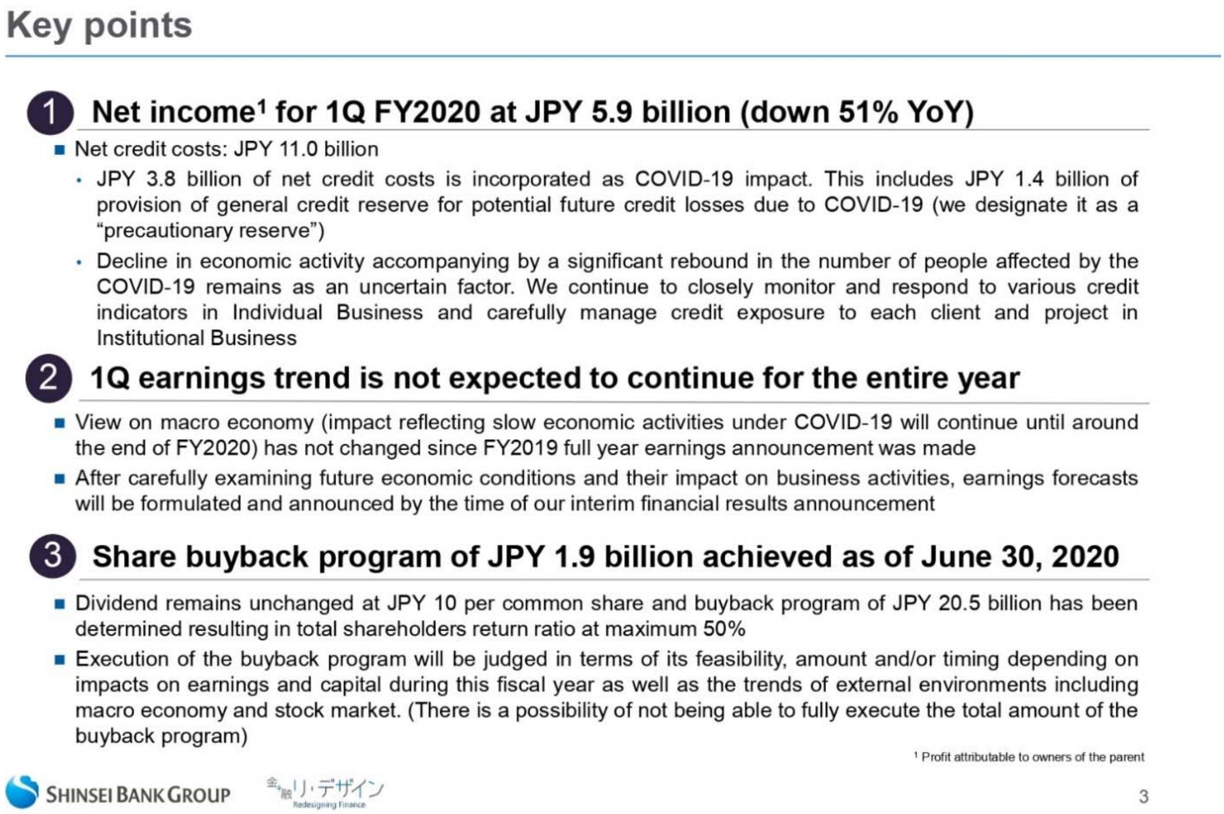
FY2020 1st Quarter Financial Results

Presentation scripts

Please let me begin with the main points of the first quarter financial results which were announced earlier today.



[Slide 3]

- First point is on net income:
  - 1Q net income amounted to JPY 5.9 billion, decreased 51% YoY.
  - This is due primarily to an increase in the net credit costs to JPY 11.0 billion in the 1Q from JPY 4.9 billion a year ago. The COVID-19 impact was JPY 3.8 billion. This 3.8 billion of the net credit costs includes JPY 1.4 billion of provision relating to precautionary credit reserve for potential future credit losses due to COVID-19.
  - With respect to foreseeing future credit costs, decline in economic activity accompanied by a significant rebound in the number of COVID-19 cases remain as an uncertain factor. We will continue to closely monitor various credit indicators in Individual Business and carefully manage credit exposure to each client and project

in Institutional Business.

- Second point is on our view on the full year earnings forecast.
  - We assume that impact on our businesses from economic downturn will continue till the end of this fiscal year while we expect economic activities to slowly recover reflecting relaxation of “staying-at-home” situation.
  - We do not expect 1Q earnings trend will continue for the entire year. However, it is still challenging to provide full year earnings forecast based on only the first quarter financial results under the current uncertain business environment. Therefore, earnings forecast will be formulated and announced by the time of our interim financial results announcement after careful examination of future economic conditions and their impact on business activities.

- Third point is on share buyback.
  - We executed JPY 1.9 billion of share buyback by the end of June.
  - There is no change in our view on actual share buyback amounts and its timing, as we explained at the FY2019 full year results announcement in May.

