

# 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
- Advisory
- Real Estate Finance
- Specialty Finance
- Corporate Restructuring
- Credit Trading
- Private Equity
- Leasing (Showa Leasing)
- Trust operations (Shinsei Trust)

#### Global Markets Group

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

### Major Subsidiaries



## INDIVIDUAL GROUP

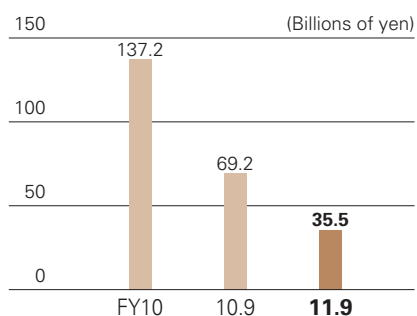
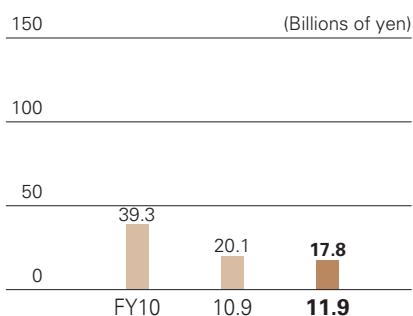
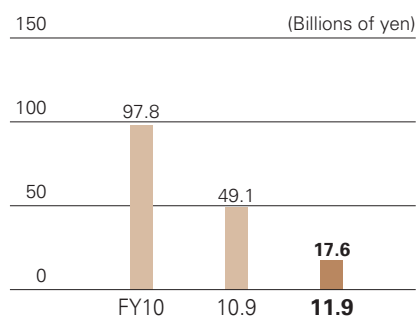
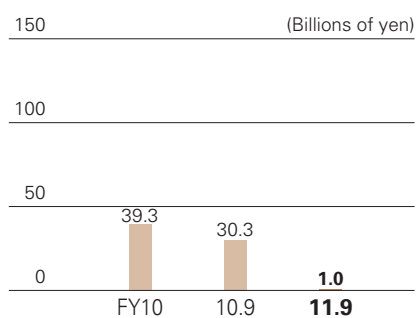
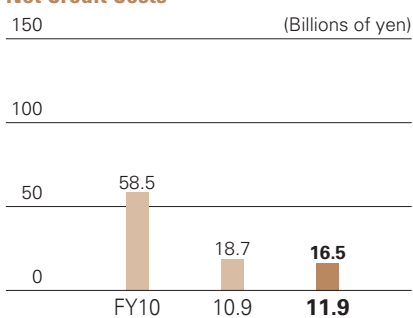
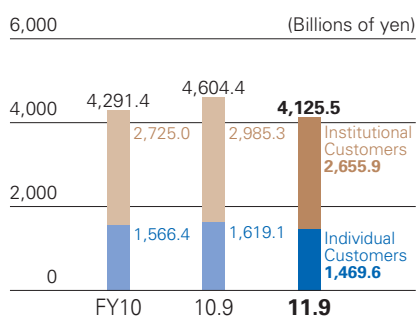
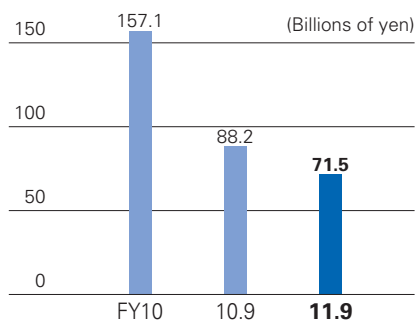
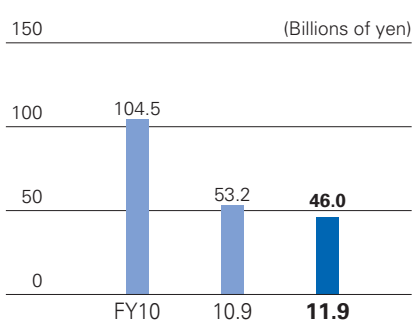
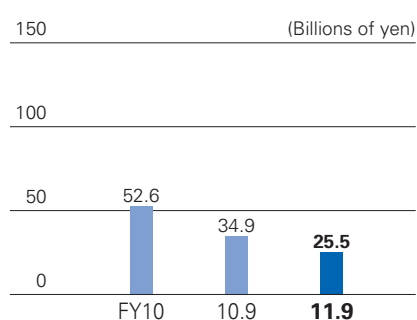
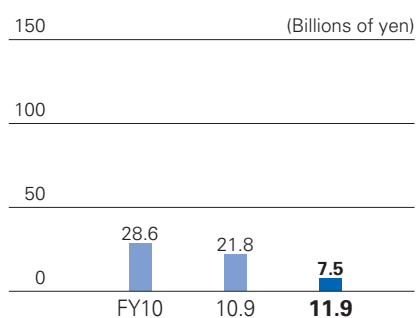
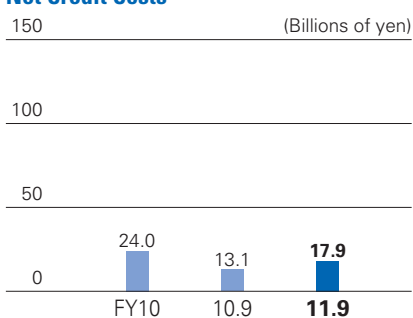
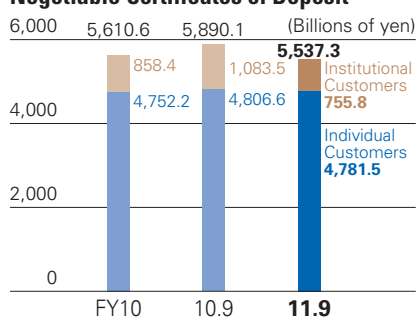
The Individual Group serves six million core customers in its retail banking, and unsecured personal loan, installment sales and other consumer finance businesses, offering products and services ranging from asset management to loans

