

Financial Results for the 3Q of FY2020 Presentation Script

Hirano: This is Hirano, Chief Officer, Group Corporate Planning and Finance of Shinsei Bank. Thank you very much for attending our analyst meeting for the third quarter results of FY2020.

So, the third quarter results I'd like to provide are three main points. Please go to page three. So, I will explain three main points.

【Slide 3】

Key points

1 3Q FY2020 net income¹ at JPY 26.1 billion (YoY-42%); 77% progress

EPS²

JPY 116.13
(YoY-38%)

- Net income progress at 77% toward FY2020 full year earnings forecast
- View on business progress / momentum and financial performance remains unchanged since announcing FY2020 full year forecast on Nov. 13, 2020

2 Accelerating co-value creation business under the new normal

Value co-creation



- Providing leasing function of the Group
Commenced offering leasing products to the corporate customers of USEN-NEXT GROUP
- Strengthening asset management capabilities
Concluded comprehensive business alliance with Monex, Inc in financial products intermediary business (scheduled to start around Jan. 2022)

3 Share buyback of JPY 17.9 billion achieved (as of Dec. 31, 2020)

BPS²

JPY 4,159
(+7% vs. 2019.12)

- Dividend remains unchanged at JPY 10 per common share and buyback program of JPY 20.5 billion has been determined resulting in total shareholders return ratio at maximum 50%
- Execution of the buyback program will be judged in terms of its feasibility, amount and/or timing depending on impacts on earnings and capital during this fiscal year as well as the trends of external environments including macro economy and stock market. (There is a possibility of not being able to fully execute the total amount of the buyback program)



¹ Profit attributable to owners of the parent
² Including the effect of share buyback

3

- On Slide 3, I would like to begin with 3 main points.
- First, YTD net income attributable to owners of the parent as of 3Q FY2020 was JPY 26.1 billion, a 77% progress toward full year earnings forecast.
 - EPS including share buyback stood at JPY 116.13, a decrease of 38% year-on-year, while net income decreased 42% year-on-year.
 - Currently we are in the midst of the state of emergency in Japan. However, we had anticipated such a situation when we announced full year forecast

in November 2020. Therefore, we do not envision to revise outlook on our businesses and financial performance at this point.

- The second point highlights initiatives for value co-creation business model with partner companies. For example,
 - We concluded a business alliance with USEN-NEXT Group and have been providing financial services including shopping credit and credit cards to business owners and SME customers. We have now added leasing services in January 2021.
 - We have just concluded a business alliance with Monex in the financial instruments intermediary business. Shinsei will offer various financial products to retail customers and also shift its resources to consultation of asset management products by having Monex manage customer accounts of investment trusts and bonds. We plan to start operation under the new structure from around January 2022.

- Third, we executed a total of JPY 17.9 billion repurchase of treasury stock by the end of December 2020 representing 87.6% of the full year target.
 - BPS including share buyback stood at JPY 4,159, an increase 7% compared with December 2019.
 - The actual amount and timing of the share repurchases have not changed since our full-year 2019 financial results announcement in May 2020.

【Slide 4】

3Q FY2020 net income at JPY 26.1 billion, 77% progress

(Unit: JPY billion)

| Consolidated | 20.4-12 (Actual) | | 19.4-12 (Actual) | | 20.4-21.3 (Forecast) | |
|--------------------------------|---------------------|--------------|---------------------|-------|-------------------------|------------|
| | 20.10-12 | | 19.10-12 | | Progress% | |
| Total Revenue | 162.1 | 51.9 | 183.1 | 61.6 | 227.5 | 71% |
| Net Interest Income | 91.6 | 29.8 | 100.3 | 33.5 | 123.0 | 74% |
| Noninterest Income | 70.5 | 22.1 | 82.7 | 28.0 | 104.5 | 67% |
| Expenses | -109.8 | -37.1 | -111.1 | -37.3 | -151.5 | 72% |
| Ordinary Business Profit (OBP) | 52.3 | 14.7 | 71.9 | 24.2 | 76.0 | 69% |
| Net Credit Costs | -19.9 | -2.4 | -22.2 | -5.7 | -33.0 | 60% |
| OBP after Net Credit Costs | 32.3 | 12.3 | 49.6 | 18.5 | 43.0 | 75% |
| Others | -6.2 | 0.5 | -4.5 | -1.5 | -9.0 | 69% |
| Income Taxes etc. | -6.2 | 0.2 | -3.6 | -0.4 | | |
| Net Income | 26.1 | 12.8 | 45.1 | 16.9 | 34.0 | 77% |

