

金融リ・デザイン  
Reshaping Finance



**SHINSEI BANK**

**INTEGRATED REPORT 2020**  
For the fiscal year ended March 31, 2020



# Management Principles

The Shinsei Bank Group has established the following Management Principles and is working on a day-by-day basis toward their attainment.

To become a banking group that is sought out by customers, and contributes to the development of both domestic and international industrial economies, while maintaining stable profitability.

To become a banking group that values diverse talents and cultures and is constantly taking on new challenges presented by change, based on its experiences and history.

To become a banking group that strives for highly transparent management and values that is trusted by all stakeholders including customers, investors, and employees.

## Editorial Policy

Here in this Integrated Report, the Shinsei Bank Group brings together financial and nonfinancial information in a bid to help investors and other stakeholders gain an understanding of the Group's strategies and efforts toward creating sustainable corporate value. Having referred during the editing process to the frameworks presented by the International Integrated Reporting Council (IIRC)<sup>1</sup> and the Guidance for Collaborative Value Creation<sup>2</sup> indicated by the Ministry of Economy, Trade and Industry, we show the "big picture" narrative of the Shinsei Bank Group's corporate value creation.

In addition, this Report and the Shinsei Bank Integrated Report 2020 Data Appendix fulfill the disclosure requirements (an explanation of the Shinsei Bank's operations and matters regarding its financial position) stipulated under Article 21 of Japan's Banking Act. The Report also contains statements about the Group's management policies and future operating results. These forward-looking statements are not a guarantee of future performance. Actual results may differ from those indicated due to a variety of factors, including changes in the operating environment. Please see Shinsei Bank's Integrated Report 2020 Data Appendix for supplemental financial information.

Notes: 1 Established in 2010 for the purpose of developing an international framework for the disclosure of corporate information, the International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting professions and NGOs.

2 A manual for systematically organizing and integrating the information (management principles, business model, strategy, governance, etc.) that companies should convey to investors. Created and published by the Ministry of Economy, Trade and Industry for the purpose of enhancing the quality of information disclosure and dialogue with investors.



## Redesigning Finance

The Shinsei Bank Group is working to promote the Medium-Term Management Strategy, “Redesigning Finance” that started in fiscal 2019, both inside and outside the Group.



### Design Concept

The font color, which has an alternating blue and gray design concept, expresses the value co-creation business model that brings together services of not only the Shinsei Bank Group but also other companies. The object in human form in the center of the word “finance” symbolizes our stance connecting people with finance to provide valuable new financial services.

Initiatives and External Recognition			
Participation in Initiatives	United Nations Global Compact	Principles for Financial Action for the 21st Century	Women’s Empowerment Principles (WEPs)
	<p>WE SUPPORT UN GLOBAL COMPACT</p> <p>30% Club Japan</p> <p>30% Club GROWTH THROUGH DIVERSITY</p>	<p>PFA21 Principles for Financial Action for the 21st Century</p> <p>Equator Principles</p> <p>EQUATOR PRINCIPLES</p>	<p>In support of</p> <p>WOMEN'S EMPOWERMENT PRINCIPLES Established by UN Women and the UN Global Compact Office</p> <p>Task Force on Climate-related Financial Disclosures (TCFD)</p>
ESG Index	MSCI	THE INCLUSION OF SHINSEI BANK, LIMITED IN ANY MSCI INDEX, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF SHINSEI BANK, LIMITED BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.	Bloomberg Gender-Equality Index
	<p>2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)</p>		<p>2020 Bloomberg Gender-Equality Index</p>
Awards and Accreditation	Kurumin	Companies with Best Continual Efforts in IR	Gan Ally Award
	<p>2019年認定 しるみん 券 券でサポートしたい企業</p>	<p>2007-2018 IR継続企業 Member of Japan Investor Relations Association</p>	<p>Gan-ally-bu AWARD 2019 SILVER</p>

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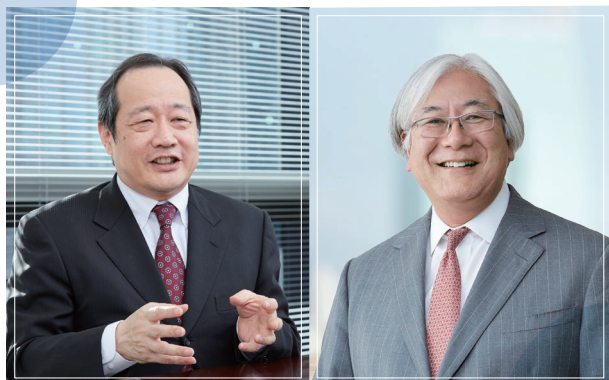
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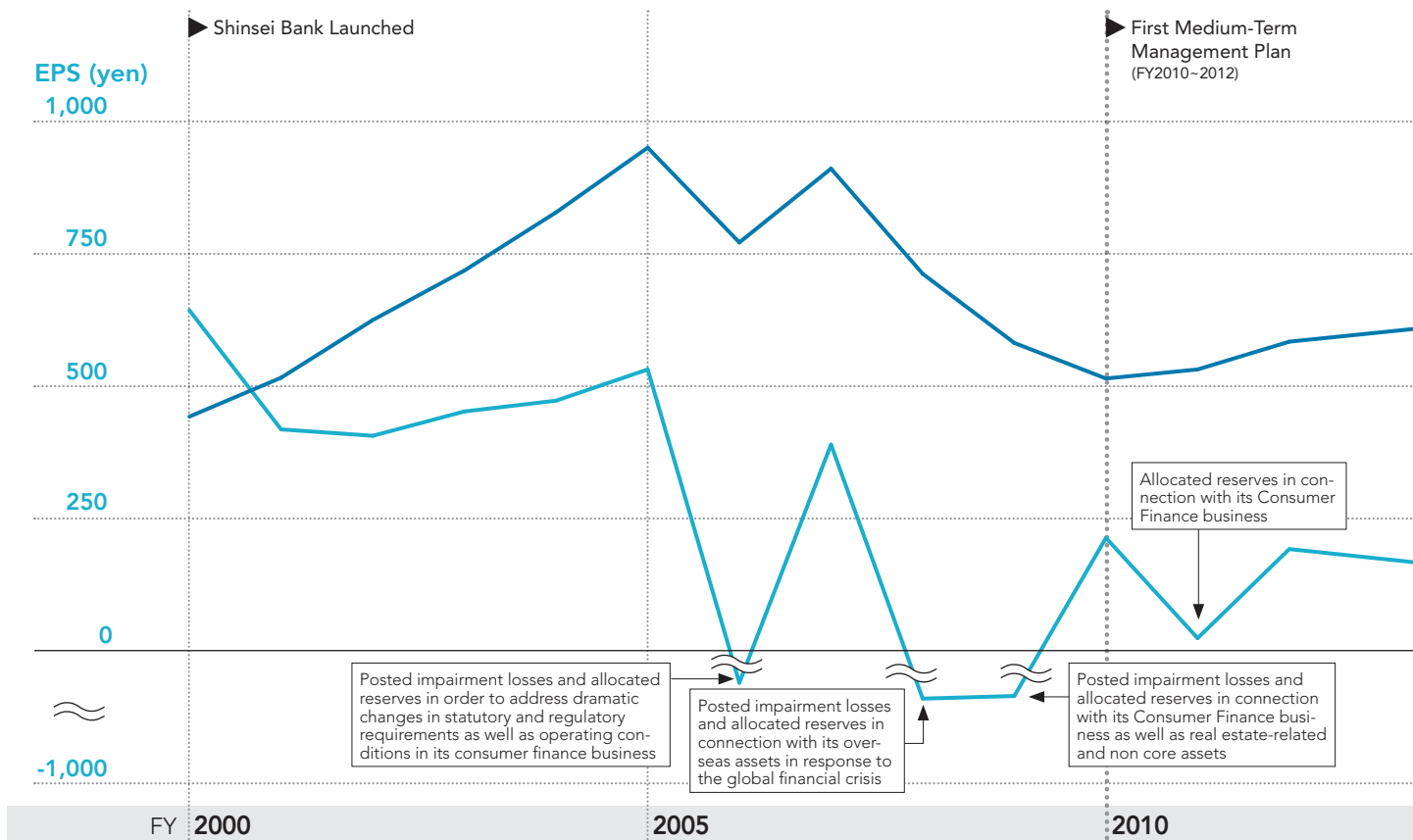
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金融リ・デザイン  
Redesigning Finance



# Evolution of the Shinsei Bank Group

Since its launch as the Shinsei Bank, Limited in 2000, the Group has continued to expand its customer base and stabilize income while acquiring new financial functions through acquisitions including APLUS FINANCIAL Co., Ltd., Showa Leasing Co., Ltd., and Shinsei Financial Co., Ltd.



## The Shinsei Bank Group

1952

The Long-Term Credit Bank of Japan, Limited established

1998

Due to business failures, temporary nationalization and special public management began based on the Financial Revitalization Law

March 2000

The Long-Term Credit Bank of Japan, Limited was bought out by New LTCB Partners CV, a US private equity investment consortium comprised of Ripplewood Holdings and J.C. Flowers & Co. LLC

## External Environment

2000

Shinsei Bank launched  
Name changed from The Long-Term Credit Bank of Japan, Limited (LTCB), to Shinsei Bank, Limited

Collapse of the IT bubble economy

Preferred stock capital injection and a partial reduction of preferred stock capital without compensation

2001

Shinsei Securities Co., Ltd. commenced operations

2003

Shinsei Investment Management Co., Ltd. commenced operations

Reduction of capital through the merger of two shares of common stock into one share

2004

APLUS Co., Ltd. (now APLUS FINANCIAL Co., Ltd.) converted into a consolidated subsidiary

Listed the Bank's common stock on the First Section of the Tokyo Stock Exchange  
Converted the Bank's long-term credit bank charter to an ordinary bank charter

## Transition of Stock

2005

Launched 32 colors of new cash cards for retail Power-Flex account customers

Showa Leasing Co., Ltd. converted into a consolidated subsidiary

End of the government guarantee on full savings deposits

2006

Partial repayment of public funds

Cancellation of treasury shares

2007

SHINKI Co., Ltd. (now Shinsei Personal Loan Co., Ltd.) converted into a consolidated subsidiary

Conversion of preferred stock into common stock

2008

Bankruptcy of Lehman Brothers

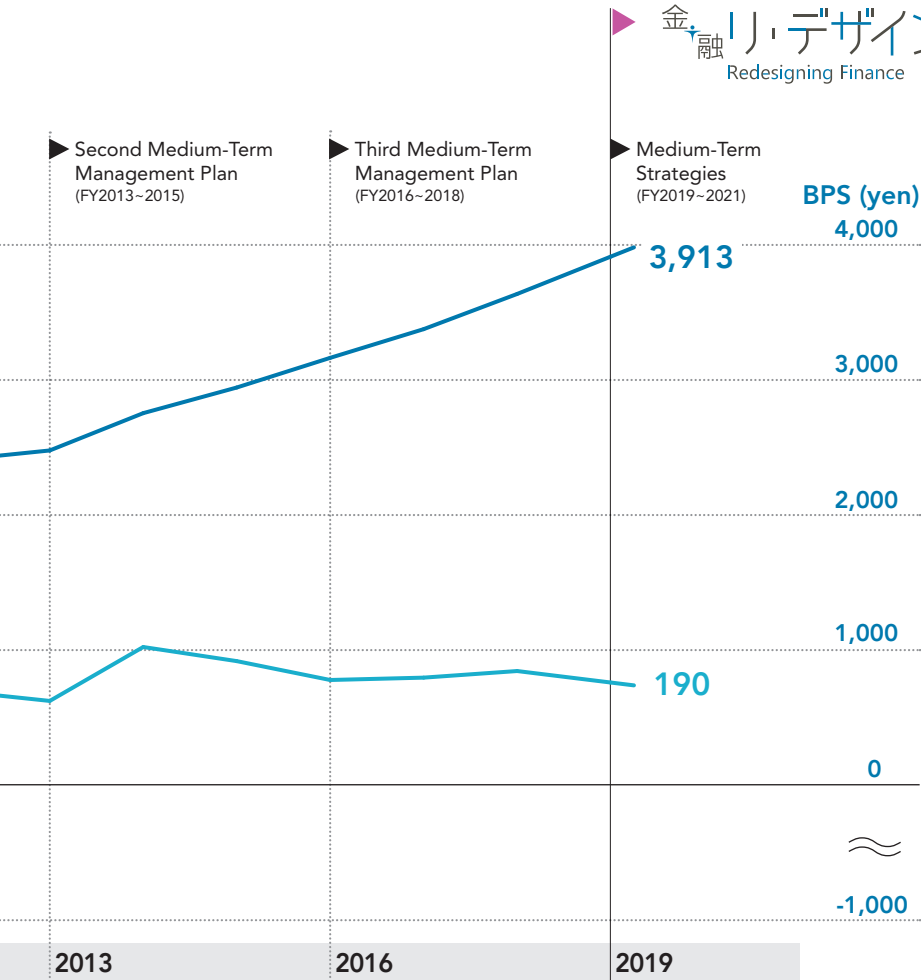
Issuance of new shares by third-party allotment

Conversion of preferred stock into common stock

GE Consumer Finance Co., Ltd. (now Shinsei Financial Co., Ltd.) converted into a consolidated subsidiary

2010

European debt crisis



Note: Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. Per share data is calculated on the assumption that the said reverse stock split was executed prior to fiscal 2017.

#### 2011

- Issuance of new shares through international offering

#### 2016

- Showa Leasing Co., Ltd. converted into a wholly-owned consolidated subsidiary
- Shinsei Financial Co., Ltd. entered the unsecured personal loan business in Vietnam
- Introduction of negative interest rate policy
- Acquisition of treasury shares

#### 2017

- Established the "Shinsei Bank Group Headquarters"
- Acquisition of treasury shares
- Merger of 10 shares of common stock into one share

#### 2018

- Shinsei Financial Co., Ltd. launched a new "Lake ALSA" brand, an unsecured loan product
- Determination of "Shinsei Bank Smart Money Lending" for Docomo users
- Alliance established with Global Trust Networks, Co. to establish fund to aid international students
- Acquisition and cancellation of treasury stock

#### 2019

- Acquired all shares of Financial Japan Co., Ltd.
- Showa Leasing Co., Ltd. acquired the shares of SHINKO LEASE CO., LTD.
- Formulated "Redesigning Finance" Medium-Term Strategies (fiscal 2019 to 2021)
- Implemented a secondary offering of shares of common stock of the Bank
- Acquired treasury stock
- COVID-19 crisis

## Fiscal 2019 Business Topics

### 2019

#### June

**Institutional Business** **ESG**

Established Japan Impact Investment II Limited Partnership as infrastructure for supporting and developing startups aiming to solve social challenges

#### August

**Shinsei Bank Group**

Major shareholder sold its shares

**Individual Business**

Commenced "Shinsei Bank Smart Money Lending" for Docomo users

#### December

**Individual Business** **Institutional Business**

Launched a joint finance business for USEN-NEXT GROUP customers by USEN-NEXT HOLDINGS and the Shinsei Bank Group

### 2020

#### January

**Individual Business**

Established Cred Finance Co., Ltd. to offer credit services to foreign residents in Japan with Seven Bank, Ltd.

**Institutional Business** **ESG**

Shinsei Corporate Investment Limited received the "Tokyo Financial Award 2019-ESG Investment Category"

**Institutional Business** **ESG**

Established a Sustainable Impact Development Division

#### February

**Institutional Business** **ESG**

Announced support for TCFD (Task Force on Climate-Related Financial Disclosures) recommendations

**Institutional Business**

Commenced cloud factoring service through "anew G.K.", which was established by OLTA and Shinsei Bank

#### March

**Individual Business**

Started providing partner companies with "BANKIT", a Neobank Platform

#### April

**Institutional Business** **ESG**

Adopted Equator Principles

#### June

**ESG**

Introduced a restricted stock compensation plan for outside directors

**Individual Business** **Institutional Business**

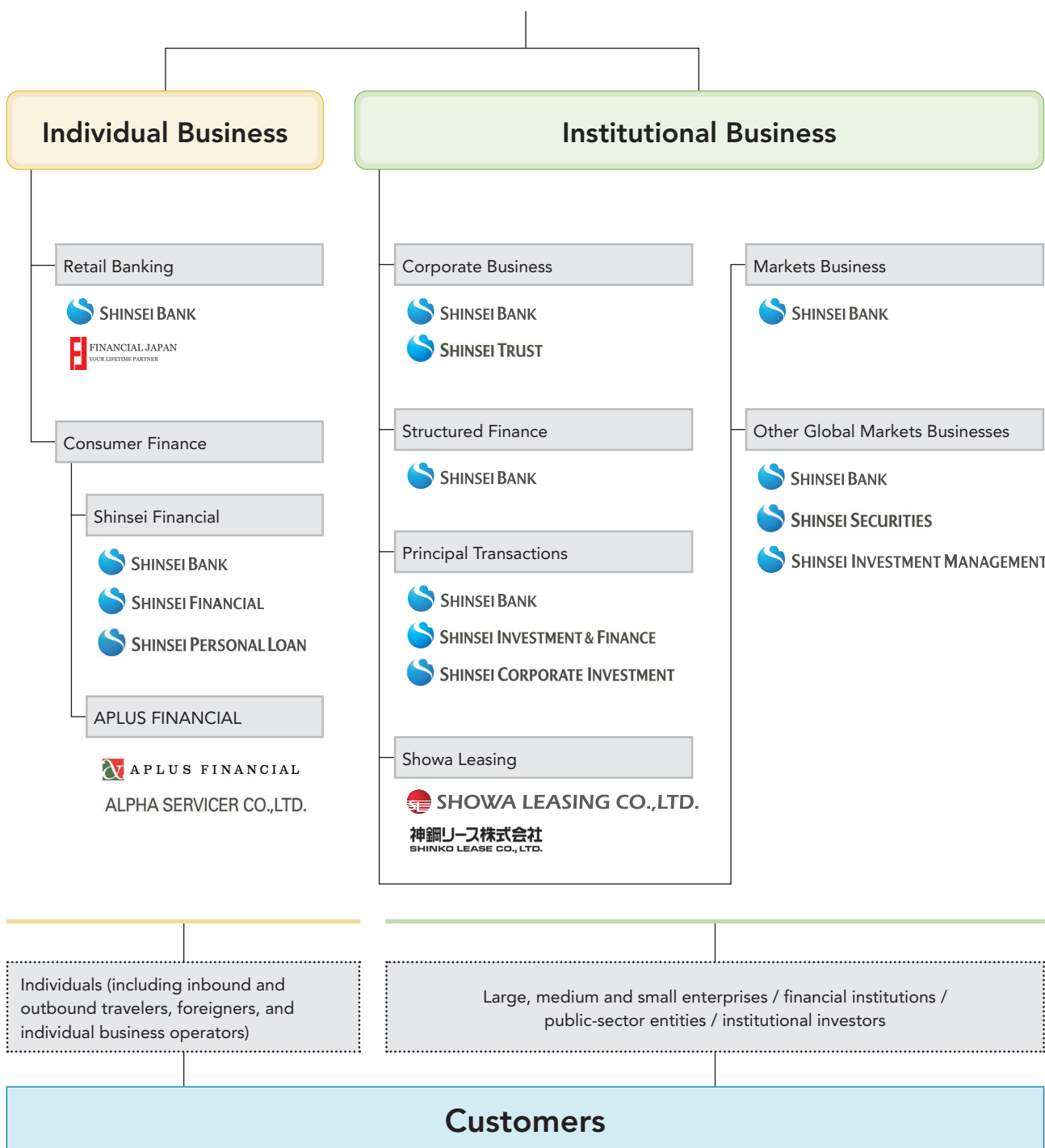
Concluded an agreement to acquire stocks of UDC Finance Limited to make it a wholly-owned subsidiary

**Institutional Business**

Participated to consider establishment of a joint venture company to promote regional revitalization

# Group Business Profile

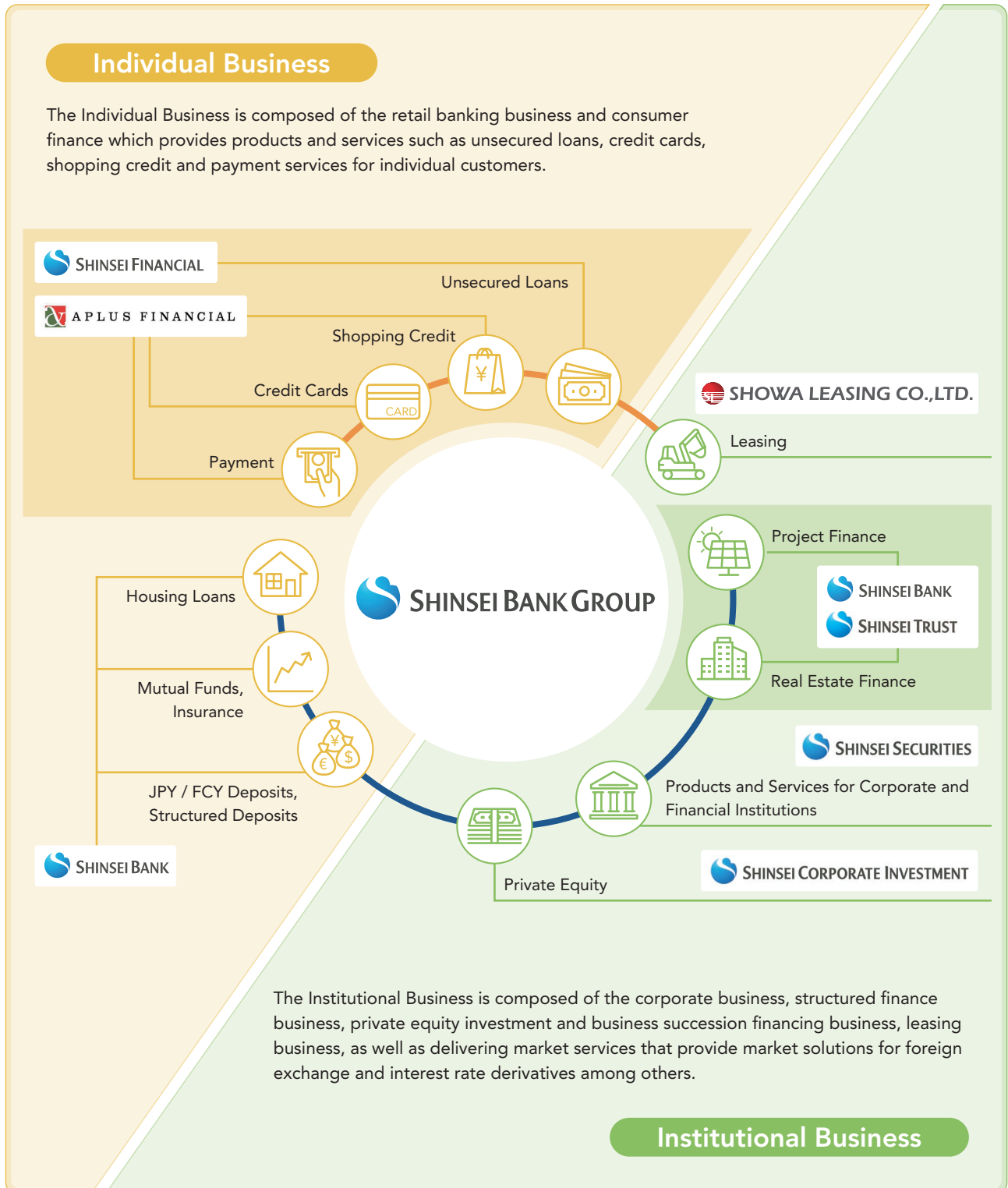
The Shinsei Bank Group continues to proactively identify underserved customer needs, which are not met by conventional financial products and services. At the same time, we provide solutions to these needs as a financial enterprise group. Targeting both individual and corporate customers, we harness the functions within the Group to deliver unique financial products and services.





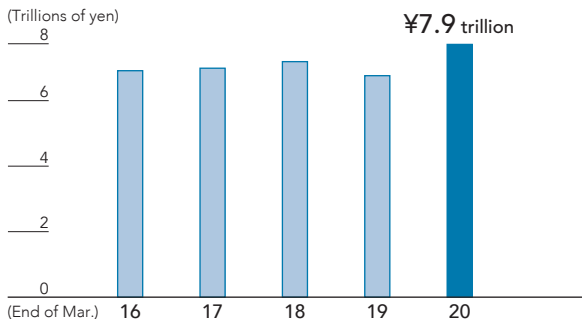
# The Shinsei Bank Group's Products and Services

The Shinsei Bank Group leverages its strengths to provide unique, hybrid, and seamless products and services, while keeping the social megatrends.



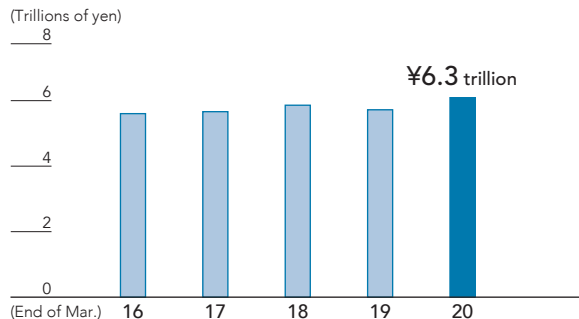
# Financial Highlights

## Operating Assets



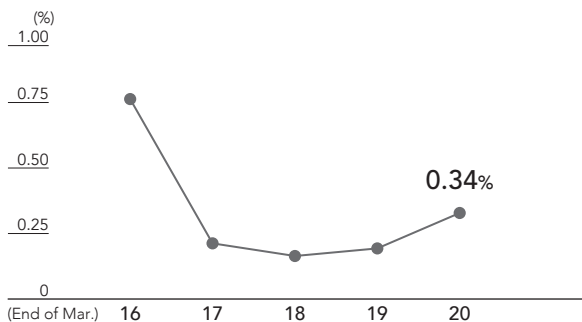
The balance of operating assets increased, mainly in the core business areas such as institutional investors business and small-scale finance.

## Deposits



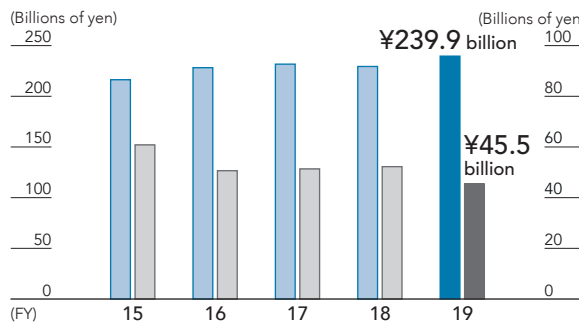
Stable deposits are mainly from individual customers, and the Bank maintains adequate deposit balances in both yen and foreign currencies.

## Ratio of Nonperforming Claims Classified under the Financial Revitalization Law to Total Claims (Nonconsolidated)



Under the Financial Revitalization Law, the ratio of nonperforming loan (NPL), which indicates the quality of assets, remained at a low level.

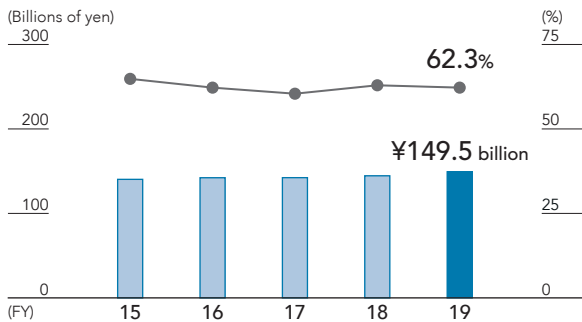
## Total Revenue / Profit Attributable to Owners of the Parent



■ Total Revenue (Left)  
■ Profit Attributable to Owners of the Parent (Right)

We are committed to increasing stable revenue based on actual customer demand and improving the quality of revenue under the continuous monetary easing by BOJ's negative interest rate policy and an uncertain economic environment.

## Expenses / Expenses-to-Revenue Ratio (Management Accounting Basis)

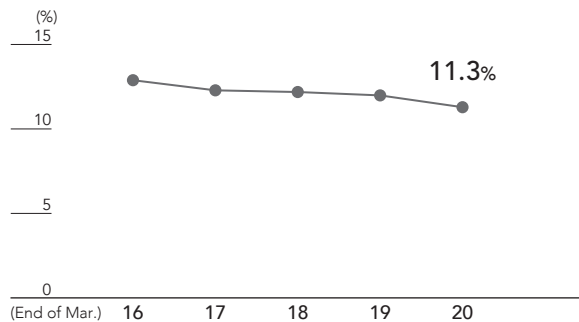


■ Expenses (Left) ● Expenses-to-Revenue Ratio (Right)

While system costs increased due to the new core banking system, the Shinsei Bank Group is working to reduce expenses-to-revenue ratio through the unified promotion of productivity reforms.

\* Expenses and expenses-to-revenue ratio represented on an operating result basis.

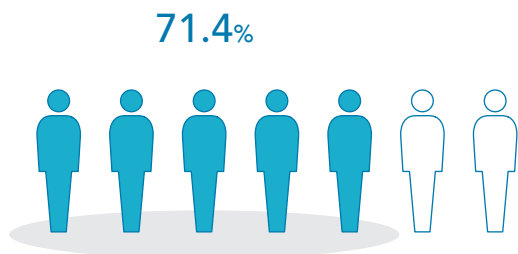
## Common Equity Tier 1 Ratio (International Standard)



Despite an increase in risk assets due to an increase in the balance of operating assets in the focus areas, the capital ratio remains at a sufficient level due to the steady accumulation of profits.

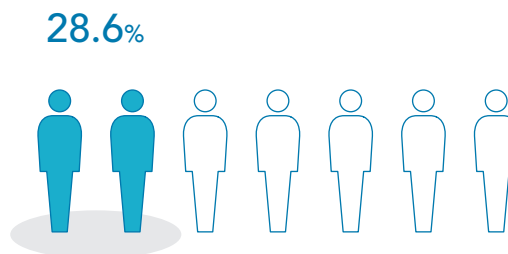
# Nonfinancial Highlights

## Ratio of Outside Directors on the Board of Directors



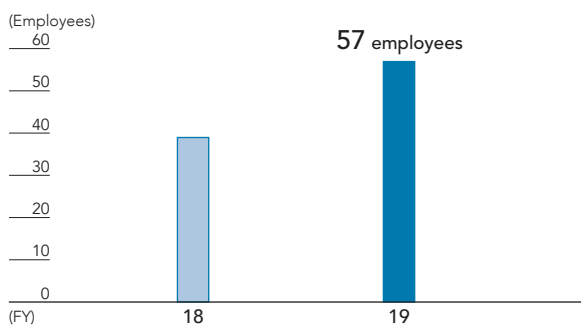
Outside directors with diverse skills and expertise comprise the majority of the directors. The Bank has maintained this structure since it commenced operations.

## Ratio of Female Executives



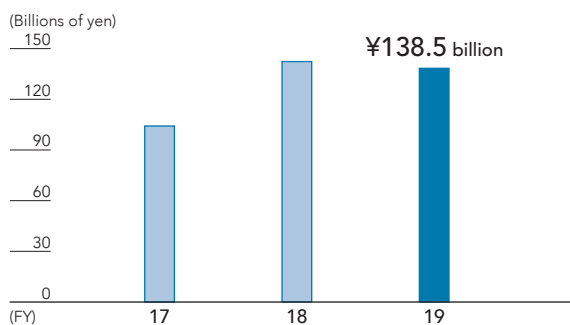
Two out of seven directors are female directors.

## Number of Registered Side Work / Concurrent Work



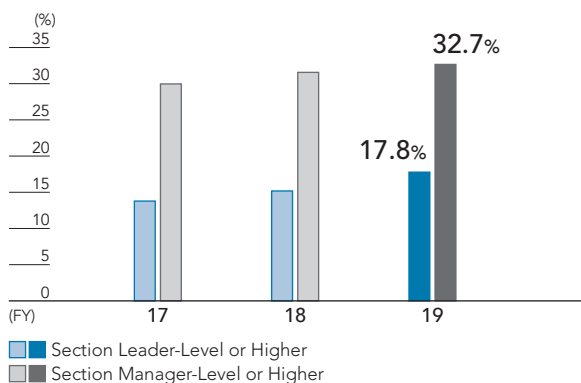
To enhance diverse career, we started allowing employees to concurrently engage in personal business (outsourcing, business start-up, company executive, etc.) or work concurrently for another company as the advanced system among the domestic financial institutions.

## Arrangement of Renewable Energy Project Finance



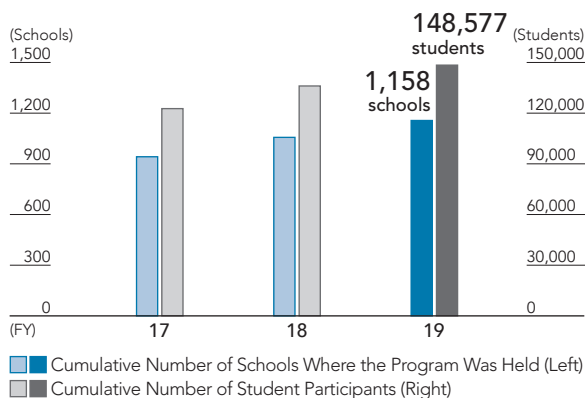
Since 2012, we have been expanding the base of domestic project finance investors and promoting syndication with regional financial institutions through project finance for renewable energy.

## Ratio of Female Managers



Recognizing that promoting the active participation of women is one of the most important issues in promoting diversity, we are developing an environment and implementing initiatives such as increasing the number of flexible work styles and options for diverse careers so that women can continue to play an active role by leveraging the strengths and characteristics of each and every woman in every level and job category.

## "MoneyConnection<sup>®</sup>" Financial Literacy Program

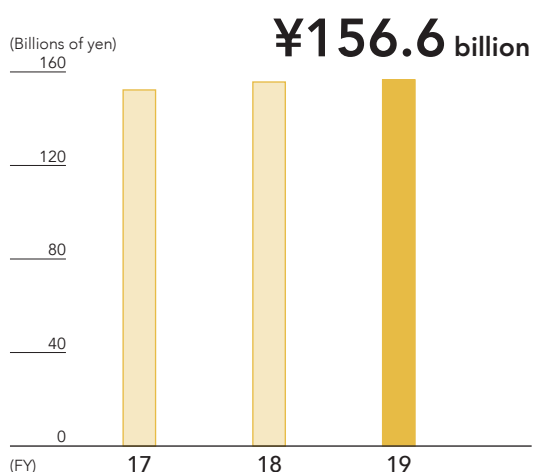
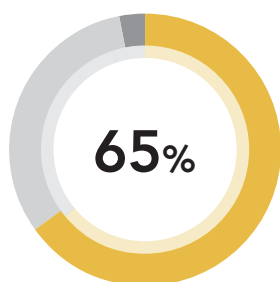


The Shinsei Bank Group considers the unemployment risk of younger people as a social issue to be solved. We actively work on promoting and expanding "MoneyConnection<sup>®</sup>," a financial literacy program mainly targeted at high school students, aiming to help them gain the accurate knowledge and the concept of money.

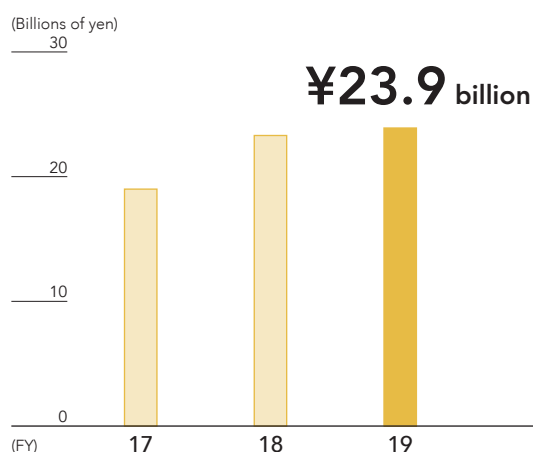
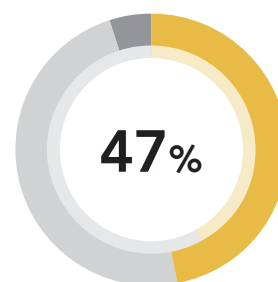
# At a Glance

## Individual Business

Total Revenue



Ordinary Business Profit after Net Credit Costs



Note: The percentage figures do not add up to 100% due to the contribution of Corporate / Other.

