RISK MANAGEMENT

Shinsei Bank has identified risk management as one of its most important management issues, and the Bank has 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 conducted by units that are completely independent of other units of the Bank. From fiscal year 2016, in line with the termination of the Bank's former group system, the system of checks and balances is being further strengthened by the separation of the former Risk Management Group into (i) credit analysis units that are responsible for conducting credit checks and management as part of the system of checks and balances on the Bank's sales staff, and (ii) a unit responsible for overall oversight of risk management including the establishment of a system for managing the various risks, monitoring of credit management, and the measurement and analysis of credit, market, and other risks.

The credit analysis units thoroughly discusses risk management policies for products and sectors as well as policies for transactions with individual companies in order to make decisions in an appropriate and speedy manner. The overall risk oversight units tasked with honing our portfolio-specific risk management methods and frameworks and further developing the Bank's risk culture. Together, the two new units will continue to strengthen the Bank's risk management.

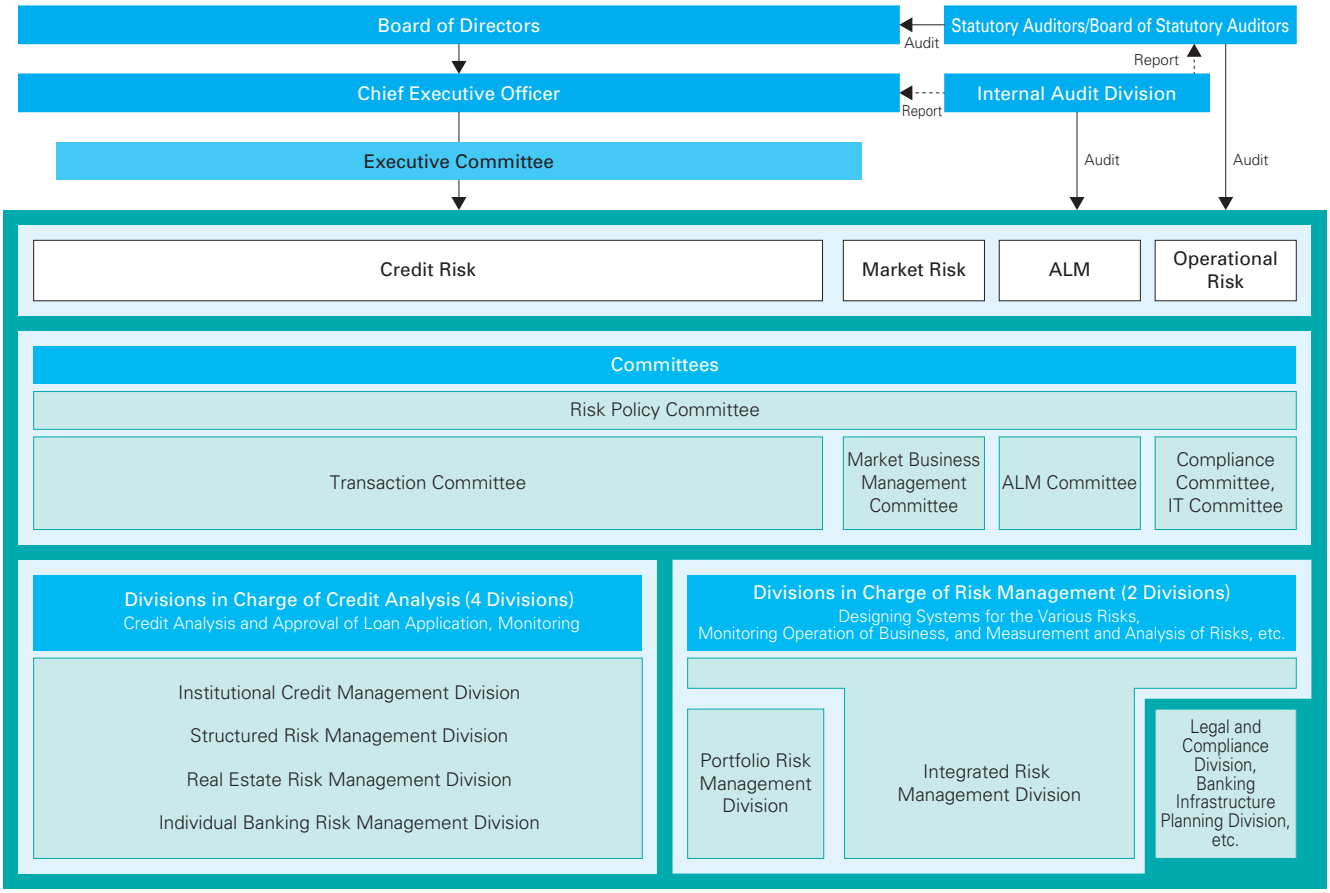
Fiscal Year 2015 Overview

Domestic and Overseas Economic Trends

In fiscal year 2015, Japanese stocks continued the rally with support from Abenomics started in the latter half of fiscal year 2012 and monetary easing by the Bank of Japan. The Nikkei Stock Average reached a 15-year high of ¥20,952 in June 2015. Thereafter, however, the rally lost momentum and in February 2016 the Nikkei Stock Average temporarily fell below ¥15,000 for the first time in a year and four months as market concerns that the U.S. Fed was growing reluctant to make an additional rate hike led to a stronger yen. During this period, a slumping Chinese stock market, volatile oil prices and forex rates, and the Bank of Japan's introduction of negative interest rates led to intense price movements.

The Japanese economy saw real GDP growth on a seasonally adjusted basis fall into negative territory in the April–June and October–December quarters of 2015, as private-sector consumption remained weak in the aftermath of the April 2014 consumption tax hike. On a more positive note, however, the number of corporate bankruptcies remained

Risk Management System Chart (as of June 22, 2016)



in a downward trend, while vacancy rates, average rents, and prices in the Tokyo office leasing market remained on the upward trends begun in the previous year.

Shinsei Bank's Portfolio

