

# Management Structure

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# DIRECTORS AND EXECUTIVES

As of July 15, 2014

## BOARD OF DIRECTORS (6)



**Shigeki Toma**  
Representative Director,  
President

Jun. 2010 Representative Director, President, Shinsei Bank, Limited (Current)  
May 2010 Advisor, Shinsei Bank, Limited  
Jun. 2007 Director, Isuzu Motors Limited  
Nov. 2002 Executive Vice President and Director, Isuzu Motors Limited  
Apr. 2002 Managing Executive Officer, Mizuho Corporate Bank, Ltd. (Predecessor of Mizuho Bank, Ltd.)  
May 2001 Managing Executive Officer, The Dai-ichi Kangyo Bank, Ltd.  
Jun. 2000 Executive Officer, The Dai-ichi Kangyo Bank, Ltd.  
Apr. 1972 Joined The Dai-ichi Kangyo Bank, Ltd. (Predecessor of Mizuho Bank, Ltd.)



**Yukio Nakamura**  
Representative Director,  
Deputy President

Apr. 2013 Representative Director, Deputy President, Chief of Staff, Head of Corporate Staff Group, Shinsei Bank, Limited (Current)  
Jun. 2010 Representative Director, Senior Managing Executive Officer, Chief Risk Officer, Head of Risk Management Group, Shinsei Bank, Limited  
Oct. 2009 Managing Executive Officer, Executive Head of Institutional Business Sub-Group, Shinsei Bank, Limited  
Jun. 2008 Statutory Executive Officer, Executive Head of Institutional Business Sub-Group, Shinsei Bank, Limited  
Apr. 2007 General Manager, Risk Management Planning and Policy Division, Portfolio and Risk Management Division, Operational Risk Management Division, Shinsei Bank, Limited  
Oct. 2000 General Manager, Risk Management Planning and Policy Division, Portfolio and Risk Management Division, Shinsei Bank, Limited  
Apr. 1978 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)



**J. Christopher Flowers<sup>1</sup>**  
Director,  
Managing Director and  
Chief Executive Officer,  
J. C. Flowers & Co. LLC

May 2012 Member of the Supervisory Board, NIBC Holding N.V. (Current)  
Sep. 2008 Chairman and Director, Flowers National Bank (Current)  
Aug. 2007 Member of the Advisory Board, The Kessler Group (Current)  
Nov. 2002 Managing Director and Chief Executive Officer, J.C. Flowers & Co. LLC (Current)  
Mar. 2000 Director, Shinsei Bank, Limited (Current)  
Dec. 1988 Partner, Goldman Sachs & Co.  
Mar. 1979 Joined Goldman Sachs & Co.



**Ernest M. Higa<sup>1,3</sup>**  
Director,  
Chairman and Chief Executive Officer,  
Higa Industries Co., Ltd.

Jun. 2013 Director, Shinsei Bank, Limited (Current)  
Apr. 2011 Trustee, Japan Association of Corporate Executives (Current)  
Mar. 2011 Chief Executive Officer, Wendy's Japan (Current)  
Jun. 2010 Director, JC Comsa Corporation (Current)  
Feb. 2010 Chairman and Chief Executive Officer, Higa Industries Co., Ltd. (Current)  
May 2009 Board of Overseers, Columbia Business School (Current)  
Apr. 2008 Board Member, The Tokyo New Business Conference (Current)  
Apr. 1983 President and Chief Executive Officer, Higa Industries Co., Ltd.  
Apr. 1976 Joined Higa Industries Co., Ltd.



**Shigeru Kani<sup>1,3</sup>**  
Director,  
Former Director, Administration Department,  
The Bank of Japan, Specially  
Appointed Professor, Yokohama College  
of Commerce

Apr. 2014 Specially Appointed Professor, Yokohama College of Commerce (Current)  
Apr. 2006 Professor, Yokohama College of Commerce  
Jun. 2004 Director, Shinsei Bank, Limited (Current)  
Apr. 2002 Advisor, NEC Corporation  
May 1999 Executive Managing Director, Tokyo Stock Exchange, Inc.  
May 1996 Director, Administration Department, The Bank of Japan  
May 1992 Executive Advisor and Senior Advisor to the Chairman, The Tokyo International Financial Futures Exchange (Predecessor of Tokyo Financial Exchange Inc.)  
Apr. 1966 Joined The Bank of Japan



**Jun Makihara<sup>1,3</sup>**  
Director,  
Chairman of the Board,  
Neoteny Co., Ltd.

Jun. 2011 Director, Shinsei Bank, Limited (Current)  
Jun. 2006 Director, Monex Group, Inc. (Current)  
Jul. 2000 Chairman of the Board, Neoteny Co., Ltd. (Current)  
Nov. 1996 Co-Head of the Equities Division and Co-Branch Manager, Goldman Sachs Japan Ltd.  
Nov. 1992 Partner, Goldman Sachs & Co.  
Sep. 1981 Joined Goldman Sachs & Co.

## AUDIT & SUPERVISORY BOARD MEMBERS (3)



**Shinya Nagata**  
Audit & Supervisory  
Board Member

Jun. 2012 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)  
Oct. 2010 Executive Officer, General Manager, Financial and Regulatory Accounting Division, Shinsei Bank, Limited  
Sep. 2010 Executive Officer, General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Accounting Division, Shinsei Bank, Limited  
Jun. 2010 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Accounting Division, Shinsei Bank, Limited  
Sep. 2009 General Manager, Group Regulatory Accounting and Tax Division, Shinsei Bank, Limited  
Apr. 2009 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Accounting Division, Shinsei Bank, Limited  
Oct. 2006 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Financial Projects Division, Shinsei Bank, Limited  
Dec. 2001 General Manager, Financial and Regulatory Accounting Division, Shinsei Bank, Limited  
Apr. 1981 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)



**Kouze Shiga<sup>2,3</sup>**  
Audit & Supervisory  
Board Member  
Lawyer

Jun. 2010 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)  
Sep. 2009 Director, Toyoko Inn Co., Ltd. (Current)  
Apr. 2007 Audit & Supervisory Board Member, Tokushu Tokai Holdings Co., Ltd. (Predecessor of Tokushu Tokai Paper Co., Ltd.) (Current)  
Oct. 2005 Partner, Shiraishi & Partners (Current)  
Jun. 2002 Partner, Son Sogo Law Office  
Aug. 1999 Established Shiga Law Office  
Apr. 1998 Registered Daiichi Tokyo Bar Association  
Apr. 1993 Prosecutor, Yokohama District Public Prosecutors' Office  
Nov. 1967 Joined Japan Airlines Corporation



**Ryuichi Tomimura<sup>2,3</sup>**  
Audit & Supervisory  
Board Member  
Executive Vice President,  
Director, SIGMAXYZ Inc.

Jun. 2014 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)  
Aug. 2012 Director, Plan-Do-See Inc. (Current)  
Apr. 2010 Executive Vice President, Director, SIGMAXYZ Inc. (Current)  
Dec. 2007 Representative Director, Managing Director, RHJ International Japan, Inc.  
Feb. 2004 Representative Director, Senior Executive Vice President, JAPAN TELECOM CO., LTD (Predecessor of Softbank Telecom Corp.)  
Oct. 2002 Managing Director, IBM Business Consulting Service, Asia Pacific  
Jan. 1994 Managing Partner, Pricewaterhouse Consultant  
Oct. 1991 General Manager, Network Integration Division, Recruit Co. Ltd. (Predecessor of Recruit Holdings Co., Ltd.)  
Oct. 1983 Joined IBM Japan, Ltd.

1 Outside Directors 2 Outside Audit & Supervisory Board Members 3 "Independent director statement" (dokuritsu-yakuin todokede-sho) submitted to Tokyo Stock Exchange Inc.

**EXECUTIVE OFFICERS (25)**



**Shigeki Toma**  
Representative Director, President,  
Chief Executive Officer



**Yukio Nakamura**  
Representative Director,  
Deputy President, Chief of Staff,  
Head of Corporate Staff Group,  
General Manager,  
Office of Financing Facilitation  
Management



**Sanjeev Gupta**  
Senior Managing Executive Officer,  
Head of Individual Group



**Michiyuki Okano**  
Senior Managing Executive Officer,  
Group Chief Information Officer,  
Head of Banking Infrastructure  
Group



**Hitomi Sato**  
Senior Managing Executive Officer,  
Head of Institutional Group,  
General Manager,  
VBI Promotion Division



**Shigeru Tsukamoto**  
Senior Managing Executive Officer,  
Chief Financial Officer,  
Head of Finance Group,  
Head of Treasury Sub-Group



**Satoshi Koiso**  
Managing Executive Officer,  
General Manager,  
Corporate Planning Division



**Yoshiaki Kozano**  
Managing Executive Officer,  
Head of Principal Transactions  
Sub-Group



**Hideyuki Kudo**  
Managing Executive Officer,  
Chief Risk Officer,  
Head of Risk Management Group



**Toru Myochin**  
Managing Executive Officer,  
Executive Officer in charge of  
Institutional Business,  
General Manager,  
Healthcare Finance Division



**Hironobu Satou**  
Managing Executive Officer,  
Head of Global Markets Group,  
General Manager,  
Global Markets Business Division



**Shinichirou Seto**  
Managing Executive Officer,  
Executive Officer in charge of  
Institutional Business,  
Head of Institutional  
Business Sub-Group



**Masashi Yamashita**  
Managing Executive Officer,  
Deputy Head of Individual Group,  
Head of Consumer Finance Sub-Group



**Shigeto Yanase**  
Managing Executive Officer,  
Executive Officer in charge of  
Overseas Banking



**Akira Hirasawa**  
Executive Officer,  
General Manager,  
Portfolio and Risk  
Management Division



**Yasunobu Kawazoe**  
Executive Officer,  
General Manager,  
Institutional Credit  
Management Division



**Takahisa Komoda**  
Executive Officer,  
General Manager,  
Human Resources Division



**Tsukasa Makizumi**  
Executive Officer,  
General Manager,  
Specialty Finance Division,  
Head of Project Finance Department,  
Specialty Finance Division



**Takako Masai**  
Executive Officer,  
Head of Markets Research Department,  
Markets Sub-Group



**Yuji Matsuura**  
Executive Officer,  
Head of Markets Sub-Group



**Nozomi Moue**  
Executive Officer,  
General Manager,  
Structured Risk Management Division



**Masayuki Nankouin**  
Executive Officer,  
Head of Financial Control and  
Accounting Sub-Group



**Nobuyasu Nara**  
Executive Officer,  
Executive Officer in charge of  
Institutional Business,  
General Manager, Osaka Branch



