

ANNUAL REPORT

2004

Year Ended March 31, 2004

THE SHOKO CHUKIN BANK

The Bank in Outline

The Shoko Chukin Bank—the Central Cooperative Bank for Commerce and Industry—was founded in 1936 as a government-affiliated financial institution. The Bank’s primary mission, as stipulated in the Shoko Chukin Bank Law, is to provide a stable source of long- and short-term financing to small and medium-sized enterprises (SMEs). The Bank provides its clients with a full range of financial services through its extensive domestic network of 99 offices. It also has a strong overseas presence, with a branch in New York and representative offices in Hong Kong. About eighty percent of the Bank’s capital is held by the Japanese government, and the remainder is owned by cooperatives of SMEs. With total assets of around ¥12.0 trillion (US\$113 billion), the Bank is one of the world’s largest financial institutions devoted exclusively to serving SMEs. The Shoko Chukin Bank is one of a select group of financial institutions privileged to issue debentures in Japan. As such, it is able to provide a stable source of funds to SMEs, which play an important role in the Japanese economy.

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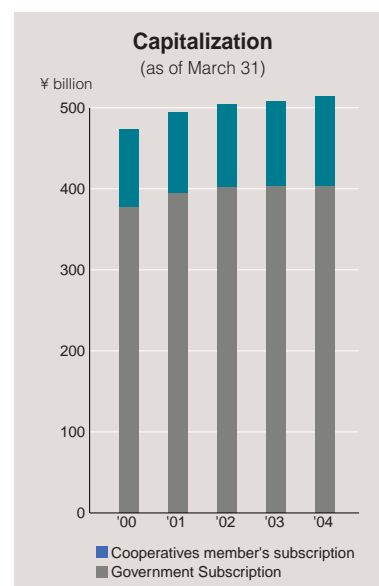
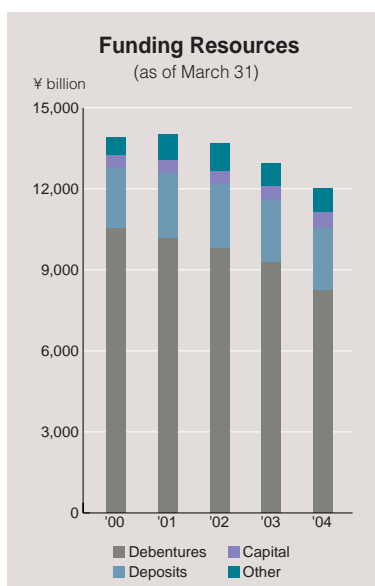
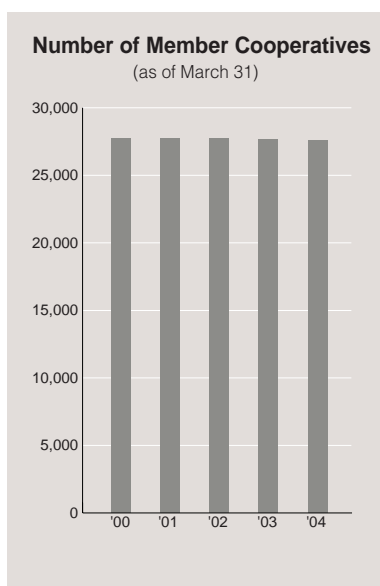
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Financial Highlights

For the years ended March 31	Millions of yen					Millions of US dollars
	2004	2003	2002	2001	2000	2004
Interest Income	¥ 185,114	¥ 203,385	¥ 232,733	¥ 269,821	¥ 354,738	\$ 1,751
Interest Expense	40,921	62,992	93,909	137,667	202,020	387

As of March 31	2004	2003	2002	2001	2000	2004
Loans and Bills Discounted	¥ 9,824,470	¥10,090,366	¥10,539,282	¥10,886,595	¥11,169,303	\$ 92,955
Deposits and Debentures	10,652,784	11,631,401	12,264,705	12,600,396	12,778,070	100,792
Total Assets	12,001,811	12,929,124	13,665,549	14,012,903	13,910,238	113,556
Capital	514,265	511,265	506,065	493,965	474,865	4,865
Government Subscription	405,367	405,367	403,167	394,067	377,967	3,835
Total Capital Funds	635,555	636,291	629,816	608,522	605,053	6,013

Notes: 1. All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥105.69=US\$1, the prevailing rate of exchange as of March 31, 2004.
 2. All amounts expressed have been rounded down to the nearest million yen.
 3. Deposits and Debentures include negotiable certificates of deposit.



On behalf of the Shoko Chukin Bank, I would like to take this opportunity to thank you sincerely for your continued support.

The Shoko Chukin Bank was established in 1936, and is the only Japanese government-affiliated integrated financial institution dedicated to small and medium-sized enterprises (SMEs). Since its establishment, the Bank has striven to facilitate financing for SMEs through our original network comprised of the Bank and its cooperatives. The role of the Bank has expanded along with the changing times, and it has grown into a financial institution capable of providing comprehensive financial services to meet the needs of SMEs. We earnestly express our appreciation for the patronage and support of the cooperatives and their members.

Working Together with SMEs

Japan has adopted various policies designed to revitalize both industry and the financial sector in order to conquer deflation and energize the economy. Against this background, there are high hopes that small and medium-sized enterprises (SMEs) will play a vital role as a driving force for

renewed development of our national and regional economies.

We at the Shoko Chukin Bank are working in line with government policies to satisfy the needs of SMEs by making full use of the know-how in SME financing that we have accumulated over many years of transactions with SMEs. In addition to acting as a safety net, we provide support for start-up, innovation and revitalization according to the stage of growth of the SME in question, and facilitate direct financing for SMEs in support of financing diversification.

The Bank's Mission

Our business operations are founded on the principle of working face-to-face with the managers of individual SMEs to provide them with the support they need to resolve the issues confronting their companies.

We will continue to pay serious attention to the diverse needs of SMEs and make the most of our comprehensive financial capabilities in providing them with both funds and wide-ranging financial services. In so doing, we will strive to fulfill our mission, which is to contribute to the revitalization of

Japan's regional and national economies by supporting their efforts to increase their corporate value and maintain their growth.

Delivering Policy-driven Financial Services

In fiscal 2004, we introduced a policy assessment scheme to enable us to achieve a higher level of policy orientation.

Our basic policy assessment plan comprises eight strategic targets for fulfilling our mission, together with action guidelines for achieving these targets. We have incorporated this three-year plan and annual plans based on it into our management cycle with a view to effectively and efficiently tackling our policy role. We will also take steps to widely disclose the processes involved.

In addition to covering the Bank's results and business operations, this annual report discusses our policy role and its results, and introduces case studies and accomplishments. We hope it gives you a better idea of our efforts to deal with the challenges

we face.

The management and employees of the Shoko Chukin Bank are determined to earn the continuing trust and support of our customers by providing services that draw on our strength as a membership-based government-affiliated financial institution dedicated to SMEs. We look forward to your ongoing support and encouragement in these endeavors.

Tadashi Ezaki

July 2004

Tadashi Ezaki

President
The Shoko Chukin Bank



Management Policy

Shoko Chukin Bank's Basic Plan (Fiscal 2004 to Fiscal 2006)

Mission

The Shoko Chukin Bank is the only Japanese government-affiliated financial institution owned jointly by the government and SMEs. It provides stable, all-round financial services while listening careful to the views of SMEs in the way it manages its business. In so doing, it contributes to the revitalization of the regional and national economies by enhancing the corporate value of SMEs and helping them sustain consistent growth.

Strategic Objectives	Performance Goals	Solutions <Policy Packages>
A "One-stop Platform" that Helps SMEs Maintain Consistent Growth	① Contribute to the Establishment of Stable Business Foundations	S: Sustainable Growth
	② Support the "Start-up" Challenge	S: Start-ups
	③ Support the "Innovation" Challenge	S: Innovation
	④ Support the "Revitalization" Challenge	S: Revival
	⑤ Provide a Safety Net	S: Safety Net
Offering Services that Utilize its Strengths	⑥ Promote Tie-ups and Networking with SMEs (Cooperative Organization)	S: Networks
	⑦ Work together with Regions and Industry to Support SMEs (Nationwide Operations)	S: Business Links
	⑧ Open up Financial Frontiers (Comprehensive Financial Capabilities)	S: Financial Frontier

(The "S" used as a prefix for each package means "Solutions for.")(“Solutions <Policy Packages>” is a provisional designation.)

Action guidelines for achieving strategic objectives

Healthy and effective business operations

- Optimize functions, human resources and organizations in order to achieve objectives.
- Use discernment and consulting to enhance the precision of examinations, raise the level of risk management, and build healthy management structures.
- Strengthen financial profiles by improving the efficiency of business operations and adopting pricing schedules that are commensurate with risk.
- Enhance management transparency through strict compliance and accountability.

Shoko Chukin Bank's Annual Plan (Fiscal 2004)

Business Operations Policy

(1) Policy Packages Offered to Achieve Eight Strategic Objectives

The Bank will endeavor to fulfill its role in enhancing the corporate value of SMEs.

- In addition to identifying the diverse needs of SMEs on the broadest possible basis, we will make the most of our comprehensive financial capabilities in quickly and appropriately implementing policy packages ("Solutions") in line with the eight strategic objectives of the basic plan.
- Bearing in mind the environment facing SMEs and the deliberations of the Council on Economic and Fiscal Policy (CEFP), we will do everything possible to continue serving as a safety net for facilitating SME financing. We will also work toward corporate regeneration and the development of new finance techniques as part of the "Financial Frontier" concept in light of the various efforts undertaken by the government to revitalize both industry and the financial sector.

(2) Strengthening Business Foundations to Enhance Operational Performance

We will endeavor to strengthen our management structure as follows under our action guidelines for achieving "healthy and effective business operations."

- Optimize functions, human resources and organizations to strengthen our readiness to respond to SME needs.
- Strive to build a healthy management structure by enhancing our acumen and reinforcing our approach to support management improvement.
- Work to set appropriate pricing and promote operational efficiency in order to strengthen financial profiles.
- Make every effort to enhance management transparency through strict compliance and accountability.

Operating Plan

Based on the above business operation policy, we will operate our business in accordance with the following operating plan.

(¥100 million)

	Fiscal 2003 Plan	Fiscal 2003 Actual	Fiscal 2004 Plan
Long-term loans	18,500	20,359	18,500
Short-term loans	97,500	103,188	97,500
Fiscal investment and loans	100	100	100

If customers' funding demands exceed our lending plan, we provide loans in excess of the plan. With regard to funding for loans, the Bank itself plans to procure all funds in excess of the fiscal investment and loan amount.

* Excerpted from the "Shoko Chukin Bank's Annual Plan for Fiscal 2004."

