



# **Business and Financial Highlights Nine Months Ended December 31, 2012**

**Shinsei Bank, Limited  
January 31, 2013**



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# 3Q FY2012 Results: Key Points

## Large increase in net income, high level ROE and on course to achieve MTMP, with progress towards FY2012 target at 74%

1

- Consolidated Net Income: JPY37.8 billion (EPS: JPY14.24)
- Consolidated Cash Basis Net Income: JPY44.9 billion (Cash Basis EPS: JPY16.94)
- Diluted Equity Per Share: JPY226.79
- ROE/Cash Basis ROE: 8.6%/11.2%

## Expansion of customer base supporting steady revenues with only limited impact from non-recurring items

2

- Stable trend in quarterly net interest income into FY2012 with higher lending balance at Bank and slowdown in decline of consumer finance loan balance becoming clearer
- Non-interest income same level as the previous FY with only limited impact from non-recurring items
- Strong improvement in credit costs while there were no additional grey zone reserves posted this FY

## Increased earnings and improved asset quality contribute to capital ratios

3

- NPLs down by JPY26.5 billion and need caution amount down over JPY70 billion (v. 2012.3)
- Steady earnings growth, lower deductions and reduction in risk weighted assets resulted in improvement in Tier I capital ratio to 10.04% and total capital adequacy ratio to 11.89%

# 3Q FY2012 Results: Financial Summary

(JPY billion)

- Large rise in net income to JPY37.8 billion as impact from non-recurring items remains limited
- 3Q FY2012 net income represents 74% progress towards full-year forecast

【Consolidated】	3QFY2011 (9 months)	3QFY2012 (9 months)	FY2012 Full-Year Forecast	Progress
Revenue	155.0	150.3	218.0	69%
Net Interest Income	88.6	84.2	115.0	73%
Non-Interest Income	66.3	66.0	103.0	64%
Expenses	95.5	95.6	133.0	72%
Net Credit Costs	11.9	4.8	18.0	27%
Net Income	20.6	37.8	51.0	74%
Cash Basis Net Income <sup>1</sup>	27.8	44.9	60.0	75%
ROE	4.9%	8.6%	About 9%	-
Cash Basis ROE	7.4%	11.2%	Over 10%	-
<b>【Non-Consolidated】</b>				
Operating Business Profit	14.4	21.0	35.0	60%
Net Income	0.9	17.9	22.0	81%

## Progress in 3Q FY2012

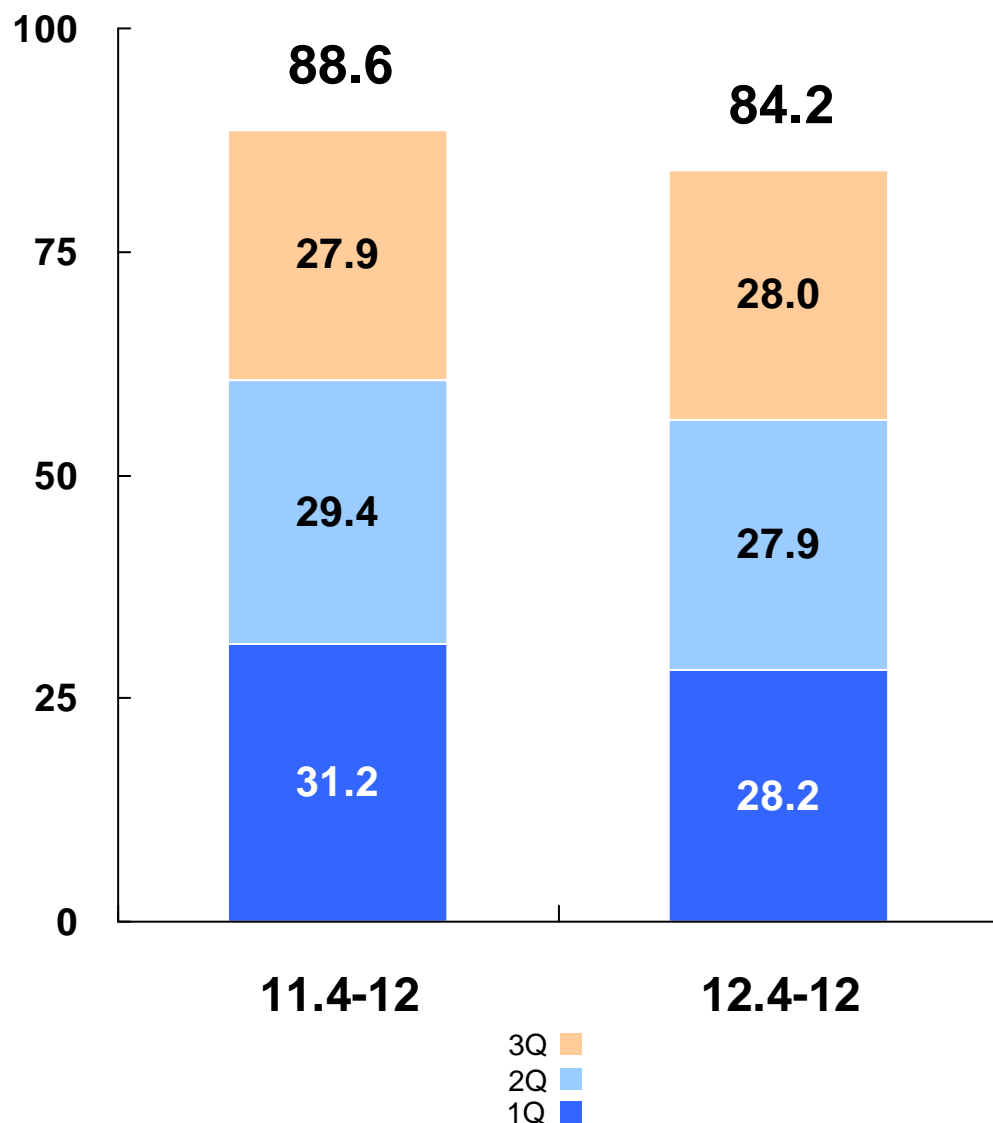
- Net interest income was lower y-o-y due to reduction in non-core assets and lower consumer finance loan balance, while non-interest income was the same level as the previous fiscal year with limited impact from non-recurring items
- Expenses largely in line with Plan
- Net credit costs improved markedly, despite the higher loan balance, due to reduction of non-core assets and strict credit screening
- Achieved large y-o-y increase in net income which represents 74% of full fiscal year net income forecast

<sup>1</sup>Cash basis net income is calculated by excluding amortization of goodwill and other intangible assets, net of tax benefit

# Financial Results: Revenue (Net Interest Income)

(Consolidated, JPY billion)

- Stable trend in quarterly net interest income into FY2012 as lending increasing at Bank and the pace of decrease in loan assets at consumer finance subsidiaries slows down



## Institutional Group/Global Markets Group

- Institutional Group: Starting to see results of expanded customer base with increase from JPY19.5 billion to JPY21.7 billion
- Global Markets Group: Same level as previous fiscal year at JPY2.3 billion

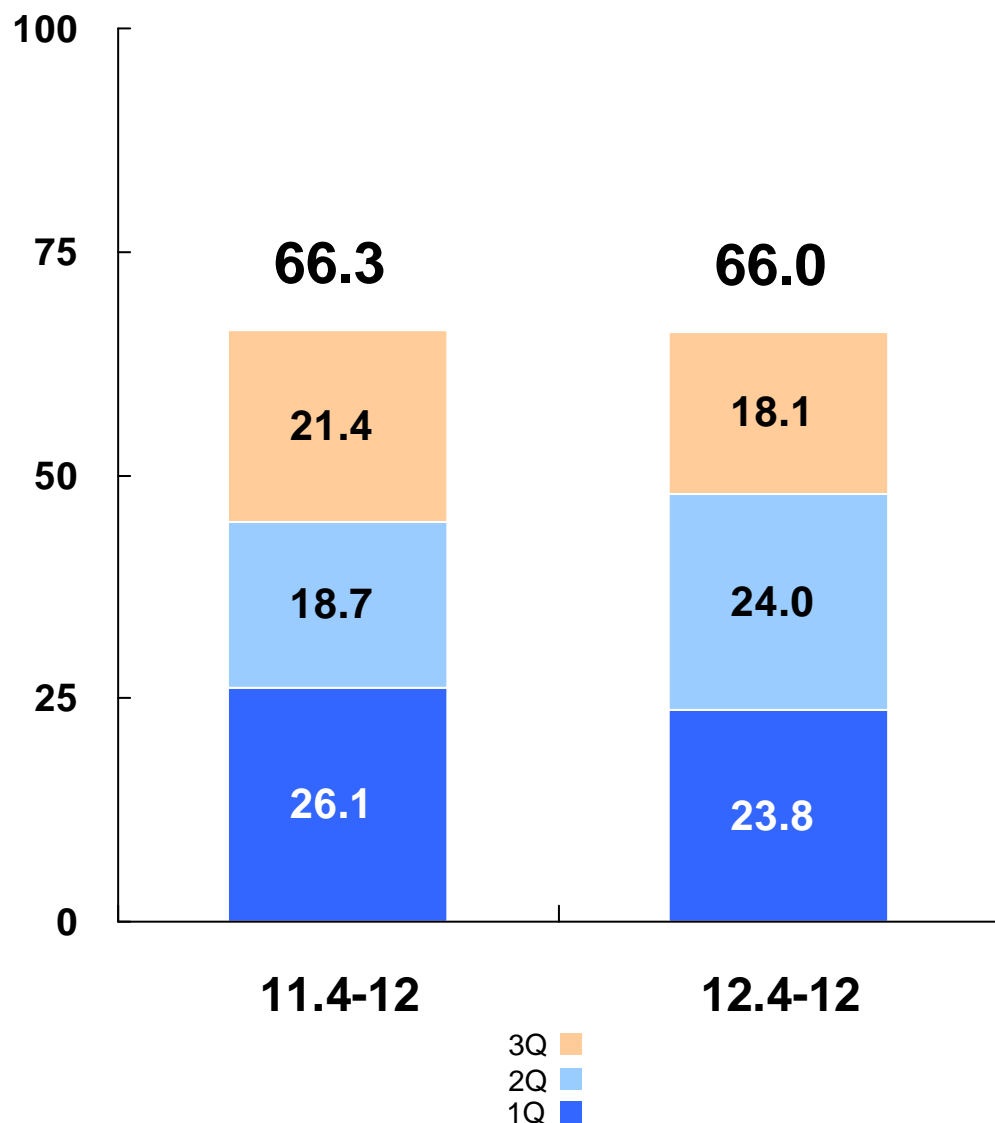
## Individual Group

- Retail Banking: While there was an increase in the housing loan balance, lower interest income on deposits due to lower market rates resulted in a decrease from JPY22.3 billion to JPY19.7 billion
- Consumer Finance: Decrease from JPY53.7 billion to JPY44.4 billion due to lower loan balances

