

Institutional Group, Markets and Investment Banking Group

As of October 1, 2010, we have divided the existing Institutional Group into a new Institutional Group, that will promote multi-faceted sales activities, and a Markets and Investment Banking Group that will focus primarily on developing financial products to meet customer needs. Through this organizational reform, we will strive to further optimize our businesses and achieve greater cost efficiency, while strengthening our capability to deliver timely products that leverage Shinsei's unique expertise, and clarifying the two Groups' responsibility for income generation. While core institutional businesses performed steadily in the first half of fiscal year 2010, we have made inroads into socially important business domains such as healthcare finance and corporate restructuring, where Shinsei can demonstrate its unique strengths. We have concluded business alliances with Asian financial institutions as we enhance our services for customers considering expansion into Asia and taken proactive initiatives towards "rebuilding our customer franchise in Japan." Furthermore, we have launched a project, led by the president, to restructure and rebuild our portfolio in our efforts towards "establishing a stabilized earnings base." We have succeeded in divesting of risk assets acquired through previous investment programs ahead of our initial schedule and made conservative and prudent provisions against potential future risks.

Major Business*

- Basic banking
- Real estate finance
- Credit trading
- Principal investments
- Foreign exchange, derivatives, equity-related
- Securitization
- Other capital markets
- ALM activities
- Leasing (Showa Leasing)
- Others

*Based on items stated on page 33.

Major Subsidiaries



Individual Group

Operating across a range of business domains, Shinsei Bank's Individual Group combines our retail banking operations with the consumer finance subsidiaries Shinsei Financial, Shinki, APLUS FINANCIAL and Shinsei Property Finance to meet the ever-changing needs of our individual customers.

In the first half of fiscal year 2010, Retail Banking continued the roll-out of our compact and highly investment-efficient Shinsei Consulting Spot branches, while enhancing our consulting capabilities and line-up of asset management products to meet a diverse range of customer needs. It also continues to provide a stable source of funding for the Group.

In our consumer finance operations, we saw revenues decline in line with expectations due to the impact from lowered interest rates following full-scale implementation of the revised Money-Lending Business and Control Law (MLBL). However, additional reserves for losses on interest repayments were unnecessary as a GE-backed guarantee limits Shinsei Financial's liabilities for "grey zone" interest repayment losses, while APLUS FINANCIAL and Shinki made substantial provisioning at the end of the previous fiscal year. As cost reduction efforts at these subsidiaries also took effect, our consumer finance business was able to record solid profit. APLUS FINANCIAL, in particular, showed a strong year-on-year improvement driven by lower non-personnel costs and a reduction in credit costs due to better collections.

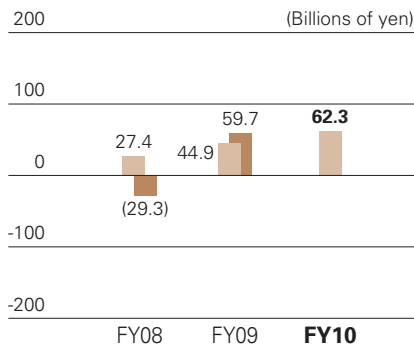
Major Business

- Retail Banking
 - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
 - Asset management (consultation, mutual funds, annuity products)
 - Housing loans
- Unsecured personal loans (Shinsei Financial, Shinki)
- Installment sales credit, settlement, credit cards (APLUS FINANCIAL)

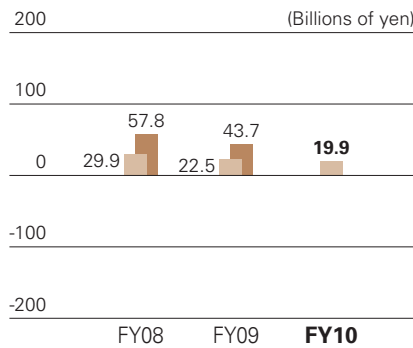
Major Subsidiaries



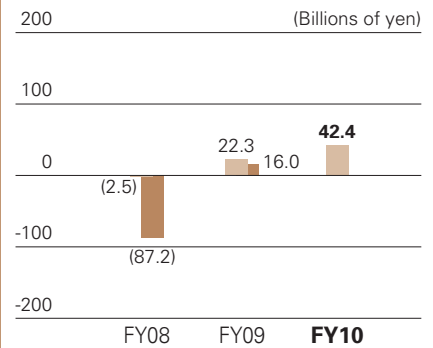
Total Revenue (Loss)



