TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES

Shigeki Toma
President and Chief Executive Officer

Following approval at Shinsei Bank's Annual General Meeting of Shareholders for the tenth term and a subsequent board of directors meeting, both held on June 23, 2010, I, Shigeki Toma, have been appointed as president and chief executive officer of Shinsei Bank, Limited, taking over from the previous president, Masamoto Yashiro. I would like to share some of my plans with you upon my appointment.

Overview of Fiscal Year 2009

Fiscal year 2009 was another difficult year for the Shinsei Bank Group. Over the past year, the Bank has gone back to basics, striving to provide the right products and services to meet the needs of our institutional and individual customers, focusing on our domestic customers in particular. However, under the leadership of the former president and CEO, Masamoto Yashiro, the Bank took additional reserves and charges in the fourth quarter of fiscal year 2009 in relation to domestic real estate exposures, legacy risk assets and proprietary investments in order to provide greater stability to its performance and return to a growth trajectory from fiscal year 2010 onwards. Furthermore, prior to full implementation of the Revised Money-Lending Business Control and Regulation Law (MLBL) in June 2010, the Bank posted additional reserves for potential losses on repayments of excess interest to individual customers, as well as taking impairment charges on the goodwill and intangible assets related to consumer finance subsidiaries, in an effort to deal with these issues as thoroughly as possible at this point in time. As a result, Shinsei Bank recorded a substantial consolidated net loss in fiscal year 2009 and made the regrettable decision to forgo a dividend on common shares. We sincerely apologize for the distress this has caused to all our stakeholders.

Our Strategy and Direction Going Forward

We have formulated a Medium-Term Management Plan that sets the direction that the Bank will follow going forward over the next three fiscal years up to March 31, 2013. Incorporating lessons learned from past errors of management policy, the Plan incorporates a renewal of the Bank's management framework and radical rationalization measures while simultaneously aiming to "rebuild the customer franchise in Japan" and "establish a stabilized earnings base." Over the three-year period we plan to first lay the groundwork for stabilized earnings, then implement measures for diversification of revenues through new businesses, and finally record stable earnings at operating speed.

More specifically, we aim to achieve external credit ratings of A/A- and raise our total capital adequacy ratio from the current 8.35% to 10%, our Tier I capital ratio from 6.35% to 8% and our core Tier I capital ratio from 4.05% to 6% by the end of the Plan on March 31, 2013. In terms of profitability, we are targeting consolidated net income of at least ¥32.0 billion for fiscal year 2012 ending on March 31, 2013 and we will work to improve on this through additional expense reductions of around ¥10.0 billion and other measures.

The Institutional and Individual Groups will each focus on the following key strategies in order to achieve these goals.

The Institutional Group will clearly divide its operations into "core" customer-centric businesses, and "non-core businesses" centered on proprietary investments. Going forward, it will focus resources in core businesses while working to reduce non-core legacy assets. The Group will also review its organizational structure from a customer-centric viewpoint, and provide financial services with high added value in order to rebuild the domestic customer base.

In most advanced economies, traditional commercial banking is fast becoming a low profit business model. Back in the days of the high-growth period when industrialization was still advancing apace, corporate lending was absolutely essential for industrial development, and banks, as key lenders, were able to grow in tandem with the expansion of their corporate customers' operations. However, that era is long over. Corporate lending has become commoditized and margins are thin. As financial institutions around the world scrambled to find a new business model, they veered towards financial engineering, invested in derivative-linked securitized products and other vehicles in pursuit of higher returns, and ultimately racked up huge losses as a result.

Today, we live in an age of information, both tangible and intangible. As the traditional commercial banking model falters, one approach to doing business in an advanced economy is to understand the importance of building information-gathering capabilities on specific industries and sectors, and using this to add value to products and services for customers. As a first step in this direction, Shinsei Bank has stepped up its efforts in the corporate restructuring business.

In the Individual Group, the Retail Banking business will concentrate on stabilizing our funding base and promoting lower funding costs while strengthening the asset management business through opening further Consulting Spots, and expanding the housing loan business. As customer needs have shifted from deposits to include a wider range of asset management options, we have expanded our line-up of financial products to include foreign currency deposits, structured deposits, investment trusts, stocks and housing loans in addition to yen deposits. We also continue to provide customers with a high level of convenience and attractive services, leveraging our unique, highly flexible and lightweight IT infrastructure to offer benefits such as competitive pricing and a variety of transaction channels, including Internet and mobile banking services, that supplement our compact branch network.

