

Creating Value over the Long Term

Corporate Value Creation Mechanism

Society in 2030

The Shinsei Bank Group's Value Creation Process

Input

Core Strategy

Enhance/Leverage Our Capabilities

People

Organization

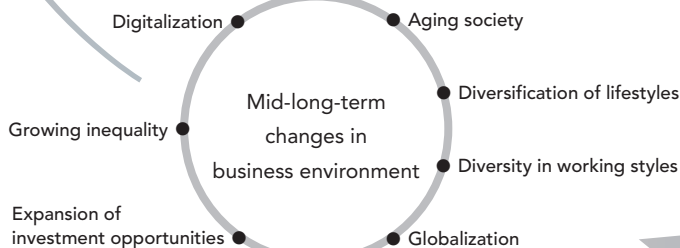
Operations

Capital

Social Impact

Our environment is changing

- Customers are becoming more sophisticated
- Digitalization has accelerated collaboration between service providers



Foundation for meeting our goals/responsibilities



Expertise and Execution

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 nonfinancial products and services that meet the underserved needs of individual customers and companies through a process of co-creation with external partners.

Created Value

Outcome

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



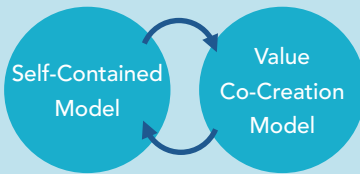
Output

- Financial Capital**
 - Sustainable revenue
 - Improvement of ROE
- Intellectual Capital**
 - Provision of solutions
 - Provision of financial functions
- Human Capital**
 - Development of diverse and competitive human resources
- Organizational Capital**
 - Construction of an organizational structure that allows diverse and competitive human resources to excel
- Society-Related Capital**
 - Construction and planning of an ecosystem
 - Integration with external services
 - Deeper understanding of our customers

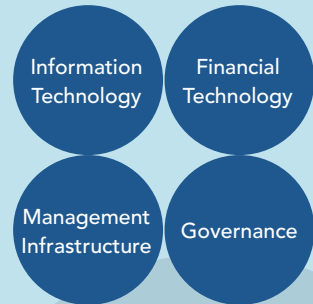
Business Model

Core Strategy

Grow through Value Co-Creation



Strengths



Priority Management Issues (Materiality)

Address social and environmental issues

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



Fulfill our social responsibilities

- Social infrastructure services
- Customer-oriented services



Capital

Governance

People

Organization

Operations

“Redesigning Finance” to Address Society’s Underserved Needs

~In order to be a Financial Group that Stays a Step Ahead~

Seamlessly integrating the Group’s management resources that cross over a wide range of corporate entities and industries, Shinsei Bank Group is looking to directly help realize a society that can enjoy the benefits of financial and nonfinancial products and services that meet the underserved needs of individual customers and companies through a process of co-creation with external partners. Based on our unique perspective and position as a niche player, we recognize the significance of resolving social issues that major comprehensive service financial groups find difficult to address. With the spirit of an entrepreneur, we will work diligently to capitalize on this great opportunity.

Imagining the Future of Society as the Basis for Formulating Medium-Term Strategies

In addition to recognizing the impact of changes in the medium- to long-term environment, the decision to identify certain medium-term strategies as opposed to a medium-term management plan reflects the Group’s efforts to employ a backcasting method to picture a growth narrative that allows it to fully utilize its existential value during a period of financial business reform that arguably occurs if not once in a century at least once in several decades.

■ Working to Ensure that Today Leads to a Brighter Tomorrow

The nature of society is undergoing change from one moment to the next. This change has in turn contributed to widespread dynamic business reform. Taking into consideration a volatile environment, we began to question whether our focus on achieving certain numerical targets set out in detailed three-year financial plans was negatively impacting the Group’s management flexibility and the ability to respond to change. At the same time, we grew concerned that the weight being placed on medium-term management plans was generating a host of unwanted consequences. This includes the wasteful

application of such precious management resources as human resources, products, and capital. It also creates a gap between the genuine needs of customers that inevitably arise and our business activities, incidence of risks that lower our value as a corporate entity, and obstacles to our ability to leverage latent potential that adversely affects employee motivation.

This period of reform, which is creating a future that has little or no correlation to conditions as they are today, is also underpinning a growing shareholder awareness toward the importance of nonfinancial information. In other words, financial data, as a commentary on past and immediate short-term future performance,



Hideyuki Kudo

President and Chief
Executive Officer

has lost its appeal as an indicator of a company's outlook over the medium to long term. More to the point, companies must now take the initiative to determine their purpose and goals in their own right. It is vitally important to identify those matters that are critical to management and to paint a "big picture" narrative with which shareholders can easily relate.

Rather than covering a current and immediate short-term timeframe, we therefore began with a vision of society in 2030 when formulating our medium-term strategies. By casting an eye 10 years into the future, we were better placed to grasp global trends from a broad perspective and adopt a process that incorporates a comprehensive assessment of the environment in which we operate. What then is the Shinsei Bank Group's vision of society in 2030?

■ Society in 2030

There is no doubting the decline in Japan's working population and the continued aging of its society in real

terms despite the comfort provided by such cushioning factors as longer healthy lifespans, active participation of women in society, and the increase in foreign workers. Meanwhile, few people object to the increase in productivity due to technological innovations throughout society as a result of the automation and digitization of activities that were previously performed on a manual basis. Due largely to the aforementioned, individuals can now gain access to vast and diverse amounts of information. From this, individuals can extract value from data that they can relate to and consider important. This suggests a shift away from conventional values and the creation of a society that is rich in diversity. With this in mind, the number of people who obtain personalized services in tune with expectations while skillfully managing data will likely increase. By the same token, we can expect social issues to emerge and steadily deepen. These issues include a widening gap between those with and without access to information, individuals who are unable to properly manage data, changes that reflect a

CEO Message

mismatch between existing systems and mechanisms, the ability or lack thereof to keep up with the pace of change as a result of the digital divide, and a growing sense of inequality.

More than ever, considerable focus should be directed toward “sustainability” in every sense of the word. Based on the correlation between its many facets, a wide range of global issues including climate change, ecosystem sustainability, and the development of social systems that address such problems as human rights, inequality, and poverty remain unresolved. Achieving the sustainable development goals (SDGs) adopted by the United Nations is no easy task. Many innovative ideas will be required in the leadup to 2030. Needless to say, the Group’s own development is critical if we are to continue participating in efforts aimed at promoting sustainability and the achievement of SDGs.

Historically, financial institutions have been content to provide customers with one-size-fits-all type products

and services. As far as businesses that fully exploit the benefits of scale are concerned, this was considered economically rational. Meanwhile, this historical trend has led to an abundance of needs that are yet to be uncovered and a host of unresolved issues. When describing the Group’s market and position at the start of this message, I did not use the word “niche” in its small or narrow sense. As a niche player, we are focusing on areas that others are yet to explore and operate. Rather than attempt to address every issue, the Group will look to resolve issues that it is best suited to tackle and will focus on needs that the majority of financial institutions have continued to neglect due to the high degree of difficulty. This incidence of demand that has been overlooked by the market offers an enormous opportunity. Recognizing advances in digitization as a real and positive solution, we will work to provide robust underlying support as a matter of course.

The Role that the Shinsei Bank Group will be Required to Play to Realize Society in 2030

Using its ability to quickly uncover customer segments with unserved and underserved needs as a tool for providing services ahead of its rivals, in other words “financial innovation,” is the foundation for the Group’s business model.

In today’s modern society, there are people who are not being provided with all possible financial and nonfinancial products and services. This has contributed to the rise of an “unserved” market. At the same time, there are those who remain unsatisfied with traditional financial and nonfinancial services. These individuals make up the “underserved” market. The reason for the existence of each market stems from the difficulties in providing sought after products and services using existing ideas and technologies.

For example, despite having achieved outstanding academic results in their country of birth, and investing large amounts to study in Japan, foreign students can find difficulties in gaining access to basic financial services such as the opening of bank accounts, fund transfers, settlement, and loans. This considerable inconvenience can be attributed to the lack of any transaction history as evidence of credit standing and absence of a guarantor in Japan. We also recognize underserved customers in corporate sector who have various investment needs such as renewable energy, infrastructure, real assets and others. However, they are

provided limited and segmented products and services in either debt or equity.

Customers with unserved and underserved needs exist in any era. It can be said that innovation will provide the breakthrough necessary to address this fundamental dilemma. The existence of social issues indicates a lack of market success and speaks to the difficulties involved in finding a solution. Having said this, we recognize that the current operating environment can serve as a source for business opportunities looking ahead. With this in mind, we will focus on solving each of the aforementioned social issues by connecting our financial functions and services with the Group’s overall customer base that covers a wide array of different industries. In this manner, we will maximize our existence and value.

As far as society is concerned, the Group will continue to work effectively with external human and other resources. By taking the lead in the creation of businesses that serve customer segments with unserved and underserved needs, the Group will continue to be a financial group that stays a step ahead.

Identifying Priority Management Materiality Issues in order to Remain a Financial Group that Stays a Step Ahead

Increasing the positive impact of its business activities on society while decreasing any negative impact are directly linked to efforts aimed at enhancing the sustained value of the Group. Although work to further enrich society and to increase corporate value follow the same vector over the long term, the question at hand is to identify and prioritize the Group's most socially important business activities and issues that are likely to have the greatest impact on enhancing corporate value. Given the many tasks that need to be addressed and the limited nature of the Group's resources, it is vital that we specify priority management of materiality issues.

■ Items Pivotal to the Shinsei Bank Group's Business Model

Unshackled by conventional concepts, personnel responsible for the next generation engaged in free, open, and detailed discussions. This was an important part of the process undertaken to formulate the Group's medium-term strategies. In specific terms, personnel were separated into a number of business clusters and asked to consider business strategies consistent with the Group's 2030 vision. Based on these cluster deliberations, workshops were then held with the Group's relevant executives. As far as the determination of materiality was concerned, we began with an image of each business value chain provided by cluster members. Discussions were then based on key value chain items that were considered to have an impact on society. Drawing on a consolidation of key comments from cluster members, we identified several key commonalities. The results of this sorting and integration process has contributed to determining the Group's materiality issues.

The Shinsei Bank Group classifies materiality into three broad categories. First, every effort will be made to "address social and environment issues" by leveraging the Group's unique perspective and inherent strengths to create new business opportunities thereby fulfilling its role as a first mover. In this regard, we have identified the following priority issues: "access to finance," and the need to deliver financial services tailored to the needs of customers who are not satisfied with the existing menu available; "fund flows that fit society's needs," or more specifically the creation of an appropriate flow of funds for society by providing financial solutions that promote the circulation of funds into sustainable social capital including renewable energy and other social infrastructure; and, "solutions through integration with external services," that entail building and participating in eco-systems, all of which essential to effectively realizing our goals. Second, as long as financial institutions are

responsible for the circulation of money in society, it is vital that we guarantee our obligation to "fulfill our social responsibilities." In this instance, we recognize that portion of risk that also accrues in realizing our first materiality category of addressing social and environmental issues. Here, we have identified "social infrastructure services" and "customer-oriented services" as priority issues. Third, we will work to build a "foundation for meeting our goals and responsibilities." This foundation will underpin efforts to address social and environmental issues and fulfill our social responsibilities. The priority issues that we have identified for this third materiality category are "expertise and execution," "governance," "people" (human resources including the empowerment of women, recruitment of the elderly and young generation based on ability, and the cultivation, development and application of talent on a Group-wide basis), "organization" that makes the most of these human resources, highly productive "operations," and "capital."

Developing businesses that are embedded in each of these materiality issues is pivotal to the Group's competitive strategy. This in turn will allow us to both resolve social issues and enhance the Group's sustained corporate value through its ongoing operations and activities.



