

FY2018 Financial Results, Medium Term Strategies

Investors Meeting (Held on May 16)

Presentation Transcripts

[\[FY2018 Financial Results\]](#)

[\[Slide 3\]](#)

Key Points

1 FY2018 net income : JPY 52.3 billion (achieved the plan)

- Net income increased by 2% Y-o-Y
- OBP¹: JPY 84.9 billion, net credit costs: JPY 29.3 billion (decreased by 21%, 5%, Y-o-Y respectively)
- Per share value: Both EPS and BPS improved
 - EPS: JPY 211.24 (increased by 6% Y-o-Y; increased by 2% excluding share buyback)
 - BPS: JPY 3,636.92 (increased by 8% Y-o-Y)

2 FY2019 net income forecast: JPY 53 billion

- OBP: JPY 91 billion (increases by 7% Y-o-Y)
 - Expense-to-revenue ratio: 62.6% (63.0% in FY2018)
- Net credit costs: JPY 35 billion (increases by 19% Y-o-Y)

3 FY2019 shareholder return

- Year-end dividend for FY2018 is JPY 10 per share. A share buyback program up to JPY 23.5 billion has been approved by the Board of Directors
- Total payout ratio of 50% towards the result of FY2018 net income
- A share buyback program has been set up to the maximum available capacity within the range as outlined in the Revitalization Plan at this point in time, as the current share price does not reflect its true share value
- This does not make any reference to future total payout ratios. Shareholder return will be decided at each time period based on the prevailing share price, financial/capital position and market conditions at the time within the range as outlined in the Revitalization Plan

¹ Ordinary Business Profit

There are three major points. First, the net income for FY2018 was 52.3 billion yen, which achieved our initial plan. The ordinary business profit, compared to FY2017 decreased by 5%, but net credit costs improved by 21% compared to FY2017. As for per-share value, in addition to the steady net income growth, with the share buyback of 13 billion yen, it increased by 6% of EPS, or 2%, excluding the impact of share buybacks, and BPS increased by 8%.

Second, the full-year net income forecast for FY2018 is 53 billion yen. Ordinary business profit was expected to 7%, which is 91 billion yen, and for the expense-to-revenue ratio, which is expected to be largely flat compared to FY2018. Net credit costs compared to FY2018 are expected to be 19% at 35 billion yen, mainly due to an absence of net credit recoveries recorded in the institutional business in FY2018. Details will be given on the later pages.

And the third point is on the shareholder return for FY2018. The year-end dividend for FY2018 has been set at 10 yen per share and the share buyback program was approved at the Board of Directors meeting, 23.5 billion yen as an upper limit. And the total shareholder payout ratio is 50%. We aim to maintain, but prefer to improve the total payout ratio, based on the weak share price and it does not reflect the total situation. We will maintain the policy position in the revitalization plan, which is normal within the payout ratio of average Japanese banks. Based on that, the maximum share buyback of our program amount was set. However, the shareholder return amount and payout ratio, in addition to the share price, but the capital situation and market condition will be considered and decided, based on those factors. So, the total payout ratio calculated this time will not necessarily mean the future payout.

FY2018 Financial Results Summary

(Unit: JPY billion; %)

Consolidated	17.4-18.3 (Actual)	18.4-19.3 (Actual)		18.4-19.3 (Plan)	
		YoY % B(+)/W(-)	Progress %		
Total Revenue	232.0	229.7	-1	97	236.5
Net Interest Income	128.7	133.8	+4		
Noninterest Income	103.2	95.9	-7		
Expenses	-142.5	-144.7	-2	100	-144.5
Ordinary Business Profit (OBP)	89.4	84.9	-5	92	92.0
Net Credit Costs	-37.2	-29.3	+21	86	-34.0
OBP after Net Credit Costs	52.1	55.6	+7	96	58.0
Others	-0.7	-3.3	-371	55	-6.0
Provisions of reserve for losses on interest repayment	6.0	2.3	-62		
Income Tax, etc.	-3.8	-2.5	+34		
Net Income	51.4	52.3	+2	101	52.0

Points

Total revenue: JPY 229.7 billion

- Net interest margin (NIM) improved to 2.46%
 - ◆ Increase in NIM reflects improvement in yields on loan assets coupled with flattish overall funding rate
- Noninterest income decreased due to lower gains on stock transactions partly offset by increase in fee income in Retail Banking and APLUS FINANCIAL

Expenses: JPY 144.7 billion

- ◆ Expense-to-Revenue Ratio: 63.0%

Net Credit Costs: JPY 29.3 billion

- ◆ Structured Finance : JPY 2.1 billion (reversal)
- ◆ Unsecured Loans : JPY 14.5 billion (provision)
- ◆ APLUS FINANCIAL : JPY 16.5 billion (provision)
- Structured Finance recorded higher net credit recoveries than the original plan
- Unsecured Loans' net credit costs decreased due to credit recoveries and lower loan balance compared to the original plan

Others: JPY -3.3 billion

- Kabarai reserve: net JPY 2.3 billion (reversal)
 - ◆ Shinsei Financial : JPY 5.6 billion (reversal)
 - ◆ Shinsei Personal Loan: JPY 0.1 billion (reversal)
 - ◆ APLUS FINANCIAL: JPY 3.5 billion (provision)

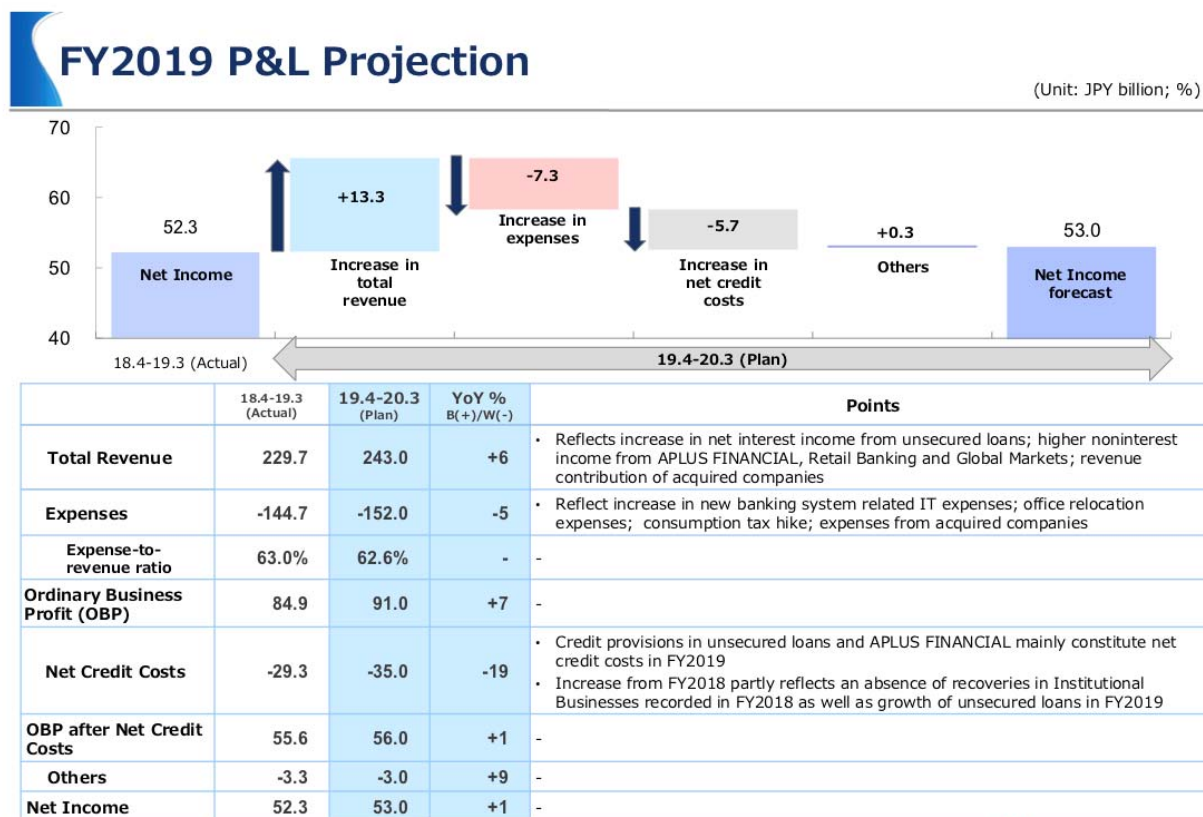
4



Next, FY2018 financial results summary will be explained. The average balance of the growth area, due to the increase, increased by 4%, but the noninterest income, due mainly to the absence of gains of stock transactions, the total revenue decreased by 1%, at 229.7 billion yen. Total expenses, due to the net core banking system-related expenses increased by 2%, at 144.7 billion yen.

