

THE SHOKO CHUKIN BANK

2005

Annual Report

Year Ended March 31, 2005



商工中金

■ 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 and Shanghai.

■ About 80 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 ¥11.5 trillion (US\$107 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.

Profile

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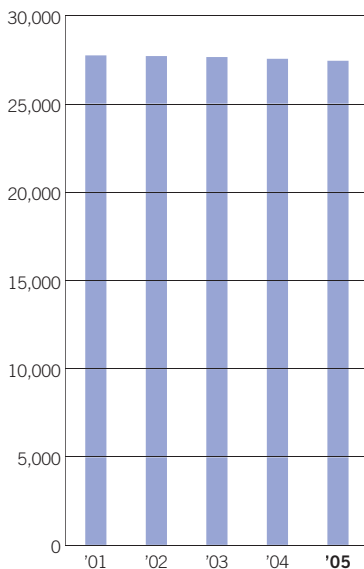
Financial Highlights

For the years ended March 31	Millions of yen					Millions of U.S. dollars
	2005	2004	2003	2002	2001	2005
Interest Income	¥ 174,447	¥ 185,114	¥ 203,385	¥ 232,733	¥ 269,821	\$ 1,624
Interest Expense	29,542	40,921	62,992	93,909	137,667	275
As of March 31	2005	2004	2003	2002	2001	2005
Loans and Bills Discounted	¥ 9,588,803	¥ 9,824,470	¥10,090,366	¥10,539,282	¥10,886,595	\$ 89,289
Deposits and Debentures	10,222,263	10,652,784	11,631,401	12,264,705	12,600,396	95,188
Total Assets	11,584,874	12,001,811	12,929,124	13,665,549	14,012,903	107,876
Capital	517,265	514,265	511,265	506,065	493,965	4,816
Government Subscription	405,367	405,367	405,367	403,167	394,067	3,774
Total Capital Funds	652,835	635,555	636,291	629,816	608,522	6,079

Notes: 1. All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥107.39=US\$1, the prevailing rate of exchange as of March 31, 2005.
 2. All amounts expressed have been rounded down to the nearest million yen.
 3. Deposits and Debentures include negotiable certificates of deposit.

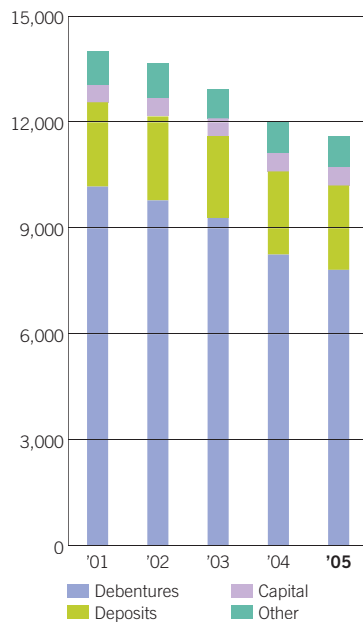
Number of Member Cooperatives

(As of March 31)
Numbers



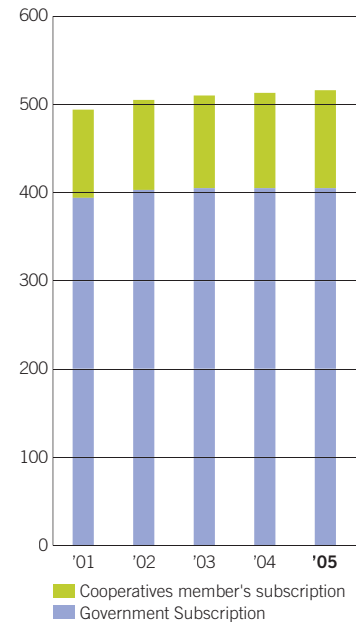
Funding Resources

(As of March 31)
Billion yen



Capitalization

(As of March 31)
Billion yen



Message from the President

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

The Shoko Chukin Bank is Japan's only government-affiliated integrated financial institution dedicated to serving the needs of small and medium-sized enterprises (SMEs). Since its establishment in 1936, the Bank has striven to facilitate smooth access to financing for SMEs through a unique network comprising the Bank and its affiliated SME credit cooperatives. During this time, we have worked to expand our operations in accordance with the changing business environment as part of our efforts to become a financial institution capable of broadly meeting the diverse needs of SMEs. All of us here at the Shoko Chukin Bank very much appreciate the consistent encouragement and loyalty we have received from many people and organizations over this long period.

In this annual report, in addition to providing details of the Bank's operating performance and an outline of the Bank's operations, we also present case studies and results relating to various policy functions undertaken by the Bank. We hope the content presented here will help to increase your understanding of the Bank, its activities and roles.

The Bank's Mission

The Bank's operations are founded on the principle of working with SMEs to help each business find solutions to the management issues it faces.

We will continue to listen carefully to the diverse needs of SMEs and utilize our comprehensive financial capabilities to

not only provide a reliable source of funds but also offer a broad array of financial services. In doing so, we aim to fulfill our mission of helping SMEs increase their corporate value and achieve sustainable growth. We hope that this in turn will contribute to the rejuvenation of local economies and ultimately of the Japanese economy as a whole.

Combining a Public Sector Policy Focus with Private Sector Efficiency

At present, the pace of economic recovery has slowed somewhat, leading to a continuation of subdued business sentiment among SMEs. There also remains a large variation in the rate of improvement among regions and industries, meaning the effects of a full recovery are yet to be felt.

Within these conditions, the Bank strove to fulfill its safety net role for SMEs as a government-affiliated financial institution. The Japanese government has implemented a range of policies designed to reinvigorate both the industrial and financial sectors. Against this background, the Bank actively focused on fulfilling its policy role in such areas as supporting the revitalization of SMEs and assisting in the diversification of funding methods, thereby opening up new financial frontiers for SMEs.

As a financial institution combining a public sector policy focus with private sector efficiency, the Bank carefully listens to the views of SMEs, utilizes these insights in its operations and helps to have SME views reflected in the government's SME policy. Furthermore, the Bank strives to respond flexibly and in a timely manner to evolving SME policy issues.

Utilizing its SME financing know-how built up over many years, the Bank remains committed to serving the needs of SMEs in accordance with the government's SME policy objectives.



Measures in Fiscal 2005

To fulfill its mission, the Bank adopted a Basic Plan covering the three-year period from fiscal 2004 to fiscal 2006, along with Annual Plans for each of these fiscal years, formulated in accordance with the Basic Plan. By incorporating these plans into the management cycle, the Bank is endeavoring to efficiently and effectively realize its role as a government-affiliated financial institution.

In particular, the Bank recognizes the revitalization of local economies as one of Japan's most important policy objectives. In line with this situation, in fiscal 2005, ending March 31, 2006, the second year of the Basic Plan, our Annual Plan will focus even greater efforts on our contribution to the resurgence of local economies. As a government-affiliated financial institution, the Bank will also continue to focus on opening up new financial frontiers and fulfilling its role of providing a safety net for SMEs.

The Bank is committed to fulfilling its unique policy role as an SME-focused, government-affiliated financial institution, with the strong backing of its SME credit cooperative membership. Through our ongoing efforts, we, the Bank's directors and employees, hope to obtain the trust and support of the public and all our stakeholders. We look forward to your continuing support in these endeavors.

August 2005

Tadashi Ezaki

Tadashi Ezaki

President

The Shoko Chukin Bank

Management Policy

THE 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, comprehensive financial services while listening carefully to the views of SMEs in managing 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

Providing a One-Stop Platform to Support SMEs' Sustained Growth

① Contribute to the Establishment of Stable Business Foundations

- Since SMEs often lack sufficient management resources, help maintain their

② Support the "Start-up" Challenge

- Promote steady growth and job creation by stabilizing the cash flow of SMEs that

③ Support the "Innovation" Challenge

- Promote the growth of SMEs that are striving to transform themselves into new
- Promote the stability and growth of SMEs expanding overseas, and that of their
- Promote the stability and growth of SMEs striving to fulfill their social

④ Support the "Revitalization" Challenge

- Promote an early start to revival efforts and performance turnaround among business conditions

- Revitalize the businesses of, and maintain employment at, SMEs that have the

⑤ Provide a Safety Net

- Maintain employment and promote stable cash flows for SMEs facing temporary initial responses to requests for funding consultations

Offering Services that Utilize the Bank's Unique Strengths

⑥ Promote Cooperation and Networking among SMEs
(Cooperative Organizations)

- Promote the growth and development of SMEs planning to start business or
- Promote the growth and development of SMEs by strengthening the functions of problems

⑦ Collaborate with Regions and Industry to Support SMEs
(Nationwide Operations)

- In conjunction with regional governmental agencies, help SMEs secure suited to regional conditions

- Stabilize the finances of local SMEs in cooperation with regional financial

- Through the implementation of support policies based on close cooperation with SMEs and assist industry in overcoming environmental problems and other

⑧ Open up Financial Frontiers
(Comprehensive Financial Capabilities)

- Respond to SME needs by developing and disseminating financing techniques

Action guidelines for achieving strategic objectives

Healthy and effective business operations

- Optimize functions, human resources and organizations to
- Utilize expertise and consulting capabilities to enhance the
- Strengthen the Bank's financial base by raising operational
- Enhance management transparency through strict

*The Shoko Chukin Bank's Basic Plan is excerpted from the *Shoko Chukin Bank Policy Assessment: Basic Plan*.

POLICY PACKAGES

stability by responding flexibly and quickly to their diverse needs using a long-term approach

are in the process of creating promising businesses

growth businesses and thereby also promote job creation
overseas subsidiaries
responsibilities through efforts to tackle environmental issues

SMEs whose planned management improvement efforts give them a bright future despite deteriorating
potential to survive and develop but face hindrances to business continuity owing to excessive debts
deteriorations in business conditions arising from external factors, through prompt and appropriate

- Sustainable Growth**
- Start-up**
- Innovation**
- Revitalization**
- Safety Net**

develop new businesses, through new cooperation and networking initiatives
cooperatives and other networking organizations, and by assisting such organizations' efforts to solve their

management resources and maintain their business operations, by implementing SME support policies

institutions
government agencies and industry organizations, help maintain and strengthen the management base of
issues

not overly dependent on real estate collateral and personal guarantees

- Networks**
- Business Links**
- Financial Frontiers**

achieve objectives
accuracy of credit screening, bolster risk management and build sound management structures
efficiency and adopting pricing policies that are in line with risk
compliance and accountability

BUSINESS OPERATIONS POLICY

1) Provision of Policy Packages to Meet Our Eight Strategic Objectives

- Through our nationwide network of branches covering every prefecture in Japan, we will broadly identify the diverse needs of SMEs as well as maximize our integrated financial capabilities to rapidly and effectively implement policy packages—or solutions—aimed at meeting the eight strategic objectives of the Bank's Basic Plan.
- To ensure that local economies move onto a sustainable recovery path, it is essential to stimulate the revitalization of regional SMEs, which represent a large source of employment. Furthermore, in keeping with the general shift in policy focus from the national to the regional level, during fiscal 2005 we will place emphasis on our **contribution to the rehabilitation and rejuvenation of local economies**. As a comprehensive means of supporting this goal, we will prioritize our strategic objective of contributing to the development of a stable management base for SMEs by utilizing our branch network and adopting a flexible approach to the conditions prevailing in each local area.
- Contributing to the rehabilitation and rejuvenation of local economies is a theme common to all our strategic objectives. By combining several policy packages according to the specific needs of each local area to fulfill our eight strategic objectives, we will be able to contribute more effectively to local rehabilitation and rejuvenation.
- The Bank, as a government-affiliated financial institution with certain policy functions, has particular responsibilities in helping facilitate and diversify SME financing, the development and adoption of new financing methods and in providing a safety net for SMEs. In light of these roles, we are placing emphasis on two of our strategic objectives—**opening up financial frontiers** and **providing a safety net for SMEs**.

Contribution to the rehabilitation and rejuvenation of local economies

- Based on the particular characteristics of its local area, each of the Bank's branches will work in cooperation with regional financial institutions toward the creation of new industries, the revitalization of existing core industries and the changeover to new business operations.
- Support SMEs in the development of their businesses by encouraging the mutually complementary use of management resources among SMEs in each local area.

Opening up financial frontiers

- Endeavor to develop and encourage the use of financing methods that are not over-reliant on the provision of collateral and personal guarantees.
- Work for the revitalization of SMEs through the use of such diversified financial techniques as DDS and DIP finance.

Providing a safety net for SMEs

- Closely monitor economic and financial conditions in each region, and respond rapidly and appropriately to the financing needs of individual SMEs that are experiencing temporary difficulties due to a sudden deterioration in their operating environment.

*Excerpted from the Shoko Chukin Bank's Annual Plan for Fiscal 2005.

2) Strengthening the Bank's Business Foundations to Enhance Operating Performance

- In the provision of policy packages to meet our eight strategic objectives, to achieve sound and efficient operating performance, we will focus on the following four areas.

Optimized business functions, human resources and organization to better meet the needs of SMEs

- Work toward the overhaul of the division of operations, the strengthening of our IT infrastructure and the decentralization of decision making.
- Support the development of overseas operations by our clients by utilizing our network of offices, including our Shanghai Representative Office, which opened in March 2005.

Enhanced risk management

- Utilize our client consulting capabilities and expertise in dealing with SMEs to further enhance our credit risk management.
- Appropriate risk management will be carried out by identifying areas of our business that are exposed to operational risk and bolstering efforts to reduce such risk.

Strengthened financial base

- Strive for greater efficiency by focusing certain operations within our head office.
- Work to strengthen our financial base by optimizing our lending spread.

Stringent compliance systems

- Information management systems will be reinforced to ensure strict compliance with all laws, including the Personal Information Protection Law.

OPERATING PLAN

Based on the business operations policy outlined above, the Bank will pursue its business in accordance with the following operating plan.

(Unit: 100 million yen)

	Long-term loans	Short-term loans	Fiscal investment and loans
FY2003 Plan	18,500	97,500	100
FY2003 Actual	20,359	103,188	100
FY2004 Plan	18,500	97,500	100
FY2004 Actual	21,505	103,356	100
FY2005 Plan	18,000	97,500	100

According to the fiscal investment and lending plan, the planned long-term lending amounts for each fiscal year are as stated in the table above. However, if customers' funding demands exceed the lending plan, the Bank provides 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.

PERFORMANCE HIGHLIGHTS

In order to support the sustainable growth of SMEs, the Shoko Chukin Bank responds quickly and flexibly to SME needs, acts as an expert partner for SMEs that face challenges in the stages of start-up, innovation and revitalization, and provides support as a safety net for SMEs to help them cope with temporary business crises that are a result of changes in the external environment. Below we present performance highlights showing some of the concrete ways in which we fulfill those roles.

