

2017

ANNUAL REPORT

For the fiscal year ended March 31, 2017



Strategies to Increase Value for Stakeholders

The Goal for Shinsei Bank Group

Strategies to Increase Value for Stakeholders

Sources of Corporate Value

ESG as Foundation Increasing Corporate Value

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CEO MESSAGE

To Our Shareholders,
Customers and Employees

Hideyuki Kudo
President and Chief Executive Officer

For the Sake of Staying Ahead of Change

There is a question I am often asked when I meet with stakeholders for a discussion. If Shinsei Bank Group is neither a mega-bank nor a regional bank, then what kind of financial group is it? Here is what I think about that. The Shinsei Bank Group goes beyond the boundaries separating the financial industry as a frontrunner in identifying and staying ahead of the trends that shape how finance will evolve from here. That's what we aspire to become both in terms of our asset scale and business portfolio, and at the same time we understand our stakeholders have high expectations for the Shinsei Bank Group in executing this role. Considering our unique standing, we view no other financial institution as a benchmark and recognize comparing the Group to industry competitors is difficult. Even so, we think this is a winning strategy given our view that the financial industry is poised to enter an era of sweeping, fundamental change.

Times when the prevailing order or paradigm wavers are threatening to established interests who are highly adapted to that environment but new opportunities also often emerge at such times. The foundation of the business model the Shinsei Bank Group seeks to construct lies in going beyond conventional industry boundaries in reconsidering the Group's financial functions from the customer's viewpoint, unearthing genuine needs that customers were not even aware they had, and aiming to offer new businesses and services that transcend conventional thinking.

We see three key management issues for this business model to become reality and the Group to succeed as a new kind of integrated financial group. In the CEO message, I discuss initiatives and results in the first year of the third Medium-Term Management Plan (Third MTMP) that address these management issues, and share with all our stakeholders what our future policies will be.



Three Key Management Issues for the Shinsei Bank Group

The three key management issues are: 1) the Shinsei Bank Group’s profitability; 2) our capability to respond to a changing environment; and 3) our capital policies and public fund repayment efforts.

The Shinsei Bank Group’s Profitability

From the early stages when we devised the Third MTMP we are now executing, we recognized the magnitude of our earnings volatility and the weakness of our core profitability as issues. The Shinsei Bank Group has so far been highly reliant on non-reoccurring forms of income such as gains on the reversal of net credit costs from drawing down reserves for loan losses accumulated in the past, and income realized by exiting investments and loans held by investment-linked operations. In conforming to the growth imperative by expanding our businesses in every direction, we have lapsed into a shortage of logistical support for each of our business fields, so in business fields where we ought to have grown, we could not fully realize our latent growth potential.

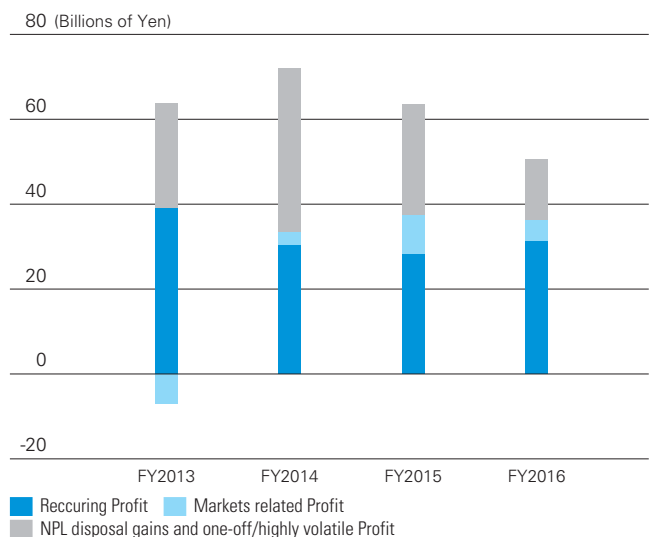
We need to add more heft to our core profitability while limiting factors that contribute to high earnings volatility to ensure the market properly assesses the Shinsei Bank Group’s corporate value. In the Third MTMP, we applied “selection and concentration” tests to our businesses in accordance with the Group’s strengths and expertise and the growth potential of each business, turning away from the all-directional expansion course we had been pursuing (Please see “Progress in First Year of Third MTMP” on page 9 for more information.).

As a start, we are directing even more of the Group’s management resources into the unsecured loan business and structured finance as growth drivers. These businesses earn

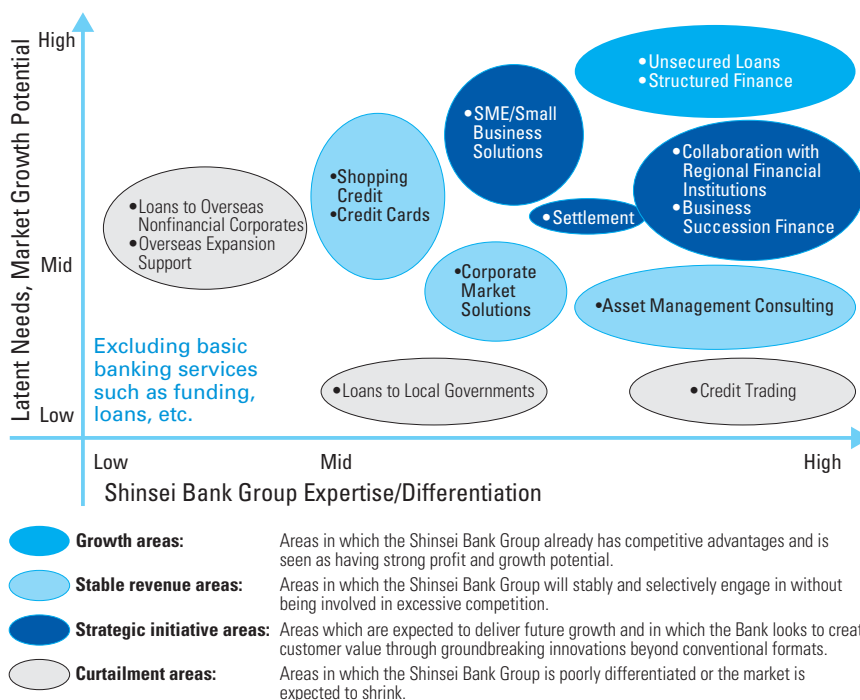
higher margins than other businesses and have growth potential, and, despite stepped-up competition stemming from the Bank of Japan’s negative interest rate policy, these businesses have developed into core sources of profitability where the Shinsei Bank Group can deploy the expertise and advantages it has harnessed for years.

In the unsecured loan business, with growth in the credit guarantee business that partners with regional financial institutions contributing, our unsecured loan balance grew at an 12% average annual rate in fiscal year 2016, outpacing the overall market. This was accompanied by steady growth in the number of customers at Shinsei Bank Card Loan—Lake (Shinsei Bank Lake). The scale of the domestic unsecured loan market is about ¥8 trillion but in view of Japan’s demographic trends,

Profit Composition Trend



Strategic Mapping of Businesses



the market is unlikely to keep growing at the same pace over the next five or ten years. Against this medium-to-long-term outlook for a changing macro-environment, we see two solutions. First is to use artificial intelligence (AI) to expand loan applications and our unsecured loan balance. We plan to do the former by deploying AI to respond to the needs of prospective customers who so far have not been able to meet our standards. We plan to do the latter by harnessing AI to develop more detailed credit assessments of the demographic cohorts we are targeting as customers at present. Second is to deploy our systems and marketing expertise not only in Japan but also overseas, especially in small loan demand in Asia. I believe one way to do this for the Shinsei Bank Group, which does not have a customer base overseas, is to partner with local financial institutions that have a customer base. In February 2016, we began to supply the core systems the Group developed for consumer finance operations to a Thai company engaged in mobile phone sales and shopping mall management. In November 2016, we formed a joint venture with Military Commercial Joint-Stock Bank, a major private-sector bank in Vietnam, and began preparing the way to launch an unsecured loan business (Please see “Special Feature: Shinsei IR Day: Unsecured Loans” on page 35 for more information.).

In structured finance, we engaged selectively in real estate finance in view of possible overheating in some domestic real estate transaction prices. In project finance both in Japan and overseas, on the other hand, with project initiatives and syndications with regional financial institutions becoming more active, fee income from project originations and our operating asset balance trended steadily in fiscal year 2016. In domestic project finance, we have mostly focused on megasolar projects

but with revisions to the feed-in tariff (FIT) system, we expect the importance of wind, geothermal, biomass and other forms of renewable energy as sources for electric power generation to grow. The Shinsei Bank Group will consistently offer new solutions as it strives to remain a pioneer in the project finance field, harnessing its capabilities in securing megasolar projects, assessing project risks, and partnering with regional financial institutions (Please see “Special Feature: Shinsei IR Day: Structured Finance” on page 34 for more information.).

