

FY2019 3rd Quarter Financial Results

Presentation scripts

Before I explain the 3rd quarter financial results, please allow me to cover certain media report since January 27th, 2020.

According to the media reports, documents with falsified information were used at certain branches of Aruhi in loan applications for investment-type apartment loans to APLUS FINANCIAL.

Today, Aplus has issued a news release on this subject. We have also shared it on Shinsei Bank's website. I will briefly explain it.

Regarding the scheme of the apartment loans for investment purposes,

- APLUS' apartment loans for investments are available to customers of Aruhi nationwide. APLUS accepts loan application documents from Aruhi for its review. Loan applications are transmitted via a dedicated system to APLUS' review center after Aruhi receives the application form from a client who wishes to apply for a loan. APLUS provides financing after a defined examination is performed, such as assessment of applicants' credit worthiness, judgment on the appropriateness of property prices through a third-party appraisal, and confirmation of applicants' intentions.
- Flowchart of the scheme is also attached to our press releases.

Regarding the current situation,

- Aplus is investigating the facts and the related information.
- While it is in the middle of the investigation, based the information Aplus has obtained so far, it has confirmed that this issue is potentially concentrated with the limited number of distributors.

We will update you on this matter in a timely manner when the investigation progresses further and facts are clarified.

With regards to loan balances of APLUS' apartment loans for investment purposes,

- Total outstanding balance is JPY 155 billion, including JPY 14.8 billion of shopping credit.

- Out of the JPY 155 billion of total balance, the amount intermediated by Aruhi is JPY 143 billion, including JPY 3.2 billion of shopping credit.
- Average loan balance is approximately JPY 12 million per application.

Now, I will explain the main points in the 3rd quarter financial results.

[Slide 3]

Key Points

1 JPY 45.1 billion of net income¹; increased 9% y-o-y 85% progression toward the full year net income forecast

- Ordinary Business Profit (OBP) : JPY 71.9 billion (increased 9% y-o-y; 79% progression)
- OBP after Net Credit Costs : JPY 49.6 billion (increased 10% y-o-y; 89% progression)

2 Full year net income forecast : expect to achieve the initial plan of JPY 53 billion

- 3Q progression exceeds run rate of 75%
- This mainly reflects timing difference relating to fee income from new disbursements in structured finance as well as expenses associated with IT and certain projects and lower net credit costs

3 Mid-term strategies: solid progress on financial target

- Our financial target in the mid-term strategy is to achieve an average annual EPS growth rate of 2% or more without considering share buybacks
- EPS (excl. share buyback)² grew at 8.5% during the first three quarters of FY2019

¹ Profit attributable to owners of the parent

² Calculation = (Profit attributable to owners of the parent) divided by (the average number of fully diluted common shares for the previous fiscal year (excluding treasury shares))

- First, net income amounted to JPY 45.1 billion, up 9% from the same period of the previous fiscal year and represents 85% towards the full-year target.
- Second, full year net income forecast remains at JPY 53 billion.
 - The progression rate of 85% thus far mainly reflects timing difference relating to fee income from new disbursements in structured finance as well as lower expenses associated with IT and certain other projects and lower credit costs.
- Third point relates to the EPS growth.
 - Our financial target in the medium-term management strategy is to achieve an average annual EPS growth rate of 2% or more without considering share buybacks.
 - We achieved 8.5% EPS growth as of the end of 3rd quarter. With the share buybacks,

we achieved EPS growth rate of 11.8%.

