

2017

ANNUAL REPORT

For the fiscal year ended March 31, 2017



MANAGEMENT PRINCIPLES

- To be a banking Group that is sought out by customers, with stable profitability, and contributing to be the development of the industrial economies in Japan and overseas
- To be a banking Group that values diverse talents and cultures and that is continually able to take on new challenges in a changing environment while taking into consideration experience and history
- To be a banking Group that has highly transparent management as well as be trusted by all stakeholders including customers, investors and employees

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Forward-Looking Statements

This annual report contains statements that constitute forward-looking statements. These statements appear in a number of places in this annual report and include statements regarding our intent, belief or current expectations, and/or the current belief or current expectations of our officers with respect to the results of our operations and the financial condition of the Bank and its subsidiaries. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Our forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. Actual results may differ from those in such forward-looking statements as a result of various factors.

Sources of Corporate Value



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ESG as Foundation Increasing Corporate Value



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SHINSEI BANK GROUP'S BUSINESS PROFILE

Innovative Financial Services via Integration of Many Group Companies

Offering innovative financial services, the Shinsei Bank Group has integrated many Group companies with a broad spectrum of financial functions from banking to unsecured loans to individuals, shopping credit and other credit businesses, leasing, securities, and trusts.



Domestic subsidiaries

Overseas subsidiaries

SHINSEI BANK GROUP IN NUMBERS

Rankings

Ranked No.1 in the "Internet Banking" category for a second successive year in the 2017 Oricon Japan Customer Satisfaction Survey

No.1

(2016, 2017)

League Table: Project Finance (Japan)

No.2

On the basis of the number of project finance transactions from April 2016 to March 2017
Source: Dealogic [Japan Project Finance League Table]

People Working at Shinsei Bank Group

Employees (consolidated basis)

5,360

(as of March 31, 2017)

Ratio of Female Managers
(nonconsolidated basis)

29.6%

(as of March 31, 2017)

Contributing to Society

Total Participants in Volunteer Activities

3,396

Number of Volunteer Activities

217

The Shinsei Bank Group is actively engaging in social contribution activities. We have promoted employee participatory volunteer programs since 2009, and along with our employees, aim for the realization of a sustainable society. Group employees have participated in a total of 217 volunteer events since 2009, with cumulative Group employee participation totaling 3,396 as of March 31, 2017.

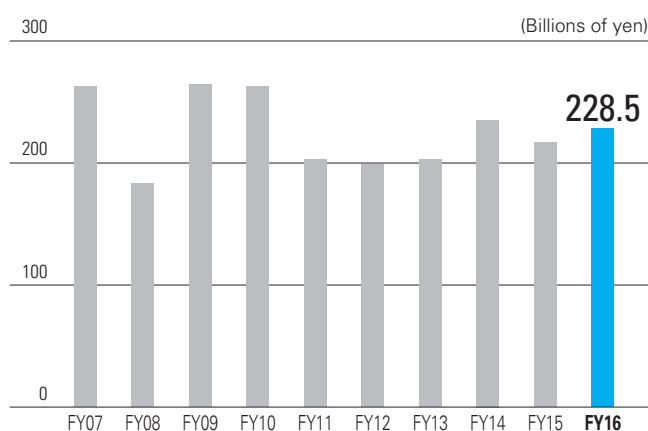
FINANCIAL HIGHLIGHTS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017¹

