

# The Bank of Kyoto

*Annual Report*

2000



# Profile

The ancient city of Kyoto – capital of Japan for more than a thousand years – is the repository of the nation’s cultural heritage. Kyoto is also the birthplace of finance in Japan.

The Bank of Kyoto, Ltd., is one of the most prominent regional banks in Japan, with assets of ¥4.0 trillion (US\$38.4 billion) at the close of fiscal 1999, ended March 31, 2000. The Bank was created through the merger of four regional financial institutions in 1941 and has operated under its current name since 1951.

Throughout its history, the Bank has worked to contribute to the economic growth and prosperity of the Kyoto region while enhancing its position as Kyoto’s leading bank by offering a comprehensive range of products and services.

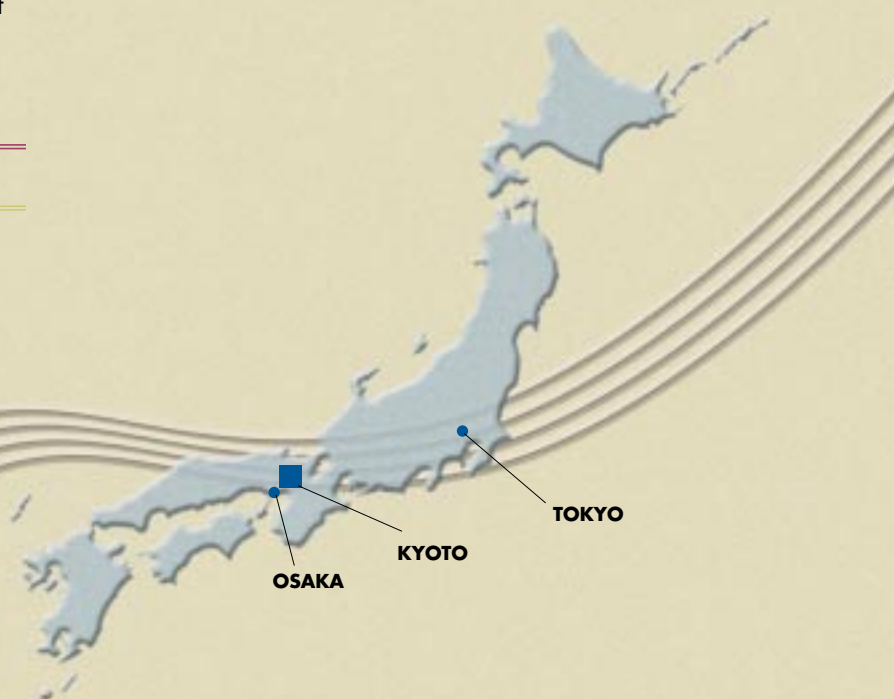
As of March 31, 2000, the Bank of Kyoto’s comprehensive banking network consisted of 115 domestic offices, the Hong Kong Representative office, and an extensive global correspondent banking network.

## Consolidated Financial Highlights

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Years Ended March 31, 2000 and 1999			
FOR THE YEAR			
Total Income	¥ 121,270	¥ 133,834	\$ 1,142,447
Total Expenses	111,601	157,650	1,051,353
Income (Loss) before Income Taxes and Minority Interests	9,669	(23,815)	91,093
Net Income (Loss)	5,546	(15,122)	52,249
AT YEAR-END			
Total Assets	¥4,085,064	¥4,006,268	\$38,483,887
Deposits	3,772,000	3,661,871	35,534,624
Loans and Bills Discounted	2,671,502	2,722,849	25,167,242
Investment Securities	1,126,042	866,709	10,608,034
Minority Interests	2,294	1,409	21,614
Common Stock	27,100	27,100	255,299
Total Stockholders’ Equity	154,920	150,762	1,459,450

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# Non-Consolidated Five-Year Summary


The Bank of Kyoto, Ltd. Years Ended March 31, 2000, 1999, 1998, 1997 and 1996

	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
<b>FOR THE YEAR</b>						
Total Income	¥ 114,925	¥ 130,152	¥ 152,114	¥ 141,679	¥ 176,604	\$ 1,082,671
Interest on Loans and Discounts	64,076	67,941	69,794	70,954	84,105	603,637
Interest and Dividends						
on Securities	28,518	31,466	36,633	34,092	34,922	268,658
Fees and Commissions	9,090	8,743	8,535	8,451	8,298	85,641
Total Expenses	106,304	154,462	133,891	139,080	146,742	1,001,451
Interest on Deposits	12,458	18,287	26,590	31,816	51,012	117,362
Interest on Borrowings and Rediscounts	993	3,105	3,930	2,562	2,796	9,360
Fees and Commissions	3,998	3,761	3,613	3,403	3,279	37,666
General and Administrative Expenses	49,790	51,067	50,773	50,864	50,242	469,057
Income (Loss) before Income Taxes	8,621	(24,309)	18,223	2,598	29,861	81,220
Net Income (Loss)	5,494	(15,168)	1,724	2,164	1,769	51,763
Cash Dividends Paid	1,824	1,659	1,659	1,550	1,442	17,192
<b>AT YEAR-END</b>						
Total Assets	¥4,078,898	¥4,002,732	¥4,083,264	¥4,008,206	¥3,930,626	\$38,425,796
Cash and Due from Banks	62,752	85,476	69,490	190,119	155,029	591,169
Call Loans	134,543	200,789	186,089	74,984	211,222	1,267,486
Investment Securities	1,124,950	865,164	901,494	836,538	766,590	10,597,746
Loans and Bills Discounted	2,683,549	2,730,128	2,668,730	2,632,324	2,560,206	25,280,732
Total Liabilities	3,925,638	3,853,143	3,941,379	3,866,387	3,789,420	36,981,995
Deposits	3,780,552	3,669,365	3,616,377	3,642,274	3,509,032	35,615,191
Call Money	1,418	19,462	83,356	44,886	84,687	13,367
Borrowed Money	30,069	30,078	30,103	30,094	31,563	283,275
Total Stockholders' Equity	153,259	149,589	141,885	141,819	141,206	1,443,800
Common Stock	27,100	27,100	27,100	27,100	20,100	255,299
<b>PER SHARE</b>						
Net Assets	¥461.87	¥450.81	¥427.59	¥427.39	¥441.30	\$4.351
Net Income (Loss)	16.55	(45.71)	5.19	6.52	6.13	0.155
Cash Dividends						
Applicable to the Year	5.50	5.00	5.00	5.00	5.00	0.051
<b>OTHER DATA</b>						
Millions of U.S. Dollars						
Foreign Exchange Transactions	\$4,177	\$9,229	\$12,043	\$13,229	\$14,317	
Foreign Currency Assets	1,271	1,121	2,031	2,417	2,462	
Number of Offices	116	116	116	117	119	
Number of Employees	2,862	2,841	2,852	3,000	3,028	

Notes: 1. Yen Figures in million with fractions omitted.

2. The U.S. dollar amounts represent the translation of Japanese yen at the exchange rate of ¥106.15 to U.S.\$1.00 prevailing on March 31, 2000.

3. "Number of Offices" includes overseas branch and sub-branch offices.



## Message from the President

*Our aim: To become the best-trusted and soundest bank in the region*



### **MAINTAINING A SOUND BUSINESS PROFILE**

During the term under review, Japan's financial sector found itself in the midst of a period of profound reorganization as the Big Bang financial reforms rippled out to encompass surrounding areas. "Mega-banks" appeared, and players from outside the industry began participating. Faced with fierce competition, financial institutions throughout the country were forced to re-examine their position in the industry.

To survive and prosper in this period of financial upheaval it is my belief that we must inspire even greater confidence from our customers, build a robust business structure, and become strongly competitive.

Our strengths lie in the soundness of our business profile and our competitive superiority in the retail market, developed through deep roots sunk into the local community over many decades. For example, our consolidated capital ratio at the close of the business term ended March 31, 2000 stood at 9.47% according to domestic standards, or 14.20% when calculated by BIS standards, one of the highest levels among Japanese banks. We achieved this sound position by reducing risk assets and issuing special unsecured subordinated convertible bonds with special agreements. In addition, the Bank was awarded an A+ rating by Rating Investment Information Inc. in recognition of its business stability and financial soundness. The Bank emphasizes compliance as a vital strategy for winning a reputation among customers as an attractive institution where they can bank with confidence and satisfaction. To achieve this, we are establishing a thorough compliance system by entrenching a culture of corporate ethics centered on a Compliance Committee headed by the Deputy President of the Bank, and are strengthening systems for promoting compliance.



### **OUR BUSINESS BASE KYOTO AND PERFORMANCE DURING THE TERM**

Kyoto, our main business base, is known as an ancient city that represents the unique face of Japan. For many centuries, the city has been home to a wide range of traditional industries centered on Japanese-style clothing. However, the traditional Japanese clothing and textile industries have faced increasingly difficult business conditions.

