



Annual Report



2004

Year ended March 31



YAMAGUCHI BANK

Profile

Yamaguchi Bank's origin dates back to the founding of its predecessor, the Hyakuju (110th) National Bank, in 1878. As the financial institution responsible for the management of local and prefectural finances, we have expanded our business through a management commitment to a sound and enterprising spirit, frugality and strength, and a focus on the Bank's primary mission.

Yamaguchi Bank is a major regional bank, with 156 branches and offices in Japan, principally in Yamaguchi Prefecture, and four 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

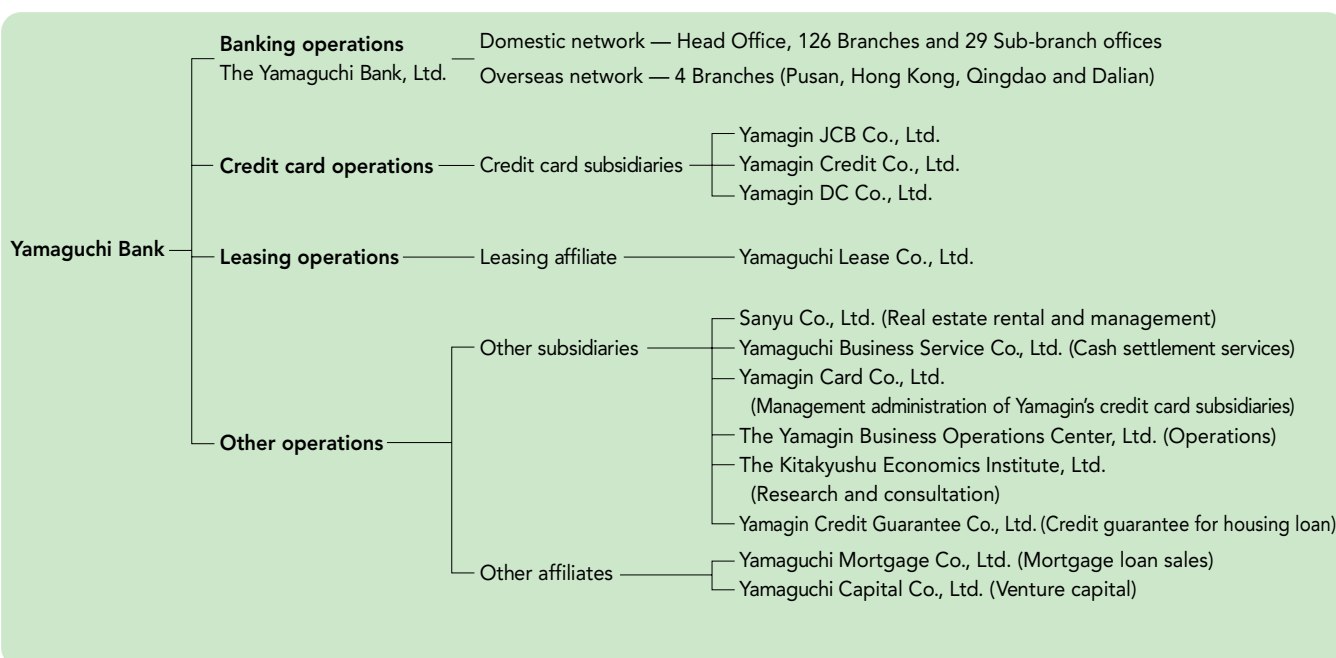
Consolidated Financial Highlights

(Years ended March 31)	Millions of yen		Thousands of U.S. dollars*
	2004	2003	2004
For the year:			
Total income	¥ 96,664	¥ 88,853	\$ 914,599
Total expenses	80,469	130,663	761,368
Income (Loss) before income taxes and minority interests.....	16,195	(41,810)	153,231
Net income (loss)	9,364	(26,225)	88,599
At year-end:			
Total assets	4,418,739	4,444,804	41,808,487
Deposits	3,944,518	4,014,898	37,321,582
Loans and bills discounted.....	2,879,148	3,015,707	27,241,442
Securities	1,097,003	1,061,108	10,379,440
Stockholders' equity.....	288,688	270,954	2,731,460
Capital adequacy ratio.....	11.96%	11.03%	
Per share (in yen and U.S. dollars):			
Net income (loss)	46.56	(131.18)	0.44
Dividends	7.50	6.50	0.07

* U.S. dollar amounts have been translated, for convenience only, at the rate of ¥105.69=US\$1.00 as of March 31, 2004.

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 President



Koichi Fukuda
President

It gives me great pleasure to address the stakeholders of Yamaguchi Bank for the first time in my capacity as president, a post which I assumed on June 25, 2004.

Brightness returned to some sectors of the Japanese economy during the year, but the overall situation still gives little cause for optimism. The operating environment for banks is expected to remain harsh, and I feel very keenly the importance of the task ahead of me. Building on the relationship of trust with the local community that the Bank has created over the course of its long history, I will strive to continue providing financial products and services that satisfy the diverse needs of our customers. I take up the challenge posed by the changing business environment, and will throw my full efforts into gaining even greater trust and confidence in the Bank.

Overview of the Year

The Japanese economy moved onto a modest recovery track, reflected in developments such as the stock-market rebound and increases in exports and capital investment, and the local economy also turned upward. In the financial services industry, there are strong calls on us to assist in the revival of small and medium-sized companies and to invigorate the regional economy. There is also a pressing need for us to reinforce our operating strength to prepare for the complete removal of blanket deposit insurance in April 2005.

Given this financial environment, throughout the Bank we are committed, with the support of our shareholders and customers, to expanding the foundations of our business operations and enhancing our performance, with the aim of achieving a V-shaped recovery. In consequence, we were able

to achieve the following results during the reporting period.

Total assets stood at ¥4,418.7 billion (US\$41,808 million) at the end of the term, representing a decline of ¥26.0 billion from the previous year, and stockholders' equity rose by ¥17,734 million to ¥288,688 million (US\$2,731 million) on a consolidated basis.

Total income (recurring income plus extraordinary income) increased by ¥7,811 million to ¥96,664 million (US\$914 million), and the loss before income taxes and minority interests of ¥41,810 million for the previous year was transformed into a profit of ¥16,195 million (US\$153 million), representing an improvement of ¥58,005 million. We posted a net income of ¥9,364 million (US\$88 million), which represented a turnaround of ¥35,589 million from the net loss of ¥26,225 million incurred in the previous year.

Net cash provided by operating activities totaled ¥58.9 billion, net cash used in investing activities was ¥45.1 billion, and net cash used in financing activities was ¥1.3 billion, which was almost unchanged from the previous year. As a result, the balance of cash and cash equivalents at the year-end totaled ¥91.1 billion (US\$862 million).

The Bank's capital ratio measured by the uniform international (BIS) standards stood at 11.96% on a consolidated basis, up by 0.93 of a percentage point from the previous year.

In our deposit-taking and lending activities, deposits by individuals declined, and the total balance of deposits, including CDs, fell by ¥70.3 billion to ¥3,944.5 billion (US\$37,321 million) at the year-end. Primarily because of the sluggishness of funds demand, loans decreased by ¥136.5 billion, bringing the year-end balance of loans outstanding to ¥2,879.1 billion (US\$27,241 million).

Securities holdings increased by ¥35.8 billion year-on-year, principally because of increases in holdings of government bonds and foreign bonds, raising the total balance to ¥1,097.0 billion (US\$10,379 million) at the year-end.

New Medium-Term Management Plan Inaugurated

In April this year, the Bank initiated its new medium-term management plan, whose central objective is the pursuit of customer satisfaction and greater operational efficiency. Under this plan, to enhance profitability we will pursue customer satisfaction and greater efficiency by implementing changes in four areas – our business-promotion structure, business processes, personnel structure, and management.

Consolidating Group Strength and Increasing Shareholder Value

Yamaguchi Bank will maintain its stance of reforming itself with the aim of increasing enterprise value still further, and will strive to ensure solid foundations for its business operations and management. At the same time, based on the history of trust maintained for more than 120 years since its establishment, the Bank will dedicate itself to the steady development of its operations in a manner more closely attuned to the local community than hitherto, and to active support for the growth and reconstruction of local companies.

In spite of the difficult business environment, we will continue to deploy the collective strength of the Yamaguchi Bank Group in pursuit of increasing shareholder value as a bank that is both liked and trusted by the community. We hope to continue receiving your support for these endeavors.



