

# THE KITA-NIPPON BANK, LTD.

**ANNUAL REPORT 2000**



# Profile

The Kita-Nippon Bank, Ltd. was established in 1942 in Morioka City, Iwate Prefecture, in the northeast of Japan, as a regional financial institution. Under the management themes of close contact with the region, sound management, and respect for the individual, we have worked to contribute to the prosperity of the local community and the development of the region.

Given the current harsh operating environment for financial institutions, we are working to offer even better financial services and strengthen our business base, while being more aware than ever before of the importance of accountability in management and the public nature of banks.

The Bank and its five consolidated subsidiaries are principally engaged in commercial banking operations, but also offer credit card, leasing and financing services.

As of March 31, 2000, the Bank's consolidated total assets stood at ¥1,145,601 million (US\$10,792 million), and deposits were ¥1,047,735 million (US\$9,870 million). The Bank had 87 offices, including 3 sub-branches, mainly in Iwate Prefecture. The Bank's capital ratio according to domestic standards stood at 9.32 % on a consolidated basis.

## On the Cover

A Sunflower: The flower was chosen to symbolize the Bank's motto "Friendly, Right, and Steady."



Head Office

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# Financial Highlights

Years Ended March 31, 2000 and 1999

<b>(Consolidated)</b>	<b>Millions of Yen (Note 1)</b>		<b>Thousands of</b>
	<b>2000</b>	<b>1999</b>	<b>U.S. Dollars (Note 2)</b>
			<b>2000</b>
<b>For the Year</b>			
Total income .....	¥ <b>36,616</b>	¥ 41,216	\$ <b>344,954</b>
Total expenses .....	<b>49,627</b>	39,348	<b>467,523</b>
Income (loss) before income taxes .....	<b>(13,010)</b>	1,867	<b>(122,568)</b>
Net income (loss) .....	<b>(7,960)</b>	534	<b>(74,995)</b>
Cash dividends applicable to the year .....	<b>408</b>	409	<b>3,852</b>
Per share data (par value ¥500):			
Net income (loss) (yen and dollars) .....	¥ <b>(973.23)</b>	¥ 65.28	\$ <b>(9.168)</b>
<b>At Year-End</b>			
Total assets (Note 3) .....	<b>¥1,145,601</b>	¥1,194,368	<b>\$10,792,288</b>
Deposits .....	<b>1,047,735</b>	1,089,504	<b>9,870,327</b>
Loans and bills discounted .....	<b>737,968</b>	793,651	<b>6,952,126</b>
Securities .....	<b>223,531</b>	219,659	<b>2,105,803</b>
Stockholders' equity .....	<b>53,050</b>	55,657	<b>499,767</b>
Common stock .....	<b>6,146</b>	6,146	<b>57,906</b>
<b>(Non-Consolidated)</b>	<b>Millions of Yen (Note 1)</b>		<b>Thousands of</b>
	<b>2000</b>	<b>1999</b>	<b>U.S. Dollars (Note 2)</b>
			<b>2000</b>
<b>For the Year</b>			
Total income .....	¥ <b>33,053</b>	¥ 40,911	\$ <b>311,387</b>
Total expenses .....	<b>46,321</b>	39,120	<b>436,381</b>
Income (loss) before income taxes .....	<b>(13,268)</b>	1,790	<b>(124,993)</b>
Net income (loss) .....	<b>(7,935)</b>	525	<b>(74,757)</b>
Cash dividends applicable to the year .....	<b>409</b>	409	<b>3,857</b>
Per share data (par value ¥500):			
Net income (loss) (yen and dollars) .....	¥ <b>(968.92)</b>	¥ 64.10	\$ <b>(9.127)</b>
Cash dividends applicable to the year (yen and dollars) .....	<b>50.00</b>	50.00	<b>0.471</b>
<b>At Year-End</b>			
Total assets (Note 3) .....	<b>¥1,140,781</b>	¥1,193,748	<b>\$10,746,879</b>
Deposits .....	<b>1,047,992</b>	1,089,616	<b>9,872,754</b>
Loans and bills discounted .....	<b>740,476</b>	793,703	<b>6,975,758</b>
Securities .....	<b>223,697</b>	219,626	<b>2,107,368</b>
Stockholders' equity .....	<b>53,011</b>	55,569	<b>499,400</b>
Common stock .....	<b>6,146</b>	6,146	<b>57,906</b>

**Notes:** (1) In this annual report, the Japanese yen figures are in millions, with fractions omitted.

(2) The U.S. dollar figures are computed, solely for convenience, at the exchange rate of ¥106.15 per US\$1.00, the rate prevailing on March 31, 2000.