At the same time, Kyoto has developed another face, as an incubator for high-technology industries started from venture companies. Kyoto now has a large number of fine, top-class corporations and growth companies in the machinery, electronics, and other sectors. Recently, the city has given birth to a host of venture companies in the fields of multimedia, information technology, and communications.



Looking at Kyoto's economy during the term, the sluggishness of the economy was ameliorated somewhat as a result of government economic measures and efforts to inject stability into the financial system, but this did not lead to an out-and-out recovery. Against this background, the Bank and Group companies worked to enhance business efficiency and improve results. As a result, net income amounted to ¥5,546 million (US\$52 million), compared with a net loss of ¥15,122 million for the previous term.

In disposing of the non-performing loans that are a legacy of the bubble economy, we can now see the light at the end of the tunnel. We will continue to actively write down debt and increase our corporate value by aggressive business strategies. For the future, we aim to become a stronger bank, and the following are the business policies that we believe will achieve that.

## MEDIUM-TERM BUSINESS PLAN AND ITS RESULTS

To successfully survive in today's harsh environment and become the most trusted and financially soundest bank in the region, in April 1999 we launched a three-year medium-term business plan. The plan puts forward five basic strategies: (1) raise earning power, (2) enhance the quality of our asset portfolio, (3) strengthen risk management ability, (4) reinforce marketing, and (5) improve customer satisfaction. To achieve these strategic goals, we are implementing the following measures based on the key words "speed" and "determination."

First, we will expand and bolster our network of branches, aggressively developing a strong profile based on branches in high-growth areas where population and businesses are increasing. In August this year, we opened a branch in southern Kyoto Prefecture that specializes in the retail banking business, including housing loans and asset management. In December, we will open our first branch in adjoining Shiga Prefecture.

Second, we are beefing up IT-related investment. The Bank of Kyoto recently joined the NTT Regional Bank Data Sharing Center where NTT Data and regional banks jointly develop next-generation systems. As a result, the Bank can now operate a system that offers the latest functions. Utilizing this key system will not only allow us to continue to offer highly reliable services to customers into the future, but will also reduce our systems operation costs and the number of staff needed to run our information systems.

In February this year, we began systematically upgrading the computer terminals in our head office and branches to a new branch office system using the latest information technology. Replacing slips bearing the seals of customers with electronic data helps substantially to increase business efficiency. In March we introduced a Personal Banking System into some branches. Through a video conferencing system linking head office and branch offices, specialist staff at head office can directly respond to queries from customers. In July we introduced

a system named Kyogin (Bank of Kyoto) Direct Banking, which combines telephone banking, Internet banking, and mobile banking. Direct banking allows us to meet customers' banking needs wherever and whenever they arise.

Through the sophisticated use of information technology combined with an expanded branch and ATM network, the Bank aims to offer greater convenience to customers and raise levels of customer satisfaction still further.

Third, the Bank is developing new products and services. In July this year, we began the over-the-counter sale of investment trusts at all branches, whereas previously such products had been available only at our principal branches. We are also preparing for the over-the-counter sale of insurance products and fixed contribution pension plans (a sort of Japanese version of 401K) that are scheduled to be available from next year.

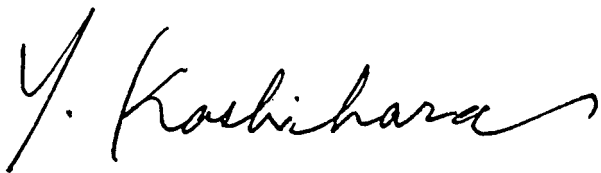
At the same time, the Bank identifies and assists companies that support the regional economy, and has established a venture fund, called KSO Venture Fund No.1, targeting promising venture companies in Kyoto, Shiga, and Osaka. In the future, the Bank will further step up the assistance and support it has been offering to venture companies and reinforce business activities that are rooted in the local region.

Fourth, we will strengthen risk management by vigorously promoting the above-mentioned policies, reducing overall operating costs, and further strengthening risk management, we hope to improve earning power, raise levels of customer satisfaction, and maintain and enhance the business soundness that is our main strength.

#### **STRENGTHENING COMMUNICATION WITH CUSTOMERS**

From the current term, competition in areas outside the traditional bounds of the financial sector is expected to intensify. In this environment, I believe that the key to competitiveness will lie in dependable face-to-face relationships with the local customers who are the backbone of business soundness. When large banks strengthen retailing services to the regions, competition will intensify further, but we also deal with most of the customers of the city banks and our relationships with them are strong.

We aim to thoroughly strengthen communication with customers, put customers first, and become the strongest regional bank in the Kyoto area. We will also further increase business transparency, commit ourselves to efficient business that maximizes stockholder value, and make every effort to live up to the expectations of stockholders and investors.



Yasuo Kashihara  
*President*

# Non-Performing Loans

*Vigorous disposal of non-performing loans, 87.1% of disclosed debt covered by reserves*

Recognizing that securing a sound asset portfolio is the most important issue facing us, the Bank carries out self-assessments at six-monthly intervals and is committed to accurately monitoring the asset situation and actively disposing of non-performing loans. The Bank's consolidated subsidiaries also carry out six-monthly self-assessments applying the same standards. Appropriate depreciation and provisions to reserves are implemented on the basis of the results.

## ASSET ASSESSMENT AND RESERVES BASED ON THE FINANCIAL RECONSTRUCTION LAW

Under the Financial Reconstruction Law, self-assessed assets are required to be disclosed as one of four categories: unrecoverable or valueless, risk, special attention and non-classified.

At the end of the term under review, the Bank's total disclosed loan assets, excluding normal loans, amounted to ¥186.7 billion. The rate of reserves for these disclosed loans, excluding loans covered by collateral, guarantees, or letters of intent was 75.1%. If we add the sum secured by collateral, guarantees, or letters of intent to the amount of reserves, the coverage ratio was 87.1%, a sufficient standard of reserves for non-performing loans.

### The Financial Reconstruction Law Standard (Non-Consolidated):

	Billions of Yen	
	2000	1999
Unrecoverable or Valueless	¥ 64.0	¥ 70.1
Risk	71.2	61.6
Special Attention	51.4	24.2
Subtotal	186.7	155.9
Non-Classified	2,546.2	2,626.7
Total	¥2,733.0	¥2,782.7

## RISK MANAGEMENT LOANS

As at the end of the term, the Bank's total amount of risk-management loans stood at ¥186.0 billion on a non-consolidated basis and ¥188.9 billion on a consolidated basis. However, as these risk-management loans also include loans that are recoverable, for example by disposing of collateral or by redeeming guarantees, there is no possibility of having to write off all disclosed loans.

So that our asset situation more appropriately reflects the loans under risk management, from the term under review we switched to disclosure standards based on self-assessment results rather than on conventional tax law standards. As a result, compared with conventional standards, our total amount of risk management loans increased ¥24.8 billion on both a consolidated and non-consolidated basis.

With rigorous application of the self-assessment system, we are working to achieve greater success in preventing non-performing loans arising in the first place, and to take appropriate and prompt disposal measures for existing non-performing loans. These measures should result in a sounder asset portfolio.

### Risk Management Loans:

	Billions of Yen	
	2000	1999
Loans in Legal Bankruptcy	¥ 32.3	¥ 21.5
Nonaccrual Loans	105.6	53.7
Accruing Loans Contractually		
Past Due Three Months or More	1.3	5.2
Restructured Loans	49.6	59.5
Total	¥188.9	¥140.1



## Risk Management System

The Bank is responding swiftly and appropriately to the diversification and complication of all kinds of risk in the wake of financial liberalization and globalization. To mitigate risk and stabilize revenues, management systems are being enhanced and reinforced.

In August last year, we developed a system to comprehensively manage risks, and in October enacted comprehensive risk management provisions. Then, in April this year, we further strengthened our risk management system by reorganizing the Treasury & Securities Division and the International Division into the Treasury & Investment Division, which is responsible for domestic and overseas market transactions, and the Securities & International Division, which handles risk management, operations management, and sales promotion.



### CREDIT RISK MANAGEMENT

Along with promoting the independence of our credit supervision and business promotion & development sections, we are strengthening systems associated with credit risk management. For example, we are setting up a Loan Supervision Office, increasing credit screening staff, and strengthening personnel training. The Bank also complies with the government's Prompt Corrective Action measures, and has established a specialist section for auditing the implementation of self-assessments and the adequacy of its depreciation and reserves based on those assessments. In addition, the Bank is audited by an outside auditor.



### MARKET RISK MANAGEMENT

The Asset-Liability Management (ALM) Group within the Management Administration Office, which is part of the Corporate Planning Division, comprehensively

controls assets and liabilities and implements proper risk control to secure stable earnings. Using the latest analysis methods such as VaR and EaR, the ALM Group is applying more sophisticated risk control and implementing strategic risk management through ALM meetings of related high-ranking directors.



