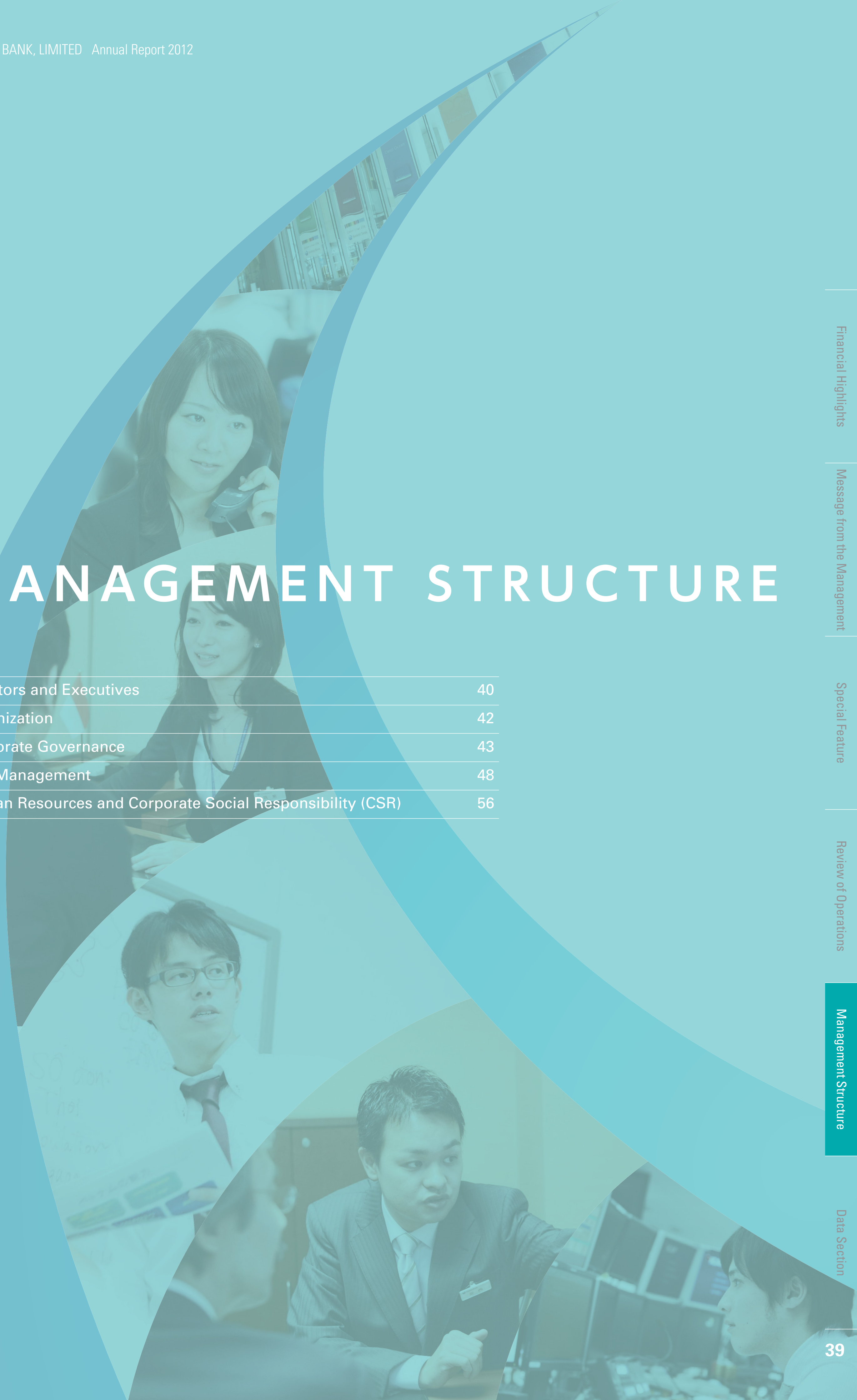


MANAGEMENT STRUCTURE

DIRECTORS AND EXECUTIVES

As of July 1, 2012

BOARD OF DIRECTORS (6)

Shigeki Toma

Representative Director, President

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

Yukio Nakamura

Representative Director, Senior Managing Executive Officer

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

J. Christopher Flowers*1

Director,

Chairman, J. C. Flowers & Co. LLC

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

Shigeru Kani*1,3

Director,

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

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

Jun Makihara*1,3

Director,

Chairman of the Board, Neoteny Co., Ltd.

Jun. 2011 Director, Shinsei Bank, Limited (Current)
Jun. 2006 Director, Monex Group, Inc. (Current)
Mar. 2005 Director, RHJ International SA (Current)
Jul. 2000 Chairman of the Board, Neoteny Co., Ltd. (Current)
Nov. 1996 Co-Head of the Equities Division and Co-Branch Manager, Goldman Sachs Japan Ltd.
Nov. 1992 Partner, Goldman Sachs & Co.
Sep. 1981 Joined Goldman Sachs & Co.

Hiroyuki Takahashi*1,3

Director,

Former Director, Japan Corporate Auditors Association

Jun. 2007 Statutory Auditor, Kyowa Hakko Kogyo Co., Ltd. (Predecessor of Kyowa Hakko Kirin Co., Ltd.) (Current)
Jun. 2006 Statutory Auditor, Matsushita Electric Industrial Co., Ltd. (Predecessor of Panasonic Corporation) (Current)
Jun. 2006 Director, Shinsei Bank, Limited (Current)
Oct. 2005 Director, Japan Corporate Auditors Association
Oct. 2000 Executive Managing Director and Secretary-General, Japan Corporate Auditors Association
Jun. 2000 Counselor, Mitsui & Co., Ltd.
Jun. 1997 Corporate Auditor, Mitsui & Co., Ltd.
Jun. 1996 Executive Managing Director, General Manager, Personnel Division, Mitsui & Co., Ltd.
Apr. 1959 Joined Mitsui & Co., Ltd.

STATUTORY AUDITORS (3)

Shinya Nagata

Standing Statutory Auditor

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

Kozue Shiga*2,3

Statutory Auditor

Lawyer

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

Tatsuya Tamura*2,3

Statutory Auditor

Former Executive Director, The Bank of Japan, and President, Global Management Institute, Inc.

Jun. 2010 Statutory Auditor, Shinsei Bank, Limited (Current)
Jun. 2008 Director, Autobacs Seven Co., Ltd. (Current)
Mar. 2003 Chairman, Japan Independent Directors Network (Predecessor of Japan Corporate Governance Network) (Current)
May 2002 President, Global Management Institute Inc. (Current)
Apr. 1996 Chairman, A.T. Kearney
Jan. 1992 Executive Director, The Bank of Japan
Apr. 1961 Joined The Bank of Japan

Fiscal Year 2011 Board of Directors meetings
Meetings: 7 Attendance: 98%

Fiscal Year 2011 Board of Statutory Auditors meetings
Meetings: 13 Attendance: 100%

*1 Outside Directors
*2 Outside Statutory Auditors
*3 "Independent director statement" (dokuritsu-yakuin todokede-sho) submitted to Tokyo Stock Exchange Inc.

EXECUTIVE OFFICERS (21)

Shigeki Toma
Representative Director, President,
Chief Executive Officer

Yukio Nakamura
Representative Director,
Senior Managing Executive Officer,
Head of Risk Management Group,
Chief Risk Officer

Sanjeev Gupta
Senior Managing Executive Officer,
Head of Individual Group

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

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

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

Norio Funayama
Managing Executive Officer,
General Manager, Osaka Branch

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

Hideyuki Kudo
Managing Executive Officer,
Head of Structured Finance
Sub-Group

Shinichirou Seto
Managing Executive Officer,
Head of Institutional
Business Sub-Group,
General Manager,
Institutional Business Division

Akira Watanabe
Managing Executive Officer,
Head of Global Markets Group

Masashi Yamashita
Managing Executive Officer,
Chief of Staff,
Head of Corporate Staff Group

Souichirou Hasegawa
Executive Officer,
General Manager,
Office of Corporate Secretary

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

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

Satoshi Koiso
Executive Officer,
General Manager,
Corporate Planning Division

Yuji Matsuura
Executive Officer,
Head of Markets Sub-Group
General Manager,
Trading Division

Toru Myochin
Executive Officer,
General Manager,
Corporate Banking Business
Division I,
General Manager,
Healthcare Finance Division

Masayuki Nankouin
Executive Officer,
Head of Consumer Finance
Sub-Group

Akimori Nomura
Executive Officer,
Head of Financial Institutions
Sub-Group

Hironobu Satou
Executive Officer,
Head of Financial Control and
Accounting Sub-Group,
General Manager,
Business Controlling Division

ORGANIZATION

As of July 1, 2012

Customers

- Board of Directors
- Chief Executive Officer
  - Internal Audit Division*2
- Executive Committee
- Office of Corporate Secretary*1

