SHINSEI BANK

INTEGRATED REPORT

For the fiscal year ended March 31, 2018

2018

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CEO Message

Hideyuki Kudo
President and
Chief Executive Officer

In order to be a financial group that stays a step ahead,

we continue to endeavor to maximize the Shinsei Bank Group's strengths and management resources to address unmet customer needs arising from social changes and further evolve the Group's unique business model.

Social Issues & Environmental Changes Surrounding the Financial Industry

Operating conditions surrounding financial institutions are changing in a period of sweeping change in a variety of social, economic and financial areas. In light of difficult earnings conditions in the traditional businesses and rapid technological development, the search for areas that can generate new customer value is an issue as well as an opportunity faced by the entire financial industry, and differentiation in business models is starting to arise from this trend.

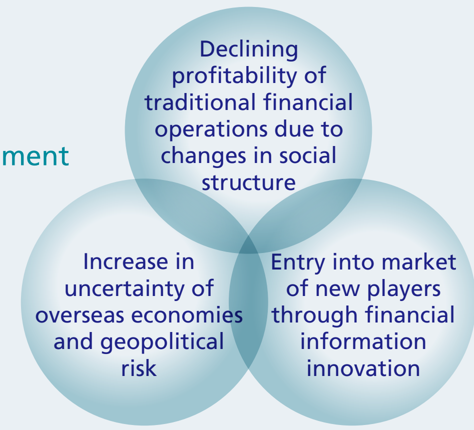
Labor shortages caused by the aging population along with widening social disparity are social issues facing Japan. Consequently, with employment flexibility and acceleration of diversity, freelancing, second jobs and other new work styles are on the rise. At the same time, the number of foreign workers in Japan has reached an all-time high. Against this backdrop, the Shinsei Bank Group is providing financial support to address unmet needs within latent customer segments to which conventional approaches have been unable to fully deliver financial products and services. To address world-wide environmental and energy issues, the Shinsei Bank Group is breaking new ground by financing projects to meet the need to adopt renewable energy in Japan following the Great East Japan Earthquake.

External Environments

Changes in Macro Economic Environment

- Declining birthrate, aging population
- Greater social inequality
- Natural disasters and energy issues stemming from climate change

Changes in Financial Environment



CEO Message

Financial Environmental Changes

Three major changes are occurring in the financial industry.

First, the traditional commercial bank business model consisting solely of accumulating deposits and providing lending is no longer able to generate significant additional value following the adoption of a negative interest rate policy by the Bank of Japan and the emergence of FinTech, a phenomenon that is integrating financial and IT functions on a highly sophisticated level.

Second, we are seeing changes from the development of FinTech and new entrants from relevant outside sectors. Financial institutions are now facing competition from companies that use data collected from entry points outside of the financial industry. In addition, the entry of new players from non-financial sectors could pose a major threat to financial institutions, as regulations make it difficult for them to enter non-financial sectors. Nevertheless, the fact remains that financial institutions themselves have high expectations for FinTech to drive innovation in terms of providing never-seen-before value to existing customers while identifying and supporting the increase in value for new customer segments with unmet needs by entering ecosystems that leverage FinTech.

Third, geopolitical risks mainly overseas have heightened. With domestic and overseas financial institutions being connected by networks, there is a lack of clear financial regulations in areas such as virtual currency, where value storage and payment methods that can easily cross borders have appeared on the scene. Similar to the collapse of Lehman Brothers, the fear that an issue arising in a particular country could quickly spread worldwide has definitely not eased. Rather, such risks are on the rise in different forms.

Shinsei Bank Group Business Strategies and Strengths

Being in a unique position that differentiates it from both megabanks and regional banks, the Shinsei Bank Group leverages its technological strengths in both IT and finance to be first in identifying and meeting “unmet customer needs.”

Key concepts

1. **Society (S): Respond to financial needs that are not met by existing products and services**
2. **Environment (E): Become the market leader in the renewable energy field**
3. **Seek growth opportunities in Southeast Asia**

The Shinsei Bank Group’s originality lies in providing highly specialized products, services and solutions that leverage both IT and financial technologies to meet actual customer-oriented demand. The Group aims to create added value for customers by identifying business opportunities from needs not met by existing products and services along with those needs that remain under the surface, while pioneering initiatives in businesses expected to see high margins and market growth.