### Major Businesses

- **Retail Banking**      Yen / foreign currency deposits, structured deposits, investment trusts, securities brokerage services (through a partner institution), life and nonlife insurance (through partner institutions), housing loans, provision of financial transactions and services for individuals

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- **Shinsei Financial**      Unsecured loans and credit guarantees (Shinsei Financial, Shinsei Bank Card Loan L (former Shinsei Bank Lake), NOLOAN, Lake ALSA)

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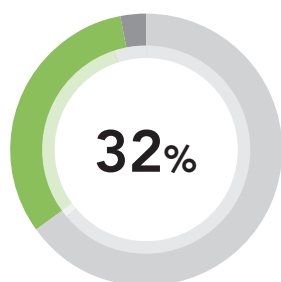
- **APLUS FINANCIAL**      Shopping credit, credit cards, loans and payment services

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- **Other Individual Business**      Other subsidiaries

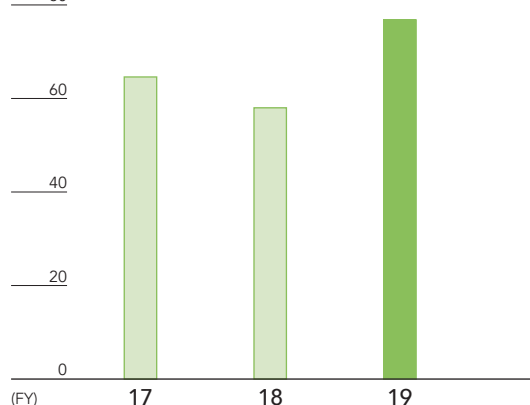
## Institutional Business

Total Revenue

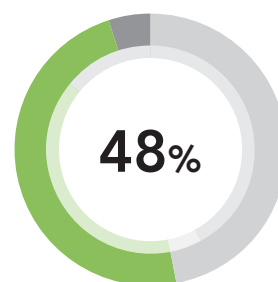


(Billions of yen)  
80

¥76.8 billion

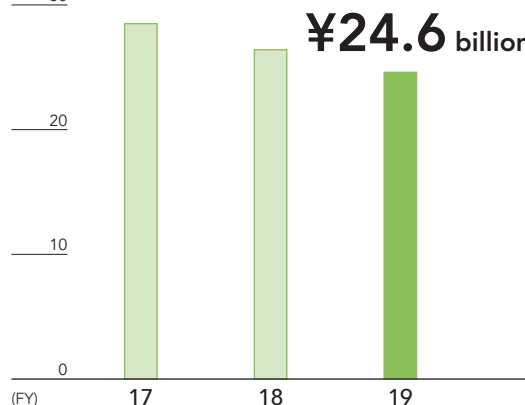


Ordinary Business Profit after Net Credit Costs



(Billions of yen)  
30

¥24.6 billion



### Major Businesses

- **Corporate Business**      Provision of financial products, services and advisory services for corporations, public-sector entities and financial institutions, healthcare finance business, trust banking business

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- **Structured Finance**      Real estate-related nonrecourse finance and corporate finance, project finance, specialty finance including M&A-related finance

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- **Principal Transactions**      Private equity, credit trading, business succession finance and asset-backed investment, etc.

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- **Showa Leasing**      Financial products and services focused around lease finance

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- **Markets Business**      Foreign exchange, derivatives, equity-related and other capital markets business

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- **Other Global Markets Businesses**      Securities business, asset management business, wealth management business

# Corporate Value Creation Mechanism

Society in 2030

The Shinsei Bank Group's Value Creation Process

Core Strategy  
Enhance / Leverage Our Capabilities

Input

⇒ P.24

Human Resources

- Diverse human resources that generates innovative ideas  
Consolidated employees: 5,349

Organization

- An organizational structure that enables customer-oriented business

Operation

- Stable and productive operating system

Capital

- Financial infrastructure supporting "Redesigning Finance"  
Operating assets: ¥7.9 trillion  
Deposits: ¥6.3 trillion

Business Model

Self-Contained Model

Value creation from internal resources

Quick, flexible business deployment

Flexible response to customer needs

Internalized products / services

Deploy products / services know-how



Enhance products / services know-how

Source of Our Strengths

Strengths >

Information Technology

Financial Technology

Management Infrastructure

Foundation for meeting our goals / responsibilities



Address social and environmental issues

- Access to finance
- Fund flows that fit society's needs
- Solutions through integration with external services



Priority Management Issues (Materiality)

Expertise and Execution

Governance

People

Seamlessly integrating the Group's management resources that cross over a wide range of corporate entities and industries, Shinsei Bank is looking to directly help realize a society that can enjoy the benefits of financial and non-financial products and services that meet the underserved needs of individual customers and companies through a process of co-creation with external partners.

# Created Value

Core Strategy  
Grow through Value  
Co-Creation

→P.24

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## Value Co-Creation Model

Generation of synergies by integrating data, know-how with external services

Greater value for our customers

Deeper understanding of our customers

Finance as a Service

→P.23

Growth Opportunities

Governance

## Fulfill our social responsibilities

- Social infrastructure services
- Customer-oriented services



## Output

### Society-Related Capital

- Improve access to finance
- Build and plan ecosystems in partnership with companies in other industries
- Deeper understanding of our customers
- Maintain higher level of customer satisfaction  
Ranked in the top three in "Internet Banking" category of Orion's customer satisfaction survey for three consecutive years

### Intellectual Capital

- Provide customer-centric financial function and solution
- Provide financial literacy program  
"MoneyConnection®" financial literacy program cumulative number of student participants (since fiscal 2007): 148,577

### Natural Capital

- Financing renewable energy projects  
Results of bilateral and joint arrangement: ¥138.5 billion

### Human and Organizational Capital

- Active participation of women in the workplace  
Ratio of females at the executive officer level: 17.1%  
Ratio of females at the section manager-level or higher: 32.7%
- An organizational structure that allows a competitive and diverse human resource  
Number of employees registering concurrent business or side business: 57

### Financial Capital

- ROE 5.1%
- Common Equity Tier 1 (CET 1)  
Ratio 11.3%

→P.25

(As of March 31, 2020)

## Outcome

Access to finance  
Fund flows that fit society's needs  
Solutions through integration with external services  
Fulfill our social responsibilities



→P.22

Organization

Operations

Capital

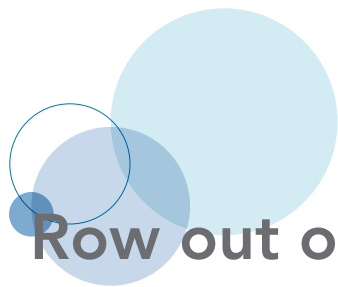
# CEO Message



**Hideyuki Kudo**

President and Chief  
Executive Officer





# Row out on the Ocean Under the Name of “New Normal” with a Ship Called “Redesigning Finance”

The spread of COVID-19 worldwide is rapidly slowing the globalization of humans and goods and dividing and blocking the material world. At the same time, through the persistent endeavors of medical professionals, and a process of trial and error, everyday life is beginning to resume in a new way through the virtual world using “digital” means as a tool. However, once we overcome this global crisis or after we become accustomed to it, the values and behaviors of the world are likely to enter a “new normal” and would not return to pre-COVID-19 conditions. In addition to fulfilling its responsibilities and missions as a part of the overall social infrastructure, institutions that are responsible to provide finance functions, which are indispensable to people’s daily lives and social activities, must contribute to activities that create new daily lives in the new normal. Last year, the Shinsei Bank Group embarked on a variety of new initiatives under the banner of “Redesigning Finance.” I believe it is necessary to have a ship called “Redesigning Finance” to reconsider the way finance should be approached to go to the coastal sea area of this rough new normal.

I would like to express my sincere condolences to those who passed away due to the COVID-19 infection, and I would like to express my sincere sympathy to those affected by it. I would like to express my sincere appreciation to the healthcare professionals for their dedication every day to this harsh environment.

The Shinsei Bank Group places the highest priority on ensuring the health and safety of its employees and their families, customers, shareholders, investors, and other stakeholders, and is doing its utmost to fulfill its mission as a financial institution that is a part of the social infrastructure.

## || Irreversible Change

The year 2019 experienced many major natural disasters and the year 2020 is confronted with the worldwide spread of COVID-19. The movement of humans and goods has become limited and has a major impact on people’s lives, including economic activities. We are witnessing a life that has changed drastically. I am thinking about what we can do and what we should do as a financial institution. As a corporate group, it is natural to

protect employees and customers and overcome these difficulties. Furthermore, I believe it is an important management endeavor to utilize the strengths of the Shinsei Bank Group to respond to new values and needs arising from this crisis and to help the society move in a better direction. This message outlines how the Shinsei Bank Group is trying to face risks and, at the same time, capture opportunities.

## CEO Message

### || Solidify Defense: Stand up to Risk

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As an emergency response, the Shinsei Bank Group was required to have two things:

- 1 Protecting the lives of its employees, their families, customers, and all the other stakeholders
- 2 Contribute to customers and society by fulfilling its responsibilities as a financial institution that is a part of the social infrastructure and providing a stable supply of basic finance functions

As for 1, the first step was to “maintain physical distance among people.” In line with the transition to Windows 10 in the latter half of 2019, we developed a system that enables employees to work remotely by combining the distribution of laptop PCs to employees and the transition to flexible work style reforms. As a result, even in this emergency, we have been able to shift to teleworking relatively smoothly. Nevertheless, many employees are unaccustomed to such work style, and work silently on their personal computers throughout the day, resulting in a psychological isolation. Since teleworking is causing a significant “physical” distance, there is a need to alleviate the “psychological” distance. The foundation for creating a sense of unity and solidarity is one-to-one communication, so supervisors and

employees are able to directly communicate with each other more than ever before, while imagining each other’s thoughts and feelings. I hope that this experience will further improve the communication skills of our employees and enables them to communicate more openly with our customers as well as other external stakeholders.

As for 2, in order to fulfill the mission of financial institutions as a supporter of social activities and livelihoods, the first step is to focus on critical operations and establish a stable operations structure. The second step is to upgrade this operational structure to a more sustainable form, with a view that the current state of social distancing will be prolonged. At the same time, we need to consider a medium- to long-term structure in order to respond to the current situation in an ongoing manner. While the management continues to focus on this, we need to work on promoting it further within the Shinsei Bank Group.

Solidifying defense does not mean shrinking our businesses. Based on the materiality of the Shinsei Bank Group, which is “social infrastructure services” and “customer-oriented services,” we will take risks in addressing issues for society and for the Shinsei Bank Group.

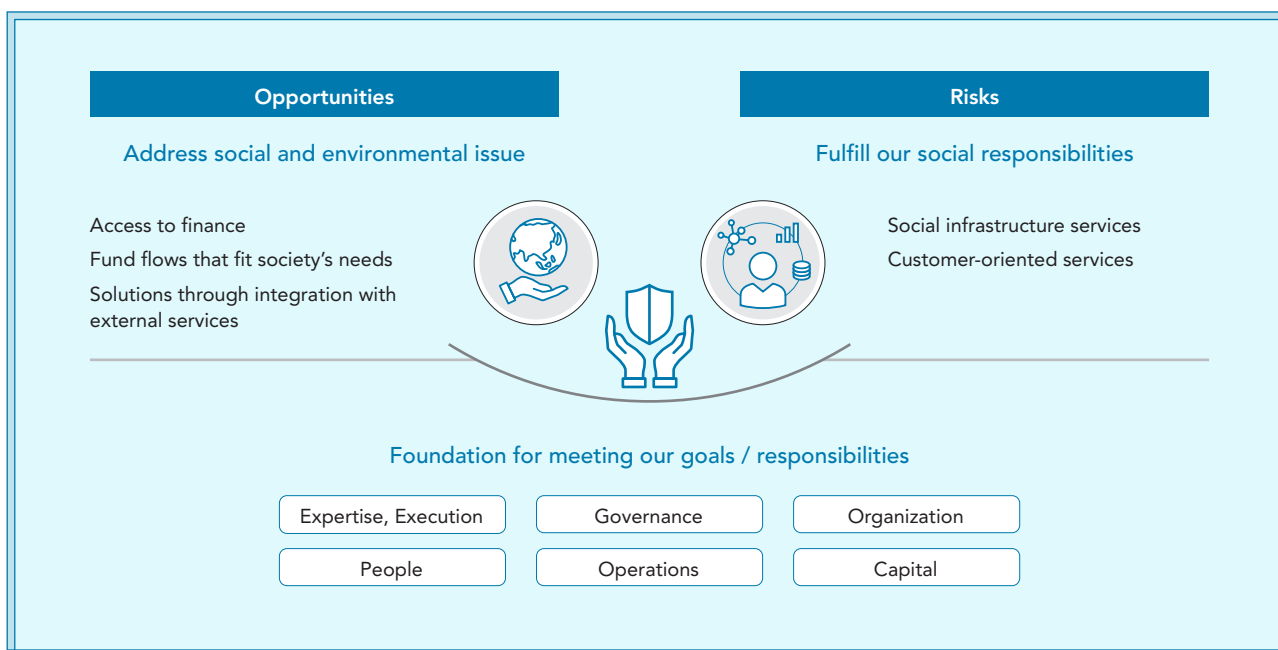
### || Take Steps: Seize Opportunities

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Just passively carrying out minimal work as a part of the social infrastructure does not fulfill our original role. We have a valuable presence as a financial institution when we provide value to our customers and the society. This is a time when we should demonstrate our presence as a financial institution. As the impact of the COVID-19 is likely to be prolonged, we will accept these conditions as new normal and support customers who suffer from these changes. In addition, we will take a positive perspective on changes in our new behavior, values, and needs, including how we can capture business opportunities and what value we can provide. There is also a

technological evolution that supports our goal. As to the materiality, our role is to solve social and environmental issues, and promote “access to finance,” “fund flows that fit society’s needs,” and “solutions through integration with external services.” This strategic axis is a management challenge that should be tackled at an accelerated pace due to the changes caused by the COVID-19.

Next, I will explain how we are addressing these management challenges, how we can “redesign finance” and provide new value to the society, and what impact we are trying to have on the society.



## || Not Choosing a “Mutually Exclusive” Binary Option, but Finding a “Mutually Inclusive” Option by Giving Priority to What Truly Needs to Be Realized

In many cases where we are forced to choose an alternative, it is not difficult to make a choice if the criteria, i.e., values and priorities, are clear. Also, if there is a single decision-maker, whether it is a person or a corporate entity, it is not so difficult to make a choice. However, it is not easy when external parties are involved since each party generally has hidden priorities. The “internal circumstances” of each party are a typical example. In such a situation, we should not compromise on the opinion of merely two parties, but instead we should look at the true “objective we should aim for” or the objective we were originally aiming for as a true priority. So that we are able to move away from a binary option between A or B and instead find an alternative choice C which would satisfy both A and B.

In addition, there are some reasons behind the current “design” of finance, such as the historical background and the sense of values and beliefs emerged from the

background that “it should be like this.” The act of redesigning finance in order to realize what we are aiming for will create a conflict in values with those who want to protect the traditional way of doing things.

In order to eliminate these binary conflicts, redesigning finance requires creativity to change perspectives and find ways to meet higher-level objectives, as well as flexibility to accept different values.

The flexibility of individuals to accept these creativities and different values is an important factor in building organizational capabilities. This is why the concept of redesigning finance requires us to transform our finance businesses as well as our own behavior in the following two aspects.

## CEO Message

### || Business: Creation of Sustainability, Social Impact and “Redesigning Finance”

Enhancement of corporate value is delivered from a positive impact on the society. In order to create that, we are thinking about what kind of businesses we should conduct, what kind of businesses and projects we should support, and what is lacking in us and preventing us from realizing that. Then we should abandon our conventional definition or belief that “finance should be like this,” or that “a bank should be like..., a credit card company should be..., or a money lending business should be...”

The Shinsei Bank Group is working to co-create products with external partners, both in the areas of financial and nonfinancial in this regard. Specifically, in August 2019, we launched “Shinsei Bank Smart Money Lending” for Docomo line subscribers in collaboration with NTT Docomo, Inc. In addition to the credit screening know-how that the Shinsei Bank Group has cultivated in the



unsecured loan business, by using “Docomo Scoring,” a credit score for each customer calculated from big data obtained from Docomo’s wide-ranging business development, facilitates presenting optimal transaction terms to customers. In December, we announced the launch of a joint venture providing financing businesses with USEN-NEXT HOLDINGS. The Shinsei Bank Group provides USEN-NEXT GROUP’s approximately 750,000 small businesses with financial services such as shopping credits (sales credit), vendor leasing, business credits, and other lending products. In January 2020, the Group and Seven Bank, Ltd. jointly established Credd Finance Co., Ltd. to provide credit-related services to foreign residents.

In March, we also released BANKIT®, a Neobank Platform that enables smartphone apps and APIs to collaborate with external partners, as a platform to realize collaboration with external partners. This enables partner companies to select financial services such as settlement, currency exchange, and credit functions of the Shinsei Bank Group in the cafeteria format. Partners who do not have their own financial platforms can also use BANKIT® to provide financial services to their customers.

These initiatives cannot be carried out solely by the Shinsei Bank Group, and they can neither be carried out solely by partner companies. The Shinsei Bank Group and our partners together can create services where customers can experience added “value”.

### || Organizational Capabilities: Respect for Diversity and “Redesigning Finance”

Realizing and respecting diversity is a part of our corporate strategy with the goal of strengthening the capabilities of the organizations that support our businesses. The first place in diversity is the promotion of active participation of women. This is indeed one of the most important issues. However, diversity is not just about gender, race, religion, and origin. There are no two people who are the same in this world. Individuals exist in this world, and they provide diversity simply by

expressing their respective values, mindset, and their own ideas. Messages originating from each person are interpreted in a variety of ways by the recipient. However, without the ability to see things from different perspectives, or the sensibility to accept the values behind the other party’s messages, this diversity cannot be exploited. This is the true meaning of inclusion. Without such diversity and inclusion awareness, “Redesigning Finance” will not proceed well.

How can we spread and foster awareness of diversity and inclusion throughout the organization? By getting in touch with the values of people with different cultures as much as possible and by experiencing these values ourselves through business operations or internal and external training, I think our management and employees will be able to continue to make daily efforts to increase their experience. In this sense, I will first explain the measures and progress in promoting the active participation of women in the workplace, which is one of the most important propositions. The Shinsei Bank Group participates in external initiatives such as the 30% Club Japan<sup>1</sup> and the Women's Empowerment Principles<sup>2</sup>, as well as establishment of the "Committee on Promoting the Role of Group Women in the Workplace" to strongly promote the proposition. As of the end of June 2020, there are two women board members among seven in total. Two out of the three Audit & Supervisory Board members are women. Hence, women represent 40% of total board members. On the other hand, there is an issue where females still represent a lower proportion at the senior level for business execution. The proportion of female managers (section manager-level or higher) is relatively high (32.7%), but at the executive officer level, only six officers, 17% out of the 35 are women, and the number of candidates for the next-generation female managers is still insufficient. To address this issue, board members, Ms. Rie Murayama, Ms. Ikuko Akamatsu, and

Ms. Shiho Konno sent out messages to group employees regarding diversity and women's participation. In addition to that, we hosted lectures by members of other companies who have been active as directors or managers and held organizational training courses based on gender differences.

In addition, we launched a female employee resource development program in 2019 and introduced a mentor system. Furthermore, to promote diversity with a sense of speed, from fiscal 2020, we have set the Diversity Promotion Target as a personnel evaluation item for managers.

Our measures, so far, are not just promoting the active participation of women. In order to ensure that each person's individuality and strengths become the strength of the organization, we provide a variety of support, including support for employees who are responsible for childcare, the ease with which people with cancer can work, and the promotion of the active participation of employees with disabilities. In order to promote the "Redesigning Finance," we will strengthen our capabilities so that all crew members of the ship called "Redesigning Finance" can work actively respecting each other.

1. A global campaign launched in the UK to increase the proportion of women in key corporate decision-making bodies, including board of directors
2. Principles of conduct jointly established by the United Nations Global Compact (UNGC) and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women)

## Message to Our Stakeholders

I feel such great change and dynamism toward the creation of a world in which politicians, academics, media, company owners, social activists, and citizens imagine, think, and act as to what kind of world the new normal will be like. In this environment, finance functions that are indispensable to people's daily lives will continue to be important. In addition to fulfilling its responsibilities and missions as a part of the social infrastructure, people who are responsible for finance functions are strongly required to exercise creativity that makes the new normal active.

We, the Shinsei Bank Group, reaffirm this awareness, embarking on a vessel called "Redesigning Finance" and moving into the new normal ocean. We, the employees of

the Shinsei Bank Group, will continue to work hard to create values together with partner companies, cultivating the *raison d'être* (purpose of the enterprise) of the Shinsei Bank Group. We seek continued support from all our stakeholders.

July 2020

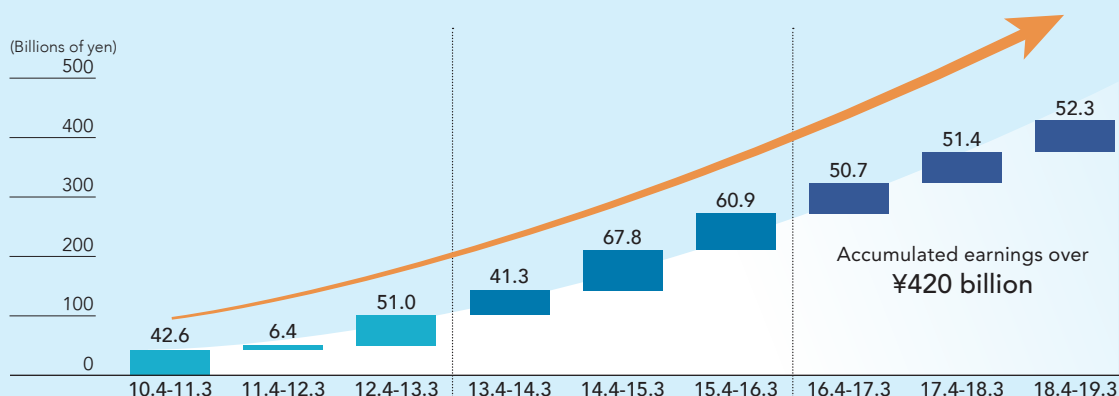


Hideyuki Kudo  
President and Chief Executive Officer

# Medium-Term Management Strategy

## Review of the Past Medium-Term Management Plan

During the nine years of the first through third Medium-Term Management Plans, the Shinsei Bank Group has been shifting to a business model in which profits exceed ¥420 billion while reducing profit volatility and recording stable profits. By formulating and implementing new strategies based on the issues identified, we aim to increase corporate value by providing products and services that make the most of the Shinsei Bank Group’s strengths and uniqueness.



### Plan Outline

**1st MTMP**  
10.4-13.3

- Rebuilding the customer franchise
- Establishing a stabilized base earnings

**2nd MTMP**  
13.4-16.3

- Further expanding the customer base
- Increasing quality assets while improving our portfolio

**3rd MTMP**  
16.4-19.3

- “Selection and concentration” of business
- Creation of value through group integration
- Achieve flexible business management and lean operations

### Results

NIM	2.09%	2.28%	2.43%
Expenses-to-Revenue Ratio	57.5%	63.4%	62.3%
ROA	0.3%	0.6%	0.6%
ROE	5.1%	7.7%	6.1%
Risk Monitored Loan Ratio <sup>1</sup>	7.29%	2.09%	1.56%
CET1 ratio <sup>1</sup>	–	12.9%	12.0%
Total Payout Ratio	8.0%	10.6%	35.0%

<sup>1</sup> Figures of final year of each MTMP are presented

- Optimized risk weighted assets through reduction of non core business assets

- Improved capital ratio by accumulating earnings
- Significant profits contribution was mainly from credit reserve on the disposal of NPLs and one-off profits

- Business franchise in unsecured loans and structured finance reflected steady profits
- Improved earning structure of retail banking

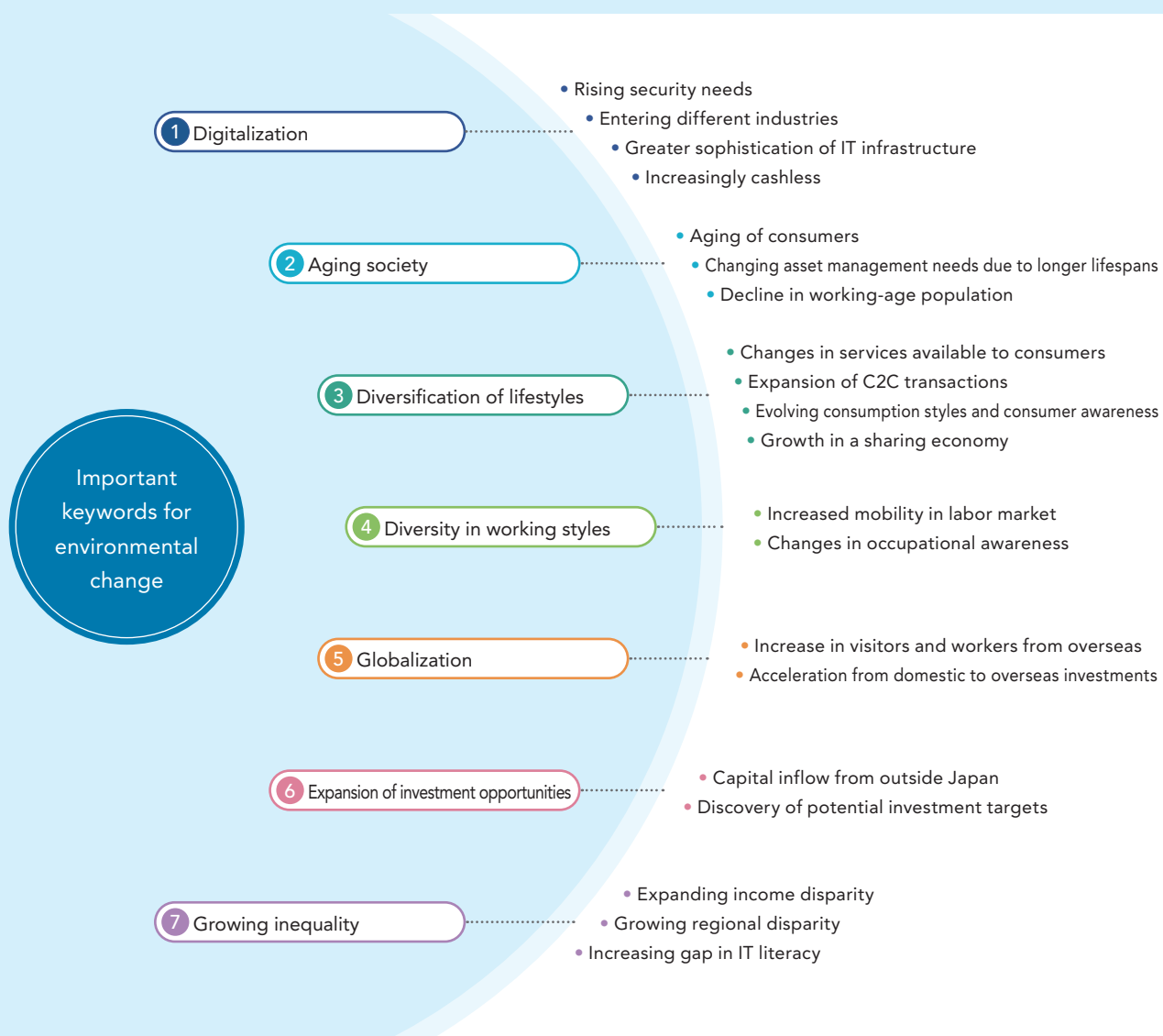
### Issues

- Stabilization of earnings remained as a challenge

- Increasing recurring / stable profits remained as a challenge

- Total payout ratio improved while low ROE remained as a challenge

## Medium- to Long-Term Changes in the Global Environment



### Impact from medium- to long-term environmental change






- Increasingly sophisticated levels of customer needs
- Accelerating growth in links between business operators

## Medium-Term Management Strategy

### Materiality

The Shinsei Bank Group identifies core competencies that are socially significant in business activities and have the greatest impact on increasing corporate value as materiality. By linking opportunities and risks with SDGs, we aim to solve social issues and continuously increase our corporate value through our business activities.

#### Materiality for the Shinsei Bank Group: Opportunities and Risks

<b>Opportunities</b>	<p><b>Address social and environmental issues</b></p> <p><b>Access to finance</b></p> <ul style="list-style-type: none"> <li>• Provide services for customer needs which are not satisfied by traditional financial services</li> <li>• Provide payment methods with emerging technology</li> </ul> <p><b>Fund flows that fit society's needs</b></p> <ul style="list-style-type: none"> <li>• Provide solutions for supporting sustainable social capital</li> </ul> <p><b>Solutions through integration with external services</b></p> <ul style="list-style-type: none"> <li>• Build / participate in ecosystems, use of digital technology</li> </ul> <p style="text-align: center;">Support these SDGs:</p> <div style="display: flex; justify-content: space-around;">    </div>	<b>Risks</b>	<p><b>Fulfill our social responsibilities</b></p> <p><b>Social infrastructure services</b></p> <ul style="list-style-type: none"> <li>• Firmly provide fundamental financial functions (deposit, loan, payment etc.) as social infrastructure</li> <li>• Maintain cyber security</li> <li>• Prevent money laundering</li> </ul> <p><b>Customer-oriented services</b></p> <ul style="list-style-type: none"> <li>• Place customer's benefit first</li> <li>• Give information that is accurate and easy to digest</li> </ul> <p style="text-align: center;">Support these SDGs:</p> <div style="display: flex; justify-content: space-around;">   </div>
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#### Links between materiality and SDGs

Based on the United Nations Sustainable Development Summit held in 2015, over 150 participating Member State leaders adopted 17 Sustainable Development Goals (SDGs) as targets that would change the world. Sustainable development is defined as development that is sufficient to meet the needs of the current generation, while not diminishing the ability of future generations to sufficiently meet their needs. In the pursuit of overcoming the disparities of generations and regions, and the building of a society in which no one is left behind, more than just in developing countries, it is the advanced nations that are particular targets for change. Linking the principles of these SDGs with the materiality of the Shinsei Bank Group, we believe, will work to convey to our stakeholders the impact that the outcomes generated by the Shinsei Bank Group have on society.

One theme of the Medium-Term Strategies is innovation. In carrying out our roles and responsibilities to society toward addressing social and environmental issues, namely, the materiality of the Shinsei Bank Group, the common foundation upon

which we implement those roles and responsibilities is innovation (SDG 9: Industry, Innovation and Infrastructure). By promoting greater innovation, it becomes possible to achieve sustainable economic growth and decent humane working conditions (SDG 8: Decent Work and Economic Growth). We will make contributions to sustainable economic growth through investments and loans for social infrastructure that make clean energy prevalent (SDG 7: Affordable and Clean Energy). In addition, decent, humane employment is linked to an organization's recognition of equality and diversity, including with regard to gender, nationality, age, and place of origin (SDG 5: Gender Equality).

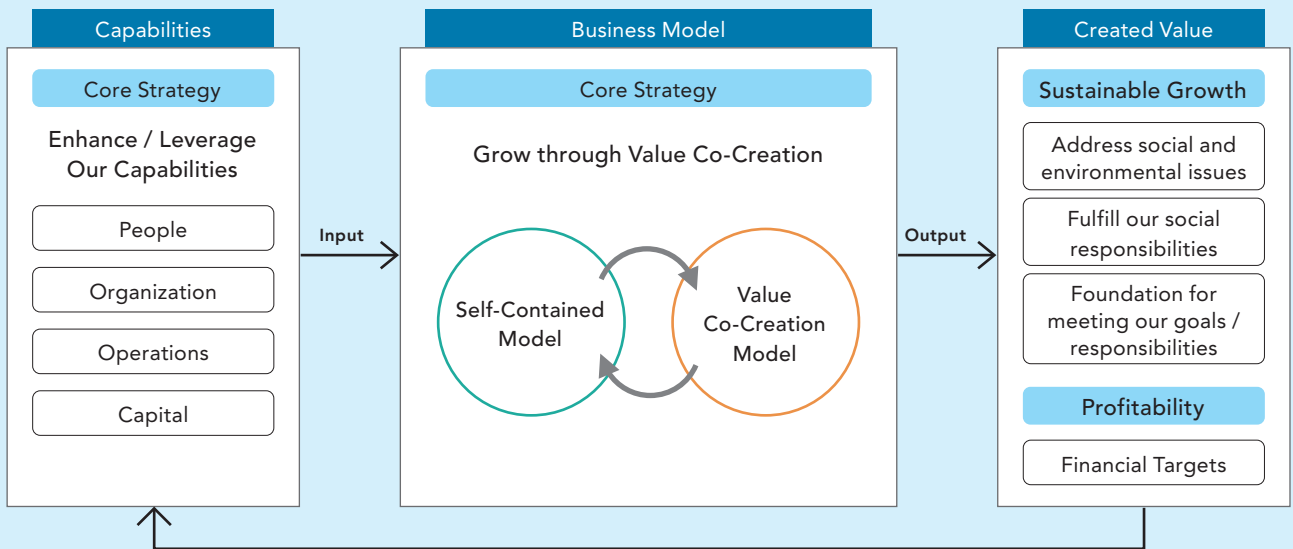
Achieving acceptance and coexistence in a diverse society means securing a legal system, compliance, and security through the realization of a peaceful and fair world in which no one is left behind, including customers and employees, and the range of other stakeholders (SDG 16: Peace, Justice and Strong Institutions).



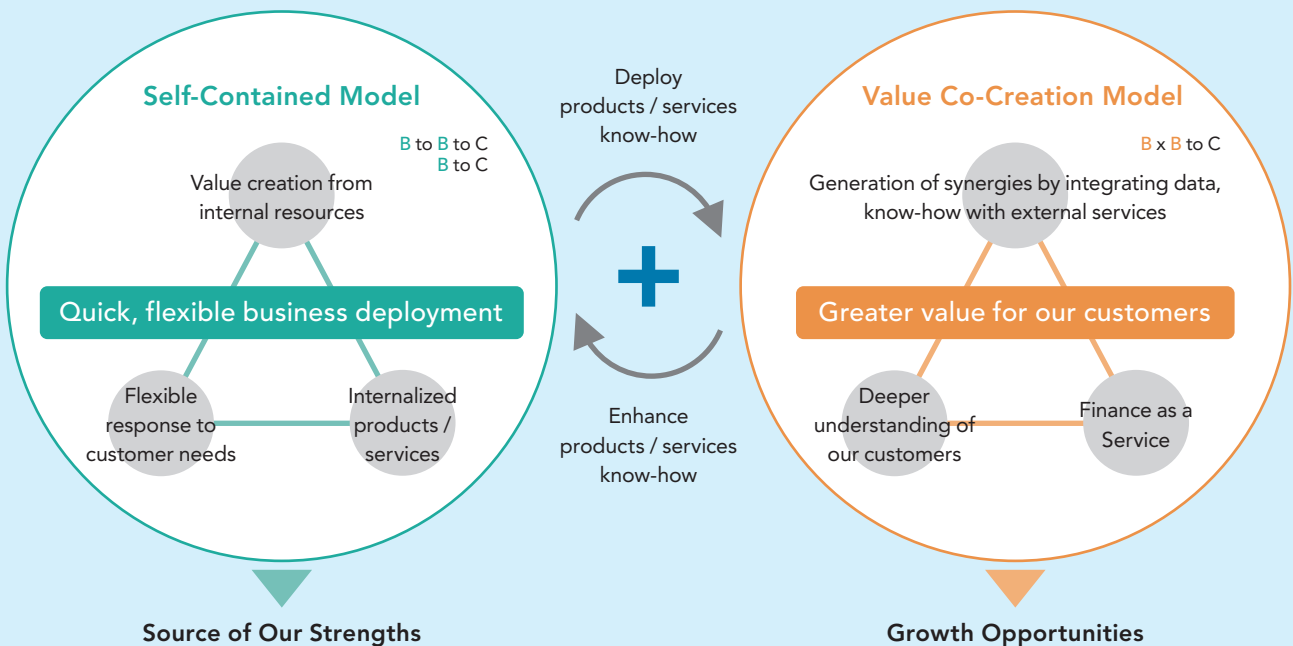
## Medium-Term Strategies and Business Model

Based on the identified materiality, the Medium-Term Strategies, which began in fiscal 2019, outlines processes for value creation through two basic strategies and business models. The Shinsei Bank Group's strengths are resolved into factors to the level of competence to provide individual functions and competencies to the others in an abstract and generalized manner. By doing so, our services will be more attractive to our "value co-creation model" customers. In addition, we are designing a feedback loop that further refines our self-contained business model by feeding back the results.

