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ANNUAL REPORT

2002

THE SHOKO CHUKIN BANK

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The Bank in Outline

The Shoko Chukin Bank—the Central Cooperative Bank for Commerce and Industry—was founded in 1936 as a government-affiliated financial institution. The Bank's primary mission, as stipulated in the Shoko Chukin Bank Law, is to provide a stable source of long- and short-term financing to small and medium-sized enterprises (SMEs).

The Bank provides its clients with a full range of financial services through its extensive domestic network of 99 offices. It also has a strong overseas presence, with a branch in New York and representative offices in London and Hong Kong.

About eighty percent of the Bank's capital is held by the Japanese government. The remainder is owned by cooperatives of SMEs. With total assets of around ¥14 trillion (US\$140 billion), the Bank is one of the world's largest financial institutions devoted exclusively to serving SMEs.

The Shoko Chukin Bank is one of a select group of financial institutions privileged to issue debentures in Japan. As such, it is able to provide a stable source of funds to SMEs which play an important role in the Japanese economy.

Contents

Financial Highlights	1	Outline of Operations	18
Message from the President	2	Directors and Auditors	23
Management Policies	4	Organization Chart	24
Our Mission and Functions.....	5	The Shoko Chukin Bank Network.....	25
Risk Management	12	Corporate Data.....	26
Topics.....	16		

Financial Highlights

The Shoko Chukin Bank						Millions of U.S. dollars
For the years ended March 31	Millions of yen					2002
	2002	2001	2000	1999	1998	
Interest Income	¥ 232,733	¥ 269,821	¥ 354,738	¥ 409,758	¥ 447,027	\$ 1,746
Interest Expenses	93,909	137,667	202,020	259,641	330,448	704
<hr/>						
As of March 31	2002	2001	2000	1999	1998	2002
Loans and Bills Discounted	¥10,539,282	¥10,886,595	¥11,169,303	¥11,378,031	¥11,326,427	\$ 79,094
Deposits and Debentures	12,264,705	12,600,396	12,778,070	13,009,325	13,220,786	92,042
Government Contribution	273,900	311,100	342,500	368,000	737,491	2,055
Total Assets	13,665,549	14,012,903	13,910,238	14,558,007	14,579,609	102,555
Capital	506,065	493,965	474,865	433,165	397,165	3,797
Government Subscription	403,167	394,067	377,967	339,267	306,267	3,025
Total Capital Funds	629,816	608,522	605,053	582,952	544,394	4,726
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Total Government Contribution and Subscription as a Percentage of Liabilities and Capital Funds	4.9%	5.0%	5.1%	4.8%	7.1%	

Notes: 1. All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥133.25=US\$1, the prevailing rate of exchange as of March 31, 2002.

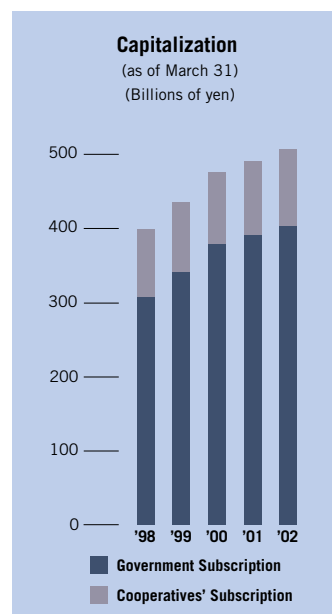
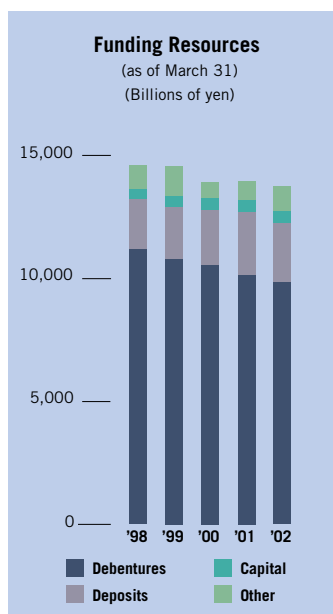
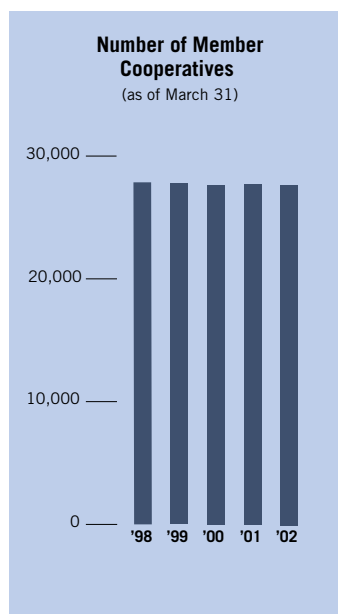
2. All amounts expressed have been rounded down to the nearest million yen.

3. Deposits and Debentures includes negotiable certificates of deposit.

4. The percentage of Government Contribution and Government Subscription=(government contribution+government subscription) x 100/(total liabilities and capital funds-acceptances and guarantees).

5. The percentage of Government Contribution and Government Subscription is rounded off to the first decimal place.

6. Up to and including the year ended March 31, 1999, the reserve for possible loan-losses was shown in the liabilities section. From the year ended March 31, 2000 onwards, it will be shown as a deduction at the end of the assets section.



Message from the President



Tadashi Ezaki President

The Shoko Chukin Bank is the only Japanese government-affiliated financial institution dedicated to small and medium-sized enterprises (SMEs). Since its establishment in 1936, it has made every possible effort, as an integrated financial institution, to facilitate financing for SMEs. The Bank's role has expanded in step with changes in the economic and social environment, and it has grown into a financial institution capable of providing comprehensive financial services in meeting the various needs of SMEs. It fulfills its mission by means of a unique network comprised of the Bank and cooperatives. Shoko Chukin's success and achievements would not have been possible without the ongoing support of cooperatives and their members.

Years of experience have given the Shoko Chukin Bank a profound knowledge of SME finance. We apply that knowledge to the services and operations through which we carry out our policy roles.

One of our roles is the provision of a safety net. Our comprehensive financial services include both long-term and short-term finance to SMEs that are experiencing difficulties due to temporary downturns in business conditions or changes in their business relationships with financial institutions. We provide reliable access to services on a uniform basis.

We also offer support for vital and independent SMEs, including a broad range of venture businesses. Our role in this field is to enhance growth of these businesses who are implementing business restructuring and developing new business.

Another role of the Shoko Chukin Bank is to provide diversified financing methods to SMEs. We have arranged for SMEs to have access to direct financing through our active involvement in private bond placements, equity finance and factoring of trade receivables.

The management and staff of the Shoko Chukin Bank are determined to earn the continuing confidence, support and loyalty of customers by providing services that reflect our unique characteristics as a membership-based government-affiliated financial institution dedicated to SMEs. We look forward to your support and encouragement.

A handwritten signature in black ink that reads "Tadashi Ezaki". The signature is written in a cursive, flowing style.

July 2002

Tadashi Ezaki, President

Management Policies

The Shoko Chukin Bank actively supports the growth and development of SMEs. In the year ended March 2002, the Bank made further sustained progress under its 11th Long-Term Business Plan (FY2001-2003).

Basic Direction of Management Policy

Under this long-term business plan, The Shoko Chukin Bank will further clarify its basic direction as a government-affiliated financial institution specializing in SME finance. The Bank's management strategy under this plan can be summed up as follows.

1. The Shoko Chukin Bank will contribute to the growth and development of SMEs by providing policy-linked finance based on original concepts that exploit the Bank's characteristics as a government-affiliated financial institution.
2. The Shoko Chukin Bank will improve its business structure by enhancing its profitability and ensuring the soundness of its assets by strengthening risk management.
3. The management and employees of the Shoko Chukin Bank will approach their day-to-day tasks with a renewed awareness of the Bank's mission as a government-affiliated financial institution specializing in SMEs.

