

TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES



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Hideyuki Kudo
President and Chief Executive Officer

Through the pursuit of our “medium- to long-term vision” we created in 2016, Shinsei Bank is currently engaging in efforts to establish itself as a unique presence within the Japanese financial services industry through the customer-centric integration of the customer bases and financial functions of the Shinsei Bank Group companies. In addition, through the development and provision of cutting edge products and services as well as achieving unprecedented levels of productivity and efficiency through the undertaking of improvements and reforms on a Group-wide basis.

In keeping with this vision, within the Third Medium-Term Management Plan that was started in fiscal year 2016, the Shinsei Bank Group has undertaken a “selection and concentration” approach that proactively allocates management resources to areas with market growth potential and in which the Group possesses competitive strengths. In the first half of fiscal year 2016, in unsecured personal loans, a growth area in the Individual Business, we have seen improvements in both the number of new customer acquisitions and the approval rate of Shinsei Bank Card Loan—Lake in comparison to the previous second half and our operating asset balance has grown steadily. In structured finance, a growth area in the Institutional Business, while our overall operating asset balance has declined as a result of fluctuations in foreign exchange rates, early repayments of some existing assets and our dynamic efforts in distributing a portion of related assets, we have also successfully accumulated high quality operating assets through continued efforts in our unique and diversified real estate finance business as well as collaborative efforts in renewable energy project financing together with overseas sponsors and regional financial institutions. In the strategic initiative areas of settlements and SME and small business solutions, the Group has commenced the provision of settlement agent services in Japan for WeChat Pay, a China-based mobile payment service, through APLUS FINANCIAL, in addition to having launched a vendor leasing service which integrates the capabilities of APLUS FINANCIAL and Showa Leasing. With these steps and others, the Shinsei Bank Group is intensifying its efforts to successfully integrate its Group companies in a manner which fully utilizes our customer bases, financial functions and services.

Regarding the Bank’s business performance in the first half of fiscal year 2016, consolidated net income totaled ¥24.9 billion, a ¥12.5 billion year-on-year decline which was primarily the result of the non-recurrence of the major credit recoveries which were recorded in the Institutional Business in the previous first half. At the same time, our progression toward our fiscal year 2016 full year net income forecast of ¥52.0 billion stood at 48%. While we observed reductions in our markets related revenues, including those related to the sale of asset management products in our Individual Business, due to the market turmoil caused by the introduction of the Bank of Japan’s negative interest rate policy, our core businesses, including the growth areas of unsecured personal loans and structured finance, exhibited resiliency and strength, and due in part to an increase in gains recorded on the sale of Japanese Government bonds in Treasury operations, we recorded an interim net income which is largely in line with our plan.

In regard to the financial strength of our Bank, our consolidated core capital adequacy ratio as of September 30, 2016, was 14.09%, and continues to be maintained at a level which is adequate, and our nonperforming loan ratio remains low at 0.78% as a result of our continued commitment to sound risk management.

Looking forward to the second half of fiscal year 2016, while the recording of revenues in our Treasury operations of a similar magnitude as those which were recorded in the first half will be challenging and the susceptibility of our markets related business to future changes in market trends and customer sentiment remains a concern, a recovery, albeit slight, has recently been observed in the sale of asset management products, and we are undertaking various actions in our businesses in order to achieve our full year net income target.

Please be assured that both the management and employees of the Shinsei Bank Group are firmly committed meeting the expectations of all of our stakeholders.

We hope to enjoy your continued support and guidance in the future.

December 2016



Hideyuki Kudo
President and Chief Executive Officer

OVERVIEW OF THE THIRD MEDIUM-TERM MANAGEMENT PLAN

(FY2016–FY2018)

Basic Strategy

In line with the Medium- to Long-Term Vision outlined below, the Bank has established its Third Medium-Term Management Plan (hereafter, the Third MTMP), which is to be implemented over the three years from fiscal year 2016 through fiscal year 2018.

Medium- to Long-Term Vision

1. To be a financial innovator that provides innovative financial services made possible through the integration of its Group companies.
2. To be a financial group that achieves outstanding productivity and efficiency by making constant improvements and reforms to realize lean operations.
3. To be a financial group which, in addition to rewarding its stakeholders, is unified by the core values born from the confidence, sense of fulfillment and the pride created by the achievement of the first two goals of the Group vision.

Overall Strategy

“Selection and Concentration” of Businesses/Creation of Value through Group Integration

- **Growth Areas**
Areas with high profit/growth expectations in which the Bank holds competitive advantages
- **Stable Revenue Areas**
Areas in which the Bank will stably and selectively engage in without being involved excessive competition
- **Strategic Initiative Areas**
Areas which are expected to deliver future growth and in which the Bank looks to create customer value through groundbreaking innovations
- **Curtailment Areas**
Areas in which the Shinsei Bank Group holds little expertise or the market is expected to shrink

Group Management Infrastructure: Achieve Responsive, Flexible Business Management and Lean Operations throughout the Bank Group

- Flexible and proactive reallocation/optimal use of Group management resources based upon business environment changes and plan progression
- Business management framework which enables maximum realization of organization and employee latent potential whilst eliminating waste and overextension
- Robust Group governance through unified Group management and enhancement of horizontal business functions

Financial Plan

- The Third MTMP is focused on the growth of stable profit sources. We are aiming for ¥64.0 billion in profit attributable to owners of the parent in the plan's final year (FY2018).
- We also are emphasizing more efficient operations, with an expense-to-revenue ratio target of below 60%.
- Capital policy is another important issue for the Bank's management. As a recipient of public funds, Shinsei Bank continues to emphasize the accumulation of internal reserves so that it can identify the path of the repayment of public funds and improve shareholder returns.
- We also plan to consider appropriate targets for ROE and the Common Equity Tier 1 Capital (CET1) Ratio.

		FY2018 Plan
Sustainability	Net Income	64.0 billion yen
	RORA ^{1,2}	Around 1%
Efficiency	Expense-to-Revenue Ratio	Below 60%

¹ RORA is calculated as net income divided by fiscal year end risk assets
² Basel III international standard fully loaded basis