

# AOMORI BANK

## ANNUAL REPORT 2000



# Profile

Since its establishment as the 59th National Bank in 1879, the Aomori Bank has placed sound financial management at the very heart of its operations. In over 120 years of business, it has grown to become the leading financial institution in Aomori Prefecture. In 1943, it merged with four other banks in the region, in the process gaining its current name. In 1973, it gained a listing on the Tokyo Stock Exchange.

In its quest to provide the necessary financial services, backed by advanced knowledge and expertise, that have aided the development of the national and regional economies, the bank has based its management philosophy around core principles expressed in catchphrases such as “For the region,” “Working with customers,” and “Putting people first.” Such thinking has routinely underpinned all of the bank’s activities.

In April 1999, the bank formulated its 9th three-year medium-term management plan under the slogan “Take Off Toward Reform.” Based on this plan, the bank has implemented a number of measures, focused principally on its retail banking operations. This report details the results of the efforts made in the first year of the management-plan period, and discusses the future actions that the bank has resolved to take.

## Five-Year Summary (Non-consolidated)

The Aomori Bank, Ltd. Years ended March 31

	Millions of yen				
	2000	1999	1998	1997	1996
<b>For the year</b>					
Total income .....	¥ 58,508	¥ 67,456	¥ 70,142	¥ 66,478	¥ 73,906
Total expenses .....	56,319	66,175	62,548	59,966	65,236
Income before income taxes.....	2,188	1,281	7,593	6,512	8,670
Net income .....	1,160	1,213	1,445	5,122	2,285
Net income per share (in yen) .....	6.18	6.46	7.70	27.29	12.17
<b>At year-end</b>					
Total assets .....	¥ 2,097,439	¥ 2,116,614	¥ 2,061,683	¥ 2,033,775	¥ 1,977,157
Deposits .....	1,938,473	1,914,596	1,857,135	1,857,071	1,789,170
Loans and bills discounted .....	1,432,641	1,440,874	1,402,489	1,330,064	1,267,273
Investment securities .....	416,374	411,898	419,722	448,122	476,679
Shareholders’ equity .....	84,352	77,787	77,550	77,081	72,935

### On the Cover

Spanning a total of 1993 meters, the Aomori Bay Bridge is one of Japan’s largest concrete cable-stayed suspension bridges. Below the bridge is a pedestrian walkway with a name alluding to the bridge’s romantic associations. Complete with a splendid display of night lights that change colors, the bridge has become one of Aomori’s best-loved tourist attractions.

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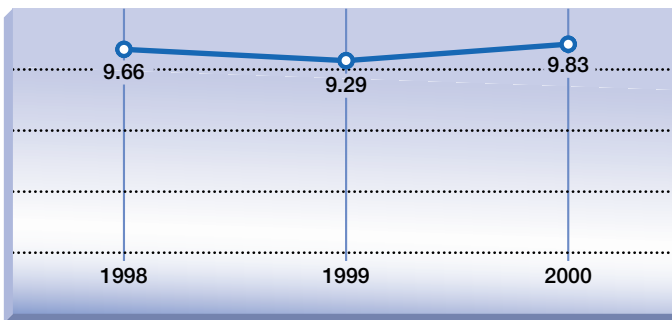


# Aomori Bank's Strengths

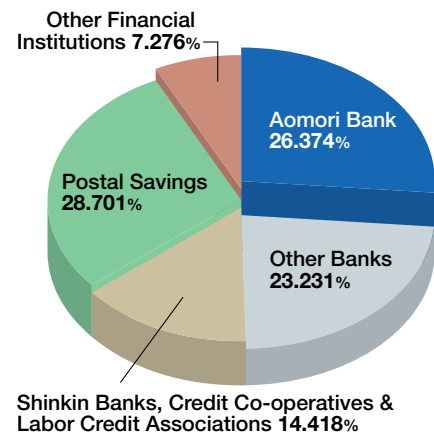
Our mission is to provide comprehensive financial services that will earn us the overwhelming trust of the people of the Aomori region. To do this, it is vital that we offer our customers the financial products and services that meet their expectations. To make this goal a reality, above all we must base our operations on sound financial management. Specifically, we need to maintain a high capital adequacy ratio, as well as a solid credit rating for our bond issues. Another aspect of this is the maintenance of strict credit-assessment criteria in our personal and corporate lending operations. As a result of such practices, our non-performing ('risk-managed') loan balance as a proportion of total lending is one of the lowest among Japanese regional banks. Our reputation for sound finances has helped engender the trust of our business partners, and continues to attract new customers. As a result, within our principal operational area of Aomori Prefecture, we enjoy the leading share of both deposits and loans.

(Please note that all data in the remainder of this report refers to the financial year ended March 31, 2000.)

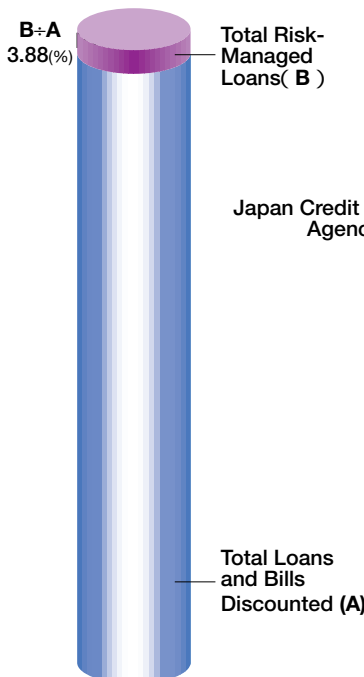
**Capital Adequacy Ratio (%)**



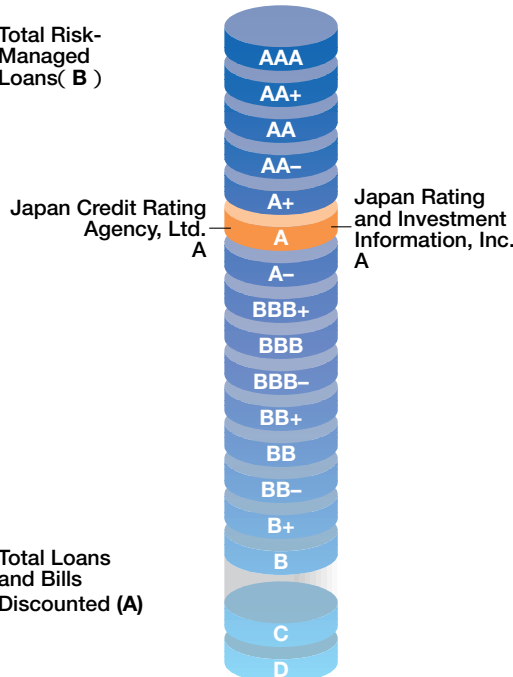
**Market Share in Aomori Prefecture of Deposits (%)**  
(As of March 31, 1999)



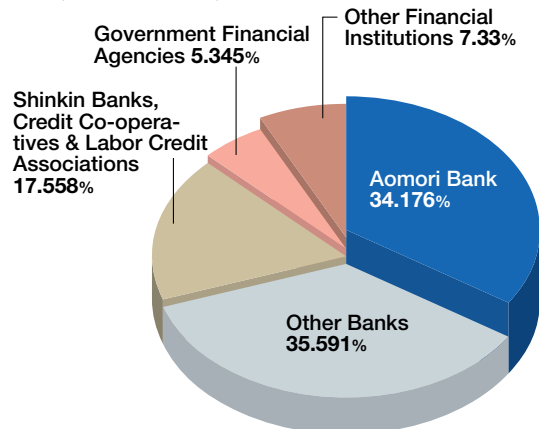
**Risk-Managed Loans Balance and Ratio (%)**



**Bond Credit Ratings**



**Market Share in Aomori Prefecture of Loans (%)**  
(As of March 31, 1999)





### **Economic and Financial Environment**

During the fiscal year ended March 31, 2000, the Japanese economy began to trend upward again. Supported by a revival in housing investment and underpinned by continued public-sector investment and the recovery of other Asian economies, it managed to stage a gentle recovery. In the second half of the year, signs of a recovery in private-sector capital investment, principally concentrated in IT-related areas, became apparent. Nevertheless, reflecting stalled incomes and continued worries over job security, growth in consumer spending, which accounts for 60% of Japan's GDP, remained subdued. As a result, total private-sector demand failed to turn upward. To combat these problems, in November 1999, the Japanese government finalized a set of economic revival measures designed to stimulate a recovery and engineer structural reform. Mainly as a result of this pump-priming package, Japan's GDP rose for the first time in three years, recording growth of 0.5% for the year ended March 2000. Even so, the recovery failed to become self-sustaining.

