

INTEGRATED REPORT

For the fiscal year ended March 31, 2018

2018

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ESG Highlights

Corporate Governance



Main Initiatives

- The Board of Directors holds strategy sessions to have focused discussions on a strategically important topic.
- Performed self-assessment of the effectiveness of the Board of Directors with the aim of having the Board of Directors function better
- Revised compensation system to strive for the sustainable enhancement of the Bank's corporate value

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Social



Main Initiatives

- Implementing Group HR strategies, work style reforms, and diversity promotion on a Group-wide basis
- Formulated IR/SR Policy of Shinsei Bank Group to proactively encourage constructive dialogue with investors, analysts, shareholders and other market participants
- Established policies and an action plan related to customer-oriented business operations

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Environment



Main Initiatives

- Helping to resolve environmental challenges by providing financing for renewable energy projects
- Working to reduce environmental impact by promoting the reuse of used construction equipment
- Helping to resolve the vacant home problem by offering loans to facilitate the purchase and resale of existing homes

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ESG Data

		FY2015	FY2016	FY2017
	(Nonconsolidated)			
Corporate Governance	Ratio of Outside Directors	71%	71%	71%
	Attendance Rate for the Board of Directors	98%	100%	95%
Employees	Number of Employees	2,210	2,207	2,188
	Male	1,272	1,272	1,265
	Ratio	58%	58%	58%
	Female	938	935	923
	Ratio	42%	42%	42%
	Average Age	40 years 6 months	40 years 9 months	41 years 3 months
	Male	40 years 1 month	40 years 4 months	40 years 7 months
	Female	41 years 3 months	41 years 7 months	42 years 1 month
	Number of Female Managers			
	Above the Level of Section Leader	85	87	89
	Above the Level of Section Manager	372	383	390
	Number of Employed Persons with Disabilities	27	29	29
	Number of University Graduates Hired	65	54	53
	Number of Female University Graduates Hired	22	20	20
	Ratio of Female University Graduates Hired	34%	37%	38%
Number of Employees Taking Childcare Leave	32	32	33	
Number of Employees Taking Life Support Leave	0	4	6	
Number of Mid-Career Hires	108	82	32	
	(Note) Number of Employees Taking Life Support Leave means the Number of Employees Taking Childcare Leave before January 1, 2018.			
Environment Impact Data	CO ₂ Emissions (t)	2,806	2,746	2,602
	Electricity Usage (kWh)	5,163,522	5,093,523	5,069,080
	Gas Usage (m ³)	90,000	90,000	90,000
	Clean Water Usage (t)	1,569	1,796	1,758
Amount of Waste Generated/ Recycling Rate	Waste Generated (t)	215	233	206
	Amount Recycled (t)	126	154	123
	Amount of Waste Disposal (t)	89	79	83
	Recycling Rate	59%	66%	60%
	(Note 1) Data are for all Shinsei Bank headquarters (does not include affiliated companies) and the Meguro Production Center. (Note 2) CO ₂ emissions data have been calculated according to "Guidelines for Calculating Specified Greenhouse Gas Emissions Volume under the Total Emissions Obligations and the Emissions Trading Framework." (Note 3) Waste generation data have been calculated according to data provided by building maintenance companies.			

Major Policies

Please see Shinsei Bank Corporate/IR site (<http://www.shinseibank.com/corporate/en/>) for details.

- Basic Policy Concerning Protection of Personal Information
- Basic Policy against Antisocial Forces
- Anti-Money Laundering and Countering the Financing of Terrorism
- Global Tax Policy
- Foreign Exchange Transaction Policy
- Policies for Initiatives Concerning the "Corporate Governance Code"
- IR/SR Policy of Shinsei Bank Group
- Social Media Policy

Special Feature: To Maintain Its Role as a Financial Innovator

Shinsei Bank Group's Promotion of Active Participation of Women

Takahisa Komoda (right)
Managing Executive Officer, Head of Institutional Business, Shinsei Bank Chairperson, Group Committee to Promote the Active Participation of Women

Tadashi Wachi (left)
Executive Officer, Head of Strategic Planning & Execution Division, Chief Strategy Officer, Shinsei Financial

Tamane Nishi (center)
Head of Diversity Promotion Department, Group Human Resources Division, Shinsei Bank



Background Behind Promoting the Active Participation of Women in the Group

Komoda: In February 2018, the Shinsei Bank Group established the Group Committee to Promote the Active Participation of Women (hereinafter, the "Committee"). Amid the era of falling birthrates and the aging of society, and as the working population shrinks and structural changes in society take place, this Committee was established with the belief that in order to sustainably create corporate value, senior management must take the lead in quickly establishing an environment that fully leverages the potential of all employees of Group companies, regardless of their gender, and allows them to fully demonstrate their abilities. I was concerned that failing to do so would make it tough for us to maintain our ability as a group to survive the intense competition. Up until now, we have focused on expanding HR-related systems in order to support the life events of female employees, instead we should have prioritized this initiative initially. In retrospect, I regret that employees were not sufficiently educated about the significance and need to promote the active participation of women, which is what was really needed to be promoted. We should have been working on changing employees' mindset and the corporate culture at the same time as we

were enhancing our HR systems. The Committee's activities will first focus on the active participation of women, but in the future the Committee will work to further promote diversity, not limited to the active participation of women. Specifically, the Committee will engage in activities to contribute to fostering a corporate culture that allows all Group employees, regardless of gender, age, nationality, or the existence of a disability, to leverage their individual strengths and to actively participate and thrive in the workplace.

Nishi: The Group Human Resources Division is working to create a supportive environment by providing work style options that allows women to participate even more. We just recently launched systems to allow employees to engage in side jobs or work from home. We will be watching the impacts and outcomes of these systems, and plan to make them even easier for employees to take advantage of these systems.

Wachi: I think that having a workplace environment that is easy for women to work in is helpful for having active, diverse personnel, and is also important for improving productivity. The systems that have been established so far have not yet translated into more active participation by women, but their impact will likely emerge as we move forward. At Shinsei Financial, the reality is that women have not been developed



In order to survive in a globalized society, the perspective and sense of women are needed.

Tadashi Wachi

and groomed to become management decision-makers, and thus positive outcomes have yet to be seen.

Active Promotion of Female Employees to Higher Positions

Komoda: Although society has changed to a certain extent, many people still feel that men receive preferential treatment, and I get the sense that the so-called male-centered society remains deeply rooted. We must change our suppositions and mindset underlying this male-centered society. Supervisors need to be mindful of equal opportunity, and give women the chance to participate more in business talks and important meetings. In doing so, it is important to communicate in a supportive way. Instead of saying, “Do you want to try this?,” supervisors should say, “Let’s do this. I’ll support you.” Not just in the institutional businesses, but in all areas, if women are given the opportunity to handle a variety of work, and offered the chance to proactively gain experience, they will be able to actively participate and thrive in a wider range of areas going forward. To begin with, I think it is important to remove misunderstandings and assumptions caused by “unconscious bias,” and completely change the mindset of managers. If we can do this, women should have more opportunities to be promoted to higher positions, as there is no ability gap between the genders.

Nishi: In our executive development program, we must make people value diversity, regardless of the participant’s gender. We need to create a culture in which people understand and appreciate not only the differences between the genders, but differences in values, and we must have a leadership program to develop the people who will be responsible for creating this culture.

Providing Motivation for the Active Participation of Women

Wachi: In order to survive in a globalized society, it goes without saying that the perspective and sense of women are needed in areas that have been handled exclusively by men in the past. The active participation of women is essential, but the issue is providing motivation to them. Delivering this

We need to create opportunities to develop personnel so that each employee can fully showcase his or her abilities and be more effective.

Takahisa Komoda



support is the responsibility of supervisors, so we must enhance the communication and management abilities of supervisors, most of whom are men, along with raising the awareness of women with respect to proactively building their own careers.

Nishi: From my own experience, I think that taking a first step allows you to see a larger world. I worked in finance for a long time, but then I switched to a career in organizational development and human resources. Initially, I was perplexed by organizational development, but the more I thought about what the organization should be like through my work and discussions with people, and about what happiness is for employees working in an organization, and the more I learned about the employees, I was able to imagine a good future state of the company. This whole process was very rewarding. I also realized things about myself for the first time, such as how I actually like people and how I enjoy getting to know them. I would like for more women to be able to have this kind of opportunity. By drawing up the courage to take the first step, you can learn new things about yourself and discover new possibilities within yourself.

As a Group, I would like us to formulate an ‘Action Declaration’ to promote the active participation of women.

Tamane Nishi



Komoda: We need to create opportunities to develop personnel so that each employee can fully showcase his or her abilities and be more effective. We also need a mechanism to qualitatively evaluate supervisors, who are also men, who practice these actions. There are a range of issues, and we cannot solve all of them immediately. To begin with, the senior management team will convey to employees its desire to promote the active participation of women as a management strategy. We will provide opportunities for employees to fully demonstrate their abilities, and engage in rewarding work. The senior management team must remove all obstacles to the active participation of women in order for both individuals and the organization to grow.


Nishi: As a concrete first step, Committee members themselves will learn about the female talent in the Group and gather their honest opinions. We will visit each center and ask women about what they are currently thinking, what they want right now, their thoughts about promoting the active participation of women, and other matters. If there are discrepancies between what the Committee thinks should be done and what women actually want, nothing we do will matter, so Committee members are going to study this issue. As a Group, I would like us to formulate an “Action Declaration” to promote the active participation of women.

Corporate Governance

Four Features of Shinsei Bank's Corporate Governance

1


Ratio of Outside Directors on the Board of Directors
(Five directors)

71% 

- Five of the seven directors at Shinsei Bank are outside directors and comprise a majority of the Board of Directors.
- The Bank has maintained a Board structure where outside directors comprise a majority since Shinsei Bank started.
- The Bank has submitted the names of seven individuals, including outside Audit & Supervisory Board members as independent officers to the Tokyo Stock Exchange.

2

Ratio of Outside Directors with Corporate Executive Experience
(Four directors)

 **80%**

- The mix of outside directors on our Board is well balanced with deep expertise and extensive experience relating to finance in Japan and overseas, businesses aimed at consumers, risk management areas and information systems.
- Four of the five outside directors on our Board are or have worked as corporate executives.

3

Attendance Rate for the Board of Directors
(All Six Meetings)

 **95%**

- Our directors, including outside directors, attended each meeting of the Board of Directors and engaged in active debate about the Bank's management and operational execution.
- This attendance rate is the average for our directors for six meetings of the Board of Directors since the June 2017 general meeting of shareholders.

4

Number of IR Meetings /Companies where the CEO Met with Shareholders, Investors and Analysts

 **110 meetings/ 122 companies**

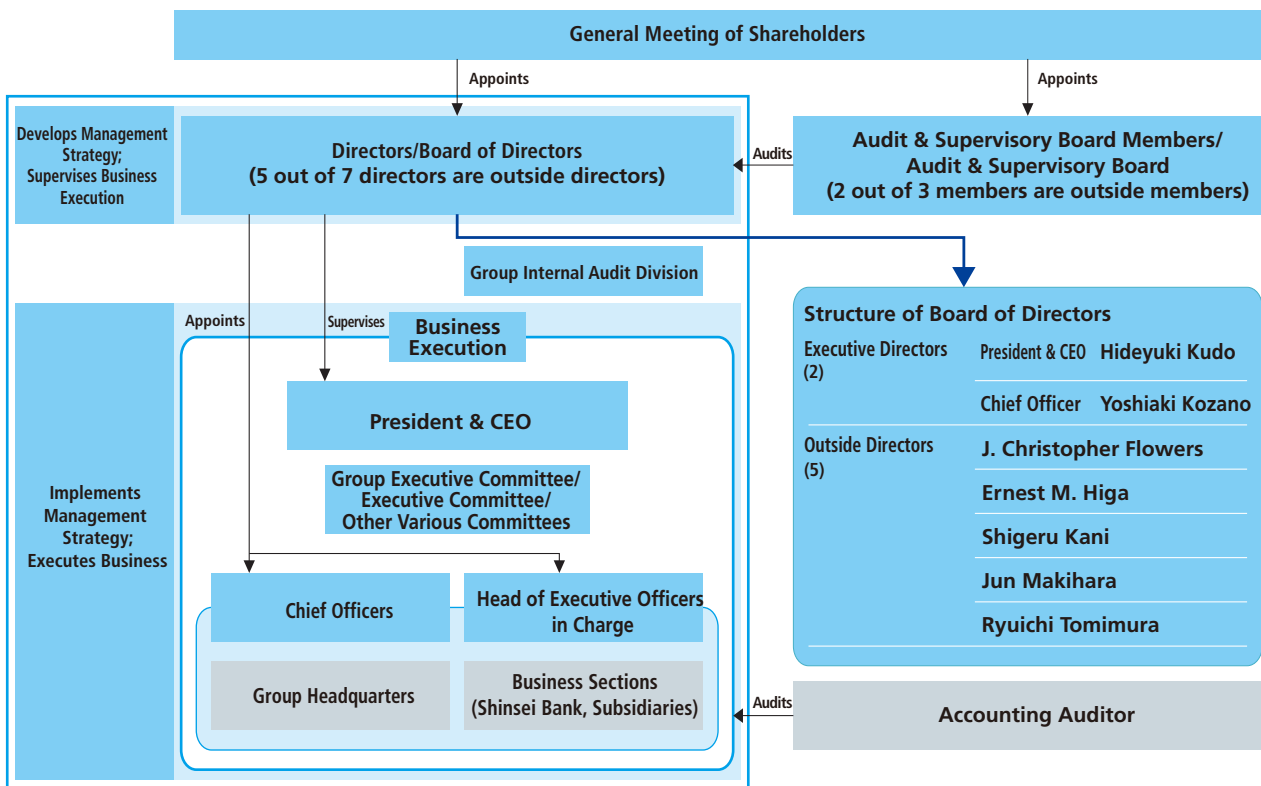
- The CEO has been assigned ultimate responsibility for investor relations (IR) activities and performs the core role in our strategic IR execution.
- As a result of increased focus on meetings with new investors, the number of investors the CEO met during fiscal 2017 was up 40% compared to fiscal 2016.

