

FY2017 Q1 Financial Results Investors' Conference Call
(Held Aug. 2, 2017) Q&A English Transcript

Q: Unsecured personal loans including the guarantee business are growing. Are the opinion for tighter regulation of excessive personal loans by the Japan Federation of Bar Associations and the consent of Japanese Bankers' Association affecting Shinsei Bank's card loan business? The unsecured personal loan business is recording double-digit growth overall. Do you expect this rate of growth to continue over the next few years?

A: The Bank manages *Shinsei Bank Card Loan – Lake* in a disciplined manner taking into consideration of the concepts of the Money Lending Business Law. The Bank takes a positive view that the market as a whole is moving in the right direction and is confident that the Shinsei Bank Group's business will maintain a competitive advantage.

Q: What is your outlook for the Corporate Business and Principal Transactions Business?

A: The Bank selects transactions on the basis of profitability in the Corporate Business. As an example, forex derivative trading is brisk and progressing well. The Bank expects a certain level of earnings from the Principal Transactions Business despite some fluctuations.

Q: Why is the rate of increase of your unsecured personal loan balance higher than that of the top two competitors?

A: The rate of increase of our unsecured personal loan balance is greater, because the Group's absolute loan balance is smaller compared with other competitors. In addition to the increase of loan the balance (i.e., the denominator), the higher portion of existing loans will bring higher repayments. Hence, the rate of loan growth will be declining going forward.

Q: Regarding the effective tax rate, why was the tax related expenses in the first quarter of FY17 smaller compared with the same period of the previous year?

A: The Bank adopted a conservative approach for the first quarter of last fiscal year as it was difficult to estimate the effective tax rate due to that tax deductible items were not realized. There were some realized tax deductible items in the first quarter of this fiscal year. As a result of that, tax related expenses improved year-on-year.

Q: Why did consolidated specific reserves for loan losses decline by ¥8.6 billion?

A: Because it was used.

Q: The specific reserve for loan losses (parent) of ¥4.1 billion recorded at the end of March 2017 was removed at the end of June 2017. What was this reserve?

A: Reserve for other assets. It was null as of the end of June 2017, because it was used. It has no impact on the income statement of the first quarter of FY17.

Q: You previously explained that the net credit cost for unsecured personal loans would increase in the first quarter of FY17 due to revision of the reserve ratio. The increase in net credit cost for unsecured personal loans was significantly higher than in the first quarter of the previous fiscal year. Can you explain why, and what is your outlook for net credit cost?

A: The net credit cost ratio is higher than a year ago, but the Bank will control it in the 4.5%–5.0% range on a full year basis.

Q: The number of claims was down sharply. How long must this decline continue before you write back the reserve for losses on repayments of past interest overpayments?

A: One reason for the drop in the number of claims is the effect of law firms whose advertising exposure has been reduced. The Bank is monitoring the situation carefully and is thus unable to comment at this stage on the timing of write back of reserve for losses on repayments of past excess interest payments.

Q: Is any part of the increase in net interest income a one-time gain?

A: Basically, the Bank does not think there were any one-time gains, because it is steadily accumulating assets centered on growth businesses.

Q: What is your outlook for growth of unsecured personal loans?

A: The Bank's initial forecast is annual growth of around 8%.

Q: Regarding "Others" in the Financial Results on page 4 of the presentation materials, considering your full-year plan of ¥2.0 billion cost, what other one-time factors are you taking into account as there should be some costs for

amortization of goodwill and tax related expenses?

A: The Bank is not taking any specific major one-time factors into consideration at this stage.