

HYAKUJUSHI BANK
Annual Report

2002

For the year ended March 31, 2002

Profile

The Hyakujushi Bank, Ltd. is a regional bank headquartered in the city of Takamatsu, in Kagawa Prefecture. The prefecture is located on the island of Shikoku in the southwestern part of the Japanese archipelago. Since its foundation in 1878, the Bank has operated under the management principles of contributing to the regional community and maintaining a sound financial position. At the center of the regional economy and with its roots in the regional community, the Bank aims to earn the trust of the people of the region. Takamatsu, the city where the Bank is headquartered, has been the political and economic center of the region for over 400 years, and is the economic hub of the island of Shikoku. Moreover, with Shikoku and the main Japanese island of Honshu now linked even more closely since the completion of three massive bridges, the role of the Bank, which has branches in all of the principal cities of the Seto Inland Sea economic zone, is becoming even more important.



Head Office

Head office location:

5-1, Kamei-cho, Takamatsu, Kagawa

Establishment:

November 1, 1878

Total assets:

¥3,528.5 billion

Deposits and negotiable certificates of deposit:

¥3,161.5 billion

Loans and bills discounted:

¥2,511.7 billion

Paid-in capital:

¥37.3 billion

Shares issued and outstanding:

322,076 thousand

Capital ratio:

9.48% (consolidated capital ratio: 9.53%)

Employees: 2,358

Offices:

123 (Head Office, 97 branches, 25 sub-branches)

Off-branch ATMs and cash dispensers:

291 machines in 215 locations

(as of March 31, 2002)

Speed & Challenge

At the Hyakujushi Bank, we are actively pursuing the challenge of attaining higher targets and enhancing regional society by responding to market change with speed, thereby meeting customers' growing demands and living up to the trust placed in us.

A Member of the Regional Community

To contribute to the development of the regional economy, the Bank actively participates in a variety of development projects, such as through the investment of funds and the dispatch of personnel. Moreover, as the designated financial institution of governmental and regional public organizations, the Bank plays an important role in the smooth operation of regional fiscal administration. The Bank also gives strong support for cultural activities in the local community, sponsoring concerts and lectures on cultural topics. As a member of society, the Bank helps to create a vibrant lifestyle for the people of the region. For example, we sponsor festivals and participate in local events.

Consolidated Financial Highlights

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
FOR THE YEAR:			
Total income	¥ 103,279	¥ 117,289	\$ 775,084
Total expenses	99,393	112,651	745,917
Income before income taxes	3,886	4,637	29,166
Provision for income taxes	1,898	8,749	14,244
Deferred taxes	(206)	(7,013)	(1,548)
Minority interests	116	175	875
Net income	¥ 2,077	¥ 2,725	\$ 15,594
AT YEAR-END:			
Loans and bills discounted	¥2,497,868	¥2,475,598	\$18,745,731
Securities and trading account securities	702,974	667,234	5,275,612
Foreign exchange assets	5,982	5,453	44,893
Other assets	335,375	320,841	2,516,892
Total assets	¥3,542,202	¥3,469,128	\$26,583,130
Deposits and negotiable certificates of deposit	¥3,155,169	¥3,087,612	\$23,678,572
Foreign exchange liabilities	150	80	1,125
Other liabilities	194,582	176,108	1,460,282
Total liabilities	3,349,902	3,263,800	25,139,981
Minority interests	1,961	1,883	14,722
Common stock	37,322	37,322	280,094
Capital reserve	24,920	24,920	187,020
Land revaluation reserve	10,878	10,995	81,642
Retained earnings	109,926	109,726	824,964
Valuation gains on securities available for sale	8,136	21,279	61,062
Treasury stock at cost	(49)	(2)	(370)
Parent company stock held by subsidiaries	(797)	(798)	(5,987)
Total stockholders' equity	190,337	203,444	1,428,426
Total liabilities, minority interests and stockholders' equity	¥3,542,202	¥3,469,128	\$26,583,130

Notes: 1. Yen figures have been rounded, omitting numbers below the million mark, in accordance with the Japanese Commercial Code and the generally accepted accounting practice in Japan.

2. The U.S. dollar amounts represent translations of Japanese yen at the exchange rate of ¥133.25 to US\$1.00 on March 31, 2002.

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Attention regarding forward-looking statements

The reader is advised that this report contains forward-looking statements, which are not statements of historical fact but constitute estimates or projections based on facts known to the Company's management as of the time of writing. Actual results may therefore differ substantially from such statements.

Message from the President



Shusaku Ayada

Shusaku Ayada, *President*

Management Principles

- To contribute to the prosperity of regional society
- To provide enhanced financial services to meet customer needs
- To help maintain the health of the regional economy through provision of funds and the maintenance of a sound financial position
- To offer our employees a working environment where they are trained thoroughly and motivated to do their best

An outstanding, high-quality bank for the 21st century

Following the discontinuance of unlimited insurance coverage on time deposits in April 2002, the government plans to similarly bring to an end the unlimited coverage on liquid deposits in April 2003. This means that customers' selectivity with respect to financial institutions will become an even more vital issue for banks in the near future.

The Hyakujushi Bank aims to become an indispensable partner for both individual and corporate customers. To this end, we are using our 3-year Medium-Term Management Plan, "Excellent 21," to implement various important measures. This Plan was launched in April 2000.

Medium-Term Management Plan

"Excellent 21"

The bank we want to become:

An indispensable partner for individuals and businesses

The key words embodying our corporate spirit:

Speed & Challenge

Management Objective:

Establish a

Fundamental Policies

Strategically allocate management resources

Improve loan portfolio structure

Improve operating procedures

Meeting customers' needs and living up to their expectations Aiming to become an indispensable partner for individuals and businesses

Enhancing information disclosure and legal compliance

Sound management, robust earning power, and corporate transparency are features essential to attracting and retaining customers. To enhance these aspects of the Hyakujushi Bank, we carried out major Head Office structural reform in June 2001. Under this new system, we are promoting the strategic deployment of management resources, the thorough strengthening of lending operations, and the increased streamlining of operations, as well as designing ways to bolster our earnings capabilities. We will provide sufficient reserves against bad debts and unhesitatingly implement write-offs of non-performing loans as appropriate. We also believe that active assistance to clients with bad debts will further enhance the soundness of our loan assets. While promoting these measures, we will also work to upgrade our products and services to optimize customer satisfaction. We aim to become an indispensable partner in the lives and businesses of

our customers. Our staff are ready to work together to earn the trust of our customers, which we hope to achieve through improving our information disclosure and legal compliance.



