FY2017 Financial Results
Conference Call for Overseas Investors
Q&A Transcript

Date & Time: May 11th, 2018. 21:00 (Tokyo time)
Speaker: Sanjeev Gupta (Senior Managing Executive Officer)

Q: In terms of fiscal year 2018 financial plan, can you explain the mechanism of an increase in income tax despite large tax loss carry-forward?

A: We have incurred taxable losses for the past few years including fiscal year 2017, which have generated tax loss carry-forward. As a result we essentially have not made tax payment till fiscal year 2017. However, we expect to generate taxable income in fiscal year 2018. Though we have a large amount of tax loss carry-forward, we will have to pay income tax because there is a threshold to offset taxable income up to 50% against the tax loss carry-forward and for remaining 50% we will have to pay income taxes. Our effective tax rate will be much lower than 30% but we expect to start paying income tax from fiscal year 2018.

Q: Why did Shinsei Bank Lake loan approval ratio go down to 32% in Q4 fiscal year 2017?

A: Followed by the announcement of Japanese Bankers Association (JBA), approval process of the lending activities by the banks has changed. The approval rate of the Shinsei Bank Lake has been affected by the change in the loan approval process introduced in January 2018, reflecting a small decline of approval ratio in Q4 fiscal year 2017.

Q: The number of Kabarai disclosure claims and actual repayments amount decreased quarter-on-quarter basis. This trend seems positive and can we expect more reversal of Kabarai reserve in Q2 or Q4 fiscal year 2018?

A: It is premature to comment on the write-down of the Kabarai reserve for FY2018. We expect that this down trend of the number of Kabarai disclosure claims will continue. We will review our reserve model in September 2018 and March 2019 to determine the adequacy of the reserve. It all depends on the trend of the disclosure claims and actual repayment at that point. It is too early to determine it at this time.

Q: Does your answer mean that the guidance for fiscal year 2018 does not include reversal of Kabarai reserve?

A: At this time it is premature to include it in the guidance as I mentioned.

End

FY2017 Financial Results
Investors' Meeting
Q&A English Transcript

Date & Time: May 14th, 2018. 10:30 (Tokyo time)
Speakers: Hideyuki Kudo (Representative Director, President and Chief Executive Officer)
Shouichi Hirano (Chief Officer, Group Corporate Planning and Finance, Managing Executive Officer)

Q: The Japanese version of your earnings release (Kessan Tanshin) says that you aim to maintain or increase your total payout ratio within the range of Japanese banks' regular total payout ratios and that your FY2018 dividend forecast is not yet determined. Could you elaborate on the background and discussions behind these two points?

A: In our management revitalization plan released in March 2018, we did not quantify our plans with respect to dividends from FY2017 onward. Our previous management revitalization plans' content about shareholder returns was limited to dividends only, but our latest management revitalization plan explicitly states that we will discuss shareholder returns in terms of a total payout ratio inclusive of both dividends and share buybacks and that we aim to maintain or increase our total payout ratio.

We realize that Japanese banks' regular total payout ratios range between around 20% and 50% and average about 30% for all banks, including regional banks, and around 40% for the megabanks. Given the substantial progress Shinsei Bank has made in rebuilding its capital, we recognize that raising our total payout ratio within the typical range for the Japanese banks and boosting our stock price are becoming increasingly important since government's preferred stock holdings is now in the form of common stock.

Based on such a recognition, we announced a share buyback at the end of January with the aim of returning FY2016 profits to shareholders during FY2017 and raised our total payout ratio to 30% with respect to FY2017 profits to honor our pledge to markets.

Q: FY2018 is the final year of your Third Medium-Term Management Plan. I think you previously laid out a roadmap for repayment of public funds during the current Medium-Term Management Plan's term. How much progress have you made so far?

A: The government's preferred stock holdings have been converted into common stock. Investment banks have approached us with proposals to technically repay the public funds through conversion of the preferred stock into another type of securities, but given our current share price, we are initially placing top priority on increasing value per share. We see such an approach as the path to repay the public funds at present.

Q: How much do you expect to benefit by revising Retail Banking's Step Up program? Do you plan to realize any cost savings elsewhere?

A: We expect to realize some JPY1.5-2.0 billion of economic benefit per annum from the recent revisions to our loyalty program. No other single fee is capable of delivering as much improvement in our assessment.

