

Shinsei Bank  
Medium-Term Management Plan  
(Fiscal Year 2010- Fiscal Year 2012)

Shinsei Bank, Limited  
June 23, 2010



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# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## *Summary 1: Management Principles, Basic Concept*

### Management Principles

- A banking group that has stable earnings power, is truly depended upon by customers and that contributes to the development of both domestic and international industrial economies
- A banking group that has built on its past experiences and history, values diverse talents and cultures and continually takes on new challenges
- A banking group that strives for transparent management, valued and trusted by all stakeholders, including customers, investors and employees

### Basic Concept of Medium-Term Management Plan

- Period: Three years from fiscal year 2010 to fiscal year 2012
- Focus on rebuilding customer franchise, stabilizing earnings and cost reductions, having reflected on lessons learned and past events
- Targets at the end of management plan
  - ✓ Achieve external credit ratings of A/A-
  - ✓ Realize total capital adequacy ratio of 10%, Tier I capital ratio of 8%, core Tier I capital ratio of 6%
- Goals for each fiscal year
  - ✓ Fiscal year 2010: lay groundwork for stabilized earnings
  - ✓ Fiscal year 2011: Measures for diversification of revenues through new businesses
  - ✓ Fiscal year 2012: Record stable earnings at operating speed
- Enhance management control (including renewal of corporate governance structure)
- Establish an organizational framework to devise detailed plans for the repayment of public funds
  - ✓ Speedy and stringent execution to ensure the achievement of the targets set in the financial projection
  - ✓ Foster healthy organizational culture with emphasis on the importance of compliance

# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## Summary 2: Business Operation Policy

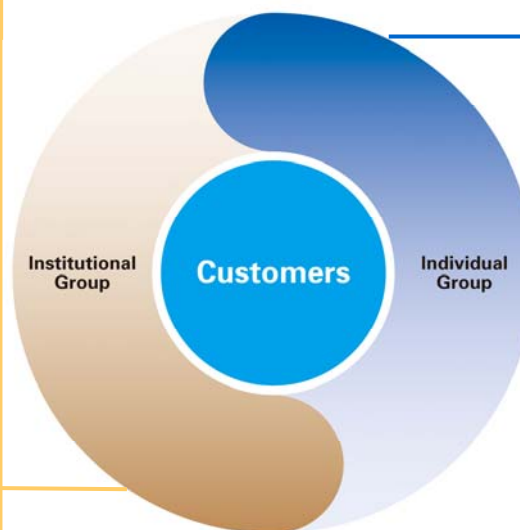
### Medium-Term Goals

Rebuilding the Customer Franchise and Establishing a Stabilized Earnings Base for the Mid- to Long-Term

#### Institutional Group

##### Concentrate Resources in Core Businesses

- Build customer-centric organization
- Provide financial services with added value and rebuilding domestic customer franchise by strengthening relationships
- Improve ability to provide solutions and cross-selling
- Reduce divestible non-core business assets by 50%
- Enhance abilities of relationship managers, promote appropriate reallocation of the workforce and upgrade risk assessment capability



#### Individual Group

##### Enhance Core Businesses

- Retail Banking
  - ✓ Stabilize funding base and promote lower funding costs
  - ✓ Strengthen asset management business by expanding access points (Consulting Spots)
  - ✓ Expand housing loan business
- Consumer Finance
  - ✓ Appropriate measures to comply with Money Lending Business Control and Regulation Law (MLBL)
  - ✓ Draw up and implement strategy by taking into consideration industry trends and performance
- Explore synergy between retail banking and consumer finance operations

#### Strengths

- Diversity
- Tailor made solutions
- High customer satisfaction
- Swift decision making, agile execution

#### Opportunities

- New customers
- “Responsible consumer lending”
- Niche businesses
- Ever-changing lending and investment needs of customers

#### Weaknesses

- Volatility of earnings
- Smaller customer base

#### Threats

- Fierce competition
- Political, legislative and economic uncertainties

# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## *Expand Core Business and Customer Franchise, Exit Non-Core Business*

### Non-Core Business

- Volatile business
- Comparatively at a disadvantageous position to acquire proprietary knowledge or information

**Current  
Shinsei  
Business**

### Core Business

- Customer oriented
- Niche businesses with proven track record

#### **Non-Core Businesses:**

- Real Estate Equity Investment
- Private Equity
- Housing Loans Warehousing
- CLO / ACPM / CFI <sup>1</sup>
- Asset-backed Investment
- Alternative Investment
- Wealth Management

#### **Core Businesses:**

##### **Institutional**

- Customer Business: Corporate, Financial Institutions, and Public Sector
- Real Estate Finance
- Credit Trading
- Specialty Finance
- Capital Markets
- Other Businesses (Advisory, Showa Leasing)

##### **Individual**

- Retail Banking
- Consumer Finance (Unsecured personal loans, installment sales credit, credit cards)

