

Strategies Supporting Corporate Value

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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*). Through this corporate governance framework the Bank has concentrated the authority and responsibility for the execution of the Bank’s business in the Board of Directors, the highest managerial decision-making body within the Bank, and through the tasking of auditing functions to the Bank’s auditors and Audit & Supervisory Board, which is independent from the Board of Directors as well as the execution of business, the Bank seeks to ensure a corporate governance framework which facilitates appropriate managerial decision-making and business execution while also ensuring a rigorous system of organizational checks and balances.

Additionally, the Bank is in full agreement with the spirit of the “Corporate Governance Code” implemented in June 2015, which applies to all companies listed on Japan’s stock exchanges, and through the pertinent implementation of the Code in order to realize effective corporate governance, the Bank seeks to continue strengthening its corporate governance to in order achieve sustainable growth and enhance its corporate value over the mid to long term.

Corporate Governance of Shinsei Bank

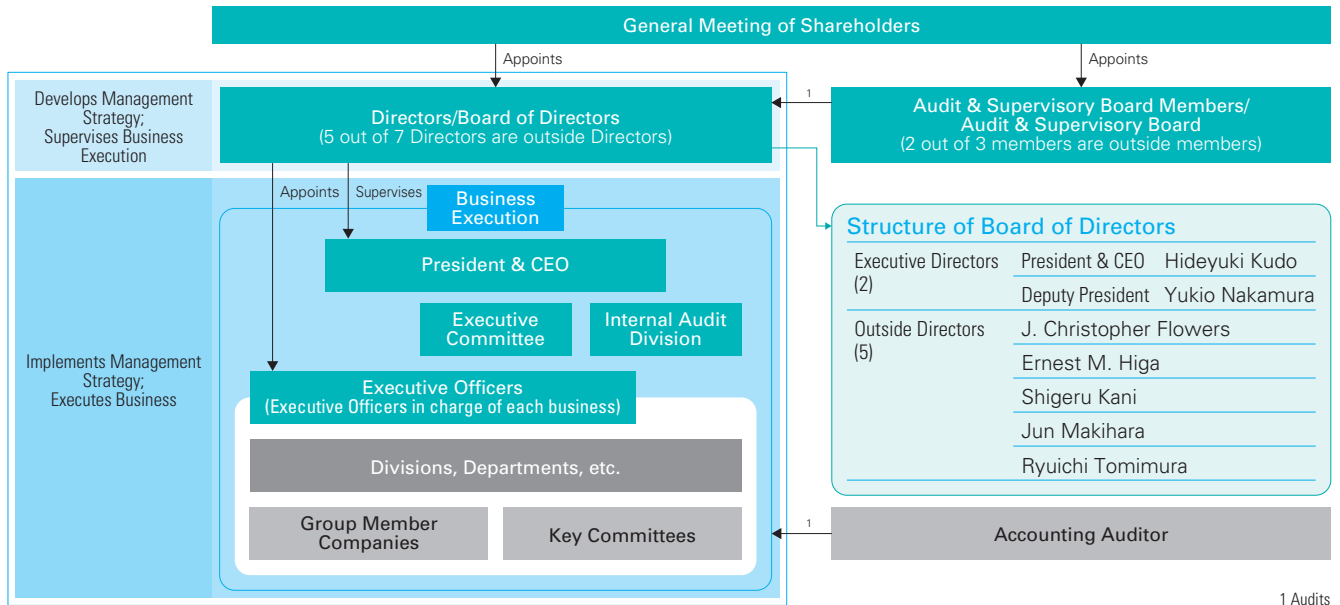
Shinsei Bank’s Board of Directors—the Bank’s decision-making body for its business management—consists of seven Directors—two full time directors who are directly responsible for the execution of the Bank’s business and five outside Directors who primarily supervise the Bank’s business execution. This combination of internal and external Directors ensures the transparency and objectivity of the Bank’s management and fosters appropriate decision-making regarding the Bank’s operations. Additionally, the Bank employs an Executive Officer system organized around the two Executive Directors in order to facilitate flexibility in the execution of the Bank’s day to day business operations. While the Bank had previously created its organizational structure in accordance with a Group based system, the Bank has retired the system effective April 1, 2016 in order to foster greater collaboration among different sections within the Shinsei Bank Group and to improve organizational mobility. The Bank now designates “Divisions” as the most basic business unit and has introduced the “Executive Officer in charge” system whereby the Board of Directors assigns the responsibilities of each business area to Executive Officers. Additionally, Executive Officers with extensive experience in relevant business areas are appointed as Heads of Executive Officers in charge. Through the execution of the respective business function responsibilities of each Executive Office in charge of the Bank expects to realize an efficient management structure. Furthermore, through the auditing of the Bank’s Board of Directors and the Bank’s business execution by the Bank’s auditors and Audit & Supervisory Board, which are independent from the Board of Directors, the Bank seeks to create a strict corporate governance framework which will encourage the adoption of optimal and balanced management policies, through which the Bank seeks to enhance its corporate value.

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

Since its inception as Shinsei Bank in 2000, the management of the Bank has consistently engaged in management which emphasizes the supervisory functions of outside Directors in order to achieve transparency and objectivity management as it seeks to achieve sustainable growth and enhance the Bank’s corporate value over the mid to long term. In accordance with its corporate governance framework as a “Company with an Audit & Supervisory Board,” the Bank has a Board of Directors structure in which outside Directors outnumber internal Directors, with two internal Directors responsible for daily business execution and five outside Directors. The current outside Directors are a well-balanced group of executives that bring to the Bank their extensive experience and expertise in a range of fields strongly related to the Bank’s business, including domestic and overseas financial businesses, consumer-related businesses and the fields of risk management and information systems. Drawing upon their experience and expertise, the Bank’s outside Directors provide independent and objective perspectives regarding the Bank’s management and operations and fulfil vital roles as both supervisors and advisors to the Executive Directors overseeing the business execution of the Bank.

The Board of Directors holds six scheduled meetings a year, with extraordinary meetings convened as necessary. At these meetings, all Board members express their opinions freely and engage in robust discussions. The outside Directors articulate their views regarding the management of the Bank, drawing upon their diverse backgrounds to offer a broader range of perspectives on topics being discussed and perform supervisory roles regarding management issues such as whether optimum strategies are being adopted, whether the risk-return balance

Corporate Governance Structure Chart (as of June 23, 2016)



is appropriate and whether a particular course of action will contribute to the growth of the Bank's businesses. By determining policy through such discussions the Bank seeks to achieve sustainable growth and enhancement of the Bank's corporate value over the mid to long-term, protection of the interests of all stakeholders including our shareholders and customers as well as maintain appropriate business promotion frameworks. Furthermore, efforts to improve the effectiveness of the Board of Directors by enabling the Board members to focus on discussing key management issues and important matters which affect the mid- to long-term sustainable growth of Shinsei Bank.

