

**ACOMORI BANK**

**Annual Report 2001**

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# Profile

The Aomori Bank, Ltd. has been in business for more than 120 years since its establishment in 1879 as the 59th National Bank. Throughout its existence the bank has emphasized sound management, and has grown to become the leading financial institution in the region. In 1943 the 59th National Bank merged with four other banks in the region and in the process took its present name the Aomori Bank. And in 1973 we became listed on the Tokyo Stock Exchange.

Japan is currently in the midst of its “Big Bang” financial reform, and competition in all areas of the financial services industry has become more severe. Under this environment we are implementing our 9th three-year medium-term management plan under the slogan “Take Off Toward Reform,” and as part of that plan we are striving to be a general financial services company which deserves the ultimate trust of our community. This report details the business record of our bank and our 11 subsidiaries.



## Five-Year Summary (Non-consolidated)

The Aomori Bank, Ltd. Years ended March 31

Millions of yen

	2001	2000	1999	1998	1997
<b>For the year</b>					
Total income .....	¥ 46,646	¥ 58,508	¥ 67,456	¥ 70,142	¥ 66,478
Total expenses .....	44,010	56,319	66,175	62,548	59,966
Income before income taxes .....	2,635	2,188	1,281	7,593	6,512
Net income .....	1,475	1,160	1,213	1,445	5,122
Net income per share (in yen) .....	7.86	6.18	6.46	7.70	27.29
<b>At year end</b>					
Total assets .....	¥ 2,103,402	¥ 2,097,439	¥ 2,116,614	¥ 2,061,683	¥ 2,033,775
Deposits .....	1,936,892	1,938,473	1,914,596	1,857,135	1,857,071
Loans and bills discounted .....	1,372,702	1,432,641	1,440,874	1,402,489	1,330,064
Investment securities .....	472,092	416,374	411,898	419,722	448,122
Shareholders' equity .....	92,280	84,352	77,787	77,550	77,081

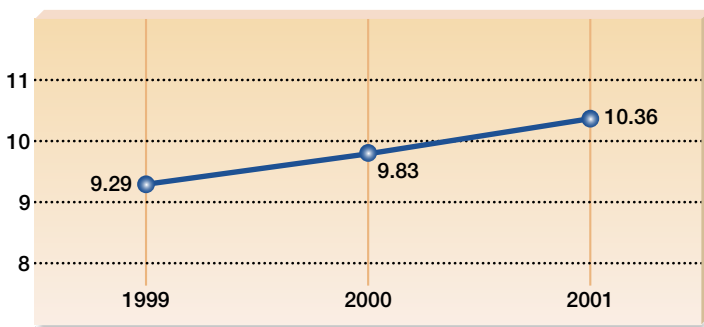
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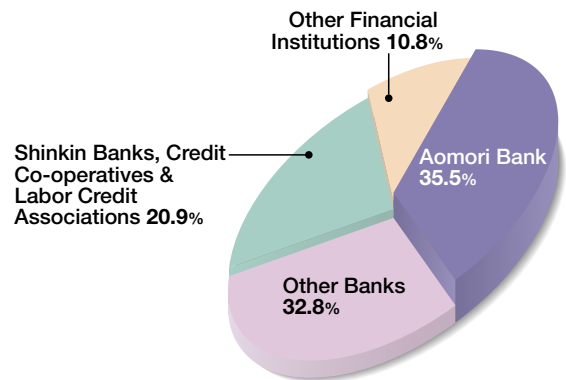
# Aomori Bank's Strengths

The Bank has the largest share of loans and deposits in Aomori Prefecture, which is its main base of operations. We provide general financial services by maintaining constant contact with our customers and placing our customer first. We believe that in order to succeed in this endeavor we must offer financial products and financial services that meet the expectations of our customers. As specific steps to achieving these goals we have maintained a high capital adequacy ratio as well as a solid credit rating for our bond issues. Our percentage of risk-managed loans to total lending is also one of the lowest among Japanese regional banks. Achieving these results has enabled our management to enjoy a strong reputation among our corporate clients as well as our individual customers.

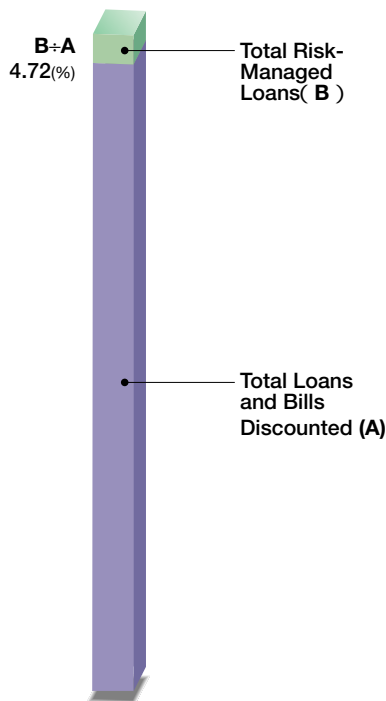
Capital Adequacy Ratio (%)