- Total revenue
 - ✓ Net interest income is in line with the plan
 - ✓ Noninterest income is lower than plan
 - Impacted by lower income from asset management products in Retail Banking, credit cards in APLUS FINANCIAL, and derivatives and fees from corporate customers
 - JPY 2.8 billion of investment loss in principal transactions was recorded as disclosed earlier
- Net credit costs
 - ✓ JPY 1.0 billion of partial reversals of precautionary reserves in Institutional Business
 - ✓ Credit recovery associated with collection from obligors in corporate business
 - ✓ Lower net credit costs in unsecured loans reflects improved performance in loan collection

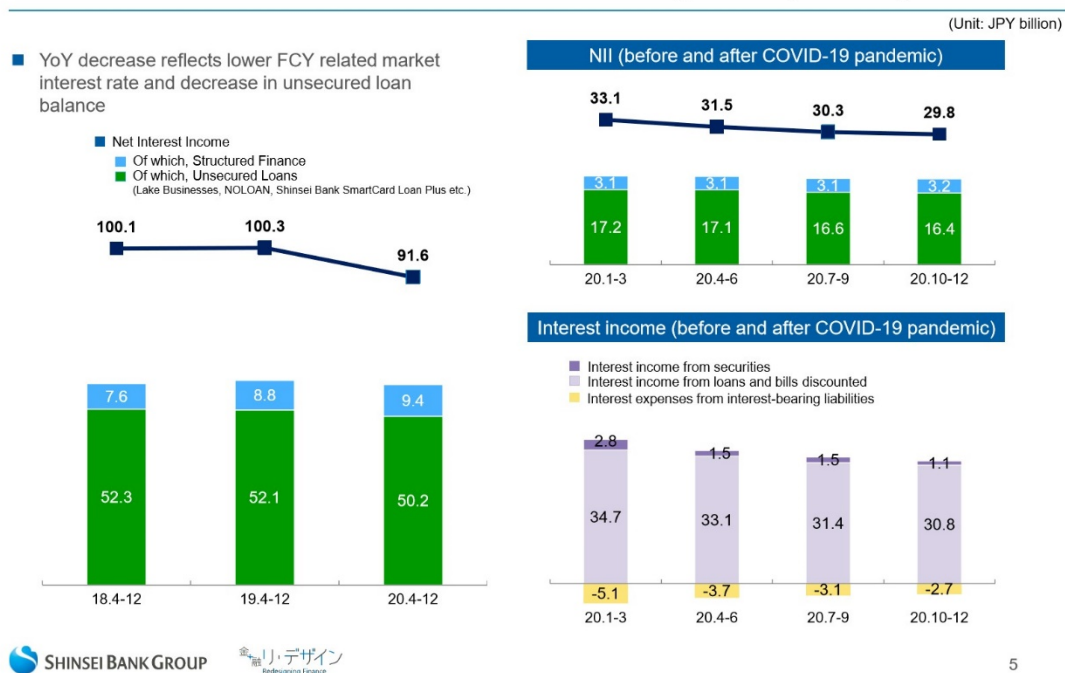
- Please turn to page 4. It outlines financial results of the third quarter.
 - Total revenue was JPY 162.1 billion, representing 71% progress.
 - ◇ Net interest income amounted to JPY 91.6 billion, with 74% progress, which is in line with the plan.
 - ◇ Noninterest income amounted to JPY 70.5 billion, or 67% progress, which remains behind the plan. This reflects weak revenue from asset management products in retail banking and credit card business in APLUS, as well as lower fee income and derivative revenue from corporate business. In addition, we recorded investment loss of JPY 2.8 billion in principal transactions business in this third quarter as announced earlier.
 - Net credit costs were JPY 19.9 billion, with 60% progress. In the third quarter we recorded JPY 2.4 billion of net credit costs. This reflects,
 - ◇ credit recoveries from partial reversal of precautionary reserves as well as credit collection in Institutional Business.

- ◇ lower provision for unsecured loans reflecting improvement in asset quality and lower loan balance.

We will elaborate on net credit costs associated with COVID-19 in the later pages.

【Slide 5】

Net interest income: Pace of decline slowing on a quarterly basis



5

- Slide 5 explains NII.
- YoY decline in NII largely pertains to lower yield on FCY loans and securities portfolio coupled with limited ability to reduce funding cost further. In addition, lower loan balance of unsecured loan portfolio reduced NII. However, pace of decline has been slowing on a quarterly basis.