The economic picture in Aomori Prefecture, our principal area of operations, was similar to that seen around Japan. Thanks to rising housing investment and the underpinning effect of public-works spending by national and prefectural governments, the regional economy began to recover gently. Nevertheless, a straitened income environment and unseasonable weather conspired to prolong the downturn in consumer spending in the region. With the economic outlook so uncertain, businesses remained loath to invest, and private-sector capital spending stayed in the doldrums. As a consequence, the pace of the recovery was slow at best.

The financial environment continued to be characterized by relatively weak demand for capital from the private sector. This was despite the fact that the official discount rate has been stuck at 0.5% since September 1995, and that the Bank of Japan instituted a policy of 'zero interest rates' in February 1999. The huge volume of bonds issued by the Japanese government is expected to lead to a rise in interest rates, making the future outlook somewhat uncertain.

### **Business Performance**

Amid such an operating environment, we focused our united management efforts on improving performance and raising efficiency. We achieved the following results.

Thanks to the development of new high-convenience products and services and aggressive sales activities, our year-end balance of deposits, including negotiable certificates of deposit, increased by ¥23,877 million (US\$225 million) to ¥1,938,473 million (US\$18,261 million). Although we made concerted efforts to extend greater numbers of loans to individuals and local companies, stalled demand for capital caused loans and bills discounted to fall by ¥8,233 million (US\$77 million) to ¥1,432,641 million (US\$13,496 million). As a result of the purchase of bonds and other securities and the continued implementation of effective asset management policies, the year-end balance of investment securities rose by ¥4,476 million (US\$42 million) to ¥416,374 million (US\$3,922 million). Net income for the year amounted to ¥1,160 million (US\$11 million), equivalent to ¥6.18 (US\$0.058) per share. For fiscal 2000, we are projecting a jump in net income to ¥1,800 million (US\$17 million).

### **Outlook**

Spurred on by Japan's series of 'Big Bang' deregulatory financial system reforms, competition between financial institutions is steadily intensifying, and the financial industry is undergoing structural transformation as increasing numbers of business tie-ups between companies inside and outside the industry are concluded. Furthermore, the ongoing information revolution is causing the financial needs of customers to become ever more varied. To ensure that we can respond flexibly to these developments, we have placed three strategic themes at the core of our new medium-term management plan: focusing on strengthened retail banking marketing activities; bolstering the earnings base; and reforming how we run our business.

In realization of these objectives, in April 2000 we reformed our personnel system. At the same time, we made substantial cuts in the number of head office staff to produce a much slimmer organization. In the future, we plan to undertake fundamental reform of the bank's systems, initially by taking another look at our current system of sales branches. By raising the efficiency of our entire organization, marketing systems and administrative operations, we plan to create a stronger business management structure.

We hope that all our shareholders and business partners will give us their continued support and understanding as we tackle these challenges that lie ahead of us.



Akio Ibata  
*President*

### Retail Banking

To sharpen our retail banking focus, in April 2000 we undertook a major reorganization of our head office. In the process, we created a new Personal Banking Division. This change reflected a significant shift in our organizational arrangements, from an operations-based structure to a more market-based way of thinking that focuses on different customer types. To compete in modern Japan's financial environment, where retail investors can choose from a multitude of asset management



products, we offer customers a varied line-up of products in addition to our traditional businesses of deposits and loans. These include foreign currency deposits, Japanese government bonds, mutual funds, and gold. Besides these, we also offer customers a variety of products tailored to taking a financial life-planning approach. These help them meet the financial demands of important life events such as getting a first job, marriage, education, home purchases and retirement. To cater to different needs stemming from increasingly varied customer lifestyles, we also extended the functions of ATM machines and expanded our ATM network. Alongside these moves, we increased our range of mail-order products, and raised the level of provision of telephone banking services.

### Corporate Banking

To increase our ability to support the region's small and medium-sized businesses, in April 2000 we reformed our organization, creating a new Corporate Banking Division to focus on the capital funding, asset management and other needs of these customers. For short-term capital requirements, we offer corporate clients financing instruments such as bill discounts and advances on promissory notes. In addition, we also offer *Quick Loans*, which can be rapidly concluded based on a contract. For long-term financing needs, in addition to loans made against the deeds of a business, we also offer variable-rate *Back-Up Loans*, venture capital funding, and import loans.

As finance becomes more liberalized and international, the risks posed by changes in interest rates and currency movements are assuming ever greater significance. We are successfully providing our clients with a variety of risk-hedging methods to help mitigate currency risk, including forward-buying contracts and currency options. In addition, we are putting an increasing amount of effort into helping business managers with mergers and acquisitions.



### New Products & Services

During the year, we began offering retail customers two new types of small personal loan. With an upper ceiling of ¥300,000 (US\$2,830), these loans can be applied for easily using mailed or faxed application forms. We also started handling specific new kinds of loans for acquiring a second house, paying for nursing care, or importing goods. In terms of deposits, we made foreign currency time deposits more convenient for customers by offering a pass book-based method in addition to the traditional method of issuing deposit certificates. In addition, we launched *Close-Up*, a new kind of time deposit account featuring a variety of special privileges. Alongside this move, we ran a number of sales promotions designed to boost time deposits.



In terms of services, we launched a new kind of joint debit/cash card with enhanced security features. This card is the first issued by a Japanese bank to have a dual PIN system that requires customers to use a different number when withdrawing cash from an ATM to the one they use when using it as a debit card for shopping purchases. With card fraud becoming such a major problem worldwide, we believe that customers will value the enhanced safety of such a card over the minor inconvenience of having to use two separate numbers.

### Corporate Citizenship

At Aomori Bank, we view our mission and responsibilities as a corporate citizen seriously. To this end, every year we sponsor a number of events and initiatives that contribute to the local community and support regional economic development. We have been widely praised for such efforts. During fiscal 1999, as part of the celebrations of the 120th anniversary of our founding, we sponsored concerts by a symphony orchestra, as well as the performance of a rock opera by a famous theatrical group. In addition, we invited well-known cultural personalities to give special lectures in Aomori. In other moves, we donated money from a venture capital fund for businesses located in Aomori Prefecture to a local firm that manufactures watch components. Finally, around 60,000 people participated in various clean-up activities that we organized around the region.

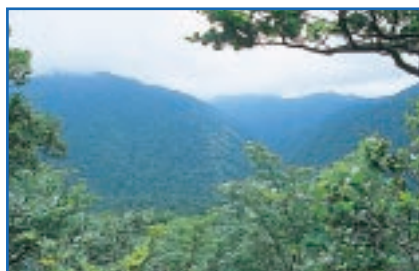


President Ibata participating in one of our community clean-up events

### Growing Regional Potential

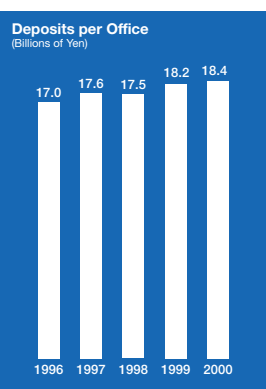
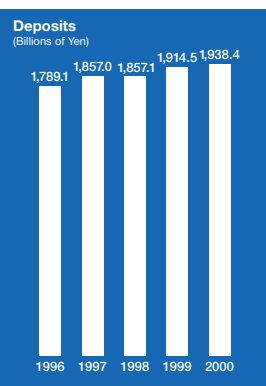
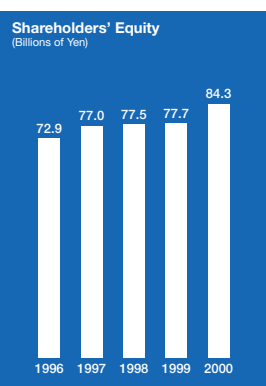
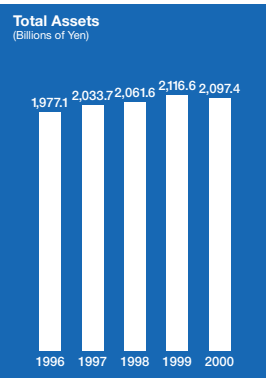
Aomori Prefecture is situated at the northernmost tip of the Japanese mainland of Honshu. In olden times, the region was the gateway to the island of Hokkaido, which was a site for extensive development. The prefecture is surrounded by sea on three sides, and overlooks the Tsugaru Straits that separate the Japan Sea to the west from the Pacific Ocean to the east. The region's majestic scenery draws in many tourists. Aomori is also home to well-developed farming and fishing industries, which produce many of Aomori's best-known produce. One of the region's most famous attractions is the virgin beech forest in the Shirakami Mountain region that straddles the border between Aomori and Akita prefectures. This has been listed as a World Heritage site, and has begun to attract many foreign tourists in recent years.

