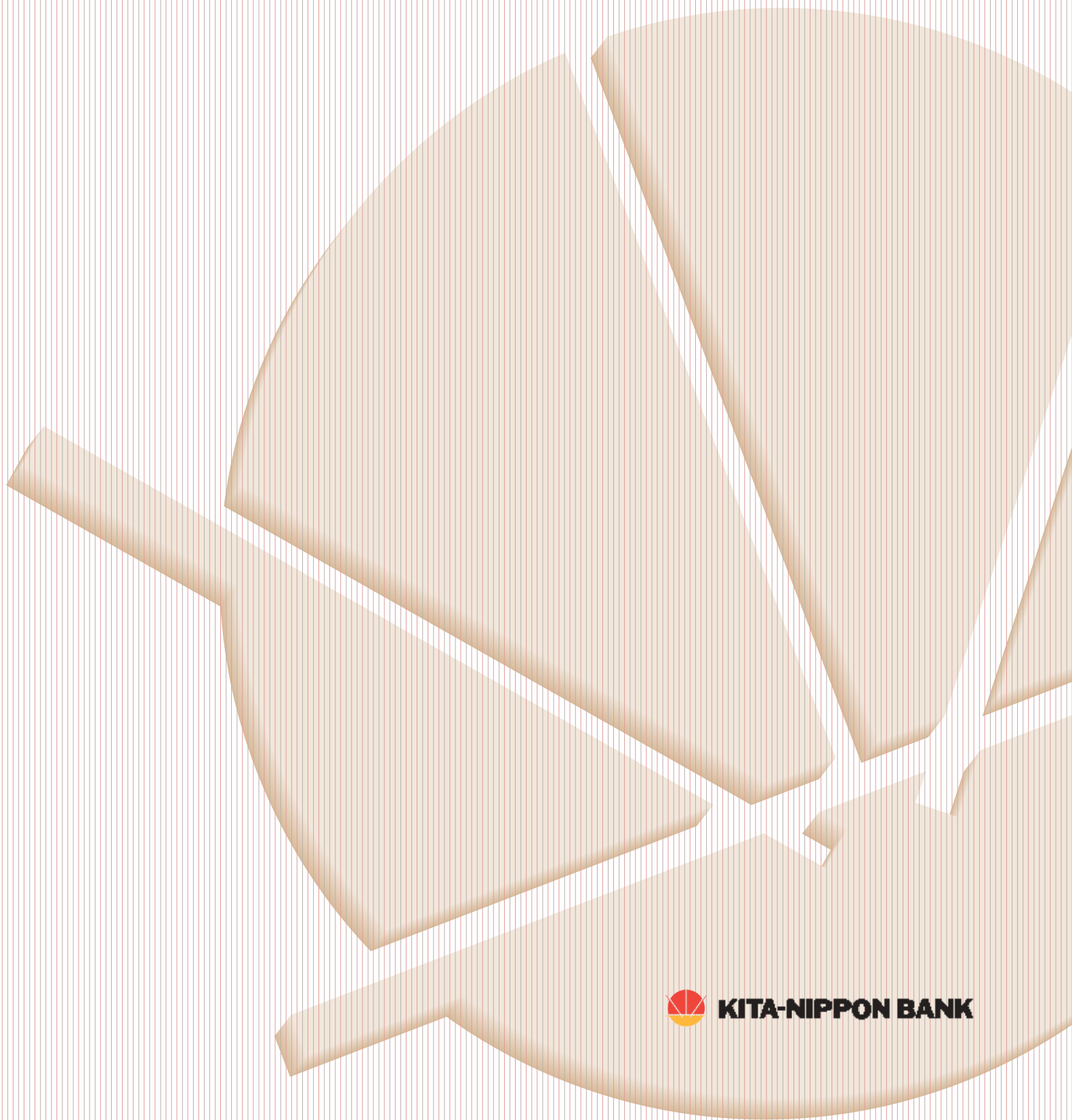


Annual Report 2004 Year Ended March 31, 2004

The Kita-Nippon Bank, Ltd.



