Overview of the Shoko Chukin Bank Limited Act

In October 2008, the Shoko Chukin Bank shifted status from that of a jointly owned financial institution to a special company (a joint stock company) in accordance with the Shoko Chukin Bank Limited Act (Act No. 74 of 2007) while maintaining the purpose and function of facilitating financing for SME cooperatives and their members.

In June 2009, the Shoko Chukin Bank Limited Act was amended in response to the chaos caused by the unprecedented economic and financial crisis with the aim of strengthening the Bank's capital.

Furthermore, in response to the Great East Japan Earthquake, the Shoko Chukin Bank Limited Act was revised to postpone the commencement of term for disposal of government-held shares by three years, and to put in place other measures.

Objective of Shoko Chukin
Shoko Chukin’s objective is to conduct business necessary to facilitate financing for SME cooperatives, other organizations that primarily consist of SMEs and their members, while ensuring the Bank’s autonomy in management toward its goal of complete privatization.

Business
Alongside the privatization, the Bank expanded its full banking services, which include loans, deposits, currency exchange, and guarantees.

Measures to maintain the core of the Shoko Chukin Bank’s SME financing functions
- Borrowers are primarily limited to SME member companies (cooperatives and their members).
- The Bank will continue to issue bank debentures.
- SME cooperatives will continue to conduct business as a proxy for the Bank.

Measures to provide more diverse services to SMEs
- Scope of eligible subordinate borrowers will be expanded. (Domestic subsidiaries of member companies, people taking over member companies' businesses, etc.)
- Relevant limitations on guaranty operation will be eliminated.
- Regulations on subsidiary holdings will be clarified.
- With the lifting of depositor eligibility restrictions, the Bank’s products will be covered by the deposit insurance system.
- Restrictions on investment of surplus funds will be abolished.

Crisis Response Measure
- As a government-appointed financial institution, the Shoko Chukin Bank engages in crisis response measures during periods of disaster as well as economic and financial turmoil.

Financial Base
- At the time of the shift to privatization, the Bank designated ¥400.8 billion of funds from the government provided funds, as a special reserve with the aim of enhancing its capital and investing in the financial soundness.
- By the end of fiscal 2014 (the government extended the term by three years under the revision to the Act in 2011 and others), the Japanese government may invest in the crisis response reserve within the scope permitted in the budget for smooth implementation of crisis response measures (the government made an investment of ¥150.0 billion in July 2009).

Organization, Oversight and Disclosure
- Shareholders of the Shoko Chukin Bank are restricted to the government, SME cooperatives, and their members.
- Supervision by the minister in charge will be limited to the bare minimum.
- The organization is to provide and release disclosure publications, etc.

Future measures
- Starting in April 2015, the government, while keeping an eye on market trends, will sell off all state-owned shares of the Bank within a roughly five- to seven-years time frame (the government extended commencement of the term by three and a half years under the revision to the Act in 2009 and by three more years under the revision to the Act in 2011).
- Once all shares held by the government have been sold, the special law enacted for the current transitional period will be abolished, and measures necessary for shareholder qualification limit will be enacted in order to maintain financial functions for SMEs.
- Subsequent to the revision of the Act in 2009, targeting the end of fiscal 2014 (the government extended the term by three years under the revision to the Act in 2011), it has been stipulated that the government shall implement all required measures, as and when considered necessary, with respect to the way in which the Bank shall carry out its crisis response measures, the manner in which government-owned shares shall be disposed and the level and content of government involvement in the Bank’s activities. Implementation shall take into consideration a number of factors including the implementation status of the crisis response measures and the financial capacity of such shareholders as SME cooperatives and their members.
Corporate Philosophy of the Shoko Chukin Bank

Mission

The Shoko Chukin Bank is a financial institution run for SMEs, by SMEs. As such, our customers’ growth is our growth.

The Shoko Chukin Bank assesses companies from a long-term perspective with great respect for every customer’s point of view. We always strive to make the most of the deep understanding of SME management we have developed over the years, our cutting-edge financing methods and other comprehensive financial services, and our nationwide network. In all that we do, our goal is to support our customers’ sustainable growth with solutions tailored to the life stage of their companies.

The Shoko Chukin Bank’s mission is to harness the boundless joy it shares with its customers to create a new strength for Japan.

Business Posture

- For all SMEs
  - We offer a sense of security based on long-term, stable transactions and services that solve problems.
  - We encourage cooperation among companies and among regions to create new business opportunities.
  - We grow as our customers grow, and aim to improve our long-term corporate value.

- For all depositors
  - We ensure sound management, and are dedicated to treating customers reliably, sincerely and respectfully.
  - We support optimum investments as a good partner in asset investment.
  - We practice socially responsible investment.

- For employees
  - We strive to foster an invigorating organization that values on-the-job experience and encourages employees to take on challenges.
  - We support employees as they develop expertise, and we train professional employees.
  - We create a workplace in which employees feel joy and pride in giving back to society, and we value that process.

