

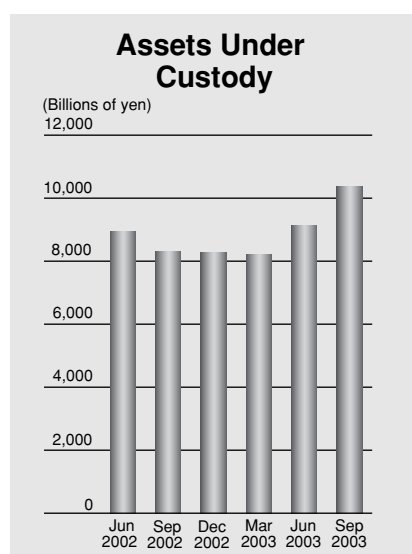
Heightening Our Presence in Capital Markets as a Wing of the Mizuho Financial Group

Shinko Securities, in its fourth year since its historical merger, is steadily heightening its presence in Japanese capital markets. Shinko Securities has reinforced its alliance with the Mizuho Financial Group and is getting set to soar to new heights through management reforms.

Conspicuous Improvement in Profitability through Management Reforms

Shinko Securities is increasing its profits in remarkable fashion. This is clearly represented in the interim settlement for the term ended in September 2003. The consolidated figures show that operating profits rose 40% sequentially to 55,766 million yen and that ordinary profit had climbed from a deficit of 5,676 million yen in the latter half of last year to a profit of 10,134 million yen. Net profit also registered a dramatic improvement, climbing from a loss of 20,788 million yen to a profit of 8,965 million yen.

Shinko Securities implemented a variety of measures to establish a profitable constitution within the unprecedented severe business environment manifested in the prolonged slump of the stock market. In May 2001, Shinko Securities reviewed its medium-term business plan and began promoting management reforms under the slogan of "Establishing a business foundation that can steadily post profits in any business environment." These management efforts to reduce costs have borne fruit in conjunction with the recovery of the stock market that began in spring 2003.



President Takashi Kusama points out, "We have begun to solidify a corporate constitution for generating profits." Although it is true that the performance for this interim period was supported by the positive turn in the stock market, stock trade commissions only comprise thirty percent of operating profits. Shinko Securities successfully covered 87% of all sales and general management expenses with operating profits, excluding those from stock trade commissions. This rate was only 61% in the interim period ended in September 2002. This clearly reveals that an earnings structure that is not easily impacted by stock market trends is beginning to solidify.

Aiming for Full Line Securities Service with a National Network

Shinko Securities was born in April 2000 through a merger of New Japan Securities,

a company with close ties to the Industrial Bank of Japan (presently Mizuho Bank and Mizuho Corporate Bank), an institution deeply affiliated with corporate finance and the securities market from before World War II, and Wako Securities. Osaka Shoji, the predecessor to New Japan Securities, was founded in 1917; thus the overall history of Shinko Securities now exceeds 86 years. Immediately after the merger, Shinko Securities increased its capital with a more than 64 billion yen third-party allotment underwritten by the Industrial Bank of Japan and IBJ Securities (presently Mizuho Securities).

President Kusama states, "Both before and after World War II, corporate finance in Japan centered on indirect finance with banks as the intermediary. During this period the earnings of securities firms was dependent upon stock trading. Therefore, traditional securities firms tended to conduct business in a manner that generated earnings through stock turnover, a form of business that goes against the interests of customers. Shinko Securities is a unique securities firm that added the refinement of a bank to a securities firm that is strong in the market. This is a powerful weapon for gaining the trust of customers."

Shinko Securities follows a business model in which it strives to be a comprehensive securities firm with integrated wholesale and retail services. Shinko Securities uses its nationwide network of branches to conduct the securities business around retail and middle markets, and uniformly conducts the distinct wholesale business. Shinko Securities aims to apply this model and provide a broad range of customers with high quality services.

President Kusama comments, "Retail is a very important stage for Japanese securities companies to be active in, but retail alone is insufficient when you have our scale. In addition, underwriting in the wholesale arena leads to reinforcement of retail sales strength. The key to administering the company is finding a balance between retail and wholesale."

The comprehensive functions of Shinko Securities are beginning to steadily post results. According to the performance for the interim period ended in September 2003, in the area of underwriting stocks, Shinko Securities was the lead manager for ten of 48 newly listed firms, which ranks it second in the industry. As for underwriting initial public offerings in the three emerging markets, Shinko Securities made a big leap to be ranked first by acting as lead manager for nine companies. These figures clearly indicate Shinko Securities' characteristic of being strong among medium-sized and emerging companies.

