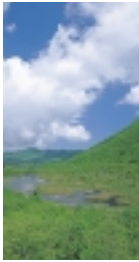




The Gunma Bank, Ltd.

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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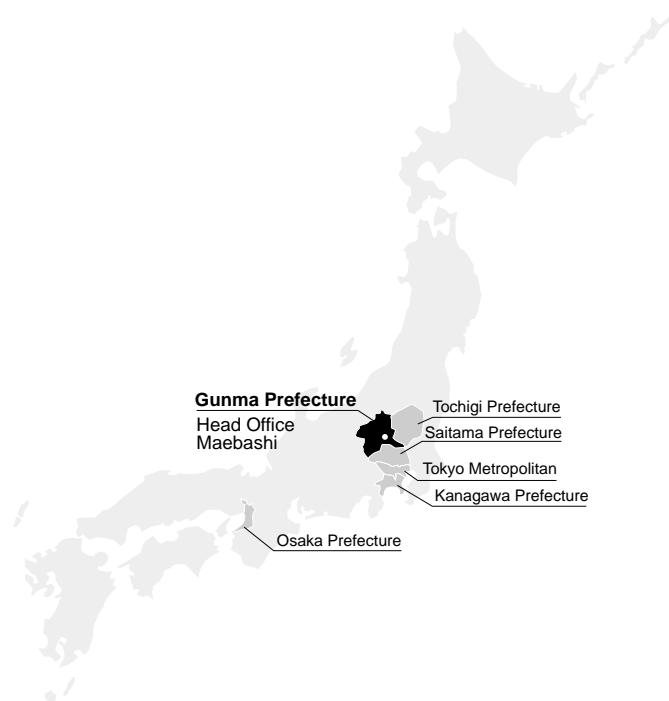
Corporate Philosophy

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
For the Fiscal Year			
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
At Year-End			
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
Ratios			
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

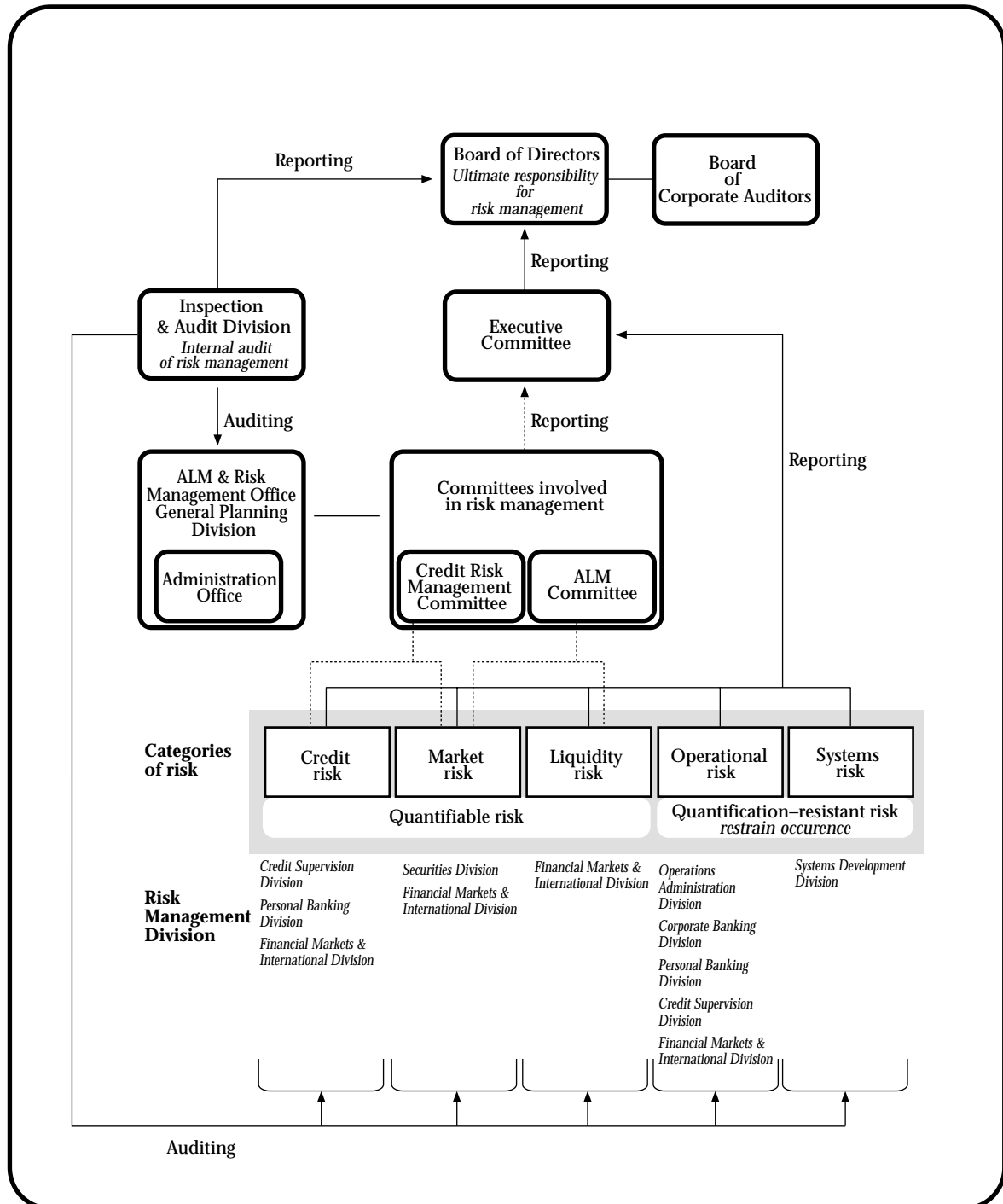
To respond effectively and appropriately to market fluctuations, the ALM committee, whose members mainly consist of managerial staff, meets once a month to discuss market risks, monitor the balance of assets and liabilities, and take appropriate adjustment measures.