In terms of industrial development, following approval in 1998, work has already commenced on the extension of the Shinkansen super-express train line to Aomori City from its current terminus in Morioka in Iwate Prefecture to the south. It has been estimated that, once complete, the economic benefits to the region of this important infrastructure link and its various ripple effects will be in excess of ¥1.1 trillion (US\$10.4 billion). As the prefecture's strong economic development continues, the bank will naturally see its base of operations blossom.



Shirakami Mountain Region

# Fiscal 1999 Operating Results (Non-Consolidated)



## Overview

During fiscal 1999 (April 1, 1999 to March 31, 2000), while remaining in a poor condition overall, the Japanese economy did show signs of recovery. GDP rose 1.0% in the first quarter, before falling back to record two subsequent quarters of negative growth. However, a 2.4% growth spurt in the final quarter helped to bring total growth for the year up to 0.5%, marking the first positive growth in three years. As a result, the feeling that recovery is underway has become much more widespread. In Aomori Prefecture, strong levels of investment in housing and public-works projects boosted the regional economy. However, much of this investment was the result of government economic measures, such as a reduction in the tax on home loans. By the second half of the year, many were doubting whether the recovery would continue once the effects of these fiscal stimuli had worn off. With lack of growth in incomes and employment worries adding to people's sense of uncertainty about future prosperity, the anticipated revival in consumer spending and private-sector capital investment failed to materialize, leaving the pace of the recovery slow at best.

## Deposits

Despite the low interest rate environment, we worked hard to encourage new deposits by developing new products and services that fulfill customer needs. As a result, the levels of ordinary and time deposits both grew. The year-end balance of deposits, including negotiable certificates of deposit, increased by 1.2%, or ¥23,877 million (US\$225 million), to ¥1,938,473 million (US\$18,261 million).

In terms of the breakdown of deposits by customer type, deposits by individuals again provided most of the growth, rising 3.2%, or ¥38,002 million (US\$358 million), over the previous year, to ¥1,197,048 million (US\$11,277 million).

	Millions of yen				
	2000	1999	1998	1997	1996
<b>Deposits by Depositors</b>					
Individuals .....	<b>¥1,197,048</b>	¥1,159,046	¥1,099,914	¥1,033,563	¥ 966,434
Corporations .....	<b>438,483</b>	435,152	422,748	430,832	417,389
Financial institutions .....	<b>58,980</b>	67,854	71,882	90,765	59,270
Public institutions .....	<b>241,617</b>	247,792	260,958	300,319	338,202
Other .....	<b>2</b>	100	31	71	6,795
<b>Total .....</b>	<b>¥1,936,133</b>	¥1,909,946	¥1,855,535	¥1,855,551	¥1,788,060

Note: Excluding negotiable certificates of deposit.

	Millions of yen				
	2000	1999	1998	1997	1996
<b>Deposits per Office and per Employee</b>					
Deposits per office* .....	<b>¥18,461</b>	¥18,234	¥17,520	¥17,686	¥17,039
Number of offices** .....	<b>105</b>	105	106	105	105
Deposits per employee* .....	<b>¥ 1,065</b>	¥ 1,038	¥ 1,007	¥ 996	¥ 953
Number of employees*** .....	<b>1,867</b>	1,880	1,844	1,863	1,877

\* Excluding negotiable certificates of deposit.

\*\* Excluding the number of sub-branches.

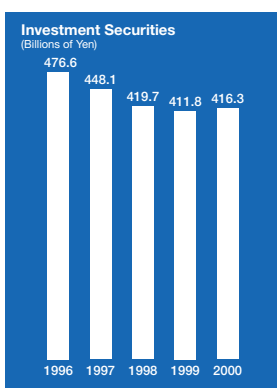
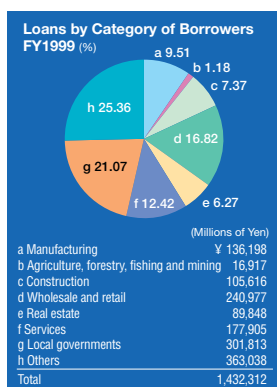
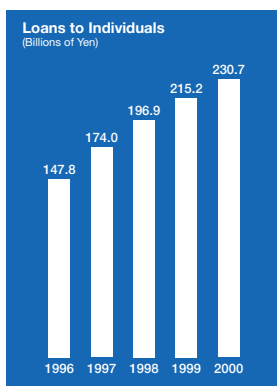
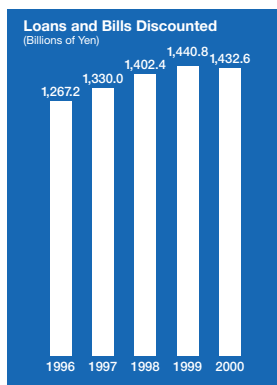
\*\*\* The figures for "Number of employees" are averages calculated during each term.

## Loans

We made strenuous efforts to expand loans to regional companies and individuals, and also actively responded to financing demand from various regional public-sector organizations. However, stalled demand for capital caused loans and bills discounted to fall by 0.57%, or ¥8,233 million (US\$77 million), to ¥1,432,641 million (US\$13,496 million). Loans to small and medium-sized companies as a proportion of total loans rose 1.77 percentage points to 64.81%. Led by strong growth in mortgages, consumer loans increased by 7.1%, or ¥15,943 million (US\$150 million), to ¥223,887 million (US\$2,109 million).

Total risk-managed loans were further reduced during the year, falling 8.7%, or ¥5,327 million (US\$50 million), to ¥55,688 million (US\$525 million). This represented 3.88% of total loans as of the fiscal year-end. Of these, loans to bankrupt borrowers totaled ¥5,757 million (US\$54 million), loans past due six months or more amounted to ¥10,778 million (US\$102 million), loans past due more than three months but less than six months totaled ¥548 million (US\$5 million), and loans with renegotiated conditions amounted to ¥38,604 million (US\$364 million). It should be noted that, since the disclosure of these loans in this way does not differentiate between unsecured and collateralized loans, the total contains some loans where there are no con-





cerns regarding collection. Further, the total amount within this risk-managed loan balance represented by unsecured loans is completely covered by the bank's loan-loss reserves.

Loans by Business Category	Millions of yen				
	2000	1999	1998	1997	1996
Manufacturing .....	¥ 136,198	¥ 159,597	¥ 157,647	¥ 166,436	¥ 164,227
Agriculture, forestry, fishing and mining .....	16,917	18,900	18,185	18,680	18,597
Construction .....	105,616	113,304	104,530	100,249	99,393
Wholesale and retail .....	240,977	257,014	248,507	255,179	243,763
Real estate .....	89,848	95,411	89,821	78,444	66,814
Services .....	177,905	201,434	193,330	193,160	183,907
Local governments .....	301,813	272,223	260,277	223,932	220,036
Others .....	363,038	322,440	328,934	292,901	269,538
Total .....	¥1,432,312	¥1,440,321	¥1,401,231	¥1,328,981	¥1,266,275

Note: The above chart does not include overdrafts caused by bank card cashing, loans on deeds or Japan Offshore Market accounts.

Loans to Individuals	Millions of yen				
	2000	1999	1998	1997	1996
Housing loans .....	¥172,039	¥146,760	¥128,108	¥110,594	¥ 93,276
Consumer loans .....	58,753	68,486	68,825	63,449	54,578
Total .....	¥230,793	¥215,246	¥196,934	¥174,043	¥147,854

Risk-Managed Loans	Millions of yen		
	2000	1999	1998
Loans to bankrupt borrowers .....	¥ 5,757	¥10,194	¥14,155
Loans past due six months or more .....	10,778	23,259	5,011
Loans past due more than three months but less than six months ....	548	2,457	14,563
Loans with renegotiated conditions .....	38,604	25,105	4,618
Total .....	¥55,688	¥61,015	¥38,348

### Securities

The bank's principal securities operations cover the underwriting of bond issues by national and local governments, public-sector organizations and public corporations. We also act as dealing agents for primary issues of national government bond issues and secondary trading in them and other public-sector bond issues. In recent years, we have also actively sold mutual funds through our retail operations. The year-end balance of investment securities rose by 1.0%, or ¥4,476 million (US\$42 million), to ¥416,374 million (US\$3,922 million).

