

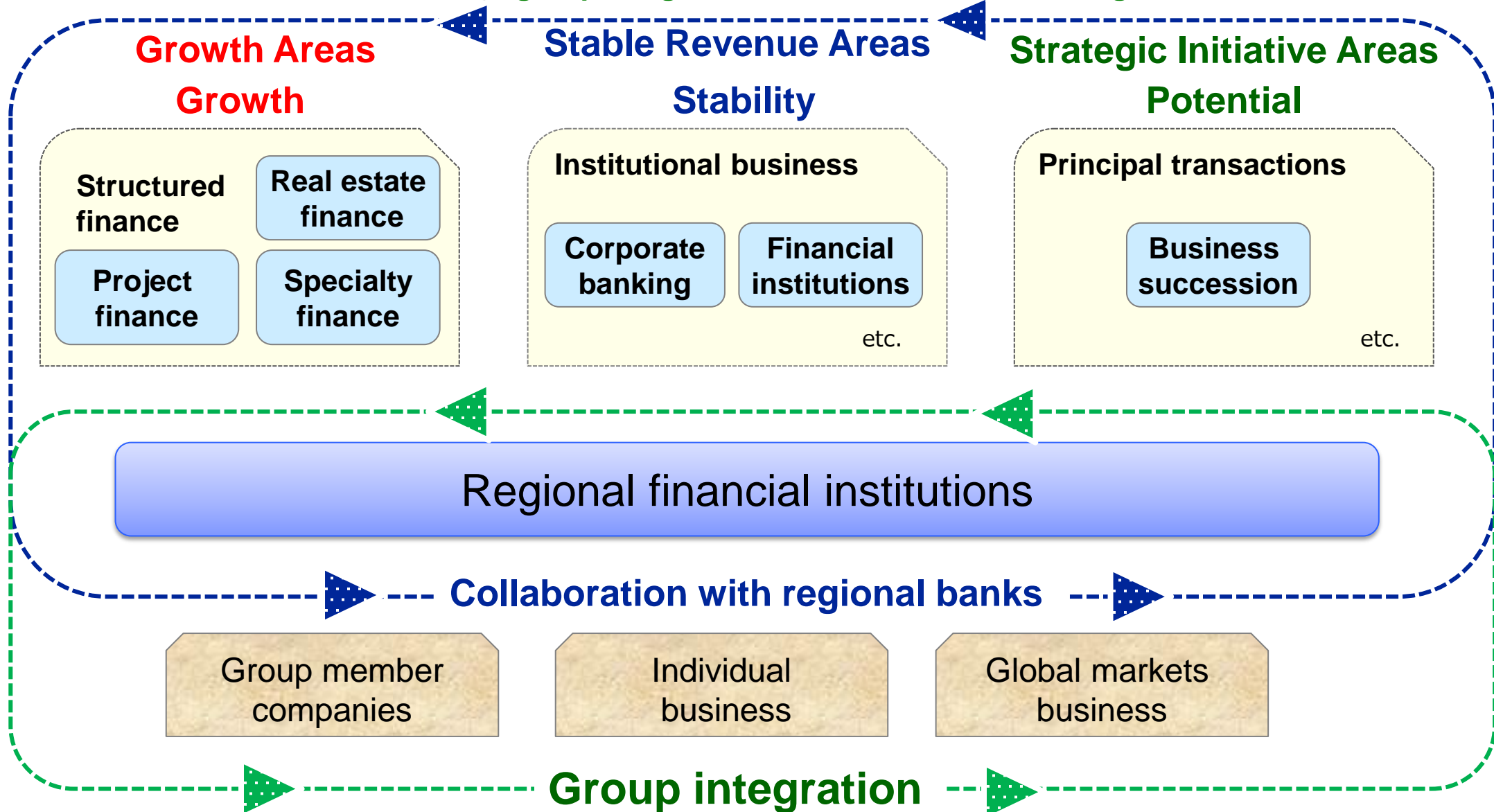
## **Shinsei IR Day**

# **Growth Areas: Structured Finance Business**

**Shinsei Bank, Limited  
February, 2017**

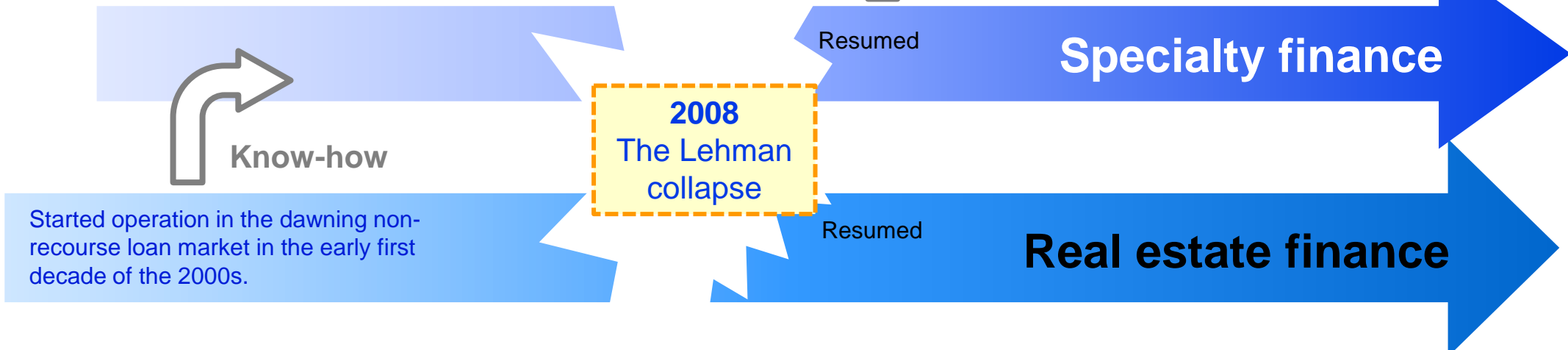
# Total Picture of the Institutional Business

Establish a well-balanced revenue base with **growth**, **stability**, and **potential**.  
Create new values through **group integration** and **collaboration with regional banks**.



# Structured Finance: History

- Over 15 years of history since Shinsei Bank started
- Risk management framework based on lessons learned from the Lehman collapse
- Launched project finance on a full scale operation after the heightened momentum for renewable energy following the Great East Japan Earthquake



2000      2002      2004      2006      2008      2010      2012      2014      2016      2018 -

**2000**  
Started  
"Shinsei Bank"

**2004**  
IPO on the First  
Sec. of the Tokyo  
Stock Exchange

**2010**  
Implemented the  
First Medium-Term  
Management Plan  
("MTMP")

**2013**  
Implemented the  
Second MTMP

**2016**  
Implemented the  
Third MTMP

**Create added values from our unique positioning that is different from both megabanks and regional financial institutions**

