TO OUR SHAREHOLDERS, CUSTOMERS, AND EMPLOYEES

In fiscal year 2012, the final year of our First Medium-Term Management Plan ("MTMP"), we worked aggressively to develop new business areas and to enhance our performance. As a result, we were able to achieve our consolidated net income target and most of the other major goals set forth in the First MTMP. Under the Second MTMP that began in fiscal year 2013, we will endeavor to establish a business base unique to our Bank and to further increase our profitability.

President and Chief Executive Officer **Shigeki Toma**

In fiscal year 2012, the Japanese economy was on a moderate recovery trend despite the impact of the long-term appreciation of the yen and deflation, but the harsh economic environment continued due to the persistence of the sovereign debt crisis in Europe and the slow down of the global economy. In December of last year, the announcement of a bold monetary easing, flexible fiscal action, and the development of a clear growth plan by the newly inaugurated Abe administration led to rises in stock prices and a correction in the strength of the yen. However, the feeling of unrest regarding the world economy continues to linger, and the uncertainty surrounding the future of the economy has yet to be dispelled.

Under such circumstances, after having resolved most of our legacy issues in the previous fiscal year, we made active efforts to enhance our performance in both our institutional and individual businesses in fiscal year 2012, the final year of the First MTMP.

Our institutional business again advanced in its expansion: our corporate loans continued to grow and we gradually began seeing the fruits of our initiatives in providing solutions to support the development of companies with growth potential and new business domains, and for the revitalization of regional economies including post-disaster recovery. In our individual business, the housing loan balance surpassed 1 trillion yen in December. In addition, a bank-based, unsecured personal loan service under the *Shinsei Bank Card Loan—Lake* brand, which we launched in October 2011, is growing steadily.

As a result, we posted a consolidated net income of 51.0 billion yen in fiscal year 2012, a significant increase from the 6.4 billion yen recorded in the previous fiscal year. It also meant that we attained the consolidated net income target for the final year of the First MTMP. Furthermore, we were ahead of schedule in reaching our targets for improving the profit structure, such as reductions in expenses and non-core assets, and we achieved a capital adequacy ratio that exceeded our established target. Reflecting this performance, the Bank paid a one yen per share term-end dividend.

We believe that we have achieved the major tasks set forth in the First MTMP both qualitatively and quantitatively. We could not have done this without the understanding and support of our shareholders and other stakeholders, to whom I would like to express our sincere gratitude.

Based on these results, we have developed the Second MTMP for the next three years starting in fiscal year 2013. In the future, Shinsei Bank will seek to establish a unique business base, increase our revenue, further improve our financial fundamentals, and become a financial group that is valued by our customers and needed by society and markets. We are strongly committed to realizing this vision.

I would like to thank our shareholders, customers, and all other stakeholders for your continued support and guidance.

July 2013

Shigeki Toma

Shigeki Toma
President and Chief Executive Officer

QUESTIONS & ANSWERS

Q

Please summarize the First Medium-Term Management Plan ("MTMP") which was completed in FY2012. Please share with us your determination towards the Second MTMP?

A

We believe that we have achieved the major tasks set in the First MTMP both qualitatively and quantitatively. In the Second MTMP, we will seek to establish a unique business base, increase our revenue, further improve our financial fundamentals, and become a financial group that is valued by our customers and needed by society and markets.

During the three-year period of the First MTMP, we focused on resolving the legacy issues by focusing on the concepts of "rebuilding the customer franchise" and "establishing a stabilized earnings base."

In FY2010, the first fiscal year of the First MTMP, we focused on laying the foundations of what must be done in order to be able to "establish a framework to stabilize revenues." To be able to better accomplish this, we set about clearly identifying what parts of our business were "core" and "non-core." Our core businesses, which we seek to expand and strengthen, included our customer oriented business and areas where the Bank has an advantage versus our competitors and can add value. Our non-core businesses were those that had volatile revenues and businesses the Bank generally had a disadvantage in acquiring the expertise and information necessary to be able to compete effectively in. We also clearly separated out assets that were tied up in non-core businesses while making efforts to strategically focus our core businesses. On top of this, we took actions to strengthen our financial base such as repurchasing preferred stock, making an exchange offer for subordinated debt, and issuing new common shares.

In FY2011, the second fiscal year of the First MTMP, we made numerous efforts to undertake "initiatives to diversify revenue by developing new businesses."