1Q FY2020 net income at JPY 5.9 billion

(Unit: JPY billion)

Consolidated	19.4-19.6 (Actual)	20.4-20.6 (Actual) Incl. COVID-19	YoY (%) Better (+)/ Worse (-)
Total Revenue	**57.5**	**54.7**	**-5%**
Net Interest Income	33.3	31.5	-5%
Noninterest Income	24.1	23.1	-4%
Expenses	**-36.2**	**-35.8**	**+1%**
Ordinary Business Profit (OBP)	21.3	18.8	-12%
Net Credit Costs	**-4.9**	**-11.0**	**-124%**
OBP after Net Credit Costs	16.3	7.8	-52%
Others	-4.1	-1.8	+56%
Income Taxes	-3.2	-1.3	+59%
Net Income	**12.1**	**5.9**	**-51%**

Breakdown of Net Credit Costs

- Net credit costs: JPY 11.0 billion
- Of which, net credit costs due to COVID-19: JPY 3.8 billion (net)
  - ✓ Of which, unsecured loan business: JPY 1.3 billion (recoveries), due mainly to a decrease in unsecured loan balance
  - ✓ Of which, Institutional Business: JPY 5.2 billion (provision) Breakdown is as follows

	Specific credit reserve for apparent deterioration	General precautionary credit reserve
Amount	JPY 3.8 billion	JPY 1.4 billion
Outline	Precautionary credit reserve provisioned at the end of FY2019 for specific industries was utilized. Additionally, incremental additional provisions were made for individual projects whose debt has apparently deteriorated in 1Q	Additional provisions as a result of applying conservative reserve ratios to all transactions in the specific industries where the impact of COVID-19 is conspicuous
Industry	Primarily in hospitality and aviation	Aviation
Business	Structured finance, Corporate business, Showa Leasing	

- Precautionary reserve (balance) remains largely flat

Balance (March 31, 2020) : JPY 3.9 billion
(−) Usage of reserve in 1Q : JPY 1.6 billion
(+) Credit provisioning in 1Q : JPY 1.4 billion
Balance (June 30, 2020) : JPY 3.7 billion

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[Slide 4]

- Please turn to Page 4. It outlines financial results of 1Q.
  - Total revenue was JPY 54.7 billion, 5% decline YoY.
    - Net interest income amounted to JPY 31.5 billion, reflecting a decline of interest income resulting mainly from FCY related market interest rate.
    - Noninterest income decreased to JPY 23.1 billion, reflecting a decline in fee income from sluggish business activities in both Institutional Business and Individual Business in April and May. But the momentum of business activities has rebounded in June.
  - Net credit costs need detailed explanation considering COVID-19 impact.
    - Total net credit costs amounted to JPY 11.0 billion. This incorporates net COVID-19 impact of JPY 3.8 billion.
    - In terms of its composition, unsecured loan business, in fact, recorded JPY 1.3 billion of net credit recoveries due mainly to a decrease in its total loan balance.
    - Institutional business provisioned JPY 5.2 billion of credit reserve. It constitutes JPY 3.8 billion of credit provisioning due to apparent deterioration of credit quality of some individual transactions mainly in hospitality sector related

finance and aviation finance, in addition to JPY 1.4 billion of additional precautionary provisioning for the aviation industry.

- Regarding the status of the precautionary reserve balance at the end of 1Q, of the initial total of JPY 3.9 billion as of March 31, 2020, JPY 1.6 billion was utilized mainly in real estate finance. In addition, we made JPY 1.4 billion of additional credit reserve for aviation sector. As a result, the precautionary reserve balance stands at JPY 3.7 billion as of June 30, 2020.

COVID-19: Impact on businesses (1)

- Focus businesses have not significantly deviated from what we expected at the FY2019 full year earnings announcement in May 2020
- Aviation finance made additional provision reflecting business conditions of both aircraft industry and our underlying customers in 1Q

Business	Revenue	Credit Costs / Impairments
Real estate finance	• New real estate disbursements decreased (JPY -25 billion YoY) due to sluggish real estate transaction flow coupled with favorable performance in FY2019 • Investors activities are returning to normal	• As a result of downgrade of collateral valuation reflecting the impact of COVID-19, JPY 0.7 billion of additional credit provisioning was made in addition to the use of the precautionary credit reserves in 4Q FY2019 • No material credit provisioning is expected in the future, but close monitoring of real estate prices of hotels and retail (commercial facilities such as shopping centers) sector will continue
Unsecured loans (Lake business)	• In Lake ALSA, the number of applications were down 44% YoY, and new customer acquisition declined 38% YoY • Lake ALSA itself continued to grow the loan balance while growth momentum was slower than last year	• Decrease in the total loan balance of unsecured loans mainly impacted in lower net credit costs YoY • Nonperforming loans increased due to payment deferrals and deliberate curb in the attendance rate at operation centers. Legal recoveries stagnated due to closure of courts. However, P&L impact in 1Q was modest • The attendance rate and operating hours are recovering to normal levels. Credit control continues while carefully checking the status of customers to whom we have granted payment deferrals and customers facing difficulty in repayment
Aviation finance		• Considering size of airline companies and governmental supports to the industry, aircraft industry was out of scope for the precautionary credit reserve at the end of FY2019 • In 1Q, conservative credit reserve ratios were applied to all transactions of the aviation sector as precautionary reserve and recorded JPY 1.4 billion, in addition to JPY 0.8 billion of apparent credit reserve for particular transactions considering recent situation of aircraft industry and business conditions of our aviation finance transactions