**Expertise and high analytical skills based on extensive experience**

**Flexibility and mobility that can be realized only by a small-sized bank**

Risks that are not taken by regional financial institutions

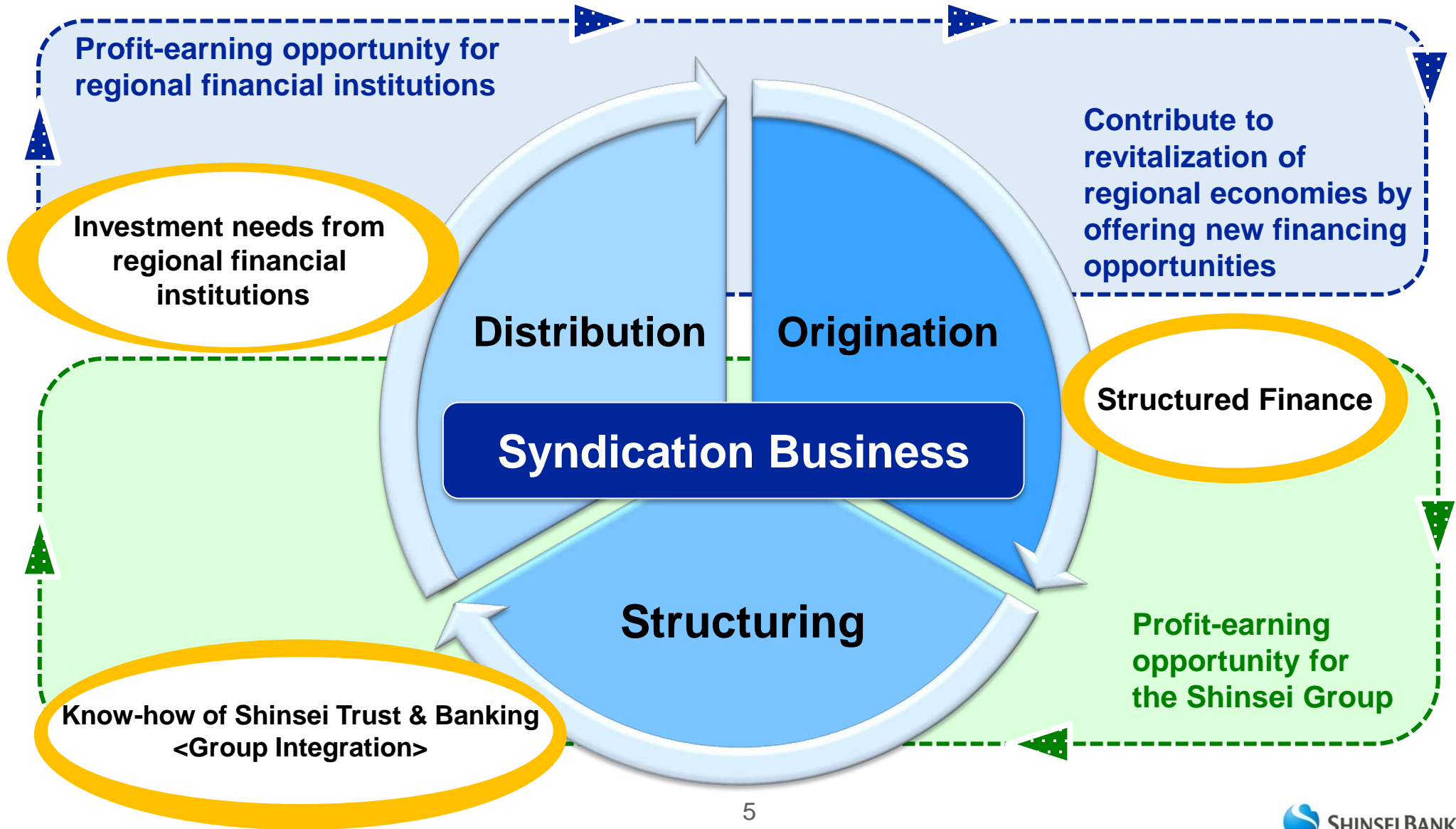
Markets that are not captured by megabanks due to their size

**Relationships with regional financial institutions**

**Neutral position not belonging to any major corporate groups  
Networks with foreign investors**

# Syndication Business and Collaboration with Regional Banks

Expand opportunity for earning profits through building win-win relations with regional financial institutions



# Market Overview: Real Estate Finance

## Non-recourse investments

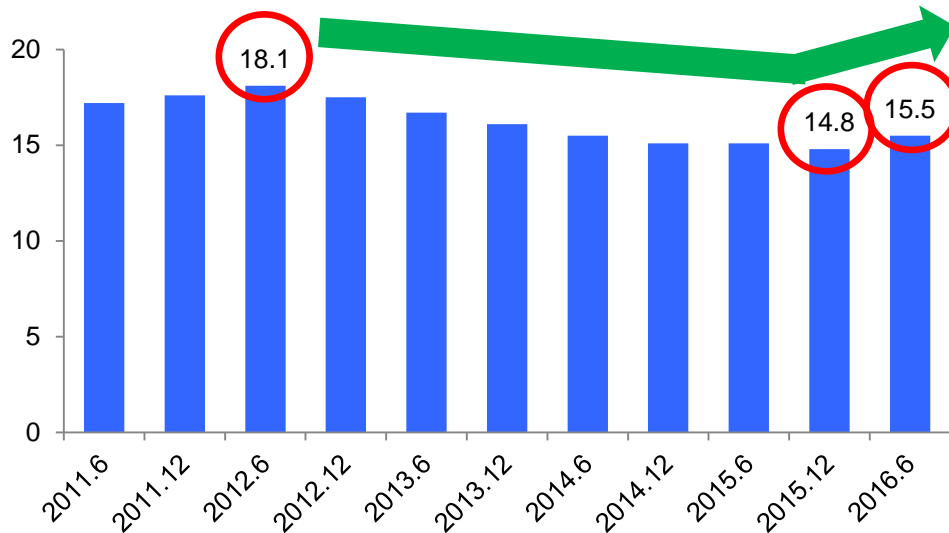
- The market size of real estate private-placement fund inverted and started to expand again in 2016
- Although the market is partially overheated, there are many contributing factors:
  - ✓ Favorable fundraising environment backed by monetary easing
  - ✓ Effects of government policies for the coming Olympic games in Tokyo
  - ✓ Inbound investments by foreign investors