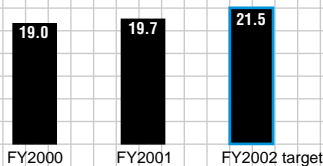
Sakaide Branch, Sakaide Ejiri Sub-Branch

high-profit structure

Final Year Targets (FY2002)

Net operating profit

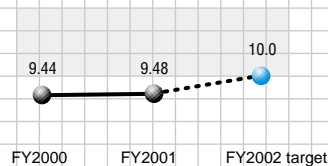
¥21.5
billion or more



While interest income was slow due to stagnation in the demand for funds, the Bank secured a net operating profit of ¥19.7 billion in fiscal 2001 as a result of thorough cost reductions.

Capital ratio (domestic standards)

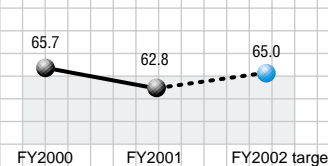
10%
or more



The Bank's net income for fiscal 2001 remained at ¥1.6 billion. The capital ratio, however, increased slightly to 9.48% in accordance with domestic standards, due to the disposal of non-performing loans and write-downs of equity shares under impairment accounting.

Overhead ratio (OHR) (Operating expenses/gross operating profit)

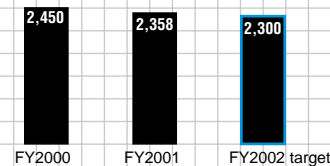
65%
or less



The Bank registered an OHR in fiscal 2001 of 62.8% due to thorough cost reductions.

Employees

2,300



Personnel reduction plans, toward the establishment of a workforce of 2,300 employees, proceeded on schedule.

(Above figures are all on a non-consolidated basis.)



Risk Management

Risk Management

In the course of business, all financial institutions are subject to a number of risks, including credit risk, market risk, operational risk, and system risk. Against the background of financial liberalization, increasing globalization, and the growing sophistication of financial engineering, customers' transaction needs are becoming increasingly diverse and sophisticated. These factors mean that the various forms of risk are assuming even greater importance.

To maintain sound management, the Bank will keep these various types of risks within a manageable scope, principally by setting interest rates at levels that ensure earnings that correspond with the degree of risk.

Risk Management Policy

We aim to achieve a comprehensive understanding of the diverse forms of risk involved in business operations by using standardized criteria. The Bank will maintain its financial soundness by holding down risk to within the scope of its risk-weighted capital. At the same time, by comparing earnings with risk amounts, we will be able to pinpoint the proper level to which we need to enhance our earning capability, and will be able to continue building an integrated risk management system.

• Risk Management Structure

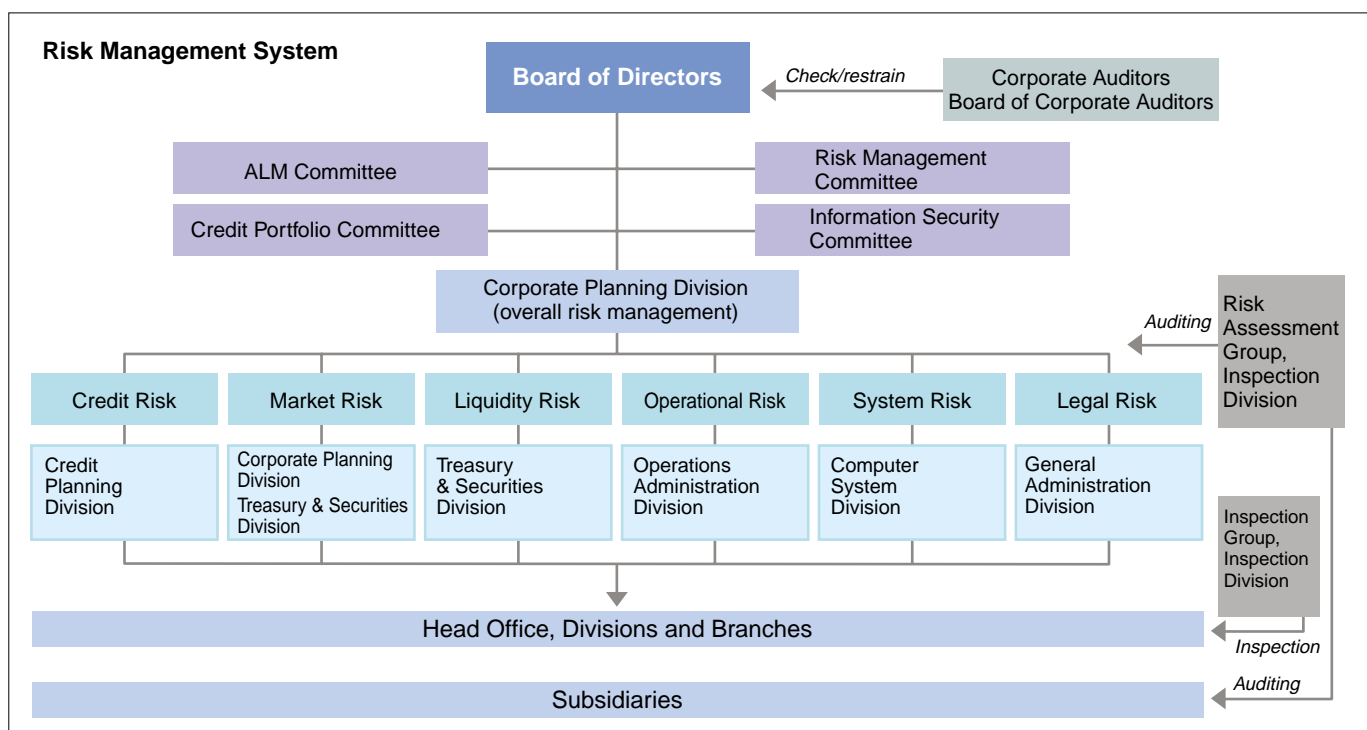
To ensure appropriate and reliable risk management, the Bank has established a division for the centralized management of each type of risk, including credit risk, market risk, and operational risk, as well as management policies for each type of risk. The Corporate Planning Division, which exercises overall risk control, monitors risk throughout the Bank.