### LIQUIDITY RISK MANAGEMENT

The Bank of Kyoto implements appropriate fund management that incorporates prediction and verification of the balance of funds managed and raised. The Bank also operates a system that constantly and precisely monitors the amount of funds it can raise from the markets and provides for the occurrence of liquidity risk.



### CLERICAL PROCESSING RISK MANAGEMENT

In addition to regulating the whole range of clerical processing procedures and strictly observing these regulations, we are working to build a clerical processing system that removes human error by centralizing the transaction of business and strengthening checking functions using information systems. To strengthen clerical risk management, the Inspection Division carries out inspections of the head office and branches, ensures that work is carried out impartially and appropriately, and prevents clerical errors occurring in the first place.



### SYSTEM RISK MANAGEMENT

We operate a backup center in case of computer problems and are careful to distribute the storage of important data. We also have an all-contingencies system with detailed response methods for systems failure, and designation of rules for preventing computer crime and system malfunctions.



# Financial Review

The total balance of deposits at the end of fiscal 1999 stood at ¥3,772.0 billion (US\$35,534 million), a rise of ¥110.1 billion, or 3.0%, mostly in personal deposits and demand deposits.

In the lending area, in spite of a solid increase in personal loans centering on housing loans, the total balance of loans decreased by ¥51.3 billion, or 1.8%, to ¥2,671.5 billion (US\$25,167 million), due to poor demand from corporate customers resulting from the economy's failure to stage a full-scale recovery.

The outstanding balance of investment securities at the end of the term rose ¥259.3 billion, or 29.9%, to ¥1,126.0 billion (US\$10,608 million), as a result of effective fund management. The balance of trading securities stood at ¥1.7 billion (US\$16 million).

Total assets and total stockholders' equity stood at ¥4,085.0 billion (US\$38,483 million) and ¥154.9 billion (US\$1,459 million), respectively.

The Bank posted a net income of ¥5.5 billion (US\$52 million), a rise of ¥20.6 billion. This was thanks to effective fund raising and the successful reduction of total expenses, even though total income declined owing to the aggressive posting of bad loan reserves and execution of write-offs based on our own strict self-assessment policy to assure the soundness of our asset portfolio.

The Bank's capital ratio as of March 31, 2000 was 9.47% based on domestic standards and 14.20% based on BIS standards as the Bank issued subordinated convertible bonds during the term to build up its capital and reduce its risk assets.

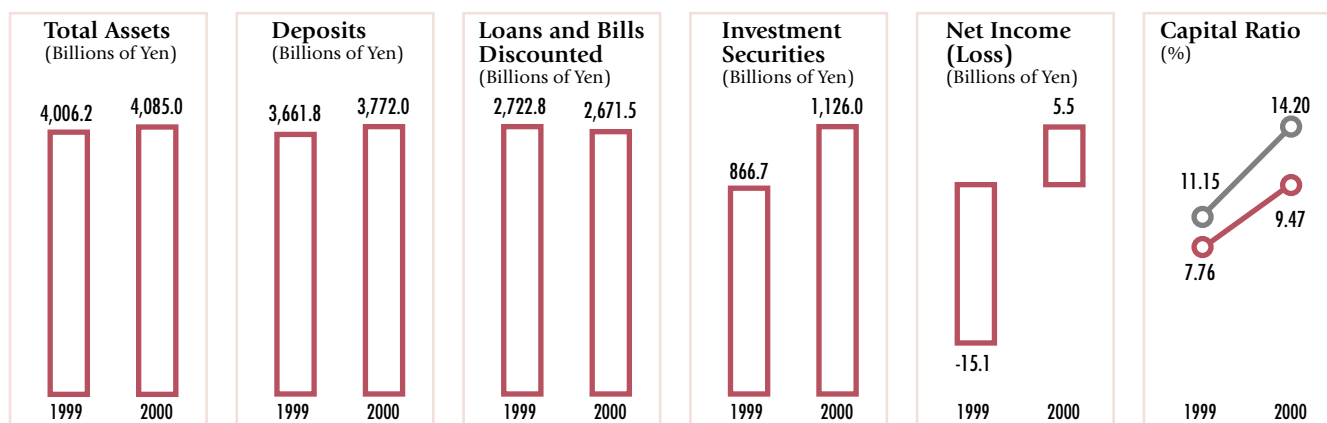


## DIVIDEND POLICY

Our basic business policy is to give serious consideration to earnings retention in order to respond to financial liberalization and globalization and strengthen our business structure so that we can assure the stable payment of dividends.

Based on this policy, we paid ¥3.00 per share in interim dividends which consist of ¥2.50 per share in ordinary dividends and ¥0.50 per share in special dividends in commemoration of the 25th anniversary of the Bank's listing on the Kyoto Stock Exchange. We paid ¥2.50 per share in year-end dividends as we did at the end of the previous fiscal year.

We will utilize retained earnings for effective investments in order to build up a strong business structure and expand our core businesses as well as meet our customers' diversified requirements.



○ Based on BIS Criteria  
 ● Based on Domestic Criteria

# Consolidated Balance Sheets

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
<b>ASSETS</b>			
Cash and Due from Banks	¥ 62,775	¥ 85,476	\$ 591,380
Call Loans	134,543	200,789	1,267,486
Commercial Paper and Other Debt Purchased	27	18	258
Trading Securities (Note 3)	1,783	963	16,798
Money Held in Trust	8,000	52,900	75,365
Investment Securities (Notes 4 and 9)	1,126,042	866,709	10,608,034
Loans and Bills Discounted (Note 5)	2,671,502	2,722,849	25,167,242
Foreign Exchanges (Note 6)	2,588	2,237	24,384
Other Assets (Note 7)	37,639	27,671	354,591
Premises and Equipment (Note 8)	54,922	57,079	517,401
Deferred Tax Assets (Note 21)	44,475	43,591	418,985
Customers' Liabilities for Acceptances and Guarantees (Note 14)	43,630	46,880	411,025
Reserve for Possible Loan Losses	(102,817)	(100,898)	(968,608)
Reserve for Possible Losses on Investment Securities	(48)		(459)
<b>Total Assets</b>	<b>¥4,085,064</b>	<b>¥4,006,268</b>	<b>\$38,483,887</b>
<b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Deposits (Notes 9 and 10)	¥3,772,000	¥3,661,871	\$35,534,624
Call Money	1,418	19,462	13,367
Borrowed Money (Note 11)	31,034	30,078	292,366
Foreign Exchanges (Note 6)	58	40	547
Convertible Bonds (Note 12)	30,000		282,618
Other Liabilities (Note 13)	37,803	85,400	356,132
Reserve for Retirement Allowances	9,120	9,005	85,925
Reserve for Possible Losses on Collateralized Real Estate Loans Sold	2,452	1,012	23,100
Deferred Tax Liabilities (Note 21)	330	345	3,114
Acceptances and Guarantees (Note 14)	43,630	46,880	411,025
<b>Total Liabilities</b>	<b>3,927,849</b>	<b>3,854,096</b>	<b>37,002,823</b>
<b>MINORITY INTERESTS</b>	<b>2,294</b>	<b>1,409</b>	<b>21,614</b>
<b>STOCKHOLDERS' EQUITY</b>			
Common Stock, ¥50 par Value—Authorized, 500,000,000 Shares;			
Issued and Outstanding, 331,821,000 Shares	27,100	27,100	255,299
Capital Surplus	15,342	15,342	144,537
Retained Earnings	112,478	108,321	1,059,621
Total	154,921	150,762	1,459,457
Treasury Stock — at Cost	(0)	(1)	(7)
<b>Total Stockholders' Equity</b>	<b>154,920</b>	<b>150,762</b>	<b>1,459,450</b>
<b>Total Liabilities, Minority Interests and Stockholders' Equity</b>	<b>¥4,085,064</b>	<b>¥4,006,268</b>	<b>\$38,483,887</b>

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Operations

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
<b>INCOME</b>			
Interest Income:			
Interest on Loans and Discounts	¥ 64,190	¥ 67,901	\$ 604,714
Interest and Dividends on Securities	28,543	31,498	268,899
Other Interest Income	3,200	4,242	30,152
Fees and Commissions	11,739	9,675	110,589
Other Operating Income (Note 16)	4,965	7,367	46,774
Other Income (Note 17)	8,631	13,150	81,318
<b>Total Income</b>	<b>121,270</b>	<b>133,834</b>	<b>1,142,447</b>
<b>EXPENSES</b>			
Interest Expenses:			
Interest on Deposits	12,443	18,266	117,221
Interest on Borrowings and Rediscounts	1,014	3,105	9,552
Other Interest Expenses	4,250	5,474	40,041
Fees and Commissions	3,736	3,674	35,199
Other Operating Expenses (Note 18)	10,409	9,344	98,059
General and Administrative Expenses	51,761	51,563	487,625
Other Expenses (Note 19)	27,986	66,221	263,652
<b>Total Expenses</b>	<b>111,601</b>	<b>157,650</b>	<b>1,051,353</b>
Income (Loss) before Income Taxes and Minority Interests	9,669	(23,815)	91,093
Income Taxes (Note 21)			
Current	4,277	9,647	40,298
Deferred	(737)	(18,542)	(6,944)
<b>MINORITY INTERESTS IN NET INCOME</b>	<b>582</b>	<b>201</b>	<b>5,490</b>
<b>Net Income (Loss)</b>	<b>¥ 5,546</b>	<b>¥ (15,122)</b>	<b>\$ 52,249</b>
<b>PER SHARE:</b>			
	Yen	U.S. Dollars	
Net Income (Loss)	¥16.71	¥(45.57)	\$0.157
Diluted Net Income	16.00		0.150
Cash Dividends Applicable to the Year	5.50	5.00	0.051