- Statutory Auditors
- Board of Statutory Auditors
- Office of Statutory Auditors

Corporate Staff Group
- Corporate Planning Division
  - (Research Department)
- Human Resources Division
- Investor Relations & Corporate Communications Division *3
- Legal and Compliance Division
  - (Legal Department)
  - (Financial Crime Information Department)
- Credit Assessment Division
- General Services Division
- Operations Management Division
- Office of Financing Facilitation Management

Institutional Group
- Institutional Business Sub-Group
  - (Corporate Customer Service Department)
  - Institutional Business Division
    - Corporate Banking Business Division I
    - Corporate Banking Business Division II
    - Corporate Banking Business Division III
      - (Shipping Finance Department)
    - Osaka Corporate Banking Business Division*8
    - Public Sector Finance Division
    - Healthcare Finance Division
      - (Structured Business Promotion Department)
    - Sapporo, Sendai, Kanazawa, Nagoya, Osaka, Hiroshima, Takamatsu and Fukuoka
- Structured Finance Sub-Group
  - Real Estate Finance Division
  - Real Estate Business Division
  - Specialty Finance Division
    - (Project Finance Department)
  - Corporate Support Division
- Principal Transactions Sub-Group
  - Private Equity Division
  - Credit Trading Division
  - International Principal Finance Division
  - VBI Promotion Division
    - (VBI Planning Department)
    - (Business Incubation Department)
    - (Overseas Business Promotion Department)
  - Corporate Advisory Division
    - (Mergers and Acquisitions Department (Cross-Border))
    - (Mergers and Acquisitions Department)
    - (Asset Solutions Department)
  - Asset Backed Investments Division
- Business Management Division *4

Global Markets Group *4
- Global Markets Business Management Division
- Markets Sub-Group
  - Trading Division
  - Markets Division
    - (Osaka Business Department)
  - Credit Products Division
- Financial Institutions Sub-Group
  - Financial Institutions Business Division
  - Osaka Financial Institutions Business Division*8
- Asset Management Sub-Group
  - Wealth Management Division
  - Asset Management Products Division

Individual Group
- Consumer Finance Sub-Group
  - Lake Business Division
    - (Application Service Center)
    - (Customer Service Center)
    - (Osaka Administration Management Center)
    - (Customer Relationship Department)
- Retail Banking Sub-Group
  - Customer Service Division
    - (Customer Service Department)
  - Customer Development Division
  - Retail Sales and Distribution Division*5
    - Financial Centers*6
  - Retail Products Division
    - (Insurance Business Management Department)
  - Loan Products Division
  - Retail Business Division
  - Retail Human Resources Development Division
  - Channel Management Division *7
    - (Fukuoka Call Center)

Risk Management Group
- Portfolio and Risk Management Division
- Market Risk Management Division
- Institutional Credit Management Division
- Structured Risk Management Division
- Individual Pillar Risk Management Division
- Risk Management Planning and Policy Division
- Operational Risk Management Division

Finance Group *3
- Financial Control and Accounting Sub-Group
  - Business Controlling Division
    - (J-SOX Program Department)
  - Financial and Regulatory Accounting Division
    - (IFRS Department)
  - Capital Markets and Treasury Product Control Division
- Treasury Sub-Group
  - Treasury Funding Division
  - ALM Division

Banking Infrastructure Group *7
- Operations Planning and Administration Division
- Information Technology Division
- Operations Services Division
- Centralized Operations Division
- Retail Services Division

*1 Office of Corporate Secretary shall act as the secretariat for the Board of Directors and Executive Committee.

*2 Internal Audit Division shall report not only to CEO but also to Board of Statutory Auditors directly.

*3 Investor Relations & Corporate Communications Division shall report to Head of Finance Group for Investor Relations matters.

*4 Business Management Division shall report to Head of Global Markets Group.

*5 Incl. Chiba Annex and Urawa Annex

*6 Head Office, Sapporo, Sendai, Kanazawa, Omiya, Kashiwa, Tsudanuma, Tokyo, Ginza, Ikebukuro (incl. Kawaguchi Annex), Ueno, Kichijoji, Shinjuku, Roppongi Hills (incl. Omotesando Hills Annex), Hiroo, Futakotamagawa (incl. Jiyugaoka Annex), Hachioji, Machida, Yokohama (incl. Kawasaki Annex), Fujisawa (incl. Kamakura Annex), Nagoya, Kyoto, Umeda (incl. Takatsuki Annex, Senri-Chuo Annex, Nishinomiya-Kitaguchi Annex and Osaka Shiten nai Annex), Namba (incl. Sakai-Higashi Annex), Kobe (incl. Ashiya Annex), Hiroshima, Takamatsu, Fukuoka

*7 Channel Management Division shall report to Head of Banking Infrastructure Group.

*8 Osaka Corporate Banking Business Division and Osaka Financial Institutions Business Division shall report to GM of Osaka Branch.

CORPORATE GOVERNANCE

Shinsei Bank has selected a "Company with Board of Statutory Auditors" board model (*kansayakukai-setchi-gaisha*) as a corporate governance framework. This aims to ensure appropriate managerial decision-making and business execution and to establish a governance framework with sufficient organizational checking functions. These are achieved by 1) the consolidation of business execution authorities and responsibilities in the Board of Directors and 2) assigning responsibility for auditing duties that include auditing and monitoring of the Board of Directors, to statutory auditors and a Board of Statutory Auditors that are independent of business execution and the Board of Directors. Moreover, we have adopted the Executive Officer system to ensure the flexibility of our daily business execution.

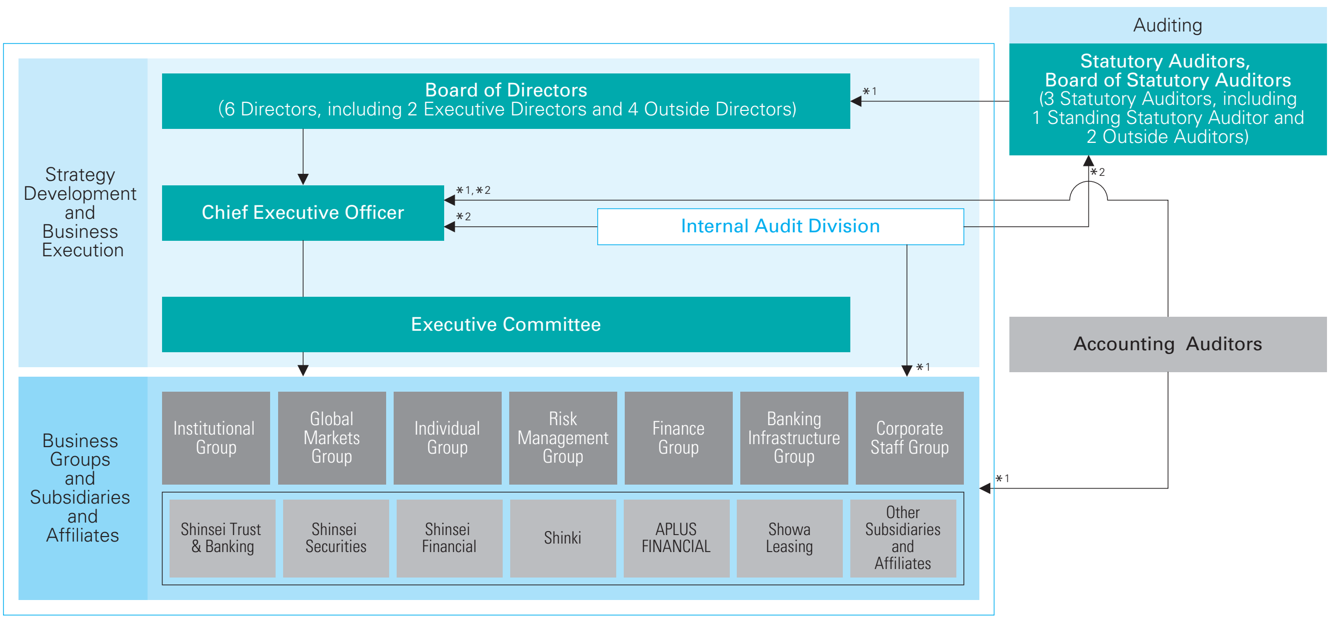
Current Corporate Governance System

"Company with Board of Statutory Auditors"

Shinsei Bank adopted the governance framework of a "Company with Committees" board model (iinkai-setchi-gaisha) on June 24, 2002, based on the then applicable Commercial Code. Under this framework, the Bank established an effective supervisory framework and aimed at efficient and transparent management by achieving speedy and flexible business execution by statutory executive officers and ensuring that the Board of Directors is engaged in decision-making on important managerial matters and business execution monitoring and supervision.