[Slide 4]

Consolidated	18.4-12 (Actual)	19.4-12 (Actual)		19.4-20.3 (Plan)	
		YoY % B(+)/W(-)	Progress %		
Total Revenue	172.8	183.1	+6%	75%	243.0
Net Interest Income	100.1	100.3	+0%		
Noninterest Income	72.7	82.7	+14%		
Expenses	-106.6	-111.1	-4%	73%	-152.0
Ordinary Business Profit (OBP)	66.2	71.9	+9%	79%	91.0
Net Credit Costs	-21.1	-22.2	-5%	63%	-35.0
OBP after Net Credit Costs	45.1	49.6	+10%	89%	56.0
Others	-3.5	-4.5	-29%	150%	-3.0
Income Tax, etc.	-3.4	-3.6	-6%		
Net Income	41.5	45.1	+9%	85%	53.0

Points

Total Revenue:

Net interest income and noninterest income are mostly in line with the initial expectation

Expenses:

Lower progress rate of expenses reflects timing difference due to certain projects and IT expenses

Net Credit Costs:

Lower progress rate of net credit costs relates to improvement of credit quality as well as enhanced collection in Unsecured Loans

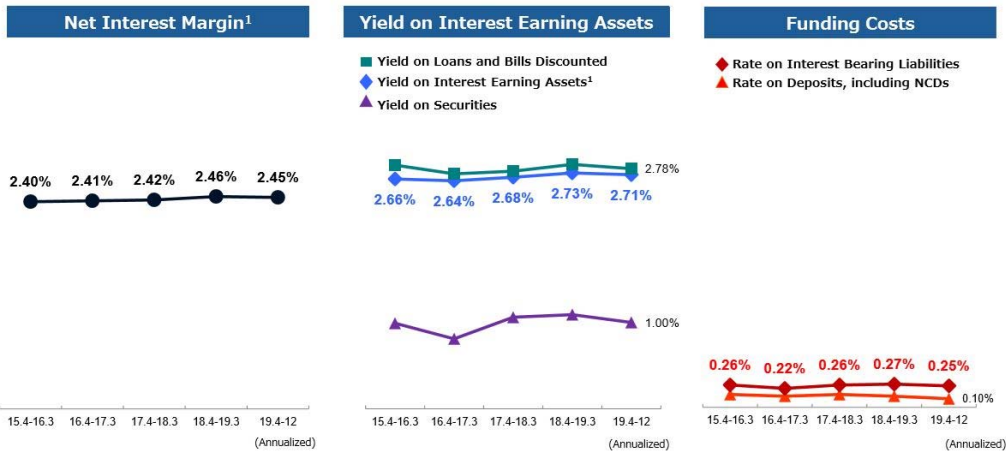
4



■ Please turn to Page 4.

- Total revenue grew 6% year-on-year representing 75% of the full-year plan, which is in line with our initial expectation.
- Fee income from new disbursement in Structured Finance increased. In addition, reduction of ATM transaction fees and gains on sale of securities contributed to the noninterest income.
- Expenses increased 4% year-on-year mainly reflecting new systems expenses. The overall expenses progress rate was 73%.
- Though the net credit costs grew 5% year-on-year. The progression to the full-year target is 63%. It reflects improvement of credit quality as well as enhanced collection in Unsecured Loans.
- As a result, net income attributable to owners of the parent was JPY 45.1 billion, up 9% year-on-year, and representing 85% of the full year target.

Financial Update: Net Interest Margin (NIM), Yields (Unit: %)



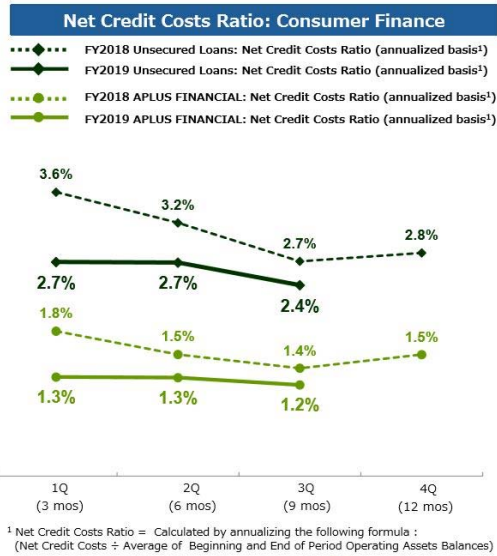
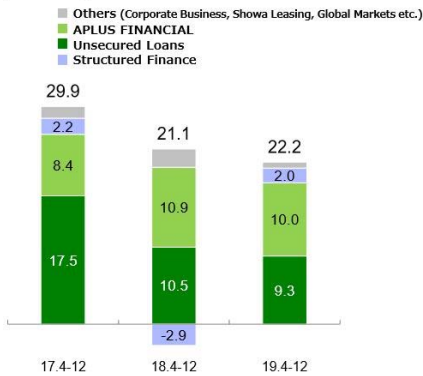
¹ Includes income on leased assets and installment receivables