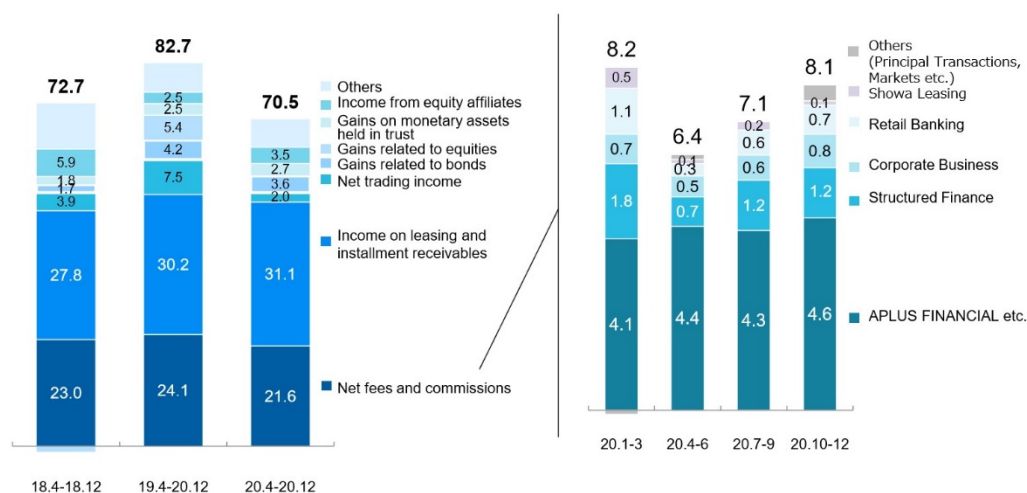
【Slide 7】

Noninterest income: Fee income shows a recovery momentum on a quarterly basis

(Unit: JPY billion)

- YoY decrease reflects lower gains related to securities and lower fee income

Fee income (before and after COVID-19 pandemic)



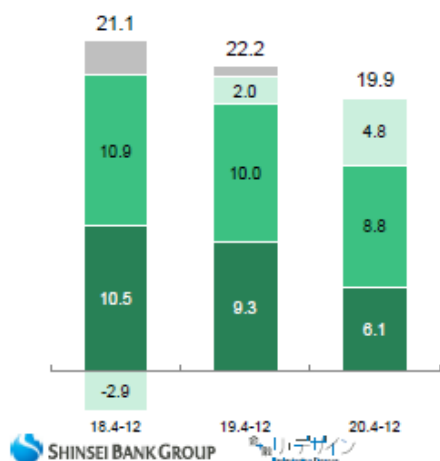
- Slide 7 explains noninterest income.
- Right-hand side graph illustrates quarterly trend in fee income. It shows that momentum was back to recovery in structured finance, corporate business and retail banking.

Net credit costs: Continued to decrease on a quarterly basis

(Unit: JPY billion; %)

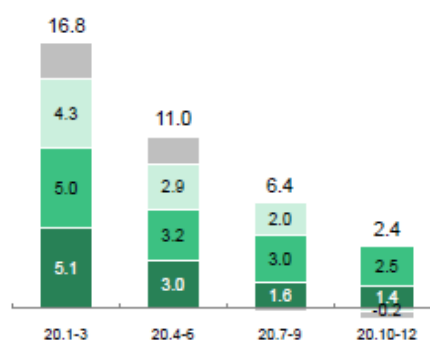
- Structured Finance credit costs increased YoY while unsecured loans and APLUS decreased YoY

■ Others (Corporate Business, Shows Leasing, Global Markets, Retail Banking etc.)
■ Structured Finance
■ APLUS FINANCIAL
■ Unsecured Loans



Net Credit Costs (before and after COVID-19 pandemic)