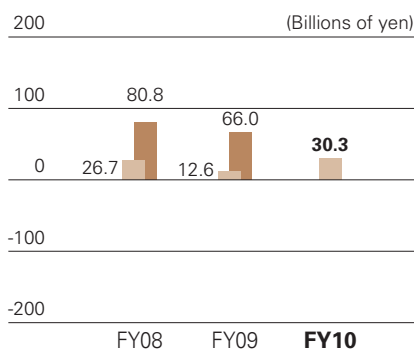
General and Administrative Expenses



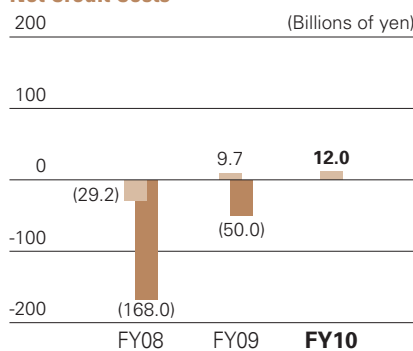
Ordinary Business Profit (Loss)



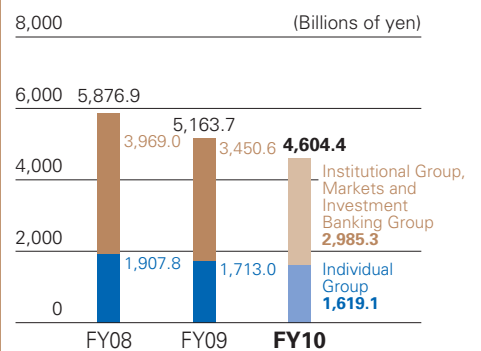
Net Credit Costs



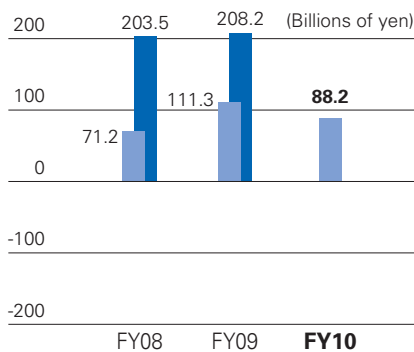
Ordinary Business Profit (Loss) after Net Credit Costs



