

# REVIEW OF OPERATIONS

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# AT A GLANCE

## INSTITUTIONAL GROUP/ GLOBAL MARKETS GROUP

The Institutional Group focuses primarily on corporate and public sector finance and advisory business, while the Global Markets Group concentrates on financial markets business and serving financial institution clients

### Major Business

#### Institutional Group

- Corporate & Public Sector Finance
- Healthcare Finance
- Real Estate Finance
- Specialty Finance
- Corporate Restructuring
- Credit Trading
- Private Equity
- Advisory
- Leasing (Showa Leasing)
- Trust operations (Shinsei Trust)

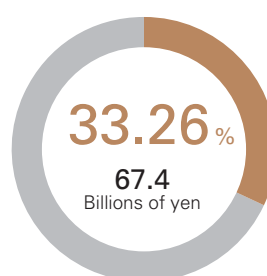
#### Global Markets Group

- Financial Institutions Business
- Markets
- Asset Management
- Wealth Management
- Treasury\*
- Securitization (Shinsei Securities)

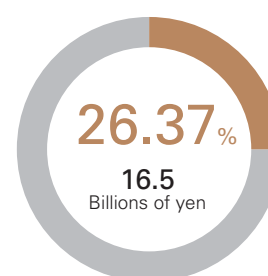
\* Effective July 1, 2012, the Bank transferred its treasury operations to the Finance Group. However, presentation of the Bank's financial results in this report are based on previous business segmentation.

### Contribution<sup>(Note)</sup>

#### Total Revenue



#### Ordinary Business Profit after Net Credit Costs



## INDIVIDUAL GROUP

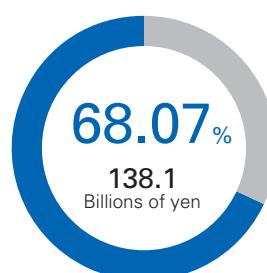
The Individual Group serves six million core customers in its retail banking, and unsecured personal loan, installment sales and other consumer finance businesses, offering products and services ranging from asset management to loans

### Major Business

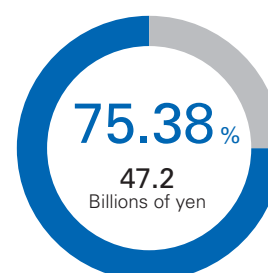
- Retail Banking
  - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
  - Asset management (consultation, mutual funds, annuity products)
  - Housing loans
- Consumer Finance
  - Unsecured personal loans (Shinsei Bank, Shinsei Financial, Shinki)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

### Contribution<sup>(Note)</sup>

#### Total Revenue

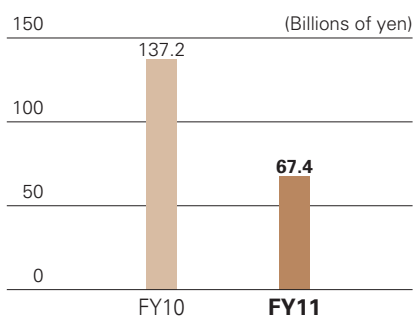


#### Ordinary Business Profit after Net Credit Costs

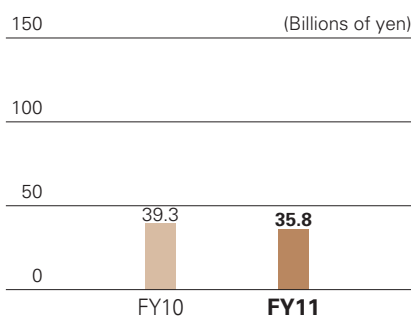


(Note) The percentage figures do not add up to 100 because Corporate/Other was negative.

