

# Review of Operations

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# AT A GLANCE

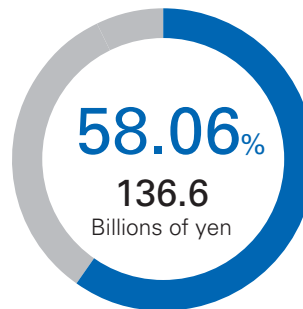
## Segment Data

### INDIVIDUAL GROUP

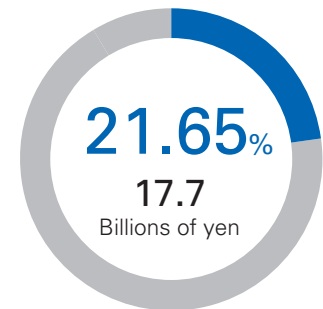
The Individual Group recorded total revenue of 136.6 billion yen. This performance was the result of an increase in the combined unsecured personal loan balance of Shinsei Financial and “Shinsei Bank Card Loan—Lake” and the larger transaction volume in the shopping credit and settlement businesses of APLUS Financial in the Bank’s consumer finance business. Net credit costs were 15.7 billion yen due to the larger balance of “Shinsei Bank Card Loan—Lake.” As a result of these factors, the Individual Group posted an ordinary business profit after net credit costs of 17.7 billion yen.

#### Contribution<sup>1</sup>

##### Total Revenue



##### Ordinary Business Profit after Net Credit Costs

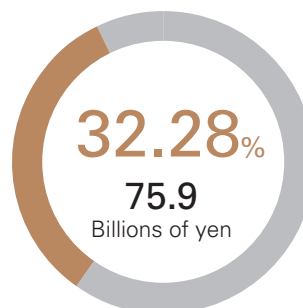


### INSTITUTIONAL GROUP

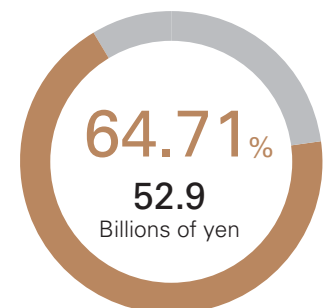
The Institutional Group recorded total revenue of 75.9 billion yen. This was due primarily to revenues from major IPO transactions in the private equity business, firm results in the domestic credit trading business, and fee income associated with new loan origination in domestic and overseas project financing transactions. In regard to net credit costs, the Group recorded a reversal (gain) of 3.9 billion yen partly due to the reduction in potential risks brought about by progression in the disposal of nonperforming loans. As a result of these factors, the Institutional Group recorded an ordinary business profit after net credit costs of 52.9 billion yen.

#### Contribution<sup>1</sup>

##### Total Revenue



##### Ordinary Business Profit after Net Credit Costs

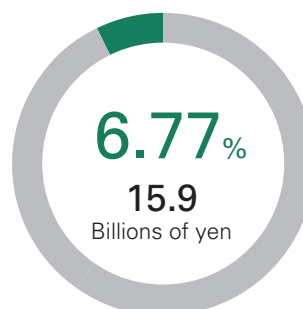


### GLOBAL MARKETS GROUP

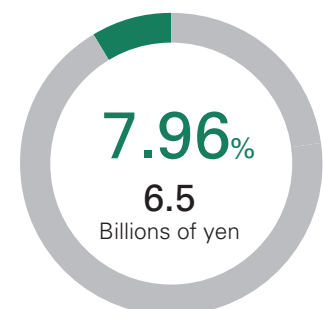
The Global Markets Group, due to efforts to grow the customer base as well as an increase in derivative, bond and equity related revenue as a result of measures undertaken to develop and offer products that meet customer needs, recorded total revenue of 15.9 billion yen. The Group’s net credit costs were 0.0 billion yen (52 million yen). As a result of these factors, the Global Markets Group recorded an ordinary business profit after net credit costs of 6.5 billion yen.

