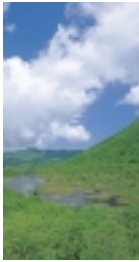


# The Gunma Bank, Ltd.

**Annual Report 2000**  
*Year Ended 31st March, 2000*



## A Leading Regional Bank

Since its establishment in 1932, The Gunma Bank, Ltd. has played the role of a leading regional financial institution in Gunma Prefecture and neighboring areas. Under its basic philosophy of “Dedication to Sound Development of Local Communities,” the Bank has given top priority to the growth of regional society.

## Solid Operational Base

As of 31st March, 2000, the Bank and consolidated subsidiaries had assets totaling ¥5,368.9 billion (US\$50.6 billion) and stockholders' equity of ¥273.5 billion (US\$2.5 billion). The Bank's consolidated capital adequacy ratio according to the BIS standards was 11.67%. Today, the Bank is one of the most distinguished regional banks in Japan.

## One of Highest-Rated Japanese Banks

The Gunma Bank's solid, safety-first style of management has earned it one of the highest ratings among Japanese banks from domestic and international rating agencies. As of 30th June, 2000, the long-term ratings given by Moody's and Standard & Poor's were A2 and A-, respectively.

### 1) Non-Japanese Rating Agencies

	Long-term	Short-term	Counterparty	Financial Position Rating
Standard & Poor's	A-	A-2	A-	-
Moody's	A2	P-1	-	C

### 2) Japanese Rating Agencies

R & I (Rating and Investment Information, Inc.)	AA-
JCR (Japan Credit Rating Agency, Ltd.)	AA-

(As of 30th June, 2000)

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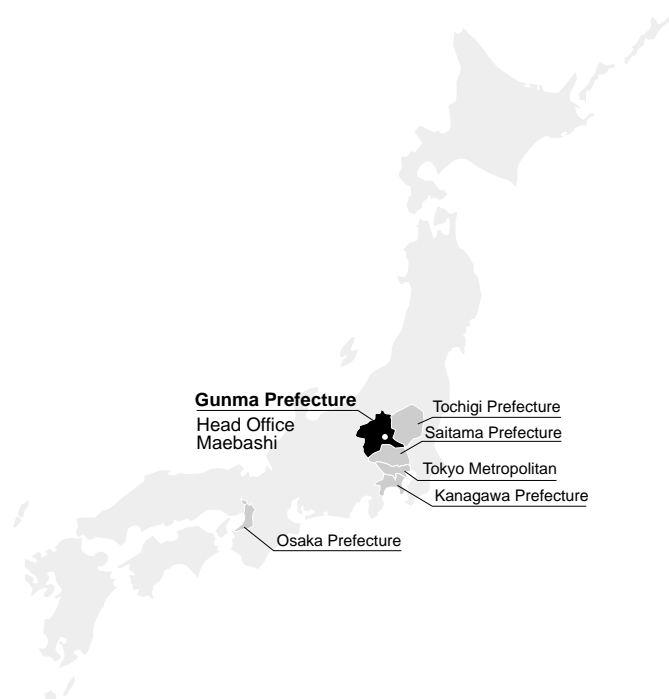
# Corporate Philosophy

**Dedication to Sound Development of Local Communities**  
This is our main business activity.

■  
**Establishment of Creative Relations with Customers**  
This is the foundation of our activities.

■  
**Good Citizenship Yields Good Businessmen**  
This is the basis of our operations.

■  
**Liberal Organization Allowing Our Staff to Develop Creative Ideas and Activities**  
This is the kind of corporate culture we believe in.



## Financial Highlights

Consolidated Financial Highlights <i>Fiscal Year Ended 31st March, 1999 and 2000</i>	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>For the Fiscal Year</b>			
Total Income .....	¥ 186,644	¥ 183,727	\$ 1,733,274
Total Expenses .....	207,746	162,154	1,529,762
(Loss) Income before Income Taxes .....	(21,102)	21,572	203,512
Net (Loss) Income .....	(12,828)	12,416	117,136
<b>At Year-End</b>			
Total Assets .....	¥5,489,910	¥5,368,928	\$50,650,273
Deposits (including Negotiable CDs) .....	4,702,042	4,759,961	44,905,297
Loans and Bills Discounted .....	3,681,221	3,576,680	33,742,267
Securities .....	1,255,274	1,324,525	12,495,521
Common Stock .....	48,652	48,652	458,983
Total Stockholders' Equity, Net.....	263,568	273,508	2,580,271
<b>Ratios</b>			
Net Assets per Share .....	¥513.67	¥533.04	
Net (Loss) Income per Share .....	(25.00)	24.19	
Return on Equity .....	—	4.62%	
Price Earnings Ratio .....	—	23.23 (times)	
Capital Adequacy Ratio .....	10.35%	11.67%	
Tier I.....	7.14%	7.73%	

(US\$1 = ¥106) See Note 2 of Notes to Consolidated Financial Statements.

## Message from the Management



Takuji Tsuchikane  
*Chairman*

Kyoza Yoshida  
*President*

### **Management Policies**

The financial industry is undergoing an unprecedented degree of change. In fiscal 1999, the financial industry experienced major realignment as public confidence in the system gradually improved, globalization and the Japanese Big Bang reforms progressed, and dramatic advances were made in telecommunications.

The pursuit of a business strategy that responds effectively to drastic changes in the business environment requires strong corporate fundamentals, including a solid marketing base and a sound financial position.

In April 1999, the Bank launched its medium-term management plan, called Step Up 21. We have devoted the two-year period covered by the plan to strengthening our corporate fundamentals in preparation for continued growth in the 21st century. Through this plan, we aim to become a financial services group with an excellent reputation among local customers, shareholders and financial markets.

### **Management Issues**

#### ● ***Building a Stronger Business Base***

As a regional bank, our marketing base, which mainly consists of small and medium-sized companies and retail customers, is our greatest

strength. Consequently, we aim to improve the profitability of business operations by vigorously focusing our efforts on retail banking.

In fiscal 1999, we expanded our range of products and services — including loans and investment trusts — and improved our marketing operations to meet the great diversity of customer needs. Further, we expanded our sales channels by launching telephone and Internet banking services, and are preparing to start services at convenience stores via ATMs. We thereby hope to provide an even more convenient service.

#### ● ***Improving Earnings***

A bank's earning power is a key factor in securing the trust of customers and financial markets. Our basic policy is to channel a significant proportion of corporate resources into retail banking operations, while improving cost competitiveness through further rationalization. While continuing to reduce costs and efficiently allocate corporate resources, we will reorganize our marketing and administrative systems to improve efficiency.

In fiscal 1999, some branches were automated, while some were converted into sub-branches with fewer staff, and we closed one overseas base. We instituted area-focused

marketing to raise the efficiency of our business activities. We divided our marketing region into 13 blocks and tailored marketing activities to the needs and characteristics of customers in each area.

#### **Creating a Sounder Loan Portfolio and Enforcing Stricter Credit Risk Management**

To maintain steady growth in earnings, we must set aside adequate provisions for possible loan losses and improve our comprehensive risk management system still further, thereby securing a sound financial position.

In fiscal 1999, we wrote off problem loans and made adequate provisions to reserves for possible loan losses based on the results of strict asset self-assessment. We also introduced a rigorous credit rating system to enhance credit risk management still further. We are currently working to improve the overall soundness of our loan assets by quantifying the assessment of credit risk and managing our loan portfolio so as to avoid over-concentration of loans to particular industries or customers. We will continue to build a portfolio of still higher-quality assets.

#### **Operating Results**

During the term under review, deposits rose ¥57.9 billion to ¥4,759.9 billion thanks to robust growth in retail customer deposits.

In lending operations, despite strong growth in retail loans, centered on housing-related loans, the term-end loans and bills discounted balance fell ¥104.5 billion to ¥3,576.6 billion due to low demand for funding and disposal of problem loans.

Amid mounting concern over a possible rise in interest rates, we have restructured operating funds from long-term to medium term maturities to minimize interest risk, while adjusting securities holdings accordingly.

Regarding earnings, net business profit fell from the previous year due to declines in net interest income and lower gains from the sale of bonds. However, fewer write-offs of problem loans, as well as gains from the sale of stocks, contributed positively to the Bank's earnings. As a result, net income improved to ¥12,416 million.

The Bank's capital ratio stood at 11.67% on a consolidated basis, exceeding the target of 11% stipulated in the Step Up 21 Plan.

Gunma Bank has been awarded long-term ratings of A2 by Moody's and A- by Standard & Poor's. These ratings are among the highest given to Japanese banks.

#### **Tasks Ahead**

The most important task of management in fiscal 2000 is the improvement of earnings. To this end, we will implement the following two measures.

First, we will concentrate corporate resources on retail banking operations for a wide range of local customers, including individuals and small and medium-sized firms, and thus bolster our marketing and earnings base.

Secondly, we will work to raise operational efficiency and push forward with Company-wide rationalization, and thus streamline our banking operations. With the aim of raising cost-efficiency, through The Kanto Regional Banks' Business Research Council, formed in May 1999 with Joyo Bank, Hachijuni Bank, and Yamanashi Chuo Bank, we are investigating ways of reducing investment costs and conducting joint investment in information technology.

As the leading bank in Gunma Prefecture, we will work to become a financial services company that receives the full approbation of our customers and of the financial markets.

We would like to ask for your continued support and encouragement.



Takuji Tsuchikane  
Chairman



Kyozo Yoshida  
President

29th June, 2000

*The risks associated with banking operations have grown in number and complexity in parallel with the progress of financial liberalization and globalization, as well as the advance of financial technology including derivatives.*

*Against this backdrop, we will strengthen and improve our risk management system. To this end, we will precisely identify, analyze, and determine the magnitude of various types of risk.*

## **Credit Risk Management**

### ***Credit Rating System***

We have introduced a new credit rating system, which we apply to corporate customers to whom we have credit exposure of at least ¥50 million or those subject to self-assessment. This system allows us to objectively judge the creditworthiness of corporate customers as well as improve credit risk management. The system assigns one of 11 ratings to borrowers in accordance with their creditworthiness. The rating is based on a quantitative information of borrowers' financial standing and a qualitative account of industry characteristics and corporate fundamentals.

### ***Quantification of Credit Risk***

The Bank has introduced a Credit Risk Management System for Regional Banks jointly developed by member banks of the Regional Banks Association of Japan. Under this system, we have quantified the assessment of risk. This allows us to estimate future losses of borrowers associated with each credit rating based on current default rates and recovery ratios. In addition, risk quantification allows us to estimate maximum future losses that could arise as a result of over-concentration of credit

on a particular borrower or industry, or a sudden downturn in the economy. This will allow us to set interest rates commensurate with risk and avoid over-concentration of credit on a particular industry or borrower, and thus will contribute to appropriate risk control.

