

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Shinsei Bank, Limited is a leading diversified financial institution in Japan. We are bringing innovative banking practices to the Japanese market with a business model based on three strategic pillars: Institutional Banking, Consumer and Commercial Finance and Retail Banking. These three pillars cover a broad range of products and customer segments which provide us with diversified revenues. 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. The scope and synergies of our innovative, customer-focused, three-pillar business model consist of:

- *Institutional Banking*, which is organized around product specialists and relationship managers working closely together to leverage our long-standing customer relationships and to increase the number of products per customer;
- *Consumer and Commercial Finance*, which provides consumer finance, commercial finance and specialty property finance to both consumers and small and medium-sized businesses; works closely to cross-sell products and services and leverages core competencies and intra-bank synergies; and
- *Retail Banking*, which continues to expand its product range and enhance consultative services for retail customers while working with Institutional Banking and Consumer and Commercial Finance businesses to better serve the needs of its customers, including high net worth individuals.

Financial Summary for the Six Months Ended September 30, 2007

We reported consolidated net income of ¥23.1 billion for the first six months of fiscal year 2007, as compared to ¥38.8 billion during the same period in the previous fiscal year. This reflects steady revenue in Institutional Banking businesses, strong performance at APLUS Co., Ltd. (APLUS) and includes gains from the sale of Life Housing Loan Co., Ltd. (Life Housing Loan) of ¥10.3 billion, net of taxes. However, our financial performance for the first six months of fiscal year 2007 was adversely impacted by reserves and mark-downs in our exposure to the U.S. residential mortgage market, lower than expected revenue

in Retail Banking and net losses in Shinki Co., Ltd. (Shinki), an equity-method affiliate.

Consolidated cash basis net income for the first six months of fiscal year 2007 was ¥28.7 billion. Cash basis net income is calculated by excluding amortization (and impairment) of goodwill and other intangible assets, net of tax benefit, from net income under Japanese GAAP.

U.S. Residential Mortgage Portfolio

As of September 30, 2007, our gross exposure to the U.S. residential mortgage market amounted to less than US\$500 million, or less than 0.5% of our total assets of US\$107.7 billion as of September 30, 2007.

On October 17, 2007, S&P announced that it had made over 1,700 downgrades (including multi-notch downgrades) which immediately changed the status of a portion of our exposure to U.S. residential mortgages from investment grade to non-investment grade. The S&P downgrades necessitated a mark-down of US\$34 million in the interim period ended September 30, 2007. Including the impact of these downgrades, total mark-downs of our U.S. residential mortgage investments were US\$65 million.

In addition, total reserves related to U.S. residential mortgages recorded in the first half of fiscal year 2007 amounted to US\$107 million. As a result, we recorded reserves and mark-downs related to U.S. residential mortgages of approximately US\$172 million (¥19.8 billion) during the six months ended September 30, 2007, bringing cumulative reserves and mark-downs related to U.S. residential mortgages to approximately US\$189 million (¥21.8 billion).

Grey Zone and Credit Reserves – APLUS and Shinki

During the first six months of fiscal year 2007, APLUS recorded additional grey zone reserves for losses on interest repayments of ¥1.7 billion in connection with grey zone refunds recorded during this period. As of September 30, 2007, APLUS' grey zone reserve balance amounted to ¥9.4 billion.

In the first six months of 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 ¥8.1 billion, resulting in a total outstanding grey zone reserve balance of ¥37.8 billion as

of September 30, 2007. As a result, Shinki reported a net loss for the six months ended September 30, 2007. Shinsei Bank's equity in the non-consolidated net loss of Shinki amounted to ¥6.8 billion, net of consolidation adjustments, during the first six months of fiscal year 2007.

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 recent 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 decline in value of these shares between the book value of these shares and the common shares price of Shinki on March 31, 2007.

Mandatory Acquisition and Cancellation of Series 3 Class B Preferred Shares

We continued to optimize our capital base during the six months ended September 30, 2007.

On August 1, 2007, pursuant to the provisions of Shinsei Bank's Articles of Incorporation concerning the mandatory acquisition of Series 3 Class B Preferred Shares issued by Shinsei Bank, owned entirely by the Resolution and Collection Corporation, 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 in exchange for these preferred shares. We subsequently cancelled all the relevant preferred shares immediately after obtaining them.

Rights Offering of New Shares by Shinki

On September 13, 2007, Shinki announced that it will raise capital later this year 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. We support Shinki's capital raising plan and subscribed to the rights offering.

As legislative and market changes have significantly impacted the consumer finance sector, including restrictions on lending rates, Shinki continues to actively restructure its business to ensure the viability of its new business model. As a result, Shinki increased reserves and provisions in the first six months of fiscal year 2007 for credit losses and grey zone claims, resulting in a reduction in equity and necessitating an increase in capital.

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 will engage in investment management and distribution of financial products in the Southeast Asian region. In addition to structuring investment products for customers in the region, it will also manage funds investing in other jurisdictions. It will also launch and manage structured investment products to cater to the Japan – Southeast Asia corridor.

UTI Singapore will apply to regulators in Singapore to obtain necessary licenses and will also approach other relevant regulators in other jurisdictions.

Strategic Investment in Duff & Phelps Corporation

On September 1, 2007, we entered into a stock purchase agreement with Duff & Phelps Corporation (D&P), a Delaware corporation, pursuant to which we purchased 3,375,000 shares of D&P's Class A common stock for approximately US\$54.2 million, representing approximately 10% of the equity capital of the company on a fully-diluted basis.

Concurrently with the equity investment, D&P and we

entered into a referral agreement through which we may refer our clients to each other for provision of relevant products and services in our respective areas of competency. We expect the partnership with D&P will assist new clients in other countries with respect to their investments in Japan. This transaction exemplifies our international expansion strategy of entering into alliances with excellent partners overseas to cross-leverage our experience and expertise with theirs and offer unique and innovative solutions to our expanding client base.

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.

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.

Recent Developments

New Capital Raising and Tender Offer

On November 20, 2007, we announced plans to raise new capital, enhance financial stability and deepen ties with key new and existing shareholders. The plan centers on a tender offer from a series of investment vehicles (the Investors) whose investors include affiliates of J.C. Flowers & Co. LLC (JCF & Co.) and a third-party allotment to the Investors. With the support of senior management and the Investors, the initiative will allow us to deploy additional capital across our strategic pillars - Institutional Banking, Consumer and Commercial Finance and Retail Banking – and renew our commitment to setting the standard for banking in Japan.

The Investors made a tender offer bid of ¥425 per share for up to 22.7% of our outstanding common shares. Contingent upon the execution of the tender offer and its approval by Japan's regulatory authorities, we will issue ¥50 billion of new common shares by third-party allotment to the Investors. The issue price of the allotment will be ¥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. will hold up to 32.6% of Shinsei's common shares on a fully diluted basis.

These investors share a strong focus on deepening ties with us and enhancing our product and service offerings. 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.

Selected Financial Data (Consolidated)

Shinsei Bank, Limited and Consolidated Subsidiaries

As of or for the six months ended September 30, 2007 and 2006, and as of or for the fiscal year ended March 31, 2007

Billions of yen (except per share data and percentages)

