

The Kita-Nippon Bank, Ltd. Annual Report 2005

Year Ended March 31, 2005



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, 2005, 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
Topics	3
Financial Review	4
Consolidated Balance Sheets	5
Consolidated Statements of Operations and Retained Earnings	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Report of Independent Certified Public Accountants	10
Corporate Directory	11

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, 2005 and 2004

(Consolidated)	Millions of Yen (Note 1)		Thousands of
	2005	2004	U.S. Dollars (Note 2)
			2005
For the Year			
Total income	¥ 28,130	¥ 28,652	\$ 261,942
Total expenses	24,739	25,688	230,371
Income before income taxes	3,390	2,963	31,571
Net income.....	1,932	1,517	17,992
Cash dividends applicable to the year	407	407	3,793
Per share data (yen and dollars):			
Net income	¥ 234.10	¥ 183.80	\$ 2.17
At Year-End			
Total assets.....	¥1,159,028	¥1,161,161	\$10,792,703
Securities	232,844	248,818	2,168,212
Loans and bills discounted	744,801	735,043	6,935,480
Deposits	1,068,463	1,068,159	9,949,378
Common stock.....	6,146	6,146	57,238
Stockholders' equity	55,680	53,240	518,492

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 ¥107.39 per US\$1.00, the rate prevailing on March 31, 2005.

Message from the President

OPERATING ENVIRONMENT

During the term under review, Japan's economy maintained recovery momentum, with the benefits of an upturn in the automotive, IT and other manufacturing industries and strong sales of seasonal and digital electronics items due to the Athens Olympics and the hot summer of 2004 gradually spreading to other sectors. However, with housing investment flat and public works spending continuing to trend downward, growth tailed off in the second half, as production of transportation machinery and other items faltered amid soaring raw material (oil and steel) prices, and inventory adjustment set in in the global IT sector while demand weakened in the US and China. As a result, industrial production, the engine of recovery, tailed off. However, the economy stayed on a recovery track overall, with corporate earnings continuing to pick up as restructuring deepened, capital investment rose in manufacturing, and the employment picture brightened, lifting personal spending somewhat.

In Iwate Prefecture, the automotive sector supported growth in industrial production, but, as in the national economy, the IT sector weakened in autumn, and growth overall slowed. Public works spending plunged in line with tighter local authority budgets. Housing investment had its ups and downs but overall hardly moved, and as a result the construction sector continued to face difficult operating conditions.

Against this economic backdrop, senior and regular staff of the Group continued to work in concert to develop our business activities in close harmony with our community, and ensure efficient asset management and reduction of expenses. We also continued to rigorously write off and provide reserves against bad assets, to enhance the quality of our asset portfolio. As a result, net income rose substantially year on year to ¥1,932 million (US\$17.9 million).

In addition, the capital ratio, the key indicator of financial soundness, rose 0.09 point to 9.60% (consolidated basis), remaining at a high level. In line with the Bank's policy of paying a stable dividend to its shareholders, a term-end dividend of ¥25.00 (US\$0.23) per share was paid, for an annual dividend of ¥50.00 (US\$0.46).



Yasunori Sato
President

OUTLOOK

The Bank's management aims to create the best possible business policies relative to operating environment and available information, but the pace of recovery in the regional economy has been slow, and there is little conspicuous optimism among our customers. We assume the operating environment surrounding regional financial institutions will remain harsh.

Against this background, we aim to increase our earnings and build a stronger business base, and, as thoroughly as possible, fulfill our mission as a financial institution to serve the development of our community. We will do this through efficient asset management based on our new business plan and thoroughgoing streamlining of operations.

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

Yasunori Sato
President

Topics

MEASURES TO PROTECT PERSONAL INFORMATION

The Bank regards maximal protection of personal information relating to customers and others as a matter of the greatest importance in building customer trust.