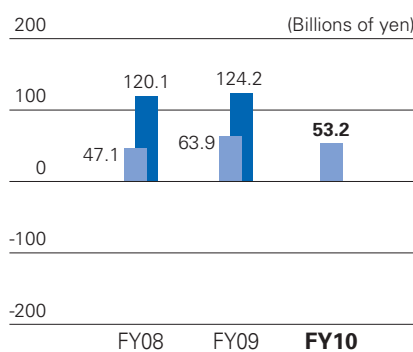
Total Loans and Bills Discounted



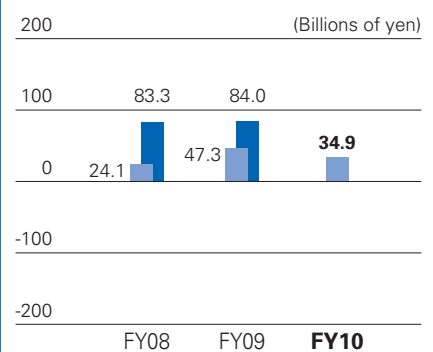
Total Revenue



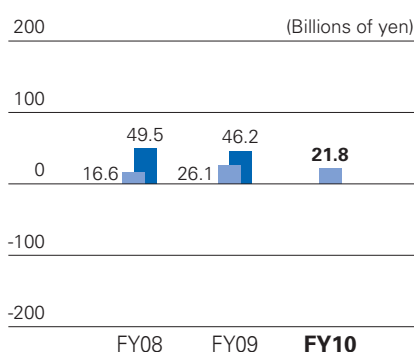
General and Administrative Expenses



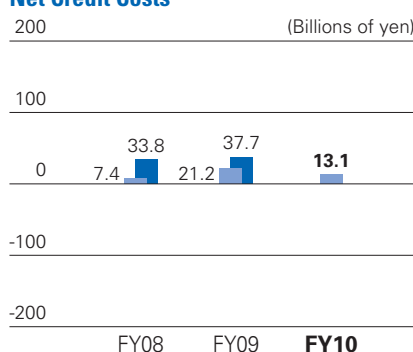
Ordinary Business Profit



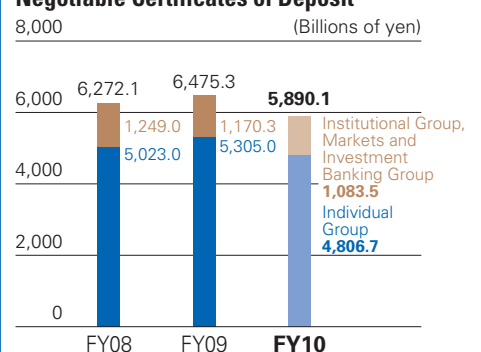
Net Credit Costs



Ordinary Business Profit after Net Credit Costs



Deposits and Negotiable Certificates of Deposit



INSTITUTIONAL GROUP, MARKETS AND INVESTMENT BANKING GROUP

As of October 1, 2010, we have divided the existing Institutional Group into a new Institutional Group, that will promote multi-faceted sales activities, and a Markets and Investment Banking Group that will focus primarily on developing financial products to meet customer needs. Through this organizational reform, we will strive to further optimize our businesses and achieve greater cost efficiency, while strengthening our capability to deliver timely products that leverage Shinsei's unique expertise, and clarifying the two Groups' responsibility for income generation. While core institutional businesses performed steadily in the first half of fiscal year 2010, we have made inroads into socially important business domains such as healthcare finance and corporate restructuring, where Shinsei can demonstrate its unique strengths. We have concluded business alliances with Asian financial institutions as we enhance our services for customers considering expansion into Asia and taken proactive initiatives towards "rebuilding our customer franchise in Japan." Furthermore, we have launched a project, led by the president, to restructure and rebuild our portfolio in our efforts towards "establishing a stabilized earnings base." We have succeeded in divesting of risk assets acquired through previous investment programs ahead of our initial schedule and made conservative and prudent provisions against potential future risks.

Results

The Institutional Group and Markets and Investment Banking Group recorded combined total revenue of ¥62.3 billion in the first half of fiscal year 2010, an increase of ¥17.4 billion compared to total revenue of ¥44.9 billion in the first half of fiscal year 2009. General and administrative expenses were ¥19.9 billion, a decrease of ¥2.6 billion over the same period last fiscal year due to stricter cost controls and cost reduction measures enacted during the current and prior periods. Despite substantial prudent and conservative provisioning against potential risks, ordinary business profit after net credit costs increased ¥2.3 billion year-on-year, from ¥9.7 billion to ¥12.0 billion for this first half.

Operating Environment

While the global economy showed signs of a gradual recovery during the first half of fiscal year 2010, more recently there has been growing concern about a slow-down, particularly in advanced economies such as Japan and the U.S. In the domestic economy, the focus is now on whether the export-driven recovery can withstand a faltering U.S. economy and a strengthening of the yen. Despite a substantial decline in interest rates following the introduction of monetary easing measures, Japanese companies have reined in capital expenditure out of concern about the economic out-

look, and this has in turn dampened appetite for bank loans. Additionally, while the real estate market, in which Shinsei Bank has substantial interests, has seen new liquidity with the entry of overseas funds and other players, commercial property vacancy rates still remain at historical highs, even in metropolitan areas, and rents and land prices continue to be depressed, although their rate of decline does show some signs of slowing.

Challenges

While our core business performed steadily this first half, a sustainable economic recovery in domestic and overseas markets is the most important precondition to ensure the Institutional Group and Markets and Investment Banking Group secure stable earnings. Shinsei Bank's revised Medium-Term Management Plan, announced on September 28, 2010, assumes a certain level of economic deterioration, but should conditions decline more rapidly than our projections, there may be a negative impact both on demand for financial services and on our efforts to divest non-core business assets. As we strive towards "rebuilding our customer franchise in Japan" and "establishing a stabilized earnings base" amidst this operating environment, we believe it is vital to expand our range of products and services to better meet customer needs.