Management Policies in FY2002

As outlined below, the management policies of the Shoko Chukin Bank are guided by the Basic Direction of Management Policy. In particular, in order to play the policy role, we are providing loan programs based on the government's comprehensive measures to overcome the negative effects of deflation, which is a serious problem affecting the

Japanese economy. As the effects of deflation and restructuring of the financial sector expand to every part of Japan, the Shoko Chukin Bank works in cooperation with local banks and other organizations to provide stability for SMEs, which are the backbone of local economies.

Management Policies in FY2002

1. Realization of policy role
2. Reinforcement of operating capabilities
3. Enhancement of asset quality
4. Improvement of profitability
5. Maximization of operation efficiency
6. Comprehensive compliance and risk management

Standards of Behavior

In order to realize the Basic Policy Direction of the Shoko Chukin Bank, management and staff are required to observe specific behavior standards. Those standards are summarized in the "Three Cs".

The Three Cs

- ◆ Change
- ◆ Chance
- ◆ Challenge

The management and staff of the Shoko Chukin Bank will embrace change as a chance by confidently taking up the challenge of management goals in the current dynamic financial environment.

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

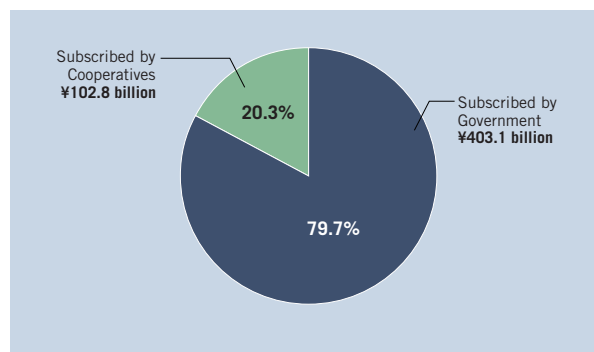
The Shoko Chukin Bank was established in November 1936 under the Shoko Chukin Bank law. It is a government-affiliated financial institution under the joint ownership of the government and SME cooperatives.

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.

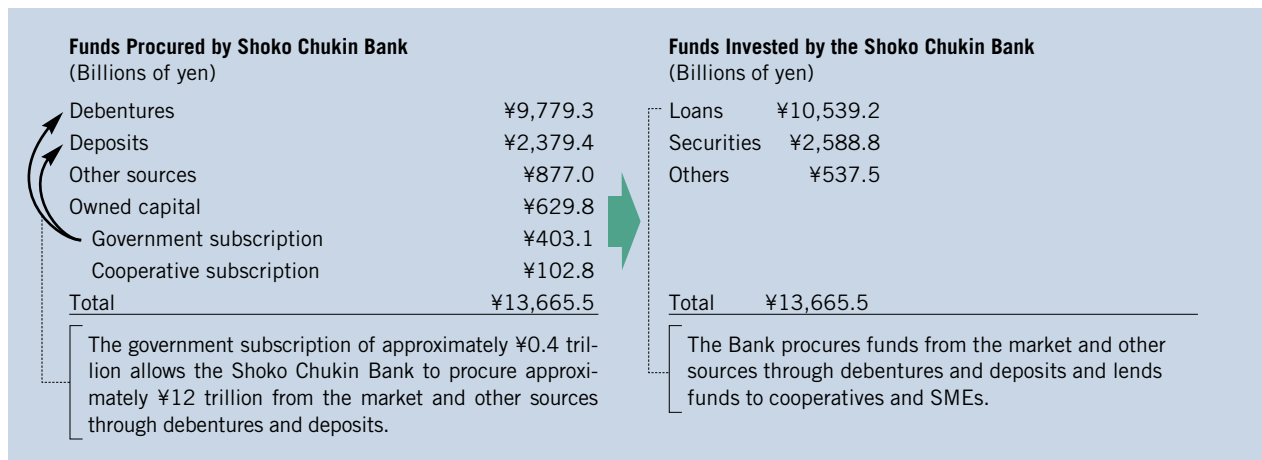
The Shoko Chukin Bank works to facilitate SME finance and implement government SME initiatives efficiently through lending and other activities by combining

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.

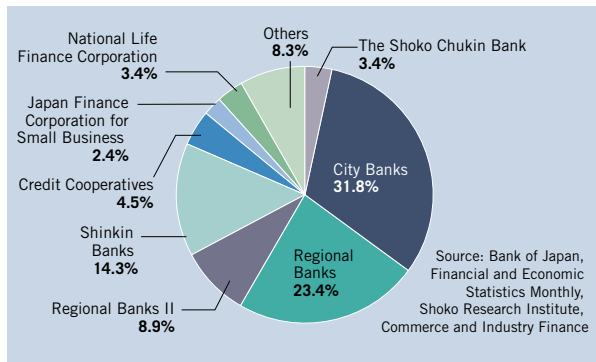
Capitalization Structure (as of March 31, 2002)



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.

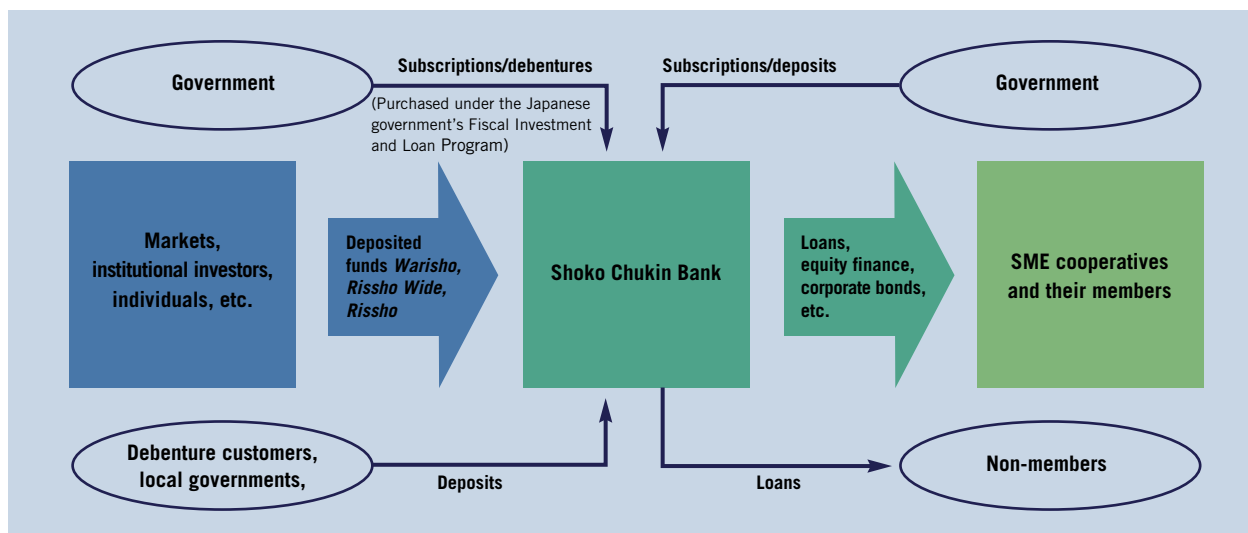
Differences from Other Government Financial Institutions

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.

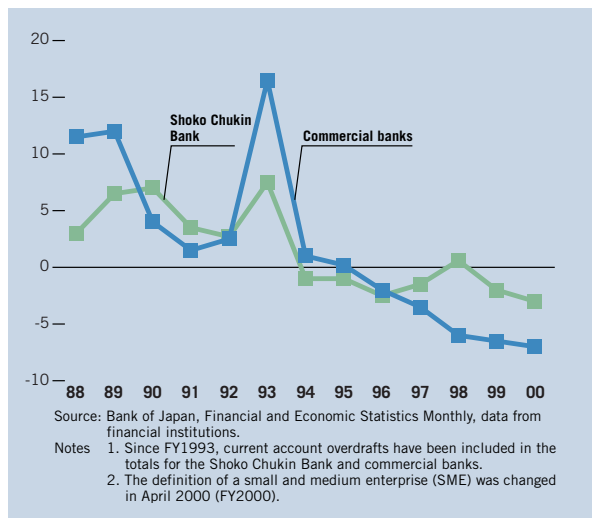
The Flow of Funds of the Shoko Chukin Bank



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.

