Review of Operations

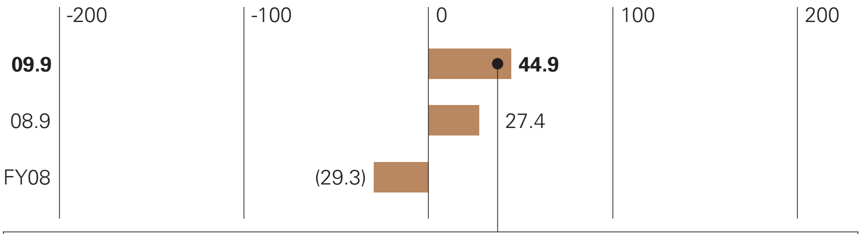
AT A GLANCE

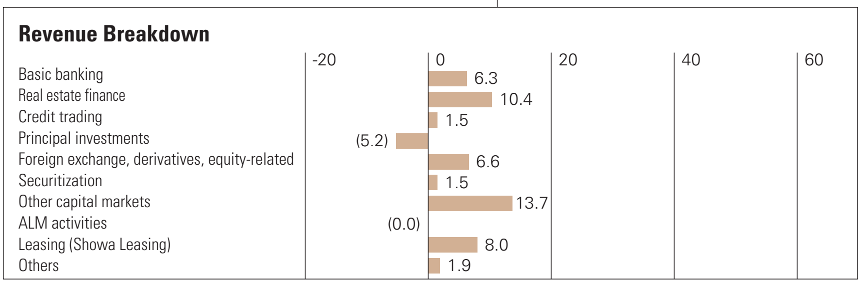
Institutional Group

The Institutional Group is engaged in a strategic transformation to position customers and their needs back at the center of our business model. We have terminated proprietary investment programs responsible for losses in recent years, continued to clean up our balance sheet, and exited or scaled down unprofitable businesses. Extensive restructuring has improved efficiency and reduced our expense base, but not at the cost of retaining key talent in our core competencies. The current economic environment demands continued vigilance. But with ample liquidity, we have the resources and expertise to support our customers through these testing times. And by aligning our success with theirs, we are confident of maintaining solid profitability in the mid-term.

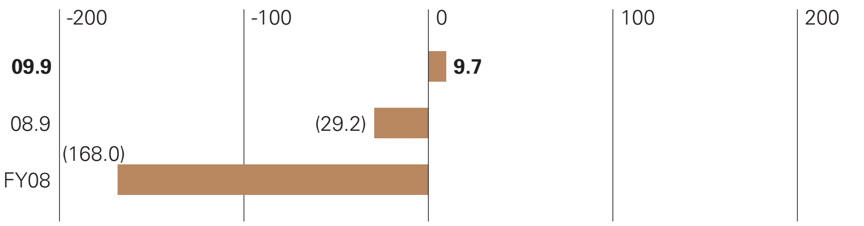
Total Revenue (Loss)

(Billions of yen)





