

Our Mission and Functions



Yoshinori Goto Senior Managing Director **Shigenori Shioda** Deputy President

Shoko Chukin Bank is the only Japanese government-affiliated financial institution dedicated to SMEs.

Profile of the Shoko Chukin Bank

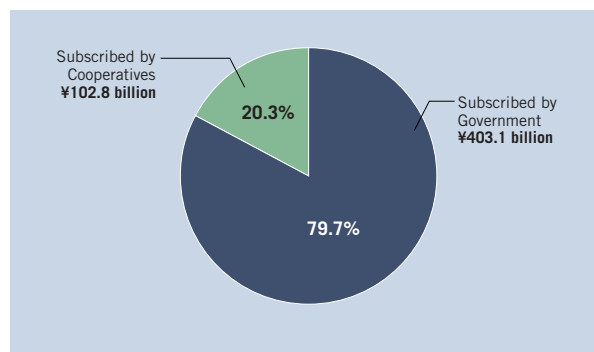
The Shoko Chukin Bank was established in November 1936 under the Shoko Chukin Bank law. It is a government-affiliated financial institution under the joint ownership of the government and SME cooperatives.

As of March 31, 2002, the capital of the Shoko Chukin Bank stood at ¥506 billion. The government subscribes ¥403.1 billion (79.7%) of this amount, while cooperatives composed mainly of SMEs subscribe ¥102.8 billion (20.3%). Government ownership enhances the credit rating of the Shoko Chukin Bank. We take advantage of this fact and procure over 90% of our funds directly from investors.

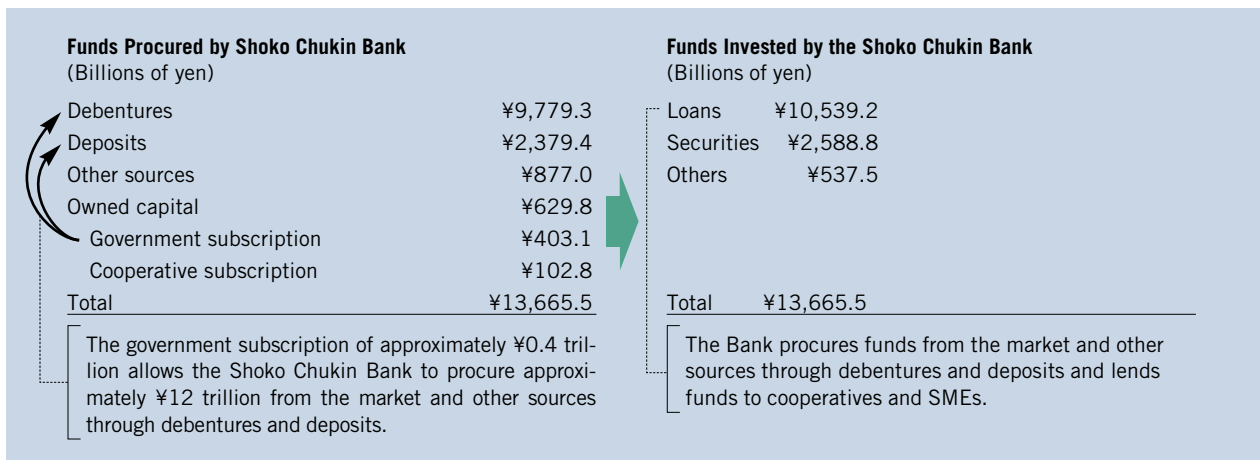
The Shoko Chukin Bank works to facilitate SME finance and implement government SME initiatives efficiently through lending and other activities by combining

the policy role of the public sector with the efficiency of the private sector. Other characteristics of the Shoko Chukin Bank include its specialization in services to SMEs, its financing cooperative activities, a cooperative organization and issuing of debentures.

