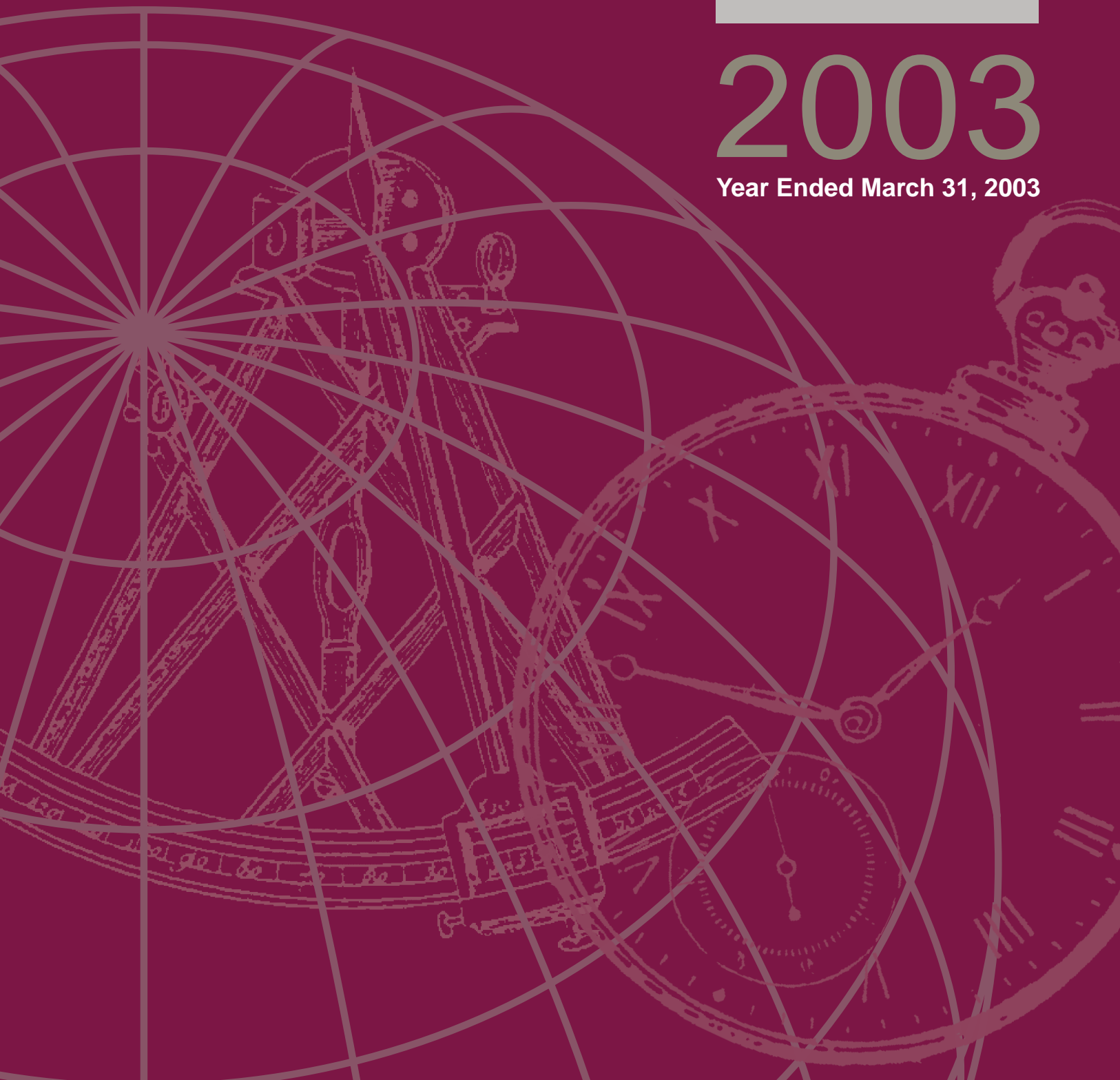


THE SHOKO CHUKIN BANK

# ANNUAL REPORT

# 2003

Year Ended March 31, 2003



# The Bank in Outline

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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, and the remainder is owned by cooperatives of SMEs. With total assets of around ¥12.9 trillion (US\$107 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.

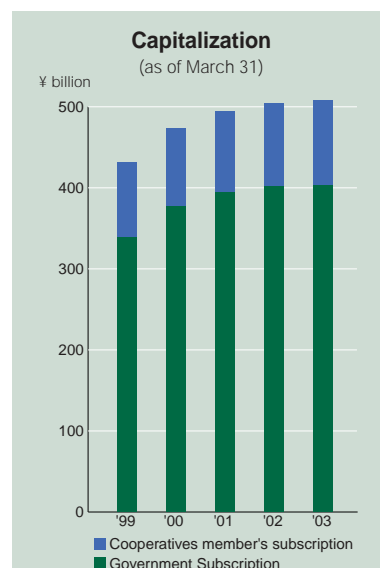
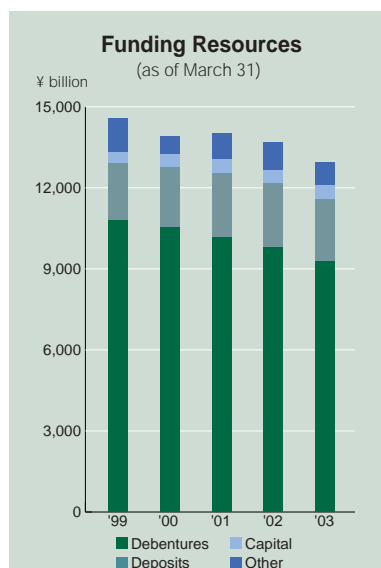
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# Financial Highlights

| For the years ended March 31  | Millions of yen |             |             |             |             | Millions of US dollars |
|---|-----------------|-------------|-------------|-------------|-------------|------------------------|
|   | 2003            | 2002        | 2001        | 2000        | 1999        | 2003                   |
| Interest Income   | ¥ 203,385       | ¥ 232,733   | ¥ 269,821   | ¥ 354,738   | ¥ 409,758   | \$ 1,692               |
| Interest Expense  | 62,992          | 93,909      | 137,667     | 202,020     | 259,641     | 524                    |
| As of March 31  | 2003            | 2002        | 2001        | 2000        | 1999        | 2003                   |
| Loans and Bills Discounted  | ¥10,090,366     | ¥10,539,282 | ¥10,886,595 | ¥11,169,303 | ¥11,378,031 | \$ 83,946              |
| Deposits and Debentures   | 11,631,401      | 12,264,705  | 12,600,396  | 12,778,070  | 13,009,325  | 96,767                 |
| Government Contribution   | 228,900         | 273,900     | 311,100     | 342,500     | 368,000     | 1,904                  |
| Total Assets  | 12,929,124      | 13,665,549  | 14,012,903  | 13,910,238  | 14,558,007  | 107,563                |
| Capital   | 511,265         | 506,065     | 493,965     | 474,865     | 433,165     | 4,253                  |
| Government Subscription   | 405,367         | 403,167     | 394,067     | 377,967     | 339,267     | 3,372                  |
| Total Capital Funds   | 636,291         | 629,816     | 608,522     | 605,053     | 582,952     | 5,293                  |
| Total Government Contribution and Subscription as a Percentage of Liabilities and Capital Funds | 4.9%            | 4.9%        | 5.0%        | 5.1%        | 4.8%        |                        |

Notes: 1. All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥120.20=US\$1, the prevailing rate of exchange as of March 31, 2003.  
 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 is shown as a deduction at the end of the assets section.



# Message from the President

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**Tadashi Ezaki** President

The Shoko Chukin Bank was established in 1936, and is the only Japanese government-affiliated integrated financial institution dedicated to small and medium-sized enterprises (SMEs). Since its establishment, the Bank has striven to facilitate financing for SMEs through our original network comprised of the Bank and its cooperatives. The role of the Bank has expanded along with the changing times, and it has grown into a financial institution capable of providing comprehensive financial services to meet the needs of SMEs. We earnestly express our appreciation for the patronage and support of the cooperatives and their members.

The Shoko Chukin Bank makes full use of the knowledge of financing it has acquired through many years of working with businesses to fulfill its designated role in implementing the nation's SME

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policies.

One of our roles is to act as a safety net. We provide comprehensive financial services to SMEs that are experiencing difficulties due to temporary downturns in business conditions or changes in their business relationships with financial institutions. In addition to special government loans, the Bank offers its original stable long-term and short-term financing based on government policies on a uniform basis throughout the country.

In accordance with the policy for SMEs outlined by the government last year, which emphasizes three stages of challenges—start-up, innovation and revitalization—the Bank is supporting SMEs in establishing new businesses, and reforming and revitalizing existing businesses.

An objective of the Shoko Chukin Bank is to facilitate direct financing for SMEs in support of

financing diversification, and it actively pursues this objective by such measures as providing liquidity for receivables and through collateralized loan obligations.

