

Review of Operations

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AT A GLANCE

Segment Data

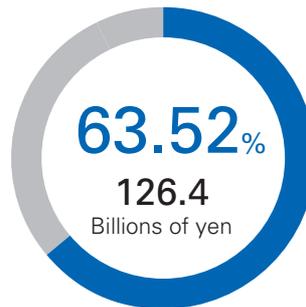
INDIVIDUAL GROUP

Major Business

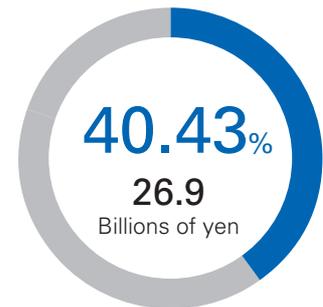
- Retail Banking
 - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
 - Asset management (consultation, mutual funds, annuity products)
 - Housing loans
- Consumer Finance
 - Unsecured personal loans (Shinsei Bank, Shinsei Financial, SHINKI)
 -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

Contribution^(Note)

Total Revenue



Ordinary Business Profit after Net Credit Costs



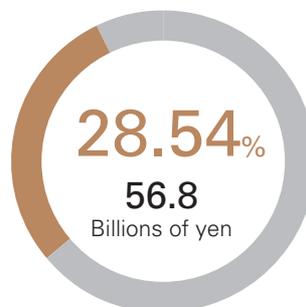
INSTITUTIONAL GROUP

Major Business

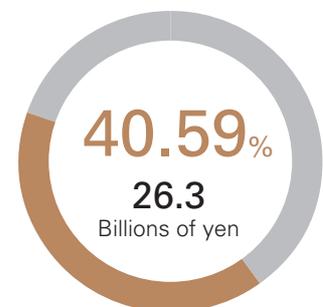
- Corporate & Public Sector Finance
- Healthcare Finance
- Real Estate Finance
- Specialty Finance
- Corporate Restructuring
- Credit Trading
- Private Equity
- Advisory Services
- Leasing (Showa Leasing)
- Trust operations (Shinsei Trust & Banking)

Contribution^(Note)

Total Revenue



Ordinary Business Profit after Net Credit Costs



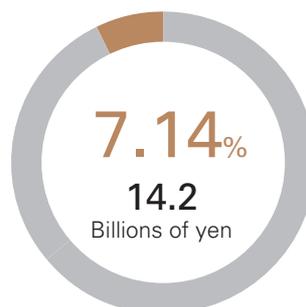
GLOBAL MARKETS GROUP

Major Business

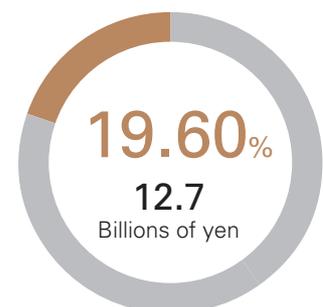
- Financial Institutions Business
- Markets
- Asset Management
- Wealth Management
- Securitization (Shinsei Securities)

Contribution^(Note)

