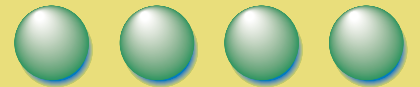




CHUGOKU BANK



The Chugoku Bank, Ltd.

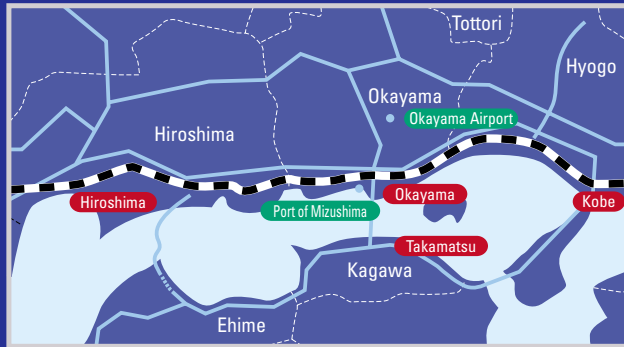
Annual Report 2002

Year ended March 31, 2002

PROFILE

Okayama Prefecture, home to the head office of Chugoku Bank, is situated approximately 700 kilometers west of Tokyo. Facing the Seto Inland Sea, the prefecture is known throughout Japan as “the sunny land” due to its mild climate and consistently fine weather.

With a population of 1.96 million people, Okayama Prefecture yields a gross prefectural product of over ¥7,163 billion (U.S.\$53,756 million), or an impressive 1.5 percent of Japan’s GNP. Manufacturing is the core industry in Okayama, having evolved around the Mizushima Waterfront Industrial District — the world’s leading petrochemical complex — which was constructed in the 1960s. Given the Prefecture’s ever-improving highways, airports, and harbors, there is further growth anticipated, with the area serving as an important economic and cultural center for the Eastern Setouchi region. Moreover, with the prefecture’s establishment of the Okayama Information Highway, increasingly more information distributed worldwide will originate here. Accordingly, the new industries brought forth by the increasing numbers of new offices established to serve the information service industry will spur even more growth.



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CONSOLIDATED FINANCIAL HIGHLIGHTS

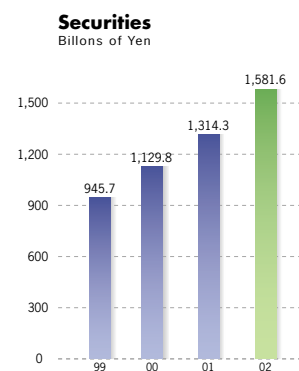
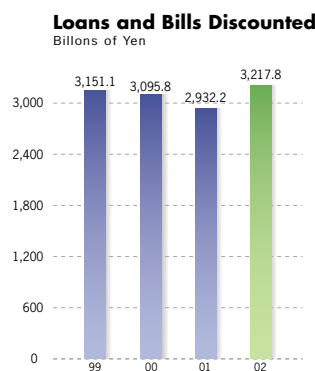
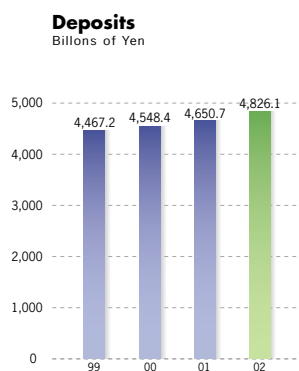
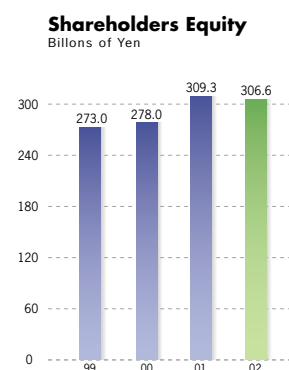
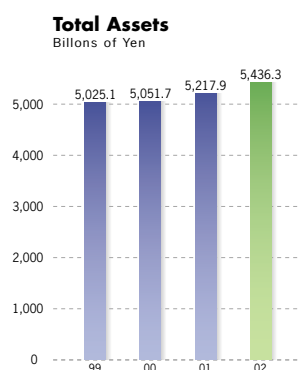
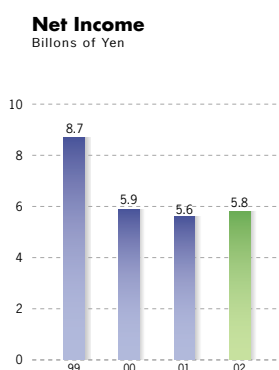
The Chugoku Bank, Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