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[Slide 6&7]

- Pages 6 and 7 elaborate on the COVID-19 impact, especially credit costs, in each of our businesses.
  - In real estate finance, as a result of our portfolio review and a decline in collateral value of certain exposures, we utilized the precautionary credit reserves made at the end of FY2019. In addition, we made JPY 0.7 billion of additional credit provisioning. While we do not expect significant additional credit provisioning in the future, we are closely monitoring real estate prices of hotels and retail sector which are directly affected by COVID-19.
  - In unsecured loan business, JPY 1.3 billion of net credit recoveries were recorded due to a decrease in the total unsecured loan balance. Nonperforming loans increased due to (1) payment deferrals, (2) deliberate curb in the operators' attendance rate at operation centers, and (3) stagnated legal recoveries due to the closure of courts. However, P&L impact of the increase in nonperforming loans was modest. It should be noted that the attendance rate is recovering to normal levels after the relaxation of state of emergency in late May. We will diligently pursue credit control on the payment deferrals.

- In aviation finance, aircraft industry was out of scope for the precautionary credit reserve at the end of FY2019, considering the asset size of airline companies and governmental support for the industry. However, considering recent aircraft industry situation and reviewing our aviation finance transactions, we made JPY 0.8 billion of apparent credit reserves for particular transactions as well as JPY 1.4 billion of precautionary credit reserve by applying conservative credit reserve ratios to all transactions in the aviation sector.

COVID-19: Impact on businesses (2)

Business	Revenue	Credit Costs / Impairments
Showa Leasing	• No material COVID-19 impact in terms of transaction volumes in 1Q, but impact is expected to materialize in 2Q (decline in leasing revenue)	• There is no usage of the precautionary credit reserves made at the end of FY2019 • JPY 0.6 billion of additional provisioning for specific credit reserve was made mainly in aviation finance in 1Q
APLUS FINANCIAL	• COVID-19 had a limited impact on transaction volumes in shopping credit and payment businesses. While payment service targeting for inbound customers decreased, transaction volumes of other products had a limited impact. Credit cards volume declined slightly, but have been recovering since June • The overall impact on COVID-19 is limited so far	• Collections of medium-to long-term delinquent loans worsened reflecting stagnant legal collection due to the suspension of courts etc. in 1Q, and limited collection activities. However, it was offset by improving collection of early delinquent loans due to government subsidies and benefits payments etc. , resulting in no significant changes in net credit costs
Retail banking	• Asset management product sales in 1Q decreased by 40% YoY • Recovery is underway in June reflecting improving staff attendance rate and guiding customers to the remote channels	• The number of payment deferrals in housing loans has decreased since May
Project finance	• 1Q new commitments were slow though around the same level as a year ago • Activities of domestic and overseas projects have now resumed	• Impact from a fall of oil price is limited
Others	• Domestic IPO market resumed in June. As a result, we expect some deals to conclude later in this fiscal year. However, timing and amount of capital gains will continue to fluctuate, depending on individual factors of each deal	• Subsequent event: Possibility of loss on investment Investee: A fund under J.C. Flowers & Co umbrella, in which Shinsei Bank's subsidiary had invested as a limited partner Event: The shares of NIBC HOLDING N.V., investee of the fund in which Shinsei Bank's subsidiary had invested, will be transferred to a fund under Blackstone Funds umbrella by December 31, 2020 Impact: Upon completion of the share transfer, we would be required to incorporate a maximum loss of approx. JPY 2.7 billion[1] in our consolidated financial results in or after 2Q

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[1] Based on FX rate as of June 30, 2020

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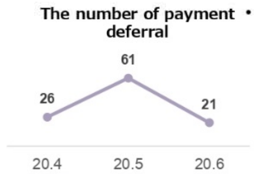
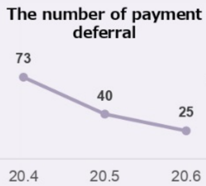
- On the page 7, we have included a subsequent event relating to a possible loss later in the year. A Shinsei Bank's subsidiary had invested in a fund as a limited partner. This fund is managed under J.C. Flowers & Co umbrella. The investee of the fund, that is, NIBC HOLDING N.V. (a financial institution in Europe), has decided to transfer its shares to a fund under Blackstone Funds umbrella by December 31, 2020. Upon the completion of the share transfer, we would be required to incorporate a maximum loss of approx. JPY 2.7 billion in our consolidated financial results in or after the 2Q. The loss on investment would be recorded in noninterest income line.