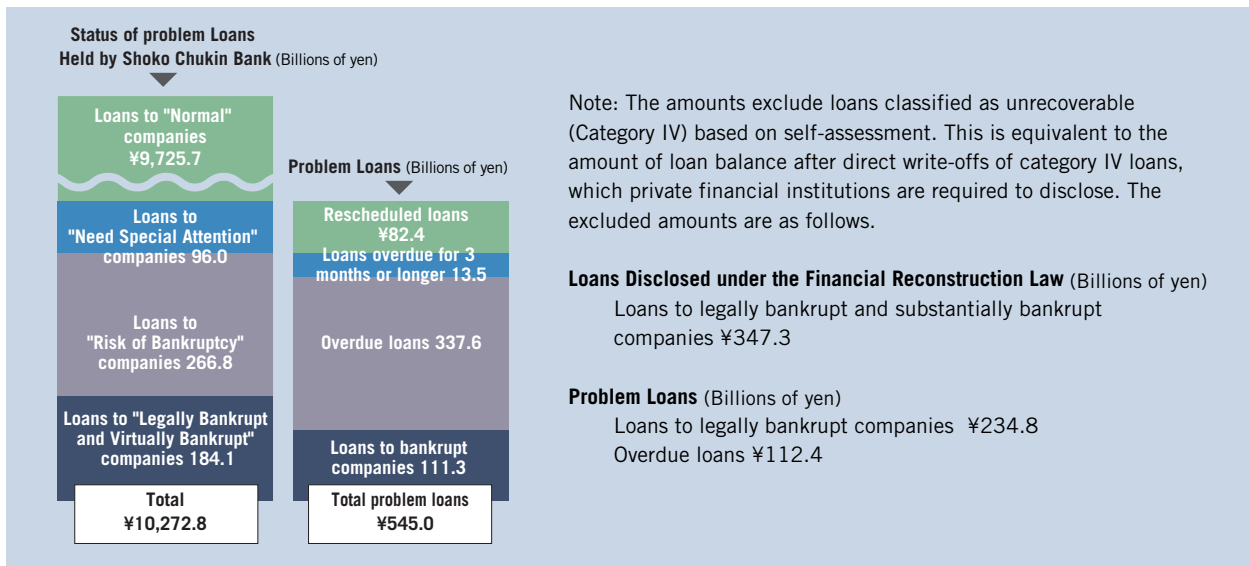
Problem Loans

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

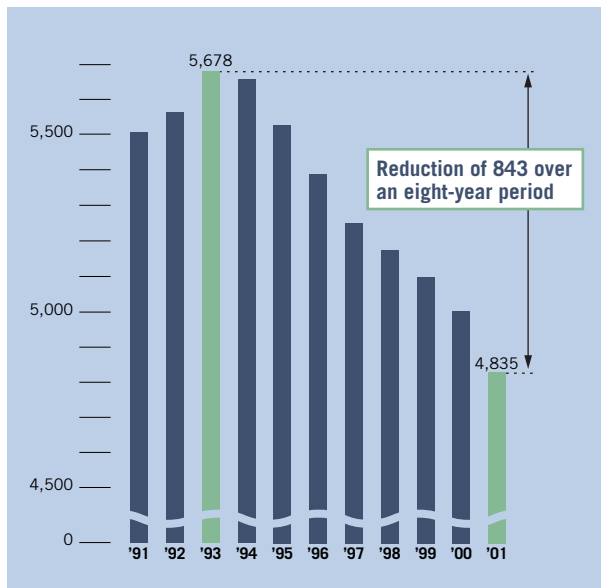
Improvement of efficiency is one of the highly prioritized management goals. The Bank has made an ongoing effort to achieve that goal by reducing the number of staff, thereby reducing wages and salaries and miscellaneous expenses.

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,

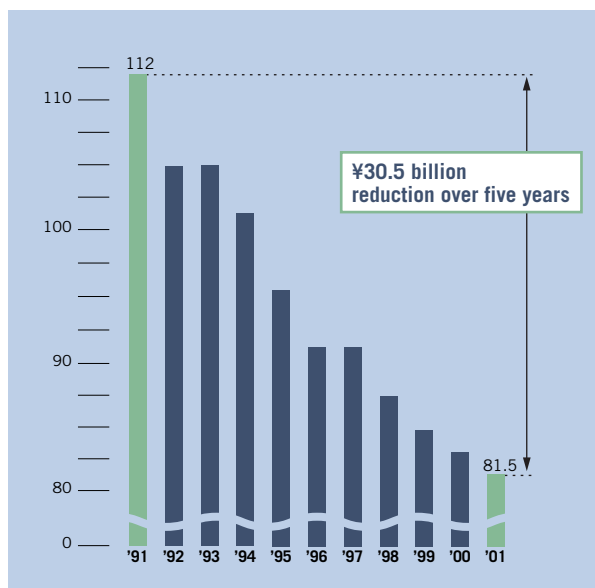
and by 168 in the past year. The Bank will continue to streamline its work force.

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.

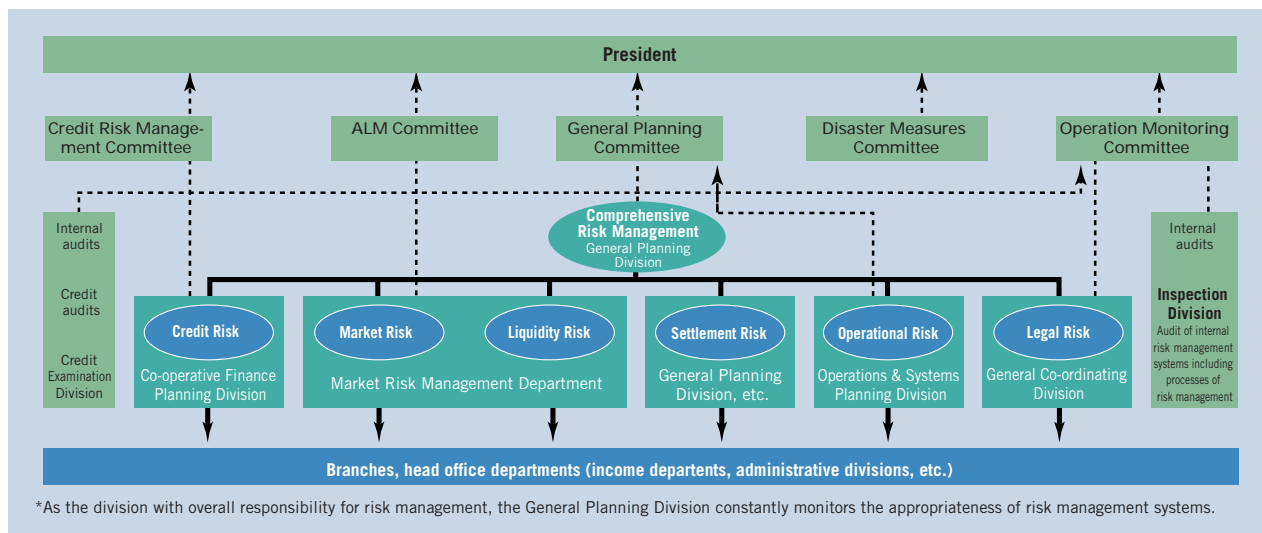
Opportunity costs, including costs relating to government subscriptions, are equivalent to the theoretical return on investment if the government subscription, which amounts to approximately ¥400 billion, were to be invested in the market. The administrative cost of the Shoko Chukin Bank is calculated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

Risk Management

Financial institutions have been exposed to considerably diverse and complex risk factors such as credit risk, market risk, liquidity risk, and operational risk. The situation reflects liberalization and internationalization of the financial sector, and advances in financial technology. It is critical for financial institutions to manage these risks appropriately in order to maintain their financial soundness while responding to the increasingly diverse and sophisticated needs of their customers.

The Shoko Chukin Bank has strengthened its risk management systems by establishing departments responsible for the management of specific types of risk. Overall risk management is provided by the General Planning Division, which constantly monitors the other departments to ensure that risk management procedures are being implemented properly. The result is a robust and comprehensive risk management structure that provides total monitoring of the Bank's risk exposure.