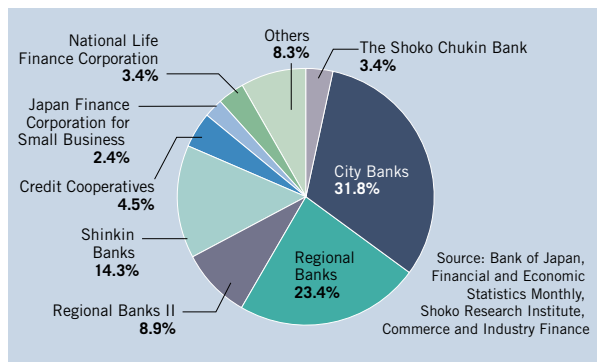
Capitalization Structure (as of March 31, 2002)



Utilization of Government Subscription



Loans Outstanding to SMEs in Japan (as of March 31, 2000)



Specialization in Services to SMEs

SMEs account for 99% of all business and employ more than 80% of the workforce in Japan. The flexibility and entrepreneurial spirit of this vigorous majority has been contributing to sustain the fundamentals of the Japanese economy.

The Shoko Chukin Bank specializes in financing SMEs throughout Japan and provides various services through our nationwide network. In recent years, the Shoko Chukin Bank has provided a variety of support to SMEs under a comprehensive range of unique programs. The “Innovation 21” program is designed to support innovative businesses, and the “Overseas 21” program is targeted toward overseas investment. By providing the “Refresh 21” program, the Bank comprehensively assists companies that are working on revitalizing their

business activities. In addition to these programs, the Shoko Chukin Bank also actively supports business reform in the SME sector in various other ways, such as the dissemination of business information.

Financing Cooperative Activities

The Japanese government encourages SMEs to form cooperative groups in order to engage in joint projects, share information, enhance their networks and solve various management problems. A cooperative is an effective way to overcome disadvantages that SMEs typically have.

The Shoko Chukin Bank supports SMEs in providing the know-how of organizing and utilizing these cooperative groups as well as financial support for them and their members.

The Bank makes a positive contribution in this area through measures called “Cooperative 21” package of comprehensive support for cooperatives. Initiatives include support for joint projects by SMEs and encouragement for the formation of new cooperatives.

A Cooperative Organization

The Shoko Chukin Bank is partially owned by cooperatives formed by SMEs, and it exists basically to provide financial services to cooperatives and their members. Basic decisions pertaining to the Bank’s management are made by the General Assembly of Representatives, which is made up of representatives of the member cooperatives. The Shoko Chukin Bank is literally a financial institution of SMEs, by SMEs, and for SMEs.

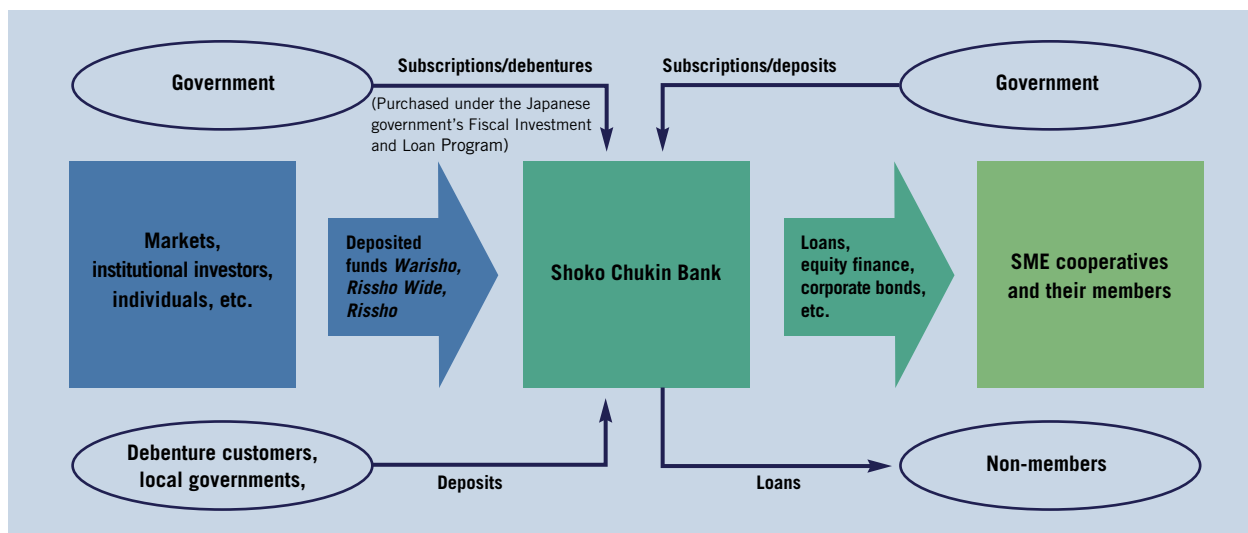
Differences from Other Government Financial Institutions

