

# Review of Operations

At a Glance	8
Individual Group	12
Institutional Group	14
Global Markets Group	16
Status of Initiatives for Regional Revitalization and Improvement of SME Management	18
Glossary	19

# AT A GLANCE

## Segment Data

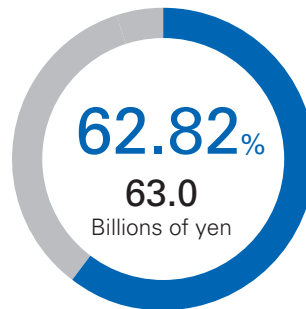
### INDIVIDUAL GROUP

#### Major Business

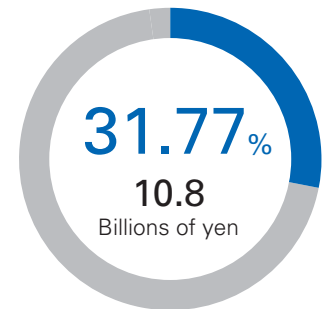
- Retail Banking
  - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
  - Asset management (consultation, mutual funds, annuity products)
  - Housing loans
- Consumer Finance
  - Unsecured personal loans (Shinsei Bank, Shinsei Financial, SHINKI)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

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

##### Total Revenue



##### Ordinary Business Profit after Net Credit Costs



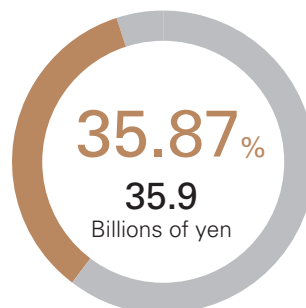
### INSTITUTIONAL GROUP

#### Major Business

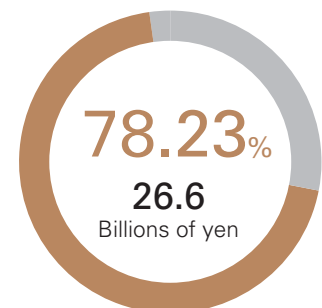
- Corporate & Public Sector Finance
- Healthcare Finance
- Real Estate Finance
- Specialty Finance
- Corporate Restructuring
- Credit Trading
- Private Equity
- Advisory Services
- Leasing (Showa Leasing)
- Trust operations (Shinsei Trust & Banking)

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

##### Total Revenue



##### Ordinary Business Profit after Net Credit Costs



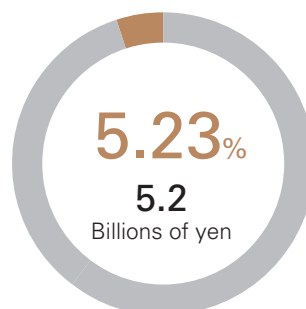
### GLOBAL MARKETS GROUP

#### Major Business

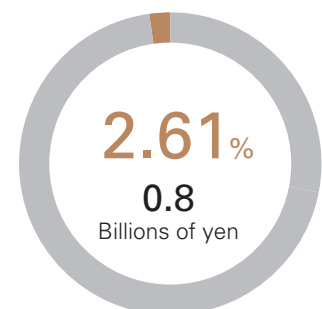
- Financial Institutions Business
- Markets
- Asset Management
- Wealth Management
- Securitization (Shinsei Securities)

