

# **INTEGRATED REPORT**

For the fiscal year ended March 31, 2018

2018

# How Are We Now?



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Who We Are?

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# At a Glance—Segment Data

## Major Businesses

## Contribution

Individual Business

### Individual Business

#### Retail Banking

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

#### Shinsei Financial

Consumer finance and credit guarantees (Lake, NO-LOAN)

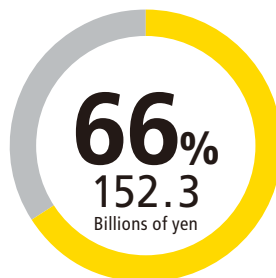
#### APLUS FINANCIAL

Shopping credit and settlements, credit cards; credit guarantees; finance and collection services

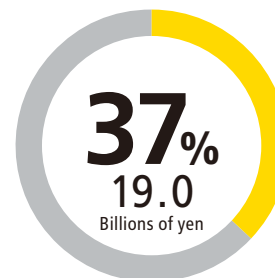
#### Other Business

Profits and losses of other subsidiaries

### Total Revenue



### Ordinary Business Profit after Net Credit Costs



Institutional Business

### Institutional Business

#### Corporate Business

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

#### Structured Finance

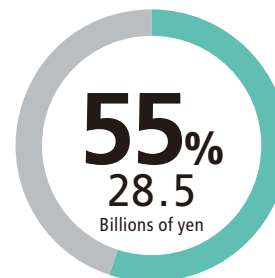
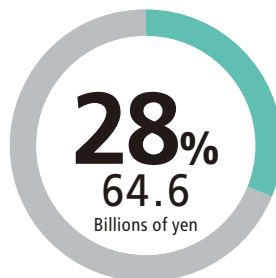
Real estate related nonrecourse finance and corporate finance; project finance; M&A-related finance, etc.; specialty finance

#### Principal Transactions

Credit trading, private equity, business succession finance, corporate restructuring, asset-backed investment, etc.

#### Showa Leasing

Financial products and services focused around lease finance



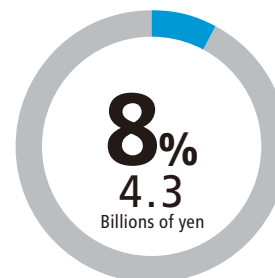
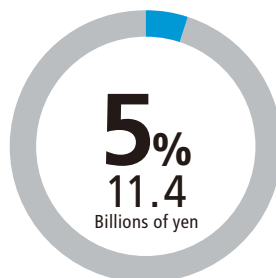
### Global Markets Business

