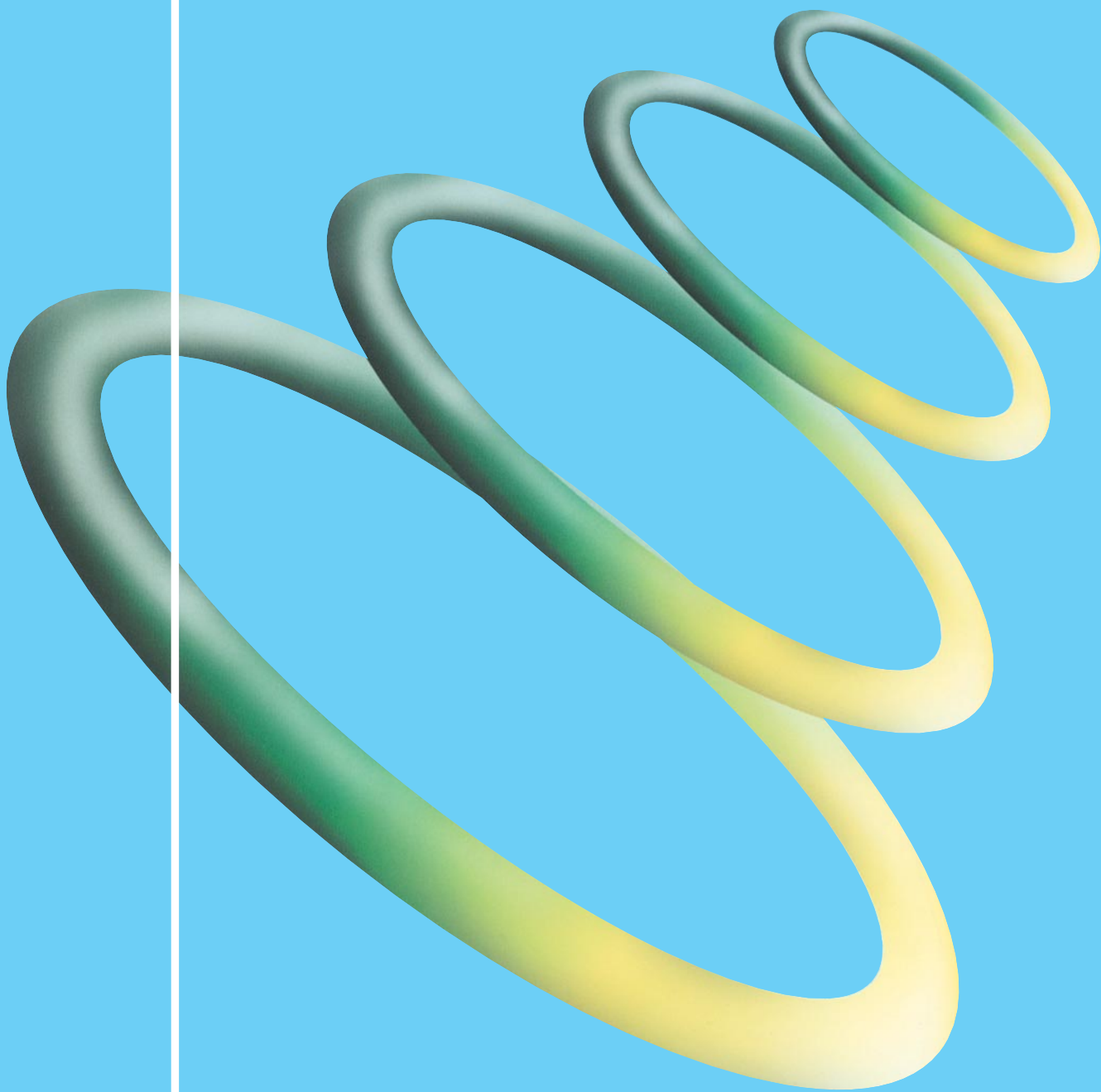


The Chugoku Bank, Ltd.

