

## Institutional Banking Business: Developing a Unique Hybrid Banking Model

The Institutional Banking business has inherited a long history and reputation in the Japanese market which has resulted in the development of strong and deep relationships with institutional customers throughout Japan. In recent years, the Bank has leveraged its expertise in key areas of investment banking to provide a growing array of innovative solutions to this core constituency as well as to new customers. As a result, Shinsei Bank is now uniquely positioned in Japan as a hybrid bank with the functionality of a commercial bank and the innovativeness of an investment bank.

Shinsei Bank continues to realize the benefits of its initiative to merge the Group's relationship management teams with the product development and service teams. This structure has proven its utility over the past years and helped the Bank to more effectively deliver its expertise in securitization, credit trading, private equity, leveraged finance, non-recourse lending and M&A activities.

In May 2005, Shinsei Bank established the Real Estate Finance Sub-Group, which is focused on growing real estate finance business areas,

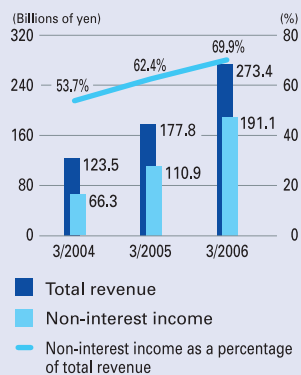
such as non-recourse lending, and the Public Sector Finance Sub-Group, which utilizes Shinsei Bank's longstanding business relationships to address the needs of public sector finance customers. These changes have strengthened the organization and improved its business promotion system, enabling the Bank to respond more promptly to a wider range of customer needs.

### Loan Origination

To ensure profitability and asset quality, Shinsei Bank continues to price loans based on strict

In the fiscal year ended March 2006, non-interest income, earned mainly from the investment banking business, accounted for 69.9% of Shinsei's consolidated total revenue. This robust growth is further evidence that management's focus on enhancing the quality of earnings is paying off. Customers want dynamic financial solutions, and Shinsei Bank is leveraging its financial strength and operational flexibility to deliver the value-added products and services they want most. For the fifth consecutive year, non-interest income grew as a percentage of consolidated total revenue, equaling a compound annual growth rate of 56% over the past four years.

**Consolidated Total Revenue and Non-Interest Income**



adherence to the credit standing of customers. In particular, by fully utilizing the Bank’s advanced financial technologies and business knowledge, Shinsei Bank has expanded its financing methods to include non-recourse lending, project finance and leveraged lending.

In non-recourse lending, Shinsei Bank launched a program for fee-based senior care facilities. Also, by executing loans in cooperation with regional financial institutions, the Bank plans to expand the range of potential assets.

**Securitization and Credit Trading**

Shinsei Bank’s securitization and credit trading operations are widely acclaimed for their quality and innovation. The Bank has put in significant effort into these areas and introduced several approaches that are unique to the Japanese banking sector.

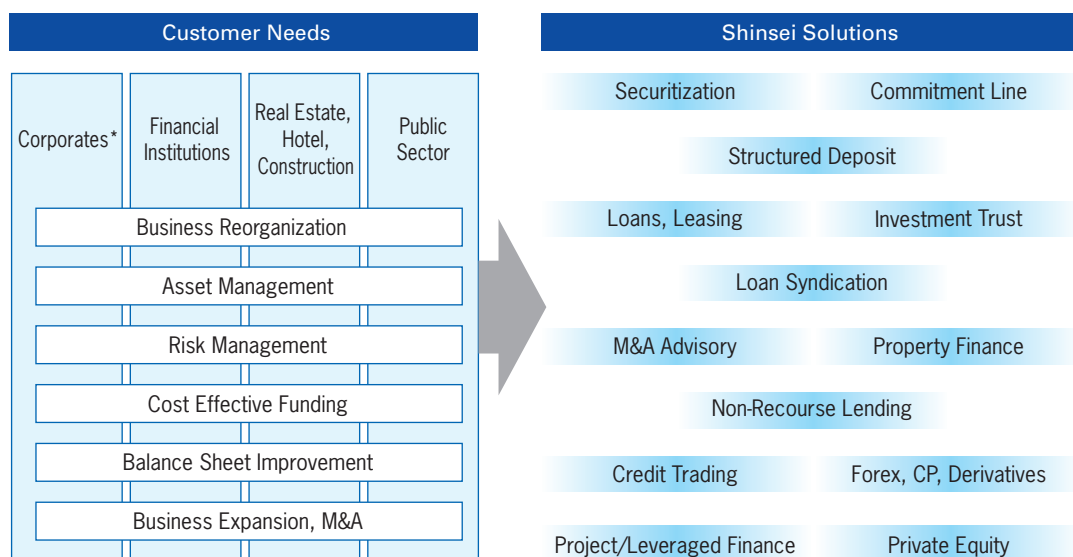
In September 2005, following on from a year

ago, Shinsei Bank issued a collateralized debt obligation (CDO) with commercial mortgage-backed securities (CMBS) issued in Japan and commercial property mezzanine loans as the underlying assets (Synergy II Funding). This is the first CDO repackage securitization executed in Japan, which contains not only a wider range of CMBS but also consumer asset-backed securities (ABS), providing a new tool for institutional investors.

