# FY2017 Financial Results:

# Presentation Script

**(Hideyuki Kudo, Representative Director, President and CEO)**

I would like to cover key points of our financial results and businesses, and then Mr. Hirano, Chief Officer, will explain the financial results in details.

【Slide 3】

- Slide 3 relates to key points of FY2017 financial results.
  - First and foremost, we recorded an increase in revenue, ordinary business profit (OBP) and net income compared to last fiscal year as well as the original plans.
  - Expense-to-revenue ratio was down to 61.5% from 62.3% in the prior year, reflecting benefits realized from our productivity enhancement initiatives, despite an increase in depreciation expenses associated with IT expenditure.

- Second point is about FY2018 financial plan.
  - OBP after net credit costs, profits from businesses, is expected to increase over +10% compared to FY2017, reflecting an increase in total revenue and a decrease in net credit costs.
  - Full year net income forecast is at JPY 52 billion.

- Third point is on the shareholders return.
  - Year-end divided for FY2017 has been set at JPY 10 per share.
  - A share buyback program up to JPY 13 billion or 13 million shares and cancellation of 16 million of treasury shares have been approved by the Board of Directors.
  - The above dividend payout and the share buyback would constitute 30% in total payout ratio. We aim to maintain but preferably improve the total payout ratio.

【Slide 4】

- Page 4 covers the financial results overview.
  - Net interest income increased +5% reflecting asset growths in unsecured card loans despite incorporating the full year impact of the negative interest rate policy (NIRP). This demonstrates an improvement in our overall earnings power.
  - Noninterest income declined by 3%. Increases in the Institutional businesses were offset by lower noninterest income in retail banking. Decrease in noninterest income is largely in line with a decline in gains on bonds.
  - Total expenses remained flat at JPY 142.5 billion compared to FY2016.
  - Net credit costs increased to JPY 37.2 billion, increasing 17% compared to FY2016. This is due mainly to a one-off additional provisioning to a single transaction made in Showa Leasing, which was not incorporated in the initial plan. The one-off provisioning does not imply deterioration of overall credit quality.
  - For grey zone reserve, we examined the adequacy of the reserve level for our subsidiaries. Accordingly, while we released reserves in Shinsei Financial, we made additional provisions in APLUS FINANCIAL and Shinsei Personal Loan.
  - As a result, net income totaled JPY 51.4 billion, fully achieving the original forecast of JPY 51 billion.
  - In addition, please refer to the total payout ratio table at the bottom of the page, our policy of shareholder return should be very evident from those actual figures.

【Slide 5】

- Page 5 shows our FY2018 financial plan.
  - In total revenue, income from unsecured card loans will drive the increase of JPY 4.5 billion compared to FY2017.
  - In expenses, an increase in depreciation expenses associated with IT expenditure and advertisement expenditure in individual business areas will offset benefits from productivity enhancement projects, resulting an

increase of JPY 2 billion compared to FY2017.

- In net credit costs, we expect an improvement of JPY 3.2 billion, mainly reflecting the absence of one-off provision for specific reserves in Showa Leasing as recorded in FY2017.
- Accordingly, OBP after net credit costs will increase by over 10% YoY.
- In others, we expect JPY 6 billion cost due mainly to an increase in the income tax expenses. As a result, net income forecast for FY2018 is at JPY 52 billion.

【Slide 6】

- Page 6 illustrates recurring profits and operating assets for FY2018.
  - Profits are divided into three categories, namely, recurring profits, market related profits and one-off profits.
  - Of which, we expect to see an increase in the recurring profits, reflecting an increase in operating assets mainly in the growth areas and an absence of a one-off provisioning in Showa Leasing which was recorded in recurring profits in FY2017.
  - For the asset balance, we expect that growth rate in unsecured card loan market will be at 5%, reflecting factors such as slower growth in the guarantee business and an initial phase of Lake ALSA. In structured finance we expect 10% growth rate, which is largely at the same pace as in FY2017.

