

# Our Mission and Functions

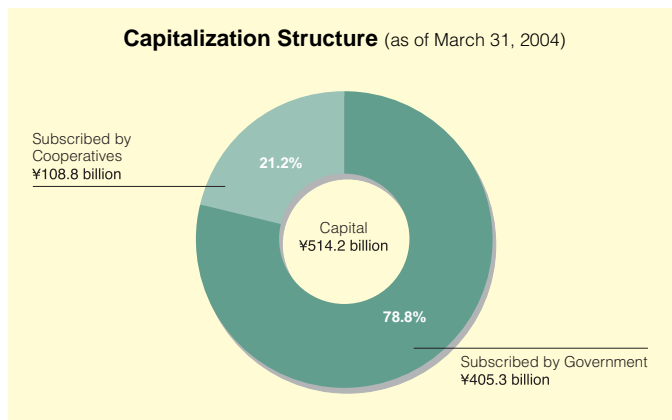
The Shoko Chukin Bank is the only government-affiliated financial institution specializing in support of SMEs.

## Profile of the Shoko Chukin Bank

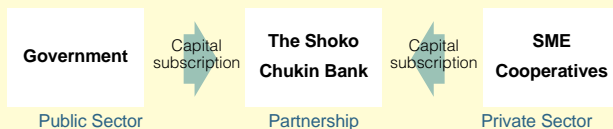
### Financial Institution Established under Joint Ownership by SME Cooperatives and the Government

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, 2004, the capital of the Bank stood at ¥514.2 billion. The government subscribes ¥405.3 billion, or 78.8%, of this amount, while cooperatives composed mainly of SMEs subscribe ¥108.8 billion, or 21.2%. Government ownership enhances the credit rating of the Bank, and it leverages this advantage to procure over 90% of its funds directly from investors.

Partly owned and managed by the SME cooperatives that use its services, the Bank is literally a cooperative financial institution of SMEs, by SMEs and for SMEs. At the same time, it is a government-affiliated financial institution that plays an important role in the nation's SME policies and is subject to special government involvement in capital participation and supervision as a Public-Private Partnership (PPP).



As a cooperative financial institution of SMEs, by SMEs and for SMEs, the Bank is subject to government involvement in capital participation and supervision.



The Bank responds flexibly, speedily and effectively to the diverse needs of SMEs and, from time to time, policy issues affecting SMEs.

### Working towards Healthy, Effective Business Operations

Through its nationwide branch network, the Bank is used by SMEs throughout Japan as a government-affiliated financial institution that specializes in lending business funds to SMEs.

The Bank itself procures some 90% of the funds needed for lending on the basis of the creditworthiness afforded by capital subscriptions from the government.

Since its establishment, moreover, the Bank has by itself worked towards healthy, effective business operations while securing the profitability necessary for management.

It also obliged to pay taxes at the same rate as private cooperative financial institutions, and has for many years paid dividends to private subscribers of capital.

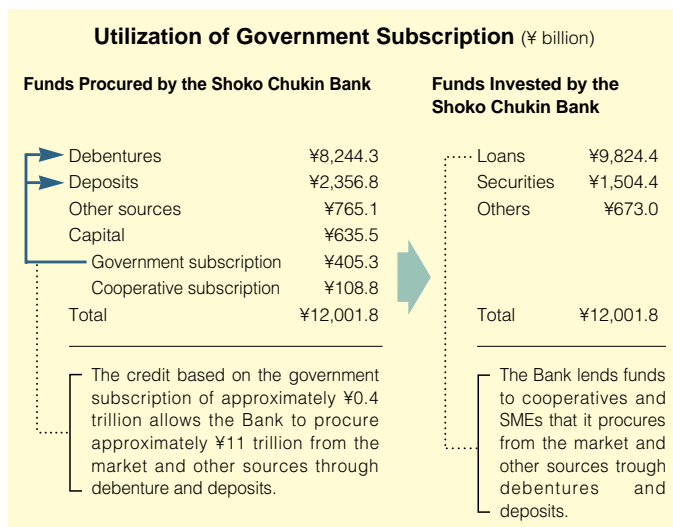
### Combining the Policy Approach of the Public Sector with the Efficiency of the Private Sector

Backed by the creditworthiness of the government, the Bank fulfils its expected role in line with the nation's SME policies while working to ensure healthy and efficient management.