### Overview of Medium-Term Strategies



### Business Model: Self-Contained Model and Value Co-Creation Model

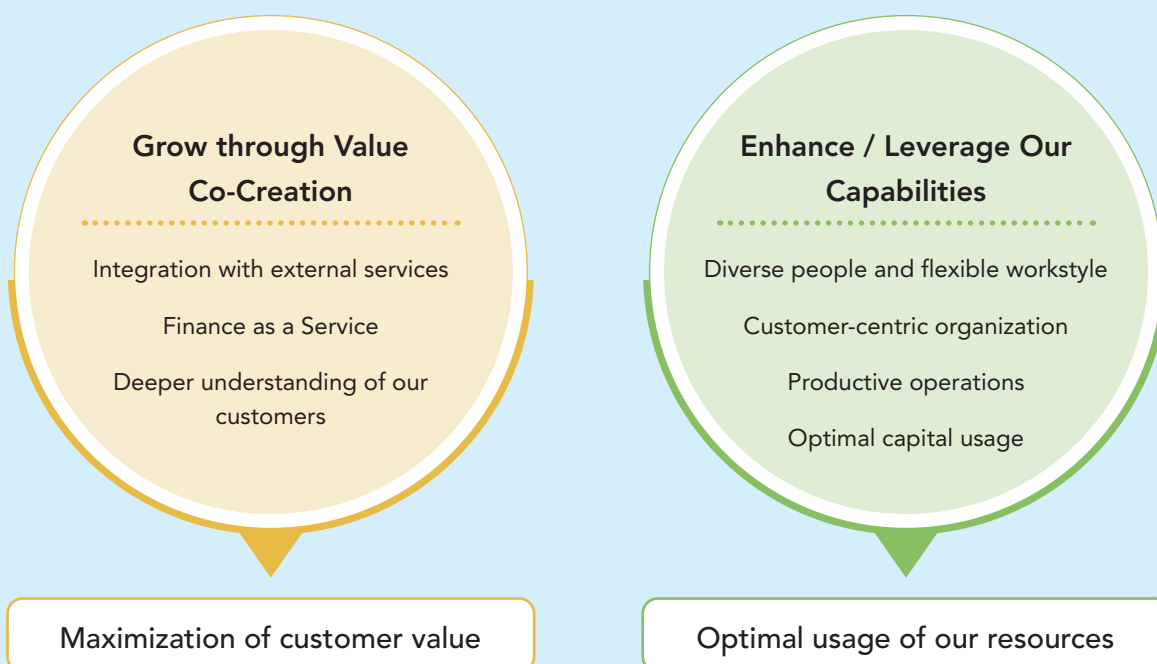


## Medium-Term Management Strategy

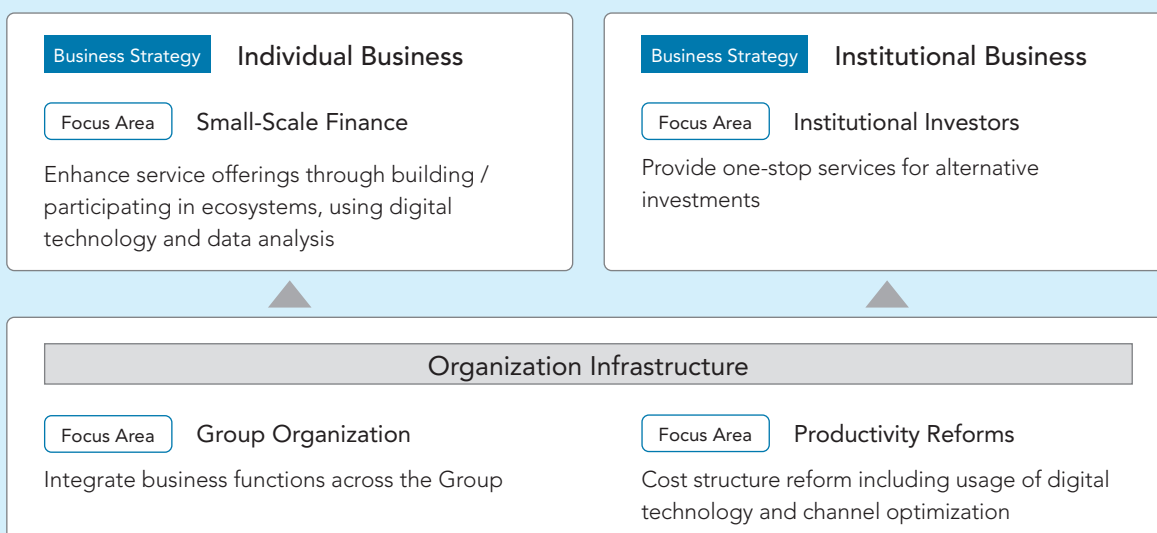
### Core Strategies and Business Strategies

In an era of transformation where future is not an extension of the present, we are required to seek growth that cannot be achieved by past achievements or technologies alone. The Shinsei Bank Group’s basic strategies are “grow through value co-creation,” which combines our Group’s strengths with those of others, and “enhance/leverage our capabilities,” as input capital. We aim to meet customers’ needs who are not satisfied with conventional financial services through individual strategies for Individual Business and Institutional Business.

#### Core Strategies



#### Business Strategies



## Nonfinancial KPIs and Financial KPIs

We are proactively working to manage our progress on the nonfinancial and financial KPIs we have set in order to achieve our sustainable growth story and resolve social and environmental issues through our business activities.

### Value that the Shinsei Bank Group Wants to Impact Society: Nonfinancial KPIs

Materiality	Main business	Nonfinancial KPIs	Progress
Address social and environmental issues	Increase access point to finance, both directly and indirectly, for more people	<ul style="list-style-type: none"> <li>Deployment of the Shinsei Bank Group's platforms and ecosystems</li> <li>Participation of partner companies in platforms and ecosystems</li> </ul>	<ol style="list-style-type: none"> <li>Providing platform by the Shinsei Bank Group: BANKIT®</li> <li>Establishment of joint ventures with partner companies: Credde Finance and Shinsei Bridge for foreigners' ecosystems; anew for cloud factoring for SMEs and micro-businesses</li> <li>Participation of partners in platforms and ecosystems: collaboration with USEN NEXT HOLDINGS and collaboration with Docomo</li> </ol>
	Expand financing to help resolve climate change and social issues	In the institutional investor business, <ol style="list-style-type: none"> <li>Amount of new origination</li> <li>Amount of new distribution</li> </ol>	<ol style="list-style-type: none"> <li>Established the Sustainable Impact Development Division</li> <li>Bilateral and joint arrangement of domestic renewable energy project finance: Fiscal 2019: ¥138.5 billion</li> </ol>
Fulfill our social responsibilities	Provide reliable financial services in a stable manner	<ul style="list-style-type: none"> <li>Initiatives to ensure cyber security</li> </ul>	<ol style="list-style-type: none"> <li>Cooperation with external specialist organizations</li> <li>Implementation of measures against cyber attacks on information systems</li> <li>Training and education</li> </ol>
Foundation for meeting our goals / responsibilities	Have strong governance, employees respect each other's strengths, and work together to create new value	<ol style="list-style-type: none"> <li>Evolution of board governance</li> <li>Initiatives for organizational issues based on the Group's organizational survey</li> <li>Promoting diversity</li> </ol>	<ol style="list-style-type: none"> <li>Number of outside directors: 5 out of 7 directors Directors' skill diversity: Skill matrix (See p.48) Transparency and objectivity of remuneration and nomination: Discussion by the nomination and compensation committee, which is comprised of outside directors (See p.44)</li> <li>Implementation of effective measures               <ul style="list-style-type: none"> <li>Management of evaluation and compensation: System design changes, including the introduction of a group-wide personnel system</li> <li>Development of team management skills for managers: Establishment of team management skills and career support for subordinates as evaluation items for managers, expansion of training for managers, etc.</li> <li>Human resource management: Appropriate manpower allocation and reduction of work volume, human resource development, utilization of senior human resources, etc.</li> <li>Communication: Transmission of information from executives through town hall meetings, revitalizing group organizations through the launch of new projects, etc.</li> </ul> </li> <li>Ratio of women in managerial positions on a Group basis (Fiscal 2019: 13.9%, Fiscal 2022: 18% or above)</li> </ol>

### Economic Value that the Shinsei Bank Group Wants to Create: Financial KPIs

<p><b>EPS Growth Rate</b> <span style="float: right;">Growth</span></p> <p>Annual average excluding the share buyback effect</p> <p style="text-align: center;"><b>2% or more</b></p>	<p><b>Profit Share of Focus Areas</b> <span style="float: right;">Growth</span></p> <p>(Share of operating business profit after net credit costs, excluding one-time factors)</p> <table border="0"> <tr> <td colspan="2">Small-scale finance</td> <td colspan="2">Businesses for institutional investors</td> </tr> <tr> <td>FY2018</td> <td>FY2021</td> <td>FY2018</td> <td>FY2021</td> </tr> <tr> <td>45%</td> <td>50%</td> <td>10%</td> <td>15%</td> </tr> </table>	Small-scale finance		Businesses for institutional investors		FY2018	FY2021	FY2018	FY2021	45%	50%	10%	15%
Small-scale finance		Businesses for institutional investors											
FY2018	FY2021	FY2018	FY2021										
45%	50%	10%	15%										
<p><b>ROE</b> <span style="float: right;">Profitability</span></p> <p>FY2018</p> <p>6.0%</p>	<p>In the medium term</p> <p>8.0%</p>												
<p><b>OHR</b> <span style="float: right;">Efficiency</span></p> <p>FY2018</p> <p>63.0%</p>	<p>FY2021 Less than</p> <p>50%</p>												
<p><b>CET 1 Ratio</b> <span style="float: right;">Soundness</span></p> <p>FY2018</p> <p>12.0%</p>	<p>In the medium term Minimum</p> <p>10%</p>												

#### Shareholder Return

Shinsei Bank aims to maintain or improve the total shareholder return ratio, depending on financial conditions and market environment, considering total shareholder return policy as outlined in the Revitalization Plan.\*

\* As mentioned in the Revitalization Plan submitted to the Financial Services Agency on March 25, 2020, we will continue to aim to maintain and improve our shareholder return, taking into consideration the level of the general total shareholder return ratio of Japanese domestic banks.

## Medium-Term Management Strategy

### Medium-Term Strategies

### Business

#### ◆ Group Business Strategy

The Shinsei Bank Group aims to increase its ROE and share value through its inorganic strategy that means efficient use of its capital for growth through business partnership and acquisition. By creating a “non-continuative” growth opportunity and raise the evaluation of its business model, it aims to improve the Group’s corporate value.



#### Creation of “quantitative non-continuative growth opportunities”

We create growth opportunities with our partners to generate volumes, such as balances and profits. In order to scale up and to accelerate existing business, we will create growth opportunities by business acquisitions and business partnerships where we provide our financial know-how.

Specifically, we launched a lending service for individual customers of NTT Docomo, Inc., and commenced sales credit and leasing services for 750,000 small businesses’ customers of USEN-NEXT GROUP in collaboration with USEN-NEXT HOLDINGS Co., Ltd. In addition, we established Credde Finance, Ltd. with Seven Bank, Ltd. to provide various financial products and services to more than 200,000 Seven Bank’s foreign resident customers in Japan.

#### Enhancement of the skill creation

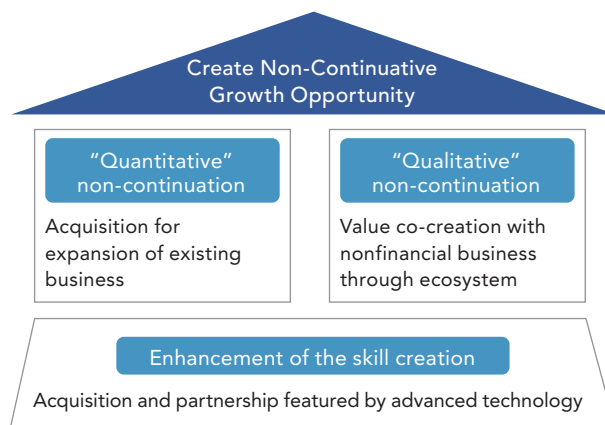
We will accelerate to create the Shinsei Bank Group’s skills by leveraging acquisitions and strategic alliances with advanced technologies.

This will enhance the Shinsei Bank Group’s capabilities and become a driver of the creation of new services. As an example, we established a new joint venture company “anew” with OLTA

#### Creation of “qualitative non-continuative growth opportunities”

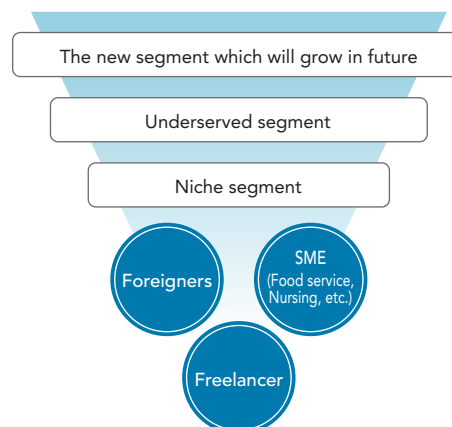
With changes in the social structure and dramatic advances in technology, customer segments that have new needs are emerging. We will work with other industries to create ecosystems, customize them, and develop differentiation strategies that satisfy customer needs through personalization and introduction of new solutions. To this end, the Bank has established the “Shinsei Bridge.” In collaboration with companies in other industries, we are accumulating and analyzing a variety of behavioral data and returning value to non-Japanese workers and students, in which “underserved” markets where current services are not sufficiently delivered and also where financial institutions have not regarded them as strategic segments.

#### ■ Three Visions of Our Inorganic Strategy



Inc., a pioneer company of online cloud factoring service. With their scoring know-how, we realized quick finance service that covers small scale and short-term working capital financing needs of SME companies that have not been satisfied by conventional banking services.

#### ■ Which Segment?



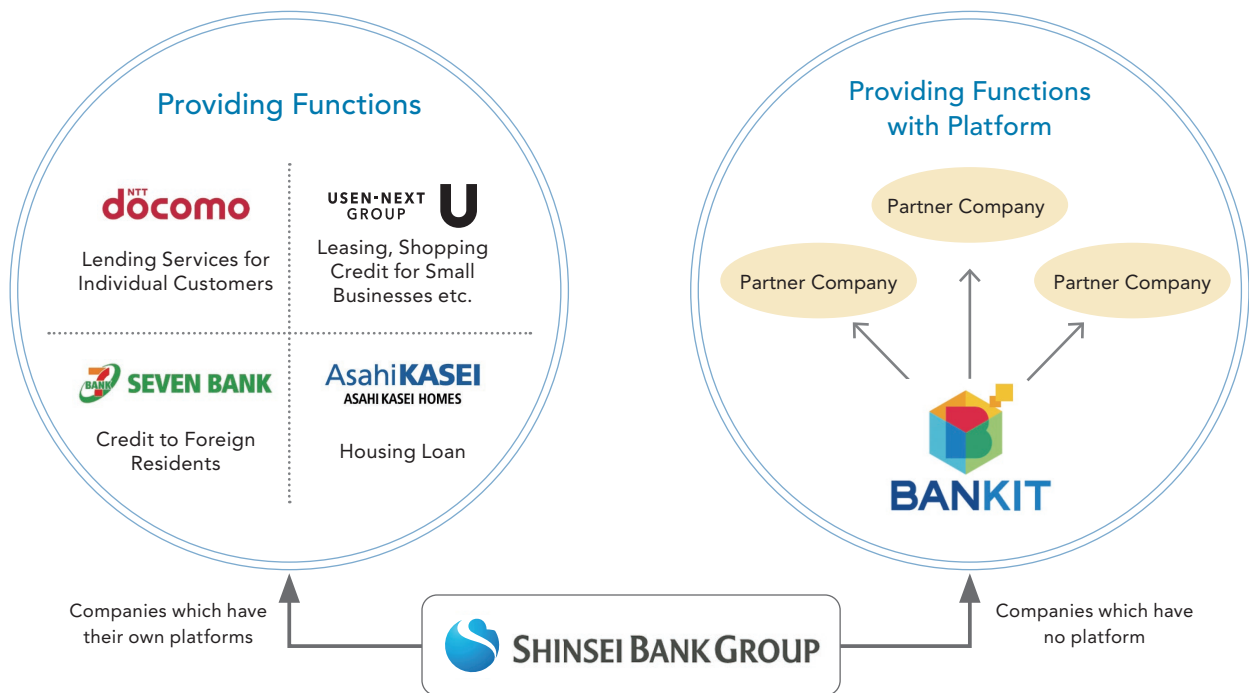
## ◆ Small-Scale Finance Strategy

As the social environment changes, the needs of customers are diversifying. The advancement of digital technologies has given us the means to meet our customers' needs. The main strategy is "value co-creation," which means creating new value through collaboration with third parties, evolving the unsecured loan business, which is our strong business field, into "small-scale financing."



Tetsuro Shimizu  
Managing Executive Officer,  
Head of Individual Business Unit

### Collaboration with External Companies



#### Points



- Provide new added value through NTT Docomo's technological capabilities
- Scoring based on data held by NTT Docomo
- The Shinsei Bank Group provides risk-taking functions and gains access to new customer segments



- Customer base of 750,000 companies partnering with USEN-NEXT GROUP
- Provide commercial finance services, such as shopping credit, small leasing, and corporate cards through the joint venture with the Shinsei Bank Group
- Develop further financial services for sole proprietors and SMEs



- Seven Bank's ability to provide services and brand power to foreign customers
- Provide financial services for foreigners through joint venture with the Shinsei Bank Group
- Contribute to achievement of SDGs through comprehensive supports for the rich lives of foreigners in Japan



- Developed a new housing loan product for purchasing Hebel Haus of Asahi Kasei Homes
- Alliances with partners who can guarantee future values of high-quality houses after building them
- Reduced monthly repayment by making a part of the loan principal payable in a lump sum at the end of the term

## Medium-Term Management Strategy

### Medium-Term Strategies

### Business

#### ◆ Business Strategies for Institutional Investors

While meeting institutional investors' demands for long-term investment management, we will develop the strengths and create new growth opportunities to diversify our earnings opportunities. We will use this framework to raise the level of sustainability and ESG-related initiatives in all of our Institutional Businesses.



Shinichirou Seto  
Senior Managing Executive Officer,  
Head of Institutional Business Unit

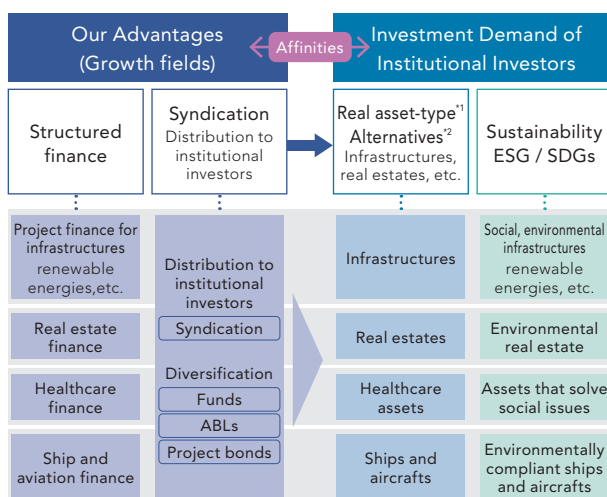
#### Business framework

We promote our institutional investor business through three strategies. First, we will deepen our steadily growing structured finance business, and then apply this knowledge to our joint investment business with institutional investors. In addition to these two strategies, we will add an assessment of ESG and sustainability through the "Sustainability Focus", and aim for further growth through interaction.

#### Our strengths and demands of institutional investors

There is deep-rooted demand from institutional investors for real asset-based alternative investments that are well suited for long-term investment. This area largely overlaps with the structured finance offered in syndications. The perspectives of sustainability and ESG also coincide. The strengths of Shinsei Bank and the strong affinity between institutional investors' demand for investment have contributed to the three strategies.

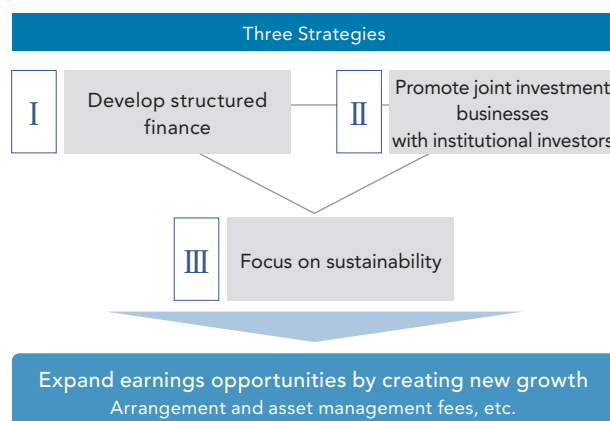
#### ■ Advantages of Shinsei Bank and Affinities to Investment Demand



\*1 Real asset type: Targets real estate and infrastructure assets

\*2 Alternative: Alternative investments targeting assets different from traditional assets such as listed stocks and bonds

#### ■ Three Strategies and Purposes



#### 3 Business Strategies

- Deepening structured finance business  
With real assets such as infrastructure, real estate, healthcare, and ship/aircraft as our major strategic fields, we have established a sales framework that forms the foundation of our business for institutional investors. We will take advantage of the demand for projects in a wide range of fields as a business opportunity to promote the diversification of strategies.
- Promoting joint investment businesses with institutional investors  
Our promotion efforts will focus on the fund business to expand sales, which were previously conducted through project-based syndications mainly in the areas of infrastructure, real estate, and healthcare fields. The fund connects the operating funds invested by institutional investors to infrastructure projects.
- Sustainability focus  
We will develop a sustainability and ESG evaluation system and develop our business based on this system. The newly established "Sustainable Impact Development Division" will lead to integrating the concepts of social impact and sustainability with Institutional Business as a whole.

## ◆ Productivity Reforms

The Shinsei Bank Group has been implementing productivity reforms in earnest since the Third Medium-Term Management Plan, which covers the period from fiscal 2016 to 2018 and it has reached the third stage. The first stage is “Reducing Expenses and Workload,” the second stage is to “Improve Earnings Structure,” and we will further promote the revolution in the third stage “Enhance and Leverage Our capabilities.”

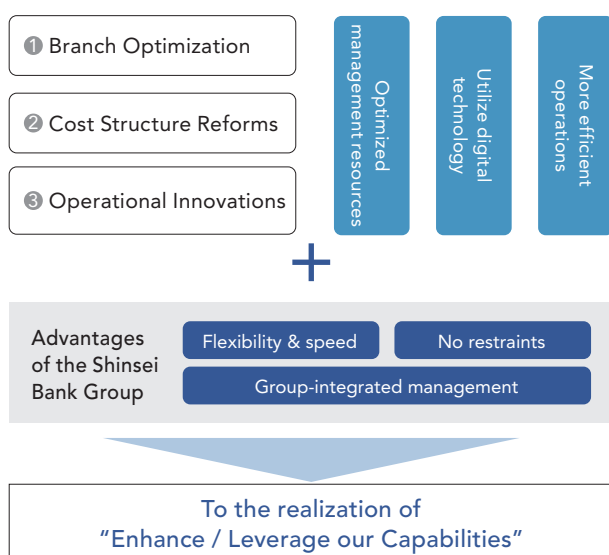


Akira Hirasawa  
Senior Managing Executive Officer,  
Overseeing Group Organization Strategy

### Enhance and leverage our capabilities

We aim to maximize management resources through a Group-wide organizational structure that leverages diverse human resources with specialized expertise and a highly productive operating structure. In order to adapt to big environmental changes, we will actively incorporate digital technology to increase productivity and create a robust operational structure.

### Productivity Reforms



### Achieving productivity reforms

Over the three-year period of this medium-term management strategy, we will achieve an improvement effect of ¥6 billion. We will take measures aimed at improving medium- to long-term productivity by leveraging the Shinsei Bank Group’s characteristics of “flexibility and speed,” “no restraints” that does not belong to any specific capital affiliation and does not need to stick with a specific region, and “group-integrated management,” which is unified while taking advantage of the characteristics of each group company.

### Three Specific Measures

• **Branch optimization**  
The Lake ALSA promotes digital shift that meets the lifestyles of our customers, especially smartphones, and is implementing measures aimed at raising awareness. At Shinsei Bank’s staffed branches, we will reduce the number of branches and improve efficiency while maintaining physical contact with customers in a five-area coverage structure.

• **Implementation of cost structure reforms**  
We will focus on the cost structure reforms in the IT sector where we were unable to fully implement reforms in the first stage. Currently, we are working to expand the use of the cloud to consolidate eight data centers. In addition, we will integrate the Group IT operations and aim for Group-wide system management.

• **Operational innovations**  
We will improve the convenience of both customers and employees by digitizing business processes and operations using digital technology. In addition, we will create a more comfortable working environment by developing an operating environment and implementing a human resources system to respond to diverse workstyles.

### Business Process / Operations Digitization

	More efficient operations	Added value
RPA	<ul style="list-style-type: none"> <li>Automated operations equivalent to 100,000 hours</li> <li>More efficient operations</li> <li>Reduced administrative errors</li> </ul>	<ul style="list-style-type: none"> <li>Longer serving time</li> </ul>
IVR, PD, Chatbot	<ul style="list-style-type: none"> <li>Reduced inbound / outbound call workload</li> <li>Also contributed to space reduction</li> </ul>	<ul style="list-style-type: none"> <li>Effective collection calls</li> </ul>
E-order (Shopping credit)	<ul style="list-style-type: none"> <li>Reduced workload equivalent to 240,000 hours</li> </ul>	<ul style="list-style-type: none"> <li>Reduced burden on member merchants / customers</li> </ul>

IVR=Interactive Voice Response  
PD=Predictive Dialer (Automated inbound / outbound calling system)

## Medium-Term Management Strategy

## Medium-Term Strategies

## Finance

## Message from Chief Officer of Group Finance



## Fiscal 2019 Results and Impact of COVID-19

Consolidated (Billions of yen)	18.4-19.3 (Actual)	19.4-20.3 (Actual)			19.4-20.3 (Initial Plan)
		Without COVID-19	Impact of COVID-19	With COVID-19	
Total Revenue	229.7	241.6	-1.7	239.9	243.0
Net Interest Income	133.8	133.5	0	133.5	
Noninterest Income	95.9	108.1	-1.7	106.4	
Expenses	-144.7	-149.5	0	-149.5	-152.0
Ordinary Business Profit (OBP)	84.9	92.1	-1.7	90.4	91.0
Net Credit Costs	-29.3	-32.1	-3.1 (apparent) -3.9 (precautionary)	-39.1	-35.0
OBP after Net Credit Costs	55.6	59.9	-8.7	51.2	56.0
Others	-3.3	-5.8	0.2	-5.6	-3.0
Income Taxes	-2.5	-4.2	0.2	-4.0	
Profit Attributable to Owners of the Parent	52.3	54.0	-8.5	45.5	53.0

Total revenue amounted to ¥239.9 billion, up from fiscal 2018.

Of total revenue, net interest income increased in institutional business year on year but was flat in unsecured loans business and APLUS FINANCIAL while having no financial impact from COVID-19. Noninterest income increased year on year in institutional businesses as well as in retail banking and APLUS businesses. In Institutional Business, noninterest income was negatively impacted due to impairment losses related to equity investments and nonrealization of expect-

ed income due to COVID-19.

Expenses increased year on year mainly reflecting depreciation expenses associated with the new core banking system. Expenses-to-revenue ratio improved from 63% in fiscal 2018 to 62.3% in fiscal 2019.

Net credit costs increased year on year reflecting several factors such as absence of credit recoveries in the Structured Finance business, and additional provisioning considering apparent impact from COVID-19.



There are three reasons for higher net credit costs recorded in Institutional Business. First, absence of credit reserve reversal of approximately ¥6.0 billion due to revision of general reserve for loan losses in fiscal 2018 for project finance transactions etc. Second, additional provisioning of ¥3.1 billion was recorded in Structured Finance portfolios considering apparent impact from COVID-19. Third, additional precautionary provisioning of ¥3.9 billion was taken as we applied a higher reserve ratio than the regular general reserve ratio to specific categories, anticipating deterioration in financial position of these types of borrowers in the future due to COVID-19. Net credit costs in unsecured loans remained almost flat, reflecting sluggish loan growth and enhancement of collection. Net credit costs in APLUS FINANCIAL decreased due to the absence of impact on additional reserve for delinquent loans recorded in the previous fiscal year.

Profit attributable to owners of the parent for fiscal 2019 was ¥45.5 billion, reflecting the impact of COVID-19. It would have been ¥54.0 billion excluding the COVID-19 impact of ¥8.5 billion.

### Performance in Fiscal 2020

The net income forecast for fiscal 2020 is yet to be determined as it was hard to reasonably estimate the impact of COVID-19 as of May 13, 2020, the day the full-year financial results for fiscal 2019 were announced. If COVID-19 hadn't occurred, we estimate that our net income for fiscal 2020 would have grown by approximately 2% from the fiscal 2019 initial target of ¥53 billion.

We expect the single fiscal-year business plan will be revised in response to uncertainty and changes in the environment. However, the medium- to long-term strategies and directions outlined in the Medium-Term Management Strategy remain unchanged. We should work on these strategies with a further accelerated time horizon than originally envisaged. The Bank will disclose its earnings forecasts as soon as it becomes possible to make those forecasts after carefully examining the future economic conditions and their impact on our business activities.

### Impact of COVID-19 on Our Businesses and Performance

With regard to the business environment, first, even after the state of emergency is lifted, the maintenance of social-distancing requirements will be prolonged and business activities will only begin to recover from the second quarter of fiscal 2020. Additionally, it will take time for the inbound-tourism related industries, hospitalities, restaurants, and other service industries to recover as well as for the disrupted supply chain to resume. The credit condition of related SMEs and individuals is expected to deteriorate. The key to the negative time-horizon effect is the timing of the development of efficacious therapeutics and vaccines. Second, in the process of recovery, total restoration is unlikely, and irreversible changes will occur, such as changes in consumer mindset and behavior, the transition to a decentralized society, acceleration of digital investment, review of supply chains, review of physical space utilization, etc. Third, regarding real estate prices, the search for new price levels (rent multiplied by expected yield) based on the COVID-19 experience will continue, but the extent of the adjustment (price decline) by asset type is expected to be disproportionate.

Regarding the Shinsei Bank Group's performance, revenue from many existing businesses including core businesses, such as real estate finance and unsecured loan businesses, are expected to decline to a certain extent as business activities are to be subdued. However, we do not think a sharp decrease would happen as needs for new finance and new businesses will be generated. Regarding risk profile, in comparison to other financial groups, our business portfolio is not directly linked to the macroeconomics of Japan as a whole or a certain region. In addition, portfolio reallocation and risk management have been strengthened since the global financial crisis. With regard to net credit costs, we accumulated a reserve to prepare for a deterioration in the business conditions of our business partners in fiscal 2019, but we will closely monitor the situation regarding the possibility of further credit costs due to deterioration in the quality of our receivables, such as collection, delinquency, and default. We are paying close attention to real estate finance business and unsecured loans.

In real estate finance, we expect a decline in fees due to a substantial decline in new loans and an increase in net credit

## Medium-Term Management Strategy

### Medium-Term Strategies

### Finance

costs due to a decline in real estate value. However, as long as real estate prices, such as office buildings and residential properties, which are major asset types, do not decline significantly, it is difficult to anticipate significant negative impacts.

Unsecured loans are expected to see a decline in interest income growth due to a slight decline in new customers and

an increase in net credit costs due to a deterioration in delinquencies, particularly among low-income customers. However, we should recognize that this may be partially offset by the reduction in net credit costs growth due to the slowdown in the loan growth.

### Response to COVID-19, Considerations of Possible Impact on Businesses

Major Business	Focus Points
Structured finance: real estate finance	<ul style="list-style-type: none"> <li>• Possibility of large decline in new loan originations (lower fee income)</li> <li>• Increase in net credit costs due to decrease in real estate price. However, the negative impact would be limited unless major asset prices such as offices and residential drop significantly (No significant impact on probability of collection even if real estate asset price drops by 30-40%)</li> </ul>
Unsecured loans	<ul style="list-style-type: none"> <li>• Possibility of lower interest income reflecting slight downturn in growth of new customers</li> <li>• Increase in net credit costs due to delinquent loans of lower income segment. However, "increase in net credit costs due to bad debt" might be partly offset by "decrease in net credit costs resulting from sluggish loan growth"</li> </ul>
Showa Leasing	<ul style="list-style-type: none"> <li>• Possibility of lower deal volume (lower leasing income) and lower fees including insurance related fees</li> <li>• Possibility of higher net credit costs from SMEs mainly in service industries</li> </ul>
APLUS FINANCIAL	<ul style="list-style-type: none"> <li>• Possibility of slightly lower transaction volumes in shopping credit (auto and others) and credit cards</li> <li>• Possibility of increase in net credit costs due to delinquent loans of lower income segment. However, "increase in net credit costs due to bad debt" might be partly offset by "decrease in net credit costs resulting from sluggish loan growth"</li> </ul>
Retail banking	<ul style="list-style-type: none"> <li>• Possibility of decrease in sales volume of asset management products</li> <li>• Possibility of increase in net credit costs due to possible rescheduling of housing loan repayments</li> </ul>
Structured finance: project finance	<ul style="list-style-type: none"> <li>• Lower fees reflecting slight decrease in new arrangements (lower fee income). However, longer timeframe required from commitment to disbursement would result in limited impact on asset growth and interest income</li> <li>• Neutral to a decline in oil price as we do not undertake price risks in natural resources related deals</li> </ul>
Others	<ul style="list-style-type: none"> <li>• Lower capital gains due to postponement of the scheduled exit from our equity investments</li> </ul>

### Capital Policy

#### Cost of Equity

The Bank recognizes that capital efficiency, meaning profitability to capital, needs to be enhanced and per share values need to be increased through efforts to strengthen earning power and boosting the Bank's corporate value in the medium to long term. At the same time, the Bank has received an injection of public funds, which requires the accumulation of a public fund repayment source.

Recognizing this, the Shinsei Bank Group needs to maximize the absolute amount of profit, while securing a certain level of capital in order to generate an appropriate return against cost of equity in the medium to long term.

#### Shareholder Return Policy

In fiscal 2019, we repurchased ¥23.5 billion of our shares based on fiscal 2018 operating results. The total shareholder return ratio including the share buyback program and year-end dividend for fiscal 2019 was 50%.

In fiscal 2020, we announced a total shareholder ratio of

up to 50% compared to net income of ¥45.5 billion in fiscal 2019. This figure is calculated by adding ¥10 per share (total dividend: ¥2.3 billion) to the ¥20.5 billion of share buyback program. Considering ample capital adequacy, we believe that current share price does not reflect fair corporate value. The share buyback program has been determined considering total shareholder return policy as outlined in the Revitalization Plan which stipulates that we will continue to aim to maintain and improve our shareholder return, taking into consideration the level of the general total shareholder return ratio of Japanese domestic banks. However, considering extraordinary uncertainty due to COVID-19, the execution of the buyback program will be judged in terms of its feasibility, amount and/or timing depending on external environments and our share price as well as earnings conditions. As a result, there is a possibility of not being able to fully execute the total amount of the buyback program. This does not make any reference to future total shareholder return ratio.

## Investors' FAQ

**Q** In August 2019, largest shareholder, JCF funds completed liquidation of its investment to Shinsei Bank. In addition, J. Christopher Flowers resigned as the outside director of the Bank. Please explain the impact of the capital events on Shinsei's corporate governance.

