

Additional Government Capital Subscription Received

The government provided the Shoko Chukin Bank with a supplementary capital subscription of ¥2.2 billion on March 11, 2003 to expand funds for facilitating working capital for SMEs. Such funds are part of the Emergency Management Stabilization Response Loans (safety net loans) established under the Program to Accelerate Reforms adopted by the Minister Conference for Economic Countermeasures on December 12, 2002.

Support for the Three Challenges Faced by SMEs — Start-up, Innovation and Revitalization

The Challenge of Start-up

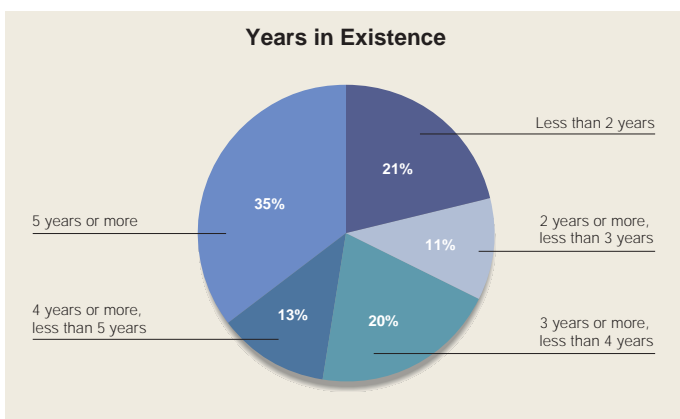
Zero-Collateral Loan Program for Newly Forming Businesses

The Bank introduced Zero-Collateral Business Establishment Loans to support the establishment and start-up of new businesses in accordance with the government's Comprehensive Measures to Accelerate Reform (comprehensive deflation countermeasures) established on November 11, 2002.

The new loan program provides lending up to ¥30 million without collateral to facilitate funding for SMEs with a minimal record of performance and minimal assets that are pursuing new products or new areas of business with original technologies and ideas.

This system is intended for SMEs that have been established for between one and seven years and whose businesses in question are judged to be sufficiently new by the Bank's new business examination committee.

The Bank provided funds for 106 companies totaling ¥2 billion



during the period between November 11, 2002 and March 31, 2003. One third of the loans were for companies less than three years old, and one half of the loans were for companies with revenues of less than ¥100 million. Through this program the Bank is actively supporting newly formed venture businesses.

The Challenge of Innovation

Innovation 21

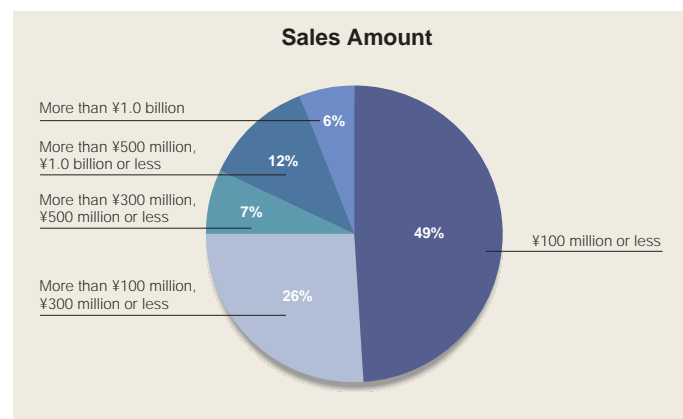
(Comprehensive Support Package for Innovative Businesses)

"Innovation 21" program is the Bank's original comprehensive support package that supports entrepreneurship of dynamic and creative SME owners and entrepreneurs to actively help SMEs to meet the challenges of new business activities. In addition to finance under the New Business Promotion Loan scheme, Innovation 21 also includes a measure in which the Bank provides information about government support initiatives. Other forms of support include equity and bond underwriting through investment syndicates, and the provision of information. New Business Promotion Loans are available for innovative SMEs. To be classed as "innovative," an SME must have novel capabilities and values.