The Bank's policy regarding handling of personal

information is outlined below. The Bank is committed to treating personal information relating to Bank customers, and personal information acquired during the conduct of banking operations, with strict adherence to procedure to ensure confidentiality.

OUR COMMITMENT TO THE PROTECTION OF PERSONAL INFORMATION

1. Observance of Laws on Personal Information Protection

In its treatment of personal information, the Bank observes

- 1) The Personal Information Protection Act
- 2) The Personal Information Protection Act Code of Practice
- 3) Basic policies for the Personal Information Protection Act (Cabinet resolution of April 2004)
- 4) Guidelines regarding the protection of personal information in the financial sector (unveiled by the Financial Services Agency (FAS) in December 2004).

The Bank also refers in its treatment of personal information to the FSA decree of January 2005 titled practical guidelines for security management measures concerning guidelines relating to protection of personal information in the financial sector, as well as the Japanese Bankers Association's own set of rules.

2. Acquisition and Use of Personal Information, and Provision to Third Parties

(1) The Bank does not acquire personal information using deceit or other wrongful methods. Based on the need to assure due diligence in management of financial businesses, the Bank does not acquire, use or provide to third parties any sensitive personal information (regarding political opinions, religion, membership of labor unions, ethnicity or nationality, place of family origin or domicile, health and medical treatment, sexual habits as well as possible criminal record), except with the consent of the person involved or when such disclosure is required by law.

(2) The Bank discloses any acquisition and use of personal information, as well as the purpose of such use, on the Bank's website, on posters and in other media. Should there be any change in the intended use of such information, this will be immediately announced by the Bank on its website and via posters and other materials. Furthermore, should personal information be acquired in connection with credit provision, the Bank obtains the consent of the person involved with regard to the use of such information.

(3) Except where the person involved gives consent, or disclosure is required by law, the Bank will only use personal information to the degree that it is necessary for attainment of the stated purpose.

(4) Should the Bank obtain personal information about an individual in written form as part of an agreement with that person, then, regardless of the provisions of (2) above, the Bank will inform the individual of the uses to which such information will be put.

(5) The Bank will not provide personal data [note] it has obtained to any third party, except where the person involved gives consent, or disclosure is required by law.

Note: Personal data refers to facts that appear in a personal information database (collection of information including personal information as a data collation system enabling an electronic search for specific personal information).

(6) In certain cases, the Bank has to entrust personal data to a third party outside the organization to achieve the purpose for which such information is needed. In such cases, a contract guaranteeing strict confidentiality is signed with the party to which such personal data is entrusted. Regular inspections are undertaken to confirm that there has been no breach of this contract. There are also occasions when the Bank shares (jointly uses) personal data with its affiliates and other entities. In such cases, based on the laws in 1., details of personal information needed for such joint use will be posted on the Bank's website, to enable easy perusal by the individual in question.

3. Management of Personal Data and Prevention of Leaks

(1) To ensure appropriate management of personal data it has acquired, the Bank takes measures through its organizational and technological security management mechanisms and its authorization system for data access, in line with the laws and ordinances in 1. above, to prevent wrongful access to personal information, loss, destruction, manipulation or leakage of personal information. It takes corrective action when such events happen.

(2) The Bank takes appropriate measures to ensure that personal data it has acquired is always accurate and up-to-date.

4. Requests for Disclosure or Revision of Personal Data

(1) Based on the laws in 1. above, the Bank accepts requests from the individual concerned for disclosure of personal data it holds (note), notification of use of such information, and revision of such information; as well as for cessation of such use and suspension of provision of such information to third parties (hereafter disclosure, revision etc). In cases where the Bank confirms the customer's intention to make an application regarding disclosure, revision, etc, at its head office or branches, it will hand over an application form upon confirmation of the identity of the applicant. Applicants should write down on the form what items they need, affix a personal seal and submit their request at our head office or branches. Later, the Bank will notify the individual involved by letter. The Bank will also bear the costs in cases where the request is for disclosure or notification of use of personal information.