Combining IT and financial technologies had specifically involved establishing SecondXight, Inc. as a FinTech joint venture with a company specializing in data analysis in order to utilize AI and Big Data. In addition, the Group has been upgrading tools to provide such new services as an integrated Group customer database that goes online in fiscal 2018. Through these initiatives, various Group management resources will be organically linked, while

Leveraging Synergies across Key Businesses

Create new businesses that go beyond the existing framework guided by the genuine needs of customers

Shinsei Bank × Showa Leasing	→	To meet the real needs of our customers, we will manage our corporate businesses across legal entities and Group organizations with the aim of offering integrated services and conducting advanced risk management.
Showa Leasing × APLUS	→	Vendor leasing to business owners and auto leasing to individuals via merchants of APLUS
Shinsei Bank Group × Different industries	→	Business alliances and investments aiming to create ecosystems targeting underserved customers such as freelancers and foreigners in Japan, and business alliances with non-financial players who have customer bases

simultaneously identifying what kinds of latent needs will emerge and in what forms for which customers and then employing these resources to find the best way to address them. Effectively matching customer needs with Group functions is an area where the Shinsei Bank Group can provide value to address social issues and it serves as the starting point to build our original business model. A specific example of this is the approach to freelance personnel. Although we expect freelancers to top 20 million in 2030, conventional financial institutions that depended on previously stable cash flow are unable to sufficiently meet freelance financing needs. However, the ecosystem in which freelancers operate shows significant promise for unique financial institutions like us that are experts in small loans while using Big Data and AI. In 2017, Shinsei Bank established a capital/business alliance with a crowdsourcing major player, Lancers, Inc., aimed at developing financial products and services for freelance personnel. With our presence rising in the freelance labor market, we will penetrate ecosystems in which freelancers operate and provide solutions for customers who had been previously overlooked, thereby creating a virtuous circle within this ecosystem.

The Group has positioned its financial technologies in growth fields, focusing on structured finance as a means to provide high-value-added financial services. Particularly in project finance, we boast an abundant track record in the field of renewable energy by leveraging our accumulated financial expertise based on cash flows generated from operating activities. Environment and energy are important social issues. As a market leader in project finance for renewable energy, the Shinsei Bank Group is contributing to the stable growth of renewable energy and to the solution of social problems through these business activities. (For further information, please refer to p.68–70.)

The Shinsei Bank Group will develop its small loan businesses overseas by forming alliances with local financial institutions that have customer bases centered on Southeast Asia, which displays high growth potential. In Vietnam, we have already established a consumer finance joint venture with a major private-sector commercial bank, enabling a steady rise in customers there. The Shinsei Bank Group aims to expand its businesses by providing services that package together our consumer finance experience and expertise, personnel and financial technologies accumulated to date to contribute to growth in Southeast Asia.

Management Infrastructure to Realize a Business Model That Is a Step Ahead

The ability to adapt to changing conditions is important for remaining a step ahead. As a means to identify business opportunities and meet social needs amid these changing conditions, the Shinsei Bank Group aims to identify methods for combining business functions not limited to particular business models as well as integrating personnel from different companies.

Key concepts

1. **Governance (G): Enhance sophistication of integration of administrative functions in the Shinsei Bank and its Group**
2. **Generate greater dynamism through business integration with other business categories inside and outside the Group**

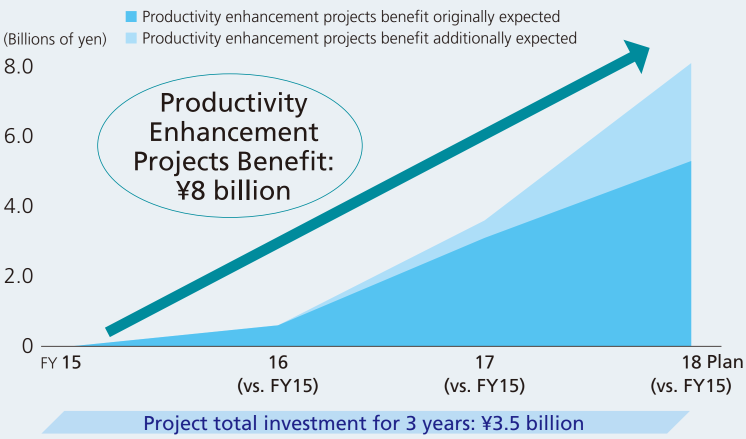
Strength from Flexible Organizations

In order to sufficiently meet changing customer needs, it is important not only to just attract talented personnel but also supplement any insufficiencies from both inside and outside the Group. In other words, it is vital to be able to grasp the roots of customer needs rather than taking a rigid sector-focused approach as well as have the dynamic creativity to optimally meet these needs. We are working to integrate the Group as one of the strategies in the Third Medium-Term Management Plan.

