

# Consolidated Balance Sheets

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

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
<b>ASSETS:</b>			
Cash and due from banks .....	¥ 135,439	¥ 130,638	\$ 1,281,474
Call loans .....	87,748	41,817	830,240
Commercial paper and other debt purchased .....	46,557	63,013	440,505
Trading account securities (Note 10) .....	14,069	22,376	133,116
Money trusts (Note 5) .....	43,483	60,635	411,420
Securities (Notes 4, 6 and 10) .....	2,168,680	1,943,813	20,519,254
Loans and bills discounted (Note 7) .....	3,000,583	3,058,182	28,390,415
Foreign exchanges .....	2,896	2,746	27,401
Other assets (Note 10) .....	75,654	70,676	715,810
Premises and equipment (Note 9) .....	47,510	49,339	449,522
Deferred income tax assets (Note 11) .....	8,214	18,816	77,718
Customers' liabilities for acceptances and guarantees .....	42,448	62,979	401,628
Reserve for possible loan losses .....	( 54,927)	(56,731)	( 519,699)
<b>Total assets .....</b>	<b>¥5,618,354</b>	<b>¥5,468,299</b>	<b>\$53,158,804</b>
<b>LIABILITIES, MINORITY INTEREST, AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits (Note 10) .....	¥4,883,012	¥4,810,291	\$46,201,268
Call money (Note 10) .....	90,354	78,199	854,896
Payables for securities lending transactions (Note 10) .....	149,871	108,395	1,418,024
Borrowed money (Notes 10 and 12) .....	21,550	24,015	203,898
Foreign exchanges .....	43	86	407
Other liabilities (Note 10) .....	79,530	52,230	752,484
Accrued employee bonuses .....	1,895	1,768	17,930
Liability for employees' severance and retirement benefits (Note 13) .....	14,802	15,469	140,051
Deferred income tax liabilities .....	—	1	—
Acceptances and guarantees .....	42,448	62,979	401,628
<b>Total liabilities .....</b>	<b>5,283,505</b>	<b>5,153,433</b>	<b>49,990,586</b>
Minority interest .....	8,511	7,349	80,528
<b>Shareholders' equity (Notes 17 and 18):</b>			
Common stock .....	15,149	15,149	143,334
Capital surplus .....	6,288	6,287	59,495
Retained earnings .....	276,759	268,082	2,618,592
Net unrealized holding gains on securities (Note 6) .....	30,926	18,270	292,610
Treasury stock .....	( 2,784)	(271)	( 26,341)
<b>Total shareholders' equity .....</b>	<b>326,338</b>	<b>307,517</b>	<b>3,087,690</b>
<b>Total liabilities, minority interest, and shareholders' equity .....</b>	<b>¥5,618,354</b>	<b>¥5,468,299</b>	<b>\$53,158,804</b>

See notes to consolidated financial statements.

## Consolidated Statements of Income

The Chugoku Bank, Limited and Consolidated Subsidiaries  
For the years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
<b>Income:</b>			
Interest and dividends on:			
Loans and discounts .....	¥55,100	¥55,556	\$521,336
Securities .....	25,536	23,429	241,612
Other .....	689	1,396	6,519
Fees and commissions .....	14,571	13,404	137,866
Other operating income .....	20,543	21,776	194,370
Other income .....	6,535	2,615	61,832
<b>Total income .....</b>	<b>122,974</b>	<b>118,176</b>	<b>1,163,535</b>
<b>Expenses:</b>			
Interest on:			
Deposits .....	2,254	3,061	21,327
Borrowings and rediscounts .....	231	291	2,186
Other .....	4,991	4,498	47,223
Fees and commissions .....	2,968	2,749	28,081
Other operating expenses .....	22,433	19,932	212,253
General and administrative expenses .....	53,984	52,571	510,777
Provision of reserve for possible loan losses .....	6,271	19,516	59,334
Other expenses .....	2,575	6,701	24,364
<b>Total expenses .....</b>	<b>95,707</b>	<b>109,319</b>	<b>905,545</b>
Income before income taxes .....	27,267	8,857	257,990
Income taxes			
Current .....	9,872	7,958	93,405
Deferred .....	2,556	(3,749)	24,184
Minority interest in net income .....	1,069	657	10,114
<b>Net income .....</b>	<b>¥13,770</b>	<b>¥ 3,991</b>	<b>\$130,287</b>

	Yen		U.S. Dollars (Note 2)
	2004	2003	2004
Net income per share .....	¥ 57.30	¥ 16.30	\$ 0.54
Cash dividends applicable to the year .....	7.00	7.00	0.07

See notes to consolidated financial statements.

## Consolidated Statements of Retained Earnings

The Chugoku Bank, Limited and Consolidated Subsidiaries  
For the years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
Retained earnings at the beginning of the year .....	¥268,082	¥265,816	\$2,536,494
Net income .....	13,770	3,991	130,287
Cash dividends .....	(1,687)	(1,702)	(15,962)
Bonuses to directors and statutory auditors .....	(12)	(23)	(114)
Retirement of treasury stocks .....	(3,394)	—	(32,113)
<b>Balance at the end of the year .....</b>	<b>¥276,759</b>	<b>¥268,082</b>	<b>\$2,618,592</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

The Chugoku Bank, Limited and Consolidated Subsidiaries  
For the years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
<b>Cash flows from operating activities</b>			
Income before income taxes .....	¥27,267	¥ 8,857	\$257,990
Depreciation .....	13,369	14,385	126,493
Amortization of goodwill .....	( 81)	—	( 766)
Increase in reserve for possible loan losses .....	6,271	19,516	59,334
Increase (decrease) in accrued employee bonuses .....	126	( 22)	1,192
Increase (decrease) in liability for severance and retirement benefits .....	( 666)	532	( 6,301)
Interest and dividend income .....	( 81,326)	( 80,381)	( 769,477)
Interest expense .....	7,476	7,849	70,735
Losses on sale of securities, net .....	3,192	3,643	30,202
Losses (gains) on money trusts, net .....	( 457)	132	( 4,324)
Foreign exchange losses, net .....	29,333	17,127	277,538
Losses on disposal of premises and equipment, net .....	430	170	4,069
Decrease in trading account securities, excluding foreign exchange contracts .....	8,306	19,245	78,588
Decrease (increase) in call loans, commercial paper and other debt purchased .....	( 29,475)	152,310	( 278,882)
Increase in due from banks, excluding the Bank of Japan .....	( 36)	( 20,925)	( 341)
Increase in foreign exchange assets .....	( 150)	( 112)	( 1,419)
Decrease in loans and bills discounted .....	49,524	147,791	468,578
Increase in other assets .....	( 15,928)	( 12,044)	( 150,705)
Increase in deposits, call money and borrowed money .....	82,410	5,412	779,733
Increase (decrease) in foreign exchange liabilities .....	( 42)	49	( 397)
Increase in other liabilities .....	35,327	31,451	334,251
Interest and dividends received .....	87,192	87,743	824,979
Interest paid .....	( 8,586)	( 8,604)	( 81,238)
Payment of bonuses to directors and statutory auditors .....	( 15)	( 26)	( 142)
Income taxes paid .....	( 7,829)	( 10,037)	( 74,075)
Net cash provided by operating activities .....	205,632	384,061	1,945,615
<b>Cash flows from investing activities</b>			
Purchases of securities .....	( 1,081,378)	( 1,013,006)	( 10,231,602)
Proceeds from sales of securities .....	547,695	369,423	5,182,089
Proceeds from redemption of securities .....	325,493	250,561	3,079,695
Purchases of money trusts .....	( 13,824)	( 11,000)	( 130,798)
Proceeds from money trusts .....	31,434	14,792	297,417
Purchases of premises and equipment .....	( 3,004)	( 4,247)	( 28,423)
Proceeds from sales of premises and equipment .....	327	514	3,094
Net cash used in investing activities .....	( 193,257)	( 392,963)	( 1,828,528)
<b>Cash flows from financing activities</b>			
Cash dividends paid .....	( 1,687)	( 1,702)	( 15,962)
Cash dividends paid to minority shareholders .....	( 9)	( 9)	( 85)
Purchases of treasury stock .....	( 5,904)	( 166)	( 55,861)
Proceeds from sales of treasury stock .....	4	—	38
Net cash used in financing activities .....	( 7,596)	( 1,877)	( 71,870)
Effect of exchange rate changes on cash and cash equivalents .....	( 15)	( 11)	( 142)
Net increase (decrease) in cash and cash equivalents .....	4,764	( 10,790)	45,075
Cash and cash equivalents at beginning of year .....	75,258	86,048	712,064
Cash and cash equivalents at end of year .....	¥80,022	¥75,258	\$757,139

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Chugoku Bank, Limited and Consolidated Subsidiaries  
For the years ended March 31, 2004 and 2003

## 1. Basis of Presenting Consolidated Financial Statements

The Chugoku Bank, Limited (the "Bank") and its subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code, the Japanese Securities and Exchange Law and its related regulations, the Japanese Banking Law, the Japanese Uniform Rules For Bank Accounting, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In the year ended March 31, 2004, the Bank and its subsidiaries did not adopt early the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption.