The management and employees of the Shoko Chukin Bank are determined to earn the continuing trust and support of our customers by providing services that draw on our strength as a membership-based government-affiliated financial institution dedicated to SMEs.

We look forward to your ongoing support and encouragement.



July 2003  
Tadashi Ezaki  
President

# Management Policy

## Basic Direction of Management Policy

As a government-affiliated financial institution to specialize in the support of SMEs, the Shoko Chukin Bank is committed to the basic direction clarified below and promotes management activities accordingly.

1. The Shoko Chukin Bank will utilize its strength as a government-affiliated financial institution to provide original, policy-driven financial services to SMEs and thereby contribute to their growth and development.
2. The Shoko Chukin Bank will improve its business structure by strengthening risk management to enhance profitability and ensure the soundness of its assets.
3. The management and employees of the Shoko Chukin Bank will perform their daily tasks with an awareness of the Bank's mission as a government-affiliated financial institution specializing in SMEs.

## Business Operation Policies in Fiscal Year 2003

### Management Policies

Our customers and other SMEs are in an increasingly difficult business climate, and they hold high expectations for the Shoko Chukin Bank. Deliberations in Council on Economic and Fiscal Policy have indicated that public financing is to be used for safety net purposes and corporate regeneration to facilitate financing for SMEs over the coming two year period in which major banks and other institutions will be focused on processing non-performing loans.

Based on a thorough understanding of this situation, the Shoko Chukin Bank will exercise its comprehensive financial capabilities to help SMEs increase their corporate value, putting maximum effort into performing its traditional public role. The Bank will emphasize the following six key initiatives in fiscal 2003.

### Six Key Initiatives

1. While performing its role as a safety net, the Bank will implement necessary policies, actively and swiftly respond to needs of the members and perform the functions required of it as a public financial institution, all in support of the three stages of challenges faced by SME –**start-up, innovation and revitalization.**
2. The Bank will strengthen initiatives in the area of new financing techniques such as expanded lending in cooperation with regional financial institutions and market indirect financing with syndicated loans and collateralized loan obligations.
3. The Bank will set more appropriate lending conditions, such as interest rate setting that reflects the level of credit risk.
4. The Bank will prevent the occurrence of non-performing loans, bolster management efficiency, and provide a wider array of services to customers in an effort to improve financial health and minimize financing costs.
5. The Bank will maintain or expand its low cost and efficient fund raising base in order to continue to provide solid funding
6. The Bank will ensure accountability for the effectiveness and efficiency of its operations.

## Operating Plan

(Units: Billion yen)

|                             | Fiscal 2002 Plan | Fiscal 2002 Actual | Fiscal 2003 Plan |
|-----------------------------|------------------|--------------------|------------------|
| Long-term Loans             | 18,500           | 18,694             | 18,500           |
| Short-term Loans            | 100,000          | 102,349            | 97,500           |
| Fiscal investment and loans | 100              | 100                | 100              |

Notes: 1. If our customers' demands for funding exceed this lending plan, we will provide loans in excess of this plan.  
2. The Bank plans to raise all funds required for lending in excess of the amount of fiscal investment and loans.

# 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

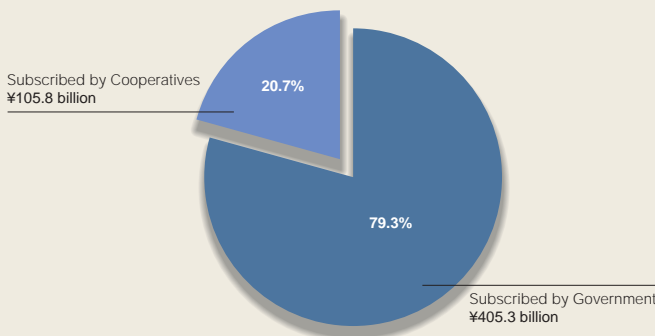
### Financial Institution Established under Joint Ownership by SME Cooperatives and the Government

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           |
| <b>Total</b>             | <b>¥12,929.1</b> |

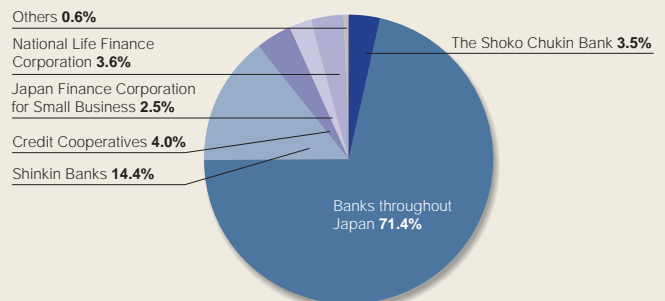
The credit based on the government subscription of approximately ¥0.4 trillion allows the Bank to procure approximately ¥12 trillion from the market and other sources through debtures and deposits.

#### Funds Invested by the Shoko Chukin Bank

|              |                  |
|--------------|------------------|
| Loans        | ¥10,090.3        |
| Securities   | ¥2,043.0         |
| Others       | ¥795.8           |
| <b>Total</b> | <b>¥12,929.1</b> |

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.

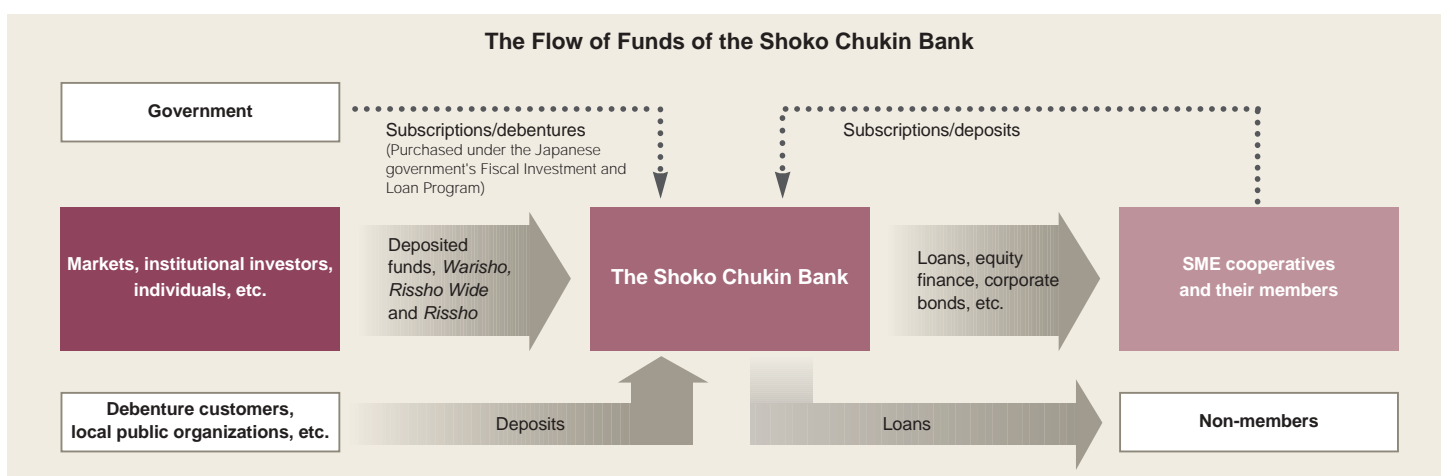
### Supporting the Organization of SMEs (Financing Cooperative Activities)

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.

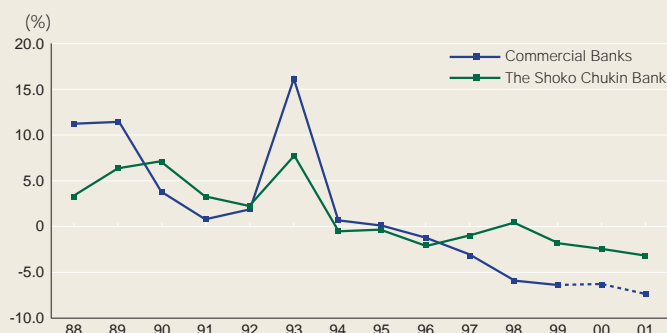
Moreover, while other government-affiliated financial institutions rely primarily on the government for their funds, the Bank uses the government's creditworthiness to raise over 90% of its funding through other means, such as debentures and deposits. In addition, throughout its history, the Bank has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

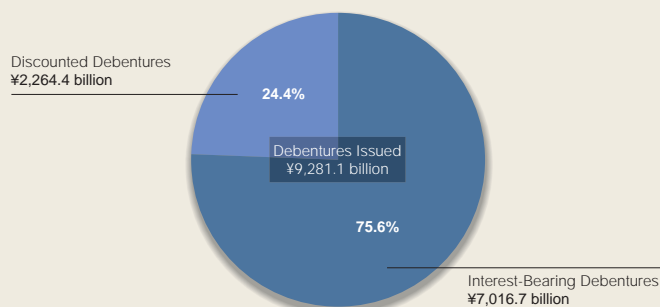
### Support for SMEs facing Three Stages of Challenges, Start-up, Innovation and Revitalization

