



THE KITA-NIPPON BANK, LTD.

Annual Report 2002

Year Ended March 31, 2002

Profile

The Kita-Nippon Bank, Ltd. was established in 1942 in Morioka City, Iwate Prefecture, as a regional financial institution serving the Tohoku region of northern Japan. From its inception, the Bank has endeavored to contribute to the region's prosperity through a management philosophy that emphasizes close integration with the local community, sound management and respect for human values.

As of March 31, 2002, the Bank had 88 offices, including 4 sub-branches, mainly in Iwate Prefecture. The Bank and its 4 consolidated subsidiaries, known as The Kita-Nippon Banking Group, are engaged primarily in commercial banking but also offer credit card, leasing and other financial services.

Japanese financial institutions are experiencing rapid and dramatic changes in their operating environment. In response, the Bank is working to strengthen its business base and striving to offer customers financial services with increasingly high added value. Keenly aware of its social responsibilities as a financial institution, the Bank also places utmost priority both on compliance with the law and on risk management, as the way to maintain and reinforce the confidence of customers and shareholders alike.

In this annual report, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ materially from those anticipated in these statements.



Head Office

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Financial Highlights

Years Ended March 31, 2002 and 2001

(Consolidated)	Millions of Yen (Note 1)		Thousands of
	2002	2001	U.S. Dollars (Note 2)
			2002
For the Year			
Total income	¥ 31,559	¥ 34,068	\$ 236,844
Total expenses	38,322	32,412	287,599
Income (loss) before income taxes	(6,763)	1,656	(50,755)
Net income (loss)	(4,292)	846	(32,210)
Cash dividends applicable to the year	408	408	3,069
Per share data:			
Net income (loss) (yen and dollars).....	¥ (524.73)	¥ 103.47	\$ (3.93)
At Year-End			
Total assets.....	¥1,147,260	¥1,158,800	\$8,609,838
Securities	244,769	273,941	1,836,919
Loans and bills discounted	728,705	728,654	5,468,710
Deposits	1,033,725	1,063,158	7,757,786
Common stock.....	6,146	6,146	46,129
Stockholders' equity	50,758	57,203	380,930
(Non-Consolidated)	Millions of Yen (Note 1)		Thousands of
	2002	2001	U.S. Dollars (Note 2)
			2002
For the Year			
Total income	¥ 28,430	¥ 30,733	\$ 213,364
Total expenses	35,479	29,404	266,265
Income (loss) before income taxes	(7,049)	1,328	(52,900)
Net income (loss)	(4,379)	742	(32,865)
Cash dividends applicable to the year	409	409	3,072
Per share data:			
Net income (loss) (yen and dollars).....	¥ (534.74)	¥ 90.70	\$ (4.01)
Cash dividends applicable to the year (yen and dollars)	50.00	50.00	0.37
At Year-End			
Total assets.....	¥1,144,036	¥1,155,278	\$8,585,640
Securities	244,945	274,111	1,838,238
Loans and bills discounted	731,883	731,902	5,492,555
Deposits	1,034,845	1,064,024	7,766,192
Common stock.....	6,146	6,146	46,129
Stockholders' equity	50,526	57,059	379,187

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 ¥133.25 per US\$1.00, the rate prevailing on March 31, 2002.

Message from the Management

OPERATING ENVIRONMENT AND BUSINESS PERFORMANCE

During the term under review, the steep worldwide slump in the information technology sector caused a sharp decline in capital investment in Japan, and in the second half this had a gradual knock-on effect on consumer spending. Although the Bank of Japan maintained its de facto zero-interest policy, global economic activity was further slowed by the aftermath of the September 11 terrorist attacks, and the situation in Japan became still more severe.

In the Bank's home base of Iwate Prefecture, a number of companies based outside Iwate withdrew from operations in the prefecture, and the number of bankruptcies increased. As a result, the unemployment situation worsened, leading to weaker consumer spending and a year-on-year decline in housing investment. Declines were recorded in public investment, private-sector capital spending, and production value in the agricultural and fishery industries.

Amid these difficult circumstances, the Bank and its affiliated companies worked to raise the efficiency of fund operations by adjusting interest rates to appropriate levels and conducting marketing campaigns for personal loans. At the same time, we implemented write-offs of bad debts and provisions to reserves for possible loan losses in line with strict asset self-assessment standards. In addition, bonds whose market value had fallen short of their acquisition cost were sold off, and investment trusts of a similar nature were terminated, while write-downs of securities holdings were carried out under impairment accounting. As a result, the Bank registered a net loss of ¥4,292 million (US\$32 million) on a consolidated basis and a net loss of ¥4,379 million (US\$32 million) on a non-consolidated basis. In line with the Bank's policy of paying a stable dividend to its shareholders, a term-end dividend of ¥25 (US\$0.18) per share was paid, for an annual dividend of ¥50 (US\$0.37).

