

# TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES



In fiscal year 2011, the second year of its Medium-Term Management Plan, Shinsei Bank has shifted gears to go back on the offensive. We have implemented a range of strategies aiming to meet the expectations of our customers and of society with unique services, while diversifying our earnings base through new business development.

Our return to profitability has continued throughout the first half of fiscal year 2011 with stronger net income year-on-year, as our businesses have performed solidly and we move towards the firm establishment of a stable earnings structure.

**Shigeki Toma**  
President and Chief Executive Officer

On behalf of the Shinsei Bank Group, I would first like to offer my deepest condolences and prayers for a swift recovery to all those affected by the Great East Japan Earthquake.

In fiscal year 2010, Shinsei Bank renewed its management structure and made a new start, aiming to return to a normal and stable growth trajectory. The new management team formulated a Medium-Term Management Plan centering around the basic concepts of “rebuilding the customer franchise in Japan” and “establishing a stabilized earnings base,” and made steady progress during the first year of the plan, which culminated in a return to profitability. In addition, we were able to set out the path to solving most of our legacy problems, while laying the foundations for stabilized earnings.

Building on the achievements of fiscal year 2010, in fiscal year 2011, the second year of our Medium-Term Management Plan, we have shifted gears to go back on

the offensive and have implemented various strategies aimed at diversifying our earnings base through new business development.

## Initiatives and Achievements in the Interim Period of Fiscal Year 2011

In the first half of fiscal year 2011, we continued to face a challenging operating environment with low visibility going forward, as the turmoil in financial markets due to the European debt crisis and domestic and overseas economic trends, was compounded, particularly in Japan, by the accidents at the Fukushima Daiichi Nuclear Power Plant, a delay in reconstruction demand related to the Great East Japan Earthquake and the strong yen. Amid these circumstances, Shinsei Bank continued to work towards its goal of “rebuilding the customer franchise in Japan” and

“establishing a stabilized earnings base.”

The Bank’s overall business performance was strong in the first half of fiscal year 2011 as earnings power continued to grow stronger across our businesses, and we implemented comprehensive cost reductions and recorded lower net credit costs as a result of factors including progress with the disposal of non-core assets and improved asset quality in our consumer finance businesses.

As a result, we recorded a consolidated reported basis net income of ¥20.3 billion for the first half ended September 30, 2011, up ¥3.4 billion year-on-year. On a non-consolidated basis, we recorded net income of ¥4.5 billion in the first half of fiscal year 2011, down ¥4.7 billion year-on-year, due to factors including losses on the valuation of certain stocks in the second quarter of this fiscal year as a result of the downturn in financial markets.

As such we have been able to generate solid results in the interim period of the second year of our Medium-Term Management Plan. I would like to offer my sincere appreciation to our customers, shareholders and all of our stakeholders, for it is due entirely to your understanding and support that Shinsei has been able to make this progress. Going forward, we will continue to work towards our goals for this fiscal year and for fiscal year 2012, which will be the final year of the current Medium-Term Management Plan.

## Business Strategy and Direction

As we work towards our Medium-Term Management Plan goals of “rebuilding the customer franchise in Japan” and “establishing a stabilized earnings base,” Shinsei aims to continue recording stable profits by focusing on the speedy provision of high quality value-added products and services to our institutional and individual customers, and making comprehensive Group-wide efforts to rationalize our businesses.

In our institutional business, we provide a wide range of financial products and services to meet the needs of our

corporate, public sector and financial institution clients. In addition to corporate banking such as lending, which has traditionally been at the center of our customers’ needs, we are actively pursuing customer-centric businesses and businesses where we can use existing strengths and which allow us to differentiate ourselves from the competition, as our “core businesses.” These core businesses include real estate finance, where we aim to ensure appropriate levels of risk and return, M&A finance centering around high value-added transactions and other specialty finance; capital markets, which centers around customer transactions; credit trading, which aims to capture trends in financial markets; and advisory, which brokers the merger and acquisition of companies. In our lending operations to corporate customers, we are focusing on transactions with middle-market and small- and medium-sized corporations, while continuously working to expand our customer base. In addition, in our role as a financial institution, we seek to identify and proactively support new financial needs and industries born of societal and economic change, centering around business domains that will contribute to society’s sustainable growth, including the fields of welfare, such as healthcare, environmental protection and renewable energy. We have established a team dedicated to supporting the creation of these new industries and are ramping up our efforts in this area. Amidst these challenging business conditions, we are also enhancing provision of solutions that leverage our expertise in areas such as support for corporate restructuring and expansion by corporate clients into Asian and other overseas markets. We are also aiming to expand business with the public sector and strengthen cooperation with regional financial institutions as we look to increase transactions with financial institutions, and strive to provide value-added financial products, services and solutions to these customers.

Our individual customer business comprises retail banking and consumer finance operations. By unifying the Bank

and our Group companies to realize seamless provision of a wide variety of financial products and services, we aim to establish our position as a highly trusted provider of comprehensive financial services for individuals.

In our retail banking operations, we aim to further refine our ability to offer asset management and loan products for every stage of our customers' lives, while enhancing our ability to provide solutions appropriately through a wide range of channels and meet our customers' needs for financial transactions and products.

In our consumer finance operations, we continue to face a difficult operating environment due to factors including legislative changes, market contraction and industry realignment. Despite these circumstances, we are striving to utilize management resources effectively throughout our Group subsidiaries, and review expense structures and implement appropriate credit cost management by leveraging Shinsei's information technology capabilities. As part of these efforts, we have transferred a portion of the unsecured personal loan business previously operated by Shinsei Financial to the Bank, and launched *Shinsei Bank Card Loan—Lake* on October 1, 2011, the first full-scale unsecured personal loan service to be offered by a Japanese bank.

Regarding our efforts in the area of financial facilitation, in compliance with the Act on Provisional Measures for the Facilitation of Financing to Small- and Medium-sized Businesses, we are working to respond quickly and flexibly to the needs of both our institutional and individual customers, while putting in place a framework for enhanced consulting capabilities.

## The Need for a New Type of Financial Institution

The impact of the Great East Japan Earthquake and the ensuing accidents at the Fukushima Daiichi Nuclear

Power Plant, together with the turmoil in global financial markets stemming from the European debt crisis, as well as the persistently strong yen, continue to cast a shroud of uncertainty over the Japanese financial and economic environment. As a result, Japanese financial institutions will continue to face a severe operating environment.

Meanwhile, in line with socio-economic changes and regulatory reform, the role that the private sector should play has become increasingly important. In particular, as efforts to recover from the Earthquake get underway in various different forms, we financial institutions bear a heavy mission. Never has our role been brought into question so much as it is being now. We must be ready to go beyond the passive function of providing traditional services, and shift gears to contribute proactively to economic development through supporting the rise and growth of new businesses.

Shinsei is by no means a large bank. But we have unique strengths, such as the diversity of our employees and the expertise we have amassed in certain core competencies, and I believe that we can utilize these strengths to meet the expectations of our customers and society at large. Indeed, I believe this is the only way that we can generate stable, long-term earnings power, and become the bank that our customers want us to be. The Shinsei Bank Group as a whole is united in moving forward together to achieve our goals.

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

December 2011



Shigeki Toma

President and Chief Executive Officer