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

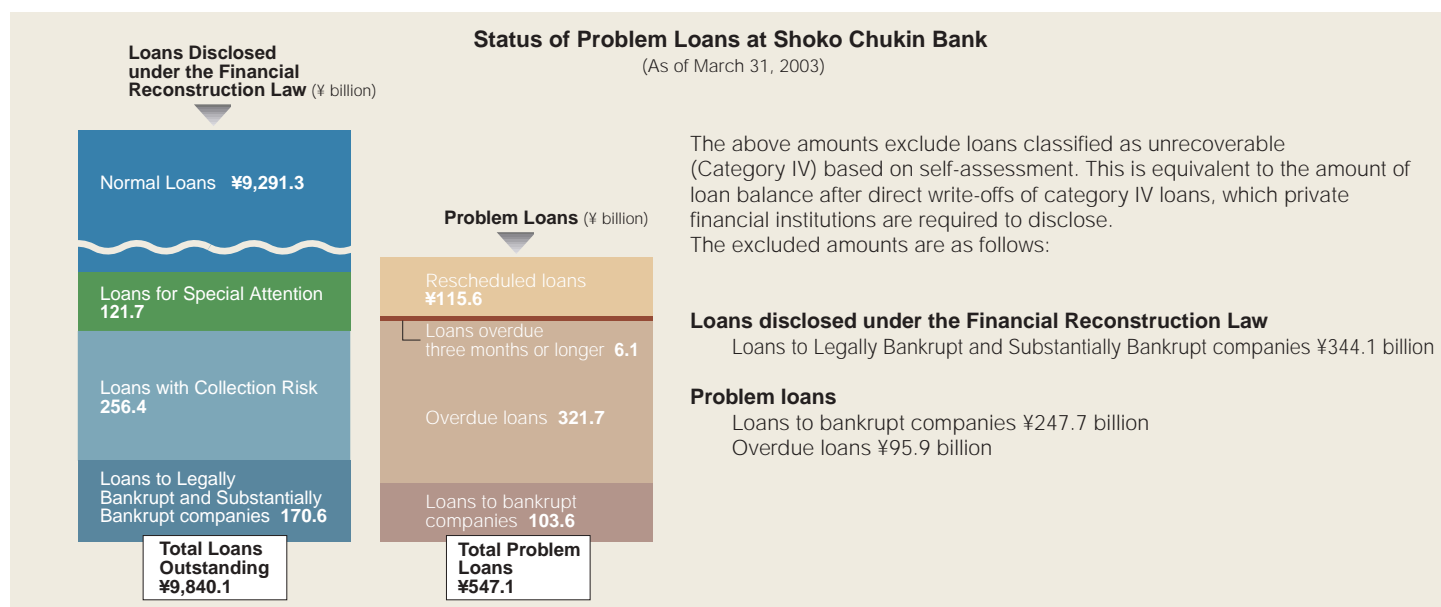
Based on self-assessment results, loans to bankrupt companies, overdue loans (loans to virtually bankrupt companies and companies at risk of bankruptcy), loans overdue by three months or longer and rescheduled loans (where interest rates have been lowered or other advantageous loan terms have been provided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

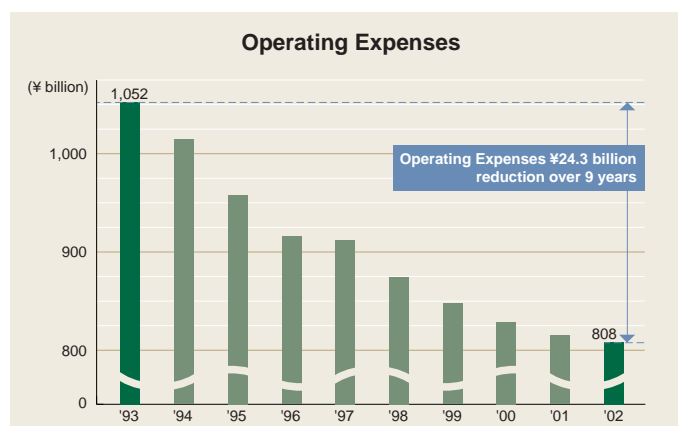
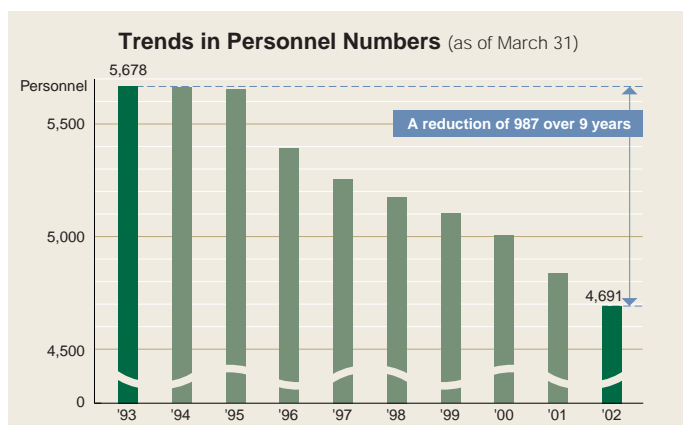
As described above, the Bank provides write-off assets or reserve provisions on the basis of self-assessment results, which are reviewed by outside auditors. It has made sufficient provision for its existing problem loans.

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)<br>(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]**

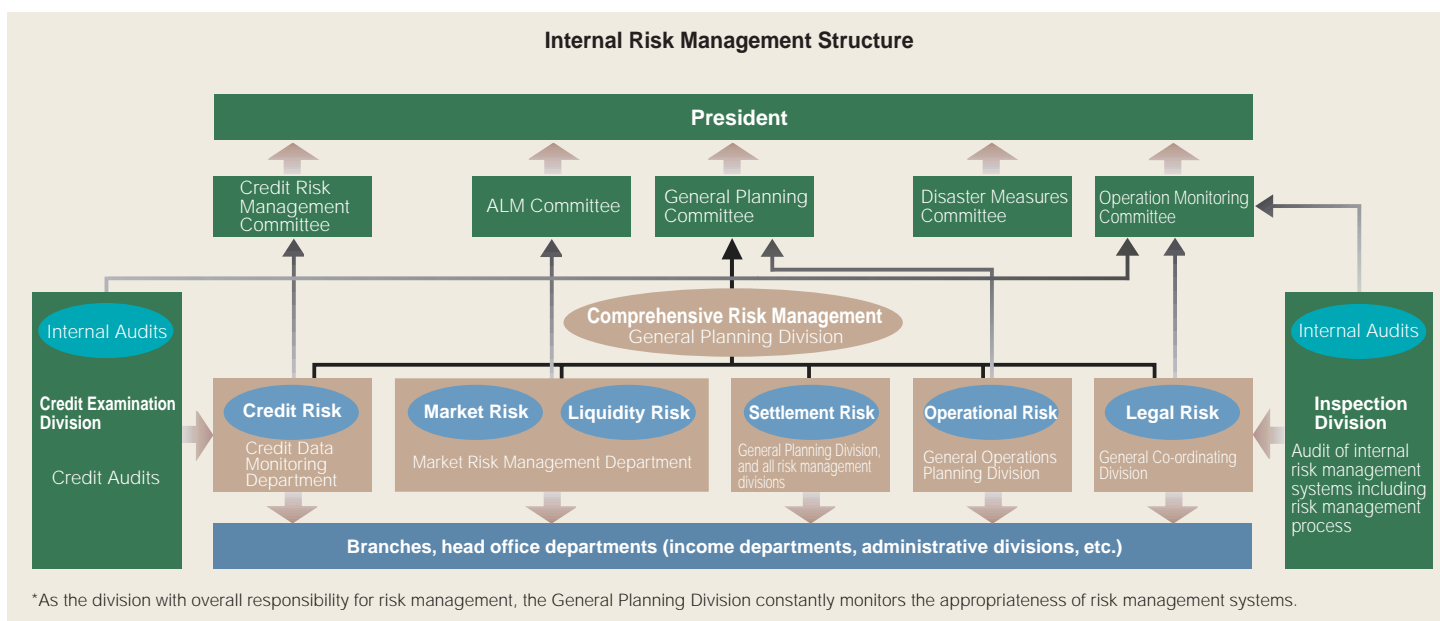
Based on the conclusion of the Council on Economic and Fiscal Policy and in view of the state of the economy, the government will pursue further review and at the same time implement any measures possible to implement the Plan to Restructure Government-affiliated Corporations by appointing appropriate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

# System to Ensure Proper Operations

## Risk Management

Financial institutions are exposed to diverse and complex risk factors such as credit risk, market risk, liquidity risk and operational risk. This reflects the 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.

In response to this environment, the Bank has strengthened its risk management systems by identifying departmental responsibility for the management of specific types of risk. Overall risk management is the responsibility of the General Planning Division, which constantly monitors the other departments to ensure that risk management procedures are being implemented properly, and works to improve and strengthen comprehensive risk management functions, including comprehension and management of overall risk.



