



The Kita-Nippon Bank, Ltd.  
**Annual Report 2003**

Year Ended March 31, 2003



**KITA-NIPPON BANK**



# 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, 2003, the Bank had 84 offices, including 3 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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# Message from the President

## OPERATING ENVIRONMENT AND BUSINESS PERFORMANCE

Corporate earnings showed a gradual recovery during the reporting period thanks to cost-cutting measures, notably payroll expenses. By the same token, however, the Japanese business environment as a whole remained difficult as the resultant stagnation in wage levels depressed consumer spending.

In the face of these circumstances, the government and the Bank of Japan cooperated to stabilize the financial and capital markets, and took bold steps to halt the deflation process. Nevertheless, with the Nikkei 225 Stock Average hovering around the ¥8,000 level, and international economic prospects being clouded by the tension surrounding the Iraq situation as well as the SARS epidemic, Japan ended the business term with the long-awaited business recovery still out of reach.

In Iwate Prefecture, too, overall business conditions continued to deteriorate. While agriculture and fisheries performed in line with expectations, consumer spending stagnated, the number of new housing construction starts was low, and the weakness of both public investment and private-sector capital spending persisted from the previous business term.

In the face of these circumstances, the management and staff of The Kita-Nippon Banking Group pushed ahead with measures to strengthen marketing tailored to the needs of specific areas, while at the same time working to improve the efficiency of fund operations and further reduce costs across the board. To create an even sounder asset portfolio, we adopted stricter standards for self-assessment of our loan assets, and unhesitatingly implemented write-offs and provisions to reserves for possible loan losses. As a result, the Bank registered a net income of ¥732 million (US\$6 million) on a consolidated basis and ¥650 million (US\$5 million) on a non-consolidated basis. The Bank's capital ratio according to domestic standards came to 9.30% on a consolidated basis and 9.17% on a non-consolidated basis, maintaining our high levels from the previous term. In line with the Bank's policy of paying a stable dividend to its stockholders, a term-end dividend of ¥25 (US\$0.21) per share was paid, for an annual dividend of ¥50 (US\$0.41).



Yasunori Sato  
President

## OUTLOOK

Henceforth, the management and staff of the Kita-Nippon Bank will work unceasingly to raise earning power, and ensure the soundness of our asset portfolio. We will work to reinforce the Bank's management base, streamline and rationalize operational procedures, strengthen our risk management and legal compliance systems, and establish a thorough system of corporate governance. We will also deploy a highly transparent investor relations strategy with the objective of satisfying our stockholders and investors with the full-scale nature of our financial disclosure. By these means, we aim to still further cement the bonds of trust between ourselves and our stakeholders and continue to make a valuable contribution to the economic development of our local region.

A handwritten signature in black ink that reads "Y. Sato". The signature is written in a cursive, flowing style.

Yasunori Sato  
President

# Financial Review

## Deposits

In reflection of the weak economy, deposits of corporate customers declined during the reporting period. However, an increase in the balance of deposits from individuals more than offset this fall. We made efforts to expand our operating base and increase the proportion of deposits from individuals relative to total deposits. As a result, the term-end balance of deposits rose 3.1% year-on-year to ¥1,066.2 billion (US\$8,871 million) on a consolidated basis, and by 3.1% to ¥1,067.3 billion (US\$8,880 million) on a non-consolidated basis.

## Loans and Bills Discounted

Amid a difficult business environment in which business conditions showed no signs of recovery, we worked to encourage small and medium-sized businesses, as well as individuals, to take out loans. While loans to corporate customers declined, loans to individuals rose — principally for mortgage loans — thanks to the low level of interest rates. As a result, the term-end balance of loans and bills discounted was up 1.3% at ¥738.2 billion (US\$6,142 million) on a consolidated basis, and up 1.2% at ¥741.3 billion (US\$6,168 million) on a non-consolidated basis.

## Securities

Thanks to the Bank's operations in the bond market, principally Japanese government bonds and corporate debentures, in accordance with our policy of ensuring a stable level of earnings revenue, the term-end balance of securities came to ¥246.1 billion (US\$2,047 million), up 0.5% year-on-year, on a consolidated basis, and to ¥246.2 billion (US\$2,049 million), up 0.5% year-on-year, on a non-consolidated basis.