### 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, APLUS FINANCIAL)
  - Installment sales credit, settlement, credit cards (APLUS FINANCIAL)

### Major Subsidiaries



**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

Financial Highlights

Message from the Management

Special Feature

Review of Operations  
Institutional Group/Global Markets Group

Management Structure

Data Section

As of April 1, 2011, we have refined our organizational framework for serving institutional customers. A newly defined Institutional Group is focusing primarily on corporate and public sector finance and advisory business, while the Global Markets Group concentrates on financial markets and serving our financial institution clients. Amidst challenging conditions defined by the slump in economies and financial markets around the world, we have pressed on with key initiatives centered around new customer acquisition, providing support for the development of new industries and corporate restructuring, continued reduction of non-core assets, enhancing capital markets capabilities and refining our asset and liability management (ALM). As a result, we are making steady progress in rebuilding our customer base, revitalizing our portfolio with high quality assets, and making inroads into new business domains. At the same time, we have succeeded in meeting our Medium-Term Management Plan target for non-core asset reduction 1.5 years ahead of schedule, as our efforts to "rebuild the customer franchise in Japan" and "establish a stabilized earnings base" have borne solid results.

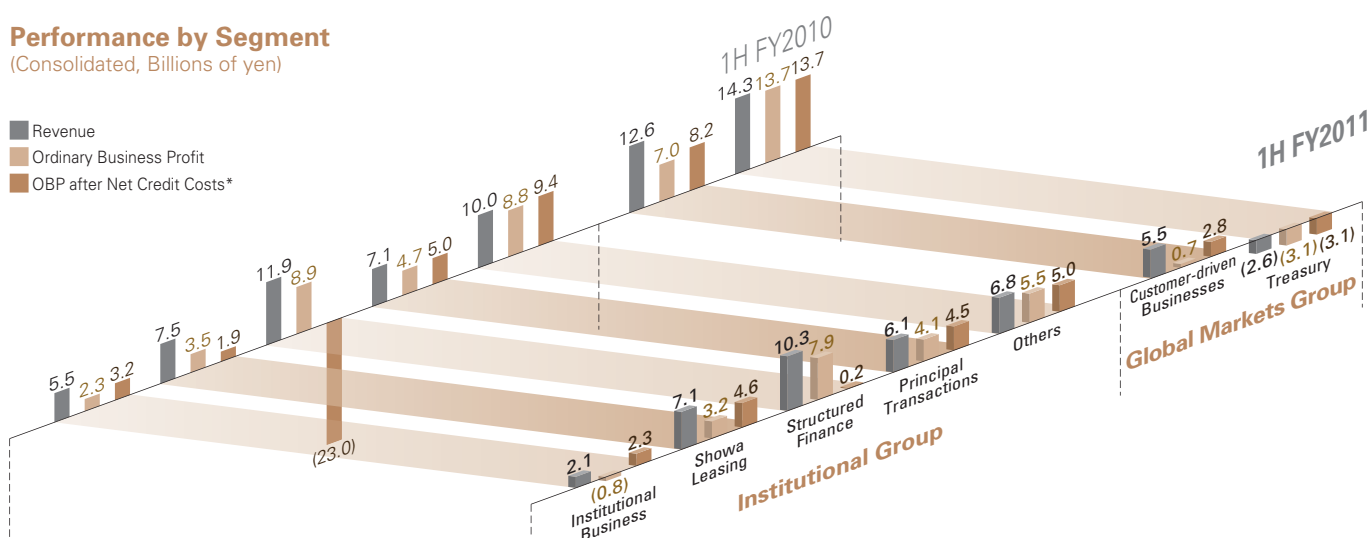
(Note) Effective April 1, 2011, the Bank reorganized its institutional businesses into a newly defined Institutional Group and the Global Markets Group. Figures for the previous fiscal year have been adjusted to conform to current period presentation.