# Financial Results: Revenue (Non-Interest Income)

(Consolidated, JPY billion)

- Non-interest income is trending steadily due to reduction of non-recurring items
- Maintaining same level of non-interest income as the same period of previous fiscal year



## Institutional Group/Global Markets Group

- Institutional Group: Decreased from JPY29.6 billion to JPY21.8 billion as the previous fiscal year included JPY6.3 billion of gains from the sale of foreign equities
- Global Markets Group: Increased from JPY4.3 billion to JPY7.8 billion due to increase in customer transactions

## Individual Group

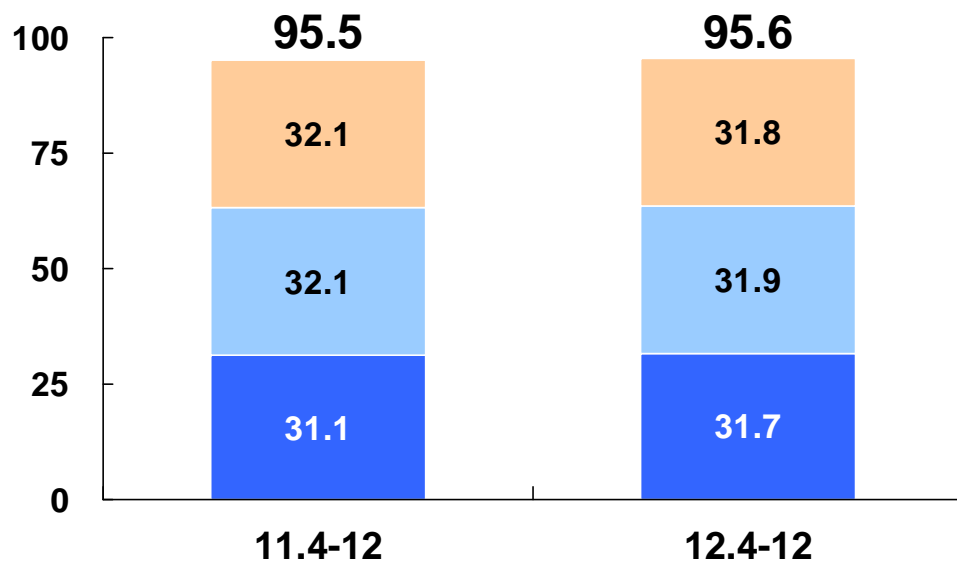
- Retail Banking: Decreased from JPY5.3 billion to JPY4.8 billion due to temporary discontinuation of sales of yen-denominated structured deposits
- Consumer Finance: Increased from JPY24.2 billion to JPY25.9 billion due to an increase in volume of installment sales credit, settlement and other businesses

# Financial Results: Expenses and Net Credit Costs

(Consolidated, JPY billion)

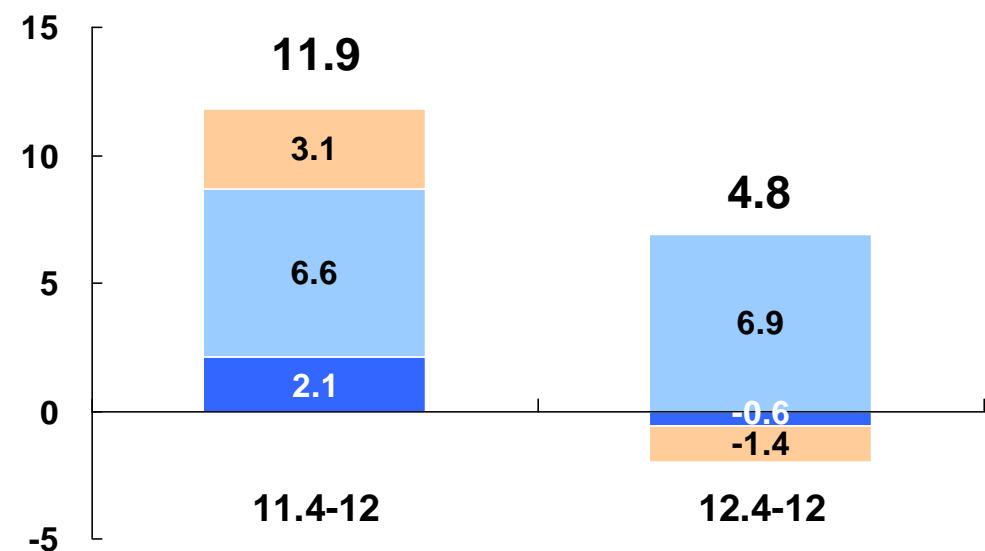
- Expenses generally flat y-o-y
- Net credit costs decreased JPY 7.1 billion y-o-y
  - ✓ While there was an increase in assets and additional provisions in domestic real estate non-recourse finance, non-core asset reduction and stricter credit screening led to improvement
  - ✓ Improvement in credit rating of institutional clients and higher quality of consumer finance assets

## Expenses



3Q ■  
2Q ■  
1Q ■

## Net Credit Costs



3Q ■  
2Q ■  
1Q ■

# Financial Results: Non-Recurring Items

(Consolidated, JPY billion)

- Large decrease in impact of non-recurring items on earnings in 3Q FY2012 (9 months)

Non-Recurring Items	FY2011 Full Year (12 months)	FY2011 3Q (9 months)	FY2012 3Q (9 months)
<b>Gains included in revenues</b>	<b>7.4</b>	<b>6.3</b>	<b>-</b>
Large gains from the sale/redemption of non-core assets	6.3	6.3	-
Others	1.1	-	-
<b>Major positive items (1)</b>	<b>7.4</b>	<b>6.3</b>	<b>-</b>
<b>Mark-downs/impairments included in revenues</b>	<b>-11.9</b>	<b>-8.7</b>	<b>-1.6</b>
Impairment of major listed shares	-5.2	-5.2	-
Impairment of domestic real estate non-recourse finance (bonds)	-3.3	-2.6	-1.6
Others	-3.3	-0.8	-
<b>Items included in net credit costs</b>	<b>-10.1</b>	<b>-5.5</b>	<b>-4.3</b>
Reversal of major institutional credit reserve	17.2	17.2	-
Specialty finance	-18.8	-18.8	0.8
Domestic real estate non-recourse finance	-8.0	-5.6	-5.5
Large net credit costs related to non-core assets	-2.2	-	-1.2
Others	1.6	1.6	1.6
<b>Items included in other losses</b>	<b>-33.1</b>	<b>-10.1</b>	<b>-</b>
Grey zone related provisions	-32.8	-11.8	-
Others	-0.2	1.6	-
Corporate tax adjustment due to tax reform	-1.3	-0.7	-
<b>Major negative items (2)</b>	<b>-56.6</b>	<b>-25.2</b>	<b>-6.0</b>
<b>(1) + (2)</b>	<b>-49.1</b>	<b>-18.9</b>	<b>-6.0</b>