Koichi Fukuda
President

July 2004

The New Medium-Term Management Plan

Name: Yamaguchi Bank New Medium-Term Management Plan – a paradigm for greater customer satisfaction and operation efficiency

Period covered: April 1, 2004 to March 31, 2007

Three basic policies (CS³):

Customer Satisfaction: Enhance customer satisfaction

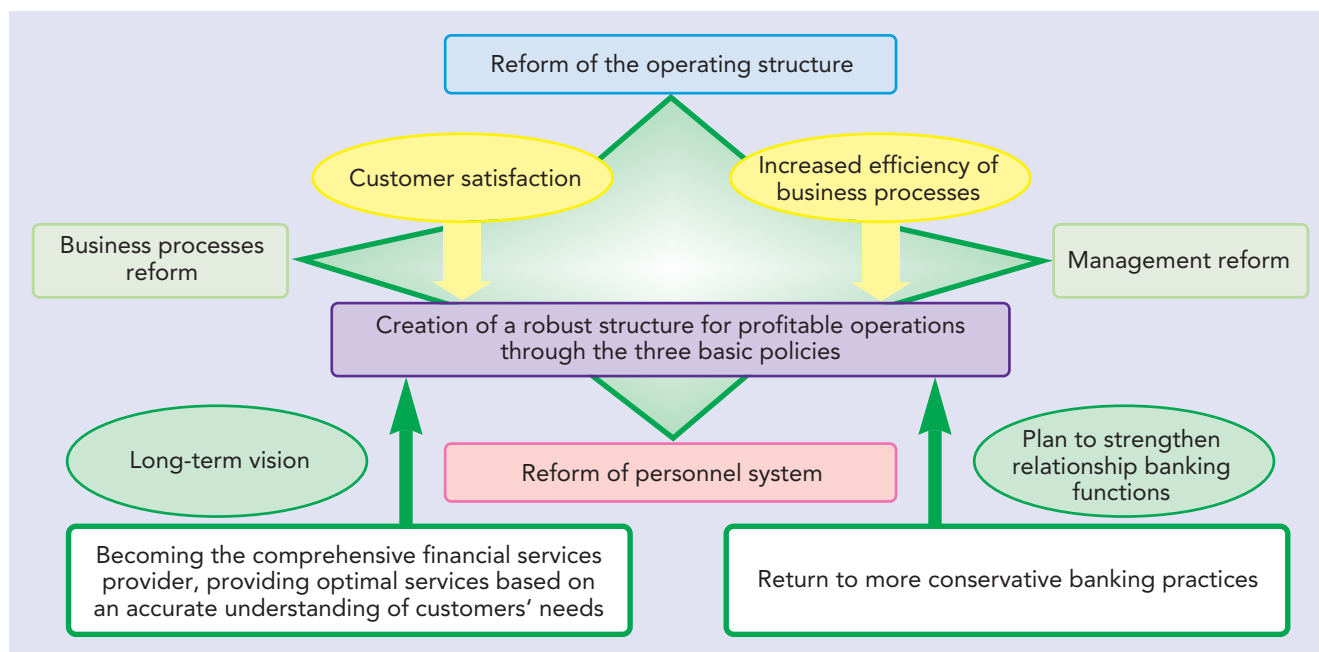
Combination & Solution: Help customers solve their problems through close cooperation

Change & Speed: Carry out rapid reforms

Basic targets: Build a robust structure for profitable operations through the three basic policies (CS³).

- Deepen our understanding of, and relationship with, the customer, and offer services that increase customer satisfaction
- Maximize efficiency by improving working methods
- Undertake reforms in four areas – operating structure, business processes, personnel, and management – to achieve the targets

Overview of the Plan



Main Goals for the Current Management Plan (ending March 2007)

	Fiscal 2006
Net income	¥15.0 billion
Business profit from core operations*	¥30.0 billion
Ratio of non-performing loans to total loans	less than 5%
Overhead ratio**	61%
Tier I capital ratio	9.35%
Employees (term-end)	2,500

* Business profit from core operations: business profit + provision of general reserve for possible loan losses – income/loss related to national government and other bonds

**Overhead ratio: Expenses / (gross business profit – income/loss related to national government and other bonds)



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:

¥26.9 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:

¥104.5 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:

¥83.3 billion

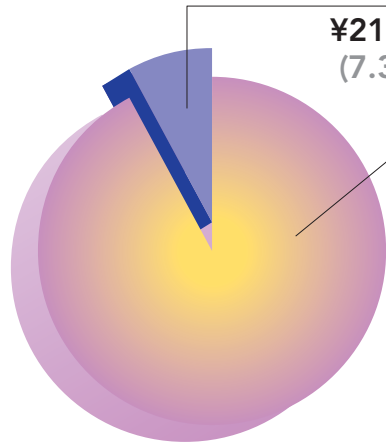
"Substandard loans" refers to "loans past due for three months or more," and "restructured loans" defined in the Banking Law.

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

¥214.8 billion
(7.3%)

- "Normal" assets

¥2,727.1 billion
(92.7%)

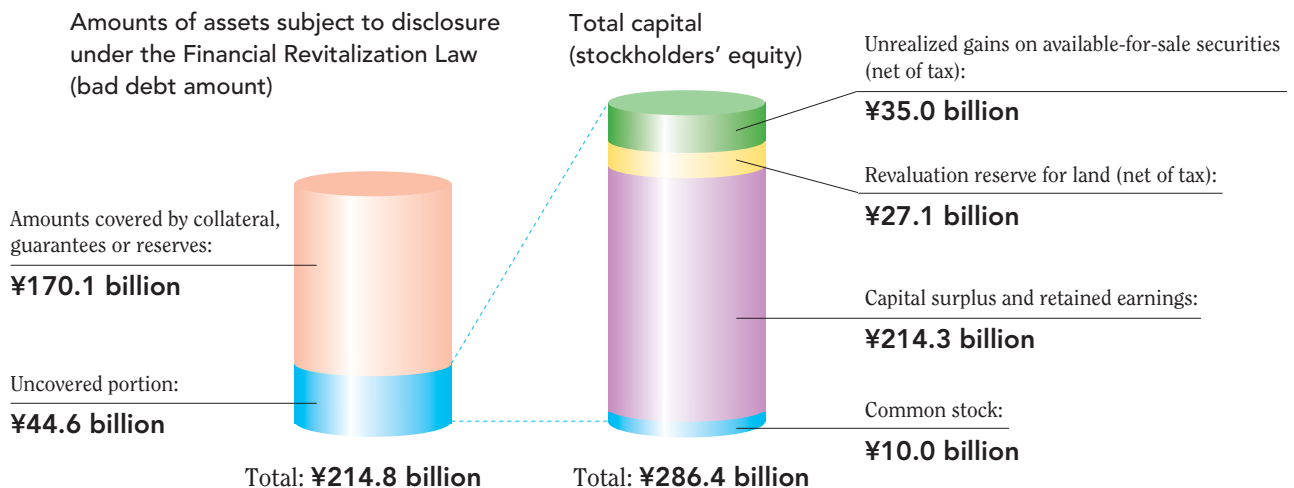


Total assets subject to disclosure under the Financial Revitalization Law (as of March 31, 2004):

¥2,942.0 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



Enhancing the Soundness of Assets

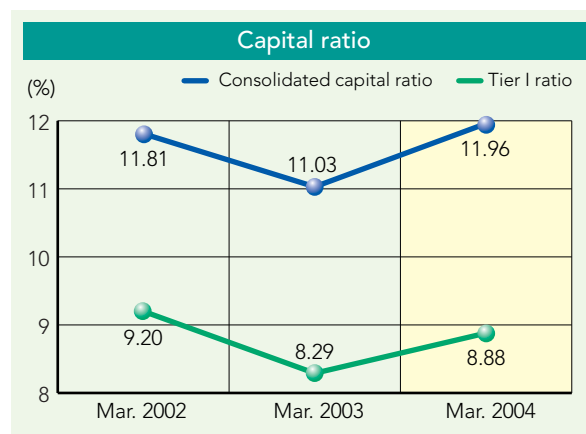
Recognizing that the disposal of bad debts is a task of the highest priority, and that their degree of success in tackling this issue is having an enormous impact on the creditworthiness of banks, Yamaguchi Bank is striving both to prevent the occurrence of new bad debts and to dispose of existing bad debts rapidly. Even before the April 1998 introduction of Prompt Corrective Action measures by the government, in March 1998 the Bank began making write-offs and provisions to reserves for possible loan losses based on the self-assessment of assets, and for the valuation of real estate used as collateral it established a structure making it possible to revise values based on objective appraisals conducted each term. This approach was highly regarded by rating institutions, which rated Yamaguchi Bank among the front rank of Japanese banks on this issue.

The Bank has an adequate level of stockholders' equity to provide for future eventualities, but nevertheless, it will continue taking steps both to enhance the soundness of its assets and to strengthen its capacity to generate earnings.

Capital Ratio

The Bank's capital ratio on a consolidated basis for the year under review according to the uniform international (BIS) standards increased by 0.93 of a percentage point year-on-year, to 11.96%. On a non-consolidated basis the corresponding increase was 0.92 of a percentage point, to 11.86%. Thus, on both bases the ratio was substantially above the 8% minimum standard ratio. In addition, the Bank's ratio of Tier I capital increased by 0.6 of a point, to 8.78%.

The Bank will continue to enhance its capital base by generating stable earnings and securing a sufficient level of retained earnings.



Lending Policy

The Bank's basic lending policy is to serve the people of its home region and to develop in tandem with them, doing so by providing them with the funds they require in a stable and smooth manner. To achieve this, we have put in place a structure that enables us to cater actively and rapidly to their demand for business financing and their other diverse requirements.

Enhancing Operating Efficiency

We are continuing to take vigorous steps to enhance the efficiency with which our operations are managed, with the ultimate aim of increasing profitability.

As an indicator of management efficiency, in our management we attach particular importance to the overhead ratio (OHR), namely the ratio of operating expenses, including personnel and premises costs, to gross business profit. The OHR for the year under review was 60.10%.

We have also taken a further step to enhance our low-cost operating structure, which has been acclaimed by outside

commentators, through the establishment of The Yamagin Business Operations Center, Ltd. as a wholly owned subsidiary. This is in line with our aim of enhancing our administrative processing capabilities and reducing costs for the entire Group, which form part of our ongoing endeavors to build a low-cost operating structure.

Risk Management

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 external 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

At Yamaguchi Bank, we are fully cognizant of the heavy social responsibility borne by banks and of the importance of our public-service mission. Accordingly, we continue to take steps to strengthen the Bank's compliance structure, based on raising the level of professional ethics of our staff and doing our utmost to prevent infringements of compliance regulations.