Reduce divestible non-core assets by approximately 50%

***Exit or Run-off***

***Expand business base  
Strengthen profitability***

***Expand and strengthen customer franchise***

<sup>1</sup> CLO (Collateralized Loan Obligation), ACPM (Active Credit Portfolio Management), CFI (Corporate Floater Investment)

FY2010

FY2011

FY2012

# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## *Institutional Group Core Businesses*

	Core Product and Service Offering	Strategy	
Corporate Customers	<ul style="list-style-type: none"> <li>• Corporate, Financial Institutions, and Public Sector Customer Business               <ul style="list-style-type: none"> <li>✓ Loan, Deposit, Debenture</li> <li>✓ Products &amp; Solutions to meet customer needs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Corporate, Financial Institutions and Public Sector Customer Business               <ul style="list-style-type: none"> <li>✓ Corporate: Explore and promote transactions in niche markets with proven track record and expand customer franchise</li> <li>✓ Financial Institutions: Provide the customers with the solutions mainly to enhance their top-line and bottom-line figures</li> <li>✓ Public Sector: Provide the customers with appropriate solutions, including loans, using our network and ability to structure products</li> </ul> </li> </ul>	
Financial Institutions	<ul style="list-style-type: none"> <li>• Real Estate Finance               <ul style="list-style-type: none"> <li>✓ Non-recourse loans</li> <li>✓ Loans to real estate companies</li> </ul> </li> <li>• Credit Trading               <ul style="list-style-type: none"> <li>✓ Purchase and servicing of non-performing loans</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Real Estate Finance               <ul style="list-style-type: none"> <li>✓ Focus on senior loans</li> <li>✓ Increase net interest income through advisory services</li> <li>✓ Optimize portfolio risk. Swiftly reduce balance of real estate non-recourse loans by approximately 20% from end of FY2009 to 800 billion yen</li> </ul> </li> <li>• Credit Trading               <ul style="list-style-type: none"> <li>✓ Expand domestic business to meet restructuring needs of customers. Limited overseas businesses</li> </ul> </li> </ul>	
Public Sector	<ul style="list-style-type: none"> <li>• Specialty Finance               <ul style="list-style-type: none"> <li>✓ Structured Finance centered around acquisition financing</li> </ul> </li> <li>• Capital Markets               <ul style="list-style-type: none"> <li>✓ Forex and derivatives</li> <li>✓ Credit-related products</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Specialty Finance               <ul style="list-style-type: none"> <li>✓ Selective transactions with added value, centered around acquisition financing</li> </ul> </li> <li>• Capital Markets               <ul style="list-style-type: none"> <li>✓ Expand corporate customer network, and enhance product offering towards individual customers</li> <li>✓ Strengthen sales of credit-related products</li> </ul> </li> </ul>	
New Corporate Customers	<ul style="list-style-type: none"> <li>• Other businesses               <ul style="list-style-type: none"> <li>✓ Advisory</li> <li>✓ Support for corporate restructuring and growth companies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Other businesses               <ul style="list-style-type: none"> <li>✓ Expand and strengthen advisory service to corporate customers</li> <li>✓ Focus on corporate restructuring business and providing support to growth companies</li> </ul> </li> </ul>	
Financial Sponsors and Others	<ul style="list-style-type: none"> <li>• Showa Leasing               <ul style="list-style-type: none"> <li>✓ Lease, Loan</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Showa Leasing               <ul style="list-style-type: none"> <li>✓ Provide financial intermediary services, mainly leases, to SMEs</li> </ul> </li> </ul>	
	FY2010	FY2011	
			FY2012

# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## Individual Group Core Businesses: Retail Banking

	Core Product and Service Offering	Strategy	
Platinum	<ul style="list-style-type: none"> <li>Highly convenient financial infrastructure (24/7, 365 days)               <ul style="list-style-type: none"> <li>✓ ATM network</li> <li>✓ Internet banking</li> <li>✓ Mobile banking</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Customers               <ul style="list-style-type: none"> <li>✓ Add 100,000 new customers per year</li> <li>✓ Improve customer profitability and customer mix</li> <li>✓ Increase Platinum and Gold customer base</li> <li>✓ Address asset management needs of retiring baby-boomers</li> </ul> </li> <li>Products               <ul style="list-style-type: none"> <li>✓ Increase housing loan disbursement by addressing refinancing needs</li> <li>✓ Broaden asset management product offering through efficient use of Internet</li> <li>✓ Strengthen bank-based personal loan business</li> <li>✓ Stabilize funding base and promote lower funding costs</li> </ul> </li> <li>Channels               <ul style="list-style-type: none"> <li>✓ Aim to add 10 new Consulting Spots each year</li> <li>✓ Strengthen face-to-face sales</li> <li>✓ Further enhance Internet and mobile banking</li> </ul> </li> <li>Staff               <ul style="list-style-type: none"> <li>✓ Continue sales training to improve customer protection, sales and efficiency</li> </ul> </li> <li>Explore synergy with consumer finance business</li> </ul>	
Gold	<ul style="list-style-type: none"> <li>Deposit-related Products               <ul style="list-style-type: none"> <li>✓ Saving deposits</li> <li>✓ Time deposits (includes two week maturity deposits)</li> <li>✓ Structured deposits</li> <li>✓ Foreign currency deposits</li> </ul> </li> </ul>		
Standard	<ul style="list-style-type: none"> <li>Housing loans</li> </ul>		
New Customers	<ul style="list-style-type: none"> <li>Asset management               <ul style="list-style-type: none"> <li>✓ Consultation</li> <li>✓ Mutual funds</li> <li>✓ Annuity products</li> </ul> </li> </ul>		
	FY2010	FY2011	FY2012

# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## Individual Group Core Businesses: Consumer Finance

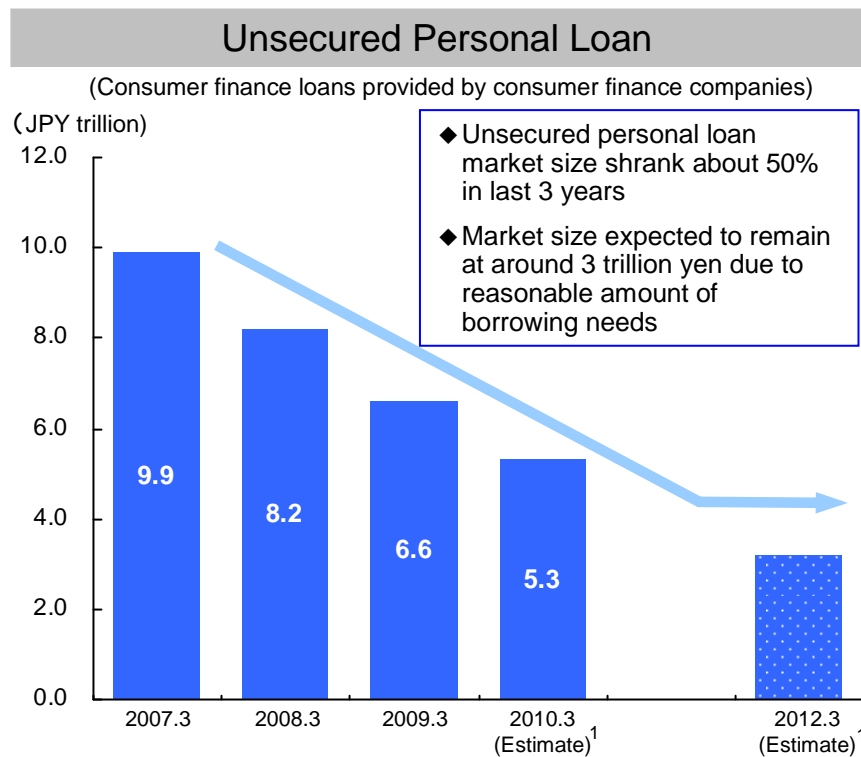
		Core Product and Service Offering	Strategy
Individual Customers	Shinsei Financial, Shinki	<ul style="list-style-type: none"> <li>• Unsecured Personal Loans               <ul style="list-style-type: none"> <li>✓ Develop “responsible consumer lending”</li> </ul> </li> <li>• Installment sales               <ul style="list-style-type: none"> <li>✓ Installment sales credit centered around auto loans</li> </ul> </li> <li>• Settlements               <ul style="list-style-type: none"> <li>✓ New products utilizing IT</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Unsecured Personal Loans (Shinsei Financial, Shinki)               <ul style="list-style-type: none"> <li>✓ Achieve steady ROA of 2.0 – 3.0% (details on next slide)</li> <li>✓ Strong marketing to add and retain quality customers</li> <li>✓ Implement credit policy aligned with MLBL and reduce credit costs and less creditworthy personal loan portfolios</li> <li>✓ Business operation and financial literacy promotion as “responsible lender”</li> <li>✓ Expand guarantee business with regional financial institutions</li> </ul> </li> <li>• Installment sales credit, settlement, credit cards (APLUS FINANCIAL)               <ul style="list-style-type: none"> <li>✓ Installment sales credit: expand installment sales credit, focusing on auto loan business</li> <li>✓ Settlement: develop new products and expand product offering by leveraging IT</li> <li>✓ Credit cards: expand revolving business, capture fee income, maximize profitability by improving transaction terms</li> </ul> </li> </ul>
	APLUS FINANCIAL	<ul style="list-style-type: none"> <li>• Credit Cards               <ul style="list-style-type: none"> <li>✓ Highly convenient revolving payments</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Reduce costs with IT and Web-based sales strategies</li> <li>• Explore synergies with retail banking business</li> </ul>
		FY2010	FY2011
			FY2012