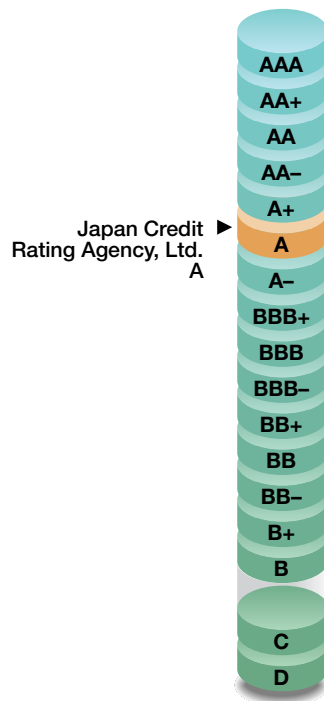
Market Share in Aomori Prefecture of Deposits (%)  
(Excluded Postal savings)  
(As of March 31, 2001)



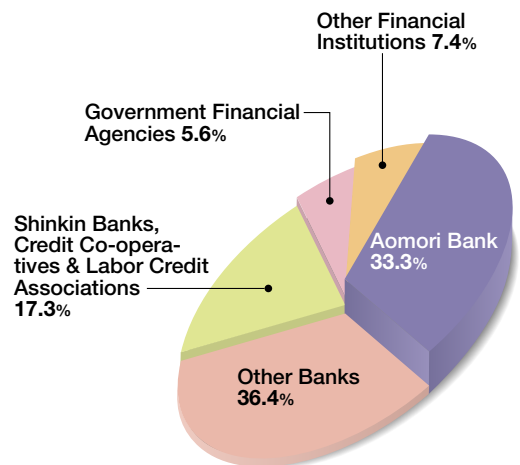
Risk-Managed Loans  
Balance and Ratio (%)



Bond Credit Ratings



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



### **Operating Environment**

During the first half of fiscal 2000 (April 1, 2000 through March 31, 2001) the Japanese economy experienced a slight recovery mainly in the corporate sector, supported by increased domestic manufacturing stemming from a recovery in exports and improvement in domestic demand, as well as an increase in private sector capital investment. From the start of 2001, however, the economic climate deteriorated substantially, with weaker manufacturing associated with the rapid cooling off of the American economy, a sharp decline in stock prices, and a reoccurrence of the problem of non-performing loans as land prices continued to be weak. For this reason the Bank of Japan introduced successive expansionist monetary policies, including cutting the official discount rate twice in February 2001, and quantitative monetary expansion in March.

In Aomori Prefecture which is our principal area of operations, the economy showed signs of a slight recovery at the beginning of the fiscal 2000, but from the latter part of the year this recovery steadily lost steam. By demand sector, private capital investment in manufacturing showed some improvement, but personal consumption and housing investment continued to be weak, while public investment was also less than during the previous year. There was some increase in manufacturing activity, and particularly in electrical equipment, paper and pulp, but from the second half of the fiscal year the began to tread water, mainly caused by a lack of growth in domestic demand.

The operating environment for companies faced a substantial increase in recession driven bankruptcies caused by poor sales and the like, and the business outlook by companies within our prefecture as well began to be more pessimistic from the second half of the fiscal year.

### **Business Performance**

Within the aforementioned operating environment, we managed to achieve the following results.

Personal deposits increased steadily, while corporate deposits declined, and our year-end balance of deposits including negotiable certificates of deposit declined by ¥1,581 million (US\$13 million) from the previous year, to ¥1,936,892 million (US\$15,633 million). Demand for loans remained weak even though we made dedicated efforts to increase our balance of personal loans and to extend financing to local companies, and our total loans and bills discounted declined by ¥59,939 million (US\$484 million) to ¥1,372,702 million (US\$11,079 million). As a result of underwriting and purchasing securities and other bonds, as well as our continued efforts to achieve effective asset management which closely monitors trends in the market, our year-end balance of investment securities increased by

¥55,718 million (US\$450 million), to ¥472,092 million (US\$3,810 million). With these results we achieved an increase in net income of ¥315 million (US\$3 million) to ¥1,475 million (US\$12 million), and net income per share of ¥7.86 (6.34 cents).

#### **Outlook**

The market is tending to emphasize profitability in addition to soundness when evaluating the worth of a bank. The Bank recognizes this change in the market and is working to build its capabilities in improving operating effi-

ciency as well as in improving profits, while at the same time maintaining sound operations. We are committed to providing financial services that meet the needs of our customers, and dedicated to achieving transparency in management and absolute compliance in implementing disclosure. We also intend to re-engineer our overall operations and organization in order to improve efficiency and profitability, and thereby obtain an even greater degree of trust from our shareholders, from our business partners and from the market. While our return on equity has shown a downward trend, we are cutting costs across the board and thereby project that we will achieve net income of ¥2,000 million (US\$16 million) in fiscal 2001.

We hope that all our shareholders and business partners will give us their continued support and understanding in the future.