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Stockholders' Equity

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2000 and 1999

	Thousands	Millions of Yen			
	Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock – at Cost
Balance at April 1, 1998	331,821	¥27,100	¥15,342	¥100,649	¥2
Adjustment of Retained Earnings for Newly Applied Tax Allocation				24,454	
Net Loss				(15,122)	
Cash Dividends Paid				(1,659)	
Net Decrease in Treasury Stock					(0)
Balance at March 31, 1999	331,821	27,100	15,342	108,321	1
Adjustment of Retained Earnings for Newly Consolidated Subsidiaries				435	
Net Income				5,546	
Cash Dividends Paid				(1,824)	
Net Decrease in Treasury Stock					(0)
Balance at March 31, 2000	331,821	¥27,100	¥15,342	¥112,478	¥0

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock – at Cost
Balance at March 31, 1999	\$255,299	\$144,537	\$1,020,458	\$15
Adjustment of Retained Earnings for Newly Consolidated Subsidiaries			4,105	
Net Income			52,249	
Cash Dividends Paid			(17,192)	
Net Decrease in Treasury Stock				(7)
Balance at March 31, 2000	\$255,299	\$144,537	\$1,059,621	\$ 7

See Notes to Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2000

	Thousands of	
	Millions of Yen	U.S. Dollars (Note 1)
	2000	2000
<b>OPERATING ACTIVITIES:</b>		
Income before Income Taxes and Minority Interests	¥ 9,669	\$ 91,093
Depreciation	7,831	73,776
Increase in Reserve for Possible Loan Losses	1,410	13,286
Increase in Reserve for Possible Losses on Investments	48	459
Increase in Reserve for Possible Losses on Collateralized Real Estate Loans Sold	1,439	13,563
Increase in Reserve for Retirement Allowances	103	979
Interest Income Recognized on Statement of Operations	(95,934)	(903,766)
Interest Expenses Recognized on Statement of Operations	17,707	166,815
Losses (Gains) on Investment Securities	(191)	(1,808)
Losses (Gains) on Money Held in Trust	(918)	(8,649)
Foreign Exchange Losses (Gains)	5,983	56,372
Losses (Gains) on Sales of Premises and Equipment	12	121
Net Decrease (Increase) in Trading Securities	(820)	(7,725)
Net Decrease (Increase) in Loans	49,356	464,968
Net Increase (Decrease) in Deposits	147,089	1,385,675
Net Increase (Decrease) in Negotiable Certificate of Deposit	(36,876)	(347,398)
Net Increase (Decrease) in Borrowed Money (excluding Subordinated Loans)	6	62
Net Decrease (Increase) in Due from Banks (excluding Deposit in Bank of Japan)	292	2,756
Net Increase (Decrease) in Call Loans and Bought and Others	66,236	623,989
Net Increase (Decrease) in Call Money and Bills Sold	(18,043)	(169,982)
Net Increase (Decrease) in Payables under Securities Lending Transactions	(39,791)	(374,859)
Net Decrease (Increase) in Foreign Exchanges (Assets)	(350)	(3,302)
Net Increase (Decrease) in Foreign Exchanges (Liabilities)	18	169
Interest Income (Cash Basis)	97,769	921,054
Interest Expenses (Cash Basis)	(20,303)	(191,269)
Other	(10,042)	(94,606)
Subtotal	181,705	1,711,776
Income Taxes — Paid	(9,531)	(89,789)
Net Cash Provided by Operating Activities	172,173	1,621,986
<b>INVESTING ACTIVITIES:</b>		
Purchases of Investment Securities	(778,917)	(7,337,897)
Proceeds from Sales of Investment Securities	221,400	2,085,734
Proceeds from Maturities of Investment Securities	308,561	2,906,845
Decrease in Money Held in Trust	28,722	270,584
Purchases of Premises and Equipment	(2,437)	(22,959)
Proceeds from Sales of Premises and Equipment	722	6,809
Net Cash Used in Investing Activities	(221,947)	(2,090,883)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from Issuance of Convertible Bonds	29,205	275,132
Dividends Paid by Parent	(1,824)	(17,192)
Dividends Paid by Subsidiaries to Minority Stockholders	(5)	(47)
Net Cash Provided by Financing Activities	27,375	257,892
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON</b>		
CASH AND CASH EQUIVALENTS	(37)	(356)
DECREASE IN CASH AND CASH EQUIVALENTS	(22,435)	(211,360)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	82,664	778,747
CASH AND CASH EQUIVALENTS OF NEWLY		
CONSOLIDATED SUBSIDIARIES AT BEGINNING OF YEAR	13	131
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 60,242	\$ 567,518

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2000 and 1999

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS:

The accompanying consolidated financial statements of The Bank of Kyoto, Ltd. (the "Bank") and its significant subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Effective April 1, 1999, consolidated statement of cash flows is required to be prepared under Japanese accounting standards, and that for the year ended March 31, 2000 is presented herein. Such statement for the year ended March 31, 1999 is not presented, as Japanese accounting standards do not require retroactive preparation or presentation for prior years' financial statements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. All yen figures for 2000 and 1999 have been rounded down to millions of yen by dropping the final six digits.

The translations of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2000 are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.15 to \$1, the approximate rate of exchange at March 31, 2000. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain reclassifications have been made in the 1999 consolidated financial statements to conform to the classifications used in 2000.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Consolidation

The consolidated financial statements include the accounts of the Bank and its eight (five in 1999) subsidiaries. The Group applies the control concept to its consolidation scope. Under the control concept, those

companies in which the Parent, directly or indirectly, is able to exercise control over operations are to be fully consolidated. The consolidated financial statements include the accounts of the Bank and all subsidiaries in 2000.

Consolidation goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition. Such amounts are charged to income when incurred since they are immaterial.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

### Cash Equivalents

For purposes of the consolidated statement of cash flows, the Group considers deposits in Bank of Japan included in "Cash and Due from Banks" in the consolidated balance sheets to be cash equivalents.

### Trading Securities

Trading securities quoted on stock exchanges are valued at the lower of cost or market, cost being determined by the moving average method. Other trading securities are valued at cost as determined by the moving average method.

### Investment Securities

Convertible bonds and share stocks quoted on stock exchanges are valued at the lower of cost or market, cost being determined by the moving average method. Other securities are valued at cost as determined by the moving average method.

Under the Accounting Standards for Banks, the Bank applies the same method as above for securities held in the money trusts, of which funds are principally invested in securities and separately managed from those of other beneficiaries.

### Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation for premises and equipment is computed using the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998 at the standard rate prescribed by the tax regulations.

### Software

Software costs for internal use are capitalized as software (presented as other assets) and amortized by the

straight-line method over the useful lives internally determined (five years).

#### **Accounting for Leases**

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statement.

#### **Foreign Currency Items**

Foreign currency denominated assets and liabilities are translated into Japanese yen at the exchange rates prevailing at balance sheet date.

#### **Reserve for Possible Loan Losses**

The amount of the provision for the reserve for possible loan losses is determined based on management's judgment and assessment of future losses based on the self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators.

In accordance with the Accounting Standards for Banks, the Bank implemented the self-assessment system for its assets quality. The quality of all loans are assessed by branches and the Credit Supervision Division with a subsequent audit by the Asset Review and Inspection Division in accordance with the Bank's policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes such as "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy."

The reserve for possible loan losses is calculated based on the specific actual past loss ratio for normal and caution categories, and the fair value of the collateral for collateral-dependent loans and other factors of solvency, including value of future cash flows, for other self-assessment categories.

#### **Reserve for Possible Losses on Investment Securities**

Reserve for possible losses on investment securities provides for the estimated devaluation losses for non-marketable investment securities held by the Group.

#### **Reserve for Retirement Allowances and Pension Plan**

Under most circumstances, employees terminating their employment are entitled to certain severance payments based on their pay rate at the time of termination, years of service and certain other factors. If the termination is involuntary, employees are usually entitled to greater payments than in the case of voluntary termination. The accrued provision for retirement allowances is calculated

to state the estimated liability which would be required if all employees eligible for severance payments should voluntarily terminate their employment at each balance sheet date. The accrued provision is not funded.