In other words, it has consistently endeavored to tackle these issues by fulfilling the policy role of the public sector and delivering the efficiency of the private sector.

**Improvements in Management Efficiency**

	FY 1993		FY 2003	Increase (Decrease)
Total Expenses (¥ billion)	105.2	↘	79.7	(24.2)%
Employees	5,678	↘	4,571	(19.5)%
Branches	106	↘	102	(3.8)%
Operating Income (¥ billion)	45.9	↗	79.0	72.0%
Net Income per Employee (¥ thousand) (Operating Income / No. of Employees)	8,096	↗	17,301	113.7%



## The Policy Roles of the Shoko Chukin Bank

The Shoko Chukin Bank endeavors to fulfill its designated role in line with the nation's SME policies.

The following sections look at five roles fulfilled by the Bank through a wide range of activities.

### A One-stop Platform Supporting Sustained Growth among SMEs

The Bank offers customers day-to-day one-stop shopping for everything from financial services to management consulting. In the case of the former, in particular, it is the only government-affiliated financial institution to offer short-term loan programs and settlement services for bills and checks.

Through daily transactions like these, the Bank is able to familiarize itself with the client's management, not just its finances but also the nature of its business and technologies, and the skills and ideas of its top people. The more this becomes possible, the more the Bank is able to provide a flexible service platform in line with corporate needs, providing long-term, stable support without, for example, becoming too worried about any temporary deterioration in business conditions.

One of the Bank's greatest strengths is the fact that sharing expertise accumulated through carefully-tailored activities throughout the organization results in a virtuous circle of enhancements to services for customers and better enables it to fulfill its role as a one-stop platform.

### A Specialist in Start-ups, Innovation and Revitalization

Making the most of its function as a "specialist" built up over almost 70 years of association with SMEs, the Bank evaluates the challenges taken up by companies and proactively supplies them with funds and information.

At the start-up stage, the Bank provides unsecured loans to venture firms starting new businesses on the basis of original technologies and ideas.

At the innovation stage, it provides comprehensive support for creative SMEs through loans and underwriting stocks and/or bonds.

At the revitalization stage, the Bank supports the formulation of suitable revitalization plans and provides the finance necessary for business revitalization according to how far the business has deteriorated.

### Safety Net

The Bank draws on its authority as a specialist and its comprehensive financial capabilities such as short-term loans when adopting rapid and flexible responses to support companies in their efforts to overcome temporary predicaments arising from damage caused by crises resulting from drastic changes in the external environment.

Moreover, the Bank establishes special consultation desks to deal with the severe outcomes or emergencies resulting from tight lending and/or the calling in of outstanding loans, the failure of a correspondent financial institution, the failure of a client, or natural disasters or accidents. These desks enable it to listen carefully to what SMEs have to say, and to formulate careful responses such as providing necessary finance quickly and setting flexible lending conditions.

### Promoting Cooperation between Companies and Regions

The Bank is putting considerable effort into supporting cooperation between companies, providing the necessary funds for the formation of cooperatives of SMEs and networking, and offering information useful to business interchanges through the Chukin Kai and Youth Kai organized by the managers of customers.

