

# TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES



We took the first steps towards returning Shinsei Bank to a stable and normalized growth trajectory by renewing our top management framework on June 23, 2010.

As this marks our first interim results under the new management framework, I would like to give an overview of our results, management status and direction going forward.

**Shigeki Toma**

President and Chief Executive Officer

## Overview of Fiscal Year 2010 Interim Period Ended September 30, 2010

Large losses were recognized in fiscal year 2009 as a result of recording a series of actions, including drastic measures on legacy investment losses and provisioning against future risks. As a result, we have started anew in fiscal year 2010, aiming to return the Bank to a stable and normalized growth trajectory.

In June 2010, the Bank renewed its top management team, including the president, and formulated and announced a new Medium-Term Management Plan (the Plan) with the basic concepts of “rebuilding our customer franchise in Japan” and “establishing a stabilized earnings base.” Following a review of our businesses by the new management team in light of subsequent changes in the economic environment, the Bank made modifications to the original Plan and announced the “Revised Medium-Term Management Plan” in September 2010. While staying true to the directionality of the original Plan, the revised Plan takes into consideration changes in the economic and

operating environment surrounding the Bank, such as increased uncertainty in the economic outlook, and discussions regarding a new international framework for financial regulations (Basel III). Furthermore, the revised Plan has set more realistic and higher earnings targets and specified measures to ensure we achieve them. We have also completed an organizational reform in October 2010 aimed at achieving the goals set forth in the Plan.

## Results for Fiscal Year 2010 Interim Period

Consolidated net income was up ¥5.8 billion to ¥16.8 billion in the first half of fiscal year 2010 and we made good progress towards “establishing a stabilized earnings base” as set forth in our Plan.

Core businesses for both institutional and individual customers performed well, and factors responsible for substantial, non-recurring investment-related losses that were present until last fiscal year receded. At the same time, we have made rigorous expense reductions, and credit costs for the consumer finance

business in our Individual Group decreased significantly due to improved asset quality and collections. As a result, net income increased year-on-year even while we recorded additional conservative and prudent reserves for institutional businesses.

## Strategy Under the Medium-Term Management Plan

The Medium-Term Management Plan formulated in June 2010 and revised in September 2010 sets the direction that the Bank will follow for the three years ending March 31, 2013 (fiscal year 2012).

In addition to a renewal of management and implementation of drastic rationalization measures, the Plan focuses on “rebuilding the customer franchise in Japan” and “establishing a stabilized earnings base.” For the three year term of the Plan, the Bank intends to 1) first lay groundwork for stabilized earnings, 2) then implement measures for diversification of revenues through new businesses, and 3) record stable earnings at operating speed.

Under the revised Plan, we have revised our net income targets upwards for the fiscal year ending March 2013, the final year of the Plan, taking into consideration further cost reductions and credit cost control primarily by emphasizing asset quality over loan balance in the consumer finance business. The net income (reported basis) target for fiscal year 2012 is ¥51 billion, or ¥19 billion higher than originally projected, and the cash basis net income target is ¥60 billion. We currently estimate a total capital adequacy ratio of 10% or higher as at March 31, 2013 under the new Basel III regulations, and therefore expect our capital ratios to be above the new capital requirements. We will strive for ROE of 8% or higher and cash basis ROE of 10% or higher for fiscal year 2012.

The Institutional Group and the Markets and Investment Banking Group (M&I Group) have focused on drawing up and implementing specific measures aimed to realize the basic concepts and goals for the Plan. In line with the concept of “rebuilding the customer franchise in Japan,”

organizational changes were implemented on October 1, 2010 where the existing Institutional Group was separated into two business groups, the Institutional Group and the M&I Group, establishing a structure to accurately grasp customer needs, and develop and provide necessary products and services. In addition, to meet the goal of “establishing a stabilized earnings base,” the Asset Optimization Project Team, reporting directly to the president, was launched to promote further optimization of the Bank’s risk weighted assets centering on reduction of non-core business assets.

