

Our Mission and Functions

The Shoko Chukin Bank is the only government-affiliated financial institution specializing in support of SMEs.

Profile of the Shoko Chukin Bank

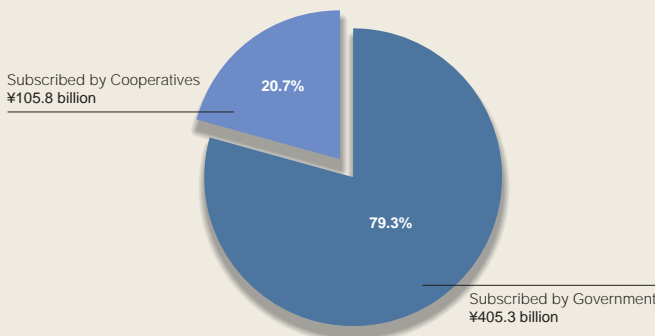
Financial Institution Established under Joint Ownership by SME Cooperatives and the Government

The Shoko Chukin Bank was established in November 1936 under the Shoko Chukin Bank Law as a government-affiliated financial institution owned jointly by SME cooperatives and the government.

As of March 31, 2003, the capital of the Bank stood at ¥511.2 billion. The government subscribes ¥405.3 billion, or 79.3%, of this amount, while cooperatives composed mainly of SMEs subscribe ¥105.8 billion, or 20.7%. Government ownership enhances the credit rating of the Bank, and it leverages this advantage to procure over 90% of its funds directly from investors.

Through lending and other activities, the Bank combines the policy role of the public sector with the efficiency of the private sector to facilitate SME financing and implement government SME initiatives efficiently.

Capitalization Structure (as of March 31, 2003)



Utilization of Government Subscription (¥ billion)

Funds Procured by the Shoko Chukin Bank

Debtures	¥9,281.1
Deposits	¥2,313.3
Other sources	¥698.5
Capital	¥636.2
Government subscription	¥405.3
Cooperative subscription	¥105.8
Total	¥12,929.1

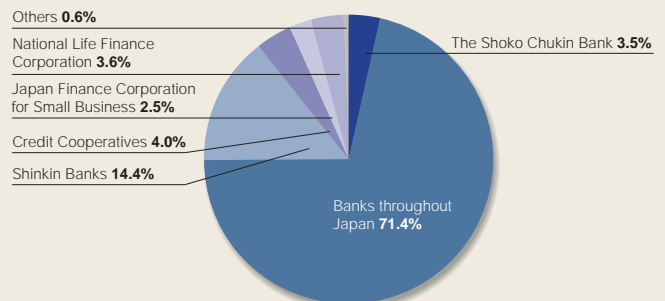
The credit based on the government subscription of approximately ¥0.4 trillion allows the Bank to procure approximately ¥12 trillion from the market and other sources through debtures and deposits.

Funds Invested by the Shoko Chukin Bank

Loans	¥10,090.3
Securities	¥2,043.0
Others	¥795.8
Total	¥12,929.1

The Bank lends funds to cooperatives and SMEs that it procures from the market and other sources through debtures and deposits.

Loans Outstanding to SMEs in Japan (as of March 31, 2001)



Banks throughout Japan includes City Banks, Regional Banks, Secondary Regional Banks and Trust Banks
(Sources: Bank of Japan, Monthly Report of Recent Economic and Financial Developments; Shoko Research Institute, Commerce and Industry Finance: others)

Specializing in Providing Financing to SMEs (SME Specialist)

SMEs account for 99% of all businesses and employ more than 80% of the workforce in Japan, and their flexibility and entrepreneurial spirit is a source of dynamism for the Japanese economy. The Bank specializes in providing financing to SMEs throughout Japan through its nationwide network, and SMEs use its facilities throughout the country. In recent years, it has provided a variety of support to SMEs through a comprehensive range of programs. The "Innovation 21" program supports innovative businesses, the "Overseas 21" program supports businesses making overseas investments and the "Refresh 21" program assists companies in revitalization activities. In addition to these programs, the Bank also actively supports business reform in the SME sector by providing a variety of business-related information.