## **Market Risk Management**

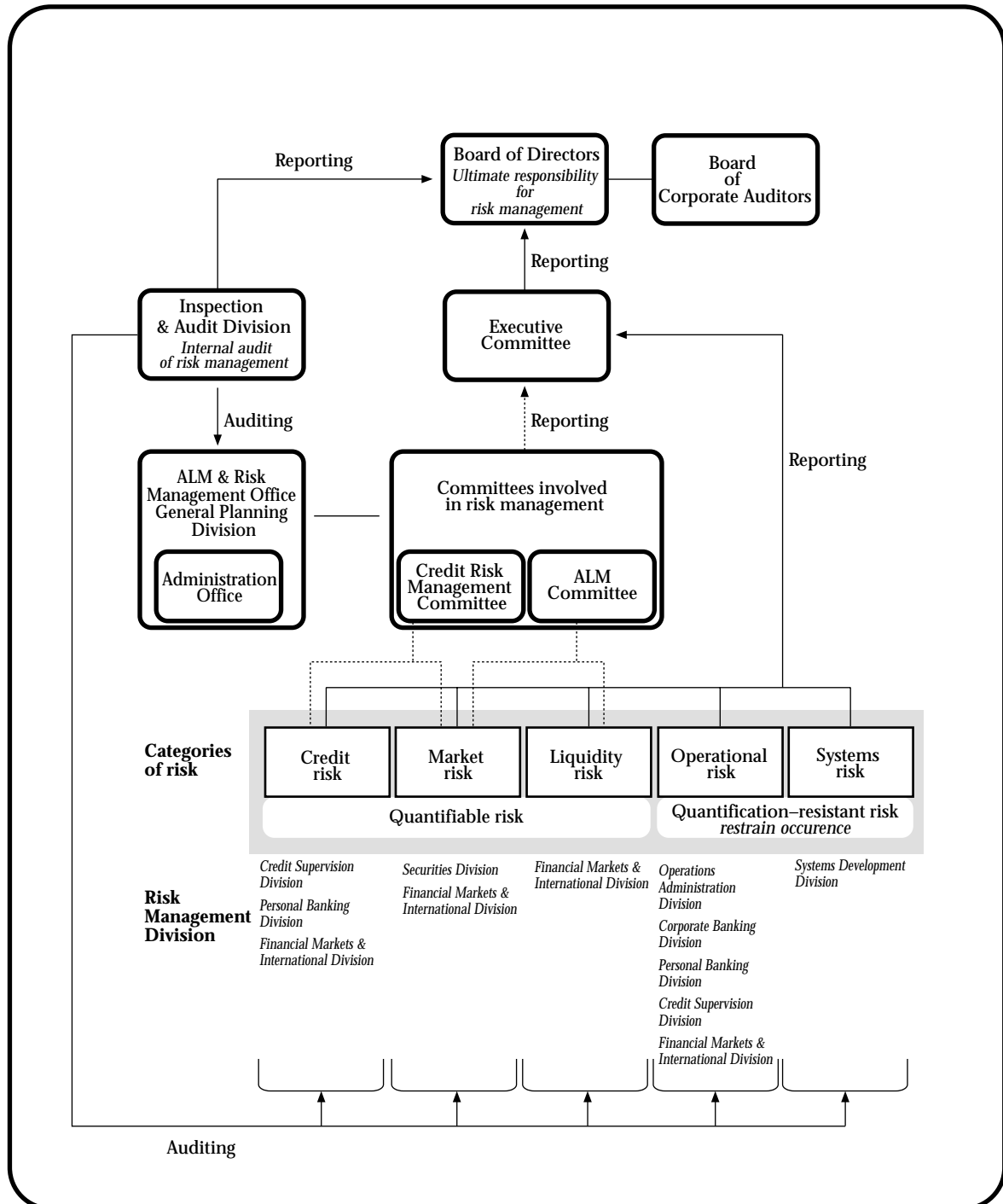
To respond effectively and appropriately to market fluctuations, the ALM committee, whose members mainly consist of managerial staff, meets once a month to discuss market risks, monitor the balance of assets and liabilities, and take appropriate adjustment measures.

The Bank administers comprehensive risk management by aggregating risks associated with all transactions, including off-balance sheet transactions, and employing a number of risk assessment methods, including gap analysis, present value analysis, interest-sensitivity analysis, and simulation analysis.

We will continue to employ the Value at Risk method, which allows us to estimate the maximum possible losses we could incur in the event of an adverse change in market conditions.

## Risk Management System and Organizational Framework

The risks to which banks are exposed are becoming more diverse and complex, and it is now no longer sufficient to separately manage such risks as credit risk, market risk, and liquidity risk: an integrated system of risk management must be put in place. At Gunma Bank, fully integrated risk management is conducted by the ALM & Risk Management Office within the General Planning Division.



*The Bank has long assigned high priority as a management issue to assuring the soundness of its asset portfolio, and has made all possible efforts to prevent the occurrence of non-performing loans. Where such loans have arisen, we have taken appropriate steps to deal with them.*

*In the future, too, we plan to devote our efforts to the final disposal of non-performing loans through such means as selling off collateral and claims, while improving our credit risk management capabilities. At the same time, we intend to make full disclosure of the contents of our asset portfolio to ensure asset soundness and management transparency.*

### Asset Self-Assessment

The term “asset self-assessment” refers to the analysis and evaluation of the Bank’s assets, including loan assets and securities holdings, on the basis of “self-assessment standards” drawn up by the Bank itself. The assessment process assigns all claims on 5 categories of borrowers depending on their creditworthiness, i.e. “normal borrowers,” “borrowers requiring caution,” “borrowers threatened with bankruptcy,” “virtually bankrupt borrowers,” and “bankrupt borrowers.” Apart from loans to normal borrowers, all other loans are assigned to the other four categories after evaluation of the collateral and/or guarantees offered, and the probable risk of failure to recover the loans. Gunma Bank’s self-assessments are subject to audit by an external auditor.

### Write-Offs and Reserves for Non-Performing Loans in the Term to 31st March, 2000

As a result of write-offs and provision to reserves in line with the Bank’s strict self-assessment in the term to 31st March, 2000, a total value of write-offs of non-performing loans (including others) came to ¥32.7 billion.

### Asset Categories in Line with the Disclosure Standards under the Financial Reconstruction Law

The table below shows the Bank’s asset self-assessment disclosure as required under the Financial Reconstruction Law. The disclosure is based on the categories to which the debtors are assigned in the self-assessment. The category of “bankrupt borrowers” and “virtually bankrupt borrowers” in the self-assessment is shown as “loans to borrowers under bankruptcy procedures and equivalent loans,” “borrowers threatened with bankruptcy” are shown as “loans at risk,” and of the category “borrowers requiring caution,” loans past due three months or more and restructured loans are shown as “loans requiring caution.”

The Bank’s coverage ratio for non-performing loans under the requirements of the Financial Reconstruction Law as of the end of March 2000 was 100% for loans to borrowers under bankruptcy procedures and equivalent loans, 85% for loans at risk, and 40% for loans requiring caution, giving a total coverage ratio of 84% for all loans disclosed. The Bank therefore has sufficient reserves to cover losses in the future.

### Loan Asset Categories in Line with the Disclosure Standards under the Financial Reconstruction Law, and Coverage Ratios (non-consolidated)

Billions of yen, %

Loan Asset Categories	Loans to borrowers under bankruptcy procedures and equivalent loans	Loans at risk	Subtotal	Loans requiring caution	Total
Balance of loans (A)	73.0	119.0	192.0	29.9	222.0
Amount secured by collateral, guarantee, etc. (B)	34.5	59.7	94.2	9.1	103.3
Amount whose collectibility is in doubt (A–B) (C)	38.5	59.2	97.7	20.8	118.6
Balance of the specific reserve for possible loan losses (D)	38.5	42.0	80.5	3.1	83.7
Reserve ratio (D/C)	100.0%	71.0%	82.4%	15.0%	70.6%
Coverage ratio (%) (B+D)/A	100.0%	85.5%	91.0%	40.8%	84.3%



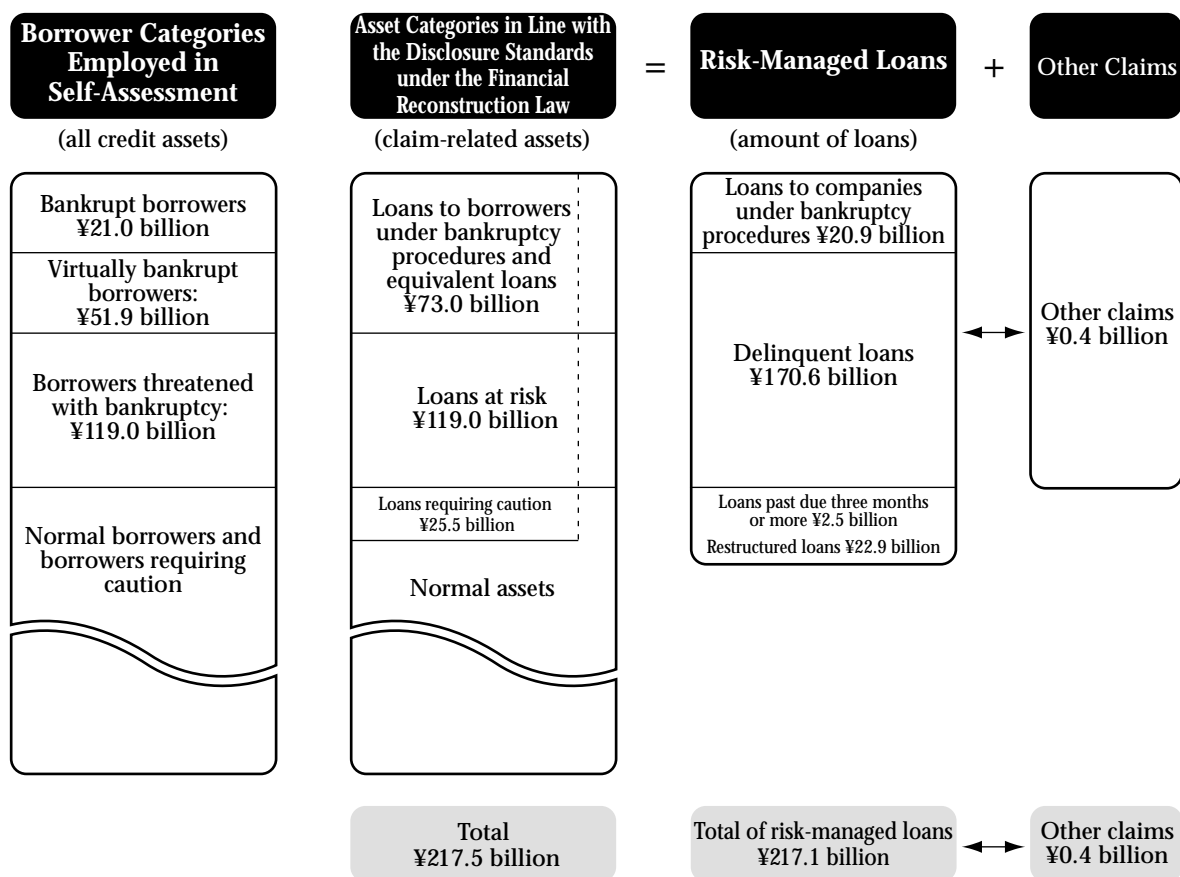
### Risk-Managed Loans

In accordance with the disclosure standards stipulated by the Banking Law, we hereby disclose the Bank's risk-managed loans in order to disclose to our customers and shareholders all information related to the soundness of the Bank's asset portfolio.

### Amount of Risk-Managed Loans

As of 31st March, 2000		Billions of yen	
Category	Non-Consolidated	Consolidated	
Loans to companies under bankruptcy procedures	20.9	23.8	
Delinquent loans	170.6	180.8	
Loans past due three months or more	2.5	2.5	
Restructured loans	22.9	22.9	
<b>Total</b>	<b>217.1</b>	<b>230.2</b>	

### Relationship between Borrower Categories under Self-Assessment, Disclosure Standards under the Financial Reconstruction Law, and Risk-Managed Assets (as of 31st March, 2000) (Non-consolidated)



• The ¥0.4 billion difference in value between risk-managed loans and the loans disclosed in line with the standards under the Financial Reconstruction Law results from the fact that the scope of the claims in question is different.

• **Scope of loans**

Under the disclosure requirements of the Financial Reconstruction Law, the following claims shall be disclosed: loans, customers' liabilities for acceptances and guarantees, foreign exchange, securities lent, accrued interest receivable and suspense payments. The category "Loans requiring caution" includes loans only.

Risk-Managed Loans: This category covers loans only.

## 1 The Gunma Bank Environment Foundation

Established in November 1995 as part of plans to put into concrete practice the Bank's philosophy of "Dedication to Sound Development of Local Communities," the Foundation's objective is to promote harmony between man and nature, and to help create the sort of environment that the local community needs. The Foundation principally occupies itself with educational activities contributing to the creation of a comfortable and healthy environment.

The Foundation organizes field trips every year for junior high school students, giving them an opportunity to study the natural environment, including rivers and lakes, at first-hand. Thus far, 426 students from 72 schools have participated in these field trips.

Every year since 1997, the Environment Foundation Prize has been awarded to provide support to non-profit foundations, other organizations and individuals who have made a valuable contribution to environmental protection on either the practical or research level.

## 2 The Kanto Regional Banks' Business Research Council

In May 1999, Gunma Bank, Joyo Bank, Yamanashi Chuo Bank, and Hachijuni Bank jointly established the Kanto Regional Banks' Business Research Council to study ways of streamlining banking operations and entering new business fields.

### Research Themes:

The Council's main research themes, under the broad goals of improving efficiency, negotiation capability and competitiveness, include: cutting costs through joint investment in information technology, etc.; devising new strategies for the utilization of information technology; and the promotion of joint business operations research and development, and purchasing. At present, we are pursuing research across a broad spectrum, from overall management policy (including new business fields and ancillary business fields), clerical operations, computer systems, and financial products and services. Discussions on the concrete materialization of these themes are being held by the sections responsible. Moreover, in the pursuit of these research themes, management priorities, and the progress of deregulation, among other factors, will be kept in mind, and they will be constantly reviewed in the light of emerging new needs relating to the entry into new business fields, improvement of efficiency and so on.

### Organization:

The Council organizational structure comprises an Operating Committee (planning and supervision), subcommittees (for basic research), and working groups (determination of specific proposals). In July 2000, a Secretariat was established under the Operating Committee in Tokyo, consisting of officers from four banks involved in the Research Council, to assist the operations of the Council.