## Results

In the first half of fiscal year 2011, the Institutional Group's ordinary business profit after net credit costs rose to ¥16.8 billion, improving significantly from a loss of ¥3.2 billion in the first half of fiscal year 2010, as the customer franchise expanded with an increase in borrower numbers, and the real estate non-recourse finance and credit trading businesses performed strongly. The Global Markets Group recorded an ordinary business loss after net credit costs of ¥0.3 billion in the first half of fiscal year 2011, compared to a profit of ¥21.9 billion in the same period of the previous fiscal year, due to stagnant financial markets following the European debt crisis and the Great East Japan Earthquake, as well as the absence of gains on repurchases of subordinated debt that were recorded in the first half of fiscal year 2010.

### Performance by Segment

(Consolidated, Billions of yen)



\* 1H FY2011 results include ¥0.4 billion of recoveries of written-off claims in Institutional Group and ¥0.9 billion in Global Markets Group

#### OBP after Net Credit Costs:

	1H FY2010	1H FY2011
Institutional Group Total	(3.2)	<b>16.8</b>
Global Markets Group Total	21.9	<b>(0.3)</b>

#### Institutional Group

- **Institutional Business**  
(Corporate & public sector finance, Healthcare finance etc.)
- **Showa Leasing**
- **Structured Finance**  
(Real estate non-recourse finance, Specialty finance, Corporate restructuring etc.)

- **Principal Transactions**  
(Credit trading, Private equity etc.)
- **Others**  
(Advisory, Asset-backed investment etc.)

#### Global Markets Group

- **Customer-driven Businesses**  
(Financial institutions business, Markets, Asset management etc.)

- **Treasury**  
(ALM-related operations)



## Operating Environment & Challenges

The Eurozone debt crisis has caused turmoil in global financial markets and the yen's strength has been driven to record levels, while the blueprint for Japan's recovery from the Great East Japan Earthquake remains uncertain. Although the economy showed signs of a quicker-than-anticipated rebound in the months immediately following the disaster, more recent data suggest weak funding demand, while recovery-related loan demand has not yet fully materialized. In the real estate market, vacancy rates for office buildings are gradually improving and there are signs of a bottoming-out in rents. Nevertheless, investors remain cautious and risk appetite is low, fuelling competition for what business there is in the market. However, this challenging business environment itself presents various opportunities, and we have been stepping up our business in providing solutions to combat the yen's strength and cross-border M&A advisory, as well as asset management solutions and capital markets products.

## Strategy

### Key Points of Institutional Business Strategy

- Expanding Client Franchise
  - Focus on expanding customer franchise
  - Further enhancing the provision of appropriate solutions for corporate, financial institutions and public sector customers, by leveraging our product development capabilities
  - Enhancing asset management proposals for institutional customers
- Shinsei's Unique Approach
  - Preparation and action to support development of new industries
  - Group-wide efforts to provide capital, credit, consulting services and staffing support to customers with restructuring needs and growth companies
  - Proactive efforts to support recovery after Great East Japan Earthquake
  - Concrete development of Asia-related business
- Continue Reduction of Non-core Assets
- Strengthening Markets Business and ALM Capabilities

## Progress

### The Institutional Group

#### Institutional Business and Showa Leasing

*Financial products and services for corporate and public sector customers, leasing business*

As the result of a continuing branch-wide campaign to approach new customers, the growth of our client base has outpaced internal targets. Despite weak demand for funding in Japan, the balance of our corporate loans is showing clear signs of having bottomed out. Over the first half of fiscal year 2011, our division specializing in support for the development of new industries and technology has identified its areas of focus, which include new recycling technologies, renewable energy and power generation, and teamed up with Group companies to begin marketing activities. In addition, in Healthcare Finance, we have continued to expand our networks in the nursing home sector and with real estate securitization investors.

