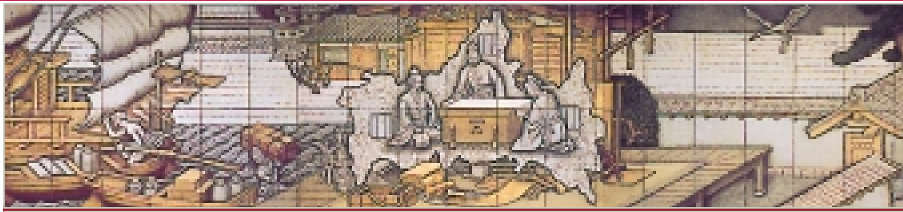
Yamaguchi Bank

Annual Report



2000

PROFILE

Yamaguchi Bank's origin dates back to the founding of its predecessor, the Hyakuju (110th) National Bank, in 1878. Following a merger with four other banks amid official efforts to install one leading institution per prefecture, the Bank adopted its present name in 1944. Since its foundation, Yamaguchi Bank has been endorsing a management policy of "sound and enterprising spirit, frugality and strength, and focus on the Bank's primary mission." As the reforms of Japan's financial Big Bang unfold, financial institutions are engulfed by severe operating conditions that require managements with unprecedented independence of judgment. In preparation for this changed operating environment, the Bank will continue to practice its time-proven principles of prudent and low-cost management, while striving to serve its customers and contribute to the prosperity of the region.

Centering on Yamaguchi Prefecture, the Bank covers a large business area that extends to seven nearby prefectures as well as Tokyo, Osaka, Aichi, and Hyogo through a domestic network of 140 branches and 23 sub-branches. The Bank maintains four overseas branches in Pusan, Dalian, Qingdao and Hong Kong, and two representative offices in Bangkok and Jakarta.

Cover

The cover shows the central portion of a bas-relief sculpture on display at Yamaguchi Bank's head office. It expresses the principle of harmonious cooperation. The scene depicts three brothers of the Mori clan reading the teachings of their father, a famous 16th century feudal lord. The teachings exhort the brothers to be of one mind and unite their strengths. The shape of Yamaguchi Prefecture forms the background of this scene. Other parts of the background include the village school of Shoin Yoshida, another well-known historical figure.

Contents

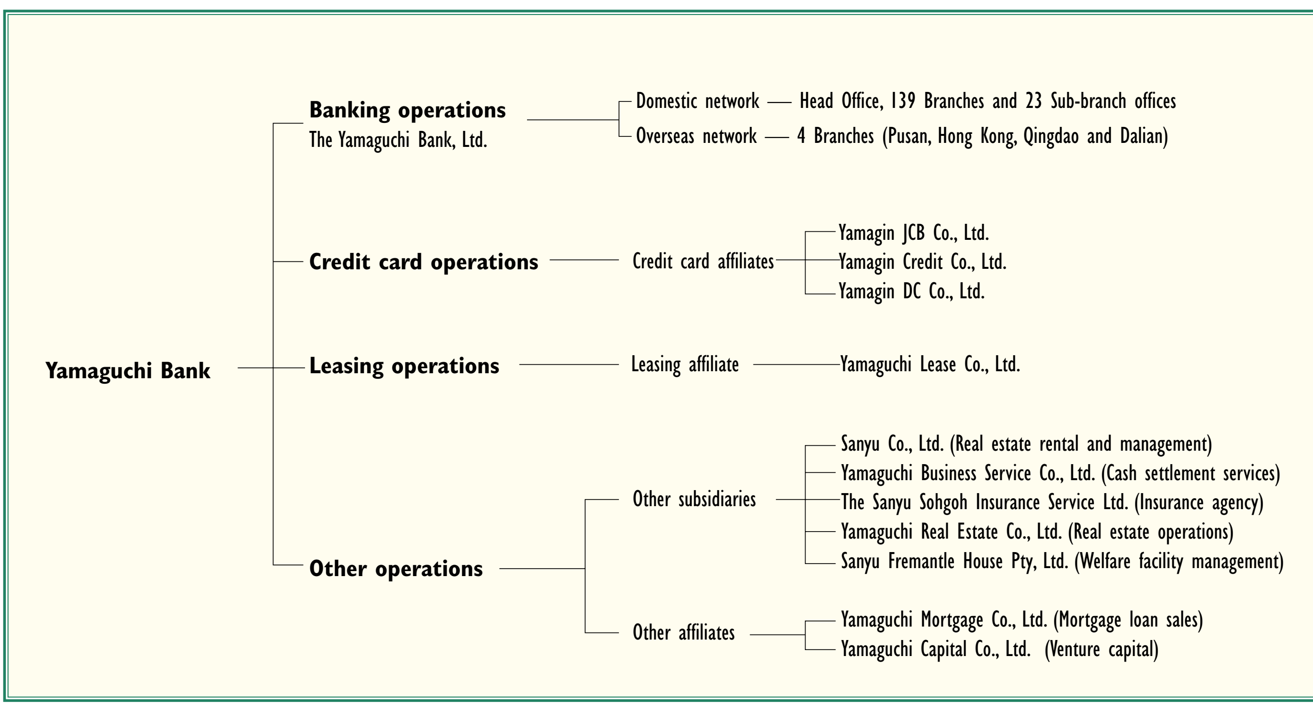
NON-CONSOLIDATED FINANCIAL HIGHLIGHTS

(Years ended March 31)	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars* 2000
For the Year:			
Total Income	¥ 117,259	¥ 132,916	$ 1,104,654
Total Expenses	111,082	127,170	1,046,463
Income Before Income Taxes	6,177	5,746	58,191
Net Income	3,593	1,632	33,848
At Year-End:			
Total Assets	4,737,291	4,644,121**	44,628,271
Deposits	4,261,380	4,201,747	40,144,890
Loans and Bills Discounted	3,073,609	3,065,993	28,955,337
Securities	894,058	888,554	8,422,591
Stockholders' Equity	264,486	262,446	2,491,625
Capital Adequacy Ratio	11.29%	10.71%	
Per Share (in Yen and U.S. Dollars):			
Net Income	17.96	8.15	0.17
Dividends	6.50	7.00	0.06

* *U.S. dollar amounts have been translated, for convenience only, at the rate of ¥106.15=US$1.00 as of March 31, 2000.*

** *Total assets for the term ended March 31, 1999 have been restated, mainly due to the change in accounting method for posting reserve for possible loan losses.*

Yamaguchi Bank Group



Note: The Sanyu Sohgoh Insurance Service Ltd. and Yamaguchi Real Estate Co., Ltd. have been excluded from consolidation, because they have no major effect on the consolidated financial statements.

Operating Environment

In the Japanese economy, severe conditions continue, with consumer spending remaining weak against a backdrop of job insecurity. In this setting, the approaching final stage of reform under Japan's financial Big Bang has prompted a string of mergers and tie-ups among financial institutions, and unleashed an industry realignment whose scale and speed have surpassed all expectations. The banking industry is experiencing additional pressure from the entry of nonfinancial companies into the banking business, and the emergence of novel financial services on the back of spreading information technology applications. These developments herald big changes in the operating environment of banks that are expected to give rise to ferocious competition in the struggle for survival.

Fiscal 1999 in Review

Under such operating conditions, we strove to strengthen the Bank's earning power and operating efficiency while reinforcing and enhancing asset quality and deepening the implementation of risk management. In this way, we worked to further raise operating performance and strengthen our management structure, with fiscal 1999 business results as follows.

Consolidated total assets at term-end stood at ¥4,738.6 billion (US$44,640 million), an increase of ¥93.3 billion from a year earlier. Shareholders' equity rose ¥2.1 billion to ¥266.2 billion (US$2,508 million) at term-end.

Consolidated total income contracted ¥15.4 billion to ¥117.5 billion (US$1,107 million), while income before income taxes increased ¥0.4 billion to ¥6.2 billion (US$58 million). Net income gained ¥1.9 billion from the previous year, reaching ¥3.6 billion (US$34 million).

Cash flow from operating activities rose ¥90.8 billion, while cash flow from investing activities increased ¥36.4 billion, an expansion of ¥125.8 billion (US$1,186 million) in total.

The Bank's consolidated capital ratio came to 11.34% as measured by the uniform international standard, an increase of 0.59 of a percentage point from a year earlier, and 0.05 of a percentage point higher than the non-consolidated ratio.

Non-consolidated performance

Although low market rates prevailed throughout the fiscal year, total deposits, including CDs, mainly from retail customers and corporate clients, rose ¥58.7 billion during the term to a balance of ¥4,261.4 billion (US$40,145 million) as of March 31, 2000. This result reflects concentrated local-level marketing efforts throughout the region.

In our lending activities, we were successful in tapping demand for funds by leveraging our position as a regional financial institution. Hence, despite persistent weakness in overall funding needs, the balance of loans outstanding rose ¥7.6 billion to ¥3,073.6 billion (US$28,955 million) at term-end.

Investments in securities, centering on national and regional government bonds, increased ¥5.5 billion to ¥894 billion (US$8,423 million) as of March 31, 2000.

Non-consolidated total income fell ¥15.7 billion from a year earlier to ¥117.3 billion (US$1,105 million) at term-end. Income before income taxes gained ¥0.4 billion to ¥6.2 billion (US$58 million), while net income increased ¥2.0 billion to ¥3.6 billion (US$34 million).

A term-end dividend of ¥3.25 per share of common stock was made available, in addition to a mid-term dividend in the same amount, totaling ¥6.5 in cash dividends per share of common stock for fiscal 1999.

During the term, we worked to strengthen comprehensive financial services. The service start of Internet-based mobile banking as well as telephone banking reflects the Bank's broadened service offerings. While thus widening the range of delivery channels, we expanded the range of outlets handling investment trust products to the entirety of the Bank's branches and sub-branches, thereby providing further solutions to the investment needs of our customers.

Furthermore, for several years we have been deepening our involvement in supporting venture business. Last year we engaged in numerous activities designed to reinforce the business foundation of companies in the region and to nurture venture business efforts. Thus, the Bank established new discussion groups focused on sales route development and the effective use of patent rights in the "Yamaguchi Venture Forum," which was established by the Bank in 1997 in cooperation with the prefecture and Yamaguchi University. We strengthened our ties with the university to support venture business development, dispatching an employee of the Bank to the university's Technology Licensing Organization (TLO) as an operating senior staff member. In this way, the Bank helps reinforce the operating basis of companies in the region and supports the development of venture businesses.

Kozo Tanaka
President

These and other achievements of the Bank, we believe, are rooted in the principles of sound and enterprising spirit, frugality and strength, and focus on the Bank's primary mission, which the Bank has been following since its foundation, and which have remained an integral part of our management policy.

Outlook for Fiscal 2000

Despite the backdrop of low interest rates for both short-term and long-term funds, we expect that lower provisions to reserves for possible loan losses will connect to an increase in fiscal 2000 net income.

The outlook for non-consolidated operations in the year to March 2000 calls for ¥4.5 billion (US$42 million) in net income, an increase of ¥907 million over the previous term. The consolidated earnings estimate is on a par with the non-consolidated income target.

While the introduction of pension accounting in fiscal 2000 will generate a ¥13.6 billion (US$128 million) divergence in unfunded pension obligations at the time of the accounting change, this amount will be amortized in full through a lump-sum payment in stocks to a pension trust at the end of the interim term to September 2000. The effect of this transaction on net income for the period will be limited to a ¥3.0 billion (US$28 million) decline compared with the current accounting method.

With the Bank at the center, the Group is united in its efforts to enhance business performance and to fulfill the expectations of its customers and stakeholders.

Management Policies

The three principles of public welfare, security, and profitability have been the cornerstones of the Bank's management policy. Building on these maxims, and grounded in the concept of independence of judgment, we will work to ensure the continued soundness of our assets and strengthen our management structure through improved efficiency. At the same time, we will bolster the Bank's financial services line-up, fulfill our responsibilities with regard to society, and do our utmost to become a "home town bank" and trusted partner to our clients in the region. Furthermore, maintaining and improving our credit standing, a central aspect of banking, requires us to protect our income base and reinforce the Bank's financial structure. At the same time, we will adopt a strategy towards achieving a steady stream of stable dividends.

Issues and events that lie ahead include the lowering of the deposit insurance system's ceiling amount in April 2002, the cost of investments in information technology, and accelerating competition in the wake of Japan's financial Big Bang, which will result in severe operating conditions for the financial services industry and give rise to expectations of rapid change throughout the sector. On the other hand, deregulation, liberalization, large volumes of postal savings term-deposits reaching maturity, and similar developments signify a growing number of earnings opportunities derived from unrestrained competition, and large disparities in banks' individual performances are likely to emerge, depending on their strategic responses to these changes.

Amid these developments, the Bank will practice flexibility and alertness in dealing with these changes, based on an approach best described as a "Starting from Zero." At the same time, the Bank will apply its long-standing principles of maintaining a low-cost structure and following prudent management practices, and in this way continue in its efforts, centering on a healthy asset portfolio, a strong operating basis, and enhanced business performance. Always mindful of the Bank's mission as a regional financial institution, we will remain focused on acquiring the trust of clients and businesses and contributing to the development of society as a reliable partner to the region, and to this end will continue in our ongoing business efforts.