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, 2004, the Bank had 84 offices, including 2 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.



Head Office

Contents

Financial Highlights	1
Message from the President	2
Financial Review	3
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Retained Earnings	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Report of Independent Certified Public Accountants	9
Corporate Directory	10

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.

Financial Highlights

Years Ended March 31, 2004 and 2003

(Consolidated)	Millions of Yen (Note 1)		Thousands of
	2004	2003	U.S. Dollars (Note 2)
			2004
For the Year			
Total income	¥ 28,652	¥ 30,984	\$ 271,101
Total expenses	25,688	28,906	243,059
Income before income taxes	2,963	2,078	28,042
Net income.....	1,517	732	14,358
Cash dividends applicable to the year	407	408	3,853
Per share data (yen and dollars):			
Net income	¥ 183.80	¥ 89.66	\$ 1.73
At Year-End			
Total assets.....	¥1,161,161	¥1,165,793	\$10,986,487
Securities	248,818	246,108	2,354,233
Loans and bills discounted	735,043	738,271	6,954,714
Deposits	1,068,159	1,066,284	10,106,529
Common stock.....	6,146	6,146	58,158
Stockholders' equity	53,240	50,444	503,741

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 ¥105.69 per US\$1.00, the rate prevailing on March 31, 2004.

Message from the President

OPERATING ENVIRONMENT AND BUSINESS PERFORMANCE

Japan's economy showed signs of recovery. In addition to brisk exports, supported by a vibrant economy in China and a U.S. economic recovery, rising capital investment spurred corporate activity, enabling banks to make progress in disposing their non-performing loans. This helped to allay the public's concerns about Japan's financial system. The Nikkei 225-stock average also moved higher.

On the other hand, the unemployment situation remained sluggish, and consumer prices were also weak. Wholesale prices, however, turned upward, reflecting a rise in domestic demand, fueling expectations that deflation had been successfully overcome.

Regarding the local economy in Iwate Prefecture, improvements were seen in the performance of companies in the manufacturing sector, especially among those in the fields of information and communication technology, digital consumer electronics, and electronic equipment. Conditions were particularly severe for the construction industry. The substantially lower levels of public spending reflected the government's belt-tightening approach to budgetary spending.

Amid this economic environment, the Kita-Nippon Banking Group aims to provide comprehensive financial services that will respond to our customers' diverse and sophisticated needs. We are continuing our efforts to effectively utilize assets under management and reduce operating costs. In order to increase the soundness of our asset portfolio, we enforced stricter asset self-assessment, aggressively undertook write-offs, and made ample provisions for possible loan losses. As a result, the Bank registered a net income of ¥1,517 million (US\$14 million) on a consolidated basis, far exceeding the previous year's level. The capital ratio (according to domestic standards) – the key indicator of financial soundness – came to 9.51% on a consolidated basis, remaining at the previous term's high level. In line with the Bank's policy of paying a stable dividend to its stockholders, a term-end dividend of ¥25 (US\$0.23) per share was paid, for an annual dividend of ¥50 (US\$0.47).



Yasunori Sato
President

OUTLOOK

Henceforth, the management of the Kita-Nippon Bank, taking into account the current operating environment and utilizing currently available information, has made utmost efforts to devise optimal management policies. However, we anticipate a severe business environment for regional banks, given the declining trend in public investment and the protracted weakness of the employment situation. Amid such conditions, we will make vigorous efforts to increase the efficiency of our operations by pursuing more efficient asset management and further reducing costs. Through these measures, we aim to strengthen our financial base and improve our earnings performance. We will also work hard to make a valuable contribution to the economic development of our local region, and thereby fulfill our primary mission as a regional bank.

We would like to express our deep appreciation for your continued support.

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

Reflecting the weakness of the 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 rose by ¥1.8 billion, or 0.1% year-on-year, to ¥1,068.1 billion (US\$10,106 million) on a consolidated basis.