## Definitions of Risk

### Credit Risk

The risk of loss 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 loss 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 loss resulting from failure to settle by the due date

(categorized into credit risk, liquidity risk, operational risk and legal risk, according to the cause and characteristics of the problem).

### Operational Risk

Operational risks are the risk of loss by financial institutions resulting from a failure, accident or fraud of management or staff (administrative risk), the risk of loss by financial institutions due to computer system failures, errors, and inadequacies (system risk), and the risk of loss due to serious threats such as 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 loss resulting from legal uncertainty about transactions or failure to comply with laws and regulations.

## Credit Risk Management

The 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 of trends in specific industries.

Furthermore, the Bank uses self-assessment procedures to control and monitor credit risk. It has also introduced a 12-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 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. To ensure appropriate screening and control, the credit screening organization is completely independent from the branch banking division. The Bank is constantly working to maintain and improve the quality of its loan assets.

Overall credit risk management is coordinated by the Credit Data Monitoring Department, 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 such as derivatives 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 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 Japanese financial authorities and with the Accounting Standards for Financial Instruments, also known as mark-to-market accounting.

### Asset and Liability Management (ALM)

The Bank uses funds raised primarily through long-term fixed-interest loans and five-year interest-bearing debentures to provide a variety of financing services, and a 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 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 consists of senior management and meets every month to set policies to balance risk level with the pursuit of 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.

The Bank utilizes the following ALM management methods to measure interest rate risk, an important element of market risk.

#### 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 Analysis

The 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.



is classified based on such factors as importance of specific information assets, which includes 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.

## Improvement of 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 Inspection Division and the Credit Examination Division, which operate independently of all other head office sections, monitor the Bank's internal management systems and conduct internal audits to ensure the effectiveness of internal controls.

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, write-offs and reserves are appropriate, and credit ratings are accurate.

In fiscal 2000, the 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 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 ChuoAoyama Audit Corporation to review its self-assessment of loans and other assets and its accounting procedures for financial instruments.

## Compliance Systems

As a public financial institution, the 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 Bank. For example, it has developed a solicitation policy

based on the Law Concerning the Sale of Financial Products, which took effect in April 2001, has 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 and discloses information according to the Law Concerning Disclosure of Information Held by Public Independent Administrative Institutions enacted in October 2002.

### The Meaning of Compliance

Compliance does not just mean strict observance of laws, regulations and rules, but also conformance with accepted social norms.

### Thorough Awareness of the Importance of Compliance

The 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.

### 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 Bank.

### Specific Compliance Initiatives

A compliance handbook has been published to thoroughly instill awareness of compliance-related issues in management and staff.

Compliance Officers have been appointed in every branch, and liaison and reporting systems have been established between the coordinating organization, 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 officers 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 their own internal compliance audits. Our Inspection Division, which is independent from other head office divisions, also conducts thorough compliance inspections of head office divisions and branches.

## 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

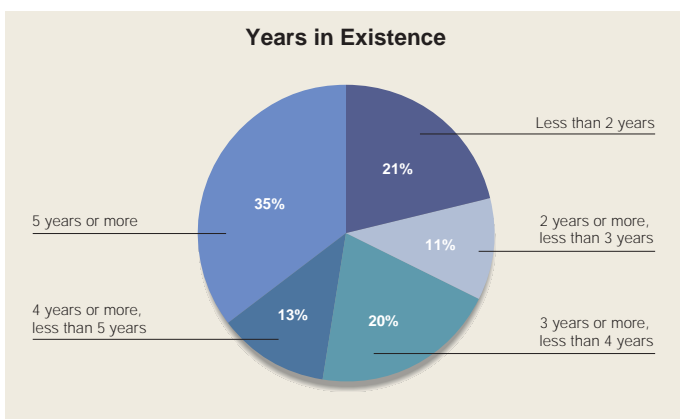
#### Zero-Collateral Loan Program for Newly Forming Businesses

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

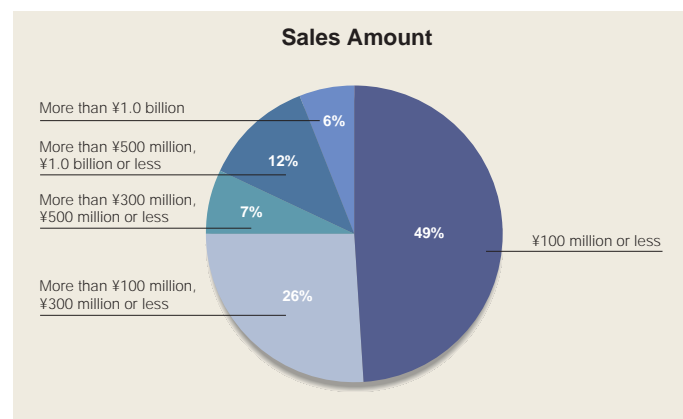
#### (Comprehensive Support Package for Innovative Businesses)

"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.

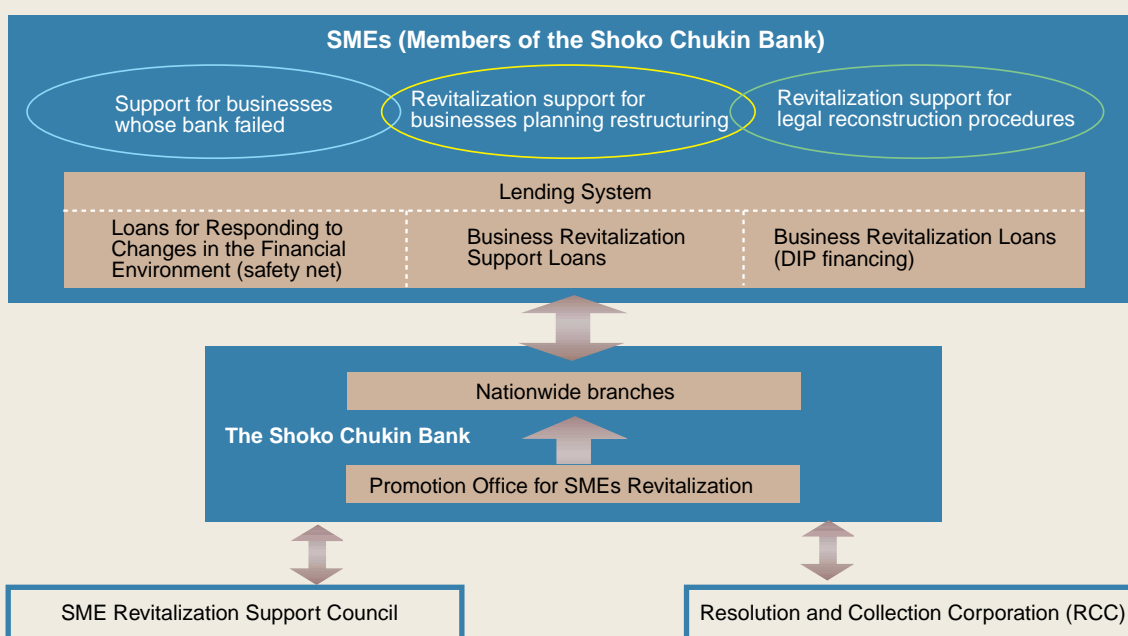
Since the introduction of these loans in May 1995, numerous applications have been received from SMEs throughout Japan. A cumulative total of 3,356 loans worth ¥189,900 million had been provided by March 2003. Statistics for recent years show that the number of loans has increased from 324 in fiscal 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<sup>(Note)</sup>