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

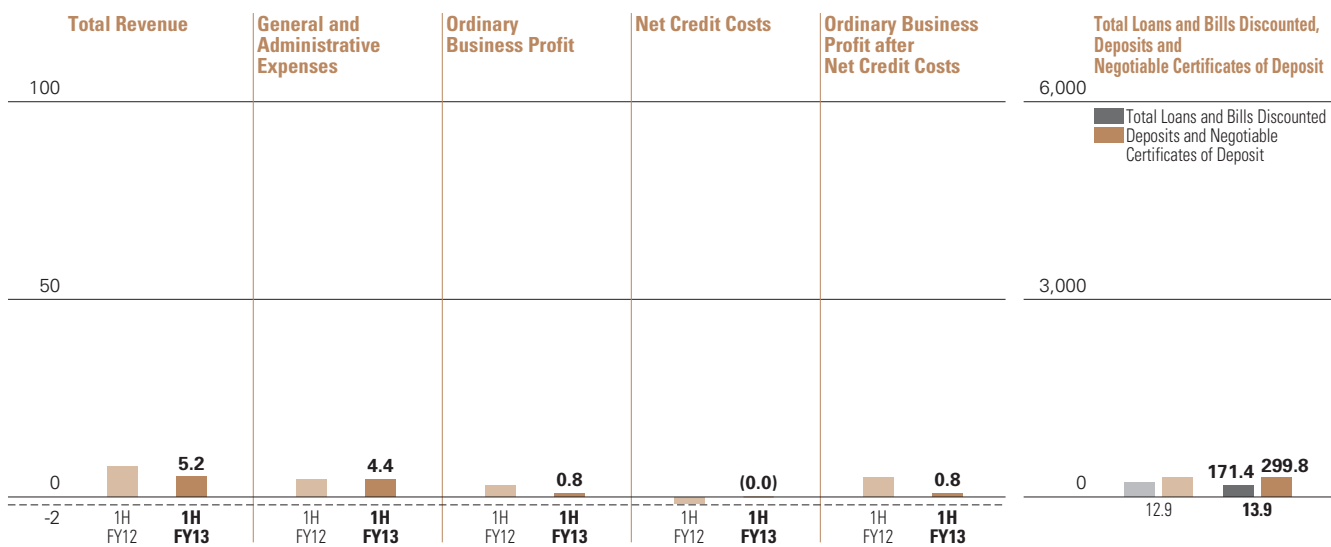
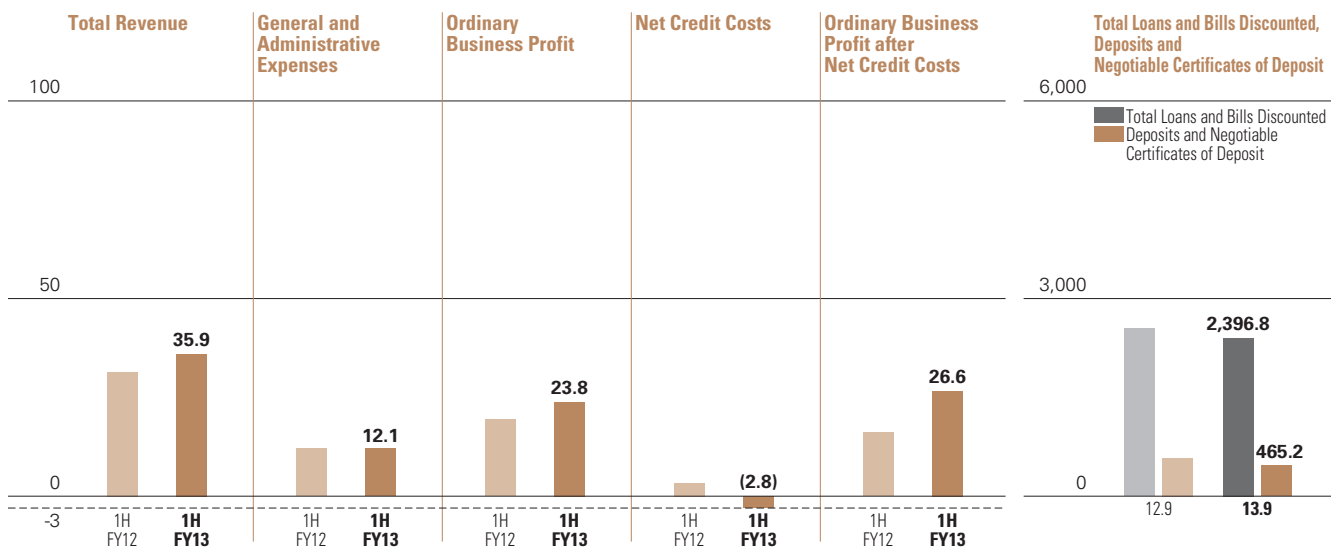
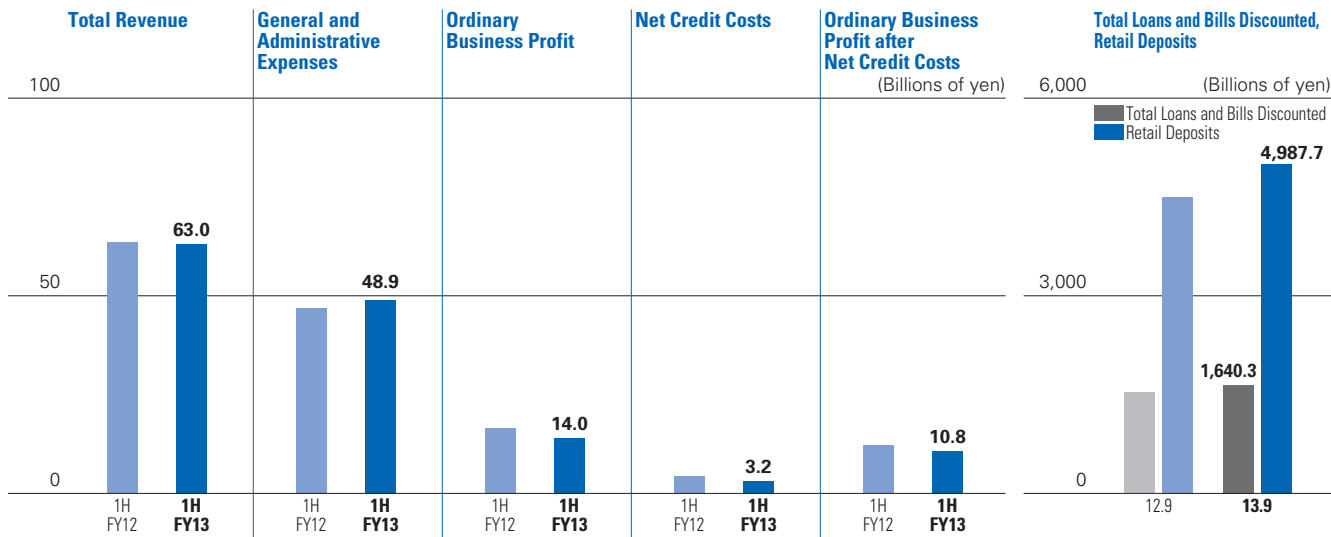
##### Total Revenue