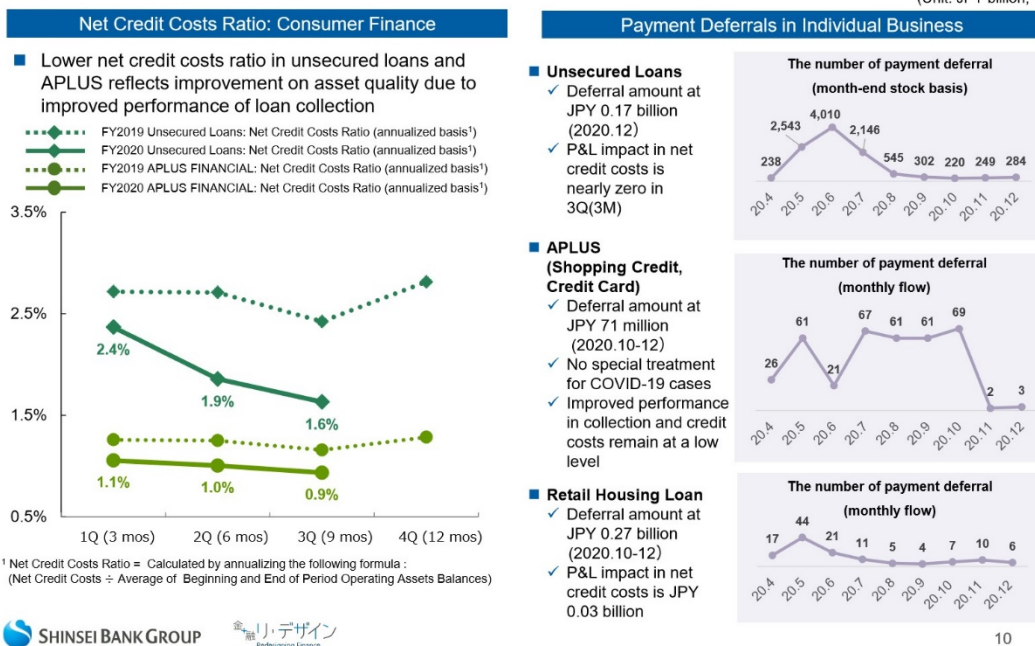
- JPY 0.2 billion of credit recoveries in Structured Finance and JPY 1.0 billion of credit recoveries in Corporate Business were recorded in 20.10-12
- Unsecured loans and APLUS credit costs decreased in 20.10-12, reflecting improved performance of loan collection associated with bonus season in Japan



- Slide 9 elaborates on net credit costs by segment.
- As you will observe from the right-hand side graph, quarterly net credit costs have decreased.
- In the third quarter, we recorded JPY 0.2 billion of credit recoveries in structured finance, and JPY 1.0 billion of credit recoveries in corporate business due mainly to reversals of the precautionary reserves which was provisioned in the prior quarters.
- Net credit costs in unsecured loans and APLUS were further down in the third quarter, reflecting lower loan balance of unsecured loans and improved performance of loan collection associated with bonus season in Japan.

Net credit costs: No material impact from payment deferrals in Individual Business

(Unit: JPY billion; %)



- Slide 10 covers net credit costs of individual businesses and payment deferrals.
- Left-hand side graph shows lower net credit costs ratios in unsecured loans and APLUS due to improved performance of loan collection.
- Right-hand side graph shows the number of monthly payment deferrals. It depicts further decline in the third quarter. The payment deferral amount significantly decreased in APLUS in tandem with the decline in the number of applications for the payment deferrals.
- There is no material change observed so far in the payment deferrals under the state of emergency announced in early January.

【Slide 11】

Net credit costs: Declining impact from COVID-19 in Institutional Business

(Unit: JPY billion)

- COVID-19 related net credit costs in Institutional Business
 - ✓ JPY 5.2 billion cost (1Q: JPY 5.2 billion cost, 2Q: JPY 0.6 billion cost, 3Q: JPY 0.7 billion recovery)
 - ✓ Precautionary reserves for specific sectors were eliminated and partially transferred to the reserves necessary for individual obligor classification in 2H. As a result, JPY 1.0 billion of reversals of the reserves from retail sector etc.

| COVID-19 related net credit costs in Institutional Business | 20.4-6 | 20.7-9 | 20.10-12 |
|---|--|--|---|
| Provisions as a result of applying conservative reserve ratios to all transactions in specific sectors where the COVID-19 impact was conspicuous (Precautionary provisions) | Provision of JPY 1.4 billion in aviation finance | Reversal of JPY 0.7 billion in entertainment sector etc. due to recovery of the business | Reversal of JPY 1.0 billion in retail sector etc. due to recovery of the business |
| Provisions as a result of deterioration in individual transactions | Provision of JPY 3.8 billion for transactions in hotels and aviation finance | Provision of JPY 1.3 billion for transactions in aviation and hotels etc. | Provision of JPY 0.3 billion |

■ Precautionary reserve for the institutional businesses (balance)