The loyalty program revision's significance is not merely the new ATM fee. The revision originated from the issue of target customers–i.e., what type of customers do we aim to capture–as part of our efforts to continuously grow customer assets under custody in the Retail Banking asset management business.

Q: What is your outlook for the unsecured card loan market as a whole? How much growth do you expect in 2018?

A: First, we expect the overall domestic unsecured loan market to slow. Within the unsecured card loan market, financial institutions have remained cautious since the last fiscal year, partly in response to changes in the bank card loan environment. Meanwhile, nonbanks are seeing a modest shift in customers away from bank card loans. In light of such changes, we expect our Group's unsecured card loan book's growth rate to slow to around 5% in FY2018, but we are rebranding on a segment-by-segment basis and strategically shifting focus to the nonbank market segment.

Q: With your Retail Banking losses growing, are you planning to downsize or otherwise drastically revamp your branches like other banks? How do you plan to regain profitability in Retail Banking?

A: We are not willing to accept the status quo in Retail Banking.

First, asset management product sales have been recovering since the second half of FY2017. In FY2018, Retail Banking's overall performance will improve partly by virtue of the recent loyalty program revisions' economic benefits.

However, we believe that the Retail Banking business model needs to be rebuilt from scratch. We need to think of Retail Banking as two separate businesses: mass retail and asset management consulting for the semi-wealthy. We will adopt different approaches for each business. For example, in the asset management consulting business, the face-to-face channel is currently our most profitable, so we cannot very well close down all of our branches. While also utilizing remote and other non-branch channels, we believe we need to boost efficiency through such means as optimizing our branch network and increasing productivity per consultant–i.e., reducing costs and growing customer assets under management. In FY2018, we will radically reconfigure our asset management business model. At the same time, we are making changes to our branches and loyalty program as we recently announced in press releases.

Q: You said your recent share buyback capped at JPY13 billion was intended to return a portion of your profits from the fiscal year just ended, FY2017, to shareholders. In terms of your future plans, is it correct to assume that you will maintain your total payout ratio at 30% or higher by buying back shares around fiscal year-end based on your full-year earnings for that fiscal year? Is it possible you may buy back shares at other times (i.e., not around fiscal year-end), such as when your share price is down?

A: You are basically correct.

We set our total payout ratio at 30% for FY2017 and said that management intends to maintain or improve it above 30% in future years. Let me add two points. First, our shareholder return policy assumes that we will make share buyback decisions in light of the prevailing qualitative market environment and Shinsei Bank's financial condition and earnings at that time. Second, we have no intention of ruling out the option of buying back shares in response to share price declines. In other words, we do not rule out the possibility of buying back shares in excess of our initial total payout ratio whenever such an opportunity presents itself.

Q: What are the credit cost assumptions factored into your FY2018 guidance?

A: Our guidance factors in improvement in credit costs related to unsecured card loans and slower growth in our unsecured card loan book relative to FY2017 in addition to non-recurrence of a one-time increase in net credit costs recorded in Showa Leasing in FY2017.

Q: You said you are projecting your unsecured card loan book's FY2018 growth rate at 5%. Can you maintain or increase your total payout ratio amid a slowdown in growth in profits from domestic unsecured lending?

A: We see three factors conducive to a slowdown in domestic unsecured card loans. First, the domestic market as a whole should reach the saturation point someday, as I have been saying for a while. Second, changes in the external environment surrounding unsecured card loans, including criticisms of bank card loans, are affecting lenders' behavior. The third is a slowdown coinciding with *Lake ALSA*'s launch and initial transition phase. Of the three, we can resolve the third one sooner or later. The first two are the ones that will have a major impact in our view.

The domestic unsecured card loan business's profitability will not change much over the near term but to offset the slowdown in its growth, we will also pursue growth opportunities beyond the unsecured card loans we have traditionally offered. First, we will pursue nonorganic overseas expansion in Asia by, for example, forming capital tie-ups and/or joint ventures with local companies. Second, we will seek out opportunities in Japan to leverage the Shinsei Bank Group's strengths and skills through such means as forming alliances with third parties with established customer bases and partnering with companies with networks encompassing customers without adequate access to existing financial services.