Our Business Model Designed with a Focus on Priority Management Materiality Issues

The Shinsei Bank Group's business model is an amalgam of two distinct parts: a self-contained portion that draws on accumulated strengths; and a co-creation portion that generates value by integrating competitive individual functions with external services. By providing individual functions and capabilities to others based on an abstract and general breakdown of elements up to competency levels, the potential exists to appeal to value co-creation model customers. Steps can then be taken to further fine tune the self-contained model by feeding back subsequent results. Rather than drawing on its business, product, and service levels, the strength of the Group's business model is therefore attributable to this feedback loop design.

■ Core Strategies of the Bank's Medium-Term Strategies

Under its medium-term strategies, which began from fiscal 2019, the fiscal year ending March 31, 2020, the Group has identified two core strategies. In specific terms, we will "enhance and leverage our capabilities" as the input capital to "grow through value co-creation."

The core strategy to grow through value co-creation is a product of the Group's self-contained model, which draws on accumulated strengths as a source, and the value co-creation model, which entails integration with external services. Under its self-contained model, the Group is looking to provide competitive products and services after internalizing its core elements and processes with the Group on an end-to-end basis. The key focus of this model is to extract and provide only essential individual functions. The value co-creation model is designed to promote integration with external services through partnerships as well as the building of and participation in ecosystems.

Each of these models is interdependent with the other. Alternatively, the Group is unlikely to be selected as a function provider by external partners, which is the basis for the value co-creation model, without the various strengths provided under the self-contained model. Taking this into consideration, it is vital that the Group continues to hone the individual functions that make up the self-contained model. The model itself must be in a state where it can be presented as a kind of showcase. Put another way, it will be difficult to attract any interest in individual functions without the success of products and services as a total package. To summarize, further refinements through integration with external services under the value co-creation model can enhance the self-contained model in return. The implication here is that our competitive edge is generated through a feedback loop.

■ Redefining Strengths Cultivated Over the Period Up to the Third Medium-Term Management Plan

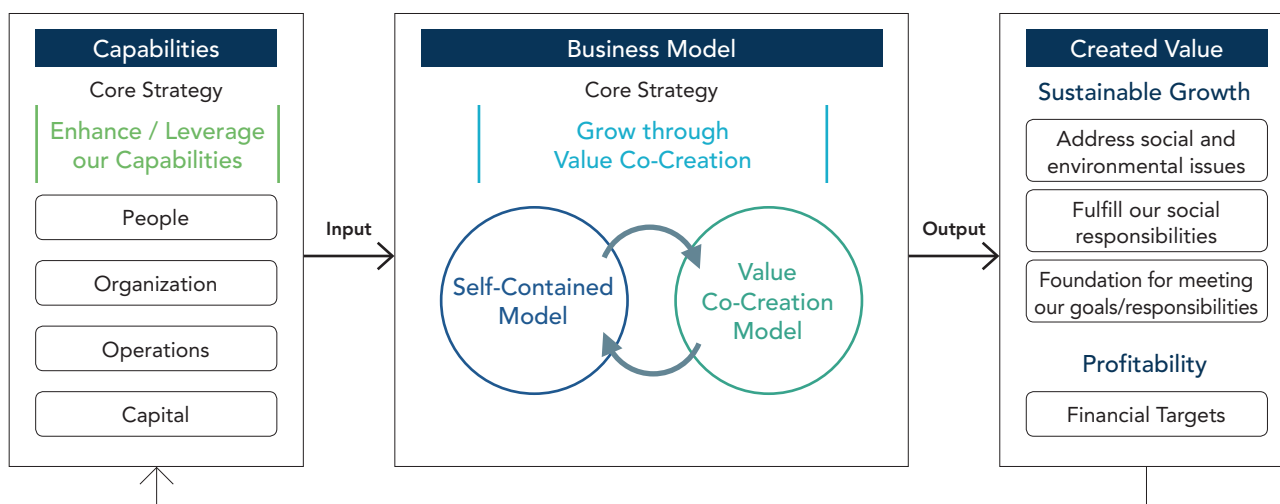
Looking back over the period up to the Third Medium-Term Management Plan, which covered the three years

from fiscal 2016 to fiscal 2018, the Group reinforced proprietary strengths with respect to its self-contained model. As one prime example, we proactively allocated management resources to the Unsecured Loan and Structured Finance businesses, which were positioned as growth areas.

The Group unveiled the "Lake ALSA" brand as a part of efforts to further develop its Unsecured Loan business in April 2018. This initiative reflects the Group's goals of increasing its share of the consumer finance market while capturing customers who historically exhibit a high degree of digital literacy. At that time, measures designed to distinguish Lake ALSA from the previous Bank Lake brand created confusion from a marketing perspective. As a result, efforts in this area began from a lower customer base than initially anticipated. On a positive note, the Group undertook a variety of corrective measures. In addition to ramping up efforts aimed at navigating customers, steps were taken to review television commercials, push forward new campaigns including a 60-day no interest period, refine its credit strategy, as a part of the steady implementation of necessary measures. Based on these endeavors, the number of new customers is exhibiting a gradual recovery. As a pioneer case study under its value co-creation model, the Group announced details of its alliance with NTT Docomo, Inc., in October 2018. In conjunction with this announcement, and as the first partner bank of the "Docomo Lending Platform," the Bank unveiled plans for the launch of "Shinsei Bank Smart Money Lending" for NTT Docomo line subscribers, a new lending service. Again, in October 2018, the Bank disclosed details of its plans to establish a fund for the purpose of supporting international students in collaboration with Global Trust Networks Co., Ltd. With this initiative, the Bank has initiated steps to engage in value co-creation activities by combining the strength of its proprietary functions with external services where outside parties excel.

We have redefined unsecured personal loans, a traditional fixed-type business, focusing mainly on the Lake brand, as "small-scale finance" as a part of our medi-

Overview of Medium-Term Strategies



um-term strategies. By breaking down the elements that serve as a source of strength in an abstract and general manner, we will reinforce efforts to provide small amount and frequent financing as well as settlement services to individuals and small business operators. Within the Group, energies will be channeled toward enhancing strengths in credit assessment and collection by utilizing credit data and AI. At the same time, we will develop a platform that unifies financing, settlement, and other services. In addition, we will promote user interface/user experience (UI/UX) improvements by incorporating application, online, and other services into an application programming interface (API). Working to build and participate in ecosystems that are not confined to the finance industry, we will proactively provide such functions as credit assessments, guarantees, collections, settlements, marketing, and systems in line with the needs of alliance partners, thereby optimizing the credit assessment of the middle risk segment including the elderly, foreigners, freelance, and small business operators while working to further expand the provision of services. Through these and other means, the Group will help address the small loan demand of unserved and underserved customers.

Guided by its Third Medium-Term Management Plan, the Group is also steadily advancing its structured finance activities. Drawing on its track record with sponsors, financial institutions, and operators in Japan and overseas, the Group is focusing especially on the project finance field. Starting with our renewable energy financing endeavors mainly in connection with megasolar, biomass, and wind power projects in Japan, we are stepping up our support in offshore wind power, seawater desalination, and other areas. As a result of these efforts, we have successfully

increased the balance of operating assets while at the same time diversifying sources of power supply. As far as the Group's real estate finance activities are concerned, we have continued to adopt a cautious approach toward market conditions in Japan. This cautious approach takes into account a variety of factors including overheating concerns and Brexit-related turmoil in the U.K. Building on its considerable structuring and risk management capabilities, however, the Shinsei Bank Group is securing a firm footing in the real estate finance market.

Under its medium-term strategies, the Group has redefined such traditional commercial banking business activities as the provision of senior finance to nonrecourse projects. Focusing on such areas as the renewable energy, infrastructure, and real estate assets of institutional investors, we are offering one-stop services to address alternative investment needs where there is considerable room for expansion in Japan. In specific terms, we are providing mezzanine and equity financing in addition to project origination and advisory services as well as senior loans. The Group is strengthening its institutional investor business where efforts have been directed toward broadening the scope of activities to encompass the management of the aforementioned funds and financing. In addition to our historical collaboration with regional financial institutions in loan syndication and other areas, we are providing comprehensive service support to address the management needs of a wide range of institutional investors. In this manner, we are promoting the circulation of funds into such social capital as renewable energy, infrastructure, and real estate.

Turning to the Group's other core strategy of enhancing/leveraging capabilities, a source of input capital, we will promote the optimal use of capital including diverse human

CEO Message

resources with abundant expertise, a unified organizational structure that is capable of realizing the full potential of these human resources, and a high productivity operating structure. With regard to the expertise and diversity of human resources, we cannot overstate the importance of securing and developing specialist personnel, who are well versed in AI, analytics, and big data, and experienced in alternative investments while possessing analytical skills. At the same time, ensuring that women can excel at all levels, hiring young and elderly employees based on their capabilities, cultivating talent with abilities outside the Bank's principal operations are all critical factors in ensuring the Group's sustainable growth. For its part, the Group is committed to promoting flexible employment and diverse work styles in order to achieve these ends. While consistent with the modality of freelancers, one of the ecosystems that the Group is attempting to build, we have made this as a commitment after recognizing the importance of projects that are aligned to each individual's skills and unfettered work style options that remove the constraints of whether or not an individual is a member of a company. We also believe that personalizing work styles is integral to our vision of society in 2030. In this regard, we hope to increase work style options for Group employees going forward. With this in mind, we will avoid building separate silos that create barriers while shying away from an overemphasis on uniformity. If I could use a metaphor, we are not looking to mix a variety of paints only to come up with the color gray. Our view toward the coordination of human resources into an organization mirrors the creation of a piece of impressionist art. If we look closely, each of the independent colors overlap. Taking a step back, the colors blend and mesh in a more vibrant manner to create a complete and overall picture. In order to achieve this goal, it is imperative that we adopt a tolerant approach and remain willing to accept ideas and qualities that differ from our own. It is equally important to keep a mindset that enjoys new challenges and change. This presupposes a culture that is the direct opposite of the traditional image of a bank and its precedents, far removed from the "cookie-cutter" concept where each piece is identical to the other. Taking these factors into consideration, it is vital that employees are directly involved in determining the Group's significance. For this to happen, we must put in place underlying evaluation and compensation systems that generate a genuine sense of accomplishment and contribution. To summarize, enhancing and leveraging capabilities will increasingly become a worthwhile challenge and mission for management in the future.

Guided by the Third Medium-Term Management Plan, we consolidated the head office functions of the Group

and its Group companies under a virtual Group headquarters. Wherever possible, the administrative functions and personnel have been centralized into the Group's Nihonbashi office. In addition to reviewing the operations of each company on a Group basis, steps have been taken to improve internal regulations and the Group's human resource evaluation systems. In an effort to ensure the effective use of space, initiatives were also implemented to reduce unnecessary documentation. Against the backdrop of this unprecedented virtual Group headquarters model, employees are moving steadily forward through trial and error. In conjunction with this consolidation of head office functions, we established the Individual Business Unit and Institutional Business Unit that cross entities covering the Group's companies as a part of our medium-term strategies. After centralizing the business strategy and planning functions of each unit, we will put in place a structure and nurture a mindset that delivers optimal solutions on a Group-wide basis and is removed from individual entity concerns. To achieve this objective, and as we announced in March 2019, each of the institutional businesses, collection, and IT functions that have been dispersed across the Tokyo metropolitan area will be shifted to a central location. The Shinsei Bank and Showa Leasing Co., Ltd. will be brought into the Nihonbashi office. The functions undertaken by Alpha Servicer Co., Ltd. will be consolidated into the Akihabara office where APLUS FINANCIAL Co., Ltd. and Shinsei Financial Co., Ltd. are located. The IT function of Group companies will be brought under the one roof at the Shinkawa office. As far as the Group's retail banking operations are concerned, steps were taken to roll out a portion of the area management system of branches in earnest under the Third Medium-Term Management Plan and to put in place a structure that can dynamically deploy human resources in an optimal manner within each area in line with each customer base and peak period.

