

# The Shoko Chukin Bank

## 1. Summary of operations implemented using FILP funds

The Shoko Chukin Bank (to be referred to as “the Bank”) underwrites commercial and industrial bonds by governmental loans and receives investments from the industrial investment special account. Based on these, loans (for equipment funds, long-term operation costs, short-term operation costs, etc.) are provided to small businesses that work towards management innovation to catch up with the structural change of the Japanese economy, or that start new businesses. Loans are also extended to small enterprises that find it difficult to receive loans from private financial institutions. Furthermore, various forms of emergency lending as countermeasures for disasters have been expanded. The Bank also renders various financial services (debt guarantee, underwriting of stocks and bonds, etc.), in line with management consultation (suggestions for operation planning and development) and offers information. Thus, the Bank contributes to the smooth operation of financial activities of the co-operative association of small enterprises, other organizations of small enterprises, and those constituent members.

Among the above-mentioned loans, those related to FILP are long-term loans that are mainly funded by five-year interest-bearing commercial and industrial bonds (that can be underwritten by government loans).

Note: Short-term loans and certain other operations are not eligible for FILP.

## 2. Amount of lending under FY 2002 FILP

( Unit : billion yen )

FY 2002 FILP	Estimated outstanding amount of FILP lending at end of FY 2001
10.0	375.5

## 3. Outcome and social and economic benefits of operations

- (1) Financing result (FY2000)
  - Long-term loans: ¥2.447 trillion (Number of cases: 36,000)
  - Outstanding balance of loans: ¥10.8866 trillion
  - Of those, balance of long-term loans: ¥6.7598 trillion (Number of cases: 159,000)
  - Of those, balance of short-term loans: ¥4.1268 trillion
- (2) Rate of loans from the Bank outstanding, from total loans outstanding from financial institutions for small enterprises (Changes)

(According to the Monthly Financial Statistics of the Bank of Japan)

End of 1996	End of 1997	End of 1998	End of 1999	End of 2000
3.2%	3.2%	3.4%	3.5%	3.4%

Bank lending increased during and after FY1998 as a result of efforts to respond to the Bank's “reluctance to lend to small enterprises”.

- (3) Rate of loans for small enterprises outstanding by industry (As of the end of FY2000)

	The bank	All domestic banks	Commercial banks
Manufacturing	35%	18%	16%
Wholesaling and retailing	32%	17%	16%
Services	11%	19%	17%
Construction and real estate	11%	30%	29%
Transportation and communication	10%	4%	3%

The Bank promotes loans to nationwide local industries, small subcontractors, industrial and commercial complex unions. Accordingly, lending weight is high in the manufacturing, wholesaling and retailing industries.

- (4) Other social and economic benefits (results are cumulative to the end of FY2000)
  - 1) Assistance to strengthen management infrastructure  
Financial assistance for measures to improve management by organizing small enterprises and cooperation in joint business ventures, exchanges between diversified industries, development of projects and structural improvement through “Cooperative 21” (comprehensive assistance to associations), etc.  
In addition, the Bank contributes to the sound management of small enterprises by providing a stable supply of funds or by providing accurate information for small enterprises through programs such as “Refresh 21 (comprehensive assistance for business revitalization) and “Overseas 21 (comprehensive assistance for overseas investment)”.
  - Cooperative 21 results: ¥1.12 trillion
  - Refresh 21 results: ¥390.9 billion
  - Overseas 21 results: ¥52.0 billion
  - 2) Safety net  
Assistance for clients whose business results or fund raising have deteriorated temporally due to a change in the economic environment or the bankruptcy of a financial institution through effective utilization of “emergency loans to stabilize management”
  - Results of special counseling counters for small enterprises: 20,195 cases, ¥1.17 trillion
  - Results of emergency loans to stabilize management: ¥770.2 billion
  - 3) Management reform and assistance for inauguration  
Comprehensive assistance for small enterprises or venture businesses with the vitality to enter into new fields and to carry out management reform through diversified training through “Innovation 21 (comprehensive assistance for new businesses)”
  - Innovation 21 results: ¥95.3 billion
  - 4) Revitalization of local economies  
Assistance toward growth and development of local companies through a cooperative relationship with local banks by promoting institutional loans from local governments, and proposals on inauguration or policy-making suggestions
  - Outstanding institutional loans of local governments (as of the end of FY2000): ¥215.2 billion
  - Outstanding balance of institutional loans of industrial organizations (as of the end of FY2000): ¥191 billion

## 4. Estimated policy (subsidy) cost analysis of the project

### Outline of estimate

- 1) An estimate is made for long-term loan businesses.
- 2) An estimate is made for the outstanding balance of past loans (¥6.8598 trillion at the end of FY 2001) and the loans under the FY 2002 plan (¥1.85 trillion).
- 3) An analysis is made for the 21-year period during which repayment of outstanding loans and the loans under the FY 2001 plan will be completed.
- 4) The policy cost for the analysis period (opportunity cost of capital investment from the national treasury and the amount of payment to national treasury, such as corporate taxes) is proportionally distributed as long-term and short-term loans.
- 5) Based on the FY 2000 accounting (that meets the business accounting principles) and above assumptions, income and expenditure in each FY from 2002 and after is estimated.