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%

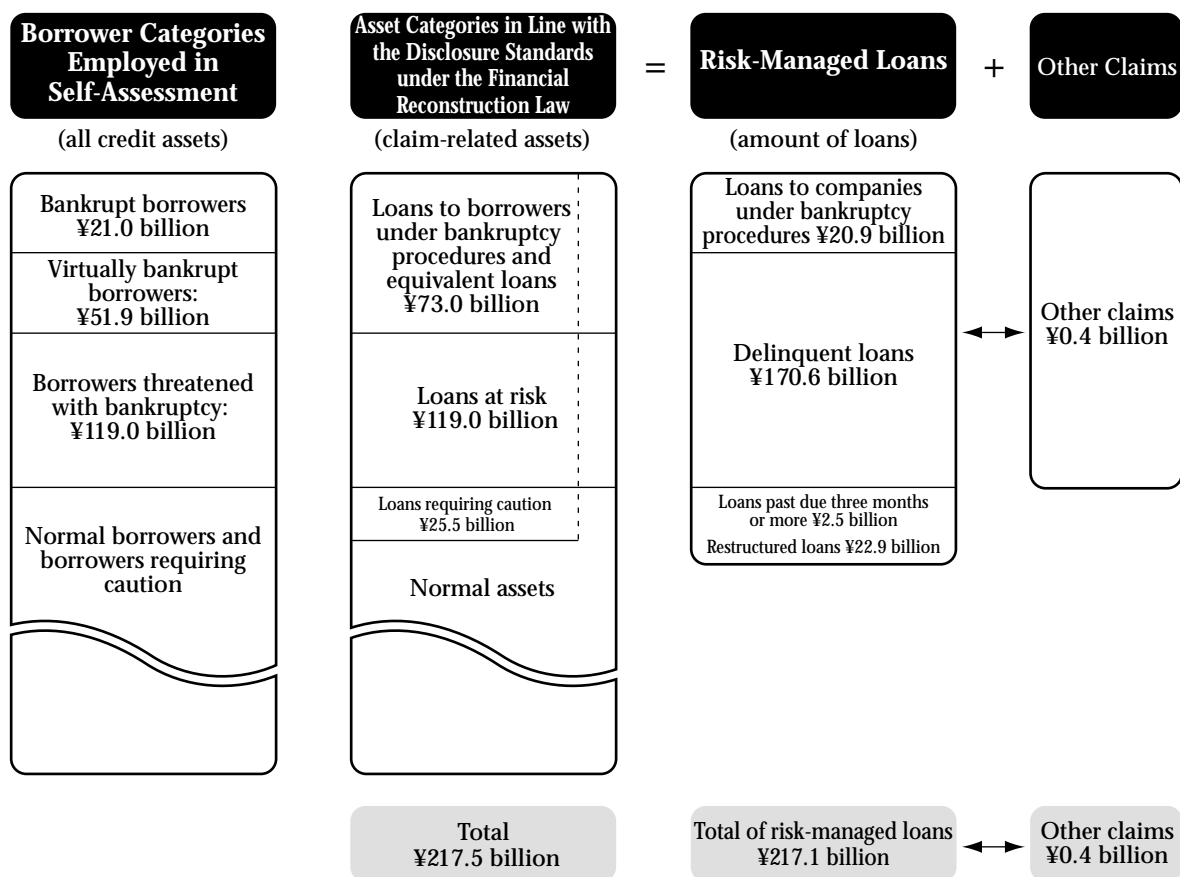
Risk-Managed Loans

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	
Total	217.1	230.2	

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.