The Shoko Chukin Bank provides a variety of services for SMEs. In addition to services in such areas as loans, deposits, debentures, securities, domestic exchange and foreign exchange, it also offers comprehensive capabilities as an integrated financial institution, including advice on business planning and development and other aspects of management. An important difference between the Shoko Chukin Bank and other government financial institutions is its ability to provide the same services as private banks, including bill discounting and other forms of short-term

finance, as well as deposit and exchange services.

Moreover, while other government-affiliated financial institutions rely mostly on the government for their funds, the Shoko Chukin Bank uses the creditworthiness of the government to raise over 90% of its funding through other means, such as debentures and deposits. In addition, throughout its history, the Shoko Chukin Bank has operated in accordance with commercial law and the same accounting standards that are used by private sector companies. As a taxable corporation, it also pays taxes.

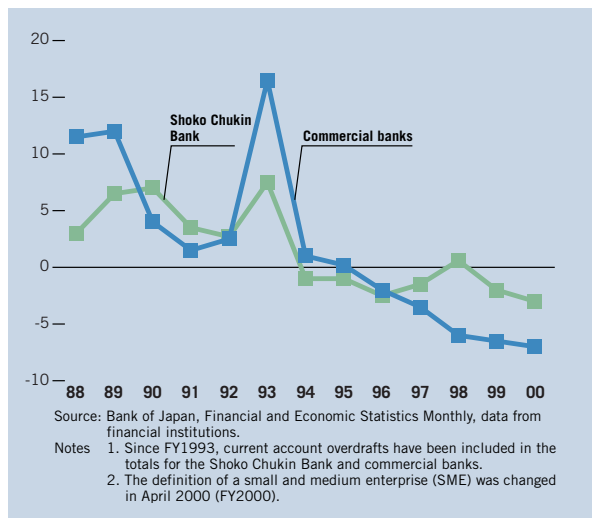
The Flow of Funds of the Shoko Chukin Bank



Differences from Private Sector Financial Institutions

The Shoko Chukin Bank facilitates financing for SMEs by providing stable access to funds regardless of the economic and financial environment. It also takes advantage of its nationwide branch-office network to contribute to regional economic development by providing an extensive array of information resources. Another important role of the Shoko Chukin Bank is to provide a "safety net" for SMEs who are experiencing financial difficulties in the current economic environment. The Bank supports SMEs toward financial recovery by helping them to develop improvement plans, and by providing follow-up support.

Year-on-Year Trends in the Outstanding Loans to SMEs (%)



Long-Term Loans Initiated Annually

Beginning in fiscal 1997, SMEs faced serious limitations in their access to finance. This “credit crunch” caused an increased demand for loans from Shoko Chukin Bank. The amount of annual lending has remained stable, despite the fact that the credit crunch began to ease in 1999.

