FY2016Q1 Japanese Language Financial Results Conference Call
(conducted Aug., 3, 2016) Q&A English Transcript

Q: What is the outlook on the sale of asset management products in the Retail Banking business from the second quarter onward? Based upon the outlook, is the Bank's full year guidance unchanged from its original full year plan?

A: While it would not be accurate to say that asset management products sales trends have strengthen across all fronts, we have observed firming in some areas. We are modifying some of our products and expect to see a pickup from the second quarter onward.

Regarding our full year results forecast, while we need to monitor developments going forward, we will be simultaneously engaging in strict expense control.

Q: Regarding net credit costs in Consumer Finance, what is the quantitative impact of the revision of the reserve ratio?

A: While we are not able to provide a figure on the isolated impact of the reserve rate revision, the reason for the increase in net credit costs in the first quarter is due to the fall off of a period in which the reserve ratio was low from the period utilized in calculating the reserve ratio and the resulting revision to the reserve rate.

Q: What are the factors behind the provisioning of JPY 3.0 billion of specific reserves and what is the outlook going forward?

A: The provisions were made due to undertakings in the Structured Finance business. The provisions were made on initiatives in which the Bank has engaged after considering the risk and returns.

[CORRECTION]

The preceding factor is one of the underlying factors of the increase in general reserves for loan losses and is not a factor in the increase of specific reserves.

Correctly, the largest provisioning of specific reserves for loan losses of Shinsei Bank on a consolidated basis are associated with the APLUS FINANCIAL and Shinsei Financial businesses. These businesses routinely record specific reserves for loan losses due to their nature. The recording of these specific reserves in past periods up to the end of the previous fiscal year was not apparent due to the recording of large net credit recoveries in the Institutional Business.

Q: What is the magnitude of the productivity enhancement project?

A: By the end of the calendar year the Bank plans to develop a plan which is feasible. Therefore, at the current point in time, the Bank is unable to provide any associated figures.

Q: The Bank's quarterly databook shows that the Bank's yield on loans and bills discounted (nonconsolidated), which had been increasing up until Q4FY2015, has declined in Q1FY2016. What are the reasons for this decline?

[Answer provided post-call]

A: The decline in the nonconsolidated yield on loans and bills discounted is the result of interest rate reductions primarily in corporate and housing loans due to the market interest rate reducing effects of the negative interest rate policy ("NIRP"). While there is no change in the interest rates of Shinsei Bank Lake loans, a growth business area, the associated loan balance as of June 30, 2016 was JPY 215.2 billion, a small component of the nonconsolidated total balance of loans and bills discounted of JPY 4,268.7 billion, and as a result the decline in market rates has had a relatively larger effect.

Q: What are the Bank's plans in regard to capital policy once it concludes its current share buyback?

A: There is no change in the Bank's pursuit of improved earnings per share and book value per share. Going forward, while the Bank will undertake appropriate actions taking into consideration factors such as the market environment, the current focus is to conclude the buyback which is underway.

Q: What is the Bank's plan for full year taxes?

A: The Bank expects full year taxes to be within JPY 3.0 billion.

Q: Regarding taxes, what are the Bank's reasons for anticipating a reduced tax burden toward the end of the fiscal year and what are seasonalities on a quarterly basis, if any?

A: Taxes differ from period to period due to timing differences in the application of potential tax deductions created through the recording of losses in the past which were not eligible for the application of tax deductions. The timing in the current fiscal year will take place in the second half of the year.

Q: What is the status of the current external and internal environments of the Structured Finance business as well as the impact of foreign exchange rates?

A: The domestic real estate market is robust and while there are attractive deals, we believe that there is a need to exercise caution. Regarding domestic project finance, the Bank has a pipeline of mega solar deals and views the achievement of the original plan as feasible. In overseas project finance, there are signs of margin improvements in primary deals. Japanese corporations continue to have a healthy appetite for overseas investment.

Regarding the effect of exchange rates, the impact to the overall overseas loan balance of JPY 500 billion resulting from exchange rates was JPY 30.0 billion.

Q: What are the reasons for the growth of the housing loan balance and what are the interest rates applied to the loans?

A: Shinsei Bank was the first Bank to take action in response to the NIRP, reducing housing loan interest rates. As a result, we received media attention which resulted in an increase in inquiries. Approximately 90% of new loans are refinancing. The interest rate on a 10 year fixed interest rate housing loan is now 0.85%.

Q: Regarding the revision of the Consumer Finance reserve rate, what are the details of the reference period utilized in determining the rate?

A: A three year reference period is shifted every quarter and a one year period is shifted every intra-year period (end/beginning of fiscal years).

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Q: Are one-time credit costs and tax increases in line with the company's estimates? What is quarterly basis estimation of your guidance for FY2016 (ending Mar 2017)?

A: Credit costs are largely generated by unsecured personal loans and APLUS. In both businesses we see no credit deterioration. Our credit costs are in line with around 4% in unsecured personal loans and around 1% in APLUS. The credit costs increase in 1QFY2016 is the result of interim reserve adjustments and is essentially noise, and we expect overall credit costs to be in line with our original plan of 28 billion yen. Regarding taxes, hard tax calculations are only done in March each year. During the interim periods, we see some sort of ups and downs in deferred tax and current tax. We do not disclose the quarterly basis breakdown of our FY2016 guidance but our full year forecast remains unchanged for FY2016 ending March 2017 at this point in time.

Q: What is the company's stance on shareholder returns and what should be expected going forward?

A: We announced a buyback in May this year which is 90% complete. We are focused on completing this at this point in time. We do not have any comments regarding future actions at this point in time.

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