Supporting the Sustainable Growth of SMEs

Based on long-term relationships of mutual trust with SMEs—and the strong understanding of client businesses that goes with that—the Bank works on a daily basis to maintain stable business conditions for SMEs. It does this by providing reliable, comprehensive financial services that accurately meet companies' diverse 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 ongoing deflationary pressures. Faced with these conditions, the Bank continued its efforts to provide smooth financing to SMEs, while acting as necessary to fulfill policy requirements.

In fiscal 2004 the Bank remained focused on its key strategies: maintaining a sound safety net for SMEs; assisting SMEs in start-up, innovation and revitalization; and pioneering financial frontiers by developing and implementing new financial techniques.

Furthermore, the revitalization of local regions—aimed at rejuvenating local economies and creating employment—is seen as one of Japan's most important policy objectives. In line with this, the Bank collaborated with regional public organizations, including local and regional government agencies, to assist local SMEs, based on the particular needs and conditions faced by each region.

■ Lending Trends of the Bank

FY1995	FY1996	FY1997	FY1998	FY1999
100.0	98.8	100.7	110.1	104.1
FY2000	FY2001	FY2002	FY2003	FY2004
102.0	99.9	100.8	102.9	104.0

(The lending balance for each year is shown as an index value, where FY1995 = 100)

Comprehensive Support Measures for the Revitalization of Local Regions

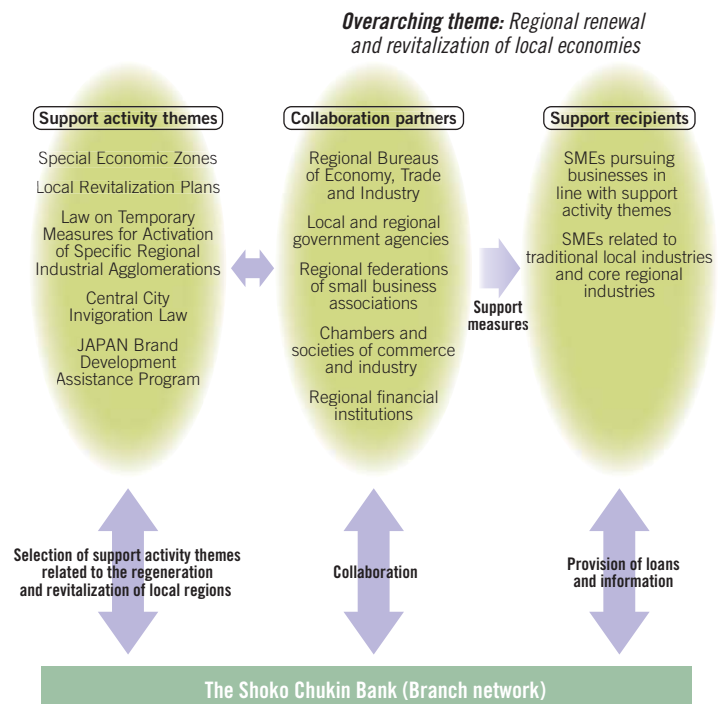
The Bank has formulated a set of Comprehensive Support Measures for the Revitalization of Local Regions, through which we will further bolster our efforts to help local SMEs rejuvenate regional economies and create local employment. We will particularly focus on the revitalization of existing core industries,

the upgrading of business operations and the creation of new industries in each region.

These Comprehensive Measures involve the Bank providing loans and grants as necessary, as well as information on credit insurance system and other assistance programs targeting SMEs. These activities are conducted in collaboration with a range of institutions, including regional Bureaus of Economy, Trade and Industry, local and regional government agencies, regional federations of small business associations, chambers of commerce and industry, societies of commerce and industry and regional financial institutions. The Bank will choose appropriate assistance themes from among such policy measures as Special Economic Zones and Local Revitalization Plans, with the aim of promoting SME-driven local revitalization.

In fiscal 2004, the Bank chose 25 branches from among its national branch network, with each of these branches selecting a specific support activity theme. In line with the Bank's role as an institution that carries out government measures aimed at revitalizing local regions, and as an institution that provides policy-based financing, the Bank will continue to fulfill a vital SME assistance role through its close involvement in core regional industries, traditional local industries and local economies. By building up know-how in these areas, the Bank aims to contribute to smooth local financing, and the regeneration and revitalization of local regions.

■ Comprehensive Support Measures for the Revitalization of Local Regions (Overview)



SUPPORTING THE CHALLENGE OF START-UP

SMEs that are in the start-up 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 management advice to enable companies in the start-up phase to realize their full potential.

One aspect of this effort is the Bank's unique system of providing no-collateral financing through the Zero-Collateral Loan Program for Newly Forming Businesses. To reduce the burden of risk carried by entrepreneurs and support them in meeting the challenge of starting a new business, in April 2004 we also began an exemption system whereby businesspeople are not required to provide personal guarantees. From April 2005,

to simplify this system, we have combined it into a single system of New Business Incubation Funding, which enables us to effectively support the development of SMEs at the start-up stage.

To establish and expand our service network for providing start-up stage SMEs with equity financing, we commenced a system of Share Subscription through Investment Syndicates. We also introduced Support for SME Start-ups through Collaboration among Industry, Academic Institutions and Government Agencies, which provides support to SMEs utilizing technologies developed within university laboratories and other institutions. This program aims to reap the economic revitalization benefits contributed by such SMEs.

(Unit: 100 million yen)

	FY2002		FY2003		FY2004	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
Zero-Collateral Loan Program for Newly Forming Businesses	187	19	430	44	336	41
New Business Incubation Funding	1	0	92	18	176	53
Share Subscription through Investment Syndicates	13	1	17	2	22	3
Support for SME Start-ups through Collaboration among Industry, Academic Institutions and Government Agencies*	34	8	82	16	133	34

*Results of our Zero-Collateral Loan Program for Newly Forming Businesses in FY2002 and FY2003, which supported collaboration among industry, academic institutions and government agencies. Results of all lending support in FY2004, including the aforementioned system.

Investment Fund

In December 2000, in conjunction with the Japan Institute of Commerce, Industry and Economics, Ltd., we established the First Shochu Investment Syndicate (Establishment amount: ¥1.0 billion; Fund contribution ratios: Shoko Chukin Bank 97.5%, Japan Institute of Commerce, Industry and Economics 2.5%) to support start-up companies aiming to undertake an initial public offering (IPO).

In February 2005, owing to the completion of investment of the First Shochu Investment Syndicate's establishment amount, we established the Second Shochu Investment Syndicate (No. 2

Fund). The No. 2 Fund had an increased establishment amount of ¥2.0 billion, to meet the growing needs among SMEs for IPOs. This fund is particularly active in the area of investment in early stage companies.

Between the time of investment and the current figures, a high rate of growth can be seen in total sales and number of employees of companies receiving investment in each fiscal year.

Furthermore, of companies receiving investment, one company invested in during FY2000 and three companies invested in during FY2001 have already achieved IPOs.

■ SMEs Supported through the First Shochu Investment Syndicate

(Units: 100 million yen, people)

Fiscal year of investment	Number of companies invested in	Sales			Number of employees			Number of companies undertaking IPOs
		At the time of investment	Current	Growth	At the time of investment	Current	Growth	
FY2000	8	213	363	+70.3%	667	1,052	+57.7%	1
FY2001	12	151	235	+55.4%	528	787	+49.1%	3
FY2002	13	72	80	+11.8%	257	311	+21.0%	0
FY2003	14	102	141	+38.5%	630	712	+13.0%	0
FY2004	14	105	114	+8.2%	323	442	+36.8%	0
Total	61	643	933	+45.1%	2,405	3,304	+37.4%	4

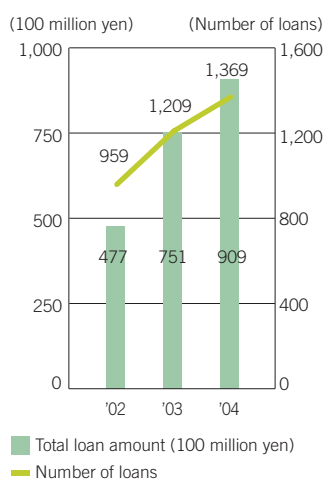
SUPPORTING THE CHALLENGE OF INNOVATION

For SMEs taking up the challenge of innovation by developing new products, starting new businesses, expanding overseas or responding to environmental problems, the Bank offers a range of support systems.

Support for SMEs Starting New Businesses

For SMEs pursuing innovative new businesses, we provide business appraisals and appropriate funding through the Innovation 21 program (a unique comprehensive support program operated by the Bank, which recognizes innovation). We also assist by providing equity and bond investment through investment syndicates, and information on various types of public support programs, such as grants and tax incentives.

■ Innovation 21 Program



The accumulated totals for the program to date (May 1995 to March 2005) are: 5,934 loans with a total loan amount of ¥356 billion.

The New Business Screening Committee, comprising outside specialists and academic experts, assesses loan applications. For businesses judged to be innovative and possess market potential, comprehensive support is provided using such programs as policy-based loans. In fiscal 2004, the Committee examined 310 applications (an increase of 13.6% compared with the previous year).

Support for Overseas Expansion by SMEs

We provide total support for SMEs planning overseas business expansion through the Shoko Chukin Comprehensive Overseas Investment Support Program (Overseas 21). This support includes providing information on the investment environment and other factors, providing the financing needed for the expansion and supporting trade transactions.

Owing to the high level of activity among Japanese companies expanding into China, in March 2005 the Bank established the Shanghai Representative Office. This office gathers and provides information on local systems and companies.

■ Overseas 21 Program (Shoko Chukin Comprehensive Overseas Investment Support Program)

(Unit: 100 million yen)

	FY2003	FY2004
Number of loans	252	271
Amount	115	130

Support for SMEs Working to Address Environmental Issues

For SMEs working to address environmental issues and SMEs producing new types of equipment and facilities that reduce the burden on the environment, we provide support with the aim of facilitating the smooth development of such businesses. This support includes providing information and loans in such areas as NOx and gas emission reduction loans, energy conservation and alternative energy usage.

In response to stronger calls for businesses to address environmental issues, in February 2005, we expanded and reinforced our existing program for addressing environmental issues, and added a unique Shoko Chukin loan program called Environmental Management Support Loans. We also established the Comprehensive Support Program for SMEs Working to Address Environmental Issues.

■ Support for SMEs Working to Address Environmental Issues

(Unit: 100 million yen)

	FY2003	FY2004
Number of loans	2,487	2,577
Amount	555	527

SUPPORTING THE CHALLENGE OF REVITALIZATION

We support SMEs whose operations are currently suffering but have the possibility of a better future through improved management. We also support early revitalization of SMEs that are facing obstacles to continued smooth business operations due to excessive debt, but which have the possibility for continued operations and growth. The Bank's activities in this area include cooperating with SME Revitalization Support Councils and the utilization of a diverse range of revitalization techniques, such as DDS and DIP finance.

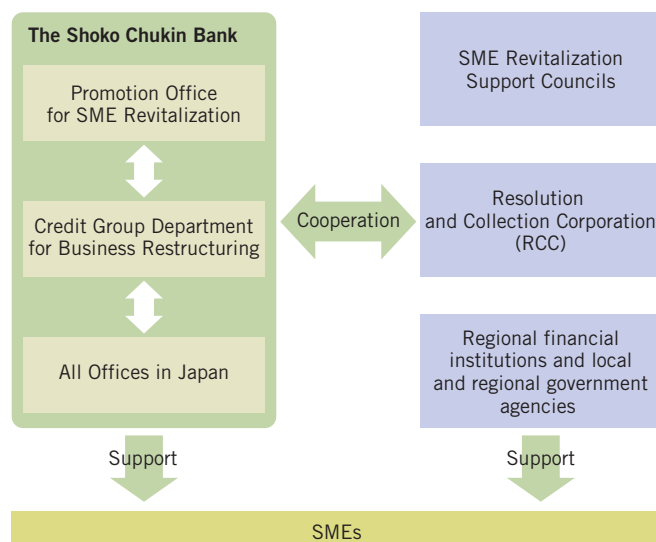
COMPREHENSIVE SUPPORT FOR REVITALIZATION OF SMEs

Revitalization Support Organization

The Bank's head office and branch offices work in concert to support SMEs that are facing the challenge of revitalization. The Bank has established the Promotion Office for SME Revitalization—headed by a senior managing director—to examine measures for providing comprehensive revitalization support. At the same time, the Bank has set up the Department for Business Restructuring, which specializes in providing management support, within the Credit Group 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), regional financial institutions and local and regional governmental agencies.

Comprehensive Support for the Revitalization of SMEs



Support for Revitalization of Companies through Management Improvement

Since fiscal 2003, the Bank has designated firms requiring management improvement. For SMEs at an early stage in the deterioration of their business conditions, the Bank assists with the formulation and execution of a management improvement plan, and provides loans where necessary.

Number of Firms Requiring Management Improvement Support and Loan Balance

	End of FY2003	End of FY2004
Number of firms requiring management improvement support	688 firms	753 firms
Loan balance	¥562.6 billion	¥618.3 billion

Financial Condition of Firms Requiring Management Improvement Support in Fiscal 2003 (Average amounts per company)

For firms designated by the Bank as requiring management improvement support in fiscal 2003, and which subsequently received assistance, ordinary income and cash flows have increased, while total borrowings have decreased. Furthermore, for each of these items, over half the firms have achieved improvement compared with the previous period.

(Unit: 100 million yen)

	Ordinary income	Total borrowings	Cash flows
End of FY2002	12	3,037	87
End of FY2003	47	2,834	104
Increase (decrease)	35	(203)	17
Percentage improvement	56.3%	78.3%	54.8%

Lending Results of the Business Revitalization Support Loan Program

(Units: Loans, 100 million yen)

FY2003		FY2004		Cumulative totals since program commencement*	
Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
47,332	1,614	38,659	1,178	90,370	3,028

*Commenced 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. This may include short-term working capital from the time that it is decided to begin legal restructuring until it is approved, and long- and short-term working capital and plant and equipment funding from the time legal restructuring is approved until the procedure is completed. Exit financing may also be provided to conclude legal restructuring procedures quickly.

In addition, SMEs that have taken over the operations of businesses that are being revitalized are also eligible for support through this program.

■ Lending Results for DIP Financing

(Units: Loans, 100 million yen)

FY2003		FY2004		Cumulative totals since program commencement*	
Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
58	54	49	45	134	117

*Commenced July 2001

REVITALIZATION SUPPORT THROUGH COOPERATION WITH EXTERNAL ORGANIZATIONS

Revitalization Support in Cooperation with SME Revitalization Support Councils and the RCC

The Bank supports SME revitalization in cooperation with SME Revitalization Support Councils and the RCC. Our activities utilize each external organization's capabilities in such areas as coordination among creditors.

