

# Financial and Business Results

Nine Months Ended December 31, 2008

Fiscal Year 2008

Investors' Meeting



**SHINSEI BANK**

Shinsei Bank, Limited

February 4, 2009



# Agenda: Back to Basics

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**Consolidated Results Overview: 2**

**Strategy/Action Items: 3**

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# Consolidated Results Overview:

Nine Months Ended December 31, 2008

The market environment remains challenging...

1

## Lower Revenues

Stronger Individual Group due to consolidation of GECF and Shinki and improved retail banking and contribution from Corporate/Other not enough to offset the significantly lower revenues of Institutional Group impacted by market turmoil

2

## Higher Net Credit Costs

Significantly higher net credit costs in the Institutional Group due mainly to reserves associated with Lehman Brothers, real estate and European asset-backed investments

3

## Lower Other Gains

Extraordinary gains were lower as gains from the sale of the Meguro Production Center and Showa Auto Rental & Leasing this fiscal year were lower than the gain on the sale of Life Housing Loan in the previous fiscal year



Lower Net Income

# Strategy/Action Items:

## Back to Basics

...So we will focus on fundamentals to ensure sustainable operations

1

### Maximize Profits of Individual Group

- Sanjeev Gupta promoted to SMEO & Head of Individual Group
- Rationalize and optimize consumer finance operations
- Realign staff, customer and branch focus of retail banking operations

2

### Reallocate Institutional Group Resources

- Redirect business to focus operations on Japan
- Optimize personnel allocation
- Restructure operations

3

### Strengthen Risk Management Capability

- Michael Cook appointed as SMEO & Chief Risk Officer to lead risk management
- Improve approval and investment monitoring process
- Establish early warning system to detect problems and set rules for action

4

### Enhance Liquidity and Capital Positions

- Enhance solid liquidity position through multi-year retail deposit campaign
- More than 1 trillion yen of cash, cash equivalents and liquidity reserves available
- Tier II debt buyback conducted and considering other plans to strengthen capital

# Institutional Group:

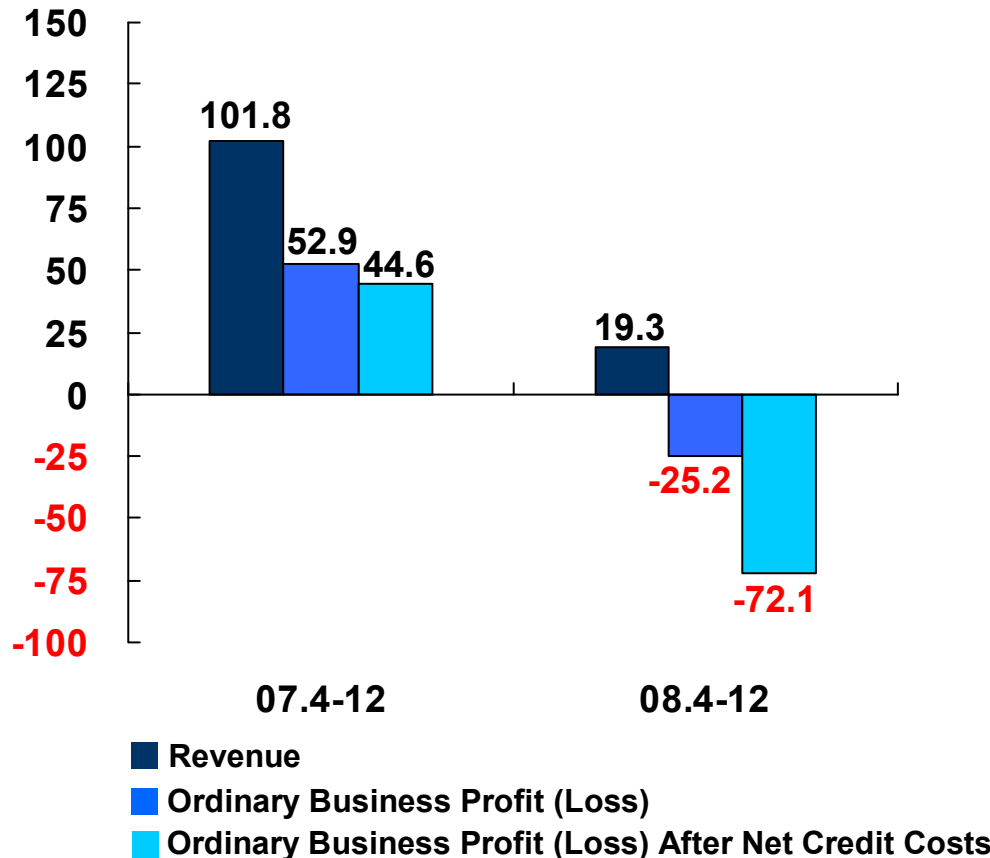
## Overview of Results

Market turmoil takes toll on the Institutional Group's operations...

### Results

### Highlights

JPY BN



- Revenues down due mainly to impact from European ABI/ABS and European investments and bankruptcy of Lehman Brothers
- Achieved lower expenses due to stricter cost controls and cost reduction measures
- Credit costs associated with bankruptcy of Lehman Brothers, real estate portfolio and European ABI portfolio impacted OBP after net credit costs

# Institutional Group:

## Action Items

...And we are committed to change by focusing on core strengths...

### Institutional Banking Operations

#### Staff Focus

- Allocate staff to core businesses
- Improve operational efficiency by focusing on key functions

1

#### Restructuring Focus

- Restructuring Shinsei Securities
- Downsizing capital markets
- Repositioned ACPM\* and reorganized treasury
- Reducing alternative investments portfolio

2

#### Business Focus

- Focus on Japan
- Concentrate on core businesses of Basic Banking, Real Estate Finance and Principal Transactions

3



**Solidify base to ensure  
stable earnings over  
medium- to long-term**

\*Active credit portfolio management



# Institutional Group:

## Securitized Products Update

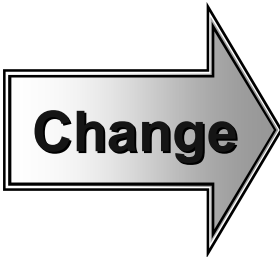
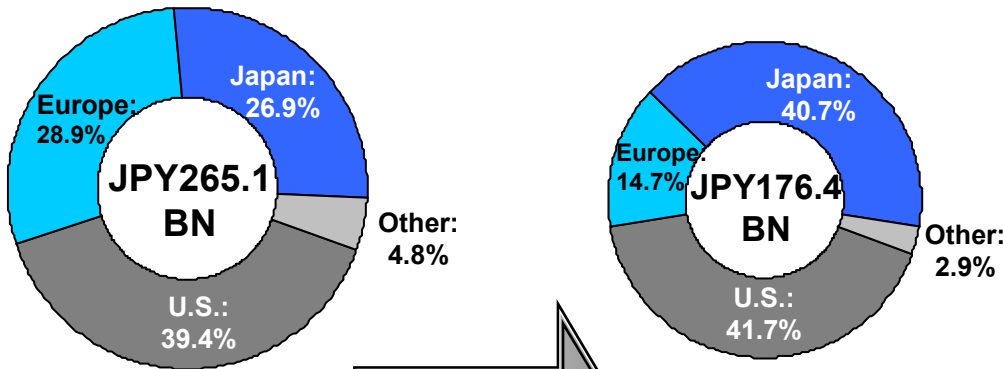
...So that means winding down our securitized products...

March 31, 2008

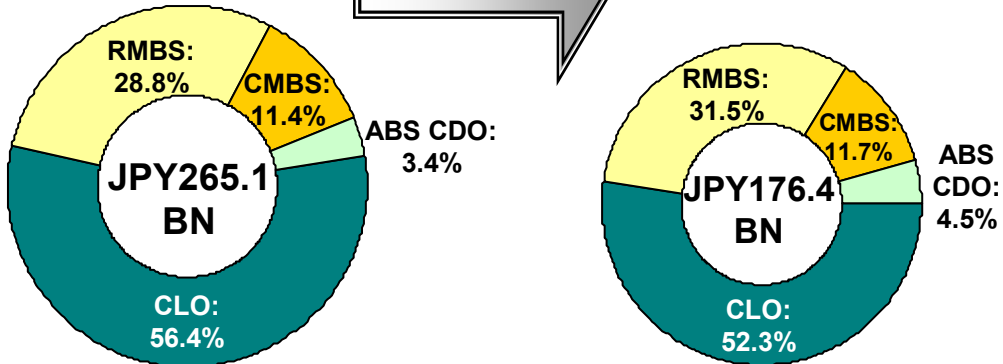
December 31, 2008

Highlights

Region



Security Type



•Balance down more than a third over last nine months and almost a half compared to last December

•U.S. essentially cleaned up last fiscal year, focus is on Europe this fiscal year

•Expect balance to continue to decline going forward

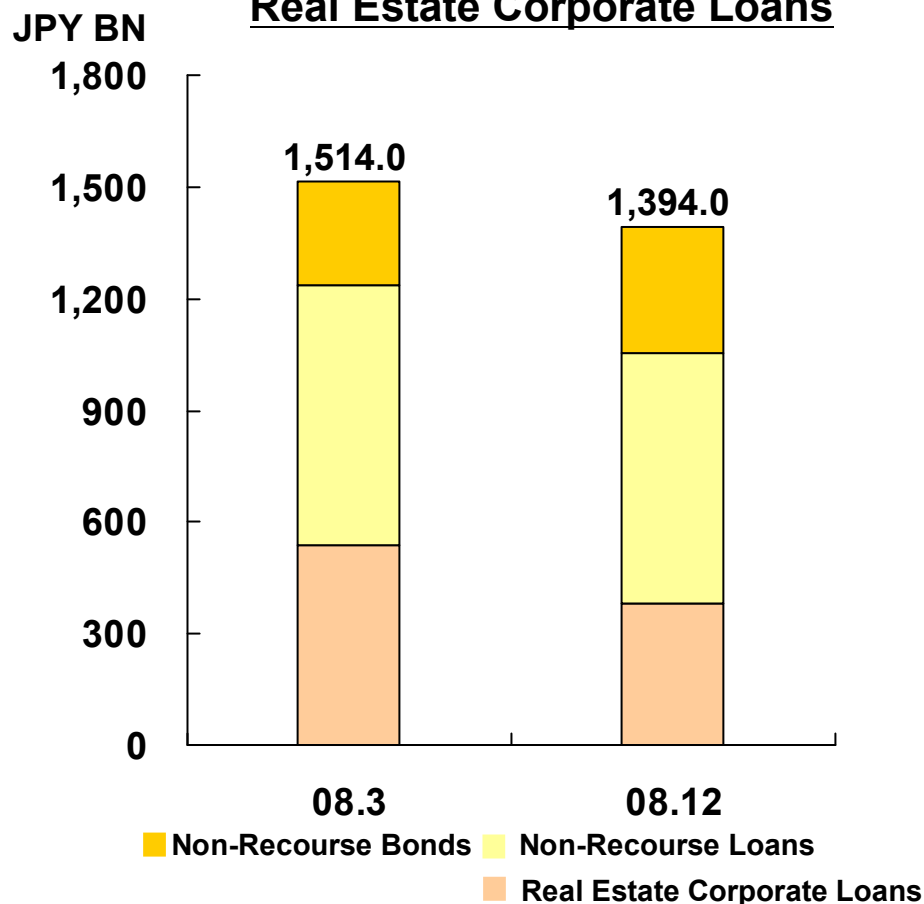
\*Note: 63% of all securitized products and more than 90% of foreign-currency denominated securitized products are rated AA or higher. Details on securitized products available on p. 34-35 of the Nine Month Period Ended December 31, 2008 Financial Summary.