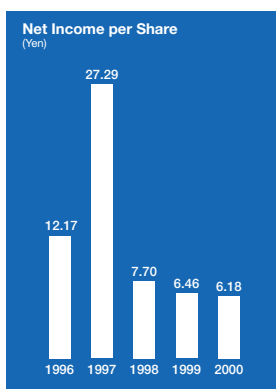
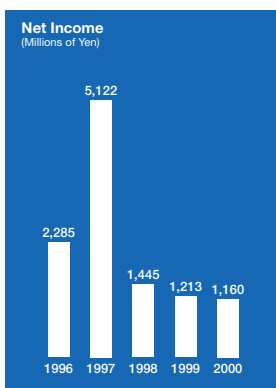
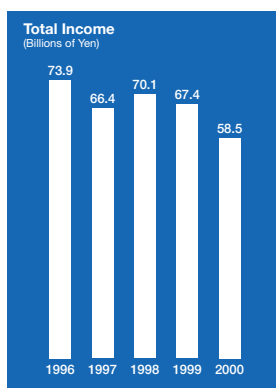
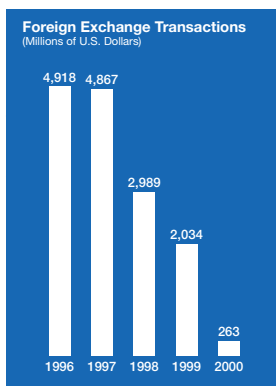
Public Bond Dealing	Billions of yen				
	2000	1999	1998	1997	1996
National government bonds .....	¥2,263.7	¥434.5	¥2,965.6	¥3,094.2	¥5,911.6
Local government bonds, government-guaranteed bonds ..	—	—	—	—	—
Total .....	¥2,263.7	¥434.5	¥2,965.6	¥3,094.2	¥5,911.6

Note: Figures are indicated on a commitment basis.

### Income

Falling yields and low interest rates caused interest on loans and discounts to decline. Combined with reduced proceedings from the disposal of national government bonds and other securities, this resulted in a drop in total income of ¥8,948 million (US\$84 million), to ¥58,508 million (US\$551 million). As a result of higher corporation tax stemming from a gain in taxable income, net income for the year declined by ¥53 million (US\$499 thousand) to ¥1,160 million (US\$10,930 thousand). Dividends for the year were unchanged, with interim and final dividends of ¥2.5 (US\$0.024) per share resulting in a total annual dividend of ¥5.0 (US\$0.047). Our capital adequacy ratio as measured according to Japanese domestic standards stood at 9.83% at the end of March 2000.

# Fiscal 1999 Operating Results (Non-Consolidated)



Foreign Exchange Transactions	Millions of U.S. dollars				
	2000	1999	1998	1997	1996
Trade .....	\$123	\$ 162	\$ 142	\$ 179	\$ 179
Non-trade .....	140	1,872	2,848	4,688	4,739
Total .....	\$263	\$2,034	\$2,989	\$4,867	\$4,918

Per Share Amounts	Yen				
	2000	1999	1998	1997	1996
Net income .....	¥ 6.18	¥ 6.46	¥ 7.70	¥ 27.29	¥ 12.17
Cash dividends .....	5.00	5.00	5.00	5.00	5.00
(Interim dividends) .....	(2.50)	(2.50)	(2.50)	(2.50)	(2.50)
Net assets value .....	449.59	414.60	413.33	410.83	388.73
Payout ratio .....	80.90%	77.28%	64.91%	18.31%	41.04%

## Off-balance-sheet Transactions Derivatives and forward foreign exchanges

	Contract value / Notional principal amounts		Amount equivalent to the credit risk	
	Millions of yen	Thousands U.S. dollars	Millions of yen	Thousands of U.S. of dollars
March 31, 2000				
Interest rate and currency swaps .....	¥8,943	\$84,249	¥57	\$537
Forward foreign exchange .....	82	772	2	19
Interest rate and currency options .....	—	—	—	—
Other derivatives .....	—	—	—	—
Total .....	¥9,026	\$85,031	¥60	\$565

The above amounts equivalent to the credit risk are calculated using the original exposure method, in accordance with international standards.

The contract values and notional principal amounts listed below are transactions on exchanges not subject to international standards, and foreign exchange related transactions with an original maturity of 14 days or less.

	Contract value / Notional principal amounts	
	Millions of yen	Thousands of U.S. dollars
March 31, 2000		
Interest rate and currency swaps .....	¥ —	\$ —
Forward foreign exchange .....	160	1,507
Interest rate and currency options .....	—	—
Other derivatives .....	—	—
Total .....	¥160	\$1,507

## Credit-related transactions

	Contract value	
	Millions of yen	Thousands of U.S. dollars
March 31, 2000		
Commitments .....	¥348,279	\$3,281,008
Guarantees .....	40,866	384,984
Other .....	—	—
Total .....	¥398,145	\$3,750,777

## **Risk management system**

As financial markets have become increasingly free and global, the risks generated by daily banking activities have magnified. Amid such an operating environment, we are working of our own accord to strengthen our risk management controls, while at the same time maintaining a balance so that we can use such controls to increase earnings. The Risk Administration Division leads and coordinates our integrated efforts to manage credit risk, market risk, and the risks associated with derivatives trading.

## **Credit risk**

With the aim of improving our credit risk management and maintaining sound assets, we establish credit policy for all our different counterparties. As well as formulating credit extension policies according to a firm's nature, degree of group consolidation and industry sector, we also perform credit investigations prior to extension of a loan, and then monitor and manage the ensuing credit risk actively. To do this, we gather and analyze financial data on the balance sheets and income statements of these companies. Our system assigns credit ratings to firms across 11 different categories. Credit reviews are performed for all loan assets every six months. The Risk Administration Division also conducts internal audits to assess credit risk.

## **Market-related and liquidity risks**

Banking operations are heavily influenced by financial and economic environment trends, such as currency movements and the direction of interest rates. We are constantly working to improve our management of market-related risks, such as those generated by changes in interest rates and prices, and liquidity risk, while at the same time endeavoring to improve our earnings structure. Operational firewalls keep the responsibility for market risk management in an independent department, strictly separated from both our trading operations and back-office functions. Through such Asset Liability Management practices, we have instituted appropriate controls to combat these types of risk while providing a stable earnings stream.

## **Administrative risk**

To avoid the risks associated with operational diversification and the growth in the volume of back-office administration, we have instituted internal administrative regulations and strengthened

our back-office management controls. As well as making increased use of automation to promote more accurate processing, we have also reduced risk by concentrating branch-based administrative processing. We are training our back-office staff more intensively, using regular in-house training exercises to boost their skills. Finally, to promote anticipatory measures that could prevent processing errors from occurring, the Inspection Division conducts annual audits throughout the branch network.

## **Systems-related risk**

With computer systems now such an integral part of banking operations, we have adopted a wide variety of safety measures to prevent system failures. In terms of hardware, our host computer is installed in an administrative center that has been specially constructed to withstand earthquakes. Emergency generators ensure that a constant power supply is maintained. Built-in redundancy among computers and connection circuits provides another level of security should some damage be inflicted on the system. On the software side, we run regular maintenance checks to test system reliability. Before the introduction of newly developed products or services, we also conduct tests to ensure that the system will be able to cope. Finally, we take every precaution to protect customer data, both within the system and during any administrative procedures.

## **Regulatory compliance**

In March 1999, we incorporated regulatory compliance clauses into the Aomori Bank Corporate Philosophy and laid down internal codes of conduct for all our managers. We have also compiled a regulatory compliance manual that specifies a number of points relating to daily operational conduct. As another part of this system, managers with responsibility for ensuring that the bank routinely fulfills regulatory compliance requirements have been appointed at our head office and each of our branch offices. From April 2000, the Risk Administration Division has been charged with the overall responsibility for ensuring that all areas of the bank's operations comply with relevant laws and regulations.