While it is feeling the impact of regulatory change, the Consumer Finance business is performing one of the important functions expected of banks in terms of providing access to financial services for customers, and I intend to strengthen the business going forward as one of the Shinsei Bank Group's strengths. We will work to secure profitability in the unsecured personal loan business of Shinsei Financial and other subsidiaries while fully complying with the revised MLBL, and we will strive to improve the profitability of the installment sales credit, settlement and credit card businesses at APLUS FINANCIAL.

While the Basel Commission on Banking Supervision has not yet finalized proposals for stricter capital requirements for banks, Shinsei Bank is aiming to raise its total capital adequacy ratio to 10%, its Tier I capital ratio to 8% and its core Tier I capital ratio to 6% by March 31, 2013 at the latest. We plan to achieve this by implementing measures to boost earnings and recording profits, as well as by taking other capital enhancement measures and by working to reduce non-core operating assets which in turn will lead to a decrease in risk weighted assets and capital deductions. As a bank whose operations are supported by public funds, we remain fully aware of the background and significance of this fact, and will work with a sense of urgency to faithfully fulfill our role as a Japanese bank, and provide high quality financial services to society.

Furthermore, following the conclusion of the Annual General Meeting of Shareholders held on June 23, 2010, Shinsei Bank has moved from a "Company with Committees" board model to a "Company with Board of Statutory Auditors" board model. We believe that this will allow us to achieve (1) the consolidation of business execution authority and responsibility in the Board of Directors, the highest decision-making body, and (2) the establishment of a corporate governance framework that enhances checks-and-balances to facilitate appropriate business execution while maintaining flexibility of management judgment by assigning responsibility for auditing duties to statutory auditors that are independent of business execution and the Board of Directors.

In Conclusion

As a financial intermediary responsible for credit creation, we must fulfill our fundamental role of providing access to financial services to those people who need them. By leveraging our strengths to the maximum, using resources efficiently and focusing our efforts to differentiate Shinsei from its peers under a fair and transparent management framework, I believe we can contribute to the development of the economy and become a bank trusted by all.

Fiscal year 2010 marks Shinsei Bank's tenth anniversary. We are ready to begin the next chapter in our history and I will do my utmost to improve our performance, restore stability, and meet the expectations of you, our stakeholders.

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

July 2010

Shigeki Toma

President and Chief Executive Officer

QUESTIONS & ANSWERS

Why has the “back to basics” strategy resulted in another year of losses?

We deeply regret that fiscal year 2009 ended with a substantial loss. This is, however, primarily the result of decisive actions taken in relation to our consumer finance business, domestic real estate and overseas lending and investments to position ourselves more solidly for enduring long-term profitability.

1. Amidst the uncertainty surrounding the impact of full implementation of the Revised Money-Lending Business Control and Regulation Law (MLBL) in June 2010, we posted additional reserves of ¥29.6 billion for potential losses on repayments of excess interest to individual customers at our consumer finance subsidiaries. As Shinsei Financial enjoys a GE-backed indemnity on a significant portion of its grey zone liabilities, the additional provisioning has been directed primarily at APLUS FINANCIAL and Shinki, bringing their reserve levels in line with industry standards.

   At the consolidated level, these actions have additional implications.

Due in part to the impact of the “grey zone” provisioning described above, compounded by the severe operating environment, Shinsei Bank has taken impairment charges of ¥66.0 billion on the goodwill and intangible assets related to our investment in APLUS FINANCIAL, and ¥2.5 billion on intangible assets related to Shinki. Following impairment of intangibles in fiscal year 2006 and accelerated amortization of goodwill in fiscal year 2008, we have essentially written off APLUS FINANCIAL’s goodwill in entirety*, meaning it will no longer have a material impact on consolidated earnings.

* As of March 31, 2010, APLUS FINANCIAL holds ¥5.0 billion of goodwill on its investment in ZEN-NICHI SHINPAN Co., Ltd.