#### Markets Business

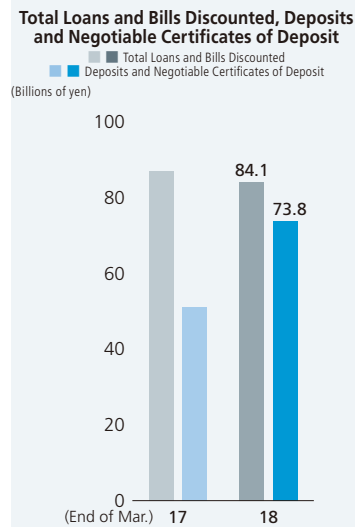
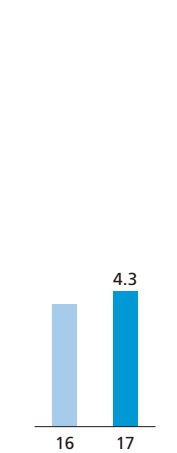
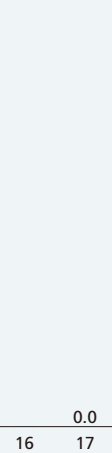
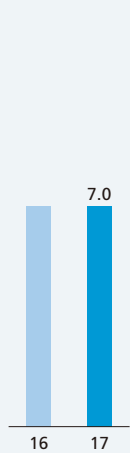
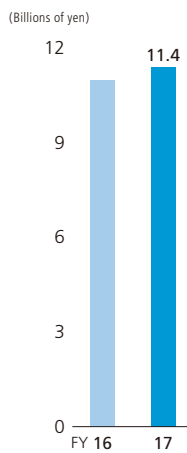
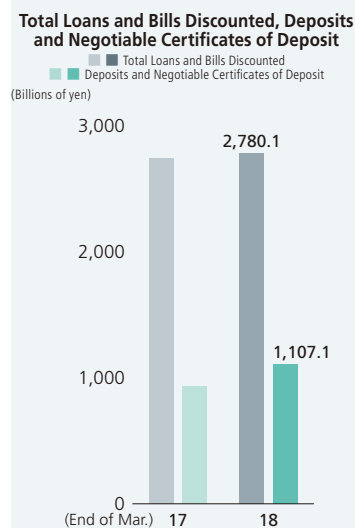
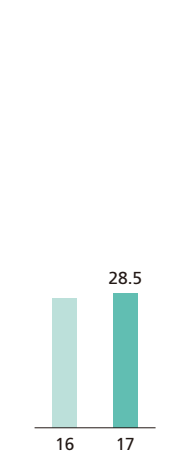
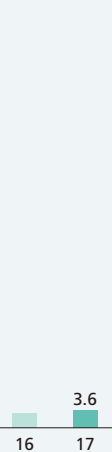
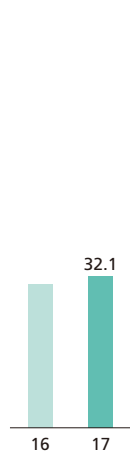
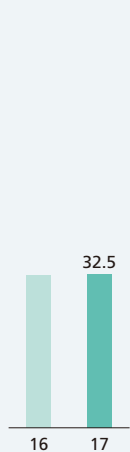
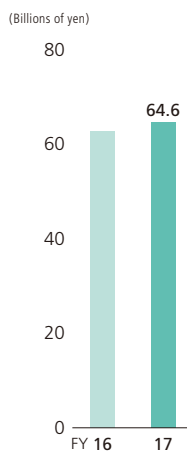
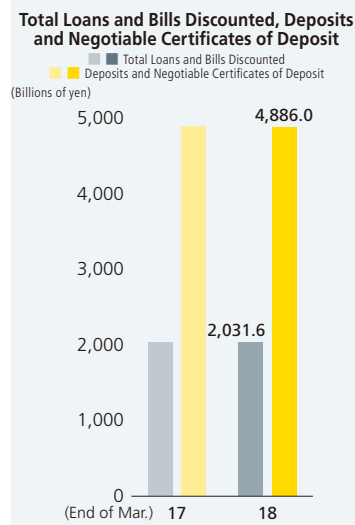
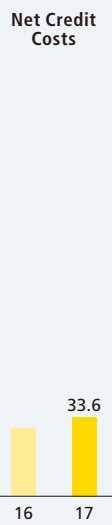
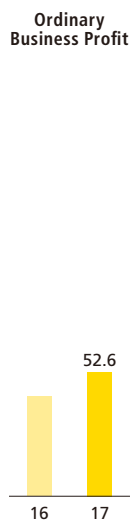
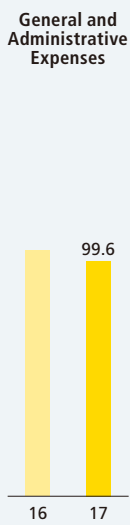
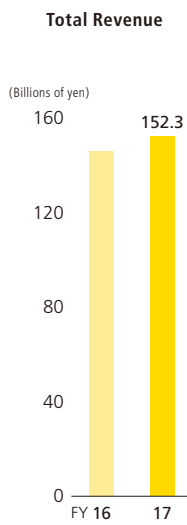
Foreign exchange, derivatives, equity-related and other capital markets business

#### Other Markets Businesses

Shinsei Securities, asset management business, wealth management business



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



## Individual Business



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

The Individual Business is composed of retail banking, which accepts deposits and handles asset management products and housing loans, and consumer finance, which handles unsecured personal loans, credit cards, shopping credit, settlements and sales of financial products to individuals and related services.

## Business Environment

**The Retail Banking business** is working to deliver products and services that correspond to the needs and lifestyles of individual customers within the continued large-scale financial easing established by the negative interest rate policy of the Bank of Japan. By delivering products and services that help our customers' asset formation over the medium and long terms, as well as by accumulating assets under management (AUM), we are taking initiatives to build a reliable earnings base that is not affected by the external environment.

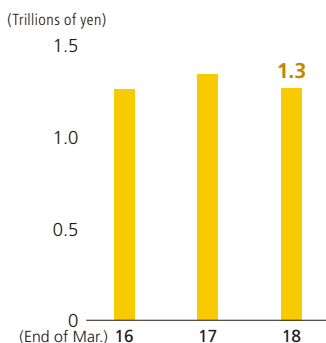
**The Housing Loans business** is delivering unique PowerSmart Home Mortgages with high-value-added marketability that places them in a different category altogether than interest-rate competition. Two examples include PowerSmart Home Mortgage Anshin Pack W, which includes coupons that can be used for housekeeping services, housecleaning and sick-child care services given the accelerating entry of women into the workplace and other changes in the social structure, and PowerSmart Home Mortgage Anshin Pack S, which includes a special policy for debt relief during times of natural disaster.

**The Unsecured Loans business** is seizing the opportunity for both reliable income growth in Japan and inorganic growth overseas based on changes in the business environment and the evolution of digital technology.