■ Revitalization Support Cooperation with SME Revitalization Support Councils (including refinancing of prior loans)

(Units: Loans, 100 million yen)

FY2003		FY2004	
Number of loans	Amount	Number of loans	Amount
40	18	81	19

■ Revitalization Support Cooperation with the RCC

(Units: Loans, 100 million yen)

FY2003		FY2004	
Number of loans	Amount	Number of loans	Amount
21	38	16	11

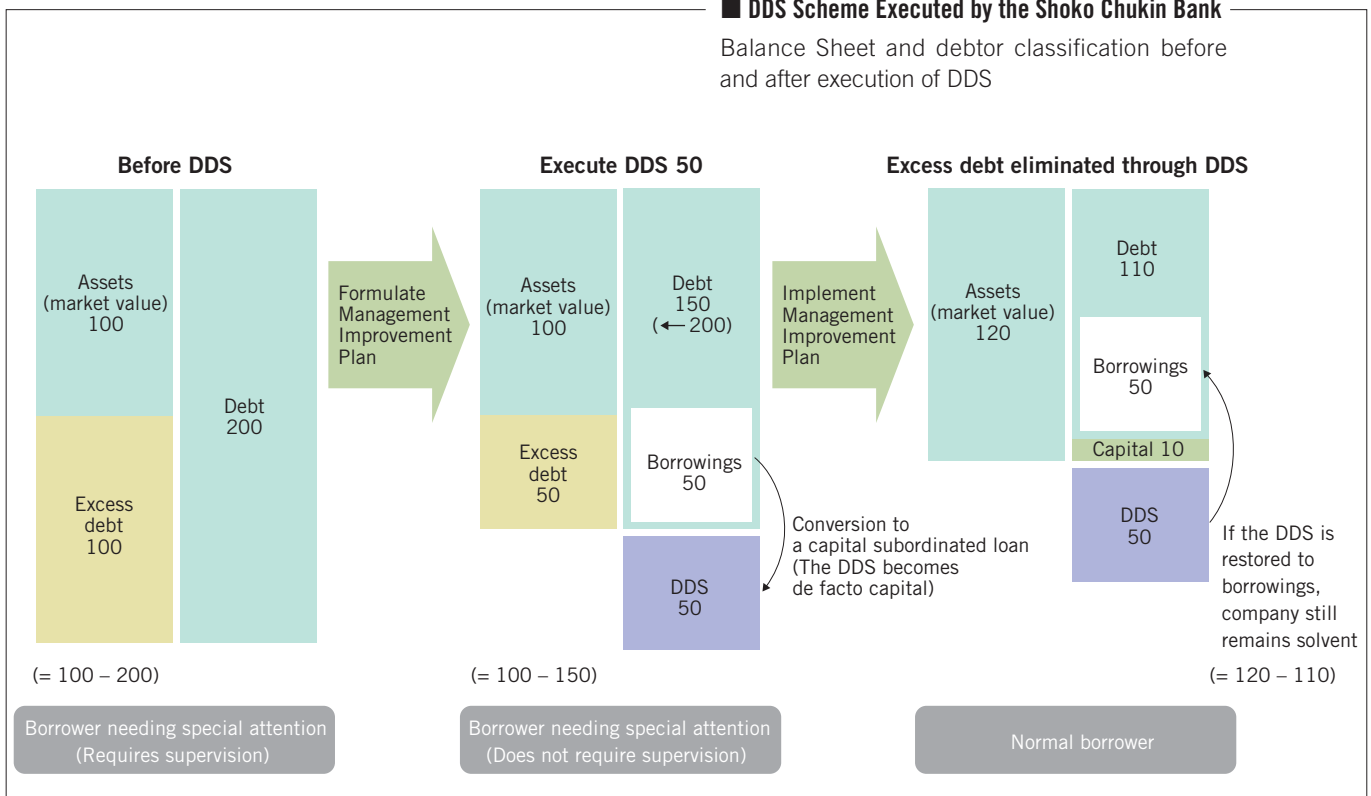
UTILIZATION OF DIVERSE REVITALIZATION METHODS

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 used to rebuild the finances of SMEs based on management improvement plans that are reasonable and have a high probability of success. Under such schemes, a portion of debt held by a financial institution is swapped for capital subordinated loans.
- For the purpose of borrower classification, the capital subordinated loan is treated as part of the borrower's capital. This allows the borrower to move to a higher classification, giving them a more stable funding supply through easier access to new loans and other sources. These conditions provide a base for earlier revitalization.
- In March 2004, the Bank became the first financial institution in Japan to execute a DDS scheme in line with the requirements of the *Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credits to Small and Medium-sized Enterprises*. Based on this know-how, the Bank has striven to promote the widespread use of this financing method, including through Bank staff acting as lecturers at regional financial institution study seminars.

■ DDS Scheme Executed by the Shoko Chukin Bank

Balance Sheet and debtor classification before and after execution of DDS



FULFILLING THE ROLE OF A SAFETY NET FOR SMEs

By utilizing Safety Net Loans and other governmental loan programs, the Bank works to prevent a “domino-effect” of bankruptcies from affecting motivated and potentially viable companies. The Bank also responds rapidly to SMEs in temporary crisis, which can be caused by sudden changes in the operating environment. Trigger events may include customer bankruptcies, failure of financial institutions, a credit crunch, or disasters. Specific action by the Bank in such circumstances often includes the setting up of special consultation desks for SMEs.

Opening of Special Consultation Desks

To assist SMEs affected by such events as financial institution failures or restructurings, corporate bankruptcies, accidents or disasters, the Bank sets up special consultation desks, through which it is able to provide financial counseling in a timely manner. In response to financial inquiries from SMEs, the Bank offers sympathetic, courteous and speedy attention.

Number of Cases Handled by Special Consultation Desks

(Units: Cases, 100 million yen)

FY2003	FY2004	Cumulative total
680	730	24,812

Total number of special consultation desks as of March 31, 2005: 20 (Newly opened desks in FY2004: 14)

Lending Results for Safety Net Loans

Long-Term Business Funding through Safety Net Loans, etc.*1

Short-Term Working Capital through the Safety Net Loan Short-Term Lending Program, etc.*2

Special Collateral Exemption Program for Funding in Response to Changes in Financial Conditions (Credit crunch no-collateral loans)

Support through Safety Net Loans and Other Business Funding Programs

In fiscal 2004, the Bank provided loans for necessary plant and equipment as well as for long- and short-term working capital, to SMEs faced with sudden changes in the natural environment or economic conditions. In each lending category, both the number of loans and total loan amount rose compared with the previous fiscal year.

For SMEs affected by such events as financial institution failures or restructurings, corporate bankruptcies, accidents or disasters, and are dealing with temporary deterioration in business conditions or cash flow position, there is often a particularly urgent need for short-term funds. In recent years, there has been a rapid rise in the need for short-term business funding, such as through Safety Net Loans, which utilize the Bank’s comprehensive financial capabilities.

In fiscal 2004, companies receiving assistance through the loan programs shown below employed approximately one million people. This figure is evidence of the extremely high impact of the Safety Net Loan program on employment conditions.

(Units: Loans, 100 million yen)

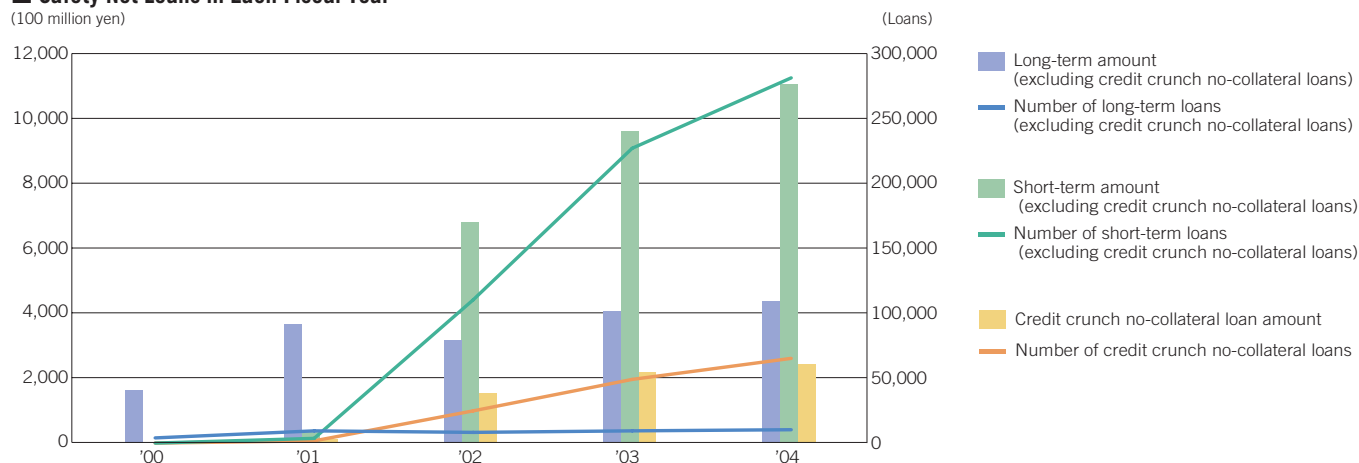
FY2003		FY2004		Cumulative total since program commencement	
Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
9,413	4,039	10,290	4,361	41,320	16,831
226,995	9,606	281,220	11,056	622,131	27,784
49,022	2,171	65,220	2,419	140,753	6,203

*1. Results are the total for the Safety Net Loans and the Emergency Loan System for Economic Recovery

*2. Results are the total for the Safety Net Loan Short-Term Lending Program and the Emergency Loan System for Economic Recovery

Safety Net Loans in Each Fiscal Year

(100 million yen)



PROMOTING COOPERATION AND NETWORK BUILDING AMONG SMEs

As a means of fostering growth, development and innovation among SMEs, the Bank supports SMEs' efforts to create their own inter-company organizations, including through the establishment of SME cooperatives. Other efforts by the Bank have focused on such areas as building inter-industry linkages through the Youth Kai organizations, as well as promoting cooperation and networking between industry, academic institutions and government agencies.

Supporting SME Cooperatives' Efforts to Solve Specific Issues

Based on the need to reduce the burden on cooperative officers of providing joint loan guarantees, in fiscal 2004, 88 cooperatives indicated needs in this area. After ascertaining such conditions as provisional measures and repayment prospects between cooperatives and their members, and the operation of cooperative financial rules, the Bank made reductions or exemptions from guarantor provisions for 82 cooperatives.

For commercial- and industrial-complex-based cooperatives struggling with the problem of surplus land owing to member business closure or bankruptcy, the Bank carried out measures to help cooperatives deal with this problem. This included the Bank's unique system of Loans Covering Bankrupt Cooperative Member Facilities at Subsidized Complexes, which recorded 12 loans to eight cooperatives totaling ¥1.1 billion during fiscal 2004.

Driven by the need to support industrial- and commercial-complex-based cooperatives, the bank collaborated with the National Federation of Wholesale Complex Cooperatives and the National Federation of Industrial Complex Cooperatives by participating in various conventions and meetings, including federation regional bloc conventions, secretariat meetings and national training seminars. The Bank also jointly organized seminars for top management executives of complexes as part of its close coordination activities in this area.

Supporting Diverse Linkages through Joint Investment Companies and Voluntary Groups

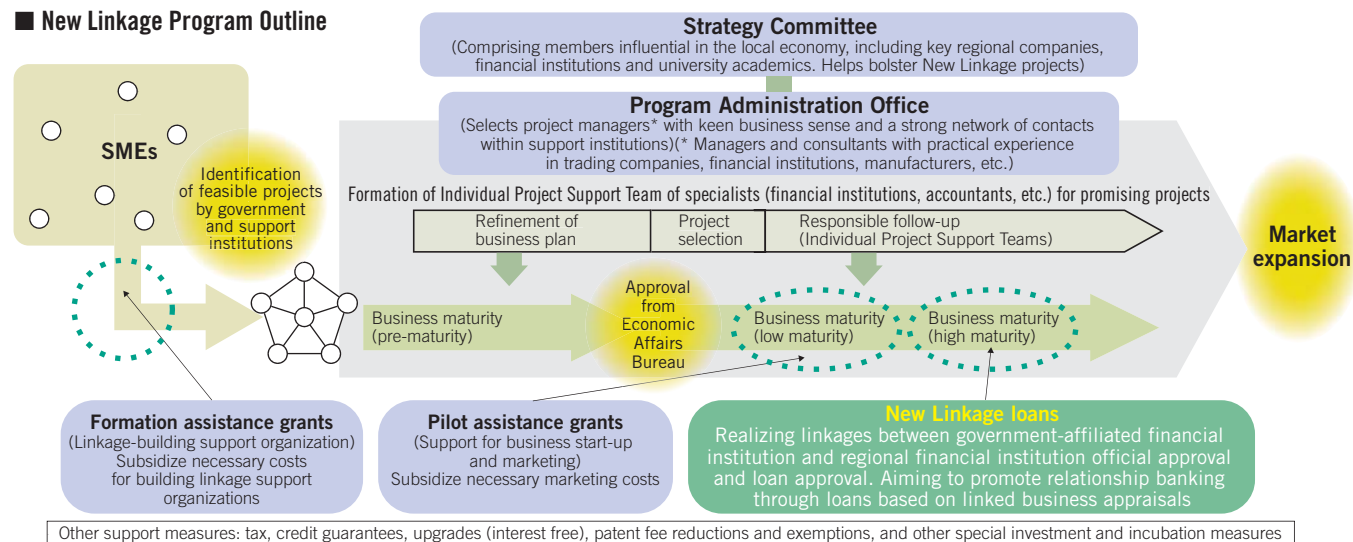
One of the Bank's roles is to contribute to the establishment and growth of a diverse range of linkages among SMEs as they strive to effectively pool their management resources. To this end, the Bank provides loans to meet funding requirements and various types of information to SMEs. For example, the Bank assists with the organization of lectures and seminars held by Chukin Kai and Youth Kai, which comprise Bank clients and young executives from cooperative member companies. The Bank also provides information useful to the management of member companies, including opportunities for exchange with other firms.

As the operating environment for SMEs undergoes major changes, SMEs with limited management resources must endeavor to make the switch to higher value-added products and services. To help achieve this goal, we commenced the New Linkage program, through which SMEs can gather together to complement and utilize each other's strengths, enabling them to mutually make up for deficiencies in individual management resources. In fiscal 2005, we have made this a priority area for the Bank, as we focus on utilizing our accumulated know-how in organizational financing.

Support through Loan Recommendations from Cooperative Federations for New Cooperatives and Loans to New Companies and Cooperatives

In collaboration with regional federations of small business associations, the Bank is promoting a loan system with the aim of facilitating the creation and start-up of new businesses in the form of cooperatives.

