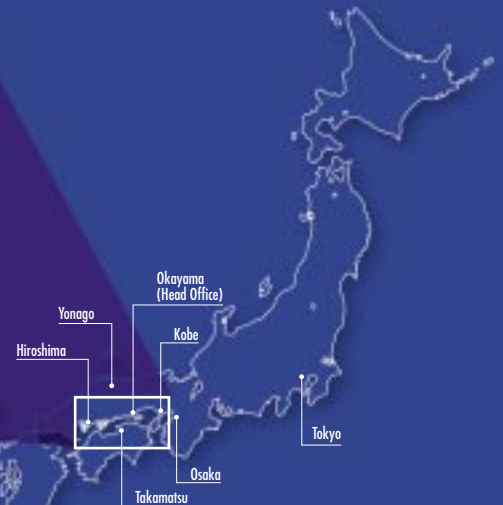
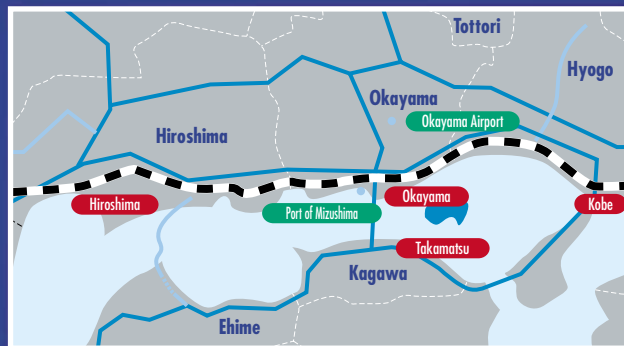


Profile

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 1.95 million people, Okayama Prefecture yields a gross prefectural product of over ¥7,276 billion (U.S.\$68,843 million), or an impressive 1.4 percent of Japan’s GDP. 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.



Contents

Consolidated Financial Highlights	1	Consolidated Financial Statements	10
Message from the Management	2	Independent Auditors’ Report	23
Mid-Term Business Plan		Non-Consolidated Financial Statements	24
Powerful Step 21 – Challenge “R”	3	Independent Auditors’ Report	32
Principal Operations of the Chugoku Bank Group .	4	Board of Directors and Auditors	33
Review of Operations	5	Organization Chart	34
Risk Management System	8	Service Networks	35
		Corporate Data	36

Consolidated Financial Highlights

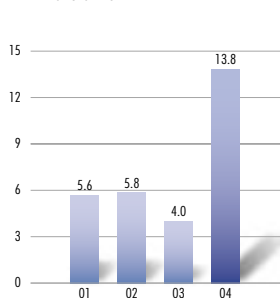
The Chugoku Bank, Limited and Consolidated Subsidiaries
March 31, 2004 and 2003

	Millions of Yen (except per share amounts)		Thousand of U.S. dollars (Note 2)
	2004	2003	2004
For the year:			
Total income	¥ 122,974	¥ 118,176	\$ 1,163,535
Total expenses	95,707	109,319	905,545
Net income	13,770	3,991	130,287
Per share of common stock (yen/U.S dollars):			
Net income	¥ 57.30	¥ 16.30	\$ 0.54
At year-end:			
Deposits	¥4,883,012	¥4,810,291	\$46,201,268
Loans and bills discounted	3,000,583	3,058,182	28,390,415
Securities	2,168,680	1,943,813	20,519,254
Total assets	5,618,354	5,468,299	53,158,804
Shareholders' equity	326,338	307,517	3,087,690
For the year:			
Cash flows from operating activities	205,632	384,061	1,945,615
Cash flows used in investing activities	(193,257)	(392,963)	(1,828,528)
Cash flows used in financing activities	(7,596)	(1,877)	(71,870)
Cash and cash equivalents at the end of year	80,022	75,258	757,139

- 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 ¥105.69 = U.S.\$1.00 in effect on March 31, 2004.
3. Net income per share is based on the weighted average number of shares of common stock outstanding during the year (excluding treasury stock).