Annual Report 2003

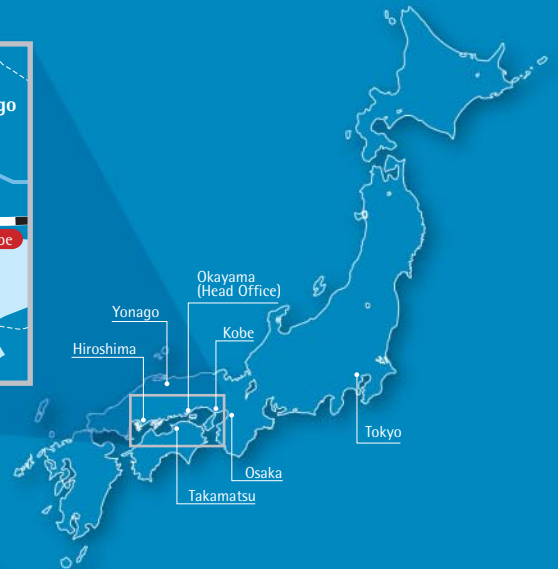
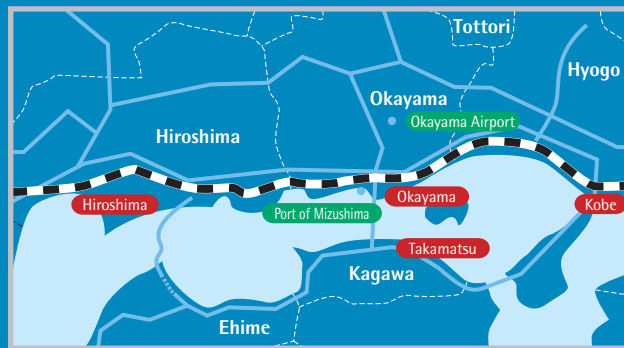
Year ended March 31, 2003



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 ¥7,111 billion (U.S.\$59,160 million), or an impressive 1.4 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

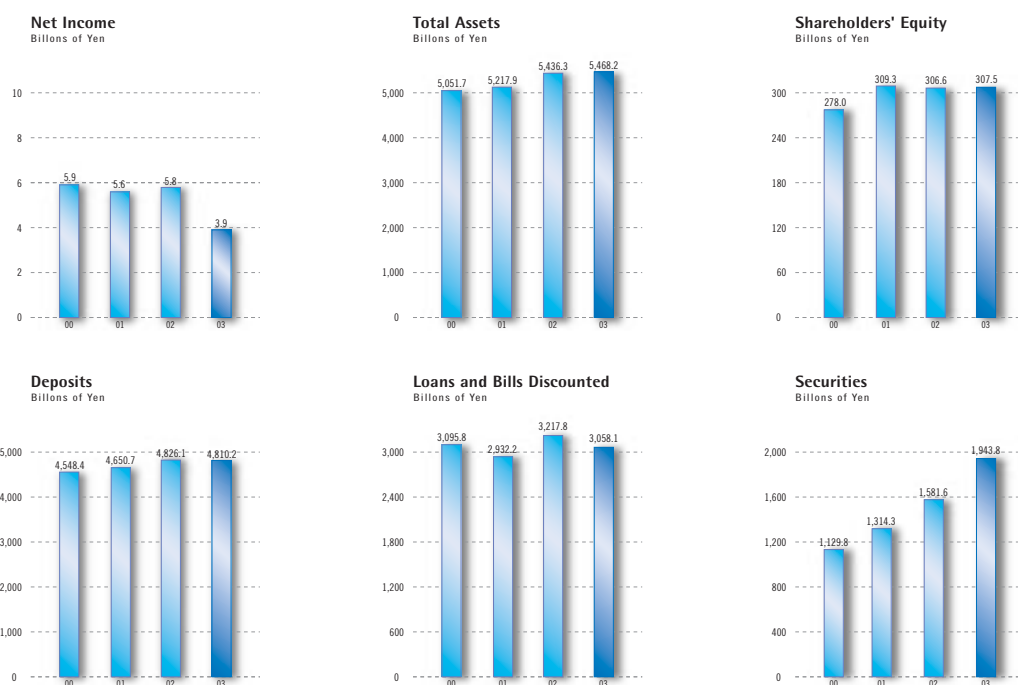
The Chugoku Bank, Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of Yen (except per share amounts)		Thousand of U.S. dollars (Note 2)
	2003	2002	2003
For the year:			
Total income	¥ 118,176	¥ 127,633	\$ 983,161
Total expenses	109,319	116,373	909,476
Net income	3,991	5,878	33,203
Per share of common stock (yen/U.S dollars):			
Net income	¥ 16.30	¥ 23.97	\$ 0.14
At year-end:			
Deposits	¥4,810,291	¥4,826,105	\$40,019,060
Loans and bills discounted	3,058,182	3,217,823	25,442,446
Securities	1,943,813	1,581,669	16,171,489
Total assets	5,468,299	5,436,334	45,493,336
Shareholders' equity	307,517	307,403	2,558,378
For the year:			
Cash flows from operating activities	384,061	292,763	3,195,183
Cash flows used in investing activities	(392,963)	(281,033)	(3,269,243)
Cash flows used in financing activities	(1,877)	(1,746)	(15,616)
Cash and cash equivalents at the end of year	75,258	86,048	626,106