##### Ordinary Business Profit after Net Credit Costs



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



Financial Highlights

Message from Management

Overview of the Second MTMP

Review of Operations  
At a Glance

Management Structure

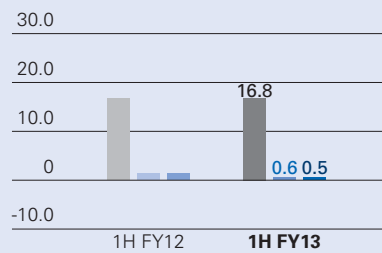
Data Section

# Explanations of Major Businesses

## INDIVIDUAL GROUP

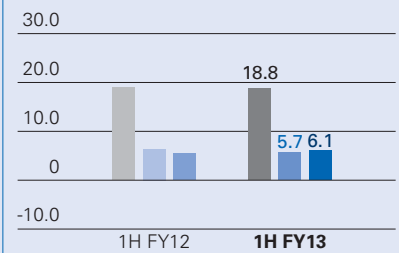
### Retail Banking

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



### Shinsei Financial and Shinsei Bank Card Loan—Lake

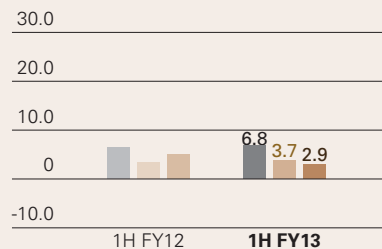
Unsecured personal loan business and credit guarantee services (Shinsei Financial and *Shinsei Bank Card Loan—Lake*)



## INSTITUTIONAL GROUP

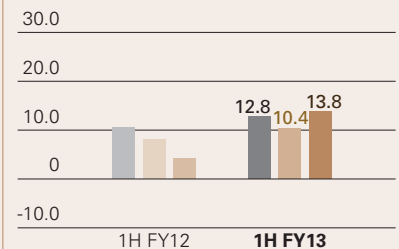
### Institutional Business (excluding Structured Finance)

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



### Institutional Business—Structured Finance

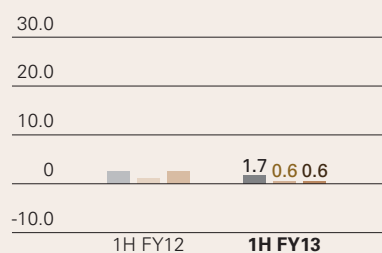
Specialty finance business including real estate finance, M&A related finance and project finance, as well as corporate restructuring and trust business



## GLOBAL MARKETS GROUP

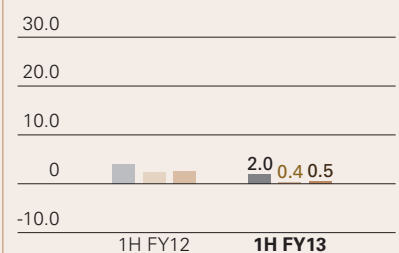
### Financial Institutions Business

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



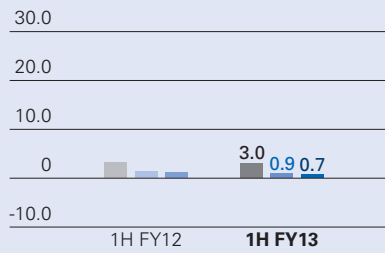
### Markets

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



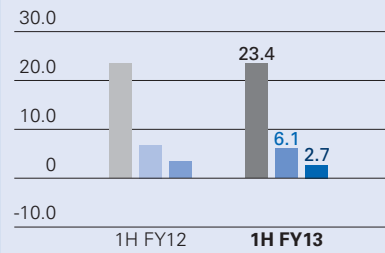
### SHINKI

Unsecured personal loan business—brand name “NO LOAN”