In August 2003, the Bank established the Compliance Office, a unit with exclusive responsibility for compliance oversight, planning, and administration. That was followed in October by the establishment of the Compliance Committee, chaired by the President, which conducts deliberations on matters relating to compliance.

In addition, all departments and branches have been provided with a compendium of information concerning the compliance system, covering matters such as the Bank's corporate philosophy, management policies, rules of conduct, corporate ethics, and the laws and regulations that must be observed. This forms part of the Bank's efforts to ensure that all employees, led by members of staff appointed as compliance officers, gain a thorough knowledge of compliance and adopt a more positive stance towards it.



Review of Operations

Yamaguchi Bank offers a varied array of products and services designed to make things easier for people at every stage of their lives, and it continues to develop products and services that match the needs of the times.

Banking Operations

• Deposit-Taking Business

During the year, the Bank conducted marketing activities closely attuned to the circumstances of the local communities that it serves, developing and offering diverse financial products and services tailored to match customers' investment objectives. It also made improvements to existing products to make them more customer-friendly and easy to use, for example by reducing the minimum deposit amount required for floating-rate time deposits.

As a result of these efforts, the balance of deposits from retail customers totalled ¥2,588.2 billion at March 31, 2004, and the balance of deposits from corporate customers was ¥882.9 billion. With regard to investment trusts, we put in place a structure that is even better able to meet the diverse investment requirements of our customers. This included increasing the number of branches handling investment trusts so that every branch in the network now does so, and installing dedicated personal computers to help staff to dispense investment advice.

Among the broad range of other products and services offered, in the field of defined contribution pensions, the Bank handles both corporate pensions and pensions for individuals, as well as life insurance products.

• Lending Business

In lending to individuals, further improvements were made to the Bank's Consumer Corners, which dispense advice on our full range of housing, auto, and other loans, and also handle loan applications. In July 2003 a Consumer Corner was established in the Iwakuni Branch, boosting the total to six. In addition, as a result of the introduction of an automated screening system for mortgage loans in December 2002 and the improvement of the efficiency of operating procedures, we introduced an advance-application system that enables us to give applicants the results of credit screenings by as early as the next business day.

We also took steps to provide more accessible and attractive products. For example, we conducted a promotional campaign offering preferential interest rates on mortgage loans and a campaign for automobile loans that included the offer of lottery tickets – with travel coupons as the prizes – to borrowers.

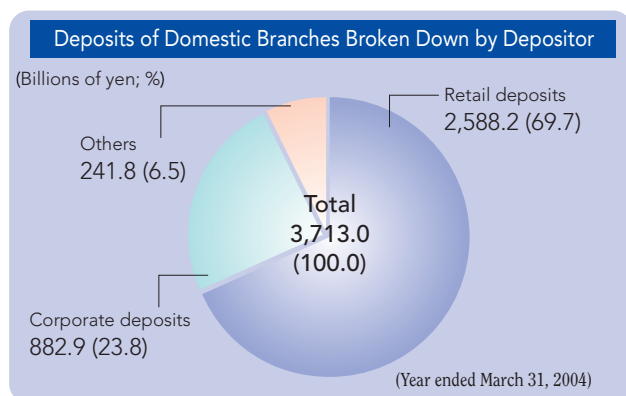
For corporate customers, steps were taken to enhance the Bank's ability to identify customer needs accurately and promptly provide optimal services. This was achieved by strengthening the capabilities of headquarters marketing divisions and the support structure for branch offices.

Yamaguchi Bank is making ongoing efforts to improve its loan products still further – for both retail and business customers – to assure them of a smooth supply of funds and in turn support the development of the local economy.

• Other Services

To satisfy the demands of today's advanced information society, we have also been increasing the range of services obtainable from landline and cell phones and through the Internet.

As networking continues its remarkable advance through all spheres of society, we will continue our close monitoring of technology and other trends, and take active steps to refine our systems in a way that offers greater convenience to our customers.



- **International Business**

Yamaguchi Bank operates overseas branches in East Asia 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 2004 we operated four branches – in Hong Kong, in Pusan in South Korea, and in Qingdao and Dalian in China – and one representative office in Bangkok, giving the Bank a structure that enables it to cater to the increasingly international orientation of its home region. (On April 30 this year, the Bangkok Representative Office was closed.) 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 a section entitled “Yamagin Asian News” in the monthly newsletter *Yamaguchi Economic Monthly* published by the Yamaguchi Economic Research Institute, and also through the Bank’s website. In addition, the Bank periodically holds briefing sessions with overseas branch managers, who return to the head office where they also report to customers on the latest developments and investment conditions in each of their localities.

We have established an Asian Trade & Investment Advisory Office within our International Department. This forms part of our overall structure for assisting 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.

Other Business

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.



Establishment of Yamagin Credit Guarantee

In June 2003 the Bank established Yamagin Credit Guarantee Co., Ltd. as an affiliate specializing in guarantee business. This forms part of the Bank's flexible approach to the expansion of the scope of its activities, for example the promotion of mortgage loans and consumer loans.

Agreement with IY Bank on ATM Tie-Up

In July 2003 an agreement was reached with IY Bank Co., Ltd. on a business tie-up in the field of ATMs, under which service is scheduled to begin in July 2004. This is the first such tie-up for a regional bank based in Yamaguchi Prefecture. The arrangement enables Yamaguchi Bank cash cards to be used in IY Bank ATMs installed nationwide at retail outlets such as Seven-Eleven stores.

Holding of First Investor Relations Presentation

In July 2003 the Bank held its first presentation for investors at the Daiwa Securities SMBC international conference center in Tokyo. At the meeting, the President gave an overview of the Bank's results and the management strategy for the future. In February and March 2004 a series of related meetings to present the Bank's profile to investors and other stakeholders was launched in Hiroshima and continued in Ube, Hagi, Yamaguchi, Iwakuni, Shimonoseki, and Tokuyama.



Conclusion of Business Partnership Agreements with Governmental Financial Institutions to Enhance Management Support Structure

The Bank has taken a series of steps to strengthen its management support structure for institutional customers, so as to put into practice its plan to enhance its relationship banking capabilities. In February 2004 it concluded cooperation agreements with the Development Bank of Japan, the Japan Finance Corporation for Small and Medium Enterprise, and the Shoko Chukin Bank, as well as advisory agreements with Aozora Bank (a commercial bank) and Aozora Loan Services Co., Ltd., and an outsourcing agreement with Heisei Kaikeisha, a tax accounting firm.

Conclusion of Economic Exchange Agreement with Qingdao in China

In March 2004 the Bank entered into an economic information exchange agreement with the city of Qingdao, in China's Shandong Province for the purpose of promoting business interchange and cooperation by such means as providing investment information and introducing potential partners for corporate tie-ups. This is the first such agreement to have been concluded by a Japanese regional bank.



Contribution to the Society

The Yamaguchi Venture Forum

The Bank established the Yamaguchi Venture Forum in 1997 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 to foster the growth of venture businesses.

During fiscal 2003, the Forum held lecture meetings presided over by specialists in employee education, and study meetings that focused on management problems. There was also a very varied program of other activities designed to meet the diverse needs of Forum members.

The Yamagin Regional Enterprise Support Foundation

The Yamaguchi Bank Regional Enterprise Support Foundation, established to mark the Bank's 40th anniversary and endowed with a fund of ¥200 million, celebrated its 20th anniversary during fiscal 2003. Today, the Foundation provides commendations and assistance to small and medium-sized companies in Yamaguchi Prefecture as well as Hiroshima and Fukuoka Prefectures, and its original name has been changed to the Yamagin Regional Enterprise Support Foundation.

In the course of fiscal 2003, the Foundation made commendations to seven companies in Yamaguchi Prefecture, six in Hiroshima Prefecture, and seven in Fukuoka Prefecture, making a total of 20 companies. Therefore, up to the year-end its financial assistance had been provided to a total of 221 companies, the amount of assistance totaling ¥221 million (US\$2 million).



Lectures for the Community

To provide useful information to people in the 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. Prime examples during the year were the holding of a lecture on the government's economic white paper in November 2003 and a meeting to explain the Kyushu economic white paper in March 2004.

Acceptance of Overseas Students and Trainees, and Trainee Teachers from Yamaguchi Prefecture

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 2003 it accepted five students from China, Thailand, and Turkey who had come to Japan to attend lectures at Shimonoseki City University. These students brought to 105 the cumulative total of students who have benefited from this assistance program. In addition, the Bank welcomed teachers from within Yamaguchi Prefecture to receive training in banking practices.



Board of Directors and Corporate Auditors



President
Koichi Fukuda



Senior Managing Director
Hideo Hirota



Senior Managing Director
Takeshi Kuwabara



Senior Managing Director
Kaoru Suehiro



Managing Director
Katsuhiko Nishihara



Managing Director
Hiroshi Takimoto



Managing Director
Hideaki Fujii

President	Managing Directors	Directors	Corporate Auditors
Koichi Fukuda	Katsuhiko Nishihara	Yuji Hamasaki	Yutaka Uetani
	Hiroshi Takimoto	Tetsuro Aono	Masaru Kozaki
Senior Managing Directors	Hideaki Fujii	Toshio Kato	Ryotaro Kaneko
Hideo Hirota		Hidenori Inoue	
Takeshi Kuwabara		Tetsuhiko Takahashi	
Kaoru Suehiro		Fumio Nosaka	
		Kazuhisa Shintani	
		Hiroshi Zaima	

Financial Review (Consolidated Basis)

Business Environment

A modest recovery was evident in the Japanese economy during the 2003 fiscal year, characterized by increases in both exports and capital investment. The economy of Yamaguchi Prefecture followed a gradual uptrend, as output remained generally at a high level, there were positive trends in capital investment, and even consumer spending showed signs of solidity.