Financial Institutions for SMEs in Japan



Definitions of Risk

Credit Risk

The risk of losses due to the reduction or elimination of asset value due to such factors as deterioration in the financial position of the borrower.

Market Risk

The risk of losses resulting from fluctuations in asset values due to shifts in interest rates, exchange rates, or the prices of securities.

Liquidity Risk

The risk that cash flows will become insufficient due to the inability to secure the required funds (cash flow risk), and the risk that market transactions will become impossible due to market disruptions (market liquidity risk)

Settlement Risk

The risk of losses resulting from failure to settle by the due date (categorized into credit risk, liquidity risk, operational

risk and legal risk, according to cause and characteristics of the problem).

Operational Risk

Operational risks are the risk of losses by financial institutions resulting from a failure, accident or fraud of management or staff (administrative risk), the risk of losses by financial institutions due to computer system failures, errors, and inadequacies (system risk), and the risk of losses due to serious threats (leaks, fraudulent use, erroneous operations, and deliberate acts) to the validity and reliability of essential information assets (information security risk).

Legal Risk

The risk of losses resulting from legal uncertainty about transactions or failure to comply with laws and regulations.

Credit Risk Management

The Shoko Chukin Bank bases its credit risk systems on expertise gained through many years of experience in working with SMEs. It is working to maintain and improve the quality of its loan assets by setting appropriate lending criteria and by ensuring that screening systems are properly applied.

Individual loan applications are screened under various criteria, such as the appropriateness of business and financial plans, repayment prospects, and collateral, as well as the future potential of the enterprise concerned. Each proposal is considered from a comprehensive range of perspectives, including the business and financial situations of customers, the quality of their management, and the level of their technological skills.

Lending to venture businesses, is subject to screening by the New Business Screening Committee. The Committee consists of outside members with industry expertise and the Bank's staff members who have skills in evaluating technology and knowledge in a specific industry.

Furthermore, the Shoko Chukin Bank uses self-assessment procedures to control and monitor credit risk. It has also introduced a 10-tier credit system based on its self-assessment criteria. This highly detailed system allows the Bank to assess the creditworthiness of SMEs using the most appropriate set of financial indicators selected from the many indicators available. The Shoko Chukin Bank's extensive experience of lending to SMEs is reflected in the system, which is designed to eliminate arbitrary decision-making by basing qualitative assessment on a uniform scoring system.

Credit screening is carried out by the Credit Group, which consists of Credit Divisions I, II and III and the Credit Data Monitoring Department. To ensure appropriate screening and control, the credit screening organization is completely independent from business divisions. The Shoko Chukin Bank is constantly working to maintain and improve the quality of loan assets.

Overall credit risk management is coordinated by

the Co-operative Finance Planning Division, which monitors credit screening and credit portfolios and works to enhance credit risk systems. At senior management level, the Credit Risk Management Committee analyzes credit portfolios from various perspectives, including creditworthiness and industry sectors. The aim of this committee is to maintain and improve the soundness of assets, mainly by distributing risk.

Employee training programs are designed to hone the credit screening skills of all staff at different levels.

Market Risk Management

Advances in financial technology and the expansion of market transactions have increased the exposure of financial institutions to a variety of market risks, including fluctuations in interest rates, exchange rates and share prices.

The Shoko Chukin Bank's approach to risk management in this area is defined in the Basic Policy on Market Risk Management. This policy defines the organizational structures, commissions, and managing methods as it relates to the management of market and liquidity risk. This risk management structure complies with guidelines published by the Japanese financial authorities and with the Accounting Standards for Financial Instruments, also known as market price accounting.

Asset and Liability Management (ALM)

The Shoko Chukin Bank uses funds raised primarily through long-term fixed-interest loans and 5-year interest-bearing debentures to provide a variety of financing services. Discrepancy between the terms over which funds are raised and invested causes an interest rate risk.

To maintain reasonable levels of revenue while managing these risks appropriately, the Shoko Chukin Bank uses a variety of asset and liability management (ALM) techniques. Assets and liabilities are analyzed from various perspectives, and swaps and other instruments are used to ensure integrated management of both on-and off-balance-sheet assets and liabilities.

The ALM Committee, consisted of senior management, hold a meeting every month to set policies to control the level of risk while gaining profit. The Committee takes into account the state of the economic and financial environment, the interest rate outlook, and the overall level of market risk affecting the Bank's on- and off-balance-sheet transactions.

1. Delta Analysis

This method provides an integrated measurement of interest rate risk in terms of changes in asset and liability values resulting from interest rate volatility. (Delta* = 10 basis point value)

*Delta analysis can also be used to monitor interest rate risk for each calculation period on the basis of grid point sensitivity.

2. Simulation Analyses

The Shoko Chukin Bank monitors medium-term period losses and gains and trends in the market values of assets and liabilities by combining its plans for the procurement of funds through loans, debentures and other means, and interest rate forecasting scenarios.

Market Business Operations

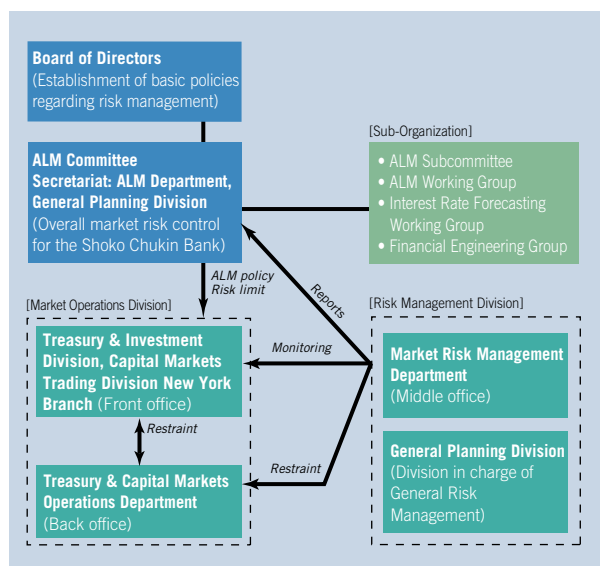
Market operations, including derivative transactions, are critical to control ALM risk and provide various financial

services to customers. Market operations are classified as banking operations and trading operations under the Bank's basic market risk management policy. The ALM Committee set the limit of risk capability for banking operations and the maximum loss allowed for trading operations. The committee monitors operations on a regular basis to ensure that these policies are being complied with properly. The Shoko Chukin Bank uses trading operations primarily to meet the market transaction needs of its customers.

The Shoko Chukin Bank has established a reciprocal checking system between front office departments, which are responsible for implementing transactions, and back office departments, which handle administrative tasks. In March 1998, the Bank further strengthened the risk management structure by establishing the Market Risk Management Department, a specialized department responsible for a "middle office" role.

The Market Risk Management Department monitors, quantifies and manages market risk using integrated risk management indicators, including delta and value at risk. In addition, it constantly monitors operations to ensure that the risk limits established by the ALM Committee are being complied with properly. The Department reports to senior management on a regular basis.

Management Systems for ALM and Market-related Risk



Managing Operational Risk

Operational risk is defined as administrative risk, system risk, and information security risk. The Operations & Systems Planning Division is responsible for managing and minimizing operational risk.

The Shoko Chukin Bank is making efforts to reduce administrative risk by introducing automated processing for the increasingly diverse range of products handled, and by using sophisticated auditing systems. It also provides in-depth employee education.

System risk is managed through efforts to ensure the stable operation of computer systems. Countermeasures include system redundancy, the establishment of back-up centers, and the implementation of breakdown drills.

The Shoko Chukin Bank has set a basic policy, specific criteria and administrative procedures concerning countermeasures against information security risk. To ensure an appropriate response, risk is classified based on such factors as importance of specific information assets, both information itself and information systems.

The Bank's contingency plans set clear operational priorities for the safety of customers and employees in the event of a disaster or other emergency.