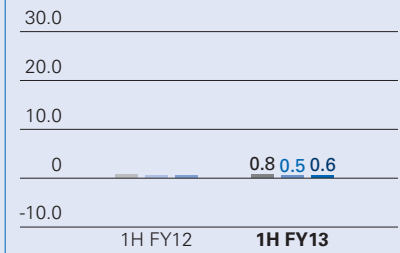
### APLUS FINANCIAL

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



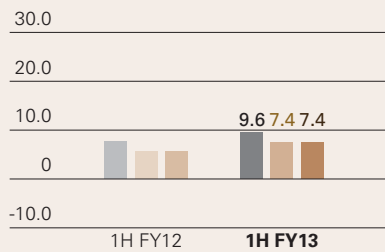
### Other Businesses

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



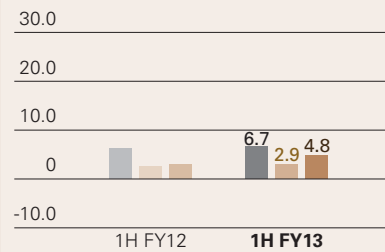
### Principal Transactions

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



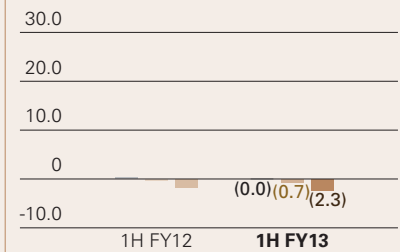
### Showa Leasing

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



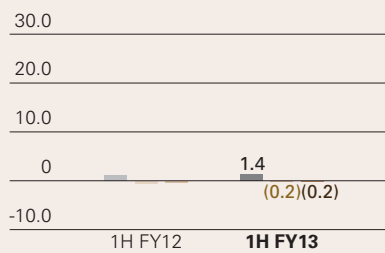
### Other Businesses

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



### Other Businesses

Shinsei Securities, asset management, and wealth management business



# INDIVIDUAL GROUP

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 start of Shinsei Bank's new retail banking business in 2001, the Bank has continued to offer innovative services such as internet banking that is available 24 hours a day, 365 days a year and fee free ATM transactions. As a result, the Bank was able to grow the number of Shinsei Bank PowerFlex accounts to 1,000,000 accounts by 2004, and over 2,000,000 accounts in 2007. At the end of September 2013, the total number of accounts was about 2,730,000 and the Bank believes that, in light of recent developments in the business environment, it must make efforts to expand its customer base further.

Compared to 2001 when Shinsei Bank's retail business was launched, financial products and services offered by the Bank to individual customers have become more diverse. We believe that for the Bank to be able to expand its customer base, as well as increase the superiority of its products and services further in this increasingly competitive business environment, the Bank must be able to take action as a unified group in providing its products and services.

## Strategy

The Bank identifies customers who utilize the products and services of the Bank freely to satisfy their needs as "core customers." Going forward, the Bank will put emphasis on growing the number of its core customers by utilizing its various resources to offer financial services such as management, settlement, investment, and consulting to its customers. There are currently about 2.5 million customers who fit the description of core customer, and the Bank will be executing various measures in an effort to double this number to 5 million by March 31, 2016.

As the first step toward this goal, the Bank has entered into a partnership with Culture Convenience Club Co., Ltd. (CCC), which already partners with APLUS, in June 2013 to introduce financial products and services to its "T Members" that utilize CCC's "T Point"\* service. In the future, starting first with credit cards issued by APLUS that have T Point features, we will look to grow the number of the Shinsei Bank Group's core customers through the development and provision of new financial products and services that combine T Point services with the Shinsei Bank Group's financial products to T Point members. Also, we will strive to enhance the point of contact with customers by strengthening collaboration between the outlet, call center, internet, and mobile channels in a way that takes advantage of the strengths of each, as well as further improving consulting services in outlets and the call center. Additionally, in order to be able to provide financial services that meet the ever changing lifestyles and needs of our customers, we plan to introduce unique products and highly convenient services ahead of our competition, and we aim to build a new retail financial model through these measures.

In the loans business, we will also look to develop a deep understanding of customer needs, enhance our housing loan products and establish ourselves as a trusted lender in the unsecured personal loan market. Furthermore, we look to develop our loan business as a whole, expanding our guarantee business through cooperation with regional financial institutions and expanding our loan product line up and balance.

Regarding overseas expansion, we believe that there exist needs in small cash quantity loans in the Asia region given the growth of the middle class in the region, and we will consider the provision of unsecured personal loans and installment payments to satisfy these needs, as well as consider how to satisfy the overseas asset management needs of domestic customers.

\* "T Point" is a shared point service that is run by Culture Convenience Club Co., Ltd. As of the end of June 2013, the service had 46.02 million members (active and unique), and there are 100 companies with 58,000 outlets that are T Point partners.

## Business Performance for First Half of Fiscal Year 2013 Ended September

While new disbursements of housing loans continued to increase steadily, due to factors such as a slight decline in the consumer finance balance versus the same period of last fiscal year and a decline in market interest rates causing a decline in net interest income on deposits including deposits held for liquidity purposes, net interest income for the Individual Group was 41.5 billion yen in the first half of fiscal year 2013, a decline versus 43.0 billion yen in the same period of fiscal year 2012. However, the consumer finance loan balance has been on a growth trend since the fourth quarter of fiscal year 2012 and has increased from 41.3 billion yen in the second half of fiscal year 2012. In non-interest income, as a result of strong sales in investment products, as well as good turnover in the shopping credit business and the settlement business of APLUS FINANCIAL Co., Ltd., non-interest income was 21.4 billion yen for the first half of fiscal year 2013, an increase versus 20.3 billion yen for the same period of fiscal year 2012. As a result of the decrease in interest income and increase in non-interest income, revenue for the Individual Group for the first half of fiscal year 2013 was 63.0 billion yen, a decrease compared to 63.4 billion yen in the same period of fiscal year 2012.

Expenses, as a result of actively implementing measures aimed at smoothly carrying out the Second MTMP, as well as efforts aimed at stabilizing operating systems, totaled 48.9 billion yen for the first half of fiscal year 2013, an increase compared to 46.9 billion yen in the same period of fiscal year 2012. Also, mainly as a result of improvements in the quality of loans

disbursed by consumer finance subsidiaries, credit costs for the first half of fiscal year 2013 were 3.2 billion yen, a further decline from 4.3 billion yen recorded in the same period of fiscal year 2012.