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

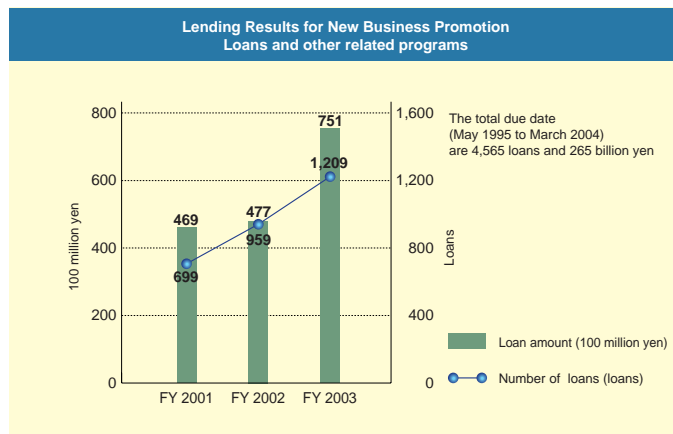
* Established November 2002

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

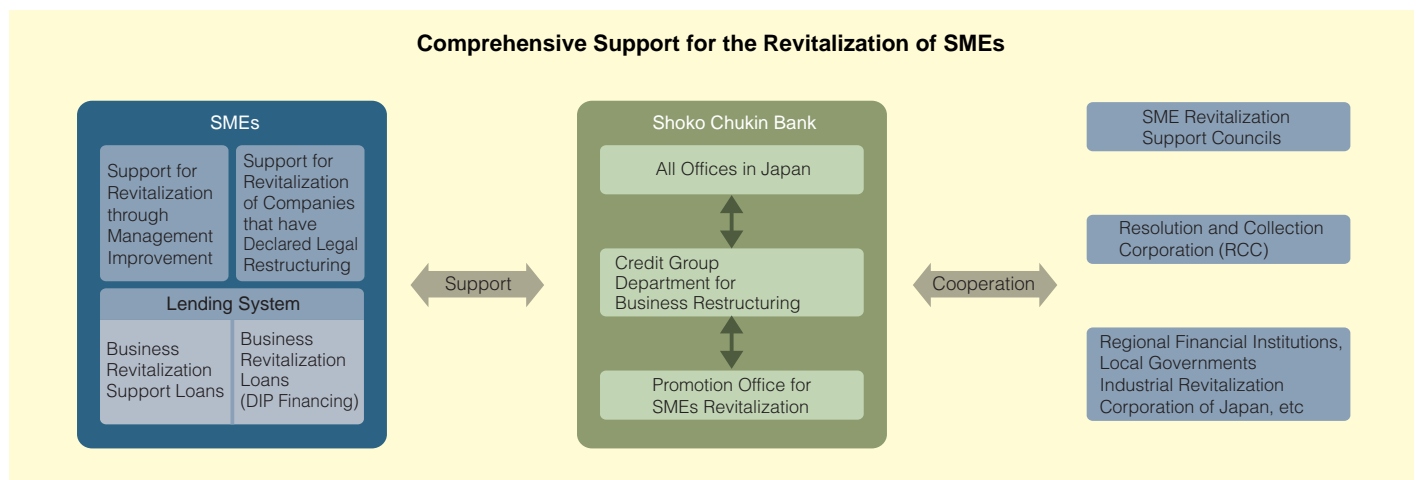
We support SMEs whose operations are currently suffering but have the possibility of a better future through improved management, and support early revitalization of SMEs who are facing obstacles to continued smooth business operations due to excessive debt, but which have the possibility for continued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

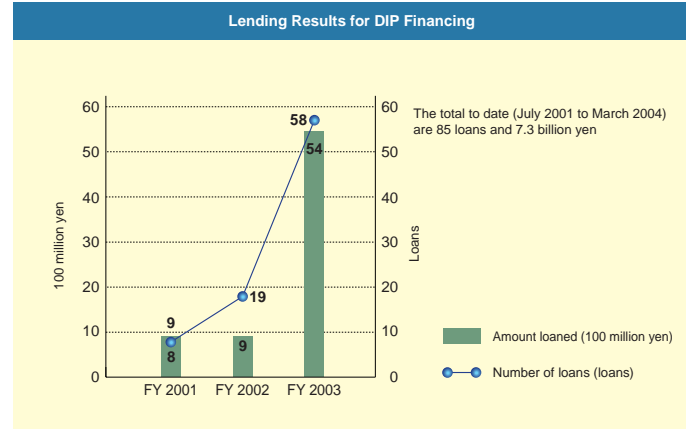
This program provides support depending on the stage of revitalization such as short term working capital from the time that it is decided to begin legal restructuring until it is approved, and long term and short term working capital and capital funds from the time legal restructuring is approved until 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)

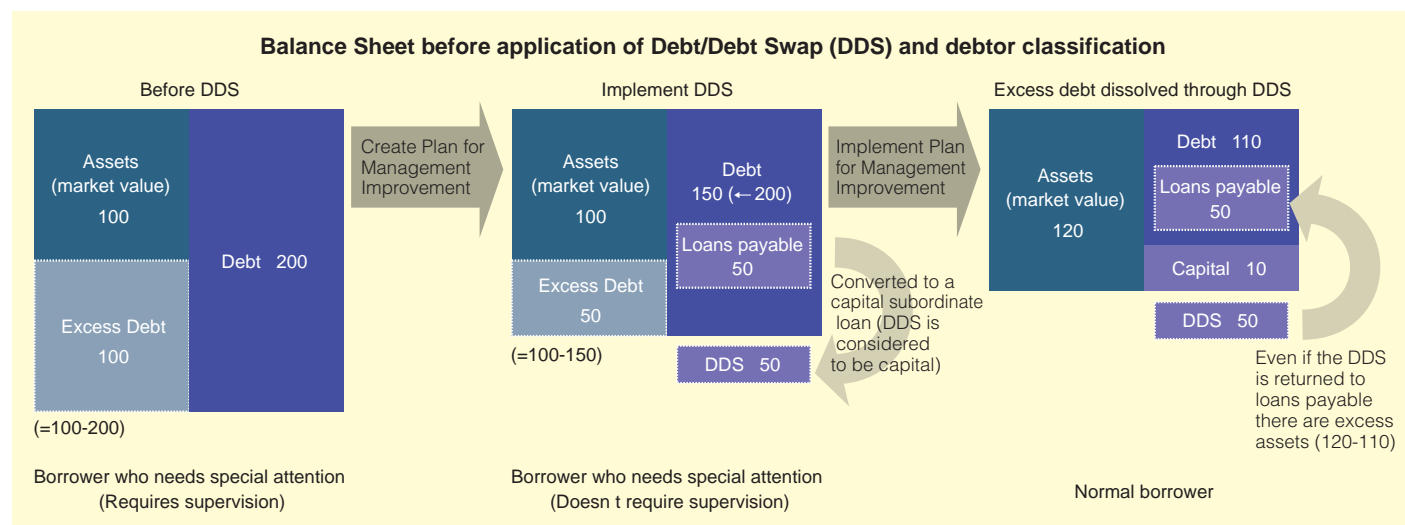
3. Utilization of Pioneering Revitalization Methods

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)

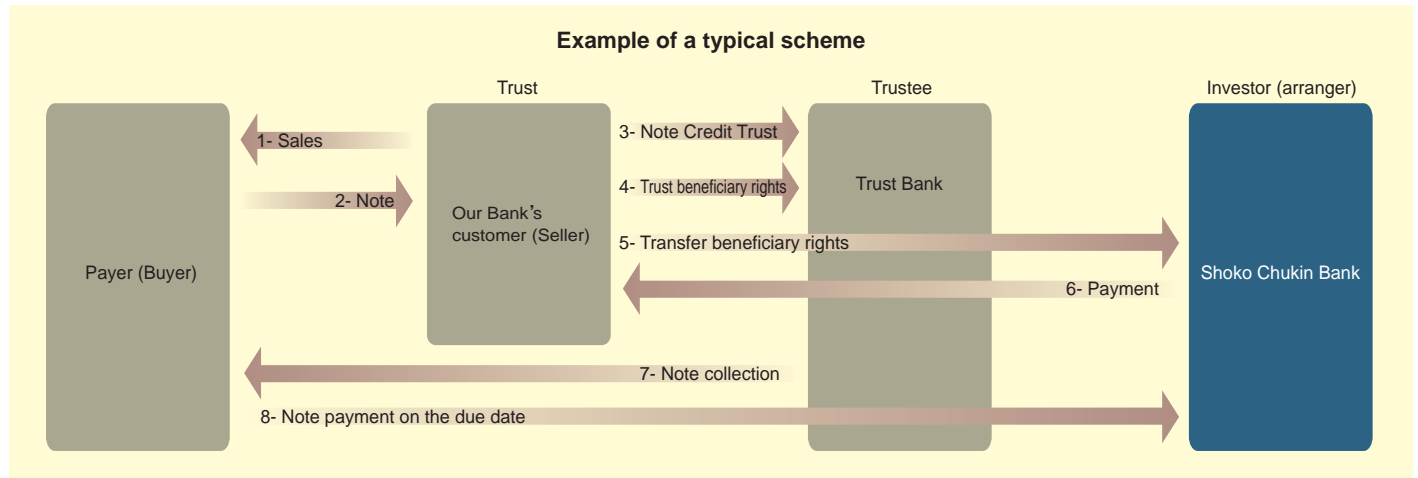
	FY2002		FY2003		Accumulated results from the establishment of the system	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
Collateral Financing through Factoring Receivables (1)	1,740 Loans	137	2,166 Loans	217	4,024 Loans	362
Liquefying Receivables (Trust method, Factoring method) (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

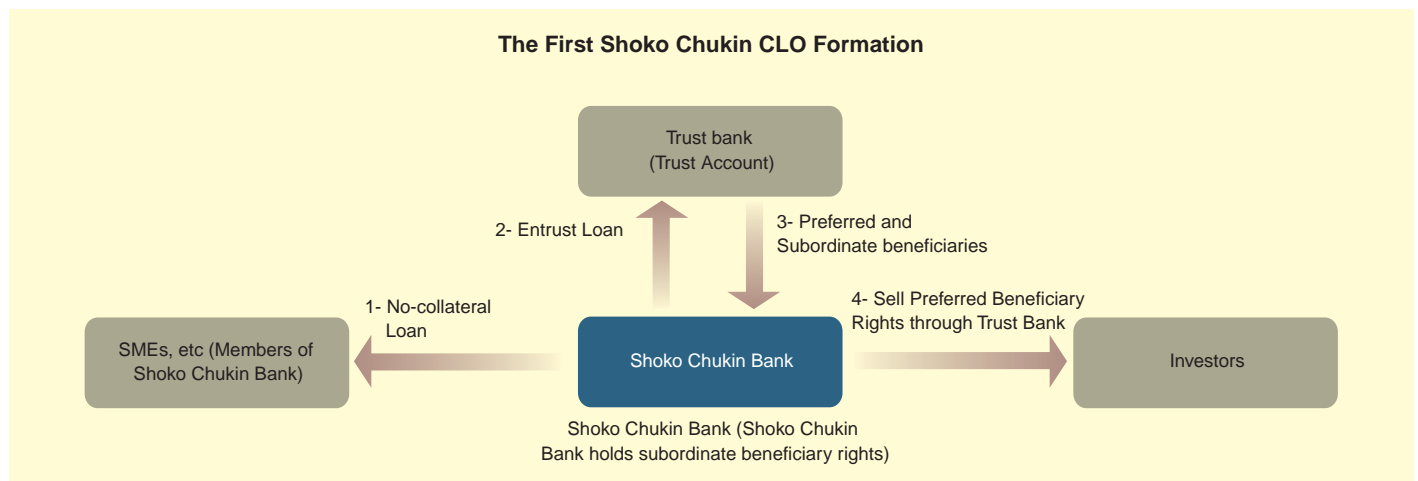
Under the national policy established in 2001, System for Collateral Financing through Factoring Receivables, our Bank handles more than any other financial institution, and we are working to disseminate the system.

(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).