2. We have incurred ¥70.2 billion in charges related to our domestic real estate business. Despite the continuing severity of market conditions, characterized by rising vacancy rates and declining rents, our experience in this market has helped us steer clear of the major credit events of fiscal year 2009. However, as uncertainty over the outlook for the real estate market persists, we took impairment and other charges of ¥37.4 billion related to real estate principal investments, together with ¥32.8 billion of credit reserves for our domestic real estate non-recourse finance portfolio. Based on asset valuations that are far more conservative than those previously used, these are preemptive measures that position us robustly in case of a prolonged downturn. As such, there is inherently some upside potential for

reserve reversal depending on the success of work-out efforts and future market trends. Domestic real estate finance remains one of our core competencies and a business where we see both ongoing customer demand for financing and adequate risk-adjusted earnings opportunities over the long-term.

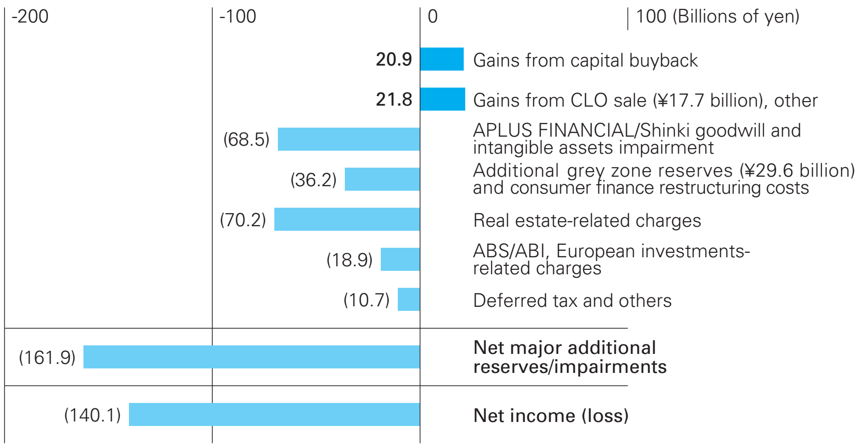
3. As we continue to work through the legacy assets in our Institutional Group, we have taken further mark-downs, impairments and credit reserves against our European investments and overseas and domestic asset-backed securities and asset-backed investments of ¥18.9 billion.

The negative impact of these actions should not detract from the achievements we have made over the past year in remodeling the bank for future growth. As pledged, we have largely completed the clean-up in our institutional businesses by using proceeds from strategic sales of non-core assets, such as ¥17.7 billion in gains from sales of marked-down collateralized loan obligations (CLOs), to offset mark-downs, impairments and reserves for legacy portfolios. In the Individual Group, we moved forward with the realignment of our consumer finance businesses, most notably through the integration of Shinki into Shinsei Financial in March 2010 and by increasing our common share ownership of APLUS FINANCIAL to take greater control over the company. Our profitable retail banking operations have shown ongoing momentum as we build out our customer base through the *Shinsei Step Up* program which provides incentives for customers to do more of their banking with Shinsei. In addition, we have launched a new two week maturity deposit and expanded our branch network with the roll-out of Consulting Spots.

Group-wide, the cost rationalization strategies that we began implementing in fiscal year 2008 have born fruit, with normalized expenses (excluding Shinsei Financial) down 16.7% year-on-year as headcount fell by almost 900 employees over fiscal year 2009. We continue to upgrade our risk management function. Finally, despite our full-year loss, our capital adequacy ratios have remained stable or improved over fiscal year 2008, following a 20% reduction in our risk weighted assets that was achieved without significant scale-backs in lending.

Thus, Shinsei has begun its next chapter having taken appropriate provisions for legacy portfolios, and fortified with ample reserves, stable liquidity and a substantially improved balance sheet.