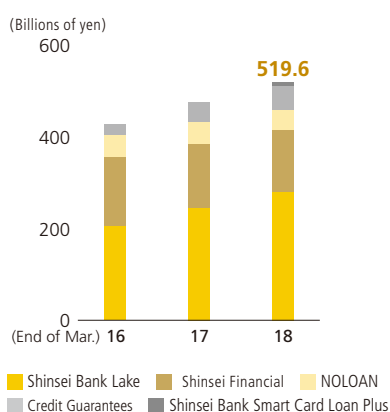
**The APLUS FINANCIAL business** is seeing growth in credit card spending as a result of steady expansion in the shopping credit market and of expansion in the e-commerce market. On the other hand, the diversification of settlement methods as a result of technological innovation is expected to further accelerate competition from outside of the banking sector. Utilizing the financial functions and customer data held by the Shinsei Bank Group, the APLUS FINANCIAL business will deliver products and services that meet the various needs of our customers.

## Operating Assets

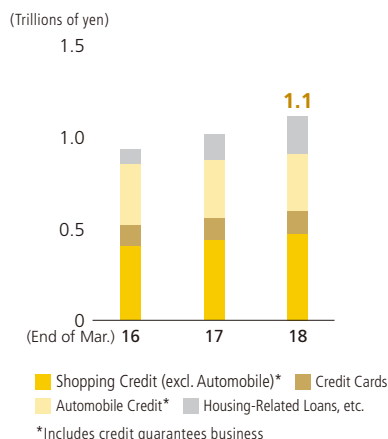
### Housing Loans



### Unsecured Loans



### APLUS FINANCIAL





## Medium-Term Management Plan Progress

### ▶ Growth Areas

**Unsecured loans:** We improved the convenience of application procedures using smartphones in line with our customers' lifestyles. In addition, after reviewing the Shinsei Bank Group's unsecured loan business strategy, in April 2018 we adopted Lake ALSA as a product under the Money Lending Business Law.

### ▶ Strategy Initiative Areas

**Settlements:** In 2016, APLUS began offering a settlement agent service in Japan for WeChat Pay, a Chinese mobile settlement service provided by Tenpay Payment Technology Co., Ltd. as part of the Tencent Group. Since this time, we have worked to expand the number of merchants accepting WeChat Pay in Japan and to build a merchant network. In fiscal 2017, the number of merchants accepting WeChat Pay continued to increase, with the number of merchants and companies accepting WeChat Pay totaling 7,973 and 996, respectively, as of the end of March 2018.

### ▶ Stable Revenue Areas

**Asset management consulting:** In November 2017, we began operations of THEO Plus Shinsei Bank, a discretionary investment service utilizing the robo-advisor developed by MONEY DESIGN. In December 2017, we also began accepting applications for Shinsei Power Trust (cash in trust), an achievement dividend style cash in trust designed to invest and manage the assets of those customers that expect a stable return on investment while prioritizing safety. Shinsei Trust & Banking Co., Ltd. is the trustee for this service.

**Credit cards and shopping credit:** The Credit Card business is seeing an increase in the value of credit card shopping as well as a strong trend in revolving credit balance accumulation. Utilizing Showa Leasing's leasing functions and APLUS's credit functions, the Shopping Credit business launched an auto-leasing business targeted at individual customers.

## Topics

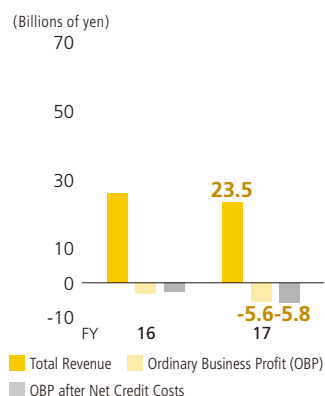
### Prepaid card GAICA

In aiming to enrich our foreign currency services in the Retail Banking business and to establish new credit card business within APLUS, the Shinsei Bank Group and APLUS now issue a prepaid card called GAICA under the partnership between APLUS and Visa Worldwide Japan K.K. GAICA delivers several highly convenient foreign currency services, including enabling GAICA cardholders to use their PowerFlex comprehensive account to charge their GAICA with Japanese yen or a foreign currency for credit card shopping in Japan and overseas, and to withdraw local currency at overseas ATMs.

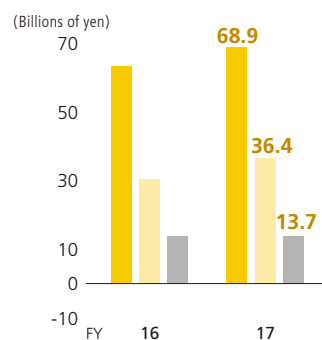


## Data on Major Operations

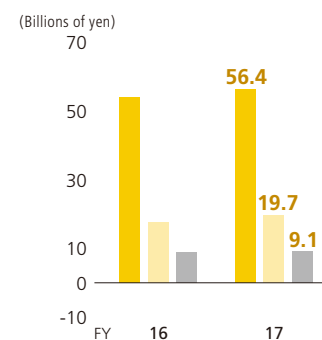
### Retail Banking



### Shinsei Financial, Shinsei Bank Lake



### APLUS FINANCIAL



■ Total Revenue ■ Ordinary Business Profit (OBP)  
■ OBP after Net Credit Costs

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## Retail Banking (Asset Management Consulting)