The Bank and its subsidiaries cannot currently estimate the effect of adoption of the new standard, because the Bank and its subsidiaries has not yet completed their analysis of possible impairment of fixed assets. However, adoption of the new standard could have a material effect on the consolidated financial statements.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

## 2. Yen and U. S. Dollar Amounts

The translations of the Japanese yen amounts into U. S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U. S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U. S. dollars at this or any other rate of exchange.

## 3. Significant Accounting Policies

### (a) Principles of Consolidation

#### (1) Consolidated Subsidiaries

The consolidated financial statements include the accounts of the Bank and its eight significant subsidiaries after the elimination of all significant intercompany transactions, balances, and unrealized profit.

#### (2) Balance Sheet Date of Subsidiaries

All consolidated subsidiaries have fiscal years ending March 31, which is the same as the fiscal year of the Bank.

### (b) Securities and Money Trusts

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Real-

ized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

Securities held for trading purposes in separately managed money trusts are stated at fair market value.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (c) Derivatives and Hedge Accounting

Derivative financial instruments are stated at fair value and the changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

The Bank applies the deferred method of hedge accounting for the interest rate risk accompanying various financial assets and liabilities. In the previous consolidated fiscal years, as permitted by the transitional treatment in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24), hedge accounting was applied on a macro-hedge basis under which overall interest rate risks inherent in loans were considered controlled on a macro basis using derivatives. Effective for this consolidated fiscal year, the principle provisions of JICPA Industry Audit Committee Report No. 24 are applied. Under the principle provisions, the effectiveness of a fair value hedge is assessed for each of identified (i) group of hedged loans and (ii) corresponding group of hedging instruments such as interest rate swaps in the same maturity bucket.

The Bank applies the deferred method of hedge accounting to hedges of foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities. In previous consolidated fiscal years the transitional treatment in JICPA Industry Audit Committee Report No. 25 was applied to these transactions. Effective for this consolidated fiscal year, in accordance with the principle provisions of JICPA Industry Audit Committee Report No. 25, hedge accounting is applied to currency-swap transactions, exchange swap transactions and similar transactions intended to hedge risks of borrowing and lending in different currencies by swapping the borrowing currency for the lending currency. The effectiveness of the above described currency-swap transactions, exchange swap transactions and similar transactions hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on comparison of the foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

In order to hedge risk arising from volatility of exchange rates for other securities (excluding bonds) denominated in foreign currency, the Bank applies fair value hedge accounting, on the conditions that the hedged security is specified in advance and that enough on-balance (actual) or off balance (forward) liability exposure exists to cover the cost of the hedged security in foreign currency base.

### (d) Premises and Equipment

Premises and equipment owned by the Bank and consolidated subsidiaries are generally stated at cost less accumulated depreciation and deferred gains on sale of real estate. Depreciation is computed on the declining balance method over the estimated useful lives of properties.

The estimated useful lives at the Bank are mainly as follows:

Buildings.....	From 4 years to 40 years
Premises.....	From 2 years to 20 years

At consolidated subsidiaries, useful lives are based on the Corporation Tax Law of Japan.  
Leased assets, included in other assets, are depreciated over the lease term using the straight-line method.

#### (e) Foreign Currency Translation

Assets and liabilities in foreign currencies of the Bank are translated into Japanese yen at the exchange rates prevailing at the end of each fiscal year.

In previous consolidated fiscal years, the transitional treatment permitted by "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25) was applied to foreign currency transactions. However, effective this consolidated fiscal year, in accordance with the principle provisions of JICPA Industry Audit Committee Report No. 25, hedge accounting is applied to currency-swap transactions, exchange swap transactions and similar transactions intended to hedge risks of borrowing and lending in different currencies by swapping the borrowing currency for the lending currency. A summary of the hedge accounting applied in these transactions is described in paragraph (c) above.

As a result of the application of hedge accounting, currency-swap transactions and exchange swap transactions, which were accounted for on an accrual basis, are valued at fair value and the amounts are recorded on the balance sheet in Other assets and Other liabilities which resulted in increases of ¥14 million (U. S. \$132 thousand) and ¥3 million (U. S. \$28 thousand), respectively, compared with the corresponding amounts under the previous method. Additionally, as a result of this change, income before income taxes and minority interests increased by ¥11 million (U. S. \$104 thousand).

In previous consolidated fiscal years, the net fair value of forward foreign exchange transactions other than those for the above hedging purposes was recorded in Other assets or Other liabilities on the balance sheet. However, effective this consolidated fiscal year, in accordance with JICPA Industry Audit Committee Report No. 25, the gross fair value amounts are presented in Other assets and Other liabilities as derivatives on the balance sheet. As a result, Other assets, and Other liabilities both increased by ¥799 million (U. S. \$7,560 thousand), compared with the corresponding amounts under the previous method.

#### (f) Reserve for Possible Loan Losses

The Bank writes off loans and makes provisions for possible losses on loans in accordance with the Uniform Accounting Standard for Banks issued by the Bankers' Association of Japan.

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to the existence of security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after an evaluation of the customer's overall financial condition.

For other loans such as normal loans and loans requiring special attention. The reserve for possible loan losses is provided based the Bank's actual rate of loan losses in the past.

The specific reserve for loans to certain countries has been established in accordance with the regulations of the Ministry of Finance to cover potential losses from specific overseas loans to such countries.

The self-assessment and classification has been made by each business department and credit supervision department and has been audited by the Credit Administration Department, an independent department. The reserve for possible loan losses is provided based on such auditing results.

Reserves for possible loan losses of consolidated subsidiaries are provided for general claims by the amount deemed necessary based on the historical loan-loss ratio, and for doubtful claims by the amount deemed uncollectable based on the individual assessments.

#### (g) Accrued Employee Bonuses

Accrued employee bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses which are attributable to the fiscal year.

#### (h) Liability for Severance and Retirement Benefits

The Bank and its consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Bank and its consolidated subsidiaries provide the liabilities for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Actuarial gains and losses are recognized in expenses using the straight-line method over ten years, within the average of the estimated remaining service lives, commencing with the following period.

Based on the new Defined Benefit Corporate Pension Law, the Bank and one of the subsidiaries were permitted by the Minister of Health, Labor and Welfare on August 13, 2003 to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. The amount of pension plan assets expected to be transferred back to the government was ¥7,151 million (U. S. \$ 67,660 thousand) as of March 31, 2004. If the payment of the amount were made on that date, the expected gain in accordance with paragraph 44-2 of the JICPA Accounting Committee Report No.13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)" would have been ¥2,336 million (U. S. \$22,102 thousand).

#### (i) Finance Leases

Finance leases, which do not transfer ownership, are accounted for in the same manner as operating leases under Japanese GAAP.

#### (j) Income Taxes

Deferred income taxes are recognized for timing differences between income for financial and tax reporting purposes. Income taxes in Japan applicable to the Bank and consolidated subsidiaries consist of corporation tax (national), inhabitants taxes (local), and enterprise taxes (local).

#### (k) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash and due from the Bank of Japan are considered to be cash and cash equivalents.