Ordinary Business Profit (Loss) After Net Credit Costs

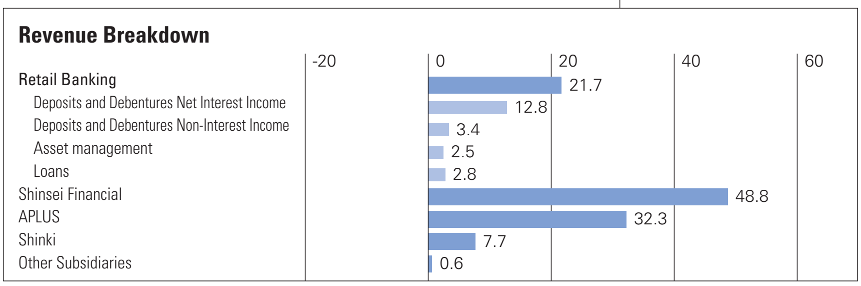


Individual Group

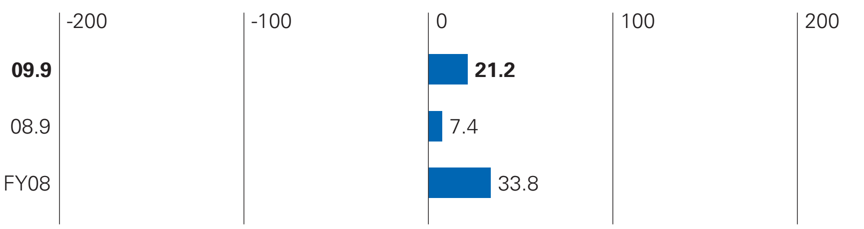
Combining the award-winning retail bank with our consumer finance subsidiaries, Shinsei's Individual Group brings innovative financial solutions to over 6 million active customers in Japan. Ever alert to changing customer needs, our retail bank is successfully shifting focus from deposits to asset management. A strong increase in assets under management has helped diversify revenue composition and proven the strength of our franchise. In consumer finance, "grey zone" interest refund claims remain high, although we have seen indications of a downward trend, underscoring the importance of the indemnity on our biggest consumer loan portfolio. We are accelerating the integration of Shinsei Financial and Shinki, both now wholly owned Group subsidiaries, to consolidate our position as a major player in the personal loan space. Positioning installment sales and settlement as strategic businesses, APLUS continues to shrink its cost base and unlock new revenue potential.

Total Revenue

(Billions of yen)



Ordinary Business Profit After Net Credit Costs



PRODUCT & SERVICE HISTORY

2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009

- Corporate loans (basic banking), syndicate loans
- Capital markets (foreign exchange, derivatives)
- Advisory
- Securitization
- Credit trading
- Leveraged and project finance
- Non-recourse finance
- Structured credit
- Private equity
- Corporate revitalization
- Leasing
- Rentals
- Installment sales credit (for SMEs)

- Real estate secured loans and small property development loans
- Savings and time deposits, debentures
- Foreign currency deposits
- Structured deposits
- Mutual funds
- Comprehensive retail account, *PowerFlex*, and Internet banking service, *PowerDirect*
- *PowerSmart Home Mortgage*
- Fixed and variable annuities
- Installment sales credit (for individuals), auto loans
- Credit cards
- Consumer/business loans
- Guarantees
- Collection services
- Securities brokerage services
- Shinsei VISA Card
- Medical, cancer and automobile insurance
- Shinsei Bank *SmartCard Loan*

INSTITUTIONAL GROUP

The Institutional Group is engaged in a strategic transformation to position customers and their needs back at the center of our business model. We have terminated proprietary investment programs responsible for losses in recent years, continued to clean up our balance sheet, and exited or scaled down unprofitable businesses. Extensive restructuring has improved efficiency and reduced our expense base, but not at the cost of retaining key talent in our core competencies. The current economic environment demands continued vigilance. But with ample liquidity, we have the resources and expertise to support our customers through these testing times. And by aligning our success with theirs, we are confident of maintaining solid profitability in the mid-term.

Results

The Institutional Group comprises the Institutional Banking business and Showa Leasing.

The Institutional Group recorded a total revenue of ¥44.9 billion in the first half ended September 30, 2009, compared to a total revenue of ¥27.4 billion in the same period in fiscal year 2008. The increase was driven by a growing contribution from core businesses, even as we took some mark-downs and impairments on legacy assets.

Extensive restructuring in fiscal year 2008, coupled with stricter cost controls and cost reduction measures, resulted in general and administrative expenses of ¥22.5 billion in the Institutional Group, a ¥7.4 billion, or a 24.9%, decrease from the first half of the prior fiscal year. As a result, the Institutional Group showed an ordinary business profit of ¥22.3 billion in the first half of fiscal year 2009, compared with an ordinary business loss of ¥2.5 billion in the same period of the previous fiscal year. Lower net credit costs resulted in an ordinary business profit after net credit costs of ¥9.7 billion, compared with an ordinary business loss after net credit costs of ¥29.2 billion in the same period of fiscal year 2008.

Operating Environment

We have seen a tangible improvement in the operating environment in the first half of fiscal year 2009. We believe that liquidity pressures, in particular, have largely subsided due to massive fiscal support provided by national governments in major economies. However, there is still little solid economic data to warrant the recent rebounds in global stock markets, particularly in Japan where the economy still relies heavily on the export market. While loan demand in certain sectors such as SME (small- and medium-sized enterprises) and leveraged finance is picking up, our fee-earning products and services remain challenged. The domestic real estate market continues to deteriorate, although we see signs of bottoming-out, and the securitization and real estate-backed securities markets are still largely frozen. While we believe the worst is behind us, we expect that some residual volatility still lies ahead and a full-scale recovery in the economic environment will take time.

