

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

Unsecured Loan, Shopping Credit

Q: Are the money lender card loan and bank card loan markets really separate markets? Are the players in these two markets competitors or do they mutually coexist?

A: This is dependent upon marketing. In other words, if a company engaging in marketing similar to that of a nonbank, the company will attract a similar type of customer as the nonbank, and the opposite also holds true. Our current feeling is that the major players are focused on high interest rate/middle risk and we believe the two types of players are currently closer to being competitors than anything else.

Q: What is the difference between bank card loans and nonbank companies from a regulatory standpoint as identified by the Japanese Federation of Bar Associations (JFBA)?

A: The issue which has been raised by the JFBA is related to sales practices rather than product features. Our view is that concerns exist stemming from the possibility that efforts to attract customers by flaunting a company's exemption from the limits imposed by the revised money lending business law may result in of enabling the development of customers with multiple borrowings. In the case of Shinsei Bank, we will look to continue to adhere to the spirit of the money lending law and avoid the development of customers with multiple borrowings.

Q: If, theoretically, an upper lending amount limit regulation is imposed upon bank card loan, is there a high likelihood that bank card loan players will no longer be able to attempt to attract customers by engaging in efforts such as advertising loan which require no income verification?

A: While the Bank is unable to comment in regard to how legislation will change, the spirit of the money lending business law is the prevention of the creation of customers with multiple borrowings and the Bank will look to continue to adhere to the spirit of this law and it provides convenient products to its customers.

Q: How will the Bank be affected in its unsecured loan and credit guarantee businesses if new regulation related to bank card loans introduced? What is the Bank's medium to long term outlook in regard to normalized net credit costs?

A: Shinsei Bank engages in its related businesses in a manner which adheres to the spirit of the revised money lending business law. Additionally, when considering the method used in the gradual introduction of the revised money lending business law until its full implementation over a period of time, the Bank believes that any new regulation would be introduced in a manner which would not cause a credit crunch. Therefore, while our customers may be inconvenienced depending upon the nature of the regulation, the Bank does not anticipate the resulting effects to be significant. Regarding effects on the credit guarantee business, as the performance of the business is dependent upon the level of rigor exercised in the development of credit, the Bank may suffer greater effects than what it would in unsecured loans. The Bank has no concerns regarding the credit quality of assets held in its unsecured loans business.

Q: Does the Bank have any concerns regarding the possibility of the rise of pricing competition, and the resulting decline in spreads, in the unsecured loan market once the overall market balance tops out?

A: The area in which greater competition with the banking industry is expected is the low interest rate low risk card loan market. The middle risk segment targeted by Lake is a segment which demands accuracy how to take risk and the Bank has seen no interest rate competition occurring at this point in time.

Q: What is the outlook of the servicing business including in the "Others" line on page 4 of the APLUS FINANCIAL materials?

A: The servicing business included in "Others" includes items such as initial collections on the nonperforming assets of regional banks. The business structure is one in which Alpha Servicer performs collections for a large variety of small lot loan assets. We are also considering an initiative where Alpha Servicer would manage the assets of the entire Shinsei Bank Group. While the level of profit contribution from Servicer in "Others" is not large, we are considering the expansion of its operations in the future.

Q: At what point will OBP after net credit costs in the unsecured loan business, which has declined compared to the same period of the previous fiscal year, begin to increase? At what point will asset balance growth reach a sustainable level, and what sort of asset balance does the Bank envision once it reaches that point?

A: While asset balance growth resulting from the acquisition of new customers in the current fiscal year will not have an impact on profit in the same period as interest income will be recorded in the following period, the Bank incurs net credit costs resulting from the asset balance growth in the current period. Additionally, it is important to note that marketing expenses are also incurred in the current period and those costs are recovers over a period of several years.

Q: Regarding unsecured loans, how fast does the Bank seek to undertake initiatives such as its entry into Vietnam, going forward? What kind of growth does the Bank hope to achieve overseas in order to make up for lack of growth domestically?

A: As was explained in slide 2 of the 3rd MTMP overview personation today, the Bank is currently in a position where it has some latitude in the use of regulatory capital in relation to its risk capital currently in use. While the Bank must continue efforts how to repay the public funds, the Bank has a moderate capacity for investment. Therefore, the Bank is interested in undertaking such initiatives, not only in areas such as unsecured personal loans but other forms of small finance including leasing, etc., as long as the expertise of the Shinsei Bank Group matches well with the resources of potential partner institutions. While the Bank is currently evaluation such initiatives, we decline to comment in regard to their specifics.

Q: What is the branch network strategy of the Unsecured Loan Business?

A: While we decline to comment in regard to specific strategies, the Bank has been passive in its branch strategy for a time in the past, and the Bank is currently engaging in the scrapping and building of branches. While applications received through the online channel account for approximately 70% of all received applications, the Bank does not expect to eliminate its branch network considering the high approval rate of applications received through branches as well as their impact on customer brand awareness.

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