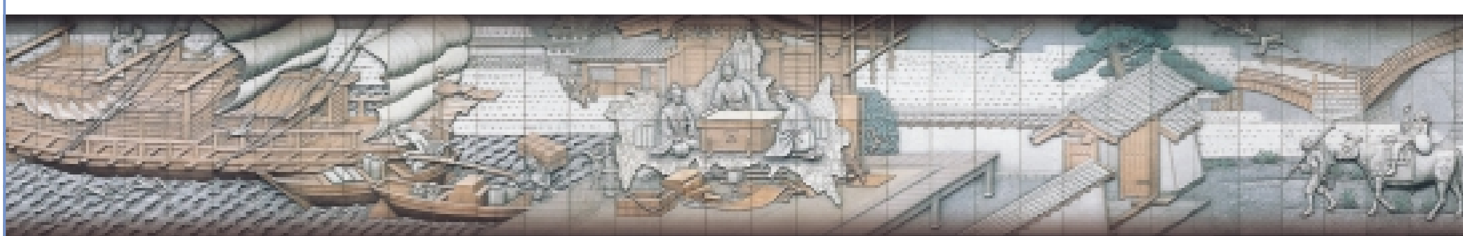
YAMAGUCHI BANK



ANNUAL REPORT 2001

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 137 branches and 26 sub-branches. The Bank maintains four overseas branches in Pusan, Hong Kong, Qingdao and Dalian, 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 one of 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

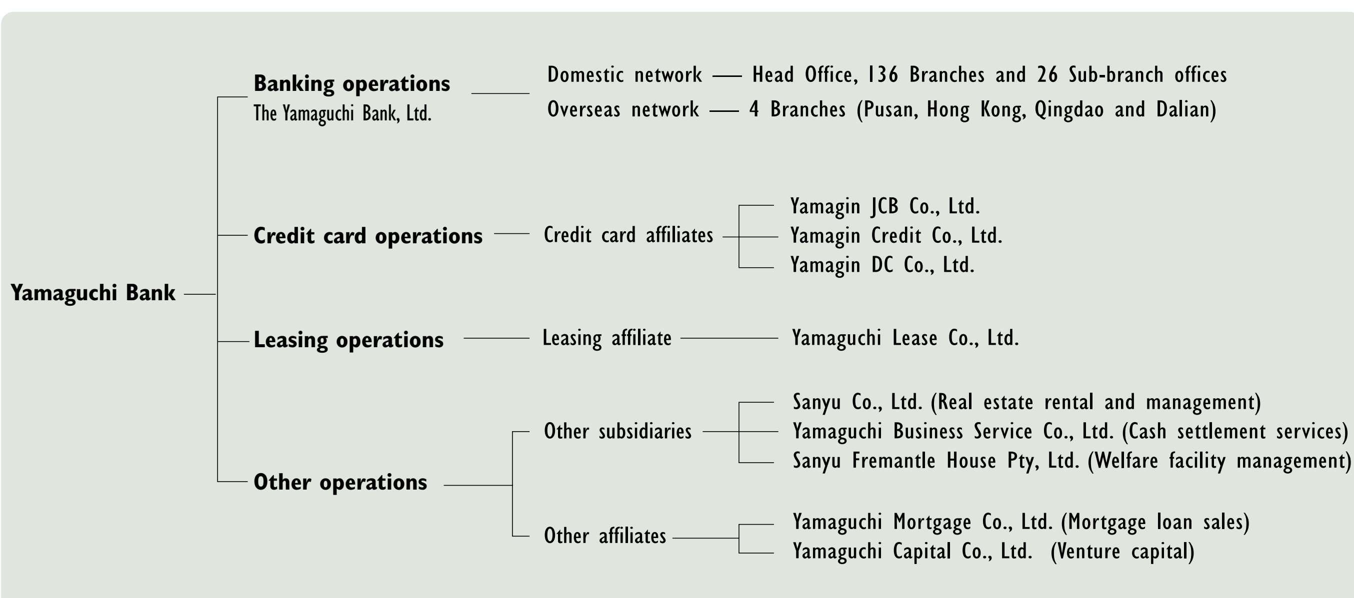
CONSOLIDATED FINANCIAL HIGHLIGHTS

(Years ended March 31)	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars* 2001
For the Year:			
Total Income	¥ 117,310	¥ 117,477	$ 946,812
Total Expenses	106,188	111,275	857,046
Income Before Income Taxes	11,122	6,202	89,766
Net Income	6,792	3,612	54,818
At Year-End:			
Total Assets	4,525,797	4,738,553	36,527,821
Deposits	4,024,282	4,260,867	32,480,081
Loans and Bills Discounted	2,968,344	3,072,784	23,957,579
Securities	898,483	894,145	7,251,679
Stockholders' Equity	304,489	266,204	2,457,538
Capital Adequacy Ratio	11.77%	11.34%	
Per Share (in Yen and U.S. Dollars):			
Net Income	33.96	18.06	0.27
Dividends	6.50	6.50	0.05

* U.S. dollar amounts have been translated, for convenience only, at the rate of ¥123.90=US$1.00 as of March 30, 2001.

Yamaguchi Bank Group

The Yamaguchi Bank's group consists of the parent bank, 3 subsidiaries, and 6 affiliated companies. Centered on the banking business, the group caters to the whole range of financial and transaction-related needs of the regional community, including credit card and leasing operations. By pooling its resources, the group is able to offer its customers a truly comprehensive financial service.



Kozo Tanaka
President

Operating Environment

The Japanese economy moved onto a modest recovery track during the term under review, but was unable to achieve a full-scale recovery owing to a number of factors. These included a decline in exports caused principally by the slowing of the U.S. economy, and the sluggishness of consumer spending resulting from persistently severe employment and incomes conditions. The financial sector, meanwhile, was undergoing change at a startling pace, exemplified by the forging of alliances across industry boundaries, the emergence of dedicated Internet banks sparked by the advance of information technology, and the appearance of new products and services. It is expected that financial institutions will be engaged in an increasingly ferocious struggle for survival.

Consolidated Performance

Amid this business environment, we were able to achieve the following consolidated results in the year ended March 31, 2001.

Total assets stood at ¥4,525.8 billion (US$36,528 million) at the end of the term, representing a decline of ¥212.8 billion (US$1,717 million) from the previous year. Shareholders' equity increased by ¥38.3 billion, to ¥304.5 billion (US$2,458 million) at term-end.

Total income (recurring income plus extraordinary income) slipped by ¥166 million to ¥117.31 billion (US$947 million), while net income increased by ¥3.18 billion from the previous year, reaching ¥6,792 million (US$55 million).

In deposit-taking activities we engaged in vigorous marketing attuned to local needs, with the result that personal deposits showed a favorable increase, while at the same time we reduced low-margin large-lot time deposits. Primarily as a result of this, total deposits declined by ¥236.6 billion, to ¥4,024.3 billion (US$32,480 million) at the end of the term.

Loans increased sharply, particularly loans to individuals. However, principally because loans to local government institutions declined, and loans were sold off as part of the final disposal of bad debts, the total balance of loans outstanding fell by ¥104.5 billion, to ¥2,968.3 billion (US$23,958 million) at term-end.

In our securities investments we reduced our holdings of national and regional government bonds, and the value of equity holdings rose owing to valuation gains resulting from the introduction of fair value accounting. In consequence, securities holdings rose by ¥4.3 billion, to a year-end balance of ¥898.5 billion (US$7,252 million).

Cash flow from operating activities fell ¥283.5

billion, primarily because of the decline in deposits, though factors such as securities sales pushed up cash flow from investment activities by ¥9.5 billion. Cash flow from financing activities declined by ¥1.3 billion. The net effect of these changes was that the total year-end balance of cash and cash equivalents fell by ¥148.3 billion, to ¥68.1 billion (US$550 million).

The Bank's consolidated capital ratio measured by the uniform international standard rose by 0.43 of a percentage point from the previous year, to 11.77%, and the ratio of Tier I capital increased by 0.14 of a point, to 8.91%.

The Bank paid a final dividend of ¥3.25 per share of common stock. Together with the interim dividend, also of ¥3.25 per share, the total dividend for the year was ¥6.5.

Fiscal 2000 in Review

During the year under review, progress was made with the formulation of the Bank's second Long-Term Vision, a 10-year plan whose target is to enhance corporate value. The first phase, the 9th 3-Year Plan, began in April 2001. In line with the plan's vision of identifying customer needs accurately, providing optimum services, and acting as a "financial agent" for the local region, the Bank will form ties with other financial institutions and institutions with advanced financial know-how, and continue to do its utmost to develop and provide customers more swiftly with financial products and services carefully tailored to their needs.