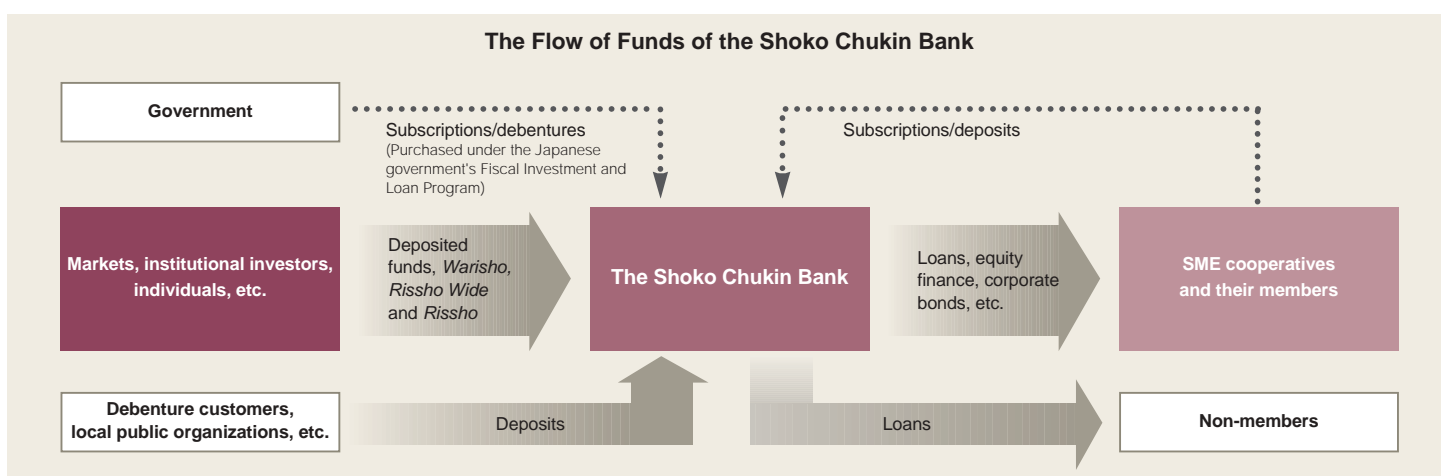
Supporting the Organization of SMEs (Financing Cooperative Activities)

When SMEs form cooperatives and conduct joint operations, the combination of strength that comes from being organized is an effective way to resolve many of the business issues that they face. Formation of cooperatives is one of the important pillars of Japanese government SME policy, and many policies have been implemented on that basis. The Bank provides SMEs with information on how to organize and utilize these cooperative groups, as well as financial support that includes unique loan programs for them and their members. The Bank actively promotes joint projects by SMEs and encourages the formation of new cooperatives through its comprehensive support package for cooperatives, "Cooperative 21".

Financial Institution of SMEs, by SMEs, and for SMEs (A Cooperative Organization)

The Bank is owned, in part, by SME cooperatives, and 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 Bank is literally a financial institution of SMEs, by SMEs, and for SMEs.



Differences from Other Financial Institutions

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 Bank and other government financial institutions lies in 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.

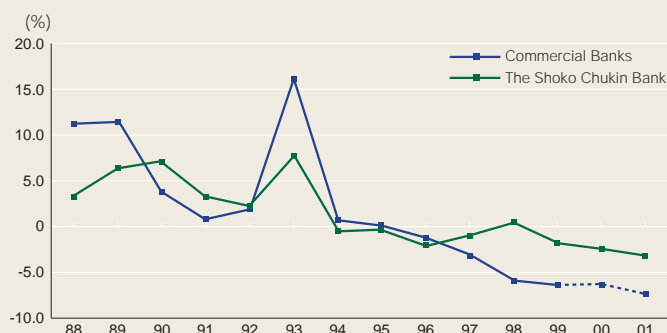
Moreover, while other government-affiliated financial institutions rely primarily on the government for their funds, the Bank uses the government's creditworthiness to raise over 90% of its funding through other means, such as debentures and deposits. In addition, throughout its history, the Bank has 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.

Differences from Private Sector Financial Institutions

The Bank facilitates financing for SMEs by providing stable access to funds regardless of the economic and financial conditions. It also contributes to regional economic development

by utilizing its nationwide branch-office network to provide an extensive array of information resources. Another important role of the Bank is act as a safety net for SMEs who are experiencing financial difficulties in the current economic environment. It supports SMEs moving toward financial recovery by helping them to develop improvement plans, and by providing follow-up support.

Year-to-Year Changes in Outstanding Loan Balance to SMEs



Sources: Bank of Japan, Financial and Economic Statistics Monthly; data from financial institutions.

Notes: 1. Since fiscal 1993, current account overdrafts have been included in the totals for the Shoko Chukin Bank and commercial banks.