COVID-19: Special program (payment deferrals)

Product	Outline	1Q status		Outlook
Unsecured loans (Lake business)	• Payment deferrals were granted in light of inquiries from customers about economic hardships • Obligors with payment deferrals are categorized as substandard • Recovering to normal obligors or remaining as substandard would depend on payment status of accrued interests during the deferral program period	• The number of payment deferrals peaked in May • Balance of payment deferrals: approx. JPY 2.0 billion (end of June) • Payment deferrals out of Lake loan balance: approx. 0.5% • P&L impact: approx. JPY 0.1 billion		• In July, the number of payment deferrals (stock basis) and the balance decreased reflecting repayment made by many customers in the month after the deferral • Limited P&L impact is expected due to diligent credit control
Shopping credits, credit cards	• As a normal business practice, payment deferrals were granted in light of inquiries from customers about economic hardships • Obligors with payment deferrals are categorized as substandard	• The number of payment deferrals peaked in May • The amount of payment deferrals: approx. JPY 0.2 billion • P&L impact: modest		• The number of payment deferrals is decreasing. However, a certain number of cases is expected to occur after government subsidies end
Retail banking Housing loans	• Payment deferrals were granted after receiving application and inquiries on repayment • Obligors with payment deferrals are categorized as substandard	• The number of payment deferrals were peaked in April • Balance of payment deferrals: approx. JPY 1.5 billion • Payment deferrals out of housing loan balance (approx. JPY 1.1 trillion) : 0.1% • P&L impact: approx. JPY 0.1 billion		• In July the number of payment deferrals continues to decrease • After the payment deferral period ends, the claims to be kept monitored for a certain period

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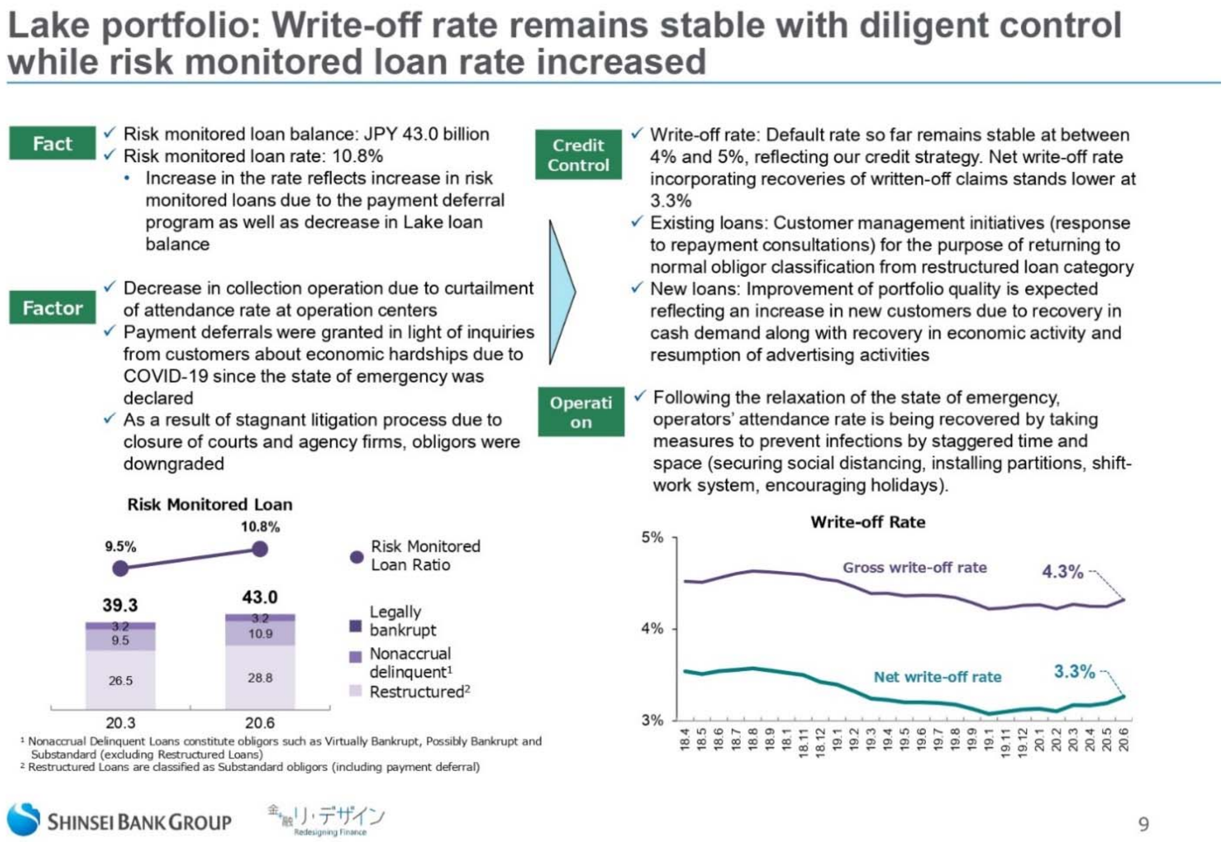
[Slide 8]

- Page 8 summarizes payment deferral programs to individual customers due to COVID-19.
  - In the unsecured loan business, we categorize obligors as substandard upon agreeing to the payment deferrals in light of inquiries from customers about economic hardships. The number of deferrals was down after peaking in May. The total loan deferral balance stood at JPY 2.0 billion, constituting 0.5% out of the JPY 400 billion of Lake loan balance. The P&L impact of the deferrals was JPY 0.1 billion. One of the reasons of this modest amount is that subsequent repayments were made by many customers as they received government subsidies in the following months. Furthermore, as staff attendance rate at the operation centers is recovering to normal levels as well as we are conducting diligent credit control, P&L impact related to the payment deferral programs will be limited.
  - Shopping credit and credit cards in APLUS FINANCIAL have provided the payment deferrals as a normal business practice under hardship situations. The number of payment deferrals peaked in May and have been declining since then. The deferral amount stood at JPY 0.2 billion. Additional P&L cost of these deferrals is modest.