(3) For the year ended March 31, 1999, the reserve for possible loan losses was recorded as a liability. However, due to the revision of the Banking Law of Japan, the reserve for possible loan losses is shown as a reduction in the assets section for the year ended March 31, 2000.

# Message from the Management

## OPERATING ENVIRONMENT AND RESULTS

The Japanese economy showed a gradual but slight improvement against the background of government stimulus measures and easing concern over the financial system. Meanwhile, industrial production and corporate earnings showed signs of recovery, beginning in the middle of the term. However, consumer spending remained sluggish and employment conditions were still severe. As a result, the economy was unable to stage a convincing recovery.

In Iwate Prefecture, the manufacturing sector saw clear signs of a recovery, and despite a falloff in sales by major retailers from the previous year, automobile sales rose over the previous year. On the other hand, the number of corporate bankruptcies remained high, while housing investment fell from the previous year.

Under these circumstances, the Bank strove to improve business performance and operating efficiency. With the aim of maintaining the soundness of our asset portfolio, we took a proactive approach towards the issue of possible loan losses: we carried out write-offs and set aside reserves in recognition of expected loan losses, which were determined using a newly implemented proprietary risk management method based on the credit ratings of corporate borrowers. As a result, the Bank posted a net loss for the term of ¥7.9 billion (US\$74 million) on a consolidated basis. On a non-consolidated basis, the Bank recorded an equivalent loss for the term of ¥7.9 billion (US\$74 million).

## OUTLOOK

Since April 1998, the Bank has pushed forward with its Third Medium-Term Management Plan—New Vision 100



Toshiaki Sugitani  
*Chairman*



Yasunori Sato  
*President*

(ending March 2001), which assigns top priority to the tasks of strengthening marketing, raising operating efficiency, and increasing capital. Although some progress has been made in these areas, drastic changes in the business environment have compelled us to draft a new business plan focused on improving ROE, with the ultimate aim of strengthening earning power and raising stockholder value. The new plan will take effect immediately after it has been drafted, and will supersede the existing plan.

Adhering to our corporate philosophy of serving the region, practicing sound management, and respecting the individual, the Bank will continue to provide high value-added financial services that put the needs of customers and the region first.

A handwritten signature in black ink that reads "T. Sugitani".

Toshiaki Sugitani  
*Chairman*

A handwritten signature in black ink that reads "Y. Sato".

Yasunori Sato  
*President*

# Financial Review

## Deposits

We endeavored to increase deposits from individuals to strengthen our marketing base and raise the efficiency of the management of funds, while reducing the balance of large deposits, mainly from corporations, which entail high costs. As a result, the term-end balance of deposits fell 3.8% to ¥1,047.7 billion (US\$9,870 million) on a consolidated basis. On a non-consolidated basis, the term-end balance of deposits declined 3.8% to ¥1,047.9 billion (US\$9,872 million).

## Loans and Bills Discounted

Amid the slow pace of recovery and the severe operating environment, we worked to extend more loans to local small and medium-sized firms, as well as retail customers. Although mortgage loans rose, overall corporate demand for funding, especially for equipment, was low, while loans to corporations failed to grow. As a result, the term-end balance of loans fell 7.0% to ¥737.9 billion (US\$6,952 million) on a consolidated basis. On a non-consolidated basis, the balance of loans was down 6.7% at ¥740.4 billion (US\$6,975 million).

## Securities

The Bank successfully managed its portfolio of Japan Government Bonds and corporate debentures with a view to securing a stable level of revenue. As a result, the term-end balance of securities rose 1.7% to ¥223.5 billion (US\$2,105 million) on a consolidated basis. On a non-consolidated basis, the balance of securities rose 1.8% to ¥223.6 billion (US\$2,107 million).

## Foreign Exchange Transactions

The volume of foreign exchange transactions fell 25.3% to US\$11,067 million.

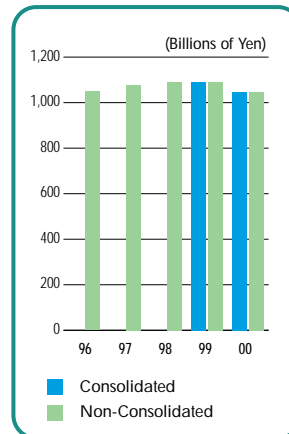
## Earnings

With the aim of improving our asset portfolio, we took a proactive approach towards possible loan losses: we carried out write-offs and set aside reserves in recognition of expected loan losses, which are determined using a newly implemented proprietary risk management method based on the credit ratings of corporate borrowers. As a result, we posted a net loss for the term of ¥7,960 million (US\$74 million) on a consolidated basis. On a non-consolidated basis, we posted a net loss of ¥7,935 million (US\$74 million).