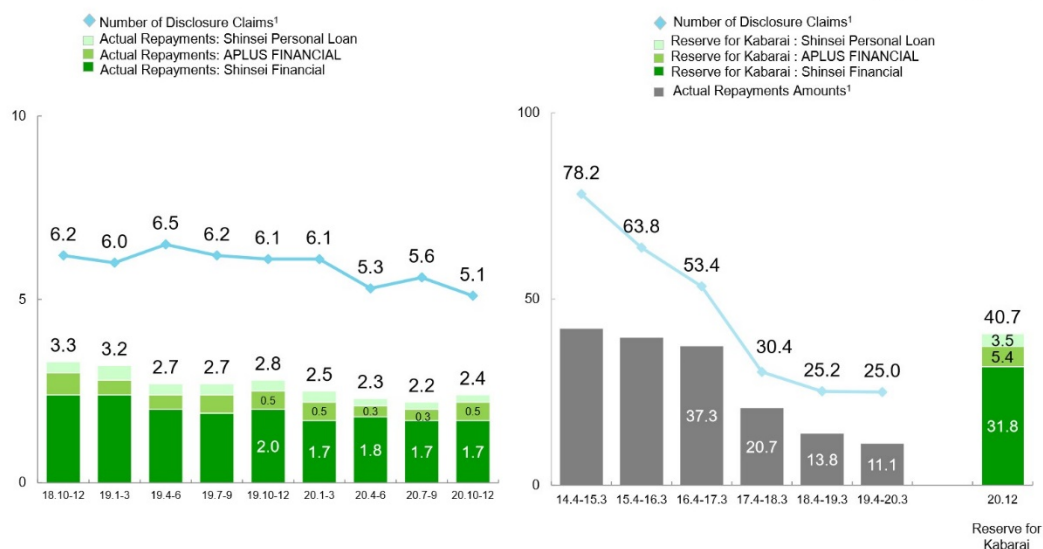
| | |
|---|--------------------------|
| Balance (Mar. 31, 2020) | : JPY 3.9 billion |
| (-) Usage of reserve in 1Q (mainly real estate) | : JPY 1.6 billion |
| (+) Credit provisioning in 1Q (aviation) | : JPY 1.4 billion |
| Balance (Jun. 31, 2020) | : JPY 3.7 billion |
| (-) Reversal in 2Q (mainly entertainment) | : JPY 0.7 billion |
| Balance (Sep. 30, 2020) | : JPY 3.0 billion |
| (-) Reversal in 3Q (mainly retail sector) | : JPY 1.0 billion |
| Balance (Dec. 31, 2020) | : JPY 2.0 billion |

- Slide 11 presents COVID-19 related net credit costs, focusing on the Institutional Business.
- As explained in the interim financial results presentation, we had started to assign the precautionary reserves for specific sectors and partially transferred to the reserves necessary for individual obligor in the third quarter. As a result, JPY 1.0 billion of the precautionary reserves for retail sector was reversed.
- Precautionary reserve balance for institutional business now stand at JPY 2.0 billion.

【Slide 13】

Kabarai: Actual repayment increased in Oct. - Dec. 2020 resulting from an increase in disclosure claims in Jul. - Sep. 2020 due to resumption of activity of Kabarai agents. The number of disclosure claims returned to a declining trend

(Unit: JPY billion; thousands)



¹ Shinsei Financial, Shinsei Personal Loan and APLUS FINANCIAL combined



- Slide 13 updates Kabarai.
- The number of disclosure claims on a quarterly basis increased in the second quarter reflecting resumption of Kabarai activities by certain Kabarai offices after lifting of the first state of emergency mid last year. Therefore, the actual payment amounts increased in the third quarter. However, the disclosure claims have returned to a declining trend in the third quarter. The balance of Kabarai reserve stands at JPY 40.7 billion, with over 4 years of coverage based on the most recent interest repayment results.

Next, I will provide an overview of unsecured loans business.

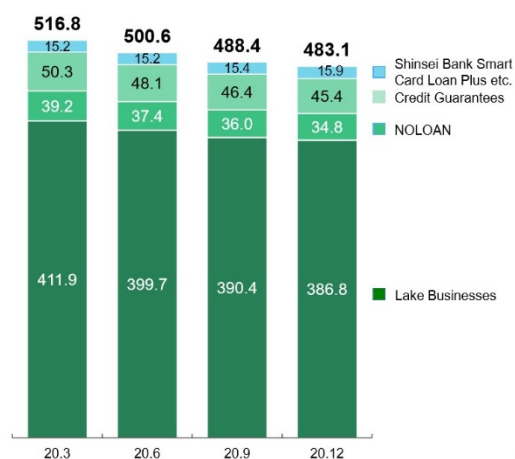
【Slide 15】

Small Scale Finance
Unsecured loan: while total balance decreased, Lake ALSA balance continued to grow to JPY 89.9 billion