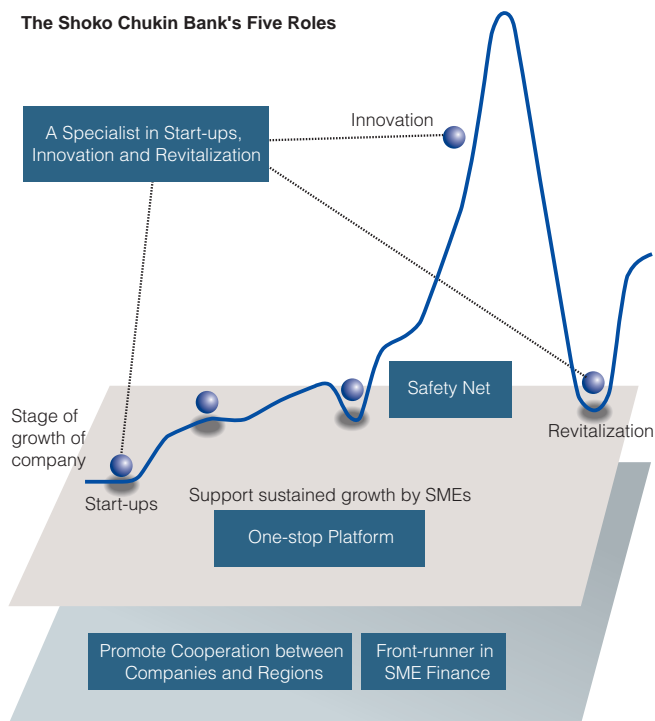
Moreover, it is working to strengthen still further its approach to regional cooperation. Making the most of its special nature in simultaneously having channels with industry associations and regional financial institutions, and relationships with local governments and national policies, it handles national, local government and industry association policy loans and provides loans to SMEs in cooperation with regional financial institutions.

## A Front-runner in SME Finance

For the most part, fund procurement by SMEs used to take the form of indirect finance, but in recent years, various funding methods that are not overly dependent on collateral and guarantees have come into the spotlight. These include methods, such as securitization and liquidation that bring forth funds from a wider range of sources by attracting capital from various types of investors. Government-affiliated financial institutions are now expected to lead the way in introducing and supporting new financing methods and making them popular among SMEs.

As the front-runner in SME finance, the Bank is working proactively to diversify its own methods. It is also engaged in popularizing government SME financing mechanisms that use new types of finance instruments and local government SME financing schemes, and participates in SME sales credit securitization schemes adopted by private financial institutions.

The Shoko Chukin Bank's Five Roles



## Differences from Other Financial Institutions

The Shoko Chukin Bank is the only government-affiliated financial institution that offers comprehensive capabilities as an integrated financial institution and raises most of its own funds. The Bank also provides SMEs with stable source of financing regardless of economic and financial conditions.

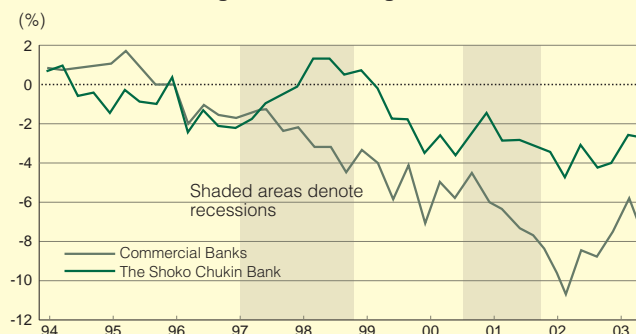
## Differences from Other Government Financial Institutions

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-on Year Change in outstanding Loan Balance to SMEs



Source: Bank of Japan, Financial and Economic Statistics Monthly.  
 Note: 1. Commercial Banks includes Japanese Banks, Shinkin Banks and Credit Cooperatives.  
 2. Data for Japanese Banks consists of loans to small, medium-sized and middle-market enterprises. For Shinkin Banks it consists of loans to businesses, and for Credit Cooperatives total loans.