Total revenue was below the original plan, so the expense-to-revenue ratio was at 63%, from 61.5% in FY2017. Net credit costs, due to the recoveries in the institutional business, and the decrease in the balance of the unsecured loans and decreased significantly. However, the others were within an additional credit provision. So, the net credit cost decreased to 29.3 billion yen, as Kabarai was released the reserve of 2.3 billion yen. APLUS FINANCIAL, a 3.5-billion-yen provision; and Shinsei Financial, a 5.6-billion-yen reserve reversal. And Shinsei Personal Loan was a reversal of 0.1 billion yen. Income tax expenses decreased, reflecting the financial disposal of legacy assets. As a result, the net income increased to 52.3 billion yen.

[Slide 5]

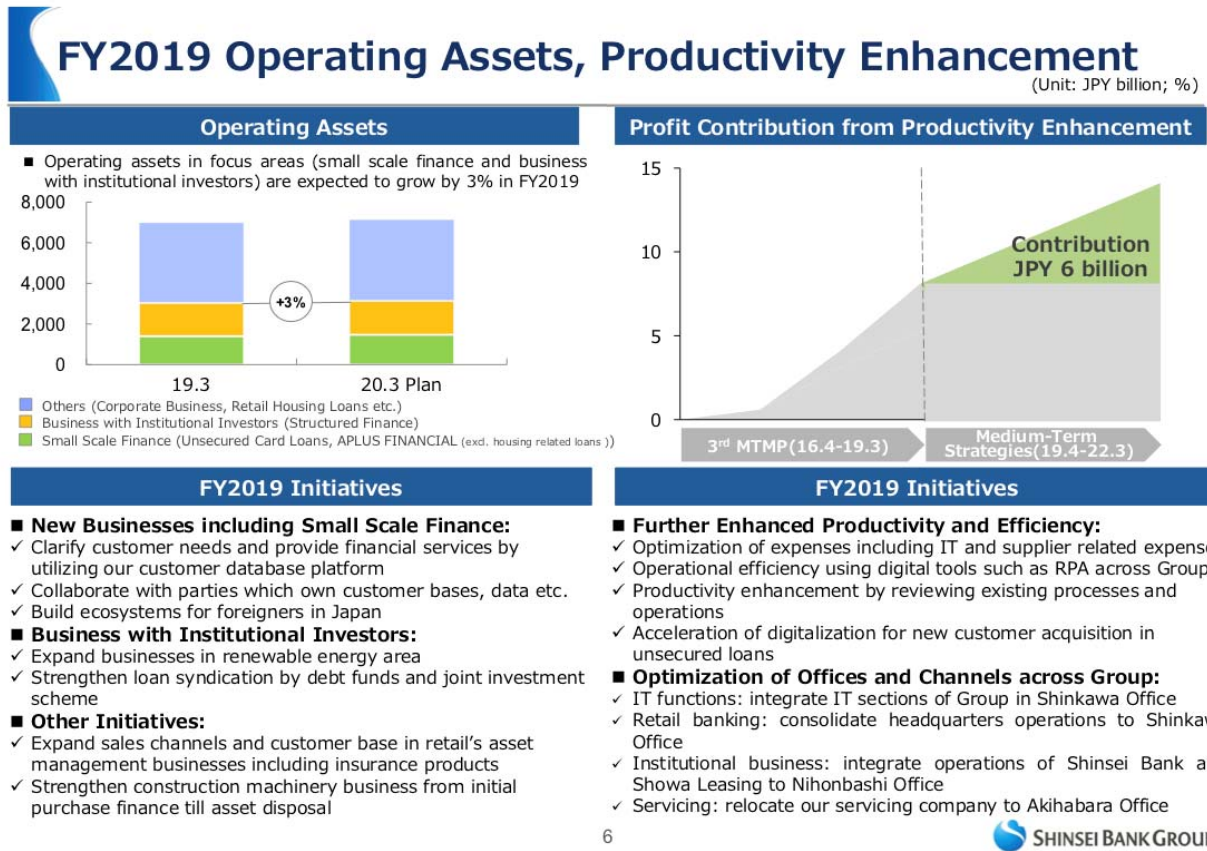


5

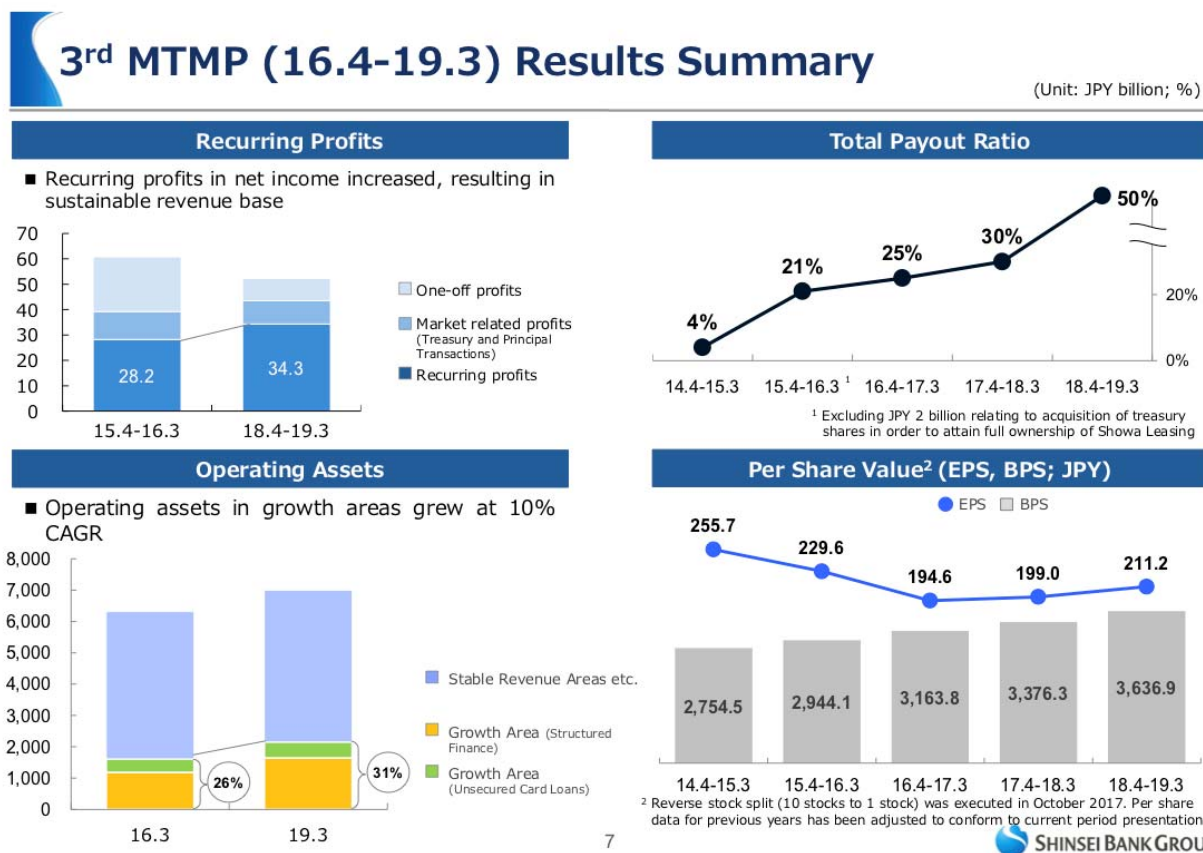


Next, I would like to explain FY2019 financial plan. Total revenue is expected to be 243 billion yen. This reflects the SHINKO LEASE, which was announced, and Financial Japan, the new subsidiaries. So, a contribution of those companies and for APLUS and retail banking, and the global markets business are expected to increase net interest income.

Expenses are expected to increase by 7.3 billion yen to 152 billion yen. Similarly, as SHINKO LEASE and Financial Japan, the new subsidiaries' expenses are expected, and those are expected to increase in the IT and premises expenses. Net credit costs expect to be 35 billion yen. This mainly comprises of unsecured loans and APLUS businesses. For FY2018, we expect the net credit cost to increase. But the mainly reflected asset growth in unsecured loans, as well as an absence of net credit recoveries, as recorded in the institutional business in the last fiscal year. As a result, we plan 53 billion yen for net income for FY2019.