We will implement the following four specific strategies:

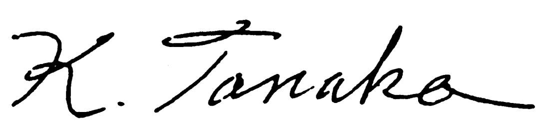
- *Expanding the Bank's asset portfolio while maintaining sound asset quality, and strengthening earning power by securing lending margins that incorporate risk and cost aspects*
- *Accomplishing a low-cost structure through cost-efficient fund procurement and reinforced operating expense management*
- *Raising risk management systems' power to performance levels capable of dealing with the changing operating environment*
- *Implementing financial services adapted to the requirements of the network-based society*

In Conclusion

To date, the Bank has been a provider of financial services suited to the needs of its customers, and has contributed to the development of the region and to society. We believe that these activities are a permanent part of our mission.

As the financial services industry plunges into an era of deregulated markets with ferocious competition across traditional industry boundaries, the Bank is proud to belong to the small group of financial institutions capable of reforming themselves, based on its management code grounded in the principle of independence of judgment.

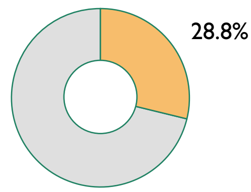
Despite the changes in operating environment that lie ahead, the Bank, with the combined strengths of the Group, will continue in its unrelenting efforts to earn the support of its shareholders and the trust of its customers. I request your continued support and patronage.



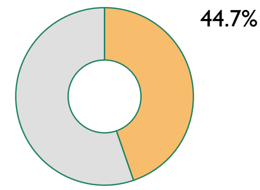
Kozo Tanaka
President

July 2000

The Bank's Deposit Share in Yamaguchi Prefecture



The Bank's Lending Share in Yamaguchi Prefecture



The Bank's Role as a Regional Financial Institution

Yamaguchi Prefecture, the Bank's main business area, is located on the western tip of Honshu, facing Kyushu to the west and Shikoku to the south. The Bank maintains 128 branches and sub-branches in Yamaguchi Prefecture, and has set up 35 branches in neighboring prefectures and regions in recognition of the existing strong economic relations. The scope of this network reflects the Bank's central role in the region's financial industry and the commitment to providing financial services of the same quality everywhere in the prefecture. The Bank's overseas presence is centered on East Asia, where four branches and two representative offices are in operation, based on a distinctive strategy shaped by the needs of the Bank's customers.

The Bank is the designated financial institution for banking transactions of the prefectural government and 44 of the 56 municipalities in Yamaguchi Prefecture (as of March 2000), representing one of the Bank's main activities. Additionally, the Bank plays an important role in the fund procurement of regional administrative bodies and public enterprises, including the underwriting of regional government bonds.

Furthermore, the Bank is deeply involved in supporting preparations for the prefecture's opening project for the 21st century, dubbed "Japan Expo Yamaguchi 2001," by setting up pavilions dedicated to the event and engaging in public relations activities.

In other areas of activity, the Bank supports numerous events and projects throughout the region, in keeping with its status as a financial institution representing the area. Thus, amid the big changes being accomplished in society across the region, the Bank contributes by commissioning surveys and research into the regional economy, industry, and other relevant aspects such as community development and city planning, and by cooperating with local enterprises.

Japan Expo Yamaguchi 2000 No.174A

Japan Expo Yamaguchi 2001 Pamphlet

The Yamaguchi Economic Research Institute, which was established in commemoration of the Bank's 30th anniversary, engages in research on the prefecture's economy and industrial trends, holds lecture meetings and carries out research projects commissioned by various industries.

Lecture Meeting of the Economic Research Institute

The Yamaguchi Bank Regional Enterprise Support Fund Foundation, which was established on the occasion of the Bank's 40th anniversary, contributes to nurturing small and medium-sized business and supporting healthy economic growth in the region, with annual commendations of and assistance to small and medium-sized companies in the prefecture.

The Yamaguchi Venture Forum was established by the Bank in 1997 in cooperation with the prefectural government and Yamaguchi University as a cross-sectoral body combining industry, government, and academia. The Forum is dedicated to the exchange of information between different industries, and serves to strengthen the business basis of local enterprises and to nurture venture business. The Forum will continue to pursue its objective of being a stimulus to the further development of the region.

Venture Forum

Since its founding, Yamaguchi Bank has been stressing the principle of integrating profitability with public welfare. Based on this principle, the Bank has been following a business style focused on the local level and developed its operations. As the new era of the 21st century unfolds, and in recognition of the growing social responsibility the Bank shoulders, we will strive to fulfill the trust received from customers by evolving into a genuine "home town bank."

Lending Policy

The Bank's fundamental approach to lending operations entails serving its customers by providing a stable and prompt supply of funds as required by its regional clients. To this end, the Bank will maintain a business structure that enables personalized and quick responses to applications for operating funds and a variety of other funding needs.

Soundness of Assets

Against the backdrop of Japan's prolonged recession, the Bank recorded a term-end balance of assets disclosed under the Financial Reconstruction Law of ¥175.1 billion (US$1,649 million). This amount comprises loans in bankruptcy under the Corporate Rehabilitation Law and loans in similar conditions of ¥66.7 billion (US$628 million), loans threatened with bankruptcy in the amount of ¥89.7 billion (US$845 million), and loans requiring supervision in the amount of ¥18.7 billion (US$176 million).

The Bank has been attaching great importance to the impact of delinquent asset disposal on the standing of financial institutions, and for this reason has practiced a policy of prevention and speedy disposal to ensure the soundness of its asset portfolio. Write-offs and provisions to reserves for possible loan losses based on asset self-assessment started at the Bank as early as March 1998, ahead of the introduction of the Prompt Corrective Action measures introduced in April 1998. At the same time, the Bank installed a system for the periodic appraisal review of real estate collateral values under application of neutral standards.

While reserves for future possible loan losses have been provided to a sufficient degree, it is the Bank's intention to further strengthen its measures towards ensuring the soundness of assets, and to reinforce the profitability of operations.

Capital Ratio

The Bank's capital ratio is determined according to the uniform international standard in recognition of its overseas business presence. The consolidated capital ratio at term-end was 11.34%, an increase of 0.59 of a percentage point from the previous year. The non-consolidated capital ratio rose 0.58 of a percentage point from the previous term to 11.29%. Both capital ratios, consolidated and non-consolidated, exceed the prescribed minimum 8% equity requirement standard by significant margins. The Bank is committed to further augmenting its equity basis through appropriate earnings retention based on stable income levels.

Operating Efficiency

Operating efficiency is a top-ranking management issue, on a par with protecting the soundness of assets. Measures taken towards enhancing operating efficiency include a higher degree of automation — thereby raising customer convenience — as well as streamlining clerical work procedures and reviewing branch functions. In this way, the Bank is directing its strategic efforts at enabling quick responses to clients' multiple needs, and at the same time realizing efficiencies in business operations.

Operating efficiency as measured by the overhead ratio (OHR), which describes the ratio between gross operating income and operating expenses including

the cost of staff and premises, is the principal benchmark in managing the Bank's operations. The overhead ratio stood at 56.03% at term-end. Although the Bank's low-cost structure has received high ratings from outside observers even at its current level, efforts to realize further cost advantages will continue, without sacrifice of additional service improvements for the Bank's clients or capital expenditures towards the Bank's future growth.

Compliance

The unfolding of Japan's Big Bang implies dramatic changes in the operating environment of financial institutions, highlighting the importance of compliance issues. Strict adherence to statutory provisions has been clearly apparent in the Bank's daily operations. Nonetheless, efforts are being made to strengthen compliance systems, mainly by raising awareness regarding professional ethics among employees and by taking preemptive measures designed to prevent non-compliant actions.

With regard to raising employees' professional ethical awareness, a number of measures have been taken. Firstly, the "Ethics Rules" laid down by the Japanese Bankers Association in 1997 were adopted and promulgated in the Bank, as a practical guideline in appreciation of the proven integrity and high ethical standards of the Bank's employees. Additionally, a Corporate Ethics Committee was established, and charged with the drafting and implementation of relevant policies.

Among steps taken to prevent non-compliant actions, a system of routine checks has been put into place, with compliance officers appointed in all divisions to prevent violations of regulations from occurring in the course of daily operations. Furthermore, coverage of compliance-related issues that concern the entire Bank is provided through the Compliance Officers Action Committee, which is comprised of all head office divisions' compliance officers, and is convened at regular intervals. The continuous enforcement of compliance policies, now and in the future, remains at the focus of management attention.

Risk Management Systems

The Bank is exposed to conventional credit and operation risks, in addition to market risks posed by changes in interest and exchange rates, liquidity risks associated with every financial settlement, EDP risks resulting from the use of computers, and a variety of other risks. The deregulation and globalization of financial markets in conjunction with advancing financial know-how have caused these risks to become more varied and complex, making business results highly dependent on the quality of risk management.

Against this background, extending the reach of risk management and raising risk management capacity have been assigned top priority, with continuing efforts to strengthen the Bank's risk management systems and enhance their adaptability to changing financial market conditions.

Comprehensive Risk Management

The requirement of effectively managing interest risk and other market risks that directly affect earnings prompted the introduction of an asset and liability management (ALM) system in 1986. The Bank has subsequently been looking to install risk management systems that reflect the implications of financial deregulation and the progress made in risk management methodology, and has adopted comprehensive risk and revenue management transcending product, operational, and organizational boundaries. Beginning in fiscal 1999, the Bank started preparations towards introducing quantified risk measures, enabling the assignment of specific numerical values to credit risk.

The structure of risk management systems is laid out in the Bank's "Risk Management Regulations," detailing risk recognition and identifying the units in charge, as another step to ensure sound management practice and stable earnings. As a secondary control function, an audit system was installed for the purpose of monitoring compliance with risk management regulations.

Credit Risk Management

In credit risk management, the Bank applies a clearly defined policy with regard to credit risk assessment and employs rigorous assessment and administration systems that regulate the scope of authority to judge credit decisions corresponding to borrowers' creditworthiness. At the same time, employees' credit assessment and analysis skills are the subject of training programs provided by the Bank.

Additionally, a company credit rating system is being maintained which supports asset self-assessment in correctly evaluating the risk status of the loan portfolio, thus enhancing decisions on risk-adjusted write-offs and provisions and ensuring the sustained soundness of assets.

EDP Risk Management

EDP risk summarizes the risk of loss through computer system failure or malfunction. Given that providing convenient and differentiated financial services to our customers presupposes the stable functioning of computer systems, the Bank enforces countermeasures focusing on EDP risk resulting from disaster and malfunction.

Hence, critically important computers are backed up by identical parallel systems, making such computers interchangeable, and double communication circuits for all links between branches and the computer center — with instant switchover to the back-up circuit — ensure uninterrupted operations in case of a breakdown.

A back-up center was installed in April 2000 in a bid to strengthen safety measures in case of damage to the computer center.

The development and application of new systems is preceded by extensive and repeated testing based on a test plan, with further assurance against EDP risks derived by a mutual control mechanism, in which test results are verified independently from the systems development division.

Operating Risk

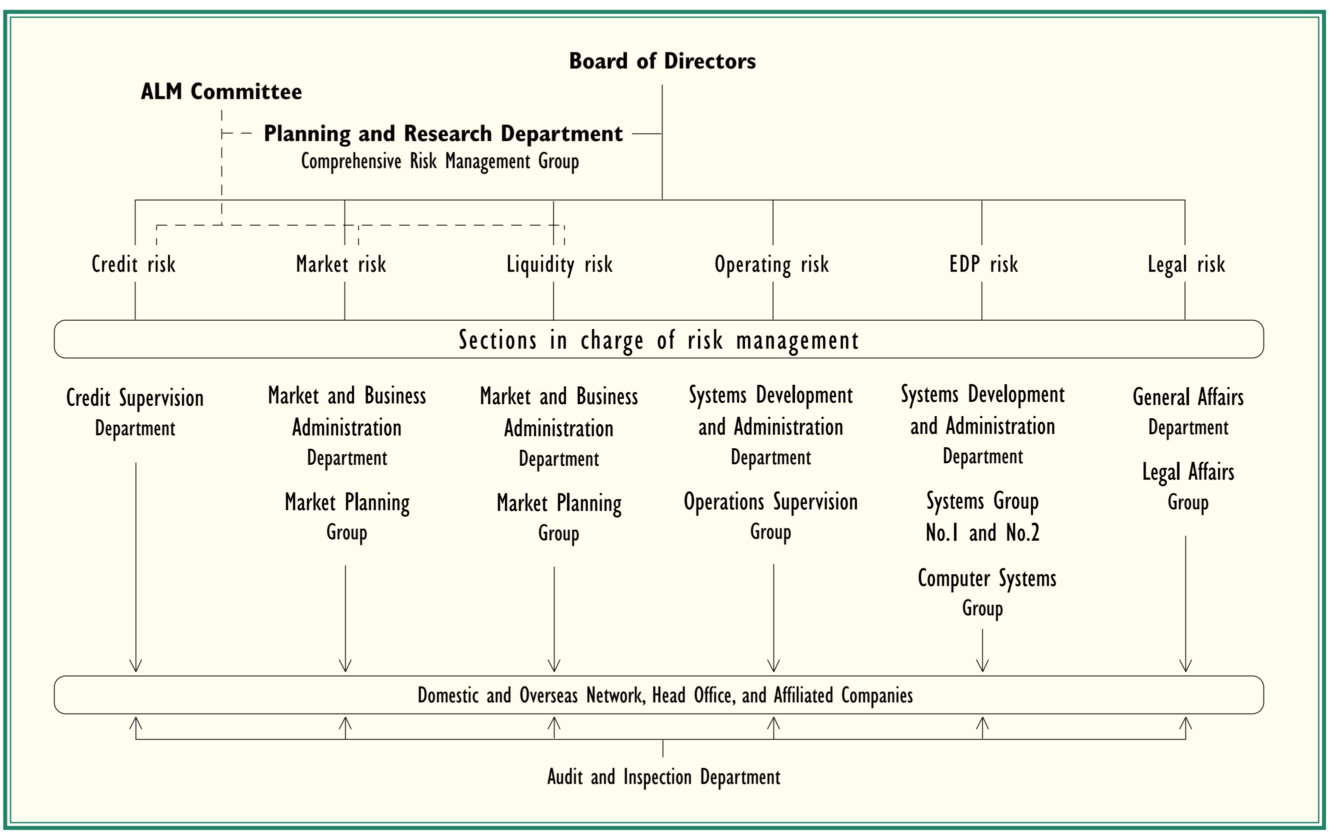
Reductions in operating risks are predicated on advances in employees' operational capabilities. The Bank has appointed officers at its head office divisions who are charged with providing guidance in processing routines, in addition to on-site instruction given at regular intervals at the branch level, and organizes training seminars for employee groups tailored to specific job-levels and responsibilities. Computer-based administrative functions are reinforced by shifting to increasingly automated and systematized clerical work routines.