## 3 Improving Customer Convenience

### •Telephone Banking

Gunma Bank commenced its telephone banking service in October 1999. With one phone call from home or office, customers can receive information on their deposits, including balances and particulars of transactions. They can also make transfers and remittances, place time deposits, or apply for card loans, and make various inquiries.

### •Internet Banking

In June 2000, Gunma Bank initiated a service whereby customers can utilize the Internet to access our banking services. Customers using a PC can receive information on their deposits, including balances and particulars of transactions, and can also make transfers and remittances, place time deposits, or apply for card loans, as well as request a variety of explanatory materials. Some of these services can also be accessed via specific mobile phones.

### •Improving Customer Convenience of ATMs

We have concluded an agreement with a company that operates a network of ATMs located in convenience stores, with the aim of improving the customer convenience of our overall ATM network by providing our customers with access to our services via ATMs at convenience stores. By February 2001, the Bank's services will be available through ATMs at approximately 5,000 convenience stores nationwide. Additionally the number of locations within our home operating area of Gunma, Saitama, and Tochigi prefectures at which our services will be accessible via ATM will increase by 500 to a total of 900.

# Financial Section

## Financial Review (Consolidated)

The consolidated business performance for the term under review of the Gunma Bank group, comprising 6 consolidated subsidiaries and 6 equity-method subsidiaries, is as follows.

Deposits rose ¥57.9 billion over the previous term to ¥4,759.9 billion, loans and bills discounted decreased ¥104.5 billion to ¥3,576.6 billion, and the term-end balance of securities increased ¥69.2 billion to ¥1,324.5 billion. Total assets came to ¥5,368.9 billion, while net assets stood at ¥273.5 billion.

Thanks to favorable operating results by the parent bank during the term, in addition to generally steady performance by our subsidiaries, consolidated total income reached ¥183.7 billion, and net income improved strongly over the previous year to reach ¥12.4 billion.

The group's capital adequacy ratio according to BIS standards improved 1.32 percentage points to 11.67%.

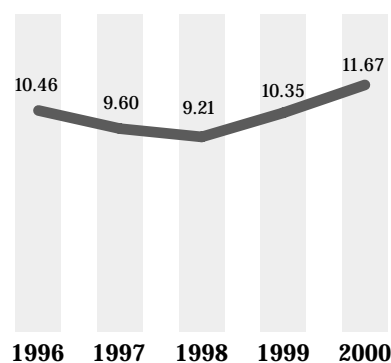
### Consolidated Capital Adequacy Ratio (BIS Standards)

- The capital adequacy ratio improved by 1.32 percentage points over fiscal 1998 to reach 11.67%.
- The reason for this improvement was total qualifying capital, the numerator, increased by ¥29 billion, while the denominator, risk adjusted assets\*, declined ¥140 billion from the previous term.
- The decline in risk adjusted assets was caused not only by a fall off in loans, but also by an increase in the amount of low-risk assets such as loans backed by Credit Guaranty Corporations, as well as the fact that the Bank decreased the amount of its international operations assets. The ratio of Tier I items to risk adjusted assets was 7.73%.

Note: The capital adequacy ratio has been calculated on the basis of the consolidated financial statements. However, figures for up to and including 1997 are based on consolidated financial statements comprising the Bank and financial sector subsidiaries.

### A Comparison of Major Business Indicators (Consolidated)

	Millions of yen	
	1999	2000
Total income	186,644	183,727
Total expenses	207,746	162,154
(Loss) income before income taxes	(21,102)	21,572
Net (loss) income	(12,828)	12,416
Net assets	263,568	273,508
Total assets	5,489,910	5,368,928
Net (loss) income per share (¥)	(25.00)	24.19
Net assets per share (¥)	513.67	533.04



### Consolidated Capital Adequacy Ratio (BIS Standards)

	Millions of yen, %	
	1999	2000
<b>Tier I items</b>		
Capital stock	48,397	48,494
Capital reserve	29,114	29,114
Consolidated retained earnings	167,002	176,835
Minority interest in consolidated subsidiaries	2,109	1,759
Preferred stock issued by overseas special purpose company	-	-
Total (A)	246,625	256,205
<b>Tier II items</b>		
45% of unrealized gains on securities	28,645	36,466
45% of unrealized gains on land revaluation	13,702	13,689
General reserve for possible loan losses	22,057	29,949
Subordinated debt	46,600	50,400
Total	111,005	130,505
Tier II capital includable as qualifying capital (B)	111,005	130,505
<b>Deductible item</b>		
Crossholdings with other financial institutions	-	-
Total (C)	-	-
<b>Qualifying capital</b>		
Total qualifying capital (A)+(B)-(C)=(D)	357,630	386,710
<b>Risk adjusted assets</b>		
On-balance-sheet items	3,365,267	3,221,289
Off-balance-sheet items	86,852	90,766
Total (E)	3,452,119	3,312,055
<b>Capital adequacy ratio (BIS standards)=(D)/(E)×100</b>	10.35%	11.67%

Note: Calculated using formula designated by the Ministry of Finance in accordance with the Banking Law Article 14-2.

## Earnings

During the term under review, we made provisions to specific reserves for possible loan losses on the basis of our strict self-assessment standards and implemented final disposal of non-performing loans through active write-offs of loans and the sale of claims. The amount of non-performing loan disposal declined ¥19.9 billion to ¥32.7 billion. In line with the recovery of the stock market, we registered ¥22.1 billion in the sale of equities, and net income improved strongly over the previous term to ¥11.7 billion.

## Deposits

Deposits rose ¥58.7 billion from the previous term to ¥4,764.5 billion. Thanks to active expansion of our network of ATM corners outside our branches to improve the customer convenience of our service, and increases in remittances of salaries, pensions and other payments into retail customers' accounts, retail customers' deposits grew strongly by ¥115.5 billion over the previous term, to ¥3,386.7 billion.

## Loans and Bills Discounted

During the term under review, we introduced a loan support system, which produced greater operational efficiency, and made efforts to improve our customer service. In addition, we started offering a "debt repayment support insurance" service with regard to mortgage loans as part of vigorous efforts to attract more customers from small and medium-sized businesses and individuals. However, due to the effects of the economy's stagnation, as well as the necessity to dispose of non-performing loans so as to maintain the soundness of our loan portfolio, the term-end balance of loans and bills discounted declined ¥104.1 billion to ¥3,611.6 billion.

## Securities

The term-end balance of securities rose ¥72.8 billion to ¥1,324.4 billion, as a result of the underwriting of Japan Government Bonds and municipal bonds, as well as careful funds operation. Unrealized profit on listed securities increased ¥10.5 billion to ¥80.9 billion.

## Performance Indicators

	1996	1997	1998	1999	2000
Millions of yen, %					
<b>Assets, liabilities and stockholders' equity</b>					
Deposits	4,543,326	4,676,482	4,716,539	4,705,806	<b>4,764,530</b>
Loans and bills discounted	3,723,393	3,720,883	3,858,578	3,715,764	<b>3,611,656</b>
Securities	1,139,271	1,269,200	1,210,032	1,251,624	<b>1,324,430</b>
Total assets	5,376,563	5,580,317	5,757,919	5,463,257	<b>5,356,915</b>
Common stock	48,033	48,652	48,652	48,652	<b>48,652</b>
Number of shares issued and outstanding at end of year (thousand)	(511,867)	(513,388)	(513,388)	(513,388)	<b>(513,388)</b>
Net assets	233,196	238,055	236,798	262,196	<b>271,352</b>
<b>Earnings</b>					
Gross business profit	97,419	108,063	113,672	115,187	<b>105,286</b>
Net business profit	36,355	45,639	50,769	39,912	<b>34,887</b>
Net income (loss)	5,138	6,181	1,379	(12,943)	<b>11,729</b>
<b>Per share amounts (¥)</b>					
Net assets	455.58	463.69	461.24	510.71	<b>528.55</b>
Net income (loss)	10.03	12.06	2.68	(25.21)	<b>22.84</b>
Dividend	5.00	5.00	5.00	5.00	<b>5.00</b>
(interim dividend)	(2.50)	(2.50)	(2.50)	(2.50)	<b>(2.50)</b>
<b>Payout ratio</b>	49.80%	41.47%	186.01%	—%	<b>21.88%</b>
<b>Number of employees</b>	4,025	3,957	3,862	3,790	<b>3,714</b>

## Interest Income and Expenses

Year ended 31st March,	1999			2000		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<b>Earning assets(A)</b>	5,334,501	141,207	2.64%	<b>5,182,939</b>	<b>123,650</b>	<b>2.37%</b>
Loans and bills discounted	3,770,648	92,450	2.45	<b>3,686,345</b>	<b>82,667</b>	<b>2.23</b>
Trading securities	2,179	11	0.52	<b>7,386</b>	<b>2</b>	<b>0.02</b>
Securities	1,250,348	42,947	3.43	<b>1,303,059</b>	<b>37,659</b>	<b>2.88</b>
Call loans	1,712	77	4.50	<b>13,945</b>	<b>194</b>	<b>1.39</b>
Bills bought	14,823	96	0.65	<b>32,150</b>	<b>9</b>	<b>0.02</b>
Due from banks	242,053	3,751	1.54	<b>89,338</b>	<b>1,889</b>	<b>2.10</b>
<b>Funds (B)</b>	5,092,909	40,531	0.79	<b>4,953,625</b>	<b>28,083</b>	<b>0.56</b>
Deposits	4,655,307	19,403	0.41	<b>4,695,155</b>	<b>10,876</b>	<b>0.23</b>
Negotiable CDs	46,594	1,439	3.08	<b>28,672</b>	<b>121</b>	<b>0.42</b>
Call money	309,042	3,028	0.97	<b>107,256</b>	<b>2,569</b>	<b>2.38</b>
Bills sold	9,897	18	0.18	<b>32,754</b>	<b>24</b>	<b>0.07</b>
Borrowed money	49,796	1,557	3.12	<b>50,851</b>	<b>1,527</b>	<b>2.99</b>
<b>Net interest (A)-(B)</b>	/	/	1.85	/	/	<b>1.81</b>

Note: Earning assets do not include the non-earning deposits (averaging ¥29,540 million in fiscal 1998; ¥32,678 million in fiscal 1999). Funds do not include equivalents to money in trust (average balance of ¥38,666 million in fiscal 1998; ¥22,317 million in fiscal 1999) and interest thereon (¥173 million in fiscal 1998; ¥73 million in fiscal 1999).

## Loans Outstanding by Type of Industry

As at 31st March,	1999		2000	
	Balance	Yield	Balance	Yield
<b>Domestic branches (excluding special international financial transaction accounts)</b>	3,694,999	(100.00%)	<b>3,596,418</b>	<b>(100.00%)</b>
Manufacturing	783,848	( 21.21)	<b>764,613</b>	<b>( 21.26)</b>
Agriculture	7,110	( 0.19)	<b>6,819</b>	<b>( 0.19)</b>
Forestry	2,414	( 0.07)	<b>2,167</b>	<b>( 0.06)</b>
Fisheries	4,091	( 0.11)	<b>1,897</b>	<b>( 0.05)</b>
Mining	8,123	( 0.22)	<b>8,018</b>	<b>( 0.22)</b>
Construction	389,279	( 10.53)	<b>377,115</b>	<b>( 10.49)</b>
Public utilities	31,963	( 0.86)	<b>22,690</b>	<b>( 0.63)</b>
Transport & communications	88,497	( 2.40)	<b>90,321</b>	<b>( 2.51)</b>
Wholesaling, retailing & restaurants	655,036	( 17.73)	<b>609,358</b>	<b>( 16.94)</b>
Finance & insurance	251,533	( 6.81)	<b>258,859</b>	<b>( 7.20)</b>
Real estate	223,452	( 6.05)	<b>223,463</b>	<b>( 6.22)</b>
Miscellaneous services	633,891	( 17.15)	<b>602,996</b>	<b>( 16.77)</b>
Local governments	39,795	( 1.08)	<b>28,476</b>	<b>( 0.79)</b>
Others	575,967	( 15.59)	<b>599,620</b>	<b>( 16.67)</b>
<b>Overseas branches and special international financial transaction accounts</b>	20,765	(100.00)	<b>15,238</b>	<b>(100.00)</b>
The governments of other countries	331	( 1.60)	<b>291</b>	<b>( 1.92)</b>
Financial institutions	1,564	( 7.53)	<b>244</b>	<b>( 1.60)</b>
Commerce & industry	18,869	( 90.87)	<b>14,701</b>	<b>( 96.48)</b>
Others	-( -)		<b>-( -)</b>	
<b>Total</b>	3,715,764	/	<b>3,611,656</b>	/