■ Issues to be Addressed

While steadfastly achieving several objectives that needed to be addressed, we recognize that some major issues remain pending. These issues include how to properly utilize and return accumulated capital, how to improve the Bank's capital efficiency (ROE), and how to ensure that our business model is adequately assessed by capital markets. At first glance, capital market expectations toward increasing ROE and the Bank's share price seem contradictory to the need to accumulate repayment capital as a public fund injected bank. However, when taking into consideration the conversion of public funds into common stock, to repay the injection of public funds, it is important

to accumulate the necessary capital and ensure that capital markets evaluate our business model which is designed to increase ROE and the Bank's share price while generating future cash flows. Accordingly, capital market expectations and the repayment of public funds follow the same vector from a long-term perspective.

Based on the aforementioned, we will work to increase ROE and the Bank's share price, secure a high evaluation of our business model, and raise our rating in the eyes of capital markets by effectively utilizing capital that incorporates an inorganic growth strategy while at the same time accumulating capital and improving the total payout ratio.

Message to Our Stakeholders

Against the backdrop of a changing finance business environment, and despite talk of a decline in the prestige of existing financial institutions, the importance of financial functions is expected to remain unchanged in the future given that the real economy and finance sector are inextricably linked. As the definitions and boundaries of financial functions fluctuate, however, I believe there is a need for us to take the initiative in reassessing our role and responsibilities and to once again redesign the way in which we provide added value based on an awareness toward our position with these significant trends. This is the essence of our "redesigning finance" medium-term strategies. The key to our sustainable growth as a company lies in how quickly we can undergo a self-reformation and the degree to which we can positively impact society while utilizing external partnerships.

Firmly facing this challenge, the Group wants to ensure it is an entity that is capable of meeting the expectations of stakeholders. Each and every member of the Group is committed to redoubling efforts while pursuing the co-creation of value in concert with the many partners who help build the Group's value chain. As we work toward achieving our goals, we seek your continued support and understanding.

July 2019



Hideyuki Kudo
President and Chief Executive Officer

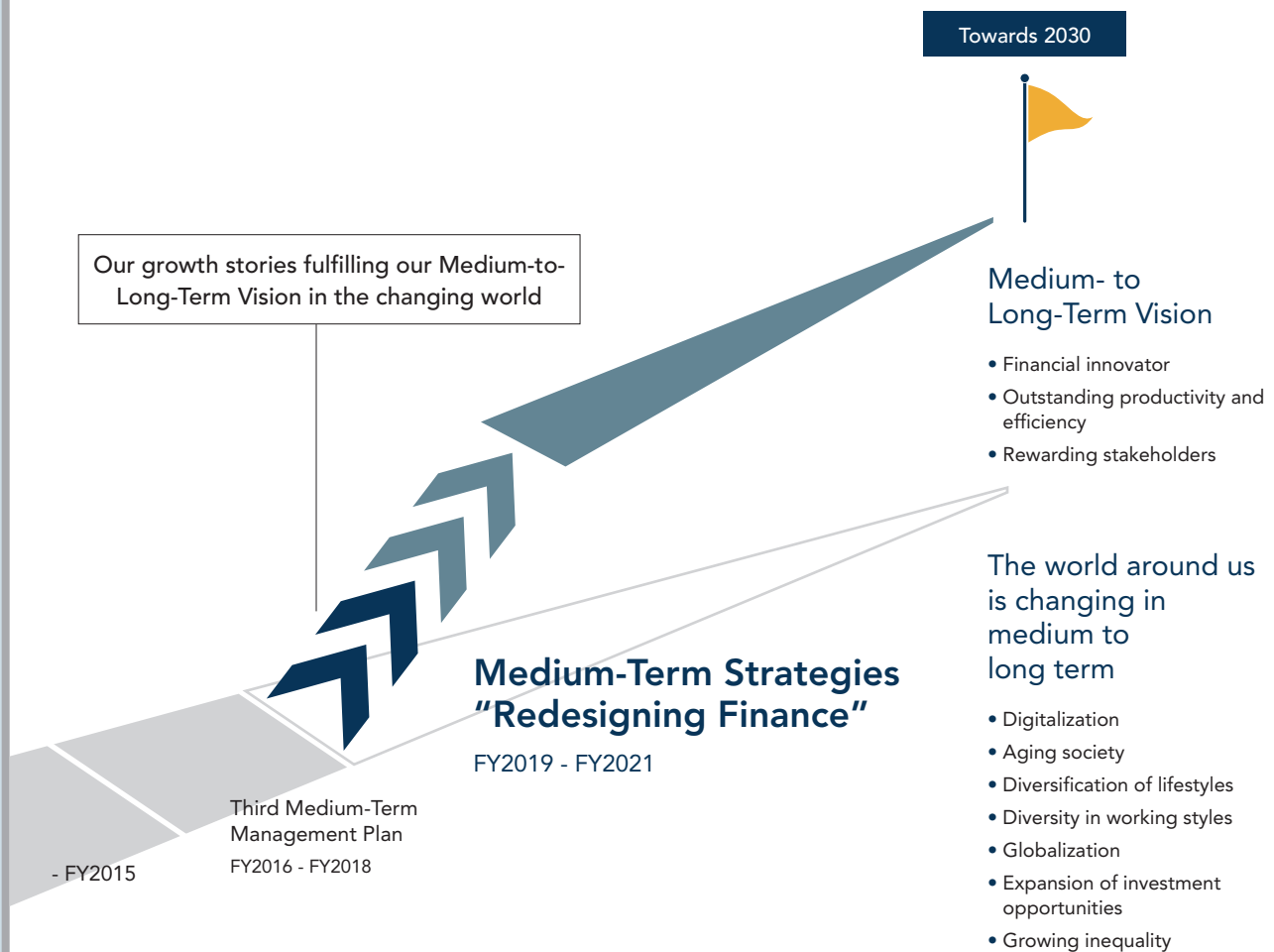


Medium-Term Strategies (FY2019 - FY2021)

Medium- to Long-Term Vision

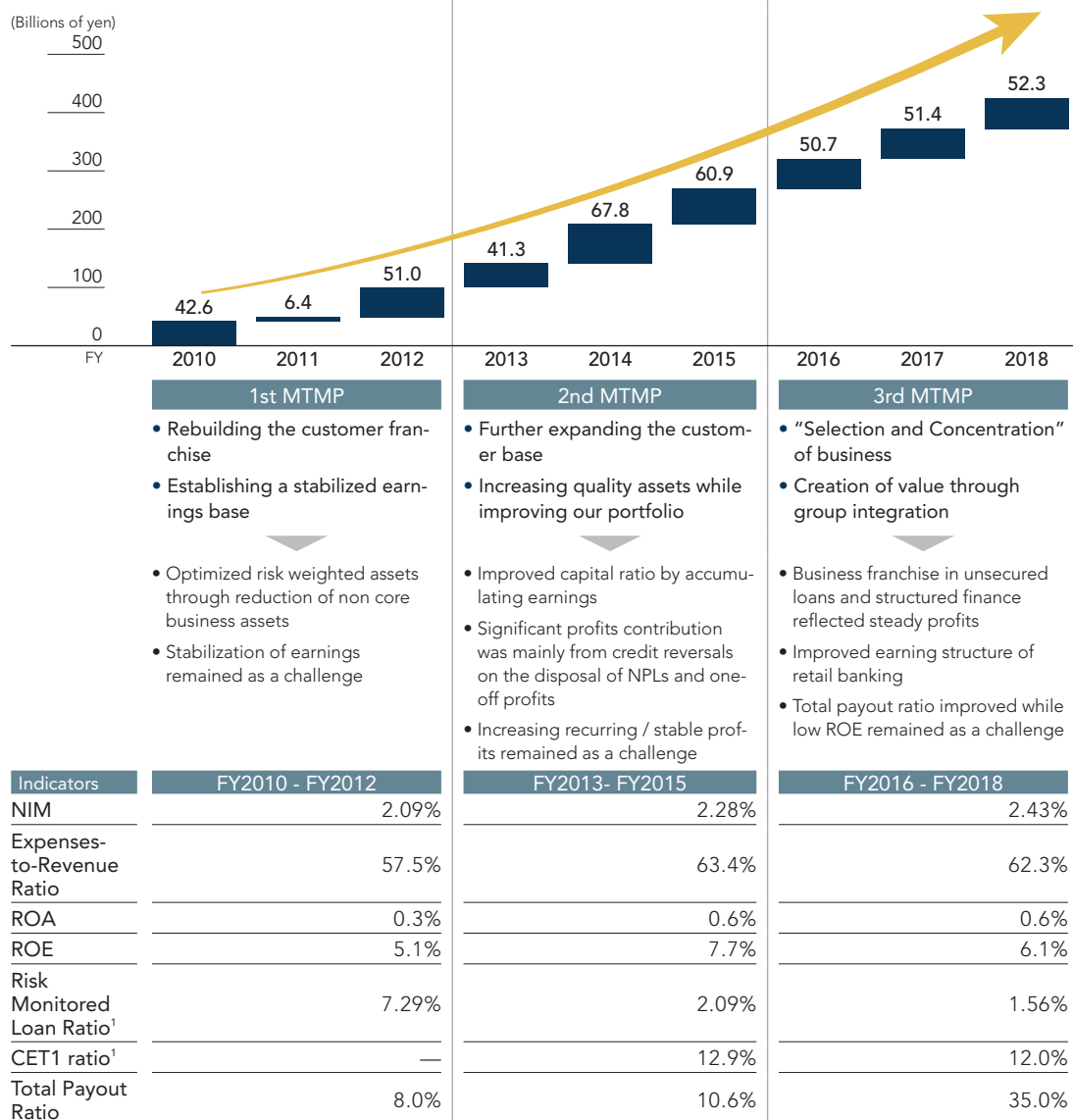
- 1** To be a financial innovator that provides game game-changing financial services that is made possible through the integration of its Group companies.
- 2** To be a financial group that achieves outstanding productivity and efficiency by realizing lean operations through ongoing improvements and reforms.
- 3** To be a financial group which, in addition to rewarding its stakeholders, is unified by the core-values derived from the confidence , sense of fulfillment and the pride created through the achievement of the above.

As strategies that embody the “Redesigning Finance,” namely, necessary “discontinuous initiatives,” the Bank’s Medium-Term Strategies serve to achieve the “Medium-to Long-Term Vision” of the Shinsei Bank Group.