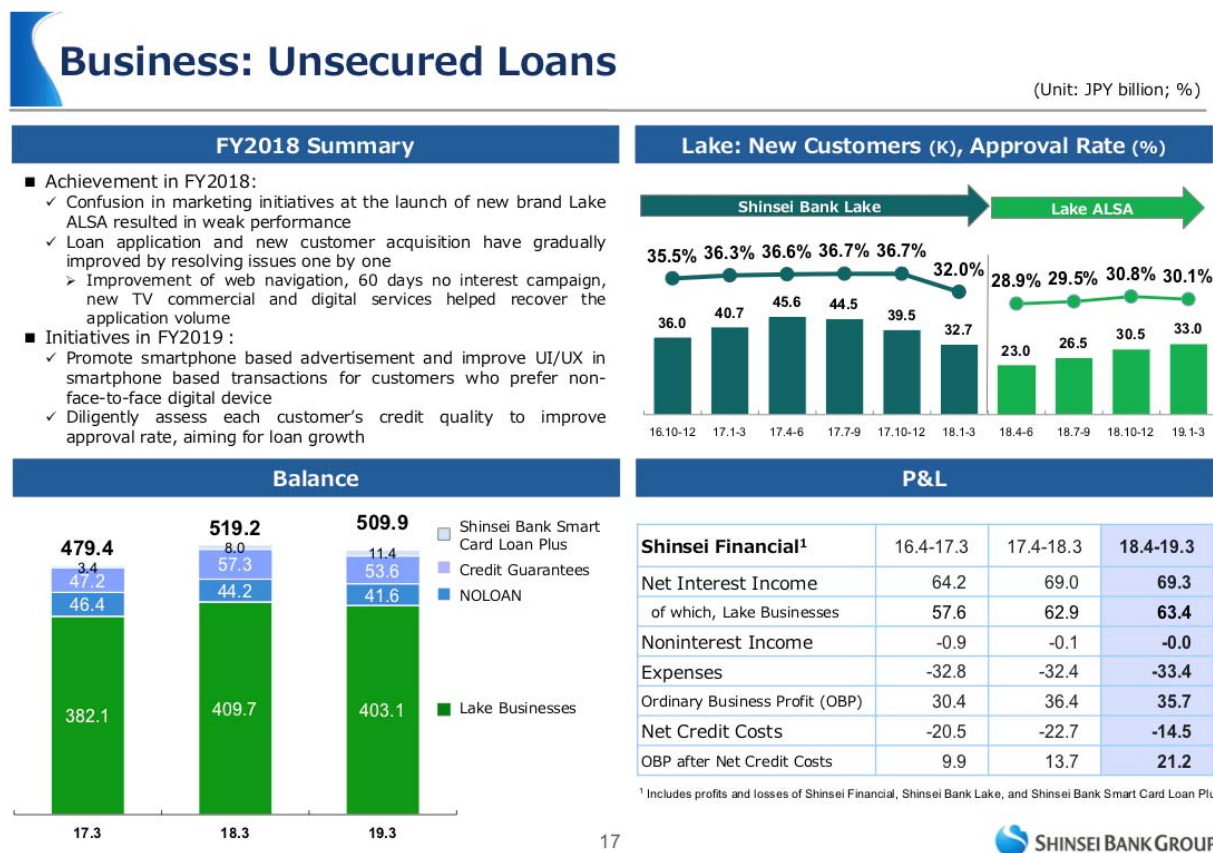


Next, please go to slide six. This shows the operating assets and productivity enhancements. Starting from the medium-term management strategy starting from FY2019, we will implement key initiatives in our focus areas and small-scale finance and individual business and business with institutional investors. We will continue to drive productivity enhancement projects and aim to achieve 6 billion yen in profit contribution over the next three years.



Next, slide seven illustrates the summary of the third medium-term management plan, covering FY2016 to 2018. We set selection and concentration of businesses and creation of values for group integration and have been focusing on increasing recording profit. Due to the implementation of the negative interest rate policy, during the third MTMP, the business environment became tougher than we expected.

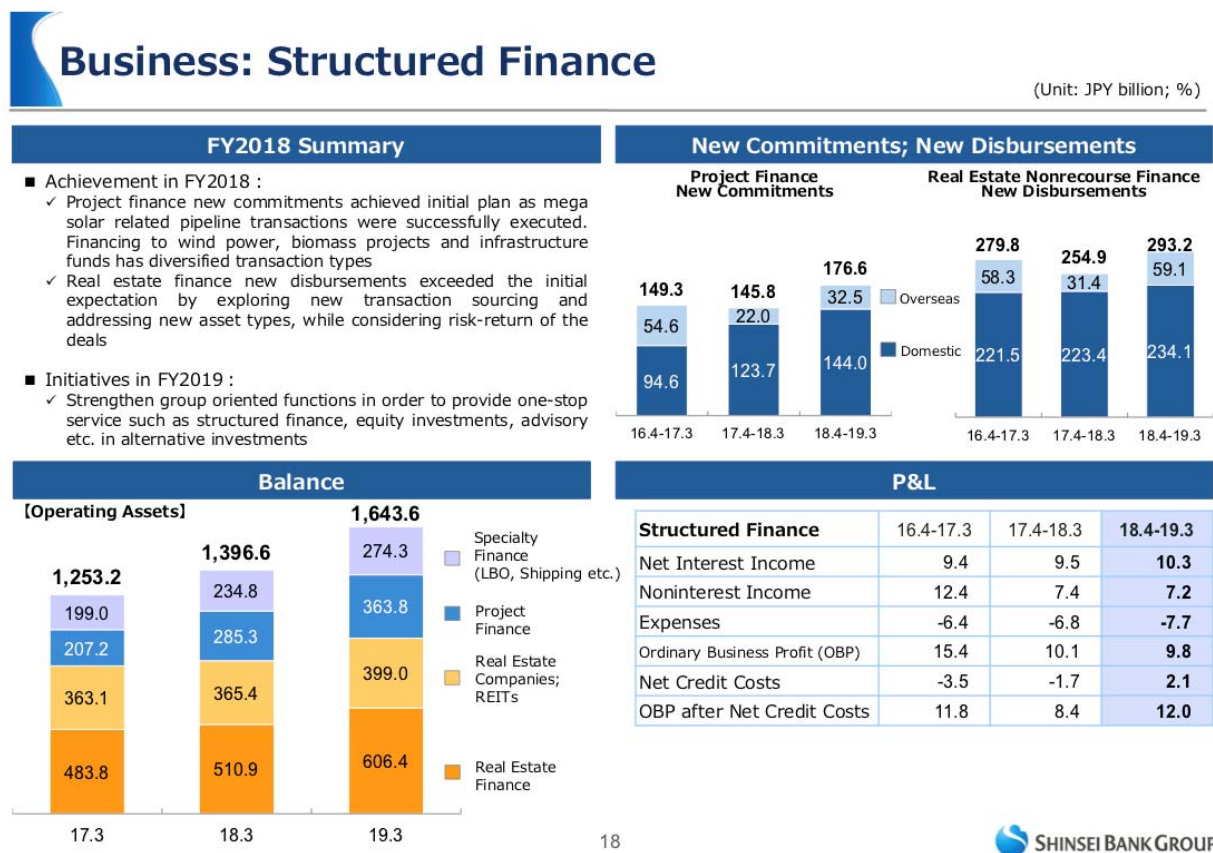
However, unsecured loan business, and unstructured finance are relatively resilient against the negative interest rate policy environment. Accordingly, we believe that we have transformed our business model toward sustainable earnings base. So, with the growth of these areas that has contributed to our profit. The increase in retail earnings have steadily contributed in capital accumulation over the years, which facilitates commencement of the share buyback program. Hence, we have now improved the total payout ratio and per-share value is also being improving steadily.



Next, I would like to skip some slides and please go to slide 17. This is about the business updates for the growth business areas, such as unsecured loans and structured finance, followed by the retail banking business.