Note: Personal data held by the Bank means personal data that the Bank is entitled to hold for purposes of disclosure and revision.

(2) Applicants should directly contact the head office and branches if the Bank if they do not want their personal information used for direct mailing and direct marketing purposes. Upon confirmation of the individual's identity, we will immediately stop using such information in this way.

5. Questions and Complaints Regarding Treatment of Personal Information

Questions and complaints regarding treatment of personal information should be addressed to the office below. We will answer questions as soon as possible, and in the case of complaints, carry out a swift investigation of the facts and solve the problem to the best of our abilities as soon as possible.

Kita-Nippon Bank Customer Services (Head Office, first floor)
6-7, Chuodori 1-chome, Morioka, Iwate 020-8666
Tel: (019) 653-1111 (Weekdays, from 9:00 to 17:00)
E-mail: privacy@kitagin.co.jp

6. Further Measures to Protect Personal Information

The Bank will put in place a framework for due legal observance, and will thoroughly educate its staff in the correct handling of personal information in line with policies discussed above, with subsequent monitoring. We are committed to continuous improvement of personal information protection measures, undertaking necessary policy revisions demanded by change in social trends and our operating environment.

April 1, 2005
Kita-Nippon Bank
Yasunori Sato
President

Financial Review

Deposits

The balance of deposits at the end of the term (consolidated) rose ¥0.3 billion, or 0.02%, to ¥1,068.4 billion (US\$9,949 million). Although corporate deposits declined in line with weak economic conditions, we increased consumer deposits to strengthen our customer base and streamline asset management.

Loans and Bills Discounted

Because the pace of recovery was slow due to a difficult economic environment, corporate loans declined amid weakening demand for capital. But loans to consumers (especially home loans) grew, reflecting our efforts to increase loans to SMEs and individual customers. The balance of loans increased ¥9.7 billion, or 1.3%, to ¥744.8 billion (US\$6,935 million) at the term-end.

Securities

The balance of securities fell ¥15.9 billion, or 6.4%, to ¥232.8 billion (US\$2,168 million) at the end of the term. We followed a cautious investment policy aiming at stable revenues centered on government and corporate bonds, with due regard to interest-rate trends.

Foreign Exchange Transactions

Foreign exchange transactions declined US\$36 million year on year to US\$650 million.

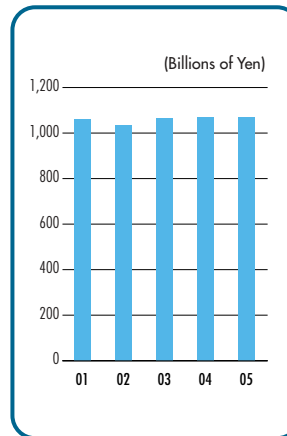
Earnings

We continued our measures to improve the efficiency of asset management and reduce costs, and rigorously wrote off and provided reserves against bad debt to enhance the quality of our overall portfolio. Net income came in at ¥1.9 billion (US\$17.9 million), a substantial improvement year on year.

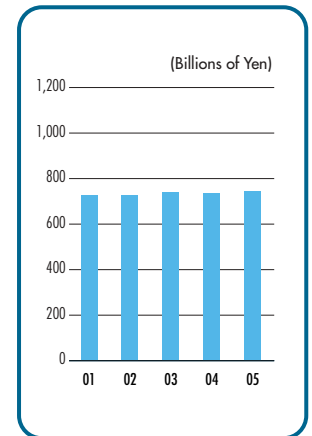
Capital Ratio (Domestic Standard)

The capital ratio, a key indicator of financial soundness, rose 0.09 point to 9.60% (consolidated basis), remaining at a high level.