	Sept. 30, 2007 (6 months)	Sept. 30, 2006 (6 months)	Mar. 31, 2007 (1 year)
Income statement data:			
Net interest income	¥ 56.5	¥ 51.7	¥ 95.4
Net fees and commissions	23.1	22.2	46.4
Net trading income	7.2	11.2	17.8
Net other business income	51.6	53.1	96.6
Total revenue	138.6	138.3	256.3
General and administrative expenses	77.4	75.9	150.2
Amortization of goodwill and other intangible assets	6.1	10.5	20.8
Total general and administrative expenses	83.5	86.4	171.0
Net credit costs	30.7	5.2	51.9
Other gains (losses), net	18.9	0.6	(99.1)
Income (loss) before income taxes and minority interests	43.2	47.2	(65.7)
Current income tax	4.0	1.3	3.2
Deferred income tax (benefit)	5.3	(1.2)	(24.6)
Minority interests in net income of subsidiaries	10.6	8.2	16.6
Net income (loss)	¥ 23.1	¥ 38.8	¥ (60.9)
Balance sheet data:			
Trading assets	¥ 251.4	¥ 423.4	¥ 303.3
Securities	2,368.5	1,771.7	1,854.6
Loans and bills discounted	5,456.5	4,781.4	5,146.3
Customers' liabilities for acceptances and guarantees	725.5	789.4	754.4
Reserve for credit losses	(141.7)	(133.8)	(147.2)
Total assets ⁽¹⁾	12,423.4	10,433.6	10,837.6
Deposits, including negotiable certificates of deposit	5,870.6	4,945.7	5,420.9
Debentures	686.5	758.8	703.2
Trading liabilities	110.5	106.6	99.2
Borrowed money	1,092.7	1,213.9	1,122.6
Acceptances and guarantees	725.5	789.4	754.4
Total liabilities	11,488.7	9,422.9	9,904.4
Capital stock	451.2	451.2	451.2
Total equity ⁽¹⁾	934.6	1,010.7	933.2
Total liabilities and equity	¥12,423.4	¥10,433.6	¥10,837.6
Per share data			
Common equity ⁽¹⁾⁽²⁾	¥ 352.71	¥ 383.20	¥ 308.60
Fully diluted equity ⁽¹⁾⁽²⁾⁽³⁾	354.04	411.58	355.09
Basic net income (loss)	15.72	27.19	(45.92)
Diluted net income	12.72	19.54	—
Capital adequacy data:			
Tier I capital ratio	7.6%	8.3%	8.1%
Total capital adequacy ratio	12.4%	13.5%	13.1%
Average balance data:			
Securities	¥ 1,991.3	¥ 1,605.9	¥ 1,750.5
Loans and bills discounted	5,235.4	4,304.8	4,613.4
Total assets	11,630.5	9,919.3	10,121.3
Interest-bearing liabilities	8,866.9	7,219.6	7,821.8
Total liabilities	10,696.6	8,855.3	9,096.1
Total equity	933.9	1,058.2	894.2

	Billions of yen (except percentages)		
	Sept. 30, 2007 (6 months)	Sept. 30, 2006 (6 months)	Mar. 31, 2007 (1 year)
Other data:			
Return on assets	0.4%	0.8%	(0.6)%
Return on equity (fully diluted) ⁽¹⁾⁽²⁾	7.2%	9.7%	(8.1)%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	51.1%	52.5%	54.7%
Expense-revenue ratio ⁽⁴⁾	55.9%	54.9%	58.6%
Non-performing claims, non-consolidated	¥45.9	¥25.9	¥27.9
Ratio of non-performing claims to total claims, non-consolidated	0.8%	0.5%	0.5%
Net deferred tax assets	¥34.1	¥16.9	¥37.3
Net deferred tax assets as a percentage of Tier I capital	5.3%	2.6%	6.0%

Notes:

- (1) As required by a new accounting standard published by the Accounting Standards Board of Japan (ASBJ), certain items which were previously presented outside of shareholders' equity are now presented as components of equity. Such items include stock acquisition rights, minority interests and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ended on or after May 1, 2006. Reclassification of the prior period amount is not permitted under Japanese GAAP.
- (2) Stock acquisition rights and minority interests in subsidiaries are excluded from equity.
- (3) Fully diluted equity per share is calculated by dividing equity at the end of the periods presented by the number of common shares that would have been outstanding had all securities convertible into or exercisable for common shares been converted or exercised with an applicable conversion or exercise price within the predetermined range at the end of the period.
- (4) The expense-revenue ratio is calculated by dividing general and administrative expenses for the periods presented by the total revenue for such period.

Results of Operations

Six-Month Period Ended September 30, 2007 Compared with Six-Month Period Ended September 30, 2006

Consolidated financial results for the six months ended September 30, 2007 were adversely impacted by the reserves and mark-downs related to our exposure to the U.S. residential mortgage market and significant provision for grey zone interest refund payments and other credit costs at Shinki.

Total revenue for the first six months of fiscal year 2007 was ¥138.6 billion, or 0.2% higher than in the first six months of the previous fiscal year largely due to the growth in Institutional Banking revenues.

General and administrative expenses during the first six months of fiscal year 2007 were ¥77.4 billion, ¥1.5 billion higher than the first six months of the prior fiscal year. The increase was largely due to investments made to support future business growth in Institutional and Retail Banking businesses. This resulted in an expense-to-revenue ratio of 55.9% for the six months ended September 30, 2007, as compared to 54.9% in the first six months of fiscal year 2006.

Net credit costs of ¥30.7 billion for the first six months of fiscal year 2007 were ¥25.4 billion higher than for the same period in the last fiscal year largely due to provisions related to our exposure to the U.S. residential mortgage market of ¥12.3 billion in the Institutional Banking business and higher credit provisions in Consumer and Commercial Finance businesses of ¥24.9 billion, an increase of ¥4.7 billion compared to the same period in the previous fiscal year.

Amortization of goodwill and other intangible assets associated with the acquisition of consumer and commercial finance companies was ¥6.1 billion for the six months ended September 30, 2007 as compared with ¥10.5 billion in the first six months of the previous fiscal year. The decline largely relates to the significant write-down of goodwill and other intangible assets related to APLUS at March 31, 2007.

Minority interests in net income of subsidiaries for the first six months of fiscal year 2007 amounting to ¥10.6 billion largely reflected dividends paid on perpetual preferred securities issued by two financial subsidiaries and minority interests relating to APLUS' preferred shareholders and subsidiaries of Shinseigin Finance Co., Ltd.

As a result, consolidated net income for the six months ended September 30, 2007 was ¥23.1 billion compared to ¥38.8 billion in the same period of the previous fiscal year.

Shinsei's non-performing loans (NPLs) balance under the Financial Revitalization Law totaled ¥45.9 billion as of September 30, 2007. NPLs were 0.82% of total claims outstanding at September 30, 2007 on a non-consolidated basis.

Our Tier I capital ratio of 7.6% and total capital adequacy ratio of 12.4% as of September 30, 2007, on a Basel II basis, are in line with our corporate targets for maintaining strong capital ratios.

Supplemental Financial Data and Reconciliations to Japanese GAAP Measures

Shinsei Bank, Limited and Consolidated Subsidiaries

For the six months ended September 30, 2007

Billions of yen (except per share data and percentages)

Amortization of goodwill and other intangible assets	
Amortization of other intangible assets	¥ 1.3
Associated deferred tax liability	(0.5)
Amortization of goodwill	4.7
Total amortization of goodwill and other intangible assets, net of tax benefit	¥ 5.5
Reconciliation of net income to cash basis net income	
Net income	¥23.1
Amortization of goodwill and other intangible assets, net of tax benefit	5.5
Cash basis net income	¥28.7
Reconciliation of basic net income per share to cash basis basic net income per share	
Basic net income per share	¥15.72
Effect of amortization of goodwill and other intangible assets, net of tax benefit	3.84
Cash basis basic net income per share	¥19.57
Reconciliation of return on assets to cash basis return on assets	
Return on assets	0.4%
Effect of amortization of goodwill and other intangible assets, net of tax benefit	0.1
Cash basis return on assets	0.5%
Reconciliation of return on equity to cash basis return on equity	
Return on equity (fully diluted)	7.2%
Effect of amortization of goodwill and other intangible assets, net of tax benefit	1.7
Cash basis return on equity (fully diluted)	8.9%
Reconciliation of return on equity to return on tangible equity	
Return on equity (fully diluted)	7.2%
Effect of goodwill and other intangible assets ⁽¹⁾	4.8
Return on tangible equity (fully diluted)	12.0%

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.

