



# **Business and Financial Highlights**

## ***First Half Ended September 30, 2014***

**Shinsei Bank, Limited**  
**October 2014**



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# 1H FY2014 Results: Key Points

1

## Progression toward full FY2014 net income target at 53%, largely in line with original projections

- Consolidated Net Income: JPY28.9 billion (FY2014 Target: JPY55.0 billion)
- Consolidated Cash Basis Net Income: JPY32.9 billion (FY2014 Target: JPY62.0 billion)

2

## While progression toward full FY2014 revenue projection at 46%, progression toward expenses projection (48%) and net credit costs projection (20%) were below 50%

- Revenue: JPY111.1 billion (FY2014 Projection: JPY240.0 billion)
- Expenses: JPY70.0 billion (FY2014 Projection: JPY145.0 billion)
- Net Credit Costs: JPY5.0 billion (FY2014 Projection: JPY25.0 billion)

3

## NPL disposal progressed further; NPL balance reduced by JPY54.5 billion from March 31, 2014

- As of September 30, 2014, NPL ratio reduced to 2.61%, entering the level targeted in the 2<sup>nd</sup> Medium Term Management Plan (MTMP).

# 1H FY2014 Summary of Financial Results

(Unit: Billions of yen)

<b>【Consolidated】</b>	1H FY2013 (A)	1H FY2014 (B)	Change (B-A)
Net Interest Income	55.0	<b>60.5</b>	+5.5
Noninterest Income	45.2	<b>50.5</b>	+5.3
Revenue	100.2	<b>111.1</b>	+10.8
Expenses	-65.8	<b>-70.0</b>	-4.2
Ordinary Business Profit	34.4	<b>41.0</b>	+6.6
Net Credit Costs	-0.3	<b>-5.0</b>	-4.6
Grey Zone Reserve Provisions	-	-	-
Net Income	27.2	<b>28.9</b>	+1.6
Cash Basis Net Income <sup>1</sup>	31.7	<b>32.9</b>	+1.2
<b>【Nonconsolidated】</b>			
Ordinary Business Profit	13.5	<b>19.5</b>	+6.0
Net Income	15.5	<b>19.3</b>	+3.7

<b>【Consolidated】</b>	Sep. 30, 2013 (C)	Sep. 30, 2014 (D)	Change (D-C)
Cash and Due from Banks	724.5	<b>1,179.3</b>	+454.7
Loans and Bills Discounted	4,208.6	<b>4,338.6</b>	+129.9
Securities	1,794.7	<b>1,621.3</b>	-173.4
Installment Receivables	380.1	<b>437.2</b>	+57.1
Customers' Liabilities for Acceptances and Guarantees	453.0	<b>331.4</b>	-121.5
Reserve for Credit Losses	-143.9	<b>-117.9</b>	+26.0
Total Assets	8,905.5	<b>9,190.1</b>	+284.6
Deposits and NCDs	5,753.4	<b>5,611.0</b>	-142.3
Borrowed Money	619.3	<b>720.4</b>	+101.0
Grey Zone Reserves	28.6	<b>185.4</b>	+156.8
Total Liabilities	8,198.5	<b>8,483.9</b>	+285.4
Shareholders' Equity	650.9	<b>689.5</b>	+38.6
Minority Interests	61.1	<b>20.4</b>	-40.6
Total Equity	706.9	<b>706.2</b>	-0.7

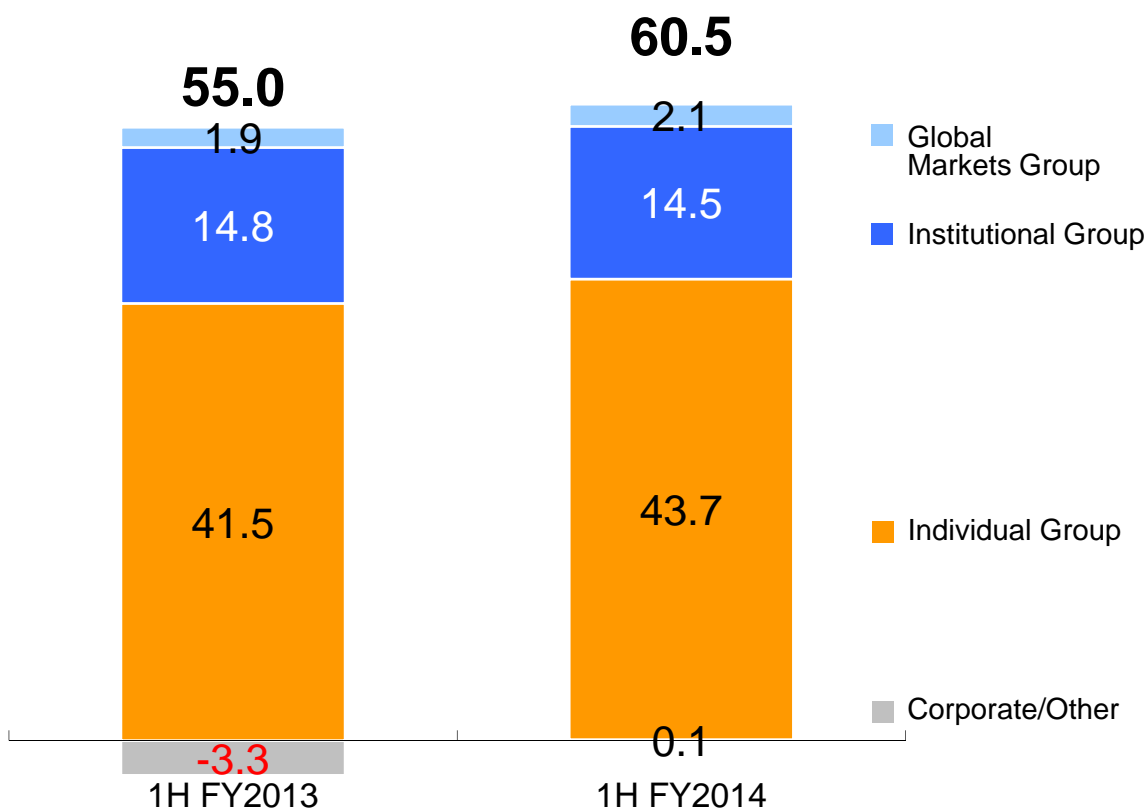
<sup>1</sup>Cash basis net income is calculated by excluding amortization of goodwill and other intangible assets, net of tax benefit

# Financial Results: Net Interest Income

(Consolidated; Unit: Billions of yen)

- 1H FY2014 net interest income increased to JPY60.5 billion. This was primarily due to a significant reduction in deposit costs (JPY5.9 billion) as a result of the maturation of yen denominated campaign time deposits made in the past resulting in an improvement in total funding costs.

## Net Interest Income



## Interest-Bearing Liabilities

1H FY2014	Average Balance	Interest
Deposits/NCDs	5,729.4	5.7
<b>Campaign Time Deposits<sup>1</sup></b>	<b>140.3</b>	<b>1.2</b>
Debentures	40.1	0.0
Borrowed Money	661.3	2.3
Corporate Bonds	179.9	2.6
Other Interest-Bearing Liabilities	849.4	0.7
<b>Total Expense on Interest-Bearing Liabilities</b>	<b>7,460.3</b>	<b>11.4</b>

1H FY2013	Average Balance	Interest
Deposits/NCDs	5,725.5	11.3
<b>Campaign Time Deposits<sup>1</sup></b>	<b>834.4</b>	<b>7.2</b>
Debentures	85.2	0.1
Borrowed Money	634.0	2.5
Corporate Bonds	186.9	2.9
Other Interest-Bearing Liabilities	735.8	0.5
<b>Total Expense on Interest-Bearing Liabilities</b>	<b>7,367.6</b>	<b>17.5</b>

