

Shinsei IR Day (Held on February 24, 2021)
Unsecured Loan Business Presentation Script

I am Torigoe, in charge of the consumer finance business. I would like to talk about the growth strategy for the unsecured personal loan business, one of the small-scale finance businesses as the focus area of our Medium-Term Strategies.

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We have self-contained model and value-co-creation model as the strategic pillars of our Medium-Term Strategies. Through the synergies between them, we are working to realize sustainable growth.

In the unsecured loan business for individuals, we are also implementing a growth strategy based on this basic strategy.

I would like to talk about the overall picture focusing on some important points.

There are 3 points for asset growth in “self-contained model.”

The first is earning power, earning capability. This refers to the operational strengths of the unsecured loan business as a 3-pronged mechanism to generate earnings utilizing marketing, risk management, and operations capabilities. This strength is enabling sustainable business development even in the COVID-19 calamity.

The second is operational reform to improve productivity.

We are undertaking various initiatives to significantly improve productivity, such as reengineering business processes and building core systems in a cloud environment. Through this operational reform, we will improve customer approval rate, which is an asset growth driver, to around 40% without deteriorating the quality of our portfolio and bring it to a competitive level with our peer companies.

The third initiative is to further improve our credit collection capabilities.

Full utilization of digital technologies will reduce operations that have previously been labor-intensive. It will allow us to optimize our credit collection.

In addition, we allocate the time generated by productivity enhancement through the optimization of credit collection operations to highly skilled employees to maximize credit collection.

We have launched a new project to achieve this goal.

Next is Value Co-Creation Model.

What I want to talk about here is to build a new collaborative structure with partners by leveraging the strengths we have cultivated in “self-contained model.” Through our business to date, we have enhanced our organizational capabilities to provide tailor-made financial service functions in a dynamic and flexible manner.

Taking advantage of these strengths, we will continue to expand strategic alliances with partners that have customer bases which we cannot reach through “self-contained businesses.”

We will explain these details from the next page,

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This slide summarizes the current positioning of “unsecured personal loan”, today’s theme, within small-scale finance under the Medium-Term Strategies.

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This slide illustrates the relationship between the two business models in our Medium-Term Strategies.

It is a recycling-oriented business model based on interactions in which we pursue growth opportunities by developing value co-creation model with partners, based on the strengths of self-contained model.

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Next, I will explain the environment surrounding unsecured personal loan.

In the domestic consumer loan market, the total market size is approximately JPY10 trillion, including about JPY 5.8 trillion of credit guarantees mainly consisting of bank card loans, about JPY 2.5 trillion of unsecured personal loan and about JPY 1.4 trillion of cashing through credit card.

Looking back at the trends in outstanding balances over the past 10 years, there was an extremely large change in the environment.

In response to the full introduction of the total card loan amount threshold regulation for non-banks in June 2010, operating assets in both unsecured personal loan and cashing shrank significantly.

As a result, bank card loans grew at a rapid pace to compensate for this sharp decline in non-bank card loans.

However, due to the widespread voluntary restrictions on bank card loans, asset growth has been restrained sharply, and the total outstanding balance has declined.

Cashing also struggled due to the controlled sales promotions under total loan threshold regulations, hence its outstanding balance shows a downward trend.

On the other hand, unsecured personal loan business has been resilient, while the outstanding balance has been declining due to the COVID-19 calamity, the growth rate over the last 3 years is +6.9%.

The main reason for this balance shift is that the customer segments, which had previously used bank card loans and cashing, is flowing into the unsecured personal loan market.

Looking ahead, asset growth in unsecured personal loan, which has robust credit limit monitoring mechanism, is expected to continue. I believe that we can have competitive advantage in our growth strategy centering on the money lending business.

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Next, I would like to explain discontinuous structural changes in the market environment.

The slide provides an overview of the environment surrounding the unsecured loan business.

Red arrows indicate threats and blue arrows indicate countermeasures to address them.

As for the macro environment, we will implement a strategy that adapts to paradigm shift that will overturn the major competitive conditions so far. For example, we are focusing on a project to realize the optimization / maximization of credit collection through the integration of digital and analog capabilities.

To achieve sustainable asset growth even in the Covid-19 calamity, we will work on improving credit collection capabilities, which are the source of our competitiveness.

Next, in the micro-environment, market penetration by non-financial players threatens to erode our customer base. However, we will address this threat by raising our origination capabilities by increasing the approval rate as well as by co-creating new values with partners.

Finally, as an internal environment, we are under structural pressure that will reduce our core profitability over the medium to long term. In response to this, we will continue to improve productivity by implementing operational reforms from scratch, such as rebuilding core systems in the cloud environment and reengineering business processes.

