

INTEGRATED REPORT

For the fiscal year ended March 31, 2018

2018

Why We Can?



26 Special Feature: To Maintain Its Role as a Financial Innovator

Overview and Progress under the Third Medium-Term Management Plan

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Special Feature: To Maintain Its Role as a Financial Innovator Overview and Progress under the Third Medium-Term

Third Medium-Term Management Plan Overview (April 2016 – March 2019)

Group Integration

Creation of new businesses beyond the current framework based on real customer needs

- Realization of Group synergies which leverage newly created services and the Group's customer base
- Creation of sustainable business model capable of delivering stable growth

Shinsei Bank Group Customers

Needs

- Loans, Finance and Settlement services for individual customers
- Finance and Settlement services for small business owners/SME customers
- Asset formation, asset management, asset/business succession
- Project-based business (real estate, shipping/aircraft, energy, infrastructure)

Combining Group Management Infrastructure

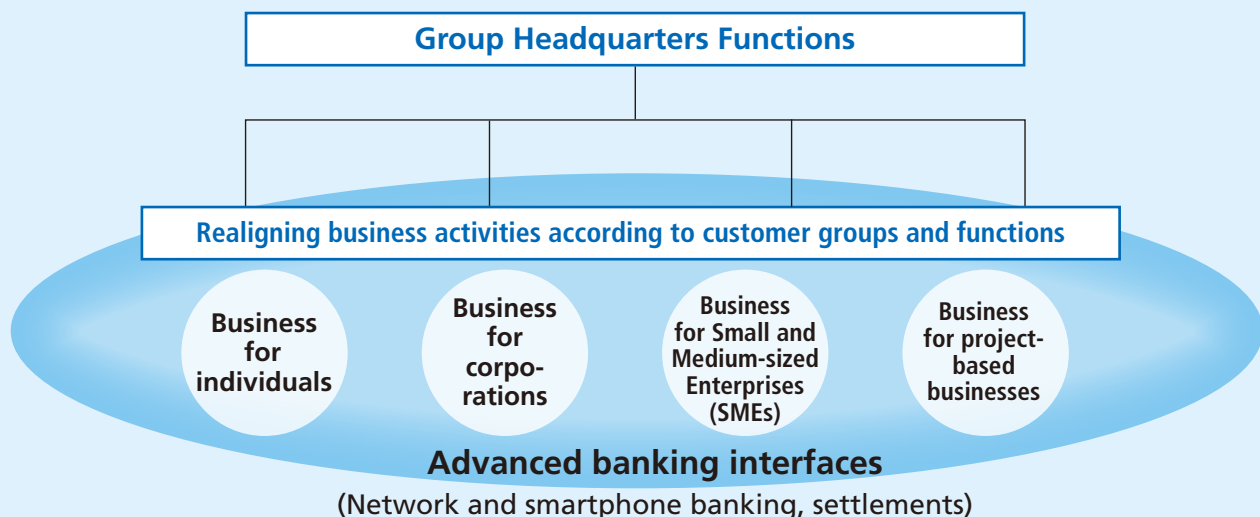
Seeking to improve operational efficiency through integration of management administration functions and aiming for overall increases in productivity

- Support front-office frameworks necessary to provide customers with optimal products and services
- Maintain a continuously optimized management organization through an ongoing review process
- Realization of optimal, Group-wide allocation of management resources
- Achieve exceptional productivity and efficiency through lean operations