Mechanisms to Ensure Fair Business Operations

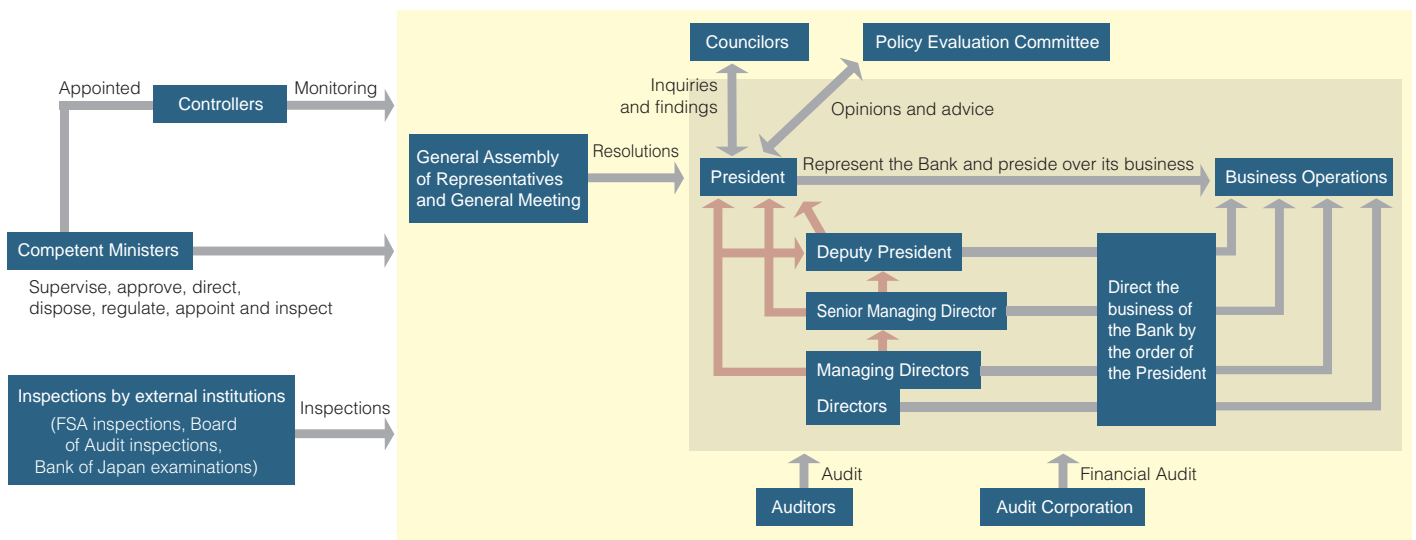
Governance

The Bank follows the management mechanisms prescribed by the Shoko Chukin Bank Law and other rules and regulations, and works constantly to improve its systems so that its business operations are fairly executed.

Basic decisions pertaining to the Bank's management are made by the General Assembly of Representatives, which is made up of representatives who are selected from the ranks of the small businesses from all over Japan – the Bank's investors – and manage the Bank autonomously. Executive decisions regarding Bank operations are made by the President, who is appointed by the competent ministers and is subject to their general supervision. The President represents the bank.

Auditors appointed by the competent ministers also audit the Bank's business operations. The Bank's operations are also subject to a legally established system whereby Councilors monitor its operations in response to inquiries from the Comptroller or President.

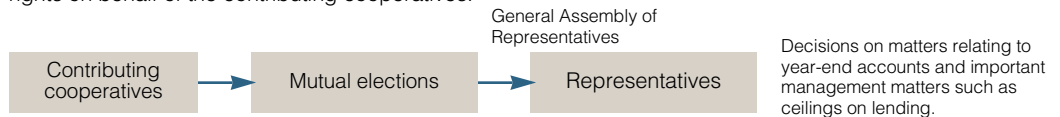
Starting fiscal 2004, financial audits by audit corporations have been introduced because of the heightened importance attached to appropriate disclosures of financial statements. A Policy Evaluation Committee has also been established to voice opinions and give advice on policy evaluation from an objective viewpoint.



Notes: 1. Competent Ministers: Minister of Economy, Trade and Industry and Minister of Finance
2. ← : Support

General Assembly of Representatives

At present there are around 50,000 SME cooperatives in Japan and a majority of over 27,000 of these organizations have subscribed capital to the Bank. As the highest decision-making body of the Bank, the General Assembly of Representatives makes important management decisions. The Assembly is made up of representatives who are chosen from among members of these cooperatives through mutual elections held in each prefecture and serve four-year terms. Currently, there are 135 representatives, one for each constituency of 250 cooperatives. At the Assembly, the representatives voice opinions and exercise voting rights on behalf of the contributing cooperatives.



The General Assembly of Representatives is an open system for reflecting the collective views of the contributing cooperatives in an appropriate manner.

Councilors

Councilors respond to inquiries from the President concerning important managerial matters. Councilors are appointed by the President with the approval of the competent ministers, but a majority are appointed from among people associated with qualified subscribing entities. The term of office is three years.

Comptrollers

The Comptrollers are in charge of exercising the supervisory rights of the competent ministers over the Bank, and monitoring its operations. While the Bank has its own internal checking systems for risk management and compliance, the Comptrollers also monitor the performance of these tasks on a continuous basis.

Introduction of Policy Appraisals

From fiscal 2004, the Bank introduced policy appraisals with a view to fulfilling its expected role as a government-affiliated financial institution more efficiently and more effectively, and deepening the people's understanding of its activities.

The Bank's policy appraisal mechanisms are as follows.

① Management-by-Objectives Approach to Fulfilling Mission

In order to clarify our aspirations and make them the foundations of our business operations, we redefined the objectives stipulated in Article 1 of the Shoko Chukin Bank Law into the Bank's mission in a form that is more concrete and easier to understand.

As a medium-term target for fulfilling our mission, we set forth a Basic Plan (three-year cycle) comprising an Annual Plan formulated each fiscal year (one-year cycle) which serves as a more specific plan for achieving our objectives and incorporates yardsticks for measuring results (Figure 1).

② Implementing a Management Cycle Based on Management-by-Objectives

As Figure 2 shows, we shall use the "PDCA (Plan, Do, Check, Action) Cycle" as a tool for better fulfilling our policy role.

③ Using Disclosure to Realize Accountability

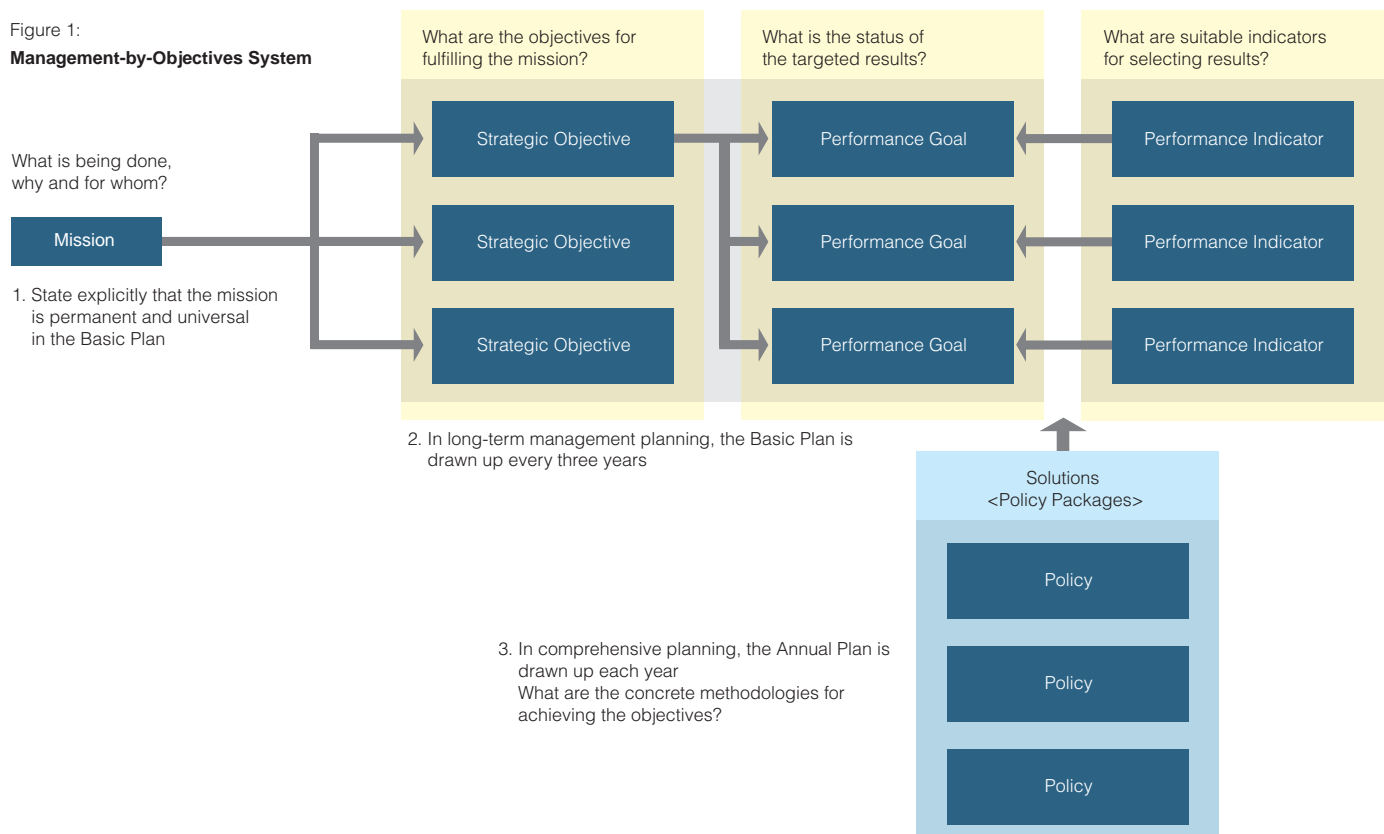
We will use our website and pamphlets to disclose our Basic and Annual Plans at the planning stage and our Basic and Annual Plan Evaluation Reports at the evaluation stage. Our Fiscal 2004-2006 Basic Plan and our Fiscal 2004 Annual Plan can be found (in Japanese) on our website at <http://www.shokochukin.go.jp/>.

Although the Bank is primarily responsible for formulating and evaluating plans, we have also set up a Policy Evaluation Committee consisting of influential individuals from outside the Bank to ensure objectivity and provide advice (Figure 2).

Policy evaluations represent the Bank's efforts to comply with the intent of the Reorganization and Rationalization Plan for Special Public Institutions (Cabinet Decision of December 19, 2001) to "study policy finance evaluation methodologies and mechanisms for reflecting their results in operations."