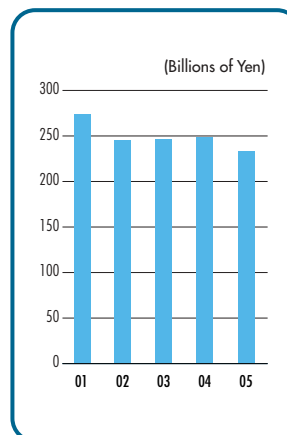
Deposits



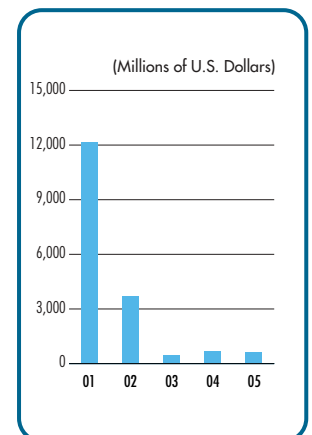
Loans and Bills Discounted



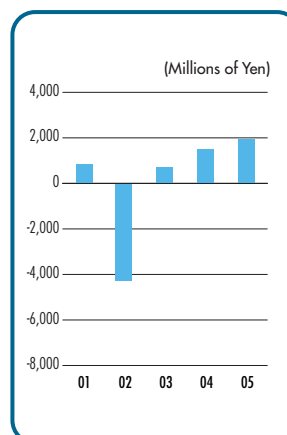
Securities



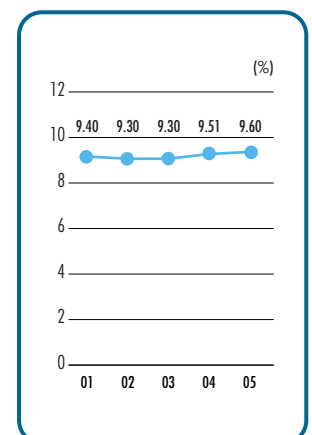
Foreign Exchange Transactions



Net Income (Loss)



Capital Ratio (Domestic Standard)



Consolidated Balance Sheets

March 31, 2005 and 2004

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2005	2004	2005
ASSETS			
Cash and due from banks.....	¥ 54,973	¥ 57,216	\$ 511,905
Call loans	77,061	70,105	717,581
Commercial paper and other debt purchased.....	200	—	1,862
Trading account securities	—	257	—
Money held in trust	2,606	2,606	24,266
Securities	232,844	248,818	2,168,212
Loans and bills discounted (Note 5)	744,801	735,043	6,935,480
Foreign exchanges.....	397	676	3,703
Other assets	10,958	11,322	102,044
Premises and equipment.....	20,969	21,331	195,263
Deferred tax assets (Note 6)	12,544	14,603	116,813
Customers' liabilities for acceptances and guarantees	15,792	17,185	147,061
Reserve for possible loan losses.....	(14,120)	(18,006)	(131,491)
Total assets	<u>¥1,159,028</u>	<u>¥1,161,161</u>	<u>\$10,792,703</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities			
Deposits	¥1,068,463	¥1,068,159	\$ 9,949,378
Call money.....	3,000	4,000	27,935
Borrowed money.....	5,017	6,105	46,722
Foreign exchanges.....	0	1	2
Other liabilities	3,713	5,073	34,582
Reserve for bonuses to employees.....	438	442	4,084
Reserve for employee retirement benefits	3,213	3,186	29,922
Deferred tax liabilities on land revaluation (Note 8).....	3,707	3,767	34,522
Acceptances and guarantees.....	15,792	17,185	147,061
Total liabilities	<u>1,103,347</u>	<u>1,107,921</u>	<u>10,274,211</u>
Stockholders' equity			
Common stock (Note 9)	6,146	6,146	57,238
Capital surplus	3,375	3,375	31,433
Retained earnings (Notes 10 and 12)	37,103	35,510	345,500
Land revaluation reserve (Note 8).....	5,469	5,557	50,929
Net unrealized gains on available-for-sale securities.....	3,793	2,838	35,324
	<u>55,888</u>	<u>53,428</u>	<u>520,424</u>
Less: treasury stock at cost.....	(207)	(188)	(1,934)
Total stockholders' equity.....	<u>55,680</u>	<u>53,240</u>	<u>518,492</u>
Total liabilities and stockholders' equity.....	<u>¥1,159,028</u>	<u>¥1,161,161</u>	<u>\$10,792,703</u>

See Notes to consolidated financial statements.

