

Supporting the Sustainable Growth of SMEs

Performance Highlights

In order to support the sustainable growth of SMEs the Shoko Chukin Bank responds quickly and flexibly to their needs, acts as an expert judge for SMEs that face challenges in the stages of startup, innovation and revitalization, and provides support as a safety net to SMEs to help them escape from temporary business emergencies that are a result of changes in the external environment. We present Performance Highlights as to show some of the concrete ways in which we fulfill those roles.

Supporting the Sustainable Growth of SMEs

On a base of long term and continuous trusting relationships with SMEs the understanding of their business circumstances

that comes along with that, the Bank works on a daily basis to ensure stable business conditions for SMEs. It does this by providing stable comprehensive financial services that accurately meet companies various needs from a long-term perspective.

Looking back over the past 10 years, the business environment for SMEs was shaken considerably by such events as the financial crisis, the bursting of the IT bubble and deflation. In those circumstances the Bank continued to work to provide smooth financing to SMEs, taking action in response to policy requirements.

In FY 2003 the Bank put all of its effort into fulfilling its function as a safety net, and it actively worked towards startup, innovation and revitalization, and to pioneer Financial Frontiers by developing and implementing new financial techniques.

Lending Trends of the Bank

(The lending balance for each year is displayed as an index, with lending in FY 1994 at 100)

FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003
100.0	110.09	109.7	111.7	122.1	115.5	113.1	110.9	111.9	114.2

Supporting the Challenge of Startup

SMEs that are in the startup stage often have their own technology or ideas, but may lack assets or accumulated business results, and therefore are unable to raise sufficient funding. The Bank examines the capability and future prospects of such SMEs, and supports them by providing funding, information and managerial advice in order to enable

companies in the startup phase to sufficiently utilize their latent strengths.

One aspect of this effort is the Bank's unique system of providing no-collateral financing, the Zero-Collateral Loan Program for Newly Forming Businesses. From April 2004 we have also enacted an exemption for businessmen so they don't have to provide personal guarantees.

Lending Results for the Zero-Collateral Loan Program for Newly Forming Businesses

(Unit: 100 million yen)

FY2002		FY2003		Accumulated results from the establishment of the Program*	
Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
187	19	430	44	617	64

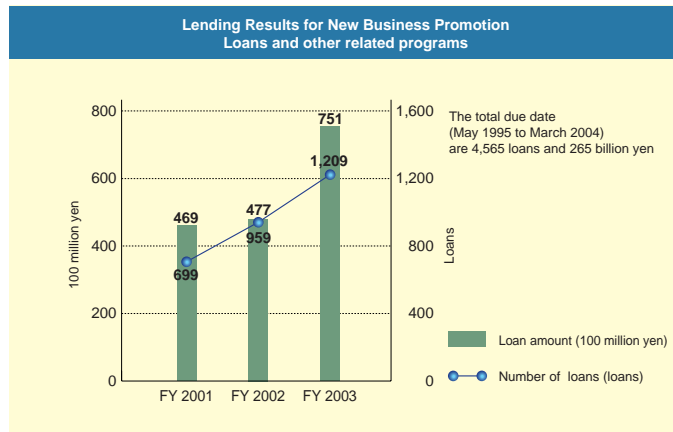
* Established November 2002

Supporting the Challenge of Innovation

We support SMEs that are taking up the challenge of innovation by developing new products, starting new businesses, expanding overseas or actively responding to environmental problems.

1. Support for SMEs that are Starting New Businesses

We support the entrepreneurial spirit of dynamic and creative SME owners and entrepreneurs to actively help them meet the challenge of starting new ventures through such loans as the New Business Promotion Loans as well as by providing information on all kinds of public support policies such as equity and bond underwriting through investment syndicates, and subsidies and favorable tax treatment.



2. Support for Businesses that are Expanding Overseas

We support SMEs that are planning to develop their businesses through expansion overseas by providing information on the

investment environment and other factors, providing the financing needed for the expansion and supporting trade transactions.

3. Support for SMEs working for the Environment

In order to facilitate smooth operations of SMEs who are working to tackle environmental problems, we provide financing and all types of information regarding NOx and exhaust gas financing, promoting energy conservation and use of new energy resources.