## Foreign Exchange Transactions

The volume of foreign exchange transactions by the Bank, on a non-consolidated basis, declined by 92.6% from the previous term, to US\$451 million.

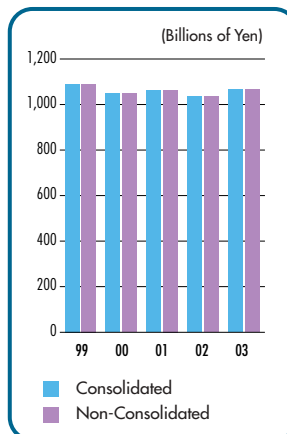
## Earnings

Steps were taken to improve the efficiency of asset management, including rigorous efforts to ensure that the interest rates set on loans correspond more closely to borrower categories resulting from our credit screening. We also put greater focus on marketing in the field of loans to individuals. At the same time, further initiatives were implemented to reduce costs, notably personnel expenses. Thanks to this twin-pronged offensive, the Bank was able to strengthen its earning power. Moreover, stricter standards were applied to asset self-assessment, and write-offs of bad debts and provisions to reserves for possible loan losses were vigorously implemented, while impairment accounting was applied to equity shares whose book values had declined notably below the fair market value. As a result of these measures, the Bank registered a net income of ¥732 million (US\$6 million) on a consolidated basis and ¥650 million (US\$5 million) on a non-consolidated basis.

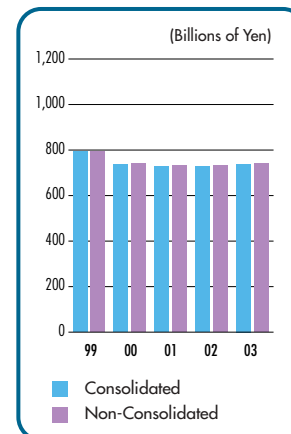
## Capital Ratio (Domestic Standard)

The Bank's capital ratio, a prime indicator of financial soundness, stood at 9.30% on a consolidated basis and 9.17% on a non-consolidated basis at term-end. The Bank thus maintained the same degree of financial robustness as in the previous fiscal year.