# Institutional Group:

## Real Estate-Related Business Update

...While paying close attention to trends in the real estate market

### Non-Recourse Real Estate Finance and Real Estate Corporate Loans



(Non-Consolidated)

### Highlights

- Balance of real estate exposure down 8% reflecting current real estate market
- Diversified by customer, property type and geography focusing on good locations in urban areas with average LTV of new transactions at about 70%
- Non-recourse lending outperformed by achieving higher spreads due to strict credit screening and less competition



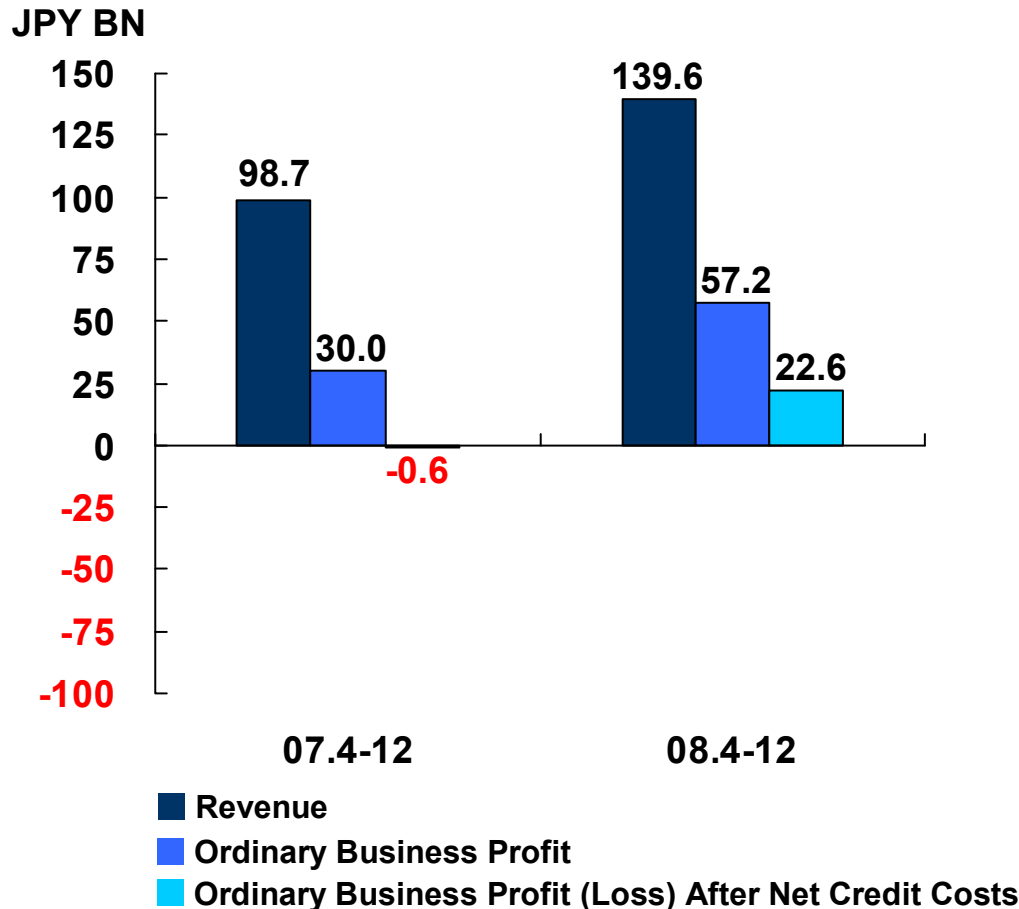
# Individual Group:

## Overview of Results

We are committed to retail banking and consumer finance...

### Results

### Highlights



- Strong revenue growth due to continued improvement at retail banking and consolidation of GECF and Shinki
- Net credit costs down substantially at APLUS as the result of a stricter credit screening policy
- Retail banking and Shinki both returned to profitability

# Individual Group:

## Consumer Finance Strategy

...And now is the time that we strengthen our operations...

### Consumer Finance Operations

#### GE Consumer Finance

- Rationalize overlapping operations with Shinki
- Optimize branch network
- Run off credit card and mortgage loan operations

1

#### Shinki

- Rationalize overlapping operations with GECF
- Shinsei and GECF to conduct TOB of Shinki
- Optimize branch network

2

#### APLUS

- Rationalize operations
- Expand auto loan business
- Reform credit card operations

3



Strengthen operations to increase contribution over medium- to long-term

# Individual Group:

## Retail Banking Strategy

...While we focus our efforts on what is important

### Retail Banking Operations

#### Staff Focus

- Reconfigure sales force
- Optimization of efficiency of staff to focus on core processes and businesses

1

#### Customer Focus

- Divide customers into three discrete segments
- Provide incentives for customers to step up

2

#### Branch Focus

- Broaden branch coverage in Japan for long-term growth with “lite branch model”

3



Utilize retail deposits to finance Shinsei and focus operations to drive growth in profits

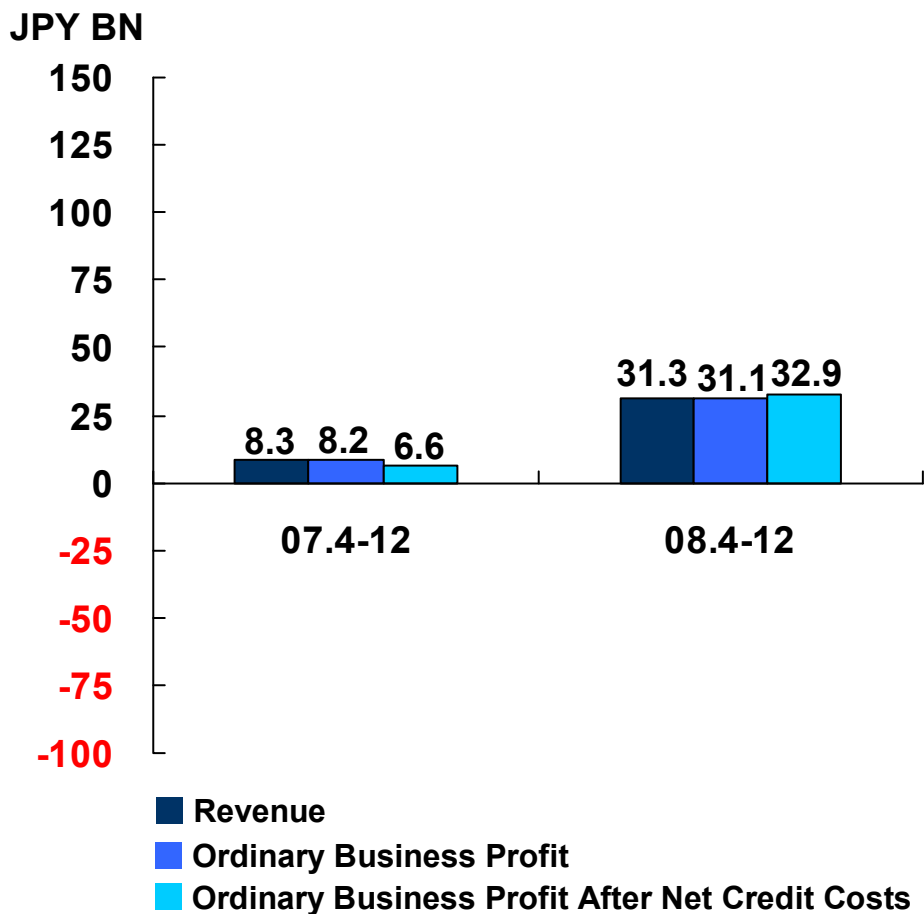
# Corporate/Other:

## Overview of Results

Corporate has played a major role...

