

# Annual Report

Year ended March 31

# 2003



**YAMAGUCHI BANK**



## Profile

Yamaguchi Bank's origin dates back to the founding of its predecessor, the Hyakujū (110th) National Bank, in 1878. As the financial institution responsible for the management of local and prefectural finances, we have expanded our business by endorsing a management policy consisting of "sound and enterprising spirit, frugality and strength, and a focus on the Bank's primary mission." Yamaguchi Bank is a major regional bank, with 158 branches and offices in Japan, principally in Yamaguchi Prefecture, and 6 business bases overseas.



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## Cover

The photo on the cover page is of a bas-relief sculpture on display in the main lobby at Yamaguchi Bank's head office.

# Financial Highlights

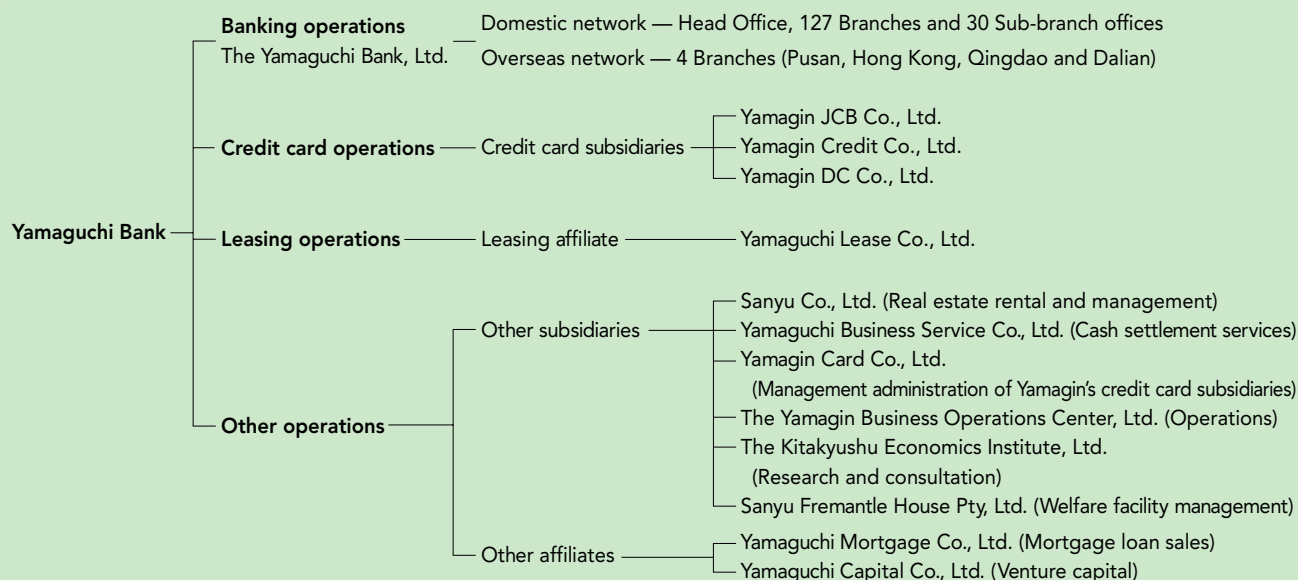
## Consolidated Financial Highlights

(Years ended March 31)	Millions of yen		Thousands of U.S. dollars*
	2003	2002	2003
For the year:			
Total income .....	¥ 88,853	¥ 103,268	\$ 739,210
Total expenses .....	130,663	98,679	1,087,047
Income (loss) before income taxes and minority interests.....	(41,810)	4,589	(347,837)
Net Income (loss) .....	(26,225)	2,355	(218,178)
At year-end:			
Total assets .....	4,444,804	4,533,490	36,978,403
Deposits .....	4,014,898	4,059,953	33,401,814
Loans and bills discounted.....	3,015,707	3,010,533	25,089,077
Securities .....	1,061,108	943,286	8,827,854
Stockholders' equity.....	270,954	301,000	2,254,193
Capital adequacy ratio.....	11.03%	11.81%	
Per Share (in yen and U.S. dollars):			
Net income (loss) .....	(131.18)	11.77	(1.09)
Dividends .....	6.50	6.50	0.05

\* U.S. dollar amounts have been translated, for convenience only, at the rate of ¥120.20=US\$1.00 as of March 31, 2003.

## Yamaguchi Bank Group

The Yamaguchi Bank's group consists of the parent bank, 9 subsidiaries, and 3 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.



## Message from the Management

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Kazuaki Katsuhara  
*Chairman*

Tetsunosuke Tabaru  
*President*

### Operating Environment

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In the 2002 fiscal year the Japanese economy presented a mixed picture. Whereas in the first half there were signs of a pick-up, in the second half the economic outlook became increasingly uncertain as a result of factors such as the mounting tension in the Middle East, which caused share prices to slide. In the economy of our local region, production generally remained at a high level, buoyed by growth in exports to East Asia, but consumer spending lacked strength, and capital investment remained slack. In the financial sector the banking industry has reached a turning point, spurred by developments such as the imposition of a ¥10 million cap on government guarantees on

time deposits in April 2002, and the start of the Program for Financial Revival by the Financial Services Agency in October of that year.

### Consolidated Performance

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Amid this operating environment, we have worked to expand and strengthen our management base. As a result of concentrated efforts to accelerate the disposal of non-performing loans, we have achieved the results outlined below in the year ended March 31, 2003.

Total assets stood at ¥4,444,804 million (US\$36,978 million) at the end of the term, representing a decrease of ¥88,686 million from the previous year, and

stockholders' equity also declined ¥30,046 million from the previous term, to ¥270,954 million (US\$2,254 million).

Total income (recurring income plus extraordinary income) fell by ¥14,414 million to ¥88,853 million (US\$739 million), loss before income taxes and minority interest came to ¥41,810 million (US\$348 million), compared with income before income taxes of ¥4,589 million for the previous year. As a result, we posted net loss of ¥26,225 million (US\$218 million), compared with the previous year's net income of ¥2,355 million.

Net cash provided by operating activities amounted to ¥152,529 million, net cash used in investment activities came to ¥140,389 million, and net cash used in financing activities came to ¥1,346 million, almost the same level as the previous year. The term-end balance of cash and cash equivalents amounted to ¥78,629 million (US\$654 million).

The Bank's performance regarding deposits and loans was as follows. Deposits from individuals increased, however total deposits including CDs decreased ¥45.1 billion to a term-end balance of ¥4,014.8 billion (US\$33,402 million).

Despite continually sluggish demand for funds, we responded actively, as a regional financial institution can, to the funding needs of local companies. Consequently, the total balance of loans outstanding rose by ¥5.2 billion over the previous term, to ¥3,015.7 billion (US\$25,089 million) at term-end.

Securities holdings rose ¥117.8 billion, to a year-end balance of ¥1,061.1 billion (US\$8,828 million), due primarily to an increase in holdings of national government bonds.

The Bank's consolidated capital ratio measured by uniform international (BIS) standards fell by 0.78 of a percentage point from the previous year, to 11.03%.

### 9th 3-Year Plan Making Good Progress

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In our 2nd Long-Term Vision, which was in effect until March 2011, the Bank outlined its ideal position as a “comprehensive financial services provider, providing optimal services based on an accurate understanding of customers' needs.”

Stated in another way the Bank aims to be a “one-stop shop,” providing our individual local customers with optimal products and services. The Bank has been working with the 9th 3-Year Plan since April 2001 in order to achieve this vision. The Plan itself outlines the Bank's objectives in serving as a financial agent for customers in the region: to keep pace with local customers and to build customer relationships characterized by strong trust and high reliability. Specifically, we intend to shift all operations to a customer-focused approach.

To earn an even higher degree of trust from our customers, we are studying methods of risk control so as to create a system capable of properly controlling risk. In addition, the Bank has been enthusiastically addressing issues including cost reductions and the optimal distribution of management resources.

Amid the harsh business environment resulting from prolonged the economic slowdown, we have clarified the Bank's important business indicators and short-term target levels in the following manner to realize a high-earnings structure.

#### Important Business Indicators and Short-Term Target Levels (Non-Consolidated Basis)

Business Indicator	Target Level	FY2002 Result
Net income (loss)	¥10 billion or more	(¥26.5 billion)
Business profit from core operations*	¥30 billion or more	¥25.5 billion

\* Refers to business profit deducted from income/loss related to national government and other bonds and transfers to general reserves for possible loan losses.

#### Outlook for Fiscal 2003

As the operating environment is likely to remain very difficult, to achieve a sharp and rapid turnaround in our performance we will resolutely pursue a genuine policy of selection and concentration. This will entail clarifying exactly which fields we must concentrate our efforts on, and which we must eliminate or reduce.

Looking ahead to our performance in the year to March 2004, a substantial decline in the amount of disposal of non-performing loans is the major factor leading us to predict a net income of ¥10.1 billion, compared with a ¥26.2 billion net loss for the reporting term. For the full year we plan to pay a total dividend per share of ¥6.5 on a non-consolidated basis.

#### Message to All Stockholders and Investors

We are further enhancing corporate value and maintaining a position regarding self-innovation. Through the steady implementation of the 9th 3-Year Plan, we will bolster our business and management bases. At the same time, based on our more than 120-year history of trustworthiness, we will steadily undertake business operations to develop stronger roots within the region, and actively support

the growth and revitalization of local companies.

Although a severe business environment persists, we will be continuing striving to harness the combined strengths of the Group and win the support and goodwill of our stockholders and all our stakeholders. We will make utmost efforts to that end, and hope for your continued support.



Kazuaki Katsuhara  
*Chairman*



Tetsunosuke Tabaru  
*President*

July 2003

## Non-Performing Loans

### Problem Assets Subject to Disclosure under the Financial Revitalization Law (on a non-consolidated basis)

In accordance with the stipulations in the Law Concerning Emergency Measures for Financial Revitalization (Financial Revitalization Law), the Bank carries out asset self-assessment to classify assets subject to disclosure under the Financial Revitalization Law based on borrowers' financial position and performance. The Bank provides for possible loan losses in an amount deemed necessary to secure the soundness of its asset portfolio.

#### Bankrupt and quasi-bankrupt assets:

**¥38.2 billion**

Assets classified under this category are claims on obligors who have fallen into business failure due to bankruptcy or corporate reorganization, or who are under civil rehabilitation procedures.

#### Doubtful assets:

**¥104.6 billion**

Assets classified under this category refer to claims, of which recovery of principal or receipt of interest in line with the initial terms and conditions is deemed highly doubtful, as the obligors' financial position and performance have substantially deteriorated, though the obligors have not yet been generally recognized as being in a state of business failure.

