

# Fiscal Year 2019 First Quarter Financial Results

## Presentation script

[Slide 3]

### Key Points

#### **1** Solid start toward the achievement of FY2019 full year net income forecast

- Net income: JPY 12.1 billion (increase 34% Y-o-Y; 23% progression toward the full year plan)
  - Total revenue : JPY 57.5 billion (increase 1% Y-o-Y; 24% progression)
  - Expenses : JPY 36.2 billion (increase 4% Y-o-Y; 24% progression)
  - Net credit costs : JPY 4.9 billion (decrease 54% Y-o-Y; 14% progression)

#### **2** Per share value increased

- Executed JPY 3.3 billion or 14% of share buyback during the quarter  
Total share buyback target of JPY 23.5 billion with total payout ratio at 50% (approved on May 15, 2019)
- Both EPS and BPS improved
  - EPS : JPY 49.65 (increase 38% Y-o-Y)
  - BPS : JPY 3,691.53 (increase 8% Y-o-Y)

#### **3** Regained momentum of unsecured loan growth

- Unsecured loan balance stood at JPY 511.9 billion; increased JPY 2.0 billion from March 2019
- New customer acquisition of Lake ALSA in 1QFY2019 : 36.3K (increase 58% Y-o-Y)
- Approval rate of Lake ALSA in 1QFY2019 : 30.2% (improve 1.3% points Y-o-Y)

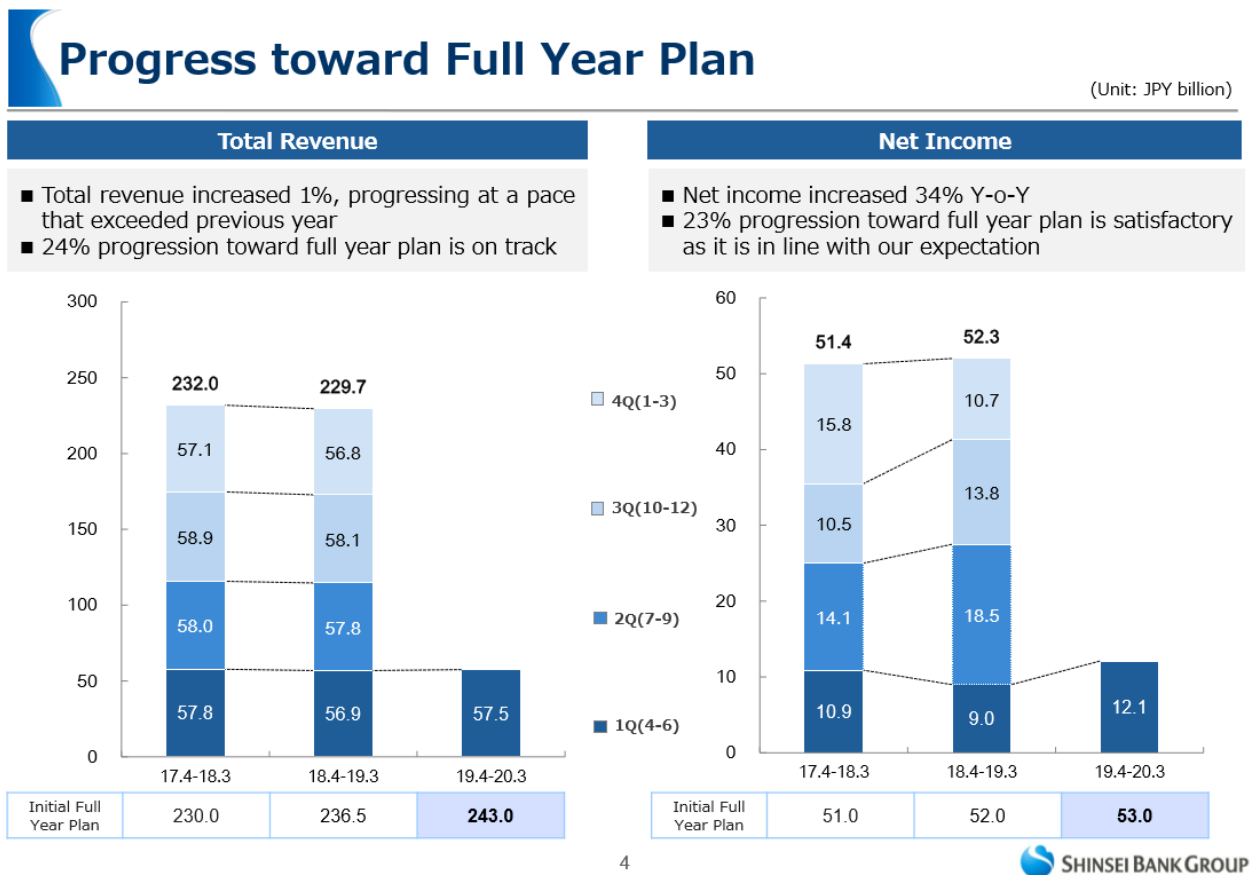
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- The main points of this quarter's financial results are described on page 3.
- First, net income (profit attributable to owners of parent) was ¥12.1 billion, up 34% compared to the same period of the previous fiscal year, demonstrating a solid start, with 23% progress toward the achievement of full-year net income forecast of ¥53 billion.
  - Total revenue was ¥57.5 billion, up 1% year on year with 24% progression toward the full-year plan.
  - Expenses totaled ¥36.2 billion, up 4% year on year with 24% progression toward from the full-year plan.
  - Net credit costs amounted to ¥4.9 billion, down 54% compared to the same period of the previous fiscal year with 14% progression toward the full-year plan.
  - We will explain this in more detail later.