Improving Internal Auditing Systems

The importance of internal control systems to avoid losses is increasing with the growing complexity and sophistication of financial transactions. Internal auditing systems are also an effective way to ensure that operations are being implemented efficiently and effectively in accordance with the directions set by management. The Credit Examination Division and the Inspection Division, which operate independently of all other head office sections, are in charge of conducting internal auditing and monitoring the Bank's internal management systems.

The Inspection Division verifies the effectiveness of internal management systems by inspecting the operations of branches and head office departments, and by auditing computer-related systems. These inspections cover a number of perspectives, including compliance with laws and internal regulations, the effectiveness of reciprocal checking systems based on internal inspections at the department and branch levels, and the adaptation of internal rules to environmental change. The aim of these inspections is to improve operations and prevent problems.

The task of the Credit Examination Division is to audit credit management procedures to ensure that self-assessment is being applied properly, and that credit ratings are accurate.

In fiscal 2000, the Shoko Chukin Bank established the Operation Auditing Committee. Its task is to discuss measures to improve operations and ensure compliance, based on the results of these internal audits.

The Shoko Chukin Bank is not subject to the statutory audit requirements set down in the Securities and Exchange Law and the Commercial Code Special Exception Law. However, it has commissioned the Chuo Aoyama Audit Corporation to audit its self-assessment of loans and other assets and its accounting procedures for financial instruments.

Compliance Systems

As a policy-based financial institution, the Shoko Chukin Bank fulfills an important role in society and has a special obligation to earn the confidence of the public by carrying out its activities fairly and appropriately. The Bank's operations must comply with all laws, regulations and rules. It ensures accountability by disclosing information and maintaining a high standard of transparency in its operations.

Reinforcement of compliance systems is an ongoing priority for the Shoko Chukin Bank. For example, the Bank has developed a solicitation policy based on the Law Concerning the Sale of Financial Products, which took effect in April 2001. It has also established procurement systems that comply with the Law Concerning the Promotion of Procurement of Environment-Friendly Products by the Government, which became fully effective in April 2001.

The Meaning of Compliance

The meaning of "compliance" indicates not only strict observance of laws, regulations and rules, but also conformance with accepted social norms.

Promoting Awareness of the Importance of Compliance

The Shoko Chukin Bank is working to increase awareness of the importance of compliance among its management and staff. For example, the president regularly emphasizes the Bank's commitment to full compliance at branch manager meetings.

Topics—Fulfilling our Policy Role

Establishment of Coordinating Organization

The General Co-ordinating Division has been designated as the organizational structure responsible for ensuring compliance through coordination of compliance-related matters. The Division has the tasks of planning and managing basic aspects of compliance. It is working closely with other divisions to develop a compliance structure for the Shoko Chukin Bank.

Specific Compliance Initiatives

- ◆ A compliance handbook has been published for use in educational activities for management and staff.
- ◆ Compliance Officers have been appointed in every branch, and liaison and reporting systems have been established between the General Co-ordinating Division, as the coordinating organization, and head office and branches.
- ◆ Group training programs and branch-level training programs have been established.

Appointment of Compliance Officers and Establishment of Checking System for Internal Rules

Compliance officers have been appointed in each head office division. When internal rules, which are essential for the performance of the Bank's operations, are created or amended, these people ensure that the rules comply with laws and regulations. They also compare the Bank's rules with accepted social norms. When necessary they seek advice from the relevant departments or outside experts and consult with the General Co-ordinating Division.

Compliance Inspections

Head office divisions and branches are required to conduct internal compliance audits. Compliance is also a priority item in operational inspections of head office divisions and branches by the Inspection Division, which is independent from other head office divisions.

Supplementary Government Subscription

On October 26, 2001, the Japanese Cabinet adopted the "Front-Loaded Reform Program." On December 21, 2001, the government provided the Shoko Chukin Bank with a supplementary capital subscription of ¥9.1 billion to fund emergency business stabilization loans, known as "safety-net loans."

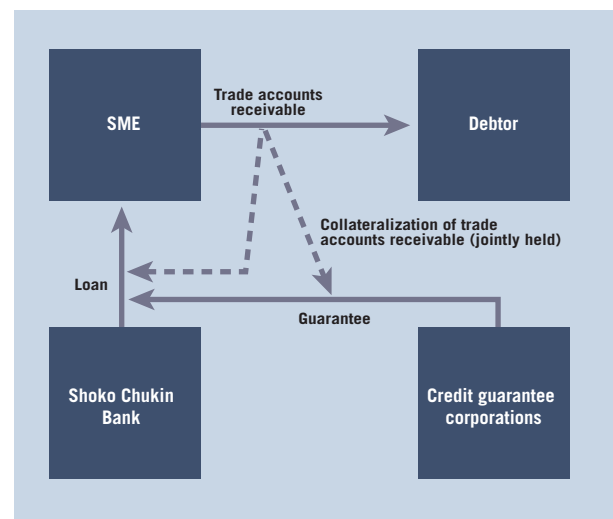
Support for Diversification of Fund Procurement

Trade Receivables—Secured Loan Program

This program was introduced in December 2001 as part of a package of emergency measures targeted toward SMEs affected by a harsh economic environment. It is expected to facilitate access to finance and contribute to the diversification of sources of finance by allowing SMEs to obtain loans from financial institutions without using real estate or other assets as security.

Features of the system:

1. Trade accounts receivable, which have not previously been used in financing in the past, can be used as collateral for loans.
2. The trade receivables used as collateral are held jointly by credit guarantee corporations and financial institutions.
3. Credit guarantee corporations provide 90% of the guarantees.



The Shoko Chukin Bank actively uses the system as a “pump-priming” mechanism for finance from private-sector financial institutions. It handled 118 applications worth ¥842 million over a three-month period in FY2001.

Support for Business Rehabilitation

Business Rehabilitation Loans (DIP Finance)

The Shoko Chukin Bank supports the rehabilitation of businesses that have economic and social value by providing loans to business owners who have applied for rehabilitation procedures under related laws, including the Civil Rehabilitation Law and the Company Rehabilitation Law, or to business owners who have taken over the operations of such companies. The system was established in July 2001 at the request of the Ministry of Economy, Trade and Industry and the Ministry of Finance. The Shoko Chukin Bank is working to use this system as a “pump-priming” mechanism for private sector finance. In FY2001, it handled eight applications worth approximately ¥1 billion.

Loans to Businesses in Rehabilitation

	Emergency Support Funds for Businesses in Rehabilitation/Stabilization Support Funds for Businesses in Rehabilitation (Note)
Eligible businesses	Businesses in rehabilitation that have loan transactions with the Shoko Chukin Bank at the time when applications were made under the Civil Rehabilitation Law or other laws
Use of funds, etc.	Short-term working capital secured by commercial bills or trade accounts payable
Conditions of loans	(1) Reasonable expectations of business recovery (2) Contribution to maintenance of regional economic and industrial vitality (3) Certainty of repayment

Note: Emergency Support Funds for Businesses in Rehabilitation are provided to businesses between the decision to initiate statutory reconstruction procedures and the approval of reconstruction plans. Stabilization Support Funds for Businesses in Rehabilitation are available to businesses between the approval of reconstruction plans and the completion of those plans.

Loans to Businesses that Take over Operations from Businesses in Rehabilitation

	Support Funds to Promote Business Rehabilitation
Eligible businesses	Businesses that have taken over operations from businesses in rehabilitation
Use of funds, etc.	Acquisition of facilities required for business operations
Conditions of loans	Contribution to maintenance of regional economic and industrial vitality

DIP Finance

DIP stands for “debtor in possession.” In the United States DIP finance is finance provided to companies that have filed for statutory rehabilitation procedures under federal bankruptcy law (businesses in rehabilitation). According to a report produced by a DIP study group established by the Small and Medium Enterprise Agency, loans provided to businesses that have taken over operations from businesses in rehabilitation can also be classed as DIP finance.

Outline of Operations

Loans

The Shoko Chukin Bank provides a variety of loan programs to meet the funding needs of SMEs. Such loan programs range from long-term loans for capital investment and working capital to short-term finance such as bill discounting.