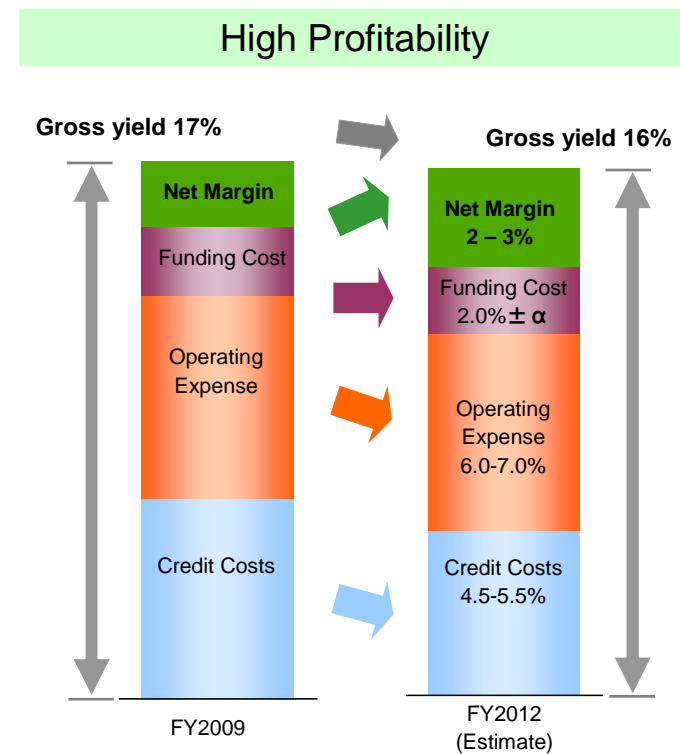
# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## Unsecured Personal Loan Market and Profitability Model

- Increase market share in 3 trillion yen market and achieve stable earnings base with higher margin of 2-3%
- Maintain and strengthen competitive edge in market as a responsible bank-affiliated lender