### Policy (subsidy) cost

( Unit : billion yen )

Category	FY2001	FY2002	Increase/Decrease
1. Subsidies from the national treasury	0	0	
2. Opportunity cost of capital investment from the national treasury	127.9	119.4	- 8.5
Subtotal (1+2)	127.9	119.4	- 8.5
3. Money transfer to the national treasury	- 74.7	- 91.6	-16.9
Total (1+2+3=policy cost)	53.2	27.8	- 25.4
Analysis period ( years )	21	21	

The FY2002 policy cost was ¥27.8 billion, which was -25.4 billion compared with the FY2001 cost. The major factor is the accuracy of the analysis which improved due to better collection conditions for loans or a more realistic method of calculating expenses.

### The case if assumption is changed

( Unit : billion yen )

Changed assumption and extent of change	Increase / decrease in policy cost
Interest rate level +1%	-16.5

Incidentally, an interest rate risk is rationalized by effectively utilizing swap transactions and by implementing ALM to control on-balance and off-balance for the overall assets and liabilities in an integrated manner.

### (Reference)

Budgeted amount of subsidies and capital investment in FY 2002

Subsidies:	¥0.004 billion
Capital investment:	—

## 5. Projections in the analysis

- 1) The long-term loan of ¥1.85 trillion (FY 2002) is to be recollected in 20 years.
- 2) Advanced redemption in FY2002 is estimated to be ¥180 billion based on the results of FY2000 (¥173.1 billion). During and after FY2003, it is assumed that advanced redemption will be based on the average advanced redemption ratio between FY2000 and FY2002 (2.6%).
- 3) Due to the consideration of future problem loans determined by the amount of credit risk of each borrower and by the amount of decrease in the mortgage value associated with decline in land prices, the estimated loan loss in FY2002 will be ¥74.2 billion in total. The appropriated amount for loan loss during and after FY2003 is based on the average loan loss ratio (0.45%) from FY1999 to FY2001. The past reserve ratio (0.7%) is to be appropriated as a reserve for general bad debt loss (adjusted according to a gradual decrease in the loans outstanding).

	Result				Estimated	Planned	Trial assumption		
FY	1997	1998	1999	2000	2001	2002	2003	2004	2005~
Advanced redemption rate	3.67%	2.32%	2.21%	2.55%	2.66%	2.62%	2.60%	2.60%	2.60%
Bad debt loss rate	0.23%	0.54%	0.39%	0.50%	0.51%	0.68%	0.45%	0.45%	0.45%

- 4) The outstanding balance of risk management credit obligations as of the end of FY2000 is ¥853.7 billion.
- 5) Since the Bank already conforms to financial accounting standards for business enterprises in the private sector, the reserve for bad debt loss has already been disposed of through common criteria in the private sector.

## 6. Reasons for granting of subsidies, mechanism and underlying laws

- 1) Capital investments from the national treasury

(Reason)

To strengthen the management infrastructure necessary to display the Bank's policy by implementing the projects mentioned in 1 and to promote low interest rates for special loans.

Note that the cabinet decision in 1997 specifies that "additional investments from the national treasury shall not be made, except under special circumstances including natural disasters, etc."

(Rule)

Based on the above, investments are made from the general account and special account for industrial investment. The amount outstanding at the end of FY 2000 was ¥394.0671 billion.

(Underlying laws and regulations)

The Shoko Chukin Bank Law Article 6, Clause 3

The government shall finance the Shoko Chukin Bank within the limits of the budget, for the purpose of increasing the capital in accordance with the provisions of the preceding clause.

- 2) Grant-in-aid for interest

(Reason)

Investments are made to compensate deficits resulting from disaster area restoration loans (funding conditions are established in regulations, and the interest rate is generally lower than that of general loans).

(Rule)

Grant-in-aid for interest is extended in accordance to the past funding achievements (government: 65%, prefectural: 35%).

(investments accepted in FY 2000: ¥0.8 million (grant-in-aid for interest resulting from the Kobe earthquake disaster restoration loans))

(Underlying laws and regulations)

Law concerning Special Fiscal Aid for Coping with Disasters, Article 15

...the government shall, where it is necessary and within the realm of the government decree, enter into an agreement with the Shoko Chukin Bank on the loan in question to subsidize the grant-in-aid for interest for the limited 3 years after the loan is made.