### Results

### Highlights

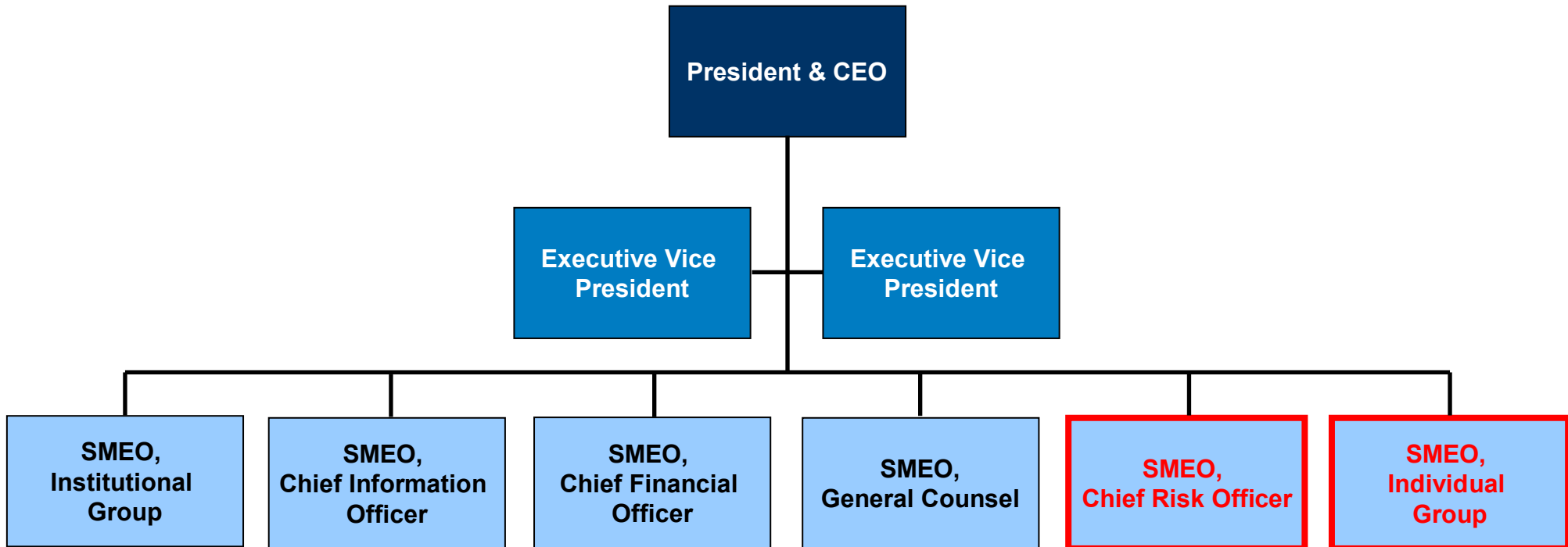


•Recorded 24.3 billion yen in gains by repurchasing Shinsei Bank Tier II subordinated debt

# Corporate/Other:

## Management Structure

...And we have strengthened management to solidify governance...



# Asset Quality, Liquidity and Capital:

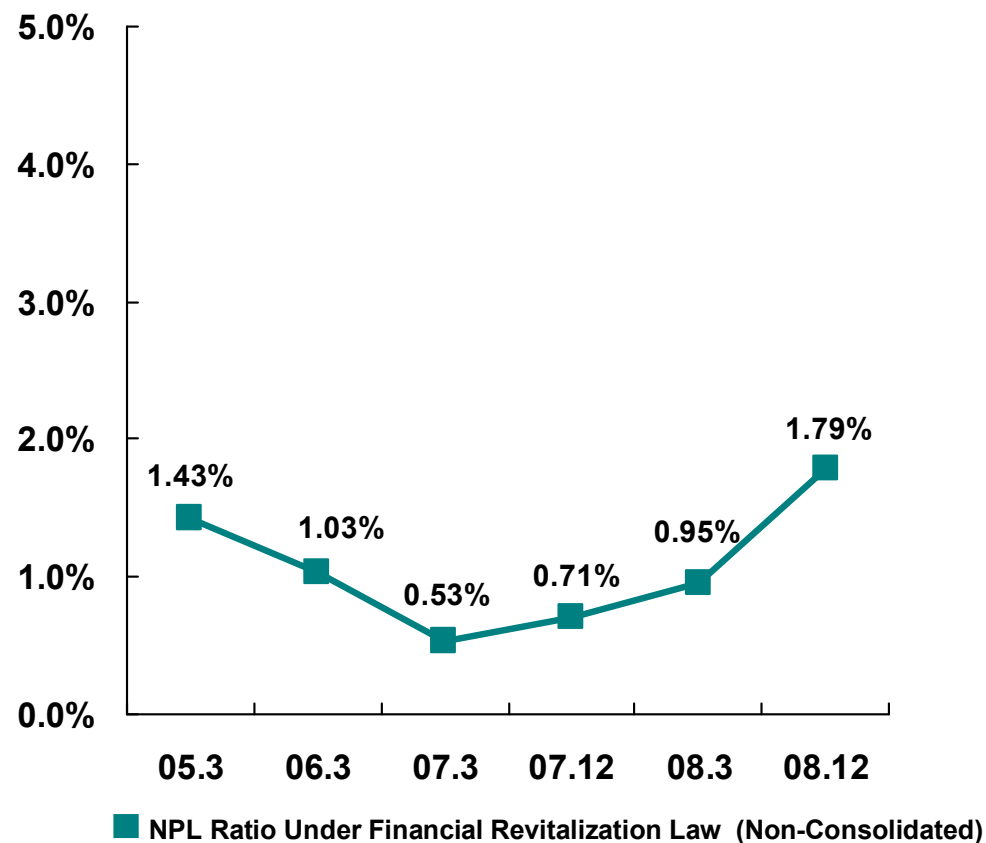
## Asset Quality

We are emphasizing prudent lending to avoid over-concentration risk...

### Risk Monitored Loans

JPY BN	December 2008		March 2008	
	Total Loans	Risk Monitored Loans	Total Loans	Risk Monitored Loans
Transportation	346.3	6.4	377.6	7.6
Overseas Loans	466.8	44.6	490.5	26.4
Individual	943.4	4.3	865.8	1.2
Other	1,005.9	7.4	922.1	13.0
Real Estate and Construction	1,071.6	27.4	1,253.3	4.1
Finance and Insurance	1,288.2	6.8	1,446.5	0.4
<b>Total</b>	<b>5,122.2</b>	<b>97.4</b>	<b>5,356.3</b>	<b>53.0</b>
Loans to Bankrupt Obligors		22.4		0.5
Non-Accrual Delinquent Loans		57.4		22.8
Loans Past Due for 3 Months or More		10.3		0.1
Restructured Loans		7.1		29.4
<b>Total</b>		<b>97.4</b>		<b>53.0</b>

### NPL Ratio



# Asset Quality, Liquidity and Capital:

## Liquidity

...While we strategically grow retail deposits to enhance liquidity...

JPY BN

Overall Funding Composition	07.3	07.6	07.9	07.12	08.3	08.6	08.9	08.12
Total Customer Based Funding	6,124.2	6,235.7	6,557.2	6,868.7	6,469.0	6,793.7	7,163.8	6,782.4
Institutional Deposits	1,847.1	1,982.7	2,306.6	2,371.7	1,812.8	1,993.3	2,167.5	1,532.6
Institutional Debentures	321.3	321.0	324.3	315.9	320.2	351.4	423.3	403.4
Retail Deposits	3,573.8	3,559.2	3,563.9	3,826.6	3,993.7	4,115.7	4,248.1	4,528.4
Retail Debentures	381.9	372.7	362.2	354.4	342.2	333.1	324.9	317.9
Call Money	692.7	698.0	1,377.4	751.3	632.1	773.8	480.8	159.1
Collateral Related Securities Lending Transactions	8.3	77.5	285.1	156.9	148.4	863.5	485.2	303.1
Commercial Paper	171.3	-	-	-	-	-	-	0.0
Borrowed Money	1,122.6	1,099.4	1,092.7	1,111.9	1,127.2	1,060.0	1,062.7	1,469.5
Corporate Bonds	400.4	625.3	547.7	570.0	499.8	532.7	497.5	351.0
Total	8,519.5	8,735.9	9,860.1	9,458.8	8,876.5	10,023.7	9,690.0	9,065.1

# Asset Quality, Liquidity and Capital:

## Capital

...And are also implementing strategies to strengthen our capital base

### Capital Adequacy Data

	07.12	08.3	08.12
Basic Items (Tier I)	651.3	679.7	642.1
Supplementary Items (Tier II)	536.7	530.2	441.3
Deduction	(130.3)	(128.0)	(115.4)
Total Capital	1,057.6	1,081.9	968.0
Risk Assets	8,738.5	9,212.5	9,670.0
Core Tier I Capital Ratio	5.55%	5.71%	5.26%
Tier I Capital Ratio	7.45%	7.37%	6.64%
Capital Adequacy Ratio	12.10%	11.74%	10.01%

### Strategies

#### Tier II Debt Buyback

- Recognized JPY24.3 billion from repurchase of Shinsei Bank Tier II subordinated debt

#### FY08 Capital Ratio Targets

- Considering other strategies to further strengthen capital ratios
- Targeting Tier I capital ratio of 7%
- Targeting total capital adequacy ratio of 10%

Core Tier I Capital Ratio = (Tier I Capital – Preferred Securities)/Risk Assets

Tier I Capital Ratio = Basic Items (Tier I)/Risk Assets

Capital Adequacy Ratio = Total Capital/Risk Assets



# FY2008 Forecast and FY2009 Outlook:

## Consolidated Results

We will refocus our operations on fundamentals

1

### Macroeconomic Environment

Expect Japan to have moderate recession with real estate prices and corporate profits to stay depressed and corporate bankruptcies to increase, continued pressure on exports and CAPEX, strong yen, uncertain oil prices, weak consumer spending and wages with rising unemployment

2

### Institutional Group

Expect weak results across most business lines due mainly to lower revenues and higher credit costs associated with European ABI/ABS and other European investments and Japanese real estate and equities

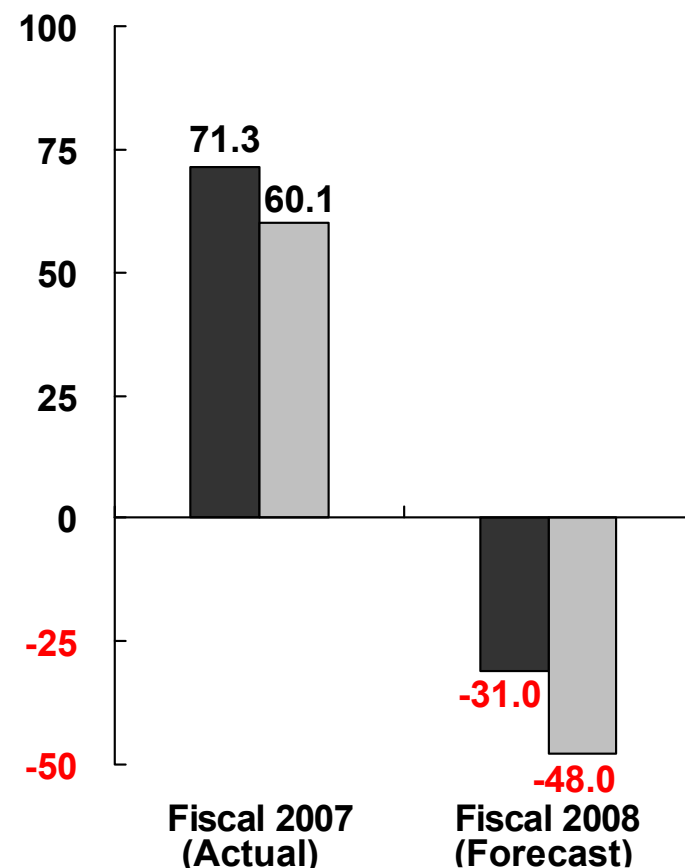
3

### Individual Group

Expect retail banking to be profitable and solid performance of consumer finance operations to continue with addition of GEFC