- For society
  - We ensure thorough compliance.
  - We strive to maximize business transparency and strive to disclose and publicize information.
  - We work to ensure the satisfaction of all stakeholders and contribute to the development of local economies.

Conduct Guidelines

1. We stand in the customer’s position.
2. We consider our customers’ future.
3. We enhance skills sought by customers.
4. We work together for the sake of the customer.
5. We help customers realize their dreams.

In all these things, we act with pride, great ambition and a fair and sound spirit.
First Medium-Term Business Plan (From October 2008 to March 2012)

In October 2008, the Shoko Chukin Bank shifted status from that of a jointly owned financial institution to a special company (a joint-stock company established pursuant to a special act).

The Shoko Chukin Bank has launched the First Medium-Term Business Plan covering the period from October 2008 to March 2012 as a concrete program in order to fulfill the expected financial functions even after privatization, and help the Bank execute its mission of contributing the growth of SME cooperatives and SMEs.

The impact of the Great East Japan Earthquake on the economy, finance, and life of the people of Japan is both devastating and widespread; as a result, the reconstruction and recovery effort is a challenge for the nation as a whole, and the government is putting in place a series of various support measures. As a legally designated financial institution for crisis response measures, and the only public financial institution offering full banking functions including deposits, clearing functions, and short-term financing, it is the mission of the Shoko Chukin Bank to provide solid support to SMEs in the current circumstances. We will use our nationwide network in order to fulfill our role so that we can meet the high expectations of the government and SMEs.

We at the Shoko Chukin Bank are fully aware of the major role we are expected to play, and we realize the importance of the functions asked of us. First and foremost, we will devote our utmost efforts to fulfilling the safety net in the reconstruction and recovery after this disaster of unprecedented scale. It is the priority of the entire Bank to support the SMEs who are struggling to rebuild after the disaster and to revive local economies.

In addition, as a financial institution designated under the Act concerning Temporary Measures to Facilitate Financing for SMEs, etc., we will further strengthen our efforts to enhance the corporate value of SMEs, providing back-up in all aspects of management by offering a wide range of expertise and solutions, in order to properly fulfill our mission and role. In anticipation of significant changes in the industrial structure in the mid- to long-term, such as increasingly rapid overseas expansion mainly in the manufacturing industry and response to the declining birthrate and aging population of the future, business reorganization and structural reform are expected to pick up speed over a wide range of business sectors and categories. In particular, in 2011, we will strengthen our capabilities in the areas for which we have received many inquiries and requests from clients: support for growth strategies; support for overseas expansion, mainly in Asia; support for corporate alliances, including business matching and M&As; and business succession; and support for cooperation between agriculture, commerce and industry.

In addition, in order to be able to continue to provide high-quality funding to SMEs, we will further strengthen initiatives to bolster and expand the fund procurement platform, mainly individual and corporate deposits. At the same time, from the perspective of utilizing our limited resources to their maximum extent, we will constantly work to further streamline management through measures such as increasing the efficiency of operations.

Strengthening measures to address these issues will enable the Shoko Chukin Bank to implement its mission of contributing to the growth of SME cooperatives and SMEs and construct a sound financial base for the Bank itself.
Fulfilling a Safety Net Function, Mainly in Crisis Response Measures

In response to the financial crisis triggered by the sub-prime loan problem in the United States in the autumn of 2008, and the Great East Japan Earthquake of March 2011, crises were declared by the government, and the Shoko Chukin Bank, as the only legally designated financial institution for SMEs, has been devoting its full efforts to fulfilling a safety net function, mainly in crisis response measures.

As of the end of March 2011, a total of 73,531 projects have been implemented under the crisis response measures, at a value of over ¥4,825.5 billion, through which we have been able to make significant contributions to facilitating finance for SMEs, and furthermore, maintaining employment and stabilizing the economy in local communities.

A Stable Transaction Stance

The Shoko Chukin Bank, through its day-to-day transactions with SMEs, not only looks at financial matters, but also takes the clients’ operations, technology, and the abilities and enthusiasm of the executives into consideration. In this way, we strive to provide services that respond flexibly to corporate needs, not focusing on temporary management setbacks, but maintaining a stable transaction stance over the long-term.