**A** The JCF funds, a major shareholder, exited its investment in the Bank through a third-party allotment in August 2019. The offering totaled ¥63.3 billion, and the number of shares offered was 45 million. The transaction was successfully completed by selling shares primarily to overseas institutional investors and domestic individual investors.

Immediately after the offering was announced, share price fell temporarily due to concerns about supply and demand for our shares. However, the offering itself was a capital transaction that was neutral from the value per share perspective. First, there is no effect on the denominator of value per share as it does not involve dilution of shares. Second, there is no impact on the numerator of value per share as the JCF funds did not have any direct involvement in conducting day-to-day business or financial operations.

The majority of the Bank's Board of Directors is composed of outside directors with diverse expertise. In addition, the Board of Directors, other than Mr. Flowers, have been actively communicating with the Bank's management both within committee meetings and outside committee meetings. As a result, we do not believe that his resignation affects the Bank's corporate governance.

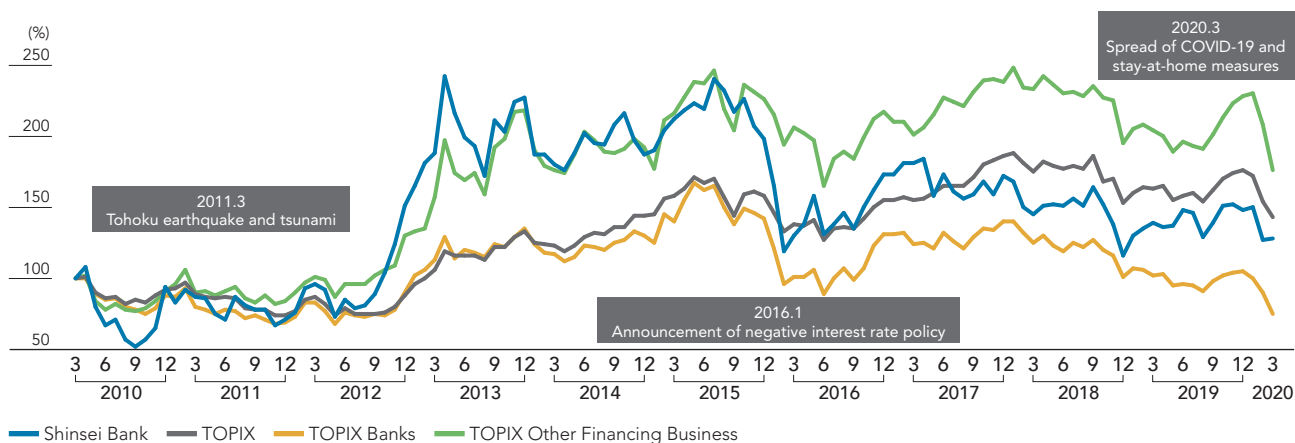
Considering high ratio of subscriptions to the offering and the removal of the overhang, the share price has recovered to the level prior to the announcement of the offering.

**Q** Please tell us about the trend of Shinsei Bank's share price changes.

**A** The Bank's share price was favorably moved as a result of the steady implementation of the Shinsei Bank Group's Medium-Term Management Plan and the strengthening of its distinctive business portfolios of unsecured loans and structured finance, in addition to recovering from the global financial crisis. The negative interest rate policy announced in January 2016 temporarily caused TOPIX Banks and TOPIX Other Financing Business to decline significantly, but the Bank's share prices overperformed toward those of TOPIX, TOPIX Banks and TOPIX Other Financing Business. We recognize that this reflects our business portfolio, centered on unsecured loans and structured finance, as these businesses are relatively less affected by negative interest rates than other banks. At the end of 2018, the Bank's share prices fell sharply due to concerns over a slowdown in the U.S. economy and a drop in Japanese stocks, particularly financial sector stocks, stemming from a sharp rise in U.S. interest rates.

In fiscal 2019, together with the Medium-Term Management Strategy, the Bank's share price recovered, reflecting its capital policy of maintaining and improving the total shareholder ratio. Stock prices declined in 2020 as a result of the worldwide spread of COVID-19 and the turmoil in the real economy. However, compared with March 2010, the share prices of Shinsei Bank is outperforming those of TOPIX Banks.

■ Shinsei Bank Share Price: Relative Performance (Stock Market Indexes from March 2010)



# Implementing Digital Strategies

## The Future of Finance and IT

# The Shinsei Bank Group's Challenge

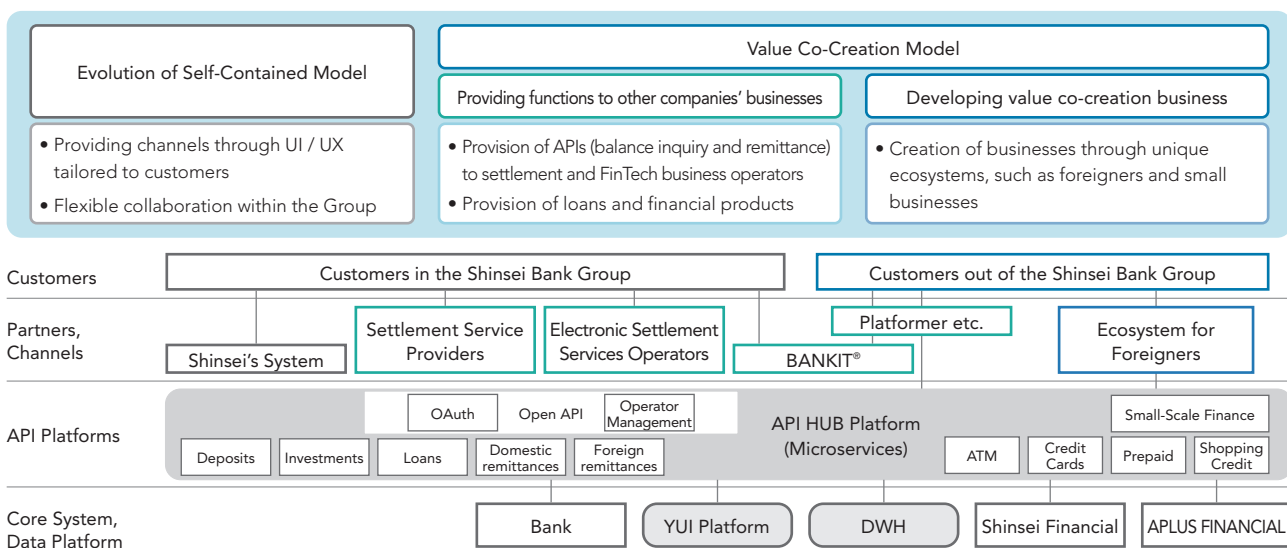
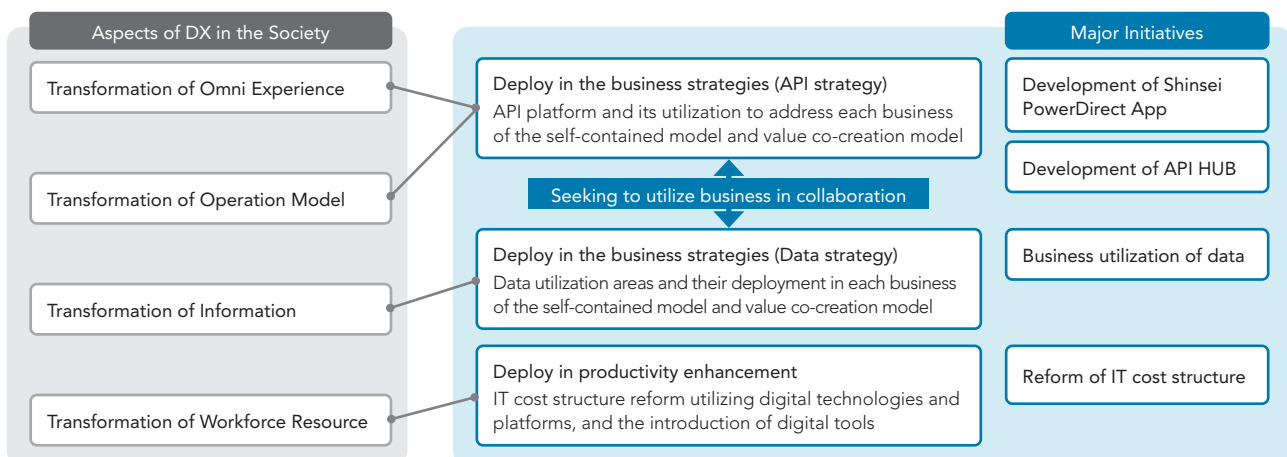
Digital strategies are tools for realizing "Redesigning Finance." The Shinsei Bank Group incorporates digital approaches into its business strategies and provides new value to customers. At the same time, as an organizational foundation that supports our business, we are cultivating IT personnel and ensuring cyber security that protects the financial system from cyber attacks.

### Digital Strategies in the Shinsei Bank Group

**Deployment of Digital Strategies in Business Strategy** In API Strategy, we will utilize our API platform to deepen our self-contained businesses by providing channels and apps to tailor customers' needs and providing products and services by collaborating within the Shinsei Bank Group. We will also develop value co-creation businesses by providing financial functions to FinTech companies and platformers, and by creating unique ecosystems centered on the Shinsei Bank Group.

The Data Strategy supports self-contained businesses and value-creating businesses by utilizing data in marketing and credit screening.

**Productivity Reforms** We will work to improve the efficiency of business processes and operations using digital tools, and to reform the IT expense structure using the cloud.



## Case Study

### Initiatives of the Neobank Platform "BANKIT®"

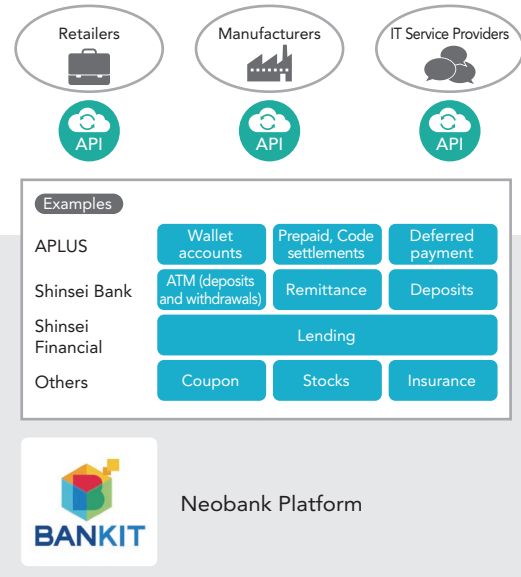
The Shinsei Bank Group began offering the Neobank Platform "BANKIT®" to our partner companies who have been considering entry to the financial and settlement business.

BANKIT®, a Neobank Platform, provides financial services such as the Shinsei Bank Group's payment, exchange, and credit functions to partner companies in a cafeteria format through its Open API infrastructure. BANKIT® is operated by APLUS Co., Ltd. with a registered license of fund transfer business and prepaid payment issuing business.

Partner companies can use BANKIT® to provide financial services to their customers without the burden and expense of obtaining financial licensing.

#### Points

- To reduce the pain points when partner companies enter the financial business
  - To obtain a license
  - Building systems and operations
- Provides highly flexible financial services such as financial services platforms, and settlement and credit
- Supporting customer contact points and actual operation
- Initiatives in which the Shinsei Bank Group companies cooperate to bring their respective strengths to fruition



Through the provision of BANKIT® services, we will leverage the Shinsei Bank Group's financial licensing, financial and payment systems to collaborate with partner companies and FinTech companies that have a customer base, to develop the financial and payment services needed for the next generation, and provide new financial experiences.

### Examples of BANKIT® Systems Offered to Partner Companies

**BANKIT® is a new financial services. This system supports customers' entry into the financial and settlement businesses and co-creates new value and business models.**

**Only necessary items can be picked up from a variety of services, and there is no need to invest large amounts in systems or acquire various financial licenses.**

**So it's low-cost and speedy, as never before.**

**Now, let's create an exciting business future together!**

**マネのできない、  
マネーのアプリ。**



**Example of Services** One wallet account supports a wide variety of functions, including withdrawal from ATMs and sending money.

- 1 Wallet accounts
- 2 ATM transactions (deposits and withdrawals) without card
- 3 Remittances



**Example of Services** Equipped with a variety of payment functions, which can be used not only in code settlements but also in VISA, etc.

- 4 Code Settlements
- 5 VISA Settlements



Cards can be issued to the customers who desire them, so that they can use the cards at VISA member stores around the world as well as online

Planning contactless (touch) payments



The Future of Finance and IT

# Digital Personnel Strategy and Security

## Who

### What Kind of Digital Talent/Data Scientists Does the Shinsei Bank Group Have?

**Job Description** To provide value to customers through the Shinsei Bank Group’s products, services and experiences, the Group Data Strategy Department analyzes and utilizes financial data of Group companies and promotes coordination with the behavioral data of partner companies.

The Group Data Strategy Department’s vision is to “embody a finance that is motivated by data.” It collects and analyzes data on a daily basis and promotes the business utilization.

Members comprise a variety of human resources with different skills and background experiences, including strategic consultants, system engineers, and actuaries. Through the planning and development of machine learning models for business projects, we are enhancing our skills in practical business understanding and problem solving.

**Mid-career recruitment** Mr. Yusuke Imai



I feel that there is a very good environment balancing personal growth and contribution. As a system engineer, I worked on database construction and web app development, so while I was confident in engineering, I wanted to acquire business problem solving and data science skills in my next career. In current jobs, I can learn and develop these skills from other outstanding members, and in addition, I can contribute to our business while making use of our expertise in engineering, so that the two perceptions of that experience lead to satisfaction.

**Adopting a hackathon approach** Mr. Taishi Watanabe



I feel a great sense of reward when I am able to formulate findings and statistical models derived from my analysis. Before joining Shinsei Bank, I was studying the theory of machine learning in graduate school, and I began thinking that I didn’t want to be limited to theory and I wanted to be able to give back to society. In the Group Data Strategy Department, I need to consider every aspect in fields such as statistics, business, and engineering. I am happy to be in a work environment that provides opportunities to be involved in projects in these fields.

## How

### How Does the Shinsei Bank Group Acquire Human Resources for FinTech and Data Analytics?

**About Hackathon** Amid intensifying competition for recruitment of IT personnel, the Shinsei Bank Group is implementing a unique initiative called “Shinsei Hackathon.”

The Shinsei Hackathon is a data analysis contest designed to provide university and graduate students interested in data science with practical analysis opportunities using business data. Participants use the latest machine learning methods to compete on model precision and the novelty and evolution of ideas in developing models that predict the probability of credit losses of customers one year after their application for card loan products.

Participants experience the difficulty and fun of understanding the use of real data by financial institutions and developing models that are used in actual businesses. The Shinsei Bank Group is also contributing to the development of human resources for future data science while gaining the fresh analytical perspective of students.

**Hackathon:** A term that is combined from the words “hack” and “marathon.” This term refers to an event in which a team of programmers, designers, and others typically engage in intensive work on a given theme for a predetermined period of time and compete with each other for the outcome.



Hackathon

**Comments from external judge**

**Mr. Takashi Miyakoshi**  
 Director, The Japan DataScientist Society  
 To become a leading data scientist, you need experience in resolving business issues using real data. The Shinsei Hackathon provides valuable opportunities not only for Shinsei Bank, but also for the development of data scientists in Japan.

## “Redesign” of Working Styles Using Digital Technology

### Example ① Utilization of Telecommuting

#### • Telework System

The Shinsei Bank Group introduced a telework system in April 2018. Employees can now work at home or at a designated satellite office in accordance with their work styles and circumstances.

#### • Communications Using Teams App

As a digital tool supporting telework, employees use laptop computers to conduct videoconferencing and teleconferencing using Microsoft Teams. We strive to communicate in the same environment as when working at the office, irrespective of the workplace.

#### • Utilization of Telework System

The teleworkers increased from 9.5% in fiscal 2018 to 70.3% in fiscal 2019 (Shinsei Bank only). Since the beginning of 2020, we have been further promoting telework system to protect employees and their families from the spread of the COVID-19 infection.

### Example ② Utilization of AI Automatic Translation Tool

In fiscal 2019, we introduced an AI automatic translation tool. By replacing human translation work with machines, we are allocating this time to other business hours to improve productivity and at the same time contributing to the reduction of translation costs.

## Keep Ensuring Cyber Security

The Shinsei Bank Group considers cyber security to be a management materiality, as well as providing customers and partner companies with highly convenient financial access. At the same time, it ensures the safe and secure use of the social infrastructures of finance.

#### • Management of Cyber Security

To strengthen measures against cyber attacks, which are becoming increasingly sophisticated year by year, we have established the Group Cyber Security Guidelines and are working to strengthen management of information security across the Group, through management-led efforts such as sharing information on new ways of attack and vulnerability, checking the status of measures against information systems, regularly training employees throughout the company, and monitoring fraudulent remittances.

#### • The Risks Associated with Cyber Security Are as Follows

- Shutdown of the information system
- Leaking of confidential information
- Illegal transactions such as illegal withdrawals

#### • Training and Education for Cyber Security

In addition to protecting and detecting cyber attacks on information systems, we are working to improve the awareness and response of cyber security among our employees by conducting periodic cyber attack training in collaboration with external specialized agencies.

### Response to Security Management by the Shinsei Group



#### Attacker

- DDoS attack
- Website falsification
- Targeted e-mail attack
- Illegal transfer

Cyber attacks

### The Shinsei Bank Group

#### Cooperation with external specialist organizations

- Gathering the latest cyber attack modus operandi
- Gathering vulnerability information

#### Implementation of measures against cyber attacks on information systems

- Checking the implementation status of cyber attack countermeasures
- Implementing cyber attack countermeasures
- Monitoring of illegal remittances

#### Training and education

- Exercises using cyber-attack scenarios
- Training for employees
- E-learning training

# Individual Business



**Tetsuro Shimizu**  
 Managing Executive Officer,  
 Head of Individual Business Unit

The Individual Business provides retail banking businesses, including deposits, investment trusts and housing loans; unsecured loans; and credit card, shopping credit and payment services for individual customers.

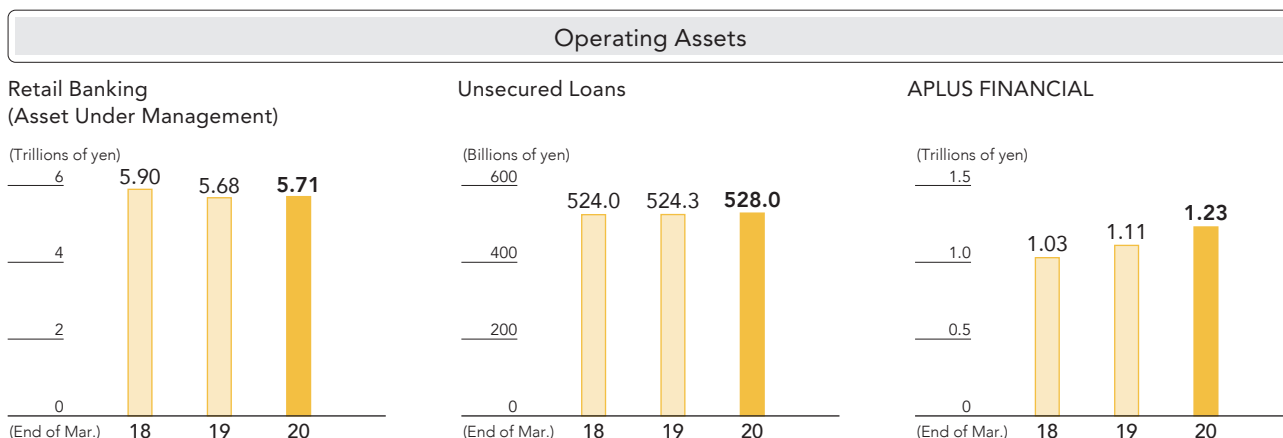
### ■ Business risks and opportunities based on an awareness of the environment

Responding to changes in consumer behavior caused by the declining birthrate and the aging of society, and diversifying lifestyles, using digital tools to support individual customers' medium- to long-term asset-building activities is the Bank's role in resolving social issues and creating business opportunities.

In the retail banking field, we are developing multiple consulting channels, one-to-one marketing that utilizes behavioral data, and construction of a framework for organizational management by customer segment and other efforts. We are working to ensure stable asset building for our customers by communicating optimally with each customer and providing products and services tailored to their needs and life plans.

In the credit card and payment fields, the competitive environment is intensifying by the entry of non-financial platformers and financial innovations. By applying APLUS FINANCIAL's BtoBtoC business model, we provide BANKIT®, a neobank platform equipped with financial functions such as payment, exchange transactions, and lending, to our partner companies and their customers through smartphone apps and APIs.

In unsecured loans field, we provide financial access to customer segments that prefer non-face-to-face digital transactions and cardless services, and respond precisely to customers' funding needs. By adding AI and digital technologies to the credit screening and collection functions that we have cultivated, and by forming alliances with companies with a customer base, we are working to meet the financial needs of new customer segments.





## What is Small-Scale Finance?

**Core Customers**  
 Individuals and small businesses

**Product / Service Lineup**  
 Small-size, high-frequency credit and payment transactions:

- Unsecured loans, shopping credit
- Credit guarantee, rent guarantee
- Credit cards, prepaid cards
- Other cashless payments

**Our Capabilities**

- Large and diverse customer portfolio
- Strong analytical capabilities for marketing, credit assessment and loan collection
- Stable operations

**Value Co-Creation**

- 3** Build / participate in ecosystems, share data to better understand our customers
  - Provide functions (credit assessment, guarantees, collection, payments etc.) based on partner needs
  - Share and use customer data and know-how
  - Serve foreign nationals and freelancers
- 2** Strengthen core capabilities, integrate with payment platforms
  - Utilize AI / RPA to analyze data and streamline operations
  - Deploy all-in-one platform for payments, credit assessment and other services

**Self-Contained Model**

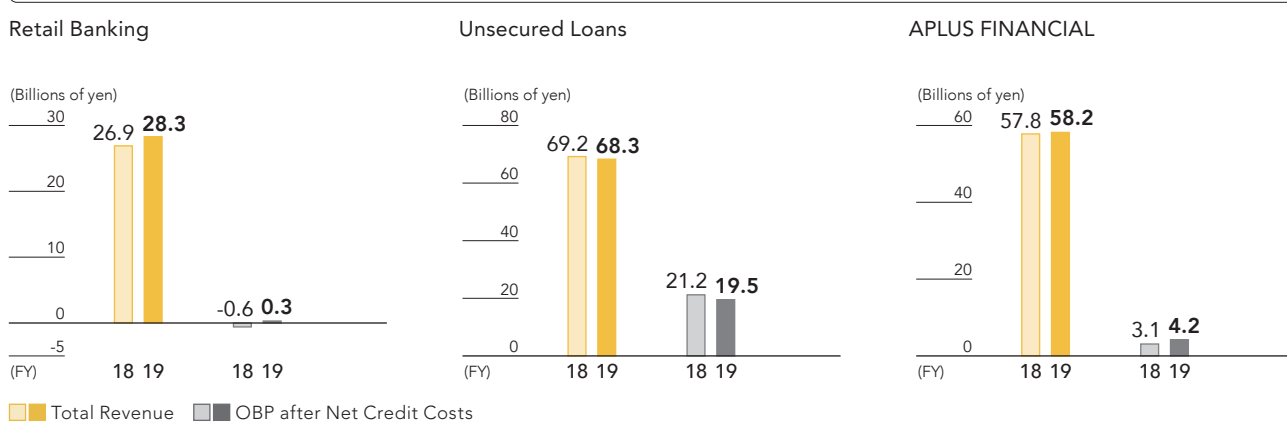
- 1** Streamline and speed-up existing processes
  - Scale up multi-payment services to meet increasing cashless payments
  - Gather outside UI / UX expertise

**Topics**  

**Established Credd Finance to provide credit services to foreign residents**

In January 2020, the Shinsei Bank Group announced the establishment of Credd Finance Ltd., a new company with Seven Bank, Ltd., to provide credit services to foreign residents. As one aspect of ongoing globalization, an increasing number of foreigners are working in Japan each year and their needs for credit transactions such as loans in addition to the remittance overseas are increasing. Credd Finance is preparing to provide new credit services, such as loans and credit cards, by leveraging Seven Bank's customer base of foreigners and APLUS's know-how in finance for individual customers. We strive for the creation of fair access to financial opportunities for non-Japanese customers (financial inclusion) and contribute to the realization of multiculturalism from the corporate side.

### Key Financial Data



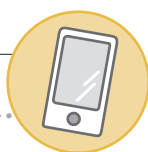
**Unsecured Loan Business**

**Lake ALSA Strengths and Strategies**

- Development of customer base and customer data using major consumer finance brand - Lake
- Use of conventional scoring models derived from nonbank credit-risk control methods, plus use of AI to enhance credit assessment / collection
- Optimization of operation costs using digital technology
- Fixed-term, no-interest loans for new customers
  1. Customers with a contract amount under ¥2 million, no interest for 180 days for loans up to ¥50,000, or
  2. 60-day no-interest loan, website application only
- Customers' smartphones can act as a substitute for a branch, enabling them to receive services in real time 24-hours a day. Smartphones can also be used to make repayments, increase credit limits and receive other services without being restricted to time or place.
- Loan disbursement and loan repayments are also possible using a card issued especially for this purpose. Beginning in May 2018, customers can make "cardless" transactions at Seven Bank ATMs.



Many customers apply on smartphones



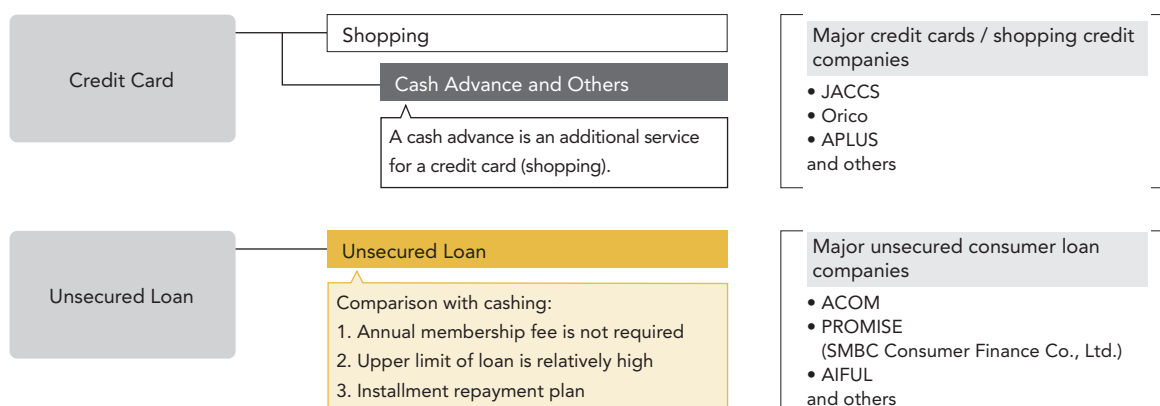
- Application** Can apply on smartphones 24 hours / day
- Credit Screening** Results of screening shown on smartphone screen
- Contract** Forms submitted by e-mail
- Loan** No need to visit a branch. Loan disbursed in customer's account

**Number of New Unsecured Loan Customers and Approval Rate**

	FY2017	FY2018	FY2019
Number of New Customers (Thousands)	162	113	138
Approval Rate (%)	36	30	30

**The Difference between an Unsecured Loan Service and Cash Advances**

Unsecured loans are loans to individual consumers providing finance that is appropriate to the needs and timing of customers. The loans are available, even to customers who do not possess a credit card, through the use of smartphones and a dedicated card that can access ATMs at convenience stores and unstaffed branches.



# Institutional Business



**Shinichirou Seto**  
Senior Managing Executive Officer,  
Head of Institutional Business Unit

The Institutional Business is composed of the corporate business, which provides solutions to our corporate and financial institution customers; structured finance, which provides services such as real estate finance and project finance; services that provide private equity investments and business succession finance; the leasing business; and the markets business which provides market solutions for foreign exchange and interest rate derivatives, among others.

## ■ Business risks and opportunities based on an awareness of the environment

Against the background of the prolonged low-interest rate environment, the profitability of traditional lending business has been at a low level. On the other hand, new financial needs are emerging in line with social issues, such as environmental and energy issues, and the lifecycle of small and medium-sized enterprises, etc. due to the

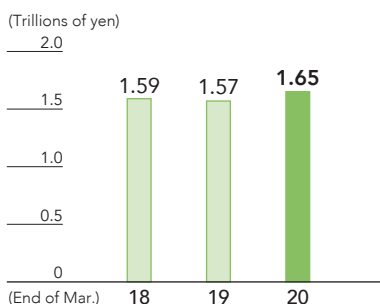
aging of enterprise managers. We recognize the value chain, including not only the Shinsei Bank Group customers, but also our business partners. We aim to provide differentiated solutions by capturing the various needs as opportunities and leveraging our internal and external resources.

For institutional customers, we provide solutions that are not limited to the financial sector, pursuing partnership-style businesses that help our customers solve their problems and create new businesses, not only by providing financial services functions within the Group, but also by cooperating with companies outside the Group. For example, the Shinsei Bank Group and USEN-NEXT HOLDINGS Co., Ltd. launched a joint financing business to provide APLUS's financial capabilities to small companies of USEN-NEXT GROUP's customers.

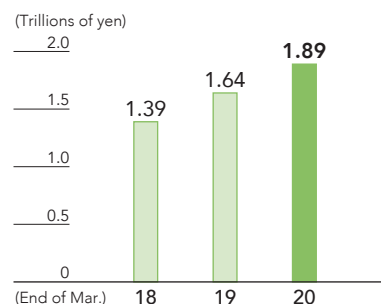
In the structured finance field, we utilize our accumulated relationships, knowledge, and analytical capabilities with institutional investors in Japan and overseas to provide bi-lateral senior loans and arrange syndications with regional financial institutions. In addition, based on the strong interest of investors in environmental and social issues, we will promote a business for institutional investors that focuses on sustainability for a wide range of institutional investors, including investment managers who provide funds and asset owners who provide funds to them. To this end, we established the Sustainable Impact Promotion Department in February 2020. The bank will conduct sustainability / ESG assessments of loan and investment projects and provide them with their own assessments to investors. In the future, we will expand the scope of our activities to whole institutional business including institutional customers.

## Operating Assets

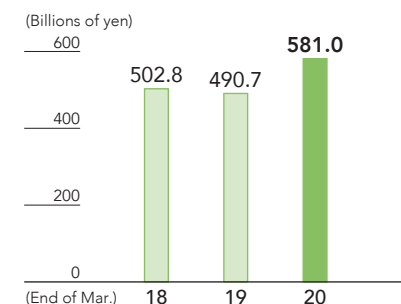
### Corporate Business



### Structured Finance

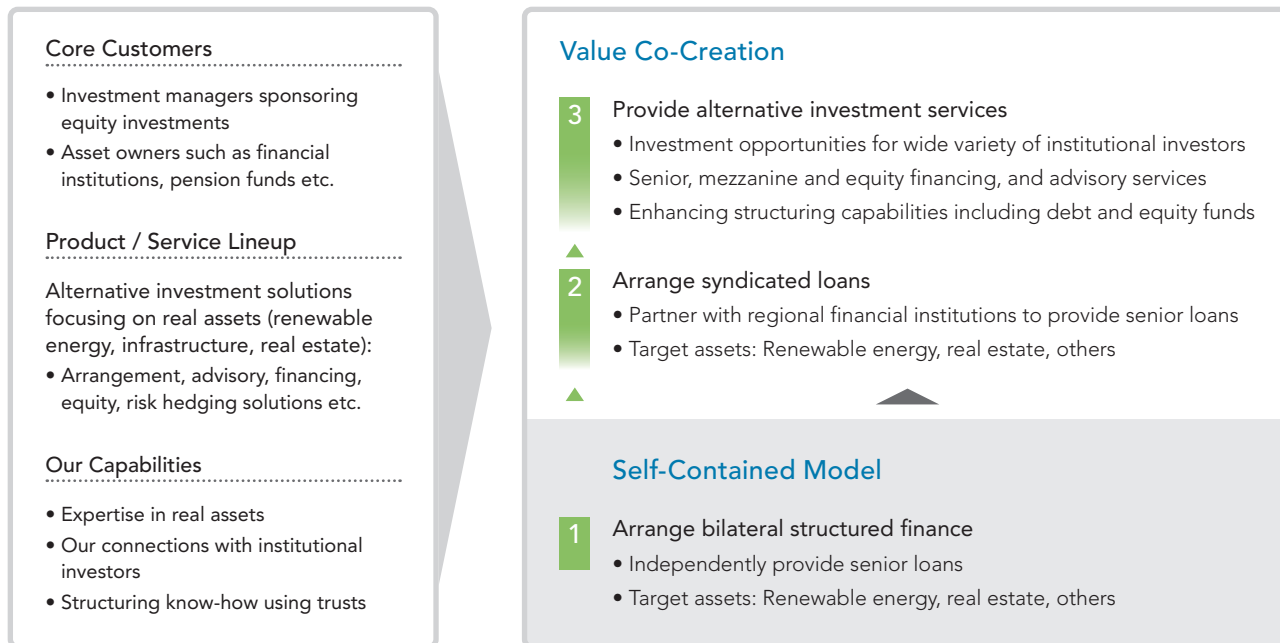


### Showa Leasing



## Institutional Business

### What is Institutional Investor Oriented Business?



Topics

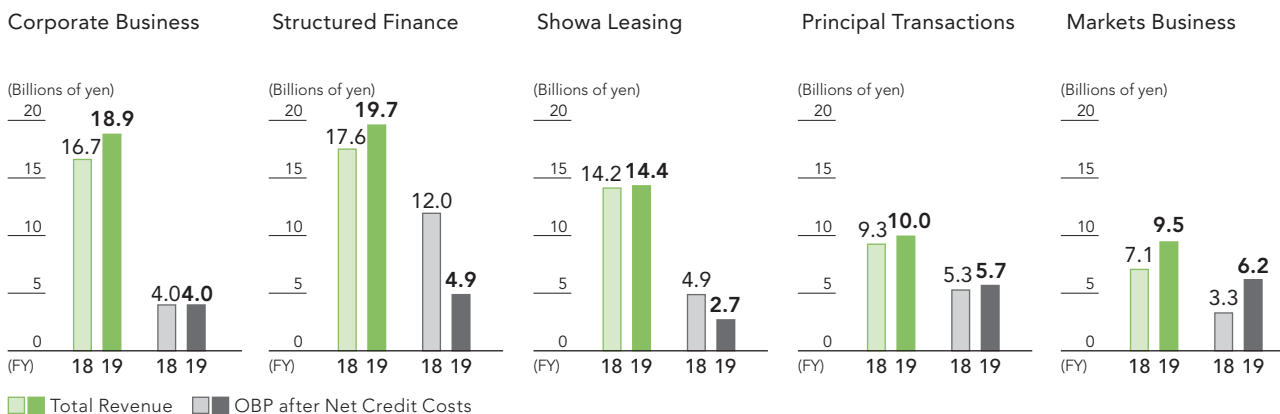
Impact investment fund of the Shinsei Bank Group received the "Tokyo Financial Award 2019 - ESG Investment Category"



In January 2020, Shinsei Bank Group's Shinsei Corporate Investment Limited (hereinafter, SCI) received the "Tokyo Financial Award 2019 - ESG Investment Category" by the Tokyo Metropolitan Government. SCI is involved in the composition and management of the Child-care Support Fund (established in January 2017), the first Japanese bank-affiliated impact investment fund and Japan Impact Investment II Limited Partnership (established in June 2019), the first Japanese bank-affiliated impact investment fund, aiming to create a social-challenge-solving economy. The Japan Impact Investment II targets "child care, nursing, new work style-related business" by companies that contribute to the creation of an environment in which all people can continue to work even after undergoing various life events such as child care and nursing care, provide education and childcare services that contribute to the development of the next generation, and provide support for balancing child-raising and nursing care, receiving funds from a variety of investors, including institutional investors and operating companies.

SCI continues to work toward establishing an ecosystem for impact investment in Japan.