However, the Bank is expected to ensure more active involvement by the Board of Directors in internal control system establishment and risk management as well as to enhance business execution-based managerial judgment functions in determining its management policies. It also recognizes the need to strengthen its audit functions, such as daily business execution audit activities by full-time audit officers, and supervision of business execution and director activities by audit officers responsible for audits and independent from directors. Based on such an understanding, the Bank changed its governance framework from a "Company with Committees" board model to a "Company with Board of Statutory Auditors" board model (*kansayakukai-setchi-gaisha*) at the completion of the June

Corporate Governance System Chart (as of June 20, 2012)



*1 Audit *2 Report ■Business Groups ■Subsidiaries and Affiliates

23, 2010 annual general meeting of shareholders.

Continuing efforts will be made to ensure adequate business execution based on flexible managerial judgment and to establish a governance framework placing more emphasis on checks-and-balances.

Board of Directors

The Board of Directors maintains the appropriate business promotion framework through determining long-term management strategy, ensuring that management is working to maximize shareholder returns, evaluating and supervising business execution by executive directors, and making decisions on management and business execution after ample deliberation by the Board. As of June 20, 2012, the Board of Directors is composed of the following members intended to provide an appropriate balance: two inside directors who are responsible for daily business execution and four outside directors with advanced expertise, such as extensive financing experience and risk management or audit knowledge. These four outside directors play an important role in corporate governance, such as providing independent and objective opinions to management and supervising business execution by directors. In this way, the Bank maintains the transparency of its management strategy determination process.

Executive Committee and Executive Officers

As a result of the switch to a "Company with Board of Statutory Auditors" board model, the scope of the Board of Directors' decision-making expanded without any clear distinction between decisions on and supervision over business execution. On the other hand, Shinsei Bank has adopted an Executive Officer system in order to ensure flexible daily business execution. Under this system as well as the leadership of executive directors including the CEO, executive officers and business group heads entrusted by the Board of Directors execute their operations in an efficient manner. In addition, based on the Board of Directors' approval, the Bank established the Executive Committee consisting of executive directors and executive officers who are group heads, with a view to achieving swift and efficient business administration. Under the new framework established on June 20, 2012, 21 executive officers including executive directors were appointed by the Board of Directors.

With the Bank's expanding specialized offerings, we have established Group-wide committees to enable swift and appropriate responses. Shinsei Bank's primary committees include ALM (Asset and Liability Management), Compliance, Risk Policy, Doubtful Debt, SME Loan, IT, BCM (Business Continuity Management), Basel II Steering, and Management Development Committees, and are chaired by the CEO, executive directors, executive officers and group heads.

Transactions with Directors and Major Shareholders

In January 2008, a group of investors led by J.C. Flowers & Co. LLC and affiliates completed a tender offer for common shares of Shinsei Bank. In February 2008, the Bank increased its capital through a third-party allotment to the same group of investors. As a result, this group of investors, with which Mr. Flowers is influential, became Shinsei Bank's largest shareholder. Even after the successful issuance of new shares through an international offering carried out in March 2011, this group of investors, with which Mr. Flowers is influential, remains Shinsei Bank's largest shareholder. In accordance with the Bank Rule, the Bank established a process for obtaining approval from the Board of Directors for transactions with parties related to the Bank that may involve a conflict of interest. Furthermore, in order to ensure the Bank's independence from major shareholders, as required by the Banking Law, the Bank established the Bank Rule requiring the Board of Directors to judge transactions with major shareholders in accordance with a set of guidelines. The Bank also established adequate control frameworks to maintain and enhance the Board of Directors' checking functions over transactions with directors and major shareholders, such as preparing a structure for the business execution side to verify transaction fairness and conflict of interest and strengthening post-approval follow-up functions. The Bank prepared and implemented such frameworks to protect the interests of stakeholders based on objective judgment.

Ensuring Internal Control

To enable appropriate corporate governance, it is necessary to prepare a system that ensures proper governance of internal audit and legal/compliance functions and a structure for monitoring business execution and decision-making centered on the Board of Directors. Putting in place the internal control system required by the Corporation Act, and ensuring internal control so that financial statements comply with the accuracy requirements of the Financial Instruments and Exchange Law are also important elements of corporate governance. Even though internal control is the responsibility of management, the overall internal control system takes measures to ensure specific internal control in each of the groups that carry out actual operations. Basic policies on internal control systems to ensure appropriate and efficient daily operations are stipulated in our "Internal Control Rules" decided by the Board of Directors. Moreover, the Board of Directors periodically verifies the status of internal control systems. The Internal Control Rules provide that the Board of Directors establish a framework to ensure effective audits by statutory auditors, define the Subsidiaries and Affiliates Policy, the Information Security Policy, the Shinsei Bank Risk Management Policy, the Regulations of Business Execution, the Shinsei Bank Code of Conduct and the Internal Audit Policy as the basic rules in order to ensure appropriate, transparent and efficient operations in the Shinsei Bank Group as a whole. In addition, the Charter of Corporate Ethics prohibits relationships with anti-social organizations and establishes a framework to prevent various types of damage by such organizations and to ensure appropriate operations.

Statutory Auditors/Board of Statutory Auditors

As stated above, on June 23, 2010, Shinsei Bank changed its corporate governance framework to a "Company with Board of Statutory Auditors." The Board of Statutory Auditors of Shinsei Bank, which is composed of a full-time statutory auditor with a background in and business experience at Shinsei Bank and two outside statutory auditors who are highly specialized in legal affairs and corporate governance theory, shall audit the Directors' execution of their duties as a body that is completely independent from the Board of Directors.

The appointment of a full-time statutory auditor will permit full-time monitoring of the Bank's operations, access to detailed internal data and a timely and appropriate response to external changes thereby enhancing the audit function. By providing opinions from a more independent and objective viewpoint at meetings of the Board of Statutory Auditors and the Board of Directors, the outside statutory auditors contribute to enhanced auditing activities.

The statutory auditors shall systematically and efficiently audit the state of business execution at the Shinsei Bank Group as a whole, including Shinsei Bank and its subsidiaries.

The statutory auditors will achieve this by cooperating with the internal control groups, such as the Internal Audit Division, and by using staff of the Office of Statutory Auditors in addition to attending the Bank's important meetings, such as meetings of the Board of Directors, reviewing important documents and undertaking audits of their own, such as interviewing the directors, the executive officers and the accounting auditor.

Legal and Compliance Activities

The Legal and Compliance Division play a central role in our corporate governance.

Compliance Systems Organization

We have, with a strong belief that thorough compliance must be one of the most important management missions, established a robust compliance system to help enable sound and proper management that earns public trust. The Compliance Committee, the Legal and Compliance Division and individual compliance managers within various business and support units constitute the main elements of our compliance organization. The Compliance Committee, with our Chief of Staff as its chairman, examines and discusses important compliance matters. The Legal and Compliance Division plans various measures concerning compliance risk and implements these measures through central management. Every division, department or branch in the Bank also has a compliance manager to act as the point of contact for compliance-related matters. These managers' duties also include periodical reporting to the Legal and Compliance Division on compliance-related issues. This enables the Legal and Compliance Division to conduct Bank-wide monitoring of how various measures are being implemented as well as to provide centralized compliance guidance.

Compliance Activities

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

Legal Supervision

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

Internal Audit

The importance of risk management is becoming increasingly acute with the increased diversification and complexity of risks relating to the Bank's operations. The role of the internal audit is to independently assess the effectiveness of risk management measures and internal controls. This, in turn, helps maintain and enhance our corporate governance.

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

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

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

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

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

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

MESSAGE FROM AN OUTSIDE DIRECTOR:

"One of the great strengths of the company is that there is no limitation on free dialogue at the board."

Jun Makihara
Chairman of the Board, Neoteny Co., Ltd.

I have been an outside director of Shinsei Bank for one year now. I am also an outside director of a financial services company in Tokyo and one in Brussels. Some people feel that having outside directors is a western concept that does not fit well with the Japanese style of running a company. Generally the argument is that with lifetime employment, there is such a tremendous reserve of corporate knowledge inside a company an outside director has little to offer. I do not believe this is true. Rather, my experience is that each board and each director contributes differently to a company. In my opinion, what is most important is that 1) a director knows what he or she has to contribute, and 2) the company welcomes that contribution.

Shinsei Bank faces significant challenges, perhaps more than the average financial institution. These include challenges common to many banks: adapting to an evolving regulatory environment as regulators worldwide strive to prevent a recurrence of the recent financial crisis; an ultra-low interest rate environment that makes it difficult to earn an acceptable return on the most basic business of a bank—taking deposits and making loans; an extremely competitive home market for financial services; and the ongoing necessity to make substantial investments in technology. Alongside these, Shinsei must also deal with its own unique set of challenges. The most significant of these are the lack of a deeply rooted corporate and retail client base, a shareholder base which includes significant shareholders who are patient but not permanent, and an obligation to repay public funds received from the Japanese government. Finally, the Bank must remain vigilant about interest repayment costs in the consumer finance business and the quality of its real estate and leveraged loan portfolio.