OUTLOOK

Against the backdrop of a severe bad debt problem and slackening corporate demand for funds, Japan's financial industry faces extremely difficult circumstances. On the other hand, a wider range of opportunities for financial



Toshiaki Sugitani
Chairman



Yasunori Sato
President

institutions has been opened up, thanks to the deregulation of the industry, which has enabled them to respond to the diversification of user needs.

Competition in the financial sector is expected to become much fiercer from here onward, due to the increased selectiveness of users and the entry into the financial marketplace of new players from other industries. The Bank aims to steadily reinforce its business base by continuing to offer an extensive range of financial products and services designed with an eye to user convenience. For this purpose, we will continuously produce new strategies with unique content so as to maintain our preeminent position in the market.

In April 2003, the present system of unlimited insurance guarantee on liquid deposits will come to an end. To meet the stricter management standards required by this new situation, the Bank has centralized risk management functions in one department and taken other steps to strengthen its operational controls. The Bank's capital ratio calculated by domestic standards will be kept at the 9% level on both a consolidated and non-consolidated basis, and all other necessary steps will be taken to maintain the confidence of our customers and other stakeholders in the Bank's financial soundness.

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

During the reporting period, the management of the Bank worked hard to increase deposits by individual customers as a means of strengthening the Bank's business base and improving the cost efficiency of deposits. Amid deteriorating economic conditions, however, the balance of deposits by corporate customers declined. As a result, the term-end balance of deposits came to ¥1,033.7 billion (US\$7,757 million) on a consolidated basis, down 2.7% year-on-year. The balance on a non-consolidated basis was ¥1,034.8 billion (US\$7,766 million), also a decrease of 2.7% from the previous term.

Loans and Bills Discounted

Amid a difficult business environment with little sign of recovery, the Bank made efforts to promote loans to both individuals and smaller companies. Overall, demand for funds was weak, but although loans to corporate customers decreased, personal loans rose, centered on mortgage loans. As a result, the consolidated term-end balance of loans and bills discounted was virtually flat from the previous term, at ¥728.7 billion (US\$5,468 million), while the non-consolidated balance stood at ¥731.8 billion (US\$5,492 million).

Securities

The Bank endeavored to maintain a stable level of revenue, principally from Japanese government bonds and corporate debentures. As a result, the term-end balance of securities stood at ¥244.7 billion (US\$1,836 million) on a consolidated basis, down 10.6% from the previous year, and at ¥244.9 billion (US\$1,838 million) on a non-consolidated basis, down 10.6% year-on-year.

Foreign Exchange Transactions

The volume of foreign exchange transactions, on a non-consolidated basis, declined by 49.3% to US\$6,156 million.

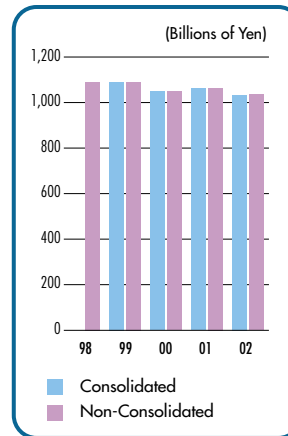
Earnings

Measures were taken to improve asset management, such as the readjustment of interest rates and enhanced marketing of personal loans. At the same time, we implemented write-offs of bad debts and provisions to reserves for possible loan losses in line with strict asset self-assessment standards. In addition, bonds whose market value had fallen short of their acquisition cost were sold off, and investment trusts of a similar nature were terminated, while write-downs of securities holdings were carried out under impairment accounting. As a result, the Bank registered a net loss of ¥4,292 million (US\$32.2 million) on a consolidated basis and a net loss of ¥4,379 million (US\$32.8 million) on a non-consolidated basis.

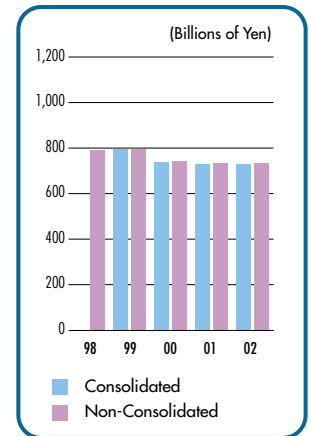
Capital Ratio (Domestic Standards)

The Bank's capital ratio, a prime indicator of financial soundness, was 9.30% on a consolidated basis and 9.20% on a non-consolidated basis at term-end.

