

# BofA Securities 2020 Japan Conference

## Presentation script

This is Kudo, the President and Representative Director of Shinsei Bank.

Thank you for giving me the opportunity to make a presentation at this time. Today, I would like to explain the strategy of small-scale finance, which is the focus area of the medium-term management strategy. We will then receive questions from investors.

To illustrate the positioning of small-scale finance, I will briefly explain the profile and strategic position of Shinsei Bank Group as a whole. Please go to page 4.

### [Slide 4]

- This is an overview of Shinsei Bank Group's line-up of products and services.
- Institutional and Individual businesses as they are broadly categorized, though they are not engaged in all operations, they are working in niche areas. One of the characteristics of our financial group is that we place importance on the non-bank field, such as leasing, unsecured loans, credit cards, and payments.
- The point here is that customers no longer want services categorized as banks, credit cards, and consumer finance as traditional businesses.
- Shinsei Bank, consumer finance companies such as Shinsei Financial, shopping, credit card and payment providers, APLUS FINANCIAL, and Showa Leasing as leasing company are able to seamlessly link each other, albeit with a separate Institutional Business, to provide a uniform supply of what customers need and want. And the evolution of digital technologies is making this possible.
- Today's topic of "small-scale finance" is a typical business area. Please see the next slide.

### [Slide 5]

- The fifth page shows the strategies and results of the Medium-Term Management Plan from FY2016 to FY2018.
- Focusing on areas where we have strengths, our growth areas of unsecured loans and structured finance generated average annual growth rate of 10%.

- During this time, we launched a new brand, Lake ALSA, for unsecured loans.
- Please see the next slide.

[Slide 6]

- The sixth page shows the business model under the Medium-Term Strategies that began in FY2019. Our strategy is to grow by leveraging the strengths we have cultivated to co-create value with our partners, and to refine our strengths by bringing back the knowledge we have gained from them.
- Under the Medium-Term Strategies, we are focusing on "small-scale finance." This includes not only unsecured loans, but also services and functions such as shopping credit cards, credit cards, and settlement services. In addition to services for Individual Business customers, we are now on the brink of providing services to Individual Business' business owners, small-and medium-sized businesses, and micro-businesses, including leasing and factoring.
- The next section provides a detailed explanation of the strategy of today's topic, small-scale finance. Please see page 8.

[Slide 8]

- On page 8, we will explain our strategies for co-creating value with our partners by leveraging our strengths in various functions and capabilities.
- As shown on the left-hand side, Individual Business and micro businesses are our customers, and small-scale financing refers to the entire range of products and services that are conducted in a small-scale and frequently transacting credit and payments settlements.
- In this field, we have two strengths and capabilities.
- The first is data science that utilizes AI by linking our financial data with the activity data of partner companies.
- In AI technology, FinTech company, SecondXight, which are invested by Shinsei Bank, constructs statistical data by adding external data to financial performance data. Based on these data, it provides services including development of a score (SX score) using machine learning to utilize it for credit models and other purposes.
- In data analysis capability, data from each Shinsei Bank Group company is stored in a database in the cloud, and a foundation for analyzing such data is constructed. By

analyzing data on a common database, we can improve the efficiency of existing businesses and promote the creation of new businesses.

- Second, we have built up expertise and knowledge backed by our accumulated experience of in-house development of essential functions, such as loan collection, operations, and IT systems, that form the foundation of our unsecured loans, shopping credit cards, and settlement operations. These functions are often overlooked, but they are critical to the realization of a differentiated, profitable, stable, and small-scale finance business, but few companies have such skills.
- The right-hand side shows how we can make use of such products, services, and capabilities in co-creation of value.
- I would like to start by talking about self-contained businesses. In the negative interest rate environment of the Japanese economy, the lending business, which is dispersed in small-scale, is the only financial sector in which yields remain. This business is a major pillar of Shinsei Bank Group's business, which can balance between growth potential and profitability while controlling credit risk. At the same time, demonstrating success stories is a "showcase" that conveys the appeal to partners in a co-creation business. We focus on both financial and non-financial partners. We can participate in the ecosystem of our partners or work together to build the ecosystem and provide the required functions, such as loan collection, operations, and IT systems. As I mentioned on page 6, the data and experience gained in the ecosystem businesses which we have jointly created will also contribute to the refinement of self-contained businesses.
- The next page introduces specific examples of small-scale finance.

#### [Slide 9]

- On page 9, we explain the unsecured loan Lake ALSA as one example of showcases.
- Lake ALSA was launched as a new brand in April 2018. The Lake brand itself existed before Shinsei Bank commenced the unsecured loan business. By adding digital strategies to our brand recognition and enhancing our credit management and collection strategies, we are further expanding the fundamental earning power of the Lake ALSA. In addition, initiatives to further sophisticate our operations and IT capabilities are progressing.
- The growth drivers for the Lake ALSA contribute to an increase in new customer acquisitions, retention of current customers, and improved write-off rate. The next page

illustrates the track record.