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
Total	136,139	26.51

Consolidated Subsidiaries

(As of 31st March, 2000)

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

Head Office

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

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Tokyo 103-8676, Japan

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(03) 3271-5371

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Facsimile: (03) 3231-3676

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Telex: 421552 GUNMA NY

Facsimile: (212) 867-1081

Gunma Finance

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Central, Hong Kong

Telephone: 2523-0236

Telex: 69863 GUNMA HX

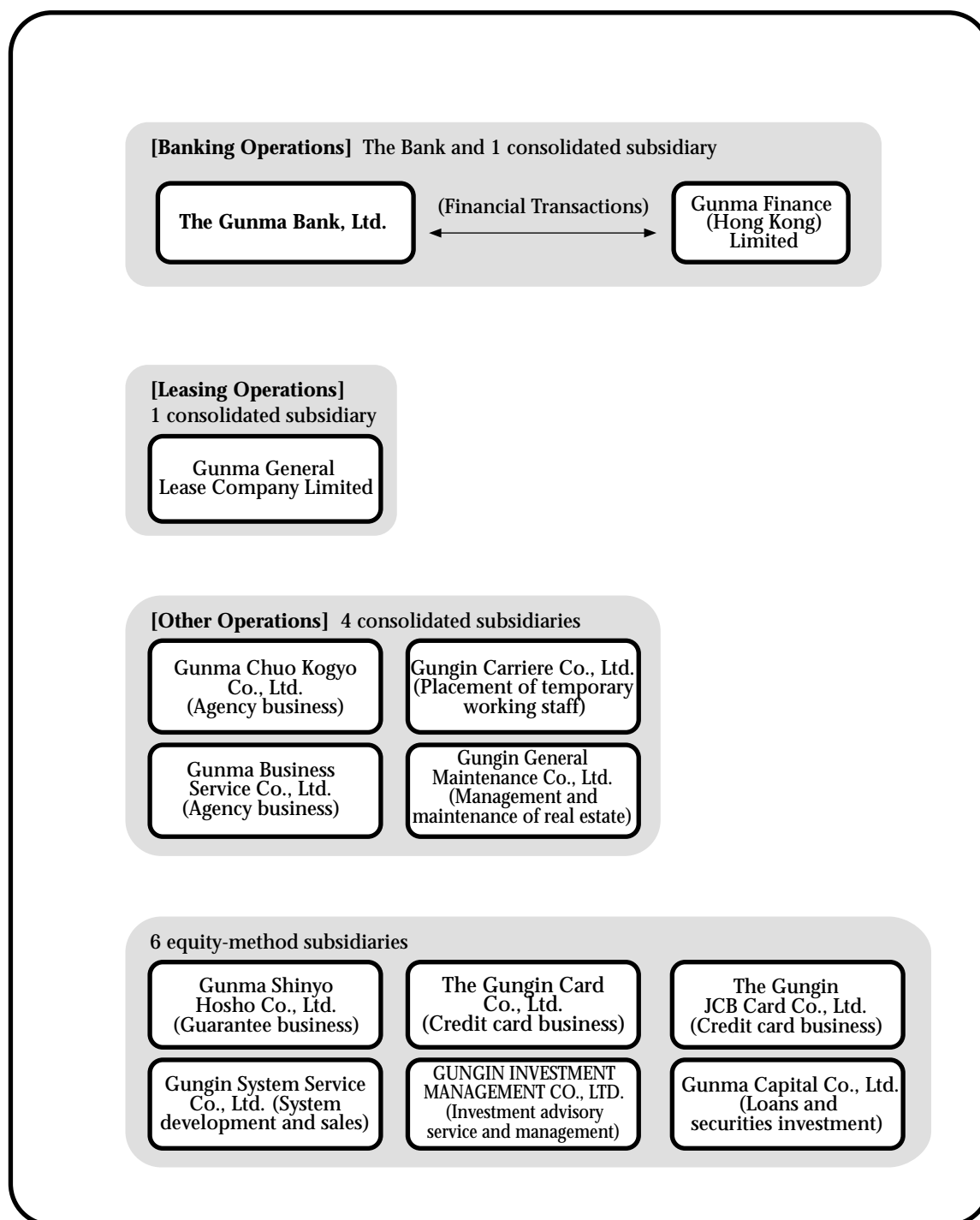
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(As of 29th June, 2000)