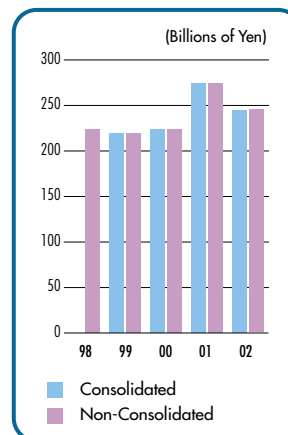
Deposits



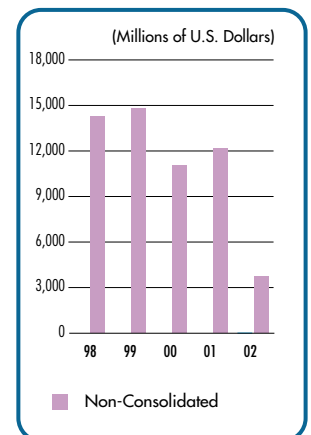
Loans and Bills Discounted



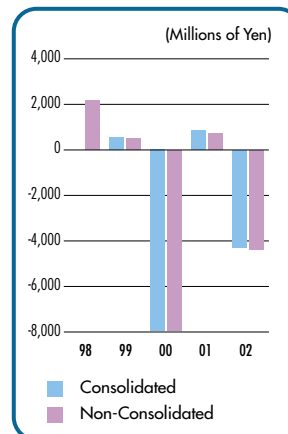
Securities



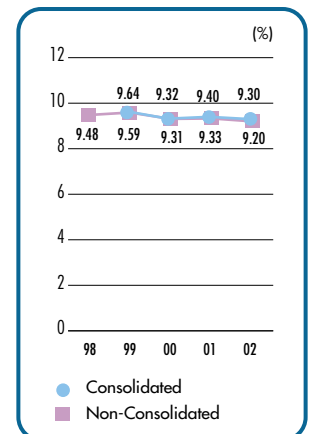
Foreign Exchange Transactions



Net Income (Loss)



Capital Ratio (Domestic Standards)



Consolidated Balance Sheets

March 31, 2002 and 2001

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
ASSETS			
Cash and due from banks	¥ 65,917	¥ 27,794	\$ 494,693
Call loans	65,306	79,885	490,104
Trading account securities	262	91	1,970
Money held in trust	3,072	6,403	23,060
Securities	244,769	273,941	1,836,919
Loans and bills discounted (Note 5)	728,705	728,654	5,468,710
Foreign exchanges.....	305	279	2,293
Other assets	11,788	11,987	88,471
Premises and equipment.....	21,047	20,987	157,953
Deferred tax assets (Note 6)	17,414	13,498	130,689
Customers' liabilities for acceptances and guarantees (Note 7)	13,077	15,102	98,145
Reserve for possible loan losses	(24,408)	(19,827)	(183,174)
Total assets	<u>¥1,147,260</u>	<u>¥1,158,800</u>	<u>\$8,609,838</u>
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY			
Liabilities			
Deposits	¥1,033,725	¥1,063,158	\$7,757,786
Call money	27,800	—	208,630
Borrowed money.....	6,626	7,817	49,733
Foreign exchanges.....	1	0	9
Other liabilities	6,167	7,856	46,282
Reserve for bonuses to employees.....	378	—	2,836
Reserve for employee retirement benefits	4,163	3,141	31,249
Deferred tax liabilities on land revaluation (Note 8).....	3,953	3,999	29,671
Acceptances and guarantees (Note 7).....	13,077	15,102	98,145
Total liabilities	<u>1,095,894</u>	<u>1,101,077</u>	<u>8,224,346</u>
Minority interests	607	519	4,561
Stockholders' Equity (Notes 9 and 10)			
Common stock	6,146	6,146	46,129
Capital surplus	3,375	3,375	25,331
Land revaluation reserve (Note 8).....	5,527	5,592	41,483
Retained earnings	33,776	38,428	253,483
Net unrealized gains on other securities.....	1,992	3,714	14,952
	<u>50,819</u>	<u>57,257</u>	<u>381,381</u>
Less: treasury stock at cost.....	(6)	(0)	(51)
Less: parent bank stock held by subsidiaries	(53)	(53)	(399)
Total stockholders' equity.....	<u>50,758</u>	<u>57,203</u>	<u>380,930</u>
Total liabilities, minority interests and stockholders' equity....	<u>¥1,147,260</u>	<u>¥1,158,800</u>	<u>\$8,609,838</u>

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations and Retained Earnings