The differences between "cash and cash equivalents" in the consolidated statements of cash flows and "cash and due from banks" in the consolidated balance sheets are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Cash and due from banks .....	¥135,439	¥130,638	\$1,281,474
Deposits with banks .....	( 50,001)	( 41,002)	( 473,091)
Due from banks excluding the Bank of Japan .....	( 5,416)	( 14,378)	( 51,244)
Cash and cash equivalents .....	¥ 80,022	¥ 75,258	\$ 757,139

#### (l) Net Income per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during the year (excluding "treasury stock"). Diluted net income per share of common stock is not disclosed because no dilutive securities are issued by the Bank.

#### 4. Securities

Lent securities which are included in 'Securities' at March 31, 2004 and 2003, amount to ¥150 million (U.S. \$1,419 thousand) and ¥81 million, respectively.

In addition to the securities account in the consolidated balance sheets, certificates of deposits bought are included in cash and due from banks and commercial paper and trust certificates are

included in commercial paper and other debt purchased.

(1) The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2004 and 2003:

#### Available-for-sale securities

	Millions of Yen				
	2004				
	Acquisition Cost	Book Value	Net Unrealized Gains	Unrealized Gains	Unrealized Losses
Equity securities .....	¥ 62,097	¥ 88,568	¥26,471	¥27,127	¥ 656
Bonds .....	1,664,685	1,679,367	14,682	19,506	4,824
Japanese government bonds .....	676,826	678,591	1,765	5,321	3,556
Japanese local government bonds .....	398,947	407,254	8,307	8,651	344
Japanese corporate bonds .....	588,912	593,522	4,610	5,534	924
Other .....	418,603	429,713	11,110	11,798	688
Total .....	¥2,145,385	¥2,197,648	¥52,263	¥58,431	¥6,168

	Millions of Yen				
	2003				
	Acquisition Cost	Book Value	Net Unrealized Gains	Unrealized Gains	Unrealized Losses
Equity securities .....	¥ 49,198	¥ 50,657	¥ 1,459	¥ 6,607	¥5,148
Bonds .....	1,512,659	1,539,384	26,725	29,040	2,315
Japanese government bonds .....	642,063	645,946	3,883	6,111	2,228
Japanese local government bonds .....	393,890	408,007	14,117	14,152	35
Japanese corporate bonds .....	476,706	485,431	8,725	8,777	52
Other .....	374,830	378,003	3,173	5,098	1,925
Total .....	¥1,936,687	¥1,968,044	¥31,357	¥40,745	¥9,388

	Thousands of U.S. Dollars				
	2004				
	Acquisition Cost	Book Value	Net Unrealized Gains	Unrealized Gains	Unrealized Losses
Equity securities .....	\$ 587,539	\$ 837,998	\$250,459	\$256,666	\$ 6,207
Bonds .....	15,750,638	15,889,554	138,916	184,559	45,643
Japanese government bonds .....	6,403,879	6,420,579	16,700	50,345	33,645
Japanese local government bonds .....	3,774,690	3,853,288	78,598	81,853	3,255
Japanese corporate bonds .....	5,572,069	5,615,687	43,618	52,361	8,743
Other .....	3,960,660	4,065,778	105,118	111,628	6,510
Total .....	\$20,298,837	\$20,793,330	\$494,493	\$552,853	\$58,360

(2) Impairment losses of ¥49 million (U. S. \$464 thousand) and ¥4,633 million for shares included in available-for-sale securities were recognized in the years ended March 31, 2004 and 2003, respectively. Impairment losses of ¥266 million for securities investment trusts included in available-for-sale securities were recognized in the year ended March 31, 2003.

Impairment losses are recognized for the full amount of the loss when the loss is 50% or more of the acquisition cost. For losses of 30% to 50% of acquisition cost, the impairment is determined based on the possibility of recovery, past market values and fluctuations in profits of the investee and the investee's industry.

(3) The following table summarizes book values of securities with no available fair values as of March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
	Book Value	Book Value	Book Value
Non-listed equity securities .....	¥ 5,134	¥ 5,070	\$ 48,576
Enterprise bonds .....	16,015	11,833	151,528
Trust certificates .....	42,691	60,457	403,926
Investments in an affiliate .....	32	32	303
Total .....	¥63,872	¥77,392	\$604,333

(4) Available-for-sale securities with maturities mature as follows:

	Millions of Yen			
	2004			
	Within 1 Year	Over 1 Year but Within 5 Years	Over 5 Years but Within 10 years	Over 10 Years
Bonds .....	¥157,029	¥1,049,961	¥300,158	¥188,233
Japanese government bonds .....	33,583	313,136	143,931	187,942
Japanese local government bonds .....	17,653	283,231	106,370	—
Japanese corporate bonds .....	105,793	453,594	49,857	291
Other .....	109,612	265,734	24,268	16,772
Total .....	¥266,641	¥1,315,695	¥324,426	¥205,005

	Millions of Yen			
	2003			
	Within 1 Year	Over 1 Year but Within 5 Years	Over 5 Years but Within 10 years	Over 10 Years
Bonds .....	¥133,469	¥ 966,679	¥296,762	¥154,307
Japanese government bonds .....	27,740	379,754	84,748	153,704
Japanese local government bonds .....	12,847	246,096	149,064	—
Japanese corporate bonds .....	92,882	340,829	62,950	603
Other .....	151,376	212,655	32,276	9,007
Total .....	¥284,845	¥1,179,334	¥329,038	¥163,314

	Thousands of U.S. Dollars			
	2004			
	Within 1 Year	Over 1 Year but Within 5 Years	Over 5 Years but Within 10 years	Over 10 Years
Bonds .....	\$1,485,751	\$ 9,934,346	\$2,839,985	\$1,780,991
Japanese government bonds .....	317,750	2,962,778	1,361,822	1,778,238
Japanese local government bonds .....	167,026	2,679,828	1,006,434	—
Japanese corporate bonds .....	1,000,975	4,291,740	471,729	2,753
Other .....	1,037,108	2,514,277	229,615	158,691
Total .....	\$2,522,859	\$12,448,623	\$3,069,600	\$1,939,682

(5) Total sales of available-for-sale securities in the year ended March 31, 2004 amounted to ¥545,888 million (U.S.\$5,164,992 thousand) and the related gains and losses amounted to ¥5,175 million (U.S.\$48,964 thousand) and ¥8,178 million (U.S.\$77,377 thousand), respectively. Total sales of available-for-sale securities in the year ended March 31, 2003 amounted to ¥368,800 million and the related gains and losses amounted to ¥3,919 million and ¥2,363 million, respectively.

## 5. Money Trusts

Money trusts at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Book value (fair value) .....	¥43,483	¥60,635	\$411,420
Amount of net unrealized gain or losses included in the income statement .....	—	—	—

## 6. Net Unrealized Holding Gains on Securities

Net unrealized holding gains are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Net unrealized holding gains on available-for-sale securities .....	¥52,263	¥31,357	\$494,493
Deferred tax liabilities .....	( 21,120)	( 13,076)	( 199,830)
Net unrealized holding gains, net of taxes .....	31,143	18,281	294,663
Minority interests .....	( 217)	( 11)	( 2,053)
Net unrealized holding gains, net of taxes..	¥30,926	¥18,270	\$292,610

## 7. Loans and Bills Discounted

Loans and bills discounted include the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Loans to bankrupt customers .....	¥ 16,068	¥ 18,957	\$ 152,030
Loans past due six months or more .....	83,052	84,988	785,808
Loans past due three months or more .....	116	208	1,098
Restructured loans .....	67,844	103,243	641,914
Total .....	¥167,080	¥207,396	\$1,580,850

Loans to bankrupt customers are loans to customers undergoing bankruptcy, similar proceedings, or in similar financial condition. Interest is not being accrued on these loans as there is a strong likelihood that the principal and interest are uncollectible.

Loans past due six months or more are loans, not included in the above category or in restructured loans, for which payments are past due six months or more. Interest is not being accrued on these loans.

Loans past due three months or more are loans, not included in the above categories, or in restructured loans, for which payments are past due three months or more.

Restructured loans are loans, not included in the above categories, for which the Bank has granted concessions, such as reduced interest rates, and deferral or waiver of interest or principal payments in support of customers in financial difficulties.