- 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<sup>(Note)</sup>

- 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

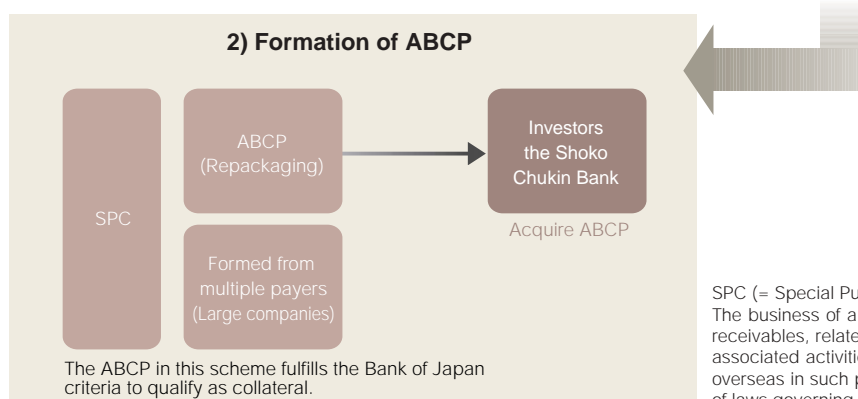
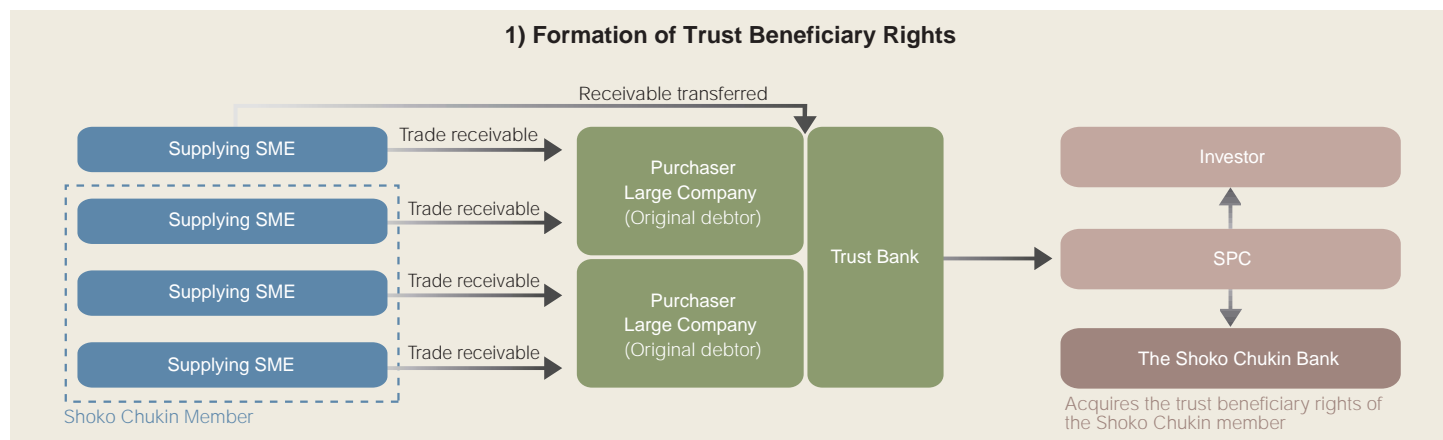
In order to promote the liquidation of receivables held by SMEs and to support SMEs' cash flow management, the Bank began initiatives in February 2003, under a program to bring liquidity to the trade receivables of SMEs, to regularly purchase trust beneficiary rights backed by asset receivables held 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

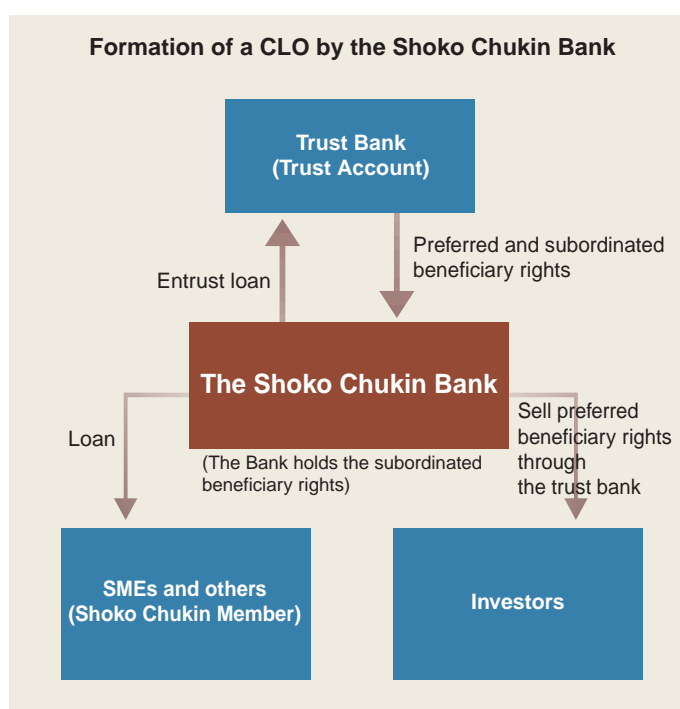
The Bank participated as the handling financial institution in the CLOs below to securitize guaranteed loans of Tokyo, Fukuoka Prefecture and Osaka City.

| 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.



# Outline of Operations

## Loans

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

### Borrowers

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

### Forms of Loan Transactions

The Shoko Chukin Bank provides loans to cooperatives and their members as follows.

#### Funds for member cooperatives:

**For joint undertakings:** The Bank provides funds necessary for joint undertakings by member cooperatives, such as joint production, joint processing, and joint sales operations. The Bank also responds positively to applications for loans required for organizational upgrade programs.

**For underlease:** The Bank provides loans through member cooperatives to supply funds necessary for members' business operations.

**Funds for member companies:** The Bank extends loans directly to member companies.

#### Meeting Diverse Business Finance Needs

The Shoko Chukin Bank utilizes its integrated financial capabilities to contribute to the growth and development of SMEs by providing the following types of financing.

**General Loans:** loans on deeds, loans on bills, bill discounting and current account overdrafts.

**Acceptances and Guarantees:** debt guarantees for various purposes such as bank loans, trade accounts payable, and expressway toll accounts payable.

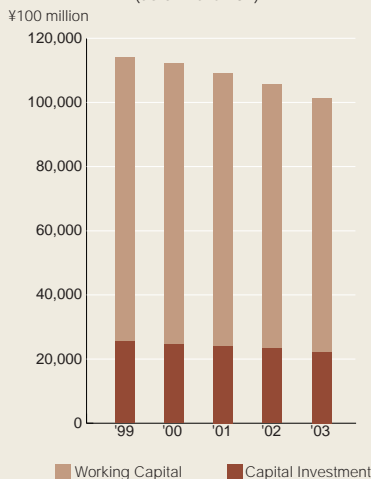
**Securities Loans:** loans to be used for various purposes, such as collateral for general commercial transactions or delayed tax payments.

## Deposits and Public Funds

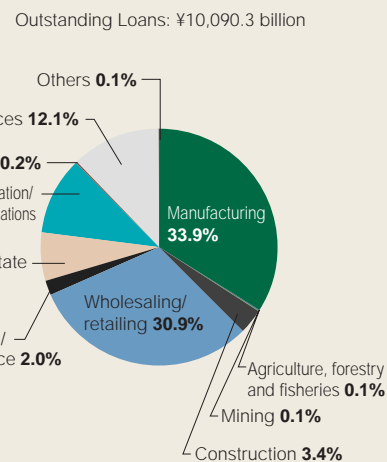
### Deposits

The Shoko Chukin Bank accepts 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.

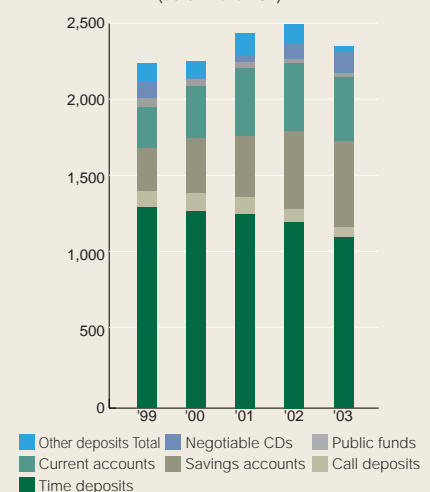
**Outstanding Loans by Funds Usage**  
(as of March 31)



**Outstanding Loans by Sector**  
(as of March 31, 2003)



**Composition of Deposits**  
(as of March 31)



## Public Funds

The Shoko Chukin Bank accepts 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, 2003, these deposits with the Shoko Chukin Bank amounted to ¥35.3 billion. These funds are used extensively to meet the financing needs of SMEs.

## Payment Services for Public Charges

The Shoko Chukin Bank provides payment services for public charges such as national 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

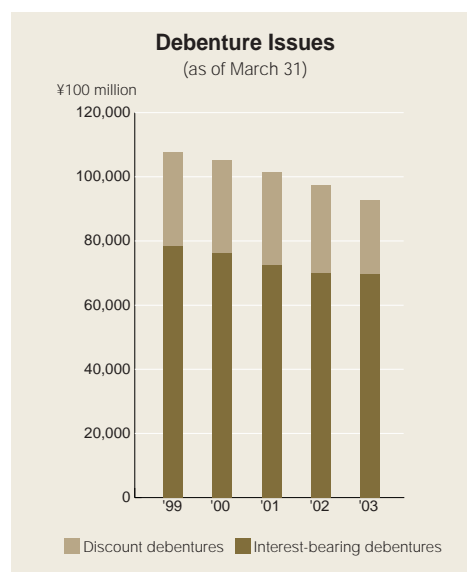
The Shoko Chukin Bank maintains a reliable supply of funds for SMEs by issuing bank debentures, as provided in the Shoko Chukin Bank Law. The balance of debentures outstanding as of March 31, 2003 was ¥9,281.1 billion.

The Bank's debentures include both subscription debentures and over-the-counter debentures, which are available for purchase at any time.

One-year, two-year, three-year, five-year and ten-year interest-bearing debentures are offered for subscription by financial institutions and institutional investors and for subscription by government and public institutions as well.

Over-the-counter debentures offered mainly to individual investors include Warisho discount bonds, and Risho and Risho Wide (interest paid as a lump sum at maturity) interest-bearing bonds. These debentures provide security of principal and a fixed return and 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.