As a result of the aforementioned, ordinary business profit after net credit costs for the Individual Group for the first half of fiscal year 2013 was 10.8 billion yen, a decline versus 12.1 billion yen recorded in the same period of fiscal year 2012.

The Individual Group seeks to grow the number of its "core customers" by leveraging the functions and networks of the Shinsei Bank Group to provide customers with products and services that are even more convenient and attractive. As part of this undertaking, a collaborative campaign with Culture Convenience Club Co., Ltd., with which the Bank entered into a partnership in June of this year, was launched in September to provide T Points to members of T Point services who open accounts at the Bank or engage in deposit transactions, and in October a convenience store ATM usage campaign which awards T Points was also launched. We look to continue such initiatives in the future.

Regarding the Bank's ATM network, we have expanded the network beyond the Bank's ATMs, Seven Bank ATMs, and City Bank ATMs including Japan Post Bank by partnering with East Japan Railway Company ATMs and operators of ATMs in major convenience store chains such as LAWSON and FamilyMart. As a result, anyone with a Shinsei Bank cash card can now utilize one of about 96,000 network ATMs free of charge. In addition, *Shinsei Bank Card Loan—Lake* customers can now also utilize ATMs of convenience stores such as LAWSON and FamilyMart to borrow and repay loans, increasing the ATM network available to them to about 42,000 and making the service more convenient.

Regarding the internet channel, we have renewed the individual customer and *Shinsei Bank Card Loan—Lake* customer homepages, as well as a smartphone site for "APLUS Point Mall Plus," an internet shopping site run by APLUS Co., Ltd., a subsidiary of the Bank, for its credit card customers. We will continue to work to improve the services provided to customers and increase the convenience of our services.

Regarding the expansion of products and services, in order to meet the needs of customers who are looking to renovate a secondhand house when they purchase it or are looking to renovate their homes when they refinance their loans, we have started to simultaneously accept applications for "PowerSmart Housing Loans" as well as applications for loans for renovations from June of this year.



# 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

In this business environment which is undergoing major changes including the aging of the population and the low birth rate, we continue to work to contribute to the creation of new industries and the growth of corporate customers through the provision of financial services. We also look to not only meet the needs of our current customers, but to systematically work to acquire new customers and identify new needs. We believe that in order to accomplish this, we must enhance the value and competitiveness that only Shinsei Bank can provide.

In order to accomplish this, we have decided to promote the full scale, ongoing development of the "Venture Banking Initiative" that was started last year. The key components of the Initiative are:

- 1) The development of organizational structures and functions to enable adaptation to changes in the business environment;
- 2) The expansion of the customer base and transactions undertaken with public and private sector customers, and the introduction of innovations such as collaboration with local financial institutions and sharing business risk as a bank with customers; and
- 3) The improvement of risk controls and operations in order to be able to support the above undertakings.

## Strategy

At the Principal Transactions Sub-Group, in an effort to enhance responses to changes in market conditions and to improve customer service that is performed through a variety of external partnerships, steps have been taken to strengthen our organization, including the establishment of subsidiaries for each of our businesses. In addition, in order to be able to respond swiftly and appropriately to changes taking place in the rapidly evolving business environment such as shifts in demographics and socio-economic trends, we are implementing measures such as enhancing our consulting capabilities in the credit trading business and establishing a joint fund in the private equity investment business, and we will continue to proactively pursue new initiatives and the development of business.

Also, by providing institutional customers with cash flow financing, which is based on future cash flows, in addition to traditional balance sheet financing, we believe we will be able to truly satisfy the capital needs of customers and support their growth. In order to accomplish this there was a need to enhance our ability to provide comprehensive solutions, and in order to accomplish this the Structured Finance Division and the Institutional Business Sub-Group were integrated in April 2013, creating an integrated operating structure. We will work to further enhance the synergies between businesses such as project finance, real estate finance, and buyout finance that are created through the varied experience and expertise from the various businesses. In strategic focus areas identified in the Second MTMP such as healthcare, renewable energy, business support, and business restructuring, we will proactively look to work in a way that draws on the capabilities of the entire bank.

In order to fundamentally strengthen regional sales, the Institutional Business Division West Japan Business Department was established within the Osaka Branch in April 2013. By



establishing a dual hub management oversight system, the Institutional Business Division will be better able to flexibly promote sales activities, while simultaneously ensuring a smoother full-scale deployment of the VBI. In addition to strengthening these functions and systems, the Osaka Branch has been relocated to the Osaka Fukoku Seimei Building in October 2013. In areas such as renewable energy project finance and healthcare finance, which are seeing much firmer results than before, we are utilizing the Bank's network with regional financial institutions to help meet the market needs of regional areas in addition to contributing to regional development through the VBI.

In addition to strengthening risk monitoring capabilities in order to be able to appropriately respond to risks associated with these new undertakings and changes in the market, we are analyzing and improving the efficiency and productivity of our existing businesses in order to be able to ensure sustainable organizational growth. We are now collaborating with the Risk Management Group to develop marketing and management standards and portfolio management that correspond with real estate market risk, risk sharing methods associated with the business participation method, the development and enhancement of financial products, as well as develop monitoring systems that are needed as a result of the expansion of product offerings such as project finance.