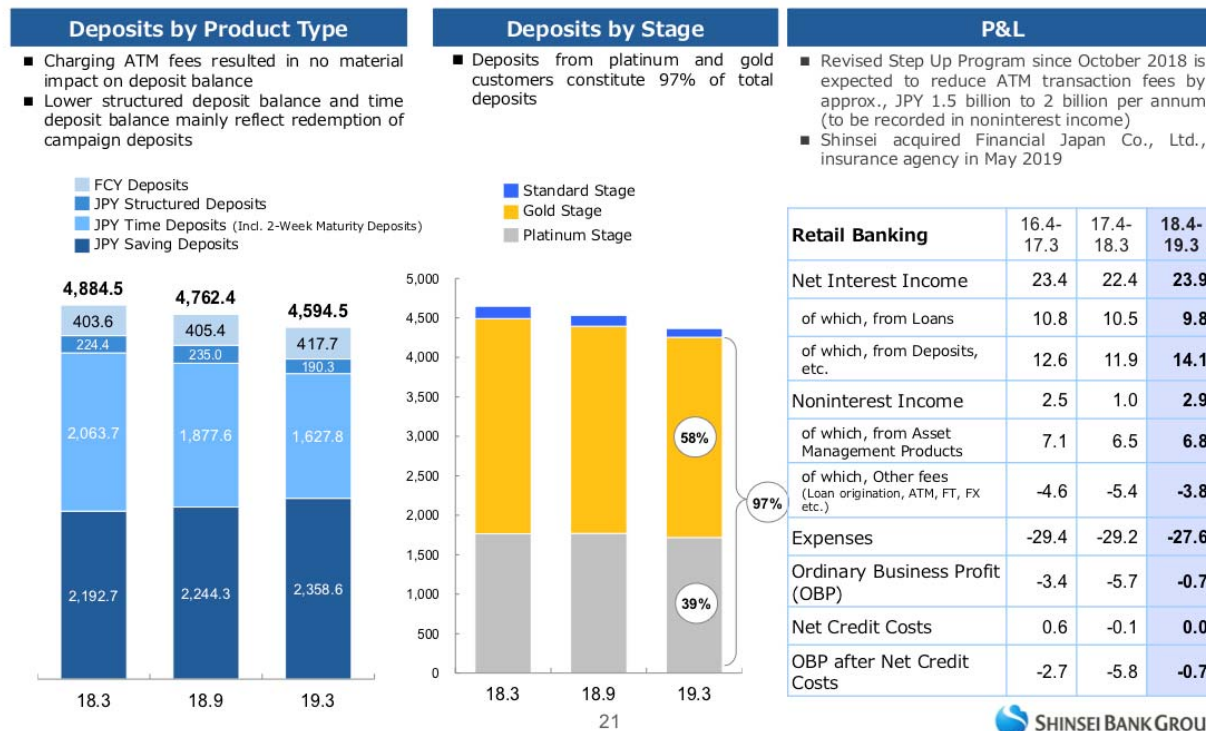
Page 17 relates to the unsecured loan business. Unsecured loan balance totaled 509.9 billion yen, which decreased from March 2018, but the overall balance increased by 19% over the last three years. Also, it achieved 6% of annual growth rate during the third MTMP.

The summary of the Lake business-- there is an initial disruption during the initial marketing initiative, so throughout the year, the number of applications and the number of new customers acquired improved. However, we had a disappointing performance, which we did not achieve the balance plan. Therefore, the customer wishing additional devices, that will expand the smartphone business advertisement and improvement in UI and UX in smartphone transactions. And we will also improve the contract rate by looking closely into credit quality of each customer. The number of new customer acquisitions increased to 33,000 from 23,000 in the first quarter. In the profit and loss interest income was largely flat, while the net credit cost decreased. So, resulting in a significant increase in OBP, after net credit costs of 21.2 billion yen.



Business: Retail Banking

(Unit: JPY billion; %)



Next, slide 21. This summarizes the retail banking business. The retail banking business has been recording losses. But improving this earning structure was one of the most critical issues in our third medium-term management plan. So, in order to improve this, we have been taking numerous initiatives, such as rationalization of call centers and closure of our Takamatsu Financial Center and Kanazawa Financial Center.

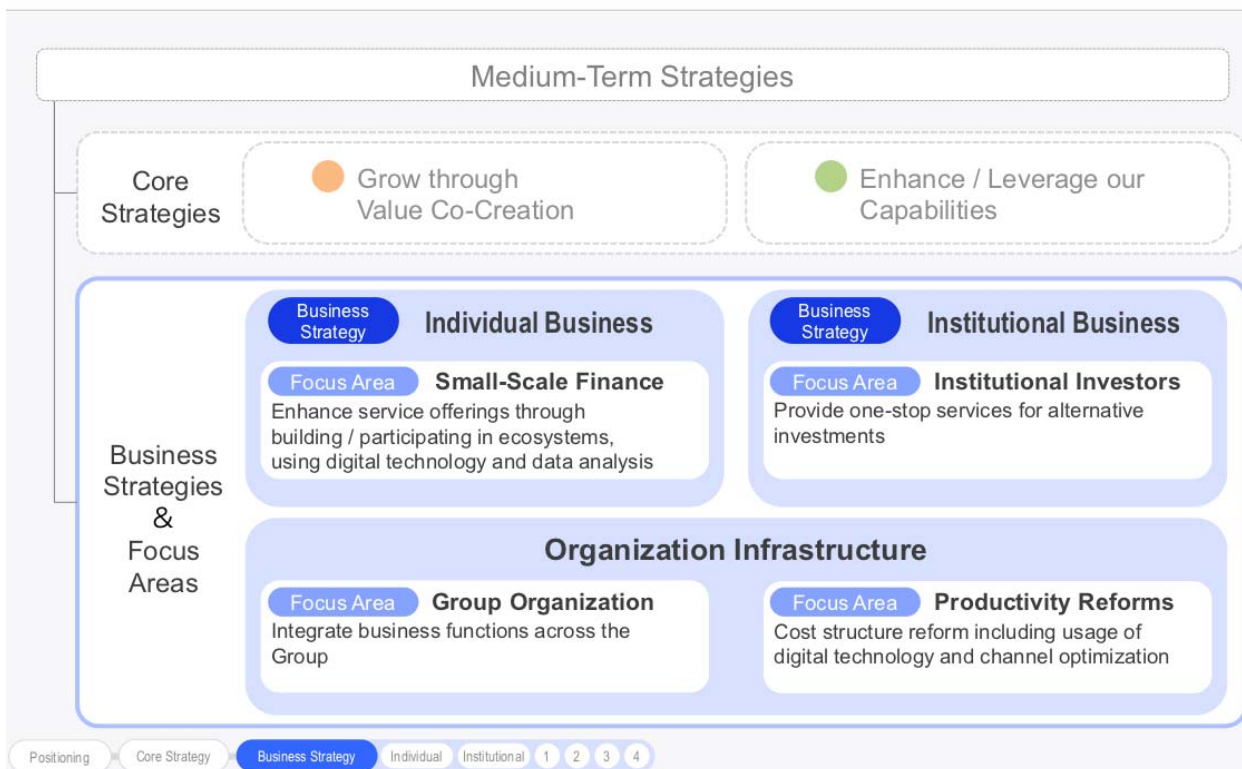
In FY2018, we revised our customer loyalty program of Shinsei Step Up Program, so that more customers can upgrade their status easily, while some customers will be charged for ATM withdrawal fees. So, various measures were taken. So, for FY2018, we were able to reform our earning structure. So, segment-based operation-- in order to do it, we made a change of organization. And our individual business unit will work on initiatives to create value to customers and aim to improve profitability furthermore. This concludes my presentation for FY2018 full-year financial results.

[Medium Term Strategies]



Then, let me begin. As indicated, we've chosen a title, "Redesigning Finance, Our Innovation Stories." And yesterday, we disclosed our mid-term strategy. Those of you who are here are aware of the business model and the core business model that we had applied to date. And I'm sure all of you here are all aware of the conventional model. So, at the beginning, let me broadly explain to you what the differences are between the conventional model versus the new strategy and give you the background, or a textbook-like explanation. Could you jump to page 13, please?

Business Strategy



What are we trying to do? This page gives you the list of what we intend to do. At the moment, consumer finance and structured finance are our focus areas. Individual business and institutional business are written here. It's not that we are trying to do something completely different. We will leverage our strength and focusing on these areas.

Small-scale finance includes consumer finance, and we will initially focus on small-scale finance, and using big data, credit screening, and judgment will be delivered and there is operation and IT. And then, the final stage would be collection. And, that could be done by overlaying the Lake brand from the beginning to the end. And we are offering that on a standalone basis, which we think is an important business. And we will continue, but by offering functions to third parties, I think there is the probability or possibility of scalability.

