

FY2019 Interim Financial Results Investors' Meeting

(Held on November 14)

Q&A Summary

Q: I have two questions. One, in the current unsecured loan market the money lenders are growing, but overall, there is slowdown in the long-term growth potential. What is your view? Under such circumstances, will Shinsei's position change in the future? Number of the disclosure claims is not declining sharply as before. Including that issue, I would like to hear your view. That's my first question.

And second question is regarding DOCOMO lending platform on page 17. This just started the end of August, so, it may be too early, but after launching the business, what is the current situation? Could you please provide your view on the qualitative perspective and including business potential? Is there any overlapping with the existing customers of the personal loan business? What is your view? Also, do you have any other similar business alliances in your pipeline?

Kudo: First and second questions are correlated in terms of explanation. First, unsecured loans market, overall market, the situation has not changed much, because bank players are slightly controlling. They're not in a mode to aggressively grow the business, but there is a strong or steady demand. As such, demand is inflow into money lenders, and that area is growing moderately. That situation is continuing. We are one of the money lenders. So, for some time, we think that we can enjoy that advantage.

On the other hand, the pure unsecured loan market will reach some kind of saturation at some point as I have been saying. We have been aware of that. We do not have the over-expectation on growth. However, at this point, we do not have concern that the growth will stop in the next two or three years. Other than the traditional unsecured loans, or the stand-alone business, there are a lot of initiatives going on in society with using of lending data, or including many fin-tech players. Developing new customers will be promoted going forward. Our strategy is, as we have a relatively strong brand advantage for the money lenders for the credit assessment and operation, IT, and collections and we have the top-class platform in the Japanese market, to provide such functions on the whole or as a part to other players.

We are discussing with many players currently. The basic assumption for that discussion is there is the wallet-type platform, and on top of the platform, we do have

the small-scale finance and payment, that we can add or remove such functions. Such platform is being built, and in the next several months, we believe that we can launch the platform. One of the products that will be used on top of the platform includes small-scale finance. In a broader sense, as a part of such initiatives, we have the alliance with DOCOMO.

As you said, between DOCOMO and us, the traditional unsecured customers, of course, there is an overlapping, but they're quite different. In that sense, we are reaching or approaching new customer segments. Honestly speaking, it just started. We are not in a situation to report some quantitative data, but we are really feeling that we are developing new customers. We have expectations, and at the same time, not only giant players like DOCOMO, but for the medium-sized players, which have a unique customer base, we are also working alliances with such players simultaneously.

In that sense, this small-scale finance for individual customers has been focusing on a particular segment. That is my impression. But, in order to respond to various needs of various customers, there is room for growth. In such a market platform, we do not necessarily need to show ourselves in front. Sorry, I answered two questions together.

The declining speed of number of disclosure claims are slowing down a little, or getting close to being flat. By sector, the law firms are focusing on cards or the credit card and installment sales rather than money lenders. These are more cumbersome, and the average balance or unit price is small. So, law firms have been focusing on money lenders. However, because there is not much room there, they are slightly shifting their target. This may sound a little weird, but they are continuing their sales efforts or customer development efforts at some law firms. This may be a little longer problem, but the number is unlikely to increase. On a consolidated basis, it may be not appropriate by the account, if I had to say abundant, but we have reasonable amount of reserves. We don't think we should have a great concern on this.

Q: One question, please. Through the secondary offering, shareholder composition has largely changed, so that, including individual investors it's been diversified to smaller-sized ones and the government becomes largest shareholder. So, with the change in composition, in terms of business management, do you plan to change? Or will you be changing your focus and emphasis through shareholder returns? Share buybacks have been called for by Mr. Flowers, and he is now no longer a shareholder. Starting next year, there may be a receding attitude on your part toward share buybacks. Could you comment on that, please?

Kudo: JCF is no longer a shareholder, and the representative of JCF, Chris Flowers, is

no longer a director. We've been receiving various questions, both positive and negative, as mentioned before. In terms of business, there's in fact, no impact. In terms of governance, Chris Flowers did not take the initiative in trying to enhance shareholder returns. In that sense, it doesn't have too much of an impact.

The major management issue is returning public funds, and towards this end, there are various schemes and a series of those schemes. But even before we talk about that, we have to raise stock prices first and foremost, and that is something that I have always been explaining. And so, steadily to increase the share prices, we believe this is a decent policy that we have to pursue towards this end, and also that policy, we need to pursue stable profits.

There are three factors we should to consider. One is to enhance stable profits. Through that increased valuation on the market, and one of the factors in relation to this is to maintain high level of shareholder returns. The recent shareholder return is 50%. Compared to the average bank, the level is pretty high already, and we will keep this level in mind to enhance further. Our stance will not change. Just because Chris Flowers is no longer there, we will not weaken or recede in terms of our stance.

Q: I have two questions. One, the impact of the U.S. interest rate reduction, including structured finance, what will be the impact on your overseas' lending, whether it will lead to shrink of spread? On page 20 of payment business, the account transfer or prepay cards and various things, which is growing most? From this volume, what level of fee income you earn? How much is the fee income?