- Second, the value per share has steadily improved.
  - Shares buy-back is progressing steadily with ¥3.3 billion or 14% of the total target amount of ¥23.5 billion executed by June end.
  - As a result of the buyback, EPS was ¥49.65, up 38% year on year, and BPS increased 8% year on year to almost ¥3,700.
  
- Third, unsecured loans regained its growth momentum.
  - The balance of unsecured loans increased by ¥2.0 billion from the end of March 2019 to ¥511.9 billion.
  - In Lake ALSA, the number of new customers increased 58% to 36 thousand reflecting various marketing initiatives during the quarter.

[Slide 4]



- Page 4 shows the progress of total revenue and net income.
  - Both total revenue and net income outperformed year on year. 23% progression toward achieving the full-year plan is satisfactory and is in line with our expectation.

# 1QFY2019 Financial Results Summary

(Unit: JPY billion; %)

Consolidated	18.4-6 (Actual)	19.4-6 (Actual)		19.4-20.3 (Plan)	
		YoY % B(+)/W(-)	Progress %		
<b>Total Revenue</b>	56.9	57.5	+1	24	243.0
<b>Net Interest Income</b>	33.4	33.3	-0		
<b>Noninterest Income</b>	23.4	24.1	+3		
<b>Expenses</b>	-34.8	-36.2	-4	24	-152.0
<b>Ordinary Business Profit (OBP)</b>	22.0	21.3	-3	23	91.0
<b>Net Credit Costs</b>	-10.7	-4.9	+54	14	-35.0
<b>OBP after Net Credit Costs</b>	11.3	16.3	+44	29	56.0
<b>Others</b>	-2.2	-4.1	-86	137	-3.0
<b>Income Tax, etc.</b>	-1.5	-3.2	-113		
<b>Net Income</b>	9.0	12.1	+34	23	53.0

## Points

### Total revenue: JPY 57.5 billion

- Net interest margin (NIM) improved to 2.47%
  - Yields on interest-earning remained flat while overall funding rate decreased
- Noninterest income increased, reflecting improved fee income in Structured Finance and Retail Banking as well as gain on sales of bonds in Treasury's ALM activities

### Expenses: JPY 36.2 billion

- Expenses-to-Revenue Ratio: 63.0%
- Increase in expenses mainly reflects depreciation on new IT systems (increased JPY 0.7 billion Y-o-Y)
- 24% progression toward the full year plan is within our initial plan

### Net Credit Costs: JPY 4.9 billion

- Structured Finance : JPY 1.8 billion (reversal)
- Unsecured Loans : JPY 3.4 billion (provision)
- APLUS FINANCIAL : JPY 3.5 billion (provision)

### Others: JPY -4.1 billion

- Income Tax, etc.: JPY -3.2 billion
- Increase in tax expenses partly reflects increase in pretax profits
- No provision or reversal of Kabarai reserve was recorded during the quarter; Kabarai reserve coverage ratio at over 5 years based on this quarter's actual payments