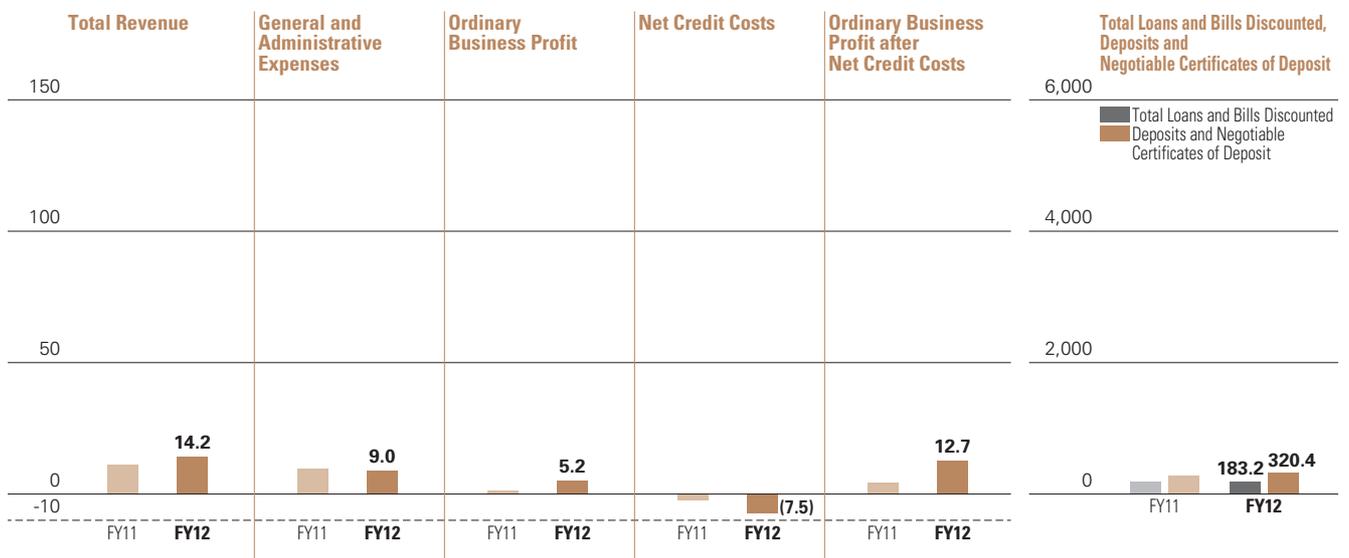
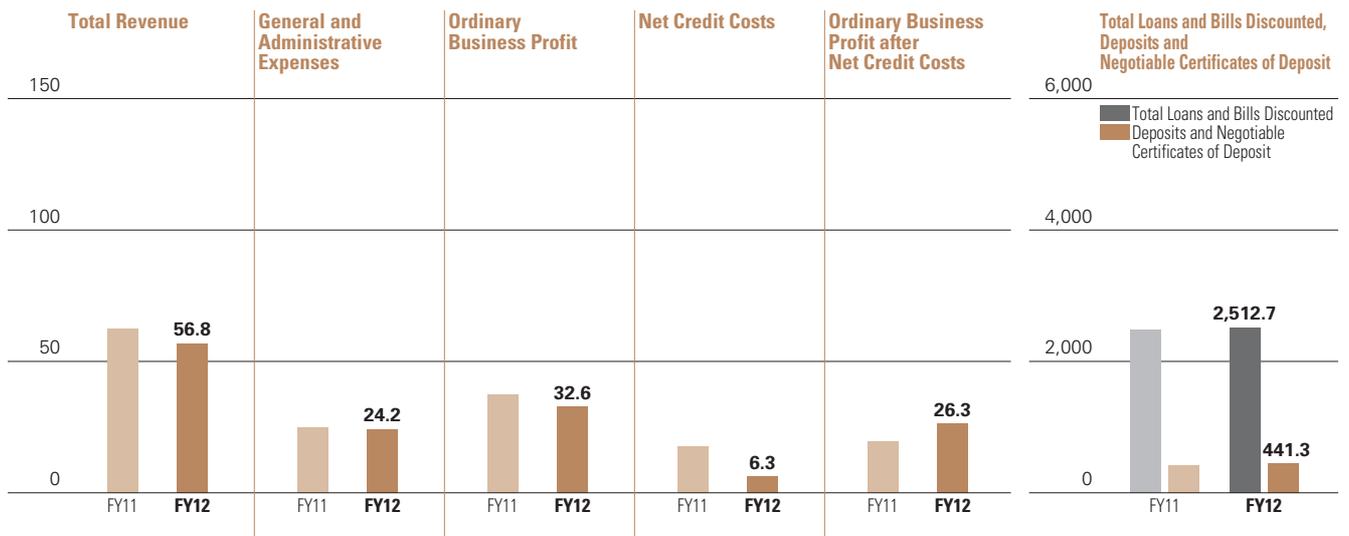
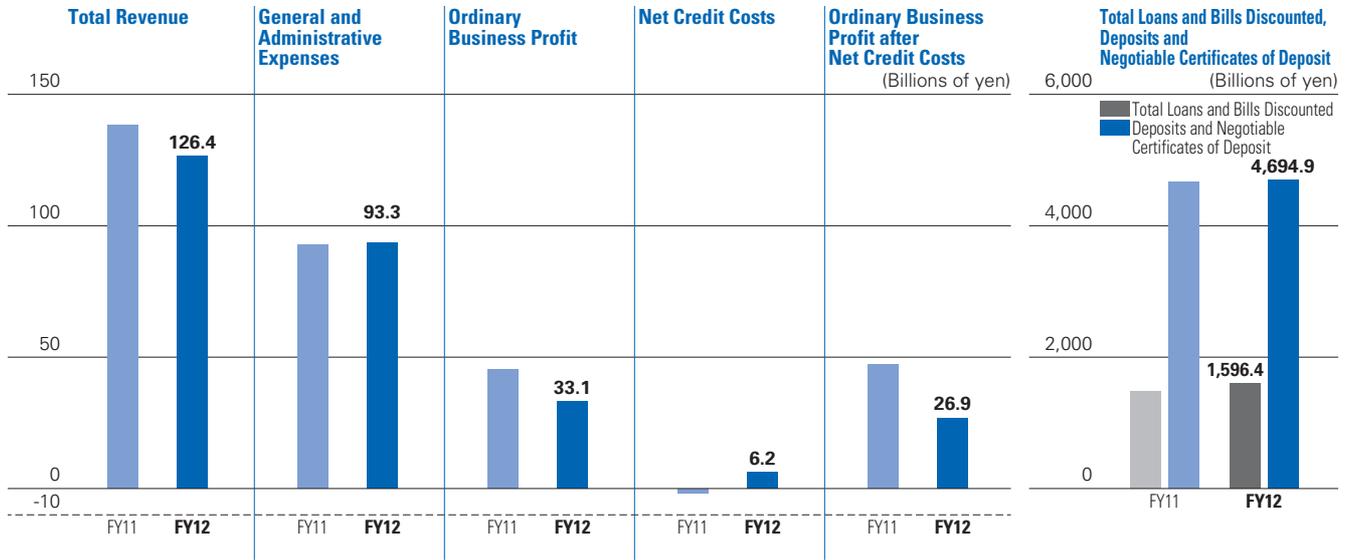
Total Revenue



Ordinary Business Profit after Net Credit Costs



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



Financial Highlights

Message from the Management

Special Feature

Review of Operations
At a Glance

Management Structure

Data Section

Explanations of Major Businesses

Financial Highlights

Message from the Management

Special Feature

Review of Operations
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Management Structure

Data Section

INDIVIDUAL GROUP

Retail Banking

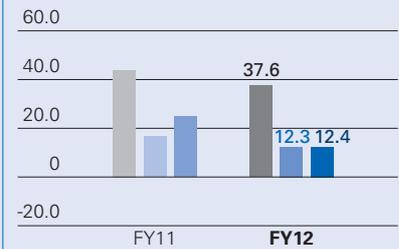
Financial products and services for individual customers, such as yen/foreign currency deposits, structured deposits, mutual funds, brokerage service through an alliance partner, life/casualty insurance through alliance partners, and housing loans



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

Shinsei Financial and Shinsei Bank Card Loan—Lake

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



INSTITUTIONAL GROUP

Institutional Business

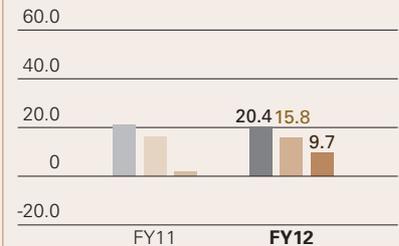
Financial products and services for corporate and public sector customers (including health-care finance and advisory services)