For the Years Ended March 31, 2002 and 2001

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
Income			
Interest and dividends on:			
Loans and bills discounted	¥19,590	¥20,289	\$147,022
Securities	4,433	4,834	33,272
Other	1,122	1,632	8,426
Fees and commissions	2,219	2,128	16,656
Other operating income	3,434	3,808	25,776
Other income	758	1,374	5,689
Total income	<u>31,559</u>	<u>34,068</u>	<u>236,844</u>
Expenses			
Interest on:			
Deposits	2,579	4,112	19,355
Borrowings and rediscounts	208	219	1,561
Other	49	160	374
Fees and commissions	890	743	6,686
Other operating expenses	3,344	2,703	25,099
General and administrative expenses	16,666	17,080	125,076
Other expenses	14,583	7,393	109,445
Total expenses	<u>38,322</u>	<u>32,412</u>	<u>287,599</u>
Income (loss) before income taxes	(6,763)	1,656	(50,755)
Income taxes:			
Current	168	2,171	1,264
Deferred	(2,730)	(1,472)	(20,489)
Minority interests	90	110	680
Net income (loss)	<u>(4,292)</u>	<u>846</u>	<u>(32,210)</u>
Retained Earnings			
Balance at beginning of the year	38,428	37,780	288,393
Reversal of land revaluation reserve	64	210	482
Appropriations:			
Cash dividends	408	408	3,069
Bonuses to directors and corporate auditors	15	—	112
Total appropriation	<u>423</u>	<u>408</u>	<u>3,181</u>
Balance at end of the year	<u>¥33,776</u>	<u>¥38,428</u>	<u>\$253,483</u>
	Yen		U.S. Dollars (Note 3)
Net income (loss) per share	¥(524.73)	¥103.47	\$(3.93)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2002 and 2001

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests.....	¥ (6,763)	¥ 1,656	\$(50,755)
Depreciation	960	1,024	7,204
Increase (decrease) in reserve for possible loan losses.....	4,580	(2,327)	34,373
Increase in bonuses to employees.....	378	—	2,836
Decrease in reserve for retirement allowances	—	(2,269)	—
Increase in reserve for employee retirement benefits.....	1,022	3,141	7,670
Interest on loans and discounts received	(25,147)	(26,756)	(188,721)
Interest on deposits.....	2,837	4,491	21,291
(Income) loss on securities transaction.....	2,099	(957)	15,755
Loss on money trust.....	173	440	1,298
Foreign exchange income.....	(5)	(8)	(38)
Income on sales of properties	84	82	632
Net (increase) decrease in loans and bills discounted.....	(51)	9,313	(383)
Net increase (decrease) in deposits	(29,433)	15,423	(220,891)
Net decrease in borrowed money (excluding subordinated debt).....	(190)	(836)	(1,425)
Net decrease in due from banks (other than The Bank of Japan).....	(937)	(251)	(7,036)
Net (increase) decrease in call loans	14,579	(19,832)	109,413
Net increase in call money	27,800	—	208,630
Net increase in foreign exchange assets	(25)	(45)	(194)
Net decrease in foreign exchange liabilities	0	(11)	3
Revenues from fund operations	25,419	26,282	190,765
Expenses resulting from fund procurement	(3,582)	(4,788)	(26,888)
Other	1,502	173	11,275
Sub-total.....	15,299	3,944	114,815
Payment of income taxes.....	(1,687)	(2,713)	(12,662)
Net cash provided by operating activities	13,611	1,230	102,152
Cash flows from investing activities:			
Purchase of securities.....	(44,198)	(73,097)	(331,698)
Sales of securities	26,475	16,055	198,687
Redemption of securities	40,775	12,941	306,005
Decrease in money trust.....	3,000	—	22,514
Purchase of premises and equipment	(1,209)	(1,127)	(9,073)
Sales of premises and equipment	143	470	1,079
Net cash provided by (used in) investing activities	24,986	(44,755)	187,513
Cash flows from financing activities:			
Payment for subordinated debt.....	(1,000)	(4,000)	(7,504)
Payment of cash dividends.....	(408)	(408)	(3,069)
Payment of cash dividends to minority interests.....	(1)	(0)	(14)
Purchases for treasury stock	(12)	(19)	(93)
Proceeds from sale of treasury stock	5	21	42
Net cash used in financing activities	(1,417)	(4,407)	(10,639)
Translation adjustment of cash and cash equivalents	5	8	38
Net increase (decrease) in cash and cash equivalents	37,185	(47,924)	279,065
Cash and cash equivalents at beginning of the year	26,622	74,546	199,794
Cash and cash equivalents at end of the year	¥63,808	¥26,622	\$478,860

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 ¥133.25 per US\$1.00, the rate prevailing on March 31, 2002.