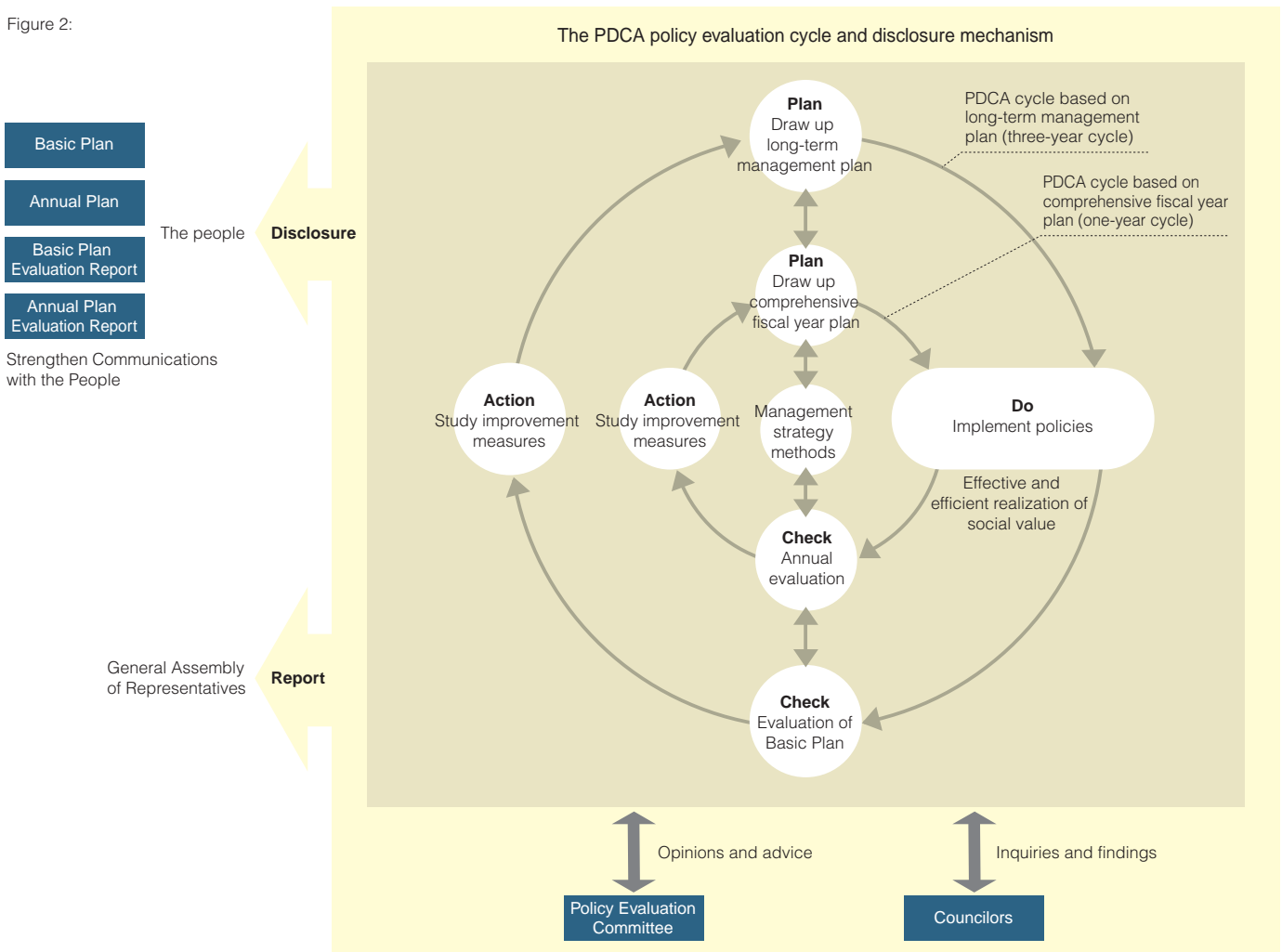
Figure 1:

Management-by-Objectives System



Introduction of Policy Appraisals

Figure 2:



The Policy Evaluation Committee

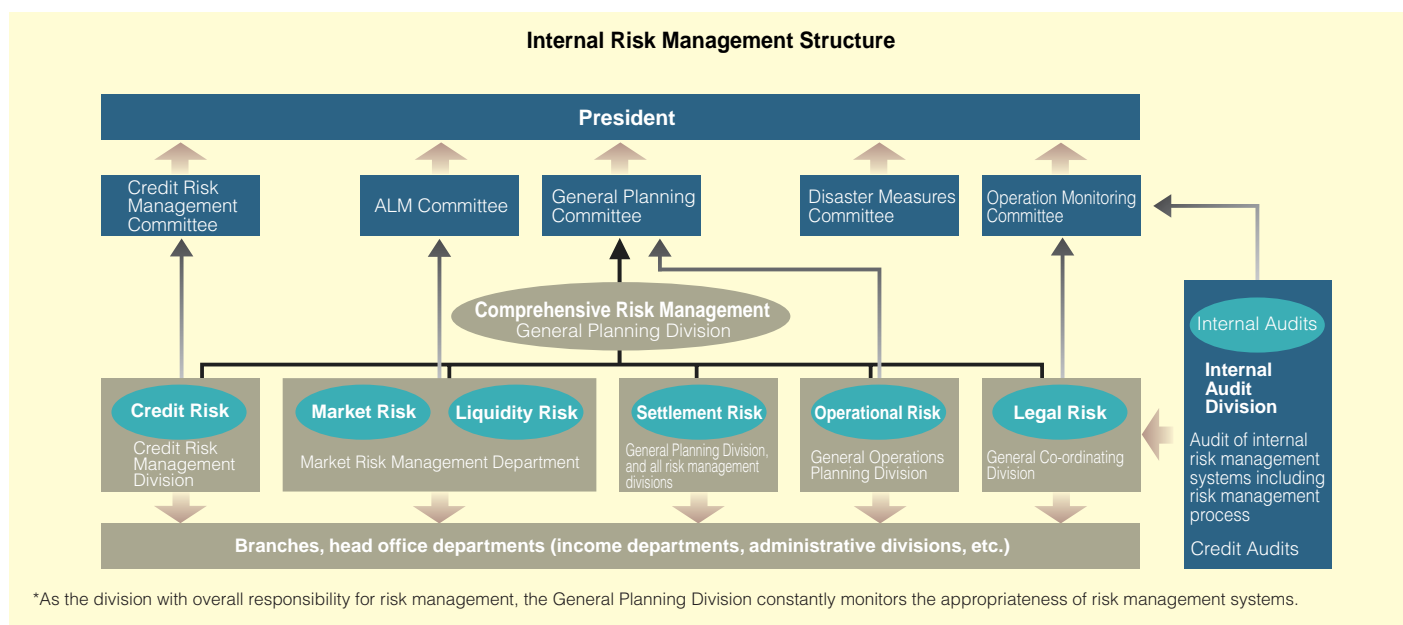
Consisting of influential individuals from outside the Bank, the Policy Evaluation Committee discusses policy evaluation mechanisms and methodologies, the contents of Basic and Annual Plans and the Basic and Annual Plan Evaluation Reports, and advises the President.

System to Ensure Proper Operations

Risk Management

Financial institutions are exposed to diverse and complex risk factors such as credit risk, market risk, liquidity risk and operational risk. This reflects the liberalization and internationalization of the financial sector, and advances in financial technology. It is critical for financial institutions to manage these risks appropriately in order to maintain their financial soundness while responding to the increasingly diverse and sophisticated needs of their customers.

In response to this environment, the Bank has strengthened its risk management systems by identifying departmental responsibility for the management of specific types of risk. Overall risk management is the responsibility of the General Planning Division, which constantly monitors the other departments to ensure that risk management procedures are being implemented properly, and works to improve and strengthen comprehensive risk management functions, including comprehension and management of overall risk.



Definitions of Risk

Credit Risk

The risk of loss due to the reduction or elimination of asset value due to such factors as deterioration in the financial position of the borrower.

Market Risk

The risk of loss resulting from fluctuations in asset values due to shifts in interest rates, exchange rates, or the prices of securities.

Liquidity Risk

The risk that cash flows will become insufficient due to the inability to secure the required funds (cash flow risk), and the risk that market transactions will become impossible due to market disruptions (market liquidity risk).

Settlement Risk

The risk of loss resulting from failure to settle by the due date

(categorized into credit risk, liquidity risk, operational risk and legal risk, according to the cause and characteristics of the problem).

Operational Risk

Operational risks are the risk of loss by financial institutions resulting from a failure, accident or fraud of management or staff (administrative risk), the risk of loss by financial institutions due to computer system failures, errors, and inadequacies (system risk), and the risk of loss due to serious threats such as leaks, fraudulent use, erroneous operations, and deliberate acts to the validity and reliability of essential information assets (information security risk).

Legal Risk

The risk of loss resulting from legal uncertainty about transactions or failure to comply with laws and regulations.

Credit Risk Management

Based on expertise gained through many years of experience in working with SMEs, the Bank's credit risk management system is designed to maintain and improve the soundness of its loan assets by setting appropriate lending criteria and ensuring that screening systems are properly applied.

Credit Risk Management System

The Credit Data Monitoring Division is responsible for coordinating overall risk management throughout the Bank and works to enhance the credit risk management system by monitoring credit portfolios and quantifying risk. At senior management level, the Credit Risk Management Committee analyzes credit portfolios from various perspectives, including credit rating, business sector and geographical region, as it aims to distribute risk as a means of maintaining and improving asset soundness.

Credit screening is the responsibility of the Credit Group, which consists of Credit Divisions I, II and III and is complete independent of the Branch Banking Division. The Credit Group works to maintain and enhance the soundness of the Bank's loan assets through appropriate screening and management. In fiscal 2003, the Bank set up the Department for Business Restructuring to provide customers with better support for management improvement and revitalization.

Screening

Individual loan applications are screened under various criteria, such as the viability of business and financial plans, repayment prospects, and coverage by collateral, as well as the future potential of the enterprise concerned. Each proposal is considered from a comprehensive range of perspectives, including the business and financial situations of customers, their management quality and their technological skill levels. In screening loans to venture firms and other original, new businesses, the Bank draws on its own expert knowledge of sectoral trends and technology evaluation skills as well as the talents of the New Business Screening Committee, which includes outside specialists and people of experience and academic standing.

Furthermore, the Bank implements asset self-assessments to identify and control credit risk in an appropriate manner, and has introduced a 12-tier credit rating system based on self-assessment criteria. Out of the many financial indicators available, this credit rating system uses those that are most appropriate for assessing the creditworthiness of SMEs. The Bank's extensive experience of lending to SMEs is reflected in the system, which is designed to eliminate arbitrary decision-making by basing qualitative assessment on a uniform scoring system. Employee training programs are designed to maintain

and enhance the credit screening skills of all staff at different levels.

Market and Liquidity Risk Management

The Bank has laid down basic policies on market and liquidity risk management which define organizational structures, authority and management methodologies and form the basis of strict operational management and control.

Risk Management Structure

In the area of market operations, the Bank has established a system of checks and balances between the front office departments, which execute transactions, and the back office departments, which handle administrative tasks. It has also established the Market Risk Management Department as a middle office specializing in managing market risk. Once the ALM Committee has deliberated and reached a decision on important matters pertaining to market and liquidity risk, the Market Risk Management Department identifies, quantifies and manages this risk while monitoring market operations on a daily basis to ensure strict compliance with risk limits. It reports to senior management on a regular basis. This risk management scheme complies with the risk management guidelines published by the Japanese financial authorities, and "Accounting and Auditing Treatment of the Application of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24).

Asset/Liability Management (ALM)

To secure stable earnings while managing market and liquidity risk appropriately, the Bank analyzes assets and liabilities from various perspectives and uses swaps and other instruments in integrated ALM of its overall assets and liabilities both on and off the balance sheet. More specifically, the ALM Committee meets each month to set policies for controlling risk exposures while maintaining a balance with profit. It bases these policies on the economic and financial environment, the interest rate outlook, and the overall level of market risk to which the Bank is exposed through transactions on and off the balance sheet.

The Bank employs the following methodologies to measure interest rate risk, an important element of market risk.

(1) Delta Analysis

Delta analysis provides integrated quantification of the interest rate risk "delta" in terms of the changes in the market values of assets and liabilities that arise from interest rate fluctuations. Delta analysis can also be used to identify interest rate risk for each calculation period on the basis of grid point sensitivity.

(2) Simulation Analysis

The Bank identifies medium-term period losses and gains

and trends in the market values of assets and liabilities by combining its operating plans for fund procurement through loans, debentures and other means with interest rate forecasting scenarios.

Market Operations

The Bank engages in market operations, including derivative transactions, with a view to providing customers with a variety of financial services and controlling the risks referred to above in the section on ALM. Market operations are classified into banking operations associated with ALM, and trading operations, and managed accordingly. The Bank uses trading operations primarily to meet customers' market transaction needs.

Operational Risk Management

The General Operations Planning Division is responsible for managing and minimizing operational risk, which is defined as administrative risk, system risk, and information security risk.

The Bank is endeavoring to reduce administrative risk by preparing an office manual that clearly stipulates how each operation should be handled. Head Office also provides operational guidance and in-depth education for management and employees, and is installing various types of office equipment with a view to reducing errors.

System risk is managed through efforts to ensure the stable operation of computer systems by building in system

redundancy, establishing back-up centers, and carrying out breakdown drills.