2. The definition of a small and medium enterprise (SME) was changed in April 2000 (FY2000), so the change for fiscal 2000 could not be calculated for commercial banks.

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 the Bank. The amount of annual lending has remained stable, despite the fact that the credit crunch began to ease in 1999.

(¥ billion)							
Fiscal year	1996	1997	1998	1999	2000	2001	2002
Long-term loans	1,532.6	1,832.6	2,368.0	2,047.0	2,044.7	1,937.6	1,869.4
Ratio (%)	100.0	115.1	148.7	128.5	128.4	121.7	117.4

* FY1996=100

Management Structure of the Shoko Chukin Bank

Basic decisions regarding management of the Shoko Chukin Bank are made by the Assembly of Representatives, which is made up of representatives elected by the member cooperatives. The Bank is managed autonomously by its shareholders, with executive decisions regarding Bank operations made by the president, who is appointed by the competent ministers. The president, who represents the Bank, is subject to general supervision by the competent ministers. Audits of the Bank's business operations are performed by auditors also appointed by the competent ministers. In addition, the Bank's operations are monitored under a legally mandated comptroller system.

The Assembly of Representatives

The Assembly of Representatives is the highest decision-making body of the Bank. At present there are around 50,000 SME cooperatives in Japan and over 27,000 of these organizations have subscribed capital to the Bank. The Assembly of Representatives is made up of representatives chosen from among members of these cooperatives through mutual elections held in each prefecture. It makes important decisions about the management of the Bank. At present there are 135 representatives, all of whom 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 competent ministers 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.

The Business of the Shoko Chukin Bank

In addition to lending, the Shoko Chukin Bank provides a variety of services such as deposits, debentures, securities, domestic exchange and foreign exchange, and offers comprehensive capabilities as an integrated financial institution including advice on business planning and development and other aspects of management.

Eligibility for Loans from the Shoko Chukin Bank

The Bank lends principally to its member cooperatives, the affiliated organizations of SMEs subscribing its capital and their member companies. The Bank also takes inquiries from joint investment companies and affiliated organizations established mainly by SMEs and SMEs' overseas subsidiaries.

Loan Screening

A policy objective of the Bank, as a government-affiliated financial institution, is to facilitate funding of its member SMEs to ensure their growth and development. To that end, it uses the extensive knowledge of SME financing gained over many years of transactions with SMEs in loan screening, and places importance on how the member handles management and how it sees business prospects. Especially in the current economic environment, the Bank tries to provide a wide range of support to member SMEs throughout Japan with financial consultation and reliable funding, without being deterred by decreased asset values and temporary business deterioration. The Bank works to fulfill its role as a government-affiliated financial institution, acting as a pump primer for private financial institutions.

Eligibility to Make Deposits

There are legal limitations on the Bank's ability to accept deposits. The Bank accepts deposits from SME cooperatives and their members, the officers of member cooperatives and their member companies, public organizations, non-profit organizations, financial institutions and debenture customers.

Debentures Issued by the Shoko Chukin Bank

Debentures are securities issued by the nation, local governments, corporations and financial institutions as a means of raising capital. Based on the Shoko Chukin Bank Law, the Bank offers debentures to financial institutions and institutional investors in the market and over-the-counter debentures for sale to individual investors at its branches. The interest rates of the Bank's debentures are fixed, which means the interest rate stays the same from the time of purchase until maturity. The Bank's debentures are bought by a wide range of customers including governments, public organizations, corporations and individuals.

The Shoko Chukin Bank Deposits and Deposit Insurance

Deposit insurance is a system whereby Deposit Insurance Corporation of Japan protects depositors by reimbursing deposits or financially supporting mergers when private financial institutions go bankrupt. The Shoko Chukin Bank is a government institution and not a member of Deposit Insurance Corporation of Japan, so its deposits and debentures are not protected by deposit insurance.

However, as a government institution supported by national SME policy, approximately 80% of the Bank's capital is

government subscribed; therefore the government is deeply involved in overall management. The Bank has been sound over more than 60 years since its establishment in 1936, and deposits in the Bank and its debentures can be held with confidence.

Policy Roles of the Shoko Chukin Bank

Policy Role as a Government-affiliated Financial Institution

The role of the Shoko Chukin Bank is to respond promptly and appropriately to the diverse needs of large numbers of SMEs by providing reliable access to finance, offering management and business-related information, and assisting in the development of business improvement plans.