4. Significant Accounting Policies

(a) Scope of Consolidation

Consolidated subsidiaries: 4 (5 in 2001) companies

Fiscal year-end for all consolidated subsidiaries: at end of March

Kitagin Business Service Co., Ltd.

Kitagin UC Co., Ltd.

Kitagin Lease Co., Ltd.

Kitagin Computer Service Co., Ltd.

Kitagin Shukin Daiko Co., Ltd. (excluded at March 31, 2002 due to liquidation)

Unconsolidated subsidiaries and affiliates: Nil

(b) Accounting Policies

(1) Trading Account Securities

Valuation of trading account securities are accounted for based on the mark-to-market method (selling cost is calculated primarily by the moving-average method).

(2) Securities

Valuation of securities are accounted for as follows:

Debt securities held to maturity; at amortized cost (straight-line method) by the moving-average method.

Other securities with market value; at the fiscal year-end market value. Other securities without market value; at cost by the moving-average method or at amortized cost.

Furthermore, valuation differences of other securities are all recorded as a separate component of stockholders' equity (selling costs are primarily calculated by the moving-average method).

Valuation of securities primarily invested as trust assets in independent money trusts are accounted for based on the mark-to-market method.

(3) Derivative Contracts

The market value of derivative contracts is accounted for based on the mark-to-market method.

(4) Depreciation and Amortization

Premises and equipment

The straight-line method is adopted for premises and equipment (declining-balance method for vehicle and delivery equipment). The useful life of main items is as follows:

Buildings; 12 to 32 years

Movables; 5 to 20 years

Premises and equipment of consolidated subsidiaries are

primarily depreciated by the declining-balance method based on their statutory useful life.

Software

In-house use software is amortized by the straight-line method based on the usable service life (over 5 years) within the Bank and its consolidated subsidiaries.

(5) Reserve for Possible Loan Losses

A reserve for possible loan losses has been provided for in accordance with pre-determined devaluation and reserve standards as described hereunder.

As regards normal loans and those corresponding to possible loan losses as prescribed by the "Practical business guidelines relative to verification of internal control in connection with self-assessment of assets of financial institutions such as banks, writing off bad debts and audit of bad debt reserve" (Report No. 4 of the Special Banks, etc. Audit Committee of the Japanese Institute of Certified Public Accountants), a loss rate is identified for the probable occurrence of bankruptcy for each type of loan involved subsequent to classification, and a reserve is recorded based on future expectations made thereof. As for loans to clients for whom there is a high probability of bankruptcy, a 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, based on past bankruptcy records, etc. calculated from actual bankruptcies over a certain period of time. Regarding loans to insolvent clients who are bankrupt or are effectively bankrupt, a reserve is provided at the balance after deducting possibly collectible amounts due to the existence of security interests or guarantees and estimated unrecoverable amounts, which are directly deducted from the loan as outlined below.

All the above-mentioned reserves for possible loan losses are recorded based on results of asset assessment performed by the Assets Assessment Department in cooperation with marketing related departments in accordance with self-assessment of assets. Additionally, the security interests or guarantees for loans to insolvent clients who are undergoing bankruptcy or other collection proceedings, the balance after deducting the amount considered recoverable by the assessed amount of security and guaranty is deemed to be the unrecoverable amount and such amount directly deducted from the loan amount. Such amount is ¥20,136 million in the aggregate.

As regards reserves for possible loan losses of consolidated subsidiaries, for ordinary loans, a necessary amount is provided taking into consideration past loan loss records, and for specific loans where there is a strong probability of such loan losses occurring, an estimated unrecoverable amount is provided taking into consideration individual recoverable potential.

(6) Reserve for Bonuses to Employees

Reserve for bonuses to employees is provided for future payments of bonuses to employees at the amount of estimated bonuses, which are attributable to respective fiscal year.

(7) Reserve for Employee Retirement Benefits

To provide for payment of employees' retirement benefits, the amount required based on estimated future benefit payments and pension assets at the fiscal year-end is recorded as a reserve for employee retirement benefits.

Actuarial differences of the plans were to be amortized from the succeeding fiscal year over the specified period (15 years) within the average remaining service period of the employees at the time of occurrence.

The difference (¥4,537 million) resulting from the change in accounting standards, effective in 2001, is accounted for proportionally as expense over a period of five years.

(8) Translation of Accounts Denominated in Foreign Currencies
Assets and liabilities in foreign currencies are translated and denoted in yen at the prevailing exchange rate at the respective balance sheet dates.