Strategy

The Institutional Group will identify and strive to establish a leading position in industries and sectors, such as health-care finance, corporate restructuring and Asian business expansion, that boast high growth potential on the back of rising social needs, and which offer Shinsei the opportunity to demonstrate its unique strengths and expertise. Our Corporate Banking business will aim to grow its customer base through lending, primarily targeted at small- and medium-sized enterprises (SMEs) in addition to existing customers, and increase revenues by providing optimal financial products and solutions to these customers. In order to achieve this, we have devolved a certain level of SME credit approval authority from April 2010, and are working closely with the Risk Management Group to enhance our credit screening and business sourcing capabilities through additional credit screening training for relationship managers and other initiatives. In addition, in October 2010 we consolidated our head office sales divisions to create a more agile sales force structure. Our Financial Institutions business seeks to differentiate itself by providing unique, high quality products and services that help meet changing market needs. In our Public Finance business, we will leverage long-standing relationships to accumulate high quality loans assets. In addition, we will collaborate with subsidiaries such as Showa Leasing to provide appropriate products and services to SMEs.

The Markets and Investment Banking Group will work to enhance its ability to deliver tailor-made products and services in line with institutional and retail customer needs. While placing greater emphasis on the Capital Markets and Advisory businesses that generate non-interest income, we will continue to service clients in the Real Estate Finance, Credit Trading and Specialty Finance franchises, where we have proven strength and years' of experience. As part of our efforts to "establish a stabilized earnings base," the Markets and Investment Banking Group will also concentrate on continually restructuring and rebuilding the Bank's existing portfolio.

Going forward, the two Groups will work in close cooperation to provide the order-made solutions that our existing customers truly require, and promote cross-sales to tap latent customers.

Progress

Despite the harsh economic conditions and continuing low demand for funding, our efforts to expand the customer base have borne fruit and each business line showed steady improvement as the number of new corporate customers increased compared with the second half of fiscal year 2009 and borrower numbers also began to grow. As our customers faced an uncertain economic outlook, our Corporate Banking business provided them with sophisticated derivative-embedded and foreign exchange hedge products. Using the newly established Bank of Japan lending facility for promoting growth areas, we have made our own efforts to provide financing for such sectors. In our Financial Institutions business, we have seen growing needs for credit-risk related products such as asset-backed and credit-derivative-embedded lending, as well as syndicate loans and other standard corporate lending, and we expect increased demand as customers confront a difficult funds management environment. In addition, we are purchasing loan assets and offering other assistance to financial institution customers who are looking to strengthen their management and fortify their financial base amid these challenging conditions. We are also working with Shinsei Financial to provide loan guarantees and marketing and operational expertise for regional financial institutions with personal loan businesses.

In areas that have the potential to produce new revenue streams for the Bank, we are leveraging our strengths and striving to fulfill our primary role as a bank by providing financial services to the customers who need them, and to SMEs in particular. As part of these efforts, we established a Healthcare Finance Division in July 2010, and a Corporate Support Division in September 2010. The Healthcare Finance Division will utilize our expertise in non-recourse finance and the Bank's and our subsidiaries' networks to provide financing and advisory services to support senior care facility and senior housing operators. The Corporate Support Division specializes in providing support to SMEs undergoing restructuring, and is planning to make loans and investments of approximately ¥20 billion over the next three years in finance and capital assistance. In addition, to provide capital assistance to client corporations, in November 2010 we established Shinsei Corporate Support



Finance Co., Ltd., an investment subsidiary managed by the Corporate Support Division specializing in investment to support corporate restructuring. A key feature of both the Healthcare Finance Division and Corporate Support Division is their promotion of businesses that are credit risk-free and generate non-interest income, such as advisory and personnel assistance, in addition to investment and lending that use the Bank's own balance sheet.

Against the backdrop of a flagging domestic market, we are strengthening ties with overseas financial institutions in order to meet the needs of customers who are considering overseas expansion, particularly in Asia. Through the alliance forged in November 2010 with Vietnam's biggest insurance company, Baoviet Holdings, and with YES BANK, Limited, an Indian commercial bank, we will be able to provide a higher level of information and financial services to customers who are planning to expand their operations in these two rapidly growing markets.