Business promotion will also be strengthened. To ensure a prompter and smoother process for credit decisions and the proper supply of financial services and information tailored to the local region, the Kitakyushu Headquarters (Fukuoka Prefecture) was established in June 2000, followed by the Tokyo Headquarters in April 2001. A noteworthy aspect of the activities of the Kitakyushu Headquarters was the establishment, in November 2000, of MAG-Net Kitakyushu, composed of some 280 corporate customers, the objectives of which include interaction between different industries in the Kitakyushu region, business interchange, and information exchanges.

In addition, the International Department at head office has set up the Asian Trade & Investment Advisory Office, so as to enhance the support structure for customers considering operating overseas, particularly in Asia. Support is also given to venture businesses. For example through the Yamaguchi Venture Forum, a forum for industrial interchange established in 1997 with the support of the Yamaguchi prefectural government and Yamaguchi University, the Bank works actively to nurture local companies and strengthen their operating base by such means as product development, the development of marketing channels, the acquisition of ISO certification, and the use of patents.

In fiscal 2000 we substantially enhanced the comprehensiveness of our financial capabilities. Steps included the start of 365-day operation of our cash dispensers and ATMs, the addition of transfers and remittances ordered by i-mode mobile phones through our Internet mobile banking service, and the widening of our telephone banking service menu to include the continuation and termination of passbook time deposits and the purchase and cancellation of investment trusts.

Outlook for Fiscal 2001

Both long and short-term interest rates remain low, but we are projecting an increase in net income in fiscal 2001, owing primarily to factors such as a decline in provisions to the general reserve for possible loan losses.

For our consolidated results for the fiscal 2001 full term, we are projecting net income of ¥7.6 billion, which would represent an increase of ¥808 million from the previous term.

For the term as a whole, we are planning to pay a total dividend per share on a non-consolidated basis of ¥6.5.

Management Policies

The Bank's fundamental management philosophy is to act in accordance with the principle of accountability, based on the three guiding concepts of public welfare, security, and profitability, which together form the foundation of the banking management. Guided by this, we endeavor constantly to reinforce our corporate strength by such means as maintaining the soundness of assets and improving operating efficiency.

In April 2001 we inaugurated our 9th 3-Year Plan, targeted at enhancing corporate value. During the plan's period from fiscal 2001 to fiscal 2003, our aim is to build strong relationships of trust between every one of our employees and their customers, and to become the principal "financial agent" for the local region.

The following are the main measures under the plan.

[1] Rebuilding our business development structure
- Establishing a customer-focused marketing structure
- Strengthening information-based marketing
- Establishing a structure for area-specific business promotion

[2] Creating a risk and earnings management structure
- Creating an integrated earnings management structure
- Strengthening investment capacity and increasing non-interest income

[3] Reallocating management resources
- Ensuring optimum allocation of scarce resources by means of selection and concentration
- Reducing business processing costs

[4] Personnel development
- Increasing orientation towards results, stressing the importance of duties and specialized expertise
- Devising personnel development programs designed to enhance employee capabilities

In addition, we will swiftly address system changes such as the ending (in April 2002) of the current system of unlimited guarantees on bank deposits, the start of handling insurance products, and the introduction of defined contribution pension plans.

In Conclusion

Throughout its history, the Bank has prided itself on providing a financial service finely tailored to the needs of its customers in the region, thereby supporting the development of the local community. Based on the trust that we have built up over the more than 120 years of our history, we are determined to enhance corporate value still further by selecting and concentrating management resources, and strengthening our structures for marketing and for risk and earnings management.

In spite of the very difficult operating environment, we will maintain our efforts to harness the combined strengths of the Group and win the support and goodwill of our shareholders and all our stakeholders. We will devote our utmost efforts to that end, and we hope that you will continue to honor us with your support.

K. Tanaka

Kozo Tanaka
President
July 2001

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 2001), representing one of the Bank's main activities. Additionally, the Bank plays an important role in the fund procurement of regional public bodies, including the underwriting of regional government bonds.

The Bank also provided full-scale support for a major project in Yamaguchi Prefecture — "Japan Expo Yamaguchi 2001," being held from July 14 to September 30, 2001. The Bank's own pavilion, named the Karakuri Dream Theater, covers a thousand square meters, and is making a significant contribution to the success of the exposition as a whole thanks to the large numbers of visitors it is attracting.

The Bank also contributes to the ongoing development of the region in other ways, including support for a variety of local events and projects.

* The Yamaguchi Economic Research Institute, which was established in commemoration of the Bank's 30th anniversary in 1974, engages in research on the prefecture's economy and industrial trends, holds lecture meetings and carries out research projects commissioned by various industries.

* The Yamaguchi Bank Regional Enterprise Support Foundation, which was established on the occasion of the Bank's 40th anniversary in 1984, has made a notable contribution over the years to the nurturing of small and medium-sized business, and has helped to support healthy economic growth in the region, with annual commendations of and assistance to small and medium-sized companies in Yamaguchi Prefecture. In April 2001, the Foundation was renamed the Yamagin Regional Enterprise Support Foundation, and the location of companies eligible for the Foundation's commendations has been expanded to include Hiroshima and Fukuoka prefectures.

* Yamaguchi Capital Co., Ltd., established jointly with other regional financial institutions in Yamaguchi Prefecture in 1996 as the prefecture's first venture capital company, provides venture start-ups with the initial capital they need through direct investment.

* The Yamaguchi Venture Forum, established in 1997 by the Bank with the cooperation of the Yamaguchi Prefectural Government and Yamaguchi University, is an organization composed of members from the industrial, local government, and academic fields that seeks to promote cooperation among different industrial sectors with the aim of strengthening the business foundations of local companies and fostering the growth of venture businesses.

* In commemoration of the 120th anniversary of the Bank's foundation, in 1998 we sponsored the commencement of a course of lectures at Yamaguchi University entitled "Creating New Industries." This course seeks to train the sort of entrepreneurs who can create the venture businesses needed to revitalize the regional economy, and promotes research into a wide range of fields. In 1999, Yamaguchi University set up the Yamaguchi Technology Licensing Organization, Ltd. to serve as an institution for the dissemination among the general public of the results of research conducted at the University, including new technologies. Yamaguchi Bank is participating in this initiative through the dispatch of directors and the provision of assistance in recruiting members.

The Bank is determined to continue to fulfill the important responsibility it has to work in pursuit of the well-balanced socioeconomic development of the region that it serves.

Since its establishment, Yamaguchi Bank has always paid great attention to the need to maintain harmony between profitability and the public interest. In line with this, it has built a stable operating base over the years, and avoided dancing to the tune of the so-called bubble economy, the scars of which still remain. And as for the future, the Bank will continue its efforts to assure even greater soundness of assets and to further strengthen its earnings structure, so as to remove all causes of concern to its customers.

Lending Policy

The Bank's fundamental approach to lending operations entails serving the people of the region, and contributing to the advancement of society as a whole, by providing a stable and prompt supply of funds as required by the region's citizens. 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 balance of assets at the end of fiscal 2000, disclosed under the Financial Reconstruction Law, of ¥165,673 million (US$1,337 million). This amount comprises loans in bankruptcy under the Corporate Rehabilitation Law and loans in similar conditions of ¥54,973 million (US$444 million), loans threatened with bankruptcy in the amount of ¥70,683 million (US$570 million), and loans requiring supervision in the amount of ¥40,017 million (US$323 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. The Bank has also provided sufficient reserves for future possible loan losses.

Operating Efficiency

The two most crucial factors in bank management are operating efficiency and the maintenance of financial soundness. We are improving our automation systems and conducting reviews on the handling of clerical work and branch functions in order to enhance our management and operational efficiency, thereby enabling us to both offer customers more convenient service and respond promptly to customer needs.

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 bench-mark in managing the Bank's operations. The over-head ratio stood at 59.82% 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.

Compliance

The unfolding of Japan's Big Bang implies dramatic changes in the operating environment of financial institutions, highlighting the importance of compliance issues. Fully cognizant of the social responsibilities incumbent upon banks, and of the importance of its public-service mission, Yamaguchi Bank continues to take steps to further strengthen its compliance structure, based upon raising the awareness of professional ethics of its employees, and preventing any acts of non-compliance.

Firstly, the "Ethics Rules" laid down by the Japanese Bankers' Association have been adopted and promulgated within Yamaguchi Bank as a practical guideline for raising and maintaining the integrity and high ethical standards of the Bank's employees.

Second, it has established a Corporate Ethics Committee. As part of its activities, the committee has produced the Ethics Wall Calendar compiled from mottoes collected within the Bank, and has distributed it to all departments and offices.

In order to ensure full compliance, compliance officers have been assigned to all divisions as part of the creation of a system of routine inspections. This is paralleled by measures to increase knowledge of compliance matters by the regular convening of a variety of training and study groups. Efforts such as these will continue to be stepped up in order to ensure complete and thorough compliance.

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, system 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.

Given this situation, and being acutely aware of the importance of being able to accurately identify and analyze the location and extent of risk and to manage it appropriately, the Bank is taking steps to refine and improve its risk management systems and risk management capability. By so doing, we aim to ensure sound management and stable earnings.

