THE KINKI OSAKA BANK, LIMITED

Annual Report 2000

Profile

The Japanese financial services industry is ushering in a new era of fundamental reorganization, characterized by progressive Big Bang reforms and intensifying competition stemming from the recognition of banks' accountability and the need to exercise independence of judgment. The business environment for all players, therefore, is becoming more and more challenging.

For many years, two banks — Bank of Kinki and the Bank of Osaka — have provided comprehensive financial services to customers in Osaka Prefecture and throughout Japan's Kinki region, playing an important role in various local economies. On April 1, 2000, these two financial institutions merged to form the Kinki Osaka Bank, Limited. Bank of Kinki had compiled a strong track record serving retail customers, while the Bank of Osaka had earned a distinguished reputation providing financing for small and medium-sized companies. As the largest regional bank in the Kansai district, the new, combined bank will fully manifest the respective strengths of its forebears in providing retail banking services geared to the needs of the regional community.

The Kinki Osaka Bank has a strategic alliance with Daiwa Bank, the center of a"super regional bank group" covering the Kansai district. As a member of this group, we are committed to meeting the diverse and sophisticated financial needs of our customers and shareholders. In addition to actively fostering the development of the regional economy, we intend to build a management foundation suited to the new financial era.

Kinki Osaka Bank's head office

The logo of the new Kinki Osaka Bank has the same shape as that of Daiwa Bank. At the center is a blue "D" symbolizing Daiwa Bank, flanked on the left by dark blue, signifying Bank of Kinki, and on the right by light blue, for the Bank of Osaka. The three colors are arranged to highlight the harmony of the three banks in a unified business group.

Overview of The Kinki Osaka Bank (as of April 1, 2000)

Established:	April 1, 2000
Head office:	Chuo-ku, Osaka
Paid-in capital:	¥58.6 billion
Total assets:	¥4,075.4 million
Total funds (NCDs and other deposits):	¥3,732,714 million
Loans and bills discounted:	¥2,996,719 million
Branches:	230 (180 staffed; 50 unstaffed)
Employees:	3,745
Capital ratio (domestic standards):	5.61%

Kinki Osaka Bank — A New Vision

A new organization: Fulfilling our mission as a regional financial institution

We at the Kinki Osaka Bank have made a new start in a period of major change in the Japanese financial system, led by the Japanese Big Bang reforms. In our role as a regional financial institution, we have formulated a new management vision.

Our fundamental mission is to ensure the smooth supply of funds and high-quality financial services to retail customers and small and medium-sized companies in the Kansai district, and thus contribute to the prosperity of the regional society.

We will work hard to raise productivity and create an efficient organization while maintaining and expanding our positions in areas where we excel. We will further streamline our organization with a focus on strategically allocating personnel while assuring swift delegation of authority and clarification of responsibilities.

Contents

BUSINESS PHILOSOPHY

1
We will strive to satisfy the needs of local customers by providing differentiated financial services.

2
We will seek to build a major presence in our region by contributing to the regional economy and pursuing sound management that earns the confidence of customers.

3
Adopting a proactive spirit, we will tackle reforms and resolutely take on challenges as we head toward the future.

ACTION STANDARDS

1
Be cheerful and act with sincerity

2
Respond to customers' needs with speed and sincerity

3
Embrace challenges with aggression and resolve

4
Work to your fullest capabilities with the spirit of gratitude

ONGOING OBJECTIVES

1
To become a bank that Osaka society can depend on

2
To resolutely meet the needs of retail customers and small and medium-sized companies

3
To provide fine-tuned services via D-net (an ATM agreement with Daiwa Bank), one of the largest branch networks in Osaka Prefecture

4
To contribute to the development of the Kansai economy as a member of the Daiwa Bank Group

A Message from the President

As one of the largest regional banks in the Kansai district, Kinki Osaka Bank specializes in retail banking services tailored to local requirements. Together with other members of the Daiwa Bank Group, we intend to play a central role in the development of the regional economy.

Yasuhiro Takatani, *President*

Kinki Osaka Bank was born from the merger of Bank of Kinki and the Bank of Osaka. Through the merger, we became the largest bank in Osaka Prefecture, with total deposits of ¥3,718.4 billion (US$35,029.7 million), loans and bills discounted of ¥2,996.7 billion (US$28,230.8 million), and a network of 230 offices. As a member of a "super regional bank group" with Daiwa Bank at its center, the new bank will provide carefully tailored retail banking services that closely reflect local needs. Below, I will describe the events leading up to the merger, as well as the new bank's management policies and our efforts to reinforce our operating foundation.

Retail Bank with a Major Presence

As the Big Bang reforms spread to all corners of the market, the financial services industry is entering an era of intensifying competition based on the principle of accountability. In this era, we will see major changes as companies withdraw or restructure in order to survive. Taking advantage of deregulation and globalization trends, larger financial institutions are merging and entering alliances to form "megabanks." Meanwhile, foreign-owned firms and companies from other sectors are entering the market. For regional banks, this means that competition will further intensify.

The merger to create Kinki Osaka Bank was the culmination of events dating back to February 1999, when Bank of Kinki and the Bank of Osaka — two regional banks based in Osaka — agreed to form a comprehensive alliance with Daiwa Bank, one of Japan's major money center banks. The objective of the agreement was to improve services to customers and contribute to the development of local economies. The three banks also discussed the possibility of forming a holding company.

Throughout their histories, both Bank of Kinki and the Bank of Osaka have provided retail banking services focusing on the local region. With so much in common, they began holding merger talks in May 1999, which led to an official merger agreement in October. Bank of Kinki was strong in serving individual customers, while the Bank of Osaka was prominent in supporting small and medium-sized companies. The newly formed Kinki Osaka Bank firmly binds these two areas of expertise together. Fully utilizing the managerial resources of its forebears, the new bank will proactively meet the diversified and sophisticated financial needs of its customers while building a management foundation that will prevail against stiff competition. In these ways, we intend to become a bank with a prominent regional presence.

As a result of the merger, the new bank is the largest regional financial institution in Osaka Prefecture and one of the largest in the Kansai district. We have formed a strategic alliance with Daiwa Bank, opening our ATMs to each other's customers. Thanks to the alliance, we have upgraded our overall financial services and reinforced our position in the regional market. In Osaka Prefecture, the new bank accounts for around 7% of deposits held and about 5% of loans extended. (These figures are calculated by adding the respective deposit and loan balances of the two merged banks.) The Daiwa Bank Group as a whole has a 20.3% share of deposits and a 15.5% share of loans. These figures underscore the important role of Kinki Osaka Bank and its alliance partners in the regional economy.

"The Bank of Choice" for Customers

By promoting retail banking services geared more than ever to regional characteristics, we aim to fulfill our mission of becoming "the bank of choice" in the region. We will focus particular attention on expanding loans to local small and medium-sized companies, sole proprietors, and individuals. Of the combined loan balance of Bank of Kinki and the Bank of Osaka at the end of March 2000, 86.4%, or ¥2,589.3 billion (US$24,392.8 million), was extended to customers in Osaka Prefecture. Small and medium-sized companies and sole proprietors accounted for 93.8% of this total, or ¥2,427.9 billion (US$22,872.4 million). It is evident, therefore, that the new bank maintains a vital presence in the prefectural economy.

For individuals, the new bank provides housing loans and a broad range of other loan products to meet specific lifestyle needs. We are also targeting people aged 60 or over, as they hold more than half of the ¥1,200 trillion in personal financial assets in Japan. For these elder customers, as well as those in the 55-60 age bracket, we are strengthening our sales system to meet wide-ranging customer needs. To date, we have upgraded our consulting capabilities to encourage customers to deposit their pension payments with our bank. On March 31, 2000, Bank of Kinki and the Bank of Osaka together accounted for 11.7% of designated pension-receiving accounts in Osaka Prefecture; the Daiwa Bank Group's share was 22.3%.

Kinki Osaka Bank will continue specializing in retail banking for corporate and individual customers. We will provide distinctive products and services while upgrading our broad financial offerings as part of the Daiwa Bank Group.

Market Leader in Network Size and Consulting Expertise

Kinki Osaka Bank's unrivaled familiarity with customers is reflected in its network of offices and ATMs, which is the largest in Osaka Prefecture. On April 1, 2000, we had 230 offices, 200 of them in Osaka Prefecture. Staffed offices totaled 180, of which 87%, or 156, were in the prefecture. In March 1999, the merged banks and Daiwa Bank opened their ATMs to each other's customers. We formed a similar ATM agreement with the postal savings system in April 2000. In these ways, we are continuing to improve customer convenience.

Our alliance with Daiwa Bank is producing major benefits in terms of our financial products and services. Adopting the advanced know-how of Daiwa Bank, we bring high-quality services, derived from the comprehensive strengths of the Daiwa Bank Group, to local customers. These include private banking, where we offer consulting services related to such areas as inheritance, business succession, and asset management. Other services include the sale of investment trust products, small-lot business loans, and other products jointly handled by Group members.

