

# TO OUR SHAREHOLDERS, CUSTOMERS, AND EMPLOYEES



**Shigeki Toma**  
Special Advisor



**Hideyuki Kudo**  
President and Chief Executive Officer

I, Hideyuki Kudo, am honored to have been appointed Shinsei Bank's new President and CEO by a vote of the Company's shareholders at the annual general meeting of shareholders held on June 17, 2015, and the subsequent meeting of the Board of Directors. As President and CEO, I look forward to working with all of Shinsei Bank's stakeholders and hope to enjoy your support. Fiscal year 2014 was a year in which we continued to aggressively undertake initiatives aimed at strengthening our individual and institutional businesses, in order to build the earnings base that will ensure the Bank's sustainable growth in the future. In fiscal year 2015, the final year of the Second Medium-Term Management Plan (Second MTMP), we will make every effort to achieve the Plan's consolidated net income target of ¥70.0 billion.



## Business Developments and Results in Fiscal Year 2014

In fiscal year 2014, the second year of the Second MTMP, Shinsei Bank aggressively implemented initiatives to strengthen our individual and institutional businesses, as we worked toward the achievement of the goals of the Second MTMP, including the establishment of a unique business base, increasing revenues, and further improving our financial fundamentals. As a result of such efforts, our financial fundamentals improved further, and as a result of successful efforts in all business segments, the Bank successfully expanded its business and recorded a consolidated net income of ¥67.8 billion, increased ¥26.4 billion from the previous fiscal year.

Looking back over the five years since the start of our First MTMP in fiscal year 2010, we successfully resolved many legacy issues during the three years of the First MTMP, when we focused on “rebuilding the customer franchise” and “establishing a stabilized earnings base.” Then, over the first two years of the Second MTMP, we significantly improved the quality of our asset portfolio through the continued disposal of nonperforming loans (NPLs). Additionally, new initiatives undertaken in order to achieve the goals of the Second MTMP have begun to yield positive results in many areas. In order to achieve sustainable growth, however, we must increase our efforts to establish a unique business model and increase the amount of stable earnings generated by our normal business activities.

### Fiscal Year 2014 Results

Regarding our achievements in fiscal year 2014, I would first like to highlight the further asset quality improvement of our portfolio. As a result of the progression in the disposal of NPLs, our NPL ratio has fallen to 1.42%, achieving the 2% level target set forth in the Second MTMP a year ahead of plan. In addition, the accumulation of capital has increased our Common Equity Tier 1 Capital Ratio (Basel III international standard, fully-loaded basis) to 11.9%, above the final target set forth in the Second MTMP.

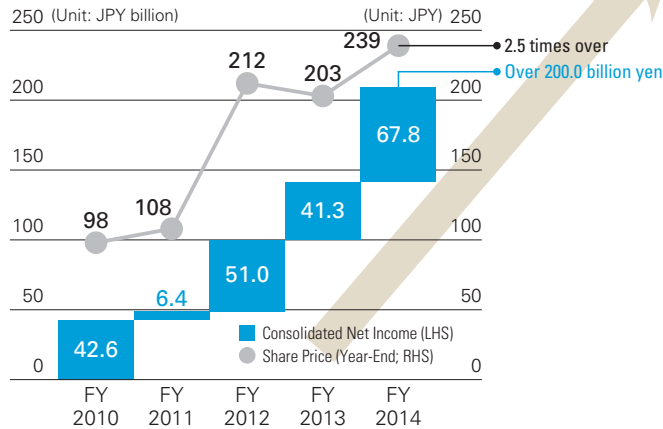
The second major achievement of the past year is the expansion of the Bank’s total revenue. In the consumer finance business the balance of unsecured personal loans, primarily those associated with “Shinsei Bank Card Loan—Lake,” increased, credit card and shopping credit transaction volume at APLUS FINANCIAL also increased, resulting in an increase in revenue. The cost of funds procured from retail deposits declined. The institutional business realized strong gains from its private equity business and profits from derivatives transactions with customers increased. These various factors resulted in the recording of revenue of ¥235.3 billion in fiscal year 2014, an increase of ¥32.3 billion compared to the previous fiscal year.

