

## TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES



Thierry Porté, President and Chief Executive Officer

**Fiscal year 2007 was another year dominated by dramatic developments in world financial markets. The U.S. subprime mortgage crisis has had a significant impact on global stock markets and economies, including Japan's, and the shock waves continue to reverberate through the financial world. Fortunately, the Japanese economy, where the majority of Shinsei Bank's business is concentrated, has weathered the storm relatively well.**

### **Fiscal Year 2007 Highlights**

Fiscal year 2007 was marked by successes, challenges and some disappointments for Shinsei Bank. While we were able to return to profitability, fiscal year 2007 was another tough year. Shinsei Bank reported consolidated net income of ¥60.1 billion in the fiscal year ended March 31, 2008 ("fiscal year 2007"), compared to a net loss of ¥60.9 billion in fiscal year 2006. In addition, we recorded a consolidated cash basis net income of ¥71.3 billion in fiscal year 2007 versus ¥35.3 billion in the previous fiscal year. We also paid a dividend of ¥2.94 in fiscal year 2007, compared to a dividend of ¥2.66 in fiscal year 2006. In terms of profitability, we achieved an ROE (fully diluted) of 8.8% and an ROA of 0.5%. With regard to our financial stability, we were able to maintain Tier I capital at 7.37%

and a total capital adequacy ratio of 11.74%. While we cannot be satisfied with these results, we believe we have made the right choices to position our business for long-term growth as we focus on strengthening our balance sheet and developing our businesses.

Loan balances and net interest income continued to grow in all businesses. Our consumer finance businesses, including APLUS Co., Ltd. (APLUS) and Shinki Co., Ltd. (Shinki), reaped the benefits of business restructuring and were able to return to profitability. However, dislocation in the credit markets negatively affected our results, as we were forced to recognize mark-downs and reserves of ¥29.1 billion related to our U.S. residential mortgage portfolio. Furthermore, we decided to delay the recognition of sales involving large transactions overseas, which we originally expected to realize this fiscal year, due to the prevailing market environment.

Fiscal year 2007 was also the year that we decided to sell our headquarters. Like many of the world's largest corporations and financial institutions, Shinsei believes that ownership of a headquarters building is not the most efficient way to deploy its capital. The Shinsei Bank Group has expanded in recent years, and as a result our current headquarters building no longer meets the needs of the Bank's staff and its various businesses. We plan to significantly improve efficiency by securing a location that is closely aligned with our current strategic priorities, which include organizing the Bank and its subsidiaries to provide optimal service to our customers.

We also saw a change in our shareholder structure. J.C. Flowers & Co. LLC and affiliates became our largest shareholder with 32.6% of the common shares of Shinsei Bank after the completion of a tender offer bid for existing shares and a third-party allotment of shares in February 2008. Furthermore, the Japanese government became our second-largest shareholder with a 23.9% stake in Shinsei after the conversion of preferred shares in August 2007 and March 2008.

## Overview of Business Pillars

Up to the end of fiscal year 2007, Shinsei Bank's business model has been based on three strategic business pillars: Institutional Banking, Consumer and Commercial Finance and Retail Banking, each with unique business challenges and opportunities.

### Institutional Banking

We continued to see a highly competitive business environment in our Institutional Banking business in fiscal year 2007. That is why it is crucial for us to stay focused on our customers. Our business philosophy is built around the idea of working *better together* to come up with winning solutions to meet the rapidly changing needs of our customers.

In particular, we faced some challenges in our securitization operations, due to the turmoil in the U.S. residential mortgage market. In addition, the performance of our capital markets-related operations, both at the Bank and at our subsidiary, Shinsei Securities Co., Ltd., did not meet our expectations.

However, our loan, real estate non-recourse finance, credit trading and principal investment operations performed steadily, and the high-growth areas of asset management and advisory operations recorded solid results.

We posted a good performance in corporate lending while maintaining the profitability and quality of our assets by meeting the funding demands of our new and existing corporate customers. In order to better provide highly specialized solutions to our customers, we implemented an organizational reform in December 2007 to categorize our corporate relationship managers by industry sectors.

We have strived to achieve efficient asset management and to secure profits in our real estate non-recourse finance operations by being highly selective, taking into account credit concentration risks and ensuring an appropriate level of risk and return, in addition to securitizing non-recourse loans.

Our credit trading operations performed steadily, as we actively pursued the investment in and collection of distressed assets both in Japanese and overseas markets, where real estate prices were rising.

In our principal investment operations, we formed a business partnership with Japan Asia Investment Co., Ltd. and subscribed to their private placement of new shares in August 2007, and established a private equity fund with the Development Bank of Japan, to be managed by our affiliate's subsidiary, in February 2008. By taking advantage of such strategic business alliances, we have been engaging in investments for future growth.

In our asset management operations, we formed a business cooperation agreement with a leading Indian investment firm, UTI Asset Management Company Pvt. Ltd., to offer products managed by the UTI Group in India for our customers in Japan. In August 2007, we also formed a business cooperation agreement with a subsidiary of UTI and established a joint venture company in Singapore to provide asset management services and financial products in Southeast Asia.