Strengthening Capital Base and Improving Earnings

At its establishment, Kinki Osaka Bank had a capital ratio of 5.61% on a non-consolidated basis. This is higher than the 4% domestic standard set by legislation (the Financial Reconstruction Law) aimed at swiftly improving the soundness of the financial system. Considering the changing business environment, however, we felt that further reinforcement of our capital ratio was necessary, and on May 19 we announced a proposal for a private offering of new shares.

Under this proposal, we would make a ¥40 billion private offering of new shares by September 2000. The objective of the offering is to strengthen our financial position and be recognized and trusted as a soundly managed bank, and we have requested subscriptions from our major shareholders and business partners.

As a result, we received basic agreements to subscribe to this new share offering from over 6,000 shareholders and business partners, and announced the offer details shown below on July 24, 2000. As a result of this capital increase and fund procurement through the issue of subordinated loans, the Bank's capital ratio is expected to rise to 8% in September 2000. While strengthening our capital base through this share placement, we will continue to devote our utmost efforts to further management rationalization, promoting higher efficiency, and pursuing improved business performance.

Moreover, to meet the expectations of our shareholders and further secure our reputation for trustworthiness and efficiency among our customers and the market as a whole, we aim to follow a policy of selectivity and focus on those business fields and functions in which we excel, while also implementing thorough restructuring. By these means, we will reinforce our earning power and produce the sort of solid business results that will support stable dividend payments.

Absorbing the Operations of Namihaya Bank

As a member of the Daiwa Bank Group, we adhere to the Group's management policy of striving to ensure financial stability in the Kansai district. Based on this policy, we have been studying the possibility of absorbing the operations of Namihaya Bank, a regional institution based in Osaka Prefecture. This led to the submission of a takeover proposal and business plan by the Daiwa Bank Group. These were approved by the financial reorganization administrator for the Namihaya Bank and the government's Financial Reconstruction Commission, and on May 31, 2000, we formed a basic agreement with the administrator over Namihaya Bank's operations.

Following the signing of a basic agreement on May 31, 2000, the two banks signed a business transfer agreement on July 28. Equally important, Namihaya Bank's customer base of individuals and small and medium-sized companies will become a valuable asset for the Bank, in light of its commitment to retail banking. We will work in unity with the Daiwa Bank Group to ensure a smooth succession, so that we can realize our full potential as one of the largest banks in the Kansai district.

As a member of the Daiwa Bank Group, Kinki Osaka Bank will continue promoting its retail banking business, pursuing sales activities geared specifically to individuals and small and medium-sized companies. Osaka is one of Japan's leading business centers, ranking second only to Tokyo in terms of population and number of businesses, the latter numbering around 500,000. Our role, which is to provide a smooth supply of funds to customers, is therefore extremely important.

Kinki Osaka Bank intends to contribute to the prosperity of the regional economy by actively meeting customers' demand for funds to maintain sound business operations. We will take full advantage of our strategic alliance with Daiwa Bank to provide more sophisticated financial products and services, thus raising our value as a distinguished regional bank. In addition, we will enhance the efficiency of our organization, implement more rigorous revenue, income, and risk management procedures, and reinforce our operating base. In these ways, we will direct our entire energies toward maximizing value for shareholders.

Yasuhiro Takatani

Yasuhiro Takatani
President

Offer Details *(as per news release dated August 29, 2000)*

Number of new shares to be issued:	Par value common stock	226,450,000 shares	
Share issue price and total issue value:	¥202 per share	Total value	¥45,742,900,000
Stated capital allocation (per share and total):	¥101 per share	Total value	¥22,871,450,000
Date of capital increase:	August 30, 2000		
Current paid-in capital:	¥58,667 million		
Increase in paid-in capital:	¥22,871 million		
Paid-in capital after capital increase:	¥81,539 million		

Strategies of the New Bank

THE KINKI OSAKA BANK AT A GLANCE (NON-CONSOLIDATED)

As of April 1, 2000

Figures in the table below represent the sum of figures of former Bank of Kinki and the Bank of Osaka.

Paid-in capital	¥58.6 billion
Employees	3,745
Offices	230 (200)
— *Staffed*	180 (156)
— *Unstaffed*	50 (44)
ATMs	637 (581)
Total assets	¥4,075.4 million
Total funds (NCDs and other deposits)	¥3,732.7 billion
Deposits excluding CDs	¥3,718.4 billion (¥3,346.0 billion)
Ratio of retail customer deposits	73.0% (73.8%)
Number of ordinary deposit accounts	2,586 thousand (2,342 thousand)
Loans and bills discounted	¥2,996.7 billion (¥2,589.3 billion)
— *Small and medium-sized companies*	¥2,774.7 billion (¥2,427.9 billion)
Ratio of loans to small and medium-sized companies	92.6% (93.8%)
Net business profit	¥27,182 million
Net loss	¥37,244 million
Capital ratio (domestic standards)	5.61%

Note: Figures in parentheses indicate amounts for Osaka Prefecture.

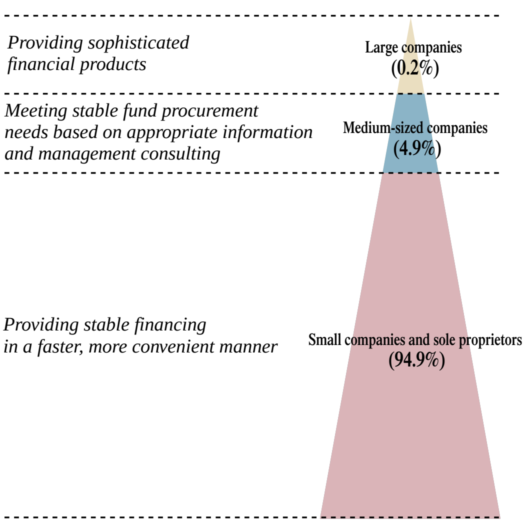
In an era of intensifying competition and struggle for survival brought on by the Big Bang reforms, Kinki Osaka Bank has formulated a set of marketing, business alliance, and information technology (IT) strategies that will play a pivotal role in its future operations.

Marketing Strategies

As a member of a Kansai-based "super regional bank group" with Daiwa Bank at the center, the new bank will clarify its business scope with a focus on retail banking. We will develop a powerful array of retail banking services aimed at a core customer base of individuals, sole proprietors, and small and medium-sized companies. We will also take full advantage of our strategic alliance with Daiwa Bank to improve the convenience of our customer services and build up a framework that facilitates responses to a wide range of financial needs. In these ways, we will reinforce our competitiveness and prominent position in the retail market.

Retail Innovation

Meeting diverse customer needs as a member of Daiwa Bank Group



The Kinki Osaka Bank focuses on meeting customer needs

Source: Statistical data of Osaka Prefecture in October 1996
Number of workplaces in the prefecture:
533,566 (526,196 in private sector)
Number of employees:
94.9% — Small companies and sole proprietors: 1~29 employees
4.9% — Medium-sized companies: 30~299 employees
0.2% — Large companies: 300 employees or more

Upgrading services to individual customers

• Kinki Osaka Bank has the largest network in Osaka Prefecture, and the Daiwa Bank Group's "D-net" is the most extensive ATM network in the prefecture. Thanks to these networks, we are a bank that is convenient for customers to use, as there is always one of our branches nearby.

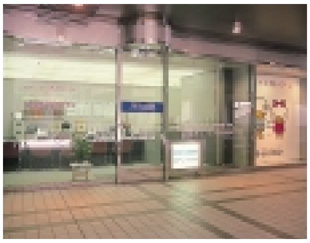
• In March 2000, we launched debit card services and started handling "D-net Theft Insurance" to protect users of debit and other cash cards in the event of theft.

• Our ATMs were linked to those of Japan's post office network on April 1, 2000.

• We established the "Private Banking Center" to provide consulting services in such areas as inheritance and asset management. Through the Center, we are fully utilizing the functions of the Daiwa Bank Group to provide the best possible financial plans to our customers.

• In April 2000, our "Direct Banking Center" began offering the "Fax Loan" service, which allows customers to make loan applications by fax, 24 hours a day.

• We also have Loan Plaza counters in nine locations. These operations specialize in consulting related to housing loans, as well as acceptance and screening of applications. They enable us to respond swiftly and accurately to customer needs.



Loan Plaza at OBP (Osaka Business Park)

• We established the Royal Club for customers who deposit their pension payments with us. Through the Club, we are forging strong bonds with high net worth customers.

Stepping up services for corporate customers

• We set up a ¥50 billion "Merger Commemoration Fund" to actively meet financing demand from small and medium-sized companies with sound business operations.

• The offices of Daiwa Bank Group members have been organized along geographical lines into blocs. Each bloc holds information exchange forums and works in other ways to improve the level of financial services tailored to its particular region.

• An affiliate, Kinki Osaka Research Institute for Small and Medium Business LTD., provides management consulting services for small and medium-sized member companies.

• To strengthen retail services for corporate customers, we set up the "Special Promotion Team" within the Corporate Banking Division.

