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 ¥7,000 billion (U.S.$56,500 million), or an impressive 1.5 percent of Japan's GNP. Manufacturing is the core industry in Okayama, having evolved around the Mizushima Waterfront Industrial District—the world's leading petrochemical complex—which was constructed in the 1960s. Given the Prefecture's ever-improving highways, airports, and harbors, there is further growth anticipated, with the area serving as an important economic and cultural center for the Eastern Setouchi region. Moreover, with the prefecture's establishment of the Okayama Information Highway, increasingly more information distributed worldwide will originate here. Accordingly, the new industries brought forth by the increasing numbers of new offices established to serve the information service industry will spur even more growth.

Contents

MESSAGE FROM MANAGEMENT

Business Review

The transformation of the climate in the financial industry in the term under review included the merger and consolidation of the major banks, the appearance of new forms of banking, and the entry of companies from other sectors into the banking industry.

This spurred us to enhance our services to individuals, small businesses, and mid-tier corporations, and focus on our operating resources as we fully implemented our business policy tailored to the needs of our community. We achieved a year-on-year increase in deposit balances and other business sectors. Consolidated total income, however, slid 0.6% from year-before figures to ¥138,068 million. Also, the disposition of non-performing loans, the reduction of risk assets, and the application of new accounting standards resulted in a 4.3% decline in net income to ¥5,655 million.

Dividend policy

The Chugoku Bank strives to fulfill our social and public mission as a financial institution representing our community. Therefore, we uphold our basic policy of augmenting internal reserves and continuing a stable supply of dividends.

In accordance with this policy, we paid a dividend of ¥3.50 per share at term end, making our dividend ¥7.00 per share for the full year—14% of par value. On the occasion of the 70th anniversary of our founding, we offered a stock split (free distribution shares) as a way to return profits to all our shareholders. We offered 1.2 shares of stock for every share of stock held by stockholders as of the end of September 2000.

Powerful Step 21: Our mid-term business plan

The Japanese financial industry has undergone significant changes during the past few years. These have included the appearance of new types of banking and the increased entry into the banking business by companies from other sectors against a backdrop of the reorganization and consolidation of first-tier banks and the increasing use of information technology.

The Chugoku Bank launched its mid-term business plan, Powerful Step 21, in April 2000, to ensure its vibrant growth in the future as these dramatic changes reshape the financial environment. The plan will be in force until the end of March 2003. Its main themes are a business policy that focuses on the customer and bolstering profitability. The plan places particular emphasis on five measures.

Rebuilding the sales organization

We are enthusiastically adopting information technology to expand our sales channels and strengthen our marketing system. We also have adopted a group sales system in which several branches can join to offer sophisticated financial services to selected customers.

* Strengthening our fund investment and procurement capability

We are promoting lending to customers who form the backbone of the community and providing more loans to individual customers. We also are devoting greater attention to more profitable fund management while carefully managing risk.

* Seeking business efficiency

Recently, Chugoku Bank has been reevaluating its back-office operations to achieve greater efficiency. We also have been outsourcing the work of divisions that are primarily involved with these operations. In addition, we have been seeking greater efficiency in locating our outlets, and closing or disposing of inefficient and unprofitable outlets.

* Enhancing risk management and earnings management

We established a securities management office and a finance management division in corporate headquarters to strengthen our management and control of market and credit risk. We also have enhanced our management of earnings by converting to a system in which earnings are managed separately by division.

* Creating a workplace with vitality and developing personnel

We develop personnel by expanding and enhancing various training programs that respond to our customers' diverse financial needs.

We also completely reorganized our headquarters organization in October 2000 with the objective of realizing our main themes of a business policy focusing on the customer and bolstering profitability, and further improving our ability to swiftly respond to the rapidly changing financial environment.

Policies and aspirations for the future

The Chugoku Bank believes creating a sound financial base by strengthening our earnings capability is essential for moving forward into the 21st century. Meanwhile, we have confirmed anew our awareness that the profits earned by the bank are earned first by providing a high degree of service to the customer. Therefore, we are thoroughly committed to a policy of placing the customer first in the future.

We are taking several steps to realize the objectives of our mid-term business plan, including reorganizing our sales system. There has been sluggish growth in our lending to corporations, however. In this area in particular, we will strengthen our sales activities and enhance our earnings potential.

The Chugoku Bank is selected and trusted by our customers in the community to help the community grow. All our officers and employees are making every effort to ensure that we are capable of providing the most up-to-date financial services.

September 2001

A. Nagashima

Akira Nagashima
President

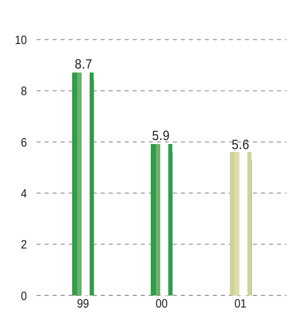
CONSOLIDATED THREE-YEAR SUMMARY

The Chugoku Bank, Ltd.
March 31, 2001, 2000 and 1999

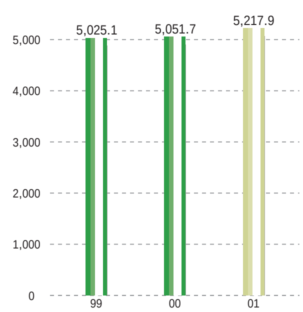
	Millions of Yen (except per share amounts)		
	2001	2000	1999
For the year:			
Total income	¥ 138,068	¥ 138,936	¥ 173,208
Total expenses	127,836	127,761	154,710
Net income	5,655	5,910	8,795
Per share of common stock (yen):			
Net income	¥ 26.14	¥ 27.33	¥ 43.38
At year-end:			
Deposits	¥4,650,721	¥4,548,436	¥4,467,213
Loans and bills discounted	2,932,259	3,095,813	3,151,163
Securities	1,314,324	1,129,891	945,721
Total assets	5,217,985	5,051,777	5,025,131
Shareholders' equity	309,398	278,058	273,071
Cash flows from operating activities	41,273	217,450	—
Cash flows from investing activities	(141,920)	(111,593)	—
Cash flows from financing activities	(1,425)	(1,435)	—
Cash and cash equivalents at the end of year	76,054	178,103	73,699

Notes: 1. The Japanese yen amounts are rounded up or down to the nearest one million yen.
2. Net income per share is based on the weighted average number of shares of common stock outstanding during the year.
3. Settlement of accounts on consolidated basis since 1999.

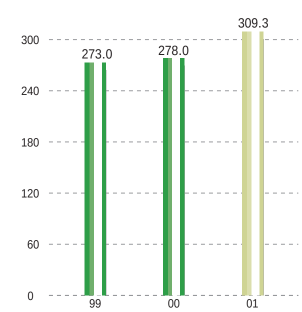
Net Income
Billons of Yen



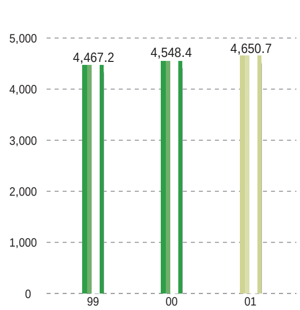
Total Assets
Billons of Yen



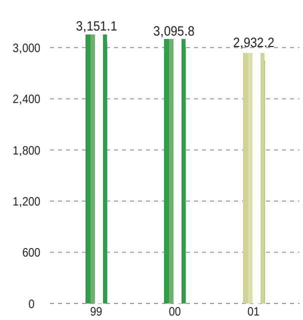
Shareholders Equity
Billons of Yen



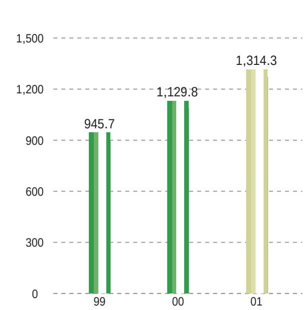
Deposits
Billons of Yen



Loans and Bills Discounted
Billons of Yen



Securities
Billons of Yen



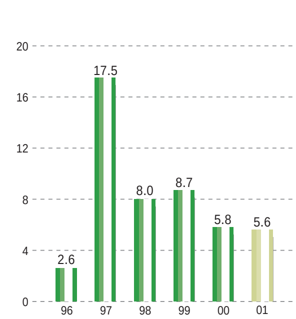
NON-CONSOLIDATED SIX-YEAR SUMMARY

The Chugoku Bank, Ltd.
For the six years ended March 31, 2001

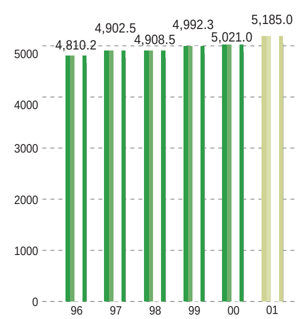
	Millions of Yen (except per share amounts)					
	2001	2000	1999	1998	1997	1996
For the year:						
Total income	¥ 118,523	¥ 119,535	¥ 153,684	¥ 155,384	¥ 159,663	¥ 188,046
Total expenses	109,231	109,399	136,712	139,904	142,040	165,203
Income before income taxes	9,292	10,136	16,972	15,480	17,623	22,842
Net income	5,648	5,884	8,738	8,032	17,540	2,695
Per share of common stock (yen):						
Net income	¥ 25.87	¥ 26.94	¥ 42.92	¥ 39.45	¥ 86.16	¥ 13.24
Cash dividends applicable to the year	7.00	7.00	7.00	7.00	6.75	6.50
At year-end:						
Deposits	¥4,657,866	¥4,555,817	¥4,473,382	¥4,363,135	¥4,404,130	¥4,313,556
Loans and bills discounted	2,943,694	3,110,708	3,167,240	3,117,655	2,981,792	2,939,653
Securities	1,312,228	1,128,335	944,241	915,811	929,769	848,094
Total assets	5,185,026	5,021,027	4,992,332	4,908,596	4,902,593	4,810,265
Shareholders' equity	309,723	278,420	274,004	255,734	249,177	232,999

Notes: 1. The Japanese yen amounts are rounded up or down to the nearest one million yen since 1997, previously, these were rounded down to the nearest million.
2. Net income per share is based on the weighted average number of shares of common stock outstanding during the year.

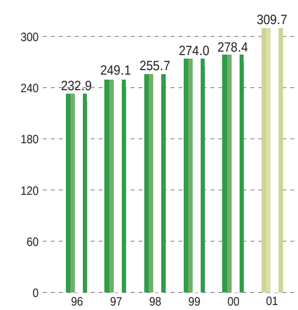
Net Income
Billons of Yen



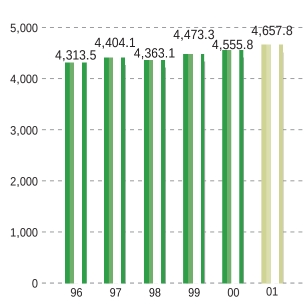
Total Assets
Billons of Yen



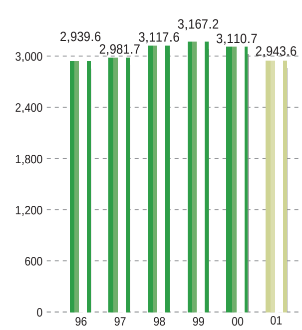
Shareholders Equity
Billons of Yen



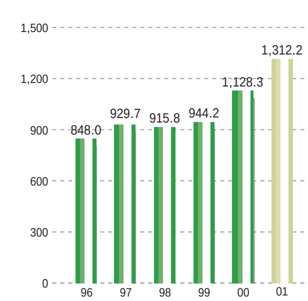
Deposits
Billons of Yen



Loans and Bills Discounted
Billons of Yen



Securities
Billons of Yen



PRINCIPAL OPERATIONS OF THE CHUGOKU BANK GROUP

CHUGOKU BANK GROUP, WHICH COMPRISES THE BANK ALONG WITH ELEVEN SUBSIDIARIES AND ONE AFFILIATE, IS POSITIONED TO OFFER A WEALTH OF FINANCIAL SERVICES, INCLUDING CORPORATE AND PERSONAL BANKING, LEASING AND INVESTMENT ADVISORY BUSINESSES, AND MORE.