**Eiji Shibasaki**  
Executive Officer,  
Head of Financial Institutions  
Sub-Group



**Takashi Yoshikawa**  
Executive Officer,  
General Manager,  
Overseas Banking Division,  
Head of Overseas Business  
Development Department,  
Overseas Banking Division

**SENIOR ADVISOR (1)**

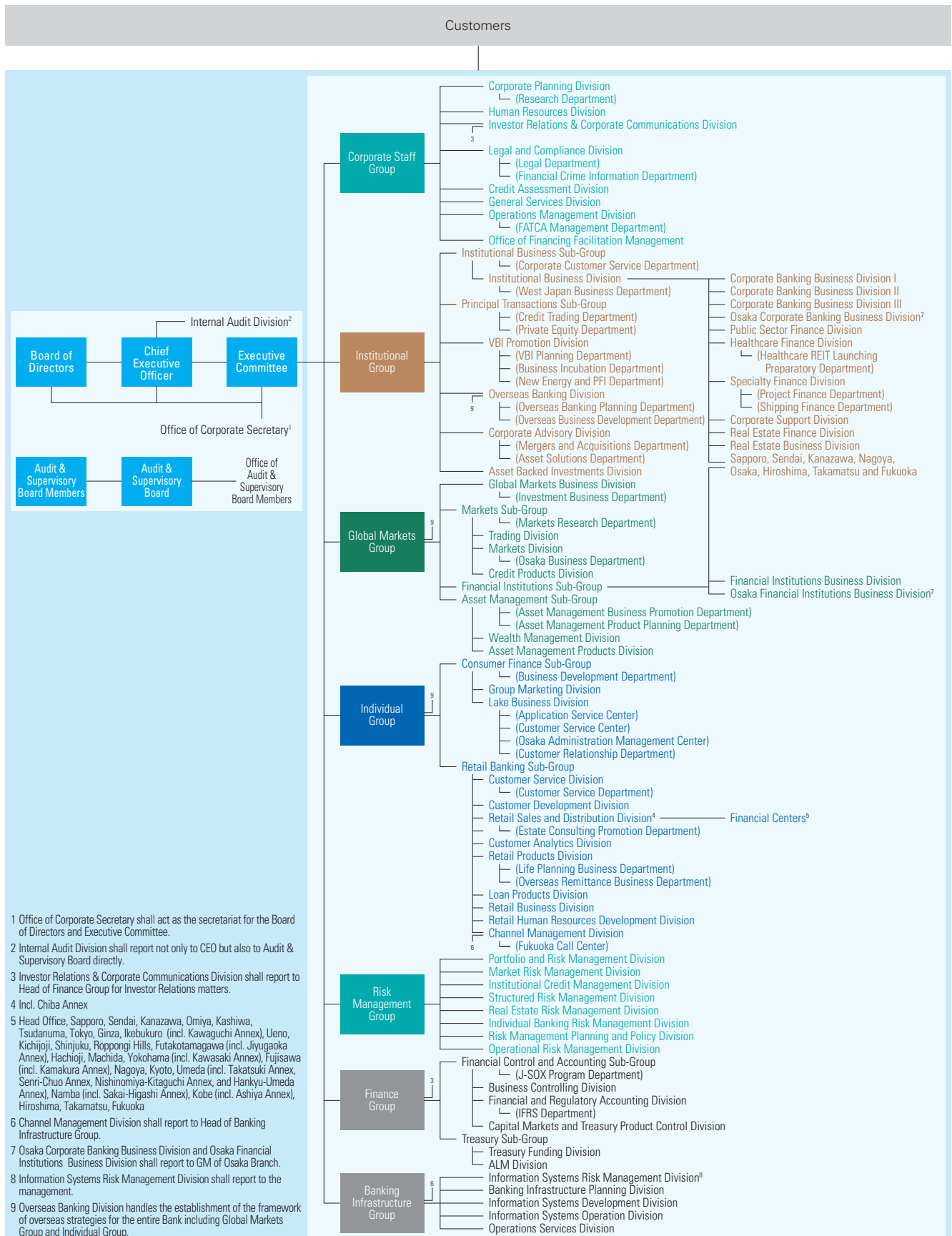
**David Morgan** Director, HSH Nordbank AG, and Managing Director, Europe and Asia-Pacific, J.C. Flowers & Co. UK Ltd

**ADVISOR (1)**

**Yuji Tushima**

# ORGANIZATION

As of July 1, 2014



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# CORPORATE GOVERNANCE

Shinsei Bank has established a corporate governance framework as a “Company with an Audit & Supervisory Board” (*kansayakukai-setchi-gaisha*). This model aims to ensure appropriate managerial decision-making and business implementation in order to establish a corporate governance framework with sufficient organizational checking functions. We aim to achieve this through the following two key actions:

- 1) Consolidating business execution authorities and responsibilities in the Board of Directors; and
- 2) Assigning Audit & Supervisory Board Members and an Audit & Supervisory Board that are independent of the Board of Directors auditing duties that include auditing of the Board of Directors.

In addition to this, we have adopted an Executive Officer system which ensures the flexibility of our day to day business execution.

## Current Status of Corporate Governance

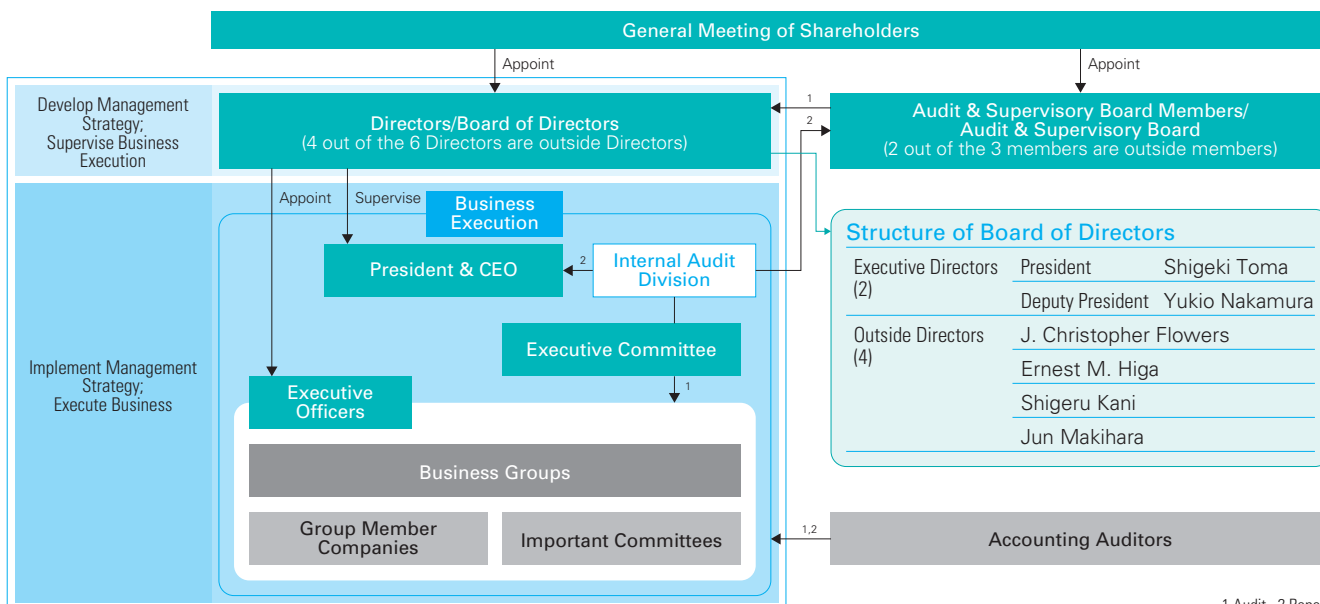
Shinsei Bank’s Board of Directors—the Bank’s decision-making body for its business management—consists of two Directors who are responsible for business execution and four outside Directors who supervise the Bank’s business execution. This well-balanced structure underpins transparent and objective business management and appropriate decision-making for the Bank’s operations. For flexible daily business execution, the Bank has adopted the Executive Officer system centering on two Executive Directors and the Group system, under which Executive Officers with extensive experience in each business area are appointed as Group Heads, whereby they implement the Bank’s businesses. In addition, the Audit & Supervisory Board, whose members are independent from the Board of Directors, audit the Board of Directors and the Bank’s business execution, creating a corporate governance structure with rigorous check functions. Under this structure,

Shinsei Bank adopts the optimal balanced management policy in order to improve its corporate value.

### Characteristics of Shinsei Bank’s Corporate Governance/ Ensuring Transparency and Objectivity in Business Management through the Appointment of Outside Directors

Since its launch as Shinsei Bank in 2000, the Bank has consistently operated its businesses with an emphasis on the supervisory function of outside Directors in an attempt to achieve transparency and objectivity in business management and to improve its corporate value. The Bank now adopts a corporate governance framework as a “company with an Audit & Supervisory Board” (*kansayakukai-setchi-gaisha*). Under this framework, it continues employing a Board of Directors structure where the majority of the Board members are outside Directors.

#### Summary of Corporate Governance (as of June 18, 2014)



As of June 18, 2014, the Board of Directors has been composed of two inside Directors responsible for daily business execution and four outside Directors who make up the majority of the Board. Outside Directors have extensive experience and advanced expertise in areas such as domestic and overseas financial business, consumer business, and risk management. Applying their experience and expertise, they provide opinions on Shinsei Bank's business operations from an independent and objective point of view and supervise business execution by the Executive Directors.

The Board of Directors hold regular meetings six times a year, and call special meetings as required. In these meetings, all Board members express their opinions freely and have robust discussions. The outside Directors articulate their views on the management of the Bank and monitor our business challenges from various perspectives such as whether the optimum strategies are being adopted, whether an appropriate risk-return balance is maintained, and whether a particular transaction or course of action contributes to the growth of the Bank's businesses. Determining the Bank's policy through such discussions allows us to constantly work on improving the Bank's corporate value, to protect the interests of our shareholders, customers and other stakeholders, and to maintain a proper business promotion system.

In regard to transactions with Directors, major shareholders, and other stakeholders, the Bank conducts checks that are designed to avoid conflicts of interest and to maintain the fairness of transactions. The Bank has organized and implemented a structure to deliberate on relevant transactions at the Board of Directors meetings as well as their follow-up structure.

