FY2018 Interim Financial Results:

Presentation Script

【Slide 3】

- Slide 3 provides key points of FY2018 first half financial results.
- First, ordinary business profit (OBP) totaled JPY 43.7 billion, 48% progression, demonstrating a good business momentum.
  - We recorded JPY 114.7 billion of total revenue and JPY 70.9 billion of total expenses. Both progression rates toward full year projection are in line with our expectation.
  - Expenses-to-revenue ratio remains stable at 61.9%.

- Second, net income in the 1HFY2018 totaled JPY 27.6 billion, 53% progression toward full year net income forecast.
  - Net credit costs in the 1HFY2018 reflected reversal of reserves for loan losses in the Institutional Business as well as lower credit costs in unsecured loan compared to the original plan. Hence, overall net credit costs were at 42% progression toward full year projection.
  - We also recorded JPY 1.7 billion of reversal of gray zone reserves in Shinsei Financial and Shinsei Personal Loan.

- Third point relates to progress in our growth areas.
  - In the Unsecured Loan Business, new customer acquisition was low partly due to some challenges we faced in navigating new customers to the loan application website in the first quarter. However, we have now enhanced the website navigation screen and also commenced a new campaign from September. This has gradually improved the new customer acquisition and approval ratio.
  - In the Structured Finance, asset balance grew at 9% vs. September 2017. We saw good progress in new commitments for domestic and overseas project finance transactions.

We believe, our overall business progression is largely in line with our expectations and our business model has been advancing well under the stringent business environment.

Regarding our full year financial forecast, we believe that full year net income forecast will not significantly fluctuate from our original plan; lower loan growth in Lake Business might be viewed as a downside risk factor against our revenue plan for FY2018. In that case, net credit costs might be lower compared to our full year plan. As a result, we believe net impact on this fiscal year net income will not be material.

We aim to achieve the full year net income forecast. At the same time, going forward we seek to increase the mid-/long-term bottom line profits by focusing on business alliances with non-financial players and with non-organic growth in domestic and overseas nonbank business areas.

Please note that next medium term management plan which starts from FY2019 is currently under development. Therefore, we do not plan to hold the annual Shinsei IR Day during the 4th quarter of this fiscal year.

【Slide 4】

- Slide 4 shows a summary table of FY2018 first half 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 3% to JPY 66.3 billion.
    - On the right hand side graph, we compared year-on-year changes of net interest income with major banks and regional banks since the introduction of the negative interest rate policy.
    - Our net interest income continues to show positive growth every year, reflecting an increase in net interest income from unsecured loans.

【Slide 6】

- Page 6 relates to net interest margin and yields.
    - Net interest margin (NIM) continues to increase and now stands at 2.43%.
    - Yield on interest earning assets bottomed out in FY2016, and loan yield has been increasing since then.
    - At the same time, funding costs has been maintained at low level reflecting redemption of high-cost subordinated bonds as well as keeping the overall deposit costs at low level.

【Slide 7】

- Page 7 shows noninterest interest income.
    - Noninterest income decreased 7% to JPY 48.3 billion.
    - This reflects an absence of a large gain on equity sales in the previous year and a decrease in derivative related income. This was partly offset by improved fee income in APLUS FINANCIAL and retail banking businesses.
    - In addition, the payment of ATM fees to affiliated banks is expected to decrease from the 2HFY2018 as we have revised our loyalty program called "Shinsei Step Up Program" in the Retail Banking.

【Slide 8】

- Page 8 illustrates productivity enhancement projects.
  - We expect the project benefits to now total JPY 8 billion in FY2018 compared to FY2015 as we have identified new initiatives. These initiatives are progressing well to achieve our FY2018 target.
  - For instance, we have identified various new front office related operational efficiency projects in FY2018, including new initiatives in the Retail Banking and they have been progressing steadily.
  - In addition, we are working on realignment of the Group's offices in Tokyo area.
  - We believe that shifting from entity-wide organization format to function-wide organization format will facilitate optimal and efficient operations.
  - Project benefits in and after FY2019 will be incorporated into our next medium term management plan and we will continue to accumulate these projects benefits going forward.

【Slide 9】

- Page 9 shows expenses.
  - Expenses declined 1% to JPY 70.9 billion.
  - On the right hand side graph, we have compared our expense-to-revenue ratio with major banks and regional banks. As it is evident from the graph, our expense-to-revenue ratio is lower than other Japanese Banking Groups.
  - We have been offsetting increases in expenses for IT enhancement and top line growth with benefits from productivity enhancement to bring the total expense under control.