Organizational Chart for the Chugoku Bank Group

	Business segment
THE CHUGOKU BANK, LIMITED	**Banking business**
Domestic offices: Head office, 174 branch offices, 9 sub-branch offices and 1 domestic branches	
Overseas offices: 2 branch offices and 2 representative offices	
CONSOLIDATED SUBSIDIARIES	
Chugin Business Service Company, Limited.	Consigned administrative operations for banks
Chugin System Development Company, Limited.	Software business
Chugin Syonai Agency Company, Limited.	Banking agency
The Chugin Credit Guarantee Co., Ltd.	Credit guarantee business
The Chugin Card Company, Limited.	Credit card business
The Chugin Computer Service Co., Ltd.	Software business
The Chugin Lease Company, Limited.	Leasing and financing business
The Chugin Investment Management Company, Limited.	Investment advisory business
The Chugin Operation Center, Co., Ltd.	Deposits, Foreign Exchange, and Valuation of Collateralized Real Estate
CONSOLIDATED SUBSIDIARIES	
The Kibi Kogyo Company, Limited.	Non-life insurance agency
The Kibi Enterprise Company, Limited.	Life insurance agency
AFFILIATED COMPANY	
The Okayama Prepaid Card Co., Ltd.	Prepaid-card business

REVIEW OF OPERATIONS

Business climate

Economic conditions in Okayama Prefecture, our home area, continue to be characterized by a slump in personal consumption, while being supported by a gradual improvement in exports and capital investment. However the direction of the economy became more uncertain in the fall of 2000.

Turning our attention to financial conditions, the zero interest rate policy was terminated in August 2000 against the backdrop of a trend toward economic recovery that began at the beginning of the fiscal year. With slumping Japanese stock prices, caused in part by the decline in American stock prices starting in December and other factors, concerns about the direction of the economy began to surface. Thus, the zero interest rate policy was, in effect, reinstituted.

Under these harsh economic conditions, a major transformation is occurring in the financial environment. These include the merger of major banks, business consolidation, the appearance of new forms of banking, and the entry of companies from other sectors into the banking business. Calls also are mounting for structural reform, including the final disposition of the problem of non-performing loans.

Revenue and earnings

The bank has worked hard to conduct business activities closely linked to community needs, further strengthen its business foundation, and provide greater efficiency to our business, based on our new mid-term business plan, Powerful Step 21. The main themes of this plan are a business policy focusing on the customer and bolstering profitability. As a result, the following are our achievements for the primary business results.

• Deposits and negotiable certificates of deposit

As a result of devoting greater effort to our sales activities to ensure they meet the needs of our community, we have increased the balance of deposits, particularly for individual depositors. They rose ¥29.3 billion ($236 million) during the term and stood at ¥4,534.1 billion ($36,595 million) as of the end of the term. In addition, the balance of negotiable certificates of deposit stood at ¥116.7 billion ($942 million) as of the end of the term.

• Loans and bill discounted

Our lending activity focused on providing loans to mid-tier business, small businesses, and individuals in the community. The prolonged economic downturn, continued corporate restructuring, and other factors resulted in ebbing fund demand. Thus, the balance of our loan portfolio at the end of the term stood at ¥2,932.3 billion ($23,667 million), a slight decline from the year before.

• Securities

The application this term of new accounting standards for financial instruments, including securities, and the decline in lending resulted in an ¥184.4 billion ($1,488 million) increase in securities held during the term. The balance of the security portfolio at the end of the term stood at ¥1,314.3 billion ($10,608 million). Also, the balance of trading account securities at the end of the term totaled ¥51.1 billion ($412 million).

Profitability

Operating revenue amounted to ¥129.8 billion ($1,048 million), down ¥9.0 billion ($73 million), or 6.4%, from the previous year. Recurring profit rose ¥5.3 billion ($43 million), or 41.1%, to ¥18.4 billion ($149 million). Net income fell ¥200 million ($2 million), or 4.3%, to ¥5.6 billion ($46 million).

Operating revenue from banking operations declined ¥9.1 billion ($74 million), or 7.5%, to ¥112.2 billion ($906 million), due to falling income from fund management activities stemming from prolonged low interest rates. Recurring profit, however, jumped ¥5.1 billion ($42 million), or 42.4%, to ¥17.4 billion ($141 million), thanks to a decline in transfers to reserve for possible loan losses and a reduction in retirement of shares.

Operating revenue and recurring profit from leasing operations remained largely unchanged, amounting to ¥18.6 billion ($150 million) and ¥1.0 billion ($9 million), respectively.

Operating revenue and recurring profit from investment advisory services remained basically unchanged, totaling ¥9.7 billion ($78 million) and ¥1.9 billion ($15 million), respectively.

Cash flow

As a result of our active fund investment, our cash and cash equivalents for the term under review declined by ¥102.0 billion ($824 million) and totaled ¥76.0 billion ($614 million) .

• Cash flow from operating activities

The cash flow from operating activities during the term totaled ¥41.2 billion ($333 million), a decline of ¥176.1 billion ($1,422 million) from the previous term. This was due mainly to the increase in call loans.

• Cash flow from investing activities

While our cash flow from investing activities during the term saw a rise of inflows due to returns from investment securities, there was a decline in outflows to money in trusts. Thus, the cash outflow from investing activities increased ¥30,328 million from the previous term to ¥141,920 million.

• Cash flow from financing activities

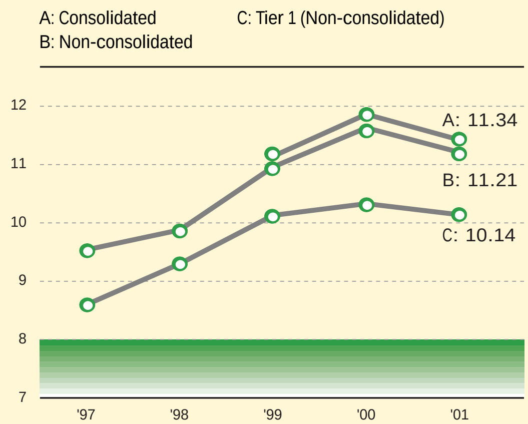
Our cash outflow from financing activities during the term was roughly unchanged from the year before at ¥1.4 billion ($12 million) .

Forecast for the next term

For the year ending March 31, 2002, the Chugoku Bank Group forecasts consolidated recurring income of ¥125.0 billion ($1,008 million), recurring profit of ¥16.5 billion ($133 million), and net income of ¥9.0 billion ($73 million). We forecast ¥23.0 billion ($186 million) in non-consolidated operating income.

Capital Adequacy

The consolidated shareholders equity ratio, as of the end of March 2001, stood at 11.34 percent. Chugoku Bank's shareholders' equity ratio was 11.21 percent on a non-consolidated, parent-company basis. Both figures are well above the minimum standard of 8 percent, as specified in the uniform international BIS standards. The Tier 1 capital-adequacy ratios alone (capital, paid-in capital, surplus, etc), which are based on principal items not affected by fluctuating term-end stock prices other than latent gains on securities, maintain high levels in terms of consistent business operations: specifically, 10.25 percent on a consolidated basis and 10.14 percent on a non-consolidated, parent-company basis.



Status of Impaired Loans

Consolidated (¥ millions)

	End of March 2001	End of March 2000
Loans to bankrupt customers	38,059	19,623
Loans in default (past due six months or more)	39,893	50,504
Loans past due three months or more	815	762
Restructured loans	42,428	31,823
Total	121,195	102,712
Total loan balance (ending balance)	2,932,259	3,095,813

Non-consolidated (¥ millions)

	End of March 2001	End of March 2000
Loans to bankrupt customers	37,664	19,107
Loans in default (past due six months or more)	38,632	49,391
Loans past due three months or more	815	762
Restructured loans	42,410	31,805
Total	119,521	101,065
Total loan balance (ending balance)	2,943,694	3,110,708

• Loans to bankrupt customers

These are loans which were designated as non-accrual loans according to the Tax a Law. These are loans to companies that have applied under the procedures for the Stock Company Reorganization and Rehabilitation Act or the Bankruptcy Act or the Composition Act or whose activities have been suspended by the Clearinghouse.

• Loans in default (past due six months or more)

These are loans which were designated as non-accrual loans according to the Tax a Law, but not included in loans to bankrupt customers. These loans are past due six months or more.

• Loans past due three months or more

These comprise loans for which neither principal nor interest has been paid for three months or more after the day following the contracted date, and which do not fall into either of the two categories defined above.

• Restructured loans

These comprise loans on which terms have been renegotiated to the benefit of the customer (e.g., interest has been waived, interest or principal payments have been postponed, or a portion of the debt has been forgiven), in order to support the restructuring of customers in economic difficulties and thus secure some return on the obligation.

Ratings

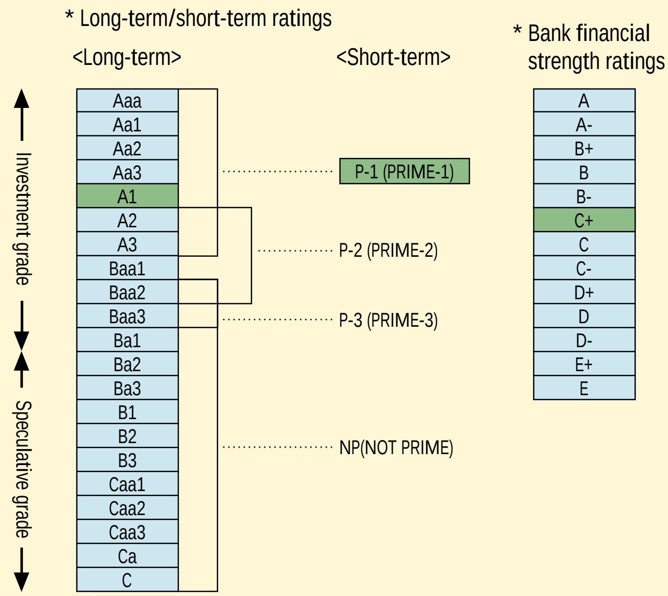
Chugoku Bank has earned one of the best ratings among Japanese banks from Moody's, a world-renowned rating agency. This is proof that the Bank firmly maintains an excellent operating position and sound financial constitution.

Ratings

(End of June 2001)

Moody's	Long-term deposit rating	A1
	Short-term deposit rating	P-1
	Bank financial strength rating	C+

Rating symbols and gradations (Moody's)



RISK MANAGEMENT

Payments to insured depositors

Customer deposits have until now been protected by deposit insurance. The lowering of the ceiling after April 2002 means that the special measures covering the amount of the entire deposit no longer will be in place. To demonstrate that customers can deposit money in the Chugoku Bank with peace of mind, we will further increase our profitability and enhance our fiscal base in the future through sound operations. In addition, we will continue to actively disclose information about our operations.

The Compliance System

The Chugoku Bank is aware of its social responsibilities and public mission as a bank. We are engaged in strengthening our compliance as an important element in our effort to maintain customer and shareholder trust.