#### Reasons for Nomination of Outside Directors

Name	Reason for Nomination
Outside Director <b>J. Christopher Flowers</b>	Reflect in the Bank's management his experience and expertise in the financial service industry as a whole
Outside Director <b>Ernest M. Higa<sup>1</sup></b>	Reflect in the Bank's management his experience and deep insight of business for consumers
Outside Director <b>Shigeru Kani<sup>1</sup></b>	Reflect in the Bank's management his expertise in the risk management area and his extensive knowledge concerning banking operations
Outside Director <b>Jun Makihara<sup>1</sup></b>	Reflect in the Bank's management his extensive knowledge of finance and his domestic and international experience

<sup>1</sup> Shinsei Bank has submitted to the Tokyo Stock Exchange an independent director registration form identifying Ernest M. Higa, Shigeru Kani and Jun Makihara as independent directors.

#### Status of Board of Directors Meetings

##### Ratio of outside Directors

66%

- Four out of the six Directors of Shinsei Bank are outside Directors and make up the majority of the Board of Directors.
- The structure where outside Directors make up the majority of the Board members has continued since the start of Shinsei Bank.
- Five officers including outside Audit & Supervisory Board Members are reported as independent officers to the Tokyo Stock Exchange (as of June 2014).

##### Attendance rate

97.6%

- The Directors, including outside Directors, attended almost all the Board meetings and had robust discussions concerning the management and business execution of Shinsei Bank.
- The figure in the box to the left shows the average attendance rate of the Board of Directors meetings held in the fiscal year 2013 (seven meetings in total).

#### Executive Officer System, Executive Committees and Important Committees

Shinsei Bank has adopted the Executive Officer system to ensure that its day-to-day businesses are executed flexibly. As of June 18, 2014, 23 Executive Officers, including Executive Directors, are appointed by the Board of Directors and execute the Bank's business. Through the implementation of this system under the Group-based structure, Executive Officers and Group Heads appointed by the Board of Directors are able to efficiently execute their business operations under the leadership of Executive Directors including the President.

Additionally, the Bank has established the Executive Committee which is comprised of Executive Directors and

#### Summary of Executive Committee and Other Important Committees

Name	Main Purpose
Executive Committee	The President's decision-making body for day-to-day business execution
ALM Committee	Negotiate, coordinate and make decisions concerning medium- and long-term Asset and Liability Management
Compliance Committee	Communicate, coordinate and make decisions in regard to compliance
Risk Policy Committee	Discuss the bank-wide risk operation policy and management framework for the Bank's portfolios, and the Bank's approach to major portfolios, sectors, products and so forth
Doubtful Debt Committee	Promptly inform top management about significant bad debt exposure, and make decisions on write-offs and other matters concerning sale of debts, debt forgiveness, and so forth
SME Loan Committee	Through discussions on the business policy and challenges for the entire institutional banking business, take initiative in bank-wide efforts to achieve SME loan goals set in the Revitalization Plan
IT Committee	Discuss, coordinate and make decisions on matters concerning the Shinsei Bank Group's information technology systems
Business Continuity Management Committee	Discuss, coordinate and make decisions concerning the organization of the business continuity structure throughout the Bank
Basel Committee	Discuss, coordinate and make resolutions on matters concerning regulatory capital, with a focus on Basel regulations
Management Development Committee	Discuss, coordinate and make decisions about the HR system, HR measures and so forth

Executive Officers who are Group Heads. The Executive Committee is a body that enables the President to make decisions on business execution and it allows the Bank to operate its business efficiently as well as in a timely manner. The Committee meets almost every week to deliberate on matters concerning the business operations of the Bank. Through these discussions, the Groups confirm, share, and implement the Bank's management strategy and the direction it pursues.

Furthermore, in order to appropriately and flexibly deal with issues arising from the expansion of the Bank's specialized offerings, the Bank has established various committees drawing on cross functional resources.

### Audit & Supervisory Board Members/ Audit & Supervisory Board

The Audit & Supervisory Board of Shinsei Bank is composed of one full-time member who has extensive business experience at the Bank and is knowledgeable in finance and accounting, and two outside members who are highly specialized in legal affairs and have expertise in topics such as corporate governance. The Audit & Supervisory Board is completely independent of the Board of Directors and it audits business execution of the Board of Directors in an appropriate manner. In particular, the outside Audit & Supervisory Board Members contribute to highly effective auditing activities by providing independent and objective opinions at meetings of the Audit & Supervisory Board and the Board of Directors.

#### Reasons for Nomination of Audit & Supervisory Board Members

Name	Reason for Nomination
Full-time Audit & Supervisory Board Member <b>Shinya Nagata</b>	Reflect in the Bank's audit operations his long years of business experience in the areas of finance and accounting at Shinsei Bank
Outside Audit & Supervisory Board Member <b>Kozue Shiga<sup>1</sup></b>	Reflect in the Bank's audit operations her expertise and extensive experience as a lawyer.
Outside Audit & Supervisory Board Member <b>Ryuichi Tomimura<sup>1</sup></b>	Reflect in the Bank's audit operations his extensive experience and wide range of knowledge including information systems as a management executive and a consultant.

<sup>1</sup> Shinsei Bank has submitted to the Tokyo Stock Exchange an independent director registration form identifying Kozue Shiga and Ryuichi Tomimura as independent directors.

#### Audit & Supervisory Board Members' Activities in FY2013

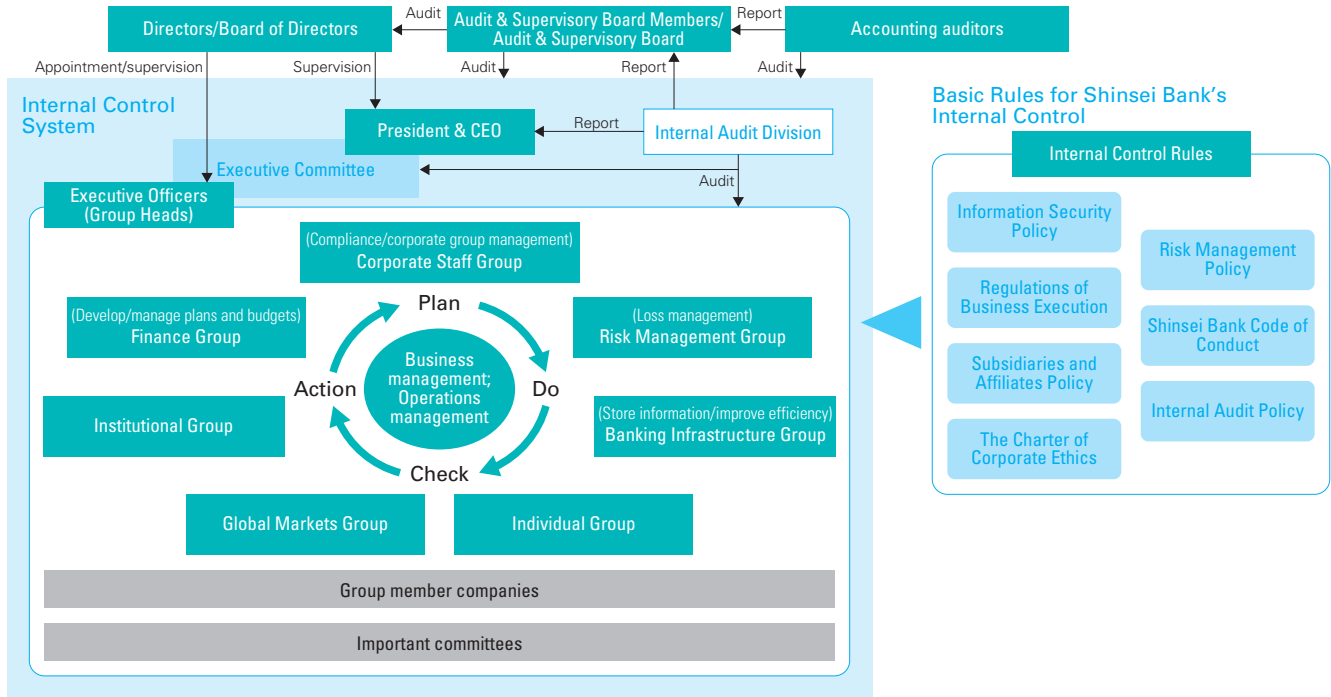
	Board of Directors meetings	Audit & Supervisory Board meetings
Number of meetings held	7 times	12 times
Attendance rate	100%	100%

The Audit & Supervisory Board Members attend important Bank meetings other than Board of Directors meetings, such as Executive Committee meetings, review important documents, and undertake audits of their own by, for instance, interviewing the Directors, Executive Officers and accounting auditors. In addition, the Audit & Supervisory Board Members work with the Internal Audit Division and other internal control sections and utilize staff of the Office of Audit & Supervisory Board to systematically and efficiently audit the state of business execution in the entire Shinsei Bank Group including subsidiaries.

### Internal Control

To establish corporate governance that operates appropriately, it is necessary to create a system that allows internal audit, legal and compliance functions to work effectively. It also requires a structure for monitoring business execution and decision-making centered on the Board of Directors. The creation of an internal control system as required by the Corporation Act, and having in place internal controls for ensuring the accuracy of financial reports required by the Financial Instruments and Exchange Act, are also important elements of corporate governance. Even though establishing these internal controls is the responsibility of management, the overall internal control system functions more effectively if each of the Groups that carry out actual operations takes specific measures to secure internal controls. The Bank stipulates its basic policy on the internal control system for appropriate and efficient performance of day-to-day operations in its "Internal Control Rules" approved by the Board of Directors who also review the status of the internal control system each year. The Internal Control Rules aim to create a framework for safeguarding the effectiveness of audits by the Audit & Supervisory Board Members, and designate the Subsidiaries and Affiliate Policy, Information Security Policy, Risk Management Policy, Regulations of Business Execution, Shinsei Bank Code of Conduct and Internal Audit Policy as the basic rules in order to preserve appropriate, transparent and efficient operations of the entire Shinsei Bank Group including subsidiaries. In addition, the Charter of Corporate Ethics prohibits relationships with antisocial forces, and through the cutting off of such relationships, ensures appropriate business operations by the Bank.

Internal Control Framework



Legal and Compliance Activities

The Legal and Compliance Division plays a pivotal role in supporting the Bank's legal and compliance function, a key function of the Bank's corporate governance.