## Real estate companies and REITs

- J-REIT market has been expanding significantly since 2011
  - ✓ Distribution facility and hotel assets are growing rapidly recently
  - ✓ J-REIT as one of the exit strategies of real estate private placement fund investments contributed to the growth
  - ✓ The market is expected to keep expanding supported by for example a purchase by the BOJ
- Strong and steady demand for funds from real estate companies centered on medium-to-large seized developers

## Real estate private placement fund market (Japan)

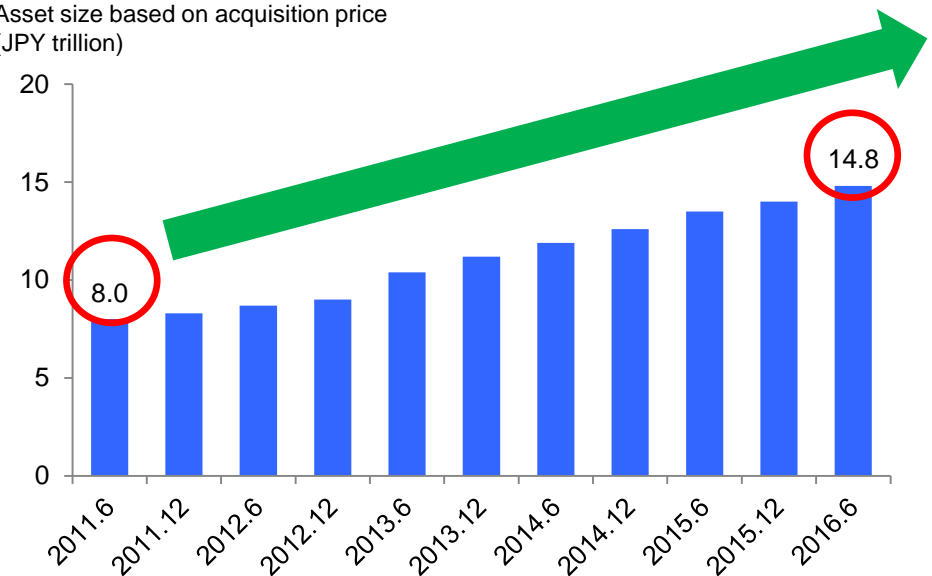
Assets under management  
(JPY trillion)



Source: Graph prepared by Shinsei Bank based on the research data from Sumitomo Mitsui Trust Research Institute

## J-REIT market

Asset size based on acquisition price  
(JPY trillion)



Source: Graph prepared by Shinsei Bank based on the research data from The Association of Real Estate Securitization

# Strategies and Progress of the Third MTMP: Real Estate Finance

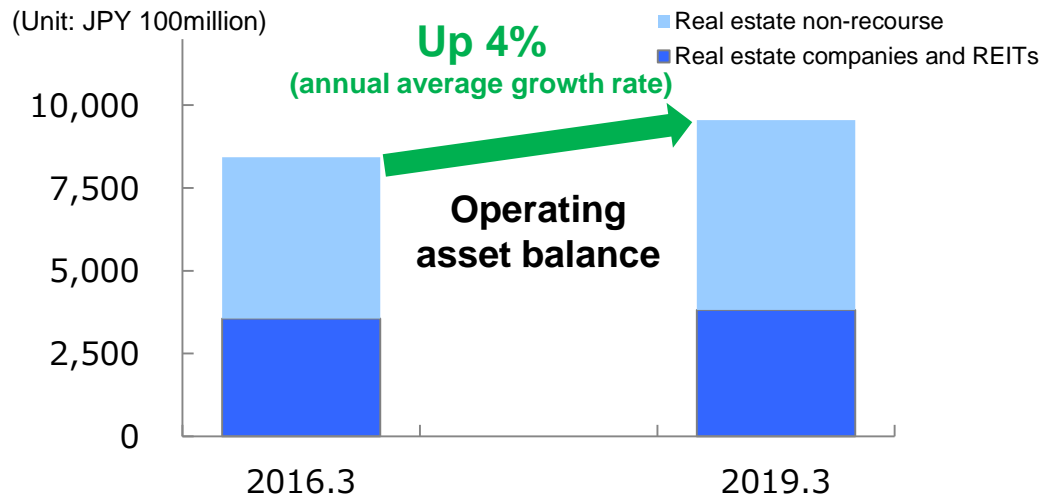
## Strategies

- **Real estate non-recourse finance:** Execute approximately JPY200 billion in new deals every year by responding to customer needs in a speedy and flexible manner, while carefully considering market conditions as well as determining its risk-return profile. Seek large scale deals by strengthening the syndication business.
- **Real estate companies and REITs:** Accumulate the balance by expanding our market share, capturing J-REIT's external growth and IPO opportunities. Boost profitability by winning deals we perform as an arranger.