Strengthening of the profit-generating capabilities of our individual and institutional businesses combined with the steady improvement in our asset portfolio as we accelerate disposal of NPLs is promoting the stabilization and strengthening of our earnings base.

## Five-Year-History (FY2010 – FY2014)

### Consolidated Net Income and Share Price Trend

- Over 200.0 billion yen in profit generated over the past 5 years
- Share price increased 2.5 times over the past 5 years



### Growing Toward the Future

- Achieve Targets of 2<sup>nd</sup> MTMP Final Year
- Further Expand Customer Base
- Strengthen Sustainable Business Model

#### Major Progression in NPL Disposal

	NPL Balance	NPL Ratio
FY2014:	JPY 60.9 billion	1.42%
FY2010:	JPY 279.6 billion	6.78%

#### Final Treatment of Grey Zone Repayment Undertaken

Grey Zone Reserve as of Mar. 2015: JPY 170.2 billion

► Coverage Level: 4.3 Years

#### Increased Net Interest Margin (NIM) due to Funding Cost Improvement

	Funding Cost	NIM
FY2014:	0.30%	2.25%*
FY2010:	0.59%	2.19%

\* Excluding one-time gain factors

## Initiatives Undertaken in Fiscal Year 2014 and Results to Date

### Individual business:

#### Transforming to expand the customer base

In our individual business, we focused on expanding business in all areas as we work toward increasing the total number of our core customers.

In fiscal year 2014, the Bank increased efforts in previously launched initiatives aimed at delivering growth. For example, the Bank increased the lineup of support services available through its "PowerSmart Home Mortgage Anshin Pack W," a housing loan designed to support child-rearing and working couples, we increased the range of our financial products and services that offer reward points under the T-Point service operated by alliance partner Culture Convenience Club Co., Ltd. (CCC), as well as began advertising our products and services via channels made available through T-Point Program affiliates. Additionally, we expanded our structured bond and foreign currency deposit product lineups, enhanced our offerings of investment products such as investment trusts suitable for Nippon Individual Savings Accounts (NISA), and launched a program that makes it easier for customers to open NISAs.

In the Shinsei Bank Card Loan—Lake business, the Bank focused on initiatives aimed at expanding its customer base such as the introduction of a new brand concept and changing the TV advertisement personality representing the brand to personalities that appeal more strongly to customers.

### Institutional business:

#### Strengthening of our unique business platform

The Bank has focused its efforts to expand earnings by aggressively implementing its fundamental strategies of strengthening and leveraging its specialized capabilities as well as supporting the growth of enterprises, industries and regions through business participation, with a particular focus on new industries and sectors that are expected to grow significantly in the near future such as renewable energy, medical and healthcare services.

In renewable energy related project finance, we are contributing to the diversification of energy sources and structures by proactively participating in project financing for large scale solar power (mega solar) generation plants, wind power generation plants, and wood biomass power generation plants.

In the area of healthcare finance, we are preparing for the listing of a healthcare real estate investment trust (REIT), while simultaneously strengthening collaboration with investors and facility operators.

In overseas businesses, we are expanding our support for corporate customers seeking to enter or expand their business into the Asia region by leveraging our connections with regional financial institutions and enterprises in countries such as Vietnam and Malaysia. We are also actively participating in project finance initiatives in the Asia and Oceania regions.

As described in the preceding, we have continued to aggressively pursue initiatives to strengthen our individual and institutional businesses in fiscal year 2014 as we seek to build an earning base that will ensure sustainable growth in the future. In fiscal year 2015, the Bank and its Group companies will cohesively work together to achieve the goals of the final year of the Second MTMP.

## Capital Policy and Shareholder Returns

One of the goals of the Bank's Second MTMP is to achieve a Common Equity Tier I Capital Ratio (CET 1 Ratio) of approximately 7.5% on a fully-loaded basis under Basel III international standards.