#### Contribution<sup>1</sup>

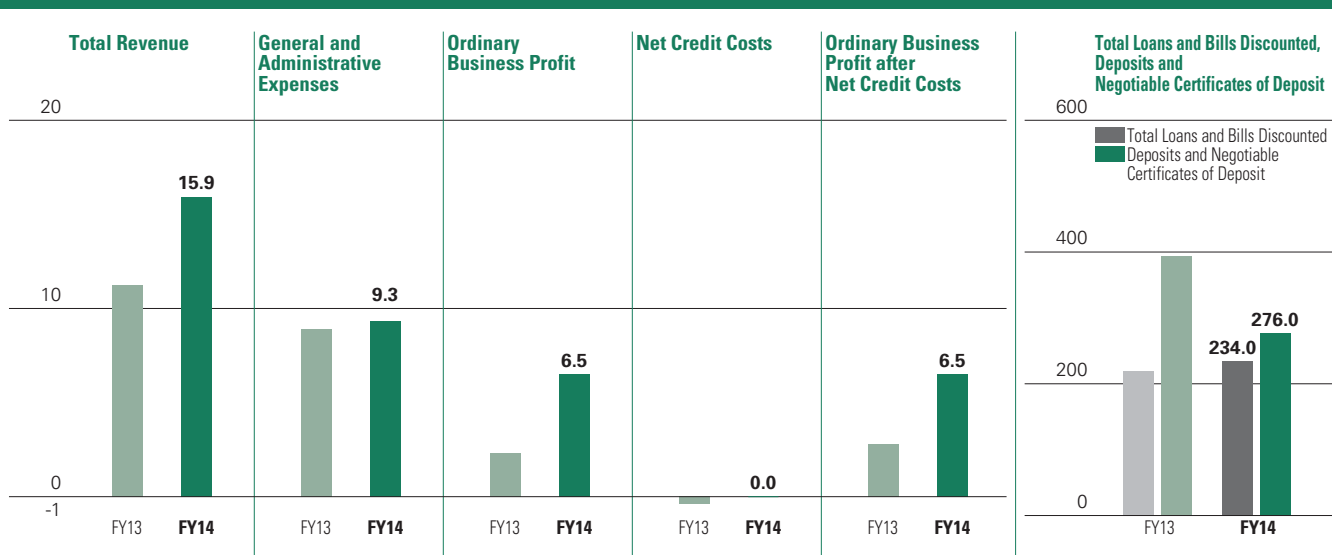
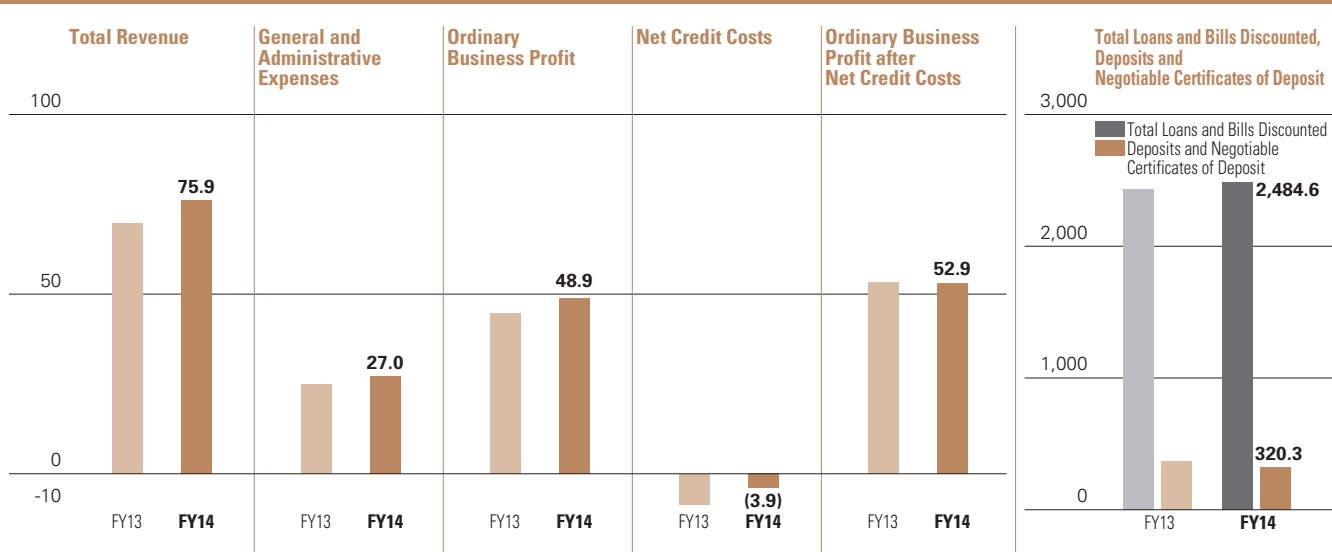
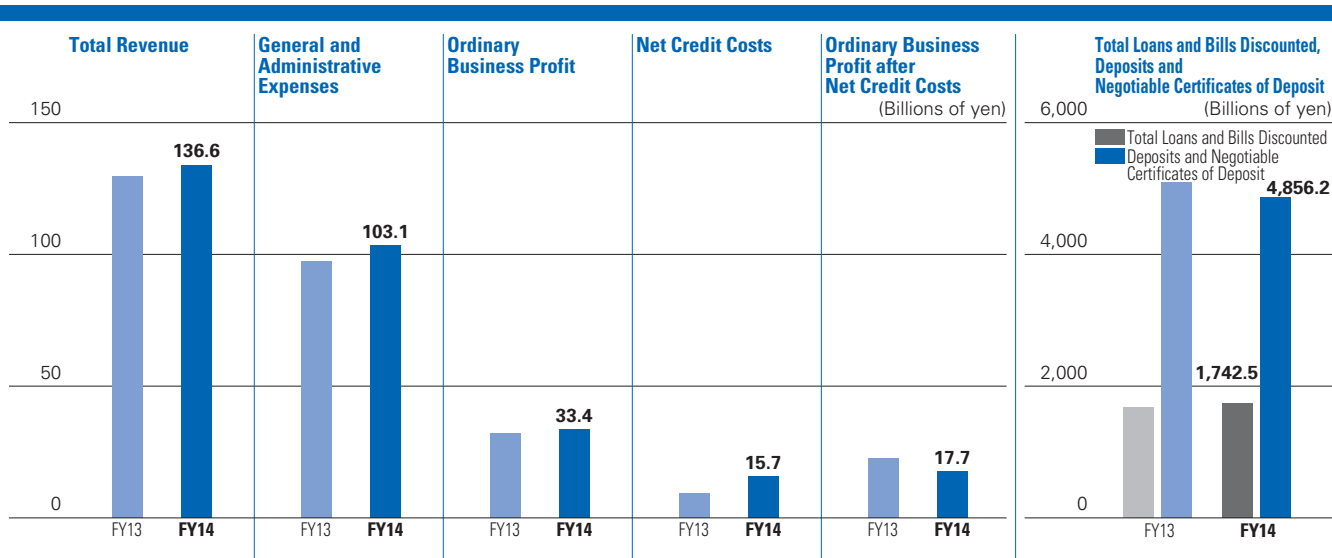
##### Total Revenue



##### Ordinary Business Profit after Net Credit Costs



<sup>1</sup> The percentage figures do not add up to 100% because Corporate/Other was negative.



Financial Highlights

Message from the Management

Special Features

Review of Operations  
At a Glance

Management Structure

Data Section

# Explanations of Major Businesses

Financial Highlights

Message from the Management

Special Features

Review of Operations  
At a Glance

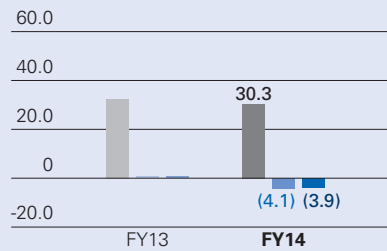
Management Structure

Data Section

## INDIVIDUAL GROUP

### Retail Banking

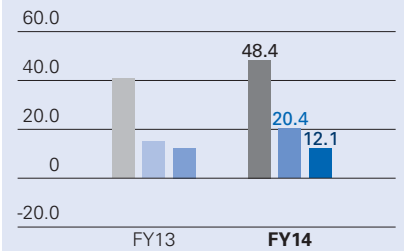
Financial products and services for individual customers, such as yen/foreign currency deposits, structured deposits, investment trusts, brokerage service through an alliance partner, life/casualty insurance through alliance partners, and housing loans



(Billions of yen)  
 ■ Revenue  
 ■ Ordinary Business Profit  
 ■ OBP after Net Credit Costs

### Shinsei Financial and Shinsei Bank Card Loan—Lake

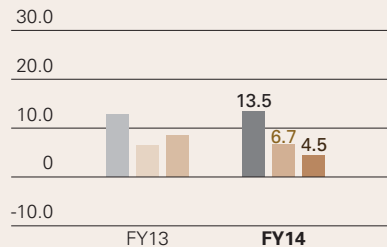
Unsecured personal loan business and credit guarantee services (Shinsei Financial and *Shinsei Bank Card Loan—Lake*)



## INSTITUTIONAL GROUP

### Institutional Business

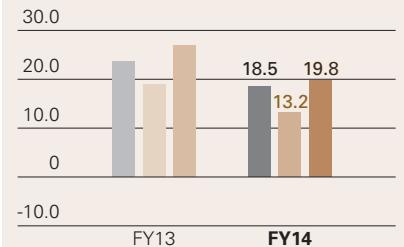
Financial products and services for corporate and public sector customers (including health-care finance and advisory services)



(Billions of yen)  
 ■ Revenue  
 ■ Ordinary Business Profit  
 ■ OBP after Net Credit Costs

### Structured Finance

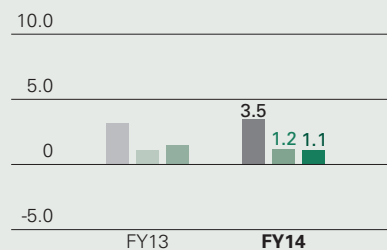
Specialty finance business including real estate finance, M&A related finance and project finance, as well as corporate restructuring and trust business