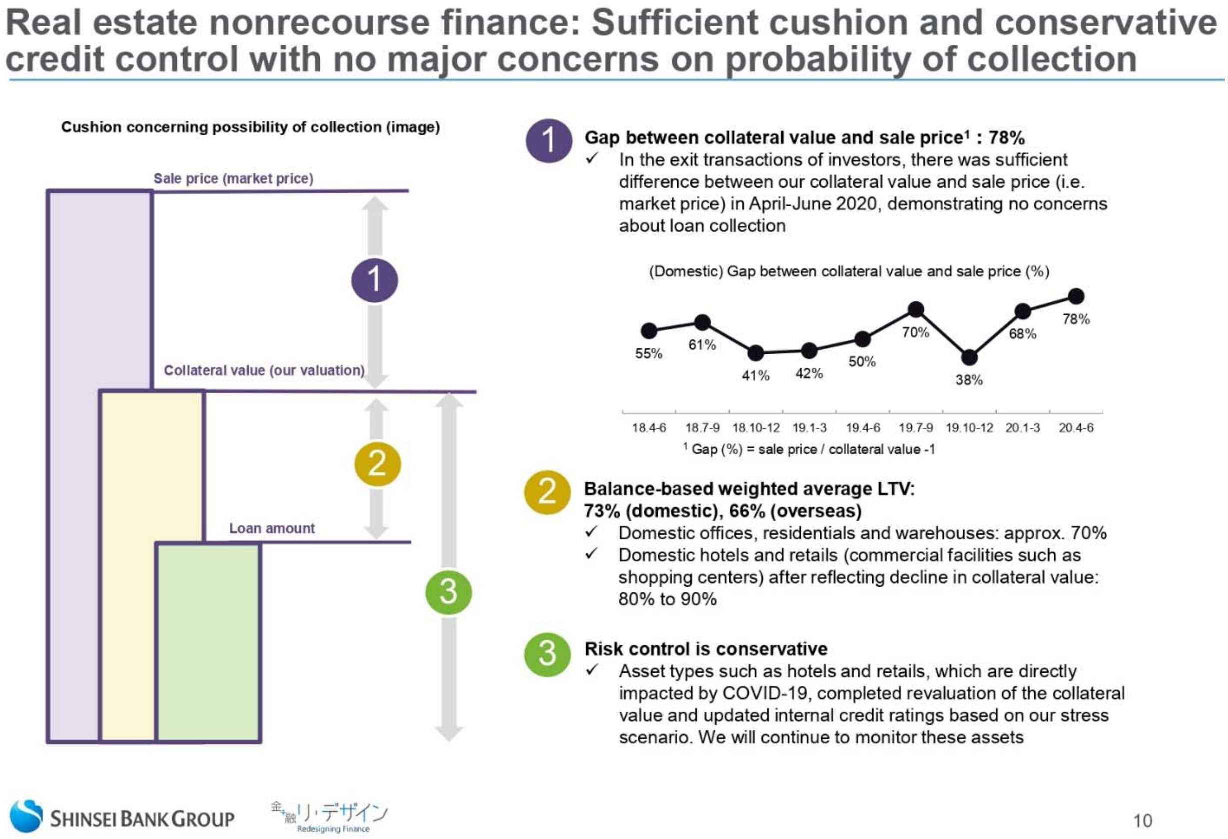
The number of deferrals continues to decline in July, but we expect that a certain number of cases will occur in future as well.

- Housing loans in retail banking also classifies payment deferral cases to substandard from normal category. The number of deferrals peaked in April and decreasing since then. The deferral amounts stood at JPY 1.5 billion. It accounts for 0.1% out of JPY 1.1 trillion of total housing loan balance. Additional P&L cost is as small as at JPY 0.1 billion. In July, the number of deferrals has declined further. We will continue to monitor for a certain period after the deferral term is over.



[Slide 9]