In the Markets and Investment Banking Group, businesses that were responsible for substantial losses in the previous fiscal year, such as Principal Transactions and Credit Trading showed greatly improved profitability on the back of a recovery in the market environment, while we successfully won new mandates in our non-interest income-generating Advisory business. In one initiative to tap new revenue sources, we are investigating the possibility of leveraging the skills and networks we have developed in our Wealth Management and Alternative Investment businesses, that were originally earmarked for closure or scale-down, by reflecting on past errors, and realigning operations to focus on providing products to clients rather than proprietary investment. In Real Estate Finance, we have reduced our domestic real estate non-recourse

finance balance from ¥950.0 billion at March 2010 to ¥793.7 billion at September 2010 as we seek to avoid concentration risk. While our non-performing loan ratio has shown a gradual improvement during the first half of fiscal year 2010, we have taken prudent and conservative provisions against potential risks primarily in our Specialty Finance and domestic real estate non-recourse finance businesses in light of the continued uncertainty in the outlook going forward.

At Shinsei, as part of our efforts to rebuild our customer franchise, we will promote greater collaboration between the Institutional Group and Markets and Investment Banking Group in order to accurately understand rapidly changing market and customer needs, and unearth new business opportunities. Capitalizing on our strengths and leveraging our network of relationships, we have also arranged seminars for customers on our retail banking operations, and lectures by staff in our Capital Markets Division and external experts.

Alongside the promotion of our core businesses throughout the first half of fiscal year 2010, we have recorded ¥8.4 billion in gains from the divestiture of asset-backed investments (ABI) and securities (ABS), including collateralized loan obligations (CLOs) that were impaired last fiscal year, under the direction of a newly launched Asset Optimization Project Team headed by the president. As a result of strategic sales and collections, we have reduced the balance of our overseas ABI and ABS from approximately ¥168.0 billion at March 2010 to ¥108.5 billion at September 2010, as the clean-up of the proprietary investments that caused past losses, and other non-core business assets has advanced ahead of schedule.

INDIVIDUAL GROUP

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In the first half of fiscal year 2010, Retail Banking continued the roll-out of our compact and highly investment-efficient Shinsei Consulting Spot branches, while enhancing our consulting capabilities and line-up of asset management products to meet a diverse range of customer needs. It also continues to provide a stable source of funding for the Group.

In our consumer finance operations, we saw revenues decline in line with expectations due to the impact from lowered interest rates following full-scale implementation of the revised Money-Lending Business and Control Law (MLBL). However, additional reserves for losses on interest repayments were unnecessary as a GE-backed guarantee limits Shinsei Financial's liabilities for "grey zone" interest repayment losses, while APLUS FINANCIAL and Shinki made substantial provisioning at the end of the previous fiscal year. As cost reduction efforts at these subsidiaries also took effect, our consumer finance business was able to record solid profit. APLUS FINANCIAL, in particular, showed a strong year-on-year improvement driven by lower non-personnel costs and a reduction in credit costs due to better collections.

Results

In the first half of fiscal year 2010, the Individual Group's total revenue declined steeply, but in line with expectations, to ¥88.2 billion, or 20.7% lower year-on-year, as a result of reduced operating assets and lower lending rates at our consumer finance subsidiaries. Ordinary business profit after net credit costs amounted to ¥13.1 billion, down 38.2%. On a business line basis, Retail Banking and APLUS FINANCIAL showed an improvement in ordinary business profit after net credit costs compared with the first half of the previous fiscal year, while Shinsei Financial and Shinki's results were lower.

Operating Environment

While there was a partial recovery in consumer spending during the first half of fiscal year 2010 supported by an improvement in corporate earnings and government stimulus packages, Japanese individuals still faced a harsh environment amidst worsening employment conditions and wage levels.

As the domestic economic recovery stalled, the equity market slumped and volatility prevailed in foreign currency markets, a relatively high proportion of customers continued to take a conservative stance towards investment products in Retail Banking's asset management business, in the face of an uncertain economic outlook. In addition, the housing loan market has become increasingly competitive due to lower interest rates.

In our consumer finance businesses we are witnessing a series of high-impact events with the full scale imple-

mentation of the revised MLBL in June 2010, Takefuji's bankruptcy filing at the end of September, and the enforcement of the revised Installment Sales Law on the horizon in December. While claims for repayment of grey zone interest remain on the decline in our unsecured personal loan businesses, the impact of Takefuji's collapse is still unclear and the situation demands close monitoring. Furthermore, the introduction of an income-linked borrowing limit has resulted in a more pronounced month-on-month decline in new customer applications. This in turn has fueled competition to acquire high quality new customers. By contrast, the credit card market has recovered from its post-Lehman levels and the usage amount is on the rise. However, demand in the installment credit sales and settlement businesses was weak overall as consumer spending remained depressed.