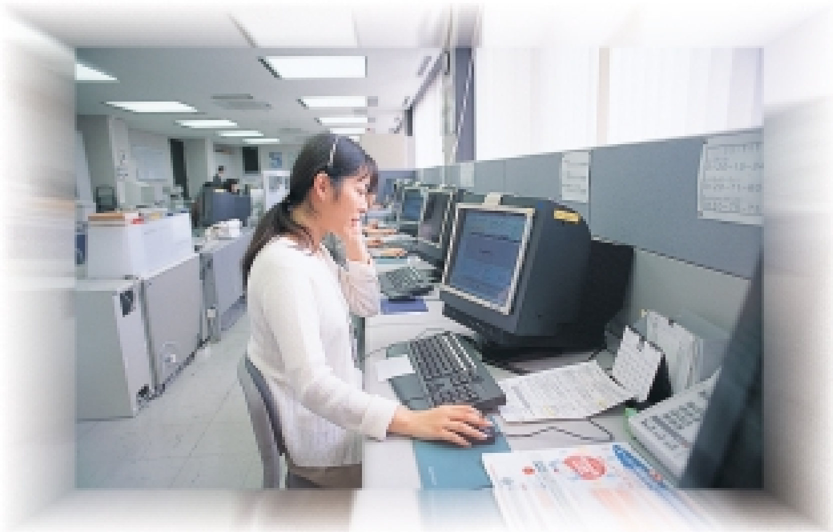
Internal Inspection Systems

The Bank's efforts to strengthen the administration of processing procedures and to prevent disruptions of operations reflect the need for accurate processing at high speed amid growing diversity in banking operations, against the background of our commitment to unfailingly honor customers' trust in the reliability of our operations and the ready availability of our services. The inspection system deployed to achieve these goals comprises inspections at the branch level — the point of customer contact — and head office inspections conducted by the Inspection Department. These two audits form a mutually supplementary relationship. While the branch level internal audit is conducted monthly, and focuses on account balances and transaction content, on-site inspection by the Inspection Department is carried at least once yearly at irregular intervals, and entails a rigorous inspection across the entire spectrum of banking operations.

On-site inspections of domestic branches and sub-branches are applied in the same way to foreign branches, headquarters, and affiliates, to assure the sustained integrity and further enhancement of the Bank's trustworthiness, while all efforts are being made to prevent any disruptions of banking operations by reinforcing control functions.

Risk Management Systems





Banking Operations

In deposit taking, the Bank strove to develop and provide products and services that fulfill customers' varied needs, such as the pension annuity deposit and consumption tax reserve deposit introduced in March 2000. In addition to newly developed products, the Bank launched a preferential-interest-rate campaign for time deposits established during the term via ATM or telephone banking channels. As a result, deposits from retail customers reached a term-end balance of ¥2,296 billion (US$21,632 million). Deposits from corporate customers came to a term-end balance of ¥1,402 billion (US$13,206 million).

In investment trust products, distribution was extended to all of the Bank's branches, and PC-based information points were established to further enrich the range of solutions for customers financial investment needs.

In lending operations, new products were launched, such as the Yamagin Free Loan, the Unsecured Refinancing Housing Loan, the Yamagin Storm Damage Rebuilding Loan, and the Yamagin Super Credit Plan, which can also be allocated to the refinancing of obligations at other financial institutions and consumer loan companies. Additionally, interest payment variations for outstanding loans were introduced as part of product structural reviews and loan product development towards enhanced customer convenience. For business clients, the Bank devised the Consumption Tax Loan to support companies in smoothly covering consumption tax liabilities, and with regard to the aging of Japan's population began offering the Yamagin Happy Life Loan for commercial nursing care providers. In offering these and other loan products for non-business and commercial users, the Bank aims to contribute to the ready availability of funds as a means of supporting the economic development of the region.

In line with the requirements of today's highly information-driven society, the Bank commenced

telephone and Internet banking and mobile banking services based on the i-mode mobile phone technology of NTT DoCoMo. Furthermore, as a measure to broaden the range of offerings available via the Bank's website, a loan simulation service and an order service for brochures and application forms for loan products went into operation. With the conspicuous rise of the fully network-based society, the Bank is taking an active approach towards continuously evaluating technological developments and augmenting its system with additional features that enhance customer convenience. As testimony to this policy, in March 2000 the Bank inaugurated its debit card service, enabling card-based cashless purchasing at participating retailers nationwide.

In international operations, the Bank provides broad support in foreign trade, offshore investment, and a variety of other overseas transactions. As of March 31, 2000, the Bank maintained four branches in Pusan, Hong Kong, Qingdao, and Dalian, and two representative offices in Bangkok and Jakarta, providing a support system for the region's international business relations. In the main, these foreign network points offer trade finance and other financial services to foreign affiliates and subsidiaries of Japanese corporations, and compile trade and investment information for corporate clients resident in Japan. Overseas branches and offices constitute important economic links between their respective host societies and Japan, in addition to participating at the civic level in cultural exchange activities, and thus form strong bonds between Japan and each foreign country.

For businesses in the region, the Bank disseminates information obtained from overseas network points via the Yamaguchi Economic Monthly Report published by the Yamaguchi Economic Research Institute, advises on foreign trade issues, and holds foreign trade seminars.

Other Operations

The Bank's comprehensive financial service offerings outside banking operations include credit card, leasing, and real estate rental operations, as well as cash settlement, insurance brokerage, real estate, welfare facility management, mortgaging, and venture capital operations.

Qingdao Branch: The Third Yamaguchi Bank Cup — Japanese Language Speech Contest

President
Kozo Tanaka

Senior Managing Director
Meiji Fujita

Senior Managing Director
Tetsunosuke Tabaru

Senior Managing Director
Kazuaki Katsuhara

Managing Director
Hiroki Obukuro

Managing Director
Noriaki Yuasa

Managing Director
Hideo Hirota

Managing Director
Takeshi Kuwabara

President

Kozo Tanaka

Senior Managing Directors

Meiji Fujita
Tetsunosuke Tabaru
Kazuaki Katsuhara

Managing Directors

Hiroki Obukuro
Noriaki Yuasa
Hideo Hirota
Takeshi Kuwabara

Directors

Atsushi Sueyoshi
Kaoru Suehiro
Keiji Murakami
Katsuhiko Nishihara
Hiroshi Takimoto
Noboru Matsumoto
Shinjiro Okamoto

Corporate Auditors

Shozo Tanaka
Yuzo Joichi
Akifumi Ogawa
Ryotaro Kaneko

(As of June 29, 2000)

FINANCIAL REVIEW

Fiscal 1999 in Review (Non-Consolidated)

During the term under review, the Japanese economy saw a number of improvements, which included a gradual recovery in industrial production thanks to rising exports, signs of capital expenditures bottoming out, and supporting effects on the economy coming from housing investment and public spending. Nonetheless, overall conditions remained severe as the unstable employment situation took its toll on consumer spending, which continued to lack strength.

In financial services, the continuing fast-paced industry realignment yielded a string of operating tie-ups and mergers involving major banks, as financial institutions sought to secure their survival by forging alliances ahead of the final stage of Japan's financial Big Bang. At the same time, the impending market entry of nonfinancial companies and the emergence of IT-driven new financial services herald dramatic changes in the operating environment of financial institutions.

Under these operating conditions and amid efforts centered on further strengthening the Bank's management structure and broadening its business foundation, fiscal 1999 business performance and results developed as follows.

Total income declined to ¥117.3 billion (US$1,105 million) from ¥132.9 billion a year earlier. This decline is mainly attributable to a fall in income from earning assets caused by lower yields from lending operations and marketable securities.

Gross business profit came to ¥81.8 billion (US$771 million), compared with ¥75.8 billion in the previous term. This growth reflects mainly an increase in other income caused by higher gains on sales of government bonds. The gross business profit margin climbed to 1.98% from 1.85% in fiscal 1998. Furthermore, business profit — represented by gross business profit net of provisions to general reserves for possible loan losses and operating expenses — rose from ¥25.7 billion a year ago to ¥ 27.4 billion (US$ 258 million). This rise was due to increased gains on sales and redemptions of government bonds, which offset an increase in provisions to the general reserve for possible loan losses. Net income for the period climbed to ¥3.6 billion (US$34 million) from ¥1.6 billion in the previous term, thanks to a rise in recurring income. This result was achieved despite an extraordinary loss incurred from the lump-sum amortization of unfunded pension obligations for prior service years, a step taken with a view to reinforcing the Bank's financial position. The Bank's capital ratio strengthened from 10.71% a year ago to 11.29% as of March 31, 2000.

Millions of yen, %	1998	1999	**2000**
Gross Business Profit	¥74,344	¥75,784	¥81,816
Gross Business Profit Margin (%)	1.82	1.85	1.98
Business Profit	28,068	25,682	27,381

Income Analysis

Net Interest Income

Net interest income in the term to March 31, 2000 reached ¥69.9 billion (US$658 million), compared with ¥69.0 billion in the previous term.

Interest income declined ¥16.9 billion to ¥95.5 billion (US$900 million). This fall is mainly attributable to a contraction in interest income from lending and other operations which reflects lower market rates.

Interest expenses fell ¥17.7 billion to ¥25.7 billion (US$242 million) as lower market rates connected to a decline in interest on deposits.

The net interest margin widened from 1.62% in the previous term to 1.66%.

Viewed by asset category, loans and bills discounted, which accounted for 71.0% of average interest-earning assets, generated a yield of 2.17%, compared with 2.30% a year earlier, while the yield delivered by total interest-earning assets slipped from 2.75% to 2.32%. Within cost of funds, interest on deposits including certificates of deposit, which represented more than half of average interest-bearing liabilities, fell to 0.36% from 0.73% in fiscal 1998, the chief reason for the decline in overall cost of funds from 1.13% to 0.66% in fiscal 1999.

•Net Interest Income and Net Interest Margin

Millions of yen, %	1998	1999	**2000**
Net Interest Income	¥68,636	¥69,018	**¥69,854**
Interest Margin	1.61	1.62	**1.66**

Note: Net interest income is calculated based on interest expenses net of the estimated cost of managed money in trust (amounting to ¥346 million, ¥351 million, and ¥232 million for the years ended March 1998, 1999, and 2000, respectively).

Fees and Commissions

Fees and commissions (net) during the term increased ¥0.2 billion to ¥5.4 billion (US$51 million).

Fees and commissions received rose ¥0.2 billion from the previous term to ¥8.5 billion (US$80 million).

Fees and commissions paid increased ¥0.02 billion to ¥3.1 billion (US$29 million).

•Fees and Commissions (Net)

Millions of yen	1998	1999	2000
Fees and Commissions (Net)	¥5,342	¥5,237	**¥5,433**

Other Operating Income and Expenses

Other operating income (net) increased ¥5.1 billion from fiscal 1998 to ¥6.6 billion (US$62 million). This rise was attributable to higher gains on sales of government bonds and other securities.

•Other Operating Income (Net)

Millions of yen	1998	1999	2000
Other Operating Income (Net)	¥366	¥1,529	**¥6,620**

Other Income and Expenses

Other income declined ¥6.6 billion to ¥2.9 billion (US$27 million) due to a fall in gains on sales of shares and other securities.

Other expenses fell ¥1.6 billion to ¥32.1 billion (US$303 million), which was due mainly to lower provisions for possible loan losses. No losses were incurred from financial assistance to borrowers.

Provisions to Reserve for Possible Loan Losses

In accordance with the Uniform Accounting Standards for Banks issued by the Japanese Institute of Certified Public Accountants, banks in Japan provide three types of reserves — general, specific, and country risk. The general reserve is provided based on the actual default rate, which is calculated by the Bank using the number of defaults during a specific period in the past. The general reserve for possible loan losses was provided in the amount of ¥25.3 billion (US$239 million), an increase of ¥8.6 billion from the previous year.

Provisions to the specific reserve increased ¥13.7 billion, from ¥61.6 billion in fiscal 1998 to ¥75.4 billion (US$710 million). Apart from provisions for possible losses from loans in bankruptcy, the increase reflects the Bank's proactive approach towards providing for loans threatened with future bankruptcy.

The country risk reserve is provided based on possible loan losses from economic and political developments in certain countries. The allocation to this reserve in fiscal 1999 amounted to ¥0.9 billion (US$8 million).