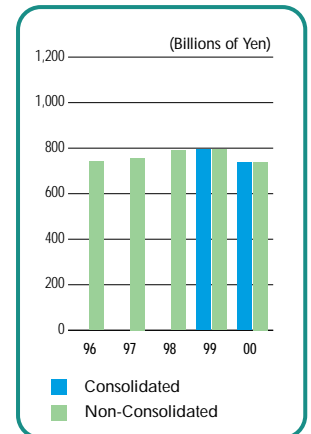
## Capital Ratio (domestic standards)

The Bank's capital ratio, an indicator of financial soundness, remained at the high level of 9.32% on a consolidated basis. On a non-consolidated basis, this ratio stood at 9.31%.

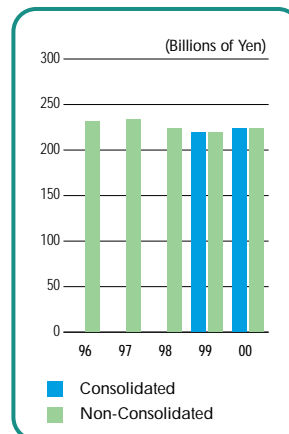
DEPOSITS



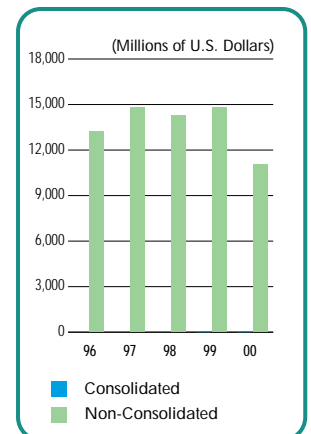
LOANS AND BILLS DISCOUNTED



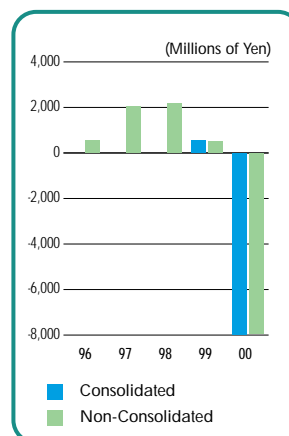
SECURITIES



FOREIGN EXCHANGE TRANSACTIONS



NET INCOME (LOSS)



CAPITAL RATIO



# Consolidated Balance Sheets

March 31, 2000 and 1999

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
<b>ASSETS</b>			
Cash and due from banks.....	¥ 75,467	¥ 39,986	\$ 710,950
Call loans .....	60,053	95,594	565,737
Trading account securities .....	70	63	661
Money held in trust .....	6,885	4,500	64,868
Securities .....	223,531	219,659	2,105,803
Loans and bills discounted (Note 5) .....	737,968	793,651	6,952,126
Foreign exchanges.....	233	268	2,202
Other assets .....	10,767	4,900	101,440
Premises and equipment.....	21,399	11,863	201,600
Deferred tax assets (Note 6) .....	14,833	6,244	139,738
Customers' liabilities for acceptances and guarantees (Note 7) .....	16,546	17,637	155,877
Reserve for possible loan losses .....	(22,155)	—	(208,719)
Total assets .....	<u>¥1,145,601</u>	<u>¥1,194,368</u>	<u>\$10,792,288</u>
<b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits .....	¥1,047,735	¥1,089,504	\$ 9,870,327
Call money .....	—	120	—
Borrowed money.....	12,653	9,001	119,199
Foreign exchanges.....	12	0	117
Other liabilities .....	8,775	10,277	82,669
Reserve for possible loan losses.....	—	9,429	—
Reserve for retirement allowances .....	2,269	2,482	21,377
Deferred tax liabilities on land revaluation (Note 8).....	4,150	—	39,097
Acceptances and guarantees (Note 7).....	16,546	17,637	155,877
Total liabilities .....	<u>1,092,141</u>	<u>1,138,453</u>	<u>10,288,666</u>
Minority interests .....	409	256	3,854
<b>Stockholders' Equity (Notes 9 and 10)</b>			
Common stock .....	6,146	6,146	57,906
Capital surplus .....	3,375	3,375	31,798
Land revaluation reserve (Note 8) .....	5,802	—	54,661
Retained earnings .....	37,780	46,164	355,918
	<u>53,105</u>	<u>55,686</u>	<u>500,285</u>
Less: treasury stock at cost.....	(55)	29	(518)
Total stockholders' equity.....	<u>53,050</u>	<u>55,657</u>	<u>499,767</u>
Total liabilities, minority interests and stockholders' equity....	<u>¥1,145,601</u>	<u>¥1,194,368</u>	<u>\$10,792,288</u>

See notes to consolidated financial statements.