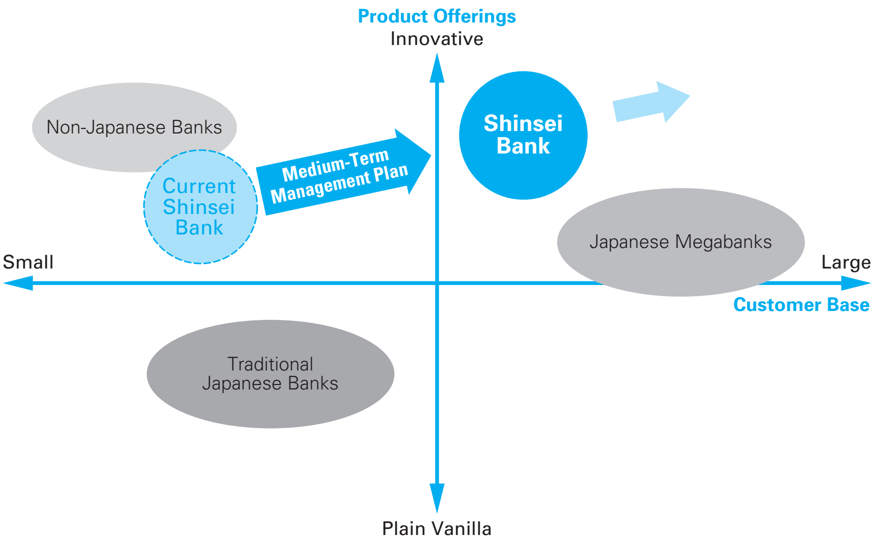
Major Non-Recurring Items Impacting FY2009 Results (Consolidated Basis)



“Shinsei has begun its next chapter fortified with ample reserves, stable liquidity and a substantially improved balance sheet.”

Please give a detailed explanation of Shinsei Bank's strategy going forward.

We believe that our two pillar strategy that serves institutional and individual customers is fundamentally sound. We recognize, however, that there is room for refinement of focus and improvement in execution. Therefore, we have drafted a medium-term management plan that sets out to rebuild our customer base in Japan and stabilize earnings over the next three years. We will achieve this by winding down non-core businesses and assets in the Institutional Group to focus on providing high value-added financial services in customer-driven businesses as well as on selected niche operations where Shinsei has an established presence. In the Individual Group, we will work to stabilize our funding base and promote lower funding costs, strengthen the asset management business, and further expand the housing loan business, while maximizing profitability from our consumer finance operations.



Let's look at some specific measures in more detail. In the Institutional Group, firstly we will accelerate the run-off of non-core legacy assets using proceeds from opportunistic divestitures to promote the overall clean-up. We are currently expediting strategic withdrawals from the real estate investment, private equity, housing loan warehousing, CLO, active credit portfolio management, wealth management and asset-backed investments businesses.

Secondly, we will focus on growing our corporate restructuring business and providing support to growth companies, focusing primarily on small- and medium-sized enterprises, and leveraging the capabilities and expertise of Showa Leasing and other Group companies. At the same time, we will channel resources into expanding our customer base, one of the Bank's most pressing challenges. To achieve this, we will invest more in personnel development to strengthen solution-based sales, maintain a close working relationship with the Risk Management Group, and look into streamlining the credit approval process.

Thirdly, we will further refine our specialties in high value-added products and services that offer the opportunity to earn steady and chiefly fee-based returns with medium risk. Working with Shinsei Securities, Capital Markets will expand its client-driven business by strengthening our product offering with timely and appropriate proposals and flexible product composition based on customer needs. In Real Estate Finance, we will look to reduce our overall portfolio slightly, while concentrating on senior loans with a target loan-to-value (LTV) ratio of 65% in the future. In Credit Trading we will target customers in work-out situations, seeking attractive investment opportunities while observing strict limits on the amount of capital to be deployed. Specialty Finance will accelerate collections from past investments while actively seeking new opportunities to provide leveraged and management buy out (LBO/MBO) and acquisition/recapitalization financing. Finally, the Advisory business will continue serving its customers in the niche mid-tier domestic market, while enhancing our cross-border transaction capabilities.

Our Individual Group strategy centers around Retail Banking and Consumer Finance. In retail banking, we aim to stabilize our funding base through deposit products, while continuing to upgrade customer protection measures as we strengthen our asset management business to target increased fee-based income from structured deposits, investment trusts and insurance products. In addition, we plan to grow disbursements in our housing loan business where we offer customers a unique value proposition. In consumer finance, we will target lowest-risk customers for personal loans at "white zone" rates, and increase profitability in our installment credit and credit card businesses through customer activation strategies and improvement of transaction terms with merchant partners while prudently managing expenses and credit costs.

"We have drafted a medium-term management plan that sets out to rebuild our customer base in Japan and stabilize earnings over the next three years."