In the financial services industry, we are being called on very strongly to bring about the revival of small and medium-sized companies and invigorate local economies in line with the government's Action Program Concerning the Enhancement of Relationship Banking Functions. It is also incumbent on us to strengthen the very fabric of our operations in preparation for the complete removal of blanket deposit insurance that is due in April 2005.

Performance

Amid this financial environment, we committed ourselves throughout the bank, with the support of our shareholders and customers, to expanding the foundations of our business operations and enhancing performance so as to achieve a V-shaped recovery. As a result, we were able to achieve the results set out below.

Total assets declined by ¥26.0 billion from the previous year, to ¥4,418.7 billion (US\$41,808 million) at the end of the term.

Total income increased by ¥7,811 million to ¥96,664 million (US\$914 million), and the year-earlier loss before

income taxes and minority interests was transformed into a profit of ¥16,195 million (US\$153 million), representing a change of ¥58,005 million. In addition, the Bank posted a net income of ¥9,364 million (US\$88 million), which represented a turnaround of ¥35,589 million from the net loss incurred in the previous year.

In our deposit-taking and lending activities the total balance of deposits, including CDs, fell by ¥70.3 billion to ¥3,944.5 billion (US\$37,321 million) at the year-end, impacted by the harsh financial circumstances in the corporate sector and by the low level of interest rates.

In our lending activities, we worked vigorously to meet our customers' needs for a stable supply of funds in response to the trust they have invested in us, but fund demand was generally flat owing to the persistent sluggishness of the economy. In consequence, loans decreased by ¥136.5 billion, causing the year-end balance of loans outstanding to fall to ¥2,879.1 billion (US\$27,241 million).

Securities holdings increased by ¥35.8 billion year-on-year, principally because of increases in holdings of government bonds and foreign bonds, raising the total balance to ¥1,097.0 billion (US\$10,379 million) at the year-end.

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CONSOLIDATED BALANCE SHEETS

March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Assets:			
Cash and due from banks (Note 3)	¥ 106,259	¥ 83,931	\$ 1,005,384
Call loans	201,998	174,721	1,911,231
Commercial paper and other debt purchased	5,347	3,826	50,591
Trading assets	1,411	2,677	13,350
Money held in trust	37,300	33,687	352,919
Securities (Notes 4, 5 and 7)	1,097,003	1,061,108	10,379,440
Loans and bills discounted (Note 6)	2,879,148	3,015,707	27,241,442
Foreign exchange assets	6,232	5,425	58,965
Other assets	35,104	22,514	332,141
Property and equipment	76,063	76,945	719,680
Deferred tax assets (Note 14)	25,221	34,128	238,632
Customers' liabilities for acceptances and guarantees	56,566	51,522	535,207
Reserve for possible loan losses	(108,913)	(121,387)	(1,030,495)
Total assets	<u>¥4,418,739</u>	<u>¥4,444,804</u>	<u>\$41,808,487</u>
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits (Note 7)	¥3,944,518	¥4,014,898	\$37,321,582
Call money (Note 7)	57,249	40,628	541,669
Payable under repurchase agreements (Note 7)	180	—	1,703
Borrowed money (Note 8)	13,926	14,184	131,763
Foreign exchange liabilities	27	152	255
Other liabilities	31,577	26,957	298,770
Accrued employee bonuses	2,916	2,248	27,590
Employees' severance and retirement benefits (Note 9)	3,832	3,789	36,257
Deferred tax liabilities for revaluation reserve for land (Notes 10 and 14)	18,399	18,599	174,085
Acceptances and guarantees	56,566	51,522	535,207
Total liabilities	<u>4,129,190</u>	<u>4,172,977</u>	<u>39,068,881</u>
Minority interests	861	873	8,146
Stockholders' equity (Note 11):			
Common stock:			
Authorized – 600,000 thousand shares			
Issued – 200,000 thousand shares	10,006	10,006	94,673
Capital surplus	377	376	3,567
Retained earnings	216,252	207,895	2,046,097
Revaluation reserve for land, net of tax (Note 10)	27,110	27,404	256,505
Unrealized gains on securities, net of tax (Note 5)	35,055	25,347	331,678
Common stock in treasury, at cost	(112)	(74)	(1,060)
Total stockholders' equity	<u>288,688</u>	<u>270,954</u>	<u>2,731,460</u>
Total liabilities, minority interests and stockholders' equity	<u>¥4,418,739</u>	<u>¥4,444,804</u>	<u>\$41,808,487</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Income:			
Interest on loans and discounts	¥ 54,970	¥ 56,901	\$ 520,106
Interest and dividends on securities	17,392	15,797	164,557
Other interest	362	415	3,425
Fees and commissions	11,934	10,915	112,915
Trading income	153	118	1,448
Other operating income	2,736	1,605	25,887
Other income	9,117	3,102	86,261
Total income	96,664	88,853	914,599
Expenses:			
Interest on deposits	2,804	3,978	26,530
Interest on borrowings and rediscounts	1,264	1,033	11,960
Other interest	2,421	2,886	22,907
Fees and commissions	3,592	3,516	33,986
Trading expenses	1	—	9
Other operating expenses	1,713	1	16,208
General and administrative expenses	47,212	48,784	446,703
Other expenses	21,462	70,465	203,065
Total expenses	80,469	130,663	761,368
Income (Loss) before income taxes and minority interests	16,195	(41,810)	153,231
Income taxes (Note 14):			
Current	4,710	3,424	44,564
Deferred	2,121	(19,107)	20,068
Minority interests in net income (loss)	(0)	98	(0)
Net income (loss)	9,364	(26,225)	88,599
Retained earnings at beginning of year	207,895	235,247	1,967,026
Reversal of revaluation reserve for land	294	220	2,782
Increase due to decrease of consolidated subsidiaries	1	—	9
Cash dividends paid	(1,299)	(1,299)	(12,291)
Bonuses to directors and corporate auditors	(3)	(48)	(28)
Retained earnings at end of year	¥216,252	¥207,895	\$2,046,097
	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (loss)	¥46.56	¥(131.18)	\$0.44
Cash dividends applicable to the year	7.50	6.50	0.07

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of
	2004	2003	U.S. dollars (Note 1)
			2004
Cash flows from operating activities:			
Income (Loss) before income taxes and minority interests	¥ 16,195	¥ (41,810)	\$ 153,231
Depreciation	2,317	2,544	21,923
Amortization of consolidation goodwill	13	(386)	123
Equity in earnings of affiliates	(13)	15	(123)
Net change in reserve for possible loan losses	(12,474)	41,917	(118,024)
Net change in accrued employee bonuses	668	2,248	6,320
Net change in employees' severance and retirement benefits	43	72	407
Interest income	(72,724)	(73,113)	(688,088)
Interest expenses	6,489	7,897	61,397
Net loss related to securities transactions	(1,932)	2,073	(18,280)
Net loss from money held in trust	(201)	508	(1,902)
Net exchange (gain) loss	17,780	8,751	168,228
Net loss from disposition of property and equipment	872	418	8,251
Net change in trading assets	1,266	254	11,978
Net change in loans	136,559	(5,175)	1,292,071
Net change in deposits	(117,681)	15,666	(1,113,454)
Net change in negotiable certificates deposits	47,300	(60,720)	447,535
Net change in borrowed money excluding subordinated loans	(258)	(1,708)	(2,441)
Net change in call loans	(28,805)	190,990	(272,542)
Net change in call money	16,802	(1,080)	158,974
Net change in deposits with bank	(9,815)	777	(92,866)
Net change in foreign exchanges (asset account)	(808)	(1,135)	(7,645)
Net change in foreign exchanges (liability account)	(126)	(52)	(1,192)
Interest received	76,658	76,845	725,310
Interest paid	(7,940)	(10,700)	(75,125)
Bonuses to directors and corporate auditors	(3)	(48)	(28)
Other, net	(6,613)	(2,157)	(62,571)
Subtotal	63,569	152,891	601,467
Income taxes paid	(4,614)	(361)	(43,656)
Net cash provided by operating activities	58,955	152,530	557,811
Cash flows from investing activities:			
Purchases of securities	(306,829)	(546,771)	(2,903,103)
Payment for acquisition of shares of subsidiaries	(24)	(53)	(227)
Proceeds from sale of securities	152,521	149,058	1,443,098
Proceeds from maturity of securities	114,262	259,403	1,081,105
Proceeds from sale of shares of subsidiaries	—	51	—
Net change in money held in trust	(2,761)	(886)	(26,124)
Purchases of property and equipment	(3,500)	(4,040)	(33,116)
Proceeds from sales of property and equipment	1,191	2,848	11,269
Net cash used in investing activities	(45,140)	(140,390)	(427,098)
Cash flows from financing activities:			
Payments for purchase of treasury stock	(26)	(46)	(246)
Dividends paid	(1,299)	(1,299)	(12,291)
Dividends paid to minority stockholders	(1)	(1)	(9)
Net cash used in financing activities	(1,326)	(1,346)	(12,546)
Foreign currency translation adjustments	24	20	226
Net change in cash and cash equivalents	12,513	10,814	118,393
Cash and cash equivalents at beginning of year	78,629	67,815	743,959
Decrease cash and cash equivalents due to decrease of consolidated subsidiaries	(0)	—	(0)
Cash and cash equivalents at end of year (Note 3)	¥ 91,142	¥ 78,629	\$ 862,352

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004 and 2003

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 Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements.