Using Strategic Alliances to Reinforce Sales Power and Management Efficiency

In February 1999, Daiwa Bank, Bank of Kinki, and the Bank of Osaka agreed to form a three-way strategic alliance. Based on this agreement, the three banks have solidified their capital ties and worked together to strengthen each other's sales prowess and management efficiency. As a member of the Daiwa Bank Group, Kinki Osaka Bank will continue to actively pursue strategic alliances with a view to fortifying the sales expertise and operating efficiency of the entire Group.

Working Together to Reinforce Sales Power

• Commissions on withdrawals at the Daiwa Bank Group's "D-net" ATMs by Group bank cardholders have been abolished (except for after-hours). Interbank deposit transactions using cash cards have also been initiated, the first such agreement among Japanese banks, and Daiwa Bank Group ATMs have been installed at off-branch locations. We will further expand and upgrade the network to maximize customer convenience.

• We will continue to reinforce management of the aforementioned bloc system.

• In the field of private banking, where we provide consulting services in such areas as inheritance and asset management, we will prioritize collaborative efforts using Daiwa Bank's asset-analysis systems.

• To enhance our financial services, we will work to upgrade products handled by the entire Group. In addition to "Business Quick Loan," an unsecured cash loan for small and medium-sized businesses, and "D-net Theft Insurance," an insurance product to protect against card theft, we also promote other Group-wide initiatives, including joint marketing campaigns.

Working Together to Raise Operating Efficiency

• We will strive to eliminate duplication in order to enhance overall Group efficiency. To this end, we are pursuing unification of our back office systems. We have outsourced foreign exchange yen settlement operations, bill clearing, and loan recovery, and have centralized real estate collateral appraisal and research as well as the issuance of Group bank cash cards.

• In other initiatives to raise Group-wide efficiency, Group banks are forming alliances and integrating operations of affiliated companies. Specific examples include the consolidation of venture capital, management consulting, and credit card affiliates. For instance, there are more than one million holders of the Daiwagin Card, a credit card handled by Group members. As a result, Daiwagin Card Co., Ltd., is the No. 1 credit card company headquartered in the Kansai district.

ATM Corner

IT Strategies

Kinki Osaka Bank will work hard to expand and diversify its marketing channels to include such new avenues as telephone banking and Internet banking, in order to raise overall competitiveness and earnings. We will also make strategic investments in new financial services, such as debit cards, while actively investing in areas to enhance efficiency, including new information terminals and upgraded ATM functions. In addition, we will build an activity-based cost measurement system to reinforce profitability while creating sales office information systems and marketing systems.

Creating Management Systems

• By building advanced profit monitoring and monitoring cost measurement systems, we seek to calculate operating income based on administrative accounting, thus further improving management efficiency.

• We will employ more sophisticated quantitative analysis systems for credit risk and asset-liability management (ALM) systems, linking these with profit monitoring and other systems to create a framework conducive to integrated risk management.

• To assure more efficient and effective sales activities, we will build a unified infrastructure linking our management and marketing systems. To this end, we will create a marketing system and compile a database to strengthen our marketing power, so that we can further deepen our relationships with customers.

• We will raise customer convenience by upgrading ATM functions. Specifically, we will consider enabling customers to open and close accounts using ATMs, as well as introducing 24-hour, 365-day ATM operations.
• We will seize opportunities in such areas as Internet and mobile banking.
• We will install new information terminals aimed at speeding up front-office procedures and significantly reducing back-office processes. In addition, we will consider installing automatic consulting machines (ACMs), which can provide consulting and contractual services for selected items.
• We aim to completely integrate the computer systems of Bank of Kinki and the Bank of Osaka by January 2001.



Nanko Operations Center

International Operations

The Bank's overseas strategy focuses on retail banking services, including overseas transfers and travel-related banking services for individuals, in addition to assisting local corporate customers in conducting foreign transactions and entering overseas markets. We are actively expanding the range of our international services, including the extension of our overseas correspondent banking network, to respond to the mounting variety and sophistication of customers' overseas banking needs. As a result, as of the term-end, the Bank had a correspondent banking network spanning 71 nations, 390 cities, and 248 correspondent banks. We had correspondent banks in 16 countries (122 cities) in Asia, 14 countries (60 cities) in North and South America, 18 countries (164 cities) in Europe, and 23 countries (44 cities) in Oceania, the Middle East, and Africa.

Among regional banks based in Kansai, we have the largest international banking network, which ranks in the top class on a nationwide basis. The network comprises 44 branches handling foreign exchange transactions and 128 branches handling currency exchange transactions. We have established a Foreign Exchange Business Promotion Desk at the Head Office, where in cooperation with branches, we provide advisory and support services, while striving to increase the number of clients in this area. Furthermore, through a partnership with Daiwa Bank, customers can receive information and services via its overseas network (London, Singapore, Hong Kong, Shanghai, Seoul, and Jakarta).

Thanks to this active strategy, among regional banks we are ranked in the top class in all performance indicators, including the volume and balance of foreign trade transactions, as well as the number of openings of new letters of credit. In January 2001, we will integrate the separate computer systems used by the merged banks, Osaka and Kinki, into a single computer system, while continuing to boost the efficiency of our international banking operations and taking advantage of new communication channels such as electronic and telephone banking. We will continue to strengthen our international operations, drawing on our wide range of strengths. Taking pride in delivering customer satisfaction, we are working to provide international financial services that will help our customers continue to prosper in the 21st century.

We are reorganizing our corporate structure and establishing accountability as a basic management concept to facilitate flexible and speedy response to the rapid pace of change in the financial environment.

Organization of the Kinki Osaka Bank

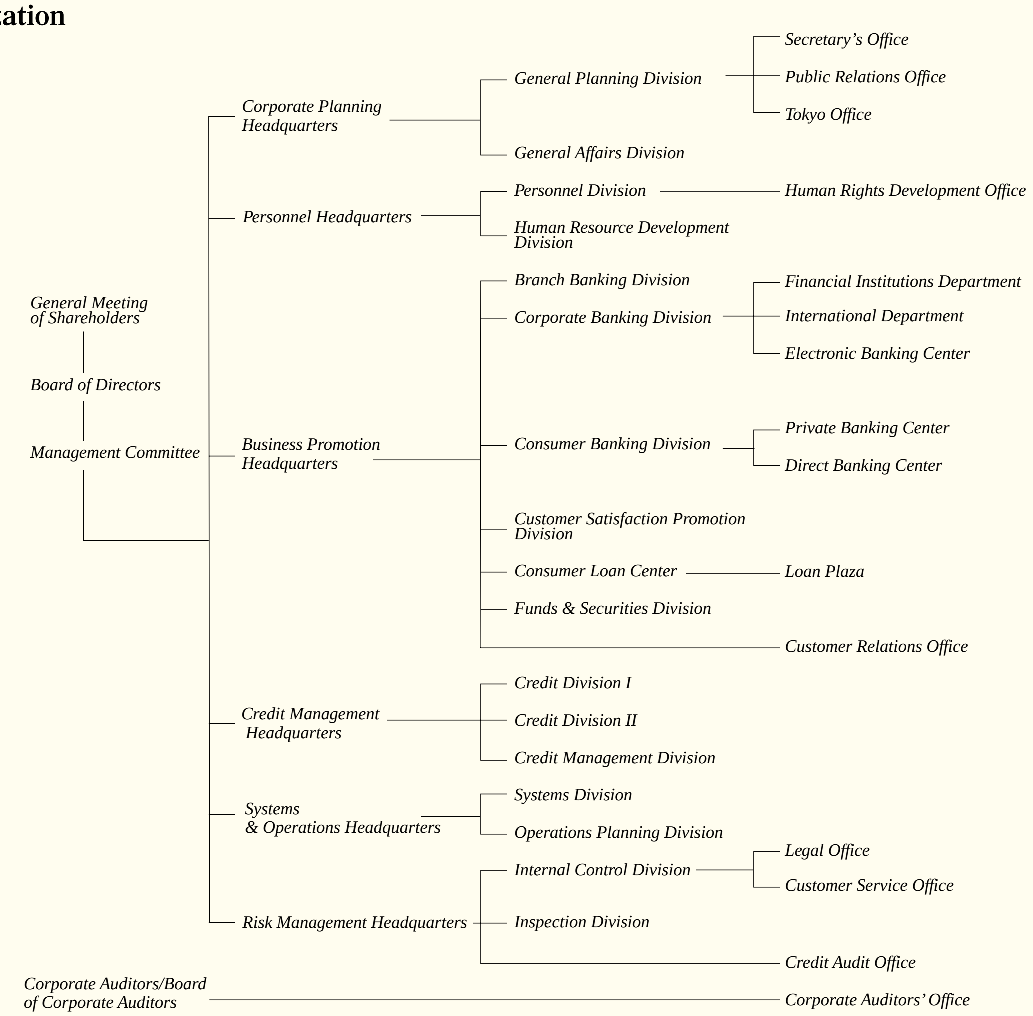
The central organization of the new bank has been created on the principles of "selectivity and concentration." The Bank has introduced an executive officer system and is working in other ways to build a system where the limits of delegation of authority and allocation of responsibility are clearly defined.