*A. Ibata*

**Akio Ibata, President**

# Review of Operations



An Unmanned Teller Machine in the VTS System

## Retail Banking

The government's ongoing "big-bang" financial reform has removed traditional regulations and borders between component industries in the financial sector, which has facilitated greater freedom in designing financial products. The technical innovations associated with Information Technology (IT) have also steadily begun to permeate our daily lives in society. Given these changes the Bank has prepared and is implementing its medium-term management plan, which emphasizes retail operations. As part of this plan we have made a commitment to improving functionality to ATMs and enhancing the ATM network, and are also improving our telephone banking services. In June 2000 we became the first bank in the Tohoku region to introduce the Virtual Teller System (VTS), which allow a customer to open a general account and make the initial application for a small loan over an unmanned machine. In financial products we are improving our competitiveness by offering special products that are tailored to the type of customer, and selling higher interest products that address the abolition of the restriction against paying off customers, which will impose restrictions on guaranteed return of deposits.

## Corporate Banking

The Bank is committed to enhancing its support of prominent local companies as well as small and medium-sized enterprises in the region, so that it can contribute to the growth and development of a vibrant local economy. This is stated in our management policy, and we have continued to make efforts in providing loans to small and medium-sized enterprises in the region. Japan's capital market is shifting from its traditional style of indirect financing, to direct financing in procuring capital. With the liberalization and internationalization of finance the risks of fluctuations in interest rates and exchange rates is becoming extremely important, and we are using all of the capabilities of our group companies to meet the diversified needs for financing, which includes underwriting private placements of bonds backed by the Federation of Credit Guarantee Corporation. In order to achieve these goals and to continue to grow with our customers, we believe that it is very important to offer information that will be useful in all areas of management, and for this reason our bank also carries out financial consulting so that instead of thinking solely of providing loans, the loans will actually contribute to the growth of our customers.



Birdseye View of Aomori City in Aomori Prefecture, the site of our Head Office

## New Products and New Services

The Aomori Bank is the first bank in Aomori to handle private placements of bonds backed by the Federation of Credit Guarantee Corporation, which is a product designed to meet diversified needs for financing. Handling of this product began nationwide in April 2000 with the amendment of the laws and regulations related to small and medium-sized enterprises. We were the first financial institution in Aomori Prefecture to handle this instrument, and as of May 2001 we are involved in private placements for a total of three companies. This product opens the path for companies to obtain financing directly from the capital market and is referred to as the first step in going public. At the Bank, we are taking initiative in offering this vehicle to companies with a need for financing.

From December 1998 banks have been allowed to offer mutual funds at their teller windows, and from January 2001 we have made these available at all of our branches. Given that interest rates have continued to be low for yen denominated financial products, mutual funds have continued to enjoy strong popularity. The number of funds has grown and we are steadily increasing the amounts that we handle. We have also entered into a cooperative venture with two major non-life insurance companies and began selling property insurance at our counters from April 2001. The Bank is committed to its mission as a general financial services company, and will continue to take initiative in meeting the diverse needs for financing.



Pamphlet for Use in Mutual Funds Sales by the Bank

## Corporate Citizenship

The Bank has made a strong commitment to developing local industry and to cultural growth. We recognize that we have a mission and a duty to contribute to the local society. We also believe that environmental action will be a significant management indicator for corporate activities in the 21st century, although this perspective is somewhat different from what has traditionally been the case. The growing sophistication of lifestyles and economic activity has led to mass production, mass consumption and mass disposal, and has created a greater burden on the global environment from each stage of gathering resources through use and disposal. In order to improve this situation and to build a sustainable society, we must change our socioeconomic system into a recycling based society which reduces the burden on the environment. Companies have a duty to take action to protect the environment and to prevent and reduce pollution as part of their responsibility to society. To replace disposal by burning we have installed a shredding plant equipped with high performance shredders, and began recycling paper from June 2000. This step has been taken to address environmental issues such as dioxin which is released at the time that paper is burned, as well as global warming resulting from increased emissions of carbon dioxide. We are also engaged in a variety of activities every year, including holding of lectures to which we invite prominent cultural personalities, as well as implementing community clean-up events.



President Ibata (wearing a cap) participates in one of our community clean-up events.

# Risk Management and Compliance

## **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.

## **Compliance**

Compliance is an absolute requirement in running a bank. At the Bank, compliance is based on the three pillars of "complying with laws and regulations related to our business," "strict implementation of administrative procedures and manuals," and "complying with social standards and rules." We have also made compliance a core component of our 9th three-year medium-term management plan. For organizational purposes the board of directors is the ultimate decision making body for compliance, while the Risk Administration Division is charged with ensuring that all areas of the banks operations comply with relevant laws and regulations. The Financial Products Sales Law came into effect in April 2001 to provide more thorough protection of consumers, and the Bank has made an even greater commitment than before to achieving absolute compliance in all areas of operation.



# Operating Results (Non-consolidated Basis) for the Year Ended March 31, 2001

## Deposits

The Aomori Bank achieved an increase in ordinary deposits and negotiable certificates of deposits as a result of marketing activities which concentrated on products for individuals. Nevertheless we experienced a substantial decline in time deposits, and our total deposit balance including negotiable certificates of deposit fell by 0.08% or ¥1,581 million (US\$13 million) against the previous year, to ¥1,936,892 million (US\$15,633 million).