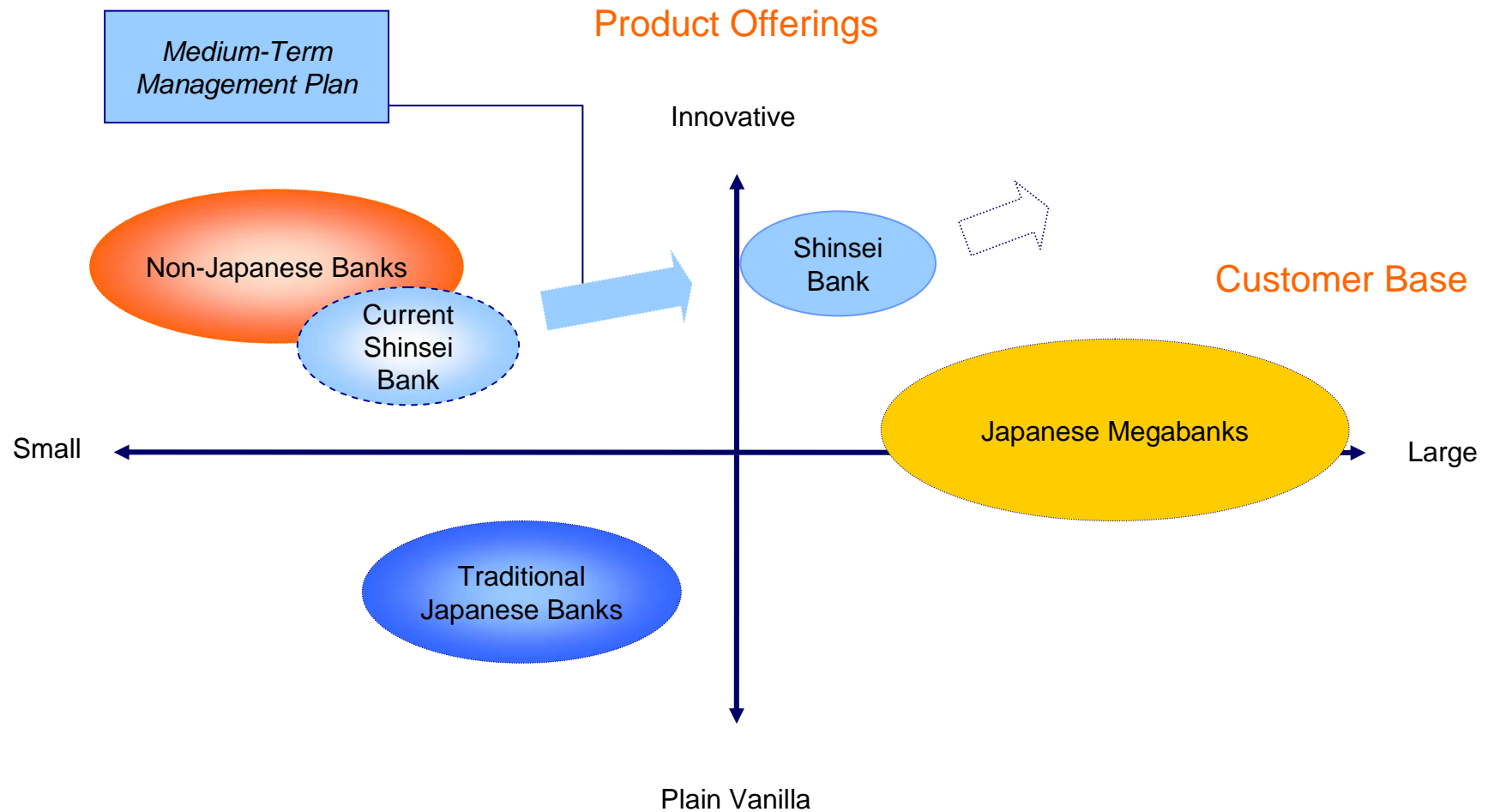


(Source) FSA report based on data provided by Japan Financial Services Association  
<sup>1</sup> Market size estimates for March 2010 and March 2012 provided by Shinsei Financial



# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

*Further Enhance Strengths to Capture Unique Positioning Within Industry*

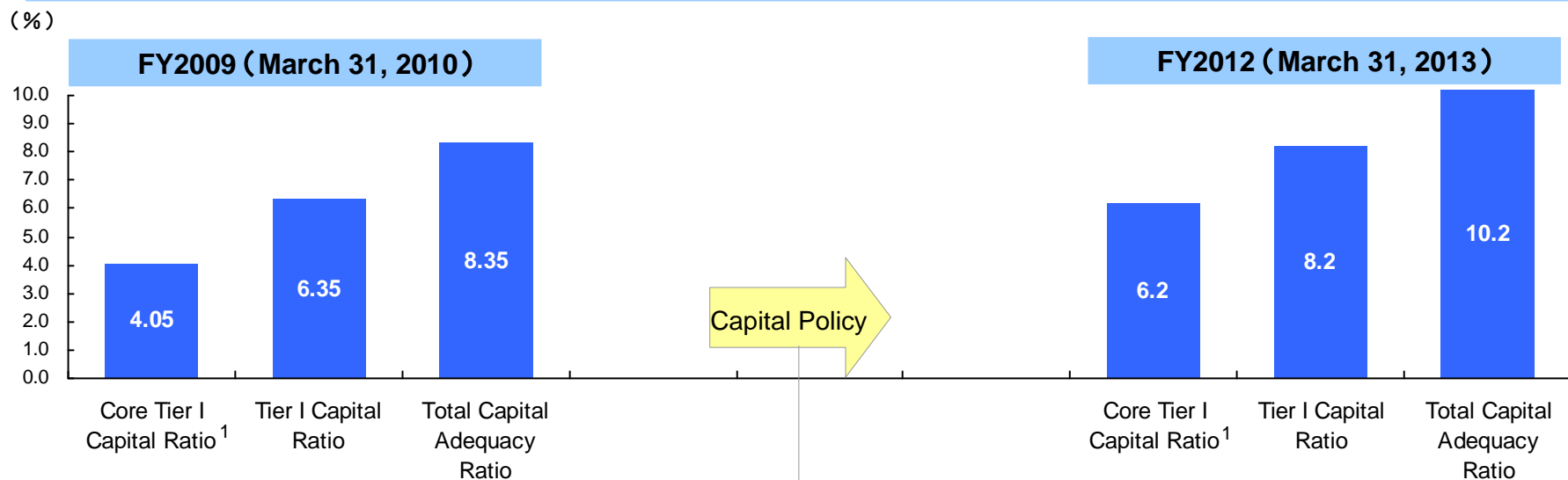


# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## Capital Policy

### Medium-Term Goal

Achieve total capital adequacy ratio of 10%, Tier I capital ratio of 8% and Core Tier I capital ratio of 6% by end of fiscal year 2012