Eligible Entity for Borrowers

- 1) The Shoko Chukin Bank lends primarily to its member cooperatives—the affiliated organizations of SMEs subscribing its capital—and to their member companies.
- 2) The Shoko Chukin Bank also arranges loans to joint investment companies and affiliated organizations established mainly by SMEs and to SMEs' overseas subsidiaries.

Form of Loan Transactions

The Shoko Chukin Bank provides three forms of loan transactions in terms of the purpose of the funding. The first form of loan transaction is to provide funds necessary for joint undertakings by member cooperatives. Examples of these undertakings include joint production, joint processing, and joint sales operations. The Shoko Chukin Bank also responds positively to applications for loans required for structural and organizational upgrade programs.

The second form of transaction is to provide loans through the member cooperatives for the purpose of supplying the funds necessary for the members' business operations. This is structured in such a way that the Shoko Chukin Bank lends the cooperative funds required by their members, and the cooperatives in turn use the funds to advance loans to those members.

The third form of transaction is to extend loans directly to member companies.

Meeting Diverse Business Finance Needs

The Shoko Chukin Bank contributes to the growth and development of SMEs by providing the following types of finance based on its integrated financial capabilities.

◆ General Loans

Loans in this category include loans on deeds, loans on bills and current account overdrafts.

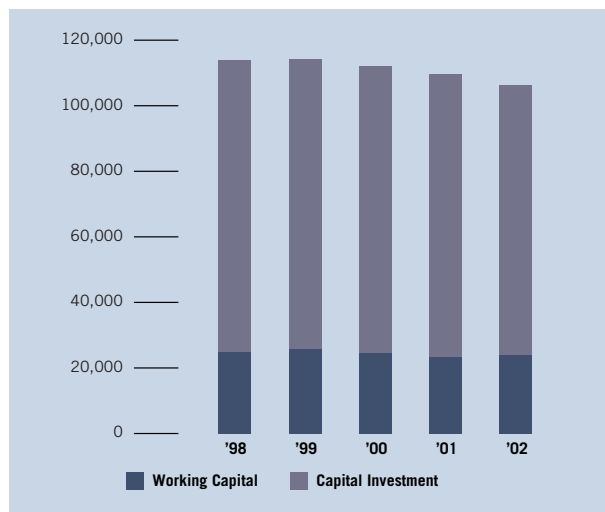
◆ Acceptances and Guarantees

These are debt guarantees for various purposes, including bank loans, trade accounts payable, and expressway toll accounts payable.

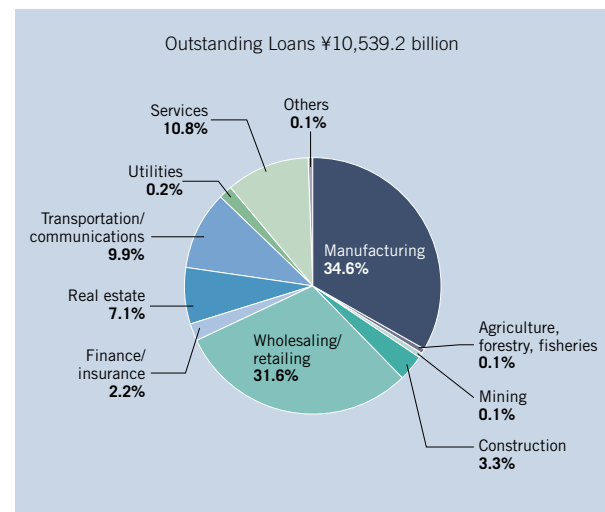
◆ Securities Loans

These loans can be used for various purposes, including collateral for general commercial transactions or delayed tax payments.

Loans Outstanding by Funds Usage (as of March 31)



Sector Breakdown of Outstanding Loans (as of March 31)

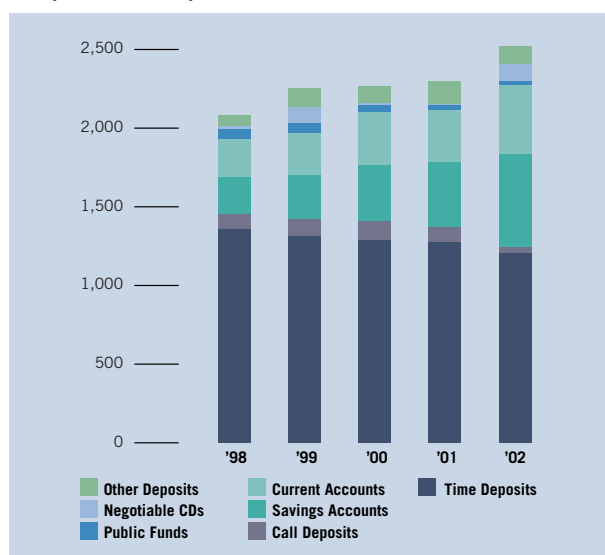


Deposits and Public Funds

Deposits

The Shoko Chukin Bank collects deposits from various sources, including SME cooperatives and other SME organizations and their members, executives of affiliated cooperatives and their members, local government organizations, non-profit organizations, financial institutions, and debenture holders. These deposits are an important source of funds for the loans that the Bank provides to its customers.

Composition of Deposits (as of March 31)



Public Funds

The Shoko Chukin Bank collects deposits of fiscal funding from local governments throughout Japan. These funds are used to assist the development of SMEs and to promote regional economic growth. As of March 31, 2002, these deposits with the Shoko Chukin Bank amounted to ¥38.3 billion. These funds are used extensively to meet the financing needs of SMEs.

Payment Services for Public Utility Charges and Other Official Payments

The Shoko Chukin Bank provides payment services of central and local government taxes, social insurance premiums, contributions to the SME mutual aid retirement

scheme, utility charges, NHK broadcast reception charges, and telephone charges. It can also arrange automatic monthly payments of stipulated amounts from accounts specified by customers.

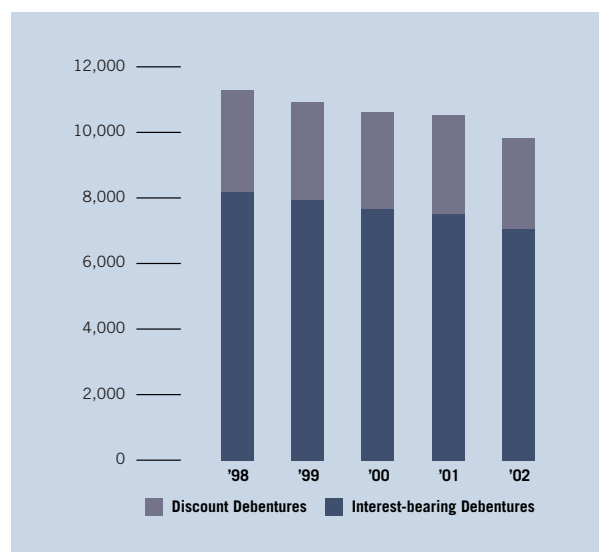
Stocks and Capital Subscription Payments, Dividend Payments

Affiliated organizations and their members can use the Shoko Chukin Bank as a payment agent for capital subscription payments, equity payments and share dividend payments.

Debentures

The Shoko Chukin Bank maintains a reliable supply of funds for SMEs by issuing bank debentures, as provided in the Shoko Chukin Bank Law. The balance of debentures outstanding as of March 31, 2002 was ¥9,779.3 billion. The Bank issues both subscription debentures and over-the-counter debentures, which are available for purchase at any time. Two-year, three-year and five-year interest-bearing debentures are offered for subscription by financial institutions and institutional investors. These debentures are also subscribed by the government and public institutions.

Debenture Issues (as of March 31)



Over-the-counter debentures are offered mainly to individual investors. The range consists of Warisho discount bonds, and Rissho and Rissho Wide interest-bearing bonds. With Rissho Wide the interest is accrued and paid as a lump-sum at maturity. With principal security and fixed returns, these debentures are very popular with the public as an easy method of saving. They can be purchased in units of ¥10,000, with a minimum amount of ¥10,000. Further details can be found in the overview of the Bank's products and services on Page 33. Applications for Shoko Chukin Bank debentures are accepted at any of the Bank's branches or sub-branches.