### Consumer and Commercial Finance

The business environment surrounding Consumer and Commercial Finance continued to present challenges in fiscal year 2007. Primarily, this was due to the lowering of maximum lending rates following the revision of consumer lending laws and the implementation of lending limits for each borrower. The reimbursement of excess interest payments, another result of the legal changes, was also a burden. Despite this, we were able to return to profitability, marking a significant improvement over last year's performance. We are striving to further improve our profitability and competitive edge by being *game changers* in the industry, as we focus on helping customers run their businesses smoothly. We are further strengthening our sales force, streamlining our business and rationalizing costs, as well as promoting management efficiency by utilizing the Bank's know-how in IT and risk management.

APLUS was able to return to profitability this year after implementing some tough measures such as downsizing its work force. APLUS is focusing on attracting quality customers and work-

ing to achieve its medium-term strategy of building the next generation “*shinpan*,” or installment sales credit company. This means providing competitive financial services backed by a high level of expertise in credit assessment and collection and Shinsei’s unique, low-cost IT infrastructure. In March 2008, the Bank subscribed to ¥50 billion in preferred shares issued by APLUS through a third-party allotment to strengthen APLUS’ capital base.

We made Shinki a consolidated subsidiary in the second half of fiscal year 2007, when it also returned to profitability. Shinki complements the services offered by APLUS and we expect further synergy in our consumer finance operations, as we work to meet the ever-diversifying needs of our customers.

### Retail Banking

Retail Banking had another disappointing year from a profitability point of view. Revenues from other products did not increase fast enough to cover the decline in revenues from structured deposits. We are committed to making these operations profitable in fiscal year 2008.

There were, however, a number of noteworthy successes. First, *PowerFlex* comprehensive accounts continued to record strong growth and have surpassed 2.2 million retail accounts. Although the pace of product sales has declined with the implementation of the Financial Instruments and Exchange Law in September 2007, the balance of assets under management from individuals now exceeds five trillion yen for the first time. This includes a balance of about four trillion yen in retail deposits. Our retail bank is the funding engine of the Shinsei Bank Group and provides a stable, liquid and low-cost funding base. Although we have seen a slower pace of growth for the Japanese real estate market, our housing loan balance has surpassed ¥800 billion, as our value proposition of no “guarantee fees” and no “early repayment fees” have proved popular.

The Bank started offering an improved *Shinsei Platinum Services* in July 2007 to customers who meet certain requirements. Eligible customers can enjoy better interest rates on yen time deposits, make an overseas remittance at no charge and pay no fees or charges for the first consultation with a financial planner. With a further emphasis on investment management consultation services, the Bank aims to be the “Best Money Advisor” in Japan by *exceeding expectations*.

## Building a Sustainable Future

During the past eight years, we have not only focused on restoring Shinsei Bank to financial health, but have also worked hard to build an innovative and leading Japanese financial institution. We have made great efforts to establish and instill a unique identity and culture to realize our aspirations of becoming a truly competitive organization that delivers sustainable value to our stakeholders. In fiscal year 2007, we made significant strides to further align this culture with our strategic imperatives based on a clear vision and values, highly diverse and engaged workforce and a strong brand.

The Shinsei brand embodies the promise of partnership that we make to our customers: the

promise of ease and convenience, innovative products and services, and trust and integrity. Delivering on this promise is what will make us unique amongst our competitors, as customers recognize and appreciate that we are “changing the game” in Japan’s financial services industry.

During the past year, a Group-wide project team has collaborated on creating and embedding a single “Brand Idea” that can be applied across the Group and provides a common statement of purpose to all employees, regardless of their organization. With all employees united under this single Brand Idea, our belief is that Shinsei Bank can further differentiate itself and occupy a unique position in this competitive market.

## Initiatives for Fiscal Year 2008

We do not expect fiscal year 2008 to be without challenges, but we believe we have made the right choices to position our business for future growth by strategically focusing our business around the customer. Our goal is a bold one—to become the fastest-growing, highest-returning financial services firm in Japan by creating value for our customers through the provision of the right solutions to meet their ever-evolving needs.

To achieve this goal, we have implemented a three-pronged approach. First, we have decided to modify our current strategy from a three-pillar to a two-pillar strategy to more effectively utilize the Shinsei Bank Group’s resources and to provide a broader range of products and services to our institutional and individual customers.

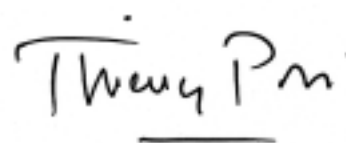
Second, we are now working on optimizing our operations including cost rationalization and introducing “Shareholder Value Added (SVA)” as one of the measures to better allocate our capital.

Third, we will continue to focus on expanding our quality customer base organically while actively pursuing M&A opportunities to grow our business in the right areas.

We will utilize these strategies while leveraging the Bank’s strengths of best-in-class corporate governance, compliance, risk management and IT in our unwavering commitment to provide our customers with the right choices.

In conclusion, I would like to wish a farewell to Junji Sugiyama, who served as Chairman, and Lucio A. Noto, one of our outside directors, and to thank them for their dedication, advice and contribution over the years. I would also like to thank our shareholders, customers and employees for your support and guidance in fiscal year 2007 and look forward to working with you all in fiscal year 2008.

June 20, 2008



Thierry Porté  
President and CEO