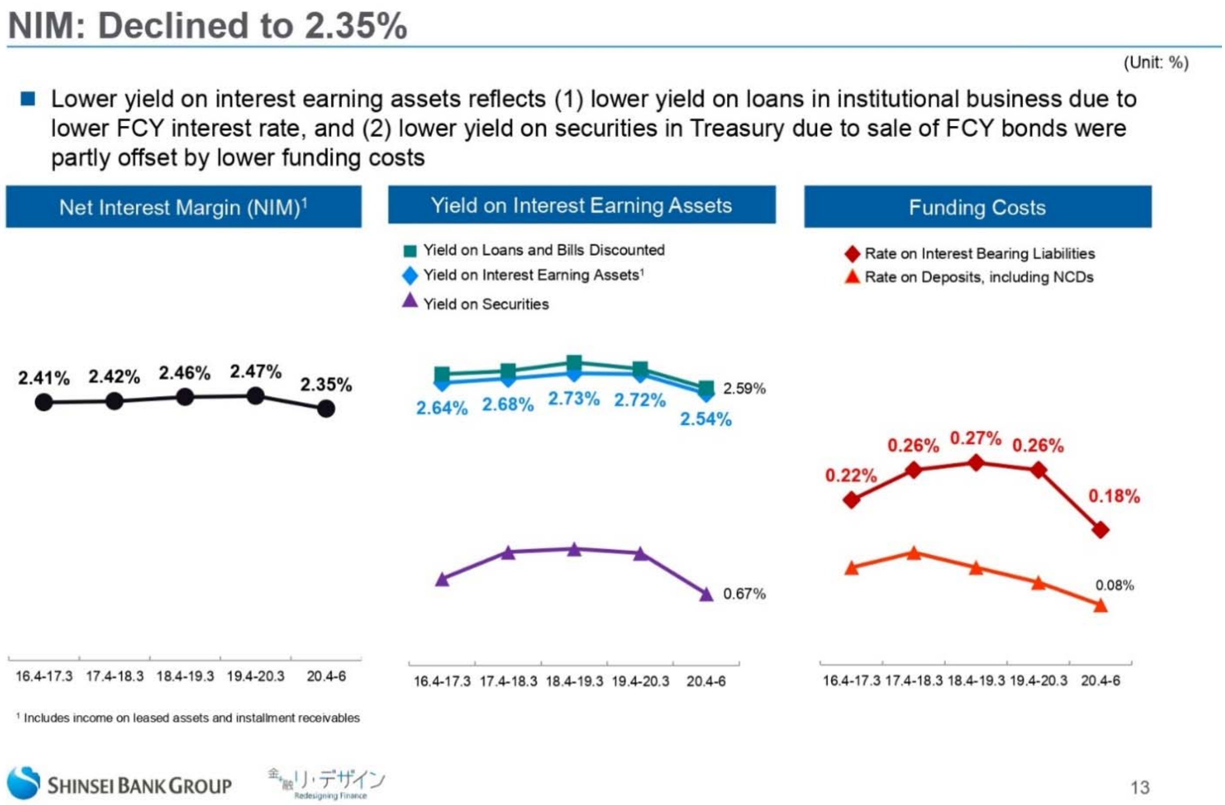
- Page 9 explains quality of Lake portfolio.
  - Risk monitored loans or nonperforming loans of Lake increased in terms of the amount as well as rate. An increase in the risk monitored loan balance reflects increase in the payment deferrals as well as increase in nonaccrual delinquent loans due to decrease in collection activities at the operation centers. Higher risk monitored loans rate reflects combination of decrease in Lake loan balance and an increase in nonperforming loans.
  - Write-off rate, i.e. default rate, remains stable at between 4% and 5% so far, reflecting our credit strategy. Net write-off rate incorporating recoveries of written-off claims stands lower at 3.3%. We believe that credit quality of the Lake portfolio is well controlled.
  - We will continue to perform credit controls for the purpose of customers returning to normal obligor classification in the existing loans, and also make efforts to increase the new loans in order to further improve overall portfolio quality of Lake.



[Slide 10]

- Page 10 illustrates possibility of collection in the real estate finance business.
  - Our ability to collect on our real estate finance exposures consists of three factors, as shown on the left-hand side of the page.
  - #1 shows the gap between market price and collateral value. As you will observe from the right-hand side graph, there is sufficient gap of 78% in the 1Q exited transactions, demonstrating no concerns about our ability to collect on the loans.
  - Next, #2 is the loan-to-value. The average LTV of domestic transactions stands at 73%, and overseas at 66%, which means 30% capital cushion between loan and collateral value. It should be noted that average LTV of hospitality and retail sectors assets, as a result of downgrade of the collateral value, now stands at 80% to 90%.
  - #3 demonstrates our conservative risk control including collateral valuation. We completed revaluation of collateral value and updated internal credit rating based on our stress scenario for hospitality and retail sectors, which are directly impacted by the COVID-19. We continue to keep monitoring the change in price as per our valuation policy.

➢ Financial update and business update start from page 12. I will now cover the key slides.