## GLOBAL MARKETS GROUP

### Financial Institutions Business

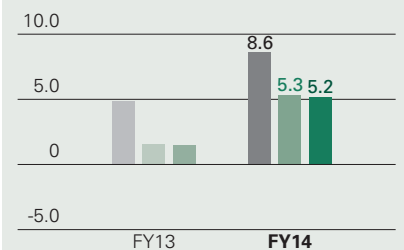
Provides financial solutions, such as investment management and managerial reinforcement, to financial institutional customers including regional financial institutions



(Billions of yen)  
 ■ Revenue  
 ■ Ordinary Business Profit  
 ■ OBP after Net Credit Costs

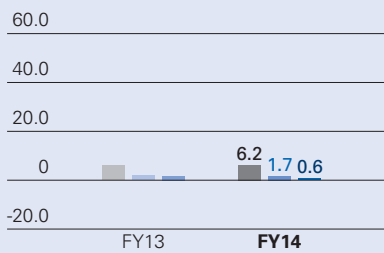
### Markets

Foreign currency exchange, derivatives, equity, and other capital markets business



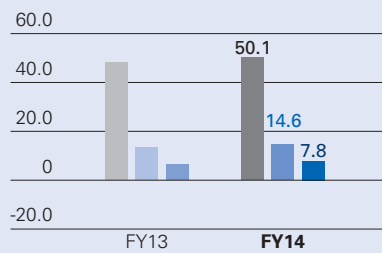
### SHINKI

Unsecured personal loan business—brand name “NO LOAN”



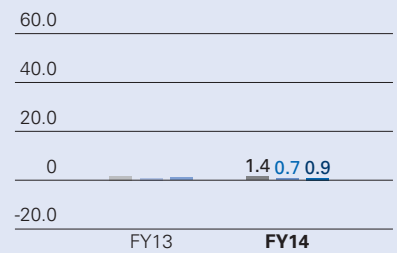
### APLUS FINANCIAL

Installment sales credit, credit cards, credit guarantee services, loans, and settlement services



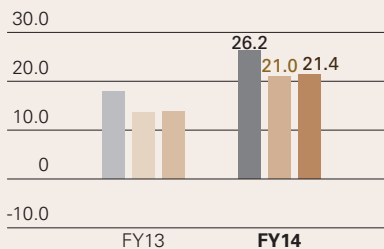
### Other Businesses

Consumer Finance Sub-Group and Shinsei Property Finance which is engaged in real estate collateralized finance



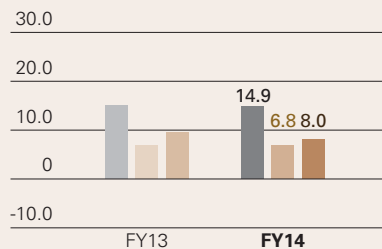
### Principal Transactions

Credit trading—the business of trading various monetary claims—and private equity



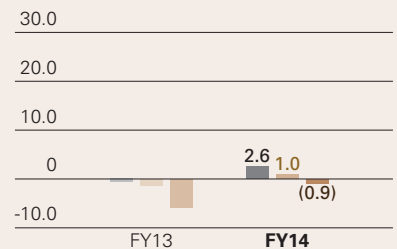
### Showa Leasing

Leasing services for information equipment, industrial machinery, and machine tools as well as finance services such as installment sales credit



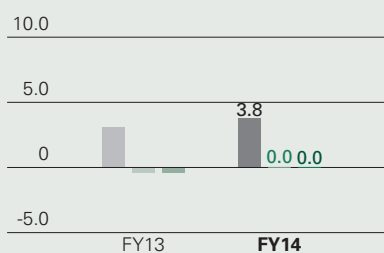
### Other Businesses

Asset-backed investment and other products and services for corporate customers



### Other Businesses

Shinsei Securities, asset management, and wealth management business



# INDIVIDUAL GROUP

**Masashi Yamashita**  
Managing Executive Officer,  
Head of Individual Group

**Masayoshi Tomita**  
Executive Officer,  
Head of Individual Planning Sub-Group

**Tetsuro Shimizu**  
Executive Officer,  
Head of Individual Business Sub-Group

The Individual Group is composed of: (1) Shinsei Bank's retail banking business, which handles deposits, investment trusts, insurance, housing loans, unsecured personal loans issued under the *Shinsei Bank Card Loan—Lake* brand, (2) Shinsei Financial Co., Ltd., which engages in the unsecured personal loan and credit guarantee businesses, (3) SHINKI Co., Ltd., (4) APLUS FINANCIAL Co., Ltd., which is engaged mainly in the credit card business and the installment sales credit business, and (5) Shinsei Property Finance Co., Ltd., which engages in real estate collateralized finance.

## Operating Environment and Results of Measures Undertaken in Fiscal Year 2014

Under the Second Medium-Term Management Plan ("Second MTMP"), the Individual Group's fundamental strategy is to realize a new retail banking model that will expand the number of the Bank's "core customers"—customers who can freely use the products and services offered by the Shinsei Bank Group companies according to their individual needs. In fiscal year 2014, the second year of the Second MTMP, in addition to continuing the "integration of the Group's businesses in order to rebuild and upgrade business and operational frameworks and foundations, the Bank implemented a number of measures aimed at achieving the steady growth of the Bank's customer base, focusing on the enhancement of the Bank's marketing, improving customer service, and strengthening business alliances.

## Strengthening Marketing

During fiscal year 2014, the *Shinsei Bank Card Loan—Lake* business undertook a number of measures to strengthen its customer base, including the introduction of a new smartphone app to enhance customer convenience and measures to enhance and differentiate its brand image, including the launch of a new brand concept and introduction of new image characters that better fit customer perspectives. *Shinsei Bank Card Loan—Lake* now has about 400,000 users and total outstanding loans increased steadily in fiscal year 2014, rising from ¥118.8 billion as of the end of March 2014 to ¥166.7 billion as of the end of March 2015. Additionally, anticipating the continued growth of our consumer finance business, we plan to move the head office functions of all six consumer finance Group companies into the same office building (Sumitomo Realty & Development Akihabara Building in Chiyoda Ward, Tokyo) during the first half of fiscal year 2015, in order to facilitate the sharing of best practices between the subsidiaries.

## Enhancing Customer Service

In the housing loan business, the Bank's housing loans product "Shinsei Bank PowerSmart Home Mortgage Anshin Pack W" ("Anshin Pack W") has been highly popular with homebuyers, especially in urban areas, since its introduction in 2014. As a result of factors such as this, our housing loan balance increased to ¥1,228.0 billion at the end of fiscal year 2014. *Anshin Pack W* is a product which provides borrowers with coupons that can be exchanged for sick child care and housekeeping services, and is a new type of housing loan product which supports families with children and dual income families. The appeal of this new product was further enhanced in April 2015 by the addition of the TOKYU Group Plan, a package of after-school, cultural school and home security services made available through a business alliance with the Tokyu Corporation and its group companies.