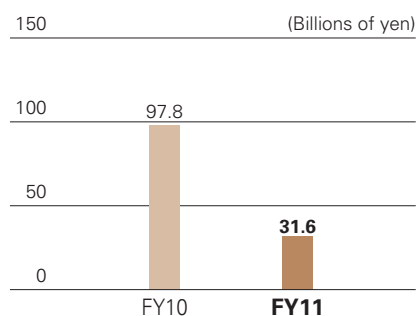
### Total Revenue



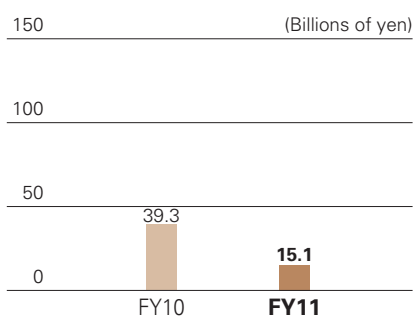
### General and Administrative Expenses



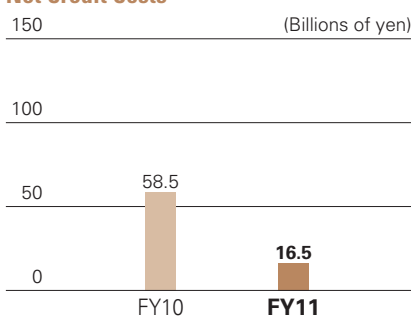
### Ordinary Business Profit



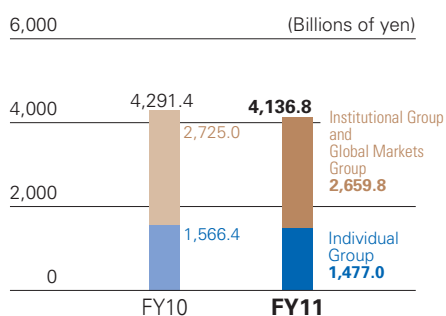
### Net Credit Costs



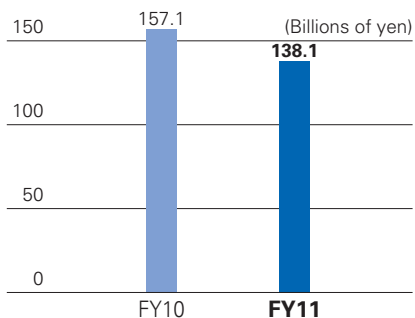
### Ordinary Business Profit after Net Credit Costs



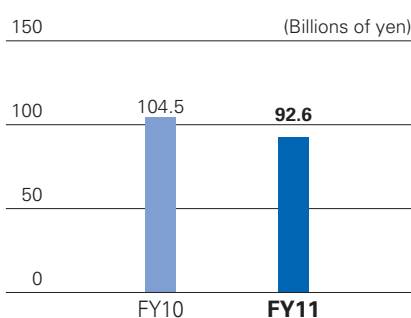
### Total Loans and Bills Discounted



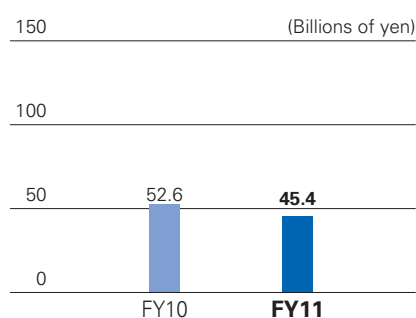
### Total Revenue



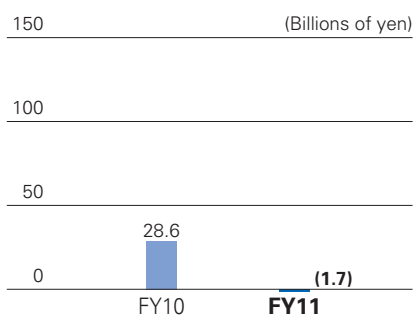
### General and Administrative Expenses



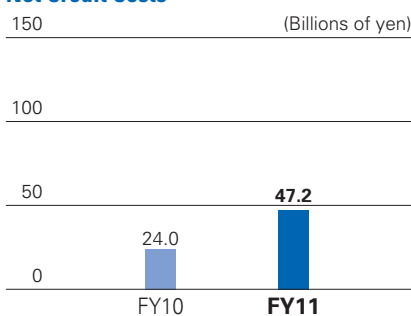
### Ordinary Business Profit



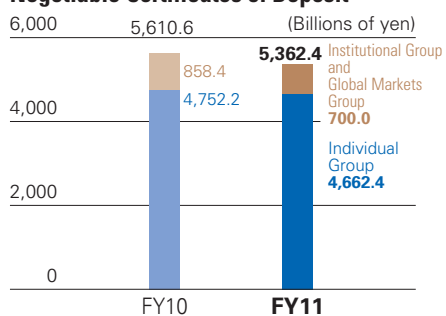
### Net Credit Costs



### Ordinary Business Profit after Net Credit Costs



### Deposits and Negotiable Certificates of Deposit



# INSTITUTIONAL GROUP

# GLOBAL MARKETS GROUP



**Akira Watanabe**

Managing Executive Officer  
Head of Global Markets Group

**Hitomi Sato**

Senior Managing Executive Officer  
Head of Institutional Group

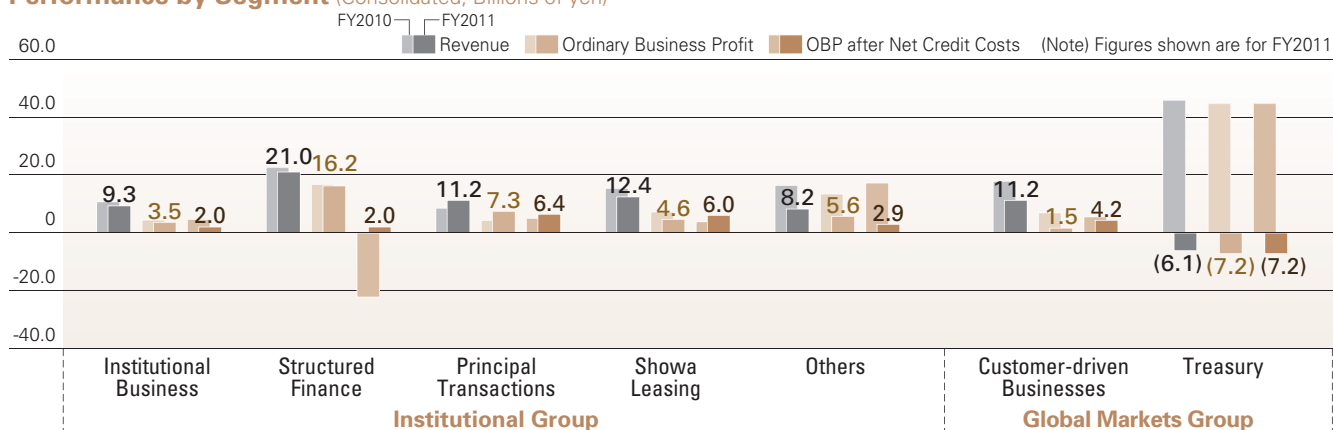
The Institutional Group, which focuses primarily on corporate and public sector finance and advisory business, and the Global Markets Group, which concentrates on financial markets business and serving financial institution clients, have been working in close cooperation, while clarifying each Group's roles and responsibilities, to proactively promote the Bank's institutional business. Operating conditions in fiscal year 2011 were challenging due to the impact of the Great East Japan Earthquake compounded by the delay in the recovery process, as well as the slump in economies and financial markets both in Japan and overseas precipitated by the Eurozone debt crisis and other factors. However, we made progress in core businesses, expanding our transaction and customer base, revitalizing our portfolio with high quality assets, and making inroads into new business domains. At the same time, we succeeded in meeting our Medium-Term Management Plan target for non-core asset reduction 1.5 years ahead of schedule, and produced tangible results through initiatives to "rebuild the customer franchise in Japan" and "establish a stabilized earnings base" as we shifted gears to go back on the offensive in fiscal year 2011.