In addition, the Bank has a funded pension plan which covers most of its employees. It is the Bank's policy to fund and charge to income normal costs as accrued on the basis of an accepted actuarial method plus the amortization of prior service costs computed under the straight-line method at 20% per annum. The unfunded prior service costs were approximately ¥4,286 million at March 31, 1999, the most recent date of available information. The consolidated subsidiaries do not adopt any pension plans.

#### **Reserve for Possible Losses on Collateralized Real Estate Loans Sold**

The reserve for possible losses on loans collateralized by real estate sold to the Cooperative Credit Purchasing Company, Limited ("CCPC") is provided at an amount deemed necessary to cover possible losses based on the estimated fair value of real estate. In accordance with the terms of the loans collateralized by real estate sales contract, the Bank is required to cover certain portions of losses incurred as defined in the contract when the CCPC disposes of real estate in satisfaction of its debt.

#### **Income Taxes**

Effective April 1, 1998, the Group adopted an accounting standard for interperiod allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥24,454 million is included as an adjustment to retained earnings as of April 1, 1998. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws as of March 31, 1999. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

#### **Per Share Information**

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The average number of common shares used in the computation was 331,821 thousand for 2000 and 1999.

The diluted net income per share of common stock assumes full conversion of outstanding convertible bonds at the beginning of the year or at the time of issuance with an applicable adjustment for related interest expense, net of tax. The diluted net income per share of common stock for 1999 is not presented since there was no potential common stock.

Cash dividends per share are the amounts applicable to the respective periods, including dividends to be paid after the end of the period.

### 3. TRADING SECURITIES:

Trading securities at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Japanese			
government bonds	¥1,773	¥959	\$16,711
Japanese local			
government bonds	9	3	87
Total	¥1,783	¥963	\$16,798

### 4. INVESTMENT SECURITIES:

Investment securities at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Japanese			
government bonds	¥ 445,512	¥274,615	\$ 4,197,012
Japanese local			
government bonds	126,821	80,157	1,194,739
Corporate debentures	309,399	284,263	2,914,740
Corporate stocks	176,822	164,099	1,665,783
Other securities	67,485	63,573	635,758
Total	¥1,126,042	¥866,709	\$10,608,034

Corporate stocks included investments in the Bank's non-consolidated subsidiaries totaling ¥1,965 million, at cost, as of March 31, 1999.

### 5. LOANS AND BILLS DISCOUNTED:

Loans and bills discounted at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Bills discounted	¥ 111,559	¥ 123,591	\$ 1,050,956
Loans on bills	336,222	342,543	3,167,431
Loans on deeds	1,756,048	1,741,341	16,543,087
Overdrafts	467,672	515,373	4,405,766
Total	¥2,671,502	¥2,722,849	\$25,167,242

Loans in legal bankruptcy totaled ¥32,340 million (\$304,665 thousand) and ¥21,580 million as of March 31, 2000 and 1999, respectively. Nonaccrual loans totaled ¥105,657 million (\$995,364 thousand) and ¥53,743 million as of March 31, 2000 and 1999, respectively.

Loans in legal bankruptcy are loans in which accrual of interest is discontinued (excluding the portion recognized as bad debts), based on the management's judgment as to the collectibility of principal or interest resulting from the considerably past due payments of interest or principal and other factors. Nonaccrual loans are loans in which accrual of interest is discontinued and those other than loans in legal bankruptcy and loans granting deferral of interest payment to the debtors in financial difficulties to assist them in their recovery.

Accruing loans contractually past due three months or more as to principal or interest payments are ¥1,315 million (\$12,393 thousand) and ¥5,255 million as of

March 31, 2000 and 1999, respectively. Loans classified as loans in legal bankruptcy and past due loans are excluded.

Restructured loans are ¥49,678 million (\$468,000 thousand) and ¥59,581 million as of March 31, 2000 and 1999, respectively. Such restructured loans are loans on which creditors grant concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount, or other concessive measures) to the debtors in financial difficulties to assist them in their recovery and eventually be able to pay the creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing contractually past due three months or more are excluded.

Effective April 1, 1999, the Bank changed its method of accruing interest on loans from calculation based on tax regulations to that based on self-assessment of assets. As a result of this change, loans in legal bankruptcy and nonaccrual loans increased by ¥858 million (\$8,086 thousand) and ¥66,822 million (\$629,506 thousand), respectively, and accruing loans contractually past due three months or more as to principal or interest payments and restructured loans decreased by ¥4,180 million (\$39,380 thousand) and ¥38,605 million (\$363,683 thousand), respectively, resulting in a net increase by ¥24,895 million (\$234,528 thousand) for the year ended March 31, 2000.

### 6. FOREIGN EXCHANGES:

Foreign exchange assets and liabilities at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Assets			
Due from foreign			
correspondents	¥ 323	¥ 334	\$ 3,048
Foreign bills of			
exchange purchased	1,558	1,118	14,685
Foreign bills of			
exchange receivable	705	784	6,650
Total	¥2,588	¥2,237	\$24,384
Liabilities			
Foreign bills of			
exchange sold	¥ 50	¥ 36	\$ 472
Foreign bills of			
exchange payable	7	3	74
Total	¥ 58	¥ 40	\$ 547

### 7. OTHER ASSETS:

Other assets at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Domestic			
exchange settlement	¥ 0	¥ 1	\$ 2
Prepaid expenses	183	155	1,724
Accrued income	7,914	8,910	74,559
Other	29,542	18,604	278,305
Total	¥37,639	¥27,671	\$354,591



## 8. PREMISES AND EQUIPMENT:

Accumulated depreciation on premises and equipment at March 31, 2000 and 1999 amounted to ¥60,469 million (\$569,659 thousand) and ¥57,907 million, respectively.

## 9. ASSETS PLEDGED:

Assets pledged as collateral and related liabilities at March 31, 2000 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Investment Securities	¥6,146	\$57,905

Related liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Deposits	¥19,204	\$180,917

In addition, investment securities totaling ¥54,936 million (\$517,536 thousand) were pledged as collateral for settlement of exchange and derivative transactions.

## 10. DEPOSITS:

Deposits at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current deposits	¥ 112,998	¥ 111,995	\$ 1,064,513
Ordinary deposits	965,262	861,144	9,093,383
Saving deposits	108,434	104,842	1,021,524
Deposits at notice	34,507	42,420	325,082
Time deposits	2,265,699	2,236,317	21,344,321
Other deposits	253,753	236,931	2,390,520
Subtotal	3,740,656	3,593,651	35,239,347
Negotiable certificates of deposit	31,343	68,220	295,277
Total	¥3,772,000	¥3,661,871	\$35,534,624

## 11. BORROWED MONEY:

Borrowed money at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Subordinated loans	¥30,000	¥30,000	\$282,618
Borrowing from banks and other	1,034	78	9,747
Total	¥31,034	¥30,078	\$292,366

The weighted average interest rate of the above total borrowed money, due serially from April 2000 through October 2004, is 2.27% for the year ended March 31, 2000.

## 12. CONVERTIBLE BONDS:

Subordinated unsecured convertible bonds at March 31, 2000 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Convertible bonds	¥30,000	\$282,618

At March 31, 2000, the 1.9% subordinated unsecured convertible bonds due September 2009 were convertible into 47,393,364 shares of common stock of the Bank, at the conversion price of ¥633, subject to adjustments under certain circumstances.

## 13. OTHER LIABILITIES:

Other liabilities at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Domestic exchange settlement	¥ 1,171	¥ 1,572	\$ 11,035
Accrued income taxes	3,513	8,756	33,103
Accrued expenses	11,395	13,754	107,348
Unearned income	9,705	9,369	91,428
Other	12,017	51,948	113,215
Total	¥37,803	¥85,400	\$356,132

## 14. ACCEPTANCES AND GUARANTEES:

All contingent liabilities arising from acceptances and guarantees are reflected in "Acceptances and Guarantees." As a contra account, "Customers' Liabilities for Acceptances and Guarantees" are shown as assets representing the Bank's right of indemnity from the applicants.

## 15. STOCKHOLDERS' EQUITY:

The Banking Law of Japan requires that an amount equal to at least 20% of all cash payments made as appropriations of retained earnings shall be appropriated as a legal reserve until such reserve equals 100% of the Bank's stated capital. The Bank's legal reserve, which is included in retained earnings, totals ¥16,890 million (\$159,117 thousand) and ¥16,491 million at March 31, 2000 and 1999, respectively. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be transferred to stated capital by resolution of the Board of Directors.

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to capital surplus.

Under the Code, the Bank may transfer, by resolution of the stockholders, a portion of retained earnings available for dividends to stated capital, and the Bank may issue new shares of common stock by way of a stock split to the existing stockholders, without consideration, by resolution of the Board of Directors, to the extent that the total par value of the outstanding shares after the issuance does not exceed the stated capital. However, the net assets

of the Bank divided by the number of outstanding shares after the issuance shall not be less than ¥50.