	Millions of Yen (except per share amounts)		Thousand of U.S. dollars (Note 2)
	2002	2001	2002
For the year:			
Total income	¥ 127,633	¥ 138,068	\$ 957,846
Total expenses	116,373	127,836	873,343
Net income	5,878	5,655	44,113
Per share of common stock (yen):			
Net income	¥ 24.17	¥ 23.25	\$ 0.18
At year-end:			
Deposits	¥4,826,105	¥4,650,721	\$36,218,424
Loans and bills discounted	3,217,823	2,932,259	24,148,765
Securities	1,581,669	1,314,324	11,869,936
Total assets	5,436,334	5,217,985	40,798,004
Shareholders' equity	306,603	309,398	2,300,960
For the year:			
Cash flows from operating activities	292,763	41,273	2,197,096
Cash flows from investing activities	(281,033)	(141,920)	(2,109,066)
Cash flows from financing activities	(1,746)	(1,425)	(13,103)
Cash and cash equivalents at the end of year	86,048	76,054	645,764

Notes: 1. The Japanese yen amounts are rounded up or down to the nearest one million yen.

2. U.S. dollar amounts represent translations from yen, for convenience only, at the rate of ¥133.25 = U.S.\$1.00 in effect on March 31, 2002.

3. Net income per share is based on the weighted average number of shares of common stock outstanding during the year (excluding "treasury stock"), retroactively adjusted for stock splits.



MESSAGE FROM THE MANAGEMENT

The Business Climate and Our Performance

During Fiscal 2001, ended March 31, 2002, the Japanese economy continued its sluggish performance from the previous year. Adding to the difficulties, the tragic occurrences of September 2001 in the U.S. further clouded the prospects of the global economy. Against a backdrop of corporate bankruptcies and apprehension over the financial system, the Nikkei Share Price Average fell to a new recent low on February 2002.

The business climate in Okayama Prefecture, our bank's base of operations, continues to be harsh. Signs emerged at the end of the fiscal year, however, that the worst was over for corporate production and employment. The climate continued to be harsh in the financial industry, as the de facto zero interest rates for lending were maintained.

Within this climate, we aggressively responded to the demand for funds and fund investment needs from our primary customers — local small- and medium-sized businesses and individuals. Our revenue did not improve, however; indeed, our consolidated total income slid 7.6% from the year before to ¥127,633 million. In contrast, our net income rose 3.9% to ¥5,878 million.

In addition to fulfilling our social and public mission as a financial institution representing our community, this bank maintains a fundamental policy of regular dividend payments. In accordance with this policy, we paid year-end dividends of ¥3.50 per share, for dividends of ¥7.00 per share over the full fiscal year.

It is our intention to employ our internal reserves to create a solid financial base capable of weathering the harsh financial climate of the future. This use will include investments in automation to provide improved financial services.

Basic Operating Policy

Our basic operating policy is to be "a bank chosen and trusted" by our customers, and one that contributes to the creation of prosperity in the area we serve. There has been a transformation in the Japanese banking industry in recent years, as new types of banks and banking are appearing against a backdrop of the reorganization and mergers of large city banks and the development of IT.

Within these trends, we believe it is indispensable to further expand our customer-oriented business activities to continue our growth in the future. Therefore, we have formulated and are applying four fundamental operating policies.

First, we will contribute to the development of our community by firmly maintaining the sound operations that have been our hallmark, and respond to our customers' diversifying financial needs by actively assuming risk greater than we have in the past while continuing to incorporate prudent risk management in our activities.

Second, we will make our business systems, our office systems, and our branch policy more efficient. Cutting costs in every area is indispensable for strengthening our profitability as a bank as we continue to provide exceptional financial services to our customers. To achieve this, we will make relative reductions by combining or eliminating branches and assigning the personnel where needed.

Third, we will aggressively make the IT investments required to diversify



our delivery channels, including telephone and mobile banking, to enhance customer services. We also will restructure our clerical operations, including an automated loan approval system and a personal seal verification system.