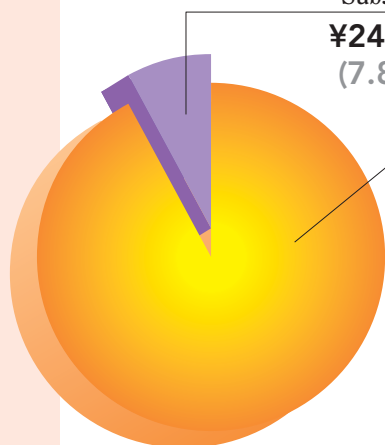
#### Substandard loans:

**¥99.2 billion**

"Substandard loans" refers to "loans past due for three months or more," and "restructured loans" defined in the Banking Law.

- Bankrupt and quasi-bankrupt assets
- Doubtful assets
- Substandard loans

**¥242.2 billion**  
(7.88%)



- "Normal" assets

**¥2,829.5 billion**  
(92.12%)

"Normal assets" refers to assets other than assets in the above three categories. For loans classified under this category, too, the Bank provides reserves in an amount deemed necessary for possible loan losses based on historical default rates.

Total assets subject to disclosure under the Financial Revitalization Law (as of March 31, 2003):

**¥3,071.7 billion**

Assets subject to disclosure: loans, foreign exchange bought, foreign exchange for collection, customers' liabilities for acceptances and guarantees, and suspense payments or accrued interest (on loans)

### Coverage of assets subject to disclosure under the Financial Revitalization Law by collateral, guarantees and reserves and the Bank's capital ratio

Amounts of assets subject to disclosure under the Financial Revitalization Law (bad debt amount)

Amounts covered by collateral, guarantees or reserves:

**¥196.9 billion**



Total sum: **¥242.2 billion**

Total capital (stockholders' equity)

Unrealized gains on available-for-sale securities (net of tax):

**¥25.3 billion**

Revaluation reserve for land (net of tax):

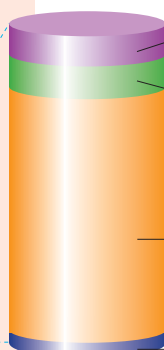
**¥27.4 billion**

Additional paid-in capital and retained earnings:

**¥206.1 billion**

Common stock:

**¥10 billion**



Total: **¥268.8 billion**

## Improving Asset Soundness

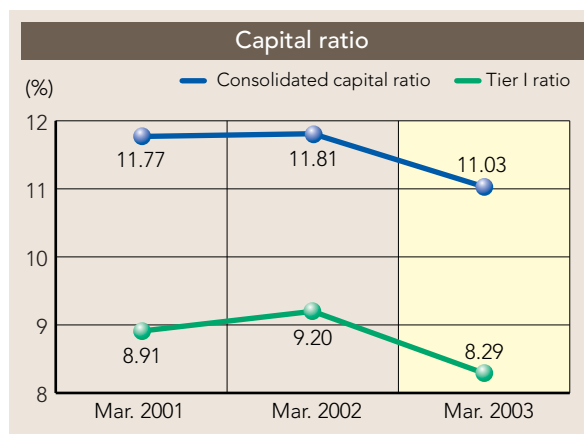
The Bank has been attaching great importance to the impact of bad debt disposal on the standing of financial institutions, and for this reason has practiced a policy of prevention and speedy disposal to ensure the soundness of its asset portfolio. Write-offs and provisions to reserves for possible loan 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 established a system for the periodic appraisal review of real estate collateral values under application of objective standards. It was due to these measures that the Bank received top marks among Japanese banks from ratings institutions.

We have provided sufficient reserves for future possible loan losses, and we will continue to increase the soundness of our assets and strengthen our earnings structure.

## Capital Ratio

The Bank's capital ratio for fiscal 2002 on a consolidated basis and according to international (BIS) standards fell 0.78 of a percentage point from the previous term, to 11.03%. The Bank's capital ratio on a non-consolidated basis also fell 0.78 of a percentage point to 10.94%. Both ratios easily cleared the minimum standard ratio of 8%. The Bank's Tier I ratio fell 0.91 of a percentage point from the previous term, to 8.29%. We will continue to strive for stable earnings and an increase in retained earnings.



## 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.

## Enhancing Operating Efficiency

We are implementing measures to raise management and operational efficiency, and thereby improve profitability.

Operating efficiency as measured by the overhead ratio (OHR), which describes the ratio of operating expenses (including the cost of staff and premises) to gross business profit, is the principal benchmark in managing the Bank's operations. The overhead ratio stood at 63.44% at term-end.

We have taken steps to enhance still further our low-cost operating structure, which has won



widespread praise among observers. In March 2003 we established The Yamagin Business Operations Center, Ltd., a wholly owned subsidiary, to enable centralized administrative operations to be conducted at low cost. The establishment of the subsidiary is aimed primarily at lowering the costs of banking operations, and will also contribute to reducing costs for the entire Group.

## Risk Management

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In the conduct of its business activities the Bank is exposed to various types of risk such as credit, market, and liquidity risk, each of which is rendered more diverse and complex by changes in exogenous variables such as the economic, social, and financial environment. In view of this, the strengthening of the risk-management structure is a key issue for management as it seeks to maintain and enhance the Bank's soundness.

The Bank's Regulations for Comprehensive Risk Management set out its basic policies for risk management. Accompanying them the Bank has built a multilayered structure comprising the Risk Management Committee, which forms part of a committee system for screening risk at management level; a risk-management division with overall comprehensive control of the management of risk; and risk-management divisions dealing with individual risks. Numerical values are given to quantifiable risk in accordance with uniform standards, whereupon optimum amounts of risk capital are allotted accordingly, and uniform risk management conducted in a manner that ensures that earnings correspond to the degree of risk.

In addition, the Audit and Inspection Department, which functions independently of the Bank's operating divisions, conducts inspections and audits to ensure

that risk management is being carried out properly. This serves as a mechanism for spurring improvements in the risk management system.

## Compliance

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One of the most important priorities in banking operations, compliance at Yamaguchi Bank ensures strict adherence to laws and regulations and a high ethical standards. Fully cognizant of its social responsibility as a bank, and of the importance of its public-service mission, Yamaguchi Bank continues to take steps to further strengthen its compliance structure, based on raising the awareness of professional ethics of its employees, with the aim of minimizing non-compliance.

The "Ethics Rules" laid down by the Japanese Bankers' Association in 1997 have been adopted within the Yamaguchi Bank as basic behavioral guidelines for the Bank's employees. In addition, we have established a Corporate Ethics Committee. As part of its activities, the committee oversaw the production of the Ethics Wall Calendar, compiled from mottoes collected within the Bank, and distributed it to all departments and offices.

In order to ensure full compliance, compliance officers have been assigned to all divisions and branches to conduct inspections on a day-to-day basis.



# Review of Operations

## Banking Operations

### • Deposit-Taking Business

During the year under review, we engaged extensively in marketing activities that enabled us to keep a finger on the pulse of economic life in the community, and continued to develop an array of financial products and to provide services designed to match customers' investment objectives. We also took steps to improve existing products to make them more accessible to our customers. In April 2002, for example, we lowered the minimum deposit amount required for floating-rate time deposits.

As part of our efforts to offer attractive financial products in today's era of ultralow interest rates, we conducted a long sales campaign for foreign-currency time deposits for retail customers. Efforts were also devoted to further enhancing its services, including a promotional campaign under which supplementary interest rates were added.

As a result of these activities, the balance of deposits from retail customers totaled ¥2,599.7 billion at March 31, 2003, and the balance of deposits from corporate customers stood at ¥928.5 billion.

In the field of investment trusts we took further steps to enhance our structure and better position

ourselves to cater to customers' diverse investment requirements. These included increasing the number of branches handling investment trust products to cover our entire branch network, and installing dedicated personal computers for investment consultations.

Regarding the defined contribution pensions, the Bank handles both corporate pensions and pensions for individuals. The Bank has also started handling life insurance as an agent.

### • Lending Operations

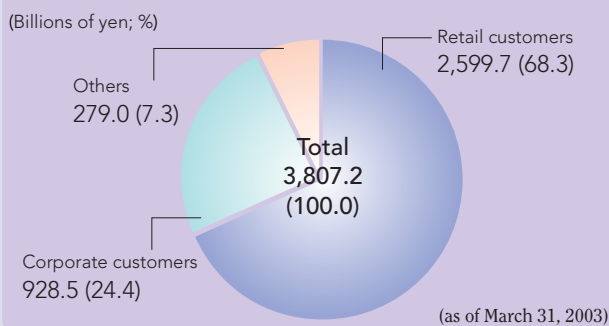
In the sphere of personal lending we made improvements to the Bank's Consumer Corners, which dispense advice on our full range of housing, auto, and other loans, and handle loan applications. Specifically, in July 2002 a loan consulting corner was set up at the Kami-Ube Branch, and since December 2002 we have extended the operating hours of these facilities at the Tokuyama Nishi Sub-Branch Office of its Tokuyama Branch. Also, as a result of the December 2002 introduction of the automated screening system for mortgage loans and the improvement of procedural efficiency, we began an advance-application scheme under which the results of screening may be transmitted to applicants by as early as the following business day.

In addition, to make mortgage loans and loans for educational purposes easier for customers to cope with, we conducted a promotional campaign offering preferential interest rates on these products.

For corporate customers, steps were taken to enhance the Bank's ability to identify customer needs accurately and provide them with the optimum services promptly. This was effected by strengthening the capabilities of headquarters marketing divisions and the support structure for branch offices.

Yamaguchi Bank is committed to ongoing efforts to improve still further its loan products for both retail and corporate customers, so as to ensure a smooth

Deposits at domestic branches broken down by depositor





supply of funds, and in turn to support the development of the regional economy.

#### • Other Services

In order to satisfy the demands of the current advanced information society, we have also increased services accessible from fixed-line and mobile phones and through the Internet.

Against the backdrop of the remarkable progress being made in networking throughout society, we will continue to monitor technological trends very closely, and work vigorously to improve our systems in a manner designed to enhance the convenience of our customers.

#### • International Business

Yamaguchi Bank has an overseas network in place to help it meet the wide-ranging needs of its customers in such areas as trading transactions and overseas investment. As of the end of March 2003 this network comprised four branches—Pusan, Hong Kong, Qingdao, and Dalian—and two representative offices—in Bangkok and Jakarta—giving the Bank a structure that enables it to cater to the increasingly international orientation of its home region. The range of services provided by these overseas units includes financial services such as trade financing for Japanese and Japan-affiliated companies operating in the overseas localities, and the collation and dissemination of trade and investment information for the Bank's domestic corporate customers.