The Outside Directors and Auditors of Shinsei Bank are not involved in the day to day execution of the Bank's business and in order to ensure the sharing of their independent viewpoints as well as to share detailed information regarding the execution of the Bank's business with each of the outside officers, the Bank holds regular meetings attended only by the outside officers. Through these meetings each outside Director and Auditor is able to more effectively fulfill their role as supervisors, advisors and auditors to the Executive Directors responsible for the Shinsei Bank Group's day to day operations.

Regarding transactions with parties such as Directors and major shareholders, the Bank conducts checks to avoid conflicts of interest and to maintain the fairness of transactions and, when necessary, the Bank utilizes established frameworks for the deliberation of such transactions by the Board of Directors meetings and conducts any necessary follow-ups.

Reasons for Nomination of Outside Directors

Name	Reason for Nomination
Outside Director J. Christopher Flowers	Reflect in the Bank's management his experience and expertise in the financial service industry as a whole
Outside Director Ernest M. Higa¹	Reflect in the Bank's management his experience and deep insight of business for consumers
Outside Director Shigeru Kani¹	Reflect in the Bank's management his expertise in the risk management area and his extensive knowledge concerning banking operations
Outside Director Jun Makihara¹	Reflect in the Bank's management his extensive knowledge of finance and his domestic and international experience
Outside Director Ryuichi Tomimura¹	Reflect in the Bank's management his extensive experience and wide range of knowledge including information systems as a management executive and a consultant.

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

Status of Board of Directors Meetings

Ratio of outside Directors

71%

- Five out of the seven 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.
- Six officers including outside Audit & Supervisory Board Members are reported as independent officers to the Tokyo Stock Exchange (as of June 2016).

Attendance rate

98%

- 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 attendance rate of the Board of Directors meetings held after the Annual General Meeting in the fiscal year 2015 (nine meetings in total).

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 Officer System, Executive Committees and Other Important Committees

Shinsei Bank has adopted the Executive Officer system to ensure the flexible execution of day-to-day business operations. As of June 23, 2016, the Bank's business activities are being overseen by 32 Executive Officers, including the two Executive Directors, appointed by the Board of Directors. Under the direction of the Executive Directors, including the President, Executive Officers tasked with the oversight of individual business areas as well as Heads of Executive Officers in charge, each appointed by the Board of Directors, in accordance with the Bank's "Executive Officer in charge" structure engage in the efficient operation of their respective businesses.

Additionally, the Bank has established the Executive Committee, comprised of Executive Directors and the Heads of Executive Officers in charge, as the decision making body through which the President makes determinations regarding the execution of the Bank's business, enabling swift, efficient operational management. The Executive Committee is convened on a weekly basis in order to deliberate on matters concerning the Bank's business operations, and through these deliberations the alignment of the sections responsible for each business with the Bank's overall management strategy and strategic focus is ensured.

Furthermore, the Bank has established numerous cross-functional committees around the Executive Officers in

charge in order to enable the Bank to appropriately and flexibly respond to issues arising from the increasing specialization and sophistication of the Bank's business.

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, one of whom is an attorney and the other who is a certified public accountant. By applying the expertise from their respective fields of specialization and their knowledge of corporate governance, the Audit & Supervisory Board, which is fully independent from the Board of Directors, engages in appropriate audits of the Board of Directors' management of the Bank's business. In addition, both outside Auditors are experienced as external directors of other companies and by drawing upon their experience are able provide views with greater objectivity from a position of greater independence, resulting in enhanced effectiveness of the Audit & Supervisory Board's auditing activities.

The Audit & Supervisory Board Members, in addition to personally conducting audit activities such as attending key meetings, such as Executive Committee meetings, in addition to Board of Directors meetings, review key documents and as well interview Directors, Executive Officers and accounting auditors, engages with internal control sections such as the Internal Audit Division and utilize staff of the Office of Audit & Supervisory Board to systematically and efficiently audit the state of the business execution of the entire Shinsei Bank Group including the Bank as well as its subsidiaries.

Reasons for Nomination of Audit & Supervisory Board Members

Name	Reason for Nomination
Full-time Audit & Supervisory Board Member Shinya Nagata	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 Michio Shibuya¹	Reflect in the Bank's audit operations his expertise and extensive experience as a certified public accountant, and knowledge regarding corporate governance based on experience as an Audit & Supervisory Board Member at a listed company.
Outside Audit & Supervisory Board Member Kozue Shiga¹	Reflect in the Bank's audit operations her expertise and extensive experience as a lawyer.

¹ Shinsei Bank has submitted to the Tokyo Stock Exchange an independent director registration form identifying Michio Shibuya and Kozue Shiga as independent directors.

Audit & Supervisory Board Members' Activities in FY2015

	Board of Directors meetings	Audit & Supervisory Board meetings
Number of meetings held ²	9 times	12 times
Attendance rate	100%	100%

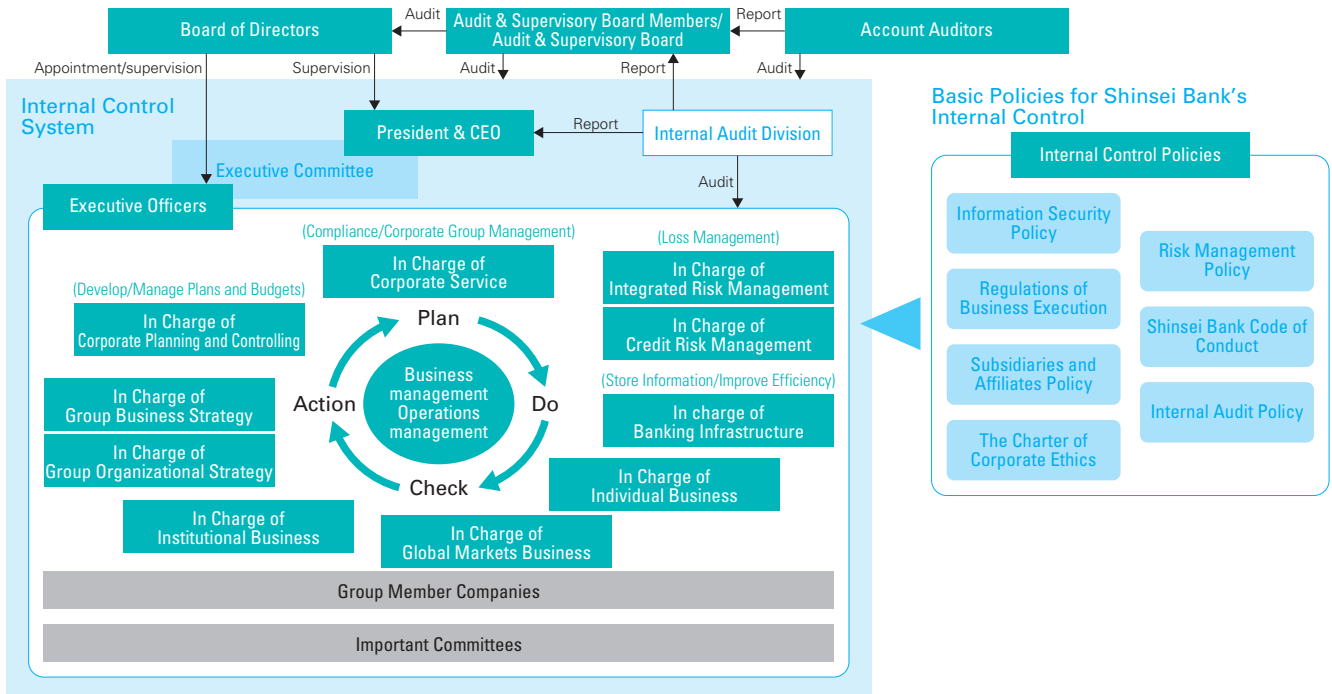
² The total number of meetings held after the Annual General Meeting in fiscal year 2015