•Provisions to Reserve for Possible Loan Losses

Millions of yen	1998	1999	2000
General Reserve	¥11,699	¥16,753	**¥ 25,340**
Specific Reserve	40,466	61,639	**75,377**
Country Risk Reserve	—	930	**873**
Total Reserve	52,165	79,322	**101,590**
Written-Off Claims	7	36	**3**

General and Administrative Expenses

General and administrative expenses rose to ¥46.1 billion (US$435 million) from ¥45.4 billion in the previous term due to higher equipment rental charges. Personnel expenses, which accounted for 57.1% of general and administrative expenses, came to ¥26.3 billion (US$248 million).

Income Taxes

Corporate, resident, and enterprise tax were ¥12.0 billion (US$113 million). The adoption of tax-effect accounting in fiscal 1998 caused a negative ¥9.5 billion (US$89 million) in income tax adjustments, resulting in a ¥2.6 billion (US$24 million) change in the income tax burden recognized for the term.

Net Income and Cash Dividend

Net income for the term to March 31, 2000 increased ¥2.0 billion from the previous year to ¥3.6 billion (US$34 million), with net income per share of ¥17.96. Cash dividends for the term were ¥6.50 (US$0.06), translating into a payout ratio of 36.2%.

•Net Income and Net Income per Share

Millions of yen, %	1998	1999	2000
Net Income	¥1,250	¥1,632	**¥3,593**
Net Income per Share	6.25	8.16	**17.96**

Balance Sheet Analysis

Loans and Bills Discounted

Loans and bills discounted came to a term-end balance of ¥3,073.6 billion (US$28,955 million), an increase of ¥7.6 billion, or 0.2%, from fiscal 1998. Reflecting the lower market rates, the average rate of return descended to 2.17% from 2.30% a year earlier.

Domestic branches' outstanding balances by industry fell across the board, excepting the real estate sector. The amendment of the Small and Medium-Sized Enterprise Modernization Promotion Law enacted in December 1999, which broadened the definition of this category, caused the loan volume attributable to small and medium-sized companies to rise from ¥2,025.2 billion to ¥2,201.3 billion (US$20,738 million), thereby raising the weighting of small and medium-sized corporate borrowers from 66.6% to 72.1% of loans and bills discounted. In retail lending, loans to individuals increased to a term-end balance of ¥363.0 billion (US$3,419 billion) from ¥296.4 billion a year earlier, thanks mainly to a rise in mortgage loans.

•Loans and Bills Discounted by Industry (Term-End Balances)

Billions of yen	1998	1999	**2000**
Manufacturing	565.9	582.7	**574.5**
Construction	310.5	306.5	**304.8**
Transportation, Communications	164.2	166.2	**157.6**
Wholesale and Retailing	656.9	662.4	**656.2**
Financing and Insurance	265.8	236.8	**215.9**
Real Estate	209.5	221.3	**229.9**
Services	342.7	353.9	**353.7**
Regional Governments	84.6	107.8	**91.8**
Others	382.6	403.2	**470.6**
Total	¥2,982.7	¥3,040.9	**¥3,055.0**

Note: *Not including loan balances of foreign branches and loans to specific countries.*

•Loans and Bills Discounted

Billions of yen	1998	1999	**2000**
Loans and Bills Discounted	¥3,022.7	¥3,066.0	**¥3,073.6**

•Risk-Managed Loans

Millions of yen, %	1999	(Non-Consolidated) **2000**	(Consolidated) **2000**	Change from 1999, Non-Consolidated
Loans to borrowers in bankruptcy	25,853	**42,696**	**42,696**	16,843
Other delinquent loans	16,468	**22,573**	**22,573**	6,105
Loans past due three months or more	3,935	**1,681**	**1,681**	(2,254)
Restructured loans	34,951	**86,688**	**86,688**	51,737
Total (A)	¥81,208	**¥153,638**	**¥153,638**	¥72,430
As Percentage of Total Balance (A)	2.64%	**4.99%**	**4.99%**	2.35%

Note: 1. *No partial write-offs of the estimated uncollectible amounts of delinquent assets are carried out.*

Note: 2. *Loans to borrowers in bankruptcy comprise loans in a status compliant with the criteria set forth in the pertinent sections of the Corporation Tax Law for which the accrual of interest income for accounting purposes has been discontinued, given that the collection or settlement of principal and/or interest cannot be expected for reasons of principal and/or interest payments remaining past due, or other.*

Note: 3. *Other delinquent loans comprise loans for which the accrual of interest income for accounting purposes has been discontinued, excluding loans to borrowers in bankruptcy and loans that are subject to interest payment forbearance for the purpose of reviving or supporting delinquent loans and facilitating borrower's reorganization.*

Note: 4. *Loans past due three months or more comprise loans for which the principal and/or interest is three months or more past due counting from the first day after the contractual payment date, but exclude loans to borrowers in bankruptcy and other delinquent loans.*

Note: 5. *Restructured loans comprise loans in respect of which lending conditions have been relaxed to support the borrower's reorganization, such as reduction of the original interest rate, forbearance of interest payments and/or principal repayment, waiver of claims, and other measures to improve the borrower's financial position, but exclude loans to borrowers in bankruptcy, other delinquent loans, and loans past due three months or more.*

•Asset categories based on asset self-assessment in compliance with the Financial Reconstitution Law

Millions of yen	
Loans in bankruptcy under the Corporation Reorganization Law or in similar conditions	66,654
Loans threatened with bankruptcy	89,704
Loans requiring special attention	18,716
Sub-Total (A)	175,075
Normal loans	2,964,860
Total (B)	¥3,139,935
Ratio of classified loans to total loans (A/B)	5.58

Note: 1. Loans in bankruptcy under the Corporation Reorganization Law or in similar conditions comprise loans to borrowers in bankruptcy due to insolvency, reorganization, composition, and loans in similar circumstances.

Note: 2. Loans threatened with bankruptcy comprise loans to borrowers that are not in a state of bankruptcy, but whose collectibility in compliance with the underlying loan agreement is improbable with regard to principal and interest in light of the borrower's weak financial position and business results.

Note: 3. Loans requiring special attention comprise loans past due three months or more and restructured loans.

•Status of Non-Accrual Loan Assets based on the Financial Reconstitution Law

Millions of yen, % March 31, 2000

	In Bankruptcy	Threatened with Bankruptcy	Requiring Special Attention	Total
Outstanding loan balance (A)	¥ 66,654	¥89,704	¥18,716	¥175,075
Collateral (B)	18,835	48,877	7,525	75,237
Reserve (C)	47,819	27,636	2,448	77,904
Coverage ratio (B+C)/A	100.00	85.30	53.29	87.47
Reserve rate C/(A-B)	100.00	67.69	21.87	78.03

Note: Loans in bankruptcy comprise loans in bankruptcy and similar conditions.

Securities

Investments in securities came to a term-end balance of ¥894.1 billion (US$8,423 million), an increase of ¥5.5 billion, or 0.6%, from the previous term. This change was due to an increase in holdings of government and local government bonds.

•Securities

Billions of yen	1998	1999	**2000**
Securities	¥796.6	¥888.6	**¥894.1**

Market Value of Securities

Unrealized gains both on listed and unlisted securities declined from the previous term.

Unrealized gains on listed securities came to ¥52.7 billion (US$496 million), down from ¥55.0 billion last year due to slippage in the value of listed debt securities — government, local government, and corporate bonds — centering on government bonds, which outstripped a rise in unrealized gains on listed equities. Aggregate unrealized gains and unrealized losses amounted to ¥52.8 billion (US$497 million) and ¥0.1 billion (US$1.1 million), respectively. Market values of listed securities were mainly determined based on Tokyo Stock Exchange closing prices. However, market values of listed bonds were in fiscal 1999 calculated based on the yields of public bonds quoted over-the-counter by the Japan Securities Dealers Association. Market values of unlisted equity securities are based on the quotations of the Japan Securities Dealers Association for over-the-counter securities, and for bonds based on the yields of public bonds quoted over-the-counter by the Association. The valuation of investment trust shares is based on the published net asset value per share.

The balance sheet carry value of securities holdings not disclosed under market value disclosure procedures amounted to ¥324.2 billion (US$3,054 million), while money in trust amounted to ¥0.1 billion (US$0.6 million).

Deposits

The term-end balance of deposits including transferable deposits reached ¥4,261.4 billion (US$40,145 million), reflecting a 1.4% increase from a year earlier. Within this total, liquid deposits expanded 12.5% year-on-year to ¥1,235.0 billion (US$11,635 million) and time deposits gained 2.0% to ¥2,744.3 billion (US$25,853 million). Viewed by depositor category, deposits from individuals climbed 3.0% to ¥2,296.2 billion (US$21,631 million), while corporate and other deposits slipped 0.4% from the previous year to ¥1,965.2 billion (US$18,513 million).

•Deposits (including CDs)

Billions of yen	1998	1999	**2000**
Deposits (including CDs)	¥4,217.4	¥4,201.7	**¥4,261.4**

Total Stockholders' Equity

Total stockholders' equity as of March 31, 2000 stood at ¥264.5 billion (US$2,492 million), up ¥2.1 billion, or 0.8%, from the previous year. The main contributing factor was an increase in net income for the period. The Bank had a term-end capital ratio of 11.29% as measured by the BIS standard, compared with 10.71% the year earlier.

•Capital Ratio (BIS)

%	1998	1999	**2000**
Capital Ratio (BIS)	9.40	10.71	**11.29**

Off-Balance-Sheet Transactions

Overview of Derivative Transactions

The Bank engages in derivative transactions for the purpose of protecting its current stock of assets and liabilities by hedging the risk of future interest rate changes, with the principal aim of stabilizing revenue and income. In interest-related transactions, as of March 31, 2000, the Bank was a party to interest rate swap contracts in the amount of ¥328.5 billion (US$3,095 million) — valued a negative ¥6.9 billion (US$65 million) on a marked-to-market basis — entitling the Bank to receive floating-rate interest payments and obligating it to pay fixed rates.

In currency-related transactions (excluding renewals), as of March 31, 2000, the Bank was a party to a currency swap contract volume of ¥259.6 billion (US$2,446 million) that valued ¥0.9 billion (US$8.6 million) on a marked-to-market basis. Within this figure, fund-related currency swaps, which facilitate foreign-denominated fund raising and the managing of foreign-denominated funds, amounted to ¥227.7 billion (US$2,145 million). All of these contracts, which represented ¥0.9 billion (US$8.6 million) in unrealized gains, originated from transactions with customers.

Currency-related transactions revalued at term-end comprised only foreign exchange forward contracts revalued at the conversion rate prevailing on the balance sheet date, with a contract volume of ¥20.5 billion (US$193 million) at term-end.

The Bank engages in no derivative transactions relating to stocks, bonds, and commodities.

Derivative Financial Instruments and Foreign Exchange Futures Transactions

With regard to derivative financial products and foreign exchange futures transactions relevant to the capital requirement regulations under the BIS standard at term-end, notional amounts fell ¥127.3 billion from the previous year to ¥516.8 billion (US$4,869 million), while credit-risk equivalents fell ¥2.1 billion to ¥7.3 billion (US$69 million). These changes reflect a decline in the foreign exchange futures contract volume and a rise in the volume of same-currency interest swaps.

•Notional Amounts and Credit Risk Equivalents

	Notional Amounts		Credit Risk Equivalents	
Billions of yen	1999	**2000**	1999	**2000**
Interest and Currency Swaps	357.3	**364.8**	4.6	**5.0**
Foreign Exchange Futures Transactions	286.8	**152.0**	4.8	**2.3**
Other Derivative Financial Instruments	—	—	—	—
Total	¥644.1	**¥516.8**	¥9.4	**¥7.3**

Note: *In accordance with international standards for capital computations, the above figures are calculated using the current exposure method.*

Credit-Related Financial Instruments

Among credit-related off-balance transactions, commitments declined ¥43.4 billion to ¥451.7 billion (US$4,255 million), and guarantees contracted ¥12.9 billion from the previous term to ¥60.6 billion (US$571 million).

•Credit-Related Financial Instruments

	Contract Volume		Credit Risk Equivalents	
Billions of yen	1999	**2000**	1999	**2000**
Commitments	495.1	**451.7**	0.2	**0.5**
Guarantees	72.9	**60.0**	61.9	**48.4**
Others	—	—	—	—
Total	¥568.1	**¥511.6**	¥62.0	**¥48.9**

The Yamaguchi Bank, Ltd. and its consolidated subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2000 and 1999

ASSETS	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000
Assets:			
Cash and due from banks (Note 3)	**¥ 321,615**	¥ 259,021	**$ 3,029,816**
Call loans	**255,638**	247,599	**2,408,271**
Commercial paper and other debt purchased	**92,686**	6,250	**873,161**
Trading account securities (Notes 4 and 6)	**—**	2,229	
Trading assets	**2,881**	—	**27,141**
Money held in trust	**5,000**	55,000	**47,103**
Securities (Notes 5 , 6 and 8)	**894,145**	888,645	**8,423,410**
Loans and bills discounted (Note 7)	**3,072,784**	3,065,662	**28,947,565**
Foreign exchange assets	**5,753**	6,203	**54,197**
Other assets	**12,862**	15,568	**121,168**
Property and equipment	**79,291**	77,364	**746,970**
Deferred tax assets (Note 13)	**37,171**	27,712	**350,174**
Customers' liabilities for acceptances and guarantees (Note 12)	**59,964**	72,947	**564,899**
Reserve for possible loan losses	**(101,237)**	(78,968)	**(953,715)**
Total assets	**¥4,738,553**	¥4,645,232	**$44,640,160**

LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000
Liabilities:			
Deposits (Note 8)	**¥4,260,867**	¥4,201,133	**$40,140,057**
Call money (Note 8)	**16,281**	21,494	**153,377**
Trading liabilities	**76**	—	**716**
Borrowed money (Note 9)	**21,530**	17,584	**202,826**
Foreign exchange liabilities	**32**	76	**302**
Other liabilities	**87,757**	41,914	**826,727**
Reserve for retirement allowances	**5,128**	5,082	**48,309**
Deferred tax liabilities for revaluation reserve for land (Notes 10 and 13)	**20,714**	20,859	**195,139**
Acceptances and guarantees (Note 12)	**59,964**	72,947	**564,899**
Total liabilities	**4,472,349**	4,381,089	**42,132,352**
Stockholders' equity (Notes 11 and 15):			
Common stock, par value ¥50 per share:			
Authorized — 600,000 thousand shares			
Issued — 200,000 thousand shares	**10,006**	10,006	**94,263**
Additional paid-in capital	**376**	376	**3,542**
Revaluation reserve for land, net of tax (Note 10)	**28,912**	29,115	**272,369**
Retained earnings	**226,910**	224,648	**2,137,634**
Common stock in treasury	**(0)**	(2)	**(0)**
Total stockholders' equity	**266,204**	264,143	**2,507,808**
Total liabilities and stockholders' equity	**¥4,738,553**	¥4,645,232	**$44,640,160**

See accompanying notes.