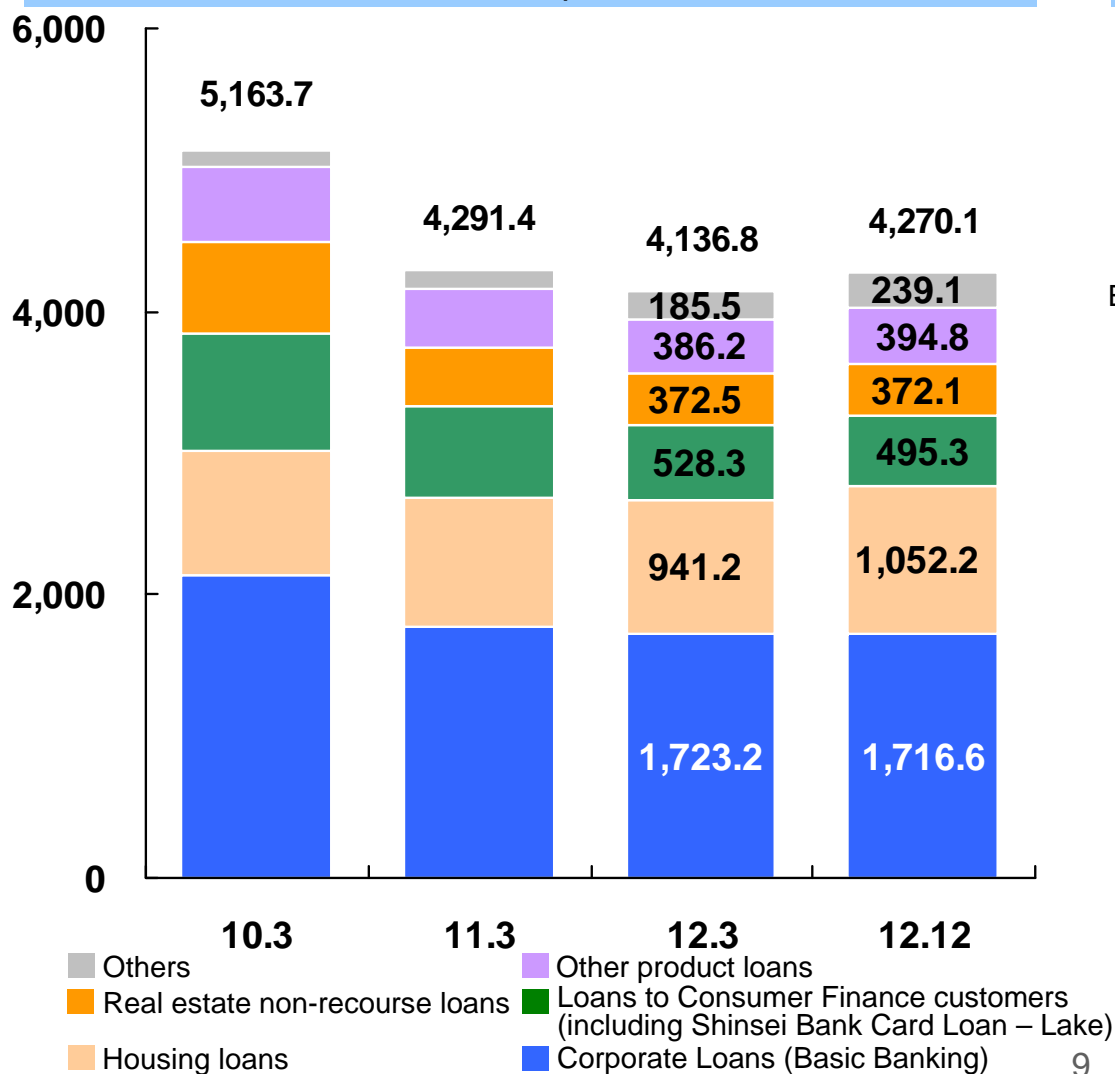


# Business: Balance Sheet

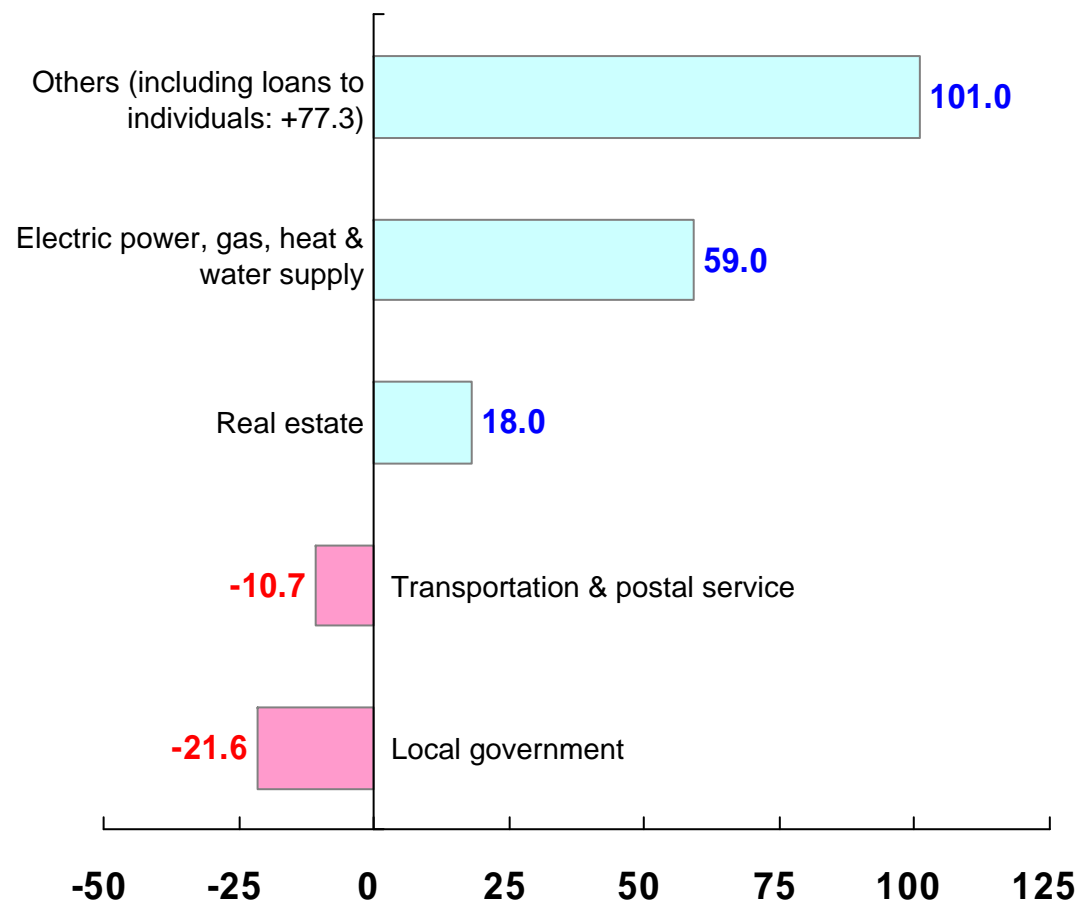
(Consolidated, JPY billion)

- Strong growth in housing loans boosted increase in loans to individuals
- Flexibly responded to domestic corporate loan funding needs while building up high quality overseas assets

### Loans Composition



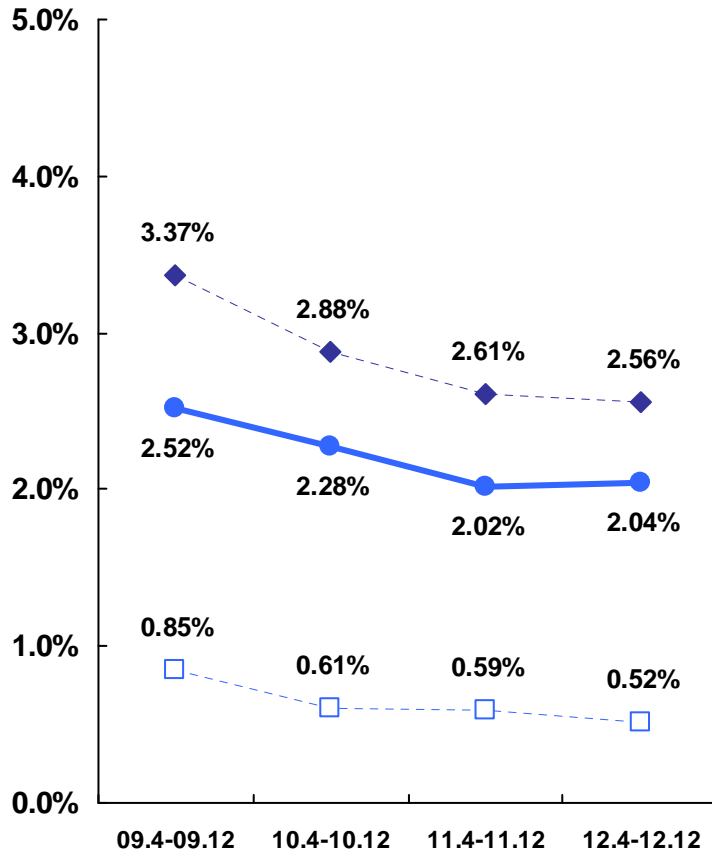
### Main Changes in Loans by Industry (v. March 31, 2012)



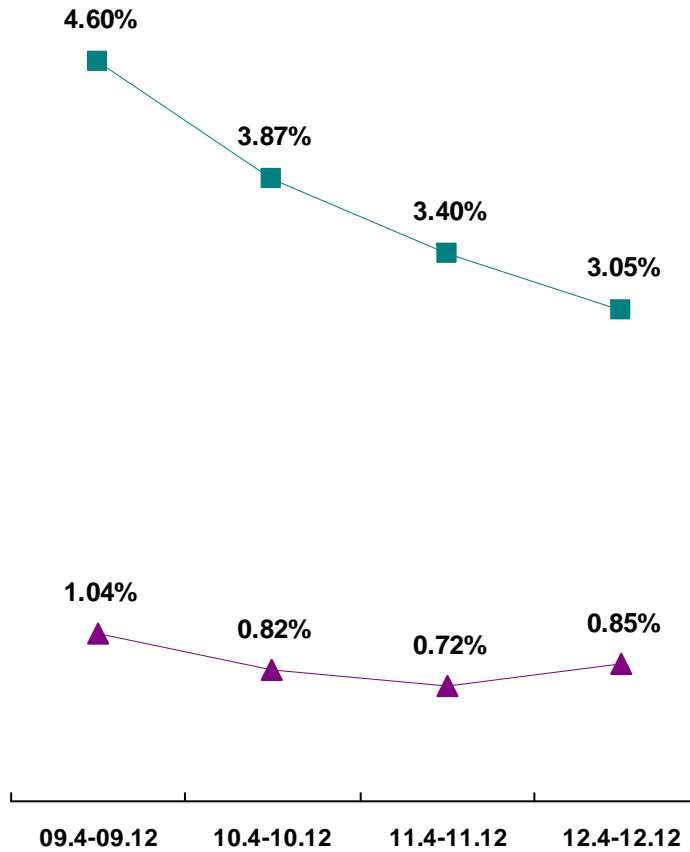
# Business: Net Interest Margin

- Maintained net interest margin above 2% level
- Continued improvement in rate on interest bearing liabilities due to lower deposit/NCD rates