#### 16. OTHER OPERATING INCOME:

Other operating income for the years ended March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of
	2000	1999	U.S. Dollars
Gain on foreign exchange transactions	¥ 321	¥ 306	\$ 3,025
Gain on trading securities	34	15	325
Gain on sales of bonds	937	4,040	8,828
Gain on redemption of bonds	319	305	3,007
Other	3,353	2,699	31,587
Total	¥4,965	¥7,367	\$46,774

#### 17. OTHER INCOME:

Other income for the years ended March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of
	2000	1999	U.S. Dollars
Gain on sales of stocks and other securities	¥6,398	¥10,319	\$60,280
Gain on money held in trust	918	1,686	8,649
Other	1,314	1,144	12,387
Total	¥8,631	¥13,150	\$81,318

#### 18. OTHER OPERATING EXPENSES:

Other operating expenses for the years ended March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of
	2000	1999	U.S. Dollars
Loss on sales of bonds	¥ 841	¥2,150	\$ 7,927
Loss on redemption of bonds	6,585	4,885	62,037
Other	2,982	2,308	28,095
Total	¥10,409	¥9,344	\$98,059

#### 19. OTHER EXPENSES:

Other expenses for the years ended March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of
	2000	1999	U.S. Dollars
Provision for reserve for possible loan losses	¥24,220	¥48,825	\$228,175
Written-off claims	155	2,802	1,465
Loss on sales of stocks and other securities	175	8,880	1,653
Loss on devaluation of stocks and other securities		3,866	
Other	3,434	1,845	32,358
Total	¥27,986	¥66,221	\$263,652

#### 20. LEASES:

Lessee

The Bank and subsidiaries lease certain equipment and other assets.

Lease payment under finance leases for the years ended March 31, 2000 and 1999, amounted to ¥26 million (\$248 thousand) and ¥11 million, respectively.

Pro forma information of leased property, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense for finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of
	2000	1999	U.S. Dollars
Acquisition cost	¥129	¥54	\$1,219
Accumulated depreciation	55	26	527
Net leased property	¥ 73	¥28	\$ 692

Obligations under finance leases as of March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of
	2000	1999	U.S. Dollars
Due within one year	¥24	¥10	\$229
Due after one year	50	18	478
Total	¥75	¥29	\$708

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of
	2000	1999	U.S. Dollars
Depreciation expense	¥24	¥10	\$229
Interest expense	2	1	22

Depreciation expense and interest expense, which are not reflected in the accompanying statement of operations, are computed by the straight-line method and the interest method, respectively.

Lessor

The consolidated subsidiaries lease certain equipment and other assets.

Lease receipts under finance leases for the years ended March 31, 2000 and 1999, amounted to ¥2,640 million (\$24,879 thousand) and ¥2,075 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, lessor's receivables under finance leases, depreciation expense and interest expense for finance leases for the years ended March 31, 2000 and 1999 was as follows:

	Millions of Yen		Thousands of
	2000	1999	U.S. Dollars
Acquisition cost	¥13,041	¥9,760	\$122,859
Accumulated depreciation	4,411	2,903	41,556
Net leased property	¥ 8,630	¥6,857	\$ 81,303

Lessor's receivables under finance leases as of March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥2,399	¥1,778	\$22,608
Due after one year	6,558	5,401	61,781
Total	¥8,957	¥7,179	\$84,389

The imputed interest expense portion which is computed using the interest method is excluded from the above lessor's receivables under finance leases.

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Depreciation expense	¥2,296	¥1,551	\$21,630
Interest expense	458	434	4,317

The minimum future rentals to be received under noncancellable operating leases at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥53	¥101	\$508
Due after one year	7	92	71
Total	¥61	¥193	\$580

## 21. INCOME TAXES:

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 42% and 47% for the years ended March 31, 2000 and 1999, respectively. The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Deferred tax assets:			
Reserve for possible loan losses	¥35,998	¥36,012	\$339,128
Reserve for retirement allowances	2,568	2,386	24,200
Depreciation	2,393	2,646	22,552
Other	3,799	3,227	35,794
Less valuation allowance	(269)	(673)	(2,537)
Total	¥44,491	¥43,598	\$419,138

## 23. OTHER FINANCIAL INFORMATION:

### (1) Derivatives

The Bank enters into derivative financial instruments, such as interest rate swaps, currency swaps and foreign exchange contracts. The Bank also enters into interest futures, bond futures, bond options and others. No balances related to such items were outstanding at March 31, 2000. Subsidiaries do not enter into any derivative transaction.

The Bank enters into derivatives principally as a means of managing its interest rate and foreign exchange rate exposure on certain assets. In addition, the Bank uses derivatives actively to meet the needs of its customers for new financial instruments.

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Deferred tax liabilities:			
Reserve for deduction of cost of fixed assets	¥ 339	¥ 352	\$ 3,200
Other	7		66
Total	¥ 346	¥ 352	\$ 3,267
Net deferred tax assets	¥44,475	¥43,591	\$418,985
Net deferred tax liabilities	¥ 330	¥ 345	\$ 3,114

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and the actual effective tax rate reflected in the accompanying consolidated statement of operations was as follows:

	Year Ended March 31, 2000
Normal effective statutory tax rate	42.0%
Expenses not permanently deductible for income tax purposes	1.2
Income not taxable for income tax purposes	(7.1)
Other — net	0.5
Actual effective tax rate	36.6%

As permitted by the Japanese rules, the above reconciliation for the year ended March 31, 1999 was not presented since an incurring loss before income taxes occurred.

The actual effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 1999 differs from the normal effective statutory tax rate, primarily due to the effect of permanently non-deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

## 22. SUBSEQUENT EVENT:

The following appropriations of the Bank's retained earnings at March 31, 2000, were approved at the Bank's stockholders' meeting held on June 29, 2000.

	Millions of Yen	Thousands of U.S. Dollars
Appropriations:		
Transfer to legal reserve	¥200	\$1,884
Year-end cash dividends (¥2.50 (\$0.023) per share)	829	7,814
Bonuses to directors and corporate auditors	50	471

Derivatives are subject to market risk, which is the exposure created by potential fluctuations in market conditions, and credit risk, which is the possibility that a loss may result from a counterpart's failure to perform according to the term and conditions of the contract.

Since most of the Bank's derivative transactions are conducted to hedge underlying business exposures, market gain or risk in the derivative instruments is theoretically offset by opposite movement in the value of hedged assets or liabilities.

Credit risk at March 31, 2000 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Interest-rate-related transactions	¥ 200	\$ 1,893
Currency-related transactions	5,612	52,872
Total	¥5,813	\$54,765

The above figures are measured to calculate risk-based capital ratios under the Japanese capital ratio guidelines. The Bank adopts current exposure method stipulated by the guidelines in calculating the amounts.

As a risk control system for derivatives, the Bank has established a risk management division that operates independently from divisions executing derivative transactions. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate the authorization and credit limit amounts. In addition, positions and related gains or losses from derivatives are reported to management on a daily basis for monitoring and evaluation purposes.

The notional amounts of swap agreements and the contract amounts of forward exchange contracts, option agreements and other derivatives do not measure the Bank's exposure to credit or market risk.

Unrealized gains and losses include those of hedge on-balance-sheet transactions.

## (2) Items concerning the market value of transactions

The following figures cover transactions for which there were amounts outstanding as of March 31, 2000 and 1999.

### a. Interest-rate-related transactions

Outstanding amounts of interest-rate-related transactions as of March 31, 2000 and 1999 were as follows:

	Millions of Yen							
	2000				1999			
	Contractual value or notional principal amount Over 1 year	Fair value	Unrealized gains (losses)	Contractual value or notional principal amount Over 1 year	Fair value	Unrealized gains (losses)		
Over-the-counter interest-rate swaps: Floating-rate receipt/ fixed-rate payment	¥67,098	¥39,100	¥(1,705)	¥(1,705)	¥73,374	¥67,858	¥(2,978)	¥(2,978)
Other:								
Sold	400	400			400	400		
Option premium	6		(1)	5	10		(1)	8
Bought	400	400			400	400		
Option premium	4		1	(3)	7		1	(5)

	Thousands of U.S. Dollars			
	2000			
	Contractual value or notional principal amount Over 1 year	Fair value	Unrealized gains (losses)	
Over-the-counter interest-rate swaps: Floating-rate receipt/ fixed-rate payment	\$632,109	\$368,346	\$(16,070)	\$(16,070)
Other:				
Sold	3,768	3,768		
Option premium	63		(9)	53
Bought	3,768	3,768		
Option premium	44		9	(34)

Notes: 1. Interest rate future and interest rate option transactions listed on exchanges and over-the-counter forward-rate agreements and interest rate option transactions are not performed.

2. Fair value is estimated using the discounted present value of contractual cash flows, the pricing model for options and other appropriate valuation methodologies.