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 ¥120.20 = U.S.\$1.00 in effect on March 31, 2003.

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



The business climate and performance

During the year ended March 31, 2003, the trend for the overall Japanese economy remained flat. Despite a gradual rise in exports, demand was weak, particularly in such sectors as individual consumption and housing and public works investment. The government unveiled a financial reform program in October 2002, evidence of its determination to quickly dispose of non-performing loans and its strong resolve to resuscitate the Japanese economy.

Uncertainties loomed ever larger about the future of the economy, however, as the Nikkei share price average had fallen below the 8,000-point level by the end of the business year. These same harsh conditions generally prevail in Okayama Prefecture, the Chugoku Bank's operating base, as well as the surrounding areas.

To review financial conditions during the year, restrictions were lifted on compensatory payments for fixed time deposits in April 2002, but the complete removal of restrictions, which had been slated for April 2003, was postponed for two years. There were calls to include in the government's financial reform program proactive measures to revitalize small businesses and spur regional economies, as well as boost the profitability of financial institutions in a two-year Action Program for financial institutions starting in March 2003.

In this climate, the Chugoku Bank aggressively responded to the fund demands and investment needs of our primary customers — small businesses and individuals in our community. Yet, slumping fund demand and low interest rates prevented us from achieving growth in profitability, as consolidated total income fell 7.4% from the previous year to ¥118,176 million and net income dropped 32.1% to ¥3,991 million.

The Chugoku Bank firmly believes that it has a social mission to fulfill as a leading area financial institution. We have a fundamental policy of stable dividend payments, so during the year under review, we paid a dividend of ¥7 per share.

Basic Operating Policy

Since being named president in June 2000, I have upheld four fundamental action policies as the basic guidelines for our operations. I will continue to maintain these policies in the future, as we respond to the financial needs of our customers, make our operations more efficient, and fulfill the expectations of our shareholders.

First, we will not be deterred from taking risks when warranted while upholding sound independent operations and responding to our customers' needs, and in so doing, contributing to the development of our community. Specifically, our aggressive response will include supporting the revitalization of local business, creating new business, and providing financing to our individual customers for homes, automobiles, and other necessities.

Second, we will cut costs by promoting greater efficiency in our business systems, administrative systems, and branch policies. In the meantime, we will allocate our business resources with a focus on those enterprises with potential. Third, we will assertively invest in IT to diversify our delivery channels and improve our administrative operations, thus enhancing our customer services. We also will be actively utilizing new business channels as internet use expands and becomes more widespread. These new channels include



internet banking, telephone banking, and internet mobile banking. Fourth, we will meet the challenge of the diversification of customer asset allocation and strive to expand the assets in our custody through such means as the use of investment trust funds and insurance, while the exceptionally low interest rates prevail in Japan.

