

FY2020 Third-Quarter Financial Results
Teleconference for domestic institutional investors (Held on January 29)
Q&A Summary

Question: I have two questions. JihSun, the equity method of Taiwanese company, is now receiving TOB offer. As a shareholder, what point would you consider if you accept the offer? Will the capital gain be included in the calculation for the share buyback?

The second question is regarding your main business, which seems tough. The interest income, although you said it is in line with the plan, it continues to decline. How are you going to enhance this? Noninterest income is behind the plan. Which business areas do you expect to grow toward fourth quarter going forward?

Hirano: Considering TOB offer to our equity method of company in Taiwan, there are a lot of factors including their future contribution to our earnings or others. Sorry, but I cannot give you detail.

Though we have not taken the concept that we include this or not in the calculation for share buyback, we remain unchanged to consider case by case. So, at this point, it is difficult for us to give you a specific answer.

To your second question, as I explained, one of major factors is overseas interest rate declined and the other is unsecured loan balance decreased, and average balance decreased.

Overseas interest rates have bottomed out. If we see an increase in overseas interest rates, interest income will also increase. As explained, we are seeing the signs that the balance of unsecured loans finally are bottoming out. Together with improvement of approval rates, we are expecting the recovery going forward.

Regarding noninterest income, this is the area behind the plan. We have lots of initiatives. For example, the alliance with Monex in the areas of asset management products in Retail Banking.

Interest rate derivatives are improving in line with the improvement in Structured Finance, while it is difficult to gain customers' agreement for foreign derivatives under the current environment. There are pipelines and there's room for recovery.

Question: I have two questions. One has to do with slide 16 and credit cost for corporate business on slide 11. The number of applications and approval rate are recovering about

Lake ALSA. Ever since the State of Emergency was declared in January, has there been any change? If you could, could you supplement your comments.

It seems approval rate on a monthly basis is improving, which is recovering from the first half. Considering that, what's going to be the outlook going forward? I think approval rate at this time tends to be low in terms of seasonality. Is there an impact on asset quality?

With respect to credit costs, the balance of precautionary reserve for the Institutional Business was JPY 2.0 billion as of December 31. There was some reversals for retail sector. What's going to be the plan for the reversals for other sectors? If there's anything that you can share, I'd appreciate it.

Hirano: I'd like to answer your questions one by one. Just briefly, I would like to elaborate on the monthly change. On the left-hand side, if you could take a look at quarterly change, there is an improvement since last year. But within this fiscal year, it appears it's more or less flat. On the right-hand side, you can see 34.3% in December.

We have renewed the systems in October as previously mentioned. In October and November with new systems introduced, the operators have had to get used to the system and it took some time, therefore, pushing down productivity somewhat. But in December, operators got used to the new IT systems, and improvements started to kick in.

We are seeing incremental improvements due to new IT systems together with the process improvement. We expect this to further go up and improve.

The impact of the declaration of the State of Emergency in January is not seen at this moment.

With respect to asset quality, the main reason for the approval rate is due to process improvement, as I said. We are not taking applications from poor credit customers. I hope you'll understand that.

With the declaration of the State of Emergency, if economic activities slow down causing decline in demand for funds, that could potentially give negative impact on the approval rate going forward.

As we've been explaining, there will be a transition from precautionary reserves to the reserves necessary for individual obligor classification. During Q3 period, we took a close look at the retail sector, and we concluded precautionary reserve was no longer necessary for the sector.

In some areas such as aircraft financing, there remains precautionary reserves. A year has been passed under COVID-19, transition from precautionary reserves to the reserves

necessary for individual obligor classification will be adopted.

Question: I have one question. You have stated the assumption for the second half at the time of 1H financial results. For example, new disbursements for real estate finance declined by 50% YoY and new project's finance commitments declined by 20% YoY. Are there any changes on those forecasts after the third quarter ended?

Hirano: Basically, what we presented in the first-half results, those forecasts remain unchanged. The areas you just mentioned have no changes and the results are shown on third quarter results.

Question: On a consolidated basis, JPY 0.9 billion of profit attributable to noncontrolling interests was recorded on a quarterly basis. Is this associated with the subsequent event? If you could, please elaborate on the background of this.