- Page 7 shows the net interest margin.
 - The net interest margin stands at 2.45%.
 - The total yield on interest earning assets remained stable at 2.71% even in this low interest rate environment.
 - The rate on interest bearing liabilities declined mainly due to lower deposits related funding costs.

Financial Update: Net Credit Costs

(Unit: JPY billion; %)

- In unsecured loans, decrease in net credit costs reflects lower write-off of loans and improvement of credit quality due to enhanced collection in Lake business and credit guarantees. Net credit cost ratio is at 2.4%
- In APLUS FINANCIAL, net credit costs declined y-o-y; an increase in the operating assets balance this year was fully offset by an absence of provisioning related to delinquent loans in the previous year. Net credit cost ratio is at 1.2%



10

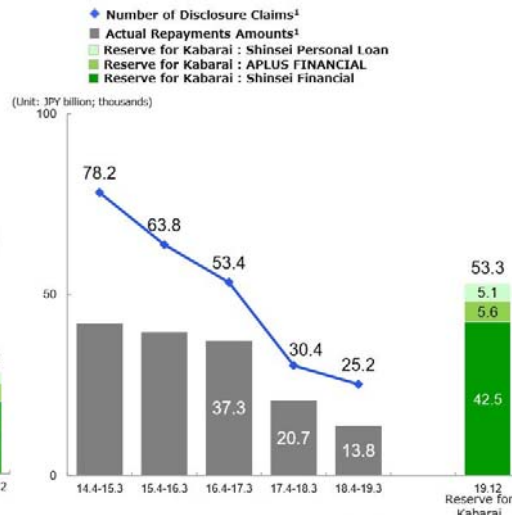
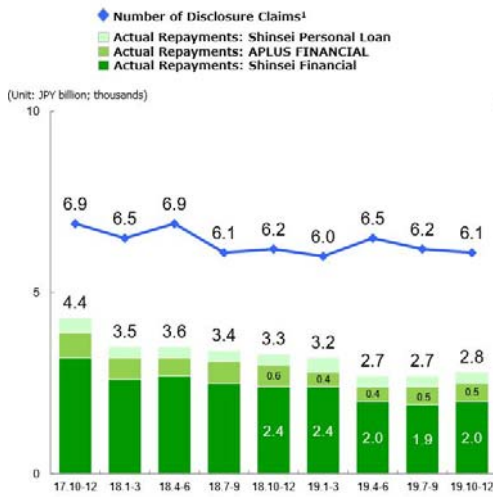
SHINSEI BANK GROUP

- Page 10. Please see the trend of net credit cost ratio on the right-hand side graph.
 - In the unsecured loan business, net credit costs ratio declined to 2.4%, reflecting improvements in the quality of loans facilitating higher loan collection in the Lake business and credit guarantees, coupled with sluggish loan growth from September to December 2019.
 - APLUS net credit costs ratio is stable at 1.2% while operating asset balance, especially shopping credit, increased.