• Risk-Weighted Capital System

While carrying out rigorous risk management to guarantee financial soundness, the Bank has adopted a risk-weighted capital allocation system within the limits of equity capital, in which degrees of risk are assigned to each type of risk and the Bank's risk-weighted capital is allocated to those categories in different percentages. This system gives us a high level of risk management.

• Committees

The Bank has discussed its risk management system policies with employees in every division, and has established a number of committees to help each division manage risk with a common understanding. Overall risk management policies are discussed in the Risk Management Committee. Market risk and liquidity risk are managed by the ALM Committee, credit risk is handled by the Credit Portfolio Committee, and operational risk and system risk are dealt with by the Information Security Committee.



Credit Risk

To assure the soundness of loan assets, the Bank has set up a Credit Supervision Division that is independent of sales-related departments. We place emphasis on building a risk-diversified loan portfolio that is not excessively weighted toward any particular customer bracket or particular industries.

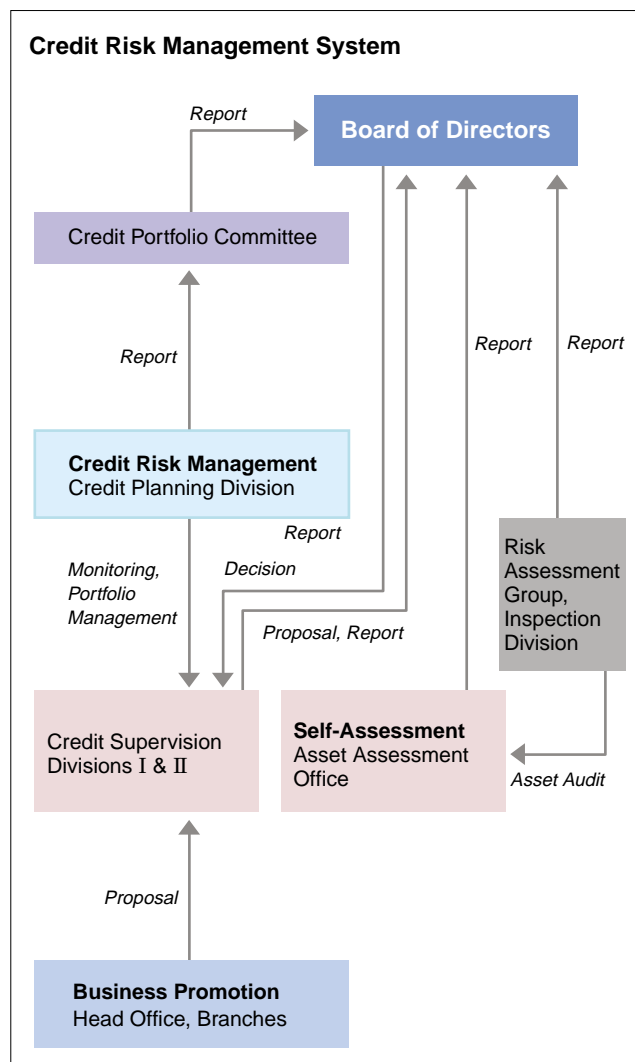
The Bank measures credit risk to facilitate the creation of a risk-balanced portfolio. Through such methods as using statistical models to gauge the probability of future losses caused by a decline in a borrower’s creditworthiness, and identifying and analyzing credit risk, we enhance the quality of our credit risk management of our loan portfolio. We intend to utilize our findings in such areas as credit limit management by industry and borrower category.

The Bank has provided a system for credit management whereby Credit Supervision Divisions I and II are responsible for credit supervision, and the Credit Planning Division is in charge of credit risk management that includes portfolio management and monitoring. In addition, by examining and analyzing credit risk over the organization as a whole, and by conferring over the policy for such management and monitoring, the Credit Portfolio Committee maintains control over the credit risk management system.

The Bank’s self-assessment of loans, marketable securities, and other major assets is initially performed by branches and the relevant business sections. These assessments are subsequently verified by the Credit Supervision Divisions, and a final check is conducted by the Asset Assessment Office. In addition, the Risk Assessment Group within the Inspection Division conducts asset audits to verify the accuracy of the results of self-assessment, write-offs, and provision of reserves for possible loan losses.

Market Risk and Asset Liability Management (ALM)

Due to increased financial liberalization and deregulation, market risk has escalated and become a more complex issue



for the banking industry. To ensure stable earnings, it is essential to ensure a management structure that allows for accurate analyses of market risk and adequate control over market risk.

The Bank engages in various market transactions, including foreign exchange, funding, and off-balance-sheet transactions.

To manage such market risks, the Bank has divided its operations into front, middle, and back offices within the Treasury & Securities Division. The back office verifies the transaction details of front office market transactions. The middle office, meanwhile, which operates risk management, is in charge of accurate risk measurement and risk monitoring. In these ways, we strive to accurately determine risk in a quantitative manner, and ensure the proper functioning of the checks-and-balances system.

The Bank's ALM Committee, made up of all executive officers of the Board of Directors, meets every month to discuss policies and responses related to the rapidly changing market environment. The Committee adopts risk management methods, such as simulation analysis and value-at-risk (VaR) techniques, to establish the Bank's market risk status from multiple perspectives. It then examines flexible measures to assure the most appropriate risk management.