At Showa Leasing Co., Ltd. there are plans to expand the business base in areas where the company has business strengths with efforts being made in areas such as revenue capture opportunities through consulting for business partners, asset financing for semiconductors, construction equipment, medical equipment and airplanes, strengthening of partnerships with suppliers, strengthening of cooperation with overseas partners, and supporting the overseas expansion of customers.

Collaborative work is also being done with the Bank to enhance the sophistication of proposals that utilize personal property assessment, management, and disposal capabilities. Specific examples include the promotion of personal property acceptance contracts utilizing the Bank's network with regional financial institutions following the expiration of the Financial Facilitation Act, and the promotion of business rehabilitation and refinancing projects in the healthcare field.

### Business Performance for First Half of Fiscal Year 2013 Ended September

In the Institutional Group, as a result of efforts made in the First MTMP to reestablish the customer base and stabilize earnings, net interest income in the first half of fiscal year 2013 was 14.8 billion yen, an increase compared to 14.5 billion yen in the same period of fiscal year 2012, and non-interest income for the first

half of fiscal year 2013 was 21.0 billion yen, an increase compared to 16.9 billion yen in the same period of fiscal year 2012. As a result, revenue for the Institutional Group was 35.9 billion yen for the first half of fiscal year 2013, an increase compared to 31.4 billion yen in the same period of fiscal year 2012.

Regarding expenses, as a result of the investment of management resources in strategic areas such as increasing headcount in strategic focus businesses and improving business infrastructure in order to strengthen profitability, total expenses of 12.1 billion yen were recorded for the first half of fiscal year 2013, a slight increase compared to 12.0 billion yen recorded in the same period of fiscal year 2012. Net credit costs, while continuing to promote the disposal of non-core assets in order to reduce inherent risk that was begun in the First MTMP, as a result of the implementation of various measures for enhanced risk management, a lack of provisioning of large reserves, as well as write backs of reserves for loan losses as a result of the sale of non performing loans, we saw net credit recoveries of 2.8 billion yen recorded for the first half of fiscal year 2013 compared to net credit costs of 3.3 billion yen in the same period of fiscal year 2012.

As a result of the aforementioned, ordinary business profit after net credit costs for the Institutional Group was 26.6 billion yen for the first half of fiscal year 2013, a large increase compared to 16.1 billion yen recorded for the same period of fiscal year 2012.

As for undertakings in the first half of fiscal year 2013, in the area of business establishment support, we established the "Femto Growth Capital Investment Business Limited Liability Partnership," which invests in and gives growth support to domestic, early stage internet companies, in April. In the first investment made through the Partnership, we underwrote the allocation of new shares to a third party for Piece of Cake Inc., a company which provides platform services for digital content products such as e-readers. In addition, in July we launched the "Create U" pilot project together with Nomura Research Institute. This project is targeted at people between the ages of 20 and 40 who have "social experience" and is designed to discover and nurture "innovators," people that are able to create new value. Shinsei Bank looks to support the utilization of revolutionary approaches that have not been used by traditional banks in order to support "innovators" who give birth to new ideas, and by having a central role in the realization of the ideas that are generated, the Bank looks to contribute to the resolution of social issues and the revitalization of society.

Additionally, in the renewable energy field, we were involved in project financing for the construction of mega solar projects in Mito City, Ibaraki Prefecture and Shari-gun, Koshimizu Cho, Hokkaido in May and August respectively. From the viewpoint of supporting local production local utilization projects, the Bank will continue to work actively to undertake project finance for renewable energy projects such as mega solar in the future.

# 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

Following the inauguration of the Abe administration in December 2012, due to bold monetary easing measures by the Bank of Japan together with expectations for Abenomics, a large correction was observed in the market with a significant correction in the price of the yen and a rise in stock prices, followed by market interest rates staying at a generally low level and the movement of the yen has remained in a boxed range. In addition, the situation of tight credit spreads has continued.

While the foreign exchange and interest rate related transactions are languishing a bit in these market conditions, we are continuing to promote our business by making finely tuned, customer centric proposals, utilizing the high level of financial expertise of the Bank, to our financial institution and corporate customers.

## Strategy

In the Global Markets Group, we are pursuing the deepening of the solutions business, as well as strengthening partnerships with regional financial institutions. While striving to expand the provision of products and services, as well as strengthening our market solution capabilities including sourcing, we look to not only meet the asset management needs of regional financial institutions through the provision of investment products, but to support and cooperate with business development by providing the unique capabilities of the Shinsei Bank Group to our customers.

### Financial Institutions Sub-Group

In addition to providing investment products such as structured deposits and credit linked loans to financial institution customers that are facing asset management difficulties in the low interest rate environment, we are also committed to working together with the institutional business in the buying, selling, and brokering of loans. In addition, in order to assist in the business development of our customers by utilizing the financial knowhow of the Shinsei Bank Group, we have been promoting initiatives such as the structuring support of asset based lending and cash flow finance in projects such as mega solar.

The Bank is also continuing its "White Label" business where partner regional financial institutions sell products such as structured deposits that are developed by the Bank under the brand of the regional financial institution.