# Non-Consolidated Balance Sheets

The Aomori Bank, Ltd.  
As of March 31, 2000 and 1999

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Assets</b>			
Cash and due from banks .....	¥ 118,650	¥ 111,895	\$ 1,117,766
Call loans .....	55,000	67,567	518,135
Trading account securities .....	202	250	1,906
Money held in trust .....	1,000	2,984	9,421
Investment securities (Note 3) .....	416,374	411,898	3,922,508
Loans and bills discounted (Note 4) .....	1,432,641	1,440,874	13,496,390
Foreign exchanges .....	753	605	7,099
Other assets .....	11,073	15,657	104,316
Premises and equipment (Note 5) .....	22,550	22,960	212,443
Deferred income taxes .....	7,496	—	70,620
Customers' liabilities for acceptances and guarantees (Note 8) .....	40,866	41,919	384,990
Reserve for possible loan losses .....	(9,170)	—	(86,390)
Total assets .....	<u>¥2,097,439</u>	<u>¥2,116,614</u>	<u>\$19,759,204</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits (Note 6) .....	¥1,938,473	¥1,914,596	\$18,261,643
Call money .....	1,486	1,446	14,000
Borrowed funds .....	15,391	20,737	144,996
Foreign exchanges .....	27	14	263
Other liabilities .....	10,817	25,680	101,912
Reserve for possible loan losses .....	—	28,353	—
Liabilities for employee severance indemnities .....	5,914	5,784	55,717
Other reserves .....	109	292	1,029
Acceptances and guarantees (Note 8) .....	40,866	41,919	384,990
Total liabilities .....	<u>2,013,087</u>	<u>2,038,826</u>	<u>18,964,550</u>
<b>Shareholders' equity</b>			
Common stock (Note 9) .....	15,221	15,221	143,394
Capital surplus (Note 9) .....	8,575	8,575	80,783
Legal reserve (Note 10) .....	4,462	4,268	42,040
Appropriated retained earnings .....	48,500	48,300	456,901
Unappropriated retained earnings .....	7,593	1,422	71,535
Total shareholders' equity .....	<u>84,352</u>	<u>77,787</u>	<u>794,653</u>
Total liabilities and shareholders' equity .....	<u>¥2,097,439</u>	<u>¥2,116,614</u>	<u>\$19,759,204</u>

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Income Statements and Statements of Appropriation of Retained Earnings

The Aomori Bank, Ltd.  
Years ended March 31, 2000 and 1999

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Income</b>			
Interest on;			
Loans and discounts .....	¥33,651	¥34,721	\$ 317,016
Securities .....	11,999	13,965	113,047
Other .....	1,308	1,214	12,331
	<u>46,960</u>	<u>49,901</u>	<u>442,394</u>
Fees and commissions.....	6,816	10,844	64,215
Other income.....	4,731	6,710	44,574
Total income .....	<u>58,508</u>	<u>67,456</u>	<u>551,183</u>
<b>Expenses</b>			
Interest on;			
Deposits .....	5,369	7,964	50,584
Borrowings and rediscounts .....	502	577	4,731
Other .....	1,328	936	12,516
	<u>7,200</u>	<u>9,478</u>	<u>67,831</u>
Fees and commissions.....	5,379	4,867	50,677
General and administrative expenses.....	33,636	33,836	316,877
Other expenses .....	10,103	17,993	95,178
Total expenses.....	<u>56,319</u>	<u>66,175</u>	<u>530,563</u>
Income before income taxes .....	2,188	1,281	20,620
Current income taxes (Note 11).....	2,152	67	20,273
Deferred income taxes .....	(1,123)	—	(10,583)
Net income.....	<u>¥ 1,160</u>	<u>¥ 1,213</u>	<u>\$ 10,930</u>
<b>Retained earnings – unappropriated</b>			
Balance at beginning of year.....	¥ 1,422	¥ 1,880	\$ 13,403
Net income .....	1,160	1,213	10,930
Adjustment to retained profit on tax effect of previous terms .....	6,372	—	60,036
Appropriations:			
Transfer to;			
Legal reserve (Note 10).....	193	195	1,826
Appropriated retained earnings .....	200	500	1,884
Cash dividends (Note 10).....	938	938	8,837
Other .....	30	38	286
Total appropriations .....	<u>1,362</u>	<u>1,671</u>	<u>12,834</u>
Balance at end of year.....	<u>¥ 7,593</u>	<u>¥ 1,422</u>	<u>\$ 71,535</u>
		Yen	Cents
Net income per share .....	<u>¥6.18</u>	<u>¥6.46</u>	<u>¢5.82</u>

See accompanying notes to non-consolidated financial statements.

## 1. Basis of presentation of non-consolidated financial statements

(1) The accompanying non-consolidated financial statements have been prepared from the accounts maintained by The Aomori Bank, Ltd. in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(2) In preparing the accompanying non-consolidated financial statements, certain reclassifications have been made in the non-consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Furthermore, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. The figures less than millions of yen are omitted.

(3) The non-consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥106.15 = U.S.\$1, the prevailing rate as of March 31, 2000. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

## 2. Summary of significant accounting policies

### (1) Trading account securities

Quoted trading account securities are carried at the lower of cost or market. Other trading account securities are carried at cost.

### (2) Investment securities

Quoted convertible bonds and stocks are carried at the lower of cost or market. Other securities are carried at cost.

The same method applies to securities held through Money held in trust.

### (3) Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by the declining-balance method based on estimated useful lives, except for the following.

Due to the revision of the Corporation Tax Law, depreciation of buildings (excluding accessory equipment) acquired from April 1, 1999 is computed by the straight-line method.

### (4) Software

The cost of software to be used internally within the Bank is amortized using the straight-line method based on a useful life of 5 years.

### (5) Reserve for possible loan losses

Reserves for possible loan losses are provided as follows, in accordance with the internal policies regarding write-offs and reserves.

For loans to obligors which are classified as substantially bankrupt ("substantially bankrupt obligors") or which are bankrupt in the formal legal sense ("bankrupt obligors"), the reserve is provided based on the amount remaining after deduction of the amount of collateral value considered to be disposable and amounts recoverable under guarantees.

For loans to obligors which are not actually bankrupt in the legal sense but are experiencing serious management difficulties and whose failure is imminent, the reserve is provided based on the necessary amount considering the overall solvency assessment of the amounts remaining after deductions of the expected amounts to be collected through the disposal of collateral or through the execution of guarantees.

For loans other than the above, the reserve is provided based on the default rate, calculated by the actual defaults during a certain period in the past.

All loans are assessed based on the internal rules for self-assessment of asset quality.

In the case of loans to substantially bankrupt obligors or bankrupt obligors which are collateralized or guaranteed by a third party, the amounts deemed uncollectible are charged off against the respective loan balances. The total charged-off amounts are ¥25,090 million.

Up until the previous term, the Reserve for possible loan losses was included in Liabilities. However, due to the revision of the Banking Law, from this fiscal year onwards the Reserve for possible loan losses is included in assets as a lump-sum deduction from the corresponding assets. The effect of this change results in respective decreases in Assets and Liabilities of ¥9,170 million.

### (6) Liabilities for employee severance indemnities

Under the Bank's employee retirement plan, an allowance based on length of service and basic salary at the date of termination is paid to employees terminating their employment. Payments for voluntary termination are less than the payments for involuntary termination.

The accrued liability for severance indemnities included in the balance sheets represent 100% of the liabilities computed on a voluntary basis of the company's share.

In addition, the Bank has funded pension plans for its employees.

### (7) Finance leases

Lease payments under finance leases are charged to expenses in conformity with the accounting standard for leases in Japan.

### (8) Exchange rate

Foreign currency receivable and payable are translated at the exchange rate prevailing on the balance sheet date.

### (9) Tax-effect accounting

Up until the previous term, corporation tax, inhabitants' taxes and enterprise tax applicable to the Bank were accounted in the term to which the relevant amounts related. However, tax-effect accounting was introduced in this term, as a result, Assets increased by ¥7,496 million as against the amount they would have been using the accounting methods previously applied. Net income increased by ¥1,123 million and Unappropriated retained earnings at end of fiscal year increased by ¥7,496 million.

## 3. Investment securities

	Millions of Yen	
	2000	1999
Government bonds.....	¥159,110	¥141,837
Local government bonds.....	81,157	78,462
Corporate bonds.....	107,155	106,697
Stocks.....	27,466	29,820
Other securities.....	41,483	55,080
Total .....	¥416,374	¥411,898

## 4. Loans and bills discounted

	Millions of Yen	
	2000	1999
Bills discounted .....	¥ 26,275	¥ 26,837
Loans on bills.....	279,316	268,427
Loans on deeds .....	862,688	875,406
Overdrafts .....	264,360	270,204
Total .....	¥1,432,641	¥1,440,874

"Loans and bills discounted" includes bad loans as follows:

	Millions of Yen	
	2000	1999
(a) Loans to bankrupt borrowers.....	¥ 5,757	¥10,194
(b) Loans past due six months or more.....	10,778	23,259
(c) Loans past due more than three months but less than six months.....	548	2,457
(d) Loans with renegotiated conditions .....	38,604	25,105
Total .....	¥55,688	¥61,015

## 5. Premises and equipment

The accumulated depreciation as of March 31, 2000 and 1999 was ¥25,105 and ¥21,828 millions, respectively.