In the investment trust business, we enhanced customer service with the introduction of the NISA Plus program in May 2014, a program which waives application fees for customers opening a Nippon Individual Savings Accounts (NISA) if they apply to purchase specific investment trusts. Additionally, we also endeavored to increase sales of investment trusts by expanding the lineup of trust products suitable for use with NISA. We also promoted our yen and foreign currency deposit services and continued to strengthen our offerings of structured bonds, offered to customers in cooperation with consolidated subsidiary Shinsei Securities Co., Ltd.

We enhanced the appeal and convenience of our foreign currency products and services in October 2014 by lowering the fees charged on transactions in five currencies, including the U.S. dollar, in order to enable our customers to flexibly engage in foreign currency transactions. In the first half of fiscal 2015, APLUS Co., Ltd., a subsidiary of Group company APLUS FINANCIAL, will launch GAICA, a prepaid card for use overseas that can be used with Shinsei Bank PowerFlex accounts. Users will be able to charge their GAICA cards using Japanese yen as well as with foreign currency deposits held in their Shinsei Bank PowerFlex accounts and then use them to pay for purchases in more than 200 countries and territories overseas. By combining APLUS's expertise in credit card and settlement services together with the Bank's foreign currency products and services, the Bank is able to provide customers with a new method for using foreign currencies and further enhance the convenience of its foreign currency services. Shinsei Bank will continue to leverage such Group synergies to enhance its foreign currency product offerings and services, already one of the Bank's core strengths.

The Bank also has been considering expanding its financial services for individuals to overseas markets, especially in Asia. As a result, the Bank established Nippon Wealth Limited, a Restricted Licence Bank ("NWB"), specializing in providing asset management services for individual customers in Hong Kong. NWB was granted a banking license as a restricted licence bank by the Hong Kong Monetary Authority in April 2015 and is now preparing to commence full scale operations within the first half of fiscal year 2015.

## Strengthening Business Alliances

Shinsei Bank has entered into an alliance with Culture Convenience Club Co., Ltd. (CCC), the operator of the shared point reward program T-Point, and is expanding its offering of financial products and services which offer T-Points. This business alliance also opens up the possibility of new marketing strategies

utilizing T-Point member data provided to the Bank by CCC, as well as the possibility of utilizing advertising through other T-Point Program affiliates in order to expand the Bank's business.

## Fiscal Year 2014 Results

In fiscal year 2014, the Individual Group increased total revenue from ¥129.3 billion in the previous year to ¥136.6 billion. Although the retail banking business' net interest income earned on deposits decreased amid falling market interest rates, the consumer finance business recorded solid growth in net interest income on the growth of the combined unsecured personal loan balance of Shinsei Financial and *Shinsei Bank Card Loan—Lake*, and noninterest income rose as a result of an increase in shopping credit and settlement transaction volumes of APLUS FINANCIAL, which resulted in the growth of revenue. Business expenses rose from ¥97.3 billion in fiscal year 2013 to ¥103.1 billion in fiscal year 2014 as a result of the proactive implementation of initiatives aimed at smoothly carrying out the Second MTMP, despite continued efforts to rationalize and boost efficiencies in all aspects of our operations. Net credit costs increased in fiscal year 2014, rising from ¥9.3 billion a year earlier to ¥15.7 billion, with the increase mostly due to expansion of the loan balance at *Shinsei Bank Card Loan—Lake*. As a result of the preceding factors, ordinary business profit after net credit costs at the Individual Group in fiscal year 2014 totaled ¥17.7 billion, down from ¥22.6 billion in fiscal year 2013.

## Strategies and Measures for the Final Year of the Second MTMP

The Individual Group's emphasis in fiscal year 2015, the final year of the Second MTMP, will be on "Expanding the customer base and enhancing profit-generating capabilities." Specific strategies and measures to achieve these goals include making efficient use of yen-denominated time deposits that fulfill a wide variety of customer needs and leveraging the T-Point Program in strengthening the Shinsei Bank brand and further raising consumer awareness of the Bank, and expanding opportunities for cross-selling. Additionally, measures to expand the offering of products and services will remain focused on increasing collaboration with housing developers and real estate brokers as we seek to expand channels for reaching customers in an increasingly competitive housing loan market, which is made even more competitive due to declining demand for refinancing of existing home loans. We will also continue our efforts to increase the convenience of our product offerings and to develop unique products that meet diversifying customer needs. In foreign currency related business, we will expand our product offerings and services while building the most optimal platform for foreign currency transactions, through which we aim to establish Shinsei Bank as our customers' preferred bank for foreign currency translations by providing customers with comprehensive services that enable them to "increase, use, and send" currencies.

By promoting increased collaboration and Group synergies, the Bank and its Group companies will strive to expand transaction volume and value, in addition to further strengthening our credit card business and increasing the outstanding card loan balance. Lastly, the Bank will continue to consider ways to capture the increasing financial needs of individuals in Asian markets in its overseas business.

# INSTITUTIONAL GROUP



**Shinichirou Seto**  
Senior Managing Executive Officer,  
Head of Institutional Group

The Institutional Group is composed of: (1) the Institutional Business that provides private and public sector corporate customers financial institution customers with loans, other corporate financial services, and financial products and solutions and structured finance for real estate and other projects, (2) the Principal Investments that operates the credit trading and private equity businesses, (3) Showa Leasing, which is engaged in the leasing business and (4) Shinsei Trust & Banking, which is engaged in the trust business.

## Operating Environment and Results of Measures Undertaken in Fiscal Year 2014

Under the Second Medium-Term Management Plan (Second MTMP), the Institutional Group's fundamental strategy is to support the growth of enterprises, industries and regions through business participation and to further strengthen and utilize our expertise. While endeavoring to differentiate its services by focusing on areas such as renewable energy, medical and healthcare services, and support for corporate start-ups and turnarounds, the Institutional Group also plans to further strengthen its efforts with areas in which it already has specialized expertise.

In fiscal year 2014, the second year of the Second MTMP, the Institutional Group has made progress in expanding business in the strategic focus areas designated in the Second MTMP of renewable energy, medical and healthcare services, and support for corporate start-ups and turnarounds. As a result, the Group has made steady progress in its endeavors to expand the customer base, strengthening profitability, and

enhancing differentiation from its competitors. Additionally, as a result of the favorable market environment created by Abenomics and the Bank of Japan's unprecedented quantitative and qualitative monetary easing, the Group has further improved the asset quality of the portfolio through the continued disposal of legacy nonperforming loans.

### Developments in Strategic Focus Areas

In the area of healthcare finance, the Group has worked to expand business by strengthening business alliances with investors and with operators of nursing care and other medical facilities. In April 2014, the Group joined five companies including Kenedix Inc. to establish an asset management company to manage a healthcare real estate investment trust (REIT). Additionally, the healthcare REIT was established in May 2015 and preparations are being made for its listing on the Tokyo Stock Exchange.