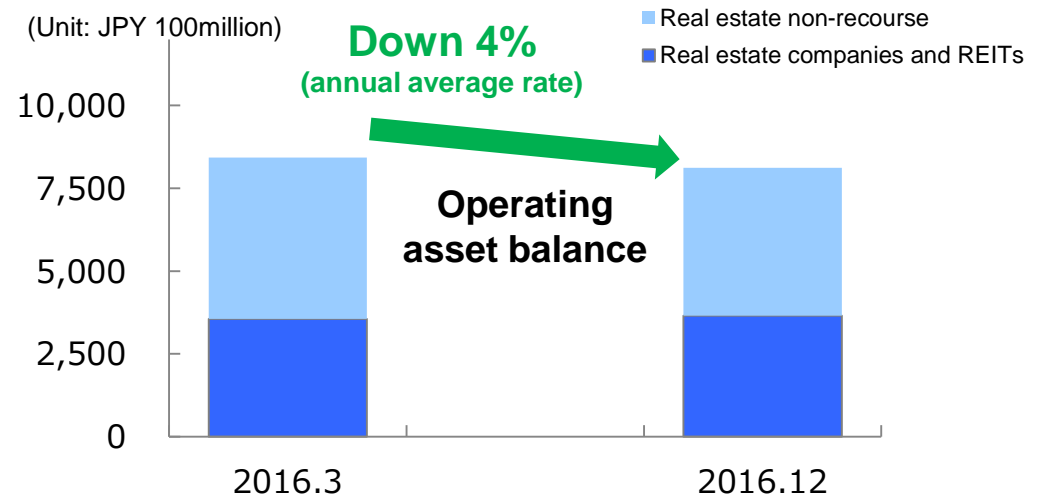
## Progress in FY2016

- **Real estate non-recourse finance:** New deals executed from April to December (9 months) amounted to JPY 183.4 billion although we provided finance on a selective basis primarily in assets of domestic and overseas offices, hotels, and distribution warehouses.  
The asset balance decreased by approximately JPY50 billion during the same period above through the sell-down as a disposal strategy of syndication business as well as a high level of prepayments in the market where property trading still remains active.
- **Real estate companies and REITs:** Executed a number of new deals centered on J-REITs. We also successfully won those deals with Shinsei performing as an arranger. Deals for real estate companies such as developers trended steadily with the strong demand for funds.

## Plan



## Actual

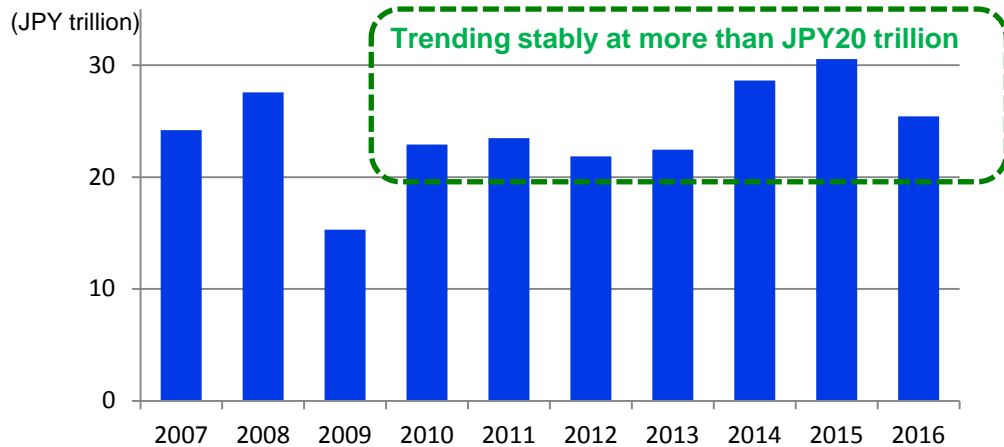


# Market Overview: Project Finance

## Market size

- In the volume of origination, global project finance has been performing stably at over JPY20 trillion since 2010. Strong needs are expected to continue centered on infrastructure projects.
- In the domestic power generation facilities for renewable energy, its unIntroduced capacity remains significant while the certificated capacity of mega solar power plants has hit a peak. In others such as wind and biomass areas, their markets are still small but we expect them to grow in the medium-to-long terms.