# Consolidated Statements of Operations and Retained Earnings

For the Years Ended March 31, 2000 and 1999

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
<b>Income</b>			
Interest and dividends on:			
Loans and bills discounted .....	<b>¥21,274</b>	¥23,175	<b>\$200,416</b>
Securities .....	<b>6,365</b>	7,439	<b>59,962</b>
Other .....	<b>1,474</b>	1,403	<b>13,891</b>
Fees and commissions .....	<b>2,092</b>	1,974	<b>19,710</b>
Other operating income .....	<b>4,275</b>	6,635	<b>40,275</b>
Other income .....	<b>1,135</b>	588	<b>10,698</b>
Total income .....	<b>36,616</b>	41,216	<b>344,954</b>
<b>Expenses</b>			
Interest on:			
Deposits .....	<b>4,345</b>	5,843	<b>40,941</b>
Borrowings and rediscounts .....	<b>276</b>	308	<b>2,600</b>
Other .....	<b>284</b>	1,071	<b>2,681</b>
Fees and commissions .....	<b>671</b>	678	<b>6,326</b>
Other operating expenses .....	<b>4,017</b>	869	<b>37,844</b>
General and administrative expenses .....	<b>17,818</b>	18,580	<b>167,861</b>
Other expenses .....	<b>22,213</b>	11,996	<b>209,267</b>
Total expenses .....	<b>49,627</b>	39,348	<b>467,523</b>
Income (loss) before income taxes .....	<b>(13,010)</b>	1,867	<b>(122,568)</b>
Income taxes:			
Current .....	<b>3,406</b>	4,309	<b>32,089</b>
Deferred .....	<b>(8,567)</b>	(3,011)	<b>(80,715)</b>
Minority interest .....	<b>111</b>	35	<b>1,053</b>
Net income (loss) .....	<b>(7,960)</b>	534	<b>(74,995)</b>
<b>Retained Earnings</b>			
Balance at beginning of year .....	<b>46,164</b>	42,828	<b>434,897</b>
Cumulative deferred tax assets at beginning of years .....	—	3,232	—
Income due to additional consolidation .....	<b>13</b>	—	<b>128</b>
Decrease due to change from equity method to consolidation .....	<b>(12)</b>	—	<b>(118)</b>
Appropriations:			
Cash dividends .....	<b>408</b>	409	<b>3,852</b>
Bonuses to directors and corporate auditors .....	<b>15</b>	22	<b>141</b>
Total appropriation .....	<b>423</b>	431	<b>3,994</b>
Balance at end of year .....	<b>¥37,780</b>	¥46,164	<b>\$355,918</b>
	<b>Yen</b>		<b>U.S. Dollars (Note 3)</b>
Net income (loss) per share .....	<b>¥(973.23)</b>	¥65.28	<b>\$ (9.168)</b>

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

For the Year Ended March 31, 2000

	Millions of Yen (Note 2)	Thousands of U.S. Dollars (Note 3)
	2000	2000
<b>Cash flows from operating activities:</b>		
Loss before income taxes and minority interests .....	¥(13,010)	\$(122,568)
Depreciation .....	1,216	11,463
Amortization of consolidation difference.....	101	958
Increase in reserve for possible loan losses .....	21,399	201,598
Decrease in reserve for retirement allowances.....	(213)	(2,010)
Interest on loans and discounts received .....	(29,113)	(274,270)
Interest on deposits.....	4,906	46,223
Loss on securities transaction .....	236	2,225
Income on money trust.....	(143)	(1,351)
Foreign exchange income.....	(2)	(19)
Income on sales of properties.....	(42)	(402)
Net decrease in loans and bills discounted .....	47,007	442,844
Net decrease in deposits.....	(41,652)	(392,390)
Net decrease in call loans.....	35,541	334,821
Net increase in call money .....	3,531	33,268
Net decrease in due from banks (other than The Bank of Japan).....	6,048	56,981
Net decrease in foreign exchange assets .....	34	324
Net increase in foreign exchange liabilities.....	12	114
Revenues from fund operations .....	29,548	278,366
Expenses resulting from fund procurement .....	(5,155)	(48,563)
Other .....	(5,300)	(49,931)
Sub-total.....	54,951	517,682
Payment of income taxes.....	(5,341)	(50,319)
Net cash provided by operating activities .....	49,610	467,362
<b>Cash flows from investing activities:</b>		
Purchase of securities.....	(64,862)	(611,048)
Sales of securities .....	34,839	328,212
Redemption of securities.....	25,716	242,261
Increase in money trust .....	(2,500)	(23,551)
Sales of premises and equipment .....	83	782
Purchase of premises and equipment .....	(748)	(7,050)
Investment in subsidiaries as additional consolidation .....	(83)	(790)
Net cash used in investing activities .....	(7,556)	(71,184)
<b>Cash flows from financing activities:</b>		
Payment of cash dividends.....	(408)	(3,852)
Payment of cash dividends to minority interests.....	(0)	(4)
Net cash used in financing activities .....	(409)	(3,857)
<b>Translation adjustment of cash and cash equivalents .....</b>	<b>2</b>	<b>19</b>
<b>Net increase in cash and cash equivalents .....</b>	<b>41,646</b>	<b>392,340</b>
<b>Cash and cash equivalents at beginning of the year .....</b>	<b>32,899</b>	<b>309,937</b>
<b>Balance at beginning of the year due to increase in consolidated subsidiaries.....</b>	<b>(0)</b>	<b>(0)</b>
<b>Cash and cash equivalents at end of the year .....</b>	<b>¥ 74,546</b>	<b>\$ 702,277</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## 1. Basis of Presenting Consolidated Financial Statements