A breakdown of types of deposit by type of customer reveals that personal deposits increased by 2.20% or ¥26,409 million (US\$213 million) to ¥1,223,457 million (US\$9,875 million), and consequently we were able to maintain growth in this subset even under an environment of low interest rates.

Deposits by Depositors	Millions of yen				
	2001	2000	1999	1998	1997
Individuals .....	¥1,223,457	¥1,197,048	¥1,159,046	¥1,099,914	¥1,033,563
Corporations .....	445,305	438,483	435,152	422,748	430,832
Financial institutions .....	27,629	58,980	67,854	71,882	90,765
Public institutions .....	130,651	241,617	247,792	260,958	300,319
Other .....	18	2	100	31	71
<b>Total .....</b>	<b>¥1,827,062</b>	<b>¥1,936,133</b>	<b>¥1,909,946</b>	<b>¥1,855,535</b>	<b>¥1,855,551</b>

Note: Excluding negotiable certificates of deposit.

Deposits per Office and per Employee	Millions of yen				
	2001	2000	1999	1998	1997
Deposits per office* .....	¥18,446	¥18,461	¥18,234	¥17,520	¥17,686
Number of offices** .....	105	105	105	106	105
Deposits per employee* .....	¥ 1,098	¥ 1,065	¥ 1,038	¥ 1,007	¥ 996
Number of employees*** .....	1,818	1,867	1,880	1,844	1,863

\* Excluding negotiable certificates of deposit.

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

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

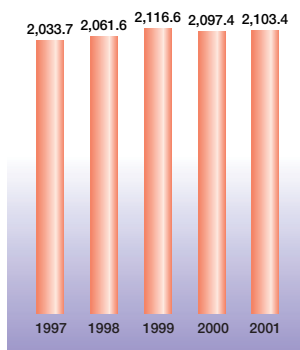
## Loans

The Bank worked diligently to increase transactions with local companies and loans to individuals, and also took initiative in meeting the financial needs of public sector organizations. Nevertheless overall demand for funds did not grow, and consequently our loans and bills discounted balance declined by 4.18% or ¥59,939 million (US\$484 million) to ¥1,372,702 million (US\$11,079 million). The percentage of loans to small and medium-sized enterprises out of total loans increased by 1.38 percentage points, to 66.17%. Led by increases in housing loans grew steadily by 3.48% or ¥7,813 million (US\$63 million) to ¥231,700 million (US\$1,870 million).

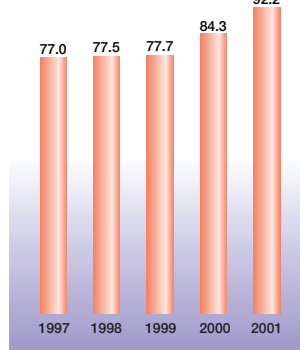
Total risk-managed loans increased by 0.84% or ¥9,173 million (US\$74 million) against the previous year, to a total of ¥64,861 million (US\$523 million). This total consists of ¥5,205 million (US\$42 million) in loans to bankrupt borrowers, ¥17,735 million (US\$143 million) in loans past due six months or more, ¥364 million (US\$3 million) in loans past due more than three months but not more than six months, and ¥41,555 million (US\$335 million) in loans with renegotiated conditions. Since all risk-managed loans must be disclosed regardless of whether they are backed by a lien or a guarantee, these totals also include loans which do not present concerns about collection.

As a result of the above, risk-managed loans amounted to 4.72% of total loans, and the entire amount of unsecured loans included in these claims has already been allocated to our loan-loss reserves.

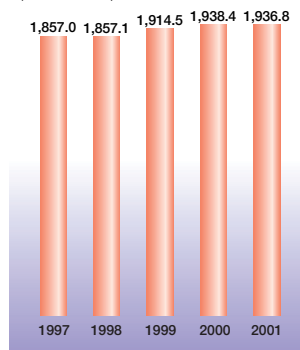
**Total Assets**  
(Billions of Yen)



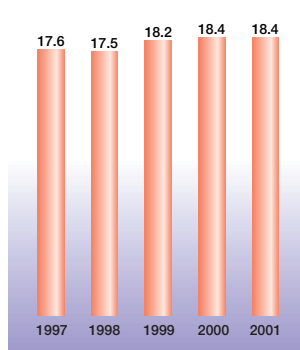
**Shareholders' Equity**  
(Billions of Yen)



**Deposits**  
(Billions of Yen)

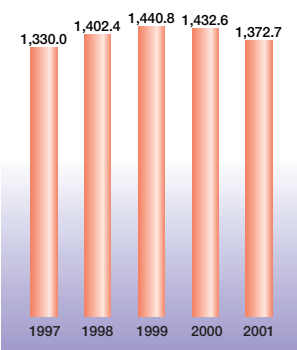


**Deposits per Office**  
(Billions of Yen)



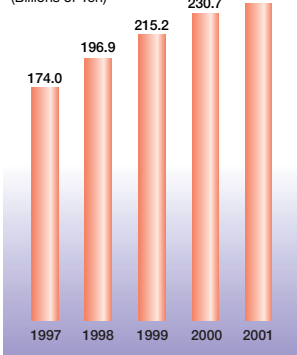
### Loans and Bills Discounted

(Billions of Yen)