(9) Leasing Transactions

Financing leases other than those for which ownership of the leased property is transferred to the lessee are accounted for as ordinary rental transactions.

(10) Hedging Activities

"Macro-hedging" which undertakes overall control of interest risk accruing from multiple financial assets and/or debts such as loans, deposits, etc. using derivative contracts is adopted, but as of the end of the term no such transaction was realized. For a part of the assets, however, exceptional accounting for interest swapping was applied.

(11) Accounting for Consumption Taxes

Consumption taxes are accounted for based on the tax exclusion method.

(c) Valuation of Assets and Liabilities of Consolidated Subsidiaries

Assets and liabilities of consolidated subsidiaries at the time of initial consolidation are recorded at market value.

(d) Amortization of Consolidation Differences

Consolidation differences are, in principle, totally charged to income when incurred.

(e) Appropriation of Retained Earnings

The consolidated statement of retained earnings reflects the appropriation of earnings made during the fiscal year.

(f) Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows consists of cash and deposits with the Bank of Japan amongst "Cash and due from banks" under the consolidated balance sheets.

<Additional Information>

(Foreign currency translation)

Formerly, the Bank applied the New Foreign Exchange Accounting Standards for the banking industry in accordance with the provisions of the Tentative Auditing Treatment for the Continued Employment of New Foreign Exchange Accounting Standards in the Banking Industry issued by JICPA (Japanese Institute of Certified Public Accountants) dated April 10, 2000.

Effective from the year ended March 31, 2002, the Bank applies the revised accounting standards for foreign currency

transactions ('Opinion Concerning Revision of Accounting Standard for Foreign Currency Transactions' issued by Business Accounting Deliberation Council on October 22, 1999) with the exception of when 'Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry' (JICPA Industry Audit Committee Report No. 20) is applied.

Fund swap transactions are accounted for pursuant to the Report No. 20 as follows:

(1) Initial exchange cash flows are assumed as principal of claim and debt and are reported on the consolidated balance sheet at the exchange rate prevailing at the consolidated balance sheet date in the net amount.

(2) Differences between the initial and final exchange cash flows by currency, which are the reflection of the difference in the yield between the currencies, are assumed as interest and are accounted for on an accrual basis on the consolidated balance sheets and the consolidated statement of operations.

Fund swap transactions are foreign exchange transactions that are contracted for the purpose of lending or borrowing funds in different currencies. These transactions consist of spot foreign exchange either bought or sold and forward foreign exchange either bought or sold.

(3) Prior to April 1, 2001, accrued bonuses to employees were included in 'other liabilities,' but effective April 1, 2001, the reserve is represented separately in accordance with "Concerning Financial Statement Titles to Be Used for Accrued Bonuses for Employees" (Research Center Review Information No. 15 by JICPA). In consequence, other liabilities decreased by ¥378 million and reserve for bonuses to employees increased by the same amount as of March 31, 2002 as compared with the former presentation.

5. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2002 and 2001 included the following non-performing loans:

	Millions of Yen	
	2002	2001
Loans to bankrupt borrowers	¥11,068	¥ 8,090
Loans past due.....	46,835	40,895
Loans past due over 3 months	279	383
Restructured loans	22,471	29,094
Total.....	¥80,654	¥78,465

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, 2002 and 2001 are as follows:

	Millions of Yen	
	2002	2001
Deferred tax assets:		
Reserve for possible loan losses.....	¥ 9,292	¥ 7,213
Write-off of bad debts.....	5,948	6,368
Reserve for employee retirement benefits.....	1,662	1,234
Depreciation.....	706	666
Operating loss carry-over.....	617	—
Other.....	802	772
Valuation allowance.....	(83)	—
Sub total.....	<u>18,945</u>	<u>16,256</u>
Deferred tax liabilities:		
Net unrealized gains on other securities.....	(1,424)	(2,656)
Other.....	(106)	(101)
Sub total.....	<u>(1,531)</u>	<u>(2,757)</u>
Net deferred tax assets.....	<u>¥17,414</u>	<u>¥13,498</u>

7. Loan Commitments

The amount of unused commitments provided by commitment line contracts on overdrafts and loans was ¥43,045 million as of March 31, 2002. The total amount of unused commitments does not necessarily represent actual future cash flow requirements.

8. Land Revaluation

In accordance with the Law concerning the Revaluation of Land, the Bank revalued land held for its operation on March 31, 2001. Net unrealized gain was stated in stockholders' equity net of applicable income taxes as "Land Revaluation Reserve."