In our corporate business, we reorganized our organization into the Institutional Group and the Global Markets Group and also established the Venture Banking Initiative ("VBI") in order to provide multifaceted solutions to business challenges faced by our customers.

In our individual business, we started offering an unsecured personal card loan service, at the Bank, through the *Shinsei Bank Card Loan—Lake* Brand.

Also, carrying on from FY2010, we made further efforts to improve our financial position to stabilize revenue, and achieved our reduction target of non-core assets ahead of schedule thereby allowing us to eliminate future downside risks to financial performance.

In FY2012, the final fiscal year of the First MTMP, we achieved the 51.0 billion yen consolidated net income target set forth in the First MTMP as our actions to mitigate risk resulted in the prevention of large impacts of non-recurring factors which had existed in past fiscal years.

In our corporate business, we gradually saw the fruits of our labor and an increase in net lending with our initiatives aimed at providing solutions to activate companies with growth potential and local economies, with a focus on new business fields and reconstruction efforts in the earthquake disaster area.

In our retail business we were able to achieve a housing loan balance of over 1 trillion yen in December 2012, and the *Shinsei Bank Card Loan—Lake* balance is steadily increasing. We believe that the targets set out under the basic concepts of the First MTMP of "rebuilding the customer franchise" and "establishing a stabilized earnings base" were achieved in both qualitative and quantitative terms.

Followings the achievements of the First MTMP, we have positioned the Second MTMP as the stage for "establishing a clear strategy and pursuing sustainable growth" by "further expanding the customer base" and "increasing quality assets while improving our portfolio." In order to accomplish these goals, we have set out the following three targets in the Second MTMP: "establish a unique business base," "increase revenues and further improve financial fundamentals," and "become a financial group appreciated by customers and valued by society and markets."

In the Second MTMP, we will be pursuing "a new business model of a commercial bank in an advanced economy." For this purpose, we will employ the full capabilities of the Shinsei Bank Group to provide various products and services to customers in a timely manner. We will look to develop a management style which will leverage the capabilities of the entire Shinsei Bank Group in order to provide solutions that are truly sought after by both institutional and individual customers.

Summary of the First Medium-Term Management Plan

(Billions of yen)

		First MTMP		
	FY2009	FY2010	FY2011	FY2012
Net Income (Loss)	(140.1)	42.6	6.4	51.0
Cash Basis Net Income (Loss)	(53.7)	53.8	16.0	60.4
ROE	(27.6%)	8.5%	1.2%	8.6%
Cash Basis ROE	(13.7%)	12.4%	3.2%	11.1%
Non-Core Assets	886.0	618.7	463.5	341.7
Total Capital Adequacy Ratio*		9.3%	9.5%	11.6%

* Estimate for March 31, 2013 is based on the international standard of Basel III applying grandfathering.

FY2010
Stabilize earnings through structural reform
- Bought back preferred securities/made exchange offer for subordinated debt
- Completed the raising of 71.8 billion yen in capital through a common share offering

FY2011
Diversify earnings through new business expansion
- Started consumer finance at the Bank and expanded corporate business through the Venture Banking Initiative
- Achieved non-core asset reduction target ahead of schedule and eliminated downside risk to earnings

FY2012
Secure normalized stable earnings
- Achieved stable earnings with only limited impact from non-recurring items

Second MTMP:
Moving towards "Establishing a clear strategy and pursuing sustainable growth"
- Establish a unique business base
- Increase revenues and further improve financial fundamentals
- Become a financial group appreciated by customers, and valued by society and markets

Q

We see similar strategies in other banks such as overseas strategies focused in Asia, and project finance in the renewable energy sector such as mega solar projects. How will Shinsei Bank be able to differentiate itself from its peers?

A

Domestic projects that Shinsei Bank is involved in, such as renewable energy projects, are non-recourse loans that focus on cash flows from the projects themselves.

The first thing that I would like to say is that domestic projects that Shinsei Bank is involved in, such as renewable energy projects, are non-recourse loans that focus on cash flows from the projects themselves. Up until now, financing provided to mega solar projects in Japan have been in the form of either a corporate loan or project financing which were dependant upon the credit standing of the sponsor.

Shinsei Bank is the first bank in the market to start activities for originating project finance in this area. The financing method used in the mega solar project in the Eastern area of Hokkaido (made public in March 2013) and the mega solar project in the city of Mito and surrounding areas in Ibaraki Prefecture (made public in May 2013) are projects which were evaluated based upon their cash flows only, and was a revolutionary project evaluation method in Japan.