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 businesses and five outside directors who primarily supervise the Bank's business execution. The current outside directors are a balanced group of executives that bring to the Bank their extensive experience and expertise in a range of fields, including domestic and overseas financial businesses, consumer-related businesses and the fields of risk management and information systems. 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, it uses established frameworks for deliberating on such transactions in Board of Directors meetings and conducting any necessary follow-ups. Through the auditing of the Bank's Board of Directors and business execution by the Audit & Supervisory Board and its members, 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 reflecting the benefit of stakeholders such as shareholders and customers, through which the Bank seeks to enhance its corporate value.

Corporate Governance Structure Chart (as of June 20, 2018)



Board of Directors, Audit & Supervisory Board Members



Outside Audit &
Supervisory Board Member
Michio Shibuya

Outside Director
Ryuichi Tomimura

Outside Director
Shigeru Kani

Outside Director
J. Christopher Flowers

President and Chief
Executive Officer
Hideyuki Kudo

■ Directors' Skill Matrixes

	Management	Finance	Risk Management	Consumer Business	IT
Hideyuki Kudo	○	○	○		
Yoshiaki Kozano	○	○			
J. Christopher Flowers	○	○			
Ernest M. Higa	○			○	
Shigeru Kani		○	○		
Jun Makihara	○	○			
Ryuichi Tomimura	○				○



Outside Director

Ernest M. Higa

Outside Director

Jun Makihara

Audit &
Supervisory Board Member

Shinya Nagata

Director

Yoshiaki Kozano

Outside Audit &
Supervisory Board Member

Shiho Konno

■ Audit & Supervisory Board Members' Skill Matrixes

	Finance	Financial Accounting	Legal Affairs
Shinya Nagata	○	○	
Shiho Konno			○
Michio Shibuya	○	○	

Representative Director

Hideyuki Kudo

Representative Director,
President

Attendance rate: 100%



Self-Assessment of Effectiveness of Board of Directors

As institutionally designed, the Shinsei Bank takes the form of a company with an Audit & Supervisory Board, with five of its seven directors being outside directors, and we manage the Board of Directors with greater emphasis on oversight functions. Under this framework, management by our business executives constantly falls under the scrutiny of stringent checks made by the outside directors, who maintain an awareness of the existence of our various stakeholders, and management receives frank opinions from a broad perspective. In addition, members of the Board of Directors are always thinking about what would be the best thing to do to improve effectiveness and whether there are any points being overlooked, while debating and working on improvements.

Jun. 2015	Representative Director, President, Shinsei Bank, Limited (Current)	Jan. 2007	Vice Chairman, MID Urban Development Co., Ltd. (Predecessor of Kanden Realty & Development Co., Ltd.)
Apr. 2015	Managing Executive Officer, Shinsei Bank, Limited	Jun. 2006	Representative Director, President, MID Urban Development Co., Ltd. (Predecessor of Kanden Realty & Development Co., Ltd.)
Apr. 2013	Managing Executive Officer, Chief Risk Officer, Head of Risk Management Group, Shinsei Bank, Limited	May 2005	Managing Director, Aetos Japan, LLC
Apr. 2011	Managing Executive Officer, Head of Structured Finance Sub-Group, Shinsei Bank, Limited	Aug. 2003	Director, Acquisition Group, Aetos Japan, LLC
Sep. 2010	Managing Executive Officer, Deputy Head of Institutional Group, Shinsei Bank, Limited	May 2001	General Manager, Advisory Department No. II, Investment Banking Division, Mizuho Securities Co., Ltd.
Jun. 2007	Managing Director, Investments Division, Aetos Japan, LLC	Apr. 1987	Joined The Dai-ichi Kangyo Bank, Ltd. (Predecessor of Mizuho Bank, Ltd.)

Outside Directors

Self-Assessment of Effectiveness of Board of Directors

I believe that Shinsei's Board is very effective. The Board is balanced, with representation from management, large shareholders, experienced business people (including both in Japan and internationally) and former regulators. The Board has a majority of independent, outside directors. The Board has about the right number of members to be effective: not too large, not too small. The Board operates cohesively and has continued to improve its focus on the most-important strategic and management issues.

The Board's challenges include finding new, high-quality directors who will bring experience and diversity to the Board over time, and to spend the majority of its time on the most-important issues rather than less-significant details.

J. Christopher Flowers

Director
Managing Director and Chief
Executive Officer,
J.C. Flowers & Co. LLC

Attendance rate: 83%



Reasons for Nomination

Mr. J. Christopher Flowers is asked to stand as an Outside Director in order to reflect in the Bank's management, his experience and expertise in banking, finance and the financial services industry as a whole.

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

Outside Directors

Self-Assessment of Effectiveness of Board of Directors

The Shinsei Board of Directors consists of five outside and only two internal directors, which allows discussions to be considered from different points of views due to the diverse backgrounds of the Board members. We also have two non-Japanese board members, so "global best practices" are considered when evaluating the performance of Shinsei. As IT and AI continue to be "key" drivers of both "value creation," as well as disruption, we need to keep up with the quick pace of changes that it brings. Another challenge is further empowering women in the workforce so that they can achieve their full potential at Shinsei.

Ernest M. Higa

Director
Chairman, President & Chief Executive Officer,
Higa Industries Co., Ltd.

Attendance rate: 83%



Reasons for Nomination

Mr. Ernest M. Higa is asked to stand as an Outside Director in order to reflect in the Bank's management, his experience and deep insight of business for consumers.

Apr. 2017	Board of Trustees, Showa Women's University (Current)	Jun. 2010	Director, JC Comsa Corporation (Current)
Sep. 2016	Chairman & Representative Director, Wendy's Japan K.K. (Current)	May 2009	Board of Overseers, Columbia Business School (Current)
Apr. 2015	Chairman, President & Chief Executive Officer, Higa Industries Co., Ltd. (Current)	Apr. 2008	Board Member, The Tokyo New Business Conference (Current)
Jun. 2013	Director, Shinsei Bank, Limited (Current)	Apr. 1983	President and Chief Executive Officer, Higa Industries Co., Ltd.
Mar. 2011	Chief Executive Officer, Wendy's Japan LLC	Apr. 1976	Joined Higa Industries Co., Ltd.

Shigeru Kani

Director
Former Director, Administration Department, The Bank of Japan,
Former Professor, Yokohama College of Commerce

Attendance rate: 100%



Self-Assessment of Effectiveness of Board of Directors

At Shinsei Bank Board of Directors' meetings, all members actively and unrestrainedly discuss the Bank's sustainable growth, the enhancement of profitability and improvements in corporate value over the medium and long terms. Furthermore, not only does the executive team provide explanations in response to questions from outside directors, but also the outside directors themselves express their opinions and lively debates ensue on the basis of those opinions. In this way, in the case of Shinsei Bank Board of Directors' meetings, I feel that debates are conducted that are completely different in form from mere so-called rubber stamping. I also feel that creating an atmosphere that facilitates free debate at Board of Directors' meetings is crucial for outside directors, who play a role in management decision making, management oversight and also in the offering of advice to management.

Going forward, in order to be able to focus on and carefully debate matters that are of particular importance, our policy will be to devise a range of methods geared toward conducting management as efficiently as possible.

All of us intend to focus on improving stable performance by strengthening the management foundation with a strong sense of tension, in grateful anticipation of everyone's encouragement and ongoing support for Shinsei Bank.

Reasons for Nomination

Mr. Shigeru Kani is asked to stand as an Outside Director in order to reflect in the Bank's management, his discernment in the risk management area and his wide range of knowledge concerning banking operations.

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

Outside Directors

Self-Assessment of Effectiveness of Board of Directors

Shinsei Bank has one of the most active and involved boards that I have been involved in. We receive a significant amount of material prior to each meeting, and the meetings themselves run half a day with the directors asking many, detailed questions. Often, we do not immediately accept management's explanation or recommendation but push for more information, or a further consideration of alternatives. The varied backgrounds and experiences of the directors are very helpful here. Having a director who is also the largest shareholder serves to keep the conversation very focused on what makes the most sense for shareholders. This is rarely comfortable for business executives, but I believe it produces the best outcome.

However, because the Bank is a regulated entity, and financial services pose many risks, the Board has tended to focus on the downside and preventing mishaps. Going forward, if we are to materially improve share price performance, we must also concentrate on improving the top line.

Jun Makihara

Director

Director, Monex Group, Inc.
Director, Philip Morris International Inc.

Attendance rate: 100%



Reasons for Nomination

Mr. Jun Makihara is asked to stand as an Outside Director in order to reflect in the Bank's management, his extensive knowledge of finance and his domestic and international experience.

Sep. 2014	Director, Philip Morris International Inc. (Current)	Nov. 1996	Co-Branch Manager, Goldman Sachs Japan, Ltd.
Jun. 2011	Director, Shinsei Bank, Limited (Current)	Nov. 1992	Partner, Goldman, Sachs & Co.
Jun. 2006	Director, Monex Group, Inc. (Current)	Sep. 1981	Joined Goldman, Sachs & Co.
Jul. 2000	Chairman of the Board, Neoteny Co., Ltd.		

Ryuichi Tomimura

Director

President,
Representative Director,
SIGMAXYZ Inc.

Attendance rate: 100%



Self-Assessment of Effectiveness of Board of Directors

Possessing diverse knowledge and experience, each director makes decisions on business execution and conducts risk management based on having actively exchanged opinions and sufficient debate. We hope to further deepen the debate on the changes in the business environment brought about by the dramatic ways technology in the finance industry is evolving, such as FinTech and AI, and decide on a course for Shinsei Bank to take.

Reasons for Nomination

Mr. Ryuichi Tomimura is asked to stand as an Outside Director in order to reflect in the Bank's management, his extensive experience and wide range of knowledge including information systems as a management executive and a consultant.

Jun. 2018	President, Representative Director, SIGMAXYZ Inc. (Current)	Feb. 2004	Representative Director, Senior Executive Vice President, JAPAN TELECOM CO., LTD. (Predecessor of Softbank Corp.)
Jun. 2016	Executive Vice President, Representative Director, SIGMAXYZ Inc.	Oct. 2002	Managing Director, IBM Business Consulting Service KK, Vice President, IBM Corporation Business Consulting Service, Asia Pacific
Jun. 2015	Director, Shinsei Bank, Limited (Current)	Jan. 1994	Managing Partner, Pricewaterhouse Consultant
Jun. 2014	Audit & Supervisory Board Member, Shinsei Bank, Limited	Oct. 1991	General Manager, Network Integration Division, Recruit Co. Ltd. (Predecessor of Recruit Holdings Co., Ltd.)
Aug. 2012	Director, Plan.Do.See Inc. (Current)	Oct. 1983	Joined IBM Japan, Ltd.
Apr. 2010	Executive Vice President, Director, SIGMAXYZ Inc.		
Dec. 2007	Representative Director, Managing Director, RHJ International Japan, Inc.		

Audit & Supervisory Board Members

Effectiveness of Board of Directors

Five of Shinsei Bank's seven directors are independent outside directors. At Board of Directors' meetings, active and fervent debate takes place in which those outside directors play pivotal roles, and the current situation is one in which the executive side of management responds sincerely to and is also highly appreciative of their inputs from the perspective of global corporate governance.

I would like to take this opportunity to again emphasize to our stakeholders that we are adopting a governance system of which they can be proud wherever they go.

Naturally, I feel that there is room for progress to be made, such as in diversity and the recognition of a broader range of stakeholders. As a full-time Audit & Supervisory Board member who attends Board of Directors' meetings, I would like to watch over and encourage that progress.

Shinya Nagata

Audit & Supervisory Board Member

Attendance rate: 100%



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

Outside Audit & Supervisory Board Members

Michio Shibuya

Audit & Supervisory Board Member
Certified Public Accountant

Attendance rate: 100%



Effectiveness of Board of Directors

With regard to the Board of Directors' effectiveness, on this occasion, it is how we Audit & Supervisory Board members see it, but the number of Shinsei Bank directors totals seven, five of whom are outside directors. Many austere opinions are gathered from outside directors at each Board of Directors' meeting. On the other hand, opinions and counterarguments are also expressed from the executive side, and, as a result of the debates there, some conclusions are made and some involve homework. Looking at such a Board of Directors, I believe that the Bank's Board of Directors is one in which governance is sufficiently effective. For that reason, however, it takes time to debate items with each and every one of us, and each time the Board of Directors' meetings are by no means easy to bring to a close. As you would expect, there is much to discuss when debating, and I think it is important to undertake unambiguous Board of Directors' meeting management that as far as possible simplifies areas that can be simply brought to a conclusion.

