

INTEGRATED REPORT

For the fiscal year ended March 31, 2018

2018

Financial Summary

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the fiscal years ended March 31, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018¹

	FY2007	FY2008	FY2009	FY2010
For the fiscal year (Billions of yen)¹:				
Total revenue	¥ 262.6	¥ 183.1	¥ 264.2	¥ 262.6
General and administrative expenses	158.7	182.0	170.8	145.3
Net credit costs	73.5	129.0	112.2	68.3
Profit attributable to owners of the parent	60.1	(143.0)	(140.1)	42.6
Balances at fiscal year-end (Billions of yen):				
Total assets	¥11,525.7	¥11,949.1	¥11,376.7	¥10,231.5
Total liabilities	10,560.5	11,181.7	10,741.8	9,620.3
Total equity	965.2	767.4	634.9	611.1
Per share data (Yen):				
Common equity	¥ 364.35	¥ 284.95	¥ 232.72	¥ 205.83
Basic profit	38.98	(72.85)	(71.36)	21.36
Dividends	2.94	—	—	1.00
Ratios (%):				
Return on assets ²	0.5	(1.2)	(1.2)	0.4
Return on equity (fully diluted) ³	8.8	(22.4)	(27.6)	8.5
Expenses-to-revenue ratio	60.4	99.4	64.6	55.3
Total capital adequacy ratio (Basel II, Domestic Standard)	11.74	8.35	8.35	9.76
Capital ratio (Basel III, Domestic Standard)	—	—	—	—
Ratio of nonperforming claims classified under the Financial Revitalization Law to total claims	0.95	2.51	6.70	6.78

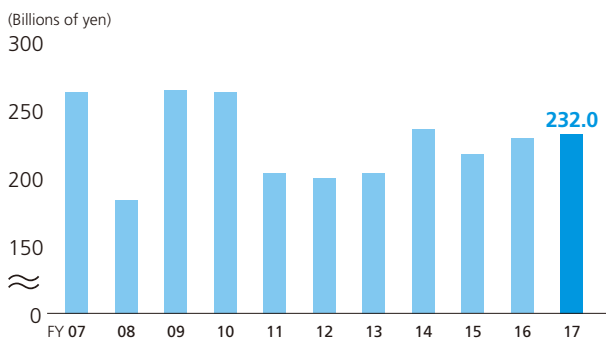
1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.

2 Return on assets is calculated by dividing profit (loss) attributable to owners of the parent by the average of total assets at the beginning and end of the period presented.

3 Return on equity (fully diluted) is calculated by dividing profit (loss) attributable to owners of the parent by the average amount of (total equity – share warrants – noncontrolling interests) at the beginning and end of the period presented.

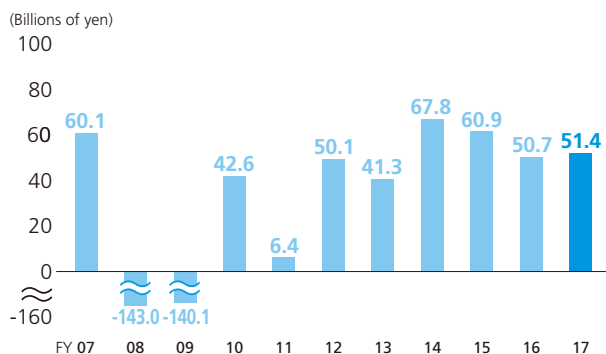
4 Shinsei Bank consolidated its shares with a rate of ten shares of common stock into one share on October 1, 2017. Common equity per share and basic profit per share are calculated as if the consolidation of shares had occurred at the beginning of FY2016.

Total revenue



- Total revenue is composed of “Net interest income” such as interest from loans and “Noninterest income” such as fee income, as indicated by gross profit from core business operations.
- While earnings have been lifted since fiscal 2010 on factors such as gains from repurchasing preferred securities and items such as gains on the sale of assets on which loss disposals had been recorded in the prior years, total revenue has steadily grown since fiscal 2012 when such one-off gains dropped out of the picture. From fiscal 2016 onward, we applied “selection and concentration” tests to our businesses in accordance with the Group’s strengths and the growth potential of each business to identify growth areas, and we have actively invested management resources into them.

