

FY2017 Shinsei IR Day (February 28, 2018)
Condensed Transcript of Q&A Session

Innovation of Customer Experience Value – Data Strategy of Shinsei Bank Group
Hiroyuki Torigoe (President & CEO, Shinsei Financial Co., Ltd.)

Q: You said you announced that Group companies will share a database on individual customers. Are you obtaining customers' consent to shared use of their data at the time of contract signing? In addition, is the data shared among your Group companies only?

A: We announced the database sharing arrangement on Shinsei Bank Group companies' websites in February 2018. By publicly disclosing details of the database sharing arrangement, including its purposes and what data will be shared, we are able to use personal data on an intra-Group basis indefinitely. Sharing customer data outside of our Group would not be consistent with the disclosed purposes, so the data will be shared among our Group companies only. Megabanks have likewise announced similar data sharing arrangements.

Q: With your AI credit screening model, do you aim to expand your customer base while keeping credit costs in line with their historical norm or do you intend to reduce credit costs?

A: The AI credit screening model will enable us to both reduce bad debts and amass high-quality assets while maintaining an optimum level of risk exposure. We will decide which of these to place priority on based on our Group's overall portfolio composition and earnings.

In the Consumer Finance business, we make small loans to a diverse pool of borrowers. By increasing the denominator (number of customers), we achieve greater risk diversification, which in turn improves our risk tolerance. We therefore currently intend to amass high-quality assets while keeping our risk tolerance constant.

Q: With AI-based credit scoring, will you be able to develop new businesses with unaffiliated companies in the financial sector or other sectors? Also, can you use these new credit scores in Shinsei Financial's business of guaranteeing regional banks' unsecured loans?

A: We intend to make AI-based credit scores and marketing scores available even to unaffiliated companies as an open resource. We want credit scores generated by our Group to be used as a metric of individual creditworthiness, just like Teikoku Databank's information is used as a metric of corporate creditworthiness. Toward this end, we are first standardizing credit scores within our Group. For example, we will enable even APLUS FINANCIAL to make credit decisions using AI-based credit scores.

In the regional bank credit guarantee business, we plan to utilize AI to provide better credit screening models to the regional banks with whom Shinsei Financial has partnered as a guarantor.

Q: Regarding the Shinsei Bank Group's unsecured card loan business's credit costs, why does your charge-off ratio differ from other lenders'? Is it due to a difference in your collection process?

A: Shinsei Financial functions as a guarantor of Shinsei Bank's Lake card loans. When grounds for subrogation of a loan occur, the loan claim is transferred to Shinsei Financial. Because Shinsei Financial replaces Shinsei Bank as the creditor during the collection process, I think our collection operations may not have functioned quite as seamlessly as other lenders'. With *Lake ALSA*, Shinsei Financial will start to lend directly to card loan borrowers, enabling it to manage all operations from

lending through collection. Its collection efficiency consequently should improve, as should its risk tolerance also.

Q: How will you differentiate *Lake ALSA* from its rivals? What factors will induce customers to choose *Lake ALSA* over competing products? What changes will the YUI Platform (an analytics platform that combines AI with the Shinsei Bank Group's customer database) bring about?

A: We plan to differentiate *Lake ALSA* by using AI to analyze customer data with the aim of upgrading credit screening and marketing and identifying market niches in which we have a competitive advantage.

Our Group does not have the resources (e.g., advertising budget) to compete effectively against much larger rivals. We will identify niches where we can succeed by changing how we compete and tilting the playing field to our advantage. New customer segments are arising in response to changes in the environment surrounding potential customers. For example, non-Japanese residents of Japan are using their government-issued ID cards to register as residents while freelancers (customers without proof of annual income as a company employee) are becoming increasingly common.