Loans and Bills Discounted

Amid a difficult business environment in which corporate demand for funds remained low, we worked to encourage individuals to take out loans. While loans to corporate customers declined, loans to individuals rose – principally for mortgages. As a result, the term-end balance of loans and bills discounted decreased by ¥3.2 billion, or 0.4% year-on-year, to ¥735.0 billion (US\$6,954 million).

Securities

Taking into account interest rate movements, we were able to efficiently manage assets and secure steady profits, primarily through investment in Japanese government bonds and straight corporate bonds. As a result, the term-end balance of securities came to ¥248.8 billion (US\$2,354 million), up ¥2.7 billion, or 1.1% from the previous term.

Foreign Exchange Transactions

The volume of foreign exchange transactions by the Bank, increased US\$235 million to US\$686 million.

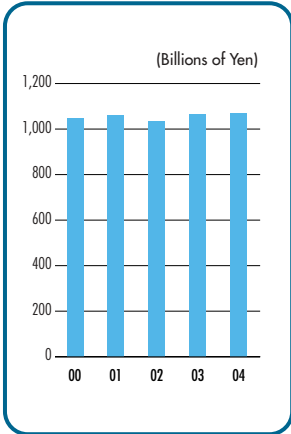
Earnings

We have continued taking steps to improve the efficiency of asset management and reduce costs. To further enhance the soundness of our asset portfolio, stricter standards were applied to asset self-assessment, and consequently write-offs of bad debts, and provisions to reserves for possible loan losses were vigorously implemented. As a result of these measures, the Bank registered a net income of ¥1.5 billion (US\$14 million), more than double the figure for the previous term.

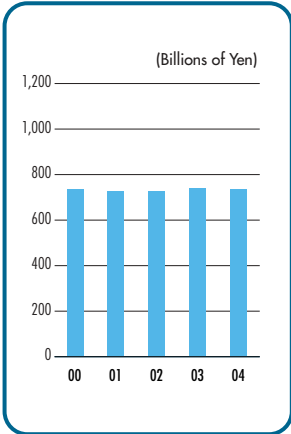
Capital Ratio (Domestic Standard)

The Bank's capital ratio – a prime indicator of financial soundness – stood at 9.51% at term-end. The Bank thus maintained the same degree of financial robustness as the previous fiscal year-end, when the relevant figure was 9.30%.

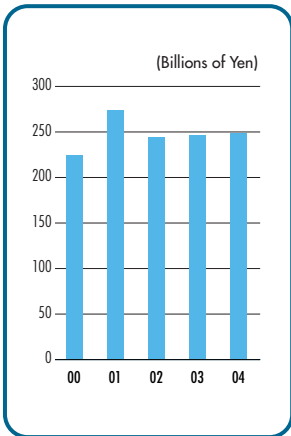
Deposits



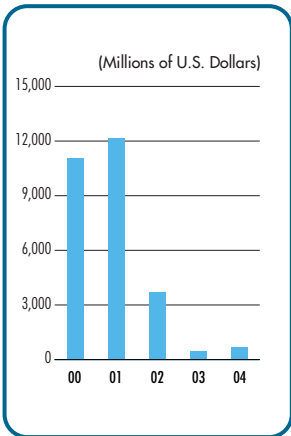
Loans and Bills Discounted



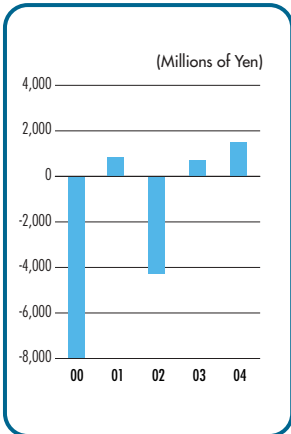
Securities



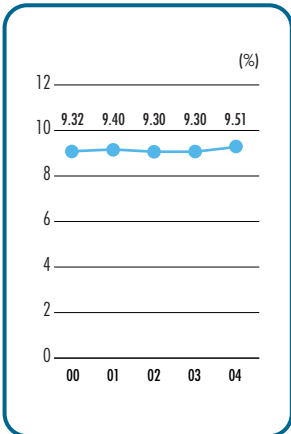
Foreign Exchange Transactions



Net Income (Loss)