Hirano: Impairment of shares owned by a subsidiary is posted to both profit attributable to noncontrolling interests as well as loss in non-NII, resulting in the negative of JPY 0.3 billion on a net basis. This is different from the subsequent event we have already announced.

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Question: My question was with regard to the alliance with Monex that you recently announced. Is this alliance exclusive or would it entail doing kind of similar partnership with other online brokers? Thank you.

Gupta: As far as in the sense that this is a very unique opportunity for us and at this point in time, I mean, we are sort of the first players in this kind of space. The advantage of this kind of alliance is that it really leverages the strength of two organizations. As you know, Monex has been quite successful in reducing or developing products. But however, they don't have branches to offer this to many retail customers. So, having an alliance with us, opens a broader customer base for Monex, and other retail people have great experience in selling it to the retail customers. I think from our point of view, we can reduce all the administrative burdens. We can now have a much bigger product pool to offer to our high net worth retail customers and reduce our IT system operations and administrative cost at the same time. This is not an exclusive partnership with Monex. I mean Monex can offer the same kind of opportunity to other banks. But then as this is an alliance, our customers' account transfer from us to Monex. So I don't think that we transfer any of our accounts to other brokers, but we'll transfer our accounts to Monex.

Question: The second question if I may, regarding Lake. It seems that when I look at the slide of the loan balances and the slide regarding the overall market size, basically, we have started to shrink on the structural basis and that's a bit worrying. Can you help me understand what your forecast are going into next year here? Are you getting competition from other type of players in the industry? Or if you can elaborate a bit? Thank you.

Gupta: I think the biggest reason for the decline for the money lender players this year was twofold. One was that the disposable income of people got improved significantly because of the JPY100,000 per person subsidy. Secondly, this business flourishes when people go out and spend money and travel or eat out and drink or whatever. Because of more people staying at home, the need to borrow dissipated quite significantly. However, what we are seeing in the fourth quarter, barring December and January when the bonuses are paid and they are generally low months seasonally speaking, the demand is really going back up. Our balances did come down. The way we are seeing it, that the bottom is already here. From now on, we should see a gradual pick-up in the overall loan balance for the money lender. Having said that, when we talk about the overall market size, the overall market, I believe, will continue to shrink or remain at current level because the bank unsecured lending is declining at a much faster pace. And there will be some benefit which unsecured loan players

like us will enjoy going forward.

I think FY2020 is sort of a very unusual peculiar year, and I think we are now seeing the bottom of the overall market as the last bottom for Lake Business as well.

Question: The first one, coming back to the question about Monex, I wanted to ask you, was there ever an opportunity to have the same sort of tie-up with the SBI Group instead?

Gupta: Well, I mean, we have looked at who would be the best in terms of for us in order to grow that consulting business for asset management. And I think the opportunity that was presented to us by Monex. I wouldn't be able to comment much on the other players, but we deemed Monex to be the most desirable player to have for this kind of alliance, because they do have a very robust product set which we can offer to our customers.

Question: I see. And would this tie-up with Monex limit any potential opportunities to work with SBI?

Gupta: I think not. I think we should not link Monex with SBI. And I think your question is stemming from the fact that they have currently over 13% voting rights. As they have clearly outlined in their press release, that this is simply for their investment purposes. Having said that, if a business opportunity, a joint business partnership or alliance is presented to us, we are very much interested in looking at it. If there is something interesting that we can work with them going forward, we will certainly pursue and review it together. But at this point in time, when the Monex is a completely separate initiative, separate alliance, but if there's any other different kind of opportunity that is presented, we would be willing to pursue or look into. In fact, we have a business alliance with SBI Groups, together with other players like Concordia Financial Group and other financial groups. That is in a kind of platform to provide our product and services to an additional fund. We selected our business partners from time to time depending on their conditions and other kind of opportunities. So, this time, from a retail customer's investment management perspective, we selected Monex, not SBI, but in a way, picked up an opportunity for selling our product services to the regional banks. We tied up with SBI and other financial players. So we will pick up on our best partners co-serving then a kind of business aspect and the opportunities.

Question: The second question I had on the page number eight of the presentation material, there is a short discussion of costs. Frankly, I was hoping a bit better year. I thought this management team, given the steep decline in revenue this year could do better here. What would have been the issue here with cost cutting? Why weren't you able to do better than this?