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, 2004, which was ¥105.69 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 2004 and 2003 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 of 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.

Effective April 1, 2003, the Bank adopted hedge accounting based

on the report "Treatments of Accounting and Audit on Application of Accounting Standard for Financial Instruments in Banking Industry" (the "Report No. 24"). On fair value hedge, the effectiveness of the hedge accounting is reviewed by corresponded hedge measure to hedge target by certain terms. The Bank applies exceptional treatments permitted for interest rate swaps to certain assets and liabilities.

Deferred hedge losses and gains on hedging derivative based on "Macro Hedge," the Bank adopted in preceding term, are allocated to interest income or interest expenses by nine years from the 2003 fiscal year, according to remaining period and assumed principle of each hedge measure based on "Macro Hedge." Deferred hedge losses on hedging derivative based on "Macro Hedge" amounted to ¥1,210 million (\$11,449 thousand) at March 31, 2004.

Also, effective April 1, 2003, based on the regular provisions of the "Treatment of Accounting and Audit Concerning Accounting for Foreign Currency Transactions in Banking Industry" issued by Industry Audit Committee of JICPA, the Bank adopted hedge accounting on currency swap transactions and foreign exchange swap transactions to convert funds borrowing into funds lending. The effectiveness of the hedge accounting is reviewed by corresponded foreign currency position as hedge measure, currency swap transactions and foreign exchange swap transactions to decrease foreign exchange risk in foreign currency receivable and payable, to foreign currency receivable and payable as hedge target.

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.

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.

In the year ended March 31, 2004, the Bank did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption.

The Bank will adopt these standards effective from the year ending March 31, 2006. The Bank has begun its analysis of possible impairment of fixed assets. The Bank cannot currently estimate the effect of adoption of the new standard, because the Bank has not yet completed its analysis.

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, 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 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.

Effective April 1, 2003, based on the regular provisions of the "Report No. 25," the Bank adopted hedge accounting on currency swap transactions and foreign exchange swap transactions to convert funds borrowing into funds lending.

As a result of adopting the revised accounting standard, the fund swap transactions and foreign exchange swap transactions are valued at the fair value, and net receivable and payable on valuation are accounted on consolidated balance sheets, other assets increased by ¥1,120 million (\$10,597 thousand) and other liabilities increased by the same amount compared with what would have been recorded under the previous accounting standard.

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.

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.

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, 2004 and 2003 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 a 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, 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 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

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

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

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

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

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

The reconciliation of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and due from banks	¥106,259	¥83,931	\$1,005,384
Time deposits in other banks	(3,432)	(4,111)	(32,472)
Certificates of deposits in other banks	(10,000)	—	(94,616)
Other	(1,685)	(1,191)	(15,944)
Cash and cash equivalents	¥ 91,142	¥78,629	\$ 862,352

4. SECURITIES

Securities held by the Bank at March 31, 2004 and 2003 include shares of affiliated companies amounting to ¥179 million (\$1,694 thousand) and ¥243 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, 2004:

(a) Trading securities

Book value — ¥1,405 million (\$13,294 thousand)

Amount of net unrealized losses included in the income statement

— ¥5 million (\$47 thousand)

(b) Held-to-maturity debt securities:

	Millions of yen	Thousands of U.S. dollars
National government bonds:		
Book value	¥ 980	\$ 9,272
Fair value	988	9,348
Unrealized gain	¥ 8	\$ 76
Debentures:		
Book value	¥8,976	\$84,928
Fair value	9,170	86,764
Unrealized gain	¥ 194	\$ 1,836
Other securities:		
Book value	¥5,153	\$48,756
Fair value	5,593	52,919
Unrealized gain	¥ 440	\$ 4,163

(c) Available-for-sale securities:

Type	Millions of yen		
	Acquisition cost	Book value	Unrealized gain
Shares	¥ 56,516	¥ 106,572	¥50,056
National government bonds	552,237	553,037	800
Local government bonds	148,830	151,941	3,111
Debentures	103,485	105,502	2,017
Other securities	162,954	165,573	2,619
Total	¥1,024,022	¥1,082,625	¥58,603

Type	Thousands of U.S. dollars		
	Acquisition cost	Book value	Unrealized gain
Shares	\$ 534,734	\$ 1,008,346	\$473,612
National government bonds	5,225,064	5,232,633	7,569
Local government bonds	1,408,175	1,437,610	29,435
Debentures	979,137	998,221	19,084
Other securities	1,541,811	1,566,591	24,780
Total	\$9,688,921	\$10,243,401	\$554,480

The following tables summarize book values of securities with no available fair values as of March 31, 2004:

(a) Held-to-maturity debt securities:

Type	Millions of yen Book value	Thousands of U.S. dollars Book value
Non-listed bonds	¥6,790	\$64,244

(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)	¥2,732	\$25,849

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	¥ 75,873	¥203,597	¥243,350	¥31,198
Local government bonds	6,563	67,513	75,660	2,204
Debentures	11,146	77,192	32,930	—
Other securities	27,621	86,936	52,258	—
Total	¥121,203	¥435,238	¥404,198	¥33,402

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	\$ 717,882	\$1,926,360	\$2,302,488	\$295,184
Local government bonds	62,097	638,783	715,867	20,853
Debentures	105,459	730,362	311,572	—
Other securities	261,340	822,557	494,446	—
Total	\$1,146,778	\$4,118,062	\$3,824,373	\$316,037

There were no sales of held-to-maturity debt securities in the year ended March 31, 2004.

Total sales of available-for-sale securities sold in the year ended March 31, 2004 amounted to ¥149,510 million (\$1,414,609 thousand) and the related gains and losses amounted to ¥3,712 million (\$35,122 thousand) and ¥1,204 million (\$11,392 thousand), respectively.

B. 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

Amount of net unrealized gains included in the income statement — ¥1 million

(b) Held-to-maturity debt securities:

	Millions of yen
Debentures:	
Book value	¥ 9,985
Fair value	10,431
Unrealized gain	¥ 446
Other securities:	
Book value	¥ 8,990
Fair value	9,597
Unrealized gain	¥ 607

(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	129,009	131,373	2,364
Total	¥994,909	¥1,037,877	¥42,968

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
Non-listed bonds	¥1,940

(b) Available-for-sale securities:

Type	Millions of yen Book value
Non-listed equity securities (not including those traded over the counter)	¥2,707

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

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 and the related gains and losses amounted to ¥1,213 million and ¥1 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, 2004 and 2003 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 ¥24,682 million (\$233,532 thousand) and ¥13,248 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Interest rate swaps	¥ 27,013	¥ 888	\$255,587
Currency swaps	102,557	196,831	970,357
Forward exchange	18,051	19,648	170,792

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, 2004 and 2003 include "Risk-Managed Loan Amounts" such as (1) loans to borrowers in bankruptcy amounting to ¥12,521 million (\$118,469 thousand) and ¥25,620 million, respectively, (2) other delinquent loans amounting to ¥119,134 million (\$1,127,202 thousand) and ¥112,545 million, respectively, (3) loans past due for three months or more amounting to ¥2,422 million (\$22,916 thousand) and ¥85 million, respectively and (4) restructured loans amounting to ¥80,892 million (\$765,370 thousand) and ¥99,142 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, 2004 and 2003, the following assets were pledged as collateral for certain liabilities of the Bank.

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Securities	¥156,487	¥151,971	\$1,480,623

The collateral was pledged to secure the following:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Deposits	¥38,979	¥41,427	\$368,805
Call money	5,439	6,010	51,462
Payable under repurchase agreements	180	—	1,703

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 ¥115,992 million (\$1,097,474 thousand) at March 31, 2004, and ¥116,257 million at March 31, 2003.

8. BORROWED MONEY

Borrowed money at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Loans from banks and insurance offices	¥13,926	¥14,184	\$131,763

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, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Projected benefit obligation	¥31,915	¥31,284	\$301,968
Less fair value of pension assets	(23,945)	(17,089)	(226,559)
Unrecognized actuarial differences	(4,978)	(11,443)	(47,100)
Prepaid pension costs	840	1,037	7,948
Liability for severance and retirement benefits	¥ 3,832	¥ 3,789	\$ 36,257

Included in the consolidated statement of income for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs — benefits earned during the year	¥1,009	¥1,121	\$ 9,547
Interest cost on projected benefit obligation	780	1,364	7,380
Expected return on plan assets	(328)	(1,003)	(3,103)
Amortization of actuarial differences	1,243	1,073	11,761
Losses on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme	—	1,450	—
Other	138	122	1,305
Severance and retirement benefit expenses	<u>¥2,842</u>	<u>¥4,127</u>	<u>\$26,890</u>

The discount rate used by the Bank was 2.5% and the rates of expected return on plan assets were 3.1% for the welfare pension plan, 2.2% for the tax-qualified pension plan and 0.9% 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 ¥17,009 million (\$160,933 thousand) and ¥14,459 million at March 31, 2004 and 2003, 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 non-consolidated 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 leases certain equipment under the non-cancelable 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, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Equivalent amount:			
Acquisition cost	¥7,223	¥8,081	\$68,341
Accumulated depreciation	(3,408)	(3,589)	(32,245)
Net book value	<u>¥3,815</u>	<u>¥4,492</u>	<u>\$36,096</u>