Information received from the overseas network is

released locally in the form of “Yamagin Asian News” in the monthly newsletter *Yamaguchi Economic Monthly* published by the Yamaguchi Economic Research Institute of and through the Bank's website. In addition, the Bank periodically holds a briefing session with overseas branch managers, who report to headquarters and provide customers with information on local operations and updates on local investment climates.

We have established an Asian Trade & Investment Advisory Office within our International Department. This forms part of our overall structure to assist corporate customers with their overseas activities through our trade and investment advisory service and our service as an intermediary for companies setting up or operating overseas.

To meet demand arising from events such as the holding of the soccer World Cup in Japan and Korea, in April 2002 the Bank commenced the buying and selling of Korean won notes.

### Other Business

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In addition to its core banking business, Yamaguchi Bank provides a comprehensive range of financial services in collaboration with other members of its corporate group. These include credit card business, leasing business, mortgage securities business, and venture capital business.

### New Management Structure

In June 2002 Kazuaki Katsuhara was appointed to the office of Chairman of Yamaguchi Bank, and Tetsunosuke Tabaru assumed the office of President, thereby inaugurating a new management structure. Under this new structure the Bank's management has been directed at making it even more closely attuned to the local community that it serves—becoming an institution familiar and accessible to all the members of that community.

### Headquarters Reorganization

In June 2002, at the time the new management structure came into being, the headquarter was reorganized for the purpose of strengthening the capabilities of headquarter marketing divisions and the support structure for branch offices. In its capacity as the “financial agent for its home region,” the Bank will continue to evolve its organization in line with the times, so as to be well-positioned to identify local customer needs and to provide the highest level of financial services.

### Establishment of The Kitakyushu Economics Institute, Ltd.

In response to strong wishes expressed in the Kitakyushu area, in October 2002 the Bank established The Kitakyushu Economics Institute, Ltd. as a bank-affiliated think-tank. Its objectives are not only to engage in studies and research in the financial and economic spheres, but also to frame policy proposals from a truly local perspective, and to undertake activities to contribute to the local community.

### Introduction of Automated Screening System for Housing Loans

In December 2002 we introduced an automated screening system for mortgage loan applications, allowing a change in emphasis from security valuation to repayment capacity – a screening focus more appropriate to the times and to customer needs. This has made it possible for people to obtain financing not only for the purchase of a home, but also for the various other expenses that are inevitably incurred from time to time. In addition, the efficiency of the screening procedure has been enhanced by the start of an advance-application scheme that enables the screening results to be conveyed to applicants very rapidly (as early as the next business day in a best-case scenario).

### Establishment of The Yamagin Business Operations Center, Ltd.

To enable centralized administrative operations to be conducted at low cost, in March 2003 Yamaguchi Bank spun off operations department and established it as The Yamagin Business Operations Center, Ltd., a wholly owned subsidiary. The aims of this move, which formed part of our ongoing efforts to build an enhanced low-cost structure, include raising and augmenting the Bank's capacity for administrative processing, and reducing costs for the entire Group.



# Contribution to the Society

## The Yamaguchi Venture Forum

The Yamaguchi Venture Forum was established in 1997 by the Bank, with the cooperation of the Yamaguchi Prefectural Government and Yamaguchi University. Its objective is to contribute to the strengthening of the business foundations of local companies and the fostering of the growth of venture businesses.

During fiscal 2002 the Forum held study meetings on such subjects as product development, marketing, and food technology, and a seminar on presentation techniques. Through gatherings such as these, the Forum also serves as a medium to facilitate networking among the people involved.

## The Yamagin Regional Enterprise Support Foundation

The Yamaguchi Bank Regional Enterprise Support Foundation was established in 1984 to mark the Bank's 40th anniversary, backed by a fund of ¥200 million. Today, the Foundation provides commendations and assistance to small and medium-sized companies not only in Yamaguchi Prefecture, but also Hiroshima and Fukuoka prefectures, and its name has been changed to the Yamagin Regional Enterprise Support Foundation.

During fiscal 2002, the Foundation made commendations to 6 companies in Yamaguchi Prefecture, 7 in Hiroshima Prefecture, and 7 in Fukuoka Prefecture: a total of 20. To date, its financial assistance has been provided to a total of 201 companies, in an aggregate amount of ¥201 million.



## Acceptance of Overseas Students and Trainees, and Assistance with Living Costs

Since 1970 the Bank has been inviting students and trainees from East Asia and the Middle East, and providing them with assistance in such forms as accommodations and help to cover living costs.

During fiscal 2002 it accepted four students from China, Thailand, and Turkey who came to Japan to attend lectures at Shimonoseki City University. These students brought to 105 the cumulative total of students who have benefited from the Bank's assistance.

## Lectures to the Community

To provide useful information to people its local region, Yamaguchi Bank arranges a variety of events such as lectures relating to the situation overseas and economic and business conditions, and meetings to explain economic white papers. Specific examples during the year include the holding of a lecture on the government's economic white paper in November 2002, and another on the Kyushu economic white paper in March 2003.

## Support for Participation in Local Events

The Bank is an enthusiastic supporter, through the provision of both funds and personnel, of festivals and events of all sorts held in various parts of the region to infuse vigour into local communities. During fiscal 2002, for example, a total of some 2,700 Bank staff took part in and provided assistance for more than 60 events held in Yamaguchi and neighboring prefectures.

## Board of Directors and Corporate Auditors



*Chairman*  
**Kazuaki Katsuhara**



*President*  
**Tetsunosuke Tabaru**



*Senior Managing Director*  
**Hideo Hirota**



*Senior Managing Director*  
**Takeshi Kuwabara**



*Managing Director*  
**Kaoru Suehiro**



*Managing Director*  
**Katsuhiko Nishihara**



*Managing Director*  
**Hiroshi Takimoto**

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### **Chairman**

Kazuaki Katsuhara

### **President**

Tetsunosuke Tabaru

### **Senior Managing Directors**

Hideo Hirota

Takeshi Kuwabara

### **Managing Directors**

Kaoru Suehiro

Katsuhiko Nishihara

Hiroshi Takimoto

### **Directors**

Hideaki Fujii

Yuji Hamasaki

Tetsuro Aono

Toshio Kato

Hidenori Inoue

Tetsuhiko Takahashi

Koichi Fukuda

Fumio Nosaka

### **Corporate Auditors**

Akifumi Ogawa

Yutaka Uetani

Ryotaro Kaneko

## Financial Review (Consolidated Basis)

### Business Environment

During the 2002 fiscal year there were some indications of a modest upturn in the Japanese economy, but there was mounting uncertainty about the economy's future course. In the economy of Yamaguchi Prefecture, production was generally maintained at a high level, but consumer spending lacked strength, and capital investment, public works, and the employment situation all showed few signs of vitality. In the financial sector there were a number of developments. In particular, announcement of the government's Program for Financial Revival in October 2002 made it a matter of even greater urgency for banks to strengthen their financial positions.

### Performance

Faced with this operating environment, we continue to make efforts to improve our performance and enhance our operating base, while accelerating the disposal of non-performing loans. These efforts enabled us to achieve the results outlined below in the year ended March 31, 2003.

Total assets fell by ¥88,686 million from the previous year, to ¥4,444,804 million.

Total income fell by ¥14,414 million year-on-year, to ¥88,853 million. We posted a loss before income taxes of ¥41,810 million, compared with income before income taxes of ¥4,589 million for the previous term,

and a net loss of ¥26,225 million, compared with the previous year's net income of ¥2,355 million.

The following is an outline of the status of deposits and loans.

Interest rates remained very low throughout the fiscal year, but by means of solid marketing activity closely attuned to the local region, we achieved an increase in deposits from individuals, thanks to our tireless marketing activities. Including CDs, however, total deposits including CDs decreased by ¥45.1 billion, to a year-end total of ¥4,014.8 billion.

Having worked vigorously to meet our customers' needs for a sound and stable supply of funds and respond to the trust they have invested in us, our loan balance rose by ¥5.2 billion year-on-year, to ¥3,015.7 billion at the end of the term.

Securities holdings rose ¥117.8 billion, to a year-end balance of ¥1,061.1 billion, due primarily to an increase in holdings of national government bonds.

Net cash provided by operating activities amounted to ¥152,530 million, net cash used in investment activities came to ¥140,390 million, and net cash used in financing activities came to ¥1,346 million, almost the same level as the previous year. Consequently, the term-end balance of cash and cash equivalents amounted to ¥78,629 million.

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## CONSOLIDATED BALANCE SHEETS

March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Assets:</b>			
Cash and due from banks (Note 3)	¥ 83,931	¥ 73,894	\$ 698,261
Call loans	174,721	366,571	1,453,586
Commercial paper and other debt purchased	3,826	2,972	31,830
Trading assets	2,677	2,931	22,271
Money held in trust	33,687	33,391	280,258
Securities (Notes 4, 5 and 7)	1,061,108	943,286	8,827,854
Loans and bills discounted (Note 6)	3,015,707	3,010,533	25,089,077
Foreign exchange assets	5,425	4,289	45,133
Other assets	22,514	26,671	187,304
Property and equipment	76,945	78,718	640,141
Deferred tax assets (Note 14)	34,128	12,039	283,927
Customers' liabilities for acceptances and guarantees	51,522	57,665	428,636
Reserve for possible loan losses	(121,387)	(79,470)	(1,009,875)
Total assets	<u>¥4,444,804</u>	<u>¥4,533,490</u>	<u>\$36,978,403</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits (Note 7)	¥4,014,898	¥4,059,953	\$33,401,814
Call money (Note 7)	40,628	41,707	338,003
Borrowed money (Note 8)	14,184	15,892	118,003
Foreign exchange liabilities	152	204	1,265
Other liabilities	26,957	32,762	224,268
Accrued employee bonuses	2,248	2,723	18,702
Employees' severance and retirement benefits (Note 9)	3,789	3,717	31,522
Deferred tax liabilities for revaluation reserve for land (Notes 10 and 14)	18,599	19,360	154,734
Acceptances and guarantees	51,522	54,942	428,636
Total liabilities	<u>4,172,977</u>	<u>4,231,260</u>	<u>34,716,947</u>
Minority interests	873	1,230	7,263
<b>Stockholders' equity (Note 11):</b>			
Common stock:			
Authorized – 600,000 thousand shares			
Issued – 200,000 thousand shares	10,006	10,006	83,245
Capital surplus	376	376	3,128
Retained earnings	207,895	235,247	1,729,576
Revaluation reserve for land, net of tax (Note 10)	27,404	27,022	227,987
Unrealized gains on securities, net of tax (Note 5)	25,347	28,394	210,874
Common stock in treasury, at cost	(74)	(45)	(617)
Total stockholders' equity	<u>270,954</u>	<u>301,000</u>	<u>2,254,193</u>
Total liabilities and stockholders' equity	<u>¥4,444,804</u>	<u>¥4,533,490</u>	<u>\$36,978,403</u>

See accompanying notes.



## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Income:</b>			
Interest on loans and discounts	¥ 56,901	¥ 62,098	\$ 473,386
Interest and dividends on securities	15,797	17,934	131,423
Other interest	415	1,983	3,453
Fees and commissions	10,915	9,896	90,807
Trading income	118	12	982
Other operating income	1,605	5,135	13,353
Other income	3,102	6,210	25,806
Total income	<u>88,853</u>	<u>103,268</u>	<u>739,210</u>
<b>Expenses:</b>			
Interest on deposits	3,978	8,208	33,095
Interest on borrowings and rediscounts	1,033	1,774	8,594
Other interest	2,886	6,492	24,010
Fees and commissions	3,516	3,374	29,251
Trading expenses	—	1	—
Other operating expenses	1	1,286	8
General and administrative expenses	48,784	47,451	405,857
Other expenses	70,465	30,093	586,232
Total expenses	<u>130,663</u>	<u>98,679</u>	<u>1,087,047</u>
Income (Loss) before income taxes and minority interests	(41,810)	4,589	(347,837)
<b>Income taxes (Note 14):</b>			
Current	3,424	1,202	28,486
Deferred	(19,107)	634	(158,960)
Minority interests in net income	98	398	815
Net income (loss)	<u>(26,225)</u>	<u>2,355</u>	<u>(218,178)</u>
Retained earnings at beginning of year	235,247	232,484	1,957,130
Reversal of revaluation reserve for land	220	1,758	1,830
Cash dividends paid	(1,299)	(1,300)	(10,807)
Bonuses to directors and corporate auditors	(48)	(50)	(399)
Retained earnings at end of year	<u>¥207,895</u>	<u>¥235,247</u>	<u>\$1,729,576</u>
	Yen		U.S. dollars (Note 1)
<b>Amounts per share of common stock:</b>			
Net income (loss)	¥(131.18)	¥11.77	\$(1.09)
Cash dividends applicable to the year	6.50	6.50	0.05

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Cash flows from operating activities:</b>			
Income (Loss) before income taxes and minority interests	¥(41,810)	¥ 4,589	\$ (347,837)
Depreciation	2,544	2,443	21,165
Amortization of consolidation goodwill	(386)	(668)	(3,211)
Equity in earnings of affiliates	15	(45)	125
Net change in reserve for possible loan losses	41,917	(11,348)	348,727
Net change in accrued employee bonuses	2,248	—	18,702
Net change in employees' severance and retirement benefits	72	(53)	599
Interest income	(73,113)	(82,015)	(608,261)
Interest expenses	7,897	16,473	65,699
Net loss related to securities transactions	2,073	6,940	17,246
Net loss from money held in trust	508	229	4,226
Net exchange (gain) loss	8,751	(5,847)	72,804
Net loss from disposition of property and equipment	418	2,204	3,478
Net change in trading assets	254	1,285	2,113
Net change in trading liabilities	—	(25)	—
Net change in loans	(5,175)	(42,264)	(43,053)
Net change in deposits	15,666	(202,349)	130,333
Net change in negotiable certificates deposits	(60,720)	239,200	(505,158)
Net change in borrowed money excluding subordinated loans	(1,708)	(90)	(14,210)
Net change in call loans	190,990	10,593	1,588,935
Net change in call money	(1,080)	14,821	(8,985)
Net change in deposits with bank	777	78,474	6,464
Net change in foreign exchanges (asset account)	(1,135)	55	(9,443)
Net change in foreign exchanges (liability account)	(52)	176	(433)
Interest received	76,845	86,428	639,309
Interest paid	(10,700)	(18,841)	(89,018)
Bonuses to directors and corporate auditors	(48)	(50)	(399)
Other, net	(2,157)	(35,313)	(17,945)
Subtotal	152,891	65,002	1,271,972
Income taxes paid	(361)	3,204	(3,004)
Net cash provided by operating activities	152,530	68,206	1,268,968
<b>Cash flows from investing activities:</b>			
Purchases of securities	(546,771)	(490,102)	(4,548,844)
Payment for acquisition of shares of subsidiaries	(53)	(10)	(441)
Proceeds from sale of securities	149,058	143,094	1,240,083
Proceeds from maturity of securities	259,403	290,428	2,158,095
Proceeds from sale of shares of subsidiaries	51	—	424
Net change in money held in trust	(886)	(6,370)	(7,371)
Purchases of property and equipment	(4,040)	(5,296)	(33,611)
Proceeds from sales of property and equipment	2,848	1,602	23,695
Payment for acquisition of shares of subsidiaries	—	(524)	—
Net cash used in investing activities	(140,390)	(67,178)	(1,167,970)
<b>Cash flows from financing activities:</b>			
Payments for purchase of treasury stock	(46)	(8)	(383)
Dividends paid	(1,299)	(1,300)	(10,807)
Dividends paid to minority stockholders	(1)	(2)	(8)
Net cash used in financing activities	(1,346)	(1,310)	(11,198)
Foreign currency translation adjustments	20	(16)	167
Net change in cash and cash equivalents	10,814	(298)	89,967
Cash and cash equivalents at beginning of year	67,815	68,113	564,184
Cash and cash equivalents at end of year (Note 3)	¥ 78,629	¥ 67,815	\$ 654,151

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003 and 2002

### 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"). 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. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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.

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, 2003, which was ¥120.20 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. Nine subsidiaries in 2003 and seven subsidiaries in 2002 are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated.

The Bank accounts for investments in affiliated companies 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

Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' 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 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. 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.

#### Derivatives

Derivatives other than those for specific trading 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 "Temporary Treatment in Accounting and Audit for Banks on Application of Accounting Standard for Financial Instruments" (the "Report No. 15") issued by the Industry Audit Committee of JICPA.

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.

### 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.

In 2002, consolidated subsidiaries provided such reserve for an amount calculated using the rate of collection losses in the past for loans of normal borrowers in addition to amounts estimated based on collectibility analysis for borrowers threatened with bankruptcy and certain other borrowers.

### 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 using 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 (mainly 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 and its consolidated subsidiaries recognize 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 from the year ended March 31, 2002, the Bank has applied 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, except for certain transactions which are subject to the rules especially referred to in "Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (the "Report No. 20"), issued by the Industry Audit Committee of JICPA. There were no effects of applying the revised accounting standard.

Effective from the year ended March 31, 2003, the Bank has applied the revised accounting standard for foreign currency transaction, "Treatment of Accounting and Audit Concerning Accounting for Foreign Currency Transactions in Banking Industry" (the "Report No. 25") issued by Industry Audit Committee of JICPA. As a result of adopting the revised accounting standard, other assets increased by ¥874 million (\$7,271 thousand) and other liabilities increased by the same amount compared with what would have been recorded under the previous accounting standard.

Pursuant to the transitional provisions of the Report No. 25, for fund swap transactions, the amounts on the balance sheet are net yen-conversions of the principal equivalents of assets and liabilities using the fiscal-year-end exchange rate. Differences between spot and forward rates in fund swap transactions are booked in the interest income or expense account on an accrual basis for the period from the settlement of spot foreign exchange to the settlement date of forward foreign exchange. Therefore, accrued interest income or expenses are recognized at the fiscal year end.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange either bought or sold and forward foreign exchange either sold or bought. Such transactions are contracted for the purpose of funds lending or borrowing in a different currency. Fund swap transactions are used to convert the principal equivalent amount into spot foreign exchange bought or sold with regard to the corresponding funds borrowing or lending. Also, such transactions convert the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange either bought or sold.

For currency swap transactions which are for the purpose of funds borrowing/lending in different currencies and for which spot/forward are flat type, which means that paying or receiving amounts at the time of the currency swap contract are equal to receiving or paying amounts at the currency swap maturity dates and the swap rate applied to principal and interest is the current market rate (including the currency swap transactions which are that the principal amount of one counterparty is revised in order to reflect each exchange rate at the interest payment dates and are judged as spot/forward flat type for each interest payment date), the amounts on the balance sheet are net positions of financial asset and liability equivalents translated by using the fiscal-year-end exchange rate. The equivalent amounts of interest to exchange are booked in interest income and expense accounts on an accrual basis for the corresponding contract period. Therefore, accrued interest income or expenses are recognized at fiscal year end.

#### **Accrued employee bonuses**

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

At March 31, 2003 accrued employee bonuses is separately disclosed in the consolidated balance sheet. In prior year it was included in other liabilities. However the prior year has been restated to conform to the current year presentation.

#### **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 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 Bank also introduced a tax qualified pension plan on April 1, 1995, and its past service costs were amortized over 7 years.

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, 2003 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

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.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Bank decided to restructure its Employees' Pension Fund and was permitted by the Minister of Health, Labor and Welfare on March 1, 2003 to be released from its future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme.

The Bank applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)," and the effect of transferring the substitutional portion was recognized on the date permission was received from the Ministry of Health, Labor and Welfare. As the result, in the year ended March 31, 2003, the Bank recorded losses on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥1,450 million (\$12,063 thousand), which was calculated based on the amount of the substitutional portion of the projected benefit obligations as of the permission date, the related pension assets determined pursuant to the government formula, and the related unrecognized items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥12,721 million (\$105,833 thousand) as at March 31, 2003.

#### Accounting standard for treasury stock and reversal of statutory reserves

Effective April 1, 2002, the Bank adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on assets, minority interest and stockholders' equity of the adoption of the new accounting standard was not material.

#### 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.

Effective April 1, 2002, the Bank adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

### 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Cash and due from banks	¥83,931	¥73,894	\$698,261
Time deposits in other banks	(4,111)	(4,993)	(34,201)
Other	(1,191)	(1,086)	(9,909)
Cash and cash equivalents	<u>¥78,629</u>	<u>¥67,815</u>	<u>\$654,151</u>

### 4. SECURITIES

Securities held by the Bank at March 31, 2003 and 2002 include shares of affiliated companies amounting to ¥243 million (\$2,022 thousand) and ¥261 million, respectively.