JPY BN

Net Income



■ Cash Basis Net Income (Net Loss)

■ Reported Basis Net Income (Net Loss)

# FY2008 Forecast and FY2009 Outlook:

## Non-Consolidated Results

We will refocus our operations on fundamentals

1

### Variance with Consolidated Results

Non-consolidated results do not include the contribution from consolidated subsidiaries nor do they include gains on extraordinary sales

2

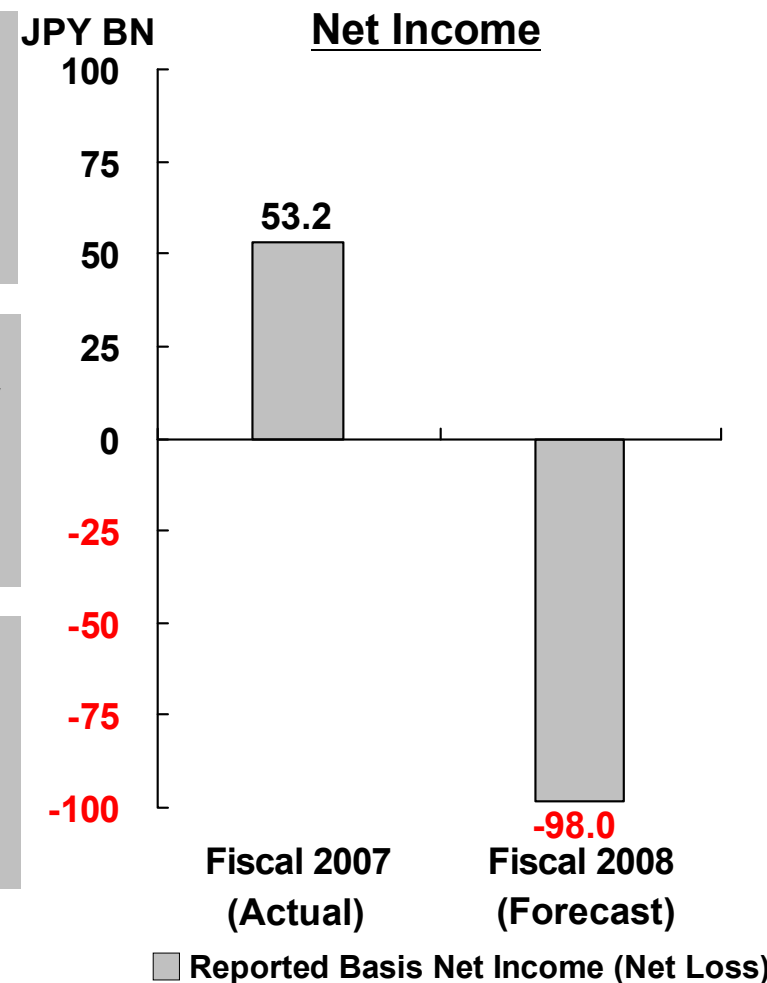
### Institutional Group

Expect weak results across most business lines due mainly to lower revenues and higher credit costs associated with European ABI/ABS and other European investments and Japanese real estate and equities

3

### Individual Group

Expect retail banking to be profitable





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# Appendix

# Consolidated Financial Summary:

Nine-Months Ended December 31, 2008

Impacted by global market turmoil, but Individual Group doing well

JPY BN

	2008.4-12	2007.4-12	Change %
Total Revenue	190.3	208.9	-8.9%
General and Administrative Expenses	127.2	117.6	+8.2%
Ordinary Business Profit	63.1	91.3	-30.9%
Cash Basis Net Income (loss)	-23.3	42.0	-155.5%
Net Income (loss)	-32.1	33.5	-195.8%
Cash Basis Diluted Net Income (loss) Per Share (JPY)	-11.88	22.97	-151.7%
Cash Basis ROA*	-0.3%	0.5%	-
Cash Basis ROE (Fully Diluted)*	-4.5%	8.6%	-
	<b>2008.12</b>	<b>2008.3</b>	<b>Change %</b>
Total Assets	12,231.0	11,525.7	+6.1%
Diluted Equity Per Share (JPY)	337.02	364.35	-7.5%
Tier I Capital Ratio	6.64%	7.37%	-
Total Capital Adequacy Ratio	10.01%	11.74%	-
Non-Performing Loan Ratio**	1.79%	0.95%	-

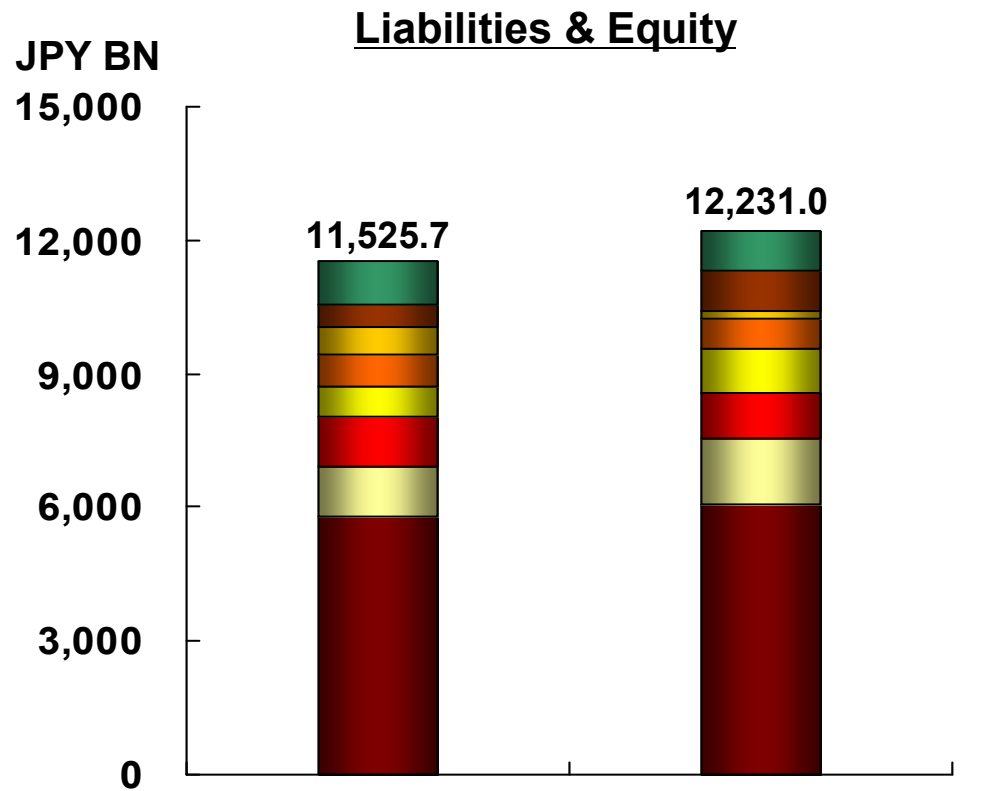
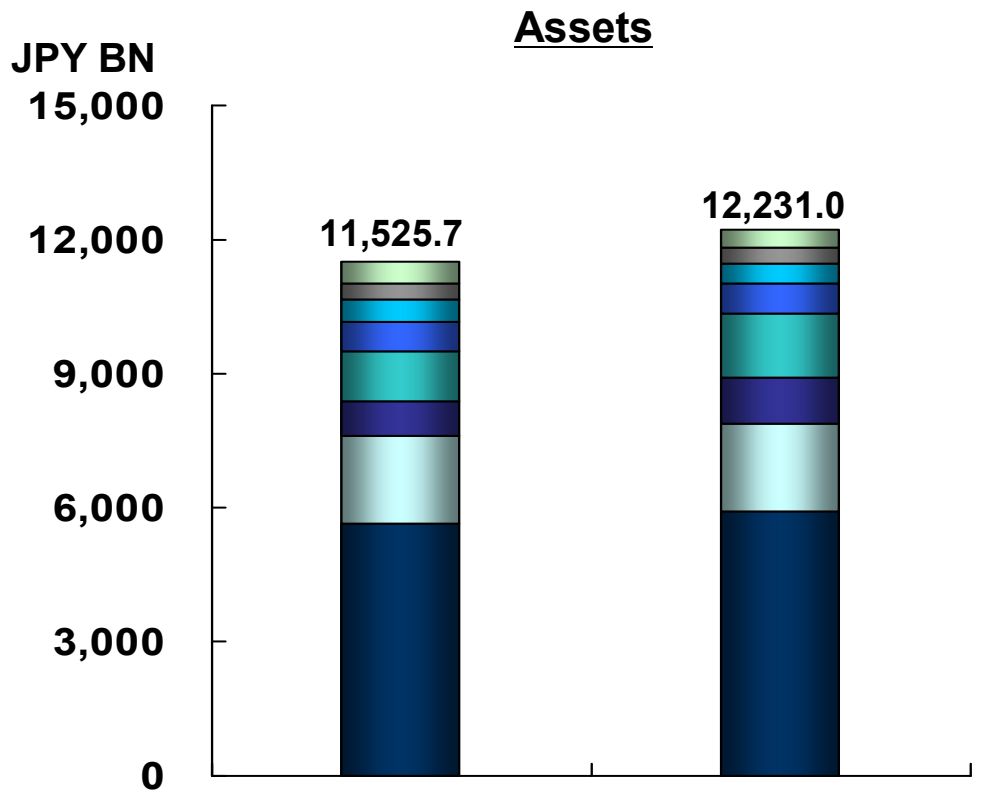
\*Annualized