The Yamaguchi Bank, Ltd. and its consolidated subsidiaries

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	**2000**
Income:			
Interest on loans and discounts	**¥ 65,978**	¥ 74,122	**$ 621,555**
Interest and dividends on securities	**27,696**	30,856	**260,914**
Other interest	**1,857**	7,410	**17,494**
Fees and commissions	**8,523**	8,307	**80,292**
Trading income	**1**	—	**9**
Other operating income	**10,335**	2,794	**97,362**
Other income	**3,087**	9,429	**29,081**
Total income	**117,477**	132,918	**1,106,707**
Expenses:			
Interest on deposits	**13,985**	28,015	**131,748**
Interest on borrowings and rediscounts	**1,645**	2,390	**15,497**
Other interest	**10,288**	13,318	**96,919**
Fees and commissions	**3,087**	3,070	**29,081**
Trading expenses	**92**	—	**867**
Other operating expenses	**3,715**	1,265	**34,998**
General and administrative expenses	**46,126**	45,366	**434,536**
Other expenses	**32,337**	33,661	**304,634**
Total expenses	**111,275**	127,085	**1,048,280**
Income before income taxes	**6,202**	5,833	**58,427**
Income taxes (Note 13):			
Current	**12,049**	14,577	**113,509**
Deferred	**(9,459)**	(10,434)	**(89,109)**
Net income	**3,612**	1,690	**34,027**
Retained earnings at beginning of year	**224,648**	207,101	**2,116,324**
Cumulative effect of initial application of deferred income tax accounting	**—**	17,298	**—**
Deductions:			
Cash dividends paid	**1,300**	1,400	**12,246**
Bonuses to directors and statutory auditors	**50**	41	**471**
Retained earnings at end of year	**¥226,910**	¥224,648	**$2,137,634**

	Yen		U.S. dollars (Note 1)
	2000	1999	**2000**
Amounts per share of common stock:			
Net income	**¥18.06**	¥8.45	**$0.17**
Cash dividends applicable to the year	**6.50**	7.00	**0.06**

See accompanying notes.

The Yamaguchi Bank, Ltd. and its consolidated subsidiaries

CONSOLIDATED STATEMENT OF CASHFLOWS

Year ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 6,202	$ 58,427
Depreciation	2,559	24,107
Equity in earnings of affiliates	(15)	(141)
Net change in reserve for possible loan losses	22,270	209,797
Net change in reserve for retirement allowances	46	433
Interest income	(95,531)	(899,962)
Interest expenses	25,917	244,154
Net gain related to securities transactions	(6,382)	(60,122)
Net loss from money held in trust	1,136	10,702
Net exchange loss	9,580	90,250
Net loss from disposition of property and equipment	73	688
Net change in trading assets	(652)	(6,142)
Net change in trading liabilities	76	716
Net change in loans	(7,115)	(67,028)
Net change in deposits	58,844	554,348
Net change in negotiable certificates deposits	890	8,384
Net change in call loans	(94,474)	(890,005)
Net change in call money	(1,267)	(11,936)
Net change in deposits with bank	63,251	595,864
Net change in foreign exchanges (asset account)	450	4,239
Net change in foreign exchanges (liability account)	(45)	(424)
Interest received	96,992	913,726
Interest paid	(29,350)	(276,496)
Bonuses to directors and statutory auditors	(50)	(471)
Other, net	51,824	488,215
Subtotal	105,229	991,323
Income taxes paid	(14,475)	(136,363)
Net cash provided by operating activities	90,754	854,960
Cash flows from investing activities:		
Purchases of securities	(366,689)	(3,454,442)
Proceeds from sale of securities	215,318	2,028,431
Proceeds from maturity of securities	142,695	1,344,277
Net change in money held in trust	50,000	471,032
Purchases of property and equipment	(5,554)	(52,322)
Proceeds from sales of property and equipment	644	6,067
Net cash provided by investing activities	36,414	343,043
Cash flows from financing activities:		
Proceeds from sale of treasury stock	2	19
Dividends paid	(1,300)	(12,247)
Net cash used in financing activities	(1,298)	(12,228)
Foreign currency translation adjustments	(25)	(236)
Net change in cash and cash equivalents	125,845	1,185,539
Cash and cash equivalents at beginning of year	90,525	852,803
Cash and cash equivalents at end of year (Note 3)	¥216,370	$2,038,342

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF FINANCIAL STATEMENTS

The Yamaguchi Bank, Ltd. (the "Bank") and its consolidated subsidiaries principally maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been translated from the consolidated financial statements that are prepared for Japanese domestic purposes, in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Minister of Finance and stock exchanges in Japan. Certain modifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan.

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 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.

The accompanying consolidated financial statements and notes should be read in conjunction with the non-consolidated financial statements and notes thereto. In preparing the notes to consolidated financial statements, certain notes found in the non-consolidated financial statements have been omitted.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Bank and its significant subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant intercompany transactions and balances have been eliminated.

The Bank accounts for investments in affiliated companies (all 20% to 50% owned and certain others 15% to 20% owned) by the equity method.

Trading assets, trading liabilities and transactions for trading purposes

The valuation method of "Trading assets" and "Trading liabilities" held by the Bank is as follows:

Balances incurred by transactions whose purpose is to earn a profit by taking advantage of short-term fluctuations in a market or discrepancies in different markets of interest rates, currency exchange rates, share prices or other indices (hereinafter referred to as "trading purposes") are included in "Trading assets" or "Trading liabilities" on the consolidated balance sheets as of the date on which the transactions have been contracted.

Trading assets and trading liabilities are valued, in the case of securities and commercial paper, etc., at the market value as of the date of the balance sheet and, in the case of derivatives, including swaps, futures and options, at the amount due if the transactions were to be settled as of the date of the balance sheet.

"Trading income" and "Trading expenses" include interest received or paid in the fiscal year and gains or losses resulted from the valuation of securities, commercial paper, derivatives, etc. which are included in "Trading assets" or "Trading liabilities."

However, as the trading accounts were established effective April 1, 1999, "Trading income" and "Trading expenses" of this fiscal year include gains and losses on such trading assets and liabilities which would have been reflected in the consolidated statement of income and retained earnings for the preceding year if the trading accounts had been established for the preceding year.

As a result of the establishment of the trading accounts as defined under Article 17-2 of the Banking Law of Japan, total assets and total liabilities increased by ¥466 million ($4,390 thousand) and ¥464 million ($4,371 thousand), respectively.

The effect of the establishment of trading accounts and changes in accounting explained above is summarized as follows:

Total income decreased by ¥88 million ($829 thousand)
Total expenses decreased by ¥90 million ($848 thousand)
Income before income taxes increased by ¥2 million ($19 thousand)

Trading account securities

Listed trading account securities are valued at the lower of moving-average cost or market value, and unlisted trading account securities are valued at moving-average cost. Commencing with the year ended March 31, 1999, the Bank records recoveries of write-downs of securities.

Securities

Debentures, shares and certain other securities which are listed, including securities in money held in trust account, are stated at the lower of moving-average cost or market value. The other securities including those in money held in trust are stated at moving-average cost. The Bank records recoveries of write-downs of securities.

Effective from the year ended March 31, 2000, the allowance for losses on sale of securities is presented as a valuation account for securities and is included in other assets on the consolidated balance sheet. The prior year's amount, which was included in deposits in the liability section, has been reclassified to conform to the 2000 presentation. This change decreased assets and liabilities at March 31, 2000 by ¥367 million ($3,457 thousand).

Reserve for possible loan losses
The Bank provides reserves for possible loan losses according to the following write-off/reserve standards:

For loans to borrowers who are legally bankrupt (due to bankruptcy, composition, suspension of transactions with banks by the rules of clearinghouses, etc.) or virtually bankrupt, a reserve is provided based on the amount of loans net of amounts expected to be collected through disposition of collateral or through execution of guarantees.

For loans to borrowers threatened with bankruptcy, a reserve is provided in the amount of loans net of amounts expected to be collected through disposition of collateral or through execution of guarantees, and as considered to be necessary based on a solvency assessment.

Loans to normal borrowers and borrowers requiring caution are classified into certain groups, and a reserve is provided for each group using the rate of loan losses experienced for the group during certain reference periods in the past.

A reserve for loans to borrowers in certain foreign countries is provided based on the amount of estimated losses resulting from the political and economic situations of the countries.

All branches and the credit supervision department evaluate all loans in accordance with the self-assessment rule, and their evaluations are audited by the asset audit section, which is independent from branches and credit supervision department, and the evaluations are revised as required based on the audits.

Effective from the year ended March 31, 2000, the reserve for possible loan losses is presented as a valuation account on the consolidated balance sheet. This decreased assets and liabilities by ¥101,589 million ($957,032 thousand).

No reserve for possible loan losses was provided by consolidated subsidiaries.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation, except for certain revalued land.

Depreciation of property and equipment is computed by the declining-balance method as stipulated by the Japanese Corporation Tax Law except for buildings acquired after March 31, 1998, which are depreciated using the straight-line method.

As explained in Note 10, pursuant to the Law concerning Revaluation of Land, certain land used for business operations was revalued at fair value on March 31, 1998.

Software costs
In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc."(the "Report"), the Bank accounts for software which was included in long-term prepaid expenses in investments and other in the same manner in 2000 as in 1999.

Accounting for certain lease transactions
Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Income taxes
The Bank recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the non-consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998, when the Bank adopted the tax effect accounting, is reflected as a credit adjustment of ¥17,298 million to the retained earnings brought forward from March 31, 1998.

Foreign currency translation
Assets and liabilities denominated in foreign currencies and all accounts of the overseas branches are translated into Japanese yen at the exchange rate prevailing at the end of the year. Assets and liabilities of consolidated subsidiaries are translated at the exchange rate prevailing at the balance sheet date. Stockholders' equity is translated at historical exchange rates and revenue and expenses are translated at the average exchange rates during the year. Differences resulting from translation of the financial statements of foreign consolidated subsidiaries are debited or credited to foreign currency translation adjustments and included in other assets on the consolidated balance sheets.

Reserve for retirement allowances and pension plan
Accounting policies — Under the terms of the Bank's retirement plan, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement allowances is, in general, based on the length of service, base salary at the time of retirement and cause of retirement. Reserve for retirement allowances is stated at the amount which would be required if all employees voluntarily terminated their employment as of the balance sheet date.

In addition, the Bank has a contributory funded pension plan covering substantially all employees. The past service costs were fully amortized as of March 31, 2000. The Bank also introduced a tax qualified pension plan on April 1, 1995, with past service costs to be amortized over 7 years.

Change in accounting policies — Effective April 1, 1999, the Bank changed the method of accounting for prior service costs from expensing such costs to the extent and when paid to the pension fund, to the method of charging such costs as incurred. The prior year's consolidated financial statements were not restated.

The change was made to attain more appropriate cost allocation with the intent to improve the finance of the pension fund and in light of the trustee's report on the performance of the pension fund and the change made by the Bank in 2000 in the discount rates used for actuarial calculations.

The effect of the change in the accounting method decreased income before income taxes by ¥2,831 million ($26,670 thousand) and increased the liabilities by the same amount.

Amounts per share of common stock

Computations of net income per share of common stock are based on the weighted-average number of shares outstanding during each year.

The diluted net income per share is not presented, since the Bank has never issued any securities with dilutive effect.

Cash dividends per share represent the cash dividends declared as applicable to each year.

3. CONSOLIDATED STATEMENTS OF CASH FLOWS AND CASH AND CASH EQUIVALENTS

In accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc.," effective from the year ended March 31, 2000, the Bank is required to prepare consolidated cash flow statements. In preparing the consolidated statement of cash flows, the Bank and its consolidated subsidiaries consider cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase to be cash and cash equivalents.

The reconciliation of cash and due from banks in the consolidated balance sheet and cash and cash equivalents in the consolidated statement of cash flows at March 31, 2000, is as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Cash and due from banks	¥321,615	$3,029,816
Time deposits in other banks	(101,618)	(957,306)
Negotiable certificate of deposit in other banks	(2,517)	(23,712)
Other	(1,110)	(10,457)
Cash and cash equivalents	¥216,370	$2,038,342

4. TRADING ACCOUNT SECURITIES

Trading account securities held by the Bank at March 31, 1999 consisted of national government bonds.