Challenges

The sustainability of the economic recovery, both in Japan and overseas, is the most significant challenge for the Institutional Group. Any dramatic drop in asset valuations would have negative consequences for all financial institutions in terms of current exposure, ongoing loan workout efforts and demand for financial services. Continued market dislocation, on the other hand, presents challenges for derisking our balance sheet of residual asset-backed investments (ABI) and asset-backed securities (ABS). Finally, despite the exit of major foreign players from the domestic real estate market, we have not seen as many new business opportunities as originally anticipated, and expect competition to intensify when market conditions improve.

The Institutional Group is taking a proactive approach to managing these issues. Relationship managers keep in close contact with our customers to understand their business environment and identify potential problems early on. Internally, we have aggressively reduced our cost base by eliminating excess capacity and improving efficiency while ensuring that we retain key talent. Our aim is to be fully prepared to shift resources back into new business acquisition as soon as the economic outlook becomes clearer.

Strategy

The Institutional Group is fully committed to its role as a trusted financial intermediary, providing risk capital and value-added financial solutions to customers primarily in the Japanese market. We aim to optimize risk-adjusted margins by capitalizing on our access to low-cost funding, ensuring "first-person" underwriting and developing client relationships that extend across multiple product and service categories.

Progress

Derisking our Balance Sheet and Managing Costs

Over the past six months, we have made proactive markdowns and credit reserves related to legacy portfolios, and believe we will be ready to begin fiscal year 2010 with a clean balance sheet. As of September 30, 2009, the balance of our overseas ABI/ABS (including CLOs) was approximately ¥180 billion, down from roughly ¥200 billion at March 31, 2009. Amidst difficult market conditions, we have continued to pursue opportunities to divest non-core assets, and in the first half of fiscal year 2009, for example, we were able to record a gain of ¥11.7 billion on the sale of a legacy CLO portfolio.

As part of a thoroughgoing business review, we have closed down or restructured unprofitable businesses, such as Alternative Investments and Wealth Management. A voluntary early retirement program has reduced staff numbers in the Institutional Group (excluding Showa Leasing) by approximately 25% and cut expenses to below pre-2005 levels. These actions have resulted in direct expense reductions of roughly ¥10 billion on a yearly basis compared to the peak level.

Ready for New Growth in Niche and Customer-Enabling Businesses

The drop in real estate prices, and the liquidity shortage real estate developers are experiencing have placed stress on our approximately ¥1 trillion real estate portfolio. However, our loan-to-value coverage and reserve recovery to date have been resilient enough to protect us against significant losses. This reflects the high quality and diversification of our portfolio, and our proactive negotiations with customers to improve the portfolio's credit profile. While we have scaled down new origination, our ability to weather these severe conditions is testimony to our experience in this market. We are confident that the business will continue to be a source of sustainable revenue in the future and have recently begun sourcing new opportunities.

Our capital markets capabilities are now geared to customer-oriented or internal business. While customer demand remains below normal levels, our experienced team has been actively working to expand the business and managing the prudent liquidity reserves built up through highly successful retail deposit campaigns.

In collaboration with Shinsei Securities, our Advisory business has stepped up efforts to promote its services to existing loan customers, especially in the regional financial institution sector. Amidst aggressive competition from major players, the Advisory team has won mandates to develop capital enhancement solutions for regional banks with Shinsei Securities providing *chukai* or brokerage services to place securities issued with retail customers.

Basic Banking and Lending — the Core of our Business

At the core of our institutional business, we have maintained resources and key talent in our Corporate Banking Divisions which serve a broad range of financial institution, corporate and public sector clients. These customer relationships, built over five decades of business in Japan, remain a core strength and extend far beyond the realm of day-to-day business. We were honored, for example, to have a number of long-term customers participate in Shinsei Bank's private offering of Tier I perpetual preferred securities in October 2009 – a key component of the Bank's capital improvement strategy.

In response to the demand for credit amongst smaller borrowers, in September 2009 we established a dedicated unit to promote new SME business and work closely with the Risk Management Group to ensure appropriate pricing for the risks we assume. In this sector, we also benefit greatly from a close working relationship with Showa Leasing, a consolidated subsidiary with 40 years of SME underwriting experience and steady profitability. Going forward, we intend to leverage our unique advantage as an independent and neutral institution in securing more business from our SME and financial institution customers.