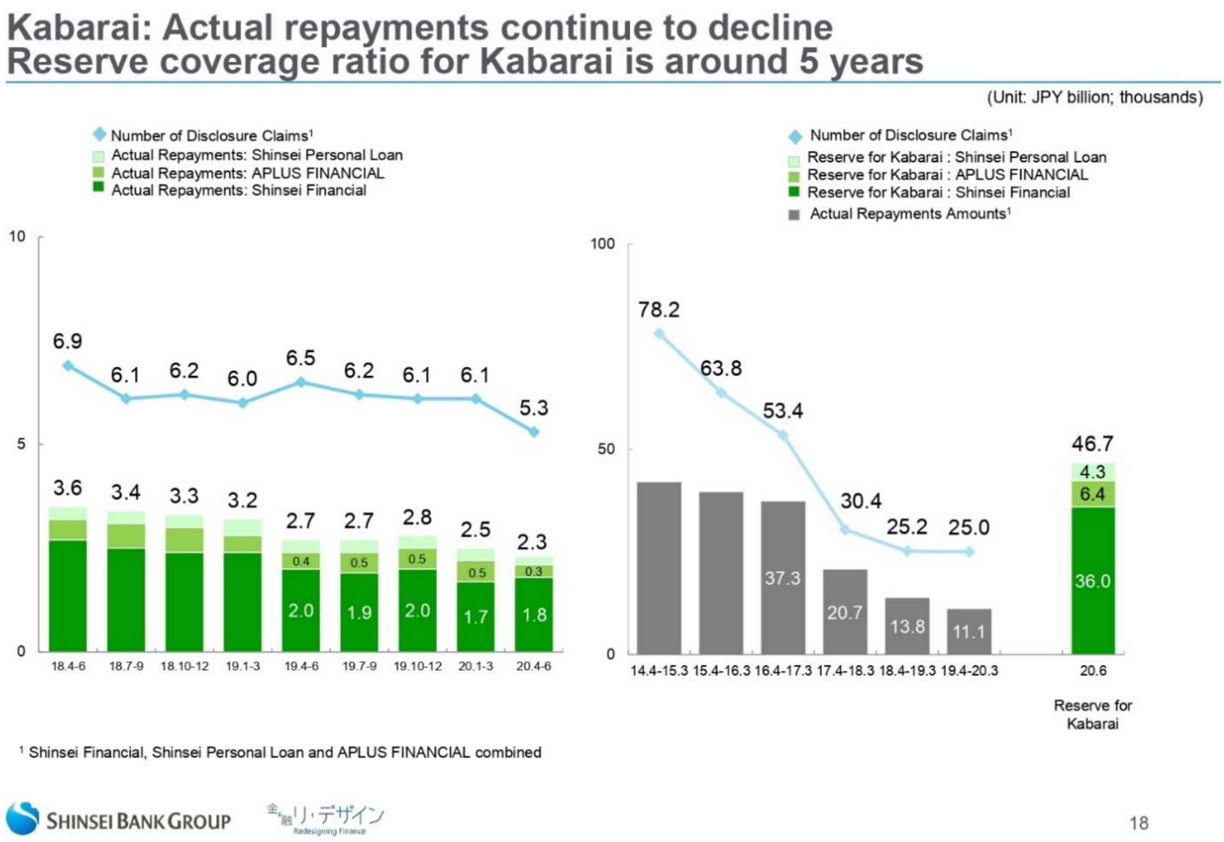
[Slide 13]

■ Page 13 shows NIM.

➢ NIM declined to 2.35%.

➢ Yield on interest-earning asset declined to 2.54%. This reflects lower yield on FCY assets as the FCY rates declined sharply in 1Q. In addition, yield on securities declined as we liquidated certain higher yielding foreign securities.

➢ Funding costs also declined to 0.18% due to the lower FCY rates.



[Slide 18]

- Page 18 pertains to Kabarai.
  - The number of disclosure claims and actual payment declined, reflecting stagnated operation in legal firms, especially in the number of disclosure claims.
  - Kabarai reserves remain adequate at about 5 years of coverage.

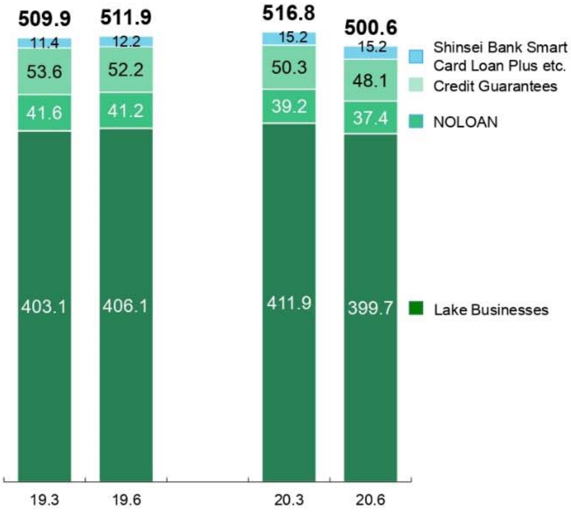
Small Scale Finance

Unsecured loan: Lake ALSA continued to grow while total balance decreased

(Unit: JPY billion)

- Lake ALSA loan balance increased to JPY 77.5 billion (June 30, 2020) from JPY 73.2 billion (March 31, 2020)

【Loan Balance】



- Flat net interest income coupled with lower net credit costs and expenses resulted in higher profit YoY

Shinsei Financial[1]	19.4-6	20.4-6
Net Interest Income	17.1	17.1
of which, Lake Businesses	15.7	15.7
Noninterest Income	-0.2	0.0
Total Revenue	16.9	17.1
Expenses	-8.3	-7.9
Ordinary Business Profit (OBP)	8.5	9.2
Net Credit Costs	-3.4	-3.0
OBP after Net Credit Costs	5.0	6.2

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

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[Slide 20]

- Page 20 covers unsecured loan balance and P&L.
  - Unsecured loan balance in total and Lake loan balance both decreased from March 2020.
  - However, Lake ALSA stand-alone basis increased to JPY 77.5 billion in June 2020 from JPY 73.2 billion in March 2020.
  - Regarding P&L, flat net interest income, lower expenses and lower net credit costs resulted in higher profit YoY.