## 6. Deposits

	Millions of Yen	
	2000	1999
Current deposits .....	¥ 51,762	¥ 55,298
Ordinary deposits.....	515,908	486,238
Savings accounts.....	57,144	53,863
Deposits at notice.....	15,795	20,819
Time deposits.....	1,221,842	1,207,685
Other deposits.....	73,680	86,040
Negotiable certificates of deposit .....	2,340	4,650
Total .....	<u>¥1,938,473</u>	<u>¥1,914,596</u>

## 7. Breakdown of assets pledged as collateral by the Bank

	Millions of Yen
	2000
Breakdown of assets pledged as collateral:	
Securities .....	¥23,412
Debt relating to assets pledged as collateral:	
Deposits .....	¥34,318

In addition to the above, Securities amounting to ¥46,189 million are pledged as collateral in connection with foreign exchange settlement or as a substitute for margin payments.

## 8. Acceptances and guarantees

All contingent liabilities including guarantees, letter of credit and acceptance reflected in "Acceptances and guarantees."

As a contra account, "Customers' liabilities for acceptances and guarantees" are shown on the assets side, which represents the Bank's right of indemnity from the applicants.

## 9. Common stock and capital surplus

The authorized number of shares of common stock was 300 million as of March 31, 2000 and 1999 with a par value of ¥50 per share.

The information relating to common stock and capital surplus is as follows:

	Millions of Yen	
	2000	1999
Common stock:		
Balance at beginning of year .....	¥ 15,221	¥ 15,221
Balance at end of year .....	<u>¥ 15,221</u>	<u>¥ 15,221</u>
(Shares issued and outstanding at end of year) – thousands of shares	(187,621)	(187,621)
Capital surplus:		
Balance at beginning of year .....	¥ 8,575	¥ 8,575
Balance at end of year .....	<u>¥ 8,575</u>	<u>¥ 8,575</u>

## 10. Legal reserve and cash dividends

The Banking Law of Japan provides that an amount equivalent to at least 20% of cash dividends paid be appropriated as a legal reserve until such reserve equals 100% of stated capital. The legal reserve may be used to reduce a deficit or it may be transferred to stated capital.

Cash dividends at the fiscal year-end must be approved by the shareholders at an annual meeting to be held subsequent to the year-end, while interim dividends may be paid after the half-year end upon resolution of the board of directors.

## 11. Income taxes

The Bank is subject to a number of taxes based on income which, in the aggregate, result in a normal tax rate of approximately 42%.

The actual rate of income taxes reflected in the income statements differed from the normal tax rates of approximately 42% due principally to expenses not deductible for income tax purposes.

# Independent Auditors' Report

The Board of Directors and Shareholders of  
The Aomori Bank, Ltd. :

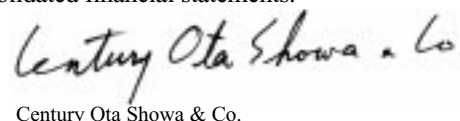
We have audited the non-consolidated balance sheet of The Aomori Bank, Ltd. as of March 31, 2000 and the related non-consolidated income statement and statement of appropriation of retained earnings for the year then ended, all expressed in yen. Our audit was made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying non-consolidated financial statements, expressed in yen, present fairly the financial position of The Aomori Bank, Ltd. at March 31, 2000 and the results of its operations for the year then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 (9) to the non-consolidated financial statements, The Aomori Bank, Ltd. has adopted new accounting standards for tax-effect accounting in the preparation of its non-consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2000 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 (3) to the non-consolidated financial statements.

June 29, 2000



Century Ota Showa & Co.

See note 1 (1) to the non-consolidated financial statements which explains the basis of preparing the non-consolidated financial statements of The Aomori Bank, Ltd. under Japanese accounting principles and practices.

# Consolidated Balance Sheets

The Aomori Bank, Ltd. and consolidated subsidiaries  
As of March 31, 2000 and 1999

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Assets</b>			
Cash and due from banks .....	¥ 120,139	¥ 113,411	\$ 1,131,787
Call loans .....	55,000	67,567	518,135
Trading account securities .....	202	250	1,906
Money held in trust .....	1,000	2,984	9,421
Investment securities .....	416,607	412,624	3,924,705
Loans and bills discounted (Note 3) .....	1,434,830	1,441,017	13,517,009
Foreign exchanges .....	753	605	7,099
Other assets .....	27,646	30,590	260,448
Premises and equipment (Note 4) .....	37,111	39,900	349,611
Deferred income taxes .....	7,790	—	73,389
Customers' liabilities for acceptances and guarantees .....	40,866	41,919	384,990
Reserve for possible loan losses .....	(10,664)	—	(100,470)
Total assets .....	<u>¥2,131,282</u>	<u>¥2,150,871</u>	<u>\$20,078,030</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits .....	1,935,788	1,912,228	18,236,345
Call money .....	1,486	1,446	14,000
Borrowed funds .....	39,595	45,277	373,014
Foreign exchanges .....	27	14	263
Other liabilities .....	20,130	33,905	189,640
Reserve for possible loan losses .....	—	29,884	—
Liabilities for employee severance indemnities .....	5,956	5,816	56,118
Other reserves .....	109	292	1,029
Acceptances and guarantees .....	40,866	41,919	384,990
Total liabilities .....	<u>2,043,960</u>	<u>2,070,785</u>	<u>19,255,399</u>
Minority interest in consolidated subsidiaries .....	3,787	2,920	35,678
<b>Shareholders' equity</b>			
Common stock .....	15,221	15,221	143,394
Capital surplus .....	8,575	8,575	80,783
Retained earnings .....	61,326	54,550	577,730
Common stock in treasury .....	(2)	(2)	(19)
Shares held by subsidiaries .....	(1,585)	(1,179)	(14,935)
Total shareholders' equity .....	<u>83,535</u>	<u>77,165</u>	<u>786,953</u>
Total liabilities and shareholders' equity .....	<u>¥2,131,282</u>	<u>¥2,150,871</u>	<u>\$20,078,030</u>

See accompanying notes to consolidated financial statements.



# Consolidated Income Statements

The Aomori Bank, Ltd. and consolidated subsidiaries  
Years ended March 31, 2000 and 1999

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Income</b>			
Interest on;			
Loans and discounts .....	¥34,047	¥34,994	\$ 320,751
Securities .....	12,008	13,985	113,125
Other .....	1,308	1,214	12,331
	47,364	50,194	446,207
Fees and commissions.....	6,760	10,789	63,690
Other income.....	16,612	19,546	156,497
Total income .....	70,737	80,530	666,394
<b>Expenses</b>			
Interest on;			
Deposits .....	5,365	7,960	50,549
Borrowings and rediscounts .....	1,114	1,284	10,497
Other .....	1,357	973	12,784
	7,837	10,217	73,831
Fees and commissions.....	4,677	4,173	44,064
General and administrative expenses.....	30,911	31,528	291,206
Other expenses .....	24,013	32,039	226,225
Total expenses.....	67,439	77,959	635,326
Income before income taxes and others .....	3,297	2,570	31,068
Current income taxes .....	2,455	716	23,129
Deferred income taxes .....	(977)	—	(9,205)
Minority interest in net income .....	493	567	4,650
Net income.....	¥ 1,326	¥ 1,287	\$ 12,493
		Yen	Cents
Net income per share .....	¥7.19	¥6.94	¢6.77

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Retained Earnings

The Aomori Bank, Ltd. and consolidated subsidiaries  
As of March 31, 2000 and 1999

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Balance at beginning of year .....	¥54,550	¥54,240	\$ 513,902
Adjustment to retained profit on tax effect of previous terms.....	6,404	—	60,338
Deductions:			
Cash dividends .....	(923)	(938)	(8,699)
Bonuses for directors and statutory auditors.....	(32)	(39)	(304)
Net income.....	1,326	1,287	12,493
Balance at end of year .....	¥61,326	¥54,550	\$ 577,730