In April 2017, we established a virtual Group Headquarters within Shinsei Bank in order mainly to concentrate and increase the sophistication of headquarters functions and establish a foundation for organically linking administrative functions. In so doing, we have integrated indirect Group company headquarters-related functions in the areas of personnel, finance and general affairs. Beyond enhancing the Group's corporate governance structure, raising the sophistication of indirect administrative functions and increasing productivity and

Management Infrastructure Integration

Striving to improve operational efficiency and raise overall productivity by integrating administrative functions



Increase efficiency and the degree of operating sophistication through consolidation focusing mainly on Group headquarters and administrative functions

- Group headquarters systems
- Review of operations
- Consolidation and relocation of offices
- Reduction of nonpersonnel expenses

To review front-office functions

- Revision of branch strategy and branch management
- Review of products and services

To pursue further efficiency using technology

- Launch of automated services in call center functions, etc.
- Expansion of AI and RPA usage

efficiency through integration, the aim of the virtual Group Headquarters further out is to reorganize the Group's overall business functions in order to provide optimal solutions for customer needs.

In general, financial institutions seek to avoid new risks, but being insensitive to familiar risks is hardwired into their DNA. With a major paradigm shift occurring and the pace of change accelerating, however, it is becoming evident that those who are not the first to change will find themselves left out in the cold.

When tackling new ideas, traditional financial institutions lack an agile approach for improving through repeated trial and error. They start by making sure that all conceivable risks have been thoroughly eliminated. As this approach is the hallmark of financial institutions, any attempt to alter this would be nearly tantamount to changing their conceptual foundation and corporate culture. As a catalyst for changing the corporate culture, an important matter is how to take better advantage of the diversity within the Shinsei Bank Group. With this in mind, we are promoting the role of women in the workplace as one important theme. Over and above the obvious appointment of women to managerial-level positions, we recognize the need to make each and every employee, regardless of gender, feel that their work is worthwhile by creating a work environment that allows for healthy competition and provides opportunities for employees to use their abilities to the fullest extent possible. Foremost, we encourage employees to have the desire to attain both personal and organizational growth. In this sense, management must be committed to making the most of innovation, and therefore diversity, which is the wellspring of corporate value creation, and implement appropriate measures to facilitate this. Examples of Group initiatives are the formation of the Committee on Promoting the Role of Group Women in the Workplace and the removal of restrictions on diverse work styles. (For further information, please refer to p.46–47, p.64–65.)

The Shinsei Bank Group is taking on the challenge of changing its way of thinking by undertaking initiatives on a trial-and-error basis that involve organizational integration through the establishment of the virtual Group Headquarters and operational integration across business lines both within and outside the Group. We are gradually seeing the fruits of these efforts.

CEO Message

Capital Policies and Public Fund Repayment

Shinsei Bank continued to record profits in the fiscal year ended March 31, 2018 and, in turn, has made progress in accumulating capital. In addition to increasing profits and accumulating capital to repay public funds, we seek to receive the ongoing appreciation from capital markets by receiving high ratings for our business model, combining in a well-balanced manner rises in shareholder returns and fostering trust in our management approach.

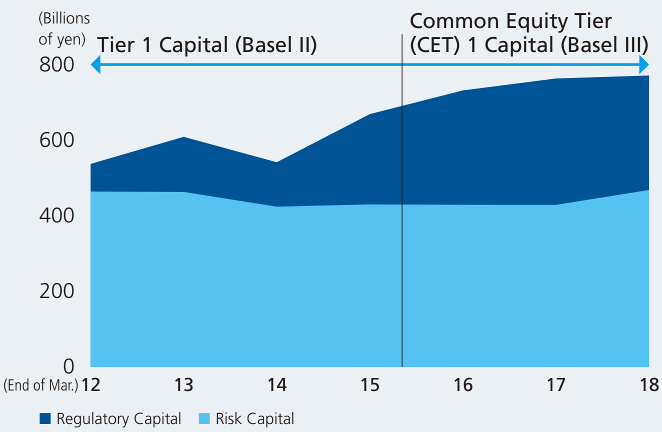
Key concepts

1. **Strong governance based on the concept that the Board of Directors should be shareholder-centric in their thinking**
2. **Accumulating capital to repay public funds while raising shareholder value**

70% or more of the Directors of Shinsei Bank are outside directors, and the Bank places a very strong emphasis on responding to the expectations of capital markets and shareholders. The Board of Directors therefore engages in earnest discussions, while business execution undergoes a strict series of tests and challenges right up to the implementation stage. (For further details, please refer to p.48–62.) To meet the capital market expectations over shareholder returns while being required to accumulate capital to pay back public funds, top management must in the near term manage capital in a manner that strikes a balance between these two contradictory objectives. Over the medium-to-long term, however, these two objectives should become consistent, as these involve raising both returns on capital and value per share. In other words, it is important that we gain favorable evaluations from capital markets regarding our growth-oriented business model that is able to accumulate capital to repay public funds while simultaneously raising value per share as the original preferred shares issued by the Bank for public funds have now been converted into common stock.