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

Structured Finance

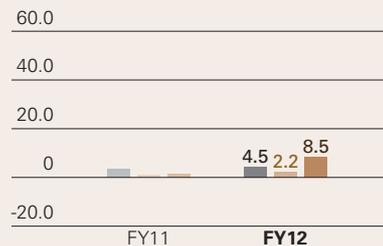
Specialty finance business including real estate finance, M&A related finance and project finance, as well as corporate restructuring and trust business



GLOBAL MARKETS GROUP

Financial Institutions Business

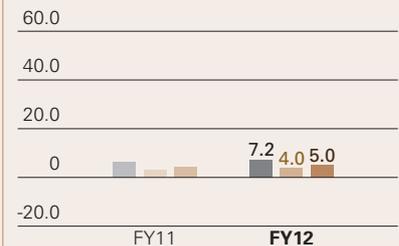
Provides financial solutions, such as investment management and managerial reinforcement, to financial institutional customers including regional financial institutions



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

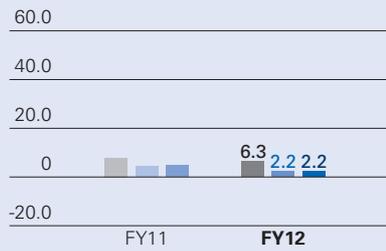
Markets

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



SHINKI

Unsecured personal loan business—brand name “NO LOAN”



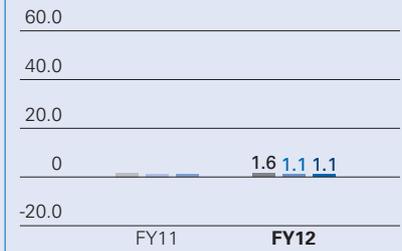
APLUS FINANCIAL

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



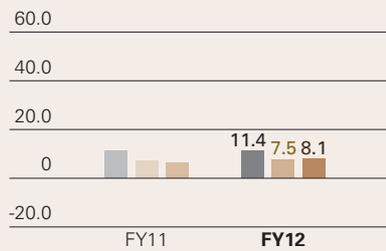
Other Businesses

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



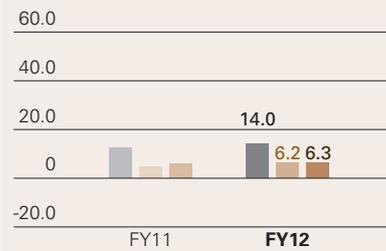
Principal Transactions

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



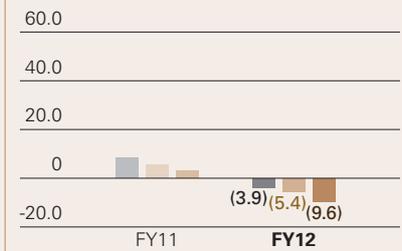
Showa Leasing

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



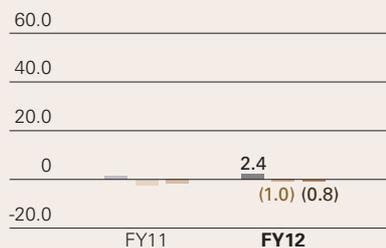
Other Businesses

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



Other Businesses

Shinsei Securities, asset management, and wealth management business



INDIVIDUAL GROUP

from left
Tetsuro Shimizu
Head of Retail Banking Sub-Group

Sanjeev Gupta
Senior Managing Executive Officer,
Head of Individual Group

Masashi Yamashita
Managing Executive Officer,
Deputy Head of Individual Group,
Head of Consumer Finance Sub-Group

The Individual Group is comprised of: 1) the retail banking business handling deposits, investment trusts, insurance, and real estate loans, 2) *Shinsei Bank Card Loan—Lake* offering unsecured personal loan (UPL) services, 3) Shinsei Financial Co., Ltd. handling UPL and the credit guarantee operations, 4) SHINKI Co., Ltd. specializing in UPL, 5) APLUS FINANCIAL Co., Ltd. whose core business is the installment sales credit business and credit cards, and 6) Shinsei Property Finance Co., Ltd. that handles loans secured by real estate.

Business Environment and Challenges

Since the launch of the new retail banking business in 2001, Shinsei Bank has continued to offer innovative services to its individual customers including free ATM withdrawals and 24-hours-a-day, 365-days-a-year online banking services. Through these services, we have steadily expanded our retail customer base with the total number of accounts surpassing one million in 2004 and two million in 2007. As of the end of March 2013, the total number of retail accounts at Shinsei Bank stood at 2.7 million. In view of the recent business environment, we believe that it is the right time for us to promote measures to further expand our customer base.

The financial products and services offered by the Shinsei Bank Group to our individual customers have become more complex and diverse in comparison to 2001. In addition, given the intensifying competition with other banks that are catching up with us in recent years, we consider it an imperative task that Shinsei Bank Group provides products and services in an integrated manner in order for us to enhance the competitive advantage of our products and services and to expand our customer base.

Strategy

At Shinsei Bank, we define “core customers” as those who can freely use the products and services offered by the Shinsei Bank Group companies according to their individual needs. By making use of various resources of the Shinsei Bank Group, we will focus on expanding the core customer base by offering financial services including asset management, settlements,

loans, and consulting in an integrated manner. At present, we have approximately 2.5 million customers who fall under the definition of core customers. We will mobilize the resources of the entire Group to promote various measures to double this number to 5 million by the end of March 2016.

