

CORPORATE GOVERNANCE

In its efforts to enhance corporate governance, Shinsei Bank has implemented a system of prompt decision-making, as well as transparent and objective management, since its new start in 2000. In order to achieve this, we have clearly separated the roles and responsibilities between the Board of Directors and management. While the functions of basic policy decision-making for long-term management strategy and business execution oversight are overseen by the Board of Directors, daily business operations are under the control of management. To ensure vigorous corporate governance, Shinsei Bank adopted a “Company with Committees” (*iinkai-setchi-gaisha*) board model, effective as of June 2004.

Shinsei Bank has adopted the following specific approaches to enhance corporate governance.

Committees Board Model/Internal Control

Company with Committees

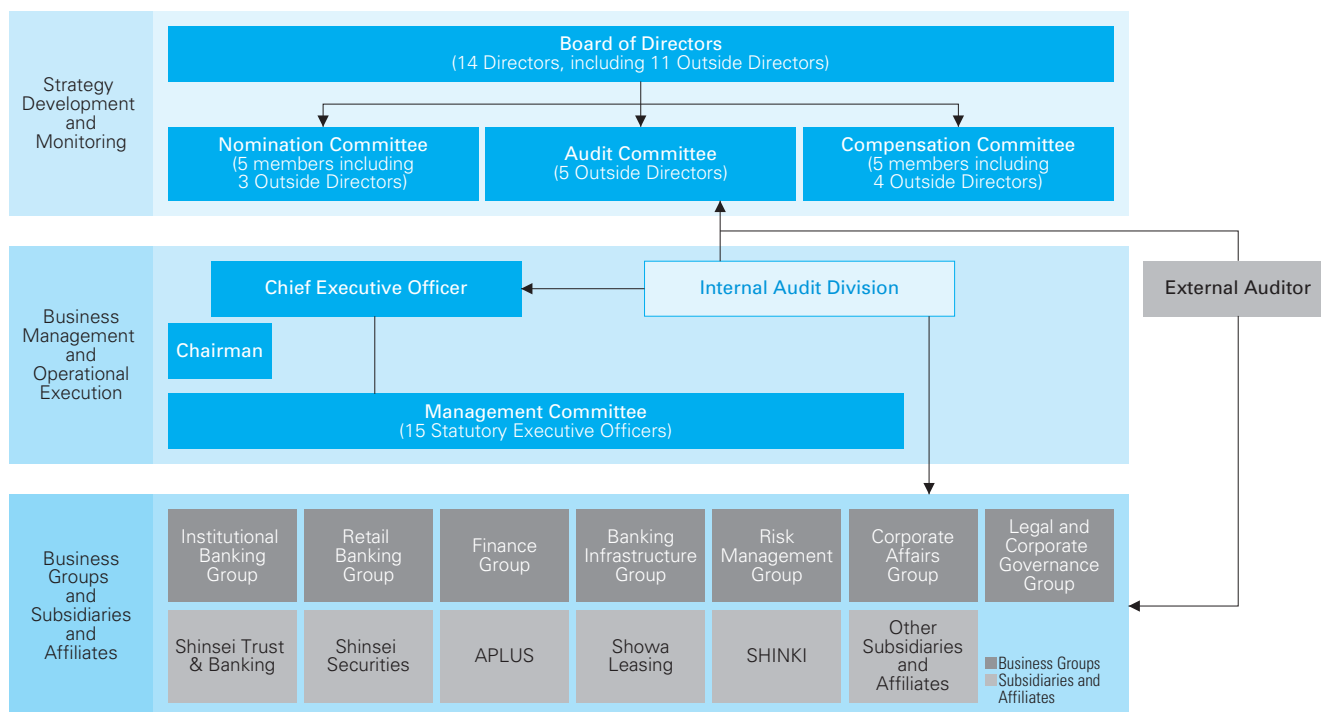
In order to ensure a system that enables corporate governance to function more effectively, the Bank adopted a “Company with Committees” (*iinkai-setchi-gaisha*) board model as set out in the Corporation Act. As a Company with Committees, daily operational functions are delegated to management (statutory executive officers (*shikkouyaku*)), while the Board of Directors prepares mid- and long-term basic policies and supervises business execution. In addition, we established Nomination, Audit and Compensation Committees, which report to the Board of Directors pursuant to the Corporation Act. This system enables the Bank to ensure transparency, independence and interactive

checking in its basic management structure. Delegating a wide scope of business execution authority to statutory executive officers has ensured prompt decision-making while also strengthening the Board of Directors’ business monitoring function. We believe that this board model best serves the interests of our stakeholders.

Board of Directors

The Board of Directors is responsible for determining long-term management strategy, ensuring that management is working to maximize shareholder returns and evaluating and supervising management decisions. The Board is composed of two directors who also hold positions as statutory executive officers and 12 directors (including 11 outside directors) with extensive

Corporate Governance System Chart (as of June 1, 2008)



experience in business, financial, academic and legal fields both in Japan and abroad. These 12 directors provide independent and objective opinions to management at the Board of Directors meetings and play an important role in corporate governance. Established under the Board of Directors, the following three statutory committees —composed primarily of outside directors— act to improve the soundness, transparency and appropriateness of management. The Nomination Committee identifies and reviews Director candidates. The Audit Committee monitors management’s business execution. The Compensation Committee determines remuneration for directors and statutory executive officers.