(Unit: JPY billion)

- Lake ALSA loan balance increased to JPY 89.9 billion (December 31, 2020) from JPY 73.2 billion (March 31, 2020)
- Decrease in net interest income offset by lower net credit costs resulted in higher profit YoY

【Loan Balance】



| Shinsei Financial ¹ | 19.4-12 | 20.4-12 |
|-----------------------------------|-------------|-------------|
| Net Interest Income | 52.1 | 50.2 |
| of which, Lake Businesses | 47.8 | 46.3 |
| Noninterest Income | -0.7 | 0.0 |
| Total Revenue | 51.3 | 50.2 |
| Expenses | -25.3 | -24.6 |
| Ordinary Business Profit (OBP) | 26.0 | 25.6 |
| Net Credit Costs | -9.3 | -6.1 |
| OBP after Net Credit Costs | 16.7 | 19.5 |

¹ Includes profits and losses of Shinsei Financial, Shinsei Bank Card Loan L, and Shinsei Bank Smart Card Loan Plus etc.



- Slide 15 outlines the loan balance and P&L of unsecured loans.
- The total balance of unsecured loans decreased to JPY 483.1 billion, but Lake ALSA continued to grow to JPY 89.9 billion as of December from JPY 73.2 billion as of March 2020.
- As a result, both net interest income and net credit costs declined, resulting in a year-on-year increase in net income.

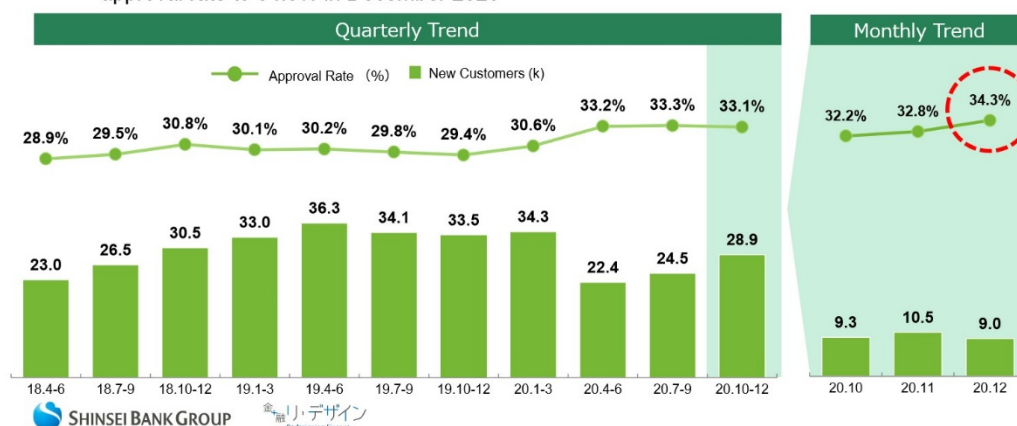
【Slide 16】

Small Scale Finance

Lake ALSA: New customer acquisition continued to increase in Oct. - Dec. 2020

(Unit: thousand; %)

- New customer acquisition increased 29% (vs. 20.4-6)
- ✓ Application: increased 29% (vs. 20.4-6), reflecting recovery of cash demand due to relaxation of going-out activities and resumption of advertising activities. The application volume increased from 67K (20.4-6) to 87K (20.10-12)
- ✓ Approval rate: remained stable at 33.1%, while recent process automation improved the monthly approval rate to 34.3% in December 2020



- Slide 16 relates to approval rate and new customers.
- The number of applications increased to 28 thousand in the third quarter, or 29% improvement compared from 22 thousand in the first quarter.
- This reflects 29% increase in the number of applications reflecting returning to normalized advertising and promotional activities in addition to a recovery in demand due to gradual increase in people going out.
- The approval rate remained stable as 33.1%. However, recent process automation improved the monthly approval rate to 34.3% in December 2020.