Profit attributable to owners of the parent



- Profit attributable to owners of the parent indicates the final profit over a twelve-month fiscal term in accounting terms.
- The Shinsei Bank Group recorded losses in fiscal 2008-2009 on the effects of the global financial crisis sparked by the collapse of Lehman Brothers but the Group has continued to book profits every year since fiscal 2010. The Group is working to improve the quality of earnings by adding more left to core profits and limiting profits from non-recurring and high-volatility sources.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
	¥ 202.9	¥ 199.0	¥ 203.0	¥ 235.3	¥ 216.6	¥ 228.5	¥ 232.0
	130.3	130.9	135	144.2	141.3	144.2	142.9
	12.2	5.5	0.2	11.8	3.7	31.8	37.2
	6.4	51	41.3	67.8	60.9	50.7	51.4
	¥8,609.6	¥9,029.3	¥9,321.1	¥8,889.8	¥8,928.7	¥ 9,258.3	¥ 9,456.6
	7,982.0	8,345.6	8,598.5	8,136.0	8,135.6	8,437.5	8,600.6
	627.6	683.6	722.5	753.7	793.1	820.7	856.0
	¥ 212.67	¥ 233.65	¥ 247.82	¥ 275.45	¥ 294.41	¥3,163.89 ^d	¥ 3,376.39^d
	2.42	19.24	15.59	25.57	22.96	194.65 ^d	199.01^d
	1.00	1.00	1.00	1.00	1.00	1.00	10.00^d
	0.1	0.6	0.5	0.7	0.7	0.6	0.5
	1.2	8.6	6.5	9.8	8.1	6.3	6.1
	64.2	65.8	66.5	61.3	65.3	63.1	61.6
	10.27	12.24	—	—	—	—	—
	—	—	13.58	14.86	14.20	13.06	12.83
	6.66	5.32	3.81	1.42	0.79	0.22	0.17

Who We Are?

Where We Go?

Why We Can?

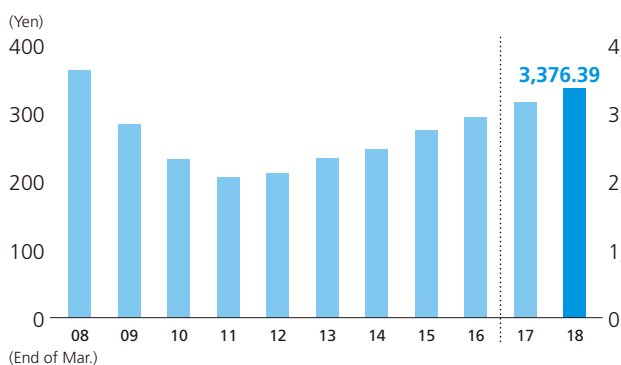
How Are We Now?

What Is Our Platform?

Financials/Information

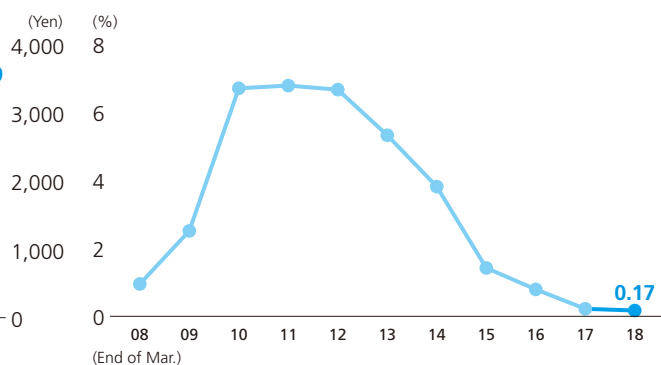
Data Section

Common equity per share



- Common equity per share is calculated by dividing common equity by the total number of common shares outstanding at the end of the term.
- Common equity per share has continued to increase on a steady buildup of profits.

Nonperforming loan ratio under the Financial Revitalization Law (Nonconsolidated)



- Nonperforming loan ratio is the ratio of nonperforming claims under the Financial Revitalization Law to total claims.
- As we have sharply reduced claims classified as nonperforming loans stemming from the global financial crisis sparked by the collapse of Lehman Brothers, the nonperforming loan ratio under the Financial Revitalization Law has fallen to the lowest level in the past ten years, and our asset quality has improved.

Review of Fiscal 2017

Summary of Profits and Losses

FY	(Billions of yen)		Change
	2016	2017	
Consolidated			
Total revenue	228.5	232.0	+2%
Net interest income	122.2	128.7	+5%
Noninterest income	106.2	103.2	-3%
Total expenses	(142.4)	(142.5)	-0%
Ordinary business profit (OBP)	86.0	89.4	+4%
Net credit costs	(31.8)	(37.2)	-17%
OBP after net credit costs	54.1	52.1	-4%
Others	(3.3)	(0.7)	+79%
Profit attributable to owners of the parent	50.7	51.4	+1%

■ **Net Interest Income:** Increased 5% compared to FY2016, reflecting asset growth in unsecured loans despite incorporating the full-year impact of the negative interest rate policy (NIRP).

■ **Noninterest Income:** Decreased 3% compared to FY2016. Increases in the Institutional businesses were offset by lower noninterest income in retail banking. A decrease in noninterest income is largely in line with a decline in gains on bonds.

■ **Total Expenses:** Remained flat at ¥142.5 billion compared to FY2016.