INDIVIDUAL GROUP

Combining the award-winning retail bank with our consumer finance subsidiaries, Shinsei's Individual Group brings innovative financial solutions to over 6 million active customers in Japan. Ever alert to changing customer needs, our retail bank is successfully shifting focus from deposits to asset management. A strong increase in assets under management has helped diversify revenue composition and proven the strength of our franchise. In consumer finance, "grey zone" interest refund claims remain high, although we have seen indications of a downward trend, underscoring the importance of the indemnity on our biggest consumer loan portfolio. We are accelerating the integration of Shinsei Financial and Shinki, both now wholly owned Group subsidiaries, to consolidate our position as a major player in the personal loan space. Positioning installment sales and settlement as strategic businesses, APLUS continues to shrink its cost base and unlock new revenue potential.

Results

The Individual Group consists of the retail banking business as well as the subsidiaries Shinsei Financial, APLUS, Shinki and Shinsei Property Finance. Shinsei Financial was acquired on September 22, 2008 from GE Japan Holdings Corporation and its results have been incorporated in our consolidated financial results from October 1, 2008.

Total revenue increased 56.2% to ¥111.3 billion in the first half of fiscal year 2009, compared to ¥71.2 billion in the previous fiscal year. This was predominantly driven by the contribution of Shinsei Financial and further improvement in our retail banking operations, which offset lower revenues at APLUS and Shinki as they focus on lower risk customers. Ordinary business profit in the first half of fiscal year 2009 was up 96.4% to ¥47.3 billion, compared to ¥24.1 billion in the same period of the previous fiscal year. The increase in ordinary business profit reflected higher revenues for the reasons given above and lower expenses across all businesses on a normalized basis. Ordinary business profit after net credit costs was ¥21.2 billion for the first half of fiscal year 2009, compared to an ordinary business profit after net credit costs of ¥7.4 billion in the first half of the previous fiscal year, due primarily to the incorporation of Shinsei Financial within the Individual Group as well as the progress made in retail banking, net credit recoveries at Shinki, and cost reduction measures that offset lower profits at APLUS.

Operating Environment

Japanese consumers are still navigating uncertain economic times. Elevated levels of unemployment and rising numbers of bankruptcies have fueled uncertainty about job security and future prosperity. At the same time, however, we have seen demand for mutual funds rebound in our retail banking business, as customers seek to capitalize on the recent rallies in global stock markets. Competition remains fierce; banks and securities companies are seeking to tap into asset management demand through aggressive marketing efforts and new product development.

Conditions in the consumer finance industry remain severe with reduced consumer expenditure impacting sales finance revenues and auto financing. Consumer lenders without bank affiliation are struggling to secure liquidity against a backdrop of rising credit costs and continuing high levels of "grey zone" interest refund claims.

The Individual Group has responded by promoting asset management services and housing loans in our retail bank, while maintaining strict credit standards and leveraging our bank-affiliated status for funding and marketing activities in consumer finance operations.

Challenges

The ongoing economic uncertainty poses significant challenges in both retail banking and consumer finance.

Having returned to profitability, our greatest challenge in retail banking is sustaining our growth momentum in one of the world's most over-banked economies. We face continual pricing pressure from Internet-only competitors and our branch network is significantly smaller than our ubiquitous megabank rivals. However, we believe we still possess great growth potential if we stay committed to product innovation, focused on efficiency and dedicated to customer empowerment.

In consumer finance, regulatory changes remain the single biggest challenge for all industry participants. However, Shinsei Financial stands apart from its peers, with a GE-guaranteed indemnity on the vast majority of its "grey zone" liabilities, and unique status as a wholly-owned subsidiary of a bank. We are confident that cost synergies generated through ongoing operational integration, coupled with active management of "grey zone" portfolios, access to low cost funding and the peace-of-mind afforded by bank affiliation, position us favorably to become the lender of choice among lowest risk borrowers.

Strategy

Retail Banking

In retail banking, we strive to be our customers' "Best Financial Advisor" and offer a competitive range of asset accumulation solutions for every life stage. By leveraging our customer-empowering, low-cost distribution platform, we plan to grow our share of the mass-affluent market and achieve a stable, diversified mix of net interest and fee-based income. Going forward, Shinsei Bank aims to capitalize on the renewed interest in asset management products, emphasizing our convenient on-line sales platform while gradually building out our physical presence through new, highly cost-effective Shinsei Consulting Spots (see box on page 15). We also plan to expand our mortgage business, where we offer customers a unique value proposition.

Consumer Finance

Shinsei's Individual Group is committed to becoming the leading provider of responsible consumer finance services in Japan. Our strategy centers around attracting lowest risk customers and maximizing cost efficiency to secure sustainable profits, while ensuring 100% compliance with regulatory changes.