Such a system will empower management to act swiftly and respond to the needs of the new financial era.

The new bank is working to establish clear compliance procedures, in line with the Financial Services Agency's financial inspection manual, and to set up and reinforce its risk management system.

The result will be a highly specialized organization. In addition, we have introduced a "team system," where special teams report to each business division. This is designed to eliminate inflexibility, proactively tackle issues that need to be addressed, and most effectively utilize our human resources.

Organization



Management Framework

System of checks and balances

In order to properly monitor how directors are fulfilling their duties and upgrade the “checks-and-balances” functions of management, the Bank is reinforcing the roles of its auditors. This includes selection of two external auditors.

To raise the soundness of our asset portfolio, we have made the functions of credit screening sections and loan supervision sections completely independent of each other, and have also clearly separated the functions of business operation sections and credit screening sections. We have recently introduced a system in which directors serve as general managers of head office divisions, and we ensure that the same directors are not in charge of sections in these separated groups. In this way, we have built a system of checks and balances among top management. We are also working to make our operations strict and impartial by formulating detailed provisions covering responsibilities and authority related to fulfillment of duties.

Transparency of management

Kinki Osaka Bank is fully aware of its public duties and social responsibilities as a major financial institution in its region. For this reason, we disclose information on our current status and future potential in a timely and ongoing basis, thus ensuring management transparency. At the same time, we closely monitor our own behavior. Specifically, we conform to the disclosure requirements of Article 21 of the Banking Law and Article 19 of the Banking Law Enforcement Ordinance, as well as the “Uniform Disclosure Standards” issued by the Japanese Bankers Association. To further earn the support of customers, shareholders, and markets, we also disclose items not required by the aforementioned provisions in an autonomous and proactive manner.

Management decision-making processes

The Board of Directors is the highest decision-making body in the Bank. In this role, it closely manages observance of internal provisions, covering such areas as organization, service regulations, and decision-making authority. The Bank is thus creating a system that ensures efficient delegation of authority and allows swift decision-making and task enforcement.

Our Board of Directors has only seven members. By keeping the number small, we seek to assure that decision-making and business operations remain flexible amid changes in the business environment. We have also set up a Management Committee consisting of executive officers. The Comittee’s mandate is to study and debate important issues related to the enforcement of duties, as well as to manage the Bank’s overall business.

Risk Management System

The changing business environment is creating more diversified and complex risks for financial institutions. To effectively control such risks, we are upgrading and reinforcing our risk management system, allowing us to pursue an appropriate balance between management soundness and profitability enhancement. We are also targeting strict compliance with legal provisions, in order to assure honest and fair business practices.

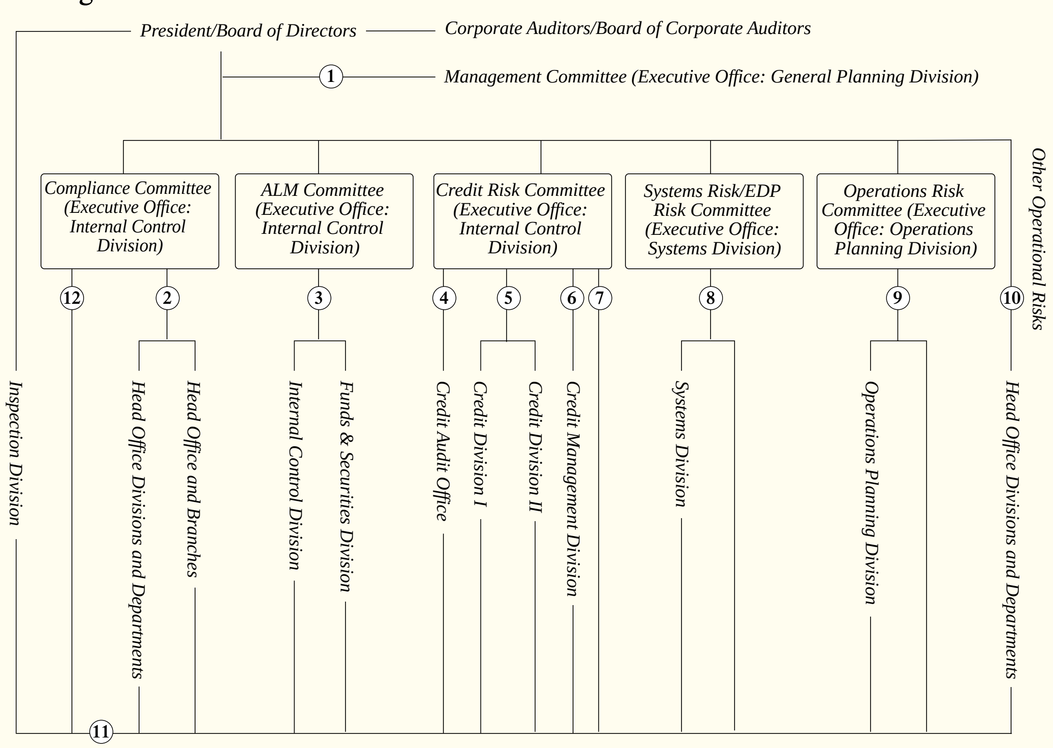
Risk Management Systems

As the first step in the checking process, each division carries out risk management within its own jurisdiction. Secondary checks of credit risk, liquidity risk, market risk, and other types of risk are conducted by the Internal Control Division, which supervises operations on a bank-wide basis. The Bank is also strengthening its asset self-assessment capabilities with the focus on accuracy and objectivity, to ensure asset portfolio soundness, stressing the importance of accountability. Regarding the Bank's risk management situation, each risk management section and risk supervision section provides regular reports to top management. Top management is thus able to remain constantly apprised of the Bank's risk management situation and take action as appropriate.

Compliance System

The Bank regards legal compliance as a core management issue. To ensure adherence to laws and other regulations, we have established the Compliance Committee, which assists top management. The Bank

Risk Management Structure



Risk Categories

① *Overall risk supervision*
② *Legal risk*
③ *Market risk (interest rates, price fluctuations, foreign exchange), liquidity risk*
④ *Credit risk (assessing write-offs and provisions; quantification of credit risks)*
⑤ *Credit risk (credit ratings, delegated authority, credit policies)*
⑥ *Credit risk (establishing management structure for loans requiring supervision)*
⑦ *Credit risk (assessing credit administration)*
⑧ *Systems risk/EDP risk*
⑨ *Operations risk*
⑩ *Other operational risks (elimination of business with anti-social groups, "reputational" risks)*
⑪ *Inspection of Head Office divisions and departments*
⑫ *Secondary compliance status check*

has formulated a Compliance Manual under the direct supervision of the Board of Directors, and has set up a Compliance Supervision Team as a management entity within the Internal Control Division. It has also prepared a Compliance Program outlining a detailed action schedule. In the future, the Bank will further upgrade its internal checking and control functions to ensure that employees retain a high level of awareness of the importance of legal compliance.

Asset Self-Assessment and Write-Offs

Under the Financial Reconstruction Law enacted in September 1999, banks are required to conduct self-assessments of their asset portfolios and disclose the results of such assessments. At the end of March 2000, the Bank had ¥165.4 billion in loans to borrowers under bankruptcy or reorganization proceedings and equivalent loans, ¥152.9 billion in loans to borrowers threatened with bankruptcy, and ¥48.5 billion in loans requiring supervision for a total of ¥366.8 billion.

At the end of March 31, 2000, the Bank had a coverage ratio of 90% of the total value of loans and other claims disclosed under the provisions of the Financial Reconstruction Law. This is regarded as a sufficient level to cover possible future losses. Rather than simply set up reserves and write off non-performing loans, the Bank will strive to strengthen its financial position by liquefying loans where possible and thereby increasing cash flows. We will continue utilizing various schemes for bad debt disposal in order to promote recovery of non-performing loans.

Asset Breakdown Based on Financial Reconstruction Law Guidelines

March 31, 2000: (Results of Bank of Kinki and Bank of Osaka combined) (unit: ¥ billion)

Category	Credit amount
Loans to borrowers under bankruptcy or reorganization proceedings and equivalent loans	165.4
Loans to borrowers threatened with bankruptcy	152.9
Loans requiring caution	48.5
Normal loans	2,820.9
Total credit amount	3,187.8

Note: The above figures represent total credit amounts — including loans, foreign exchange, customers' liabilities for acceptances and guarantees, accrued interest income, temporary payments. For this reason, accounting standards for above figures are different from those for risk-managed loans.

Standards for Reserves for Possible Loan Losses and Write-Offs

Asset breakdown based on new legal disclosure guidelines	Reserve policies
Loans to borrowers under bankruptcy or reorganization proceedings and equivalent loans	Write-downs and reserves equivalent to estimated losses from loans of classification IV and III based on self-assessment.
Loans to borrowers threatened with bankruptcy	Reserves equivalent to 70% of estimated losses for loans not secured by collateral or guarantees to borrowers threatened with bankruptcy as determined through self-assessment.
Loans requiring caution	Provide reserves equivalent to 15% of estimated losses for loans not covered by collateral or guarantees.
Normal loans	Reserves according to appropriate default rate as calculated over the past 1 year for normal loans.