The Kita-Nippon Bank, Ltd. (the "Bank") and its consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code, the Securities and Exchange Law, the Japanese Banking Law, in general conformity with the Japanese Uniform Rules for Bank Accounting and the guidelines of Japanese regulatory authorities and in conformity with accounting principles and practices generally accepted in Japan.

## 2. Japanese Yen Amounts

The Japanese yen figures in the financial statements are in millions, with fractions omitted.

## 3. U.S. Dollar Amounts

The U.S. dollar figures are computed, solely for convenience, at the exchange rate of ¥106.15 per US\$1.00, the rate prevailing on March 31, 2000.

## 4. Significant Accounting Policies

### (a) Consolidation Policy

The Bank had five subsidiaries as of March 31, 2000. The consolidated financial statements include the accounts of the Bank and all its subsidiaries.

### (b) Trading Account Securities

Listed trading account securities are stated at the lower of moving average cost or market. Unlisted trading account securities are stated at moving average cost.

### (c) Securities and Money Held in Trust

Listed securities including bonds, stocks and other securities are stated at the lower of moving average cost or market. Unlisted securities are stated at moving average cost.

Securities included in money held in trust, which are designed for investment in securities and separately managed from other beneficiaries are stated in the same manner.

### (d) Premises and Equipment and its Depreciation

Premises and equipment are carried at cost.

Depreciation of buildings of the Bank is determined by the straight-line method, with rates of depreciation at 160% of standards stipulated by the corporate tax laws and regulations; depreciation of equipment (except for vehicles, being depreciated by the declining-balance method) is determined by the straight-line method, with rates of depreciation stipulated by the laws and regulations. Depreciation of others is determined as stipulated by the laws and regulations.

Premises and equipment held by the subsidiaries are depreciated principally by the declining-balance method.

### (e) Reserve for Possible Loan Losses

In accordance with the Uniform Rules for Bank Accounting, the Bank makes provisions for possible loan losses as follows. For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to the existence of security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided based on estimated unrecoverable amounts determined after an evaluation of the customer's overall financial condition.

For other loans, the reserve for possible loan losses is provided based on the Bank's actual rate of loan losses in the past.

The subsidiaries provide reserves at their actual rate of loan losses in the past.

For the year ended March 31, 1999, the reserve for possible loan losses was recorded as a liability. However, due to the revision of the Banking Law of Japan, the reserve for possible loan losses is shown as a reduction in the assets section for the year ended March 31, 2000.

### (f) Reserve for Retirement Allowances

Under the retirement plans of the Bank and its subsidiaries substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, basic salary at the time of retirement and cause of retirement. The reserve for retirement allowance is provided, in accordance with the Uniform Rules for Bank Accounting, at the amount which would be required if all eligible employees had voluntarily retired as of the balance sheet dates.

### (g) Valuation of Foreign Exchange Trading Positions

Under the regulations of the Uniform Rules for Bank Accounting, foreign exchange trading positions, including spot, forward, currency futures and currency option positions, are valued at estimated prevailing market rates at the balance sheet date.

#### (h) Finance Leases

Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

#### (i) Income Taxes

Income taxes comprise corporation, inhabitants' and enterprise taxes, which in the aggregate produce a normal tax rate of 41.7 percent.

Effective April 1, 1998, the Bank adopted deferred tax accounting in conformity with the revised accounting standards in Japan. As required, deferred tax assets are recorded based on the temporary differences between the financial statement and tax bases of assets and liabilities.

#### (j) Consolidated Statements of Cash Flows

The Bank is required to prepare consolidated statements of cash flows, effective from the year ended March 31, 2000, in conformity with the revised Securities and Exchange Law.