【Slide 7】

- Page 7 provides key measures in the growth areas
  - We realigned unsecured card loan business strategy according to customer segments. Starting FY2018, we will increase new unsecured card loan customers and balances mainly under the new brand of Lake ALSA. We leverage a brand name of Lake, but at the initial phase we continue to monitor smooth launch of the product. We will also enhance our credit screening, loan collections approach and streamlining operations by utilizing AI score. Consumer finance business in Vietnam has been growing in terms of the number of customers since its inception. We will look for new opportunities mainly in Asia.

- In domestic project finance, we are positioned to have best-in-class expertise in originating new transactions. We have been diversifying power sources and types of transaction as mega solar projects are expected to peak out. We will enhance transactions with private or listed investment funds in addition to deals with foreign sponsors.

【Slide 8】

- Page 8 covers synergies across key businesses.
  - In institutional business areas, we regard Showa Leasing as a nonbanking entity, and are enhancing our capabilities including new offerings to meet customer needs of banking and nonbanking entities as one virtual unit while leveraging each entity's expertise.
  - We launched vendor leasing and auto leasing businesses by putting together Showa Leasing and APLUS by capturing leasing demand from individual customers or proprietors.
  - We have started business alliances with external companies in different industries in order to meet needs of emerging customer segments like freelancers and foreigners in Japan. If we can join the eco systems of new customer segments together with our partners, we think we will be able to expand business opportunities to provide our financial products and services. We are also looking for opportunity of business alliance with nonfinancial players which have retained customer base.

【Slide 9】

- Page 9 shows benefits of the productivity enhancement projects.
  - While we explained, in the past, the total benefit of JPY 5 billion from various productivity enhancement projects, we now expect the project benefits to total JPY 8 billion in FY2018 compared to FY2015 as we have identified new initiatives. We have made further progress and are able to materialize additional benefits from Part-2 of the Projects.
  - In FY2018, we have started reviewing business initiatives related to our front office.
  - For example we announced that we would revise our loyalty program called

"Shinsei Step Up Program" to optimize earnings structure in Retail Banking.

- This program revision promotes cashless transactions and provides various benefits to GAICA users. GAICA is a multi-currency prepaid card of APLUS which can use VISA Paywave service.
- We expect the project benefits will continue to accumulate going forward.

We have been implementing various kinds of initiatives including unifying group management infrastructures, concentrated resource investment into group businesses and business development through group function integration so that we can maximize the strength and management resources of Shinsei Bank Group as set in the 3rd MTMP. As a result of building up business model which allows us to generate stable and recurring profit, we have also accumulated capital base as well as improved the total payout ratio.

In FY2018, we will introduce leaner operations as more tools to enhance productivity such as RPA and AI are available. In addition to that, we would like to receive better appreciation from the market, as a result of (i) improving the total payout ratio and profit quality of each business portfolio (ii) increasing bottom line profit and (iii) improving expense-to-revenue ratio by focusing on the productivity enhancement projects and forming partnership with different industry companies and through non-organic growth opportunities mainly in overseas nonbanking businesses.

**(Shouichi Hirano, Chief Officer, Group Corporate Planning and Finance, Managing Executive Officer)**

【Slide 10】

- Page 10 shows net interest income and net interest margin.
  - Net interest income increased by 5% to JPY 128.7 billion.
  - In particular, net interest income from unsecured card loan business increased by 7% to JPY 69 billion, which represents 54% of the total net interest income.
  - As we increase higher interest earning assets mainly in unsecured card loans, net interest margin (NIM) continues to improve and is now at 2.42% despite the introduction of NIRP.

【Slide 11】

- Page 11 explains breakdown of the NIM.
  - In the interest earning asset, overall yield on loans increased by 3 basis points to 2.75% from FY2016
  - Asset growth in the consumer finance businesses was offset by full year impact in the negative interest rate in other businesses.
  - On the funding side, rate on interest bearing liabilities increased to 0.26%.
  - As our foreign denominated currency (FCY) assets have been growing, we are increasing FCY funding through currency swaps and acquiring longer-term retail FCY deposits in order to immunize ourselves from maturity gap risk.