Supporting the Challenge of Revitalization

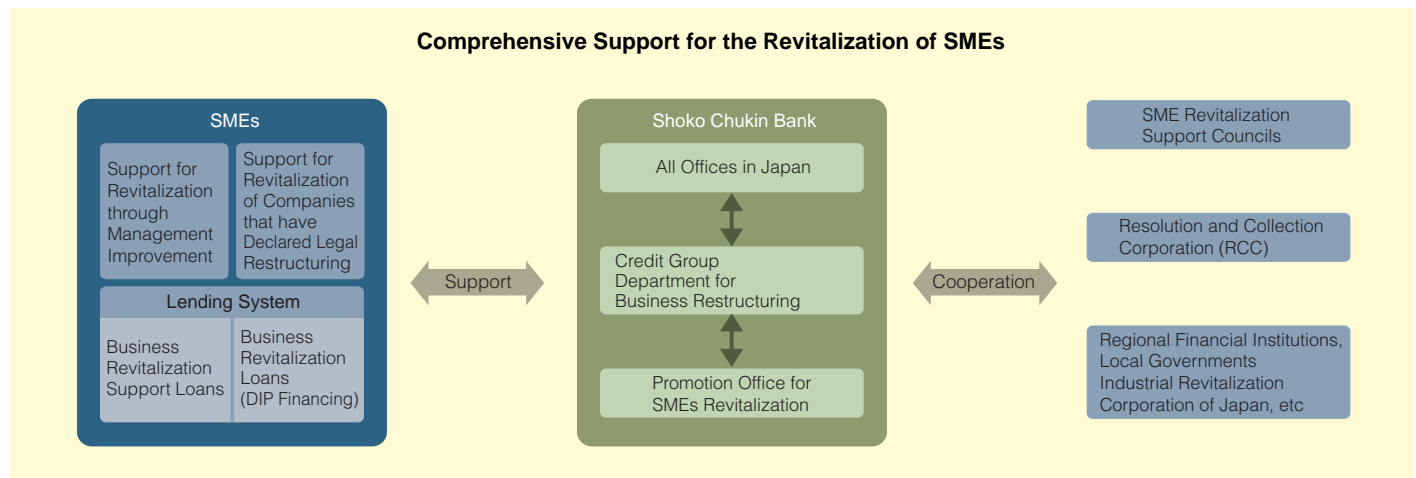
We support SMEs whose operations are currently suffering but have the possibility of a better future through improved management, and support early revitalization of SMEs who are facing obstacles to continued smooth business operations due to excessive debt, but which have the possibility for continued operations and growth.

1. Comprehensive Support for Revitalization of SMEs

● Revitalization Support Organization

All of the banks offices work together to support SMEs that are facing the challenge of revitalization. The Bank has established the Promotion Office for SMEs Revitalization with a senior managing director at its head and examines measures to provide comprehensive support for revitalization. At the same time, it has set up Department for Business Restructuring, which specializes in providing management support, within the Inspection Division in order to help develop management improvement plans and provide follow-up support.

In addition, the Bank cooperates with SME Revitalization Support Councils in each region, the Resolution and Collection Corporation (RCC) and regional financial institutions.



- Support for Revitalization of Companies through Management Improvement

The Bank supports creation of management improvement plans, and provides funding necessary for corporate restructuring such as capital funds, long term working capital, short term

working capital (including discounted notes) to SMEs that plan to restructure based on their own effort, even though they may have excessive debt due to continuing poor economic conditions.

Lending Results for Business Revitalization Support Loan Program

(Unit: 100 million yen)

FY2002		FY2003		Accumulated results from the establishment of the system*	
Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
4,379	235	47,332	1,614	51,711	1,850

* Established February 2003

- Support for Revitalization of Companies that have Declared Legal Restructuring

Based on the government's emergency economic measures of April 2001, the Bank established its own program of Business Revitalization Loans (DIP financing) and is pioneering its use to support SMEs that have declared legal restructuring under the Civil Rehabilitation Law or other laws.