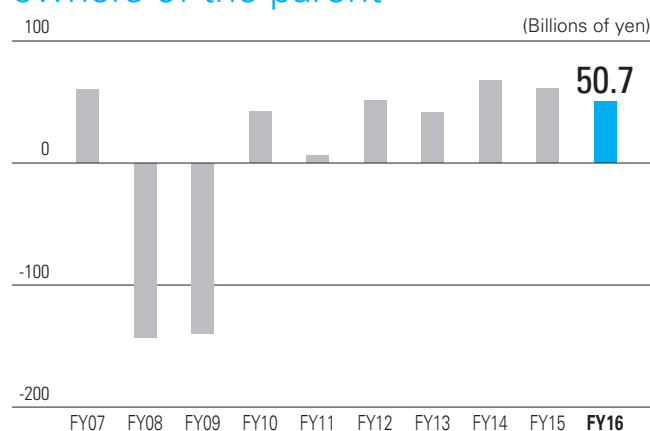
	FY2007	FY2008	FY2009	FY2010
For the fiscal year (Billions of yen):				
Total revenue	¥ 262.6	¥ 183.1	¥ 264.2	¥ 262.6
General and administrative expenses	158.7	182.0	170.8	145.3
Net credit costs	73.5	129.0	112.2	68.3
Profit attributable to owners of the parent	60.1	(143.0)	(140.1)	42.6
Balances at fiscal year-end (Billions of yen):				
Total assets	¥ 11,525.7	¥ 11,949.1	¥ 11,376.7	¥ 10,231.5
Total liabilities	10,560.5	11,181.7	10,741.8	9,620.3
Total equity	965.2	767.4	634.9	611.1
Per share data (Yen):				
Common equity	¥ 364.35	¥ 284.95	¥ 232.72	¥ 205.83
Basic profit	38.98	(72.85)	(71.36)	21.36
Dividends	2.94	—	—	1.00
Ratios (%):				
Return on assets ²	0.5	(1.2)	(1.2)	0.4
Return on equity (fully diluted) ³	8.8	(22.4)	(27.6)	8.5
Expense-to-revenue ratio	60.4	99.4	64.6	55.3
Total capital adequacy ratio (Basel II, Domestic Standard)	11.74	8.35	8.35	9.76
Capital ratio (Basel III, Domestic Standard)	—	—	—	—
Ratio of nonperforming claims classified under the Financial Revitalization Law to total claims	0.95	2.51	6.70	6.78

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 at the BOP – share warrants at the BOP – noncontrolling interests at the BOP) at the beginning and end of the period presented.

Total revenue



Profit attributable to owners of the parent

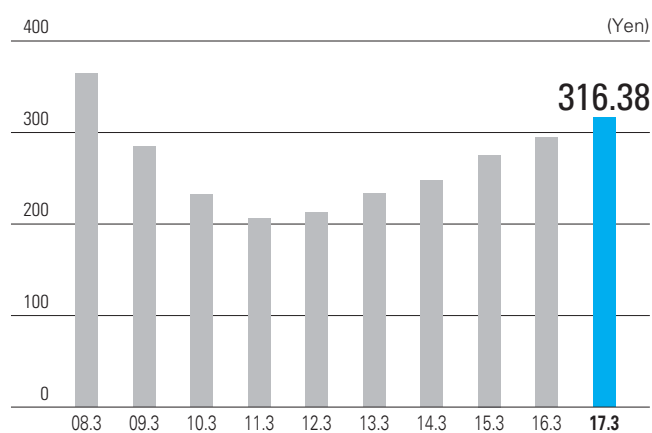


- Total revenue is composed of "Net interest income" such as interest from loans and "Noninterest income" such as fee income, as indicated by gross profit from core business operations.
- While earnings have been lifted since fiscal year 2010 on factors such as gains from repurchasing preferred securities 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 fiscal year 2011 when such one-off gains dropped out of the picture. From fiscal year 2016 onward, we applied "selection and concentration" tests to our businesses in accordance with the Group's strengths and the growth potential of each business to identify growth areas, and we have actively invested management resources into them.

- Profit attributable to owners of the parent indicates the final profit over a twelve-month fiscal term in accounting terms.
- The Shinsei Bank Group recorded losses in fiscal years 2008-2009 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 year 2010. The Group is working to improve the quality of earnings by adding more heft to core profits and limiting profits from non-recurring and high-volatility sources.