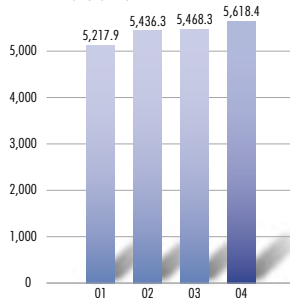
Net Income

Billions of Yen



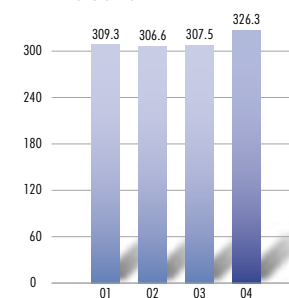
Total Assets

Billions of Yen



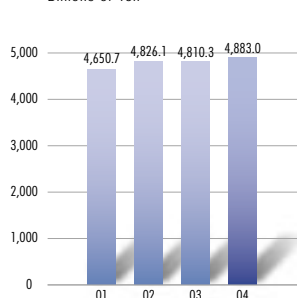
Shareholders' Equity

Billions of Yen



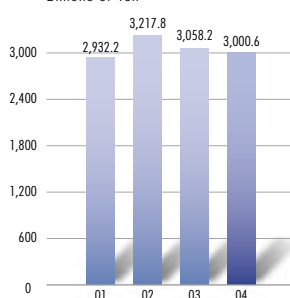
Deposits

Billions of Yen



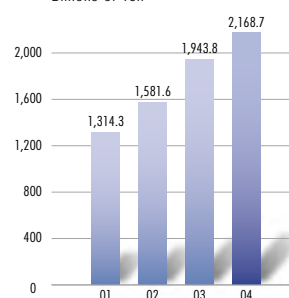
Loans and Bills Discounted

Billions of Yen



Securities

Billions of Yen



Message from the Management



The business climate and performance

During fiscal 2003, ended March 31, 2004, the Iraq War and SARS worked to offset a recovery in the Japanese economy. The second half of the year saw an increase in exports and improved results for companies which felt the affects of their reforms. In the financial sector mega bank groups continued to dispose of non-performing loans and saw the share prices of their stock holdings rise to allow them to adopt a more aggressive approach in their marketing. Regional banks redoubled their efforts to bolster profitability and soundness while working toward revitalizing the regional economy and rehabilitating small and medium enterprises.

In this climate, the Chugoku Bank is fine-tuning its systems as a solution providing regional financial institution that offers highly value-added financial services to regional customers. The bolstering of these systems is based on a plan established in August 2003 to enhance our relationship banking functions in addition to our mid-term business plan — Powerful Step 21 — Challenge R.

For the Chugoku Bank to grow as a financial institution that is chosen and trusted by customers throughout the region, we consider making efforts to adhere to sound management policies as well as taking on appropriate risk to bolster operational capacity and establish a highly profitable framework as important issues.

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 make our operations more efficient.

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 and bolstering housing loans for individuals and automobile finance.

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.

Enhancing Powerful Step 21 — Challenge R, the New Mid-Term Business Plan

In April 2004 the Bank implemented the mid-term business plan, Powerful Step 21 — Challenge R, to be carried out over three years. The end of the year under review coincided with the completion of the second stage of the plan. We are making every effort to beef up our business operations, attentively respond to the needs of our community, as well as further strengthen our financial structure. To address changes in the business environment we are fine-tuning elements of plan policies.

We have included enhancements to our relationship banking functions in the plan. In addition to the four Rs in "Challenge R," we have added a fifth definition — Risk management. With these changes we are aiming to become an even more reliable financial institution.

Future Policies and Ambitions

I believe maintaining sound management policies as well as taking on appropriate risk to bolster operational capacity and establishing a highly profitable framework in addition to underscoring the significance of compliance management are very important in order to further develop the bank as a reliable financial institution that is the choice of people in the region.

Based on our plan to enhance relationship banking functions and our medium-term plan we will continue to create systems that enable us to be a financial institution that is a solution provider and respond to the financial needs of our customers by working closely with our community.

September, 2004

Akira Nagashima
President

Mid-Term business Plan, Powerful Step 21 — Challenge “R”

In April 2004 the Bank implemented the mid-term business plan, Powerful Step 21— Challenge R, to be carried out over three years. The end of the year under review coincided with the completion of the second year of the plan.

In response to dramatic changes in the business environment we are fine-tuning elements of the plan. Main changes include:

- Combining relationship banking function enhancements with the medium-term plan.
- A fifth definition — Risk management — was added to the existing four Rs in “Challenge R.”

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 five Rs. These are: “R” isk Management, sophistication of risk management, “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) 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. Furthermore, we are beefing up our compliance systems and strengthening measures to prevent non-compliant activities.

2) Establishing a presence in new business sectors by taking prudent risks

By controlling risk through our automated screening system we are aggressively expanding non-collateral loans to corporations and increasing our individual loan portfolio. In our plan to enhance relationship banking functions we are rising to challenges in new risk management and business fields by strengthening business matching and support functions for start-up and second-phase start-up companies, which are facing deteriorating performance issues.

3) 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.

4) 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.

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.