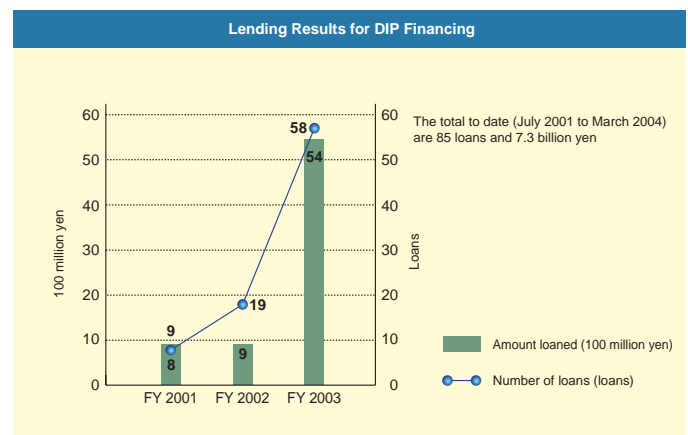
This program provides support depending on the stage of revitalization such as short term working capital from the time that it is decided to begin legal restructuring until it is approved, and long term and short term working capital and capital funds from the time legal restructuring is approved until the procedure is completed, and exit financing to conclude legal restructuring procedures quickly.

In addition, SMEs that have taken over business operations from businesses that are being revitalized are also eligible for support from this Program.

2. Cooperation with External Organizations

- Cooperation with SME Revitalization Support Councils

- The Bank provides support for revitalization depending on regional conditions in cooperation with regional financial institutions.
- Support completed by Councils nationwide: 137 cases. Of those, the Bank was involved in 45 (according to figures from the Small and Medium Enterprise Agency as of May 2004)



- Cooperation with the Resolution and Collection Corporation (RCC)

- The bank provides support for revitalization or a safety net to SMEs that have had loans transferred or entrusted to the RCC.
- Results of cooperation in FY 2003: 18 cases, 3.4 billion yen (including past loans where the conditions have been changed)

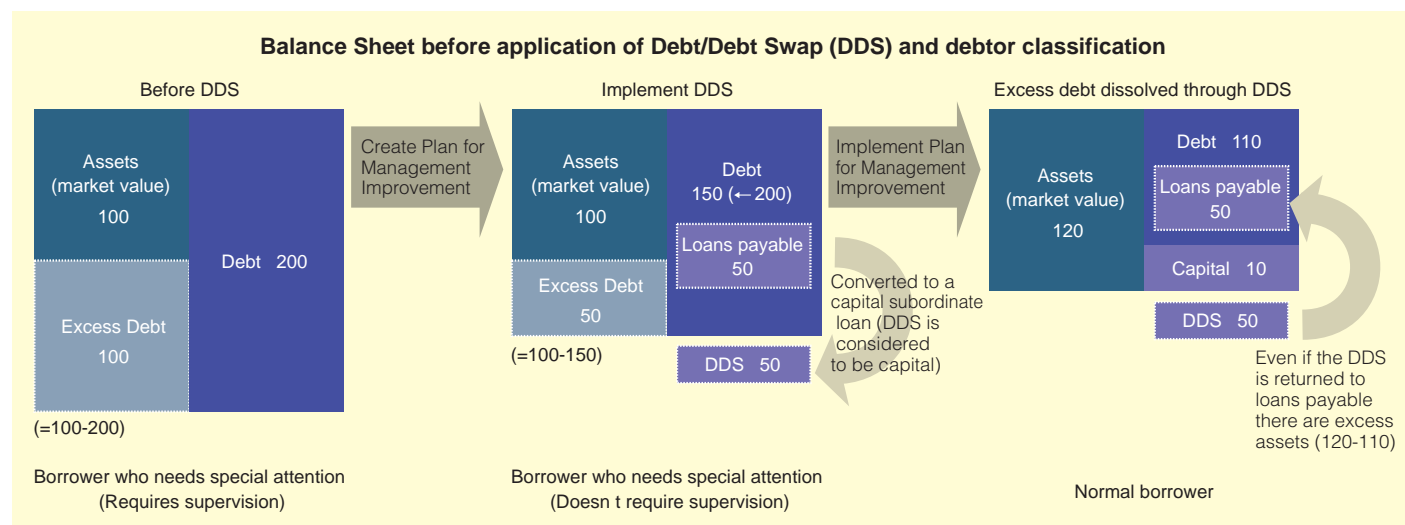
3. Utilization of Pioneering Revitalization Methods

The Bank utilizes pioneering approaches such as Debt/Debt Swaps (DDS) to achieve financial reconstruction of SMEs that have excessive debt.

- DDS is an advanced technique to rebuild the finances of SMEs based on management improvement plans that are reasonable and that have a high probability of being

achieved, in which a portion of debt held by a financial institution is swapped for capital subordinated loans.