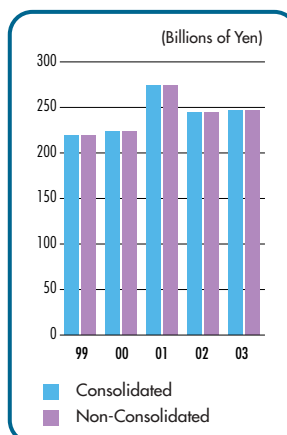
### Deposits



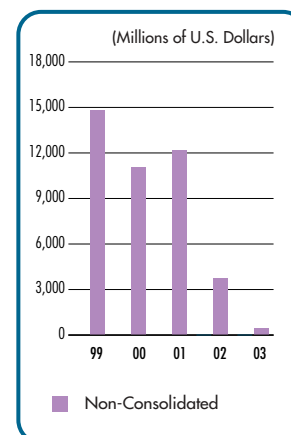
### Loans and Bills Discounted



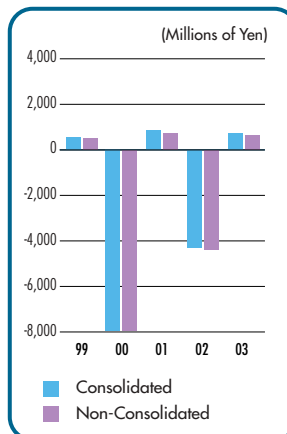
### Securities



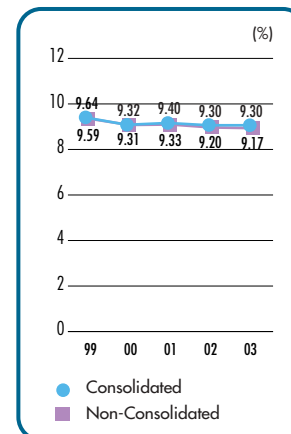
### Foreign Exchange Transactions



### Net Income (Loss)



### Capital Ratio (Domestic Standard)



# Consolidated Balance Sheets

March 31, 2003 and 2002

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
<b>ASSETS</b>			
Cash and due from banks .....	¥ 39,963	¥ 65,917	\$ 332,475
Call loans .....	96,264	65,306	800,868
Trading account securities .....	79	262	658
Money held in trust .....	2,606	3,072	21,680
Securities .....	246,108	244,769	2,047,490
Loans and bills discounted (Note 5) .....	738,271	728,705	6,142,028
Foreign exchanges.....	478	305	3,978
Other assets .....	13,402	11,788	111,501
Premises and equipment.....	21,222	21,047	176,563
Deferred tax assets (Note 6) .....	16,785	17,414	139,649
Customers' liabilities for acceptances and guarantees .....	11,675	13,077	97,137
Reserve for possible loan losses .....	(21,065)	(24,408)	(175,251)
Total assets .....	<u>¥1,165,793</u>	<u>¥1,147,260</u>	<u>\$9,698,781</u>
<b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits .....	¥1,066,284	¥1,033,725	\$8,870,916
Call money .....	18,200	27,800	151,414
Borrowed money.....	6,255	6,626	52,038
Foreign exchanges.....	0	1	7
Other liabilities .....	4,839	6,167	40,261
Reserve for bonuses to employees.....	480	378	3,997
Reserve for employee retirement benefits .....	3,132	4,163	26,063
Deferred tax liabilities on land revaluation (Note 8).....	3,818	3,953	31,767
Acceptances and guarantees.....	11,675	13,077	97,137
Total liabilities .....	<u>1,114,687</u>	<u>1,095,894</u>	<u>9,273,605</u>
<b>Minority interests</b> .....	<b>661</b>	<b>607</b>	<b>5,504</b>
<b>Stockholders' equity</b>			
Common stock (Note 9) .....	6,146	6,146	51,138
Capital surplus .....	3,375	3,375	28,081
Retained earnings .....	34,117	33,776	283,842
Land revaluation reserve (Note 8).....	5,633	5,527	46,864
Net unrealized gains on other securities.....	1,372	1,992	11,417
	<u>50,645</u>	<u>50,819</u>	<u>421,343</u>
Less: treasury stock at cost.....	(200)	(60)	(1,671)
Total stockholders' equity.....	<u>50,444</u>	<u>50,758</u>	<u>419,672</u>
Total liabilities, minority interests and stockholders' equity....	<u>¥1,165,793</u>	<u>¥1,147,260</u>	<u>\$9,698,781</u>

See Notes to consolidated financial statements.

# Consolidated Statements of Operations and Retained Earnings

For the Years Ended March 31, 2003 and 2002

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
<b>Income</b>			
Interest and dividends on:			
Loans and bills discounted .....	¥19,143	¥19,590	\$159,260
Securities .....	3,680	4,433	30,616
Other .....	56	1,122	468
Fees and commissions .....	2,418	2,219	20,118
Other operating income .....	2,895	3,434	24,086
Other income (Note 11) .....	2,791	758	23,224
Total income .....	<u>30,984</u>	<u>31,559</u>	<u>257,775</u>
<b>Expenses</b>			
Interest on:			
Deposits .....	952	2,579	7,924
Borrowings and rediscounts .....	178	208	1,486
Other .....	5	49	46
Fees and commissions .....	1,216	890	10,117
Other operating expenses .....	2,304	3,344	19,169
General and administrative expenses .....	16,187	16,666	134,670
Other expenses .....	8,061	14,583	67,070
Total expenses .....	<u>28,906</u>	<u>38,322</u>	<u>240,485</u>
Income (loss) before income taxes .....	2,078	(6,763)	17,289
Income taxes:			
Current .....	149	168	1,241
Deferred .....	1,110	(2,730)	9,241
Minority interests .....	86	90	716
Net income (loss) .....	<u>732</u>	<u>(4,292)</u>	<u>6,090</u>
<b>Retained earnings</b>			
Balance at beginning of year .....	33,776	38,428	281,004
Reversal of land revaluation reserve .....	17	64	144
Appropriations:			
Cash dividends .....	408	408	3,397
Bonuses to directors and corporate auditors .....	—	15	—
Total appropriation .....	<u>408</u>	<u>423</u>	<u>3,397</u>
Balance at end of year .....	<u>¥34,117</u>	<u>¥33,776</u>	<u>\$283,842</u>
	<b>Yen</b>		<b>U.S. Dollars (Note 3)</b>
Net income (loss) per share .....	¥89.66	¥ (524.73)	\$ 0.74

See Notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

For the Years Ended March 31, 2003 and 2002

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests.....	¥ 2,078	¥ (6,763)	\$ 17,289
Depreciation .....	904	960	7,523
Increase (decrease) in reserve for possible loan losses.....	(3,342)	4,580	(27,810)
Increase in bonuses to employees.....	102	378	852
Increase (decrease) in reserve for employee retirement benefits...	(1,031)	1,022	(8,577)
Interest on loans and discounts received .....	(22,879)	(25,147)	(190,345)
Interest on deposits.....	1,136	2,837	9,456
Loss on securities transaction .....	499	2,099	4,156
Loss on money trust.....	461	173	3,838
Foreign exchange loss (income) .....	1	(5)	13
Income on sales of properties.....	59	84	497
Net increase (decrease) in loans and bills discounted.....	(9,566)	(51)	(79,585)
Net increase (decrease) in deposits .....	32,559	(29,433)	270,874
Net decrease in borrowed money (excluding subordinated debt).....	(371)	(190)	(3,094)
Net decrease in due from banks (other than The Bank of Japan).....	(1,322)	(937)	(10,999)
Net decrease (increase) in call loans .....	(30,957)	14,579	(257,553)
Net increase (decrease) in call money.....	(9,600)	27,800	(79,866)
Net increase in foreign exchange assets .....	(172)	(25)	(1,435)
Net decrease (increase) in foreign exchange liabilities.....	(0)	0	(3)
Revenues from fund operations .....	23,315	25,419	193,975
Expenses resulting from fund procurement .....	(1,139)	(3,582)	(9,476)
Other .....	(2,991)	1,502	(24,883)
Sub-total.....	(22,255)	15,299	(185,155)
Refund (payment) of income taxes.....	763	(1,687)	6,352
Net cash provided by (used in) operating activities .....	(21,492)	13,611	(178,802)
<b>Cash flows from investing activities:</b>			
Purchase of securities.....	(67,451)	(44,198)	(561,164)
Sales of securities .....	6,174	26,475	51,367
Redemption of securities .....	57,187	40,775	475,770
Decrease in money trust.....	—	3,000	—
Purchase of premises and equipment .....	(1,229)	(1,209)	(10,228)
Sales of premises and equipment .....	118	143	984
Net cash provided by (used in) investing activities .....	(5,201)	24,986	(43,270)
<b>Cash flows from financing activities:</b>			
Payment for subordinated debt.....	—	(1,000)	—
Payment of cash dividends.....	(408)	(408)	(3,397)
Payment of cash dividends to minority interests.....	(1)	(1)	(15)
Purchases for treasury stock .....	(171)	(12)	(1,426)
Proceeds from sale of treasury stock .....	—	5	—
Net cash used in financing activities .....	(581)	(1,417)	(4,839)
<b>Translation adjustment of cash and cash equivalents .....</b>	<b>(1)</b>	<b>5</b>	<b>(13)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>(27,276)</b>	<b>37,185</b>	<b>(226,926)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>63,808</b>	<b>26,622</b>	<b>530,849</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥36,531</b>	<b>¥63,808</b>	<b>\$303,923</b>

See Notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

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## 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.

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## 2. Japanese Yen Amounts

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

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## 3. U.S. Dollar Amounts

The U.S. dollar figures are computed, solely for convenience, at the exchange rate of ¥120.20 per US\$1.00, the rate prevailing on March 31, 2003.

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## 4. Significant Accounting Policies

### (a) Scope of Consolidation

Consolidated subsidiaries: 4 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.

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 (selling costs are primarily calculated by the moving-average method). Other securities without market value; at cost by the moving-average method or at amortized cost. Valuation differences of other securities are all recorded as a separate component of stockholders' equity.

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 (mainly over 5 years) determined by 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 ¥23,746 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 resulting from the change in accounting standards, effective in 2001, is accounted for proportionally as expense over a period of five years.