Reasons for Nomination

Reflect in the Bank's audit operations his expertise and extensive experience as a certified public accountant, and knowledge based on experience as an Audit & Supervisory Board Member at a listed company

Jun. 2015	Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)	May 2000	Executive Director, Ernst & Young ShinNihon (Predecessor of Ernst & Young ShinNihon LLC)
May 2011	Audit & Supervisory Board Member, Ryohin Keikaku Co., Ltd.	May 1991	Senior Partner, Showa Ota & Co. (Predecessor of Ernst & Young ShinNihon LLC)
Jun. 2010	Audit & Supervisory Board Member (full time), Business Brain Showa-Ota Inc.	Jul. 1977	Peat Marwick Mitchell (Predecessor of KPMG LA office)
Aug. 2008	Board of Councilors and Global Advisory Council, Ernst & Young ShinNihon LLC	Apr. 1974	Joined Showa Audit Corporation (Predecessor of Ernst & Young ShinNihon LLC)
		Apr. 1971	Joined Arthur Andersen LLP

Newly Appointed Executive Director

Yoshiaki Kozano

Director

Newly appointed



The growth in rapidly evolving technologies, in the means of mobile communication and in communication networks in recent years—coupled with the dramatic improvements in digital and Big Data analysis as well as processing improvements that are utilized in FinTech, robots and AI—is bringing about a major reform of financial services.

To respond quickly to the diverse needs of our customers, we at the Shinsei Bank Group actively form partnerships with Japanese and foreign companies in different industries that have an understanding of, for example, technological development capabilities and attractive markets, customer networks and information, communications and SNS in logistics as well as online mail order and distribution. We will continue to provide our customers with inexpensive, quick, simple, secure and convenient financial services that incorporate the latest technologies and information.

Jun. 2018	Director, Chief Officer, Group Business Strategy, Shinsei Bank, Limited (Equivalent to Senior Managing Executive Officer), Shinsei Bank, Limited (Current)	Apr. 2015	Managing Executive Officer, Deputy Head of Institutional Group, Shinsei Bank, Limited
Apr. 2018	Chief Officer, Group Business Strategy (Equivalent to Senior Managing Executive Officer) (Current)	Jun. 2011	Managing Executive Officer, Head of Principal Transactions Sub-Group, Shinsei Bank, Limited
Apr. 2017	Chief Officer, Group Business Strategy, Managing Executive Officer, Special Assignment, Shinsei Bank, Limited	Dec. 2007	Head of Principal Transactions Sub-Group, Shinsei Bank, Limited
Jun. 2016	Director, APLUS FINANCIAL Co., Ltd. (Current)	Jul. 2006	Head of Corporate Business Solutions Sub-Group, Shinsei Bank, Limited
Apr. 2016	Managing Executive Officer, Special Assignment (Head of Group Business Strategy, Shinsei Bank, Limited)	Nov. 2003	General Manager, Credit Trading Division, Shinsei Bank, Limited
		Apr. 1986	Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)

Newly Appointed Outside Audit & Supervisory Board Member

On this occasion, I have been appointed as an outside member of Shinsei Bank's Audit & Supervisory Board.

Previously, I have served as outside director and outside audit and supervisory board member for several companies and been involved in corporate management on numerous occasions through my work as a lawyer, but this marks my first appointment as a bank director. I feel immensely honored but at the same time I am keenly aware of the steepness of the learning curve and the seriousness of my responsibilities. On the other hand, as an independent Audit & Supervisory Board member, while studying the industry in depth, I think that it will be essential for me to continuously maintain a constant sense of distance and the objectivity of someone who is not fully rooted in the industry, and I consider the maintaining of that balance to be one of my assignments.

Mainly focusing on the law, which is my area of specialty, and corporate governance, as an outside member of the Bank's Audit & Supervisory Board, I will be hoping to contribute to an improvement in the Bank's medium- to long-term corporate value—and to contribute to all the Bank's stakeholders as well—by conducting audits and providing oversight to ensure that the executive branch of management takes appropriate levels of risk.

Reasons for Nomination

Reflect the Bank's audit operations her expertise and extensive experience as a lawyer, and experience based on the outside director at listed companies

Jun. 2018	Director, Monex Group Inc. (Current)	Apr. 2014	Member, Committee on Realization of a Gender-Equal Society of Japan Federation of Bar Associations (Current)
Jun. 2018	Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)	Apr. 2009	Professor, Waseda Law School, Waseda University
Jun. 2017	Director, Alfresa Holdings Corporation (Current)	Mar. 2008	Audit & Supervisory Board Member, Advanced Softmaterials Inc.
Jun. 2016	Director, Kakaku.com, Inc. (Current)	Jun. 2005	Audit & Supervisory Board Member, Yahoo Japan Corporation
Jun. 2015	Director, Watami Co., Ltd.	Apr. 1991	Registered Daiichi Tokyo Bar Association
Mar. 2015	Established Shiho Konno Habataki Law Office (Current)		
Aug. 2014	Auditor, Japan Corporate Governance Network (Current)		

Shiho Konno

Audit & Supervisory Board Member
Lawyer

Newly appointed



Directors and Executive Officers Compensation Scheme

Policy for Determining Compensation

- Appropriate incentives are provided in order to advance the Group's business and realize the mid- to long-term Group management principles.
- Reflecting the roles and responsibilities of each director and executive officer, directors and executive officers share common shareholder value by holding the Company's shares over the long term.
- The scheme will curb excessive risk-taking and contribute to ongoing sound management as a financial institution.
- The plan incorporates a compensation system that provides incentive to further increase corporate value and avoid the risk of share price declines.

Composition of Compensation for Full-Time Directors*

- Basic compensation
Fixed compensation (Annual fixed amount)
- Mid- to long-term incentive compensation
 - 1) Restricted stock compensation (Introduced from fiscal 2018)
 - 2) Equity remuneration type stock options

*There is no short-term incentive compensation to reward full-time directors for performance in a single fiscal year.

Total Maximum Amount of Compensation for Directors

- (1) Total maximum amount of compensation for directors (including outside directors): Up to ¥180 million per year (of this amount, ¥60 million for outside directors)
- (2) Maximum amount of allotment of restricted stock for full-time directors: Up to ¥20 million per year, within the total maximum amount in (1) above (introduced from fiscal 2018)
- (3) Maximum amount of allotment of equity remuneration type stock options for full-time directors: Up to ¥50 million per year, separate from the total maximum amount in (1) above

The allocation of compensation for full-time directors on an individual basis is determined by the Board of Directors. Based on a proper evaluation of each director's duties and level of contribution to performance for their respective areas of responsibility, and in light of the Bank's performance, market conditions and other factors, the Board of Directors determines compensation amounts following sufficient discussions.

Types and Total Payment Amounts of Compensation for Full-Time Directors and Full-Time Audit & Supervisory Board Members (from April 1, 2017 to March 31, 2018)

	Number of people	Total amount of compensation (in millions of yen)										
		Total amount of fixed compensation				Total amount of variable compensation						
			Basic compensation	Stock option	Other	Basic compensation	Bonus	Other	Retirement allowance	Other		
Applicable officers (excl. outside directors)	3	124	124	95	29	0	0	0	0	0	0	0

- Applicable officers include two full-time directors and one full-time Audit & Supervisory Board member, for a total of three people.
- For details, please refer to "Disclosure Items Concerning Remuneration, etc." in the Data Section.

Compensation for executive officers as well as chief officers and senior officers in the Group Headquarters is comprised of a fixed compensation component as basic compensation and a bonus component based on the

single year's performance as short-term incentive compensation. In addition, similarly to full-time directors, consideration is being given to the introduction of restricted stock compensation.

Operation of the Board of Directors

The Bank holds strategy sessions to discuss medium- to long-term strategic issues intensively in addition to the six periodic Board of Directors' meetings. Moreover, in order to ensure the sharing of their independent viewpoints as

well as to share detailed information regarding business execution with each of the outside directors, the Bank holds regular meetings attended only by themselves.

Timetable for Day of Regularly Scheduled Board Meetings

8:00	Meeting composed of outside directors only
9:00	Meeting of Board of Directors commences
	Report from President
	Report from Audit & Supervisory Board
	Report from Group Internal Audit Division
	Finance-related report
	Individual agenda items to be resolved
	Lunch
	Report and deliberate on specific agenda items
	Risk-related report
13:00	Conclude meeting

Strategy Session

9:00	Strategic initiatives at each business (1)
12:00	Lunch
13:00	Strategic initiatives at each business (2)
15:00	Summary
16:00	Conclude meeting

Annual Schedule for the Board of Directors

May	Regularly scheduled Board meeting (on financial results)
Jun.	Regularly scheduled Board meeting (held after AGM* ends)
Sep.	Regularly scheduled Board meeting
Nov.	Regularly scheduled Board meeting (on interim financial results)
Jan.	Regularly scheduled Board meeting
Mar.	Regularly scheduled Board meeting (fiscal year budget and plan)

*AGM: annual general meeting of shareholders

Corporate Governance

Board of Directors Effectiveness Evaluations

The Bank periodically conducts an evaluation/analysis of the effectiveness of the Board as a whole in order to improve the Board's functionality.

An overview of the FY2017 self-evaluation is as follows.

(1) Objective

To improve the function of the Board of Directors by having the Board perform a self-evaluation of whether it is fulfilling the roles and duties required of it and then implement the PDCA cycle.

(2) Subjects of analysis/evaluation

The Board's activities, and the operation and support systems for efficiently and effectively carrying out such activities.

(3) Evaluators

Evaluation by all members attending Board meetings (Directors, Audit & Supervisory Board members and others – totaling 11 people). Certain questions are only asked to Audit & Supervisory Board members in order to receive an evaluation of the Board by Audit & Supervisory Board members.

(4) Analyzed/evaluated matters

The contents of discussions at Board meetings, the operation of the Board by the executives, the composition of members of the Board, the provision of information to the Board by the executives, the content of discussions at strategy sessions, the management of strategy sessions by executives, communication, the necessity of third-party evaluations of the Board's effectiveness, evaluations by Audit & Supervisory Board members, etc.

(5) Means of analysis/evaluation

Questionnaire survey (questions in which responses are selected including free-response questions) prepared by the secretariat for the Board of Directors based on instructions from the Board Chairman.

(6) Results feedback

The selected results and responses to free-response questions are reported to the Board.

The following is an overview of the key results of the survey.

(a) Contents of Board meeting and strategy session discussions

To a certain extent, survey respondents feel that discussions for the medium- to long-term business vision, as well as discussions for a business model aimed at increasing corporate value and achieving

sustainable growth have been constructive and are contributing to an increase in corporate value and sustainable growth.

(b) Effectiveness of strategy sessions

In the previous year's evaluation, participants agreed that they should continue to confirm this matter, and this year's evaluation revealed that participants felt that strategy sessions continued to be effective for studying business strategy.

(c) Board composition/members

It was confirmed that further consideration should be given to diversity and member balance, etc.

(d) Management of Board and strategy sessions by executives

Respondents thought that there was generally good selection of agenda items and time allocation for deliberations was appropriate. While there was improvement from the previous year, some felt that the deliberation time was long, and we reconfirmed that it is necessary to work on having a more efficient and dynamic operation by working even harder on selecting agenda items where explanations are omitted and on providing brief explanations. This has been an issue for some time now.

(e) Provision of information to the Board by executives

We received generally positive replies, including on the contents of materials, but also learned that continued improvement in explanations at Board meetings is necessary.

(f) Necessity of third-party evaluation of effectiveness

The utilization of evaluations and their necessity are matters that we should study going forward based on the Board's intentions.

(g) Questions for Audit & Supervisory Board members

We confirmed that, as a whole, Audit & Supervisory Board members feel that directors are properly executing the duties expected of them.

The Bank will strive to improve and maintain the aspects that were evaluated as appropriate or improved from the previous year, and work to further improve the Board's effectiveness and functioning by examining and making improvements to issues raised in the survey.

Audit & Supervisory Board Members/Audit & Supervisory Board

Shinsei Bank's Audit & Supervisory Board 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 Bank's businesses. In addition, both outside Audit & Supervisory Board members are experienced as external directors of other companies, and, by drawing upon their experience, they are able to provide views with greater objectivity from a position of greater independence, resulting in enhanced effectiveness of the Audit & Supervisory Board's auditing activities.

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 conduct interviews with directors, executive officers and accounting auditors, engage with internal control sections such as the Group Internal Audit Division and utilize staff of the Office of Audit & Supervisory Board Members 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.

Activities of Audit & Supervisory Board Members since Fiscal 2017 AGM¹

	Board of Directors meetings	Audit & Supervisory Board meetings
Number of meetings held ²	6 times	12 times
Attendance rate	100%	100%

¹ AGM refers to the annual general meeting of shareholders.