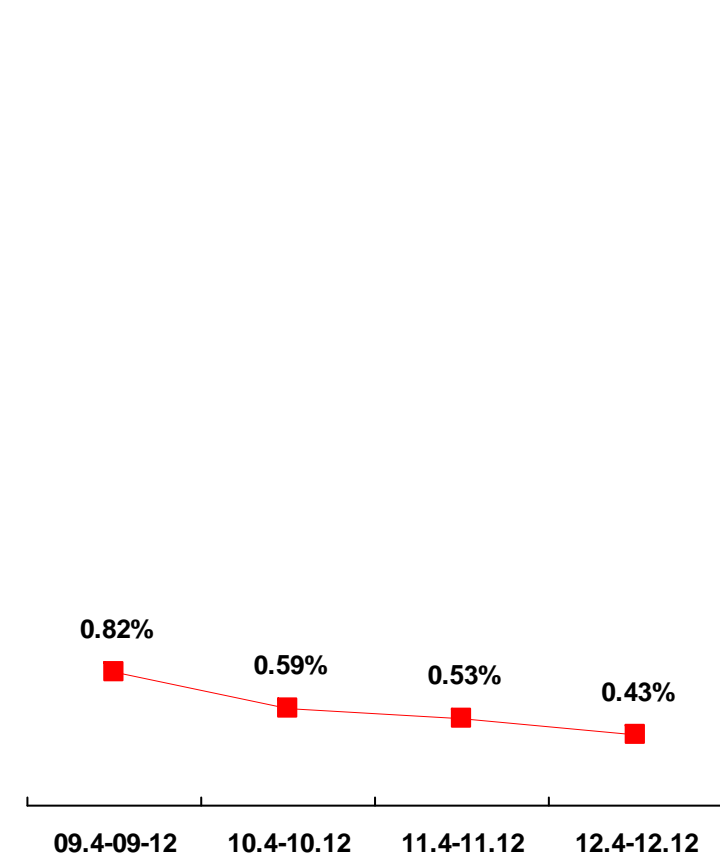
Net Interest Margin<sup>1</sup>



Yield on Loans and Securities



Rate on Deposits



◆ Yield on interest earning assets<sup>1</sup>

● Net interest margin<sup>1</sup>

□ Rate on interest bearing liabilities

■ Yield on loans and bills discounted

▲ Yield on securities

■ Rate on deposits, including negotiable certificates of deposit (NCD)

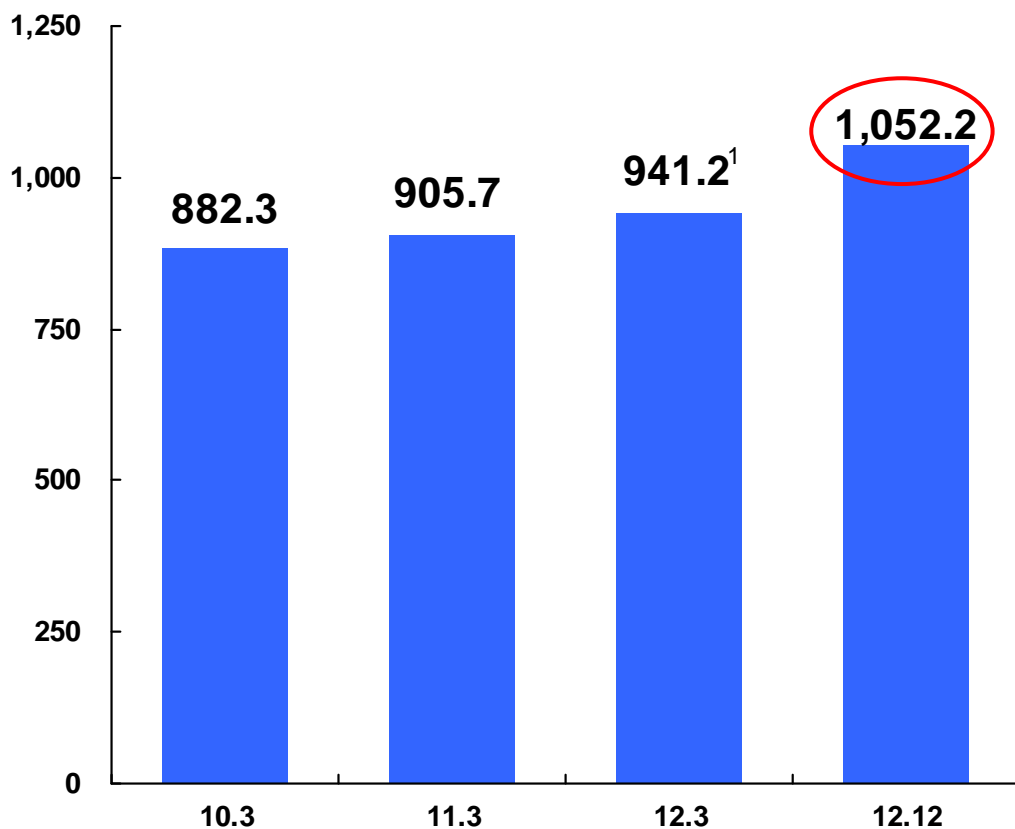
<sup>1</sup> Includes income on leased assets and installment receivables

# Business: Housing Loans

(JPY billion)

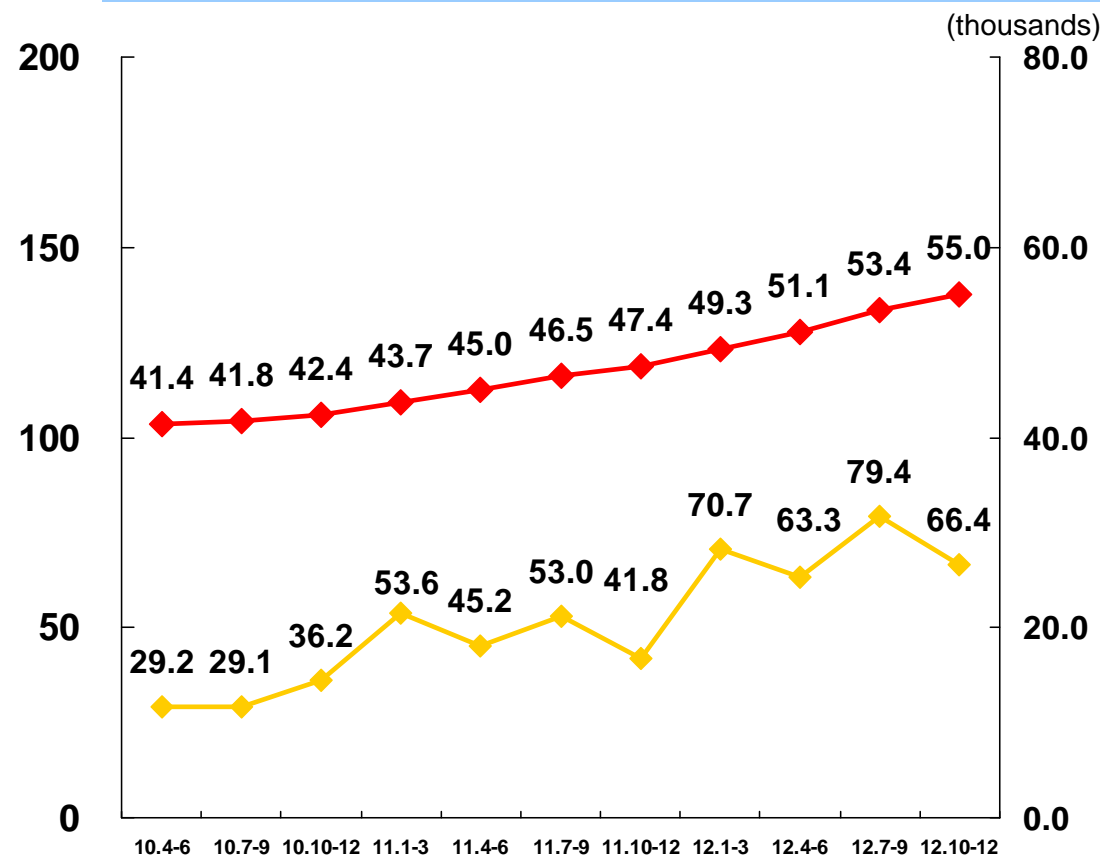
- Strong growth in housing loans/customer volume due to solid demand and unique product characteristics
- Solid increase in new origination (9 months) by about 50% y-o-y

### Housing Loan Balance



<sup>1</sup> A portion of housing loans previously held through a subsidiary were sold in 2Q FY2011