One of the stable revenue areas is asset management consulting. I think this is the biggest challenge in the business strategy of the Third MTMP. Market turmoil stemming from factors such as the negative interest rate policy has sharply diminished the investment appetite of retail customers. Signs of recovery emerged in the second half of fiscal year 2016 but asset management consulting cannot be satisfied with a simple self-sustaining recovery in investor confidence as it has not yet addressed enormous untapped needs. It is thus no exaggeration to say this field is one of intense interest for the Japanese people but financial institutions have yet to fashion a genuine response to such needs. The Shinsei Bank Group sees enormous untapped business opportunities if it can go beyond its own network and collaborate with companies outside the Group and harness AI to ascertain the asset management needs of customers in the age 30-40 cohort who are ready to accumulate financial assets and savings. Leveraging AI, the Group is working on developing customer analysis models for marketing and providing customers with products that match their specific needs through channels that are convenient for them, and on renovating our customer relationship management (CRM) systems linking up multiple channels such as the

internet, smartphones, branches and call centers (Please see “Special Feature: Shinsei IR Day: Retail Banking” on page 33 for more information.).

In fields we expect to deliver future growth and where the Bank looks to create customer value through groundbreaking innovation, we group settlement services, business solutions for SMEs, collaboration and alliances with regional financial institutions, and business succession finance in the strategic initiative areas.

In settlement services, APLUS Co., Ltd. (APLUS) commenced offering a settlement agent service in Japan for Chinese mobile settlement service WeChat Pay, which is operated in China by WeChat, China’s largest SNS service. The Group is working to add more merchants accepting WeChat Pay and rapidly build out the WeChat Pay outlet network in Japan. In business solutions for SMEs, we launched a vendor leasing business as a collaborative venture between Showa Leasing Co., Ltd. (Showa Leasing) and APLUS. The latter is engaged in installment sales business for its member merchants and is responsible for credit decision functions. The former is responsible for the leasing and leased asset administration functions. The venture proposes leases as a form of finance to individual business owners that are APLUS member merchants with plans to purchase equipment. For the Shinsei Bank Group, the venture is expected to offer a means to achieve stronger engagement and lock-in with a new customer base.

Even after the Bank of Japan introduced the negative interest rate policy, we have not sought to substantially alter the direction of the basic policies in the Third MTMP, and as a result of resolute efforts to improve our core profitability, the two businesses we identified as growth areas are steadily growing, and there are promising signs emerging in each of the businesses we classify as strategic initiative areas.

Our Capabilities to Respond to a Changing Environment

We believe the environment facing the financial industry is entering an era of sweeping, fundamental change. Considering the advance of financial technologies and entry of non-financial firms into the financial area, it is not important whether banks or some other kind of entity provide the products and services from the vantage point of customers. Companies that survive will be those offering more attractive products and services that customers prefer, regardless of the field from which they originate. The Shinsei Bank Group has a broad spectrum of business know-how and a customer base in so-called non-bank

fields such as consumer finance and leasing that fall outside the conventional boundaries of banking, securities and trusts, and it is able to manage these in a coordinated manner. For the Group, an era of sweeping change is a welcomed entry point to new opportunities.

Upon reflection, we realized the Group was up against real limits in adapting to the changes reshaping the business environment if it stayed the course as a result of the growing tendency of the Group’s organizational management to create silos through the bundling of our Group-based organization structure and the erection of boundaries delineating fields of finance. As I mentioned at the start, we are a new kind of integrated financial group, so the Shinsei Bank Group needs organizational capabilities. Along with Shinsei Bank, it is vitally important that we encourage Group companies such as Shinsei Financial Co., Ltd., APLUS, Showa Leasing, Shinsei Trust & Banking Co., Ltd., Shinsei Securities Co., Ltd., and SHINSEI PRINCIPAL INVESTMENTS LTD. (Shinsei PI Group) to draw out the best from their human resources, business bases and product development capabilities so they can reinforce the appeal of their product lineups while reminding them to move with sufficient speed. This is a matter of high urgency for integrating the Group.

The key ideas for advancing Group integration are integrating operations, bringing our people together, and integrating our businesses (Please see “Special Feature: Progress Assessment of Group Integration” on page 30 for more information.). For starters, prime examples of integrating operations is the retirement of the Group-based organization structure we had used for many years along with the consolidation in effect of head-office functions of Group companies into the “Group Headquarters,” which was established at Shinsei Bank in April 2017. The consolidation of Group company head-office functions has enabled us to streamline operations and improve productivity as well as work to improve our operational performance by providing high value-added services to business divisions and bolstering our capabilities for devising Group-based strategies. With the Group Headquarters now in place, what we aim to achieve next is the reorganization of the Group’s business structure according to each function provided to customers. We will start work on this from fiscal year 2017. Our goal is to construct an organization that optimizes the Shinsei Bank Group as a whole in ways that transcends boundaries splitting finance into different fields.

What we also need to achieve to lower barriers among fields is to bring our people together. What we aim for is not merely



putting personnel together to exchange information and ideas or a policy of employee rotations. Our ambition is to strategically deploy human resources from the overall pool of Shinsei Bank Group employees from the perspective of what person is best suited to which business. It is our expectation that when human resources from a different field or corporate culture work toward achieving common goals within the context of a single organization, new points of focus and ideas will emerge that are a clean break from what had been the case before. The latent potential of the Shinsei Bank Group to become a driving force for identifying new focal points and proposing new ideas is enormous. Of the benefits we expect to derive from bringing our people together, this is one of the most important. To achieve this, the management team, including me, will be steadfast in communicating with Group employees and strive to develop organizational management and personnel systems from a Group-wide perspective.

Our efforts in bringing our people together will necessarily help integrate our businesses. The expertise and business experiences each of our employees possess will organically connect dots from which new businesses will emerge, and existing businesses will hit upon solutions they never even conceived of before that move them forward. As a mean for achieving this, we launched the “Cross-Company Business Unit” in April 2017. The unit is tasked with sharing information by transcending Group company boundaries in specific areas—business units aimed at corporate clients and financial institutions, structured finance, businesses aimed at individuals, and analytics—as well as generating ideas that advance Group-based businesses, with a particular focus on unit leaders, and examining whether organizational restructuring or function consolidation are necessary to move forward.

Through our efforts at integrating operations, bringing our people together, and integrating our businesses, I believe the Shinsei Bank Group has the organizational capabilities to adapt to all kinds of environmental changes.

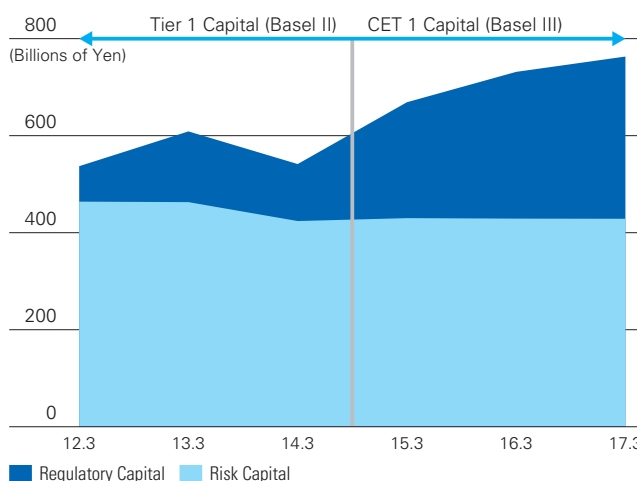
Our Capital Policies and Public Fund Repayment Efforts

We recognize communicating with the market about our capital policies has become even more important in view of the progress we have made in accumulating capital that can be used for public fund repayments as a result of our booking of solid earnings in the past several years.

As a way of returning profits to shareholders, we announced a common stock repurchase plan with a maximum aggregate value of ¥10 billion in May 2016 based on our current level of capital accumulation to enhance per-share value. With regards to public fund repayments, given that the public capital supplied to Shinsei Bank has been converted to common shares, we are studying viable plans for repaying public funds in an effort to construct and execute such a plan.

We remain mindful of the need to secure earnings that can fund public fund repayments but also of the need to pursue a suitably balanced approach to capital allocation between deploying capital in our businesses and returning profits to our shareholders to enhance per-share value.

Regulatory Capital / Risk Capital Trends





In Closing

We are resolutely pressing ahead with the three key management issues of our core profitability, our capabilities to respond to a changing environment, and our capital policies and public fund repayment efforts. We believe properly explaining the results of these initiatives to the market will contribute to enhancing the sustainable corporate value of the Shinsei Bank Group. We also think this will enable us to meet the expectations of all stakeholders connected to the Shinsei Bank Group.

Going forward, we hope to continue to seek the understanding and support of all our stakeholders.

July 2017

Hideyuki Kudo
President and Chief Executive Officer



LETTER FROM FINANCE

We aim for sustainable growth of stable earnings through optimal allocation of management resources in accordance with the Group's management strategy.

Earnings Performance in Fiscal Year 2016

In fiscal year 2016, the Third MTMP's first fiscal year, we applied "selection and concentration" tests to our businesses to achieve effective modulation in our financial management. We selectively directed more management resources to growth areas and racked up commensurate results.

Total revenue increased to ¥228.5 billion, up ¥11.9 billion from fiscal year 2015. Of that, net interest income totaled ¥122.2 billion, about even with the fiscal year 2015 level, while noninterest income totaled ¥106.2 billion, up ¥11.9 billion from fiscal year 2015. As for interest income, the negative effects of the base rate reduction and spread compression due to stiffer competition caused by the introduction of the negative interest rate policy were offset by steady income growth on expansion in the unsecured personal loan balance. As for noninterest income, revenue related to asset management product sales declined at the retail banking business but fees increased on buoyant initiatives for new projects at the structured finance business and large gains were booked on sales of investment securities. Noninterest income also benefited from the non-recurrence of losses on the reassessment of a fund investment at the principle transactions business that was recorded in fiscal year 2015.

