

For Immediate Release

Company Name: Shinsei Bank, Limited
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President and CEO
(Code: 8303, TSE First Section)**Issuance of the FY2016 - 2018 “Japanese Economy Outlook”
(First Issue, December 7, 2016 edition)**

Tokyo (Wednesday, December 7, 2016) --- Shinsei Bank, Limited (hereinafter “the Bank”, “Shinsei Bank”) today announced that it has issued its fiscal year 2016 to fiscal year 2018 “Japanese Economy Outlook” (First Issue, December 7, 2016 edition), the first edition of a regular analytical report focusing on the Japanese economy including GDP (Gross Domestic Product) forecasts for the next three years. This report is written and issued by the Bank’s Financial Research Division. By including macro-economic forecasts, the report aims to offer viewpoints for the consideration of future economic and financial market trends to the Shinsei Bank Group’s stakeholders, such as its customers and shareholders.

Based upon analyses of the current state of economies, primarily the Japanese economy, the report presents an economic outlook over the next three years. The first issue, which covers the period from fiscal year 2016 to fiscal year 2018, presents an outlook which has taken into account the impact of the economic policies of president-elect Donald Trump.

While the economic outlook in the report is scheduled to be updated when the Cabinet Office releases its quarterly GDP preliminary reports, the outlook may undergo unscheduled revisions when/if economic and financial market conditions have changed drastically.

Shinsei Bank established its Markets Research Department in April 2013, which has focused on the analysis and provision of information primarily related to financial markets. From April 2016, following the reorganization of the Department into the Financial Research Division, the Division has enhanced its analytical capabilities beyond just financial markets to include the current states and outlooks of both financial markets and the overall Japanese economy and their respective outlooks. Giving regard to past analytical findings, the Bank has elected to regularly issue these reports. The following is a summary of the first issue. Please refer to the attached for a detailed version of the report.

“Japanese Economy Outlook: The impact of the Trump administration on the Japanese economy” (First Issue, December 7 2016 edition) (Summary)**Highlights:**

- The current Japanese economy is being viewed increasingly pessimistically as a result of its shrinking population. However, backed by expansionary policy, in reality employment is increasing steadily, with the increase of the number of workers surpassing the population change for more than 3.5 years since January 2013. This is first time these conditions have been observed since 1954, when currently the utilized statistics were first recorded.
- The growth rate of the Japanese economy is expected to trend at around 1%. We view the likelihood that the economy will follow a moderate recovery path which outperforms its potential growth rate to be high.

1. Current state of the Japanese economy

- (1) **Household sector:** While the Japanese population has entered a decline, the economy is exhibiting a unique movement with the number of employed persons increasing, backed by factors such as impact of expansionary policies. Regarding consumption, while the latest statistical data indicates the existence of a statistical gap between the two, both

supply and demand have made “L”-shaped movements, trending generally flat following sharp declines after the consumption tax hike in April 2014. While the housing market exhibits signs of recovery as a result of low interest rates and tax incentives, the upward movement of long-term interest rates from around the middle of the year, albeit slight, requires attention.

- (2) **Corporate sector:** Production, shipment, and inventory levels have improved for two consecutive quarters and the inventory rate has decreased for the first time in 18 months. Inventory adjustments for electronic parts and devices have progressed, in addition to transportation devices gradually recovering from the impact of this year’s earthquake disaster. While corporate earnings have declined due to the stronger yen and cheaper Nikkei Stock Average, previously around the 120 yen per dollar and 20,000 yen level, respectively, earnings continue to remain at high levels. Accordingly, while we anticipate capital expenditures to increase, it should be noted that the tendency for capital expenditures to underperform plan is increasing.
- (3) **Overseas economies:** In the period from July to September, 2016, GDP in the US, Europe and China was strong. Regarding exports from Japan, while exports to the US have decreased, exports to NIEs (Newly Industrializing Economies), ASEAN (Association of South-East Asian Nations) member states and China have increased, primarily in electronic devices.
- (4) **Prices:** While the decline in crude oil prices has caused significant downward pressure on consumer prices, consumer prices have recently started to rise, and have increased on a year-on-year basis. As a result, we anticipate the effects of this downward pressure to diminish in the coming year, and believe conditions will be more conducive for price increases. The momentum for pay raises, which affects prices, is beginning to slow, and requires attention going forward.
- (5) **Financial markets:** While the yen has exhibited strength versus dollar and the Nikkei Stock Average has weakened from mid-2015 due to the effects of decelerations in overseas economies and concerns related to an interest rate increase in the United States, these trends have been changing over the past several months, particularly following the US Presidential election. While the long-term interest rate had remained at lower levels due to the Bank of Japan’s (“BOJ”) easing measures, changes have recently been observed in the downward trend.

2. Outlook for the Japanese Economy

(1) **Baseline Scenario: Unemployment rate to decline to below 3% level, wages to increase gradually**

We anticipate Japan’s real GDP continue to grow (FY2016: +1.0%, FY2017: +1.7%, and FY2018: +1.4%). Regarding FY2017, the scenario has incorporated the effect of increased public investment resulting from the FY2016 supplementary budget and expectations for fiscal expansion in the United States. Regarding FY2018, while the effect of public investment will decrease, we anticipate private demand will support the economy. While inflation will fail to reach 2%, due to improvements in employment and growing pressure for pay raises, the Japanese economy will not return to deflation, and the low-inflation environment will likely persist. Regarding overseas factors, the Scenario assumes a US interest rate hike in December, 2016, and additional interest rate hikes are expected to continue at a gentle pace, with approximately two additional interest rate hikes anticipated in 2017.

(2) **Risk factors: Rise of “protectionist policy” in the US, Capital outflow risk in emerging markets**

Regarding the economic policies of president-elect Donald Trump, there are currently exist positive expectations related to “potential economic expansion by fiscal expansion” and negative expectations related to “protectionist trade policy and heightening geopolitical uncertainty.” Our concerns focus on changes in US economic policies resulting in capital outflow from emerging economies, leading to their slower economic growth, which in turn may place downward pressure on the Japanese economy through lower exports, etc.

Shinsei Bank is a leading diversified Japanese financial institution providing a full range of financial products and services to both institutional and individual customers. The Bank has a network of outlets throughout Japan and is committed in its pursuit of uncompromising levels of integrity and transparency in all of its activities in order to earn the trust of its customers, staff and shareholders. The Bank is committed to delivering long-term profit growth and increasing value for all its stakeholders. News and other information about Shinsei Bank is available at <http://www.shinseibank.com/corporate/en/index.html>