Bills discounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (Industry Audit Committee Report No. 24), issued by the JICPA. The Bank has rights to sell or pledge commercial bills discounted and foreign exchanges bought without restrictions, and their total face amounts at March 31, 2004 and 2003 were ¥97,929 million (U.S. \$926,568 thousand) and ¥107,134 million, respectively.

## 8. Commitment Lines

Loan agreements and commitment line agreements are agreements, which oblige the Bank and its consolidated subsidiaries to lend funds up to a certain limit, agreed in advance. The Bank and its consolidated subsidiaries make loans upon the request of an obligor to draw down funds under such loan agreements, as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreements. The unused commitment balances relating to these loan agreements at March 31, 2004 and 2003 amounted to ¥1,147,520 million (U.S.\$10,857,413 thousand) and ¥1,134,282 million, respectively. Of these amounts, ¥1,142,435 million (U.S.\$10,809,301 thousand) and ¥1,132,782 million, respectively, relate to commitments where the term of the agreement is one year or less, or unconditional cancellation of the agreement is allowed at any time.

In many cases the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flow. Conditions are included in certain loan agreements which allow the Bank and its consolidated subsidiaries either to decline the request for a loan draw down or to reduce the agreed limit amount where there is due cause to do so, such as when there is a change in financial conditions, or when it is necessary to do so in order to protect the Bank and its consolidated subsidiaries' credit. The Bank and its consolidated subsidiaries take various measures to protect their credit. Such measures include having the obligor pledge collateral to the Bank and its consolidated subsidiaries in the form of real estate, securities etc. on signing the loan agreements, or in accordance with the Bank and its consolidated subsidiaries' established internal procedures confirming the obligor's financial condition etc. at regular intervals.

## 9. Premises and Equipment

Premises and equipment at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Acquisition value .....	¥118,395	¥120,878	\$1,120,210
Less accumulated depreciation .....	70,885	71,539	670,688
Net book value .....	¥ 47,510	¥ 49,339	\$ 449,522

## 10. Pledged Assets

Pledged assets at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
<b>Assets</b>			
Securities .....	¥182,509	¥112,367	\$1,726,833
Other assets .....	2,137	1,374	20,220
Future lease receipts .....	12,901	13,458	122,065

Liabilities secured by the above were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deposits .....	¥ 28,263	¥ 39,760	\$ 267,414
Call money .....	6,412	2,064	60,668
Payables for securities lending transactions .....	149,871	108,395	1,418,024
Borrowed money .....	12,101	12,504	114,495
Other liabilities .....	25	35	237

At March 31, 2004, certain trading account securities, aggregating ¥200 million (U. S. \$1,892 thousand) and certain securities, aggregating ¥243,559 million (U. S. \$2,304,466 thousand), were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

At March 31, 2003, certain trading securities, aggregating ¥200 million and certain securities, aggregating ¥237,646 million, were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

## 11. Deferred Income Tax Assets

Significant components of deferred income taxes assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
<b>Deferred income tax assets:</b>			
Reserve for possible loan losses .....	¥15,098	¥15,896	\$142,852
Severance and retirement benefits .....	6,543	6,625	61,907
Depreciation .....	5,104	5,120	48,292
Write-down of securities .....	1,065	2,206	10,077
Accrued employee bonuses .....	846	680	8,005
Other .....	1,838	1,459	17,391
Subtotal .....	30,494	31,986	288,524
Valuation allowance .....	1,048	—	9,916
Total deferred tax assets .....	¥29,446	¥31,986	\$278,608

Deferred income tax liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Net unrealized holding gains			
on securities .....	21,120	13,076	199,830
Other .....	112	94	1,060
Total deferred tax liabilities .....	21,232	13,170	200,890
Net deferred income tax assets .....	¥ 8,214	¥18,816	\$ 77,718

For the years ended March 31, 2004 and 2003 differences between the statutory tax rate and the effective tax rate are as follows:

	2004	2003
Statutory tax rate .....	41.7%	41.7%
Increase (decrease) in taxes resulting from:		
Permanently nontaxable dividends received .....	( 1.1)	( 2.3)
Permanently nondeductible expenses .....	0.3	0.6
Change of aggregate statutory income tax rate .....	1.3	6.5
Per capita inhabitants' taxes .....	0.2	0.8
Valuation allowance .....	3.8	—
Other .....	( 0.7)	0.2
Effective income tax rate .....	45.5%	47.5%

## 12. Borrowed Money

Borrowed money classified by maturity at March 31, 2004 and 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Less than one year .....	¥ 9,603	¥10,141	\$ 90,860
One-two years .....	4,792	7,020	45,340
Two-three years .....	3,197	3,494	30,249
Three-four years .....	2,392	1,830	22,632
Four-five years .....	909	930	8,601
Over five years .....	657	600	6,216
Total borrowed money .....	¥21,550	¥24,015	\$203,898

## 13. Employees' Severance and Retirement Benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation .....	¥56,497	¥51,224	\$534,554
Unrecognized actuarial differences .....	( 14,082)	( 16,243)	( 133,239)
Less fair value of pension assets .....	( 27,651)	( 19,521)	( 261,624)
Prepaid pension costs .....	38	9	360
Liability for severance and retirement benefits .....	¥14,802	¥15,469	\$140,051

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service costs - benefits earned			
during the year .....	¥1,771	¥2,224	\$16,757
Interest cost on projected benefit obligation .....	1,266	1,215	11,978
Expected return on plan assets .....	( 33)	( 228)	( 312)
Prior service costs .....	( 1,387)	—	(13,123)
Amortization of net actuarial loss .....	1,802	1,254	17,050
Severance and retirement benefit expenses .....	¥3,419	¥4,465	\$32,350

The discount rate used by the Bank were 2.00% and 2.50% at March 31, 2004 and 2003, respectively. The rates of expected return on plan assets used by the Bank are 4.050%, 0.0% and 0.464% at March 31, 2004. The rates of expected return on plan assets used by the Bank are 3.693%, 1.110% and 0.464% at March 31, 2003. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in expenses using the straight-line method over ten years, within the average of the estimated remaining service lives, commencing with the following period.

#### 14. Derivative Transactions

The Bank enters into various contracts, including swaps, futures and options covering interest rates, foreign currencies, stocks and bonds in order to meet customers' needs and manage risk of market fluctuations related to the Bank's assets, liabilities and interest rates. The Bank has established procedures and controls to minimize market and credit risk including limits on transaction levels, hedging exposed positions, reporting to management, and outside review of trading department activities.

Credit risk is the potential loss to the Bank should counter parties to transactions not perform in accordance with the agreements. Total credit risk, including offsetting positions, at March 31, 2004 and 2003 were ¥31,700 million (U. S. \$299,934 thousand) and ¥14,976 million, respectively. These amounts at March 31, 2004 and 2003 were calculated using the current exposure method.

The following tables summarize market value information as of March 31, 2004 and 2003 of derivative transactions for which hedge accounting has not been applied:

##### Interest Rate Derivatives:

Type	Millions of Yen			
	2004			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Interest rate swap:				
Pay fixed, receive variable .....	¥3,875	¥3,868	¥( 181)	¥( 181)

Type	Millions of Yen			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Interest rate swap:				
Pay fixed, receive variable .....	¥1,919	¥1,919	¥( 139)	¥( 139)

Type	Thousands of U. S. Dollars			
	2004			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Interest rate swap:				
Pay fixed, receive variable .....	\$36,664	\$36,598	\$( 1,713)	\$( 1,713)

Note: The above transactions are valued at market value and the gains (losses) are recognized in the consolidated statements of income.

##### Currency Derivatives:

Type	Millions of Yen			
	2004			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Currency swaps .....	¥252,655	¥248,879	¥205	¥205
Forward foreign exchange				
Sold .....	11,162	127	229	229
Bought .....	11,684	—	( 193)	( 193)
Currency options				
Sold .....	6,312	3,802	292	61
Bought .....	6,312	3,802	292	( 11)
Total .....			¥825	¥291

Type	Millions of Yen			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Currency swaps .....	¥275,891	¥153,008	¥( 108)	¥( 108)

Type	Thousands of U. S. Dollars			
	2004			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Currency swaps .....	\$2,390,529	\$2,354,802	\$1,939	\$1,939
Forward foreign exchange				
Sold .....	105,611	1,202	2,167	2,167
Bought .....	110,550	—	( 1,826)	( 1,826)
Currency options				
Sold .....	59,722	35,973	2,763	577
Bought .....	59,722	35,973	2,763	( 104)
Total .....			\$7,806	\$2,753

Note: 1. The above transactions are valued at market value and the gains (losses) are recognized in the consolidated statements of income.