Therefore, we are working to make a compliance system an integral part of our company. We will establish a range of corporate activities and policies for employee activities as the basis for the ethical conduct of our operations and business. In addition, we have established a Compliance Committee and appointed an official to be in charge of compliance with laws and regulations in each division and sales office.

We also formulate a Compliance Program, an action plan for compliance, every year, and verify the extent of our achievement of the goals of this program.

Finally, in April 2001 we established solicitation policies for financial instruments to ensure that we conduct the appropriate solicitation of our customers and thoroughly explain all the details of agreements.

Compliance with Laws and Regulations

The financial industry in Japan is going through drastic changes due to the government-induced 'Big Bang.' In this environment, the banks face a demand for fairer and more open business operations, not to mention strict self-regulation, in order to meet the needs for compliance with deregulation and international standards. Therefore, Chugoku Bank's officers and employees are aware of our institution's public mission and social responsibilities, and are as a group responding to customer expectations through their engagement in self-regulating business practices.

Our continuing effort to promote the active observance of laws and regulations is represented by the establishment of Chugoku Bank's Corporate Standards of Conduct, which in general stipulate rules regarding ethical practices associated with corporate management and business operations. These standards are augmented by the Activity Guidelines for Bank Employees, which define the rules that must be observed by each bank employee.

Specifically, headquarters has established the Compliance Committee in order to implement corporate ethics throughout the Bank and enhance employee morale and ethics. Moreover, each department and sales outlet has a person assigned the responsibility of ensuring compliance with laws and regulations. This helps promote a spirit of confidence in the strict observance of rules. Issues of compliance are also covered in group training sessions, these being another means of implementing standards of corporate ethics and enhancing employee morale.

A Comprehensive System of Risk Management

It is increasingly important, amid financial deregulation and increasing globalization, for a bank to identify and effectively manage the many complex risks associated with day-to-day operations.

Chugoku Bank attaches the utmost importance to risk management. Our ultimate objective in that regard is to be a well-balanced business operation in which we can bolster our earning power while maintaining the soundness of operations through comprehensive risk management.

The Department of Corporate Planning is in charge of risk management on behalf of the Bank, while the various departments have established a collective system with which to enhance the management of specific risks under their respective jurisdictions. Additionally, the Inspection Department, being independent of any other department or section engaged in business operations, is responsible for checking the management status of various risks.

RISK MANAGEMENT

• Credit-risk management

The term “credit risk” commonly refers to the risk of losses incurred through loans for which recovery becomes difficult or impossible due to the customer’s bankruptcy or business deterioration.

Chugoku Bank is striving to understand the actual performances of corporations through a Corporate Rating System as well as a Self-Assessment System in an effort to enhance the soundness of bank-loan assets. Accordingly, we have established the Credit Supervision Department, independent of the Business Promotion Department, as a means of assessing loan applications and the management of credit risk associated with loans.

When assessing a loan application, one of our sales outlets or the Credit Supervision Department studies the borrower’s financial condition, the purpose of the loan and sources of repayment, all with consideration for the five principles of financing: security, profitability, growth, liquidity, and accessibility. This is done in order to provide every applicant with a fair and equitable review of needs and qualifications. We at Chugoku Bank are therefore striving to enhance our programs of system support on behalf of improved security and profitability, through the periodic review of collateral valuation prices via systems of collateral real-estate valuation management and collateral securities valuation management. We have also introduced a system of credit-risk quantification to protect our interests, those of our clients, and those of our stakeholders.

• Management of market risk

The term “market risk” commonly refers to a set of risks that can cause the value of holding assets and liabilities to fluctuate due to changing interest rates, foreign-exchange rates, and stock prices, thereby incurring a loss. Chugoku Bank recognizes that market risk, potentially a source of losses, can also be a source of potential income. We have therefore established our market-risk management policy based on analysis of the financial and economic environments, and on corporate strength. Given that policy, we are able to use the appropriate methods in controlling various market risks associated with specific business operations.

For the trading business, the aim of which is to benefit from gains on the sales/purchase of securities, the Bank has established maximum amounts of transaction and loss in order to avoid losses exceeding the specified amount. In the banking business (investment securities and deposit services), we monitor the balance between risk and return through our analysis of the financial and economic environments, as well as asset and liability management (ALM), so that we can maintain stable income on the basis of intermediate goals and long-term growth.

The report regarding the status of market-risk management issued monthly by the ALM Committee is employed in the study of fund management and procurement policy.

• Liquidity risk management

The term “liquidity risk” comprises the following two types of risk: that which forces the payment of an extremely high interest rate for fund procurement due to the rapid outflow of funds caused by market confusion and deteriorating credibility of banks, along with poorly planned scheduling of fund procurement and management periods, whereby a bank may suffer a sudden shortage of funds; and the risk of incurred losses due to market confusion, which prevents the sale/purchase of financial products at fair market prices or makes the exchange of such products completely impossible.

Chugoku Bank maintains a stable cash flow, given that the majority of our funds are provided through deposits. (Fund procurement from the market represents only a very limited portion of our activity.) Bank departments that manage cash flow strive always to control cash-flow risk by giving due consideration to the status of daily cash flow associated with market-related operations and other aspects. Moreover, in the unlikely event of any contingencies, we are working to diversify the available means of fund procurement by setting the range of fund procurement from the market and preparing for market fund procurement through use of our securities holdings.

• Management of administrative risk

”Administrative risk” refers to the risk of incurred losses through an error or accident due to a failure to perform the necessary administrative work associated with the banking business. Accordingly, in order that the appropriate administrative work be performed in strict adherence to our codes of conduct and principles of risk management, we are now developing a manual of administrative procedures encompassing every aspect of the Bank’s business activities. In addition, we are organizing various training sessions for different business operations and levels of organizational hierarchy. Furthermore, we are providing in-store guidance, thereby enhancing the effectiveness of administrative work.

Chugoku Bank is also using the overhaul and improvement of our administrative system to promote more efficient administrative operations at sales outlets. This involves the central processing of sales out-lets’ administrative work at the Administrative Center, and office automation through the introduction of high-productivity equipment.

The Bank is also conducting internal inspections in order to avoid administrative risk and others, and to prevent needless errors and accidents. Through its internal work, the Inspection Department is conducting in-store inspections for all sales outlets, including overseas branch offices, Chugoku Bank’s own head office, and affiliated companies. The department works to ensure compliance with various laws, regulations, and manuals, and monitors the management status of various risks. In addition, we provide a strict, foolproof system designed to prevent errors before they can occur, by requiring the sales outlets to conduct their own periodic inspections.

• System risk management

The term “system risk” refers to losses incurred as a result of down-time in the computer system, malfunctioning or another system error, and the risk of losses incurred as a result of illegal computer use.

The computer system plays an essential part in the banking business, commensurate with other sophisticated operations and growing transaction amounts. It is therefore imperative that we prevent system risk in order to gain consumer confidence and offer services of the highest quality. Chugoku Bank is currently practicing various safety measures. These include an accident-prevention system at our computer center, dual-redundant systems for critical equipment and networks, safety and quality assurance through thorough testing in the development of new products and services, and fully monitored security in system operation.

CONSOLIDATED BALANCE SHEETS

The Chugoku Bank, Ltd.
March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
ASSETS			
Cash and due from banks	¥ 390,726	¥ 467,882	$ 3,153,559
Call loans	224,761	68,892	1,814,052
Commercial paper and other debt purchased	99,298	69,563	801,437
Trading account securities (Note 8)	51,149	14,784	412,825
Money trusts (Notes 7 and 9)	59,370	39,945	479,177
Securities (Notes 6 and 8)	1,314,324	1,129,891	10,607,942
Loans and bills discounted (Note 10)	2,932,259	3,095,813	23,666,336
Foreign exchanges	2,113	1,931	17,054
Other assets	70,670	60,184	570,379
Premises and equipment (Note 12)	51,830	52,762	418,321
Deferred income tax assets (Note 14)	4,341	22,109	35,036
Customers' liabilities for acceptances and guarantees	67,948	72,097	548,410
Reserve for possible loan losses	(50,804)	(44,076)	(410,040)
Total assets	¥5,217,985	¥5,051,777	$42,114,488
LIABILITIES, MINORITY INTEREST, AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits	¥4,650,721	¥4,548,436	$37,536,086
Call money	73,205	57,201	590,839
Borrowed money	32,427	32,633	261,719
Foreign exchanges	75	50	605
Other liabilities	61,359	47,996	495,230
Reserve for retirement allowances	—	8,743	—
Liability for severance and retirement benefits (Note 15)	15,834	—	127,797
Reserve for residual losses on loans sold	—	416	—
Acceptances and guarantees	67,948	72,097	548,410
Total liabilities	4,901,569	4,767,572	39,560,686
Minority interest	7,018	6,147	56,642
Shareholders' equity (Notes 20 and 21):			
Common stock	15,149	15,149	122,268
Capital surplus	6,287	6,287	50,743
Retained earnings	261,685	257,489	2,112,066
Net unrealized holding gains on securities	27,147	—	219,104
Less: Common stock in treasury	(5)	(2)	(40)
Common stock held by a subsidiary	(865)	(865)	(6,981)
Total shareholders' equity	309,398	278,058	2,497,160
Total liabilities, minority interest, and shareholders' equity	¥5,217,985	¥5,051,777	$42,114,488

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

The Chugoku Bank, Ltd.
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
Income:			
Interest and dividends on:			
Loans and discounts	¥ 65,241	¥ 66,727	$ 526,562
Securities	27,568	27,850	222,502
Other	3,433	3,574	27,707
Fees and commissions	11,090	10,866	89,508
Other operating income	2,075	5,198	16,747
Other income			
Gain on securities contributed to employee retirement benefit trust	7,900	—	63,761
Other	20,761	24,721	167,563
Total income	138,068	138,936	1,114,350
Expenses:			
Interest on:			
Deposits	12,848	13,168	103,696
Borrowings and rediscounts	547	3,674	4,415
Other	10,672	8,312	86,134
Fees and commissions	2,458	2,455	19,839
Other operating expenses	2,385	7,401	19,249
General and administrative expenses	70,124	68,103	565,972
Other expenses			
Expense of change of accounting for retirement benefits	16,276	—	131,364
Other	12,526	24,648	101,098
Total expenses	127,836	127,761	1,031,767
Income before income taxes	10,232	11,175	82,583
Income taxes			
Current	5,941	13,093	47,950
Deferred	(1,902)	(8,366)	(15,351)
Minority interest in net income	(538)	(538)	(4,342)
Net income	¥5,655	¥5,910	$45,642

	Yen		U. S. Dollars
	2001	2000	2001
Net income per share	¥26.14	¥27.33	$0.211
Cash dividends applicable to the year	7.00	7.00	0.056

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

The Chugoku Bank, Ltd.
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
Balance at the beginning of the year	¥257,489	¥253,042	$2,078,200
Appropriations:			
Cash dividends	(1,419)	(1,419)	(11,453)
Bonuses to directors and statutory auditors	(40)	(44)	(323)
Net income	5,655	5,910	45,642
Balance at the end of the year	¥261,685	¥257,489	$2,112,066

