

1Q FY2019 Financial Results: Conference Call (Held on July 31)

Q&A Summary

Q: In this first quarter, I'm not sure whether it's appropriate to say finally, but the unsecured loans started to gain increasing momentum. In Lake ALSA, the new acquisitions increased. But, in May, during the Golden Week holiday, or 10-day holiday, the banks could not do business. So, I think you had special positive factors during this period. So, not only these special factors. Even after second quarter, do you expect a steady recovery? Can we feel safe for such a continued recovery?

A (Hirano): The special factor during the 10-day holiday, whether that is the reason for the recovery, I think that is your question. A lot of initiatives were taken, or have been taken. And, finally we were able to see the increasing momentum. We believe that this pace will continue in the second quarter and onwards.

Q: Credit-related costs in Structured Finance about valuation improvement. What was done in this area? And in the first quarter, did you start from this quarter or somewhere in FY2018 if you could explain, please?

A (Hirano): The question was about Structured Finance, individual real estate transaction valuation improvement, and you would like to get more color on this improvement. I think that was the question. Now, individual transaction, for example, real estate finance, property valuation improvements, through such improvements, rating upgrades, there were multiple cases where such development was observed. So, individual improvements were made. It's not that certain measures were taken to make an improvement in the valuation. That's not the case. There were individual property valuation improvements, and this is an accumulation of such improvements.

Q: A related question. That work, did that start from this quarter or some quarter in FY2018? Did you start to observe this trend somewhere in FY2018?

A (Hirano): Well, regularly, obviously, individual transactions are being reviewed and reevaluated. So, this is a routine exercise. It's not that we have done something special, and it's not that we have changed the system of valuation. That's not the case.

Q: One is regarding principal transactions. In this quarter, the dividend income decreased and income decreased. Is it a special factor? Or, if you consider your only course of business or the cruising speed, can you see a higher income? Do you have any one-time factors? If so, could you please give us that?

And, during the presentation, you touched upon the new bank platform. It would be led by APLUS. Is there any reason why Shinsei Bank will not do this? It appears to me that it would be better to do under the banking license.

A (Hirano): First, to your first question, regarding principle transactions. Of course, at the timing of exit, coincidentally, last year was in the first quarter and this year, not in the first quarter. So, that happens. It's

not that we had particular special factors throughout the year. It's not that we have any particular concern. So, I hope, did I answer your first question?

Segment: Quarterly P&L

(Unit: JPY billion)

Segment P&L (OBP after Net Credit Costs)	FY2017				FY2018				FY2019
	17.4-6	17.7-9	17.10-12	18.1-3	18.4-6	18.7-9	18.10-12	19.1-3	19.4-6
Individual Business	2.1	3.0	6.5	7.1	4.5	6.5	9.3	2.9	6.4
Retail Banking	-1.7	-1.7	-1.3	-1.0	-0.5	-0.4	0.2	0.0	0.3
Shinsei Financial ¹	1.7	3.0	4.8	4.1	4.6	5.6	6.6	4.2	5.0
APLUS FINANCIAL	1.9	1.5	2.7	2.9	0.4	1.1	2.2	-0.7	1.1
Others	0.3	0.2	0.3	1.1	0.0	0.1	0.1	-0.6	-0.1
Institutional Business	10.0	8.1	6.5	8.2	5.2	10.6	5.1	7.7	7.1
Corporate Business	1.4	4.0	0.3	0.7	0.6	-0.6	0.0	3.9	0.3
Structured Finance	1.9	0.7	2.5	3.1	-0.2	7.8	2.6	1.8	4.1
Principal Transactions	4.3	1.8	2.9	0.1	2.4	2.1	1.5	-0.8	-0.0
Showa Leasing	0.9	0.8	-0.1	2.4	2.2	0.8	0.2	1.6	1.2
Markets	1.3	0.6	0.9	1.8	0.3	0.7	0.8	1.3	1.2
Others	-0.0	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3	-0.2	0.0
Corporate/Other	0.5	0.4	0.3	-1.1	1.4	0.8	1.3	-0.0	2.7
Treasury	0.7	0.4	0.5	-0.6	1.0	0.7	0.9	1.6	3.2
Corporate/Other (excluding Treasury)	-0.1	-0.0	-0.1	-0.4	0.4	0.0	0.3	-1.7	-0.5
Total (OBP after Net Credit Costs)	12.7	11.6	13.4	14.3	11.3	17.9	15.8	10.5	16.3

¹ Includes Lake Businesses, NOLOAN, Shinsei Bank SmartCard Loan Plus

Q: In your presentation material on page 26, the segment income was negative. Is there any special factor for this negative number? The first quarter was also negative and this first quarter is almost zero. So, the sluggish performance is continuing. I think it could be higher. So, it depends on the transactions?

A (Hirano): Right. It's not that there is a special factor for the negative number. So, in that sense, it depends on the timing of the exit of individual transactions. Did I answer your question?

Q: And the second question, regarding new bank platform. Why not the bank but instead APLUS FINANCIAL to lead this?

A (Hirano): Because APLUS can respond in a more flexible manner than the bank. So, that is why APLUS FINANCIAL is leading this. Businesswise, the Group-wide operations for both individual and institutional, including Group member companies, we are operating as one company. So, optimized operation is the purpose of this. That is the reason we selected APLUS as the business operator.

Q: About Lake ALSA, new customer acquisition number is going up. There is an improvement. But, balance growth overall, April-June progress. What is your assessment of that? Is it stronger than your expectation? Or, if it is behind your expectation, can you give us your feel of it?

The next question is about retail banking profitability improvement. Towards the end of the year, how sustainable is this trend? Expense reduction—is there more room for higher profitability? Where can you find such opportunities?

A (Hirano): The first question was about Lake ALSA. There is a turnaround. So, how do we look at it? What is our assessment of this development? We have been talking about the initiatives we have taken. And finally, balance is making a turnaround. But, in terms of successful conclusion rate, it needs to be improved. And I think there is room for such improvement. Further turnaround of the balance itself could be expected. That is how we see it.

Second question is about retail banking. In the third midterm business plan, through this period, turning it into profitability was our aim. In the first quarter, finally, we have turned into black. Now, with the improvement of our step-up program, ATM fee reduction effect is making progress as expected. So, the effect of this throughout the year, we could see some more benefit out of this progress. And asset management business, in terms of affordability, it's progressing smoothly. So, we believe that this trend is to be sustained. That's our expectation.

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