Additionally, we would like to utilize our network with local financial institution customers across Japan to assist in regional development together with our customers. This approach aims to support our customers, local communities, and the market from a long-term point of view, and will continue to promote business collaboration and the deepening of business ties by providing support in a multifaceted manner.

### Markets Sub-Group

As a part of its efforts to expand the customer base, the Markets Sub-Group has worked together with sales representatives of business corporations and, by offering foreign exchange risk hedging solutions, has been promoting business with both new and existing customers. We plan to further promote the development of new customers in fiscal year 2013 to establish an even more robust customer base.

Additionally, we are working to develop products and services, that are created upon changes in market conditions and regulations, as opportunities, and by doing so are creating a system that will allow us to provide attractive products ahead of our competition not only to corporate and financial institution customers, but individual customers as well.

### Asset Management Sub-Group

The sales of investment trusts are on an upward trend, due in part to higher stock prices since the end of 2012. In addition to continuing to provide retail banking customers with investment trust products, we are working to expand the offerings of privately placed investment trusts to institutional and regional financial institution investors. In order to accomplish this, we must enhance our ability to provide products, and we are striving to develop and provide unique products. We are also promoting collaboration with the Retail Banking Sub-Group to support NISAs (Nippon Individual Savings Account) and by doing so look to further expand the investment trust customer base.

While we are enhancing systems in the wealth management business, as well as enhancing the provision of investment products to high net worth individuals, our sales representatives are working with our customers to satisfy the diverse needs of our customers that go beyond mere investment needs, such as business succession needs.

### Shinsei Securities

The main duties of Shinsei Securities include the structuring and sales of securitized products and the sales of structured bonds to individual customers through securities brokers. In the securitized product business, we not only create and sell securitized products such as housing loan bonds and lease/installment sales bonds, but also actively engage in non-traditional securitized product transactions such as the buying and selling of underlying assets. By applying our securitization knowhow further, we are finding opportunities to extensively use structured finance, and will continue to work on proposing attractive products utilizing our expertise that we have cultivated in new areas such as renewable energy investment. Regarding the brokering of securities, we will continue monitoring market trends, and strive to provide products that meet the needs of our customers.

## Business Performance for First Half of Fiscal Year 2013 Ended September

In the Global Markets Group, while progress was made in undertakings to expand the customer base through the provision of products and trading in line with the needs of customers, and a certain level of success was seen in establishing a distinctive business base, net revenue, as a result of market interest and exchange rates remaining in a boxed range as well as the tightening of credit spreads, customer and market transaction volume growth was sluggish, and net revenue of 5.2 billion yen was recorded in the first half of fiscal year 2013, a decline compared to 7.6 billion yen recorded in the same period of fiscal year 2012.

Expenses, while investing management resources in priority areas toward the expansion of the customer base, due to increases in efficiencies within each business, came in at 4.4 billion yen for the first half of fiscal year 2013, a decline versus 4.5 billion yen for the same period of fiscal year 2012.

In net credit costs, while a gain of 1.7 billion yen was recorded in the first half of fiscal year 2012 due to a large recovery of an amortized loan, a reversal of 0 billion yen (46 million yen) was recorded in the first half of fiscal year 2013.

As a result of the above, ordinary business profit after net credit costs for the Global Markets Group for the first half of fiscal year 2013 was 0.8 billion yen, a large decline versus 4.7 billion yen for the same period of fiscal year 2012.

As part of the Global Markets Group's efforts to enhance its asset management business for financial institutions, Shinsei Investment Management Co., Ltd. established the "Shinsei Invesco Bank Loan Fund," (available to qualified institutional investors only) an incremental privately placed investment fund, in September of this year. The Bank Group is enhancing its ability to provide solutions to regional financial institutions and major financial institutions such as insurance companies, and will continue launching new fund offerings, utilizing its risk management knowhow as well as a wide range of relationships that have been developed through the sales of financial debt.

Shinsei Bank, in an effort to strengthen the deployment of "MoneyConnection" (a basic financial education program that is implemented as part of the Bank's CSR activities) in Wakayama Prefecture and Sennan Ward of Osaka City, has entered into a sponsorship agreement with Kiyō Bank, Ltd. in May of this year. This partnership with Kiyō Bank is intended to support social contribution activities of regional financial institutions and, following the partnership established with Fukui Bank, Ltd. in fiscal year 2012, is the second such tie-up. Shinsei Bank will continue strengthening the deployment of MoneyConnection in regional areas while also considering the possibility of partnerships with regional financial institutions across the country.

# 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 initiatives such as those described below, providing Shinsei Bank’s specialized knowhow and, depending upon the case, cooperating with local financial 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 businesses that will help revitalize regional economies such as earthquake reconstruction and new business areas as its area of focus. By providing multi-faceted solutions (management solutions) which satisfy needs for not only funding needs, but needs 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. For details of initiatives of the VBI Promotion Division, please refer to the “Review of Operations” of the “Institutional Group” (page 14).

## Examples of Shinsei Bank Initiatives

### • Examples of SME Management Support and Regional Development

**R&D Company from an East Japan University:** This company utilizes university research findings to develop and manufacture rehabilitation equipment for the disabled at subcontracted factories, which is then sold through distributors. Shinsei Bank, in addition to working together with the Bank’s subsidiary to provide a range of sales financing products (long-term leases, and installment sales), has worked to provide access to the domestic market through the Bank’s branches. By supporting the growth of this company, Shinsei Bank seeks to support the welfare equipment industry, as well as support the economic revitalization of the Tohoku Region where this University is located.

