

To Our Shareholders, Customers and Employees



Thierry Porté, President and CEO

Junji Sugiyama, Vice Chairman

Six years ago, under the inspired leadership of our first CEO, Masamoto Yashiro, Shinsei Bank embarked on a challenging journey to regain its financial health and to establish its position as a leading player in the Japanese market. The ensuing years produced what can now be described as one of the most successful turnarounds in Japanese banking history. Shinsei Bank transformed itself from a traditional long-term credit bank to a modern financial services group that is performing successfully in a large and competitive market by providing an expanding range of innovative solutions to meet the needs of a growing and increasingly profitable customer base.

Shinsei Bank is now entering a new stage of transformation designed to achieve long-term sustainable growth based on continued expansion and development of profitable business lines with a strong customer focus. Shinsei is cross-selling to increase product penetration and customer profitability and is further strengthening the Shinsei Bank brand while expanding its presence both organically and through selective acquisitions.

Progress in all these areas was evident during fiscal 2005. The establishment of three solid business pillars supported by a robust risk management capability, advanced information technology infrastructure and strong corporate governance, will allow Shinsei Bank to take full advantage of the many opportunities that will arise as the Japanese economic recovery and market confidence gather momentum.

Fiscal 2005: A Year of Consolidation and Growth

Consolidated total revenue for fiscal 2005 reached ¥273.4 billion, an increase of 53.8% over the previous year, due to solid growth in all main business areas. The incorporation of APLUS Co., Ltd., and Showa Leasing Co., Ltd., contributed significantly to revenue growth and firmly established Consumer and Commercial Finance as one of the Bank's strategic business pillars.

Reflecting the Bank's focus on delivering value-added solutions to meet customer needs, the share of non-interest income as a percentage of total revenue continued to increase, to 69.9%.

Consolidated net income totaled ¥76.0 billion, an increase of 12.8% over fiscal 2004, reflecting not only the significant growth in revenue but also an improvement in the expense to revenue ratio from 54.7% to 50.0%. To provide greater transparency and understanding of the Bank's underlying performance, we also report cash basis net income, which excludes the amortization of acquired goodwill and intangible assets, net of tax benefit, arising from the acquisition of APLUS and Showa Leasing. Consolidated cash basis net income for fiscal 2005 increased 36.4% over the previous year, to ¥101.9 billion.

Solid revenue and income growth was accompanied by a further improvement in asset quality as Shinsei Bank's non-performing claims declined 17.9% during the year, to reach ¥42.5 billion as of March 31, 2006, representing 1.0% of total claims outstanding on a non-consolidated basis.

The consolidated capital adequacy ratio as of March 31, 2006 stood at 15.5% and the Tier I capital ratio was 10.3%. Shinsei Bank continued to actively manage its capital in terms of size, quality and cost by issuing preferred and subordinated securities in the global debt market earlier this year. The favorable terms obtained for these issuances underline the confidence that global

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investors now place in Shinsei Bank. The Bank's strengthened financial condition was also acknowledged by the credit rating agencies as Moody's, in February 2006, upgraded Shinsei Bank's senior debt rating from Baa1 to A3 and Standard & Poor's, in January 2006, placed the Bank's BBB+ rating on positive outlook for a possible upgrade.



The three pillar strategy reflects our vision to be the preeminent financial services firm in Japan and allows the Bank to cover a broad range of businesses and customer segments, thereby providing a stable pool of diversified revenue streams.

The Three Pillar Strategy: A Model for Stable Profitable Growth

Shinsei Bank's business model is based on three strategic pillars: Institutional Banking, Consumer and Commercial Finance and Retail Banking. This reflects our vision to be the preeminent financial services firm in Japan and allows the Bank to cover a broad range of businesses and customer segments, thereby providing a stable pool of diversified revenue streams. The business pillars are supported by a highly experienced risk management group and an advanced technological infrastructure that provides flexibility, scalability and speed to market. The interaction between the pillars, including internal joint ventures for specific initiatives, generates significant synergies both in terms of revenue enhancement as well as cost reduction through referrals, cross-selling and resource sharing across the Bank.

