FY2020 Interim Financial Results Investors' Meeting
(Held on November 13)
Q&A Summary

Question: Please explain whether the FY2020 plan the company announced is conservative or not. Please also tell us whether there is a buffer to achieve the plan in terms of expenses, credit costs, etc.

Hirano: Having explained our full year forecast at this point of time and considering we have six months to go, there is a certain reasonable probability to achieve the plan. Compared to the first half, expenses will be increased in the second half, because expenses which were not used in the first half will be used in the second half, and we plan some advanced investments and expect UDC related expenses in the second half.

We have had sufficient reserves mainly for the corporate business in the first half, so we do not understate significant increases in the second half. For the unsecured loans, as explained earlier, on a full-year basis, there was a reversal of the reserves. But compared to the first half, Lake ALSA balance is expected to increase in the second half, which needs provision of reserves.

Question: Please tell us as much as you know about increase/decrease factors for FY2021 net income projection. Specifically, please explain the factors in revenues and expenses like the image shown on page 7 of the presentation, including the absence effect of one-time factors and others, the decrease of upfront investments (absence), and the effects of a new consolidating entity, as well as other factors that may affect revenues and expenses other than the economic recovery and the changes in the outstanding balances and transaction volumes.

Hirano: As we have just announced this year's guidance, there's not much we can say for the next fiscal year, but I can answer as much as possible. Noninterest income loss of JPY2.7 billion and gains on sales of equity of JPY1 billion are one-time factors in FY2020. So, these will no longer exist in FY2021.

In terms of the advanced investments, starting from this year, initiatives implemented for "redesigning workstyle", a JPY1 billion level for the second half will continue to be implemented.

I assume "the effects of a new consolidating entity" means you were asking UDC. UDC's P/L will be reflected for three months from October to December in this fiscal year. It's going to be on a full-year basis contribution for the next fiscal year. The impact will be in each line such as topline net credit costs, and bottom line profit. There will be about JPY1 billion of goodwill deducted in case of consolidation. So, if it's JPY5 billion net profit on a nonconsolidated basis, JPY4 billion will be consolidated. That concludes my brief response.

Question: Regarding the profit contribution of NZ UDC, it is said that there is almost no contribution in the current fiscal year. Can you expect over 5.2 billion yen (= 1.3 billion yen X 4) profit contribution in the next fiscal year? Please tell us your image of profit growth opportunities from the next fiscal year onward, including growth drivers and so on.

Kudo: As Hirano just explained the numbers roughly on a normal basis, UDC has a capability to generate profit around JPY4 billion to JPY5 billion. After deducting around JPY1 billion goodwill will be the image of the company's profit contribution on a consolidated basis.

Regarding the profit growth driver for the next fiscal year, this may be somewhat qualitative though, one is an overseas non-bank area. Overseas macroeconomy is impacted by COVID-19, but surprisingly, the business is not declining as much as Japan, and the same for New Zealand, or Vietnam business. So, we are thinking of many measures overseas. This will be a growth driver.

For Japan, there are two main pillars, Structured Finance and the small-scale finance. First, in Structured Finance, project finance has big potential in the market. The offshore wind power projects will also come in, so we will capture them. For the real estate market, the transaction is now slumping and stagnant. But the investment money is on hold waiting on standby, so the real estate investors have very rich in cash. Therefore, maybe the seller will reduce the price, or the buyer will raise their price. We don't know when it will meet, but the transaction is gradually increasing. Once we see this increase, our business will become more active.

Now, unsecured loans in Japan. There are two factors that we look at. One is the net credit costs. We are watching the unemployment rate and the employment related statistics. Right now, it seems it is well controlled. As the nature of this business, we adjust as we run, or as we go. Therefore, credit cost control is not a big issue. What we are concerned is consumer spending that impacts the topline. Unless the consumption activates, the topline does not grow, hence the balance does not grow. We are seeing a gradual recovery, and money lenders are better off than bank card loan players. We think this will be continued and expecting to do so. I'm sorry for a lengthy response, but that's all.

