

Shinsei IR Day

Group Business Strategy to Generate New Business Opportunities

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Slide 1: Group Business Strategy to Generate New Business Opportunities (cover page)

Our job is to formulate and expeditiously implement customer-oriented and deliverable-service-oriented systems and strategies that leverage evolving technologies and transcend existing organizational and legal-entity frameworks. Additionally, we also form alliances with diverse partners that have technologies we may not be capable of developing alone, attractive markets/customers, information, tools and/or logistic capabilities.

We are working on a number of highly confidential potential alliances, so there are many things I am not at liberty to disclose here today. Nonetheless, my presentation should give you a sense of our strategic direction.

Slide 2: Strategy to generate new business opportunities

Our customers are accustomed to competitive services that meet their needs in all areas of their daily lives. They naturally want financial services that are fairly priced, fast and user-friendly. Additionally, customers are becoming very demanding and tough to please. They comparison shop and have no qualms about switching from one service provider to another.

While rapidly evolving low-cost technologies and modes of communication, development of networks that facilitate communication and the existence of Big Data analytics have given rise to customer trend analysis and new sales channels, they are creating an adverse environment for financial institutions by making it easier for logistically adept companies in other sectors to enter financial businesses. Amid such an environment, our primary aim is to seek out growing market segments in Japan and overseas and form mutually complementary alliances with partners, including companies in other sectors, to provide financial services, especially through consumer-focused financial businesses.

I will now present some easily understandable examples to better explain this strategy and vision.

Slide 3: Promotion of consumer finance business in Vietnam (1)

In Vietnam, we partnered with Military Bank to establish MCredit, a consumer finance joint venture in which we hold a 49% equity stake. Military Bank is Vietnam's largest private bank, with ¥1 trillion of assets, 200 branches and 1.8 million customer accounts, making it an extremely attractive partner. It mostly serves corporate customers but is now starting to turn its attention to retail businesses.

Additionally, we are building a financial services sales network integrated into Viettel's mobile handset sales channel. Viettel is Vietnam's largest wireless telecom carrier as well as a major shareholder of Military Bank. It has 50 million subscribers.

Slide 4: Promotion of consumer finance business in Vietnam (2)

One way the Shinsei Bank Group contributes to promoting its joint ventures' businesses is by injecting expertise, including risk management know-how and efficient operating practices, into them. By virtue of such contributions, MCredit achieved profitability within six months of opening for business. It has rapidly grown to some ¥10 billion of assets, roughly 100,000 customers and 3,000 employees at present. Our targets for year-end 2018, the second anniversary of MCredit's inception, are ¥30 billion of assets, 270,000 customers and 6,000 employees. We are endeavoring to build a business capable of generating operating profits commensurate with these targets.

Slide 5: Vision of non-organic strategy

We are focusing on geographic markets that, like Vietnam, have high expected economic growth rates and disproportionately young populations that are projected to grow. Specific examples include Indonesia and Thailand. We will seek opportunities to collaborate with local partners to develop financial businesses that capitalize on the Shinsei Bank Group's know-how.

Additionally, we are planning to deploy innovative consumer finance business models that utilize Fintech and/or AI and lightweight IT systems with low development costs and short development timelines. This approach can be used as a differentiation strategy or to develop products for 50,000- to 100,000-customer niches even in developed countries with mature markets. It can also be used as a commercialization strategy in countries without credit information providers or countries with underdeveloped financial infrastructure. We are targeting such markets.

Slide 6: Respond to the needs of underserved customers

I want to talk about our strategy of partnering with companies outside of the financial sector that want to develop financial services, particularly finance businesses, for growing market segments that are emerging in Japan.

We are targeting two such market segments. One is freelancers, individuals with flexible work arrangements. The other is non-Japanese residents of Japan, including workers with specialized technical skills who are alleviating Japan's labor shortage, trainees learning a skilled trade and students. What both segments have in common is that they are not adequately served by Japanese financial institutions that rely on conventional analytical techniques and personal information (e.g., occupation, employer, job tenure, nationality, proof of annual income) when transacting with customers. In other words, they are customer segments with underserved needs.

In both Japan and overseas, businesses are starting to emerge that successfully provide services to such customer segments by dynamically analyzing them and making credit decisions based on, for example, freelancers' track record, customer reviews, responsiveness to customers, cell phone records, social media posting habits and communication frequency.

I said at the outset that we implement customer-oriented and deliverable-service-oriented systems and strategies that leverage evolving technologies. To truly do so, we intend to seek out external business partners, team up with them, and meet the financial needs of customers in newly growing market segments whose needs are not being met by today's financial institutions.

In these market segments, we aim to provide services synced to customers' lifecycles, including not only consumer finance but also business funding, self-investment funding to obtain professional credentials, and home mortgages and auto loans.

Slide 7: Provide products and services to freelancers

In the freelancer market segment, we acquired an equity stake in Lancers, Japan's largest crowdsourcing company, in late 2017. We are working on developing products that will support freelancers more actively and enhance their convenience.

Slide 8: Expand products and services to non-Japanese workers

In the non-Japanese resident market segment as well, we are actively communicating with potential partners in the aim of providing services to non-Japanese residents from before they enter school or get a job in Japan and then continue to serve them over a multiyear to multi-decade timeframe.

With the existing services the Shinsei Bank Group is able to provide, there are limits to our ability to meet freelancers and non-Japanese workers' underserved needs in a customer-friendly manner. We therefore intend to actively partner with companies that are leveraging evolving technologies.

We believe that such collaboration will ultimately lead to formation of and participation in what is currently known as a business ecosystem.

Slide 9: Conclusion

Our attitude toward uniqueness, niches and differentiation is that instead of covering all domains in which the stereotypical financial institution must be involved, we intend to partner with unaffiliated companies to provide services micro-targeted at market segments with underserved needs (i.e., segments not adequately served by the exclusive mindset typical of Japanese financial institutions).

Potentially lucrative underserved market segments in Japan include foreign tourists and senior citizens. We are looking into how we can help senior citizens navigate the final stage of their lives, including preparation for death, in addition to the areas of medical care and health promotion. We are working on business models within the sharing economy also. Services that typical financial

institutions provide to senior citizens include, for example, estate planning and business succession. By contrast, we believe senior citizens may be able to live out the remainder of their lives more comfortably and better transition into stable long-term care by liquidating or otherwise monetizing their assets.

An example of a recent domestic acquisition is Nissen Credit Service (NCS), a credit card issuer with a very unique business model. It has assets of ¥50 billion and 900,000 cardholders, 90% of whom are women. Cash advances and revolving credit account for nearly 40% of its transaction volume. We co-own NCS with Nissen as 50:50 partners. While we provide credit cards, installment sales credit and cash advances, Nissen is growing its sales through the catalog channel. Amid e-commerce's ongoing growth, we believe partners with completely different aims can team up to run businesses together. We are pursuing business and sales-channel alliances also.