With the incorporation of APLUS and Showa Leasing the previous year, the contribution to total revenue from each pillar is now 41% from Institutional Banking, 44% from Consumer and Commercial Finance and 15% from Retail Banking.

Institutional Banking Business

Shinsei Bank is uniquely positioned as a hybrid commercial and investment bank and is leveraging its portfolio of longstanding institutional customer relationships by providing not only traditional corporate banking products but also value-added solutions through an integrated team of product specialists and relationship managers. The Bank's investment banking capabilities have led to greater revenue diversification away from simple corporate lending and has established Shinsei Bank as a market leader in areas such as non-recourse lending, securitization and credit trading.

The Bank also made solid progress during the year to expand businesses that offer good growth potential such as capital markets distribution, advisory services, leveraged finance, the

securitization of new asset classes and, on a joint venture basis with the Retail Banking Group, asset management and wealth management.

We believe there will be many opportunities for business growth as the Japanese economy continues to shift from the public sector to the private sector. In April 2006, Shinsei Bank reached an agreement to establish Macquarie Shinsei Advisory Co., Ltd. (MSAC), a 50/50 joint venture with the Macquarie Group which will focus on advisory services relating to the acquisition and management of assets in infrastructure and related sectors in Japan, including telecommunications, media and transportation.

Although Japan clearly remains Shinsei Bank's core market, we seek to leverage the know-how and experience that we have acquired to identify opportunities and further diversify earnings by transferring some of this know-how to other markets. We are doing this mainly through joint ventures with trusted and knowledgeable local partners and are avoiding establishing or developing costly infrastructures overseas. In Germany, we established a joint venture with NORD/LB Norddeutsche Landesbank and WestLB AG for working out non-performing loans (NPLs). In South Korea, we service NPLs through a joint venture with Woori F&I, a wholly owned subsidiary of Woori Financial Group. In Taiwan, we have agreed to make an important strategic investment in Jih Sun Financial Holding Co., Ltd., and have created a strategic partnership which will apply expertise in corporate and retail banking, risk management and IT infrastructure development.

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Consumer and Commercial Finance Business

The acquisitions of APLUS and Showa Leasing during fiscal 2004 have transformed the Consumer and Commercial Finance business into one of Shinsei Bank's core pillars. Consumer and Commercial Finance's business complements the Bank's other pillars by offering products and services such as installment credit, credit cards, consumer loans and leasing services to small and medium-sized enterprises, retail merchants and individuals.

Shinsei Bank's approach to this business is unique because the various subsidiaries that it comprises are treated as an integral part of the Bank. A dedicated management team at Shinsei Bank's Head Office provides operational, infrastructural and managerial support to each subsidiary and leverages synergies that can be generated with other areas of the Bank.

Earnings growth in Consumer and Commercial Finance is generated by applying a more effective business model to the subsidiaries by lowering funding costs, improving operating efficiency and lowering the cost of credit through more rigorous risk management while optimizing product and channel mix and enhancing customer segmentation and targeting. This growth may be supplemented in the future by opportunistic and

selective acquisitions in a still-consolidating market where we aim to become an efficient, low-cost service provider.

The development of a robust platform also positions us well to take advantage of any regulatory or market changes that may affect the sector as a whole in the future.

Retail Banking Business

Shinsei Bank's approach to retail banking has also clearly differentiated us from the competition. The Bank's customer-focused value proposition has had a very significant impact in a typically underserved market, and is now widely regarded as a trendsetter in terms of products and services as well as branch and internet banking innovation. Shinsei Bank's unique "bricks and clicks" distribution model has enabled rapid customer growth to take place mainly through cost-efficient remote channels while allowing branches to focus on providing personalized financial advice and handling higher value transactions.

During fiscal 2005, we continued to enhance our distribution channels and develop more customer-acclaimed products and services. In June 2005, following an agreement with Rakuten Securities, Inc., the Bank began offering equities through Shinsei's internet service, *PowerDirect*. Shinsei Bank is already the leading distributor of mutual funds on the internet, and in April 2006, the Bank started marketing the first variable annuity product, developed by Winterthur Swiss Life Insurance, to be available in Japan through the internet. Shinsei's automatic teller machine (ATM) network was extended further during the year and now the Bank has the largest number of ATMs in the Tokyo Metro system. In February 2006, the Bank, together with Italian appliances manufacturer DeLonghi, opened a new type of mini-branch referred to as a "BankCafé" in the prestigious Omotesando Hills complex in central Tokyo.