3. Interest rate swap contract amounts are listed in the following table.

	Millions of Yen					
	2000			1999		
	1 year or less	Over 1 year/ 3 years or less	Over 3 years	1 year or less	Over 1 year/ 3 years or less	Over 3 years
Floating-rate receipt/ fixed-rate payment notional amount	¥27,998	¥39,100		¥5,516	¥67,858	
Average floating-rate receipt interest rate	0.57%	0.24%		0.32%	0.55%	
Average fixed-rate payment interest rate	2.50%	2.20%		4.10%	2.35%	
Total	¥27,998	¥39,100		¥5,516	¥67,858	

b. Currency-related transactions

Outstanding amounts of currency-related transactions as of March 31, 2000 and 1999 were as follows:

	Millions of Yen					
	2000			1999		
	Notional principal amount Over 1 year	Fair value	Unrealized gains (losses)	Notional principal amount Over 1 year	Fair value	Unrealized gains (losses)
Over-the-counter currency swaps:						
U.S. dollars	¥37,371	¥15,922	¥(1,780)	¥45,073	¥12,055	¥(2,136)
Other	3,004	0	0	3,336	3,336	0
Total	¥40,375	¥15,922	¥(1,780)	¥48,410	¥15,391	¥(2,136)

	Thousands of U.S. Dollars			
	2000			
	Notional principal amount Over 1 year	Fair value	Unrealized gains (losses)	
Over-the-counter currency swaps:				
U.S. dollars	\$352,064	\$150,000	\$(16,775)	\$(16,775)
Other	28,300	0	0	0
Total	\$380,364	\$150,000	\$(16,774)	\$(16,774)

- Notes: 1. Forward exchange contracts, currency options and others were revalued at the end of the period and the relevant gain and loss figures have been appropriated in the income statements. Therefore, these figures have been excluded from the above table. This included amount also contains a contractual value of ¥16,141 million (\$152,064 thousand) and ¥30,004 million as of March 31, 2000 and 1999, respectively, for exchange swaps (fund swaps), conducted for fund procurement and fund application in other currencies.
2. Fair value is estimated using the discounted present value of contractual cash flows.

Contractual values of revalued currency-related derivatives as of March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
	Contractual value		
Over-the-counter:			
Forward exchange contracts:			
Sold	¥5,047	¥5,452	\$47,549
Bought	5,210	5,429	49,088
Currency options:			
Sold		1,084	
Call		1,084	
Option premium		18	
Put		723	
Option premium		8	
Bought		1,084	
Call		1,084	
Option premium		18	
Put		723	
Option premium		8	

c. Stock-related transactions are not performed.

d. Bond-related transactions are not performed.

e. Financial product-related transactions are not performed.

### (3) Market value information

Market value information on a consolidated basis is not required to be prepared under Japanese accounting standards prior to the year ended March 31, 1999.

Market value and unrealized gains and losses on trading securities and investment securities as of March 31, 2000 was as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	Book value	Market value	Gross unrealized gains	Gross unrealized losses	Book value	Market value	Gross unrealized gains	Gross unrealized losses
Listed securities (Note 1)								
Trading securities:								
Bonds								
Investment securities:								
Bonds	¥185,321	¥193,110	¥ 8,400	¥ 611	\$1,745,844	\$1,819,221	\$ 79,137	\$5,759
Stocks	172,545	649,526	476,988	7	1,625,490	6,118,951	4,493,530	69
Other	22,341	22,556	605	390	210,472	212,499	5,703	3,675
Subtotal	380,208	865,193	485,994	1,008	3,581,806	8,150,673	4,578,370	9,504
Total	¥380,208	¥865,193	¥485,994	¥1,008	\$3,581,806	\$8,150,673	\$4,578,370	\$9,504
Unlisted securities (Note 2)								
Trading securities:								
Bonds	¥ 1,610	¥ 1,608	¥ 0	¥ 1	\$ 15,167	\$ 15,155	\$ 3	\$ 16
Investment securities:								
Bonds	426,337	431,492	5,637	482	4,016,372	4,064,934	53,109	4,548
Stocks	285	565	284	4	2,686	5,326	2,682	42
Other	6,052	6,264	235	23	57,014	59,014	2,222	223
Subtotal	432,675	438,322	6,158	510	4,076,073	4,129,274	58,014	4,813
Total	¥434,285	¥439,931	¥ 6,158	¥ 512	\$4,091,241	\$4,144,429	\$ 58,018	\$4,829

Notes: 1. Bonds consist of Japanese and Japanese local government bonds and corporate bonds. Market values are based mainly on closing prices on the Tokyo Stock Exchange.

2. The appropriate market prices for unlisted securities, in the case of over-the-counter market securities, are determined according to prices announced by the Japan Securities Dealers Association or NASDAQ in the United States; for public bonds, according to prices calculated based on index yields published in an over-the-counter bond standards quote list announced by the Japan Securities Dealers Association; and for investment certificates of securities investment trusts, according to the standard price.

3. The difference between the above carrying amounts and the amounts shown in the accompanying consolidated balance sheets principally consists of non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

Investment securities excluded from the above information are, primarily, summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Trading securities:		
Unlisted bonds — public issues due in one year or less	¥ 173	\$ 1,630
Investment securities:		
Unlisted domestic bonds other than public issues	164,175	1,546,634
Unlisted bonds — public issues due in one year or less	105,899	997,641
Unlisted stocks	3,991	37,606
Unlisted other	39,092	368,272

Market Value and unrealized gains on money held in trust as of March 31, 2000 was as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	Book value	Market value	Gross unrealized gains	Gross unrealized losses	Book value	Market value	Gross unrealized gains	Gross unrealized losses
Money held in trust	¥8,000	¥8,067	¥81	¥14	\$75,365	\$75,997	\$767	\$135

Note: Market values for listed securities are based mainly on closing prices on the Tokyo Stock Exchange. Market values for over-the-counter market securities are determined according to prices announced by the Japan Securities Dealers Association.



# Independent Auditors' Report

**Tohmatu & Co.**

Sumitomoseimei Kyoto Building  
62, Tsukihoko-cho, Shinmachi-higashiiru  
Shijo-Dori, Shimogyo-ku,  
Kyoto 600-8492, Japan

Tel: +81-75-222-0181  
Fax: +81-75-231-2703  
www.tohmatu.co.jp

**Deloitte  
Touche  
Tohmatu**

To the Board of Directors and Stocholders  
The Bank of Kyoto, Ltd.

We have examined the consolidated balance sheets of The Bank of Kyoto, Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, the related consolidated statements of operations and stockholders' equity for the years then ended, and the consolidated statement of cash flows for the year ended March 31, 2000, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Bank of Kyoto, Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the results of their operations for the years then ended and their cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatu*

June 29, 2000

# Non-Consolidated Balance Sheets

The Bank of Kyoto, Ltd. March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
<b>ASSETS</b>			
Cash and Due from Banks	¥ 62,752	¥ 85,476	\$ 591,169
Call Loans	134,543	200,789	1,267,486
Commercial Paper and Other Debt Purchased	27	18	258
Trading Securities	1,783	963	16,798
Money Held in Trust	8,000	52,900	75,365
Investment Securities	1,124,950	865,164	10,597,746
Loans and Bills Discounted	2,683,549	2,730,128	25,280,732
Foreign Exchanges	2,588	2,237	24,384
Other Assets	19,673	16,884	185,334
Premises and Equipment	53,175	55,697	500,943
Deferred Tax Assets	43,811	43,000	412,727
Customers' Liabilities for Acceptances and Guarantees	43,571	46,880	410,470
Reserve for Possible Loan Losses	(99,491)	(97,408)	(937,272)
Reserve for Possible Losses on Investment	(37)		(349)
<b>Total Assets</b>	<b>¥4,078,898</b>	<b>¥4,002,732</b>	<b>\$38,425,796</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Deposits	¥3,780,552	¥3,669,365	\$35,615,191
Call Money	1,418	19,462	13,367
Borrowed Money	30,069	30,078	283,275
Foreign Exchanges	58	40	547
Convertible Bonds	30,000		282,618
Other Liabilities	28,460	77,348	268,112
Reserve for Retirement Allowances	9,055	8,955	85,311
Reserve for Possible Losses on Collateralized Real Estate Loans Sold	2,452	1,012	23,100
Acceptances and Guarantees	43,571	46,880	410,470
<b>Total Liabilities</b>	<b>3,925,638</b>	<b>3,853,143</b>	<b>36,981,995</b>
<b>STOCKHOLDERS' EQUITY</b>			
Common Stock	27,100	27,100	255,299
Capital Surplus	15,342	15,342	144,537
Legal Reserve	16,890	16,491	159,117
Earned Surplus	93,926	90,655	884,847
<b>Total Stockholders' Equity</b>	<b>153,259</b>	<b>149,589</b>	<b>1,443,800</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>¥4,078,898</b>	<b>¥4,002,732</b>	<b>\$38,425,796</b>