² The total number of meetings held after the AGM in fiscal 2017

Group Headquarters, Chief Officers/Senior Officers and Executive Officers

To strongly promote Group integration in keeping with our Medium- to Long-Term Vision, we established in April 2017 the Group Headquarters, effectively combining head-office functions such as human resources, finance and general services that had been located at each Group company at the head office. In concert with this, we assigned a chief officer to be in charge of each head-office function and a senior officer to serve as a deputy to each chief officer in an effort to concentrate relevant authorities within the Banking Act, the Companies Law and other acts.

As far as Group headquarters executive officers including executive directors appointed by the Board of Directors are concerned, there were 34 chief officers and senior officers engaged in the execution of business operations as of June 20, 2018. All were appointed by the Board of Directors to carry out operational execution. Under the direction of executive directors including the President, executive officers, chief officers and senior officers, who are delegated by the Board, are building systems to efficiently execute operations in their respective domains of responsibility centering on executive officers who are the head of a domain and chief officers.

Overview of Group Executive Committee, Executive Committee and Other Important Committees

Name	Main Purpose
Group Executive Committee	The President's decision-making body for day-to-day business execution at the Group level
Executive Committee	The President's decision-making body for day-to-day business execution for Shinsei Bank, Limited
Group ALM Committee	Negotiate, policy formulation and make decisions concerning medium- and long-term Asset and Liability Management
Group Compliance Committee	Communicate, coordinate and make decisions on the Group's compliance posture and on matters relating to compliance
Group Risk Policy Committee	Discuss the risk operation policy and management framework for the Group's portfolios, and the Group's approach to major portfolios, sectors, products and so forth
Group IT Committee	Discuss, coordinate and make decisions on matters concerning the Group's information technology systems
Group Business Continuity Management Committee	Discuss, coordinate and make decisions across divisions to advance reforms to the Group's business continuity structure

Name	Main Purpose
Group Basel Committee	Discuss, coordinate and make resolutions on matters concerning regulatory capital, with a focus on Basel regulations
Group Management Development Committee	Discuss, coordinate and make decisions about the Group's HR system and related measures, etc.
Group New Business/Product Committee	Conduct due diligence on each new business and service proposal across the Group and make decisions, and conduct due diligence on strategic investment proposals
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

Corporate Governance

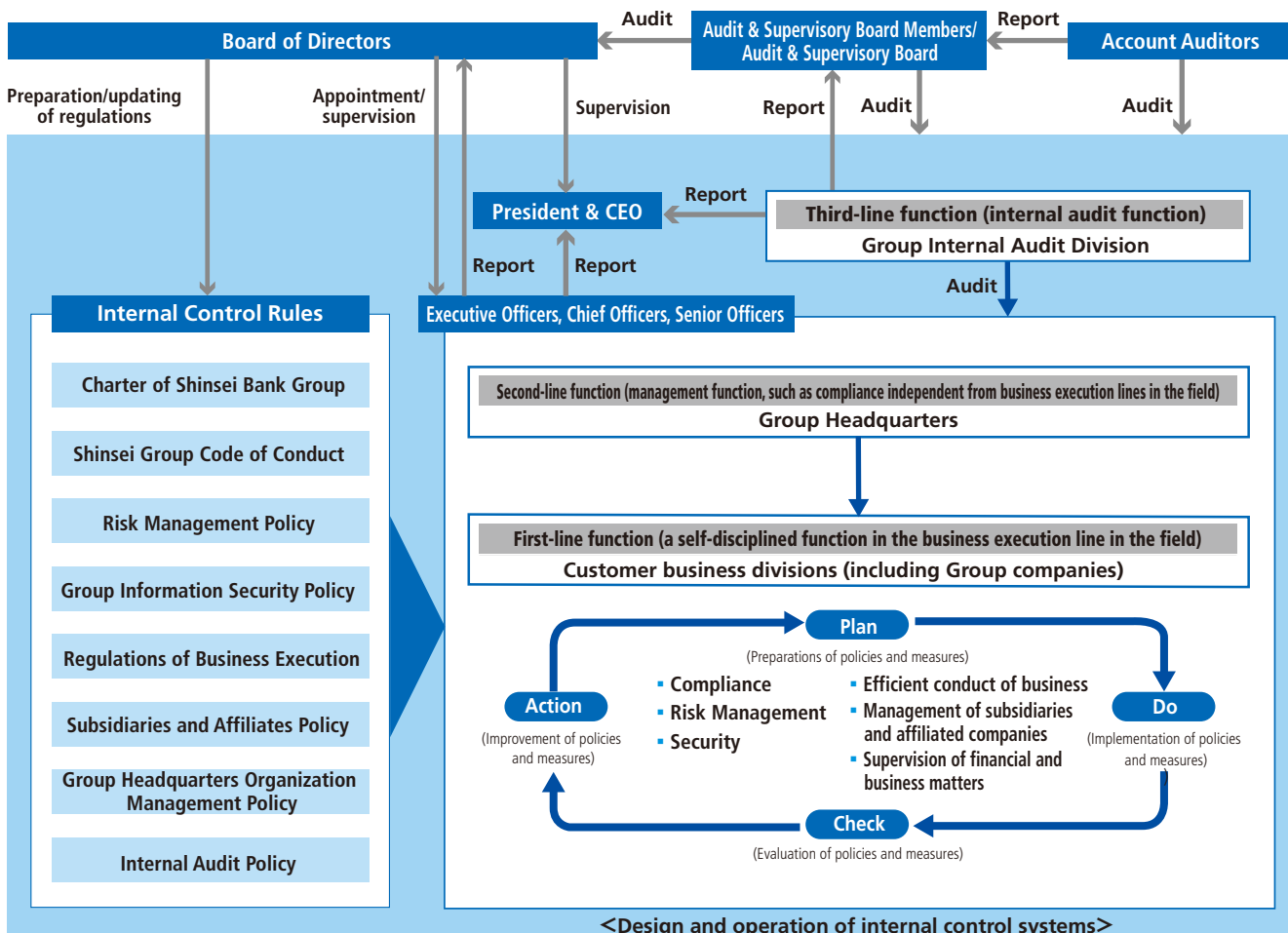
Internal Control

In order for corporate governance to function effectively, in addition to creating business execution oversight and decision-making frameworks around the Board of Directors, putting into place 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 that 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 by installing detailed internal control frameworks within the divisions executing business operations.

Shinsei Bank's basic policy governing its internal control systems has been 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 the Board of Directors, and, furthermore, the adequacy of its internal control systems is reviewed annually by the Board of Directors. The Internal Control Rules clearly state that (1) the internal control system has a self-disciplined function in the business execution line in the field (first-line); a management function, such as compliance independent from business execution lines (second-line); and an internal audit function independent from these functions (third-line); (2) the Board of Directors shall receive timely and appropriate reports from the second-line and third-line functions in order to grasp and deal with serious risks and problems appropriately, and shall periodically review the key policies and controls. Under this regulation, the Shinsei Bank Group Code of Conduct, Risk Management Policy, Group Information Security Policy, Regulations of Business

Internal Control Framework

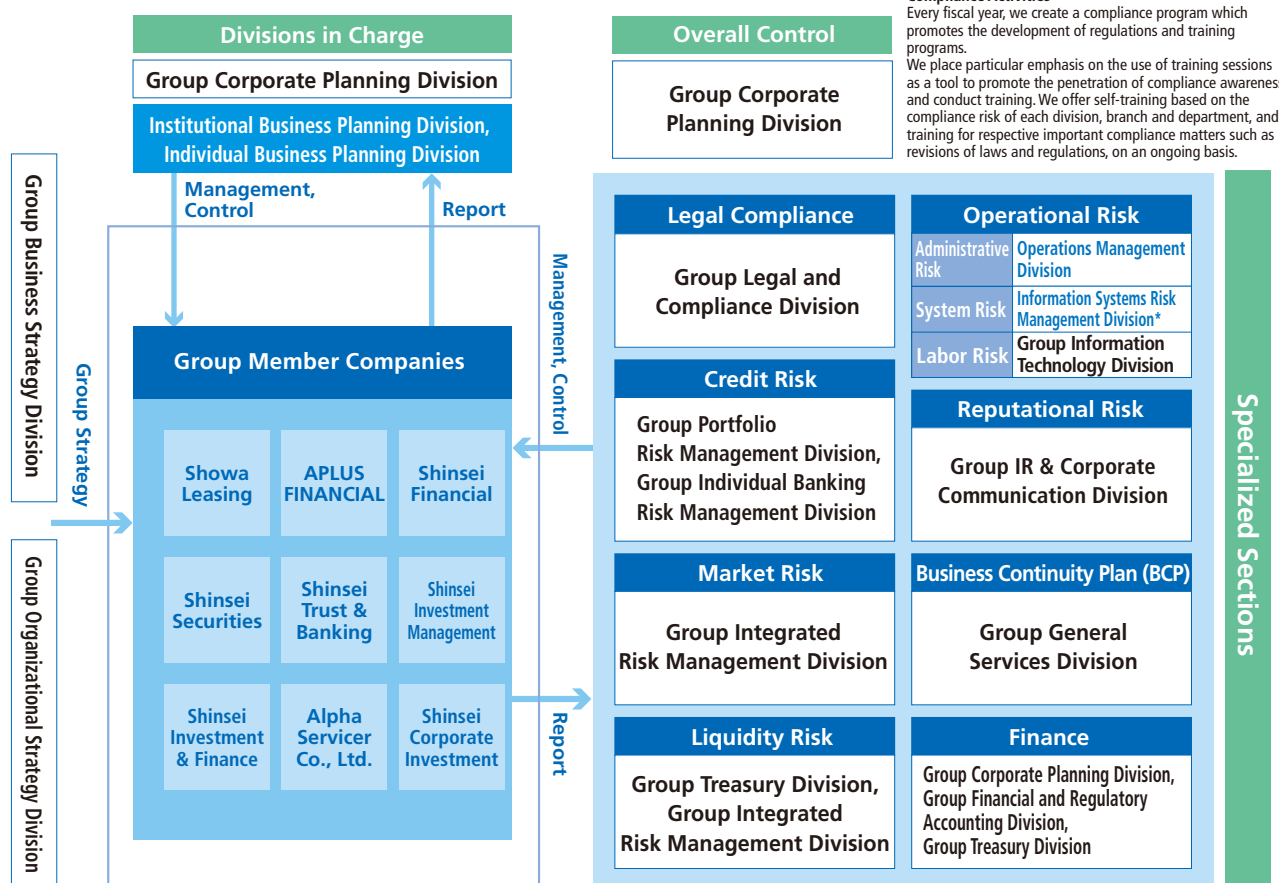


Execution, Subsidiaries and Affiliates Policy, Group Headquarters Organization Management Policy and Internal Audit Policy are established as the underlying rules. In addition, by improving the system for ensuring the effectiveness of the audits by Audit & Supervisory Board members, we are striving to ensure the propriety, transparency and efficiency of operations throughout the entire Group, including subsidiaries. Furthermore, we are striving to create systems to sever relationships with anti-social forces and ensure the propriety of operations, including establishing the Charter of Shinsei Bank Group Corporate Behavior to cut off relationships with anti-social forces.

Concerning Group governance, based on the May 2015 amendment of the Companies Act, as well as the Third Medium-Term Management Plan and the philosophy of Group integration as found in the Medium- to Long-Term Vision that started in April 2016, from April 2017, in line with the Banking Act and the Companies Act, as well as other laws and regulations, to the extent possible, indirect

functions of Group companies are being consolidated and integrated into the Group Headquarters established within Shinsei Bank. At the same time, the division in charge and the specialized sections of the Group Headquarters are cooperating to establish a system to manage subsidiaries and affiliates. Under this structure, matters related to the business activities and governance of subsidiaries and affiliates are periodically reported to the Group Executive Committee, and important matters concerning the management of subsidiaries and affiliates are referred and reported to the Group Executive Committee. Through such a framework, we are strengthening Group governance and improving management efficiency by further enhancing corporate management and the internal management system for the entire Group, including subsidiaries and affiliates, as well as working to provide high value-added that will lead to better customer service and optimizing the Group as a whole.

Group Internal Control Support Framework



Departments and other units spelled in black type belong to the Group Headquarters.

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

Corporate Governance

Legal and Compliance Activities

▶ Compliance Framework and Activities

The Bank's Compliance Committee, Group Legal and Compliance Division and compliance supervisors (general managers) and compliance managers assigned to divisions, branches and departments constitute the main elements of our compliance organization.

The Compliance Committee, chaired by the Chief Officer of the Group Legal and Compliance Division, reports on and discusses individual matters that arise at Shinsei Bank and compliance-related issues particular to Shinsei Bank. The Group Legal and Compliance Division has a Financial Crime Information Department that centrally manages countermeasures against anti-social forces, measures to combat bank transfer scams and other financial crimes, as well as efforts to prevent money laundering and the provision of funds to terrorist organizations. The Division also has a Legal Department that specializes in handling legal matters.