The Institutional Group will continue to promote corporate, financial institution and public sector customer businesses (loans and fee businesses). We have also been strengthening our healthcare finance and corporate restructuring businesses since July 2010 as new areas of business focus under our management policy to emphasize specific sectors and areas with growth potential and establish a strong position in these businesses. In November 2010, we established a wholly owned subsidiary for the purpose of providing capital support to domestic customers with corporate restructuring needs. By differentiating ourselves from the competition in this way, we expect to generate higher earnings. In addition to these measures implemented on a Bank-level, we are collaborating with our subsidiary Showa Leasing to provide appropriate products and services to small- and medium-sized enterprises.

The M&I Group will cooperate with the Institutional Group, primarily in the capital markets and advisory businesses, to strengthen the provision of tailor-made products and services to meet customer needs. The M&I Group will continue to focus on strengthening measures for core businesses such as real estate finance, credit trading and specialty finance where we have a proven track record.

Furthermore, in order to provide support for corporate customers looking to expand overseas, we will also strive to establish a structure that allows us to provide high quality services through business alliances with

local financial institutions, primarily in Asia. The Bank took a major first step in implementing its Asia strategy by announcing alliances with Baoviet Holdings, a leading Vietnamese financial-insurance group, and YES BANK, an Indian commercial bank, in November 2010.

The Individual Group will continue to actively pursue the retail banking business, where it will concentrate on stabilizing our funding base and promoting lower funding costs, while strengthening the asset management business through opening additional Consulting Spots and increasing opportunities for face-to-face contacts, and expanding the housing loan business. The consumer finance business will strive to build a portfolio focused on profitability, while exploring the possibility of integrating the consumer finance business into the Bank to effectively cope with changes in the environment, and pursuing further synergy by standardizing the Bank's and consumer finance subsidiaries' platforms. In addition, we will pursue fee businesses such as the settlement and credit card businesses, as well as the installment credit business.

The Bank will review and reinforce its risk management structure in its aim to achieve the goals for the Plan. Specifically, we will reevaluate risk management in line with new management principles such as strengthening the capability to provide appropriate solutions to corporate customers and reducing non-core business assets, while enhancing the monitoring process of various issues within our core businesses. In addition, we will reinforce the integrated risk management framework in order to ensure appropriate control of risk capital usage.

We have implemented a bold Group-wide expense review, reflecting the change in operating environment and directionality of our strategy going forward, and will carry out more rigorous cost reductions.

In September 2010, the Basel Committee on Banking Supervision agreed upon a new framework for capital ratio requirements for banks (Basel III). We will continue to focus on appropriately managing our risk weighted assets in line with this new framework. Under the new Basel III regulations to be implemented incrementally from March

31, 2013, we currently estimate a total capital adequacy ratio of 10%, Tier I capital ratio of 7% and common equity capital ratio of 5% as of completion of the Plan, and therefore expect to achieve the new capital requirements.

As a bank whose operations are supported by public funds, we remain fully aware of the background and significance of this fact, and will work with a sense of urgency to faithfully fulfill our role as a Japanese bank, and provide high quality financial services to society.

## In Conclusion

The fiscal year 2010 interim period marks a fresh beginning for Shinsei Bank under our new management framework. We have laid the foundations for the future by formulating our Medium-Term Management Plan and implementing organizational reform, while recording steady results. However, the environment surrounding financial institutions continues to be challenging and uncertainty remains. Amid such headwinds, Shinsei Bank has renewed its awareness to fulfill the fundamental role of providing access to financial services to those people who need them. Leveraging the unique ideas of our highly diverse people, the strength of our Bank, we will provide financial services that are truly sought by customers.

Fiscal year 2010 also marks a milestone for Shinsei Bank, and as we begin the next chapter in our history, all of our employees will work together to do the utmost to meet the expectations of customers, shareholders and all our stakeholders.

I would like to sincerely thank our shareholders, customers and all other stakeholders for your continued support and guidance.

December 2010



Shigeki Toma

President and Chief Executive Officer