### Quarterly Trend in Disbursement and Customer Numbers

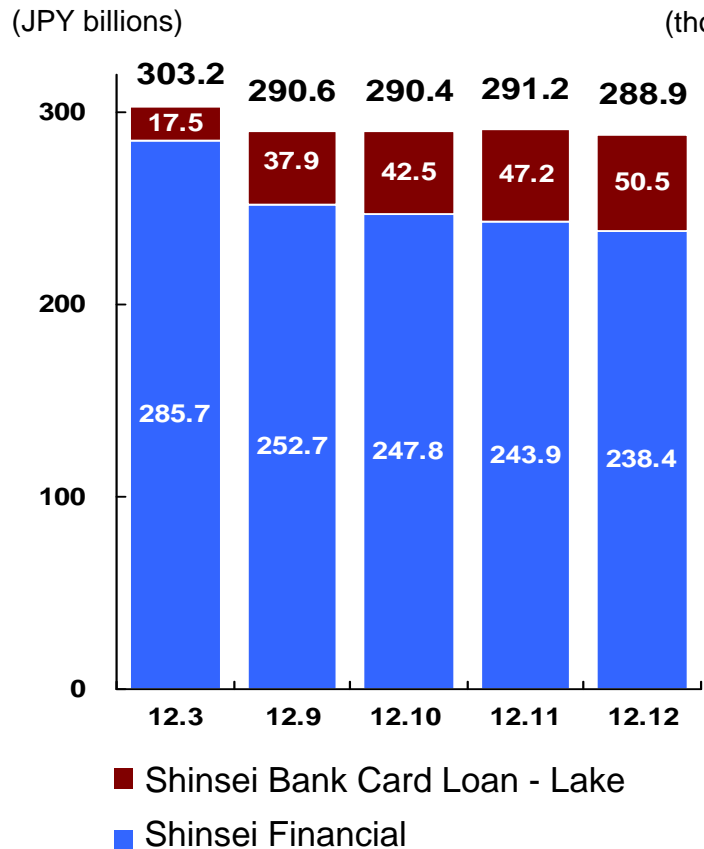


- ◆ Power Smart Housing Loan customers (thousands) (rhs)
- ◆ New origination disbursement (lhs)

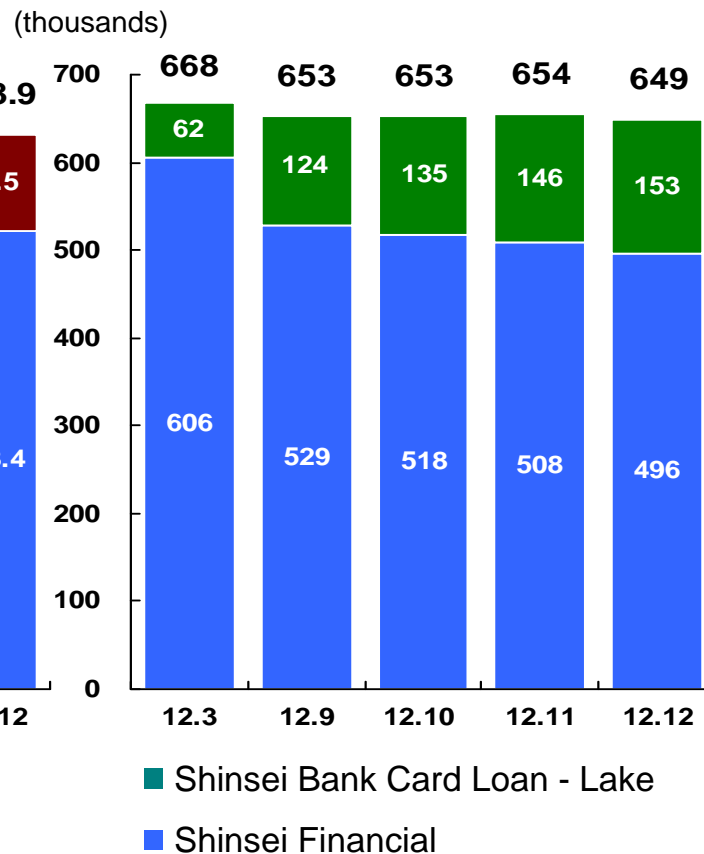
# Business: Lake

- Good progress in loan balance growth and new customer acquisitions for Shinsei Bank Card Loan - Lake
- While seasonality led to a lower combined balance in December compared to September, slowdown in loan balance decline becoming clearer
- Aiming for increase in balance during this fiscal year

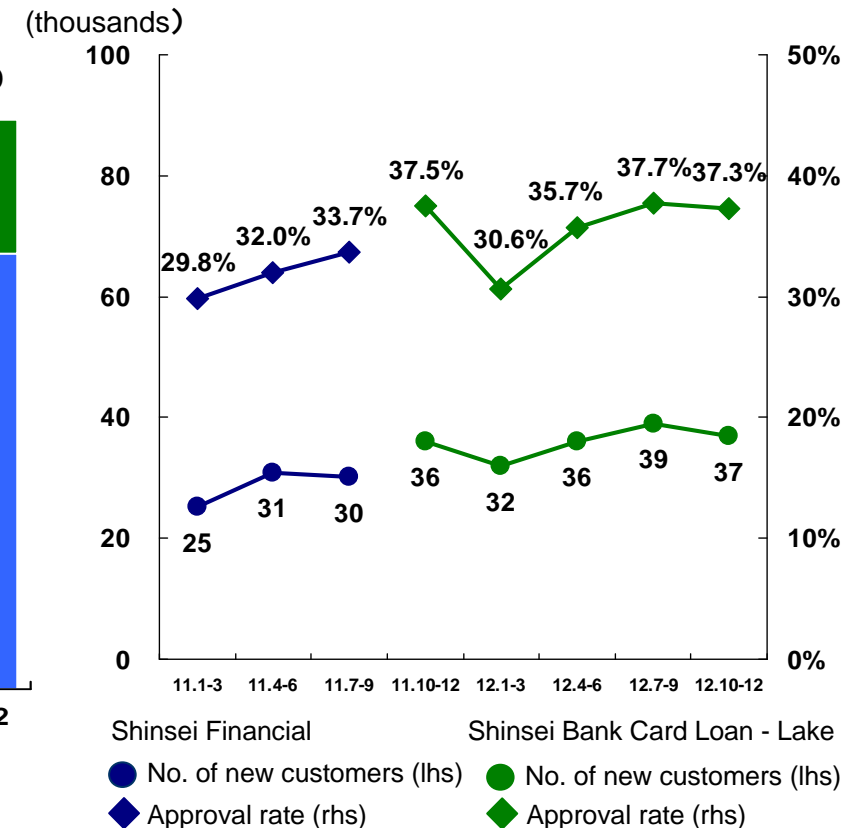
Shinsei Financial and Shinsei Bank Card Loan – Lake UPL Balance



Shinsei Financial and Shinsei Bank Card Loan – Lake Customer Numbers



Quarterly Trends in New Customer Numbers and Approval Rate



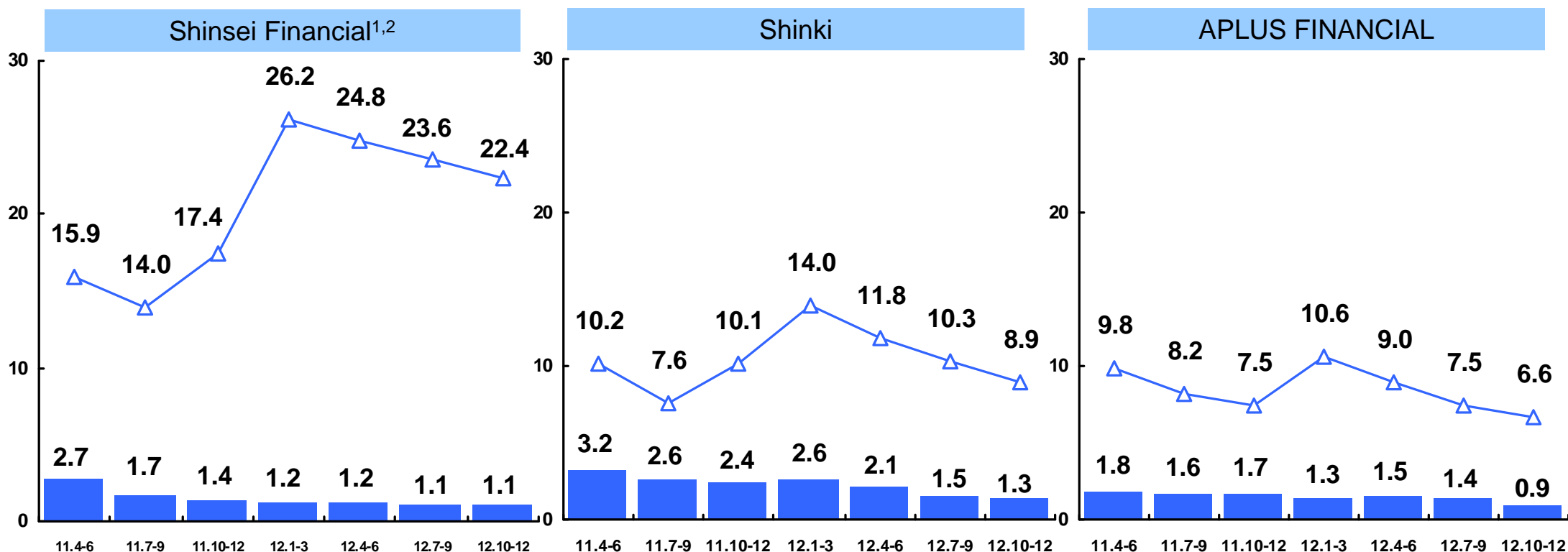
# Business: Grey Zone Interest Repayment

(JPY billion)

- Large decrease in grey zone repayment amount at three consumer finance subsidiaries
- Number of disclosure claims continues on long-term downward trajectory

(Unit: thousands)

Number of Disclosure Claims	11.4-6	11.7-9	11.10-12	12.1-3	12.4-6	12.7-9	12.10-12
Shinsei Financial	25.0	19.5	17.8	16.5	16.6	14.4	14.0
Shinki	4.1	3.1	3.0	2.7	2.8	2.5	2.5
APLUS FINANCIAL	4.2	2.9	2.9	2.6	2.7	2.4	2.4



<sup>1</sup> A certain portion of Shinsei Financial's portfolio is covered by a GE indemnity contract. Interest repayment amount is net of refunds subject to the GE indemnification