Internal Control

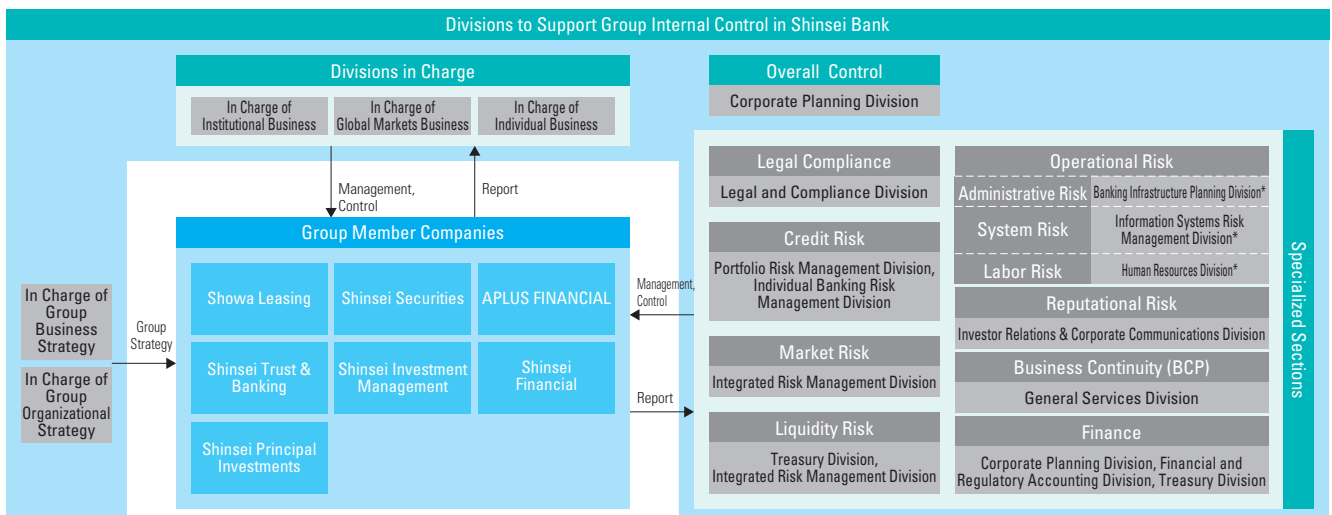
In order for corporate governance to function effectively, in addition to creating business execution oversight and decision-making frameworks around the Board of Directors, the placement of frameworks which facilitate the proper functioning of functions such as internal audits and compliance is also necessary. Additionally, the creation of internal control systems as required by the Corporation Act or internal controls which ensure the accuracy of financial reports as required by the Financial Instruments

and Exchange Act is also a crucial element in a properly functioning corporate governance structure. While management is responsible for ensuring the implementation of such internal controls, the proper function of overall internal controls can be ensured installing detailed internal control frameworks within the Divisions executing business operations. Shinsei Bank's basic policy governing the internal control systems put in place in order to ensure the propriety and efficiency of day to day operations and is defined in the "Internal Control Rules" determined by

Internal Control Framework



Group Internal Control Support Framework



* The specialized sections of each risk area identify and measure the potential risks in cooperation with controlling division (Integrated Risk Management Division).

the Board of Directors, and furthermore, the adequacy of internal control systems is reviewed annually by the Board of Directors. The “Internal Control Rules,” in addition to creating a framework for safeguarding the effectiveness of audits by the Audit & Supervisory Board Members, defines the Subsidiaries and Affiliate Policy, the Information Security Policy, the Risk Management Policy, the Regulations of Business Execution, the Shinsei Bank Code of Conduct and the Internal Audit Policy as the underlying provisions aimed at preserving the propriety, transparency and efficiency of the operations of the entire Shinsei Bank Group including subsidiaries. Furthermore, the Bank has instituted frameworks to ensure the propriety of the operations of the Bank, and as required by the Charter of Corporate Ethics in regard to the prevention of relationships

with antisocial forces, the Bank continues to prevent and terminate any such. It should be noted that in accordance with the May 2015 amendment of the Corporation Act and the concept of “Group integration” introduced in the Bank’s Third Medium-Term Management Plan that started in April 2016 and in its medium- to long-term vision, the Bank has launched initiatives to further enhance the business management and internal control frameworks of the entire Group including its subsidiaries and affiliates. To this end, the Bank has revised its management frameworks, previously centered on Divisions in charge, into a framework that emphasizes collaboration among the Divisions in charge and Specialized Sections. Through such measures, the Bank seeks to maintain frameworks which facilitate an appropriate Group internal control system.

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 ensure sound and proper management that earns the trust of society.

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 Head of Corporate Service 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. 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 “Shinsei Bank Code of Conduct”—a basic policy for the Bank employees, self-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 email, 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 the Legal Department 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.

DIRECTORS AND EXECUTIVES

As of July 1, 2016

BOARD OF DIRECTORS (7)

Hideyuki Kudo	Representative Director, President
Yukio Nakamura	Representative Director, Deputy President
J. Christopher Flowers*	Managing Director and Chief Executive Officer, J.C. Flowers & Co. LLC
Ernest M. Higa*	Chairman President & Chief Executive Officer, Higa Industries Co., Ltd.
Shigeru Kani*	Former Director, Administration Department, The Bank of Japan, Specially Appointed Professor, Yokohama College of Commerce
Jun Makihara*	Director, Monex Group, Inc., Director, Philip Morris International Inc.
Ryuichi Tomimura*	Executive Vice President, Representative Director, SIGMAXYZ Inc.