Safety Net Functions

The Bank acts as a safety net, stabilizing cash flows in support of SMEs that are experiencing financial difficulties due to fluctuations in the external environment such as changes in economic and financial conditions or because of customer bankruptcies or natural disasters. It is otherwise working to expanding its programs to meet the wide-ranging needs of SMEs.

The Bank expanded its system recently as a result of a series of comprehensive measures issued in November 2002 to accelerate business reform. It established designated consultants for tight lending and loan recall in all of its branches nationwide and increased the maximum amount of zero-collateral loans offered under the Collateral Exemption System for Responding to Changes in the Financial Environment.

Also, in February 2003, the Bank began to handle emergency loans for economic rehabilitation in line with government policy as part of the abovementioned program for accelerating business reform.

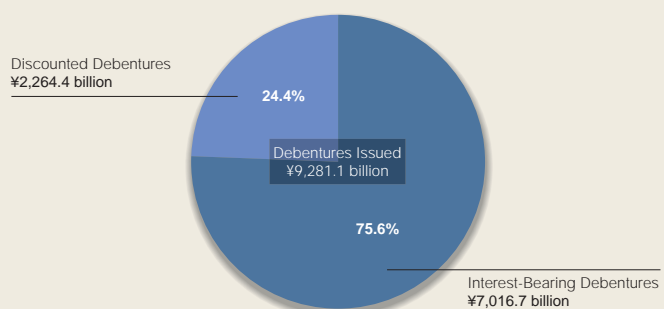
Support for SMEs facing Three Stages of Challenges, Start-up, Innovation and Revitalization

The Bank responds actively and promptly to the needs of member SMEs based on the principle that the Bank supports willing and capable SMEs and places importance on implementing measures in response to the three stages of challenges facing SMEs, namely, start-up, innovation and revitalization.

The Bank provides "Innovation 21", a package of comprehensive support measures, to venture businesses to help them overcome the challenges of start-up and innovation. It also provides loans promoting new businesses, venture capital investment through investment business associations, and useful information.

In November 2002, the Bank created a new product: Zero-Collateral Business Establishment Loans for newly formed SMEs pursuing original products or new areas of business with novel thinking and technology.

Balance of Debentures Issued (As of March 31, 2003)



Discounted Debentures: Over-the-counter debentures discounted (amount equivalent to interest) for 1 year, called Warisho.
Interest-Bearing Debentures: Interest is paid every half year on these debentures, which have maturities of 1, 2, 3, 5 and 10 years, over-the-counter debentures Rissyo Wide and Rissyo which have maturities of 5 years.

In support of the challenge of revitalization, the Bank helps customers that are planning management-related improvements. In February 2003 it also established a new form of financing, Business Revitalization Support Loans, for SMEs making the effort to restructure on their own. The Bank is expanding its Business Revitalization Loans (DIP financing) while also partnering with the Resolution and Collection Corporation (RCC) on business revitalization initiatives.

Pioneering Financial Frontiers

In the current difficult economic climate, raising capital using new financial techniques such as securitization and asset liquidization is becoming an established practice among SMEs, and it is the role of public financial institutions to support these programs.

The Bank is pioneering development of these new techniques with its Financial Frontiers program, facilitating factoring of trade receivables held by SMEs and initiating collateralized loan obligations.

Status of Problem Loans Held by the Shoko Chukin Bank

All credit transactions are subject to asset self-assessment under the practical guidelines laid out by the Japanese Institute of Certified Public Accountants. The Shoko Chukin Bank writes off assets and provides reserve provisions based on the results of these assessments. The Bank uses this approach to ensure asset

quality is accurately monitored and problem loans are appropriately written off. It also uses it to manage loans after loan application procedures are completed.