Coverage Ratios of Disclosed Assets in Accordance with Financial Reconstruction Law

(unit: ¥ billion)

Category	Total loans (A)	Coverage by general collateral and or guarantees (B)	Reserve for possible loan losses (C)	Coverage ratio [(B)+(C)/(A)]×100
Loans to borrowers under bankruptcy or reorganization proceedings and equivalent loans	165.4	66.4	99.0	100.00%
Loans to borrowers threatened with bankruptcy	152.9	82.9	55.0	90.21%
Loans requiring caution	48.5	25.7	3.6	60.59%
Total	366.8	175.1	157.6	90.70%

Risk-Monitored Loans

March 31, 2000: (Results of Bank of Kinki and Bank of Osaka combined) (unit: ¥ billion)

Loans to bankrupt borrowers	Loans past due 6 months or more	Loans past due 3 months or more	Loans with eased conditions	Total	Share of total loans	Coverage ratio
55.6	149.6	22.8	112.0	340.1	11.35%	52.6%

Note: The above figures do not take into consideration amounts deemed recoverable via disposal of collateral and do therefore not reflect the Bank's future losses.

Board of Directors, Corporate Auditors, and Executive Officers

President
Yasuhiro Takatani

Vice President
Nobuhiro Kawai

Vice President
Takayoshi Matsumura

Senior Managing Director
Yoshinari Demura

Senior Managing Director
Yasutaka Oga

Senior Managing Director
Jiro Mitsufuji

Managing Director
Hiromu Kawano

Standing Corporate Auditor
Michio Asogawa

Standing Corporate Auditor
Isao Kawamoto

Standing Corporate Auditor
Motoyuki Sakai

Corporate Auditor
Ikuhiro Katsuda

Corporate Auditor
Yoshiaki Kiyoyanagi

Board of Directors and Corporate Auditors

President
Yasuhiro Takatani

Vice Presidents
Nobuhiro Kawai
Takayoshi Matsumura

Senior Managing Directors
Yoshinari Demura
Yasutaka Oga
Jiro Mitsufuji

Managing Director
Hiromu Kawano

Standing Corporate Auditors
Michio Asogawa
Isao Kawamoto
Motoyuki Sakai

Corporate Auditors
Ikuhiro Katsuda
Yoshiaki Kiyoyanagi

Executive Officers

Senior Executive Officers
Ichiro Yasuda
Osami Miyajima

Executive Officers
Takeo Shimizu
Tomoyuki Uchiyama
Toshio Matsui
Hideharu Tsuji
Tadayuki Otsuki
Yoshio Fujii

Contents

Consolidated Balance Sheets

As of March 31, 2000 and 1999	Millions of yen (Note 1) 2000	1999	Thousands of U.S. dollars (Note 1) 2000
Assets			
Cash and due from banks	**¥ 141,494**	¥ 48,897	**$ 1,332,963**
Call loans & bills bought	**—**	74,646	**—**
Commercial paper and other debt purchased	**2,923**	24,644	**27,540**
Trading account securities	**153**	155	**1,446**
Money held in trust	**1,999**	1,000	**18,839**
Investment securities	**481,072**	321,097	**4,532,008**
Loans and bills discounted (Note 4)	**1,761,057**	1,878,468	**16,590,273**
Foreign exchanges	**4,621**	5,081	**43,538**
Other assets	**13,295**	16,202	**125,250**
Premises and equipment (Note 5)	**29,588**	31,266	**278,747**
Deferred tax assets (Note 6)	**33,292**	51,469	**313,635**
Customers' liabilities for acceptances and guarantees	**44,691**	50,922	**421,018**
Reserve for possible loan losses	**(75,762)**	—	**(713,732)**
Total assets	**¥2,438,427**	¥2,503,851	**$22,971,525**

Liabilities and Stockholders' Equity			
Liabilities			
Deposits	**¥2,247,356**	¥2,224,171	**$21,171,518**
Call money & bills sold	**13,100**	5,000	**123,410**
Borrowed money (Note 7)	**65,000**	48,097	**612,341**
Foreign exchanges	**214**	307	**2,021**
Other liabilities	**16,358**	36,378	**154,107**
Reserve for possible loan losses	**—**	80,406	**—**
Reserve for retirement allowances	**2,559**	3,932	**24,115**
Reserve for possible losses on sales of loans	**3,551**	3,238	**33,460**
Reserve for aid to specific borrowers	**9,690**	2,671	**91,286**
Acceptances and guarantees	**44,691**	50,922	**421,018**
Total liabilities	**2,402,522**	2,455,125	**22,633,276**
Stockholders' Equity (Note 9)			
Common stock	**46,653**	39,147	**439,503**
Capital surplus	**18,140**	32,842	**170,893**
Deficit	**(28,886)**	(23,263)	**(272,130)**
Treasury stock	**(1)**	(0)	**(17)**
Total stockholders' equity	**35,905**	48,726	**338,249**
Total liabilities and stockholders' equity	**¥2,438,427**	¥2,503,851	**$22,971,525**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations and Retained Earnings (Deficit)

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
Years ended March 31, 2000 and 1999	**2000**	1999	**2000**
Income			
Interest income:			
Interest on loans and discounts	**¥ 52,877**	¥ 57,228	**$ 498,144**
Interest and dividends on securities	**5,427**	5,304	**51,129**
Other interest income	**766**	1,055	**7,220**
Fees and commissions	**4,437**	4,367	**41,800**
Other operating income	**1,773**	2,470	**16,712**
Other income	**14,958**	5,982	**140,917**
Total income	**80,241**	76,409	**755,922**
Expenses			
Interest expenses:			
Interest on deposits	**10,940**	15,600	**103,063**
Interest on borrowings and rediscounts	**1,140**	1,179	**10,742**
Other interest expenses	**1,036**	1,177	**9,769**
Fees and commissions	**3,426**	3,090	**32,276**
Other operating expenses	**1,372**	854	**12,934**
General and administrative expenses	**33,569**	36,012	**316,244**
Other expenses (Note 8)	**39,429**	99,666	**371,452**
Total expenses	**90,915**	157,580	**856,480**
Loss before income taxes	**(10,674)**	(81,171)	**(100,558)**
Income taxes:			
Current	**(57)**	(74)	**(539)**
Deferred	**(18,176)**	31,652	**(171,235)**
Net loss	**¥(28,907)**	¥(49,594)	**$(272,332)**
Retained earnings (deficit) at beginning of the year	**¥(23,263)**	¥ 6,714	**$(219,152)**
Deferred tax effect at beginning of the year	**—**	20,032	**—**
Dividends paid	**—**	415	**—**
Offset with capital surplus	**22,208**	—	**209,213**
Decrease due to associated company excluded from equity method	**1,076**	—	**10,141**
Net loss	**(28,907)**	(49,594)	**(272,332)**
Deficit at end of the year	**¥(28,886)**	¥(23,263)	**$(272,130)**

	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net loss	**¥113.33**	¥238.40	**$1.068**
Cash dividends applicable to the year	**—**	—	**—**
Net assets	**128.43**	216.00	**1.210**
Capital adequacy ratio	**5.23%**	5.13%	**—**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