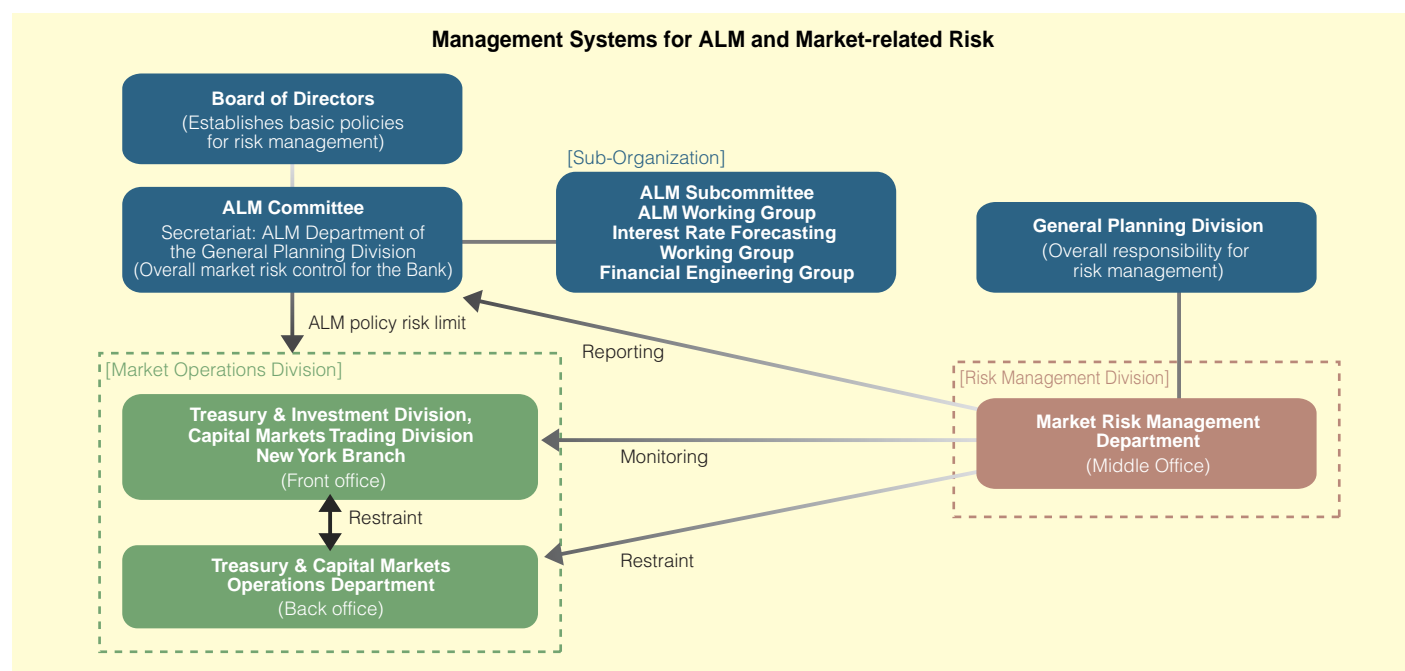
In the area of information security, the Bank has formulated countermeasures against information security risk, specific criteria and administrative procedures, and is endeavoring to devise appropriate responses using classifications and risk evaluations according to the importance of Bank information assets, including both information itself and information systems.

The Bank's contingency plans set clear operational priorities for the safety of customers and employees in the event of disasters or other emergencies.

Improvement of Internal Auditing Systems

The growing complexity and sophistication of financial transactions means that internal control systems play an increasingly important role in avoiding losses. Internal auditing systems also play a vital role in monitoring whether operations are being implemented efficiently and effectively in accordance with the directions set by management. The responsibility for auditing the Bank's internal management systems to ensure that internal controls are functioning effectively falls to the Internal Audit Division, which operates independently of all other head office sections.

Operational audits verify the effectiveness of internal management systems by inspecting the business operations of branches and head office departments, and auditing computer-



related systems. These inspections are designed to further improve operations and prevent problems, and seek to confirm whether operations are in compliance with laws and internal regulations, whether the checks and balances inherent in self-audits at the department and branch levels are functioning as expected, and whether internal rules are adapting to environmental change.

Asset audits look into whether self-assessments, write-offs and reserves are appropriate, and whether credit ratings are accurate.

The Operation Monitoring Committee discusses the results of these internal audits and determines measures to improve business operations and ensure that compliance is rigorously observed.

The Bank is not subject to the statutory audit requirements set down in the Securities and Exchange Law and the Law Concerning Special Exceptions to the Commercial Code Concerning Audit, Etc. of Joint-Stock Corporations (Kabushiki Kaisha). However, it has commissioned ChuoAoyama Audit Corporation to review its self-assessment of loans and other assets and its accounting procedures for financial instruments. The Bank will introduce financial audits from fiscal 2004.

Compliance Systems

Ensuring full compliance is one of the key issues facing the Bank because of its considerable public responsibilities as a government-affiliated financial institution and its obligations to fulfill its duties fairly and earn the confidence of society.

In all its business operations and other activities, therefore, the Bank must comply with all laws, regulations and social norms, use disclosure to fulfill its obligation of accountability, and maintain a high degree of transparency.

Thorough Awareness of the Importance of Compliance

The Bank is working to increase awareness of the importance of compliance among its management and staff. For example, the President regularly emphasizes the Bank's commitment to full compliance at branch manager meetings. The Bank has also prepared and distributed to all employees a compliance handbook as a practical guide to the laws and ordinances that must be observed in the pursuit of business activities, and to dealing with problems that may arise. Further efforts to ensure compliance include group training programs and branch-level training programs.

Compliance Structure

(1) Operation Monitoring Committee

The Bank has established the Operation Monitoring Committee under the chairmanship of the Deputy President to serve as an organ for discussing compliance-related matters. Each organizational unit presents a report on the status of its compliance activities to the Committee, which then considers approaches to improving the compliance system.

(2) Compliance Coordination Division

The General Coordinating Division has been designated as the organizational structure responsible for planning and managing basic aspects of compliance, and is working closely with other divisions to develop a compliance structure for the Bank.

(3) Compliance Managers and Compliance Officers

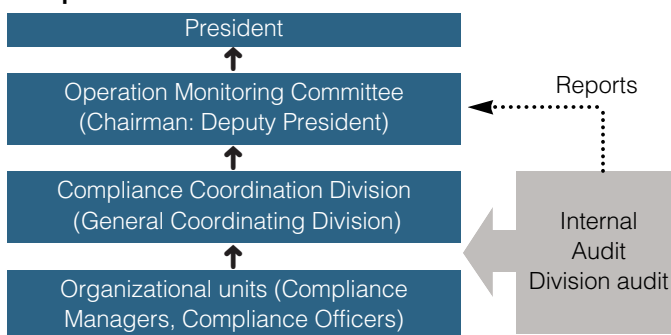
Head office divisional managers and branch managers have been deployed as compliance managers and head office personnel have been deployed as compliance officers to ensure maximum levels of compliance. In addition to checking whether employees contravene laws and regulations as they go about their daily work, they provide guidance and training for employees where necessary. In cases where head office divisional compliance officers draw up or amend internal regulations, they are examined to ensure that their contents comply with laws, ordinances and rules and pose no problems from the viewpoint of social norms. Where necessary, external experts are consulted.

(4) Compliance Inspections

Head office divisions and branches are required to conduct their own self-assessments to ensure thoroughgoing compliance.

The Internal Audit Division, which is independent of other head office divisions, also conducts thorough compliance inspections of head office divisions and branches. Reports on the results of audits are submitted to the Operation Monitoring Committee.

Compliance Structure



Our Mission and Functions

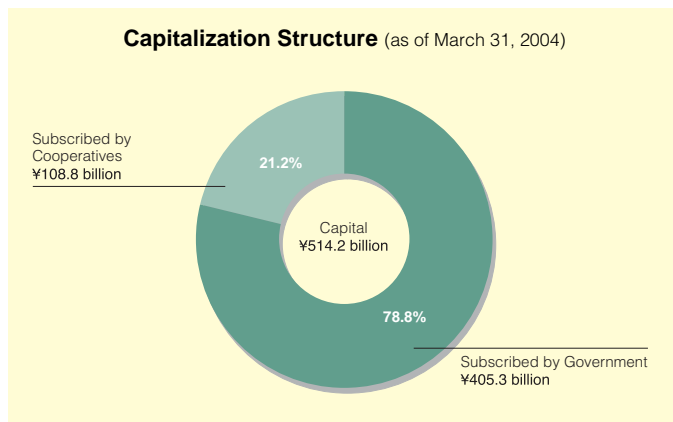
The Shoko Chukin Bank is the only government-affiliated financial institution specializing in support of SMEs.

Profile of the Shoko Chukin Bank

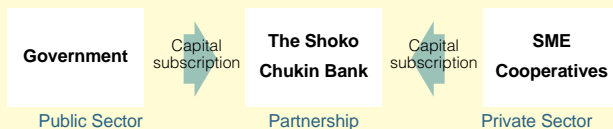
Financial Institution Established under Joint Ownership by SME Cooperatives and the Government

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.

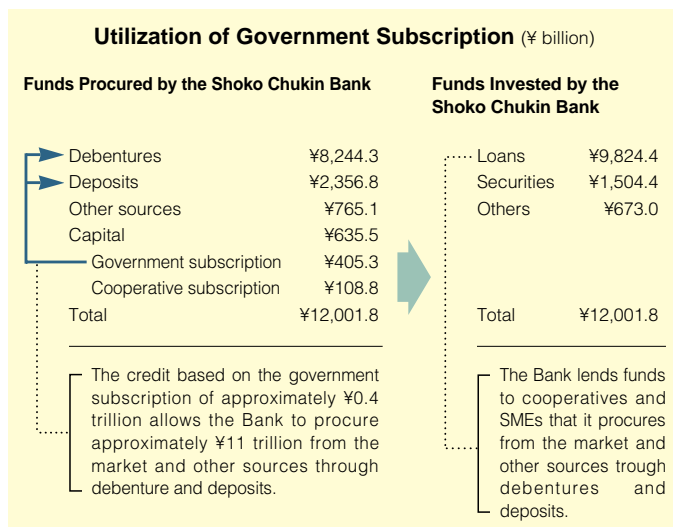
Combining the Policy Approach of the Public Sector with the Efficiency of the Private Sector

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.

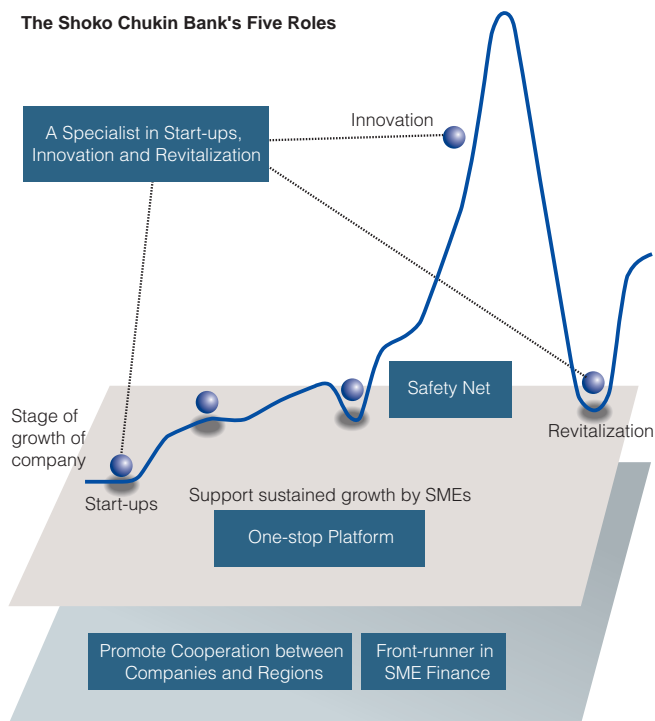
Moreover, it is working to strengthen still further its approach to regional cooperation. Making the most of its special nature in simultaneously having channels with industry associations and regional financial institutions, and relationships with local governments and national policies, it handles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

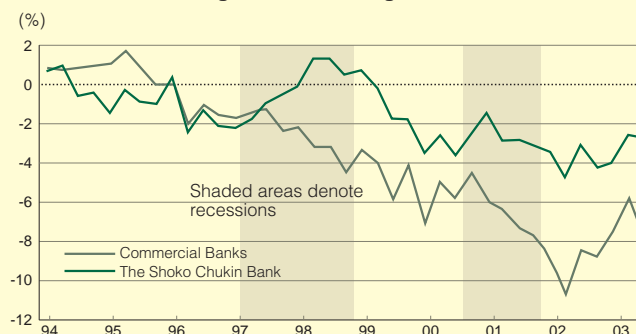
Differences from Other Government Financial Institutions

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.