Wholly-owned Shinsei Financial and Shinki focus on unsecured personal loans. Our subsidiary APLUS concentrates on installment sales credit, guarantee/settlement, and credit card businesses. Going forward, we will fund our consumer finance business primarily through low-cost deposits from our retail bank. We will also pursue further operational efficiency by introducing Shinsei Bank's low-cost and highly flexible IT infrastructure across businesses, and identifying areas where we can further consolidate functions and expenses.

Progress

Retail Banking

The end of our popular time deposit campaigns in June 2009 heralds the next stage in Shinsei's retail banking strategy. We are focused on growing fee-based revenue and interest-earning assets through providing optimal solutions to our approximately 2.5 million customers. As we continue to grow the business, we closely monitor our expense profile, and aim to keep costs and headcount largely flat going forward.

With the conclusion of our time deposit campaigns we have seen retail deposits begin to fall on a month-to-month basis after peaking in June 2009. This is in line with expectations and will contribute to a lower cost of funds for the Bank. On a total basis, the balance of assets under management has risen strongly from ¥6,047.2 billion at March 31, 2009 to ¥6,584.8 billion at September 30, 2009, reflecting not only the retail deposit growth until June, but also signs of renewed demand for mutual funds.

The growth of our assets under management is the result of a marketing strategy and product line-up in tune with customers' priorities. As risk appetite returned, we provided discounts on our foreign currency exchange rates as customers sought to take advantage of the yen's recent strength. This also helped sales of new foreign-currency denominated mutual funds, including two CTA*-based products introduced to meet demand for an investment vehicle that pursues absolute returns with limited vulnerability to market volatility. Most recently, we teamed up with UTI International (Singapore) Pvt. Ltd., Shinsei Bank's joint venture with UTI

Asset Management, to launch a new fund that offers investors the chance to profit from growth in the world's two major emerging markets: China and India.

We have also stepped up promotion of our *PowerSmart* housing loans, a business where our speedy and customer-friendly processing continues to differentiate us from other lenders. Competitive pricing in fiscal year 2009 has increased sales and we expect to see a return to growth in these low-risk assets in fiscal year 2010.

We are making this strategic shift from deposit gathering to asset and fee generation while maintaining steady customer growth. Account numbers continued to increase month-on-month throughout the first half of fiscal year 2009. Our innovative two week maturity deposit and newly introduced CTA* mutual fund products have clearly resonated with time deposit customers looking to manage matured funds, and encouraged them to develop their relationship with Shinsei further.

The *Shinsei Step Up Program* also continues to provide cost-effective incentives for new and existing customers to bring more of their business to the Bank, and we are actively considering new strategies to deepen customer engagement. While we remain committed to offering basic banking services at no or low cost, we are increasingly providing these on a preferential basis to our most active customers in order to rationalize costs. The Program is proving an effective way of communicating to customers the advantages of "stepping up" their relationship with Shinsei Bank.

*CTA: An acronym of Commodity Trading Advisor. CTAs use sophisticated, proprietary financial engineering and algorithms to trade primarily in futures, aiming to minimize risk and maximize return.

Shinsei Financial and Shinki

Wholly-owned Group subsidiaries, Shinsei Financial (formerly GE Consumer Finance) and Shinki, are joining forces to specialize in unsecured personal loans for low risk customers. Shinsei Financial contributed ¥9.0 billion in ordinary business profit after net credit costs in the first half of fiscal year 2009.

Shinsei Financial's Lake brand has continued to maintain a top position in new customer acquisition while keeping costs-per-application among the lowest of the top five players in the industry. Over a half of new applications are consistently from customers with no existing borrowing relationships reflecting its powerful brand, customer-focused marketing strategies and selective underwriting.

Shinki, on the other hand, has been strategically shrinking its loan portfolio to focus on "white zone" customers while aggressively pursuing cost reduction measures. Having segmented its portfolio by asset quality in March 2007, Shinki has successfully reduced the lower quality portion to approximately 17% of the total as at September 30, 2009. The company expects to achieve around a 50% reduction of these legacy assets by the end of the fiscal year.

We are forging ahead with the integration of these two complementary businesses which began with Shinsei Bank and Shinsei Financial's tender offer bid for Shinki's outstanding shares in March 2009. As a first step, Shinki will close almost all of its unmanned branches and its customers will have access to the Lake ACM (automatic contract machine) network. As we work towards integrating the two businesses' head office functions, Shinsei Financial is also proactively implementing Shinsei Bank's IT methodologies to achieve dramatic cost reductions.