Optimal Conditions for the Group as a Whole



Future Outlines Realign Business and Services from the Customers' Perspective



Management Plan

Overview and Progress of Business Strategies

Strategic Mapping of Businesses



Progress on Business Strategies

	Business	Progress up to FY2017	Toward FY2018
Growth Areas	Unsecured Loans	<ul style="list-style-type: none"> Secured growth in the balance of unsecured loans in excess of the rate of market growth in Japan Formed a joint venture with a major private-sector bank in Vietnam to promote Consumer Finance Business growth 	<ul style="list-style-type: none"> Expand customers of the Lake ALSA brand through Shinsei Financial Co., Ltd. Consider expanding the small-lot finance business in collaboration with local overseas partners
	Structured Finance	<ul style="list-style-type: none"> Secured steady growth in the balance of structured finance Achieved progress in the diversification of project finance transaction volume in Japan 	<ul style="list-style-type: none"> Continue to engage in activities while carefully taking into consideration market conditions as well as risk and return Continue to engage in the sourcing of high-quality projects in the international project financing field
Stable Revenue Areas	Asset Management Consulting	<ul style="list-style-type: none"> Experienced sluggish trends in revenue related to asset management product sales 	<ul style="list-style-type: none"> Enhance customers' experience utilizing customer data and channels
	Corporate Market Solutions	<ul style="list-style-type: none"> Recorded robust derivative revenue trends through efforts aimed at diversifying the customer base 	<ul style="list-style-type: none"> Expand the customer base, including collaboration with other financial institutions
	Shopping Credit, Credit Cards	<ul style="list-style-type: none"> Increased the number of credit cards issued Increase in shopping credit outstanding 	<ul style="list-style-type: none"> Utilize the YUI Platform (an integrated customer database)
Strategic Initiative Areas	SME* Business Solutions	<ul style="list-style-type: none"> Promoted vendor leasing through the merchant partner channels of APLUS Co., Ltd. 	<ul style="list-style-type: none"> Build a new collaboration scheme utilizing resources both inside and outside the Group
	Settlements	<ul style="list-style-type: none"> Expanded WeChat Pay merchant partners 	<ul style="list-style-type: none"> Promote cross-sales among WeChat Pay merchant partners
	Business with Regional Financial Institutions	<ul style="list-style-type: none"> Realized robust syndication transactions flow 	<ul style="list-style-type: none"> Undertake meticulous follow-up in an effort to address the asset management product sales needs of regional financial institutions
	Business Succession Finance	<ul style="list-style-type: none"> Concentrated resources into support for change or discontinuance of businesses while implementing measures aimed at increasing the level of awareness 	<ul style="list-style-type: none"> Continue to implement measures aimed at increasing the level of awareness in a bid to expand the number of new transactions

*Note: Small and Medium-sized Enterprises (SMEs)

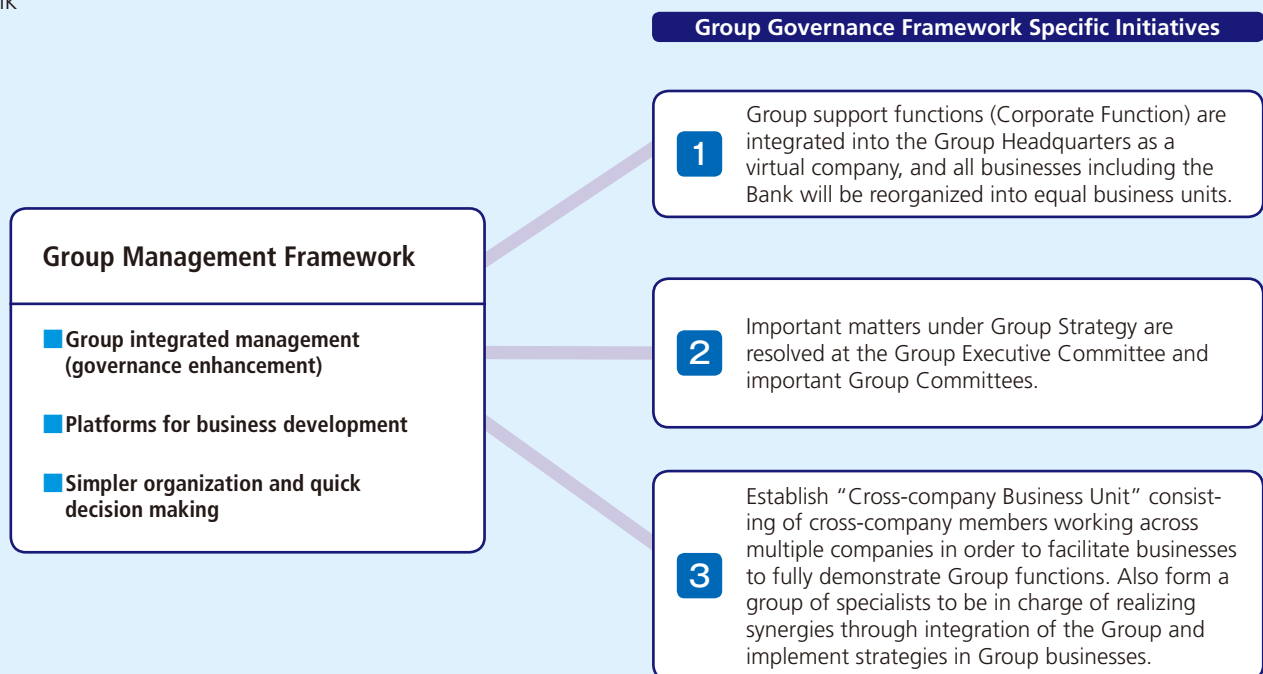
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Group Organizational Strategy