Carry out measures to boost earnings and return to profitability

Capital strengthening measures

Reduce risk weighted assets and capital deductions by reducing non-core assets

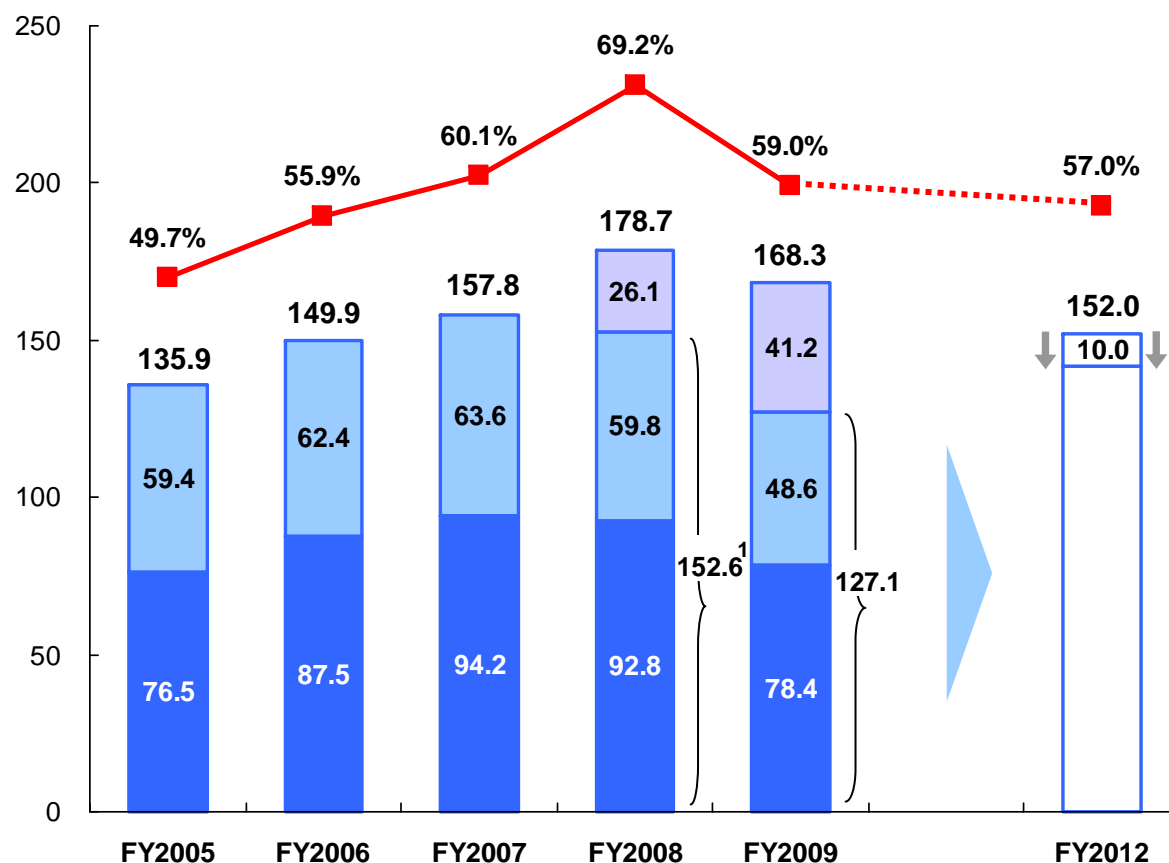
<sup>1</sup> (Tier I capital – preferred securities – preferred stock – deferred tax assets (net)) / Risk weighted assets

# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## Further Cost Reduction Plans

(JPY billion)

### General and Administrative Expenses



- Direct expenses of Shinsei Financial
- Personnel expenses (excluding Shinsei Financial)
- Non-personnel expenses (excluding Shinsei Financial)
- Expense-to-revenue ratio (including Shinsei Financial)

### Cost Reduction Plans

- 16.3 billion yen cost reduction already incorporated to Medium-Term Management Plan (FY2010-FY2012)
- Aim to cut expenses by additional 10 billion yen during same period through:
  - Realignment of personnel
  - Efficiency improvements
  - Thorough review of non-personnel expenses

<sup>1</sup>Shinsei Financial's expenses were only included for six months of fiscal year 2008

# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## *Fiscal Year 2012 Financial Targets*

(JPY billion)

### FY2009 (March 31, 2010)

<b>Total Revenue</b>	<b>285.5</b>
<b>General and Administrative Expenses</b>	<b>168.3</b>
<b>Ordinary Business Profit</b>	<b>117.1</b>
<b>Net Credit Costs</b>	<b>112.2</b>
<b>Net Income (Loss)</b>	<b>- 140.1</b>
<b>Cash Basis Net Income (Loss)</b>	<b>- 53.7</b>
<b>Total Assets</b>	<b>11,377</b>
<b>Risk-Weighted Assets</b>	<b>7,722</b>
<b>Total Capital Adequacy Ratio</b>	<b>8.35%</b>
<b>Tier I Capital Ratio</b>	<b>6.35%</b>
<b>Core Tier I Capital Ratio<sup>1</sup></b>	<b>4.05%</b>



### FY2012 (March 31, 2013)

<b>Total Revenue</b>	<b>265.0</b>
<b>General and Administrative Expenses</b>	<b>152.0</b>
<b>Ordinary Business Profit</b>	<b>113.0</b>
<b>Net Credit Costs</b>	<b>63.0</b>
<b>Net Income</b>	<b>32.0</b>
<b>Cash Basis Net Income</b>	<b>41.0</b>
<b>Total Assets</b>	<b>10,700</b>
<b>Risk-Weighted Assets</b>	<b>8,050</b>
<b>Total Capital Adequacy Ratio</b>	<b>10.2%</b>
<b>Tier I Capital Ratio</b>	<b>8.2%</b>
<b>Core Tier I Capital Ratio<sup>1</sup></b>	<b>6.2%</b>

<sup>1</sup> Core Tier I capital ratio =(Tier I capital – preferred securities – preferred stock – deferred tax assets (net)) / Risk weighted assets