Expenses increased to ¥142.4 billion, up ¥1.9 billion from fiscal year 2015, due to the effects of the tax code revisions and allocations to growth areas such as IT system costs aimed at

supporting business base expansion. The expense-to-revenue ratio improved to 62.3% from 64.9% in fiscal year 2015.

Net credit costs increased to ¥31.8 billion on provisioning to general reserves attendant with loan balance expansion in growth areas.

Additional provisions to reserves for losses on interest repayments for APLUS FINANCIAL and Shinsei Personal Loan totaled ¥5.1 billion. As a result, profit attributable to owners of the parent totaled ¥50.7 billion in fiscal year 2016.

Asset quality is shown by nonperforming loans (NPLs) under the Financial Revitalization Law (nonconsolidated basis). The ratio of NPLs to the overall loan balance improved to 0.22% as of March 31, 2017 from 0.79% as of March 31, 2016.

Capital has been built up as the Bank has recorded profits year after year, and its Basel III international standard (fully loaded basis) Common Equity Tier 1 Capital Ratio stood at 12.3%. The Bank has kept its capital level at a sufficient level against financial regulatory capital requirements and the level needed to operate its businesses as spelled out in the Third MTMP. Based on an overall assessment of our share price, capital level, profitability, and per-share value, we executed a common stock buyback program, repurchasing a total of 75,564,000 shares. We continue to aim to improve per-share value through appropriate capital allocation policies predicated on maintaining adequate capital levels.

Financial Management Policies for Fiscal Year 2017

In fiscal year 2017, we will implement financial management in a way to achieve the best allocation of management resources based on the Group's management strategy while continuing to monitor trends in financial markets attendant with murky political-economic conditions, especially overseas. We will continue to selectively direct more management resources to the growth areas of unsecured personal loans and structured finance and turn these into a rock-solid earnings base. We will also work to improve productivity through operational streamlining and execute rigorous cost management. We intend to forge ahead further with integration the Shinsei Bank Group across our operations, businesses and people.

		3rd Medium Term Management Plan	
		FY2016 Actual	FY2018 Plan ²
Sustainability	Profit Attributable to Owners of the Parent	50.7 billion yen	64.0 billion yen
	RORA ¹	0.8%	Around 1%
Efficiency	Expense-to-Revenue Ratio	62.3%	Below 60%

1 RORA is calculated as net income divided by fiscal year end risk assets
2 Announced on January 29, 2016

We will continue to work tirelessly in order to meet the expectations of all of our stakeholders.

July 2017

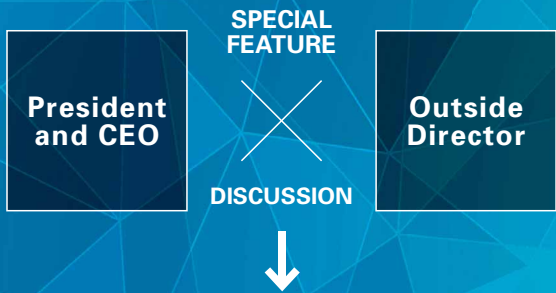
Masayuki Nankouin
Chief Officer
Group Corporate Planning and Finance



Moderator:
Yoshinobu Yamada
Managing Director, Senior Analyst
Global Markets Research
Deutsche Securities Inc.

Hideyuki Kudo
Representative Director, President and CEO
Shinsei Bank, Limited

Jun Makiyara
Outside Director
Shinsei Bank, Limited



INCREASING VALUE for stakeholders

We held the special feature program under the theme of “Increasing value for stakeholders”.

Mr. Jun Makiyara, Outside Director with extensive experience in finance both in Japan and overseas, and Mr. Hideyuki Kudo, Representative Director, President and CEO, had a discussion how to increase corporate value over the medium- and long-term.

This program was moderated by Mr. Yoshinobu Yamada, the banking sector senior analyst at Deutsche Securities Inc.

The banking sector's current state and future

Given the needs of society, the traditional business model for commercial banking of accepting deposits and making loans no longer generates substantial value added. A future is approaching where the need to be closely wedded to the banking model will fade.

Yamada Can you share with us your current recognition of the banking model around the world?

Kudo From a business standpoint for the Shinsei Bank Group, we see no need to stick with the banking model. To start with, commercial banking comes with various restrictions. These are not necessarily well aligned with the way society is changing and, in some cases, no longer match the needs of customers. In addition, when I think about the wide-ranging functions of Shinsei Group companies from the standpoint of providing value added to our customers, we do not necessarily provide our services as a “Bank.”

In view of what I've said, one aspect that comes to my attention in looking at the situation facing commercial banking is the restrictions and hurdles posed by capital regulations and various regulations on operational execution. In particular, I think it is becoming a constrictive format for banks seeking to be responsive to diversifying customer needs. And while the situation in Japan and overseas markets differ somewhat, there is a recognition the value added from a simple lending business is growing extremely minuscule. There is little doubt the traditional business, where a bank is deemed eligible for the special funding method of accepting deposits and then lends out those funds, no longer generates substantial added value.

Makihara As conventional loan-deposit banking became increasingly commoditized, banks sought to move into different fields but this came back to bite in the form of the global financial crisis. On top of the financial damage, many layers of regulations have been imposed on banks, so I think it has become exceedingly difficult to manage banks. On this score, I think the situation facing banks is similar in Japan and overseas.

Furthermore, it has become much harder to earn profits with a traditional banking model since the sector entered the current era of low interest rates, and banks are extremely hampered by regulatory costs. The banking sector in Japan is saturated, so the situation facing banks is one where there must be a sense of what businesses earn money, what businesses must be retained in the public interest and what else should banks do. I think these are the sorts of questions increasingly directed at the sector. What is happening now, moreover, is a wide assortment of ventures can tap into money flows through FinTech. I think this has led banks to feel regulation has swung too far toward strictness and prompted them to consider pursuing opportunities in new fields.

Yamada In view of the current situation, please tell us what a sustainable business model looks like for a bank five or ten years from now.

Kudo I don't think there is a single business model for the bank of the future. Our Group, for one, has identified a direction it seeks to go using the strengths and management resources we possess but looking at the banking sector as a whole, I do not necessarily think there are all that many commonalities.



I believe, for example, the world will clearly become even more digital. Even so, I think there are unique attributes to this trend in Japan such as a climate where high-touch customer services are oddly pursued to a degree that is burningly fervent but are then only half-baked into the final product. In some ways, customers have become acclimated to this pattern. If you think this is a digital age, is it smart to simply try to put everything online? In my view, just putting services online or making them smartphone accessible does not make for good services. I think there is a need to create business models for Japan where services are not merely rendered into a digital format or made available online.

Makihara Banks basically accept deposits, a function that comes with public interest obligations, and they must then put these funds to work for business purposes. The strenuous pursuit of cost

cutting is a part of the work of conventional lending and deposit gathering. That said, I don't think it is necessary to compete solely by channeling enormous energy into cost cutting but banks cannot afford to stop doing it either.

The remaining businesses that can boost earnings are advisory. Such businesses include asset management, asset bequests and succession advisory for the elderly, and financial advisory for companies that require some degree of expertise. Another example is so-called investment banking. Putting aside the matter of whether or not Shinsei Bank will pursue such work, it is a business where risks can balloon to a gigantic scale unless management is paying sufficient attention to them.

What comes next is to ask whether to run a domestic business or to operate globally. Even if a bank thinks the domestic market is overcrowded and

sought to grow globally, each country presents different cultures, regulations and risks to consider. What is really hurting U.S. and European banks is oversight from multiple regulators. Some regulations are even contradictory, and regulatory compliance costs are very high.

In many cases, banks are squeezed as regulatory authorities compete with each other. Regulators in Japan are fairly careful to avoid such contradictions among regulators, so the absence of that dynamic is one of the positives of doing business only in Japan in my view.

It is very difficult to envision what banks will become in five or ten years. To an extent, the best approach will likely be to keep costs as low as possible by using technology in commoditized businesses and to assemble and retain capable teams with expertise and specialized knowledge and pursue advisory work in customizable businesses.

Challenges and Initiatives the Shinsei Bank Group must address to realize corporate value over the medium- and long-term

We already collect enormous volumes of data and use these collections to provide products for individuals and small businesses and offer high value-added financial services through customization. Two things we need to address from here are: 1) transcending boundaries segmenting the financial industry and striving rigorously to improve productivity using technology for functions that support automation; and 2) providing services based on even deeper expertise and knowledge in areas where we excel for functions that provide added value to customers.

Yamada What should the Shinsei Bank Group do to increase corporate value as it looks down the road at the bank of the future sketched out above? Alternatively, what and how do you think about the risks attendant with such endeavors?

Kudo Going back to what Mr. Makihara touched on earlier, it is important in services to separate the customer interface piece from the back-office operation piece. In the latter, there is little choice but to improve productivity as much as possible. I think the technologies applied to that end can be applied over and over again.