### 5. MARKET VALUE INFORMATION OF SECURITIES, AND DERIVATIVES

A. The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2003:

(a) Trading securities

Book value — ¥2,664 million (\$22,163 thousand)

Amount of net unrealized gains included in the income statement — ¥1 million (\$8 thousand)

(b) Held-to-maturity debt securities:

	Millions of yen	Thousands of U.S. dollars
Bonds:		
Book value	¥ 9,985	\$83,070
Fair value	<u>10,431</u>	<u>86,780</u>
Unrealized gain	<u>¥ 446</u>	<u>\$ 3,710</u>
Other securities:		
Book value	¥ 8,990	\$74,792
Fair value	<u>9,597</u>	<u>79,842</u>
Unrealized gain	<u>¥ 607</u>	<u>\$ 5,050</u>

(c) Available-for-sale securities:

Type	Millions of yen		
	Acquisition cost	Book value	Unrealized gain
Shares	¥ 55,700	¥ 72,687	¥16,987
National government bonds	534,461	546,093	11,632
Local government bonds	162,941	170,438	7,497
Debentures	112,798	117,286	4,488
Other securities	<u>129,009</u>	<u>131,373</u>	<u>2,364</u>
Total	<u>¥994,909</u>	<u>¥1,037,877</u>	<u>¥42,968</u>

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Unrealized gain
Shares	\$ 463,394	\$ 604,717	\$141,323
National government bonds	4,446,431	4,543,203	96,772
Local government bonds	1,355,582	1,417,953	62,371
Debentures	938,419	975,757	37,338
Other securities	<u>1,073,287</u>	<u>1,092,954</u>	<u>19,667</u>
Total	<u>\$8,277,113</u>	<u>\$8,634,584</u>	<u>\$357,471</u>

The following tables summarize book values of securities with no available fair values as of March 31, 2003:

## (a) Held-to-maturity debt securities:

Type	Millions of yen Book value	Thousands of U.S. dollars Book value
Non-listed bonds	¥1,940	\$16,140

## (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)	¥2,707	\$22,521

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

Type	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
National government bonds	¥ 64,798	¥276,889	¥175,149	¥29,257
Local government bonds	7,942	59,083	100,946	2,466
Debentures	22,981	78,215	28,014	—
Other securities	22,763	82,096	28,915	—
Total	¥118,484	¥496,283	¥333,024	¥31,723

Type	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
National government bonds	\$539,085	\$2,303,569	\$1,457,146	\$243,403
Local government bonds	66,073	491,539	839,817	20,515
Debentures	191,190	650,707	233,062	—
Other securities	189,376	682,995	240,557	—
Total	\$985,724	\$4,128,810	\$2,770,582	\$263,918

There were no sales of held-to-maturity debt securities in the year ended March 31, 2003.

Total sales of available-for-sale securities sold in the year ended March 31, 2003 amounted to ¥144,169 million (\$1,199,409 thousand) and the related gains and losses amounted to ¥1,213 million (\$10,092 thousand) and ¥1 million (\$8 thousand), respectively.

B. The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2002:

## (a) Trading securities

Book value — ¥2,930 million

Amount of net unrealized losses included in the income statement — ¥3 million

## (b) Held-to-maturity debt securities:

	Millions of yen
Bonds:	
Book value	¥7,726
Fair value	7,955
Unrealized gain	¥ 229
Other securities:	
Book value	¥10,219
Fair value	10,647
Unrealized gain	¥ 428

## (c) Available-for-sale securities:

Type	Millions of yen		
	Acquisition cost	Book value	Difference
Shares	¥ 56,822	¥ 88,778	¥ 31,956
National government bonds	431,433	438,565	7,132
Local government bonds	180,987	187,993	7,006
Debentures	106,362	109,743	3,381
Other securities	95,234	94,839	(395)
Total	¥870,838	¥919,918	¥49,080

The following tables summarize book values of securities with no available fair values as of March 31, 2002:

## (a) Held-to-maturity debt securities:

Type	Millions of yen Book value
Non-listed bonds	¥4,492

## (b) Available-for-sale securities:

Type	Millions of yen Book value
Non-listed equity securities (not including those traded over the counter)	¥2,526

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

Type	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
National government bonds	¥44,664	¥303,002	¥ 90,898	¥ —
Local government bonds	3,455	57,646	124,266	2,625
Debentures	12,487	83,809	22,132	—
Other securities	9,924	71,983	21,259	—
Total	¥70,530	¥516,440	¥258,555	¥2,625

There were no sales of held-to-maturity debt securities in the year ended March 31, 2002.

Total sales of available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥139,787 million and the related gains and losses amounted to ¥4,802 million and ¥733 million, respectively.

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

The principal risks inherent in derivative transactions are market risk such as foreign exchange and interest rate fluctuations, and credit risk. At March 31, 2003 and 2002 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 ¥13,248 million (\$110,216 thousand) and ¥8,803 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars 2003
Interest rate swaps	¥ 888	¥ —	\$ 7,388
Currency swaps	196,831	140,539	1,637,529
Forward exchange	19,648	43,163	163,461

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

## 6. LOANS AND BILLS DISCOUNTED

Loans at March 31, 2003 and 2002 include "Risk-Managed Loan Amounts" such as (1) loans to borrowers in bankruptcy amounting to ¥25,620 million (\$213,145 thousand) and ¥28,211 million, respectively, (2) other delinquent loans amounting to ¥112,545 million (\$936,314 thousand) and ¥88,461 million, respectively, (3) loans past due for three months or more amounting to ¥85 million (\$707 thousand) and ¥168 million, respectively and (4) restructured loans amounting to ¥99,142 million (\$824,809 thousand) and ¥52,021 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, 2003 and 2002, the following assets were pledged as collateral for certain liabilities of the Bank.

	Millions of yen		Thousands of
	2003	2002	U.S. dollars 2003
Securities	¥151,971	¥185,739	\$1,264,318

The collateral was pledged to secure the following:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars 2003
Deposits	¥41,427	¥20,513	\$344,651
Call money	6,010	8,661	50,000

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 ¥116,257 million (\$967,196 thousand) at March 31, 2003, and ¥117,301 million at March 31, 2002.

## 8. BORROWED MONEY

Borrowed money at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars 2003
Loans from banks and insurance offices	¥14,184	¥15,892	\$118,003

## 9. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Bank adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2003 and 2002 consists of the following:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars 2003
Projected benefit obligation	¥31,284	¥47,068	\$260,266
Less fair value of pension assets	(17,089)	(35,960)	(142,172)
Unrecognized actuarial differences	(11,443)	(10,429)	(95,200)
Prepaid pension costs	1,037	3,038	8,628
Liability for severance and retirement benefits	¥ 3,789	¥ 3,717	\$ 31,522



Included in the consolidated statement of income for the years ended March 31, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service costs — benefits earned during the year	¥1,121	¥1,140	\$9,326
Interest cost on projected benefit obligation	1,364	1,367	11,348
Expected return on plan assets	(1,003)	(1,365)	(8,344)
Amortization of actuarial differences	1,073	734	8,927
Losses on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme	1,450	—	12,063
Other	122	84	1,014
Severance and retirement benefit expenses	<u>¥4,127</u>	<u>¥1,960</u>	<u>\$34,334</u>

The discount rate used by the Bank was 2.5% and the rates of expected return on plan assets were 4.5% for the welfare pension plan, 3.0% for the tax-qualified pension plan and 0.7% for the employee's retirement benefit trust. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains/losses are recognized in income statement using the straight-line method over 10 years commencing with the year immediately after the year in which the gains or losses arose.

#### 10. REVALUATION RESERVE FOR LAND

Pursuant to the Law concerning Revaluation of Land (the "Law") effective March 31, 1998 and the law concerning amendment of the Law effective March 31, 2001, the Bank revalued certain land used for business operations at fair value, net of applicable income taxes. The income taxes corresponding to the net unrealized gains are deferred and reported in "Liabilities" as "Deferred tax liabilities for revaluation reserve for land" and the net unrealized gains, net of deferred taxes, are reported as "Revaluation reserve for land" in "Stockholders' equity." 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 ¥14,459 million (\$120,291 thousand) and ¥12,942 million at March 31, 2003 and 2002, respectively.

#### 11. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares 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, which is included in capital surplus.

The Banking Law of Japan provides that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 100% of common

stock. The reserve is not available for dividends, but may be used to reduce a capital deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 100% of common stock, they are available for distributions or certain other purposes by the resolution of stockholders' meeting. 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.

#### 12. CONTINGENT LIABILITIES — ACCEPTANCES AND GUARANTEES

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

#### 13. 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, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Equivalent amount:			
Acquisition cost	¥8,081	¥6,472	\$67,230
Accumulated depreciation	(3,589)	(3,140)	(29,859)
Net book value	<u>¥4,492</u>	<u>¥3,332</u>	<u>\$37,371</u>

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease payments	¥1,371	¥1,687	\$11,406
Equivalent of depreciation expense	1,359	1,636	11,306
Equivalent of interest expense	121	112	1,007

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, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
2004	¥1,565	\$13,020
2005 and thereafter	3,177	26,431
Total minimum lease payments	<u>¥4,742</u>	<u>\$39,451</u>

#### 14. 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, 2003. Reconciliation of the statutory tax rate and the Bank's effective tax rate for the year ended March 31, 2002 was not required due to small difference.

	2003
Statutory tax rate	41.7%
Non-deductible expenses (entertainment expense, etc.)	(0.6)
Non-taxable income (dividend income, etc.)	0.6
Modification of deferred tax assets for the change in the aggregate statutory income tax rates	(3.3)
Other	(0.9)
Effective tax rate	<u>37.5%</u>

Significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Deferred tax assets:</b>			
Reserve for possible loan losses	¥44,536	¥27,660	\$370,516
Retirement benefits	5,961	5,233	49,592
Accrued employee bonuses	749	757	6,231
Depreciation	964	1,087	8,020
Losses on devaluation of land	998	—	8,303
Other	2,285	1,984	19,010
Total deferred tax assets	<u>¥55,493</u>	<u>¥36,721</u>	<u>\$461,672</u>
<b>Deferred tax liabilities:</b>			
Unrealized gains on securities	¥17,202	¥20,343	\$143,112
Gain on securities contributed to employee retirement benefit trust	3,764	3,885	31,314
Deferred gain on property and equipment	399	454	3,319
Total deferred tax liabilities	<u>¥21,365</u>	<u>¥24,682</u>	<u>\$177,745</u>
Net deferred tax assets	<u>¥34,128</u>	<u>¥12,039</u>	<u>\$283,927</u>
Deferred tax liabilities for revaluation reserve for land	<u>¥18,599</u>	<u>¥19,360</u>	<u>\$154,734</u>

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 41.7% for the year ended March 31, 2002. Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Bank used the aggregate statutory income tax rates of 41.7% and 40.4% for current items and non-current items, respectively, at March 31, 2003.