### Opportunities

- Introduce systems and policies that reinforce the flow of cash from savings to investment
- Improve the efficiency of asset management consulting through the incorporation of FinTech and other new technologies
- Deliver consulting services in line with customer needs by utilizing customer data

### Risk and Challenges

- Enter the asset management business for non-financial businesses
- Improve operational efficiency to maximize contact points with our customers
- Increase opportunities to make proposals to our customers by increasing the number of customer contacts per consultant
- Convert to a stock-based business that focuses on income from AUM

### Strategies and Future Initiatives

## Stance Aimed for by Retail Banking (Asset Management Consulting)

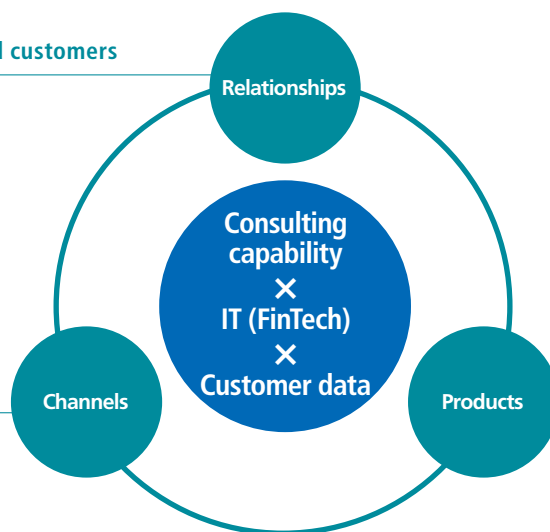
By using AI and robotics technologies to handle customer data, the Retail Banking business aims to rationalize and improve the efficiency of consulting, and aims to deliver high-quality consulting services by which we propose the optimal products based on the needs and risk attributes of individual customers through various channels in addition to branches.

### Relationship between the Bank and customers

Increase interaction with customers to cultivate deeper relationships with more customers

### Contact point between the Bank and customers

Provide contact points to accept all customers with needs for asset management consulting



### Products we offer to customers

Products to be recommended considering needs of each customer

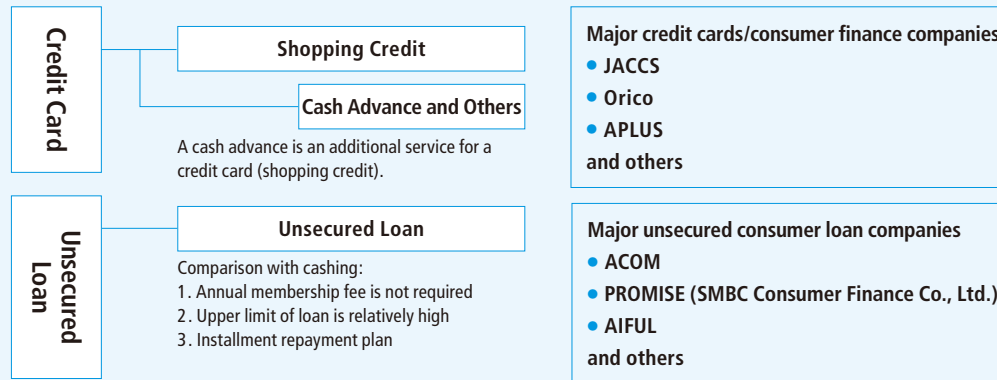
We believe the challenges faced by this business are the fact that delivery channels for consulting services are limited to manned branches and the fact that the time that individual staff members have to work with our customers is finite. Therefore, by improving upon the three points listed as follows, we aim to deliver high-quality consulting services to more customers at a greater frequency.

- Relationships: By applying AI and other technologies to customer data, we will increase communication and deepen relationships with our customers.
- Channels: By utilizing videophones, chat and other remote channels, we will increase the number of contact points with our customers.
- Products: We will deliver products based on the needs and risk attributes of individual customers.