The Progress of Powerful Step 21—Challenge "R", the New Mid-Term Business Plan

This business year, in April 2002, the Chugoku Bank implemented Powerful Step 21 — Challenge "R", our new mid-term business plan for the following three year period. We have made every effort to beef up our business operations, attentively responding to the needs of our community, as well as further strengthen our financial structure. During the business year under review, we created a customer-oriented organizational structure and developed a branch network. This enabled us to accomplish some significant achievements. These included providing more loans to small businesses and increasing the lending and deposits of our individual customers. We also amended and improved our plan, however, after the release of the government's Action Program to counter the prolonged economic stagnation.

In the future, we will continue to do our utmost to attain our earnings targets by further expanding loans and deposits, boosting our commission income, and reducing operating costs to secure profits.

Future Policies and Ambitions

With the current uncertainty over future developments, I believe it is important to aggressively pursue our business activities while maintaining a balance between securing the soundness demanded of a regional financial institution and taking risks as warranted. The standards of our assessments will be the long years of experience we have accumulated in the region and the relationships of trust we have forged with our customers in the community. The Japanese government has declared a policy of creating regional industry and revitalizing corporate business. We will vigorously pursue the reinvigoration of our community while taking risks as appropriate in the future.

In that way, we hope to remain the bank most trusted by our customers in the community by securing the maximum satisfaction of our local customers and continuing our contribution to the development of our community.

September, 2003

A handwritten signature in black ink that reads "A. Nagashima" followed by a long, sweeping horizontal stroke.

Akira Nagashima
President

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

The Chugoku Bank has implemented its new mid-term business plan — Powerful Step 21 — Challenge “R” — which went into effect in April 2002 and will be in effect until March 2005, to buttress our earnings structure and financial base. As part of this plan, we created an organizational structure and a branch network as a customer-oriented infrastructure, and intensified our efforts to boost lending to small businesses, and increase loans and deposits for individual customers. These efforts have been successful in many ways.

The prolonged economic downturn, however, has created a distortion in the interest rate income that we anticipated receiving. In the future, we will spare no effort to reap profits by further expanding our lending and deposits, enhancing our commission income, and cutting operating costs.

We formulated our new mid-term business plan, Powerful Step 21 — Challenge “R”, to respond with dispatch to the rapid changes in the business climate in recent years. The “R” was placed in the plan’s name to show our company’s intention to implement what we term the four Rs. These are: “R”eallocating our business resources in the strategic business divisions while taking the appropriate “R”isks, aggressively “R”educing costs, and “R”apidly dealing with all situations as they occur. This will enable us to create a structure that generates high profits.

We also will conduct business based on our primary objective of self-reform to achieve mutual prosperity with the community.

Basic Concepts

The implementation of five core policies based on Challenge R on which we place particular emphasis will enable us to enhance the value of our bank as one that is chosen and trusted by our customers in the community. Implementing these five important policies will enable us to achieve our objectives: being a bank in which our customers can do business with, a bank in which stockholders and investors can invest with peace of mind, and a workplace in which our employees can take pride.

1) Establishing a presence in new business sectors by taking prudent risks
We are actively involved with managing the risk involved in lending to small enterprises and individual borrowers by employing an automated loan evaluation system for corporations and new delivery channels. We also have enhanced our operations support center to provide support for improving the operations of borrowers in difficulty.

2) Strategic resource allocation in high value-added sectors
We are making our business structure more effective by moving ahead with reorganization based on the idea of efficient branch location and the preferential allocation of business resources to promising markets.

3) Low-cost operation
We are doing our utmost to further reduce our workforce and operating expenditures, as well as secure stable profits, to maintain sound operations in a deflationary economy.

4) Strengthening our risk management system
We are strengthening our overall risk management system to acquire an accurate picture of risk that is growing increasingly diverse and complex. We also are enhancing our compliance system.

5) Developing a customer-first perspective that places a premium on speed
We are proactively streamlining our organization, devolving authority to the branches, and training personnel to promptly provide customer-oriented service of exceptional quality.