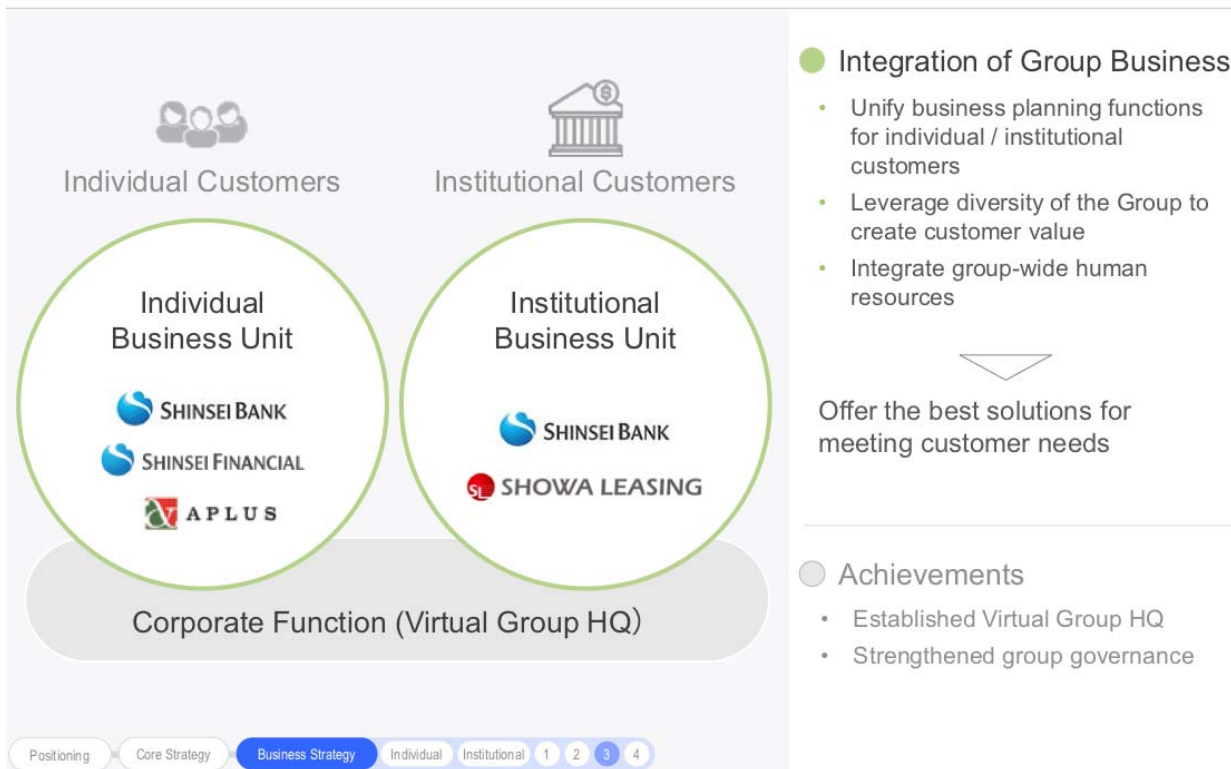
To give you an easy to understand example, we already made an announcement, a partnership with DOCOMO. DOCOMO is a company that already has a huge amount of customers. In this kind of alliance can be offered to offer financial services to their customers. And here, you find the word *ecosystem*. Foreign workers in Japan, visiting Japan or coming to Japan to work, who may not be enjoying full range of financial services, then we could strike launches with various partners and offer packages. And in those packages, we can insert financial services. There are a few functions in consumer finance. But, all of the factors can be packaged to be offered to those potential customers. And that's the center left. And then, on the center right, you see the box for institutional business.

And the same idea applies in alternative investment, like real estate investment or infrastructural investment. Managers, fund managers, institutional investors-- we've been offering senior finance to institutional investors, real estate, nonrecourse finance, and Japanese project finance. So, we already have

an extensive network with institutional investors and there aren't so many like us. We want to leverage on this strength.

We began with focusing on asset owners, pension funds, or life companies. And then, at the back of them, there are the individual customers of those entities. Then, vis-à-vis pension funds, can't we offer debt-financed instruments, or various arrangements or advisory that is still lacking in the market? So, those are some of the ideas that we have.

Focus Area 3: Group Organization



● Integration of Group Business

- Unify business planning functions for individual / institutional customers
- Leverage diversity of the Group to create customer value
- Integrate group-wide human resources

Offer the best solutions for meeting customer needs

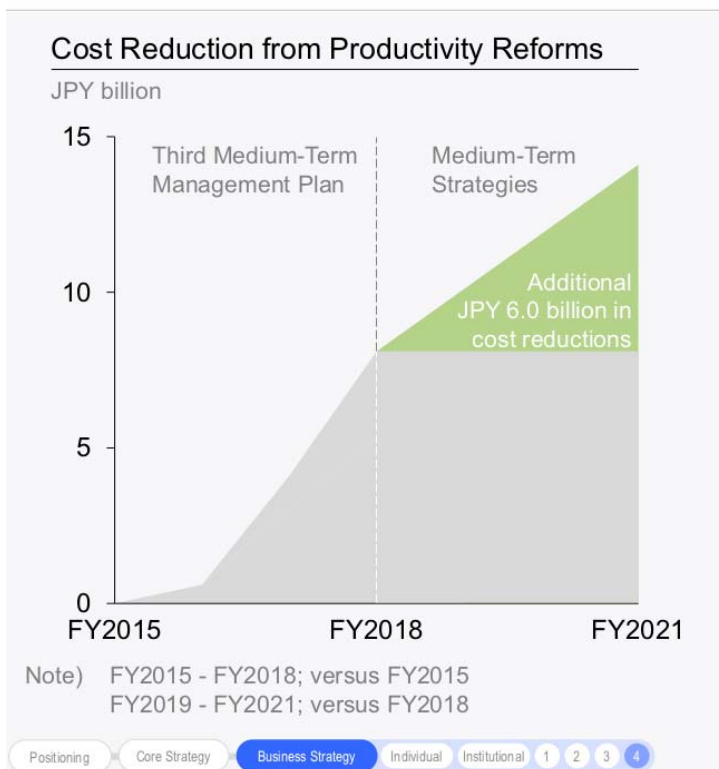
● Achievements

- Established Virtual Group HQ
- Strengthened group governance

Bottom left. On group organization, again, jumping a few pages, could you go to page 18, please. In the third mid-term management plan, we established the virtual group headquarters for back office function. Shinsei Bank, APLUS, Showa Leasing, Shinsei Financial, these functions were concentrated, and they are quite sizable entities and we've centralized the indirect functions. Then this has advantage. 15% FP reduction with cost through this initiative. That wasn't the end objective.

When we offer services to end customers, the customer needs should not be divided between the bank or credit card providers. I think they would be better served by offering an integrated service of all of their financial needs. And that was the original concept, based upon which we broadly defined individual customers and institutional services and the entity names are indicated here. But our objective is to manage these entities in an integrated and unified manner.

Focus Area 4: Productivity Reforms



Further Initiatives for Reforms

- Branch and office optimization
 - Efficiency of branch channels
 - Effective use of office space
- Cost structure reforms
 - Expense reassessment, expenditure control
 - Greater enforcement of procurement rules & transparency
- Digital technology and workstyle reforms
 - Implementation of AI, digital technology etc.
 - Business process / operations review
 - More flexible hours and workplaces

Achievements

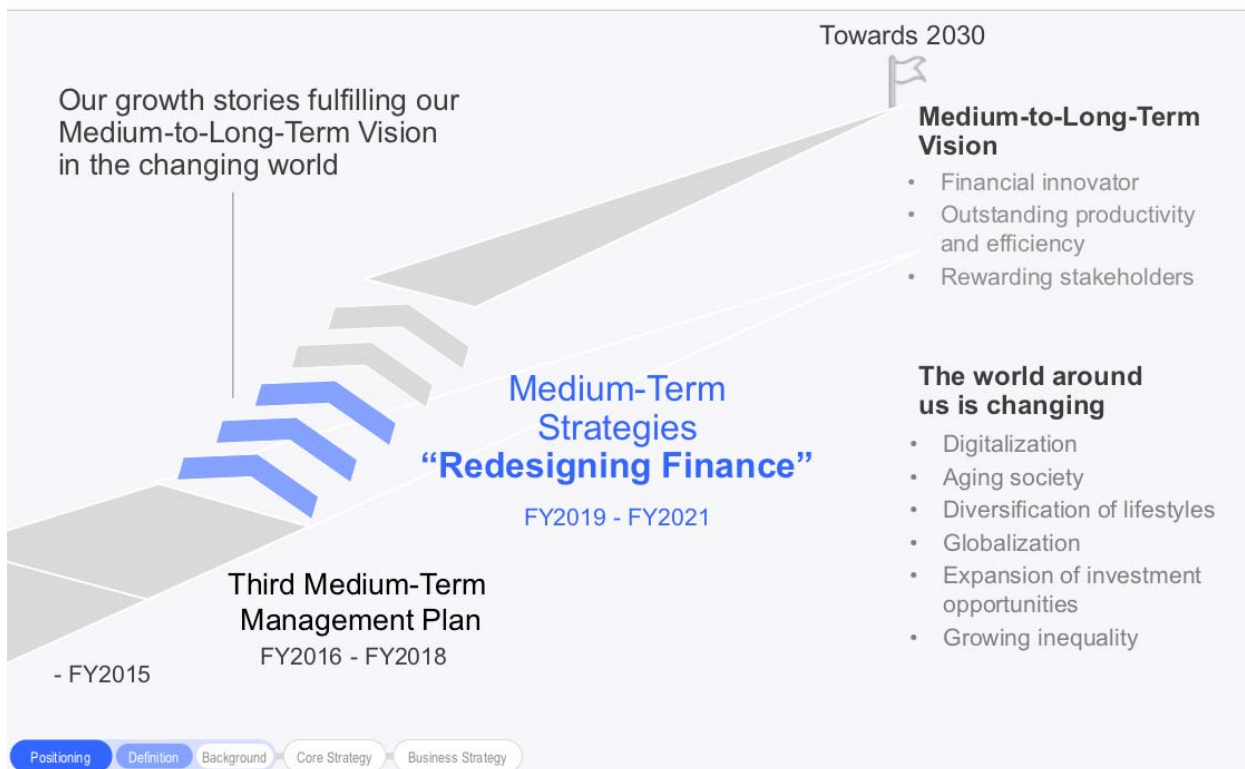
- Consolidation of group corporate functions
- Call center / business center optimization
- Restructuring initiatives in APLUS
- Debt collection performance improvement

Going to the next page, productivity enhancement. To date, we've conducted various initiatives under productivity reform, and the establishment of virtual group headquarters was one such initiative and call center efficiency improvement and treatment or loyalty program review were also done, and 8 billion yen of impact was brought about. In the next three years, under the mid-term management strategy, the subject on the right-hand side will be pursued.