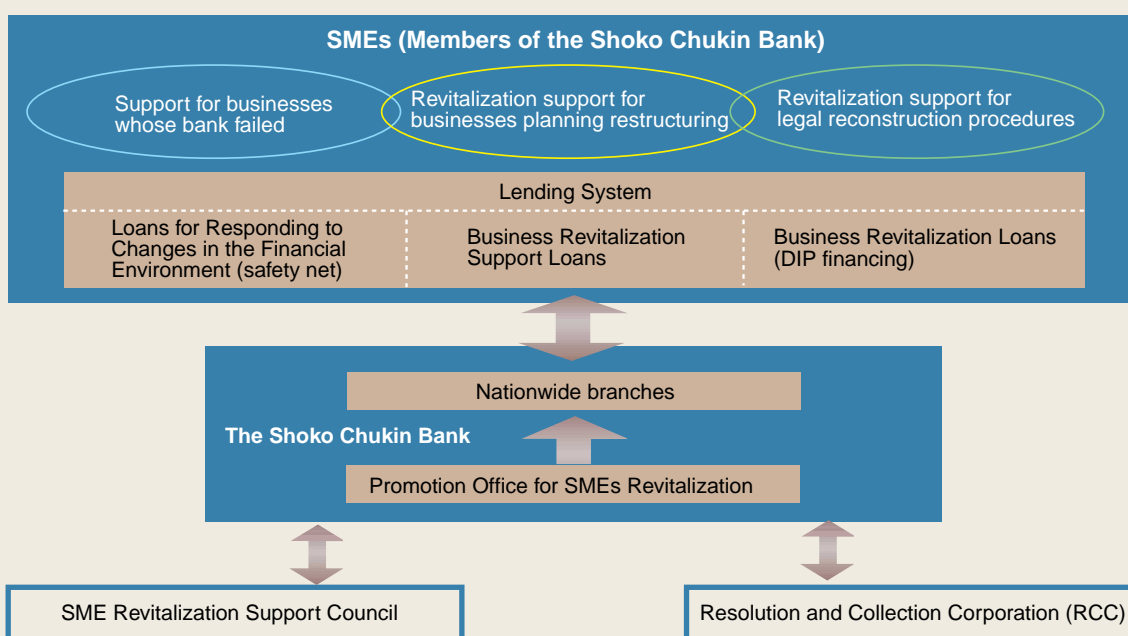
Since the introduction of these loans in May 1995, numerous applications have been received from SMEs throughout Japan. A cumulative total of 3,356 loans worth ¥189,900 million had been provided by March 2003. Statistics for recent years show that the number of loans has increased from 324 in fiscal 1999 to 771 in fiscal 2000, 699 in fiscal 2001, and 959 in fiscal 2002. Through this program, the Shoko Chukin Bank continues to support dynamic companies involved in original business activities.

The Challenge of Revitalization

The Bank has implemented the following initiatives based on the Comprehensive Measures to Accelerate Reforms issued by the government in November 2002 and based on the Program to



Comprehensive Support for SME Revitalization



Accelerate Reforms of December 2002, which supplements and reinforces the comprehensive measures.

1) Establishment of the Promotion Office for SMEs Revitalization
In November 2002, the Bank set up the Promotion Office for SMEs Revitalization and installed a senior managing director at its head. The role of the office is to make every effort to facilitate financing for SMEs during periods of heightened problem loan disposal.

In addition to previously existing support that utilizes safety net loans and Business Revitalization Loans (DIP financing), the office actively supports SMEs that are proceeding with management improvement plans or restructuring, as well as SMEs whose loans were transferred to the Resolution and Collection Corporation (RCC).

The office actively cooperates with the nationwide SME Revitalization Support Council and the RCC to provide comprehensive support through the Bank's nationwide branches for SME revitalization.

2) Business Revitalization Support Loans

The Bank set up this original loan program in February 2003 as part of the Program to Accelerate Reforms.

The program supports SMEs that have excessive debt due to continuing poor business conditions, but are trying to rebuild their businesses through restructuring efforts. It provides capital funds, long-term working capital, and short-term working capital, including discounting notes.

The Bank provided a total of ¥23.6 billion between the period of February 3 and March 31, 2003.

3) Expansion of Business Revitalization Loans (DIP Financing), and Greater Cooperation with the Resolution and Collection Corporation (RCC)

Based on the government's Comprehensive Measures to Accelerate Reforms issued in November 2002, the Bank is working to support SME revitalization by expanding Business Revitalization Loans (DIP financing) and safety net loans and by partnering with the RCC.

Expansion of Business Revitalization Loans (DIP Financing)

Based on the government's emergency economic measures of April 2001, the Bank pioneered Business Revitalization Loans (DIP financing) to support companies that are valuable to the economy and society. It expanded this program in November 2002 as described below.

1) Expansion of Loan Candidates for Stabilization Support Funds for Businesses in Revitalization^(Note)

- In the past, candidates for this loan program were businesses whose plans for statutory reconstruction procedures had been approved, and that had accounts with the Bank at the time of application. The Bank has since expanded the range of eligible candidates.
- The Bank now lends to businesses whose plans for statutory reconstruction procedures have been approved regardless of whether they have accounts with the Bank. It also lends to businesses that have completed private liquidation in accordance with the guidelines for private liquidation.