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

	Billions of yen (except percentages)					
	Six months ended September 30, 2007			Six months ended September 30, 2006		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	¥5,235.4	¥ 84.3	3.22%	¥4,304.8	¥ 59.2	2.74%
Leased assets and installment receivables	781.4	27.2	6.98	838.0	25.5	6.09
Securities	1,991.3	20.5	2.07	1,605.9	16.8	2.09
Other interest-earning assets ⁽¹⁾	821.8	6.5	n.m.	672.7	6.8	n.m.
Total revenue on interest-earning assets	¥8,830.0	¥138.7	3.14%	¥7,421.6	¥108.5	2.92%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	¥5,549.7	¥ 22.9	0.83%	¥4,472.7	¥ 13.6	0.61%
Debentures	693.1	1.5	0.45	871.0	1.5	0.36
Subordinated debt	472.7	7.9	3.34	360.9	3.5	1.99
Borrowed money and corporate bonds	1,091.1	8.9	1.63	1,127.2	5.3	0.94
Other interest-bearing liabilities ⁽¹⁾	1,060.1	13.6	n.m.	387.5	7.0	n.m.
Total expense on interest-bearing liabilities	¥8,866.9	¥ 54.9	1.24%	¥7,219.6	¥ 31.2	0.86%
Non-interest-bearing sources of funds:						
Non-interest-bearing (assets) liabilities, net	¥ (686.0)	—	—	¥ (598.7)	—	—
Total equity excluding minority interest in subsidiaries ⁽²⁾	649.0	—	—	800.7	—	—
Total interest-bearing liabilities and non-interest-bearing sources of funds	¥8,830.0	—	—	¥7,421.6	—	—
Net interest margin	—	—	1.90%	—	—	2.05%
Impact of non-interest-bearing sources	—	—	(0.01)	—	—	0.02
Net revenue on interest-earning assets/yield on interest-earning assets	—	¥ 83.7	1.90%	—	¥ 77.3	2.08%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	¥8,830.0	¥138.7	3.14%	¥7,421.6	¥108.5	2.92%
Less: Income on leased assets and installment receivables	781.4	27.2	6.98	838.0	25.5	6.09
Total interest income	¥8,048.5	¥111.4	2.77%	¥6,583.5	¥ 82.9	2.51%
Total interest expenses	—	54.9	—	—	31.2	—
Net interest income	—	¥ 56.5	—	—	¥ 51.7	—

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.

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.

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

From the six months ended September 30, 2006 to the six months ended September 30, 2007	Billions of yen		
	Due to change in ⁽¹⁾		Net Change
	Volume	Rate	
Increase (decrease) in interest revenue:			
Loans and bills discounted	¥12.8	¥12.3	¥25.1
Leased assets and installment receivables	(1.7)	3.4	1.6
Securities	4.0	(0.2)	3.7
Other interest-earning assets	1.5	(1.8)	(0.3)
Total revenue on interest-earning assets			¥30.2
Increase (decrease) in interest expenses:			
Deposits, including negotiable certificates of deposit	¥ 3.2	¥ 5.9	¥ 9.2
Debentures	(0.3)	0.3	0.0
Subordinated debt	1.1	3.1	4.3
Borrowed money and corporate bonds	(0.1)	3.7	3.5
Other interest-bearing liabilities	12.2	(5.6)	6.6
Total expense on interest-bearing liabilities			¥23.7
Net increase in net revenue on interest-earning assets			¥ 6.4
Reconciliation of total revenue on interest-earning assets to total interest income			
Total revenue on interest-earning assets			¥30.2
Less: Income on leased assets and installment receivables			1.6
Total interest income			¥28.5
Total interest expenses			23.7
Net increase in net interest income			¥ 4.7

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

Net revenue on interest-earning assets for the six months ended September 30, 2007 was ¥83.7 billion, an increase of ¥6.4 billion compared to the first six months of the prior fiscal year. Total revenue on interest-earning assets increased by ¥30.2 billion and total interest expense increased by ¥23.7 billion in the first six months of fiscal year 2007, respectively, from the first six months of the previous fiscal year. The net yield on interest-earning assets was 1.90% in the first six months of fiscal year 2007, compared with 2.08% for the same period in the prior fiscal year but increased from a net yield on interest-earning assets of 1.85% for fiscal year 2006.

The ¥30.2 billion increase in total revenue on interest-earning assets in the first six months of fiscal year 2007 is attributable primarily to higher volume of and yield on loans and bills discounted. The increase in 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.

The ¥23.7 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 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 0.83% for the first six months of fiscal year 2007 from 0.61% for the same period in 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 ¥5,549.7 billion from ¥4,472.7 billion.

The increase in subordinated debt interest expense was due to an increase in the average rate, which was 3.34% for the six months ended September 30, 2007 compared to 1.99% for the same period in the previous fiscal year and, to a lesser extent, an increase in the average balance outstanding to ¥472.7 billion for the six months ended

September 30, 2007 compared to ¥360.9 billion for same period in 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 ¥6.6 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.

Net Trading Income

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

Table 3. Net Trading Income (Consolidated)

	Billions of yen	
	Six months ended September 30, 2007	Six months ended September 30, 2006
Income from trading securities	¥ 2.2	¥ 1.2
Income from securities held to hedge trading transactions	0.7	3.9
Income from trading-related financial derivatives	4.2	6.3
Other, net	(0.0)	(0.1)
Net trading income	¥ 7.2	¥11.2

Net trading income reflects revenues from customer-driven transactions as well as transactions undertaken for trading purposes. In addition to investments in securities, it encompasses income we receive from providing derivative products, including structured deposits, to retail and institutional customers.

During the first six months of fiscal year 2007, net trading income was ¥7.2 billion, a decline of ¥4.0 billion from the same period in the previous fiscal year. The decline in income from trading-related financial derivatives resulted mainly from a decrease in option income from

Net Fees and Commissions

Net fees and commissions mainly includes fees from non-recourse real estate finance, consumer and commercial finance loans and other financing products and commissions on sales of asset management products. Net fees and commissions of ¥23.1 billion were earned in the six months ended September 30, 2007, an increase of ¥0.9 billion compared to same period in the previous year. Retail Banking's asset management business continues to grow with total fees of ¥5.7 billion during the first six months of fiscal year 2007, an increase of ¥1.8 billion from the first six months of the previous fiscal year.

¥4.3 billion to ¥1.1 billion generated in connection with interest-linked structured deposits provided mainly to retail customers due to lower demand for the product. The decline in income from securities held to hedge trading transactions to ¥0.7 billion in the first six months of fiscal year 2007, primarily relates to lower arbitrage activity. These decreases were partly offset by an increase in income from trading securities from ¥1.2 billion to ¥2.2 billion in the first six months of fiscal year 2007 largely attributable to trading 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 (Consolidated)

	Billions of yen	
	Six months ended September 30, 2007	Six months ended September 30, 2006
Income on monetary assets held in trust, net	¥12.0	¥ 6.2
Net (losses) gain on securities	(0.1)	11.0
Net gain on foreign exchange	5.1	6.8
Net gain on other monetary claims purchased	11.6	10.3
Other business income (losses), net		
Income (losses) from derivatives for banking purposes, net	0.0	(6.1)
Equity in net (losses) income of affiliates	(6.4)	(3.5)
Gain on lease cancellation and other lease income, net	1.1	1.2
Other, net	1.0	1.4
Net other business income before income on leased assets and installment receivables, net	24.3	27.5
Income on leased assets and installment receivables, net	27.2	25.5
Net other business income	¥51.6	¥53.1

Net other business income for the six months ended September 30, 2007 was ¥51.6 billion. This included income of ¥27.2 billion from the leased assets and installment receivables businesses of APLUS and Showa Leasing Co., Ltd. (Showa Leasing). 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.

Excluding such income, net other business income for the first six months of fiscal year 2007 was ¥24.3 billion, a decline of ¥3.1 billion from the same period in the previous fiscal year. Income on monetary assets held in trust, net should be considered together with net gain on other monetary claims purchased for trading purposes as both of these income categories mainly include credit trading, securitization and real estate principal investment income. During the six months ended September 30, 2007, the credit trading business generated total revenue of ¥12.7 billion, an increase of ¥2.5 billion compared to the same period in the prior fiscal year.

The ¥0.1 billion of net loss on securities relates in part to mark-downs relating to our exposure to the U.S. residential mortgage market amounting to approximately ¥7 billion.

This category also includes net gain on the securities portfolio held in our capital markets business. The capital markets business-related activities should be considered together with corresponding equity derivatives included in income (losses) from derivatives for banking purposes, net.

Net gain on foreign exchange of ¥5.1 billion includes option income in connection with currency-linked structured deposits provided to retail customers of ¥2.4 billion, which declined by ¥1.2 billion from the same period in the last fiscal year.