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 SHINSEI BANK GROUP

- Page 5 is a summary of results for the first quarter.
  - Net interest income remained unchanged, but noninterest income increased compared to the same period of the previous fiscal year due mainly to an increase in fee income from Structured Finance and Retail Banking, as well as a gain on sales of bonds in the Treasury's ALM activities. As a result, total revenue increased 1% year on year to ¥57.5 billion.
  - Net interest margins (NIM) continued to improve to 2.47% reflecting stable yield on interest earning assets and lower funding costs.
  - Expenses increased 4% year on year to ¥36.2 billion, mainly due to IT depreciation expenses associated with the launch of new systems. Expenses-to-revenue ratio of 63.0% with progression of 24%, in line with our initial plan.
  - Net credit costs amounted to ¥4.9 billion, a significant decrease compared to the same period of the previous fiscal year. This was mainly due to net credit recoveries in Structured Finance, a decrease in net credit costs for unsecured loans, and an absence of credit provision for delinquent loans in conjunction with a lump-sum sale, which was recorded in the same period of the previous year in

Aplus.

- There was no provision or reversal of the reserves for Kabarai in the first quarter. Kabarai reserve coverage ratio at over 5 years based on this quarter's actual payments on a Group wide basis.
- Increase in Others partly reflects an increase in income taxes resulting from an increase in pretax profits.
- As a result, net income increased to ¥12.1 billion.

These are the key points of the first quarter's overall financial results. We will now move on to the Business Updates from page 15 onward.

## Individual Business: Unsecured Loans

(Unit: JPY billion; %)

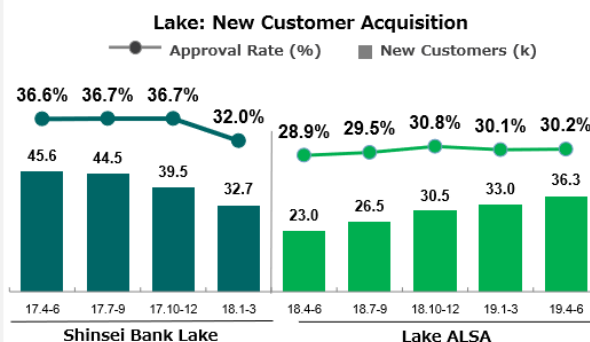
### Business:

Regained business momentum reflects:

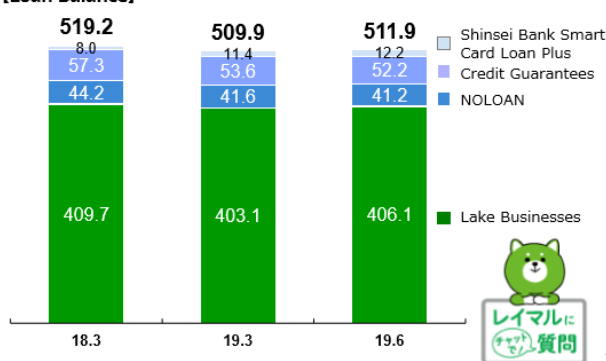
- ✓ Higher new customer acquisition through web-based advertisement including SNS and 60 days no interest campaign (February to May 2019)
- ✓ Approval rate improvement by 1.3% point Y-o-Y. Numerous initiatives are underway to further improve the approval rate
- ✓ Card-less app and enhancement of ability to wire transfer online facilitating digitalization of channels in application and contract
  - Approx. 80% of total applications are made online
  - Approx. 60% of the online applications leads to online contracts

### Performance Results:

- ✓ The number of new customers increased 58% Y-o-Y
- ✓ Loan balance of Lake and overall unsecured loans balance regained momentum
- ✓ Decrease in net credit costs due to improved credit quality by enhanced collection in Lake and decrease in credit guarantees to regional banks resulted in increase in OBP after net credit costs



### [Loan Balance]



Shinsei Financial <sup>1</sup>	18.4-6	19.4-6
Net Interest Income	17.5	17.1
of which, Lake Businesses	16.0	15.7
Noninterest Income	0.0	-0.2
Expenses	-8.2	-8.3
Ordinary Business Profit (OBP)	9.2	8.5
Net Credit Costs	-4.6	-3.4
OBP after Net Credit Costs	4.6	5.0

<sup>1</sup> Includes profits and losses of Shinsei Financial, Shinsei Bank Lake, and Shinsei Bank Smart Card Loan Plus