\*\*Non-performing loan ratio under the Financial Revitalization Law on a non-consolidated basis

# Consolidated Financial Summary:

## Balance Sheet Snap Shot

Diversified business supported by strong deposit base



- Cash
- Monetary Assets Held in Trust
- Other Monetary Claims Purchased
- Customers' Liabilities
- Other
- Securities
- Loans & Bills Discounted
- Other Assets

- Equity
- Other
- Call Money
- Acceptances & Guarantees
- Other Liabilities
- Debtentures & Corporate Bonds\*
- Borrowed Money\*
- Deposits & NCDs\*

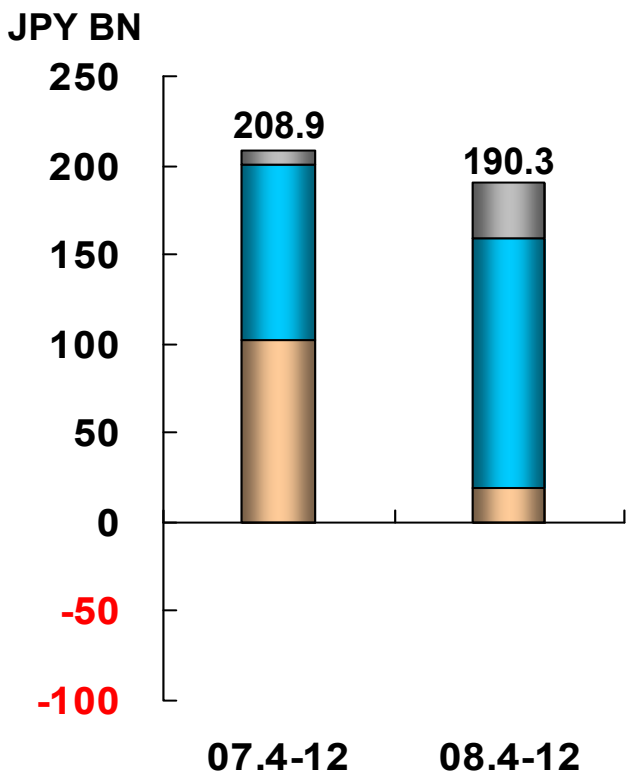
\*Represents funding base

# Business Line Overview:

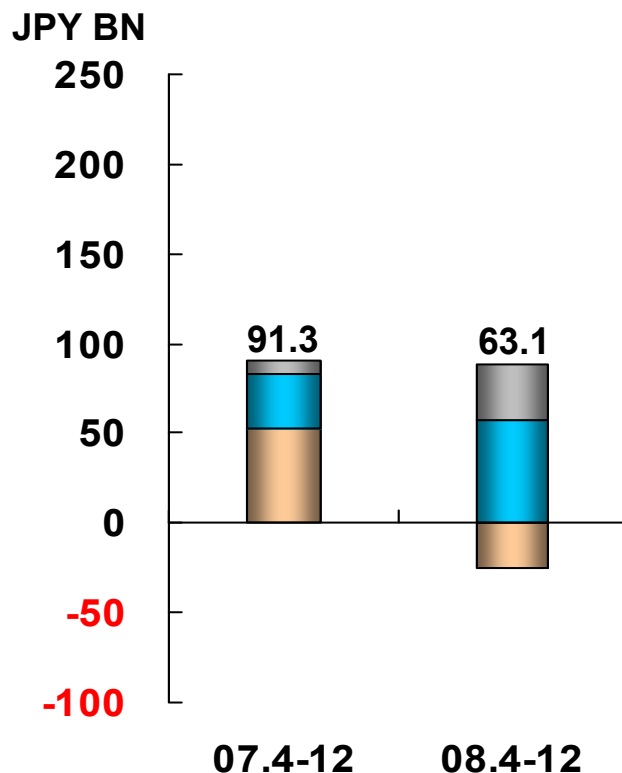
Institutional Group, Individual Group and Corporate/Other

Individual Group/Corporate helps cover Institutional Group decline

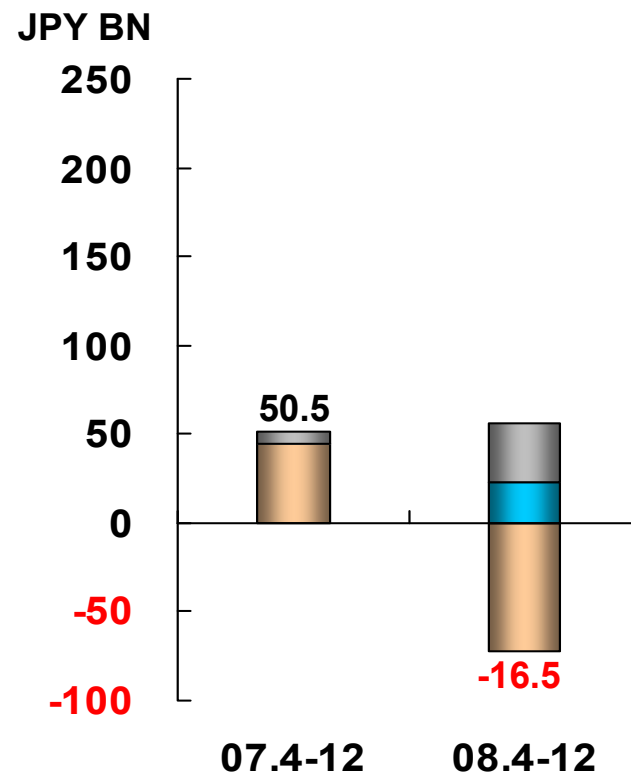
Revenues



OBP



OBP/OBL After Net Credit (Recoveries) Costs



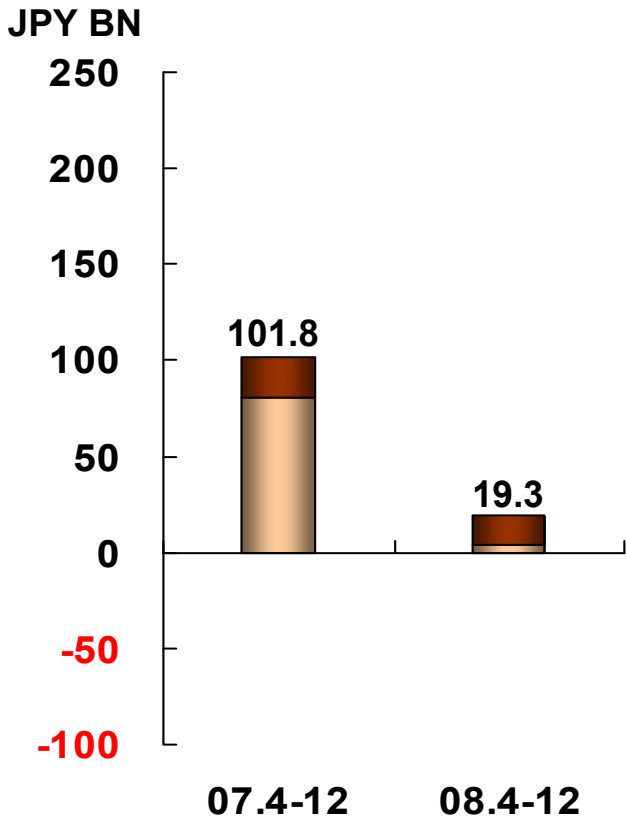
- Corporate/Other
- Individual Group
- Institutional Group