■ New Linkage Program Outline



Source: Small and Medium Enterprise Agency web site

LINKING WITH REGIONS AND INDUSTRY TO SUPPORT SMEs

The Bank actively cooperates with regional and local government agencies, industry groups and regional financial institutions to rejuvenate regional economies and industries.

Cooperation with Regional Financial Institutions

The Bank collaborates and coordinates with regional financial institutions, which are expected to strengthen their leadership roles in providing regional-based financing, in line with the

Relationship Banking Promotion Plans required under the Financial Services Agency's (FSA) New Action Program. We are committed to supporting SMEs in this regard, and contributing to the rejuvenation of local economies.

Specifically, in addition to coordinated lending with regional financial institutions, we organize seminars to provide know-how on such new financing techniques as DDS and DIP finance in order to diversify the fund raising methods available to SMEs.

■ Status of Cooperation with Regional Financial Institutions

(Number of institutions, as of March 31, 2005)

	Regional Banks	Second-Tier Regional Banks	Shinkin Banks	Credit Cooperatives	Total
Regional Financial Institutions	65	48	298	175	586
Collaborating financial institutions	64	48	118	140	370
Financial institutions with which we have signed a memorandum of cooperation	54	40	117	140	351

Note: Regional Banks includes Saitama Resona Bank, Ltd.

■ Cooperation with Regional Financial Institutions

(Units: Loans, 100 million yen)

FY2003		FY2004	
Number of loans	Amount	Number of loans	Amount
1,289	1,082	7,304	5,552

*The figures for FY2003 are for the period from December 2003 to March 2004.

*The figures above include only collaborative transactions based on written agreements with regional financial institutions, such as through syndicated loans. In addition, other loans are carried out in collaboration with regional financial institutions.

■ Seminars Held in Cooperation with Regional Financial Institutions (Total number of participating institutions in FY2003 and FY2004)

	Cooperation in general	Start-ups and new business	Management improvement	Revitalization of business	Financial frontiers (New financing methods)	Total
Regional Banks	108	4	—	175	1	288
Second-Tier Regional Banks	87	80	38	85	1	291
Shinkin Banks and Credit Cooperatives	158	—	5	300	1	464
Total	353	84	43	560	3	1,043

Support for Regulated-Vehicle Replacement through NOx and Emission Gas Loans

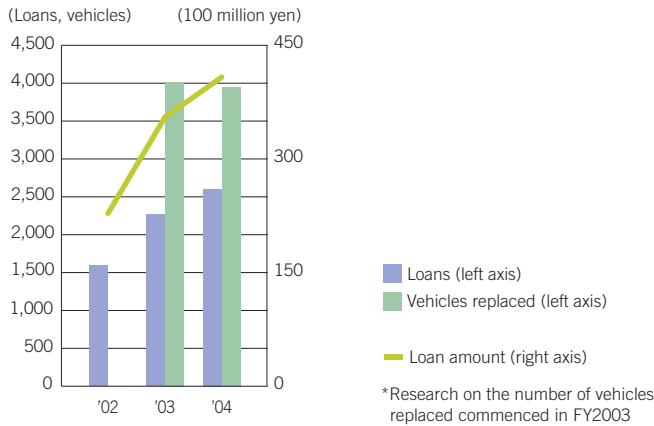
In collaboration with the Japan Trucking Association, the Bank is actively providing loans to companies needing to replace vehicles under the Vehicle NOx/PM Law. From fiscal 2004 we commenced a new no-collateral loan system and made 2,605 loans totaling ¥40.8 billion. Both these figures were up 14.9% compared with the previous fiscal year.

■ NOx and Emission Gas Loans

(Units: Loans, 100 million yen)

FY2002		FY2003		FY2004	
Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
1,593	228	2,268	355	2,605	408

■ Support for Regulated-Vehicle Replacement through NOx and Emission Gas Loans



Support for SMEs Receiving Assistance under the Textiles Manufacturer SME Self-Sustainability Project

For textile manufacturer SMEs—including woven and knitted product manufacturers and garment-sewing firms—aiming to make the transition from subcontractor to a self-sustainable business model based on their own marketing, design and sales, the Bank provides bridging finance for firms waiting to receive grants. In fiscal 2004, 47 loans were made totaling ¥800 million, or roughly equal to the previous year's results.

■ Support for SMEs Receiving Assistance under the Textiles Manufacturer SME Self-Sustainability Project

(Units: Loans, 100 million yen)

FY2003		FY2004	
Number of loans	Amount	Number of loans	Amount
46	8	47	8

OPENING UP FINANCIAL FRONTIERS

In the past, most fund raising by SMEs has been indirect financing that depended on collateral, such as real estate mortgages. To alleviate this dependence, the Bank takes the lead in utilizing new financing methods to facilitate and diversify fund raising for SMEs, particularly through asset securitization.

In addition, by providing know-how to private financial institutions, the Bank is able to widely disseminate new fund raising methods for SMEs.

MAJOR FINANCIAL FRONTIER-RELATED ACTIVITIES

■ Securitization of Trade Receivables

(Units: Transactions, 100 million yen)

FY2003		FY2004		Cumulative total since system establishment	
Number of transactions	Amount	Number of transactions	Amount	Number of transactions	Amount
57	869	63	1,272	81	3,244

■ Syndicated Loans

(Units: Loans, 100 million yen)

FY2003		FY2004		Cumulative total since system establishment	
Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
187	493	276	889	610	1,864

■ Collateralized Loan Obligations (CLOs)

(Units: Companies, 100 million yen)

Participation in CLOs by Local and Regional Government Agencies (12 occasions since March 2002)	FY2003		FY2004		Cumulative participation	
	Number of participating companies	Amount	Number of participating companies	Amount	Number of participating companies	Amount
	101	33	357	123	605	200

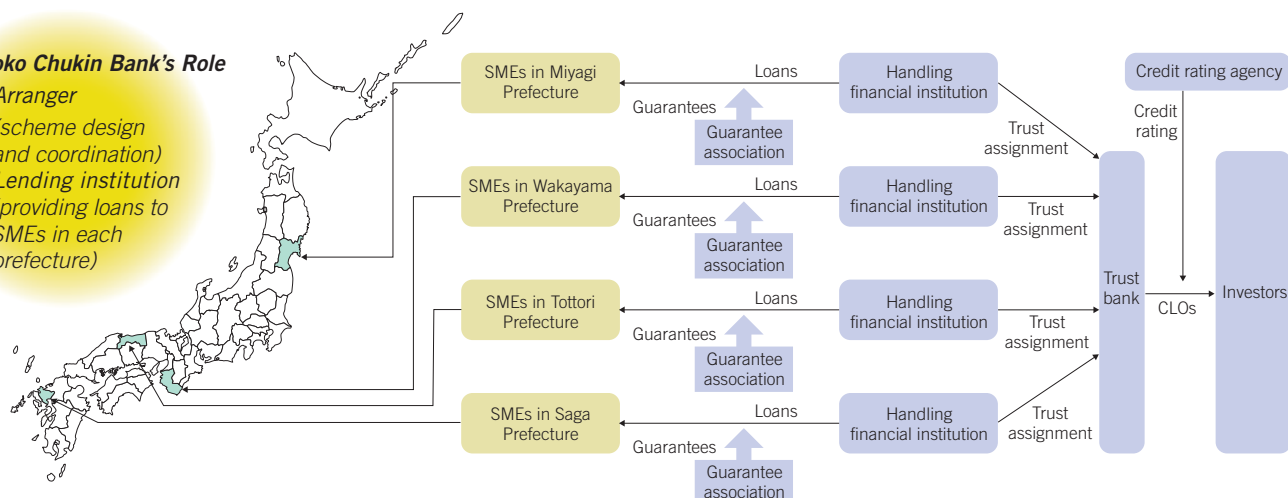
CLO-Related Activities

In July 2004, the Bank supported a CLO transaction involving collaboration between four geographically separated prefectures—Miyagi, Wakayama, Tottori and Saga—the first such broad-area transaction in Japan. At the request of the four prefectures, the Bank's participation began an early stage and included the provision of a scheme proposal.

Under this CLO scheme, the handling financial institution securitizes the participating SMEs' trade receivables into CLOs, providing SMEs with access to a stable source of no-collateral funds. Conversely, the handling financial institution is able to supply funds to local SMEs using a new lending method. Furthermore, owing to scale advantages of the scheme, costs are reduced and SMEs gain access to lower interest rates than would normally be the case.

The Shoko Chukin Bank's Role

- 1) Arranger
(scheme design and coordination)
- 2) Lending institution
(providing loans to SMEs in each prefecture)



Derivative Transactions

With the aim of creating an environment in which SMEs can avoid exposure to such market risks as interest rate and foreign exchange risk, and thereby allowing them to focus on their core business operations, the Bank provides an appropriate range of derivative transaction-based risk management products to meet SME needs. Such transactions are conducted after careful

assessment of client objectives and transaction suitability in relation to their business.

For regional financial institutions, as of the end of fiscal 2004, we had entered basic agreements with 32 institutions regarding derivative transactions, enabling us to provide a variety of risk-hedging instruments as a stable market counterparty.

Derivative Transactions with SMEs

(Units: Transactions, 100 million yen)

FY2002		FY2003		FY2004	
Number of transactions	Notional amount	Number of transactions	Notional amount	Number of transactions	Notional amount
176	596	611	1,523	860	1,950

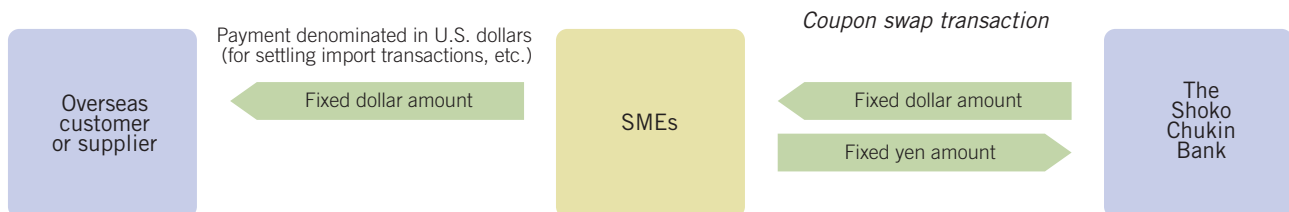
Typical Derivative Transaction Schemes

Interest-Rate Swap



- An interest-rate swap is a transaction whereby fixed and variable interest rates are swapped.
- Where variable interest rates are used to cancel out each other, it is possible to obtain borrowings with a de facto fixed interest rate, thereby hedging against the risk of higher interest rates.

Coupon Swap



- A coupon swap is a transaction whereby the fixed interest rates of different currencies are swapped (but the principal amounts are not swapped).
- By using this type of transaction, SMEs that make regular payments denominated in U.S. dollars are able to de facto fix the dollar–yen exchange rate during the period of the transaction, giving them a hedge against the exchange rate risk associated with payments for imports.

Systems to Ensure Sound Business Operations

The Shoko Chukin Bank strives to maintain sound business operations as a government-affiliated financial institution.

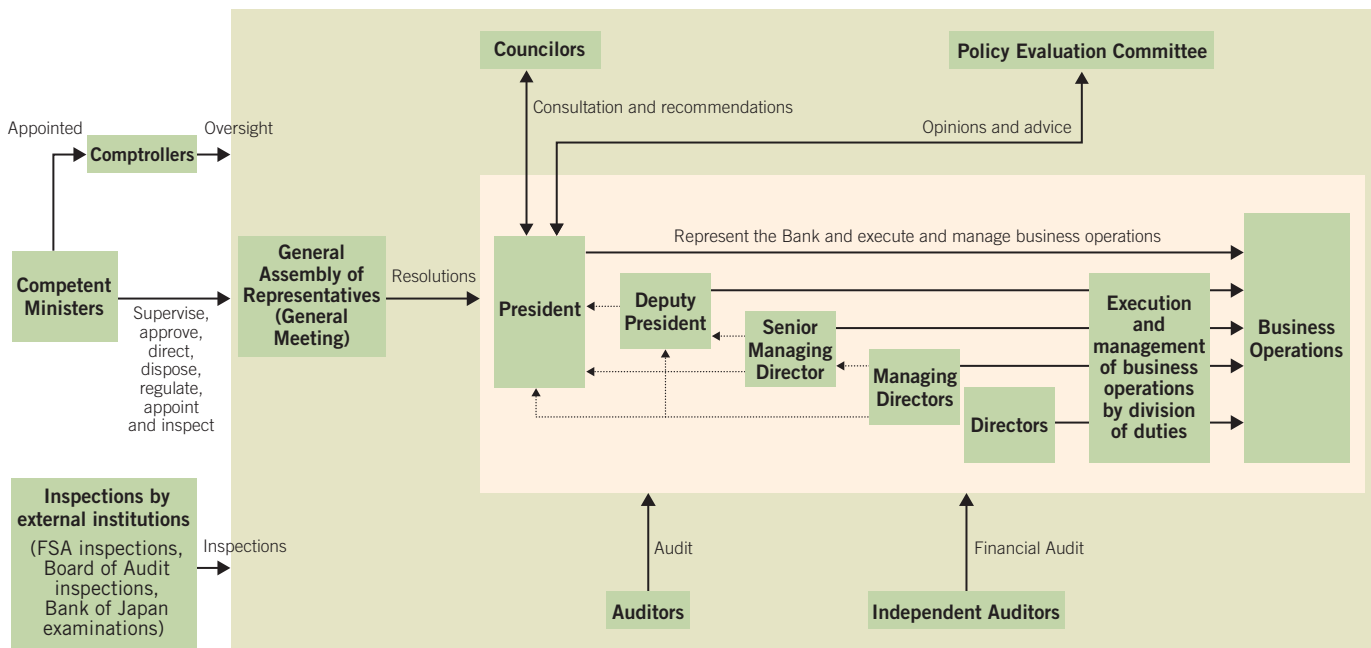
THE SHOKO CHUKIN BANK'S GOVERNANCE SYSTEM

The Bank adheres to the management systems prescribed by the Shoko Chukin Bank Law and other rules and regulations, and constantly works to improve its systems to ensure the maintenance of sound business operations.

The Bank is managed autonomously by its investors, with basic decisions pertaining to the Bank's management made by the General Assembly of Representatives, which is made up of representatives selected from the ranks of SME cooperatives from all over Japan. These SME cooperatives are the Bank's investors. Management execution is carried out by the President, who is appointed by the competent ministers, and is

subject to general supervision by these ministers. The President is the official representative of the Bank. Auditors, who are also appointed by the competent ministers, audit the Bank's business operations. Furthermore, under a legally prescribed system, Comptrollers oversee the Bank's business operations, and Councilors act as advisors to the President.