9. Stockholders' Equity

As of March 31, 2002 the Bank had 12,000 thousand authorized shares of common stock of which 8,190 thousand shares were issued.

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 operations 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

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, 2002 and 2001, 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, 2002 and 2001, 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.

Note: As described in Additional Information of Note 4, the revised accounting standards for foreign currency transactions are applied by the Bank, effective from the year ended March 31, 2002.

June 27, 2002

Hokko Audit Corporation

Hokko Audit Corporation
Morioka, Japan

Non-Consolidated Balance Sheets

March 31, 2002 and 2001

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
ASSETS			
Cash and due from banks	¥ 65,867	¥ 27,744	\$ 494,315
Call loans	65,306	79,885	490,104
Trading account securities	262	91	1,970
Money held in trust	3,072	6,403	23,060
Securities	244,945	274,111	1,838,238
Loans and bills discounted	731,883	731,902	5,492,555
Foreign exchanges	305	279	2,293
Other assets	5,210	5,046	39,104
Premises and equipment	20,927	20,884	157,050
Deferred tax assets	17,310	13,425	129,911
Customers' liabilities for acceptances and guarantees	13,077	15,101	98,143
Reserve for possible loan losses	(24,132)	(19,597)	(181,108)
Total assets	<u>¥1,144,036</u>	<u>¥1,155,278</u>	<u>\$8,585,640</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities			
Deposits	¥1,034,845	¥1,064,024	\$7,766,192
Call money	27,800	—	208,630
Borrowed money	4,000	5,000	30,018
Foreign exchanges	1	0	9
Other liabilities	5,329	6,961	39,999
Reserve for bonuses to employees	349	—	2,623
Reserve for employee retirement benefits	4,152	3,131	31,163
Deferred tax liabilities on land revaluation	3,953	3,999	29,671
Acceptances and guarantees	13,077	15,101	98,143
Total liabilities	<u>1,093,509</u>	<u>1,098,218</u>	<u>8,206,453</u>
Stockholders' Equity			
Common stock	6,146	6,146	46,129
Capital surplus	3,375	3,375	25,331
Legal reserve (Note 4)	3,500	3,420	26,272
Land revaluation reserve	5,527	5,592	41,483
Retained earnings (Note 5)	29,990	34,809	225,067
Net unrealized gains on other securities	1,992	3,714	14,953
Treasury stock	(6)	—	(51)
Total stockholders' equity	<u>50,526</u>	<u>57,059</u>	<u>379,187</u>
Total liabilities and stockholders' equity	<u>¥1,144,036</u>	<u>¥1,155,278</u>	<u>\$8,585,640</u>

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Operations and Retained Earnings

For the Years Ended March 31, 2002 and 2001

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
Income			
Interest and dividends on:			
Loans and bills discounted	¥19,534	¥20,234	\$146,599
Securities	4,434	4,833	33,278
Other	1,122	1,633	8,427
Fees and commissions	2,007	1,908	15,069
Gains on securities and money held in trust	511	1,159	3,837
Other income	819	962	6,152
Total income	<u>28,430</u>	<u>30,733</u>	<u>213,364</u>
Expenses			
Interest on:			
Deposits	2,579	4,112	19,357
Borrowings and rediscounts	155	213	1,169
Other	49	160	374
Fees and commissions	1,050	886	7,881
Losses on sales, redemption and valuation of bonds	825	14	6,191
General and administrative expenses	16,357	16,817	122,757
Losses on sales and valuation of share stocks	1,769	5	13,279
Losses on money held in trust	181	618	1,365
Other expenses	12,510	6,575	93,889
Total expenses	<u>35,479</u>	<u>29,404</u>	<u>266,265</u>
Income (loss) before income taxes	(7,049)	1,328	(52,900)
Income taxes:			
Current	30	2,042	226
Deferred	(2,699)	(1,456)	(20,261)
Net income (loss)	<u>(4,379)</u>	<u>742</u>	<u>(32,865)</u>
Retained Earnings			
Balance at beginning of the year	34,809	34,387	261,230
Reversal of land revaluation reserve	64	—	482
Appropriations:			
Transfer to legal reserve	80	120	600
Cash dividends	409	409	3,072
Bonuses to directors and corporate auditors	15	210	112
Balance at end of the year	<u>¥29,990</u>	<u>¥34,809</u>	<u>\$225,067</u>
	<u>Yen</u>		<u>U.S. Dollars (Note 3)</u>
Per Share of Common Stock			
Net income (loss)	¥(534.74)	¥90.70	\$ (4.01)
Cash dividends applicable to the year	50.00	50.00	0.37

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 ¥133.25 per US\$1.00, the rate prevailing on March 31, 2002.