Securities and Treasury Operations

The Shoko Chukin Bank actively participates in domestic and overseas financial markets to look for better opportunities for investment and fund-raising activities, as well as to better meet the investment and financing needs of SMEs.

The Bank uses securities markets to obtain the best possible returns from investment of its reserve funds and surpluses. It invests primarily in public bonds. When investing in foreign-currency-denominated bonds in overseas financial markets, it tries to maintain the soundness of its assets by employing a variety of financial tools, such as currency and interest rate swaps, to hedge the risk of exchange rate and price fluctuations. The Shoko Chukin Bank also maximizes the efficiency of short-term investment and financing activities by using offshore markets and futures.

Note: Offshore Market

An offshore market is a market that is isolated from domestic financial markets. It is used for lending transactions with non-residents. A number of special provisions apply to these markets. For example, transactions in offshore markets are exempted from interest rate regulations and the deposit insurance system, and interest paid to non-residents is not subject to withholding tax and other requirements.

International Operations

The Shoko Chukin Bank offers a variety of international services to meet the needs of SMEs, including foreign currency deposits and loans (impact loans).

Export-Import Services

The Shoko Chukin Bank provides a wide range of import-export services, including the purchase and collection of export bills and the establishment of import letters of credit (L/C), as well as services relating to import usances and overseas remittances. It also offers advice on importing and exporting.

Other Trade Transactions

The Shoko Chukin Bank provides bid bonds, contract guarantees and advance payment redemption guarantees for trade transactions.

Advice and Finance for Overseas Expansion

The Shoko Chukin Bank provides information on investment environments to customers with plans for overseas expansion. It also provides financial support to finance expansion projects and guarantees for loans from local banks. Under the "Overseas 21" program, the Bank offers a package of support services to assist trade transactions.

Overseas Network

New York Branch

The New York branch provides advisory services to assist SMEs with the establishment of business operations in the United States. It also helps them to obtain finance after expanding into the United States.

London Representative Office

The London Representative Office is an important source of local information about Europe, which is moving increasingly toward economic integration under the EU.

Hong Kong Representative Office and Information Centers in Asia

The expansion of SMEs into Asia, especially China and ASEAN, has started to accelerate again. The Hong Kong Representative Office provides information and support

to customers moving into the region. It also offers wide-ranging advice and other assistance to SMEs after the establishment of their Asian business operations. In addition, the Office assigns staff to partner financial institution and other organizations in China and ASEAN to obtain current information for distribution to customers. (As of March 31, 2002, staff were stationed in Shanghai, Dalian, Shenzhen, Bangkok, Kuala Lumpur, Singapore and Jakarta.)

Overseas “Chukinkai” — An SME Network in China and ASEAN

This organization was formed by Shoko Chukin Bank customers in Malaysia, Hong Kong and Thailand. Members enjoy timely access to business information through seminars and meetings, as well as opportunities to participate in information exchanges with customers and suppliers.

Comprehensive Financial Services

1. Business Information Services

a) Business Transfer Measures

The Bank helps companies with stock measures, including stock price valuations and the planning of stock transfers.

b) Support for Public Share Issues

The Bank offers customer-focused advice, including the proposal of capital policies, information about the establishment of internal systems, and the introduction of securities firms and audit corporations.

c) M&A, Business Alliances

Assistance in this area ranges from the introduction of companies and the calculation of acquisition prices to the final fulfillment of purchase conditions.

d) Introduction of Business Partners

The Shoko Chukin Bank uses its nationwide branch network to introduce business partners. It also provides spaces for the promotion of new products.

e) Effective Use of Real Estate

The Shoko Chukin Bank helps customers to make effective use of idle land, including the introduction of franchisers and tenants and the planning of leased buildings.

f) Other Services

Other services include specialist management advice and consultation by the Japan Institute Of Commerce, Industry & Economics. It also hosts a variety of seminars.

The “Site”—the Official Homepage of the Shoko Chukin Bank

Since September 2000, the Shoko Chukin Bank has opened a homepage for SME cooperatives and their members. A variety of free-of-charge information services are available to the users. Visit the homepage at: <http://www.shokochukin.go.jp/>

2. Support for Venture Business Businesses Companies and Others

Equity and Bond Underwriting by Investment Syndicates

In addition to finance and information services under the “Innovation 21” program, the Shoko Chukin Bank also supports companies planning to implement IPO through the First Shochu Investment Syndicate, which was jointly established with the Japan Institute of Commerce, Industry & Economics.

Economic Research Activities

Over 99% of all companies in Japan are classified as small- and medium-sized enterprises (SMEs). Trends in the SME sector have an influence on the Japanese economy as a whole. The Shoko Chukin Bank maintains current data about SME trends through its research activities and surveys of client companies. It returns the results of this work to SMEs by publishing its findings in the mass media and on its web site as reference information for analyses of economic and industrial trends.

Monthly Survey of SME Business Sentiments

This publication is based on monthly surveys of 800 companies selected from the Shoko Chukin Bank's nationwide customer base. As Japan's only comprehensive survey of trends in the economic situation of SMEs, the survey is used by the Japanese government and attracts considerable interest in Japan overseas. In June 2000 the Bank began to conduct trial surveys of sample of 1,000 companies, including an additional 200 businesses in emerging sectors and other areas. The aim of this project is to provide a more precise picture that reflects changes in Japan's economic structure.

SME Capital Investment Survey

There is an extremely close link between capital investment and economic trends. The Shoko Chukin Bank surveys capital investment trends among SMEs biannually.

Regional Analyses of SME Business Sentiment

Twice each year, the Shoko Chukin Bank classifies its branches into nine regional blocks and conducts comprehensive studies and analyses of regional business sentiment based on information from its branches.

Economic Forecasts

The Shoko Chukin Bank regularly publishes forecasts for the current and next financial years, based on its own surveys.

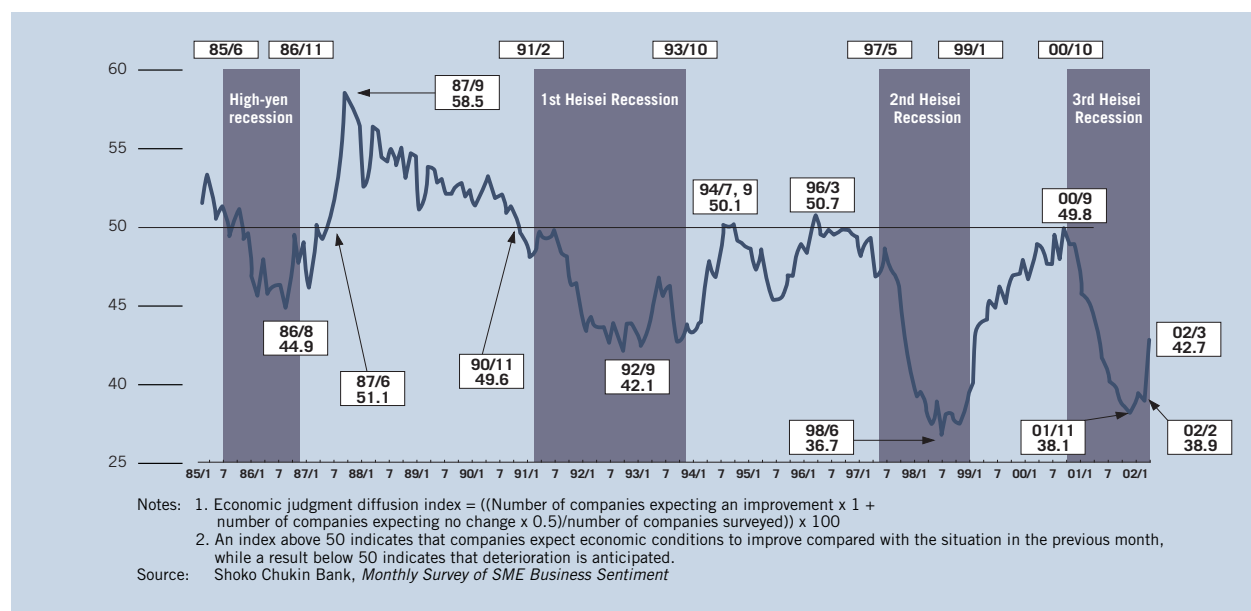
Trends in the SME Sector

This survey is based on results from the Monthly Survey of SME Business Sentiment, together with findings from other Shoko Chukin Bank surveys and statistics published by government agencies and other organizations. It provides a general overview of quarterly trends in the SME sector.