#### Key Financial Data



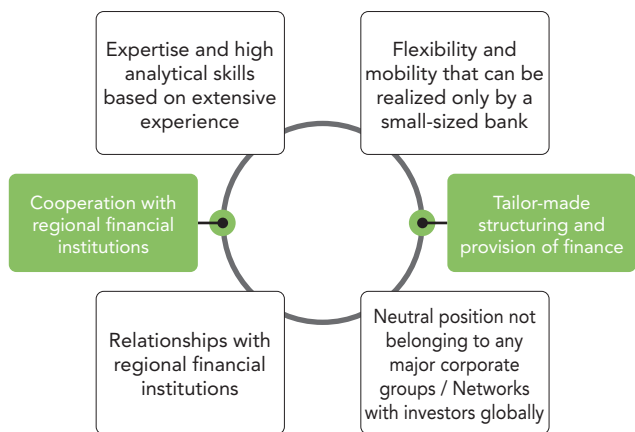
## Structured Finance Business

### The Shinsei Bank Group's Strengths

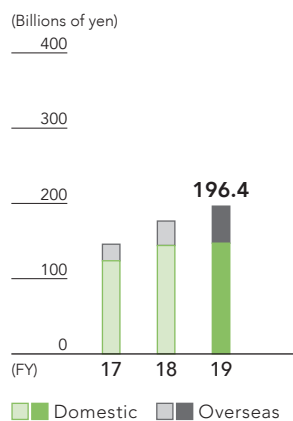
As neither a megabank nor a regional financial institution, the Shinsei Bank maintains a unique position with the following strengths.

- We are better able to tackle projects with a focus on flexibility and speed than megabanks.
- We have more expertise and greater analytical skill given our extensive experience than regional financial institutions.
- We are able to do business from an independent standpoint with a broad range of customers because we do not belong to a specific capital group.

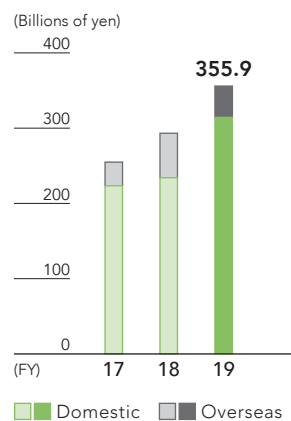
Create added values from our unique positioning that is different from both megabanks and regional financial institutions



■ New Commitments  
Project Finance

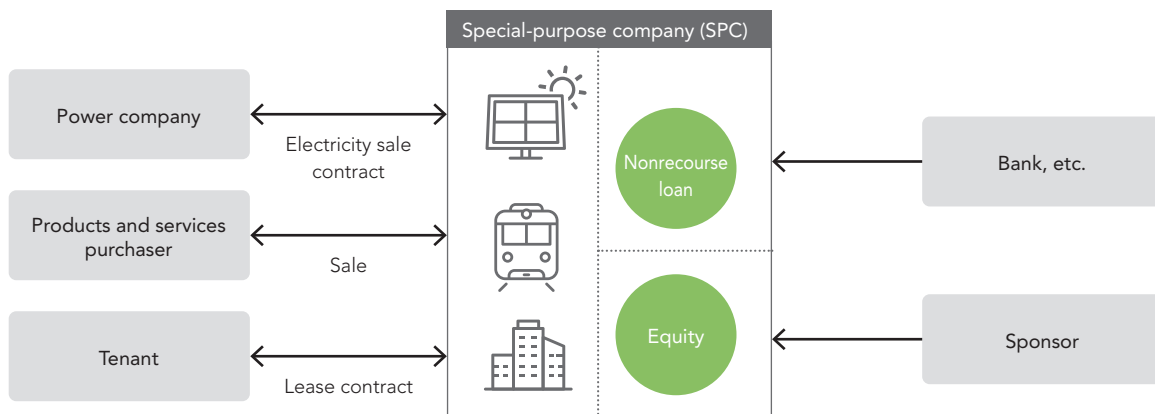


■ New Disbursements  
Real Estate Nonrecourse Finance



### Product Structure

The Structured Finance Business primarily delivers project finance for renewable energy power generation facilities and infrastructure facilities, and provides real estate finance for commercial real estate.



## Interview with Outside Director

~About the Nomination and Compensation Committee

Jun Makihara

Outside Director  
Chairperson, Nomination and  
Compensation Committee



Regarding the nomination of candidates for directors, please explain the nomination process, the committee's policies (such as the required skills and the balance of the skill portfolio) and discussion in the committee.

As the Shinsei Bank has a significant majority of outside directors and auditors, we have the flexibility to select a group of board members who each bring a different set of skills relevant to overseeing the bank's management, operations, and long-term strategy.

Our auditors and board members participate fully in the Board meetings and executive sessions together and are treated as one group, so in this discussion I will refer to them together as "the Board."

We have also appointed senior advisors, who attend every Board meeting and executive session, and who bring additional wisdom and perspective to our discussions. Although they do not have a formal vote, their advice is treated equally to board members.

We do not have a detailed policy as to qualifications for a director. What we have is common sense. The most important quality we look for is, of course, general experience in business, finance, and government, and a willingness to speak up. Beyond that, we value a diversity of experience. For example, we have a high percentage of

women on our board. We have board members who have experience in running businesses, finance, IT, legal and regulatory, and accounting. A number of board members have extensive international experience. Although Shinsei's business is largely domestic, I feel it is particularly important that our board understands international trends (many of the trends affecting Japanese banks have started abroad), and also what our foreign shareholders are thinking.

One area that we have discussed but find particularly difficult is finding younger board members (40s or even below). I feel there is a whole level of discussion and social perception that we miss by not having the next generation represented on the board, but this has been very difficult. If any reader has suggestions, we welcome them!

In terms of nominations, the challenge is paying attention to an ongoing search for and recruiting of new board members. There is a natural turnover at the board, and over time the needed skills will also change. But we cannot suddenly come up with a good candidate when there is an opening. So, we have to continually be on the lookout. To date, all of our board members have come through introductions from existing board members. This has been an advantage, I feel, because one of the most important things is to have a board that works well together and works well with management. So the "fit" of a new board member is crucial, and it helps to have a candidate introduced by someone who knows both the current board and management, and the candidate.

### Regarding the compensation structure for executive directors and outside directors, please elaborate on the discussion points and actual discussion at the committee.

We are mindful that our compensation policies (including that of the board) must reflect the fact that we are the recipient of taxpayer funding that has not yet been repaid. Also, I should be clear that no director or auditor has expressed a feeling that their compensation is inadequate. In fact, director compensation is almost never discussed. The one item that has surfaced several times is whether some portion of our compensation should be tied to our performance (stock price performance or earnings growth, for example). Interestingly, there is a disagreement amongst our shareholders on this point, with some (mostly foreign) shareholders thinking that incentivizing directors to focus on stock price performance is very important, and other (mostly domestic) shareholders thinking this is a bad idea. I serve on two other boards, one (Japanese) that has no stock incentive, and one (foreign) where I have chosen to receive my entire compensation in stock. I don't think it has affected my behavior as a director.

But after discussion, we have decided, starting this year, to have 25% of compensation for outside directors (excluding auditors) paid in restricted stock. I personally don't think this will affect our behavior or discussions at the Board, but I look forward to seeing how it goes.

### Regarding the appointment and dismissal of representative directors, please outline the committee's policies (required qualities, etc.) and succession plans.

Corporate governance experts are fond of saying that the most important decision a board can make is hiring and firing the CEO. This may be true, but it is a rare occurrence, and there are many things we do working with the CEO that I think are just as important. The day-to-day

advice and support to the CEO, for example. Here again, the diverse experience of our board, and our willingness to speak up honestly is key.

We do not have a detailed policy as to what standards we would apply or the procedures we would follow in appointing or dismissing the CEO. What is important again is common sense: 1) we regularly discuss amongst the outside directors whether we feel Kudo-san is doing a good job (he is), and 2) we discuss succession planning for him several times a year in executive session with him present.

We are fortunate to have a CEO who we feel is doing a very good job. Banking in Japan is an industry where it is currently very difficult to do well. And of course, the current COVID-19 crisis is a huge challenge. Despite all of this, Kudo-san has run the bank well. In addition, the bank had two distinct challenges at the beginning of Kudo-san's tenure: 1) assisting our largest shareholder, J.C. Flowers & Co. to achieve an exit, and 2) developing a plan to repay public funds. Regarding the two challenges, J.C. Flowers & Co. did exit their position last year, so one challenge remains. All in all, we are pleased with where we are.

As for succession planning, the Board conducts an ongoing dialogue with Kudo-san about the process: potential candidates, training future leaders, pros and cons of internal versus external candidates, etc. We again benefit here also from having a board with a broad variety of experience that includes seeing CEO succession planning that has been successful and less successful.

I would like to close by saying that no set of written rules or procedures can guarantee a good outcome for any of the above questions. The most important thing is to have a board that works well together and works well with the CEO. Above all, a board and CEO that have an open and honest dialogue is the key to successful corporate governance.

# Corporate Governance

## Four Features of Shinsei Bank's Corporate Governance

### Ratio of Outside Directors on the Board of Directors

71.4%

- Five of the seven directors at Shinsei Bank are outside directors and comprise a majority of the Board of Directors.
- The Bank has maintained a Board structure where outside directors comprise a majority since Shinsei Bank started.
- The Bank has submitted the names of seven individuals, including outside Audit & Supervisory Board members as independent officers to the Tokyo Stock Exchange.



40%

### Ratio of Outside Directors with Corporate Executive Experience



- Outside directors are well-balanced members with extensive experience and high levels of expertise, such as management, financial, and business-related useful fields including consumer, real estate, and IT, as well as comprehensive knowledge and experience in consulting and academia.
- Two of the five outside directors on our Board are or have worked as corporate executives.

### Ratio of Female Directors on the Board of Directors

28.6%

- Two of the seven directors of Shinsei Bank are female directors.
- 40% of the total number (10) of directors and Audit & Supervisory Board members of the Bank are women.
- Diversity & inclusion is one of our most important management strategies, and we are working to promote the empowerment of women in the workplace.



100%

### Attendance Rate for the Board of Directors



- Our directors, including outside directors, attended each meeting of the Board of Directors and engaged in active debate about the Bank's management and operational execution.
- This attendance rate is the average for our directors for eight meetings of the Board of Directors since the June 2019 general meeting of shareholders.



## Corporate Governance of Shinsei Bank

Shinsei Bank's Board of Directors—the Bank's decision-making body for its business management—consists of seven directors—two full-time directors who are directly responsible for the execution of the Bank's businesses and five outside directors who primarily supervise the Bank's business execution.

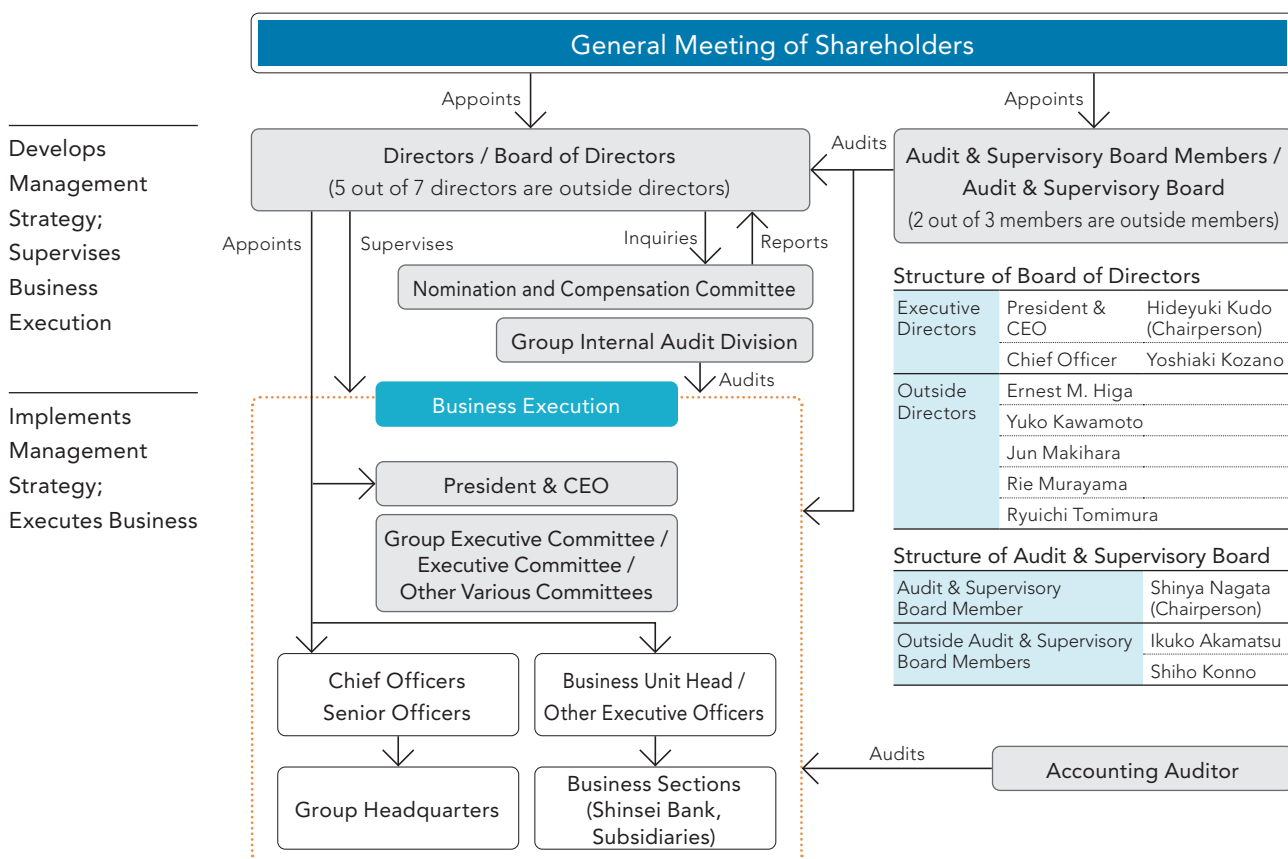
The composition of the Board of Directors ensures the objectivity and transparency of business management and facilitates appropriate management decision-making. The current outside directors are a balanced group of executives who bring to the Bank their extensive experience and expertise in a range of fields, including domestic and overseas financial businesses, consumer-related businesses, management consulting, and the fields of information systems and risk management. Backed by this experience and expertise, the outside directors express their opinions in an independent and

objective manner fulfilling their roles in providing advice and oversight for executives performing their duties.

Regarding transactions with parties such as directors, the Bank conducts checks to avoid conflicts of interest and to maintain the fairness of transactions, and when necessary, it uses established frameworks for deliberating on such transactions in Board of Directors meetings and conducting any necessary follow-ups.

Through the auditing of the Bank's Board of Directors and business execution by the Audit & Supervisory Board and its members, which are independent from the Board of Directors, the Bank seeks to create a strict corporate governance framework which encourages the adoption of optimal and balanced management policies reflecting the benefit to stakeholders such as shareholders and customers, through which the Bank seeks to enhance its corporate value.

■ Corporate Governance Structure Chart (As of June 17, 2020)



# Board of Directors, Audit & Supervisory Board Members



**Hideyuki Kudo**  
Representative Director,  
President and  
Chief Executive Officer  
Chairman of Board



**Yoshiaki Kozano**  
Director



**Ernest M. Higa**  
Outside Director  
Nomination and  
Compensation Committee  
Member



**Yuko Kawamoto**  
Outside Director  
Nomination and  
Compensation Committee  
Member



**Jun Makihara**  
Outside Director  
Chairperson, Nomination and  
Compensation Committee

## Diversified Experiences and Skills Required for Outside Directors

		Ernest M. Higa	Yuko Kawamoto	Jun Makihara	Rie Murayama	Ryuichi Tomimura
Management Experience	Corporate Management	○				○
	Outside Director	○	○	○	○	○
Financial Experience	Debt Finance		○	○	○	
	Equity Investment			○		○
	Risk Management		○		○	
Other Necessary Experience	Consumer Business	○				
	Real Estate Business				○	
	IT / Digital					○
	Administration Bureau					
Comprehensive Knowledge on Management, Finance, and IT / Digital	Consulting		○			○
	Academia		○			



**Rie Murayama**  
Outside Director  
Nomination and  
Compensation Committee  
Member



**Ryuichi Tomimura**  
Outside Director  
Nomination and  
Compensation Committee  
Member



**Shinya Nagata**  
Audit &  
Supervisory Board Member



**Ikuko Akamatsu**  
Outside Audit &  
Supervisory Board Member




**Shiho Konno**  
Outside Audit &  
Supervisory Board Member

**Audit & Supervisory Board Members' Skill Matrix**

	Shinya Nagata	Ikuko Akamatsu	Shiho Konno
Finance	○		
Financial Accounting	○	○	
Legal Affairs			○


## Board of Directors, Audit & Supervisory Board Members

### Directors



**Hideyuki Kudo**  
 Representative Director,  
 President and Chief Executive Officer  
 Chairman of Board


Ownership: Common shares 23,072  
 Attendance rate: 100%



**Yoshiaki Kozano**  
 Director

Ownership: Common shares 8,367  
 Attendance rate: 100%

### Outside Directors



**Ernest M. Higa**  
 Outside Director  
 Nomination and Compensation  
 Committee Member

Ownership: Common shares 4,286  
 Attendance rate: 100%

#### Reasons for Nomination

Mr. Hideyuki Kudo has an abundant experience and insight, focusing on corporate and risk management operations. Since his appointment as the president, he has been contributing to improved corporate value by establishing and implementing the core strategies of “enhance/leverage our capabilities” and “grow through value co-creation” outlined in the Medium-Term Strategies that starts in fiscal 2019.

Mr. Yoshiaki Kozano has a wealth of experience and results, focusing on corporate operations. Since his appointment in 2017, he has been planning and promoting the Group’s business strategy as the Chief Officer, Group Business Strategy and contributing to the enhancement of corporate value through reorganization of the Group and creation of business opportunities.

#### Reasons for Nomination

Mr. Ernest M. Higa was asked to stand as an Outside Director in order to reflect in the Bank’s management, his experience and deep insight of business for consumers.

- Apr. 1987 Joined The Dai-ichi Kangyo Bank, Ltd. (Predecessor of Mizuho Bank, Ltd.)
- May 2001 General Manager, Advisory Department No. II, Investment Banking Division, Mizuho Securities Co., Ltd.
- Aug. 2003 Director, Acquisition Group, Aetos Japan, LLC
- May 2005 Managing Director, Aetos Japan, LLC
- Jun. 2006 Representative Director, President, MID Urban Development Co., Ltd. (Predecessor of Kandens Realty & Development Co., Ltd.)
- Jan. 2007 Vice Chairman, MID Urban Development Co., Ltd. (Predecessor of Kandens Realty & Development Co., Ltd.)
- Jun. 2007 Managing Director, Investments Division, Aetos Japan, LLC
- Sep. 2010 Managing Executive Officer, Deputy Head of Institutional Group, Shinsei Bank, Limited
- Apr. 2011 Managing Executive Officer, Head of Structured Finance Sub-Group, Shinsei Bank, Limited
- Apr. 2013 Managing Executive Officer, Chief Risk Officer, Head of Risk Management Group, Shinsei Bank, Limited
- Apr. 2015 Managing Executive Officer, Shinsei Bank, Limited
- Jun. 2015 Representative Director, President and Chief Executive Officer, Shinsei Bank, Limited (Current)

- Apr. 1986 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)
- Nov. 2003 General Manager, Credit Trading Division, Shinsei Bank, Limited
- Jul. 2006 Head of Corporate Business Solutions Sub-Group, Shinsei Bank, Limited
- Dec. 2007 Head of Principal Transactions Sub-Group, Shinsei Bank, Limited
- Jun. 2011 Managing Executive Officer, Head of Principal Transactions Sub-Group, Shinsei Bank, Limited
- Apr. 2015 Managing Executive Officer, Deputy Head of Institutional Group, Shinsei Bank, Limited
- Apr. 2016 Managing Executive Officer, Special Assignment (Head of Group Business Strategy, Shinsei Bank, Limited)
- Jun. 2016 Director, APLUS FINANCIAL Co., Ltd. (Current)
- Apr. 2017 Chief Officer, Group Business Strategy, Managing Executive Officer, Special Assignment, Shinsei Bank, Limited
- Apr. 2018 Chief Officer, Group Business Strategy (Equivalent to Senior Managing Executive Officer)
- Jun. 2018 Director, Chief Officer, Group Business Strategy, Shinsei Bank, Limited (Equivalent to Senior Managing Executive Officer), Shinsei Bank, Limited (Current)

- Apr. 1976 Joined Higa Industries Co., Ltd.
- Apr. 1983 President and Chief Executive Officer, Higa Industries Co., Ltd.
- Apr. 2008 Board Member, The Tokyo New Business Conference (Current)
- May 2009 Board of Overseers, Columbia Business School (Current)
- Jun. 2010 Director, JC Comsa Corporation (Current)
- Mar. 2011 Chief Executive Officer, Wendy’s Japan, LLC
- Jun. 2013 Director, Shinsei Bank, Limited (Current)
- Apr. 2015 Chairman, President & Chief Executive Officer, Higa Industries Co., Ltd. (Current)
- Sep. 2016 Chairman & Representative Director, Wendy’s Japan K. K. (Current)
- Apr. 2017 Board of Trustees, Showa Women’s University (Current)



### Jun Makihara

Outside Director  
Chairperson, Nomination and  
Compensation Committee

Ownership: Common shares 20,000  
Attendance rate: 100%

Mr. Jun Makihara was asked to stand as an Outside Director in order to reflect in the Bank's management, his extensive knowledge of finance, and his domestic and international experience.

Sep. 1981 Joined Goldman Sachs & Co.  
Nov. 1992 Partner, Goldman Sachs & Co.  
Nov. 1996 Co-Branch Manager, Goldman Sachs Tokyo Branch (Predecessor of Goldman Sachs Japan Co., Ltd.)  
Jul. 2000 Chairman of the Board, Neoteny Co., Ltd.  
Jun. 2006 Director, Monex Group, Inc. (Current)  
Jun. 2011 Director, Shinsei Bank, Limited (Current)  
Sep. 2014 Director, Philip Morris International Inc. (Current)



### Rie Murayama

Outside Director  
Nomination and Compensation  
Committee Member

Ownership: Common shares 0  
Attendance rate: 100%

Ms. Rie Murayama was asked to stand as an Outside Director in order to reflect in the Bank's management, her wide range of expertise based on her experience as Outside Director at other companies, as well as her knowledge based on her extensive experience at an investment bank, particularly related to business and risk-analysis in real estate, mortgage, construction and related sector.

Nov. 1988 Joined CS First Boston Securities  
Mar. 1993 Joined Goldman Sachs Tokyo Branch (Predecessor of Goldman Sachs Japan Co., Ltd.)  
Nov. 2001 Managing Director, Goldman Sachs Tokyo Branch (Predecessor of Goldman Sachs Japan Co., Ltd.)  
Jun. 2016 Director, RENOVA, Inc.  
Apr. 2017 Chairman & Representative Director, ComTech, Ltd.  
Jun. 2017 Director, KATITAS Co., Ltd.  
Jun. 2019 Director, Shinsei Bank, Limited (Current)  
Jun. 2020 Director, MAEDA CORPORATION (Current)



### Ryuichi Tomimura

Outside Director  
Nomination and Compensation  
Committee Member

Ownership: Common shares 0  
Attendance rate: 100%

Mr. Ryuichi Tomimura was asked to stand as an Outside Director in order to reflect in the Bank's management, his extensive experience and wide range of knowledge including information systems as a management executive and a consultant.

Oct. 1983 Joined IBM Japan, Ltd.  
Oct. 1991 General Manager, Network Integration Division, Recruit Co. Ltd. (Predecessor of Recruit Holdings Co., Ltd.)  
Jan. 1994 Managing Partner, Pricewaterhouse Consultant  
Oct. 2002 Managing Director, IBM Business Consulting Service KK, Vice President, IBM Corporation Business Consulting Service, Asia Pacific  
Feb. 2004 Representative Director, Senior Executive Vice President, Japan Telecom Co., Ltd. (Predecessor of SoftBank Corp.)  
Dec. 2007 Representative Director, Managing Director, RHJ International Japan, Inc.  
Apr. 2010 Executive Vice President, Director, SIGMAXYZ Inc.  
Aug. 2012 Director, Plan•Do•See Inc.  
Jun. 2014 Audit & Supervisory Board Member, Shinsei Bank, Limited  
Jun. 2015 Director, Shinsei Bank, Limited (Current)  
Jun. 2016 Executive Vice President, Representative Director, SIGMAXYZ Inc.  
Jun. 2018 President, Representative Director, SIGMAXYZ Inc. (Current)  
May 2020 Director, VECTOR INC. (Current)

## Newly Appointed Outside Director



**Yuko Kawamoto**

Newly Appointed Outside Director

Ownership: Common shares 0

**Reasons for Nomination**

Ms. Yuko Kawamoto was asked to stand as an Outside Director in order to reflect in the Bank's management, her wealth of expertise in finance and extensive experience as a management consultant and professor at university.

I am Yuko Kawamoto and I was recently appointed as an Outside Director.

For more than 30 years, I have been engaged in the management of financial institutions and their reforms. After working at a bank, I participated in management strategy discussions at a management consulting company, and from the beginning of the 21st century, I had the opportunity to participate in a number of deliberations by the regulatory authorities. Over the past 15 years, I have been in charge of "financial institutions management" and "corporate governance" classes at a graduate school, as well as serving as an outside director and advisor to banks, securities companies, insurance companies, stock exchanges, financial holding companies, and nonbank financial companies.

Based on my knowledge and experience, I would like to make every effort as a member of the Board of Directors so that Shinsei Bank can play an active role as a financial innovator and sustainably improve its corporate value as an individualized boutique bank that differentiates itself from any other financial institutions.

I look forward to working with you all.

- Apr. 1982 Joined the Bank of Tokyo, Ltd. (Predecessor of MUFJ Bank, Ltd.)
- Sep. 1988 Joined McKinsey & Company, Inc.
- Jul. 2001 Senior Expert, McKinsey & Company, Inc., Tokyo Office
- Apr. 2004 Professor, Waseda Graduate School of Finance, Accounting and Law (Predecessor of Business and Finance) (Current)
- Jun. 2004 Director, Osaka Exchange, Inc. (Predecessor of Japan Exchange Group, Inc.)
- Jun. 2006 Audit & Supervisory Board Member, Tokio Marine Holdings, Inc.
- Jun. 2013 Director, Mitsubishi UFJ Financial Group, Inc.
- Jun. 2020 Director, Shinsei Bank, Limited (Current)
- Jun. 2020 Director, SoftBank Group Corp. (Current)
- Jun. 2020 Director, Panasonic Corporation (Current)



## Audit & Supervisory Board Member



**Shinya Nagata**  
Audit & Supervisory Board Member

Ownership: Common shares 2,583  
Attendance rate: 100%

### Reasons for Nomination

Mr. Shinya Nagata was asked to stand as an Audit & Supervisory Board Member based on the judgment that he is suitable as a corporate auditor who can play a central role in all areas of corporate audit. Through his long work experience at Shinsei Bank, Shinya Nagata has gained a deep understanding of the Group's business, and with his extensive knowledge and experience in finance and accounting, he is able to make useful remarks and suggestions at the Board of Directors meetings and the Audit & Supervisory Board meetings.

- Apr. 1981 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)
- Dec. 2001 General Manager, Financial and Regulatory Accounting Division, Shinsei Bank, Limited
- Oct. 2006 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Projects Division, Shinsei Bank, Limited
- Apr. 2009 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Accounting Division, Shinsei Bank, Limited
- Sep. 2009 General Manager, Group Regulatory Accounting and Tax Division, Shinsei Bank, Limited
- Jun. 2010 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Accounting Division, Shinsei Bank, Limited
- Sep. 2010 Executive Officer, General Manager, Group Regulatory Accounting and Tax Division, General Manager of Group Financial Accounting Division, Shinsei Bank, Limited
- Oct. 2010 Executive Officer, General Manager, Financial and Regulatory Accounting Division, Shinsei Bank, Limited
- Jun. 2012 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)

## Outside Audit & Supervisory Board Members



**Ikuko Akamatsu**  
Outside Audit & Supervisory Board Member

Ownership: Common shares 0  
Attendance rate: 100%

### Reasons for Nomination

Ms. Ikuko Akamatsu was asked to stand as an Outside Audit & Supervisory Board Member in order to reflect in the Bank's audit operations, her expertise in compliance and governance, etc. and to take on the promotion of diversity, as well as for her professional knowledge and experience as a certified public accountant and a certified fraud examiner, and extensive experience as a consultant based on the aforementioned expertise.

- Jan. 1995 Joined Showa Ota & Co. (Predecessor of Ernst & Young ShinNihon LLC)
- Dec. 2010 Chief Researcher, Management Training and Consulting Division, Institute of Management, SANNO University
- Aug. 2018 Director, TOP'S Inc. (Current)
- Apr. 2019 Senior Researcher, Management Training and Consulting Division, Institute of Management, SANNO University
- Jun. 2019 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
- Jun. 2020 Director, CAWACHI LTD. (Current)
- Jun. 2020 Audit & Supervisory Board Member, Toyo Seikan Group Holdings, Ltd. (Current)



**Shiho Konno**  
Outside Audit & Supervisory Board Member

Ownership: Common shares 0  
Attendance rate: 100%

Ms. Shiho Konno was asked to stand as an Outside Audit & Supervisory Board Member in order to reflect in the Bank's audit operations, her expertise and extensive experience as a lawyer, and based on her experience as an outside director at listed companies as well as her expertise in corporate governance and to take on the promotion of diversity.

- Apr. 1991 Registered Dai-Ichi Tokyo Bar Association
- Jun. 2005 Audit & Supervisory Board Member, Yahoo Japan Corporation
- Mar. 2008 Audit & Supervisory Board Member, Advanced Softmaterials Inc.
- Apr. 2009 Professor, Waseda Law School, Waseda University
- Apr. 2014 Member, Committee on Realization of a Gender-Equal Society of Japan Federation of Bar Associations (Current)
- Aug. 2014 Auditor, Japan Corporate Governance Network
- Mar. 2015 Established Shiho Konno Habataki Law Office (Current)
- Jun. 2015 Director, Watami Co., Ltd.
- Jun. 2016 Director, Kakaku.com, Inc.
- Jun. 2017 Director, Alfresa Holdings Corporation
- Jun. 2018 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
- Jun. 2018 Director, Monex Group, Inc. (Current)

# Corporate Governance

## Policy for Operation of the Board of Directors

The Bank holds strategy sessions to intensively discuss selected agenda items in addition to the six periodic Board of Directors’ meetings. In fiscal 2019, the Bank held strategy sessions that mainly discussed on human resources, digital, and business. In the sessions, directors and Audit & Supervisory Board members posed numerous questions, provided comments and suggestions from a broader perspective in relation to the explanations by executive directors.

Moreover, to ensure the sharing of their independent viewpoints as well as to share detailed information regarding business execution with each of the outside directors, the Bank holds regular meetings attended only by the outside directors themselves.

The majority of the Bank’s Board of Directors are presently composed of outside directors (five of the seven directors are outside directors), ensuring objective and transparent discussions for appointment of candidates for directors and decisions on the directors’ remuneration system and their specific remuneration levels. In addition, from the perspective of “governance” in the ESG management philosophy, the Bank has concluded

that in order to improve the Bank’s accountability towards its stakeholders, including shareholders, it is necessary to further enhance objectivity and transparency of the Board of Directors’ functions related to appointment of candidates for directors and decisions on directors’ remuneration. In March 2019, the Bank established a voluntary Nomination and Compensation Committee for the purpose of further increasing the objectivity and transparency of the functions of the Board of Directors. The Nomination and Compensation Committee comprises only outside directors. The committee consults with the Board of Directors, and deliberates on the content of General Meeting of Shareholders proposals regarding the appointment and dismissal of directors, on matters concerning the appointment and dismissal of representative directors and on matters concerning the compensation of directors, and reports its findings back to the Board of Directors.

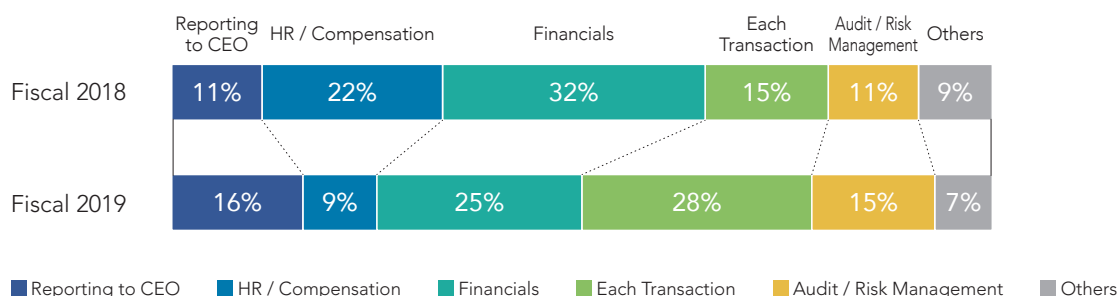
In order to fulfill its accountability towards stakeholders, Shinsei Bank will make efforts to continually strengthen its corporate governance framework.

### Fiscal 2019 Schedule for the Board Meetings

May	Regularly scheduled Board meeting (on financial results, AGM* related materials, audit reports, etc.)	Nov.	Regularly scheduled Board meeting (on interim financial results, etc.)
Jun.	Regularly scheduled Board meeting (held after AGM ends, appointment of president, etc.)	Jan.	Regularly scheduled Board meeting
Aug.	Extraordinary Board meeting	Mar.	Extraordinary Board meeting
Sep.	Regularly scheduled Board meeting	Mar.	Regularly scheduled Board meeting (on fiscal year budget and plan, etc.)

\* AGM: annual general meeting of shareholders

### Agenda of the Board Meeting and the Time Required





## Board of Directors Effectiveness Evaluations

The Bank periodically conducts an evaluation/analysis of the effectiveness of the Board as a whole in order to improve the Board's functionality.

An overview of the fiscal 2019 self-evaluation is as follows.

### (1) Objective

To improve the function of the Board of Directors by having the Board perform a self-evaluation of whether it is fulfilling the roles and duties required of it and then implement the PDCA cycle.

### (2) Subjects of analysis/evaluation

The Board's activities, and the operation and support systems for efficiently and effectively carrying out such activities.

### (3) Evaluators

Evaluation by all members attending Board meetings (Directors, Audit & Supervisory Board members and others – totaling 10 people). Certain additional questions are only asked to Audit & Supervisory Board members in fiscal 2019.

### (4) Analysis/evaluation items

The content of discussions at Board meetings, the operation of the Board by the executives, the composition and diversity of members of the Board, the provision of information to the Board by the executives, the content of discussions at strategy sessions, the management of strategy sessions by executives, communication, the Nomination and Compensation Committee, the necessity of third-party evaluations of the Board's effectiveness, evaluations by Audit & Supervisory Board members, etc.

### (5) Means of analysis/evaluation

Questionnaire survey (questions in which responses are selected including free-response questions) prepared by the secretariat for the Board of Directors based on instructions from the Board Chairman.

### (6) Results feedback

The selected results and responses to free-response questions are reported to the Board.

The following is an overview of the key results of the survey.

#### (a) Contents of Board meeting discussions

To a certain extent, survey respondents feel that discussions for the medium- to long-term business vision, as well as discussions for a business model aimed at increasing corporate value and achieving sustainable growth have been constructive and are contributing to an increase in corporate value and sustainable growth same as last year.

#### (b) Contents of strategy sessions discussions and effectiveness of the sessions

In the fiscal year under review, discussions focused on the three themes: human resources, digital, and business. These themes were evaluated as appropriate with an emphasis on management issues and business models for sustainable growth.

Strategy sessions were deemed to be effective for deliberating on business strategy, and the decision was made to continue to hold the sessions while considering the themes, timing, and frequency of sessions.

#### (c) Board composition/diversity

Regarding roles and responsibilities, and diversity, including gender and internationality, the appointment of female directors and corporate auditors this fiscal year resolved the issue of gender diversity, although it was confirmed in the previous assessment that gender should continue to be considered in particular.