As a result of the change in the aggregate statutory income tax rates, deferred tax assets decreased by ¥857 million (\$7,130 thousand), provision for deferred income tax increased by ¥1,414 million (\$11,764 thousand), deferred tax liabilities for revaluation reserve for land decreased by ¥602 million (\$5,008 thousand), revaluation reserve for land, net of tax increased by the same amount and unrealized gains on securities, net of tax increased by ¥557 million (\$4,634 thousand) compared with what would have been recorded under the previous local tax law.

#### 15. 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.

#### 16. SUBSEQUENT EVENTS

On June 26, 2003, the stockholders of the Bank authorized the following appropriations of retained earnings at March 31, 2003:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥3.25 (\$0.03) per share	¥650	\$5,408
Bonuses to corporate auditors	3	25

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of THE YAMAGUCHI BANK, LTD. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations and retained earnings and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THE YAMAGUCHI BANK, LTD. and subsidiaries as of March 31, 2003 and 2002, 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 as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.



Shimonoseki, Japan  
June 26, 2003

**NON-CONSOLIDATED BALANCE SHEETS**

March 31, 2003 and 2002

<b>ASSETS</b>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Assets:</b>			
Cash and due from banks	¥ 83,887	¥ 73,755	\$ 697,895
Call loans	174,721	366,571	1,453,586
Commercial paper and other debt purchased	3,826	2,972	31,830
Trading assets (Note 3)	2,677	2,931	22,271
Money held in trust	33,687	33,391	280,258
Securities (Notes 4 and 9)	1,061,255	943,188	8,829,077
Loans and bills discounted (Note 5)	3,016,646	3,011,772	25,096,889
Foreign exchange assets (Note 6)	5,425	4,289	45,133
Other assets (Note 7)	19,234	23,129	160,016
Property and equipment (Notes 8 and 13)	74,831	76,255	622,554
Deferred tax assets (Note 22)	34,104	11,960	283,727
Customers' liabilities for acceptances and guarantees	51,522	57,665	428,636
Reserve for possible loan losses	(121,259)	(79,226)	(1,008,810)
Total assets	<u>¥4,440,556</u>	<u>¥4,528,652</u>	<u>\$36,943,062</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits (Notes 9 and 10)	¥4,016,332	¥4,061,113	\$33,413,744
Call money (Note 9)	40,628	41,707	338,003
Borrowed money (Note 11)	13,824	15,403	115,008
Foreign exchange liabilities (Note 6)	152	204	1,265
Other liabilities (Note 12)	24,664	30,265	205,191
Accrued employee bonuses	2,243	2,718	18,661
Employees' severance and retirement benefits	3,789	3,717	31,522
Deferred tax liabilities for revaluation reserve for land (Notes 13 and 22)	18,599	19,360	154,734
Acceptances and guarantees	51,522	54,947	428,636
Total liabilities	<u>4,171,753</u>	<u>4,229,434</u>	<u>34,706,764</u>
<b>Stockholders' equity (Notes 14 and 23):</b>			
Common stock:			
Authorized – 600,000 thousand shares			
Issued – 200,000 thousand shares	10,006	10,006	83,245
Capital surplus	376	376	3,128
Retained earnings	205,727	233,431	1,711,539
Revaluation reserve for land, net of tax (Notes 13 and 22)	27,404	27,022	227,987
Unrealized gains on securities, net of tax	25,346	28,393	210,865
Common stock in treasury, at cost	(56)	(10)	(466)
Total stockholders' equity	<u>268,803</u>	<u>299,218</u>	<u>2,236,298</u>
Total liabilities and stockholders' equity	<u>¥4,440,556</u>	<u>¥4,528,652</u>	<u>\$36,943,062</u>

See accompanying notes.

## NON-CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Income:</b>			
Interest on loans and discounts	¥ 56,541	¥ 61,936	\$ 470,391
Interest and dividends on securities	15,805	17,936	131,489
Other interest	409	1,980	3,403
Fees and commissions	10,081	9,326	83,869
Trading income	118	12	982
Other operating income (Note 17)	1,605	5,135	13,353
Other income (Note 18)	2,624	5,450	21,829
Total income	<u>87,183</u>	<u>101,775</u>	<u>725,316</u>
<b>Expenses:</b>			
Interest on deposits	3,978	8,208	33,095
Interest on borrowings and rediscounts	1,026	1,770	8,536
Other interest	2,885	6,491	24,002
Fees and commissions	3,516	3,374	29,251
Trading expenses	—	1	—
Other operating expenses (Note 19)	1	1,286	8
General and administrative expenses (Note 20)	47,917	46,911	398,644
Other expenses (Note 21)	70,309	29,687	584,933
Total expenses	<u>129,632</u>	<u>97,728</u>	<u>1,078,469</u>
Income (Loss) before income taxes	(42,449)	4,047	(353,153)
<b>Income taxes (Note 22):</b>			
Current	3,290	1,124	27,371
Deferred	<u>(19,162)</u>	<u>649</u>	<u>(159,418)</u>
Net income (loss)	(26,577)	2,274	(221,106)
Retained earnings at beginning of year	233,431	230,749	1,942,021
Reversal of revaluation reserve for land	220	1,758	1,830
Cash dividends paid	(1,299)	(1,300)	(10,807)
Bonuses to directors and corporate auditors	(48)	(50)	(399)
Retained earnings at end of year	<u>¥205,727</u>	<u>¥233,431</u>	<u>\$1,711,539</u>
	Yen		U.S. dollars (Note 1)
<b>Amounts per share of common stock:</b>			
Net income (loss)	¥(132.92)	¥11.37	\$(1.11)
Cash dividends applicable to the year	6.50	6.50	0.05

See accompanying notes.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003 and 2002

### 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. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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, 2003, which was ¥120.20 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

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

#### Derivatives

Derivatives other than those for specific trading 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 "Temporary Treatment in Accounting and Audit for Banks on Application of Accounting Standard for Financial Instruments" (the "Report No. 15") issued by Industry Audit Committee of JICPA.

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.

#### 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 using 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 13, 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.

Effective for the year ended March 31, 2002, the Bank has applied 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, except for certain transactions which are subject to the rules especially referred to in "Temporary Treatment of Accounting and Auditing Concerning

Accounting for Foreign Currency Transactions in Banking Industry" (the "Report No. 20"), issued by the Industry Audit Committee of JICPA. There were no effects of applying the revised accounting standard.

Effective from the year ended March 31, 2003, the Bank has applied the revised accounting standard for foreign currency translation, "Treatment of Accounting and Audit Concerning Accounting for Foreign Currency Transactions in Banking Industry" (the "Report No. 25") issued by the Industry Audit Committee of JICPA. As a result of adopting the revised accounting standard, other assets increased by ¥874 million (\$7,271 thousand) and other liabilities increased by the same amount compared with what would have been recorded under the previous accounting standard.

The Bank adopted the previous method for fund swap transactions and foreign exchange transactions, according to the transactional provisions of the Report No. 25. Exchange differences recognized by these transactions are offset and recorded on balance sheet.

Pursuant to the transitional provisions of the Report No. 25, for fund swap transactions, the amounts on the balance sheet are net yen-conversions of the principal equivalents of assets and liabilities using the fiscal-year-end exchange rate. Differences between spot and forward rates in fund swap transactions are booked in the interest income or expense account on an accrual basis for the period from the settlement of spot foreign exchange to the settlement date of forward foreign exchange. Therefore, accrued interest income or expenses are recognized at the fiscal year end.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange either bought or sold and forward foreign exchange either sold or bought. Such transactions are contracted for the purpose of funds lending or borrowing in a different currency. Fund swap transactions are used to convert the principal equivalent amount into spot foreign exchange bought or sold with regard to the corresponding funds borrowing or lending. Also, such transactions convert the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange either bought or sold.

For currency swap transactions which are for the purpose of funds borrowing/lending in different currencies and for which spot/forward are flat type, which means that paying or receiving amounts at the time of the currency swap contract are equal to receiving or paying amounts at the currency swap maturity dates and the swap rate applied to principal and interest is the current market rate (including the currency swap transactions which are that the principal amount of one counterparty is revised in order to reflect each exchange rate at the interest payment dates and are judged as spot/forward flat type for each interest payment date), the amounts on the balance sheet are net positions of financial asset and liability equivalents translated by using the fiscal-year-end exchange rate. The equivalent amounts of interest to exchange are booked in interest income and expense accounts on an accrual basis for the corresponding contract period. Therefore, accrued interest income or expenses are recognized at fiscal year end.

### Accrued employee bonuses

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

At March 31, 2003 accrued employee bonuses is separately disclosed in the non-consolidated balance sheet. In prior year it was included in other liabilities. However the prior year has been restated to conform to the current year presentation.

### 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 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 Bank also introduced a tax qualified pension plan on April 1, 1995, and its past service costs were amortized over 7 years.

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, 2003 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

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.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Bank decided to restructure its Employees' Pension Fund and was permitted by the Minister of Health, Labor and Welfare on March 1, 2003 to be released from its future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme.

The Bank applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)," and the effect of transferring the substitutional portion was recognized on the date permission was received from the Ministry of Health, Labor and Welfare. As the result, in the year ended March 31, 2003, the Bank recorded losses on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥1,450 million (\$12,063 thousand), which was calculated based on the amount of the substitutional portion of the projected benefit obligations as of the permission date, the related pension assets determined pursuant to the government formula, and the related unrecognized items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥12,721 million (\$105,833 thousand) as at March 31, 2003.

### Accounting standard for treasury stock and reversal of statutory reserves

Effective April 1, 2002, the Bank adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on assets and stockholders' equity of the adoption of the new accounting standard was no impact.

### 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.

Effective April 1, 2002, the Bank adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

### 3. TRADING ASSETS

Trading assets at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Trading account securities	¥2,664	¥ 931	\$22,163
Other trading assets	13	2,000	108
	<u>¥2,677</u>	<u>¥2,931</u>	<u>\$22,271</u>



#### 4. SECURITIES

Securities held by the Bank at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
National government bonds	¥ 546,093	¥438,565	\$4,543,203
Local government bonds	170,438	187,994	1,417,953
Debentures	129,211	122,496	1,074,967
Shares	75,714	91,403	629,901
Other securities	139,799	102,730	1,163,053
	<u>¥1,061,255</u>	<u>¥943,188</u>	<u>\$8,829,077</u>

At March 31, 2003, bonds issued by Land Development Public Corporation, Local Housing Supply Public Corporation and Local Road Public Corporation are included in debentures according to the change of the definition of security on the Securities and Exchange Law. In the prior year they were included in other securities, as the prior year has been restated to conform to the current year classification.