Our "back to basics" strategy has fostered greater unity between all businesses within the Shinsei Bank Group as we pull together to push down costs and increase efficiency. Going forward, we will take every opportunity to deepen our collaboration and draw out further synergies. Internally, we have embarked on a radical business rationalization project that will harness Shinsei's IT infrastructure to automate previously manual processes, create centralized back-office functions that service multiple entities and drastically reduce personnel costs. For our customers, we will transcend traditional business domain boundaries and look for new ways to add value, such as offering consumer finance services and operational consulting to regional bank customers.

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How will the Institutional Group differentiate itself, while remaining focused on customer-driven businesses, to succeed amidst strong competition?

For over half a century, Shinsei has leveraged its neutral position as a bank free from affiliations with other financial conglomerates to serve corporate, financial institution and public sector clients. Going forward, we remain committed to making institutional customer-focused business the main source of stable revenues over the long-term. Providing domestic institutions with financial services, including but by no means limited to loans, forms the core of our business, and is an important basis for sales of other value-added products, services and specialized solutions.

Multi-faceted relationships with almost all major domestic financial institutions, including megabanks and life insurance companies, represent one of Shinsei's distinct advantages. We serve regional financial institutions in particular in various areas such as derivatives and asset management products, advisory and collaboration in product development. We have also maintained a strong franchise in public sector finance, providing funding to many governmental organizations and local governments, as well as being selected as a bond underwriting syndicate member. We will continue to provide products and services to meet customer needs by utilizing the relationships backed by this track record.

Going forward, we will look for opportunities to serve more small- and mid-size corporate customers. Large enough to offer a comprehensive product range, but small enough to provide individualized service, Shinsei will build an incubator-style model to support younger unlisted companies as they grow, while carving out a niche in certain key sectors that have previously struggled to access bank financing. We will approach these potential customers once equipped with a thorough knowledge of their industry, their needs and the challenges they face, and offer not only traditional loan products, but also comprehensive advisory services on issues ranging from regulatory matters and management, to growth and IPO strategies.

We will complement this core lending and leasing based business with a selective focus on core strengths: niche finance including real estate finance, credit trading, specialty finance, and advisory services; and client-focused, client-enabling businesses centered around capital markets. Each of these businesses is primarily customer-driven, non-capital intensive, contributes to fee-based income and draws on Shinsei's proven strengths.

"We will build an incubator-style model to support younger companies, while carving out a niche in key sectors that have previously struggled to access bank financing."

As your competitors continue to enhance their services for individual customers, how confident are you that Shinsei's retail banking operations will remain profitable?

Operating in one of the world's most over-banked economies, Shinsei believes we differentiate our retail banking offering by leveraging our unique IT infrastructure to efficiently provide financial products and services that meet customers' needs over a choice of sales channels (branches, Internet banking, telephone banking, mobile banking). In addition, we maintain a sharp focus on cost reduction in order to ensure stable profit generation.

In asset management, we are focused on providing consulting services that are tailored to individual customers' needs, and we continue to enhance our capacity to develop the products our customers require. In June 2009, for example, we introduced a two week maturity deposit for customers looking for better returns than offered by regular savings deposits. We are building and deepening customer relationships both through the *Shinsei Step Up* program, which offers incentives for customers to bring more of their banking to Shinsei, and by providing a richer variety of information to customers via remote channels such as the Internet and e-mail.

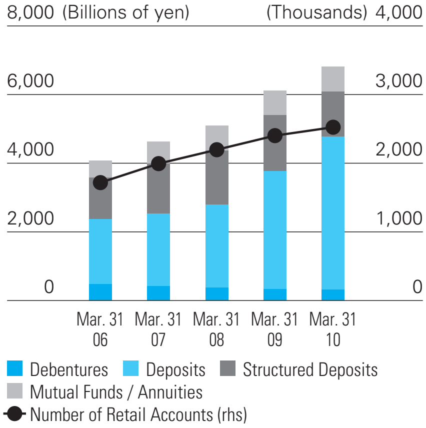
In order to provide customers with optimal solutions while maintaining the highest standards of compliance, in the fourth quarter of fiscal year 2009 we ran a wide-ranging training program as part of our continued commitment to employee development.

We believe that these initiatives in our asset management business, together with the expansion of our housing loan business where we leverage a strong product offering and efficient advertising strategies, will allow us to build a stable and highly profitable customer base.