Compliance Framework

Shinsei Bank strongly believes that thorough compliance must be one of management's most important missions, and Shinsei Bank has established a robust compliance framework to help ensure sound and proper management that earns the trust of society.

In addition, in fiscal year 2013, we reviewed and revised our compliance frameworks in order to further enhance employees' awareness of compliance. The Bank's Compliance Committee, the Legal and Compliance Division, and Compliance Supervisors (General Managers) and Compliance Managers who are assigned in divisions, branches, and departments constitute the main elements of our compliance organization. The Compliance Committee, with our Chief of Staff as its chair, examines and discusses important compliance matters. On the other hand, the Legal and Compliance Division plans various measures concerning compliance risk and implements these measures through central management.

Additionally, Compliance Supervisors take leadership in promoting compliance measures in their divisions, branches

or departments and are responsible for making compliance-related decisions at their job sites. Compliance Managers act as the point of contact for compliance related matters and periodically report compliance related issues to the Legal and Compliance Division, as well as focus on strengthening compliance at job sites. The Legal and Compliance Division provides support to each division, branch, and department in their compliance decisions. Through the periodical reports by Compliance Managers, the Division conducts Bank-wide monitoring of how various measures are being implemented and also provides centralized compliance guidance. It should be noted that in order to be able to better respond to issues such as financial crimes (e.g. bank transfer scams), anti-money laundering regulations, antisocial forces, and for controlling legal matters, the Financial Crime Information Department and the Legal Department have been established as part of the Legal and Compliance Division.

Compliance Activities

Every year, we create a compliance program which promotes the development of regulations and training programs. We place particular emphasis on the use of training sessions as a tool to ensure the proliferation of compliance awareness and conduct trainings such as the

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“Shinsei Bank Code of Conduct”—a basic policy for the Bank employees, voluntary training based on compliance risk of each division, branch, and department, and training for respective important compliance matters such as revisions of laws and regulations, on an ongoing basis.

In addition to group training, we are also working to create an environment that maximizes the effectiveness of training by introducing active e-learning courses and regularly transmitting a “Short Lesson for Compliance” by e-mail, which summarizes compliance issues.

### Legal Supervision

Banks are required to comply with a wide variety of laws and regulations in their day-to-day business operations. Violations of any of these laws can have severe repercussions

not only to our credibility and reputation as a financial institution, but to that of the overall banking system itself. In the case of individual transactions, there exists a risk that we may face unexpected claims for damages if our contracts are unreasonable or we act in poor faith during the process of negotiation leading up to contract execution. Prevention and proper management of these legal risks are a crucial function within the day to day operations of today’s banks.

In order to mitigate these risks, Shinsei Bank has established a specialized section within its Legal and Compliance Division which presides over such legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision and through this specialized support, we aim to prevent and manage any legal risk.

## Internal Audit

With the increased diversification and complexity of risks relating to banking, the management of risk is becoming increasingly important. It is the role of the internal audit to independently assess the effectiveness of risk management measures and internal controls. This, in turn, helps maintain and enhance our corporate governance.

The Internal Audit Division (IAD) of the Bank reports directly to the CEO as well as to the Audit & Supervisory Board. The IAD supports the CEO in his responsibilities for controlling business execution, and in particular for establishing an effective system of internal controls. The IAD provides independent and objective assessments of the effectiveness of risk management, control and governance processes, the reliability of information and information technology systems, and compliance with statutory, legal and regulatory requirements as well as internal policy and procedure requirements of the Bank, and provides solutions to management. The IAD also maintains a close relationship with the Audit & Supervisory Board and provides them with internal audit-related information.

The IAD is independent from all the organizations subject to internal audits, as well as day-to-day operational activities and control processes including regular preventive and detective controls. The IAD utilizes a risk-based audit approach and conducts a comprehensive risk assessment by combining a macro-risk assessment, which assesses risk from the perspective of the Banking Group as a whole, together with a micro-risk assessment, which assesses risk from an

individual business level. Businesses or processes that are perceived to have relatively higher risk are prioritized in the allocation of audit resources.

In order to improve the effectiveness and efficiency of internal audit activities, it is important to gather relevant information about the business departments. To do so, the IAD has been enhancing off-site monitoring activities by attending key management meetings, reviewing internal control documents and holding regular meetings with senior management.

Comprised of the Business Audit Team, the IT Audit Team and the Quality Control and Planning Team, the IAD takes the initiative in developing our internal auditors’ expertise, and in particular, strongly encourages them to obtain professional certifications such as the Certified Internal Auditor and Certified Information Systems Auditor qualifications.

While the IAD pursues the development and introduction of new audit techniques, it also recognizes the importance of maintaining its fundamental skills necessary to its duties in governance. By receiving regular quality assessments by a third party organization on the IAD’s internal audit activities, we are able to objectively identify opportunities for improvement.

The IAD also involves Group subsidiaries’ internal audit divisions in these efforts in order to continuously improve its performance.

# RISK MANAGEMENT

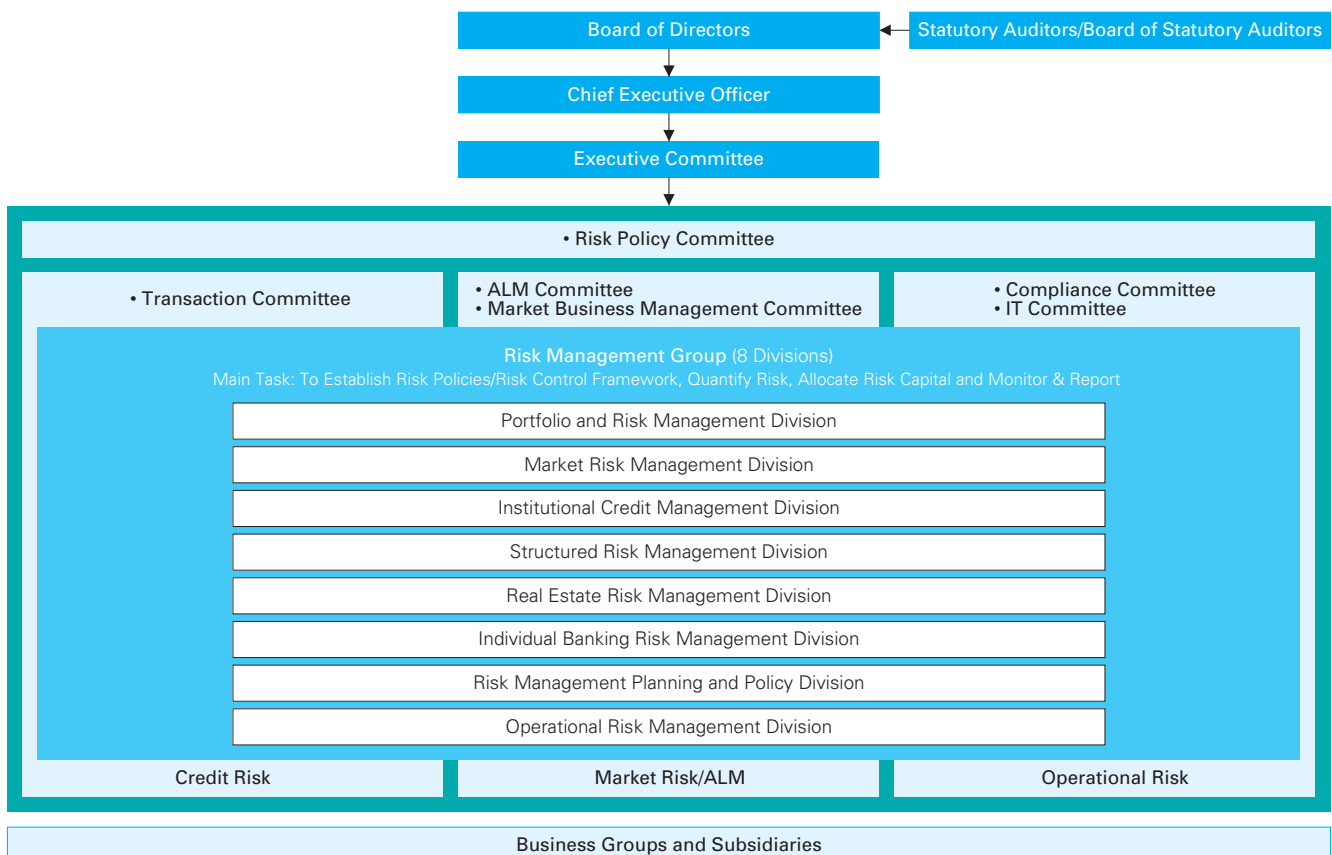
Shinsei Bank has identified risk management as one of its most important management issues and the Bank has already undertaken various measures to strengthen risk management frameworks. These include improvements of our various committees and further empowerment of their functions, and the establishment of a system of checks and balances by the Risk Management Group which is fully independent of other Groups in the Bank. The Risk Management Group sufficiently discusses portfolio-specific risk management policies and policies on transactions with individual companies in order to make decisions in an appropriate and speedy manner. In addition, we are continuing to further strengthen our risk management frameworks in order to improve our risk taking capabilities in line with our business expansion, enhance our risk management methods and frameworks, and further develop our risk culture.

## Fiscal Year 2013 Overview

### Domestic and Overseas Economic Trends

In FY2013, the world economy was generally on a recovery trend mainly in advanced countries. The U.S. economy experienced a modest recovery driven by strong private consumption, despite the effects of a temporary slowdown in exports and the effects of inclement weather. The European economy also saw an improvement, and government bond yields of Southern European countries, which remained high due to the sovereign debt crisis, have generally dropped to pre-crisis levels. Japan experienced depreciation in the value of the yen and an upswing in stock prices partly due to "Abenomics" centered on the "three arrows policy," which consists of a bold monetary easing policy, a flexible fiscal policy, and a growth strategy to stimulate private investments conceived, by the Abe administration and the Bank of Japan (BOJ). As a result, the Japanese economy started recovering and the FY2013 GDP growth rate (first preliminary estimate) increased to approximately 2% compared to FY2012. Additionally, the number of corporate bankruptcies remained on a downward trend in FY2013 when the "SME Finance Facilitation Act" expired.