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During fiscal 2005, which included the successful launch of our “Color your life” campaign—receiving several awards in terms of quality and innovation—the Bank added more than 437,000 new *PowerFlex* retail customers, compared to 390,000 over the same period last year. The retail business now has over 1.7 million accounts. Understanding and satisfying our customers’ needs remains our top priority. We attach great importance to the fact that Shinsei Bank has been ranked No. 1 in a customer satisfaction survey by the Nihon Keizai Shimbun (Nikkei) for the past two years (2004 and 2005).

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Vision and Values

During the year, we undertook a comprehensive review and refinement of Shinsei Bank’s corporate vision and values. To fulfill our vision of becoming Japan’s preeminent financial services firm, we need to foment a strong corporate culture that is completely focused on the customer, demand uncompromising levels of integrity, assume full accountability, promote teamwork and commit to serving the community. We are also working to ensure that every employee understands this and is aligned with the Bank’s vision and values by embedding them into all our strategy, planning and performance evaluation processes.

In April 2006, we created the new position of Chief Learning Officer (CLO). The Office of CLO will enable us to assist all employees to enhance their knowledge and develop their skills. In this way, we hope to achieve our vision for Shinsei Bank’s future.

Corporate Governance

We have a strong commitment to high standards of corporate governance. Shinsei Bank has adopted a “Company with Committees” (*iinkai setchi-gaisha*) board structure, with Nomination, Audit and Compensation committees, all of which comprise a majority of outside directors. Unique

among Japanese banks, 13 out of 17 Board members are independent, or outside, directors. With the Board’s responsibility for determining long-term strategy and to monitor corporate performance, our governance is designed to ensure that management is working to maintain high standards of excellence and performance maintained and to achieve appropriate shareholder returns.

We also recognize that we have room for improvement in our internal governance and compliance.

On April 26, 2006, Japan’s Financial Services Agency instructed Shinsei Trust & Banking Co., Ltd., to suspend operations relating to new business associated with the real estate trust business for one year due to its failure to investigate or assess adequately properties prior to real estate entrustment. We greatly regret this result and are resolved to take all possible measures to strengthen our internal compliance and corporate governance systems to ensure that this kind of situation does not reoccur in the future.

Our results are made possible through the efforts of all our employees and the trust and commitment of our customers.

A Different Kind of Bank

As we strive to achieve our vision of creating sustainable value by becoming the preeminent financial services firm in Japan, we must have a compelling customer value proposition which addresses the question: why should people do business with Shinsei Bank? We believe that we are successfully competing against other major financial institutions in Japan by doing things differently, and this difference is being increasingly recognized and appreciated by our stakeholders.

We strive to be more global than the local competition by developing innovative products and services based on world-class best practices. We take advantage of our proud and valuable heritage

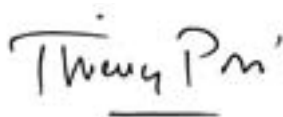
in terms of long-standing customer relationships in Japan that makes us more local than the global competition. We seek to empower our customers and provide them with value-focused solutions as we recognize that we exist solely for our customers. We are responsible to our shareholders and society and operate in a highly transparent manner while maintaining the highest levels of corporate governance. We consider a high standard of ethics and integrity to be a cornerstone of our values. We believe in a system which measures performance and distributes rewards based on that performance.

Combining all these attributes effectively is what sets Shinsei Bank apart. This is the basis of our differentiation and our ability to provide sustained value to shareholders, customers and employees.

Our results are made possible through the efforts of all our employees and the trust and commitment of our customers. We wish to thank all of our shareholders, customers and employees for their continued support and guidance.

June 26, 2006

Thierry Porté
President and CEO



Junji Sugiyama
Vice Chairman