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Chugoku Bank, Ltd.
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
Cash flows from operating activities			
Income before income taxes	¥ 10,232	¥ 11,175	$ 82,583
Depreciation	15,725	15,677	126,917
Transfer to reserve for residual losses on loans sold	10,217	17,125	82,462
Decrease in reserve for possible loan losses	(416)	—	(3,358)
Increase (decrease) in reserve for retirement allowances	(8,743)	2,273	(70,565)
Increase in liability for severance and retirement benefits	15,834	—	127,797
Interest and dividend income	(96,242)	(98,151)	(776,772)
Interest expense	24,067	25,155	194,245
Losses (gains) on sale of securities, net	(1,159)	4,455	(9,354)
Losses (gains) on money trusts, net	890	(2,091)	7,183
Foreign exchanges losses (gains), net	(19,549)	15,261	(157,780)
Losses (gains) on disposal of premises and equipment, net	(89)	98	(718)
Decrease (increase) in trading account securities, excluding foreign exchange contracts	(36,365)	22,593	(293,503)
Decrease (increase) in call loans, commercial paper and other debt purchased	(185,604)	71,842	(1,498,015)
Increase in due from banks, excluding the Bank of Japan	(24,735)	(26,421)	(199,637)
Increase in foreign exchanges assets	(181)	(121)	(1,461)
Decrease in loans and bills discounted	160,065	52,855	1,291,889
Increase in other assets	(15,010)	11,928	(121,146)
Increase in deposits, call money and borrowed money	118,084	59,332	953,059
Increase (decrease) in foreign exchanges liabilities	25	(13)	202
Increase (decrease) in other liabilities	14,682	3,367	118,498
Interest and dividends received	96,081	98,139	775,472
Interest paid	(26,627)	(27,472)	(214,907)
Payment of bonuses to directors and statutory auditors	(44)	(48)	(355)
Income taxes paid	(9,865)	(15,652)	(79,621)
Net cash provided by operating activities	41,273	217,450	333,115
Cash flows from investing activities			
Purchases of securities	(615,192)	(629,400)	(4,965,230)
Proceeds from sales of securities	278,907	294,511	2,251,065
Proceeds from redemption of securities	218,846	131,498	1,766,312
Purchases of money trusts	(54,749)	(70,946)	(441,881)
Proceeds from redemption of money trusts	34,387	167,922	277,538
Proceeds from sales of premises and equipment	421	113	3,398
Purchases of premises and equipment	(4,540)	(5,291)	(36,642)
Net cash used in investing activities	(141,920)	(111,593)	(1,145,440)
Cash flows from financing activities			
Cash dividends paid	(1,419)	(1,418)	(11,453)
Cash dividends, paid to minority shareholders	(9)	(9)	(72)
Purchases of treasury stock	(943)	(123)	(7,611)
Proceeds from sales of common stock	946	115	7,635
Net cash used in financing activities	(1,425)	(1,435)	(11,501)
Effect of exchange rate changes cash and cash equivalents	23	(18)	186
Net increase in cash and cash equivalents	(102,049)	104,404	(823,640)
Cash and cash equivalents at beginning of year	178,103	73,699	1,437,474
Cash and cash equivalents at end of year	¥ 76,054	¥ 178,103	$ 613,834

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Chugoku Bank, Ltd.

1. Basis of Presenting Consolidated Financial Statements

The Chugoku Bank, Ltd. (the "Bank") and its subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code, the Securities and Exchange Law, the Japanese Banking Law, and the Japanese Uniform Rules For Bank Accounting and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP") which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Bank which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. Yen and U.S. Dollar Amounts

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 to US$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 and an Affiliate

The consolidated financial statements include the accounts of the Bank and its nine (eight in 2000) significant subsidiaries after the elimination of all significant intercompany transactions, balances, and unrealized profit.

Investments in two unconsolidated subsidiaries and an affiliate are not accounted for under the equity method, since they would have no significant effect on the consolidated financial statements.

(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) Trading Account Securities

Prior to April 1, 2000, trading account securities which are listed on stock exchanges were stated at the lower of moving average cost or market value and other securities are stated at moving average cost. Recoveries of write-downs were recorded in subsequent periods.

Effective April 1, 2000, trading account securities are stated at fair market value as a result of adopting the new accounting standard for financial instruments (Note 3 (c)).

(c) Securities and Money Trusts

Prior to April 1, 2000, listed Japanese and foreign securities that were convertible bonds, bonds with warrants, shares and certain other investments were stated at the lower of moving average cost or market value. Recoveries of write-downs were recorded in subsequent periods. Other securities were stated at moving average cost. Securities held in separately managed money trusts were also stated using the above methods.

Effective April 1, 2000, the Bank and its consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (1) securities held for trading purposes (hereafter, "trading securities"), (2) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (3) equity securities issued by subsidiaries and affiliated companies, and (4) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

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. Realized gains and losses on sale of such securities are computed using moving-average cost based on book value as of April 1, 2000.

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 in separately managed money trusts are also stated using the above methods.

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.

As a result of adopting the new accounting standard for financial instruments that are also related to Notes 3 (b), (d) and (g), income before income taxes increased by ¥1,878 million (US$15,157 thousand).

(d) Derivatives and Hedge Accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

Beginning on April 1, 2000, the Bank adopted “macro hedge” accounting, which is the method to manage aggregate interest rate risks arising from numerous financial assets and liabilities such as loans and deposits by using derivatives. The hedge accounting method is a type of the deferral hedge accounting method and based on the risk management strategy called the risk-adjusted approach defined in the “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry” published by The Japanese Institute of Certified Public Accountants (“JICPA”).

The effectiveness of hedges is evalueted by examining whether risk exposures of derivatives, serving as the means to adjust risks, are within risk limits determined in the risk-management policy and also whether hedged interest rate risk exposure is reduced.

For certain assets and liabilities, the ordinary deferral hedge accounting method is applied.

(e) 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.

(f) 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.

(g) 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-less ratio, and for doubtful claims by the amount deemed uncollectable based on the respective assessments.

(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.

At March 31, 2000, the Bank and its consolidated subsidiaries accrued liabilities for lump-sum severance and retirement payments equal to 100% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Bank and its consolidated subsidiaries recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Bank and its consolidated subsidiaries adopted the new accounting standard, “Opinion on Setting Accounting Standard for Employees’ Severance and Pension Benefits”, issued by the Business Accounting Deliberation Council on June 16, 1998 (the “New Accounting Standard”).

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Bank and its consolidated subsidiaries provided the liabilities for employees’ severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liability for severance and retirement benefits recorded as of April 1, 2000 (the “net transition obligation”) amounted to ¥17,484 million (US$141,114 thousand), of which ¥10,000 million (US$80,710 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥10,000 million (US$80,710 thousand) to the employee retirement benefit trust in September 2000. The remaining net transition obligation amounting to ¥7,484 million (US$60,404 thousand) is recognized in expenses in the year ended March 31, 2001. Prior service costs are recognized in expenses when they arise, and the prior service costs amounting to ¥1,208 million (US$9,750 thousand) was offset against the remaining net transition obligation in the year ended March 31, 2001. 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.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥16,911 million (US$136,489 thousand) and income before income taxes decreased by ¥9,011 million (US$72,728 thousand), after consideration of the gain on contributed securities referred to above, compared with what would have been recorded under the previous accounting standard.

(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. Income taxes in Japan applicable to the Bank and consolidated subsidiaries for the year ended March 31, 2001 consisted 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 statement of cash flows and "cash and due from banks" in the consolidated balance sheet are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash and due from banks	¥ 390,726	¥ 467,882	$ 3,153,559
Deposits with banks	(264,636)	(262,121)	(2,135,883)
Due from banks excluding the Bank of Japan	(50,036)	(27,658)	(403,842)
Cash and cash equivalents	¥ 76,054	¥ 178,103	$ 613,834

(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, whether the prior net income per share is retroactively adjusted for stock splits.

4. Additional Information

Effective from the year ended March 31, 2000, the reserve for possible loan losses is treated as a deduction in the assets section of the consolidated balance sheet, where as in the prior year it was included in liabilities. The effect of this change decreased assets and liabilities by ¥44,076 million for the year ended March 31, 2000.

5. Change in Method of Presentation

Through the fiscal year ended March 31, 1999, group life insurance premiums were included in general and administrative expenses. For the year ended March 31, 2000, such premiums in the amount of ¥1,090 million were included in fees and commissions expense.

6. Securities

Securities at March 31, 2001 and 2000, include shares of unconsolidated subsidiaries and an affiliate of ¥130 million (US$1,049 thousand) and ¥130 million, respectively.

The lent securities which are included in 'Securities' at March 31 2001, are ¥5,260 million (US$42,454 thousand).

In addition to the securities account in the consolidated balance sheet, 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 table summarizes acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2001:

Available-for-sale securities

	Millions of Yen				
Type	Acquisition Cost	Book Value	Net Unrealized Gain	Unrealized Gain	Unrealized Loss
Equity securities	¥ 59,320	¥ 77,733	¥18,413	¥23,112	¥4,699
Bonds	930,685	960,598	29,913	30,027	114
Japanese government bonds	289,956	295,610	5,654	5,749	95
Japanese corporate bonds	344,869	360,974	16,105	16,106	1
Japanese local government bonds	295,860	304,014	8,154	8,172	18
Others	528,661	527,504	(1,157)	2,099	3,256
Total	¥1,518,666	¥1,565,835	¥47,169	¥55,238	¥8,069

Type	Thousands of U.S. Dollars				
	Acquisition Cost	Book Value	Net Unrealized Gain	Unrealized Gain	Unrealized Loss
Equity securities	$ 478,773	$ 627,385	$148,612	$186,538	$37,926
Bonds	7,511,582	7,753,011	241,429	242,349	920
Japanese government bonds	2,340,242	2,385,876	45,634	46,401	767
Japanese corporate bonds	2,783,446	2,913,430	129,984	129,992	8
Japanese local government bonds	2,387,894	2,453,705	65,811	65,956	145
Others	4,266,836	4,257,498	(9,338)	16,941	26,279
Total	$12,257,191	$12,637,894	$380,703	$445,828	$65,125

(2) The following tables summarize book values of securities with no available fair values as of March 31, 2001:

Type	Millions of yen	Thousands of U.S. Dollars
	Book Value	Book Value
Non-listed equity securities	¥ 5,431	$ 43,834
Investments in subsidiaries	113	912
Investments in related companies	17	137
Enterprise bonds	8,179	66,013
Trust certificates	97,232	784,762

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

Type	Millions of Yen			
	Within 1 Year	Over 1 Year but Within 5 Years	Over 5 Years but Within 10 years	Over 10 Years
Bonds	¥ 76,890	¥500,655	¥390,233	¥1,000
Japanese government bonds	40,298	210,679	43,633	1,000
Japanese corporate bonds	2,747	87,925	270,303	—
Japanese local government bonds	33,845	202,051	76,297	—
Others	372,495	95,584	75,757	34,781
Total	¥449,385	¥596,239	¥465,990	¥35,781

Type	Thousands of U.S. Dollars			
	Within 1 Year	Over 1 Year but Within 5 Years	Over 5 Years but Within 10 years	Over 10 Years
Bonds	$ 620,581	$4,040,799	$3,149,580	$8,071
Japanese government bonds	325,246	1,700,395	352,163	8,071
Japanese corporate bonds	22,171	709,645	2,181,622	—
Japanese local government bonds	273,164	1,630,759	615,795	—
Others	3,006,417	771,461	611,437	280,718
Total	$3,626,998	$4,812,260	$3,761,017	$288,789

(4) Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥283,413 million (US$2,287,433 thousand) and the related gains and losses amounted to ¥1,999 million (US$16,134 thousand) and ¥486 million (US$3,923 thousand), respectively.

(5) In September 2000, the Bank contributed, receiving no cash, certain investment securities to its employee retirement benefit trust as explained in Note 3.(h). The market value of the contributed securities at the time of contribution was ¥10,000 million (US$80,710 thousand).Upon contribution of these securities, a gain on securities contributed to the employee retirement benefit trust amounting to ¥7,900 million (US$63,761 thousand) was recognized.