Equity in net (losses) income of affiliates is largely attributable to Shinsei Bank's equity in the non-consolidated net loss of Shinki, an equity-method affiliate, amounting to ¥6.8 billion, net of consolidation adjustments. The net loss attributable to Shinki is ¥1.4 billion higher than the same period in the last fiscal year, reflecting increased credit and grey zone reserves.

Total Revenue

Due to the factors described above, total revenue in the six months ended September 30, 2007 was ¥138.6 billion, as compared with ¥138.3 billion in the six months ended September 30, 2006.

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)

	Billions of yen	
	Six months ended September 30, 2007	Six months ended September 30, 2006
Personnel expenses	¥ 32.5	¥ 32.1
Premises expenses	8.6	8.4
Technology and data processing expenses	10.1	10.0
Advertising expenses	5.0	5.5
Consumption and property taxes	4.2	3.8
Deposit insurance premium	1.7	1.4
Other general and administrative expenses	15.1	14.4
General and administrative expenses	77.4	75.9
Amortization of goodwill and other intangible assets	6.1	10.5
Total general and administrative expenses	¥ 83.5	¥ 86.4

From the fiscal year which commenced on April 1, 2006, amortization of goodwill and other intangible assets is recorded in total general and administrative expenses.

General and administrative expenses (excluding amortization of goodwill and other intangible assets) of ¥77.4 billion in the first six months of fiscal year 2007 were ¥1.5 billion higher compared to the same period in the previous fiscal year. Expenses required in the Institutional and Retail Banking businesses to support business growth were partly offset by continual expense rationalization and restructuring activities in APLUS. As a result, for the six months ended September 30, 2007, the expense-to-revenue ratio was 55.9% as compared to 54.9% in the first six months of fiscal year 2006.

Personnel expenses of ¥32.5 billion were ¥0.4 billion higher than in the first six months of the previous fiscal year. The increase was largely due to new employees hired in the Institutional Banking business to support its business expansion. This was partly offset by lower personnel expense in APLUS reflecting expense savings realized through a voluntary retirement program conducted in fiscal year 2006.

The increase in non-personnel expenses was largely related to customer-driven activities such as deposit insurance premium on retail deposits, consumption tax and other outsourcing expenses. Advertising expenses were ¥0.5 billion lower than the same period in last fiscal year, reflecting optimization of advertising activities in the Retail Banking business.

Amortization of Goodwill and Other Intangible Assets

The amortization of goodwill and other intangible assets was ¥6.1 billion for the six months ended September 30, 2007 as compared with ¥10.5 billion in the first six months of the previous fiscal year. This mainly includes amortization of goodwill and other intangible assets attributable to APLUS (including Zen-Nichi Shinpan) and Showa Leasing in the amount of ¥4.4 billion and ¥1.6 billion, respectively. The decline largely relates to the significant write-down of goodwill and other intangible assets related to APLUS as of March 31, 2007.

Net Credit Costs

The following table sets forth our net credit costs on a consolidated basis for the six months ended September 30, 2007 and 2006.

Table 6. Net Credit Costs (Consolidated)

	Billions of yen	
	Six months ended September 30, 2007	Six months ended September 30, 2006
Losses on write-off of loans	¥ 0.0	¥ 0.4
Net provision (reversal) of reserve for loan losses:		
Net (reversal) provision of general reserve for loan losses	(5.4)	24.7
Net provision (reversal) of specific reserve for loan losses	33.6	(20.7)
Net (reversal) provision of reserve for loan losses to restructuring countries	(0.0)	0.0
Subtotal	28.2	4.0
Net provision of specific reserve for other credit losses	1.0	0.0
Other credit costs relating to leasing business	1.3	0.7
Net credit costs	¥30.7	¥ 5.2

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 and Showa Leasing, also maintain general and specific reserves for loan losses.

We recorded net credit costs of ¥30.7 billion for the six months ended September 30, 2007 compared with net credit costs of ¥5.2 billion during the same period in the previous fiscal year. The increase in net credit costs was largely due to the absence of credit recoveries in Institutional Banking, credit provisions related to our exposure to the U.S. residential mortgage market amounting to ¥12.3 billion and higher credit provisions in APLUS. APLUS recorded net credit costs of ¥19.8 billion, an increase of ¥2.2 billion from the same period in the previous fiscal year, relating primarily to delays in collections and a stricter credit reserving policy necessitated by a change in the Money Lending Business Law.

Other Gains, Net

Other gains, net were ¥18.9 billion for the six months ended September 30, 2007, as compared to ¥0.6 billion during the same period in the previous fiscal year. Other gains, net in the first six months of fiscal year 2007 mainly includes a gain on the sale of Life Housing Loan of ¥20.3 billion.

Income Before Income Taxes and Minority Interests

As a result of the foregoing, income before income taxes and minority interests totaled ¥43.2 billion for the six months ended September 30, 2007, as compared to ¥47.2 billion in the same period in the previous fiscal year.

Income Taxes (Benefit)

For the six months ended September 30, 2007, we recorded ¥4.0 billion in current income tax, ¥2.6 billion higher than for the previous year, mainly related to local income tax paid by our subsidiaries. We also recorded a deferred income tax expense of ¥5.3 billion, largely reflecting a reversal of deferred tax assets amounting to ¥7.1 billion related to the sale of Life Housing Loan. This was partly offset by the tax benefit on the amortization of fair value adjustments to net assets and other intangible assets of ¥0.5 billion.

Minority Interests in Net Income of Subsidiaries

Minority interests in net income of subsidiaries of ¥10.6 billion for the six months ended September 30, 2007 largely reflects interest payments of ¥5.7 billion relating to our issuance of hybrid Tier I capital in the international market in February and March 2006 and minority interests relating to APLUS's preferred shareholders of ¥1.6 billion and subsidiaries of Shinseigin Finance Co., Ltd. amounting to ¥2.5 billion.

Net Income

Our net income for the six months ended September 30, 2007 of ¥23.1 billion, compared to net income of ¥38.8 billion during the same period in the prior fiscal year, reflects charges arising from legislative and market changes in the consumer finance industry and reserves and mark-downs related to our exposure to the U.S. residential mortgage market.

We report both Japanese GAAP net income and cash basis net income in order to provide greater transparency and understanding of our underlying performance. For the six months ended September 30, 2007, consolidated cash basis net income was ¥28.7 billion, as compared to ¥47.6 billion during the same period in the previous fiscal year. Cash basis net income is defined as Japanese GAAP net income adjusted to exclude the impairment and amortization 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 intangible assets, 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 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, 2007			Six months ended September 30, 2006		
	Reported-basis	Reclassifications	Operating-basis	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	¥ 56.5	¥ —	¥ 56.5	¥ 51.7	¥ —	¥ 51.7
Non-interest income ⁽¹⁾	82.0	0.1	82.2	86.6	0.1	86.8
Total revenue	138.6	0.1	138.7	138.3	0.1	138.5
General and administrative expenses ⁽²⁾	77.4	(0.1)	77.3	75.9	(0.2)	75.7
Amortization of goodwill and other intangible assets	6.1	(6.1)	—	10.5	(10.5)	—
Total general and administrative expenses	83.5	(6.2)	77.3	86.4	(10.7)	75.7
Net business profit/Ordinary business profit⁽³⁾	55.0	6.3	61.3	51.9	10.8	62.8
Net credit costs	30.7	—	30.7	5.2	—	5.2
Amortization of goodwill and other intangible assets	—	6.1	6.1	—	10.5	10.5
Other gains, net ⁽¹⁾⁽²⁾	18.9	(0.2)	18.6	0.6	(0.3)	0.2
Income before income taxes and minority interests	43.2	—	43.2	47.2	—	47.2
Income taxes (benefit) and minority interests	20.0	—	20.0	8.4	—	8.4
Net income	¥ 23.1	¥ —	¥ 23.1	¥ 38.8	¥ —	¥ 38.8

Notes:

- (1) Reclassifications consist principally of adjustments relating to other business income between other gains, 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, net.
- (3) Ordinary business profit is derived after reclassifying certain items from net business profit.

Business Lines Results

Our business model is based on three strategic pillars: Institutional Banking, Consumer and Commercial Finance (CCF) and Retail Banking. These three pillars cover a broad range of businesses and customer segments which provide us with diversified revenues.