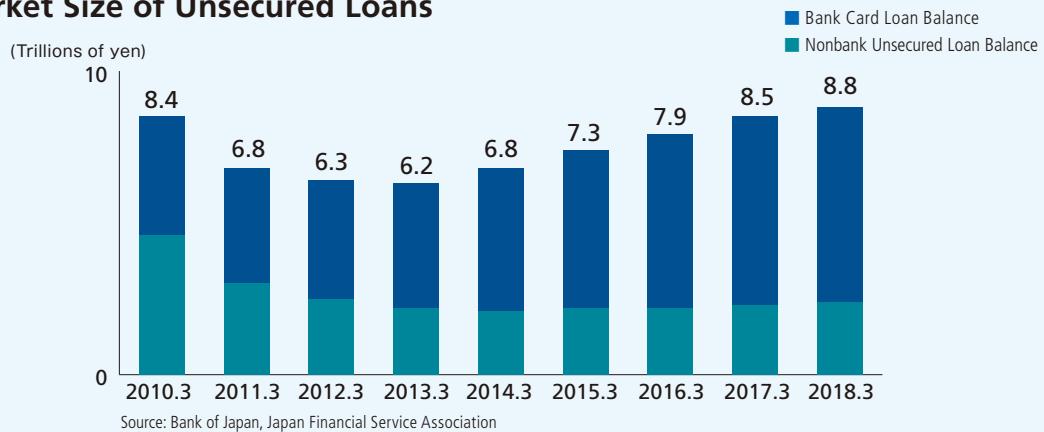
# Unsecured Loan Service

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

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

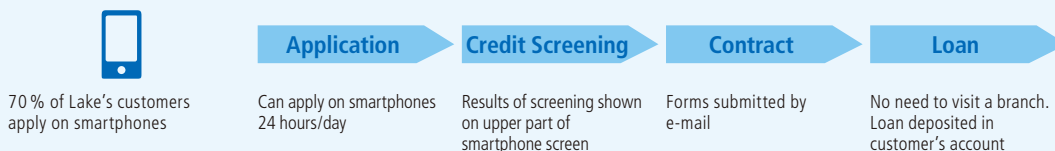


## Market Size of Unsecured Loans



## Lake ALSA Strengths and Strategies

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





## Institutional Business and Global Markets Business



Managing Executive Officer, Head of Institutional Business

### Takahisa Komoda

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

## Business Environment

**Corporate Business:** The profitability of the traditional lending business continues to trend at a low level against the backdrop of a stable interest environment and an improvement in the financial structure of corporations. Meanwhile, new financial needs are emerging in line with the challenges being faced by society, including IoT and other aspects of the advancing digitalization of society, the life cycle in Small and Medium-sized Enterprises (SMEs) coinciding with the aging of the management class and strong inbound demand. Within this environment, we are leveraging the full strength of the Group with the aims of delivering high-value-added financial solutions to the new needs of our customers.

**Structured Finance:** Although the renewable energy market is expected to expand over the medium-to-long term from the perspective of energy mix, national energy policies are also anticipated to affect specific financing demand trends. In terms of project finance, we are driving the accumulation of knowledge with focus on continued growth by undertaking a mix of projects both in Japan and overseas.

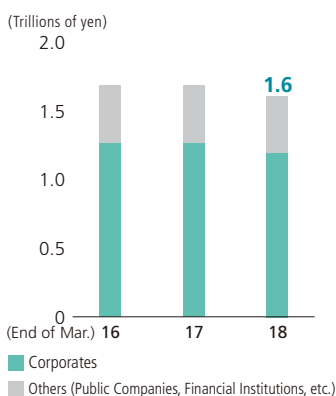
Domestic real estate conditions still appear to be overheating in some areas, but there continues to be an inflow of investment financing given the outlook for relatively good returns in Japan compared with the global real estate market. In terms of real estate finance, we are advancing ongoing project initiatives for which we have comprehensively and carefully judged the risk-return and the market conditions.

**Showa Leasing:** Given that domestic lease markets have peaked, there is greater movement toward searching for new outlets in the lease sector by diversifying income sources into new fields, such as overseas business, aircraft, real estate and infrastructure. Similarly, Showa Leasing is promoting an auto leasing business aimed at individual customers and other innovative initiatives by integrating the functions of the Group and strengthening solutions aimed at SMEs and small-scale business operators.

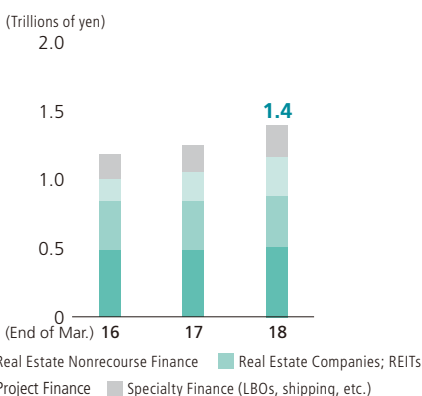
**Market Business:** With the continued low-volatility environment in fiscal 2017 during which both Japanese yen interest rates and the U.S. dollar to Japanese yen exchange rate trended within a narrow range on the global markets, the Market Business is forging ahead with an expansion of business with new and existing customers by responding to specific needs in the derivatives business aimed at corporate clients.

## Operating Assets

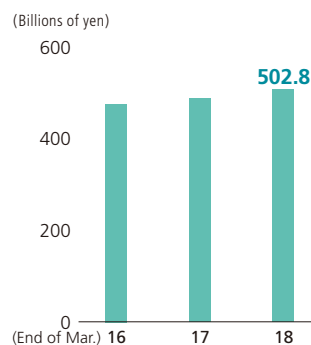
### Corporate Business



### Structured Finance



### Showa Leasing



## Medium-Term Management Plan Progress

### Growth Areas

**Project finance:** Domestically, we are advancing deployment to wind power, biomass and other power sources in addition to the megasolar facilities we have financed in the past in order to further diversify the projects that we have undertaken. Overseas, we leveraged our network with Japan-affiliated sponsors, especially in Asia and Europe, to tackle infrastructure projects that are unlikely to be affected by market price fluctuations, including offshore wind power and desalination plants.