7. Money Trusts

The following tables summarize acquisition costs, book values and fair value of Money trust with available fair value as of March 31, 2001:

(1) Money trusts classified as trading

	Millions of Yen	Thousands of U.S. Dollars
Book value	¥59,270	$478,370
Amount of net unrealized gains or losses included in the income statement	98	791

(2) Money trusts classified as held to maturity

	Millions of Yen	Thousands of U.S. Dollars
Book value	¥100	$807
Market value	102	823
Net unrealized	2	16
Unrealized gain	2	16
Unrealized loss	—	—

8. Market Value Information for Securities at march 31, 2000

At March 31, 2000, book value, market value and net unrealized gains of trading account securities and securities, both listed on stock exchanges, were as follows:

	Millions of Yen
Book value	
Trading account securities	¥ 554
Securities	170,686
Total	171,240
Market value	
Trading account securities	554
Securities	233,644
Total	234,198
Net unrealized gains	¥ 62,958

At March 31, 2000, book value, market value and net unrealized gains of unlisted trading account securities and unlisted securities for which quoted market values were available were as follows:

	Millions of Yen
Book value	
Trading account securities	¥ 6,824
Securities	387,923
Total	394,747
Market value	
Trading account securities	6,808
Securities	391,936
Total	398,744
Net unrealized gains	¥ 3,997

9. Market Value Information for Money Trusts

At March 31, 2000, book value, market value and net unrealized gains of money trusts were as follows:

	Millions of Yen
Book value	¥39,945
Market value	40,075
Net unrealized gains	¥ 130

10. Loans and Bills Discounted

As required to be disclosed at March 31, 2001 and 2000, loans and bills discounted include the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Loans to bankrupt customers	¥ 38,059	¥ 19,623	$307,175
Loans past due six months or more	39,893	50,504	321,977
Loans past due three months or more	815	762	6,578
Restructured loans	42,428	31,823	342,437
Total	¥121,195	¥102,712	$978,167

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.

The face value of bank acceptances, bills of exchange and bills of lading which the Bank has issued at March 31, 2001, is ¥170,180 million (US$1,373,527 thousand).

11. Commitment Line

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 the loans upon the request of an obligor to draw down funds under such a 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, 2001 amounted to ¥1,009,026 million (US$8,143,874 thousand). Of this amount, ¥1,006,732 million (US$8,125,359 thousand) relates to loans 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 its 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.

12. Premises and Equipment

Premises and equipment at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Acquisition value	¥121,101	¥119,114	$977,409
Less accumulated depreciation	69,271	66,352	559,088
Net book value	¥ 51,830	¥ 52,762	$418,321

13. Pledged assets

Pledged assets at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Assets			
Securities	¥31,039	¥30,963	$250,517
Other assets	2,659	1,501	21,461
Future lease receipts	17,875	19,601	144,270
Liabilities secured by the above were as follows:			
Deposits	¥25,747	¥49,656	$207,805
Borrowed money	16,634	16,349	134,253
Other liabilities	40	10	323

At March 31, 2001 and 2000, certain securities, aggregating ¥198,575 million (US$1,602,704 thousand) and ¥99,459 million, respectively, deposits with banks of ¥1,807 million (US$12,849 thousand) and ¥1,592 million, respectively, were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

14. Deferred Income Tax Assets

Significant components of deferred income taxes assets and liabilities at March 31, 2001 and 2000 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred income tax assets:			
Reserve for possible loan losses	¥10,352	¥12,541	$83,551
Reserve for retirement allowances	—	2,637	—
Severance and retirement benefits	6,548	—	52,849
Depreciation	4,726	4,184	38,144
Other	2,402	2,747	19,386
Total	24,028	22,109	193,930
Deferred income tax liabilities:			
Net unrealized holding gains on securities	19,669	—	158,749
Other	18	—	145
Total	19,687	—	158,894
Net deferred income tax assets	¥4,341	¥22,109	$35,036

In the year ended March 31, 2001, a material difference may emerge for the Bank and its consolidated subsidiaries submitting consolidated financial statements between the statutory tax rate and the affective tax rate after the application of tax-effect accounting. The causes of these differences are as follows:

	2001
Statutory tax rate	41.7%
Increase (decrease) in taxes resulting from:	
Permanently nontaxable dividends received	(2.7)
Permanently nondeductible expenses	0.6
Other	(0.1)
Effective income tax rate	39.5%

15. Liability for Severance and Retirement Benefits

As explained in Note 3. Significant Accounting Policies, effective April 1, 2000, the Bank and its consolidated subsidiaries adopted the new accounting standard for severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Projected benefit obligation	¥ 43,350	$ 349,879
Unrecognized actuarial differences	(5,229)	(42,203)
Less fair value of pension assets	(22,287)	(179,879)
Liability for severance and retirement benefits	¥ 15,834	$ 127,797

Included in the consolidated statement of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Service costs — benefits earned during the year	¥ 2,168	$ 17,498
Interest cost on projected benefit obligation	1,264	10,202
Expected return on plan assets	(578)	(4,665)
Prior service costs	(1,208)	(9,750)
Net transition obligation	17,484	141,114
Severance and retirement benefit expenses	¥19,130	$154,399

The discount rate used by the Bank is 3.00%. The rates of expected return on plan assets used by the Bank are 3.000%, 3.510% and 0.232%. 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. Prior service costs are recognized in expenses when they arise. 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.

16. Other expenses

For the year ended March 31, 2000, other expenses included the increase of reserve for retirement allowances at the beginning of the year as the result of plan amendment in the amount of ¥1,853 million.

17. 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.

Beginning on April 1, 2000, the Bank adopted "macro hedge" accounting which is the method to manage aggregate interest rate risks arising from numerous financial assets and liabilities such as loans and deposits by using derivatives. The hedge accounting method is a type of the deferral hedge accounting method and based on the risk management strategy called the risk-adjusted approach defined in the "Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" published by the JICPA.

The effectiveness of hedges is evaluated by examining whether risk exposures of derivatives, serving as the means to adjust risks, are within risk limits determined in the risk-management policy and also whether hedged interest rate risk exposure is reduced.

For certain assets and liabilities, the ordinary deferral hedge accounting method is applied.

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 March31, 2001 and 2000 were ¥5,323 million (US$42,962 thousand) and ¥8,017 million, respectively. Those amounts at March 31, 2001 and 2000 were calculated using the current exposure method.

The following tables summarize market value information as of March 31, 2001 of derivative transactions for which hedge accounting has not been applied:

Interest Rate Derivatives:

	Millions of Yen			
Type	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions Interest rate swap				
Pay variable, receive fixed	¥ 2,279	¥ —	¥ 23	¥ 23
Pay fixed, receive variable	10,000	10,000	(235)	(235)
Pay variable, receive variable	1,217	1,217	(7)	(7)
Total			¥(219)	¥(219)

	Thousands of U.S. Dollars			
Type	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions Interest rate swap				
Pay variable, receive fixed	$18,394	$ —	$ 186	$ 186
Pay fixed, receive variable	80,710	80,710	(1,897)	(1,897)
Pay variable, receive variable	9,822	9,822	(56)	(56)
Total			$(1,767)	$(1,767)

Note: 1. The above transactions are valued at market value and the gains (losses) are recognized in the consolidated statements of income.
2. Derivative transactions to which hedge accounting was applied are not included in the figures above.

Currency Derivatives:

	Millions of Yen			
Type	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Currency swaps	¥40,728	¥11,549	¥(234)	¥(234)

	Thousands of U.S. Dollars			
Type	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Currency swaps	$328,717	$93,212	$(1,889)	$(1,889)

Note: 1. The above transactions are valued at market value and the gains (losses) are recognized in the consolidated statements of income.
2. Derivative transactions to which hedge accounting was applied are not included in the figures above.
3. Currency swaps which are revalued at the consolidated balance sheet date and the revalued gains (losses) are allocated to each fiscal year are not included in the figures above.

Market value information as of March 31, 2001 of such currency swaps are as follows:

	Millions of yen		
Type	Contract Amount	Market Value	Unrealized Gains (Losses)
Currency swaps	¥219,729	¥(5,746)	¥(5,746)

	Thousands of U.S. Dollars		
Type	Contract Amount	Market Value	Unrealized Gains (Losses)
Currency swaps	$1,773,438	$(46,376)	$(46,376)

4. Forward foreign exchange and currency options which are of the following types are not included in the figures above.
(a) Those that are revalued at the consolidated balance sheet date and revalued gains (losses) are accounted for in the consolidated statements of income.
(b) Those that were allotted to financial assets/liabilities by foreign currency and whose market values are already reflected in the amount of the financial assets/liabilities in the consolidated balance sheet.

The contract amounts of currency derivatives which are revaluated at the consolidated balance sheet date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Type	Contract Amount	Contract Amount
Over-the-counter transactions		
Currency futures		
Sell futures	¥11,317	$91,340
Buy futures	10,188	82,228

Bond Derivatives:

	Millions of Yen			
Type	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Transactions listed on exchange				
Bond futures				
Sell futures	¥10,980	¥—	¥(19)	¥(19)
Buy futures	6,969	—	(1)	(1)
Total			¥(20)	¥(20)

	Thousands of U.S. Dollars			
Type	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Transactions listed on exchange				
Bond futures				
Sell futures	$88,620	$—	$(153)	$(153)
Buy futures	56,247	—	(8)	(8)
Total			$(161)	$(161)

Note: 1. The above transactions are valued by market value and the gains (losses) are recognized for in the consolidated statements of income.
2. Derivative transactions to which hedge accounting was applied are not included in the figures above.

At March 31, 2000, principal amounts of interest rate swap contracts were as follows:

	Millions of Yen	
	Total	Over 1 year
Principal amounts		
Variable rate received for fixed rate	¥169,450	¥134,675
Variable rate received for variable rate	2,053	1,062

At March 31, 2000 net unrealized losses of interest rate swap contracts were ¥5,396 million.

Currency swap contracts, principally for U.S. Dollars, outstanding at March 31, 2000, totaled ¥230,842 million, including ¥855 million which matures over one year. At March 31, 2000, unrealized losses on currency swap contracts were ¥959 million.

Foreign currency future and option contracts are adjusted to current rates at the end of the year and gains and losses are reflected in earnings for the year.

Futures and options relating to bonds at March 31, 2000 were as follows:

	Millions of Yen
Traded on exchanges:	
Sell futures	¥10,009
Buy futures	5,615

Unrealized losses on bond futures positions at March 31, 2000 were ¥16 million.

18. Lease Transactions

Information for finance leases at March 31, 2001 and 2000 were as follows:

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Original lease obligations for equipment (including finance charges)	¥46	¥46	$371
Payments remaining:			
Payments due within one year	¥ 9	¥ 9	$ 73
Payments due after one year	15	18	121
Total	¥24	¥27	$194

Lease payments for such leases for the years ended March 31, 2001 and 2000 were ¥9 million (US$73 thousand) and ¥9 million, respectively.

(2) Subsidiary as lessor

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Original lease obligations for equipment (including finance charges)	¥83,513	¥84,036	$674,036
Payments remaining:			
Payments due within one year	¥11,031	¥11,320	$ 89,031
Payments due after one year	23,053	24,148	186,061
Total	¥34,084	¥35,468	$275,092

Lease payments received for such leases for the years ended March 31, 2001 and 2000 were ¥11,263 million (US$90,904 thousand) and ¥11,660 million, respectively. Depreciation of leased assets for the years ended March 31, 2001 and 2000 were ¥10,584 million (US$85,424 thousand) and ¥10,588 million, respectively.