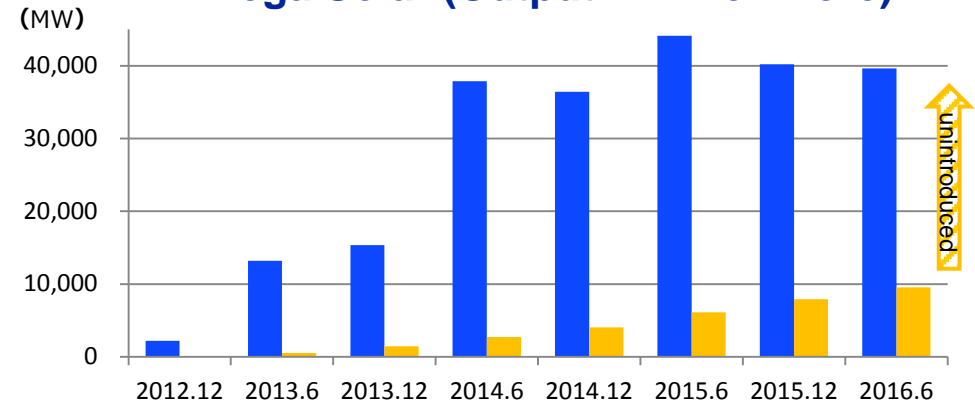
## Global project finance origination volumes



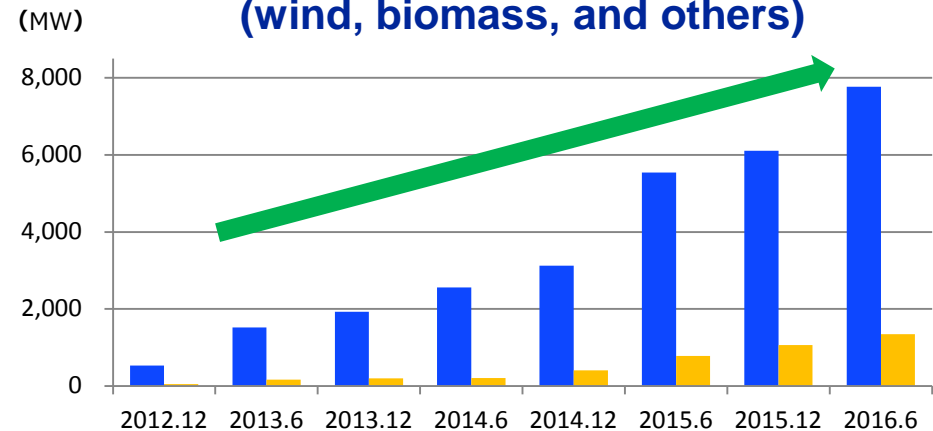
Source: Graph prepared by Shinsei Bank based on the data from Project Finance International (\$1=JPY110)

## Renewable energy power generation facilities implemented (Japan)

### Mega Solar (Output 1MW or more)



### Other Renewable Energies (wind, biomass, and others)



■ Certified Capacity ■ Introduced Capacity

Source: Graph prepared by Shinsei Bank based on the statistical data from the Agency for Natural Resources and Energy