Capital Ratio (Domestic Standard)



Consolidated Balance Sheets

March 31, 2004 and 2003

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
ASSETS			
Cash and due from banks	¥ 57,216	¥ 39,963	\$ 541,363
Call loans	70,105	96,264	663,314
Trading account securities	257	79	2,440
Money held in trust	2,606	2,606	24,657
Securities	248,818	246,108	2,354,233
Loans and bills discounted (Note 5)	735,043	738,271	6,954,714
Foreign exchanges.....	676	478	6,404
Other assets	11,322	13,402	107,125
Premises and equipment.....	21,331	21,222	201,828
Deferred tax assets (Note 6)	14,603	16,785	138,175
Customers' liabilities for acceptances and guarantees	17,185	11,675	162,601
Reserve for possible loan losses	(18,006)	(21,065)	(170,372)
Total assets	<u>¥1,161,161</u>	<u>¥1,165,793</u>	<u>\$10,986,487</u>
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY			
Liabilities			
Deposits	¥1,068,159	¥1,066,284	\$10,106,529
Call money	4,000	18,200	37,846
Borrowed money.....	6,105	6,255	57,763
Foreign exchanges.....	1	0	16
Other liabilities	5,073	4,839	48,005
Reserve for bonuses to employees.....	442	480	4,186
Reserve for employee retirement benefits	3,186	3,132	30,153
Deferred tax liabilities on land revaluation (Note 8).....	3,767	3,818	35,643
Acceptances and guarantees.....	17,185	11,675	162,601
Total liabilities	<u>1,107,921</u>	<u>1,114,687</u>	<u>10,482,745</u>
Minority interests	—	661	—
Stockholders' equity			
Common stock (Note 9)	6,146	6,146	58,158
Capital surplus	3,375	3,375	31,936
Retained earnings (Notes 10 and 12)	35,510	34,117	335,985
Land revaluation reserve (Note 8).....	5,557	5,633	52,583
Net unrealized gains on other securities.....	2,838	1,372	26,858
	<u>53,428</u>	<u>50,645</u>	<u>505,522</u>
Less: treasury stock at cost.....	(188)	(200)	(1,780)
Total stockholders' equity.....	<u>53,240</u>	<u>50,444</u>	<u>503,741</u>
Total liabilities, minority interests and stockholders' equity....	<u>¥1,161,161</u>	<u>¥1,165,793</u>	<u>\$10,986,487</u>

See Notes to consolidated financial statements.

Consolidated Statements of Operations and Retained Earnings

For the Years Ended March 31, 2004 and 2003

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Income			
Interest and dividends on:			
Loans and bills discounted	¥18,792	¥19,143	\$177,808
Securities	3,137	3,680	29,681
Other	12	56	121
Fees and commissions	2,595	2,418	24,553
Other operating income	2,762	2,895	26,141
Other income (Note 11)	1,352	2,791	12,794
Total income	<u>28,652</u>	<u>30,984</u>	<u>271,101</u>
Expenses			
Interest on:			
Deposits	658	952	6,234
Borrowings and rediscounts	162	178	1,535
Other	2	5	26
Fees and commissions	1,534	1,216	14,515
Other operating expenses	2,821	2,304	26,700
General and administrative expenses	15,088	16,187	142,765
Other expenses	5,419	8,061	51,281
Total expenses	<u>25,688</u>	<u>28,906</u>	<u>243,059</u>
Income before income taxes	2,963	2,078	28,042
Income taxes:			
Current	230	149	2,182
Deferred	1,136	1,110	10,756
Minority interests	78	86	744
Net income	<u>1,517</u>	<u>732</u>	<u>14,358</u>
Retained earnings			
Balance at beginning of year	34,117	33,776	322,810
Reversal of land revaluation reserve	75	17	715
Change of equity in consolidated subsidiaries	208	—	1,976
Loss on sales of treasury stock	(2)	—	(23)
Appropriations:			
Cash dividends	407	408	3,853
Balance at end of year	<u>¥35,510</u>	<u>¥34,117</u>	<u>\$335,985</u>
	Yen		U.S. Dollars (Note 3)
Net income per share	¥183.80	¥89.66	\$1.73

See Notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2004 and 2003

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,963	¥ 2,078	\$ 28,042
Depreciation	908	904	8,592
Difference between investment and equity in consolidated subsidiaries	(163)	—	(1,548)
Increase (decrease) in reserve for possible loan losses	(3,058)	(3,342)	(28,939)
Increase (decrease) in bonuses to employees	(38)	102	(360)
Increase (decrease) in reserve for employee retirement benefits	54	(1,031)	510
Interest on loans and discounts received	(21,942)	(22,879)	(207,611)
Interest on deposits	824	1,136	7,796
Loss on securities transaction	478	499	4,532
Loss (income) on money trust	(280)	461	(2,654)
Foreign exchange loss (income)	1	1	12
Loss on sales of properties	306	59	2,904
Net decrease (increase) in loans and bills discounted	3,228	(9,566)	30,543
Net increase (decrease) in deposits	1,874	32,559	17,739
Net decrease in borrowed money (excluding subordinated debt)	(149)	(371)	(1,419)
Net decrease (increase) in due from banks (other than The Bank of Japan)	1,974	(1,322)	18,678
Net decrease (increase) in call loans	26,158	(30,957)	247,504
Net increase (decrease) in call money	(14,200)	(9,600)	(134,355)
Net increase in foreign exchange assets	(198)	(172)	(1,879)
Net decrease (increase) in foreign exchange liabilities	0	(0)	7
Revenues from fund operations	22,022	23,315	208,367
Expenses resulting from fund procurement	(1,746)	(1,139)	(16,524)
Other	4,006	(2,991)	37,904
Sub-total	23,023	(22,255)	217,841
Refund (payment) of income taxes	(125)	763	(1,187)
Net cash provided by (used in) operating activities	22,898	(21,492)	216,654
Cash flows from investing activities:			
Purchase of securities	(46,237)	(67,451)	(437,479)
Sales of securities	12,410	6,174	117,425
Redemption of securities	32,237	57,187	305,017
Purchase of premises and equipment	(1,560)	(1,229)	(14,765)
Sales of premises and equipment	247	118	2,340
Additional investment in consolidated subsidiaries	(396)	—	(3,752)
Net cash used in investing activities	(3,299)	(5,201)	(31,214)
Cash flows from financing activities:			
Payment of cash dividends	(407)	(408)	(3,853)
Payment of cash dividends to minority interests	(1)	(1)	(17)
Purchases of treasury stock	(14)	(171)	(133)
Proceeds from sale of treasury stock	52	—	499
Net cash used in financing activities	(370)	(581)	(3,505)
Translation adjustment of cash and cash equivalents	(1)	(1)	(12)
Net increase (decrease) in cash and cash equivalents	19,227	(27,276)	181,922
Cash and cash equivalents at beginning of year	36,531	63,808	345,648
Cash and cash equivalents at end of year	¥55,758	¥36,531	\$527,570

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 ¥105.69 per US\$1.00, the rate prevailing on March 31, 2004.

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 cost is 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, net of income taxes.

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 collateral 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 collateral 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. For collateralized or guaranteed loans to debtors who are bankrupt or effectively bankrupt, the amount deemed unrecoverable, that is the amount of loans exceeding the estimated value of collateral or guarantees, has been written off and amounted to ¥20,591 million as of March 31, 2004.

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 calculated 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 are 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, was being amortized over five years.

Upon a release from its past obligation for the substitutional portion of the Government Welfare Pension Insurance Scheme, the Bank transferred its welfare pension fund to the definite-benefit corporate pension fund on April 1, 2004. Due to the transfer retirement benefit obligation of the Bank decreased by ¥1,723 million.

