

Shinsei IR Day (Held on February 24, 2021)

UDC Finance Presentation Script

Good afternoon, I am Kobayashi from Group Overseas Business Division.

Today, we would like to introduce UDC Finance limited, the largest nonbank in New Zealand, which Shinsei Bank Group successfully acquired on 1 September 2020.

Let's start by a brief introduction video from Wayne Percival, CEO of UDC.

(After Video ends)

Now we will explain about details of UDC.

Slide 2: Immigration drives growth, still area to grow

Some of you may not have taken an interest in New Zealand till now.

I would like to look at some basic statistics to understand well about New Zealand by comparing that of Japan.

First, let's look at population.

- The current total population of Japan is around 126 million, which decreased around 2 million from 10 years ago. On the contrast, New Zealand is 5.1 million which is only 1/25 compared to Japan. However, due to immigration policies of the government, the population has increased 0.7 million in the past 10 years.

Second, let's look at land area and population density.

- The land area of New Zealand is around 260k km², which is 70% compared to Japan. On the other hand, the population density is 19 / km². Since the population density of Japan is 332 / km², it is only 1/17 compared to Japan.

New Zealand will continue immigration policies, and there will be continuous population increase, positive impact to economy expected.

Slide 3: Attractive GDP per capita growth rate in NZ

Let's look at GDP comparison.

- GDP amount of New Zealand is 552 trillion Yen.
New Zealand is 23 trillion Yen, therefore New Zealand is only 1/25 of economic scale compared to Japan.
However, "GPD per capita" of New Zealand is 4.53 million Yen, which is 0.13 million Yen higher than Japan.
The numbers imply the high productivity of New Zealand economy.

GDP growth rate is significantly high.

- The average GDP growth rate of Japan for the past 10 years is 1.1%.
New Zealand is 2.6%, which is significantly higher than Japan.

We believe that New Zealand is very attractive as target for investment due to increasing population as well as steady and high GDP growth rate.

Slide 4: Significant recovery of economy during COVID

Last year, many countries had negative impact to economy due to COVID.

Let's look at the impact on New Zealand economy.

- New Zealand economy had stable growth until 2019.
Though due to the COVID, the quarterly GDP growth rate dipped -11% in June.
- Afterwards, New Zealand has succeeded in containing the spread of COVID infections and the GDP growth rate has significantly recovered to +14% in September.
Considering that Japan's GDP growth rate dipped 8.3% and recovered to only 5.3%, we can see the fast and high resilience of the New Zealand economy.

Slide 5: Non-bank sustain higher growth in loan asset-

Let's look at some basic metrics to understand about the non-bank market.

First is the loan asset growth rate. Non-bank market is a highly growing market.

- Loan asset growth rate is 5.3% for bank while for Non-bank it is 8.2%
- RBNZ tightened regulations for banks, restrictions on equity ratio resulted in banks to avoid focusing on noncore business area

Slide 6: UDC is the No.1 non-bank in New Zealand

Second is the market share of UDC.

- UDC is the largest non-bank in New Zealand.
They have significantly higher market share than the second largest non-bank, which is Latitude.
- The commercial loans as well as dealer loans are the core business for this company.
The market share of UDC is No.1 in each industry in New Zealand, 23% in Consumer market and 24% in Motor Vehicle Dealer market.

Slide 7: Strengths of UDC-1

Let's review the strengths of UDC.

First, again, is the Loan asset.

- UDC has a lot of sales channel with many affiliate loans with many dealers.

Second, is the high brand recognition.

- UDC has business history of over 80 years with asset-backed finance as the core business.
The contribution with long history to the growth of New Zealand has resulted in high recognition.

Slide 8: Strengths of UDC-2

Third, is the portfolio diversified by industry and covers New Zealand entirely.

- The largest customer portfolio is motor vehicle loan, followed by construction, road freight, therefore the customer portfolio is significantly diversified.
- In addition, UDC has sales offices located throughout New Zealand.
Thus it is possible to reach customers in any region in the country.

Slide 9: UDC sales portfolio and channels

Let's review the business of UDC.

- UDC provides credit to domestic individual customers and corporate customers.
- UDC's business comprises of two key segments, Dealer channel and Commercial channel.
The breakdown of loan asset of portfolio is as follows: Dealer channel is 55%, Commercial channel is 45%.

Slide 10: Dealer channel

Let's look at the Dealer channel, which is the largest channel.