In fiscal 2017, the Group Compliance Committee, chaired by the Chief Officer of the Group Legal and Compliance Division, was newly established to discuss the basic policy for the Group-wide compliance platform and compliance-related matters. Also, the Group

Compliance Guidelines were formulated, and in addition to appointed compliance supervisors and compliance managers in divisions, branches and departments of key subsidiaries, the Group Legal and Compliance Division is building a platform to directly oversee them, and is otherwise working to integrate and strengthen the compliance function on a Group-wide basis.

▶ Legal Supervision

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. Prevention and proper management of these legal risks are a crucial function within the day-to-day operations of today's banks. Shinsei Bank has established the Legal Department within its Group Legal and Compliance Division that 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 and support from a legal standpoint our compliance posture.

Internal Audit

The Group Internal Audit Division (GIAD) of the Bank regularly makes direct reports regarding the results of audits and the status of GIAD activities to the President and the Audit & Supervisory Board. The GIAD supports the President in his responsibility for controlling business execution, in particular for establishing an effective system of internal controls, and also supports the Audit & Supervisory Board in their responsibilities for audit and supervisory activities, in particular for monitoring the system governing internal controls and its operation. The GIAD 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 GIAD is independent of all organizations subject to internal audits, as well as being independent of day-to-day operational activities and control processes, including regular preventive and detective controls. The GIAD utilizes a risk-based audit approach and creates a comprehensive risk assessment by combining a

macro-risk assessment, assessing risk from the perspective of the Banking Group as a whole, together with a micro-risk assessment, assessing risk from an individual business level. Audit resources are prioritized to businesses or processes perceived to have relatively higher risk.

The GIAD has enhanced its off-site monitoring activities by attending key management meetings, reviewing internal control documents and holding regular meetings with senior management.

The GIAD also takes the initiative in developing our internal auditors' expertise, in particular, strongly encouraging them to obtain professional certifications such as the Certified Internal Auditor and Certified Information Systems Auditor qualifications.

While the GIAD pursues the development and introduction of new audit techniques, it also recognizes the importance of maintaining fundamental skills necessary to performing its governance-related duties. By receiving regular quality assessments of the GIAD's internal audit activities carried out by a third-party organization, we are enabled to identify opportunities for improvement across the Group from an objective viewpoint.

For Shareholders and Investors

Fiscal 2017 IR Strategy

1. Strategically plan opportunities for the CEO to have constructive dialogue in Japan, North America, Europe and Asia
2. Fair information disclosure eyeing the introduction of fair disclosure (FD) rules
3. Improve and enhance information disclosure and IR activities being conscious of ESG investment
4. Multi-layered feedback of investors' and analysts' opinions to internal parties

Top Management's Commitment to IR (Number of IR Meetings in Fiscal 2017)

CEO	Executive Officers	IR Officers	Total
110	84	117	311
35%	27%	38%	100%

IR Activities (Fiscal 2017 Results)

Individual meetings (Including individual meetings at conferences)	311 (195 companies)
Participation in conferences held by securities companies (Total of domestic and overseas)	8 times
Shinsei IR Day (Total in-person and live-streaming attendance)	142 attendees
Financial results briefings and telephone conferences	9 times
Dialogue with directors and executive officers by bank analysts	2 times
IR activity reporting at Board of Directors' meetings, Group Executive Committee meetings and General Manager meetings	5 times

Formulation of IR/SR Policy

The Company established the IR/SR Policy of the Shinsei Bank Group, with the objective of using investor relations (IR) and shareholder relations (SR) as important management tools for sustainably increasing corporate value over the medium-to-long term, and proactively

encouraging constructive dialogue with investors, analysts, shareholders and other market participants.

URL: <http://www.shinseibank.com/corporate/en/irsr/>

Feature: Shinsei IR Day

Shinsei IR Day was held in February 2018. In addition to the Shinsei Bank Group's business and organizational strategies, executive officers discussed strategically important topics directly with attendees, with a focus on innovation of customer experience value in retail banking and the unsecured loan business as the Shinsei Bank Group's digital strategy. To ensure that all investors both in Japan and overseas had fair access to the information, the presentation videos, summaries of presentations, as well as summaries of Q&A sessions were uploaded to the website in both Japanese and English.

URL: <http://www.shinseibank.com/corporate/en/ir/presentation/irday/>



Initiatives for Employees

Group HR Strategies to Realize Our Management Principles

While the environment surrounding the financial industry is rapidly changing and major changes in values such as working style reforms are taking place, the Shinsei Bank Group regards HR-related matters as one of the most important tasks for the growth of the organization, and we implement ongoing reviews of our existing systems

and initiatives. The entire Group is working to develop and utilize personnel and foster an organizational culture in which personnel with a high level of expertise are able to provide distinctive financial solutions as well as with ability to work together across departments and groups to provide optimal value to our customers.

Work Style Reforms

▶ Work-Life Management

As society changes drastically, companies are being asked to alter the way people work. Concerning working hours in particular, curbing long working hours and encouraging employees to take paid time off are important issues, in terms of keeping employees healthy, helping employees keep a balance between work and private life, and promoting women in the workplace. By reducing overtime work and introducing a self-directed flex-time system of staggered working hours, along with half-day and hourly paid time-off systems, the Shinsei Bank Group is striving to create a healthy working environment for employees.

▶ Balance with Childcare and Family Care

In Japan, where the declining birthrate and the aging of the population are both progressing, employees increasingly face situations in which childcare or providing care for family members can temporarily disrupt their careers. In order for organizations to grow over the long term, rather than allowing such employees to give up on their careers, it is imperative that they offer a diverse array of working arrangements to allow these employees to contribute to the maximum extent possible under their restricted conditions, and ensure that such working styles are fully accepted by everyone in the organization. The Shinsei Bank Group has established a childcare leave system, a family care leave system and a life support leave of absence system as measures to allow employees to flexibly shape their careers.

>> Fiscal 2017 Achievements

Overtime work hours: 19.9 hours/month
Paid vacation days taken: 16.3 days/year

(Note 1) Data include only regular Bank employees.
(Note 2) Data include only regular Bank employees. Number of days includes special paid vacation days.

>> Fiscal 2017 Achievements

Number of employees who took childcare leave: 33
Number of people who took family care leave: 4
Number of employees who took life support leave of absence: 6

System	Details
Self-Directed Flex-Time	Allows employees to start or finish work 30 minutes or one hour earlier or later than the normal starting or ending times
Work from Home	Allows employees to work from their home or a relative's (within two degrees of kinship) home, up to a maximum of two days per week
Side Work/Concurrent Work	Allows employees to concurrently engage in personal business (outsourcing, business start-up, company executive, etc.) or work concurrently for another company
Half-Day Paid Time Off	Allows employees to take time off in half-day increments during designated hours in the morning or afternoon
Hourly Paid Time Off	Allows employees to take up to four hours off in one-hour increments, up to five days per year
Life Support Leave	Allows employees to take a leave of absence for reasons including childcare, family care, study abroad, fertility treatment, spouse work transfer, etc., not covered by existing frameworks
Maternity Leave	Female employees can take leave from 6 weeks prior to childbirth to 8 weeks after childbirth
Childcare Leave	Employees can take leave up until their child reaches the age of two at a maximum
Family Care Leave	In principle, employees can take up to a total of one year (365 days) off to care for each family member who requires care

(Note) Only employees satisfying certain conditions are eligible to take the systems noted above.

Promoting Diversity

▶ Promoting Inclusion & Diversity

In order to further promote diversity, on February 1, 2018, the Shinsei Bank Group established the Diversity Promotion Office within the Group Human Resources Division. Promoting diverse work styles, promoting women in the workplace, the utilization of seniors, etc. are important themes, and we will further promote measures related to these topics. As an example, to help promote diverse work styles, in April 2018 we introduced a telecommuting system and also started allowing employees to engage in both side work and concurrent work. We will also consider further hiring and promotion of outside talent, including non-Japanese nationals.



▶ Promoting Women in the Workplace

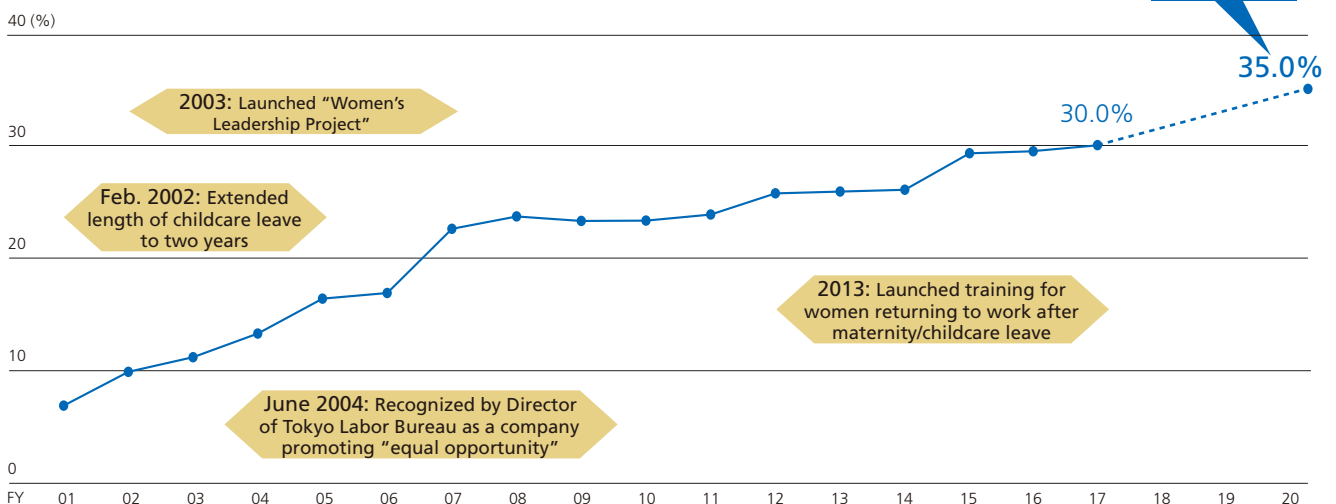
Shinsei Bank President and Chief Executive Officer Hideyuki Kudo supports the “Declaration on Action by a Group of Male Leaders Who Will Create a Society in which Women Shine” advocated by the Cabinet Office. In February 2018, the Bank established the “Committee on Promoting the Role of Group Women in the Workplace,” and is developing a variety of career development systems to promote female employees in the workplace. In fiscal 2020, the Bank aims to have a female manager (section leader-level or higher)¹ ratio of 17% (13.8% as of March 31, 2018), and a female manager (section manager-level or higher)² ratio of 35% (30.0% as of March 31, 2018).

Career Development System Supporting Women with a Career Orientation

- Leadership education and training
- Female career path training
- Hearing for female employees before they obtain maternity leave
- Support for self-learning during childcare leave
- Training for women returning to work after maternity/childcare leave (for those returning from leave; for managers of the women)
- Shinsei Women’s Networking Lunch

(Note 1) Ranking of senior manager, deputy senior manager, or above
(Note 2) Ranking of manager or above

Promoting Role of Women in Workplace, Trend in Female Manager Ratio



Initiatives for Customers

Customer-Oriented Business Conduct (Fiduciary Duty)

As a guideline for conducting business operations with top priority on customers' "best interests," the Bank established the "Policy on Customer-Oriented Business Conduct" (hereinafter referred to as the "Policy") and an "Action Plan" to put this Policy into practice. Each Shinsei Bank Group company and all executives and employees of the Group have reaffirmed the importance of "Pursuing customer-oriented business conduct and

contributing to our customers' asset formation," and by firmly committing to customer-oriented business operations, we will contribute to the sustainable growth and development of society and the economy.

For additional details, please refer to Shinsei Bank's website.

<http://www.shinseibank.com/english/fiduciaryduty.html>

Shinsei Bank Group Companies that Have Established and Announced a Policy



The Policy and Status of Initiatives

Policy	Actions
Implementation of the Policy on Customer-Oriented Business Conduct	The Bank is regularly checking the status of the implementation of action plans for each Policy.
The Best Interests of the Customers	We have enhanced our products and services, particularly for customers in the asset accumulation segment. One such example is the installment-type NISA.
Appropriate Management of Conflicts of Interest	For newly introduced financial products and services, the committee screens and checks for conflicts of interest. 29 new products were screened and checked.
Transparency of Expense and Fee Structures	Taking feedback from customers into consideration, we are working to make descriptions of fees and expenses for financial products in advertisements easy to understand.
Providing Important Information in Easily Understandable Ways	The Bank is conducting continuous monitoring, and is providing feedback to employees so that they can help customers even more appropriately.
Providing Services Suitable for Each Customer	The Bank is continuously monitoring to see if financial products and services that are good matches for customers are being selected, and to see if these products and services are being explained in an easily understandable manner.
Frameworks for Appropriate Motivation of Employees	The results of customer satisfaction surveys were added as an evaluation item for fiscal 2018, to encourage employees to act in the best interests of customers.

Social Initiatives

Our Approach

As a corporate group that provides financial services to society, the Shinsei Bank Group is aware that the healthy development of society is the foundation for the Group's continued existence. As such, we actively promote Corporate Philanthropic Initiatives as part of our commitment to acting as a responsible corporate citizen and contributing to the development of a sustainable society.