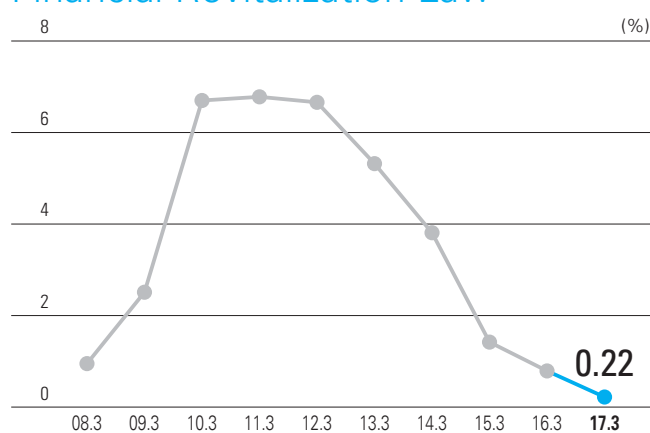
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
	¥ 202.9	¥ 199.0	¥ 203.0	¥ 235.3	¥ 216.6	¥ 228.5
	130.3	130.9	135.0	144.2	141.3	144.2
	12.2	5.5	0.2	11.8	3.7	31.8
	6.4	51.0	41.3	67.8	60.9	50.7
	¥ 8,609.6	¥ 9,029.3	¥ 9,321.1	¥ 8,889.8	¥ 8,928.7	¥ 9,258.3
	7,982.0	8,345.6	8,598.5	8,136.0	8,135.6	8,437.5
	627.6	683.6	722.5	753.7	793.1	820.7
	¥ 212.67	¥ 233.65	¥ 247.82	¥ 275.45	¥ 294.41	¥ 316.38
	2.42	19.24	15.59	25.57	22.96	19.46
	1.00	1.00	1.00	1.00	1.00	1.00
	0.1	0.6	0.5	0.7	0.7	0.6
	1.2	8.6	6.5	9.8	8.1	6.3
	64.2	65.8	66.5	61.3	65.3	63.1
	10.27	12.24	—	—	—	—
	—	—	13.58	14.86	14.20	13.06
	6.66	5.32	3.81	1.42	0.79	0.22

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

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.
- 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 has fallen to the lowest level in the past ten years, and our asset quality has improved.

COMPANY HISTORY: TIMELINE OF SHINSEI BANK

From Shinsei Bank's launch through March 2016

In 2000, the Long-Term Credit Bank of Japan, Limited (LTCB) changed its name to Shinsei Bank, Limited. Since then, subsidiaries offering sales credit, credit cards, leases, and unsecured loan services were added to the consolidated Group.

<p>2000 Shinsei Bank launched</p>	
<p>2004 APLUS Co., Ltd. was renamed APLUS FINANCIAL Co., Ltd. and converted into a consolidated subsidiary (a subsidiary also named APLUS Co., Ltd. was established in 2009)</p>	
<p>2005 Showa Leasing Co., Ltd. was converted into a consolidated subsidiary</p>	
<p>2007 SHINKI Co., Ltd. (now Shinsei Personal Loan Co., Ltd.) was converted into a consolidated subsidiary</p>	
<p>2008 GE Consumer Finance Co., Ltd. (now Shinsei Financial Co., Ltd.) was converted into a consolidated subsidiary</p>	
<p>2011 Shinsei Bank (parent) commenced card loan service under the Lake brand</p>	

Fiscal Year 2016

In the Third Medium-Term Management Plan (Third MTMP) launched in fiscal year 2016, we identified unsecured loans and structured finance as growth areas and are actively allocating management resources to them, and in other operational areas, we are advancing selective initiatives. With Group integration as an important theme, we aim to improve corporate value over the medium and long term as a unified Group.



Apr. | **Commenced Third MTMP**

- Strategic Initiative Areas** Began offering settlement agent services in Japan for Chinese mobile settlement service WeChat Pay

May | **Growth Areas** Arranged project finance for megasolar facilities in Iwate Prefecture (Ichinoseki City) and Nagano Prefecture (Suwa City)

Jun. | **Growth Areas** **Named No.1 in the "Internet Banking" category in Oricon Japan Customer Satisfaction Survey**

- Established SecondXight, Inc. as a Fintech joint venture with Griffin Strategic Partners, Inc. to use artificial intelligence (AI)



Aug. — **Spent about ¥10 billion to repurchase own shares**
 Total number of individual customer bank accounts at Shinsei Bank exceeded three million

Oct. — **Strategic Initiative Areas** Launched a vendor leasing business as a collaborative venture between Showa Leasing and APLUS Co., Ltd.

Nov. — **Stable Revenue Area** APLUS Co., Ltd. issued credit cards for high net worth individuals under the “Luxury Card” brand in Japan for the first time as a joint partnership with parent Shinsei Bank, Limited.