Publicly Disclosed Problem Loans

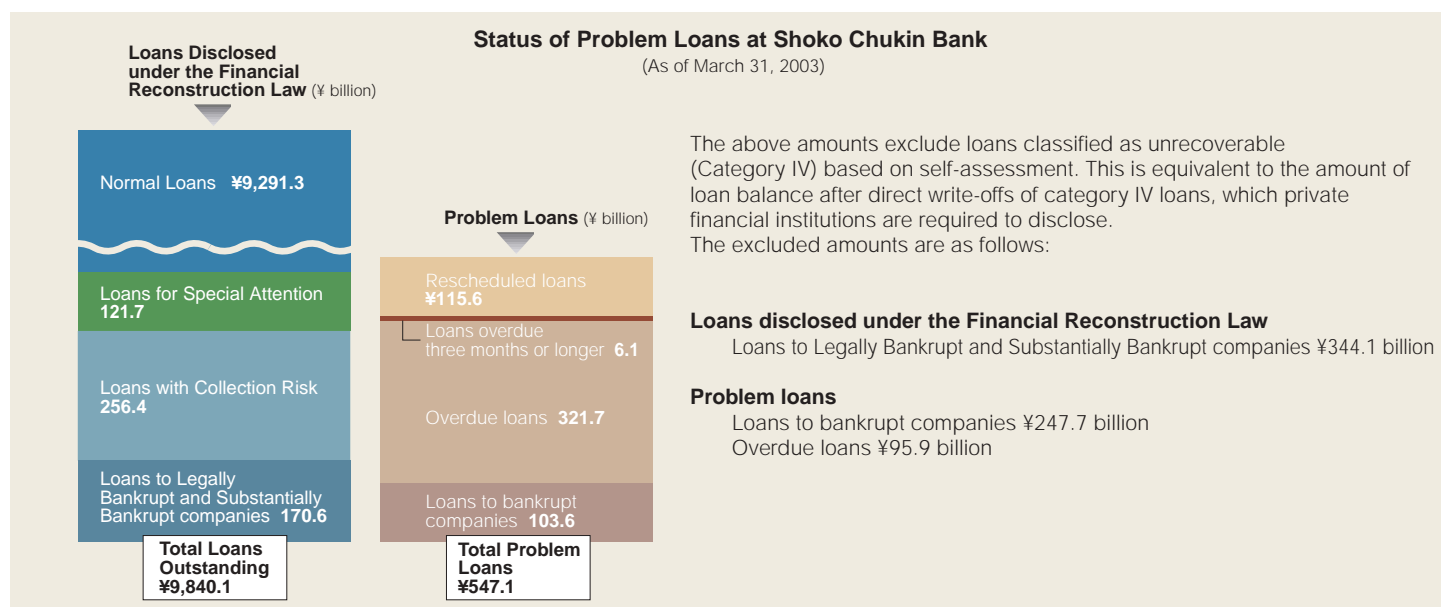
Based on self-assessment results, loans to bankrupt companies, overdue loans (loans to virtually bankrupt companies and companies at risk of bankruptcy), loans overdue by three months or longer and rescheduled loans (where interest rates have been lowered or other advantageous loan terms have been provided to support business restructuring) are disclosed.

Self-Assessment of Assets

The 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 a government-affiliated financial institution, the Bank provides a safety net by actively helping borrowers, especially Need Special Attention borrowers, to improve their financial positions. It supports the development of improvement plans and provides follow-up assistance.

Write-offs and Reserves

The Bank provides reserves in the full amount for Legally Bankrupt borrowers and Virtually Bankrupt borrowers and in the necessary amount for borrowers at Risk of Bankruptcy, after deducting the estimated amount recoverable by disposal of



collateral and execution of loan guarantees. 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.

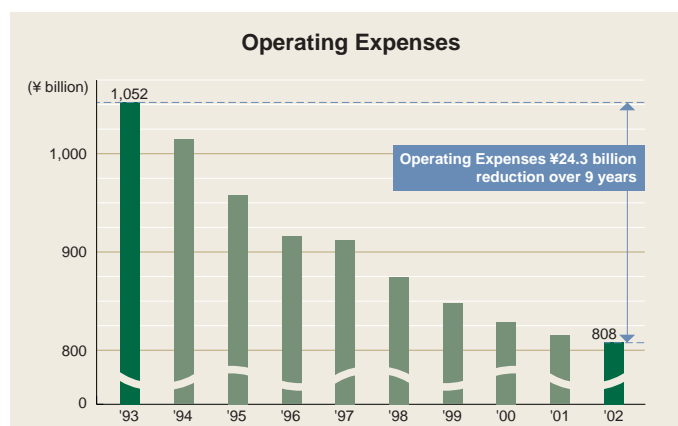
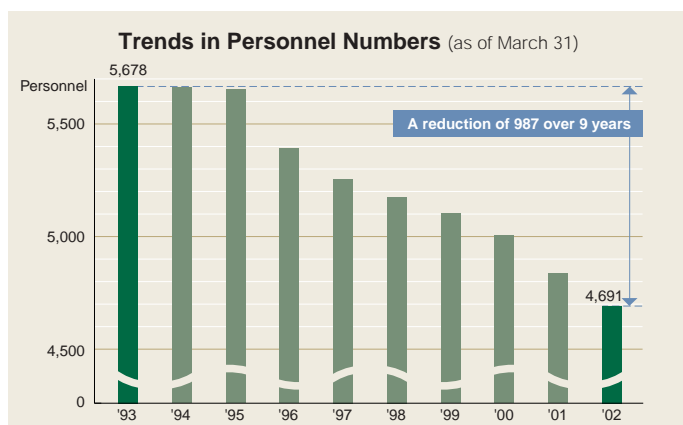
As described above, the Bank provides write-off assets or reserve provisions on the basis of self-assessment results, which are reviewed by outside auditors. It has made sufficient provision for its existing problem loans.