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

The Aomori Bank, Ltd. and consolidated subsidiaries  
Years ended March 31, 2000

	Millions of Yen (Note 1) 2000	Thousands of U.S. dollars (Note 1) 2000
<b>Cash flows from operating activities:</b>		
Income before income taxes and others.....	¥ 3,297	\$ 31,060
Depreciation .....	2,267	21,357
Net increase (decrease) in Reserve for possible loan losses .....	(19,219)	(181,055)
Net increase (decrease) in Liabilities for employee severance indemnities .....	140	1,319
Net increase (decrease) in Other reserves .....	(183)	(1,724)
Interest income .....	(47,372)	(446,274)
Interest expenses .....	7,837	73,829
Net loss (gain) on Investment securities .....	190	1,790
Net loss (gain) on Money held in trust.....	(108)	(1,017)
Net loss (gain) on Foreign exchange.....	1,264	11,908
Net loss (gain) on Sales of Premises and equipment .....	(19)	(179)
Net decrease (increase) in Trading account securities .....	48	452
Net decrease (increase) in Loans and bills discounted.....	6,186	58,276
Net increase (decrease) in Deposits .....	23,559	221,941
Net increase (decrease) in Borrowed funds excluding Subordinated debt .....	(182)	(1,715)
Net decrease (increase) in Due from banks excluding deposits with the Central bank.....	17,389	163,815
Net decrease (increase) in Call loans .....	12,684	119,491
Net increase (decrease) in Call money.....	39	367
Net increase (decrease) in Collateral under repurchase agreements and securities lending transactions .....	(16,051)	(151,211)
Net decrease (increase) in Foreign exchanges (assets) .....	(148)	(1,394)
Net increase (decrease) in Foreign exchanges (liabilities).....	13	122
Interest received .....	47,838	450,664
Interest paid.....	(9,757)	(91,917)
Others, net .....	6,264	59,011
Sub total .....	35,979	338,945
Income taxes paid.....	(804)	(7,574)
<b>Net cash provided by (used in) operating activities .....</b>	<b>35,175</b>	<b>331,371</b>
<b>Cash flows from investing activities:</b>		
Purchases of Investment securities.....	(189,811)	(1,788,139)
Proceeds from sales of Investment securities.....	110,355	1,039,614
Proceeds from maturities of Investment securities .....	73,776	695,016
Decrease in Money held in trust.....	2,093	19,717
Expenditures for Premises and equipment.....	(2,011)	(18,945)
Proceeds from sales of Premises and equipment .....	1,134	10,683
<b>Net cash provided by (used in) investing activities .....</b>	<b>(4,462)</b>	<b>(42,035)</b>
<b>Cash flows from financing activities:</b>		
Expenditures for repayment of Subordinated debt .....	(5,500)	(51,813)
Cash dividends paid .....	(923)	(8,695)
Cash dividends paid to Minority interests.....	(8)	(75)
Purchase of Treasury stock .....	(157)	(1,479)
Proceeds from sales of Treasury stock.....	30	283
<b>Net cash provided by (used in) financing activities.....</b>	<b>(6,559)</b>	<b>(61,790)</b>
Effect of exchange rate changes on Cash and cash equivalents .....	(36)	(339)
Net increase in Cash and cash equivalents .....	24,117	227,197
Cash and cash equivalents at beginning of year (Note 6).....	32,847	309,439
Cash and cash equivalents at end of year (Note 6).....	¥ 56,964	\$ 536,637

See accompanying notes to consolidated financial statements.

## 1. Basis of presentation of consolidated financial statements

(1) The accompanying consolidated financial statements have been prepared from the accounts maintained by The Aomori Bank, Ltd. and its subsidiaries in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(2) In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Furthermore, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. The figures less than millions of yen are omitted.

(3) The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥106.15 = U.S.\$1, the prevailing rate as of March 31, 2000. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

## 2. Summary of significant accounting policies

### (1) Principles of consolidation

- a. The consolidated financial statements include the accounts of the Bank and 11 of its subsidiaries.
- b. The difference between the cost of the investment and underlying equity in net assets of consolidated subsidiaries is charged or credited to income in the year of acquisition.
- c. All significant unrealized profit have been eliminated in consolidation.
- d. Cash dividends of the consolidated statement of retained earnings represent cash dividends paid during this fiscal year.

### (2) Trading account securities

Quoted trading account securities owned by the Bank are carried at the lower of cost or market. Other trading account securities are carried at cost.

### (3) Investment securities

Quoted convertible bonds and stocks owned by the Bank and the consolidated subsidiaries are carried at the lower of cost or market. Other securities are carried at cost.

The same method applies to securities held through Money held in trust.

### (4) Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation.

Depreciation of premises and equipment owned by the bank and the consolidated subsidiaries is computed by the declining-balance method based on estimated useful lives, except for the following.

Due to the revision of the Corporation Tax Law, depreciation of buildings (excluding accessory equipment) acquired from April 1, 1998 is computed by the straight-line method.

### (5) Software

The cost of software to be used internally within the Bank and the consolidated subsidiaries is amortized using the straight-line method based on a useful life of 5 years.

### (6) Reserve for possible loan losses

Reserves for possible loan losses are provided as follows, in accordance with the internal policies regarding write-offs and reserves.

For loans to obligors which are classified as substantially bankrupt ("substantially bankrupt obligors") or which are bankrupt in the formal legal sense ("bankrupt obligors") the reserve is provided based on the amount remaining after deduction of the amount of collateral value con-

sidered to be disposable and amounts recoverable under guarantees.

For loans to obligors which are not actually bankrupt in the legal sense but are experiencing serious management difficulties and whose failure is imminent, the reserve is provided based on the necessary amount considering the overall solvency assessment of the amounts remaining after deductions of the expected amounts to be collected through the disposal of collateral or through the execution of guarantees.

For loans other than the above, the reserve is provided based on the default rate, calculated by the actual defaults during a certain period in the past.

All loans are assessed based on the internal rules for self-assessment of asset quality.

In the case of loans to substantially bankrupt obligors or bankrupt obligors which are collateralized or guaranteed by a third party, the amounts deemed uncollectible are charged off against the respective loan balances. The total charged-off amounts are ¥25,090 million.

Up until the previous term, the Reserve for possible loan losses was included in Liabilities. However, due to the revision of the Banking Law, from this fiscal year onwards the Reserve for possible loan losses is included in assets as a lump-sum deduction from the corresponding assets. The effect of this change results in respective decreases in Assets and Liabilities of ¥10,664 million.

Reserves for possible loan losses of the consolidated subsidiaries are made as deemed necessary with reference to previous loan loss experience of these companies.

### (7) Liabilities for employee severance

Under the employee retirement plan of the Bank and the consolidated subsidiaries, allowances based on length of service and basic salary at the date of termination are paid to employees terminating their employment. Payments for voluntary termination are less than the payments for involuntary termination.

The accrued liability for severance indemnities included in the balance sheets represent 100% of the liabilities computed on a voluntary basis of the company's share.

In addition, the Bank and major consolidated subsidiaries have funded pension plans for their employees.

### (8) Exchange rate

Foreign currency receivable and payable are translated at the exchange rate prevailing on the balance sheet date.

### (9) Finance leases

Lease payments under finance leases are charged to expenses in conformity with the accounting standard for leases in Japan.

### (10) Tax-effect accounting

Up until the previous term, corporation tax, inhabitants' taxes and enterprise tax applicable to the Bank and the consolidated subsidiaries were accounted in the term to which the relevant amounts related. However, tax-effect accounting was introduced in this term, as a result, Assets increased by ¥7,790 million, Net income increased by ¥977 million and Retained earnings at end of fiscal year increased by ¥7,381 million as against the amount they would have been using the accounting methods previously applied.

## 3. Loans and bills discounted

"Loans and bills discounted" includes bad loans as follows:

	Millions of Yen	
	2000	1999
(a) Loans to bankrupt borrowers.....	¥ 6,440	¥11,153
(b) Loans past due six months or more.....	12,328	23,408
(c) Loans past due more than three months but less than six months .....	567	2,615
(d) Loans with renegotiated conditions ....	42,681	26,800
Total.....	¥62,017	¥63,977

# Notes to Consolidated Financial Statements

## 4. Premises and equipment

The accumulated depreciation as of March 31, 2000 and 1999 was ¥47,121 and ¥44,195 millions, respectively.

## 5. Breakdown of assets pledged as collateral by the Bank

	Millions of Yen
	2000
Breakdown of assets pledged as collateral:	
Securities .....	¥23,900
Loans .....	¥ 100
Other assets.....	¥24,523
Debt relating to assets pledged as collateral:	
Deposits .....	¥34,318
Borrowed funds .....	¥15,998

In addition to the above, Securities amounting to ¥46,189 million are pledged as collateral in connection with foreign exchange settlement or as a substitute for margin payments.