During fiscal year 2014, we continued our efforts to establish and develop a domestic project finance market for renewable energy projects by supporting project operators in their growth stages, primarily by arranging project financing for medium-sized



projects. Our diverse efforts in fiscal year 2014 included (1) the provision of a highly stable financing scheme for a project utilizing the Shinsei Bank Group company Shinsei Trust & Banking as the trustee and official main project operating company, (2) the composing of a project that saw participation by foreign entities with international experience and expertise in renewable energy projects, (3) the composing of a syndicated loan for a wood biomass power generation business, and (4) the arranging of project financing for a wind power generation business. As a result of such efforts in fiscal 2014 as well initiatives undertaken in past years, we have now participated in approximately 20 renewable energy projects with a commitment total of approximately ¥120 billion.

### Institutional Business

By leveraging a finely tuned customer segmentation system, a well-organized sales promotion system with a well-defined concept of desirable transactions, and a sophisticated risk management system that enables rapid credit risk assessment, the Group has continued its efforts aimed at expanding and strengthening its corporate customer in order to further accumulate high-quality assets.

### Real Estate Finance

In the real estate finance business, the Group continued to identify and participate in highly attractive new projects while also taking aggressive action to optimize its asset portfolio. As a result, significant progress was made in reducing nonperforming loans. Additionally, in the acquisition of new loan assets, the Group continued practicing prudent loan origination based on thorough risk-return analysis of individual transactions as well as careful consideration of the real estate market as a whole.

### Principal Transactions

Leveraging the platform provided by Group subsidiary Shinsei Principal Investments Group (Shinsei PI Group), efforts to help customers cope with the expiration of the SME Financial Facilitation Act, the aging of the population, and other changes in their business environment were continued through the enhancement of our consulting functions, the provision of solutions for long-term nonperforming claims of corporate customers, and increasing the investment value of companies invested in before their IPOs by supporting their business growth in an effort to increase the value of the companies. In fiscal year 2014, we recorded considerable income flows from our private equity business owing to a major large IPO and exiting credit trading asset positions.

### Overseas Business

To support corporate customers' expansion into overseas markets, we have enhanced our overseas business expansion support structure in Asia by establishing business alliances with (1) Forval Corporation (in March 2014), (2) the Military Commercial Joint-Stock Bank, a large private commercial bank in Vietnam (in March 2014), and (3) RHB Bank Berhad, one of Malaysia's leading commercial banks (in January 2015). Additionally, the Bank has proactively engaged in project financing initiatives in the Asia/Oceania region and in private finance initiatives (PFIs) and public-private partnerships (PPPs) in Europe.

### Showa Leasing Co., Ltd.

Showa Leasing Co., Ltd., in addition to providing leases for industrial machinery, machine tools and other essential equipment to middle-market companies and SMEs, has engaged in the provision of solution such as the buying and selling of used equipment,

providing loan guarantees backed by movable property collateral, the arranging of financing to promote the acquisition of environmentally sound products and renewable energy-related equipment by leveraging its strengths and expertise, whilst enhancing collaboration with the Bank. In October 2014, Showa Leasing reorganized its sales organization, restructuring business departments formerly responsible for specific target industries into the new Next Generation Business Promotion Department. The new organization will encourage the development of highly competitive businesses and products, while sales personnel assigned to individual customers will be transferred to area sales teams, creates an organization that will facilitate cross-selling.

### Fiscal Year 2014 Results

The Institutional Group posted total revenue of ¥75.9 billion in fiscal year 2014, increased from ¥69.5 billion in the previous year. The increase primarily reflects gains achieved by the private equity business on a major IPO and the strong performance of the domestic credit trading business. Additionally, fee income obtained from loan originations for domestic and overseas project financings also increased. General and administrative expenses totaled ¥27.0 billion, up from ¥24.8 billion in the previous fiscal year, as we increased staff in strategic focus areas and expanded our business base. Regarding net credit costs, as a result of progression in the disposal of nonperforming loans, potential credit risks have been reduced, and as now no new major provisions to reserves against potential loan losses. However, reversals of reserves for loan losses owing to the improving creditworthiness of borrowers were also less than in the previous year, and as a result of the preceding factors, the Institutional Group recorded an ordinary business profit after net credit costs of ¥52.9 billion in fiscal year 2014, compared with ¥53.2 billion in the previous fiscal year.

### Strategies and Measures for the Final Year of the Second MTMP

In fiscal year 2015, the final year of the Second MTMP, the Institutional Group will continue its efforts to build a business foundation that will support sustainable growth in the future. These efforts will include leveraging the functions of various Shinsei Bank Group companies, the Group's customer base, and its relations with regional financial institutions to further strengthen its capabilities in new focus areas as well as areas in which it has demonstrated expertise.

As part of the strategy and initiatives to facilitate this, the Financial Institutions Sub-Group and the Institutional Business Sub-Group were integrated in April 2015. By integrating our corporate sales and financial institution sales operations, we believe we can strengthen the Bank's proposal capabilities and operate more efficiently, through which we will be able to aggressively promote business expansion through collaboration with financial institution customers, most of which are regional financial institutions.

Additionally, in May 2015, the Institutional Business Sub-Group and the Principal Transactions Sub-Group were both dissolved, and the Institutional Business Division and the VBI Promotion Division were integrated into the newly formed Institutional Business Planning Division, creating a single, integrated unit for the planning and promotion of new business in all units of the Institutional Group. We expect the resulting increased cooperation among all the units of the Group and the enhanced capability to propose solutions to customers will facilitate cross-selling and enable us to further expand our customer base and our expertise even further.

# GLOBAL MARKETS GROUP



**Hironobu Satou**  
Managing Executive Officer,  
Head of Global Markets Group

The Global Markets Group is composed of: 1) the Markets Sub-Group that engages in foreign exchange, derivatives, and other capital markets operations, 2) the Asset Management Sub-Group that engages in the asset management business, including provision of investment trusts, and a wealth management business that provides financial products and services to high net-worth individuals and 3) and Shinsei Securities, a securities company engaged in securitizations and securities brokerage business.

## Operating Environment and Results of Measures Undertaken in Fiscal Year 2014

Under the Second Medium-Term Management Plan (Second MTMP), the Global Markets Group aims to achieve the establishment of a sustainable growth base by strengthening its ties with regional financial institutions, enhancing its sourcing and other market solution capabilities as well as its offerings of financial products and services.

### Markets Sub-Group

While having endeavored to strengthen its solutions-oriented marketing structure in order to attract new customers and expand transactions with existing customers, the Markets Sub-Group recorded a steady level of derivatives transactions which met the needs of corporate customers in hedging against volatility in foreign exchange markets and interest rates.

These efforts to provide solutions that meet the various needs of customers led to a steady increase in market-related revenue.

While trading and proprietary investments continued to face challenging market conditions, including lower market interest rates and tighter credit spreads, efforts to provide finely-tuned solutions that meet the diverse needs of our customers in a timely manner, including revising and supplementing our systems for marketing to corporate and individual customers and for supplying products and services, were continued in order to establish a stable earnings platform.