Statutory Executive Officers/ Management Committee and Other Committees

The statutory executive officers, appointed and monitored by the Board of Directors, are responsible for running the Bank and implementing its business strategy based on the policies set forth by the Board of Directors. They include experienced finance and management specialists drawn from leading global financial services companies who review and discuss the key issues addressed by the Management Committee, which serves as the decision making body for the CEO. We are committed to attracting, partnering with and retaining top financial professionals, regardless of nationality or gender. As of June 1, 2008, four out of the 15 statutory executive officers were expatriates.

With the Bank expanding specialized offerings, we have established Group-wide committees to enable a swift and appropriate response. Shinsei Bank’s primary committees include ALM, Compliance, Risk/Investment, Credit, New Business/Product, SME Loan, IT, Corporate Philanthropy, Basel II Steering and J-SOX Program Steering committees, and are chaired by the CEO, statutory executive officers or Group heads.

Transactions with Directors and Major Shareholders

In January 2008, a group of investors led by J.C. Flowers & Co. LLC and affiliates completed a tender offer for Shinsei Bank. In February 2008, the Bank increased its capital through a third-party allotment to the same group of investors. As a result, this group of investors, with which Mr. Flowers is influential became Shinsei Bank’s largest shareholder. In accordance with the Bank Rule, the Bank has established a process for obtaining approval from the Board of Directors for transactions with parties related to the Bank that may involve a conflict of interest. Furthermore, in order to ensure the Bank’s independence from major shareholders, as

required by the Banking Law, the Bank established a new Bank Rule requiring the Board of Directors to judge transactions with major shareholders in accordance with a set of guidelines. The Bank has prepared and implemented this system to protect the interests of stakeholders based on objective judgment under the new shareholder structure.

Ensuring Internal Control

To enable appropriate corporate governance, it is necessary to prepare a system that ensures proper governance of internal audit and legal/compliance functions and a structure for monitoring business execution and decision-making centered on the Board of Directors. Putting in place the internal control system required by the Corporation Act, and ensuring internal control so that financial statements comply with the accuracy requirements of the Financial Instruments and Exchange Law are also important elements of corporate governance. Even though internal control is the responsibility of management, the overall internal control system takes measures to ensure specific internal control in each of the groups that carry out actual operations. Specifically, our “Internal Control Rules” and other related rules established by the Board of Directors stipulate that statutory executive officers are to establish and operate internal control systems for the operations they manage, and that all statutory executive officers and employees are obliged to observe these systems. Furthermore, we have enhanced the effectiveness of the internal control system by holding internal control meetings in order to ensure that adjustments are made between groups and that balanced and advanced systems are implemented uniformly throughout the Bank as a whole.

We specify in the Charter of Ethics and Internal Control Rules that we will take a firm and resolute stand against anti-social organizations.

Legal and Compliance Activities

The Compliance Division and Legal Division form a part of the Legal and Corporate Governance Group headed by the General Counsel. The two Divisions work closely together and play a central role in our corporate governance.

Compliance Systems Organization

We have, with a strong belief that thorough compliance must be one of the most important management missions, established a robust compliance system to help enable sound and proper

management that earns public trust. The Compliance Committee, Compliance Division and individual compliance managers within various business and support units constitute the main elements of our compliance organization. The Compliance Committee, with our CEO as its chairman, examines and discusses important compliance matters. The Compliance Division plans various measures concerning compliance risk and implements these measures through central management. Every division, department or branch in the Bank also has a compliance manager to act as the point of contact for compliance-related matters. These managers' duties also include periodical reporting to the Compliance Division on compliance-related issues. This enables the Compliance Division to conduct Bank-wide monitoring of how various measures are being implemented as well as to provide centralized compliance guidance.

Compliance Activities

We implement an annual compliance program that outlines our compliance-related plans, including compliance enhancement activities such as creating and updating internal rules. We place special focus on training programs for compliance awareness, including periodic training on important subjects, and are working to increase the effectiveness of this training by introducing active e-learning courses alongside classroom training.

Legal Supervision

Banks are required to comply with a wide variety of laws and regulations in their day-to-day business operations. Violations may severely damage not only our credibility and reputation as a financial institution, but that of the overall banking system itself. In terms of individual transactions, we may face unexpected claims for damages if our contracts are unreasonable or we act inadvisably during the process of negotiation leading up to contract execution. Prevention and proper management of these legal risks are now the most important mandate for a bank's business conduct. The Legal Division is in charge of legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision. The Legal Division, working with the Compliance Division, also supports our overall compliance systems.

Internal Audit

The importance of risk management is becoming increasingly acute with the increased diversification and complexity of risks relating to the Bank's operations. The role of the internal audit is

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 and also to the Audit Committee of the Board of Directors. IAD supports the CEO in his responsibility for controlling business execution, and in particular for establishing an effective system of internal controls. 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. IAD also maintains a close relationship with the Audit Committee and provides them with internal audit-related information.

IAD is independent from all the organizations subject to internal audits, and from day-to-day operational activities and control processes including regular preventive and detective controls.

IAD adopts a risk-based audit approach and conducts a comprehensive risk assessment based on macro-risk assessment—to capture high-level risks across the Bank—and micro-risk assessment to assess the risks inherent in each business or process audited. IAD prioritizes the allocation of audit resources to businesses or processes with higher risk profiles.

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

Comprising the Business Audit Team, the IT Audit Team and the Quality Control and Planning Team, IAD takes the initiative in developing our internal auditors' expertise, and in particular, strongly encourages them to obtain professional certifications such as Certified Internal Auditor and Certified Information Systems Auditor. IAD has also been enhancing its infrastructure in addition to developing new audit methodologies.

An external consulting firm conducts a quality review on IAD's internal audit activities in order to objectively identify opportunities for improvement. IAD also involves Group subsidiaries' internal audit divisions in its drive for continuous improvement.