

# Shinsei Bank 19<sup>th</sup> Annual General Meeting of Shareholders Q&A Session Summary

June 19, 2019

(Shareholder #1)

- (1) Why do you think that the current capital ratio is sufficient, even though capital ratio has been decreasing? What is your target and/or minimum requirement for capital ratio?
- (2) What is your target level for dividend?

(Answer by the Chairman)

- (1) Of course our capital ratio needs to be higher than the regulatory minimum ratio required for domestic-standard banks (CET1 ratio of 4.5%). Putting that aside, we have targeted 10% or higher for the CET1 ratio in our Medium-Term Strategies, considering we operate in small-scale finance and structured finance which have slightly higher risks and returns than businesses operated by the other domestic-standard banks including regional banks. The current capital ratio is greater than the target, so we consider that our capital ratio stands at ample level.
- (2) Our total payout ratio against FY2018 net income is approximately 50%, which is the highest level in domestic banks. Considering the current market environment with low PBR valuation for our share price, reducing the number of shares efficiently through share buy-backs will maximize shareholders' interest. On the other hand, we are aware of shareholders' voices asking for a dividend increase. We will provide returns to our shareholders by the best means at the time, taking into account share price trends going forward.

(Shareholder #2)

- (1) The notice of convocation of general meetings of shareholders is difficult to understand.
- (2) Please tell us the current situation of Gray Zone interest repayment claims.

(Answer by the Chairman)

- (1) Thank you for your valuable feedback. We will try to improve it for the general meeting of shareholders next year.
- (2) The reserve for losses from Gray Zone interest repayment stood at 63 billion yen as of the end of March, 2019. This can be translated as a five-year value if the current repayment continues, and is much higher than our peers. Across the industry, the number of Gray Zone interest refund claims has been decreasing and we understand that the end of Grey Zone interest refund claims will be approaching soon.

(Shareholder #3)

- (1) Regarding fund transfers through internet banking, other banks show the recipient's information if we enter the recipient's bank name, branch name, and account number (which is called as the "name-back" function), but Shinsei Bank does not have this function yet. In addition, the Bank still

uses a random number table for log-ins. I request the Bank to improve security and user convenience by, for example, implementing two-step authentication.

(2) My transaction record is not managed appropriately.

(Answer by the Chairman)

(1) New Shinsei PowerDirect, our internet banking has already implemented the name-back function for fund transfers and one-time password for log-ins. It requires a smartphone for using these features. Please try New Shinsei PowerDirect.

(2) We will not respond to questions about individual customers' transactions at general meetings of shareholders. We have introduced a structure to share the opinions from individual customers with responsible staff, call center staff, and the Customer Service Department, etc. so your questions and complaints will be addressed appropriately by concerned parties.

(Shareholder #4)

(1) What is your plan for boosting your share price?

(2) In an environment where interest income will be shrinking in the whole banking sector, how are you going to secure non-interest income? Aren't you entering into, for example, the M&A intermediary business capturing SME's business succession issues which are becoming more serious?

(Answer by the Chairman)

(1) We are not pessimistic about our share price. In the situation where the environment surrounding finance business is changing, we want to boost our share price through initiatives without following the traditional banking businesses, such as the recently-announced partnership with NTT DOCOMO, acquisition of an insurance company, and the development of the consumer finance business in Vietnam. Like these initiatives, we want to boost our share price by taking nonlinear initiatives through investments, acquisitions, and partnerships with external parties.

(2) Growing non-interest income is an important challenge for us. We have been working on business succession for several years, and have seen some results for last one to two years. Demand for the sophisticated intermediate services for M&As due to increasing business successions is expected to expand. We continue to focus on this business as it can contribute to solving social issues as well as revenue generation. Accordingly, we will continue to focus on the business succession.

(Shareholder #5)

(1) As a public-fund injected bank, do you have any managerial constraints?

(2) It has been more and more important to secure and develop good talents in the situation where the financial industry cannot avoid alliance/coalition. What policy and initiatives do you have for securing and developing good talent?

(Answer by the Chairman)

(1) There are no particular constraints to our business operation. We have submitted our Revitalization Plan to the government based on the Act on Emergency Measures for Early Strengthening of Financial Functions and the need to meet the numerical targets stated in the Plan. Moreover, we

sufficiently discussed with the financial authorities during the process of developing the Plan.

- (2) We are also having a hard time recruiting good talents in a situation where the popularity of banks as a place of employment is declining drastically. We have implemented various initiatives including special recruitment activities for securing a small number of experts for AI and data scientists, allowing employees to engage in side-businesses ahead of our peers in the financial industry, and promoting more women. We will continue to implement various initiatives steadily, even though it will take time to see actual results.

(Shareholder #6)

- (1) You own about 500 billion yen JGBs. If you do not need it for your banking business, shouldn't you sell them in the market so that you can get additional source for buy-backs or public fund repayment?
- (2) Mr. Flowers commented in an interview with a newspaper that "he would not hold Shinsei Bank shares forever". What is his true intent?

(Response by the Chairman)

- (1) JGBs are essential for our banking business operation, since they are the security of our transactions with the Bank of Japan and they are also held for ALM purpose. Our marketable securities account includes government bonds of other major countries and some marketable securities for the real estate finance business. Please also note that we need profit not cash as the source for share buy-backs, so selling JGBs will not necessarily lead to share buy-backs.
- (2) As a general discussion, finding and investing in a good company and selling its shares once the investment plan is achieved are exactly what an institutional investor does. Accordingly, it is natural that Mr. Flowers will not hold our shares indefinitely.

(Shareholder #7)

- (1) I want the Bank to increase its dividend because I realize that the Bank is getting better.

(Response by the Chairman)

- (1) We consider that share buy-backs will definitely serve shareholder interests better under the current environment with low PBR/PER valuation for our share price. However, we would like to respond to shareholders' expectation for a dividend increase by boosting our profit level through the Medium-Term Strategies and initiatives including M&As, and by also improving the multiples for our share price through gaining market confidence to our growth potential.

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