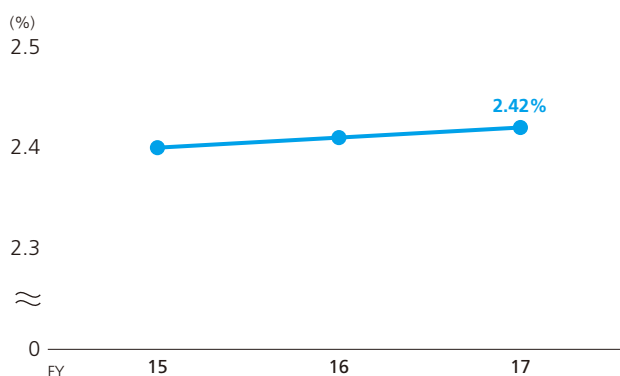
■ **Net Credit Costs:** Increased 17% compared to FY2016. This is due mainly to a one-off additional provisioning to a single transaction made in Showa Leasing. The one-off provisioning does not imply deterioration of overall credit quality.

■ For the **grey zone reserves**, we examined the adequacy of the reserve level for our subsidiaries. Accordingly, while we released reserves in Shinsei Financial, we made additional provisions in APLUS FINANCIAL and Shinsei Personal Loan.

■ **Profit Attributable to Owners of the Parent:** Totaled ¥51.4 billion, increasing compared to FY2016.

■ **Net Interest Margin (NIM):** Increased to 2.42%. The yield on interest-earning assets increased due to the increase in the unsecured loan balance in the Consumer Finance Business and the improvement in the yield on securities while the yield on interest-bearing liabilities increased due to the increase in interest payments of the swap transactions.

Net Interest Margin (NIM)



Summary of Balance Sheet

End of Mar.	(Billions of yen)		Change
	2017	2018	
Loans and bills discounted	4,833.4	4,895.9	+1%
Securities	1,014.6	1,123.5	+11%
Lease receivables/leased investment assets	191.4	171.4	-10%
Installment receivables	541.4	558.8	+3%
Reserve for credit losses	(100.1)	(100.8)	+1%
Deferred tax assets	15.5	14.7	-5%
Total assets	9,258.3	9,456.6	+2%
Deposits including negotiable certificates of deposit	5,862.9	6,067.0	+3%
Borrowed money	789.6	739.5	-6%
Corporate bonds	112.6	85.0	-25%
Grey zone reserves	101.8	74.6	-27%
Total liabilities	8,437.5	8,600.6	+2%
Shareholders' equity	823.7	862.5	+5%
Total net assets	820.7	856.0	+4%

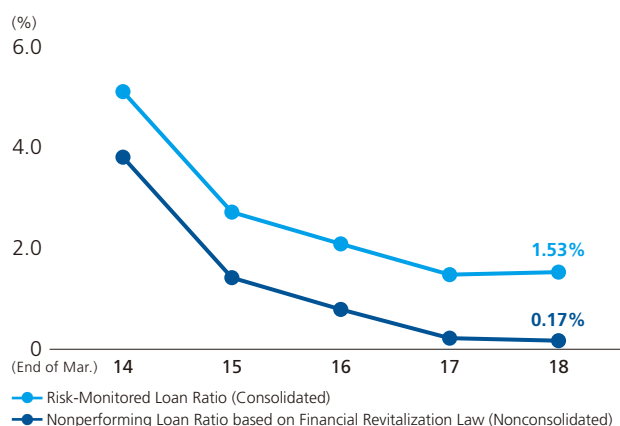
Balance Sheet

- **Total Assets** increased ¥198.3 billion from March 31, 2017, to ¥9,456.6 billion at March 31, 2018, reflecting the increase in operating assets, including securities and loans and bills discounted.
- **Loans and Bills Discounted** increased ¥62.5 billion from March 31, 2017, to ¥4,895.9 billion at March 31, 2018. The loan balance in the Structured Finance Business and the Consumer Finance Business increased while the loan balance in the Corporate Business and housing loans decreased.
- **Deposits including Negotiable Certificates of Deposit** increased ¥204.1 billion from March 31, 2017, to ¥6,067.0 billion.

Asset Quality

- **Risk-Monitored Loan Ratio (Consolidated):** At 1.53% reflecting a reduction in the Bank's nonperforming loans and growth in the balance of unsecured personal loans at subsidiaries with a relatively high risk-monitored loan ratio.
- **Nonperforming Loan (NPL) Ratio based on Financial Revitalization Law (Nonconsolidated):** Remained low at 0.17%.

Risk-Monitored Loan Ratio NPL Ratio based on Financial Revitalization Law



Review of Fiscal 2017

Summary in Business Segments: Business Portfolio

1. Operating Assets and ALM Assets Balance in Business Segments

Operating assets and ALM assets stood at ¥7.4 trillion.

Corporate Business constitutes businesses for corporate clients, financial institutions and public companies. The business is focused on profitability in its lending business, which resulted in ¥1.6 trillion of the outstanding balance.

Structured Finance includes project finance and real estate finance. Strategic allocation of management resources to growth areas resulted in ¥1.4 trillion of the outstanding balance.

Retail Banking's balance stood at ¥1.3 trillion in housing loan business.