2. The following types of forward foreign exchange and currency options are not included in the above amounts.

- Derivative transactions to which deferred hedge accounting is applied
- Those that are allotted to financial assets/liabilities denominated in foreign currency and whose market value are already reflected in the amount of the financial assets/liabilities on the consolidated balance sheet.

Credit Derivative Transactions:

Type	Millions of Yen			
	2004			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Credit Default Options .....	¥1,000	¥1,000	¥1	¥1

Type	Millions of Yen			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Credit Default Options .....	¥1,000	¥1,000	¥0	¥0

Type	Thousands of U. S. Dollars			
	2004			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses) Contract
Over-the-counter transactions				
Credit Default Options .....	\$9,462	\$9,462	\$9	\$9

Note: The above transactions are valued at market value and the gains (losses) are recognized in the consolidated statements of income.

## 15. Lease Transactions

Information for finance leases at March 31, 2004 and 2003 were as follows:

(1) The Bank, and subsidiaries as lessee under non-capitalized leases :

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Original lease obligations for equipment (including finance charges) .....	¥ 548	¥ 89	\$ 5,185
Payments made .....	129	34	1,221
Payments remaining .....	¥ 419	¥ 55	\$ 3,964
Payments remaining:			
Payments due within one year .....	¥ 104	¥ 15	\$ 984
Payments due after one year .....	315	40	2,980
Total .....	¥ 419	¥ 55	\$ 3,964

Lease payments for such leases for the years ended March 31, 2004 and 2003 were ¥99 million (U. S. \$937 thousand) and ¥11 million, respectively.

(2) Subsidiary as lessor :

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Original cost of equipment (excluding finance charges) .....	¥2,939	¥55,679	\$500,889
Accumulated depreciation .....	27,492	29,466	260,119
Net book value .....	¥25,447	¥26,213	\$240,770

Payments remaining:

Payments due within one year .....	¥ 9,387	¥10,024	\$ 88,816
Payments due after one year .....	20,294	20,497	192,014
Total .....	¥29,681	¥30,521	\$280,830

Lease payments received for such leases for the years ended March 31, 2004 and 2003 were ¥10,962 million (U. S. \$103,718 thousand) and ¥10,406 million, respectively. Depreciation of leased assets for the years ended March 31, 2004 and 2003 were ¥9,444 million (U. S. \$89,356 thousand) and ¥8,972 million, respectively.

## 16. Segment Information

Segment information at March 31, 2004 and 2003 is as follows:

### (a) Segment information by type of business

	Millions of Yen					
	2004					
	Banking	Leases, Installment Sales	Securities Investment Advisor	Total	Elimination or Corporate	Consolidated
Recurring income						
Recurring income from outside customers .....	¥ 104,962	¥16,417	¥ 57	¥ 121,436	¥ —	¥ 121,436
Inter-segments .....	245	634	79	958	( 958)	—
	105,207	17,051	136	122,394	( 958)	121,436
Recurring expenses .....	80,532	15,500	78	96,110	( 950)	95,160
Recurring profit .....	¥ 24,675	¥ 1,551	¥ 58	¥ 26,284	¥ ( 8)	¥ 26,276
Assets .....	¥5,594,732	¥39,602	¥458	¥5,634,792	¥( 16,438)	¥5,618,354
Depreciation .....	3,593	9,776	0	13,369	—	13,369
Capital expenditure .....	3,048	9,531	—	12,579	—	12,579

	Millions of Yen					
	2003					
	Banking	Leases, Installment Sales	Securities Investment Advisor	Total	Elimination or Corporate	Consolidated
Recurring income						
Recurring income from outside customers .....	¥ 101,146	¥16,809	¥ 28	¥ 117,983	¥ —	¥ 117,983
Inter-segments .....	282	659	76	1,017	( 1,017)	—
	101,428	17,468	104	119,000	( 1,017)	117,983
Recurring expenses .....	93,532	16,419	62	110,013	( 1,012)	109,001
Recurring profit .....	¥ 7,896	¥ 1,049	¥ 42	¥ 8,987	¥ ( 5)	¥ 8,982
Assets .....	¥5,443,800	¥40,215	¥468	¥5,484,483	¥( 16,184)	¥5,468,299
Depreciation .....	3,964	10,421	0	14,385	—	14,385
Capital expenditure .....	2,966	9,483	—	12,449	—	12,449

	Thousands of U. S. Dollars					
	2004					
	Banking	Leases, Installment Sales	Securities Investment Advisor	Total	Elimination or Corporate	Consolidated
Recurring income						
Recurring income from outside customers .....	\$ 993,112	\$155,332	\$ 539	\$ 1,148,983	\$ —	\$ 1,148,983
Inter-segments .....	2,318	5,999	747	9,064	( 9,064)	—
	995,430	161,331	1,286	1,158,047	( 9,064)	1,148,983
Recurring expenses .....	761,964	146,656	738	909,358	( 8,989)	900,369
Recurring profit .....	\$ 233,466	\$ 14,675	\$ 548	\$ 248,689	\$ ( 75)	\$ 248,614
Assets .....	\$52,935,301	\$374,700	\$4,333	\$53,314,334	\$( 155,530)	\$53,158,804
Depreciation .....	33,996	92,497	0	126,493	—	126,493
Capital expenditure .....	28,839	90,179	—	119,018	—	119,018

Recurring income represents total income excluding gains on disposal of premises and equipment, collection of written-off claims, and exemption from the substitutional portion of employee pension fund. Recurring expenses represents total expenses excluding losses on disposal of premises and equipment.

#### (b) Segment information by location

Segment information by location is not disclosed, since recurring income and assets in Japan of the Bank and consolidated subsidiaries are more than 90 percent of the consolidated amounts.

#### (c) Recurring income from international operations

Recurring income from international operations is not disclosed since it is less than 10 percent of the consolidated recurring income.

### 17. Shareholders' Equity

#### (a) Common Stock and Capital Surplus

At March 31, 2004, the authorized share capital of the Bank consisted of 396 million common shares, of which 240,272,106 shares were issued and outstanding. At March 31, 2003, the authorized share capital of the Bank consisted of 400 million common shares, of which 244,272,106 shares were issued and outstanding. The Bank retired 4,000 thousand shares of common stock, and the numbers of authorized and issued shares of common stock decreased by the numbers of retired shares in this fiscal year.

Numbers of treasury stock held by the Bank and subsidiaries were 3,286,559 and 361,515 at March 31, 2004 and 2003, respectively.

Under the Japanese Commercial Code, at least 50 percent of the issue price of new shares is required to be designated as stated capital. The remaining portion is credited to additional paid-in capital which is included in capital surplus.

#### (b) Legal Reserve

The Japanese Banking Law provides that an amount equivalent to at least 20 percent of cash dividends and other cash appropriations of retained earnings must be appropriated to a legal reserve until the total amount of legal reserve and additional paid-in capital equals the amount of the Bank's stated capital. The legal reserve and additional paid-in capital may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding the amount of common stock, they are available for distributions and certain other purposes by the resolution of shareholders. The legal reserve is included in consolidated retained earnings.

#### (c) Cash Dividends

Cash dividends are paid semiannually. An interim dividend may be approved by the Board of Directors and a year-end dividend may be approved by the shareholders after the end of each fiscal year. The year-end dividends and the related appropriations of retained earnings are not reflected in the financial statements at the fiscal year-end but are recorded at the time they are approved.

However, dividends per share shown in the accompanying statement of income include dividends approved by the shareholders after the end of the fiscal year.

The maximum amount that the Bank can distribute as dividends is calculated based on the non-consolidated financial statements of the Bank in accordance with the Commercial Code.

### 18. Subsequent events

#### (a) Appropriations of unappropriated retained earnings

The following appropriations of the non-consolidated retaining earnings of the Bank at March 31, 2004 were approved at the shareholders' meeting held on June 25 2004.