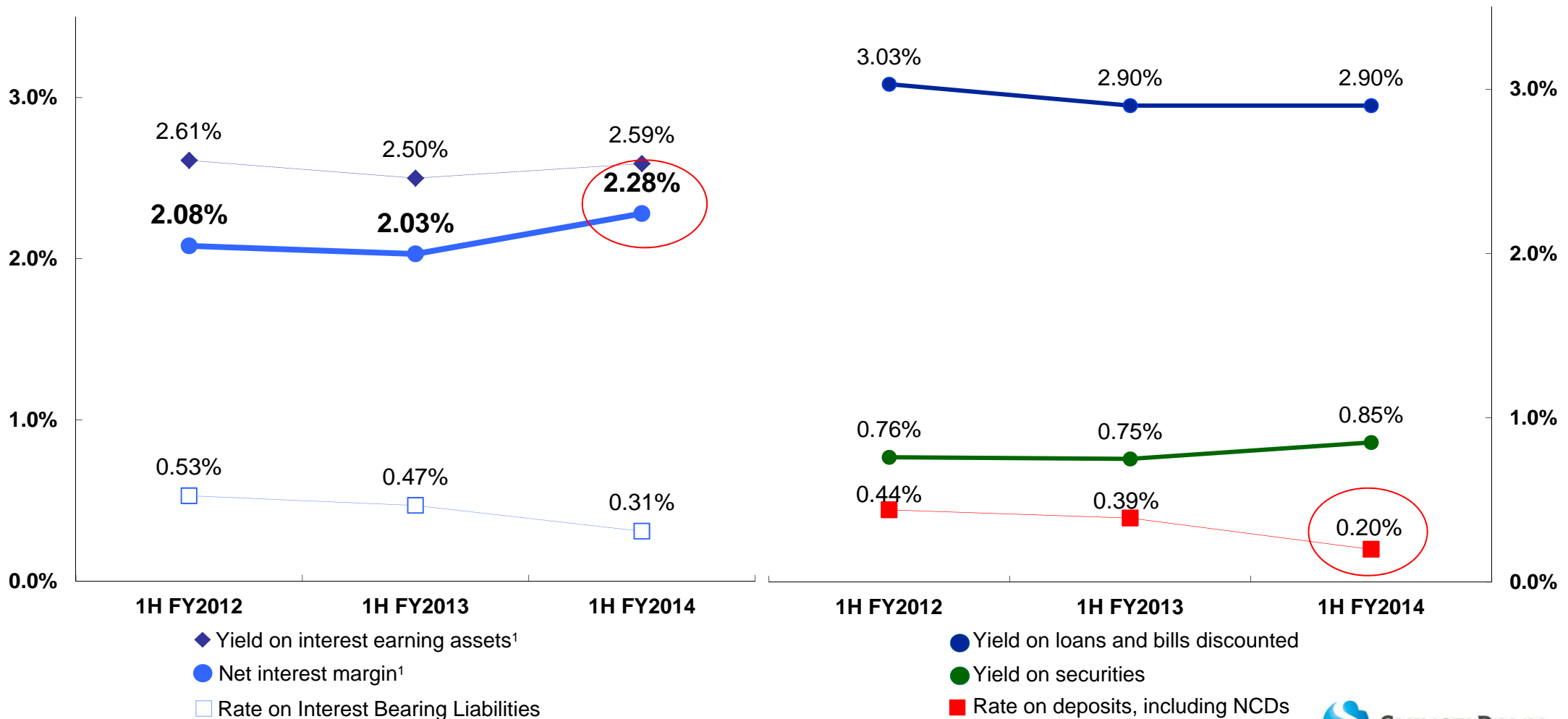
<sup>1</sup>Campaign yen denominated time deposits booked between September 2008 and June 2009

# Net Interest Margin

- Due mainly to the maturation of high interest rate campaign time deposits made in the past, the rate on deposits, including NCDs, declined significantly from 0.39% in 1H FY2013 to 0.20% in 1H FY2014. As a result, net interest margin improved to 2.28%

NIM (Net Interest Margin)<sup>1</sup>

Yields



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

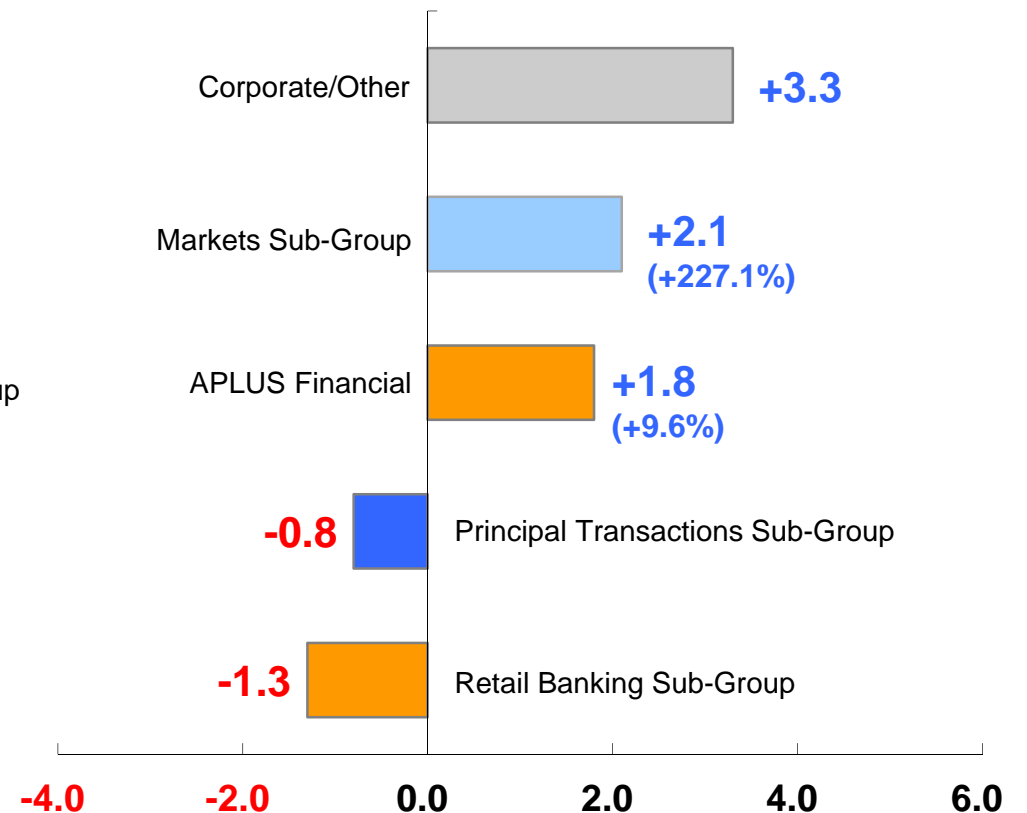
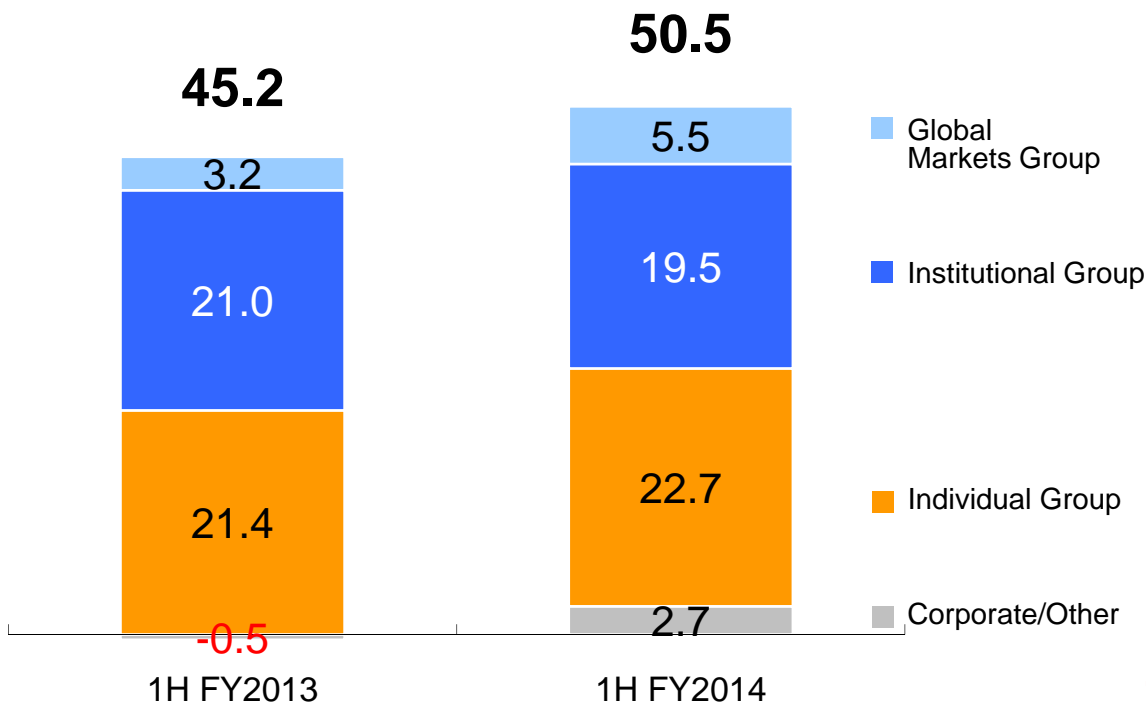
# Financial Results: Noninterest Income

(Consolidated; Unit: Billions of yen)

- While losses were incurred in the Bank's ALM operations on the sale of JGBs (undertaken in order to avoid interest rate risk resulting from major fluctuations in the market) in 1H FY2013, gains on sale of JGBs were recorded in 1H FY2014
- Due to a steady increase in revenue from market transactions, noninterest income in the Markets Sub-Group increased significantly