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, investing 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.

## International Operations

The Shoko Chukin Bank, as the sole government affiliated financial organization offering correspondent services overseas, supports the international business needs of SMEs as they become increasingly active overseas.

## Export-Import Services

The Shoko Chukin Bank provides a wide range of import and 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 various types of information such as investment environments to customers that are planning overseas expansion. It also provides financial support to finance expansion projects and guarantees for loans from local overseas banks. Under "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 to establish business operations in the United States and helps them to obtain financing after expanding into the United States.

#### **London Representative Office**

The London Representative Office is an important source of all kinds of local information on Europe.

#### **Hong Kong Representative Office and Information Centers in Asia**

The Hong Kong Representative Office provides information and support for the expansion of SMEs into Asia, which has started to accelerate again, especially into China. 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 allied financial institutions and other organizations in China and ASEAN to obtain current information for distribution to customers. (As of March 31, 2003, the Bank stationed staff in Shanghai, Dalian, Shenzhen, Bangkok, Kuala Lumpur and Singapore.)

#### **Overseas "Chukin Kai" –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 Transfers

The Bank helps companies manage stock, including stock price valuation and planning stock transfers.

#### b) Support for Public Share Issues

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

#### c) M&A and Business Alliances

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

#### d) Introductions of Business Partners

The Shoko Chukin Bank uses its nationwide branch network to introduce potential business partners and provides space 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 introductions of franchisers and tenants and planning for leased buildings.

#### f) Other Services

Other services include specialist management advice and consultation by Japan Institute of Commerce, Industry & Economics, Ltd. The Bank also hosts a variety of seminars.

"The SITE" –the Official Homepage of the Shoko Chukin Bank  
The Shoko Chukin Bank hosts an Internet homepage for SME cooperatives and their members, providing a variety of free-of-charge information services to users.  
Visit our homepage: <http://www.shokochukin.go.jp/>

### **2. Support for Venture Businesses**

#### Equity and Bond Underwriting by Investment Syndicates

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

## Support for the Chukin Kai and Youth Kai

|                     | Organizational Outline   | Activities & the Bank's Involvement  |
|---------------------|--|--|
| Chukin Kai          | An association made up of our customers with 107 chapters in Japan, and 3 overseas in Thailand, Malaysia and Hong Kong. There are over 17,000 members. | Dispatches lecturers and helps with support and planning for lecture, study and social meetings. Also provides member companies a variety of information helpful to management on mediation, industry trends, products and technology.   |
| Youth Kai           | An association made up of young businessmen among our customers, with 87 chapters in Japan and about 5,000 members.                                    | Dispatches lecturers and helps with support and planning for lecture, study and social meetings. Also provides a variety of information helpful to the conduct of member company business on subjects such as mediation, expansion of sales via different industries, joint development and technical cooperation.   |
| All-Japan Youth Kai | An organization that makes use of the network of 87 Youth Kai chapters and supports Youth Kai activities throughout the country.                       | Helps with support and planning of national conferences and representative seminars, and dispatches lecturers and coordinators. Provides information on mediation, participation in International Small Business Congress (ISBC), Youth Kai Personal Computer Network and the Youth Kai Mailing List. Also supports business exchanges and publishes the All-Japan Youth Kai Report. |

## Economic Research Activities

Over 99% of all companies in Japan are classified as small- and medium-sized enterprises (SMEs) and trends in the SME sector have an important influence on the Japanese economy as a whole. The Shoko Chukin Bank obtains timely information about SME trends through its research activities and surveys of client companies and returns the results of this work to SMEs by publishing the resulting information on economic and industrial trends in the mass media and on its website.

### Monthly Survey of SME Business Sentiment

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 economic trends among SMEs, the survey results are used not just within Japan but also attract considerable interest overseas as well. In June 2000 the Bank began to conduct trial surveys of a 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

Capital investment and economic trends are closely linked. 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 all of its branches.

### Economic Forecasts

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

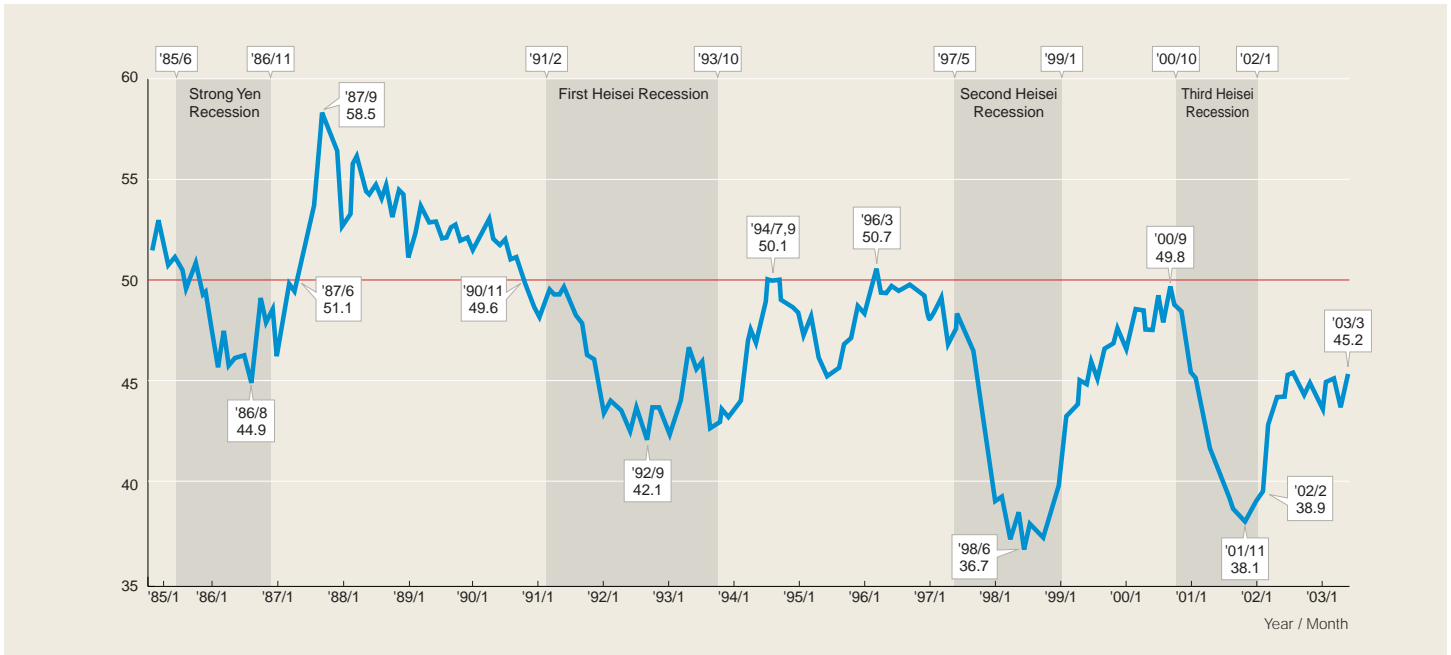
### Trends in the SME Sector

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 economic trends. For example, in fiscal 2002, it conducted a survey on Internet use by SMEs.