Comprehensive Risk Management

The Bank does not merely manage each of the various categories of risk: to enable comprehensive risk management transcending product and operational boundaries, we have begun work on the creation of a system of quantified management of credit and market risk employing statistical methods.

During 2000 we established the Comprehensive Risk Management Group within the Research and Planning Department. The Group's task is to take overall charge of all types of risk throughout the Bank. In parallel with this, each operational section involved with risk is bolstering its system for separately managing each category of risk. In addition, the Audit and Inspection Department was set up to ensure the accurate performance of risk management.

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' credit-worthiness. At the same time, employees' credit assessment and analysis skills are the subject of training programs provided by the Bank.

We have upgraded our corporate credit rating system, and self-assessments are held twice a year by the branches and head office sections with regard to the assets over which they have jurisdiction. By these means, we remain constantly aware of the precise nature of the Bank's assets. By carrying out write-offs and provisions to reserves corresponding to the degree of credit risk carried, we are working to maintain a healthy financial position.

Market Risk Management

An asset-liability management system has been introduced for the purpose of controlling market risk accurately, and as part of this, the ALM Committee, chaired by the President, convenes regularly. The Committee obtains an accurate grasp of the risk carried by the Bank, and on the basis of this it decides investment and fund procurement policies and devises hedge positions employing derivatives transactions after making predictions regarding financial, economic and market movements.

Moreover, by setting position limits and loss-cut rules for trading operations, the Bank ensures that the impact of possible losses on its financial statements is minimized. We have also strictly separated marketing and supervision sections, and have set up a system of mutual checks and balances. We are continuing to raise the level of sophistication of our risk management through the introduction of risk quantification methods utilizing VaR (Value at Risk).

Liquidity Risk Management

Funding by means of deposit-taking accounts for the majority of the Bank's total funding, and the funding gap is managed on the basis of a stable funding base and detailed forecasting. The fund position is established primarily through control of the investment of funds in the inter-bank market, and provision against unforeseen circumstances is conducted by such means as holding highly liquid securities.

Operating Risk Management

Reductions in operating risks are predicated on advances in employees' operational capabilities. The Bank has designated certain sections at its head office as responsible for providing guidance in processing routines, in addition to on-site instruction given at regular intervals at the branch level. The Bank also conducts training targeted at specific jobs and job levels, and is continuing to enhance clerical processing capabilities through the increased use of computers.

System Risk Management

Given that providing convenient and differentiated financial services to our customers presupposes the stable functioning of computer systems, the Bank conducts frequent system tests and devises countermeasures focusing on system 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 the computer center and the branches.

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

In addition to the foregoing, we are taking necessary measures to upgrade our data management systems so as to prevent data leakage and unauthorized access.

Auditing and Inspection Systems

The Bank's auditing and inspection systems are composed of the Inspection Group, the Asset Audit Group, and the Operations Audit Group established within the Audit and Inspection Department. The Bank is devoting its full efforts to ensuring that banking operations are conducted efficiently and correctly, and that all reasonable steps are taken to prevent the occurrence of mistakes.

With respect to the compliance system, the Operations Audit Group audits the management conducted by the General Affairs Department, a supervisory unit, and also the state of compliance of all head office units. In addition, the Inspection Group conducts on-site inspections of all business offices once a year.

With respect to the various risk management systems, including system risk, the Operations Audit Group conducts scrupulous checks.

To assess the status of assets accurately, the Asset Audit Group undertakes checks of the soundness and appropriateness of self-assessment and charge-offs and provisions based on self-assessment.

With regard to the Bank's administrative systems, self-inspections by branch offices serve to complement on-site inspections carried out by the Inspection Group.

Regular on-site inspections conducted at overseas offices and some affiliates also help to maintain the high level of trustworthiness of the bank's business operations.

Banking Operations

In its deposit-taking activities the Bank places importance on developing and providing financial products designed to match customers' varied investment requirements. Specific examples include the launch of a floating-rate time deposit to commemorate the holding of Japan Expo Yamaguchi 2001, and the addition to the telephone banking service of procedures for continuing and terminating passbook time deposits. As a result, deposits from retail customers reached a balance of ¥2,380,127 million (US$19,210 million) at the end of March 2001, while the balance of deposits by corporate customers totaled ¥1,215,697 million (US$9,812 million).

The lineup of investment trust products was strengthened during the term, including by the addition of a new fund permitting the buildup of savings. In addition, the telephone banking service was broadened to include a service for purchasing and terminating investment trusts.

In the area of lending operations, two notable new products launched were the card loan "From 21," which can be applied for by toll-free dialing at any time between 7 a.m. and 11 p.m., including on Saturdays and holidays, and the Internet Loan Application Service, enabling customers to apply for any type of personal loan at any time — 24 hours a day, 365 days a year — from the Bank's website. For corporate customers, new products launched included the Lump-Sum Factoring Service, under which payments can be made by bank transfers in place of payment by conventional bills payable, and also the Small and Medium-Sized Enterprise Special Bond Guarantee Facility.

To meet the needs of today's advanced information society, services over the telephone, the Internet, and NTT DoCoMo's i-mode service have been improved further, enabling users to make balance inquiries, transfers, and remittances without the need to visit a bank office. In addition, the Bank's website contains a loan simulation service and a service through which customers can order a variety of loan pamphlets and application forms.

In international operations, the Bank provides broad support in foreign trade, offshore investment, and a variety of other overseas transactions. As of March 31, 2001, 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. Information received from the Bank's branches and other offices is published in the form of a column entitled "Yamagin Asian News" in the monthly newsletter "Yamaguchi Economic Monthly" (published by the Yamaguchi Research Institute of Economics), as well as on the Bank's website. Customers can also take advantage of our consultation service regarding trade with or investment in other countries, particularly in Asia. This service is available at our Asian Trade & Investment Advisory Office in addition to all branches offering a foreign exchange service.

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.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President
Kozo Tanaka

Senior Managing Director
Meiji Fujita

Senior Managing Director
Tetsunosuke Tabaru

Senior Managing Director
Kazuaki Katsuhara

Managing Director
Hiroki Obukuro

Managing Director
Hideo Hirota

Managing Director
Takeshi Kuwabara

Managing Director
Kaoru Suehiro

President

Kozo Tanaka

Senior Managing Directors

Meiji Fujita
Tetsunosuke Tabaru
Kazuaki Katsuhara

Managing Directors

Hiroki Obukuro
Hideo Hirota
Takeshi Kuwabara
Kaoru Suehiro

Directors

Keiji Murakami
Katsuhiko Nishihara
Hiroshi Takimoto
Noboru Matsumoto
Shinjiro Okamoto
Hideaki Fujii
Yuji Hamasaki

Corporate Auditors

Akifumi Ogawa
Yutaka Uetani
Ryotaro Kaneko

(As of June 26, 2001)

FINANCIAL REVIEW

Fiscal 2000 in Review (on a consolidated basis)

During the term under review ended March 31, 2001, Japan's economy failed to make a material comeback in spite of widespread expectations of a gradual economic recovery. Consumer spending remained stagnant and stock prices fell, with the Nikkei 225 stock average at one time posting its lowest level since the collapse of the Japanese economic bubble more than ten years ago. In Yamaguchi Prefecture, the Bank's principal operating base, the regional economy traced a similar trend.

In the financial industry, various forms of business tie-ups have emerged, including mergers and acquisitions across the traditional borders separating ordinary banks and other financial institutions. At the same time, investment in information technology showed notable growth. Accordingly, the struggle to survive has intensified, as exemplified by the entry into the financial sector of enterprises from other industries and the launching by banks of a wide variety of new products and services. In these business conditions, the entire staff of the Yamaguchi Bank worked to strengthen the Bank's management structure and improve business results. Principal business indicators for the term were as follows.

Total income decreased ¥0.2 billion to ¥117.3 billion (US$947 million) from the previous term. Gross business profit also decreased ¥5.3 billion to ¥76.5 billion (US$617 million), resulting in a ¥1.8 billion decrease of the business profit to ¥25.6 billion (US$206 million). Business profit is calculated by the deduction from the gross business profit of amounts equivalent to the provision to general reserves for possible loan losses and operating expenses.

Net income increased ¥3.2 billion to ¥6.8 billion (US$55 million). This was mainly due to lump-sum amortization of an unfunded portion of pension obligations posted under other expenses and gains on establishment of a pension trust through contribution of equity shares posted under other income.

The balance of deposits (including CDs) decreased ¥236.6 billion to ¥4,024.3 billion (US$32,480 million) at term-end, mainly due to intentional reduction of large-lot time deposits with slim interest margins. Loans and bills discounted decreased ¥104.4 billion from the previous term to ¥2,968.3 billion (US$23,958 million). This was mainly attributable to the bulk sale of loan claims with the aim of final disposal of non-performing loans. A decline in the loan balance to local governments was also a contributing factor. Loans to individual customers, however, substantially increased centered on mortgage loans. The balance of securities increased ¥4.3 billion during the term to stand at ¥898.5 billion (US$7,252 million) at term-end. This increase was mainly attributable to the posting of unrealized gains on equity shares resulting from the adoption of fair value accounting. The balance of both national and local government bonds declined.