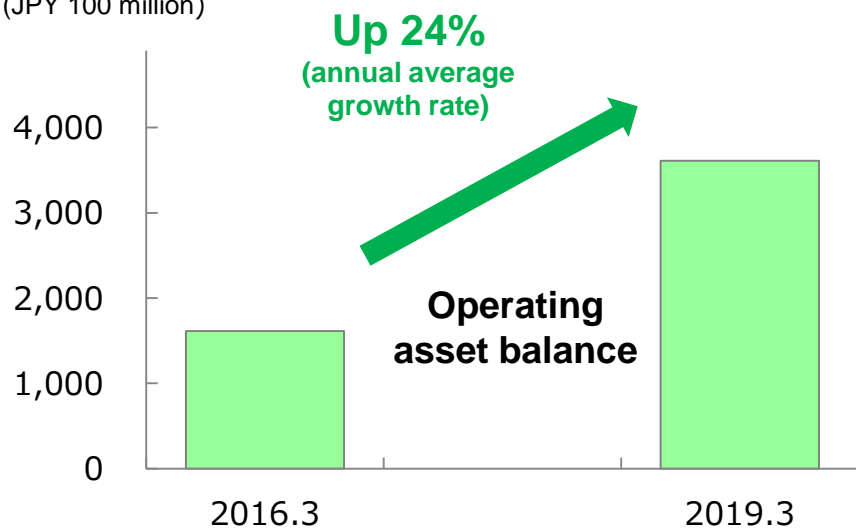
# Strategies and Progress of the Third MTMP: Project Finance

## Strategies

- **Japan:** Diversify deals leveraging our market presence we developed through mega solar deals. We focus on:
  - ✓ Deals requiring sophisticated risk analyses
  - ✓ Alternate power source deals such as wind, biomass, and thermal
- **Overseas:** Develop and execute quality deals leveraging our networks with Japanese sponsors and overseas financial institutions

## Plan

(JPY 100 million)



## Progress in FY2016

- **Japan:** New deals closed from April to December (9 months) amounted to JPY71.2 billion. (the same period for FY 2015: JPY13.8 billion)

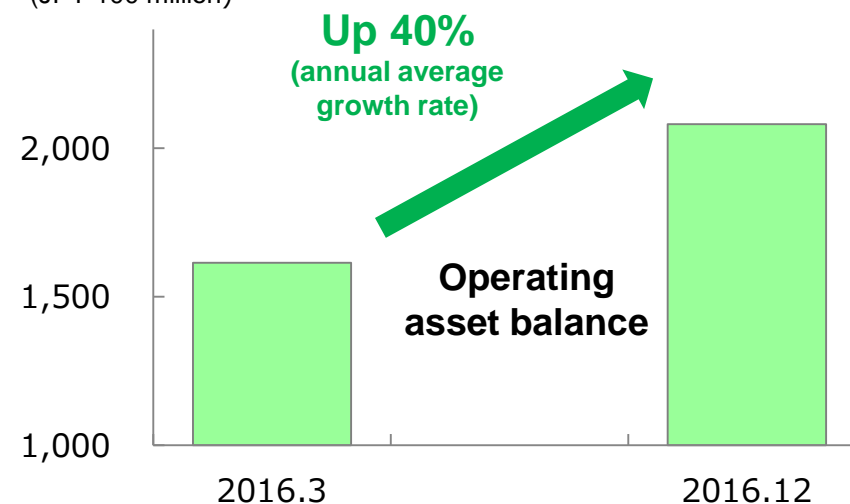
Mega solar deals continue to perform strongly and closed unlimited output deals by leveraging sophisticated risk analysis techniques. We also closed other two thermal power deals. In addition, some deals in wind and biomass power generation are currently under consideration.

- **Overseas:** New deals closed from April to December (9 months) amounted to JPY51.3 billion (the same period for FY2015: JPY41.8 billion)

Well-balanced originations geographically in the Asia and Europe regions, and Australia. Deals introduced by Japanese sponsors are increasing.

## Actual

(JPY 100 million)



# Issues and Approaches on Structured Finance

## Real estate finance

**Issue: Overheated domestic property market**



Approaches:

- Judge risks and returns of individual deals strictly (Particularly for hotel, distribution warehouse, and development deals)
- Exposure control through syndication business
- Diversify our portfolio by executing overseas deals on a selective basis

## Project finance (Japan)

**Issue: Mega solar power plants that have hit a peak**



Approaches:

- Finance wind and biomass power generation
- Finance thermal power generation through collaboration with infrastructure funds
- Diversify deals including refinance and mezzanine loans
- Cooperate with group companies including Showa Leasing

## Project finance (Overseas)

**Issue: Unclear global economy including developing countries /**

**The rise of foreign currency funding costs**



Approaches:

- Execute deals sponsored by trustable players such as Japanese companies
- Mitigate risks using ECA (Export Credit Agency)
- Diversify deals for execution regarding regions and industries
- Consider various deals to develop quality deals which offer sufficient returns after deducting foreign currency funding costs