Gupta: I mean, as you would observe, if you would look at, our technology cost is going down, our premises cost is going down. I think all the costs versus the same period last year have gone down. While we are reducing expenses, we are also investing some money and

we acquired. We acquired and there is a full-year impact of Financial Japan that we acquired, Shinko Leasing, some impact, and there are some expenses. UDC will start coming in. So, if you look at expenses in isolation, yes, on one hand, we are reducing expenses for business as usual, but on the other hand, with the new companies entering into the Shinsei Group family, we need to incorporate the expenses of those entities as well.

But overall, yes, management is extremely focused on tightly managing the expenses and expense control. And bringing the expense to revenue ratio below 60% remains one of the management goals, as well as the challenge.

Question: What was the decline YoY in expenses for Q3, adjusted for new consolidation?

Gupta: I don't have that number handy with me, excluding the new initiatives. I guess there are some pluses, some minuses, but I think if I look at the first-half presentation, I mean, like this year, we have included in our forecast, for example, we are redesigning the whole work style because of people working from home and telecommuting and all of that, the whole new initiative going on for redesigning work style and how we work and people working from home. That's a JPY1 billion one-time cost that we would incur in this year.

In the fourth quarter, we will incur UDC Finance expense of JPY 0.7 billion. So there are some pluses and some minuses every year right now because we are in a growth mode.

Question: A couple of follow-ups on the Structured Finance. On real estate finance, are there any signs of pickup in demand for hotels financing would be my first question?

And then on the solar and wind power, and especially for wind power, are you seeing approach with more project finance specifically for wind in Japan? Thank you.

Gupta: Both excellent questions, One, hotel, no. The answer is no. We are not seeing pickup in demand for the new transaction for hotel, that is for sure.

But with regards to wind, yes, as you know, Japan has identified Nagasaki, Akita Prefecture, and Chiba Prefecture for wind farm offshore projects, meaning not on land or mountains, but in the sea. So, therefore, we are now seeing demand for wind offshore, domestic offshore wind farm projects in Japan and we are one of the key players in pursuit of those transactions. So that is a very good brand-new opportunity and we are working on it.

Question: Obviously, it's good that you've delivered on the buyback. But again, from a shareholders' standpoint, the share price continues to languish. We understand the various partnerships which are being put in place, but obviously, the world is not standing still. In the meantime, we're seeing other partnerships between mega banks and fin-tech company, et cetera, and I get the impression that Shinsei, although you have an abundance of capital, I think you're relatively slow at kind of seizing opportunities. How is management's sense of crisis on this? Because it seems that you do a lot of small things here and there, but in the meantime, retail profitability is still not great and obviously, for Lake ALSA, we are still not

seeing an increase in lending balances. I understand this year was particularly tough, but last year wasn't great either. What's the management's sense of crisis on all this?

Gupta: I think in terms of sizeable nonorganic growth, I think I would say we have done two in the past year or so. Shinko Leasing in COVID area was a JPY90 billion and very profitable business in the construction equipment leasing. I think that's a good acquisition at a reasonable price that we could get.

The second one is the UDC Finance in New Zealand and that business will start contributing to net income from January to March, i.e., the fourth quarter of FY2020. And net of expenses, net of goodwill amortization, we believe that entity is going to contribute about JPY4 billion in net income with JPY230 billion of risk assets. So, the ROA of that business is good.

Yes, we have done small alliances and acquisitions here and there, but these two would be the meaningful one.

We continue to look for other alliances, partnerships, acquisitions. However, in many cases, we find that the price is not right, so we have to use the capital prudently. So, I think management, we are all constantly looking at various opportunities in the small-scale finance area.

Question: On the asset sales side of things, can we be confident that we should sell assets? Will the proceeds be used simply for additional shareholder returns?

Gupta: Well, when it comes to the shareholder return, as you know, as a bank with public funds, we have to abide by the Revitalization Law or the Revitalization Plans. As you know, we have explicitly stated in the most recent Revitalization Plan that Shinsei plans to maintain or improve the total shareholder return within the scope of domestic Japanese banks.

So, I think with that spirit, with that thought, we have been able to have shareholders' return of as much as 50% so far last couple of years. Going forward, I mean, within that same theme and same spirit, we will pursue going forward.

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