Risk Management System Chart (as of June 18, 2014)



## Shinsei Bank's Portfolio

In these circumstances, regarding the state of the Bank's portfolio, the impact from the deterioration of the credit-worthiness of customers, including that of large borrowers, on our corporate exposure continued to remain small in FY2013 from FY2012. With respect to real estate related loans centered on non-recourse loans, we continued to reduce high-risk assets in an attempt to improve the quality of our exposure through asset replacement. This was the main factor for the reduction in the non-performing loan ratio of the Bank's entire portfolio. In the consumer finance business, while the overall balance had been declining due to changes in the environment, such as legal amendments, signs that the balance would increase became noticeable in FY2013. Additionally, losses on interest repayments have peaked and were within the expected range in FY2013.

For the entire portfolio, capital buffers expanded and management stability increased thanks to risk reductions through the aforementioned credit cost reductions and asset quality improvements, as well as the favorable accumulation of capital through an increase in revenues.

## Risk Factors and Future Policy

Under the Second Medium-Term Management Plan which was started in FY2013, Shinsei Bank seeks to establish a unique business base, increase revenues, and further improve financial fundamentals. Although the external environment has been on an upward trend, attention needs to be paid to the impact of higher interest rates, drastic exchange rate fluctuations, and the consumption tax increase on the Japanese economy, as well as potential global economic downturn risks, such as Russia-Ukraine relations, the impact of the scaling back of U.S. monetary easing, the rekindling of the sovereign debt crisis in Europe, and a slowdown in the Chinese economy. The Risk Management Group will work to accurately understand both domestic and overseas environments, comprehend the risk profile of the Bank's portfolio from various perspectives using stress tests and other means, and share its view with management. Additionally, we will exercise an appropriate system of checks and balances for the business promotion sections' initiatives in growth areas and the implementation of their business strategies. We will organize and strengthen the risk management framework, adequately monitoring new assets and flexibly reviewing risk strategies as required.

## Comprehensive Risk Management

### Basic Concept of Risk Management Systems

Financial institutions are exposed to various risks, including credit risk, market risk, interest rate risk, liquidity risk, and operational risk.

In order to run highly profitable and stable operations, a financial institution must approach the undertaking of and control of risk as a managerial challenge.

In order to accomplish this, there is a need for a function which monitors whether risks are taken in line with Bank-wide policies as well as individual operational policies, whether risks remain within appropriate limits, and whether they are adequately controlled by the respective sections in charge.

### Achieving Comprehensive Risk Management

Shinsei Bank has established its "Risk Management Policy" as the fundamental policy to be used to recognize risks and implement active controls based upon an understanding of the risks faced by the Bank as a whole. Due to a fiercely competitive business environment and an evolving regulatory and market environment, the risks faced by Shinsei Bank are becoming increasingly complex. Under such circumstances, the policy stipulates the fundamental principles of risk management including the risk culture within the Bank based on the Bank's experiences in the financial crisis, and facilitates proper judgment on risks allowed to be taken.

Comprehensive risk management requires not only detailed monitoring of each risk involved in individual operations, but also an understanding of total bank-wide risks and quantifying these risks to the greatest extent possible based on analysis and insights into the bank's markets and customers. The Bank defines the "Risk Capital," which is an integrated control approach, and quantifies each risk category, namely (1) credit risk, (2) market risk, (3) interest rate risk, and (4) operational risk. In this way, our financial strength and risk acquisition activities are controlled in an integrated manner by monitoring the Bank-wide risk volume and Group-specific capital attribution status. In FY2013, we continuously reviewed our concept of financial strength as well as preferable management methodologies for comprehensive risk management, and as a result have initiated the updating of management frameworks in the new fiscal year.

It should be noted that at Shinsei Bank, senior management has delegated certain risk management authority to specific committees including the “Risk Policy Committee,” “Transaction Committee,” “Asset and Liability Management (ALM) Committee” and “Market Business Management Committee.” Through continuous improvement of systems and functions in response to a changing environment, these committees are able to function effectively as committees responsible for making important risk judgments. The Risk Policy Committee involves the top management of the Bank (including the CEO, CFO, and CRO), who review business strategy alongside risk management policy in order to define appropriate and optimal risk taking for the Group.

#### Categories of Risk Capital

<b>Risk Capital</b>	Capital amount required as a cushion against unexpected economic losses. Unexpected Loss calculated by subtracting expected loss from estimated maximum loss of which time horizon is one year.
<b>Credit Risk</b>	Unexpected Loss calculated by subtracting expected loss from Credit VaR (Credit Value at Risk). Credit VaR is estimated maximum loss calculated by a simulation based on data including probability of default, exposure at default, and loss given default.
<b>Market Risk</b>	Estimated maximum loss from interest rate, foreign exchange and price change risk based on Market VaR (Market Value at Risk). Market VaR is calculated by a simulation based on data including position, volatility of risk factors, etc.
<b>Interest Rate Risk</b>	Estimated maximum loss from interest rate risk in banking account based on Interest Rate VaR (Interest Rate Value at Risk). Interest Rate VaR is calculated by a variance-covariance method based on data including sensitivity of fair market value when interest rates move 100 basis points.
<b>Operational Risk</b>	Estimated maximum loss based on Operational Risk VaR (Operational Risk Value at Risk). Operational Risk VaR is calculated by a simulation based on frequency and severity distributions which will be derived from internal loss records and scenario loss data.
<b>Total Risk Capital</b>	Amount calculated by subtracting effect of correlation across risk categories from simple sum of Risk Capital for each risk category.

### Institutional Business Credit Risk Management

Credit risk is defined as the risk of losses due to deterioration in the financial condition of a creditor resulting in a reduction in or total loss of value of assets (including off-balance assets).

Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or obligors, and managing risk while maintaining an awareness of maximum losses possible from the credit portfolio.

Shinsei Bank has established a comprehensive “Credit Risk Policy” which defines specific policies regarding customer attributes, products, markets, industries and credit situations in order to determine whether risks should be taken or limited, and clarifies policies for credit provision operations and specific guidelines for credit risk management together with the “Credit Procedure,” and each protocol system.

Credit risk management processes are largely divided into credit risk management for individual transactions and portfolio-based credit risk management, as described below.

#### Credit Risk Management for Individual Transactions

##### (1) ORGANIZATION & STRUCTURE

In principle, credit assessment is based upon joint consultation by the Sales Promotion Division and the Risk Management Division (RMD) which is independent from the Sales Promotion Division. In order to ensure a transparent and rigorous evaluation process, the RMD has veto rights, which results in the establishment of an effective system of checks and balances on the Sales Promotion Division. The approval of each transaction is strictly managed, with each transaction being discussed by the Transaction Committee, etc. Through these deliberations, the level of approval authority required over the obligor whose group companies should be taken into consideration is identified based mainly on the total exposure to the obligor group and their credit rating and, as a result, strict credit management is enforced.

Additionally, regarding needs caution receivables, those that fall under a certain category determined by factors such as ratings, the Bank’s exposure, and reserves, Shinsei Bank defensively manages the account, monitoring the obligor’s business

performance through the Doubtful Debt Committee, and by determining measures to handle such obligors in the future, Shinsei Bank is making efforts to minimize credit costs and to ensure the quality of assets.

## (2) CREDIT RATING SYSTEMS

The following is an outline of the internal obligor rating system that the Bank uses for corporate exposures:

### CHARACTERISTICS OF SHINSEI BANK'S OBLIGOR RATING SYSTEMS

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarked against external ratings
- Ensuring conformity with rating systems among industry classifications

Specifically, obligor ratings are determined by applying adjustments for qualitative factors to the model ratings calculated by our estimation models, which are based on external ratings. Obligor ratings are determined at the "Credit Rating Review Committee" in order to ensure objectivity and transparency. Moreover, we ensure consistency of obligor ratings with obligor categories based on the regulatory self-assessment requirements.

Obligor ratings are used in the standards of credit approval authority procedures and portfolio controls, and are the foundation for credit risk management.

In addition to the obligor ratings, the Bank also applies a facility rating system based on expected losses that incorporates elements such as collateral and/or guarantees, in order to assess obligor ratings and the credit status of individual transactions.

It should be noted that an obligor rating system and facility rating system similar to those adopted by the Bank have been introduced in the analysis of high value leasing receivables at Showa Leasing as well.

## Portfolio-Based Credit Risk Management

### (1) MONITORING ANALYSIS SYSTEM

It is essential that credit risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At Shinsei Bank, the Portfolio and Risk Management Division takes the central role in monitoring the segment-specific risk diversification status

including industry classifications, ratings, products, and regions, and undertaking analyses from the product-specific perspectives based on each risk profile. The Division uses this information to provide reports to senior management and the CRO on a monthly as well as on an ad hoc basis.

### (2) QUANTIFYING CREDIT RISK

Quantifying credit risk means measuring and assessing the likelihood of losses that may be incurred from changes in a customer's creditworthiness. Expected loss amounts derived from the probability of default and collection ratios, an assumption based on past experiences and future outlook, are generally called "expected losses." Also, losses that may be incurred in worst case scenarios and cannot be estimated based on past experiences are generally called "unexpected losses," and it is generally considered that risk capital can be quantified by measuring "unexpected losses."

Shinsei Bank utilizes a system for accurate measurement of risk capital which performs automatic measurement for credit risk based on data such as creditworthiness and transaction types. Through this, we are working to ensure sound portfolio management and resource allocation through the analysis of risk capital changes and profitability against risks. Also, by reflecting measured expected losses and unexpected losses in loan spreads we are able to ensure appropriate risk-return for each transaction.

### (3) CREDIT CONCENTRATION GUIDELINE

The credit concentration guideline is an upper limit guideline that was established as part of the framework to prevent the concentration of credit in specific segments, customers or groups. Our credit concentration management framework consists of industry concentration guidelines and obligor group concentration guidelines, and in the event that credit concentration exceeds the guideline, reviews and countermeasures will be performed. These procedures are designed to prevent Shinsei Bank from being exposed to a crisis in the event our credit portfolio is affected by systemic shock or other extraordinary events. As the importance of risk diversification grows in tandem with the globalization of financial markets, we are continuing to work to ensure the establishment of even more effective credit concentration management frameworks.

### Market-Related Transaction Credit Risks

Credit risks from market transactions, such as derivative transactions, are managed based on their fair value and estimations of future value fluctuations. Because the amount of risk associated with market transactions changes according to fluctuations in market rates after the transaction is traded, Shinsei Bank undertakes strict management of these transactions based on future value fluctuation forecasts.

### Self-Assessment

As a result of the introduction the “Prompt Corrective Action” system, financial institutions conduct self-assessments of their assets, such as loans, in order to adequately write off or set aside reserves.