We will maintain our management strength so that our profitability cannot be undermined even under the new normal environment.

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This slide depicts the relationship between self-contained model and value co-created model in the unsecured personal loan business. We will develop new growth opportunities by approaching customer bases that we have not been able to reach in the past through strategic alliances based on value co-creation model by utilizing the earning power we have cultivated in the Lake business as a source of our strengths.

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Next, developing value-co-creation businesses requires “strengths” that can be selected by partners.

This slide shows our main strengths from the perspectives of marketing, risk management, and operations.

The first is marketing.

The Shinsei Bank Group has a national brand, Lake, with more than 50 years of history, which is highly attractive to customers. Compared to our competitors, we have a higher efficiency of customer acquisition and have strengths in sales capabilities. We will continue to position the Lake brand as our largest asset-growth driver and actively invest resources in YouTube, LINE and other digital advertising.

In addition, we will provide a balanced lineup of various products to meet the needs of our customers, including support loans for disaster damaged areas that are conscious of "Social" of ESG.

The second is risk management.

Our greatest strength of risk management that we developed in-house with a set of risk management frameworks, including risk measurement, evaluation, and control. Our scoring model is also internally developed and is not reliant on outsourcing. As a result, we can build tailor-made scoring model according to characteristics of customer bases. This allow us to provide flexible risk control.

Another strength is that the Shinsei Bank Group has a FinTech company called SecondXight and is conducting technical collaboration in the field of artificial intelligence.

The third is operations.

Regarding operations, I think that it is difficult for external people to assess evaluation and to see our operational capabilities. However, value co-creation model requires the establishment of business management systems in compliance with the Money Lending Business Law and the Banking Law. Hence, this operation will be extremely powerful in creating new value co-creation projects while it is hidden behind the scenes.

One of our strengths is our ability to develop systems that enable us to internalize core business systems, the existence of a specialized organization that is responsible for designing and building lean business processes, and our ability to fully utilize the credit servicing functions of one of our Group companies, Alpha Servicer.

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Next, we introduce specific examples of our efforts to improve productivity.

To significantly improve productivity, we are currently working to reengineer our business processes starting with observations by OODA Loop, in addition to restructuring our business systems in a cloud environment.

Please see the graph of approval rate on the lower left of the slide.

This graph shows the trend of the approval rates for the four major unsecured personal loan companies.

Lake ALSA's approval rate had been around 30%. It has been improving recently as a result of a task force findings to improve the approval rate as well as cross-organizational efforts to improve productivity in December 2019.

In the meantime, the quality of the portfolio has not deteriorated. In other words, we are not taking excessive credit risks. We believe this is the result of productivity improvements that have prevented customers from withdrawing in the middle of approval process.

We will continue to strive to improve productivity and minimize customer withdrawal, thereby gradually raising the approval rate to around 40%, to a competitive level to peers.

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Next, I will explain our efforts to raise the level of the credit collection capabilities.

We believe that the results of the Collection Task Force activities launched about 3 years ago have enhanced our credit collection capabilities. However, we will work to optimize and maximize our credit collection capabilities for further improvement.

First, let me explain the optimization of credit collection.

We will use digital technologies, such as OCR/AI/RPA, for labor-intensive operations. These technologies improve the productivity of the credit collection activities. It will result in reducing the total workloads.

Next, we will generate the surplus time through the reduction of total workloads by optimizing collection.

We then prioritize the allocation of such surplus time to highly skilled employees. This reallocation of management resources allows us to refine our assessments of collectability and to maximize collections. In addition to utilizing

digital tools, we also believe that we need to integrate implicit knowledge relating to analog skills, collection capabilities and such as know-how, with digital technologies successfully in order to maximize collection.

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This slide shows our efforts in value co-creation model aimed at realizing sustainable growth.

Leveraging our strengths in self-contained businesses, we have been focusing on developing value co-creation projects starting from credit guarantee businesses with regional banks while steadily expanding our alliance partners, such as NTT DoCoMo and Nissen. We are planning a press release on our business alliance with a new partner in the near future.

Finally, we will pursue further growth opportunities by expanding customer bases through new business alliances with new partners as a part of our value co-creation model by leveraging the strength of self-contained model in order to achieve sustainable growth while the growth potential of the domestic consumer loan market slows down. To achieve growth opportunities in the unsecured personal loan business, we continue to strengthen our organizational capabilities, which can provide tailor-made financial functions in accordance with the strategies of our partners.

Thank you very much for your kind attention.

(End)