**Real estate finance:** Given the domestic real estate market conditions in which some areas appear to be overheating, we executed risk-return focused initiatives in hotels, logistics warehouses and commercial facilities, particularly in large urban areas, as a means of compiling a lending asset portfolio designed to diversify risk.

### Strategy Initiative Areas

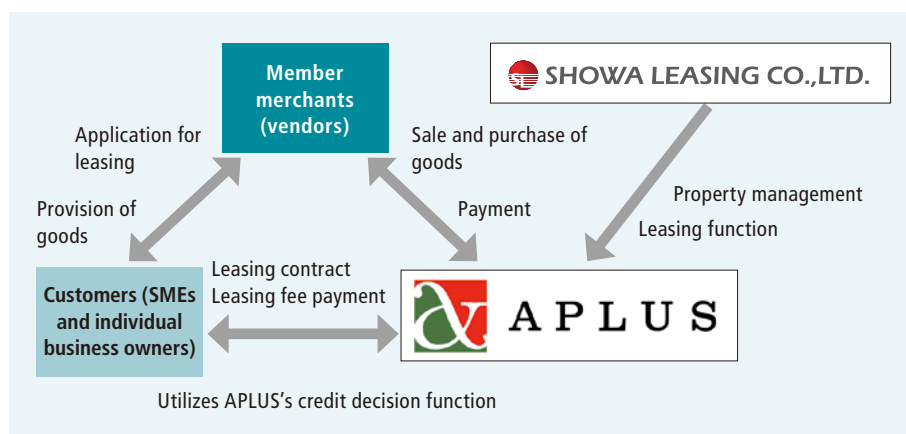
**Collaboration and alliances with regional financial institutions:** Under the current negative interest rate environment, the arrangement of syndicated loans and sale of loans is trending healthily against a backdrop of growth in the investment needs of regional financial institution customers. Collaborations with regional financial institution customers have been advancing through the syndication of renewable energy project financing that contributes to regional economic revitalization.

**Business-succession finance:** We provide buyout investment and joint investments and loans together with business firms under the explicit aim of management improvement and business restructuring when delivering business-succession support. In response to the underlying concerns of managers regarding changes to or discontinuation of business, we provide the one-off finance loans required to support restructuring and discontinuance of business, thereby supporting the “amiable closure of business.”

### Topics

#### Vendor Leasing Business Collaboration between APLUS and Showa Leasing

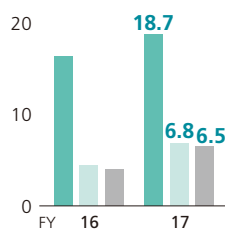
From the perspective of property management and cost management, through APLUS member merchants (vendors), this business delivers lease properties to individual business operator customers looking to lease. This financial service is unique to the Shinsei Bank Group with its ability to integrate the credit decision functions of APLUS and the leasing functions of Showa Leasing.



### Data on Major Operations

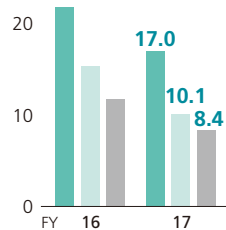
#### Corporate Business

(Billions of yen)  
30



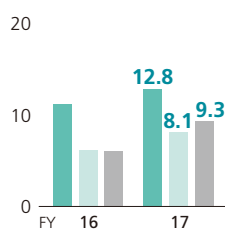
#### Structured Finance

(Billions of yen)  
30



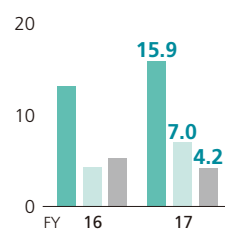
#### Principal Transactions

(Billions of yen)  
30



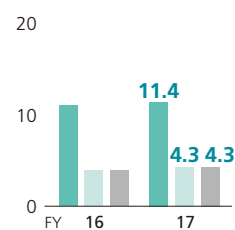
#### Showa Leasing

(Billions of yen)  
30



#### Global Markets Business

(Billions of yen)  
30



■ Revenue  
■ Ordinary Business Profit (OBP)  
■ OBP after Net Credit Costs

## Structured Finance Business

### Opportunities

- Broader project finance market as a result of the spread of and growth in renewable energy
- More opportunities to capture large-scale projects as a result of growth in the syndication business
- Greater expertise, analytical skill and risk management skill as a result of diversification in the projects being undertaken

### Risk and Challenges

- Concentration in specific assets, such as real estate and megasolar facilities
- Intensifying competition as a result of market entry by other financial institutions
- More partner financiers in the syndication business

### Strategies and Future Initiatives

## Our Strengths and Our Value Chain of the Syndication Business

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

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

In this way, our niche position as neither megabank nor regional financial institution enables us to avoid excessive competition while ensuring income. Moreover, in the syndication business, we manage the distribution of loans arranged by the Shinsei Bank that meet the investment needs of regional financial institution customers and are building a collaborative relationship, not a competitive relationship, with regional financial institutions.