Given the conditions noted above, the Bank's asset portfolio again saw little negative impact from deterioration in the creditworthiness of corporate customers. We also continued to improve the quality of our real estate loan portfolio, centered on nonrecourse loans, by reducing our exposure to high-risk assets through asset replacement. As a result, we successfully concluded the three-year period of the Second MTMP with a nonperforming loan (NPL) ratio well below the plan's target. The consumer finance business had seen decrease in its loan balance contract in recent years owing to factors including changes in the regulatory environment and external challenges such as a fiercer competitive environment. However, we have succeed in putting the loan balance back on the growth path, thanks to a revised credit strategy and strategic efforts to add higher quality assets to the loan portfolio. Additionally, losses on interest repayment have peaked out and declined to a level easily covered by the net income at our nonbank subsidiaries.

Regarding the overall portfolio, capital buffers are expanding thanks to risk reductions through the aforementioned credit cost reductions and asset quality improvements, as well as the steady accumulation of capital through an increase in revenues. As a result, we finished the Second MTMP with a common equity Tier 1 ratio above plan, thereby increasing management stability.

Risk Factors and Future Policy

From fiscal year 2016, in accordance with the strategies laid out in the new Third MTMP, the Bank will be pursuing a more selectively concentrated business portfolio by segregating businesses into growth areas, stable revenue areas, strategic initiative areas, and curtailment areas. As such, we will be aggressively developing the businesses designated as growth areas, especially consumer finance and structured finance. Although the external environment has been improving, we must continue to monitor the potential downside risk to the global economy and the impact on financial markets from such factors as the strategy of the U.S. in their coming exit from monetary easing, the slowdown in the Chinese economy, and various geopolitical risks. Risk management operations will remain highly conscious of domestic and overseas environments while using sophisticated stress tests and other means to gain a firm grasp of the risk profile of the Bank's portfolio from various perspectives, and then presenting its view of the Bank's risk tolerance to 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, including developing more sophisticated methods for measuring risk and return, enhancing monitoring functions, 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. To maintain highly profitable and stable operations, a financial institution must make the control of these risks a management priority. For that purpose, the Bank must be able to ascertain that risks are taken in line with Bank-wide policies as well as individual operational policies, remain within appropriate limits, and are adequately controlled by the units that take on the risks.

To strengthen the required monitory functions and further develop the risk management framework, the Bank established two new risk management units on April 1, 2016. The Integrated Risk Management Division is tasked with the measurement and analysis of credit, market and other risks as well the examination and appraisal of fair value. The Portfolio Risk Management Division is tasked with strengthening the Bank's system of checks and balances related to credit risk and planning functions related to the internal credit rating system, credit authority, and allowance for depreciation.