Now, here you find the word *branch*. We don't have so many left but the Shinsei Financial outlet as well. And with digitalization further making progress, we will review that network as well. And through the use of digital tools, productivity can be further enhanced, and other banking groups are already thinking about that. But I think there is significant potential there. And we think that additional 6 billion yen of cost reductions can be delivered through those efforts.

Back to the first page, or the first page I talked about, which is page 13. I described very broadly the four boxes. I hope that that has given you a broad image. So, based upon that broad image, I would like to, again, go back to page two.

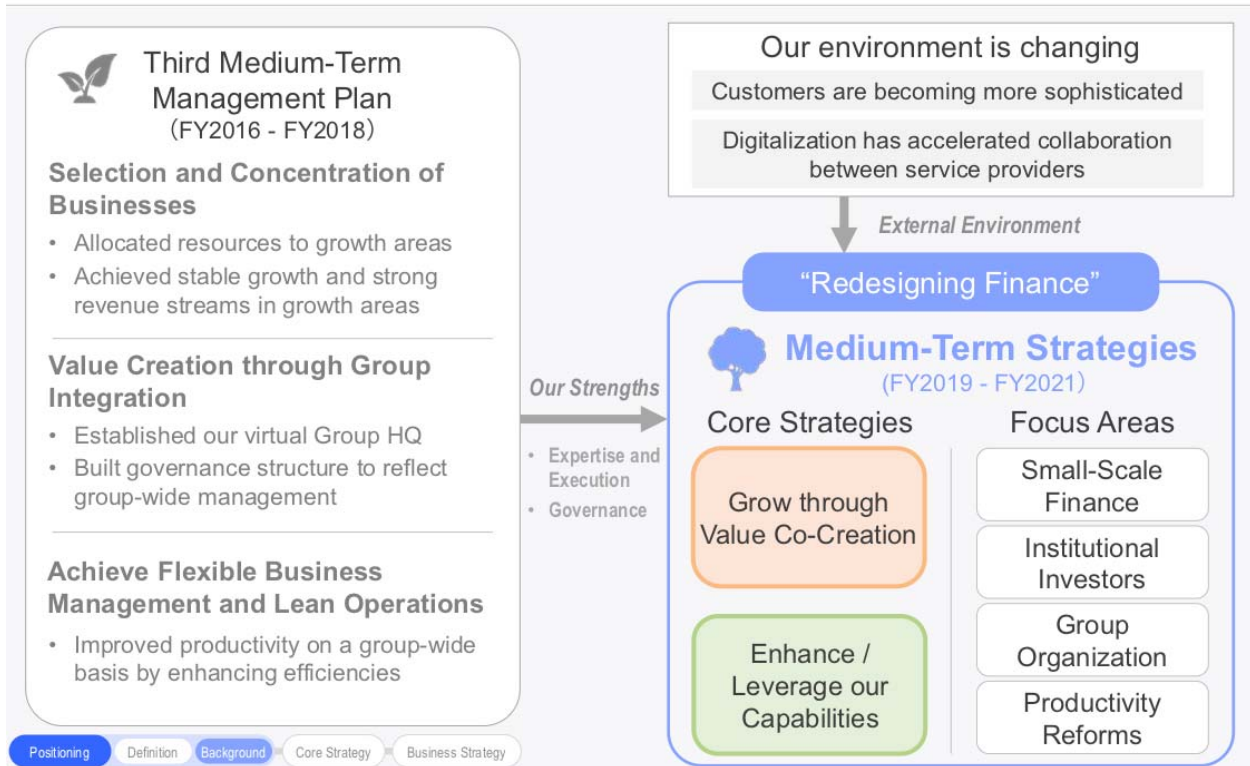
Positioning of Medium-Term Strategies



We’ve been discussing similar things on various occasions. But we think that in the financial sector, services to individuals are changing quite significantly. These are already well-known subject matters. So, the mid-term strategies were created as follows: Last year, we did this. So, this year, we will do this and come up with such and such product, profits, and next year, the profit is forecast to be this and this. We’ve stopped doing that. Back casting has become quite popular.

What will happen in 2030? So, thinking about the profile of the society in 2030, we tried to go retrospectively, chronologically, and do a reverse engineering to identify what Shinsei needs to do in the initial three years. And that’s what we’re talking about, when we say the next mid-term strategy.

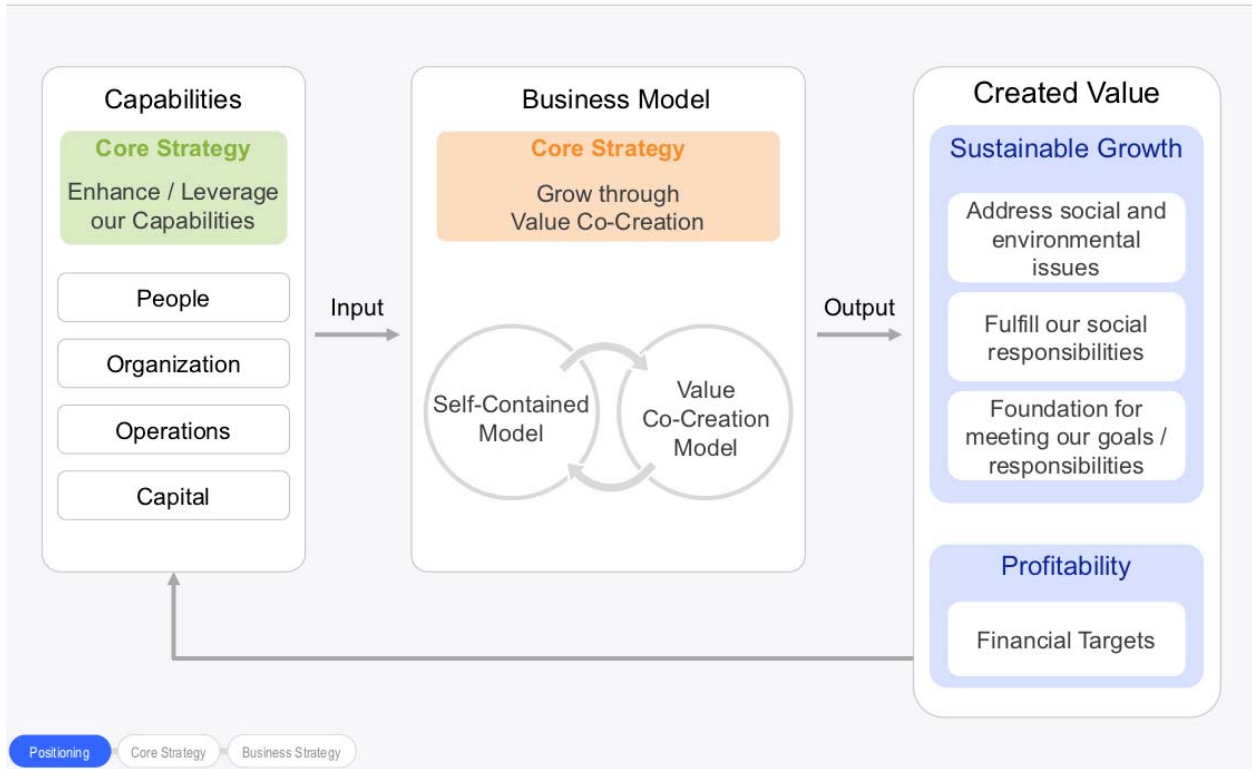
Background of Medium-Term Strategies



Now, the third mid-term management plan was made, and we executed the initiatives. So, let me wrap up what we did. We’ve been talking about selection and concentration of business, two core business areas, and we think we were able to deliver results to a certain extent in the area of structured finance, or domestic project finance. The results were better than we had expected, and we were able to gain strong presence in terms of consumer finance.

In the interim, there was chaos, because we shifted the business from the bank to financial, and the negative impact had been more than expected, to be frank. But already, the number of applications is back to normal. And with that, the approval is also going up. Now, approval rate isn’t at a sufficient level. So, as my colleague Hirano-san has said, we are currently reviewing the credit screening standards, so that the approval rate itself can be brought back to the expected level. And the virtual group headquarters was already mentioned. And operations, lean operations and productivity enhancement. In all of these areas, we’ve done what we had embarked upon. That is our self-assessment. Next page.