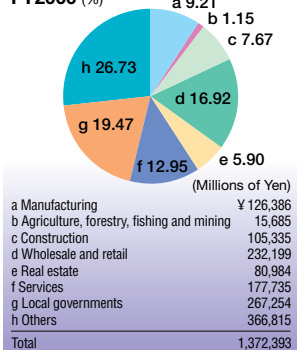
### Loans to Individuals

(Billions of Yen)



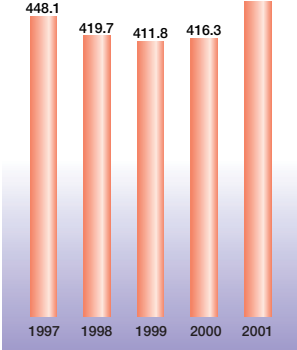
### Loans by Category of Borrowers

FY2000 (%)



### Investment Securities

(Billions of Yen)



Millions of yen

### Loans by Business Category

	2001	2000	1999	1998	1997
Manufacturing .....	¥ 126,386	¥ 136,198	¥ 159,597	¥ 157,647	¥ 166,436
Agriculture, forestry, fishing and mining ...	15,685	16,917	18,900	18,185	18,680
Construction .....	105,335	105,616	113,304	104,530	100,249
Wholesale and retail .....	232,199	240,977	257,014	248,507	255,179
Real estate .....	80,984	89,848	95,411	89,821	78,444
Services .....	177,735	177,905	201,434	193,330	193,160
Local governments .....	267,254	301,813	272,223	260,277	223,932
Others .....	366,815	363,038	322,440	328,934	292,901
<b>Total .....</b>	<b>¥1,372,393</b>	<b>¥1,432,312</b>	<b>¥1,440,321</b>	<b>¥1,401,231</b>	<b>¥1,328,981</b>

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

Millions of yen

### Loans to Individuals

	2001	2000	1999	1998	1997
Housing loans .....	¥182,912	¥172,039	¥146,760	¥128,108	¥110,594
Consumer loans .....	55,470	58,753	68,486	68,825	63,449
<b>Total .....</b>	<b>¥238,383</b>	<b>¥230,793</b>	<b>¥215,246</b>	<b>¥196,934</b>	<b>¥174,043</b>

Millions of yen

### Risk Managed Loans

	2001	2000	1999	1998
Loans to bankrupt borrowers .....	¥ 5,205	¥ 5,757	¥10,194	¥14,155
Loans past due six months or more .....	17,735	10,778	23,259	5,011
Loans past due more than three months but less than six months .....	364	548	2,457	14,563
Loans with renegotiated conditions .....	41,555	38,604	25,105	4,618
<b>Total .....</b>	<b>¥64,861</b>	<b>¥55,688</b>	<b>¥61,015</b>	<b>¥38,348</b>

### Securities

Our main securities operations cover the underwriting of bond issues by the national and local governments, public sector organizations and we also undertake activities to extend cooperation to meeting the loan requirements of these entities. The Bank also acts as a dealing agent for new issues of national bonds, as well as public bonds that have already been issued. We have added teller-window sales of mutual funds to all of our branches, and have made a strong commitment to handling these products. As a result of these efforts our year-end balance in investment securities rose by 13.38% or ¥55,718 million (US\$450 million) to ¥472,092 million (US\$3,810 million).

Billions of yen

### Public Bond Dealing

	2001	2000	1999	1998	1997
National government bonds .....	¥9.8	¥2,263.7	¥434.5	¥2,965.6	¥3,094.2
Local government bonds, government-guaranteed bonds .....	—	—	—	—	—
<b>Total .....</b>	<b>¥9.8</b>	<b>¥2,263.7</b>	<b>¥434.5</b>	<b>¥2,965.6</b>	<b>¥3,094.2</b>

Note: Figures are indicated on a commitment basis.

### Income

Total income fell by ¥11,862 million (US\$96 million) against the previous year to ¥46,646 million (US\$376 million). This reduction was caused by a decline in interest income from loans as a result of falling interest rates, as well as a reduction in interest on securities resulting from processing of accounts in association with amendments to the accounting standards. Net income for the period increased by ¥315 million (US\$3 million) against the previous year, to ¥1,475 million (US\$12million). Dividends per share were unchanged, with planned interim and final dividends of ¥2.5 for an annual total of ¥5.0. As of March 31, 2001, the Bank had a capital adequacy ratio of 10.36% pursuant to Japanese domestic standards.