### Asset Management Sub-Group

In regard to the sale of investment trusts, the Asset Management Sub-Group continued to develop its business in a customer centric manner, and in fiscal year 2014, enjoyed strongly favorable response from customers to the newly launched Shinsei World Smart Bond Fund (“Shinsei Kenjin no Saihai”), a bond fund created for individual customers that invests in a wide variety of global bonds and targets long-term asset growth, expanded the Bank’s assortment of product offerings that are suitable for Nippon Individual Savings Accounts (NISA) and introducing

programs responding to NISA. Additionally, the Sub-Group also engaged in efforts in the development and sales of privately placed investment trusts in tune with market trends and the unique, specialized investment needs of financial institutions and high-net-worth individuals, which have resulted in a firm increase in the balance of assets under management in investment trusts during fiscal 2014.

### Shinsei Securities

Shinsei Securities, a subsidiary of the Shinsei Bank Group, continued efforts to provide optimal solutions to customers through the leveraging of its accumulated expertise in the securitization business as well applying the same expertise in order to engage its varied structured finance business. Additionally, in the securities brokerage business through which the Bank sells bonds to individual investors at the Bank's branches stepped up its efforts to increase its offering of products in line with market trends and as a result enjoyed a continued increase in the number of accounts and value of investment products sold. Furthermore, Shinsei Securities also continued to build its brokerage business with regional financial institutions of green bonds, bonds issued by the World Bank's International Finance Corporation (IFC) as a means to raise funds to support projects dealing with climate change.

### Financial Institutions Sub-Group

In the Financial Institutions Sub-Group's loan business, which includes initiatives in new areas of finance and overseas transactions, the loan syndication function was reorganized and strengthened and the Sub-Group engaged in efforts to rapidly develop and provide products that meet the needs of financial institution clients as part of efforts to strengthen ties with regional financial institutions as well as its ability to promote structuring individual deals. We also continued efforts toward the timely development and delivery of products that meet customer needs for more advanced asset management methods. These efforts, in combination with ongoing efforts in the buying, selling, and brokering of loans made to corporations and regional governments and provision of markets related loans, have resulted in the successful realization of multiple cash flow financing initiatives, primarily in the field of renewable energy, in cooperation with regional financial institutions. Additionally, in regard to the Bank's initiatives in cooperating with regional financial institutions to support the revitalization of regional economies, including the provision of capital to local enterprises in cooperation with regional financial institutions, the Bank has engaged in the provision of the diverse capabilities of the Shinsei Bank Group, collaborating through the Bank's subsidiaries Shinsei Financial and APLUS FINANCIAL in personal loans and through the subsidiary Showa Leasing in corporate financings, in addition to providing the products and services of Shinsei Bank.

Additionally, as part of efforts to ensure efficient operations and to strengthen our business development and solution proposal capabilities in collaboration regional financial institutions, the Financial Institutions Sub-Group was integrated into the Institutional Group in April 2015.

## Fiscal Year 2014 Results

In fiscal year 2014, total revenue of the Global Markets Group increased from ¥11.2 billion in fiscal year 2013 to ¥15.9 billion. This increase is due to the Group's successful efforts to expand its customer base and to develop and deliver products that meet customer needs, resulting in increases in derivatives-related income and in equity and fixed income related income. Expenses increased from ¥8.9 billion yen in fiscal year 2013 to ¥9.3 billion in fiscal year 2014. The increase reflects the strategic investment of resources in priority areas in order to expand the customer base and to strengthen our marketing capabilities and product provision frameworks. Net credit costs came to ¥52 million in fiscal year 2014, whereas in fiscal year 2013 net credit recoveries of ¥0.4 billion were recorded due to changes in the reserve ratio and other factors.

As a result, the Global Markets Group recorded an ordinary business profit after net credit costs of ¥6.5 billion in fiscal year 2014, increased from the ¥2.8 billion result in fiscal year 2013.

## Strategies and Measures for the Final Year of the Second MTMP

In fiscal year 2015, the final year of the Second MTMP, the Global Markets Group will continue to enhance and strengthen its market solutions capabilities as well as its product offerings and services. By leveraging the uniqueness of the Shinsei Bank Group to provide products and services that generate added value to its customers, the Global Markets Group aims to build a stable yet differentiated business base that will facilitate sustainable growth.

Specific strategies and measures include maintaining the focus of the Markets Sub-Group on business on promoting solutions-oriented marketing to customers based upon current market conditions and customers' business environments. In its Asset Management business, the Bank looks to stabilize its profitability by broadening its lineup of new, market-leading products and increase assets under management. Additionally, we also are striving to differentiate the Bank through measures such as flexibly delivering unique products through Shinsei Investment Management Co., Ltd., a Shinsei Bank Group company. Shinsei Securities aims to develop its securitization business into one that generates added value and improves customers' risk-return balance through efforts such as diversifying product offerings, and in the securities brokerage business, the subsidiary aims to broaden its brokerage channels and provide flexible products with special features that are in tune with market trends.

# Status of Regional Revitalization and SME Management Improvement Initiatives

To improve the management of Small- and Medium-sized Enterprises (“SMEs”) and contribute to regional revitalization, Shinsei Bank is engaging in initiatives such as those described below, providing our expertise and, depending upon the initiative, cooperating with local financial institutions and the SME Business Rehabilitation Support Cooperative. In addition to supporting SMEs and local businesses that have promising technologies or business models, the Bank is promoting the development of new business areas and businesses that contribute to the revitalization of regional economies, including the ongoing reconstruction from the 2011 Great East Japan Earthquake and tsunami disaster. The Bank’s efforts focus on providing multifaceted management solutions that satisfy not only funding need, with an emphasis on cash flow financing, but also needs for human resources and such services as business strategy planning and implementation support. Through such efforts, the Bank aims to expand the scope of its business with growing SMEs and contribute to the development of new innovative businesses.

## Examples of Shinsei Bank Initiatives

- **Examples of supporting regional revitalization through cooperation with regional financial institutions**

**SME engaged in industrial waste disposal:** Shinsei Bank cooperated with a partner regional financial institution to support an enterprise seeking to develop a wood biomass power generation business utilizing unused timber in a part of Japan rich in man-made forest resources. Together with the region’s leading regional financial institution, we served as the lead arranger of a syndicated loan for the project, and by sharing risks with the project company and providing financing schemes centered on the project’s cash flow generation, Shinsei Bank enabled the project company to raise the funds needed to turn its plans into a viable business. The initiative is significant not just as a project that contributes to revitalization of the region’s forestry industry and other related industries but also because the financing has found support from a number of local regional financial institutions as well as getting a boost from the local prefecture’s “Furusato (hometown) loan” program.