## Results

In fiscal year 2011, the Institutional Group's ordinary business profit after net credit costs rose to ¥19.4 billion, improving significantly from ¥8.3 billion in the previous year, as the customer franchise expanded with an increase in borrower numbers, core businesses including real estate non-recourse finance and credit trading businesses performed strongly, and net credit costs declined substantially year-on-year. The Global Markets Group recorded an ordinary business loss after net credit costs of ¥2.9 billion in fiscal year 2011, compared to a profit of ¥50.1 billion in the previous fiscal year. This was due in large part to the absence of gains on repurchases of capital securities and bond sales recorded as part of the treasury operations in fiscal year 2010, compounded by the stagnation in financial markets due to the Eurozone debt crisis and the Great East Japan Earthquake. However, when losses recorded in treasury operations due to high subordinated debt and other costs are excluded, the Global Markets Group recorded an ordinary profit after net credit costs of ¥4.2 billion.

(Note) Effective July 1, 2012, the Bank transferred its treasury operations to the Finance Group. However, presentation of the Bank's financial results in this report are based on previous business segmentation.

### Performance by Segment (Consolidated, Billions of yen)



#### Businesses with higher revenues and higher OBP after net credit costs year-on-year:

- **Principal Transactions:** Strong performance in credit trading and other businesses

#### Businesses with lower revenues, higher OBP after net credit costs year-on-year:

- **Structured Finance:** Increased profit as net credit costs declined despite a fall in interest income due to reduction of the real estate non-recourse finance balance in fiscal year 2010 as part of risk weighted asset optimization efforts. New disbursements contributed to asset accumulation in real estate non-recourse finance in fiscal year 2011, while asset replacement also progressed
- **Showa Leasing:** Increased profit through strict credit and expense management, despite faltering growth in operating assets

#### Business with lower revenues and lower OBP after net credit costs year-on-year:

- **Institutional Banking:** Recorded impairment on listed securities due to slowdown in financial markets, even though borrower numbers increased and efforts to rebuild the customer franchise progressed
- **Others:** Fewer gains related to sales or valuation of non-core assets
- **Customer-driven Businesses (Financial Institutions Business, Markets):** Although we saw strong transaction flow with financial institutions customers, Markets recorded lower profit as gains on sales of non-core assets (CLO) recorded in fiscal year 2010 were absent in fiscal year 2011, and transaction volume weakened due to the slowdown in financial markets
- **Treasury:** Absence of gains on repurchase of capital securities recorded in fiscal year 2010, and fewer gains on trading of Japanese government bonds held for ALM purposes

#### OBP after Net Credit Costs (Loss) (Consolidated, Billions of yen)

	FY2010	FY2011
Institutional Group	8.3	19.4
Global Markets Group	50.1	(2.9)

## Strategy

### Key Points of Institutional Business Strategy

- **Expanding Client Franchise**
  - Building customer base by growing domestic and overseas assets in areas centered on infrastructure-related project finance; continuously promoting new business development; and strengthening consultancy for middle-market and SMEs
  - Further enhancing the provision of solutions for corporate, financial institutions and public sector customers by leveraging product development capabilities
  - Enhancing asset management proposals for institutional customers
- **Further Strengthening Shinsei's Distinctive Business Approach**
  - Developing business incubation operations aimed at proactive engagement in new business domains and regional revitalization, and providing management solutions to growth companies, as part of VBI
  - Proactive efforts to support recovery after Great East Japan Earthquake
  - Concrete development of Asia-related business
- **Continuing reduction of non-core assets while building up high quality assets in core businesses**
- **Strengthening markets business**

## Progress

### Institutional Group

#### Institutional Business and Showa Leasing

*Financial products and services for corporate and public sector customers, healthcare finance, ship finance, promotion of VBI, leasing business*

As the result of a continuing branch-wide campaign to approach new customers, the growth of our client base has outpaced Medium-Term Management Plan targets. As demand for funding in Japan showed some signs of recovering, the balance of our corporate loans increased quarter-on-quarter in the final quarter of fiscal year 2011. Our division specializing in support for the development of new industries identified areas of focus, which include new recycling technologies, renewable energy and power generation, and teamed up with Group companies to begin marketing activities. Subsequently, in March 2012, we established the VBI Promotion Division to implement the Venture Banking Initiative, centered around the princi-

ple of contributing to the "growth of customers, the economy and society, and creating and enhancing new productivity" across the Institutional Group. While continuing our existing activities, the new division will also focus on providing support for the development of new business domains and regional revitalization.