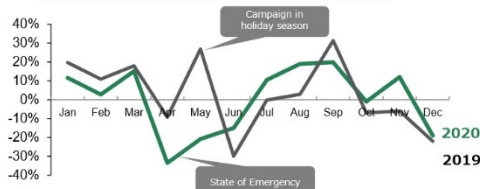
【Slide 17】

Lake portfolio momentum: Negative impact of COVID-19 bottomed out. Decrease in application and loan balance in December mainly reflects seasonality. No significant concerns about write-off and credit quality

(Unit: JPY billion; %)

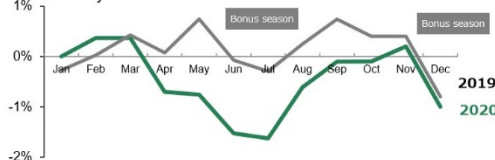
Application (monthly change %)

✓ In 2020, monthly change in application volume compare with previous month shows bottoming out in April and showing the seasonal decrease due to bonus season in winter



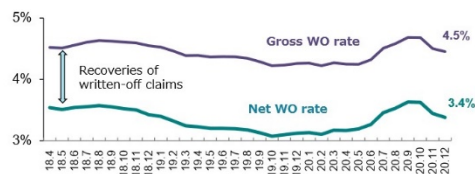
Loan balance (monthly change %)

✓ In 2020, monthly change in the Lake loan balance compared with previous month was bottomed in June - July and showed gradual recovery; recent decline reflects winter bonus related seasonality



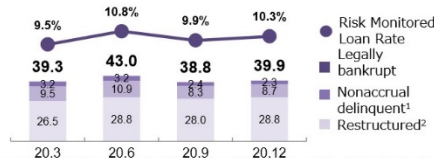
Write-off (WO, monthly trend)

✓ WO rate was moderately improved due to returning to normalized loan collection, etc.

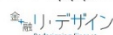


Risk-monitored loans and rate

✓ Risk-monitored loan balance increased at 20.6 but decreased at 20.12 to pre-COVID-19 pandemic level
 ✓ Risk-monitored loan rate at 20.12 slightly increased due to decrease of loan balance compared with 20.9



¹ Nonaccrual Delinquent Loans constitute obligors such as Virtually Bankrupt, Possibly Bankrupt and Substandard (excluding Restructured Loans)
² Restructured Loans are classified as Substandard obligors (including payment deferral)



- Slide 17 shows the monthly momentum of the Lake portfolio.
- As evident from the left-hand side graph, the number of monthly applications compared to the previous month bottomed out in April and returned to recovery. Decrease in December related to bonus payment related seasonality.
- In the right-hand side graph, outstanding loans have been on a recovery trend since bottoming out in June to July although there is a slight time lag from the increase in the number of loan applications. Decrease in December reflects the same reason as the applications.
- Credit quality saw a slight increase in the write-off rate in prior quarters, but it decreased in 3Q due to improved performance in credit collection.
- The balance of risk monitored loans was JPY 39.9 billion at the end of December 2020 and it was back to the same level as the balance at the end of March 2020, while the risk monitored loan rate slightly increased due mainly to lower loan balances. At this point, there are no concerns about deterioration in light of the current status of inventory and collection of

deferred payments.

Next, I will explain structured finance business.

【Slide 21】

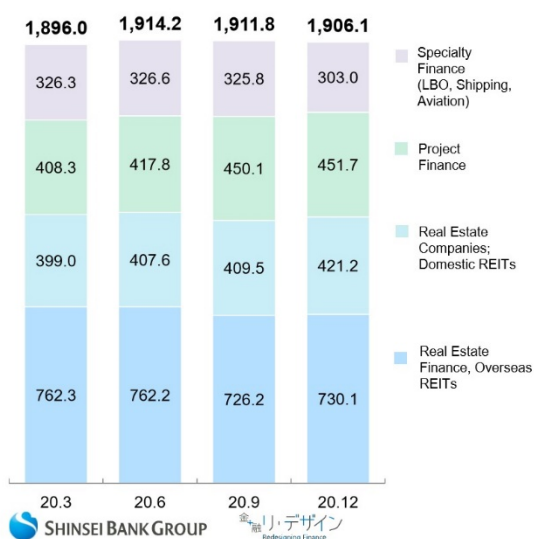
Business with Institutional Investors

Structured finance: Operating assets balance remained stable

(Unit: JPY billion)

- Operating assets balance for aviation finance was approx. JPY 37.0 billion (December 31, 2020)

【Operating Assets Balance】



- While total revenue increased, provisioning of credit reserve during 20.4-9 decreased profit YoY

| Structured Finance | 19.4-12 | 20.4-12 |
|-----------------------------------|-------------|-------------|
| Net Interest Income | 8.8 | 9.4 |
| Noninterest Income | 5.9 | 5.7 |
| Total Revenue | 14.8 | 15.1 |
| Expenses | -6.2 | -6.8 |
| Ordinary Business Profit (OBP) | 8.5 | 8.3 |
| Net Credit Costs | -2.0 | -4.8 |
| OBP after Net Credit Costs | 6.4 | 3.5 |

- Slide 21 outlines the balance and P&L of structured finance.
- The total balance of structured finance remained stable at JPY 1,906.1 billion.
- Revenue increased but net credit costs increased as well reflecting credit provisioning under COVID-19 in the first half financial performance, resulting in a year-on-year decrease in net income.

