Shinsei IR Day (held Feb. 20, 2017) QA Summary

Structured Finance

Q: Do foreign currency (FCY) deposits form the core of the Bank's FCY funding? How does the Bank intend to fund its overseas business assets during the 3rd MTMP?
A: The Bank's FCY deposits serve as the core of its FCY funding and the Bank also utilizes Yen Swap. While the Bank intends to engage in its FCY funding while emphasizing profitability due to recent increases in swap costs, we believe our current level of FCY funding to be adequate to support our asset balance growth through to the end of March, 2019.

Q: Is the Bank maintaining its profitability in the overseas transactions which were booked in 3Q FY2016 given the relatively large provisioning of general reserves for loan losses? Also, what is the nature of these transactions?
A: While the nature of transaction differs from region to region, some examples include offshore wind power generation in Europe, a desalination project in the Middle East, LNG power generation in Indonesia and railways in Australia. All transactions have been undertaken in a manner in which the Bank has not undertaken direct market risk. The Bank maintains an awareness of its internal funding costs and continues to ensure the profitability of the transactions it undertakes. Regarding efforts to grow our asset balance, while the provisioning of general reserves for loan losses does indeed create downward pressure on profit, we look to the future profit contribution we will be able to realize through the accumulation of these high quality assets.

Q: The Bank has described a surge in demand in its domestic mega solar business. How much does the Bank anticipate demand to decline in the currently and upcoming period as a result of this surge?
A: The Bank anticipates that demand will persist for another 1-2 years. We anticipate new transactions will keep the reasonable terms, conditions and prices, due in part to the effects of the changes in regulations. We believe that funding needs will persist for such transactions.

Q: What are the reasons, including screening factors, which enable the Bank able to undertake such a large volume of project finance transactions?
A: The Bank has once again started engaging in overseas project finance in 2012 and since that time the Bank has been successful in participating in a number of major deals. The size of the global project finance market is huge and the number of players is limited in this market. Hence, we believe there still exists opportunity to grow in the space.

Q: What is the duration of each category of operating assets in the structured finance business?
A: In real estate nonrecourse finance, while duration varies from sponsor to sponsor, the average duration is around 2-3 years. Lending to real estate companies and REITs sees an average duration of 8-10 years. Domestic project finance is around 10 years. Overseas varies by country. Of specialty finance assets, duration is around 10 years for ship finance and LBO sees generally shorter durations.

Q: How much asset growth (new disbursements) must the Bank achieve in each business area of Structured Finance in order to achieve its assets growth target identified in the 3rd MTMP?

A: The Bank assumes new project finance disbursements of around JPY 200 billion per annum in the 3rd MTMP. While we believe that the asset balance will be affected by cyclical factors such as market conditions and the funding needs of investors, we believe that this level of asset growth is possible over a three year period.

Q: How confident is the Bank in achieving its 9% asset balance growth target as shown on pg. 11 of the presentation and if so, what are the reasons for the Bank's confidence?

A: We view new disbursements in Real Estate Finance up the end of 3Q FY2016 to have been relatively robust. On the other hand, while the overall balance has declined somewhat as a result of the early repayments of a number of large value assets, recent market conditions and transactions hardly indicate weaknesses and we believe there to be opportunity to grow our revenues. The overall asset balance is but one indicator and we believe the profit which is generated by said balance to be of higher importance. We are enjoying a healthy performance in Project Finance and are confident in achieving our related asset balance growth target. Going forward, we will look to continue operating the businesses with a focus on profits.

Q: Will the total revenue contribution of the structured finance business increase or decrease in the upcoming years as a result of recent market changes?

A: The business is identified as a growth area business within the 3rd MTMP and it contributes roughly 14% to total OBP after net credit costs. Our aim of increasing the business's level of profit contributions remains unchanged. We decline to comment in regard to the question regarding figures for the upcoming fiscal year.

End