	Millions of yen (Note 1)	Thousands of U.S. dollars (Note 1)
Year ended March 31,	**2000**	**2000**
Cash flows from operating activities:		
Loss before income taxes and minority interests	**¥(10,674)**	**$ (100,557)**
Depreciation	**637**	**6,002**
Investment loss on equity method	**33**	**316**
Decrease in reserve for possible loan losses	**(4,644)**	**(43,753)**
Increase in reserve for possible losses on sales of loans	**313**	**2,949**
Increase in reserve for aid to specific borrowers	**7,019**	**66,124**
Decrease in reserve for retirement allowances	**(1,372)**	**(12,933)**
Interest on loans and discounts received	**(59,071)**	**(556,493)**
Interest on deposits	**13,117**	**123,574**
Income on securities transaction	**(2,831)**	**(26,675)**
Income on money trust	**(2,683)**	**(25,281)**
Foreign exchange loss	**817**	**7,702**
Income on disposal of properties	**(661)**	**(6,229)**
Net decrease in loans and bills discounted	**118,487**	**1,116,229**
Net increase in deposits	**31,345**	**295,291**
Net decrease in negotiable certificates of deposits	**(8,160)**	**(76,872)**
Net decrease in borrowed money (except for subordinated loans)	**(97)**	**(915)**
Net decrease in due from banks (other than The Bank of Japan)	**5,037**	**47,453**
Net decrease in call loans and bills bought	**96,369**	**907,857**
Net increase in call money and bills sold	**8,100**	**76,307**
Net decrease in cash collateral on securities lending	**(11,748)**	**(110,675)**
Net decrease in foreign exchange assets	**460**	**4,334**
Net decrease in foreign exchange liabilities	**(92)**	**(874)**
Revenues from fund operations	**58,538**	**551,473**
Expenses resulting from fund procurement	**(14,783)**	**(139,268)**
Other	**(3,267)**	**(30,780)**
Sub-total	**220,187**	**2,074,306**
Payment of income taxes	**135**	**1,278**
Net cash provided by operating activities	**220,323**	**2,075,584**
Cash flows from investing activities:		
Purchase of securities	**(651,348)**	**(6,136,113)**
Sales of securities	**407,154**	**3,835,653**
Redemption of securities	**86,199**	**812,055**
Increase in money trust	**(999)**	**(9,418)**
Revenue from fund investment	**2,683**	**25,281**
Purchase of premises and equipment	**(756)**	**(7,125)**
Sales of premises and equipment	**2,458**	**23,156**
Net cash used in investing activities	**(154,608)**	**(1,456,511)**
Cash flows from financing activities:		
Increase in subordinated loans	**20,000**	**188,413**
Repayment of subordinated loans	**(3,000)**	**(28,262)**
Sales of new stocks	**14,934**	**140,689**
Purchase of treasury stock	**(24)**	**(230)**
Sales of treasury stock	**23**	**224**
Net cash provided by financing activities	**31,933**	**300,834**
Translation adjustment of cash and cash equivalents	**(14)**	**(135)**
Net increase in cash and cash equivalents	**97,633**	**919,772**
Cash and cash equivalents at beginning of the year	**40,620**	**382,668**
Cash and cash equivalents at end of the year	**¥138,253**	**$1,302,440**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of financial statements

The accompanying consolidated financial statements include the accounts of Bank of Kink, Ltd. (the Bank) and its subsidiaries.

The financial statements have been prepared in accordance with the provisions set forth in the Japanese Commercial Code and applicable accounting regulations, and in conformity with accounting principles generally accepted in Japan.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan. In addition, these notes include information which is not required under accounting principles and practices generally accepted in Japan but is presented as additional information.

Amounts of less than one million yen have been rounded down in the presentation of the financial statements. As a result, totals in yen shown herein do not necessarily agree with the sum of the individual amounts.

U.S. dollar amounts are solely for convenience to readers and are translated at the rate of ¥106.15 to $1.00, the rate prevailing at March 31, 2000.

2. Principles of consolidation

(1) Consolidated subsidiaries
The consolidated financial statements include the accounts of the Bank and five subsidiaries, including KinGin Personnel Development Co., Ltd. and Kinki Operations Center Co., Ltd. after the elimination of all significant intercompany transactions, balances and unrealized profits. The Bank has no other subsidiaries.

(2) Associated companies accounted for by the equity method
The Bank's shares in the earnings or losses of five associated companies, including Kinki Leasing Co., Ltd., Kinki Finance Co., Ltd. and KL Shoji Co., Ltd., are included in consolidated income under the equity method of accounting. The Bank has no other associated companies.

(3) Balance sheet date of subsidiaries
The fiscal year-end of all the consolidated subsidiaries is March 31.

3. Summary of significant accounting policies

(1) Trading account securities
Trading account securities quoted on stock exchanges are stated at the lower of cost or market as determined by the moving average method. Other trading account securities are stated at cost as determined by the moving average method.

(2) Investment securities
Investment securities, except for investments in associated companies, are stated at cost as determined by the moving average method. Securities included in "Money held in trust" that is designated for mainly investment in securities and managed separately from the funds of other beneficiaries are stated at cost under the basket system as determined by the moving average method.

(3) Depreciation of premises and equipment
Premises and equipment owned by the parent bank are stated as follows:

Depreciation of premises and movable assets, except for buildings acquired after March, 31, 1998 which are depreciated using the straight-line method, is computed using the declining-balance method in accordance with the depreciation rates stipulated in the Corporation Tax Law. Depreciation of other assets is computed in accordance with the methods stipulated in the Corporation Tax Law.

Depreciation of premises and equipment owned by the Bank's consolidated subsidiaries is computed using, in principle, the declining-balance method, in accordance with the Corporation Tax Law.

(4) Reserve for possible loan losses
Reserve for possible loan losses of the Bank is provided as follows:

For loans to normal borrowers or borrowers requiring caution, the reserve is provided at the loan default ratio as determined for a specified past period for each category of loans.

For loans to borrowers threatened with bankruptcy, the reserve is provided at the amount deemed necessary for the portion remaining after deduction of collateral and guarantees.

For loans to bankrupt borrowers or essentially bankrupt borrowers, the reserve is provided at the portion remaining after deduction of collateral and guarantees.

With effect from the year ended March 31, 2000, the reserve, formerly shown in the liabilities, is presented as deduction from assets on the balance sheets in conformity with a revise of the Banking Law.

(5) Reserve for retirement allowances
Reserve for retirement allowances of the Bank and its consolidated subsidiaries is stated on the assumption that all employees voluntarily terminate their employment on the balance sheet date. The Bank has also adopted a contributory pension plan.

(6) Reserve for possible losses on sales of loans
The amount deemed necessary on the basis of an estimate of the parent bank is provided as a reserve for possible future losses regarding real estate-backed claims sold to Cooperative Credit Purchasing Company Limited (CCPC) taking the value of collateral into account.

(7) Reserve for aid to specified borrowers
The amount deemed necessary on the basis of a reasonable estimate of the parent bank is provided as a reserve for financial aid to specified borrowers who are reconstructing their business.

(8) Foreign currency denominated assets and liabilities
Foreign currency denominated assets and liabilities of the Bank are translated into Japanese yen at the exchange rates prevailing, in principle, on the balance sheet date.

(9) Lease transactions
Finance leases that are not deemed to transfer ownership of the leased property to the lessee are accounted for as ordinary rental transactions.

(10) Consumption taxes
Consumption taxes are excluded from the financial statements for the Bank and its subsidiaries.

(11) Income taxes
Income taxes comprise corporation, inhabitant and enterprise taxes, which in the aggregate resulted in normal effective rate of 42.0%.

Income taxes were provided for amounts currently payable for the years ended March 31, 1998. Under the new accounting standard, effective April 1, 1998, the provision for income taxes is computed based on the pretax income included in the expected consolidated statements of operations and retained earnings. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amounts of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment to the retained earnings brought forwards from the previous year.

(12) Statement of cash flows
With effect from the year ended March 31, 2000, the Bank and its subsidiaries are required to present the consolidated statements of cash flows in conformity with a revise of the Japanese Securities and Exchange Law. Cash and cash equivalents in the statements of cash flows represent cash on hand and deposits with The Bank of Japan among "cash and due from banks" in the consolidated balance sheets.

4. Loans and bills discounted

At March 31, 2000, loans to bankrupt borrowers and loans past due six months or more amounted to ¥29,897 million and ¥98,734 million, respectively. Loans past due three months or more came to ¥12,626 million, and loans to borrowers with renegotiated conditions stood at ¥38,863 million. The total amount of the above-mentioned loans came to ¥180,121 million.

5. Accumulated depreciation

Accumulated depreciation as of March 31, 2000 and 1999 were ¥16,871 million and ¥17,903 million, respectively.

6. Deferred tax assets

Deferred tax assets as of March 31, 2000 and 1999 comprised the following:

	Millions of yen	
	2000	1999
Excess reserve for possible loan losses	**¥27,233**	¥22,769
Excess reserve for retirement allowances	**827**	1,313
Loss carried-forward	—	23,520
Other	**5,231**	3,865
Total	**¥33,292**	¥51,469

7. Borrowed money

Borrowed money as of March 31, 2000 includes ¥65,000 million subordinated loans.

8. Other expenses

Other expenses for the year ended March 31, 2000 include ¥19,101 million in loss on the waiver of claims from loans to two affiliates, Kinki Leasing Co., Ltd. and Kinki Finance Co., Ltd.

9. Common stock and capital surplus

The Bank has 500,000,000 authorized shares of common stock with a par value of ¥50 per share, of which 279,582,555 shares were issued as of March 31, 2000.

The Bank sold 54,000,000 shares at ¥278 issue price to the third parties on September 14, 1999.

Under the Commercial Code of Japan, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be credited to stated capital is determined by resolution of the Board of Directors.

10. Subsequent event

Under the merger contract which was approved by the extraordinary stockholders' meeting of the Bank held on January 18, 2000, the Bank was merged into The Bank of Osaka, Ltd. effective on April 1, 2000.

Report of Independent Certified Public Accountants

To Mr. Yasuhiro Takatani
President
The Kinki Osaka Bank, Limited.

We have audited the accompanying consolidated balance sheets of Bank of Kinki, Ltd. and its consolidated subsidiaries as of March 31, 2000 and 1999 and the related consolidated statements of operations and retained earnings (deficit) and of cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly, in all material respects, the financial position of Bank of Kinki, Ltd. and its consolidated subsidiaries as of March 31, 2000 and 1999, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 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 1 to the consolidated financial statements.