Within Shinsei, there is ample experience and expertise to deal with each of these challenges. Indeed I believe the Bank is making good progress on all fronts, for example in building its customer base. However, there are always multiple solutions to any problem, and here the board can provide its perspective in weighing different approaches and also how to prioritize the allocation of limited resources to do so.

Shinsei Bank's board spends a great deal of time in open discussions about these issues. Board meetings often last four or five hours with a great deal of free give and take, occasionally including healthy disagreements. One of the great strengths of the company, I believe, is that there is no limitation on free dialogue at the board. Sometimes this can be difficult for management. But by encouraging this free discussion, the Bank is able to take maximum advantage of the knowledge and experience of each individual director.

I opened my message by saying that a director ought to know what he or she can contribute. In my case, I hope I contribute to Shinsei by providing both a Japanese and non-Japanese perspective to its challenges. I also hope that my knowledge of how world financial markets work and how financial institutions are run in other countries can provide management with useful guidance. In closing, I would like to thank the shareholders of Shinsei Bank for allowing me the privilege of being their representative.

RISK MANAGEMENT

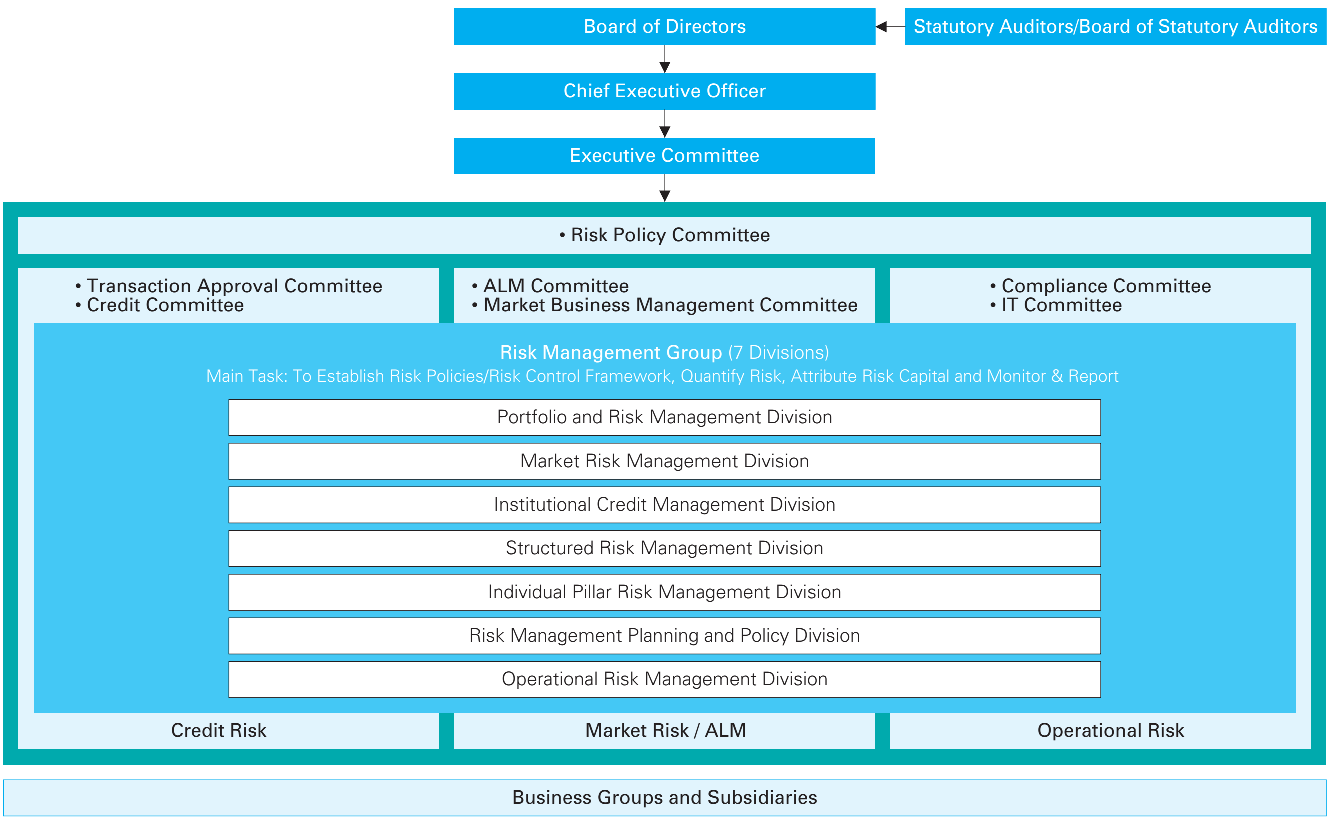
Shinsei Bank has identified risk management as one of its most important management issues. The Bank has taken various measures to strengthen risk management frameworks. These include improvement of our various committees and further empowerment of the functions, and adoption of a strong governance structure for building a risk management function that is fully independent of other divisions and organizations in the Bank and that exercises real authority. Introducing this risk governance has strengthened the Risk Management Group's control over the front line and its risk management frameworks.

Also, the Bank has been further strengthening risk management frameworks so that they function in practice. The Risk Management Group is enhancing its communication with the Board of Directors, regularly reporting on the status of portfolio and risk management frameworks and deliberating on the direction to take going forward. Experts in the risk management field have been assigned to the Group. They have in-depth discussions on risk management policies that range in scope from various portfolios to transactions with individual companies. In this way, the Group has become an organization capable of making appropriate and prompt judgments. We are also strengthening management frameworks for various risks by improving comprehensive risk management systems, developing computer systems to automate measurements, and improving verification structures for real estate and product evaluations. Based on the Medium-Term Management Plan, we are making necessary structural improvements such as reinforcing communication, and sharing screening know-how with the Institutional Group as a result of the transfer of the primary credit screening function to the Institutional Group in line with the policy of expanding the customer base, in addition to promoting reduction of the non-core asset balance.

Fiscal Year 2011 Overview

After the Lehman Shock, the world economy had shown some signs of recovery. However, since the summer of 2011, many concerns over the economy have been emerging, including the U.S. Treasury rating downgrade, anxiety

Risk Management System Chart (as of June 20, 2012)



over the fiscal woes of the European countries, and a gradual slowdown in emerging economies.

Japan was also significantly influenced by the production decline due to the Great East Japan Earthquake on March 11 of last year and the flooding in Thailand, and by the yen's historic appreciation. The manufacturing and export-oriented companies were impacted in particular. The GDP growth rate for FY2011 was negative, which suggested a very tough economic situation in Japan.

Early in 2012, a weaker yen and higher stock price trend were temporarily seen owing to easing of monetary policies by the financial authorities in Japan, the U.S., and European countries. However, a drastic solution to the European fiscal problems was not found, and a stronger yen and stock market downward trend resumed. In FY2012, the GDP growth rate is expected to become positive in Japan, supported by post-quake reconstruction demand and various measures. On the other hand, uncertainty continues to increase because of Europe's ongoing fiscal crisis, rising yen and crude oil prices, shortage of power supply due to shutdown of nuclear power plants, etc.

For the Bank's portfolio status amid the above circumstances, the rate of new arrears in the exposure to corporations, etc. has remained low since the previous fiscal year. In regard to the real estate-related loans (mainly non-recourse loans), we are strengthening the management frameworks, for example, by ensuring conservative property appraisals and increasing the frequency of appraisals. In addition, we are improving the quality of exposure by exchanging the assets in the portfolio, while continuing to reduce high-risk assets. Regarding consumer finance, we have estimated the reserves for losses on interest refunds more conservatively and set aside additional reserves, in order to eliminate future risk of excess interest repayments. Credit costs temporarily increased after the introduction of the annual income restriction in FY2010. However, these costs continued to decrease in FY2011 along with improving quality of the loan portfolio. As regards proprietary transactions (mainly the exposure to Europe, such as asset-backed investment and CLO investment), we have halted new originations and sought to reduce these transactions as non-core assets under the Medium-Term Management Plan. Therefore, we have only been affected to a limited extent by the turmoil in the financial markets due to European fiscal crisis.

In terms of the entire portfolio, the credit costs for FY2011 sharply dropped over the previous fiscal year. Also, the risk volume in the integrated risk management is tending to decline, which indicates a substantial improvement in the level compared to Tier I capital.

Shinsei Bank is expanding its customer base with a focus on SMEs and middle-market companies. It is also seeking new business opportunities, such as purchase of overseas assets and project finance, and developing the Lake business by itself. The Risk Management Group accurately grasps the business environment both at home and abroad. As to the existing portfolio, the Group endeavors to capture the risk profile multilaterally (for example, by conducting stress tests) and to share the understanding with the top management. Furthermore, the Group carries out sufficient monitoring on new assets, and if required, reviews the risk strategy flexibly, thereby aiming to improve and enhance the risk management frameworks.

