

Comprehensive Compliance Testing Resolves Y2K Issues

THE YEAR 2000 (Y2K) PROBLEM

Today, companies in every industry use computer systems for various purposes. Some computer programs currently in use were made to recognize only the last two digits of a calendar year. Therefore, they recognize the years 1998 and 1999 as 98 and 99, respectively. Because such programs recognize the year 2000 as 00, they cannot distinguish between the years 1900 and 2000. This inability of the programs may cause erroneous processing when the calendar changes over to 2000, such as "Processing cannot be executed as intended" and "Data outside the effective time period are erased."

Y2K problems pose a serious challenge to the banking industry. Failure to address this issue may disrupt such day-to-day banking operations as settlements and interest computation. Moreover, banks may be affected both directly and indirectly by the failure of their clients or of their clients' business counterparties to complete Y2K compliance activities.

ADDRESSING Y2K PROBLEMS

The Bank has made the resolution of Y2K problems not only a matter of rectifying critical in-house systems but a priority corporate issue. The Bank has incorporated Y2K compliance measures into its medium-term business plan, INNOVATION 21, and

has been coordinating Y2K efforts with its affiliates and subsidiaries.

ORGANIZATIONAL STRUCTURE

The Bank has established a Year 2000 Compliance Board Committee, comprising all senior executives of the Board of Directors. Under this is a Year 2000 Compliance Executive Committee, the chairman and vice chairman of which are the managing director of the IT Division and the managing director of the General Planning Department, respectively. Other members are the general managers of the departments closely related to Y2K compliance activities. The Year 2000 Compliance Executive Committee also has full-time staff.

The members of the Year 2000 Compliance Board Committee meet at least once every month to make decisions on important issues and to monitor the progress of the Bank's Y2K compliance efforts. The decisions made by the committee are reported to the Board of Directors every month.

THE STATUS OF THE BANK'S Y2K PREPARATIONS

Computer Systems ● The Bank has identified all the systems affected, including those of its affiliates and subsidiaries, and assessed the effects of possible failures on its operations. The systems surveyed

included core systems, small business computers, PC systems, equipment with microcomputers, elevator systems, and security systems. After completing the assessment, the Bank prioritized compliance activities and started renovating and testing the systems. The Bank has contacted all vendors of externally developed systems for confirmation of their Y2K compliance status.

As of March 31, 1999, assessment, renovation, and successful in-house testing had been completed for core in-house systems and those developed by subsidiaries that directly deal with deposits, loans, and remittances for customers.

With regard to externally developed core systems, the Bank has obtained Y2K compliance confirmation from all the vendors.

The Bank is also undertaking Y2K compliance efforts for other systems and facilities. All Y2K measures are scheduled to have been completed by the end of August 1999.

With regard to the programs of on-line accounting systems, the Bank took steps to make them Y2K compliant at the time of switching over to its third generation on-line systems, which was done in 1989.

Risk Control ● The Bank has assessed the potential effects of Y2K-related risks, including credit risk, legal risk, and operation risk. The Bank is striving to manage and mitigate these risks.

Customer Preparedness ● The Bank cannot resolve Y2K problems by simply making its in-house computer systems Y2K compliant. The Bank and its customers may be affected if such infrastructure systems as power supplies, telecommunications, transportation systems, or customers' internal systems should fail. The Bank has informed its customers of potential Y2K problems. For example, the Bank has provided its customers with leaflets and has sent questionnaires regarding Y2K problems to customers

with electronic banking services and corporate customers with loan products (40,000 questionnaires were sent in October 1998 and 4,000 questionnaires in March 1999).

Contingency Plans ● The Bank has formulated disaster recovery plans for large-scale earthquakes and other disasters. Considering the unique nature of Y2K issues, the Bank has developed contingency plans to ensure its readiness for potential Y2K problems.

Y 2K EXPENSE

The total expense to achieve Y2K compliance is estimated at approximately ¥9 billion. This estimate includes ¥2.3 billion for projects initiated exclusively to mitigate Y2K issues and personnel costs and expenses for renovating, upgrading, replacing, and testing systems. As of March 1999, ¥0.7 billion of this latter amount had been spent, and the remaining ¥1.6 billion will be spent before the end of 1999. The ¥9 billion estimate also includes the ¥6.7 billion already spent for projects where Y2K issues were being addressed in conjunction with system upgrades or replacements.

The purpose of this report is to disclose material facts concerning the status of the readiness of the Bank of Yokohama, Ltd., for Y2K problems. This report shall not be construed to constitute any representation or warranty, either explicit or implied, by the Bank. In no event shall the Bank assume any obligations or waive any rights whatsoever by virtue of this disclosure.