## Noninterest Income

## Major increased/decreased segments (Y-o-Y)

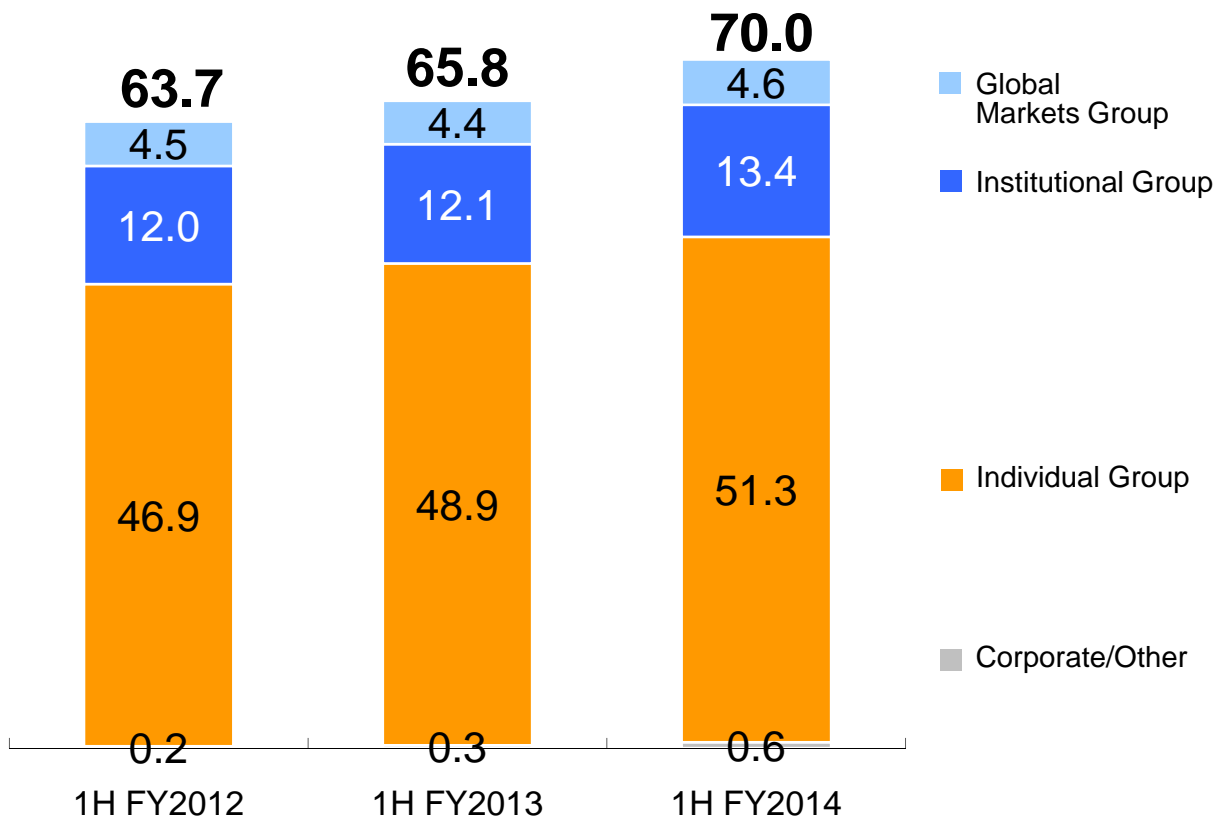


# Financial Results: Expenses, Expense-to-Revenue Ratio

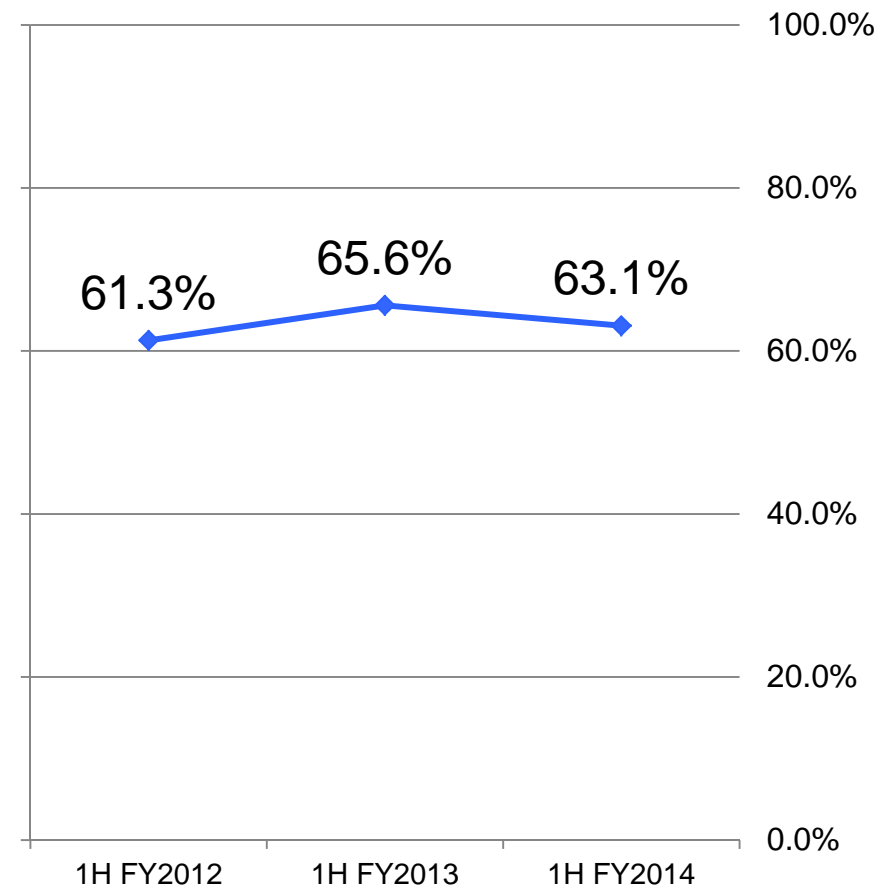
(Consolidated; Unit: Billions of yen)

- Expenses, while we continued to promote operational efficiency, were JPY70.0 billion, increased JPY4.2 billion from 1H FY2013 due to increases in personnel and advertising expenses as a result of the investment of management resources in strategic focus areas
- As the increase in revenue exceeded the increase in expenses, the Expense-to-Revenue Ratio improved to 63.1% in 1H FY2014 from 65.6% in 1H FY2013

### Expenses



### Expense-to-Revenue Ratio





# Asset Quality: Nonperforming Loans

(Nonconsolidated; Unit: Billions of yen)

- NPLs reduced by JPY54.5 billion from March 31, 2014, and NPL ratio reached 2.61%, entering the 2-3% level targeted in the Second MTMP

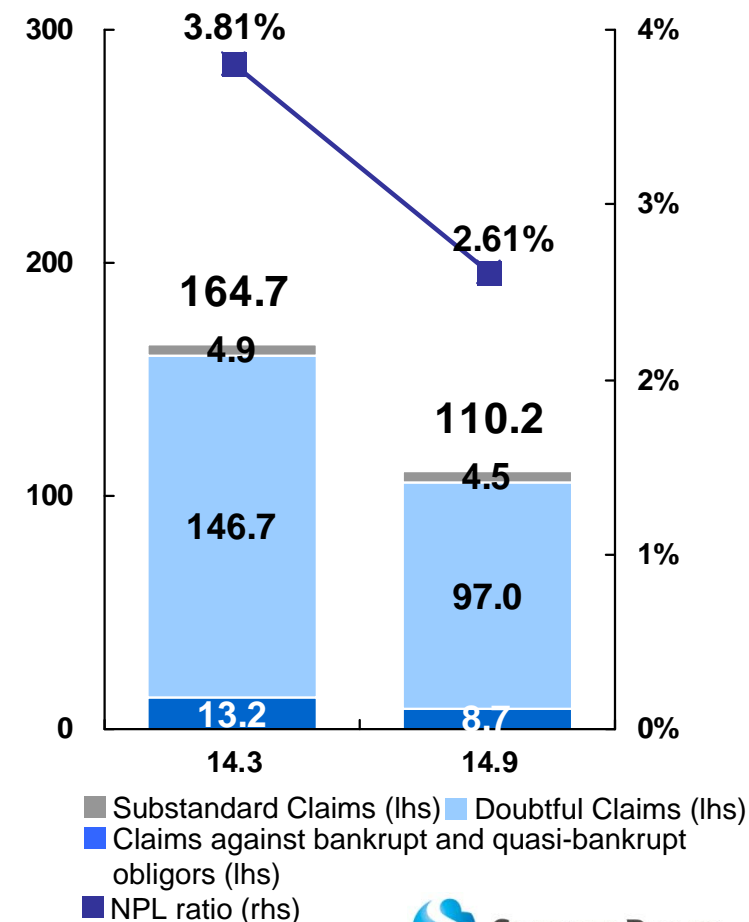
## Breakdown of Total Claims and Coverage by Credit Category<sup>1</sup>

(as of September 30, 2014)

