

Q3FY2017 Financial Results Conference Call for Domestic Investors

Q&A English Transcript (January 31, 2018)

Time: January 31, 2018, 16:30(TKY time)

Speaker: Shouichi Hirano (Senior Officer, Group Corporate Planning and Finance)

Shareholder Returns

Q: Are you targeting a total payout ratio of over 25% in FY2018 onward?

A: Our intention to maintain or preferably improve the total payout ratio remains unchanged.

Q: You have set the share buyback period to end on July 31, 2018. Do you intend to complete the buyback by the end of this fiscal year?

A: We intend to purchase the shares in a timely and appropriate manner in light of market conditions.

Q: Is there any relationship between your disclosure of the possible receipt of a notice of reassessment of corporate income tax from the Tokyo Regional Taxation Bureau and the timing of the announcement of a share buyback?

A: We previously explained that there was a technical factor that has been preventing us to do a share buyback. We announced the share buyback today when the technical issue, which is the possible receipt of a reassessment of corporate income tax from the Tokyo Regional Taxation Bureau, was released in a timely disclosure.

"Possible Receipt of Notice of Correction from Tokyo Regional Taxation Bureau"

(Press Release)

Q: Please provide more information on this subject, such as the reasons for and context of the possible receipt of a notice of reassessment of corporate income tax. According to the press release, the Bureau has been conducting an audit for some time. What is the reason for disclosing the information today? Why could you not disclose it earlier?

A: We are unable to answer your question in detail, because we have not received a formal notice of reassessment from the Tokyo Regional Taxation Bureau. The Bureau has been conducting an audit since August 2016. We have had exhaustive discussions with the Bureau but we understand that effective logic has not been built by the Bureau. We are in a stalemate situation, because the Bureau has not provided its conclusion to date. Considering that leaving this situation as it stands is not appropriate for the market, we decided to voluntarily disclose the possibility of receiving a notice of reassessment.

Q: If you were to receive a notice of reassessment of corporate income tax, is the timing likely to be in FY2017?

A: We are not in a position to comment on the timing of a notice of reassessment from the Tokyo Regional Taxation Bureau.

Q: If you were to receive a notice of reassessment, will it impact on non-consolidated and consolidated earnings?

A: Receipt of a notice of reassessment will impact on both non-consolidated and consolidated earnings.

Unsecured Card Loan Business and Excess Interest Rate Repayment (Kabarai)

Q: What is your outlook for actual repayments of Kabarai in the unsecured card loan business given the increase in the number of cases lawyers are referred to and the decrease in the number of claims? What circumstances would enable a reversal of reserve for Kabarai in the fourth quarter?

A: Although the number of claims and losses on the actual repayments are both declining, we will examine whether the reserve balance is appropriate after monitoring trends in the rest of fiscal 2017.

Q: What is your outlook for the unsecured card loan business in January–March 2018 after announcing a revision of business strategy?

A: From January 4, we have been informing customers that loans will be paid into their accounts on the next business day (excluding Saturdays, Sundays, and public holidays) at the earliest. Although this has led to some cancellations (mainly by customers applying for loans on automated contract machines), there has been little change in the number of applications.

Q: The loan growth of the unsecured card loan has slowed since the interim financial results announcement, but it is still higher than the market average. What is your outlook for the balance of unsecured card loans?

A: There has been no major change in the loan growth of our unsecured card loan in recent months. Although we revised our business strategy, we continue to position unsecured card loans as a growth business and our management stance remains the same.

Q: What is your outlook for new product and its loan growth of Shinsei Financial Co., Ltd. in the context of revising your unsecured card loan business strategy?

A: We will announce upon determining details of the new product of Shinsei Financial in due course.

Net Credit Costs

Q: Net credit costs at APLUS Financial Co., Ltd., Showa Leasing Co., Ltd., and for unsecured card loan business appears to be exceeding your forecast. What is your full-year outlook?

A: You are correct that net credit costs went up as a result of provisioning for specific reserve in the Institutional Business and increase in the unsecured card loan balance, etc. However, we have not revised our full-year forecast at this point because net credit costs may fluctuate in the fourth quarter.

Q: Showa Leasing Co., Ltd. recorded net credit costs mainly reflecting to provisioning for specific reserves. What is the Shinsei Bank Group's definition of a large borrower and what is the weighting of this category in the Structured Finance business?

A: We monitor the weighting of large borrowers from a risk management perspective. In Structured Finance, transaction size is generally in the range between 5 billion yen and 10 billion yen. If the transaction size is large relative to our capital adequacy, we form a syndicate to provide the finance.

Other

Q: Income tax expenses (total of current income taxes and deferred income taxes) appear to be higher than expected. Have you made any changes to your full-year forecast?

A: Reversal of deferred tax assets has been greater than the initial forecast, because we completed the disposal of large nonperforming loans in FY2017. We think income tax related expenses may be slightly higher than our forecast.

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.