Challenges

Japanese individuals possess around ¥1,400 trillion in financial assets and the period from fiscal year 2010 to 2014 will see an estimated ¥10 trillion per year return to individuals through maturities of Japanese government bonds and other products marketed to individuals. Faced with this opportunity, the greatest challenge for our retail banking operations is to ensure continued new account acquisition while deepening relationships with our customers to fully meet their money management needs.

Accurately gauging and appropriately addressing the impact of the revised MLBL on the industry as a whole and on our individual businesses remains the biggest challenge for our consumer finance operations. In particular,



the future trend of interest repayments is likely to be greatly influenced by the treatment of creditors in Takefujii's bankruptcy protection process. Therefore, we will continue to monitor the situation closely and take appropriate action as necessary. Amidst these circumstances, we believe that low-cost operations and continual vigilance in credit control are the keys to minimizing the impact of these external events and to securing a stable revenue base.

Strategy

Retail Banking

Shinsei's retail banking operations continue to focus on providing consultation services to help customers find the optimal financial solutions for their life stage, while stabilizing the Bank's funding base and contributing to revenue diversification. Provision of housing loans will remain an important area of focus. In addition, in order to provide the highest quality of asset management consulting to our customers, going forward, we plan to open approximately five investment-efficient and compact Shinsei Consulting Spots annually.

Consumer Finance

Shinsei's Individual Group is committed to becoming the leading provider of responsible consumer finance services in Japan. Our subsidiaries Shinsei Financial and Shinki focus on unsecured personal loans while APLUS FINANCIAL concentrates on the installment sales credit, credit card and settlement businesses. Leveraging stable funding based on retail banking deposits, low-cost IT-driven operations, high cost-performance marketing strategies and high quality customer service, our strategy centers around attracting and retaining the lowest risk customers. As the domestic consumer finance industry shrinks, we will explore the possibilities of assimilating the knowledge and experience accumulated at our subsidiaries into the Bank, and expanding the business into Asian markets. At the same time, we will continue to leverage Shinsei Financial's expertise to provide unsecured loan guarantee services to regional financial institutions.

Progress

Retail Banking

In retail banking, our time deposit and structured deposit balances declined in line with expectations during the first half of fiscal year 2010, mainly due to maturities of yen time deposits opened during preferential interest rate campaigns. On the other hand, however, we have now

gathered in excess of ¥800 billion in our two-week maturity deposit, which has gained great popularity since we began offering it in 2009. As a result, deposits and debentures net interest income was stable year-on-year at ¥12.9 billion. Furthermore, we continue to promote low-cost funding for the Bank through diversifying our deposit lineup with the two-week maturity deposit and other products. This has contributed to reducing the Bank's overall funding costs for deposits by 23 basis points, on a consolidated basis, compared with the same period of the previous fiscal year. In addition, we have undertaken a strategic review of our investment trust and insurance product offering and introduced new additions in line with customer needs.

Retail Banking aims to provide customers with timely products and services that are geared to the challenges of today's volatile economic environment. Against the backdrop of a strengthening yen, for example, we have strived to meet the needs of foreign currency deposit customers who wish to review their holdings by abolishing commission fees on cross-currency foreign exchange for six foreign currencies from December 2010 onwards. Additionally, in September 2010, we introduced an Australian dollar-denominated two-week maturity deposit aimed at customers holding Australian dollars who are looking for a higher interest rate than is offered on our regular deposits. At the same time, we continue to offer sophisticated products such as a structured bond linked to a Brazilian equity ETF and the Hang Seng China Enterprises Index, as we strive to cater to the full spectrum of customers' risk tolerance.

We have seen steady performance in our housing loan business, reflecting competitive pricing for our variable rate *PowerSmart Housing Loan* which features unique product benefits including a waiver of guarantee fees, a fee-free automatic early repayment facility and up to 35 years refinancing. In order to offer our housing loans to an even greater number of customers, from October 2010 we have partnered with APLUS FINANCIAL and begun introducing customers to the *Home Bridge Loan (APLUS BRIDGE LOAN)* which provides bridge financing for land purchase and building construction costs.

We continue to enhance our face-to-face consulting capabilities through the roll-out of Shinsei Consulting Spots, focusing on areas in the Kanto and Kansai regions which are convenient for customers and where we see strong demand. In the first half of fiscal year 2010, we opened Shinsei Consulting Spots in Ashiya, Hyogo Prefecture (April), Takatsuki, Osaka Prefecture (June) and Chiba, Chiba Prefecture (October), and now have twelve of these highly efficient, compact branches.