Cost Structure Reforms with Complete Update of System

A major issue that the securities industry is presently facing is a decrease in earnings from operations related to retail stock trading. President Kusama emphasizes, "The dramatic reduction in commissions from the liberalizing of stock trading commissions and the reduction in trade turnover accompany-

ing consulting have greatly reduced the profitability of securities work compared to before liberalization. We must incorporate this into our management as a simple fact."

Shinko Securities is pursuing two strategies within this new business environment, with the aim of reforming its cost structure. The first is the complete renewal of its system. President Kusama continues, "If you consider that half of securities work is comprised of data processing for settlements and such, back office cost reductions through investment in systems is the key to improving profitability."

System development began in November 2003 and the new retail system, for example, is being developed in four stages and expected to be completed in January 2006. This system utilizes the latest fully open system based on JAVA and total investment is scheduled to be 21.6 billion yen. President Kusama explains, "About 80 billion yen is needed to introduce a main frame based system of the same size. We expect this system investment to achieve a reduction in costs of around 4 billion yen annually."

Nippon Securities Technology, a subsidiary, is handling the system development. This subsidiary was formed through the merging of the system subsidiaries under the former New Japan and Wako, and was formed in July 2001 with capital investment from Hitachi Software, a giant software development firm.

The other strategy for reforming the cost structure of Shinko Securities is a transfer to a performance based compensation system. Shinko Securities has introduced a target management system to ensure total implementation of the performance based system and Shinko Securities intends to make personnel costs variable by setting targets in accordance with the stock market and other environmental factors.

Reinforcing Our Alliance with Mizuho Financial Group

As a member of Japan's largest financial group, Shinko Securities is reinforcing its alliance within the Mizuho Financial Group to heighten its presence and service. Shinko Securities has already achieved concrete results through its alliance with Mizuho Securities, with whom it concluded a "Memorandum of Understanding on an Operational Alliance" and "Operational Alliance Agreement" in December 2002.

Shinko Securities has applied this to aim and secure co-lead managing of underwriting and jointly conducts marketing with Mizuho Securities towards this end. As a result, Shinko Securities was one of the co-lead managers for the corporate bond issuance of Itochu Corporation and also garnered the mandate to serve as co-lead manager from a company for an equity issuance. President Kusama points out, "We are particularly focusing on the capturing of large contracts in our joint marketing." In overseas operations, Shinko Securities and Mizuho Securities are also applying their local



Takashi Kusama, President

corporations in the U.S. and Europe, and working together to market the issuance of bonds within the Euro and Swiss markets.

Moreover, the market making operations of Mizuho Securities were concentrated within Shinko Securities in the JASDAQ market in May 2003; and the two firms launched an operational tie-up in product development, including equity derivatives and structured finance, in October 2003. Furthermore, the tie-up has enabled the opening of donation accounts at Tokyo Institute of Technology and Rikkyo University, and our efforts together will be expanded steadily.

On the other hand, representative of the alliance with Mizuho Bank is Shinko Securities' request to establish joint branches in the Tokyo Metropolitan Area and Osaka. The first such branch will open this fiscal year in Mizuho Bank's Marunouchi Chuo Branch of Tokyo. Shinko Securities also works with the preliminary acceptance of and underwriting of wills, and the amount of trade done with the bank is steadily increasing.

President Kusama states, "We will also proactively seek alliances with entities outside of the Mizuho Financial Group to heighten convenience for our customers. For example, we have tied-up with Japan Post for the payment of funds, although a future theme with it is the establishing of joint branches."

Early Return to Dividend Payment Taking Form

Shinko Securities is now in its fourth year following the historical merger made to secure a strong future for the two heritage companies and Shinko Securities has steadily solidified its presence in Japanese capital markets. President Kusama comments on future themes of Shinko Securities by stating "Our first objective is to secure a solid basis for posting profits so that we can return to paying dividends as early as possible. We can secure a five yen dividend with a payout ratio of 50% by securing a net profit of 8 billion yen. Therefore, this target should be achieved with our present earnings. As for our overall future management, we have entered the stage where we can implement active management strategies including our alliance with the Mizuho Financial Group."

 **Shinko Securities**

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