Responsible for the specific upgrades to the organizational structure necessary to implement the Group business strategy for the promotion of a variety of Group-wide productivity enhancement projects

Group Management Framework (Group Headquarters System)

Structuring a unique and workable corporate governance framework, with a strong consciousness of the integrated operation of the Group, based on an understanding of the current environment and the special features of the Shinsei Bank



Objectives of Group Headquarters

■ **Convert functions into business units**

Convert each business into equal business units through the integration of Group support functions into Group Headquarters as a virtual company

■ **Consolidate overlapping functions**

Remove overlapping functions and reduce workload

■ **Expand room for better efficiency**

Realize room for much better efficiency by sharing best practices and jointly implementing new methods

■ **Enhance functions across the Group**

Further enhance Group functions using extra management resources realized through better efficiency

■ **Decision-making level**

Enable quick and consistent decision making by simplifying reporting lines

Group Business Strategy

Responsible for reviewing business management systems on a Group-wide basis, for the Group's new business development and for examining and executing the strategic alliances for the development of that new business

Strategy to Generate New Business Opportunities

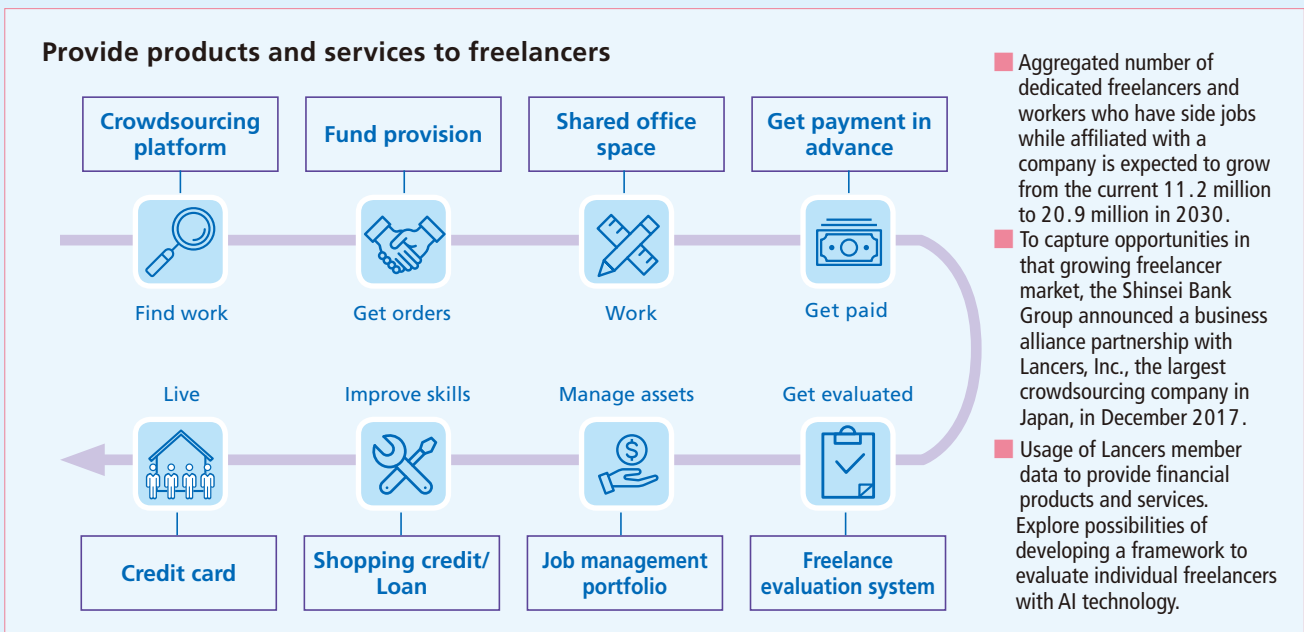
■ **Seek nonorganic growth opportunities to utilize the strengths of the Shinsei Bank Group**

- Focus on finding opportunities in both Japan and overseas that will draw on Shinsei Bank Group strengths. In non-banking business, especially in the Consumer Finance Business.
- For overseas activities, focus on the regions that have a large population with a “population bonus” and where high economic growth can be expected. Work with a suitable partner and utilize Shinsei Bank Group’s “know-how” to promote finance business.