Overview of Medium-Term Strategies

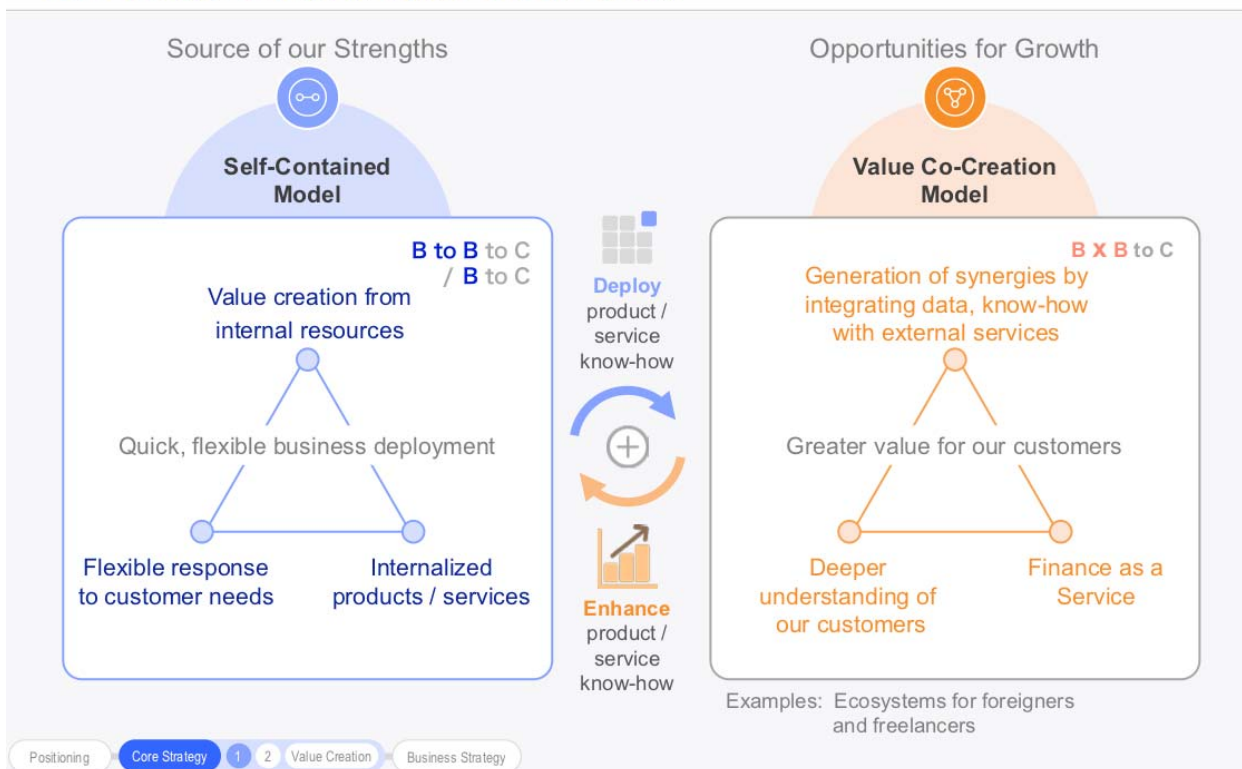


Page six. So, I've given you the broad picture at the beginning. But, at the center is the business aspect and on the right-hand side, what do we want to realize by applying that kind of business model? These are the values we intend to create, and I will come back to these values later on. And on the left, these are capabilities that will be focused in order to support the business model, which I will revisit later. Please jump to slide nine.

[Slide 9]

Our two Business Models: Self-Contained and Value Co-Creation

SHINSEI BANK GROUP 9



So, these are the business models. In consumer finance or small loan finance, first Lake brand exists. And by using our original brand, credit screening judgment and collection is done in an integrated manner by a single entity, single brand. And we've already achieved certain results and have a presence. So, cash cards are being used. This is a cash cow for the group. And we still think that there is more potential left. So, we will continue to capture those opportunities.

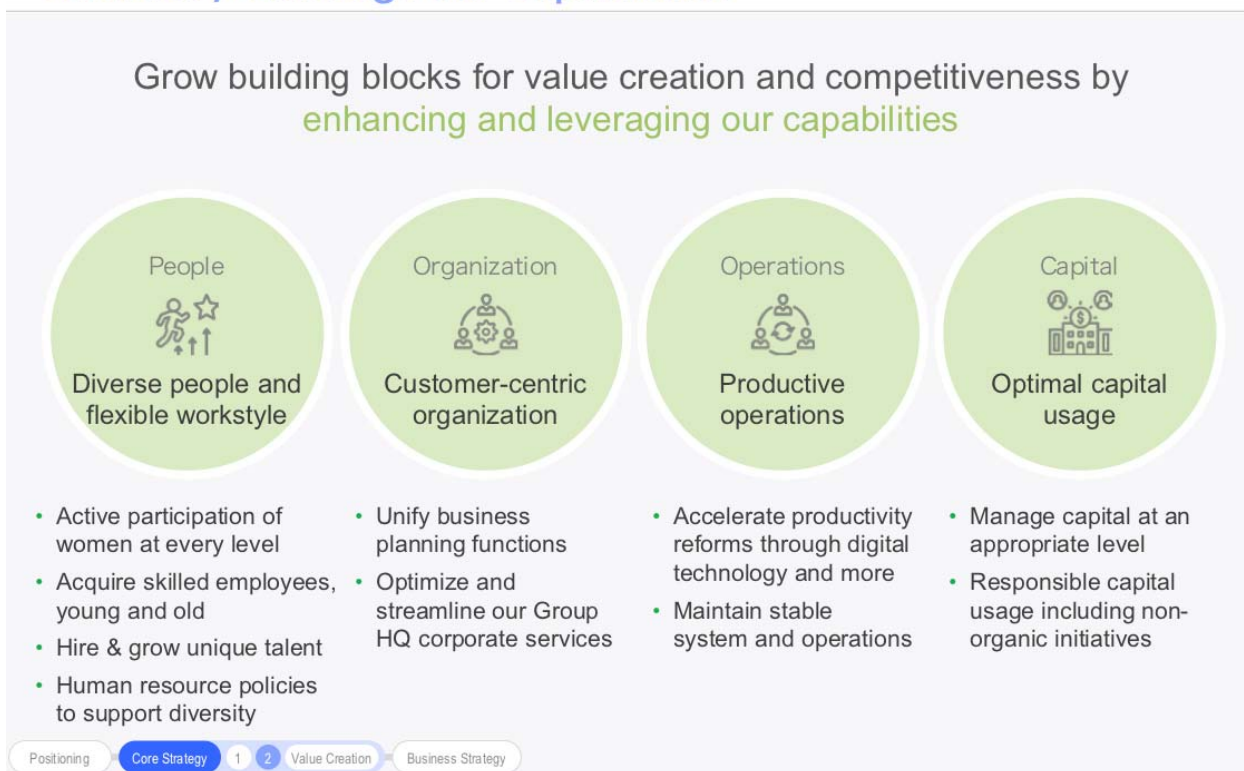
But, on the other hand, market is going through transformation. And this is mainly caused by digitalization. Non-financials are coming in and non-financial companies are trying to offer financial services as part of their package they offer to their customers. And, some of them are close to unsecured loans or some are frontloaded payment or backloaded payment or something closer to settlement services, and the market has become quite seamless.

So, rather than secluding ourselves to a narrow area of unsecured loans, we may be able to offer diverse financial services that also offers settlement functions, which can be factored into their packages offered by our partners. And in that process, our partners have abundant data and one big key would be how we can utilize their data, and this was touched upon in our presentation of the third mid-term management plan.

SecondXight, our AI modeling company and data modeling has already been established by one of our partners. So, we also have already done the groundwork and I touched upon our alliance with DOCOMO as one example. That's a good example and we are discussing with various potential alliance partners, and not just big players. We are also talking with entities in order to co-create the ecosystem. So come on the left-hand side, we will be generating cash.

But then, on the right-hand side, we think that there is huge potential for growth. So, we will be seeking growth on the right-hand side. But what is the key is the strength on the left box and the left box strength is going to be the advertisement or showcase to capture customers on the right-hand side. They will only come to us as we can show strength on the left-hand side. So, these will be the two wheels of the cart.