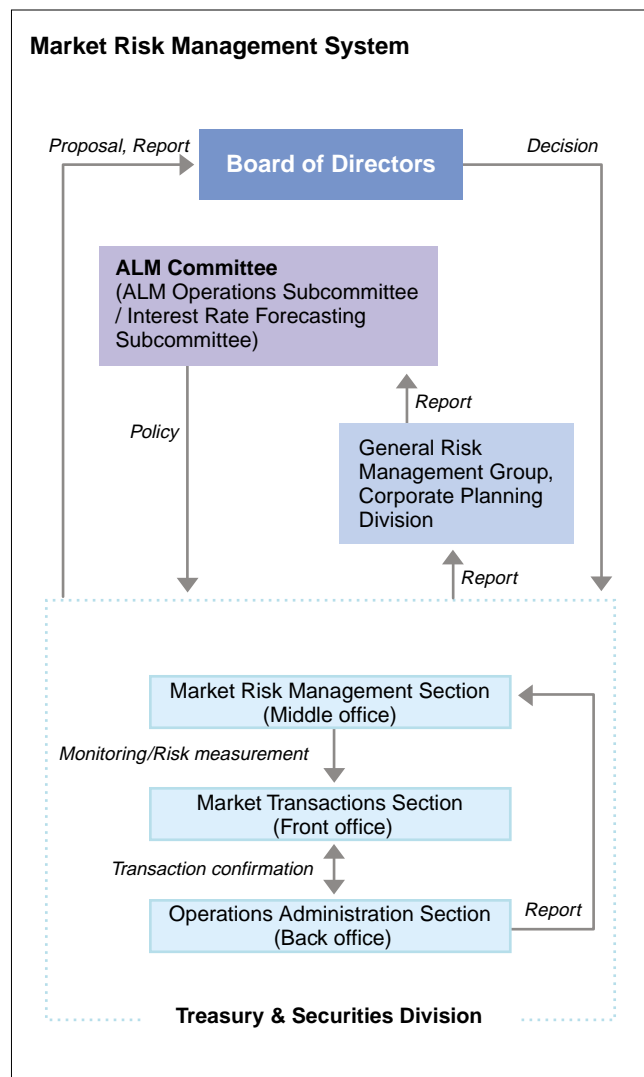
Operational and System Risk Management

In the course of business, a bank requires a wealth of information, including customer-related data. If this information is not managed properly, there could be unimaginable repercussions for the bank's business, including the loss of customer confidence. Fully aware of the importance of proper information management, the Bank organized the Information Security Committee and set down specific security standards as part of our security policy for information asset management. We are now working to provide and improve our management system for the protection of information.

Adapting to the diversification and growing complexity of banking operations, we are taking steps to enhance the fairness and impartiality of our operations in order to maintain the trust of our customers. To protect our online system, which supports our operations, we have created a back-up for our circuits and important equipment, and have secured it with an emergency system operable from a remote location. In these ways, we are working to put our customers' minds at rest regarding their transactions with the Bank.

Risk Assessment and Inspection System

To reinforce and strengthen risk management, a bank needs to regularly inspect the functioning of its risk management



system. We have set up risk assessment sections to verify the risk management performance of the Bank's Head Office and subsidiaries, and we conduct regular checks on the effectiveness of the in-house management system. We also carry out regular inspections on the adequacy of operations at branches. The Head Office and each branch are obligated to conduct in-house inspections to improve the accuracy of the Bank's operations management system and minimize the probability of human or system error.

By handling these various types of risk properly, we create an "early detection, early treatment" system, which helps further cement our reputation for trustworthiness among our customers.

Compliance System

Fundamental Policy

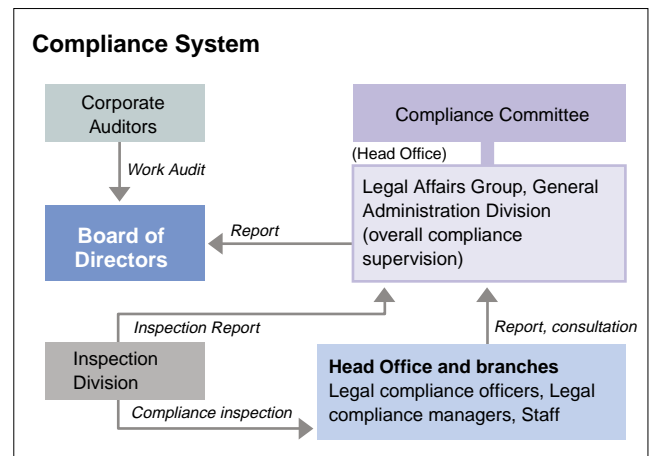
The Bank, possessing a strong sense of public and social responsibility, believes in its social mission of contributing to the sound development of the national economy. We continue to live up to the trust which our stockholders, customers, and other members of the local community have placed in us. Members of staff perform their duties in compliance with all relevant laws and regulations, doing everything possible to conform with high ethical standards and improve their level of legal compliance, as these are the most important issues in the Bank's management policies.

Compliance System

In December 1997, the Bank established within its General Administration Division a Legal Affairs Group to oversee all compliance-related issues. The Legal Affairs Group undertakes the centralized administration of compliance-related matters, including the provision of manuals on relevant laws; investigation into aspects of legal risk; legal examination of minutes from general stockholders' meetings, board of directors' meetings, executive committee meetings, and other routine meetings; and the legal review of business operations at all divisions of the Head Office. The group also designates officers in charge of legal compliance, to see that all divisions, offices and branches are aware of compliance rules and abide by them. The group works to ensure a general familiarity with compliance issues by promoting the implementation of in-house compliance-related inspections and study meetings. To enhance this structure, a Compliance Committee, headed by the Bank's president, was established in February 2000.

Compliance Measures

In October 1998, a Compliance Manual was published to improve employees' knowledge of compliance issues and serve as a practical guidebook. A Compliance Program was set up at the same time to further the implementation of plans regarding compliance. In December 1999, the Bank drew up the Hyakujushi Bank Regulations on Ethics, centering on corporate ethics and staff behavioral standards, and copies were



distributed to all divisions, offices and branches. Seminars designed for different levels of employees began in April 1999, and from the latter half of fiscal 1999, lectures on compliance were, in principle, included in all training programs, starting with seminars designed for employees working in different areas of specialty. The whole Bank is working to enhance awareness of compliance-related issues, requiring even directors and auditors to attend Compliance Officer seminars held by the Regional Bank Association.