We will continue to deepen our expertise in the renewable energy area and strengthen our capabilities in providing finance which focuses on cash flows from the project.

Overseas, there is strong demand for funding of projects aimed at developing infrastructure assets in the Asia-Oceania region and many available projects require significant levels of capital. In the current financial environment where Western financial institutions are downsizing their project finance business or loan portfolios due to the impacts of the sovereign debt crisis and asset re-balancing, Japanese financial institutions are the only lenders who are capable of meeting such strong demand for funding. However, it is difficult for all of this demand to be satisfied by the Japanese mega-banks alone, and most other Japanese banks are not capable of engaging in overseas project finance. We have recognized this as a business opportunity for our Bank as we are well prepared to engage in future overseas finance projects.

Q

Is it correct to say that Shinsei Bank's consumer finance subsidiaries are now completely free from grey-zone risks?

A

The number of transaction record disclosure requests and the amount of interest repayments are both staying at a significantly lower level than the peak. Given these trends, we feel it is safe to say that at this point in time each consumer finance subsidiary has sufficient reserves set aside for grey-zone risks.

In order to rid ourselves of so called "grey-zone risk," Shinsei Bank took aggressive action to eliminate downside risks to our future earnings by making additional provisions (totaling 32.8 billion yen) in FY2011 for interest repayments at our three consumer finance subsidiaries—Shinsei Financial, SHINKI, and APLUS FINANCIAL.

Recently, the number of transaction record disclosure requests and the amount of interest repayments are both staying at significantly lower levels than their peaks.

Given these trends, we feel it is safe to say that at this point in time each consumer finance subsidiary has sufficient reserves set aside for grey-zone risks. Specifically, Shinsei Financial has a balance of 21.3 billion yen in reserves for losses on interest repayments (as of March 31, 2013), and a significant portion of Shinsei Financial's assets carrying the possibility of grey-zone interest repayment claims is covered by a GE indemnity. The additional reserves of 15.9 billion yen set aside for grey-zone risks at Shinsei Financial in FY2011 were for loans which were not covered by the GE indemnity. SHINKI had a balance of 7.8 billion yen in reserves for losses on interest repayment (as of March 31, 2013) and APLUS FINANCIAL had a balance of 5.7 billion yen in reserves for losses on interest repayments (as of March 31, 2013).

While we will continue to closely monitor the number of transaction record disclosure requests and the amount of interest repayments, we believe that as of this point in time each company has a sufficient balance of reserves for possible losses on interest repayments.

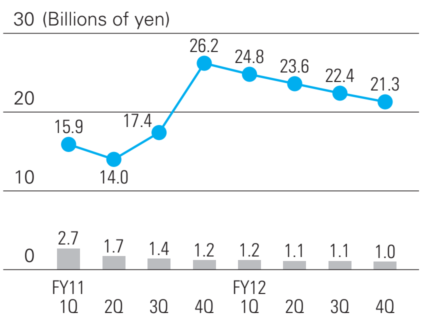
Number of Disclosure Claims

(Thousands)

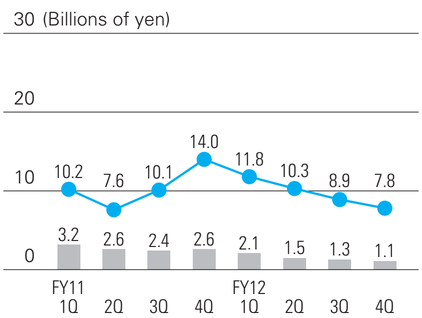
	FY2009	FY2010	FY2011	FY2012
Shinsei Financial	168.9	138.4	78.9	59.3
SHINKI	31.0	23.5	13.0	10.6
APLUS FINANCIAL	20.4	18.3	12.8	10.0

Amount of Interest Repayment and Reserve for Losses

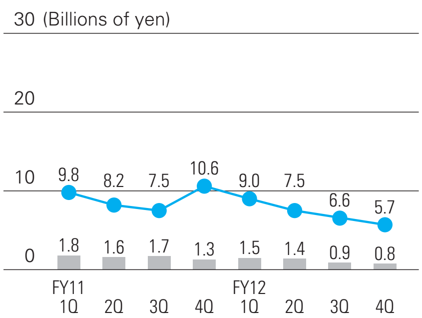
Shinsei Financial*1,2



SHINKI



APLUS FINANCIAL



Interest Repayment Amount Reserves

*1 A certain portion of Shinsei Financial's portfolio is covered by a GE indemnity contract. Interest repayment amount is net of refunds subject to the GE indemnification.
2 Reversals of reserves for losses on interest repayment include reversals of provision of reserves for loan losses.