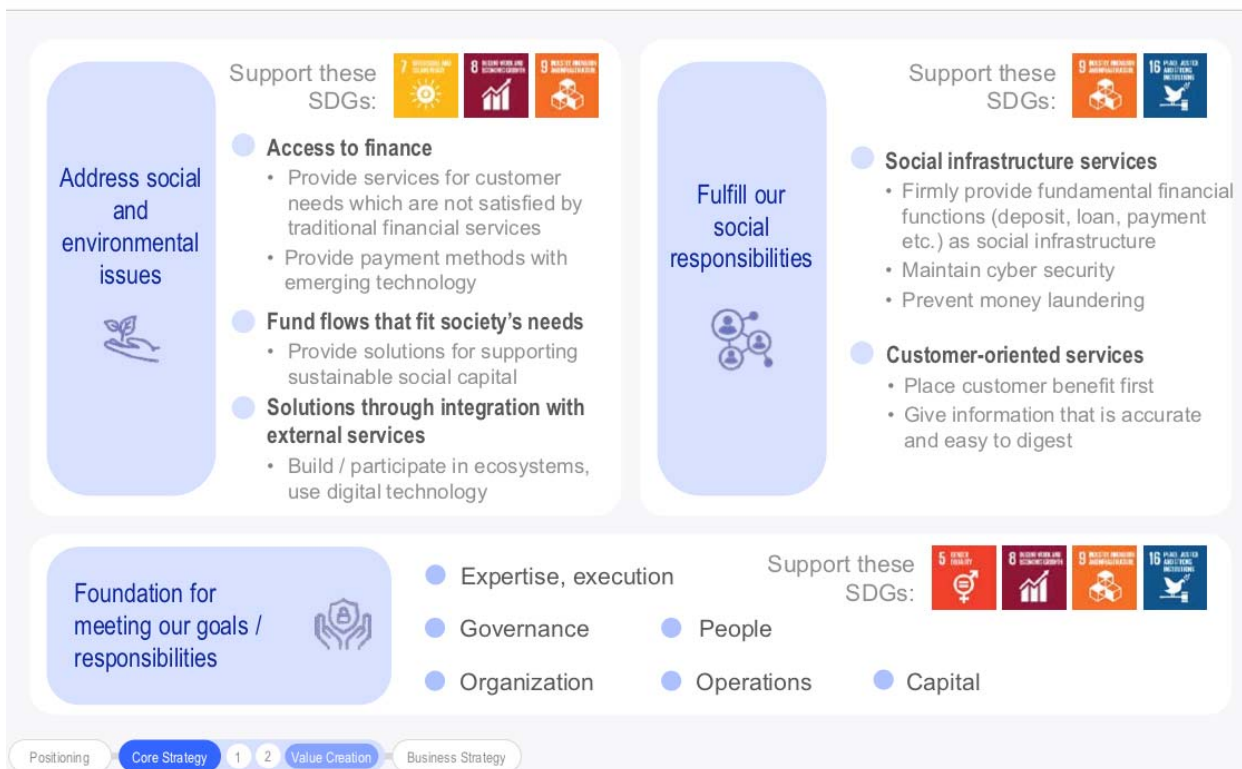
Core Strategy 2: Enhance / Leverage our Capabilities



So, in order to support this and other resources, our focused resources are shown here. There are general ones, but the people mean that we need to promote women's advancement and for senior and not only just young employees, but we need to utilize senior employees. That has become a major theme for us. And for reorganization, which has already been explained, how, from a customer standpoint, how are our services differentiated? From that viewpoint, we made reorganization. For the interactive functions, this is regarding productivity reforms, but for the businesses, for the unified operations, that has not been done sufficiently yet by financial group. So, this is going to be our new initiative.

Operations are shown here. And for capital, later financial explanations will also be provided. But, as shown here, how effectively we should use our capital, that is very critical for us. We are a domestic standard bank. But regardless of the fact, this CET1, we have the CET1 ratio is comparable to the international standardized bank. So using that, we need to give sufficient return to our shareholders. So, there are non-organic initiatives here. Including such initiatives, we'll be working on this optimal capital usage. Next.

Initiatives for Sustainable Growth (Materiality)



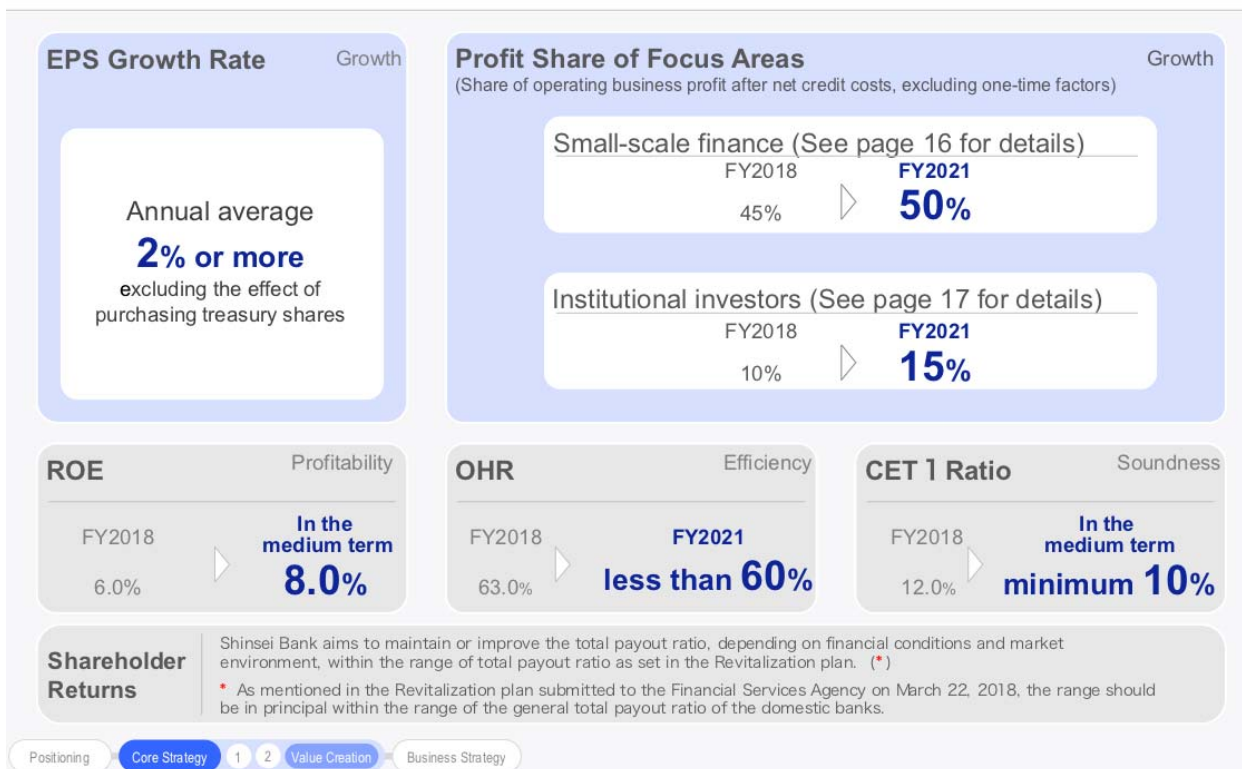
Recently, it is inevitable to touch upon ESG and SDGs, and this page shows materiality for us. This is a total picture. So, this is exactly as explained in the business model, what we are going to achieve in our business model. On the top left, the access to finance. So, underserved customers, we will offer services to them. This is not just a slogan. Like megabanks, the general or comprehensive service will not be provided. So therefore, the bank in our scale, how are we going to differentiate ourselves? And how will we be considered useful for among customers?

Considering that, this has such niche areas, which do not necessarily have a large customer base. But, if we can have a large market share, it will be useful. And if there is market potential, we should enter in such areas ahead of others. So, we will do things that have not been done by other banks. Through such initiatives, we will differentiate ourselves.

And, second point, this considers renewable energy. So, we will be specializing in these areas. And, the third point, solution through integration with external services, which have already been explained. The services are connected with other financial services. They are still, this is under consideration and we are in the middle of the initiative. So, this is going to be general or common in the future.

The financial institution will be a supporter and it will be invisible going forward. And various services are provided, but below there is the small letter showing powered by Shinsei Bank, for example. On the right-hand side, on the bottom, as it's pretty much straightforward, I would like to skip my explanation.

Financial Targets



Lastly, financial target. Unlike traditionally, the bottom line profit targets are not shown. For shareholders, we believe that the way you present it is more significant. The EPS growth rate, 2% or more. Excluding share buybacks, the share is around 2%. And we would like to maintain this growth. And the details are shown on the right-hand side. We will aim to increase the share of the core businesses.

More explanation will be needed on the bottom three. The expense OHR-- this year, the core banking system was released, and depreciation of the system will start. So, there is a hike of the expenses, but this is not a cash item. So, we will reduce this. Our message is simple. For ROE, we will target 8% on the medium term and CET1 ratio at minimum 10%. We hope that we will read a message here.

So, 8%, as a business, this is the minimum level required. We are a domestic standard bank. However, we have a high CET1 ratio. So, we have quite a flexibility, in terms of business operations. Related to the public funds index repayment, they have already been transferred to ordinary shares, so we need to increase the per share value. Otherwise, there's no way for us to repay the public funds. So, we need to utilize capital in order to achieve this. That concludes my explanation.

End