# Medium-Term Management Plan (Fiscal year 2010 - Fiscal year 2012)

## *Fiscal Year 2010 Areas of Focus*

(JPY billion)

### Institutional Group

- Focus on expanding customer franchise
- Continued reduction of non-core business assets
- Further enhance the provision of appropriate solutions for corporate, financial institutions and the public sector customers, by leveraging our product development capabilities
- Group-wide efforts to provide capital, credit, consulting and staffing services to customers with restructuring needs and growth companies

### Individual Group

- Retail Banking
  - ✓ Stabilize funding base and promote lower funding costs
  - ✓ Strengthen asset management business
  - ✓ Further strengthen housing loan business
  - ✓ Expand branch network
- Consumer Finance
  - ✓ Appropriate response to MLBL
  - ✓ Appropriate management of expenses and credit costs

### FY2010 (March 31, 2011)

<b>Total Revenue</b>	<b>260.0</b>
<b>General and Administrative Expenses</b>	<b>160.0</b>
<b>Ordinary Business Profit</b>	<b>100.0</b>
<b>Net Credit Costs</b>	<b>66.0</b>
<b>Net Income</b>	<b>12.5</b>
<b>Cash Basis Net Income</b>	<b>23.6</b>
<b>Total Assets</b>	<b>10,600</b>

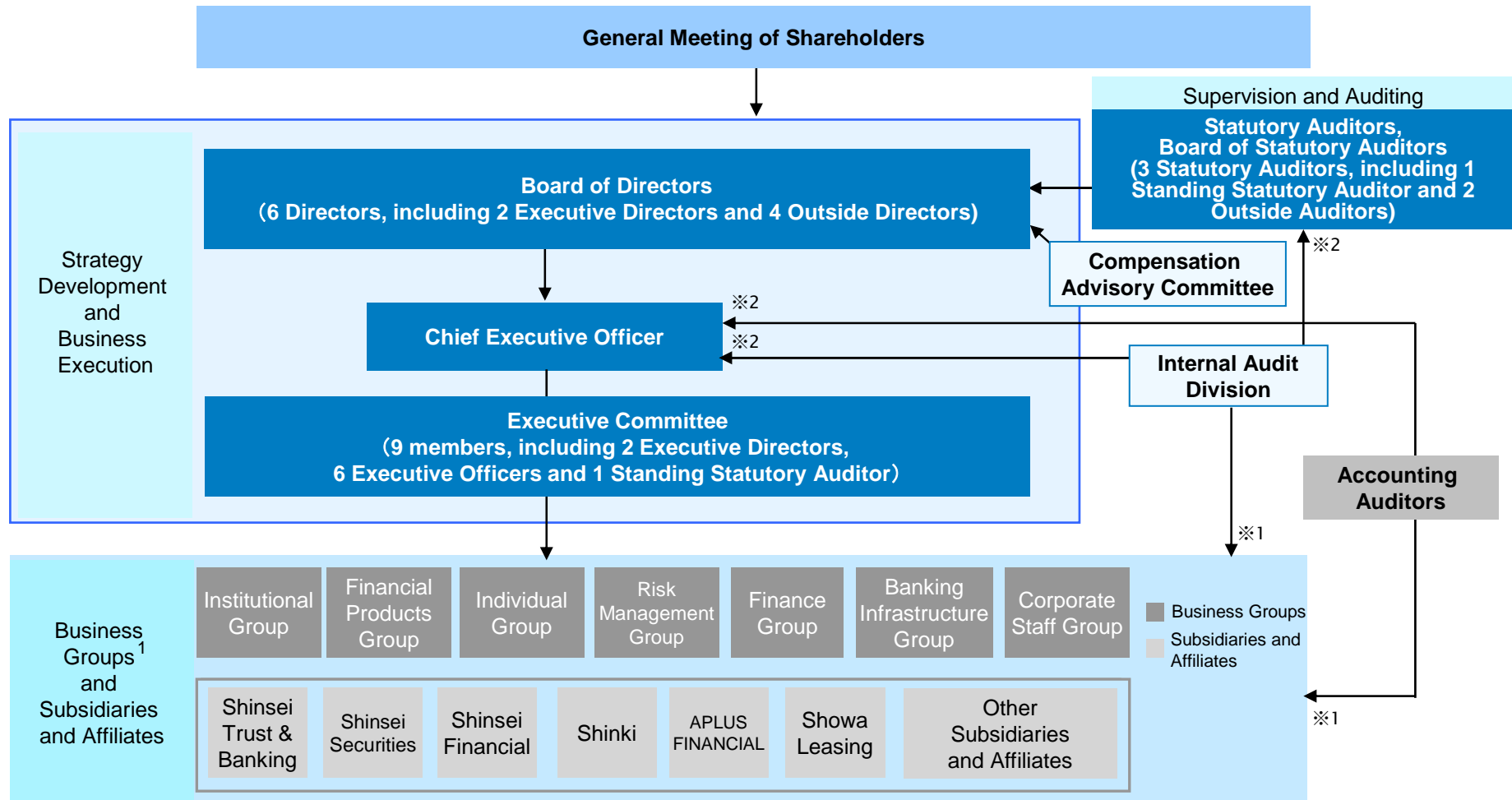
<b>(Non-consolidated) Ordinary Business Profit</b>	<b>32.0</b>
<b>(Non-consolidated) Net Income</b>	<b>10.0</b>