Cash and cash equivalents in the consolidated 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.

#### 5. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2000 and 1999 included the following:

	Millions of Yen	
	2000	1999
Loans to bankrupt borrowers.....	¥ 4,600	¥ 4,108
Loans past due .....	34,563	6,574
Loans past due over 3 months.....	189	1,511
Restructured loans.....	18,578	17,580
Total .....	¥57,930	¥29,775

Loans to bankrupt borrowers are loans to customers who meet specific credit risk criteria, such as undergoing bankruptcy proceedings. Interest is not being accrued on these loans.

Loans past due are loans for which interest payment are past due for six months or more. Interest is not being accrued on these loans.

Loans past due over 3 months are loans for which principal or interest payment are past due for three months or more.

Restructured loans are loans provided to facilitate loan recovery by making certain concessions to borrowers to allow borrowers to implement business restructuring or provide them with support.

#### 6. Deferred Tax Assets

Significant components of deferred tax assets as of March 31, 2000 and 1999 are as follows:

	Millions of Yen	
	2000	1999
Deferred tax assets:		
Excess reserve for		
possible loan losses.....	¥ 9,407	¥2,927
Excess write-off of bad debts.....	3,145	1,049
Excess reserve for		
retirement allowances .....	911	927
Excess depreciation .....	645	619
Other.....	739	721
	14,847	6,244
Deferred tax liabilities.....	(13)	—
Net deferred tax assets.....	¥14,833	¥6,244

#### 7. Customers' Liabilities for 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 is also shown on the assets side, which represents the Bank's right of indemnity from the applicants.

#### 8. Land Revaluation

In accordance with the Law concerning the Revaluation of Land, the Bank revalued land held for its operations on March 31, 2000. Net unrealized gain was stated in stockholders' equity net of applicable income taxes as "Land Revaluation Reserve."

#### 9. Stockholders' Equity

As of March 31, 2000 the Bank had 12,000 thousand authorized shares of common stock with ¥500 par value per share of which 8,190 thousand shares were issued and outstanding.

#### 10. Dividends and Interim Dividends

The Bank pays dividends twice a year. Annual dividends are paid to stockholders of record as of March 31 and are reflected in the statements of income and retained earnings when duly approved and paid. The Bank pays interim dividends to stockholders of record as of September 30.

# Report of Independent Certified Public Accountants

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The Board of Directors  
The Kita-Nippon Bank, Ltd.

We have examined the accompanying consolidated balance sheets of The Kita-Nippon Bank, Ltd. and its consolidated subsidiaries as of March 31, 2000 and 1999, and the related statements of operations and retained earnings and of cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted 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 financial statements mentioned above, expressed in Japanese yen, present fairly the financial position of The Kita-Nippon Bank, 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.

We have also reviewed the translation of the statements mentioned above into U.S. dollars and, in our opinion, the translated amounts have been properly computed on the basis described in Note 3.

June 29, 2000

*Hokko Audit Corporation*

Hokko Audit Corporation  
Morioka, Japan

## Statement on Accounting Principles and Auditing Standards

These statements are to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

# Non-Consolidated Balance Sheets

March 31, 2000 and 1999

	Millions of Yen (Note 2)		Thousands of
	2000	1999	U.S. Dollars (Note 3)
			2000
<b>ASSETS</b>			
Cash and due from banks.....	¥ 75,396	¥ 39,986	\$ 710,282
Call loans .....	60,053	95,594	565,737
Trading account securities .....	70	63	661
Money held in trust .....	6,885	4,500	64,868
Securities .....	223,697	219,626	2,107,368
Loans and bills discounted .....	740,476	793,703	6,975,758
Foreign exchange .....	233	268	2,202
Other assets .....	3,360	4,277	31,658
Premises and equipment.....	21,304	11,860	200,700
Deferred tax assets .....	14,775	6,230	139,197
Customers' liabilities for acceptances and guarantees .....	16,543	17,637	155,850
Reserve for possible loan losses .....	(22,016)	—	(207,408)
Total assets .....	<u>¥1,140,781</u>	<u>¥1,193,748</u>	<u>\$10,746,879</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits .....	¥1,047,992	¥1,089,616	\$ 9,872,754
Call money .....	—	120	—
Borrowed money.....	9,000	9,001	84,785
Foreign exchange .....	12	0	117
Other liabilities .....	7,810	9,976	73,582
Reserve for possible loan losses.....	—	9,346	—
Reserve for retirement allowances .....	2,259	2,480	21,290
Deferred tax liabilities on land revaluation.....	4,150	—	39,097
Acceptances and guarantees.....	16,543	17,637	155,850
Total liabilities .....	<u>1,087,769</u>	<u>1,138,178</u>	<u>10,247,478</u>
<b>Stockholders' Equity</b>			
Common stock .....	6,146	6,146	57,906
Capital surplus.....	3,375	3,375	31,798
Legal reserve (Note 4).....	3,299	3,178	31,086
Land revaluation reserve .....	5,802	—	54,661
Retained earnings (Note 5) .....	34,387	42,867	323,947
Total stockholders' equity.....	<u>53,011</u>	<u>55,569</u>	<u>499,400</u>
Total liabilities and stockholders' equity.....	<u>¥1,140,781</u>	<u>¥1,193,748</u>	<u>\$10,746,879</u>

See notes to non-consolidated financial statements.