Shinsei Bank has put in place a self-assessment system through which the Credit Assessment Division, which is independent from the business promotion and credit analysis sections, is the section ultimately responsible for self assessment of assets.

Specifically, the criteria and procedures for self-assessment adhere to the Financial Services Agency’s “Inspection Manual for Deposit-Taking Institutions” and, in accordance with the outlined procedures, the business promotion section and the credit analysis section carry out primary assessments and secondary assessments respectively, and final assessments are conducted by the Credit Assessment Division.

In the future, we will continue to strengthen and update systems in order to ensure obligor categories and categorizations are reviewed in a timely manner according to changes in obligor financial fundamentals. Through this, we seek to mitigate the emergence of problem loans and ensure the timely and accurate management of troubled loans.

### Measures to Meet Basel Accord Requirements

In order to comply with the credit risk regulations under the Basel Accord, Shinsei Bank has adopted the F-IRB (Foundation Internal Ratings-Based) Approach. This framework ensures strict internal controls for our internal rating systems, the foundation of credit risk management, through the execution of the design and operations of internal rating systems and parameter estimations such as probability of default. The results of the internal rating systems are reflected not only

in credit risk management, but also in calculations of capital levels required under the regulations. It should be noted that as of the end of March 2014, Shinsei Bank calculates required capital and capital ratios in accordance with Basel III (enhancement/revision of capital controls, etc.).

### Individual Product Risk Management

Risk management for the consumer finance business covers all operations including application underwriting, credit management after contract conclusion, and debt collection. The Individual Banking Risk Management Division holds a risk performance review on a monthly basis with the participation of Shinsei Bank’s other risk-related divisions, and provides advice on risk management policies and strategies to subsidiary employees and Divisions responsible for risk management.

Risk divisions in subsidiaries carry out appropriate risk control through a statistical method that is based on initial credit scoring, credit control scoring, and collection strategy scoring using customer attribute data, credit bureau data, and transaction history data. These score cards are constantly monitored to maintain their accuracy and are updated on a regular basis. Credit costs are extremely important in the profitability of the consumer finance business as a whole. For that reason, we analyze leading indicators of various factors that result in credit costs in order to recognize deterioration trends early on and make necessary improvements. We have separated these leading indicators into initial credit quality, portfolio quality, and debt collection quality and monitor each category every month. If we observe a deterioration trend, we take prompt actions to remedy the situation before it becomes serious.

In addition, in risk management of the consumer finance business, we do not merely look to prevent losses, but to maximize profit by constantly looking to ensure that we are employing the most appropriate risk strategy.

### Market Risk Management

Market risk is the risk of incurring losses due to changes in the value of the balance sheet through fluctuations of interest rates, FX rates, and stock prices, etc.

## Market Risk Management Policy

Risks of the trading business are managed through, in accordance with the "Trading Business Risk Management Policy and Procedure," the determination of overall market risk and loss limits by the Executive Committee, and monitoring of the status of compliance with the limits on a daily basis by the Market Risk Management Division. In addition, the Market Business Management Committee reviews the trends of individual businesses, profits and losses, and the risks of overall business including the risks of products handled on a monthly basis.

Market risk centered on interest rate risk of assets and liabilities in the banking book are managed in accordance with the "Asset Liability Management Policy for Banking Book," and the ALM Committee decides total market risk limit and loss limit. The Market Risk Management Division monitors the status of compliance of the limits on a daily basis and reviews the status of profits and losses and the risk operation policy on a monthly basis.

## Trading Book

The market risk in the trading book is measured through techniques such as VaR. VaR is the maximum loss amount

possible due to future price fluctuations, which is estimated statistically at a specific confidence level, assuming a specific position is held for a specific time horizon. The VaR method based on historical simulation has been adopted as the internal modeling method for general market risk. In addition, we implement multi-faceted risk management using interest rate sensitivities. The VaR model uses a 99% confidence level, a 10 day holding period and an observation period of 250 days (See the table below).

The validity of the VaR model is verified through back testing, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period. The back testing results for fiscal year 2013 show that there was one day in which actual losses exceeded VaR on a consolidated basis. Additionally, we conduct stress tests on a weekly basis to understand our possible losses as a result of market stressors, and report the findings to senior management at the Market Business Management Committee meetings.

## Interest Rate Risk in Banking Book

The market risk in the banking book is managed through interest rate sensitivities and so on. In order to measure interest rate risk, grid point sensitivity (GPS) for each

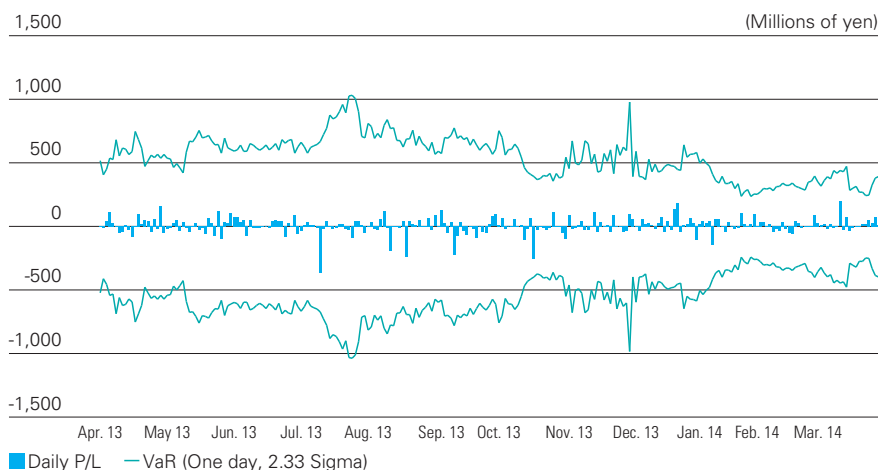
VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2012 and 2013

	Millions of yen			
	FY2012		FY2013	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
FY End VaR	1,642	1,627	<b>1,209</b>	<b>1,189</b>
FY VaR				
Maximum	2,770	2,724	<b>3,265</b>	<b>3,243</b>
Average	1,539	1,498	<b>1,735</b>	<b>1,701</b>
Minimum	1,053	988	<b>752</b>	<b>713</b>

Stressed VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2013

	Millions of yen	
	FY2013	
	Consolidated	Non-consolidated
FY End VaR	<b>2,222</b>	<b>2,189</b>
FY VaR		
Maximum	<b>4,314</b>	<b>4,249</b>
Average	<b>2,834</b>	<b>2,760</b>
Minimum	<b>1,375</b>	<b>1,319</b>

VaR and Daily Profit and Loss (Back-Testing) (FY2013, Consolidated basis)



### Back-Testing on the VaR Model Applied to the Trading ACCOUNT

Back-testing involves comparing the actual losses to estimated VaR to confirm the reliability of the VaR method.

### ASSUMPTIONS OF SHINSEI's VaR MODEL

Method: Historical simulation method  
 Confidence interval: 2.33 standard deviations  
 Confidence level: 99%  
 Holding period: 10 days  
 Observation days: 250 days  
 Coverage: Trading account  
 (Excludes customer margin)

period reflecting a 1% interest rate shock is calculated and used for internal management purposes. (GPS is the fluctuation in the current value of assets, liabilities, and off-balance-sheet transactions in accordance with interest rate fluctuations for each period (grid)). As the amount of interest rate risk is significantly impacted by the recognition of maturities and prepayments, we are endeavoring to appropriately capture interest rate risk by adopting the following models.

a. Housing loans

We calculate the interest rate risk of fixed-rate retail housing loans by statistically analyzing historical prepayment data and estimating future cash flow based on a proportional hazard model using periods lapsed from the loan origination.

b. Core deposits

Core deposits are defined as retail ordinary yen deposits and 2-week yen denominated time deposits which are left with financial institutions for a long term without withdrawal. We model depositors' behaviors by statistically analyzing deposit balance data and estimating maturities by customer segments.

It should be noted the model parameters are regularly reviewed.

Regarding the outlier criteria calculation, a 2% interest rate shock range is utilized and the criteria is calculated through a method which is consistent with internal controls. Additionally, as of March 31, 2014, the actual outlier rate (whether or not the decrease in economic value of the banking book, in the event of an interest rate shock with a range of 2%, would be greater than 20% of core capital) is far below the outlier criterion, indicating that interest rate risk is at a controllable level.

#### Change in Economic Value for Applied Interest Rate Shock of 2% in the Banking Book at the End of March 2014

	Billions of yen	
	Consolidated	Nonconsolidated
JPY	¥ (57)	¥ (22)
USD	(2)	(2)
Other	(2)	(2)
Total	¥ (62)	¥ (27)
Outlier Ratio	7.69%	3.09%

Basis point value (bpv) method:  
The bpv method measures the risk of changes in value due to fluctuations in interest rates. For example, 100 bpv indicates the change in value when interest rates move 100 basis points (=1%).

### Liquidity Risk Management

"Cash liquidity risk" (cash flow risk) is the risk of facing difficulty in securing necessary funds or a risk of incurring losses due to a need to raise funds at an interest rate that is significantly higher than the norm due to a mismatch between the durations of investment and funding or an unexpected outflow of funds.

Pursuant to the "Cash Liquidity Risk Management Policy," cash liquidity risk is managed and administered by the Cash Flow Management Unit (Treasury Funding Division) and the Cash Liquidity Risk Management Unit (Market Risk Management Division).

Also, the "risk management indexes" for securing sufficient cash liquidity, the "funding gap limit" and the "minimum liquidity reserves" are determined by the ALM Committee, and compliance with these is monitored on a daily basis and reported to management by the Market Risk Management Division.

In order to be able to implement appropriate measures in the event the funding environment sharply deteriorates, such as undertaking additional fundraising or asset disposals, we conduct liquidity stress tests, and we require the maintenance of a minimum liquidity duration of one month in stressed scenarios. If this requirement is not satisfied, we analyze all factors and, whenever necessary, examine measures necessary to secure the required liquidity, such as changing the fund gap limit or the minimum liquidity reserves, and in such a cases the ALM Committee prepares a liquidity improvement policy. Liquidity stress tests are conducted on a monthly basis and reported to the ALM Committee by the Market Risk Management Division. Moreover, the appropriateness of stress scenarios is regularly reviewed at the ALM Committee.