Comprehensive Risk Management

Basic Concept of Risk Management Systems

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

In order to run highly profitable and stable operations, a financial institution must understand the basic challenges of risk management, namely, how to take and how to face these risks.

For this reason, it is necessary to monitor whether risks are taken in line with Bank-wide policies as well as individual operational policies, whether risks remain within appropriate limits and whether they are adequately controlled by the respective sections in charge.

To Achieve Comprehensive Risk Management

Shinsei Bank sets forth its "Shinsei Bank Risk Management Policy" as a basic management policy in order to recognize risks and implement proactive controls based on an understanding of the total risks faced by the Bank as a whole. Amidst severe competition and an evolving regulatory and market environment, the risks which Shinsei Bank faces are increasingly complex. Based on the experience of financial crisis, in 2009, the Bank revised its "Risk Management Policy" and redefined the fundamental principles of risk management including a rebuilding of the risk culture within the Bank.

Comprehensive risk management means detailed monitoring of each risk involved in individual operations, as well as the understanding of total bank-wide risks, and quantifying risks to the greatest extent possible based on analysis and insight into a bank's markets and customers. Estimating "Risk Capital," which is an integrated control approach, requires measurements for each risk category, namely (1) credit risk, (2) market risk, (3) interest rate risk, and (4) operational risk. In this way, our management capabilities and risk acquisition activities are controlled in an integrated manner by monitoring the Bank-wide risk volume and Group-specific capital attribution status.

Shinsei Bank's senior management has delegated certain risk management authority to specific committees including the "Risk Policy Committee," "Credit Committee," "Asset and Liability Management (ALM) Committee" and "Market Business Management Committee." The current system of the committees originates from restructuring in 2009 to strengthen and reorganize committees. With continuous improvement, these committees have been firmly established as committees responsible for making important risk judgments, and are functioning effectively. The Risk Policy Committee involves the top management of the Bank (including the CEO, CFO, and CRO), and plays an important role in defining and calibrating appropriate and optimal risk taking for the Group by reviewing business strategy along side risk management policy.

Categories of Risk Capital

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

Institutional Credit Risk Management

Credit risk is defined as the risk of loss due to a counterpart defaulting on contractual debt obligations.

Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular obligors, and managing the credit portfolio with an awareness of potential losses under a worst-case scenario.

To achieve these goals, Shinsei Bank established a comprehensively revised "Credit Risk Policy" which defines specific policy on customer attributes, products, markets, industries and transaction types where risks should be taken or limited, and clarifies basic policies for credit provision operations and specific guidelines for credit risk management together with the Bank's "Credit Risk Policy," "Credit Procedures" and other related procedures.

Credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management, as follows.

Credit Risk Management for Individual Transactions

(1) ORGANIZATION/SYSTEMS

In principle, credit assessment is based on joint consultation by sales promotion divisions and risk management divisions which are independent from the sales promotion divisions. To ensure a transparent and strict decision making process, the RMG has ultimate veto power. Thus the framework to put a brake on the sales promotion division has been established. Each transaction is discussed and approved by the Credit Committee or other committees. The level of approval authority is decided based mainly on the total exposure to the obligor group and ratings, and the decision is made strictly.

As for transactions that require discussions about financial, legal and / or compliance issues, a certain framework has established: the relevant transactions are discussed by Transaction Approval Committee of which participants includes members of the divisions in charge of such issues so that the transactions can be assessed comprehensively and an appropriate decision can be made.

Among receivables that require caution, for those that fall under a certain category decided by factors such as ratings, exposure, or reserves, the obligor's business performance is monitored by the Doubtful Debt Committee so that Shinsei is able to take preventive measures. By deciding measures to handle the obligor in the future, Shinsei is making efforts to minimize credit-related costs and to ensure soundness of assets.

(2) OBLIGOR RATING SYSTEMS

For corporate exposures, the Bank uses an internal obligor rating system with the following characteristics:

CHARACTERISTICS OF SHINSEI BANK'S OBLIGOR RATING SYSTEMS

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarked against external ratings
- Properly reflecting obligors' consolidated-basis accounting system
- Ensuring conformity with rating systems among industry classifications

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

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

Furthermore, the Bank also applies a facility rating system based on expected losses that allows for improvement in the credit status, such as collateral and/or covenants, from the perspective of obligor ratings and the credit status of individual transactions.

An obligor rating system and facility rating system similar to those adopted in the Bank have been introduced in the analysis of major customers of leasing receivables at Showa Leasing.

Portfolio-Based Credit Risk Management

(1) MONITORING ANALYSIS SYSTEM

Controls must be carried out in such a way that risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At Shinsei Bank, the Portfolio and Risk Management Division undertakes risk analyses of portfolios, and monitors the segment-specific risk diversification status including industry classifications, ratings, specific customers/groups and also rating fluctuations related to customers within the portfolios. The Division uses this information to provide reports to senior management and the CRO on a monthly as well as ad hoc basis.

(2) QUANTITATIVE MEASUREMENT OF CREDIT RISK

Quantitative measurement of credit risk means measuring and assessing the likelihood of losses that may be incurred from changes in a customer's creditworthiness. The probability of default, an assumption based on past experiences and future outlook, and expected loss amounts based on collection ratios, are generally called "expected losses."

Losses that could be incurred in the worst case scenario and cannot be estimated based on past experiences are generally called "unexpected losses." It is generally considered that risk capital can be quantified by measuring both "expected losses" and "unexpected losses."

Shinsei Bank has the system for accurate measurement of risk capital by operating system in a simple platform with embedded measurement engine. We are striving to contribute to sound portfolio management and resource allocation through the analysis of risk capital changes and profitability against risks. Also, we reflect measured expected losses and unexpected losses in loan spread in order to help ensure appropriate risk-return for each transaction. Also, Shinsei Bank ensures adequate return levels against risks involved in each transaction by reflecting measured expected losses and unexpected losses in the interest rate margin on loans.

(3) CREDIT CONCENTRATION GUIDELINES

Our credit concentration management framework consists of industry concentration guidelines, obligor group concentration guidelines, as well as effective review and countermeasures for matters outside the scope of the guidelines. These procedures are designed to avoid a crisis when our credit portfolio is affected by systemic shock or other extraordinary events.

Credit Risks Involved in Market-Related Transactions

Credit risks involved in market transactions, such as derivative transactions, are controlled based on fair value and estimations of future value fluctuations. The volume of risks associated with market transactions changes according to fluctuations in market rates after the transaction is traded and Shinsei Bank undertakes strict controls based on future value fluctuation forecasts.

Self-Assessments

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

Shinsei Bank has established a self-assessment system wherein the Credit Assessment Division, which is independent from the business promotion and credit analysis sections, is the section ultimately responsible for assessment.

More specifically, the criteria and procedures for self-assessment adhere to the Financial Services Agency's "Inspection Manual for Deposit-Taking Institutions." Accordingly, the business promotion sections and the credit analysis sections carry out the primary assessments and secondary assessments, and final assessments are conducted by the Credit Assessment Division respectively.

Obligor categories and categorizations are reviewed in a timely manner according to changes in the obligors' financial fundamentals so as to mitigate the emergence of problem loans and to strengthen and update systems to ensure the timely and accurate management of troubled loans.

Measures to Meet Basel II Requirements

In order to comply with the credit risk regulations under Basel II, which came into effect at the end of March 2007, Shinsei Bank has adopted the F-IRB (The Foundation Internal Ratings-Based) Approach. This framework ensures strict internal controls for our internal rating systems, the basis of credit risk management, by the execution of the design and operations of internal rating systems and parameter estimations such as probability of default. The results of the internal rating systems are reflected not only in credit risk management, but also in calculations of capital levels required under the regulations.

Individual Pillar Risk Management

Risk management for the consumer finance business covers the entire operations from application underwriting and credit management after contract conclusion through debt collections. The Individual Pillar Risk Management Division holds a risk performance review on a monthly basis with participation of Shinsei Bank risk-related divisions, and provides advice on risk management policies and strategies to subsidiary employees responsible for risk management.

We report the performance of this business to the Risk Policy Committee meeting (with participation of CEO, CFO, CRO, etc.) on a quarterly basis.

Risk divisions in subsidiaries carry out appropriate risk control based on initial credit scoring card, credit control scoring card, and collection strategy scoring card developed by the statistical method using customer attribute data, credit bureau data, and transaction history data. These scoring cards are constantly monitored to maintain their accuracy and adjusted on a regular basis.

Credit costs are extremely important in the profitability of the consumer finance business as a whole. For that reason, we analyze leading indicators of various factors that incur credit costs so as to recognize a declining trend early and make necessary improvements. We divide leading indicators into initial credit quality, portfolio quality, and debt collection quality, and monitor each category every month. If we observe a declining trend, we promptly take an improvement action before a serious situation results.