### Page 15 provides an update on unsecured loans business.

- The balance of unsecured loans stood at ¥511.9 billion, an increase of ¥2.0 billion from the end of March 2019. The loan balance of the Lake business also increased to ¥406.1 billion from ¥403.1 billion at the end of March 2019.
- In the first quarter of the fiscal year, the number of new customer acquisitions increased 58% year on year to 36 thousand customers, reflecting our focus on web advertising including SNS, and the 60-day interest-free campaign featuring a major holiday season in May.
- With regard to the digital shift, approximately 80% of all applications have been made online due to card-less apps and the enhancement of our ability to wire transfer funds to customers online. Of these, approximately 60% lead to online contracts. So the shift from application to contract completion online is progressing well.
- In terms of results, OBP after net credit costs increased mainly due to a decrease in net credit costs reflecting improved credit quality and enhanced collection of receivables in the Lake Business.

## Individual Business: APLUS FINANCIAL

(Unit: JPY billion; %)

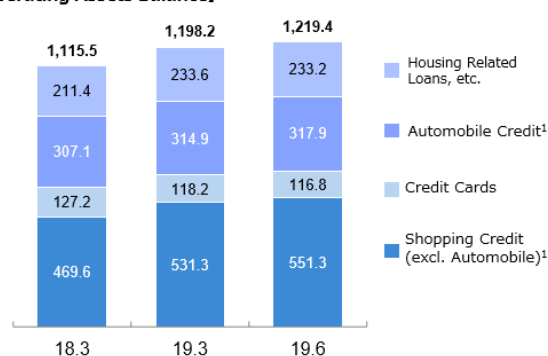
### Business:

- ✓ Transaction volume and revenue in payment business increased, reflecting settlement via convenience stores and various mobile settlement services
- ✓ "Neobank Platform" will offer cafeteria-style financial services such as settlement, fund transfer and credit functions to nonfinancial B-to-C companies which consider to enter into the financial and settlement businesses (the Platform is planned to launch by the end of FY2019)

### Performance Results:

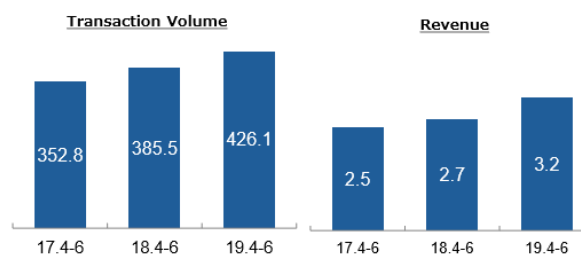
- ✓ Despite increase in expenses related to IT depreciation, net credit costs decreased reflecting an absence of provisioning related to a bulk sale of delinquent loans in the previous year. OBP after net credit costs increased as a result

### [Operating Assets Balance]

<sup>1</sup> Includes credit guarantees business

### Payment Business

Settlement via convenience stores and bank accounts, rent guarantees, prepaid cards, mobile settlement services



APLUS FINANCIAL	18.4-6	19.4-6
Net Interest Income	2.8	2.4
Noninterest Income	11.4	11.7
Expenses	-8.9	-9.4
Ordinary Business Profit (OBP)	5.2	4.7
Net Credit Costs	-4.8	-3.5
OBP after Net Credit Costs	0.4	1.1

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### Page 16 illustrates APLUS FINANCIAL business.

- Aplus is focusing on businesses such as shopping credit, credit cards, payment settlements, and housing loans.
- In the payment settlements business which includes convenience store settlements and various mobile settlement services, transaction volume as well as revenue increased steadily to ¥426.1 billion and ¥3.2 billion, respectively.
- As a new initiative, we plan to launch the Neobank platform by the end of this fiscal year. Led by Aplus which is also engaged in the fund transfer business, this platform allows B-to-C companies (non-financial businesses) that are considering entering the financial and settlement businesses to select the required functions from the Bank's settlement/foreign exchange, credit, asset management, and marketing functions. This platform enables non-financial businesses to provide financial and settlement services at low prices and in a short period of time.
- Despite an increase in expenses related to IT depreciation, OBP after net credit costs increased, as net credit costs decreased reflecting an absence of provisioning related to a bulk sale of delinquent loans recorded in the previous

fiscal year.