The Shoko Chukin Bank: Fulfilling a Safety Net Function

Prior to transition to joint stock company

1997-2000
Series of financial institution failures

2001-2003
Financial revitalization program
Centralized disposal of non-performing loans

Government measures

- (Special national loans) Safety net loan program
- ¥30,000 billion for Special Credit Guarantee Program for Financial Stability
- New guarantee program established
  - Receivables-Backed Loan Guarantee Program
  - Refinancing Guarantee for Facilitation of Financing Program

Efforts by the Shoko Chukin Bank

- Implementation of measures at left
- Establishment of the Shoko Chukin Bank’s own program
  - Collateral-free loans
  - Short-term working capital to support day-to-day cash flow
- Management improvement support
  - Collaboration with SME Revitalization Support Councils

After transition to joint stock company

October 2008
Efforts made after transition to joint stock company

- Crisis response measures:
  - Appropriate response as legally designated financial institution. 1) Crisis Response Guaranteed Loan, 2) Two-Step Loans, 3) Utilization of interest subsidizing program

- The Shoko Chukin Bank’s own safety net loans

- Credit Guarantee Corporation:
  - Putting into action the Emergency Guarantee Program, and the “Great East Japan Earthquake Recovery Emergency Guarantee” Program

Domestic banks include city banks, regional banks, second-tier regional banks, trust banks, etc.
 Sources: Bank of Japan “Loans and Bills Discounted by Sector,” Community Bank Shinyo Kumiai

Commercial banks include total for domestic banks, shinkin banks, and credit cooperatives. Figures used for domestic banks represent loans to SMEs and middle-market enterprises; for shinkin banks, corporate loans; for credit cooperatives, total loans.
 Sources: Bank of Japan “Loans and Bills Discounted by Sector,” Community Bank Shinyo Kumiai

Shaded areas represent periods of recession.
 Sources: Bank of Japan “Loans and Bills Discounted by Sector,” Community Bank Shinyo Kumiai
Measures Taken by the Government and the Diet and Efforts by the Shoko Chukin Bank

Government, the Diet, etc.

- The Shoko Chukin Bank Limited Act (Shoko Chukin Act) goes into effect (October 2008)
- Declaration of crisis related to disaster, etc.

The Shoko Chukin Bank

- Begin handling crisis response measures for SMEs (Crisis Response Guaranteed Loan)

Response to post-Lehmann Shock economic and financial crisis and revision of Shoko Chukin Act

- Declaration of crisis due to turmoil in international finance
- Revision of Shoko Chukin Act (June 2009)
  - Capital injection to the Shoko Chukin Bank (¥150 billion)
  - Review of government involvement by the end of 2011
  - Postponement of commencement of term for complete privatization (3 and a half years extension)

Revision of Shoko Chukin Act and response to need for reconstruction and revitalization after Great East Japan Earthquake

- Establishment of the Great East Japan Earthquake Emergency Disaster Response Headquarters
- Declaration of crisis due to Great East Japan Earthquake
- 2011 First supplementary budget passed (May 2011)
- Revision of Shoko Chukin Act (May 2011)
  - Extension of limit for additional government investment to March 2013
  - Extension of limit for review of government involvement to March 2013
  - Postponement of commencement of term for complete privatization (3 years extension)

Overview of Crisis Response Measures

A new program for crisis response was developed after October 1, 2008, in order to deal with times of crisis, such as disasters and economic or financial turmoil.

The Shoko Chukin Bank is a designated financial institution* to implement financing and other services for SMEs and middle-market enterprises in response to crisis.

*Designated financial institution: From private financial institutions that apply, the minister in charge designates those that meet certain criteria (the Shoko Chukin Bank, and Development Bank of Japan) to implement loans and other crisis response measures when the minister in charge has declared a crisis, and to receive risk supplements and other support from the treasury.

Schematic diagram of crisis response measures

1) Compensation for losses (Crisis Response Guaranteed Loan)
2) Funds loaned (Two-Step Loans)
3) Interest subsidies

Note: Specific funds: Funds designated by government ordinance as necessary to deal with damages from domestic or external financial turmoil or large-scale disasters.

1) Crisis Response Guaranteed Loan: A loan program for specific funds, with supplemental credit from Japan Finance Corporation (partial compensation for amount of loss).
   Percentage of compensation: SME 80%, middle-market enterprise 70%
2) Two-Step Loans: The program to loan specific funds, with back finance based on resources from fiscal investment and loans, etc., from Japan Finance Corporation.
3) Interest subsidies system: The program of loans offered to customers at special interest rates by the Shoko Chukin Bank, or of paying the interest subsidies to customers at a later date, on the condition of receiving interest subsidies from Japan Finance Corporation.
Fulfillment of Our Mission

Loan program for Those Affected by the Great East Japan Earthquake

In response to the earthquake disaster, the Shoko Chukin Bank set up Special Consultation Desk Related to the Great East Japan Earthquake in every branch.

As a legally designated financial institution, we are responding to the needs of SMEs that have suffered direct or indirect damages, by providing Great East Japan Earthquake Revitalization Special Loans and other services.

Results of Crisis Response Financing (Cumulative)

Results of crisis response measures (cumulative)

Over 73,000 projects, over ¥4,800 billion in financing

Contributed to stable employment of approximately 2.65 million employees

■ During the 30 months since the launch of crisis response measures at the Shoko Chukin Bank, the program has been used by 31,993 companies employing a total of approximately 2.65 million people (as of end March 2011).

■ The Shoko Chukin Bank’s efforts with regard to crisis response measures have led to employment stability for a large number of employees.