The environment surrounding the consumer finance industry is significantly changing due to revision to the law and other reasons. In risk management, we implement strategies to ensure balanced risk and return relationships so as to meet the business plan, rather than simply avoiding losses.

Due to change in the environment surrounding the industry, the Shinsei Bank Group companies are working on appropriate credit cost control in order to maximize profitability.

Market Risk Management

Market risk is the risk that makes loss by effect on balance sheet (including off balance sheet) fair value through fluctuations in interest rates, FX rates, stock prices, and etc.

Market Risk Management Policy

We manage market risk by segregating the overall balance sheet into a trading book and a banking book.

The Market Business Management Committee is in charge of market risk management and risk review of trading book and a part of banking book investment. The Committee is chaired by CRO, secretariat by Market Risk Management Division, and composed of representatives of related divisions. The Committee has regular meeting twice a month to review customer related business movement, profit and loss/market risk situation and inherent risk in the business as a whole, including counter party risk, issuer risk and trading products risk and make decision on risk management.

The ALM Committee has monthly regular meeting, in principle, for review and decision making of market risk, mainly interest rate and FX risk of banking asset and liability, funding, liquidity risk and active ALM strategy.

The Market Risk Management Division is responsible for the objective and timely recognition, monitoring and reporting of market risk in both the trading and banking activities. In addition to reporting risk information to management, administrative unit and front office unit, the Market Risk Management Division carries out regular risk analyses and recommendations to them.

Trading Book

Risk limits on trading, e.g. Value at Risk ("VaR"), is approved by Executive Committee. The VaR is the maximum loss amount by future price fluctuation, which is estimated statistically at a specific confidence level, assuming a specific position is held for a specific time horizon. In addition, we implement multi view point risk management using interest rate sensitivities. The VaR method based on historical simulation has been adopted as the internal modelling method for general market risk since March 31, 2007 for Shinsei Bank and Shinsei Securities.

The VaR uses a 99% confidence level, 10 day holding period and 250 observation day. See the table below.

The validity of the VaR model is verified through back testing, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period. The back-testing results for fiscal year 2011 show that there was no day in which the loss amount exceeded VaR on a consolidated basis. We conduct stress tests on a weekly basis and reported to senior management at the Market Business Management Committee meetings.

We have added Stressed VaR to the afore mentioned VaR for Basel capital requirements as of December 2011. Please refer to the following table.

VaR data for Fiscal Year End, Maximum, Minimum and Average during the fiscal year 2010 and 2011

Millions of yen

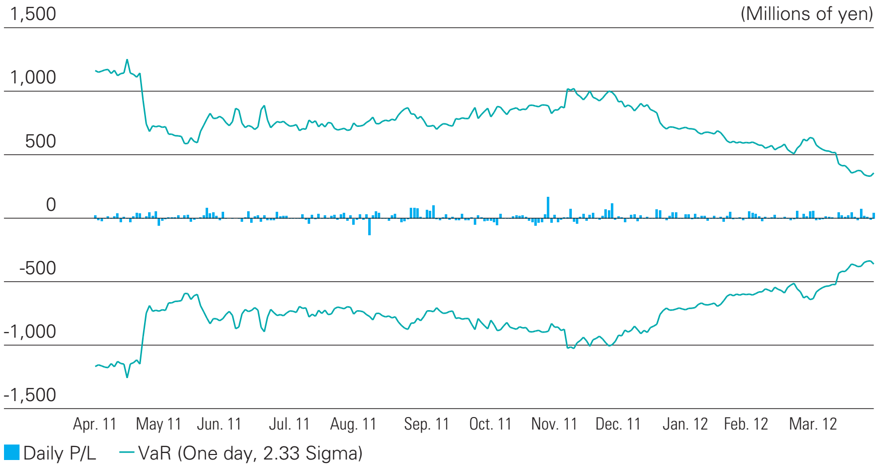
		FY2010		**FY2011**	
		Consolidated	Non-Consolidated	**Consolidated**	**Non-Consolidated**
FYE VaR		3,785	3,734	**1,230**	**1,180**
FY	Maximum	3,964	3,912	**3,961**	**3,869**
	Average	2,251	2,186	**2,395**	**2,266**
	Minimum	1,478	1,434	**1,052**	**1,019**

Stressed VaR data for Fiscal Year End, Maximum, Minimum and Average during the fiscal year 2011

Millions of yen

		FY2011	
		Consolidated	**Non-Consolidated**
VaR at the end of year		**3,764**	**3,620**
FY	High	**5,476**	**5,359**
	Mean	**4,376**	**4,281**
	Low	**3,764**	**3,620**

VaR and Daily Profit and Loss (Back-Testing) (FY2011, Consolidated basis)



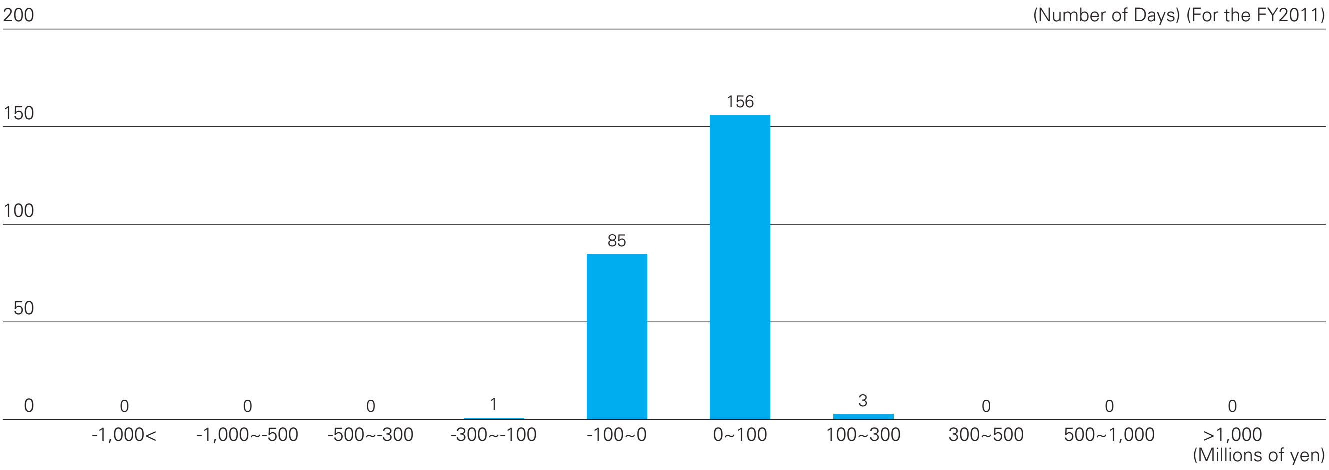
BACK-TESTING ON THE VaR MODEL APPLIED TO THE TRADING ACCOUNT

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

ASSUMPTIONS OF SHINSEI's VaR MODEL

Method:	A historical simulation method
Confidence interval:	2.33 standard deviations
Confidence level:	99%
Holding period:	1 day
Observation days:	250 days
Coverage:	Trading account (except for customer margin)

Histogram of Daily Trading-Related Revenue



Banking Book

The Bank's risk management of banking book assets and liabilities, which bears interest rate risk, is managed based on "Asset Liability Management Policy for Banking Account." In addition to daily risk monitoring, the ALM Committee meets on a monthly basis, in principle, in order to provide management with timely and appropriate reports on interest rate risk situation and etc., and reviews / makes decisions on ALM strategy and related topics.

The purpose of ALM is to optimize the overall net interest income for the medium- to long-term by appropriately balancing interest rate risks on assets and liabilities and liquidity risks arising in the ordinary course of operations at business units. This optimization is achieved by maintaining the appropriate balance between the following two view points.

1) Static point of view: Stabilize fluctuations and the range of changes in net interest income within the Bank's estimation by adjusting interest rate risks within specified range resulting from gaps of the assets and liabilities' amount, terms, interest rate conditions and etc.

2) Active point of view: Increase net interest income by restructuring the assets and liabilities into higher efficiency of risk / return.

For banking book interest rate risk management, in addition to limits or guidelines including 100bpv and etc., net interest income simulation is used for risk situation monitoring. The Bank monitors the shape of the yield curve and regularly analyzes scenarios such as steepening and flattening of the yield curve to evaluate the impact of these scenario changes on assets and liabilities.

The following assumptions are set for interest rate risk management.

- Housing loan prepayments
  Instead of using contractual maturity, the Bank calculates the cash flows using a particular prepayment ratio for housing loans, considering actual prepayment data for similar loans, pricing in the housing loan securitization market etc.
- Definition of core deposits
  The Bank has adopted an internal model for the maturity of core deposits and defines maturities of ordinary deposits by customer and currency. The parameters and models for core deposits are reviewed on a timely and appropriate basis.

See the table below for past interest rate sensitivity.