In December 2005, the Bank set up the first securitization based on operating cash flows from pachinko (pinball) parlors, which acts as the inaugural issuer, under the first multi-seller whole-business securitization repackaging program to be created by a Japanese bank. Broadening the target assets helped the Bank to provide investors with greater diversification, lower operational risk and access to a new investment opportunity.

Shinsei Bank has become a leader in the

**All Shinsei Solutions Derived from Needs of the Institutional Customers**



\*Corporates includes restructuring portfolio.



# Securitization



# Credit Trading



Our hybrid business model is unique in Japan and brings the best aspects of a commercial bank and investment bank to bear on customer relationships. Our products are among the best in Japan, but our approach is always customer-centric and familiar.

Clark Graninger  
Institutional Banking Group



# Capital Markets

Japanese securitization business. The Group's subsidiaries, including Shinsei Securities Co., Ltd., play crucial roles in this important business area.

Standard & Poor's upgraded Shinsei Servicer's rating to the highest rank "Strong" with a "Stable" outlook as a residential loan primary servicer in March 2006. Shinsei Servicer received "Strong" rating in these two major criteria "Primary Servicing Ranking" and "Management and Organization." The upgrade in these rankings made them the only servicer assigned with the highest RPS rating in Japan. In May 2005, Fitch Ratings upgraded the company's commercial mortgage special servicer rating to CSS2+ (JPN) and its residential primary servicer rating to RPS2+ (JPN).

Shinsei Bank intends to leverage the strong servicing abilities of this subsidiary to generate new assignments not only for its own credit trading and securitization projects but also for securitization projects originating outside the Group.

#### Asset Management Service

Based on the "Best-in-Class" concept for each asset/strategy, Shinsei Bank's asset management business focuses on leveraging the Bank's global relationships with leading European and U.S. asset management companies, such as Ramius Capital

Group, LLC, BlueBay Asset Management Limited and Smith Breeden Associates, Inc., to deliver advanced, unique investment products to customers.

Shinsei Investment Management Co., Ltd. (SIM), a wholly-owned investment trust and investment advisory subsidiary, has adopted a new business model as a "Manager's Manager." Through a rigorous process of identification, analysis and evaluation, SIM carefully selects investment products from a wide range of global and domestic products based on customer demand.

#### Corporate Revitalization Business

Shinsei Bank uses hands-on experience and know-how to proactively provide solutions that help customers strengthen their financial fundamentals and improve asset efficiency by restructuring their businesses through such measures as divestitures and acquisitions.

#### Working with Others to Find Solutions

As part of Shinsei Bank's efforts to expand its reach in Japan and beyond, the Bank has formed alliances with a number of distinguished regional and global financial institutions.

Shinsei International Limited was established in May 2005 and is geared primarily to the needs

#### Rakuten and Shinsei Bank to Establish a Joint Venture for Mortgage Loans

Shinsei Bank reached an agreement with Rakuten, Inc., to establish Rakuten Mortgage Co., Ltd., in January 2006. This joint venture aims to provide housing loans at the lowest interest rate levels in the industry by applying the customer base and online know-how of Rakuten with Shinsei's unique skills in securitizing housing loans and distributing securitization products. The company will commence its operations in October 2006.

of Japanese customers. Leveraging the Euromarket, Shinsei International structures and arranges securitization and structured financial products, which are Shinsei Bank Group's strengths. Shinsei International's products are distributed through Shinsei Securities.

Shinsei has a lot of experience in dealing with non-performing loans (NPLs) in its home market in Japan and it is leveraging this expertise through partnerships with global leaders.

Together with international partners, NORD/LB and WestLB, Shinsei set up a joint venture for NPLs in September 2005. This company offers the purchase, restructuring and realization of NPLs in Germany. In South Korea, Shinsei Bank services NPLs through a joint venture with Woori F&I Co., Ltd., a wholly owned subsidiary of Woori Financial Group.

In May 2006, we have agreed to make an important strategic investment in Jih Sun Financial Holding Co., Ltd. (Jih Sun) in Taiwan. Through this agreement, Shinsei will be a major investor and the strategic partner to Jih Sun.

These joint ventures and strategic partnership are an indicative model under which Shinsei Bank's international strategy is taking shape.

In April 2006, the Bank reached an agreement with Macquarie Bank, the international investment bank based in Australia, to form a 50/50 joint venture in Japan. The joint venture will focus on advisory services relating to investment in the Japanese market which has substantial amount of public and private infrastructure and also aims to provide solutions that assist with the outcomes of the Japanese government's public sector reforms.

### Creating Value: Becoming Our Customers' Bank of Choice

The Institutional Banking business continuously strives to become our customers' bank of choice by understanding their financing needs and finding new and innovative ways to add value. Leveraging our know-how, strong balance sheet, deep market knowledge and years of experience, we stay on top of market changes and aim to set the trends, rather than follow them.



Strategic partnership with Jih Sun Financial Holding Co., Ltd.