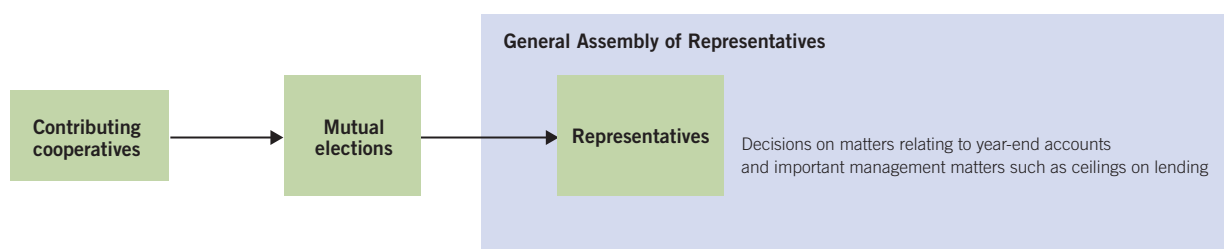
Starting fiscal 2004, financial audits by independent auditors are being introduced owing to the heightened importance attached to the appropriate disclosure of financial statements. A Policy Evaluation Committee is also being established to provide objective opinions and advice in the area of policy evaluation.



- 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 to the Bank's capital. 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 provide advice to 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 overseeing its operations. While the Bank has its own systems of internal checks for risk management and compliance, the Comptrollers also monitor the performance of these tasks on a continuous basis.

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 improving general public awareness of its activities.

The Bank's policy appraisal mechanisms are as follows.

1. Mission Fulfillment through Management by Objectives

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 benchmarks for measuring results. (Please refer to Figure 1.)

2. Implementing a Management Cycle Based on Management by Objectives

We will use the PDCA (plan-do-check-action) Cycle as a tool for better fulfilling our policy role. (Please refer to Figure 2.)

3. Using Disclosure to Achieve Accountability

We will use our web site at <http://www.shokochukin.go.jp/> 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.

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. (Please refer to Figure 2.)

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

■ Figure 1

System for Management by Objectives

What is being done, why and for whom?

Mission

1. State explicitly that the mission is permanent and universal in the Basic Plan

What are the objectives for fulfilling the mission?

Strategic Objective
Strategic Objective
Strategic Objective

2. In long-term management planning, the Basic Plan is drawn up every three years

What is the status of the targeted results?

Performance Goal
Performance Goal
Performance Goal

3. In comprehensive planning, the Annual Plan is drawn up each year

What are the specific methodologies for achieving the objectives?

Policy Packages

Policy

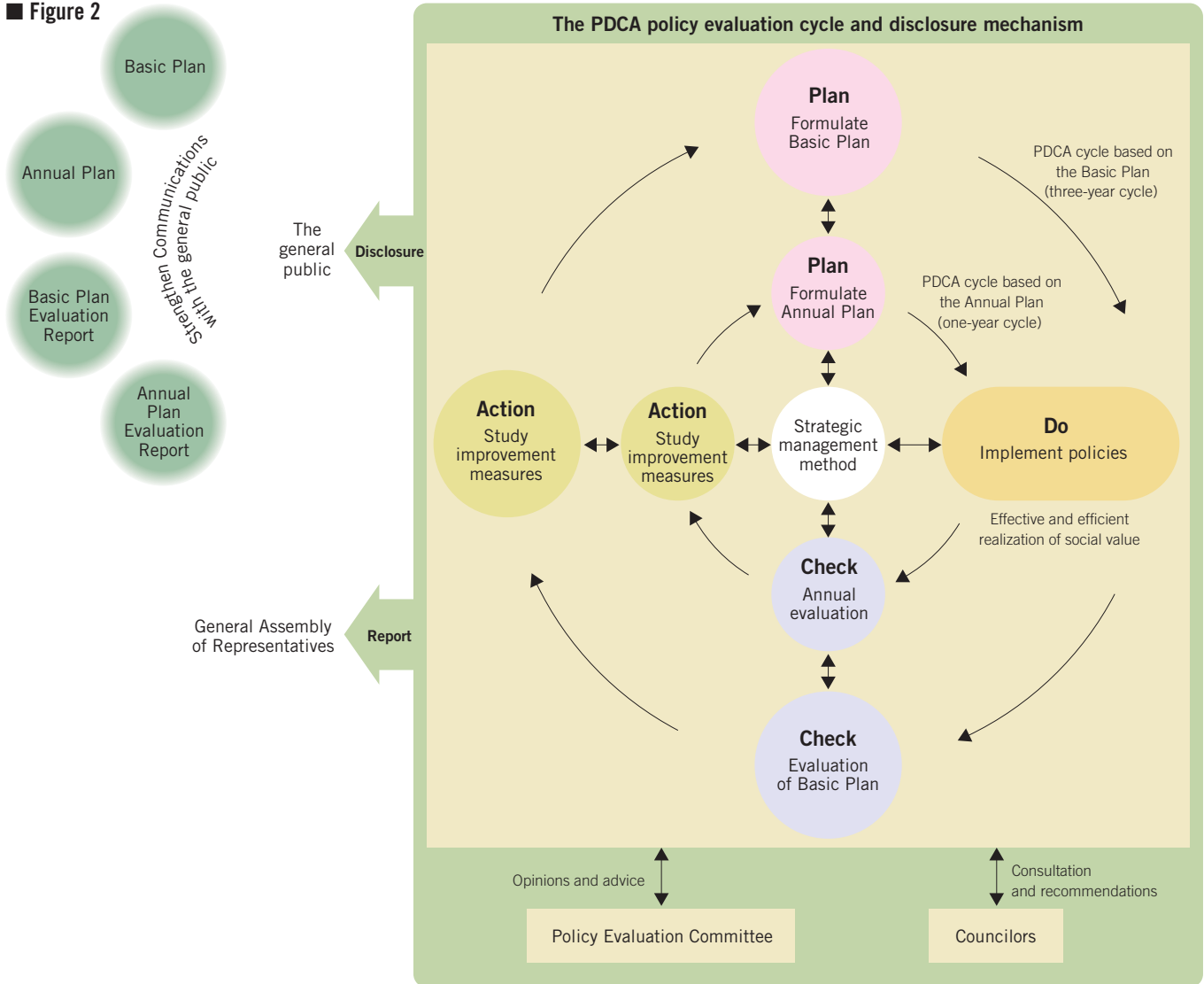
Policy

Policy

What are suitable indicators for selecting results?

Performance Indicator
Performance Indicator
Performance Indicator

■ Figure 2



● **The Policy Evaluation Committee**

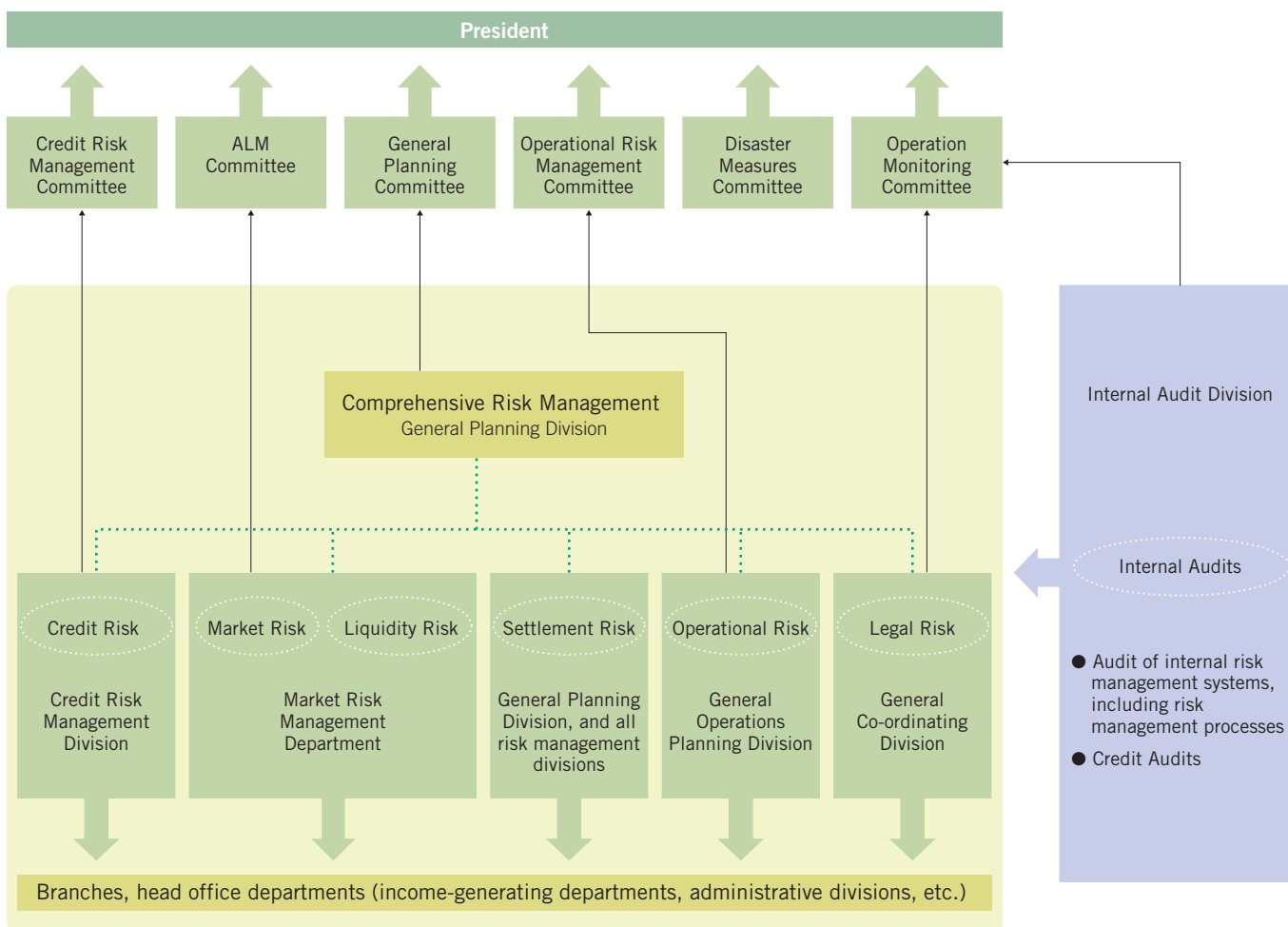
Consisting of influential individuals from outside the Bank, the Policy Evaluation Committee discusses policy evaluation mechanisms and methodologies, the contents of Basic and Annual Plans and the Basic and Annual Plan Evaluation Reports, and advises the President.

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 the monitoring and management of overall risk.

Internal Risk Management Structure



■ Risk Definitions

Credit Risk	The risk of loss due to the partial or complete loss of asset value, owing 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 changes 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 risk is the risk of loss by financial institutions resulting from administrative failures, accidents or management or staff fraud (administrative risk), the risk of loss by financial institutions due to computer system failures, errors, or inadequacies (system risk, which includes system inadequacy and information security risk stemming from fraudulent third-party acts), and the risk of loss due to serious threats such as leaks, fraudulent use, erroneous operations, and deliberate acts to affect 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 Risk Management Division is responsible for coordinating overall credit 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 ratings, business sector and geographical region, as it aims to diversify 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 completely 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. From fiscal 2003, the Bank began setting up the Department for Business Restructuring to provide customers with better support for management improvement and revitalization.

Screening

Individual loan applications are screened using various criteria, such as the viability of the applicant's 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 its customers, the borrower's management quality and its technological skill levels. In screening loans to start-up ventures and other entrepreneurial 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 each level.

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

Under the Bank's market risk management structure, there is separation between the front office departments, which execute transactions, and back office departments, which are responsible for book entry and settlement. In addition, the Market Risk Management Department fills a specialist middle-office role in managing market risk, with the overall structure providing a system of checks and balances between each of the functions. The Market Risk Management Department monitors front office market operations on a daily basis to ensure strict compliance with the market risk and liquidity risk limits set after deliberation by the ALM Committee. The results of these monitoring activities are reported to senior Bank management on a regular basis. (Please refer to the chart on page 27.)

Asset/Liability Management (ALM)

To achieve stable earnings while appropriately managing market and liquidity risk, the Bank analyzes its entire asset and liability portfolios and uses swaps and other instruments to manage overall risk. Specifically, the ALM Committee meets monthly to determine the Bank's level of risk exposure based on prevailing economic and financial conditions, the outlook for a variety of interest rates and the overall level

of risk associated with both on-balance-sheet and off-balance-sheet transactions. Risk exposure levels are set within the context of maintaining an appropriate risk-return ratio.

In addition to the following two methodologies used to measure interest rate risk—an important element of market risk—the Bank also employs the Value at Risk (VaR) method to quantify market risk exposure.

1. Delta Analysis

Delta analysis provides integrated quantification of the interest rate risk "delta" (10 basis point value) in terms of 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 gains and losses, and trends in the market values of marketable securities by combining its operating plans—comprising lending and debenture-based and other fund procurement—with interest rate forecasting scenarios.

Market Operations

Market operations are classified into banking operations and trading operations, and managed accordingly. Within banking operations, the Bank conducts transactions as part of its ALM process for controlling risk exposure. Trading operations are mainly focused on providing a wide variety of financial services to clients, including derivative transactions.

