assets held in trust of ¥37.3 billion in the fiscal year ended March 31, 2008 and ¥30.7 billion in the fiscal year ended March 31, 2007.

(2) Excludes provisions for or reversals of general reserve for loan losses.

(3) Excludes income from monetary assets held in trust.

(4) Includes (i) income from investment in Tokumei Kumiai (silent partnership) of ¥66.0 billion from the sale of the Bank's headquarters building, which was included in the earnings distributed by Dolphin Japan Investment Y.K., the Bank's consolidated subsidiary; (ii) impairment charges on investments in APLUS' and Shinki's common shares of ¥15.9 billion and ¥6.0 billion, respectively; and (iii) losses on exposure to the U.S. residential mortgage market of ¥8.9 billion.

(5) Includes impairment charges on investments in APLUS' preferred shares of ¥98.0 billion.