In the six months ended September 30, 2007, ordinary business profit after net credit costs was ¥30.6 billion, as compared to ¥57.5 billion during the same period in the previous fiscal year, largely due to mark-downs and credit provisions related to our exposure to the U.S. residential mortgage market and the absence of significant net credit recoveries in the Institutional Banking and higher net credit costs in CCF businesses.

The Institutional Banking business posted steady revenues and APLUS made strong progress during the first six months of fiscal year 2007. The Retail Banking

business experienced lower revenues mainly attributable to a decline in option income from structured deposits. Shinki recorded net losses as a result of higher credit provisions and grey zone reserves.

We continue to expand our product offerings and broaden our customer base through these three strategic business lines. We continue to promote interaction between various businesses within each of the pillars, leading to a significant 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 line discussion below covers the operating-basis ordinary business profit (loss) after net credit costs (recoveries) of the three business lines and a fourth category of ALM/Corporate/Other.

Table 8. Operating-Basis Ordinary Business Profit (Loss) after Net Credit Costs (Recoveries) by Business Line (Consolidated)

	Billions of yen				
	Six months ended September 30, 2007				
	Institutional Banking	Consumer and Commercial Finance	Retail Banking	ALM/Corporate/Other ⁽¹⁾	Total
Net interest income	¥ 19.9	¥20.1	¥ 9.8	¥ 6.5	¥ 56.5
Non-interest income (expense)	38.7	36.3	8.2	(1.1)	82.2
Total revenue	58.7	56.4	18.0	5.4	138.7
General and administrative expenses	25.9	31.0	20.3	0.1	77.3
Ordinary business profit (loss)	32.8	25.4	(2.2)	5.3	61.3
Net credit costs	4.1	24.9	0.1	1.5	30.7
Ordinary business profit (loss) after net credit costs	¥ 28.6	¥ 0.5	¥ (2.3)	¥ 3.8	¥ 30.6

	Billions of yen				
	Six months ended September 30, 2006				
	Institutional Banking	Consumer and Commercial Finance	Retail Banking	ALM/Corporate/Other ⁽¹⁾	Total
Net interest income	¥ 16.6	¥23.2	¥ 8.7	¥ 3.1	¥ 51.7
Non-interest income (expense)	38.6	37.4	10.8	(0.1)	86.8
Total revenue	55.2	60.7	19.5	2.9	138.5
General and administrative expenses	21.9	35.0	19.4	(0.7)	75.7
Ordinary business profit	33.3	25.7	0.1	3.6	62.8
Net credit (recoveries) costs	(17.2)	20.1	0.0	2.1	5.2
Ordinary business profit after net credit (recoveries) costs	¥ 50.5	¥ 5.5	¥ 0.0	¥ 1.4	¥ 57.5

Note:

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

Institutional Banking

The Institutional Banking business positions itself as a hybrid commercial and investment bank that provides innovative solutions to institutional customers through an integrated team of relationship managers and product specialists. Revenue diversification ensures earnings stability in this business line.

The business generated total revenue of ¥58.7 billion in the first six months of this fiscal year. This is ¥3.4 billion higher than in the same period last year due to steady revenues across most Institutional Banking products. The business continued to see a steady demand for corporate loans and an increase in demand for non-recourse loans,

and ongoing growth in asset prices contributed to strong performance in the credit trading business.

In the first six months of this fiscal year, general and administrative expenses were ¥25.9 billion, a ¥3.9 billion increase from the first six months in the previous fiscal year. The increase was largely due to new employees hired in the business to support its business expansion. As a result, ordinary business profit for the first six months of fiscal year 2007 was ¥32.8 billion, a decline of ¥0.4 billion, or 1.5%, as compared to the same period in the previous fiscal year. The expense-to-revenue ratio of this business was 44.1% for the six months ended September 30, 2007.

Table 9. Institutional Banking Revenue by Product (Consolidated)

	Billions of yen	
	Six months ended September 30, 2007	Six months ended September 30, 2006 ⁽¹⁾
Institutional Banking:		
Credit trading	¥12.7	¥10.2
Principal investments	12.2	8.5
Non-recourse real estate finance	9.5	8.6
Foreign exchange, derivatives, equity-related	8.3	7.0
Basic Banking ⁽²⁾	8.1	9.2
Other capital markets	1.1	4.4
Securitization	0.0	3.7
Other products	6.4	3.2
Total revenue	¥58.7	¥55.2

Note:

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

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

Revenue diversification is essential to ensure earnings stability in this business line. The Institutional Banking business delivered strong revenues from most of its products.

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 the credit trading business resulted in concluding 19 new transactions with an aggregate investment amount of ¥41.1 billion and total revenues of ¥12.7 billion in the six months of fiscal year 2007, an increase of ¥2.5 billion compared to same period in the previous fiscal year.

Principal investments revenue increased by ¥3.7 billion to ¥12.2 billion in the first six months of fiscal year 2007, reflecting increased revenues mainly from specialty finance and real estate principal investment activities.

The non-recourse real estate finance balance, both loans and bond structures, grew by ¥140.3 billion to

¥1,062.5 billion in the six month period ended September 30, 2007. As a result, the business generated revenue of ¥9.5 billion as compared to ¥8.6 billion during the same period in the last fiscal year.

The Institutional Banking's exposure to the U.S. residential mortgage market aggregates to less than \$500 million. As of September 30, 2007, the business recorded additional reserves of approximately \$107 million and mark-downs of approximately \$65 million, aggregating to approximately \$172 million (or approximately ¥19.8 billion) and total cumulative reserves and mark-downs relating to these exposures aggregate to approximately \$189 million. As a result of the mark-downs, securitization revenue declined from ¥3.7 billion to nil in the first six months of fiscal year 2007.

Revenue of ¥6.4 billion from other products was largely generated from strategic investments, asset management and revenues in our subsidiary Shinsei Trust & Banking Co., Ltd.

Consumer and Commercial Finance

APLUS' business transformation initiatives in fiscal year 2006 have enabled it to return to profitability in the first six months of this fiscal year. The overall financial performance of Showa Leasing business remains in line with expectations while Shinki incurred net losses due to the continued adverse impact of the legislative and market changes in the consumer finance industry.

In the six months ended September 30, 2007, the CCF business contributed total revenue of ¥56.4 billion, a decline of ¥4.2 billion, or 7.0%, as compared to the first six months in fiscal year 2006, largely reflecting a slowdown in the consumer finance business due to significant

legislative and market changes in the industry. The revenue decrease was largely offset by lower expenses in APLUS. As a result, the CCF business generated ordinary business profit of ¥25.4 billion in the first six months of fiscal year 2007, a decline of ¥0.2 billion from the same period in the previous fiscal year. In the first six months of fiscal year 2007, higher credit costs were necessitated due to the impact of the legislative and market changes in the consumer finance industry. As a result, ordinary business profit after credit costs was ¥0.5 billion in the six months ended September 30, 2007, a decline of ¥4.9 billion compared to the first six months of fiscal year 2006.

Table 10. Consumer and Commercial Finance Ordinary Business Profit (Loss) after Net Credit Costs by Subsidiary⁽¹⁾

	Billions of yen			
	Six months ended September 30, 2007			
	APLUS	Showa Leasing	Other Subsidiaries ⁽²⁾	Consumer and Commercial Finance
Total revenue	¥46.9	¥14.0	¥(4.5)	¥56.4
General and administrative expenses	22.9	6.7	1.3	31.0
Ordinary business profit (loss)	24.0	7.3	(5.9)	25.4
Net credit costs	19.8	2.9	2.0	24.9
Ordinary business profit (loss) after net credit costs	¥ 4.2	¥ 4.3	¥(8.0)	¥ 0.5

	Billions of yen			
	Six months ended September 30, 2006 ⁽³⁾			
	APLUS	Showa Leasing	Other Subsidiaries ⁽²⁾	Consumer and Commercial Finance
Total revenue	¥48.2	¥13.4	¥(0.9)	¥60.7
General and administrative expenses	27.6	5.5	1.8	35.0
Ordinary business profit (loss)	20.6	7.9	(2.8)	25.7
Net credit costs	17.5	1.4	1.2	20.1
Ordinary business profit (loss) after net credit costs	¥ 3.0	¥ 6.4	¥(4.0)	¥ 5.5

Notes:

(1) Net of consolidation adjustments, if applicable.