**Local sake brewing company:** Despite an award-winning new product and strong ties with a major department store, this company had seen its sales decline sharply amid the contraction of Japan’s sake industry as a whole. In addition, the company’s elderly president desired to retire but could not find an appropriate successor for the business. Shinsei Bank was informed of this need to find a successor by a local regional financial institution and, taking into consideration financial conditions, business motivation and potential synergies, determined that the sake brewer was a good match for a health foods/cosmetics company that had been looking for an M&A opportunity, facilitating a smooth transfer of the sake brewer’s business to the larger health foods/cosmetics maker. As a result, the sake brewer not only resolved its succession issues but is now able to take advantage of the successor entity’s sales channels and product development capabilities, and the deal has proven to be a significant development for both companies.

- **An example of supporting regional revitalization through business rehabilitation**

**Leisure facilities operator:** This company operates a local ski resort, a golf course and a hotel. It has been a major contributor to its local economy by promoting the area’s tourism industry

and by providing employment to local farming households during the winter season. However, owing to the dwindling ski and golf populations in Japan as well as the wider negative economic impact of Lehman Shock, the company had recorded losses in recent years. Eventually it had to abandon its efforts to restructure on its own and seek rehabilitation under a sponsor via civil rehabilitation proceedings. Responding to a request to help find a sponsor company, Shinsei Bank and the company’s attorney cooperated with a number of sponsor candidates to facilitate an efficient due diligence process that resulted in the early selection of a nationwide hotel chain as the rehabilitation sponsor. The concerned company was thus able to continue business operations and maintain employment of its workers while successfully completing the rehabilitation process.

- **An example of supporting business rehabilitation**

**SME maker of machine parts:** This company is a supplier of machine parts with superior technologies and a strong customer base that includes several major finished product makers. However, deterioration in the company’s earnings led it to seek a private rehabilitation under the sponsorship of a turnaround fund, with debt forgiveness by financial institutions arranged by a public institution. The company’s rehabilitation included such measures as the elimination of unprofitable transactions, more thorough cost controls and the reduction of expenses, which enabled the company to regain profitability and further enhance its corporate value. Shinsei Bank provided the company with a new credit facility that enabled it to smoothly carry out its business rehabilitation.

- **Examples of supporting companies in their growth stages**

**SME engaged in the development, production and sale of treatment agents for sewage, sludge, radioactive substances and other waste materials:** This company, together with a number of other companies, was commissioned by the Japanese government to conduct trials on the use of wood biomass energy. The Bank is supporting this endeavor by providing the necessary project funding until the company begins to receive commission income from the government. Shinsei Bank undertook the financing of this project for two reasons: (1) because the project is important to the customer’s development of its decontamination business focusing on radioactive cesium as well as the full-scale expansion of its biomass power generation business, and (2) because this project will contribute to the restoration of the forestry industry in areas still suffering from the 2011 Great East Japan Earthquake and tsunami disaster while further promoting Japan’s use of renewable energy.

**Exporter of used automobiles:** Following the Great East Japan Earthquake, many countries shunned the importing of used vehicles from Japan, and as a result, this exporter of used automobiles saw a decline in revenues. In recent years, however, its sales have been on an uptrend, with demand for used Japanese vehicles rebounding amidst a favorable global economic environment and the continued depreciation of the yen. The upswing in sales has increased the company’s demand for capital, and it has sought to raise funds from a wider group of financial institutions. Shinsei Bank supported the company in this regard through the arrangement of financing and facilitation of fund procurement that included first-time transactions with multiple financial institutions. The Bank’s support has not only provided the company with the capital necessary to take advantage of the improving business environment but also helped meet its needs as a company in its growth stage.

# GLOSSARY

## ABI (Asset-backed Investment)

At Shinsei Bank, ABI refers to a former product program which included loans backed mainly with infrastructure, real estate, businesses, and business assets as collateral.

## Advisory

Shinsei Bank's advisory business proposes solutions to meet customers' diverse needs in areas such as M&A, corporate restructuring, and fundraising in Japan and overseas.

## ALM (Asset Liability Management)

ALM refers to the comprehensive management of the market risks and liquidity risks that exist in the Bank's balance sheet (i.e. assets and liabilities) as a result of its business operations. ALM aims to optimize interest rate income from the Bank's balance sheet and economic value by monitoring interest rate conditions and asset/liability duration, including off-balance items such as derivatives on the Bank's account, and adjusting for risks in assets/liabilities and derivatives transactions in consideration of the change in values of assets, liabilities, and periodical profits or losses due to market fluctuations.

## Asset Management

In a broad sense, Asset Management refers to Shinsei Bank's overall asset management business, but in a narrower sense it refers to the investment trust business and investment advisory business. Shinsei Bank offers a variety of unique financial products and services for both institutional and individual (including high-net worth) customers, primarily through the Global Markets Group and the Individual Group (retail banking Business).

## Business Incubation

Business Incubation offers not only loans and capital, but also management solutions such as human resources, supplementary functions, and business planning and strategy support to customers aiming to start, or customers who have recently started, a business.

## Capital Markets Business

Capital Markets business refers to capital markets-related transactions, including derivatives and trading, in order to meet customer needs for investment, risk hedging, fundraising, etc.

## Consolidated Net Income, Cash Basis Net Income

Cash basis net income is calculated by excluding impairment and amortization of goodwill resulting from acquisitions of subsidiaries and other intangible assets, net of tax benefits, from consolidated net income—and represents the bottom-line profit for the relevant fiscal year.

## Credit Guarantee Business

Credit Guarantees represent a guarantee to repay a loan made by a partner financial institution on behalf of the borrower, in the case that the borrower becomes unable to make repayments, in return for a fee. In the Shinsei Bank Group, Shinsei Financial is focused on this business, offering comprehensive support to partner financial institutions including advice on advertising strategies and product design as part of its service.

## Credit-linked Loan

Credit-linked Loans are structured loans which incorporate derivatives linked to the credit risk of a company other than Shinsei Bank (the borrower). They are offered as an investment product to customers.

## Credit Trading

Credit Trading offers balance sheet optimization solutions, including the purchase of loan receivables from current creditors or an investment in (purchase of) monetary claims held by the customer. Shinsei Bank also invests in monetary claims such as loans and leases sold in the secondary market for non-performing loans, aiming to make profits by securing a greater return than the initial investment through servicing or resale of the receivables.

## Derivative

Derivative is a collective term referring to transactions that are derived from or linked to other underlying transactions such as interest rate, bond, foreign exchange, and equity transactions. They are also called "financial derivatives" since most of the transactions originate from financial products.

## Exposure

Exposure refers to an amount of assets or an amount of money that is exposed to foreign exchange, price fluctuations or other risks as a result of loans and investments.

## (Grey Zone) Interest Repayment

Prior to the interest rate reduction implemented as part of the revisions to the Money Lending Business Law, the interest rates on some consumer finance products offered by the Shinsei Bank Group's subsidiaries exceeded the upper limit stipulated by the Investment Law. Following a ruling by the Supreme Court in January 2006, customers who paid more than the upper limit stipulated by the Investment Law have been allowed to request a refund of the extra interest paid. Accordingly, consumer finance companies have recorded reserves in order to cover losses on (grey zone) interest repayments.