In Healthcare Finance, we have continued to expand our networks in the nursing home sector and with real estate securitization investors.

Showa Leasing has been working to strengthen its business base alongside its traditional strengths in the leasing of industrial equipment and machine tools to middle-market and SMEs. In fiscal year 2011, Showa Leasing took initiatives in its environmental businesses in areas including LED lighting, wind power and solar power generation for corporate customers and financing for semiconductor equipment, while strengthening its supplier alliances and expanding its asset finance operations. Alongside these ongoing efforts to establish next-generation core businesses through enhancing its product and service range, Showa Leasing is working in close collaboration with the Bank's institutional banking business to expand the client base further.

#### Structured Finance

*Real estate related non-recourse and corporate finance, M&A and other specialty finance, Corporate restructuring, Trust business*

Despite a harsh operating environment in the wake of the Great East Japan Earthquake, we continued to dispose of non-performing claims related to real estate finance, while restarting full-scale operations in our real estate non-recourse finance business and lending proactively to real estate companies and J-REITs (for details, please see page 36). In M&A related finance, we have built up our track record through working on a wide range of deals. Going forward, we are considering proactive development of project finance operations, where new business opportunities are growing centered around the Asia-Pacific region, including Japan. In the corporate restructuring business, our Corporate Support Division has provided financing for numerous business restructuring cases since its establishment in September 2010. One example of particular note is the financing we extended to Corona Kogyo Corporation, a company selected to receive assistance from the Enterprise Turnaround Initiative Corporation of Japan. We remain committed to providing consultancy services going forward. Meanwhile, Shinsei Trust & Banking is working proactively both on business within the Shinsei Bank Group as well as for external clients.

## Principal Transactions

### *Credit Trading, Private Equity*

In Credit Trading, our domestic business has continued to perform strongly despite difficult operating conditions in fiscal year 2011, as we pursued unique strategies, including arranging special situation finance in collaboration with our subsidiary. In our overseas credit trading business, we restarted investment in the Korean distressed debt market in September 2011 for the first time in approximately 3 years, and have produced steady results.

In Private Equity, we are actively pursuing opportunities to provide growth financing through pre-IPO investment in unlisted stock of mid-to-late stage ventures that are planning a stock market listing in the future. At the same time, we are also working on initiatives to meet the growing succession needs of small-and-medium enterprises.

### Advisory

#### *(included within "Others" in financial results)*

Our Advisory business won various M&A related mandates in fiscal year 2011, including advising on the sale of a high-end supermarket chain. We have also provided advisory services that demanded advanced expertise in corporate restructuring, such as sourcing a sponsor for a major consumer finance company.

We are actively utilizing the partnerships forged in fiscal year 2010 with financial institutions in India, Vietnam and Taiwan to support Japanese companies' growing needs for overseas expansion and cross-border M&A.

## Global Markets Group

### Markets

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

The strong yen and decline in equity markets and interest rates made for a challenging operating environment, as customer demand for primarily investment-related products was delayed. Nevertheless, we succeeded in winning new customers by ramping up provision of credit-linked loans, and funding and currency exchange-related products in the second half of fiscal year 2011. In addition, we also began supporting regional financial institutions in arranging syndicated loans, as well as providing new investment opportunities to customers through loan arrangement.

Additionally, in October 2011, we opened the Osaka Business Department in our Markets Sub-Group to offer greater support to our customers in western Japan.

While we expect the operating environment to remain severe in fiscal year 2012, we intend to expand our business through promoting credit-linked loans and foreign exchange related products, and approaching new customers.

### Financial Institutions Business

#### *Products and services for financial institutions*

Working ever more closely with the Markets Sub-Group, our Financial Institutions business is providing investment products, including structured loans, structured deposits and credit-linked loans, to regional financial institutions in search of yield amidst the low-interest-rate environment. We also continue to promote our "white label business" in which partner financial institutions sell structured deposits and other financial products developed by Shinsei Bank under their own brands, and won new contracts in fiscal year 2011. In addition, we have also been engaged for advisory on revenue enhancement strategies, in areas such as M&A and expense reduction, and assistance with balance sheet restructuring through asset replacement, as part of the wide range of services we offer to financial institution customers.

### Asset Management

#### *Investment trusts, Wealth management*

We established our new Asset Management Sub-Group in April 2011, and have since begun full-scale marketing activities in preparation for the launch of a privately offered investment trust specifically geared for the needs of financial institution customers. We are also enhancing the level of support we provide to Retail Banking sales staff, while working with subsidiary Shinsei Investment Management on a cross-organizational project to expand our investment trust sales channels to include institutional and wealth management customers. In fiscal year 2012, we plan to approach these customers with asset management product proposals.