## Term-End Balances of Reserves for Possible Loan Losses

As at 31st March,	1999		2000	
	Balance	Yield	Balance	Yield
<b>Categories</b>				
General reserve for possible loan losses	22,077		<b>29,458</b>	
Specific reserve for possible loan losses	65,561		<b>80,598</b>	
Reserve for losses on overseas investments	75		<b>52</b>	
<b>Total</b>	87,715		<b>110,108</b>	

The Gunma Bank, Ltd. and Consolidated Subsidiaries  
**Consolidated Balance Sheets**

As at 31st March,	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>ASSETS</b>			
Cash and due from banks.....	¥ 173,530	¥ 201,226	\$ 1,898,367
Call loans .....	—	19,467	183,657
Commercial paper and other debt purchased .....	64,027	51,376	484,682
Trading account securities (Note 4) .....	1,499	1,391	13,128
Money held in trust .....	22,320	22,295	210,336
Securities (Note 4).....	1,255,274	1,324,525	12,495,521
Loans and bills discounted (Note 3).....	3,681,221	3,576,680	33,742,267
Foreign exchange .....	5,362	1,884	17,776
Other assets.....	34,908	38,453	362,773
Premises and equipment.....	128,107	124,898	1,178,284
Deferred income tax assets.....	37,916	49,166	463,837
Customers' liabilities for acceptances and guarantees .....	85,739	77,579	731,880
Reserve for possible loan losses.....	(—)	(120,016)	(1,132,235)
<b>Total assets</b> .....	<u>¥5,489,910</u>	<u>¥5,368,928</u>	<u>\$50,650,273</u>
<b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits .....	¥4,702,042	¥4,759,961	\$44,905,297
Call money .....	111,662	62,696	591,473
Borrowed money.....	67,543	66,220	624,717
Foreign exchange.....	168	630	5,948
Straight bonds .....	3,589	—	—
Convertible bonds .....	49,999	49,999	471,689
Other liabilities .....	77,442	47,369	446,881
Reserve for possible loan losses .....	98,484	—	—
Reserve for retirement allowances.....	12,152	13,331	125,765
Other reserves.....	2,716	3,188	30,076
Deferred income tax liability by land revaluation excess .....	12,691	12,685	119,677
Acceptances and guarantees .....	85,739	77,579	731,880
<b>Total liabilities</b> .....	<u>5,224,232</u>	<u>5,093,660</u>	<u>48,053,403</u>
<b>Minority interest</b> .....	2,109	1,759	16,599
<b>Stockholders' equity:</b>			
Common stock.....	48,652	48,652	458,983
Capital surplus .....	29,114	29,114	274,669
Land revaluation excess .....	17,758	17,735	167,318
Retained earnings.....	168,296	178,163	1,680,785
	263,822	273,666	2,581,755
Less: treasury stock, at cost .....	(254)	(157)	(1,484)
<b>Total stockholders' equity, net</b> .....	<u>263,568</u>	<u>273,508</u>	<u>2,580,271</u>
<b>Total liabilities, minority interest and stockholders' equity</b> .....	<u>¥5,489,910</u>	<u>¥5,368,928</u>	<u>\$50,650,273</u>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Operations and Retained Earnings

Year ended 31st March,	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>Income</b>			
Interest income:			
Interest on loans and discounts .....	¥ 91,435	¥ 81,087	\$ 764,976
Interest and dividends on securities.....	43,267	37,868	357,249
Other interest income .....	5,821	3,373	31,823
Trust fees .....	12	7	66
Fees and commissions.....	10,157	10,674	100,706
Other operating income.....	32,465	26,262	247,757
Other income.....	3,484	24,453	230,697
<b>Total income</b> .....	<u>186,644</u>	<u>183,727</u>	<u>1,733,274</u>
<b>Expenses</b>			
Interest expense:			
Interest on deposits.....	20,768	10,999	103,765
Interest on call money and borrowings.....	4,817	4,279	40,374
Other interest expense .....	15,482	13,182	124,359
Fees and commissions.....	2,971	3,025	28,539
Other operating expenses.....	24,823	24,305	229,300
General and administrative expenses.....	61,963	60,703	572,676
Other expenses.....	76,919	45,659	430,749
<b>Total expenses</b> .....	<u>207,746</u>	<u>162,154</u>	<u>1,529,762</u>
(Loss) income before income taxes.....	(21,102)	21,572	203,512
Income taxes:			
Current.....	5,037	20,017	188,847
Deferred .....	(13,419)	(11,261)	(106,241)
Minority interest .....	107	399	3,770
<b>Net (loss) income</b> .....	<u>(12,828)</u>	<u>12,416</u>	<u>117,136</u>
<b>Retained earnings</b>			
Balance at beginning of the year.....	159,228	168,296	1,587,706
Prior year's adjustment for deferred income taxes .....	24,462	—	—
Transfer from land revaluation excess.....	—	15	146
Appropriations:			
Cash dividends.....	(2,565)	(2,565)	(24,203)
Balance at end of the year .....	<u>¥168,296</u>	<u>¥178,163</u>	<u>\$1,680,785</u>
	Yen		U.S. dollars
<b>Per share amounts</b>			
Net (loss) income — primary.....	¥(25.00)	¥24.19	\$0.2282
Net income — fully diluted.....	—	21.83	0.2059

The accompanying notes are an integral part of these statements.

## Consolidated Statement of Cash Flows

	Year ended 31st March, 2000	
	Millions of yen	Thousands of U.S. dollars (Note 2)
<b>Cash flows from operating activities</b>		
Income before income taxes .....	¥ 21,572	\$ 203,512
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortisation .....	19,073	179,934
Amortisation of consolidation goodwill differences .....	(437)	(4,130)
Equity in earnings of unconsolidated subsidiaries and associated companies.....	(32)	(307)
Reserve for possible loan losses .....	21,532	203,138
Reserve for possible losses on loans sold .....	471	4,451
Reserve for retirement allowances.....	1,178	11,115
Accrued interest and dividend income .....	(122,329)	(1,154,049)
Accrued interest expenses .....	28,460	268,499
Investment securities gains — net.....	(18,296)	(172,605)
Losses gains on money held in trust.....	(793)	(7,486)
Foreign exchange gains — net.....	(110)	(1,040)
Losses gains on disposal of premises and equipment .....	373	3,527
Net decrease in trading account securities.....	108	1,023
Net decrease in loans .....	104,114	982,208
Net increase in deposits.....	84,049	792,916
Net decrease in negotiable certificates of deposit .....	(22,745)	(214,578)
Net decrease in call loans and others.....	1,256	11,852
Net decrease in call money and others.....	(46,636)	(439,969)
Net decrease in collateral under repurchase agreements and securities lending transactions .....	(38,928)	(367,245)
Net decrease in straight bonds .....	(3,589)	(33,859)
Net decrease in interest-earning deposits in other banks .....	15,325	144,582
Net decrease in foreign exchange (assets).....	3,478	32,814
Net increase in foreign exchange (liabilities) .....	462	4,361
Interest and dividends received.....	123,942	1,169,272
Interest paid.....	(31,422)	(296,440)
Other — net.....	(150)	(1,417)
Subtotal .....	139,928	1,320,079
Paid of income tax .....	(15,216)	(143,553)
<b>Net cash provided by operating activities</b> .....	<b>124,711</b>	<b>1,176,526</b>
<b>Cash flows from investing activities</b>		
Purchases of securities.....	(576,045)	(5,434,389)
Proceeds from sales of securities .....	297,750	2,808,971
Proceeds from maturity of securities .....	213,344	2,012,680
Increase in money held in trust .....	(48)	(454)
Decrease in money held in trust.....	73	690
Expenditures for premises and equipment .....	(17,448)	(164,612)
Proceeds from sales of premises and equipment .....	1,275	12,037
<b>Net cash used in investing activities</b> .....	<b>(81,098)</b>	<b>(765,077)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowed money .....	9,000	84,906
Repayment of borrowed money.....	(7,000)	(66,038)
Dividends paid .....	(2,560)	(24,160)
<b>Net cash used in financing activities</b> .....	<b>(560)</b>	<b>(5,292)</b>
Effect of currency rate exchanges on cash and cash equivalents.....	(30)	(288)
Net increase in cash and cash equivalents .....	43,022	405,869
Cash and cash equivalents at beginning of year.....	80,421	758,690
<b>Cash and cash equivalents at end of year</b> .....	<b>¥123,443</b>	<b>\$1,164,559</b>

The accompanying notes are an integral part of these statements.



## 1. Summary of Significant Accounting Policies

### *a. Basis of Presentation*

The accompanying consolidated financial statements of The Gunma Bank, Ltd. (the "Bank") and consolidated subsidiaries have been prepared in accordance with accounting principles and practices generally accepted in Japan under the requirements of the Commercial Code of Japan, the Banking Law of Japan and other applicable rules and regulations.

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Bank in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain items have been reclassified from the original consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law for the convenience of readers outside Japan.

### *b. Consolidation*

The accompanying consolidated financial statements include the accounts of the Bank and its significant subsidiaries. The remaining unconsolidated subsidiary was accounted for by the cost method as consolidation of or accounting for this unconsolidated subsidiary by the equity method would not have had a material effect on the accompanying consolidated financial statements. All material intercompany balances and transactions are eliminated in consolidation. The difference between the cost of investments in the consolidated subsidiaries and the affiliate accounted for by the equity method and the equity in their net assets at their respective dates of acquisition is being amortised in the current year.

### *c. Trading Account Securities*

Listed securities are stated at the lower of cost or market, cost being determined by the moving average method. Other securities are stated at moving average cost.

### *d. Securities*

Listed shares and convertible bonds (including securities in money held in trust) are stated at the lower of cost or market, cost being determined by the moving average method. Other securities are stated at moving average cost.

### *e. Premises and Equipment*

Premises and equipment, including significant renewals and additions, are stated at cost. Depreciation is computed by the declining-balance method based on the estimated useful lives of the respective assets.

### *f. Foreign Currency Translation*

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

### *g. Revaluation of Foreign Currency Accounts and Forward Foreign Currency Accounts*

Gains or losses arising from the revaluation of foreign currency accounts and forward foreign currency accounts are accounted for as follows:

- (i) Spot foreign currency accounts are revalued using the mean of the telegraphic transfer selling rate and the telegraphic transfer buying rate prevailing at the balance sheet date. The aggregate difference between the carrying value and the revalued amount is recorded as gain (loss) on foreign exchange transactions in the accompanying consolidated statements of operations and retained earnings.
- (ii) Forward exchange contracts are valued separately (by the mark-to-market method) from the spot foreign currency account positions at the forward rate available for the remaining term of each contract to recognise gains or losses arising from the revaluation of such contracts. For forward exchange contracts with more than one year remaining to maturity, the revaluation gains or losses are stated at the present value of the contracts at the balance sheet date obtained by discounting them at the long-term interest rate.
- (iii) Swap transactions contracted in connection with funding, lending and currency swaps are not subject to the revaluation process described in (ii) above. Premiums and discounts on forward contracts are amortised over the life of each swap contract and recorded as interest income or expense.
- (iv) Currency futures and currency options are revalued on a mark-to-market basis.

#### ***h. Reserve for Possible Loan Losses***

The reserve for possible loan losses is provided in accordance with the policies regarding write-offs and reserves. The reserve for loans to borrowers who are classified as substantially bankrupt or who are bankrupt in the formal legal sense is provided based on the amount remaining after deduction of the amount of their collateral considered to be disposable and amounts recoverable under guarantees. In addition, a reserve is provided for loans to borrowers who, although not actually bankrupt in the legal sense, are experiencing serious management difficulties and whose failure is imminent. In such cases, a portion of the reserve is provided based on the amount remaining after deduction of the amount of their collateral considered to be disposable and amounts recoverable under guarantees, and the balance of this reserve is provided after giving full consideration to the amount the borrower is capable of repaying. In the case of all other loans, the amount provided as a reserve is based on the ratio of actual defaults during a fixed period in the past.

The reserve relating to loans to certain lesser developed countries is provided based on the prospective loss after consideration of each relevant country's political and economic situation, etc. (including the reserve for losses on overseas investments as prescribed under Article 55-2 of the Exceptions to the Tax Law Act). This reserve for possible loan losses is calculated based on the quality of the Bank's total loan assets, applying the Bank's internally established rules for self-assessment.

#### ***i. Reserve for Retirement Allowances***

The Bank provides for an employees' retirement allowance and severance benefits plan at the full amount which would be required to be paid if all eligible employees terminated their employment voluntarily at the balance sheet date.

In addition, the Bank has a contributory pension plan which covers substantially all its employees. The Bank now funds pension costs as accrued.