APLUS

APLUS, a 69.7% owned consolidated subsidiary of Shinsei Bank, is a major provider of installment sales credit, guarantee/settlement, and credit card services. Faced with the challenges presented by a slowdown in consumer spending, APLUS has ramped up its business-to-business sales efforts under new leadership, focusing on quality rather than quantity to drive top line growth and further cut costs.

From April 2009, a newly established Business Promotion Center is harnessing company-wide sales resources to target major new accounts. As part of a new partnership with Porsche Financial Services Japan, APLUS released its first World MasterCard status credit card in September 2009. In addition to its successful auto financing business with BMW Japan Finance Corporation, this is another example of APLUS' potential to boost revenues by providing high value-added products to the affluent customer segment. In its settlement business, APLUS provides direct debit, convenience store payment collection and rent collection services to a growing number of corporate customers. In November 2008, APLUS launched the Japanese industry's first online direct debit service, and this is gathering further traction among companies looking to reduce costs and increase customer convenience.

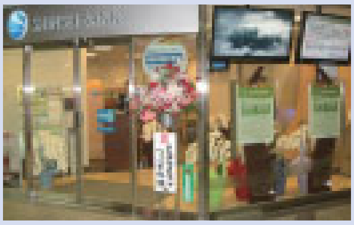
At the same time, APLUS continues to review fees and interest rates across businesses, aiming to increase profitability while minimizing the impact on customers. In its credit card business, for example, APLUS is terminating issuance of under-used cards, while introducing new incentives to boost activation and usage rates on cards with greater potential.

Cost reduction remains a key priority. APLUS is collaborating closely with Shinsei Bank to make further progress in this area and various projects are already underway. The company is also striving to improve customer service, as well as minimize costs, through measures such as the implementation of a speedier, more efficient credit card issuing system that uses a module from the Bank's own ATM card issuing process.

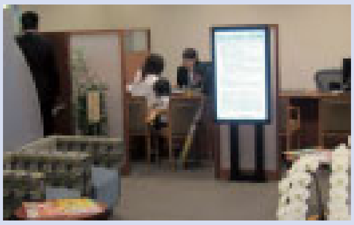
Shinsei Consulting Spots

From June 2009, Shinsei Bank has begun rolling out new small-scale branches called "Shinsei Consulting Spots," strategically located in areas where we already have a loyal customer base but where our physical presence remains weak. Operating as satellites of existing Shinsei Financial Centers, the Consulting Spots offer easy access to experienced consultants and value-added products, and constitute an integral component of the retail bank's "Best Financial Advisor" strategy.

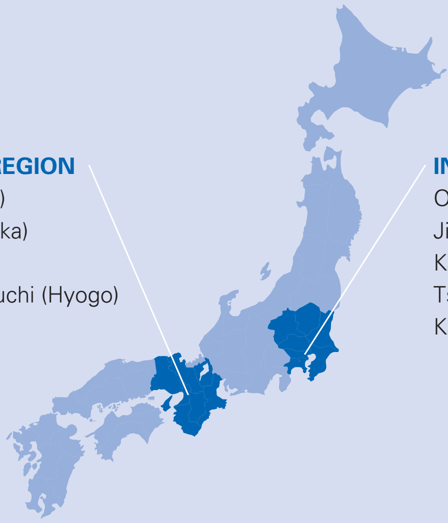
On the cost front, the Consulting Spots have been designed to break even in one year and payback quickly to ensure that the retail bank's expansion is self-funded and highly sustainable. On average, the Spots will be 50–100 m^2 in size, so that costs are dramatically lower than regular branches to lighten the environmental footprint, and both the initial investment and annual running costs have been reduced substantially, with minimal impact on the customer experience. To date, we have established eight Shinsei Consulting Spots (including conversions of existing outlets) and plan to open the ninth in Jiyugaoka (Tokyo) in February 2010.



Senri Chuo Consulting Spot opened in Osaka on June 1, 2009



A customer talks to staff at Senri Chuo Consulting Spot



IN THE KANSAI REGION
Senri Chuo (Osaka)
Sakai Higashi (Osaka)
Umeda (Osaka)
Nishinomiya Kitaguchi (Hyogo)

IN THE KANTO REGION
Omotesando (Tokyo)
Jiyugaoka* (Tokyo)
Kamakura (Kanagawa)
Tsudanuma (Chiba)
Kawaguchi (Saitama)

*Scheduled to open in February 2010.