# Institutional Group:

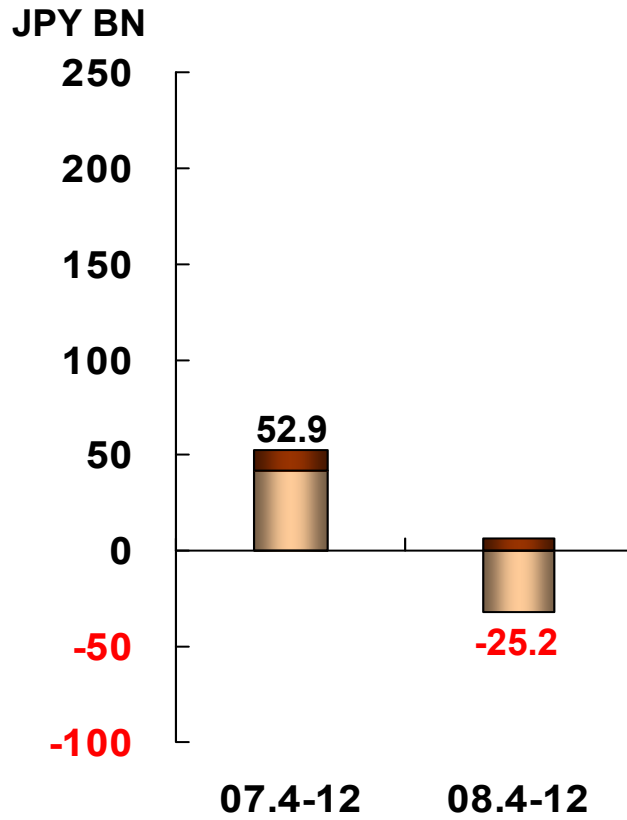
## Financial Highlights

Large impact from global market turmoil

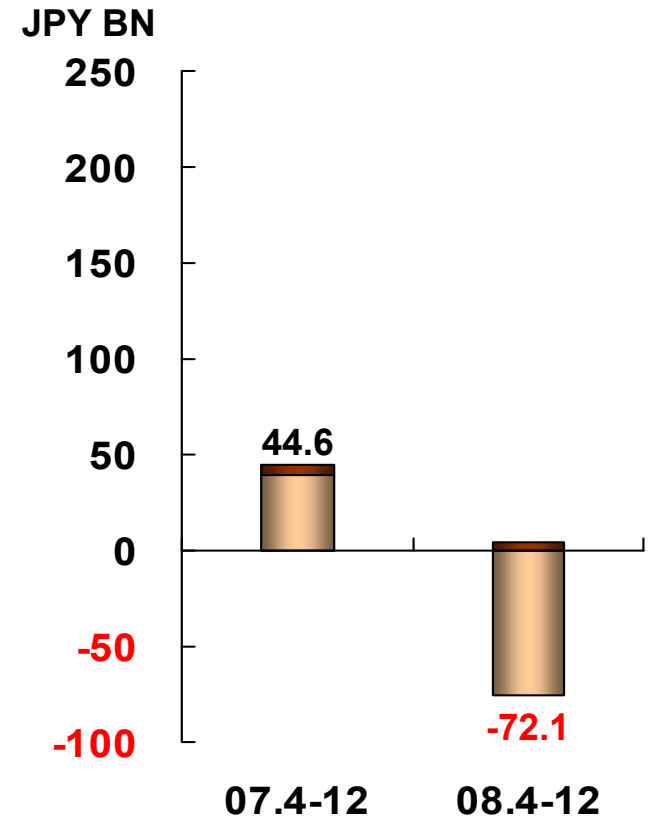
Revenues



OBP/OBL



OBP/OBL After Net Credit Costs

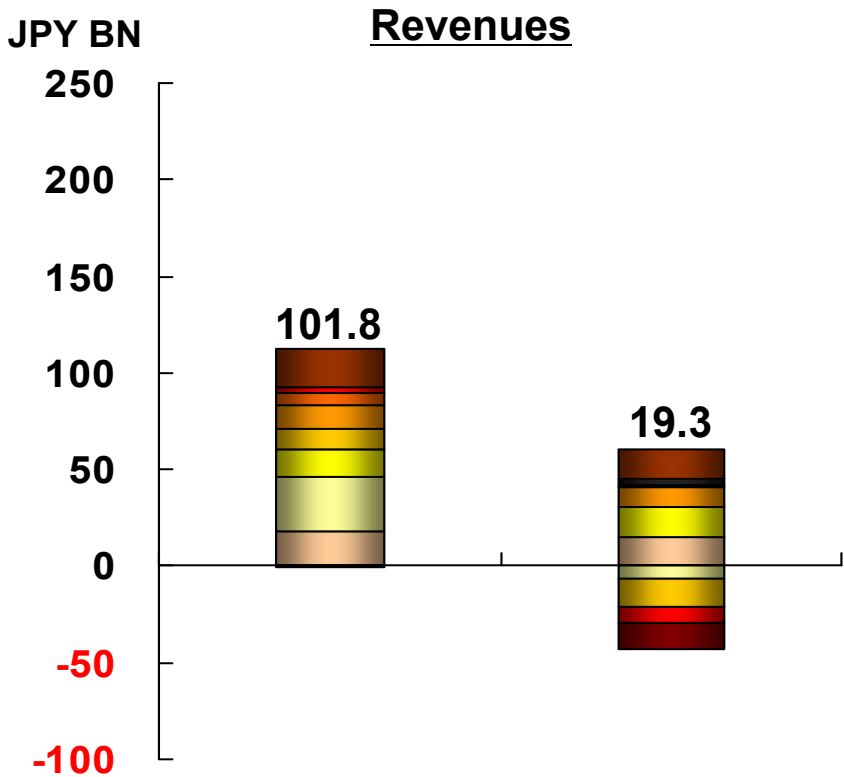


■ Showa Leasing  
■ Institutional Banking

# Institutional Group:

## Revenue Breakdown

**Diversified earnings, but almost all businesses impacted by turmoil**



07.4-12

08.4-12

- Showa Leasing
- ALM Activities
- Securitization
- Other Capital Markets
- Others
- Basic Banking
- Foreign Exchange, Derivatives, Equity-Related
- Non-Recourse Real Estate Finance
- Principal Investments
- Credit Trading

### Main Points

Net interest income up, but non-interest income down sharply

Revenues down for all businesses except “Non-Recourse Real Estate Finance” and “ALM Activities”

Large impact from European ABI and investments and equities and bankruptcy of Lehman Brothers



