

# Shinsei Bank 17th Annual General Meeting of Shareholders Q&A Session Summary

June 21, 2017

(Shareholder #1)

- 1) At the beginning of the Annual General Meeting of Shareholders (“AGM”), the CEO explained that Shinsei Bank aimed to create a business model that transcends the walls between business categories. How much have you achieved? Also, how long do you think it will take and what challenges do you need to overcome to achieve this?
- 2) I understand that you are aware of problems such as the Bank’s organizations becoming like separate silos due to the walls created by the business group system and business categories. What corporate culture problems do you have at present and how do you plan to rectify them?

(Answer)

- 1) We need to ultimately find the best structure for the Group’s business from the viewpoint of our customers. We are trying to create a business model that utilizes our 10 million Group customer base and transcends business categories from the viewpoint of our customers. There is no clear end for this initiative. Customers’ assessment may function as one of the yardsticks. As the first step for this initiative, we have established the Group Headquarters and are working on consolidating our administrative functions. We are going to pursue business synergies based on this platform. We believe that it will take at least a few years.
- 2) In the past, we have operated our businesses respecting the independence of each Group company and each business group, which also had an adverse effect in that our organizations have become like separate silos. We are therefore implementing various measures to overcome such a silo mentality and to respect the diversity of our employees.

(Shareholder #2)

- 1) We cannot earn T-points unless we register ourselves. I want the Bank to eliminate such registration process.
- 2) The current share price of Shinsei Bank is far from the level required for repaying public funds. What is your view on the future path to the repayment?
- 3) Don’t you think that the amount of this year’s dividend is small again?

(Answer)

- 1) We appreciate your valuable opinion.

- 2) I will answer 2) and 3) together. There is a great discrepancy between the current share price and the share price required for repaying public funds. We are therefore presently examining potential repayment schemes. There are three key factors for raising our share price: improving earnings power, improving indicators such as PBR (price-to-book ratio), and shareholder return. To address these factors, we are currently taking the following actions: (1) focusing management resources on the strong business areas within the Shinsei Bank Group and implementing productivity reforms to improve earnings power; (2) enhancing market recognition of the growth potential of Shinsei Bank's strong business areas to improve indicators such as PBR; and (3) repurchasing shares to enhance shareholder return. On dividends, we are aware that the ratio of our cash dividends plus share repurchases to net income is lower than the industry average. This is one of the reasons for the weak share price. On the other hand, we also need to accumulate retained earnings to raise funds for public fund repayment. We are therefore in a difficult situation. We want to work on increasing shareholder return by raising our earnings. Although it is difficult to present a clear repayment schedule at present, what we need to do is evident, and we will steadily work on them.

(Shareholder #3)

- 1) Looking at the precedents of other companies, I am concerned that a reverse stock split may have a negative impact on the share price.
- 2) I have participated in Shinsei Bank's AGM in the last few years, and feel that there is a lack of rigor among the management team and employees of Shinsei Bank as well as its major shareholders who should put spurs to the management team and employees at the AGM. The management should not attribute their failure in achieving goals to the market environment and other external factors.

(Answer)

- 1) The proposed reverse stock split is a response to the Tokyo Stock Exchange's initiative to raise a minimum trading unit of domestic listed shares by 2018, and we are slightly delayed comparing to other listed companies. As a company listed on the TSE, we believe that we should respect their policy. While we do not expect this to have a negative impact on our share price in light of our calculation and empirical evidence, we will take appropriate actions so that such a situation does not arise from a psychological impact.
- 2) We appreciate your valuable opinion. We are not blaming the market environment, and we want to seek judgment at the AGM which reflects our accountability for the outcome.

We also understand that our major shareholders, who are institutional investors, are watching our business management very critically through various channels.

(Shareholder #4)

- 1) You are saying that the Bank is aiming to offer new businesses and services. What are they exactly? How about areas such as artificial intelligence (AI), fintech, and virtual currencies?
- 2) The Bank should make efforts to raise its share price and should increase its dividends referring to the examples of other banks.