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥1,576	¥1,371	\$14,912
Equivalent of depreciation expense	1,459	1,359	13,805
Equivalent of interest expense	115	121	1,088

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, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
2005	¥1,268	\$11,998
2006 and thereafter	2,758	26,095
Total minimum lease payments	<u>¥4,026</u>	<u>\$38,093</u>

14. INCOME TAXES

The following table summarizes the significant differences between the statutory tax rate and the Bank's effective tax rate for consolidated 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, 2004 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars 2004
Deferred tax assets:			
Reserve for possible loan losses	¥41,082	¥44,536	\$388,703
Retirement benefits	2,679	2,197	25,348
Accrued employee bonuses	1,179	749	11,155
Depreciation	860	964	8,137
Losses on devaluation of land	1,350	998	12,773
Other	2,291	2,285	21,677
Total deferred tax assets	<u>¥49,441</u>	<u>¥51,729</u>	<u>\$467,793</u>
Deferred tax liabilities:			
Unrealized gains on securities	¥23,788	¥17,202	\$225,073
Deferred gain on property and equipment	432	399	4,088
Total deferred tax liabilities	<u>¥24,220</u>	<u>¥17,601</u>	<u>\$229,161</u>
Net deferred tax assets	<u>¥25,221</u>	<u>¥34,128</u>	<u>\$238,632</u>
Deferred tax liabilities for revaluation reserve for land	<u>¥18,399</u>	<u>¥18,599</u>	<u>\$174,085</u>

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, provision for deferred income tax increased by ¥1,414 million, deferred tax liabilities for revaluation reserve for land decreased by ¥602 million, revaluation reserve for land, net of tax increased by the same amount and unrealized gains on securities, net of tax increased by ¥557 million compared with what would have been recorded under the previous local tax law.

At March 31, 2004, for the calculation of deferred income tax assets and liabilities, both current items and non-current items, the Bank used the aggregate statutory income tax rate of 40.4%.

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 25, 2004, the stockholders of the Bank authorized the following appropriations of retained earnings at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4.25 (\$0.04) per share	¥850	\$8,042
Bonuses to directors and corporate auditors	56	530

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 consolidated subsidiaries as of March 31, 2004 and 2003, 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 Bank's management. Our responsibility is to independently 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, 2004 and 2003, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG ARSA & Co.

Shimonoseki, Japan
June 25, 2004

NON-CONSOLIDATED BALANCE SHEETS

March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Assets:			
Cash and due from banks	¥ 106,216	¥ 83,887	\$ 1,004,976
Call loans	201,998	174,721	1,911,231
Commercial paper and other debt purchased	5,347	3,826	50,591
Trading assets (Note 3)	1,411	2,677	13,350
Money held in trust	37,300	33,687	352,919
Securities (Notes 4 and 9)	1,096,363	1,061,255	10,373,384
Loans and bills discounted (Note 5)	2,880,096	3,016,646	27,250,412
Foreign exchange assets (Note 6)	6,232	5,425	58,965
Other assets (Note 7)	31,641	19,234	299,376
Property and equipment (Notes 8 and 13)	74,024	74,831	700,388
Deferred tax assets (Note 22)	25,190	34,104	238,339
Customers' liabilities for acceptances and guarantees	56,566	51,522	535,207
Reserve for possible loan losses	(108,715)	(121,259)	(1,028,621)
Total assets	<u>¥4,413,669</u>	<u>¥4,440,556</u>	<u>\$41,760,517</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits (Notes 9 and 10)	¥3,946,186	¥4,016,332	\$37,337,364
Call money (Note 9)	57,249	40,628	541,669
Payable under repurchase agreements (Note 9)	180	—	1,703
Borrowed money (Note 11)	13,458	13,824	127,335
Foreign exchange liabilities (Note 6)	27	152	255
Other liabilities (Note 12)	28,451	24,664	269,193
Accrued employee bonuses	2,912	2,243	27,552
Employees' severance and retirement benefits	3,832	3,789	36,257
Deferred tax liabilities for revaluation reserve for land (Notes 13 and 22)	18,399	18,599	174,085
Acceptances and guarantees	56,566	51,522	535,207
Total liabilities	<u>4,127,260</u>	<u>4,171,753</u>	<u>39,050,620</u>
Stockholders' equity (Notes 14 and 23):			
Common stock:			
Authorized – 600,000 thousand shares			
Issued – 200,000 thousand shares	10,006	10,006	94,673
Capital surplus	377	376	3,567
Retained earnings	213,950	205,727	2,024,316
Revaluation reserve for land, net of tax (Note 13)	27,110	27,404	256,505
Unrealized gains on securities, net of tax	35,049	25,346	331,621
Common stock in treasury, at cost	(83)	(56)	(785)
Total stockholders' equity	<u>286,409</u>	<u>268,803</u>	<u>2,709,897</u>
Total liabilities and stockholders' equity	<u>¥4,413,669</u>	<u>¥4,440,556</u>	<u>\$41,760,517</u>

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Income:			
Interest on loans and discounts	¥ 54,623	¥ 56,541	\$ 516,822
Interest and dividends on securities	17,392	15,805	164,557
Other interest	356	409	3,368
Fees and commissions	11,231	10,081	106,264
Trading income	153	118	1,448
Other operating income (Note 17)	2,736	1,605	25,887
Other income (Note 18)	8,804	2,624	83,300
Total income	95,295	87,183	901,646
Expenses:			
Interest on deposits	2,804	3,978	26,531
Interest on borrowings and rediscounts	1,256	1,026	11,884
Other interest	2,419	2,885	22,888
Fees and commissions	3,592	3,516	33,986
Trading expenses	1	—	9
Other operating expenses (Note 19)	1,713	1	16,208
General and administrative expenses (Note 20)	46,317	47,917	438,234
Other expenses (Note 21)	21,253	70,309	201,088
Total expenses	79,355	129,632	750,828
Income (Loss) before income taxes	15,940	(42,449)	150,818
Income taxes (Note 22):			
Current	4,581	3,290	43,344
Deferred	2,128	(19,162)	20,134
Net income (loss)	9,231	(26,577)	87,340
Retained earnings at beginning of year	205,727	233,431	1,946,513
Reversal of revaluation reserve for land	294	220	2,782
Cash dividends paid	(1,299)	(1,299)	(12,291)
Bonuses to directors and corporate auditors	(3)	(48)	(28)
Retained earnings at end of year	¥213,950	¥205,727	\$2,024,316
	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (loss)	¥45.89	¥(132.92)	\$0.43
Cash dividends applicable to the year	7.50	6.50	0.07

See accompanying notes.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004 and 2003

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 Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements.

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, 2004, which was ¥105.69 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 of 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.

Effective April 1, 2003, the Bank adopted hedge accounting based on the report "Treatments of Accounting and Audit on Application of Accounting Standard for Financial Instruments in Banking Industry" (the "Report No. 24"). On fair value hedge, the effectiveness of the hedge accounting is reviewed by corresponded hedge measure to hedge target by certain terms. The Bank applies exceptional treatments permitted for interest rate swaps to certain assets and liabilities.

Deferred hedge losses and gains on hedging derivative based on "Macro Hedge," the Bank adopted in preceding term, are allocated to interest income or interest expenses by nine years from the 2003 fiscal year, according to remaining period and assumed principle of each hedge measure based on "Macro Hedge." Deferred hedge losses on hedging derivative based on "Macro Hedge" amounted to ¥1,210 million (\$11,449 thousand) at March 31, 2004.

Also, effective April 1, 2003, based on the regular provisions of the "Treatment of Accounting and Audit Concerning Accounting for Foreign Currency Transactions in Banking Industry" issued by the Industry Audit Committee of JICPA, the Bank adopted hedge accounting on currency swap transactions and foreign exchange swap transactions to convert funds borrowing into funds lending. The effectiveness of the hedge accounting is reviewed by corresponded foreign currency position as hedge measure, currency swap transactions and foreign exchange swap transactions to decrease foreign exchange risk in foreign currency receivable and payable, to foreign currency receivable and payable as hedge target.

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.

In the year ended March 31, 2004, the Bank did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption.

The Bank will adopt these standards effective from the year ending March 31, 2006. The Bank has begun its analysis of possible impairment of fixed assets. The Bank cannot currently estimate the effect of adoption of the new standard, because the Bank has not yet completed its analysis.

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 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 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.

Effective April 1, 2003, based on the regular provisions of the "Report No. 25," the Bank adopted hedge accounting on currency swap transactions and foreign exchange swap transactions to convert funds borrowing into funds lending.

As a result of adopting the revised accounting standard, the fund swap transactions and foreign exchange swap transactions are valued at the fair value, and net receivable and payable on valuation are accounted on non-consolidated balance sheets, other assets increased by ¥1,120 million (\$10,597 thousand) and other liabilities increased by the same amount compared with what would have been recorded under the previous accounting standard.

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.

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.

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, 2004 and 2003 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 a 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, 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 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 not material.