	Total (Balance Sheet Reported Amount)	Reserves for Loan Losses	Collateral/ Guarantees	Coverage Ratio	Partial Write-Off
Normal	4,007.7	14.6	/	/	0.1
Need Caution	100.6	5.5	/	/	0.2
Performing Loans	4,108.3	20.2	/	/	0.3
Substandard/ Possibly Bankrupt	101.5	40.7	56.0	95.3%	0.1
Virtually Bankrupt/ Legally Bankrupt	8.7	-	8.7	100.0%	53.6
Nonperforming Loans	110.2	40.7	64.7	95.7%	53.6
<b>Total Claims</b>	<b>4,218.5</b>	<b>60.8</b>	/	/	<b>53.9</b>

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

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



# Capital

(Consolidated; Unit: Billions of yen)

- Basel III domestic standard core capital adequacy ratio was 13.81%, improved compared to March 31, 2014 (13.58%)
- Basel III international standard fully loaded Common Equity Tier I ratio was 10.6%, and continues to be above the level targeted in the Second MTMP (approx. 7.5%)

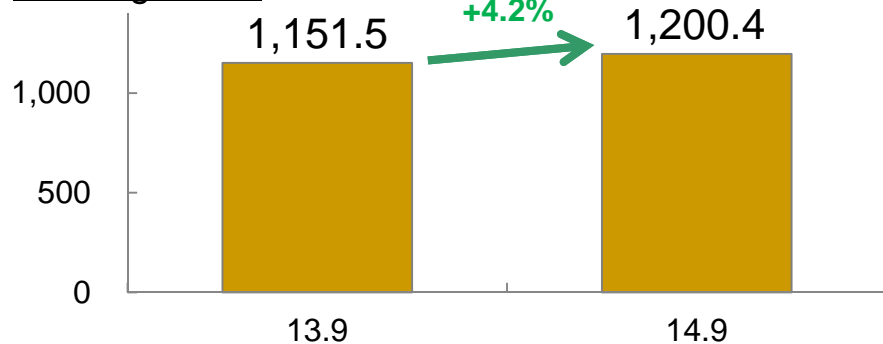
	Core Capital Adequacy Ratio (Basel III: Domestic Standard)		Reference: (Basel III: International Standard)
	2014.9 (Basel III) (with Grandfathering)	2014.9 (Basel III) (Fully Loaded Basis)	2014.9 (Basel III) (Fully Loaded Basis)
Basic Items Related to Core Capital	<b>857.9</b>	<b>689.8</b>	
Deductions Related to Core Capital	<b>-44.9</b>	<b>-65.7</b>	
Total Core Capital	<b>813.0</b>	<b>624.1</b>	
Risk Assets	<b>5,886.9</b>	<b>5,913.2</b>	
Core Capital Adequacy Ratio	<b>13.81%</b>	<b>10.55%</b>	
Common Equity Tier I Capital Ratio			<b>10.6%</b>

# Business Update: Individual Business

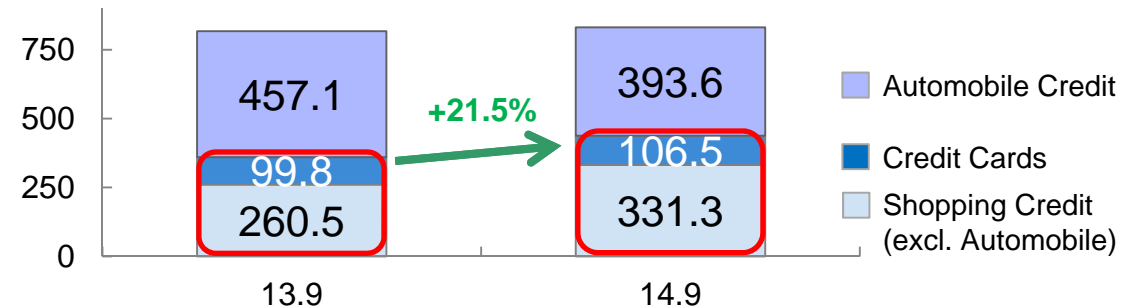
(Consolidated; Unit: Billions of yen)

## Balance of Major Assets

### Housing Loans

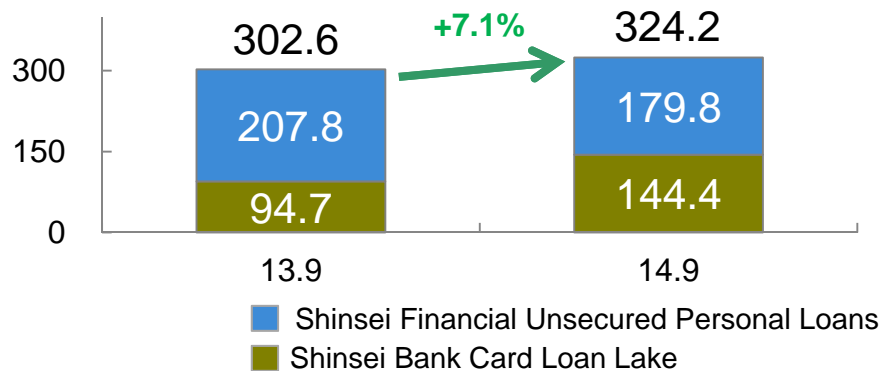


### APLUS FINANCIAL (Shopping Credit; Credit Cards)



### Lake

(Shinsei Bank Lake + Shinsei Financial Unsecured Personal Loans)

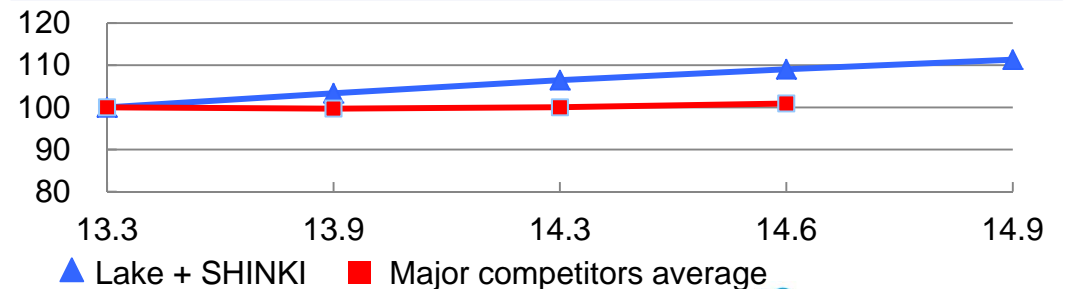
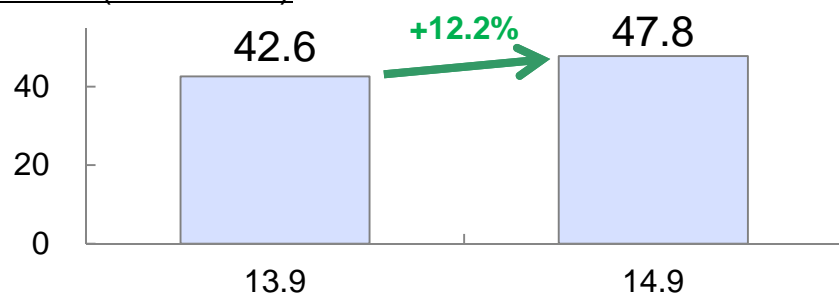


## Business Data

- Core Customers (as of September 30, 2014): 2.69 million
- Housing Loans
  - ✓ New Disbursements (1H FY2014): JPY83.1 billion
- Shinsei Bank Card Loan Lake
  - ✓ New Customers (1H FY2014): 87K
  - ✓ Approval Rate (1H FY2014): 36.4%
  - ✓ Total Customers (as of September 30, 2014): 357K

Ref: Increase/decrease of personal loan balances (March 31, 2013 = 100)

### SHINKI (NO LOAN)

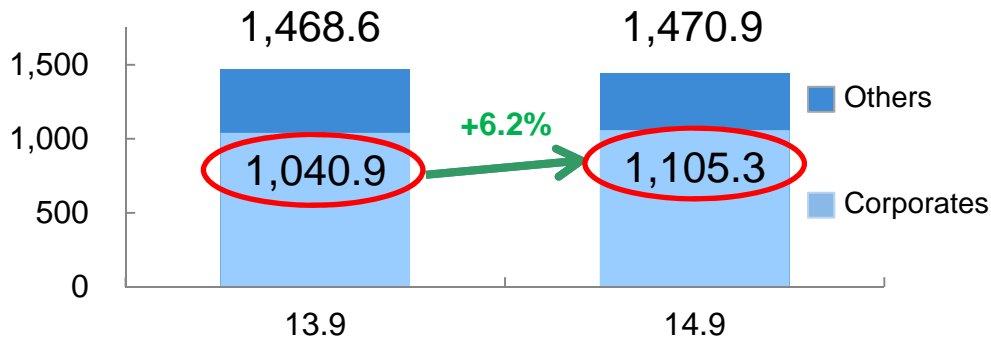


# Business Update: Institutional Business

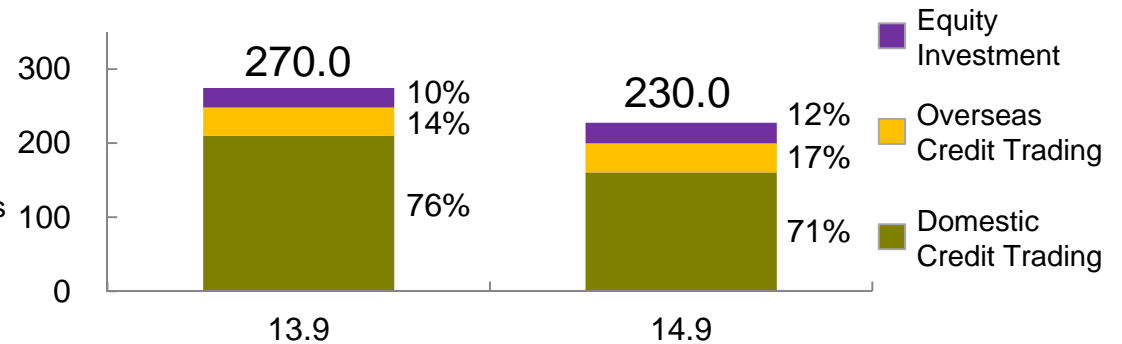
(Consolidated; Unit: Billions of yen)