Q

Although the targeted consolidated net income for the Plan's final fiscal year (FY2016) is 70 billion yen, the basic dividend policy is that each fiscal year end target dividend is 1 yen per common share. What is the rationale for this dividend policy?

A

In the Second MTMP, we are planning to enhance our re-investment capabilities by retaining the Bank's earnings in order to be able to deliver sustainable growth.

The level of dividend payout is decided by considering three key factors: capital adequacy, stability of revenues, and shareholders returns.

Shinsei Bank considers the distribution of earnings to shareholders based upon the Bank's performance and prospects of future growth, the balance of risk to internal reserves, as well as our revitalization plan as a Bank which has received public funds in order to come to a decision on dividends. We succeeded in stabilizing our earnings base by enhancing our customer franchise under the First MTMP, but in the Second MTMP we are planning to establish a unique business base and enhance our re-investment capabilities by retaining the Bank's earnings in order to be able to deliver sustainable growth. We will endeavor to improve the Bank's credit standing and increase the stock's value by strengthening our financial fundamentals and enhancing our unique business base.

Q

Please provide specific details of the policy and plans for preparing and investing in IT systems under the Second MTMP.

A

Stable operation of the IT systems is an important managerial challenge because it is an essential task of a financial institution responsible for social infrastructure.

Among the management infrastructure initiatives that will support the implementation of the Second MTMP, stable operation of the IT systems is an important managerial challenge because it is an essential task of a financial institution responsible for social infrastructure. For this reason, in the Second MTMP, we will endeavor to stably operate the existing IT systems which are at the heart of important businesses by comprehensively inspecting important IT systems and further improving the existing backup centers. We will establish a basic policy for next-generation IT systems which will allow the creation of a robust and stable IT solution in accordance with the medium- and long-term management policies. As such, we expect to invest a total of more than 20 billion yen (on a cash-out basis) in IT systems—almost double the amount invested under the First MTMP, during the three-year period covered by the Second MTMP. These investments are planned for projects aimed at stabilizing the existing IT system and some investments for the next-generation IT systems.

Q What specific initiatives have you launched to make use of the Bank's diversity?

A

The Bank is working on improving management capabilities with a focus on managerial staff members, actively utilizing female employees, and recruiting and nurturing non-Japanese employees.

In order to achieve the goals stipulated in the Second MTMP, and ensure sustainable growth and the implementation of Management Principles, we consider it imperative to diversify the Bank's human resources and to develop personnel with a broad perspective and a high degree of professionalism. For this reason, the Bank is working on improving management capabilities with a focus on managerial staff members, actively utilizing female employees, and recruiting and nurturing non-Japanese employees through measures such as the introduction of a recruitment quota for overseas students graduating from Japanese universities. In particular, the Bank has continuously implemented supporting measures for the utilization of female employees including maternity leave. As a result, the Bank has a high ratio of female managerial staff, which stood at 26% as of March 31, 2013.* The Bank also appointed its first female executive officer this April, and hopes to further facilitate the appointment of women in executive positions in the future.

* The ratio of female employees amongst personnel at the level of Manager or above

Q What is your policy for repaying public funds?

A

We will work to increase the corporate value by improving our earning capabilities and increasing retained earnings to repay public funds, and after achieving these goals, in consultation with the government we will examine methods to repay public funds as early as possible, while monitoring the trends in the Bank's share price.

The Bank has received a total of 336.9 billion yen in public funds, including some funds that were injected during the former Long-Term Credit Bank of Japan, Ltd. (LTCB) days and those that were injected when starting as Shinsei Bank in 2000. As of March 31, 2013, 216.9 billion yen in public funds were outstanding (on a principal basis) because some of the public funds were subsequently repaid.

In relation to these public funds, the Japanese Government—through the Deposit Insurance Corporation of Japan and the Resolution and Collection Corporation—is, in effect, our second largest shareholder, owning 17.67% of the issued and outstanding Shinsei Bank common shares.

Public funds will be repaid by the selling of government-owned shares in the market. Therefore, we will work to increase the corporate value by improving our earning capabilities and increasing retained earnings. After achieving these goals, in consultation with the government we will examine methods to repay public funds as early as possible, while monitoring trends in the Bank's share price.