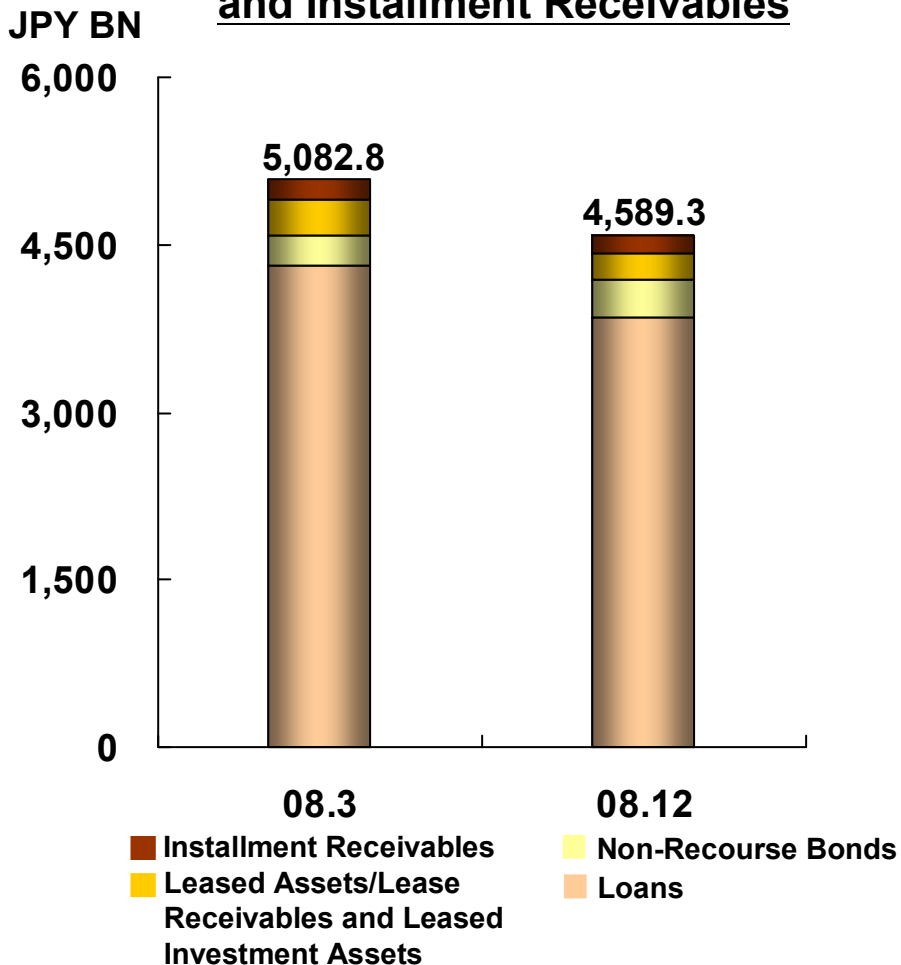


# Institutional Group:

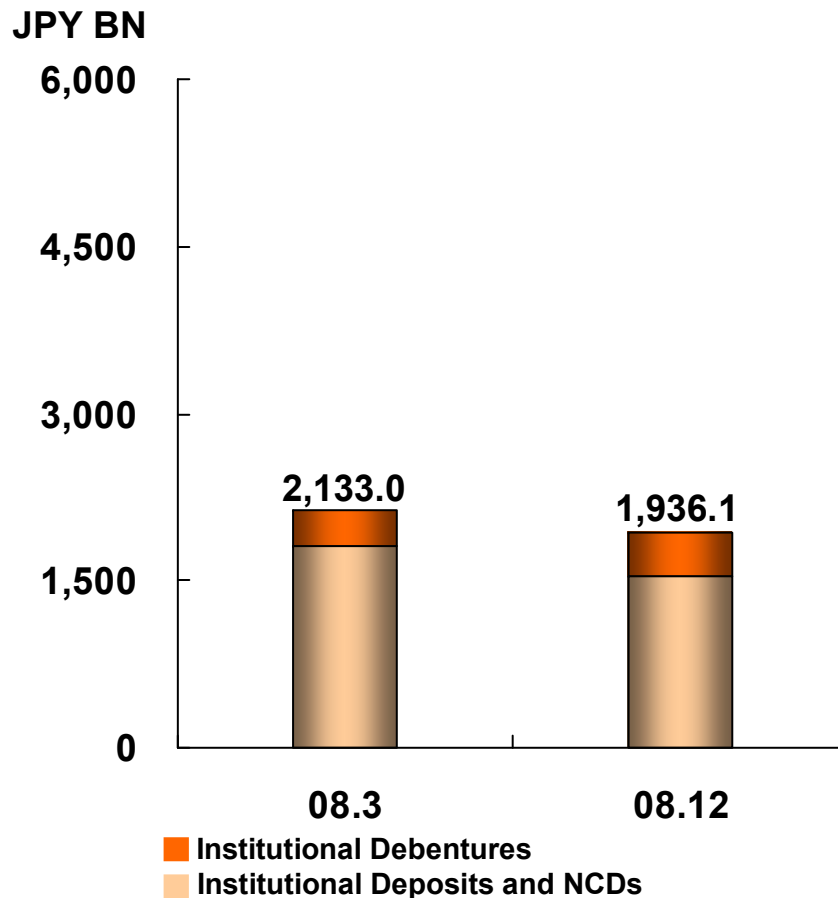
## Major Assets and Funding

**Deposits and debentures down in line with lower asset balance**

### Loans, Non-recourse Bonds, Leases and Installment Receivables



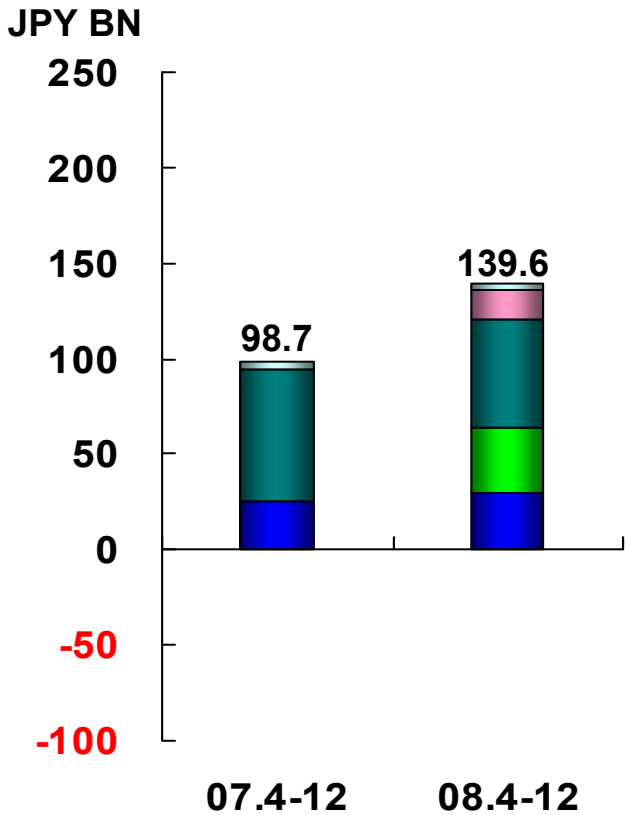
### Deposits & Debentures



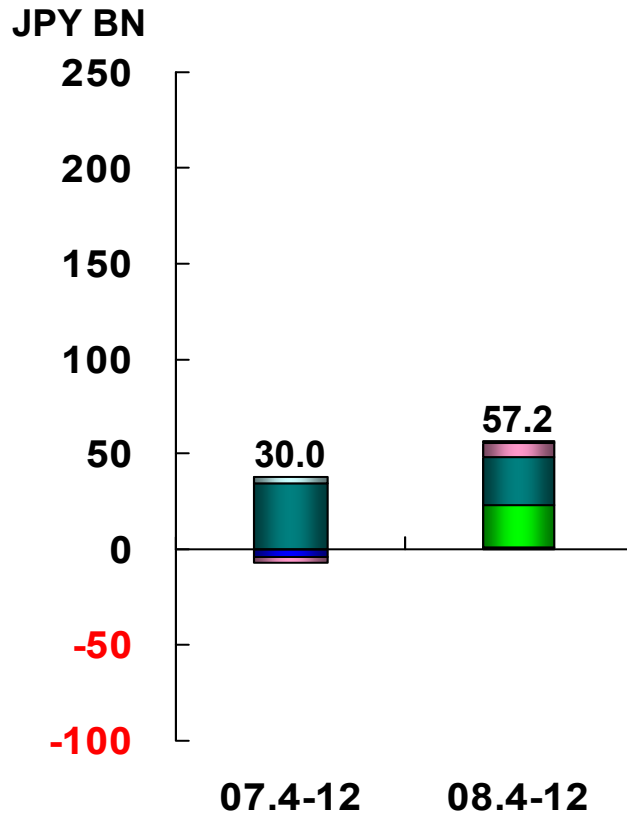
# Individual Group: Financial Highlights

**Good progress made across all major businesses**

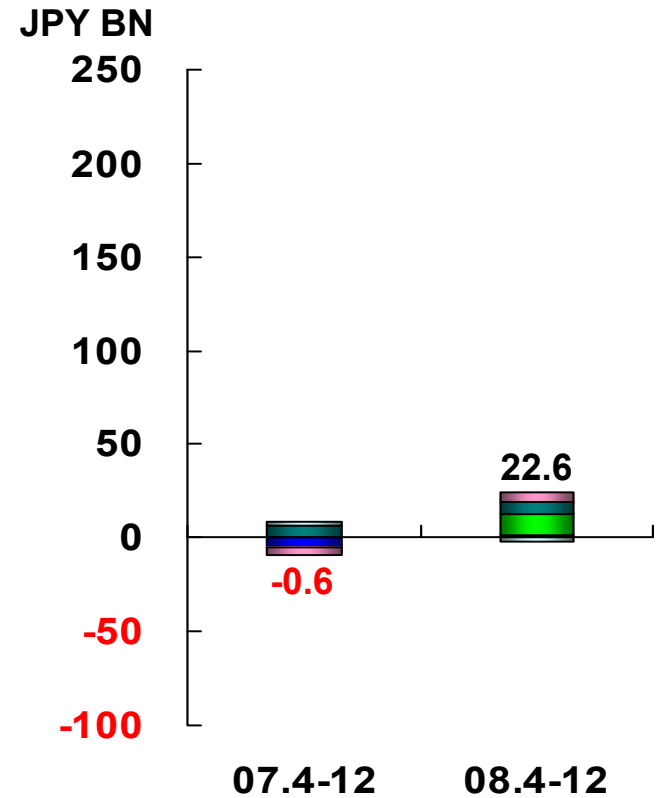
Revenues



OBP



OBP/OBL After Net  
Credit Costs



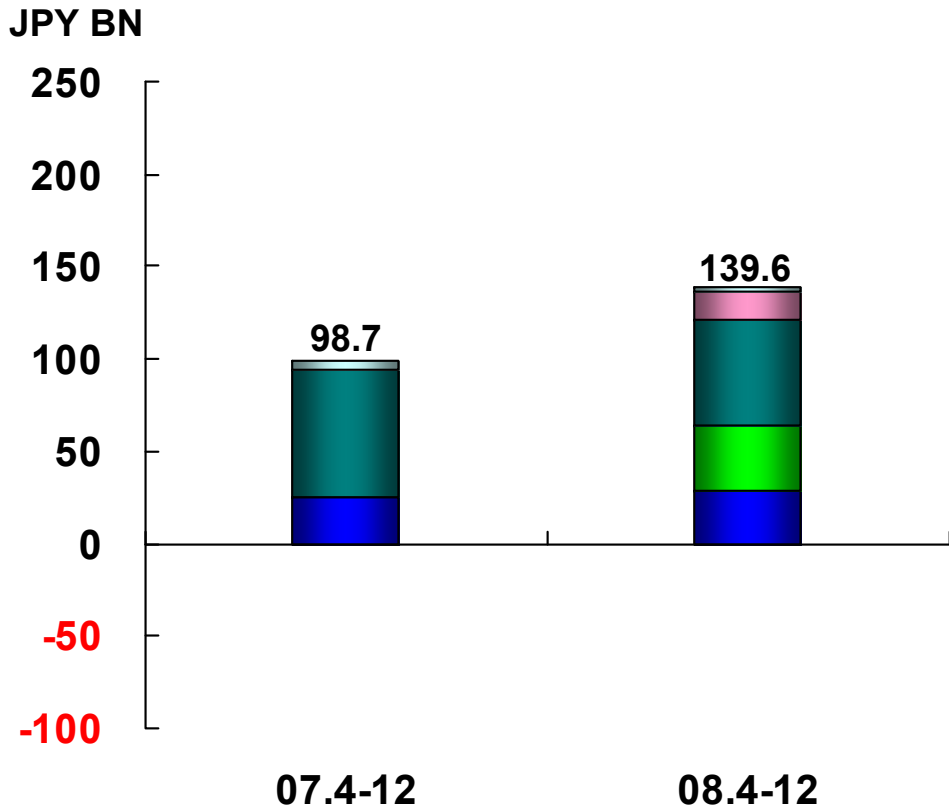
- Other Subsidiaries
- Shinki
- APLUS
- GECF\*
- Retail Banking