**Graph of the SME Business Sentiment Index**

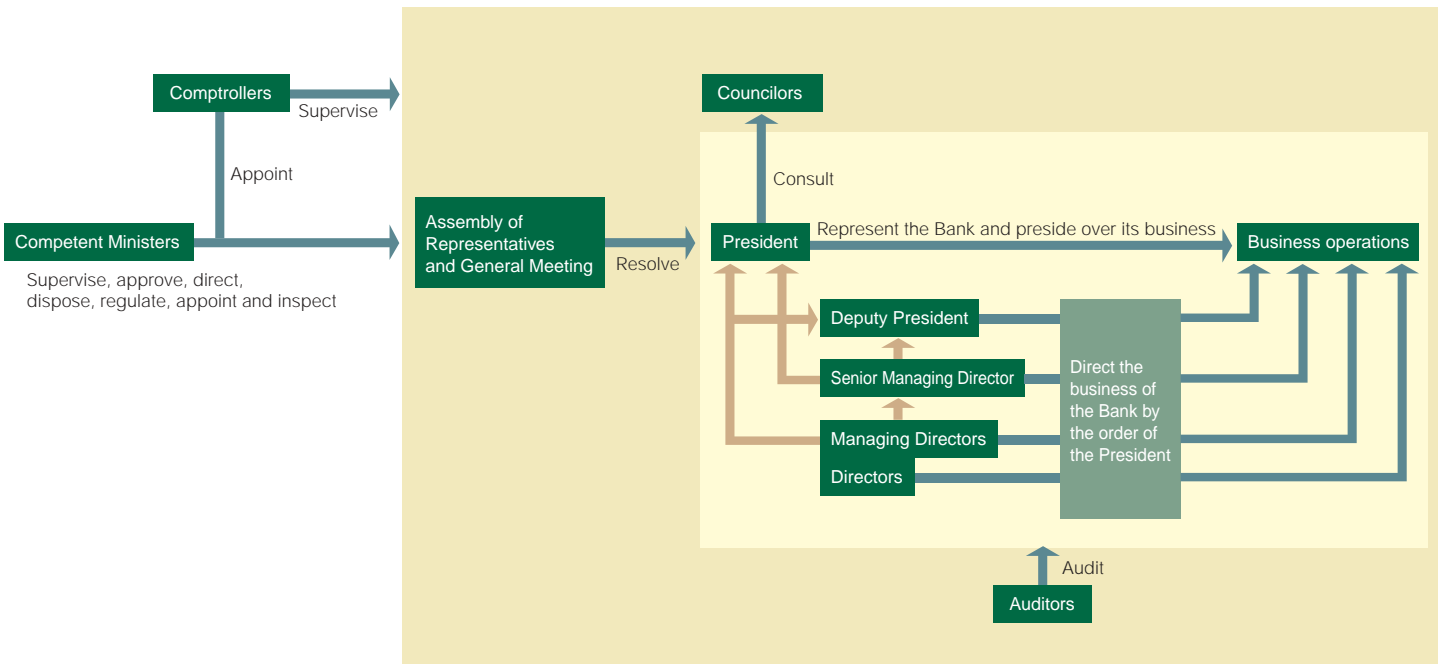


Notes: 1. Business Sentiment Index = ((Number of companies expecting an improvement x 1 + number of companies expecting no change x 0.5) / number of companies surveyed) x 100  
 2. An index above 50 indicates that companies expect economic conditions to improve compared with the situation in the previous month, while a result below 50 indicates that deterioration is anticipated.

Source: Shoko Chukin Bank, Monthly Survey of SME Business Sentiment

# Management Structure, Organization and Officers

## Management Structure



Notes: 1. The President and auditors shall be appointed by the competent ministers (Minister of Economy, Trade and Industry, and Minister of Finance).  
 2. ← : Support functions

### Assembly of Representatives

The Assembly of Representatives is made up of Representatives and is the highest decision-making body for the Bank.

Representatives are elected in prefectural elections (mutual vote) from among member cooperatives, and represent the member cooperatives of their region, to express ideas and exercise their right to vote in the Assembly of Representatives. The term of office is four years.

Representatives number 135 nationwide as of May 1, 2003.

### Councilors

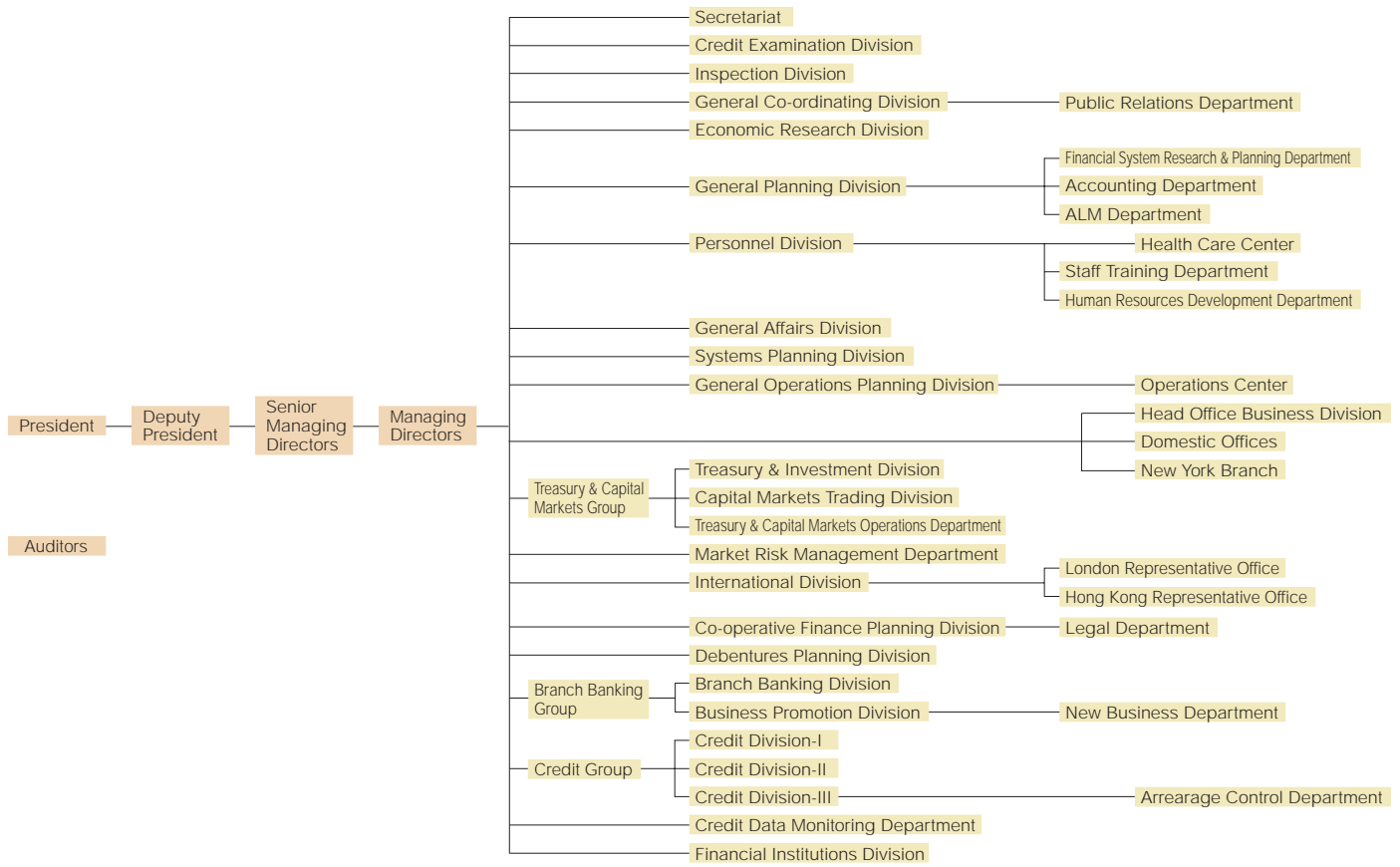
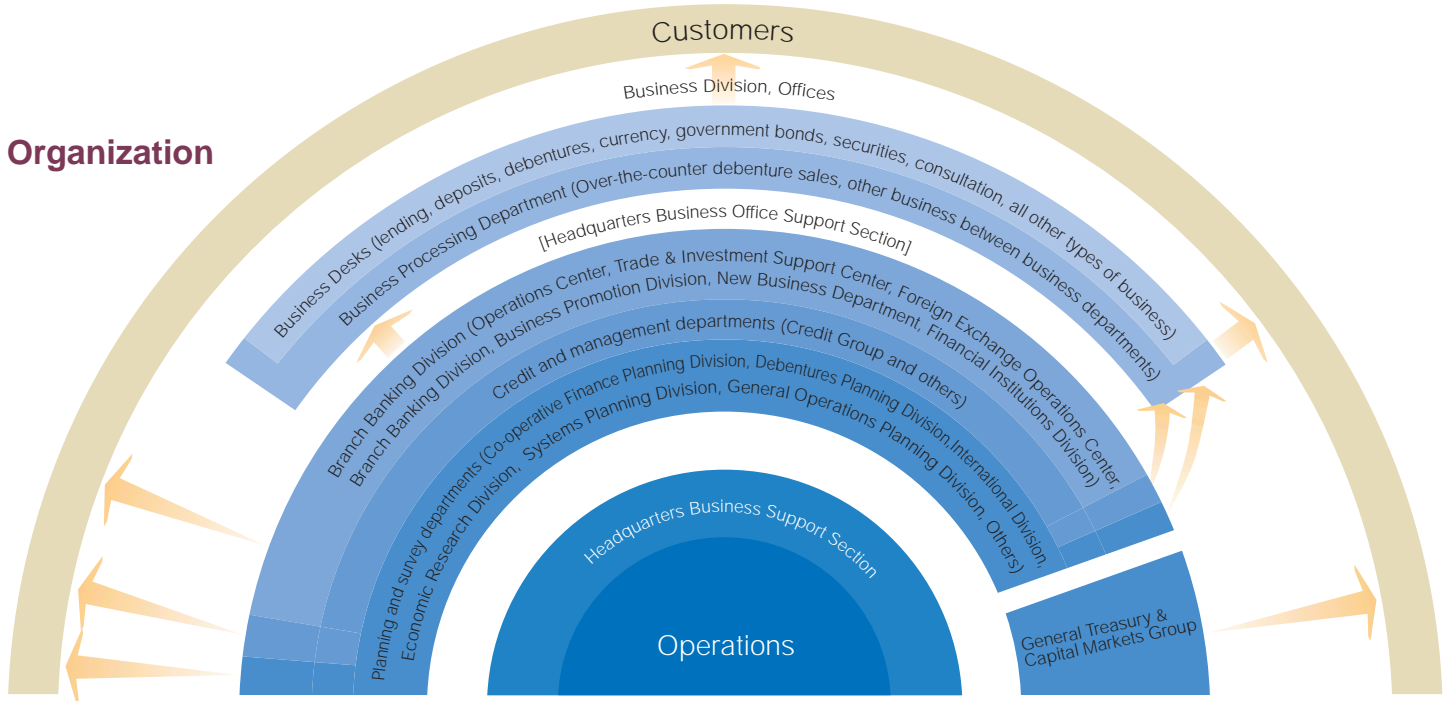
Councilors shall respond to inquiries from the President on important business management matters.