Results Summary of Medium-Term Management Plans (FY2010 - FY2018)

► Accumulated earnings over ¥420 billion while reduced volatility and posted steady profits



► Items achieved under the Third Medium-Term Management Plan

Selection and Concentration of Businesses

- Allocated resources to growth areas
- Achieved stable growth and strong revenue streams in growth areas

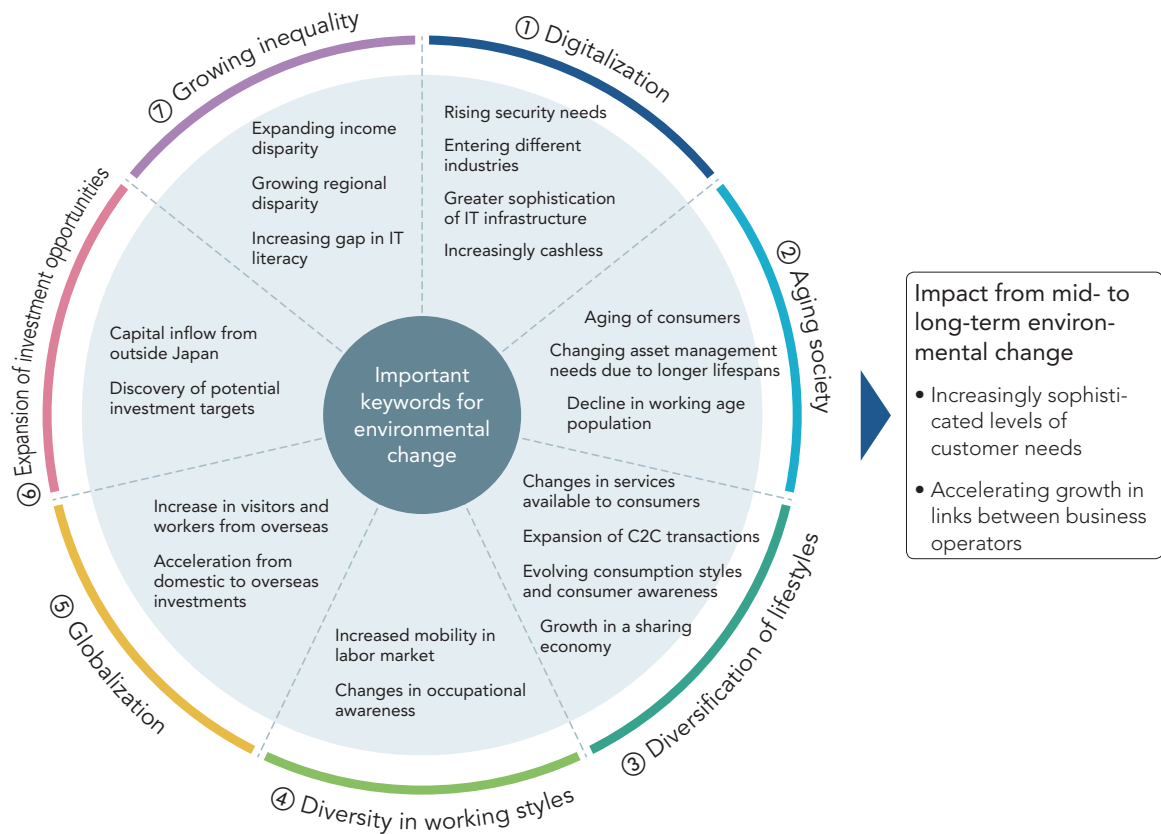
Value Creation through Group Integration

- Established our virtual Group Headquarters
- Built governance structure to reflect group-wide management

Achieve Flexible Business Management and Lean Operations

- Improved productivity on a group-wide basis by enhancing efficiencies

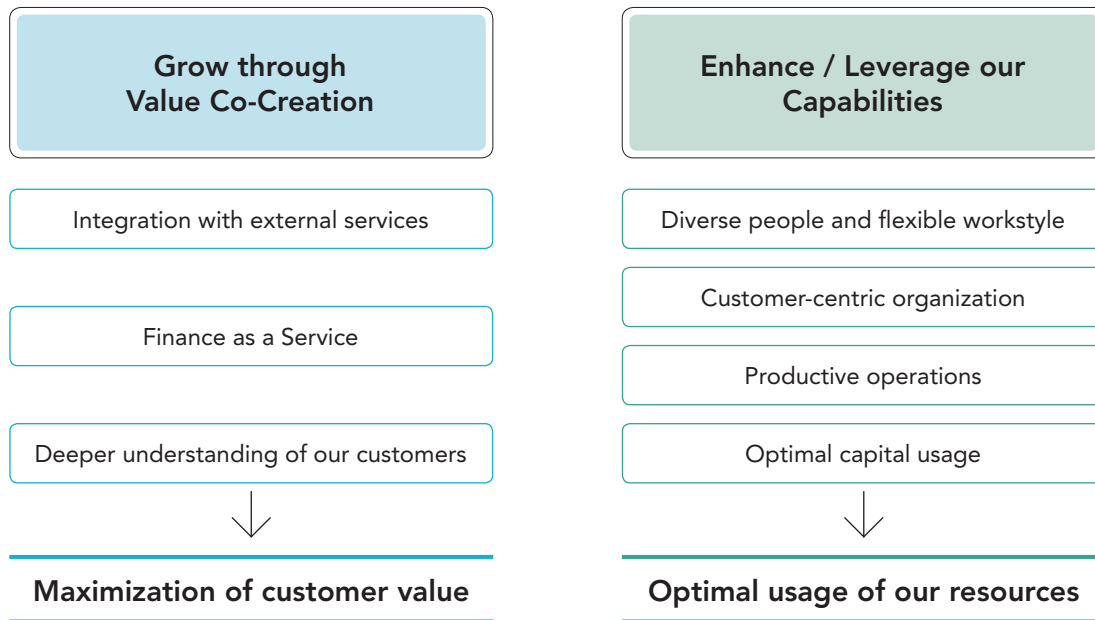
Mid- to Long-Term Environmental Changes Facing the World



Strengths (Expertise and Execution)

<p>Information Technology</p> <ul style="list-style-type: none"> ■ AI / Analytics Speed up and automate financial operations ■ Finance / Nonfinance Big Data Harness financial data from within the Group and nonfinancial data from outside the Group 	<p>Financial Technology</p> <ul style="list-style-type: none"> ■ Alternative Investments Advanced expertise and analysis capabilities based on extensive experience ■ Financial Solutions Expertise to integrate products and services from inside / outside of the Group
<p>Management Infrastructure</p> <ul style="list-style-type: none"> ■ Group-wide Integrated Management Integrating bank and nonbank operations ■ Speed and Flexibility Scale and execution framework which ensures speedy decision-making 	<p>Governance</p> <ul style="list-style-type: none"> ■ Effective Board of Directors ■ Group Governance ■ Risk Governance

Core Strategies



Financial Targets

<div style="border: 1px solid black; padding: 2px;">Growth</div> <div style="background-color: #004A87; color: white; padding: 5px; text-align: center;"> EPS Growth Rate </div> Annual average 2% or more excluding the effect of purchasing treasury shares	<div style="border: 1px solid black; padding: 2px;">Growth</div> <div style="background-color: #004A87; color: white; padding: 5px; text-align: center;"> Profit Share of Focus Areas </div> Small-scale finance FY2018 FY2021 45% ▶ 50%		Institutional investors FY2018 FY2021 10% ▶ 15%	
<div style="border: 1px solid black; padding: 2px;">Profitability</div> <div style="background-color: #004A87; color: white; padding: 5px; text-align: center;"> ROE </div> FY2018 In the medium term 6.0% ▶ 8.0%	<div style="border: 1px solid black; padding: 2px;">Efficiency</div> <div style="background-color: #004A87; color: white; padding: 5px; text-align: center;"> OHR </div> FY2018 FY2021 63.0% ▶ less than 60%		<div style="border: 1px solid black; padding: 2px;">Soundness</div> <div style="background-color: #004A87; color: white; padding: 5px; text-align: center;"> CET1 Ratio </div> FY2018 In the medium term 12.0% ▶ minimum 10%	

Shareholder Returns Shinsei Bank aims to maintain or improve the total payout ratio, depending on financial conditions and market environment, within the range of total payout ratio as set in the Revitalization plan.^(*)

* As mentioned in the Revitalization plan submitted to the Financial Services Agency on March 22, 2018, the range should be in principal within the range of the general total payout ratio of the domestic banks.

Materiality (Key Issues toward Sustainable Growth)

The key, or material, elements that make a significant impact on “corporate value,” namely, the overall economic value and social value of a company, we believe should be at the essence of corporate value creation. Moreover, in consideration of this materiality, the business model of the Shinsei Bank Group and the value (outcome) it generates, are inextricably tied to materiality.

Specific process of materiality

Understanding materiality	SDG Compass (corporate behavior guidelines for SDGs), Guidance for Collaborative Value Creation (METI), SASB (Sustainability Accounting Standards Board), GRI (Global Reporting Initiative) and other guidelines are referenced to gain an understanding what materiality is and how to specify materiality.
Extracting elements of materiality from strategy	On the basis of a number of business clusters, hold workshops with employees who will be the next generation involved with business strategy formulation for the Bank's Medium-Term Strategies. In each cluster, first of all start from the visualization of the value chain, and together with the impact on society at each point in the value chain, discuss to flesh-out what are the important functions of the Shinsei Bank Group. Then, from within the aggregated points that emerged from each respective cluster, extract and organize the original structure of materiality.
Discussion and specification at the management level	Materiality is included as one of the agenda items undertaken when discussing the Medium-Term Strategies with management. Indeed, our core competence that has the largest impact on raising corporate value, as well as being important to society in the course of our business activities, is specified as such materiality that is unique to the Shinsei Bank Group. Medium-Term Strategies materials cover materiality, as well as the SDGs that are bound together with materiality.
Dialogue with stakeholders	In the course of engagement (constructive dialogue) with investors, shareholders and other stakeholders, discussions on the materiality interwoven through the Medium-Term Strategies work to instill and refine materiality.

Specified materiality

Address social and environmental issues

Support these SDGs:





Access to finance

- Provide services for customer needs which are not satisfied by traditional financial services
- Provide payment methods with emerging technology

Fund flows that fit society's needs

- Provide solutions for supporting sustainable social capital

Solutions through integration with external services

- Build / participate in ecosystems, use digital technology

Fulfill our social responsibilities

Support these SDGs:




Social infrastructure services

- Firmly provide fundamental financial functions (deposit, loan, payment etc.) as social infrastructure
- Maintain cyber security
- Prevent money laundering

Customer-oriented services

- Place customer benefit first
- Give information that is accurate and easy to digest

Foundation for meeting our goals / responsibilities

Support these SDGs:






• Expertise and Execution • Governance • People • Organization • Operations • Capital

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 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).



●●●●
Business Strategies & Focus Areas

<p>Business Strategy Individual Business</p> <p>Focus Area Small-Scale Finance</p> <p>Enhance service offerings through building / participating in ecosystems, using digital technology and data analysis</p>	<p>Business Strategy Institutional Business</p> <p>Focus Area Institutional Investors</p> <p>Provide one-stop services for alternative investments</p>		
<p>Organization Infrastructure</p> <table border="1"> <tr> <td> <p>Focus Area Group Organization</p> <p>Integrate business functions across the Group</p> </td> <td> <p>Focus Area Productivity Reforms</p> <p>Cost structure reform including usage of digital technology and channel optimization</p> </td> </tr> </table>		<p>Focus Area Group Organization</p> <p>Integrate business functions across the Group</p>	<p>Focus Area Productivity Reforms</p> <p>Cost structure reform including usage of digital technology and channel optimization</p>
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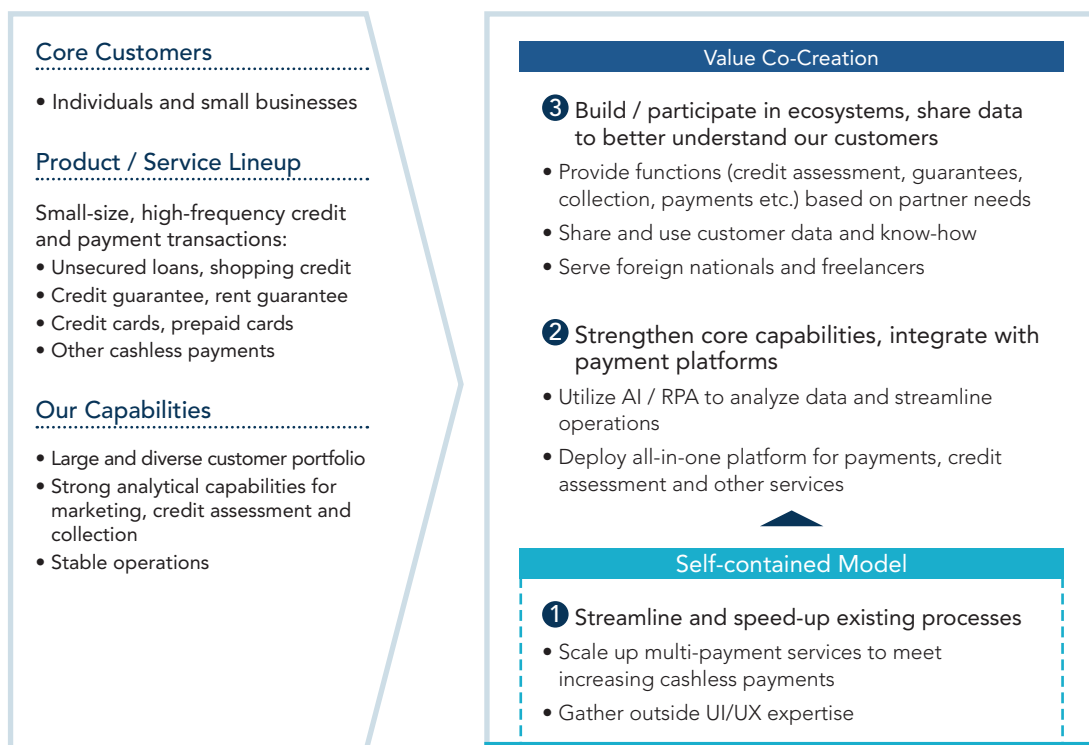
Focus Area **1** Small-Scale Finance