Consolidated Statements of Income and Retained Earnings

For the Years Ended March 31, 2005 and 2004

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2005	2004	2005
Income			
Interest and dividends on:			
Loans and bills discounted	¥18,562	¥18,792	\$172,847
Securities	2,681	3,137	24,970
Other	14	12	136
Fees and commissions	2,772	2,595	25,818
Other operating income	2,806	2,762	26,135
Other income	1,292	1,352	12,034
Total income	<u>28,130</u>	<u>28,652</u>	<u>261,942</u>
Expenses			
Interest on:			
Deposits	534	658	4,975
Borrowings and rediscounts	148	162	1,379
Other	4	2	42
Fees and commissions	1,794	1,534	16,707
Other operating expenses	2,599	2,821	24,204
General and administrative expenses	14,639	15,088	136,318
Other expenses	5,019	5,419	46,743
Total expenses	<u>24,739</u>	<u>25,688</u>	<u>230,371</u>
Income before income taxes	3,390	2,963	31,571
Income taxes			
Current	106	230	988
Deferred	1,352	1,136	12,590
Minority interests	—	78	—
Net income	1,932	1,517	17,992
Retained earnings			
Balance at beginning of year	35,510	34,117	330,666
Reversal of land revaluation reserve	88	75	820
Change of equity in consolidated subsidiaries	—	208	—
Loss on sale of treasury stock	—	(2)	—
Appropriations:			
Cash dividends	407	407	3,793
Bonuses to directors and corporate auditors	20	—	186
Balance at end of year	<u>¥37,103</u>	<u>¥35,510</u>	<u>\$345,500</u>
	Yen		U.S. Dollars
Net income per share	<u>¥234.10</u>	<u>¥183.80</u>	<u>\$2.17</u>

See Notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2005 and 2004

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 3)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,390	¥ 2,963	\$ 31,571
Depreciation	953	908	8,880
Difference between investment and equity in consolidated subsidiaries	—	(163)	—
Decrease in reserve for possible loan losses	(3,885)	(3,058)	(36,183)
Decrease in bonuses to employees	(3)	(38)	(36)
Increase in reserve for employee retirement benefits	26	54	246
Interest on loans and discounts received	(21,258)	(21,942)	(197,954)
Interest on deposits	686	824	6,397
Loss on securities transaction	193	478	1,803
Gain on money trust	—	(280)	—
Foreign exchange loss (gain)	(2)	1	(26)
Loss on sale of premises and equipment	186	306	1,732
Net decrease (increase) in loans and bills discounted	(9,757)	3,228	(90,860)
Net increase in deposits	304	1,874	2,836
Net decrease in borrowed money (excluding subordinated debt)	(1,087)	(149)	(10,126)
Net decrease (increase) in due from banks (other than The Bank of Japan)	(1,748)	1,974	(16,277)
Net decrease (increase) in call loans	(7,155)	26,158	(66,629)
Net decrease in call money	(1,000)	(14,200)	(9,311)
Net decrease (increase) in foreign exchange assets	279	(198)	2,600
Net increase (decrease) in foreign exchange liabilities	(1)	0	(13)
Revenues from fund operations	21,394	22,022	199,219
Expenses resulting from fund procurement	(874)	(1,746)	(8,145)
Other	142	4,006	1,329
Sub-total	(19,217)	23,023	(178,946)
Payment of income taxes	(240)	(125)	(2,242)
Net cash provided by (used in) operating activities	(19,457)	22,898	(181,189)
Cash flows from investing activities:			
Purchase of securities	(64,909)	(46,237)	(604,428)
Sale of securities	48,860	12,410	454,981
Redemption of securities	32,725	32,237	304,739
Purchase of premises and equipment	(938)	(1,560)	(8,734)
Sale of premises and equipment	151	247	1,415
Additional investment in consolidated subsidiaries	—	(396)	—
Net cash provided by (used in) investing activities	15,890	(3,299)	147,972
Cash flows from financing activities:			
Payment of cash dividends	(407)	(407)	(3,793)
Payment of cash dividends to minority interests	—	(1)	—
Purchases of treasury stock	(21)	(14)	(203)
Sale of treasury stock	2	52	21
Net cash used in financing activities	(426)	(370)	(3,975)
Translation adjustment of cash and cash equivalents	2	(1)	26
Net increase (decrease) in cash and cash equivalents	(3,991)	19,227	(37,165)
Cash and cash equivalents at beginning of year	55,758	36,531	519,219
Cash and cash equivalents at end of year	¥51,767	¥55,758	\$482,053