19. Segment Information

Segment information at March 31, 2001 and 2000 is as follows:

(a) Segment information by type of business

	Millions of Yen					
	2001					
	Banking	Sales	Leases, Installment Advisor	Securities Investment Total	Total Corporate	Elimination or Consolidated
Recurring income						
Recurring income from outside customers	¥ 111,919	¥17,896	¥ 37	¥ 129,852	¥ —	¥ 129,852
Inter-segments	341	744	60	1,145	(1,145)	—
	112,260	18,640	97	130,997	(1,145)	129,852
Recurring expenses	94,831	17,586	78	112,495	(1,128)	111,367
Recurring profit	¥ 17,429	¥ 1,054	¥ 19	¥ 18,502	¥ (17)	¥ 18,485
Assets	¥5,188,036	¥46,391	¥370	¥5,234,797	¥(16,812)	¥5,217,985
Depreciation	4,530	11,198	0	15,728	—	15,728
Capital expenditure	4,125	10,322	—	14,447	—	14,447

	Thousands of U.S. Dollars					
	2001					
	Banking	Sales	Leases, Installment Advisor	Securities Investment Total	Total Corporate	Elimination or Consolidated
Recurring income						
Recurring income from outside customers	$ 903,301	$144,439	$ 299	$ 1,048,039	$ —	$ 1,048,039
Inter-segments	2,752	6,005	484	9,241	(9,241)	—
	906,053	150,444	783	1,057,280	(9,241)	1,048,039
Recurring expenses	765,383	141,937	630	907,950	(9,104)	898,846
Recurring profit	$ 140,670	$ 8,507	$ 153	$ 149,330	$ (137)	$ 149,193
Assets	$41,872,768	$374,423	$2,986	$42,250,177	$(135,689)	$42,114,488
Depreciation	36,562	90,379	0	126,941	—	126,941
Capital expenditure	33,293	83,309	—	116,602	—	116,602

As a results of adopting the new accounting standard for financial instruments, recurring profit of Banking increased by ¥2,066 million (US$16,675 thousand) and that of Leases, installment sales decreased by ¥188 million (US$1,517 thousand) compared with what would have been recorded under the previous accounting standard.

previous accounting standard, respectively.

Moreover, by adopting the new accounting standard for severance and retirement benefits, recurring profit of Banking decreased by ¥635 million (US$5,125 thousand) compared with what would have been recorded under the

	Millions of Yen					
	2000					
	Banking	Sales	Leases, Installment Advisor	Securities Investment Total	Total Corporate	Elimination or Consolidated
Recurring income						
Recurring income from outside customers	¥ 121,006	¥17,823	¥ 40	¥ 138,869	¥ —	¥ 138,869
Inter-segments	373	771	58	1,202	(1,202)	—
	121,379	18,594	98	140,071	(1,202)	138,869
Recurring expenses	109,146	17,673	78	126,897	(1,127)	125,770
Recurring profit	¥ 12,233	¥ 921	¥ 20	¥ 13,174	¥ (75)	¥ 13,099
Assets	¥5,024,393	¥47,471	¥362	¥5,072,226	¥(20,449)	¥5,051,777
Depreciation	4,420	11,257	0	15,677	—	15,677
Capital expenditure	4,558	10,617	—	15,175	—	15,175

Recurring income represents total income excluding gains on disposal of premises and equipment and collection of written-off claims. 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, for the years ended March 31, 2001 and 2000, since it is less than 10 percent of the consolidated recurring income.

20. Shareholders' Equity

(a) Common Stock and Capital Surplus

At March 31, 2001 and 2000, the authorized share capital of the Bank consisted of 400 million common shares with a par value of ¥50 per share, of which 244,272,106 shares and 203,560,089 shares ,respectively, were issued and outstanding.

Under the Japanese Commercial Code, at least 50 percent of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The remaining portion is credited to capital surplus. Accordingly, the total par value of issued shares of the Bank is less than the amount of stated capital.

As a result of a stock split on November 20, 2000, outstanding common stock increased by 40,712,017 shares to 244,272,106 shares.

(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 such reserve equals the amount of the Bank's stated capital. The legal reserve is not available for dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. 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.

21. Subsequent events

The following appropriations of the retaining earnings of the Bank at March 31, 2001 were approved at the shareholders' meeting held on June 28, 2001.

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Cash dividends (¥3.50 per share)	¥855	$6,901
Bonuses to directors and statutory auditors	45	363

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
The Chugoku Bank, Ltd.

We have audited the accompanying consolidated balance sheets of The Chugoku Bank, Ltd. and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, retained earnings, and cash flows for the years ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of The Chugoku Bank, Ltd. and subsidiaries as of March 31, 2001 and 2000, 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 applied on a consistent basis except for the new accounting policies in the following paragraph.

As explained in Note 3 to the consolidated financial statements in the year ended March 31, 2001,The Chugoku Bank, Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for financial instruments and severance and retirement benefits.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 2.

Asahi & Co.

Asahi & Co.
(A Member Firm of Arthur Andersen)

Okayama, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

NON-CONSOLIDATED BALANCE SHEETS

The Chugoku Bank, Ltd.
March 31, 2001 and 2000

	Millions of Yen		Thousands of U. S. Dollars (Note 2)
	2001	2000	2001
ASSETS			
Cash and due from banks	¥ 390,169	¥ 467,330	$ 3,149,064
Call loans	224,761	68,892	1,814,051
Commercial paper and other debt purchased	99,299	69,515	801,445
Trading account securities (Note 6)	51,149	14,784	412,825
Money trusts	59,102	39,661	477,014
Securities (Note 7)	1,312,228	1,128,335	10,591,025
Loans and bills discounted (Note 8)	2,943,694	3,110,708	23,758,628
Foreign exchanges (Note 11)	2,113	1,931	17,054
Other assets (Note 12)	29,077	17,652	234,681
Premises and equipment (Note 13)	50,279	50,969	405,803
Deferred income tax assets (Note 14)	3,703	21,702	29,887
Customers' liabilities for acceptances and guarantees (Note 18)	67,973	72,122	548,612
Reserve for possible loan losses	(48,521)	(42,574)	(391,614)
Total assets	¥5,185,026	¥5,021,027	$41,848,475
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits (Note 15)	¥4,657,866	¥4,555,817	$37,593,753
Call money	73,205	57,200	590,839
Borrowed money (Note 16)	9,702	10,009	78,305
Foreign exchanges (Note 11)	75	50	605
Other liabilities (Note 17)	50,755	38,315	409,645
Reserve for retirement allowances	—	8,678	—
Liability for severance and retirement benefits	15,727	—	126,933
Reserve for residual losses on loans sold	—	416	—
Acceptances and guarantees (Note 18)	67,973	72,122	548,612
Total liabilities	4,875,303	4,742,607	39,348,692
Shareholders' equity (Notes 22 and 23):			
Common stock	15,149	15,149	122,268
Capital surplus	6,287	6,287	50,743
Legal reserve	15,149	15,149	122,268
Retained earnings:			
General reserve	239,300	235,100	1,931,397
Unappropriated retained earnings	6,718	6,735	54,221
Net unrealized holding gains on securities	27,120	—	218,886
Total shareholders' equity	309,723	278,420	2,499,783
Total liabilities and shareholders' equity	¥5,185,026	¥5,021,027	$41,848,475

See notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF INCOME AND UNAPPROPRIATED RETAINED EARNINGS

The Chugoku Bank, Ltd.
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
Income:			
Interest and dividends on:			
Loans and discounts	¥ 64,410	¥ 65,953	$519,855
Securities	27,542	27,826	222,292
Other	3,406	3,550	27,490
Fees and commissions	11,138	10,911	89,895
Other operating income			
Gains on sales and redemptions of other securities	1,614	4,677	13,027
Other	456	522	3,680
Other income			
Gains on sales of shares	654	3,205	5,278
Gains on money trusts	216	2,105	1,743
Gain on securities contributed to employee retirement benefit trust	7,900	—	63,761
Other	1,187	786	9,581
Total income	118,523	119,535	956,602
Expenses:			
Interest on:			
Deposits	12,856	13,175	103,761
Borrowings and rediscounts	4,325	3,200	34,907
Other	6,418	8,312	51,800
Fees and commissions	2,515	2,455	20,299
Other operating expenses			
Losses on sales, redemptions and write-down of bonds	385	7,330	3,107
Other	2,000	10	16,142
General and administrative expenses (Note 20)	53,530	51,592	432,042
Other expenses			
Losses on sales and write-down of shares	455	4,511	3,672
Losses on money trusts	1,091	23	8,805
Expense of change of accounting for retirement benefits	16,245	—	131,114
Other	9,411	18,791	75,957
Total expenses	109,231	109,399	881,606
Income before income taxes	9,292	10,136	74,996
Income taxes:			
Current	5,044	12,580	40,710
Deferred	(1,400)	(8,328)	(11,299)
Net income	5,648	5,884	45,585
Unappropriated retained earnings:			
Balance at the beginning of the year	6,735	20,519	54,358
Appropriations:			
Cash dividends (Note 22)	1,425	1,425	11,501
Bonuses to directors and statutory auditors	40	43	323
Transfer to general reserve	4,200	18,200	33,898
Balance at the end of the year	¥6,718	¥6,735	$54,221

	Yen		U. S. Dollars
	2001	2000	2001
Per share of common stock:			
Net income	¥25.87	¥26.94	$0.209
Cash dividends applicable to the year (Note 22)	7.00	7.00	0.056

See notes to non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

The Chugoku Bank, Ltd.

1. Basis of Presenting Non-Consolidated Financial Statements

The Chugoku Bank, Ltd. (the "Bank") maintains its accounts and records in accordance with the provisions set forth in the Japanese Commercial Code, the Securities and Exchange Law, the Japanese Banking Law, and the Japanese Uniform Rules For Bank Accounting and in conformity with accounting principles and practices generally accepted in Japan("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying non-consolidated financial statements are a translation of the audited non-consolidated financial statements of the Bank which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying non-consolidated financial statements, certain reclassifications have been made in the non-consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. Yen and U.S. Dollar Amounts

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 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) Trading Account Securities

Prior to April 1, 2000, trading account securities listed on stock exchanges were stated at the lower of moving average cost or market value. Recoveries of write-downs were recorded in subsequent periods. Other trading account securities were stated at moving average cost.

Effective April 1, 2000, trading account securities are stated at fair market value as a result of adopting the new accounting standard for financial instruments (Notes 3 (b)).

(b) Securities and Money Trusts

Prior to April 1, 2000, listed Japanese and foreign securities that were convertible bonds, bonds with warrants, shares and certain other investments were stated at the lower of moving average cost or market value. Recoveries of write-downs were recorded in subsequent periods. Other securities were stated at moving average cost. Securities held in separately managed money trusts were also stated using the above methods.

Effective April 1, 2000, the Bank adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (1) securities held for trading purposes (hereafter, "trading securities"), (2) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (3) equity securities issued by subsidiaries and affiliated companies, and (4) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

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 based on book value at April 1, 2000.

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 in separately managed money trusts are also stated using the above methods.

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.

As a result of adopting the new accounting standard for financial instruments that are also related to Notes 3 (a) and (c), income before income taxes increased by ¥2,084 million (U.S.$16,820 thousand).