*Outside Directors

AUDIT & SUPERVISORY BOARD MEMBERS (3)

Shinya Nagata	Audit & Supervisory Board Member
Michio Shibuya*	Certified Public Accountant
Kozue Shiga*	Lawyer

*Outside Audit & Supervisory Board Members

EXECUTIVE OFFICERS (32)

Hideyuki Kudo Representative Director, President and Chief Executive Officer	Masayuki Nankouin Managing Executive Officer, Group Chief Financial Officer, Head of Corporate Planning and Controlling, General Manager, Financial Research Division	Takahisa Komoda Executive Officer, Executive Officer in charge of Institutional Business	Riku Sugie Executive Officer, Executive Officer in charge of Individual Business, Deputy Head of Group Business Strategy, President and CEO, Shinsei Financial Co., Ltd.
Yukio Nakamura Representative Director, Deputy President Executive Officer	Hironobu Satou Managing Executive Officer, Head of Global Markets Business	Tsukasa Makizumi Executive Officer, Executive Officer in charge of Credit Risk Management	Satoshi Suzuki Executive Officer, General Manager, Banking Infrastructure Planning Division
Sanjeev Gupta Senior Managing Executive Officer, Advisor to President and Chief Executive Officer	Tetsuro Shimizu Managing Executive Officer, Head of Individual Business, Deputy Head of Group Business Strategy	Masanori Matsubara Executive Officer, General Manager, Information Systems Development Division I	Kazumi Tanegashima Executive Officer, General Manager, Housing Loan Division
Michiyuki Okano Senior Managing Executive Officer, Group Chief Information Officer, Head of Banking Infrastructure	Masashi Yamashita Managing Executive Officer, Special Assignment (Head of Group Organizational Strategy)	Yuji Matsuura Executive Officer, Executive Officer in charge of Global Markets Business	Masayoshi Tomita Executive Officer, Executive Officer in charge of Individual Business, General Manager, Individual Business Planning Division
Shinichirou Seto Senior Managing Executive Officer, Head of Institutional Business	Shigeto Yanase Managing Executive Officer, Executive Officer in charge of Institutional Business	Nobuyasu Nara Executive Officer, Executive Officer in charge of Institutional Business, General Manager, Osaka Branch	Akira Watanabe Executive Officer, Executive Officer in charge of Individual Business, Representative Director and President and CEO, APLUS FINANCIAL Co., Ltd.
Akira Hirasawa Managing Executive Officer, Head of Corporate Service, Deputy Head of Group Organizational Strategy, General Manager, Human Resources Division, Group Chief Risk Officer, Head of Integrated Risk Management	Naoto Hanada Executive Officer, General Manager, Information Systems Development Division II	Eiji Shibazaki Executive Officer, Executive Officer in charge of Institutional Business	Takahiro Yoshida Executive Officer, General Manager, Treasury Division
Yasunobu Kawazoe Managing Executive Officer, Head of Credit Risk Management	Shouichi Hirano Executive Officer, General Manager, Corporate Planning Division, General Manager, Office of Financing Facilitation Management	Yasufumi Shimada Executive Officer, General Manager, Integrated Risk Management Division	Takashi Yoshikawa Executive Officer, Special Assignment (in charge of Group Business Strategy)
Yoshiaki Kozano Managing Executive Officer, Special Assignment (Head of Group Business Strategy)	Kiyohiro Kiyotani Executive Officer, Executive Officer in charge of Institutional Business, President and CEO, Showa Leasing Co., Ltd.	Toichiro Shiomi Executive Officer, General Manager, Portfolio Risk Management Division	
Nozomi Moue Managing Executive Officer, Executive Officer in charge of Institutional Business			