■ Market Risk (Banking)

(excluding stocks held for strategic purposes and foreign currency operations)

Grid Point Sensitivity

(Unit: 100 million yen)

	As of March 31, 2005			
	1 year or less	More than 1 year, 5 years or less	More than 5 years	Total
Delta	4	(6)	(28)	(30)

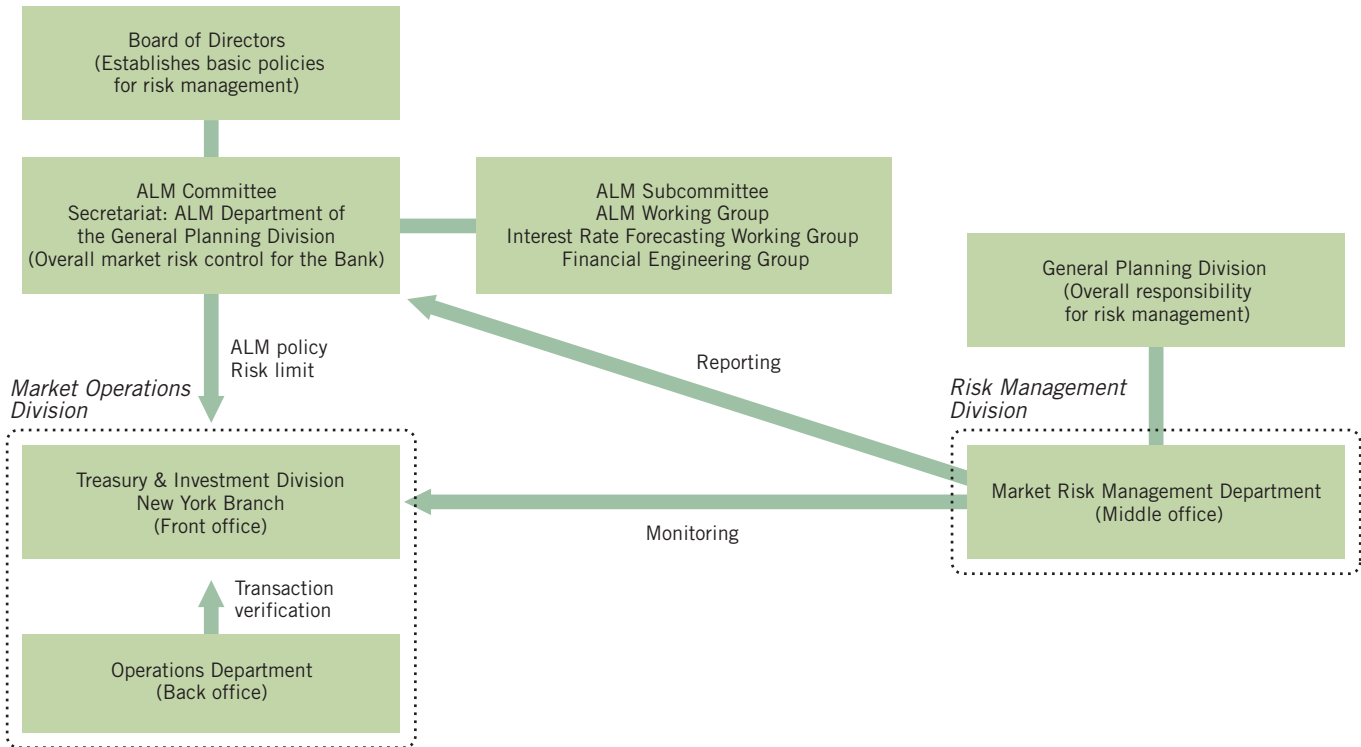
Value at Risk (VaR)

(Unit: 100 million yen)

VaR	As of March 31, 2004	As of March 31, 2005
	196	52

Note: VaR holding period: 1 month, confidence interval: 99%

■ Market and Liquidity Risk Management Systems



GLOSSARY

- Delta (10 basis point value)** ▶ This interest-rate risk management indicator shows for each calculation period, if market interest rates move in parallel by 0.1% (for example, if interest rates rise by this amount), how this will affect the market value of assets, liabilities and off-balance-sheet transactions held by the Bank.
- Value at Risk (VaR)** ▶ This risk management indicator uses a statistical analysis of market interest rate volatility to estimate the maximum loss from the Bank's portfolio, using a particular confidence interval. VaR may be used as an integrated method of quantifying and comparing different types of risk, such as exchange rate risk and interest rate risk.
- Grid Point Sensitivity** ▶ This interest-rate risk management indicator shows how the market value of assets, liabilities and off-balance-sheet transactions held by the Bank would be affected if, from among the various interest rate periods, market interest rates for a particular period were to change. For example, the change in market value resulting from a change in two-year market interest rates only is called the "two-year grid point sensitivity" of a portfolio. While the delta analysis shows the overall interest-rate risk for a portfolio, grid point sensitivity provides detailed information by breaking down the delta into individual periods.

Operational Risk Management

The General Operations Planning Division is responsible for managing and minimizing operational risk, which includes administrative risk, system risk, and information security risk. The Operational Risk Management Committee receives reports on operational risk matters and deliberates on policy relating to risk monitoring and reduction.

The Bank's efforts to mitigate administrative risk through the reduction of administrative errors and omissions include the development of an office manual that clearly stipulates how each operation should be handled, and the installation of various types of office equipment. In addition, Head Office provides operational guidance and in-depth training for managers and staff.

System risk is managed through efforts to ensure the stable operation of computer systems by developing back-up systems, building back-up centers, and carrying out breakdown drills.

In the area of information security, which impacts on both administrative and system risk, the Bank has formulated an Information Security Basic Policy, as well as specific standards and management procedures for handling information security. The Bank has also implemented appropriate measures to protect its information assets, including both data and systems, and maintain the security of these assets. These measures involve the classification of assets by importance, as well as risk assessments.

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.

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, to further bolster the reliability and transparency of its financial statements, from fiscal 2004 the Bank is introducing financial audits by an independent auditor.

COMPLIANCE SYSTEMS

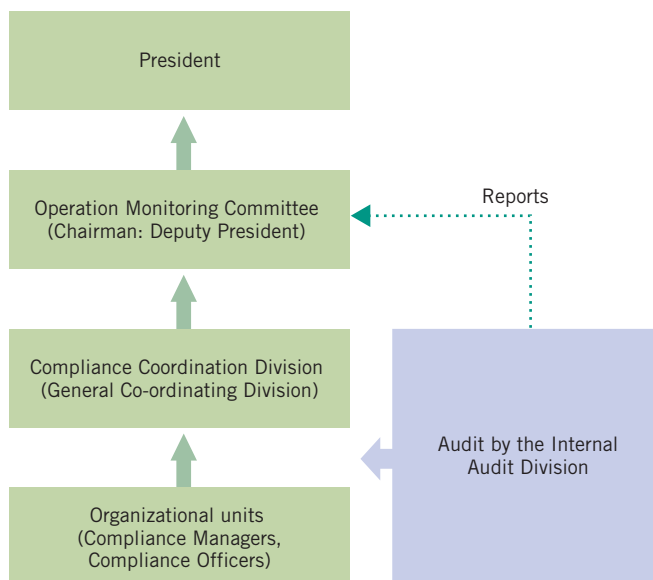
Ensuring full compliance is one of the key issues facing the Bank, owing to its considerable public responsibilities as a government-affiliated financial institution and its obligations to fulfill its duties fairly and earn the confidence of society.

In light of this, in all its business operations and other activities, 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



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. The Committee receives reports on compliance-related matters, and considers improvements to the Bank's compliance system.

(2) Compliance Coordination Division

The General Co-ordinating Division has been designated as the organizational unit responsible for planning and managing basic aspects of compliance, and is working closely with other divisions to further develop the Bank's compliance systems.

(3) Compliance Managers and Compliance Officers

Head office divisional managers and branch managers have been designated as compliance managers, and head office and branch staff have been designated as compliance officers to ensure stringent 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, these amendments are examined to ensure that they comply with all laws, ordinances and rules and pose no problems from the viewpoint of social norms. Where necessary, outside specialist 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.

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

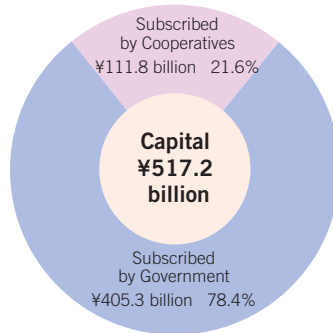
Financial Institution Established under Joint Ownership by SME Cooperatives and the Government

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, 2005, the capital of the Bank stood at ¥517.2 billion. The government subscribes ¥405.3 billion, or 78.4%, of this amount, while cooperatives composed mainly of SMEs subscribe ¥111.8 billion, or 21.6%.

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).

Capitalization Structure

(As of March 31, 2005)



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.

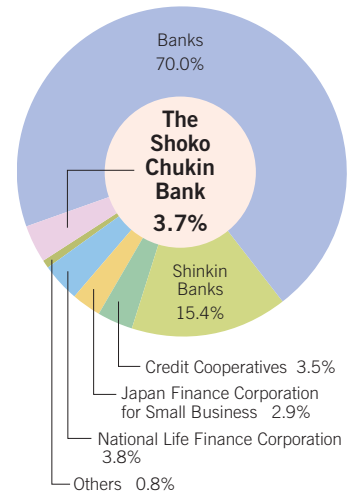
The Bank itself procures some 90% of the funds needed for lending on the basis of the creditworthiness afforded by capital subscriptions from the government.

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.

Total Balance of Loans to SMEs in Japan by Type of Institution

(As of March 31, 2004)



* Banks include city banks, regional banks, second-tier regional banks and trust banks.
Sources: Bank of Japan, *Financial and Economic Statistics Monthly* and SHOKO RESEARCH INSTITUTE, *Shoko Kinyu*, and others.

Utilization of Government Subscription

(Billion yen)

Funds Procured by the Shoko Chukin Bank		Funds Invested by the Shoko Chukin Bank	
Debentures	7,811.2	Loans	9,588.8
Deposits	2,390.0	Securities	1,610.3
Other sources	730.8	Others	385.7
Capital	652.8		
Government subscription	405.3		
Cooperative subscription	111.8		
Total	11,584.8	Total	11,584.8

The credit based on the government subscription of approximately ¥0.4 trillion allows the Bank to procure approximately ¥10 trillion from the market and other sources through debentures and deposits.

The Bank lends funds to cooperatives and SMEs that it procures from the market and other sources through debentures and deposits.

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

Backed by the creditworthiness of the government, the Bank fulfills 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

	FY1994	FY2004	Increase (Decrease)
Total Expenses (billion yen)	101.5	74.4	(26.7)%
Employees	5,660	4,480	(20.8)%
Branches	107	102	(4.7)%
Operating Income (billion yen)	37.5	75.4	101.0 %
Net Income per Employee (Operating Income / No. of Employees) (thousand yen)	6,635	16,849	153.9 %

THE POLICY ROLES OF THE SHOKO CHUKIN BANK

The Shoko Chukin Bank endeavors to fulfill its designated role in line with national SME policies. Below is a summary of the five roles fulfilled by the Bank through a broad range of activities.

A One-stop Platform Supporting Sustained Growth among SMEs

The Bank provides a one-stop shop to meet a full range of day-to-day customer needs, from financial services to management consulting. In the area of financial services, 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 business, not just its finances but also the nature of its operations and technologies, and the skills and ideas of its senior management. 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

overly concerned 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 cycle of enhancements to services for customers and better enables it to fulfill its role as a one-stop platform.

A Specialist in Start-up, Innovation and Revitalization

Making the most of its function as a specialist, built up over almost 70 years of working 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 entrepreneurial firms starting new businesses, on the basis of original technologies and ideas.

At the innovation stage, it provides comprehensive support for innovative 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 as well as its comprehensive financial capabilities, including its ability to provide short-term loans. The Bank formulates rapid and flexible responses that support companies in their efforts to overcome temporary difficulties, which may arise from damage caused by sudden negative changes in the external operating environment.

Moreover, the Bank establishes emergency customer consultation desks to deal with the severe situations resulting from such factors as tight lending policies or the calling in of outstanding loans by third-party institutions, the failure of a correspondent financial institution, the failure of a client, or natural disasters or accidents. These desks enable the Bank to directly ascertain SME needs and formulate tailored responses, including the speedy provision of finance as necessary, based on 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 SMEs cooperatives and to assist SME networking. The Bank also offers information useful for building linkages among SMEs through the Chukin Kai and Youth Kai organizations comprising SME executives.

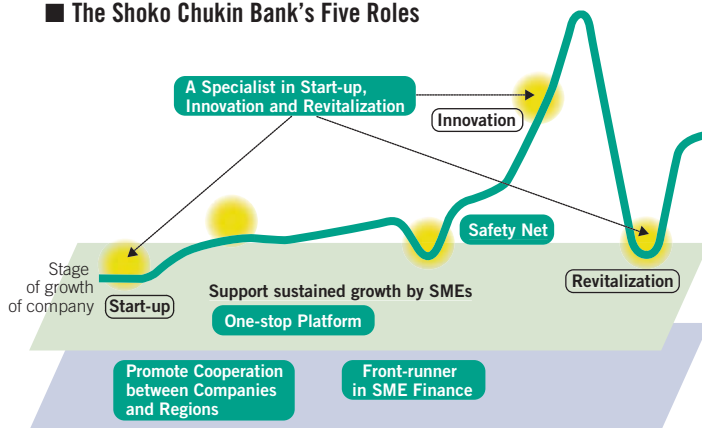
Moreover, it is working to further strengthen its approach to regional cooperation. Making the most of its unique position of simultaneously having channels with industry associations and regional financial institutions, and relationships with local and national policy agencies, it handles policy-based lending to SMEs on behalf of national agencies, local government and industry associations in cooperation with regional financial institutions.

A Front-runner in SME Finance

Generally, fund procurement by SMEs used to take the form of indirect financing. In recent years, however, various funding methods that are not overly dependent on collateral and guarantees have gained increasing attention. These include such methods as securitization, which have diversified the funding sources available by attracting capital from different types of investors. Government-affiliated financial institutions are now expected to lead the way in introducing and supporting new financing methods and encouraging SMEs to consider utilizing these new methods.

As the front-runner in SME finance, the Bank is working proactively to diversify its own funding techniques. It is also engaged in popularizing government SME financing mechanisms that use new types of financial instruments and local-government SME financing schemes. The Bank also participates in private financial institution-run securitization schemes using SME trade receivables.

■ The Shoko Chukin Bank's Five Roles



DIFFERENCES FROM OTHER FINANCIAL INSTITUTIONS

While fulfilling a role in the government's policy on SME organization, 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 a stable source of financing regardless of economic and financial conditions.

Differences from Other Government-Affiliated Financial Institutions

The Bank is the only government-affiliated financial institution in Japan to receive part of its capital from the private sector (SME cooperatives). It also has comprehensive financial capabilities, enabling it to provide the necessary business financing to SME cooperatives and their members on a day-to-day basis.

For the SME cooperatives that participate in the Bank through capital subscription, we provide broad support for SME organizations. This includes the establishment of a unique system for providing loan finance to cooperatives, and the provision of loans to cooperatives and their members.

An important difference between the Bank and other government-affiliated financial institutions may be seen in its comprehensive financial capabilities. These include its ability to provide a diverse range of services similar to those of a commercial bank, such as bill discounting and other forms of short-term finance, as well as deposit and exchange services.

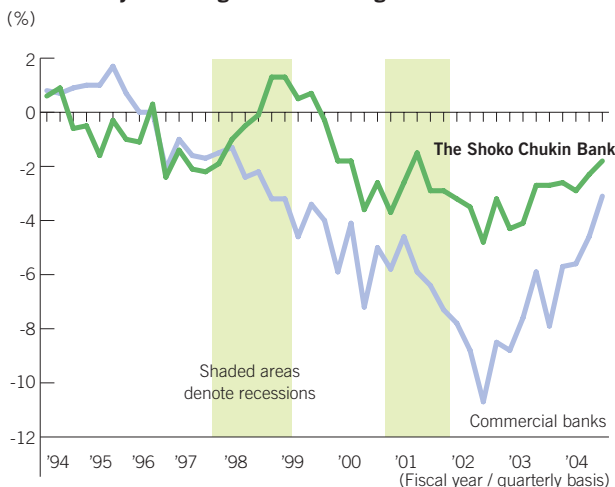
In particular, a major difference is the means by which the Bank raises its funds. While other government-affiliated financial institutions rely primarily on the government for their funds, the Bank uses the government's creditworthiness to raise over 95% of its funding through other means, such as debentures and deposits.