In contrast, figuring out how to build in the customer interface piece in ways that creates a value-added experience for customers is the essence of design itself. That is where I think uniquely Japanese ingenuity is necessary.

What I don't think we necessarily need to do, for example, is to strive on our own to advance a basic technology such as Blockchain, even though it will undoubtedly find its way into the financial business. As de-facto standards emerge, we naturally expect to apply those to our

operations. That said, Blockchain is not an area where we intend to play a leading role in technology development.

When vaguely dropping the term "FinTech" into discussions, we need to ask ourselves two separate questions when considering this trend. Do we really need to channel our efforts into such ventures? Is it enough just to keep up properly with changes in society? I would like us to focus our energies on our customer touch points.

Yamada With financial institutions around the world moving in more or less the same direction on how to apply artificial intelligence (AI) and FinTech, what are your thought on the Shinsei Bank Group's unique attributes, strengths and points of differentiation versus other banks?

Kudo Technologies are something any financial institution can adopt. In the initial phase after a technology is adopted, this can be a source of appeal but I do not think staying at that level is a source of lasting differentiation. In the end I think what is important is the kinds of

products and services you can provide via the application of technologies. I see two entry points in thinking about deploying technologies.

First, the current boundaries that separate the financial sector are not necessarily consumer oriented. A sector structure where banks and card issuers exist side by side, each with separate regulatory systems, will undoubtedly erode and crumble. From the standpoint of putting the consumer first, the current sector structure is certainly strange. As the boundaries segmenting the financial sector dissolve, we intend to be a frontrunner in what we see as a natural process of financial institutions providing more integrated services from a customer standpoint. We think it will not be easy for other banks to mimic our approach to this opportunity. Each of our competitors is already large, so copying us will be easier said than done. The Group is moving forward on many fronts but even at our smaller scale, reorganizing around such initiatives within the Group is no easy task and we doubt other banks will

be able to easily replicate our approach. In that sense, we think our hard-to-mimic approach to this opportunity is a source of differentiation.

The other entry point is the substantial differences in how we deploy technology, and here in turn is precisely how we build up customer interfaces and how we apply design ideas and specifications. We think design will become an especially important matter in the years ahead. This is the case in ensuring pages can be viewed on a single screen on a smartphone, for example. I think the difference between us and our competitors will come from whether we can build interfaces by remaining aware of the user experience.

Yamada My impression of President Kudo's core message in what he shared just now is that the high convenience, one-stop component is important for individuals. As for corporations, responding to various problems in a tailor-made manner is important. To move in that direction, what are the problems that must be addressed here today?

Kudo Thank you for bringing up the distinction between individuals and corporations. Even among companies, we think we can build models for smaller enterprises from the enormous data flows we process, like we do for individuals. For enterprises with greater scale, we need to have a structure that is useful in addressing problems they face so they feel we add value. Given the Shinsei Bank Group's smaller scale, we need to develop genuine niches and fields of strength rather than attempt to do everything relying on intuition. Outside of real estate finance and project finance, for example, we need to decide on several fields such as business succession, support for closing down or restructuring small businesses, and health care. While those are just examples of what we could pursue, we need to decide on several fields and dig deeper.

Makihara There are not any companies or people without relationships, so providing new services to our existing customers is fine but in developing new customers, there will always be competitors. It is next to impossible to stand out from the crowd and offer something

new without seeing who the competition is. There are teams with skillfully constructed capabilities who grasp that at Shinsei Bank Group but they need to be nurtured and tested to grow. It is a truism for any company that management's most important tasks are to foster outstanding teams, provide them with incentives, and point them in the right direction.

Kudo In essence, the direction we will likely go is to identify targets our competitors are unlikely to pursue and seek niches within those targets based on a granular understanding of them. Our approach will be to use the fields where we have already built top-notch teams as a point of departure to venture out into other areas. As I mentioned earlier, in the field of structured finance, for example, despite some missteps, our teams have learned a lot and individual members have grown. I think we are now able to add new human resources in such fields and expand the size of our teams while training new people, and then expand outward from there. I believe we are ready to do this in several fields.

Makihara For example, consider asset management products. I doubt there is anyone who is entirely satisfied with the products available now. Yet there are clearly unmet needs. Rather than source only in Japan, I think one potential growth field is to bring in overseas asset management firms and offer their funds through alliances with regional financial institutions. But is it actually possible to do that? If such partnerships were easy to launch, I think many others would have already done it. Sizing up and identifying a good asset management firm, sealing an alliance, and then building a good marketing network is an enormous undertaking. I think this is an example of something the Shinsei Bank Group is well placed to pursue.





Yamada In pursuing expertise, I think the most important point is cost. In the startup phrase, upfront investments are invariably necessary. In terms of increasing overall corporate value, how one thinks about cost management is important.

Kudo In fields where existing businesses are proceeding with current operations, managers have little choice but to be thoroughgoing in their focus on improving productivity. I think we need to continue to seek to find any points of entry that enable us to pursue productivity gains but this would mean forming new habits of the mind. Some Japanese manufacturers are able to improve productivity in such ways but financial institutions do not have such cultures. The mindset that seems to invariably prevail at financial institutions is pursuit of the blockbuster deal. That said, in the years ahead, especially in the case of commercial banks, chasing such “whales” is unlikely to be fruitful. In operational functions, banks must seek openings anywhere they can be found to pursue comprehensive productivity gains. As a starting point to achieve this, building such mindsets will be important in my view.

On top of that, for many things to be substantially altered, investments will be necessary, as Mr. Yamada mentioned. For justifying each investment, I think what matters is the degree to which

the underlying “big picture” story is convincing. If management is able to make a powerful case, investors with medium- and long-term horizons will be convinced. To the extent management achieves that, I think some level of investment is possible. Of course, we in management think about single-year earnings performance and balancing that against capital levels but these depend on the viability of balanced decision-making and the importance of the big picture narrative and its viability.

Yamada With regards to how profits are allocated, a normal non-financial company chooses between forward-looking investments and returning profits to shareholders but in the case of banks, a third option is regulatory response. Getting the balance right on the three options is very difficult. What sort of balance do you think is likely to be sought in the coming five to ten years?

Kudo With regards to the third option, we naturally need to respond but we are a bank subject to domestic standards. There are others in the industry that must meet regulatory capital requirements even sooner. Fortunately, we have a good overall grasp of the direction this issue is going. Our approach will be to minimize regulatory costs and focus instead on the two remaining options for profit allocation.

Makihara Shinsei Bank is a public fund injected bank. The Japanese government is one of our shareholders and we are required to build up retained earnings as a source for public fund repayment. In returning profits, we must take into account how to build up our capital base in the future even as we execute policies to return profits to shareholders. Even more than normal regulatory compliance, it is a major burden to always be thinking about the public capital we received.

Yes, the three options are forward-looking investments, repaying public funds, and returning profits to shareholders. These are the choices all banks face. Within the forward-looking investment bucket, the biggest is IT investment. At Shinsei Bank, we must actually allocate funds to operations and upgrades and just as we feel relieved when those funds are at last deployed, then something like a cyber attack requires a response. At such times, it always feels to me like IT is a potentially unlimited reservoir of needs. Navigating in such situations is very challenging. One of our outside directors is an IT expert, so we tap into his knowledge.



Value provided to stakeholders

In addition to increasing the absolute size of our earnings, it is also important to assure market participants sustainable growth. That said, even as we seek to boost profits, we must objectively examine what that entails, weighting risk against prospective reward.

Yamada What are the methods for increasing over time stakeholder value? Does it ultimately come down to profits?

Kudo Of course that is the case. A very simple truth is that without increasing net profits, we cannot make all our stakeholders happy. The key is how to steadily increase net profits. Moreover, beyond increasing the absolute size of our earnings, it is important to assure the stock market, for example, that we can keep sustainable growth, and ultimately, confidence in our ability to deliver will impact share price valuation. On the basis of these two perspectives, I think the initiatives we are working on are probably right and that we have probably found a good balance.

Makihara Unlike manufacturers, financial institutions do not have patents, so when something we try starts off well, rivals will copy us. We must always look for new ideas but we cannot rely solely on new ideas. Regarding sources of sustainable, stable revenue, what I think has the most promising outlook is our relationship with individual consumers. They feel safe in borrowing money from a bank. If they feel they can count on us to do business safely, it will be hard for a competitor to swoop in from the side and snatch them away. I feel a very big piece of Shinsei Bank's future is our relationship with consumers, including Shinsei Financial Co., Ltd. and APLUS FINANCIAL Co., Ltd.

Yamada Considering that taking on risk can translate into higher profits but not doing so can lead to stagnation, how does Shinsei Bank plan to manage the risks that come from business expansion going forward?

Makihara For example, our Board of Directors as a whole is very aware that expanding overseas would be a high-risk venture, so apart from pursuing niches we are really confident will go well, there is not much of an inclination to go after overseas opportunities. All of our Board members have had a variety of experiences overseas, so each of them can be objective in weighing risk against reward in making business decisions. When an opportunity overseas comes up for consideration, the debate is quite rigorous.