APLUS FINANCIAL is composed of credit card, shopping credit and housing-related loans, etc. The asset balance increased to ¥1.0 trillion.

Unsecured Loans, etc., constitute loan origination by the Shinsei Bank Group and credit guarantee business of regional financial institutions. Strategic allocation of management resources to growth areas resulted in ¥0.5 trillion of the asset balance.

Showa Leasing is composed of leasing assets and loans, etc., and increased to ¥0.5 trillion of the operating assets.

ALM Assets mainly include Japanese government bonds.

2. Segment Profits (Ordinary Business Profits after Net Credit Costs)

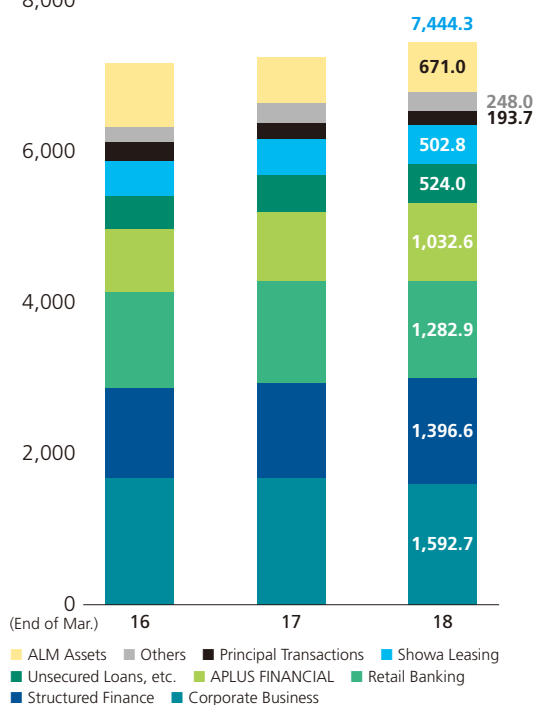
Unsecured Loans increased 38% compared to FY2016, reflecting loan growth.

Structured Finance decreased due to an absence of a large gain on sales of securities as recorded in FY2016.

APLUS FINANCIAL, Showa Leasing, Corporate Business and Global Markets recorded stable profits similar to profits recorded in FY2016.

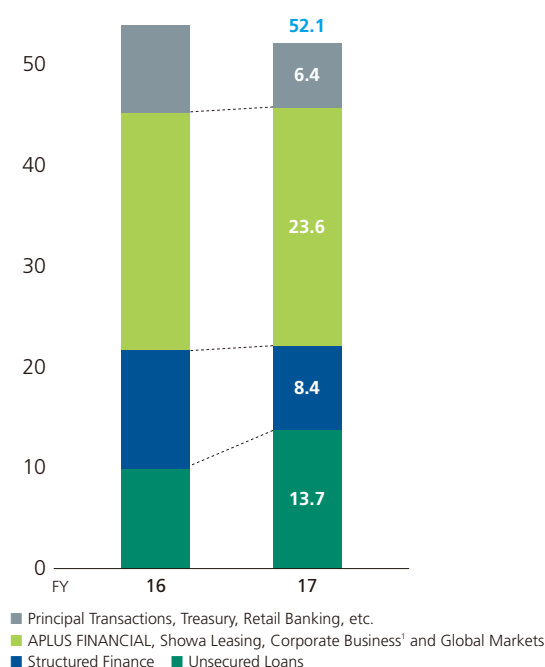
Operating Assets + ALM Assets

(Billions of yen)
8,000



Segment Profits (Ordinary Business Profits after Net Credit Costs)

(Billions of yen)
60

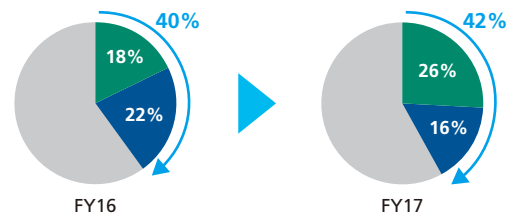


¹ Excluding Corporate Headquarters Account, etc.

3. Growth Areas

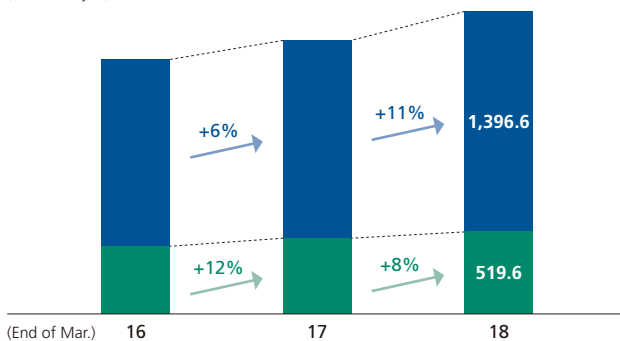
In the growth areas, the unsecured loan balance increased 8%, to ¥519.6 billion at March 31, 2018, and structured finance also grew 11%, to ¥1,396.6 billion at March 31, 2018. These growth areas consist of more than 42% of total profits in fiscal 2017 compared to 40% in FY2016.