Achieving Comprehensive Risk Management

Shinsei Bank has established its "Risk Management Policy" as the fundamental policy to be used to recognize risks and implement controls based upon an understanding of the risks faced by the Bank. Due to a fiercely competitive business environment and evolving regulatory and market environments, Shinsei Bank faces an increasingly complex assortment of risks. The Risk Management Policy therefore sets forth fundamental risk management principles including a risk culture and we facilitates proper judgment on the nature of risks the Bank can undertake.

Comprehensive risk management requires not only detailed monitoring of each risk involved in individual operations, but also an understanding of bank-wide risks and quantification of these risks to the greatest extent possible based on analysis and insights into the bank's markets and customers. The Bank defines "Risk Capital," which is an integrated control approach, and quantifies each risk category, namely credit risk, market risk, interest rate risk, and 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 the status of the capital attributable to each business line. The Bank's current financial strength enables it to undertake a considerable amount of risk. Nonetheless, we remain conscious of the need to constantly and effectively conduct comprehensive risk management and consistently strive to improve our control methods.

It should be noted that at Shinsei Bank's 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." By constantly improving their systems and functions in response to changes in the operating environment, these committees are able to function effectively as committees responsible for making important risk judgments. The Risk Policy Committee, whose members include the top management of the Bank such as the CEO, CFO, and CRO, by concurrently reviewing the Bank's risk management policy and business strategy, fulfills the Crucial role of setting and adjusting the appropriate and optimal level of risk taking.

Categories of Risk Capital

Risk Capital	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.
Credit Risk	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.
Market Risk	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.
Interest Rate Risk	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.
Operational Risk	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.
Total Risk Capital	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 assessments are based upon joint consultation by business promotion units and the credit analysis team, which is independent from the business promotion units. To ensure a transparent and rigorous evaluation process, the credit analysis team has veto rights, which results in the establishment of an effective system of checks and balances on the business promotion units. The approval of each transaction is strictly managed, with each transaction also 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 other means, and by determining measures for the treatment of 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 consistency of 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 the ratings of external rating institutions. Obligor ratings are determined at the "Credit Rating Review Committee" 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 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 also are applied in the analysis of large leasing receivables at Showa Leasing.

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. Diversification is accomplished 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 Risk Management Division and the Integrated Risk Management Division jointly monitor the status of segment-specific risk diversification, including industry classifications, ratings, products, and regions. Their analysis is conducted from the product-specific perspectives based on each risk profile, and the results are reported to senior management and the CRO on 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 an obligor's creditworthiness. Expected loss amounts derived from the probability of default and collection ratios, an assumption based upon 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 has established a system for the accurate, timely, and comprehensive measurement of risk capital. This system automatically measures credit risk based on creditworthiness, transaction types, and other relevant data. Through use of this system and the analysis of risk capital changes and profitability against risks, we are working to ensure sound portfolio management and resource allocation. 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. During the Second MTMP, we strengthened the framework for our obligor group concentration guidelines by adopting more appropriate procedures and as a result achieved more optimal portfolio allocation.

With the importance of risk diversification growing as financial markets become more globalized, we will continue our efforts to create ever more effective credit concentration management frameworks.

Market-Related Transaction Credit Risks

Credit risks of counterparties from market transactions, such as derivative transactions, are managed based on their fair value and estimations of future value fluctuations. Assumptions about future value fluctuations cover a wide range of instruments, including exotic derivatives, and take into account netting and collateral impact based on ISDA Credit Support Annex (CSA) documents, etc. Because the amount of risk associated with a market transaction changes according to fluctuations in market rates after the transaction is traded, Shinsei Bank manages transactions based on forecasts of future value fluctuations.

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 appropriately write offs or sets aside sufficient reserves.

