

**FY2018 Q1 Financial Results Telephone Conference for
Domestic Investors (Held Aug. 1, 2018) Q&A English Transcript**

Date & Time: 16:30, August 1, 2018 (JST)

Speaker: Shouichi Hirano, Chief Officer, Group Corporate Planning and Finance,
Managing Executive Officer

Net credit costs

Q: Net credit costs in Q1 reached 31% of the full-year target, but your presentation materials say progress is within expectation. Can you provide more colors on your outlook for net credit costs?

For example, you explained that you provisioned reserves for loan losses on new overseas transactions in structured finance. Is there a possibility to record reversals from such reserves after revising your reserve criteria?

Also, is it correct to assume that you expect to maintain your full-year target for net credit costs even if there is an increase in net credit costs associated with a growth in the consumer finance loan balance?

A: In the early years of overseas structured finance projects, the Bank did not have much of a track record in the business, so we applied more conservative reserve ratios than for domestic projects. Recently, the Bank has gained experience and built up track records of overseas projects, and is considering how to apply more precise methods for estimating such reserves. The increase in net credit costs at APLUS Financial Co., Ltd. is a one-time factor in Q1.

We therefore expect to maintain our full-year target for net credit costs.

Q: Net credit costs are increasing in overseas structured finance, likely due to working on higher risk projects. Have you secured profitability on these projects that factor in net credit costs?

A: The increase in net credit costs does not mean deteriorating profitability. The reason for the recent increase in net credit costs in overseas structured finance projects is that we applied more conservative reserve ratios than for domestic projects until we gained more knowledge and built up track records.

Unsecured loan business

Q: What are the monthly trends in new customer acquisitions for Lake ALSA in Q1 FY2018? Please tell us the figure for July as well if possible.

A: New customer acquisitions for Lake ALSA were up in April and May, but were affected by seasonal factors (summer bonuses) in June. Figures are better compared with when Lake ALSA was launched.

Q: Regarding excess interest repayments, we can see that the number of claims and repayment amount are increasing on a quarterly basis. Do you expect this trend to continue?

A: The number of claims and repayment amount were up in April-June 2018 compared with January-March 2018 due to some legal firms resuming advertising, but it was not a large increase, and we believe the effect is limited.

Others

Q: Why do you think the derivatives business was subdued in corporate sales and structured finance?

A: There was little interest in foreign currency derivatives among corporate customers because of limited market movement in Q1. We believe it is only a matter of timing, however, because we continue to have a pipeline. The derivatives business associated with structured finance projects (e.g., interest rate swaps) consists of transactions attributable to new loan disbursements, and we are thus expecting revenue from some projects in Q2 onward.

We therefore have no particular concerns about revenue from the derivatives business.

Q: Looking at net interest income at Shinsei Bank (nonconsolidated basis), is there any specific reasons to decrease of dividends from subsidiaries compared to the same period a year ago?

A: No, there is no specific reason. We see no concern to meet targets set in the Bank's Revitalization Plan.