As the first step towards this goal, in June 2013 we concluded a basic partnership agreement with Culture Convenience Club Co., Ltd., with which APLUS FINANCIAL Co., Ltd. already has a partnership, to provide information on our financial products and services to members of the “T Point*”—a shared point service operated by Culture Convenience Club. In the future, we will be considering the development and provision of new financial products that incorporate the T point service with the Shinsei Bank Group’s financial products to T Members, starting with T Card members who hold APLUS issued T Cards with credit card functions, and through this the Shinsei Bank Group is looking to enlarge its core customer base.

Further, we will endeavor to improve our customer points of contact by strengthening linkages among our channels—branches, call centers, Internet, and mobile—while utilizing their respective characteristics, and by improving our consulting services at branches and call centers. In addition, we plan to introduce unique investment products and highly convenient services ahead of our competition in order to provide financial services that match the ever-changing needs and lifestyles of our customers. Through these measures, we aim to create a new retail banking model.

In our loan business, with a deeper understanding of our customer needs, we will endeavor to strengthen our housing loan features, establish our position as a reliable lender in the unsecured card loan market, increase the balance and range of purpose-specific loan products, and enlarge the credit guarantee business offered in cooperation with regional financial insti-

tutions, in an aim to further develop our entire loan business.

In our overseas business, we will consider using unsecured loans and installment sales credit in response to the increased needs for small funding from the expanding middle class in Asia, and look into our domestic customers' needs to manage their funds overseas.

* The "T Point" is a shared point service operated by Culture Convenience Club Co., Ltd. The service was launched in March 2003. As of May 31, 2013, the number of T Point members stood at 45.6 million, and 100 T Point partner companies offered the T Point service through a total of 58,000 shops throughout Japan.

Business Development in Fiscal Year 2012

Despite the larger loan balance, the Retail Banking Sub-Group's revenue decreased mainly due to smaller net interest income from deposits, including liquid deposits, due to the lower market interest rates. Revenue at the Consumer Finance Sub-Group also contracted mainly because of lower net interest income resulting from the reduction in loans at Shinsei Financial, SHINKI, and APLUS due to the impact of the Revised Money Lending Business Act and other factors. As a result, revenue of the Individual Group as a whole declined from 138.1 billion yen in fiscal year 2011 to 126.4 billion yen in fiscal year 2012. Expenses increased slightly from 92.6 billion yen in fiscal year 2011 to 93.3 billion yen in fiscal year 2012. As for net credit costs, the Individual Group posted 6.2 billion yen in fiscal year 2012 compared to a 1.7 billion yen gain in fiscal year 2011. However, the quality of loan assets at our consumer finance subsidiaries has improved, and the level of net credit costs remained low.

As a result of the above, ordinary business profit after net credit costs at the Individual Group shrank considerably from 47.2 billion yen in fiscal year 2011 to 26.9 billion yen in fiscal year 2012. Nonetheless, a much larger contribution to the Shinsei Bank Group's profitability was achieved given that while 32.8 billion yen was added to the reserve for interest refund losses in fiscal year 2011, no additional provisions were made in fiscal year 2012.

In our retail banking business, we offered a wide range of financial products including yen deposits, foreign currency deposits, structured deposits, structured bonds, investment trusts, and insurance products, in order to respond to asset management needs of our diverse customers. We also actively promoted the "PowerSmart Home Mortgage" which has unique product features.

For yen deposits, we ran a yen time deposit campaign from November 2012 to January 2013, which was popular amongst customers with a preference for low-risk investment options. In addition, we held a yen time deposit campaign offering a special interest rate from May to July 2013 in line with the summer bonus season, in an aim to steadily build up the deposit balance.

For foreign currency deposits, we started offering Chinese yuan, Brazilian real, and Turkish lira from June 2012, increasing the number of foreign currencies handled by the Bank to 13. Furthermore, we acquired from the U.K.-based Lloyds Banking Group its overseas remittance business in Japan and launched

the "GoRemit Shinsei Overseas Remittance Service" in March 2013. We have also revised our "Free Foreign Exchange Commission Time" in which we offer free foreign exchange commissions for a specific currency at a specified time and date. Through these measures, we are striving to diversify options and improve the convenience of foreign currency asset management for our customers. As a result, we have increased our share in the foreign currency deposit balance of the banks operating in Japan.

In our housing loan business, we are strengthening products that have been well received in the past. For instance, to flexibly respond to the risk of our customers' changing life circumstances, we launched the "PowerSmart Home Mortgage (Anshin Pack)" in December 2012 combining the option to control the monthly repayment amount together with insurance in case a borrower requires a designated level of care. From June 2013, the *PowerSmart Home Mortgage* became available for home improvement needs together with an application for a housing loan. This has made the *PowerSmart Home Mortgage*, which offers flexible repayment options according to the borrower's lifestyle changes, available to a wider range of customers. After surpassing the one trillion yen mark for the first time at the end of September 2012, our housing loan balance continued increasing steadily to reach 1,091.6 billion yen as of the end of March 2013.

In our consumer finance business, the "Shinsei Bank Card Loan—Lake" service, the bank-based UPL business launched in October 2011 after the acquisition of a portion of Shinsei Financial's business, has developed steadily. As of March 31, 2013, the business had approximately 180,000 customers and an outstanding loan balance of 64.6 billion yen. In order to extend the reach of this service offering to customers who have latent needs for unsecured card loans, we reviewed the *Shinsei Bank Card Loan—Lake's* product structure in December 2012 to increase the loan limit to 5 million yen while lowering the minimum lending rate to 4.5%. We also launched a smart phone site for making loan applications for the *Shinsei Bank Card Loan—Lake*.

APLUS FINANCIAL has been expanding and improving the businesses conducted by its subsidiaries including installment sales credit, credit cards, settlement services, and personal loans, and servicing, while promoting partnerships with outside players. The number of membership shops and usage amounts have both steadily increased for "APLUS Shopping Credit with T Points" launched in May 2011 under a tie-up arrangement between APLUS Co., Ltd. and T Point Japan Co., Ltd. Furthermore, APLUS introduced "APLUS Auto Credit with T Points" in July 2012 and "APLUS Rent Service with T Points" in November 2012, utilizing the T Point service as a strong feature to differentiate its products and services from its competitors. In the credit card business, APLUS formed a business alliance in July 2012 with the English Premier League's Manchester United Football Club and has started issuing credit cards for the Manchester United supporters in Japan.