Profit Share of Growth Areas



Operating Assets

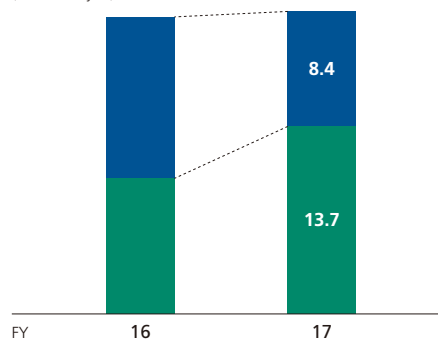
(Billions of yen)



■ **Structured Finance** (Real Estate Finance, Project Finance, Specialty Finance)
 ■ **Unsecured Loans** (Shinsei Bank Lake, Shinsei Financial, NOLOAN, Credit Guarantees, Shinsei Bank Smart Card Loan Plus)

Profit (Ordinary Business Profit after Net Credit Costs)

(Billions of yen)

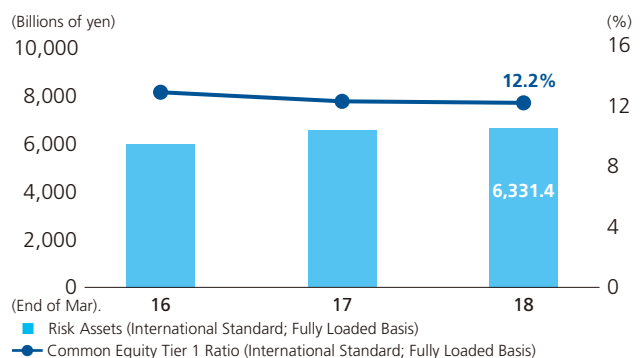


Capital

The Common Equity Tier 1 Ratio on a fully loaded international standard was 12.2%.

Risk-weighted assets increased due to an increase in operating assets mainly in growth business areas. The capital ratio remains at an ample level.

Common Equity Tier 1 Ratio



Shareholder Return

A total of ¥10 billion in acquisition of treasury shares was executed in 2017, aiming to improve per share value, considering conditions of capital and earnings.

The year-end dividend for FY2017 was ¥10 per share.

In May 2018, a share buyback program up to ¥13 billion or 13 million shares was approved by the Board of Directors.

Shareholder return initiatives will result in a total payout ratio of 30% based on the profit attributable to owners of the parent recorded in FY2017.

Total Payout Ratio

(Billions of yen)

FY	14	15	16	17
Total payout (A)	2.6	12.6 ¹	12.5	15.5
Profit attributable to owners of the parent (B)	67.8	60.9	50.7	51.4
Total payout ratio (A)/(B)	4%	21%	25%	30%

¹ Excluding ¥2 billion relating to acquisition of treasury shares in order to attain full ownership of Showa Leasing

Glossary

Management/Finance	
ESG	An acronym for Environment, Social and Corporate Governance, which refers to perspectives important to the long-term growth and development of a company
Excess Interest Repayment (Kabarai)	Prior to the interest rate reduction implemented as part of the revisions to the Money Lending Business Law, the interest rates on some consumer finance products offered by the Shinsei Bank Group's subsidiaries exceeded the upper limit stipulated by the Investment Law. Following a ruling by the Supreme Court in January 2006, customers who paid more than the upper limit stipulated by the Investment Law have been allowed to request a refund of the extra interest paid. Accordingly, consumer finance companies have recorded reserves in order to cover losses on (grey zone) excess interest repayments.
Net Credit Costs	Net Credit Costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, write-off (losses), reversal (gains) of reserves for loan losses and recoveries of written-off claims resulting from their disposal.
Ordinary Business Profit (Loss)	Ordinary Business Profit (Loss)—the indicator of profit (loss) from core business after expenses—is calculated by subtracting "expenses" from "total revenue." "Net credit costs" are excluded from this calculation.
RORA	Return on Risk-Weighted Assets—the indicator which shows a profitability based on Risk-Weighted Assets. RORA is calculated as the ratio of its profit attributable to owners of the parent to the total Risk-Weighted Assets at the end of the term.
Tax Haven	Countries or regions where various tax rates such as the corporate tax rate are reduced or completely exempted
Total Return Ratio	The Total Return Ratio shows the magnitude of a company's shareholder returns.
Total Revenue	Total Revenue is composed of "Net interest income" such as interest from loans and "Noninterest income" such as fee income, as indicated by gross profit from core business operations.
Business	
Advisory	Shinsei Bank's advisory business proposes solutions to meet customers' diverse needs in areas such as M&A, corporate restructuring and fundraising in Japan and overseas.
Asset Management	In a broad sense, Asset Management refers to Shinsei Bank's overall asset management business, but in a narrower sense it refers to the investment trust business and investment advisory business. Shinsei Bank offers a variety of unique financial products and services for both institutional and individual (including high-net-worth) customers, primarily through the Global Markets Business and the Individual Business (Retail Banking Business).
Business Succession Support	The provision of investments and loans to meet capital requirements for the transfer of shares, etc. to customers considering family members or employees as business successors in order to facilitate the smooth handover of business ownership.