Capital ratio in accordance with the BIS common minimum standards increased 0.43 of a percentage point during the term, to stand at 11.77% at the term-end.

Billions of yen	1999	2000	**2001**
Gross Business Profit	¥75.4	¥81.8	**¥76.5**
Business Profit	25.7	27.4	**25.6**
Net Income	1.6	3.6	**6.8**

The Yamaguchi Bank, Ltd. and its consolidated subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2001**	2000	**2001**
Assets:			
Cash and due from banks (Note 3)	**¥ 152,526**	¥ 321,615	**$ 1,231,041**
Call loans	**349,147**	255,638	**2,817,974**
Commercial paper and other debt purchased	**30,994**	92,686	**250,153**
Trading assets	**4,216**	2,881	**34,027**
Money held in trust	**26,658**	5,000	**215,157**
Securities (Notes 4 , 5 and 7)	**898,483**	894,145	**7,251,679**
Loans and bills discounted (Note 8)	**2,968,344**	3,072,784	**23,957,579**
Foreign exchange assets	**4,344**	5,753	**35,061**
Other assets	**27,236**	12,862	**219,823**
Property and equipment	**79,608**	79,291	**642,518**
Deferred tax assets (Note 13)	**10,680**	37,171	**86,199**
Customers' liabilities for acceptances and guarantees (Note 11)	**64,096**	59,964	**517,320**
Reserve for possible loan losses	**(90,535)**	(101,237)	**(730,710)**
Total assets	**¥4,525,797**	¥4,738,553	**$36,527,821**

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:			
Deposits (Note 7)	**¥4,024,282**	¥4,260,867	**$32,480,081**
Call money (Note 7)	**26,886**	16,281	**216,998**
Trading liabilities	**25**	76	**202**
Borrowed money (Note 8)	**15,368**	21,530	**124,036**
Foreign exchange liabilities	**28**	32	**226**
Other liabilities	**66,234**	87,757	**534,576**
Employees' severance and retirement benefits	**3,770**	5,128	**30,428**
Deferred tax liabilities for revaluation reserve for land (Notes 9 and 13)	**20,619**	20,714	**166,416**
Acceptances and guarantees (Note 11)	**64,096**	59,964	**517,320**
Total liabilities	**4,221,308**	4,472,349	**34,070,283**
Stockholders' equity (Notes 10 and 15):			
Common stock, par value ¥50 per share:			
Authorized – 600,000 thousand shares			
Issued – 200,000 thousand shares	**10,006**	10,006	**80,759**
Additional paid-in capital	**376**	376	**3,035**
Revaluation reserve for land, net of tax (Note 9)	**28,780**	28,912	**232,284**
Retained earnings	**232,484**	226,910	**1,876,384**
Unrealized holding gains on securities, net of tax	**32,844**	—	**265,084**
Common stock in treasury	**(1)**	(0)	**(8)**
Total stockholders' equity	**304,489**	266,204	**2,457,538**
Total liabilities and stockholders' equity	**¥4,525,797**	¥4,738,553	**$36,527,821**

See accompanying notes.

The Yamaguchi Bank, Ltd. and its consolidated subsidiaries

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Income:			
Interest on loans and discounts	**¥ 67,623**	¥ 65,978	**$ 545,787**
Interest and dividends on securities	**22,028**	27,696	**177,789**
Other interest	**2,860**	1,857	**23,083**
Fees and commissions	**8,952**	8,523	**72,252**
Trading income	**19**	1	**153**
Other operating income	**3,551**	10,335	**28,660**
Other income	**12,277**	3,087	**99,088**
Total income	**117,310**	117,477	**946,812**
Expenses:			
Interest on deposits	**13,394**	13,985	**108,103**
Interest on borrowings and rediscounts	**2,055**	1,645	**16,586**
Other interest	**9,391**	10,288	**75,795**
Fees and commissions	**3,220**	3,087	**25,989**
Trading expenses	**—**	92	**—**
Other operating expenses	**575**	3,715	**4,641**
General and administrative expenses	**45,793**	46,126	**369,596**
Other expenses	**31,760**	32,337	**256,336**
Total expenses	**106,188**	111,275	**857,046**
Income before income taxes	**11,122**	6,202	**89,766**
Income taxes (Note 13):			
Current	**1,515**	12,049	**12,228**
Deferred	**2,815**	(9,459)	**22,720**
Net income	**6,792**	3,612	**54,818**
Retained earnings at beginning of year	**226,910**	224,648	**1,831,396**
Reversal of revaluation reserve for land	**132**	—	**1,066**
Cash dividends paid	**(1,300)**	(1,300)	**(10,492)**
Bonuses to directors and corporate auditors	**(50)**	(50)	**(404)**
Retained earnings at end of year	**¥232,484**	¥226,910	**$1,876,384**
	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	**¥33.96**	¥18.06	**$0.27**
Cash dividends applicable to the year	**6.50**	6.50	**0.05**

See accompanying notes.

The Yamaguchi Bank, Ltd. and its consolidated subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes	**¥ 11,122**	¥ 6,202	**$ 89,766**
Depreciation	**2,340**	2,559	**18,886**
Equity in earnings of affiliates	**(32)**	(15)	**(258)**
Net change in reserve for possible loan losses	**(10,703)**	22,270	**(86,384)**
Net change in reserve for retirement allowances	**(5,128)**	46	**(41,388)**
Net change in employees' severance and retirement benefits	**3,770**	—	**30,428**
Interest income	**(92,511)**	(95,531)	**(746,659)**
Interest expenses	**24,840**	25,917	**200,484**
Net gain related to securities transactions	**(10,691)**	(6,382)	**(86,287)**
Net loss from money held in trust	**169**	1,136	**1,364**
Net exchange (gain) loss	**(9,014)**	9,580	**(72,752)**
Net loss from disposition of property and equipment	**236**	73	**1,905**
Net change in trading assets	**(1,335)**	(652)	**(10,775)**
Net change in trading liabilities	**(52)**	76	**(420)**
Net change in loans	**104,457**	(7,115)	**843,075**
Net change in deposits	**(236,345)**	58,844	**(1,907,546)**
Net change in negotiable certificates deposits	**(240)**	890	**(1,937)**
Net change in borrowed money excluding subordinated loans	**(6,161)**	—	**(49,726)**
Net change in call loans	**(31,790)**	(94,474)	**(256,578)**
Net change in call money	**10,605**	(1,267)	**85,593**
Net change in deposits with bank	**20,832**	63,251	**168,136**
Net change in foreign exchanges (asset account)	**1,408**	450	**11,364**
Net change in foreign exchanges (liability account)	**(3)**	(45)	**(24)**
Interest received	**93,273**	96,992	**752,809**
Interest paid	**(26,973)**	(29,350)	**(217,700)**
Bonuses to directors and corporate auditors	**(50)**	(50)	**(404)**
Other, net	**(23,839)**	51,824	**(192,406)**
Subtotal	**(181,815)**	105,229	**(1,467,434)**
Income taxes paid	**(10,974)**	(14,475)	**(88,571)**
Net cash (used in) provided by operating activities	**(192,789)**	90,754	**(1,556,005)**
Cash flows from investing activities:			
Purchases of securities	**(437,027)**	(366,689)	**(3,527,256)**
Proceeds from sale of securities	**289,355**	215,318	**2,335,391**
Proceeds from maturity of securities	**219,194**	142,695	**1,769,120**
Net change in money held in trust	**(22,763)**	50,000	**(183,721)**
Purchases of property and equipment	**(3,055)**	(5,554)	**(24,657)**
Proceeds from sales of property and equipment	**160**	644	**1,292**
Net cash provided by investing activities	**45,864**	36,414	**370,169**
Cash flows from financing activities:			
Proceeds from sale of treasury stock	**(1)**	2	**(8)**
Dividends paid	**(1,300)**	(1,300)	**(10,492)**
Net cash used in financing activities	**(1,301)**	(1,298)	**(10,500)**
Foreign currency translation adjustments	**(31)**	(25)	**(250)**
Net change in cash and cash equivalents	**(148,257)**	125,845	**(1,196,586)**
Cash and cash equivalents at beginning of year	**216,370**	90,525	**1,746,328**
Cash and cash equivalents at end of year (Note 3)	**¥ 68,113**	¥216,370	**$ 549,742**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001 and 2000

1. BASIS OF FINANCIAL STATEMENTS

The Yamaguchi Bank, Ltd. (the "Bank") and its consolidated domestic 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 ("Japanese GAAP"), 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 are a translation of the audited consolidated financial statements of the Bank which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Shareholders' equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

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 readers, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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 which 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, 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 income and interest expense, respectively, and gains and losses, respectively, resulted from the valuation of securities, commercial paper, derivatives, etc. which are included in "Trading assets" or "Trading liabilities."