However, it was confirmed that further study is necessary from the viewpoint of diversity in a broad sense, including skills and experiences.

#### (d) Management of Board and strategy sessions by executives

Following on from the previous fiscal year, we have been making efforts to improve the efficiency of our operations by selecting proposals for an abbreviated explanation, receiving preliminary questions on materials, and providing brief explanations. As a result of this fiscal year's questionnaire, we received the evaluation that the questionnaire covered important topics and was largely a forum for deliberate discussion. However, we have confirmed that the quantity of materials should be improved, so we will strive to achieve more efficient management.

#### (e) Provision of information to the Board by executives

While the explanations at Board of Directors meetings were evaluated as having improved, we confirmed that there was room for further improvement. As for providing of information, we confirmed that information on risk management and compliance, which was enhanced based on the opinions of the previous evaluation, was appropriately provided. On the other hand, we confirmed the progress of acquisitions and business alliance projects, initiatives for promoting the empowerment of women, and reports on the status of subsidiaries and Group companies as topics where there was room for improvement and consideration. Accordingly, we will take into consideration the provision of such matters through the Board of Directors, strategy sessions, and other opportunities.

#### (f) Communication

It was confirmed that the environment for information sharing among outside directors is favorable. We also confirmed the effectiveness of executive sessions made up entirely of outside directors.

#### (g) Nomination and Compensation Committee

Since its establishment in March 2019, the committee met 5 times by the end of January 2020. They confirmed that the composition and frequency of meetings of the committee members were generally appropriate, and that the committee was a useful forum for discussion on matters related to nomination and remuneration.

#### (h) Third-party evaluation of effectiveness

A certain number of opinions have been expressed that there is room for discussion in this regard this fiscal year. We will confirm the intentions of the Board of Directors to consider it.

#### (g) Questions for Audit & Supervisory Board members

We confirmed that, as a whole, Audit & Supervisory Board members feel that directors are properly executing the duties expected of them.

The results of the survey were, although there was no significant difference from the results of the previous year, highly evaluated as a whole. Therefore, we appreciate that efficient management of the Board of Director meetings helped to secure time for important discussions. The Bank will also strive to improve and maintain the aspects that were evaluated as appropriate or improved from the previous year, and work to further improve the Board's effectiveness and function by examining and making improvements to issues raised in the survey.

## Directors and Executive Officers Compensation Scheme

The Bank's Board of Directors, which is comprised of a majority of outside directors, determines the introduction and level of executive remuneration within the total amount of executive remuneration approved at the General Meeting of Shareholders. In addition, the Nomination and Compensation Committee, which consists of all outside directors, has been voluntarily established as an advisory body to the Board of Directors. The committee deliberates matters related to the compensation of directors based on consultations with the Board of Directors and reports to the Board of Directors.

### Policy on Determining Compensation

- Appropriate incentives are provided in order to advance the Group's business and realize the medium- to long-term Group management principles.
- Reflecting the roles and responsibilities of each director and executive officer, directors and executive officers share common shareholder value by holding the Company's shares over the long term.
- The scheme will curb excessive risk-taking and contribute to ongoing sound management as a financial institution.
- The plan incorporates a compensation system that provides incentive to further increase corporate value considering share price.

### Compensation System for Full-Time Directors

- Basic remuneration  
Fixed Compensation (Annual fixed amount)
- Medium- to long-term incentive remuneration  
The remuneration of full-time directors is based on medium- to long-term incentive remuneration in order to further promote the sharing of value with shareholders and to increase the motivation to contribute to the improvement of corporate value and share price over the medium to long term in the execution of business. The amount of stock-based compensation stock options to be paid is determined based on certain formulas based on the share price and net assets of the Bank and banking businesses in accordance with the internal regulations determined by the Board of Directors. However, as the benchmarks are determined in the marketplace, these are not set as targets. There is no short-term incentive remuneration that depends on the performance of each fiscal year.

- ① Restricted stock compensation
- ② Equity remuneration type stock options

### Compensation System for Outside Directors

As for the remuneration for outside directors, we introduced restricted stock remuneration in fiscal 2020, in addition to fixed remuneration as base remuneration. The purpose of this system is to continuously improve corporate value and further promote the sharing of value with shareholders.

### Process for Determining Compensation Amount

Compensation amounts for directors and executive officers reflect on the content of the Bank's current Plan for Restoring Sound Management and are determined by the Board of Directors taking into consideration the recommendations of the Nomination and Compensation Committee who deliberate on compensation amounts within the scope of compensation amounts determined at each general meeting of shareholders. In addition, the Board of Directors has an internal control system that is audited by the Audit & Supervisory Board meeting.

At the Nomination and Compensation Committee, which was established on March 20, 2019, is composed of all outside directors, the agenda is resolved by a majority of the members present. Audit & Supervisory Board members also attend the Nomination and Compensation Committee. The Nomination and Compensation Committee was held five times within the fiscal year.

### Total Maximum Amount of Compensation for Directors

- (1) Total maximum amount of compensation for directors (including outside directors): Up to ¥180 million per year (of this amount, ¥60 million for outside directors)
- (2) Maximum amount of allotment of restricted stock for full-time directors: Up to ¥20 million per year, within the total maximum amount in (1) above  
Maximum amount of restricted shares for outside directors (introduced in fiscal 2020): ¥15 million per year out of the total maximum amount in (1) above  
The transfer restriction period is determined in advance by the Board of Directors for a period between three and five years after the allotment date of the allocated shares to full-time and outside directors.
- (3) Maximum amount of allotment of equity remuneration type stock options for full-time directors: Up to ¥50 million per year, separate from the total maximum amount in (1) above

## Total Amounts of Compensation etc. by Category, Total Amounts by Type of Compensation etc., and the Number of Eligible Persons (from April 1, 2019 to March 31, 2020)

Categories	Total amounts of compensation etc. (millions of yen)	Total amounts by type of compensation etc. (millions of yen)					Number of eligible persons
		Fixed compensation	Equity remuneration type stock options	Restricted stock compensation	Retirement benefits	Other	
Directors (excluding outside directors)	114	67	27	19	—	—	2
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	20	20	—	—	—	—	1
Outside directors and outside Audit & Supervisory Board members	77	66	—	—	11	—	9 (Three of whom have retired)
Total	211	153	27	19	11	—	12 (Three of whom have retired)

Notes: 1. Amounts have been rounded down to the nearest unit.

2. Within the categories above, there are two directors who serve concurrently as executive officers.

3. Based on a resolution at the 15th Annual General Meeting of Shareholders held on June 17, 2015, one executive director who retired at the closing of the 19th Annual General Meeting of Shareholders held on June 19, 2019, and one executive director who resigned on August 27, 2019, were paid retirement benefits of 11 million yen.

Compensation for executive officers as well as chief officers and senior officers in the Group Headquarters is comprised of a fixed compensation component as basic compensation, a bonus component based on the single year's performance as

short-term incentive compensation, and restricted stock compensation as medium- to long-term incentive compensation (introduced in fiscal 2018).

## Audit & Supervisory Board Members/Audit & Supervisory Board

Shinsei Bank's Audit & Supervisory Board is composed of one full-time member who has extensive business experience at the Bank and is knowledgeable in finance and accounting and two outside members, one of whom is an attorney and the other is a certified public accountant. By applying the expertise from their respective fields of specialization and their knowledge of corporate governance, the Audit & Supervisory Board, which is fully independent from the Board of Directors, engages in appropriate audits of the performance of the business execution of directors.

In addition, both outside Audit & Supervisory Board members are experienced as external directors of other companies, and, by drawing upon their experience, they are able to provide views with greater objectivity from a position of greater independence, resulting in enhanced effectiveness of the Audit & Supervisory Board's auditing activities. Audit & Supervisory Board members, not only personally conduct audit activities

such as attending key meetings, such as Executive Committee meetings, and Board of Directors' meetings, they also review key documents and conduct interviews with directors, executive officers and accounting auditors. Through cooperation with internal control sections such as the Group Internal Audit Division and utilizing staff of the Office of Audit & Supervisory Board members they systematically and efficiently audit the state of the business execution of the entire Shinsei Bank Group, including the Bank as well as its subsidiaries.

### Activities of Audit & Supervisory Board Members since Fiscal 2019 AGM<sup>1</sup>

	Board of Directors meetings	Audit & Supervisory Board meetings
Number of meetings held <sup>2</sup>	8 times	12 times
Attendance rate	100%	100%

1 AGM refers to the annual general meeting of shareholders.

2 The total number of meetings held after the AGM in fiscal 2019.

## Chief Officers/Senior Officers and Executive Officers

In order to ensure agile day-to-day business operations, business operations are split into basic units called "divisions," and under the direction of the President and Chief Executive Officer, the 35 (as of June 17, 2020) executive officers, chief officers, and senior officers appointed by the Board of Directors are responsible for each division as executive officers in charge.

With regard to business functions, business unit heads and executive officers in charge of each division are appointed from among executive officers, and each divisions' executive officers in charge and their supervising executive officers in charge work to promote business with customers based on overall Group business strategies and management resource allocations devised by business unit heads.

We have consolidated indirect functions such as human resources and finance that had been located in each Group company within the Bank's Group Headquarters as much as possible under the Banking Act, the Companies Act, and other laws and

ordinances, and are working to increase the level of sophistication and productivity of operations on a consolidated basis under the responsibility of chief officers and senior officers who assist them.

In addition, as bodies that support the President and Chief Executive Officer in making decisions regarding the execution of business, the Bank has established a Group Executive Committee and an Executive Committee, both comprising Executive Directors, business unit heads, supervising executive officers in charge, chief officers, and others. In addition, by establishing various committees that handle technical matters as a complement to the Group Executive Committee and the Executive Committee, the Bank has put in place a framework for making decisions after adequate deliberation and verification based on the nature of the matter at hand.

Based on this framework, the Bank is strongly promoting Group integration in keeping with the Medium- to Long-Term Vision.

### Overview of Group Executive Committee, Executive Committee and Other Important Committees

Name	Main Purpose
Group Executive Committee	The President's decision-making body for day-to-day business execution at the Group level
Executive Committee	The President's decision-making body for day-to-day business execution for Shinsei Bank, Limited
Group ALM Committee	Negotiate, formulate policies and make decisions concerning medium- and long-term Asset and Liability Management
Group Compliance Committee	Communicate, coordinate and make decisions on the Group's compliance posture and on matters relating to compliance
Group Risk Policy Committee	Discuss the risk operation policy and management framework for the Group's portfolios, and the Group's approach to major portfolios, sectors, products and so forth
Group IT Committee	Discuss, coordinate and resolve the Group's IT strategies and governance issues
Group Business Continuity Management Committee	Discuss, coordinate and make decisions across divisions to advance reforms to the Group's business continuity structure
Group Basel Committee	Discuss, coordinate and make resolutions on matters concerning regulatory capital, with a focus on Basel regulations
Group Management Development Committee	Discuss, coordinate and make decisions about the Group's HR system and related measures, etc.
Group New Business / Product Committee	Conduct due diligence on each new business and service proposal across the Group and make decisions, and conduct due diligence on strategic investment proposals
Doubtful Debt Committee	Promptly inform top management about significant bad debt exposure, and make decisions on write-offs and other matters concerning sale of debts, debt forgiveness and so forth
SME Loan Committee	Through discussions on the business policy and challenges for the entire institutional banking business, take initiative in bank-wide efforts to achieve SME loan goals set in the Revitalization Plan

## Corporate Governance

### Internal Control

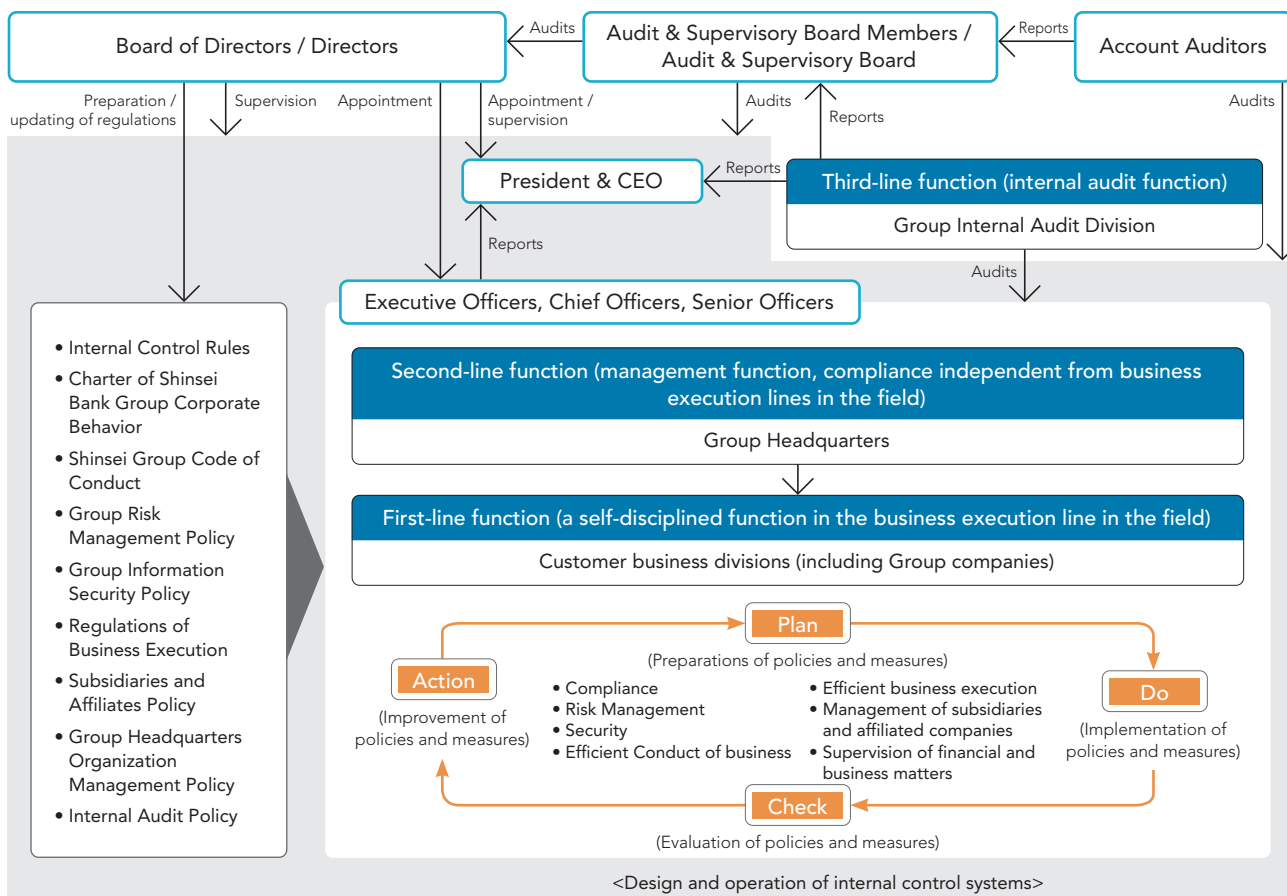
For corporate governance to function effectively, in addition to creating business execution oversight and decision-making frameworks around the Board of Directors, putting into place frameworks which facilitate the proper functioning of functions such as internal audits and compliance is also necessary. Additionally, the creation of internal control systems as required by the Corporation Act or internal controls that ensure the accuracy of financial reports as required by the Financial Instruments and Exchange Act is also a crucial element in a properly functioning corporate governance structure. While management is responsible for ensuring the implementation of such internal controls, the proper function of overall internal controls can be ensured by installing detailed internal control frameworks within the divisions executing business operations.

Shinsei Bank's basic policy governing its internal control systems has been put in place in order to ensure the

propriety and efficiency of day-to-day operations and is defined in the "Internal Control Rules" determined by the Board of Directors, and, furthermore, the adequacy of its internal control systems is reviewed annually by the Board of Directors. The Internal Control Rules clearly state that (1) the internal control system has a self-disciplined function in the business execution line in the field (first-line); a management function, such as compliance independent from business execution lines (second-line); and an internal audit function independent from these functions (third-line); (2) the Board of Directors shall receive timely and appropriate reports from the second-line and third-line functions in order to grasp and deal with serious risks and problems appropriately and shall periodically review the key policies and controls.

Under this regulation, the Shinsei Bank Group Code of Conduct, Risk Management Policy, Group Information Security Policy, Regulations of Business Execution,

#### Internal Control Framework



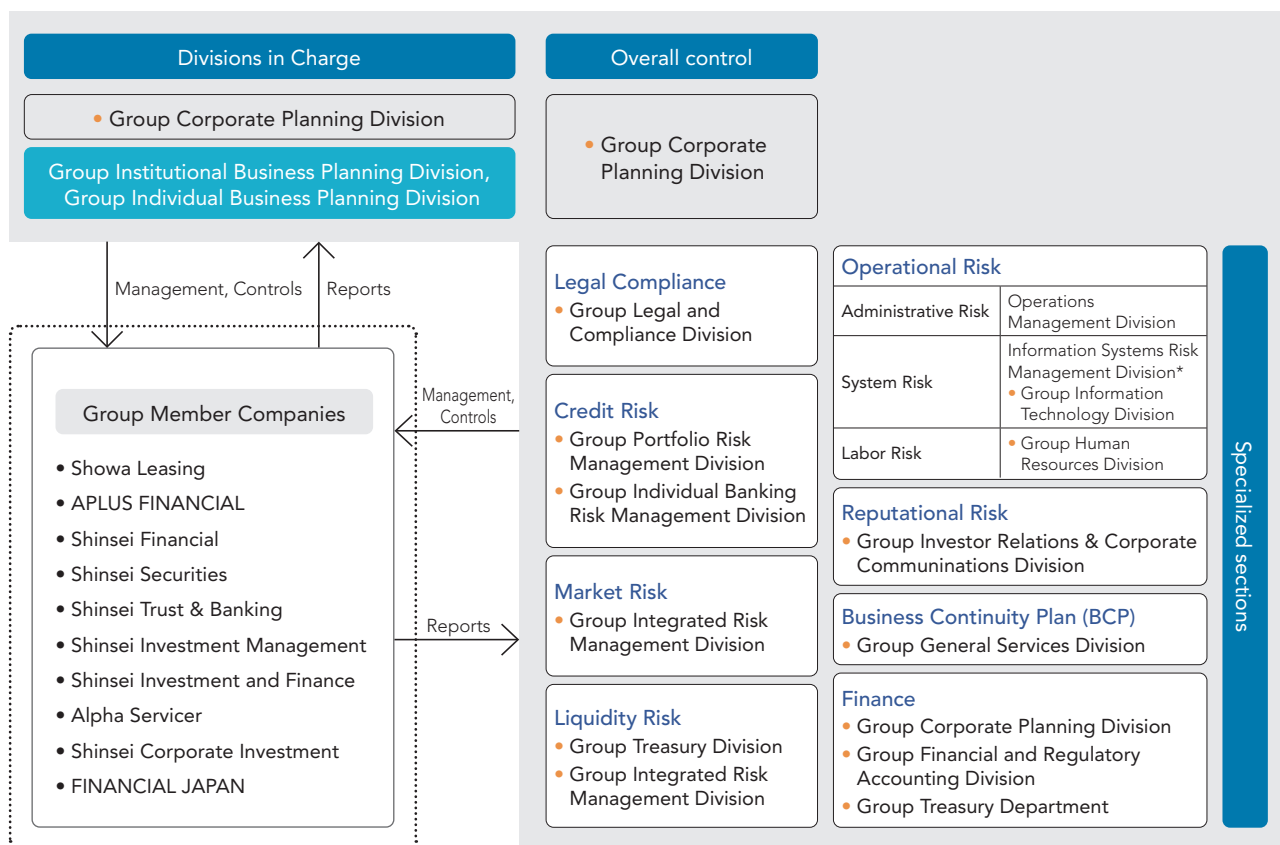
Subsidiaries and Affiliates Policy, Group Headquarters Organization Management Policy and Internal Audit Policy are established as the underlying rules. In addition, by improving the system for ensuring the effectiveness of the audits by Audit & Supervisory Board members, we are striving to ensure the propriety, transparency and efficiency of operations throughout the entire Group, including subsidiaries. We are also striving to create systems to block relationships with anti-social forces and ensure the propriety of operations, including establishing the Charter of Shinsei Bank Group Corporate Behavior to prevent relationships with anti-social forces. Furthermore, we have established the Group Business Continuity Management Committee to prepare for large-scale disasters, accidents, and other disruptions to the Bank business activities, and have established various rules concerning the business continuity system to ensure that important business operations are continued and that the Group fulfills its responsibilities to customers and society as much as possible.

With regard to internal control over group companies, from April 2017, the indirect functions of major Group companies have been consolidated at the Group Headquarters in Shinsei Bank and managed centrally, and the specialized sections of the Group Headquarters directly manage subsidiaries and affiliates based on Banking Law, Companies Act and other related laws to the extent possible.

Under this system, matters related to business activities and internal management of subsidiaries and affiliates are regularly reported to the Group Executive Committee, and important matters related to the management of subsidiaries and affiliates are discussed at and reported to the Group Executive Committee and other important committees organized by the Group Headquarters.

Through the development of this system, we will further enhance the management system of the entire Group, including subsidiaries and affiliates.

■ Group Internal Control Support Framework (As of June 17, 2020)



\* Under Group Headquarters

† The specialized sections of each risk area identify and measure the potential risks in corporation with the controlling division (Group Integrated Risk Management Division).

## Internal Audit

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The Group Internal Audit Division (GIAD) of the Bank makes regular direct reports regarding the results of audits and the status of GIAD activities to the President and the Audit & Supervisory Board. The GIAD supports the President in his responsibility for controlling business execution, in particular for establishing an effective system of internal controls, and also supports the Audit & Supervisory Board in their responsibilities for audit and supervisory activities, in particular for monitoring the system governing internal controls and its operation. The GIAD provides independent and objective assessments of the effectiveness of risk management, control and governance processes, the reliability of information and information technology systems, and compliance with statutory, legal and regulatory requirements, as well as provides solutions to management.

The GIAD is independent of all organizations subject to internal audits, as well as being independent of day-to-day operational activities and control processes, including regular preventive and detective controls. The GIAD utilizes a risk-based audit approach and creates a comprehensive risk assessment by combining a macro-risk assessment, assessing risk from the perspective of the Banking Group as a whole, together with a micro-risk

assessment, assessing risk from an individual business level. Audit resources are prioritized to businesses or processes perceived to have relatively higher risk.

The GIAD has enhanced its off-site monitoring activities by attending key management meetings, reviewing internal control documents and holding regular meetings with senior management.

The GIAD also takes initiatives in developing internal auditors' expertise, in particular, strongly encouraging them to obtain professional certifications such as the Certified Internal Auditor and Certified Information Systems Auditor qualifications. While the GIAD pursues the development and introduction of new audit techniques, it also recognizes the importance of maintaining fundamental skills necessary to perform its audit-related duties.

The GIAD has integrated internal audit functions within the Bank and major subsidiaries, and conducts internal audit activities in an integrated manner across the Bank group. By receiving regular quality assessments carried out by a third party organization of group internal audit activities, we are able to identify opportunities for improvement from an objective viewpoint.

## Legal and Compliance Activities

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### Compliance Framework and Activities

The Group Compliance Committee established in the Group Headquarters, Group Legal and Compliance Division and compliance supervisors (general managers) and compliance managers assigned to divisions, branches and departments in key Group companies, including Shinsei Bank, constitute the main elements of the Shinsei Bank Group's compliance framework. The Group Compliance Committee, chaired by the Chief Officer of the Group Legal and Compliance Division, reports on and discusses the basic policy for the compliance framework spanning the entire Group as well as compliance-related issues.

There are compliance officers within the Group Legal and Compliance Division, and in addition to providing support and guidance for compliance promotion

activities performed by compliance supervisors and compliance managers, these compliance officers prepare an annual Group compliance program, set rules, provide training, and so on.

### Whistle-Blower System

Shinsei Bank has established a compliance hotline system. Under this system, executives and employees of the Bank can report on violations of laws or ordinances, or matters in which there are suspicions of such violations.

If a report is made, the matter is reported to senior management, a team is organized to investigate the issue, and necessary corrective and recovery measures are implemented. The Bank prohibits whistle-blowers from being subject to unfavorable treatment due to the fact that they made a report, and the Group Legal and

Compliance Division later follows up to make sure that the whistle-blower has not been treated unfavorably. Other group companies have also established similar internal whistle-blowing systems.

## Compliance Hotline

- Three Investigation Teams
  - (1) Group Legal and Compliance Division
  - (2) Full-Time Audit & Supervisory Board Member
  - (3) Outside Law Officer
- Information on the internal whistle-blower system is provided through internal rules and the Company's intranet

## Measures against Money Laundering and Provision of the Financing of Terrorism

The Shinsei Bank Group has "Policy on Anti-Money Laundering and Countering the Financing of Terrorism" and has positioned combating money laundering and the provision of funds to terrorist organizations as one of the most critical issues, and works to establish a Group-wide framework for doing so under the leadership of management. Using a risk-based approach outlined in Mutual Evaluations of Japan by the Financial Action Task Force (FATF), the Group is reducing risk by implementing individual measures to combat the Shinsei Bank Group's particular risks that have been identified and

evaluated and working on more effective measures. It is our top priority to eliminate risks of money laundering and the financing of terrorism by assessing the effectiveness of countermeasures and providing continuous effort on reviewing the measures.

## Legal Supervision

Violations of any laws and ordinances that the Bank and each Group company are required to abide by carrying the risk of severe repercussions not only to our credibility and reputation as a financial institution, but to the credibility and functionality of the overall banking system itself. In the case of individual transactions, there exists a risk that we may become embroiled in a dispute and face unexpected claims for damages. Prevention and proper management of these legal risks are a crucial function within the day-to-day operations of today's banking groups. Shinsei Bank has established the Legal Department within its Group Legal and Compliance Division that presides over such legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision, and, through this specialized support, we work with legal officers in all Group companies and, on a Group basis, aim to prevent and manage any legal risk and support our compliance posture from a legal standpoint.

## The Shinsei Bank Group Policy on Anti-Money Laundering and Countering the Financing of Terrorism (AML / CFT)

1. Risk assessment	Specify and assess the risk of money laundering and financing of terrorism at each company based on the concept of the risk-based approach, while paying attention to laws, ordinances, and other rules in Japan and documents issued by the Financial Action Task Force (FATF), the Basel Committee on Banking Supervision, and other international organizations. Take risk mitigation measures that are appropriate for the risk being addressed. Regularly examine the effectiveness of risk identification and assessment practices and risk mitigation measures and review them as needed.
2. Customer identification and due diligence	Conduct customer identification before entering into transactions pursuant to relevant laws and ordinances, practice proper customer due diligence, and endeavor to eliminate inappropriate transaction relationships with customers including those with anti-social forces.
3. Transaction monitoring, customer screening, and reporting of suspicious transactions	Give the authorities a suspicious transaction report immediately if a transaction is judged to fall under suspicious transactions based on an abnormality found in the customer identification process conducted before entering into a transaction or during transaction monitoring or customer screening or based on a report made by business promotion divisions / branches.
4. Targeted financial sanctions and asset-freezing measures	Eliminate transaction relationships with the parties that are subject to targeted financial sanctions and appropriately take asset-freezing and other measures pursuant to domestic and overseas regulations and so forth.
5. Management of customers with correspondent contract	Appropriately collect information on customers who have entered into a correspondent contract with the Bank and assess their AML / CFT frameworks. Shinsei Bank and its customers who have entered into a correspondent contract with the Bank are prohibited from having transactions with shellbanks and from having transactions using through accounts with a strong level of anonymity.
6. Training for officers and employees	Endeavor to provide guidance and training to officers and employees to deepen their knowledge and understanding of AML / CFT measures and to equip them with expertise and to ensure their suitability according to their roles.
7. Continuous improvement	Regularly check the effectiveness of AML / CFT frameworks and endeavor to keep improving them based on the results of such checks.

# Risk Governance

## Basic Approach

The key components of risk governance are risk culture, appropriate business execution based on risk appetite, and risk management. While the Shinsei Bank Group continually strives to improve all of these elements, we have put particular emphasis on building systems for appropriate business execution based on risk appetite and have put in place an integrated management framework based on consistency between risk appetite and financial planning. The concept of risk appetite is commonly referred to as the risk appetite framework. At the Shinsei Bank Group, however, we focus on the consistency

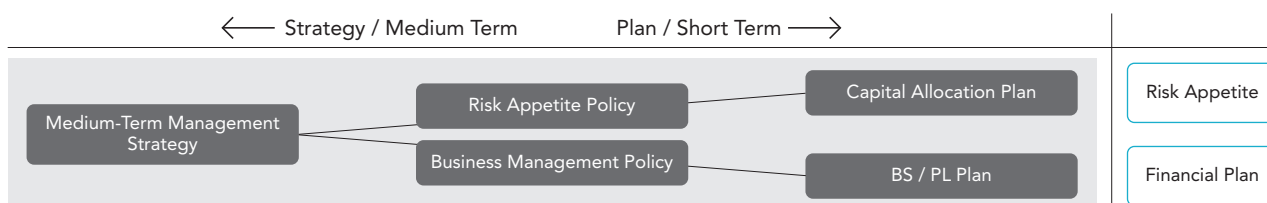
between risk appetite and financial planning as a key premise, and work to achieve appropriate business execution based on risk appetite through the integrated operation of existing functions related to both. The Shinsei Bank Group uses the common equity Tier 1 ratio and return on equity (ROE) as key strategic financial indicators. By aligning risk appetite with financial planning, appropriate risk-taking aims to produce expected returns, which in turn leads to improved financial indicators.

## Risk Appetite

Risk appetite and financial plans are detailed and materialized in the process of formulating these plans based on strategies and tactics for each business line based on the Medium-Term Management Strategy that indicates the direction of management. The Shinsei Bank Group has formulated a Risk Appetite Policy that documents

risk appetite in an appropriate and detailed manner to clarify the Group’s risk appetite behind financial planning and foster a shared understanding of risk. In addition, to quantify risk appetite on a uniform scale, we have formulated a capital allocation plan that allocates capital to each business line.

### Conceptual Diagram of the Relationship Between Risk Appetite and Financial Planning

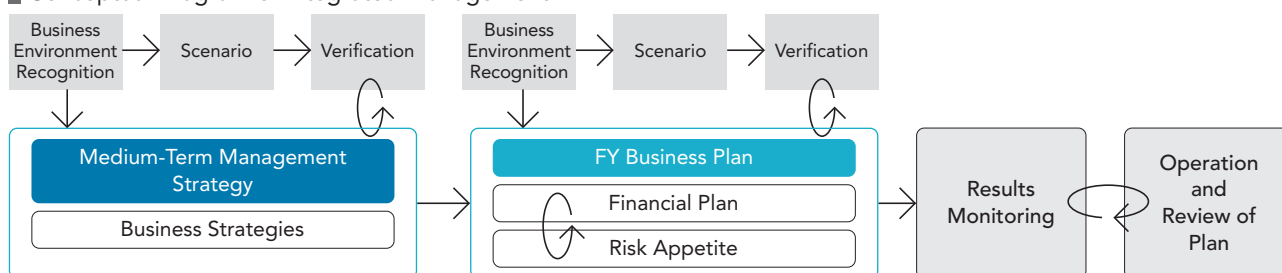


In order to ensure consistency between risk appetite and financial plans, we verify and monitor financial plans through multiple methods from the perspective of risks related to the fundamentals of management, such as capital, liquidity, and earnings fluctuations. If it is determined that there is excessive risk-taking or if there is doubt about its feasibility, the Bank reviews the plan as necessary. For example, in scenario analysis, which is a typical verification method, we comprehensively analyze financial risks based on multiple scenarios including an economic downturn. During the fiscal year, the Bank monitors the actual use of capital allocation plans and

multiple liquidity risk indicators based on the strict rule. The Shinsei Bank Group has established the Group Risk Policy Committee as a consultative body of senior management to discuss risk appetite. At the same time, this structure requires close communications between the risk management section and the management section, which is a key element of the framework.



### Conceptual Diagram of Integrated Management



## Important Risks

Of the risks that could materialize in the next one-year period, we recognize risks that are considered to have a significant impact on management based on management discussions. This process emphasizes the consideration of nonfinancial risks that are difficult to quantify, but trigger events, transmission channels, and financial impacts are specified as much as possible when determining the impact on management. In addition to the current economic downturn, we have identified

important risks such as the entry of nonfinancial companies into the financial industry due to innovations in financial technologies, materialization of human resource risks, risk of fraud in business processes, and the instability of the foreign currency procurement environment. The integrated business management framework is designed to continuously strengthen the ability to predict and respond to these risks.

### Important Risks

Risk Scenario	Risk Scenario Details / Impact
1. Increase of credit costs due to economic downturn	A shift in monetary policy due to inflation caused by a hike in tariffs and a rise in crude oil prices. An increase in credit costs and an increase in fund procurement costs accompanying a decline in real estate prices through a sharp rise in long-term interest rates due to interest rate hikes. Lower stock prices due to the economic downturn caused by the worsening of U.S.-China issues.
2. Large-scale natural disasters and infectious disease epidemics	An increase of credit costs due to the economic downturn triggered by a global outbreak of large-scale natural disasters caused by climate change and infectious diseases. Business interruption or loss due to system failure, etc.
3. Entry of nonfinancial companies into the industry due to innovations in financial technologies	Entry by players from other industries into the personal and SME loan market in association with the rise of FinTech and other new technologies. A decline in the Shinsei Bank Group's loan balance and lower profit margins due to competition over interest rates.
4. Materialization of human resource risk	Low performance due to the inability to secure high-quality human resources and a downturn in capabilities due to the outflow of key personnel, etc. Difficulty in securing human resources to execute business strategies that need to be strengthened in the future.
5. Risk of fraud in business processes	Internal improprieties, including outsourcees, fraud (money laundering, cyber attacks, etc.), and system failures. These causes fines and administrative dispositions from the related authorities, and rumors etc.
6. Instability of the foreign currency procurement environment	The foreign currency investment / procurement balance increasingly tilts towards excessive investment. Instability and inefficiency of foreign currency procurement, including rising fund procurement costs in conjunction with financial market turmoil under such circumstances.

## Business Continuity Plan (BCP)

We have formulated Business Continuity Management Policy and Business Continuity Plan to ensure the continuity of important operations and the smooth fulfillment of our responsibilities to customers and society in the event of an earthquake, typhoon, or other disaster,

damage from terrorism or crime, or an outbreak of an infectious disease. The Business Continuity Plan and its operating procedures are regularly reviewed, and employees undergo regular education and training.

# Initiatives for Global Environmental Issues through Our Core Businesses

Shinsei Bank has endorsed the recommendations of TCFD (Task Force on Climate-related Financial Disclosures). In line with this TCFD framework, we introduce the Shinsei Bank Group's efforts to address global environmental issues through our core businesses.

## Governance

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The Shinsei Bank Group has positioned the Group ESG Management Policy as the starting point for formulating management strategies, and by contributing to the creation of a sustainable society, we aim to fulfill our corporate social responsibilities and acquire sustainable growth opportunities.

Responding to global environmental issues, including climate change, is indispensable for a sustainable society. We will strive to create social value and increase the corporate value of the Shinsei Bank Group over the medium to long term through a variety of initiatives, including investment and financing to clients' climate change-related projects.

The Group Executive Committee formulates the Group ESG Management Policy to show the Group's policies for ESG-related initiatives. In recognition of the fact that ESG-based management and SDGs should not be limited to specialized departments, we share information and issues, through cross-organizational team from divisions such as corporate planning, businesses, risk management, human resources, general affairs and investor relations, and lead the formulation of individual action plans. Progress and results are reported to the Board of Directors and the Group Executive Committee on a regular basis.

## Strategy

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### Opportunities:

#### Promotion of Businesses That Contribute to the Improvement of Global Environmental Issues

The Shinsei Bank Group is actively promoting investment and lending to improve and resolve environmental and social issues through project finance for renewable energy businesses, and investment and lending for facilities which reduce the environmental impact of real estate and ship finance.