5. SECURITIES

Securities held by the Bank at March 31, 2000 include shares of unconsolidated subsidiaries and affiliated companies amounting to ¥194 million ($1,828 thousand).

6. MARKET VALUE INFORMATION AND DERIVATIVES

At March 31, 2000 and 1999 the net unrealized gains of trading account securities and securities having market values were ¥64,041 million ($603,307 thousand) and ¥68,348 million, respectively.

The Bank enters into financial derivative transactions such as forward exchange contracts, currency swaps, interest rate swaps, and bond futures to hedge its assets or liabilities against interest rate risk and foreign exchange risk, as well as to meet customer needs.

The principal risks inherent in derivative transactions are market risk such as foreign exchange and interest rate fluctuations, and credit risk. At March 31, 2000 and 1999 the quantified amount of credit risk equivalents, which is calculated by the current exposure method in accordance with international standards for capital ratio computations were ¥7,307 million ($68,837 thousand) and ¥9,429 million, respectively. To cope with these risks, the Bank is putting emphasis on establishing internal control structures performing position control and asset-liability management in accordance with its guideline.

As to financial derivatives traded over the counter, the notional principal amounts of the Bank at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Interest rate swaps	¥328,580	¥330,582	$3,095,431
Interest rate options	—	1,205	—
Currency swaps	259,644	470,868	2,446,010
Forward exchange	20,503	15,962	193,151

The forward exchange contracts shown above were marked to market and their unrealized gains or losses were reflected in the current earnings.

At March 31, 2000 and 1999, out of the currency swaps, the contract value for foreign exchange swaps (cash-related swaps) transacted for the purpose of fund procurement and management in non-yen currencies was ¥227,724 million ($2,145,304 thousand) and ¥444,180 million, respectively.

7. LOANS AND BILLS DISCOUNTED

Loans at March 31, 2000 and 1999 include "Risk-Managed Loan Amounts" such as (1) loans to borrowers in bankruptcy amounting to ¥42,696 million ($402,223 thousand) and ¥25,853 million, respectively, (2) other delinquent loans amounting to ¥22,573 million ($221,651 thousand) and ¥16,468 million, respectively, (3) loans past due for three months or more amounting to ¥1,680 million ($15,827 thousand) and ¥3,935 million, respectively and (4) restructured loans amounting to ¥86,687 million ($816,646 thousand) and ¥34,951 million, respectively.

(1) Loans to borrowers in bankruptcy denote loans to borrowers subject to corporate reorganization proceedings, composition, bankruptcy, special liquidation proceedings or similar proceedings, on which the Bank has stopped accruing interest under the Japanese tax law.

(2) Other delinquent loans denote loans on which the Bank has stopped accruing interest under the Japanese tax law.

(3) Loans past due for three months or more denote loans where payment of interest or principal is delayed for three months or more.
(4) Restructured loans denote loans to borrowers for which the repayment terms have been modified to more favorable terms including reduction of interest rate, provision of grace periods and debt forgiveness with the objective of promoting recovery of borrowers in economic difficulty.

8. PLEDGED ASSETS

At March 31, 2000, the following assets were pledged as collateral for certain liabilities of the Bank.

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Securities	¥97,800	$921,337

Obligation the collateral was pledged to secure:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Deposits	¥85,594	$806,349
Call money	5,307	49,995

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as, foreign exchange contracts and forward exchange contracts. These securities amounted to ¥164,737 million ($1,551,926 thousand) at March 31, 2000.

9. BORROWED MONEY

Borrowed money at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Bills rediscounted	¥ 210	¥ 430	$ 1,978
Loans from banks	21,320	17,154	200,848
	¥21,530	¥17,584	$202,826

10. REVALUATION RESERVE FOR LAND

Pursuant to the Law concerning Revaluation of Land (the "Law") effective March 31, 1998, the Bank revalued certain land used for business operations at fair value of ¥60,264 million (the original book value was ¥9,897 million) as of March 31, 1998, and the related net unrealized gain of ¥50,367 million was reported in liabilities as "Revaluation reserve for land." Effective March 31, 1999, the Law has been revised for presentation of the unrealized gain. In accordance with the revised Law, net unrealized gain reported in liabilities was reclassified in a separate component of stockholders' equity net of applicable income taxes as "Revaluation reserve for land (¥29,115 million), net of tax (¥20,859 million)" as of March 31, 1999. Such amounts in the non-consolidated balance sheet as of March 31, 2000, are decreased due to sale of a part of the revalued land in the year then ended. According to the revised Law, the Bank is not permitted to revalue the land at any time even in case that the fair value of the land declines. Such unrecorded revaluation loss as of March 31, 2000 was ¥6,777 million ($63,843 thousand).

11. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be credited to common stock. The portion which is to be credited to common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts credited to common stock are credited to additional paid-in capital.

The maximum amount that the Bank can distribute as dividends is calculated based on the unconsolidated financial statements of the Bank and in accordance with the Code.

12. CONTINGENT LIABILITIES — ACCEPTANCES AND GUARANTEES

All contingent liabilities including letters of credit, acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown on the asset side, which represent the Bank's right of indemnity from customers.

13. INCOME TAXES

The following table summarizes the significant differences between the statutory tax rate and the Bank's effective tax rate for financial statement purposes for the year ended March 31, 1999. Reconciliation of the statutory tax rate and the Bank's effective tax rate for the year ended March 31, 2000 was not required due to small difference.

	1999
Statutory tax rate	48.0%
Non-deductible expenses (entertainment expense, etc.)	3.3
Non-taxable income (dividend income, etc.)	(6.2)
Effect of lower tax rate in next year	27.2
Other	(0.7)
Effective tax rate	71.6%

Significant components of deferred tax assets and liabilities as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Reserve for possible loan losses	**¥31,465**	¥23,174	**$296,420**
Accrued bonuses	**394**	207	**3,712**
Enterprise tax	**441**	639	**4,154**
Retirement benefits	**1,438**	1,438	**13,547**
Depreciation	**1,329**	1,471	**12,520**
Amortization of prior service cost	**1,181**	—	**11,126**
Other	**923**	783	**8,695**
	¥37,171	¥27,712	**$350,174**
Deferred tax liabilities for revaluation reserve for land	**¥20,714**	¥20,859	**$195,139**

14. SEGMENT INFORMATION

Business segment information is not shown, due to the Bank and the subsidiary operating in one segment.

Geographic segment information is not shown, due to domestic net sales of the Bank and the subsidiary and the consolidated assets being located substantially in Japan represent more than 90% of consolidated net sales and assets, respectively.

Overseas sales information is not shown, due to overseas sales being less than 10% of consolidated net sales.

15. SUBSEQUENT EVENTS

On June 29, 2000, the stockholders of the Bank authorized the following appropriations of retained earnings at March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥3.25 per share	**¥650**	**$6,123**
Bonuses to directors and statutory auditors	**50**	**471**

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Report of Independent Public Accountants

To the stockholders and the Board of Directors of THE YAMAGUCHI BANK, LTD.:

We have audited the accompanying consolidated balance sheets of THE YAMAGUCHI BANK, LTD. (a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999, the related consolidated statements of income and retained earnings for the years then ended, and the related consolidated statement of cash flows for the year ended March 31, 2000, 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 YAMAGUCHI BANK, LTD. and subsidiaries as of March 31, 2000 and 1999, the consolidated results of their operations for the years then ended, and their cash flows for the year ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2000, THE YAMAGUCHI BANK, LTD. and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting and research and development costs. Also, THE YAMAGUCHI BANK, LTD. and subsidiaries changed the method of accounting for prior service costs, effective April 1, 1999, as referred to in Note 2, with which we concur.

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 1.

Asahi & Co.

A Member Firm of Andersen Worldwide SC

Tokyo, Japan
June 29, 2000

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 consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

The Yamaguchi Bank, Ltd.

NON-CONSOLIDATED BALANCE SHEETS

March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2000**	1999	**2000**
Assets:			
Cash and due from banks	**¥ 321,613**	¥ 259,019	**$ 3,029,797**
Call loans	**255,638**	247,599	**2,408,271**
Commercial paper and other debt purchased	**92,686**	6,250	**873,161**
Trading account securities (Notes 4 and 6)	**—**	2,229	**—**
Trading assets (Note 3)	**2,881**	—	**27,141**
Money held in trust	**5,000**	55,000	**47,103**
Securities (Notes 5 , 6 and 11)	**894,058**	888,554	**8,422,591**
Loans and bills discounted (Note 7)	**3,073,609**	3,065,993	**28,955,337**
Foreign exchange assets (Note 8)	**5,753**	6,203	**54,197**
Other assets (Note 9)	**12,838**	15,523	**120,942**
Property and equipment (Notes 10 and 15)	**77,670**	76,416	**731,700**
Deferred tax assets (Note 23)	**37,171**	27,710	**350,174**
Customers' liabilities for acceptances and guarantees (Note 17)	**59,964**	72,947	**564,899**
Reserve for possible loan losses	**(101,590)**	(79,322)	**(957,042)**
Total assets	**¥4,737,291**	¥4,644,121	**$44,628,271**

LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits (Notes 11 and 12)	**¥4,261,380**	¥4,201,747	**$40,144,890**
Call money (Note 11)	**16,281**	21,494	**153,377**
Trading liabilities	**76**	—	**716**
Borrowed money (Note 13)	**21,530**	17,584	**202,826**
Foreign exchange liabilities (Note 8)	**32**	76	**301**
Other liabilities (Note 14)	**87,700**	41,886	**826,189**
Reserve for retirement allowances	**5,128**	5,082	**48,309**
Deferred tax liabilities for revaluation reserve for land (Notes 15 and 23)	**20,714**	20,859	**195,139**
Acceptances and guarantees (Note 17)	**59,964**	72,947	**564,899**
Total liabilities	**4,472,805**	4,381,675	**42,136,646**
Stockholders' equity (Notes 16 and 24):			
Common stock, par value ¥50 per share:			
Authorized — 600,000 thousand shares			
Issued — 200,000 thousand shares	**10,006**	10,006	**94,263**
Additional paid-in capital	**376**	376	**3,542**
Legal reserve	**10,006**	10,006	**94,263**
Revaluation reserve for land, net of tax (Note 15)	**28,912**	29,115	**272,369**
Retained earnings	**215,186**	212,943	**2,027,188**
Total stockholders' equity	**264,486**	262,446	**2,491,625**
Total liabilities and stockholders' equity	**¥4,737,291**	¥4,644,121	**$44,628,271**

See accompanying notes.

The Yamaguchi Bank, Ltd.

NON-CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Income:			
Interest on loans and discounts	¥ 65,981	¥ 74,123	$ 621,584
Interest and dividends on securities	27,702	30,861	260,970
Other interest	1,857	7,410	17,494
Fees and commissions	8,520	8,307	80,264
Trading income	1	—	9
Other operating income (Note 18)	10,335	2,794	97,362
Other income (Note 19)	2,863	9,421	26,971
Total income	117,259	132,916	1,104,654
Expenses:			
Interest on deposits	13,985	28,019	131,748
Interest on borrowings and rediscounts	1,645	2,390	15,497
Other interest	10,288	13,318	96,919
Fees and commissions	3,087	3,070	29,081
Trading expenses	92	—	867
Other operating expenses (Note 20)	3,715	1,265	34,998
General and administrative expenses (Note 21)	46,138	45,414	434,649
Other expenses (Note 22)	32,132	33,694	302,704
Total expenses	111,082	127,170	1,046,463
Income before income taxes	6,177	5,746	58,191
Income taxes (Note 23):			
Current	12,045	14,548	113,472
Deferred	(9,461)	(10,434)	(89,129)
Net income	3,593	1,632	33,848
Retained earnings at beginning of year	212,943	195,475	2,006,057
Cumulative effect of initial application of deferred income tax accounting	—	17,276	—
Deductions:			
Cash dividends paid	1,300	1,400	12,246
Bonuses to directors and statutory auditors	50	40	471
Retained earnings at end of year	¥215,186	¥212,943	$2,027,188

	Yen		U.S. dollars (Note 1)
	2000	1999	2000
Amounts per share of common stock:			
Net income	¥17.96	¥8.15	$0.17
Cash dividends applicable to the year	6.50	7.00	0.06

See accompanying notes.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF FINANCIAL STATEMENTS

The Yamaguchi Bank, Ltd. (the "Bank") maintains its records and prepares its financial statements in Japanese yen.

The Bank prepares financial statements in accordance with accounting principles and prevailing practices generally accepted in the banking industry in Japan, which are different from the accounting and disclosure requirements of the International Accounting Standards.

The accompanying non-consolidated financial statements have been translated from the non-consolidated financial statements that are prepared for Japanese domestic purposes, in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Minister of Finance and stock exchanges in Japan. Certain modifications have been made in the accompanying non-consolidated financial statements to facilitate understanding by readers outside Japan.

The non-consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The non-consolidated financial statements report only the accounts of the Bank. The accounts of its subsidiaries are not consolidated. Investments in subsidiaries and affiliated companies are stated at cost.

Trading assets, trading liabilities and transactions for trading purposes

The valuation method of "Trading assets" and "Trading liabilities" held by the Bank is as follows:

Balances incurred by transactions whose purpose is to earn a profit by taking advantage of short-term fluctuations in a market or discrepancies in different markets of interest rates, currency exchange rates, share prices or other indices (hereinafter referred to as "trading purposes") are included in "Trading assets" or "Trading liabilities" on the non-consolidated balance sheets as of the date on which the transactions have been contracted.