SENIOR ADVISOR

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

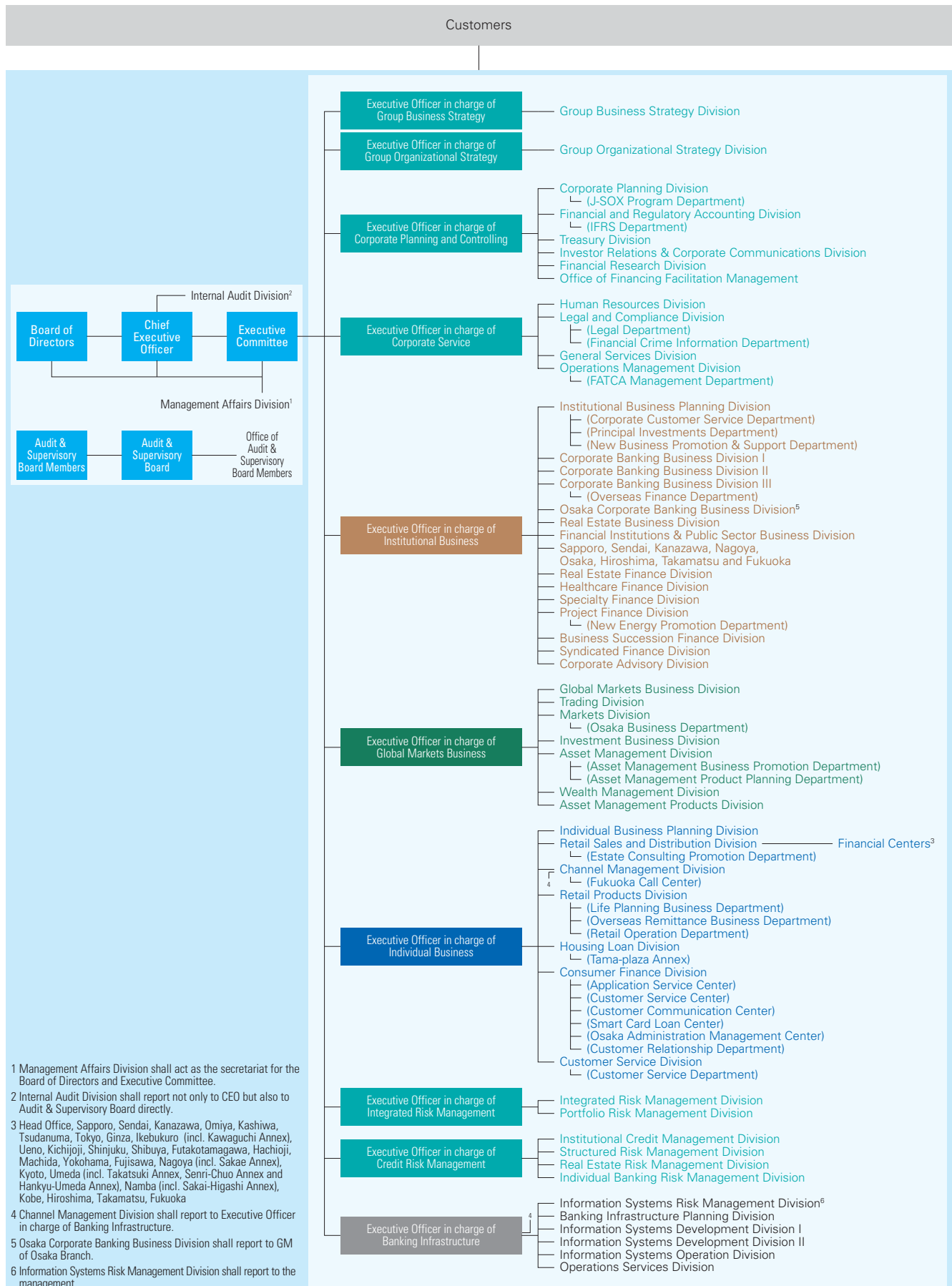
Shigeki Toma

ADVISOR

Yuji Tsushima

ORGANIZATION

As of July 1, 2016



About the Shinsei Bank Group

Strategies for Increasing Corporate Value

Creating Values through Businesses

Strategies Supporting Corporate Value

Organization

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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 discuss 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

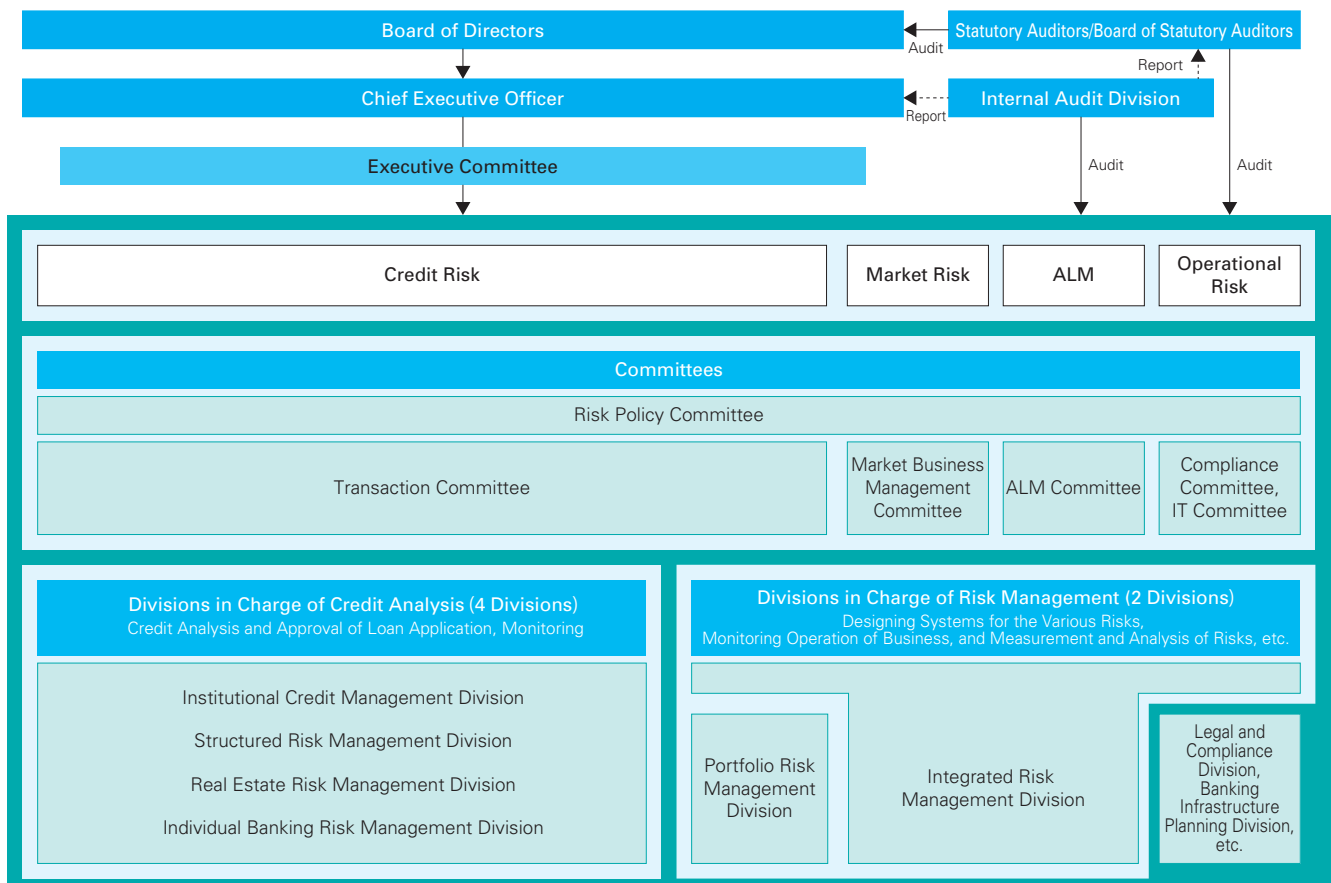
Domestic and Overseas Economic Trends

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 succeeded 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 monitoring 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.

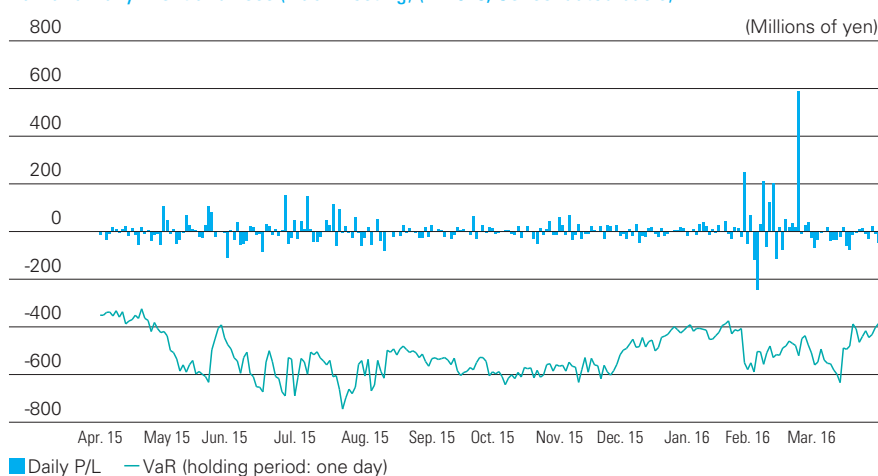
VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2014 and 2015

	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.

ENHANCING CUSTOMER SATISFACTION

Aiming to be a financial group that is truly needed by customers, the Shinsei Bank Group will develop and offer services that go beyond conventional concepts, by connecting the Group's customer bases, financial functions, and services based on the customer's perspective.