(c) Derivatives and Hedge Accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

Beginning on April 1, 2000, the Bank adopted "macro hedge" accounting, which is the method to manage aggregate interest rate risks arising from numerous financial assets and liabilities such as loans and deposits by using derivatives. The hedge accounting method is a type of the deferral hedge accounting method and based on the risk management strategy called the risk-adjusted approach defined in the "Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" published by The Japanese Institute of Certified Public Accountants ("JICPA").

The effectiveness of hedges is evaluated by examining whether risk exposures of derivatives, serving as the means to adjust risks, are within risk limits determined in the risk-management policy and also whether hedged interest rate risk exposure is reduced.

For certain assets and liabilities, the ordinary deferral hedge accounting method is applied.

(d) 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

(e) Stock Issue Expenses

Stock issue expenses are recognized in expenses when they arise.

(f) 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.

(g) 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.

(h) Liability for 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.

At March 31, 2000, the Bank accrued liabilities for lump-sum severance and retirement payments equal to 100% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Bank recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Bank adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liability and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Bank provided the liability for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liability for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥17,442 million (U.S.$140,775 thousand), of which ¥10,000 million (U.S.$80,710 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥10,000 million (U.S.$80,710 thousand) to the employee retirement benefit trust in September 2000. The remaining net transition obligation amounting to ¥7,442 million (U.S.$60,065 thousand) is recognized in expenses in the year ended March 31, 2001. Prior service costs are recognized in expenses when they arise, and the prior service costs amounting to ¥1,197 million (U. S $9,661 thousand) was offset against the remaining net transition obligation in the year ended March 31, 2001. 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.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥16,879 million (U.S.$136,231 thousand) and income before income taxes decreased by ¥8,979 million (U.S.$72,470 thousand) , after consideration of the gain on contributed securities referred to above, compared with what would have been recorded under the previous accounting standard.

(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 andtax reporting. Income taxes in Japan applicable to the Bank for the year ended March 31, 2001 consisted of corporation tax (national), inhabitants taxes (local), and enterprise taxes (local).

(k) Net Income per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during the year, whether the prior net income per share is retroactively adjusted for stock splits.

4. Additional Information

Effective from the year ended March 31, 2000, the Reserve for possible loan losses is treated as a deduction in the assets section of the non-consolidated balance sheet, where as in the prior year it was included in liabilities. The effect of this change decreased assets and liabilities by ¥ 42,574 million for the year ended March 31, 2000.

5. Change in Method of Presentation

Through the fiscal year ended March 31, 1999, group life insurance premiums were included in general and administrative expenses. For the year ended March 31, 2000, such premiums in the amount of ¥1,090 million were included in fees and commissions expense.

6. Trading Account Securities

Trading account securities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
National government bonds	¥13,369	¥14,784	$107,902
Commercial paper	37,780	—	304,923
Total	¥51,149	¥14,784	$412,825

7. Securities

Securities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
National government bonds	¥ 295,610	¥ 286,826	$ 2,385,876
Local government bonds	360,975	355,219	2,913,438
Corporate bonds	312,130	274,506	2,519,209
Shares	81,259	59,545	655,843
Other securities	262,254	152,239	2,116,659
Total	¥1,312,228	¥1,128,335	$10,591,025

The lent securities which are included in 'Securities' at March 31 2001, are ¥5,260 million (U.S.$42,454 thousand).

8. Loans and Bills Discounted

Loans and bills discounted at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Bills discounted	¥ 170,180	¥ 175,482	$ 1,373,527
Loans on bills	486,939	515,838	3,930,097
Loans on deeds	1,771,237	1,774,784	14,295,698
Overdrafts	515,338	644,604	4,159,306
Total	¥2,943,694	¥3,110,708	$23,758,628

As required to be disclosed at March 31, 2001 and 2000, loans and bills discounted include the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Loans to bankrupt customers	¥ 37,664	¥ 19,107	$303,987
Loans past due six months or more	38,632	49,391	311,800
Loans past due three months or more	815	762	6,578
Restructured loans	42,410	31,805	342,292
Total	¥119,521	¥101,065	$964,657

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.

The amount of bank acceptances, bills of exchange and bills of lading which the Bank has issued at March 31, 2001, is ¥170,180 million (U.S.$1,373,527 thousand).

Loan participation agreements, under which the Bank has acquired economic benefits and risks of the underlying loans from the original lender, at March 31, 2001 and 2000 were ¥95,038 million (U.S.$767,054 thousand) and ¥130,224 million, respectively.

9. Commitment Line

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 a 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, 2001 amounted to ¥981,405 million (U.S.$7,920,944 thousand). Of this amount, ¥979,111 million (U.S.$7,902,429 thousand) relates to loans 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.

10. Pledged Assets

Pledged assets at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Pledged assets			
Securities	¥30,999	¥30,953	$250,194
Liabilities secured by the above were as follows:			
Liabilities			
Deposits	¥25,747	¥49,656	$207,805

At March 31, 2001, certain securities, aggregating ¥198,575 million (U.S.$1,602,704 thousand) and deposits with banks of ¥1,807 million (U.S.$14,584) were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

At March 31, 2000, certain securities, aggregating ¥99,459 million and deposits with banks of ¥1,592 million were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

11. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Assets			
Due from foreign banks	¥ 462	¥ 363	$ 3,729
Foreign exchange bills purchased	500	409	4,036
Foreign exchange bills receivable	1,151	1,159	9,289
Total	¥2,113	¥1,931	$17,054
Liabilities			
Foreign exchange bills sold	¥ 37	¥ 46	$ 299
Foreign exchange bills payable	38	4	306
Total	¥ 75	¥ 50	$ 605

12. Other Assets

Other assets at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Domestic exchange settlement account debit	¥ 3	¥ 10	$ 24
Prepaid expenses	83	96	670
Accrued income	10,730	9,749	86,602
Deposit margin paid on futures contracts	58	47	468
Variation margin on futures	13	9	105
Derivative financial instruments	204	—	1,646
Deferred hedge losses	6,584	—	53,140
Other	11,402	7,741	92,026
Total	¥29,077	¥17,652	$234,681

13. Premises and Equipment

Premises and equipment at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Land, buildings and equipment	¥113,640	¥111,106	$917,191
Construction in progress	—	33	—
Other	832	828	6,715
Total	114,472	111,967	923,906
Less accumulated depreciation	64,193	60,998	518,103
Net book value	¥ 50,279	¥ 50,969	$405,803

14. Deferred Income Tax Assets

Significant components of deferred income tax assets at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred income tax assets:			
Reserve for possible loan losses	¥ 9,800	¥ 12,307	$ 79,096
Severance and retirement benefits	6,514	—	52,575
Reserve for retirement allowances	—	2,619	—
Depreciation	4,581	4,103	36,973
Other	2,224	2,673	17,950
Total deferred income tax assets	¥ 23,119	¥ 21,702	$186,594
Deferred income tax liabilities			
Net unrealized holding gains on securities	¥ 19,398	—	$156,562
Other	18	—	145
Total deferred income tax liabilities	¥ 19,416	—	$156,707
Net deferred income tax assets	¥ 3,703	¥ 21,702	$ 29,887

In the year ended March 31, 2001, a material difference may emerge for the Bank between the stetutory tax rate and the effective tax rate burden after the application of tax-effect accounting. The causes of this difference are as follows:

	2001
Statutory tax rate	41.7%
Increase (decrease) in taxes resulting from:	
Permanently nontaxable dividends received	(2.8)
Permanently nondeductible expenses	0.4
Other	(0.1)
Effective income tax rate	39.2%

15. Deposits

Deposits at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Current deposits	¥ 188,034	¥ 163,944	$ 1,517,627
Ordinary deposits	1,233,339	1,141,369	9,954,310
Savings deposits	373,988	392,992	3,018,467
Deposits at notice	58,514	67,950	472,268
Time deposits	2,565,163	2,551,246	20,703,494
Installment time deposits	17,529	18,184	141,477
Other deposits	100,584	176,521	811,816
Sub-total	4,537,151	4,512,206	36,619,459
Negotiable certificates of deposit	120,715	43,611	974,294
Total	¥4,657,866	¥4,555,817	$37,593,753

16. Borrowed Money

Borrowed money at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Loans from banks and insurance companies	¥7,802	¥ 8,176	$62,970
Bills rediscounted	1,900	1,833	15,335
Total	¥9,702	¥10,009	$78,305

17. Other Liabilities

Other liabilities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Domestic exchange settlement account credit	¥ 144	¥ 178	$ 1,162
Income taxes payable	2,694	7,049	21,743
Accrued expenses	8,943	11,578	72,180
Unearned income	2,413	3,849	19,475
Employees' deposits	2,608	2,836	21,049
Reserve for interest on installment savings	16	19	129
Variation margin on futures	17	—	137
Derivative financial instruments	7,220	—	58,273
Deferred hedge gains	41	—	331
Other	26,659	12,806	215,166
Total	¥50,755	¥38,315	$409,645

18. 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.

19. Leases Transactions

Information for non-capitalized finance leases as lessee, at March 31, 2001 and 2000 were as follows:

	Millions of Yen		U.S. Dollars
	2001	2000	2001
Original lease obligations for equipment (including finance charges)	¥2,962	¥3,848	$23,906
Payments remaining:			
Payments due within one year	¥ 536	¥ 567	$ 4,326
Payments due after one year	880	994	7,103
Total	¥1,416	¥1,561	$11,429

Lease payments for such leases for the years ended March 31, 2001 and 2000 were ¥618 million (U.S.$4,988 thousand) and ¥643 million, respectively.

20. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Salaries and allowances	¥22,812	¥23,445	$184,116
Retirement allowances	—	188	—
Severance and retirement benefit expenses	2,811	—	22,688
Depreciation	4,525	4,414	36,521
Rental expenses	1,541	1,581	12,437
Taxes other than income taxes	2,945	2,852	23,769
Other expenses	18,896	19,112	152,511
Total	¥53,530	¥51,592	$432,042

21. Other expenses

For the year ended March 31, 2000, other expenses included the increase of reserve for retirement allowances as the result of plan amendment in the amount of ¥1,853 million.

22. Shareholders' Equity

(a) Common Stock and Capital Surplus

At March 31, 2001 and 2000, the authorized share capital of the Bank consisted of 400 million common shares with a par value of ¥50 per share, of which 244,272,106 shares and 203,560,089 shares, respectively, were issued and outstanding.

Under the Japanese Commercial Code, at least 50 percent of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The remaining portion is credited to capital surplus. Accordingly, the total par value of issued shares of the Bank is less than the amount of stated capital.

As a result of a stock split on November 20, 2000, outstanding common stock increased by 40,712,017 shares to 244,272,106 shares.

(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 such reserve equals the amount of the Bank's stated capital. The legal reserve is not available for dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

(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.

23. Subsequent events

The ordinary shareholders' meeting, which was held on June 28, 2001, approved the following year-end appropriation of unappropriated retained earnings:

	Millions of Yen	Thousands of U.S. Dollars
Unappropriated retained earnings at March 31, 2001	¥6,718	$54,221
Appropriations		
Cash dividends (¥3.50 per share)	855	6,901
Bonuses to directors and statutory auditors	45	363
Transfer to general reserve	4,025	32,486
Unappropriated retained earnings carried forward	¥1,793	$14,471

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
The Chugoku Bank, Ltd.

We have audited the accompanying non-consolidated balance sheets of The Chugoku Bank, Ltd. at March 31, 2001 and 2000, and the related non-consolidated statements of income and unappropriated retained earnings for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of The Chugoku Bank, Ltd. at March 31, 2001 and 2000, and the non-consolidated results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis, except for the new accounting policies in the following paragraph.