- Financing for Motor Vehicles for Individual Customers is around 3/4 of the total portfolio.
Combined with Financing for Corporate customers is around 85% of the total portfolio.
- UDC has contracts with 10 distributors, provide Financing for 14 MV and equipment manufactures.
Motor Vehicle brands include Ford, Honda, Suzuki, Mazda which are also familiar in Japan.
- Equipment dealer finance is mainly provided to farmers or farming contractors for their tractors and other equipment.

Slide 11: Commercial channel

Next, let's look at Commercial channel.

- This channel provides loans for purchasing trucks, trailers, logging equipment and so on for corporate customers.
- The source of strength is UDC's deep knowledge of customer industry and high brand recognition.
- Freight, forestry, construction, farming consists of more than 70% of the loan volume, which are core target of UDC.
- Sales regionality is dispersed. Northern Island accounts for 57% and the Southern Island accounts for 43%.

Slide 12: Business performance is driven by several performance metrics

Next, let's look at several key indicators such as New business writing, Loan asset, Net interest margin, Expense ratio, Credit cost and Net income, which are important for UDC business.

Firstly, it is important to expand the sales of new loans and grow Loan asset size in a loan business.

Secondly, the profitability of a loan business is achieved by increasing interest and fee revenue, controlling the process and decrease credit cost. All these activities will lead to the high net income of a loan business.

In other words, the business growth will be able to achieve by managing these performance metrics.

Slide 13: Key Indicators of UDC-1

Let's look at key indicators from New business writing and Loan asset.

New Business Writing is 1,600 million NZ\$.

- In 2020, New business writing was impacted negatively due to COVID.
The Business plan in this year targets to recover back to same level as before the pandemic of COVID

Loan asset is 3,350 billion NZD.

- As mentioned, shrink in New Business Writing led Loan asset decreased from the previous year end.

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Slide 14: Key Drivers of UDC-2

We review Net Income Margin which is the source of revenue

- In New Zealand, the Official Cash Rate has downtrend, but by avoid excessive interest rate competition, therefore Net Income Margin stays at 4.4%, and remains high profit structure

Second is the Expense ratio.

- Under the COVID pandemic, Expense ratio is 26.7% in current due to its efficient operations.

Slide 15: Key Drivers of UDC-3

Next we review Credit cost and Net income.

- Last year, UDC required to increase CP/IP due to COVID.
As a result, currently there is enough provision prepared for any upcoming risk.
- As mentioned above, UDC recorded stable Net income under the COVID pandemic.

Slide 16: Stable Funding

I will explain the funding of UDC.

The three main sources of funding are securitization, parent loan, ANZ facility.

- Securitization is the largest source of funding, asset backed by Motor Vehicle Dealer loan assets and equipment loan assets.
Currently foreign banks such as Australian banks are the main investors.
But in the future, we plan to consider securitization by including investors other than banks and Japanese investors.
- Parent loan from Shinsei Bank is the second largest source of funding.
Shinsei Bank provides Term Loan and Commitment Line.
The Commitment Line works as a buffer in case the loan amount from securitization is lower than expected.
- ANZ facility is the smallest source, receiving loans from the previous parent company, Australia and New Zealand Banking Group.
The purpose of this facility is to maintain high liquidity of New Zealand based finance.

Slide 17: New Opportunity after Shinsei purchase

I would like to introduce some of new initiatives after the acquisition of UDC.

After Shinsei Bank purchased UDC, UDC already released new AFV (Assured Future Value) product last October.

- About the background, several MV Dealers have requested the needs for having AFV product.
- AFV product is growing to become a major Motor Vehicle product in New Zealand.
Therefore, UDC released the new product for Sales agencies related Ford, Isuzu and Hyundai brand cars.
In the near future, the product will be extended to Suzuki and Mazda.
- We plan for loan asset about 150 million NZD for this product in the next 5 years and for revenue about 6.8 million per year.

In Addition, Motor Vehicle dealer loans targeted mainly for new cars.

But in the future, we plan to proactively provide loans for used cars in order to expand customer base.

The last point in this year is to focus on speed, and will take action to: 1) Expand scope of auto assessment, 2) Simplify customer App form submission, 3) Release smartphone ID authentication.

We will improve customer experience through these actions.

Slide 18: Oversea business expansion

Lastly, let's talk about the Oversea business expansion in the future.

- First point is targeting to invest Oceania region, like Australia and New Zealand which are expected to have steady economic growth and Southeast Asia area where we can expect high economic growth.

- Second point is we would like to expand business itself and the surrounding area through the platform companies and business partners.

- Third point is about the target business.
We would like to focus on small-scale finance, which is the focus area of our Midterm Business Strategy, as an area where we can leverage our know-how.

From above mentioned three points of views, we would like to expand our overseas business proactively.

This is the end of the presentation related to UDC. Thank you for your attention.

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