

Q&A Session: Group Business Strategy

Q: First, Goldman Sachs Securities, Mr. Nakamura. There are two questions. Please show the quantitative hurdle rate for M&A. ROE 8% is the medium-to-long-term target. Five years later, are you aiming for ROE 8%?

Second question, non-continuable growth opportunities will allow income from new businesses. What percentage are you expecting in the medium-to-long-term? A rough image will be fine.

A: Let me respond to that question. M&A quantitative target, I think this will be the investment amount. Shinsei Bank Group is a JPY10 trillion financial institution group. CET1 ratio is a little less than 11.6%, and the denominator risk-weighted asset is around JPY7 trillion. When we came up with the medium-term strategy, CET1 ratio 10%, and the efficient utilization of capital is our target. 1.5% of JPY7 trillion, which is JPY100 billion. Using JPY100 billion, we will pursue M&A, and with M&A, some may be large scale.

I mentioned the three areas of the non-continuable growth. There may be some quantitative M&A transactions with over 10 % of ROE and low expense-to-revenue ratio. Of course we are looking for the areas where we can leverage know-how of Showa Leasing and APLUS in small scale finance but it is not that easy.

It is necessary to generate "equal growth" between business and market to resolve goodwill sooner, although it depends on the balance between purchase price and net profits of the acquired companies. M&A transactions which accelerate growth by utilizing our capabilities would be ideal.

Companies like anew to take in new technologies, that's JPY1 billion investment, not large, will generate higher ROE by shifting in-house technologies and managing risks.

Third is ecosystem. In the ecosystem, we will do joint ventures and alliance with many companies and use money for that. But that may not be a large amount at the initial stage. It may be large if the area expands, so that would be high ROE business including return on investment in non-financial sectors.

Now, non-continuable growth, what will be the level in 10 years' time? That was your second question. At least 10% of the portfolio, and 30% if possible, it does not exist now, but in the next 10 years, we want to create those new businesses. We hope it will account for 30% of our portfolio. That's the strategy we have in mind.

Q: For targeting foreigners to promote the ecosystem, what are the challenges?

A: To expand foreign workers, crimes or troubles need to be considered for financial institution as a challenge. In other words, it will be difficult to expand the business with a certain speed as we need to check the transactions with foreign workers in details.

In fact, there were 300,000 of foreign students and workers that came to Japan last year. In reality, there's about 2% of those who were forcefully sent to their home country and they were rejected to enter.. Such aspects need to be considered when we do business with them. As I said earlier, as foreign workers, or accepting foreign workers as our colleagues, similarly, crimes and trouble need to be reduced as much as possible. In that sense, the information in the ecosystem, such as financial risks or a lot of concerns, not only reflecting them in system, but the employers of workers, or developing such workers, have similar points. By sharing information, we would like to take measures. That is the area which we feel is the most difficult. By partnering with various companies to create an ecosystem, we would like to minimize such risks to emerge as much as possible.

One difficulty in foreign workers is companies who want to hire Japanese and foreign nationals, there may be conflict in the future. What I mean by that is foreign nationals come to Japan and they get trained for a few years, acquire the language and skills, but the new skills will be such that foreign nationals will have the right to choose jobs or companies that they want to work for. Foreign nationals we brought to Japan and trained and become full-fledged people who can work, may go to another industry, another company. They may choose to go to another company. The companies who are aiming to be the receiver of the foreign nationals may be dissatisfied. The same for the Japanese nationals. Japanese national workers are trained, but they may go somewhere else, so same thing. This ecosystem needs to be understood and tackled from broad perspectives including career changes and career supports This implies multiple business opportunities and we aim to collaborate with large human resources companies.

Q: What is the business acquisition target in terms of the area, domain, geography?

A: In our business strategy, our M&A target is, as I mentioned in the previous presentation, in overseas markets, APAC from Pan-Pacific to around India in Southeast Asia. This is the area where we are looking for M&A opportunity. The M&A deals that we are after are where we can utilize our capability. For example, small-scale finance including Showa Leasing and

APLUS, we want to maximize usage of our capability, and in Southeast Asia, we already have a company called M Credit in Vietnam, with Military Bank. A large mobile carrier company Viettel also provided equity investment in M Credit. We want to collaborate with companies that have customer base and information, and the companies with growth potential backed by the country. Those are the ones that we will look for possible M&A target. Business size will be a couple of billions yen from a start-up phase to expand a couple of tens of billions yen.

Q: Regarding Shinsei Bridge, could you please give us a specific content of Shinsei Bridge?