Other Research

From time to time, the Shoko Chukin Bank conducts surveys and research and publishes results relating current trends in the economic situation. For example, in FY2001, it conducted a survey on Internet use by SMEs.

Sector Breakdown of Outstanding Loans



Directors and Auditors



Tadashi Ezaki
President



Shigenori Shioda
Deputy President



Yoshinori Goto
Senior Managing Director

President

Tadashi Ezaki

Deputy President

Shigenori Shioda

Senior Managing Director

Yoshinori Goto

Managing Directors

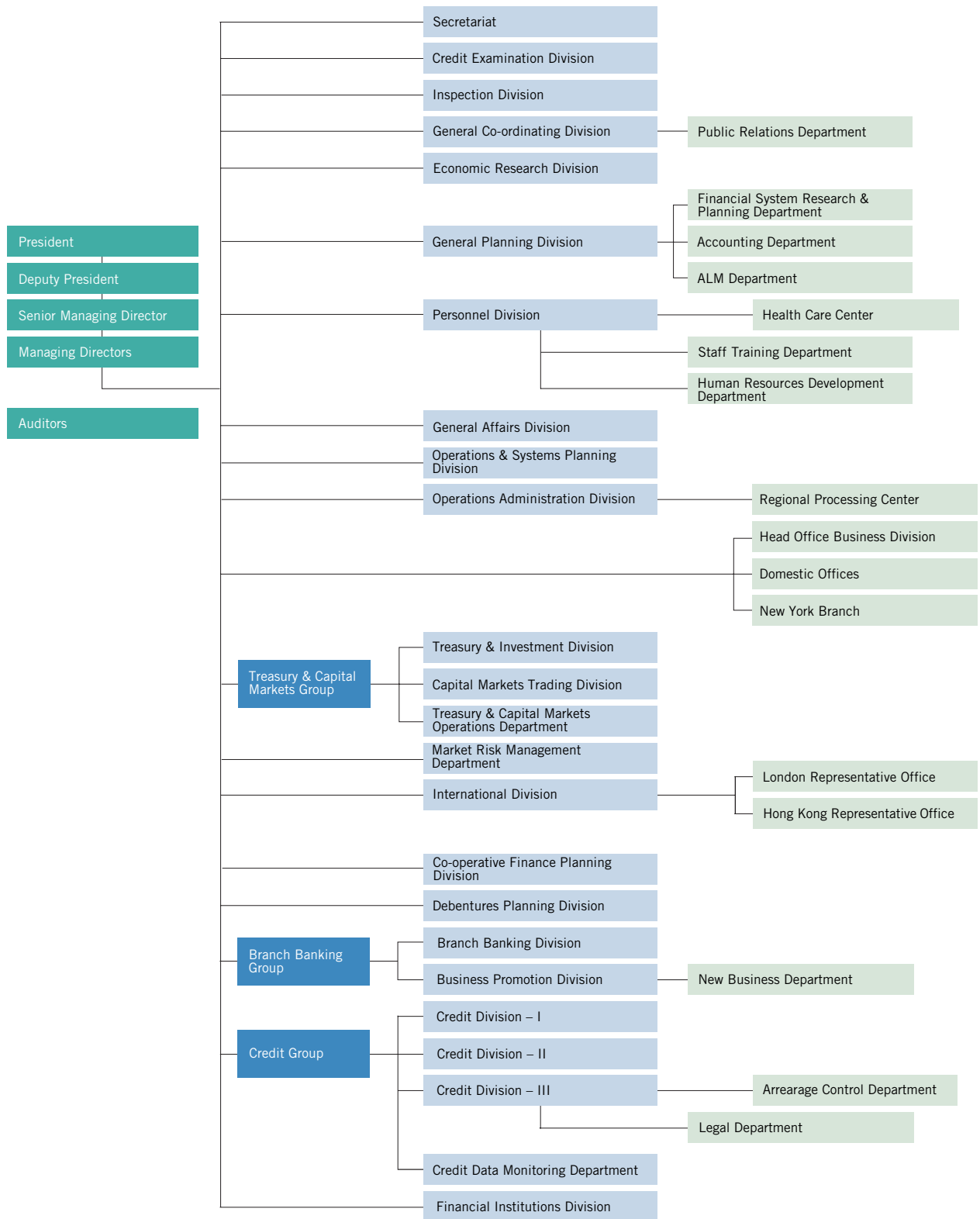
Chikuhei Miura
Hayashi Nakajima
Iwao Ihara
Toshiro Mori
Takashi Kanemaru
Haruki Takahashi
Shigeki Sakai
Satoshi Fujisawa

Auditors

Kiyoshi Ohashi
Mitsukazu Ishikawa
Koichi Kurashima

(As of May 1, 2002)

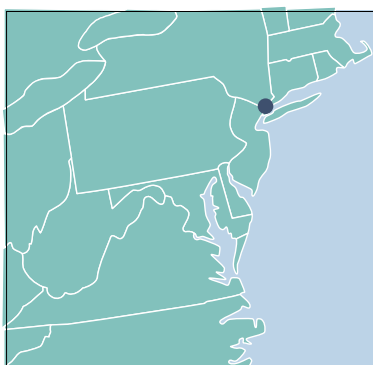
Organization Chart



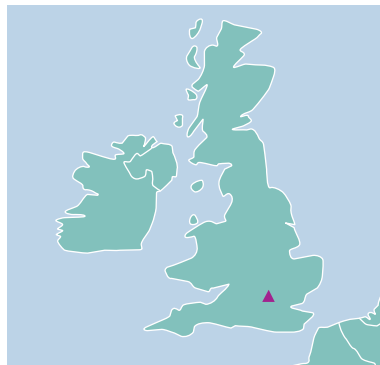
The Shoko Chukin Bank Network



Overseas Offices



New York



London



Hong Kong

Corporate Data

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J25679 CHUKIN
(Treasury & Capital
Markets Group)

Fax: (03) 3272-6169
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(03) 3274-3910
(Treasury & Capital
Markets Group)

SWIFT Code: SKCK JPJT

Homepage Address:

<http://www.shokochukin.go.jp/>

Established

November 30, 1936, based on the Shoko Chukin Bank Law, promulgated May 27, 1936, and revised May 17, 1985, and June 26, 1992

Capital

¥506,065 million:

¥403,167 million subscribed by the government;

¥102,897 million subscribed by member cooperatives

No. of Member Cooperatives

27,718

No. of Employees

4,835

Domestic Offices

99

Overseas Offices

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Fax: (212) 581-4850

SWIFT Code: SKCK US33

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HONG KONG REPRESENTATIVE OFFICE

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Hong Kong

Tel: (852) 2524-5111

Fax: (852) 2523-6452

Affiliates

JAPAN INSTITUTE OF COMMERCE, INDUSTRY AND ECONOMICS, LTD.

- Publishes Shoko Journal
(Commerce and industry journal)
- Presents lectures and seminars
- Undertakes commissioned research in various fields
- Produces advertising and other publications
- Conducts various research, analysis, and consultancy work
- Engages in venture-capital activities

SHOCHU CAPITAL MANAGEMENT, INC.

- Offers investment advisory services relating to negotiable securities and financial instruments
- Provides asset management consultancy services
- Undertakes research in domestic and overseas economic and investment fields

SHOKO FINANCE, LTD.

- Provides factoring and finance

JAPAN SHOKO LEASE CO., LTD.

- Lease

SHOCHU CARD CO., LTD.

- Offers a variety of credit card services for general and cooperate use

(As of March 31, 2002)



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