Enhance service offerings through building / participating in ecosystems, using digital technology and data analysis

SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Lake ALSA brand strength and customer base • Nationwide merchant network, settlement platform • Small-lot financing knowhow and insights • In-house-developed unsecured loan system • AI-driven scoring, aggressive adoption of RPA deployment and other cutting-edge technologies 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Limited business base outside of Japan • Insufficient knowhow and human resources to develop business overseas
<ul style="list-style-type: none"> • Loan needs in new customer segments Working elderly, people with multiple sources of income, foreign nationals living in Japan/Japanese nationals living outside of Japan • Diversifying needs EC shopping credits, cashless loans, leasing needs associated with lifestyles with few possessions • Credit guarantee needs for lending and borrowing amongst individual 	<ul style="list-style-type: none"> • A declining population, particularly fewer people in the younger age range • Lower purchasing needs due to transition to a lifestyle with few possessions, transition from materials-based consumption to value-based consumption, expansion of a sharing economy • Lower credit lines due to declining incomes from primary business • Increased non-face-to-face transactions and obsolescence of Bank branches and ATMs due to cashless transactions • Lower revenue rates from existing businesses due to new players in the market, primarily Fintech vendors
<p>Opportunities</p>	<p>Threats</p>

What is small-scale finance?



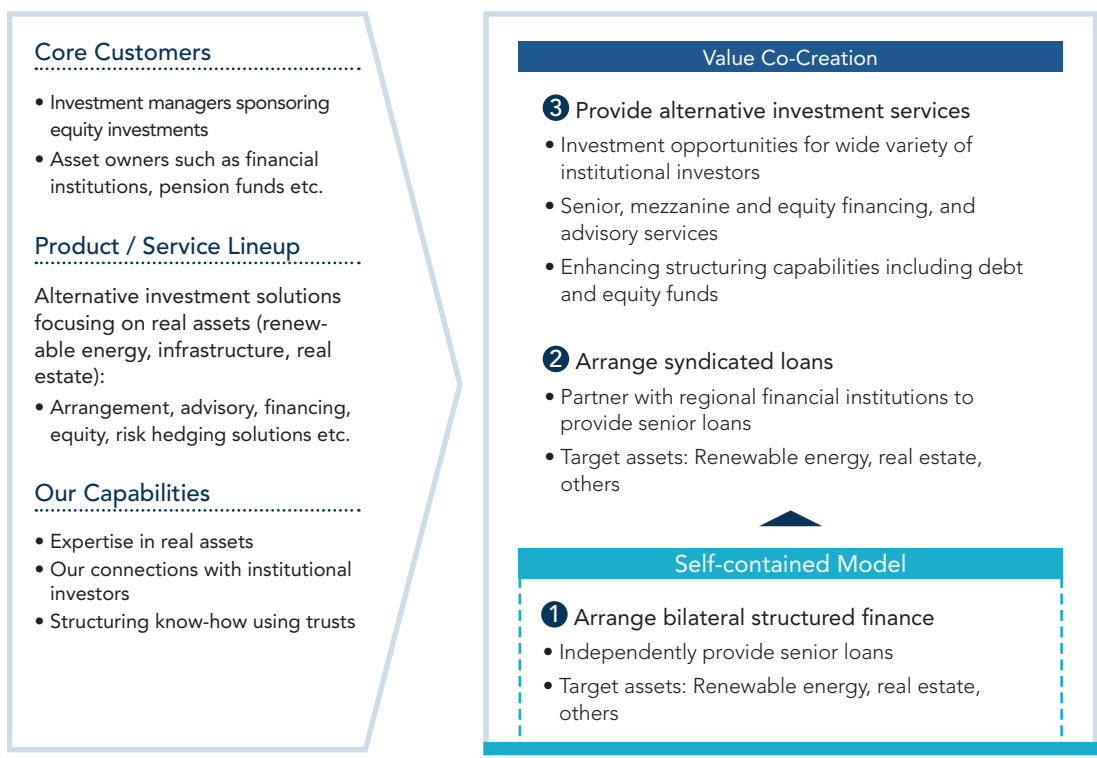
Focus Area **2** Institutional Investors

Provide one-stop services for alternative investments

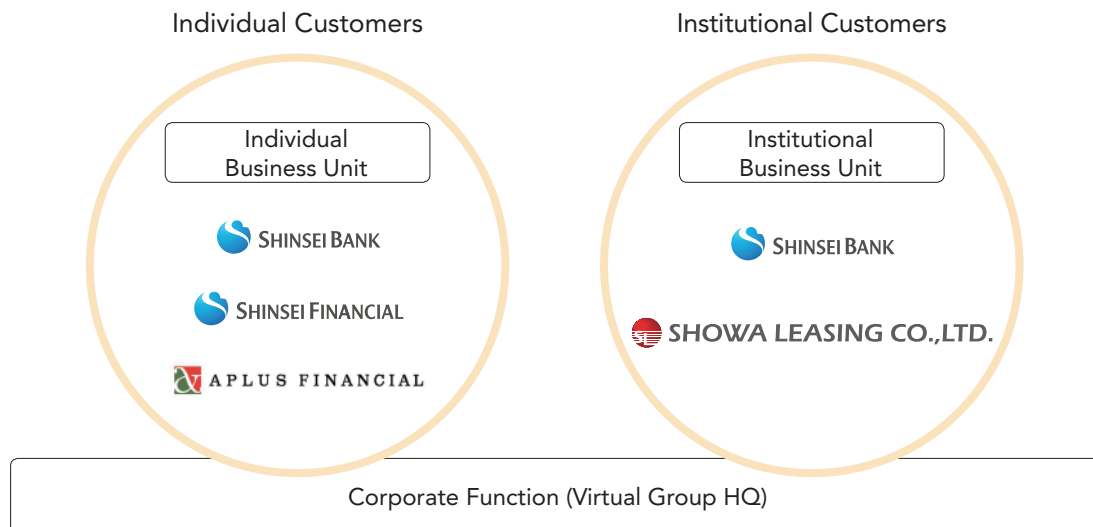
SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Know-how and insights that enable detailed schemes to be put together, in line with projects • Ability to identify qualities and to analyze through networks of sponsors and operators • Network with institutional investors centering on regional financial institutions 	<p>Weaknesses</p> <ul style="list-style-type: none"> • A small balance sheet compared to megabanks • Relationships with corporate business sponsors, such as merchants and makers • No overseas bases • Poor experience with mezzanine and equity investments
<ul style="list-style-type: none"> • Increased assets geared toward alternative investments due to development of management without assets (renewable energy, real estate) • Increased inbound investments from overseas institutional investors (funds, pension funds), primarily in renewable energy and real estate • Rising interest in investment with alternative investments and overseas assets from domestic institutional investors 	<ul style="list-style-type: none"> • Fluctuating market conditions (real estate) • Evolving government policies (renewable energy) • Flat inbound investments in the event that domestic financial institutions cannot meet the diverse needs of overseas institutional investors • Risk of declining interest in overseas asset investments due to rising foreign currency funding costs
<p>Opportunities</p>	<p>Threats</p>

What is institutional investor oriented business?



Focus Area **3** Group Organization



Integration of Group Business

- Unify business planning functions for individual / institutional customers
- Leverage diversity of the Group to create customer value
- Integrate group-wide human resources



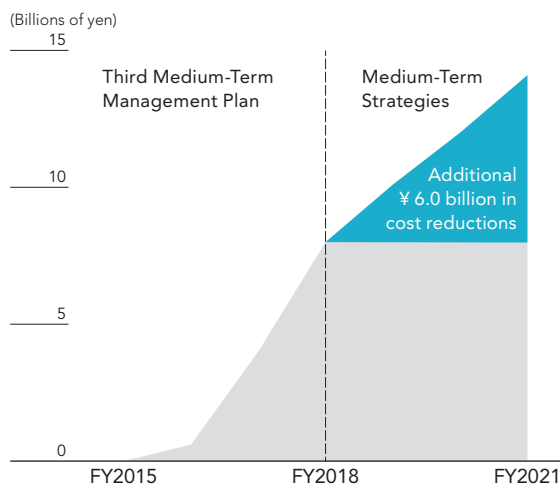
Offer the best solutions for meeting customer needs

Achievements by FY2018

- Established Virtual Group HQ
- Strengthened group governance

Focus Area **4** Productivity Reforms

Cost Reduction from Productivity Reforms



Note) FY2015 - FY2018; versus FY2015
FY2019 - FY2021; versus FY2018

Further Initiatives for Reforms

- Branch and office optimization
Efficiency of branch channels
Effective use of office space
- Cost structure reforms
Expense reassessment, expenditure control
Greater enforcement of procurement rules & transparency
- Digital technology and workstyle reforms
Implementation of AI, digital technology etc.
Business process / operations review
More flexible hours and workplaces

Achievements by FY2018

- Consolidation of group corporate functions
- Call center / business center optimization
- Restructuring initiatives in APLUS
- Debt collection performance improvement

●●● Message from Chief Officer of Group Finance



We will strive to achieve outstanding productivity and efficiency by continuous improvement and reform

Shoichi Hirano

Chief Officer,
Group Corporate Planning and Finance

Financial Strategy of the Medium-Term Strategies

Growth

- **EPS Growth Rate:** Annual average 2% or more (excluding the effect of purchasing treasury shares)
- **Profit Share of Focus Areas^(*)**
 - (1) Small-scale finance: 45% (FY2018) → 50% (FY2021)
 - (2) Institutional Investors: 10% (FY2018) → 15%(FY2021)

(*) Share of ordinary business profit after net credit costs, excluding one-time factors

Profitability

- **ROE:** 6% (FY2018) → 8% (In the medium term)

Efficiency

- **Expenses-to-Revenue Ratio:** 63% (FY2018) → Less than 60% (FY2021)

Soundness

- **CET1 Ratio:** 12.0% (FY2018) → Minimum 10% (In the medium term)

The Medium-Term Strategies have been developed as a vision for the future including changes in the business environment rather than an extension of our current ini-

tiatives. The direction of qualitative strategies is more important than quantitative plans. Since the future is an era of change that is not an extension of today, the historical performance and near-term assumptions presented in financial data are no longer a good indicator of a company's medium- to long-term future outlook. Hence, we have compiled our strategies with an emphasis on qualitative growth stories that are not influenced by market conditions. We focus on our financial targets such as growth, profitability, efficiency and soundness. In light of the aim of presenting a growth story, the most important indicator is growth potential. We have set 2% or more of EPS growth target (excluding share buyback) instead of our traditional net income target. We are also targeting profit shares of 50% in small-scale finance and 15% of businesses with institutional investors, which are key growth areas. In profitability, ROE of 8% has been set as a medium-term target. In efficiency, less than 60% of expenses-to-revenue ratio has been set. Increase in IT expenses in the Bank and APLUS FINANCIAL, office relocation expenses, regulation related expenses and consumption tax hike are partly offset by productivity enhancement initiatives in order to improve expenses-to-revenue ratio. In financial soundness, a minimum 10% of Common Equity Tier 1 (CET1) ratio has been set as a medium-term target. Capital adequacy led by an accumulation of profits has been one of our strengths.

