

## **FY2017 1H Financial Results Investors' Meeting**

### **Q&A English Transcript**

Q: While ordinary business profit after net credit costs increased from ¥3.7 billion in 1H FY2016 to ¥4.7 billion in 1H FY2017 for unsecured card loans, consolidated ordinary business profit after net credit costs declined to ¥24.3 billion in 1H FY2017 from ¥27.1 billion in 1H FY2016. How do you plan to increase overall ordinary business profit after net credit costs?

A: In 1H FY2017 results, we recorded an increase in net credit costs and a special gain from the reversal of reserve for losses on repayments of past interest overpayments.

The number of disclosure claims has been trending down and is not expected a big trend change going forward. Regarding an increase of net credit costs for unsecured personal loans and APLUS Financial Co., Ltd., it appears that we are making fast progress toward our full-year plan due to technical factors, such as a revision of the reserve ratio for unsecured personal loans in the first quarter as we have explained before. We consider the net credit costs increase for unsecured personal loans and APLUS to be within a controlled range, and we have not revised our full-year net credit costs plan.

Having said that, we should pay closer attention to the trend of net credit cost ratio by taking into consideration of recent changes in the bank card loan business environments.

Q: What is your outlook on the growth potential of unsecured card loans and new customer acquisition? What effects do you anticipate in next year due to the antisocial database reported in the media?

A: First we expect the growth of unsecured personal loan market to slow at some point. The recent slowdown in the banks-originated unsecured card loan business will contribute in sound growth of the money lenders originated card loan market. We are thus not too pessimistic about the market outlook

Second, Shinsei Bank's unsecured card loan business has been operated in compliance with the spirits of Money Lending Business Law, and thus its impact on Shinsei Bank Group is relatively smaller than other players.

As for antisocial database, the only thing we know is what the Japanese Bankers Association has disclosed so far, and we are not in a position to comment on it.

Q: While an increase in net credit cost stemming from a higher balance of unsecured card loans is inevitable, what is your outlook on the business and changes in the approval rate?

A: We have not relaxed our credit standards, but have taken various steps to attract more customers and improve the approval rate. The normalized net credit cost ratio is within our target range. It appears to be trending up, and we will examine more closely whether the net credit cost ratio is actually trending up, or staying within a reasonable range as a result of control measures.

There is no evidence of deterioration in the quality of our loan portfolio at present, but we will be monitoring it closely going forward, because some aspects can be affected by the market as a whole.

Q: Does the current level of your capital adequacy ratio have you change your capital policy?

A: We do not think minor fluctuations of our capital ratio could impede the degree of freedom of our capital policy.

Q: In the context of the antisocial database issue reported in the media, how will your business be affected what if consumer finance companies are able to offer the same day loans but banks are not?

A: The only thing we know about it is what the Japanese Bankers Association has disclosed so far, and we are not in a position to comment on it. If the media report is true, then there will be some impact on our business. We are carrying out various simulations, but we are not able to comment at this stage

Q: If major shareholder J.C. Flowers (JCF) Group sells its stake to another shareholder, will that have any effect on your management direction?

A: As we have explained so far, the JCF Group is an investment fund and it should be a natural action to exit from an investment at some point. Mr. Flowers is a director of Shinsei Bank, but he does not single-handedly determine the Bank's strategy. Thus his exit does not mean that there will be a major change in our management direction.

Q: Does "annual" in the sentence of "annual shareholder return plan" mean FY2017?

A: Yes, that is correct.

Q: Can you provide more details on your intention to "maintain or preferably improve the total payout ratio"?

A: It is the management's intention to maintain or improve the total payout ratio from the previous fiscal year, and should be interpreted literally.

Q: Are the external environment and your financial condition constraining factors for the maintenance and improvement of your total payout ratio?

A: We must take various factors into consideration when discussing shareholder returns as it includes dividends and share buybacks. Generally speaking, the external environment such as a financial crisis is a constraining factor for shareholder returns. If we look at shareholder returns in relation to earnings performance, financial condition would also become a factor that affects shareholder returns. However, the external environment and the Bank's financial condition are not constraining factors for shareholder returns at this point in time.

Q: Page 5 of the presentation material say that you intend to review "the third MTMP reflecting changes in the external environment", but do you have any assumptions for the external environment other than the negative interest rate policy? And why do you say "to be reviewed" instead of "being reviewed"?

A: We do not have any specific assumptions about changes in the external environment at present.

We used the phrase "to be reviewed", because FY2018 is the final year of our third MTMP and we are at the stage of developing the next fiscal year's budget. We will consider revising the MTMP in the budgeting process.

Q: Regarding the productivity enhancement project, which business segment's expenses will show the 2.0 billion effect of the FY2017 plan?

A: The effect of the Group based purchasing organization has already appeared in nonpersonnel expenses. Reducing the volume of work by consolidation and unified operation of Group Company back office functions allows us to deploy surplus personnel to other business area. This effect will be reflected in personnel expenses by reducing the number of new graduate and mid-career recruits. These effects are allocated to expenses across business segments.

Q: In the presentation material on the Retail Banking business for the IR Day held in February 2017, you stressed the need to maximize customer base in terms of both the quality and quantity.. What progress have you made in the past six months? What action do you plan to take in response to a harsh business environment?

A: We have revised our management accounting system in the Retail Business, breaking down profits and losses into housing loans, asset management products, funding etc., to identify problem areas in more detail.

As part of this process, we are discussing issues such as what type of customers we should focus on in terms of our business strategy for asset management products sales and how we should think about revising the loyalty program. In terms of sales channels, we currently have a network of branches that specialize in consultation, and we are developing to coordinate with online, video/call center and branches.

We are working on projects based on the understanding that the business requires an overhaul, including these aspects.

Q: In the context of bank card loan balance growth, what is your outlook for the market as a whole?

A: In the short term, we foresee a considerable market slowdown. Considering Japan's demographics (aging population with a low birth rate), the domestic market will inevitably reach a saturation point someday, as noted in our severe medium-term outlook for growth of the unsecured personal loan market at our February 2017 IR Day presentation. Having said that, it may be possible that healthy market conditions will allow us to see more sustainable growth than expected due to the recent slowdown of the bank card loan business.

The Group's strategy is to make the overseas business a pillar of earnings. We have started working on a joint venture in Vietnam, supplying systems in Thailand, and initiatives in Hong Kong.

Q: What is your image for growth of Shinsei Bank's unsecured card loans in the short and medium term?

A: The Bank manages *Shinsei Bank Card Loan – Lake* in a disciplined manner in compliance with the spirits of the Money Lending Business Law. We therefore do not expect demand for our business to decline sharply even if market growth slows as a result of changes in the bank card loan market. Even if there were to be a short-term negative effect, we believe we can take steps that harness our strengths.

Q: What is your outlook for net credit costs for unsecured card loans?

A: We need to keep a close watch on net credit costs, because they are also affected by competitors' movements. We will carefully monitor the situation to check for credit contraction as an overreaction to an increase of multiple borrowers.

Q: The megabanks have recently announced measures to reduce their work force and branches by the use of FinTech. In what ways would Shinsei Bank be at a disadvantage versus the megabanks that no longer need people or physical branches?

A: Under the trend of technology reducing the need for face-to-face services and making physical branches less important, we think we could find more business opportunities as we have much smaller number of physical branches rather than we would be a disadvantage in this respect.

Plans announced by other banks to reduce their work force and number of branches are based on a timeframe of 10 years or so. We do not expect major changes to occur in the short term.