

Overview of Results for Fiscal Year 2002

Economic and Financial Situation

In the world economy in fiscal 2002, the US economy escaped from the post-9/11 recession and showed signs of a recovery, led by the household sector factors such as consumer spending. However, the upturn lacked strength, as the recovery in the corporate sector was dull, suspicions surrounding accounting practices drove stock prices down after the summer, and uncertainty mounted regarding the situation in Iraq. The European economy also appeared to be recovering early in the fiscal year, but it gradually slowed. Conversely, Asia, led by China, continued to experience solid growth.

Against this backdrop, the Japanese economy saw a sharp increase in exports early in the fiscal year and appeared to be recovering, but it slowed in the latter part of the year and stagnation gradually set in. Toward the end of the fiscal year, concerns about the start of the Iraq war caused even more uncertainty about the direction of the economy. Looking at demand trends, IT-related exports to Asia recovered rapidly, but there was no clear upturn in exports to the US, and this recovery gradually lost momentum. Domestic demand was affected by the long-lasting deflationary trend, as corporations were forced to adjust their balance sheets and chose to continue prioritizing debt repayment over capital investment. Consumer spending, which had shown relatively stable improvement, also gradually lost strength, as employment and income environments continued to deteriorate. Housing investment was sluggish, and public investment continued on a downward trend, as the government tackled initiatives to improve its financial situation.

Economic conditions for small and medium-sized businesses (SMEs) generally continued to be difficult. According to the Bank's Monthly Survey of the Condition of SMEs, the Business Outlook Judgment Index trended upward in the first

half of the year centered on export-related businesses, but fluctuated in the latter half, with no clear direction emerging.

On the financial front, the Bank of Japan took quantitative easing to another level, continuing a policy of practically zero percent interest rates. With no prospect for a quick resolution of deflation in sight, longer term quantitative easing strongly anticipated, and the difficulty that financial institutions have investing, long-term interest rates (the newly issued Japanese government 10-year bond rate) hit historic lows in the 0.7% range.

In foreign exchange rates, the yen-dollar rate started the fiscal year in the lower ¥130 range, then gradually strengthened to around ¥120 to the US\$, where it stayed for the second half of the year. Stocks appeared to be recovering at the start of the year, but, after the summer, falling US stock prices and an uncertain economic outlook caused the market to fall across the board, so that by the end of the year it had posted new post-bubble lows of below ¥8,000. Lending by financial institutions also continued to decline as demand for funds was low.

Japan faces two difficult problems as it tries to escape from this long-term downturn in the economy: it must both deal with bad loans and attempt to revive manufacturing. The environment surrounding SMEs continues to be severe. Given this situation, the Japanese government crafted measures to accelerate restructuring, expanded safety net financing for SMEs, and implemented a variety of other measures, all in an effort to ensure the stable supply of funds to SMEs.

Summary of Results

Loans

Outstanding loans in fiscal 2002 declined ¥448.9 billion year-on-year to ¥10,090.3 billion at year-end, reflecting the downturn in demand for funds from small and medium-sized enterprises. The balance of loans through agencies including credit cooperatives totaled ¥34.8 billion. There were 168 agencies at fiscal year-end.

Debentures

Interest bearing debentures decreased ¥4.7 billion compared to the previous year and discount debentures, ¥493.4 billion, for an overall decline in fiscal 2002 of ¥498.2 billion. As a result, the balance of debentures at year-end totaled ¥9,281.1 billion, a figure that includes ¥228.9 billion underwritten by the government.

Deposits and Negotiable Certificates of Deposit

The balance of deposits decreased ¥66.1 billion year-on-year to total ¥2,313.3 billion at the end of fiscal 2002. Negotiable certificates decreased ¥68.9 billion from the previous year-end to ¥36.8 billion.

Securities

Over-the-counter sales of government bonds and other securities amounted to ¥0.7 billion. Dealings in government bonds and other securities totaled ¥9.4 billion. The balance of trading securities at the end of fiscal 2002 was ¥0.7 billion.

Domestic and Foreign Exchange

Domestic exchange transactions in fiscal 2002 totaled ¥23,720.8 billion. Foreign exchange transactions totaled US\$9,595 million.

Income and Expenditures

Total operating income totaled ¥240.55 billion, while operating expenses were ¥238.117 billion, resulting in an operating profit of ¥2.433 billion. Other gains amounted to ¥4.911 billion and other losses came to ¥0.288 billion. Income taxes amounted to ¥1.461 billion, and there was a ¥1.482 billion income tax adjustment. As a result, net income for the year totaled ¥4.112 billion.