#### ***j. Reserve for Possible Losses on Loans Sold***

The reserve for possible losses on loans sold has been provided against possible future losses after consideration of the value of the collateral of the loans sold to the Cooperative Credit Purchasing Company.

#### ***k. Income Taxes***

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed.

#### ***l. Net Income (Loss) per Share***

Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the respective years.

Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds.

#### ***m. Leases***

Finance leases other than those which transfer the ownership of the leased property to the Bank are accounted for as operating leases.

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## 2. Yen and U.S. Dollar Amounts

The Bank maintains its accounting records in yen. The yen amounts included in the accompanying consolidated financial statements are stated in millions of yen, omitting amounts of less than one million yen. Therefore, the totals or subtotals presented in the accompanying consolidated financial statements may not always add up to the sum of the respective account balances.

The U.S. dollar amounts included in the accompanying consolidated financial statements represent the arithmetic results of translating yen into U.S. dollars at ¥106 = U.S.\$1, the approximate exchange rate in effect on 31st March, 2000. The inclusion of the U.S. dollar amounts is solely for convenience and is not intended to imply that yen and assets and liabilities originating in yen have been or could be readily converted, realised or settled in U.S. dollars at the above or any other rate.

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## 3. Loans and Bills Discounted

(1) Loans and bills discounted at 31st March, 2000 included the following items:

Balance of loans to companies under bankruptcy procedures: ¥23,856 million (U.S.\$225,059 thousand).

Balance of delinquent loans: ¥180,894 million (U.S.\$1,706,555 thousand).

Loans to companies under bankruptcy procedures consist of non-accrual loans on which the payment of principal or interest is well past due or there is no prospect of recovery of the principal or interest from the borrower or from a third party guaranteeing the loan (does not include the written-down portion of the loan). This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Corporation Tax Law (Government Ordinance No. 97 of 1965).

Delinquent loans are non-accrual loans, which do not fall under the classifications of loans to bankrupt borrowers or financial assistance loans where interest has been suspended for the purpose of business rehabilitation or debtor assistance.

(2) Balance of loans past due for 3 months or more: ¥2,546 million (U.S.\$24,024 thousand)

Loans past due for 3 months or more are classified in this category when 3 months or more have elapsed since the due date without the payment of principal or interest. The balance of loans to companies under bankruptcy procedures and the balance of delinquent loans are not included in this category.

(3) Balance of restructured loans: ¥22,973 million (U.S.\$216,727 thousand)

Restructured loans include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.). Excluded from this balance are the balance of loans to companies under bankruptcy procedures, the balance of delinquent loans and the balance of loans past due for 3 months or more.

(4) The total balance of loans to companies under bankruptcy procedures, delinquent loans, loans past due for 3 months or more and restructured loans: ¥230,270 million (U.S.\$2,172,365 thousand).

#### 4. Market Values of Securities

Market values of listed securities held by the Bank and consolidated subsidiaries as at 31st March, 2000 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Book value	Market value	Unrealised profit	Book value	Market value	Unrealised profit
<b>Trading account securities:</b>						
Bonds.....	¥ 1,190	¥ 1,198	¥ 8	\$ 11,232	\$ 11,309	\$ 77
<b>Securities:</b>						
Bonds.....	477,698	485,445	7,747	4,506,587	4,579,676	73,089
Stocks .....	165,686	253,539	87,852	1,563,084	2,391,882	828,798
Others .....	22,431	22,747	315	211,622	214,602	2,980
<b>Total .....</b>	<b>¥667,007</b>	<b>¥762,931</b>	<b>¥95,924</b>	<b>\$6,292,525</b>	<b>\$7,197,469</b>	<b>\$904,944</b>

The following securities are excluded:

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
<b>Trading account securities:</b>		
Bonds .....	¥ 200	\$ 1,896
<b>Securities:</b>		
Bonds .....	530,542	5,005,114
Stocks .....	5,119	48,294
Others .....	123,046	1,160,820

## 5. Derivative Financial Instruments Transactions

### (1) Derivatives Transactions

#### (i) Types of transaction, purpose, and policy

The Bank carries out interest-related derivatives transactions such as interest rate swaps, and currency-related transactions such as forward exchange contracts and currency options, in response to customer demands. In principle, the Bank conducts derivatives transactions that result in market positions opposite to underlying transactions with customers, or transactions linked to underlying assets and/or liabilities. Consequently, there are almost no uncovered derivatives positions for the Bank's own account.

Meanwhile, the Bank carries out interest rate swaps, caps, forward exchange contracts, currency swaps, and swaptions for its own account as a part of its ALM (Asset Liability Management) activities, in order to manage interest-rate risk and foreign currency liquidity risk.

Further, in order to take advantage of short-term price movements, the Bank conducts trading transactions such as forward exchange contracts, currency options, interest rate futures, interest rate swaps, swaptions, bond futures, options on bond futures, and over-the-counter bond options as operations for its own account.

However, the Bank's positions are all extremely small, and it does not conduct highly speculative leveraged transactions.

#### (ii) Risks and risk management

The major risks associated with derivatives transactions are credit risk, that is, the risk of counterparties defaulting on their contracts, and market risk, that is, the risk associated with adverse changes in market rates and prices.

In order to manage these risks, the Bank makes a clear separation between the front office, which transacts the contracts, and the back office, which carries out administrative work. Further, the Bank has established a Market Administration Office, which has middle office functions, within the Financial Markets & International Division, where the majority of transactions are handled. The Bank has also established an ALM & Risk Management Office within the General Planning Division, with the aim of quantifying and managing risk across the whole bank.

The Bank strives to diversify credit risk by establishing credit limits with reference to debtors' ratings provided that the approval of the Bank's credit supervision units is obtained, and by avoiding overexposure to any single counterparty. The credit risk amount is regularly calculated by the Current Exposure Method, which is part of the calculation of the capital adequacy ratio according to international BIS standards. As of 31st March 2000, the credit risk amount calculated on a consolidated basis stood at ¥11.3 billion (U.S.\$107 million).

Looking at the management of market risk, the Bank establishes internal regulations by type of transaction and by division responsible for the transaction in question, and the staff responsible for risk management conduct checks on regulatory observance, make daily assessments of positions and evaluations of profit or loss, and report the results to the executive committee members in charge. In addition, there is a system whereby positions and unrealised profit and loss at the end of each month are reported to management.

#### (iii) Supplementary information regarding quantitative information

The Bank conducts interest rate swaps, as mentioned in "Items concerning fair value of derivatives transactions (interest-related transactions)" in order mainly to hedge fixed-rate loans and bonds against the risk of interest rates rising. Unrealised losses on derivatives positions are offset by corresponding unrealised profits on assets carried on the Bank's balance sheet. In addition, the Bank conducts currency swaps, as mentioned in "Currency-related transactions," in order to procure foreign currency funds matching the Bank's foreign currency-denominated assets.

Consequently, unrealised losses on interest rate swaps and currency swaps do not affect the Bank's earnings.

The contract amount, generally known as notional principal amount, is commonly used as an indicator to represent the scale of derivatives trading. However, this amount does not necessarily indicate the size of the risk involved.

One of the Bank's consolidated subsidiaries conducts interest rate swaps, whose contract amounts (notional principal amount) are insignificant.

## (2) Interest Rate Related Transactions

<i>For the year ended 31st March, 2000</i>	Millions of yen			Thousands of U.S. dollars		
	Contract amounts	Fair value	Unrealised profit/(loss)	Contract amounts	Fair value	Unrealised profit/(loss)
<b>Interest rate swaps:</b>						
Receipts fixed						
payments floating .....	¥ 18,518	¥ 433	¥ 433	\$ 174,703	\$ 4,089	\$ 4,089
Receipts floating						
payments fixed .....	255,030	(3,895)	(3,895)	2,405,950	(36,751)	(36,751)
<b>Caps:</b>						
Purchased .....	1,000			9,433		
Option premium .....	7	0	(7)	71	0	(71)
<b>Others:</b>						
Written .....	3,000	66	(66)	28,302	628	(628)

## (3) Foreign Exchange Related Transactions

<i>For the year ended 31st March, 2000</i>	Millions of yen			Thousands of U.S. dollars		
	Contract amounts	Fair value	Unrealised profit/(loss)	Contract amounts	Fair value	Unrealised profit/(loss)
<b>Currency swap:</b>						
U.S. dollars .....	¥64,751	¥(615)	¥(615)	\$610,863	\$(5,807)	\$(5,807)
Others .....	1,022	(2)	(2)	9,647	(25)	(25)

Forward exchange contracts and currency options are excluded from the above table as their profits or losses are included in the "Statements of operations and Retained earnings," after revaluation of contract value prior to the due dates. Re-evaluated currency derivatives contracts are as follows:

<i>For the year ended 31st March, 2000</i>	Millions of yen		Thousands of U.S. dollars	
	Contract amounts		Contract amounts	
<b>Foreign exchange contracts:</b>				
Written .....	¥3,718		\$35,082	
Purchased .....	3,869		36,505	
<b>Currency options:</b>				
Written				
Call .....	360	¥(19)	3,405	\$(180)
Put .....	1,082	(26)	10,214	(254)
Purchased				
Call .....	360	(19)	3,405	(184)
Put .....	1,082	(27)	10,214	(262)

The figures in the parentheses indicate option fees posted in the "Balance Sheets."

## (4) Stock Trading

Not applicable (as of 31st March, 2000).

## (5) Bond Transaction

Not applicable (as of 31st March, 2000).

## (6) Commodity Transaction

Not applicable (as of 31st March, 2000).

## 6. Segment Information

a. Segment information by category of business for the year is summarised as follows:

Year ended 31st March, 1999	Millions of yen					
	Banking	Lease	Others	Total	Elimination	Consolidated
I. Total income generated						
from business with:						
External customers .....	¥ 164,873	¥21,466	¥ 140	¥ 186,480	¥ —	¥ 186,480
Internal units .....	1,223	2,410	2,602	6,237	(6,237)	—
	<u>¥ 166,097</u>	<u>¥23,877</u>	<u>¥2,743</u>	<u>¥ 192,718</u>	<u>¥ (6,237)</u>	<u>¥ 186,480</u>
Total expenses generated .....	<u>¥ 187,176</u>	<u>¥23,572</u>	<u>¥2,732</u>	<u>¥ 213,482</u>	<u>¥ (6,242)</u>	<u>¥ 207,239</u>
Net income (loss) generated...	<u>¥ (21,078)</u>	<u>¥ 304</u>	<u>¥ 10</u>	<u>¥ (20,764)</u>	<u>¥ 5</u>	<u>¥ (20,758)</u>
II. Total assets, depreciation and capital expenditure						
Total assets.....	<u>¥5,464,496</u>	<u>¥80,383</u>	<u>¥1,115</u>	<u>¥5,545,994</u>	<u>¥(56,084)</u>	<u>¥5,489,910</u>
Depreciation.....	<u>¥ 3,150</u>	<u>¥15,503</u>	<u>¥ 11</u>	<u>¥ 18,665</u>	<u>¥ —</u>	<u>¥ 18,665</u>
Capital expenditures .....	<u>¥ 6,902</u>	<u>¥13,037</u>	<u>¥ 18</u>	<u>¥ 19,957</u>	<u>¥ —</u>	<u>¥ 19,957</u>

Year ended 31st March, 2000	Millions of yen					
	Banking	Lease	Others	Total	Elimination	Consolidated
I. Total income generated						
from business with:						
External customers .....	¥ 163,206	¥20,450	¥ 25	¥ 183,682	¥ —	¥ 183,682
Internal units .....	1,161	2,383	2,627	6,172	(6,172)	—
	<u>¥ 164,367</u>	<u>22,834</u>	<u>¥2,652</u>	<u>¥ 189,855</u>	<u>¥ (6,172)</u>	<u>¥ 183,682</u>
Total expenses generated .....	<u>¥ 143,588</u>	<u>21,729</u>	<u>¥2,547</u>	<u>¥ 167,865</u>	<u>¥ (6,129)</u>	<u>¥ 161,736</u>
Net income (loss) generated...	<u>¥ 20,779</u>	<u>1,105</u>	<u>¥ 104</u>	<u>¥ 21,989</u>	<u>¥ (43)</u>	<u>¥ 21,946</u>
II. Total assets, depreciation and capital expenditure						
Total assets.....	<u>¥5,359,733</u>	<u>65,934</u>	<u>¥1,171</u>	<u>¥5,426,838</u>	<u>¥(57,909)</u>	<u>¥5,368,928</u>
Depreciation.....	<u>¥ 3,658</u>	<u>15,471</u>	<u>¥ 14</u>	<u>¥ 19,144</u>	<u>¥ —</u>	<u>¥ 19,144</u>
Capital expenditures .....	<u>¥ 4,063</u>	<u>13,494</u>	<u>¥ 4</u>	<u>¥ 17,562</u>	<u>¥ —</u>	<u>¥ 17,562</u>