Financial Update: Excess Interest Repayment (Kabarai)

(Unit: JPY billion; thousands)

- Kabarai payments during 19.10-12 declined by approx. 15% compared with same period of last year
- Combined reserve coverage ratio based on the total actual payments in 19.10-12 is above 4 years



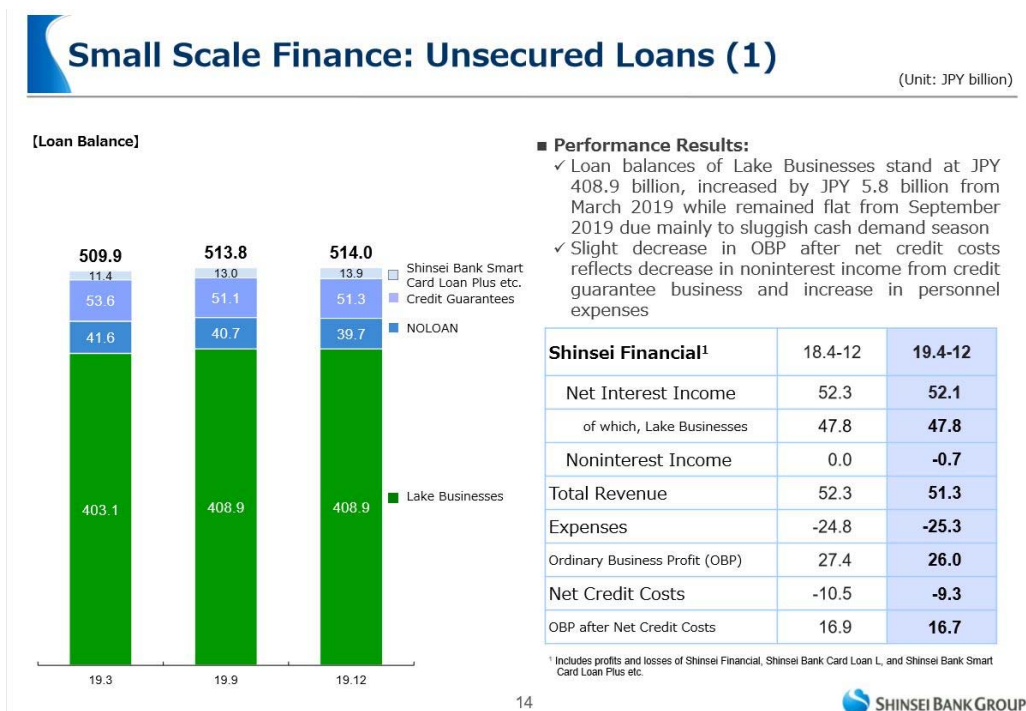
¹ Shinsei Financial, Shinsei Personal Loan and APLUS FINANCIAL combined

■ Page 12 shows Kabarai trends.

- As depicted on the left-hand side graph, the number of requests for disclosure claims have declined slightly.
- For Kabarai, Shinsei Financial showed a slight increase in 3Q. This was due to the Kabarai settlements timing issue. The total Kabarai amount continue to show declining trend.

We have JPY 53.3 billion of Kabarai reserves on a Group basis with a coverage of well over 4 years based on the current run rate.

[Slide 14]



■ Page 14 shows unsecured loans as a part of small-scale finance.

- Lake ALSA is the driver of loan growth for Unsecured Loans. It achieved JPY 5.8 billion of loan growth compared with March 2019.
- However, it was flat compared with September end due to weak cash demand as the 3rd quarter is the bonus season in Japan.
- Regarding P&L, net interest income from Lake business was flat.
- Decrease in noninterest income reflects decrease in credit guarantee fees from regional banks.
- While net credit costs improved, OBP after net credit costs slightly declined to JPY 16.7 billion.