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 ¥107.39 per US\$1.00, the rate prevailing on March 31, 2005.

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.

Available-for-sale securities with market value; at the fiscal year-end market value (selling cost is primarily calculated by the moving-average method). Available-for-sale securities without market value; at cost by the moving-average method or at amortized cost. Net unrealized gains on available-for-sale 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 ¥20,509 million as of March 31, 2005.

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.

Prior service obligations: amortized over 10 years, which is shorter than the average remaining service period of employees, on a straight-line basis.

Actuarial shortfall: amortized over 10 years, which is shorter than the average remaining service period of employees, on a straight-line basis, beginning with the term following recognition of the shortfall.

Transition obligations are amortized over five years on a straight-line basis.

(Additional information)

On April 1, 2004, the Bank adopted a new system under the Defined Benefit Corporate Pension Law, as a result of which the Bank recognized employees' prior service obligations in an amount of ¥1,723 million (decrease in retirement benefit obligations in the same amount). Simultaneously, the Bank reviewed basic actuarial assumptions to determine the shorter average remaining service period of employees. Accordingly, the Bank has changed the amortization period employed for calculation of periodical expenses of actuarial shortfall from 15 years to 10 years. As a result, recurring profit and income before income taxes decreased by ¥100 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) Hedging against interest rate changes

The deferred method of hedge accounting is applied to transactions to hedge against the interest rate risks associated with monetary claims and liabilities in accordance with the regulations set out in the "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24).

However, until March 31, 2005 no corresponding transactions had been incurred.

(2) Hedging against foreign exchange fluctuation risk

The deferred method of hedge accounting is applied to transactions to hedge against the foreign exchange fluctuation risks associated with monetary claims and liabilities denominated in foreign currencies, in accordance with the regulations set out in the "Accounting and Auditing Treatment of Accounting Standards for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25). To minimize foreign exchange fluctuation risk on monetary claims and liabilities, the Bank has engaged in foreign exchange swaps, and similar transactions. The effectiveness of these transactions in the hedging of the foreign exchange risks of monetary claims and liabilities denominated in foreign currencies is assessed through comparison of the foreign currency position of the hedged monetary claims and liabilities, and the hedging instruments.

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 40.4%.

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.

(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.

5. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2005 and 2004 included the following non-performing loans:

	Millions of Yen	
	2005	2004
Loans to bankrupt borrowers	¥ 2,950	¥ 4,644
Loans past due.....	32,064	38,438
Loans past due 3 months or more	379	396
Restructured loans	16,280	21,489
Total.....	<u>¥51,674</u>	<u>¥64,968</u>

(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, 2005 and 2004 are as follows:

	Millions of Yen	
	2005	2004
Deferred tax assets:		
Reserve for possible loan losses.....	¥ 4,090	¥ 5,469
Write-off of bad debts.....	6,601	6,671
Reserve for employee retirement benefits	1,283	1,258
Depreciation	907	895
Operating loss carry-over.....	1,967	1,909
Other.....	616	614
Valuation allowance.....	(155)	(122)
Sub-total.....	<u>15,310</u>	<u>16,696</u>
Deferred tax liabilities:		
Net unrealized gains on		
available-for-sale securities.....	(2,571)	(1,924)
Other.....	(194)	(168)
Sub-total.....	<u>(2,765)</u>	<u>(2,093)</u>
Net deferred tax assets.....	<u>¥12,544</u>	<u>¥14,603</u>

7. Loan Commitments

The amount of unused commitments provided by commitment line contracts on overdrafts and loans was ¥46,433 million as of March 31, 2005. 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, 2005, 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. Subsequent Event

The general stockholders' meeting of the Bank, held on June 24, 2005, duly approved the following appropriation of the retained earnings existing on March 31, 2005.

	Millions of Yen
Cash dividends	¥203
Bonus to directors and corporate auditors	25

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, 2005 and 2004, and the related consolidated statements of income 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, 2005 and 2004, 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, 2005 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.

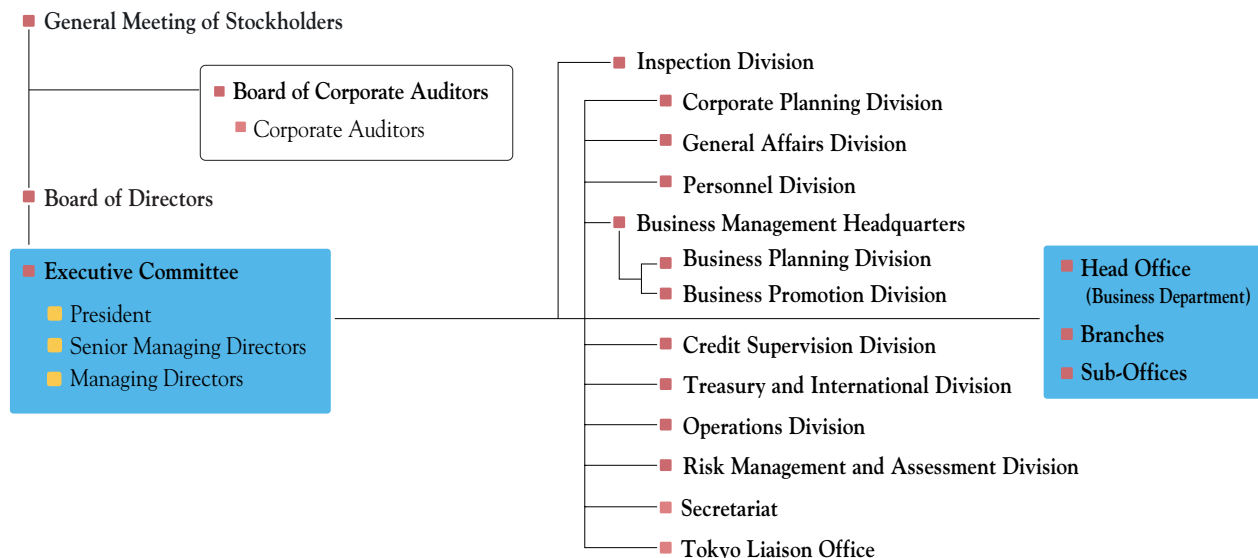
June 24, 2005

Hokko Audit Corporation

Hokko Audit Corporation
Morioka, Japan

Corporate Directory

Organization (As of June 30, 2005)



Board of Directors and Corporate Auditors (As of June 30, 2005)

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, 2005)

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, 2005)

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

1,017

Stock Listing

The First Section of the Tokyo Stock Exchange

The Kita-Nippon Bank, Ltd.
Annual Report 2005



Head Office

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