(Note) Loans for businesses whose plans for statutory reconstruction procedures have been approved.

2) Expansion of Stabilization Support Funds for Businesses in Revitalization

- Under this program in the past, the Bank only provided short-

term funds. It now offers capital funds and long-term working capital for businesses whose plans have received approval.

- It is available when collateral such as the object of the loan is provided.

3) Expansion of Loan Candidates for Support Funds to Promote Business Revitalization^(Note)

- With support measures for revitalization diversifying, the Bank expanded the range of candidates for this loan to include businesses that have completed private liquidation based on private liquidation guidelines and businesses that have received debt forgiveness to which practical debt forgiveness (Corporate Tax Basic Notification 9-4-2) has been applied. Businesses whose plans for statutory reconstruction procedures have been approved will also continue to be eligible.

(Note) A program whereby funds are lent to a business to take over another business in revitalization that is unable to restructure itself by its own resources.

Cooperation with the Resolution and Collection Corporation (RCC)

1) Expansion of Business Revitalization Loans (DIP Financing)

The Bank is working to support revitalization activities from a wider array of perspectives and is therefore expanding joint initiatives with the RCC.

Short-term working capital, capital funds and long-term working capital to businesses that have transferred or entrusted loans to the RCC, that have been judged to possess the potential to recover, and with which the RCC is willing to cooperate in restructuring.

Funds for one business to take over (via business transfer or other such means) another business, whose loans were transferred or entrusted to the RCC.

2) Expansion of Safety Net Loans

SMEs that have transferred or entrusted loans from failed financial institutions to the RCC are now eligible for safety net loans.

Newly Eligible Loan Candidates

In accordance with Deposit Insurance Laws, businesses whose loans from bankrupt financial institutions were transferred or entrusted to the RCC and that post recurring profit or otherwise have sound business prospects.

Eligible Loan Programs

- Loans for Responding to Changes in the Financial Environment (Safety Net Loans)
- Collateral Exemption System for Responding to Changes in the Financial Environment
- Short-Term Loan Program for Responding to Changes in the Financial Environment

Results of Business Revitalization Loans (DIP Financing)

Loans were made to 27 companies totaling ¥1.9 billion lent under this program since its inception in July 2001 to March 2003.

4) Cooperation with the SME Revitalization Support Council

With the current difficult economic conditions and financial institutions continuing to accelerate disposal of problem loans, there is an increasing need for expedited rehabilitation of SMEs, whose own operating environment continues to worsen. The Bank recognizes the importance of supporting such initiatives.

Given the current climate, the Small and Medium Enterprise Agency established the SME Revitalization Support Council within the chamber of commerce in each prefecture to support the revitalization of SMEs according to the circumstances of each region. As a policy financial institution, the Bank actively cooperates with the council.

Officers and branch managers participate in the SME Revitalization Support Council in each region and respond positively to consultations or requests for support.

Support for Development of Financial Frontiers

Support to Facilitate Liquidation of Receivables Held by SMEs

The Bank cooperates with private financial institutions in support of programs to facilitate the liquidation of receivables.