In March 2012, Shinsei Investment Management launched the "Gold Target Fund," the first unit-type investment trust in Japan to offer exposure to gold with a target auto redemption feature. Going forward, the company will continue to plan and develop new products in line with customer needs.

# INDIVIDUAL GROUP



**Katsumi Tsuyama**

Head of Retail Banking Sub-Group

**Sanjeev Gupta**

Senior Managing Executive Officer,  
Head of Individual Group

**Masayuki Nankouin**

Executive Officer,  
Head of Consumer Finance Sub-Group

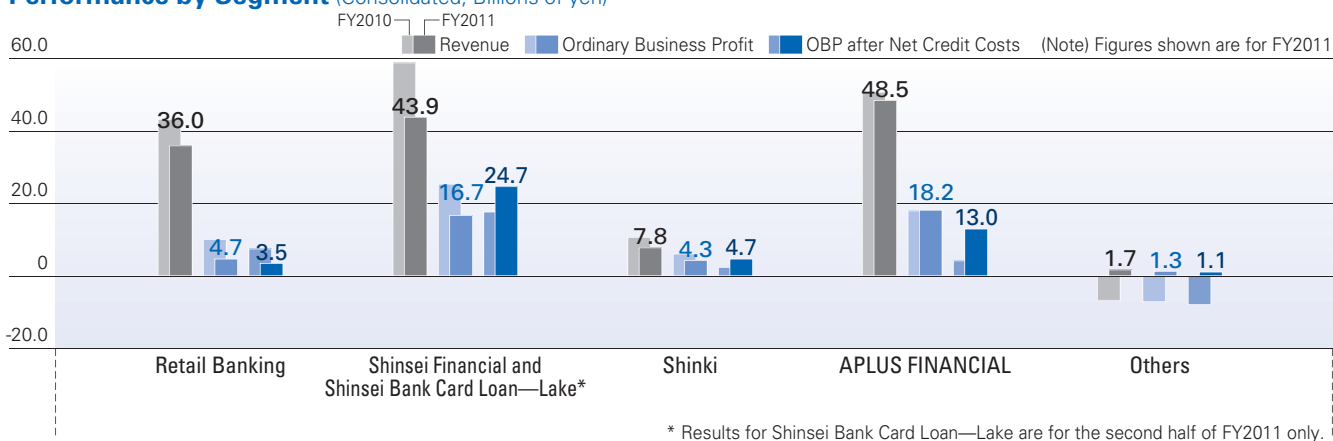
Shinsei Bank's Individual Group combines Shinsei's retail banking operations with the major consumer finance subsidiaries Shinsei Financial, Shinki, and APLUS FINANCIAL under a single management structure to provide a wide range of financial products and services for our individual customers. As of October 1, 2011, Shinsei Bank took over a portion of the Lake-branded unsecured personal loan business previously operated by Shinsei Financial to launch *Shinsei Bank Card Loan—Lake*, a new, full-scale, bank-based unsecured card loan service. As a result, Shinsei Bank now offers a full range of financial products and services, from retail banking to consumer finance, directly from the Bank, to better meet the ever-changing needs of our individual customers.



## Results

In fiscal year 2011, the Individual Group's ordinary business profit after net credit costs increased to ¥47.2 billion from ¥24.0 billion in the previous fiscal year. This reflected a decline in net credit costs due to stricter credit management and enhanced collection systems in our unsecured personal loan business as well as an improvement in asset quality following the introduction of the income-linked borrowing limitation and the overall decline in the loan balance. The improvement in net credit costs offset lower interest income at our major consumer finance subsidiaries.

### Performance by Segment (Consolidated, Billions of yen)



#### Businesses with higher revenues and higher OBP after net credit costs year-on-year:

- **Shinsei Financial and Shinsei Bank Card Loan—Lake:** offset a decline in interest income at Shinsei Financial with lower net credit costs reflecting improvements in asset quality, stricter credit standards and enhanced collections, and lower expenses
- **Shinki:** offset a decline in interest income with lower expenses and lower net credit costs
- **APLUS FINANCIAL:** covered a decline in loan income with a strong performance in the credit card and shopping credit businesses, coupled with lower expenses and net credit costs

#### Businesses with lower revenues and lower OBP after net credit costs year-on-year:

- **Retail banking:** showed steady performance in the housing loan business but recorded lower deposit-related interest income due to the prevailing low-interest rate environment, and lower non-interest income from investment products as a slowdown in the financial markets due to the European debt crisis and other factors depressed sales

#### OBP after Net Credit Costs (Consolidated, Billions of yen)

	FY2010	FY2011
Individual Group Total	24.0	47.2

## Strategy

### Retail Banking

- Strengthening Internet banking, call center and other convenient remote channels
- Continuing the roll-out of compact-sized Shinsei Consulting Spots while optimizing the branch network to meet customer needs through alterations to branch services and other initiatives
- Enhancing our asset management product development and consultation services to assist customers in finding the optimal financial solutions for their individual needs
- Further building out our business in housing loan products with unique features, such as guarantee fee waivers and a free-of-charge early repayment facility
- Offering a wide range of distinctive deposit products that contribute to stabilizing the Bank's funding base and lowering funding costs

