TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES

Masamoto Yashiro
President and Chief Executive Officer

It is now a year since I returned to Shinsei Bank as president and chief executive officer last November. I believe Shinsei has emerged from the challenges of the past year a stronger, better balanced banking group with a clear focus on its key strengths.

In fiscal years 2007 and 2008 Shinsei Bank learned, to great cost, the dangers of pursuing profits in overseas markets without adequate risk controls. Upon my return as president and chief executive officer, I made it my mission to swiftly find solutions to the Bank's management problems and return it to a growth trajectory. Since then, we have gone back to basics in order to achieve this goal and I have implemented various initiatives to this end. We have optimized our organizational structure and staffing levels, and rigorously reduced costs across the Group. We have strengthened our Individual Group further and refocused on customer-driven business in the Institutional Group, while rebuilding a robust risk management framework. Finally, on the finance front, we have dealt decisively with legacy portfolios as we work to clean up our balance sheet, and enhanced both our capital and liquidity positions.

Each of these initiatives has made progress, and I am pleased to report that we are putting things right. We have returned to profitability and forecast positive full-year income and a dividend payment on common shares.

Our Institutional Group has made solid progress in restructuring its operations and renewed our commitment as a trusted financial intermediary for corporates, financial institutions and the public sector in Japan. Our Individual Group has performed steadily with retail banking continuing its positive momentum and steady results from our consumer finance operations. These businesses are supported by ample liquidity, an improving capital position and a newly empowered risk management system based on global standards.

Undoubtedly, we have benefited from the gradual return of stability to global markets. However, these achievements belong equally to our employees who have focused steadfastly on fulfilling our customers' needs. Going forward, it will be our customers' success that ultimately determines our own.

Fiscal Year 2009 Interim Period Highlights

In the first half of fiscal year 2009, we achieved net income of ¥11.0 billion. While it is still not commensurate with the true potential of the Shinsei Bank Group, this result does represent a ¥30.3 billion positive turnaround compared with the same period last fiscal year. Furthermore, it is a result achieved in spite of ongoing challenges in our operating environment and while cleaning up the legacies of past business strategies. I believe this result fully reflects the initiatives we have been pursuing over the past year, and I would like to update you on the progress we have made in our individual and institutional businesses, in risk management and in our capital and liquidity management.

1. Strengthening the Individual Group

As our Institutional Group continues working through its legacy assets to focus on customer-driven businesses, steady earnings contributions from the Individual Group have proved the sustainability of our two-pillar strategy.

Bottom-line profits from our retail banking operations are growing quarter-by-quarter. In the first half of fiscal year 2009 we have focused on building distribution capacity through cost-effective initiatives such as revamping our retail banking website and rolling out a new small-scale branch format called "Shinsei Consulting Spots." Specializing in asset management sales, the Consulting Spots are one element in a broader strategy to shift our focus from deposit-based interest income to fee-based income from sales of investment trusts and other asset management products. Over the last six months, we have also stepped up marketing activity for our *PowerSmart* mortgages, a low-risk business in Japan where our customer-friendly processing system is a powerful differentiator. The continued growth in retail banking accounts and assets under management demonstrates that our franchise is stronger than ever.

I believe our decision to acquire Shinsei Financial (formerly GE Consumer Finance) in September 2008 was an extremely significant move for Shinsei Bank. With an indemnity on the majority of its personal loan assets, and the advantage of wholly bank-owned status, Shinsei Financial commands a unique position in the challenging consumer finance space and continues to deliver steady income. As rigorous cost management becomes increasingly critical, we have moved forward with the integration of Shinki and Shinsei Financial in the first half of fiscal year 2009; Shinki has decided to close almost all of its unmanned branches and its customers will have access to Shinsei Financial's Lake ACM (automatic contract machine) network. Cost savings will be amplified once the two companies' head office functions also begin operating on a common platform powered by Shinsei Bank's low-cost IT infrastructure.

2. Refocusing on Customer-Driven Business in the Institutional Group

In the first half, the Institutional Group has made considerable progress in working through legacy assets and winding down loss-making proprietary operations, generating gains on strategic asset sales in the process. We are confident that we will begin fiscal year 2010 with a clean balance sheet, ready to refocus on customer-driven businesses.