Kudo This may seem counterintuitive but if our Board were entirely Japanese, I imagine we would debate going overseas to seek opportunities because of the limited scope for growth in Japan. But when we listen to an American for instance, he would tell us that doing business in the U.S. is not a simple proposition. Given our Board composition, executive officers at the Bank realize they must gather enough materials to be able to convince all our directors. On that basis, we look at various overseas opportunities.

Roles outside directors are expected to fulfill and what outside directors expect of management and executive officers regarding the Shinsei Bank Group's efforts to increase corporate value over the medium- and long-terms

Whether good or bad, information steadily flows up to the Board, so outside directors are expected to exhaustively debate relevant matters based on the knowledge and expertise each brings to the Board. Shinsei Bank's corporate governance really excels in keeping executives on their toes.

Yamada Mr. Makihara, how does the role of an outside director at a bank differ from that at a normal non-financial company?

Makihara From a general theory perspective, they are the same. Yet, given their oversight responsibilities, I think boards tend to be conservative. They tend to focus on risks. So how does the Board of Directors at a bank differ? Banks face many intangible risks. I also serve as an outside director at a tobacco company, and I understand the risks and whether or not what I am told is consistent. In contrast, banks have many intangible risks. For an outside director of a bank, information that comes to the Board from management and information that we exchange with management are very important. Unless both good and bad information are both properly escalated to the Board, our decision-making will become more and more skewed.

At a normal non-financial company, shareholders are the most important stakeholder but at a bank, shareholders

and regulators are. Banks perform key public functions and if they cause problems for depositors, it becomes a national problem. A bank's board must pay attention to shareholders but they must also keep an eye on regulatory authorities as well. This is one way banks differ from non-financial companies.

Yamada Given that, how do you feel about Shinsei Bank's current corporate governance? Or are there issues you would like to raise?

Makihara I think corporate governance at Shinsei Bank is very robust. Outside directors comprise a majority on the Board. Each director has a distinct personality and confidently states his views. Board meetings go on for five or six hours, so we debate many issues in detail. Many of our directors are unwilling to move on to the next item even if discussion goes past its allocated time, so each issue is thoroughly debated. In that sense, I think governance is robust. On the matter of information provision, both good and bad information is steadily escalated to the Board, which is also

a positive from a governance standpoint. I consider Shinsei Bank to be a governance valedictorian.

Mr. Flowers, Mr. Higa and I all have years of experience overseas and monitor what is happening both in Japan and overseas, and overseas standards and Japanese ones have both strengths and weaknesses, so we can weave all those elements into our debates. Mr. Kani and Mr. Tomimura also weigh in on our debates from their differing viewpoints.

The collection of outside directors we have assembled each has his own areas of expertise—an important attribute in my view. Various data, reports, and other materials are escalated to the Board for review, and if any of us has even a morsel of doubt about what we are reviewing, then we delve into the issue and look hard for answers and debate what we find. I believe one of the important functions of governance is keeping executives on their toes. I think the Bank's executive officers constantly ask themselves how the Board will see their decisions and actions.

The ways outside directors are expected to increase the Shinsei Bank Group's corporate value over the medium- and long-terms

It is not necessary for outside directors to have complete knowledge of banking operations. Management actually thinks “a very high-level amateur” would be fine for this role. That said, each outside director must have their own important entry points into discussions, and they are expected to be rigorous in pressing executive officers for answers on those areas of focus.



Yamada President Kudo, what are your expectations for outside directors?

Kudo There are two roles I would like outside directors to fulfill. First, as Mr. Makihara said, while I will state it somewhat differently than him, I think “very

high-level amateurs” are fine for this role. In my view, it is entirely unnecessary for them to have a complete understanding of banking operations but each outside director must have their own important entry points into discussions.

For one, that is IT, and for another, it is governance. All of our outside directors have areas of focus that are important to running a bank, and they must be rigorous in pressing executive officers for answers in these areas. At many companies, Board members ask questions after listening to an explanation from executive officers. At that stage, executive officers respond and debate ends when directors signal understanding but at Shinsei Bank debate does not end there. Directors follow up with more questions, asking executive officers “why?” and “what for?” Executive officers must then provide even more in-depth answers. I think challenging executive officers for more detailed responses is an extremely important role for outside directors in their key areas of focus. Unless outside directors are willing to pursue high-stake matters in such a manner, just adding several more members to the Board would not add value.



Shinsei Bank Group's ambitions for increasing corporate value over the medium- and long-terms

The Shinsei Bank Group has built up functions that cross traditional financial boundaries and accumulated ample capital as a result of booking steady earnings, so the Group is now in a position where it can be flexible in various ways. We seek to swiftly convert this flexibility into advantages in terms of actual business competition. The Group would like our customers to be favorably impressed with how “cool” or “interesting” what we are doing is.

Yamada How would you as President summarize the strategy, position, and challenges facing the Shinsei Bank Group over the medium- and long-term from here?

Kudo Chance has conferred on the Shinsei Bank Group some nice pieces, and we have also benefited from several very favorable elements in the business environment. I think, for example, credit cards, shopping credit, and unsecured personal loans are important functions for the Group in our medium-to-long-term strategy.

We also do not bear responsibility for a specific region of Japan nor is it necessary for us to worry about Japan's macro-economic fundamentals. We are in a position to simply search for our

competitive domains, flexibly design our Group's composition without any constraints or impediments, and respond to the needs of our customers. Furthermore, we have steadily recorded profits for several years, so we have enough capital to direct some to growth investments if we deem that to be the proper course and we could increase shareholder return. In many ways, we are a position to be flexible.

I think this is an exceedingly important stage for us in terms of how swiftly can we convert this wherewithal into the accumulation of competitive advantages in actual business competition. I think the next two or three years will be decisive. With our competitors still on the fence, the extent to which

we can gain and extend a lead will be important, I believe, given latent prospective rivals outside of the banking sector. For that reason, we plan to try various stratagems.

I think the Shinsei Bank Group's position and way doing of business are likely to be different in the future from now. I hope we can swiftly reach a point where the ultimate evaluation of our customers and how our customers view us will be as “cool” or “interesting.” Behind the curtain in operations, we will rigorously seek to improve our productivity but in our customer-facing exteriors, we will need to deploy a variety of functions with very high cost efficiency in ways that favorably impress our customers with the interesting services we offer.

Special Feature: Progress Assessment of Group Integration

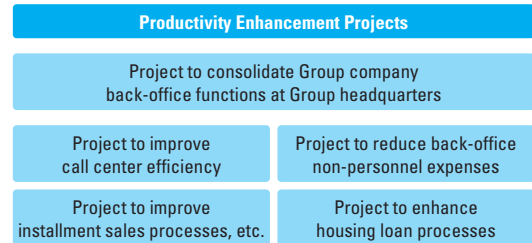
The Shinsei Bank Group aims to be financial group providing innovative financial services through the harnessing of the full latent potential of the entire Group as an organic body.

Entry Points for Group Integration

The key themes we are promoting for Group integration are: 1) integrating operations; 2) integrating our businesses; and 3) bringing our people together.

1 Integrating Operations

- 1) Unification: Consolidate back-office functions of Group companies at the "Group Headquarters," improve efficiency via coordinated management
- 2) Streamlining: Improve efficiency of operational processes, improve productivity via optimization



2 Integrating Our Businesses

- 1) Create synergies among Group businesses from the customer's viewpoint
- 2) Allocate management resources flexibly and efficiently to each business based on overall optimization

3 Bringing our People Together

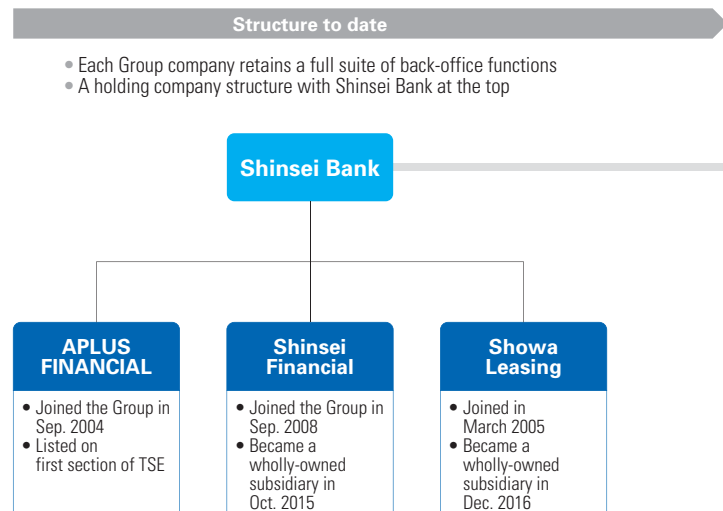
- 1) Implement Group-based talent management (identify, nurture and assign promising human capital) based on the principle of "Inclusion & Diversity"
- 2) Overhaul and administrate human resource systems to achieve the above

Consolidate Back-office Functions for Unified Management

Shinsei Bank in effect consolidated Group company back-office functions, including those of the parent, into the Group Headquarters, which was established in April 2017.