(2) Includes (loss) profits of Shinki, an affiliate, and unallocated CCF sub-group expenses.

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

APLUS' business transformation initiatives, which began in January 2007, facilitated strong financial results in the first six months of fiscal year 2007, with ordinary business profit after net credit costs of ¥4.2 billion. The business generated net income of ¥3.7 billion, including Zen-Nichi Shinpan, for the six months ended September 30, 2007.

Showa Leasing's business results were in line with expectations. Net credit costs for the six months ended September 30, 2007 were ¥2.9 billion. As a result, the business earned ordinary business profit after net credit costs of ¥4.3 billion during the first six months of fiscal year 2007.

The results for other subsidiaries mainly include Shinsei's equity in net income (loss) of Shinsei Bank's affiliate, Shinki, and its commercial finance subsidiary, Shinsei Property Finance Co., Ltd.

During the first six months of fiscal year 2007, Shinsei Bank's equity in the non-consolidated net loss of Shinki amounted to ¥6.8 billion, net of consolidation adjustments. The net loss attributable to Shinki is ¥1.4 billion higher than in the same period last fiscal year, reflecting higher credit provisions and grey zone reserves in Shinki.

Retail Banking

The Retail Banking business continues to diversify its revenue mix and increase its customer base. Reliance on upfront option income from structured deposits has declined substantially and only 19.9% of total revenue is earned from upfront fees from structured deposits as compared to 40.9% during the same period a year ago. In the six months ended September 30, 2007, the Retail Banking business added more than 107,000 new *PowerFlex* retail accounts and now has over two million retail accounts. Shinsei Bank improved its ranking significantly and reached second overall in the Nihon Keizai Shimbun's third survey of Banks' Retail Strength in July 2007 from twentieth position in last year's survey.

During the first six months of this fiscal year, total revenue was ¥18.0 billion as compared to ¥19.5 billion during the first six months of the previous fiscal year. The main sources of revenue were interest income 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 of ¥4.5 billion from ¥8.0 billion to ¥3.5 billion due to lower demand for structured deposit products. This was partly offset by a ¥1.8 billion increase in revenue from asset management products from ¥3.8 billion to ¥5.7 billion for the six months ended September 30, 2007.

Retail Banking incurred general and administrative expenses of ¥20.3 billion during the six month period, an increase of ¥0.8 billion, as compared to the first six months in the previous fiscal year. Strict expense discipline in the business mitigated the increase in expenses necessary to expand distribution channels and due to the growth of customer driven transactions. The business generated an ordinary business loss of ¥2.2 billion for the first six months of fiscal year 2007, as compared to an ordinary business profit of ¥0.1 billion during the first six months of the previous fiscal year.

The Retail Banking business continues to expand its product range and enhance consulting 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.

Table 11. Retail Banking Revenue by Product (Consolidated)

	Billions of yen	
	Six months ended September 30, 2007	Six months ended September 30, 2006
Retail Banking:		
Deposits and debentures net interest income	¥ 8.1	¥ 6.9
Asset management	5.7	3.8
Deposits and debentures non-interest income	2.1	6.9
Loans	2.0	1.8
Total revenue	¥18.0	¥19.5

Retail Banking deposits balance amounted to ¥3.5 trillion as of September 30, 2007. 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 by ¥1.2 billion to ¥8.1 billion in the six months ended September 30, 2007 as a result of maintaining a steady balance in retail deposits.

Fees from asset management products increased by 49.6% to ¥5.7 billion for the six months ended September 30, 2007, compared to the previous fiscal year. Loans to retail customers grew by 23.1% to ¥697.7 billion as of September 30, 2007. This resulted in Retail Banking recording ¥2.0

billion in revenue from housing loans and other lending products during the first six months of fiscal year 2007.

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 the first six months of fiscal year 2007, we recorded revenue of ¥2.1 billion from deposits and debentures non-interest income, a decline of ¥4.8 billion compared to the same period in the previous fiscal year, mainly reflecting a decline in option income generated in connection with structured deposits from ¥8.0 billion to ¥3.5 billion.

ALM/Corporate/Other

ALM, Corporate and Other primarily includes results of corporate treasury activities, inter-company adjustments, and corporate level expenses. For the six months ended September 30, 2007, ordinary business profit after net credit costs was ¥3.8 billion.

Financial Condition**Total Assets**

As of September 30, 2007, we had consolidated total assets of ¥12,423.4 billion, representing a 14.6% increase from March 31, 2007 and a 19.1% increase from September 30, 2006.

Our loans and bills discounted balance was ¥5,456.5 billion as of September 30, 2007 as compared to ¥4,781.4 billion as of September 30, 2006. This represented 43.9% of total consolidated assets. Installment receivables of APLUS, Showa Leasing and our other CCF subsidiaries are

classified in our consolidated balance sheet as other assets, and are not reflected in our data on loans and bills discounted.

Most of our loan portfolio was originated by Shinsei and our domestic subsidiaries. Of loans we originated, loans to the finance and insurance industry and the real estate industry constituted close to one-half of total loans as of September 30, 2007. Loans to the real estate industry as of September 30, 2007 consisted, in part, of non-recourse and project finance loans. Loans to this industry increased by 13.7%, to ¥1,453.3 billion, or 27.3% of total domestic loans, primarily because of an increase in non-recourse real estate finance loans by 13.5% to ¥873.4 billion.

Loans to others of ¥1,469.0 billion as of September 30, 2007 included loans extended to Shinsei's and APLUS' individual customers amounting, in aggregate, to ¥972.4 billion.

Table 12. Loans by Borrower Industry (Consolidated)

	Billions of yen (except percentages)			
	Six months ended September 30, 2007		Six months ended September 30, 2006	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	¥ 280.8	5.3%	¥ 212.5	4.5%
Agriculture	0.0	0.0	0.0	0.0
Forestry	0.0	0.0	—	—
Fishers	0.8	0.0	0.9	0.0
Mining	5.6	0.1	6.7	0.1
Construction	16.1	0.3	20.9	0.4
Electric power, gas, heat supply and water supply	77.8	1.5	99.6	2.1
Information and communications	56.7	1.1	28.6	0.6
Transportation	381.3	7.2	469.6	10.0
Wholesale and retail	108.5	2.0	111.7	2.4
Finance and insurance	1,051.0	19.7	957.4	20.5
Real estate	1,453.3	27.3	1,278.5	27.3
Services	364.0	6.8	259.4	5.5
Local government	60.8	1.1	124.2	2.7
Others	1,469.0	27.6	1,111.1	23.7
Total domestic (A)	¥5,326.3	100.0%	¥4,681.7	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	¥ 0.8	0.7%	¥ —	—%
Others	129.3	99.3	99.6	100.0
Total overseas (B)	¥ 130.1	100.0%	¥ 99.6	100.0%
Total (A+B)	¥5,456.5		¥4,781.4	

Funding and Liquidity

Shinsei has been diversifying its funding base through deposits from retail customers. Funds from retail deposits have become an increasingly important source of funding. Total deposits increased by ¥449.7 billion, or 8.3%, to ¥5,870.6 billion as of September 30, 2007 compared to March 31, 2007. The retail deposits balance, including high net worth customers, totaled ¥3,563.9 billion as of September 30, 2007, a decline of ¥9.8 billion compared to March 31, 2007. During the six months ended September 30, 2007, ¥273.4 billion of yen-denominated fixed deposits

which were issued five years ago matured and a portion of the matured deposit balances was reinvested in asset management products. Retail Banking represents 59.9% of the Bank's total funding through customer deposits and debentures. The table below shows changes in the proportion of our overall funding represented by funds raised from debentures and deposits in our Retail and Institutional Banking businesses, as well as from our collateralized loan obligation program at the end of the periods indicated.

Table 13. Diversification by Funding Type (Consolidated)

	Billions of yen			
	As of September 30, 2007	As of March 31, 2007	As of March 31, 2006	As of March 31, 2005
Retail deposits ⁽¹⁾⁽²⁾	¥3,563.9	¥3,573.8	¥3,103.4	¥2,300.4
Retail debentures	362.2	381.9	435.3	559.3
Institutional funding	2,631.0	2,168.5	1,551.8	1,835.7
Collateralized loan obligation	75.0	155.0	255.0	255.0

Notes:

(1) Excludes unclaimed matured debentures.