The levels of cash liquidity risk consist of "Normal," "Need for Concern," "Crisis," and "Risk Administration Mode." The ALM Committee determines the current mode by comprehensively evaluating information and reports from the Cash Flow Management Unit and the Risk Management Unit as well as the status of the risk management indexes. Each mode-specific framework is set forth in the "Cash Liquidity Contingency Plan," and regular training is conducted in preparation of unexpected situations.



## Operational Risk Management

### 1. Management of Operational Risk Frameworks

Operational risk refers to the risk of loss resulting from “inadequate or failed internal processes, personnel, systems, or external events.” Operational risk requires organization-wide management, because it is inherent in all business activity and is thus extensive.

In order to comprehensively manage operational risk, an operational risk management policy has been established to clarify the definitions of risk, and our basic policy and system for risk management and frameworks for identifying, evaluating, monitoring, reporting and controlling/mitigating risk has been made clear.

The Operational Risk Management Division, which is responsible for Group-wide operational risk management, evaluates, analyzes and reports on overall operational risks. Additionally, specific management divisions that are independent from business divisions have been designated to monitor respective areas of risk, such as operational and administrative risk and systems risk. The Operational Risk Management Division and these specific management divisions hold periodic meetings to share information on risk management issues and measures as well as to discuss how to manage the common elements across the risk areas including those of subsidiaries, thereby ensuring the effective management of operational risk.

Regarding quantification of operational risk, it should be noted that we have adopted the standardized approach for regulatory capital under the Basel Accord. At the same time, on the internal management level, we gauge potential internal risk scenarios by considering factors such as previous losses due to internal factors and the perception of risks by each business line. The findings that come out of these practices have been used as part of the overall risk capital system.

### 2. Management of Administrative Risk and Systems Risk

Administrative and systems risk refers to the risk of “incurring losses resulting from executives’ or employees’ failure to perform accurate clerical work, errors, or misconduct.” Although Shinsei Bank has expanded its retail banking and

consumer finance businesses and developed our institutional banking business, and as such, we understand that appropriately addressing administrative and systems risk is of crucial importance in order to offer reliable services to our customers.

Shinsei Bank is committed to improving its operations, and in addition to having established guidelines including “Operations Guidelines,” is working to further improve its administrative flows and leadership.

Specifically, in the event errors do occur, the Bank tries to prevent recurrences by compiling a database of such cases and analyzing the causes. We have been able to keep the recurrence of administrative errors to a minimum due to having thoroughly simplified our operations by taking steps such as switching to paperless administration, and from automation and mechanization.

We believe that the following three factors are crucial for our information systems strategy: security/reliability, flexibility and scalability. In particular, in FY2013, we have focused on ensuring a more robust, secure and reliable information technology infrastructure in order to ensure the security of customers’ transactions. Particularly, in fiscal year 2013, we have continued to implement specific countermeasures and plans aimed at resolving safety and reliability issues identified in the comprehensive systems check conducted in the previous fiscal year, and have worked to ensure a high level of quality in systems development as well as preventing systems failures, and in the event failures do occur, ensuring rapid systems recoveries. Additionally, we have initiated the establishment of an emergency backup center, as well as initiated the establishment of our next generation system.

We will continue to work to develop a robust system infrastructure that is safe and reliable, as well as secure in order to ensure that we are able to safely engage in transactions with our customers. We will also work to ensure that our system is flexible enough to be able to quickly react to the ever changing needs of our customers to provide them with new products and services that meet their needs.

Additionally, we will work to continue to obtain the ISO 27001 qualification as an information security measure.

# HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

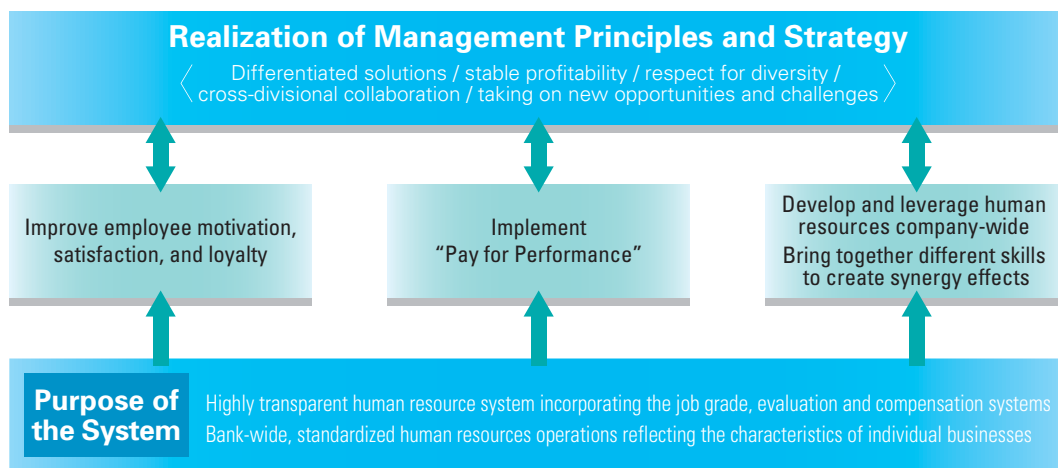
## “People” as an Engine for Growth

The basic strategy of our Second Medium-Term Management Plan starting in FY2013 is to achieve a new retail finance model for individual customers and support the growth of companies, industries, and regions for our corporate customers through business participation. In today’s world where economies and societies are rapidly changing, it is essential that we continue to differentiate ourselves even further from our competition in order to remain as an institution which is appreciated by our customers, society, and the market. In order to be able to accomplish this, it is imperative that we are able to attract and develop the talented individuals who are able to put themselves in the position of our customers in order to be able to consistently deliver services of unsurpassed quality and high value-added solutions. The Bank believes that “people” within the organization will be the driving force for delivering new financial services, pursuing a new Bank image, and responding to the widely varied requirements of our customers in a timely manner. We believe that through our ability to accomplish these things the Bank will become trusted as a cohesive unit which is able to respond to the multifaceted needs of its customers, which in turn will lead to the growth of the Bank.

### A Personnel System in Line with our Management Principles

The management philosophy of Shinsei Bank is “to become a banking group that is sought out by our customers, and contributes to the development of both domestic

and international industrial economies, while maintaining stable profitability,” “to become a banking Group that values diverse talents and cultures and is constantly taking on the challenges presented by change,” and “to become a trusted banking group that has highly transparent management, and values all stakeholders.” In order to achieve our management principles and strategy, we have made revisions to our personnel system in April 2012, the first time in approximately ten years. The newly revised system includes a grade system in which the responsibilities and requirements for each grade have been redefined; an evaluation system that seeks to measure employee contributions not only in terms of short-term results but also includes an evaluation of efforts and processes that are aimed at mid- to long-term growth; and a compensation system that is based not on seniority or past achievements, but on an objective evaluation of each employee and his or her level of contribution to the organization. Furthermore, by altering a portion of the Bank’s seniority scheme in July of 2013, the Bank has succeeded in making clear lines of command as well as establishing a system that fosters healthy competition. By establishing a highly transparent personnel system incorporating these revisions, we are seeking to improve employee motivation and loyalty. The new system is expected to encourage employees to demonstrate the best of their abilities, and thus maximize the organization’s performance and increase overall corporate value.



### Further Strengthening our Organization and Human Resources

By employing a business group-based organization that reflects the differences in customer profiles and characteristics of individual businesses, Shinsei Bank aims to develop professionals who have a deep understanding of their respective business fields. We also believe that it is important to develop and leverage human resources company-wide, as well as facilitate a positive corporate culture, in order to encourage cross-divisional collaboration between our highly specialized staff who can deliver differentiated financial solutions and the highest value to our customers. Shinsei Bank provides various types of training programs tailored to the development of skills or the career paths of our employees, including courses designed to provide a wide range of general financial knowledge or to hone specialized knowledge and skills necessary in each field, as well as schemes that allow employees to study at graduate schools both in Japan and overseas. We also send our employees overseas for short-term training programs and encourage them to obtain qualifications. Also, in order to strengthen management capability to maximize the strength of our organization, we have implemented 360 degree feedback for employees above the rank of general manager in order to promote awareness and behavioral changes as well as expanding various skill development trainings for management level employees. Additionally, as part of our multi-faceted human resources development measures, we provide our employees with opportunities to engage in cross-organizational business on a project ba-



Shinsei Bank engages in multi-faceted human resources development, such as including volunteer activities as part of new hire training

sis, and transfer our human resources strategically across business groups and Group companies. At the same time, we encourage our people to utilize an internal job posting program to take charge of their own career development by taking on new challenges in different fields and utilizing the “self-declaration” system that allows employees to express their satisfaction level of and suitability to their respective current positions.

### Leveraging Diversity

One of Shinsei Bank’s greatest strengths is the diversity of our people in terms of age, gender, nationality and background. It is the creativity generated by this diverse set of people that has enabled us to launch groundbreaking services and business models, and we believe that this diversity is the source of our competitiveness.

Based on this idea, we routinely hire a number of new graduates to expand the ranks of employees from whom we expect our future leaders to emerge, while also making mid-career hires in line with business needs, and as a result we are able to continue to preserve the strengths of our diverse corporate culture. Also, since its inception, Shinsei Bank has actively promoted the advancement of talented female employees by introducing a variety of support initiatives including child-care leave, flexible working hours, and the “Shinsei Women’s Network,” an initiative that encourages interaction between female colleagues in the workplace. As of March 31, 2014, the proportion of female managers at Shinsei Bank remains among the highest in our industry with women representing approximately 26% of all titled managers.

In our aging society with smaller numbers of children and increasingly diversified lifestyles, we believe that respecting the differences and uniqueness of our employees and developing human resource development measures tailored to each individual’s growth stage will help our employees make the best use of their abilities.

Shinsei Bank is committed to respecting the diversity of our people and will strive to reach new levels of organizational dynamism as we seek to provide completely new solutions to meet our customers’ complex and ever-changing needs.

## Contributing to Society

### Our Approach

As part of our commitment to acting as a responsible corporate citizen and contributing to societal development, the Shinsei Bank Group actively promotes Corporate Philanthropic Initiatives. The Shinsei Bank Group promotes employee-driven activities aspiring to create a sustainable society together with our employees.

### Our Focus

The Shinsei Bank Group aims to create a sustainable society by prioritizing our activities centered on the three themes of “nurturing the next generation,” “the environment,” and “disaster relief activities” after the Great East Japan Earthquake in 2011. The Shinsei Bank Group also continues to participate in charity runs and supports other activities that are strongly supported by our employees.