- (8) 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.
- (9) 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.
- (10) Accounting for Consumption Taxes  
Consumption taxes are accounted for based on the tax exclusion method.
- (11) Income Taxes  
Income taxes comprise corporation, inhabitants’ and enterprise taxes, which normally result in an aggregate tax rate of approximately 41.7%.  
Deferred tax assets and liabilities are recorded based on the temporary differences between the amounts of assets and liabilities of the financial statement and those of tax base.  
Effective for the years starting on April 1, 2004 or later, according to the revised local tax law, enterprise taxes will be reduced and the aggregate tax rate will be decreased to 40.4%. Based on the change, for calculation of deferred income tax assets and liabilities, the Bank and consolidated subsidiaries used the statutory tax rates of 41.7% and 40.4% for current items and non-current items, respectively on March 31, 2003.  
As a result deferred tax assets decreased by ¥375 million and provision for deferred income taxes increased by ¥405 million. Deferred tax liabilities on land revaluation decreased by ¥122 million and land revaluation reserve increased by the same amount. Net unrealized gains on other securities increased by ¥29 million.
- (12) 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.
- (13) Amortization of Consolidation Differences  
Consolidation differences are, in principle, totally charged to income when incurred.
- (14) Appropriation of Retained Earnings  
The consolidated statement of retained earnings reflects the appropriation of earnings made during the fiscal year.
- (15) Consolidated Statements of Cash Flows  
Cash and cash equivalents in the consolidated statements of cash flows consist of cash and deposits with the Bank of Japan amongst “Cash and due from banks” under the consolidated balance sheets.
- (16) Foreign Currency Translation  
Assets and liabilities in foreign currencies are translated and denoted in yen at the prevailing exchange rate at the respective balance sheet dates.

Formerly, the Bank applied 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.

Effective from the year ended March 31, 2003, the Bank applies ‘Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry’ (JICPA Industry Audit Committee Report No. 25). However, for the year ended March 31, 2003, the Bank applies the prior methods for fund swap transactions and for currency swap transactions based on the transition measures of the Report No. 25.

Fund swap transactions are accounted for pursuant to the Report No. 25 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.

## 5. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2003 and 2002 included the following non-performing loans:

	Millions of Yen	
	2003	2002
Loans to bankrupt borrowers .....	¥ 8,309	¥11,068
Loans past due.....	43,000	46,835
Loans past due over 3 months .....	767	279
Restructured loans .....	22,300	22,471
Total.....	<u>¥74,378</u>	<u>¥80,654</u>

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 such as exemption of interest, lowering of interest rate and deferment of principal repayment.

## 6. Deferred Tax Assets

Significant components of deferred tax assets as of March 31, 2003 and 2002 are as follows:

	Millions of Yen	
	2003	2002
Deferred tax assets:		
Reserve for possible loan losses.....	¥ 8,191	¥ 9,292
Write-off of bad debts.....	6,771	5,948
Reserve for employee retirement benefits.....	1,223	1,662
Depreciation.....	855	706
Operating loss carry-over.....	210	617
Other.....	691	802
Valuation allowance.....	(102)	(83)
Sub total.....	<u>17,840</u>	<u>18,945</u>
Deferred tax liabilities:		
Net unrealized gains on other securities.....	(930)	(1,424)
Other.....	(124)	(106)
Sub total.....	<u>(1,054)</u>	<u>(1,531)</u>
Net deferred tax assets.....	<u>¥16,785</u>	<u>¥17,414</u>

## 7. Loan Commitments

The amount of unused commitments provided by commitment line contracts on overdrafts and loans was ¥40,896 million as of March 31, 2003. 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, 2003, 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 income and retained earnings when duly approved and paid. The Bank pays interim dividends to stockholders of record as of September 30.

## 11. Other Income

The Bank recorded gains on the release from the substitutional portion of the Government's Welfare Pension Insurance Scheme, amounting to ¥1,894 million, which is included in other income in the consolidated statements of income for the year ended March 31, 2003.

# Report of Independent Certified Public Accountants

To the Stockholders and Board of Directors of  
The Kita-Nippon Bank, Ltd.:

We have audited the accompanying consolidated balance sheets of The Kita-Nippon Bank, Ltd. and its consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations and retained earnings and of cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Bank'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 present fairly, in all material respects, the consolidated financial position of The Kita-Nippon Bank, Ltd. and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 4 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 3 to the consolidated financial statements.