#### Objectives, Organization, and Action Policies of the Sustainable Impact Development Division

In February 2020, we established the Sustainable Impact Development Division to further deepen the initiative mentioned above. At the same time, the Sustainable Impact Assessment Department was established to structure a unique evaluation system of sustainable finance based on ongoing engagement with customers. The Sustainable Impact Development Division supports the creation of positive impacts on environmental and social issues by planning and promoting sustainable

finance, developing and supplying investment products for institutional investors based on this evaluation.



#### Fiscal 2019 Initiatives

In fiscal 2019, in the project finance business, we marked the tenth transaction of our participation in offshore wind power projects in Europe. In addition, we participated in the domestic offshore wind power projects for the first time, which is expected to see significant growth in the future, using our accumulated knowledge so far. Showa Leasing also invested in renewable energy funds, a regional recycling-oriented type fund.

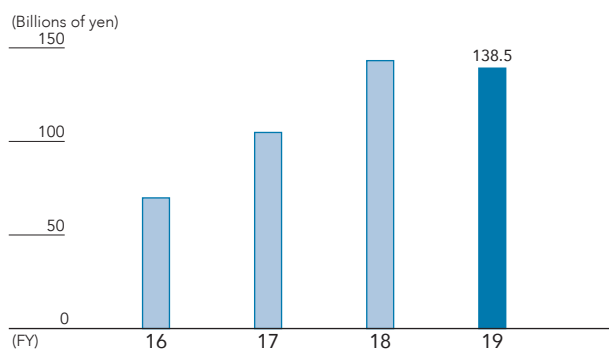
In ship finance, we implemented some financing projects for LNG carriers, which are expected to play a major role in energy conversion. In addition, in order for customers to comply with international environmental regulations in the shipping industry, we financed an

exhaust gas cleaning system for ships (SOx scrubber) with a loan and a sales credit product. In the future, we will continue to provide financial support for the decarbonization and reduction of environmental impact, which are strongly required in the shipping industry.

### Renewable Energy Project Finance Arrangement Results

Since 2012, Shinsei Bank has actively promoted syndicated loans for renewable energy businesses such as solar, wind, and biomass, and has been supporting the spread of renewable energy in cooperation with regional financial institutions.

### Renewable Energy Project Finance Arrangement Results



### Restoration Support for Natural Disasters

Harnessing its expertise and corporate network cultivated through the leasing business, Showa Leasing is focusing on its business as a buying and selling of used equipment, especially for construction machines. Tozai Boeki Co., Ltd., a wholly-owned subsidiary of Showa Leasing, holds regular parade auctions for used construction machines, and many buyers from developing countries come to these auctions. The Japan-made construction machinery is auctioned off and exported overseas where they support infrastructure building in emerging markets and Showa Leasing is working to promote the reuse of Japanese-used machinery. In addition, the need for construction machinery to recover from natural disasters in Japan has been increasing recently. Against this background, Eishin Kogyo Co., Ltd., a wholly-owned subsidiary of Showa Leasing, promotes finance to modular barge system to prevent river floods, and Shinko Lease Co., Ltd, a group company of Kobe Steel Ltd., which became a wholly-owned subsidiary of Showa Leasing in 2019, works on financing to construction

machinery by collaborating with manufacturers and selling companies in an integrated manner.



Modular barge system used as a river flood countermeasure (assembled marine construction machinery capable of smoothly performing civil engineering work on water)

### Risks:

#### Identified Risks

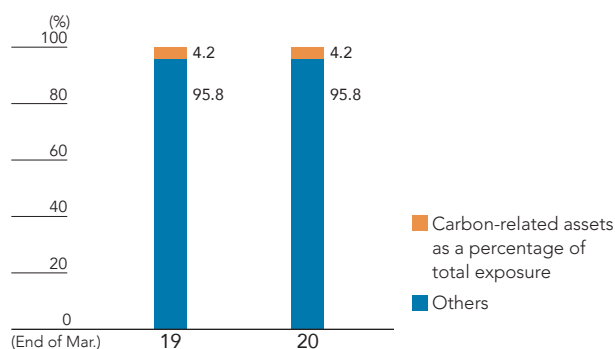
We believe that climate change influences the Shinsei Bank Group's portfolios principally through the following two channels:

**Physical Risk:** Direct impacts such as property damage caused by floods, storms and other climate events, and indirect impacts such as disruptions to the global supply chain and resource depletion.

**Transition Risk:** Risks arising from the revaluation of financial assets with high GHG (Greenhouse Gas) emissions as a result of the transition to a low-carbon economy.

Carbon-related asset exposures (the ratio of carbon-related assets to total exposure = energy and utilities (excluding project finance such as solar and wind power)) was 4.2% as of March 2019, and 4.2% as of March 2020, and we have begun quantifying the impacts of transition risks and physical risks.

### Carbon-Related Assets as a Percentage of Total Exposure (energy and utilities (excluding project finance for renewable energy))



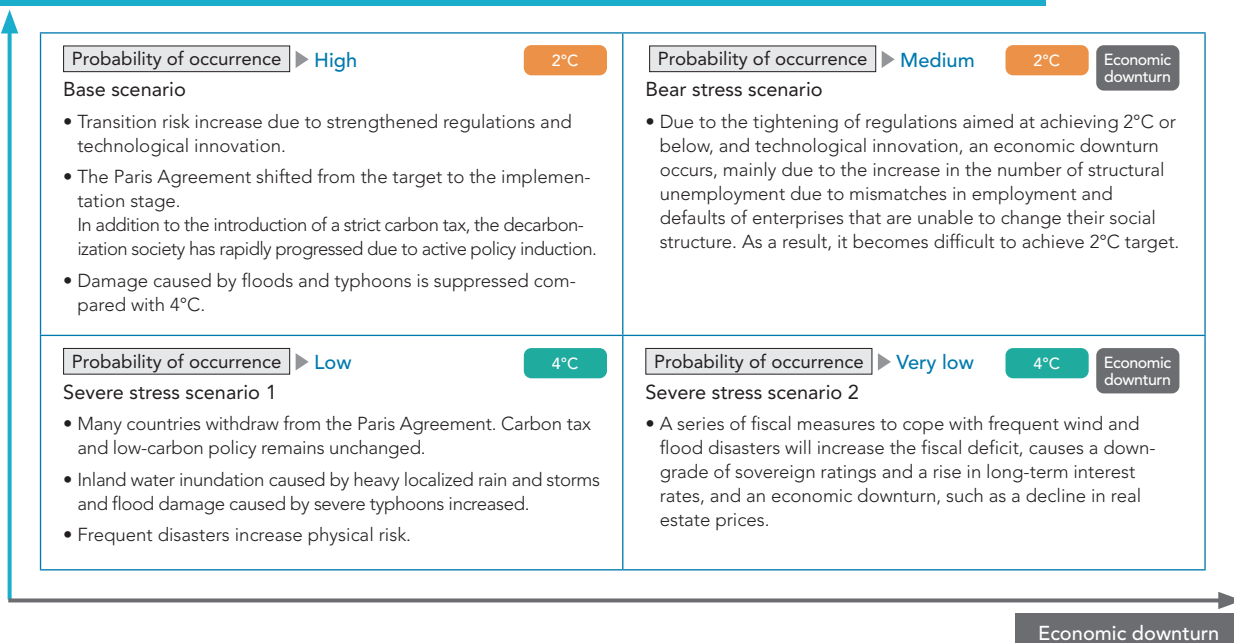
## Initiatives for Global Environmental Issues through Our Core Businesses

### Scenario Analysis

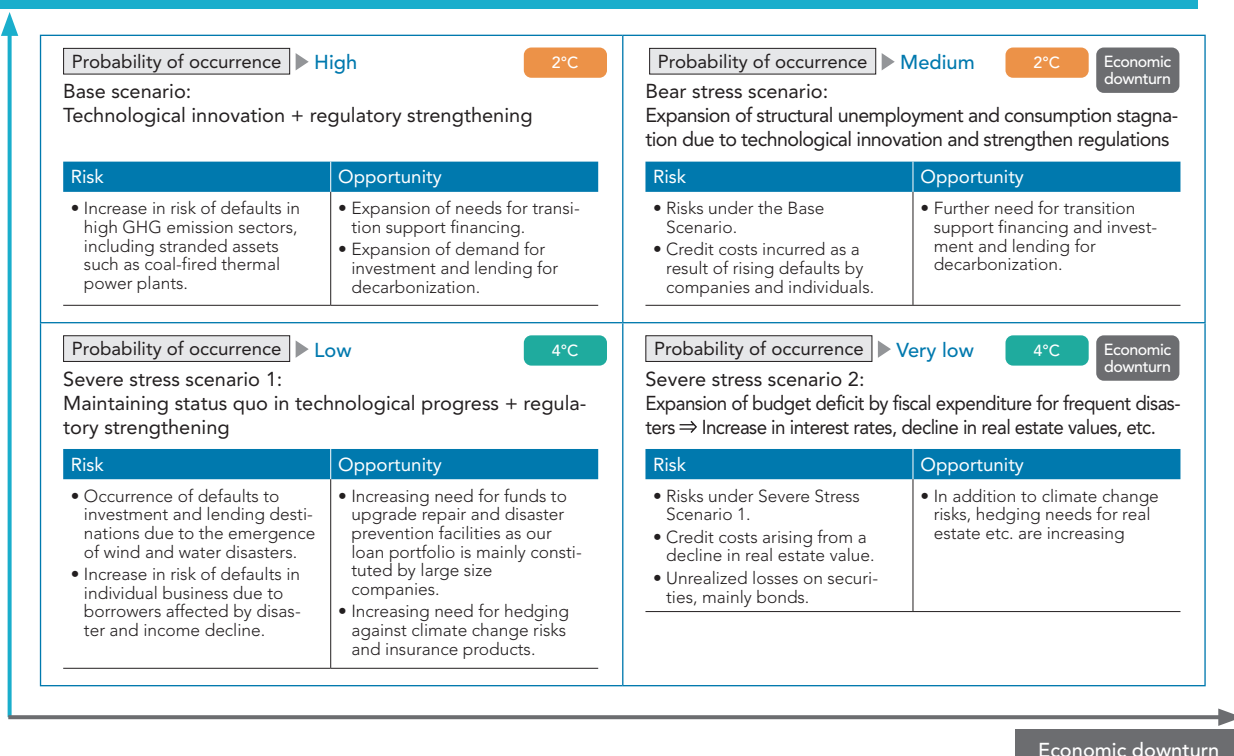
We have identified addressing climate change as one of our top management priorities. We formulated opportunities and risks based on scenarios under two dimensions which constitute (1) strengthening regulations and transformation of technology and (2) economic fluctuations

which we regularly monitor. Looking ahead, we will closely monitor the impact on the Shinsei Bank Group's portfolios, taking into consideration quantification of risks.

### Trends in Regulatory Strengthening and Technological Innovation Towards 2°C or Below: Scenarios



### Trends in Regulatory Strengthening and Technological Innovation Towards 2°C or Below: Opportunities and Risks



## Risk Management

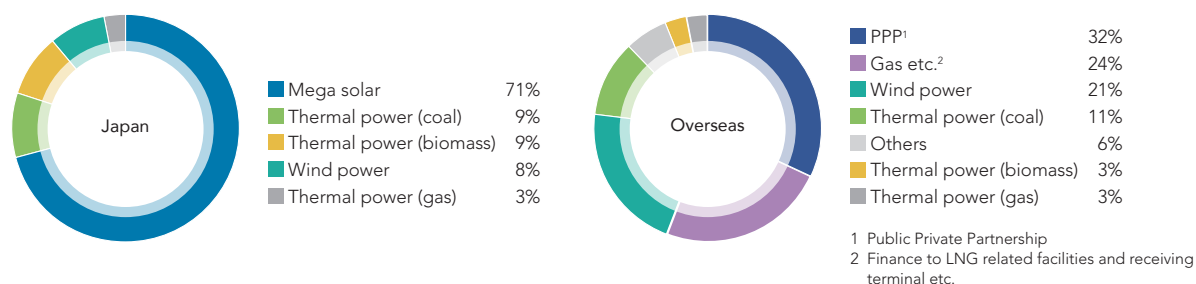
### Adoption of the Equator Principles

In April 2020, Shinsei Bank became the seventh Japanese financial institution to adopt the Equator Principles. The Equator Principles are a framework adopted by private financial institutions to assess whether projects will be implemented with due consideration to the environment and society when financing projects involve large-scale development. In November 2019, the fourth edition of the Equator Principles was adopted to strengthen the perspectives of human rights, climate change, and the rights of indigenous people. By reviewing the environmental and social impacts of projects and making comprehensive decisions based on the Equator Principles, we will fulfill our corporate social responsibility and enhance our environmental and social risk management.



### Project Finance (as of the end of March 2020)

Balance: project type, includes commitment basis



## Ratios & Targets

### CO<sub>2</sub> Emissions, Electricity Usage

Environment Impact Data (FY)	FY2015	FY2016	FY2017	FY2018	FY2019
CO <sub>2</sub> Emissions (t)	2,806	2,746	2,602	2,575	2,425
Electricity Usage (kWh)	5,163,522	5,093,523	5,069,080	5,027,896	5,013,949

### Future Policy

In measurement of GHG emission we plan to cover Scope 1 and Scope 2 to each of our group companies as a first step, and then we plan to respond to Scope 3.

# Initiatives for Employees

The Shinsei Bank Group regards HR-related matters as one of the most important tasks for the growth of the organization. Therefore, we implement ongoing reviews of our existing systems and initiatives. To provide optimal value to our customers, the entire Group is working together across departments and groups to develop and utilize personnel and foster an organizational culture.

## The Shinsei Bank Group's Human Resources Strategy



Our Medium-Term Strategies "Redesigning Finance," one of our basic strategies is to pursue the strengthening and leveraging of organizational capabilities that are the source of corporate growth.

Hideyuki Kudo  
President and Chief Executive Officer

The Shinsei Bank Group provides financial products and services to corporate and individual customers while collaborating under integrated management. We also conduct reviews of the Group's financial functions from the customer's point of view, and aim to create new businesses that extend beyond existing frameworks based on customers' true needs. Financial needs of customers are diversifying, and the way of providing services is also changing due to the evolution of digital technologies. What we have to do now is to "redesign" our financial business and break away from the ideas and organiza-

tional structure bound by existing frameworks.

We are working to have all employees contribute even more value to the Group by maximizing their individual strengths and through the optimal utilization of personnel on a Group-wide basis in addition to helping employees develop their skills. Starting in fiscal 2018, we began using a common performance evaluation system across the Group as a part of our efforts to bolster talent management. Moreover, we aim to maximize group performance while creating new financial services as we integrate the Group's various financial functions.



## Promoting Diversity and the Active Participation of Women in the Workplace

In order to create sustainable value, the Shinsei Bank Group is promoting diversity, focusing on strengthening and utilizing capabilities as a pillar of its management strategies.

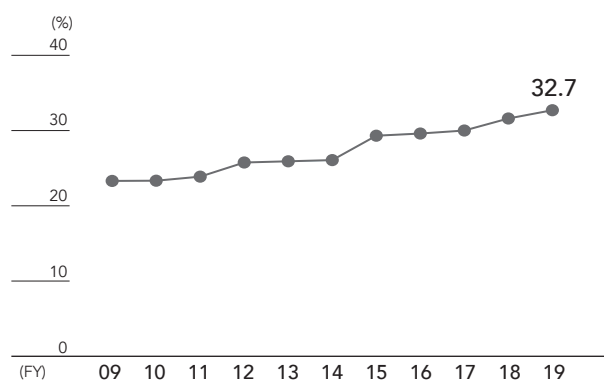
In April 2018, we introduced a teleworking system as an example of promoting diverse work styles. In addition, we are working to create an environment in which employees can work in their own way with satisfaction and fulfillment by enhancing their work styles in order to generate continuous good performance, by introducing various options such as self-directed flex-time, life support leave, and the complete abolition of dress codes. To enhance diverse careers, we started allowing employees to engage in both side work and concurrent work as the first among the domestic financial institutions so that employees will be able to link the learning outside the company or in the place away from business with individual growth and innovation of the organization.

Shinsei Bank President and Chief Executive Officer Hideyuki Kudo supports the "Declaration on Action by a Group of Male Leaders Who Will Create a Society in which Women Shine" advocated by the Cabinet Office. The Group Women's Activity Promotion Committee, established in February 2018, is developing a variety of career development

systems to promote female employees in the workplace, including providing training opportunities. In addition, five Shinsei Bank Group companies<sup>\*1</sup> formulated "Action Plan for Promoting Active Participation of Women," for three years starting in fiscal 2020. The Group set the following common targets in order to promote highly effective initiatives for promoting the active participation by women in the workplace with a sense of speed across the Group.

<sup>\*1</sup> Shinsei Bank, Ltd.; Showa Leasing Co., Ltd.; Shinsei Investment & Finance Limited; APLUS FINANCIAL Co., Ltd.; Shinsei Financial Co., Ltd.

### Trend in Female Manager Ratio at Shinsei Bank



### The Shinsei Bank Group's Action Plan Based on the Act on Promotion of Women's Participation and Advancement in the Workplace (From April 2020 to March 31, 2023)

- Target 1** Achieve a ratio of 18% or more for women in managerial positions<sup>\*2</sup> at five group companies (also set separately for each company)
- Target 2** Achieve 100% for the child-care-related leave utilization rate for both males and females

<sup>\*2</sup> Positions of Senior Manager, or Higher

### Target Ratio of Women in Management Positions (Senior Manager or Above) (as of March 1, 2020)

	Shinsei Bank	Showa Leasing	Shinsei Investment & Finance	APLUS FINANCIAL	Shinsei Financial	Total
<b>Target</b>	20%	8%	15%	18%	17%	18% or more
<b>Result</b>	17.8%	4.1%	11.1%	12.3%	13.0%	13.9%

## Employment Initiatives for Persons with Disabilities

There are 100 people with disabilities working in various Shinsei Group workplaces (as of March 31, 2020), based on the idea that personnel with diverse values should be able to harness their individuality and work together in the same workplaces, rather than separating from each other people with disabilities and those without disabilities. In order to

maintain a working environment and systems whereby people with disabilities can work with peace of mind for many years, and in order to expand opportunities for continuous active participation based on the circumstances of each individual, the Bank assigns such employees to workplaces in accordance with their individual characteristics.

## Initiatives for Employees

### Support for Male Childcare

Since fiscal 2020, the Shinsei Bank Group has been placing even greater emphasis on supporting the childcare of male employees. By creating an environment in which employees can choose flexible working styles according to their life stages, regardless of gender, and diverse human resources can play an active role, we aim to improve teamwork and organizational capabilities and strengthen our ability to respond to future life events that all team members may encounter. As initiatives to support childcare, we have been expanding our existing

childcare leave system, and since fiscal 2020 we have been incorporating support for balancing work and childcare for male employees as performance evaluation items for evaluators. In October 2019, Shinsei Bank received the *Kurumin* certification from the Ministry of Health, Labour and Welfare as a childcare support company. In the Shinsei Bank Group, Shinsei Financial was certified as *Platinum Kurumin* in 2018.



#### List of Shinsei Bank's Work-Style Reform-Related Programs

System	Details
Self-Directed Flex-Time	Allows employees to start or finish work up to two hours earlier or later than normal starting or ending times in increments of 30 minutes
Work from Home	Allows employees working for an unlimited number of days from their home or a relative's home (within two degrees of kinship)
Side Work / Concurrent Work	Allows employees to concurrently engage in personal business (outsourcing, business start-up, company executive, etc.) or work concurrently for another company
Half-Day Paid Time Off	Allows employees to take time off in half-day increments during designated hours in the morning or afternoon
Hourly Paid Time Off	Allows employees to take time off up to five days per year and up to four hours per day in one-hour increments (in combination with half-day paid time off)
Special leave system for spouses at the time of giving birth	Allows for 20 days leave after spouse's pregnancy up to the child reaches two years old (allows employees to take leave on a split basis or in half-day units)
Life Support Leave	Allows employees to take a leave of absence for reasons including childcare, family care, study abroad, fertility treatment, spouse work transfer, etc., not covered by existing frameworks
Maternity Leave	Female employees can take leave six weeks prior to childbirth and eight weeks following childbirth
Childcare Leave	Allows employees to take leave for childcare up to the child reaches two years old
Family Care Leave	In principle, employees can take up to a total of one year (365 days) off to care for each family member who requires care

(Note) Only employees satisfying certain conditions are eligible to avail the programs noted above.

### Employee Health Initiatives

The Shinsei Bank Group is working to maintain and improve the health of its employees and create a safe and comfortable working environment by linking the activities of the Health Committee and industrial health, in accordance with laws related to occupational health and safety. We also use stress checks to understand the health risks of individual organizational units based on organizational analyses of each Group company, and take actions to improve them. Shinsei Bank has established a Health Development Center, which provides daily health management and health guidance. The

Health Development Center is staffed with full-time industrial physicians. In addition, Shinsei Bank and Showa Leasing received the Silver award for the Gan (cancer) Ally Award 2019, a private-sector project called the Gan Ally Bu that addresses the issue of cancer and employment, which was established to create a workplace and society where people with cancer can work vigorously while treating them.





# Initiatives for Customers

## Customer-Oriented Business Conduct

As a guideline for conducting business operations with top priority on customers' "best interests," the Bank established the "Policy on Customer-Oriented Business Conduct" (hereinafter referred to as the "Policy") and an "Action Plan" to put this Policy into practice. The Policy was revised as of June 30, 2020 with the aim of making it easier for customers to understand and establishing it as part of our corporate culture in the field of sales.

Each Shinsei Bank Group company and all executives

and employees of the Group have reaffirmed the importance of "Pursuing customer-oriented business conduct and contributing to our customers' asset formation," and by firmly committing to customer-oriented business operations, we will contribute to the sustainable growth and development of society and the economy.

For additional details, please refer to Shinsei Bank's website.

▶ <https://www.shinseibank.com/english/fiduciaryduty.html>

### The Shinsei Bank Group Companies that Have Established and Announced the Policy



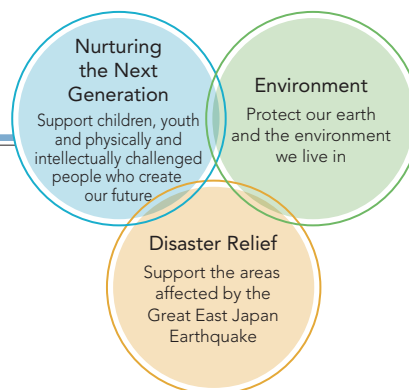
### The Policy and Actions

Policy	Actions
Implementation of the Policy on Customer-Oriented Business Conduct	We have strengthened our management system by adding a bottom-up approach from the sales front to the conventional headquarters-led approach. In addition, we communicated with management and discussed solutions to issues at executive and practical levels, and promptly implemented various measures related to customer-oriented business management while incorporating on-site opinions.
The Best Interests of the Customers	To provide finely tuned services tailored to the characteristics of each customer, we established a new division in charge of the Financial Center located in the Tokyo metropolitan area and the Kansai area. We have expanded the number of hours available for visiting by integrating the management of nearby stores in order to respond to the customers' needs of visiting stores on holidays and on business. In addition, we have stimulated communication with customers and enhanced follow-up through the trial introduction of a "Shinsei Communication App" and the start of follow-up to customers by providing the current value evaluation data for some already-contracted premium products.
Appropriate Management of Conflicts of Interest	Held seven committee meetings to select financial products and services prior to the introduction and check conflicts of interest in 95 financial products. All financial products and services were reviewed semi-annually to confirm not only conflicts of interest, but also changes in market values, the occurrence of complaints, and the status of implementation of after-sales follow-up.
Transparency of Expense and Fee Structures	In order to enable comparisons between mutual fund products, we introduced "Mutual Fund Lineup," which includes basic information about mutual funds, fees, and expenses for the mutual funds that we offer, as well as a QUICK Fund Score, to make it easier to compare mutual funds.
Providing Important Information in Easily Understandable Ways	We added a page to the "Money Plan Guide," a proposal tool for asset management consulting, in order to explain product characteristics by comparing investment targets, risks, costs, etc. for similar products, such as variable life insurance and investment trusts, foreign currency fixed-amount insurance and foreign currency deposits, so that customers can select products in an easy-to-understand manner.
Providing Services Suitable for Each Customer	Conducted monitoring in order to check the status of consulting from the customer's point of view. We provided feedback to our staff based on the status of provision of services appropriate to our customers and easy-to-understand provision of important information, and actively shared good practices.
Frameworks for Appropriate Motivation of Employees	The evaluation system and items were reviewed and the evaluation plan was revised with the aim of realizing consulting that better meets customer needs. In addition, according to the characteristics of each customer, we conducted training to develop the knowledge and skills necessary for each group, such as training to solve complex problems such as inheritance, gifts, and business succession, as well as training for consulting for long-term asset formation based on life plans.

# Social Initiatives

## Our Approach

As a corporate group that provides financial services to society, the Shinsei Bank Group is aware that the healthy development of society is the foundation for the Group's continued existence. As such, we actively promote Corporate Philanthropic Initiatives as part of our commitment to acting as a responsible corporate citizen and contributing to the development of a sustainable society.



### Contributions for COVID-19

In May 2020, the Shinsei Bank Group contributed a combined total of ¥30 million to support the continuation of medical activities, lives of students including their entry to the higher grades and freelance artists' activities. Together with USEN-NEXT HOLDINGS Co., Ltd., we donated a total of 100 thousand masks to corporate and sole proprietorship businesses including restaurants, beauty salons, and various retail stores in accordance with our strategy of "Growth through Value Co-Creation" under the Medium-Term Strategies.

The Shinsei Bank Group promotes employee-driven philanthropic activities, whereby approximately 721 employees throughout the entire Group participated in 26 activities in fiscal 2019 (ended March 31, 2020).

## "MoneyConnection®" Financial Literacy Program

In cooperation with Sodateage.net, an authorized specified nonprofit organization, the Shinsei Bank Group holds "MoneyConnection®," a financial literacy program that aims to help younger people avoid situations where they are not in employment, education or training (NEET).

This program was developed with the understanding that "a lack of accurate knowledge regarding money and a lack of monetary sense" is one of the reasons that people lapse into a NEET situation. With high school students as the main target, the program aims to provide opportunities for students to think about their relationship with people and their connection to society with "money and work" in the beginning, and to turn their eyes to future options and self-reliant lifestyles. Employees are able to

participate as class supporters at high schools, and through the pre-program orientation where they learn about the background of the program and about the situation facing youths.



As a unique program linking young people and society, the number of programs implemented not only in schools but also in rehabilitation facilities such as young people support facilities and juvenile training schools has increased. In addition, the "value as an opportunity" that enables young people and their supporters to deepen mutual understanding and build relationships of trust is being appreciated. We will continue to actively support the program, so that even more students have an opportunity to take the course.

## Post-quake Recovery Support Activities in the Tohoku Region of Japan

Since the Great East Japan Earthquake, the Shinsei Bank Group employees have continued support activities, such as visiting areas affected by the earthquake. The visiting assist activities support the revitalization of local communities while deepening exchanges with residents through the planning and management of events. Regular visits also provide employees with a firsthand opportunity to feel the progress of reconstruction.

In fiscal 2019, in collaboration with the Higashi-Matsushima City Social Welfare Council in Miyagi

Prefecture, which is one of the support destinations, we implemented the Financial Literacy Program "MoneyConnection®" for the first time at a prefectural high school in the city. Many of the regional issues that surfaced over time after the disaster were universal and were realized from the viewpoint of raising young people's awareness as a response to poverty and other problems that could occur across generations. Those efforts, in which schools and local communities and businesses collaborate, have attracted a great deal of interest.

# For Shareholders and Investors

## Basic IR/SR Activities Policy for Fiscal 2019

1. Improve the accuracy in targeting potential investors
2. Improve the quality of information disseminated internally and externally by strengthening competitive analysis functions, etc.
3. Strengthen the engagement interview approach with investors and analysts

### IR / SR Activities (Fiscal 2019 Results)

Financial results briefings and telephone conferences	8 times
IR Day	Once
Participation in live-streamed IR conferences (Total of both domestic and overseas)	Approx. 270
Small group meeting on integrated report	Once
Interviews with ESG representatives, investment officers and advisory companies	11 times
Briefings for individual investors (at branches of securities companies)	3 times
Lectures by market participants and experts for directors, executive officers, and general managers	3 times
IR / SR activity reporting at Board of Directors' meetings, Group Executive Committee meetings and General Manager meetings, and issuance of IR / SR report for employees	5 times



### Top Management's Commitment to IR / SR (number of IR / SR meetings in Fiscal 2019)

CEO	Executive Officers	IR/SR officers	Total
73	89	62	224
33%	40%	27%	100%

## Fiscal 2019 Achievements and Challenges

### Increase in Number of Meetings with IR/SR Investors

The number of meetings increased by 8% year on year due to the sale of shares by major shareholders in August 2019 and the resulting changes in the shareholders composition, which resulted in more active engagement with persons in charge of exercising voting rights and advisory companies for exercising voting rights. In light of the impact of the MiFID 2 and the decline in demand for Japanese financial stocks continues, we will continue to focus on cultivating new investors.

### Improving the Quality of Meetings with IR/SR Investors

In Fiscal 2019, we exchanged useful opinions by engaging with the responsible investment officers (persons in charge of exercising voting rights) of domestic institutional investors with our management. By further enhancing the accuracy in targeting potential investors, we will engage in meaningful dialogue with responsible investment officers and active investors who analyze companies from a medium- to long-term perspective. We will use the Integrated Report as a tool for this dialogue to highlight the features of Shinsei Bank from both the financial and nonfinancial perspectives.

### Expansion of Explanations of Nonfinancial Information

We held the Shinsei IR Day in February 2020. The Executive Officers in charge of focused areas of the Medium-Term Management Strategy made presentations and explained to investors the progress of the focused areas. The Shinsei IR

Day was held in both Japanese and English through live audio streaming, and investor inquiries were accepted online as well as responding to them live. In the second integrated report, which was published in 2019, we enhanced the disclosure on our Medium-Term Management Strategy, materiality, and ESG information. Subsequently, we exchanged opinions at the "Integrated Report Small Group Meeting" with domestic equity and debt investors who have a strong interest in ESG. Consequently, Shinsei Bank's Integrated Report was selected as the "Excellent Integrated Report" (for the second consecutive year) and the "Most-improved Integrated Report" by the Government Pension Investment Fund (GPIF). In IR/SR activities, we are aware of the increasing importance of explaining business initiatives to address sustainability issues that take into account not only governance but also the materiality of the Shinsei Bank Group. Going forward, we will continue to share the opinions of investors to the management and employees, and endeavor to communicate management information to outside company clearly.

### ESG Investors' Seminar for the Shinsei Bank Group's ESG Officers

A seminar by an ESG investor regarding the "understanding, initiatives, disclosure, and dialogue which the ESG investors expect toward companies" was held for ESG officers in the Shinsei Bank Group companies. The officers who are engaging in the initiatives concerning climate change or human rights in the divisions such as corporate planning, businesses, HR, risk management, general services, participated in the seminar and had an active Q&A session. We will continue to provide opportunities for direct communication on opinions from various front-runners in the capital markets to our management and employees, and we hope that IR / SR / ESG information is helpful to our management.

## ESG Data

(Nonconsolidated)		FY2017	FY2018	FY2019
Corporate Governance	Number of Directors	7	7	7
	Ratio of Female Directors	0%	14.2%	28.6%
	Number of Outside Directors	5	5	5
	Number of Board of Directors Meetings Held	6	6	8
	Attendance Rate for the Board of Directors Meetings	95%	100%	100%
Note: Governance-related data as of June 30, 2020.				
Employees	Number of Employees	2,188	2,150	2,137
	Male	1,265	1,218	1,203
	Ratio	58%	57%	56%
	Female	923	932	934
	Ratio	42%	43%	44%
	Competitive Ratio in Recruitment (Applicant base)	31.2	27.0	30.4
	Male	26.2	25.8	27.8
	Female	39.5	28.3	33.8
	Average Age	41.3	41.7	42.1
	Male	40.7	41.1	41.5
	Female	42.1	42.5	42.9
	Average Years of Service	12 years 5 months	12 years 11 months	13 years 4 months
	Male	11 years 1 month	11 years 7 months	12 years 2 months
	Female	14 years 2 months	14 years 7 months	14 years 11 months
	Average Monthly Salary	¥479 thousand	¥477 thousand	¥476 thousand
	Number of Business-Limited Employees	—	146	147
	Number of Part-time Employees	267	215	204
	Number of Temporary Employees	113	6	6
	Number of Overseas Locals Recruited	0	0	0
	Number of New University Graduates Hired	53	55	47
	Male	33	28	27
	Ratio	62%	51%	57%
	Female	20	27	20
	Ratio	38%	49%	43%
	Number of Mid-career Personnel Recruited	32	38	58
	Male	18	19	32
	Female	14	19	26
	Number of Managers	643	631	663
	Number of Female Managers			
	Section Leader-Level or Higher	89	96	118
Ratio	13.8%	15.2%	17.8%	
Section Manager-Level or Higher	390	412	440	
Ratio	30.0%	31.6%	32.7%	

	(Nonconsolidated)	FY2017	FY2018	FY2019
<b>Employees</b>	Number of Employed Persons with Disabilities	29	32	33
	Employment Rate of Persons with Disabilities	1.9%	2.1%	2.1%
	Average Overtime Hours per Month	19.9	18.7	18.3
	Average Paid Leave Acquisition Rate	62.5%	63.7%	65.0%
	Number of Employees Taking Childcare Leave	33	35	31
	Male	4	6	5
	Female	29	29	26
	Number of Employees Taking Life Support Leave	6	7	6
	Number of Employees Taking Family Care Leave	4	1	0
	Number of Employees Registering for Concurrent Business or Side Business	—	39	57
	Ratio of Employees Using Teleworking	—	9.5%	70.3%
	Number of Employees Using Continued Employment System	11	10	16
	Number of Employment of Functional Change or Employment Status Change	60	230	43
	Male	19	50	14
	Female	41	180	29
Note: Number of Employees Taking Life Support Leave means the Number of Employees Taking Childcare Leave before January 1, 2018.				
<b>Environment</b>	Arrangement Results of Project Finance for Renewable Energy (Billions of yen)	104.3	142.5	138.5
	Environment Impact Data			
	CO <sub>2</sub> Emissions (t) <sup>1,2</sup>	2,602	2,575	2,425
	Electricity Usage (kWh) <sup>1</sup>	5,069,080	5,027,896	5,013,949
	Gas Usage (m <sup>3</sup> ) <sup>1</sup>	90,000	114,000	65,000
	Clean Water Usage (t) <sup>3</sup>	1,758	1,623	1,513
	Amount of Waste Generated / Recycling Rate <sup>3</sup>			
	Waste Generated (t)	206	218	200
	Amount Recycled (t)	123	138	122
	Amount of Waste Disposal (t)	83	80	78
	Recycling Rate	60%	63%	61%
Notes: 1. Data are for all Shinsei Bank Nihonbashi headquarters (excluding affiliated companies), ARCO TOWER (Meguro) and Tokyo Dia Building (Shinkawa). Divisions of the Bank in ARCO TOWER were moved to Tokyo Dia Building (Shinkawa) in September 2019. 2. Calculated using electricity and gas usage according to "Guidelines for Calculating Specified Greenhouse Gas Emissions Volume under the Total Emissions Obligations and the Emissions Trading Framework." 3. Data are for Shinsei Bank Nihonbashi headquarters (excluding affiliated companies).				
<b>Contribution to Society (Consolidated)</b>	Financial Literacy Program (MoneyConnection®)			
	Number of Schools Where the Program was Held (Cumulative)	943	1,058	1,158
	Number of Student Participants (Cumulative)	122,811	136,232	148,577
	Social Contribution Activities			
	Number of Volunteer Activities	31	33	26
Number of Employee Participants	628	602	721	
<b>Compliance</b>	Number of Whistle-Blowing Reports	1	1	1

ESG Management Policy ▶ <https://www.shinseibank.com/corporate/en/policy/esg/policy.html>

ESG Information Index ▶ [https://www.shinseibank.com/corporate/en/policy/esg/esg\\_index.html](https://www.shinseibank.com/corporate/en/policy/esg/esg_index.html)

# Financial Summary

Shinsei Bank, Limited, and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020

	FY2009	FY2010	FY2011	FY2012
<b>For the fiscal year (Billions of yen)<sup>1</sup>:</b>				
Total revenue	264.2	262.6	202.9	199.0
General and administrative expenses	170.8	145.3	130.3	130.9
Net credit costs	112.2	68.3	12.2	5.5
Income before income taxes	(123.0)	57.7	15.3	53.8
Profit attributable to owners of the parent	(140.1)	42.6	6.4	51.0
<b>Balances at fiscal year-end (Billions of yen):</b>				
Securities	3,233.3	3,286.3	1,873.4	1,842.3
Loans and bills discounted	5,163.7	4,291.4	4,136.8	4,292.4
Lease receivables and leased investment assets	213.7	206.2	197.4	203.5
Total assets	11,376.7	10,231.5	8,609.6	9,029.3
Deposits and negotiable certificates of deposit	6,475.3	5,610.6	5,362.4	5,457.5
Total liabilities	10,741.8	9,620.3	7,982.0	8,345.6
Total equity	634.9	611.1	627.6	683.6
<b>Per share data (Yen):</b>				
Common equity	232.72	205.83	212.67	233.65
Basic earnings	(71.36)	21.36	2.42	19.24
Dividends	—	1.00	1.00	1.00
<b>Ratios (%):</b>				
Return on assets <sup>2</sup>	(1.2)	0.4	0.1	0.6
Return on equity <sup>3</sup>	(27.6)	8.5	1.2	8.6
Expenses-to-revenue ratio	64.6	55.3	64.2	65.8
Total capital adequacy ratio (Basel II, Domestic Standard)	8.35	9.76	10.27	12.24
Capital ratio (Basel III, Domestic Standard)	—	—	—	—
Ratio of nonperforming claims classified under the Financial Revitalization Law to total claims	6.70	6.78	6.66	5.32

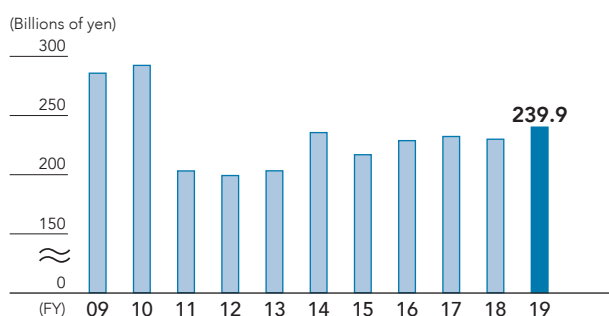
1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.

