

**FY2018 Third Quarter Financial Results**  
**Conference Call (Held on Jan. 30) Q&A English Transcript**

**Q1:** I have two questions. Your process, driven by structured finance and project finance, which is growing significantly. And based on your disclosure, domestic 60% and overseas 40%, and overseas, which represents 40%, which is significant. How is the funding done? In the portfolio, PPP and power-related projects represent a large portion-- a lot of things to say by the credit markets. How do you see this? And my second question is regarding Lake ALSA, or the Lake business. The end balance at the end of the term is decreasing and average balance is increasing. As for the term-end balance, do you also see the recovery toward the end of March?

**A1:** So, your first question, regarding the structured finance. First, regarding foreign currency funding, in case of Shinsei, we have a reasonable amount of the foreign currency funding. And we also have commitment lines, and funding is covered by those. Currently we are in excess. And for the time being, or to the near future, we don't have concern about this. And the quality of the project finance, in the case of domestic project finance, we are doing centered on mega solar or renewable energy. We have leadership. We have many transactions which have already taken the lead. But for overseas, rather we are participating in the transactions we are invited. So, we are cherry picking suitable projects. It's not that we are doing unmanageable projects. So, we don't have a concern on this either. I hope I answered your question.

Your second question is about consumer finance. Unsecured current loan balance, initially when we launched this there was some confusion and now, we are in a recovery track. The average balance as discussed, on the year-on-year basis, the balance is increasing. But the end of the term, the balance is decreasing. When will we start to see the net increase? Well, we are not in the stage to mention this. But in the current situation we are seeing a steady recovery.

**Q2:** I have two questions. First one is Lake ALSA. 30.8% is the approval rate. New customers, usually in the third quarter, it drops from the second quarter. But it's up 15% quarter-on-quarter. So, based on the application number there has been greater improvements. Approval rates, as well as application number, what does it look like? How has it changed? And in terms of initiatives what do you intend to do? In terms of approval rate, I think you are ending at 35%. In the next period, is that going to be possible? To the extent possible can you let me know? That's my first question. Second question, I know that you cannot go into specifics, but mid-term management plan will be announced when you announce the financial results. Can you just give us a broad outline, as well as direction of that plan? If it is possible, let us know.

**A2:** Thank you very much. Your first question is Lake ALSA. You're right that as for applications, internally we assumed application number. Right now, it's actually moving in line with the plan. So, there is an improvement here. In terms of approval rate, we intend to raise it a little more. Regarding the initiatives you asked, we have created review initiatives, which is to be improved. That is an initiative to raise the approval rate. We have already started this initiative. That's my answer to your first question.

**Q3:** Next year, do you think you can reach 35% that you were initially talking about? You'll be able to reach that level somewhere in the next period, next year?

**A3:** I cannot give you a concrete number at what timing. It's very difficult for us to actually give you a specific period, timing, and a number, so let us refrain from saying that. Second question, about mid-term management plan, we are in the midst of developing this plan. So, I cannot go into detail. But is it going to be drastically different from what we had before? No. We will change the way that group operates, centering around clients. The products that we offer, it's not going to be products coming from the bank or subsidiaries on its own. We will create an ecosystem, working together with other businesses from other industries. As one of the examples, our credit will be part of the lending platform of DoCoMo. Those are some of the plans we have. Digital platform will be used, and we will change the combination of the kinds of functions that we provide. And in corporate business, structured finance has been the driver of our growth in the past. Institutional investors, senior finance, we provide that. We hope to be able to broaden the scope, furthermore. Those are some of the things that we are thinking now. Payments, SME solutions-- we want to make use of data in providing finance more. In the next mid-term management plan that will be factored in in one way or another. Those are the answers that I can give you now.

**Q4:** I have two questions-- regarding the ALSA, of unsecured loans, and the credit costs. Regarding ALSA, by quarter from April, and the number in the balance is improving on page 13. But looking at the balance trend of Lake ALSA in the third quarter, it is 6.8 billion yen. Compared to the increase in the number, the increase in balance appears small. So, you see a decreasing in lending amount per customer? That is my first question. And my second question is regarding net credit costs. The progress rate of net income has become very high. That means that the net credit costs have stabilized. The factors were given earlier because unsecured loan balance did not increase as expected and there are the recoveries are more expected, and the reversals.

