

Shinsei IR Day (held Feb. 20, 2017) QA Summary

Retail Banking

Q: Are the upcoming actions described in the Retail Banking presentation expected to bring the Retail Banking Business into the black or does the Retail Banking segment provide internal transfer pricing to other businesses in the Bank at rates so beneficial to the other divisions that it cannot avoid running into red ink?

A: First, we would like bring to your attention that our management accounting practices are distorting the true state of profitability within the Retail Banking Business. However, even when adjusting for the effects our of management accounting, it is true that profitability within the Retail Banking Business is low. Within the Retail Banking Business, Asset Management is the central operation, and we will look to strengthen the segment through efforts which target affluent and asset building generation customers. As we undertake these efforts, features such as convenience and innovativeness of Retail Banking, which will serve as the interface for our customers, will become critical in the achievement of our objectives.

Q: The retail strategy of mega banks focus on capturing revenues through expense reductions. In the case of Shinsei Bank, can we expect expenses incurred in the Retail Banking Business to decrease during the 3rd MTMP? Is there a possibility that expenses may increase as a result of IT related costs?

A: While the Bank expects to record cost reductions as a result of the streamlining and consolidation of call centers, to be undertaken as part of the Productivity Enhancement Plan, announced in our 3Q FY2016 financial results announcement, the Bank is currently in the process of upgrading its IT systems and we are expecting a slight increase in expenses as a result. The Bank does not expect increases in Retail Banking personnel and nonpersonnel expenses other than that. Additionally, in regard to nonpersonnel expenses, the Bank is reducing the number of ATMs it directly operates. It will become critical for the Bank to engage in expense controls while engaging in efforts to improve profitability. We will leverage the outsourcing of some processes and allocate our personnel to other operations requiring a higher degree of specialization.

Q: When does the Bank expect it will be able to commence cross selling activities utilizing the new CRM system and AI as well as launch its next generation internet banking system? How confident is the Bank that it will be able to differentiate itself from its competitors? What sort of customers does the Bank wish to attract as a result of these efforts?

A: We have launched our new CRM system today. We will initially test the system in a limited number of branch locations and gradually expand its coverage through the upgrading of existing systems in our other branches. We expect to upgrade our internet banking system sometime between the next year and the year that follows. Regarding AI, we have commenced the undertaking of initiatives and we look to engage in trial and error in various efforts.

As the scale of Shinsei Bank is not large either in terms of personnel or our branch network, there is cohesiveness amongst our front office staff, headquarters and product development. In the area of product development, we are committed to ensuring that we are not only allocating IT personnel, but front office personnel as well, in order to ensure the incorporation of feedback from the front office. We would like to

deepen our relationships with customers who have an interest in saving and growing their assets.

Q: Of your 3 million account holders, how many customers actively utilize their accounts? Please share any information regarding account utilization including trends if possible.

A: The Bank does not disclose the precise number of actively utilized accounts, but we do believe that the percentage of our accounts which are actively utilized is high relative to other Banks as our customers tend to open their accounts in order to achieve some specific purpose rather than simply utilize is as a salary direct deposit account.

Q: What is the relationship between marketing and asset balance in Retail Banking? What kind of effects do marketing efforts have?

A: The relationship between the number of accounts and balances is not necessarily proportional. Currently our balance of assets is trending stably while our deposit funding cost has been declining through maturing high interest rate time deposits which were offered in the past.

End