Unit: ¥ billions

Fiscal years	1996	1997	1998	1999	2000	2001
Long-term loans	1,532.6	1,832.6	2,368.0	2,047.0	2,044.7	1,937.6
Ratio (%)	100.0	115.1	148.7	128.5	125.4	121.7

* FY1996=100

Policy Roles of the Shoko Chukin Bank

The role of the Shoko Chukin Bank is to respond promptly, appropriately and respectfully to the diverse needs of large numbers of SMEs by providing reliable access to finance, by offering management and business information, and by assisting in the development of business improvement plans. The Bank’s specific roles are defined as follows.

- ◆ The Shoko Chukin Bank acts as a safety net by helping to stabilize the cash flow positions of SMEs that are experiencing financial problems due to dynamic changes in the external environment.
- ◆ The Shoko Chukin Bank supports the growth and development of diverse, vital and independent SMEs as well as venture businesses who are eager to innovate, create new businesses, diversify into new activities, or expand overseas.
- ◆ The Shoko Chukin Bank contributes to the sound management of SMEs by helping SMEs that are working to strengthen their business structures, through the provision of reliable access to finance and the distribution of reliable information.

In addition to these roles, the Shoko Chukin Bank also supports the growth and development of local companies by supporting the financing programs of local governments, or by proposing the establishment of such systems. The Bank also cooperates with regional banks in this area.

As a specialized financial institution, the Shoko Chukin Bank has accumulated substantial knowledge and skills in the field of SME finance. Those resources allow the Bank to play a “pump-priming” role in the diversification of SME finance. For example, it has taken the initiative ahead of private sector financial institutions in such areas as private bond placements and equity finance.

Safety-Net Functions

Since the autumn of 1997, a number of companies have experienced difficulties in financing due to reduced access to finance. This situation reflects changes in the financial environment, including the bankruptcy and restructuring of financial institutions.

As a government-affiliated financial institution, the Shoko Chukin Bank has an important role to play in this situation. Starting in November 1997, it has established special advice centers for SMEs in its 99 branches throughout Japan. The Bank has also made active use of the government’s special SME loan system (known as the “safety net loan” system) to provide a fine-tuned response to the financing needs of SMEs.

The Shoko Chukin Bank is actively expanding its safety-net lending activities under two new policy finance systems established by the government in March 2002 as part of its comprehensive anti-deflation countermeasures. One of these programs exempts borrowers from providing collateral on finance in light of the changes in the financial environment, while the other provides short-term loans for emergency business stabilization measures.

Business restructuring is another priority for the Shoko Chukin Bank. The Bank assists with the development of restructuring plans and provides follow-up support to help SMEs that are working to restore their financial soundness. Through these activities, the Shoko Chukin Bank plays an important role as a safety net for SMEs affected by dramatic changes in the external environment.

Support for Business Innovation and Business Creation

The Shoko Chukin Bank helps to foster the growth of vital and independent SMEs by providing comprehensive support for business development by existing SMEs as well as venture businesses. This support program consists of the SME business

innovation support loans under a government policy finance scheme, investment in ventures through investment syndicates, and other systems based on the “Innovation 21” program. Also, the Shoko Chukin Bank actively supports cooperatives and joint investment companies established by SMEs for the purpose of business creation and innovation, as well as more informal communications in cross-industry information sharing organizations.

Management Structure of the Shoko Chukin Bank

Basic decisions regarding to the Bank’s management are made by the General Assembly of Representatives, which is made up of representatives elected by the member cooperatives. The Bank is managed autonomously by its shareholders.

Executive decisions about the operations of the Shoko Chukin Bank are made by the President, who is appointed by the minister of charge. The President, who represents the Bank, is subject to general supervision by the minister in charge. In addition, the Bank’s operations are monitored under a legally mandated audit system.