Amounts per share of common stock

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

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

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

3. TRADING ASSETS

Trading assets at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Trading account securities	¥1,405	¥2,664	\$ 13,293
Other trading assets	6	13	57
	<u>¥1,411</u>	<u>¥2,677</u>	<u>\$ 13,350</u>

4. SECURITIES

Securities held by the Bank at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
National government bonds	¥ 553,214	¥ 546,093	\$ 5,234,308
Local government bonds	151,941	170,438	1,437,610
Debentures	121,268	129,211	1,147,393
Shares	109,646	75,714	1,037,430
Other securities	160,294	139,799	1,516,643
	<u>¥1,096,363</u>	<u>¥1,061,255</u>	<u>\$10,373,384</u>

5. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Bills discounted	¥ 84,950	¥ 92,705	\$ 803,766
Loans on notes	385,079	435,030	3,643,476
Loans on deeds	1,776,713	1,737,223	16,810,607
Overdrafts	633,354	751,688	5,992,563
	<u>¥2,880,096</u>	<u>¥3,016,646</u>	<u>\$27,250,412</u>

Loans at March 31, 2004 and 2003 include "Risk-Managed Loan Amounts" such as (1) loans to borrowers in bankruptcy amounting to ¥12,495 million (\$118,223 thousand) and ¥25,594 million, respectively, (2) other delinquent loans amounting to ¥119,035 million (\$1,126,265 thousand) and ¥112,463 million, respectively, (3) loans past due for three months or more amounting to ¥2,422 million (\$22,916 thousand) and ¥85 million, respectively and

(4) restructured loans amounting to ¥80,892 million (\$765,370 thousand) and ¥99,142 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Foreign exchange assets:			
Due from foreign banks	¥2,845	¥3,963	\$ 26,918
Foreign bills of exchange bought	1,242	519	11,752
Foreign bills of exchange receivable	2,145	943	20,295
	<u>¥6,232</u>	<u>¥5,425</u>	<u>\$58,965</u>

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Foreign exchange liabilities:			
Due to foreign banks	¥ 0	¥ 0	\$ 0
Foreign bills of exchange sold	26	150	246
Foreign bills of exchange payable	1	2	9
	<u>¥27</u>	<u>¥152</u>	<u>\$255</u>

7. OTHER ASSETS

Other assets at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Domestic exchange settlement account, debit	¥ 32	¥ 22	\$ 303
Prepaid expenses	3	9	28
Accrued income	6,671	6,674	63,119
Derivative instrument	13,185	397	124,752
Deferred losses on hedging derivative	1,964	3,115	18,583
Other	9,786	9,017	92,591
	<u>¥31,641</u>	<u>¥19,234</u>	<u>\$299,376</u>

8. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Land	¥ 54,933	¥ 55,888	\$ 519,756
Buildings	43,383	42,613	410,474
Equipment	18,264	18,786	172,807
Construction in progress	15	524	142
	116,595	117,811	1,103,179
Less accumulated depreciation	43,347	43,823	410,133
	73,248	73,988	693,046
Lease deposits	776	843	7,342
	¥ 74,024	¥ 74,831	\$ 700,388

9. PLEDGED ASSETS

At March 31, 2004 and 2003, the following assets were pledged as collateral for certain liabilities of the Bank.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Securities	¥156,487	¥151,971	\$1,480,623

The collateral was pledged to secure the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deposits	¥38,979	¥41,427	\$368,805
Call money	5,439	6,010	51,462
Payable under repurchase agreements	180	—	1,703

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 ¥115,992 million (\$1,097,474 thousand) at March 31, 2004, and ¥116,257 million at March 31, 2003.

10. DEPOSITS

Deposits at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current deposits	¥ 168,511	¥ 166,118	\$ 1,594,389
Ordinary deposits	1,573,591	1,570,042	14,888,741
Deposits-at-notice	25,270	20,770	239,095
Time deposits	1,842,417	1,921,505	17,432,274
Other deposits	109,967	158,767	1,040,467
Certificates of deposit	226,430	179,130	2,142,398
	¥3,946,186	¥4,016,332	\$37,337,364

11. BORROWED MONEY

Borrowed money at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans from banks and insurance offices	¥13,458	¥13,824	\$127,335

12. OTHER LIABILITIES

Other liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Domestic exchange settlement account, credit	¥ 172	¥ 185	\$ 1,627
Income taxes	3,224	3,128	30,504
Accrued expenses	3,397	4,854	32,141
Unearned income	3,040	3,251	28,763
Employees' deposits	1,431	1,509	13,540
Derivative instruments	4,249	3,413	40,202
Deferred gains on hedging derivative	534	—	5,053
Other	12,404	8,324	117,363
	¥28,451	¥24,664	\$269,193

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 ¥17,009 million (\$160,933 thousand) and ¥14,459 million at March 31, 2004 and 2003, 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 leases certain equipment under the non-cancelable 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, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Equivalent amount:			
Acquisition cost	¥6,957	¥7,941	\$65,825
Accumulated depreciation	(3,306)	(3,521)	(31,281)
Net book value	<u>¥3,651</u>	<u>¥4,420</u>	<u>\$34,544</u>

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥1,536	¥1,340	\$14,533
Equivalent of depreciation expense	1,425	1,334	13,483
Equivalent of interest expense	109	114	1,031

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, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
2005	¥1,224	\$11,581
2006 and thereafter	<u>2,642</u>	<u>24,998</u>
Total minimum lease payments	<u>¥3,866</u>	<u>\$36,579</u>

17. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Gain on foreign exchange transactions	¥ 757	¥ 284	\$ 7,162
Gain on sale of bonds	1,774	1,217	16,785
Other	205	104	1,940
	<u>¥2,736</u>	<u>¥1,605</u>	<u>\$25,887</u>

18. OTHER INCOME

Other income for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Gain on sale of shares and other securities	¥1,938	¥ 3	\$18,337
Gain on money held in trust	208	129	1,968
Gain on disposal of property and equipment	18	—	170
Recoveries of written-off claims	6	2	57
Other	6,634	2,490	62,768
	<u>¥8,804</u>	<u>¥2,624</u>	<u>\$83,300</u>

19. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Losses on sale of bonds	¥1,195	¥ 1	\$11,307
Losses on redemption of bonds	518	—	4,901
	<u>¥1,713</u>	<u>¥ 1</u>	<u>\$16,208</u>

20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Employee compensation	¥21,923	¥22,215	\$207,427
Depreciation	2,293	2,480	21,696
Rental expense	2,790	2,959	26,398
Communications	1,299	1,329	12,291
Supplies	851	883	8,052
Taxes	2,147	2,183	20,314
Other	15,014	15,868	142,056
	<u>¥46,317</u>	<u>¥47,917</u>	<u>\$438,234</u>

21. OTHER EXPENSES

Other expenses for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars 2004
Provision for reserve for possible loan losses	¥12,374	¥59,313	\$117,078
Written-off claims	45	355	426
Losses on sale of stocks and other securities	9	—	85
Losses on devaluation of stock and other securities	58	3,290	549
Losses on money held in trust	7	636	66
Losses on disposal of property and equipment	890	340	8,421
Losses on devaluation of land	871	2,468	8,241
Severance and retirement benefit expenses	—	1,450	—
Other	6,999	2,457	66,222
	<u>¥21,253</u>	<u>¥70,309</u>	<u>\$201,088</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, 2004 and 2003.

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, 2004 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars 2004
Deferred tax assets:			
Reserve for possible loan losses	¥41,068	¥44,529	\$ 388,570
Retirement benefits	2,679	2,197	25,348
Accrued employee bonuses	1,177	747	11,137
Depreciation	860	963	8,137
Losses on devaluation of land	1,350	998	12,773
Other	2,276	2,271	21,535
Total deferred tax assets	<u>¥49,410</u>	<u>¥51,705</u>	<u>\$467,500</u>
Deferred tax liabilities:			
Unrealized gains on securities	¥23,788	¥17,202	\$225,073
Deferred gain on property and equipment	432	399	4,088
Total deferred tax liabilities	<u>¥24,220</u>	<u>¥17,601</u>	<u>\$229,161</u>
Net deferred tax assets	<u>¥25,190</u>	<u>¥34,104</u>	<u>\$238,339</u>
Deferred tax liabilities for revaluation reserve for land	<u>¥18,399</u>	<u>¥18,599</u>	<u>\$174,085</u>

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, provision for deferred income tax increased by ¥1,414 million, deferred tax liabilities for revaluation reserve for land decreased by ¥602 million, revaluation reserve for land, net of tax increased by the same amount and unrealized gains on securities, net of tax increased by ¥557 million compared with what would have been recorded under the previous local tax law.

At March 31, 2004, for the calculation of deferred income tax assets and liabilities, both current items and non-current items, the Bank used the aggregate statutory income tax rate of 40.4%.

23. SUBSEQUENT EVENTS

On June 25, 2004, the stockholders of the Bank authorized the following appropriations of retained earnings at March 31, 2004:

	Millions of yen	Thousands of
		U.S. dollars
Cash dividends, ¥4.25 (\$0.04) per share	¥850	\$8,042
Bonuses to directors and corporate auditors	56	530

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, 2004 and 2003, 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 Bank's management. Our responsibility is to independently 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.