Thinking from the Customer's Perspective

Shinsei Bank implements initiatives for improving customer satisfaction on an ongoing basis. Thanks to such efforts, we were ranked number one in the 11th "Retail Banking Survey" jointly conducted by Nikkei, Inc. and Nikkei Research, Inc. targeting banks across Japan¹. This section introduces some of our specific initiatives.

Since fiscal year 2014, our Individual Business has been implementing initiatives such as "Project *Omotenashi*" and introduced the "Hospitality Leader System" to reflect customer feedback in our products and services. The sharing of our customers' feedback gathered through the Shinsei Financial Centers (branches) by all staff members is generating the following three effects:

¹ The survey ranks 117 banks across Japan by comparing the depth of their customer services and financial products based on incognito visits to branches and questionnaires responded by the banks.

1 Customer feedback has been appropriately incorporated into our services

First, customer feedback has been appropriately incorporated into our services. For example, in July 2015, we implemented the remote sign language translation service using tablet devices in our Yokohama Financial Center and Shinjuku Financial Center in order to serve customers with hearing difficulties. Traditionally we had communicated with them in writing using communication boards; however, by implementing the service in response to the feedback we received, we can now provide transactions with simultaneous sign language translation.



Remote sign language translation service

2 Our staff members' skills have improved, allowing them to serve our customers in a flexible manner

Second, our staff members' skills have improved, allowing them to serve our customers in a flexible manner by sharing customer service examples at other Financial Centers, in addition to acting upon customer feedback. Furthermore, we are becoming a self-learning organization where each staff member works to understand the situations of each customer and independently determines the best responses. We are also making minor improvements to our Financial Centers so that our customers can use them comfortably. For example, we installed tables next to our navigation counters so that customers can rest their bags and other articles; and we changed the layout of the sofas in the waiting area.



Shibuya Financial Center

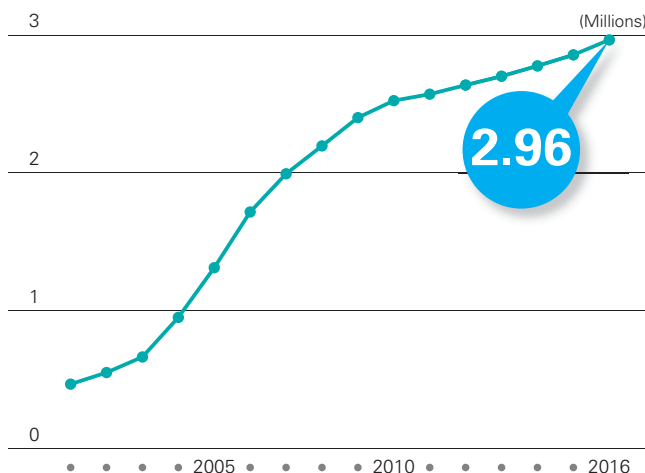
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We can now offer advantages that are available only at Shinsei Bank, with more creative ideas for new products and services

Third, as the mindset of seeking to enhance customer convenience has spread throughout the organization, we can now offer advantages that are available only at Shinsei Bank, with more creative ideas for new products and services. "GAICA," our overseas prepaid card launched in July 2015, has combined the convenience of Shinsei Bank's foreign currency deposits and the settlement infrastructure of APLUS Co., Ltd. (hereinafter, "APLUS"), our group member company, and allows its holders to load foreign currencies to GAICA directly from the foreign currency deposits they may hold in their *PowerFlex* (Shinsei Bank's integrated account) accounts. This product is the result of Shinsei Bank, which operates the deposit business, and APLUS, which operates the funds transfer business, engaged in joint product development despite their industry differences, in order to meet the needs of foreign currency prepaid card users. As a result, the Shinsei Bank Group has created a unique and highly convenient product for its customers.

Thanks to these continuing efforts, Shinsei Bank was ranked number one in the 11th "Retail Banking Survey," achieving high scores in almost in all categories of "over-the-counter services" such as branch environment and services, customer service representative skills, ability to explain products, and telephone answering, as well as "product depth" such as asset management, housing loans, security, customer satisfaction and ATMs. We will continue to improve customer convenience and our hospitality to enhance customer satisfaction.

Number of Retail Accounts



SECURING AND CULTIVATION OF HUMAN RESOURCES

“People” as an Engine for Growth

Under the Third Medium-Term Management Plan being implemented from fiscal year 2016, the Bank is promoting the selective concentration of its businesses in areas of competitive strengths in order to enhance Group profitability and seize growth opportunities. In line with those goals, we are taking action to carve out a distinctive position in the financial industry and create a sustainable business model that leverages the Bank’s unique qualities and strengths.

With the global economy and society undergoing rapid changes, it is essential that we continue to differentiate ourselves even further from our competition in order to remain as an institution that is truly appreciated by our customers, society, and the market. To accomplish this, it is imperative that we be able to attract and develop talented individuals across the entire Group who are able to put themselves in the position of our customers and consistently deliver services of unsurpassed quality and high value-added solutions.

Shinsei people will be the driving force as the Bank strives for growth by delivering new financial services that transcend existing concepts, creating a new image of a financial group, and winning customers’ confidence as a financial innovator able to deliver multidimensional support by providing access to the Shinsei Group’s diverse customer base and wide range of financial functions and services.

A Personnel System in Line with Our Management Principles

The management philosophy of Shinsei Bank has three core principles: (1) 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, (2) to become a banking group that values diverse talents and cultures and is constantly taking on the challenges presented by change, and (3) to become a trusted banking group that has highly transparent management and values all stakeholders. To fulfill our management principles and achieve the goals of our strategies, Shinsei Bank has established a highly transparent and objective system for evaluations, promotions, and remuneration based on a “Pay for Performance” philosophy, while also creating a work environment, systems, and processes that enable each employee to fully demonstrate his or her unique qualities, skills, and

personal ambitions and therefore maximize their contribution to the organization. The culmination of these efforts came in April 2015, when we revamped our personnel system. This reform included the introduction of a multi-track career system consisting of three courses that clearly define expectations for each employee’s role and help them to set their own career paths. The reform also included a new highly transparent evaluation/compensation structure that corresponds to those role expectations and career paths. In addition, we established a new flexible working arrangement system that enables employees to choose from a variety of work arrangements, in accordance with their life stages and other needs for diverse work arrangements. We also upgraded an equitable package of fringe benefits that better meets the needs of today’s workers.

We are confident that appropriate management of this highly transparent personnel system will heighten employee motivation and loyalty and encourage employees to perform to the best of their abilities, which in turn will maximize the organization’s performance and enhance overall corporate value.

