Script of 1HFY2016 Financial Results Presentation Q&A Session

Date and Time: 10:30-11:45, Friday, November 4, 2016

Location: Seminar Room, Shinsei Bank Head Office

Speakers: Mr. Hideyuki Kudo, President and CEO, Shinsei Bank; Mr. Masayuki Nankouin, CFO and Managing Executive Officer, Shinsei Bank

Q: Does the productivity enhancement project include in its scope the realization of significant expense reductions?

A: The Productivity Enhancement Project is the collective names of several projects whose effects are expected to manifest in the form of expense controls. Specifically, we are engaged in efforts to reduce nonpersonnel expenses, enhance and integrate our call centers, consolidate back office operations of our Group as well as seeking to achieve an integrate operation of our Group and we expect to these rationalization efforts to our expenses. Additionally, this project is anticipated to enhance functionality in areas such human resources allocation and strengthening of Group governance.

Q: While new changes in the utilization of Fintech and Big Data can potentially evolve into threats, how will Shinsei Bank look to utilize them in the area of Unsecured Personal Loans?

A: The utilization of Big Data hinges upon understanding who possesses the required data and the ability to access said information. In the case of retailers who access to information regarding their customer base, this can become either an opportunity or a threat based upon a decision for these companies to either compete or collaborate. Regarding Fintech, we are already evaluating the possibility of utilizing AI in the making of credit decisions in collaboration with SecondXight. The statistical analysis of large volumes of data is one of the strengths of our Bank Group and we believe we can continue to maintain our presence in this area.

Q: How do you view the operating environment of Banks and is there any area where you will over or under perform compared to the 3rd MTMP as a result of the environment?

A: While this topic was debated in a board of directors meeting, we currently see no need for revision of the strategy of our 3rd MTMP. However, we view the market as having become more competitive and believe we must also strengthen our efforts in all areas.

Q: Regarding capital policy, what is the outlook on the possibility of additional future share buybacks giving consideration to business areas in which the Bank will expend capital as well as the repayment of public funds? Additionally, what is the Bank’s internal evaluation of its share buyback which was concluded in August of this year?

A: As public funds are now held in the form of common stock, it is of the highest importance that we improve our price per share. This can be primarily accomplished by three actions: growing our bottom line, shifting to businesses which will result in higher valuation multiples by the market and enhancing our shareholder returns. Any share buyback decisions will be undertaken with consideration given to these three points and we are strongly aware of the importance of the topic. Regarding the buyback undertaken this year, we believe it has had some positive effect on our share price in recovering somewhat from its significant underperformance of the Topix Bank Index.

Q: When will the grey zone repayment amounts decline?

A: The number of disclosure claims received continues to decline. We are engaging in the grey zone issue strategically and we are not concerned by fluctuations in repayment amounts. It is important to note that there is a delay from when claims are received and when they are settled.

Q: Will the reduction of the line item “Others,” a component of Net Interest Income, become less pronounced in the future?

A: We are shifting our focus from low spread assets and businesses to areas such as Unsecured Personal Loans and Structured Finance and we will look to continue this shift going forward.

Q: What is the outlook for capital gains and operation on securities in 2H? Does the Bank intend to keep gains unrealized where possible?

A: In the 1H of FY2016 the Bank recorded gains on the exit on securities, which were undertaken at an appropriate time in light of market conditions. Given market conditions which make changes in long term interest rates unlikely, a performance in the 2H which exceeds that of 1H is challenging. While we do not intend to keep gains on securities unrealized, we do not intend to over rely on such trading type revenues. Regarding the management side, our BOJ deposits are not subject to negative rates and we will continue to look to allocate capital to the growth of our Unsecured Personal Loan and Structured Finance Businesses.

Q: What kind of new Structured Finance disbursals is the Bank engaging in and what is the competitive environment and profitability like?

A: Our performance in Structured Finance excluding domestic real estate finance has been robust. We are seeing an increase in the number of our customers, mainly investors, exiting the domestic real estate market and total new real estate finance disbursals has declined compared to FY2015. That being said, performances differ by asset type and we are selectively undertaking new disbursals primarily to office, hotel and logistical facilities. LTV levels are not too high, resulting in spreads just under 100bps. Regarding our operating asset balance, while the balance has declined due to proactive distribution efforts, we do not believe this to necessarily be a negative outcome given the current state of the domestic real estate market. Regarding the market, the number of competitors engaging in aggressive competition is declining.

Q: Regarding the Retail Banking Business, losses have increased once again. Is this the result of transfer pricing or due to underperformance in its core business. What are your intentions to resolve the recording of such losses if related to core businesses?

A: The losses are the result of several factors including transfer pricing (the result of our accounting methodology) and are not entirely related to the core businesses of the Retail Banking Business. Additionally, a key area in order to record profits in the Retail Banking Business is the sale of asset management products and following the adverse market conditions earlier in the year, we are beginning to see an improvement in our performance. That being said, due to declining profitability on a per product basis in the sale of asset management products, we recognize the need to engage in efforts to increase our balance of assets under management over the medium term. On the productivity front, we hope to improve the efficiency of our operations through the creative leveraging of our channels. Retail deposits act as the bedrock of the Bank’s funding and the possibility of terminating of related operations is not be considered.

Q: Which segments does the Bank expect to record revenue recoveries from in the 2H?

A: We anticipate stronger performances in the sale of asset management products in Retail Banking, Unsecured Personal Loans and Structured Finance excluding domestic real estate. While dependent on market conditions, we also anticipate a stronger performance in the sale of derivatives to corporations.

Q: What impact will the inclusion of Showa Leasing in your consolidated tax accounting Group have?

A: The benefits of this change are not expected in our budget for this fiscal year but we may be able to enjoy them in the second half of this year. We decline to comment on the magnitude of impact as this will be dependent upon the full year performance of Showa Leasing.

Q: Are there any comments you can make regarding future shareholder returns?

A: Decisions to undertake share buybacks are made on a case by case basis with consideration given to market conditions and as such, we are unable to commit to undertaking them at regular intervals. Additionally, as no decisions regarding such actions have been reached, we cannot comment on future actions. We are engaged in internal discussions regarding capital policy. We are actively discussing various frameworks such as capital for business growth, capital for public fund repayment, capital for strategic investment and capital for flexibility in shareholder returns and are engaging relevant stakeholder in regard to this matter.

Q: Is 12% of annualized growth in Lake sustainable?

A: While the overall growth of the Bank Card market is leading growth in unsecured personal loans, we believe the expertise and data related to managing high credit costs is ultimately lies with nonbank operators. The Shinsei Bank Group is able to leverage the expertise of Shinsei Financial, a nonbank operator, as strength in the operation of our unsecured personal loans business and we believe this to be one of the key contributing factors to our recent performance.

Q: Are there seasonality which affect customer acquisitions in the Lake business and if so, are there any ways you can prevent such fluctuations?

A: Months in which bonuses are paid out to employees tend to see declines in customer acquisitions as their needs for financing is reduced, but reducing this decline would be challenging. We believe a strategy which focuses on increasing our customer acquisitions in months with higher customer needs is more viable.

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