Securities

Prior to April 1, 2000, debentures, shares and certain other securities, including securities in money held in trust account, were stated at the lower of moving-average cost or market value if such securities were listed. The other securities including those in money held in trust were stated at moving-average cost. The Bank recorded recoveries of write-downs of securities.

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

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

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

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

As a result of adopting the new accounting standard for financial instruments, income before income taxes increased by ¥4,719 million ($38,087 thousand).

Derivatives

Derivatives other than those for specific trading purpose or hedging purpose are stated at market value.

Method of hedge accounting

Effective April 1,2000, The Bank adopted a method of hedge accounting called “Macro Hedge”, under which the Bank manages interest rate risks arising from various assets and liabilities with derivatives transactions as a whole. The Bank applies a risk adjustment approach based on the report ″Tentative Treatments in Accounting and Audit for Banks on Application of Accounting Standard for Financial Instruments″ issued by Japanese Institute of Certified Public Accountants.

The effectiveness of the macro hedge is reviewed for a reduction in interest rate risk exposure and for the actual risk amount of derivatives within the permitted risk amount under the Bank’s risk control policies. In addition to macro hedge accounting, the Bank applies to certain assets and liabilities deferral hedge accounting, fair value hedge accounting or exceptional treatments permitted for interest rate swaps.

There was no effect of adopting hedge accounting on net income for the year ended March 31, 2001.

Reserve for possible loan losses

The Bank provides reserves for possible loan losses according to the following write-off and 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.

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 except for buildings acquired after March 31, 1998, which are depreciated using the straight-line method.

The estimated useful lives of the assets are primarily as follows;

Property	7 to 50 years
Equipment	3 to 15 years

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

Software costs for internal uses are amortized over the estimated useful life (5 years).

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

Income taxes comprise corporate, enterprise and inhabitant taxes. The Bank recognizes tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

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.

Effective April 1, 2000, consolidated domestic subsidiaries adopted the revised accounting standard for foreign currency translation, “Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation”, issued by the Business Accounting Deliberation Council on October 22, 1999. There was no effect of adopting the revised accounting standard on net income for the year ended March 31, 2001, as the Bank is permitted to continue to account for foreign currency transaction and foreign currency translation in the same manner as in the previous year.

Employees’ severance and retirement benefits

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

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, and its past service costs were amortized over 7 years.

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

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

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

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

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥7,778 million ($62,776 thousand), all of which was recognized as an expense in the year ended March 31, 2001 as a result of the contribution of investment securities worth ¥7,778 million ($62,776 thousand) to the employees' retirement benefit trust. Actuarial gains and losses are recognized in expenses using the declining-balance method over the average of the estimated remaining service lives of 10 years commencing with the succeeding period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥303 million ($2,446 thousand), and income before income taxes decreased by ¥7,475 million ($60,331 thousand) compared with what would have been recorded under the previous accounting standard.

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 preparing the consolidated statements of cash flows, the Bank and its consolidated subsidiaries consider cash and due from THE BANK OF JAPAN to be cash and cash equivalents.

The reconciliation of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash and due from banks	¥152,526	¥321,615	$1,231,041
Time deposits in other banks	(82,289)	(101,618)	(664,157)
Negotiable certificate of deposit in other banks	(1,181)	(2,517)	(9,531)
Other	(943)	(1,110)	(7,611)
Cash and cash equivalents	¥ 68,113	¥216,370	$ 549,742

4. SECURITIES

Securities held by the Bank at March 31, 2001 and 2000 include shares of unconsolidated subsidiaries and affiliated companies amounting to ¥208 million ($1,679 thousand) and ¥194 million, respectively.

5. MARKET VALUE INFORMATION OF SECURITIES, AND DERIVATIVES

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

(a) Trading securities

Book value — ¥4,191 million ($33,826 thousand)

Amount of net unrealized gains or losses included in the income statement — ¥7 million ($56 thousand)

(b) Held-to-maturity debt securities:

	Millions of yen	Thousands of U.S. dollars
Bonds:		
Book value	¥13,953	$112,615
Fair value	14,495	116,989
Difference	¥ 542	$ 4,374
Other securities:		
Book value	¥12,394	$100,032
Fair value	12,761	102,994
Difference	¥ 367	$ 2,962

(c) Available-for-sale securities:

	Millions of yen		
Type	Acquisition cost	Book value	Difference
Shares	¥ 64,086	¥ 95,532	¥31,446
National government bonds	349,906	360,268	10,362
Local government bonds	183,943	192,716	8,773
Debentures	107,739	113,760	6,021
Other securities	101,926	102,634	708
Total	¥807,600	¥864,910	¥57,310

Type	Thousands of U.S. dollars Acquisition cost	Book value	Difference
Shares	$ 517,240	$ 771,041	$253,801
National government bonds	2,824,100	2,907,732	83,632
Local government bonds	1,484,609	1,555,415	70,806
Debentures	869,564	918,160	48,596
Other securities	822,647	828,362	5,715
Total	$6,518,160	$6,980,710	$462,550

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

(a) Held-to-maturity debt securities:

Type	Millions of yen Book value	Thousands of U.S. dollars Book value
Non-listed bonds	¥5,049	$40,751

(b) Available-for-sale securities:

Type	Millions of yen Book value	Thousands of U.S. dollars Book value
Non-listed equity securities (not including those traded over the counter)	¥2,531	$20,428

Maturities of available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

	Millions of yen			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
National government bonds	¥ 44,770	¥275,085	¥ 40,413	¥ —
Local government bonds	26,130	110,306	55,724	555
Debentures	26,093	80,961	21,669	—
Other securities	15,669	36,963	30,270	—
Total	¥112,662	¥503,315	¥148,076	¥555

	Thousands of U.S. dollars			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
National government bonds	$361,340	$2,220,218	$ 326,174	$ —
Local government bonds	210,896	890,282	449,750	4,479
Debentures	210,597	653,438	174,891	—
Other securities	126,465	298,330	244,310	—
Total	$909,298	$4,062,268	$1,195,125	$4,479

There were no sales of held-to-maturity debt securities in the year ended March 31, 2001.

Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥268,733 million ($2,168,951 thousand) and the related gains and losses amounted to ¥3,402 million ($27,458 thousand) and ¥597 million ($4,818 thousand), respectively.

At March 31, 2000, net unrealized gains of trading account securities and securities having market values were ¥64,041 million ($516,877 thousand).

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, 2001 and 2000 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 ¥13,208 million ($106,602 thousand) and ¥7,307 million, respectively. To cope with these risks, the Bank places emphasis on establishing internal control structures which perform 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, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Interest rate swaps	¥ 4,400	¥328,580	$ 35,513
Currency swaps	307,670	259,644	2,483,212
Forward exchange	54,667	20,503	441,219

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, the contract value for foreign exchange swaps (cash-related swaps) included in the currency swaps show above and transacted for the purpose of fund procurement and management in non-yen currencies was ¥227,724 million.

6. LOANS AND BILLS DISCOUNTED

Loans at March 31, 2001 and 2000 include "Risk-Managed Loan Amounts" such as (1) loans to borrowers in bankruptcy amounting to ¥39,610 million ($319,693 thousand) and ¥42,696 million, respectively, (2) other delinquent loans amounting to ¥80,950 million ($653,349 thousand) and ¥22,573 million, respectively, (3) loans past due for three months or more amounting to ¥180 million ($1,453 thousand) and ¥1,680 million, respectively and (4) restructured loans amounting to ¥39,788 million ($321,130 thousand) and ¥86,687 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.

7. PLEDGED ASSETS

At March 31, 2001 and 2000, the following assets were pledged as collateral for certain liabilities of the Bank.

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Securities	¥205,012	¥97,800	$1,654,657

The collateral was pledged to secure the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deposits	¥14,105	¥85,594	$113,842
Call money	26,886	5,307	216,998

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 ¥118,551 million ($956,828 thousand) at March 31, 2001, and ¥164,737 million at March 31, 2000.

8. BORROWED MONEY

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Bills rediscounted	¥ —	¥ 210	$ —
Loans from banks	15,368	21,320	124,036
	¥15,368	¥21,530	$124,036

9. 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 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 amounted to ¥10,722 million ($86,538 thousand) and ¥6,777 million at March 31, 2001 and 2000, respectively.

10. 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.

Under the Code, certain amounts of retained earnings equal to at least 20% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals to 100% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

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.

11. 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.

12. INFORMATION FOR CERTAIN LEASE TRANSACTIONS

The Bank and its consolidated subsidiaries lease certain equipment under the noncancellable finance and operating leases. Finance leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases for the years ended March 31, 2001 and 2000 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Equivalent amount:			
Acquisition cost	¥6,396	¥5,909	$51,622
Accumulated depreciation	(2,990)	(1,903)	(24,132)
Estimated net book value	¥3,406	¥4,006	$27,490

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Lease payments	¥1,526	¥1,528	$12,316
Equivalent of depreciation expense	¥1,403	¥1,432	$11,324
Equivalent of interest expense	¥ 127	¥ 162	$ 1,025

Equivalent of depreciation expense is computed using the straight-line method over the lease terms assuming no residual value. Equivalent of interest expense is computed using interest rate method over the lease terms for the difference between acquisition cost and total lease payments.