June 27, 2003

*Hokko Audit Corporation*

Hokko Audit Corporation  
Morioka, Japan

# Non-Consolidated Balance Sheets

March 31, 2003 and 2002

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
<b>ASSETS</b>			
Cash and due from banks .....	¥ 39,923	¥ 65,867	\$ 332,139
Call loans .....	96,264	65,306	800,868
Trading account securities .....	79	262	658
Money held in trust .....	2,606	3,072	21,680
Securities .....	246,294	244,945	2,049,037
Loans and bills discounted .....	741,357	731,883	6,167,701
Foreign exchanges .....	478	305	3,978
Other assets .....	7,061	5,210	58,745
Premises and equipment .....	21,074	20,927	175,331
Deferred tax assets .....	16,683	17,310	138,800
Customers' liabilities for acceptances and guarantees .....	11,675	13,077	97,136
Reserve for possible loan losses .....	(20,715)	(24,132)	(172,345)
Total assets .....	<u>¥1,162,782</u>	<u>¥1,144,036</u>	<u>\$9,673,732</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits .....	¥1,067,377	¥1,034,845	\$8,880,016
Call money .....	18,200	27,800	151,414
Borrowed money .....	4,000	4,000	33,277
Foreign exchanges .....	0	1	7
Other liabilities .....	4,035	5,329	33,577
Reserve for bonuses to employees .....	453	349	3,775
Reserve for employee retirement benefits .....	3,120	4,152	25,957
Deferred tax liabilities on land revaluation .....	3,818	3,953	31,767
Acceptances and guarantees .....	11,675	13,077	97,136
Total liabilities .....	<u>1,112,683</u>	<u>1,093,509</u>	<u>9,256,930</u>
<b>Stockholders' equity</b>			
Common stock .....	6,146	6,146	51,138
Capital surplus .....	3,375	3,375	28,081
Legal reserve (Note 4) .....	3,500	3,500	29,124
Retained earnings (Note 5) .....	30,249	29,990	251,657
Land revaluation reserve .....	5,633	5,527	46,864
Net unrealized gains on other securities .....	1,372	1,992	11,417
Treasury stock .....	(178)	(6)	(1,483)
Total stockholders' equity .....	<u>50,099</u>	<u>50,526</u>	<u>416,801</u>
Total liabilities and stockholders' equity .....	<u>¥1,162,782</u>	<u>¥1,144,036</u>	<u>\$9,673,732</u>

See Notes to non-consolidated financial statements.

# Non-Consolidated Statements of Operations and Retained Earnings

For the Years Ended March 31, 2003 and 2002

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
<b>Income</b>			
Interest and dividends on:			
Loans and bills discounted .....	¥19,076	¥19,534	\$158,705
Securities .....	3,681	4,434	30,624
Other .....	56	1,122	468
Fees and commissions .....	2,188	2,007	18,204
Gains on securities and money held in trust .....	221	511	1,844
Other income .....	2,824	819	23,497
Total income .....	<u>28,047</u>	<u>28,430</u>	<u>233,344</u>
<b>Expenses</b>			
Interest on:			
Deposits .....	952	2,579	7,924
Borrowings and rediscounts .....	134	155	1,120
Other .....	5	49	46
Fees and commissions .....	1,363	1,050	11,339
Losses on sales, redemption and valuation of bonds .....	0	825	4
General and administrative expenses .....	15,868	16,357	132,021
Losses on sales and valuation of share stocks .....	703	1,769	5,856
Losses on money held in trust .....	461	181	3,838
Other expenses .....	6,766	12,510	56,294
Total expenses .....	<u>26,257</u>	<u>35,479</u>	<u>218,446</u>
Income (loss) before income taxes .....	1,790	(7,049)	14,897
Income taxes:			
Current .....	30	30	255
Deferred .....	1,109	(2,699)	9,229
Net income (loss) .....	<u>650</u>	<u>(4,379)</u>	<u>5,411</u>
<b>Retained earnings</b>			
Balance at beginning of year .....	29,990	34,809	249,502
Reversal of land revaluation reserve .....	17	64	144
Appropriations:			
Transfer to legal reserve .....	—	80	—
Cash dividends .....	408	409	3,401
Bonuses to directors and corporate auditors .....	—	15	—
Balance at end of year .....	<u>¥30,249</u>	<u>¥29,990</u>	<u>\$251,657</u>
	<u>Yen</u>		<u>U.S. Dollars (Note 3)</u>
<b>Per share of common stock</b>			
Net income (loss) .....	¥79.63	¥(534.74)	\$0.66
Cash dividends applicable to the year .....	50.00	50.00	0.41

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 ¥120.20 per US\$1.00, the rate prevailing on March 31, 2003.