Year ended 31st March, 2000	Thousands of U.S. dollars					
	Banking	Lease	Others	Total	Elimination	Consolidated
I. Total income generated						
from business with:						
External customers .....	\$ 1,539,681	\$192,934	\$ 237	\$ 1,732,852	\$ —	\$ 1,732,852
Internal units .....	10,959	22,489	24,787	58,235	(58,235)	—
	<u>\$ 1,550,640</u>	<u>\$215,423</u>	<u>\$25,024</u>	<u>\$ 1,791,087</u>	<u>\$ (58,235)</u>	<u>\$ 1,732,852</u>
Total expenses generated .....	<u>\$ 1,354,611</u>	<u>\$204,995</u>	<u>\$24,035</u>	<u>\$ 1,583,641</u>	<u>\$ (57,827)</u>	<u>\$ 1,525,814</u>
Net income (loss) generated...	<u>\$ 196,029</u>	<u>\$ 10,428</u>	<u>\$ 989</u>	<u>\$ 207,446</u>	<u>\$ (408)</u>	<u>\$ 207,038</u>
II. Total assets, depreciation and capital expenditure						
Total assets.....	<u>\$50,563,521</u>	<u>\$622,023</u>	<u>\$11,047</u>	<u>\$51,196,591</u>	<u>\$(546,318)</u>	<u>\$50,650,273</u>
Depreciation.....	<u>\$ 34,513</u>	<u>\$145,959</u>	<u>\$ 135</u>	<u>\$ 180,607</u>	<u>\$ —</u>	<u>\$ 180,607</u>
Capital expenditures .....	<u>\$ 38,335</u>	<u>\$127,307</u>	<u>\$ 44</u>	<u>\$ 165,686</u>	<u>\$ —</u>	<u>\$ 165,686</u>

Total income represents total income excluding gains or losses on disposal of premises and equipment, collection of claims written-off and transfers from other reserves.

Corresponding to the disclosure of net sales by other industrial corporations, the Bank has disclosed the total income of the head office and branch offices of the Bank and its consolidated subsidiaries.

**b. Segment information by geographical area**

Segment information by geographical area has not been disclosed because the income and total assets of Japan area constituted more than 90% of the consolidated total.

**c. Total income from international operations**

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
(1) Total income from international operations .....	<u>¥ 24,300</u>	<u>¥ 14,823</u>	<u>\$ 139,848</u>
(2) Total consolidated income.....	<u>¥186,480</u>	<u>¥183,682</u>	<u>\$1,732,852</u>
(1) / (2) .....	<u>13.03%</u>	<u>8.07%</u>	

The total income from international operations is disclosed corresponding to the disclosure of export sales of other industries.

Total income from international operations represents the total income from the international operations of the Bank and the total income of its consolidated foreign subsidiaries, excluding the total income generated from transactions among consolidated companies.



## Report of Independent Certified Public Accountants (Consolidated)

The Board of Directors  
The Gunma Bank, Ltd.

We have audited the consolidated balance sheets of The Gunma Bank, Ltd. and consolidated subsidiaries as of 31st March, 1999 and 2000, and the related consolidated statements of operations and retained earnings for the years then ended, and the related consolidated statement of cash flows for the year ended 31st March, 2000 expressed in Japanese yen. Our audits 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 consolidated financial position of The Gunma Bank, Ltd. and consolidated subsidiaries at 31st March, 1999 and 2000, and the consolidated results of their operations for the years then ended and the consolidated results of their cash flows for the year ended 31st March, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2000 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 2 to the consolidated financial statements.

*Century Ota Showa & Co.*

29th June, 2000

*See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of The Gunma Bank, Ltd. under Japanese accounting principles and practices.*

## Non-Consolidated Balance Sheets

As at 31st March,	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>ASSETS</b>			
Cash and due from banks .....	¥ 172,217	¥ 200,962	\$ 1,895,871
Call loans .....	—	19,467	183,657
Commercial paper and other debt purchased .....	64,027	51,376	484,682
Trading account securities (Notes 3 and 19) .....	1,499	1,391	13,128
Money held in trust .....	22,320	22,295	210,336
Securities (Notes 4 and 19) .....	1,251,624	1,324,430	12,494,627
Loans and bills discounted (Note 5) .....	3,715,764	3,611,656	34,072,235
Foreign exchange (Note 6) .....	5,362	1,884	17,780
Other assets (Note 7) .....	23,905	27,244	257,019
Premises and equipment (Note 8) .....	80,853	80,469	759,142
Deferred income tax assets .....	36,636	48,263	455,320
Customers' liabilities for acceptances and guarantees (Note 9) .....	89,045	77,581	731,903
Reserve for possible loan losses .....	(—)	(110,108)	(1,038,762)
<b>Total assets</b> .....	<u>¥5,463,257</u>	<u>¥5,356,915</u>	<u>\$50,536,938</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits (Note 10) .....	¥4,705,806	¥4,764,530	\$44,948,399
Call money .....	111,662	62,696	591,473
Borrowed money .....	56,275	58,000	547,170
Foreign exchange (Note 6) .....	168	630	5,951
Convertible bonds .....	49,999	49,999	471,689
Other liabilities (Note 11) .....	73,044	43,170	407,270
Reserve for possible loan losses .....	87,715	—	—
Reserve for retirement allowances .....	11,936	13,080	123,405
Other reserves (Note 12) .....	2,716	3,188	30,076
Deferred income tax liability by land revaluation excess .....	12,691	12,685	119,677
Acceptances and guarantees (Note 9) .....	89,045	77,581	731,903
<b>Total liabilities</b> .....	<u>5,201,061</u>	<u>5,085,563</u>	<u>47,977,013</u>
<b>Stockholders' equity:</b>			
Common stock (Note 13) .....	48,652	48,652	458,983
Capital surplus (Note 13) .....	29,114	29,114	274,669
Legal reserve (Note 14) .....	42,134	42,691	402,749
Land revaluation excess .....	17,758	17,735	167,318
Voluntary reserves .....	113,650	113,650	1,072,170
Retained earnings (Note 19) .....	10,886	19,507	184,036
<b>Total stockholders' equity</b> .....	<u>262,196</u>	<u>271,352</u>	<u>2,559,925</u>
<b>Total liabilities and stockholders' equity</b> .....	<u>¥5,463,257</u>	<u>¥5,356,915</u>	<u>\$50,536,938</u>

The accompanying notes are an integral part of these statements.

## Non-Consolidated Statements of Operations and Retained Earnings

Year ended 31st March,	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>Income</b>			
Interest income:			
Interest on loans and discounts .....	¥ 92,450	¥ 82,667	\$ 779,878
Interest and dividends on securities.....	42,959	37,661	355,300
Other interest income .....	5,797	3,321	31,336
Trust fees .....	12	7	66
Fees and commissions.....	10,164	10,681	100,774
Other operating income.....	11,222	5,350	50,476
Other income (Note 15) .....	3,349	23,955	225,994
<b>Total income</b> .....	<u>165,955</u>	<u>163,645</u>	<u>1,543,824</u>
<b>Expenses</b>			
Interest expense:			
Interest on deposits.....	20,843	10,997	103,754
Interest on call money and borrowings.....	4,605	4,121	38,886
Other interest expense .....	15,256	13,037	122,991
Fees and commissions.....	2,970	3,023	28,520
Other operating expenses.....	3,916	3,296	31,100
General and administrative expenses (Note 16) .....	64,548	63,374	597,871
Other expenses (Note 17) .....	75,349	45,859	432,639
<b>Total expenses</b> .....	<u>187,490</u>	<u>143,710</u>	<u>1,355,761</u>
(Loss) income before income taxes.....	(21,534)	19,934	188,063
Income taxes (Note 18):			
Current.....	4,895	19,843	187,204
Deferred .....	(13,486)	(11,638)	(109,799)
<b>Net (loss) income</b> .....	<u>(12,943)</u>	<u>11,729</u>	<u>110,658</u>
<b>Retained earnings</b>			
Balance at beginning of the year.....	3,803	10,886	102,700
Prior year's adjustment for deferred income taxes .....	23,150	—	—
Transfer from land revaluation excess.....	—	15	146
Appropriations:			
Transfer to legal reserve .....	(556)	(556)	(5,252)
Cash dividends.....	(2,566)	(2,566)	(24,216)
Balance at end of the year (Note 19) .....	<u>¥ 10,886</u>	<u>¥ 19,507</u>	<u>\$ 184,036</u>
	Yen		U.S. dollars
<b>Per share amounts</b>			
Net (loss) income — primary.....	¥(25.21)	¥22.84	\$0.2155
Net income — fully diluted.....	—	20.63	0.1946

The accompanying notes are an integral part of these statements.

## Non-Consolidated Statement of Cash Flows

Year ended 31st March, 1999

Millions of yen

<b>Cash flows from operating activities</b>	
Interest on loans and discounts received .....	¥ 92,803
Interest and dividends on securities received .....	43,903
Other interest received .....	6,023
Trust fees .....	12
Fees and commissions received .....	10,136
Other operating revenue .....	2
<b>Total</b> .....	<u>152,881</u>
Interest on deposits paid .....	23,474
Interest on call money and borrowings paid .....	4,642
Other interest paid .....	15,374
Fees and commissions paid .....	2,970
General and administrative expenses paid .....	61,429
<b>Total</b> .....	<u>107,891</u>
Net increase in due from banks .....	216,059
Net decrease in call loans .....	10,000
Net increase in commercial paper and other debt purchased .....	(7,080)
Net proceeds from trading account securities transactions .....	452
Net expenditures related to national government bonds and other transactions .....	(49,139)
Net decrease in loans and bills discounted .....	104,803
Net decrease in foreign exchange .....	(1,523)
Net decrease in other assets .....	26,255
<b>Total</b> .....	<u>299,827</u>
Net decrease in deposits and other .....	(10,733)
Net decrease in call money and borrowed money .....	(209,134)
Net decrease in foreign exchange .....	(172)
Net decrease in other liabilities .....	(119,979)
<b>Total</b> .....	<u>(340,019)</u>
Net cash provided by operating activities .....	<u>4,798</u>
<b>Cash flows from other activities</b>	
Proceeds from sales of stocks and other .....	82,308
Proceeds from settlement of money held in trust .....	16,411
Proceeds from sales of premises and equipment .....	4,368
Other proceeds .....	931
<b>Total</b> .....	<u>104,019</u>
Purchases of stocks and other .....	76,316
Investments in money held in trust .....	1,359
Purchases of premises and equipment .....	9,289
Other payments .....	3,790
<b>Total</b> .....	<u>90,756</u>
Net cash provided by other activities .....	<u>13,263</u>
<b>Dividends, income taxes and other payments</b>	
Dividends paid .....	2,566
Income taxes paid .....	9,206
<b>Total</b> .....	<u>11,773</u>
Net increase in cash and cash equivalents .....	6,288
Cash and cash equivalents at beginning of the year .....	74,116
<b>Cash and cash equivalents at end of the year</b> .....	<u>¥ 80,404</u>

The accompanying notes are an integral part of these statements.

## 1. Summary of Significant Accounting Policies

### *a. Basis of Presentation*

The accompanying financial statements of The Gunma Bank, Ltd. (the "Bank") have been prepared in accordance with accounting principles and practices generally accepted in Japan under the requirements of the Commercial Code of Japan, the Banking Law of Japan and other applicable rules and regulations.

The accompanying financial statements have been prepared from the accounts maintained by the Bank in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain items have been reclassified from the original non-consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law for the convenience of readers outside Japan.

### *b. Trading Account Securities*

Listed securities are stated at the lower of cost or market, cost being determined by the moving average method. Other securities are stated at moving average cost.

### *c. Securities*

Listed shares and convertible bonds (including securities in money held in trust) are stated at the lower of cost or market, cost being determined by the moving average method. Other securities are stated at moving average cost.

### *d. Premises and Equipment*

Premises and equipment, including significant renewals and additions, are stated at cost. Depreciation is computed by the declining-balance method based on the estimated useful lives of the respective assets.