Basis point value (bpv) method:
The bpv method measures the risk of changes in economic value due to fluctuations in interest rates. For example, 100 bpv indicates the change in economic value when interest rates move 100 basis points (=1%). The table below sets forth the impact on the economic value of yen-denominated on-balance sheet and off-balance sheet items when interest rates change by 100 basis points.

The change in economic values for applied interest rate shock of 2% in the banking book at the end of March 2012:

	Billions of yen	
	Consolidated	Non-consolidated
JPY	¥ (11.1)	¥ (1.3)
USD	(2.8)	(2.8)
Other	(2.6)	(2.6)
Total	¥ (16.6)	¥ (6.8)

Liquidity Risk Management

Liquidity risk management is implemented by the ALM committee, through its approval of liquidity gap structure limits (limits for required funding amount on contract maturity basis) and minimum liquidity reserve levels. In addition, stress testing is implemented monthly and reported to the ALM committee.

Liquidity gap limit and minimum liquidity reserve level compliance is daily monitored by the Market Risk Management Division and reported to the management. Stress tests, implemented by the Market Risk Management Division, are reviewed in a timely manner to check their appropriateness, in coordination with front units.

The liquidity management framework, including this monitoring and testing, is defined by the "Cash Liquidity Risk Management Policy" and periodically reviewed by ALM committee.

Operational Risk Management

1. Management of Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk requires organization-wide management, because it is inherent in any business activity and covers extensive risk areas.

To comprehensively manage operational risk, an Operational Risk Management Policy has been established to clarify the definitions of risk, our basic policy and system for risk management and a framework for identifying, evaluating, monitoring, reporting and controlling/mitigating risk.

The Operational Risk Management Division, which is responsible for Group-wide operational risk management, evaluates, analyzes and reports on the overall operational risks. Specific management divisions have been designated for respective risk areas comprising operational risk, such as operational and administrative risk and systems risk. They are implementing various controls, including the formulation of cross-organizational measures, standards and procedures for managing risk according to the risk characteristics of each area. The Operational Risk Management Division and specific management divisions hold monthly meetings to share information on risk management issues and measures and to discuss how to manage the common elements across the risk areas, thereby ensuring the effective management of operational risk.

Regarding measurement of operational risk, we have adopted the standardized approach for regulatory capital under Basel II. On the other hand, we have also quantified operational Risk Capital for internal use based on our internal model, by utilizing risk scenarios which reflect risk perception of business lines as well as historical losses. This quantification result has been used as part of the overall Risk Capital system.

2. Management of Operational and Administrative Risk and Systems Risk

Operational and administrative risk refers to the risk of incurring losses resulting from executives' or employees' failure to perform accurate clerical work or from their errors or misconduct. Although we have expanded our retail banking and consumer finance businesses and developed our institutional banking business, we realize that appropriately addressing such operational risk is of crucial importance in order to offer reliable services to our customers.

To improve our operational levels, we have established guidelines including "Operations Guidelines." We have also improved our operational flow and guidance.

When errors do occur, we try to prevent recurrences by compiling a database of such cases and analyzing the causes. Our developments in paper reduction, simplified clerical work, extensive automation and computerization have succeeded in minimizing the occurrence of such mistakes/errors.

We believe that the following three factors are crucial for our information systems strategy: security/reliability, flexibility and scalability. In particular, we focus on a more robust, secure and reliable information technology infrastructure in order to ensure the security of customers' transactions. We will continue developing a flexible system that enables us to provide new products and services to meet customers' constantly changing needs.

As system risk reduction measures, we will keep enforcing business continuity actions drawing on our experience of the problems with the Zengin domestic exchange remittance system that occurred on January 10, 2012. We will also improve the quality of our system development process and strive to prevent recurrence and ensure early recovery from system problems in view of the importance of the banking system as a part of the social infrastructure. Additionally, we will continuously obtain the qualification of ISO 27001 as an information security measure.

HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

Human Resources —An Engine for Growth

At Shinsei Bank, we focus on attracting and developing people with the expertise and capabilities to deliver high value added products and services that are differentiated from other banks. In our management principles, Shinsei Bank has articulated our goal of becoming a banking group that is valued by customers and that contributes to the development of the domestic and international industrial economy. We believe that we will only be able to achieve this mission if we ensure that each of our employees responds appropriately and swiftly to customers' individual needs, as financial professionals with advanced expertise and broad-ranging insight, in order to win their trust. As the structure of economies and societies around the world is in flux, there is increasing uncertainty in the environment surrounding both financial institutions and their customers. But it is in these very conditions that Shinsei Bank has an opportunity to demonstrate our *raison d'etre*. With talented people as the driving force of our business, we will pursue new financial services and a new model for banking in Japan, while providing solutions and ideas that are unavailable elsewhere, in our aim to become a financial group that provides multi-faceted support for customers.

Revisions to our Personnel System

In order to make further progress toward realizing our management principles and strategy, we have made revisions to our personnel system for the first time in approximately ten years. The key pillars of the new system, which took effect from April 2012, are a job grade system in which the responsibilities and requirements for each grade have been redefined; an evaluation system that seeks to measure employee contribution not only in terms of short-term results but also includes an evaluation of efforts and processes that are aimed at mid- to long-term growth; and a compensation system that is based not on seniority or past results, but on an objective evaluation of each employee and his or her level of contribution to the organization. By appropriately implementing these three systems, we are seeking to improve employee motivation and morale, while ensuring goal alignment between individual employees and the organization. The new system should also allow employees to demonstrate the best of their abilities, and thus maximize the organization's performance and increase overall corporate value.

Further Strengthening our Organization and Human Resources

Employing a business group-based organization that reflects the differences in customer profile and characteristics of individual businesses, Shinsei aims to develop professionals who have a deep understanding of their respective business fields. We also believe that it is important to develop and leverage human resources company-wide, and encourage cross-divisional collaboration between our highly specialized staff in order to deliver the highest value to our customers. Based on this understanding, we provide various types of training programs including courses designed to hone specialized knowledge and skills, as well as schemes that allow employees to study at graduate schools both in Japan and overseas. In addition, we provide opportunities to engage in cross-organizational business on a project basis, and transfer our human resources strategically across business groups and Group companies. At the same time, we encourage our people to utilize an internal job posting program to take charge of their own career development by taking on new challenges in different fields. Supported by strong management commitment, the Bank's Human Resources Division will move forward with further initiatives, based on a company-wide perspective, aiming to raise the quality of our human resources still further.

Leveraging Diversity

One of Shinsei Bank's greatest strengths is the diversity of our people in terms of age, gender, nationality and background. It is the creativity generated by this diverse set of people that has enabled us to launch groundbreaking services and business models, and we believe that this diversity is the key to securing a competitive advantage. While hiring a stable number of new graduates to expand the ranks of employees from whom we expect our future leaders to emerge, we also make mid-career hires in line with business needs, and benefit from the strengths of a diverse corporate culture. Furthermore, since its inception, Shinsei has promoted the advancement of talented female employees by introducing a variety of support including child-care leave, flexible working hours, and "Shinsei Women's Network," an initiative that encourages interaction between female colleagues in the workplace. As at March 31, 2012, the proportion of female managers at Shinsei Bank remains among the highest in our industry with women representing approximately 24% of all titled managers. While always prepared to change, we are committed to respecting the diversity of our people and will strive to reach new levels of organizational dynamism as we seek to provide completely new solutions to meet our customers' complex and ever-changing needs.

Contributing to Society

As part of our commitment to acting as a responsible corporate citizen and contributing to societal development, Shinsei Bank actively promotes Group-wide CSR initiatives focusing on opportunities that allow our employees to participate in volunteer activities. We have given particular priority to activities centered on the themes of “children” and “the environment,” and to disaster relief activities after the Great East Japan Earthquake of March 2011, including internal fundraisers, donation of food and equipment, as well as volunteer activities in the disaster affected area. Shinsei Bank also continues to participate in charity runs and supports other activities that are strongly supported by our employees.

MoneyConnection®—A Financial Literacy Program

MoneyConnection® is Japan’s first financial literacy program aiming to prevent young people from becoming NEETs (people Not in Employment, Education or Training) by providing them a chance to think about money, work and their own future. A workshop-based program, it is targeted primarily at high school students. Our subsidiary Shinsei Financial developed the program in 2006 in cooperation with Sodateage.net, a non-profit organization with a solid track record in NEET and youth support. From fiscal year 2012, Shinsei Bank is running the program together with Sodateage.net as part of our CSR initiatives focused on the theme of “children.” As a corporate sponsor, Shinsei Bank will support the program financially as well as promoting employee involvement through opportunities for Group employees to participate as facilitators where possible. In fiscal year 2012, we are planning to run the program in approximately 60 schools in the Kanto and Kansai area.

MoneyConnection® encourages high school students to think about the cost of living and the value of products. The program also teaches students about the diverse employment system and the relationship between work and lifestyle, prompting them to think about “money” and “life” from a long-term perspective. In 2010, MoneyConnection® received an Excellence Award in the “1st Career Education Awards” program organized by the Japanese Ministry of Economy, Trade and Industry. Sodateage.net is currently working to expand the program further by collaborating with governmental organizations, and holding seminars and lectures including an instructor training program for people involved in the education system.