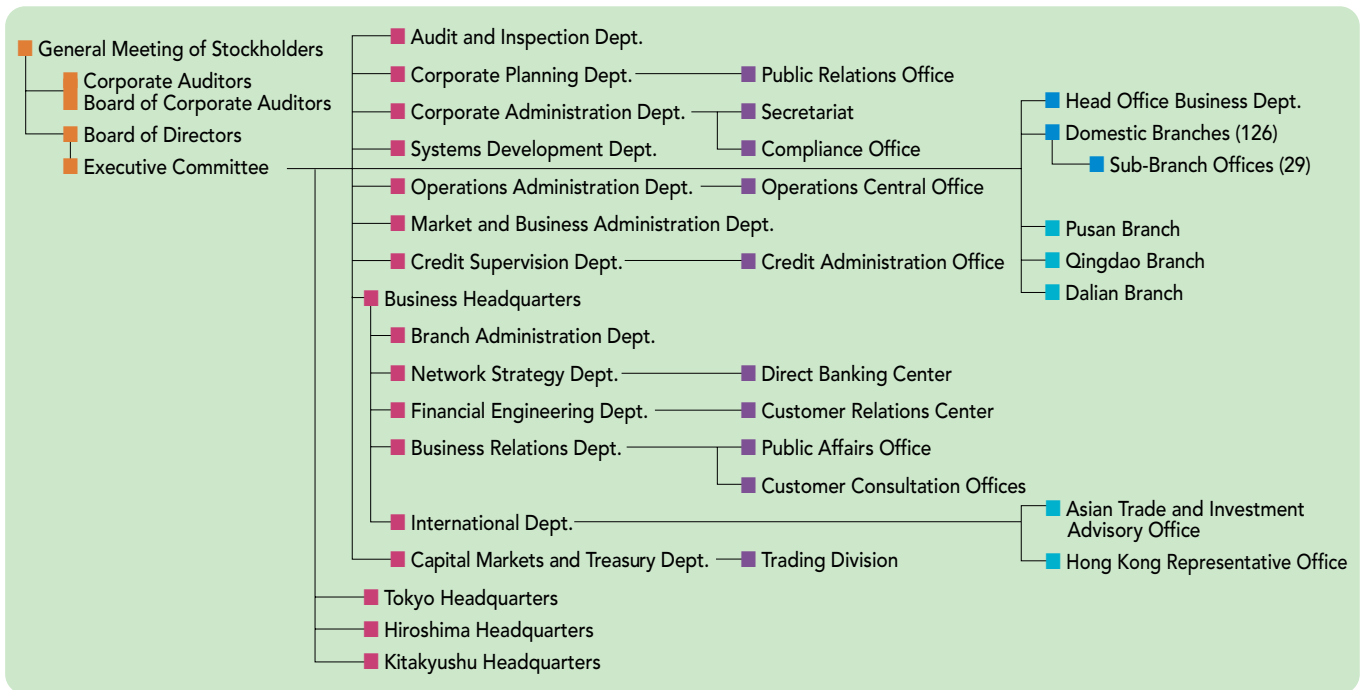
In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of THE YAMAGUCHI BANK, LTD. as of March 31, 2004 and 2003, and its operations for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the non-consolidated financial statements.

HPMG AB SA & Co.

Shimonoseki, Japan
June 25, 2004

Organization Chart and Corporate Information



International Department

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Shimonoseki, P.O. Box 24 Shimonoseki
750-8603, Japan
Cable: YAMAGUCHIBANK SHIMONOSEKI
Telex: 22807 (YBKSMS)
SWIFT Address: YMBKJPJT

Overseas Offices

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

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Telex: 321166 (YBKQD)

■DALIAN BRANCH
14F Senmao Building No. 147, Zhongshan Road Xigang District, Dalian, Liaoning Province, The People's Republic of China
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■HONG KONG REPRESENTATIVE OFFICE
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Offices Handling Foreign Exchange Business

Head Office Shimonoseki	2-36, 4-chome, Takezaki-cho, Shimonoseki 750-8603	Hiroshima Branch	5-25, Fukuro-machi, Naka-ku, Hiroshima 730-0036
Tokyo Branch	3-5, 3-chome, Nihonbashi Hongoku- cho, Chuo-ku 103-0021	Nagoya Branch	11-11, 1-chome Sakae, Naka-ku, Nagoya 460-0008
Osaka Branch	3-3, 3-chome, Nakanoshima, Kita-ku, Osaka 530-0005	Fukuoka Branch	8-27, Tenya-machi, Hakata-ku, Fukuoka 812-0025
Oshima Branch	278-4, Komatsu, Oshima-cho, Oshima- gun 742-2106	Kitakyushu Branch	1-10, 1-chome Sakai- machi, Kokurakita-ku, Kitakyushu 802-0005
Tabuse Branch	332-6, Hano, Tabuse- cho, Kumage-gun 742-1502	Fukuyama Branch	18-17, 5-chome Hikino- cho, Fukuyama 721-0942
Iwakuni Branch	8-4, 2-chome Marifu- cho, Iwakuni 740-0018	Yamaguchi Branch	5-5, 2-chome Eki-dori, Yamaguchi 753-0048
Tokuyama Branch	1, 1-chome Sakurababa- dori, Shunan 745-0011	Onoda Branch	4-5, 2-chome Chuo, Onoda 756-0824
Moji Branch	3-4, 2-chome Kiyotaki, Moji-ku, Kitakyushu 801-0833	Hagi Branch	16-1, Higashi-Tamachi, Hagi 758-0047
Ube Branch	1-1, 1-chome Shinten-cho, Ube 755-0029	Kure Branch	5-8, 2-chome Nakadori, Kure 737-0046
Kobe Branch	5-9, 2-chome Shimo- Yamatedori, Chuo-ku, Kobe 650-0011	Yahata Branch	4-1, 1-chome Kurosaki, Yahatanishi-ku, Kitakyushu 806-0021
		Hofu Branch	10-1, Ekiminami- machi, Hofu 747-0801

Nagasaki Branch	2-3, Motofuna-machi, Nagasaki 850-0035	Oita Branch	8-13, 3-chome Otemachi, Oita 870-0022
Kumamoto Branch	1-4, 4-chome, Ooe, Kumamoto 862-0971	Yanai Branch	9-14, 2-chome Chuo, Yanai 742-0035
Karato Branch	23-1, Nabe-cho, Shimonoseki 750-0006	Akasakamon Branch	2-8, 2-chome Maizuru, Chuo-ku, Fukuoka 810-0073
Hikari Branch	25-5, 2-chome Shimata, Hikari 743-0063	Chofu Branch	7-6, Doinouchi-cho, Chofu, Shimonoseki 752-0974
Kurume Branch	6-10, Higashi-machi, Kurume 830-0032	Wakamatsu Branch	1-8, Nakagawa-machi, Wakamatsu-ku, Kitakyushu 808-0025
Tobata Branch	8-23, Saiwai-cho, Tobata-ku, Kitakyushu 804-0084		
Matsuyama Branch	8-2, 3-chome Sanban- cho, Matsuyama 790-0003		
Hakataeki Higashi Branch	5-1, 2-chome Hakataeki Higashi, Hakata-ku, Fukuoka 812-0013		

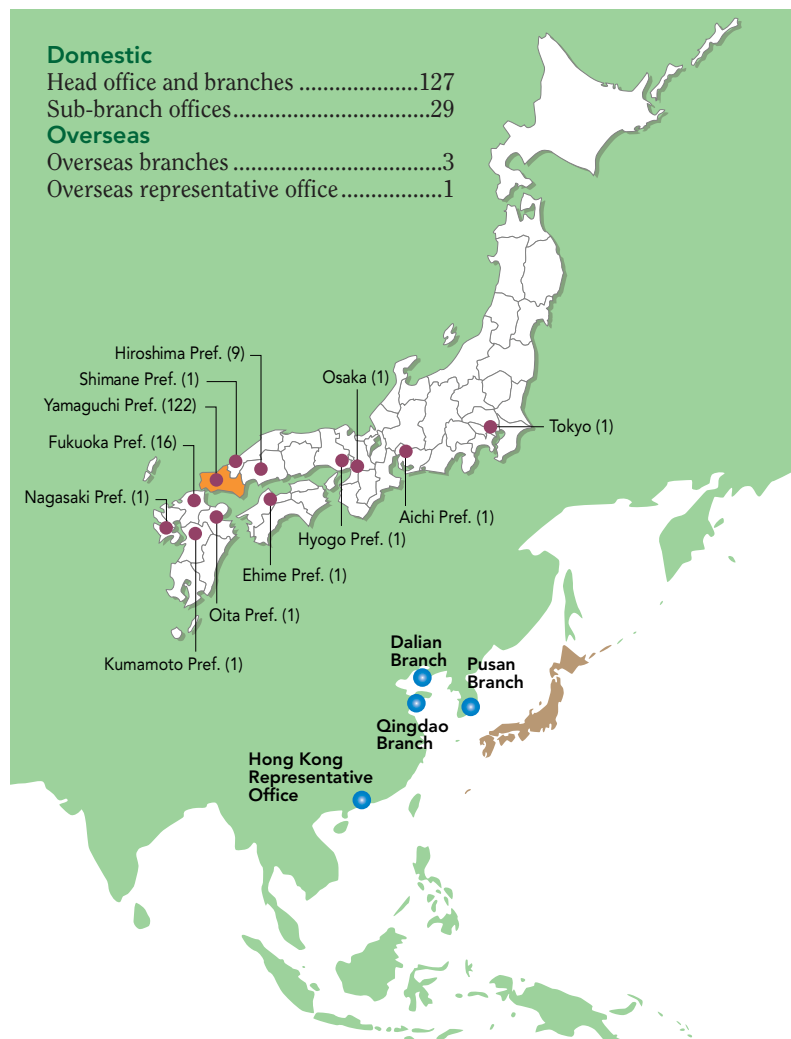
Subsidiaries and Affiliates

- **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
THE YAMAGIN BUSINESS OPERATIONS CENTER, LTD.
Operations
THE KITAKYUSHU ECONOMICS INSTITUTE, LTD.
Research and consultation
YAMAGIN CREDIT GUARANTEE CO., LTD.
Credit guarantee for housing loan

- **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, 2004)



The Yamaguchi Bank, Ltd.

Corporate Planning Dept.

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