● ● ● Message from Chief Officer of Group Finance

Accordingly, we proactively consider utilizing capital for inorganic strategies while maintaining an adequate level of capital in the Medium-Term Strategies.

Cost of Equity

The Bank recognizes that capital efficiency, meaning profitability against capital, needs to be enhanced and per share values need to be increased through the effort to strengthen earning power for 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. Based on this recognition, the Shinsei Bank Group needs to maximize the absolute amount of profit, while securing a certain capital in order to generate appropriate return against cost of equity in the medium to long term.

In the Medium-Term Strategies, the Bank redefines its core strategies as well as focus areas, and presents business strategies for Individual and Institutional Businesses. In addition, the Bank has articulated its key financial targets such as EPS growth rate and ROE to clarify its profitability and capital efficiency goals. Progress toward achieving the plan will regularly be made public in disclosure materials such as integrated reports.

Shareholder Return Policy

A share buyback program up to ¥23.5 billion based on fiscal 2018 operating results was approved by the Board of Directors in May 2019. The total payout ratio including the share buyback program and year-end dividend for fiscal 2018 is to be 50% (Please refer to Review of Fiscal 2018 on page 78 for the historical trend for total payout ratio)

Shinsei has decided the shareholder return up to the maximum available share buyback program by taking into consideration the capital policy as stated in the Revitalization Plan that, "we will maintain or improve the total payout ratio with the range of average Japanese banks" as we think that the current share price is undervalued and it does not reflect its true share value. However, the scheme/amount of shareholder return and the total payout ratio will be decided at each time period based on prevailing share price, financial/capital

position and market conditions at the time. The total payout ratio of 50% is based on this year's shareholder return does not necessarily make any reference to future total payout ratios.

Shinsei aims to maintain or improve the total payout ratio, depending on financial conditions and market environment, within the range of total payout ratio as set in the Revitalization Plan. As mentioned in the Revitalization Plan submitted to the Financial Services Agency in March 2018, the range should, in principle, be within the range of the general total payout ratio of the domestic banks.

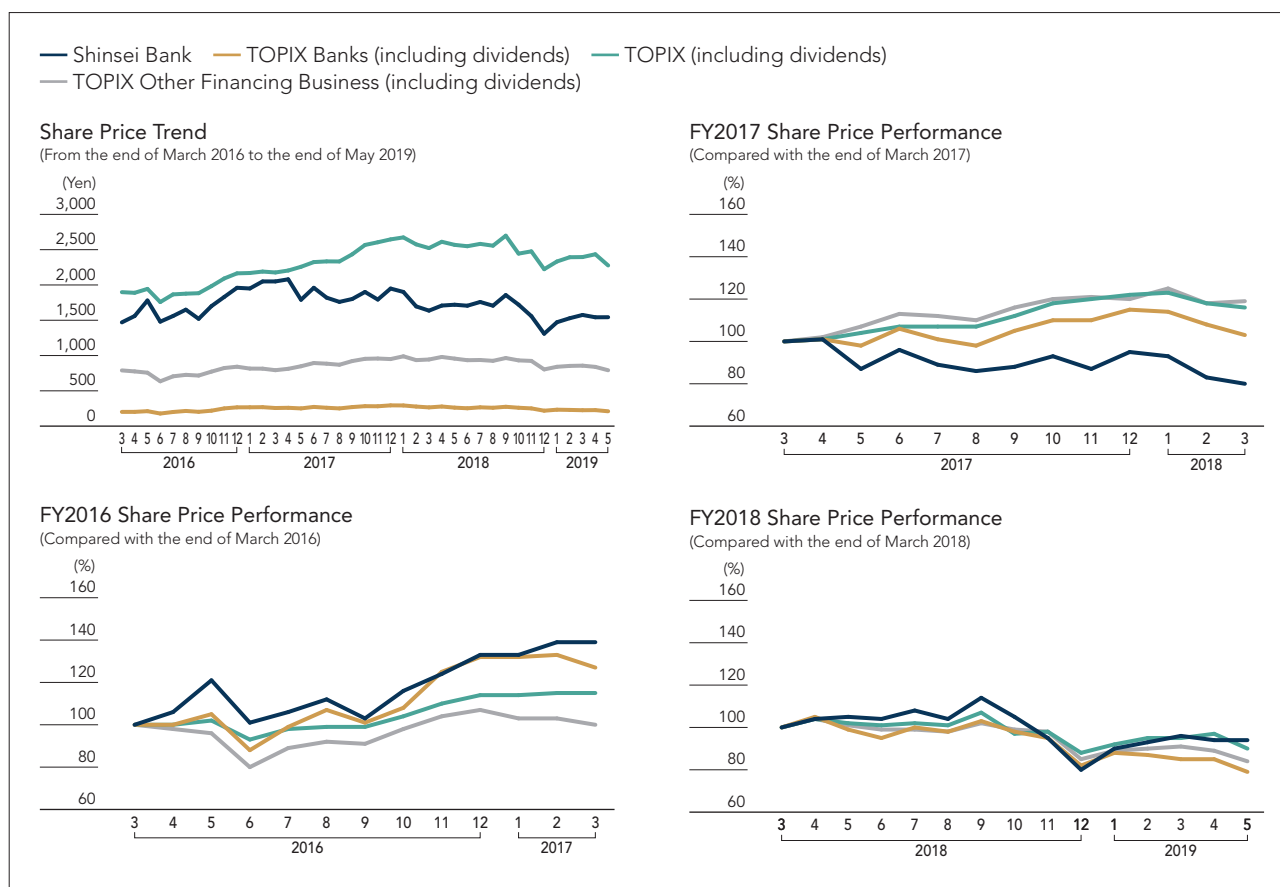
Performance of Share Price

Fiscal 2016: Shinsei stock has been outperforming indices such as TOPIX, TOPIX Banks and TOPIX Other Financing Business, while TOPIX Banks and TOPIX Other Financing Business have been sluggish due to negative interest rate policy announced in January 2016. We believe this reflects our business portfolio including unsecured personal loans and structured finance which are relatively resilient against negative interest rate environment.

Fiscal 2017: Shinsei stock has underperformed against TOPIX and TOPIX Banks due partly to the fact that we did not announce a share buyback program until January 2018.

Fiscal 2018: Shinsei stock has been recovering from underperformance against indices, as a result of continuous efforts on business operations in focused areas and measurements in productivity enhancement projects as well as dialogue to market. However, at the end of year 2018, concerns about economic downturn in the U.S. and sudden rise of US interest rate influenced overall stock performance in Japan, especially in the financial sector. Shinsei stock was not an exception.

As we entered 2019, in tandem with a recovering trend in the Japanese equity market, Shinsei stock has had an upturn. However, we believe that current share price does not reflect its true share value. A share buyback program up to ¥23.5 billion has been approved by the Board of Directors. In the Medium-Term Strategies starting from fiscal 2019, we will further strengthen our competency to resolve social challenges and aim to increase equity value of Shinsei by co-creating value with external parties.



Financial Management Policies for Fiscal 2019

Net income is expected to be ¥53 billion for fiscal 2019.

Total revenue is expected to be ¥243 billion, reflecting an increase in net interest income from unsecured loans and contribution of revenue from new subsidiaries in addition to noninterest income growth in global markets business as well as APLUS FINANCIAL and Retail Banking businesses.

Expenses are expected to be ¥152 billion due primarily to consolidation of new subsidiaries' expenses as well as an increase in IT and premises expenses. Expenses-to-revenue ratio is planned to be 62.6%.

Net credit costs are expected to be ¥35 billion. This mainly comprises unsecured loans and APLUS FINANCIAL businesses. We expect net credit costs to increase compared to fiscal 2018 mainly reflecting asset growth in unsecured loans as well as an absence of net credit recoveries as recorded in Structured Finance Businesses in fiscal 2018.

(¥ billion)	FY2018 (Actual)	FY2019 (Plan)	YoY % B(+)/W(-)
Total Revenue	229.7	243.0	+6%
Expenses	-144.7	-152.0	-5%
Expenses-to-revenue ratio	63.0%	62.6%	—
Ordinary Business Profit (OBP)	84.9	91.0	+7%
Net Credit Costs	-29.3	-35.0	-19%
OBP after Net Credit Costs	55.6	56.0	+1%
Others	-3.3	-3.0	+9%
Net Income	52.3	53.0	+1%

CEO × Outside Director Discussion



Hideyuki Kudo
President and Chief
Executive Officer



Ryuichi Tomimura
Outside Director
(President, Representative Director, SIGMAXYZ Inc.)

Amid the advances being made in information technology (IT), what is expected of the Shinsei Bank Group and the finance industry, what are the issues and how should the Group ideally formulate IT strategies to increase corporate value over the medium to long term? These and other subjects formed the basis of a discussion between Outside Director Ryuichi Tomimura, who possesses a wide range of knowledge in the IT field, and Shinsei Bank President Hideyuki Kudo.

Posing Challenges for the Shinsei Bank Group: The Future of Finance and IT's Role in that Future

Social Change and IT

How are financial institutions changing at a time when a shift from a maker-oriented "product-out" to a customer-oriented "market-in" perspective is being demanded?

Tomimura The word "innovation" comprises "in" and "nova," the former having the meaning of "to insert" and the latter meaning "new." Since the time of what is referred to as the industrialization of society, the approach in which Japan was deemed to excel involved the commercialization of products planned by R&D departments and the sending of those products out into society. In that sense, the area in which the Japanese are said to be weakest is in innovation.

Kudo Which is to say, rather than the needs of the buyer or customer, our priority is creating and selling what makes consider to be good products and that we are skilled at the maker-oriented "product-out" perspective. However, with the greater diversification of customer values and the increasing sophistication of needs, the products and services provided by companies did not match those needs well. Based on the reality that this does not mean that customers themselves clearly understand their values and needs in the first place, it is incumbent on companies to discern the true needs of customers who thus far have not been satisfied with their products and services and for them to propose products and services that offer new value from a customer-oriented "market-in" perspective.

Tomimura Yes, I agree. However, now that we have entered the digital society era with the evolution of the Internet of Things (IoT) and AI, another approach is becoming more mainstream. This involves closely observing consumers, allowing them to decide what they want to do and providing them with the means to achieve it, while creating products and services that incorporate both new ways of thinking about developing services in teams and what's happening in the market. It is very close to the concept known as POC¹, but I think that Japanese companies and society will likely change through this shift in the value creation model.

¹ POC: Abbreviation for proof of concept. Refers to verification and demonstration in the early stages of prototype development for the purpose of demonstrating new concepts, theories, principles, and ideas. In providing services based on new concepts, such as IoT, machine to machine (M2M) communication, and AI (Artificial Intelligence), this is an important process when verifying and demonstrating added value, service, and solution specifications.

The Finance Industry and the Shinsei Bank Group's IT

Whether Shinsei Bank can reform its traditional bank sales methods, depends on rapidly giving consideration to those reforms in a new organization and raising the Group's competitiveness by bringing them to fruition. An environment should be put in place to encourage curiosity about, and provide added impetus to, its ability to take action.

Kudo Since banks are a regulated industry, what we can and cannot do has already been clearly decided for us. To start with, it is the type of industry in which the idea of setting yourself apart from competitors by means of your products remains a rarity. For that reason, we have become accustomed to the mindset of selling products as they are now. The basic problem is whether we can reform ourselves simply by saying, "It's not product-out, but market-in."

Tomimura Front-line staff, who know their customers, are expected to provide feedback about the products and services they want to see created. I think that would be good if the flow of feedback could be skillfully channeled and proposed to management.

We have to consider how the front-line staff want to use IT in their business tasks and incorporating those needs to an even greater extent, I believe that the faster the pace of change, the greater Shinsei Bank can improve its competitiveness.