Millions of U.S. dollars

Foreign Exchange Transactions	2001	2000	1999	1998	1997
Trade .....	\$136	\$123	\$ 162	\$ 142	\$ 179
Non-trade .....	133	140	1,872	2,848	4,688
Total .....	\$269	\$263	\$2,034	\$2,989	\$4,867

Yen

Per Share Amounts	2001	2000	1999	1998	1997
Net income .....	¥ 7.86	¥ 6.18	¥ 6.46	¥ 7.70	¥ 27.29
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 .....	496.33	449.59	414.60	413.33	410.83
Payout ratio .....	63.60%	80.90%	77.28%	64.91%	18.31%

### 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. dollars
March 31, 2001				
Interest rate and currency swaps .....	¥7,291	\$58,845	¥32	\$259
Forward foreign exchange .....	119	960	3	25
Interest rate and currency options.....	—	—	—	—
Other derivatives .....	—	—	—	—
Total .....	¥7,410	\$59,806	¥36	\$286

The above amounts equivalent to the credit risk are calculated using the current 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.

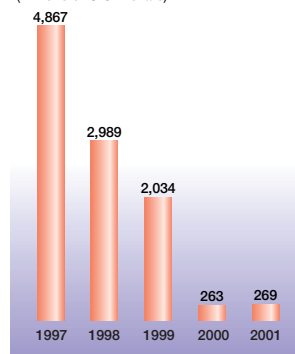
	Contract value / Notional principal amounts	
	Millions of yen	Thousands of U.S. dollars
March 31, 2001		
Interest rate and currency swaps .....	¥—	\$—
Forward foreign exchange .....	63	508
Interest rate and currency options .....	—	—
Other derivatives .....	—	—
Total .....	¥ 63	\$508

#### Credit-related transactions

	Contract value	
	Millions of yen	Thousands of U.S. dollars
March 31, 2001		
Commitments .....	¥381,091	\$3,075,795
Guarantees .....	39,396	317,966
Other .....	—	—
Total .....	¥420,487	\$3,393,761

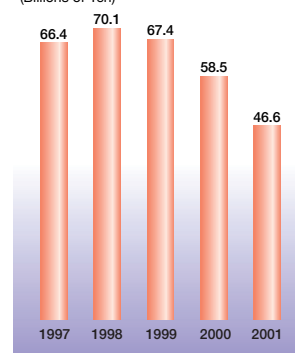
### Foreign Exchange Transactions

(Millions of U.S. Dollars)



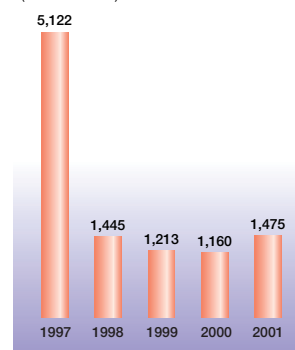
### Total Income

(Billions of Yen)



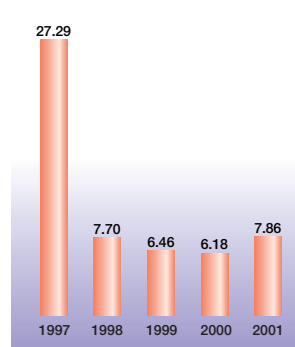
### Net Income

(Millions of Yen)



### Net Income per Share

(Yen)



## Non-Consolidated Balance Sheets

The Aomori Bank, Ltd. As of March 31, 2001 and 2000

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Assets</b>			
Cash and due from banks .....	¥ 142,908	¥ 118,650	\$ 1,153,419
Call loans .....	37,000	55,000	298,628
Trading account securities .....	450	202	3,635
Money held in trust .....	—	1,000	—
Investment securities (Note 3) .....	472,092	416,374	3,810,269
Loans and bills discounted (Note 4) .....	1,372,702	1,432,641	11,079,120
Foreign exchanges .....	519	753	4,194
Other assets .....	15,212	11,073	122,783
Premises and equipment (Note 5) .....	27,855	22,550	224,821
Deferred income taxes .....	4,758	7,496	38,408
Customers' liabilities for acceptances and guarantees (Note 9) .....	39,396	40,866	317,970
Reserve for possible loan losses .....	(9,494)	(9,170)	(76,633)
Total assets .....	<u>¥2,103,402</u>	<u>¥2,097,439</u>	<u>\$16,976,613</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits (Note 6) .....	¥1,936,892	¥1,938,473	\$15,632,708
Call money .....	3,704	1,486	29,900
Borrowed funds .....	13,590	15,391	109,688
Foreign exchanges .....	5	27	43
Other liabilities .....	8,442	10,817	68,142
Reserve for possible loan losses .....	—	—	—
Reserve for employee retirement benefit .....	6,562	5,914	52,970
Other reserves .....	113	109	918
Deferred tax liabilities on land revaluation (Note 8) .....	2,413	—	19,480
Acceptances and guarantees (Note 9) .....	39,396	40,866	317,970
Total liabilities .....	<u>2,011,122</u>	<u>2,013,087</u>	<u>16,231,818</u>
<b>Shareholders' equity</b>			
Common stock (Note 10) .....	15,221	15,221	122,851
Capital surplus (Note 10) .....	8,575	8,575	69,210
Legal reserve (Note 11) .....	4,655	4,462	37,578
Revaluation reserve for land, net of taxes (Note 8) .....	3,315	—	26,758
Appropriated retained earnings .....	52,700	48,500	425,343
Unappropriated retained earnings .....	3,711	7,593	29,954
Net unrealized gains on investment securities, net of taxes .....	4,101	—	33,101
Total shareholders' equity .....	<u>92,280</u>	<u>84,352</u>	<u>744,796</u>
Total liabilities and shareholders' equity .....	<u>¥2,103,402</u>	<u>¥2,097,439</u>	<u>\$16,976,613</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, 2001 and 2000