Fourth, we will work aggressively to improve the investment trusts and other assets in addition to the deposits entrusted to us by our customers. We will respond to various fund investment needs, including investment trusts, government securities, and insurance, to respond to the diversification of customer fund investment while the extremely low interest rates prevail.

Our New Mid-Term Business Plan

We have implemented Powerful Step 21, our business plan for the intermediate term scheduled to run from April 2000 through March 2003. We are sparing no effort to rebuild our business system and make our operations more efficient as we strive to attain our numerical business targets. Although we have systemically proceeded to implement our plan, we have fallen short of our numerical targets for deposits and loans due to a business climate that has been more challenging than we anticipated.

Therefore, we have accelerated the ending of the current plan by one year and formulated the new mid-term plan, Powerful Step 21 — Challenge "R," for the period from April this year through March 2005. This constitutes a revision of our old plan to respond to the current business environment. Our new plan will include the elements of its predecessor, while devoting greater attention to attracting new business. We will undertake a major restructuring of our operations, including large-scale cutbacks of unprofitable divisions. At the same time, we will enhance our system that provides financial services tailored to the individual needs of each of our customers.

Future Policies and Ambitions

To implement our new mid-term business plan, we will return to our original focus as an all-round regional financial services company. We will consider ways to maximize customer satisfaction to contribute to the revitalization of the stagnant regional economy during this deflationary period.

The primary thrust of this new mid-term business plan will be "self-reform to achieve mutual prosperity with the community." We are convinced that we will not be able to execute a plan of this type unless we reform ourselves. Therefore, we will utilize this plan to become "a bank chosen and trusted" by its customers to contribute to the prosperity of our community.

September, 2002

A handwritten signature in black ink that reads "A. Nagashima" followed by a long horizontal stroke that tapers to a point on the right.

Akira Nagashima
President

NEW MID-TERM BUSINESS PLAN, POWERFUL STEP 21 — CHALLENGE “R”

We shortened the running period of our mid-term business plan, Powerful Step 21, at the end of March this year. On behalf of this plan, which had initially been scheduled to run to March 2003, we launched a new mid-term business plan, Powerful Step 21 — Challenge “R,” a three-year plan from April this year through March 2005 that features the enhanced content of Powerful Step 21. The new plan was implemented to respond rapidly to changes in the business climate that exceeded our initial forecasts. We will build a new, high-earnings structure that responds rapidly to all situations by focusing and reallocating our valuable operating resources on strategic divisions, while taking prudent risks and unflinchingly cutting costs. We have named the plan Challenge “R” to incorporate the meaning of the four key expressions that begin with the letter R (risk taking, reallocation, reduction, and rapidity).

We will move forward with our activities based on our primary objective of “self-reform to achieve mutual prosperity with our community.”

Basic Concepts

The implementation of Challenge “R” involves the execution of five policies on which we place particular emphasis. These policies will enable us to form a closer relationship with our customers for our mutual benefit. We intend to be “a bank” our customers can do business with, “a company” in which stockholders and investors can invest with peace of mind, “a workplace” in which our employees can take pride, and “a financial institution chosen and trusted” by our customers in the community.

Policies Given Particular Emphasis

We are implementing certain policies on which we place particular emphasis to achieve our objective of “self-reform to achieve mutual prosperity with our community.”

1) Establishing a presence in new business sectors with risk by taking prudent risks

We will fully utilize the automated loan approval system and new delivery channels provided by Powerful Step 21 and actively endeavor to provide appropriate control of risks in sectors in which extra caution is required.

2) Strategic resources allocation in high value-added sectors

We are proceeding to provide greater efficiency to our business system. This includes both a reorganization based on the idea of efficiently locating our branches, and the preferential allocation of our business resources to promising markets.

3) Securing stable revenue

We will obtain stable revenue by further reducing the number of employees and cutting operating expenses to maintain independent and sound operations in a deflationary economy.

4) Strengthening our risk management system

Strengthening our overall risk management system will enable us to gain a thorough and accurate understanding of risk, which is growing increasingly diverse and complex.

5) Providing an organization and training personnel that focus on the customer and speed

We will create a customer-focused organization whose hallmark is speed by simplifying our organizational structure and transferring the greatest authority possible to our business offices. We also will devote even greater effort to train our personnel, enabling us to offer services that provide satisfaction to our customers.