### *e. Foreign Currency Translation*

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

### *f. Revaluation of Foreign Currency Accounts and Forward Foreign Currency Accounts*

Gains or losses arising from the revaluation of foreign currency accounts and forward foreign currency accounts are accounted for as follows:

- (i) Spot foreign currency accounts are revalued using the mean of the telegraphic transfer selling rate and the telegraphic transfer buying rate prevailing at the balance sheet date. The aggregate difference between the carrying value and the revalued amount is recorded as gain (loss) on foreign exchange transactions in the accompanying non-consolidated statements of operations and retained earnings.
- (ii) Forward exchange contracts are valued separately (by the mark-to-market method) from the spot foreign currency account positions at the forward rate available for the remaining term of each contract to recognise gains or losses arising from the revaluation of such contracts. For forward exchange contracts with more than one year remaining to maturity, the revaluation gains or losses are stated at the present value of the contracts at the balance sheet date obtained by discounting them at the long-term interest rate.
- (iii) Swap transactions contracted in connection with funding, lending and currency swaps are not subject to the revaluation process described in (ii) above. Premiums and discounts on forward contracts are amortised over the life of each swap contract and recorded as interest income or expense.
- (iv) Currency futures and currency options are revalued on a mark-to-market basis.

***g. Reserve for Possible Loan Losses***

The reserve for possible loan losses is provided in accordance with the policies regarding write-offs and reserves. The reserve for loans to borrowers who are classified as substantially bankrupt or who are bankrupt in the formal legal sense is provided based on the amount remaining after deduction of the amount of their collateral considered to be disposable and amounts recoverable under guarantees. In addition, a reserve is provided for loans to borrowers who, although not actually bankrupt in the legal sense, are experiencing serious management difficulties and whose failure is imminent. In such cases, a portion of the reserve is provided based on the amount remaining after deduction of the amount of their collateral considered to be disposable and amounts recoverable under guarantees, and the balance of this reserve is provided after giving full consideration to the amount the borrower is capable of repaying. In the case of all other loans, the amount provided as a reserve is based on the ratio of actual defaults during a fixed period in the past.

The reserve relating to loans to certain lesser developed countries is provided based on the prospective loss after consideration of each relevant country's political and economic situation, etc. (including the reserve for losses on overseas investments as prescribed under Article 55-2 of the Exceptions to the Tax Law Act). This reserve for possible loan losses is calculated based on the quality of the Bank's total loan assets, applying the Bank's internally established rules for self-assessment.

***h. Reserve for Retirement Allowances***

The Bank provides for an employees' retirement allowance and severance benefits plan at the full amount which would be required to be paid if all eligible employees terminated their employment voluntarily at the balance sheet date.

In addition, the Bank has a contributory pension plan which covers substantially all its employees. The Bank now funds pension costs as accrued.

***i. Reserve for Possible Losses on Loans Sold***

The reserve for possible losses on loans sold has been provided against possible future losses after consideration of the value of the collateral of the loans sold to the Cooperative Credit Purchasing Company.

***j. Income Taxes***

Deferred income tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

***k. Net Income per Share***

Net income per share is based on the weighted average number of shares of common stock outstanding during the respective years.

Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds.

***l. Leases***

Finance leases other than those which transfer the ownership of the leased property to the Bank are accounted for as operating leases.

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**2. Yen and U.S. Dollar Amounts**

The Bank maintains its accounting records in yen. The yen amounts included in the accompanying non-consolidated financial statements are stated in millions of yen, omitting amounts of less than one million yen. Therefore, the totals or subtotals presented in the accompanying non-consolidated financial statements may not always add up to the sum of the respective account balances.

The U.S. dollar amounts included in the accompanying non-consolidated financial statements represent the arithmetic results of translating yen into U.S. dollars at ¥106 = U.S.\$1, the approximate exchange rate in effect on 31st March, 2000. The inclusion of the U.S. dollar amounts is solely for convenience and is not intended to imply that yen and assets and liabilities originating in yen have been or could be readily converted, realised or settled in U.S. dollars at the above or any other rate.

### 3. Trading Account Securities

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

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
National government bonds .....	¥1,499	¥1,391	\$13,128

### 4. Securities

Securities as at 31st March, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
National government bonds .....	¥ 313,070	¥ 325,599	\$ 3,071,691
Local government bonds .....	446,694	465,523	4,391,729
Corporate bonds .....	214,875	217,117	2,048,281
Shares .....	147,975	170,478	1,608,289
Other securities .....	129,008	145,711	1,374,637
Total .....	¥1,251,624	¥1,324,430	\$12,494,627

### 5. Loans and Bills Discounted

(1) Loans and bills discounted as at 31st March, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Commercial bills discounted .....	¥ 146,610	¥ 148,810	\$ 1,403,869
Loans on notes .....	490,159	429,301	4,050,018
Loans on deeds .....	2,316,948	2,331,012	21,990,689
Overdrafts .....	762,044	702,531	6,627,659
Total .....	¥3,715,764	¥3,611,656	\$34,072,235

(2) Loans and bills discounted at 31st March, 2000 included the following items:

Balance of loans to companies under bankruptcy procedures: ¥20,989 million (U.S.\$198,009 thousand).

Balance of delinquent loans: ¥170,658 million (U.S.\$1,609,983 thousand).

Loans to companies under bankruptcy procedures consist of non-accrual loans on which the payment of principal or interest is well past due or there is no prospect of recovery of the principal or interest from the borrower or from a third party guaranteeing the loan (does not include the written-down portion of the loan). This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Corporation Tax Law (Government Ordinance No. 97 of 1965).

Delinquent loans are non-accrual loans, which do not fall under the classifications of loans to bankrupt borrowers or financial assistance loans where interest has been suspended for the purpose of business rehabilitation or debtor assistance.

(3) Balance of loans past due for 3 months or more: ¥2,546 million (U.S.\$24,024 thousand)

Loans past due for 3 months or more are classified in this category when 3 months or more have elapsed since the due date without the payment of principal or interest. The balance of loans to companies under bankruptcy procedures and the balance of delinquent loans are not included in this category.

(4) Balance of restructured loans: ¥22,973 million (U.S.\$216,727 thousand)

Restructured loans include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.). Excluded from this balance are the balance of loans to companies under bankruptcy procedures, the balance of delinquent loans and the balance of loans past due for 3 months or more.

(5) The total balance of loans to companies under bankruptcy procedures, delinquent loans, loans past due for 3 months or more and restructured loans: ¥217,166 million (U.S.\$2,048,743 thousand).

## 6. Foreign Exchange

Assets and liabilities denominated in foreign currencies at 31st March, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
<b>Assets:</b>			
Foreign exchange bills bought .....	¥2,960	¥ 596	\$ 5,625
Foreign exchange bills receivable .....	2,203	1,071	10,108
Due from foreign banks .....	198	216	2,047
Total .....	<u>¥5,362</u>	<u>¥1,884</u>	<u>\$17,780</u>
<b>Liabilities:</b>			
Foreign exchange bills sold .....	¥ 140	¥ 560	\$ 5,284
Foreign exchange refinances and rediscounts .....	23	68	644
Due to foreign banks .....	3	2	23
Total .....	<u>¥ 168</u>	<u>¥ 630</u>	<u>\$ 5,951</u>

## 7. Other Assets

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

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Accrued income .....	¥12,729	¥11,475	\$108,261
Prepaid expenses .....	114	72	684
Other .....	11,060	15,695	148,074
Total .....	<u>¥23,905</u>	<u>¥27,244</u>	<u>\$257,019</u>

## 8. Premises and Equipment

Premises and equipment at 31st March, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Land	¥ 50,441	¥ 50,455	\$ 475,993
Buildings .....	57,596	57,897	546,203
Equipment .....	21,626	21,431	202,184
Other .....	3,800	3,339	31,507
Total .....	133,465	133,124	1,255,887
Accumulated depreciation .....	(52,611)	(52,654)	(496,745)
Total .....	<u>¥ 80,853</u>	<u>¥ 80,469</u>	<u>\$ 759,142</u>



## 9. Acceptances and Guarantees

Acceptances and guarantees at 31st March, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Acceptances .....	¥ 40	¥ 80	\$ 762
Letters of credit .....	2,874	2,894	27,310
Guarantees .....	86,130	74,606	703,831
Total .....	<u>¥89,045</u>	<u>¥77,581</u>	<u>\$731,903</u>

All contingent liabilities arising from acceptances and guarantees are included in the contra-accounts "acceptances and guarantees" and "customers' liabilities for acceptances and guarantees" in the accompanying non-consolidated balance sheets.

## 10. Deposits

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

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Demand deposits .....	¥ 122,542	¥ 126,529	\$ 1,193,670
Savings deposits .....	1,176,409	1,314,666	12,402,511
Deposits at notice .....	38,560	34,507	325,545
Time deposits .....	3,171,810	3,150,026	29,717,229
Negotiable certificates of deposit .....	34,458	11,713	110,500
Other deposits .....	162,024	127,088	1,198,944
Total .....	<u>¥4,705,806</u>	<u>¥4,764,530</u>	<u>\$44,948,399</u>

## 11. Other Liabilities

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

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Domestic exchange settlement account credits .....	¥ 9	¥ 1	\$ 14
Accrued income taxes and enterprise tax .....	—	3,498	33,002
Accrued expenses .....	17,254	13,862	130,775
Unearned interest .....	4,201	4,066	38,363
Employees' deposits .....	8,673	8,139	76,784
Security deposits .....	38,928	—	—
Other .....	3,977	13,603	128,332
Total .....	<u>¥73,044</u>	<u>¥43,170</u>	<u>\$407,270</u>

Domestic exchange settlement account credits consist of remittance bills from other banks and bills for collection paid by other banks which have not yet been settled.

## 12. Other Reserves

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

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Reserve for possible losses on loans sold .....	¥2,716	¥3,188	\$30,076
Reserve for securities transaction liabilities .....	0	—	—
Total .....	<u>¥2,716</u>	<u>¥3,188</u>	<u>\$30,076</u>

## 13. Common Stock and Capital Surplus

The authorised common stock of the Bank at 31st March, 2000 consisted of 1,360,000 thousand shares of common stock with a par value of ¥50.

There were no changes in the common stock and capital surplus accounts for the two years ended 31st March, 1999 and 2000.

## 14. Legal Reserve

Under the Banking Law of Japan, an amount equivalent to at least 20 per cent. of cash appropriations paid must be transferred to the legal reserve until the reserve equals 100 per cent. of common stock. The legal reserve is not available for dividends but may be used to reduce a deficit or may be transferred to common stock.

## 15. Other Income

Other income for the two years ended 31st March, 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Gain on sales of shares and other securities .....	¥2,077	¥22,137	\$208,849
Gain on money held in trust .....	178	793	7,486
Gain on disposition of premises and disposal of equipment .....	161	44	421
Reversal of other reserves .....	0	0	0
Other .....	931	979	9,238
Total .....	<u>¥3,349</u>	<u>¥23,955</u>	<u>\$225,994</u>

## 16. General and Administrative Expenses

With respect to finance lease contracts other than those under which the title of the leased equipment will be transferred to the Bank by the end of the contract period, annual lease expenses for the years ended 31st March, 1999 and 2000 and future minimum payments subsequent to 31st March, 2000 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Acquisition cost .....	¥7,968	¥8,098	\$76,396
Less accumulated depreciation .....	2,046	3,652	34,454
Net carrying amount .....	<u>¥5,922</u>	<u>¥4,445</u>	<u>\$41,942</u>
Future minimum payments without interest expense:			
Within one year .....	¥1,501	¥1,592	\$15,022
Over one year .....	4,666	3,165	29,863
	<u>¥6,167</u>	<u>¥4,757</u>	<u>\$44,885</u>
Lease expense .....	¥1,868	¥1,933	\$18,239
Accumulated depreciation .....	1,543	1,604	15,139
Interest expense .....	461	413	3,900

## 17. Other Expenses

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

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Provision for reserve for possible loan losses .....	¥47,972	¥35,626	\$336,100
Provision for reserve for possible losses on loans sold .....	1,090	544	5,136
Write-off of loans .....	1,254	136	1,288
Loss on sales of shares and other securities .....	4,406	26	248
Loss on revaluation of shares and other securities .....	6,080	5,042	47,568
Loss on money held in trust .....	240	—	—
Loss on disposition of premises and disposal of equipment .....	507	418	3,948
Other .....	<u>13,797</u>	<u>4,065</u>	<u>38,351</u>
Total .....	<u>¥75,349</u>	<u>¥45,859</u>	<u>\$432,639</u>

## 18. Income Taxes

Income taxes applicable to the Bank comprise corporation, enterprise and inhabitants' taxes, which in the aggregate, resulted in statutory tax rates of 41.7% for 2000 and 47.3% for 1999.

## 19. Subsequent Event

The following appropriations of retained earnings were approved at a general meeting of the stockholders of the Bank held on 29th June, 2000:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥2.50 per share) .....	¥ 1,283	\$12,108
Transfer to legal reserve .....	300	2,830
Bonuses to directors and corporate auditors .....	35	330
Transfer to voluntary reserves .....	10,025	94,576

## Report of Independent Certified Public Accountants (Non-Consolidated)

The Board of Directors  
The Gunma Bank, Ltd.