[Slide 17]

## Individual Business: Retail Banking

(Unit: JPY billion; %)

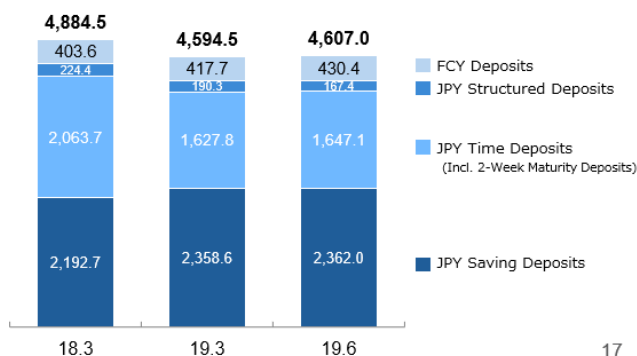
### ■ Business:

- ✓ Expanding sales channels of insurance products: the Bank acquired Financial Japan, a home-visit shared insurance agency, to strengthen sales channels and consulting functions (became a wholly-owned subsidiary on May 8, 2019)
- ✓ The number of customers and balance have steadily increased

### ■ Performance Results:

- ✓ Improvement in revenue coupled with lower expenses resulted in JPY 0.3 billion (profit) in OBP after net credit costs
- ✓ Increase in noninterest income, reflecting the reduction of ATM transaction fees under the revised Step Up Program, is in line with expectation (JPY 1.5 to 2 billion per annum)
- ✓ FCY deposits continue to increase due to time deposits in addition to favorable market conditions

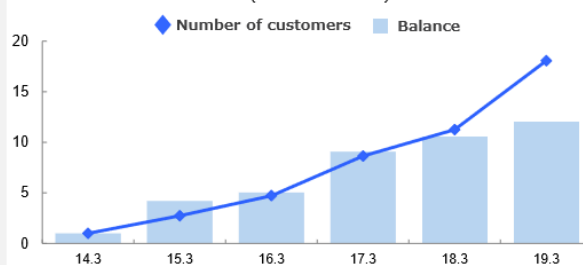
### [Deposits Balance]



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### Saving-type Investment Trusts

(March 2014 = 1)



Retail Banking	18.4-6	19.4-6
Net Interest Income	5.8	6.0
of which, from Loans	2.5	2.3
of which, from Deposits, etc.	3.3	3.6
Noninterest Income	0.4	1.0
of which, from Asset Management Products	1.7	1.6
of which, Other fees (Loan origination, ATM, FT, FX etc.)	-1.2	-0.5
Expenses	-6.9	-6.5
Ordinary Business Profit (OBP)	-0.5	0.4
Net Credit Costs	0.0	-0.1
OBP after Net Credit Costs	-0.5	0.3

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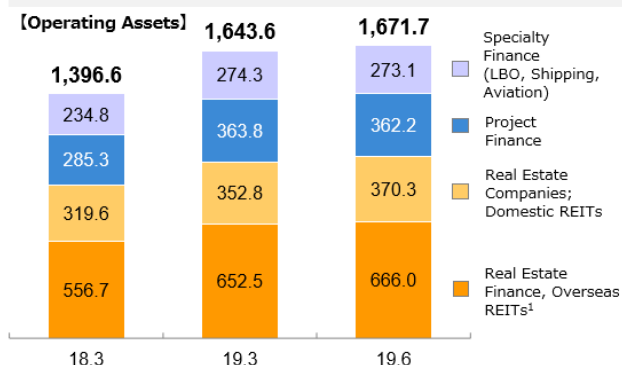
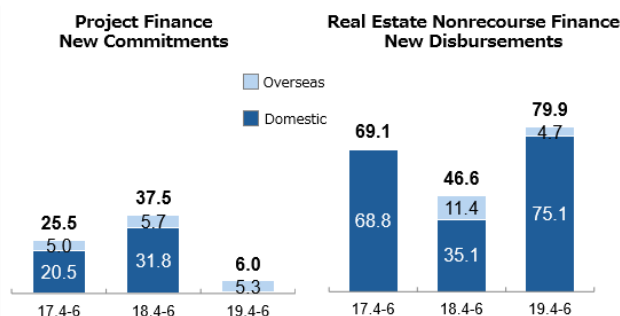
### ■ Page 17 explains Retail Banking business.

- Shinsei acquired Financial Japan in May to expand its sales channels of insurance products and also has been enhancing saving type of investment trusts.
- In terms of results, the retail business returned to profitability with OBP after net credit costs improving significantly year-on-year, reflecting increase in deposits related income and reduction of ATM transaction fees.