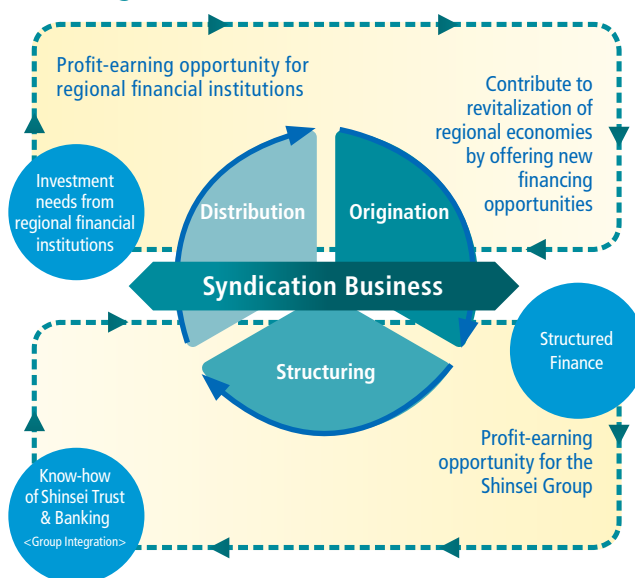
### Japan Project Finance League Table

The Shinsei Bank captured the number three position in terms of value in the Japan Project Finance Ranking for fiscal 2017.

(Billions of yen)				
Rank	Mandated Arranger	Total Value	No. of Projects	Share Percent (value basis)
1	Mizuho	117.6	4	21.9
2	Development Bank of Japan	115.5	5	21.5
<b>3</b>	<b>Shinsei Bank</b>	<b>105.7</b>	<b>11</b>	<b>19.7</b>
4	Mitsubishi UFJ Financial Group	102.4	6	19.1
5	Sumitomo Mitsui Financial Group	82.4	10	15.3
6	Sumitomo Mitsui Trust Holdings	9.2	1	1.7
7	Nippon Life Insurance	2.8	1	0.5
8	Aozora Bank	2.0	1	0.4

Source: Dealogic

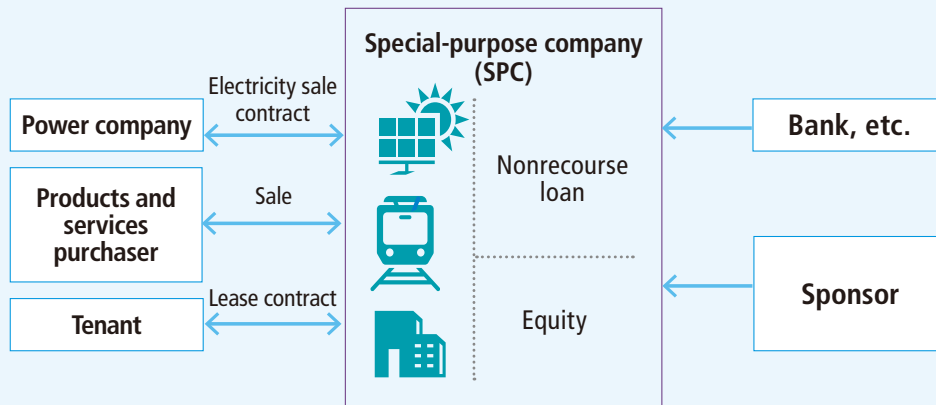
### Building a Collaborative Relationship with Regional Financial Institutions



# Structured Finance Business

## Product Structure

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

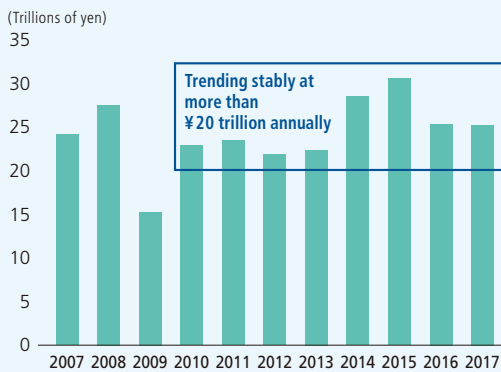


## Product Features

- Extensive expertise and know-how: Expert know-how and system availability are required to assess the value of the target asset, to screen the project in terms of its structure and financing conditions and to monitor the project after providing financing.
- Nonrecourse: Because the source of repayment relies entirely on the cash flow generated from the underlying asset and the value of the assets in this mechanism, the lender can offer financing conditions that do not depend on the financier's creditworthiness.
- Interest rate: Structured finance requires the lender to have a high level of expertise and know-how to assess the target asset cash flow and value of the collateral, so the interest rate is relatively higher than standard corporate finance.