**Wood Pellet Manufacturing and Wood Biomass Power Generation Business in West Japan:** Shinsei Bank had been developing a relationship with this company from the initial stages of its establishment, and participated as an arranger in a syndicated loan to this business. In this project, Shinsei Bank worked with the region, which while having rich forest resources, had been unable to utilize them fully. By recommending a renewable energy business and providing solutions, the Bank was able to contribute to the revitalization of the local forestry industry. The Bank believes that this initiative was of deep significance to the local community, creating a system which allows for the manufacture and distribution of wood pellets which are used in biomass boilers for greenhouse cultivation by local farmers and horticulturalists, as well as encouraging the local production and utilization of wood through the promotion of boilers.

### • Example of Management Improvement Support in SMEs

**SME Engaged in Retail Trade in West Japan:** This company boasts the industry leader position in terms of the number of product categories handled and has a high level of expertise in efficient outlet expansion and store operations. On the other hand, a complex funding structure existed among its group companies, making it difficult for the company to receive the support of banks in the form of funding for future business expansion. In this project Shinsei Bank took on a consulting role to this company which had been making efforts to increase the transparency of its group management, advising on changes to the structure of finances, measures on the unification of inter group loans, and the restructuring of subsidiaries. Additionally, Shinsei Bank gave inputs from a different point of view from their regular bank regarding the improvement of management and bank negotiations, and advised on the development of explanatory materials for the company’s main bank.

### • Example of Use of Equity for SMEs

**Service Sector SME in East Japan:** This company had a steady core business, however, due to its venture into an unrelated business in the past, found itself in possession of non-performing assets which were making refinancing difficult. Shinsei Bank enhanced the credit of this company by providing capital in exchange for preferred stock through a subsidiary of the Bank which engages in corporate revitalization support investment. As a result, the business conditions of the company stabilized as a result of resolving its financing issues, and the company is now being approached by other financial institutions, accomplishing its goal of reestablishing its relationship with the banking sector.

### • Example of Collaboration with a Regional Financial Institution

**Mid-Sized Credit Company for SMEs:** This company was advancing its reduction of non-core assets, rebalancing its balance sheet, and rebuilding its core business under the initiative of its investors including shareholders and creditors. A major business challenge included the borrowing of funds to finance the repayment of debt held by investors in order to lower funding costs and the development of a funding route to get the restructuring of the company on track. Shinsei Bank, by utilizing its network with regional financial institutions, was able to fulfill a role as arranger of a loan for this company, introducing a credit union which was willing to lend the capital the company required.

### • Example of Great East Japan Earthquake Reconstruction Assistance and Business Rehabilitation

**General Construction Company in East Japan:** With post earthquake reconstruction work underway in earnest, Shinsei Bank has increased credit lines to this company to fulfill an increased need for working capital as a result of increased sales as it assists in reconstruction and helping revitalize regions affected by the Great East Japan Earthquake. In the past this company had filed for civil rehabilitation proceedings and the reestablishment of dealings with banks had been a longstanding business challenge, and as a result of the company’s dealings with Shinsei Bank, will be able to expect an expansion of their dealings with banks.



# 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 the 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.

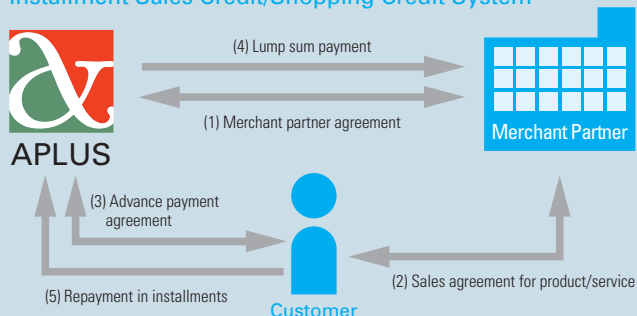
## Healthcare Finance

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**

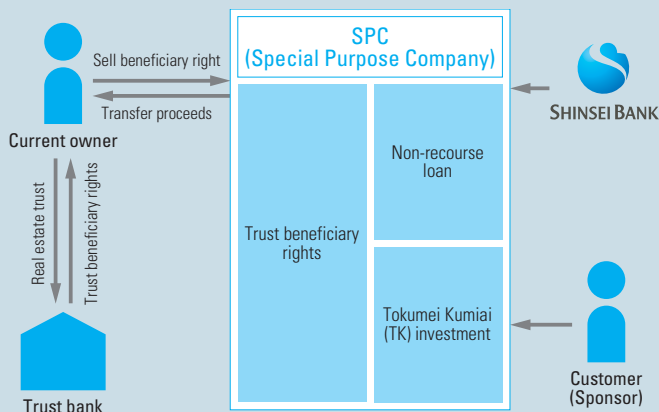
MBO stands for Management Buyout. It is a type of LBO finance offered when a company's management buys its own company co-working with an investment fund and others. At Shinsei Bank, MBO Finance is included in Specialty Finance.

**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.