#### 5. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Bills discounted	¥ 92,705	¥ 121,258	\$ 771,257
Loans on notes	435,030	510,832	3,619,218
Loans on deeds	1,737,223	1,632,357	14,452,770
Overdrafts	751,688	747,325	6,253,644
	<u>¥3,016,646</u>	<u>¥3,011,772</u>	<u>\$25,096,889</u>

Loans at March 31, 2003 and 2002 include "Risk-Managed Loan Amounts" such as (1) loans to borrowers in bankruptcy amounting to ¥25,594 million (\$212,928 thousand) and ¥28,189 million, respectively, (2) other delinquent loans amounting to ¥112,463 million (\$935,632 thousand) and ¥88,373 million, respectively, (3) loans past due for three months or more amounting to ¥85 million (\$707 thousand) and ¥168 million, respectively and (4) restructured loans amounting to ¥99,142 million (\$824,809 thousand) and ¥52,021 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Foreign exchange assets:			
Due from foreign banks	¥3,963	¥2,198	\$32,970
Foreign bills of exchange bought	519	1,038	4,318
Foreign bills of exchange receivable	943	1,053	7,845
	<u>¥5,425</u>	<u>¥4,289</u>	<u>\$45,133</u>

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Foreign exchange liabilities:			
Due to foreign banks	¥ 0	¥ —	\$ 1
Foreign bills of exchange sold	150	203	1,248
Foreign bills of exchange payable	2	1	16
	<u>¥152</u>	<u>¥204</u>	<u>\$1,265</u>

#### 7. OTHER ASSETS

Other assets at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Domestic exchange settlement account, debit	¥ 22	¥ 19	\$ 183
Prepaid expenses	9	13	75
Accrued income	6,674	6,912	55,524
Derivative instrument	397	—	3,303
Deferred losses on hedging derivative	3,115	4,014	25,915
Other	9,017	12,171	75,016
	<u>¥19,234</u>	<u>¥23,129</u>	<u>\$160,016</u>

#### 8. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Land	¥ 55,888	¥ 57,992	\$464,958
Buildings	42,613	41,252	354,517
Equipment	18,786	18,891	156,290
Construction in progress	524	227	4,360
	<u>117,811</u>	<u>118,362</u>	<u>980,125</u>
Less accumulated depreciation	43,823	42,935	364,584
	<u>73,988</u>	<u>75,427</u>	<u>615,541</u>
Lease deposits	843	828	7,013
	<u>¥ 74,831</u>	<u>¥ 76,255</u>	<u>\$622,554</u>

## 9. PLEDGED ASSETS

At March 31, 2003 and 2002, the following assets were pledged as collateral for certain liabilities of the Bank.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Securities	¥151,971	¥185,739	\$1,264,318

The collateral was pledged to secure the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deposits	¥41,427	¥20,513	\$344,651
Call money	6,010	8,661	50,000

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 ¥116,257 million (\$967,196 thousand) at March 31, 2003, and ¥117,301 million at March 31, 2002.

## 10. DEPOSITS

Deposits at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current deposits	¥ 166,118	¥ 170,850	\$ 1,382,013
Ordinary deposits	1,570,042	1,421,560	13,061,914
Deposits-at-notice	20,770	29,206	172,795
Time deposits	1,921,505	2,027,097	15,985,899
Other deposits	158,767	172,550	1,320,857
Certificates of deposit	179,130	239,850	1,490,266
	<u>¥4,016,332</u>	<u>¥4,061,113</u>	<u>\$33,413,744</u>

## 11. BORROWED MONEY

Borrowed money at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks and insurance offices	¥13,824	¥15,403	\$115,008

## 12. OTHER LIABILITIES

Other liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Domestic exchange settlement account, credit	¥ 185	¥ 306	\$ 1,539
Income taxes	3,128	34	26,023
Accrued expenses	4,854	7,665	40,383
Unearned income	3,251	2,842	27,047
Employees' deposits	1,509	1,472	12,554
Derivative instruments	3,413	4,014	28,394
Other	8,324	13,932	69,251
	<u>¥24,664</u>	<u>¥30,265</u>	<u>\$205,191</u>

## 13. REVALUATION RESERVE FOR LAND

Pursuant to the Law concerning Revaluation of Land (the "Law") effective March 31, 1998 and the law concerning amendment of the Law effective March 31, 2001, the Bank revalued certain land used for business operations at fair value, net of applicable income taxes. The income taxes corresponding to the net unrealized gains are deferred and reported in "Liabilities" as "Deferred tax liabilities for revaluation reserve for land" and the net unrealized gains, net of deferred taxes, are reported as "Revaluation reserve for land" in "Stockholders' equity." 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 ¥14,459 million (\$120,291 thousand) and ¥12,942 million at March 31, 2003 and 2002, respectively.

## 14. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares 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, which is included in capital surplus.

The Banking Law of Japan provides that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 100% of common stock. The reserve is not available for dividends, but may be used to reduce a capital deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 100% of common stock, they are available for distributions or certain other purposes by the resolution of stockholders' meeting. The legal reserve is included in the retained earnings.

## 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, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Equivalent amount:			
Acquisition cost	¥7,941	¥6,247	\$66,065
Accumulated depreciation	(3,521)	(3,014)	(29,293)
Net book value	¥4,420	¥3,233	\$36,772

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease payments	¥1,340	¥1,637	\$11,148
Equivalent of depreciation expense	1,334	1,596	11,098
Equivalent of interest expense	114	102	948

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, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
2004	¥1,540	\$12,812
2005 and thereafter	3,132	26,057
Total minimum lease payments	¥4,672	\$38,869

## 17. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Gain on foreign exchange transactions	¥ 284	¥ 386	\$ 2,363
Gain on sale of bonds	1,217	4,748	10,125
Other	104	1	865
	¥1,605	¥5,135	\$13,353

## 18. OTHER INCOME

Other income for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Gain on sale of shares and other securities	¥ 3	¥ 75	\$ 25
Gain on money held in trust	129	95	1,073
Gain on disposal of property and equipment	—	17	—
Recoveries of written-off claims	2	1	16
Other	2,490	5,262	20,715
	¥2,624	¥5,450	\$21,829

## 19. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Losses on sale of bonds	¥ 1	¥ 713	\$ 8
Losses on devaluation of bonds	—	573	—
	¥ 1	¥1,286	\$ 8

## 20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Employee compensation	¥22,215	¥22,083	\$184,817
Depreciation	2,480	2,396	20,632
Rental expense	2,959	3,177	24,617
Communications	1,329	1,337	11,057
Supplies	883	958	7,346
Taxes	2,183	2,348	18,161
Other	15,868	14,612	132,014
	¥47,917	¥46,911	\$398,644

## 21. OTHER EXPENSES

Other expenses for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars 2003
Provision for reserve for possible loan losses	¥59,313	¥10,407	\$493,453
Written-off claims	355	43	2,953
Losses on sale of stocks and other securities	—	24	—
Losses on devaluation of stock and other securities	3,290	10,176	27,371
Losses on money held in trust	636	828	5,291
Losses on disposal of property and equipment	340	2,250	2,829
Losses on devaluation of land	2,468	—	20,532
Severance and retirement benefit expenses	1,450	—	12,063
Other	2,457	5,959	20,441
	<u>¥70,309</u>	<u>¥29,687</u>	<u>\$584,933</u>

## 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, 2003 and 2002.

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, 2003. Reconciliation of the statutory tax rate and the Bank's effective tax rate for the year ended March 31, 2002 was not required due to small difference.

	2003
Statutory tax rate	41.7%
Non-deductible expenses (entertainment expense, etc.)	(0.6)
Non-taxable income (dividend income, etc.)	0.5
Modification of deferred tax assets for the change in the aggregate statutory income tax rate	(3.3)
Other	(0.9)
Effective tax rate	<u>37.4%</u>

Significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars 2003
Deferred tax assets:			
Reserve for possible loan losses	¥44,529	¥27,597	\$ 370,458
Retirement benefits	5,961	5,233	49,592
Accrued employee bonuses	747	756	6,215
Depreciation	963	1,087	8,012
Losses on devaluation of land	998	—	8,302
Other	2,271	1,969	18,893
Total deferred tax assets	<u>¥55,469</u>	<u>¥36,642</u>	<u>\$461,472</u>
Deferred tax liabilities:			
Unrealized gains on securities	¥17,202	¥20,343	\$143,111
Gain on securities contributed to employee retirement benefit trust	3,764	3,885	31,314
Deferred gain on property and equipment	399	454	3,320
Total deferred tax liabilities	<u>¥21,365</u>	<u>¥24,682</u>	<u>\$177,745</u>
Net deferred tax assets	<u>¥34,104</u>	<u>¥11,960</u>	<u>\$283,727</u>
Deferred tax liabilities for revaluation reserve for land	<u>¥18,599</u>	<u>¥19,360</u>	<u>\$154,734</u>

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 41.7% for the year ended March 31, 2002. Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Bank used the aggregate statutory income tax rates of 41.7% and 40.4% for current items and non-current items, respectively, at March 31, 2003.

As a result of the change in the aggregate statutory income tax rates, deferred income tax assets decreased by ¥857 million (\$7,130 thousand), provision for deferred income tax increased by ¥1,414 million (\$11,764 thousand), deferred tax liabilities for revaluation reserve for land decreased by ¥602 million (\$5,008 thousand), revaluation reserve for land, net of tax increased by the same amount and unrealized gains on securities, net of tax increased by ¥557 million (\$4,634 thousand) compared with what would have been recorded under the previous local tax law.