<sup>2</sup> Reversals of reserves for losses on interest repayment include reversals of provision of reserves for loan losses

△ Reserves for Losses on Interest Repayments

■ Debt Write-off and Interest Repayment Amount

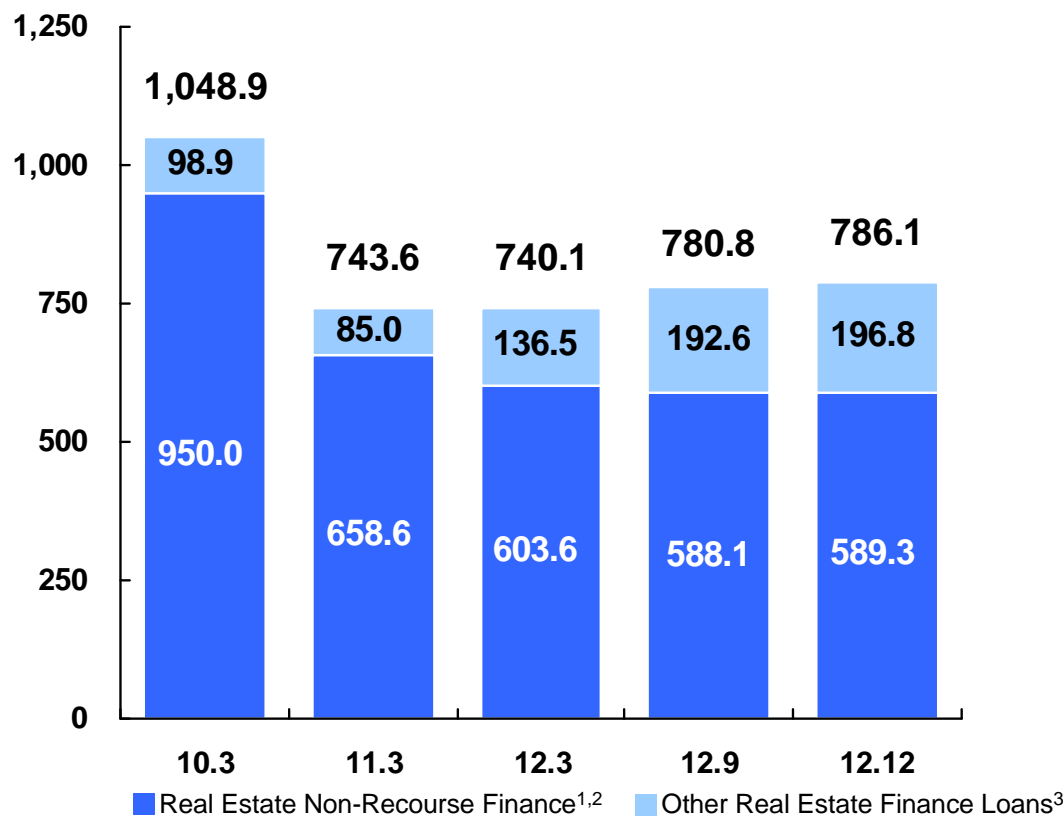


# Business: Real Estate Finance

(JPY billion)

- Steady new origination in real estate non-recourse finance leading to increasing trend in assets
- Continued growth in balance of loans to real estate companies and REITs

### Real Estate Finance Balance

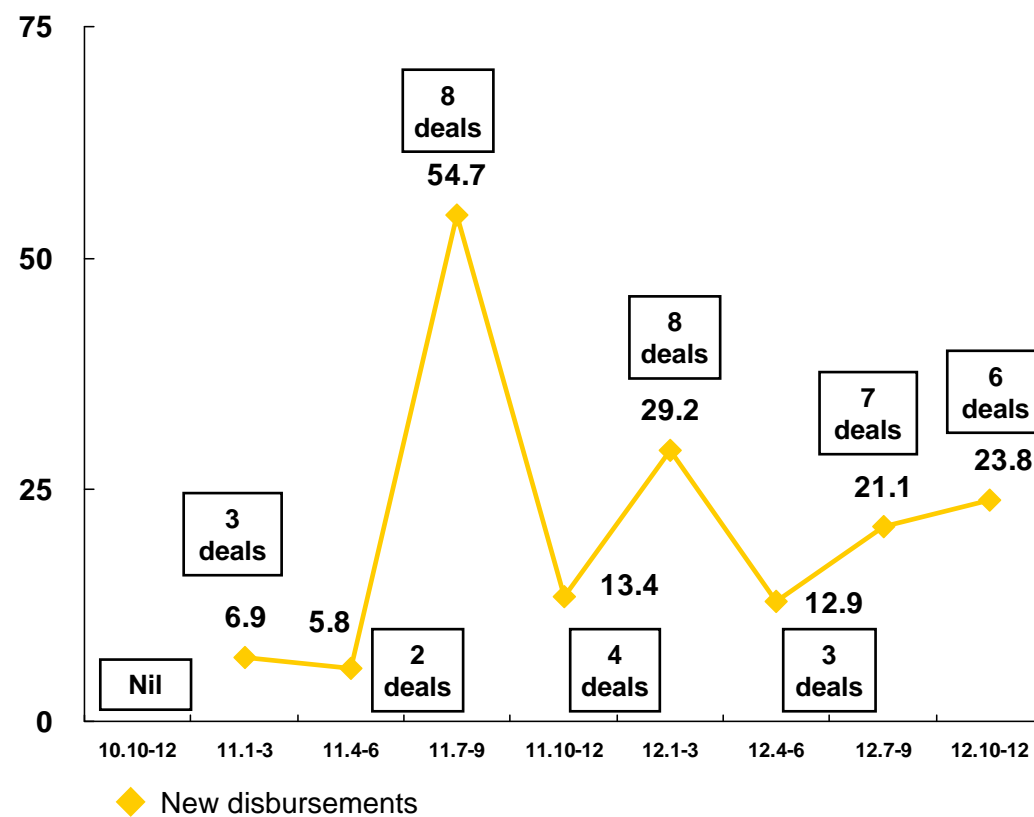


<sup>1</sup> Real estate non-recourse finance includes bonds (including other monetary claims purchased)

<sup>2</sup> Excludes the portion (JPY24.5 billion) eliminated through consolidation in FY2011

<sup>3</sup> Other real estate finance loans include loans to real estate companies and REITs

### Quarterly Trend in New Disbursements for Non-Recourse Finance



# Asset Quality: Non-Performing Loans

(Non-Consolidated, JPY billion)

- NPLs down by JPY26.5 billion and NPL ratio fell 65 bps compared to March 31, 2012
- Need Caution amount declined by over JPY70 billion compared to March 31, 2012

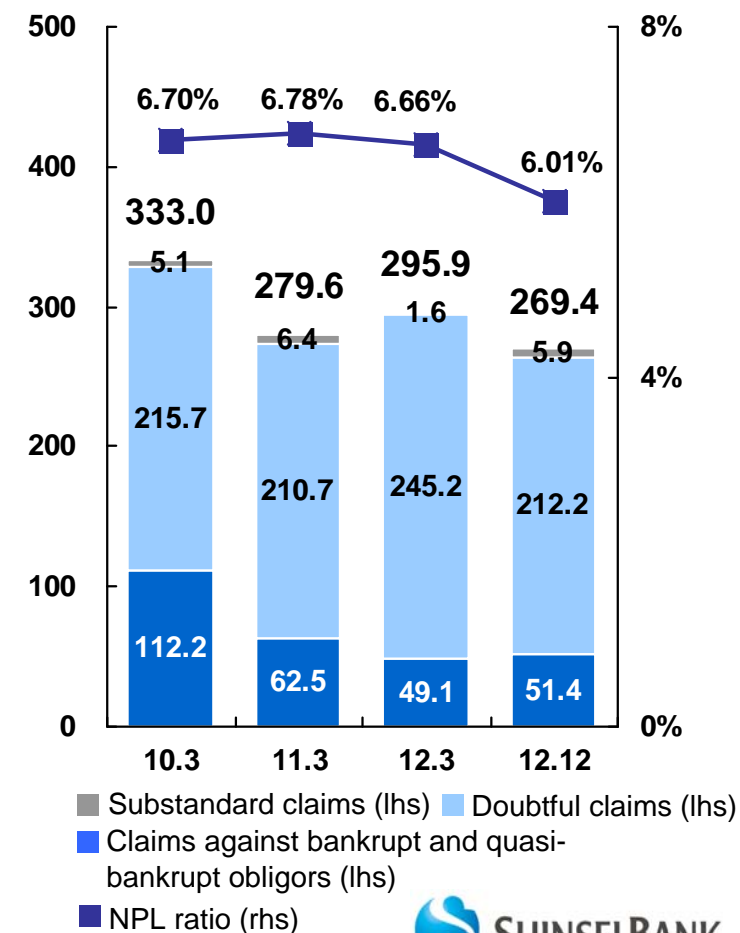
## Breakdown of Total Claims and Coverage by Credit Category<sup>1</sup>

(as at December 31, 2012)

	Balance	Reserves for Loan Losses	Collateral/ Guarantees	Coverage Ratio	Partial Write-Off
Normal	3,997.5	21.3	/	/	0.0
Need Caution	219.6	12.6	/	/	0.1
Performing Loans	4,217.0	33.9	/	/	0.1
Substandard/ Possibly Bankrupt	218.0	71.7	137.2	95.8%	0.1
Virtually Bankrupt/ Legally Bankrupt	51.4	4.5	46.9	100.0%	64.9
Non-Performing Loans	269.4	76.2	184.1	96.6%	65.0
<b>Total Claims</b>	<b>4,486.5</b>	<b>110.2</b>	/	/	<b>65.2</b>