Trading assets and trading liabilities are valued, in the case of securities and commercial paper, etc., at the market value as of the date of the balance sheet and, in the case of derivatives, including swaps, futures and options, at the amount due if the transactions were to be settled as of the date of the balance sheet.

"Trading income" and "Trading expenses" include interest received or paid in the fiscal year and gains or losses resulted from the valuation of securities, commercial paper, derivatives, etc. which are included in "Trading assets" or "Trading liabilities."

However, as the trading accounts were established effective April 1, 1999, "Trading income" and "Trading expenses" of this fiscal year include gains and losses on such trading assets and liabilities which would have been reflected in the non-consolidated statement of income and retained earnings for the preceding year if the trading accounts had been established for the preceding year.

As a result of the establishment of the trading accounts as defined under Article 17-2 of the Banking Law of Japan, total assets and total liabilities increased by ¥466 million ($4,390 thousand) and ¥464 million ($4,371 thousand), respectively.

The effect of the establishment of trading accounts and changes in accounting explained above is summarized as follows:
Total income decreased by ¥88 million ($829 thousand), Total expenses decreased by ¥90 million ($848 thousand), and Income before income taxes increased by ¥2 million ($19 thousand).

Trading account securities

Listed trading account securities are valued at the lower of moving-average cost or market value, and unlisted trading account securities are valued at moving-average cost. The Bank records recoveries of write-downs of securities.

Securities

Debentures, shares and certain other securities which are listed, including securities in money held in trust account, are stated at the lower of moving-average cost or market value. The other securities including those in money held in trust are stated at moving-average cost. The Bank records recoveries of write-downs of securities.

Effective from the year ended March 31, 2000, the allowance for losses on sale of securities is presented as a valuation account for securities and is included in other assets on the non-consolidated balance sheet. The prior year's amount, which was included in other liabilities in the liability section, has been reclassified to conform to the 2000 presentation. This change decreased assets and liabilities at March 31, 2000 by ¥367 million ($3,457 thousand).

Reserve for possible loan losses

The Bank provides reserve for possible loan losses according to the following write-off/reserve standards.

For loans to borrowers who are legally bankrupt (due to bankruptcy, composition, suspension of transactions with banks by the rules of clearinghouses, etc.) or virtually bankrupt, a reserve is provided based on the amount of loans net of amounts expected to be collected through disposition of collateral or through execution of guarantees.

For loans to borrowers threatened with bankruptcy, a reserve is provided in the amount of loans net of amounts expected to be collected through disposition of collateral or through execution of guarantees, and as considered to be necessary based on a solvency assessment.

Loans to normal borrowers and borrowers requiring caution are classified into certain groups, and a reserve is provided for each group using the rate of loan losses experienced for the group during certain reference periods in the past.

A reserve for loans to borrowers in certain foreign countries is provided based on the amount of estimated losses resulting from the political and economic situations of the countries.

All branches and the credit supervision department evaluate all loans in accordance with the self-assessment rule, and their evaluations are audited by the asset audit section, which is independent from branches and credit supervision department, and the evaluations are revised as required based on the audits.

Effective from the year ended March 31, 2000, the reserve for possible loan losses is presented as a valuation account on the non-consolidated balance sheet. This decreased the assets and the liabilities by ¥101,589 million ($957,032 thousand).

Property and equipment

Property and equipment are stated at cost less accumulated depreciation, except for certain revalued land.

Depreciation of property and equipment is computed by the declining-balance method as stipulated by the Japanese Corporation Tax Law except for buildings acquired after March 31, 1998, which are depreciated using the straight-line method.

As explained in Note 15, pursuant to the Law concerning Revaluation of Land, certain land used for business operations was revalued at fair value on March 31, 1998.

Software costs

In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc."(the "Report"), the Bank accounts for software which was included in long-term prepaid expenses in investments and other in the same manner in 2000 as in 1999.

Accounting for certain lease transactions

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Income taxes

The Bank recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the non-consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998, when the Bank adopted the tax effect accounting, is reflected as a credit adjustment of ¥17,276 million to the retained earnings brought forward from March 31, 1998.

Foreign currency translation

Assets and liabilities denominated in foreign currencies and all accounts of the overseas branches are translated into Japanese yen at the exchange rate prevailing at the end of each fiscal year.

Reserve for retirement allowances and pension plan

Accounting policies — Under the terms of the Bank's retirement plan, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement allowances is, in general, based on the length of service, base salary at the time of retirement and cause of retirement. Reserve for retirement allowances is stated at the amount which would be required if all employees voluntarily terminated their employment as of the balance sheet date.

In addition, the Bank has a contributory funded pension plan covering substantially all employees. The past service costs were fully amortized as of March 31, 2000. The Bank also introduced the tax qualified pension plan on April 1, 1995, and its past service costs have been amortized over 7 years.

Change in accounting policies — Effective April 1, 1999, the Bank changed the method of accounting for prior service costs from expensing such costs to the extent and when paid to the pension fund, to the method of charging such costs as they are incurred. The prior year's non-consolidated financial statements were not restated.

The change was made to attain more appropriate cost allocation with the intent to improve the finance of the pension fund and in light of the trustee's report on the performance of the pension fund and the change made by the Bank in 2000 in the discount rates used for actuarial calculations.

The effect of the change in the accounting method decreased income before income taxes by ¥2,831 million ($26,670 thousand) and increased the liabilities by the same amount.

Amounts per share of common stock

Computations of net income per share of common stock are based on the weighted-average number of shares outstanding during each year.

The diluted net income per share is not presented, since the Bank has never issued any securities with dilutive effect.

Cash dividends per share represent the cash dividends declared as applicable to each year.

3. TRADING ASSETS

Trading assets as of March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Trading account securities	¥1,804	$16,995
Derivative financial instruments	77	725
Other trading assets	1,000	9,421
	¥2,881	$27,141

4. TRADING ACCOUNT SECURITIES

Trading account securities held by the Bank at March 31, 1999 consisted of national government bonds.

5. SECURITIES

Securities held by the Bank at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
National government bonds	¥386,355	¥347,410	$3,639,708
Local government bonds	223,842	182,745	2,108,733
Debentures	116,366	186,613	1,096,241
Shares	68,168	66,718	642,186
Other securities	99,327	105,068	935,723
	¥894,058	¥888,554	$8,422,591

6. MARKET VALUE INFORMATION AND DERIVATIVES

At March 31, 2000 and 1999 the net unrealized gains of trading account securities and securities having market values were ¥64,041 million ($603,307 thousand) and ¥68,348 million, respectively.

The Bank enters into financial derivative transactions such as forward exchange contracts, currency swaps, interest rate swaps, and bond futures to hedge its assets or liabilities against interest rate risk and foreign exchange risk, as well as to meet customer needs.

The principal risks inherent in derivative transactions are market risk such as foreign exchange and interest rate fluctuations, and credit risk. At March 31, 2000 and 1999 the quantified amount of credit risk equivalents, which is calculated by the current exposure method in accordance with international standards for capital ratio computations were ¥7,307 million ($68,837 thousand) and ¥9,429 million, respectively. To cope with these risks, the Bank is putting emphasis on establishing internal control structures performing position control and asset-liability management in accordance with its guideline.

As to financial derivatives traded over the counter, the notional principal amounts of the Bank at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Interest rate swaps	¥328,580	¥330,582	$3,095,431
Interest rate options	—	1,205	—
Currency swaps	259,644	470,868	2,446,010
Forward exchange	20,503	15,962	193,151

The forward exchange contracts shown above were marked to market and their unrealized gains or losses were reflected in the current earnings.

At March 31, 2000 and 1999, out of the currency swaps, the contract value for foreign exchange swaps (cash-related swaps) transacted for the purpose of fund procurement and management in non-yen currencies was ¥227,724 million ($2,145,304 thousand) and ¥444,180 million, respectively.

7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Bills discounted	¥ 141,505	¥ 147,403	$ 1,333,066
Loans on notes	532,769	558,189	5,019,020
Loans on deeds	1,570,256	1,553,253	14,792,803
Overdrafts	829,079	807,148	7,810,448
	¥3,073,609	¥3,065,993	$28,955,337

Loans at March 31, 2000 and 1999 include "Risk-Managed Loan Amounts" such as (1) loans to borrowers in bankruptcy amounting to ¥42,696 million ($402,223 thousand) and ¥25,853 million, respectively, (2) other delinquent loans amounting to ¥22,573 million ($221,651 thousand) and ¥16,468 million, respectively, (3) loans past due for three months or more amounting to ¥1,680 million ($15,827 thousand) and ¥3,935 million, respectively and (4) restructured loans amounting to ¥86,687 million ($816,646 thousand) and ¥34,951 million, respectively.

(1) Loans to borrowers in bankruptcy denote loans to borrowers subject to corporate reorganization proceedings, composition, bankruptcy, special liquidation proceedings or similar proceedings, on which the Bank has stopped accruing interest under the Japanese tax law.

(2) Other delinquent loans denote loans on which the Bank has stopped accruing interest under the Japanese tax law.

(3) Loans past due for three months or more denote loans where payment of interest or principal is delayed for three months or more.

(4) Restructured loans denote loans to borrowers for which the repayment terms have been modified to more favorable terms including reduction of interest rate, provision of grace periods and debt forgiveness with the objective of promoting recovery of borrowers in economic difficulty.

In addition the Bank stopped accruing interest based on the results of self-assessment, and loans to borrowers in bankruptcy increased by ¥880 million ($8,290 thousand) and other delinquent loans increased by ¥1,049 million ($9,882 thousand) as compared with previous year.

8. FOREIGN EXCHANGE ASSETS AND LIABILITIES

Foreign exchange assets and liabilities at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Foreign exchange assets:			
Due from foreign banks	¥1,943	¥2,004	$18,304
Foreign bills of exchange bought	1,522	1,972	14,338
Foreign bills of exchange receivable	2,288	2,227	21,555
	¥5,753	¥6,203	$54,197

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Foreign exchange liabilities:			
Due to foreign banks	¥ 3	¥ 40	$ 28
Foreign bills of exchange sold	28	34	264
Foreign bills of exchange payable	1	2	9
	¥ 32	¥ 76	$ 301

9. OTHER ASSETS

Other assets at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Domestic exchange settlement account, debit	¥ 26	¥ 64	$ 245
Prepaid expenses	11	18	103
Accrued income	8,154	10,751	76,816
Allowance for losses on sale of securities	(367)	(611)	(3,457)
Other	5,014	5,301	47,235
	¥12,838	¥15,523	$120,942

10. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Land	¥ 60,374	¥ 59,952	$ 568,761
Buildings	39,837	37,378	375,290
Equipment	18,354	17,848	172,906
Construction in progress	—	813	—
	118,565	115,991	1,116,957
Less accumulated depreciation	41,738	40,492	393,198
	76,827	75,499	723,759
Lease deposits	843	917	7,941
	¥ 77,670	¥ 76,416	$ 731,700

11. PLEDGED ASSETS

At March 31, 2000, the following assets were pledged as collateral for certain liabilities of the Bank.

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Securities	¥97,800	$921,337

Obligation the collateral was pledged to secure:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Deposits	¥85,594	$806,349
Call money	5,307	49,995

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as, foreign exchange contracts and forward exchange contracts. These securities amounted to ¥164,737 million ($1,551,926 thousand) at March 31, 2000.

12. DEPOSITS

Deposits at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Current deposits	¥ 153,872	¥ 156,237	$ 1,449,571
Ordinary deposits	983,838	853,506	9,268,375
Deposits-at-notice	72,211	61,348	680,273
Time deposits	2,731,521	2,675,119	25,732,652
Other deposits	319,048	455,537	3,005,634
Certificates of deposit	890	—	8,385
	¥4,261,380	¥4,201,747	$40,144,890

13. BORROWED MONEY

Borrowed money at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Bills rediscounted	¥ 210	¥ 430	$ 1,978
Loans from banks	21,320	17,154	200,848
	¥21,530	¥17,584	$202,826

14. OTHER LIABILITIES

Other liabilities at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Domestic exchange settlement account, credit	¥ 345	¥ 282	$ 3,250
Income taxes	5,098	7,522	48,026
Accrued expenses	12,171	15,603	114,659
Unearned income	3,676	3,667	34,630
Employees' deposits	1,518	1,619	14,301
Other	64,892	13,193	611,323
	¥87,700	¥41,886	$826,189

15. REVALUATION RESERVE FOR LAND

Pursuant to the Law concerning Revaluation of Land (the "Law") effective March 31, 1998, the Bank revalued certain land used for business operations at fair value of ¥60,264 million (the original book value was ¥9,897 million) as of March 31, 1998, and the related net unrealized gain of ¥50,367 million was reported in liabilities as "Revaluation reserve for land." Effective March 31, 1999, the Law has been revised for presentation of the unrealized gain. In accordance with the revised Law, net unrealized gain reported in liabilities was reclassified in a separate component of stockholders' equity net of applicable income taxes as "Revaluation reserve for land (¥29,115 million), net of tax (¥20,859 million)" as of March 31, 1999. Such amounts in the non-consolidated balance sheet as of March 31, 2000, are decreased due to sale of a part of the revalued land in the year then ended. According to the revised Law, the Bank is not permitted to revalue the land at any time even in case that the fair value of the land declines. Such unrecorded revaluation loss as of March 31, 2000 was ¥6,777 million ($63,843 thousand).

16. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be credited to common stock. The portion which is to be credited to common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts credited to common stock are credited to additional paid-in capital.