Further Strengthening Our Organization and Human Resources

To promote greater cooperation between departments within the Group, increase internal mobility, and facilitate the implementation of the Third MTMP, we have dissolved the previous business group system from fiscal year 2016. This change in organizational structure is intended to promote Group-wide development and use of human resources as well as the emergence of a corporate culture that will better enable us to provide customers with unprecedentedly high value service that fully demonstrates Group synergies made possible by cross-divisional collaboration among highly specialized staff capable of delivering differentiated financial solutions 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. Addressing the important issue of enhancing management’s ability to maximize the strength of the Group, we implemented 360-degree feedback for employees in management positions in order to promote awareness and behavioral changes. We also expanded our skill development training program for management level employees. In addition, as part of our multifaceted human resources development measures, we put together project teams with staff from various group companies and divisions and strategically transfer personnel across Group companies. We also encourage our people to take charge of their own career development by utilizing the “self-declaration” system that allows employees to express their satisfaction level of and suitability to their respective current positions.

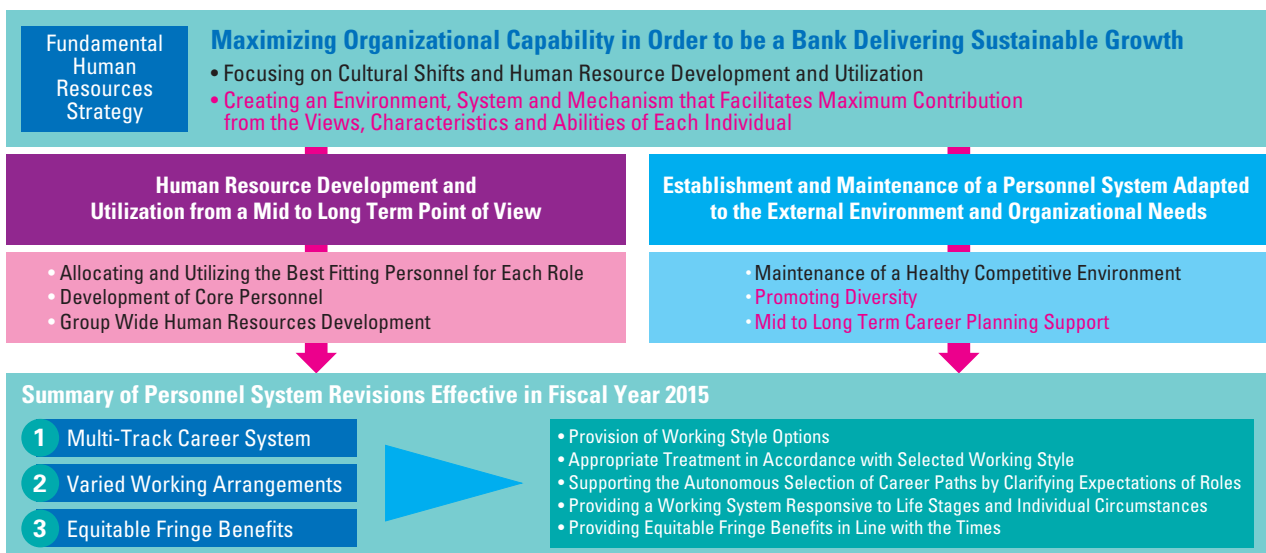
Promoting Inclusion & Diversity

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. In line with this belief, each year we hire a relatively steady 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. This hiring practice helps preserve the strengths of our diverse

corporate culture. Also, since its inception, Shinsei Bank has actively promoted the role of women in the workplace by expanding the availability of a variety of support frameworks, including child-care leave and shorter working hours, and forming the “Shinsei Women’s Network” to facilitate interaction between female employees of the Group. As of April 2016, the proportion of female managers at Shinsei Bank remains among the highest in our industry, with women representing approximately 29% of all titled managers. We aim to raise this ratio to 35% by 2020. With Japan’s population continuing to age and its birthrate continuing to decline, we will continue to promote personnel policies that are respectful of employees’ attributes, characteristics and stages in life— whether they be women or seniors, raising children or caring for a relative—and that enable the Group to fully utilize the talents of this diverse pool of human resources. In addition, to maximize the latent potential of the Group engaged in a wide range of businesses, we will search for and appoint talent across the Group and strive to create knowledge-based synergies through personnel exchanges.

Going forward, we will strive to utilize Group resources to their fullest by further promoting the “Inclusion & Diversity” of an even more integrated Group as we seek to meet customers’ increasingly complex and diverse needs by providing new solutions that are beyond the scope of existing frameworks.

Positioning of Shinsei Bank’s Human Resources Strategy and Personnel System Revision



CORPORATE SOCIAL RESPONSIBILITY

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

In fiscal year 2015, Shinsei Bank Group organized 33 “employee-driven” activities and a total of 530 volunteers including Group employees and their families participated in these activities. Main activities are listed below.

Nurturing the Next Generation

- Financial literacy program “MoneyConnection®”
- “Designing Artists Academy” summer art camp for children in foster homes
- Special Olympics Nippon Tokyo Christmas party
- Service dog demonstration event in offices
- Volunteer work to support the “Service Dog Festival”
- Family day

Environment

- “Arakawa Clean-aids” riverbank clean-up
- “Fujisawa Beach Cleaning Project” beach clean-up
- Rice terrace conservation volunteer activity
- “Hana-Kaido” flower maintenance/clean walk event
- Forest conservation volunteer activity

Disaster Relief Activities

- Disaster relief volunteer activity
- Tohoku support tour
- Internal fundraiser to support disaster affected regions
- “Miyagi Selp” Tohoku fair
- Great East Japan Earthquake disaster relief volunteer gathering

Other

- FIT (Financial Industry in Tokyo For Charity Run) charity run/walk event
- Tokyo Run for the Cure®/Walk for Life fight against breast cancer charity run/walk event

Contributing to Society: Nurturing the Next Generation

Financial Literacy Program “MoneyConnection®”

MoneyConnection® is Japan’s first financial literacy program aimed at preventing youth from becoming people who are unemployed, and not in education or vocational 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 certified non-profit organization with a strong track record in employment support for young people. From fiscal year 2012, Shinsei Bank has been running this program together with Sodateage.net as part of its corporate philanthropic initiatives focusing on the theme of “nurturing the next generation.” As of March 31, 2016, the program has been taught to 94,543 students from 709 schools throughout Japan.

As a corporate sponsor, Shinsei Bank is supporting the program financially as well as promoting employee involvement by providing volunteer opportunities for Group employees to 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. MoneyConnection® also won a Special Award in 2015 in the “Eleventh Japan Partnership Awards” program organized by the Japan Partnership Award Secretariat in recognition of its outstanding partnership between an NPO and a private sector company.