As described in Note 10 to the consolidated financial statements, the Bank was merged into The Bank of Osaka, effective on April 1, 2000.

June 29, 2000

Nihombashi Corporation

Nihombashi Corporation
Certified Public Accountants

Consolidated Balance Sheets

As of March 31, 1999 and 2000	Millions of yen (Note 2) 1999	Millions of yen (Note 2) 2000	Thousands of U.S. dollars (Note 2) 2000
ASSETS			
Cash and Due from Banks	¥ 36,392	¥ 55,453	$ 522,411
Call Loans	57,783	10,371	97,706
Commercial Paper and Other Debt Purchased	8,104	144	1,364
Trading Account Securities	613	800	7,542
Money Held in Trust	2,907	2,907	27,386
Securities	223,129	308,672	2,907,891
Loans and Bills Discounted (Note 4)	1,290,656	1,235,566	11,639,812
Foreign Exchanges	4,502	4,538	42,759
Other Assets	12,396	9,796	92,286
Premises and Equipment (Note 5)	24,367	24,045	226,524
Deferred Tax Assets (Note 6)	40,763	46,849	441,353
Customers' Liabilities for Acceptances and Guarantees (Note 7)	63,718	56,949	536,500
Reserve for Possible Loan Losses	—	(103,326)	(973,401)
Total Assets	¥1,765,334	¥1,652,769	$15,570,133
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits	¥1,484,875	¥1,484,935	$13,989,025
Call Money and Bills Sold	18,100	19,300	181,818
Borrowed Money (Note 8)	40,299	32,268	303,987
Foreign Exchanges	739	67	640
Other Liabilities	32,507	8,319	78,372
Reserve for Possible Loan Losses	85,950	—	—
Reserve for Retirement Allowances	3,087	3,078	29,003
Reserve for Possible Losses on Sales of Loans	570	780	7,350
Acceptances and Guarantees (Note 7)	63,718	56,949	536,500
Total Liabilities	1,729,847	1,605,698	15,126,695
Stockholders' Equity (Notes 10 and 11):			
Common Stock	29,096	39,096	368,318
Capital Surplus	6,170	16,171	152,344
Retained Earnings (Deficit)	220	(8,195)	(77,210)
	35,487	47,072	443,452
Less: Treasury Stock, at Cost	0	(1)	(14)
Total Stockholders' Equity	35,486	47,071	443,438
Total Liabilities and Stockholders' Equity	¥1,765,334	¥1,652,769	$15,570,133

See accompanying notes to financial statements.

Consolidated Statements of Operations and Retained Earnings (Deficit)

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
Years ended March 31,	1999	2000	2000
Income:			
Interest Income on:			
Loans and Bills Discounted	¥ 33,465	¥31,354	$295,380
Securities	5,617	6,578	61,969
Other	737	376	3,545
Fees and Commissions	4,083	3,970	37,405
Other Operating Income	9,705	1,879	17,704
Other Income	3,650	9,046	85,226
Total Income	57,259	53,205	501,229
Expenses:			
Interest Expense on:			
Deposits	9,478	5,714	53,835
Borrowings and Rediscounts	1,291	922	8,689
Other	376	138	1,302
Fees and Commissions	1,963	1,947	18,346
Other Operating Expenses	1,858	1,604	15,118
General and Administrative Expenses	26,685	26,337	248,120
Other Expenses (Note 9)	56,136	30,994	291,987
Total Expenses	97,791	67,659	637,397
Loss before Income Taxes	(40,531)	(14,454)	(136,168)
Income Taxes:			
Current	45	48	457
Deferred	(17,111)	(6,086)	(57,339)
Net Loss	¥(23,464)	¥ (8,416)	$ (79,286)
Retained Earnings (Deficit):			
Balance at Beginning of the Year	¥(17,047)	¥ 220	$ 2,076
Reduction of Deficit by Offset with Capital Surplus	17,081	—	—
Cumulative Deferred Effects Assets	23,651	—	—
Net Loss	(23,464)	(8,416)	(79,286)
Balance at End of Year	¥ 220	¥ (8,195)	$ (77,210)

	Yen		U.S. dollars (Note 2)
Net Loss per Share	¥(104.97)	¥(30.07)	$(0.283)

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

	Millions of yen (Note 2)	Thousands of U.S. dollars (Note 2)
Year ended March 31,	2000	2000
Cash Flows from Operating Activities:		
Loss before Income Taxes	¥ (14,454)	$ (136,168)
Depreciation	883	8,323
Loss on Equity Method	2	19
Increase in Reserve for Possible Loan Losses	17,376	163,696
Increase in Reserve for Possible Losses on Sales of Loans	209	1,973
Decrease in Reserve for Retirement Allowances	(8)	(80)
Interest on Loans and Discounts Received	(38,309)	(360,895)
Interest on Deposits	6,775	63,826
Income on Securities Transaction	(7,651)	(72,078)
Income on Money Trust	(308)	(2,898)
Foreign Exchange Loss	30	280
Loss on Disposal of Properties	2	18
Net Decrease in Loans and Bills Discounted	55,090	518,982
Net Increase in Deposits	23,459	221,001
Net Decrease in Negotiable Certificates of Deposits	(23,400)	(220,443)
Net Decrease in Borrowed Money (other than Subordinated Loans)	(6,031)	(56,814)
Net Increase in Due from Banks (other than The Bank of Japan)	12,951	122,004
Net Decrease in Call Loans	55,402	521,918
Net Increase in Call Money and Bills Sold	1,200	11,305
Net Decrease in Cash Collateral on Securities Lending	(22,733)	(214,156)
Net Increase in Foreign Exchange Assets	(36)	(344)
Net Decrease in Foreign Exchange Liabilities	(671)	(6,323)
Revenues from Fund Operations	33,546	316,027
Expenditures on Fund Procurement	(8,415)	(79,277)
Other	1,348	12,700
Sub-total	86,257	812,596
Payment of Income Taxes	(45)	(428)
Net Cash Provided by Operating Activities	86,212	812,168
Cash Flows from Investing Activities:		
Purchase of Securities	(231,865)	(2,184,316)
Sales of Securities	103,667	976,610
Redemption of Securities	50,253	473,414
Revenues from Fund Investment	6,335	59,680
Purchase of Premises and Equipment	(491)	(4,630)
Sales of Premises and Equipment	18	165
Net Cash Used in Investing Activities	(72,084)	(679,077)
Cash Flows from Financing Activities:		
Repayment of Subordinated Loans	(2,000)	(18,841)
Sales of New Stock	19,894	187,415
Purchase of Treasury Stock for Retirement	(18)	(170)
Sales of Treasury Stock	18	169
Net Cash Provided by Financing Activities	17,894	168,573
Translation Adjustment of Cash and Cash Equivalents	(9)	(87)
Net Increase in Cash and Cash Equivalents	32,012	301,577
Cash and Cash Equivalents at Beginning of the Year	26,169	246,528
Cash and Cash Equivalents at End of the Year	¥ 58,181	$ 548,105

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

1. Consolidation Policy

The Bank of Osaka, Ltd. ("the Bank") had two majority-owned subsidiaries as of March 31, 2000. The accompanying consolidated financial statements include the accounts of the Bank and the two subsidiaries.

The investments in all six affiliated companies are accounted for by the equity method.

2. Japanese Yen and U.S. Dollar Amounts

As permitted by the Commercial Code of Japan, Japanese yen amounts are rounded down to the nearest million yen. Accordingly, columns may not add up to column totals.

U.S. dollar amounts are given solely for convenience and are stated at the rate of ¥106.15=US$1.00, the rate prevailing on March 31, 2000.

3. Summary of Significant Accounting Policies

(a) Trading account securities

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

(b) Securities and money held in trust

Securities, except for investments in affiliates, are stated at moving average cost.

Securities included in "Money held in trust," which are designated for investment in securities and separately managed from other beneficiaries are stated as follows:

Listed securities such as convertible bonds and stocks are stated at the lower of moving average cost or market. Other securities are stated at moving average cost.

(c) Premises and equipment

Premises and equipment held by the Bank are depreciated as follows in accordance with the Uniform Accounting Standards for Banks of the Japanese banking industry.

Buildings: Based on the revision of the Corporate Tax Law, effective April 1, 1998, the Bank computes depreciation of newly acquired buildings by the straight-line method. Depreciation of other existing buildings has been computed by the declining-balance method.

Movables: Depreciation is computed on the declining-balance method. The depreciation ratio is set by the Japanese tax laws.

Other: Depreciation is computed on the method designated by the Japanese tax laws.

Premises and equipment held by the consolidated subsidiaries are depreciated principally by the straight-line method.

(d) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies of the Bank are translated into yen at the foreign exchange rates prevailing at the end of the fiscal year.

(e) Reserve for possible loan losses

In accordance with the amendment of the Uniform Rules for Bank Accounting, reserve for possible loan losses of the Bank were provided as follows:

For loans in bankruptcy or substantially in bankruptcy the reserve is provided at the remaining portion after deduction of pledges and guarantees.

