FY2018 Third Quarter Financial Results:

Presentation Script

I would like to cover key points and summary of our financial results.

【Slide 3】

- Slide 3 provides key points of FY2018 third quarter financial results.
- First, net income totaled JPY 41.5billion, 80% progression to the full year forecast.
  - OBP after net credit costs was JPY 45.1 billion, 73% progression.
  - Net credit costs were below our original plan totaling JPY 21.1 billion. This resulted from lower unsecured loan balance than expected and better collection from written off portfolio in unsecured loan as well as larger credit reversals in structured finance compared to the original planned.
  - We believe we have made solid progress toward achievement of JPY 52 billion of the FY2018 full year net income forecast.

- Second, I would like to explain per share values.
  - EPS increased +22% to JPY 167.32 and BPS also increased +9% to JPY 3,597. These per share values improved significantly compared to a year ago.

- Third, we would like to touch upon the next Mid Term Management Plan.
  - Please note that next medium term management plan which starts from FY2019 will be announced on the same date as the FY2018 full year financial results announcement.

【Slide 4】

- Slide 4 shows a summary table of FY2018 third quarter financial results. I have explained the key points in the slide 3. Please let me move on to the next page.

【Slide 5】

- Page 5 covers net interest income.
  - Net interest income increased 4% to JPY 100.1 billion which was driven by interest income from the growth businesses, unsecured loan and structured finance.
  - Right hand side graph illustrates year-on-year changes of net interest income since the introduction of the negative interest rate policy (NIRP).
  - Our net interest income continues to show positive growth every year, even after the introduction of NIRP.

【Slide 6】

- Page 6 relates to net interest margin and yields.
  - Net interest margin (NIM) continues to increase and now stands at 2.45%, resulting from an increase in loan yield thanks to average loan balance growth in unsecured loan and structured finance as well as low funding costs.

【Slide 7】

- Page 7 covers noninterest income.
  - Noninterest income decreased 7% to JPY 72.7 billion.
  - While fee income from retail banking increased, there were decrease in derivative related income and the absence of large equity related gains in the institutional businesses in the same period a year ago.

【Slide 8】

- Page 8 shows expenses.
  - Expenses slightly declined from a year earlier to JPY 106.6 billion.
  - Right hand side graph shows trend of expense-to-revenue ratio after the introduction of NIRP compared to FY2015.
  - Our expense-to-revenue ratio has improved 5% compared to FY2015 by bringing the total expense under control in the severe business environment.

【Slide 9】

- Page 9 explains the net credit costs.
  - Net credit costs decreased 29% to JPY 21.1 billion.
  - This includes JPY 2.9 billion of net credit recoveries recorded in 2Q due primarily to calculation of general reserve for loan losses in accordance with growth in structured finance portfolio including project finance transactions etc.
  - APLUS FINANCIAL recorded JPY 10.9 billion of net credit costs increased from JPY 8.9 billion in the same period a year ago as we provisioned credit costs related to a bulk sale of delinquent loans in Q1.
  - Unsecured loan decreased net credit costs compared to the third quarter fiscal year 2017 thanks to credit recoveries from former-Lake portfolio in addition to improvement of collection from written off portfolio and lower loan balance than expected.
  - Net credit costs ratio of unsecured loan was down to 2.7%.The ratio excluding the credit recovery from former-Lake portfolio was at 3.0%.

【Slide 10】

- Page 10 covers capital adequacy.
  - We maintained ample level of common equity Tier 1 ratio at 12.4% on a fully loaded international basis.

【Slide 11】

- Page 11 highlights trends of excess interest repayment, or Kabarai.
  - While the number of disclosure claims has once increased in this 1Q due to resumption of advertising activities by certain legal firms, it returned to downward trend.
  - There was no release of the gray zone reserve in this 3Q, although in the 2Q Shinsei Financial and Shinsei Personal Loan partly released their gray zone reserves amounting to JPY 1.7 billion.
  - Total gray zone reserve is now at JPY 62.1 billion over 4 years-worth of coverage ratio as of December 2018. We believe it is sufficient from a Group-wide perspective.

【Slide 13】

- Page 13 relates to the Unsecured Loan Business.
  - Unsecured loan balance totaled JPY 509.8 billion, decrease 1% (by JPY 3.2 billion) from December 2017.
  - Lake ALSA loan balance stood at JPY 17.5 billion on a stand lone basis as of December 2018.
  - In terms of profit, OBP after net credit costs increased +78% Y-o-Y due to lower loan balance than original plan in addition to improvement of collection from written off portfolio and credit recovery from former-Lake portfolio.
  - New customer acquisition has been steadily improving as the number of new applications and approval ratio continue to improve.
  - Going forward, we will aim to further improve approval ratio by introducing new initiatives including various credit assessment measures.

【Slide 14】

- Page 14 explains the Structured Finance Business.
  - Structured finance assets balance totaled JPY 1 trillion 546.9 billion, 10% growth (by JPY 145 billion) from December 2017.
  - While expenses increased due to increase of indirect expenses corresponding to the operating asset growth, JPY2.9 billion of net credit recoveries were recorded as a result of calculation of general reserve for loan losses in accordance with growth of portfolio. OBP net credit costs totaled JPY 10.2 billion, a +96% increase compared to the same period a year ago.
  - In the business performance,
    - The amount of new commitments in project finance increased due to domestic mega solar projects, as well as overseas wind power project and so on.
    - In real estate finance, the amount of new disbursement decreased as we concluded sizable deals in the previous fiscal year. We have been selective considering market situation, risk-return of individual deals and diversification of portfolio in the real estate finance.

【Slide 17】

- Page 17 explains the Retail Banking Business.
    - I would like to highlight impact of the revised “Shinsei Step Up Program”
        - Deposit balance, as our funding base, shows no material impact from the revision of ATM fee table, while lower time deposit reflects redemption of matured campaign products. As you see the graph illustrating deposit balance by customer status, customers under platinum and gold status who are not charged ATM fees, covers 97% share of the deposit balance.
        - In the operating performance, we expect a decrease by JPY 1.5 billion to JPY 2 billion of annual ATM transaction fees borne by Shinsei as an effect of the revised Step Up Program.
    - In addition to this, increase in deposit related interest income and recovery of asset management products sales helped improve the earnings structure of the Retail Banking.

This concludes my presentation on the FY2018 third quarter financial results.

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