INSTITUTIONAL GROUP

Hitomi Sato
Senior Managing Executive Officer,
Head of Institutional Group

The Institutional Group is comprised of: (1) the Institutional Business Sub-Group that provides private and public sector corporate customers with lending and other banking services, structured finance for real estate and other finance projects, as well as additional financial products and solutions, (2) the Principal Transaction Sub-Group that operates the credit trading and private equity businesses including Pre-IPO investments, (3) the VBI Promotion Division, (4) the advisory business, (5) the asset-backed investment business, and (6) the Shinsei Bank Group companies, including Showa Leasing and Shinsei Trust & Banking, that offer financial services to corporate customers.

Business Environment and Challenges

At the Institutional Group, we endeavor to provide financial services that will contribute to the growth of corporate customers and the creation of new industries in the face of a business environment undergoing major changes such as an ageing society with a falling birth rate. Additionally, we consider that it is essential for us to improve Shinsei Bank's distinctive value and competitiveness by not only catering to our existing customers' needs, but by identifying the needs of new customers and providing innovative solutions.

To achieve these goals in a continuous, Group-wide effort, the Group launched the Venture Banking Initiative ("VBI") last year. There are three key "pillars" of the VBI initiative which are: (1) develop an organizational structure and functions in response to the changing business environment; (2) pursue an expansion of the customer base by developing new transactions with private and public sector customers as well as adopting new business approaches by taking part in our customers' businesses as a bank with shared business risks and cooperating with regional financial institutions; and (3) improve the sophistication of our risk management and operations to support these efforts.

Strategies

We have enhanced the organizational structure of the Principal Transactions Sub-Group through measures such as divesting its operations to subsidiaries, in order that our divisions are better prepared to respond to market events and to improve customer service in cooperation with various outside partners. Additionally, in order to be able to respond accurately and flexibly to

the rapidly changing business environment including social and economic trends and demographics, we have taken actions to enhance our capabilities through steps such as upgrading our consulting functions in the credit trading business and creating joint funds in the private equity investment business which have put us in a better position to undertake new initiatives and expand our business.

For corporate customers, we will improve our support for those who have true funding needs by combining traditional balance sheet finance with cash flow finance based on future cash flows of companies. In order to accomplish this, we needed to strengthen our total solution provision capabilities and we therefore consolidated the Structured Finance Sub-Group and Institutional Business Sub-Group in April 2013 into an integrated operational structure. This move was designed to further enhance the synergies of the operations in which we have experience and expertise such as project finance, real estate finance, and buy-out finance. We will actively engage in areas earmarked as strategically important in the Second Medium-Term Management Plan such as medical services and health care, renewable energy, start-up support, and corporate rehabilitation support by creating cross-sectional teams that utilize a diverse range of expertise that exists within the Bank.

The West Japan Business Department was created in the Institutional Business Division of the Osaka Branch in April 2013 in order to drastically improve our regional business promotion functions. Switching from the original single point structure centered on the Institutional Business Division to the East-West dual structure has enabled us to organize a framework for more flexible business promotion activities and for efficiently implementing the fully-fledged promotion of the VBI. In the areas of renewable energy-related project finance and health care finance where projects have been in the pipeline since the previous term, we are capitalizing on our network of regional

financial institutions and are looking to create markets in response to regional needs in a manner consistent with regional development initiatives we are working on as part of the VBI.

To address market changes and various risks arising from these new initiatives, we will strengthen and develop an appropriate risk monitoring framework and systematically review and improve our existing operations in order to improve operational efficiency and productivity in a sustainable manner. For example, by working together with the Risk Management Group, we are organizing marketing/management standards and portfolio management to address real estate market condition risks, developing risk-sharing methods in the business participation approach, developing and upgrading our financial products, and creating a monitoring framework to include expanded product lines such as project finance.

Showa Leasing Co., Ltd. is expanding its business basis centered on areas of its strengths in order to capture earning opportunities through consulting services to its customers, promoting asset finance in areas such as the semiconductor, construction machinery, medical services, and airplane industries, and strengthening cooperation with leading suppliers. The company is also supporting its customers' overseas business expansion efforts and is stepping up cooperation with overseas partners.

Furthermore, Showa Leasing is cooperating with Shinsei Bank to improve the proposal function using its personal property valuation, management, and disposal abilities. To give a concrete example, we are promoting forward transactions in personal property collection utilizing the Bank's network of regional financial institutions in correspondence with the SME Financing Facilitation Act, and rejuvenation and refinancing projects in the healthcare area.

■ Business Development in Fiscal Year 2012

Net interest income in the Institutional Group rose from 27.2 billion yen in the previous fiscal year to 29.8 billion yen thanks to a steady expansion of the customer base as a result of efforts to increase new customers. Although overall revenue contracted from 62.3 billion yen in fiscal year 2011 to 56.8 billion yen in fiscal year 2012, this was partly attributable to the a one off reduction in non-core assets, which was included in non-interest income in the previous fiscal year. In core businesses that cater for our customers' needs, the Group's revenue increased and steady progress was made.

Despite the active investment of management resources into strategically important areas, expenses were down from 25 billion yen in fiscal year 2011 to 24.2 billion yen in 2012 due to improved operational efficiency in each business. Net credit costs significantly improved from 17.8 billion yen in fiscal year 2011 to 6.3 billion yen in fiscal year 2012, despite an increase in loan assets, as the credit standing of some large borrowers improved.