(2) Includes wealth management customers' deposits.

Total Equity

Total equity as of September 30, 2007 was ¥934.6 billion and included minority interests in subsidiaries of ¥280.1 billion.

Summary of Non-Consolidated Financial Results

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 our Revitalization Plan on a quarterly basis, and to publicly disclose that information semi-annually.

For the first six months of fiscal year 2007, Shinsei recorded a net loss of ¥2.1 billion. We achieved the revenue, expenses and ordinary business profit Revitalization Plan targets for the first six months of fiscal year 2007. However, net income was significantly adversely impacted by (i) the reserves and mark-downs related to our exposure to the U.S. residential mortgage market and (ii) a charge of ¥22.0 billion for the impairment of our investment in APLUS' and Shinki's common shares.

Impairment of Investment in APLUS' Common Shares

As of September 30, 2007, APLUS' common share price was ¥82 as compared to ¥184 as of March 31, 2007. As a result, an impairment of APLUS' common shares

amounting to ¥15.9 billion was recorded in the first six months of fiscal year 2007. This is in addition to the valuation allowance of ¥9.2 billion recorded at March 31, 2007 which represented the decline in value of these shares between the time of our acquisition of APLUS (¥243.2 per share) and March 31, 2007 (¥184.0 per share).

Impairment of Shinki's Common Shares

At the end of September 2007, Shinki's common share price was ¥97 as compared to ¥333 as of March 31, 2007. As a result, an impairment of Shinki's common shares of ¥6.0 billion was recorded. This is in addition to the valuation allowance of ¥6.6 billion assessed at March 31, 2007, which represented the decline in value of these shares between the book value (¥591.6 per share) and the price on March 31, 2007 (¥333.0 per share).

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 (*jisshitsu 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 exchange.

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 table below sets forth these supplemental financial data and corresponding reconciliations to net income under Japanese GAAP for the six months ended September 30, 2007 and 2006.

Table 14. Supplemental Measures (Non-Consolidated)

	Billions of yen	
	Six months ended September 30, 2007	Six months ended September 30, 2006
Gross business profit (<i>gyomu sorieki</i>) ⁽¹⁾ :		
Net interest income	¥ 39.5	¥ 30.4
Net fees and commissions ⁽¹⁾	29.3	21.6
Net trading income	4.9	9.0
Net other business income	3.1	6.1
Total gross business profit ⁽¹⁾	76.9	67.3
Total expenses	42.4	39.6
Net business profit ⁽¹⁾⁽²⁾ (<i>jisshitsu gyomu jun-eki</i>)	34.5	27.6
Other operating expenses, net ⁽³⁾	(11.0)	(1.3)
Net operating income (<i>keijo rieki</i>)	23.5	26.3
Extraordinary (loss) income	(26.6)	12.4
(Loss) income before income taxes	(3.1)	38.8
Current income taxes (benefit)	(7.7)	(1.6)
Deferred income tax expense (benefit)	6.7	(1.1)
Net (loss) income	¥ (2.1)	¥ 41.5

Notes:

(1) Includes income from monetary assets held in trust of ¥21.6 billion in the six months ended September 30, 2007 and ¥15.4 billion in the six months ended September 30, 2006.

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

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

Asset Quality and Disposal of Problem Loans of Shinsei

As of September 30, 2007, 60.7% of our consolidated problem loans as disclosed in accordance with the guidelines of the Japanese Bankers' Association (JBA) were held by Shinsei and most of the rest were held by APLUS. This discussion of our asset quality presents information of Shinsei on a non-consolidated basis unless otherwise specified. In particular, problem claims as defined in the Financial Revitalization Law are only disclosed on a non-consolidated basis, and therefore do not include problem loans held by APLUS. For a discussion of the problem claims of APLUS and Showa Leasing see "—Asset Quality of APLUS and Showa Leasing".

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 JBA for the disclosure of risk-monitored loans.

Claims Classified Under the Financial Revitalization Law

Under the Financial Revitalization Law, Japanese banks categorize their total claims in four categories by reference to the nature of the relevant assets. In addition to loans and bills discounted, claims that are subject to disclosure under the Financial Revitalization Law include foreign exchange

claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees.

Disclosure of Claims Classified Under the Financial Revitalization Law

Our current management team has consistently emphasized the monitoring and reduction of problem loans. Shinsei's total amount of problem claims as disclosed pursuant to the Financial Revitalization Law as of September 30, 2007 stood at ¥45.9 billion, as compared to ¥27.9 billion at March 31, 2007. During the six months ended September 30, 2007, doubtful claims increased from ¥10.7 to ¥23.4 billion due to downgrades of corporate obligations from U.S. entities whose primary business related to residential mortgage finance and related services and substandard claims decreased by 22.6% to ¥12.5 billion. Claims against bankrupt and quasi-bankrupt obligors increased during the six months ended September 30, 2007, from ¥0.9 billion to ¥9.8 billion, as a result of stricter self-assessment. The ratio of non-performing claims disclosed under the Financial Revitalization Law to total non-consolidated claims as of September 30, 2007 increased to 0.8%, compared to 0.5% as of March 31, 2007.

Shinsei's other claims against need caution obligors, excluding substandard claims, totaled ¥102.5 billion as of September 30, 2007, a 17.1% decrease from ¥123.6 billion as of March 31, 2007, and included private placement bonds guaranteed by Shinsei and classified as other claims against need caution obligors. These claims represented 1.8% of total non-consolidated claims as of September 30, 2007, down from 2.3% as of March 31, 2007.

Table 15. Claims Classified Under the Financial Revitalization Law (Non-Consolidated)

	Billions of yen (except percentages)		
	As of September 30, 2007	As of September 30, 2006	As of March 31, 2007
Claims against bankrupt and quasi-bankrupt obligors	¥ 9.8	¥ 0.3	¥ 0.9
Doubtful claims	23.4	8.3	10.7
Substandard claims	12.5	17.2	16.2
Total claims disclosed under the Financial Revitalization Law ⁽¹⁾	45.9	25.9	27.9
Normal claims and claims against need caution obligors excluding substandard claims	5,584.1	4,780.5	5,266.7
Total claims	¥5,630.0	¥4,806.4	¥5,294.6
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	0.8%	0.5%	0.5%

Note:

(1) Total claims disclosed under the Financial Revitalization Law include 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, 2007, Shinsei's non-consolidated coverage ratios for claims classified under the Financial Revitalization Law, which for each category of claims 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, 76.0% for doubtful claims and

89.2% for substandard claims. For all claims classified under the Law, the coverage ratio was 84.8%, an increase from 79.3% as of March 31, 2007.

Shinsei directly writes off, rather than reserves, the portion of claims against virtually and legally bankrupt obligors that are estimated to be uncollectible. In the six months ended September 30, 2007, ¥15.8 billion of such claims were written off on a non-consolidated basis.

Table 16. Coverage Ratios for Non-Performing Claims Disclosed Under the Financial Revitalization Law (Non-Consolidated)

	Billions of yen (except percentages)				Coverage ratio
	Amount of claims	Amounts of coverage		Total	
		Reserve for loan losses	Collateral and guarantees		
As of September 30, 2007:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 9.8	¥ —	¥ 9.8	¥ 9.8	100.0%
Doubtful claims	23.4	16.8	0.9	17.8	76.0
Substandard claims	12.5	3.0	8.1	11.1	89.2
Total	¥45.9	¥19.9	¥18.9	¥38.9	84.8%
As of September 30, 2006:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 0.3	¥ —	¥0.3	¥ 0.3	100.0%
Doubtful claims	8.3	3.8	3.0	6.9	82.9
Substandard claims	17.2	7.3	5.0	12.4	71.8
Total	¥25.9	¥11.2	¥8.4	¥19.6	75.7%
As of March 31, 2007:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 0.9	¥ —	¥0.9	¥ 0.9	100.0%
Doubtful claims	10.7	8.0	0.9	9.0	84.1
Substandard claims	16.2	6.5	5.6	12.1	75.0
Total	¥27.9	¥14.6	¥7.5	¥22.1	79.3%

Reserve for Credit Losses

The following table sets forth a breakdown of Shinsei's total reserve for credit losses on a non-consolidated basis as of the dates indicated:

Table 17. Reserve for Credit Losses (Non-Consolidated)

	Billions of yen (except percentages)	
	As of September 30, 2007	As of March 31, 2007
General reserve for loan losses	¥ 48.0	¥ 65.4
Specific reserve for loan losses	19.0	9.1
Reserve for loans to restructuring countries	0.0	0.0
Subtotal reserve for loan losses	67.1	74.5
Specific reserve for other credit losses	33.4	32.4
Total reserve for credit losses	¥ 100.5	¥ 106.9
Total claims ⁽¹⁾	¥5,630.0	¥5,294.6
Ratio of total reserve for loan losses to total claims	1.2%	1.4%
Ratio of total reserves for credit losses to total claims	1.8%	2.0%

Note:

(1) Total claims include 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.