Showa Leasing has continued efforts to establish next-generation core businesses through enhancing its product and service range, alongside its traditional strengths in the leasing of industrial equipment and machine tools to mid-market and small- and medium-sized enterprises. Meanwhile, the Bank's Institutional Business continues working in close collaboration with Showa Leasing 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*

Our lending to real estate companies and J-REITs has turned positive, and we made new disbursements in the non-recourse real estate finance, a business which we restarted in the fourth quarter of fiscal year 2010 for the first time in approximately two years. In the first half of fiscal year 2011, operating conditions have remained harsh, however we are working selectively on high quality deals sourced through the international network and expertise we have built up over many years in this business. The decline in real estate-related loan balances has largely subsided, and going forward we expect to see an increase driven by new disbursement, even as we continue to dispose of non-performing loans.

In the corporate restructuring business, our Corporate Support Division has reviewed many requests for financing



related to business restructuring since its establishment in September 2010. One example of our efforts in this area came to fruition in September 2011, when the Bank concluded a financing contract with Corona Kogyo Corporation, a company selected to receive assistance from the Enterprise Turnaround Initiative Corporation of Japan, for the construction of production facilities in Vietnam.

At Shinsei Trust & Banking, the balance of trust assets has also turned positive for the first time in 2.5 years.

### Principal Transactions

#### *Credit Trading, Private Equity*

In Credit Trading, while our domestic business has continued to perform strongly throughout the first half of fiscal year 2011, we also restarted investment in the Korean distressed debt market in September 2011 for the first time in approximately 3 years. We are also proactively offering assistance to going-concern companies with special issues through arranging financing in collaboration with our subsidiary Shinseigin Finance.

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 has won various mandates in the first half of fiscal year 2011, particularly in areas requiring advanced expertise, ranging from sponsor sourcing for high-profile clients undergoing business restructuring to provision of M&A advisory in the retail, service, financial and other sectors. We are also actively utilizing the partnerships forged last fiscal year with Baoviet Holdings in Vietnam and YES BANK in India, and are currently working on a number of inward-bound M&A deals from India, and supporting Japanese companies in entering the Vietnamese market.

## The 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 increasing transactions by ramping up provision of credit-linked loans, and funding and currency exchange-related products. In addition, we have also begun supporting regional financial institutions in arranging syndicated loans. As a first step, in September 2011, we acted as co-arranger and contributed to the smooth arrangement of the first syndicated loan to be led by The Daito Bank, Ltd. ("Daito Bank"). The loan was made to finance new outlets and restoration work by one of Daito Bank's corporate clients located in the area affected by the Great East Japan Earthquake.

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.

### 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 notes, 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 started new contracts in the first half of 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.

# INDIVIDUAL 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 has taken over a portion of the Lake-branded unsecured personal loan business previously operated by Shinsei Financial (including the Lake brand, the network of unstaffed branches and automated contract machines and Card Loan—Lake ATMs), and launched *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.