【Slide 10】

- Page 10 relates to the net credit costs.
  - Net credit costs decreased 27% to JPY 14.4 billion.
  - This includes JPY 3 billion of net credit costs recoveries in the 1HFY2018 due primarily to calculation of general reserve for loan losses in accordance with growth in structured finance portfolio including project finance transactions etc.
  - Net credit costs ratio of unsecured loan was down to 3.2% reflecting credit recovery from former-Lake portfolio in Shinsei Financial as well as flattish loan balance. Without this write-back impact in Shinsei Financial, the ratio would have been 3.6% which is at the same level as recorded in the 1QFY2018.
  - Increase in net credit costs in APLUS FINANCIAL reflects provisioning related to a bulk sale of delinquent loans in the 1QFY2018. Without this factor, the net credit costs ratio would have been 1.2% consistent with the ratio in 1QFY2018.

【Slide 11】

- Page 11 shows capital adequacy.
  - We maintained common equity Tier 1 ratio at 12.2%, which is ample level according to our portfolio.

【Slide 12】

- Page 12 highlights trends of excess interest repayment, or Kabarai.
  - The gray zone reserve for Shinsei Financial and Shinsei Personal Loan was partly released amounting to JPY 1.7 billion.
  - Total gray zone reserve is now at JPY 65.7 billion with 4.8 years-worth of coverage ratio. We believe it is sufficient from a Group-wide perspective.
  - While the number of disclosure claims and the actual repayments decreased from the 1QFY2018, we continue to monitor these indicators to maintain sufficient reserve level.

【Slide 14】

- Page 14 relates to the Unsecured Loan Business.
  - Unsecured loan balance totaled JPY 515 billion, JPY 7 billion of increase from September 2017 but JPY 4 billion of decrease from March 2018.
  - This reflected lower new customer acquisition in Lake ALSA compared to our initial plan. Lake ALSA started this April and its balance stood at JPY 10.7 billion on a stand lone basis as of September 2018.
  - Net credit costs decreased 34% compared to 1HFY2017 due to the credit recovery from the former Lake portfolio in Shinsei Financial as well as the absence of credit cost increase associated with loan balance increase. As a result, OBP after net credit costs increased by 117%.
  - In the business performance, the number of new customer acquisition was 26K and the approval rate was at 29.5% in the 2Q.
    - In the 1QFY2018 Lake ALSA faced the necessity for distinction between Lake ALSA and old Bank Lake and challenges in navigating new customers to the new website, which caused fewer applications and lower credit score applicants.
    - To overcome this issue, we have taken various measures such as revising website to smoothly navigate customers and introducing “60 days no interest” campaign from September. The business performance has been gradually improving.

【Slide 15】

- Page 15 explains the Structured Finance Business.
  - Structured finance assets balance grew at 9% from September 2017 and at 8% from March 2018 to JPY 1.5 trillion.
  - As I mentioned earlier, JPY 3 billion of net credit recoveries was recorded in the 1HFY2018 due primarily to calculation of general reserve for loan losses in accordance with growth in the structured finance portfolio including project finance transactions etc.
  - In the business performance,
    - The amount of new commitments in project finance increased due to domestic mega solar and biomass projects, as well as overseas wind

power project and so on.

- ✧ In real estate finance, the amount of new disbursement decreased in the 1HFY2018 as we concluded sizable deals in 1HFY2017. We continue prudent operations considering market situation, risk-return of individual deals and diversification of portfolio in the real estate finance. We selectively operate mainly in residential and warehouse facilities.

- ➢ Regarding project finance to renewable energy projects, there is a draft proposal of ministerial ordinance to change enforcement regulations of the special measures law which defines the Feed-in Tariff (FIT) system, and the government is seeking public comments on this matter. We think that such changes would make some already approved transactions to be reduced due to the revised FIT price or shortened FIT period depending on the actual changes in its procedures and conditions if this proposal were to go through.
- ➢ Some developers/sponsors would relinquish commercialization of the existing transactions due to the deterioration of their profitability. It would bring negative impact on our project finance business initially.
- ➢ We believe that the mid-/long-term business opportunities remain significant for us by putting together biomass and wind power as well as solar power when we take into consideration of the aggressive target of renewable energy and the global trend towards environmental friendly businesses.

【Slide 18】

- ■ Page 18 shows the Retail Banking Business.
  - ➢ Net interest income increased due to an increase in interest margin from foreign currency deposits.
  - ➢ Sales revenue from insurance products in the asset management business contributed to improvement in noninterest income.
  - ➢ Ordinary Business Loss after Net Credit Costs shrank significantly vs a year ago.

【Slide 28】

- Lastly I will provide reference information on our real estate exposure on the page 28.
  - Our real estate exposure totaled about JPY 2.4 trillion.
  - It comprises of approx. in 50% retail mortgages for primary residence of borrowers and their families. It also includes approx. 40% of real estate finance such as nonrecourse finance and corporate finance to institutional customers.
  - We have 6% exposure to one-room studio type apartment loan for investment to individual customers. It is small-sized loans for individuals to purchase second-hand one-room studio type of apartments mainly located in Tokyo metropolitan area.

End