Financial Product Solicitation Policies

In accordance with the Financial Product Sales Law, enacted on April 1, 2001, the Bank makes sure that all employees provide customers with thorough product explanations, including pointing out the possibility that they may lose the principal they invest. Posters entitled "Financial Product Solicitation Policies" are posted at all of the Bank's branches and ATM locations.

Compliance System at Group Companies

Efforts are being made to enhance compliance at all group companies. All group companies have been provided with regulations concerning professional duties and obligations, clerical guidelines, in-house inspection manuals, regulations on ethics, compliance manuals, and compliance programs.

Compliance protects both you and the Bank

Hyakujushi Bank's 4 Corporate Ethical Principles

- Awareness of social responsibility and public mission
- Strict observance of laws, regulations, and rules
- Zero tolerance for criminal elements
- Deepening communication with the general public

Standards for Business Operations

- Keeping the rules
- Keeping promises
- Not confusing public and private matters
- Not hindering the course of business
- Not engaging in unfair competition
- Not leaking or misusing inside information
- Maintaining mutual respect and creating a comfortable working environment
- Properly carrying out report-making, contacting, and consulting

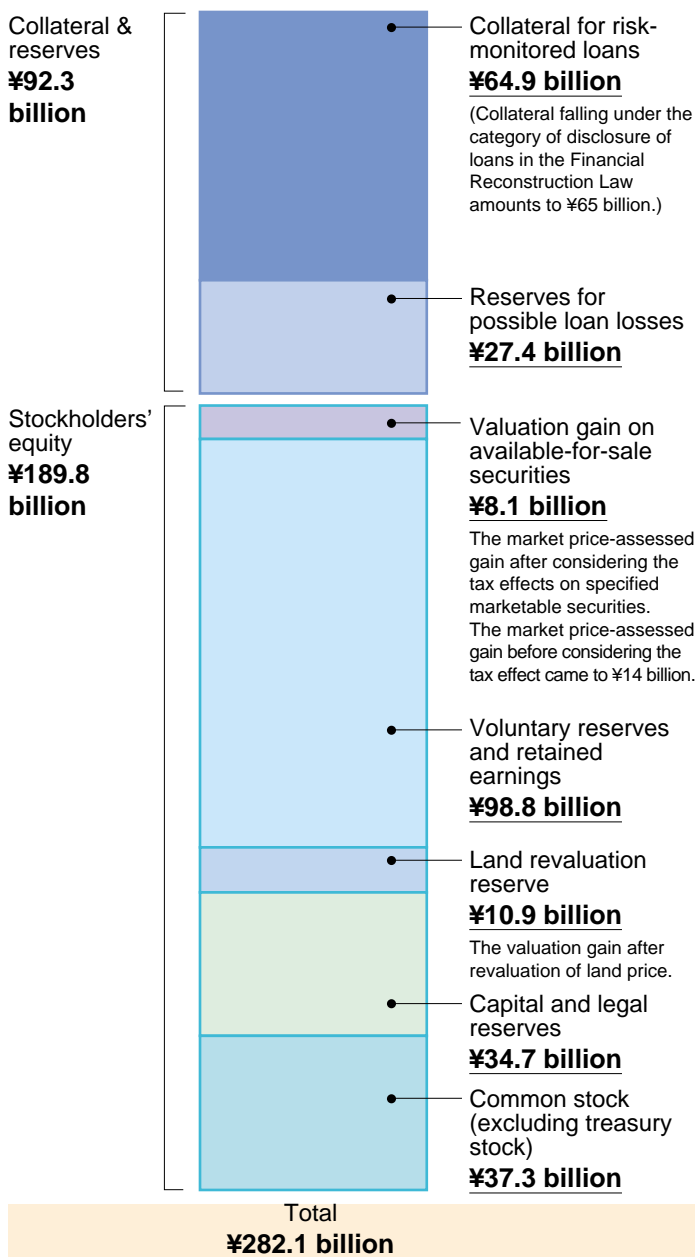
— From Hyakujushi Bank Code of Ethics

Non-Performing Loans

Risk-Monitored Loans

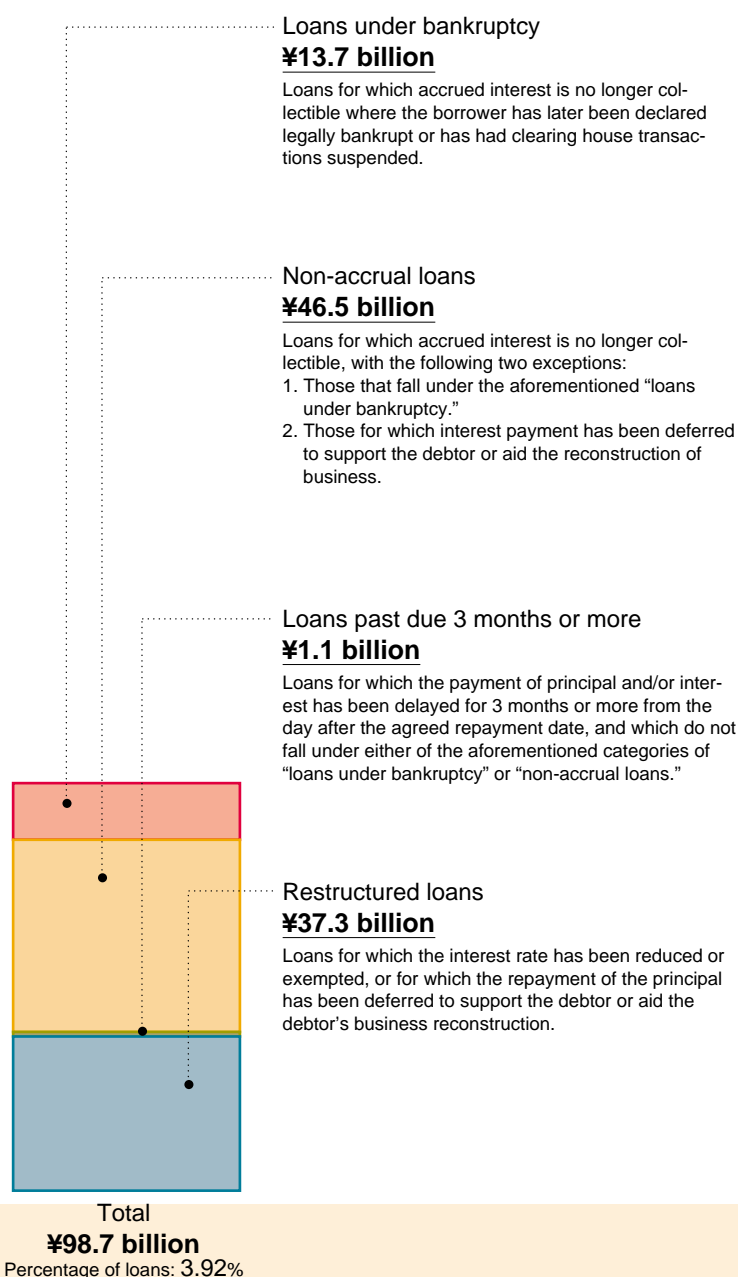
The Bank has issued a publication entitled, "Risk-Monitored Loans," which it prepared on the basis of the Banking Law. Not all risk-monitored loans are impossible to collect, since their definition includes collateral loans and restructured loans, which are collectible and cannot be considered non-performing loans.