Future minimum lease payments under the non-cancelable finance and operating leases having remaining terms in excess of one year at March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
2002	¥1,451	$11,711
2003 and thereafter	2,161	17,442
Total minimum lease payments	¥3,612	$29,153

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, 2001. 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.

	2001
Statutory tax rate	41.7%
Non-deductible expenses (entertainment expense, etc.)	2.9
Non-taxable income (dividend income, etc.)	(7.6)
Par capita inhabitant taxes	0.6
Other	1.3
Effective tax rate	38.9%

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Reserve for possible loan losses	¥29,697	¥31,465	$239,685
Accrued bonuses	584	394	4,713
Enterprise tax	—	441	—
Retirement benefits	5,301	1,438	42,785
Depreciation	1,210	1,329	9,766
Amortization of prior service cost	—	1,181	—
Other	1,723	923	13,907
Total deferred tax assets	¥38,515	¥37,171	$310,856
Deferred tax liabilities:			
Unrealized holding gains on securities, net of tax	¥23,530	—	$189,911
Gain on securities contributed to employee retirement benefit trust	3,885	—	31,356
Deferred gain on property and equipment	32	—	258
Other	388	—	3,132
Total deferred tax liabilities	¥27,835	¥ —	$224,657
Net deferred tax assets	¥10,680	¥37,171	$ 86,199
Deferred tax liabilities for revaluation reserve for land	¥20,619	¥20,714	$166,416

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 26, 2001, the stockholders of the Bank authorized the following appropriations of retained earnings at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥3.25 ($0.03) per share	¥650	$5,246
Bonuses to directors and corporate auditors	50	404

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, 2001 and 2000, and the related consolidated statements of income and retained earnings and cash flows 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 consolidated financial statements referred to above present fairly the consolidated financial position of THE YAMAGUCHI BANK, LTD. and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, effective April 1, 2000, THE YAMAGUCHI BANK, LTD. and subsidiaries prospectively adopted new Japanese accounting standards for financial instruments and employees' severance and retirement benefits.

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

Asahi & Co.

(A Member Firm of Andersen Worldwide SC)
Tokyo, Japan
June 27, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying 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, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2001**	2000	**2001**
Assets:			
Cash and due from banks	**¥ 152,526**	¥ 321,613	**$ 1,231,041**
Call loans	**349,147**	255,638	**2,817,974**
Commercial paper and other debt purchased	**30,994**	92,686	**250,153**
Trading assets (Note 3)	**4,216**	2,881	**34,027**
Money held in trust	**26,658**	5,000	**215,157**
Securities (Notes 4, and 9)	**898,382**	894,058	**7,250,864**
Loans and bills discounted (Note 5)	**2,969,451**	3,073,609	**23,966,513**
Foreign exchange assets (Note 6)	**4,344**	5,753	**35,061**
Other assets (Note 7)	**27,219**	12,838	**219,685**
Property and equipment (Notes 8 and 13)	**77,459**	77,670	**625,174**
Deferred tax assets (Note 22)	**10,680**	37,171	**86,199**
Customers' liabilities for acceptances and guarantees (Note 15)	**64,096**	59,964	**517,320**
Reserve for possible loan losses	**(90,874)**	(101,590)	**(733,446)**
Total assets	**¥4,524,298**	¥4,737,291	**$36,515,722**

LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits (Notes 9 and 10)	**¥4,024,584**	¥4,261,380	**$32,482,517**
Call money (Note 9)	**26,886**	16,281	**216,998**
Trading liabilities	**25**	76	**202**
Borrowed money (Note 11)	**15,368**	21,530	**124,036**
Foreign exchange liabilities (Note 6)	**28**	32	**226**
Other liabilities (Note 12)	**66,168**	87,700	**534,043**
Employees' severance and retirement benefits	**3,770**	5,128	**30,428**
Deferred tax liabilities for revaluation reserve for land (Notes 13 and 22)	**20,619**	20,714	**166,416**
Acceptances and guarantees (Note 15)	**64,096**	59,964	**517,320**
Total liabilities	**4,221,544**	4,472,805	**34,072,186**
Stockholders' equity (Notes 14 and 23):			
Common stock, par value ¥50 per share:			
Authorized – 600,000 thousand shares			
Issued – 200,000 thousand shares	**10,006**	10,006	**80,759**
Additional paid-in capital	**376**	376	**3,035**
Legal reserve	**10,006**	10,006	**80,759**
Revaluation reserve for land, net of tax (Note 13)	**28,780**	28,912	**232,284**
Retained earnings	**220,743**	215,186	**1,781,622**
Unrealized holding gains on securities, net of tax	**32,843**	—	**265,077**
Total stockholders' equity	**302,754**	264,486	**2,443,536**
Total liabilities and stockholders' equity	**¥4,524,298**	¥4,737,291	**$36,515,722**

See accompanying notes.

The Yamaguchi Bank, Ltd.

NON-CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Income:			
Interest on loans and discounts	**¥ 67,640**	¥ 65,981	**$ 545,925**
Interest and dividends on securities	**22,034**	27,702	**177,837**
Other interest	**2,860**	1,857	**23,083**
Fees and commissions	**8,947**	8,520	**72,211**
Trading income	**19**	1	**153**
Other operating income (Note 17)	**3,551**	10,335	**28,660**
Other income (Note 18)	**12,248**	2,863	**98,854**
Total income	**117,299**	117,259	**946,723**
Expenses:			
Interest on deposits	**13,394**	13,985	**108,103**
Interest on borrowings and rediscounts	**2,055**	1,645	**16,586**
Other interest	**9,391**	10,288	**75,795**
Fees and commissions	**3,220**	3,087	**25,989**
Trading expenses	**—**	92	**—**
Other operating expenses (Note 19)	**575**	3,715	**4,641**
General and administrative expenses (Note 20)	**45,819**	46,138	**369,806**
Other expenses (Note 21)	**31,746**	32,132	**256,223**
Total expenses	**106,200**	111,082	**857,143**
Income before income taxes	**11,099**	6,177	**89,580**
Income taxes (Note 22):			
Current	**1,509**	12,045	**12,179**
Deferred	**2,815**	(9,461)	**22,720**
Net income	**6,775**	3,593	**54,681**
Retained earnings at beginning of year	**215,186**	212,943	**1,736,772**
Reversal of revaluation reserve for land	**132**	—	**1,065**
Cash dividends paid	**(1,300)**	(1,300)	**(10,492)**
Bonuses to directors and corporate auditors	**(50)**	(50)	**(404)**
Retained earnings at end of year	**¥220,743**	¥215,186	**$1,781,622**
	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	**¥33.87**	¥17.96	**$0.27**
Cash dividends applicable to the year	**6.50**	6.50	0.05

See accompanying notes.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001 and 2000

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 appropriate Local Finance Bureau of the Ministry 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 readers, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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 which 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, 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 income and interest expense, respectively, and gains and losses, respectively, resulted from the valuation of securities, commercial paper, derivatives, etc. which are included in "Trading assets" or "Trading liabilities."

Securities

Prior to April 1, 2000, debentures, shares and certain other securities, including securities in money held in trust account, were stated at the lower of moving-average cost or market value if such securities were listed. The other securities including those in money held in trust were stated at moving-average cost. The Bank recorded recoveries of write-downs of securities.

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

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

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

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

As a result of adopting the new accounting standard for financial instruments, income before income taxes increased by ¥4,719 million ($38,087 thousand).

Derivatives

Derivatives other than those for specific trading purpose or hedging purpose are stated at market value.

Method of hedge accounting

Effective April 1, 2000, The Bank adopted a method of hedge accounting called "Macro Hedge", under which the Bank manages interest rate risks arising from various assets and liabilities with derivatives transactions as a whole. The Bank applies a risk adjustment approach based on the report "Tentative Treatments in Accounting and Audit for Banks on Application of Accounting Standard for Financial Instruments" issued by Japanese Institute of Certified Public Accountants.

The effectiveness of the macro hedge is reviewed for a reduction in interest rate risk exposure and for the actual risk amount of derivatives within the permitted risk amount under the Bank's risk control policies. In addition to macro hedge accounting, the Bank applies to certain assets and liabilities deferral hedge accounting, fair value hedge accounting or exceptional treatments permitted for interest rate swaps.

There was no effect of adopting hedge accounting on net income for the year ended March 31, 2001.

Reserve for possible loan losses

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

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 except for buildings acquired after March 31, 1998, which are depreciated using the straight-line method.