The Bank will assist borrowers to maintain healthy credit through the development and implementation of business improvement plans, and will continue to appropriately manage loans based on self-assessment, and otherwise take appropriate steps to ensure and maintain the quality of its assets and its financial soundness.

Improving Management Efficiency at the Shoko Chukin Bank

Improving efficiency is a high priority for the Bank, so in the past the Bank has reduced the number of employees to constrain personnel and other expenses. The bank will continuously strengthen these efforts to improve operations. The number of employees fell to 4,691 at the end of fiscal 2002, and this is 2,431 less than the peak level of 7,122 reached in fiscal 1979. The change represents a reduction of around 30%. The number of personnel was reduced by 144 in the past year, and the Bank plans to continue to streamline its workforce.

The Bank has made tremendous efforts to minimize costs in all areas of activity. Total operating expenses in fiscal 2002 amounted to ¥80.8 billion, ¥0.7 billion less than the previous year. In fiscal 2002, personnel expenses were lowered, as directors' compensation and employees' bonuses were reduced. The Bank will continue to improve efficiency while reducing its workforce.



Improvements in Management Efficiency

	FY 1993		FY 2002	Increase (Decrease)
Total Expenses (¥ billion)	105.2	↘	80.8	(24.3)
Employees	5,678	↘	4,691	(987)
Branches	106	↘	102	(4)
Operating Income (¥ billion)	45.9	↗	95.7	49.7
Net Income per Employee (¥ thousand) (Operating Income / No. of Employees)	8,096	↗	20,409	12,313

The Shoko Chukin Bank Position 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. After that on December 17, 2002, based on discussions in the Council on Economic and Fiscal Policy a Cabinet decision was made to reform eight public financial institutions including the Bank.

The following is from the Plan to Restructure Government-affiliated Corporations (Cabinet decision, December, 2001).

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

Appropriate steps will be taken with regard to the disclosure of risk management and reserve provisions 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 organization of public finance will be fundamentally reviewed in light of basic principles in order to complement private sector finance, minimize financing costs, and integrate and rationalize organizations and services. The Council on Economic and Fiscal Policy commenced examination of the role of public finance in early 2002. The cabinet aims to reach a conclusion as early as possible, in view of the state of the economy.

Public Financial Reform (Council on Economic and Fiscal Policy, December 2002)

[Roadmap to Reform]

In view of the current harsh economic and financial situation, the following three steps need to be taken to proceed with public financial reform.

(1) Period to Focus on Dealing with Problems Loans (until the end of fiscal 2004)

Utilize public financing to facilitate financing. Ensure smooth access to funds and availability of safety net measures, especially where there are drastic changes in the economy or the danger of a chain reaction of bankruptcies exists.

Implement any measures possible to implement the Plan to Restructure Government-affiliated Corporations (Cabinet decision, December 2001) by appointing appropriate personnel, including private citizens, who have the desire to accomplish reform.

(2) From Fiscal 2005 to Fiscal 2007

During this period, monitor the functional recovery and strengthening of private financial institutions, and prepare for transition to an ideal system. Implement any possible reform measures as soon as possible, while carefully selecting areas to be targeted from the point of view of aiming for organizational consolidation. Conduct government and public financial institution meetings to facilitate the transition to the system and ensure it is the best possible system it can be.

(3) After Fiscal 2008

Make the transition to the new system quickly.

The following is from the Reform of Four Road Related Public Corporations, International Airports and Public Financial Institutions (Cabinet decision, December 2002)

[Public Financial Institutions]

Based on the conclusion of the Council on Economic and Fiscal Policy and in view of the state of the economy, the government will pursue further review and at the same time implement any measures possible to implement the Plan to Restructure Government-affiliated Corporations by appointing appropriate personnel, including private citizens, who have the desire to accomplish reform.