## Balance of Major Assets

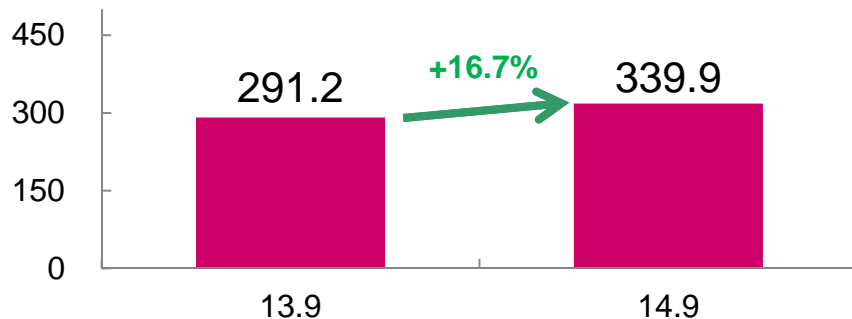
### Institutional Business



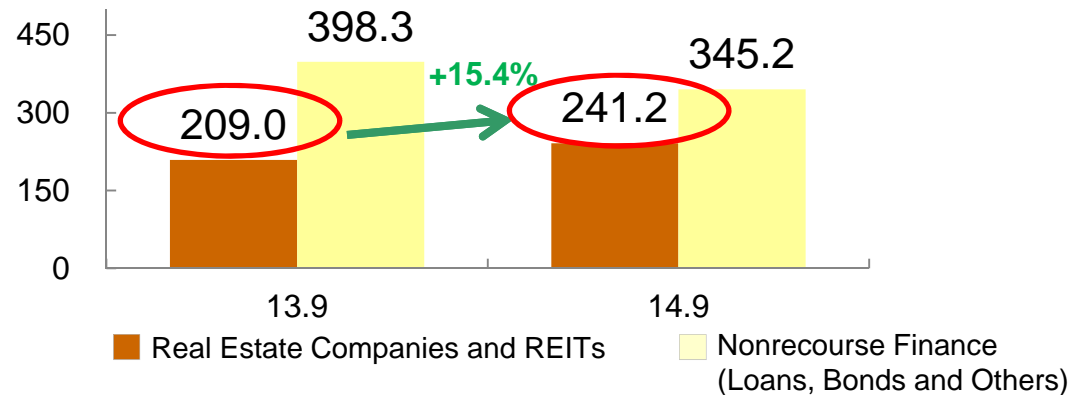
### Principal Transactions



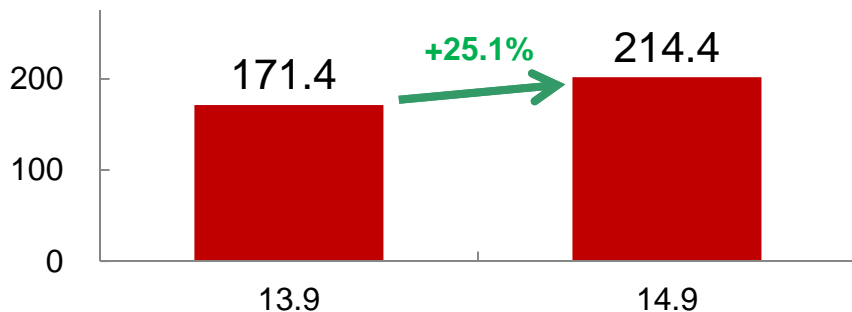
### Specialty Finance



### Real Estate Finance



### Global Markets



## Business Data

- Project Finance (accumulated commitment amount as of Sep 30, 2014)
  - ✓ Domestic Project Finance: approx. JPY80 billion
  - ✓ Overseas Project Finance: approx. JPY100 billion

# Progression of Second MTMP

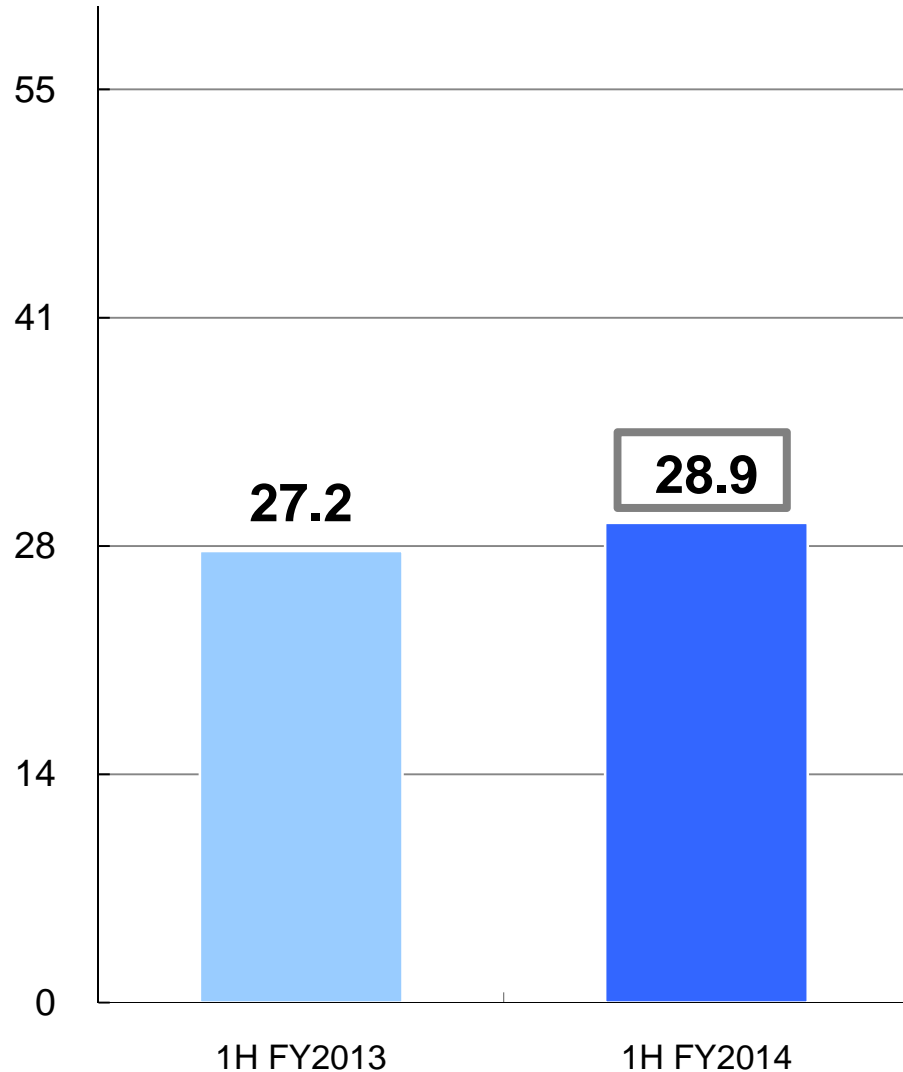
# Second Medium Term Management Plan (Second Year)

## Financial Targets Dashboard

### Growth

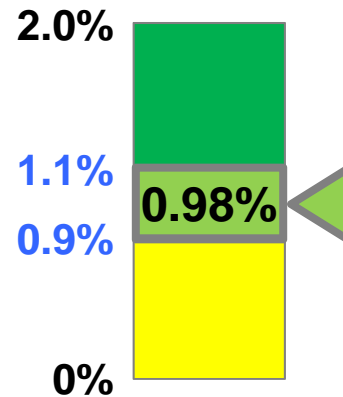
#### Net Income (Consolidated)

(Unit: Billions of Yen)