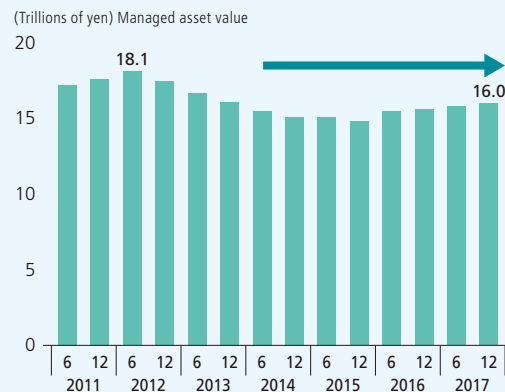
## Market Scale

### Global project finance origination volumes



Source: Graph prepared by Shinsei Bank based on data from Project Finance International (US\$1 = ¥110)

### Privately funded real estate market scale trends (domestic)



Source: Graph prepared by Shinsei Bank based on survey results from Sumitomo Mitsui Trust Research Institute

## Status of Regional Revitalization and SME Management Improvement Initiatives

To improve the management of Small and Medium-sized Enterprises (SMEs) and contribute to regional revitalization, Shinsei Bank engages in initiatives such as those described below, providing our expertise and, depending on the initiative, cooperating with regional financial institutions and the SME Business Support Cooperative. With respect to supporting SMEs and local businesses that have technologies or business models with unrealized growth potential as well as new business fields or business domains that contribute to regional economic revitalization, the Bank goes beyond merely satisfying funding needs to provide financing that emphasizes cash flows and multifaceted solutions to such management issues as business strategy planning and implementation support and other complementary functions. Through such efforts, the Bank aims to expand the operations of growth-stage SME clients and contribute to the development of new business opportunities that accompany innovation.

### Examples of Shinsei Bank Initiatives

#### ■ Supporting regional revitalization through business succession

**A regional liquor wholesaling company:** For approximately half a century, the company had held a position as a major regional liquor wholesaler, but current management had become elderly and lacked a successor, confronting it with the pressing issue of business succession. In a business environment in which every year escalating cost competition with major rivals in the industry became increasingly intense, recruiting external sponsors was seen as the most-promising option. Given this, having received a request from a regional financial institution, which was a main bank for the company, Shinsei Bank agreed to collaborate in searching for a sponsor company. Because this was a sector in which reorganization was for the most part complete, recruiting strong candidates was seen to be a long-term endeavor. However, leveraging the Bank's insights based on a wealth of M&A experience and our nationwide-scale customer base, we fielded a sponsor that showed promise for synergies in the areas of sales and distribution. Consequently, we contributed to maintaining the employment of all employees and improving the vitality of the local economy.

#### ■ Supporting management improvement and business succession

**An advertising agency:** Given its solid business foundation, revenues for

this advertising agency's main business were stable, however, eliminating the burden of excessive debt associated with investments in its non-core business had become a management issue. Shinsei Bank moved forward to stabilize the company's cash flows by easing the payment conditions for the debt it had received from other creditors to a level commensurate with that of its business income and outlays, and furthermore, by underwriting an equity fund it was able to substantially contribute to the company's balance sheet. Moreover, in addressing a new need as requested by the company, namely, business succession, it consulted on how to go about strengthening its internal control structure, and also introduced a reputable consulting agency. Going forward, Shinsei Bank is continuing to support the company in carrying out smooth business succession.

#### ■ Supporting business rehabilitation

**A regional Japanese confectionery store:** This confectionery store had opened up a number of branches based on its high name recognition in a regional area, however, excessive debt seemed to be hindering its ability to make repayments. Working together with a major bank, the company continued its endeavors to rebuild under its own power, but it was compelled to aim for business rehabilitation in line with legal procedures. Shinsei Bank was therefore appointed as a financial advisor with regard to the selection of

a sponsor, and was successful in recruiting a major sponsor in collaborating to maintain the employment of all employees and sustain the existing business structure. While retaining the landmark name of the store, the company was able to start anew in a way that satisfied local stakeholders.

#### ■ Business succession support

**A regional steel framework construction company:** Well known for long years of corporate history and its reputation for top-class construction technology, this steel framework construction company wins numerous public works projects and is one of the primary contractors on construction sites. The owner and manager, however, was becoming elderly and there was an ongoing situation where no one was available to take over the business. In light of this, the company obtained the cooperation of a local financial institution it had a relationship with to search for a business succession sponsor. Despite these efforts, they were unable to recruit a valid candidate from the local area. Shinsei Bank, having received a request for support to take another try at conducting a nationwide search for a sponsor, was successful in arranging a cross-border steel processing company that had the aim of expanding its business area beyond what it had previously, and with support for condition negotiations, due diligence and acquisition capital, was able to contribute, in a short time, to realizing a business succession that met the needs of both parties.