Shinsei Bank is collaborating with regional financial institutions to expand the geographic reach of MoneyConnection®. 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.

Supporting the Japan Service Dog Association

Shinsei Bank supports the Japan Service Dog Association (“JSDA”), a non-profit organization training service dogs to help with the daily tasks of the physically disabled and promoting and raising awareness of service dogs. Shinsei Bank supports JSDA as a corporate member and sponsors the “Service Dog Festival.” In order to raise awareness within the Shinsei Bank Group, JSDA held a “service dog demonstration event” at the Shinsei Bank headquarters building, the Meguro Production Center, the Nagoya branch and Group subsidiaries’ headquarters buildings. Group employees supported JSDA through the purchasing of charity goods and making donations at the event. Shinsei Bank Group employees also volunteered to assist in the operation of the “Service Dog Festival,” an event held every year in May at Nagakute, Aichi Prefecture, to increase awareness and understanding of service dogs and people with physical disabilities.



Shinsei Bank and Showa Leasing employees volunteering at the “Service Dog Festival”



Music and comedy live showcase hosted by Shinsei Bank and Asahi Mutual Life Insurance Company held in Minamisanrikucho in September 2015



Christmas concert hosted by Shinsei Bank held in Higashimatsushima in December 2015

Contributing to Society: Disaster Relief

Volunteer Activities in Disaster Affected Areas

Employee volunteers from Shinsei Bank and Group subsidiaries took part in volunteer activities in the Tohoku Region of Japan to help support the areas affected by the Great East Japan Earthquake. From July 2011, Shinsei Bank has conducted a total of thirteen volunteer activities in the disaster affected areas, and a total of 361 Shinsei Bank Group employees participated in these activities. Of these, eight 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 fiscal year 2015, Shinsei Bank held two disaster relief volunteer activities in Minamisanrikucho and Higashimatsushima of Miyagi Prefecture and organized events aiming to relieve emotional stress for the people living in the area. From 2011, Shinsei Bank held various activities to support disaster relief efforts following the Great East Japan Earthquake including eight internal fundraiser activities, Tohoku support fair at the Shinsei Bank headquarter building and Meguro Production Center, Tohoku tour for employee and their families, providing Tohoku menus at the employee cafeteria and etc. Furthermore, in regard to the earthquakes in Kumamoto prefecture in April 2016, Shinsei Bank Group would like to express our sincere sympathy to the people affected by the disaster. Shinsei Bank together with Showa Leasing, APLUS FINANCIAL, Shinsei Financial, donated a total of 10 million JPY to the Kumamoto earthquake disaster as a contribution from Shinsei Bank Group. Shinsei Bank will continue to support disaster relief efforts and will continue to proactively engage in activities that respond to the needs of the affected areas.

Great East Japan Earthquake Disaster Relief Volunteer Gathering

As a 5 year memorial event from the Great East Japan Earthquake, Shinsei Bank held a volunteer gathering inviting guest speakers (Mr. Eiichi Abe, Executive Director/Secretary-General, Higashimatsushima Council of Social Welfare, Mr. Takahiro Inomata, Secretary-General/Head of Volunteer Center, Minamisanrikucho Council of Social Welfare) from Higashimatsushima and Minamisanrikucho of Miyagi Prefecture to learn about the current condition of the disaster affected areas, seeing slide shows of past activities held by Shinsei Bank, and to think about the future of the regions and disaster relief efforts going forward. It was a great opportunity to hear stories from the guest speakers and to network amongst employees that took part in disaster relief volunteer activities in the past and for those that are thinking of taking part in the future.

Contributing to Society: Environment

Forest Conservation Volunteer Activity

From fiscal year 2015, "Forest Conservation Volunteer Activity" became a new addition to Shinsei Bank Group's CSR activities. With support from the environmental NPO SHU, Shinsei Financial organizes the "Forest Conservation Volunteer Activity" twice a year in the wooded area of TAMAZO (Lion Forest) in Tama Zoological Park. This activity is aimed to foster interest in nature and environmental conservation through participation in forest maintenance activities. Volunteers took part in shiitake mushroom cultivation, gathering fallen leaves to breed beetles, and mowing bamboo grass to maintain the environmental sustainability of the forest.



Employees and their children mowing the bamboo grass

Our Commitment to Environmental Sustainability

Measures to Conserve Electricity and Reduce Our Impact on the Environment

Shinsei Bank continues to make every effort to conserve electricity in our head office through initiatives such as turning off lights in communal spaces and using motion sensors to control lighting in conference and reception rooms throughout the year. In the summer season when demand for electricity increases, Shinsei Bank implements additional measures to minimize the use of electricity, such as reducing ceiling lighting in communal spaces in its head office by approximately 75%, implementing a "cool biz" uniform policy, optimization of air conditioning temperatures and operating hours, automatic illumination control which reacts to the levels of natural light and automatic control of the quantity of fresh air introduction depending upon indoor CO₂ concentration. Additionally, Shinsei Bank is actively pursuing the further reduction of the environmental impact of its offices by relocating the to advanced energy-efficient buildings¹, and transitioning from PCs to VDI (virtual desktop interface)² from 2014 in all branches.

1 Shinsei Bank headquarters in January 2011, the Meguro Production Center in February 2012, the Osaka Branch in October 2013 and the Nagoya Branch in February 2016. The Nihonbashi Muromachi Nomura Building where the head office is located is certified as a "top-level installation" by the "TOKYO Green Building Program" of the Tokyo Metropolitan Environmental Security Ordinance.

2 The migration of desktop computers to VDI, describes the shift to the storing of the standard desktop interface commonly used by businesses and storing them virtually on a server. The power consumption by this infrastructure is low, and this migration is thought to result in a reduction in power usage in comparison to a traditional desktop computer system.

Environmental Impact Data

	Unit	FY2012	FY2013	FY2014	FY2015
CO ₂ Emissions	t	3,106	3,748	3,395	2,806
Electricity Usage	kWh	6,159,462	6,658,612	6,029,536	5,163,522
Gas Usage	m ³	112,000	114,000	90,000	90,000
Clean Water Usage	t	1,290	1,481	1,638	1,569

Notes: (1) Data are for all Shinsei Bank headquarter (do not include affiliated companies) and Meguro Production Center.

(2) CO₂ 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"

Amount of Waste Generated / Recycling Rate

	Unit	FY2012	FY2013	FY2014	FY2015
Waste Generated	t	184	238	220	215
Amount Recycled	t	111	148	131	126
Amount of Waste Disposal	t	73	90	88	89
Recycling Rate	%	60.4%	62.1%	59.9%	58.6%

Notes: (1) Data are for all Shinsei Bank headquarter (do not include affiliated companies) and Meguro Production Center.

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