<sup>1</sup> Coverage of total claims based on Financial Revitalization Law

## NPL Amounts and NPL Ratio Based on Financial Revitalization Law

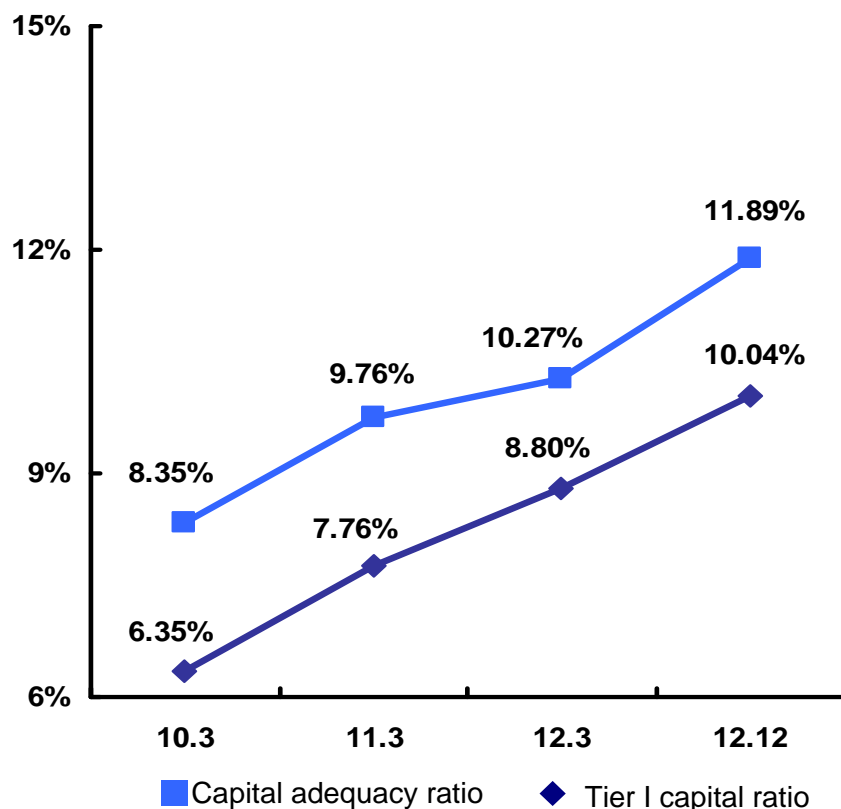


# Capital: Maintaining Adequate Level with Higher Retained Earnings

(Consolidated, JPY billion)

- Steady earnings growth and lower deductions led to increase in capital
- Reduction in RWAs due to improvement in asset quality also contributed to stronger capital ratios

### Trend of Capital Ratios (Basel II)



### Capital Composition

	2012.3 (Basel II <sup>1</sup> )	2012.12 (Basel II <sup>1</sup> )	2012.12 (Basel III Estimate <sup>2</sup> )	MTMP (Target) (Basel III)
Common Equity Tier I			577.8	
Other Tier I				
Basic Item (Tier I)	537.1	589.9	577.8	
Amount Eligible for Inclusion in Capital (Tier II)	197.0	187.7	116.0	
Deduction	-107.2	-78.9		
Total Capital	626.9	698.7	693.9	
Risk Weighted Assets	6,102.5	5,875.4	6,311.2	
Capital Adequacy Ratio	10.27%	11.89%	11.0%	10%
			<i>Estimate:</i>	
Common Equity Tier I Capital Ratio			9.2%	5%
Tier I Capital Ratio	8.80%	10.04%	9.2%	7%

<sup>1</sup> Reflected stressed VaR of so-called "Basel 2.5"

<sup>2</sup> Estimates have been made by Shinsei Bank based on information available at the time point. Estimate for December 31, 2012 is based on the international standard of Basel III applying grandfathering at March 2013



# Appendix

# 3Q FY2012: Key Data

(Consolidated, JPY billion)

## Balance Sheet

	2010.3	2011.3	2012.3	2012.12
Loans	5,163.7	4,291.4	4,136.8	4,270.1
Securities	3,233.3	3,286.3	1,873.4	2,168.3
Lease Receivables and Leased Investment Assets	213.7	206.2	197.4	196.4
Installment Receivables	347.8	330.4	347.9	360.1
Reserve for Credit Losses	-196.6	-199.2	-180.6	-170.9
Total Assets	11,376.7	10,231.5	8,609.6	9,113.7
Deposits and NCDs	6,475.3	5,610.6	5,362.4	5,429.3
Borrowed Money	1,186.8	1,672.7	476.7	617.2
Corporate Bonds	188.2	179.6	168.7	172.4
Reserve for Losses on Interest Repayments	70.0	43.1	50.9	38.0
Total Liabilities	10,741.8	9,620.3	7,982.0	8,448.8
Shareholders' Equity	459.7	574.1	577.9	613.1
Total Equity	634.9	611.1	627.6	664.8

## Financial Ratios

	2009.4-2010.3	2010.4-2011.3	2011.4-2012.3	2012.4-12
Expense-to-Revenue Ratio	59.0%	48.9%	63.1%	63.6%
Loan-to-Deposit Ratio	79.7%	76.5%	77.1%	78.6%
ROA	-1.2%	0.4%	0.1%	0.6%
ROE	-27.6%	8.5%	1.2%	8.6%
ROA (Cash Basis)	-0.5%	0.5%	0.2%	0.7%
ROE (Cash Basis)	-13.7%	12.4%	3.2%	11.2%

## Per Share Data (JPY)

	2009.4-2010.3	2010.4-2011.3	2011.4-2012.3	2012.4-12
Common Equity Per Share	232.72	205.83	212.67	226.79
Net Income Per Share	-71.36	21.36	2.42	14.24
Cash Basis Net Income Per Share	-27.37	26.96	6.05	16.94

# Segment Revenue: Individual Group

(Consolidated, JPY billion)

Revenue	11.4-6	11.7-9	11.10-12	12.1-3	12.4-6	12.7-9	12.10-12
Retail Banking	10.3	8.8	8.4	8.3	8.4	8.2	7.8
Shinsei Financial and Shinsei Bank Card Loan- Lake	11.5	11.2	11.0	10.1	9.7	9.3	9.4
Shinki	2.1	2.0	1.9	1.7	1.6	1.5	1.5
APLUS FINANCIAL	12.3	12.0	12.3	11.8	11.6	11.8	12.1
Other	0.4	0.4	0.4	0.4	0.4	0.3	0.4
<b>Individual Group Total</b>	<b>36.9</b>	<b>34.6</b>	<b>34.2</b>	<b>32.3</b>	<b>31.9</b>	<b>31.4</b>	<b>31.4</b>

## Retail Banking

- Housing loan balance steadily increasing with revenue from loans increasing from JPY4.7 billion to JPY5.4 billion
- Lower market rates led to a decrease in deposits and debentures net interest income from JPY16.4 billion to JPY13.5 billion
- A temporary discontinuation of sales of yen-denominated structured deposits led to a decrease in deposits and debentures non-interest income from JPY3.2 billion to JPY2.4 billion

## Shinsei Financial and Shinsei Bank Card Loan - Lake

- Revenues decreased from JPY33.8 billion to JPY28.5 billion due a decrease in loans
- Quarterly trend in decrease in revenues less pronounced due to slowing pace of decrease in loans after commencement of operations at Shinsei Bank Card Loan – Lake from Oct. 2011

## Shinki

- Revenues decreased from JPY6.1 billion to JPY4.8 billion due to decrease in loans

## APLUS FINANCIAL

- Net interest income declined from JPY9.8 billion to JPY7.1 billion due to lower loan balance
- Non-interest income up from JPY26.9 billion to JPY28.5 billion due to increase in volume of installment sales credit, settlement and other businesses

# Segment Revenue: Institutional Group and Global Markets Group

(Consolidated, JPY billion)

Revenue	11.4-6	11.7-9	11.10-12	12.1-3	12.4-6	12.7-9	12.10-12
Institutional Business Sub-Group	2.7	-0.4	2.9	4.4	3.4	3.3	3.6
Structured Finance Sub-Group	4.7	5.5	5.7	4.9	5.5	4.6	4.5
Principal Transactions Sub-Group	1.6	4.4	3.1	1.9	2.5	5.0	1.0
Showa Leasing	3.4	3.7	3.3	1.9	3.0	3.2	3.4
Others	7.6	-1.0	1.5	-0.1	0.5	-0.2	-0.5
<b>Institutional Group Total</b>	<b>20.3</b>	<b>12.2</b>	<b>16.7</b>	<b>13.0</b>	<b>15.2</b>	<b>16.2</b>	<b>12.1</b>
Financial Institutions Sub-Group	0.7	0.8	0.5	1.2	1.7	0.6	0.8
Markets Sub-Group	0.9	1.6	0.5	3.1	2.2	1.7	0.9
Others	0.6	0.8	0.0	0.2	0.5	0.5	0.7
<b>Global Markets Group Total</b>	<b>2.2</b>	<b>3.3</b>	<b>1.0</b>	<b>4.6</b>	<b>4.5</b>	<b>3.0</b>	<b>2.5</b>

## Institutional Group (Bank)

- Institutional Business Sub-Group improved from JPY5.2 billion to JPY10.4 billion as a result of an increase in transactions with new and existing customers
- Structured Finance Sub-Group decreased from JPY16.0 billion to JPY14.7 billion owing to replacement of non-recourse finance assets
- While the credit trading business performed well in the Principal Transactions Sub-Group, revenues decreased from JPY9.2 billion to JPY8.7 billion

## Institutional Group (Showa Leasing)

- Showa Leasing decreased from JPY10.5 billion to JPY9.8 billion due to changes in lease accounting standards and the sagging economic environment