Shinsei Bank has put in place a self-assessment system which establishes the Credit Assessment Division, which is independent from the business promotion and credit analysis sections, as the unit responsible for the final self-assessment of the Bank's 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 in response 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 approach 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 Business Risk Management

Risk management for the consumer finance business includes all operations from loan application approvals (entry-point credit) to management of risks during the contract period (developing credit) and, if needed, debt collection operations. The Individual Banking Risk Management Division, which is responsible for risk management for products targeted at individuals, including the consumer finance business, holds a monthly risk performance review with Shinsei Bank's other risk-related divisions in order to share information and promote a shared awareness of risks. The division also provides advice and operational support on risk management policies and strategies to related divisions in Shinsei Bank and at our subsidiaries. Risk-related divisions at Group subsidiaries carry out appropriate risk control through a credit operation process that incorporates the use of credit-related databases of customer attributes stemming from the nature of their businesses, credit information, and transaction history with a scoring model that generates initial credit scores, developing credit scores, and collection strategy scores, etc., based upon statistical methodologies. Additionally, in order to maintain the accuracy of this scoring model in line with the level achieved when it was first developed, model performance is constantly monitored and the score cards are updated as needed. Credit costs are crucial to the management of profitability in the consumer finance business. For that reason, we implement monitoring and analyze various leading indicators and verification indicators at the portfolio level to ensure that we recognize any deteriorations in the portfolio's overall asset quality at an early stage and make the necessary action to improve its profitability.

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 Integrated 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 related to assets and liabilities in the banking book, are managed in accordance with the "Asset Liability Management Policy for Banking Book," and the ALM Committee determines total market risk and loss limits. The Integrated Risk Management Division then monitors compliance with these limits on a daily basis and reviews the status of profits and losses and the risk management measures 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. In addition, we implement multi-faceted risk management using interest rate sensitivities.

The Bank's VaR model uses a 99% confidence level, a 10 day holding period and an observation period of 250 days (See the following table).

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 the previous fiscal year reveals that there were no days in which actual losses exceeded VaR on a consolidated basis. Additionally, we conduct stress tests on a weekly basis and report the findings to senior management at the Market Business Management Committee meetings, etc.

Interest Rate Risk in the Banking Book

The interest risk in the banking book is managed through interest rate sensitivities, etc. To measure interest rate risk, grid point sensitivity (GPS) for each 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 caused by interest rate fluctuations during 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.

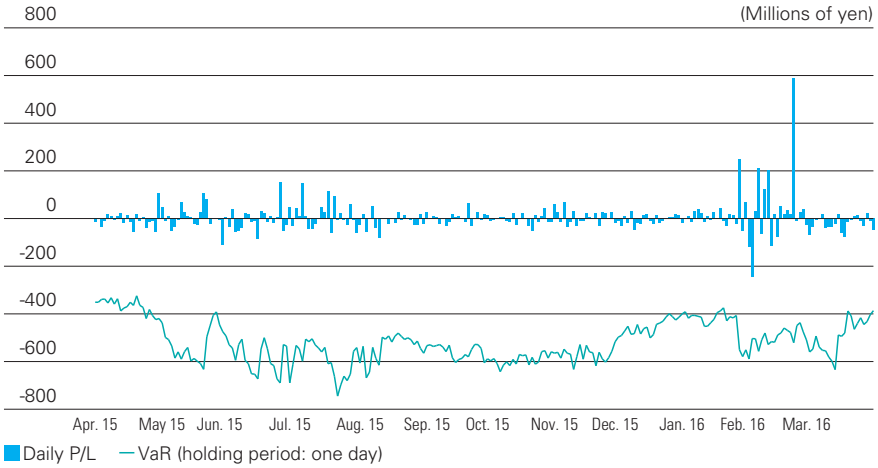
VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2014 and 2015

		Millions of yen			
		FY2014		**FY2015**	
		Consolidated	Non-consolidated	**Consolidated**	**Non-consolidated**
FY End VaR		976	594	**1,214**	**788**
FY VaR	Maximum	1,662	1,534	**2,346**	**1,761**
	Average	977	789	**1,626**	**1,128**
	Minimum	468	397	**1,017**	**623**

Stressed VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2015

		Millions of yen	
		FY2015	
		Consolidated	**Non-consolidated**
FY End VaR		**2,587**	**1,916**
FY VaR	Maximum	**5,219**	**4,286**
	Average	**3,859**	**2,975**
	Minimum	**2,393**	**1,694**

VaR and Daily Profit and Loss (Back-Testing) (FY2015, Consolidated basis)



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

Back-testing involves comparing the fixed position virtual losses to estimated VaR to confirm the reliability of the VaR method.

ASSUMPTIONS OF SHINSEI's VaR MODEL

Method: Historical simulation method

Confidence level:	99%
Holding period:	10 days
Observation days:	250 days
Coverage:	Trading account

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 banks for a long term without withdrawal. We model depositors' behaviors by statistically analyzing deposit balance data and estimating maturities by customer segments.

