

Q&A Session: Institutional Business

Q: First two questions are raised from Mr. Nakamura of Goldman Sachs Securities. First, this is regarding sustainable finance in Shinsei Bank; please tell us about Shinsei Bank's advantages in sustainable finance, and challenges Shinsei faces, and any possibilities of setting the long-term KPIs?

Second question. This is regarding project finance, and syndicated loans; given the Shinsei's expansion of the syndication business, what is your policy for controlling risk assets? Because the volume of the real estate finance is increasing recently, so is the risk assets. Do you expect similar growth going forward, or are you going to raise a syndication ratio to control the increase in risk assets? Could you please tell us your policy?

A: First, in terms of the sustainability, we have just established a new division. Instead of forming just a department under a division, we have decided to start off with an independent division which has a function in planning and business promotion. I think this is one step forward, for we take a different approach from our competitors.

Another thing I need to mention is, Shinsei will be starting sustainability evaluation by building its own assessment model, and I think we will be ahead of our competitors.

And finally, we will develop new products for institutional investors, taking investors' preferences into account. This will be launched in the next fiscal year and onward, and we have a strong ambition and high aspiration on this.

Again, we will start off with this new division, and our plans will be crystalized in the next fiscal year, and onward.

Next, real estate and the risk control. As for the real estate finance, we currently maintain the syndication ratio in the range from 10% to 20%¹.

In terms of the total credit control for real estate assets, it is kept within our current guidelines. We will always keep an eye on the latest real estate market situation, we will control the volume taking the profitability into consideration. For the properties in the Greater Tokyo area, the investors have very strong appetite, and for the properties in local regions, we observe demands to some extent, mainly amongst regional banks. From the investors' point of view, we understand syndication is the business area we shall promote actively.

¹ The figure represents the ratio of loan asset sold against total amount newly originated. It turns out to remain at nearly 20% in the past few years.

Q: Thank you. Next question. This fiscal year, real estate finance is performing strongly. Given the expansion of infection of novel coronavirus, do you see any impact on the demand in the hotel sector?

A: Our exposure to hotel sector consists of approximately 10% out of total non-recourse loans. Up to January of this year, looking at the track record, it decreased by several percent in cash flow basis compared to last year, mainly because of the decrease of inbound tourists. For February and March this year, because of the influence of the novel coronavirus, this is expected to deteriorate further. On the other hand, as for non-recourse loans for hotels, leverage is relatively lower compare to other asset classes. This means we have enough equity cushion. At this point, we are not expecting a direct adverse impact on our loans. At the same time, we do understand these are volatile assets, we will monitor the future trend of the market very carefully.

Q: Why does Shinsei have strength in structured finance?

A: In one word, Shinsei Bank's human resource, or our talents. Since we used to be known as the Long-Term Credit Bank of Japan, we have been strong in structured finance, and as for the solar project finance, ever since the FIT system started, we have launched the initiative, and have been involved in the business. The business cannot be successful only with a strong front line, and our credit assessment section with good capabilities is also necessary, to lead in the structured finance field². In both front line and in credit assessment, we have deep knowledge and expertise, and we have a rotation system of personnel resources in credit assessment and front line to improve our capabilities. That is why Shinsei is capable in this field compared to our peers³.

Q: Regarding sustainability and ESG, you said you are going to extend this initiative to the entire institutional businesses. Specifically, what kind of business development are you considering?

² Structured Risk Management Division and Real Estate Risk Management Division specializing in structured finance are the divisions in Shinsei responsible for risk management of the field, and Shinsei is dedicated to development of human resources in the risk assessment of the field.

³ We have access to reach out to a wide range of projects including their sponsors and investors, and we understand we are capable of analyzing them.