Dec. — **Showa Leasing Co., Ltd. converted into a consolidated subsidiary**
Growth Areas Entered unsecured personal loan market in Vietnam through a joint venture with Military Commercial Joint Stock Bank

Mar. — **Spent about ¥2.0 billion to repurchase own shares**



Fiscal Year 2017

Shinsei Bank, Limited and Shinsei Bank Group companies in effect consolidated their back-office functions at “Group Headquarters,” with the aim of enhancing each back-office function and optimizing them at a Group level, including a wide array of nonbank and financial functions, and thus enable stronger Group governance.

Apr. — **Shinsei Bank Group established Group Headquarters**
Named No.1 in the “Internet Banking” category in Orion Japan Customer Satisfaction Survey for a second successive year
 Shinsei Investment Management Co., Ltd. awarded first prize in the global equity fund aggregate category in “R&I Fund Award 2017”



Jun. — **Established “the policy on customer-oriented business conduct” and a related “action plan” to focus on providing the best options to its customers**

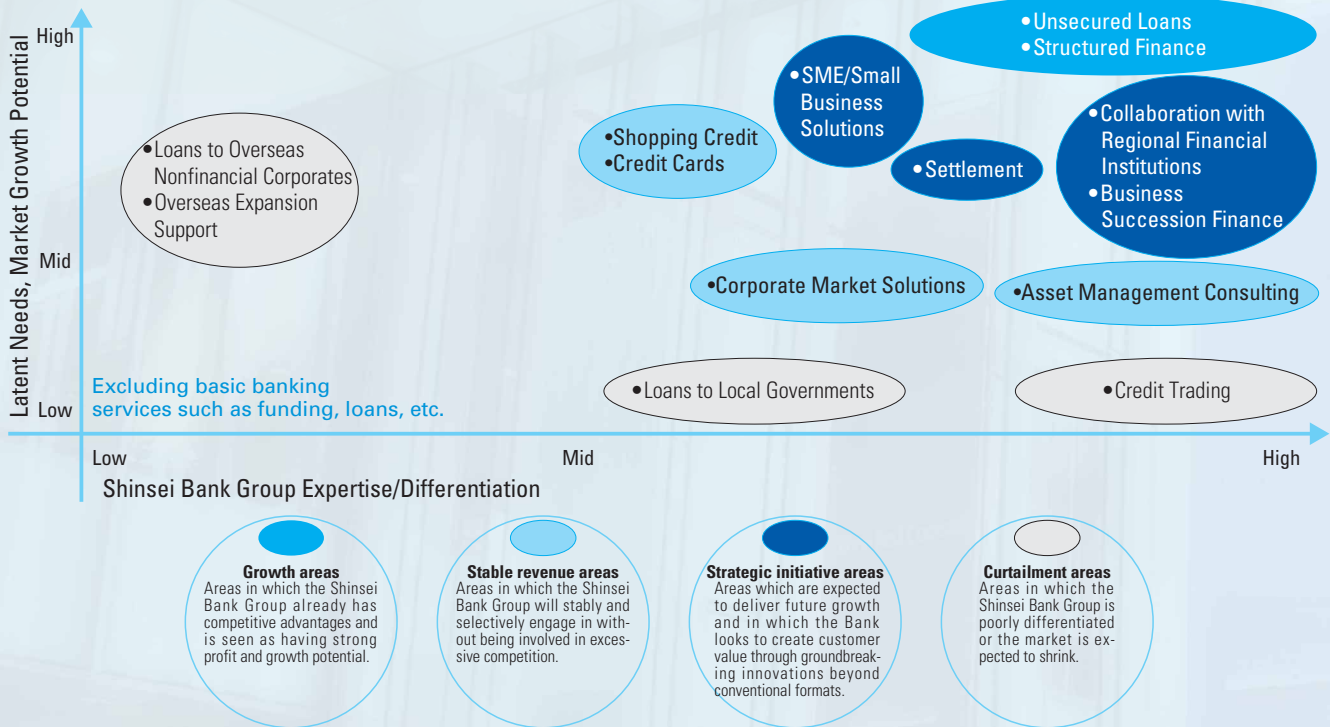


Overview of Third Medium-Term Management Plan

Shinsei Bank Group has formulated its Third Medium-Term Management Plan (Third MTMP) for the three-year plan from fiscal year 2016 to fiscal year 2018.