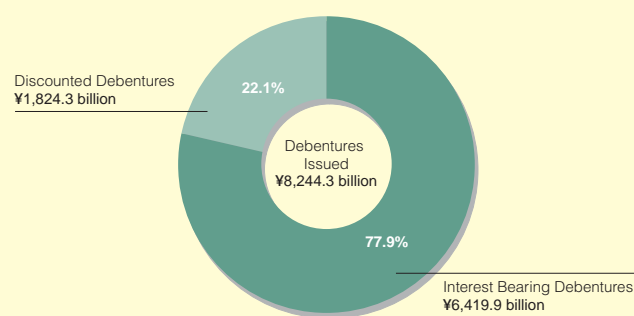
Debentures Issued by the Shoko Chukin Bank

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.

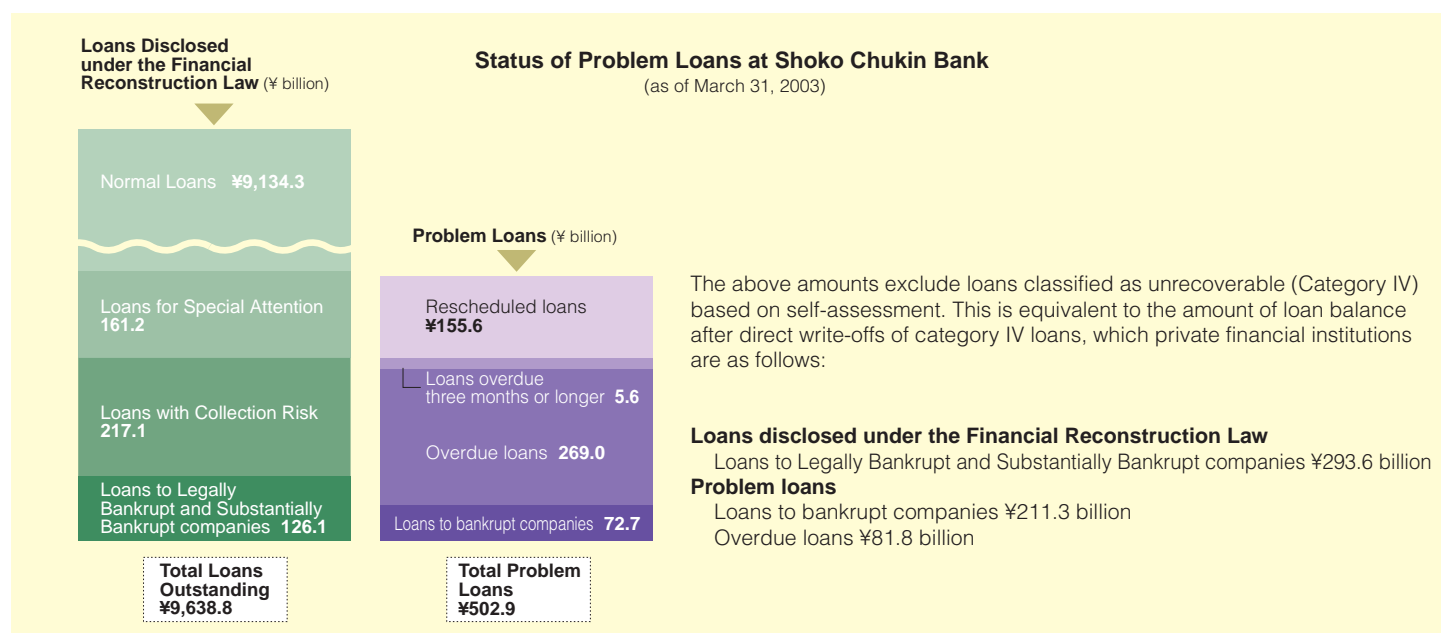
Self-Assessment of Assets

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.

Loans

The Shoko Chukin Bank provides a wide variety of loan programs to meet the funding needs of SMEs, ranging from long-term loans for capital investment and working capital to short-term finance such as bill discounting.

Borrowers

The Shoko Chukin Bank lends principally to its member cooperatives—the affiliated organizations of SMEs subscribing its capital—and to their member companies. The Bank also takes inquiries from joint investment companies and affiliated organizations established mainly by SMEs and SMEs' overseas subsidiaries.

Forms of Loan Transactions

The Shoko Chukin Bank provides loans to cooperatives and their members as follows.

Funds for member cooperatives:

For joint undertakings: The Bank provides funds necessary for joint undertakings by member cooperatives, such as joint production, joint processing, and joint sales operations. The Bank also responds positively to applications for loans required for organizational upgrade programs.

For loans through cooperatives: The Bank provides loans through member cooperatives to supply funds necessary for members' business operations.

Funds for member companies: The Bank extends loans directly to member companies.

Meeting Diverse Business Finance Needs

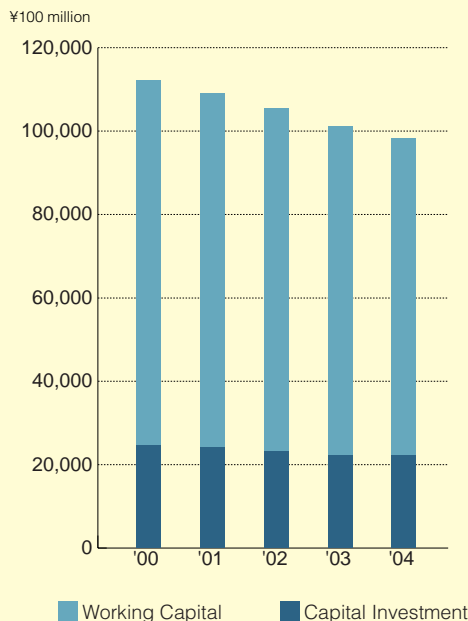
The Shoko Chukin Bank utilizes its integrated financial capabilities to contribute to the growth and development of SMEs by providing the following types of financing.

General Loans: loans on deeds, loans on bills, bill discounting and current account overdrafts.

Acceptances and Guarantees: debt guarantees for various purposes such as bank loans, trade accounts payable, and expressway toll accounts payable.

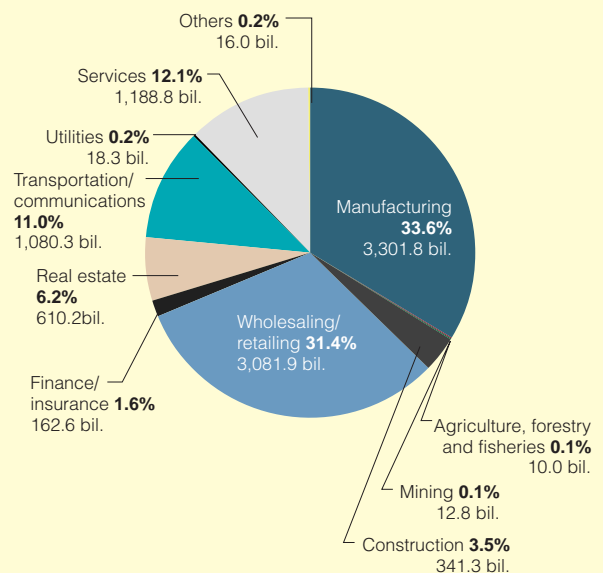
Securities Loans: loans to be used for various purposes, such as collateral for general commercial transactions or delayed tax payments.

Outstanding Loans by Funds Usage
(as of March 31)



Outstanding Loans by Sector
(as of March 31, 2004)

Outstanding Loans: ¥9,824.4 billion



Deposits and Public Funds

Deposits

The Shoko Chukin Bank accepts deposits from various sources, including SME cooperatives and other SME organizations and their members, executives of affiliated cooperatives and their members, local government organizations, non-profit organizations, financial institutions, and debenture holders. These deposits are an important source of funds for the loans that the Bank provides to its customers.

Public Funds

The Shoko Chukin Bank accepts deposits of fiscal funding from local governments throughout Japan. These funds are used to assist the development of SMEs and to promote regional economic growth. As of March 31, 2004, these deposits with the Shoko Chukin Bank amounted to ¥27.4 billion. These funds are used extensively to meet the financing needs of SMEs.

Payment Services for Public Charges

The Shoko Chukin Bank provides payment services for public charges such as national and local government taxes, social insurance premiums, contributions to the SME mutual aid retirement scheme, utility charges, NHK broadcast reception charges, and telephone charges. It can also arrange automatic monthly payments of stipulated amounts from accounts specified by customers.

Stocks and Capital Subscription Payments, Dividend Payments

Affiliated organizations and their members can use the Shoko Chukin Bank as a payment agent for capital subscription payments, equity payments and share dividend payments.

Debentures

The Shoko Chukin Bank maintains a reliable supply of funds for SMEs by issuing bank debentures, as provided in the Shoko Chukin Bank Law. The balance of debentures outstanding as of March 31, 2004 was ¥8,244.3 billion. The Bank's debentures include both subscription debentures and over-the-counter debentures, which are available for purchase at any time. One-year, two-year, three-year, five-year, seven-year and ten-year interest bearing debentures are offered for subscription by financial institutions and institutional investors and for subscription by government and public institutions as well. Over-the-counter debentures offered mainly to individual investors include Warisho discount bonds, and Rissho and Rissho Wide (interest paid as a lump sum at maturity) interest-bearing bonds. These debentures provide security of principal and a fixed return and are very popular with the public as an easy method of saving. They can be purchased in units of ¥10,000, with a minimum amount of ¥10,000. Applications for Shoko Chukin Bank debentures are accepted at any of the Bank's branches or sub-branches.

Securities and Treasury Operations

The Shoko Chukin Bank actively participates in domestic and overseas financial markets to look for better opportunities for investment and fund-raising activities, as well as to better meet the investment and financing needs of SMEs. The Bank uses securities markets to obtain the best possible returns from investment of its reserve funds and surpluses, investing primarily in public bonds. When investing in foreign currency-denominated bonds in overseas financial markets, it tries to maintain the soundness of its assets by employing a variety of financial tools, such as currency and interest rate swaps, to hedge the risk of exchange rate and price fluctuations. The Shoko Chukin Bank also maximizes the efficiency of short term investment and financing activities by using offshore markets and futures.

International Operations

The Shoko Chukin Bank, as the sole government affiliated financial organization offering correspondent services overseas, supports the international business needs of SMEs as they become increasingly active overseas.

Trade Finance

The Shoko Chukin Bank provides a wide range of import and export services, including the purchase and collection of export bills and the establishment of import letters of credit (L/C), as well as services relating to import usances and overseas remittances. It also offers advice on importing and exporting.

Other Trade Finance

The Shoko Chukin Bank provides bid bonds, contract guarantees and advance payment redemption guarantees for trade transactions.

Advice and Finance for Overseas Expansion

The Shoko Chukin Bank provides various types of information such as investment environments to customers that are planning overseas expansion. It also provides financial support to finance expansion projects and guarantees for loans from local overseas banks. Under "Overseas 21" program, the Bank offers a package of support services to assist trade transactions.