[Slide 10]

- The left-hand side of page 10 shows trends in the number of new customers and the write-off rate.
- The number of new customers has declined in the most recent April to June period due to voluntary restraint during the COVID-19 peak period, excluding this, the number of new customers has increased since the launch of the Lake ALSA brand. One reason for this is the promotion of digital strategies, such as strengthening web advertising and online applications.
- The gross write-off rate remained stable in the range of 4% to 5%, indicating our capability to control credit.
- As a result of these growth drivers, Lake ALSA's loans outstanding increased by 2 times from its launch in April 2018 to JPY 77.5 billion in June 2020.
- Next, I will explain the initiatives that leverage the strengths we have honed in-house to co-create value with our partners. Please go to page 11.

[Slide 11]

- On page 11, we launched "Shinsei Bank Smart Money Lending" for Docomo users in August 2019.
- The aim of this initiative is to capture new customer segments that differ from the traditional consumer finance business segment by utilizing the "Docomo Scoring," a credit score calculated by each customer based on big data obtained from Docomo's wide-ranging business development.
- The capabilities of Shinsei Bank Group enable data-analyzing for marketing, credit screening know-how, and loan collection cultivated by the Lake Brand.
- The "Shinsei Bank Smart Money Lending" with Docomo is an example of how Lake's strengths became a showcase, and the company's value co-creation with its partners grew.
- The products and services we create with value are not limited to unsecured loans. Please see the next page.

#### [Slide 12]

- Page 12 focuses on the so-called "underserved" customer segment, which traditional commercial banks have not been actively focusing on through value co-creation with partners.
- The left-hand side shows the joint financing business with USEN-NEXT HOLDINGS. It provides USEN-NEXT GROUP's approximately 750,000 micro businesses with financial services such as shopping credits, vendor leasing, business credits, and lending.
- In August 2020, we began offering Business Credit Cards (Business Credits) sales credit for purchasing equipment needed for business operations and Business Credit Cards for managing daily expenditures to individual entrepreneurs and institutional customers with whom USEN-NEXTGROUP has transactions.
- On the right-hand side, we established Credd Finance Co., Ltd. in collaboration with Seven Bank to provide credit-related services to foreign residents.
- In order to meet the funding needs of foreign residents, Shinsei Bank Group will provide the functions and expertise of its credit card and purpose-specific loan businesses to Seven Bank's foreign customer base.
- As a first step, we began offering credit cards for foreign residents. We are also preparing to provide a purpose-specific loan.
- The partners that we co-create value for are not limited to these major companies. Please see the next page.

#### [Slide 13]

- On page 13, we explain the key initiatives that Shinsei Bank Group is making easier to use and easier to co-create value for all our partners.
- It is not only to provide financial products and services, but also to provide a digital platform that incorporates them.
- The aim is to provide financial services and settlement services that we possess through financial licensing to more partners who cannot provide them on their own. As a tool to achieve this, we provide a platform that is easy to use, enabling partners to select the products and services they need to meet their needs in a cafeteria format, and to link them with their apps and systems. Neo-bank platform BANKIT enables partners who are unable to build their own financial platforms to use BANKIT to provide financial services to their customers.

- Please go to page 14 to summarize today's points.

[Slide 14]

- Behind the financial products and services there are various functions that are indispensable, such as operations, IT systems, and loan collection functions that support them, utilizing massive amounts of data and technologies such as AI. The picture on the left shows unsecured loans as an example, but the same applies to other products as well.
- The upper right part shows that we can only provide partners with some functionality as components. The bottom right part of the chart shows that Shinsei Bank Group's products and services are selected in a cafeteria format, and the digital platforms equipped with these products and services are bundled to enable partners to make them part of the products and services they provide to their customers.
- From the end-user's perspective, this means that non-financial services and financial services are provided seamlessly. People purchasing products and services from partners will be able to obtain their desired products and services conveniently without being aware of the existence of financial services. This is what we are aiming to achieve with our partners through small-scale finance.
- This is not the idea of product-out in traditional financial institutions, nor the idea we dominantly capture customers. At the root of our small-scale finance the idea to focus on personalizing the ultimate needs of our customers by providing partners with the functions that we use to succeed in our own business as a supplement to their shortcomings, in other words, creating values by customizing our partners' needs. Through this co-creation business of small-scale finance, we will be able to provide services to a very large number of customers that we have not previously reached.
- The small-scale finance strategy and various initiatives I have introduced today are still in the process of developing. We will continue to increase the number of partners and use data and AI to increase the sophistication of our business operations. There is also plenty of room to improve UI/UX. We believe that further promoting these initiatives will increase Shinsei Bank Group's corporate value. We hope that you will look forward to our future efforts.

This concludes my explanation.