	Millions of Yen	Thousands of U.S. Dollars
	2004	2004
Cash dividends (¥3.50 per share) .....	¥830	\$7,853
Bonuses to directors and statutory auditors .....	45	426

#### (b) Repurchase of shares

The Bank repurchased its shares from the market pursuant to the provisions of Article 210 of the Commercial Code, as follows.

1. Purchase date .....	June 16, 2004
2. Number of shares repurchased .....	1,468,000 shares
3. Aggregate purchase price .....	¥1,654 million (U. S. \$15,650 thousand)
4. Method of repurchase .....	Purchase on the Tokyo Stock Exchange

## Independent Auditors' Report

To the Board of Directors of  
The Chugoku Bank, Limited :

We have audited the accompanying consolidated balance sheets of The Chugoku Bank, Limited and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Chugoku Bank, Limited and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.



KPMG AZSA & Co.

Okayama, Japan  
June 25, 2004

## Non-Consolidated Balance Sheets

The Chugoku Bank, Limited  
March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
<b>ASSETS:</b>			
Cash and due from banks .....	¥ 135,089	¥130,300	\$1,278,163
Call loans .....	87,748	41,817	830,239
Commercial paper and other debt purchased .....	46,557	63,013	440,505
Trading account securities (Note 4) .....	14,070	22,376	133,125
Money trusts .....	43,197	60,355	408,714
Securities (Notes 5 and 8) .....	2,163,658	1,939,640	20,471,738
Loans and bills discounted (Note 6) .....	3,013,134	3,070,439	28,509,168
Foreign exchanges (Note 9) .....	2,896	2,746	27,401
Other assets (Note 10) .....	38,578	32,477	365,012
Premises and equipment (Note 11) .....	46,093	47,990	436,115
Deferred income tax assets (Note 12) .....	6,716	17,196	63,544
Customers' liabilities for acceptances and guarantees (Note 16) .....	42,448	62,979	401,628
Reserve for possible loan losses .....	( 50,843)	( 53,051)	( 481,058)
<b>Total assets .....</b>	<b>¥5,589,341</b>	<b>¥5,438,277</b>	<b>\$52,884,294</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits (Notes 8 and 13) .....	¥4,889,799	¥4,816,168	\$46,265,484
Call money (Note 8) .....	90,354	78,199	854,896
Payables for securities lending transactions (Note 8) .....	149,871	108,395	1,418,024
Borrowed money (Note 14) .....	7,121	7,799	67,376
Foreign exchanges (Note 9) .....	43	85	407
Other liabilities (Note 15) .....	67,825	40,798	641,736
Accrued employee bonuses .....	1,781	1,650	16,851
Liability for employees' severance and retirement benefits .....	14,686	15,370	138,954
Acceptances and guarantees (Note 16) .....	42,448	62,979	401,628
<b>Total liabilities .....</b>	<b>5,263,928</b>	<b>5,131,443</b>	<b>49,805,356</b>
<b>Shareholders' equity (Notes 18 and 19):</b>			
Common stock .....	15,149	15,149	143,334
Capital surplus .....	6,287	6,287	59,485
Retained earnings:			
Legal reserve .....	15,149	15,149	143,334
General reserve .....	249,536	247,369	2,361,018
Unappropriated retained earnings .....	11,096	4,816	104,986
Net unrealized holding gains on securities .....	30,909	18,270	292,450
Treasury stock .....	(2,713)	(206)	(25,669)
<b>Total shareholders' equity .....</b>	<b>325,413</b>	<b>306,834</b>	<b>3,078,938</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>¥5,589,341</b>	<b>¥5,438,277</b>	<b>\$52,884,294</b>

See notes to non-consolidated financial statements.



# Notes to Non-Consolidated Financial Statements

The Chugoku Bank, Limited  
For the years ended March 31, 2004 and 2003

## 1. Basis of Presenting Non-Consolidated Financial Statements

The Chugoku Bank, Limited (the "Bank") maintains its official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code, the Japanese Securities and Exchange Law and its related regulations, the Japanese Banking Law, the Japanese Uniform Rules For Bank Accounting, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In the year ended March 31, 2004, the Bank did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Bank cannot currently estimate the effect of adoption of the new standard, because the Bank has not yet completed its analysis of possible impairment of fixed assets. However, adoption of the new standard could have a material effect on the non-consolidated financial statements.

The accompanying financial statements have been restructured and translated into English with some expanded descriptions from the non-consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language non-consolidated financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

## 2. Yen and U.S. Dollar Amounts

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 3. Significant Accounting Policies

### (a) Securities and Money Trusts

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

Securities held for trading purposes in separately managed money trusts are stated at fair market value.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is

recognized as loss in the period of the decline. If the fair market value of equity securities issued by subsidiaries and affiliated companies is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (b) Derivatives and Hedge Accounting

Derivative financial instruments are stated at fair value and the changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

The Bank applies the deferred method of hedge accounting for the interest rate risk accompanying various financial assets and liabilities. In the previous fiscal years, as permitted by the transitional treatment in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24), hedge accounting was applied on a macro-hedge basis under which overall interest rate risks inherent in loans were considered controlled on a macro basis using derivatives. Effective this fiscal year, the principle provisions of JICPA Industry Audit Committee Report No. 24 are applied. Under the principle provisions, the effectiveness of a fair value hedge is assessed for each of identified (i) group of hedged loans and (ii) corresponding group of hedging instruments such as interest rate swaps in the same maturity bucket.

The Bank applies the deferred method of hedge accounting to hedges of foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities. In previous fiscal years the transitional treatment in JICPA Industry Audit Committee Report No. 25 was applied to these transactions. Effective for this fiscal year, in accordance with the principle provisions of JICPA Industry Audit Committee Report No. 25, hedge accounting is applied to currency-swap transactions, exchange swap transactions and similar transactions intended to hedge risks of borrowing and lending in different currencies by swapping the borrowing currency for the lending currency. The effectiveness of the above described currency-swap transactions, exchange swap transactions and similar transactions hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on comparison of the foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

In order to hedge risk arising from volatility of exchange rates for other securities (excluding bonds) denominated in foreign currency, the Bank applies fair value hedge accounting, on the conditions that the hedged security is specified in advance and that enough on-balance (actual) or off balance (forward) liability exposure exists to cover the cost of the hedged security in foreign currency base.

### (c) Premises and Equipment

Premises and equipment are generally stated at cost less accumulated depreciation and deferred gains on sale of real estate. Depreciation is computed on the declining balance method over the estimated useful lives of properties.

The estimated useful lives are mainly as follows:

Buildings.....	From 4 years to 40 years
Premises.....	From 2 years to 20 years

#### (d) Foreign Currency Translation

Assets and liabilities in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the end of each fiscal year.

In previous fiscal years, the transitional treatment permitted by "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25) was applied to foreign currency transactions. However, effective this fiscal year, in accordance with the principle provisions of JICPA Industry Audit Committee Report No. 25, hedge accounting is applied to currency-swap transactions, exchange swap transactions and similar transactions intended to hedge risks of borrowing and lending in different currencies by swapping the borrowing currency for the lending currency. A summary of the hedge accounting applied in these transactions is described in paragraph (b) above.

As a result of the application of hedge accounting, currency-swap transactions and exchange swap transactions, which were accounted for on an accrual basis, are valued at fair value and the amounts are recorded on the balance sheet in Other assets and Other liabilities which resulted in increases of ¥14 million (U.S. \$132 thousand) and ¥3 million (U.S. \$28 thousand), respectively, compared with the corresponding amounts under the previous method. Additionally, as a result of this change, Income before income taxes increased by ¥11 million (U.S. \$104 thousand).

In previous fiscal years, the net fair value of forward foreign exchange transactions other than those for the above hedging purposes was recorded in Other assets or Other liabilities on the balance sheet. However, effective this fiscal year, in accordance with JICPA Industry Audit Committee Report No. 25, the gross fair value amounts are presented in Other assets and Other liabilities as derivatives on the balance sheet. As a result, Other assets, and Other liabilities both increased by ¥799 million (U.S.\$7,560 thousand), compared with the corresponding amounts under the previous method.