## 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, 2003, approved the following year-end appropriation of retained earnings existing as of March 31, 2003.

	Millions of Yen
Retained earnings at March 31, 2003.....	¥30,249
Appropriations:	
Cash dividends.....	203
Retained earnings carried forward.....	<u>¥30,046</u>

# Report of Independent Certified Public Accountants

To the Stockholders and Board of Directors of  
The Kita-Nippon Bank, Ltd.:

We have audited the accompanying non-consolidated balance sheets of The Kita-Nippon Bank, Ltd. as of March 31, 2003 and 2002, and the related non-consolidated statements of operations and retained earnings for the years then ended, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these non-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 non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of The Kita-Nippon Bank, Ltd. as of March 31, 2003 and 2002, and the non-consolidated results of their operations for each of the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 4 to the consolidated financial statements.

The non-consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the non-consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 3 to the non-consolidated financial statements.

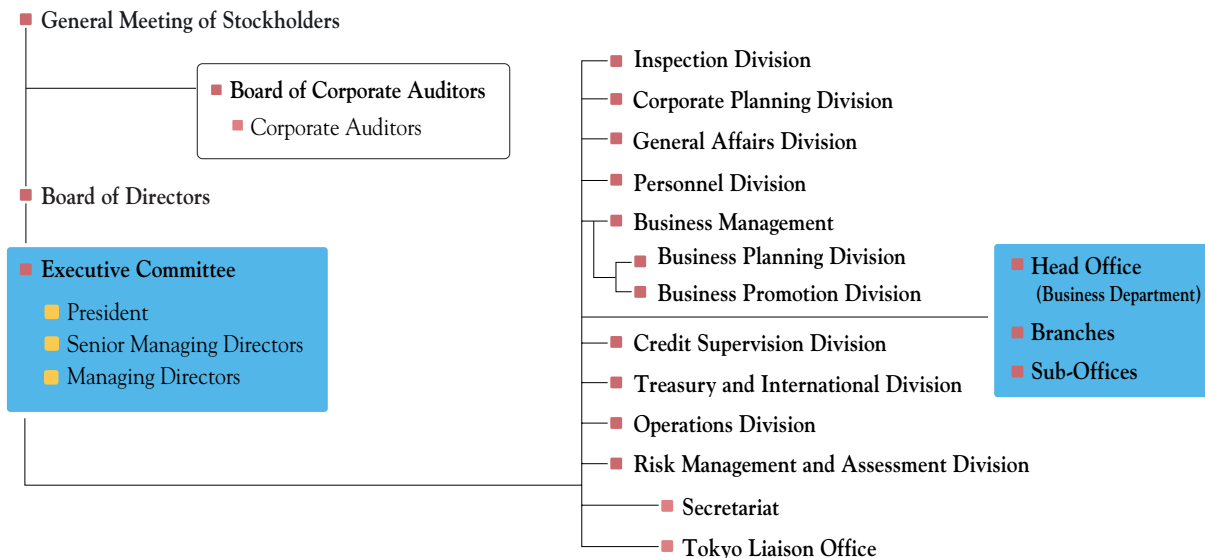
June 27, 2003

*Hokko Audit Corporation*

Hokko Audit Corporation  
Morioka, Japan

# Corporate Directory

## Organization (As of June 30, 2003)



## Board of Directors and Corporate Auditors (As of July 1, 2003)

### President

Yasunori Sato

### Senior Managing Directors

Toshio Umemura  
Masaaki Saito

### Managing Directors

Teruo Odanaka  
Koichi Matsumoto  
Tsutomu Miya

### Directors

Minoru Ota  
Hiromasa Odashima  
Kenichi Kondo  
Hisao Kita

### Corporate Auditors

Yoshinori Ichikawa  
Seiichiro Ishikawa  
Katsujiro Ishikawa  
Sueki Tojima

## Consolidated Subsidiaries (As of June 30, 2003)

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	5	1990

## Corporate Data (As of March 31, 2003)

### 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

### Money Exchange Offices

26

### Common Stock

¥6,146 million

### Number of Employees

1,082

### Stock Listing

The First Section of the Tokyo Stock Exchange



**Head Office**

6-7, Chuodori 1-chome, Morioka,

Iwate 020-8666, Japan

Phone: (019) 653-1111