We have audited the non-consolidated balance sheets of The Gunma Bank, Ltd. as of 31st March, 1999 and 2000, and the related non-consolidated statements of operations and retained earnings for the years then ended, and the related non-consolidated statement of cash flows for the year ended 31st March, 1999 expressed in Japanese yen. Our audits 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 non-consolidated financial statements referred to above present fairly the non-consolidated financial position of The Gunma Bank, Ltd. at 31st March, 1999 and 2000, and the non-consolidated results of its operations for the years then ended and the non-consolidated results of its cash flows for the year ended 31st March, 1999 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended 31st March, 2000 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 2 to the non-consolidated financial statements.

*Century Otashawa & Co.*

29th June, 2000

*See Note 1 to the non-consolidated financial statements which explains the basis of preparing the non-consolidated financial statements of The Gunma Bank, Ltd. under Japanese accounting principles and practices.*

# Corporate Data and Service Network

## Data of The Gunma Bank, Ltd.

**Date of Establishment:** September 14, 1932  
**Head Office:** 194, Motosojamachi, Maebashi,  
 Gunma 371-8611, Japan  
**Capital:** ¥48,652 million  
**Total Assets:** ¥5,356,915 million  
**Total Deposits:** ¥4,764,530 million  
**Number of Branches:** In Japan: 172 Branches (including 39 sub-branches)  
 Overseas: 1 Branch 1 Subsidiary  
**Number of Employees:** 3,714

## Major Stockholders:

(As of 31st March, 2000)

	Number of shares held (in thousands)	%
The Sakura Bank, Limited	25,384	4.94
The Sumitomo Bank, Limited	24,338	4.74
The Industrial Bank of Japan, Limited	15,364	2.99
The Bank of Tokyo-Mitsubishi, Ltd.	11,245	2.19
Meiji Life Insurance Company	11,056	2.15
Sumitomo Life Insurance Company	10,657	2.07
The Gunma Bank Employees' Stockholdings Association	10,033	1.95
The Mitsubishi Trust and Banking Corporation. (Trust account)	9,360	1.82
Nippon Life Insurance Company	9,357	1.82
The Nichido Fire and Marine Insurance Company, Limited	9,343	1.81
<b>Total</b>	<b>136,139</b>	<b>26.51</b>

## Consolidated Subsidiaries

(As of 31st March, 2000)

	Line of Business	Established	Capital
<b>Gunma Chuo Kogyo Co., Ltd.</b>	Collection and delivery of materials and cash	February 1971	¥10 million
<b>Gunma Business Service Co., Ltd.</b>	Agency business (handling of cash, safekeeping of warranty deeds, etc.)	September 1980	¥10 million
<b>Gungin Carriere Co., Ltd.</b>	Placement of temporary working staff	July 1987	¥20 million
<b>Gungin General Maintenance Co., Ltd.</b>	Management and maintenance of the Bank's houses for its employees	October 1988	¥10 million
<b>Gunma Finance (Hong Kong) Limited</b>	Deposit taking company	February 1991	US\$15 million
<b>Gunma General Lease Company Limited</b>	Lease	October 1973	¥180 million

### Head Office

194, Motosojamachi, Maebashi,  
Gunma 371-8611, Japan

### Financial Markets & International Division

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(03) 3271-5371

Telex: J28720 GUNMAGIN

Facsimile: (03) 3231-3676

SWIFT Address: GUMA JP JT

### New York Branch

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N.Y. 10167, U.S.A.

Telephone: (212) 949-8690

Telex: 421552 GUNMA NY

Facsimile: (212) 867-1081

### Gunma Finance

#### (Hong Kong) Limited

Suite 3801, One Exchange  
Square, 8 Connaught Place,

Central, Hong Kong

Telephone: 2523-0236

Telex: 69863 GUNMA HX

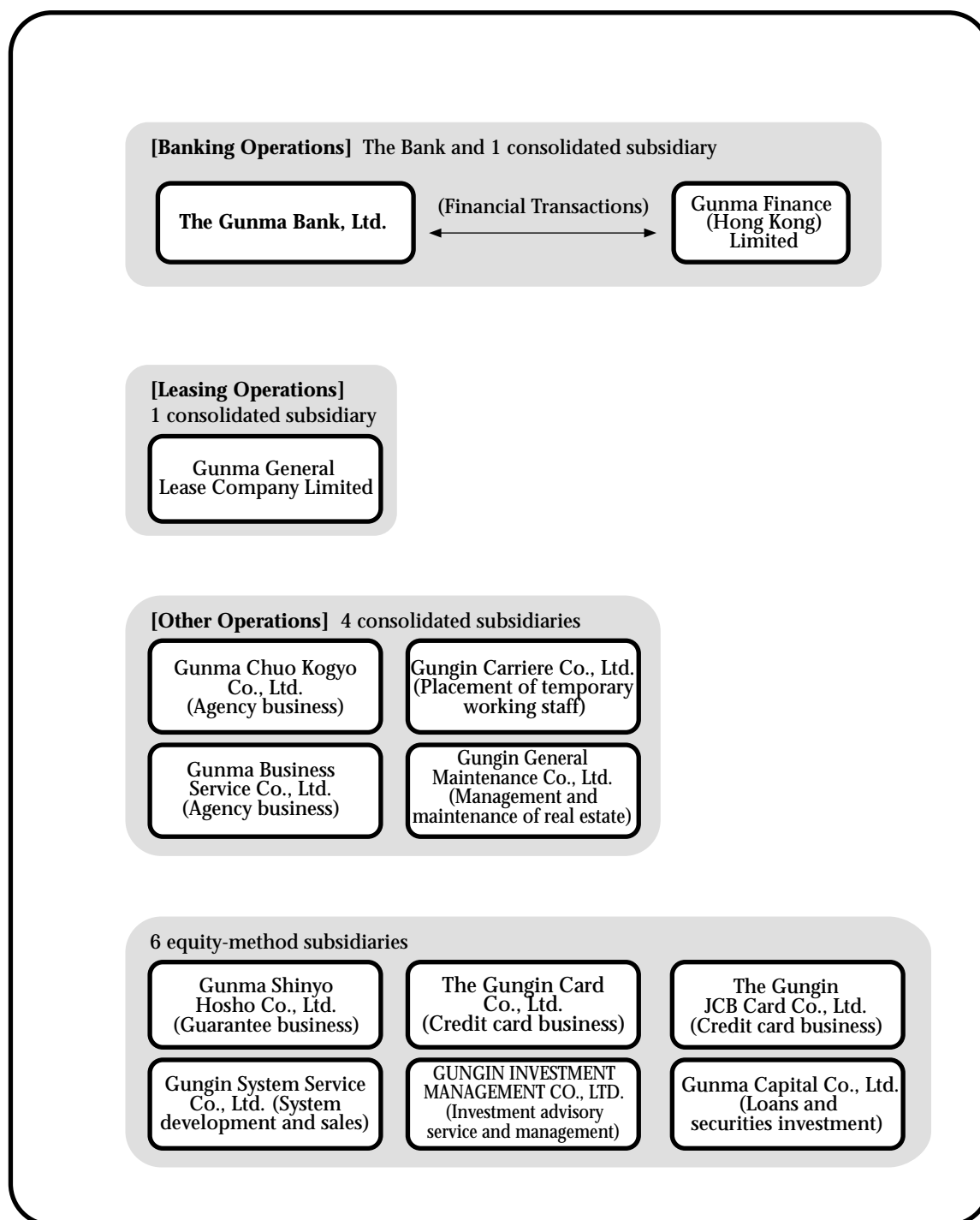
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(As of 29th June, 2000)

# Business Activities and Organization of the Gunma Bank Group

**The Group consists of The Gunma Bank Ltd., its consolidated subsidiaries, equity-method subsidiaries and others. The Group provides mainly banking services and other financial services including leasing.**

(As of 30th June, 2000)



# Board of Directors and Corporate Auditors

**Chairman:**  
Takuji Tsuchikane

**President:**  
Kyozo Yoshida

**Deputy President:**  
Tetsuo Igarashi

**Senior Managing Director:**  
Sogo Toeda  
Sadafumi Takahashi  
Susumu Kanazawa

**Managing Directors:**  
Takuo Sekiguchi  
Takayoshi Sekiguchi  
Kazumasa Watanabe

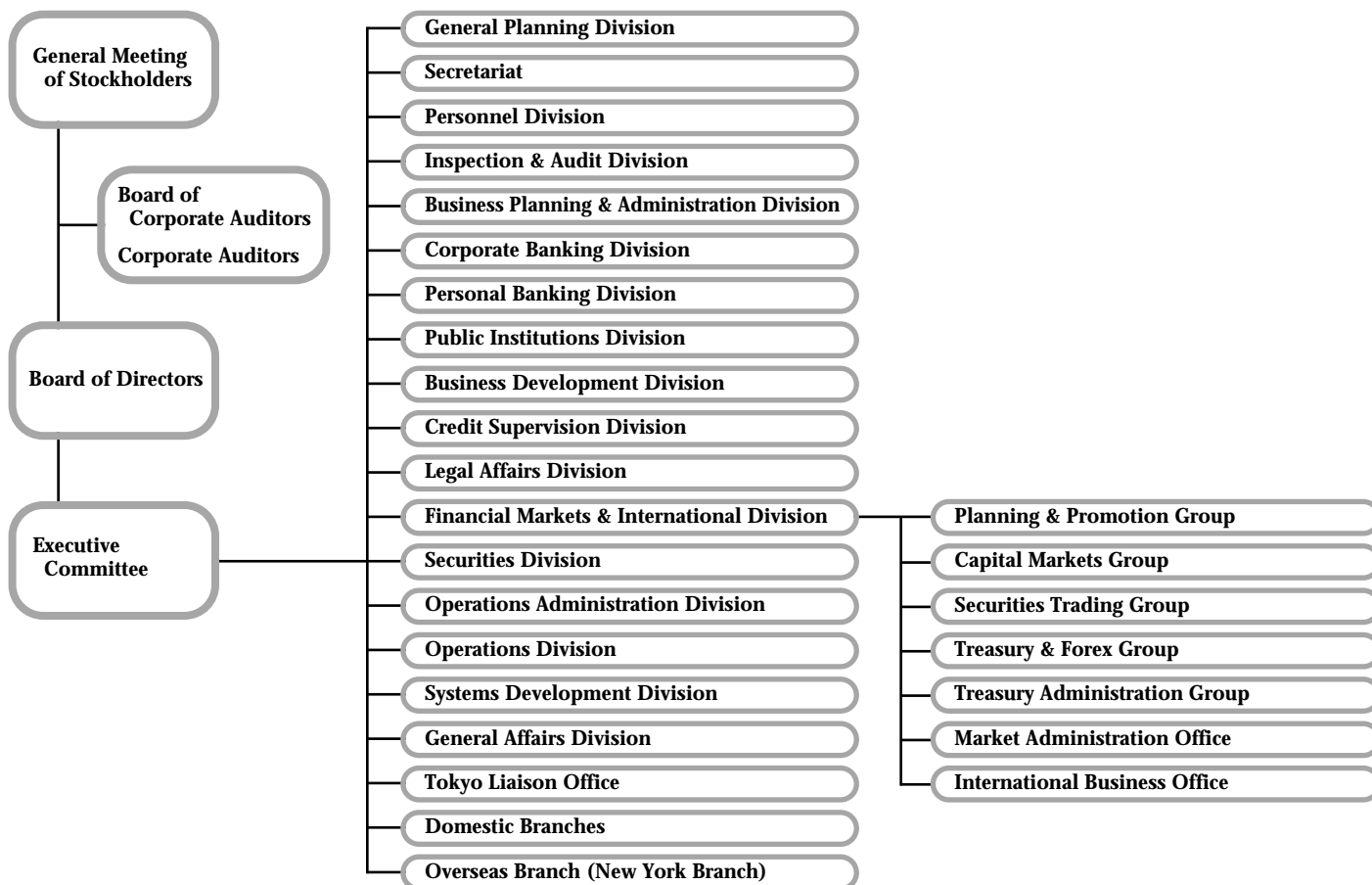
**Directors:**  
Kiichi Koyama  
Koji Shoda  
Hiromasa Arai  
Kimio Sasazawa  
Kimio Tsutsumi  
Masashi Ichikawa  
Atsushi Seki  
Nobuo Mashimo  
Tsuguhide Sakai  
Katsumi Tsukagoshi  
Takaaki Morimura

**Standing Corporate Auditors:**  
Takehiko Yanagisawa  
Yoji Nakajima

**Corporate Auditors:**  
Saburo Motojima  
Seisuke Hoshino

(As of 30th June, 2000)

## Organization Chart



(As of 30th June, 2000)