

Shinsei Bank, the Annual Meeting of Shareholders for the 20th Term

Q&A Session Summary

June 17, 2020

(Shareholder: 1)

(1) As the parent company of APLUS, how does Shinsei Bank deal with the news reports regarding APLUS' investment type condominium loans? What are you going to implement as your countermeasures about this issue going forward?

(Answer by the Chairman)

(1) The special investigation committee of APLUS identified 24 cases of alleged falsification in APLUS' investment type condominium loans. However, the committee also pointed out that there was no involvement of APLUS' employees in such cases.

Although the involvement of APLUS' employees was not recognized, APLUS has implemented stricter internal credit screening system, credit standard model and governance system based on the lessons learned that malicious real estate dealers could abuse the investment type condominium loans of APLUS.

We will cooperate with the victims and the law enforcement authorities if this develops into criminal investigations.

As the parent company of APLUS, Shinsei Bank will strive to further enhance its group-governance.

(Shareholder: 2)

(1) On November 13, 2019, Shinsei Bank announced a business alliance with Suruga Bank. What do you expect from Suruga Bank?

(Answer by the Chairman)

(1) We recognize that the business alliance with Suruga Bank has brought some actual results on an individual project basis. Shinsei Bank and Suruga Bank will continue to develop further business alliances if we can expect mutual benefits.

(Shareholder: 3)

(1) What is Shinsei Bank's view on the fact that Shinsei Bank's employee seconded to APLUS was involved in the investment type condominium loans of APLUS?

(Answer by the Chairman)

(1) We do not think employee secondment system itself is a problem as Shinsei Bank and APLUS send seconded employees mutually across the companies. Based on the results by the special investigation committee, we have implemented appropriate countermeasures in our systems and/or organizational factors which might cause these suspicious cases. The transaction volume and the profit margin for real estate are significant. Hence, the people involved in such transactions generally have higher motivation to engage in fraud. However, it should be noted that our efforts to block such actions were inadequate.

(Shareholder: 4)

- (1) Regarding the issue of investment type condominium loans in APLUS, is it true that a seconded employee from Shinsei Bank was involved?

(Answer by the Chairman)

- (1) It is one of individual attributes of employees whether they are proper employees of APLUS or seconded ones from Shinsei Bank.

Although real estate values are objectively validated by an outside agency, it is necessary to continue to prevent employees who may have the incentive to grow their business from taking actions on real estate price valuation.

It is true that our management system was not sufficient as we used to accept hard copies of annual income certifications which allowed people to make falsification, but we understand that it is important to have systems which do not allow people to abuse it or engage in frauds.

(Shareholder: 5)

- (1) From February to March 2020, Shinsei Bank share price went down sharply. Was this probably due to the issue related to APLUS' investment type condominium loans?

(Answer by the Chairman)

- (1) We understand that the stock market declined significantly for the same period and the impact on the share prices of financial institutions were largely impacted.

We think such share price movement could reflect the expectation by the stock market regarding the potential impact on the financial results of Shinsei Bank due to the spread of the novel coronavirus infection. We think the share price performance of Shinsei Bank were consistent with the overall stock market movements.

(Shareholder: 6)

- (1) Since Shinsei Bank and APLUS are closely related in terms of capital and personnel, I am concerned about the case if the APLUS' issue could make a negative impact to Shinsei Bank. How will Shinsei Bank deal with the issues at group companies going forward.

(Answer by the Chairman)

- (1) As APLUS FINANCIAL is a listed company as well as a consolidated subsidiary of Shinsei Bank, we understand that it is a challenge to strike a balance between checks and balances through group governance while paying respect to APLUS' independence as a listed company.

Important matters of group companies are discussed and reported to the Group Executive Committee. The Shinsei Bank Group is also enhancing its group governance by consolidating its administrative functions of each group company into the Shinsei Bank Group Headquarters.

(Shareholder: 7)

- (1) Regarding the agenda item 4, concerning compensation for granting of restricted stock to outside directors, is there any effect to prevent outside directors from taking appropriate actions expected to them?

(Answer by the Chairman and Outside Director)

- (1) Restricted stock remuneration grants the shares that cannot be transferred for a certain period as a part of remuneration. We propose the agenda item 4 to align the interests of outside directors with those of shareholders.

We understand that the board composition with outside directors is the system which is in line with general knowledge and/or public trends, such as a company should be supervised, monitored and advised by outside persons. Regarding the diversity and expertise of directors of Shinsei Bank, I am confident that they are well positioned to perform the functions expected to outside directors.

(Shareholder: 8)

- (1) Out of seven (7) directors, five (5) are outside directors, but I am concerned that there are only 2 directors who are responsible for promoting business.

(Answer by the Chairman)

- (1) We believe that Shinsei Bank has an excellent board structure as it identifies appropriately what should be discussed/decided by the board or the executive management. While Shinsei Bank has a very higher ratio of outside directors within Japanese companies, Shinsei Bank has the executive committee for the executive management where the members of executive officers discuss and make decisions on important matters. Under such a system, only the matters that require board-level discussion are to be submitted to the Board of Directors.

The executive management team promotes businesses proactively and the Board of Directors is responsible for checking important matters.

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