# Non-Consolidated Statements of Operations and Retained Earnings

For the Years Ended March 31, 2000 and 1999

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
<b>Income</b>			
Interest and dividends on:			
Loans and bills discounted .....	¥21,214	¥23,096	\$199,856
Securities .....	6,363	7,438	59,952
Other .....	1,474	1,403	13,888
Fees and commissions .....	1,870	1,803	17,621
Gains on securities and money held in trust .....	1,578	6,612	14,869
Other income .....	551	556	5,199
Total income .....	<u>33,053</u>	<u>40,911</u>	<u>311,387</u>
<b>Expenses</b>			
Interest on:			
Deposits .....	4,345	5,843	40,941
Borrowings and rediscounts .....	270	305	2,545
Other .....	284	1,071	2,681
Fees and commissions .....	801	789	7,553
Losses on sales, redemption and valuation of bonds .....	1,136	869	10,704
General and administrative expenses .....	17,500	18,297	164,867
Losses on sales and valuation of share stocks .....	477	1,152	4,494
Losses on money held in trust .....	110	48	1,044
Other expenses .....	21,394	10,741	201,547
Total expenses .....	<u>46,321</u>	<u>39,120</u>	<u>436,381</u>
Income (loss) before income taxes .....	(13,268)	1,790	(124,993)
Income taxes:			
Current .....	3,212	4,281	30,266
Deferred .....	(8,545)	(3,016)	(80,503)
Net income (loss) .....	<u>(7,935)</u>	<u>525</u>	<u>(74,757)</u>
<b>Retained Earnings</b>			
Balance at the beginning of the year .....	42,867	39,681	403,843
Cumulative deferred tax assets at beginning of year .....	—	3,214	—
Appropriations:			
Transfer to legal reserve .....	120	120	1,139
Cash dividends .....	409	409	3,857
Bonuses to directors and corporate auditors .....	15	22	141
Balance at the end of the year .....	<u>¥34,387</u>	<u>¥42,867</u>	<u>\$323,947</u>
	<b>Yen</b>		<b>U.S. Dollars (Note 3)</b>
<b>Per Share of Common Stock</b>			
Net income (loss) .....	¥(968.92)	¥64.10	\$(9.127)
Cash dividends applicable to the year .....	50.00	50.00	0.471

See notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

## 1. Basis of Financial Statements

The accompanying financial statements of The Kita-Nippon Bank, Ltd. (the "Bank") do not include the accounts of its subsidiaries on a consolidated basis.

The accompanying consolidated financial statements and notes should be read in conjunction with the non-consolidated financial statements and notes hereto.

The financial statements are prepared in accordance with accounting principles and practices generally accepted in Japan under the requirements of the Japanese Commercial Code and other applicable regulations. In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan.

## 2. Japanese Yen Amounts

The Japanese yen figures in the financial statements are in millions, with fractions omitted.

## 3. U.S. Dollar Amounts

The U.S. dollar figures are computed, solely for

convenience, at the exchange rate of ¥106.15 per US\$1.00, the rate prevailing on March 31, 2000.

## 4. Legal Reserve

Under the Japanese Banking Law, an amount equivalent to at least 20% of cash dividends must be appropriated to the legal reserve from retained earnings until such reserve equals 100% of paid-up capital. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to paid-up capital.

## 5. Subsequent Event

The ordinary stockholders' meeting, which was held on June 29, 2000, approved the year-end appropriation of retained earnings existing as of March 31, 2000.

	Millions of Yen
Retained earnings at March 31, 2000.....	¥34,387
Appropriations:	
Transfer to legal reserve .....	80
Cash dividends .....	204
Retained earnings carried forward.....	<u>¥34,103</u>

## Report of Independent Certified Public Accountants

The Board of Directors  
The Kita-Nippon Bank, Ltd.

We have examined the accompanying non-consolidated balance sheets of The Kita-Nippon Bank, Ltd. as of March 31, 2000 and 1999, and the related non-consolidated statements of operations and retained earnings for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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We have also reviewed the translation of the statements mentioned above into U.S. dollars and, in our opinion, the translated amounts have been properly computed on the basis described in Note 3.