Question: Based on the current net income forecast for FY2020, the share buyback for the next fiscal year will be decreased by 5 billion yen or more. Is 50% unchanged as the maximum of total shareholder return ratio? Can't you have an option to

increase dividend?
Kudo: As we have been saying, we do not fix out total shareholder return at 50% but look at the range of Japanese banks shareholder return and try to increase within that range. The total return ratio of banks is now slightly off because the profits are tending to downward. Taking the situation into account, we will discuss with related parties. We do not deny that dividend increase is an option. However, the appropriate allocation for shareholders is being considered in total shareholder return. I hope this answers your question.

Question: Regarding the outlook for the demand in the unsecured loan business, page 8 of the presentation shows the second half outlook for each KPI and I understand that monthly momentum is recovering from the second half. Please tell us about business conditions in October and the outlook for the demand for the next fiscal year and beyond. In addition, is it fair to say that you are likely to be able to demonstrate superiority over other companies due to your own factors, such as the resumption of advertising activities and the approval rate improvement task force?
Kudo: The demand for in the unsecured loan business, honestly speaking, it's difficult to forecast or predict, but the latest numbers of application are increasing. The renewal of IT systems and the operational improvement are significant major factors, which you mentioned in a latter question. There's a task force to improve the approval rate, and we will see the actual effects. Due to the better approval rate, we should be able to increase the loan balance.

Question: Regarding acquisition of UDC Finance, please tell us once again what synergies you have with similar businesses such as APLUS and Showa Leasing. Please also tell us if there are areas that you are focusing on as an investment area other than small scale finance mainly in Asia and consumer finance in Japan?
Kudo: UDC Finance is close to Showa Leasing. It's like a combination of Showa Leasing and APLUS. So, in that sense, we can understand UDC Finance extremely well. We are not thinking about doing the business together by combining them in the short term, but we would like to start from the components of the business, such as skills, or sharing best practices, etc.,
I think "investment" you are asking is whether we have any items besides UDC. In our non-organic growth strategy, we pay attention to Asia Pacific non-bank business. We were able to acquire the largest non-bank in New Zealand. Also, there's another large market in Australia. We are actually examining various transactions.
In Southeast Asia, for emerging countries, we have a joint venture in Vietnam which operates small finance. With the same partner, we would like to develop business

in neighborhood's countries. In Japan, there are not many projects for the non-organic growth, we will select good transactions on an ad hoc basis. Thank you.

Question: What segment will UDC profit be accounted for? Is it Management/Others?
Hirano: Yes, you're right.

Question: From the review of the taxable income outlook for the next year, deferred tax assets have been reversed by 3.5 billion yen on a consolidated basis. Based on the simple calculation, would you expect a taxable income reduction of 23 billion yen (= 3.5 billion yen / tax rate of 30% × 2 (as 1/2 of taxable income will be offset by loss carried forward)?
Hirano: You do not have to multiply by two because it does not consider amount of loss carry forward.

Question: Please explain the possibility that the company may not be able to buy back shares in full. By the end of October, you bought back shares continuously and stably. You will be able to complete share buyback program in full by the end of this fiscal year considering the current repurchasing pace.
Kudo: Regarding share buyback, we briefly explained in the presentation material the situations have not changed from what we have explained in May. In the current situation, we can only say that we'll execute it in an appropriate manner. But as you pointed out, we have been acquiring shares steadily by the end of October. So, based on that fact, I hope that you will consider this matter. Sorry for not so kind answer, but because of the nature of this issue, I hope you all understand our position.

Question: Regional Revitalization Partners, a JV with SBI, what strategic and/or profitability contributions do you expect in the future?
Kudo: Participants are DBJ and Yamaguchi Financials, and Concordia, and us. We have different perspectives and roles to contribute to this partnership. Shinsei has a main business offering functions and services to regional financial institutions, but we cannot equally access to all. Through this partnership, we expect to provide better valued services with combination of other players. Realistically speaking, we are not projecting a big profit contribution from this partnership. It will be qualitative additional impact or effects that we are expecting out of this.