(Answer)

- 1) In areas such as fintech and AI, we have established a joint venture company to work on AI-related projects with a fintech venture company based on a cross-industry alliance with the aim of putting these technologies into practical use in a manner that is suitable to our capacity and with the content that our customers deem valuable. We consider that a large-scale investment such as blockchain is not appropriate for the Bank. Overseas, we are working on cultivating markets with growth potential for the retail loan business in Asia utilizing the Shinsei Bank Group's strengths. We cannot disclose details until they become concrete, but we are working on these initiatives.
- 2) We are aware that the ratio of Shinsei Bank's cash dividends plus share repurchases to net income is currently at the lower end of the industry, and we want to improve it. While we cannot clearly say when, how, and what specific measures we will take, we will choose the measure that is most effective at a given time, be it a dividend initiative or share buyback. For instance, if PBR is less than one, share buybacks will be a more effective measure.

(Shareholder #5)

- 1) This year's AGM is too quiet with the attendance of only a small number of shareholders. To revitalize the AGM, I want the Bank to resume giving shareholders a take-home gift.
- 2) I cannot feel the management's enthusiasm for managing the Bank. I want the management to more ardently implement dynamic structural reforms, such as doubling deposits and loans or halving the headcount.

(Answer)

- 1) We appreciate your valuable opinion. We have abolished giving shareholders a take-home gift from this year from the viewpoint of shareholder equality. We want to see as many shareholders as possible at our AGM and will consider how we can

reinvigorate it.

- 2) It is questionable whether doubling our assets will lead to the improved shareholder value under the current ultra-low interest-rate environment. Given this environment, we are focusing on increasing assets such as structured finance and personal loans. In addition, we are working on reducing the workload of the entire Shinsei Bank Group through a review of our operations combined with appropriate human resources policies, such as assigning to priority areas the employees who are released from traditional operations.

(Shareholder #6)

- 1) According to the convocation notice, the Board of Directors meets five times a year. Don't they need to meet more frequently?
- 2) How do the Executive Committee and the Board of Directors complement each other?

(Answer)

- 1) The Board of Directors has six meetings a year including the meeting in May. Five out of the seven Directors are outside directors, and we have very lively and rigorous discussions at our Board meetings. In addition to the meetings, we implement close communications using email, telephone, and strategy meetings.
- 2) The Executive Committee is positioned beneath the Board of Directors. It consists of Executive Officers and other members, and, in principle, meets once a week. In addition to this, we have the Group Executive Committee consisting of the management staff of the Shinsei Bank Group. It is a forum to discuss everything concerning the management of the Bank and the Bank Group including matters submitted to the Board of Directors. It is also a forum to share the direction that the Bank and the Group are heading to. Main members of the Executive Committee participate in the Board of Directors as observers and answer questions from Directors.

(Shareholder #7)

- 1) At the AGM, the CEO should not be satisfied only because the proceedings are progressing according to the prepared scenario. Rather, the CEO should say words and take actions which would give stakeholders a dream, and demonstrate his strong ability to make things happen.

(Answer)

- 1) I greatly appreciate your opinion. I need to comprehensively respond to the needs of our customers and improve shareholder returns. At the same time, a manager is held accountable for outcomes and is judged at the AGM based on the results of the

Medium-Term Management Plan. I also would like to say that all my comments, other than those related to the proceedings of the meeting, reflect my own views.

(Shareholder #8)

- 1) If public funds have already been fully converted into common shares, doesn't the Bank need to repay the public funds as long as it keeps paying dividends?
- 2) Do you think that Shinsei Bank's businesses have lost their uniqueness and competitiveness against other banks in recent years?
- 3) The management team should show their willingness to repay public funds by giving up their remuneration until the repayment.

(Answer)

- 1) We consider that it is our obligation to repay public funds as they are financed by the taxes Japanese citizens paid. We understand that dividends were not treated as the repayment of public funds from the cases of other banks that were injected public funds.
- 2) We are feeling that other banks may be catching up with and overtaking us in businesses and services, and are currently working hard to recover the lost ground. At the same time, we are receiving high evaluations in external institutions' surveys. We want to implement our next measures while we are receiving such high evaluations.
- 3) As a bank that has been injected public funds, remuneration for our executives is subject to certain restrictions under the Revitalization Plan. We are therefore exercising a fair amount of self-discipline in the operation of executives' remuneration. We want to keep explaining this to obtain an understanding of outsiders.

(Shareholder #9)

- 1) What has the balance of Shinsei Bank's retail deposits been in the past?

(Answer)

- 1) It was about six trillion yen at the most.

\* This Q&A summary is presented in the manner shareholder questions were received. A total of six shareholders asked questions in this year's AGM.

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