Shinsei Financial & Shinki

Shinsei Financial and Shinki specialize in providing unsecured personal loans for lower risk individual customers. In the first half of fiscal year 2010, we proceeded with further integration of the two companies, while implementing strict cost and credit controls. As interest income fell in line with expectations due to a decline in loan balances and lower lending rates, the two entities contributed ¥5.9 billion in combined ordinary business profit after net credit costs, a decline of just over 60% compared with the same period of the previous fiscal year. While operating conditions remain severe, both Shinsei Financial and Shinki continue to generate solid income.

Despite possessing a branch network that is substantially smaller than major rivals, Shinsei Financial's Lake brand succeeded in maintaining its top three position in new customer acquisition during the first half of fiscal year 2010, while minimizing branch overheads and pursuing efficient operations. Rigorous credit control has also led to an improvement in asset quality and lower credit costs year-on-year, with almost 60% of customers having no borrowing from other lenders.

The majority of Shinsei Financial's grey zone liabilities are guaranteed by an indemnity from GE, while appropriate provisioning has been made for non-indemnified loan assets. Shinki, on the other hand, made substantial increases in reserves for these liabilities at the end of the previous fiscal year. As a result of these measures, it was not necessary for either company to make additional reserves against losses on interest repayment during the first half of fiscal year 2010.

On August 31, 2010 Shinsei Financial concluded a business alliance agreement with The Towa Bank, Ltd. ("Towa Bank") in the unsecured personal loan guarantee business. From September 2010, in addition to credit screening for loan guarantees, Shinsei Financial is also providing comprehensive support on advertising strategy and product design for Towa Bank's *Speed Oh* personal loan product. This alliance represents entry into a new business domain in which Shinsei Financial can fully utilize its industry expertise through leveraging the Bank's wide-ranging network of relationships with regional financial institutions. By combining the collective expertise and experience of Shinsei Bank Group companies, we will both provide new financial services to regional financial institutions and strive to generate new revenue streams for the Bank through this regional bank personal loan guarantee business.

APLUS FINANCIAL

Following its shift to a holding company structure in April 2010, APLUS FINANCIAL, one of Japan's three largest listed *shinpan* (sales finance) companies, now comprises APLUS Co., Ltd, a subsidiary specializing in the installment sales credit, credit card and settlement businesses, and APLUS PERSONAL LOAN Co., Ltd, which focuses on personal loans. In the first half of fiscal year 2010, the company generated net income of ¥2.9 billion reflecting solid business performance throughout the period.

In light of its fiscal year 2009 performance and recent operating conditions, APLUS FINANCIAL announced a new medium-term management plan on May 10, 2010 in which it sets itself the vision of "becoming a *shinpan* company chosen by customers and fit for the new age." In terms of strategic direction, the company is striving to break away from dependence on consumer finance loan income and establish a business model that only a *shinpan* company can achieve.

APLUS FINANCIAL has launched various initiatives as part of its efforts to establish this new business model. For example, in installment sales credit, one of its core businesses, APLUS FINANCIAL has been ramping up sales activities targeting sales of housing related products such as solar power generation systems and EcoCute energy-efficient water heating systems in order to overcome the current slump in demand for sales finance. Additionally, APLUS FINANCIAL has partnered with Shinsei Bank in the installment sales credit affiliated loans business which it operates through a network of merchant partners. Through an arrangement which began in October 2010, Shinsei provides financing for shopping loans guaranteed by APLUS FINANCIAL. In the credit card business, where individual customer balances are expected to increase, APLUS FINANCIAL has worked to improve profitability by re-negotiating terms and conditions with merchant partners, while establishing an on-line shopping site exclusively for cardholders and introducing a gold card with one of the industry's lowest annual fees, in a double-pronged strategy to simultaneously acquire new customers and improve activation rates among current cardholders.

The company's existing portfolio of consumer loan and cashing receivables continues to improve in quality as a result of strict credit control, with the majority now consisting of receivables originated after a tightening of credit standards implemented as part of management reform plans devised in 2007. In addition, APLUS FINANCIAL has succeeded in cutting credit costs through improved collections following the incremental introduction of a new collection system based on Shinsei Bank's IT.