Question: Please explain the factors behind the decrease in the number of monthly

payment deferral in unsecured loans (recovery, write-off, etc.).
Hirano: It is partially due to the government's subsidy. There's a great recovery in collection resulting in the drastic decrease in payment deferrals.

Question: The fee revenue plan for the second half looks challenging. Given that the impact of Covid-19 is still uncertain, at what time in the second half do you envisage the recovery in the structured finance and real estate finance markets? Please tell us once again about your idea of eliminating precautionary reserves as many banks are now moving in the direction of keeping or topping up precautionary reserves.
Kudo: The fee income plan in the second half is backed by our sales and marketing effort to some extent.
As to the question that the recovery in the structured finance and real estate finance market, what we are planning, or expecting, is the recovery in the transaction volume. The transaction volume in real estate finance has largely declined. As I mentioned earlier, there are not many people who want to sell in a rush. But there are many who want to buy, and they're waiting for the price levels to come down a little.
Recently, I am reluctant to mention a specific name, AVEX for example, is reported to sell their headquarter building. We're starting to see these movements. There are parties who are thinking to sell, and the investment money is coming in. We think this is the way transaction will increase.
Project finance is not in such circumstances, so we think transactions to increase medium-to-long-term period. With regard to fee income, customers held back hedge purpose derivative because many things were so unforeseeable, but it cannot be prolonged for a long time. We think there will be a certain amount of transactions in the second half.
I think our business portfolio is the reason for the idea of eliminating the precautionary reserve. In corporate, how far we should estimate customers' credit worthiness is not simple because there has equity as a buffer. While, for example, non-recourse loans for hotels, if we can see the impact on hotel assets, we can provision the reserve. In that sense, we are not going to reduce the reserves. Instead of the precautionary reserves, which roughly estimate reserve by industry, we are shifting to an obligor basis. I hope that answers your question.

Question: It might be too early, but what is your current view of net credit costs in the Institutional Business in the first half of the next fiscal year? (This fiscal year, due in part to precautionary reserves, you recorded large amount of net credit costs

including precautionary reserves in the first quarter)?
Hirano: As Kudo shared our view on precautionary reserve, under the COVID-19 environment, there was a difficulty in forecasting for this fiscal year. We have estimated precautionary reserves using a reserve ratio applied to lower obligors. The COVID-19 impact will be one year at the end of March 2021 and we will have a clearer idea. That is why we will be provisioning for specific obligors. Accordingly, credit cost will be considered based on that assumption for the next fiscal year. It also will depend on the future development of the COVID-19. However, we are not considering anything significant at this moment.

Question: Please give us updates on potential business opportunities of BANKIT.
Kudo: The concept of this BANKIT tool is to offer platform and financial products to those companies who want to sell financial products to the customers but cannot do it by themselves. This concept is fairly popular and are favorably received by many people. Discussion for alliance with many parties are underway. We will release them once they materialize, though I cannot specify the names, but we have a good expectation. That's all I can say for now.

Kudo: Thank you very much for participating in this meeting. I would like to make just one comment. Our business portfolio is very unique. It's quite different from major banks. At the beginning of this fiscal year, whether increase unsecured loan applications or request for payment deferrals was very difficult to forecast or to predict, or we were very vigilant and cautious about the real estate market. Now, the situation has become clearer.
We are able to capture the magnitude of the COVID-19 impact as both financial activities and our business activities are recovering. In that sense, it is easier for us to predict the second half going forward. As we have been saying, we would like to increase our shareholders' return as much as possible. Within that available capital, we would like to take a strategy for non-organic growth. One of the examples is our acquisition of UDC Finance in New Zealand in the middle of COIVD-19 impact. We will continue to examine such transaction opportunities to increase the earnings per share and we think we are in a situation to be able to increase our earnings per share.
Thank you very much.

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