【Slide 12】

- Page 12 relates to noninterest income.
  - Noninterest income was down by 3% to JPY 103.2 billion.
  - This was due mainly to JPY 3.7billion decrease in net other business income.
  - Gain on stock transactions in Corporate Business and Showa Leasing increased by JPY 3.7 billion compared to FY2016, but gain on bonds in Treasury and real estate finance declined by JPY 6.4 billion compared to FY2016.
  - Decline of noninterest income in Retail Banking was mainly due to lower

upfront fees from asset management products and lower fee income from fewer new transactions in housing loan.

- We continue to develop new products to expand AUM
- We are also revising “Shinsei Step Up Program” to enhance retail banking earnings structure.

【Slide 13】

- Page 13 covers expenses.
  - Expenses totaled JPY 142.5 billion in FY2017, lower than our original plan of JPY 145 billion and almost flat compared to the last fiscal year reflecting contribution from the productivity enhancement projects.
  - Improvement in revenues with rigorous expense discipline has brought 2 consecutive years of improvement in the expense-to-revenue ratio to 61.5% in FY2017.

【Slide 14】

- Page 14 shows details of the net credit costs.
  - Net credit costs increased by 17% to JPY 37.2 billion.
  - Increase in net credit costs was due largely to a large one-off provisioning of a specific reserve Showa Leasing recorded in FY2017.
  - Net credit costs of the unsecured card loans increased as a result of the growth of its loan balance. However, net credit cost ratio of the unsecured card loans remained flat at 4.6%.

【Slide 16】

- Page 16 covers capital adequacy.
  - We maintained ample level of common equity Tier 1 ratio at 12.2% on a fully loaded international basis.
  - Risk weighted assets increased due to an increase in operating assets mainly in growth business areas.

【Slide 17】

- Page 11 highlights trends of Grey Zone or excess interest repayment.
  - The number of disclosure claims and the actual repayments in 4Q FY2017 were down 50% compared to 4Q FY2016.
  - We released reserve of JPY 11.8 billion in Shinsei Financial, but provisioned JPY 3 billion in APLUS FINANCIAL and JPY 2.7 billion in Shinsei Personal Loan.
  - Total grey zone reserve is now at JPY 74.6 billion with approx. 5 years-worth of coverage ratio. We believe it is sufficient from a Group-wide perspective.

【Slide 19&20】

- Pages 19 and 20 cover update on our business portfolio.
  - Unsecured card loans and structured finance balances have been growing steadily and now account for 26% of total outstanding balance. Profit from unsecured card loans and structured finance constitutes about 40% of total profit.
  - On the page 20, these growth areas consist of more than 42% of total profits vs 40% in FY2016, as the operating assets have been accumulating in the third Medium Term Management Plan.

【Slide 21】

- Page 21, covers unsecured card loan business.
  - The total loan balance increased 8% as we originally expected.
  - While net credit costs increased 11% in line with the asset growth, OBP after net credit costs increased dramatically by 38%.
  - The approval ratio for the 3 months in 4Q FY2017 was down to 32%. This reflects changes in the loan approval process introduced in January 2018.
  - Lake ALSA was launched in April 2018 without any material operating issues. Detail numbers will be explained at the 1Q FY2018 financial results announcement.

【Slide 23&24】

- Page 23 shows structured finance business.
  - You will observe that we achieved almost same level of new commitments in project finance as well as new disbursements in real estate finance.
  - The main reason of the balance growth was absence of large prepayment experienced in FY2016.
  - On page 24, Shinsei Bank ranked 3rd in the domestic project finance business, which demonstrates our top-class presence in this business field.

This concludes our presentation on the FY2017 financial results. We are happy to take questions from you.

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