As of September 30, 2007 and March 31, 2007, Shinsei's total reserve for credit losses on a non-consolidated basis was ¥100.5 billion and ¥106.9 billion, respectively, constituting 1.8% and 2.0%, respectively, of total claims as of each such date.

In the six months ended September 30, 2007, Shinsei applied the discounted cash flow method to 37.3% of its claims against possibly bankrupt obligors and 94.6% of its claims against substandard obligors, in each case by principal amount.

Risk-Monitored Loans

Consolidated risk-monitored loans increased by 16.0% during the six months ended September 30, 2007 to ¥75.2 billion. Non-consolidated non-accrual delinquent loans increased during the six months ended September 30, 2007, from ¥10.6 billion to ¥32.7 billion. The increase was primarily attributable to the downgrading of certain loans during the six month period.

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

Table 18. Risk-Monitored Loans (Consolidated)

	Billions of yen (except percentages)	
	As of September 30, 2007	As of March 31, 2007
Loans and bills discounted	¥5,456.5	¥5,146.3
Loans to bankrupt obligors (A)	0.6	1.7
Non-accrual delinquent loans (B)	39.0	21.8
Total loans (A)+(B)	¥ 39.7	¥ 23.5
Ratio to total loans and bills discounted	0.7%	0.5%
Loans past due for three months or more (C)	¥ 9.9	¥ 4.7
Restructured loans (D)	25.5	36.4
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 75.2	¥ 64.8
Ratio to total loans and bills discounted	1.4%	1.3%
Reserve for credit losses	¥ 141.7	¥ 147.2

Table 19. Risk-Monitored Loans (Non-Consolidated)

	Billions of yen (except percentages)	
	As of September 30, 2007	As of March 31, 2007
Loans and bills discounted	¥5,335.1	¥5,075.2
Loans to bankrupt obligors (A)	0.3	0.6
Non-accrual delinquent loans (B)	32.7	10.6
Total loans (A)+(B)	¥ 33.0	¥ 11.2
Ratio to total loans and bills discounted	0.6%	0.2%
Loans past due for three months or more (C)	¥ 6.0	¥ 0.0
Restructured loans (D)	6.4	16.1
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 45.6	¥ 27.4
Ratio to total loans and bills discounted	0.9%	0.5%
Reserve for credit losses	¥ 100.5	¥ 106.9

Asset Quality of APLUS and Showa Leasing

APLUS and Showa Leasing classify their obligors and assess their asset quality on a semi-annual basis based on self-assessment manuals developed in accordance with guidelines published by the FSA. APLUS and Showa Leasing's assessments, where applicable, include, among other things, an assessment of credit extended to credit

card customers as well as lease obligors, unsecured personal loans and customer guarantees.

The following tables set forth information concerning consolidated risk-monitored loans and risk-monitored installment receivables held by Shinsei, APLUS, Showa Leasing and other subsidiaries as of the dates indicated:

Table 20. Risk-Monitored Loans Breakdown for Large Entities (Consolidated)⁽¹⁾

	Billions of yen			Total
	Shinsei	APLUS	Other subsidiaries	
As of September 30, 2007:				
Loans to bankrupt obligors	¥ 0.3	¥ —	¥ 0.3	¥ 0.6
Non-accrual delinquent loans	32.7	3.3	2.9	39.0
Loans past due for three months or more	6.0	3.7	0.1	9.9
Restructured loans	6.4	19.0	—	25.5
Total	¥45.6	¥26.1	¥ 3.4	¥75.2
As of March 31, 2007:				
Loans to bankrupt obligors	¥ 0.6	¥ —	¥ 1.0	¥ 1.7
Non-accrual delinquent loans	10.6	3.5	7.7	21.8
Loans past due for three months or more	0.0	4.6	0.1	4.7
Restructured loans	16.1	19.7	0.4	36.4
Total	¥27.4	¥27.8	¥ 9.4	¥64.8

Note:

(1) Showa Leasing has no such loans.

Table 21. Risk-Monitored Installment Receivables Included in Other Assets (Consolidated)⁽¹⁾

	Billions of yen		Total
	APLUS	Showa Leasing	
As of September 30, 2007:			
Credits to bankrupt obligors	¥ 0.0	¥1.0	¥ 1.0
Non-accrual delinquent credits	1.8	1.1	2.9
Credits past due for three months or more	1.4	0.2	1.6
Restructured credits	8.0	0.1	8.1
Total	¥11.3	¥2.4	¥13.7
As of March 31, 2007:			
Credits to bankrupt obligors	¥ 0.0	¥0.2	¥ 0.2
Non-accrual delinquent credits	2.1	1.0	3.1
Credits past due for three months or more	1.6	0.0	1.7
Restructured credits	10.0	0.1	10.2
Total	¥13.8	¥1.5	¥15.4

Note:

(1) Shinsei has no such installment receivables.

Capital Ratios

From the fiscal year ended March 31, 2007, the Basel II methodology has been adopted to calculate capital ratios. For credit risk, the Foundation Internal Ratings Based Approach (F-IRB) has been applied. For operational risk, the Standardized Approach (TSA) has been adopted and the Internal Model Method has been used for market risk.

Our total capital adequacy ratio as of September 30, 2007 was 12.40%, compared with 13.13% as of March 31, 2007. Our Tier I capital ratio, or the ratio of Tier I capital to risk assets, decreased from 8.11% as of March 31, 2007 to 7.62% as of September 30, 2007. The decreases in the capital ratios at September 30, 2007 reflect mainly an increase in risk assets.

Table 22. Consolidated Capital Ratios⁽¹⁾

	Billions of yen (except percentages)	
	As of September 30, 2007	As of March 31, 2007
Basic items (Tier I):		
Capital stock	¥ 451.2	¥ 451.2
Minority interests in consolidated subsidiaries	179.8	180.7
Consolidation goodwill and other intangible assets	(172.5)	(177.8)
Gain on sale of securitization	(13.9)	(16.5)
50% of expected loss provision shortfall	(9.8)	(9.1)
Total Tier I (A)	647.6	620.8
Supplementary items (Tier II):		
General reserve for loan losses	14.7	13.9
Perpetual preferred stocks	81.0	81.0
Perpetual subordinated debt and bonds	117.4	116.6
Non-perpetual preferred stocks	17.0	19.7
Non-perpetual subordinated debt and bonds	352.1	348.3
Total	¥ 582.3	¥ 579.7
Amount eligible for inclusion in capital (B)	¥ 537.0	¥ 522.0
Deduction (C)	131.0	137.7
Capital investment to affiliated companies	53.7	54.4
Unrated securitization exposure	52.2	68.7
50% of expected loss provision shortfall	9.8	9.1
Total capital (D) [(A)+(B)-(C)]	¥1,053.5	¥1,005.0
Risk assets:		
On-balance sheet items	¥6,392.9	¥5,585.8
Off-balance sheet items	1,378.0	1,458.1
Market Risk ⁽²⁾	274.9	196.2
Operational Risk ⁽²⁾	448.1	411.8
Total (E)	¥8,494.1	¥7,652.0
Consolidated capital adequacy ratio (D) / (E)	12.40%	13.13%
Consolidated Tier I capital ratio (A) / (E)	7.62	8.11

Notes:

(1) Basel II basis.

(2) Derived by multiplying the capital requirement by 12.5 (i.e., the reciprocal of the minimum capital ratio of 8%).