#### (e) Reserve for Possible Loan Losses

The Bank writes off loans and makes provisions for possible losses on loans in accordance with the Uniform Accounting Standard for Banks issued by the Bankers' Association of Japan.

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to the existence of security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after an evaluation of the customer's overall financial condition.

For other loans such as normal loans and loans requiring special attention. The reserve for possible loan losses is provided based the Bank's actual rate of loan losses in the past.

The specific reserve for loans to certain countries has been established in accordance with the regulations of the Ministry of Finance to cover potential losses from specific overseas loans to such countries.

The self-assessment and classification has been made by each business department and credit supervision department and has been audited by the Credit Administration Department, an independent department. The above reserve for possible loan losses is provided based on such auditing results.

#### (f) Accrued Employee Bonuses

Accrued employee bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses which are attributable to the fiscal year.

#### (g) Liability for Employees' Severance and Retirement Benefits

The Bank provides two types of post-employment benefit plans, an unfunded lump-sum payment plan and a funded non-contributory pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Bank provides the liability for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Actuarial gains and losses are recognized in expenses using the straight-line method over ten years, within the average of the estimated remaining service lives, commencing with the following period.

Based on the new Defined Benefit Corporate Pension Law, the Bank was permitted by the Minister of Health, Labor and Welfare on August 13, 2003 to be released from its future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. The amount of pension plan assets expected to be transferred back to the government was ¥7,103 million (U. S. \$67,206 thousand) as of March 31, 2004. If the payment of the amount were made on that date, the expected gain in accordance with paragraph 44-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)" would have been ¥2,336 million (U.S.\$22,102 thousand).

#### (h) Finance Leases

Finance leases, which do not transfer ownership, are accounted for in the same manner as operating leases under Japanese GAAP.

#### (i) Income Taxes

Deferred income taxes are recognized for timing differences between income for financial and tax reporting purposes. Income taxes in Japan applicable to the Bank consist of corporation tax (national), inhabitants taxes (local), and enterprise taxes (local).

#### (j) Net Income per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during the year, (excluding "treasury stock"). Diluted net income per share of common stock is not disclosed because no dilutive securities are issued by the Bank.

## 4. Trading Account Securities

Trading account securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
National government bonds .....	¥13,415	¥20,708	\$126,928
Local government bonds .....	655	668	6,197
Other trading account securities .....	—	1,000	—
Total .....	¥14,070	¥22,376	\$133,125

## 5. Securities

Securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
National government bonds .....	¥ 675,365	¥ 643,222	\$ 6,390,056
Local government bonds .....	407,254	408,007	3,853,288
Corporate bonds .....	609,512	497,230	5,766,979
Shares .....	91,963	54,345	870,120
Other securities .....	379,564	336,836	3,591,295
<b>Total .....</b>	<b>¥2,163,658</b>	<b>¥1,939,640</b>	<b>\$20,471,738</b>

Securities at March 31, 2004 and 2003, include shares of subsidiaries of ¥50 million (U. S. \$473 thousand) and ¥50 million, respectively.

Lent securities which were included in 'Securities' at March 31 2004 and 2003, were ¥150 million (U. S. \$1,419 thousand) and ¥81 million, respectively.

## 6. Loans and Bills Discounted

Loans and bills discounted at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Bills discounted .....	¥97,610	¥106,572	\$923,550
Loans on bills .....	364,703	394,547	3,450,686
Loans on deeds .....	2,084,018	2,001,143	19,718,214
Overdrafts .....	466,803	568,177	4,416,718
<b>Total .....</b>	<b>¥3,013,134</b>	<b>¥3,070,439</b>	<b>\$28,509,168</b>

Loans and bills discounted include the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Loans to bankrupt customers .....	¥ 15,656	¥ 18,685	\$ 148,131
Loans past due six months or more .....	81,722	83,901	773,224
Loans past due three months or more .....	116	208	1,098
Restructured loans .....	67,845	103,236	641,924
<b>Total .....</b>	<b>¥165,339</b>	<b>¥206,030</b>	<b>\$1,564,377</b>

Loans to bankrupt customers are loans to customers undergoing bankruptcy, similar proceedings, or in similar financial condition. Interest is not being accrued on these loans as there is a strong likelihood that the principal and interest are uncollectible.

Loans past due six months or more are loans, not included in the above category or in restructured loans, for which payments are past due six months or more. Interest is not being accrued on these loans.

Loans past due three months or more are loans, not included in the above categories, or in restructured loans, for which payments are past due three months or more.

Restructured loans are loans, not included in the above categories, for which the Bank has granted concessions, such as reduced interest rates, and deferral or waiver of interest or principal payments in support of customers in financial difficulties.

Bills discounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (Industry Audit Committee Report No. 24), issued by the JICPA. The bank has rights to sell or pledge commercial bills discounted and foreign exchanges bought without restrictions, and their total face amount at March 31, 2004 and 2003 were ¥97,929 million (U.S. \$926,568 thousand) and ¥107,134 million, respectively.

Loan participation agreements, under which the Bank has acquired economic benefits and risks of the underlying loans from the original lender, at March 31, 2004 and 2003 were ¥23,052 million (U.S.\$218,110 thousand) and ¥144,755 million, respectively.

## 7. Commitment Lines

Loan agreements and commitment line agreements are agreements, which oblige the Bank to lend funds up to a certain limit, agreed in advance. The Bank makes the loans upon the request of an obligor to draw down funds under such loan agreements, as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreements. The unused commitment balance relating to these loan agreements at March 31, 2004 and 2003 amounted to ¥1,120,279 million (U. S. \$10,599,669 thousand) and ¥1,102,166 million, respectively. Of these amounts, ¥1,115,195 million (U. S. \$10,551,566 thousand) and ¥1,100,666 million, respectively, relates to commitments where the term of the agreement is one year or less, or unconditional cancellation of the agreement is allowed at any time.

In many cases the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flow. Conditions are included in certain loan agreements which allow the Bank either to decline the request for a loan draw down or to reduce the agreed limit amount where there is due cause to do so, such as when there is a change in financial conditions, or when it is necessary to do so in order to protect the Bank's credit. The Bank takes various measures to protect its credit. Such measures include having the obligor pledge collateral to the Bank in the form of real estate, securities etc. on signing the loan agreements, or in accordance with the Bank's established internal procedures confirming the obligor's financial condition etc. at regular intervals.

## 8. Pledged Assets

Pledged assets at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Pledged assets Securities .....	¥182,484	¥112,331	\$1,726,597
<b>Total .....</b>	<b>¥182,484</b>	<b>¥112,331</b>	<b>\$1,726,597</b>

Liabilities secured by the above were as follows:

Deposits .....	¥ 28,263	¥ 39,760	\$ 267,414
Call money .....	6,413	2,064	60,677
Payables for securities lending transactions ....	149,871	108,395	1,418,024
<b>Total .....</b>	<b>¥184,547</b>	<b>¥150,219</b>	<b>\$1,746,115</b>

At March 31, 2004, certain trading account securities, aggregating ¥200 million (U. S. \$1,892 thousand), and certain securities, aggregating ¥243,533 million (U. S. \$2,304,220 thousand), were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

At March 31, 2003, certain trading account securities, aggregating ¥200 million and certain securities, aggregating ¥237,621 million were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

## 9. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
<b>Assets:</b>			
Due from foreign banks .....	¥1,200	¥ 856	\$11,354
Foreign exchange bills purchased .....	320	562	3,028
Foreign exchange bills receivable .....	1,376	1,328	13,019
<b>Total .....</b>	<b>¥2,896</b>	<b>¥2,746</b>	<b>\$27,401</b>
<b>Liabilities:</b>			
Foreign exchange bills sold .....	¥ 27	¥ 62	\$ 255
Foreign exchange bills payable .....	16	23	152
<b>Total .....</b>	<b>¥ 43</b>	<b>¥ 85</b>	<b>\$ 407</b>

## 10. Other Assets

Other assets at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Domestic exchange settlement account debit .....	¥ —	¥ 2	\$ —
Prepaid expenses .....	84	75	795
Accrued income .....	9,596	9,701	90,794
Deposit margin paid on futures contracts .....	63	66	596
Derivative financial instruments .....	14,155	733	133,930
Deferred hedge losses .....	3,665	7,080	34,677
Other .....	11,015	14,820	104,220
<b>Total .....</b>	<b>¥38,578</b>	<b>¥32,477</b>	<b>\$365,012</b>