### Consumer Finance

- Acquiring new customers and building up loan assets through the launch of *Shinsei Bank Card Loan—Lake*
- Maximizing Shinsei Bank Financial Institutions Sub-Group's relationships with regional banks to win new partnerships in the unsecured personal loan guarantee business
- Continuing to grow high-quality assets in the installment sales credit and credit card businesses through differentiation, and strict management of credit costs and expenses

## Operating Environment & Progress

### Retail Banking

In retail banking, total account numbers continued to grow steadily, topping 2.6 million as of March 31, 2012. The deposit balance declined slightly on March 2011 to ¥4.6 trillion, as time deposits sold in previous campaigns reached maturity. As a result, however, deposit-based funding costs were lower year-on-year on a consolidated basis. As of March 31, 2012, retail banking had ¥5.7 trillion in assets under management.

In fiscal year 2011 there was a deterioration in consumer sentiment and investment appetite, while individuals' tendency towards risk aversion strengthened due to the uncertain market situation, as stock markets languished, the yen remained at historically high levels and financial markets were roiled by the European debt crisis and other factors. As a result, sales of investment trusts and other asset management products were weak, although there

was continued demand for unique Shinsei products such as our housing loan and Two Week Maturity Deposit.

Buoyed by the strong yen, we also saw an increase in foreign currency deposit transactions in fiscal year 2011. In July 2011, we launched a "Foreign Exchange Commission Discount Time" campaign which offers customers lower foreign exchange commission rates for certain currencies for a limited period on a given day. We are also offering customers the choice to make transactions in an ever wider menu of foreign currencies, as we began handling the renminbi, Brazilian real and Turkish lira in June 2012. In addition, in June 2012 the Bank reached an agreement with Lloyds TSB Bank plc ("Lloyds TSB") in which Lloyds TSB will transfer ownership of its overseas remittance business to Shinsei, subject to the approval of the Financial Services Agency of Japan. Through this business transfer, Shinsei Bank will take over the customer base and service offering built up by Lloyds TSB, and aim to commence provision of a new overseas remittance service by December 2012.

We have also worked to expand our line-up of asset management products by, for example, introducing a new unit-type investment trust that offered exposure to gold with a target auto redemption feature, and a yen-denominated fixed annuity product to meet the needs of customers looking for stable investment options.

In our housing loan business, both new disbursements and the overall loan balance have trended strongly as we strived to provide even higher standards of service for both potential new customers, and customers considering refinancing (for details, please see page 36). In addition, we received certification from the Universal Communication Design Association for our *PowerSmart* Home Mortgage product, following revisions to the form's layout, color scheme and other features to improve accessibility for customers of varying color perceptions and for senior customers.

Through continually reviewing our branch network and the service offering at each branch in line with customer traffic, we are endeavoring to respond ever more flexibly to our customers' asset management needs. From November 2011, we have also begun offering medical insurance via telemarketing as part of efforts to deepen relationships with customers who have previously had few opportunities to visit a branch. At the same time, we are striving to achieve even higher levels of satisfaction among retirement-age and other customers who prefer face-to-face asset management consultation at our branches, by ensuring that we provide thorough explanations of the financial products we offer.

## Consumer Finance Business

In our consumer finance operations, although the effects of full-scale implementation of the revised Money-Lending Business Law (MLBL) have begun to subside, the market continues to contract and the overall balance of Shinsei Bank Group's unsecured personal loans declined again in fiscal year 2011. However, we have seen the number of new unsecured personal loan customers turn positive year-on-year, and the newly launched *Shinsei Bank Card Loan—Lake* has got off to a strong start. Meanwhile, disclosure claims, the leading indicator for "grey zone" interest repayment losses, have declined substantially year-on-year. As the impact of the regulatory changes implemented in June 2010, and the bankruptcy filing of a major consumer finance company in September of the same year became clearer, the Bank made substantial additional provisions for interest repayments at consumer finance subsidiaries at the end of fiscal year 2011, aiming to eradicate any so-called "grey zone risks" in the future. However, our ongoing indemnification agreement with GE continues to limit the risks related to a portion of the "grey zone" interest repayment liabilities at Shinsei Financial.

### Shinsei Bank Card Loan—Lake

Following the transfer to Shinsei Bank of a portion of the unsecured personal loan business previously operated by Shinsei Financial, the Bank launched the *Shinsei Bank Card Loan—Lake* in October 2011. The business has attracted approximately 68,000 new customers, and accumulated a balance of ¥17.5 billion in unsecured personal loans to date, performing steadily in line with initial projections. Going forward, we will focus both on Lake's traditional customer profile, as well as serving the needs of retail banking customers. As a result of these initiatives, we anticipate a rebound in the Group's overall unsecured personal loan balance in the near future, and plan to grow the business into an important contributor to profitability over the mid-to-long-term.

