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PRESENTATION

Hiroshi Ishi - *Shinsei Bank, Limited - Head of IR*

Hello, everyone. Thank you for joining our conference call regarding fiscal year 2018 first quarter financial results of Shinsei Bank.

I am Hiroshi Ishi, Head of IR of Shinsei Bank. Today, we have a speaker, Mr. Sanjeev Gupta, Senior Managing Executive Officer. Mr. Gupta will walk through the presentation that is now posted on our website. You can find our presentation on our website. So he will walk through the presentation, then we will open for your -- from your questions.

Okay. Now I would like to hand this mic over to Mr. Gupta. Mr. Gupta, please go ahead.

Sanjeev Gupta - *Shinsei Bank, Limited - Senior Managing Executive Officer and Advisor to President & CEO*

Hello, everyone. This is Sanjeev Gupta speaking.

Today, please allow me to briefly explain our first quarter financial results. Slide 3 provides key points of fiscal year 2018 first quarter financial results.

First, ordinary business profit 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 towards full year projection. Expense-to-revenue ratio improved to 61.2%.

Second, net income in the first quarter of this fiscal year totaled JPY 9 billion, 17% progression towards full year net income forecast. This includes JPY 10.7 billion of net credit costs, 18% increase compared to 1Q of last fiscal year. I will provide the details in the later pages, but please note, net credit cost in the first quarter 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 cost. However, we do not expect material impact on the JPY 34 billion of full year net credit cost projection as well as on the JPY 52 billion of full year net income projection.

Third point relates to the unsecured lending new brand, Lake ALSA. The number of new Lake ALSA customer acquisition was 23,000 and approval ratio was 28.9% in the first quarter. Lake ALSA faced the necessity of distinction between Lake ALSA and old Bank Lake as the challenges in the 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.

Now Slide 4. Slide 4 shows a summary table of fiscal year 2018 first quarter financial results. I have explained the key points in the Slide 3. Please let me move on to the next page.

Page 5 covers net interest income and noninterest income. Net interest income increased 5% to JPY 33.4 billion. Unsecured loan net interest income increased 4% to JPY 17.5 billion. Noninterest income declined by 10% to JPY 23.4 billion. This mainly reflects lower derivatives-related income in the institutional business as well as lower equity-related income in the principal transaction business.

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 GAAP related to foreign currency assets, our FX hedging cost has slightly increased. Hence, rate on interest-bearing liability increased by 1 basis point to 27 basis points. As a result, net interest margin improved 5 basis points to 2.47%.



Page 7 shows the expenses for the quarter. Both personnel and nonpersonnel expenses declined compared to first quarter of the last fiscal year, resulting in total JPY 34.8 billion of expenses. Expense-to-revenue ratio improved to 61.2%.

Page 8 illustrates details of the net credit costs. Net credit costs increased 18% to JPY 10.7 billion. We dispersed new overseas loans in the real estate finance and finance. Accordingly, we provisioned general reserve for those loans. Increase in APLUS FINANCIAL's net credit cost ratio to 1.8% mainly reflected provisioning associated with a bulk sale of delinquent claims in addition to loan reserve required for the asset growth. Without the bulk sale impact, the ratio would have been 1.2%. On the other hand, net credit cost of unsecured loan decreased to 3.6%, resulting from decline of net credit cost, mainly due to decrease in unsecured loan balance from March 2018.

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

Page 10 highlights trend of excess interest repayment or Kabarai. The number of disclosure claims and the actual repayments in the first quarter of this fiscal year slightly increased from the last quarter of fiscal year 2017. However, we see the downward trend continuing from a long-term perspective. Total credits on reserve is now at JPY 70.9 billion with 4.8 years' worth of coverage ratio, which we believe is sufficient.

Page 12 relates to the unsecured loan business. Unsecured loan balance increased 4% from June 2017. However, loan balance of Lake business 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 first quarter of this fiscal year, increase in net interest income of unsecured loans, coupled with the decrease in net credit costs, resulted in JPY 4.6 billion of OBP after net credit cost, up 171% from the first quarter of last fiscal year. As I explained in the key points, Lake ALSA has had a slow start. Therefore, various measures are being taken to bring out the full potential performance of Lake brand, such as review website contents to smoothly navigate customers and further enhancement of advertising to improve this slow start.

Lastly, 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 new overseas loans in real estate finance and shipping finance. For the business performance, the amount of new commitments in the project finance increased, reflecting ongoing momentum in the domestic renewable energy projects area. In the real estate finance, the amount of new disbursements decreased in first quarter of this fiscal year compared to the same period last year. Due to absence of sizable deals concluded in first quarter of the last fiscal year, we continue prudent operations considering markets, risk return of individual deals and diversification of portfolio in the real estate finance.

This concludes my presentation. And now I'm happy to take questions from you. Thank you.

QUESTIONS AND ANSWERS

Hiroshi Iishi - *Shinsei Bank, Limited - Head of IR*

Thank you, Mr. Gupta. Okay. We will take any question from you. (Operator Instructions) So we will take any questions from you. (Operator Instructions)

Sanjeev Gupta - *Shinsei Bank, Limited - Senior Managing Executive Officer and Advisor to President & CEO*

It seems that there are no questions at this point in time, but we are always happy to receive questions via mail or have a phone call with you at an appropriate time convenient to you. So please do reach out to us. Thank you, and speak with you soon.



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