## 11. Premises and Equipment

Premises and equipment at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Land, buildings and equipment .....	¥111,634	¥113,070	\$1,056,240
Construction in progress .....	329	965	3,113
Other .....	880	788	8,326
<b>Total .....</b>	<b>112,843</b>	<b>114,823</b>	<b>1,067,679</b>
Less accumulated depreciation .....	66,750	66,833	631,564
<b>Net book value .....</b>	<b>¥ 46,093</b>	<b>¥ 47,990</b>	<b>\$ 436,115</b>

## 12. Deferred Income Tax Assets

Significant components of deferred income tax assets at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
<b>Deferred income tax assets:</b>			
Reserve for possible loan losses .....	¥13,856	¥14,737	\$131,100
Severance and retirement benefits .....	6,518	6,596	61,671
Depreciation .....	4,896	4,877	46,324
Write-down of securities .....	1,059	2,199	10,020
Accrued employee bonuses .....	798	—	7,550
Other .....	1,666	1,947	15,764
Valuation allowance .....	(1,013)	—	(9,585)
<b>Total deferred income tax assets .....</b>	<b>27,780</b>	<b>30,356</b>	<b>262,844</b>
<b>Deferred income tax liabilities:</b>			
Net unrealized holding gains on securities .....	20,952	13,068	198,240
Other .....	112	92	1,060
<b>Total deferred income tax liabilities .....</b>	<b>21,064</b>	<b>13,160</b>	<b>199,300</b>
<b>Net deferred income tax assets .....</b>	<b>¥ 6,716</b>	<b>¥17,196</b>	<b>\$ 63,544</b>

For the years ended March 31, 2004 and 2003 differences between the statutory tax rate and the effective tax rate were as follows:

	2004	2003
Statutory tax rate .....	41.7%	41.7%
Increase (decrease) in taxes resulting from:		
Permanently nontaxable dividends received .....	( 1.2 )	( 2.5 )
Permanently nondeductible expenses .....	0.3	0.6
Change of aggregate statutory income tax rate .....	1.4	7.5
Per capita inhabitants' taxes .....	0.3	0.9
Valuation allowance .....	4.0	—
Other .....	( 0.6 )	0.3
<b>Effective income tax rate .....</b>	<b>45.9%</b>	<b>48.5%</b>

### 13. Deposits

Deposits at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current deposits .....	¥ 167,212	¥ 155,584	\$ 1,582,099
Ordinary deposits .....	2,003,707	1,860,226	18,958,340
Savings deposits .....	277,413	297,903	2,624,780
Deposits at notice .....	40,217	37,289	380,518
Time deposits .....	2,041,501	2,130,061	19,315,933
Installment time deposits .....	11,685	13,390	110,559
Other deposits .....	135,394	123,291	1,281,049
Sub-total .....	4,677,129	4,617,744	44,253,278
Negotiable certificates of deposit .....	212,670	198,424	2,012,206
Total .....	¥4,889,799	¥4,816,168	\$46,265,484

### 14. Borrowed Money

Borrowed money at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Loans from banks and insurance companies .....	¥7,121	¥7,799	\$67,376
Total .....	¥7,121	¥7,799	\$67,376

### 15. Other Liabilities

Other liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Domestic exchange settlement account credit .....	¥ 119	¥ 108	\$ 1,126
Income taxes payable .....	5,067	3,267	47,942
Accrued expenses .....	3,273	4,008	30,968
Unearned income .....	3,416	3,324	32,321
Employees' deposits .....	2,411	2,452	22,812
Reserve for interest on installment savings .....	3	5	28
Derivative financial instruments .....	7,391	8,057	69,931
Deferred hedge gains .....	805	3	7,617
Other .....	45,340	19,574	428,991
Total .....	¥67,825	¥40,798	\$641,736

### 16. Acceptances and Guarantees (Contingent Liabilities)

All contingent liabilities arising in compliance with customers' needs in foreign trade and other transactions are included in "Acceptances and guarantees".

As a contra account, "Customers' liabilities for acceptances and guarantees" is shown on the assets side, representing the contingent claim of the Bank's right of indemnity from customers.

### 17. Leases Transactions

Information for non-capitalized finance leases as lessee, at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Original lease obligations for equipment (including finance charges) .....	¥3,002	¥2,568	\$ 28,404
Payments made .....	1,355	1,373	12,821
Payments remaining .....	¥1,647	¥1,195	\$ 15,583

Payments remaining:

Payments due within one year .....	¥ 542	¥ 457	\$ 5,128
Payments due after one year .....	1,105	738	10,455
Total .....	¥1,647	¥1,195	\$ 15,583

Lease payments for such leases for the years ended March 31, 2004 and 2003 were ¥602 million (U. S. \$5,696 thousand) and ¥541 million, respectively.

## 18. Shareholders' Equity

### (a) Common Stock and Capital Surplus

At March 31, 2004, the authorized share capital of the Bank consisted of 396 million common shares, of which 240,272,106 shares were issued and outstanding. At March 31, 2003, the authorized share capital of the Bank consisted of 400 million common shares, of which 244,272,106 shares were issued and outstanding. The Bank retired 4,000 thousand shares of common stock, and the numbers of authorized and issued shares of common stock decreased by the numbers of retired shares in this fiscal year.

Numbers of treasury stock held by the Bank were 3,197,727 and 279,467 at March 31, 2004 and 2003, respectively.

Under the Japanese Commercial Code, at least 50 percent of the issue price of new shares is required to be designated as stated capital. The remaining portion is credited to additional paid-in capital which is included in capital surplus.

### (b) Legal Reserve

The Japanese Banking Law provides that an amount equivalent to at least 20 percent of cash dividends and other cash appropriations of retained earnings must be appropriated to a legal reserve until the total amount of legal reserve and additional paid-in capital equals the amount of the Bank's stated capital. The legal reserve and additional paid-in capital may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding the amount of common stock, they are available for distributions and certain other purposes by the resolution of shareholders.

### (c) Cash Dividends

Cash dividends are paid semiannually. An interim dividend may be approved by the Board of Directors and a year-end dividend may be approved by the shareholders after the end of each fiscal year. The year-end dividends and the related appropriations of retained earnings are not reflected in the financial statements at the fiscal year-end but are recorded at the time they are approved.

However, dividends per share shown in the accompanying statements of income and unappropriated retained earnings include dividends approved by shareholders after the end of the fiscal year.

## 19. Subsequent events

### (a) Appropriation of unappropriated retained earnings

The ordinary shareholders' meeting, which was held on June 25, 2004, approved the following year-end appropriation of unappropriated retained earnings:

	Millions of Yen	Thousands of U.S. Dollars
	2004	2004
Unappropriated retained earnings at March 31, 2004 .....	¥11,096	\$104,986
Transfer from general reserve .....	2,044	19,340
Subtotal .....	13,140	124,326
Appropriations		
Cash dividends (¥3.50 per share) .....	830	7,853
Bonuses to directors and statutory auditors .....	45	426
Transfer to general reserve .....	10,474	99,101
	11,349	107,380
Unappropriated retained earnings carried forward .....	¥1,791	\$16,946

### (b) Repurchase of shares

The Bank repurchased its shares from the market as follows pursuant to the provisions of Article 210 of the Commercial Code.

1. Purchase date ..... June 16, 2004
2. Number of shares repurchased ..... 1,468,000 shares
3. Aggregate purchase price ..... ¥1,654 million  
(U. S. \$15,650 thousand)
4. Method of repurchase ..... Purchase on the Tokyo Stock Exchange

## Independent Auditors' Report

To the Board of Directors of  
The Chugoku Bank, Limited :

We have audited the accompanying non-consolidated balance sheets of The Chugoku Bank, Limited as of March 31, 2004 and 2003, and the related non-consolidated statements of income and unappropriated retained earnings for the years then ended, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of The Chugoku Bank, Limited as of March 31, 2004 and 2003, and the non-consolidated results of its operations for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.



KPMG AZSA & Co.

Okayama, Japan  
June 25, 2004