And a structured finance reversal is to happen second quarter. The collection, or the recoveries are larger than expected. I think there was a comment on IR Day, by gathering to Shinsei Financial the collection rate will increase. Should we regard this as a one-off factor? Or in a structured manner can we expect the collection rate will increase? And in structured finance, there was a reversal again in the second quarter. But looking at the third quarter only, there is only a 100 million yen of net credit costs. Based on your calculation, is this a coincidence that you have seen almost no growth in the net credit costs? Do you have any background?

**A4:** Thank you. In Lake ALSA, the number of applications and put-through rate or contract rate are improving but compared to them, the balance of the Lake ALSA appears small. Why? I think that was your question. In the Bank Lake, we started from a small amount. And then we increased the balance through credit control after that. So such a lending stance was transferred to Lake ALSA. Including improvement of that area, credit screening initiatives will be improved. So, we believe that the increase of the balance will be larger going forward. Did I answer your first question?

The second question, regarding net credit costs. First, unsecured loans, other than balance, the collections and other factors and why-- can we expect this to be continued? Other than balance factor, one factor is reversal from the former Lake portfolio. That's a one-time factor. Credit recoveries, as the organization, we reorganize the collection structure. We made improvements. And this portion, we believe is to be considered that this will be continued. But the factors will change. If there is a slowdown then we will reconsider the organization structure. And we would like to continue making improvements. Structured finance, more than expected, depending on grouping of the general reserves for loan losses, reversal gains were large and as a result the net credit costs were small. Asset growth is not necessarily the reason for the small net credit costs. Did I answer your question?

Thank you very much for joining us for this third quarter financial results conference call out of your busy schedules. Those of you who were not able to ask a question today, if you wish to ask and make inquiries, please let us know. We can respond to your queries. Once again, thank you very much for your attendance.

**FY2018 Third Quarter Financial Results**  
**Overseas Investors Teleconference (Held on Jan. 30) Q&A Transcript**

**Q1:** Thank you for your presentation. I have one question on Lake ALSA. So, from what you're describing regarding the loan balance and the credit costs are coming down and comparing the growth of the business, it seems that Lake ALSA continues to lose market share compared to other non-bank finance. I wanted to confirm if that was indeed the case. And also, the approval rate is going back about 30%, but still relatively low at 30%. What are the steps being taken to kind of insure that this number goes up in the future? Thank you.

**A1:** Thank you. Regarding Lake ALSA, as you know we are still going to come from our starting point of Lake ALSA from April. And then we implemented lots of measures-- how to back our new customer acquisition to their normalized levels as much as possible. Up to December 2018, we see an improvement over the last nine months. However, it is still lower than our original approval ratio, around 35%, something like that. And also, December is a very weak season for unsecured loan business, as most of Japanese companies pay bonus to their employees. Historically, third quarter is a very weak quarter for unsecured loan business. We will continue to implement other various kinds of measures to boost up our new customer acquisition, and hopefully rebound our loan balance in total of our unsecured loan business. We would like to summarize our measures and results at the timing of our full year financial results announcement, because we would like to see the full year results from April 2018 to March 2019. We will continue to improve our unsecured loan business. But we will summarize our results at the timing of our full year results. Is that an answer to your question?

**Q2:** Thank you very much. And one follow-up question please on the solar business. Up until now, solar and wind power financing has been very good business for Shinsei. But with the feed-in tariff coming down quite a bit for solar next year, are you confident that you can continue to generate such current level of structured finance business for wind and solar financing? Thank you.

**A2:** Yes. We are very confident to grow not only solar business, but also the project finance as a whole going forward because in the domestic market, we made lots of new commitments. We will see loan growth over time because customers will draw down from such commitment. We have a good pipeline for future loan growth from our current commitment. And also, we have lots of potential pipelines for next one to two years. We can grow this business. And also, we have to diversify our sources in terms of not only solar, but also the other, wind power, or geothermal, or

something like that, as well as diversifying and kind of financing scheme or something like that. We are now developing such kind of diversification of financing schemes, as well as our solar power presence. And then, we are very confident to grow this business going forward.

Thank you for joining the conference call of our fiscal year 2018 third quarter financial results. I would like to conclude conference call. Thank you.

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