## 6. Cash and cash equivalent

For the purposes of reporting cash flows, funds covers cash and deposits with the central bank included in the consolidated balance sheet under Cash and due from banks.

Details of Cash and cash equivalent amounts at the end of the term and the relevant consolidated balance sheet items of which it is composed are as follows:

	Millions of Yen
	2000
Cash and due from banks.....	¥120,139
Time deposits with other banks .....	(60,137)
Other deposits with other banks .....	(3,037)
Cash and cash equivalent.....	¥ 56,964

## Independent Auditors' Report

The Board of Directors and Shareholders of  
The Aomori Bank, Ltd. :

We have audited the consolidated balance sheet of The Aomori Bank, Ltd. and consolidated subsidiaries as of March 31, 2000 and the related consolidated income statement, consolidated statements of retained earnings and cash flows for the year then ended, all expressed in yen. Our audit was made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of The Aomori Bank, Ltd. and consolidated subsidiaries at March 31, 2000 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 (10) to the consolidated financial statements, The Aomori Bank, Ltd. and consolidated subsidiaries have adopted new accounting standards for tax-effect accounting in the preparation of their consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 (3) to the consolidated financial statements.

June 29, 2000

Century Ota Showa & Co.

See note 1 (1) to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of The Aomori Bank, Ltd. and its subsidiaries under Japanese accounting principles and practices.

## Our Subsidiaries

The Aomori Bank group is made up of the parent bank and a total of 11 consolidated subsidiaries. As well as our core business of banking, we also offer a broad range of financial services, including credit cards, leases, and mortgage credit guarantees. In addition, we are engaged in a number of peripheral banking businesses, including outsourced back-office operations, together with real estate surveys and management. While each of these operations functions autonomously, they are linked organically, and collectively help to enhance the bank's operational influence.

The bank's consolidated subsidiaries are listed in the table below. In March 2000, Aogin Lease received an AAA credit rating from Japan Rating and Investment Information Inc. Through trust banks, Aogin Lease has issued ¥2,000 million (US\$19 million) in securitized lease receivables, which have also attracted a triple-A rating. It is relatively rare for leasing firms to be awarded such a high credit rating, let alone AAA. The company is the first in Northeast Japan to achieve this distinction.

### Consolidated Subsidiaries

(As of March 31, 2000)

Company name	Business	Paid-in capital (million)	Equity (%)
Koda Co., Ltd.	Property management	10	100
Aogin Business Service Co., Ltd.	Centralized processing of clerical operations	20	100
Aogin Property Research Co., Ltd.	Collateral evaluation	10	100
Aogin Staff Service Co., Ltd.	Dispatch of temporary staff	20	100
Aogin DC Card Co., Ltd.	Credit card business	20	5
Aogin Lease Co., Ltd.	Leasing	20	5
Aogin Computer Service Co., Ltd.	Computer systems development and services	30	5
Aogin Mortgage Co., Ltd.	Mortgage securities business	100	5
Aogin Credit Card Co., Ltd.	Credit card business	20	5
Aogin JCB Card Co., Ltd.	Credit card business	20	5
Aogin Confidence Guarantee Co., Ltd.	Loan guarantees	30	2.5

# Corporate Directory

## Corporate Data

As of March 31, 2000

**Company Name:** The Aomori Bank, Ltd.

**Head Office:** 9-30, Hashimoto 1-chome, Aomori 030-8668, Japan

**Web URL:** <http://www.a-bank.co.jp/>

**Date of Establishment:** October 1, 1943

**Date of Foundation:** January 20, 1879

**Number of Employees:** 1,867

**Number of Offices:** 112

**Paid-in Capital:** 15,221 million yen

**Number of Outstanding Shares:** 187,621,615

**Total Assets:** 2,097.4 billion yen

**Loans and Bills Discounted:** 1,432.6 billion yen

**Capital Adequacy Ratio:** 9.83% (Domestic Standards)

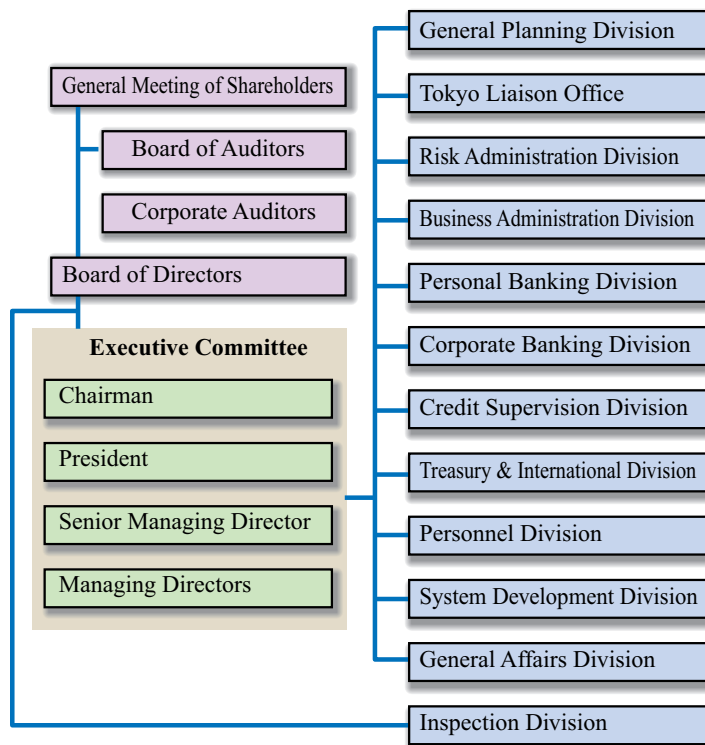
**ROA:** 0.05%

**ROE:** 1.50%

**Credit Ratings:** A (Japan Credit Rating Agency, Ltd.)  
A (Japan Rating and Investment Information, Inc.)

## Organization

As of April 1, 2000



## Service Network

### Head Office

9-30, Hashimoto 1-chome, Aomori 030-8668  
Telephone: 017-777-1111

### Treasury & International Division

9-30,hashimoto 1-chome, Aomori 030-8668  
Telephone: 017-734-8535  
Facsimile: 017-734-8593  
Telex: 812602 AOMOBKJ

### International Funding Section

4-1,Nihonbashi-Honcho 3-chome, Chuo-ku,  
Tokyo 103-0023  
Telephone: 03-3246-0600  
Facsimile: 03-3270-7135

### Foreign Exchange Offices

#### Head Office

9-30,Hashimoto 1-chome, Aomori 030-8668  
Telephone: 017-777-1111

#### Tokyo Branch

1-5,Nihonbashi-Honcho 2-chome, Chuo-ku,  
Tokyo 103-0023  
Telephone: 03-3270-3461

#### Hachinohe Branch

10-2, Bancho, Hachinohe, Aomori 031-0031  
Telephone: 0178-43-0111

#### Hirosaki Branch

19, Oyakatamachi, Hirosaki,  
Aomori 036-8191  
Telephone: 0172-32-3161

### Misawa Branch

2-3, Chuocho 1-chome, Misawa,  
Aomori 033-0001  
Telephone: 0176-53-2191

### Sendai Branch

10-3, Chuo 4-chome, Aoba-ku, Sendai,  
Miyagi 980-0021  
Telephone: 022-221-6521

### Towada Branch

15-1, Inaicho, Towada, Aomori 034-0011  
Telephone: 0176-23-3141

### Goshogawara Branch

41, Honcho, Goshogawara, Aomori 037-0071  
Telephone: 0173-34-2161

## Board of Directors and Auditors



**Toshihiro Umenai**  
Chairman



**Akio Ibata**  
President



**Tsuneyoshi Miura**  
Senior Managing Director



**Masaru Iwasaki**  
Managing Director



**Ryoichi Takeuchi**  
Managing Director



**Ryoichi Osanai**  
Managing Directors



**Kenichi Tanaka**  
Managing Director

### **Directors**

Tadao Hayashi  
Kinjiro Tanabe  
Kunikatsu Kado  
Osamu Baba  
Yoshisada Kafuku  
Shouichi Sawamukai  
Tetsuo Fukushima

### **Standing Corporate Auditor**

Masanori Furusato

### **Corporate Auditors**

Norio Hayashi  
Takuo Horiuchi  
Yoshimi Kudo



**The Aomori Bank, Ltd.**

9-30 Hashimoto 1-chome, Aomori, 030-8668 Japan. TEL. 017-777-1111