2 Return on assets is calculated by dividing profit (loss) attributable to owners of the parent by the average of total assets at the beginning and end of the period presented.

3 Return on equity (fully diluted) is calculated by dividing profit (loss) attributable to owners of the parent by the average amount of (total equity – share warrants – noncontrolling interests) at the beginning and end of the period presented.

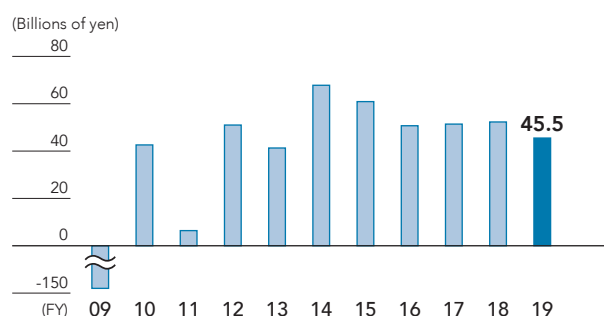
4 Shinsei Bank consolidated its shares with a rate of ten shares of common stock into one share on October 1, 2017. Common equity per share and basic earnings per share are calculated as if the consolidation of shares had occurred at the beginning of FY2016.

## Total Revenue



Earnings had been lifted prior to fiscal 2010 on factors such as gains from repurchasing preferred securities and items such as gains on the sale of assets on which loss disposals had been recorded in the past. Total revenue has steadily grown since such one-off gains stopped occurring in fiscal 2011.

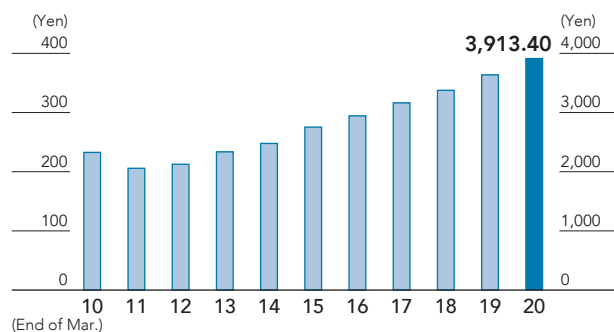
## Profit Attributable to Owners of the Parent



The Shinsei Bank Group recorded losses in fiscal 2008 and 2009 on the effects of the global financial crisis sparked by the collapse of Lehman Brothers but the Group has continued to book profits every year since fiscal 2010. The Group is working to improve the quality of earnings by adding more heft to core profits and limiting profits from nonrecurring and high-volatility sources.

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
	203.0	235.3	216.6	228.5	232.0	229.6	239.9
	135.0	144.2	141.3	144.2	142.9	145.7	150.0
	0.2	11.8	3.7	31.8	37.2	29.3	39.1
	46.0	72.7	62.8	51.7	55.4	54.5	49.2
	41.3	67.8	60.9	50.7	51.4	52.3	45.5
	1,557.0	1,477.3	1,227.8	1,014.6	1,123.5	1,130.2	957.0
	4,319.8	4,461.2	4,562.9	4,833.4	4,895.9	4,986.8	5,110.4
	227.7	227.0	211.4	191.4	171.4	176.5	193.4
	9,321.1	8,889.8	8,928.7	9,258.3	9,456.6	9,571.1	10,226.5
	5,850.4	5,452.7	5,800.9	5,862.9	6,067.0	5,922.1	6,305.1
	8,598.5	8,136.0	8,135.6	8,437.5	8,600.6	8,674.5	9,316.0
	722.5	753.7	793.1	820.7	856.0	896.6	910.4
	247.82	275.45	294.41	3,163.89 <sup>4</sup>	3,376.39 <sup>4</sup>	3,636.92	3,913.40
	15.59	25.57	22.96	194.65 <sup>4</sup>	199.01 <sup>4</sup>	211.24	190.59
	1.00	1.00	1.00	1.00	10.00 <sup>4</sup>	10.00	10.00
	0.5	0.7	0.7	0.6	0.5	0.5	0.5
	6.5	9.8	8.1	6.3	6.1	6.0	5.1
	66.5	61.3	65.3	63.1	61.5	63.4	62.5
	—	—	—	—	—	—	—
	13.58	14.86	14.20	13.06	12.83	11.85	11.21
	3.81	1.42	0.79	0.22	0.17	0.20	0.34

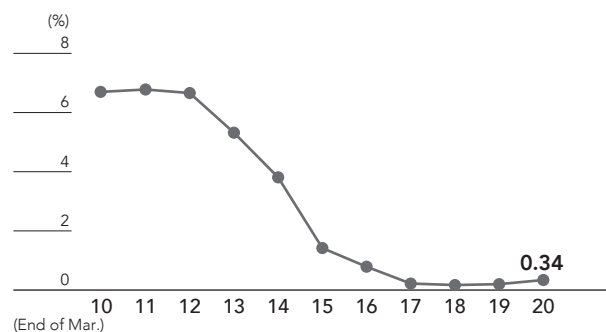
### Common Equity Per Share



Common equity per share has continued to increase on a steady buildup of profits.

Note: Shinsei Bank consolidated its shares with a rate of ten shares of common stock into one share on October 1, 2017.

### Nonperforming Loan Ratio under the Financial Revitalization Law (Nonconsolidated)



As we have sharply reduced claims classified as nonperforming loans stemming from the global financial crisis sparked by the collapse of Lehman Brothers, the nonperforming loan ratio under the Financial Revitalization Law remains at a low level, and our asset quality has improved.

# Review of Fiscal 2019

## Results of Operations

(FY)	Billions of yen		
	2019	2018	Change(Amount)
<b>Consolidated (Management Accounting Basis)</b>			
Net interest income	133.5	133.8	-0.3
Noninterest income	106.4	95.9	10.5
Net fees and commissions	32.4	31.3	1.0
Net trading income	15.8	6.6	9.1
Net other business income	58.2	57.8	0.3
Income on lease transactions and installment receivables	40.8	37.5	3.3
Total revenue	239.9	229.7	10.2
General and administrative expenses	-149.5	-144.7	-4.8
Ordinary business profit (OBP)	90.4	84.9	5.4
Net credit costs	-39.1	-29.3	-9.8
OBP after net credit costs	51.2	55.6	-4.4
Amortization of goodwill and other intangible assets	-2.4	-2.8	0.3
Other gains	0.3	1.7	-1.3
Income before income taxes	49.2	54.5	-5.3
Current income tax	-4.1	-3.8	-0.3
Deferred income tax	0.0	1.3	-1.2
Profit attributable to noncontrolling interests	0.4	0.2	0.2
Profit attributable to owners of the parent	45.5	52.3	-6.7

### Highlights of Fiscal 2019 Results of Operations (from April 1, 2019 to March 31, 2020)

Total revenue was ¥239.9 billion in the current year, increased by ¥10.2 billion from the previous year.

- **Net interest income** was ¥133.5 billion, a slight decrease of ¥0.3 billion from ¥133.8 billion in the previous year. This was mainly due to a decrease in the housing-related loans in APLUS FINANCIAL and the Retail Banking, despite an increase in the operating assets in the Structured Finance.
- **Noninterest income** was ¥106.4 billion, an increase of ¥10.5 billion from ¥95.9 billion in the previous year. This was mainly due to an increase in major businesses such as shopping credits in APLUS FINANCIAL, steady performance in the securities intermediation and Retail Banking, gains on sales of stocks in the Institutional Business and of government and other bonds in Treasury through our ALM operations.

**General and administrative expenses** were ¥149.5 billion in the current year, an increase of ¥4.8 billion from the previous year. This was mainly due to the newly-acquired consolidated subsidiaries in the current year and the optimization of the group business sites, in addition to systems expenses associated with the start

of its operations of our new core banking system.

**Net credit costs** was ¥39.1 billion (expense), an increase of ¥9.8 billion from the previous year. This was mainly due to the reserves for loan losses to prepare for credit deterioration of the borrowers caused by the COVID-19 pandemic, in addition to the absence of the reversal of reserves for loan losses recorded in the previous year in the Institutional Business as well as the elimination of disposal costs associated with the bulk sale of delinquent loans recorded in the previous year in APLUS FINANCIAL.

**Reserve for excess interest repayment (Kabarai)** was reversed by ¥2.6 billion (gain). This includes ¥4.5 billion reversal in Shinsei Financial, ¥1.7 billion provisioning in APLUS and ¥0.1 billion provisioning in Shinsei Personal Loan.

**Profit attributable to owners of parent** resulted in ¥45.5 billion.



## Financial Ratios

Net interest margin improved to 2.47% from 2.46% in fiscal 2018, reflecting reduction of deposit related funding costs.

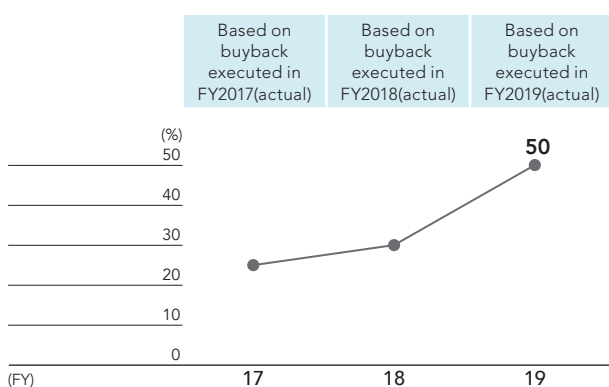
In **asset quality**, the ratio of nonperforming loans disclosed under the Financial Revitalization Law (non-consolidated basis) remained low at 0.34%. The Risk-Monitored Loan Ratio (consolidated basis) stood at 1.71%.

In **capital adequacy**, common equity Tier 1 (CET 1) ratio under the Basel III international standards (fully loaded basis) was 11.3%, down from 12.0% at the end of March 2019. The CET 1 capital increased due to the steady increase of net income while risk assets increased in the Structured Finance and Consumer Finance businesses as well as the consolidation of Shinko Lease by Showa Leasing. CET 1 ratio continues to be maintained at ample levels.

## Shareholder Return

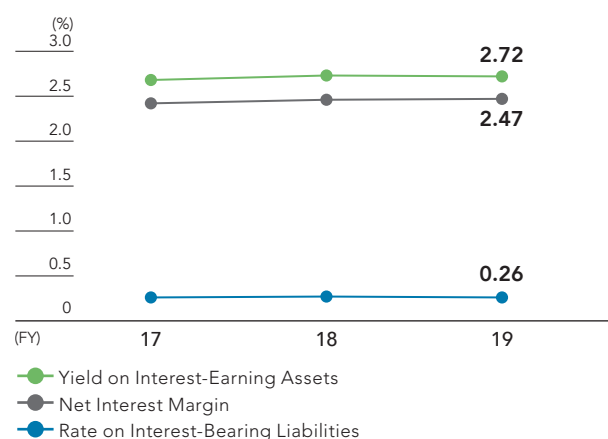
During fiscal 2019, a total of ¥23.5 billion in acquisition of treasury shares was completed, aiming to improve per share value, considering current share price, financial/capital condition and market environment. Fiscal 2019 total shareholder return ratio based on the earnings in fiscal 2018 resulted in 50% including the share buyback and year-end dividends.

### Total Shareholder Return



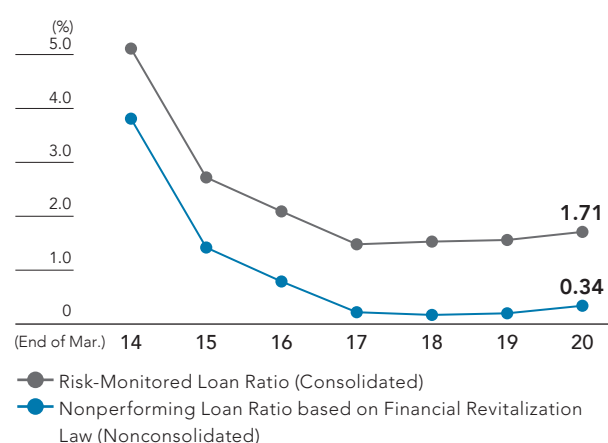
	(Billions of yen, %)		
	FY17 Shareholder return based on FY16 net income	FY18 Shareholder return based on FY17 net income	FY19 Shareholder return based on FY18 net income
Total Shareholder Return (A)	12.5	15.5	25.9
Net Income (B)	50.7	51.4	52.3
Total Shareholder Return Ratio (A / B)	25%	30%	50%

### Net Interest Margin

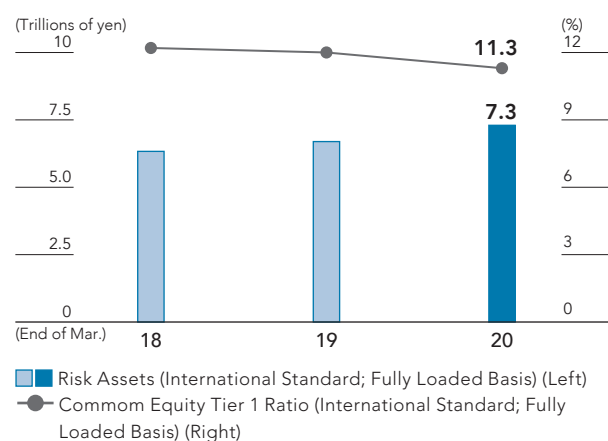


### Risk-Monitored Loan Ratio

#### NPL Ratio based on Financial Revitalization Law



### Common Equity Tier 1 Ratio



# Glossary

## ESG

**ESG**  
An acronym for Environment, Social and Corporate Governance, which refers to perspectives important to the long-term growth and development of a company.

**GHG Emissions**  
CO<sub>2</sub> and other greenhouse gas emissions. Classified into direct emissions by the operator itself (Scope 1), indirect emissions associated with the use of electricity and other materials supplied by other companies (Scope 2), and joint emissions outside the Scope 1 and Scope 2 positions (Scope 3).

**Sustainable Finance**  
Financial methods for global environmental sustainability.

## Business

**Advisory**  
Shinsei Bank's advisory business proposes solutions to meet customers' diverse needs in areas such as M&A, corporate restructuring and fundraising in Japan and overseas.

**Alternative Investment**  
Alternative investment is a new investment method, such as private equity and real estate investment, not traditional asset management such as equity or bond.

**API**  
API, abbreviation of Application Programming Interface, means to link and coordinate more than one software.

**Business Succession Support**  
The provision of investments and loans to meet capital requirements for the transfer of shares, etc. to customers considering family members or employees as business successors in order to facilitate the smooth handover of business ownership.

**Cloud (Cloud Service, Cloud Computing)**  
A utility form in which computer resources are provided in the form of services via the internet and other computer networks.

**DDoS Attack**  
A method of server attack in which a number of devices on the internet send simultaneous connection requests to a specific network or computer, overburdening it and causing it to malfunction.

**Derivative**  
Derivative is a collective term referring to transactions that are derived from or linked to other underlying transactions such as interest rate, bond, foreign exchange and equity transactions. They are also called "financial derivatives" since most of the transactions originate from financial products.

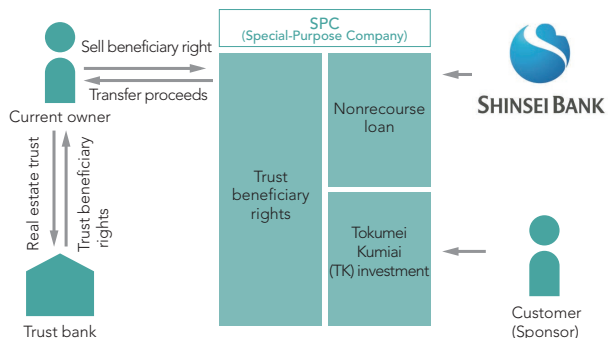
**Economic Ecosystem**  
The Economic Ecosystem refers to the entire industry environment and all of its constituent moving parts and their interactions, much like the ecosystems of the natural world.

**Fiduciary Duty**  
The responsibility held by a trustee towards their beneficiary. In finance, this refers to the responsibility that financial institutions have towards their customers and their entrusted assets.

**Finance as a Service**  
Financial product is unbundled and provided as each of functions rather than as a package.

**Neobank**  
A company that provides financial services in a nonbank industry but through partnerships with existing banks.

**Nonrecourse Loan**  
Nonrecourse Loans are finances for which repayment is made solely from the cash flows generated from specific businesses or assets (typically, but not always real estate), with no recourse to the sponsor.



**Platformer**  
A provider of platform and system for users.

**Principal Transactions**  
Principal Transactions generally refer to a bank's proprietary investments. Shinsei Bank proactively makes proprietary investments in the Credit Trading and Private Equity businesses in order to meet customers' needs for corporate restructuring, business succession and growth funds.

**Private Equity**  
In general, Private Equity refers to privately placed shares and shares that are not traded in stock exchanges or over-the-counter markets. Private equity investments can be classified into venture capital, which is an investment to growing companies, and investments to acquire control of mature companies in order to implement restructuring. Shinsei Bank is proactively engaged in venture capital investments, investing in up to 5% of total shares with representative rights of customers planning a public share offering as well as making buyout investments related to business divestments from mature companies.

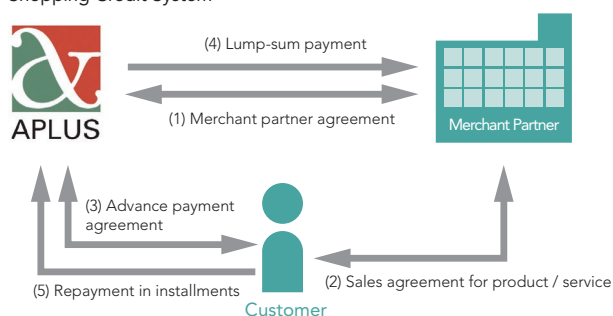
**Project Finance**  
Project Finance refers to loans to finance specific projects for which the principal source of repayment is the cash flow generated from the project itself. Project Finance is often used for medium- to long-term projects in energy, natural resources and infrastructure.

**RPA (Robotic Process Automation)**  
RPA refers to technology that allows for the streamlining and automation of the simple tasks such as white-collar labor.

### Shopping Credit

Shopping Credit is a service that allows customers to pay for goods or services in installments without using a credit card. The Shinsei Bank Group offers this service primarily through APLUS.

#### Shopping Credit System



- (1) APLUS concludes a merchant partner agreement with the merchant partner
- (2) Customer purchases a product or a service from the merchant partner
- (3) Customer applies to APLUS for installment sales credit
- (4) APLUS pays the purchase price for the product / service as a lump sum to the merchant partner
- (5) Customer repays the purchase price to APLUS in installments

### Specialty Finance

Specialty Finance at Shinsei Bank refers to M&A finance, LBO finance and other types of finance that focus on the cash flows and value generated by businesses and assets. It is a type of structured finance.

### Structured Finance

Structured Finance refers to finance requiring special structures. In general, it takes the form of project finance or nonrecourse finance which focuses on the cash flows or value generated by a specific project or asset. Shinsei Bank is primarily active in real estate finance, project finance, M&A finance and corporate restructuring finance.

### Syndicated Loans

Syndicated Loans are loans provided jointly by a syndication of multiple financial institutions (lender group) based on a single loan agreement.

### UI / UX

UI (User Interface) is the space where interactions between humans and machines occur, such as font or graphical content. UX (User Experience) refers to a person's experience by using a particular product or service.

### Unsecured Loan

A type of loan / product offered by financial institutions such as banks and consumer finance companies that enables a consumer to borrow without security.

## Finance

### Common equity per share

Common equity per share is calculated by dividing common equity by the total number of common shares outstanding at the end of the term.

### Earnings per share

Earnings per share is calculated by dividing net income by the total number of common shares.

### Excess Interest Repayment (Kabarai)

Prior to the interest rate reduction implemented as part of the revisions to the Money Lending Business Law, the interest rates on some consumer finance products offered by the Shinsei Bank Group's subsidiaries exceeded the upper limit stipulated by the Investment Law. Following a ruling by the Supreme Court in January 2006, customers who paid more than the upper limit stipulated by the Investment Law have been allowed to request a refund of the extra interest paid. Accordingly, consumer finance companies have recorded reserves in order to cover losses on (grey zone) excess interest repayments.

### Net Credit Costs

Net Credit Costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, write-off (losses), reversal (gains) of reserves for loan losses and recoveries of written-off claims resulting from their disposal.

### Nonperforming loan ratio under the Financial Revitalization Law

Nonperforming loan ratio is the ratio of nonperforming claims under the Financial Revitalization Law to total claims.

### Ordinary Business Profit (Loss)

Ordinary Business Profit (Loss)—the indicator of profit (loss) from core business after expenses—is calculated by subtracting "expenses" from "total revenue." "Net credit costs" are excluded from this calculation.

### Profit attributable to owners of the parent

Profit attributable to owners of the parent indicates the final profit over a twelve-month fiscal term in accounting terms.

### Total Return Ratio

The Total Return Ratio shows the magnitude of a company's shareholder returns.

### Total Revenue

Total Revenue is composed of "Net interest income" such as interest from loans and "Noninterest income" such as fee income, as indicated by gross profit from core business operations.

# Financial Statements (Consolidated)

Please see Shinsei Bank's Integrated Report 2020 Data Appendix for supplemental financial information (including Notes).

## CONSOLIDATED BALANCE SHEET

Shinsei Bank, Limited, and its Consolidated Subsidiaries  
As of March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>ASSETS</b>			
Cash and due from banks (Notes 4, 23 and 36)	¥ 1,614,134	¥ 1,355,966	\$ 14,912,550
Receivables under securities borrowing transactions (Note 36)	—	2,119	—
Other monetary claims purchased (Notes 5 and 36)	63,575	30,994	587,354
Trading assets (Notes 6, 23, 36 and 37)	213,707	204,415	1,974,385
Monetary assets held in trust (Notes 7, 23 and 36)	415,107	305,879	3,835,062
Securities (Notes 8, 23 and 36)	957,040	1,130,286	8,841,834
Loans and bills discounted (Notes 9, 23 and 36)	5,110,404	4,986,839	47,213,640
Foreign exchanges (Note 10)	73,879	29,546	682,551
Lease receivables and leased investment assets (Notes 23, 33 and 36)	193,445	176,553	1,787,186
Other assets (Notes 11, 23, 36 and 37)	1,007,605	851,287	9,308,998
Premises and equipment (Notes 12, 23 and 33)	69,414	45,341	641,300
Intangible assets (Notes 13 and 33)	67,073	67,189	619,676
Assets for retirement benefits (Note 20)	5,683	10,931	52,511
Deferred tax assets (Note 30)	16,977	15,096	156,854
Customers' liabilities for acceptances and guarantees (Note 21)	526,520	456,759	4,864,384
Reserve for credit losses (Note 14)	(107,998)	(98,034)	(997,766)
<b>Total assets</b>	<b>¥ 10,226,571</b>	<b>¥ 9,571,172</b>	<b>\$ 94,480,520</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities:</b>			
Deposits, including negotiable certificates of deposit (Notes 15, 23 and 36)	¥ 6,305,161	¥ 5,922,145	\$ 58,251,673
Call money (Notes 36)	165,000	145,000	1,524,390
Payables under repurchase agreements (Notes 23 and 36)	38,956	59,098	359,908
Payables under securities lending transactions (Notes 23 and 36)	350,407	510,229	3,237,321
Trading liabilities (Notes 16, 36 and 37)	183,943	182,363	1,699,400
Borrowed money (Notes 17, 23 and 36)	881,991	684,077	8,148,482
Foreign exchanges (Note 10)	687	471	6,356
Short-term corporate bonds (Note 36)	221,300	191,000	2,044,531
Corporate bonds (Notes 18 and 36)	166,500	92,335	1,538,248
Other liabilities (Notes 19, 23, 36 and 37)	404,973	347,383	3,741,437
Accrued employees' bonuses	8,560	8,598	79,086
Accrued directors' bonuses	47	44	443
Liabilities for retirement benefits (Note 20)	8,422	8,232	77,811
Reserve for directors' retirement benefits	50	—	465
Reserve for reimbursement of deposits	621	—	5,746
Reserve for reimbursement of debentures	3,513	3,764	32,456
Reserve for losses on interest repayments	49,308	63,025	455,550
Deferred tax liabilities (Note 30)	119	—	1,107
Acceptances and guarantees (Notes 21, 23 and 36)	526,520	456,759	4,864,384
<b>Total liabilities</b>	<b>9,316,086</b>	<b>8,674,529</b>	<b>86,068,796</b>
<b>Equity:</b>			
Common stock (Note 24)	512,204	512,204	4,732,119
Capital surplus	78,506	78,506	725,299
Stock acquisition rights (Note 25)	125	99	1,164
Retained earnings	389,600	346,562	3,599,412
Treasury stock, at cost (Note 24)	(61,097)	(37,729)	(564,460)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 8)	4,755	10,041	43,936
Deferred gain (loss) on derivatives under hedge accounting	(15,719)	(16,391)	(145,230)
Foreign currency translation adjustments	(1,670)	(1,527)	(15,430)
Defined retirement benefit plans (Note 20)	(3,585)	378	(33,123)
Total	903,120	892,143	8,343,686
Noncontrolling interests	7,364	4,498	68,038
<b>Total equity</b>	<b>910,485</b>	<b>896,642</b>	<b>8,411,724</b>
<b>Total liabilities and equity</b>	<b>¥ 10,226,571</b>	<b>¥ 9,571,172</b>	<b>\$ 94,480,520</b>

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

# CONSOLIDATED STATEMENT OF INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries  
For the fiscal year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Interest income:			
Interest on loans and bills discounted	¥ 140,216	¥ 140,177	\$ 1,295,418
Interest and dividends on securities	10,794	12,531	99,727
Interest on deposits with banks	1,121	1,162	10,362
Other interest income	1,645	971	15,203
<b>Total interest income</b>	<b>153,777</b>	<b>154,843</b>	<b>1,420,711</b>
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	6,357	7,802	58,733
Interest and discounts on debentures	—	0	—
Interest on other borrowings	2,918	3,356	26,965
Interest on corporate bonds	283	466	2,616
Other interest expenses	10,707	9,401	98,925
<b>Total interest expenses</b>	<b>20,266</b>	<b>21,027</b>	<b>187,239</b>
<b>Net interest income</b>	<b>133,510</b>	<b>133,816</b>	<b>1,233,471</b>
Fees and commissions income	59,213	55,332	547,057
Fees and commissions expenses	26,782	23,981	247,434
<b>Net fees and commissions</b>	<b>32,431</b>	<b>31,351</b>	<b>299,623</b>
<b>Net trading income (loss) (Note 26)</b>	<b>15,821</b>	<b>6,673</b>	<b>146,174</b>
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	40,840	37,525	377,314
Net gain (loss) on monetary assets held in trust	3,407	2,535	31,483
Net gain (loss) on foreign exchanges	64	6,719	598
Net gain (loss) on securities	4,787	378	44,229
Net gain (loss) on other monetary claims purchased	194	809	1,801
Other, net (Note 27)	8,937	9,886	82,568
<b>Net other business income (loss)</b>	<b>58,232</b>	<b>57,854</b>	<b>537,993</b>
<b>Total revenue</b>	<b>239,996</b>	<b>229,696</b>	<b>2,217,261</b>
General and administrative expenses:			
Personnel expenses	58,065	56,509	536,449
Premises expenses	20,134	19,679	186,016
Technology and data processing expenses	24,952	23,265	230,526
Advertising expenses	11,433	10,951	105,629
Consumption and property taxes	10,489	10,406	96,914
Deposit insurance premium	1,581	1,645	14,613
Other general and administrative expenses	23,400	23,275	216,194
<b>General and administrative expenses</b>	<b>150,057</b>	<b>145,734</b>	<b>1,386,341</b>
<b>Amortization of goodwill and intangible assets acquired in business combinations</b>	<b>2,436</b>	<b>2,811</b>	<b>22,510</b>
<b>Total general and administrative expenses</b>	<b>152,494</b>	<b>148,545</b>	<b>1,408,851</b>
<b>Net business profit (loss)</b>	<b>87,502</b>	<b>81,150</b>	<b>808,409</b>
Net credit costs (recoveries) (Note 28)	39,183	29,348	362,003
Other gains (losses), net (Note 29)	881	2,782	8,139
<b>Income (loss) before income taxes</b>	<b>49,200</b>	<b>54,584</b>	<b>454,546</b>
Income taxes (benefit) (Note 30):			
Current	4,119	3,810	38,056
Deferred	(45)	(1,306)	(419)
<b>Profit</b>	<b>45,126</b>	<b>52,080</b>	<b>416,909</b>
Profit (loss) attributable to noncontrolling interests	(449)	(239)	(4,154)
<b>Profit attributable to owners of the parent</b>	<b>¥ 45,575</b>	<b>¥ 52,319</b>	<b>\$ 421,063</b>
		Yen	U.S. dollars (Note 1)
<b>Basic earnings per share (Note 31)</b>	<b>¥ 190.59</b>	<b>¥ 211.24</b>	<b>\$ 1.76</b>
<b>Diluted earnings per share (Note 31)</b>	<b>¥ 190.55</b>	<b>¥ 211.22</b>	<b>\$ 1.76</b>

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

# Stock and Credit Rating Information

## Stock Information

(As of March 31, 2020)

### Shares Outstanding and Capital

(1,000 shares, millions of yen)

Date	Shares outstanding		Capital		Capital surplus		Notes
	Change	Balance	Change	Balance	Change	Balance	
July 29, 2003	(1,358,537)	2,033,065 <sup>1</sup>	—	451,296	—	18,558	2-for-1 reverse share split for common shares Post reverse split common shares outstanding 1,358,537 thousand shares
July 31, 2006	(99,966)	1,933,098 <sup>1</sup>	—	451,296	—	18,558	Use of call feature for Series 3 Class-B preferred shares Issuance of 200,033 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
November 16, 2006	(85,000)	1,848,098 <sup>1</sup>	—	451,296	—	18,558	Cancellation of treasury shares (common) -85,000 thousand shares
August 1, 2007	(100,000)	1,748,098 <sup>1</sup>	—	451,296	—	18,558	Mandatory acquisition of Series 3 Class-B preferred shares Issuance of 200,000 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
February 4, 2008	117,647	1,865,746 <sup>1</sup>	25,000	476,296	25,000	43,558	Third-party allocation of shares (common shares) Subscription price ¥425, par value ¥212.5
March 31, 2008	194,600	2,060,346	—	476,296	—	43,558	Use of call feature for Series 2 Class-A preferred shares Issuance of 269,128 thousand common shares Retirement of Series 2 Class-A preferred shares -74,528 thousand shares
March 15, 2011	690,000	2,750,346	35,907	512,204	35,907	79,465	New shares issued through International Offering (common shares) Subscription price ¥108, par value ¥52.04
October 1, 2017	(2,475,312)	275,034	—	512,204	—	79,465	10-for-1 reverse share split for common shares Post reverse split common shares outstanding 275,034 thousand shares
May 18, 2018	(16,000)	259,034	—	512,204	—	79,465	Cancellation of treasury shares (common) -16,000 thousand shares

1 Figures include number of preferred shares outstanding

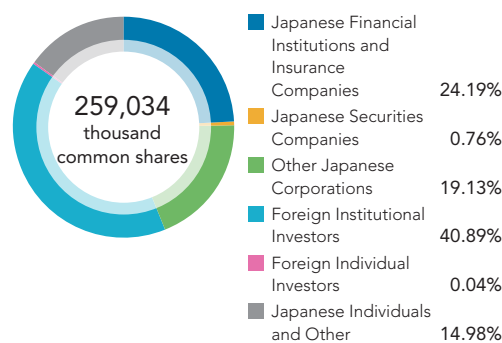
### Largest Shareholders

#### Common Stock

Rank	Shareholders	Thousands of Common Shares	%
1	SHINSEI BANK, LIMITED	28,290	10.92%
2	Deposit Insurance Corporation of Japan	26,912	10.38%
3	SBI Holdings, Inc.	21,926	8.46%
4	THE RESOLUTION AND COLLECTION CORPORATION	20,000	7.72%
5	THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	14,013	5.40%
6	SSBTC CLIENT OMNIBUS ACCOUNT	9,110	3.51%
7	JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT 9)	8,131	3.13%
8	JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT)	6,062	2.34%
9	GOLDMAN SACHS & CO.	6,044	2.33%
10	STATE STREET BANK AND TRUST COMPANY 505103	4,047	1.56%
11	JPMORGAN CHASE BANK 385151	3,385	1.30%
Total (includes treasury shares)		259,034	100.00%

Note: As of March 31, 2020, in total, the Deposit Insurance Corporation and the Resolution and Collection Corporation hold 46,912,888 common shares or 20.33% of Shinsei Bank's outstanding common shares, excluding treasury shares.

### Beneficial Ownership / Type of Shareholder



Notes: 1 "Japanese Financial Institutions and Insurance Companies" includes the Resolution and Collection Corporation.  
2 "Other Japanese Corporations" includes the Deposit Insurance Corporation.  
3 "Japanese Individuals and Other" includes treasury shares.

## Ratings Information

(As of June 30, 2020)

	Long-Term (Outlook)	Short-Term
R&I	A- (Stable)	a-1
JCR	A- (Stable)	J-1
S&P	BBB (Stable)	A-2
Moody's	Baa1 (Stable)	Prime-2

For further information, please contact:

**Group Investor Relations & Corporate Communications Division**  
**Shinsei Bank, Limited**

4-3, Nihonbashi-muromachi 2-chome, Chuo-ku, Tokyo 103-8303, Japan

URL: <https://www.shinseibank.com/english/> E-mail: [Shinsei\\_IR@shinseibank.com](mailto:Shinsei_IR@shinseibank.com)

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## SHINSEI BANK, LIMITED

4-3, Nihonbashi-muromachi 2-chome, Chuo-ku, Tokyo 103-8303, Japan  
TEL: 81-3-6880-7000

URL: <https://www.shinseibank.com/english/>