In light of this, we have increased "core profitability by prioritizing management resources toward strong-suit fields through business selection/concentration" over the past few years, which has enabled us to both accumulate capital and raise our total payout ratio. Going forward, in addition to these ongoing efforts, we aim to realize even-higher returns on capital via measures that include pursuing non-organic growth strategies as well as seeking to boost capital market evaluations by gaining favorable ratings for our business model and further improving trust in management.

Regulatory Capital/Risk Capital Trends



Total Payout Ratio

(Billions of yen)

FY	14	15	16	17
Total payout (A)	2.6	12.6[1]	12.5	15.5
Profit attributable to owners of the parent (B)	67.8	60.9	50.7	51.4
Total payout ratio (A)/(B)	4%	21%	25%	30%

[1] Excluding ¥2 billion relating to acquisition of treasury shares in order to attain full ownership of Showa Leasing

Message to Our Stakeholders

The importance of financial functions that support corporate and individual activities is unlikely to change. Amid changes in society and customer needs, however, bank functions and approaches will likely change as financial functions are redefined more broadly. The Shinsei Bank Group will work to maximize shareholder value by deftly identifying these changes and, in turn, becoming a financial group that stays a step ahead.

Key concepts

1. **Be the first to identify and meet changing needs**
2. **Society (S): Supplement financial system deficiencies**

The Shinsei Bank Group has established a superior position business-wise compared to other financial institutions based on its ability to flexibly identify and address unmet needs within society. We have a role to play in supplementing areas that are lacking in financial systems in any era.

A variety of different sectors rather than simply relying on existing bank and nonbank businesses are entering into our financial operations. To be certain, while banks are a specific means of financing via deposits and have a duty to protect depositors, specific social interest in banks is waning. Banks and other financial institutions should meet the needs of various customers while undertaking a wide range of tie-ups and alliances. Against this backdrop, the financial institutions that survive will likely be those that do not strictly adhere to traditional business models. We intend to be the first to implement such measures to ensure that the Shinsei Bank Group is a financial group that is able to meet the expectations of our stakeholders.

Going forward, we ask for the continued understanding and support of all stakeholders.

July 2018

Hideyuki Kudo
President and Chief Executive Officer

Letter from Finance

We will promote the optimal allocation of management resources as defined in the Group's management strategy.

Shouichi Hirano
Chief Officer,
Group Corporate Planning and Finance

Total revenue increased to ¥232.0 billion, **up ¥3.5 billion** from the ¥228.5 billion recorded in fiscal 2016.

The expenses-to-revenue ratio improved to **61.5%**, from 62.3% recorded in fiscal 2016.

Ordinary business profit was ¥89.4 billion, **an increase of ¥3.3 billion** from ¥86.0 billion in fiscal 2016.

The Common Equity Tier 1 Capital Ratio (international standard, fully loaded basis) was **12.2%**.

The nonperforming claims ratio (nonconsolidated basis) remained low at **0.17%**.

Fiscal 2017 Financial Results Summary

Results of Operations

Total revenue increased to ¥232.0 billion, up ¥3.5 billion from the ¥228.5 billion recorded in fiscal 2016.

- Net interest income totaled ¥128.7 billion, a ¥6.4 billion increase from the ¥122.2 billion recorded in the previous fiscal year, reflecting loan growth in Consumer Finance Businesses.
- Noninterest income decreased to ¥103.2 billion, a decline of ¥2.9 billion from the ¥106.2 billion recorded in the previous fiscal year. In fiscal 2017, we recorded gains on sales of equities in the Corporate Business and Showa Leasing, profits from the equity method investment in the Principal Transactions Business, as well as an increase in fee income from the Corporate Business. On the other hand, gains on sales of bonds in ALM operations and fee income related to the sales of asset management products in the Retail Banking Business decreased in fiscal 2017, in addition

to an absence of a large gain on sales of securities recorded in fiscal 2016. As a result of these factors, noninterest income decreased compared to the previous fiscal year.

Expenses totaled ¥142.5 billion, up ¥0.1 billion from the ¥142.4 billion recorded in fiscal 2016. A decline in personnel expenses resulting from progress of the productivity enhancement projects was offset by an increase in expenses related to IT systems and marketing activities. The expenses-to-revenue ratio improved to 61.5%, from 62.3% recorded in fiscal 2016.