### Shinsei Financial

With the transfer of the Lake brand to Shinsei Bank in October 2011, Shinsei Bank has taken over new customer acquisition in the unsecured personal loan business. Going forward, Shinsei Financial will continue serving it approximately 600,000 existing unsecured personal loan customers while providing credit guarantee services for the *Shinsei Bank Card Loan—Lake* service and for other financial institutions. As of March 31, 2012, Shinsei Financial currently has credit guarantee agreements with six regional financial institutions. In August 2011, the company announced an expansion of its partnership with The

Towa Bank, Ltd. ("Towa Bank") to provide the bank with core card loan systems on an ASP (application service provider) basis. This arrangement allows Towa Bank to develop new products drawing on Shinsei Financial's wide-ranging expertise without having to build its own proprietary systems. By providing ASP-based systems together with the marketing expertise developed during its years as a loan provider, Shinsei Financial will strive to grow its credit guarantee business further.

## APLUS FINANCIAL

During fiscal year 2011, APLUS FINANCIAL, one of Japan's three largest listed *shinpan* (sales finance) companies, has continued to make steady progress in its three major businesses—installment sales credit, credit cards and settlement services—as it works towards its medium-term management plan vision of "becoming a *shinpan* company chosen by customers, supported by business partners, and fit for the new age," and breaking away from dependence on consumer finance loan income.

In installment sales credit, a key business, APLUS FINANCIAL has continued to pursue transaction growth both in its core auto sales finance business as well as in other areas, for example, through ongoing efforts to grow its housing-related business including finance for products such as solar power generation systems and EcoCute energy-efficient water heating systems. In addition, the company has secured powerful differentiation in this commoditized market through a new service launched in May 2011 that allows customers to acquire T points\* with APLUS' installment sales credit. As of March 2012 over 3,300 companies have already begun offering the service and transaction volumes are increasing steadily.

In the credit card business, transaction volume growth has outpaced the industry average. In April 2012, APLUS Co., Ltd. and Shinsei Bank integrated the cards they previously each offered separately and launched "Shinsei APLUS Gold Card" and "Shinsei APLUS Card" as jointly branded Shinsei Bank Group credit cards. APLUS FINANCIAL will continue to pursue further growth in transaction volume by introducing distinctive, new credit card products.

The settlement service business continues to perform steadily and in fiscal year 2011, APLUS FINANCIAL partnered with the Bank's Institutional Group to win new customers for its rent guarantee business.

\* The T Point Loyalty Program is an integrated loyalty point program, operated by Culture Convenience Club Co., Ltd. ("CCC"), which allows holders of a T card to accumulate T points when making purchases at participating retailers. Points can be redeemed across a spectrum of retailers including convenience stores and supermarkets. APLUS FINANCIAL has an alliance with CCC in the credit card business, where it offers the credit-enabled "T Card Plus" card.

## Building up Operating Assets

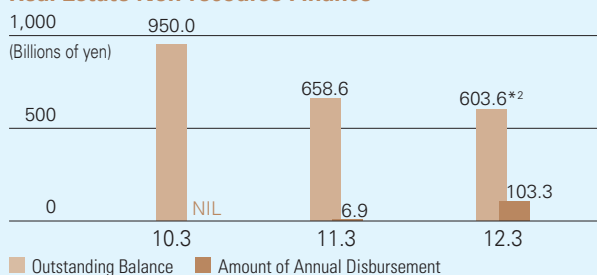
Shinsei Bank's loan balance showed a quarter-on-quarter increase as of March 2012, the first increase in two-and-a-half years since September 2009. In addition to our corporate lending and *Shinsei Bank Card Loan—Lake* businesses, we are committed to increasing new disbursements and growing the loan balance in our real estate non-recourse finance and housing loan businesses too, by providing unique products and services aligned with customer needs.

### Real Estate Non-Recourse Finance

#### A pioneer in non-recourse finance in Japan

Immediately after the Great East Japan Earthquake, there was a slowdown in new disbursements in our real estate non-recourse finance business, as investors postponed or cancelled deals. However, once the market began to settle after the second quarter of fiscal year 2011, we leveraged our extensive network and succeeded in finding opportunities to issue new loans. As a result, new disbursements in fiscal year 2011 totaled ¥103.3 billion, a figure that clearly shows the progress we have made since restarting this business in January 2011 (the Bank made no new disbursements in real estate non-recourse finance in fiscal year 2009, and issued only ¥6.9 billion in new loans in the final quarter of fiscal year 2010). We also progressed with the disposal of non-performing claims related to past investments and made good headway in replacing the assets in our real estate non-recourse finance portfolio.

### Real Estate Non-recourse Finance\*1



\*1 Real estate non-recourse finance includes bonds (including other monetary claims purchased)

\*2 Excludes the portion (¥24.5 billion) eliminated through consolidation in FY2011

According to a survey by the Japanese Ministry of Land, Infrastructure, Transport and Tourism, land price declines narrowed for the second consecutive year as of January 1, 2012, as real estate prices in Japan showed signs of bottoming out. Meanwhile, there were also new movements in the market as foreign funds restarted investment activities. While we expect increased competition amidst this environment, we also see certain discrepancies among competitors' approach to small- and medium-sized deals, and operational assets such as logistics and commercial facilities. As a pioneer in the Japanese non-recourse finance market, we believe that by leveraging our proven end-to-end execution capabilities, spanning the spectrum of assessment, contracting, appraisal/due diligence, disbursement and management—there is ample opportunity for Shinsei Bank to win new business in this market.