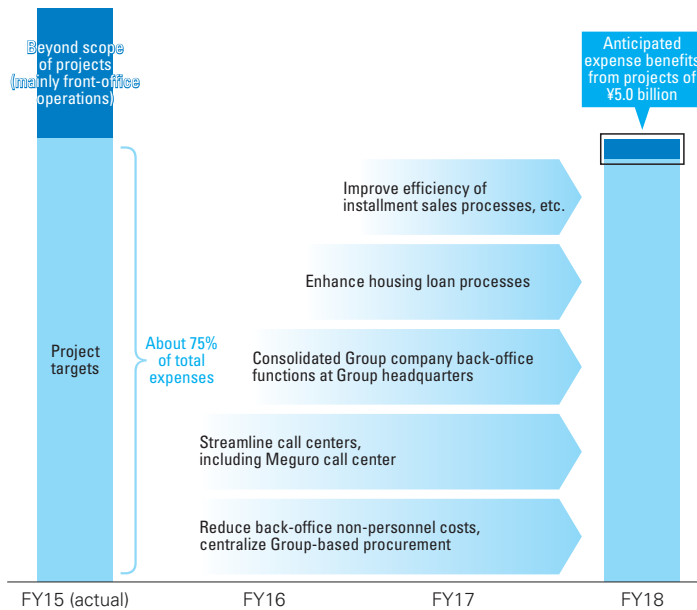
The purpose for establishing the Group Headquarters:

- 1) **Provide high value-added services to business divisions:** Along with promoting unified management of Group back-office functions and the sharing of best practices, we have achieved the construction of new functions such as fostering Group human resources that can be deployed to where they are best suited and making budgetary allocations in a highly transparent manner. In such ways, we provide higher value-added services to business divisions and sections.
- 2) **Innovate for higher productivity in both business divisions and back-office functions:** We have created an environment where business divisions and sections can execute initiatives from a customer-centric perspective by reducing their operational load through improvements in the productivity of the Group's back-office functions.
- 3) **Bolster strategic fields for growth:** Through efforts to improve the productivity of Group back-office functions, we will direct human resources we foster to business fields designated as growth areas and strategic initiative areas in particular.



Productivity Enhancement Projects

We are promoting productivity enhancement projects, having identified areas where projects were likely to yield high results. Back-office functions and call centers, for example, are areas identified as ripe for swift improvements in efficiency and productivity because there is overlap in these functions at the parent bank and Group companies. Housing loans and installment sales, for example, are areas identified as ripe for process improvements from the viewpoint of operating asset scale and work volume.



Communication between President and Group Employees

Shinsei Bank is working to energize communication between President Kudo and its employees with the aim of promoting a deeper understanding among Group employees of the Shinsei Bank Group's direction and management strategy. A total of 513 employees participated in a total of 15 meetings aimed at Shinsei Bank Group employees as of end-June 2017, including meetings based on participant rank at the Bank's Head Office, Group companies, and financial centers. We promote the shared values and direction the Shinsei Bank Group is aiming for through frank communication between employees and the president in meetings that can evolve into lively Q&A sessions.



The first-stage consolidation of Group back-office functions at "Group Headquarters" enables us to 1) enhance each function and optimize them from a Group-wide standpoint to strengthen the Group's governance, and 2) realize greater productivity and efficiency by consolidating overlapping functions at each Group company.

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

Functions reside at "Group Headquarters" in Shinsei Bank



Future Organization

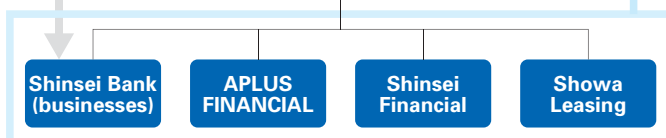
- Customer-centric restructuring of businesses

"Group Headquarters" functions

Restructuring of businesses by function and by customer category



Advanced Banking Interface (Internet & Smartphone Banking, Settlements)



Special Feature:

Shinsei IR Day

The Goal for Shinsei Bank Group

Strategies to Increase Value for Stakeholders

Sources of Corporate Value

ESG as Foundation, Increasing Corporate Value

Data Section



We believe it is of great importance that we not only communicate our financial results but that we provide a comprehensive view of our key businesses including their strategies, performance and future developments in order to facilitate engagement between the management of the Bank Group and our stakeholders.

As part of our efforts to achieve this, we hosted the Shinsei IR Day in fiscal year 2016.

Event Overview

Date: Monday, February 20, 2017



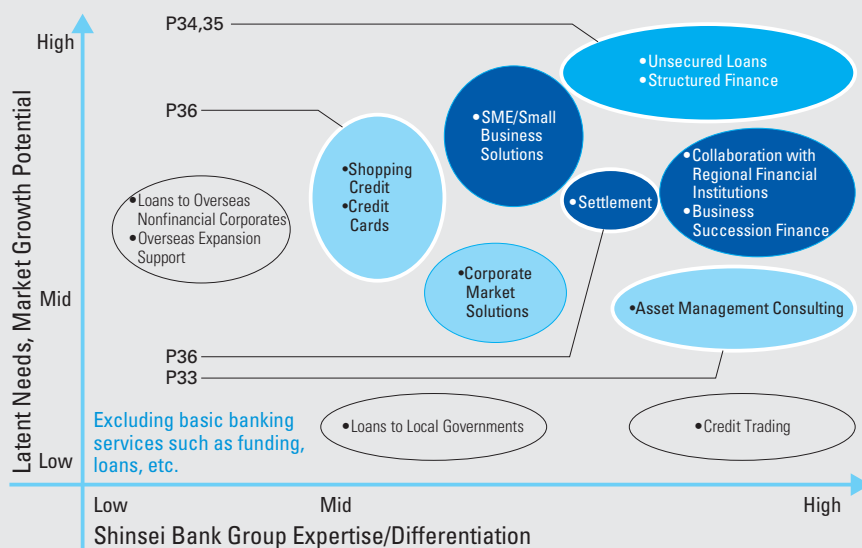
Hideyuki Kudo
President and Chief Executive Officer

The purpose of holding Shinsei IR Day was two-fold: 1) to explain the origins of the views of the team management, i.e., the foundation of our strategy in the Third Medium-Term Management Plan (Third MTMP), to market participants such as investors and analysts, and 2) to promote a better understanding of the Shinsei Bank Group through direct explanations from the heads of major businesses.

Based on the strategic mapping of businesses in the Third MTMP, executive officers responsible for each business area explained their views. From the Institutional Business segment, two executives discussed structured finance. From the Individual Business segment, an executive overseeing retail banking, including asset management consulting, discussed its direction, and two subsidiary CEOs discussed consumer finance, including the unsecured loan business, shopping credit and credit cards, and the settlements business.

- **The Summary of the First Year of the Third MTMP**
Hideyuki Kudo
President and Chief Executive Officer
- **Structured Finance**
Shinichirou Seto
Senior Managing Executive Officer, Head of Institutional Business
Nozomi Moue
Managing Executive Officer, Executive Officer in charge of Institutional Business
- **Retail Banking**
Tetsuro Shimizu
Managing Executive Officer, Head of Individual Business
- **Consumer Finance**
Riku Sugie
Managing Executive Officer in charge of Individual Business, President and CEO of Shinsei Financial Co., Ltd.
Akira Watanabe
Managing Executive Officer in charge of Individual Business, Representative Director and President and CEO of APLUS FINANCIAL Co., Ltd.

Strategic Mapping of Businesses



- Growth areas**
Areas in which the Shinsei Bank Group already has competitive advantages and is seen as having strong profit and growth potential.
- Stable revenue areas**
Areas in which the Shinsei Bank Group will stably and selectively engage in without being involved in excessive competition.
- Strategic initiative areas**
Areas which are expected to deliver future growth and in which the Bank looks to create customer value through groundbreaking innovations beyond conventional formats.
- Curtailment areas**
Areas in which the Shinsei Bank Group is poorly differentiated or the market is expected to shrink.

RETAIL BANKING

Tetsuro Shimizu
Managing Executive Officer,
Head of Individual Business



The Goal for Shinsei Bank Group

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Market Overview

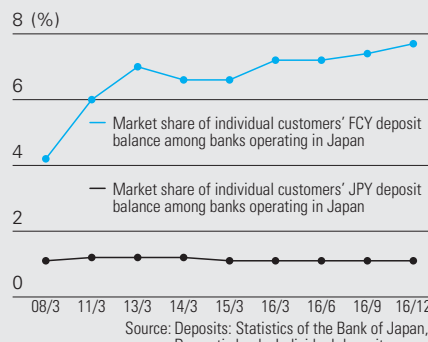
Deposits

With an extensive lineup of foreign currency deposits and high quality services which allow our customers to make FX transactions more easily, our foreign currency deposits are very popular and we have 7% market share in Japan.

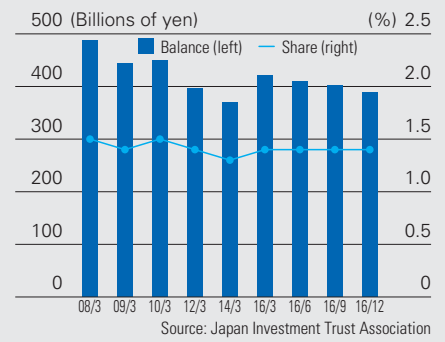
Asset Management Products

We support our customers' asset building and management over the medium- and long-term by expanding our product lineup with higher quality of service, especially in investment trusts and insurance products. We take these actions to respond to various types of needs and investment policies of our customers.