From June 2009, we have been rolling out a new small-scale Consulting Spot branch format which specializes in asset management consulting. As of July 1, 2010, we currently have 11 Consulting Spots. As Consulting Spots typically require only 15%-25% of the running costs of a regular branch, and generate strong fee-based revenue through sales of structured deposits, structured bonds and investment trusts, this new branch expansion initiative has made steady progress. Going forward, we will continue strategic branch expansion in select locations.

Our retail banking operations are conducted with strict cost discipline. As a result of appropriate and efficient employee deployment and a review of our branch network, retail banking expenses decreased from ¥37.3 billion in fiscal year 2008 to ¥35.2 billion in fiscal year 2009. We will build on our stable earnings base in retail banking through continued attention to cost management going forward.

AUM* Composition and Number of Retail Accounts



*Assets under management

"We differentiate our retail banking offering by leveraging our unique IT infrastructure to efficiently provide financial products and services that meet customers' needs over a choice of sales channels."

Despite a shrinking market and formidable profitability challenges, why do you remain committed to the consumer finance business?

At Shinsei, we believe that consumer finance is an enduring need. The regulatory changes of recent years do present significant challenges. However, they also represent a unique opportunity for the Group to take a leading position in the industry by leveraging our ability to reduce grey zone, credit, funding and operating expenses, while attracting and retaining low risk customers. We remain confident that we can maintain and grow our profitable business in the new operating environment.

Firstly, let us look at the impact of the regulatory changes that have capped interest rates on personal loans at 20% and limited individual customers' borrowing to one-third of their annual income. Although claims for repayment of interest charged at previous "grey zone" rates appear to have peaked, they continue to run at a high level. As a result of these changes, estimates suggest that the market is now roughly half the size (approximately ¥5 trillion) of what it was in March 2004. On the other hand, the toughened regulatory regime means that the number of market participants has already decreased, from over 47,000 in 1986 to below 5,000 today. The market for installment sales credit, such as auto loans, also continues to shrink. While the number of market participants is falling, as the market itself is also contracting, competition for lower risk customers looks set to increase. As a result, brand equity and product features, and quality of customer service and operations will become increasingly important. However, we believe the Shinsei Bank Group is well positioned to take the advantage amidst this competition.

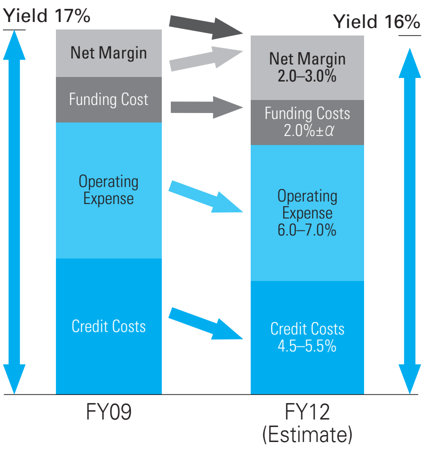
A unique GE-guaranteed indemnity against "grey zone" interest repayment liabilities exceeding ¥203. 9 billion on the greater portion of our unsecured consumer loan portfolio at Shinsei Financial is clearly one of the Shinsei Bank Group's most powerful advantages. At APLUS FINANCIAL and Shinki, we substantially increased our reserves in the fourth quarter of fiscal year 2009 to bring levels in line with industry peers. We have also seen a directional decline in borrower claims for disclosure of grey zone records across subsidiaries since the second half of fiscal year 2009.

"The regulatory changes of recent years do present significant challenges. However, they also represent a unique opportunity ..."

Credit costs are linked closely to customer profile; the lower risk the customer profile, the lower the level of credit costs incurred. Shinsei Financial continues to lead the market in new customer acquisition, with "LE0" borrowers accounting for over a half of new customers, meaning that they are not borrowing from any other companies. At APLUS FINANCIAL and Shinki, we have continued to tighten credit policy and refine credit scoring models, with centralized oversight from the Individual Pillar Risk Management Division.

On the cost front, we are funding an ever greater portion of our consumer finance business through stable low-cost retail banking deposits. Consumer lending involves high transaction volumes at low ticket amounts, implying abundant opportunity for cost reduction through computerized automation. Leveraging the unique IT models and methodologies that have enabled us to provide revolutionary financial solutions, we are systematically cutting operating costs across subsidiaries through technology deployment. However, strict cost discipline does not come at the expense of customer service. We maintain a constant focus on improving convenience for customers.

