

## Shinsei Bank 16<sup>th</sup> Annual General Meeting of Shareholders Q&A Session Summary

June 22, 2016

(Shareholder #1)

- 1) Shinsei Bank recorded a profit attributable to owners of parent (net income) of 60.9 billion yen while having originally targeted a fiscal year 2015 target of 70.0 billion yen, and furthermore, the fiscal year net income target is as low as 52.0 billion. On the other hand, the net income target of the third Medium Term Management Plan (MTMP) final year (fiscal year 2018) stands at 64.0 billion yen. How will the Bank achieve this?
- 2) What assumptions did the Bank employ in light of the major shifting taking place in the external environment such as the introduction of the negative interest rate policy (NIRP) in the creation of its fiscal year 2018 net income target of 64.0 billion yen? What are the risks regarding the achievement of the target and what are the Bank's countermeasures?

(Answer)

As the answers to these two questions are interlinked I will provide an answer which will satisfy both. Reflecting upon the Bank's experience under the 2<sup>nd</sup> MTMP, the 3<sup>rd</sup> MTMP was created with an emphasis on growing revenues which are both highly stable and sustainable and are resilient to changes in the external environment and nonrecurring factors and it is therefore essential that we create a business model which grows such revenues. Under the 3<sup>rd</sup> MTMP, as a result of the undertaking of a selection and concentration of our businesses, we will be undertaking initiatives in our unsecured card loan and structured finance businesses as growth areas, areas which are resilient to the business environment changes brought about as a result of the introduction of NIRP. Additionally, we will engage in efforts to realize enhance managerial efficiency and improve profitability through the realization of synergies brought about through achieving a truly unified management of all Group companies, creating a business model which withstands the uncertainties of the external business environment in order to ensure the firmness of our profit base.

Furthermore, regarding key financial indicators, the fiscal year 2016 forecast was created considering the actual levels recorded at the time of the creation of the plan, and subsequently we assume the short and long term interest rates will remain on a declining trend, the Nikkei average will begin to recover in the second half of the year and the foreign exchange rate will remain largely flat.

(Shareholder #2)

What sort of measures is the Bank engaged in in regard to its IT systems and security?

(Answer)

In internet banking the Bank has already introduced multi route authentication, email notifications of withdrawals, introduced malware detection tools, engages in in efforts to provide warning to its customers and so on in addition to the measures it is currently considering introducing. The strength of our cyber security is a top priority and we are working to aggressively to ensure its adequacy.

(Shareholder #3)

- 1) I ask for Shinsei Bank to determine its dividend in its annual general meetings of shareholders instead of in its board of directors meetings.
- 2) What is Shinsei Bank's dividend payout ratio?

(Answer)

- 1) Due in part to the merit of shareholder being able to receive dividends at the mailing of the notices of convocation, we desire to continue to determine the dividend in meetings of the board of directors in accordance with the existing provisions of the article of incorporation. That being said, we will be considering various venues in this regard going forward.
- 2) The Bank's dividend payout ratio is about 4%, and when including the share buyback which was announced on May 11 our total return ratio exceeds 20%. Improving the dividend payout ratio is acknowledged as a key management issue and while we will continue to seek to secure the source of the repayment of public funds as a public fund injected Bank, we will continue to consider various venues regarding shareholder returns including the dividend payout ratio.

(Shareholder #4)

- 1) What is the outstanding balance of Shinsei Bank's public funds and how is it held?
- 2) How will Shinsei Bank differentiate itself from other banks as it undertakes efforts in order to repay public funds?

(Answer)

- 1) The public funds which were injected into Shinsei Bank have already been converted into common shares and are held by the Bank's major shareholders, Resolution and Collection Corporation and Deposit Insurance Corporation of Japan. The injected value balance of public funds is just over 200.0 billion yen and we recognize the government's collection target to be 350.0 billion yen.
- 2) By specializing in businesses in which the Bank holds strengths, we hope to increase our customers and differentiate ourselves from other financial institutions. Specifically, we will pursue differentiation from other financial institutions in the growth and stable revenue areas we identified through the selection and concentration of businesses we performed as part of the 3<sup>rd</sup> MTMP.

(Shareholder #5)

- 1) In regard to the repayment of public funds, will the Bank continue to undertake share buybacks until its share price reaches the level required to repay the government's collection target amount?
- 2) I would like to see the management of the Bank properly express the sense of urgency it should display in regard to repaying public funds.

(Answer)

- 1) We have considered various methods in order to repay public funds, and our recent decision to undertake a share buyback is the result of having reached a stage where we can seriously consider such measures due to our accumulate capital and the condition of our profits. Additionally, our decision to undertake a share buyback instead of other form of capital policy was based upon our assessment that Bank shares are undervalued in the current financial environment and the management of the Bank determined that the buyback of our shares would be the most effective measure we could undertake. As we are unable to concretely forecast the future environment or the price of our Bank's shares, we are unable to comment on any such future measures.
- 2) If our shareholders perceive our management as being unmotivated to complete the repayment of our public funds, I offer our sincerest apologies. We are considering various methods and are undertaking various measures to identify the path to the repayment of public funds. Through the execution of the 3<sup>rd</sup> MTMP, we are focusing our efforts to establish a strong business model, enhance profit levels through the

controlling of expenses as well as are seeking to improve per share values through the undertaking of appropriate capital policy.

(Shareholder #6)

The management of the Bank should display their earnestness to repay public funds through measures such as giving up a portion of their compensation.

(Answer)

The Bank determines the compensation of its management taking into account its status as a public funds injected Bank and compensation is reasonable. Additionally, frameworks to appropriately evaluate the business performance of the Bank ultimately translate into the profits of shareholders and I would like to perform a thorough review of them in the future.

(Shareholder #7)

Regarding the composition of the fiscal year 2015 deposit balance, while there has been a slight decline in the balance of retail deposits from fiscal year 2014, the balance of corporate deposits has increased. Is this change due to the effect of NIRP and what does the Bank expect to occur going forward?

(Answer)

Regarding corporate deposits, while the balance increased slightly in fiscal year 2015, we do not anticipate this trend to continue. The largest component of the total deposit balance, retail deposits, is largely flat. While retail deposits has a key role as a source of the Bank's funding, the current level is sufficient and we do not perceive there to be any related issues. Going forward, due to the prolonged effects of the NIRP, we believe that we as a financial institution must prepare attractive asset management product options for our customers.

The Q&A summary is presented in the manner shareholder questions were received. A total of 6 shareholder presented questions in this year's annual general meeting of shareholders.

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