Credit Trading

Credit Trading offers balance sheet optimization solutions, including the purchase of loan receivables from current creditors or an investment in (purchase of) monetary claims held by the customer. Shinsei Bank also invests in monetary claims such as loans and leases sold in the secondary market for non-performing loans, aiming to make profits by securing a greater return than the initial investment through servicing or resale of the receivables.

Derivative

Derivative is a collective term referring to transactions that are derived from or linked to other underlying transactions such as interest rate, bond, foreign exchange and equity transactions. They are also called “financial derivatives” since most of the transactions originate from financial products.

Distribution

Distribution (in the context of the origination-to-distribution model) refers to the business of creating financial instruments out of loans from partners and selling them to investors and regional financial institutions.

Economic Ecosystem

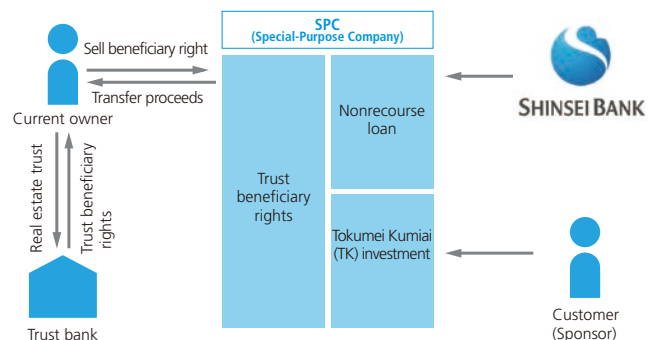
The Economic Ecosystem refers to the entire industry environment and all of its constituent moving parts and their interactions, much like the ecosystems of the natural world.

Fiduciary Duty

The responsibility held by a trustee towards their beneficiary. In finance, this refers to the responsibility that financial institutions have towards their customers and their entrusted assets.

Nonrecourse Loan

Nonrecourse Loans are finances for which repayment is made solely from the cash flows generated from specific businesses or assets (typically, but not always real estate), with no recourse to the sponsor.



Principal Transactions

Principal Transactions generally refer to a bank's proprietary investments. Shinsei Bank proactively makes proprietary investments in the Credit Trading and Private Equity businesses in order to meet customers' needs for corporate restructuring, business succession and growth funds.

Private Equity

In general, Private Equity refers to privately placed shares and shares that are not traded in stock exchanges or over-the-counter markets. Private equity investments can be classified into venture capital, which are investments in growing companies, and investments to acquire control of mature companies in order to implement restructuring. Shinsei Bank is proactively engaged in venture capital investments, investing in up to 5% of total shares with representative rights of customers planning a public share offering as well as making buyout investments related to business divestments from mature companies.

Project Finance

Project Finance refers to loans to finance specific projects for which the principal source of repayment is the cash flow generated from the project itself. Project Finance is often used for medium-to-long term projects in energy, natural resources and infrastructure.

Glossary

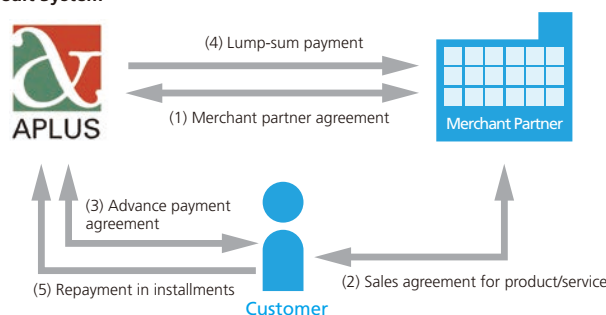
RPA (Robotic Process Automation)

RPA refers to technology that allows for the streamlining and automation of the simple tasks of mainly white-collar labor.

Shopping Credit

Shopping Credit is a service that allows customers to pay for goods or services in installments without using a credit card. The Shinsei Bank Group offers this service primarily through APLUS.

Shopping Credit System



- (1) APLUS concludes a merchant partner agreement with the merchant partner
- (2) Customer purchases a product or a service from the merchant partner
- (3) Customer applies to APLUS for installment sales credit
- (4) APLUS pays the purchase price for the product/service as a lump sum to the merchant partner
- (5) Customer repays the purchase price to APLUS in installments

Specialty Finance

Specialty Finance at Shinsei Bank refers to M&A finance, LBO finance and other types of finance that focus on the cash flows and value generated by businesses and assets. It is a type of structured finance.

Structured Finance

Structured Finance refers to finance requiring special structures. In general, it takes the form of project finance or non-recourse finance which focuses on the cash flows or value generated by a specific project or asset. Shinsei Bank is primarily active in real estate finance, project finance, M&A finance and corporate restructuring finance.