# New Management Framework

## Moving to a “Company with Board of Statutory Auditors” Board Model

### ”Company with Board of Statutory Auditors” Board Model

Renewing Corporate Governance Framework – moving from “Company with Committees” Board Model to “Company with Board of Statutory Auditors” Board Model

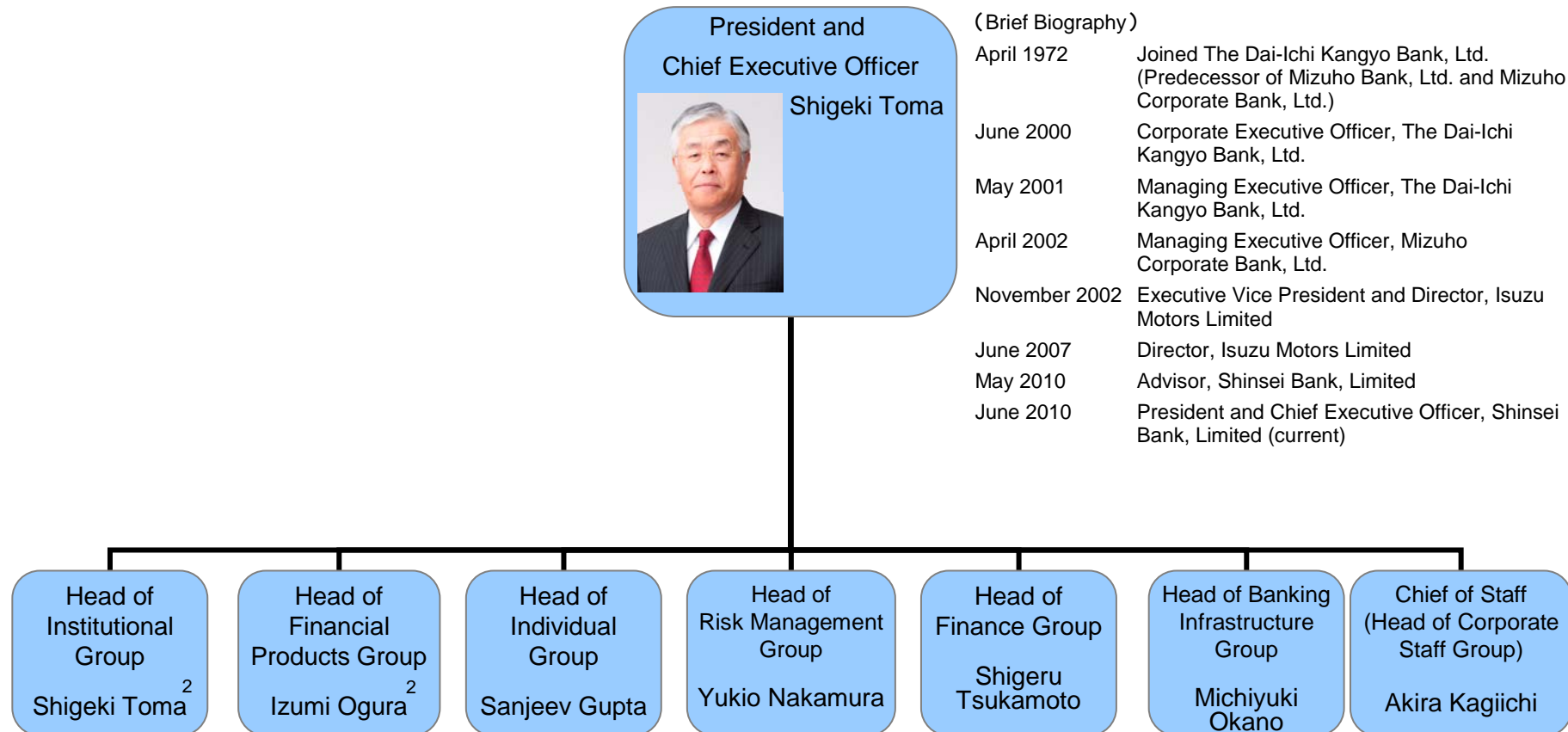


<sup>1</sup> Organizational chart after the completion of the reform scheduled at the end of August 2010

# New Management Framework

## *New Management Team*

### New Management Team<sup>1</sup>



<sup>1</sup> Organizational chart after the completion of the reform scheduled at the end of August 2010

<sup>2</sup> Shigeki Toma and Izumi Ogura will act as joint head for both Groups within the Institutional Group, until the new Institutional Group and Financial Products Group are established.





## Disclaimer

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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.
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