Kudo Since people on the front line have come to certain assumptions based on current practices, I am thinking about how to realize a mindset whereby frontline staff consider customer needs in the organization.

Tomimura For example, it would be a true innovation if we could co-create new products and services realized through looking closely at the kinds of work styles and lifestyles of people from overseas who come to Japan and then propose what kind of lifestyle or experience you would like for customers. This is because, up until now, it has been entirely a product-out world. I get the feeling from the discussions at the Board of Directors' meetings that new innovation has started at Shinsei Bank. If we can reach the point at which lifestyle proposals are coming from the Bank's side, that method would immediately spread.

Kudo That project is being addressed primarily by the Ecosystem Strategy Office under the Group Business Strategy Division. Since this is neither a product front line nor an operational front line, our current task is to involve other sections and think about what to supply to the ecosystem.

Tomimura We supply what the customers want into the ecosystem by taking into consideration their perspectives. If you take that point of view, I think there will be a time when the work styles of management and employees will also change. Consumer information, such as "it's more conveniently done for me this way" or "I'd be happy if I could do more things like this at home," will be freely available via digital technology. After that, it will be best to create an environment in which innovation can occur.

Future IT Strategies and Basis for Realizing them

Ascertain on a grand scale the scope of your business and then broaden the Group's horizons. This is achieved by thinking about overall optimization, identifying what should be done amid the trend for digitalization and, with IT as the facilitating driving force, addressing infrastructure development.

Tomimura From here on, it will be important to discuss how to use IT. Digitalization will advance automatically when we reach the point of having discussions, including those about lifestyle support services for non-Japanese mentioned above. I think it's a safe bet with that approach.

Kudo With such awareness of the problem, we have constructed a virtual group headquarters that brings together the indirect divisions of the Bank and Group companies and, hereafter, we will promote the integration of Group-based IT functions. In addition to considering the architecture of the whole Group as a means to determine the direction we should take for the overall

CEO × Outside Director Discussion

optimization of the Group's IT, we would like to identify what aspects of digitalization we should address and would like to give IT a kind of promotional role. If an agenda arises from that, I think it will be a subject that can be discussed at the Board of Directors' level.

Tomimura Naturally it will be.

Kudo At the Group company APLUS, a shopping credit company, any discussion of what is important in that area of business, involves the indispensability of the credit card system being properly in place. We will have to invest the funds necessary for the maintenance of the system. However, in addition to this, we must consider whether having a credit card business has any kind of significance for the whole Group in the first place. By not treating credit cards separately but as part of a complete range of products and services for individuals, we can maintain the broader view taking cooperation with other industries into consideration, and making it possible to open up new areas of business.

Creating an Organization to Implement IT Strategies

A major turning point in the banking business for individual customers. Build an ecosystem with a view to partnering with other companies, bearing in mind that organizations that are responsive to change survive.

Tomimura For example, if you look at the Group as a whole, is it not necessary to have someone to consider whether or not there may be a lot of similar products and services, and whether it would be better to combine them?

Kudo Quite so. Under the organizational reforms in March 2019, we formed organizations called the Corporate Business Unit and Individual Business Unit, and the head of the latter concurrently serves as the

president of APLUS. As a result, when viewed from a broader perspective, there are more things that can be done. Conceivably and conversely, I would like to make them into organizations that are capable of assessing aspects that have not been attempted up to now as we had questioned whether they were rational.

Tomimura Rather than "I wanted to do something like this, but I gave up because I didn't have the systems," we should make the argument that the Group as a whole can achieve "business like this if we put in place a system like this." We thought that these organizational reforms were good measures, in the sense that we could expect that they should be possible if only because there were so many different products.

Kudo In individual business in particular and even in the world of finance, I recognize that a period of dramatic change is coming. Although, individually, there are some advanced business models, comprehensively integrated business model is not being suggested. However, our group possesses elemental technologies that can tackle the creation of new business models. Although we do not have a large existing customer base, if we were to build an ecosystem—on the assumption that we collaborate with other companies, such as NTT Docomo, for example—I believe that there could be benefits for our customers.

Tomimura Hereafter, it will be important to openly discuss ideas from the front line. IT is a tool, and what you do when using it is important. Japanese companies often talk about their "plan for the year 20XX," but in reality the changes are dramatic and plans never turn out as planned. Accordingly, ideas should not be constrained to having to be this way or that, but rather organizational forms that are more sensitive to and respond more agilely to change are the ones that are supposed to survive.



We have summarized some of the key questions and their respective answers as received from institutional investors for the fiscal year ended on March 31, 2019.

Q1

In the growth area of unsecured loans, please give your analysis of the factors that contributed to the decline in both the new customer acquisition rate and the approval rate for the Lake ALSA brand, which was launched in April 2018, and to the overall decrease in the balance of unsecured loans. Taking into consideration market trends, please also tell us about the outlook for the Shinsei Bank Group's unsecured loans.

We positioned unsecured loans as a growth area in our Third Medium-Term Management Plan and established as a target an average annual balance growth rate of 10% over the three years. As a result, the balance which stood at ¥428.5 billion as of March 31, 2016, increased 19% to ¥509.9 billion as of March 31, 2019. The average growth rate during the period was 6%, hence, we did not meet our original target of 10%, but here we explain the results, including the contributory factors, during these three years.

The actual balance growth results by fiscal year show that the balance grew by 12% in fiscal 2016, the first year of the Plan, and thus exceeded our original target. Against a backdrop of significant growth in the overall unsecured loan market, centered on bank card loans, in addition to the unsecured loans generated by the Lake brand, significant growth in the credit guarantee balances for regional financial institutions also served to give added impetus to balance growth.

In the Plan's second fiscal year (fiscal 2017), we recorded balance growth of 8%, and the speed of balance growth slowed from that of the previous fiscal year. In March 2017, there were also changes in the environment of the bank card loan market, such as the Japanese Bankers Association announcing its "Agreement Relating to Consumer Loans by Banks," and the pace of growth in the unsecured loan market slowed. As a result, unsecured loan balance growth for fiscal 2017 of 8% was achieved, in line with our expectation at the start of that fiscal year. In comparison with the end of March 2016, the balance growth over the two years was 21%, and we maintained an average annual growth rate of more than 10%.

In December 2017, we conducted a review of our business strategy for unsecured loans and unified the products offered as bank card loans into "Shinsei Bank Smart Card Loan Plus." At the same time, we announced that applications from new customers for the Shinsei Bank Card Loan Lake would be suspended from April 2018. Initially, we had planned to use the Lake brand for the consumer finance product needs of both bank and nonbank customers. However, the Lake brand is highly recognized as a nonbank consumer finance brand and, hence penetration with bank customers remained limited. As a result, from April 2018, we primarily offered Shinsei Bank Smart Card Loan Plus for those customers with bank card loan needs and Lake ALSA, newly introduced by Shinsei Financial, for those with consumer finance product needs.

In fiscal 2018, the final year of the Third Medium-Term Management Plan, we launched Lake ALSA as the core unsecured loan product in the Shinsei Bank Group. However, in addition to a

continued decline in the growth rate of the market overall, marketing measures became more difficult than expected due to the parallel arrangement of the two Lake brands, Shinsei Bank Card Loan Lake and Lake ALSA, resulting in the new customer acquisition rate and the approval rate being significantly lower than initially forecasted.

During the period, however, by implementing several marketing measures, such as improvements in the leads geared toward new customers on the website and the deployment of a 60-day interest-free campaign, the number of Lake ALSA applications recovered to the level of the former Shinsei Bank Card Loan Lake. With regard to the growth rate, we also improved the new customer acquisition rate by gaining customers in the higher income bracket and conducting a more precise credit screening process.

In the medium-term management strategy that we have commenced in fiscal 2019, unsecured loan product is one of the products in retail finance, a focus area. Going forward, while securing appropriate credit management and profitability, we will aim for further balance growth.

Q2

With regard to optimizing the retail banking earnings structure, please tell us about the issues and measures (for example, branch closures and ATM fee charges) as well as the effects and responses.

While funding function in the retail banking business plays an important role and supports the majority of the funding for Group's businesses, it remained unprofitable partly due to an insufficient reflection of the important funding role in the management accounting rule. This was one of the most important issues to be resolved during the Third Medium-Term Management Plan.

We reviewed and enhanced our management accounting rules during the second year of the Plan. However, the retail banking business recorded loss in fiscal 2017 due to low demand for housing loan refinance in contrast to the high demand at the time of introducing the negative interest rate policy, in addition to sluggish sales of asset management products. Despite the headwind, we continued bold measures to improve profitability of the retail banking business. We announced in January 2018 that we would close financial centers in Takamatsu and Kanazawa in June 2018 as a result of reviewing our sales channel strategy and cost structure.

In fiscal 2018, the Plan's final year, we revised the "Shinsei Step-up Program" in October 2018 and decided to charge "Shinsei Standard"-stage customers a fee for withdrawals made from partner ATMs. As a result of such efforts, in terms of ordinary business profit (OBP) after net credit costs, the retail banking business succeeded in recording a profit from the second half of fiscal 2018.

In light of the medium-term management strategy as launched in fiscal 2019, we will aim to further improve profitability. In April 2019, we re-aligned our organization to manage customer segments and their businesses in a more coordinated manner while promoting initiatives designed to create customer value across all our individual business units.

Q3

In the case of public fund repayments, please tell us about the problems you are currently facing and the repayment path (roadmap) that takes those problems into consideration.

The public funds injected into the Bank were initially in the form of preferred shares. In August 2006, with regard to about 300 million out of the 600 million shares of Series 3 Class-B preferred stock, we issued 200,033,338 shares (at that time) of common stock following an acquisition request from the government and made partial public fund repayments in the form of sales received through market transactions.

Subsequently, when the remaining 300 million shares of Series 3 Class-B preferred shares and 74,528,000 shares of the Series 2 Class-A preferred shares were due for conversion to common stock, we converted the Series 3 Class-B preferred stock to 200 million shares of common stock in August 2007, and the Series 2 Class-A preferred shares to 269,128,888 shares of common stock in March 2008.

Consequently, at the present time all public funds injected into the Bank have been converted to common stock. As a result of the 1-for-10 reverse stock split implemented in October 2017, Deposit Insurance Corporation of Japan and The Resolution and Collection Corporation now hold 26,912,888 shares and 20 million shares, respectively.

Therefore, in addition to accumulating repayment resources for the purpose of public fund repayments, we believe that it is extremely important to improve the Bank's stock market evaluation and to bring about an improvement in our stock price. We also believe that efforts to improve our stock price will provide the path to public fund repayments at this time.

Specifically, to improve our stock price, we strengthened shareholder returns as a part of the capital policy and repurchased our own shares on an ongoing basis to improve per share value during the course of the Third Medium-Term Management Plan.

■ Return of Profits to Shareholders during the Third Medium-Term Management Plan

	FY2016	FY2017	FY2018
Total return ratio	25%	30%	50%
Dividends	¥2.59 billion	¥2.53 billion	¥2.45 billion
Own share repurchase amount	¥10.0 billion	¥13.0 billion	¥23.5 billion

Note: The performance in each fiscal year determines the amount returned to shareholders in the following fiscal year.

In the years ahead, we will adapt to the rapidly changing business environment, establish a sustainable business model and endeavor to record stable profits. At the same time, we will conduct reviews of current and future profit trends, implement shareholder returns that take into consideration financial stability and maintain a balance with retained earnings, as well as work to improve our stock price and shorten the duration for public fund repayments.

Individual Business



Tetsuro Shimizu
Managing Executive Officer,
Head of Individual Business Unit

The Individual Business is composed of the retail banking business, which accepts deposits, handles asset management products and provides housing loans; consumer finance, which provides products and services such as unsecured loans, credit cards, shopping credit and settlements to individual customers.