Syndicated Loan

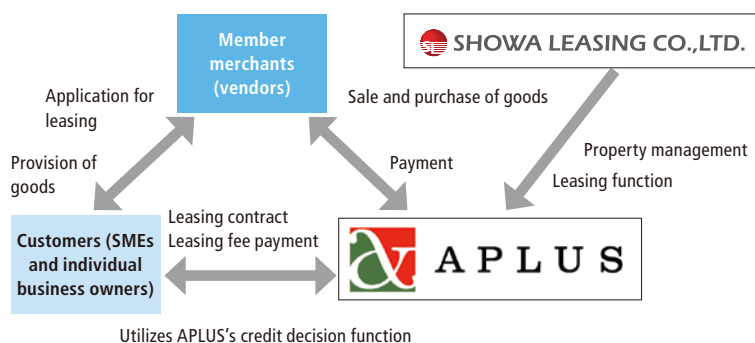
Syndicated Loans are loans provided jointly by a syndication of multiple financial institutions (lender group) based on a single loan agreement.

Unsecured Loan

A type of loan/product offered by financial institutions such as banks and consumer finance companies that enables a consumer to borrow without security.

Vendor Lease

Vendor Lease refers to providing leased properties to SME and individual business owners through APLUS member merchants (vendors).



Wealth Management

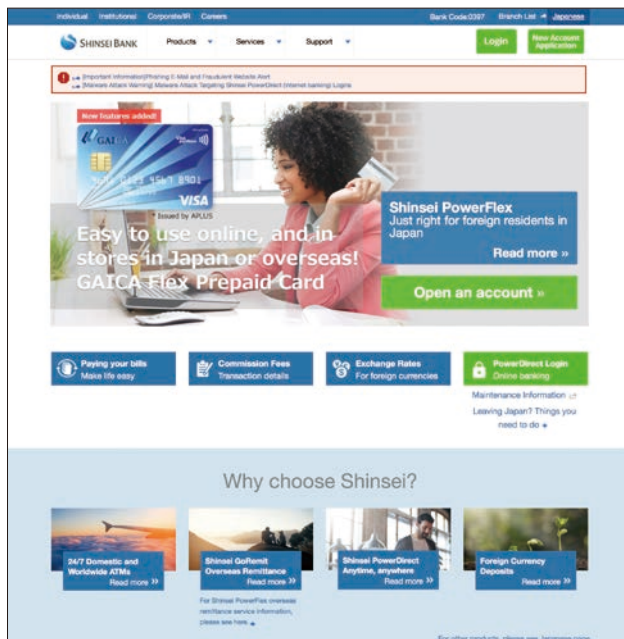
Wealth Management refers to the financial services that Shinsei Bank offers to high-net-worth customers. The Bank offers a variety of differentiated wealth management services tailored to customers' needs.

Risk	
ALM (Asset Liability Management)	ALM refers to the comprehensive management of the market and liquidity risks that exist in the Bank's balance sheet (i.e., assets and liabilities) as a result of its business operations. ALM aims to optimize interest rate income from the Bank's balance sheet and economic value by monitoring interest rate conditions and asset/liability duration, including off-balance items such as derivatives on the Bank's account, and adjusting for risks in assets/liabilities and derivatives transactions in consideration of the change in value of assets, liabilities and periodic profits or losses due to market fluctuations.
Backtest	It is the process of verifying the trading performance based on an historical rate or a fixed condition for share trading and currency trading.
Basel Regulations	Basel Regulations are regulations based on an international agreement in relation to such areas as the capital adequacy ratio of banks. Shinsei Bank calculates the capital adequacy ratio in accordance with the Japanese standards outlined by the Financial Services Agency.
Expected Loss	It is the average amount of loss expected in relation to portfolio loans and is used as a provision for unrecoverable debt over a fixed period of time.
Exposure	Exposure refers to an amount of assets or an amount of money that is exposed to foreign exchange, price fluctuations or other risks as a result of loans and investments.
Portfolio	A Portfolio refers to a group of various components. An asset portfolio, for example, refers to a collection of various assets such as real estate, cash deposits and equities.
Risk Appetite	The type and amount of risk that must be taken on to achieve management plans.
Risk Profile	The Risk Profile describes the characteristics of risks taken on.
Risk-Weighted Assets	Risk-Weighted Assets are calculations to regulate the volume of "credit risk" and "market risk" of the Bank's assets/transactions and "operational risk" involving operational errors.
Stress Testing	As preparation for unforeseen circumstances in financial markets, Stress Testing employs a statistical approach to simulate economic and other losses. Stress Testing is used in such instances as the verification of business plans based on unique scenarios projected by the Bank.
Trading Book	The Trading Book facilitates trade that takes advantage of short-term fluctuations in such areas as interest rates, foreign exchange rates and share prices.
Treasury	Treasury is normally the function in a company which is responsible for ALM (asset and liability management). At Shinsei Bank, Treasury basically refers to the function responsible for cash flow management including collateral management, transactions through transfer pricing (FTP, the inter-office fund transfer price), issuance or buyback of (subordinated) corporate bonds, liquidity planning, management of overseas subsidiaries that issue capital securities as well as ALM for the entire Group.
Unexpected Loss	It is the difference resulting from subtracting the expected loss from the maximum loss expected to occur based on a set probability across multiple portfolio loans.
Value at Risk (VaR)	The VaR of a held position for a fixed period of time describes the maximum loss expected within a given probability range through normal price fluctuation.