June 29, 2000

*Hokko Audit Corporation*

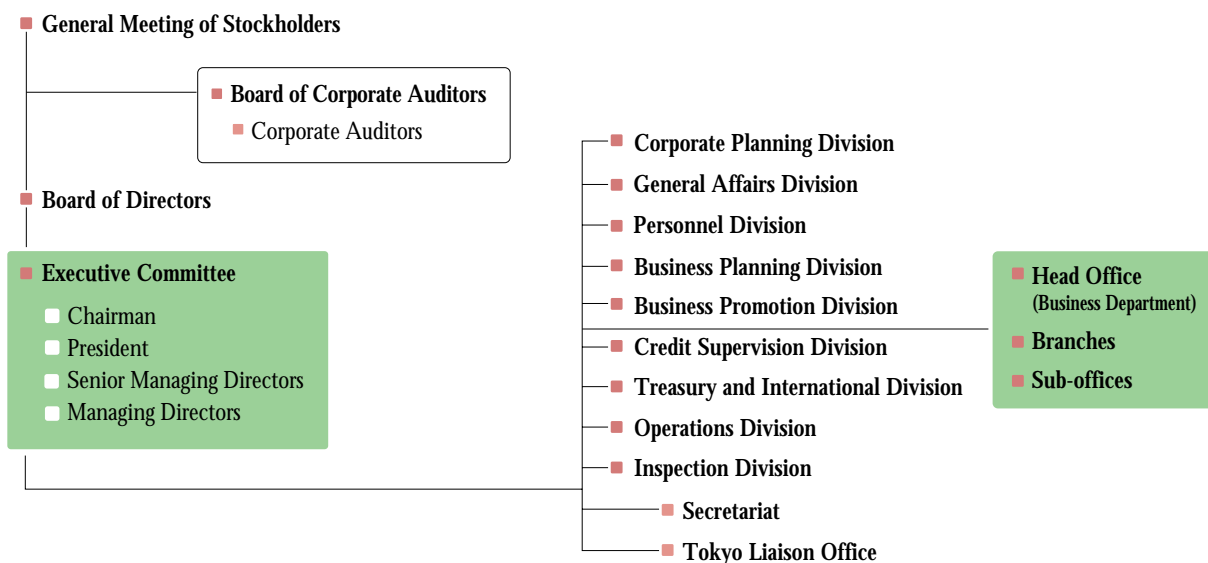
Hokko Audit Corporation  
Morioka, Japan

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# Corporate Directory

## Organization



## Board of Directors and Corporate Auditors

### Chairman

Toshiaki Sugitani

### President

Yasunori Sato

### Senior Managing Directors

Yoshinori Ichikawa  
Tomio Sakamoto

### Managing Directors

Toshio Umemura  
Masaaki Saito

### Directors

Kinjuro Yaegashi  
Shoji Kiguchi  
Iwao Terui  
Takashi Minase  
Seiichiro Ishikawa  
Teruo Odanaka

### Corporate Auditors

Yukio Shimodate  
Kaoru Fukuda  
Katsujiro Ishikawa  
Sueki Tojima

(As of June 30, 2000)

## Consolidated Subsidiaries of the Kita-Nippon Bank, Ltd.

Name	Line of Business	Capital (Millions of yen)	Bank's Share (%)	Establishment
Kitagin Business Service Co., Ltd.	Clerical services for banks, temporary staff agency	15	100	1986
Kitagin Computer Service Co., Ltd.	Computer services, software development, sale of software	30	100	1991
Kitagin Shukin Daiko Co., Ltd.	Cash delivery and collection services	10	100	1998
Kitagin UC Co., Ltd.	Credit card, credit guarantee services	20	50	1988
Kitagin Lease Co., Ltd.	Leasing and financing services	50	65	1990

## Corporate Data

### HEAD OFFICE

6-7, Chuodori 1-chome, Morioka,  
Iwate 020-8666, Japan  
Phone: (019)653-1111

### TREASURY AND INTERNATIONAL DIVISION

6-7, Chuodori 1-chome, Morioka,  
Iwate 020-8666, Japan  
Phone: (019)653-1111  
Facsimile: (019)653-5827  
SWIFT Code: KNBPJPJT  
Telex: J 26255 KNPBKID

### FOREIGN EXCHANGE OFFICES

4

### MONEY EXCHANGE OFFICES

22

### ESTABLISHED

February 1942

### COMMON STOCK

¥6,146 million

### NUMBER OF EMPLOYEES

1,185

### STOCK LISTING

First Section of the Tokyo Stock  
Exchange

(As of June 30, 2000)