Business risks and opportunities based on an awareness of the environment

The Shinsei Bank has a role to play in finding solutions to issues that confront society. This holds true whether it be responding to changes in consumer behavior that occur in line with the progression of a declining birthrate and an aging population or diversifying lifestyles, or be it supporting mid-to long-term asset formation for individual customers without the significant vulnerabilities that come with an opaque external environment, such as the

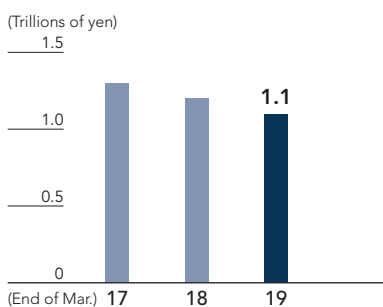
ongoing financial deregulation on account of the Bank of Japan's negative interest rate policy, trade and economic friction between the U.S. and China, the U.K.'s Brexit issues, or other factors. Indeed, these are issues that represent business opportunities. In the retail banking field, Shinsei Bank is working to develop multiple consulting channels, one-to-one marketing that utilizes behavioral data, construction of a framework for organizational management by customer segment and other efforts. We take a personalized approach for ideal communication with each and every customer, offering products and services that satisfy their needs and life plans, and in so doing endeavor to provide customers stable asset formation.

In the credit card and settlement fields, the competitive climate is escalating in severity due to the market entry of nonfinancial platform providers and innovative financial technologies. Seizing upon the business opportunities of providing platforms upon which customers are offered a stress-free choice of the method that they most prefer from an array of settlement options, we are moving forward on providing a range of settlement styles, including assorted payment types, prepaid and credit cards.

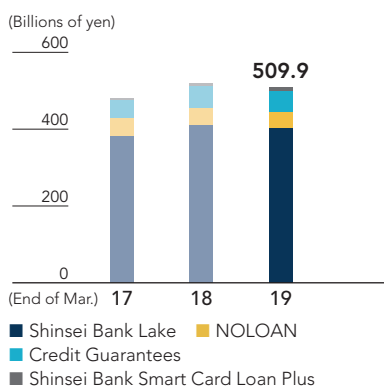
The unsecured loans field is experiencing demand for providing financial access to customer segments where, in light of customers' diversifying lifestyles and increasing reliance on digitization, either traditional credit information used in the past is insufficient to grant credit, or customer segments where there is a preference for digital capabilities for non-face-to-face transactions. Together with the credit assessment and collection knowhow we have long cultivated, we are adding AI and digital technologies, and by partnering with companies that possess customer platforms, we are endeavoring to respond to the financial needs of new customer segments.

Operating Assets

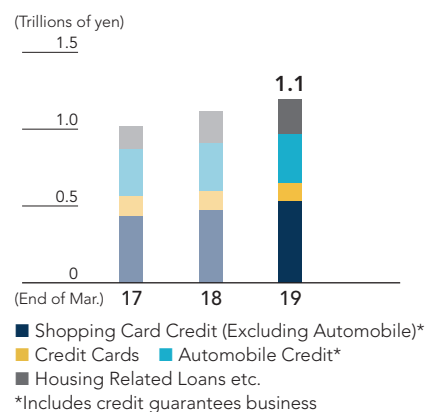
Housing Loans



Unsecured Loans



APLUS FINANCIAL



Strategies for Individual Business

► Data analysis to capture customer needs + Personalized solutions


	Grow through Value Co-Creation	Enhance / Leverage our Capabilities
Small-Scale Finance	<p>Build / participate in ecosystems, use data to enhance services</p> <ul style="list-style-type: none"> • Collaboration with external parties which own customer base, data etc. • Enhance strengths in credit assessment and collection by using payment / credit data, AI and digital technology 	<ul style="list-style-type: none"> • Upgrade our AI / analytics database “YUI Platform” • Provide one-stop retail products / services and develop an all-in-one platform • Expand use of digital technology • Centralize & streamline operations / processes
Retail Asset Management	<p>Improve customer experience, and use alliances to uncover new customer opportunities</p> <ul style="list-style-type: none"> • Personalize communication and product offerings by using digital technology and customer data • Use alliances with brokerage / insurance companies to uncover new customer opportunities 	
Housing-Related Loans	<p>Broaden customer segment via partnerships and new products</p> <ul style="list-style-type: none"> • Collaboration with housing-related companies and other financial institutions • Capture customer needs for securing post-retirement cash-flows and financing home renovations 	

Topic


Shinsei Bank Smart Money Lending for NTT Docomo Line Subscribers

Leveraging the Docomo Lending Platform, which NTT Docomo, Inc. provides to Docomo line subscribers, Shinsei Bank has launched Shinsei Bank Smart Money Lending to provide loans and other financial services. This combines the credit screening knowhow the Group has cultivated in the Lake business, together with “Docomo Scoring” for each individual’s credit score as calculated from the big data obtained through Docomo’s wide-ranging business developments. In this way we can offer more optimized transaction conditions for our customers.


As the financial businesses held by the Shinsei Bank Group leverage the strengths of technology from the perspectives of both information and finance, while also collaborating with external partners that possess open and flexible platforms, this will lead to the development of a collaborative value creation-type business model.



Facilitates Shinsei to offer new lending proposal



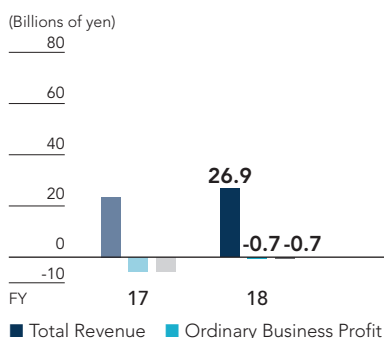
Service fully completed via a smart phone



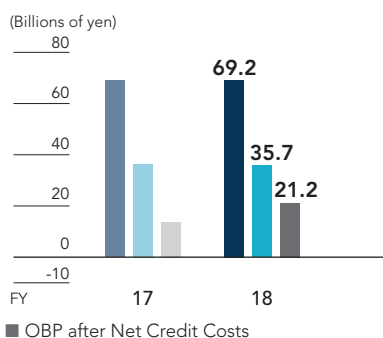
Support “smart” use of lending service

Data on Major Operations

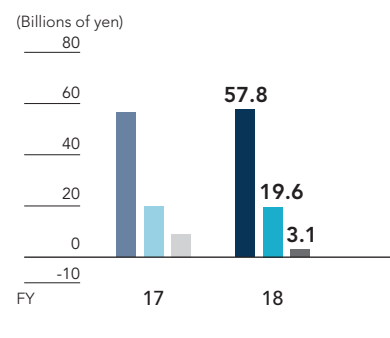
Retail Banking



Shinsei Financial, Shinsei Bank Lake



APLUS FINANCIAL



●●● Institutional Business and Global Markets 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; and the leasing business. The Global Markets Business delivers market services that provide market solutions for foreign exchange and interest rate derivatives, among others.

■ Risks and opportunities based on our understanding of the external environment

The profitability of the traditional lending business continues to trend at a low level against the backdrop of a stable interest rate environment and an improvement in the financial structure of corporations. Meanwhile, new financial needs are emerging in line with the challenges being faced by the society, including issues related to the life cycle of small and medium-sized enterprises

(SMEs) as those in management positions get older, as well as environmental and energy issues, robust inbound demand. We are keenly aware of the value chain that encompasses not only our customers but also our business partners. We recognize diverse needs as business opportunities and aim to provide differentiated solutions by utilizing resources inside and outside the Group.

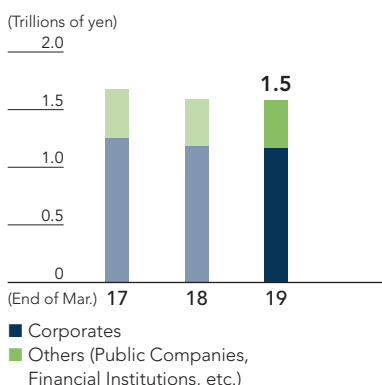
For our institutional customers, we are focusing our efforts in syndication and business flow finance operations. To further advance development in these areas, we are focused not only on the leasing functions within the Group, but also on cooperation with companies outside the group, and are pursuing partner-based businesses that support the creation of new enterprises and the resolution of issues being faced by the partners of our customers in line with our goal of also providing solutions in nonfinancial domains.

For our investor customers, we are focusing our efforts on the arrangement of syndicated loans with regional financial institutions and the provision of senior loans on a stand-alone basis using analytical skill, know-how and relationships we have built up with domestic and overseas institutional investors to date in the project finance, real estate finance, and specialty finance businesses. Moving forward, we intend to provide investment opportunities to a wide range of institutional investors, including investment managers and the asset owners providing the funds.

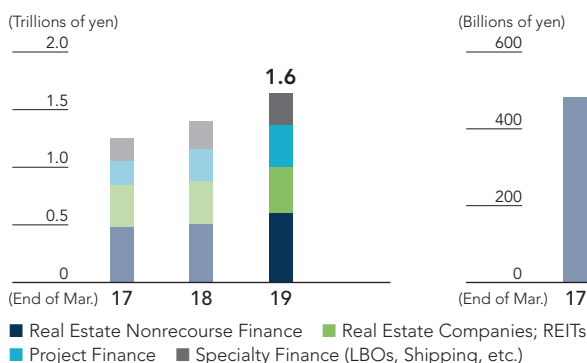
In line with our goal of making further progress in these businesses, Shinsei Bank in April 2019 decided to make the best use of its resources and functions in the leasing, trust, securities, and markets business by establishing the Group Institutional Business Planning Division for the planning and implementation of management resource allocations and business strategies across the Group.

Operating Assets

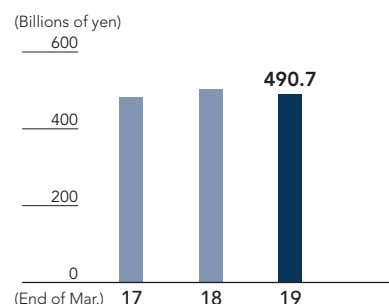
Corporate Business



Structured Finance



Showa Leasing



Strategies for Institutional Business

► Partnership-style business + One-stop service for alternative investments

	Grow through Value Co-Creation	Enhance / Leverage our Capabilities
Institutional Investors	<p>Capture a range of customer needs in the alternative investment space</p> <ul style="list-style-type: none"> Service offerings for investments in renewable energy, real estate, domestic private equity etc. Expand networks with institutional investors, provide investment opportunities 	<ul style="list-style-type: none"> Deepen expertise in products, services, and functions Build a track record in real assets Enhance strategy / planning through an integrated group approach Launch CRM system, streamline processes through RPA (Robotic Process Automation)
Nonfinancial Corporations	<p>Deploy partnership-style business</p> <ul style="list-style-type: none"> Deploy solutions that merge financial to nonfinancial service Strengthen value proposition for existing financial services Strengthen asset business for core areas such as construction machinery 	
Financial Institutions	<p>Partner with regional financial institutions</p> <ul style="list-style-type: none"> Provide Shinsei Bank Group's services to regional customers Support regional financial institutions to solve their own issues by utilizing Shinsei Bank Group's functions 	

Topic

Woman of the Year 2019 award for Child Care Support

Two Shinsei Corporate Investment employees won the Nikkei Women's Woman of the Year 2019 award for Child Care Support. The award was given to employees working with the Child-care Support Fund, which was established in 2017 by the Group with the goal of contributing to a society that supports both work and childcare, and is the first domestic financial institution fund focusing on impact investments in child-care-related businesses. The Fund has been recognized for its entrepreneurial spirit and achievements, having improved earnings while resolving social issues through the conduct of business and being based on the real-world experiences of women pursuing careers while also raising children. The Group has established a second fund focused on nursing care and expanding the business of investment targets, with the aim of providing companywide support to impact investment business, including corporate business referral and screening section support.



Data on Major Operations