In addition, throughout its history, the Bank has operated in accordance with the Commercial Code and the same accounting standards used by private sector companies. The Bank also pays taxes as a taxable entity.

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*

Notes: 1. Commercial Banks include domestic Banks, *Shinkin* Banks and Credit Cooperatives.

2. Data for domestic 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, including deposits, debentures, securities, domestic exchange and foreign exchange. The Bank also provides information services and offers comprehensive capabilities as an integrated financial institution.

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

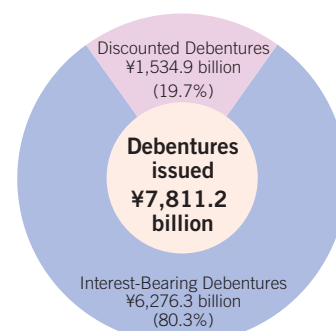
Debentures are securities issued by the national government, local governments, corporations and financial institutions as a means of raising capital. Based on the Shoko Chukin Bank Law, the Bank offers debentures to financial institutions and institutional investors in the market and over-the-counter 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, 2005)



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 reserves 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. The Bank also uses it to manage loans after loan application procedures are completed.

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

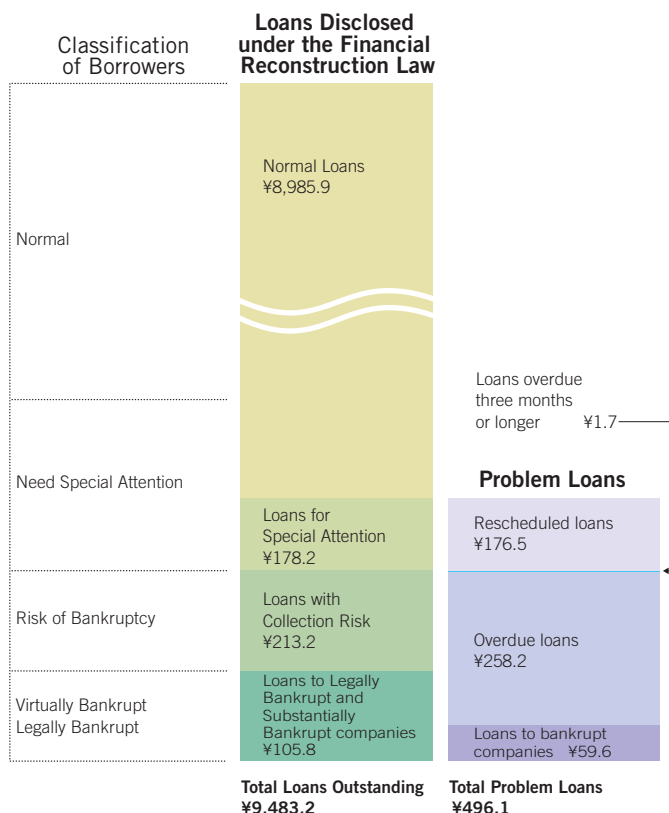
The Bank writes off assets or reserves provisions on the basis of self-assessment results, which are reviewed by outside auditors. It has made sufficient provision for its existing problem loans. The Bank will assist borrowers to maintain healthy credit through the development and implementation of business 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.

Normal	Reserve provisions made on the basis of a formula using past actual loan losses
Need Special Attention	
Risk of Bankruptcy	Reserve provisions made to the necessary level in relation to the amount not covered by collateral
Virtually Bankrupt Legally Bankrupt	Reserve provisions and write-offs made for the entire amount not covered by collateral

■ Status of Problem Loans at the Shoko Chukin Bank

(As of March 31, 2005)

(Billion yen)



The figures in the chart exclude loans classified as unrecoverable (Category IV) based on self-assessment. This is equivalent to the amount of loan balance after direct write-offs of category IV loans, which private financial institutions disclose.

The figures are as follows:

- Loans disclosed under the Financial Reconstruction Law
Loans to Legally Bankrupt and Substantially Bankrupt companies ¥212.1 billion
- Problem loans
Loans to bankrupt companies ¥134.1 billion
Overdue loans ¥77.5 billion

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. Subsequently, in December 2002, after deliberations by the Council on Economic and Fiscal Policy (CEFP), a Cabinet decision was made to reform eight public financial institutions, including the Bank.

The following is from the Rationalization Plan for Special Public Corporations (Cabinet decision, December 2001)

Measures Relating to Activities

(1) Special Loans

Special loan programs shall be evaluated to determine whether or not they are absolutely necessary. Loan programs that are retained or newly established in the future shall be subject to time limits and predetermined targets for program termination.

(2) General Lending Policies

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 shall be clarified based on policy imperatives. Evaluation methods for policy-related financing shall be studied, together with mechanisms to reflect evaluation results in future operations. In particular, steps will be taken to ensure the disclosure of policy implementation costs, including early debt redemption.

Measures Relating to Organizational Form

The organizations whose activities shall be reviewed under the reform measures include: National Life Finance Corporation; Agriculture, Forestry and Fisheries Finance Corporation; Japan Finance Corporation for Small Business; Japan Finance Corporation for Municipal Enterprises; Okinawa Development Finance Corporation; Japan Bank for International Cooperation; Development Bank of Japan; and Shoko Chukin Bank. The scope, scale and organization of public finance shall 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. CEFP 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 (CEFP, 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 bankruptcy domino effect exists. Carry out all appropriate measures to enable implementation of the Rationalization Plan for Special Public Corporations (Cabinet decision, December 2001). This shall include the appointment of appropriate personnel, drawing on those with private sector experience where necessary, 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 the new target 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 most effective system possible.

(3) After Fiscal 2008

Make a rapid transition to the new system.

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

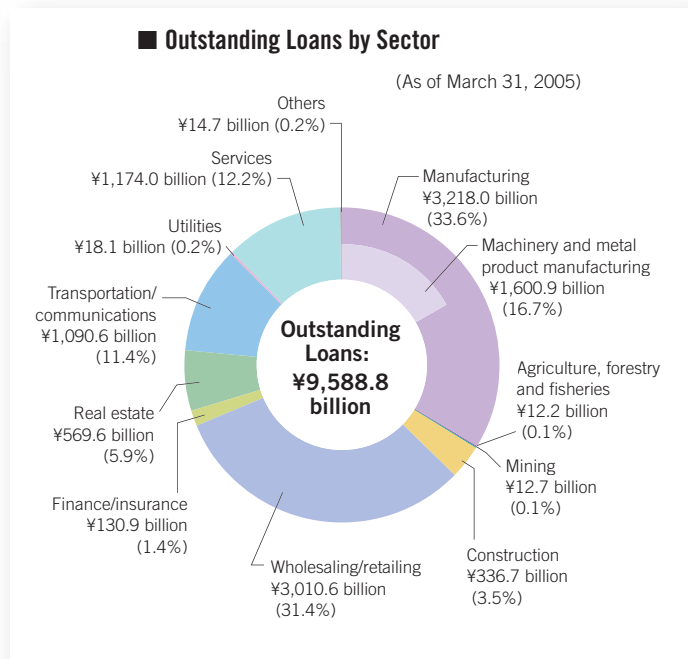
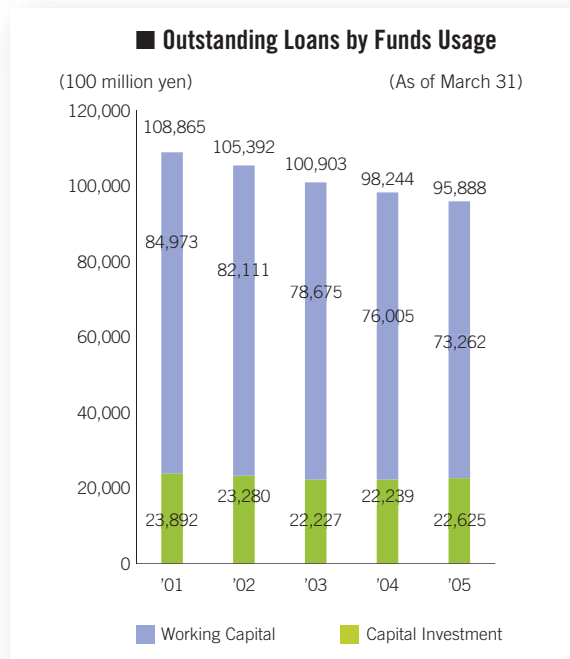
Based on the conclusions reached by CEFP, and in view of the state of the economy, the government shall pursue further review and concurrently adopt all measures necessary to implement the Rationalization Plan for Special Public Corporations by appointing appropriate personnel, including those with private sector experience, who have the desire to accomplish reform.

Outline of Operations

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.

<p>Borrowers</p>	<p>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.</p>
<p>Forms of Loan Transactions</p>	<p>The Shoko Chukin Bank provides loans to cooperatives and their members as follows.</p> <p>Funds for member cooperatives:</p> <p><i>For joint undertakings:</i> 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.</p> <p><i>For loans through cooperatives:</i> The Bank provides loans through member cooperatives to supply funds necessary for members' business operations.</p> <p>Funds for member companies: The Bank extends loans directly to member companies.</p>
<p>Meeting Diverse Business Finance Needs</p>	<p>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.</p> <p>General Loans: Loans on deeds, loans on bills, bill discounting and current account overdrafts.</p> <p>Acceptances and Guarantees: Debt guarantees for various purposes such as bank loans, trade accounts payable, and expressway toll accounts payable using electronic toll collection (ETC) corporate cards.</p> <p>Securities Loans: Loans to be used for various purposes, such as collateral for general commercial transactions or delayed tax payments.</p>



DEPOSITS AND PUBLIC FUNDS

Deposits	<p>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.</p>
Public Funds	<p>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, 2005, these deposits with the Shoko Chukin Bank amounted to ¥24.2 billion. These funds are used extensively to meet the financing needs of SMEs.</p>
Payment Services for Public Charges	<p>The Shoko Chukin Bank provides payment services for public charges, such as national and local government taxes, social insurance premiums, small enterprises' retirement allowance mutual aid premiums, utility charges, NHK broadcast reception charges, and telephone charges. It can also arrange automatic monthly payments of stipulated amounts from accounts specified by customers.</p>
Stocks and Capital Subscription Payments, Dividend Payments	<p>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.</p>

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, 2005 was ¥7,811.2 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 central and local government agencies. 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 is active in domestic and overseas financial markets, through which it seeks superior opportunities for investment and fund-raising. Financial markets are also utilized 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, the Bank strives to maintain the soundness of its assets by employing a variety of financial instruments, 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 opening of import letters of credit (L/C), as well as services relating to import usance bills 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 environment briefings to customers planning overseas expansion. The Bank also provides financial support for expansion projects and guarantees for loans obtained from local banks overseas. Under our Overseas 21 program, the Bank offers a package of support services to assist customers in investment overseas.

■ 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 establishing operations in the United States.
Hong Kong and Shanghai Representative Offices, and Information Centers in Asia	The Representative Offices in Hong Kong and Shanghai provide information and support for Japanese SMEs' expansion in Asia. Such international activity is once again accelerating, particularly vis-a-vis China. The Bank also offers a broad range of post-entry advisory services and assistance to SMEs that have set up business operations in Asia. In addition, the representative offices dispatch staff to partner financial institutions and other organizations in China and ASEAN countries, which enables the Bank to provide up-to-date market information to customers. (As of March 31, 2005, the Bank stationed staff in Shanghai, Dalian, Bangkok, and Kuala Lumpur.)
Overseas Chukin Kai— an SME Network in China and ASEAN Countries	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 other participants.

COMPREHENSIVE FINANCIAL SERVICES

Business Information Services	Business Succession Issues	The Bank helps companies manage their stock, including through the provision of share valuations.
	Support for Initial Public Offerings (IPOs)	The Bank offers customer-focused advice, including proposals for capital policies, information about the establishment of internal systems, and introductions of securities firms and independent auditors.
	Mergers and Acquisitions (M&A) and Business Alliances	Assistance in this area ranges from providing introductions to potential partners and acquisition price valuations to the final fulfillment of purchase conditions.
	Introductions of Business Partners	The Bank uses its nationwide branch network to introduce potential business partners and provides space for the promotion of new products.
	Effective Use of Real Estate	The Bank helps customers make effective use of idle land, including through the introduction of franchisers.
	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 Shoko Chukin Bank Information Network The Bank operates a Web site for SME cooperatives and their members, providing a variety of free-of-charge information services to users. Please visit our Web site at: 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 Bank also supports companies planning to implement IPOs through the Second Shochu Investment Syndicate, which was jointly established with Japan Institute of Commerce, Industry & Economics, Ltd.

SUPPORT FOR THE CHUKIN KAI AND YOUTH KAI

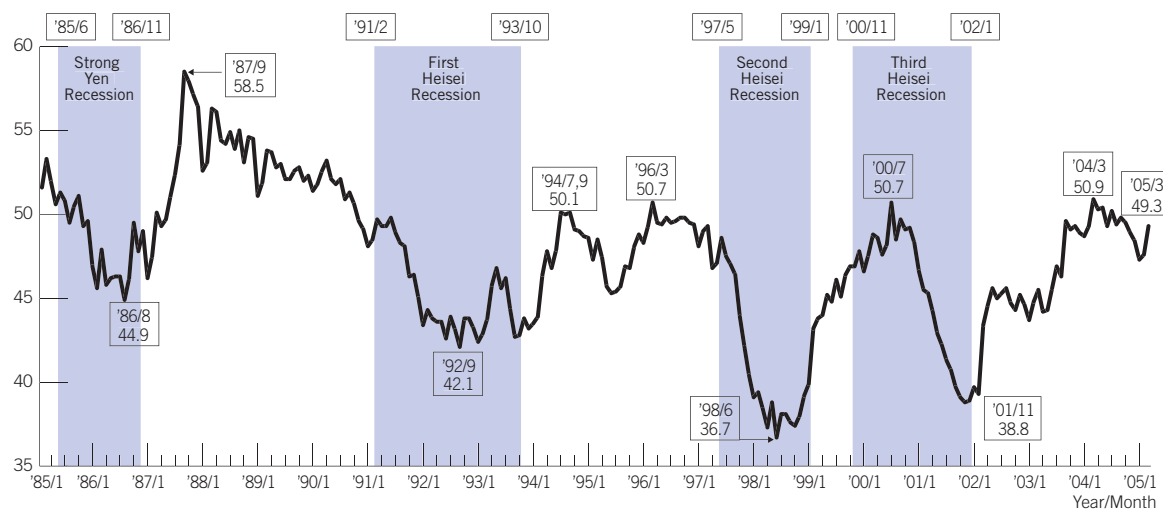
<i>Organization</i>	<i>Outline</i>	<i>Activities and Bank Involvement</i>
Chukin Kai	An association made up of our customers with 107 chapters in Japan, and 3 overseas in Thailand, Malaysia and Hong Kong. There are over 17,000 members.	Dispatches lecturer speakers and helps with support and planning for lectures, study groups and social gatherings. Also provides member companies a variety of information helpful to management on mediation, industry trends, products and technology.
Youth Kai	Associations comprising young businesspeople that are also Bank customers, with 88 chapters in Japan and about 5,300 members.	Dispatches lecture speakers and helps with support and planning for lectures, study groups and social gatherings. Also provides a variety of information helpful to the conduct of member company businesses on such subjects as mediation, expansion of sales, joint development and technical cooperation via different industries.
All-Japan Youth Kai	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 lecturer speakers 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 SMEs. Consequently, trends among SMEs have a large impact on the Japanese economy as a whole. The Shoko Chukin Bank ascertains the latest trends among SMEs using a variety of questionnaires and surveys. It publishes the results in the mass media and on its web site, thus making valuable data available to all SMEs interested in assessing economic and industry trends.