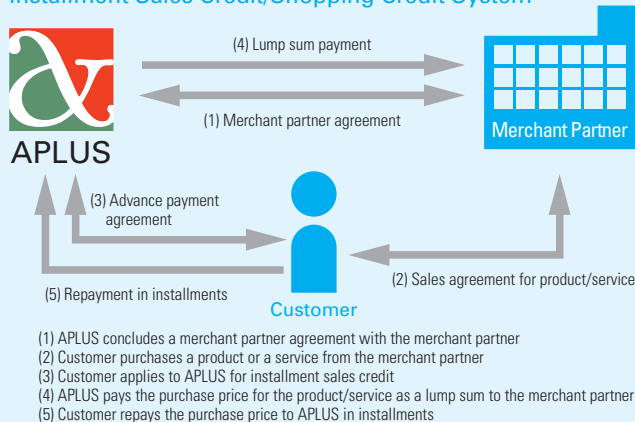
## Healthcare Finance

Healthcare Finance refers to financing— primarily nonrecourse loans— as well as financial advisory on management strategies and M&A for senior care facilities and nursing homes.

## Installment Sales Credit (Shopping Credit)

Installment Sales Credit (Shopping Credit) is a service that allows customers to pay for goods or services in installments without using a credit card. Shinsei Bank group offers this service primarily through APLUS FINANCIAL.

## Installment Sales Credit/Shopping Credit System



## LBO Finance (Leveraged Buyout Finance)

LBO finance is a type of M&A finance based on the assets or future cash flows of a company to be acquired. It is used when a company or an investment fund acquires another company. At Shinsei Bank, LBO Finance is included in Specialty Finance.

### MBO Finance

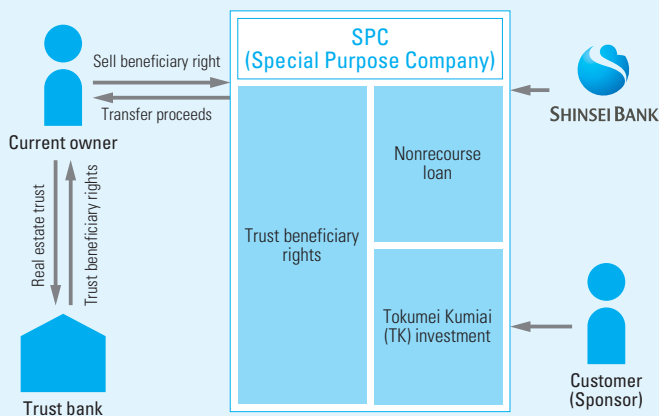
MBO stands for Management Buyout. It is a type of LBO finance offered when a company's management buys its own company co-working with an investment fund and others. At Shinsei Bank, MBO Finance is included in Specialty Finance.

### Net Credit Costs

Net credit costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, reversal (gains) of reserves for loan losses, and recoveries of written-off claims resulting from their disposal.

### Nonrecourse Loan

Nonrecourse loans are loans for which repayment is made solely from the cash flows generated from specific businesses or assets (typically, but not always real estate), with no recourse to the sponsor.



### Ordinary Business Profit (Loss)

Ordinary business profit (loss)—the indicator of profit (loss) from core business after expenses—is calculated by subtracting “expenses” from “total revenue.” “Net credit costs” are excluded from this calculation.

### Portfolio

A portfolio refers to a group of various components. An asset portfolio, for example, refers to a collection of various assets such as real estate, cash deposits, and equities.

### Principal Transactions

Principal Transactions generally refer to a bank's proprietary investments. Shinsei Bank proactively makes proprietary investments in the Credit Trading and Private Equity businesses in order to meet customers' needs for corporate restructuring, business succession, and growth funds.

### Private Equity

In general, Private Equity refers to privately-placed shares and shares that are not traded in stock exchanges or over-the-counter markets. Private equity investments can be classified into venture capital, which are investments in growing companies, and investments to acquire control of mature companies in order to implement restructuring. Shinsei Bank is proactively engaged in venture capital investments, investing in up to 5% of total shares with representative rights of customers planning a public share offering, as well as making buyout investments related to business divestments from mature companies.

### Private Finance Initiative (PFI)

A financing technique based upon the idea of utilizing private capital and expertise in the design, construction, maintenance and operation of projects, such as public construction works, and performing the provision of the public services through the private sector in order to ensure their efficiency and effectiveness.

### Project Finance

Project Finance refers to loans to finance specific projects for which the principal source of repayment is the cash flow generated from the project itself. Project Finance is often used for medium-to-long term projects in energy, natural resources, and infrastructure. At Shinsei Bank, Project Finance is included in Specialty Finance.

### Public Private Partnership (PPP)

A scheme in which public services are provided through a collaboration between the public and private sectors. PFI is a representative form of PPP.

### Revised Money Lending Business Law

The key points of the Revised Money Lending Business Law which was enacted and issued in December 2006 are: (1) optimizing control of the money lending business (tightening entry requirements etc.), (2) reducing excessive lending (implementation of the designated credit bureau system and income-linked lending limitation), and (3) controlling the interest rate system (reducing the upper limit of the interest rate under the Investment Law to 20% p.a.). The Law was enforced in a phased manner and was fully enforced in June 2010.

### Risk Weighed Assets

Risk weighed assets are an amount equivalent to the volume of “credit risk” and “market risk” of the Bank's assets/transactions and “operational risk” involving operational errors.

### RORA

Return on Risk-Weighted Assets—the indicator which shows a profitability based on Risk-Weighted Assets. RORA is calculated as the ratio of its net profit to the total Risk-Weighted Assets at the end of the term.

### Ship Finance

Finance for the shipping industry. Shinsei Bank primarily provides shipping companies with funds for ship acquisition.

### Specialty Finance

Specialty Finance at Shinsei Bank refers to M&A finance, LBO finance, project finance and other types of finance that focus on the cash flows and value generated by businesses and assets. It is a type of structured finance.

### Structured Finance

Structured Finance refers to finance requiring special structures. In general, it takes the form of project finance or non-recourse finance which focuses on the cash flows or value generated by a specific project or asset. Shinsei Bank is primarily active in real estate finance, project finance, M&A finance, and corporate restructuring finance.

### Syndicated Loan

Syndicated loans are loans provided jointly by a syndication of multiple financial institutions (lender group) based on a single loan agreement.

### Treasury

Treasury is normally the function in a company which is responsible for ALM (asset and liability management). At Shinsei Bank, Treasury basically refers to the function (Sub-Group) responsible for cash flow management including collateral management, transactions through transfer pricing (FTP, the inter-office fund transfer price), issuance or buyback of (subordinated) corporate bonds, liquidity planning, management of overseas subsidiaries that issue capital securities, as well as ALM for the entire Group.

### Wealth Management

Wealth Management refers to the financial services that Shinsei Bank offers to high-net worth customers. The Bank offers a variety of differentiated wealth management services tailored to customers' needs.