As a result of the above, ordinary business profit after net credit costs for the Institutional Group rose considerably from 19.4 billion yen in fiscal year 2011 to 26.3 billion yen in fiscal year 2012.

As part of our new initiatives in the renewable energy area in fiscal year 2012, we promoted a finance syndication business such as the arrangement of project finance for large-scale solar power plants constructed in the eastern part of Hokkaido in March 2013.

In regional development, we made an investment in October 2012 in the "Fukushima Growth Industry Development Fund"—a fund specializing in investing in the development of growth industries such as unlisted companies in Fukushima Prefecture. It made its first investment in CYBERDYNE Inc. in December 2012. In December 2012, we concluded a lending agreement for project finance to construct a gas-fired power station, which will create locally produced power for local consumption in the city of Sodegaura, Chiba Prefecture. On top of this, in March 2013, we organized project financing to construct large-scale solar power plants in the Eastern part of Hokkaido as our first mega solar project as the lead arranger. In May, we also arranged project financing for the construction of mega solar facilities in the city of Mito and Shirosato-machi in Ibaraki Prefecture. Both of these projects are for financing domestic mega solar projects whose repayment source is limited to project cash flows, which we believe is a revolutionary financing scheme.

In start-up support, we, jointly with gumi Inc., established a venture fund targeting mobile entertainment companies in July 2012. In January 2013, we joined a collaboration of investors including The Organization for Small & Medium Enterprises and Regional Innovation, Japan and four other business corporations to invest in "DCI Growth High-Technology Manufacturing Industry Development Fund" founded by Daiwa Corporate Investment Co., Ltd.

In July 2012, we entered into a comprehensive business alliance agreement with YES BANK, Ltd. an Indian commercial bank with which we had had a business alliance agreement in the M&A business, in order to strengthen our framework to support our corporate customers' expansion into Asia. In the healthcare finance business—one of the focus areas where we can utilize our uniqueness and strengths, we provided non-recourse loans to two private real estate investment funds for individual investors which invest in healthcare facilities. In April 2013, we granted a 9.6 billion yen non-recourse loan—our largest financing for healthcare facilities to date—to a special purpose company formed by Healthway Medical Development Private Limited, a major medical services development company in Singapore, to support their acquisition of 13 fee-paying senior homes in Japan. Through these activities, we are promoting our initiatives to create the first healthcare Real Estate Investment Trust (REIT) in Japan that will support, from the aspect of capital markets, the social infrastructure that underlies an ageing society with a falling birth rate.

Hironobu Satou
 Managing Executive Officer,
 Head of Global Markets Group

GLOBAL MARKETS GROUP

The Global Markets Group is comprised of: 1) the Financial Institutions Sub-Group that offers financial products and services to financial institution customers, 2) the Markets Sub-Group that engages in foreign exchange, derivatives, and other capital markets operations, and 3) other operations such as the asset management business, the wealth management business and Shinsei Securities.

Business Environment and Challenges

The new Abe administration, which took power in December 2012 made clear an economic revitalization policy which would see speedy implementation of measures aimed at ending the long-term deflationary trend and putting the Japanese economy on a path to recovery by implementing a bold monetary easing policy and development of a growth strategy to stimulate private-sector demand. This has led to a significant depreciation of the yen and a rise in share prices. While this has resulted in spurring long stagnated markets into action, it has also resulted in greater market volatility than before.

Keeping in mind such changes to the market environment, we will seek to provide our corporate and financial institution customers finely tuned, customer centric financial solutions by utilizing our advanced financial know-how and putting ourselves in the place of our customers.

Strategy

The Global Markets Group offers structured deposits, credit-linked loans, and other investment products to financial institution customers that face the challenge of managing their assets in the low interest rate environment. We also engage in the sale, purchase, and brokering of loans in cooperation with the Institutional Group.

Financial Institutions Sub-Group

In order to meet financial institutions' needs to accumulate assets under their management, we offer finely-tuned solutions that make the best use of our advanced financial expertise, and provide our customers with earnings opportunities while establishing our earnings base.

We are also continuing to promote our "White Label" business where our partner regional financial institutions sell structured deposits and other products developed by Shinsei Bank under their own brands.

Furthermore, by utilizing our network with regional financial institutions located throughout Japan, we would like to contribute to regional development together with regional financial institutions. Through this initiative, we aim to make contributions to regional development that are needed by our customers, regional communities, and markets from a long-term perspective, and to further develop transactions with regional financial institutions and to promote business cooperation with them by offering multi-faceted functions.

Markets Sub-Group

As part of our initiatives to expand our customer base, the Markets Sub-Group, in cooperation with business promotion sections in the Institutional Group, has been utilizing a solution for hedging foreign exchange risks as a tool to acquire new customers, and has seen success through this approach. We will continue to promote and develop this approach in fiscal year 2013 in order to create a stronger customer base.

We also offer products and services which utilize the changes in the market environment and regulation as a business opportunity. By doing so, we aim to create a structure that allows us to be the first bank to propose attractive products to our corporate and financial institution customers as well as retail customers.

At the same time, we endeavor to post stable profits by strictly managing the risk that is expected to increase as we expand the scope of our market transactions.

Asset Management Sub-Group

Investment trust sales have been rising partly due to higher share prices recorded since the end of fiscal year 2012. We will continue offering investment trust products to our retail banking customers as well as developing the private placement investment trust business for regional financial institutions and institutional investors. To that end, we need to further improve our product offering capabilities. We will therefore further enhance our capabilities to enable us to develop and offer unique products, instead of purchasing investment trust products from outside suppliers. We are making preparations for the introduction of the Nippon Individual Savings Account (“NISA”) (Japanese ISA) system in collaboration with the Retail Banking Sub-Group in an aim to further expand our investment trust customer base.