As of the end of fiscal year 2014 (March 31, 2015), our CET1 Ratio was 11.9%, well above the Second MTMP target.

When considering Shinsei's capital, one must consider three key factors: first, the capital the Bank must accumulate through retained earnings as a Bank injected with public funds; second, the capital the Bank requires for future growth; and third, the capital required to deliver returns to our shareholders.

When evaluating the Bank's capital with consideration to these factors, our current capital position is not yet sufficient to repay public funds nor is it sufficient to support our plans for future growth, and the Bank does not see itself as being over capitalized.

At the same time, considering the steady improvement in the Bank's profitability, we can hardly say that shareholder returns by the Bank are satisfactory given the fact that the dividend remains at ¥1 per share.

Capital policy remains a key issue for management. Going forward, we aim to provide shareholders with stronger returns while strengthening our capital position as required by the Bank's Revitalization Plan and stabilizing our profitability.

## Regarding Public Funds

As of March 31, 2015, Shinsei Bank's capital still included some ¥216.9 billion yen in public funds (on a principal basis). This amount includes funds received by the Bank's predecessor, the Long-Term Credit Bank of Japan, Ltd. (LTCB), and funds received upon the establishment of Shinsei Bank in 2000. As a result of these public funds, the Japanese Government—through the Deposit Insurance Corporation of Japan and the Resolution and Collection Corporation—is effectively Shinsei Bank's second largest shareholder, owning 17.67% of the Bank's outstanding common shares.

Repayment of these public funds remains a key priority of the Bank's management. In order to repay these funds, the Bank will proactively implement the measures as outlined in the Second MTMP, achieve the goals laid out within the MTMP, as well as further expands the customers base and establish a sustainable, differentiated business model, which will lead to the continuing accumulation of retained earnings, as well as raise the stability of profits, which will lead to an increase in both corporate value and share price. After achieving this, and taking into account the Bank's share price trend, we will engage with the government on methods to repay public funds as early as possible.





## Regarding the Conclusion of the Second MTMP in Fiscal Year 2015

As noted in the beginning of this message, we achieved consolidated net income of ¥67.8 billion in fiscal year 2014, surpassing the ¥55.0 billion target of the second year of the Second MTMP.

In fiscal year 2015, while we expect to achieve the Plan's original net income target of ¥70.0 billion, the underlying composition of that figure has changed dramatically. While we have steadily increased the outstanding balances of unsecured personal loans and of highly specialized corporate loans such as cash flow financing, the asset base as a whole has not expanded as much as originally planned, and as a consequence, we expect total revenue in fiscal year 2015 to fall short of the level originally assumed in the Second MTMP. On the other hand, we expect the credit

costs to be lower than the Plan due to the improvement in asset quality realized by our steady disposal of NPLs further improving profit stability, as well as an asset balance which is below our original expectations.

In fiscal year 2015, the final year of the Second MTMP, in addition to achieving the Plan's financial targets, we will strive to further expand our customer base and create a sustainable business model, and achieving these goals will be pivotal in setting the stage for further growth under the Third MTMP which will start in fiscal year 2016.

Going forward, the management and all employees of Shinsei Bank will increase our efforts to meet the expectations of its stakeholders.

## A Special Greeting to Shareholders from Shinsei Bank's New President

Over the course of the past five years, the various initiatives undertaken by the Bank and its Group companies have enabled the establishment of a business structure capable of generating considerable earnings and strengthened the Bank's capital structure. However, we are still in the midst of establishing a unique business model that will ensure sustainable growth well into the future. Taking over from my predecessor Mr. Shigeki Toma, I intend to

keep the Bank on the course he set while further refining our approaches to achieving our longer-term goals. As we work toward the repayment of public funds, the greatest challenge facing the Bank, we will focus our efforts to create a unique business model in order to realize the Bank's *raison d'être*. The Bank will utilize all available resources in order to achieve this goal, through which we seek to meet the expectations of our stakeholders.

I hope to enjoy your continued support and guidance as we continue to move forward in this journey.

July 2015

Hideyuki Kudo  
President and Chief Executive Officer