(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) Hedge Accounting

(1) Interest Risk Hedge

As for the hedge accounting method applied to hedging transactions against interest rate risk arising from financial assets and liabilities, the Bank applies deferred hedge accounting. For the previous financial year, the Bank applied the transition measures of 'Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry' (JICPA Industry Audit Committee Report No.24) to the "macro hedge," which is the management of interest rate risk arising from large-volume transactions in loans, deposits and other interest-earning assets and interest-bearing liabilities as a whole using derivatives.

Effective from the year ended March 31, 2004 the Bank applies the basic provisions of the Report No.24. However, until March 31, 2004 no corresponding transactions had been incurred.

(2) Currency Exchange Risk Hedge

As for the hedge accounting method applied to hedging transactions against currency exchange risk arising from assets and liabilities in foreign currencies, the Bank applies deferred hedge accounting. For the previous financial year, the Bank applied the transition measures of 'Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry' (JICPA Industry Audit Committee Report No.25). Effective from the year ended March 31, 2004 the Bank applies the basic provisions of the Report No.25 to currency swap transactions which are performed to convert fund procured in yen to fund invested in foreign currencies.

The Bank assesses the effectiveness of currency swap transactions executed for offsetting the risk of changes in currency exchange rates by verifying that there exist foreign currency positions of the hedging instruments corresponding to the foreign currency monetary claims and debts to be hedged.

For a part of the assets, however, exceptional accounting for interest swapping is 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%.

(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 (Accounting change)

Receivables and payables in foreign currencies are translated into Japanese yen principally at the rates prevailing at the balance sheet dates.

For the previous financial year, the Bank applied the transition measures of 'Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry'(JICPA Industry Audit Committee Report No.25). Effective from the year ended March 31, 2004 the Bank applies hedge accounting for currency swap transactions under the basic provisions of the Report No.25. The hedge accounting is outlined in the above (9) Hedge Accounting.

Net receivables and net payables on currency swap transactions, which were formerly accounted for on an accrual basis, are stated at market value under the new accounting policies. The effect of the change was to increase other assets and other liabilities as of March 31, 2004 both by ¥304 million. The effect on net income was zero for the year then ended.

5. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2004 and 2003 included the following non-performing loans:

	Millions of Yen	
	2004	2003
Loans to bankrupt borrowers	¥ 4,644	¥ 8,309
Loans past due.....	38,438	43,000
Loans past due 3 months or more	396	767
Restructured loans	21,489	22,300
Total.....	¥64,968	¥74,378

(a) Loans to Bankrupt Borrowers

Loans to Bankrupt Borrowers consist of non-accrual loans on which the payment of principal or interest is well past due or there is no prospect of recovery of the principal or interest from the borrower or from a third party guaranteeing the loan (does not include charged-off loans). This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Corporation Tax Law (Government Ordinance No. 97 of 1965).

(b) Loans Past Due

Loans Past Due are non-interest accrual loans, other than loans to bankrupt borrowers and loans on which the payment of interest has been suspended for the purpose of business rehabilitation or debtor assistance.

(c) Loans Past Due 3 Months or More

Loans are classified in this category when 3 months or more have elapsed since the due date without the payment of principal or interest. The balance of loans to bankrupt borrowers and the balance of loans past due are not included in this category.

(d) Restructured Loans

Restructured Loans include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring collections of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest,

etc.). Excluded from this balance are the balance of loans to bankrupt borrowers, the balance of loans past due and the balance of loans past due 3 months or more.

6. Deferred Tax Assets

Significant components of deferred tax assets as of March 31, 2004 and 2003 are as follows:

	Millions of Yen	
	2004	2003
Deferred tax assets:		
Reserve for possible loan losses.....	¥ 5,469	¥ 8,191
Write-off of bad debts.....	6,671	6,771
Reserve for employee retirement benefits.....	1,258	1,223
Depreciation.....	895	855
Operating loss carry-over.....	1,909	210
Other.....	614	691
Valuation allowance.....	(122)	(102)
Sub total.....	<u>16,696</u>	<u>17,840</u>
Deferred tax liabilities:		
Net unrealized gains on other securities.....	(1,924)	(930)
Other.....	(168)	(124)
Sub total.....	<u>(2,093)</u>	<u>(1,054)</u>
Net deferred tax assets.....	<u>¥14,603</u>	<u>¥16,785</u>

7. Loan Commitments

The amount of unused commitments provided by commitment line contracts on overdrafts and loans was ¥43,742 million as of March 31, 2004. 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, 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, 2004, 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.

