

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

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

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

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

OVERVIEW

Shinsei Bank, Limited is a leading diversified financial institution in Japan bringing innovative banking practices to the Japanese market. In June 2008 we reorganized our business around two business groups: an Institutional Group and an Individual Group. Our groups 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, two-group business model consists of:

- *Individual Group*, which consists of Retail Banking and our consumer finance subsidiaries. We continue to expand our product range and enhance consultative services for retail customers to better serve the needs of its customers, including high net worth individuals. With the acquisition of GE Consumer Finance Co., Ltd. (GECF) on September 22, 2008, we believe that we are better positioned to offer a full range of products and services across the breadth of the retail banking and consumer finance businesses. This enables us to provide our customers with best-in-class financial products and services for every stage of their lives, serving them seamlessly as they move from loans to asset accumulation.
- *Institutional Group*, which consists of our Institutional Bank and Showa Leasing Co., Ltd. (Showa Leasing). The Institutional Bank 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. We serve mid-market companies, financial institutions, the public sector, financial sponsors and other institutional customers. Showa Leasing provides commercial finance to small and medium-sized businesses.

FINANCIAL SUMMARY FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2008

We reported a consolidated net loss of ¥19.2 billion for the first six months of fiscal year 2008, as compared to net income of

¥23.1 billion during the same period in the previous fiscal year.

Our Individual Group generated improved results compared to the prior period. Retail Banking returned to profitability during the period, and our APLUS Co., Ltd. (APLUS) and SHINKI Co., Ltd. (Shinki) subsidiaries continued to improve upon their performance from the prior period. With the addition of GECF to our consumer finance subsidiaries, we expect this group to increase its contribution to profits going forward.

Despite the progress that was made in our Individual Group, our overall business was impacted by the turmoil in the global capital markets and resulting losses in our Institutional Group. Our Institutional Group business was primarily impacted by a consolidated loss of ¥29.1 billion related to the bankruptcy of Lehman Brothers Holdings Inc. (Lehman Brothers), as well as mark-downs and credit costs of ¥22.2 billion related to our European investments, asset-backed investments and asset-backed securities. Our capital markets and principal investments businesses have been impacted by turmoil in the global capital markets, resulting in lower revenues within these businesses.

Our domestic businesses have continued to perform well despite the global market slowdown. We continue to show strong results in our non-recourse lending business as well as good results in our basic banking and credit trading businesses. Considering the present operating environment, we have become more discerning in our management of our domestic portfolio and continue to monitor the market closely.

During the current period, we booked gains from the sale of our Meguro Production Center of ¥7.2 billion, net of future restoration and other costs and the sale of Showa Auto Rental & Leasing Co., Ltd. (Showa Auto Rental & Leasing) of ¥8.2 billion, although these gains were lower than the gains recorded in the first half of the previous year that included the gain on the sale of Life Housing Loan Co., Ltd. for ¥20.3 billion.

Consolidated cash basis net loss for the first six months of fiscal year 2008 was ¥14.3 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.

BANKRUPTCY OF LEHMAN BROTHERS HOLDINGS INC.

On September 15, 2008, Lehman Brothers filed for bankruptcy protection in New York. We subsequently announced that we had potential exposure to Lehman Brothers of approximately ¥38 billion, comprised primarily of a ¥25.0 billion loan to a Japanese domestic subsidiary of Lehman Brothers, ¥9.0 billion in bonds (notional amount), and ¥1.0 billion in market counterparty risk.

For the period ended September 30, 2008, we have recognized ¥29.1 billion in losses on a consolidated basis. Included in these losses are credit costs of ¥18.6 billion related to our loan to the Japanese domestic subsidiary of Lehman Brothers, ¥8.4 billion of losses on bonds, and ¥2.0 billion in other related losses.

The settlement of claims against Lehman Brothers is being administered by a bankruptcy trustee. We are working to recover our claims against Lehman Brothers both in the United States and in Japan.