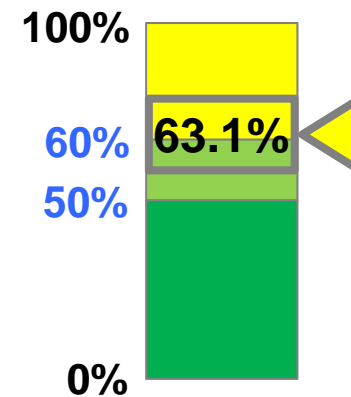


### Profitability

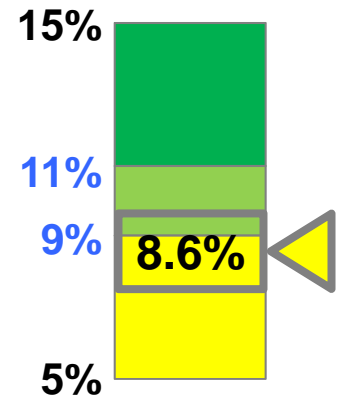
#### RORA



#### Expense to Revenue Ratio

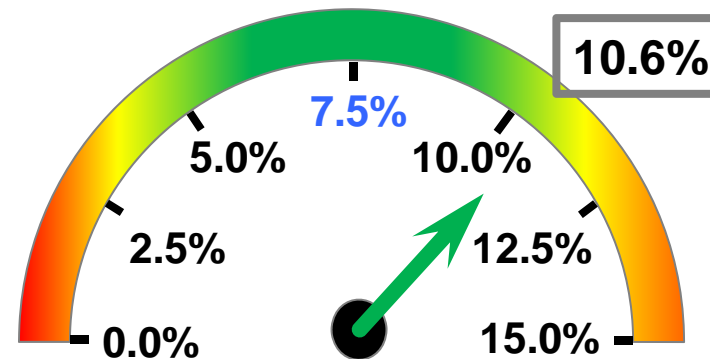


#### ROE

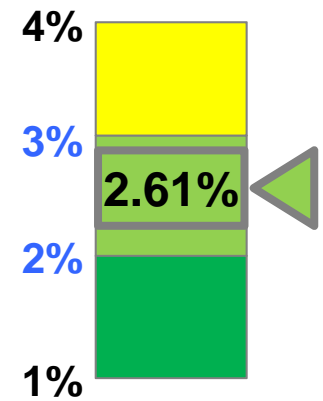


### Financial Stability

#### Common Equity Tier 1 Ratio



#### NPL Ratio



# Progression of Second MTMP: Individual Business



## Organizational Improvement

- SFC sales framework improved
- Commenced Smartphone banking
- Website renewed to make it more user-friendly
- Establishment of dedicated outbound call center for retail customers
- Conclusion of grey zone indemnity

## Integration Measures

- Established group-wide steering committee
- Step Up Program introduced for group companies customers
- Group Marketing Division established

## Expansion of Services

- Expansion of ATM network in convenience store chains including LAWSON and FamilyMart
- Account opening via Smartphone
- GoRemit – overseas remittance service started
- Expansion of developer channel for housing loans
- Added Anshin Pack W (supporting childcare and home making services) feature to housing loan to ease burden of working women
- Expansion of e-order application for shopping credit application

## Marketing Enhancement

- Targeted marketing to retail customers
- SFC staff trained to promote housing loan business
- Group-wide marketing best practices being leveraged

## Alliance Sales Promotion

- Utilization of big data for customer analysis to enhance sales and incentives (e.g. point program)
- Continue to promote unsecured loans guarantee business (Currently partnered with 10 financial institutions)

## Service Enhancement

- Promoting long-term investment products (active promotion of NISA program)
- Continue to improve foreign currency denominated products and services to establish Shinsei brand as “a high quality FX service provider”
- Convenience of website, Smartphone, ATM, etc. enhanced

Significantly expanding business alliance with TSUTAYA (ultimate parent of T-Point franchise):

Introduced T-Point incentive program to retail and unsecured loan customers

# Progression of Second MTMP: Institutional Business

## FY2013

- Provide financial solutions to innovative companies and new businesses with potential to grow ⇒ Expand the customer base and become customers' main Bank
- Proactively commit to new industries and businesses based on changes in social structure and environment and innovations in technology

## FY2014

- Diversify renewable energy transactions (wind power and other new schemes)
- Lay groundwork for supporting overseas expansion and corporate rehabilitation

### Pursue differentiation in key industries/fields

#### Medical and healthcare

- Establish healthcare infrastructure fund
- Cofound asset management company aimed at establishing and listing a healthcare REIT

#### Renewable energy

- Steadily increasing number of commitments to domestic renewable energy and overseas project finance deals
- Enhance partnerships with regional financial institutions through collaborative projects

#### Incorporation/corporate rehabilitation support

- Provide financing for business start-ups by working together with external institutions such as university-based venture capital (VC)

**Basic strategy:**  
Strengthen and utilize expertise to support the growth of companies, industries and regions through business cooperation

### Further promote areas of expertise

#### Rebuild real estate portfolio

- Asset quality significantly improved due to progression of NPL disposal

#### Expand corporate revitalization business

- Capture a wide range of business opportunities leveraging the neutrality and independence of Shinsei Bank through the Shinsei PI group

#### Expand network and cooperative undertakings with regional financial institutions

- Expand cash flow finance and asset backed lending aimed at revitalizing regional economies
- Expand loan trading and brokerage business base, promoting business cooperation to support business succession

#### Strengthen capital market capabilities, including sourcing function

- Expand market related transaction customer base leveraging rising interest rate and FX fluctuation concerns
- Develop investment products such as investment trusts, structured bonds and structured deposits ahead of the competition





# Disclaimer

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- The preceding description of Shinsei Bank'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.
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- Information concerning financial institutions other than the Company and its subsidiaries are based upon publicly available information.
- These materials do not constitute an invitation or solicitation of an offer to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis for any contract or commitment whatsoever.



# Memo

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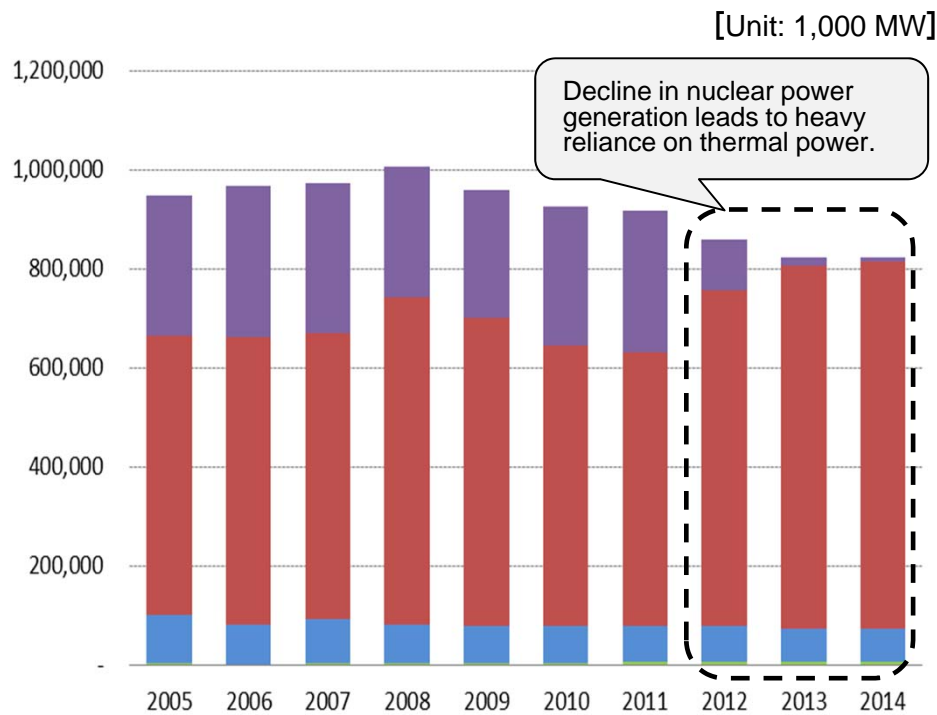
# Developing New Business Areas With a Focus on Renewable Energy

- Establishing the project finance market in Japan -

# Project Finance in Japan: Market Environment Understanding

- ◆ Japan has relied heavily on thermal power generation following the disaster at the Fukushima nuclear power plant.
- ◆ To resolve the issues of costs and the CO<sub>2</sub> emission increase, the Japanese government created a feed-in tariff scheme, which has led to the growth of solar power generation in particular.
- ◆ Renewable energy will require greater costs in the short term, but decrease costs over the medium- to long-term through the improved power source mix brought about by technological innovation.
- ◆ The domestic project finance market is growing due to increasing funding needs in the renewable energy field.