4. Legal Reserve

Under the Japanese Banking Law, an amount equivalent to at least 20% of cash dividends and bonuses to directors and statutory auditors must be appropriated to a legal reserve from retained earnings until total of such reserve and capital surplus equals 100% of paid-up capital. This reserve is, in principle, 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 27, 2002, approved the year-end appropriation of retained earnings existing as of March 31, 2002.

	Millions of Yen
Retained earnings at March 31, 2002.....	¥29,990
Appropriations:	
Cash dividends.....	204
Retained earnings carried forward.....	<u>¥29,786</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, 2002 and 2001, 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.

In our opinion, the financial statements mentioned above, expressed in Japanese yen, present fairly the financial position of The Kita-Nippon Bank, Ltd. as of March 31, 2002 and 2001, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

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.

Note: As described in Additional Information of Note 4 of the Notes to Consolidated Financial Statements, the revised accounting standards for foreign currency transactions is applied by the Bank, effective from the year ended March 31, 2002.

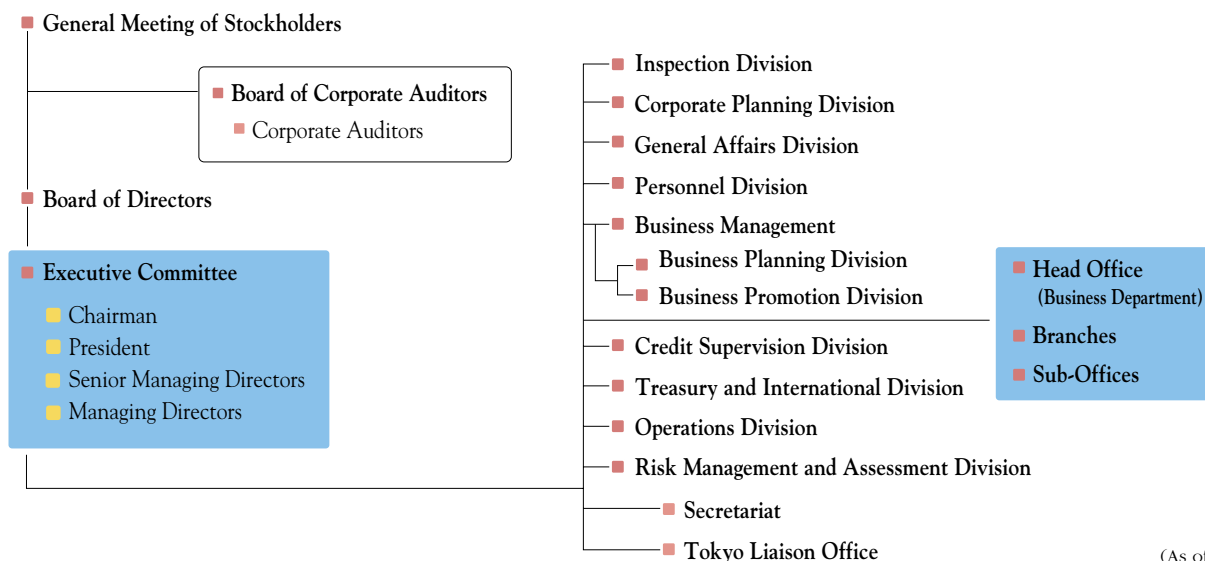
June 27, 2002

Hokko Audit Corporation

Hokko Audit Corporation
Morioka, Japan

Corporate Directory

Organization



(As of June 30, 2002)

Board of Directors and Corporate Auditors

Chairman

Toshiaki Sugitani

President

Yasunori Sato

Senior Managing Directors

Masaaki Saito
Toshio Umemura

Managing Directors

Takashi Minase
Teruo Odanaka

Directors

Iwao Terui
Koichi Matsumoto
Minoru Ota
Tsutomu Miya

Corporate Auditors

Yoshinori Ichikawa
Seiichiro Ishikawa
Katsujiro Ishikawa
Sueki Tojima

(As of July 1, 2002)

Consolidated Subsidiaries

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 UC Co., Ltd.	Credit card, credit guarantee services	20	50	1988
Kitagin Lease Co., Ltd.	Leasing and financing services	50	65	1990

(As of June 30, 2002)

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: KNPBJPJT
Telex: J 26255 KNPBKID

Foreign Exchange Offices

4

Money Exchange Offices

22

Common Stock

¥6,146 million

Number of Employees

1,093

Stock Listing

The First Section of the Tokyo Stock
Exchange

(As of March 31, 2002)