#### Nurturing the Next Generation

Support children, youth and physically and intellectually challenged people who create our future

#### Environment

Protect our earth and the environment we live in

#### Disaster Relief

Support the areas affected by the Great East Japan Earthquake

## Contributing to Society: Nurturing the Next Generation

### Financial Literacy Program “MoneyConnection®”

MoneyConnection® is Japan’s first financial literacy program aimed at preventing young people from becoming “NEETs” (Not in Employment, Education or Training) by providing them with an opportunity to think about money, work and their own future. This is a workshop-based program that is targeted primarily at high school students. Shinsei Financial Co., Ltd. (“Shinsei Financial”), a consolidated subsidiary of Shinsei Bank, developed the program in 2006 in cooperation with Sodateage.net, a non-profit organization with a solid track record in NEET and youth support. From fiscal year 2012, Shinsei Bank has been running this program together with Sodateage.net as part of its CSR initiatives focusing on the theme of “nurturing the next generation.” As a corporate sponsor, Shinsei Bank is supporting the program financially as well as promoting employee involvement by providing opportunities for Group employees to



A snapshot of the program



Employee participating as a facilitator of the program

participate as facilitators where possible. MoneyConnection® received an Excellence Award in the “First Career Education Awards” program organized by the Japanese Ministry of Economy, Trade and Industry in 2010. As of March 31, 2014, the program has reached approximately 70,000 students from 507 schools throughout Japan.

Shinsei Bank is collaborating with regional financial institutions to expand the geographical scope of MoneyConnection®. In October 2012, Shinsei Bank and Sodateage.net have signed a memorandum of agreement with The Fukui Bank, Ltd. in October 2012, The Kiyo Bank, Ltd. in May 2013, and The Bank of Iwate, Ltd. in December 2013. Shinsei Bank will continue to promote and strengthen the MoneyConnection® program in regional areas by looking for opportunities for collaboration with regional financial institutions.

## Contributing to Society: Disaster Relief

### Shinsei Bank Receives Miyagi Prefecture Council of Social Welfare Chairman Award

Shinsei Bank, on November 5, 2013, was awarded the Miyagi Prefecture Council of Social Welfare Chairman Award at the 59th Miyagi Prefecture Social Welfare Convention. This was an acknowledgement of Shinsei Bank’s contributions as part of its Great East Japan Earthquake disaster relief activities to Miyagi Prefecture’s reconstruction efforts. The Bank was nominated by the Minamisanrikucho Council of Social Welfare and was recognized by the Miyagi Prefecture Council of Social Welfare as a “blue chip

(Table) Shinsei Bank Group Efforts to Support Areas Affected by the Great East Japan Earthquake: Disaster Relief Volunteer Activities

Fiscal Year	Activity Period	Place of Activity	Activity	
2011	First Program	Jul. 2011	Ishinomaki City, Miyagi	Removal of mud from street gutters, cleaning photos damaged by the tsunami
	Second Program	Oct. 2011	Minamisanrikucho, Miyagi	Removal of debris
	Third Program	Nov. 2011	Minamisanrikucho, Miyagi	Removal of debris, assisting with work in the fishing industry
	Fourth Program	Mar. 2012	Minamisanrikucho, Miyagi	Assisting with work in the fishing industry
2012	Fifth Program	Jul. 2012	Minamisanrikucho, Miyagi	Removal of debris, removal of mud from street gutters, organizing a mini-concert
	Sixth Program	Oct. 2012	Minamisanrikucho, Miyagi	Removal of mud from street gutters
	Seventh Program	Nov. 2012	Karakuwa Peninsula, Kesenuma City, Miyagi	Oyster farming at Karakuwa Peninsula
Nov. 2012		Kamaishi City, Iwate	Clean-up of Katakishi Seashore of Otsuchi Bay	
2013	Eighth Program	Jul. 2013	Minamisanrikucho, Miyagi	Support for "Fukkou-ichi Shizugawa Bay Summer Festival," agricultural land preparation
	Ninth Program	Dec. 2013	Higashimatsushima, Miyagi	Hosting of Christmas concert for people living in temporary housing

company of merit" that has made significant contributions in this area. From July 2011, Shinsei Bank has conducted a total of nine volunteer activities in the disaster affected areas, and a total of 268 Shinsei Bank Group employees participated in these activities. Of these, six activities were conducted in the Minamisanrikucho region of Miyagi Prefecture and were activities that supported the immediate needs of the disaster affected areas, such as drain clearing and debris removal, aquaculture support work, holding of mini concerts at temporary housing facilities, and summer festival support activities. In this award, the Bank was recognized for its continuation of such support activities. Shinsei Bank considers such support activities of regions affected by the Great East Japan Earthquake to be one of the priority areas of its Corporate Philanthropic Initiatives, and the Bank will continue to proactively engage in activities that respond to the needs of these regions.

### Volunteer Activities in Disaster Affected Areas

In fiscal year 2013, Shinsei Bank organized two disaster relief volunteer programs and employees from across the Shinsei Bank Group took part in volunteer activities in the Tohoku region of Japan to help support the areas affected by the Great East Japan Earthquake. In fiscal year 2013, Shinsei Bank supported



"Kato Music World"  
Christmas concert held in Higashimatsushima



Supporting vendor sales at the summer festival in Minamisanrikucho

the operation of the summer festival and helped prepared agricultural land in Minamisanrikucho, and organized a Christmas concert inviting people living in temporary housing in Higashimatsushima, Miyagi Prefecture. Please refer to the table above for our past activities.



Preparing agricultural land in Minamisanrikucho

### Internal Fundraiser to Donate Street Lamps for Fishing Ports

In May 2013, Shinsei Bank organized an internal fundraiser to erect street lighting for the fishing ports located in Minamisanrikucho, Miyagi Prefecture. 138 Shinsei Bank Group employees made donations, raising a total of 1.29 million yen in total (a donation sufficient for the purchase and installation of two LED solar-panel street lamps). Shinsei Bank donated the funds raised to Minamisanrikucho Council of Social Welfare. The two street lamps purchased with the donations from Shinsei Bank were installed at two fishing port sites in the Utatsu area that had the most urgent need for street lighting. Including the donation of the two street lamps, Shinsei Bank donated a total of 7 street lamps to Minamisanrikucho in the past two years by organizing an internal fundraiser to erect street lighting in a temporary housing complex and holding a charity golf event to raise funds to set up street lamps for the fishing ports.

## Contributing to Society: Environment

### Nature Protection Initiatives: Rice Terrace Conservation Volunteer Activity

The "Rice Terrace Conservation Volunteer Activity" organized by Shinsei Financial was held on October 17, 2013 in Kamidani, Kainan-shi, Wakayama Prefecture and on May 20, 2014 in Jyuji, Tookamachi-shi, Niigata Prefecture where 21 Group employees volunteered in October and 31 Group employees volunteered in May. As part of the nature protection initiatives of the Shinsei Bank Group, we launched this activity in collaboration with NPO Tanada Network in fiscal year 2011. We have so far run activities in three places (Wakayama Prefecture, Nara Prefecture, and Niigata Prefecture). For the activity held in October 2013, volunteers mowed grass to maintain the views of the villages and in May 2014 volunteers removed mud from side ditches and raked fallen leaves.



Employee volunteers removing mud from side ditches

### Fujisawa Beach Cleaning Project

The Fujisawa Beach Cleaning Project organized by Soleil Provence French Language School was held on September 29, 2013 and April 20, 2014, with the participation of Shinsei Bank Group employees and their families. The September event was part of the International Coastal Clean-up Initiative organized by the Ocean Conservancy, a U.S. based organization that works to address the issue of marine debris on a global scale. There were 240 volunteers (including 24 volunteers from the Shinsei Bank Group) and 128 bags of debris were collected that weighed 256 kg. The April event to collect debris in Kugenuma Beach and gather data on marine debris was held to commemorate Earth Day—the day in which people are encouraged to act with thought to our environment and the earth. There were 350 volunteers for the April Project (including 21 volunteers from the Shinsei Bank Group), where 138 bags of debris were collected that weighed approximately 276 kg.



Group photo with "Fujisawa Beach Cleaning Project" participants

## Our Commitment to Environmental Sustainability

### Measures to Conserve Electricity and Reduce our Impact on the Environment

At Shinsei Bank, we continue to work hard to conserve electricity in our head office through initiatives such as reducing lighting in communal spaces and using motion sensors to control lighting in conference and reception rooms. In preparation for the summer season when electricity demand increases, Shinsei Bank is implementing additional measures to minimize the use of electricity, such as reducing ceiling lighting in communal spaces in its head office by approximately 75%, adopting "cool biz" attire as the official dress code, optimizing climate control temperature settings and hours of operation, automating lighting output control that responds to the level of natural light, and automating control of the quantity of fresh air depending on indoor CO<sub>2</sub> density. Shinsei Bank is stepping up efforts to reduce the environmental impact of its offices and work style after the relocation of the Shinsei Bank headquarters in January 2011, the Meguro Production Center in February 2012 and Osaka branch in October 2013 to advanced energy-efficient buildings.

### Environmental Impact Data

	Unit	FY2010	FY2011	FY2012	FY2013
CO <sub>2</sub> Emissions	t	9,209	6,687	3,106	3,748
Electricity Usage	kWh	23,411,980	17,475,604	6,159,462	6,658,612
Gas Usage	m <sup>3</sup>	99,194	60,476	112,000	114,000
Clean Water Usage	t	56,984	32,764	1,290	1,481

Notes: (1) CO<sub>2</sub> emissions data have been calculated according to "Guidelines for Calculating Specified Greenhouse Gas Emission Volume under the Total Emission Reduction Obligations and the Emission Trading Framework"

(2) Data are for all Shinsei Bank headquarter (do not include affiliated companies) and Meguro Production Center.

(3) After the relocation of the Shinsei Bank headquarters and the Meguro Production Center, Shinsei Bank became a building tenant, therefore, clean water usage data does not include clean water usage for shared space.

### Amount of Waste Generated / Recycling Rate

	Unit	FY2010	FY2011	FY2012	FY2013
Waste Generated	t	516	273	184	238
Amount Recycled	t	309	181	111	148
Amount of Waste Disposal	t	208	92	73	90
Recycling Rate	%	59.8%	66.4%	60.4%	62.1%

Notes: (1) Waste generation data have been calculated according to data provided by building maintenance companies.

(2) Data are for all Shinsei Bank headquarter (do not include affiliated companies) and Meguro Production Center.