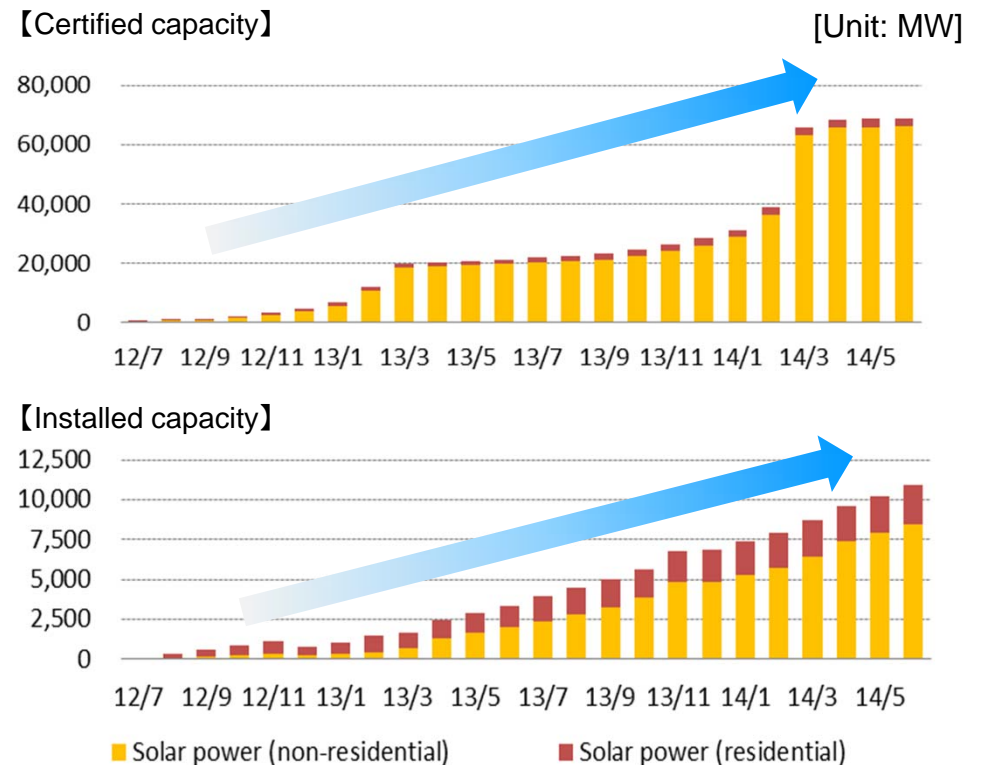
Actual Electricity Generation by Power Source\*



■ New energy etc ■ Hydraulic power ■ Thermal power (excl. bio and waste) ■ Nuclear power

\*Source: Agency for Natural Resources and Energy

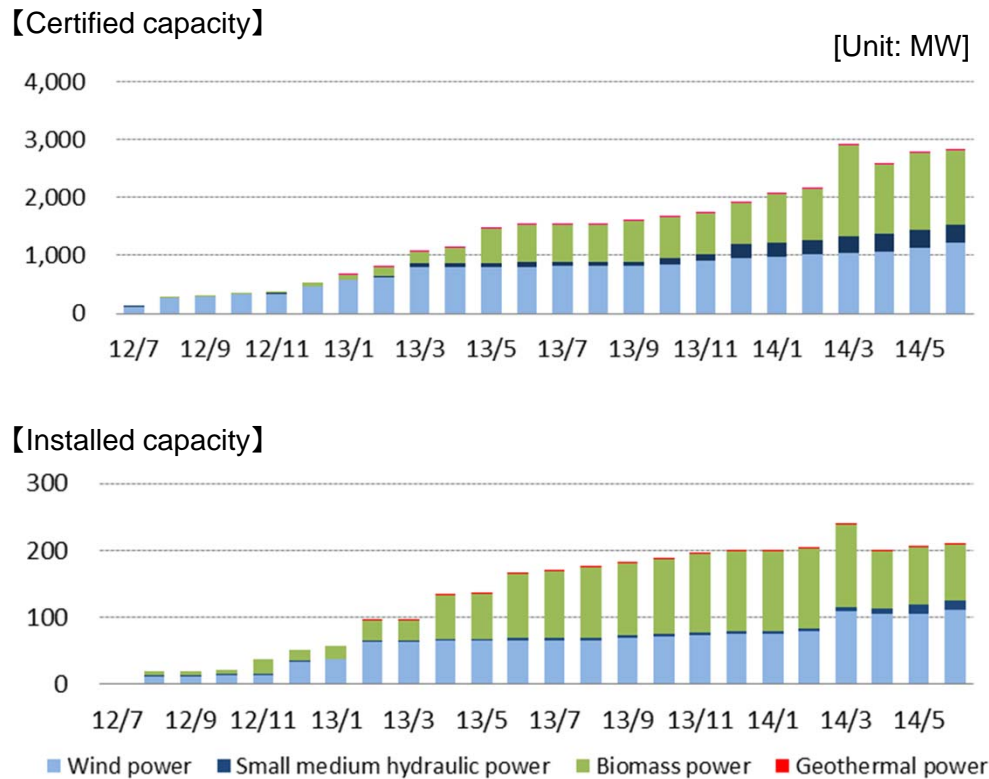
Certified/Installed Capacity of Solar Power Generation Facilities\*



# Project Finance in Japan: Renewable Energy Market

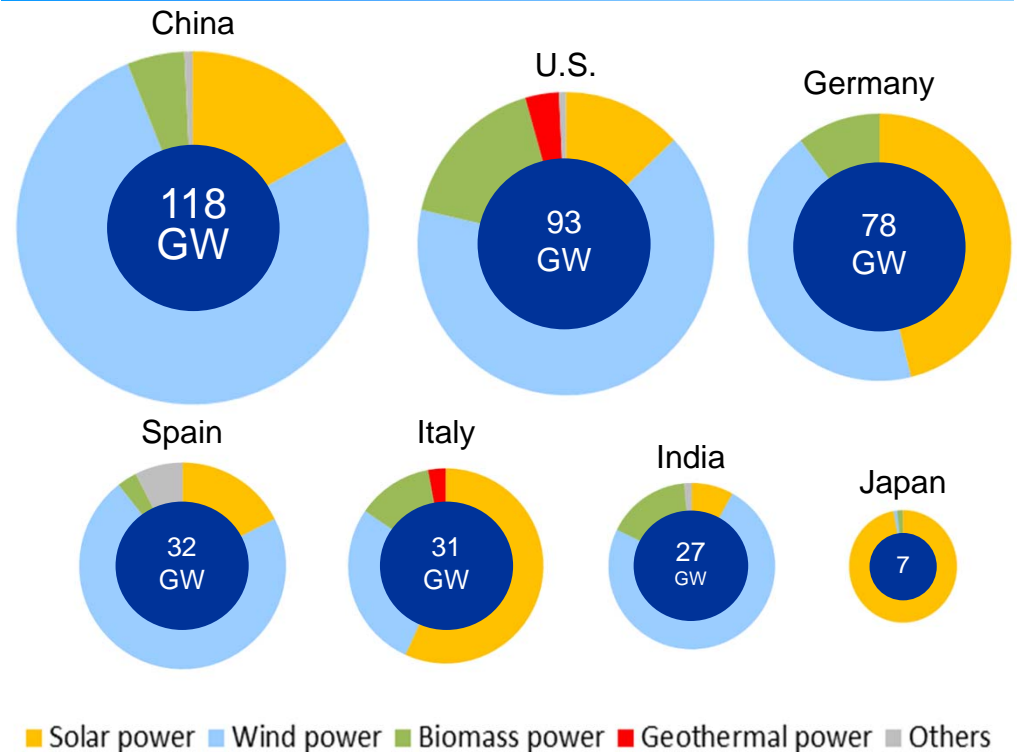
- ◆ The market for renewable energy other than solar power also growing since the introduction of the feed-in tariff scheme.
- ◆ Compared to other major countries, Japan relies heavily on solar power among other renewable energy sources.
- ◆ In the long term, new business areas such as wind power and biomass power where Japan falls behind other countries are expected to grow.

Certified/Installed Capacity of Other Renewable Energy Facilities\*1



\*1 Source: Agency for Natural Resources and Energy

Installation of Renewable Energy Facilities in Major Countries\*2



\*2 Source: "Renewable 2014 Global Status Report" (REN) and Agency for Natural Resources and Energy  
The size of the circle and the figure in the middle show the total of the installed capacity of renewable energy generation facilities as of December 2013.