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:
Kyoza Yoshida

Deputy President:
Tetsuo Igarashi

Senior Managing Director:
Sogo Toeda
Sadafumi Takahashi
Susumu Kanazawa

Managing Directors:
Takuo Sekiguchi
Takayoshi Sekiguchi
Kazumasa Watanabe

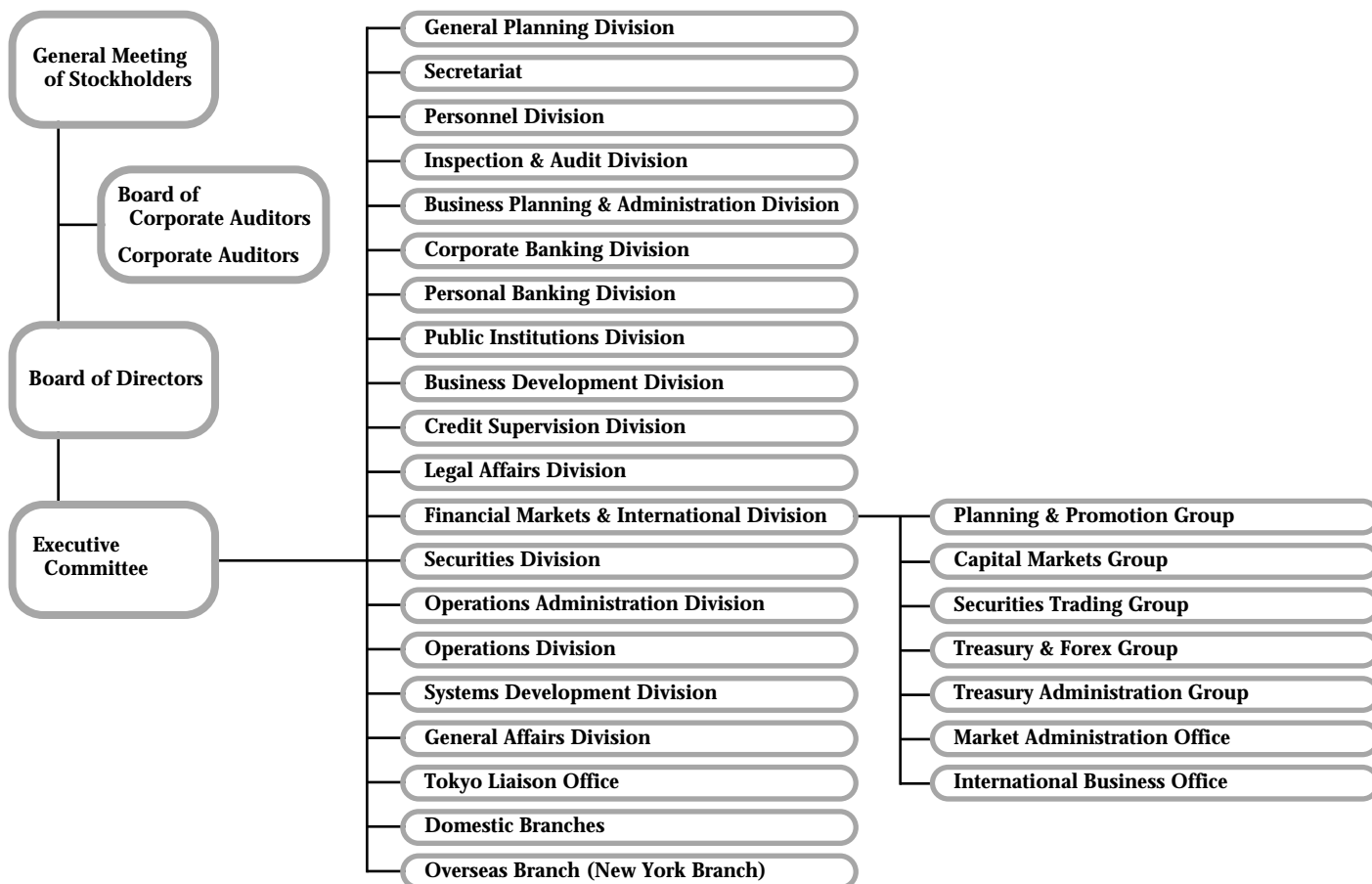
Directors:
Kiichi Koyama
Koji Shoda
Hiromasa Arai
Kimio Sasazawa
Kimio Tsutsumi
Masashi Ichikawa
Atsushi Seki
Nobuo Mashimo
Tsuguhide Sakai
Katsumi Tsukagoshi
Takaaki Morimura

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)