Overseas Network

New York Branch

The New York branch provides advisory services to assist SMEs to establish business operations in the United States and helps them to obtain financing after expanding into the United States.

Hong Kong Representative Office and Information Centers in Asia

The Hong Kong Representative Office provides information and support for the expansion of SMEs into Asia, which has started to accelerate again, especially into China. It also offers wide ranging advice and other assistance to SMEs after the establishment of their Asian business operations. In addition, the office assigns staff to allied financial institutions and other organizations in China and ASEAN to obtain current information for distribution to customers. (As of March 31, 2004, the Bank stationed staff in Shanghai, Dalian, Shenzhen, Bangkok, and Kuala Lumpur.)

Overseas "Chukin Kai" –an SME Network in China and ASEAN

This organization was formed by Shoko Chukin Bank customers in Malaysia, Hong Kong and Thailand. Members enjoy timely access to business information through seminars and meetings, as well as opportunities to participate in information exchanges with customers and suppliers.

Comprehensive Financial Services

Business Information Services	a) Business Transfers	The Bank helps companies manage stock, including stock price valuation and planning stock transfers.
	b) Support for Public Share Issues	The Bank offers customer-focused advice, including proposals for capital policies, information about the establishment of internal systems, and introductions of securities firms and audit corporations.
	c) M&A and Business Alliances	Assistance in this area ranges from providing introductions of companies and the calculation of acquisition prices to the final fulfillment of purchase conditions.
	d) Introductions of Business Partners	The Shoko Chukin Bank uses its nationwide branch network to introduce potential business partners and provides space for the promotion of new products.
	e) Effective Use of Real Estate	The Shoko Chukin Bank helps customers to make effective use of idle land, including introductions of franchisers and tenants and planning for leased buildings.
	f) Other Services	Other services include specialist management advice and consultation by Japan Institute of Commerce, Industry & Economics, Ltd. The Bank also hosts a variety of seminars.
"The SITE" –the Official Homepage of the Shoko Chukin Bank The Shoko Chukin Bank hosts an Internet homepage for SME cooperatives and their members, providing a variety of free-of-charge information services to users. Visit our homepage: http://www.shokochukin.go.jp/		
Support for Venture Businesses	Equity and Bond Underwriting by Investment Syndicates	In addition to finance and information services provided under the Innovation 21 program, the Shoko Chukin Bank also supports companies planning to implement IPOs through the First Shochu Investment Syndicate, which was jointly established with Japan Institute of Commerce, Industry & Economics, Ltd.

Support for the Chukin Kai and Youth Kai

	Organizational Outline	Activities & the Bank's Involvement
Chukin Kai	An association made up of our customers with 107 chapters in Japan, and 3 overseas in Thailand, Malaysia and Hong Kong. There are over 17,000 members.	Dispatches lecturers and helps with support and planning for lecture, study and social meetings. Also provides member companies a variety of information helpful to management on mediation, industry trends, products and technology.
Youth Kai	An association made up of young businessmen among our customers, with 88 chapters in Japan and about 5,300 members.	Dispatches lecturers and helps with support and planning for lecture, study and social meetings. Also provides a variety of information helpful to the conduct of member company business on subjects such as mediation, expansion of sales via different industries, joint development and technical cooperation.
All-Japan	An organization that makes use of the network of 88 Youth Kai chapters and supports Youth Kai activities throughout the country.	Helps with support and planning of national conferences and representative seminars, and dispatches lecturers and coordinators. Provides information on mediation, participation in International Small Business Congress (ISBC), Youth Kai Personal Computer Network and the Youth Kai Mailing List. Also supports business exchanges and publishes the All-Japan Youth Kai Report.

Economic Research Activities

Over 99% of all companies in Japan are classified as small- and medium-sized enterprises (SMEs) and trends in the SME sector have an important influence on the Japanese economy as a whole. The Shoko Chukin Bank obtains timely information about SME trends through its research activities and surveys of client companies and returns the results of this work to SMEs by publishing the resulting information on economic and industrial trends in the mass media and on its website.

Monthly Survey of SME Business Sentiment

This publication is based on monthly surveys of 800 companies selected from the Shoko Chukin Bank's nationwide customer base. As Japan's only comprehensive survey of economic trends among SMEs, the survey results are used not just within Japan but also attract considerable interest overseas as well. In June 2000 the Bank began to conduct trial surveys of a sample of 1,000 companies, including an additional 200 businesses in emerging sectors and other areas. The aim of this project is to provide a more precise picture that reflects changes in Japan's economic structure.

SME Capital Investment Survey

Capital investment and economic trends are closely linked. The Shoko Chukin Bank surveys capital investment trends among SMEs biannually.

Regional Analyses of SME Business Sentiment

Twice each year, the Shoko Chukin Bank classifies its branches into nine regional blocks and conducts comprehensive studies and analyses of regional business sentiment based on information from all of its branches.

Economic Forecasts

The Shoko Chukin Bank regularly publishes forecasts for the current and the following financial years, based on its own surveys.

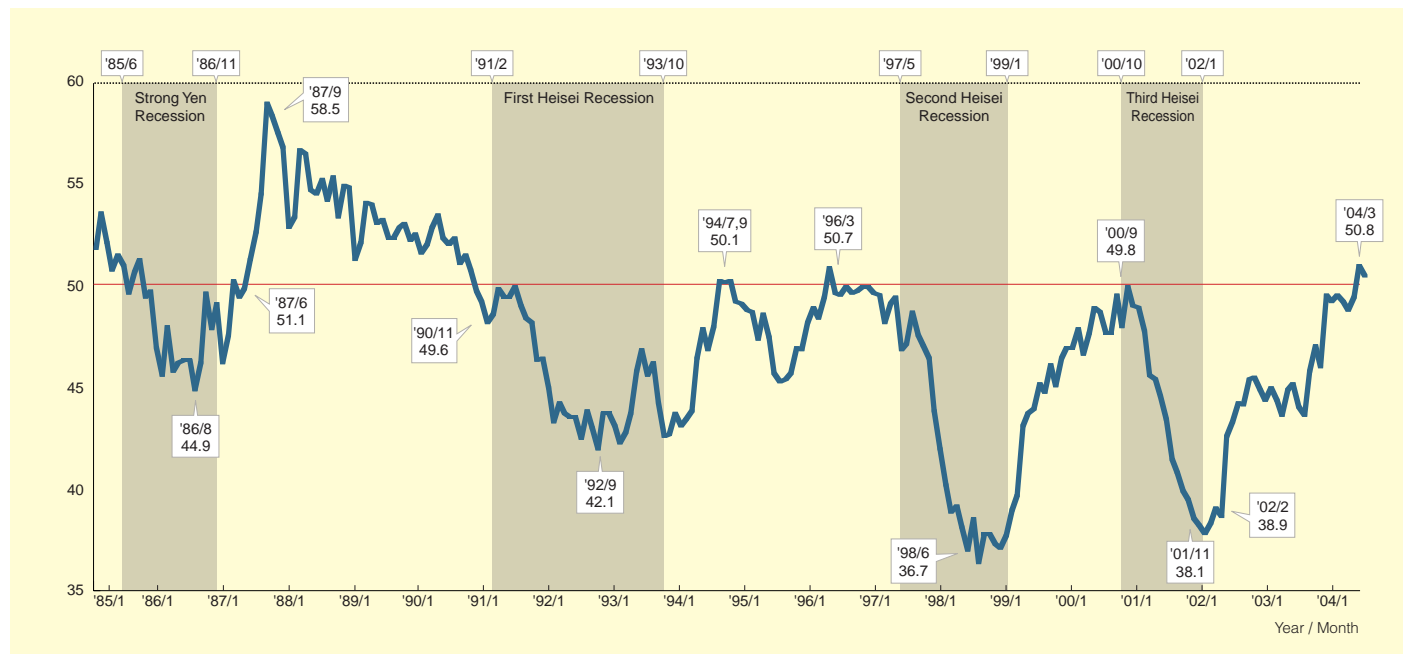
Trends in the SME Sector

This survey is based on results from the Monthly Survey of SME Business Sentiment, together with findings from other Shoko Chukin Bank surveys and statistics published by government agencies and other organizations. It provides a general overview of quarterly trends in the SME sector.

Other Research

From time to time, the Shoko Chukin Bank conducts surveys and research and publishes results relating current economic trends. For example, in fiscal 2002, it conducted a survey on Internet use by SMEs.