The Bank ensures the soundness of its assets by factoring in appropriate reserves for possible loan losses, in addition to maintaining collateral. To live up to our already high reputation for trustworthiness, we have also enhanced the soundness of our management by maintaining sufficient equity capital.



Risk-monitored loans

(as of March 31, 2002)

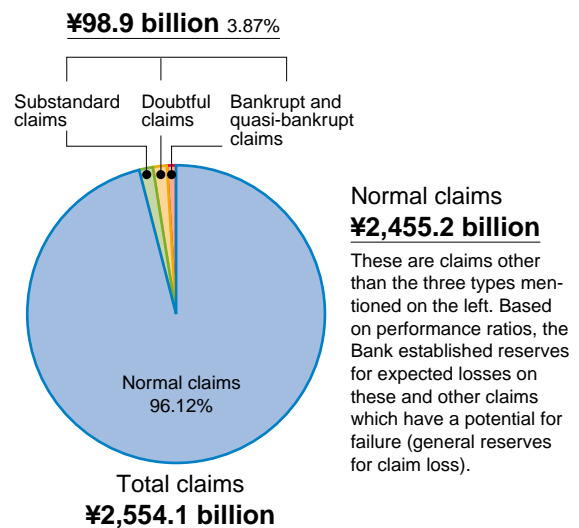
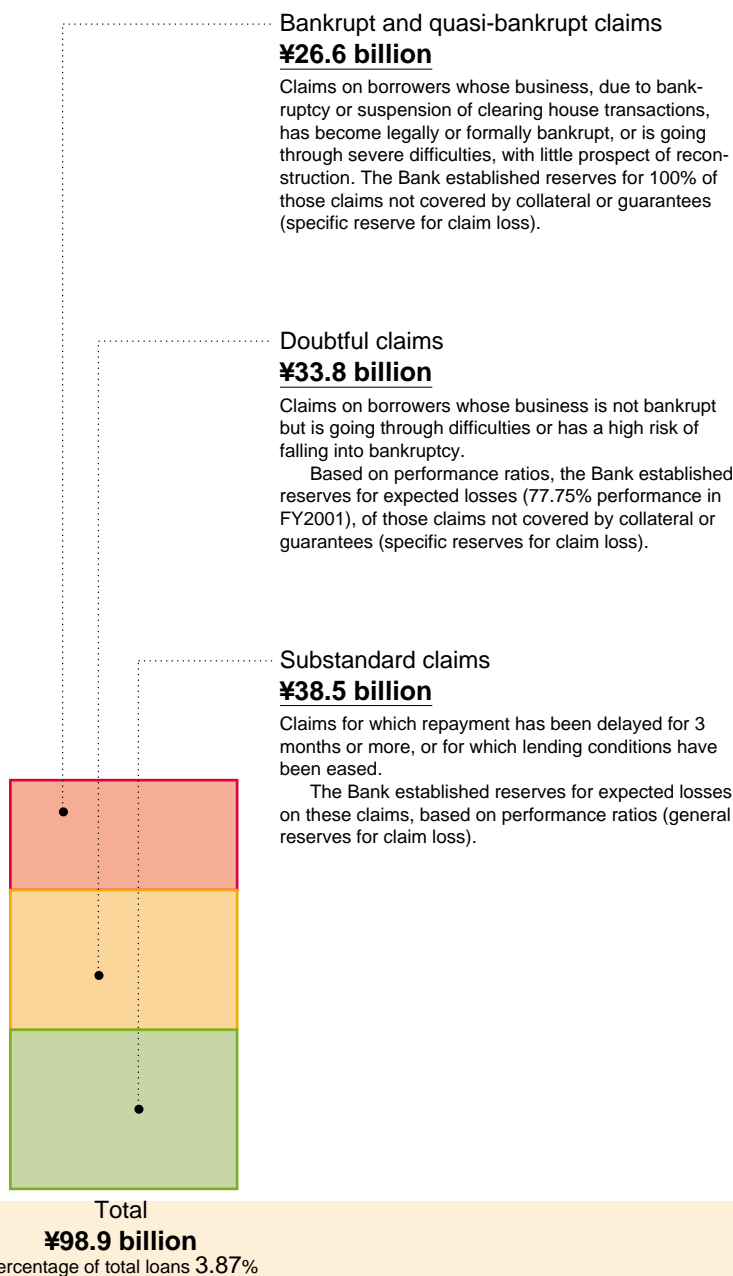


Asset Auditing under the Financial Reconstruction Law

The Bank conducts asset audits to classify assets according to the financial conditions and business performance of borrowers, based on the “Law Concerning Emergency Measures to Revitalize the Finance Industry” (Financial Reconstruction Law). We also calculate appropriate reserves for possible claim losses and make efforts to enhance the soundness of the Bank’s assets.