## 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.

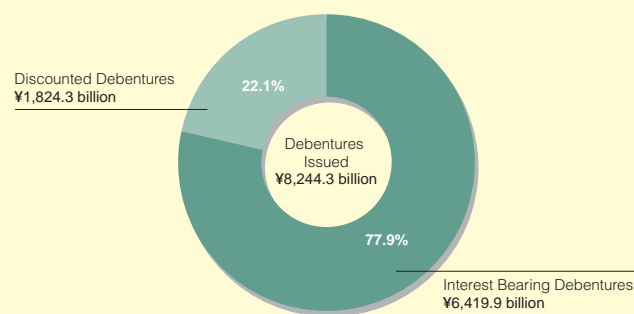
## Debentures Issued by the Shoko Chukin Bank

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 for almost 70 years since its establishment in 1936, and deposits in the Bank and its debentures can be held with confidence.

Balance of Debentures Issued (as of March 31, 2004)



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, 7 and 10 years, over-the-counter debentures Rissho Wide and Rissho which have maturities of 5 years.

## 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.

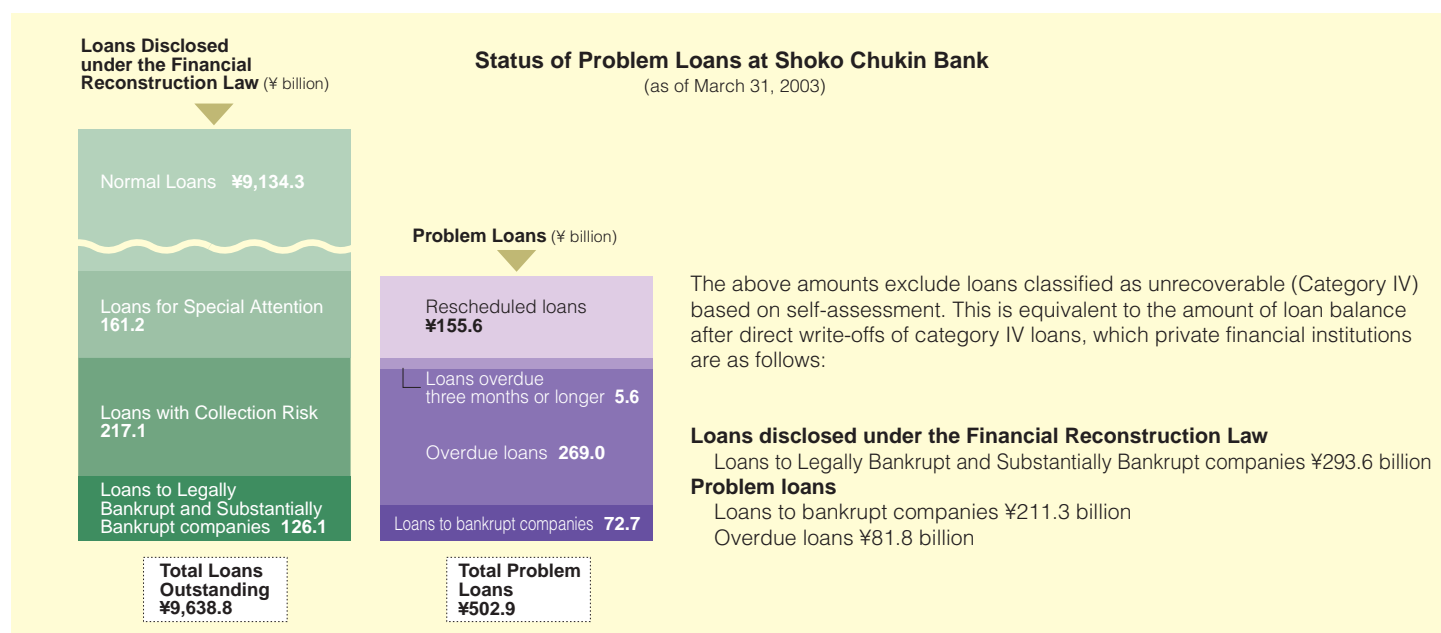
### Self-Assessment of Assets

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.



## The Shoko Chukin Bank Position on Government Administrative Reforms

In December, 2001, the cabinet adopted a plan for the rationalization of special public corporations and similar entities. After that December, 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.