MoneyConnection®’s Track Record

MoneyConnection® was officially launched after a successful pilot program conducted for 1,000 students from nine schools in October 2006. The first official workshop was conducted at Tokyo Metropolitan First Commercial High School in March 22, 2007. As of March 31, 2012, the program has reached approximately 46,500 students from 453 schools throughout Japan.

About NPO Sodateage.net

Sodateage.net became a non-profit organization in May 2004, and offers assistance including job training, career consulting, and counseling for both youths and parents, aiming to support young people who are unable to find employment even if they have the motivation to work. From 2004 to 2006, Sodateage.net designed and operated “Job Station Tachikawa,” a project to assist young people in Tachikawa, Tokyo find employment. Since then, the organization has been commissioned to take on various projects by regional governmental bodies. In February 2009, Sodateage.net was selected as one of the Ministry of Economy, Trade and Industry’s “55 Selected Social Businesses” and in December 2011, Sodateage.net was presented with a Green Award for outstanding performance in the management category of the Tama Shinkin Bank’s “Tama Blue Green Award.”

Educational material used in MoneyConnection®

MoneyConnection® in action

Financial Highlights
Message from the Management
Special Feature
Review of Operations
Management Structure
Human Resources and Corporate Social Responsibility (CSR)
Data Section

Our Commitment to Environmental Sustainability

Measures to Conserve Electricity

To date, Shinsei Bank has stepped up efforts to conserve electricity through initiatives such as turning off lights in communal spaces and using motion sensors to control lighting and air conditioning in conference and reception rooms at our head office. From June 1, 2012 to September 28, 2012, Shinsei Bank is taking additional measures such as reducing overhead lighting in its head office by 75% and implementing the "Cool Biz" air conditioning and clothing policy.

Reducing our Impact on the Environment

At Shinsei, we continue to work hard to minimize the environmental impact of our offices and work style. In January 2011, the Bank relocated its headquarters to the Nihonbashi Muromachi Nomura Building, a new building which features advanced energy-efficient air conditioning, lighting, water-heating systems and elevators, as well as green electricity procurement and roof-top greening. As a result of the relocation, usage of smaller space and the additional energy conservation measures implemented after the Great East Japan Earthquake in 2011, the Bank was able to reduce the annual CO_2 emissions. As part of our efforts to raise employee awareness of environmental issues, Shinsei Bank also provides various information and real-time data on the Bank's CO_2 emissions through a dedicated intranet site.

Environmental Impact Data

	Unit	FY2009	FY2010	FY2011
CO_2 Emissions	t	1,938.9	1,911.7	1,567.3
Electricity Usage	kwh	4,046,486	4,119,089	3,889,138
Gas Usage	m^3	23,292	15,773	0
Clean Water Usage	t	14,962	11,280	1,243

Notes: (1) CO_2 emissions data have been calculated according to "Guidelines for Calculating Specified Greenhouse Gas Emission Volume under the Total Emission Reduction Obligations and the Emission Trading Framework."
(2) Data are all for Shinsei Bank headquarters only (do not include affiliated companies).
(3) From January 2011, Shinsei Bank became a building tenant, therefore, clean water usage data does not include clean water usage for shared space.

Amount of Waste Generated / Recycling Rate

	Unit	FY2009	FY2010	FY2011
Waste Generated	t	407.02	386.24	194.27
Amount Recycled	t	229.24	216.09	118.48
Amount of Waste Disposal	t	177.78	170.15	75.79
Recycling Rate	%	56.32	55.95	60.99

Notes: (1) Waste generation data have been calculated according to data provided by building maintenance companies.
(2) Data are all for Shinsei Bank headquarters only (do not include affiliated companies).

Providing Financing for Renewable Energy Businesses

Showa Leasing, a member of the Shinsei Bank Group, is providing a variety of "Total Environmental Support" solutions for customers wishing to install environmentally friendly systems such as LED lighting and solar power generators, use ESCO finance, or ensure compliance with the revised Energy Saving Act. In October 2011, Showa Leasing provided financing for the Watami Group to embark on a wind power generation project. Through this project, the Watami Group has provided funding for a community wind power project in Akita prefecture. The wind turbines began operating in March 2012 and the Watami Group will purchase all of the electricity generated by the facility as well as the associated environmental value. Showa Leasing decided to support this initiative—possibly the first of its kind in Japan—by providing a financing facility to Watami. Each wind turbine generates around 2,000 kW of electricity, which should amount to approximately 4.5 million kWh annually—or the equivalent of 3% of the total electricity used by Watami Group as a whole. The electricity purchased through this initiative will be used by nursing homes operated by Watami No Kaigo, a wholly owned subsidiary of Watami Co., Ltd. It is estimated that the project will generate enough electricity to supply approximately 15 homes. Going forward, Showa Leasing will continue to enhance its lineup of products and services to support the installation of environmentally friendly products and provide financing for renewable energy projects.

A wind turbine in Akita

Efforts to Support the Survivors of the Great East Japan Earthquake

Volunteer Activities in Disaster Affected Areas

Employees from across the Shinsei Bank Group have taken part in volunteer activities in the Tohoku region of Japan to help support the areas affected by the Great East Japan Earthquake. The Bank organized four disaster relief volunteer programs during the period from July 2011 to March 2012 in Miyagi prefecture. Around 40 employees participated in each 2-day program, and a total of approximately 150 participants across the four activities held to date.

Activities and Areas where Volunteer Activities were Held

Ishinomaki City, Miyagi Prefecture
(First Disaster Relief Volunteer Program)
Removal of mud from street gutters and cleaning photos damaged by the tsunami

Minamisanrikucho, Miyagi Prefecture
(Second, Third and Fourth Disaster Relief Volunteer Programs)
Removal of debris and assisting with work in the fishing industry

Monetary Donations, Disaster Recovery Assistance Loans, and Donation of Food and Other Supplies

The Shinsei Bank Group made a total of ¥157 million in donations to support disaster relief efforts. This included a corporate donation of ¥100 million from Shinsei Bank in March 2011, as well as corporate donations from Group companies, and money contributed by Group employees to internal fundraisers. Shinsei Bank also provided swift assistance to corporate and individual customers affected by the disaster through initiatives such as disaster recovery assistance loans. In addition, the Bank and a number of Group companies donated approximately 7,700 items of food and other supplies through prefectural and city governments and NPOs.

Internal Fundraiser to Erect Street Lighting in a Temporary Housing Complex

In May 2012, Shinsei Bank organized an internal fundraiser to erect street lighting in a temporary housing complex in Minamisanrikucho, Miyagi prefecture. 186 Shinsei Bank Group employees contributed, raising a total of ¥2,040,994, which was enough to purchase four LED solar-panel street lights. Shinsei Bank donated the funds raised to "Minamisanrikucho Council of Social Welfare" in response to a request made by the Minamisanrikucho Disaster Volunteer Center, which is run by the Council, as part of their efforts to erect street lighting at the 51 temporary housing sites located in the town. Donations from Shinsei Bank Group employees will be used to install street lighting at four temporary housing sites in urgent need.

Donation of Lease-End Computers and Machinery

Showa Leasing has contributed to the Great East Japan Earthquake Disaster Recovery Project organized by NC Network, which operates a used machine tools sales portal site called "NC-Detector." As part of this project, Showa Leasing donated 19 items of machines, including lathes and compressors, to companies located in areas affected by the disaster, in addition to monetary contributions. Showa Leasing has also donated 29 used computers to public sector organizations, as part of the Japan Leasing Association's disaster support activities.

Machines donated by Showa Leasing to a disaster-affected company

Supporting the Recovery Effort through APLUS Credit Card Campaigns

From March 16 to June 30, 2012, Shinsei Bank Group member APLUS Co., Ltd . ran a "Smile Campaign" to support the disaster recovery effort. In this program, APLUS made a donation of ten yen for each campaign entry by a customer who had spent a minimum of ¥10,000 yen (including tax) on credit card purchases during the campaign period. The campaign offered customers the chance to win prizes including goods from the Tohoku region. Even if customers did not win a prize, they had an additional chance to win back the amount of money they spent on credit card purchases during the campaign period, while APLUS donated the same amount to relief efforts. Prior to the "Smile Campaign," APLUS also organized a campaign on its official Facebook site from March 7 to March 20, 2012 in which the company donated ten yen for each response to a simple survey posted on the site. This campaign was open to both APLUS customers and the general public. The series of initiatives was intended to bring smiles to the faces of customers and people all around Japan.

Dow Jones Sustainability Indexes
Member 2011/12

Shinsei Bank has been selected for inclusion in the Dow Jones Sustainability Asia Pacific Index for four consecutive years since March 31, 2009.