The Shinsei Bank Group promotes employee-driven philanthropic activities, whereby approximately 400 employees throughout the entire Group participated in 31 activities in fiscal 2017 (ended March 31, 2018).



"MoneyConnection®" Financial Literacy Program

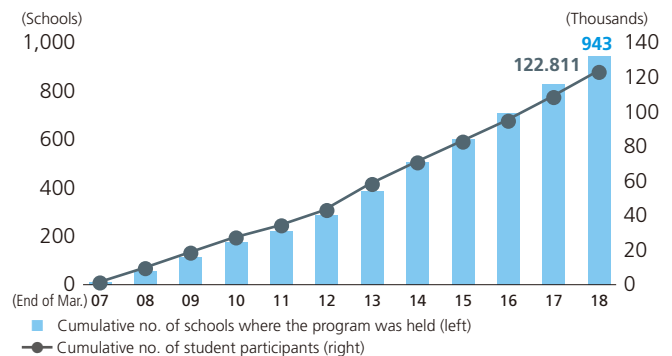
In cooperation with Sodateage.net, an authorized specified non-profit organization, the Shinsei Bank Group holds "MoneyConnection®," a financial literacy program that aims to help more young people avoid being not in employment, education or training (NEET).

This program was developed under the understanding that "a lack of accurate knowledge regarding money and a lack of monetary sense" is one of the reasons that people lapse into a NEET situation. We offer this program with the goal of providing opportunities for high school students, primarily, to consider working, money and the future.

Over the 11 years through March 31, 2018, since the program was launched, the course has been held at 943 schools in 35 prefectures, with the cumulative number of participating students reaching 122,811. As an initiative

that is characterized by its local ties, the program has also attracted strong interest from regional financial institutions and has received sponsorship from two local banks.

No. of Schools Where the Program Was Held No. of Student Participants



Post-quake Recovery Support Activities in the Tohoku Region of Japan

Soon after the Great East Japan Earthquake, Shinsei Bank Group employees began and have continued to provide support to local communities in various ways. These include traveling to the region to provide support, collecting donations within the Bank and opening a company market to sell food and supplies made at businesses that support the employment of handicapped individuals in Miyagi Prefecture, primarily.

Although the ways in which employees have connected with the affected region have continued to change over time, our employees have continued to work to understand the current situation and to place importance on empathy while continuing to provide the support needed today into the future.

Despite having fewer opportunities to directly touch the devastation caused by the disaster in the region, during

exchanges with the local residents, volunteer participants often hear about their experiences during the earthquake and about their thoughts for the future, which has served as a valuable opportunity for volunteers to reconsider recovery from the earthquake as if it was for themselves.



A Christmas concert held in Higashi-Matsushima City, Miyagi Prefecture, as a part of the Bank's disaster-relief and support activities.

Environmental Initiatives

Solving Environmental Issues by Financing Renewable Energy Projects

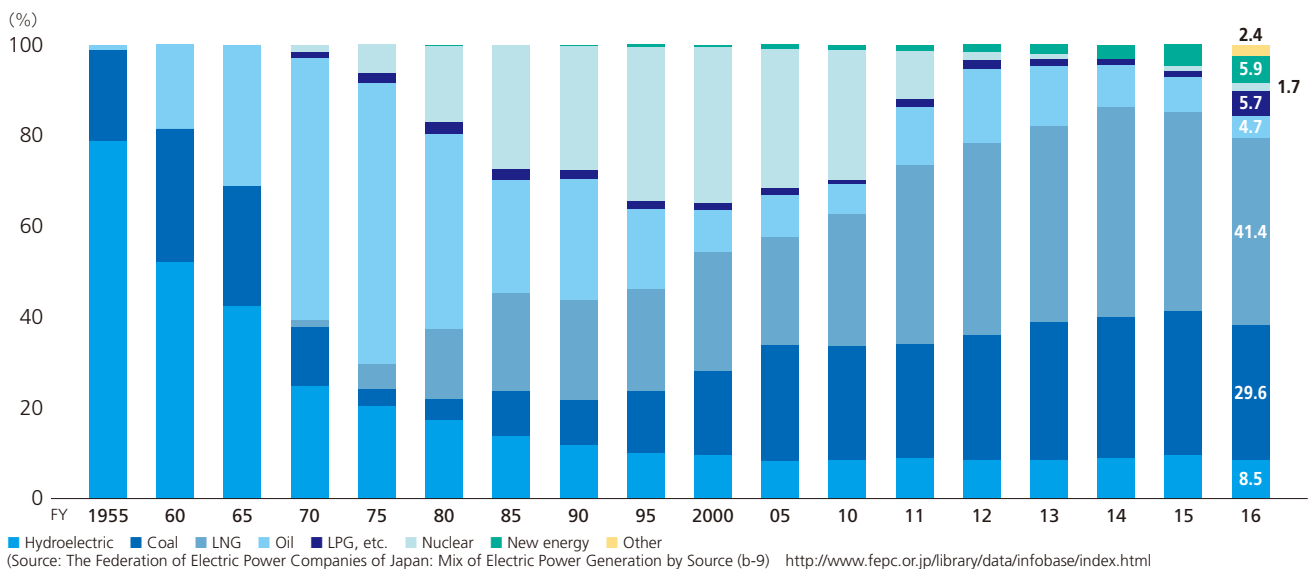
▶ Japan's Energy Issue

In Japan, fossil fuels such as petroleum, coal and LNG account for a large proportion of the energy supply, and Japan is dependent on overseas sources for most of these fossil fuels. Meanwhile, energy markets are becoming increasingly unstable, as economic growth in emerging markets and other factors are leading to an increase in global energy demand and fluctuating fuel prices. Reducing greenhouse gas emissions that result from fossil fuel-based thermal power generation is also an important issue. Under these circumstances, renewable

energy, which has minimal impact on the environment, is becoming increasingly important.

Although the ratio of LNG, coal and petroleum for thermal power generation is still high following the March 2011 Great East Japan Earthquake, renewable energy is gradually increasing, partially due to the introduction of the feed-in tariff system with fixed rates for purchases of renewable energy in July 2012. In fiscal 2016, clean energy (solar, wind and geothermal) accounted for roughly 6% of Japan's energy mix.

Mix of Electric Power Generated by Source (Total for the 10 electric power utilities (including power received))



(Note 1) Figures for fiscal 1970 and before cover the nine power companies, and figures for fiscal 1975 to fiscal 2015 cover the 10 power companies. Source: Data were prepared by the Federation of Electric Power Companies of Japan and covered 10 areas in fiscal 2016. Source: Agency of Natural Resources, Survey of Electric Power Statistics
 (Note 2) LPG, etc.: LPG and other gases

▶ Japan's Energy Strategy

In July 2015, the Ministry of Economy, Trade and Industry announced the Long-term Energy Supply and Demand Outlook ("Energy Mix") based on future energy security, stable supply, improvements to economic efficiency and environmental suitability. According to the Outlook, energy supply and demand in 2030 will be about 10% less than in fiscal 2013 (energy-saving), and the ratio of renewable energy in the supply of electric power will be about 22% to 24% of the total. Due to the fact that there is a significant amount of domestic megasolar power generation facilities that have yet to be installed following the revision of the feed-in tariff system in April 2017, a stable introduction of renewable energy such as

megasolar, wind power and biomass is expected over the medium-to-long term, aimed at achieving the energy mix (fiscal 2030).

Trends in the "Energy Mix" (Domestic)

Outlook is for reaching the Energy Mix goal (for fiscal 2030) through introductions of these sources going forward.

MW	Level of introduction (March 2017)	Energy Mix (Fiscal 2030)	Energy mix attainment ratio (%)
Solar (Residential and non-residential)	39,100	64,000	About 61%
Wind power	3,390	10,000	About 34%
Biomass	3,150	6,020~7,280	About 47%

Note: Long-term outlook for energy supply/demand (Ministry of Economy, Trade and Industry (METI), the so-called "Energy Mix" released in July 2015). Graph prepared by the Bank based on materials provided at a METI seminar

▶ The Shinsei Bank Group's Renewable Energy Initiatives

Since 2012, Shinsei Bank has been accumulating know-how about project origination, risk management and other matters through the provision of financing for renewable energy projects involving solar power, wind power, biomass and geothermal energy. In addition, the Bank has expanded the base of domestic project finance investors and promoted syndication with regional financial institutions.

Making full use of advanced analytical capabilities for cash-flow finance and expertise based on its extensive experience, the Shinsei Bank Group provides fine-tuned

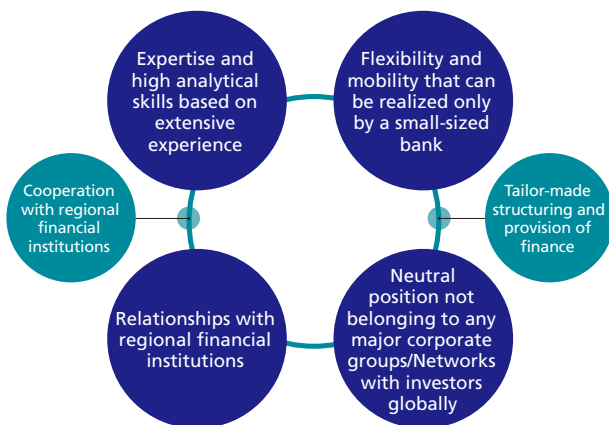
services both to financial institutions in areas where there are many renewable energy projects, as well as to domestic and overseas sponsors and a diverse range of investors in renewable energy projects in Japan.

As a result, solar power, wind power and biomass power project finance account for 75%, 9% and 7%, respectively, of the total balance of domestic project finance (approximately ¥220 billion, as of March 31, 2018).

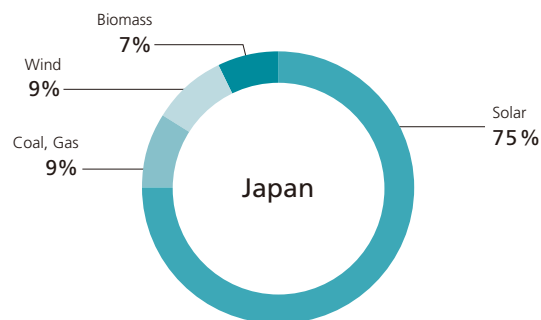
The Shinsei Bank Group will continue to contribute to the development of the renewable energy market in Japan and to solving environmental problems as well as energy issues through the renewable energy business.

Shinsei Bank Group's Strengths

Create added values from our unique positioning that is different from both megabanks and regional financial institutions



Portfolio by Power Type



Feature: The Japan Renewable Energy Project Finance Conference 2018

We invited key project stakeholders in Japan as presenters and held this conference focusing on topics including the prospects for renewable energy and the key points for credit assessment of projects. Recently, investment opportunities in the field of renewable energy have become increasingly important and gained more attention from domestic and overseas financial institutions, as well as people involved in renewable energy and project finance who attended the event.



Conference Objectives

- Solutions to investors' issues as they consider renewable energy projects
- Increase contact with renewable energy project finance investors
- Expand the renewable energy project finance investor base

Since 2012, we have accumulated know-how through our involvement in a large number of renewable energy project finance deals. Going forward, we will continue to work with parties including sponsors, business operators, O&M (Operation & Management) companies, lawyers and lenders, and by sharing knowledge and expertise with one another, and we will contribute to the promotion of the renewable energy business which aims to address Japan's energy problem.

Environmental Initiatives

Case of Renewable Energy Project Financing

Discussion with Canadian Solar Infrastructure Fund, Inc. (partial excerpt)

Mr. Yoshihisa Otake (Center)

Executive Director, Canadian Solar Infrastructure Fund, Inc.
CEO & Representative Director, Canadian Solar Asset Management K.K.

Kazutaka Kiuchi (Left)

Manager, Project Finance Division, Shinsei Bank, Limited

Shinobu Jitsukawa (Right)

Deputy General Manager, Syndicated Finance Division, Shinsei Bank, Limited



Otake: In addition to being a leading bank, you have a strong track record in project finance. I felt that you possess industry knowledge. We asked the Bank to provide financing to a listed infrastructure investment fund to acquire solar power generation facilities as there are few precedents for providing financing to listed infrastructure investment funds, and we truly appreciate your working with us on this first deal of its kind.

Jitsukawa: When you first approached us about this project, I realized that this would not be an easy deal to execute, as not only was it the largest project ever in terms of scale and the amount to be borrowed as it was the first unsecured, unguaranteed financing to an infrastructure investment fund in Japan and would involve a large syndication. However, I sensed your strong desire to start having infrastructure investment funds obtain financing in a similar manner as J-REITs. We also wanted to contribute to the development of the infrastructure investment fund debt market as an arranger, so I thought it would be a rewarding project.

Kiuchi: The facts that the loan would be unsecured and there would be additional asset acquisitions during the

financing period were some of the aspects which are not traditionally included in project finance frameworks, and these were particularly important points to think about from our side as well as the lender side. However, I think that in the end the listing was executed in a way that was understood and supported by investors. Going forward, I hope to firmly establish a form of financing that combines the frameworks of J-REITs and project finance, and thereby support the growth of both your investment fund and the infrastructure fund market as a whole.