For bankruptcy suspicious loans the reserve is provided at necessary amount out of the remaining portion after deduction of pledges and guarantees.

For other loans the reserve is provided at experiential rate for the specified past period.

Reserve for possible loan losses of the consolidated subsidiaries is provided at experiential rate for the specified past period.

With effect from the year ended March 31, 2000, the reserve, formerly shown in the liabilities, is presented as deduction from assets on the balance sheets in conformity with a revise of the Banking Law.

(f) Reserve for retirement allowances

In accordance with the Uniform Accounting Standards for Banks of the Japanese banking industry, reserve for retirement allowances of the Bank and its consolidated subsidiaries is provided at the amount that would have been required if all employees had voluntarily terminated their services at the balance sheet date.

The Bank has also a contributory pension plan.

(g) Reserve for possible losses on sales of loans

Reserve for possible losses on sales of loans of the Bank is provided for losses on sales of loans with real estate mortgage to the Cooperative Credit Purchasing Co., Ltd. based on the estimated mortgage value.

(h) Accounting for leases
Finance leases of the Bank and its consolidated subsidiaries other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(i) Income taxes
Income taxes comprise corporation, inhabitant and enterprise taxes, which in the aggregate resulted in normal effective rate of 42.0%.

Income taxes were provided for amounts currently payable for the years ended March 31, 1998. Under the new accounting standard, effective April 1, 1998, the provision for income taxes is computed based on the pretax income included in the expected consolidated statements of operations and retained earnings. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amounts of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment to the retained earnings brought forwards from the previous year.

(j) Statement of cash flows
With effect from the year ended March 31, 2000, the Bank and its subsidiaries are required to present the consolidated statements of cash flows in conformity with a revise of the Japanese Securities and Exchange Law. Cash and cash equivalents in the statements of cash flows represent cash on hand and deposits with The Bank of Japan among "cash and due from banks" in the consolidated balance sheets.

4. Loans and Bills Discounted
At March 31, 2000, loans to bankrupt borrowers and loans past due six months or more amounted to ¥25,780 million and ¥50,871 million, respectively. Loans past due three months or more came to ¥10,194 million, and loans to borrowers with renegotiated conditions stood at ¥73,232 million. The total amounts of the above-mentioned loans came to ¥160,078 million.

5. Accumulated Depreciation
Accumulated depreciation as of March 31, 2000 and 1999 were ¥20,353 million and ¥19,807 million, respectively.

6. Deferred Tax Assets
Deferred tax assets as of March 31, 2000 and 1999 comprised the following:

	Millions of yen	
	1999	**2000**
Excess reserve for possible loan losses	¥29,030	**¥37,994**
Excess reserve for retirement allowances	816	**866**
Disposal of securities	6,304	**3,668**
Loss carried-forward	3,588	**2,694**
Other	1,023	**1,625**
Total	¥40,763	**¥46,849**

7. Acceptances and Guarantees
All contingent liabilities arising from acceptances and guarantees are reflected in acceptances and guarantees. As a contra account customers' liabilities for acceptances and guarantees are shown on the assets side representing the Bank's right of indemnity from the applicants.

8. Borrowed Money
Borrowed money included subordinated loans of ¥34,000 million and ¥32,000 million as of March 31, 1999 and 2000, respectively.

9. Other Expenses
Other expenses for the year ended March 31, 2000 included possible loss on disposal of data processing system at the merger and write-off of bad debts to non-banks, amounting to ¥14,257 million and ¥1,224 million, respectively.

10. Common Stock and Capital Surplus
The Bank has 730,000,000 authorized shares of common stock with a par value of ¥50 per share, of which 326,639,053 shares were issued as of March 31, 2000.

The Bank has also 70,000,000 authorized shares of preferred stock.

The Bank sold 103,100 thousand shares of common stock at ¥194 issue price to the third parties on September 14, 1999.

Under the Commercial Code of Japan, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be credited to stated capital is determined by resolution of the Board of Directors.

11. Subsequent Events

(1) Merger

Under the merger contract which was approved by the extraordinary stockholders' meeting of the Bank held on January 18, 2000, the Bank merged Bank of Kinki, Ltd., effective on April 1, 2000.

At merger, the Bank issued 391,415,577 shares of common stock at 1.4 share of the Bank to 1.0 share to the shareholders of Bank of Kinki.

(2) New Stock Issue

On May 19, 2000 the Board of Directors of the Bank made a resolution that the Bank shall commence a study of issuing new shares to the third parties late in August 2000 with the aggregate issue price amounting to approximately ¥40,000 million.

(3) Acquisition of Operations

On fundamental May 31, 2000 the Bank and The Daiwa Bank, Limited made an agreement with the Namihaya Bank, Ltd. that the Bank shall acquire certain portion of operations of the Namihaya Bank, Ltd.

The acquisition is scheduled to be made at the end of February 2001 under the final contract which shall be concluded by the end of July 2000.

The object of acquisition for the Bank is to play a significant role in Osaka among "Super Regional Bank Group" headed by The Daiwa Bank, Limited.

Report of Independent Certified Public Accountants

The Board of Directors of The Kinki Osaka Bank, Limited.

We have examined the consolidated balance sheets of The Bank of Osaka, Ltd. and its consolidated subsidiaries as of March 31, 1999 and 2000, and the related consolidated statements of operations and retained earnings (deficit) and of cash flows for the years then ended, expressed in Japanese yen. Our examination was 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 accompanying financial statements, expressed in yen, present fairly the consolidated financial position of The Bank of Osaka, Ltd. and its consolidated subsidiaries at March 31, 1999 and 2000, and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan.

As described in note 11 of notes to financial statements, on April 1, 2000 the Bank merged Bank of Kinki, Ltd. and on May 19, 2000 the Board of Directors of the Bank made a resolution to issue new stocks to the third parties late in August 2000 as scheduled, and on May 31, 2000 the Bank and The Daiwa Bank, Limited made a fundamental agreement with the Namihaya Bank, Ltd. acquire the operations.

Osaka, Japan
June 29, 2000

Yukoh Audit Corporation

YUKOH AUDIT CORPORATION
Certified Public Accountants

Naniwa Company

NANIWA COMPANY
Certified Public Accountants

Corporate Directory

(as of March 31, 2000)

Corporate Data

Head Office
4-27, Shiromi 1-chome, Chuo-ku,
Osaka 540-8560, Japan
Telephone: (06) 6945-2121
URL: http://www.kinkiosakabank.co.jp/

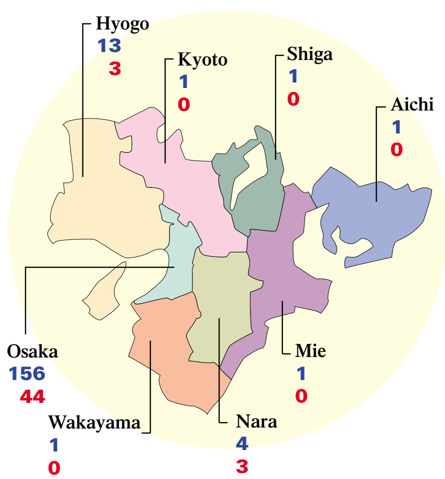
International Division
4-27, Shiromi 1-chome, Chuo-ku,
Osaka 540-8560, Japan
Telephone: (06) 6945-2063
Facsimile: (06) 6945-2069
Telex: J64538 OSAKABK
SWIFT: OSABJPJS

Capital: ¥58,600 million
Issued and Outstanding Shares: 718 million
Listings: Tokyo Stock Exchange (First Section)
Osaka Securities Exchange (First Section)
Employees: 3,745

Subsidiaries and Affiliates

Name	*Capital (¥ million)*	*Principal business purpose*	*Directly owned shareholder interest (%)*	*Indirectly owned shareholder interest (%)*
SUBSIDIARIES				
Kinki Osaka Business Service Co., Ltd.	27	Agency business	100	—
Kinki Osaka Jimu Shuchu Center Co., Ltd.	20	Back-office operations	100	—
Kinki Osaka Sogo Kanri Co., Ltd.	120	Auctioning of collateral property	100	—
AFFILIATES				
Kinki Osaka Chusho Kigyo Kenkyujo Co., Ltd.	30	Management consulting	5.0	20.0
Osaka Computer Service Co., Ltd.	200	Computer systems operation and management	5.0	15.0
Kinki Osaka Lease Co., Ltd.	1,800	Leasing	4.2	13.7
Osaka Card Visa Co., Ltd.	30	Credit card business	5.0	20.0
Card DC Co., Ltd.	30	Credit card business	5.0	20.0
Kinki Osaka Shinyo Hosho Co., Ltd.	To be formed on September 30, 2000, by a merger of the following four companies: Kinki Million Card Co., Ltd., Kinki Card Service Co., Ltd., Kinki Finance Co., Ltd., Osaka Shinyo Hosho Co., Ltd.			

Operational Network



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The Kinki Osaka Bank, Limited

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