A: The specific goal of the Shinsei Bridge is accumulation of information. Banks have accounts, and group-member companies including card companies, which has the settlement or payment information. Using such information, we cannot meet the needs of the companies developing the business with that information only. So, targeting the owners of the information, we, of course, will be owning various information, not only financial information, this Company Shinsei Bridge is currently a wholly-owned subsidiary. Maybe it will be owned jointly with other different sectors. There could be Shinsei Bridge number one, two, or three. It depends on the intention of the companies, for example, for ecosystem or service position. For example, who is going to be the owner of the information? As mentioned earlier, information, which is not only financial information, by obtaining such non-financial information, we are considering creating scores centered on it. That is the aim of the Company.

Q: The advanced technologies that you mentioned, which is the area that you are particularly focusing on?

A: It is AI (Artificial Intelligence). The image recognition AI, and language recognition AI. We can utilize this in many ways. In particular, today, I talked about foreign nationals. One example on that is, foreign nationals have limitation in understanding foreign language, so in nursing care, accommodation, hotels, and restaurants, there is language that the foreign nationals cannot catch, and so, the voice is analyzed, captured. Voice recognition and what can be expected from voice recognition is very important to provide better services. Sharing roles between capabilities of human beings and AI will enable foreign workers to immediately contribute the society. Needless to say, image recognition for eKYC is crucial.

Q: Could you please give us an example of specific initiative for the data usage?

A: When foreigners come to Japan, let's say apply to freelancers, when they change jobs, they lose what they used to have. It's not going to be from scratch, but they will have to restart, with no profile. Foreigners cannot use what they have accumulated as experience in their home country. Since they are in their home country, when they come to Japan, the behavior or the services they wish for in Japan will be positive for advantage for using the services will be analyzed locally and utilized. Such data usage will be needed. After they come to Japan, for example, the attendance rate of the Japanese language schools, or their performance, or toward the future, their wish to be developed. Such information that can be gathered, and they will create scores based on such information and will consider their future value. We would like to offer services that are not available by ordinary financial institutions or other companies. They offer such foreigners additional services.

Q: For the foreign ecosystem, what will be the partner companies? When you partner with external companies, what is your target and policy?

A: The foreign workers come to Japan, and the biggest point is the employment, to have stable income. I mentioned some examples where we are promoting collaboration, alliance, so the intermediation for finding jobs for foreigners, the companies that are in that business will be the core target. Language or companies that develop and offer application to acquire language very quickly. And, nursing care is an important business, we think. This is rather detailed, but we have the Japanese language proficiency test, which is from N5 to N1, from first grade to university-level language skill.

In nursing care or construction site or in hotels, will they be able to have full-fledged capability just with language? The answer is no. They need the technical language, technical phrases, and industry-specific learning. First, they need to acquire Japanese language, but not just that, they need to also acquire the terminologies in each specific industry, or under their separate set of exams, that support them to do that. We need to collaborate with such teams to do that. This ecosystem also has companies that are close to those industries.

Q: Foreign workers may not necessarily be affluent people, and they be the target for small-and-medium-sized companies. How are you going to generate profit from them?

A: The foreign workers, of course, when they start, they will start from low-income. However,

as they live, including consumption, they have strong consumption update, and when they bring families to Japan, in order to adapt to Japanese authority, there are a lot of funding needs. Not only foreign workers, but also the Japanese language schools to accept them need to be expanded. There will be working capital needs or various needs from them. As for foreign workers, account receivables of tuition might be securitized. It also might be necessary to develop scoring system to discount tuition amounts as the academic results are improved.

Foreign workers themselves will create new needs or consumption. Not only that, but also, once the ecosystem developed for workers is created, then that allows various funding needs. Fees or interest for foreign workers, not only that, but to support them. This is the same for freelancers. There are a lot of groups of companies to support them, and there will be the funding needs from those companies. Using various methods, we believe that we can support those companies.

Q: Labor shortage. If you think of further ecosystem from the labor shortage point of view?

A: Today, I focused on foreign nationals, but of course, freelancers are another target that we are after. One point I did not mention this time is, many Japanese companies are promoting workstyle reform and accepting more flexible workstyles. Freelancers who left a company or choose to work as freelancers looking for flexible workstyles, it is now changing. Japanese companies will promote workstyle reform and become more flexible. Freelancers may decrease, and we will see more full-time workers who can enjoy flexible workstyle, and the human resource may become more mobile and play more important roles in the future. Furthermore, recurrent education to support housewife to develop their careers, flexible payment system of salary, insurance products about income, securing co-working space will be necessary. We aim to provide such services under the ecosystem with non-financial sectors. Like foreign workers, they may have more qualifications and want to study to accumulate experience or work or study abroad, which will create financial needs.

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