Otake: I believe that this investment fund, which aims to increase the generation of renewable energy, is truly an environmentally friendly investment opportunity, and that it contributes to economic development in local communities. Many solar power stations are located in places that were previously difficult to effectively make use of, so I believe that we are helping to create employment opportunities in such areas, helping to boost tax revenue and also contributing to the rejuvenation of regional economies.

We received a Green Bond rating* from the Japan Credit Rating Agency (JCR) for our borrowing used for the acquisition of 13 assets executed in October 2017, and **we received the highest assessment of "Green 1" as an overall rating.** This was the first time for an infrastructure fund to issue a Green Bond. Looking to the future, I think that in addition to institutional investors, individual investors will also appreciate the ESG elements of this bond, and I hope it will become a benchmark for investment decision making going forward.

* Green bonds are bonds in which the use of proceeds is limited to business activities that have a positive impact on the environment, including efforts to tackle climate change, water issues and biodiversity.



Canadian Solar power facility in Mashikimachi (Japan)

Addressing Societal Needs by Selling Used Construction Machinery to Emerging Countries

Harnessing its expertise and corporate network cultivated through the leasing business, Showa Leasing is focusing on its business as a broker-dealer buying and selling used equipment. The company has particular expertise in construction machinery, and, therefore, made Tozai Boeki a Group company in November 2015. Tozai Boeki holds three parade auctions a year, where participants bid up the price of machines wheeled out autonomously one at a time. Many overseas buyers, especially buyers from China and Southeast Asia, come to these auctions, as Japanese used construction machinery has a solid reputation as being good. By increasing sales of used equipment, the company will not only support the infrastructure of emerging countries, but will also continue to respond to societal needs with respect to the environment, such as

expanding the use of Japanese-made construction machinery that meets rigorous standards.



A parade auction

Tozai Boeki Co., Ltd. (Wholly owned subsidiary of Showa Leasing)
7-15-1 Minatojima, Chuo-ku, Kobe, Hyogo 650-0045
<https://www.tozaiboeki.co.jp>



Tozai Boeki's Brokerage-Dealer Volume



Efforts to Address Unoccupied Housing Issues (Activation of the Pre-Owned Housing Market) through Pre-Owned Housing Purchase/Resale Loans

The number of unoccupied dwellings has been steadily increasing due to the ongoing aging of the population and demographic changes. The effective use of unoccupied dwellings is an urgent issue as their impact on the living environment, such as in terms of disaster prevention, sanitation and the landscape, represents a social problem.

The ratio of existing housing on the market, which makes up Japan's total amount of housing in circulation, is about 14.7% (2013), which remains at a low level of around one-sixth when compared with European countries and the United States.

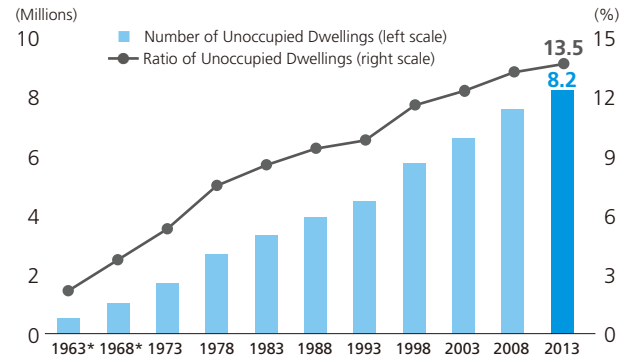
Under these circumstances, Japan's Ministry of Land, Infrastructure, Transport and Tourism is advocating switching to a housing stock utilization-model market, which will facilitate renovation and placement of existing housing in the market with the aim for the total market to reach ¥20 trillion. On the other hand, financial support was indispensable for the purchase and resale of rapidly marketable pre-owned housing for those real estate companies that remodel or renovate and that are thus able to improve the value of pre-owned housing.

As a way to solve the challenges faced by the pre-owned housing market, APLUS Co., Ltd. (hereafter "APLUS"), a subsidiary of APLUS FINANCIAL Co., Ltd., developed a "pre-owned housing purchase/resale loan"

product. Having previously dealt with housing loan-related products, APLUS has been building a collaborative relationship with a financial institution specializing in housing loans (hereafter referred to as "the Mortgage Bank") and, while utilizing the Mortgage Bank's sales channels, finances the pre-owned housing purchase funds of real estate operators and their renovation work funds as well as various other expenses.

The Shinsei Bank Group will contribute to the revitalization of the pre-owned housing market in Japan through APLUS's pre-owned purchase/resale loan business.

Unoccupied Housing Conditions



* Numerical values that exclude Okinawa Prefecture (Source: Housing and Land Survey, Statistics Bureau, Ministry of Internal Affairs and Communications) <http://www.stat.go.jp/english/data/jyutaku/index.html>

Global Tax Policy

Global Tax Policy of Shinsei Bank Group

▶ Compliance and Fair Tax Payments

The Shinsei Bank Group pays its taxes in a timely and appropriate manner in accordance with all applicable laws, including without limitation local and international tax laws, tax treaties and OECD guidelines, following an interpretation compliant with the spirit and purpose thereof. We complete all statutory procedures, including the filing of tax returns and tax payments, within the applicable deadlines.

▶ Tax Planning

The Shinsei Bank Group emphasizes that its decisions related to business planning and/or business operations are made based on commercial purposes. We recognize taxes are a cost, and, therefore, we consider optimizing our tax position. We, however, do not conduct any false or unethical transactions aimed at tax avoidance. We will act on our best efforts to carry out all internal transactions in line with the arms-length principle and do not operate our businesses in perceived tax havens for the purpose of false tax avoidance.

▶ Treatment of Uncertain Tax Positions

The Shinsei Bank Group recognizes that it may face uncertain tax positions arising from the uncertain interpretation of tax laws and relevant rules. In such cases,

we, generally, take a most-appropriate position, which means a position that can be regarded as a rational position on the basis of a reasonable interpretation. If the materiality of such an uncertain tax position is regarded as significant and/or such uncertain tax position may have a significant impact to the amount of our tax payments and/or our financial statements, we will endeavor to minimize such uncertainty by obtaining the opinion of external tax advisors, and/or seeking an advance ruling with the tax authorities.

▶ Relationship with Tax Authorities

The Shinsei Bank Group endeavors to establish good relationships with the tax authorities by disclosing all relevant information in a timely and appropriate manner under the limitation of its responsibility for protecting and managing proprietary information in accordance with all relevant laws without limitation to tax laws. If we face a conflict in the interpretation of tax laws with the tax authorities, we aim to settle this by explaining the most-appropriate position based on available decrees, precedent cases, etc.

For further details, please access the following URL on the Bank's website:

<http://www.shinseibank.com/corporate/en/tax/>

Risk Management

Management Strategy and Risk Capital Allocation

The Bank defines “risk capital” as an integrated control approach to risk that groups risk into categories, namely (1) credit risk, (2) market risk, (3) interest rate risk and (4) operational risk, and measures exposures relating to each risk category.

▶ Risk Capital

An approach to defining the type and total amount of risk (risk appetite) the Bank thinks it should be willing to adopt so it can attain its management plan goals within the limits of the Group’s management strength. The Bank measured the risk capital based on a stress test in response to environmental changes, and operated its management plan and risk appetite in an integrated

manner, by incorporating the results of the risk capital to the budget compilation process in fiscal 2017.

▶ Monitoring of Allocated Risk Capital

By tracking business performance adjusted for allocated risk capital on a monthly basis, risk capital is effectively put to work as a tool to comprehensively manage progress toward management plan goals from a risk-taking perspective. Moreover, risk capital budgeting is useful for judging business performance when monitoring of this performance adjusted for allocated risk capital is combined with risk-return monitoring as an indicator of whether allocated risk capital has been effectively deployed.

Shinsei Bank Group’s Portfolio

The Group’s nonperforming loan ratio (nonconsolidated) decreased to 0.17% as of March 31, 2018, because deteriorated credit standing had little negative impact on the Group’s corporate loans and real estate-related loans centered on non-recourse loans. Meanwhile, as a result

of higher growth of the unsecured personal loan balance at subsidiaries with a higher risk-monitored loan ratio, the Group’s risk-monitored loan ratio (consolidated) increased to 1.53% as of March 31, 2018.

Risk Factors and Future Policy

In the Bank’s three-year Medium-Term Management Plan that commenced in fiscal 2016, we grouped our businesses into “Growth Areas,” “Stable Revenue Areas,” “Strategic Initiative Areas” and “Curtailed Areas,” and put forward consumer finance and structured finance in particular as growth areas.

While the external environment has continued to improve, we must continue to monitor the downside risks to the global economy from such factors as the future adjustments to U.S. monetary policy, the impact of the U.K.’s exit from the EU, geopolitical risks and the impact of such factors on financial markets. Risk management operations will continue efforts to accurately

understand both domestic and overseas environments and develop a recognition that is shared by senior management on risk preferences and comprehension of the risk profile of the Group’s portfolio from multiple angles using more-advanced stress tests and other means.

Also, an appropriate system with checks and balances is applied to initiatives in growth areas led by business promotion sections and implementation of business strategies. Through advanced measurement of risk-return and a stronger monitoring function, we are working to bolster and improve our risk management posture through flexibility in reviewing and revising risk strategies as the need arises.

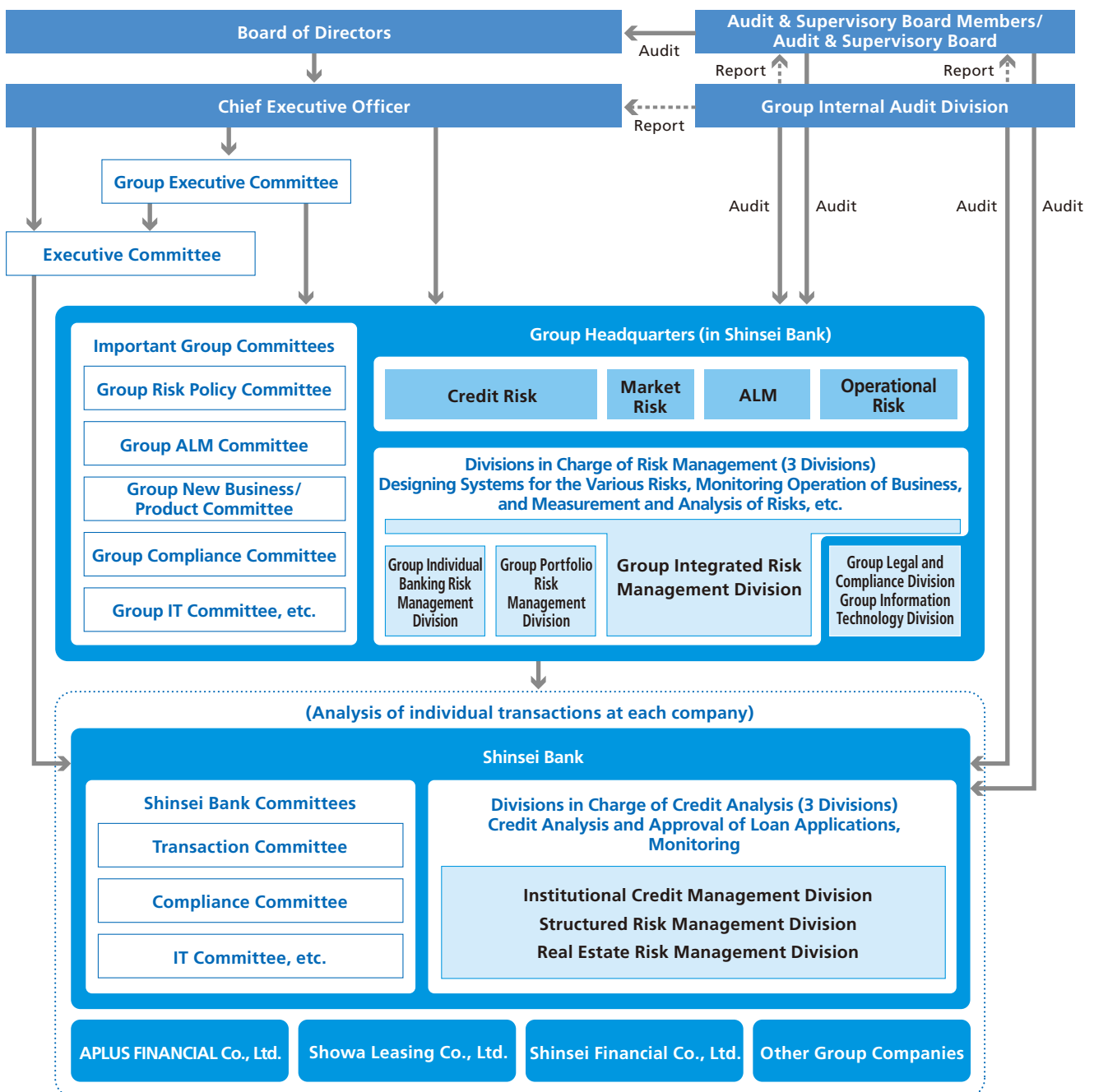
Risk Management

Overview of the Group's Risk Management Systems

To ensure its risk management is effective, the Bank has established various specific committees such as the "Group Risk Policy Committee," "Transaction Committee," "Group Asset and Liability Management (ALM) Committee" and "Market Business Management Committee." All these committees are able to function

effectively as bodies responsible for making important risk judgments by constantly improving their composition and functions in response to changes in the operating environment. The Group Risk Policy Committee, whose members include senior management such as the CEO, Chief Officer of the Group head of corporate planning

Risk Management System Chart (as of May 1, 2018)



and finance and the Group head of risk management, performs the crucial role of setting and coordinating the appropriate and optimal level of risk taking by concurrently reviewing the Bank's risk management policies and business strategy. Shinsei Bank has established the "Risk

Management Policy" as its fundamental policy on risk management and basic recognition of risk categories based upon its understanding of the totality of risks faced by the entire Shinsei Bank Group and the need to actively manage them.