Market Share in Balance of Deposits



Market Share in Balance of Investment Trusts



Retail Banking Business: Challenges and Countermeasures

Challenges facing the retail banking business

- Customers who purchase asset management products are almost fired and are growing older
- More investment opportunities for cohorts in asset building age bands and young people
- Changing profitability of investment products, reflecting the economic and financial market environment

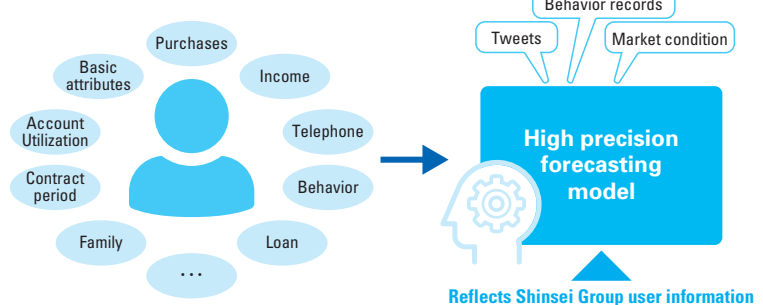


We aim to expand our business franchise by strengthening our relationships in tandem with efforts to optimize customer touch points by properly compiling and using customer information and maximizing the number contacts with customers through the integration of business functions. We are constructing CRM systems that link customers, channels, staff and operations and implementing advanced use of customer information by employing artificial intelligence (AI).

Introduction of a model utilizing AI in the Retail Banking Business

- **Use big data and information on customers**
Use data across categories such as loans, investment trusts and various card products for analysis as well as web behavior data
- **Use scientific and statistical methods for analysis**
Forecast degree of certainty on what products and channels optimally align with the attributes of each customer group
- **Adopt more advanced analytical methodologies**
Construct a forecasting model harnessing high-level machine-learning methods; feed results from implementing prior-generation models back into the latest model to promote additional learning and enhance the latest model

Purchase Prediction





STRUCTURED FINANCE

(Right)
Shinichirou Seto
 Senior Managing Executive Officer,
 Head of Institutional Business

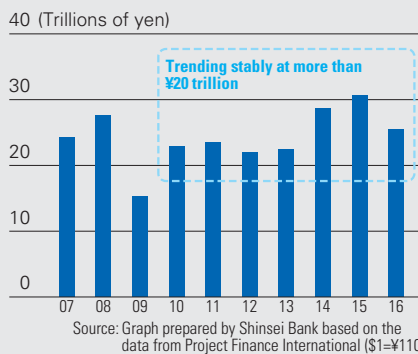
(Left)
Nozomi Moue
 Managing Executive Officer,
 Executive Officer in charge of
 Institutional Business

Market Overview

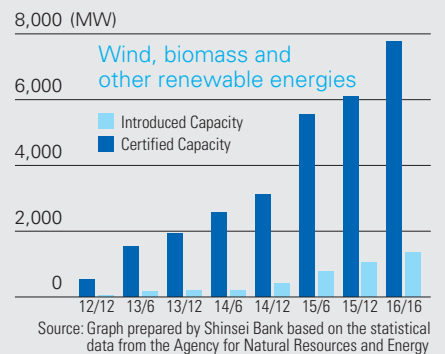
Project Finance

The total annual sum of project finance arrangements worldwide has steadily trended above ¥20 trillion since 2010. In domestic renewal energy generation projects, certified capacity for megasolar has peaked but non-deployed capacity is still huge and we expect growth in other forms of renewable energies, such as wind and biomass over the medium- and long-term.

Global project finance origination volumes

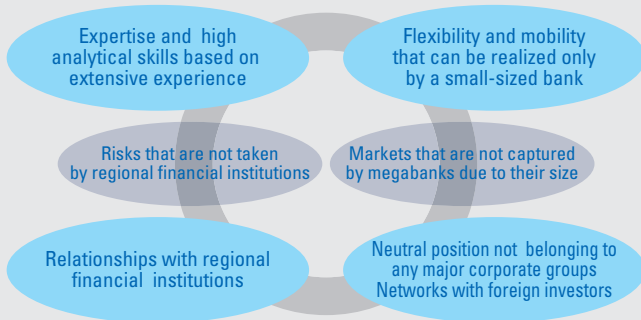


Renewable energy power generation facilities implemented (Japan)

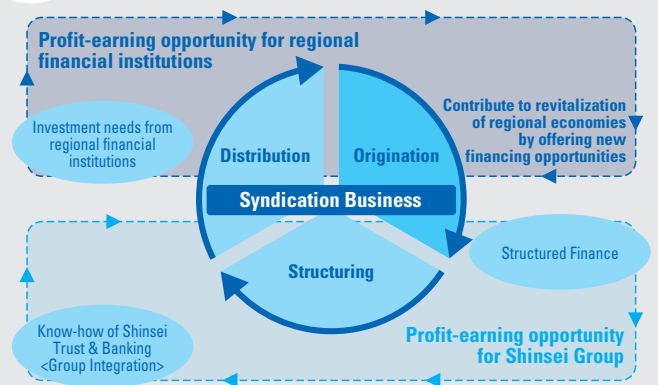


Shinsei Bank Group's Strengths

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



Building Win-Win Relationships with Regional Financial Institutions



Discussion with Project Finance Partner Japan Renewable Energy Corporation

Japan Renewable Energy Corporation, Representative Director, Executive Vice President and COO, Takahisa Nakagawa (Left)
 Shinsei Bank, Project Finance Division, Tetsufumi Miyake (Right)



JRE has sought to develop wind power projects since its founding

Nakagawa Shinsei Bank has been a help in the overall project and contract-related matters, as would be expected, and it has also provided minute analysis including wind conditions and needed insurance. We have received financing using a variety of schemes Shinsei Bank conceived of and this has been very important to Japan Renewable Energy Corporation's (JRE) development.

Miyake In the context of speaking with various participants, the new wind power project

has raised many points of discussion. We would propose an idea and JRE would respond with a request, asking "is it possible to arrange the financing in such-and-such a form?" Proceeding in this way resulted in a financing arrangement that pleased the parties involved.

Nakagawa It is very reassuring to know we were able to get another party outside of JRE to examine project risk carefully.

UNSECURED LOANS

Riku Sugie

Managing Executive Officer
in charge of Individual Business,
President and CEO of
Shinsei Financial Co., Ltd.



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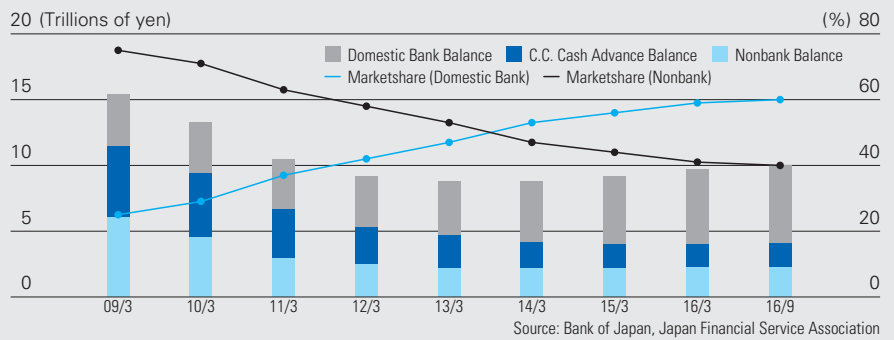
ESG as Foundation Increasing Corporate Value

Data Section

Market Overview

In the card loan business, card loans by non-banks have fallen substantially, due largely to full implementation of the revised Money Lending Business Law in 2010. In contrast, bank card loans have grown rapidly since 2011. Since Shinsei Bank Card Loan—Lake was launched in October 2011 as a bank card loan under the Lake brand, the subsidiary has continued to properly run its operations complying with the concept of the Money Lending Business Law, which was enacted to keep individual customers from multiple borrowing. Lake's position as a major consumer finance brand has been established.

Size of the card loan market



Future Market Trends

- Will banks also be required to comply with the total lending amount control?
- Existing consumer finance lenders could become active again
- Among emerging companies, better ones will be able to survive in the market
- Excess interest rate repayments wind down, gradual uptrend in past borrowers returning to obtain loans



Lake's focus on complying with the concept of the Money Lending Business Law could become a strength

Shinsei Bank Group's Strengths

- **Credit risk control capabilities that come from the non-banking sector**
- **Process and compliance structure premised on the Money Lending Business Law**
- **IT systems built internally and lean operations**
- **Outstanding level of service**
- **Analytical power (conventional scoring model, plus use of artificial intelligence)**

Expanding Non-Bank Business in Growing Asian Markets Using Group Strength

Since December 2016, Shinsei Bank has advanced its unsecured personal loans business in Vietnam jointly with partner Military Commercial Joint-Stock Bank, a major Vietnamese private-sector bank.



Please visit Shinsei Bank's website for more information
http://www.shinseibank.com/corporate/en/news/pdf/pdf2016/161121military_e.pdf



SHOPPING CREDIT, CREDIT CARDS, AND SETTLEMENTS

Akira Watanabe
 Managing Executive Officer
 in charge of Individual Business,
 Representative Director and
 President and CEO of
 APLUS FINANCIAL Co., Ltd.