In our wealth management business, which is a core business of the bank, we will enhance our structure. We will also improve our investment products offered to individual, high net-worth customers. Furthermore, our business promotion staff will visit our customers whose financial needs may not be limited to simple asset investments and provide them with finely tuned solutions to their diverse needs such as business succession.

Shinsei Securities

The arranging and marketing of securitized products, and selling structured bonds to individual customers through securities brokers is one of the major operations of Shinsei Securities. In the area of securitization, Shinsei Securities not only arranges and sells securitized products of housing loans or lease/installment claims, but also actively promotes the handling of non-traditional securitization products including the sale/purchase of original claims. Furthermore, we have been gathering momentum in our use of structured finance in a broad range of areas utilizing securitization techniques. We will thus endeavor to propose attractive products using our accumulated expertise in new areas such as renewable energy-related investments. In securities brokering, we will continue to monitor market trends in order to offer products suited to our customers' needs.

Business Development in Fiscal Year 2012

The Global Markets Group's revenue rose from 11.2 billion yen in fiscal year 2011 to 14.2 billion yen in fiscal year 2012. Expenses declined from 9.7 billion yen in fiscal year 2011 to 9.0 billion yen in fiscal year 2012 due to improvements in operational efficiency. Due to efforts to reduce non-core assets in the Bank, the Global Markets Group posted a 7.5 billion yen recovery of net credit costs, compared to a 2.6 billion yen recovery in fiscal year 2011 due to reversals of reserves and recoveries of written-off claims.

As a result of the above, the Global Markets Group's ordinary business profit after net credit costs significantly increased from 4.2 billion yen in fiscal year 2011 to 12.7 billion yen in fiscal year 2012.

The factors contributing to the larger revenue in fiscal year 2012 include increased efforts to sell credit-linked loans, promotion of the distribution business to financial institution customers such as the sale/purchase or brokering of public loans, and steady performance of loan and repo transactions with non-Japanese financial institutions.

Additionally, we enhanced our line-up of alternative products such as deposits and products for hedging foreign exchange risk in our offerings of asset management products in response to the risk-off environment resulting from the European sovereign debt crises in the first half of fiscal year 2012. Meanwhile, we used the online channel to introduce products with an excellent performance record in preparation of a risk-on environment. In the second half of fiscal year 2012, we implemented measures to raise the level of overall investment trust sales in view of the risk-on environment brought on by Abenomics. These included the introduction of a foreign sovereign bond fund that flexibly hedges foreign exchange risks and a three-storey fund that added a covered call and currency option to a REIT.

On January 22, 2013, we began offering to our financial institution customers a private placement investment trust investing in foreign sovereign bonds in partnership with Russell Investment Ltd., the Japanese subsidiary of the U.S.-based Russell Investment Group. Combined with the products we offer for wealth management, this has expanded our investment trust sales channel.

Meanwhile, we received the cooperation of Fukui Bank, Ltd. and Kiyo Bank, Ltd. in the implementation of our financial literacy program, “Money Connection®” and they will take the initiative to provide this program to high schools in their regions. “Money Connection®” is one of Shinsei Bank's corporate social responsibility initiatives. We will continue exploring the possibility of forming partnerships with throughout Japan to promote Money Connection® by making the most of our extended network of regional financial institutions.

Status of Initiatives for Regional Revitalization and Improvement of SME Management

In order to improve the management of Small- and Medium-sized Enterprises (“SME” or “SMEs”) and achieve regional revitalization, the Institutional Group and the Global Markets Group are engaging in the initiatives described below, providing Shinsei Bank’s specialized know-how and, depending on the case, cooperating with local banking institutions and the SME Business Rehabilitation Support Co-operative. In addition, the VBI Promotion Department is engaging in business with SMEs and local businesses which have promising technologies or business models, as well as business that will help revitalize regions such as earthquake reconstruction and new business areas as part of the Bank’s area of focus. By providing multi-faceted solutions (management solutions) which satisfy needs for not only funding, but for human resources, and services such as business strategy planning and implementation support, the Bank aims to expand the scope of its business with SMEs that are undergoing growth and contribute to the development of new businesses that are created as a result of innovation.

Case Examples of Shinsei Bank Initiatives

• Cooperation with Local Banking Institutions and the SME Business Rehabilitation Support Co-operative

A SME involved in the transportation business with a foothold in Western Japan: With an excellent customer base of blue chip companies including major automobile parts manufacturers, the SME’s core business was robust. But due to a failed attempt to diversify their business, the SME is currently engaged in drawing up a specialized local transportation business rehabilitation plan together with a local banking institution and cooperative agencies such as the SME Business Revitalization Support Co-operative. In an effort to further enhance the feasibility of the plan, while the SME is seeking financing arrangements from commercial banks, there was a consultation request to Shinsei Bank, and we are contemplating a financing proposal while working closely with the SME’s existing financial institution.

A SME operating a traditional inn and hotels in Eastern Japan: While having been successful in consistently drawing in customers, debt had swelled as a result of borrowing and excessive investment, and the involved financial institution together with the SME Business Revitalization Support Co-operative are formulating a business revitalization plan. While they are seeking funding from commercial banks in order to implement the business plan, the drafting of the plan itself requires more time. Shinsei Bank was also consulted, and is considering a financing plan while working in close cooperation with the Co-operative agency.

• Business Rehabilitation Support through DIP (Debtor in Possession) Finance

A SME involved in the events business with a foothold in Eastern Japan: With a long business history, the SME has a customer base of over 1,000 companies all over the country and their core business is robust. However, their attempts to diversify their business by penetrating into new industries failed, resulting only in an increase in their debt, and they are currently aiming to revitalize their business through legal rehabilitation proceedings. A consultation on this matter was brought to Shinsei Bank by a lawyer familiar with the situation, and in order to further enhance the feasibility of the rehabilitation plan, the Bank is planning to support the SME by providing working capital as a frame through DIP finance secured by accounts receivables.