- The capital subordinated loan is determined to be capital for the debtor, and the debtor classification is ranked higher, so that it becomes easier to obtain new funding and the supply of capital is more stable, allowing earlier revitalization to be achieved.



Role of Safety Net

The Bank works to prevent bankruptcy for companies that have the desire and latent capability, leveraging safety net loans and other loans that are part of the national financing system, by taking quick action. The Bank also establishes Special Consultation Desks around the country to deal with SMEs that have been affected by the failures or realignments of financial institutions, corporate bankruptcies and sudden disasters (natural disasters, accidents, etc.).

- Special Consultation Desks

The Bank newly opened 23 Special Consultation Desks in FY 2003 to respond to such incidents as the bird flu, the BSE problem and the bankruptcy of the Ashikaga Bank.

The number established at the end of March 2004: 34 (Of those 23 were opened in FY 2003)

Number of cases handled by the Special Consultation Desks

(Unit: Cases)

	FY 2002	FY 2003	Accumulated total
Consulting cases	1,430	680	24,082

*Accumulated total since the Special Consultation Desks were established in November 1997

● Safety Net Loans

Lending Results for Safety Net Loans

(Units: Loans – 100 million yen)

	FY2002		FY2003		Accumulated results from the establishment of the system	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
Long Term Funding for Safety Net Loans *1	8,237	3,161	9,413	4,039	31,030	12,470
Safety Net Loans Short Term Working Capital etc in the Short Term Loan System *2	110,296	6,802	226,995	9,606	340,911	16,727
Collateral Exemption system for Responding to Changes in the Financial Environment *3	24,804	1,515	49,022	2,171	75,533	3,784

*1 The results are the total for Safety Net Loans (established December 2000), and for the Emergency Loan System for Economic Recovery (established February 2003)

*2 The results are the total for Safety Net Short-term Lending System (established March 2002), and for the Emergency Loan System for Economic Recovery

*3 Established March 2002

Promoting Cooperation between Companies and Regional Cooperation

The Bank supports networking by SMEs in organizing groups, groups that foster exchange between industries and in cooperation between industry, academia and government in order to foster growth, rapid progress and innovation in SMEs. In addition, the Bank actively cooperates with regional public institutes, industry groups and regional financial institutions to activate regional economies and industries.

1. Support for Networking

Initiatives of the Shoko Chukin Bank

Shoko Chukin Bank proposed and supported the establishment of an association that conducts joint research with businesses and academic and government organizations, with the cooperation of chambers of commerce and small business associations. As a result, six member companies formed such an association. In addition to providing its expertise in operating associations, the Bank helped start up the association's operations by providing joint

venture funding.

The association's research and development operations have been accredited by the Small and Medium Enterprise Agency and NEDO (the New Energy and Industrial Technology Development Organization), and are now eligible for aid. The association is steadily getting underway, starting basic research in cooperation with the University of Tokyo, Osaka University, and Osaka Prefecture University.

2. Cooperation with Regional Financial Institutions

In order to contribute to regional economic development and facilitate financing for SMEs, the Bank has always positioned cooperation with regional financial institutions as one of the pillars of its operations.

Furthermore, making an opportunity of the Financial Service Agency's Action Program Concerning Enhancement of Relationship Banking Functions to further strengthen cooperation, it is implementing cooperative financing to support regional startups, new businesses and business revitalization, and providing information by sending lecturers.

Status of Cooperation with Regional Financial Institutions (Number of Financial Institutions)

(as of March 31, 2004)

Status / Condition of Cooperation	Regional Banks	Regional Banks II	Shinkin Banks	Credit Cooperatives	Total
Regional Financial Institutions	65	50	306	181	603
Of those, the number where the mutual intention to cooperate has been confirmed	63	50	67	143	323
Of those, financial institutions that have concluded letters of intent to cooperate in operations	43	33	48	143	267

● Results of Cooperative Financing with Regional Financial Institutions

Results of Cooperative Financing

1,289 cases, 108.2 billion yen (for the 4-month period from December 2003 to March 2004)

● Lecturers Sent to Study Group and Seminars at Regional Financial Institutions

Lecturers Sent (Number of Financial Institutions Participating) 645 (FY 2003)

Subjects: Cooperation in general 41%, Revitalization of business 39%, Supporting startups and new businesses 13%, others 7%

Open up Financial Frontiers

Most fund raising by SMEs has been indirect financing that depended on collateral such as real estate mortgages, but the Bank takes the lead in utilizing new financing methods to facilitate and diversify fund raising for SMEs, making assets liquid and securitizing assets. In addition, by providing know-how to private financial institutions, the Bank disseminates new fund raising methods for SMEs even more widely.