We have continued to reduce our remaining overseas asset-backed investments and asset-backed securities, and minimized losses related to residual exposures. Going forward, the bulk of management resources will be channeled to our domestic client base, with overseas business limited to selected markets where we have deep experience, a physical presence and where the risk-adjusted returns are sufficiently attractive.

On the domestic front, we have maintained resources in our core competencies of basic banking, niche finance and client enabling businesses, such as leasing and trust banking. Although our overall loan balance has fallen, the profitability of our basic banking operations remains stable. While the Japanese real estate market demands ongoing vigilance, our expert team has reduced our domestic exposure in this market while working closely with customers to minimize credit costs. Looking ahead, we have established a dedicated unit for lending to small- and medium-sized enterprises (SME), and worked to renew our unique relationships as a business partner to regional financial institutions throughout Japan.

3. Rebuilding Risk Management

Under the leadership of a new chief risk officer, we have completed a total transformation of risk management at Shinsei. Over the past six months we have rewritten key risk documents, overhauled committee processes and placed more emphasis on forward-looking methodologies.

Emblematic of our new approach are the Risk Policy Committees we have held to study key business areas for the bank: SME lending, consumer credit and real estate finance. Bringing together the chief risk officer, the chief financial officer, the business heads and myself, these committees ensure that business strategy and risk appetite are properly aligned.

Despite a number of high-profile bankruptcies in recent months, I am pleased to report that we have not been materially impacted. We have seen credit costs fall year-on-year in the first half despite the inclusion of Shinsei Financial in this year's results, and our non-performing loan ratio also began to decline in the second quarter. While improvements in the economy have no doubt played their part, we are clearly reaping the benefits of a more intelligent, Group-wide and predictive approach to risk.

4. Improving Capital Ratios and Ample Liquidity

With a customer base of approximately 2.5 million account holders, retail banking has proven to be a reliable source of cost-effective funding throughout these turbulent times. As of September 30, 2009, Shinsei Bank held around ¥1.7 trillion in cash, cash equivalents and liquidity reserves on hand. We are now shifting our primary source of funding from our popular time deposit campaigns to the new two-week maturity deposit that offers customers an attractive interest rate and greater flexibility to manage matured time deposits or other funds.

Shinsei Bank has continued to focus on the quality rather than just the quantity of our capital amidst global deliberations over bank capitalization levels. We were an early adopter of the more sophisticated Foundation Internal Ratings Based Approach (F-IRB) based on the Basel II framework and have applied a conservative treatment of deferred tax assets (approximately only 3% of Tier I capital). Over the first half of fiscal year 2009, we made preparations to issue ¥9 billion of preferred securities in the third quarter, and increased tangible equity through strategic capital buybacks. In addition, improved market conditions have resulted in positive "other comprehensive income" (OCI) for the first time in over two years. As a result, all our capital ratios have risen with our Tier I capital ratio reaching 7.00% and a core Tier I capital ratio of 4.87% as of September 30, 2009.

Outlook for Second Half of Fiscal Year 2009

With improving earnings, asset quality and capital ratios, and a healthy liquidity position, Shinsei Bank approaches the second half of fiscal year 2009 with measured confidence. Our operating environment also shows glimmers of light. While the wage environment remains bleak, exports appear to be picking up and corporate and personal bankruptcies look set to decline. In the real estate market, vacancy rates show some signs of easing. Overall visibility, however, is still limited and we are choosing to err on the side of caution. Therefore, we have maintained our initial forecasts for consolidated cash basis* net income of ¥28.0 billion, consolidated reported basis net income of ¥10.0 billion and non-consolidated net income of ¥10.0 billion for the full fiscal year.

We have confronted some formidable challenges and overcome them to emerge stronger, wiser and more clearly focused than ever. Over the past six months, Shinsei Bank has proven its ability to deliver profits, generate capital and create value for shareholders - we currently forecast a dividend of ¥1.00 per common share for the full fiscal year, and the board and management are committed to growing shareholder value consistently over the medium- to long-term. We will do so in the same way that we have successfully returned to profitability - by devoting all our energy to serving our customers. For it is their success that should ultimately determine our own.

I would like to sincerely thank you, our shareholders, customers and employees, for your support and guidance.

*Cash-basis figures are calculated by excluding amortization and impairment of goodwill and net other intangible assets, net of tax benefit.

December 2009

Masamoto Yashiro
President and Chief Executive Officer