# Project Finance in Japan: Shinsei Bank's Strengths

- ◆ Started focusing on the renewable energy field before other banks
- ◆ Arranged many project finance schemes and built up know-how
- ◆ Engaging in ground-breaking project finance schemes

## Highly specialized team members

### Project Finance Department, Specialty Finance Division

- Established in June 2012
- Arranged 15 syndicated loans solely in the domestic renewable energy field with total commitment amount of approximately 80 billion yen (as of September 30, 2014)
- Team of 32 specialists (of which 17 members handle domestic projects)

### New Energy and PFI Department, VBI Promotion Division

- Established in March 2012
- Position new energy and PFI as new business areas with high growth potential in the VBI strategy. Attempting to differentiate Shinsei Bank from other banks by supporting energy and PFI projects by means of business participation through financing.
- Seven members who are also members of the Project Finance Department

## Creation of ground-breaking structures

- Utilizing anonymous partnership (TK) investment schemes
  - ✓ Mega solar project in the eastern region of Hokkaido by JAG Energy Co., Ltd. (arranged in February 2013)
  - ✓ The first GK-TK (*godo-kaisha/tokumei kumiai*) scheme in project financing in Japan
- Scheme that utilizes a trust bank as a power producer
  - ✓ Mega solar portfolio project by Koyo Electric Co., Ltd.
  - ✓ Ground-breaking project in which a trust bank is used as a power producer (vehicle) in order to provide nonrecourse financing to an SME
- Others
  - ✓ Providing financing to renewable energy projects sponsored by non-Japanese businesses or infrastructure funds
  - ✓ Utilizing tranching to make it easier for regional financial institutions to participate and strengthen collaboration with them

# Project Finance in Japan: Shinsei Bank's Track Record

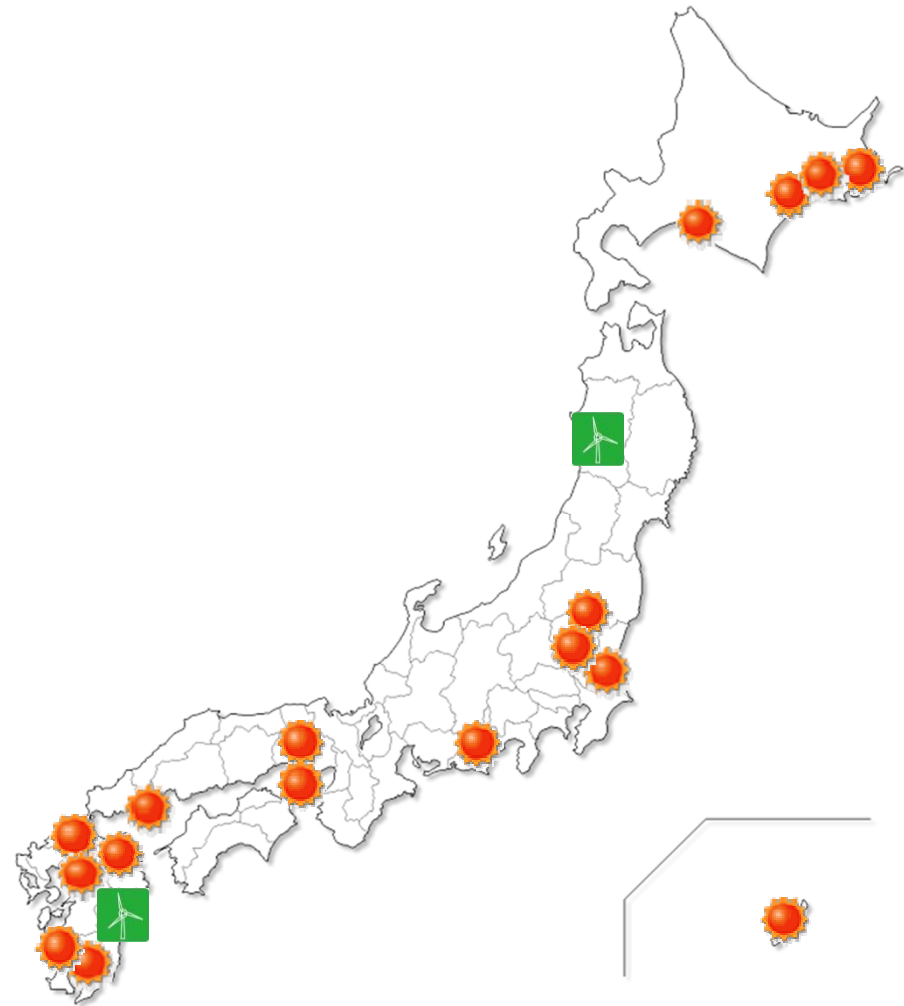
## Project financing arranged by Shinsei Bank in the renewable energy field

- Mega solar (Eastern region of Hokkaido) 5MW
- Mega solar (Ibaraki) 40MW
- Mega solar (Koshimizu-cho, Hokkaido) 9MW
- Mega solar (Kikugawa City, Shizuoka) 17MW
- Mega solar (Kokonoe-cho, Oita) 25MW
- Wind farm (Sakata City, Yamagata) 16MW
- 7 mega solars in Japan 8MW
- Mega solar (Nasu-Shiobara City, Tochigi) 25MW
- Mega solar (Atsuma-cho, Hokkaido) 15MW
- Mega solar (Hikari City, Yamaguchi) 20MW

15 projects in total including others  
Total amount committed for financing arranged:  
Approximately 80 billion yen



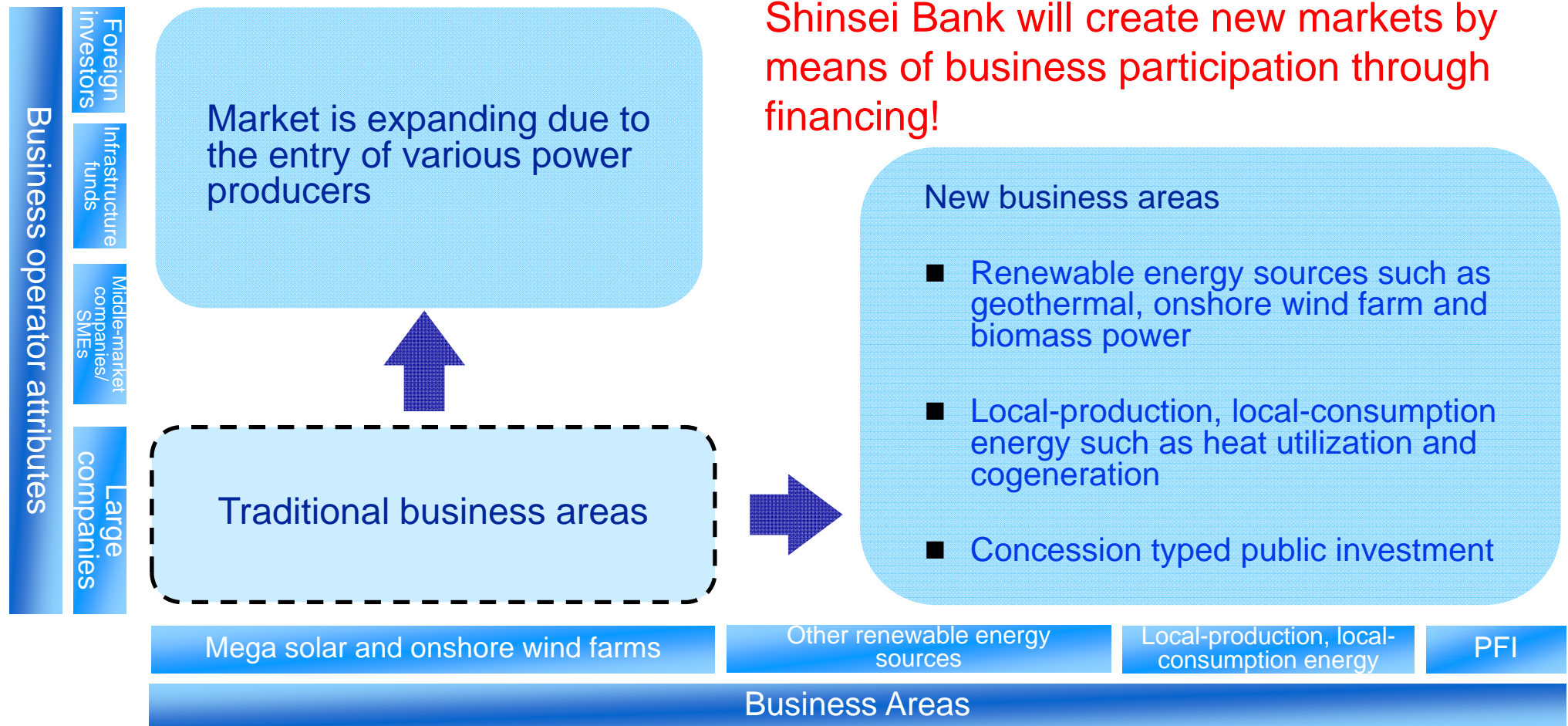
Planning to arrange financing worth 150 billion yen in total by the end of fiscal year 2015



As of September 30, 2014

# Project Finance in Japan: Initiatives in New Markets

- ◆ Competition with megabanks and others is intensifying in traditional business areas
- ◆ Increase initiatives in new markets by expanding sponsor (business operator) attributes and business areas





# Project Finance in Japan: Enhance Cooperation with Regional Financial Institutions

- Arranged 15 project financing transactions worth approximately 80 billion yen in total primarily in mega solar projects as a major player in the renewable energy market and provided syndicated loans together with regional financial institutions.
- Further enhance collaboration with regional financial institutions to promote projects that are becoming more diverse and larger in size.