1) Regular Purchase of Trust Beneficiary Rights

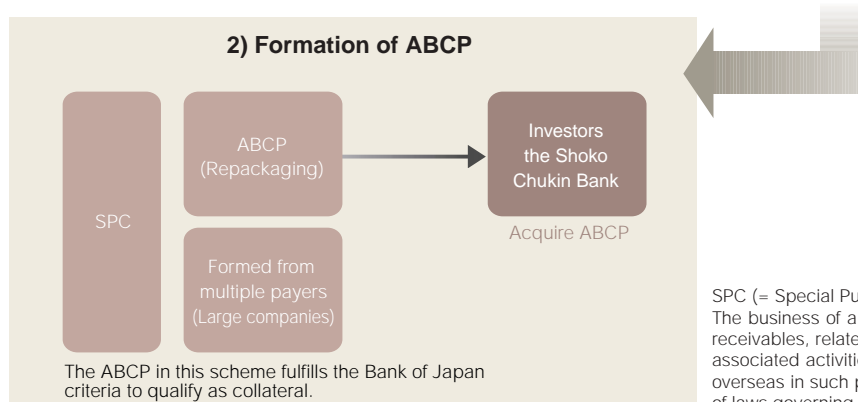
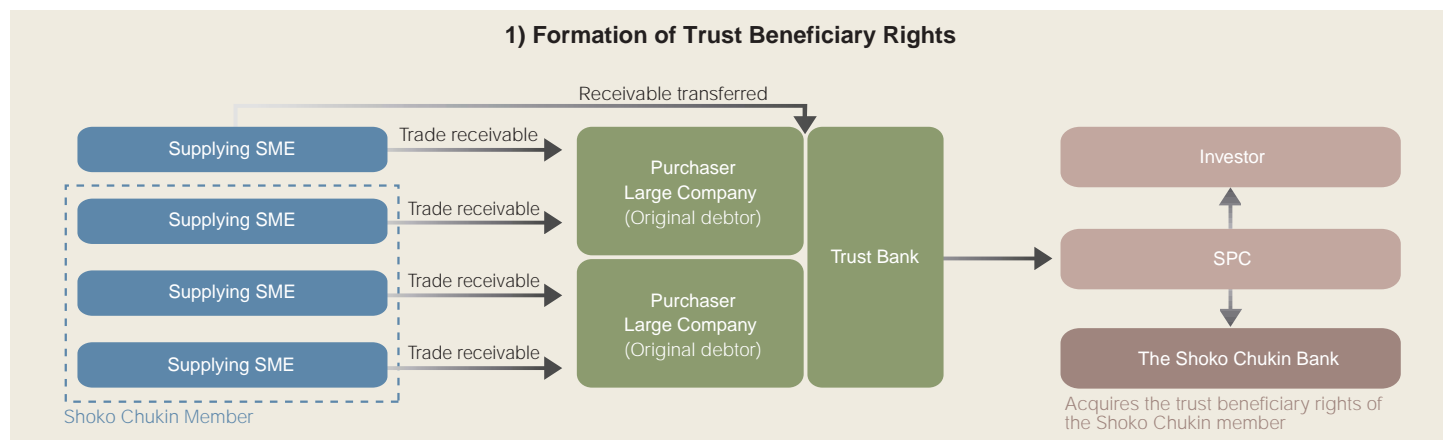
In order to promote the liquidation of receivables held by SMEs and to support SMEs' cash flow management, the Bank began initiatives in February 2003, under a program to bring liquidity to the trade receivables of SMEs, to regularly purchase trust beneficiary rights backed by asset receivables held by SMEs against the payer (large companies), a type of transaction generally handled by private trust banks. The Bank purchased approximately ¥1.0 billion worth of rights from February to May of 2003.

2) Purchase of Asset-Backed Commercial Paper (ABCP)

Since March 2003, the Bank has acquired about ¥1 billion worth of ABCP first formed from the program mentioned in 1) above. The Bank facilitates financing for SMEs by supporting securitization of receivables in this way.

<Program Outline>

1. The trade creditor (SME) entrusts the receivables they hold against a payer to a trust bank, and the trust bank creates trust beneficiary rights backed by the trade receivable.
2. When the SME wants funds before the due date, the Bank can regularly purchase the trust beneficiary rights described in item one, or the SME can sell them to an investor, thus obtaining a supply of funds.
3. The Bank or other investors may buy ABCP formed with the original debt as the trade receivables against multiple paying businesses as a means to turn the trust beneficiary rights into funds before the due date other than in the way described in item two.



SPC (= Special Purpose Company)

The business of a Special Purpose Company is limited to purchasing assets such as trade receivables, related fund raising (issuing asset backed securities such as ABCP) and other associated activities. Depending on the form of establishment of the SPC, it may be based overseas in such places as the British Cayman Islands, with a branch in Japan, or because of laws governing liquidity of assets, it may be established in Japan.

Collateralized Loan Obligations (CLO)

The Bank is working to facilitate and diversify methods to raise capital for SMEs and so is taking a pro-active approach to CLOs, a new market-type indirect financing method positioned between direct financing and indirect financing.

1) Participating in CLOs of Local Public Organizations

The Bank participated as the handling financial institution in the CLOs below to securitize guaranteed loans of Tokyo, Fukuoka Prefecture and Osaka City.

Name	Loan Date	Bank Results
Tokyo City 3rd CLO	March 2002	75 cases / ¥2.36 billion
Tokyo City 4th CLO	March 2003	27 cases / ¥0.9 billion
Fukuoka Prefecture New Financial System	July 2002	47 cases / ¥1.2 billion
Osaka City CLO *	July 2003	
Total		149 cases / ¥4.46 billion

* The Osaka City CLO is planned for July 2003.

2) How the Bank Forms CLOs

The Bank formed a CLO without credit guarantee for the first time in June 2003 to develop market-type indirect financing schemes and to respond to its members' needs for diversified capital raising methods.