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Income</b>			
Interest on;			
Loans and discounts .....	¥32,458	¥33,651	\$ 261,974
Securities .....	7,372	11,999	59,507
Other .....	781	1,308	6,308
	<u>40,613</u>	<u>46,960</u>	<u>327,789</u>
Fees and commissions .....	4,954	6,816	39,987
Other income .....	1,079	4,731	8,710
Total income .....	<u>46,646</u>	<u>58,508</u>	<u>376,485</u>
<b>Expenses</b>			
Interest on;			
Deposits .....	4,374	5,369	35,306
Borrowings and rediscounts .....	376	502	3,036
Other .....	699	1,328	5,646
	<u>5,450</u>	<u>7,200</u>	<u>43,989</u>
Fees and commissions .....	2,705	5,379	21,838
General and administrative expenses .....	32,246	33,636	260,260
Other expenses .....	3,608	10,103	29,124
Total expenses .....	<u>44,010</u>	<u>56,319</u>	<u>355,211</u>
Income before income taxes .....	2,635	2,188	21,274
Current income taxes (Note 12) .....	1,408	2,152	11,366
Deferred income taxes .....	(248)	(1,123)	(2,004)
Net income .....	<u>¥ 1,475</u>	<u>¥ 1,160</u>	<u>\$ 11,912</u>
<b>Retained earnings — unappropriated</b>			
Balance at beginning of year .....	¥ 7,593	¥ 1,422	\$ 61,287
Net income .....	1,475	1,160	11,912
Adjustment to retained profit on tax effect of previous terms .....	—	6,372	0
Appropriations:			
Transfer to;			
Legal reserve (Note 11) .....	193	193	1,560
Appropriated retained earnings .....	4,200	200	33,898
Cash dividends (Note 11) .....	938	938	7,571
Other .....	26	30	215
Total appropriations .....	<u>5,357</u>	<u>1,362</u>	<u>43,244</u>
Balance at end of year .....	<u>¥ 3,711</u>	<u>¥ 7,593</u>	<u>\$ 29,954</u>
		Yen	Cents
Net income per share .....	<u>¥7.86</u>	<u>¥6.18</u>	<u>¢6.34</u>

See accompanying notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

The Aomori Bank, Ltd. March 31, 2001 and 2000

## 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 ¥123.90 = U.S.\$1, the prevailing rate as of March 31, 2001. 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

Trading account securities are stated at the market value.

### (2) Investment securities

Bonds held to maturity are stated at the moving-average amortized cost. Other securities with market value are stated at the market value at the end of the fiscal year. Other securities without market value are stated at the moving-average cost or amortized cost computed by the moving average method. Gains (losses) on valuation of other securities are all processed using the capital direct method.

### (3) Derivative transactions

Derivative transactions are stated at the market value.

### (4) 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.

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 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 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 ¥23,108 million.

### (7) Reserve for employee retirement benefit

Reserve for employee retirement benefit is provided based on the pension liability and the estimated pension asset amount at the end of the fiscal year.

Variance for accounting standard changes (¥8,681 million) is amortized using the straight-line method based on 10 years.

### (8) Hedge accounting method

"Macro-hedge," the total management of interest risk from various financial assets/liabilities such as loans, deposits and others using derivative transactions, is adapted for the hedge accounting method. The risk management with risk adjusting approach is provided in "Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Bank Industry" (Industry Auditing Committee Report No.15 of the Japanese Institute of Certified Public Accountants) and its accounting treatment is by deferred hedging.

The volume of derivative risk as the risk adjusting method is within the scope of the risk volume allowed, provided in the risk management policy, and the hedge-efficiency is evaluated by verifying whether the hedging interest risk is setoff or not.

Certain assets are under special treatment of interest swap.

### (9) Finance leases

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

### (10) Exchange rate

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

### (11) Additional information

#### (Retirement benefit accounting)

Accounting standards for retirement benefits, "Opinion Concerning Establishment of Accounting standards for Retirement Benefits" (Business Accounting Deliberation Council, June 16, 1998) has been applied beginning from this fiscal year.

Additional reserve for employee retirement benefit is included in Liabilities for employee severance indemnities.

#### (Financial instruments accounting)

Accounting standards for financial instruments, "Opinion Concerning Establishment of Accounting Standards for Financial Instruments" (Business Accounting Deliberation Council, January 22, 1999) has been applied beginning from this fiscal year.