【Slide 22】

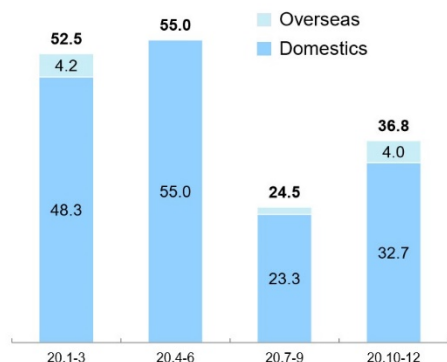
Business with Institutional Investors

Real estate finance: Business activities are gradually recovering

(Unit: JPY billion; %)

Real Estate Nonrecourse Finance New Disbursements

- Selectively focusing on asset types such as offices, residential and logistic facilities as well as the assets which consider environment and social issues, while monitoring the overall real estate market trend as well as each asset type

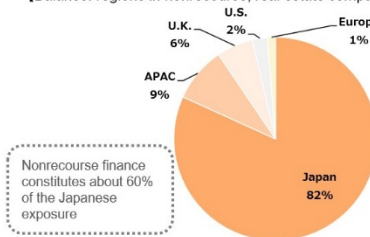


Portfolio (as of December 31, 2020)

【Balance: asset type】



【Balance: regions in nonrecourse, real estate companies and REITs】



- Slide 22 explains new disbursements of real estate nonrecourse finance.
- New disbursement amounted to JPY 36.8 billion in the third quarter. We selectively focus on asset types such as offices, residential and logistic facilities as well as the assets which consider environment and social issues, while monitoring the overall real estate market trend as well as each asset type.

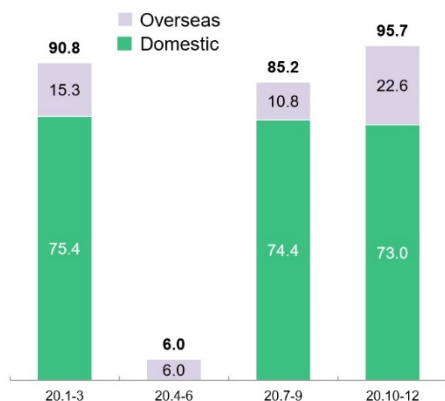
【Slide 23】

Business with Institutional Investors
Project finance: Project finance business activities have recovered

(Unit: JPY billion; %)

Project Finance New Commitments

- New commitments for domestic biomass power generation and mega-solar projects improved in 20.10-12. We executed Shinsei Green Loan transactions toward initiatives for sustainable impact
- Overseas sizable offshore wind power generation and PPP projects were committed in 20.10-12

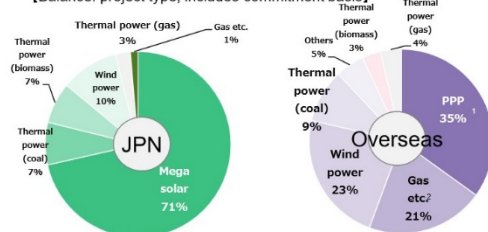


¹ Shinsei Green Loan is a loan which designates use of funds for businesses or projects that can provide clear environmental benefits. Shinsei Green Loan must align with the "Shinsei Green Finance Framework"
² Number of new commitments 20.7-9 was revised



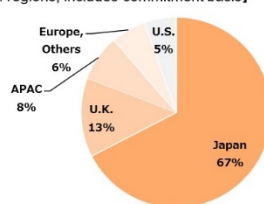
Portfolio (as of December 31, 2020)

[Balance: project type, includes commitment basis]



¹ Public Private Partnership
² Finance to LNG related facilities and receiving terminal etc.

[Balance: regions, includes commitment basis]



- Slide 23 explains new commitments in project finance business.
- Activities of project finance have recovered; JPY 95.7 billion of new commitment in the third quarter reflects a sizable offshore wind power generation project overseas as well as domestic renewable energy projects.
- We executed Shinsei Green Loan transactions as initiatives for sustainable impact. The Shinsei Green Loan is a financing which designates use of funds for businesses or projects that can provide clear environmental benefits. Shinsei Green Loan must align with the "Shinsei Green Finance Framework".

This concludes my presentation on the financial results and businesses.

End of document