Market Overview

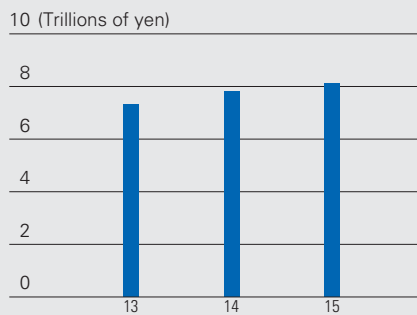
Shopping Credit

Market shrinkage caused by the revised Money Lending Business Law and the revised Installment Sales Law bottomed out. Against a backdrop of market cultivation in the past few years, there are signs of a gradual market expansion.

Credit Cards

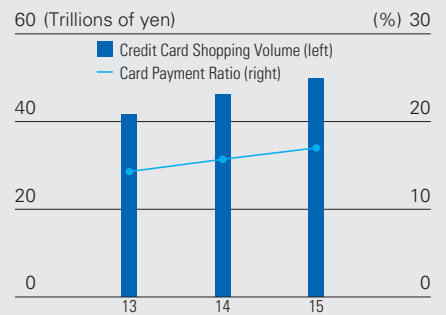
In addition to e-commerce (EC) market growth, we expect the shift to cashless transactions, as spelled out in the Japan Revitalization Strategy, to spur trends to improve related infrastructure.

Shopping Credit Market (Volume)



Source: "Japanese Credit Statistics," Japan Consumer Credit Association

Credit Card Shopping Market (Volume)



Card Payment Ratio = Market scale of Credit Card Shopping / Private Final Consumption
 Source: Market scale of Credit Card Shopping: "Japanese Credit Statistics," Japan Consumer Credit Association
 Private Final Consumption: "National Accounts of Japan," Cabinet Office

Shinsei Bank Group's Strengths

Shopping credit

We are developing and introducing shopping credit with links to the T-points loyalty program platform as an effort to promote our differentiation. Thanks to our focus on shopping credit (apart from auto loans), our profitability improved, so our operating revenue tends to increase even though our transaction volume trends sideways.

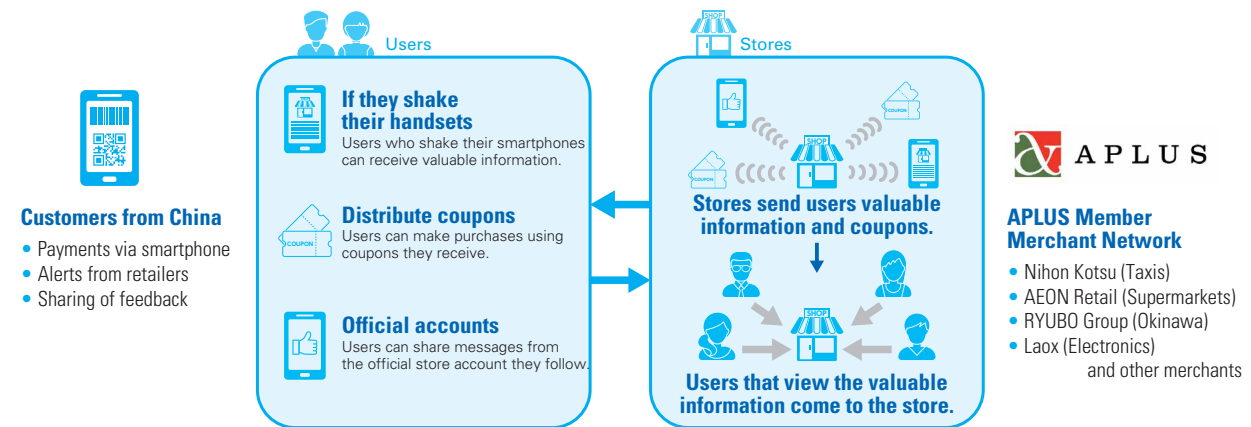
Credit cards

Thanks to implementation of outbound calls for user promotions and the introduction of cards with a default setting that puts purchases on revolving credit, growth in our revolving credit balance is contributing to profits.

Settlements

We are working to expand new settlement services such as our efforts to add more stores that handle our overseas prepaid card GAICA and develop the domestic network of outlets accepting WeChat Pay, a mobile settlement service for Chinese WeChat users.

Mobile Settlement Service "WeChat Pay" for Chinese WeChat Users



Feedback from Analysts and Investors

Comments received following Shinsei IR Day

Mr. Shinichi Ina

Analyst, Equity Research Department
UBS Securities Japan Co., Ltd.

There is a growing trend to reflect nonfinancial factors such as ESG and sustainability into corporate valuation. Under such circumstances, Shinsei Bank hosted the “Shinsei IR Day” to deepen the communication between the market and senior management team of the Bank, focusing on the areas where market participants have strong interests. It was a valuable opportunity to understand management strategy and underlying concepts behind the strategy, as it was difficult to find such implications from the financial results. I sincerely hope the Bank will continue to engage in such efforts going forward.

While I personally had concerns that the Retail Banking Business was considered less significant strategically, it was a relief to see the Bank cover the Retail Banking Business as one of the key topics in the IR Day event. In my view, the Retail Banking Business performs not only a role of stable funding for the Bank but also has potential opportunities to enhance customer convenience and reduce expense as well under the current technology developments toward digital banking. The Bank’s explanations about initiatives on the digitalization were very useful for me.

The Consumer Finance Business, which is designated as a growth area by the Bank and an area of strong interest for the market, was covered in depth during the event, and the explanations regarding the Shinsei Bank Group’s view of the overall market and its strategy therein, particularly its expansion of business in the Asia region, were especially informative.

Mr. Hiroshi Seto

Senior Investment Manager, Asset Management Division
Resona Bank, Ltd.

First, I would like to express my thanks for having been invited to Shinsei Bank’s IR Day event.

While the event itself was somewhat on the long side, running from 1:30 PM to 6:00 PM, I found the explanations provided during the course of the event, from Mr. Kudo’s summary of the Medium Term Management Plan and his frank commentary regarding the challenges the Bank faces going forward, to the explanations provided by the executives responsible for the Structured Finance and Consumer Finance Businesses, which the Bank has designated as areas of focus within its MTMP, to be rich and particularly helpful in considering investment in Shinsei Bank.

Additionally, I would like to commend the Bank from a fair disclosure perspective for providing an audio live stream of the day’s proceedings in both English and Japanese in addition to hosting on-demand streaming of the event following its conclusion.

Going forward, I sincerely hope that the Bank will continue to engage in the efforts made during the event, which I believe have furthered understanding of the Bank’s Businesses, including those considered focus areas, and the vision of management, as part of the Bank’s ongoing efforts to engage in constructive dialogue in order to sustainably grow its corporate value.

While I believe there were some points which can be improved, such as the time allotted to the presentation and question and answer sessions, I believe that later events will be much improved as the Bank gains experience in hosting such events. I hope that the Bank will continue to engage in such efficient, meaningful IR events in the future, which I hope to also attend.



IR ACTIVITIES:

Constructive Dialogue with a Market Purpose (Engagement)

Policies for IR Activities in Fiscal Year 2016

- 1) Clearly designate the CEO as bearing ultimate responsibility for investor relations (IR) activities and performing a core role in our strategic IR execution
- 2) Implement IR activities with clearly identified themes in a well-balanced manner across four regions—Japan, North America, Europe, and Asia—that reflect the role and function of the executive officers or employees who have been tasked with IR assignments
- 3) Promote dialogue with the market about future measures as well as progress on the Third MTMP's strategy and issues
- 4) Conduct gap analysis and map out the Bank's current status as a preparatory step to further improve and elevate our information disclosure
- 5) Foster an environment where the voice of the market can be harnessed as management information to broaden internal communication

New Initiatives in Fiscal Year 2016

- 1) Holding Shinsei IR Day
Executive officers in charge of each business came to IR Day, which was aimed at domestic and overseas investors, and explained each business in the Shinsei Bank Group. For Shinsei IR Day, we bolstered fair disclosure through a variety of tools all available in English and Japanese such as live online audio streaming, an archive of videos, and Q&A summaries and other materials.
- 2) Equity analysts from brokerages informed our executive officers about the market's view of the Bank.
- 3) IR training for employees



Participants at Shinsei IR Day



The executive officer in charge of investor relations reports on IR activities at a meeting of general managers and division, branch and department managers.

IR Activities Record (FY2016 Results)

Events	No. of events
Results briefings for investors and analysts, conference calls	8
Shinsei IR Day	1
Participant in conferences organized by brokerages	7
Individual meetings (includes individual meetings at conferences)	358

Individual IR Meetings and Top Management Commitment (FY2016 Results)

CEO	IR Executive Officer	IR Staff	Total
105 meetings	135 meetings	118 meetings	358 meetings
29%	38%	33%	100%

Policies for IR Activities in Fiscal Year 2017

- 1) **Strategically engage in constructive dialogue between CEOs and investors in the four regions of Japan, North America, Europe, and Asia**
- 2) **Promote fair information disclosure with an eye to adopting fair disclosure rules**
- 3) **Foster information disclosure that factors in ESG investment and elevate our IR activities to a higher level**
- 4) **Disseminate to employees across multiple tiers the viewpoints investors and analysts express to management**