Graph of the SME Business Sentiment Index



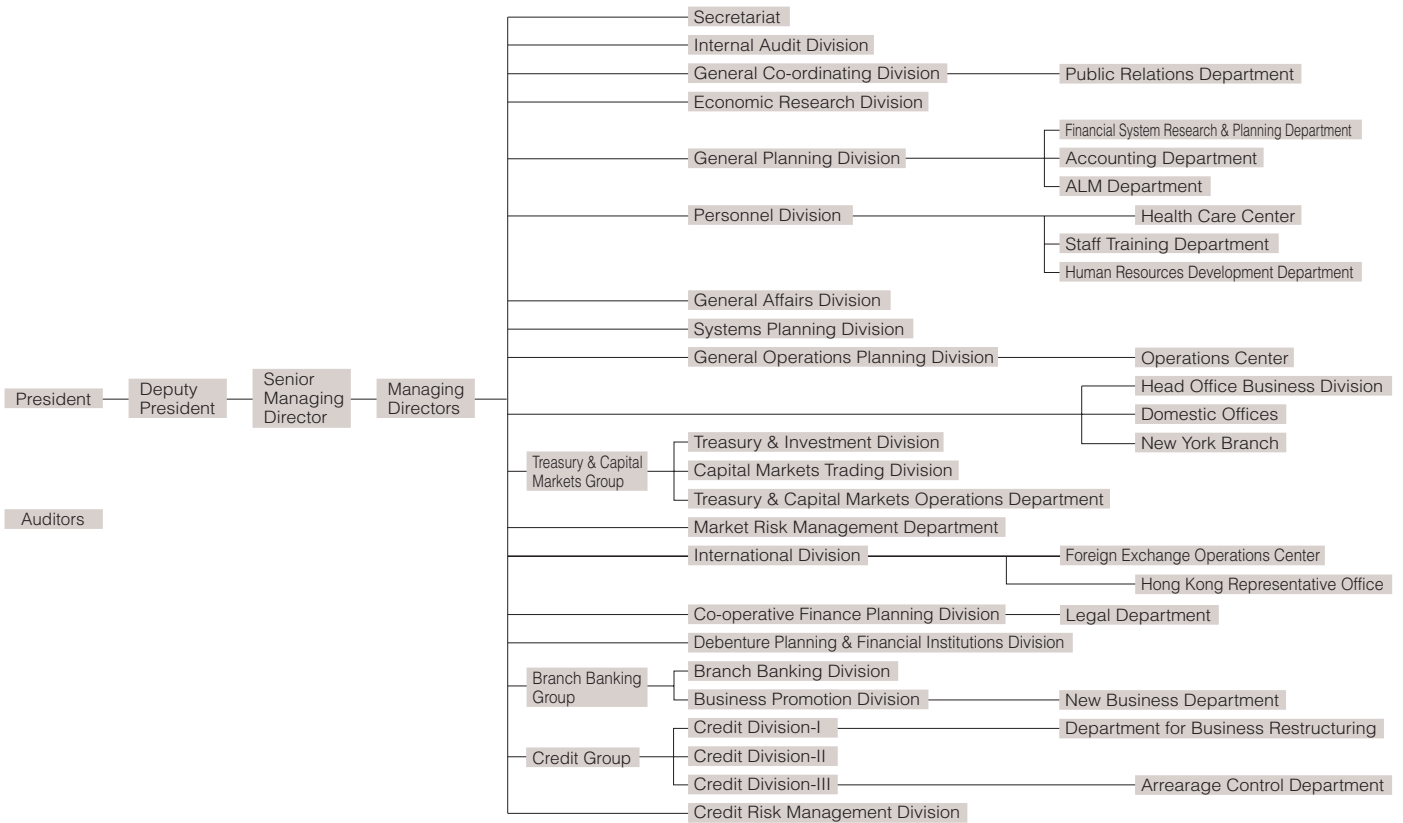
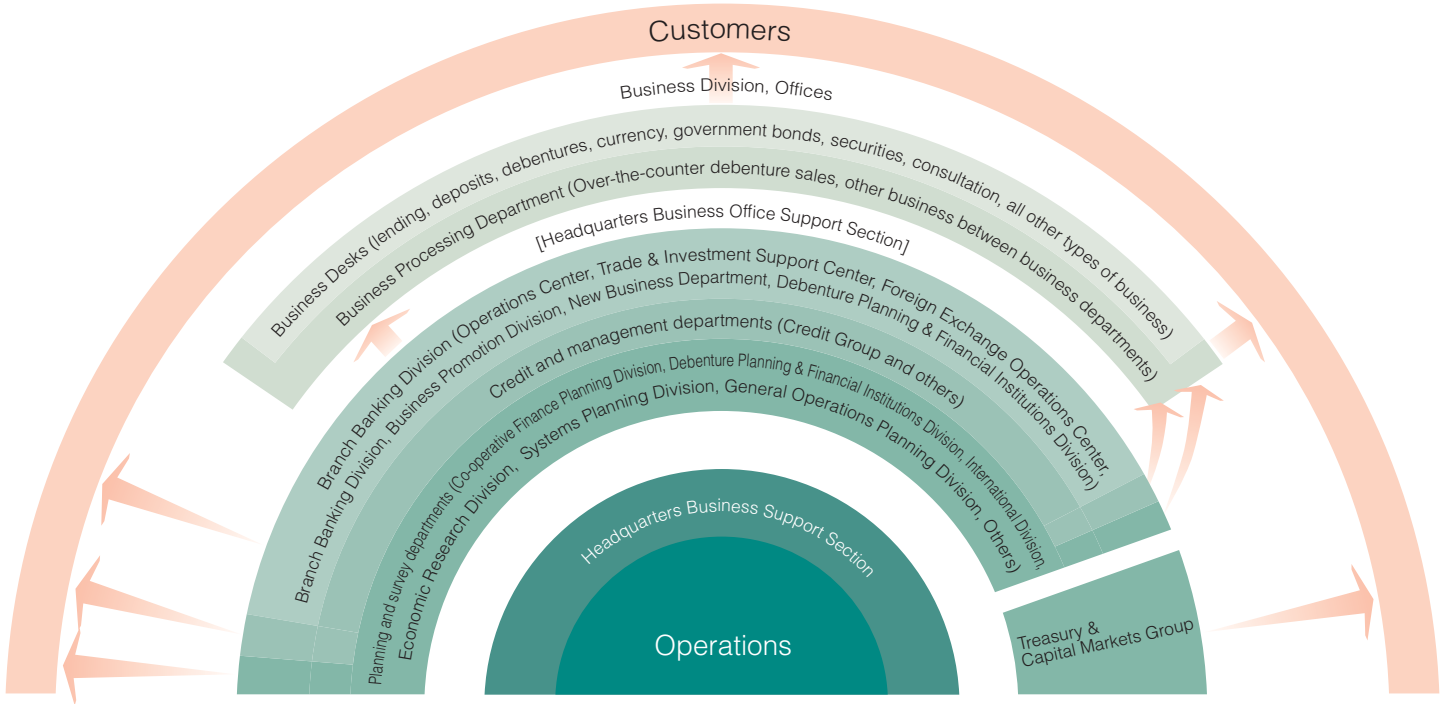
Notes: 1. Business Sentiment Index = ((Number of companies expecting an improvement x 1 + number of companies expecting no change x 0.5) / number of companies surveyed) x 100

2. An index above 50 indicates that companies expect economic conditions to improve compared with the situation in the previous month, while a result below 50 indicates that deterioration is anticipated.

Source: Shoko Chukin Bank, Monthly Survey of SME Business Sentiment

Organization Chart

Organization



Directors and Auditors



Tadashi Ezaki
President



Shigenori Shioda
Deputy President



Iwao Ihara
Senior Managing Director

Managing Directors

Shigeki Sakai

Satoshi Fujisawa

Akira Suzuki

Minoru Hoshito

Manabu Ito

Itaru Yokota

Shigeru Matsuoka

Tetsuya Sato

Auditors

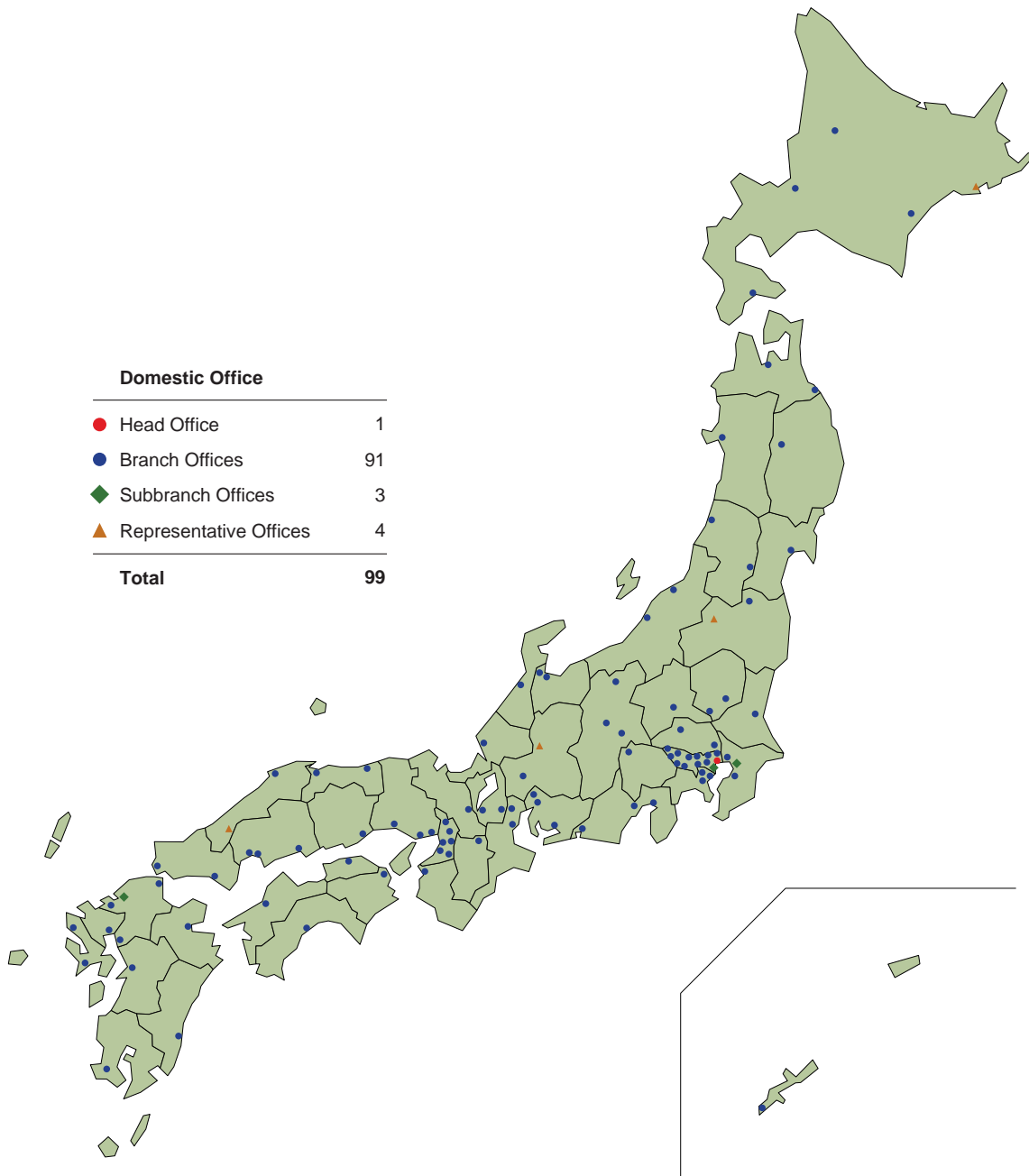
Jiro Kumazawa

Hatsuo Hige

Hirosuke Kodama

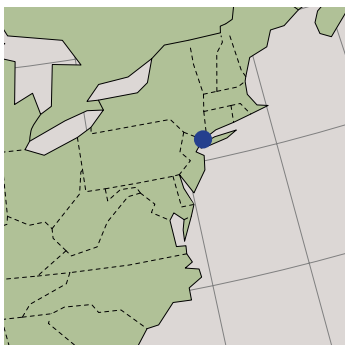
(as of July 6, 2004)

The Shoko Chukin Bank Network



Domestic Office	
● Head Office	1
● Branch Offices	91
◆ Subbranch Offices	3
▲ Representative Offices	4
Total	99

Overseas Offices



New York



Hong Kong

(as of July 1, 2004)

Head Office

10-17, 2-Chome Yaesu, Chuo-ku, Tokyo 104-0028, Japan
Tel: (03) 3272-6111
Telex: J25388 CHUKIN (International Division)
J25679 CHUKIN (Treasury & Capital Markets Group)
Fax: (03) 3272-6169 (International Division)
(03) 3274-3910 (Treasury & Capital Markets Group)
SWIFT Code: SKCK JPJT
Homepage Address: <http://www.shokochukin.go.jp/>

Established

November 30, 1936, based on the Shoko Chukin Bank Law, promulgated May 27, 1936, and revised May 17, 1985 and June 26, 1992

Objective

The objective of the Bank is to perform functions necessary to facilitate financing for the SME cooperatives and their member companies from which the Bank receives capital subscription.

Capital

¥514,265 million:
¥405,367 million subscribed by the government;
¥108,897 million subscribed by member cooperatives

No. of Member Cooperatives 27,563

No. of Employees 4,571

Domestic Offices 99

Overseas Offices 2

NEW YORK BRANCH

666 Fifth Avenue, 9th Floor, New York, NY 10103, U.S.A.
Tel: 1 (212) 581-2800
Telex: 6801392 CHUKIN
Fax: 1 (212) 581-4850

HONG KONG REPRESENTATIVE OFFICE

Suite 4004, Two Exchange Square, 8 Connaught Place, Central Hong Kong
Tel: (852) 2524-5111
Fax: (852) 2523-6452

Affiliates

SHOKO RESEARCH INSTITUTE

- Surveys finances, organization and industry structure of SMEs
- Assists SMEs with research and surveys

The Bank has no financial investment or stake in the following affiliates.

YAESU SHOKO, LTD.

- Purchases furnishings and supplies in bulk for the Bank

SHOCHU COMPUTER SERVICES, LTD.

- Develops software for the Bank's operations
- Provides contract computer services

SHOKO SERVICE, LTD.

- Provides health and welfare services for the Bank's employees

SHOKO FINANCE, LTD.

- Provides factoring

SHOCHU CARD CO., LTD.

- Provides a variety of credit card services

JAPAN INSTITUTE OF COMMERCE, INDUSTRY AND ECONOMICS, LTD.

- Provides management information and consulting
- Supports venture capital business

JAPAN SHOKO LEASE CO., LTD.

- Engages in leasing

YAESU MIDORI KANREN JIGYOU KYOUDOUKUMIAI

- Provides financing to the Bank's subsidiaries, and joint processing

THE SHOKO CHUKIN BANK

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