# Institutional Business: Structured Finance

(Unit: JPY billion; %)

- **Business:**
  - ✓ In project finance, several transactions including mega solar projects are expected to conclude in 2Q onward
  - ✓ In real estate finance, acquisition of new transactions was in line with the plan, and continue to explore transactions targeting new asset types and new sponsors
  - ✓ In aviation finance, Shinsei Bank and Showa Leasing cooperatively provided senior debt finance and equity finance as alternative investments for real assets
- **Performance Results:**
  - ✓ Increase in noninterest income from new disbursements of real estate finance and net credit recoveries associated with improved asset valuation for certain real estate finance transactions reflect an increase in OBP after net credit costs



<sup>1</sup> Category of overseas REITs have been changed current and previous years

Structured Finance	18.4-6	19.4-6
Net Interest Income	2.4	2.7
Noninterest Income	1.0	1.6
Expenses	-1.9	-2.0
Ordinary Business Profit (OBP)	1.6	2.3
Net Credit Costs	-1.9	1.8
OBP after Net Credit Costs	-0.2	4.1

## ■ Page 18 summarizes Structured Finance.

- Operating assets stood at ¥1,671.7 billion, up ¥28.1 billion from the end of March 2019.
- In the first quarter, real estate financing projects performed well. Project finance is scheduled to close multiple projects, mainly mega-solar projects, from the second quarter onward.
- As a new initiative, we are working to provide financing that combines the functions of the Shinsei Bank Group. As an example in the aviation finance, we provided senior debt and equity financing through collaboration between Shinsei Bank and Showa Leasing.
- In terms of results, OBP after net credit costs increased due to an increase in noninterest income associated with the execution of new transactions in real estate finance and net credit recoveries associated with improved asset valuation for certain real estate finance transactions.

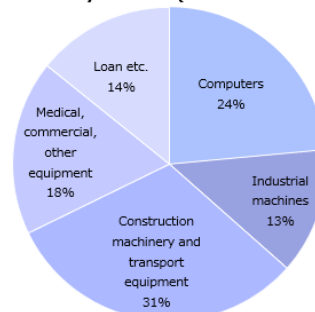


# Institutional Business: Showa Leasing

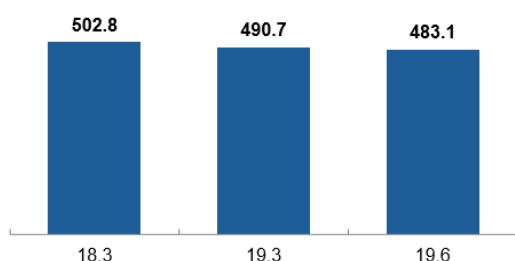
(Unit: JPY billion; %)

- **Business:**
  - ✓ Strengthening construction machinery business:
    1. Acquired SHINKO LEASE on July 1, 2019 which has expertise in finance businesses related to construction machines
    2. Agreed to establish a JV for crane rental business in the Philippines to meet strong demand for infrastructure development
- **Performance Results:**
  - ✓ OBP after net credit costs decreased in this quarter as a result of an absence of large gain on sales of assets and lower net credit recoveries compared to previous year

Portfolio by Product (as of March 2019)



[Operating Assets Balance]



<b>Showa Leasing</b>	18.4-6	19.4-6
Net Interest Income	-0.0	-0.0
Noninterest Income	3.8	3.1
Expenses	-2.3	-2.3
Ordinary Business Profit (OBP)	1.4	0.8
Net Credit Costs	0.7	0.4
OBP after Net Credit Costs	2.2	1.2

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■ Page 19 explains Showa Leasing.

- Showa Leasing has a strong position in construction machinery and transportation equipment business, accounting for 30% of its portfolio by product category. By allocating management resources to this business, Showa Leasing aims to strengthen and differentiate its construction machinery asset business.
- In April, we announced the acquisition of SHINKO LEASE, a manufacturer-affiliated lease company with strengths in the financing of construction machinery. Showa Leasing is engaged in the buying and selling of used equipment (buy-sell business). Through the acquisition of SHINKO LEASE, Showa Leasing will expand and strengthen its business foundation for comprehensively dealing with every aspect of the equipment business, from initial sales financing to disposing of leased assets at the end. .
- Regarding OBP after net credit costs, it declined due to the absence of gains on sales of large-scale properties recorded in the previous fiscal year and a decline in net credit recoveries. We are working to strengthen the construction machinery asset business in Japan and overseas.

This concludes my presentation about the financial results for the first quarter of fiscal year 2019.

End