The estimated useful lives of the assets are primarily as follows;

Property	7 to 50 years
Equipment	3 to 15 years

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

Software costs for internal uses are amortized over the estimated useful life (5 years).

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

Income taxes comprise corporate, enterprise and inhabitant taxes. The Bank recognizes tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

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.

Employees' severance and retirement benefits

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

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, and its past service costs were amortized over 7 years.

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

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

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

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

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥7,778 million ($62,776 thousand), all of which was recognized as an expense in the year ended March 31, 2001 as a result of the contribution of investment securities worth ¥7,778 million ($62,776 thousand) to the employee retirement benefit trust. Actuarial gains and losses are recognized in expenses using the declining-balance method over the average of the estimated remaining service lives of 10 years commencing with the succeeding period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥303 million ($2,446 thousand), and income before income taxes decreased by ¥7,475 million ($60,331 thousand) compared with what would have been recorded under the previous accounting standard.

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 at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Trading account securities	¥2,191	¥1,804	$17,683
Derivative financial instruments	25	77	202
Other trading assets	2,000	1,000	16,142
	¥4,216	¥2,881	$34,027

4. SECURITIES

Securities held by the Bank at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
National government bonds	¥360,269	¥386,355	$2,907,740
Local government bonds	192,717	223,842	1,555,424
Debentures	128,724	116,366	1,038,935
Shares	98,171	68,168	792,341
Other securities	118,501	99,327	956,424
	¥898,382	¥894,058	$7,250,864

5. LOANS AND BILLS DISCOUNTED

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Bills discounted	¥ 148,897	¥ 141,505	$ 1,201,751
Loans on notes	501,121	532,769	4,044,560
Loans on deeds	1,588,792	1,570,256	12,823,180
Overdrafts	730,641	829,079	5,897,022
	¥2,969,451	¥3,073,609	$23,966,513

Loans at March 31, 2001 and 2000 include “Risk-Managed Loan Amounts” such as (1) loans to borrowers in bankruptcy amounting to ¥39,610 million ($319,693 thousand) and ¥42,696 million, respectively, (2) other delinquent loans amounting to ¥80,950 million ($653,349 thousand) and ¥22,573 million, respectively, (3) loans past due for three months or more amounting to ¥180 million ($1,453 thousand) and ¥1,680 million, respectively and (4) restructured loans amounting to ¥39,788 million ($321,130 thousand) and ¥86,687 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.

6. FOREIGN EXCHANGE ASSETS AND LIABILITIES

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Foreign exchange assets:			
Due from foreign banks	¥1,652	¥1,943	$13,334
Foreign bills of exchange bought	1,216	1,522	9,814
Foreign bills of exchange receivable	1,476	2,288	11,913
	¥4,344	¥5,753	$35,061

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Foreign exchange liabilities:			
Due to foreign banks	¥ 1	¥ 3	$ 8
Foreign bills of exchange sold	27	28	218
Foreign bills of exchange payable	—	1	—
	¥28	¥32	$226

7. OTHER ASSETS

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Domestic exchange settlement account, debit	¥ 15	¥ 26	$ 121
Prepaid expenses	4	11	32
Accrued income	8,569	8,154	69,160
Allowance for losses on sale of securities	(32)	(367)	(258)
Deferred losses on hedging derivative	5,532	—	44,649
Other	13,131	5,014	105,981
	¥27,219	¥12,838	$219,685

8. PROPERTY AND EQUIPMENT

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Land	¥ 60,388	¥ 60,374	$487,393
Buildings	40,161	39,837	324,140
Equipment	18,966	18,354	153,075
Construction in progress	180	—	1,453
	119,695	118,565	966,061
Less accumulated depreciation	43,053	41,738	347,481
	76,642	76,827	618,580
Lease deposits	817	843	6,594
	¥ 77,459	¥ 77,670	$625,174

9. PLEDGED ASSETS

At March 31, 2001 and 2000, the following assets were pledged as collateral for certain liabilities of the Bank.

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Securities	¥205,012	¥97,800	$1,654,657

The collateral was pledged to secure the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deposits	¥14,105	¥85,594	$113,842
Call money	26,886	5,307	216,998

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 ¥118,551 million ($956,828 thousand) at March 31, 2001, and ¥164,737 million at March 31, 2000.

10. DEPOSITS

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Current deposits	¥ 180,567	¥ 153,872	$ 1,457,361
Ordinary deposits	1,069,263	983,838	8,630,048
Deposits-at-notice	44,100	72,211	355,932
Time deposits	2,507,841	2,731,521	20,240,847
Other deposits	222,163	319,048	1,793,083
Certificates of deposit	650	890	5,246
	¥4,024,584	¥4,261,380	$32,482,517

11. BORROWED MONEY

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Bills rediscounted	¥ —	¥ 210	$ —
Loans from banks	15,368	21,320	124,036
	¥15,368	¥21,530	$124,036

12. OTHER LIABILITIES

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Domestic exchange settlement account, credit	¥ 340	¥ 345	$ 2,744
Income taxes	318	5,098	2,566
Accrued expenses	10,038	12,171	81,017
Unearned income	3,167	3,676	25,561
Employees' deposits	1,408	1,518	11,364
Derivative instruments	5,532	—	44,649
Other	45,365	64,892	366,142
	¥66,168	¥87,700	$534,043

13. 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 amounted to ¥10,722 million ($86,538 thousand) and March 31, 2000 was ¥6,777 million at March 31, 2001 and 2000, respectively.

14. 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.

15. 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.

16. INFORMATION FOR CERTAIN LEASE TRANSACTIONS

The Bank lease certain equipment under the noncancellable finance and operating leases. Finance leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases for the years ended March 31, 2001 and 2000 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Equivalent amount:			
Acquisition cost	**¥6,210**	¥5,727	**$50,121**
Accumulated depreciation	**(2,889)**	(1,811)	**(23,317)**
Estimated net book value	**¥3,321**	¥3,916	**$26,804**

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Lease payments	**¥1,486**	¥1,487	**$12,002**
Equivalent of depreciation expense	**1,373**	1,401	**11,082**
Equivalent of interest expense	**118**	152	**952**

Equivalent of depreciation expense is computed using the straight-line method over the lease terms assuming no residual value. Equivalent of interest expense is computed using interest rate method over the lease terms for the difference between acquisition cost and total lease payments.

Future minimum lease payments under the non-cancelable finance and operating leases having remaining terms in excess of one year at March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
2002	**¥1,419**	**$11,453**
2003 and thereafter	**2,109**	**17,022**
Total minimum lease payments	**¥3,528**	**$28,475**

17. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Gain on foreign exchange transactions	**¥ 306**	¥ 336	**$ 2,470**
Gain on sale of bonds	**3,245**	9,697	**26,190**
Gain on redemption of bonds	**—**	302	**—**
	¥3,551	¥10,335	**$28,660**

18. OTHER INCOME

Other income for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Gain on sale of shares and other securities	**¥ 157**	¥1,866	**$ 1,267**
Gain on money held in trust	**103**	21	**832**
Gain on disposal of property and equipment	**14**	46	**113**
Recoveries of written-off claims	**3**	15	**24**
Gain on securities contributed to employee retirement benefit trust	**9,310**	—	**75,141**
Other	**2,661**	915	**21,477**
	¥12,248	¥2,863	**$98,854**

19. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Losses on sale of bonds	**¥575**	¥3,090	**$4,641**
Losses on redemption of bonds	**—**	563	**—**
Losses on devaluation of bonds	**—**	62	**—**
Other	**—**	—	**—**
	¥575	¥3,715	**$4,641**

20. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Employee compensation	**¥21,968**	¥21,951	**$177,304**
Depreciation	**2,403**	2,629	**19,395**
Rental expense	**3,003**	3,053	**24,237**
Communications	**1,367**	1,378	**11,033**
Supplies	**932**	1,086	**7,522**
Taxes	**2,271**	2,397	**18,329**
Other	**13,875**	13,644	**111,986**
	¥45,819	¥46,138	**$369,806**

21. OTHER EXPENSES

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Provision for reserve for possible loan losses	**¥17,393**	¥25,855	**$140,379**
Written-off claims	**111**	3	**896**
Losses on sale of stocks and other securities	**22**	19	**177**
Losses on devaluation of shares and other securities	**1,424**	1,750	**11,493**
Provision for loss on investments	**—**	—	**—**
Losses on money held in trust	**705**	1,158	**5,690**
Losses on disposal of property and equipment	**248**	171	**2,002**
Amortization of prior service cost	**—**	2,894	**—**
Amortization of entire net transition obligation	**7,779**	—	**62,785**
Other	**4,064**	282	**32,801**
	¥31,746	¥32,132	**$256,223**

22. INCOME TAXES

The Bank is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 41.7% for the year ended March 31, 2001 and 2000.

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, 2001. 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.