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, based on the interest rate risk volume as of March 31, 2016, the actual outlier rate (whether or not the calculated decrease in economic value of the banking book would be greater than 20% of core capital in the event of an interest rate shock with a range of 2%) is below the outlier criterion.

Change in Economic Value for Applied Interest Rate Shock of 2% in the Banking Book at the End of March 2016

	Billions of yen	
	Consolidated	Nonconsolidated
JPY	¥ (98.1)	¥ (56.2)
USD	(3.1)	(3.1)
Other	(3.3)	(3.3)
Total	¥ (104.6)	¥ (62.7)
Outlier Ratio	12.9%	7.6%

Risk related to marketable credit instruments

Investments in structured bonds, funds, securitized instruments, etc., are generally held until maturity, although some instruments can be traded on the market. Such instruments have a complex risk profile that includes market risk and liquidity risk in addition to credit risk related to the instrument's underlying assets and counterparty risks. The Bank has established a system to ensure appropriate management of these risks, regularly reviews its investment policies in accordance with the investment environment, and establishes appropriate limits on investment amounts. The credit analysis section analyzes instrument structures and issuer credit risk and seeks the Transaction Committee's approval of each transaction. The Integrated Risk Management Division monitors price fluctuation risk, and the Market Business Management Committee and Risk Policy Committee regularly review the risk exposure.

Liquidity Risk Management

"Cash liquidity 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 Division) and the Cash Liquidity Risk Management Unit (Integrated 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 Integrated Risk Management Division.

In order to ensure the ability to implement appropriate measures such as additional fundraising or asset disposals in the event the funding environment sharply deteriorates, we conduct liquidity stress tests 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 funding gap limit or the minimum liquidity reserves, and in such 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 Integrated Risk Management Division. Additionally, the suitability 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. Operational Risk Management 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.

To ensure the comprehensive management of operational risks, the Bank has established an operational risk management policy that determines the definitions of risk and sets forth our basic policy and system for risk management and frameworks for identifying, evaluating, monitoring, reporting and controlling/mitigating risk.

The Integrated Risk Management Division, which is responsible for Group-wide operational risk management, evaluates, analyzes and reports on overall operational risks.

Additionally, specialized 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 Integrated Risk Management Division and these specialized 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. Meanwhile 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 owing to the failure of executives' or employees' to accurately perform clerical work, their committing errors or misconduct." Shinsei Bank has expanded its retail banking and consumer finance businesses and developed our institutional banking business. We therefore understand that appropriate administrative and systems risk management is crucial to our ability to offer reliable services to our customers.

In accordance with its "Operations Guidelines" and other company regulations, Shinsei Bank is constantly enhancing its administrative management system with the goal of raising operating efficiency and standards in order to support the sustained and stable supply of services to customers. These efforts include the holding of training seminars, the optimization of administrative flows, the provision of operational guidance, and the reviewing of the expressions targeted at clarifying procedural content. Specific risk management measures include the preparation of a system of autonomous checks at the business line level by the outlet self-inspections and the creation of a database documenting past errors. The Bank expects such thorough analysis of the reasons for errors will help to avoid recurrences in the future. Indeed, the Bank has been able to minimize the recurrence of errors by simplifying and automating many office tasks and procedures. The Bank has identified the following three factors as crucial to the development and operation of its information systems: security/reliability, flexibility, and scalability. In fiscal year 2015, we proactively implemented the system of regularly scheduled reviews of system risks that was started in fiscal year 2013 in order to maintain and increase the stability and reliability of our information systems. As a result, we successfully improved the quality of our systems development and the operating capabilities to prevent system failures and ensure rapid recoveries when problems do occur. In addition, we made steady progress in constructing our next-generation core banking system related to our key operations with a view to bringing it on line in the near future. We also began to check system risk at main Group subsidiaries during fiscal year 2015.

Going forward, we will continue our efforts to strengthen and maintain safe, secure, and reliable systems, whilst also ensuring they have the flexibility required to provide customers with the new products and services that meet their constantly changing needs.

Furthermore, in response to the cyber security issues that have become a serious threat to our society, Shinsei Bank is taking appropriate measures based on the most recent technologies to protect the personal information and assets of its customers.