

FY2017 Shinsei IR Day (February 28, 2018)
Condensed Transcript of Q&A Session

Innovation of Customer Experience Value – Strategy for Interface and Content
Tetsuro Shimizu (Managing Executive Officer, Head of Individual Business)

Q: What are some specific financial metrics that outside investors can use to ascertain whether the strategies you have explained today are succeeding?

A: Ultimately it all comes down to profits, but what we are focusing on as KPIs are productivity per employee and customer assets under custody to achieve stable earnings unswayed by external factors such as market prices or timing.

Q: Do you have any of the specific performance targets, perhaps for earnings or customer engagement, which you can share at present?

A: We have annual asset management product sales of over ¥300 billion and our consulting staff averages 3.4 asset management consultations per person per day. Thinking in terms of annual sales per consultant, if the average number of sales consultations per consultant were to increase from 3.4 to 4.4 per day, sales would grow 25%. This is a key point in my opinion.

Q: What accounts for the Retail Banking segment's low profitability despite Shinsei Bank's high customer satisfaction ranking?

A: Interest income earned on deposits has been severely squeezed by negative interest rates' impact. However, even after rectifying a managerial accounting misalignment, the Retail Banking segment is encumbered by several heavy cost burdens in the course of providing its current services. We will alleviate these cost burdens going forward.

Q: What distinguishes Shinsei Bank in terms of profitability per employee relative to other banks or its own historical trend in profitability per employee?

A: Consulting staff's average number of investment consultations has increased to three-plus per day from two-plus per day as of a few years ago. In the past, branch staff used to call customers on the phone and invite them to the branch for consultations, but we have changed how we set up consultations with customers. For example, we opened a call center staffed with personnel who specialize in scheduling appointments by phone and added an appointment scheduling feature to our website. These changes have enabled sales consultants to devote more time to engaging with customers. However, our capacity to serve customers in our branches is physically limited. We will accordingly utilize a wider variety of channels going forward.

Q: Why have you been unable to increase the daily average number of consultations per consultant beyond 3.4? Is it because Shinsei Retail lacks the supply capacity to meet customers' demand for consultations or because there is no demand for more than 3.4 consultations per day? If the former, could you double the total number of retail consultations by halving the time per consultation or doubling the size of your consulting staff?

A: The time spent per customer consultation is generally getting longer due to procedural and regulatory compliance. In particular, customers who want to start investing for the first time require longer consultations, so consultations' duration is largely beyond our control. So there is demand for

consultations from customers, but we cannot meet additional demand without increasing our capacity through such means as providing non-branch channels or extending our branches' business hours.

If we hire more sales consultants, the total number of consultations would increase but so would our costs. Striking the right balance between the two is important.

Q: Among various channels, is the in-branch asset management business fundamentally a core pillar of earnings?

A: Today's presentation focused on branches but the branch channel is not the only one to which we are strongly committed. We will utilize various channels and focus on market segments in which Shinsei Bank has a competitive advantage. For example, customers who want to trade forex or hold foreign currency deposits tend to prefer self-service channels. Our initiatives targeted at such customer segments were not included in today's presentation.

Q: What is the probability of successfully turning around the Retail Business?

A: We have two approaches in mind. One is cost-structure reforms. Our Retail Business was profitable in 2012-13 but has since turned unprofitable, partly in response to recent changes in the environment. We will periodically disclose details of our cost-structure reforms. At the same time, we will also implement the initiatives I explained today with respect to in-branch asset management consulting.

In the current fiscal year, the Retail Business is able to cover its monthly expenses if its monthly revenue is above a certain level. We do not think it will take long to restore the Retail Business to profitability by reducing its total expenses while maintaining a sufficient level of revenue.

Q: The content of today's presentation was the same as other banks'. I doubt Shinsei Bank will ever dramatically turn its business around unless it offers products or services not available elsewhere. Also, I want you to disclose your reforms' effectiveness and results.

A: The Individual Business has various layers, including home mortgages and predominantly online businesses in addition to manned branches. We believe Shinsei Bank provides competitive product offerings and it allows us to achieve loyalty from specific customer segments. Our sales resources and channels, however, are limited. We are consequently looking at how to expand our sales' scope by increasing our sales channels and/or other points of contact with customers.

While our strategy may appear similar to other banks', Shinsei Bank is completely different in terms of how it is configured infrastructurally and how we use data. We believe these differences will determine our success or failure.