Law for Extraordinary Expenditure and Assistance to cope with Hanshin-Awaji Earthquake, Article 69

...the government shall, where it is necessary and within the realm of the government decree, enter into an agreement with the Shoko Chukin Bank on the loan in question to subsidize the grant-in-aid for interest for the limited 5 years after the loan is made.

In addition, the Bank does not receive subsidies to supplement expenses, etc.

- 3) The law for the payment to the national treasury

(Rule)

The amount equivalent to 22% of the income in each FY is paid to the national treasury as income taxes.

## 7. Special remarks

- 1) This report shows the policy costs required in providing business loans to small enterprises that work towards management innovation to catch up with the structural change of the Japanese economy, those that start new businesses, or those that find difficulty in receiving loans from private financial institutions.
- 2) The majority of the policy cost in this term was occupied by the opportunity cost (¥119.4 billion) relating to government investment and reserves financed at the beginning of this analysis. This is because the Bank, as hitherto, does not receive subsidies for the purpose of covering expenses and assumes that the new lending will not be made during the period of analysis.

On the other hand, a certain amount of revenue is estimated during the analysis, and this will be paid to the national treasury every term as corporate taxes. In line, as for profits after tax, it will be processed as unappropriated profits and reserved to be later returned to the national treasury together with the government loans financed at the beginning of the term. For the aforementioned reasons, a minus policy cost (¥-91.6 billion) was generated during this analysis.

Based on the above, the total policy cost was ¥27.8 billion.

- 3) In accordance with the Reorganization and Rationalization Plan for Special Public Corporations, since an examination of measures taken for organizational form is to begin in early FY2002 at the Council on Economic and Fiscal Policy (CEFP), based on these results, the Cabinet will obtain a conclusion as early as possible while ascertaining the economic conditions. Therefore, the analysis was implemented assuming existing institutional form.

**(Reference) Financial Statements****Balance Sheet**

(Unit : million yen)

Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)	Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)
<b>(Assets)</b>				<b>(Liabilities and capital)</b>			
Loans and discounts	10,886,595	10,986,595	11,086,595	Bonds	10,170,673	10,233,573	10,308,573
Negotiable securities	2,318,389	2,318,389	2,318,389	Of those, FILP	311,100	273,900	228,900
Call loans, cash and deposits	810,698	887,781	946,523	Deposit	2,389,178	2,409,178	2,429,178
Other assets	253,551	253,551	253,551	Borrowed fund	88,683	88,683	88,683
Premises and equipment	57,257	55,257	53,257	Other liabilities	662,405	662,405	662,405
Deferred tax assets	81,757	85,486	87,861	Reserves	24,160	24,160	24,160
Customers' liability for acceptances	69,283	69,283	69,283	Acceptances and guarantees	69,283	69,283	69,283
Reserve for loan losses	- 464,626	- 558,426	- 629,426	(Total liabilities)	(13,404,381)	(13,487,281)	(13,582,281)
				Capital	493,965	506,065	509,065
				Capital investment from the national treasury	394,067	403,167	403,167
				Investment in capital of partnership	99,898	102,898	105,898
				Legal reserves	24,410	24,410	24,410
				Surplus cash	90,147	80,160	70,277
				Voluntary surplus reserve	102,954	87,234	77,156
				Unappropriated retained earnings	- 12,807	- 7,074	- 6,879
				Net profit	- 12,807	- 7,074	- 6,879
				(Total capital)	(608,523)	(610,635)	(603,752)
<b>Total assets</b>	14,012,904	14,097,916	14,186,034	<b>Total liabilities and capital</b>	14,012,904	14,097,916	14,186,034

**Income Statement**

(Unit : million yen)

Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)	Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)
<b>(Losses)</b>				<b>(Profits)</b>			
Ordinary expenses	324,850	280,318	233,040	Ordinary profits	305,630	267,836	221,940
Bond interest	97,069	69,444	55,060	Interest on loans and call loans	222,417	194,788	185,360
Amortization of discounts on bond	7,447	5,756	4,400	Dividend and interest on securities	39,131	30,061	21,530
Interest on deposits	13,007	11,620	6,170	Other incomes	44,083	42,987	15,050
Amortization of bond issuance expenses	719	700	700	Extraordinary profits	3,659	3,500	3,500
Operating costs	82,366	83,600	87,600				
Provision for loan losses	89,821	93,800	71,000				
Write-off of loans	1,651	2,000	2,000				
Other expenses	32,770	13,398	6,110				
Extraordinary losses	456	500	500				
Provision for income taxes	389	1,321	1,154				
Adjustment of income taxes	- 3,599	- 3,729	- 2,375				
Net profit	- 12,807	- 7,074	- 6,879				
<b>Total</b>	309,289	271,336	225,440	<b>Total</b>	309,289	271,336	225,440

(Note) Totals may not correspond due to rounding off.