## Non-Consolidated Statements of Operations

The Bank of Kyoto, Ltd. Years Ended March 31, 2000 and 1999

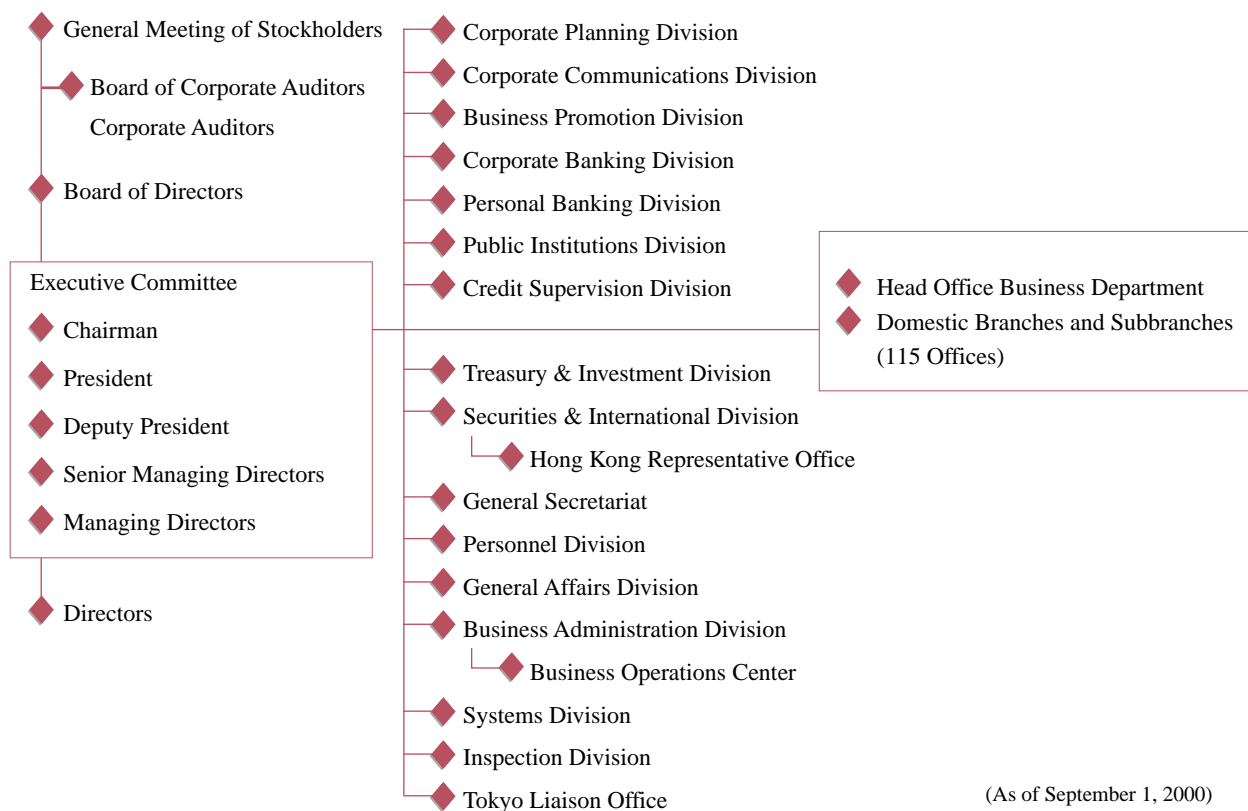
	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
<b>INCOME</b>			
Interest Income:			
Interest on Loans and Discounts	¥ 64,076	¥ 67,941	\$ 603,637
Interest and Dividends on Securities	28,518	31,466	268,658
Other Interest Income	3,173	4,242	29,894
Fees and Commissions	9,090	8,743	85,641
Other Operating Income	1,610	4,667	15,175
Other Income	8,456	13,090	79,664
<b>Total Income</b>	<b>114,925</b>	<b>130,152</b>	<b>1,082,671</b>
<b>EXPENSES</b>			
Interest Expenses:			
Interest on Deposits	12,458	18,287	117,362
Interest on Borrowings and Rediscounts	993	3,105	9,360
Other Interest Expenses	4,239	5,473	39,934
Fees and Commissions	3,998	3,761	37,666
Other Operating Expenses	7,471	7,043	70,388
General and Administrative Expenses	49,790	51,067	469,057
Other Expenses	27,352	65,724	257,680
<b>Total Expenses</b>	<b>106,304</b>	<b>154,462</b>	<b>1,001,451</b>
Income (Loss) before Income Taxes	8,621	(24,309)	81,220
Income Taxes:			
Current	3,937	9,327	37,095
Deferred	(810)	(18,468)	(7,638)
<b>Net Income (Loss)</b>	<b>¥ 5,494</b>	<b>¥ (15,168)</b>	<b>\$ 51,763</b>
		Yen	U.S. Dollars
<b>PER SHARE</b>			
Net Income(Loss)	¥16.55	¥(45.71)	\$0.155
Cash Dividends Applicable to the Year	5.50	5.00	0.051

## Non-Consolidated Statements of Earned Surplus

The Bank of Kyoto, Ltd. Years Ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Balance at Beginning of Year	¥90,655	¥83,317	\$854,035
Adjustment of Retained Earnings for Newly Applied for Tax Allocation		24,531	
Appropriations:			
Transfer to Legal Reserve	399	365	3,759
Cash Dividends Paid	1,824	1,659	17,192
<b>Total Appropriation</b>	<b>2,224</b>	<b>2,024</b>	<b>20,952</b>
<b>Net Income (Loss)</b>	<b>5,494</b>	<b>(15,168)</b>	<b>51,756</b>
<b>Balance at End of Year</b>	<b>¥93,926</b>	<b>¥90,655</b>	<b>\$884,847</b>

## The Bank's Organization



## Board of Directors and Corporate Auditors

### *Chairman*

Mitsuru Akimoto

### *President*

Yasuo Kashihara

### *Deputy President*

Tsuyoshi Koyama

### *Senior Managing Directors*

Yasuhiko Kumata

Hiroaki Ikeda

### *Managing Directors*

Yukitoshi Yasumura

Hisashi Iwasaki

Yoshiki Kizaki

### *Directors*

Fumihiko Iwai

Hideo Takasaki

Toshihiko Ueda

Hideaki Shirota

Yuji Shimiya

Masanori Murase

Masahiro Morise

Takehiko Takagi

### *Standing Corporate Auditor*

Akio Kimura

### *Corporate Auditors*

Tadanao Kiuchi

Ryukou Murakami

Keiji Masuda

(As of June 29, 2000)

# Corporate Data

## STOCK INFORMATION (AS OF MARCH 31, 2000)

*Number of Authorized Shares*  
500,000,000

*Number of Issued Shares (Par Value ¥50)*  
331,821,000

*Capital (Paid-in)*  
¥27,100,000 thousand

## MAJOR STOCKHOLDERS

The Industrial Bank of Japan, Limited  
Nippon Life Insurance Company  
Gunze Corporation  
The Bank of Kyoto Employees' Shareholding Association  
The Nippon Credit Bank, Ltd.  
Kyocera Corporation  
The Meiji Mutual Life Insurance Company  
The Nissan Fire & Marine Insurance Co., Ltd.  
Sumitomo Life Insurance Company  
The Yasuda Mutual Life Insurance Company

## INTERNATIONAL SERVICE NETWORK (AS OF SEPTEMBER 1, 2000)



Head Office

*Head Office Securities & International Division*  
700, Yakushimae-cho,  
Karasuma-dori, Matsubara-Agaru,  
Shimogyo-ku, Kyoto 600-8652  
Phone: (81)75-361-2211  
Fax: (81)75-343-1276  
Telex: J64770 BOKFD  
SWIFT: BOKF JP JZ

*Treasury & Investment Division*  
3-14, Yaesu 2-chome, Chuo-ku,  
Tokyo 104-0028  
Phone: (81)3-3281-1212  
Fax: (81)3-3281-8026

*Hong Kong Representative Office*  
Suite 3006, Two Exchange Square,  
8 Connaught Place, Central,  
Hong Kong, S.A.R.,  
People's Republic of China  
Phone: (852)2525-0727  
Fax: (852)2521-8538

## THE BANK OF KYOTO'S GROUP OF ASSOCIATED COMPANIES (AS OF MARCH 31, 2000)

Name	Establishment	Capital (¥ Millions)	Line of business
Karasuma Shoji Co., Ltd.	October 1958	10.0	Managing real estate services for the Bank of Kyoto
Kyogin Business Service Co., Ltd.	July 1983	10.0	Centralized processing of clerical operations for the Bank
Kyogin Total Maintenance Co., Ltd.	September 1995	300.0	Disposal of real estate collateral
Kyoto Guaranty Service Co., Ltd.	October 1979	30.0	Credit guarantee services
Kyogin Lease & Capital Co., Ltd.	June 1985	100.0	Leasing, investment, and financial services
Kyoto Credit Service Co., Ltd.	November 1982	50.0	Credit card services
Kyogin Card Service Co., Ltd.	September 1989	50.0	Credit card services
Kyoto Research Institute, Inc.	April 1987	30.0	Research and business consulting services