The General Assembly of Representatives

The Assembly of Representatives is the supreme decision-making body of the Shoko Chukin Bank. At present there are around 50,000 SME cooperatives in Japan. Over 27,000 of these organizations have subscribed capital to the Shoko Chukin Bank. The Assembly of Representatives is made up of representatives chosen from among members of these cooperatives through elections held in each prefecture. It makes important decision about the management of the Shoko Chukin Bank. At present there are 135 representatives, who serve four-year terms.

The Comptroller System

Article 46 of the Shoko Chukin Bank Law provides for the appointment of comptrollers. The comptrollers exercise the supervisory authority of the minister in charge by monitoring the activities of the Bank. The Bank has its own internal checking systems, such as risk management and compliance systems. Its performance of these tasks is also monitored continually by the comptrollers.

Status of Problem Loans Held by the Shoko Chukin Bank

Countermeasures for Maintaining Asset Quality

All credit transactions are subject to Self-Assessment of Assets under the guidelines of the Japanese Institute of Certified Public Accountants, and the results are verified by

external auditors. The Shoko Chukin Bank writes off assets and provides reserves on the basis of its self-assessment results. The Bank uses this approach to ensure accurate monitoring of its asset quality and appropriate disposal of non-performing loans, and to manage loans after the completion of loan application procedures.

Self-Assessment of Assets

The Shoko Chukin Bank classifies borrowers into five categories in accordance with an internal credit rating system. Borrowers are classified as Normal, Need special attention, Risk of bankruptcy, Virtually bankrupt, and Legally bankrupt . As part of its safety-net role as a government-affiliated financial institution, the Shoko Chukin Bank actively helps borrowers, especially those in the “special attention” category, to improve their financial positions by supporting the development of improvement plans and providing follow-up assistance.

Write-offs and Reserves

The Shoko Chukin Bank provides reserves for the full amount to Legally bankrupt borrowers and Virtually bankrupt borrowers and the necessary amount to borrowers at Risk of bankruptcy, after deducting the estimated amount recoverable by disposal of collateral and execution of guarantees from loans. Borrowers classified as Normal and Need special attention are also covered by reserves, the amount of which is calculated on the basis of a default rate over a specific period for each category.