Councilors shall be appointed by the President with the approval of the competent ministers, and the majority shall be appointed from people related to qualified subscribing groups. The term of office is three years.

### Comptrollers

The Comptrollers execute the right of the competent ministers to supervise the business of the Bank, and monitor the operations of the Bank.

# Organization



# Directors and Auditors

---



Tadashi Ezaki  
President



Shigenori Shioda  
Deputy President



Iwao Ihara  
Senior Managing Director

---

## Managing Directors

Hayashi Nakajima

Toshiro Mori

Takashi Kanemaru

Shigeki Sakai

Satoshi Fujisawa

Akira Suzuki

Minoru Hoshito

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## Auditors

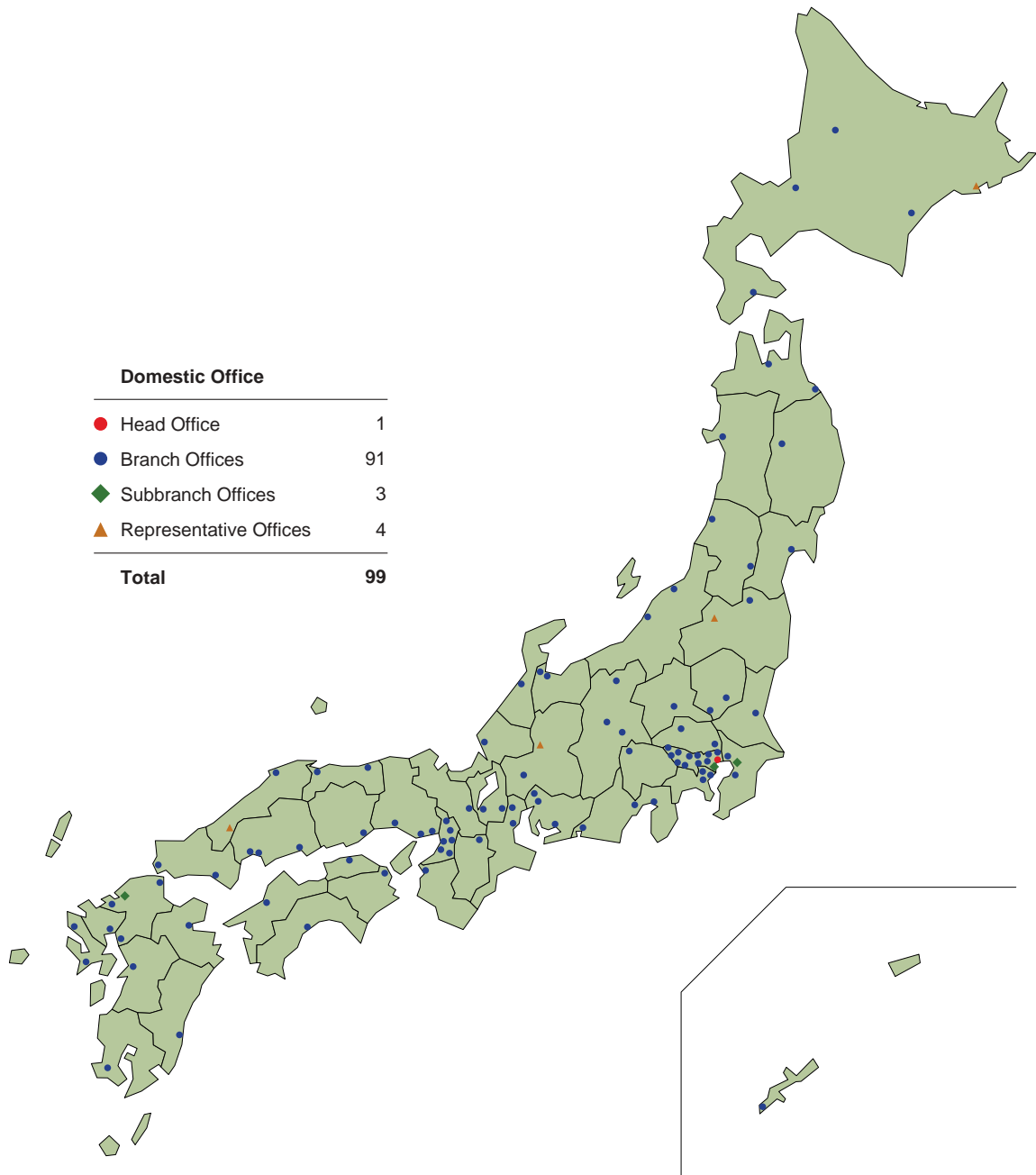
Kiyoshi Ohashi

Mitsukazu Ishikawa

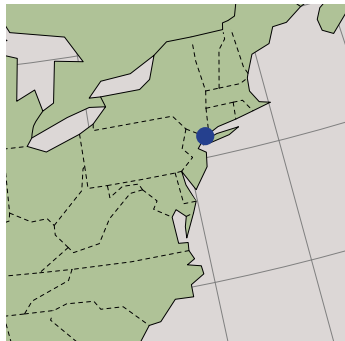
Koichi Kurashima

(As of June 30, 2003)

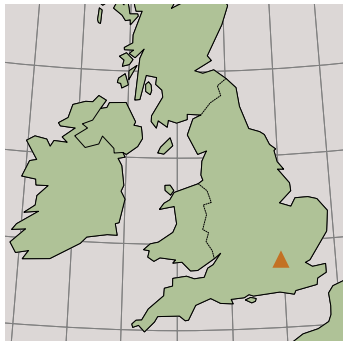
# The Shoko Chukin Bank Network



## Overseas Offices



New York



London



Hong Kong

# Corporate Data

## Head Office

10-17, 2-Chome Yaesu, Chuo-ku, Tokyo 104-0028, Japan  
Tel: (03) 3272-6111  
Telex: J25388 CHUKIN (International Division)  
J25679 CHUKIN (Treasury & Capital Markets Group)  
Fax: (03) 3272-6169 (International Division)  
(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

## Objective

The objective of the Bank is to perform functions necessary to facilitate financing for the SME cooperatives and their member companies from which the Bank receives capital subscription.

## Capital

¥511,265 million:  
¥405,367 million subscribed by the government;  
¥105,897 million subscribed by member cooperatives

**No. of Member Cooperatives** 27,663

**No. of Employees** 4,691

**Domestic Offices** 99

## Overseas Offices

### NEW YORK BRANCH

666 Fifth Avenue, 9th Floor, New York, NY 10103, U.S.A.  
Tel: (212) 581-2800  
Telex: 6801392 CHUKIN  
Fax: (212) 581-4850  
SWIFT Code: SKCK US33

### LONDON REPRESENTATIVE OFFICE

7th Floor Finsbury Circus House, 12-15 Finsbury Circus, London, EC2M 7BT, U.K.  
Tel: (207) 588-4420  
Fax: (207) 588-4421

### HONG KONG REPRESENTATIVE OFFICE

Suite 4004, Two Exchange Square, 8 Connaught Place, Central Hong Kong  
Tel: (852) 2524-5111  
Fax: (852) 2523-6452

## Affiliates

### SHOKO RESEARCH INSTITUTE

- Surveys finances, organization and industry structure of SMEs
- Assists SMEs with research and surveys

The Bank has no financial investment or stake in the following affiliates.

### YAESU SHOKO, LTD.

- Purchases furnishings and supplies in bulk for the Bank

### SHOCHU COMPUTER SERVICES, LTD.

- Develops software for the Bank's operations
- Provides contract computer services

### SHOKO SERVICE, LTD.

- Provides health and welfare services for the Bank's employees

### SHOKO FINANCE, LTD.

- Provides factoring

### SHOCHU CARD CO., LTD.

- Provides a variety of credit card services

### JAPAN INSTITUTE OF COMMERCE, INDUSTRY AND ECONOMICS, LTD.

- Provides management information and consulting
- Supports venture capital business

### JAPAN SHOKO LEASE CO., LTD.

- Engages in leasing

### YAESU MIDORI KANREN JIGYOU KYOUDOUKUMIAI

- Provides financing to the Bank's subsidiaries, and joint processing





# THE SHOKO CHUKIN BANK

10-17, 2-Chome Yaesu Chuo-ku, Tokyo 104-0028, Japan  
Tel: (03)3272-6111 Fax: (03)3272-6169 (International Division)  
Homepage Address: <http://www.shokochukin.go.jp/>



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