## Global Markets Group

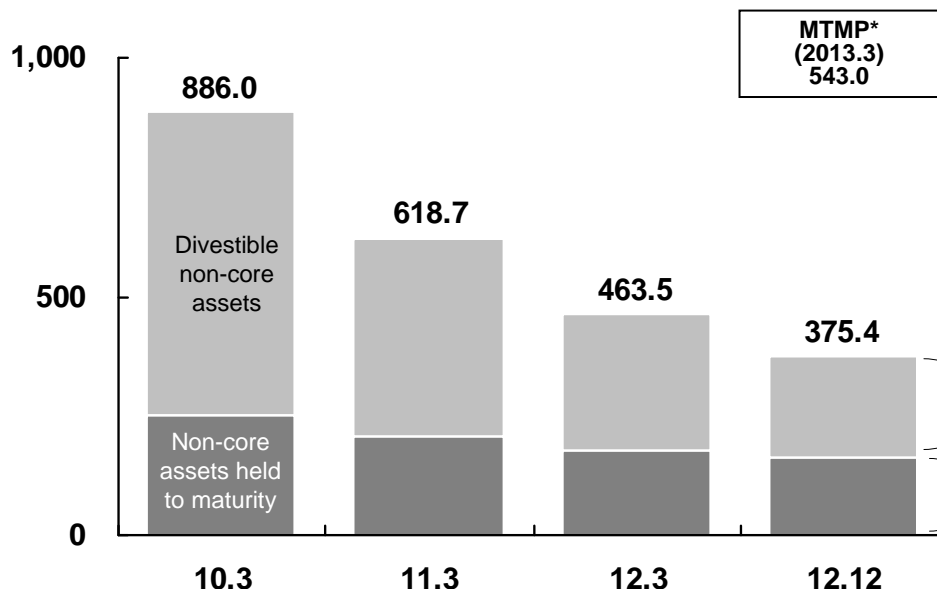
- Revenues improved from JPY6.6 billion to JPY10.1 billion as the previous FY was impacted by weak market environment due to the European credit crisis, while this FY there was an increase in transactions leading to higher revenues

# Non-Core Targets Already Achieved Allowing Assets: Management to Focus on Core Business

(JPY billion)

- Reduction of non-core assets continues well ahead of MTMP schedule
- Limited risk of large losses from residual non-core assets

### Outstanding Balance of Non-core Assets



\*Reduce divestible non-core assets by approximately 50% by end of MTMP (March 31, 2013)

### Non-core Assets Composition by Asset Type and Region

(as at December 31, 2012)

Balance	Region				Total
	U.S.	Europe	Asia, Others	Japan	
Loans	6.4	25.1	1.0	27.0	① 59.6
Securities	40.9	56.1	31.0	25.5	② 153.7
<b>Divestible Total (1)</b>	<b>47.4</b>	<b>81.3</b>	<b>32.0</b>	<b>52.5</b>	<b>213.3</b>
Loans	-	-	-	-	-
Securities	32.9	10.1	-	118.9	162.0
<b>Held to Maturity Total (2)</b>	<b>32.9</b>	<b>10.1</b>	<b>-</b>	<b>118.9</b>	③ 162.0
<b>Non-Core Assets Total (1)+(2)</b>	<b>80.4</b>	<b>91.4</b>	<b>32.0</b>	<b>171.5</b>	④ 375.4

- ① Only JPY13.5 billion of NPLs (including JPY12.7 billion of ABI, 96% coverage ratio)
- ② Evaluation gains for non-core securities with fair value that are divestible are about JPY2.1 billion as of Dec. 2012
- ③ Held-to-maturity non-core assets are primarily composed of domestic housing loan warehousing and rest is CLO
- ④ While the disposal of non-core assets continues to proceed, yen depreciation resulted in only a slight decrease in assets (on a yen basis) in December compared to September

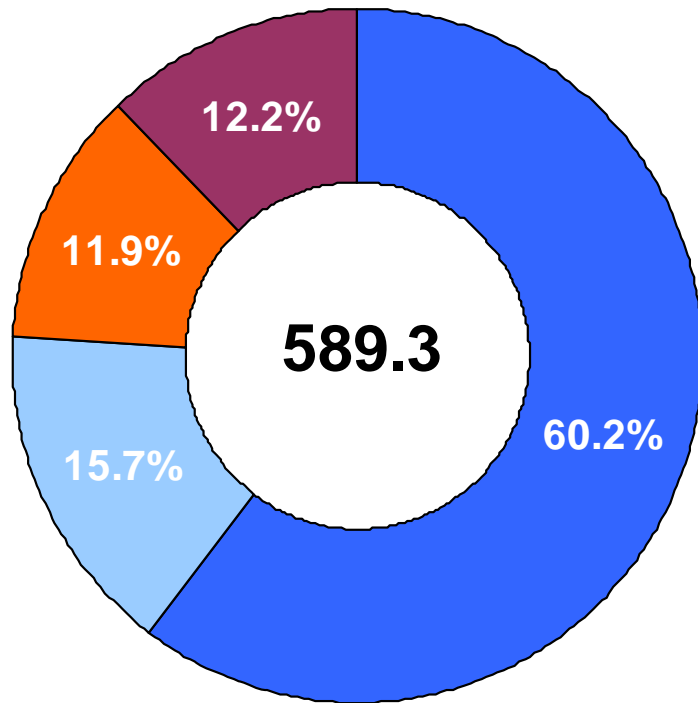
Limited PL impact from non-core assets

# Real Estate Non-Recourse Finance: By Region/Asset Category

(JPY billion)

## Breakdown by Region

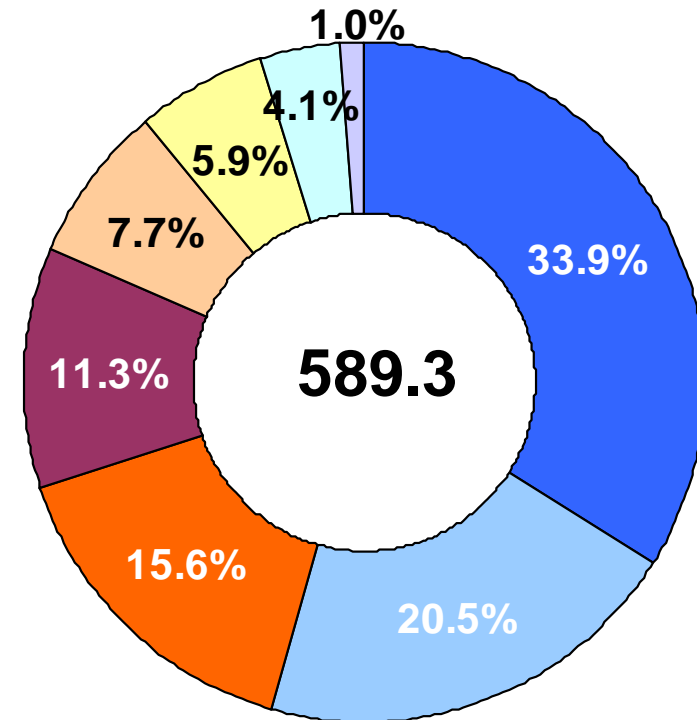
(as at December 31, 2012)



- Kanto (Mainly Tokyo)
- Kansai (Mainly Osaka)
- Portfolio (Diversified)
- Other Regions

## Breakdown by Asset Category

(as at December 31, 2012)



- Office
- Land
- Hotel
- Industrial/Parking/Other
- Retail (shops)
- Residential
- Other Portfolio (Diversified)
- Development

# Major News in FY2012

## 1<sup>st</sup> Quarter

(April – June 2012)

- Apr. 25: Shinsei Bank to Install Shinsei Bank Card Loan - Lake ACMs in Bank ATM Corners
- June 12: Shinsei Bank to Take Over Ownership of Lloyds Banking Group's Overseas Remittance Services in Japan
- June 25: Shinsei Bank Begins Handling Chinese Yuan, Brazilian Real, and Turkish Lira (total of 13 foreign currencies)

## 2<sup>nd</sup> Quarter

(July – Sept. 2012)

- July 2: gumi and Shinsei Bank to Establish Venture Fund Targeting Mobile Entertainment Companies
- July 19: Shinsei Bank Group to Team Up With Manchester United to Issue Affiliate Credit Cards in Japan
- July 23: APLUS Introduces APLUS Auto Credit with T Points
- July 30: Shinsei Bank Forges Comprehensive Business Alliance with India's YES BANK

## 3<sup>rd</sup> Quarter

(Oct. – Dec. 2012)

- Oct. 1: Housing Loan Balance Exceeds JPY 1 trillion as of Sept. 30, 2012
- Oct. 12: Shinsei Bank to Invest in "Fukushima Growth Industry Development Fund" alongside NEC Capital Solutions Limited & Others
- Oct. 26: Shinsei Bank Issues Fourth Series of Unsecured Callable Subordinated Bonds
- Nov. 1: APLUS Introduces APLUS Rent Service with T Points

## 4<sup>th</sup> Quarter

(Jan. – Mar. 2013)

- Jan. 16: Shinsei Bank Participates in Establishment of Healthcare Infrastructure Fund
- Jan. 22: Shinsei Bank Steps Up Private Placement Investment Trust Business for Financial Institutions

- The above description of Shinsei's medium-term plan contains forward-looking statements regarding the intent, belief and current expectations of our management with respect to our financial condition and future results of operations. These statements reflect our current views with respect to future events that are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may vary materially from those we currently anticipate. Potential risks include those described in our annual securities report filed with the Kanto Local Finance Bureau, and you are cautioned not to place undue reliance on forward-looking statements.
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