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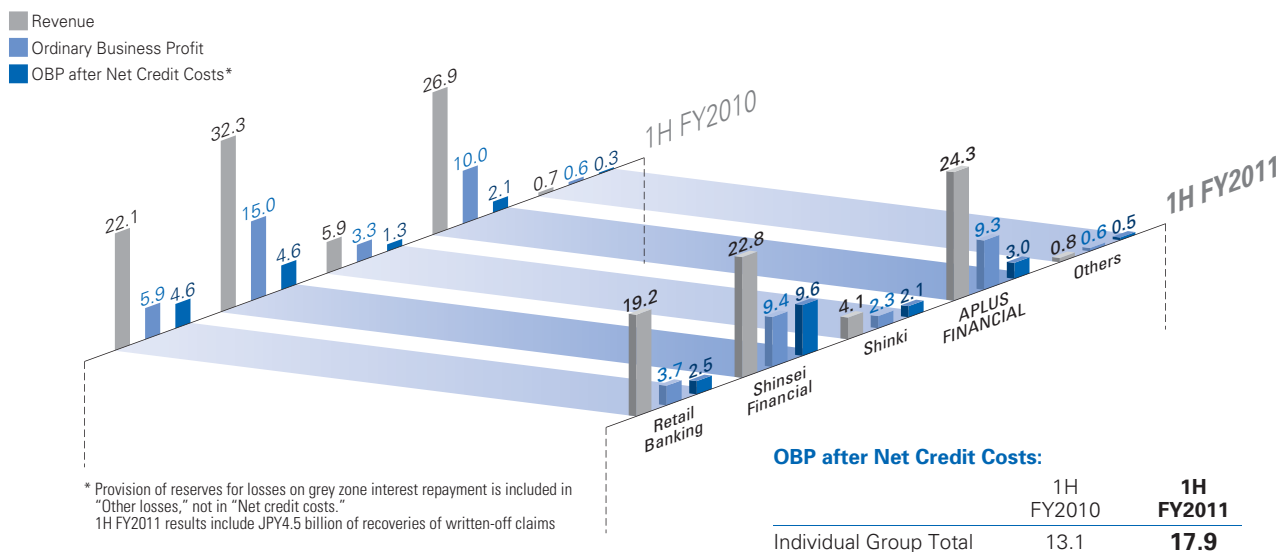
Data Section

## Results

In the interim period of fiscal year 2011, Shinsei Financial, Shinki and APLUS FINANCIAL outperformed year-on-year at the ordinary business profit after net credit costs level. As a result, the Individual Group's ordinary business profit after net credit costs increased to ¥17.9 billion in the first half of fiscal year 2011 compared to ¥13.1 billion in the first half of fiscal year 2010.

### Performance by Segment

(Consolidated, Billions of yen)



#### OBP after Net Credit Costs:

	1H FY2010	1H FY2011
Individual Group Total	13.1	<b>17.9</b>



## Operating Environment & Challenges

In the first half of fiscal year 2011, consumer and individual investor sentiment was dealt a blow by the impact of the Great East Japan Earthquake, while slumping equity markets, an historically strong yen and confusion in global financial markets fueled risk aversion. Against this backdrop, in retail banking we saw steady demand for our housing loans which offer unique product features, and for our two-week maturity and other yen-denominated deposit products, while relatively fewer customers availed themselves of our investment-related products, such as structured deposits and investment trusts.

In our consumer finance operations, the effects of full-scale implementation of the revised Money-Lending Business Control and Regulation Law (MLBL) have begun to subside as we saw the number of new unsecured personal loan customers turning positive year-on-year. As a result, there are now signs of a bottoming out in the unsecured personal loan balance at Shinsei Financial. Meanwhile, “grey zone” interest repayment losses and disclosure claims, their leading indicator, continue on a downward trend across our subsidiaries. In addition, our ongoing indemnification agreement with GE, covering the majority of “grey zone” interest repayment liabilities at Shinsei Financial, continues to limit our risk of losses in this area.

## Strategy

### Retail Banking

- Strengthening Internet banking, call center and other convenient remote channels
- Continuing the roll-out of compact-sized Shinsei Consulting Spots to provide high-quality service for customers’ asset management needs
- Enhancing our asset management product development and consultation services to assist customers, especially those approaching retirement, 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

- Combining convenience, speed and product strength—hallmarks of the Lake brand—with the reassurance and peace-of-mind of Bank service, to establish our position as a trusted lender for customers and secure income amidst a shrinking domestic unsecured personal loan market due to the revised MLBL and “grey zone” interest repayment issue
- Maximizing Shinsei Bank Financial Institutions Sub-Group’s relationships with regional banks to win new partnerships in the unsecured personal loan guarantee business
- Continue growing high-quality assets in the installment sales credit and credit card businesses through differentiation, and strict management of credit costs and expenses

## Progress

### Retail Banking

In retail banking, total account numbers continued to grow steadily, topping 2.6 million as of September 30, 2011, while assets under management now total ¥5.9 trillion.