\*Represents results for the October – December 2008 period

# Individual Group: Revenue Breakdown

**Individual Group making positive contribution to revenues**

## Revenues



- Other Subsidiaries
- Shinki
- APLUS
- GECF\*
- Retail Banking

## Main Points

Retail banking continues to make progress booking strong improvement in revenues

Consolidation of GECF and Shinki results in substantially higher revenues

APLUS revenues down as planned on stricter credit screening policy

\*Represents results for the October – December 2008 period

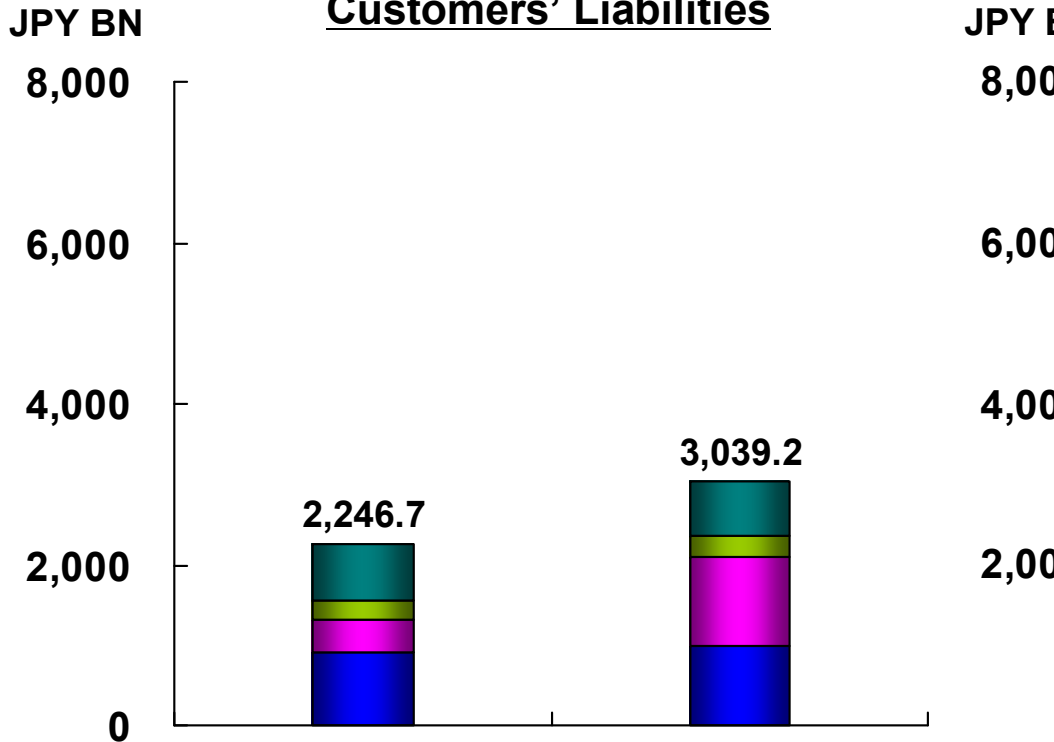


# Individual Group:

## Assets and Assets Under Management (AUM) & Customers

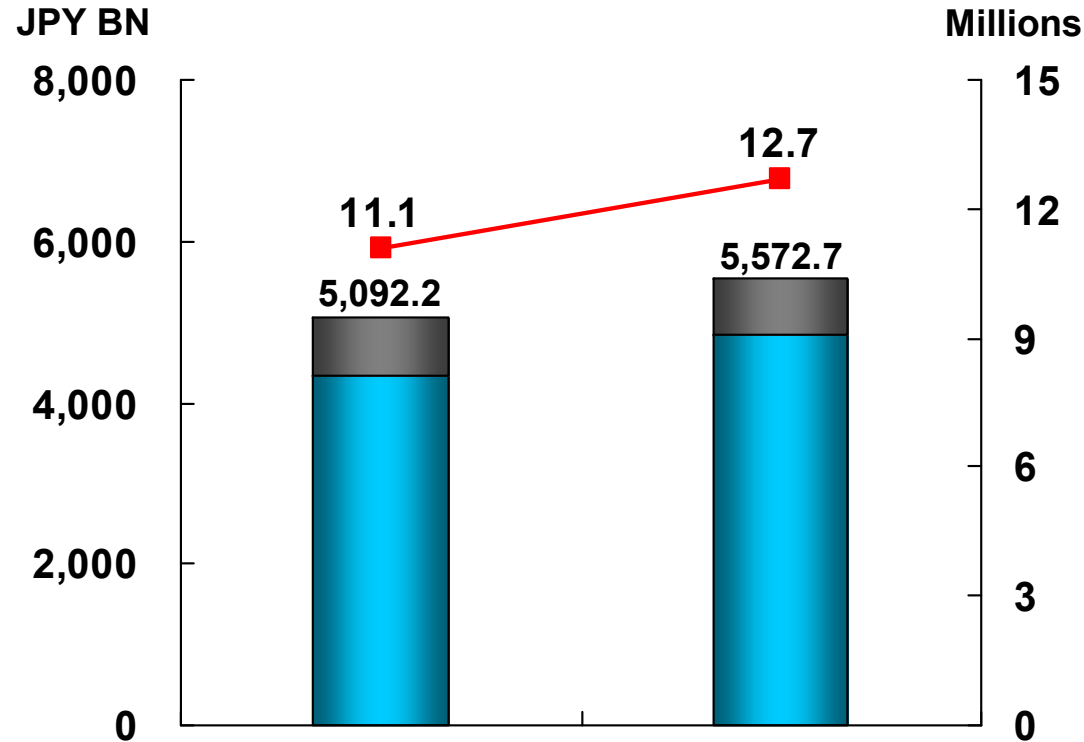
**Assets & customers up due to GECF addition while deposits grow**

### Loans, Receivables and Customers' Liabilities



- Customers' Liabilities for Acceptances and Guarantees
- Installment Receivables (Consumer Finance)
- Loans to Consumer Finance Subsidiaries' Customers
- Retail Banking Loans (including Housing Loans)

### AUM & Customers



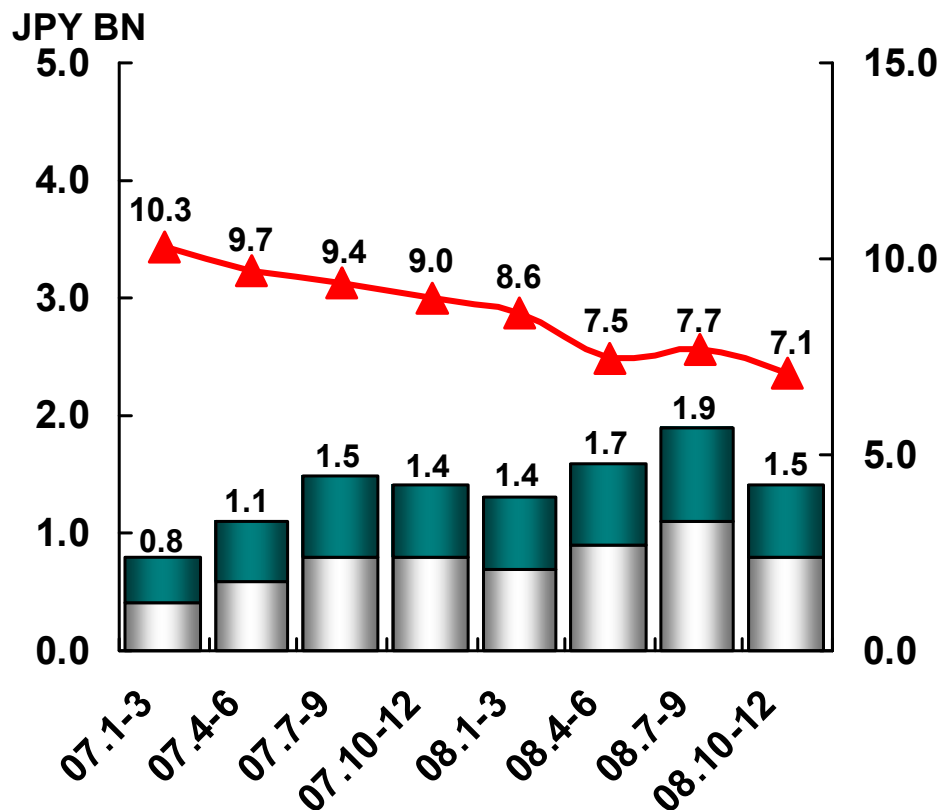
- Mutual Funds and Variable Annuities (lhs)
- Retails Deposits and Retail Debentures (lhs)
- Number of Customers (rhs)

# Individual Group:

## APLUS & Shinki Grey Zone Claims and Reserves

Flat grey zone trend continues

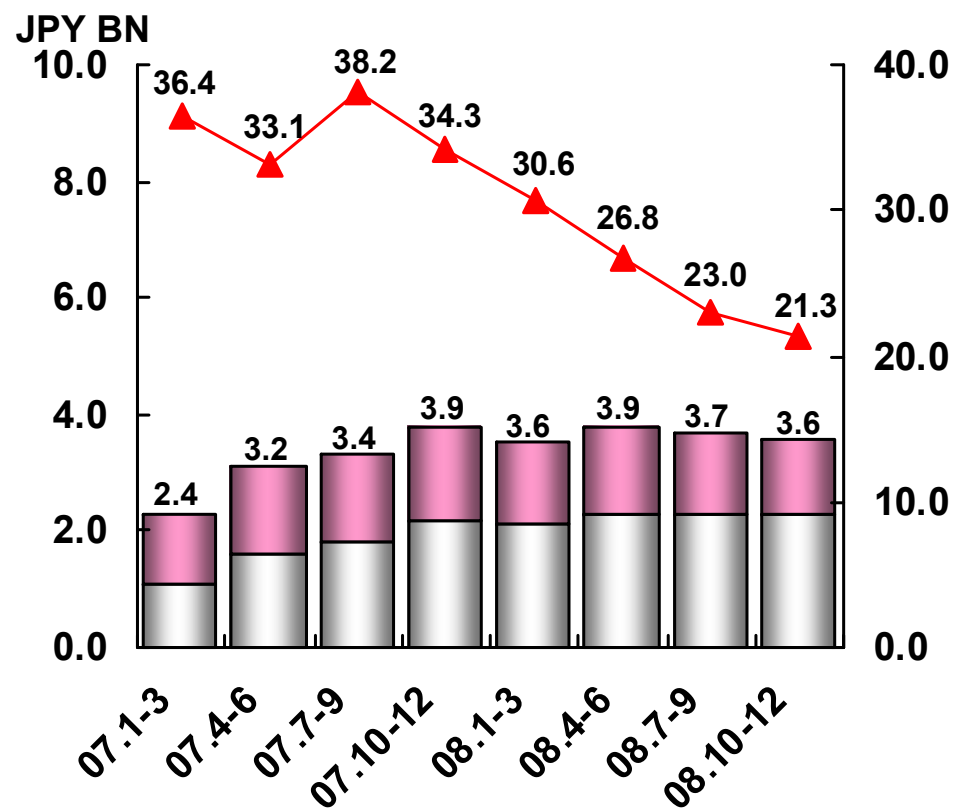
### APLUS Grey Zone Claims & Reserves\*



■ Debt Write-off Amount (lhs) ▲ Reserves (rhs)  
 ■ Interest Repayment Amount (lhs)

\*APLUS consolidated data

### Shinki Grey Zone Claims & Reserves\*



■ Debt Write-off Amount (lhs) ▲ Reserves (rhs)  
 ■ Interest Repayment Amount (lhs)

\*Shinki consolidated data

# Key Takeaways:

## Overview

### Consolidated Results Overview

- Lower revenues and higher net credit costs led to net loss
- Improved Individual Group helps buffer Institutional Group impacted by market turmoil
- Corporate/Other contributes to earnings through Shinsei Bank debt buyback

### Strategy/Action Items

- New head of Individual Group appointed to maximize revenue and manage expenses
- Reallocation of Institutional Group resources to refocus direction with emphasis on Japan
- Appointment of new Chief Risk Officer as SMEO to redefine risk management at Shinsei
- Overall expense management and de-risking of the balance sheet remain top priorities

### Asset Quality, Liquidity and Capital

- Global macroeconomic environment impacting loans, but maintaining good asset quality
- Strong liquidity position by growing retail deposits and in excess of 1 trillion yen of cash, cash equivalents and liquidity reserves at the end of January 2009
- Implementing capital strategies to achieve Tier I capital ratio of 7% in FY2008 and a minimum of 8% in FY2009

### FY2008 Forecast and FY2009 Outlook

- Forecast FY2008 consolidated cash basis net loss of 31.0 billion yen (consolidated reported basis net loss of 48.0 billion yen)
- No dividend to be paid on common shares in FY2008
- Expect to break even or better in FY2009 in light of continuing challenging environment and low visibility of earnings



# Contact Information for Shinsei Bank

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# Forward Looking Statement

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- ✓ This document contains statements that constitute forward-looking statements, plans for the future, management targets, etc. relating to the Company and its subsidiaries. These forward-looking statements are based on current assumptions of future events and trends, which may be incorrect. Actual results may differ materially from those in the statements as a result of various factors.
- ✓ Unless otherwise noted, the financial data contained in these materials are presented under Japanese GAAP. The Company disclaims any obligation to update or to announce any revision to forward-looking statements to reflect future events or developments. Unless otherwise specified, all the financials are shown on a consolidated basis.
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