Websites

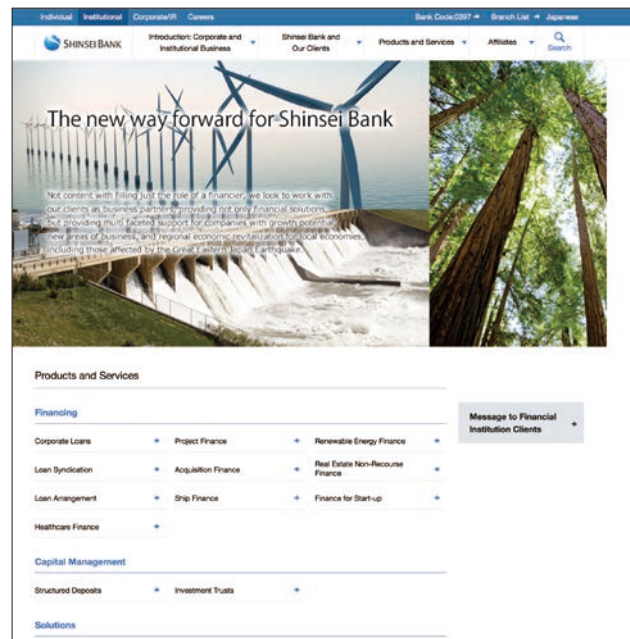
Our English and Japanese websites provide a wide range of corporate data as well as information for individual and institutional customers and investors.

Individual



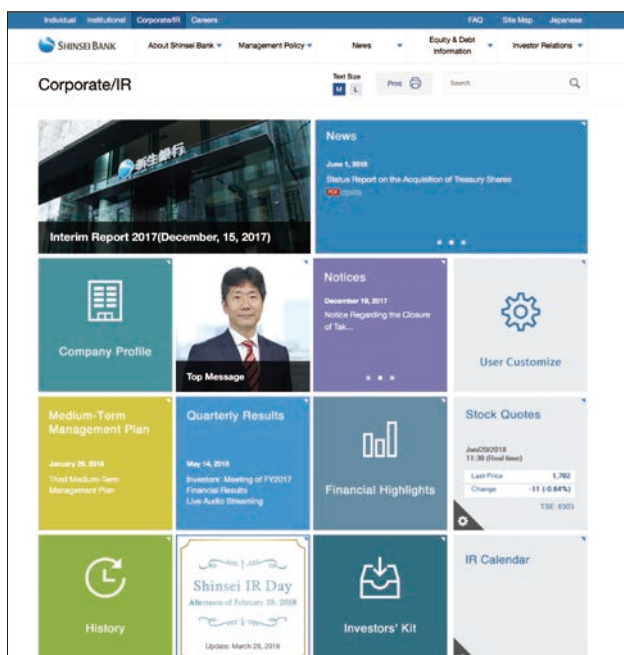
<http://www.shinseibank.com/english/>

Institutional



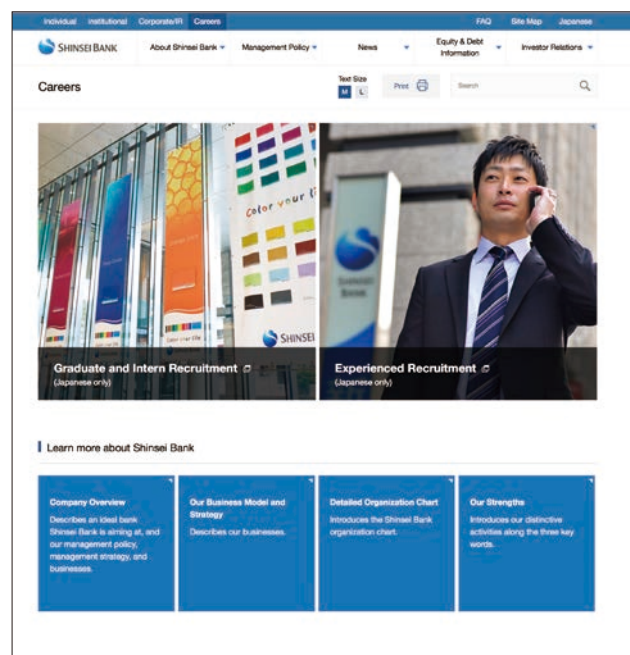
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Corporate/IR



<http://www.shinseibank.com/corporate/en/>

Career



<http://www.shinseibank.com/corporate/en/recruit>