## 23. SUBSEQUENT EVENTS

On June 26, 2003, the stockholders of the Bank authorized the following appropriations of retained earnings at March 31, 2003:

	Millions of yen	Thousands of
		U.S. dollars
Cash dividends, ¥3.25 (\$0.03) per share	¥650	\$5,408
Bonuses to corporate auditors	3	25

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying non-consolidated balance sheets of THE YAMAGUCHI BANK, LTD. as of March 31, 2003 and 2002, and the related non-consolidated statements of operations and retained earnings for the years then ended, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

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

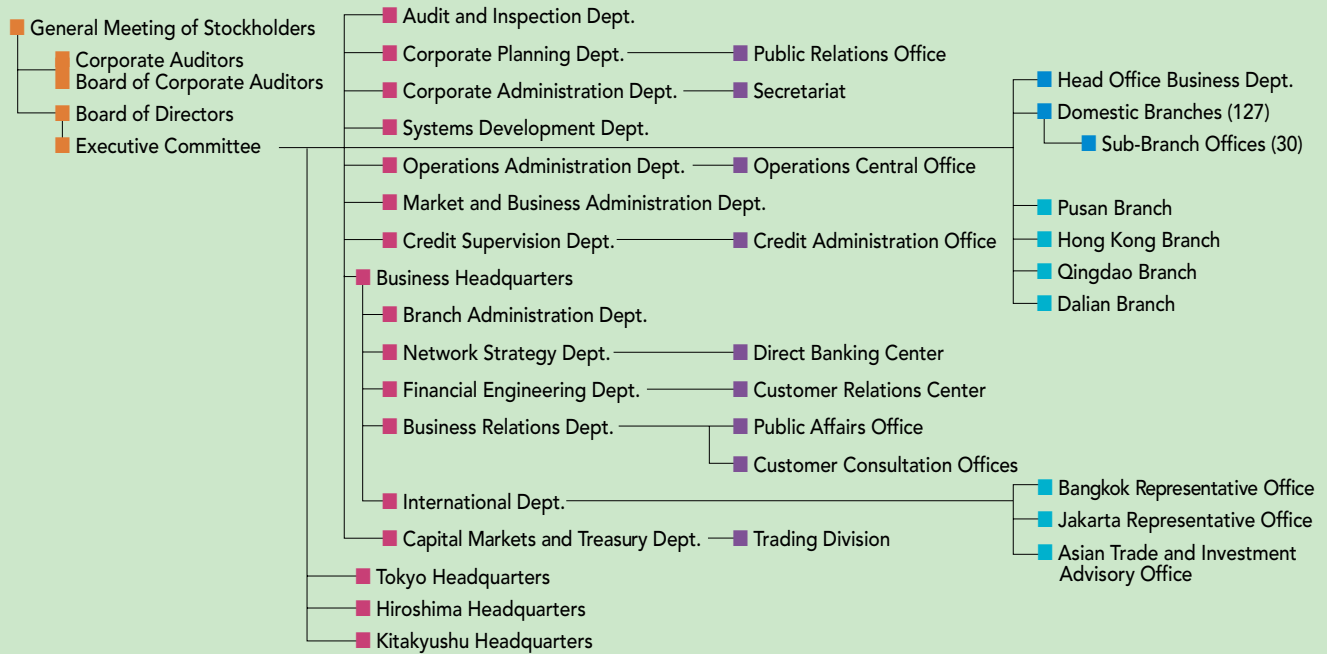
In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of THE YAMAGUCHI BANK, LTD. as of March 31, 2003 and 2002, and its operations for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the non-consolidated financial statements.

The non-consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the non-consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the non-consolidated financial statements.



Shimonoseki, Japan  
June 26, 2003

# Organization Chart and Corporate Information



## International Department

2-36, 4-chome Takezaki-cho,  
Shimonoseki, P.O. Box 24 Shimonoseki  
750-8603, Japan  
Cable: YAMAGUCHIBANK SHIMONOSEKI  
Telex: 22807 (YBKSMS)  
SWIFT Address: YMBKJPJT

## Overseas Offices

**IPUSAN BRANCH**  
Kukje Building 3rd Floor, 69, 6 Ga, Jungang-Dong Jung-Gu, Pusan 600, Republic of Korea  
Telex: K52561 K52562 (YMBKPUS)

**IHONG KONG BRANCH**  
403-404, Far East Finance Centre,  
16 Harcourt Road, Hong Kong  
Telex: 80806 (YBKHKHX)

**IQINGDAO BRANCH**  
Room No. 651, Haitian Hotel, 50 Hong Kong West Road, Qingdao, Shandong Province, The People's Republic of China  
Telex: 321166 (YBKQD)

**IDALIAN BRANCH**  
14F Senmao Building No. 147, Zhongshan Road Xigang District, Dalian, Liaoning Province, The People's Republic of China  
Telex: 86482 (YBKDLN)

**IBANGKOK REPRESENTATIVE OFFICE**  
15th Floor B.B. Building, 54 Asoke Road, Sukhumvit 21 Bangkok 10110, Thailand  
Fax: 2-260-7118

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

## Offices Handling Foreign Exchange Business

Head Office Shimonoseki	2-36, 4-chome, Takezaki-cho, Shimonoseki, Yamaguchi Pref.
Tokyo Branch	3-5, 3-chome, Nihonbashi Hongokuchō, Chuo-ku, Tokyo
Osaka Branch	3-3, 3-chome, Nakanoshima, Kita-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 Marifuchō, Iwakuni, Yamaguchi Pref.
Tokuyama Branch	1, 1-chome Sakurababadori, Shunan, 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	5-25, Fukuro-machi, 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	Karato Branch	23-1, Nabe-cho, Shimonoseki, Yamaguchi Pref.
Fukuyama Branch	8-18, Nobuhiro-cho, Fukuyama, Hiroshima Pref.	Hikari Branch	25-5, 2-chome Shimata, Hikari, Yamaguchi Pref.
Yamaguchi Branch	5-5, 2-chome Eki-dori, Yamaguchi, Yamaguchi Pref.	Kurume Branch	6-10, Higashi-machi, Kurume, Fukuoka Pref.
Onoda Branch	4-5, 2-chome Chuo, Onoda, Yamaguchi Pref.	Tobata Branch	8-23, Saiwai-cho, Tobata-ku, Kitakyushu
Hagi Branch	16-1, Higashi-Tamachi, Hagi, Yamaguchi Pref.	Matsuyama Branch	8-2, 3-chome Sanban-cho, Matsuyama, Ehime Pref.
Kure Branch	5-8, 2-chome Nakadori, Kure, Hiroshima Pref.	Hakataeki Higashi Branch	5-1, 2-chome Hakataeki Higashi, Hakata-ku, Fukuoka
Yahata Branch	4-1, 1-chome Kurosaki, Yahatanishi-ku, Kitakyushu	Oita Branch	8-13, 3-chome Otemachi, Oita, Oita Pref.
Hofu Branch	10-1, Ekiminami-machi, Hofu, Yamaguchi Pref.	Yanai Branch	9-14, 2-chome Chuo, Yanai, Yamaguchi Pref.
Nagasaki Branch	2-3, Motofuna-machi, Nagasaki, Nagasaki Pref.	Akasakamon Branch	2-8, 2-chome Maizuru, Chuo-ku, Fukuoka
Kumamoto Branch	1-4, 4-chome, Ooe, Kumamoto, Kumamoto Pref.	Chofu Branch	7-6, Doinouchi-cho, Chofu, Shimonoseki, Yamaguchi Pref.
		Wakamatsu Branch	1-8, Nakagawa-machi, Wakamatsu-ku, kitakyushu

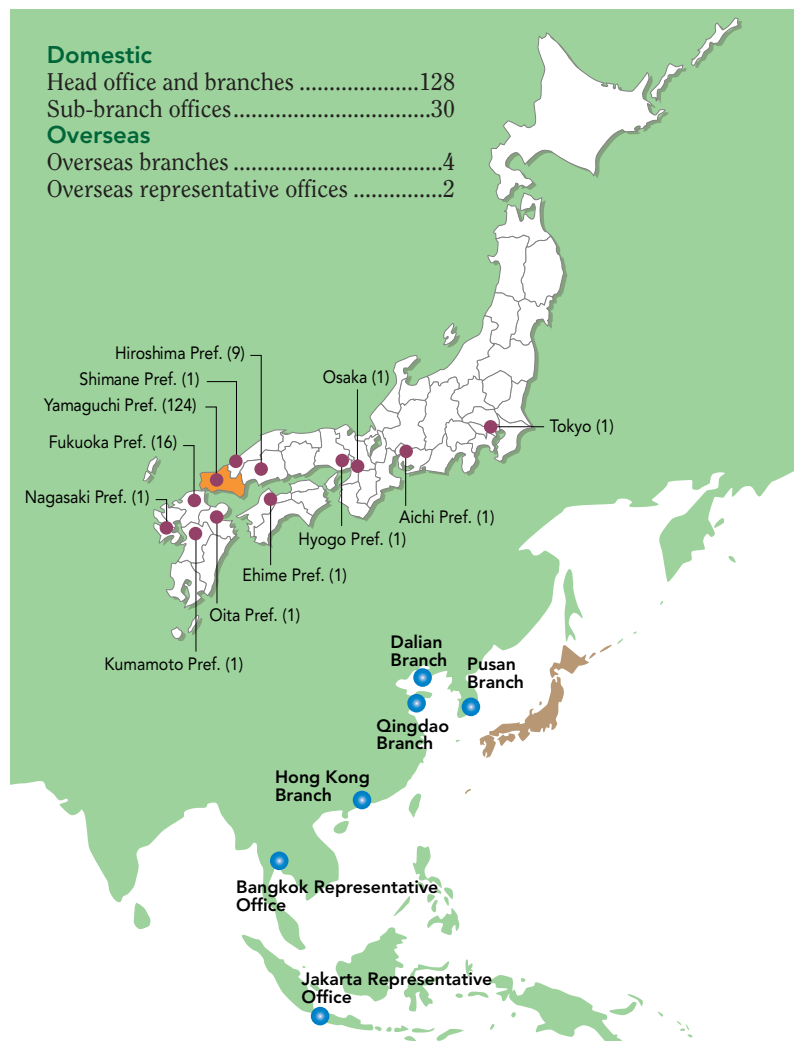
## Subsidiaries and Affiliates

- **Subsidiaries**  
 SANYU CO., LTD.  
 Rental and maintenance of land and buildings  
 YAMAGUCHI BUSINESS SERVICE CO., LTD.  
 Cash management and settlement service  
 YAMAGIN CARD CO., LTD.  
 Management administration of Yamagin's credit card subsidiaries  
 YAMAGIN JCB CO., LTD.  
 Credit card services  
 YAMAGIN CREDIT CO., LTD.  
 Credit card services  
 YAMAGIN DC CO., LTD.  
 Credit card services  
 SANYU FREMANTLE HOUSE. PTY, LTD.  
 Welfare facility management  
 THE YAMAGIN BUSINESS OPERATIONS CENTER, LTD.  
 Operations  
 THE KITAKYUSHU ECONOMICS INSTITUTE, LTD.  
 Research and consultation

- **Affiliated Companies**  
 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

(As of June 30, 2003)



## The Yamaguchi Bank, Ltd.

Corporate Planning Dept.

Public Relations Office

2-36, 4-chome Takezaki-cho,  
 Shimonoseki 750-8603, Japan

Tel: +81 832-234477

Fax: +81 832-335850

Internet: <http://www.yamaguchibank.co.jp/>