Net credit costs increased to ¥37.2 billion in fiscal 2017, up ¥5.3 billion from the ¥31.8 billion recorded in fiscal 2016 due to provisioning of the specific reserves for loan losses in the Institutional Business and the general reserves for loan losses relating to the steady growth of the loan balance in the Consumer Finance Business.

A fiscal year-end review of the adequacy of reserves for losses on excess interest repayments in our consumer finance subsidiaries resulted in a total of ¥6 billion in gains on the reversal of reserves for losses on excess interest repayments.

Profit attributable to owners of the parent totaled ¥51.4 billion in fiscal 2017, up ¥0.6 billion from the ¥50.7 billion recorded in fiscal 2016.

Assets and Liabilities

Assets totaled ¥9,456.6 billion.

- **Loans and bills discounted** increased to ¥4,895.9 billion, up ¥62.5 billion from March 31, 2017. Increases in the lending balance of the Structured Finance Business and the Consumer Finance Business were partly offset by decreases in Institutional Business lending and Retail Banking housing loans.
- **Securities** increased to ¥1,123.5 billion, up ¥108.8 billion from March 31, 2017.

Liabilities totaled ¥8,600.6 billion.

- **Deposits and NCDs** increased to ¥6,067.0 billion, up ¥204.1 billion from March 31, 2017. Stable deposits remained high at 80% of our total funding base.

Capital and Asset Quality

The Common Equity Tier 1 Capital Ratio (international standard, fully loaded basis) was 12.2%. The Bank has maintained a sufficient level of capital.

Nonperforming loans on a nonconsolidated basis under the Financial Revitalization Law decreased ¥1.9 billion from March 31, 2017. The nonperforming loan ratio remained low at 0.17%.

Results of Operations (consolidated)

Unit: Billions of yen

FY	2017	2016	YoY
Net Interest Income	128.7	122.2	6.4
Noninterest Income	103.2	106.2	-2.9
Total Revenue	232.0	228.5	3.5
Expenses	-142.5	-142.4	-0.1
Ordinary Business Profit (OBP)	89.4	86.0	3.3
Net Credit Costs	-37.2	-31.8	-5.3
OBP after Net Credit Costs	52.1	54.1	-1.9
Income before Income Taxes	55.4	51.7	3.6
Profit Attributable to Owners of the Parent	51.4	50.7	0.6

Letter from Finance

Financial Management Policies for Fiscal 2018

While being attentive to overseas political-economic conditions and the interest rate environment, we will continue to promote financial management that optimizes the allocation of management resources as defined in the Group's management strategy. Along with ensuring that the income contribution from the growth areas of unsecured loans and Structured Finance remains robust, we are pursuing to improve productivity by increasing and enhancing the efficiency of operations to further improve our expenses-to-revenue ratio.

In the financial plan for fiscal 2018, we foresee growth in total revenue and increases in expenses related to IT system upgrades and marketing. The increases in expenses are expected to be partly offset by the expense savings realized from the productivity enhancement projects. Net credit costs are expected to improve in fiscal 2018 due primarily to the absence of provisioning of the specific reserves for loan losses recorded in the Institutional Business in fiscal 2017. As a result, both ordinary business profit after net credit costs and profit attributable to owners of the parent are expected to increase from fiscal 2017.

Towards Maintaining or Increasing the Total Payout Ratio

We have recorded stable profits in recent years, which demonstrate accumulation of capital for repaying the public funds. The public funds have been converted into common stock. Hence, we realize the importance of accumulating capital to repay the public funds as well as improving the valuation of the Bank from the market in order to increase the stock price.

In light of this, in fiscal 2017, we executed a share buyback program of common stock up to ¥10 billion to enhance the shareholders' return based on the profits recorded in fiscal 2016. In addition, in May 2018, we announced a share buyback program up to either ¥13 billion or 13 million shares as a payout from profits recorded in fiscal 2017. As a result, the total payout ratio including both dividends and stock repurchases is expected to increase to 30%.

Going forward, we aim to maintain or increase our total payout ratio within the range of Japanese banks' regular total payout ratios, on the premise that we steadily accumulate capital to repay the public funds.

Total Payout Ratio

(Billions of yen)

FY	2014	2015	2016	2017
Total Payout (A)	2.6	12.6[1]	12.5	15.5
Profit Attributable to Owners of the Parent (B)	67.8	60.9	50.7	51.4
Total Payout Ratio (A)/(B)	4%	21%	25%	30%

1. Excluding ¥2 billion relating to acquisition of treasury shares in order to attain full ownership of Showa Leasing

FY2018 Financial Plan: Summary (Details announced on May 11, 2018)