Business Strategy

Strategic Mapping of Businesses



Group Management Infrastructure Supporting Our Businesses

Group Management Infrastructure: Achieve Responsive, Flexible Business Management and Lean Operations throughout the Bank Group

- Flexible and proactive reallocation/optimal use of Group management resources based upon business environment changes and plan progression
- Business management framework which enables maximum realization of organization and employee latent potential while eliminating waste and overextension
- Robust Group governance through unified Group management and enhancement of horizontal business functions

Optimized on Group-wide Level



Financial Plan

FY2018 financial plan announced on January 29, 2016 was as follows.

		FY2018 Plan
Sustainability	Profit Attributable to Owners of the Parent	64.0 billion yen
Efficiency	RORA ^{1,2}	Around 1%
	Expense-to-Revenue Ratio	Below 60%

1 RORA is calculated as net income divided by fiscal year end risk assets
2 Basel III international standard fully loaded basis

Progress in First Year of Third Medium-Term Management Plan

In fiscal year 2016, the first year of the Third MTMP, we ran our businesses so they were responsive to changes in the economy and business environment while we focused on executing the management strategy in the Third MTMP. (Please see “Special Feature: Shinsei IR Day” on page 32 for more information.)

Progress on Business Strategies (Review and Challenges)

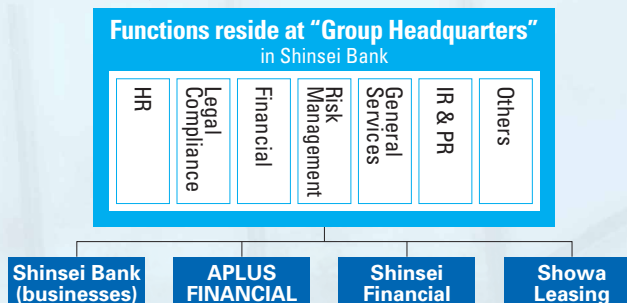
	Business	Review	Challenges
Growth Areas	Unsecured loans	Loan balance growth by proactive deployment of management resources	Search for organic/inorganic room to grow
	Structured finance	Robust trend in new transactions	Coordinated management of Group’s human resources and use of its know-how
Stable Revenue Areas	Asset management consulting	Lackluster sales of asset management products reflect opaque market environment	Optimizing channels and HR deployments, improving products and services
	Corporate market solutions	Derivative-related income weak on stagnant market conditions	Service lineup expansion aimed at differentiation
	Shopping credit, credit cards	Shopping credit transaction value trended sideways but operating revenue grew	Increase in number of new credit cards issuance
Strategic Initiative Areas	SME/small business solutions	Commence vendor leasing	Integrate Group know-how
	Settlements	Expand outlet network accepting We-Chat Pay	Expand franchise and proper monitoring
	Business with regional financial institutions	Progress in distribution, structured product sales, unsecured loan guarantees	Realize Group based benefits, deepen collaboration with regional banks
	Business succession finance	Shift management resources to support for change or discontinuance of business	Verify commercial potential based on methods for approaching customers, market scale of supporting business for change or discontinuance of business

Integrate Group Management Infrastructure Supporting Our Businesses

The integration of head-office functions of Shinsei Bank Group companies into the Group Headquarters will allow us to 1) enhance each function and optimize from a Group-wide standpoint to strengthen the Group’s governance, and 2) realize greater productivity and efficiency by integrating overlapping functions at each Group company. (Please see “Special Feature: Progress Assessment of Group Integration” on page 30 for more information.)

Group Headquarters established in April 2017

- Virtual “Group Headquarters” established at Shinsei Bank in April 2017
- Complete our transition to the by-function line system in October 2017, from a stage where some lines still remain at Group companies



Financial Results

In fiscal year 2016, consolidated profit attributable to owners of the parent came to ¥50.7 billion. The expense-to-revenue ratio came to 62.3%. (Please see “Letter from Finance” on page 13 for more information.)