■ **Develop a promotional framework to respond to the needs of underserved customers**

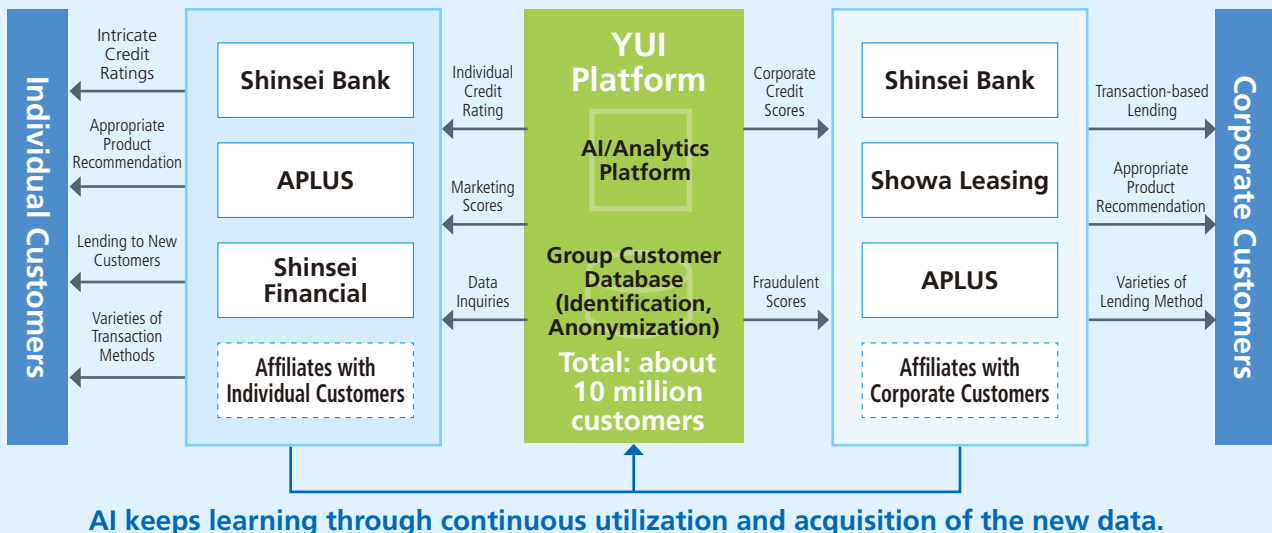
- Unbundle and realign different functions within Shinsei Bank Group and form an alliance with a 3rd party when necessary.
- Provide services to the newly emerging customer segments that form their own ecosystems. For example, of the market segments that are expected to expand going forward, we will pay particular attention to freelancers and foreign workers while considering the offering of new financial services.



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Group Data Strategies

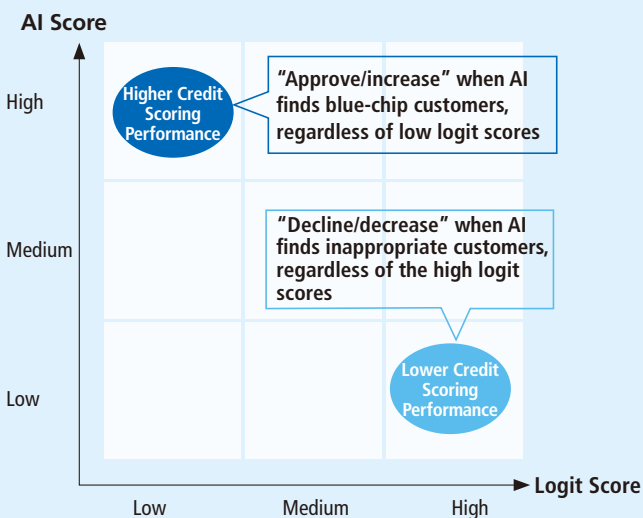
- Built the YUI Platform that features both a database that integrates the Shinsei Bank Group's customer data and an AI/analytics platform



- Having generated an AI score derived from the AI/analytics platform on the YUI Platform, score is utilized for more-sophisticated Lake ALSA credit rating/collection for providing unsecured loans to individual customers

- Expecting better performance through the application of sophisticated hybrid of AI and logit scores to the various financial products of the Group.
- Expecting higher accuracy of prediction by combining the Big Data and AI's deep learning technology.
- Expecting better credit scoring performance by utilizing AI analysis of the credit position in the fund collection area.

Hybrid Credit Ratings Utilizing AI and Logit Scores



AI Scoring the Group Is Working On

Data	Integrate and utilize not only credit and attribute information, but also all structured, non-structured and open data within the Group for scoring
Algorithm	Maximize the impact of the Big Data by hiring the high-end mechanical learning models such as deep learning and ensemble learning
Area of Application	Utilize AI for the credit ratings as well as for the fund collection area, upon evaluation of the credit position (as they are two sides of the same coin)