11. Other Income

The Bank recorded gains on a release from its future obligation for 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 operations for the year ended March 31, 2003.

12. Subsequent Event

The general stockholders' meeting of the Bank, held on June 24, 2004, duly approved the following appropriation of the retained earnings existing on March 31, 2004.

	Millions of Yen
Cash dividends.....	¥203
Bonus to directors and statutory auditors.....	20

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, 2004 and 2003, 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, 2004 and 2003, 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, 2004 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.

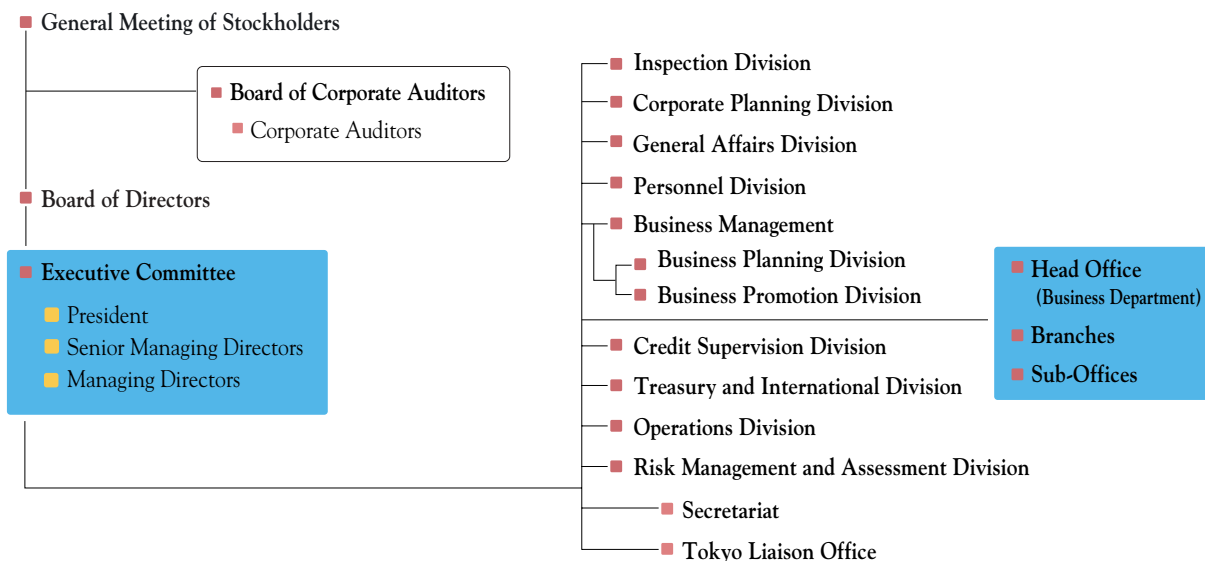
June 24, 2004

Hokko Audit Corporation

Hokko Audit Corporation
Morioka, Japan

Corporate Directory

Organization (As of June 30, 2004)



Board of Directors and Corporate Auditors (As of June 30, 2004)

President

Yasunori Sato

Senior Managing Director

Toshio Umemura

Managing Directors

Teruo Odanaka

Koichi Matsumoto

Tsutomu Miya

Directors

Minoru Ota

Hiromasa Odashima

Kenichi Kondo

Hisao Kita

Corporate Auditors

Saburo Shiraiishi*

Seiichiro Ishikawa

Hiroshi Miura*

Yoshiharu Shibata*

* Outside auditors

Consolidated Subsidiaries (As of June 30, 2004)

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	100	1988
Kitagin Lease Co., Ltd.	Leasing and financing services	50	100	1990

Corporate Data (As of March 31, 2004)

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

1,053

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