Claims disclosed under the Financial Reconstruction Law (excluding normal claims)

(as of March 31, 2002)



Differences between risk-monitored loans and claims disclosed under the Financial Reconstruction Law (FRL)

	Risk-monitored loans	Claims disclosed under the FRL
Category of claim	Loan	Loans, foreign exchange, guaranty endorsement, accrued interest, temporary payment
Calculation unit	Specific loan unit	Debtor unit

(Monetary units rounded to the nearest million)
(Above figures are all on a non-consolidated basis.)

July 2001

New Mail Service Offers Additional Foreign-Currency Exchange

Thanks to a new service offered through The Hong Kong Shanghai Banking Corporation Limited, Hyakujushi Bank customers can now purchase or sell currencies not directly handled by the Bank. Our former foreign currency delivery service, which will be used alongside the new one, handles 27 foreign currencies and travelers' checks in 7 currencies, and the new service allows customers to exchange 38 foreign currencies and purchase travelers' checks in 9 currencies via telephone and mail, which are then delivered directly to their homes.

July 2001

Automatic Credit Screening System for Individuals Introduced

The Bank has introduced a new automatic credit screening system for unsecured personal loans such as car loans, student loans, and loan facilities accessed through special "loan" cards.

With the introduction of this system, the whole process of obtaining a loan, from the application to the notification of screening results, has been shortened to a period of 30 minutes to 1 hour, meaning that the Bank can now respond much more quickly to customers' fund needs.

We are also using this system to offer preliminary consultation services for loan plans to pay expenses such as university entrance fees and wedding costs in the near future.

September 2001

Additional Investment Trust Products

We are expanding our range of investment trusts and other financial products to meet the diverse fund operation needs of our customers. For customers who are purchasing an investment trust for the first time or who desire more stable investments, we also added a money management fund (MMF), which derives stable earnings from mainly government and corporate bonds.

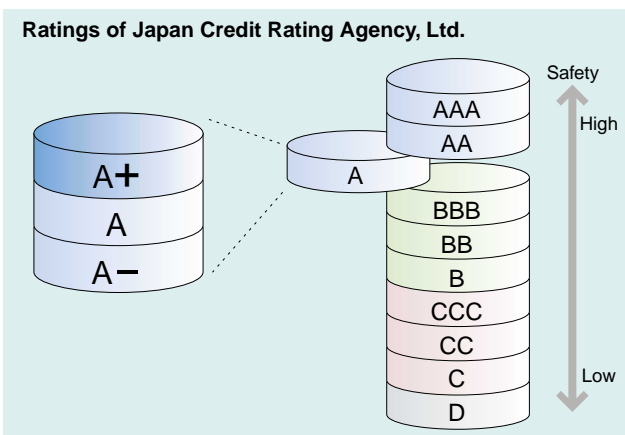
September 2001

Hyakujushi Bank Acquires A+ Rating

Ratings are symbols that express concisely the evaluation of a third party rating institution concerning the safety of the corporate bonds issued by a company or the safety of principal and interest payments on bank deposits. Evaluations are made in a comprehensive way, on management policies, earning capability, financial position, and the economic condition of the company's base of business.

In September 2001, we acquired a rating of A+ from the Japan Credit Rating Agency, Ltd. for our long-term preferred liabilities.

A rating of A means that the probability that the Bank will not repay its debts is very low, and a rating of A+ is the highest possible A rating.



October 2001

"114 Mobit" Launched

"114 Mobit" is the Bank's first automated loan facility, offered via our loan card, which allows customers to obtain loans without having to visit the Bank. These loans can be applied for in a number of ways, including via telephone, mail or unmanned office automatic loan application machines. Telephone applications can be made 24 hours a day year around.

This service is available with no card issuance fees or yearly service charges.



November 2001

Defined Contribution Pension (Japanese 401k Plan) Launched

The Bank has begun handling defined contribution pension plans which let company employees manage their own retirement funds. The Bank provides comprehensive support to companies who wish to introduce this plan as part of their retirement benefit systems — from consulting on introducing the plan, to investment consulting and providing information on investment products for their employees.

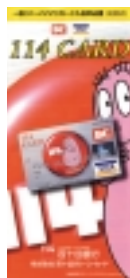
In January 2002, the Bank also began offering Hyakujushi Bank Defined Contribution Individual Pension Plans to meet customers' needs to put together funds for their retirement years.



November 2001

“114 Barbapapa Card” Launched

In cooperation with the DC Card Co., Ltd., Hyakujushi Bank has a new series of 114 Cards featuring various characters from the popular animated cartoon, Barbapapa. Different types of cards are available for different types of customers, from the ordinary Barbapapa character card, to the Gold Card, the Esprit Card (for students) and the Corporate Card.



June 2002

Latest, Greatest Business Opportunities Over the Internet

The Bank has opened up a website called the “114 Business Site” to offer information for corporate members. This site will continuously provide a wealth of information on management, finance, and regional economic issues.



This site is also an important venue for business exchange. By transmitting information to the site, corporate members can open up new marketing channels and cultivate new buyers.

December 2001

Internet Applications for Overseas Travel Insurance

The Bank has launched a service offering overseas travel insurance over the Internet, so that customers can be prepared for accidents, illnesses, injuries or thefts while traveling overseas. Customers can take care of the entire process, from the application to the payment, by accessing the Bank's partner non-life insurance company site through a link on the Bank's site.

January 2002

ATMs Begin Operating 364 Days, Excluding New Year's Day

Until recently, ATMs did not operate on January 1–3 or May 3–5. From 2002, however, ATMs will operate 364 days a year, with the exception of New Year's Day, greatly improving our convenience for customers.

June 2002

Acquisition of Own Shares

A revision of the Commercial Code in October last year enabled the Bank to use the treasury shares it had acquired from itself and held. By using its treasury shares (with a maximum 5 million shares to be purchased, utilizing a total value of ¥3.5 billion), the Bank will be able to implement a flexible capital policy to conform to the changes in the business environment.