EUROPEAN ASSET BACK INVESTMENTS

Our financial results for the six months ended September 30, 2008, were impacted by the rapidly deteriorating economy and credit cycle within Europe. During the period, we marked-down or took losses on ¥15.7 billion of European investments, asset-backed investments and asset-backed securities and incurred credit costs of ¥6.5 billion.

U.S. RESIDENTIAL MORTGAGE PORTFOLIO

Our exposures to the U.S. residential mortgage market have been reduced from the year earlier period. As of September 30, 2008, our net exposure to the U.S. residential mortgage market amounted to approximately US\$251 million, or less than 0.25% of our total assets of approximately US\$119.2 billion as of September 30, 2008. Total mark-downs and reserves related to U.S. residential mortgages recorded in the first half of fiscal year 2008 amounted to US\$15.5 million. A full breakdown of our exposures, net mark-downs and reserves related to the U.S. residential mortgage market may be found in Table 23.

GREY ZONE AND CREDIT RESERVES – APLUS AND SHINKI

During the first six months of fiscal year 2008, APLUS recorded additional grey zone reserves for losses on interest repayments of ¥2.7 billion in connection with grey zone refunds recorded during this period. As of September 30, 2008, APLUS' grey zone reserve balance amounted to ¥7.7 billion.

During the first six months of fiscal year 2008, Shinki made grey zone refunds of ¥7.6 billion. As of September 30, 2008, Shinki's grey zone reserve balance amounted to ¥23.0 billion. No new contribution was made to grey zone reserves during the period since reserves appear adequate to meet forecast redemptions.

SIGNIFICANT EVENTS**ACQUISITION OF GE CONSUMER FINANCE**

On September 22, 2008, we acquired GECF and its subsidiaries for an all cash consideration of ¥580 billion from GE Japan Holdings Corporation. GECF brings additional scale in personal loans, credit cards, mortgage and sales finance to Shinsei's existing related operations in Shinsei Bank, APLUS and Shinki.

Under Japanese GAAP, GECF's results of operations for the six months ended September 30, 2008 had no effect on our consolidated income statement for the same period because GECF became our consolidated subsidiary at the end of the period. Following our investment in GECF, we conducted a fair value review of GECF's assets and liabilities, and also conducted a fair value review of its intangible assets for purposes of preparing our consolidated balance sheet as of September 30, 2008. The excess of our purchase price over the net asset fair value after deducting identified intangible assets and their associated deferred tax liability was accounted for as consolidation (acquired) goodwill. As a result, ¥10.4 billion in consolidation goodwill and ¥27.0 billion in intangible assets were recorded in our consolidated financial statements.

SALE OF MEGURO BUILDING

Our Meguro Production Center has outgrown the 30-year-old building in Meguro, Tokyo in which it is housed. A central Tokyo location for these operations is no longer necessary, given advances in technology, and repositioning them is more prudent from the point of view of continuity-of-business planning. As a result, we sold the Meguro building with the land for ¥19.2 billion. The Bank has entered into a lease contract with the purchaser, an affiliate of the Lone Star Real Estate Fund, which allows us to remain in the building until March 2011.

Chowa Tatemono Co., Ltd. (Chowa Tatemono), a consolidated subsidiary within the Shinsei Bank Group, owned the Meguro property. As a result of this transaction, Chowa Tatemono recorded a gain of ¥5.3 billion, net of taxes, while Shinsei Bank recorded a net gain of ¥5.6 billion on a consolidated basis in fiscal year 2008.

SALE OF SHOWA AUTO RENTAL & LEASING

After a business review of our leasing operations, we concluded that we lacked sufficient scale of our auto rental and leasing business to remain competitive over the long term. As a result, on September 30, 2008, we concluded the sale of Showa Auto Rental & Leasing, a subsidiary of Showa Leasing. After deducting our book value in Showa Auto Rental & Leasing and net costs of the transaction, our gain at September 30, 2008 was ¥8.2 billion.