	2001
Statutory tax rate	**41.7%**
Non-deductible expenses (entertainment expense, etc.)	**2.9**
Non-taxable income (dividend income, etc.)	**(7.6)**
Par capita inhabitant taxes	**0.6**
Other	**1.3**
Effective tax rate	**38.9%**

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Reserve for possible loan losses	**¥29,697**	¥31,465	**$239,685**
Accrued bonuses	**584**	394	**4,713**
Enterprise tax	**—**	441	**—**
Retirement benefits	**5,301**	1,438	**42,785**
Depreciation	**1,210**	1,329	**9,766**
Amortization of prior service cost	**—**	1,181	**—**
Other	**1,723**	923	**13,907**
Total deferred tax assets	**¥38,515**	¥37,171	**$310,856**
Deferred tax liabilities:			
Unrealized holding gains on securities, net of tax	**¥23,530**	—	**$189,911**
Gain on securities contributed to employee retirements benefit trust	**3,885**	—	**31,356**
Deferred gain on property and equipment	**32**	—	**258**
Other	388	—	**3,132**
Total deferred tax liabilities	**¥27,835**	¥ —	**$224,657**
Net deferred tax assets	**¥10,680**	¥37,171	**$ 86,199**
Deferred tax liabilities for revaluation reserve for land	**¥20,619**	¥20,714	**$166,416**

23. SUBSEQUENT EVENTS

On June 26, 2001, the stockholders of the Bank authorized the following appropriations of retained earnings at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥3.25 ($0.03) per share	**¥650**	**$5,246**
Bonuses to directors and corporate auditors	**50**	**404**

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, 2001 and 2000, and 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, 2001 and 2000, and the non-consolidated results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, effective April 1, 2000, THE YAMAGUCHI BANK, LTD. prospectively adopted new Japanese accounting standards for financial instruments and employees' severance and retirement benefits.

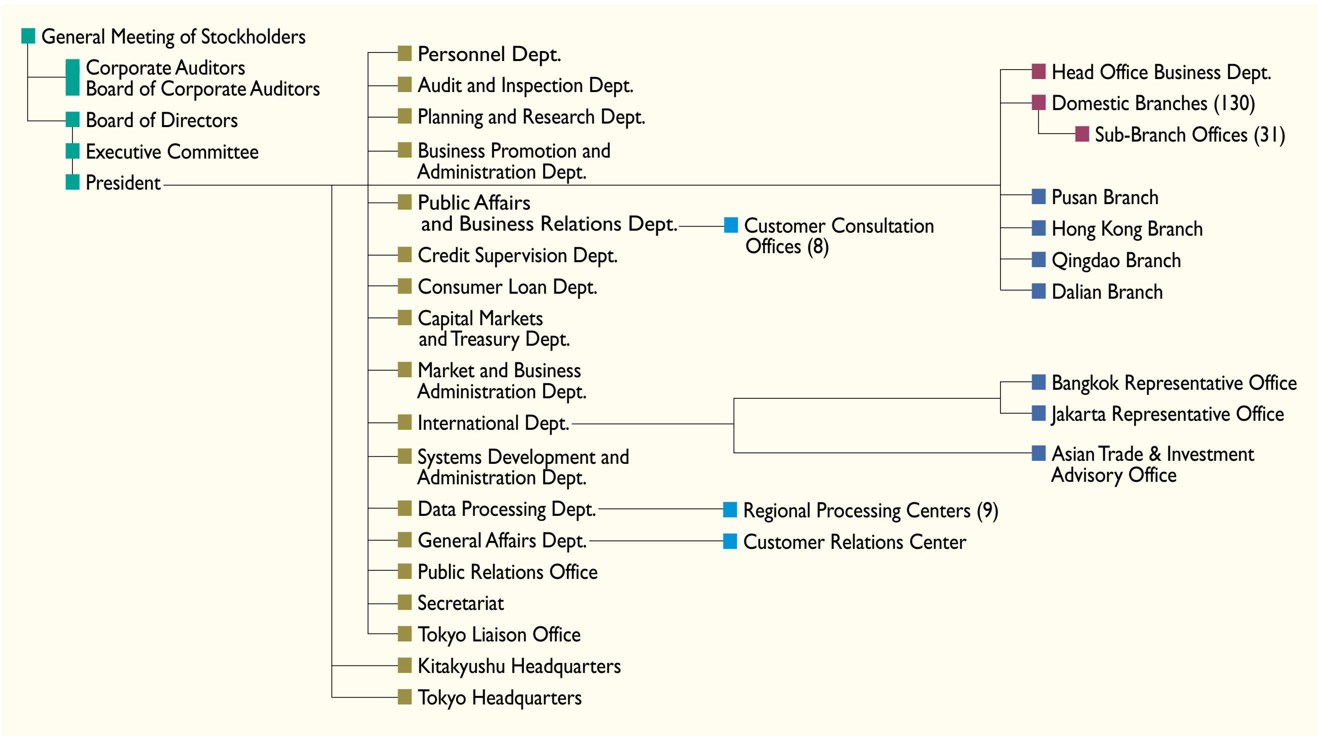
Also, in our opinion, the U.S. dollar amounts in the accompanying non-consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

(A Member Firm of Andersen Worldwide SC)
Tokyo, Japan
June 27, 2001

Statement on Accounting Principles and Auditing Standards

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



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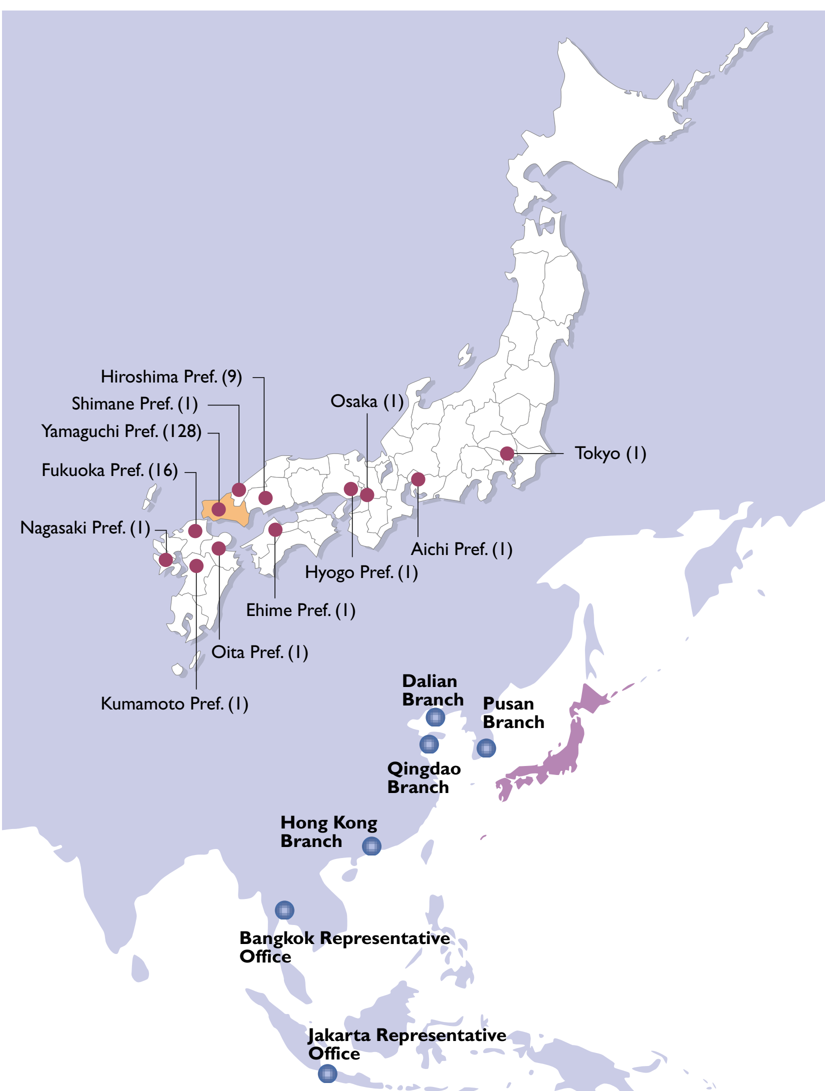
Offices Handling Foreign Exchange Business

Head Office Shimonoseki	2-36, 4-chome, Takezaki-cho, Shimonoseki, Yamaguchi Pref.
Tokyo Branch	3-5, 3-chome, Nihonbashi Hongoku-cho, Chuo-ku, Tokyo
Osaka Branch	6-14, 1-chome, Edobori, Nishi-ku, Osaka
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.
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, Ekiminami-machi, 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.
Wakamatsu Branch	1-8, Nakagawa-machi, Wakamatsu-ku, Kitakyushu



Subsidiaries and Affiliates

• Subsidiaries

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

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

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

YAMAGIN REGIONAL ENTERPRISE SUPPORT FOUNDATION
Assistance for local companies

Domestic

Head office and branches 131
Sub-Branch offices 31

Overseas

Overseas branches 4
Overseas representative offices 2

(As of June 30, 2001)

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