Board of Directors and Auditors



Shusaku Ayada
President



Kazuo Yamamoto
Deputy President



Hiroshi Okawa
Senior Managing Director



Shinnosuke Nakano
Senior Managing Director



Katsuhiko Takesaki
Senior Managing Director



Hiroshi Utsumi
Managing Director



Hideharu Kawasaki
Managing Director



Takehiko Yano
Managing Director



Isao Hayashi
Managing Director

President

Shusaku Ayada

Deputy President

(Head of Corporate Administration
Headquarters)

Kazuo Yamamoto

Senior Managing Directors

(Head of Credit Supervision
Headquarters)

Hiroshi Okawa

(Head of Treasury Headquarters and
Deputy Head of Corporate
Administration Headquarters)

Shinnosuke Nakano

(Head of Business Promotion
Headquarters and Deputy Head of
Corporate Administration
Headquarters)

Katsuhiko Takesaki

Managing Directors

(Deputy Head of Business Promotion
Headquarters)

Hiroshi Utsumi

(General Manager, Tokyo Branch)

Hideharu Kawasaki

(Deputy Head of Credit Supervision
Headquarters)

Takehiko Yano

(Head of Operations Headquarters)

Isao Hayashi

Directors

(General Manager, Credit Supervision
Division II)

Kunihiko Kasai

(General Manager, General
Administration Division)

Tadashi Kitayama

(General Manager, Marketing
Division)

Toyokazu Miyazaki

(General Manager, Osaka Branch)

Tokito Sasaki

(General Manager, Corporate
Planning Division)

Yasumasa Ogawa

(General Manager, Head Office
Marketing Department and
Operations Center)

Nobuhiro Kawamura

Standing Corporate Auditors

Koichi Chikatsune

Koshi Toshimori

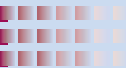
Corporate Auditors

Yasuhiko Saito

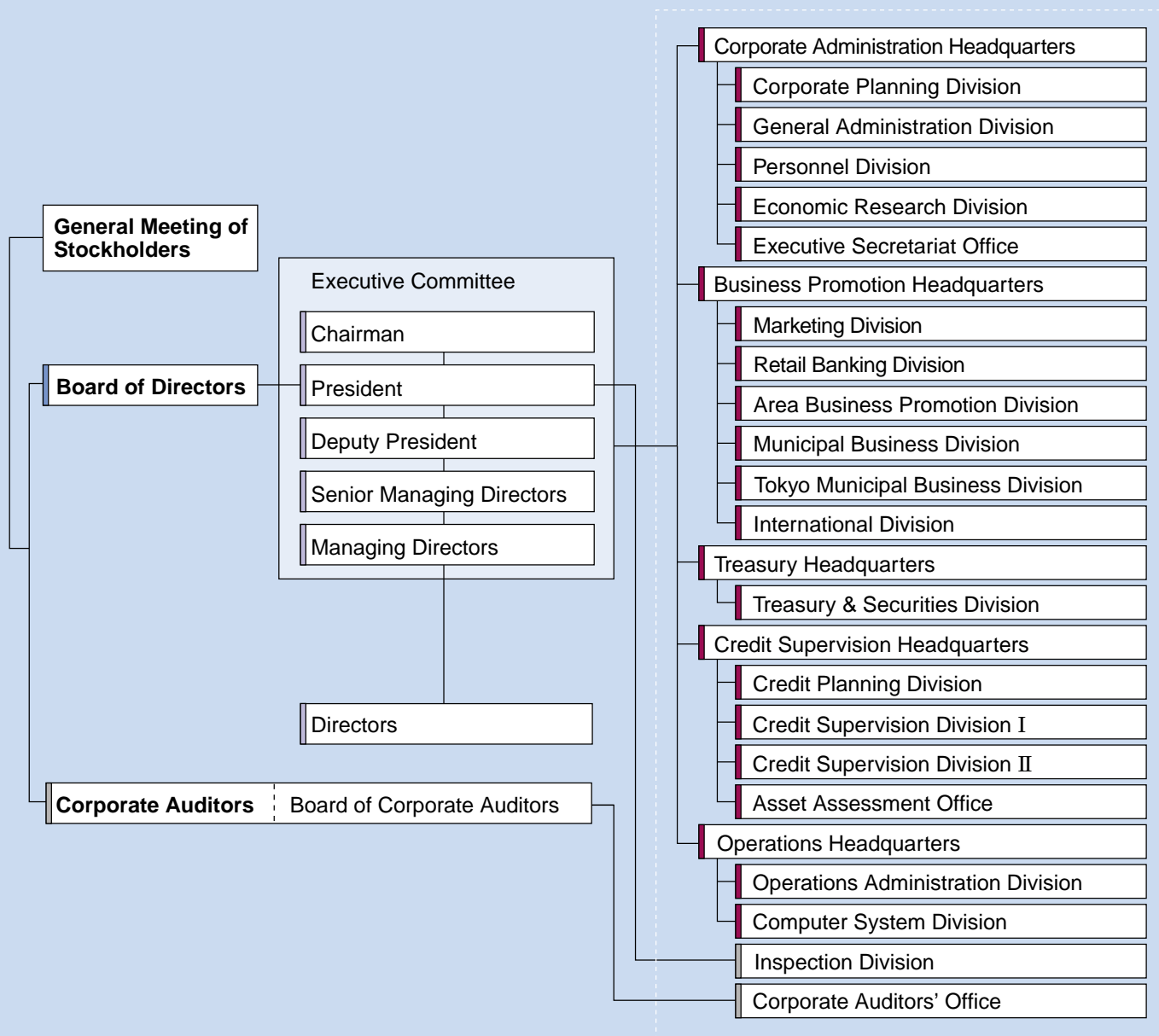
Toshihiro Chujo

Shuzo Yamada

(as of June 30, 2002)



Organization



(as of June 30, 2002)

International Division

5-1, Kamei-cho, Takamatsu,
 Kagawa 760-8574, Japan
 SWIFT: HYAKJPJT
 Phone: (087) 836-2151
 Facsimile: (087) 836-2158
 Telex: J26151(HYAKBANK)

Treasury and Securities Division

5-1, Kamei-cho, Takamatsu,
 Kagawa 760-8574, Japan
 SWIFT: HYAKJPJT
 Phone: (087) 836-3307
 Facsimile: (087) 836-3633

(as of March 31, 2002)