The Japanese Banking Law provides that certain amount of retained earnings equal to at least 20% of cash dividends and bonuses to directors and statutory auditors should be set aside as a legal reserve until such reserve equals 100% of the issued capital. The reserve is not available for dividends, but may be used to reduce a capital deficit by resolution of the stockholders' meeting or capitalized by resolution of the Board of Directors.

17. CONTINGENT LIABILITIES — ACCEPTANCES AND GUARANTEES

All contingent liabilities including letters of credit, acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown on the asset side, which represent the Bank's right of indemnity from customers.

18. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Gain on foreign exchange transactions	¥ 336	¥ 439	$ 3,165
Gain on sale of bonds	9,697	2,003	91,352
Gain on redemption of bonds	302	352	2,845
	¥10,335	¥2,794	$97,362

19. OTHER INCOME

Other income for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Gain on sale of shares and other securities	¥1,866	¥7,145	$17,579
Gain on money held in trust	21	1,241	198
Gain on disposal of property and equipment	46	227	433
Recoveries of written-off claims	15	10	141
Other	915	798	8,620
	¥2,863	¥9,421	$26,971

20. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Losses on sale of bonds	¥3,090	¥ 392	$29,110
Losses on redemption of bonds	563	809	5,304
Losses on devaluation of bonds	62	21	584
Other	—	43	—
	¥3,715	¥1,265	$34,998

21. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Employee compensation	¥21,951	¥22,069	$206,792
Depreciation	2,629	2,381	24,767
Rental expense	3,053	2,699	28,761
Communications	1,378	1,357	12,982
Supplies	1,086	987	10,231
Taxes	2,397	2,304	22,581
Other	13,644	13,617	128,535
	¥46,138	¥45,414	$434,649

22. OTHER EXPENSES

Other expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Provision for reserve for possible loan losses	¥25,855	¥28,397	$243,571
Written-off claims	3	36	28
Losses on sale of stocks and other securities	19	1,328	179
Losses on devaluation of shares and other securities	1,750	2,571	16,486
Provision for loss on investments	—	611	—
Losses on money held in trust	1,158	376	10,909
Losses on disposal of property and equipment	171	198	1,611
Amortization of prior service cost	2,894	—	27,263
Other	282	177	2,657
	¥32,132	¥33,694	$302,704

23. INCOME TAXES

The Bank is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 48% for the year ended March 31, 1999. Effective April 1, 1999, the statutory tax rate is reduced to approximately 41%.

The following table summarizes the significant differences between the statutory tax rate and the Bank's effective tax rate for financial statement purposes for the year ended March 31, 1999. Reconciliation of the statutory tax rate and the Bank's effective tax rate for the year ended March 31, 2000 was not required due to small difference.

	1999
Statutory tax rate	48.0%
Non-deductible expenses (entertainment expense, etc.)	3.3
Non-taxable income (dividend income, etc.)	(6.2)
Effect of lower tax rate in next year	27.2
Other	(0.7)
Effective tax rate	71.6%

Significant components of deferred tax assets and liabilities as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Reserve for possible loan losses	¥31,465	¥23,174	$296,420
Accrued bonuses	394	207	3,712
Enterprise tax	441	639	4,154
Retirement benefits	1,438	1,438	13,547
Depreciation	1,329	1,471	12,520
Amortization of prior service cost	1,181	—	11,126
Other	923	781	8,695
	¥37,171	¥27,710	$350,174
Deferred tax liabilities for revaluation reserve for land	¥20,714	¥20,859	$195,139

24. SUBSEQUENT EVENTS

On June 29, 2000, the stockholders of the Bank authorized the following appropriations of retained earnings at March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥3.25 per share	¥650	$6,123
Bonuses to directors and statutory auditors	50	471

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Report of Independent Public Accountants

To the Stockholders and the Board of Directors of THE YAMAGUCHI BANK, LTD.:

We have audited the accompanying non-consolidated balance sheets of THE YAMAGUCHI BANK, LTD. (a Japanese corporation) as of March 31, 2000 and 1999, the related non-consolidated statements of income and 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 YAMAGUCHI BANK, LTD. as of March 31, 2000 and 1999, 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 during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2000, THE YAMAGUCHI BANK, LTD. prospectively adopted new Japanese accounting standards for research and development costs. Also, THE YAMAGUCHI BANK, LTD. changed the method of accounting for prior service costs, effective April 1, 1999, as referred to in Note 2, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying non-consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

A Member Firm of Andersen Worldwide SC

Tokyo, Japan
June 29, 2000

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 consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

- General Meeting of Stockholders
  - Corporate Auditors
  - Board of Corporate Auditors
  - Board of Directors
    - Executive Committee
    - President
      - Personnel Dept.
      - Audit and Inspection Dept.
      - Planning and Research Dept.
      - Business Promotion and Administration Dept.
        - Head Office Business Dept.
        - Domestic Branches (139)
          - Sub-Branch Offices (23)
        - Pusan Branch
        - Hong Kong Branch
        - Qingdao Branch
        - Dalian Branch
      - Public Affairs and Business Relations Dept.
        - Customer Consultation Offices (8)
      - Credit Supervision Dept.
      - Consumer Loan Dept.
      - Capital Markets and Treasury Department
      - Market and Business Administration Department
      - International Dept.
        - Bangkok Representative Office
        - Jakarta Representative Office
      - Systems Development and Administration Dept.
      - Data Processing Dept.
        - Regional Processing Centers (9)
      - General Affairs Dept.
        - Customer Relations Center
      - Public Relations Office
      - Secretariat
      - Tokyo Liaison Office
      - Kitakyushu Headquarters

(As of June 30, 2000)

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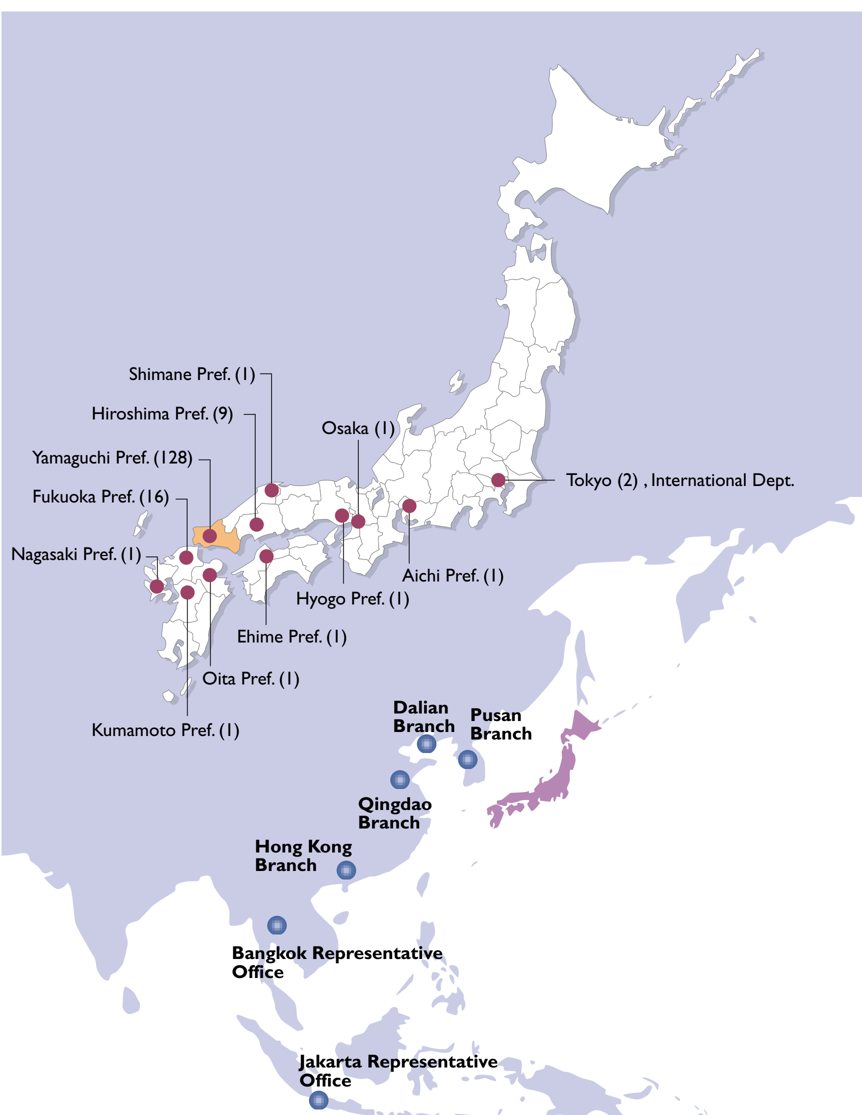
14th Floor, Wisma Nugra Santana
Jl. Jend. Sudirman Kav.
7-8, Jakarta 10220, Indonesia
Fax: 21-5704984

Offices Handling Foreign Exchange Business

Oshima Branch	278-4, Komatsu, Oshima-cho, Oshima-gun, Yamaguchi Pref.
Tabuse Branch	332-6, Hano, Tabuse-cho, Kumage-gun, Yamaguchi Pref.
Iwakuni Branch	8-4, 2-chome Marifu-cho, Iwakuni, Yamaguchi Pref.
Tokuyama Branch	1, 1-chome Sakurababa-dori, Tokuyama, Yamaguchi Pref.
Moji Branch	3-4, 2-chome Kiyotaki, Moji-ku, Kitakyushu
Ube Branch	1-1, 1-chome Shinten-cho, Ube, Yamaguchi Pref.
Kobe Branch	5-9, 2-chome Shimo-Yamatedori, Chuo-ku, Kobe
Hiroshima Branch	8-2, Kami-Hatchobori, Naka-ku, Hiroshima
Nagoya Branch	11-11, 1-chome Sakae, Naka-ku, Nagoya
Fukuoka Branch	8-27, Tenya-machi, Hakata-ku, Fukuoka
Kitakyushu Branch	1-10, 1-chome Sakai-machi, Kokurakita-ku, Kitakyushu
Fukuyama Branch	8-18, Nobuhiro-cho, Fukuyama, Hiroshima Pref.
Shinjuku Branch	19-3, 8-chome Nishi-Shinjuku, Shinjuku-ku, Tokyo

Yamaguchi Branch	5-8, Nakaichi-machi, Yamaguchi, Yamaguchi Pref.
Onoda Branch	4-5, 2-chome Chuo, Onoda, Yamaguchi Pref.
Hagi Branch	16-1, Higashi-Tamachi, Hagi, Yamaguchi Pref.
Kure Branch	5-8, 2-chome Nakadori, Kure, Hiroshima Pref.
Yahata Branch	5-19, 1-chome Kurosaki, Yahatanishi-ku, Kitakyushu
Hofu Branch	10-1, Ekinan-cho, Hofu, Yamaguchi Pref.
Nagasaki Branch	2-3, Motofuna-machi, Nagasaki, Nagasaki Pref.
Kumamoto Branch	1-4, 4-chome, Ooe, Kumamoto, Kumamoto Pref.
Karato Branch	23-1, Nabe-cho, Shimonoseki, Yamaguchi Pref.
Hikari Branch	4-12, 4-chome Chuo, Hikari, Yamaguchi Pref.
Kurume Branch	6-10, Higashi-machi, Kurume, Fukuoka Pref.
Tobata Branch	8-23, Saiwai-cho, Tobata-ku, Kitakyushu
Matsuyama Branch	8-2, 3-chome Sanban-cho, Matsuyama, Ehime Pref.
Hakataeki Higashi Branch	5-1, 2-chome Hakataeki Higashi, Hakata-ku, Fukuoka
Oita Branch	8-13, 3-chome Otemachi, Oita, Oita Pref.
Yanai Branch	9-14, 2-chome Chuo, Yanai, Yamaguchi Pref.
Akasakamon Branch	2-8, 2-chome Maizuru, Chuo-ku, Fukuoka
Chofu Branch	7-6, Doinouchi-cho, Chofu, Shimonoseki, Yamaguchi Pref.



Subsidiaries and Affiliates

• Subsidiaries

SANYU CO., LTD.
Rental and maintenance of land and buildings

YAMAGUCHI BUSINESS SERVICE CO., LTD.
Cash management and settlement service

THE SANYU SOHGOH INSURANCE SERVICE LTD.
Insurance agency

YAMAGUCHI REAL ESTATE CO., LTD.
Real estate operation

SANYU FREMANTLE HOUSE. PTY, LTD.
Welfare facility management

• Affiliated Companies

YAMAGIN JCB CO., LTD.
Credit card services

YAMAGIN CREDIT CO., LTD.
Credit card services

YAMAGIN DC CO., LTD.
Credit card services

YAMAGUCHI LEASE CO., LTD.
Leasing

YAMAGUCHI MORTGAGE CO., LTD.
Mortgage loan sales

YAMAGUCHI CAPITAL CO., LTD.
Venture Capital

• Other Organizations

YAMAGUCHI ECONOMIC RESEARCH INSTITUTE
Regional economic trend analysis

YAMAGUCHI BANK REGIONAL ENTERPRISE SUPPORT FUND FOUNDATION
Assistance for local companies

(As of June 30, 2000)

Domestic
Head office and branches 140
Sub-Branch offices 23
Overseas
Overseas branches 4
Overseas representative offices 2

Regional Bank:
An appellation given to banks that have principal operational bases in specific regions and maintain close ties with local communities. The Yamaguchi Bank is a regional bank that has its main operational base in Yamaguchi Prefecture and the two adjoining prefectures. The Bank plays a pivotal role in the circulation mechanism of regional funds.

THE YAMAGUCHI BANK, LTD.

Printed in Japan