## Structured finance as a whole

**Issue: Shrinking spreads against the backdrop of monetary easing /**

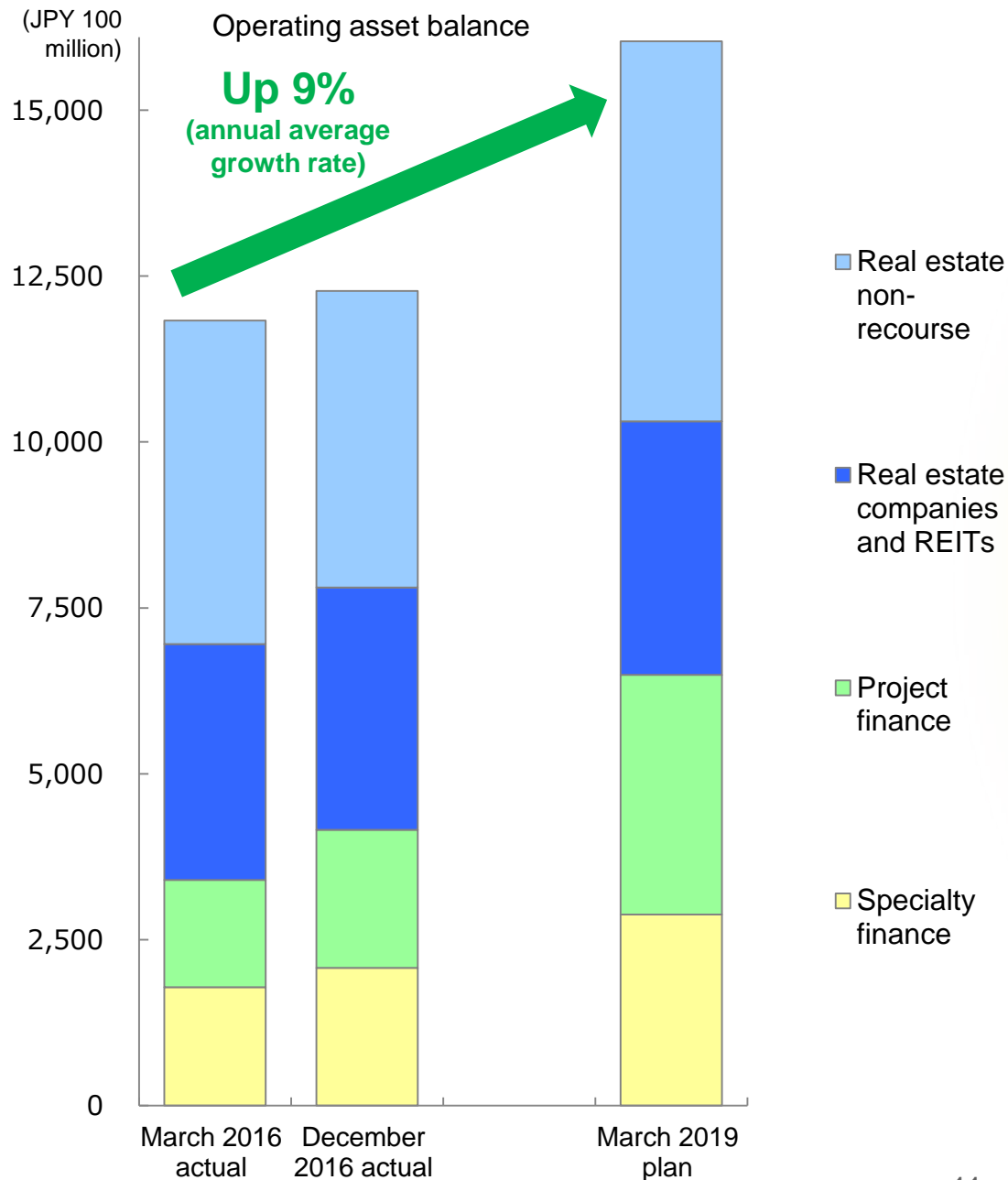
**Continuous development of experts**



Approaches:

- Develop high-return deals through careful and detailed risk analyses
- Boost profitability using syndication business
- Deploy personnel in a timely and flexible manner
- Continue to employ mid-career experts

# Our Goals



## Our goals

To achieve  
**high growth and profitability**  
**by offering our customers**  
**value-added financial services**  
**through financial technologies**  
**and tailor-made services**

- **The preceding description of Shinsei Bank Group’s Medium-Term Management 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.**
- **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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