A: The crux of our strategy, as a financial institution, is to utilize our framework of sustainability assessment to actively support businesses and companies that exert a positive impact to the society in the context of the environment and sociality, that is, so-called positive impacts. We support SMEs that contribute to environment or society by recognizing their efforts. Specifically, one of the methods in our mind is our loan products that support general corporations' efforts for the better society, or environment, for example, the positive impact loans or the sustainability-linked loans, these are the products we would like to implement. To achieve this, we need to have a proper assessment system and discipline. The evaluation or assessment system will need to be developed by the responsible division as soon as possible. I understand to reform the mindset of all employees involved in institutional business by this initiative is very important, and we would like to prepare this structure to crystalize in early stage of next fiscal year to commence implementing new loan products.

Q: This question is on Coal-fired thermal power generation finance. We would like to know the volume Shinse has been executing the loans in this particular sector, and what is your policy of the same going forward?

A: Coal-fired thermal power generation accounts for approximately 10% out of the total domestic project finance⁴. We have our ESG policy that we will not provide financing to new coal-fired power generation projects in principle. However, you might ask us, "what about high-efficient power generation plants?" The social standards and/or evaluation criteria are still under discussion and yet ambiguous on this issue, and we will keep an eye on the outcome of the discussion and be cautious and prudent when dealing with such transactions. Basically, in principle, we will not engage ourselves in such transactions.

Q: You have mentioned about your strength in the syndication business. Who are the investors at this moment?

A: Life insurance companies, regional banks, and cooperative financial institutions are our major customers. Compared with the early days when we have launched syndication business, we have expanded the target and scope of investors, and nowadays, we think we have relationship with most of financial institutions in Japan.

⁴ Out of the total of domestic project finance as at Dec. 31, 2019.

Q: This is regarding the sustainable impact development division; could you elaborate about the new division including the number of team members, and skill sets, experiences, and/or expertise of the team members including the same of general manager?

A: We have four members. We are starting with a general manager with two belonging to the assessment department responsible for the development of the criteria, plus one member to look after the general matters. Next fiscal year, we will add the operation team and planning team and more members will join the team, the division will end up with perhaps 8 to 10 members. The general manager was recently in credit assessment section for the structured finance and was closely watching the project finance. All four members are female. That's how we are starting this initiative. Those who have a strong passion in this theme have become involved in this project.

Q: Regarding sustainability business, what is the assessment structure of Shinsei Bank? What will be the system for assessment or evaluation?

A: For the time being, we will refer to the international norms and rules made by international institutions. We will also include what is called transition to our framework, covering around the rim of the strict rules. We would like to support our clients to move forward to the "greener" field,⁵ making the society to move on to the same direction.

Q: Your bank is doing well in the specialty finance franchise. Is this area included in the presentation or not? How do you plan to grow your specialty finance business going forward?

A: Well, in the presentation today I basically focused on the project finance area. Our project finance business has been expanding with our involvement in solar projects, however, I understand we are about to reach to a turning point because of the change in regulations⁶. As I have mentioned in the today's presentation, there are many of new fields we can expect for demands, and by diversifying the fields rather than sticking on mostly to the solar like we have been doing, we would like to expand our structured finance franchise going forward⁷.

⁵ We support our customers' efforts to improve the sustainability of society not only by the assessment using snapshot at the time of transaction, but also by conducting continuous engagement including monitoring throughout the transaction lifetime.

⁶ It refers to the change in FIT regulations.

⁷"Specialty finance" in Shinsei refers to ship and aviation financing and LBOs, and in terms of the institutional investor business we categorize ship and aviation financing as strategic areas. We also plan to continue promoting LBO.

Q: Would you please elaborate the current competitive environment of the structured finance business, and how do you apprehend the future direction of the market? Do you expect the loosening in the competition, or do you expect the market to have a tougher competition? What is your view?

A: In the domestic structured finance perspective, we find the spreads are not tightening⁸ in past several years. As for the real estate finance, again, there's a strong demand for transactions, and we think it is not necessarily to squeeze ourselves in to the market and to execute transactions by discounting the price. We find more and more regional banks are becoming active in this market and in that sense, structured finance will become more commoditized. Shinsei needs to further develop its expertise to become the leading bank in this field.

End

⁸ After around FY2017.