

3QFY2017 Financial Results Investors' Conference Call
(Held Jan. 31st, 2018) Q&A English Transcript

Time: January 31, 2018. 22:00(TKY time)

Speaker: Sanjeev Gupta (Senior Managing Executive Officer)

Shareholder Return

Q: Will shareholder return be annual thing going forward, targeting 25% or higher payout ratio?

A: Our management has strong intention to maintain or improve total payout ratio.

Q: Was the tax issue holding back buyback program? Was the tax issue is the reason for the last 12 months you could not announce buyback?

A: This tax issue was the technical reason we stated earlier because of which we could not announce share buy-back. The tax audit is being conducted since August 2016.

Q: You are now more comfortable about this tax issue in terms of favorable resolution, and that was why you announced share buy-back now?

A: We have not received an official notice from the Tokyo Regional Taxation Bureau despite having exhaustive discussion for this tax issue with them. We believe that we have appropriately filed and paid corporate income tax so far.

We are keen to maintain or improve shareholder return. We disclosed this technical tax issue and announced share buy-back. This tax issue was the reason that we could not do share buy-back.

Voluntary Disclosure about Possible Reassessment of Corporate Income Tax (Timely Disclosure)

Q: Could you explain detail of potential risk of receiving a notice of reassessment of corporate income tax from the Tokyo Regional Taxation Bureau? What kind of transaction caused this tax issue?

A: We are not in a position to explain detail of this issue because we have not received an official notice from the Tokyo Regional Taxation Bureau. From fair disclosure viewpoint, we disclosed this issue to the market at this point of time. Our best estimate of the maximum exposure at this time is JPY 16 billion based on discussions with the Tokyo Regional Taxation Bureau.

Unsecured Card Loan Business and Excess Interest Repayment (Kabarai)

Q: In terms of Kabarai, repayment is down and reserve looks high. Are you going to reassess the Kabarai reserve in the fourth quarter to reverse the reserve?

A: We will reassess and refresh the Kabarai model in March 2018. If the trend continues and the new calculation depicts that we do not need the reserve in Shinsei Financial as much as we have now, it will potentially result in reversal of the reserve in Shinsei Financial. However, we will also refresh the model of APLUS FINANCIAL and Shinsei Personal Loan. We have to look at Kabarai reserves for all individual entities.

Q: Does APLUS FINANCIAL have only one year Kabarai reserve?

A: APLUS FINANCIAL has 1.3 year-worth of reserve at the third quarter in this fiscal year. APLUS FINANCIAL is in a different industry from Shinsei Financial thus methodology of reserve calculation is different. The number of Kabarai disclosure claims and the repayments amount are coming down in APLUS FINANCIAL too. We have to assess the Kabarai reserve whether the reserve amount is at an appropriate level or we need to have additional reserve in next March.

Q: In terms of Kabarai, you saw an encouraging trend of the number of Kabarai disclosure claims and repayment amount trend up to December. Do you see any trend change after December?

A: The trend seems favorable for us even though some specific law firms are active. So the trend will be in the right direction but we keep watching the trend closely going forward. At this time we do not see any sign which leads us to believe the trend is changing.

Q: Japanese Financial Services Agency published the survey of bank card loan business on January 26th 2018. What is your view of unsecured loan business market growth rate? Do you think 5-6% growth rate or expect that growth rate going lower?

A: The graph on our presentation slide 21 shows that the market only grew by JPY 200 billion in the last six months while it grew by JPY 500 billion during fiscal year 2016. Our understanding is that banks card loan businesses needed to be self-controlled and banks stopped aggressive advertisement after Japanese Bankers Association announced "Agreement of unsecured personal loans by Banks" on March 16th 2017 . We see that the bank card loan lending is slowing down while money lenders (ACOM, SMBC Consumer Finance, AIFUL) unsecured lending business are still robust.

Net Credit Costs

Q: In terms of JPY 3.9 billion net credit costs increase of reserve for loan losses from Showa Leasing, the reserve was partially provisioned or fully provisioned?

A: We are aware that coverage ratio for the claims is almost 100%, including reserve for loan losses and collateral. (Please note that we made correction in the answer)

The amount of this provision was approximately JPY 3 billion. JPY 3.9 billion was year-on-year increase of net credit costs from Showa Leasing. Showa Leasing recorded JPY 1.2 billion of credit recoveries in the third quarter of last fiscal year and it recorded JPY 2.6 billion of net credit costs in the third quarter of this fiscal year. Hence, net credit costs increased by JPY 3.9 billion year-on-year.

Q: Is this increase of net credit costs from Showa Leasing caused by an exposure to specific industry trend or a single one-off transaction?

A: This additional provision is for a single transaction exposure. We do not see any systemic change in credit trend at this point of time.