The Primary Financial Frontier Results

(Units: Loan, 100 million yen)

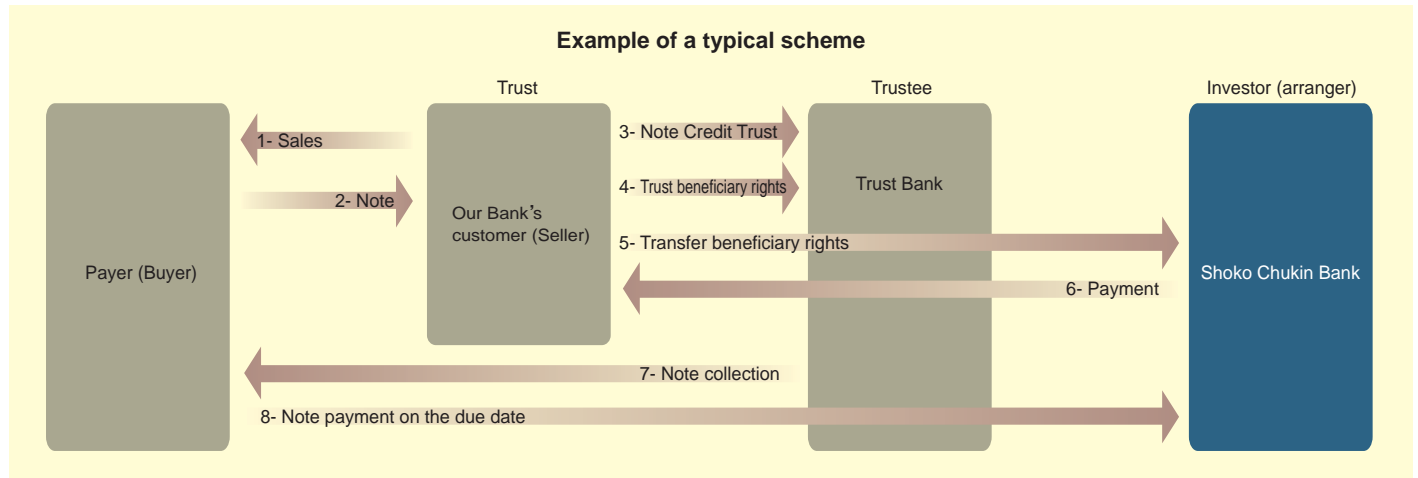
	FY2002		FY2003		Accumulated results from the establishment of the system	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
Collateral Financing through Factoring Receivables (1)	1,740 Loans	137	2,166 Loans	217	4,024 Loans	362
Liquefying Receivables (Trust method, Factoring method) (2)	34 Cases	521	57 Cases	869	63 Cases	1,972
Private Placement Bond	300 Cases	304	499 Cases	588	1,479 Cases	1,629
Syndicated Loans	93 Loans	310	187 Loans	493	334 Loans	974
Shoko Chukin CLO (Formed by this Bank) (3)	–	–	407 Cases	171	407 Cases	171
Participation in CLOs by Regional Public Organizations *	74 Cases	21	101 Cases	33	250 Cases	78

* We participate as the financial institution handling funding in CLOs where guaranteed loans are securitized done by regional public organizations.

(1) Collateral Financing through Factoring Receivables

Under the national policy established in 2001, System for Collateral Financing through Factoring Receivables, our Bank handles more than any other financial institution, and we are working to disseminate the system.

(2) Liquefying Receivables (Trust method, Factoring method)



(3) Active Implementation of Collateralized Loan Obligations (CLO)

The Bank contributes to the development of market indirect financing through such activities as being the handling financial institution for CLOs of regional public organizations, by forming its own CLOs, and by taking an active part in the formation of the nation's first inter-regional CLO cooperatively formed by four geographically separate prefectures (Miyagi Prefecture, Wakayama Prefecture, Tottori Prefecture and Saga Prefecture).