The deposit balance has stabilized and increased slightly on March 2011 to ¥4.7 trillion, as the decline through maturities of time deposits sold in previous campaigns subsided. Buoyed by the continued strength of the yen, as well as the “Foreign Exchange Commission Discount Time” campaign launched in July 2011, foreign currency deposits have also grown strongly on March 2011. In addition, the balance of our Two-Week Maturity Deposit surpassed ¥1 trillion as of February 2011 on the back of continued strong sales. This and other factors have resulted in a further decline in the Bank’s consolidated deposit-based funding costs year-on-year.

Following the turmoil in global financial markets there was a trend towards relatively weaker customer need for asset management products. However, aggregate sales of structured bonds (financial product intermediary business) surpassed ¥100 billion as we focused on providing appropriate asset management consultation services to meet customers’ needs. Targeting the retirement-aged demographic, in June 2011, we launched a series of campaigns for customers wishing to invest their retirement allowance. In addition, in November 2011 we began sales of Taiyo Life Insurance Company’s first bancassurance product, *Minoru no Jikan*, a yen-denominated fixed individual annuity for customers desiring a stable investment option for funds for the future.

Alongside these branch-based consultancy services, we



also began offering personal accident insurance (underwritten by Zurich Insurance Company) by direct mail, and medical insurance (underwritten by Cardif Assurance Vie) by telemarketing as we work to enhance our services for customers who have previously had few opportunities to visit a branch.

We have also seen stronger performance in our housing loan business following improvements to our application process and customer relationship management. The overall balance of housing loans has trended strongly, and there was particularly strong year-on-year growth in the amount of new disbursements, reflecting the popularity of our *PowerSmart Housing Loan's* unique features, such as a waiver of guarantee fees and a commission-free early repayment facility, as well as competitive interest rates.

### Shinsei Financial & Unsecured Personal Loan Business

During the first half of fiscal year 2011, the unsecured personal loan business operated by our consolidated subsidiary Shinsei Financial maintained a top 2 market share of new loan applications, and top 3 share in new customer acquisition. While loan balance and revenues have fallen in an industry-wide trend reflecting the impact of the income-linked borrowing limitation and interest rate ceiling caps stipulated in the revised MLBL, we have worked to offset this through ongoing strict credit control, enhanced collections and expense discipline. Moreover, the pace of loan balance decline appears to be slowing, as the number of new applications and new contracts have begun growing since May 2011, after consecutive years of decline.

Following regulatory approval for the transfer to Shinsei Bank of a portion of the Lake unsecured personal loan business operated by Shinsei Financial, on October 1, 2011, the Bank successfully launched the *Shinsei Bank Card Loan—Lake* service to become the first bank in Japan to offer full-scale unsecured card loan services for individual customers through a network of approximately 800 unstaffed branches. We will continue to provide Lake's highly convenient and speedy service—including immediate loan disbursement, a no-branch-visit application process, fee-free usage of partner ATMs and a network of unstaffed branches throughout Japan—together with the peace-of-mind and reassurance of Bank service. Our initial focus will be on serving Lake's traditional customer profile, and growing our customer base and loan balance. Going forward, we will also work to provide services that meet the needs of retail banking customers. As a result, we soon expect to see a rebound in the

Group's overall unsecured personal loan balance, and plan to grow the business into an important contributor to profitability over the mid-to-long-term.

Going forward, Shinsei Financial will continue serving existing unsecured personal loan customers while pursuing further growth through expansion of its credit guarantee business for the *Shinsei Bank Card Loan—Lake* service and for other financial institutions. As at September 2011, Shinsei Financial currently has credit guarantee agreements with five 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. A breakthrough in the industry, 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.

### APLUS FINANCIAL

During the first half of fiscal year 2011, APLUS FINANCIAL, one of Japan's three largest listed *shinpan* (sales finance) companies has continued to make steady progress towards its medium-term management plan vision of "becoming a *shinpan* (sales finance) 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 core business, APLUS FINANCIAL has continued to diversify away from highly competitive auto sales finance to focus on growth areas such as solar power generation systems and EcoCute energy-efficient water heating systems. In addition, it 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 October 2011, over 1,600 companies have already begun offering the service. In the credit card business, volumes have picked up rapidly after an initial drop immediately following the Great East Japan Earthquake. On September 1, 2011, APLUS FINANCIAL renewed the *Shinsei Visa Card* and introduced *Shinsei Bank Gold Card Visa/JCB*, which offers a broad range of high-quality benefits in return for a competitive annual fee.

\* 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.