Monthly Survey of SME Business Sentiment	The Shoko Chukin Bank surveys business sentiment among SMEs each month, with the cooperation of 1,000 companies in its portfolio of clients in Japan. This is the only comprehensive business survey in Japan to examine economic trends among SMEs, and the results of the survey receive considerable attention both within Japan and overseas.
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 conducts comprehensive studies and analyses of regional business sentiment based on information from all of its branches, which are grouped into nine regions.
Economic Forecasts	The Shoko Chukin Bank regularly publishes economic forecasts for the current and upcoming fiscal 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	In addition to the surveys described above, the Shoko Chukin Bank carries out surveys and research from time to time covering topics related to current economic trends, and publishes the results. For example, in fiscal 2003 it conducted a <i>Survey of SME Competitiveness</i> .

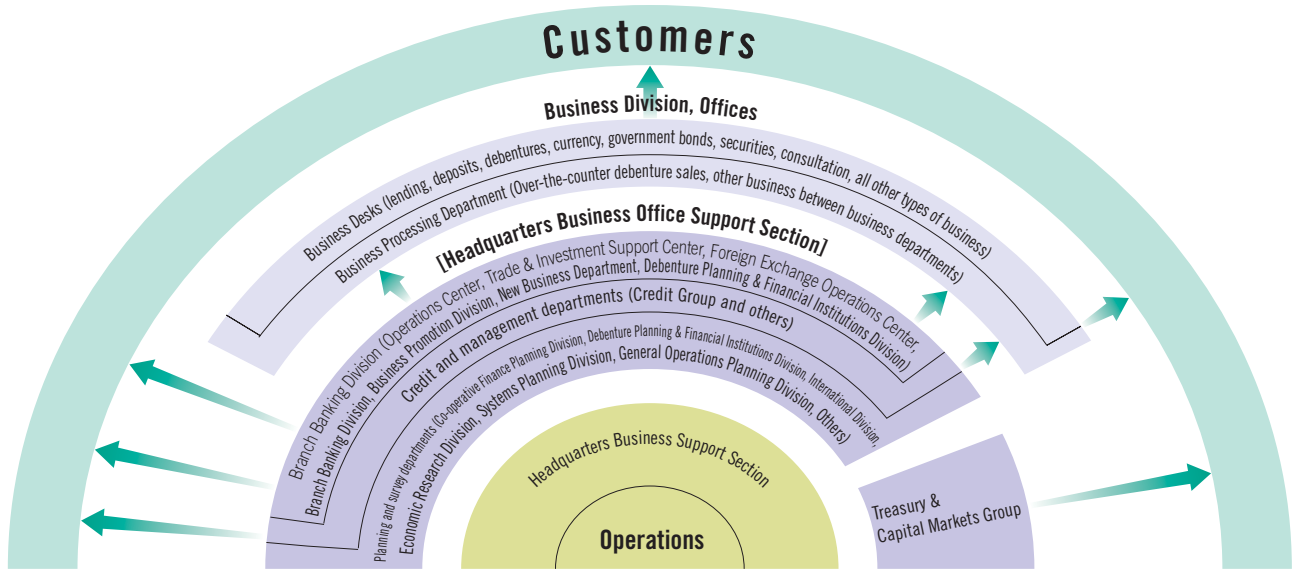
SME Business Sentiment Index



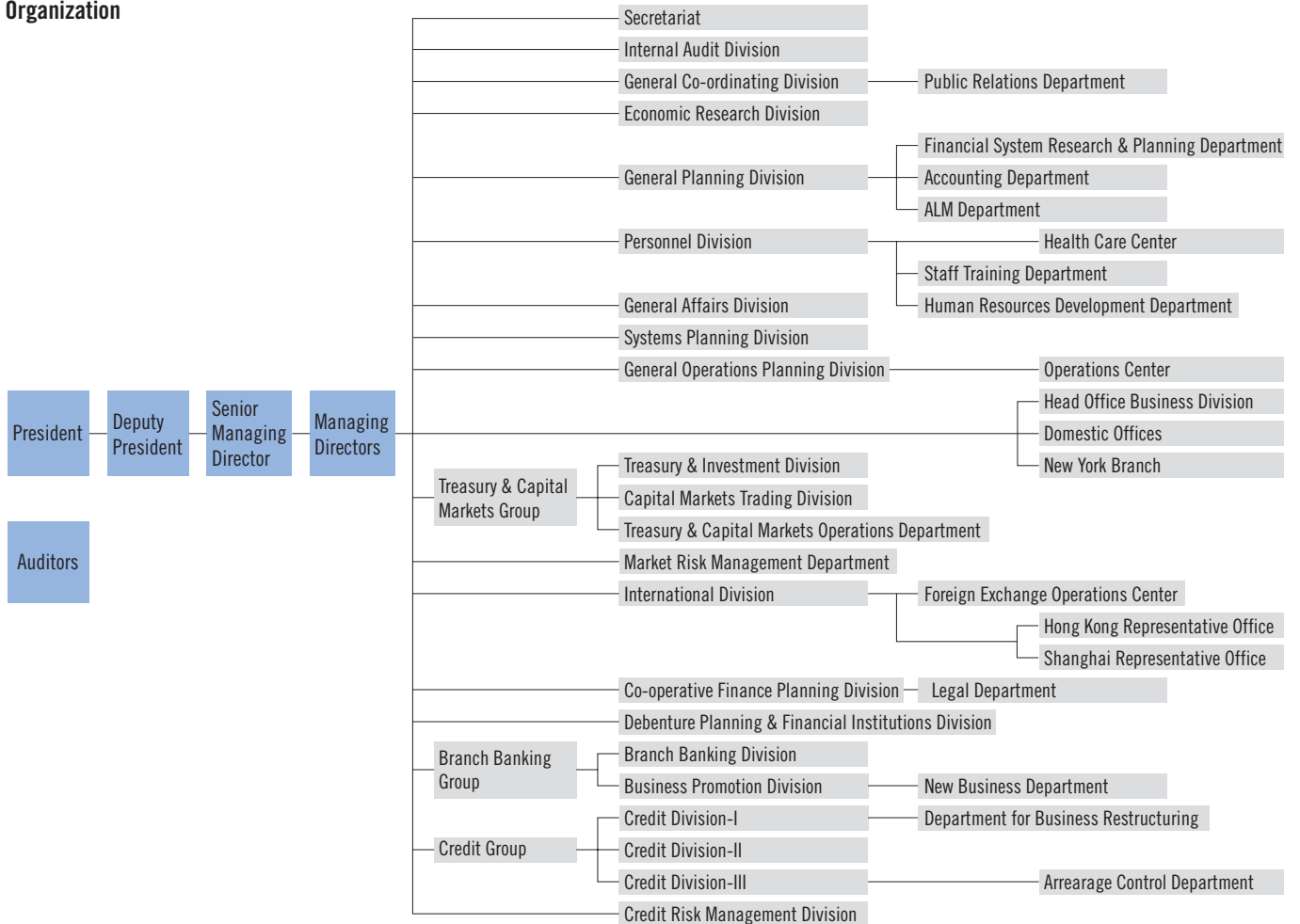
Notes: 1. Business Sentiment Index = ((Number of companies expecting an improvement x 1 + number of companies expecting no change x 0.5) / number of companies surveyed) x 100
 2. An index above 50 indicates that companies expect economic conditions to improve compared with the situation in the previous month, while a result below 50 indicates that deterioration is anticipated.

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

Organization



Organization



Directors and Auditors

(As of July 31, 2005)



Tadashi Ezaki
President



Kenichiro Otake
Deputy President



Minoru Hoshito
Senior Managing Director

Managing Directors

Manabu Ito

Itaru Yokota

Shigeru Matsuoka

Tetsuya Sato

Hiroshi Narita

Toru Toshishige

Naoki Michizoe

Tamotsu Abe

Auditors

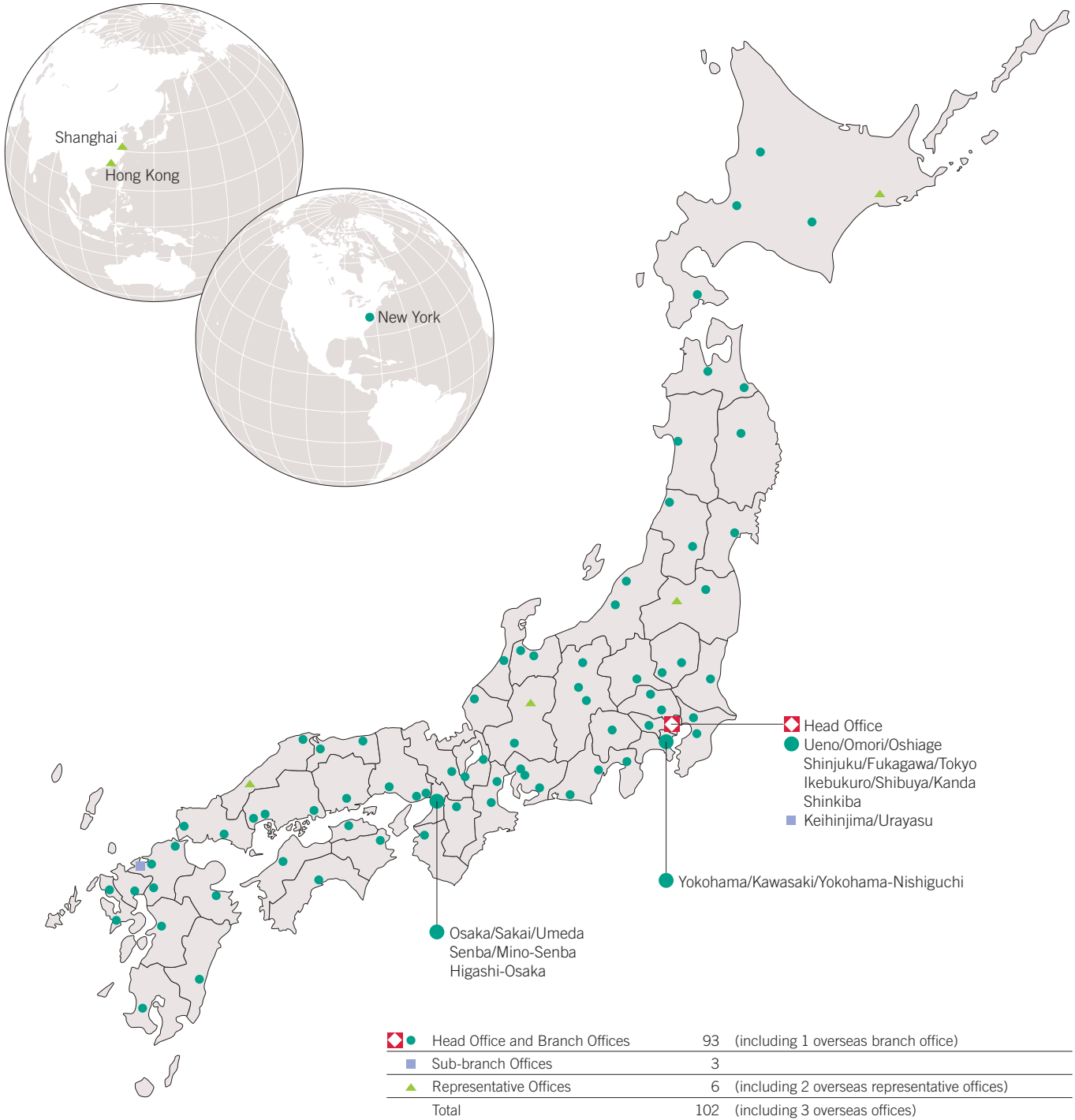
Shigeru Kobayashi

Hatsuo Hige

Hirosuke Kodama

The Shoko Chukin Bank Network

(As of July 1, 2005)



Corporate Data

Head Office

10-17, 2-Chome, Yaesu, Chuo-ku, Tokyo 104-0028, Japan
Tel: 81 3 3272-6111
Fax: 81 3 3272-6169 (International Division)
81 3 3274-3910 (Treasury & Capital Markets Group)
SWIFT Code: SKCK JPJT
World Wide Web: <http://www.shokochukin.go.jp/>

Established

November 30, 1936, under 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

¥517,265 million:
¥405,367 million subscribed by the government;
¥111,897 million subscribed by member cooperatives

No. of Member Cooperatives

27,451

No. of Employees

4,480

Domestic Offices

99

Overseas Offices

3

NEW YORK BRANCH

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

SHANGHAI REPRESENTATIVE OFFICE

Room 1706, Shanghai International Trade Center
2201 Yan-An Xi Road, Shanghai, China
Tel: 86 (021) 6275-3860
Fax: 86 (021) 6275-3861

Affiliates

SHOKO RESEARCH INSTITUTE

- Conducts research into SME financing, SME-related organizations and industry structures, etc.
- Sponsors surveys and research relating to SMEs

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 used in the Bank's operations
- Provides outsourced computer services

SHOKO SERVICE, LTD.

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

SHOCHU CARD CO., LTD.

- Provides a variety of credit card services

JAPAN INSTITUTE OF COMMERCE, INDUSTRY AND ECONOMICS, LTD.

- Provides management information and consulting services
- Conducts venture capital operations

JAPAN SHOKO LEASE CO., LTD.

- Provides leasing services

YAESU MIDORI KANREN JIGYOU KYOUDOUKUMIAI

- Provides joint accounting services for the companies listed above

THE SHOKO CHUKIN BANK

10-17, 2-Chome, Yaesu, Chuo-ku, Tokyo 104-0028, Japan
Tel: 81 3 3272-6111 Fax: 81 3 3272-6169 (International Division)
Homepage Address: <http://www.shokochukin.go.jp/>



This annual report is printed on 100% recycled paper using soy ink.

Printed in Japan