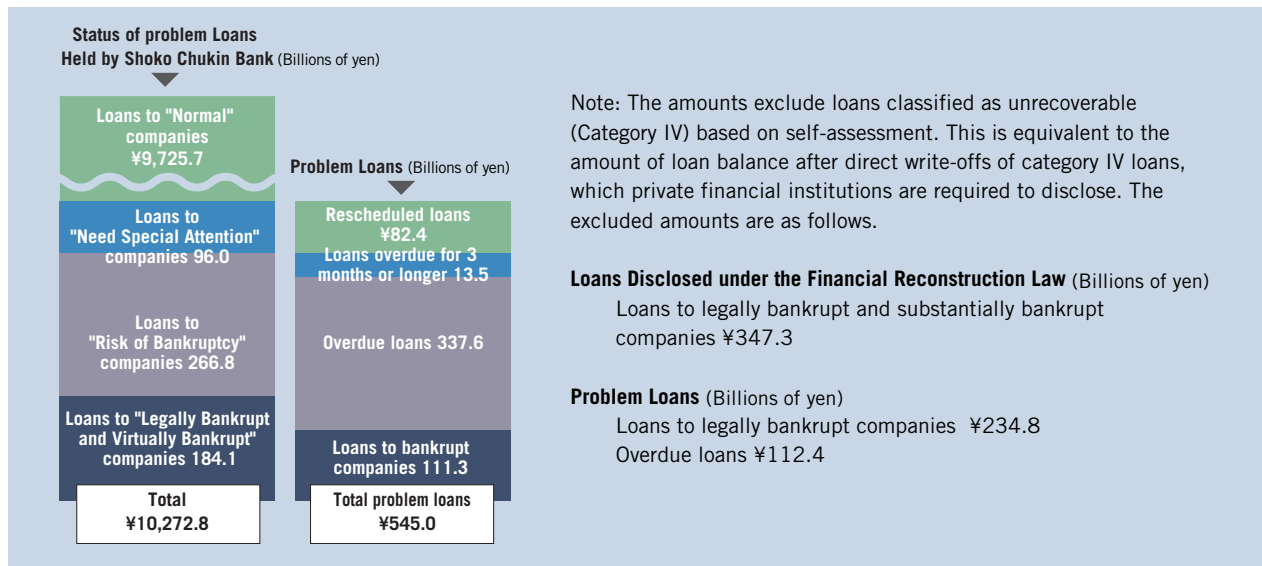
Problem Loans

The Shoko Chukin Bank discloses the amount of loans to bankrupt companies (Legally bankrupt), overdue loans (Virtually bankrupt and Risk of bankruptcy) in accordance with the self-assessment results.

Problem Loan Reserves and Future Measures

As described above, the Shoko Chukin Bank provides write-off assets or provides reserves on the basis of self-assessment results. It has made sufficient provision for its existing problem loans. Considering the fact that it will take some time for the Japanese economy to recover, the Bank will continue to take appropriate steps to ensure and maintain the quality of its assets and its financial soundness. Those steps will include appropriate management of loans on the basis of self-assessment. The Bank will continuously give priority to assist the development and implementation of business improvement plans by borrowers.

Problem Loans disclosed under the Financial Reconstruction Law (As of March 31, 2002)



Improving Management Efficiency of Shoko Chukin Bank

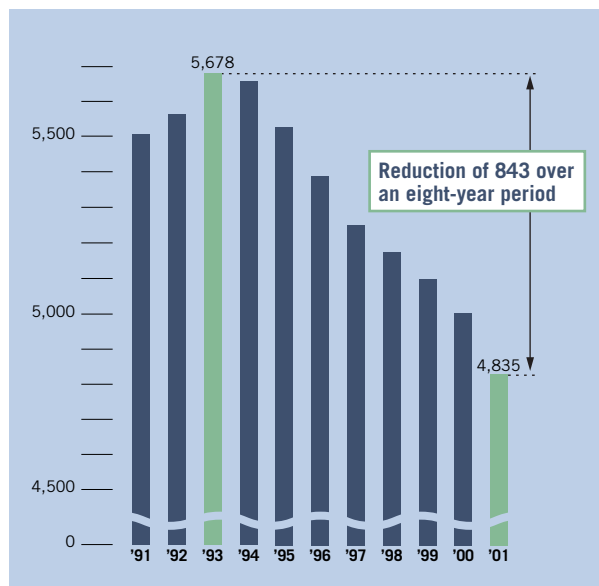
Improvement of efficiency is one of the highly prioritized management goals. The Bank has made an ongoing effort to achieve that goal by reducing the number of staff, thereby reducing wages and salaries and miscellaneous expenses.

The number of employees has fallen below 5,000 for the first time to 4,835 at the end of FY2001. This is 2,287 less than the peak level of 7,122 at end of FY1979 and represents a reduction of around 30%. The number of personnel has been reduced by 343 over the past three years,

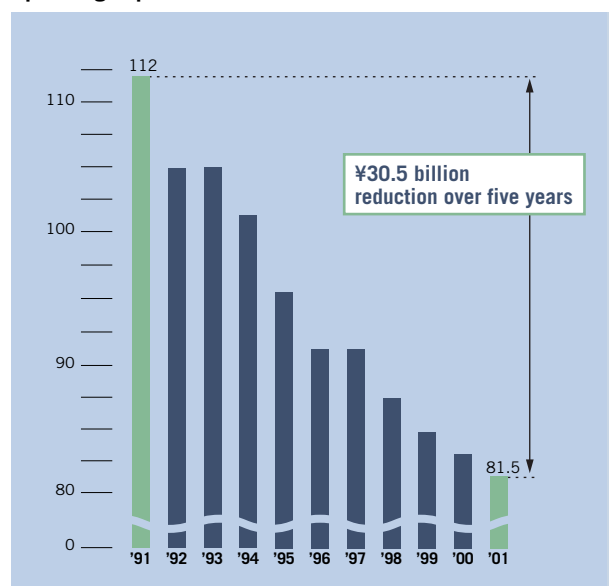
and by 168 in the past year. The Bank will continue to streamline its work force.

