FY2018 First Quarter Financial Results

Summary of Presentation Material

【Slide 3】

- Slide 3 provides key points of FY2018 first quarter financial results.
- First, ordinary business profit (OBP) totaled JPY 22 billion, with 24% progression.
  - We recorded JPY 56.9 billion of total revenue and JPY 34.8 billion of total expenses. Both are at 24% progression toward full year projection.
  - Expense-to-revenue ratio improved to 61.2%.

- Second, net income in the 1QFY2018 totaled JPY 9 billion, 17% progression toward full year net income forecast.
  - This includes JPY 10.7 billion of net credit costs, 18% increase compared to 1QFY2017.
  - I will explain details in the later pages, but please note that net credit costs in the 1Q included one-off factors and this high progress rate was within our expectation.
  - The 17% progression of net income was due to the one-off factors of the net credit costs. However, we do not expect material impact on the JPY 34 billion of full year net credit costs projection as well as on the JPY 52 billion of full year net income projection.

- Third point relates to new unsecured loan brand, Lake ALSA
  - The number of new Lake ALSA customer acquisition was 23K and approval ratio was 28.9% in the 1QFY2018.
  - Lake ALSA faced the necessity of distinction between Lake ALSA and old Bank Lake as well as challenges in navigating new customers to the new website, which invited fewer applications and lower credit score applicants
  - Various measures are being taken to fully bring out the potential performance of the "Lake" brand

【Slide 4】

- Slide 4 shows a summary table of FY2018 first quarter financial results. I have explained the key points in the slide 3. Please let me move on to the next page.

【Slide 5】

- Page 5 covers net interest income and noninterest income.
  - Net interest income increased 5% to JPY 33.4 billion.
    - Net interest income from unsecured loans increased 4% to JPY 17.5 billion.
  - Noninterest income declined by 10% to JPY 23.4 billion.
    - This mainly reflects lower derivative related income in the Institutional Business and lower equity related income in the Principal Transactions Business.

【Slide 6】

- Page 6 relates to net interest margin.
  - Improvement in yield on loans primarily contributed the increase in yield on total interest earning assets by 6 basis points to 2.74%, reflecting an increase in the average loan balance of consumer finance businesses.
  - On the funding side, in order to immunize ourselves from the maturity gap related to FCY assets, our FX hedging cost has slightly increased. Hence, rate on interest bearing liabilities increased by 1 basis point to 0.27%.
  - As a result, net interest margin improved 5 basis points to 2.47%.

【Slide 7】

- Page 7 shows expenses.
  - Both personnel and nonpersonnel expenses declined compared to 1QFY2017, resulting in JPY 34.8 billion of expenses.
  - Expense-to-revenue ratio continues to improve and is now at 61.2%.

【Slide 8】

- Page 8 illustrates details of the net credit costs.
  - Net credit costs increased 18% to JPY 10.7 billion.
  - We disbursed new overseas loans in real estate finance and shipping finance.

Accordingly, we provisioned general reserves for those loans.

- ➢ Increase in APLUS FINANCIAL net credit cost ratio to 1.8% mainly reflected provisioning associated with a bulk sale of delinquent claims in addition to loan reserves required for the asset growth. Without the bulk sale impact, the ratio would have been 1.2%.
- ➢ On the other hand, net credit costs ratio of unsecured loans decreased to 3.6%, resulting from decline of net credit costs due mainly to a decrease in the unsecured loan balance from March 2018.

【Slide 9】

- ■ Page 9 shows capital adequacy.
  - ➢ We maintained ample level of common equity Tier 1 ratio at 12.3% on a fully loaded international basis.

【Slide 10】

- ■ Page 10 highlights trends of excess interest repayment, or Kabarai.
  - ➢ The number of disclosure claims and the actual repayments in the 1Q FY2018 slightly increased from the last quarter ended on March 31, 2018. However, we see the down trend continuing from a long term perspective.
  - ➢ Total grey zone reserve is now at JPY 70.9 billion with 4.8 years-worth of coverage ratio, which we believe is sufficient.

【Slide 12】

- ■ Page 12 relates to the unsecured loan business.
  - ➢ Unsecured loan balance increased 4% from June 2017.
  - ➢ However, loan balance of Lake Businesses slightly decreased from March 2018, influenced by a slow start of new customer acquisition in the new brand Lake ALSA.
  - ➢ At the same time, the loan balance of Lake ALSA on a stand-alone basis stood at JPY 4.6 billion as of June 2018.
  - ➢ In the 1QFY2018, increase in net interest income coupled with a decrease in net credit costs resulted in JPY 4.6 billion of OBP after net credit costs, up 171% from 1QFY2017.

- In terms of the business performance, the number of new customer acquisition was 23K and approval ratio was at 28.9%, a slower growth rate as compared to the last fiscal year.
- As I explained in the key points, Lake ALSA faced the necessity for distinction between Lake ALSA and old Bank Lake and challenges in navigating new customers to the new website, which invited fewer applications and lower credit score applicants
- Various measures are being taken to fully bring out the potential performance of "Lake" brand, such as reviewing website contents to smoothly navigate customers and further enhancement of advertising to improve this situation.

【Slide 13】

- Page 13 explains structured finance business.
  - Structured finance assets balance increased 7% from June 2017.
  - As for the P&L, decrease in OBP after net credit costs reflect an increase in net credit costs related to overseas new transactions in real estate finance and shipping finance.
  - For the business performance, the amount of new commitments in project finance increased reflecting ongoing momentum in the domestic renewable energy projects area.
  - In real estate finance, the amount of disbursement decreased in 1QFY2018 compared to same period last year due to absence of sizable deals as concluded in 1QFY2017. We continue prudent operation considering market, risk-return of individual deals and diversification of portfolio in the real estate finance.

This concludes our presentation on the 1QFY2018 financial results.