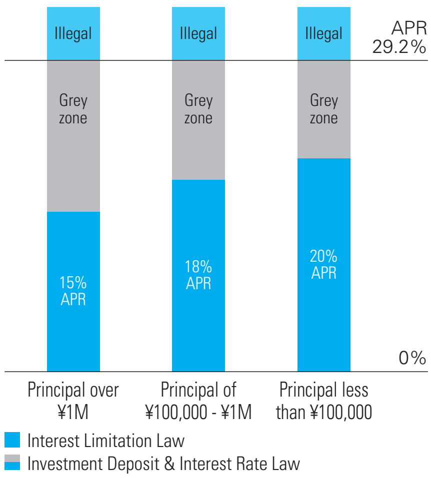
Margin Projections for Unsecured Personal Lending



Through these initiatives, we aim to achieve a 2.0%–3.0% return on operating assets in our unsecured personal loan business.

Finally, while consumer finance is often equated with unsecured personal loans, our consolidated subsidiary APLUS FINANCIAL also maintains leading positions in the installment sales credit and credit card businesses. Having raised our common share ownership of the company to 93.5%, we are working to drastically reduce costs through further technology deployment and business process rationalization, while implementing marketing-based strategies to improve profitability in the installment sales credit and credit cards businesses.

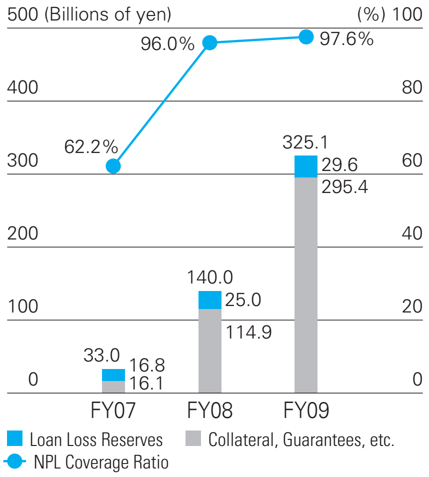
Overview of Interest Rate Laws



Source: Financial Services Agency, The Japanese Government
http://www.fsa.go.jp/teach/kou3.pdf
*This chart depicts the situation prior to implementation of the Money Lending Business Control and Regulation Law effective on June 18, 2010.

Why has your non-performing loan (NPL) ratio increased to such a high level and what are you doing to decrease it going forward?

Non-Performing Loan Reserves and Coverage Ratio (Financial Revitalization Law Basis; non-consolidated)



As of March 31, 2010, Shinsei Bank's non-performing loan ratio for claims classified under the Financial Revitalization Law on a non-consolidated basis was 6.70%, compared with 2.51% at March 31, 2009.

The increase is largely due to the conservative view we have taken on the Japanese real estate market when reviewing our domestic real estate finance portfolio in the fourth quarter of fiscal year 2009. This led us to downgrade our internal credit ratings for certain obligors in the non-recourse finance business.

When considering a bank's non-performing loan ratio, it is important to look at it in conjunction with the coverage ratio, which represents the percentage of a loan's value that is backed by collateral, guarantees or reserves. In adopting this conservative outlook on Japanese real estate, we have recorded ¥32.8 billion of reserves for non-recourse finance in fiscal year 2009. Together with collateral and guarantees, this translates to a coverage ratio of over 97% for total NPL claims, and of 98% for real-estate related NPL claims as at March 31, 2010.

At the same time, we are taking proactive steps to manage our real estate exposures. Over the course of fiscal year 2009, we have reduced our real estate loan balances from ¥1,234.0* billion as at March 31, 2009 to ¥1,048.9 billion by March 31, 2010. Our portfolio centers on prime real estate in the Tokyo and Osaka areas and is diversified by asset category. In addition, we have long been committed to "first person underwriting"; we know our customers well and have the capabilities to perform all the screening, contract-related administration, property appraisals, origination and management for our non-recourse lending in-house. As a result, we have a strong track record in collections and work-out situations, and believe that there may be opportunities to reverse a portion of the reserves we have recorded in the future.

* Includes non-recourse bonds and monetary assets held in trust and other monetary claims purchased which are subject to credit reserves.

"The increase is largely due to the conservative view we have taken on the Japanese real estate market."