Small Scale Finance: Unsecured Loans (2)

(Unit: JPY billion)

■ Lake ALSA Unsecured Loans:

- ✓ The number of applications increased 15% y-o-y; The number of new customer acquisition increased by 10% y-o-y
- ✓ Approval rate decreased 1.4% point y-o-y. We plan to improve the operating structure to facilitate an increase in the number of application, and aim to recover the approval ratio to the previous level as early as possible in FY2020
- ✓ The number of unmanned branches is at 708 (vs. 725 as of March 31, 2019)



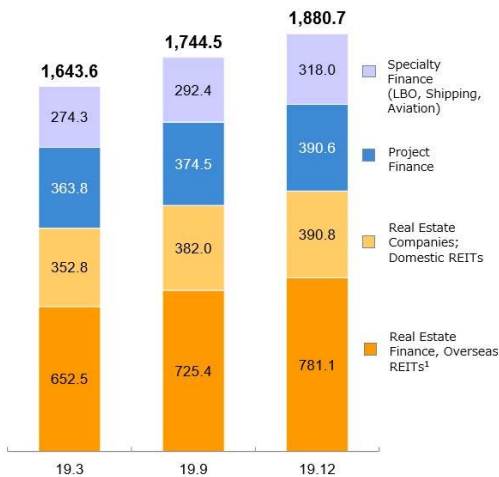
- On page 15, we will explain Lake ALSA's new customer acquisition.
 - At Lake ALSA, in order to attract applications through digital channels, we have now converted the 60-day interest-free loan as a regular product feature for new applicants who apply via the Internet and smartphones.
 - The number of applications increased 15% year-on-year.
 - The number of new customer acquisitions increased by 10% year-on-year.
 - We will continue to focus improving the operating structure to further drive an increase in the number of applications and the number of customer acquisition to previous levels as early as possible in FY2020.

[Slide 18]

Business with Institutional Investors: Structured Finance (1)

(Unit: JPY billion)

[Operating Assets Balance]



■ **Performance Results:**

- ✓ Increase in net interest income reflects regular accumulation of operating assets
- ✓ Increase in noninterest income reflects fee income from real estate finance
- ✓ Increase in net credit costs relates to absence of net credit recoveries as recorded in the previous year

Structured Finance	18.4-12	19.4-12
Net Interest Income	7.6	8.8
Noninterest Income	5.5	5.9
Total Revenue	13.1	14.8
Expenses	-5.8	-6.2
Ordinary Business Profit (OBP)	7.3	8.5
Net Credit Costs	2.9	-2.0
OBP after Net Credit Costs	10.2	6.4

¹ Category of overseas REITs has been change for current and previous periods

18



■ Page 18 covers Structured Finance.

- The operating assets balance of Structured Finance stood at JPY 1,880.7 billion yen.
- Both operating assets and revenue of structured finance products have been steadily growing.

[Slide 19]

Business with Institutional Investors: Structured Finance (2)

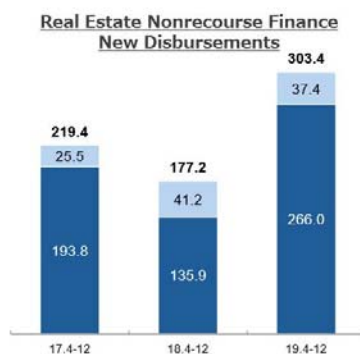
(Unit: JPY billion)

■ **Project Finance:**

- ✓ Newly committed mega solar projects and biomass project in Japan; offshore wind power project and infrastructure projects overseas in Oct-Dec. 2019

■ **Real Estate Finance:**

- ✓ The market remained robust with prices holding at high level with ample deals flow
- ✓ New disbursements reflect office building projects and sizable logistic facilities incorporating sell down structure in Oct-Dec. 2019



19



- Page 19 covers our structured finance business activities.
 - Project finance progress had been slow up until 2nd quarter, but the new commitment amount grew in 3rd quarter as we recorded new commitments for renewable energy and infrastructure investment projects.
 - In the Real Estate Finance, we provided new finance to office building projects and sizable logistic facilities incorporating sell down structure in the 3rd quarter.

Finally, just to summarize.

- Financial performance continues to be stable.
- In the area of business, we have started several initiatives for value co-creation in the area of small-scale finance and continue to work on productivity enhancement initiatives such as consolidation of IT operations as well as physical branch and office locations.
- Lastly, we will have Shinsei IR day on February 20th where our business heads will explain key business initiatives in detail.

End