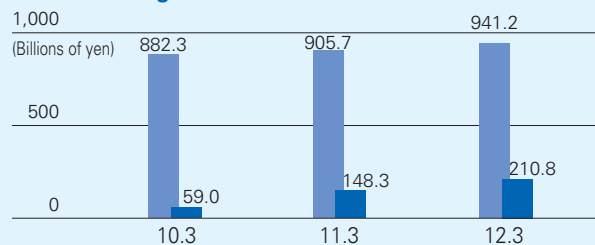
### Housing Loans

#### The *PowerSmart* Housing Loan—a mortgage chosen for its unique product features

While the balance of housing loans at Japanese banks reached a record of ¥105 trillion as of December 31, 2011, according to Bank of Japan statistics, the ongoing low interest rate environment that is rooted in the lackluster domestic economy has fuelled intense competition on interest rates in the housing loan market.

In fiscal year 2011, new disbursements in Shinsei Bank's housing loan business were strong and the overall balance reached ¥941.2 billion, its highest-ever level.

### Retail Housing Loans



\*1 A portion of housing loans was sold in the second quarter of FY2011

In the current market environment, there is a general tendency for home-buyers to choose their mortgage provider by comparing upfront interest rates primarily on variable interest rate mortgages. At Shinsei, however, we encourage customers to think about the total cost of a mortgage, which includes not only the interest payable, but other costs such as guarantee fees and early repayment charges.

At Shinsei Bank, we charge no guarantee fee for our *PowerSmart* housing loan, and we also waive group life insurance fees, enabling customers to reduce the initial costs of borrowing or refinancing. In addition, we provide free-of-charge facilities that allow customers to request that any excess savings above a certain pre-set balance are automatically used to pay off their mortgage, or to make individual repayments over the Internet. These convenient product features that help reduce the burden on borrowers have not only proved popular with customers, but have also helped the Bank avoid excessive competition on interest rates. Going forward, Shinsei will continue working to expand its housing loan business through increasing new disbursements.

# 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.

## CLO (Collateralized Loan Obligations)

CLOs are debt-collateralized securities with leveraged loans (LBO), corporate loans, and corporate bonds as the underlying assets.

## 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 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 Repayments

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. However, losses from a portion of the "grey zone" interest repayment liabilities at Shinsei Financial are indemnified by GE under the purchase agreement made when Shinsei Bank acquired the company.

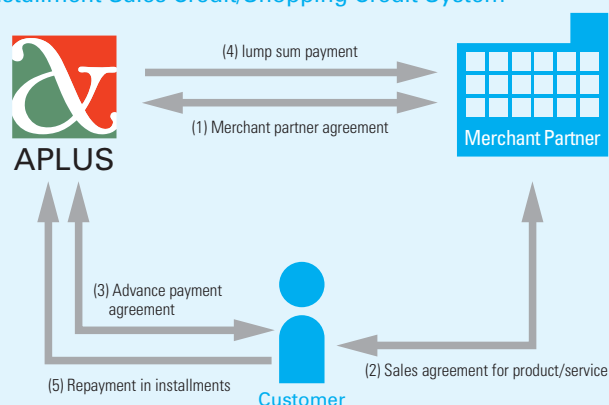
## Healthcare Finance

Healthcare Finance refers to financing—primarily non-recourse 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



- (1) APLUS concludes a merchant partner agreement with the merchant partner
- (2) Customer purchases a product or a service from the merchant partner
- (3) Customer applies to APLUS for installment sales credit
- (4) APLUS pays the purchase price for the product/service as a lump sum to the merchant partner
- (5) Customer repays the purchase price to APLUS in installments

### Japanese Operating Lease (JOL)

Japanese Operating Leases (JOL) offer investors the opportunity to enjoy benefits similar to those derived from owning large-scale, depreciable assets, through investment in major leasing arrangements for assets such as aircraft, ship, and freight containers, in return for a share in the income generated by the operator (lessor) of the assets.

### J-REIT

J-REIT stands for Japanese Real Estate Investment Trust.

### LBO Finance (Leveraged Buyout Finance)

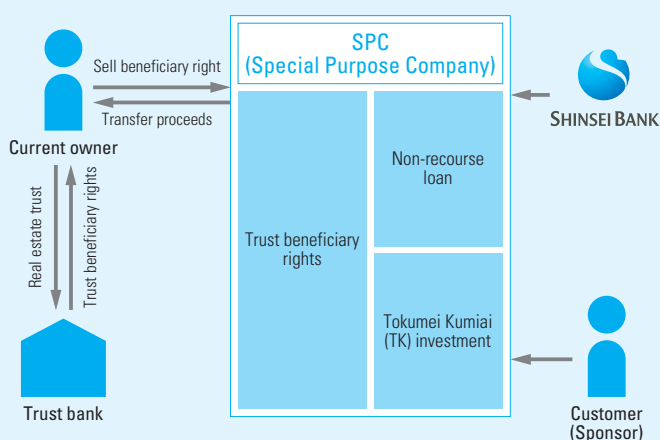
LBO finance is a type of M&A finance based on the assets or future cash flows of a company to be acquired. It is used when a company or an investment fund acquires another company. At Shinsei Bank, LBO Finance is included in Specialty Finance.

### 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.

### Non-recourse Loan

Non-recourse 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.



### 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 and 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.

### 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.

### 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.

### 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 focus 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 through the Structured Finance Sub-Group.

### 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.