The Bank also made a tremendous effort to minimize costs in all areas of activity. Total operating expenses in FY2001 amounted to ¥81.5 billion, ¥1.4 billion less than the previous year. In FY2001 directors voluntarily declined part of their fees, and in April 2002 directors' fees were reduced. The Bank will continue to improve efficiency in step with the reduction of its workforce.

Trends in Personnel Numbers (as of March 31)



Operating Expenses (Billions of Yen)



Improvement of Management Efficiency

	FY1993		FY2001	Increase (Decrease)
Total expenses (Billions of yen)	¥105.2	➔	¥81.5	¥(23.7)
Employees	5,678	➔	4,835	(843)
Branches	106	➔	102	(4)
Operating income (Billions of yen)	¥798	➔	¥865	¥6.7
Net income per employee (Thousands of yen) (Operating income/number of employees)	¥14,054	➔	¥17,890	¥3,836

The Shoko Chukin Bank Positioning based on Government Administrative Reforms

On December 1, 2000, the cabinet approved an administrative reform master plan. This was followed in June 2001 by the passage of a law providing for the reform of special public corporations and similar entities. On December 19, 2001, after deliberations by the government's reform headquarters, the cabinet adopted a plan for the rationalization of special public corporations and similar entities, based on the new law. The plan contains the following measures relating to the Shoko Chukin Bank.

Measures Relating to Activities

1. Special Loans

◆ Special loan programs will be evaluated to determine whether or not they are absolutely necessary. Loan programs that are retained or established in the future will be subject to deadlines and indicators for their abolition.

2. General topics

◆ Appropriate steps will be taken with regard to the disclosure of risk management and reserve provision in relation to loans and other assets.

◆ Responsibility for decisions concerning interest rates will be clarified. Factors taken into account will include necessity from a policy perspective.

◆ Valuation methods for policy finance will be studied, together with mechanisms to reflect valuation results in activities. In particular, steps will be taken to ensure the disclosure of policy costs, including early redemption.

Measures Relating to Organizational Form

◆ The organizations whose activities will be reviewed under the reform include the National Life Finance Corporation, Agriculture, Forestry and Fisheries Finance Corporation,

Japan Finance Corporation for Small Business, Japan Finance Corporation for Municipal Enterprises, the Okinawa Development Finance Corporation, Japan Bank for International Cooperation, the Development Bank of Japan, and the Shoko Chukin Bank.

◆ The scope, scale and organizational of the structure of public finance will be reviewed fundamentally in light of basic principles such as complementation of private sector finance, minimization of policy costs, and integration and rationalization of organizations and services. Council on Economic and Fiscal Policy will commence examination of the role of public finance in early 2002. The cabinet aims to reach a conclusion as early as possible, taking into account the state of economy.

Statement of Administrative Costs

Statements of Administrative Costs provide an integrated view of costs that are ultimately borne by the taxpayer in relation to special public corporations and similar organizations. Financial statements are prepared for these organizations as if they were operating as private sector enterprises, using similar accounting principles as those applied to private sector enterprises. Opportunity costs, such as costs relating to government subscriptions, are then added to costs in the income statements.

The Shoko Chukin Bank already prepares financial statements based on corporate accounting principles, and therefore it is not required to produce a Statement of Administrative Costs.

Opportunity costs, including costs relating to government subscriptions, are equivalent to the theoretical return on investment if the government subscription, which amounts to approximately ¥400 billion, were to be invested in the market. The administrative cost of the Shoko Chukin Bank is calculated by adding this amount to the Bank's net income.