Kudo: Let me answer your first question. For second question, please prepare any quantitative data, if you have any. On the U.S. interest rate reduction, our overseas business or foreign currency-based business, most of them are structured within the scope of the structured finance, which includes project finance and real estate finance. So, it is based on spread. The base rate reduction does not necessarily have the direct impact on those businesses.

However, there are many deals in overseas, but the competition among financial institutions has been becoming more aggressive. The spread is tightening in the environment. Whether that is the effect of US interest rate reduction, partially yes, but the background of this, for example, the struggling for investment, I think that is more reflected in the current situation.

Hirano: On page 20, for this first half, the profit of the rent guarantee is 1.27 billion yen, and collection agency business is 5.27 billion yen. Same period during first half of 2018

was 1.2 billion yen and 4.47 billion yen each. So, both profits are increasing.

Q: Two questions. First question is about your main line of business, unsecured loan. As the CFO has explained, new customers were on the decline since it was not the demand season. For several past quarters, new customers were on the rise, but compared to your guidance, it was slow. Compared to other players, how badly the seasonal demand affected, and other players were on the decline as well? Can you give us a relative evaluation of your business? Could you comment on plans to catch up the slowing speed against your guidance including larger-sized loans per borrower? And the approval rate of 30%, which seems a kind of value trap, when do you think you can deviate from this trend? Could you give us your present projections?

And second point, productivity enhancement, you are working on special measures to derive effects from 2020 and thereafter. Optimization of unmanned branches, I think this is an area where there's much potential. What extent of expense reduction is involved? It's very hard to see, it's very nebulous, what you are planning at the moment. What is the amount of impact? What is the time frame? I believe this will be on your medium-term business strategy. The present image and the Cloud investment, additional factors, when will the effects be captured? Could you comment on these, please?

Kudo: These are very insightful and sharp questions. On unsecured loan business, last fiscal year, more than we envisioned, we struggled to put the business on track. On page 16, for example, as you pointed out earlier, we gave priority to balance. Unit price is going up, and we are conducting risk control in doing this. And the approval rate improvement is on the backburner at the moment. Going forward, to improve the approval rate is a policy that we will be introducing. That is the general approach.

As to seasonal factors, the 2Q situation of other companies or our competitors has not been analyzed. We can't give you the details. But we don't believe we're the only ones suffering from very special factors. There are fluctuations, but we're not overly concerned. It's diverse and detailed approaches that we have accumulated to come this far. The balance has finally reversed to be on the increase, and we give emphasis to average balance. The next approach would be focusing on what I've just mentioned.

There's a lot of application, in terms of volume. We need to introduce policies to improve quality. As is stated here, to induce customers to use website and smartphone, we make the 60-day interest-free campaign is something that we intend to make a regular product of. Rather than doing a lot of commercials, we believe that this approach is by far more effective. We continue these approaches. Frankly speaking, it took us much longer to get on track, in relation to my expectations, but we are in the direction of going

on track.

On productivity enhancement project, looking back on the figures, we succeeded 8 billion yen reduction in the expense base during the previous medium-term business plan. In the next three years, we are planning to reduce about 6 billion yen, and in total, on a consolidated basis, 10% of our expenses to be reduced.

There are 700 unmanned branches in unsecured loan business. Broadly speaking, if there's a large decrease, it will have its cost effect. But the situation is similar to retail manned branches. As a channel, manned branches are very high quality in terms of acquiring customers. Good quality customers do not use the web, but they come to the unmanned branches. Just to focus on costs is not what we're doing.

That's why we use the word "optimization." The major flow is such that the web and smartphones, there will be a shift to that. Bearing this in mind, however, the issue of cost and acquisition of customers and the quality of customers, we need to make a balance between these factors. A lot of cost effect is not what we're expecting in the short term.

The largest theme is IT-related such as data center integration and using the Cloud. These are things that require some time, but the effect is that much greater. In terms of CAPEX, it's not a large amount that is required.

Q: I have one question. Recently, SBI are doing business with the regional banks in theme of the regional revitalization, while making investments to revitalize the corporate value. Then, SBI can gain upside as well. There is actually a collaboration of regional banks emerging. When expanding your business with your traditional network with regional banks, equity investment from Shinsei, will be the possible option for you?

Kudo: Yes, of course, that will be possible. As you're aware, regional banks have been very important customers for us, and even today, we have multifaceted collaborations, including project finance, syndications, or loan guarantees. We are already transacting with many regional banks. There is no reason to eliminate the option for the investment, but that's not something to force them. If that is useful as a solution to their needs or problems as well as positive effect on us, then that could be an option. In fact, about six months ago, between Suruga Bank, we had the business partnership agreement and we have been discussing at the business level since. We made an announcement for the institutional business area today. But the capital partnership is not eliminated as an option. That is not limited to the Suruga, but we are considering such options in general.

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