Basic Concept regarding Risk Management

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, and remain within appropriate limits. To strengthen the required monitoring

functions and further develop its risk management framework, the Bank established two risk management groups: 1) credit analysis divisions responsible for credit analysis, loan application approvals and monitoring and 2) divisions responsible for overall risk management, measuring and analyzing credit, market and other risks, and integrating functions for examining and verifying fair value.

Definitions of Risk Categories

Risk Categories	Definition
Credit Risk	Credit risk is the risk of incurring losses due to deterioration in the financial condition of a borrower resulting in an erosion or total loss of asset value (including off-balance assets).
Market Risk	Market risk is the risk of incurring losses due to changes in the value of assets or liabilities through fluctuations of various risk factors such as interest rates, foreign exchange rates, stock prices, etc.
Liquidity Risk	Liquidity risk (fund-raising risk) is the risk of incurring losses due to difficulties in securing necessary funds or the need to raise funds at an interest rate that is substantially higher than normal stemming from mismatches in the maturities of assets and liabilities or an unexpected outflow of funds.
Operational Risk	Operational risk refers to the risk of incurring losses resulting from inadequate or failed internal processes, personnel and systems or from external events.

For the details of each risk management, please see "Capital Adequacy Requirement (Basel Accord) Pillar III (Market Discipline) Disclosure" (pages 195-238).

Risk Management

▶ Credit Risk

Institutional Business Credit Risk Management

The Bank has clearly set out its basic policy for credit provision operations and specific guidelines for credit risk management. Credit risk management processes for institutional customer businesses are broadly grouped into credit risk management for individual transactions and portfolio-based credit risk management.

■ Credit Risk Management for Individual Transactions

(1) Organization and Structure

Regarding credit assessments for institutional business, an effective system of checks and balances on sales promotion divisions is established by veto rights of risk management divisions.

(2) Obligor Rating Systems

Using credit estimation models including a model benchmarking the credit ratings of external credit rating agencies, we calculate model ratings and apply adjustments to these based on qualitative factors, and use this method to determine credit rankings.

■ Portfolio-Based Credit Risk Management

(1) Monitoring Analysis System

At Shinsei Bank, we perform analysis that derives from unique entry points based on the risk profiles of each product and monitor risk diversification status by segments such as industry, ratings, products and regions, to report to the appropriate management layer.

(2) Quantifying Credit Risk

By factoring measured expected losses and unexpected losses into loan spreads, we can harness this data to ensure an appropriate risk-return in each transaction.

(3) Credit Concentration Guideline

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, we conduct reviews and adopt countermeasures.

Individual Business Credit Risk Management

Risk management for our Consumer Finance Businesses encompasses all operations from loan application assessment (entry-point credit) to managing risks after a contract is signed (credit monitoring) and, if needed, loan collection operations.

The Group Individual Banking Risk Management Division is in charge of risk management for products for individual customers, including our Consumer Finance Businesses. The division holds a monthly risk performance review meeting with other risk-related divisions, including the Chief Officer of the Group head of risk management at the Bank as well as risk officers from subsidiaries, in order to share information and promote a shared awareness of risks. The division also provides operational support and advice to relevant units of the Bank and its subsidiaries relating to overall risk management concerning credit administration policies and credit strategies.

Risk-related divisions at Group subsidiaries carry out appropriate risk control through a process that incorporates scoring models into credit administration processes, while using credit-related databases of customer attributes stemming from the nature of their businesses, credit information and transaction history. The scoring models, i.e., initial credit score, score at credit monitoring stages, collection strategy scores, etc., were developed using statistical methodologies, and, to maintain the accuracy of the scoring models in line with the level achieved when it was first developed, model performance is constantly monitored and the model is subject to fine tuning as needed.

The Group Individual Banking Risk Management Division is working to elevate its scoring model development and enhance the entire Group's credit provision capabilities in ways that help maximize earnings of the entire Group in the medium and long terms.

Credit costs are crucial to the management of profitability in the Consumer Finance Business. We, therefore, conduct monitoring while tracking multiple leading indicators and verification metrics at the portfolio level to enable us to quickly grasp any deterioration in the portfolio's overall asset quality and take timely action to improve its profitability.

Credit Risks on Market-Related Transactions

Counterparty credit risk attendant with market transactions such as derivative transactions are managed based on estimations of the fair value and future value fluctuations of relevant transactions.

Self-Assessment

Asset self-assessments are a part of credit risk management. Financial institutions examine and analyze their asset holdings so they can grasp the actual state of their assets as steps in preparing for appropriate asset write-downs and write-offs as well as reserve provisioning.

At Shinsei Bank, sales promotion divisions and credit analysis divisions conduct asset appraisals, and risk management divisions that are independent of sales promotion and credit analysis verify appraisal results.

Measures to Meet Basel Accord Requirements

In order to comply with the credit risk regulations under the Basel Accord, Shinsei Bank has adopted the Foundation Internal Ratings-Based (F-IRB) Approach. Based on this framework, we have secured strict internal controls vis-à-vis our internal ratings system, the foundation of credit risk management, and we conduct estimations of parameters such as the design and operation of our internal rating system and default rates. The benefits of our internal rating system are reflected not only in internal control of credit risk but also in calculations of regulatory capital requirements.

▶ Market Risk

Market Risk Management Policy

In accordance with the "Trading Business Risk Management Policy," market risks in the trading business are managed through a series of processes with the Group Executive Committee determining overall market risk and loss limits. The Group Integrated Risk Management Division monitors on a daily basis the status of compliance with these limits, and the Market Business Management Committee reviews every month trends at individual businesses, the status of profits and losses, market risk conditions and overall business risks, including the risks of products handled.

VaR Data for Fiscal Year-End, Maximum, Minimum and Average during Fiscal 2016 and 2017

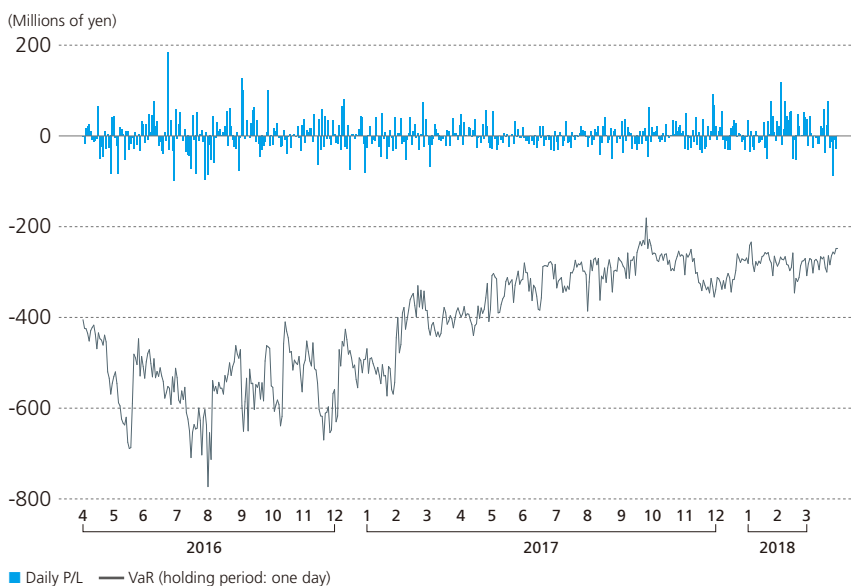
	Millions of yen			
	FY2016		FY2017	
	Consolidated	Nonconsolidated	Consolidated	Nonconsolidated
FY End VaR	1,231	1,155	783	740
FY VaR				
Maximum	2,444	1,998	1,391	1,353
Average	1,627	1,367	956	917
Minimum	1,042	919	572	540

Stressed VaR Data for Fiscal Year-End, Maximum, Minimum and Average during Fiscal 2016 and 2017

	Millions of yen			
	FY2016		FY2017	
	Consolidated	Nonconsolidated	Consolidated	Nonconsolidated
FY End VaR	3,171	2,992	3,915	3,690
FY VaR				
Maximum	4,248	3,604	4,161	4,017
Average	2,923	2,485	2,869	2,728
Minimum	2,050	1,843	1,832	1,755

Risk Management

VaR and Daily Profit and Loss (Backtesting) (FY2017, Consolidated basis)



Backtesting on the VaR Model Applied to the Trading Account

Backtesting involves comparing 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

Trading Book

Market risk in the trading book is managed through techniques such as VaR. VaR is the maximum loss amount expected due to future price fluctuations within a given probability range, assuming a specific position is held over a specific time horizon. In addition, we measure multi-faceted risks using sensitivity analysis for various factors. In calculating the amounts equivalent to market risk, the Bank's VaR model is based on a historical simulation method and uses a 99% confidence level, a 10-day holding period and an observation period of 250 days (see the previous page). The effectiveness of the VaR model is verified through backtesting, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period.

Interest Rate Risk

Interest rate risk is the risk of eroding profits or incurring losses due to market interest rate fluctuations amid mismatches in the interest rate or maturities of assets and liabilities. To measure interest rate risk exposure, we calculate the decrease in the economic value of the banking book from an unexpected 1% interest rate increase [a

1% parallel upward shift in interest rates for loan originations (bank assets) and core deposits (bank liabilities)]. This calculated exposure is used for internal controls. As interest rate risk exposure is significantly impacted by the recognition of asset and liability maturities and loan prepayments, we are endeavoring to appropriately capture interest rate risk.

Risk relating 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 their underlying assets and counterparties. The Bank has established a system to ensure appropriate management of these risks, and regularly reviews its investment policies based on the investment environment. The Transaction Committee, Market Business Management Committee and the Group Risk Policy Committee strive to promote appropriate management of risks through regular reviews of risk exposure.

▶ Liquidity Risk Management

Liquidity Risk Management Policy

As for funding liquidity risk, pursuant to the “Liquidity Risk Management Policy,” the Group Treasury Division, a fund-raising management unit, and the Group Integrated Risk Management Division, a funding liquidity risk management unit, have been put in place, and the Group ALM Committee receives reports on the following designated liquidity risk management indicators: “funding gap limit,” “minimum liquidity reserves,” “liquidity stress tests” and “liquidity coverage ratio.” The levels of funding liquidity risk consist of “Normal,” “Need for Concern,” “Crisis” and “Risk Administration Mode,” with the Group ALM Committee determining the current mode. The response framework for each specific mode is set forth in the “Funding Liquidity Contingency Plan,” and regular training is provided.

▶ Operational Risk

Operational Risk Management Policy

To ensure comprehensive management of operational risks, the Bank has established an operational risk management policy that defines risks and sets forth its basic policy and organizational structures for risk management as well as procedures for identifying, evaluating, monitoring, reporting and controlling/mitigating risk. The Group Integrated Risk Management Division, a unit responsible for Group-wide operational risk management, evaluates, analyzes and reports on operational risk to management. Moreover, for each domain of operational risk such as administrative risk and systems risk, specialized risk management divisions that are independent from business divisions implement measures to manage operational risks according to the attributes of each category.

Risk Management Frameworks for Administrative Risks

Administrative and systems risks refer to the risk of “incurring losses from inaccuracies in clerical tasks due to the carelessness of executives or employees, or errors or misconduct in their performance of work duties.” As for administrative risks, we recognize appropriate management of them is extremely important to our ability to offer services that our customers trust. We strive to improve the level of our administrative work performance by clarifying the content of procedures through efforts to revise terminology, hold training seminars, provide guidance on administrative work and improve administrative workflows. Specifically, our efforts to improve administrative risk management include establishing a system of branch self-audits where autonomous checks are performed at the work-task level and creating a database documenting past errors that enables analysis of the causal factors behind errors that will help prevent reoccurrence in the future.

Risk Management Frameworks for Systems Risks

Systems risks includes the risk of companies or individuals incurring losses from the disappearance of valuable data of customers as a result of information systems shutting off and software or hardware failures. Through consecutive reviews of systems risks, we are identifying and evaluating the risks, and working to improve quality in systems development and prevent systems failures and ensure rapid recoveries when problems occur by improving our systems operating capabilities. In fiscal 2018, we are planning to renew our core operational systems, and will manage risks for safe operations of new systems. We have endeavored to improve the level of systems risk management and information security for the entire Group, including subsidiaries. Moreover, we have taken appropriate steps based on the latest trends in technology to respond to cyber-security problems that have recently come to be seen as a social threat; so, we are working to ensure the safety of customer information and assets.