Small Scale Finance

Lake ALSA: New customer acquisition down 38% YoY. Approval rate improved to 33.2%

(Unit: JPY billion)

- New customer acquisition: Decreased mainly reflecting lower application volume coupled with lower attendance rate of operators at operation centers
- Approval rate: Improved reflecting positive effect from numerous operational and credit assessment related initiatives identified in the task force to improve the approval rate, and gradual recovery of operators' attendance rate from June

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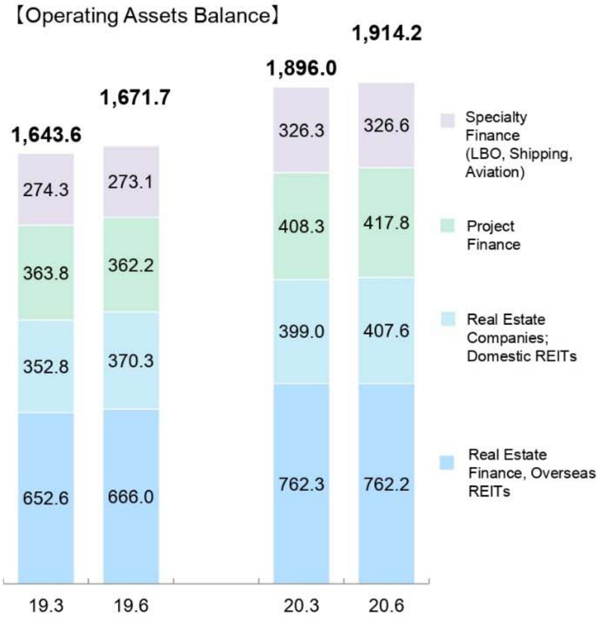
[Slide 21]

- Page 21 covers Lake ALSA's new customer acquisition.
  - The number of applications decreased 44% YoY.
  - The number of new customer acquisitions also decreased by 38% YoY, reflecting lower application volume coupled with limited number of operators working at the operating centers.
  - The contract approval rate improved to 33.2%, reflecting positive effect from operational and credit assessment related initiatives as identified by a task force to improve the approval rate, as well as gradual recovery of operators' attendance rate from June.

Business with Institutional Investors

Structured finance: Profit decreased due to higher credit provisioning mainly in aviation finance and real estate finance

(Unit: JPY billion)



Structured Finance	19.4-6	20.4-6
Net Interest Income	2.7	3.1
Noninterest Income	1.6	1.2
Total Revenue	4.4	4.3
Expenses	-2.0	-2.2
Ordinary Business Profit (OBP)	2.3	2.1
Net Credit Costs	1.8	-2.9
OBP after Net Credit Costs	4.1	-0.8

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[Slide 25]

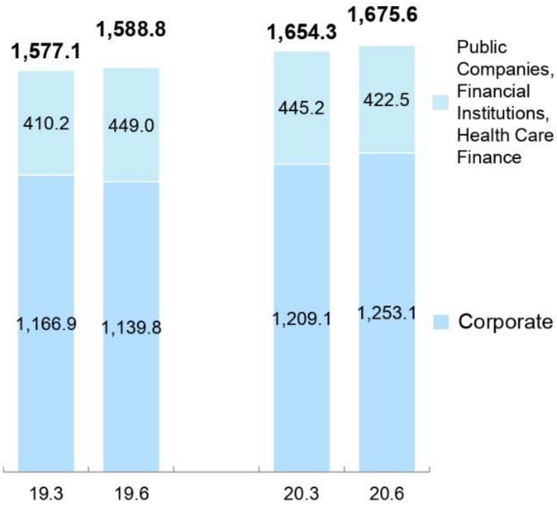
- Page 25 shows Structured Finance balance and P&L.
  - The operating assets balance grew in project finance.
  - Regarding P&L, net interest income increased but fee income decreased due to lower disbursements for new projects. Net credit costs incorporate credit provisioning in aviation finance and real estate finance in this quarter. As a result, overall profit declined.

Corporate Business: Balance increased by JPY 44.0 billion reflecting cash demands from customers under COVID-19

(Unit: JPY billion)

- We have addressed approx. JPY 100 billion of commitment lines and long-term loans needs from our large corporate customers

【Operating Assets Balance】



- While net interest income increased, profit YoY decreased reflecting decrease in noninterest income and increase in net credit costs

Corporate Business	19.4-6	20.4-6
Net Interest Income	2.5	2.9
Noninterest Income	1.2	0.6
Total Revenue	3.8	3.6
Expenses	-3.1	-2.9
Ordinary Business Profit (OBP)	0.6	0.6
Net Credit Costs	-0.2	-0.6
OBP after Net Credit Costs	0.3	0.0

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[Slide 28]

- On page 28, we will provide an update on our corporate business.
  - In this quarter, we provided approx. JPY 100 billion of commitment lines to meet customers immediate cash needs as well as long-term loan needs. The demand for loans has been mainly from our large corporate customers. Operating assets balance in corporate business increased by JPY 44.0 billion, thereby increasing net interest income of our corporate business. However, decrease in fee income and an increase in net credit costs resulted in lower profit YoY.

In conclusion, with regards to the 1Q FY2020 financial performance, topline revenue in most business segments slightly declined while degree of the impact differed across businesses. In net credit costs, additional credit provisioning was made in the structured finance business. We believe that we have made necessary credit provisioning at the current stage. While there was no material additional credit provisioning in unsecured loan business, we continue to monitor the portfolio quality through careful management of existing loans and accumulation of new loans.

That concludes my presentation of the first quarter FY2020.

End