As explained in Note 3 to the non-consolidated financial statements in the year ended March 31, 2001, The Chugoku Bank, Ltd. adopted new accounting standards for financial instruments and severance and retirement benefits.

We have also reviewed the translation of the accompanying 2001 financial statements into U.S. Dollars on the basis described in Note 2. In our opinion, such statements have been properly translated on such basis.

Asahi & Co.

Asahi & Co.
(A Member Firm of Arthur Andersen)

Okayama, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President
Akira Nagashima

Senior Managing Director
Katsutoshi Moriya

Senior Managing Director
Fumihiro Izumi

Managing Director
Katsutoshi Sato

Managing Director
Kunio Soda

Managing Director
Isao Yamagata

Managing Director
Masayoshi Inaka

Managing Director
Takashi Kenmotsu

President
Akira Nagashima

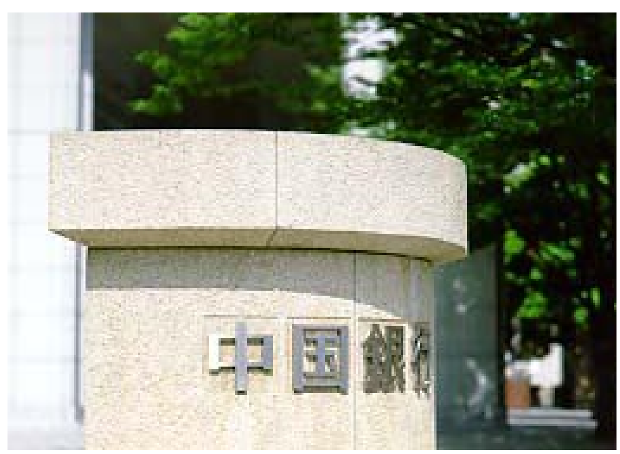
Senior Managing Directors
Katsutoshi Moriya
Fumihiro Izumi

Managing Directors
Katsutoshi Sato
Kunio Soda
Isao Yamagata
Masayoshi Inaka
Takashi Kenmotsu

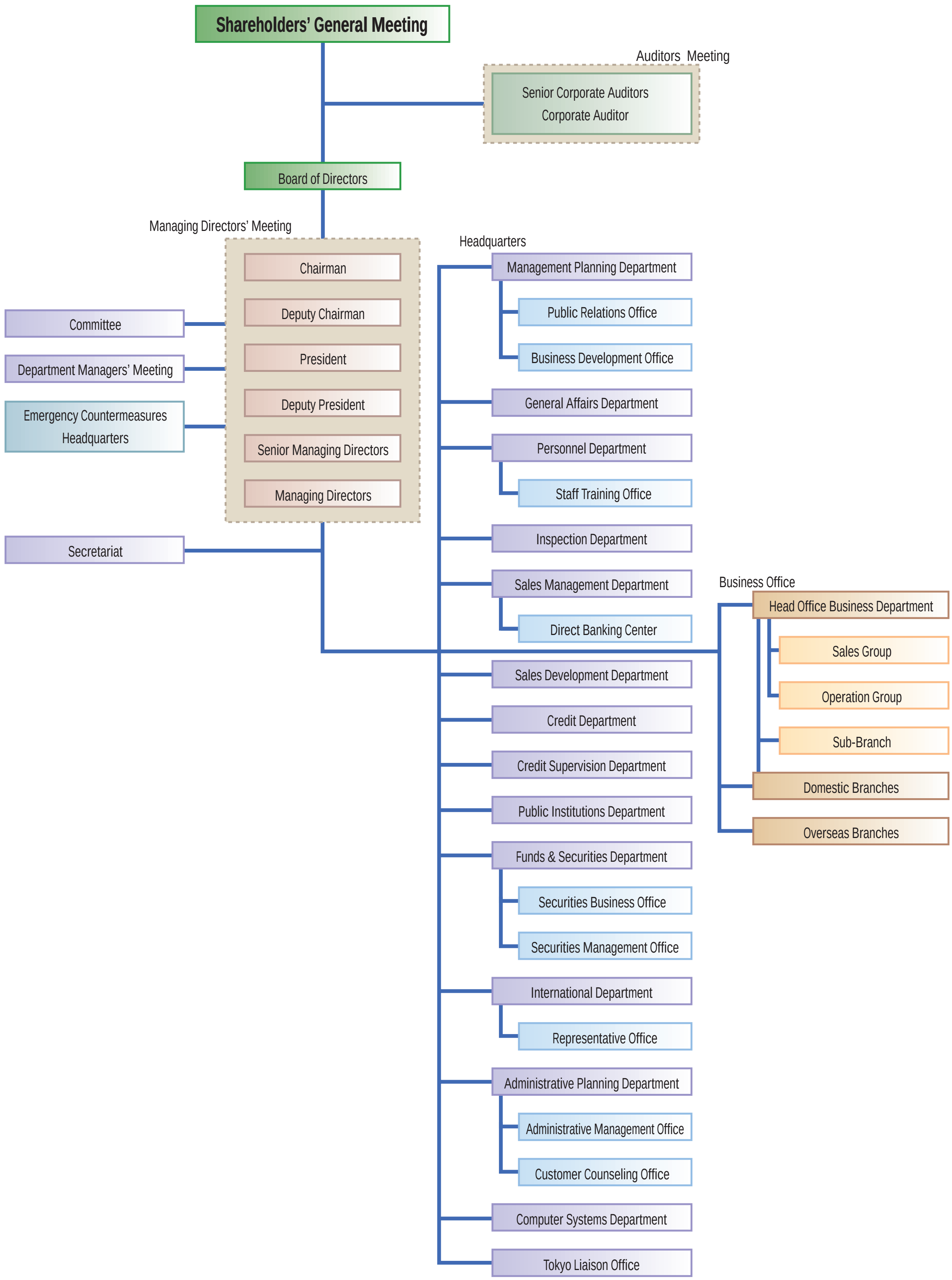
Directors
Masashi Hinoishi
Satoshi Kuyama
Yoshiya Fujii
Yasuo Mori
Munemitsu Yoda
Osamu Maekawa
Shojiro Yamamoto

Standing Corporate Auditors
Shizuo Tani
Kenzo Endo

Corporate Auditors
Tokuo Shiaki
Kenichi Yoshinaga



ORGANIZATION CHART



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Singapore Representative Office
16 Collyer Quay, #23-03 Hitachi Tower,
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Facsimile: 536-7767

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Head Office Business Department
1-15-20, marunouchi, Okayama

Saidaiji Branch
3-7-1, Saidaiji-Naka, Okayama

Kojima Branch
2-1-33, Ajino, Kojima Kurashiki, Okayama

Kurashiki Branch
257-1, Bakuro-cho, kurashiki, Okayama

Kurashiki Ekimae Branch
2-2-2, Achi, Kurashiki Okayama

Mizushima Branch
4-32, Mizushima, Nishiyayoi-cho, Kurashiki, Okayama

Hayashima Branch
1380, Hayashima, Hayashima-cho, Tsukubo-gun, Okayama

Kasaoka Branch
2591, Kasaoka, Kasaoka, Okayama

Tsuyama Branch
30-7, Sange, Tsuyama, Okayama

Fukuyama Branch
1-1, Momiji-cho, Fukuyama, Hiroshima

Onomichi Branch
4-9, Toyohimotomachi, Onomichi, Hiroshima

Mihara Branch
1-11-7, Minatomachi, Mihara, Hiroshima

Shinichi Branch
654-2, Shinichi, Shinichi-cho, Ashina-gun, Hiroshima

Kure Branch
3-6-1, hon-dori, Kure, Hiroshima

Fuchu Branch
1-3, Fukawa-cho, Fuchu, Hiroshima

Hiroshima Branch
15-4, hatchobori, Naka-ku, Hiroshima

Takamatsu Branch
3-6, Marugamemachi, Takamatsu, Kagawa

Sanbonmatsu Branch
610-4, Sanbonmatsu, Ouchi-cho, Okawa-gun, Kagawa

Sakaide Branch
1-2-2, Kyomachi, Sakaide, Kagawa

Kawanoe Branch
4062-4, kawanoe-cho, kawanoe, Ehime

Yonago Branch
1-2-2, Higashi-Fukuhara, Yonago, Tottori

Kobe Branch
2-6-1, Sakaemachi-dori, Chuo-ku, Kobe, Hyogo

Himeji Branch
108, Shirogane-cho, Himeji, Hyogo

Osaka Branch
1-5-33, Dojima, Kita-ku, Osaka

Tokyo Branch
3-4-4, Nihombashi, Muromachi, Chuo-ku, Tokyo

Forign Currency Exchange Offices
66 Offices

Location	Number of Offices
Okayama Pref.	125
Hiroshima Pref.	30
Tottori Pref.	1
Kagawa Pref.	21
Ehime Pref.	1
Hyogo Pref.	4
Osaka Pref.	1
Tokyo Pref.	1
Liaison Offices	1
Overseas Offices	4

Number of ATMs and Locations with ATMs Outside Branches

Category	March 31, 2001
Number inside branches	
ATMs (Automated Teller Machines)	506
Number outside branches	
Cash Dispensers	36
ATMs (Automated Teller Machines)	213
Total	755
Location with ATMs installed	
Outside branches	227

CORPORATE DATA

(As of March 31, 2001)

Head Office

Address:	1-15-20, Marunouchi, Okayama, Japan
Telephone:	(086) 223-3111
Telex:	5922220 CHUGINJ
Swift Address:	CHGKJPJZ
Internet Homepage Address:	http://www.chugin.co.jp
Year of Establishment:	December 1930
Paid-in Capital:	15,149 millions of yen
Authorized Number of Shares:	400,000,000
Shares of Commonstock Issued and Outstanding:	244,272,106
Number of Shareholders:	12,070
Number of Employees:	3,227

Number of Employees

March 31,	Number of Employees 2001	2000	1999
Capital Staff Total:	3,227	3,482	3,578

Note: Number of employees does not include the part-time and temporary staff or local overseas.

Breakdown of Types of Stockholders

Category	Number of stockholders	Number of stock holding (Thousands of shares)	Percentage
Government and local authorities	2	14	0.00
Financial institutions	99	58,030	24.14
Securities firms	24	993	0.41
Other corporations	565	83,495	34.73
Foreign investors	51	4,246	1.77
(including private investors)	(—)	(—)	(—)
Private and other investors	11,329	93,646	38.95
Total	12,070	240,424	100.00
Number of shares held in less than trading units	—	3,848,106	—

Major Stockholders

Unit: 1,000 shares

Name of stockholders	Number of shares held	Percentage of Outstanding shares
Hayashibara Co., Ltd.	19,366	7.92
Chugoku Bank Emplyee Stock Ownership Plan	6,835	2.79
The Chuo Mitsui Trust and Banking Company, Limited	6,594	2.69
Taiyo Estate Co., Ltd.	5,510	2.25
The Sanwa Bank, Ltd.	5,487	2.24
Okayama Estate and Warehousing Co., Ltd.	5,358	2.19
Nippon Life Insurance Company	5,345	2.18
Meiji Life Insurance Company	4,213	1.72
The Sakura Bank, Ltd.	3,600	1.47
The Mitsubishi Trust and Banking Corporation	3,169	1.29
Total	65,482	26.80

Notes: 1. Shares held by the Chuo Mitsui Trust and Banking Company, Limited, include 5,394 thousand shares related to the trust business. All of the shares held by the Mitsubishi Trust and Banking Corporation are related to the trust business.

2. The Sakura Bank, Ltd., merged with the Sumitomo Bank, Ltd., on April 1, 2001, to become the Mitsui Sumitomo Banking Corporation.