A SME involved in the entertainment business with a foothold in Eastern Japan: While having many employees and customers, the SME was aiming to revitalize its business through legal rehabilitation proceedings as it had found itself under a heavy debt

load. A lawyer familiar with the situation came to Shinsei Bank for a consultation on the matter, and as a result, the Bank has decided to support the SME through DPI financing, and has provided a working capital frame in order to stabilize cash flows until the company is able to establish and approve a revitalization plan.

• Procuring a Sponsor for a Legally Bankrupt SME

A local middle-market company manufacturing and selling food products with a foothold in Western Japan: Longtime sluggish business performance combined with large losses in derivative transactions served as the trigger for the company to file for civil rehabilitation proceedings. Sales plummeted due to their damaged credit, and the company came face to face with the seriousness of their situation as their business ran deficits. It was expected that there would be difficulties in finding a sponsor, but Shinsei Bank found a general food trading company in Tokyo which had a track record of rehabilitating local, small to medium-sized food manufacturers as a sponsor candidate. Thanks to the enhancement in their credit and restructuring by the trading company, the middle-market company’s business was promptly rehabilitated. Acting as a bridge between the middle-market company and the sponsor, Shinsei Bank contributed to fostering mutual trust and building consensus on the conditions assumed by the sponsor. As a result, the company’s business was able to continue, maintaining the employment of approximately 80 employees.

• Business Matching

A SME dealing in the wholesale of Cookware in Western Japan: The President of the SME consulted Shinsei Bank for advice on the following business challenges their company faced: 1) diversify wholesale clients so as to not depend too heavily on their main customers; 2) enter into the retail business that directly connects with consumers; and 3) increase their business performance. In this case, Shinsei Bank assisted the SME in their efforts to improve, and successfully referred and contracted the company to dealings in a distinct business field, which is in addition to their main business routes. Additionally, the proposal of introducing new products which the company wishes to increase sales in to manufactures in addition to individual consumers has been highly praised, and adjustments are being made to realize this. Furthermore, the company hoped to implement a proposal by Shinsei Bank to introduce credit card and e-money payment terminals and point cards in order to enhance the appeal to customers and to strengthen data controls when opening retail shops. To help accomplish this, Shinsei Bank referred the company to a consumer credit company doing business with the Bank. The SME adopted our suggestion and referral, leading to the establishment of retail shops.

• Assisting in the Withdrawal from a Non-Core Business

A food manufacturing SME in Eastern Japan: The SME managed hotels near their home base. They consulted Shinsei Bank for advice on how to withdraw from the non-core business, hotel management, in order to strengthen their management base and concentrate management resources in the core business. An employee from Shinsei Bank’s M&A section in charge of the hotel industry provided the SME with an explanation on circumstances and market situations specific to M&A in the hotel industry. Subsequently, Shinsei Bank demonstrated its strong track record of M&A transactions in the hotel business and its know-how while proposing detailed processes and solutions, and as a result, the Bank entered into an advisory agreement with the SME. After concluding the agreement, Shinsei Bank made full use of its diversified industry networks and quickly identified a party willing to acquire the hotel business, but also willing to accommodate the request of the SME that the hotel business would be continued and the employees of the hotels would be retained. As a result, the M&A deal for the SME was successfully closed.

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.

Consolidated Capital Adequacy Ratio

The consolidated capital adequacy ratio is the ratio of "total capital" over "risk assets." "total capital" is obtained by subtracting "deductions" from the sum of basic items (Tier I)—mainly composed of equity capital—and supplementary items (Tier II)—composed of subordinated bonds and other debts.

Consolidated Net Income, Cash Basis Net Income

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

Credit Guarantee Business

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

Credit-linked Loan

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

Credit Trading

Credit Trading offers balance sheet optimization solutions, including 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.

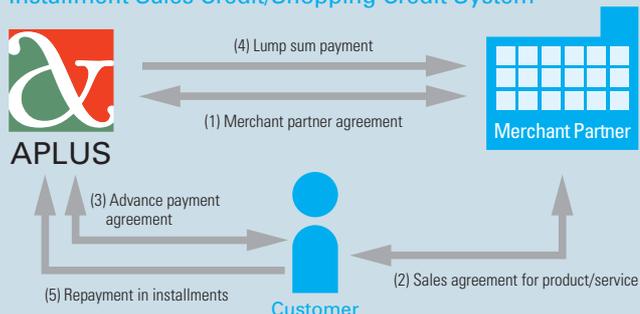
Healthcare Finance

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

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

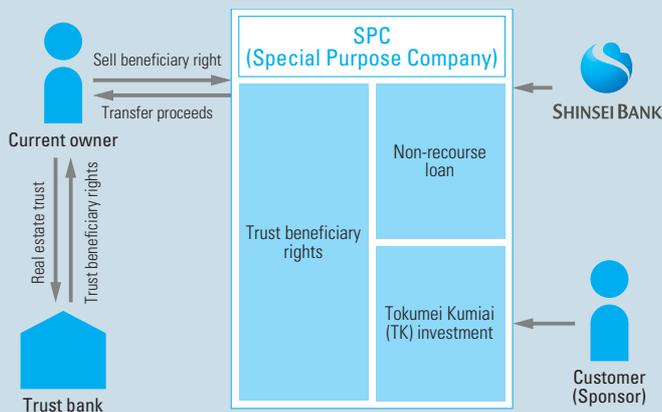
MBO stands for Management Buyout. It is a type of LBO finance offered when a company's management buys its own company co-working with an investment fund and others. At Shinsei Bank, MBO Finance is included in Specialty Finance.

Net Credit Costs

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

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.

**Ordinary Business Profit (Loss)**

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

Portfolio

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

Principal Transactions

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

Private Equity

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

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.

Risk Weighed Assets

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

Ship Finance

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

Specialty Finance

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

Structured Finance

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