## 3. Investment securities

	Millions of Yen	
	2001	2000
Government bonds.....	¥150,174	¥159,110
Local government bonds.....	93,166	81,157
Corporate bonds.....	140,541	107,155
Stocks .....	34,253	27,466
Other securities .....	53,956	41,483
Total .....	¥472,092	¥416,374

## 4. Loans and bills discounted

	Millions of Yen	
	2001	2000
Bills discounted .....	¥ 25,809	¥ 26,275
Loans on bills.....	261,246	279,316
Loans on deeds .....	853,894	862,688
Overdrafts .....	231,752	264,360
Total .....	¥1,372,702	¥1,432,641

“Loans and bills discounted” includes bad loans as follows:

	Millions of Yen	
	2001	2000
(a) Loans to bankrupt borrowers.....	¥ 5,205	¥ 5,757
(b) Loans past due six months or more....	17,735	10,778
(c) Loans past due more than three months but less than six months.....	364	548
(d) Loans with renegotiated conditions ....	41,555	38,604
Total .....	<u>¥64,861</u>	<u>¥55,688</u>

#### 5. Premises and equipment

The accumulated depreciation as of March 31, 2001 and 2000 was ¥26,620 and ¥25,105 millions, respectively.

#### 6. Deposits

	Millions of Yen	
	2001	2000
Current deposits .....	¥ 60,153	¥ 51,762
Ordinary deposits.....	553,646	515,908
Savings accounts.....	61,860	57,144
Deposits at notice.....	15,389	15,795
Time deposits.....	1,084,429	1,221,842
Other deposits .....	15,264	73,680
Negotiable certificates of deposit .....	36,318	2,340
Total .....	<u>¥1,827,062</u>	<u>¥1,938,473</u>

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

	Millions of Yen	
	2001	2000
Breakdown of assets pledged as collateral:		
Securities.....	¥26,708	¥23,412
Debt relating to assets pledged as collateral:		
Deposits .....	¥27,185	¥34,318

In addition to the above, the amounts of Securities pledged as collateral in connection with exchange settlement transactions or as a substitute for margin payments as of March 31, 2001 and 2000 was ¥72,005 and ¥46,189 millions, respectively.

#### 8. Land revaluation

In accordance with the Land Revaluation Laws (Proclamation No.34 dated March 31, 1998), land used for the Bank's business activities was revalued at March 31, 2001.

The taxable portion of Revaluation reserve for land is included in Deferred tax Liabilities on land revaluation, and the remainder, net of the taxable portion is stated as Revaluation reserve for land, Net of taxes in Shareholders' equity.

#### 9. 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.

#### 10. Common stock and capital surplus

The authorized number of shares of common stock was 300 million as of March 31, 2001 and 2000 with a par value of ¥50 per share.

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

	Millions of Yen	
	2001	2000
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>

#### 11. 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.

#### 12. 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

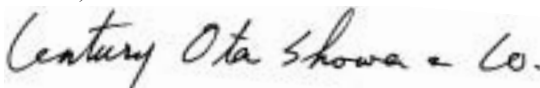
The Board of Directors and Shareholders of  
The Aomori Bank, Ltd.

We have audited the non-consolidated balance sheet, the non-consolidated income statement and the statement of appropriation of retained earnings prepared in Japanese (financial statements) of The Aomori Bank, Ltd. for the 93rd business period from April 1, 2000 to March 31, 2001, from which the accompanying non-consolidated balance sheet, non-consolidated income statement, statement of appropriation of retained earnings (summarized financial statements) were derived, in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. In our report dated June 28, 2001, we expressed an unqualified opinion on the financial statements from which the summarized financial statements were derived.

In our opinion, the accompanying summarized financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Company's financial positions and the results of its operations for the period and the scope of our audit, the summarized financial information should be read in conjunction with the financial statements from which the summarized financial statements were derived and audit report thereon.

June 28, 2001

  
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, 2001 and 2000

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Assets</b>			
Cash and due from banks .....	¥ 144,315	¥ 120,139	\$ 1,164,778
Call loans .....	37,000	55,000	298,628
Trading account securities .....	450	202	3,635
Money held in trust .....	—	1,000	—
Investment securities .....	472,438	416,607	3,813,061
Loans and bills discounted (Note 3) .....	1,370,898	1,434,830	11,064,552
Foreign exchanges .....	519	753	4,194
Other assets .....	32,903	27,646	265,564
Premises and equipment (Note 4) .....	41,914	37,111	338,292
Deferred income taxes .....	5,187	7,790	41,865
Customers' liabilities for acceptances and guarantees .....	39,396	40,866	317,970
Reserve for possible loan losses .....	(11,538)	(10,664)	(93,125)
Total assets .....	<u>¥2,133,485</u>	<u>¥2,131,282</u>	<u>\$17,219,414</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits .....	1,934,298	1,935,788	15,611,770
Call money .....	3,704	1,486	29,900
Borrowed funds .....	35,762	39,595	288,639
Foreign exchanges .....	5	27	43
Other liabilities .....	15,512	20,130	125,201
Reserve for possible loan losses .....	—	—	—
Reserve for employee retirement benefit .....	6,613	5,956	53,381
Other reserves .....	113	109	918
Deferred tax liabilities on land revaluation (Note 6) .....	2,413	—	19,480
Acceptances and guarantees .....	39,396	40,866	317,970
Total liabilities .....	<u>2,037,820</u>	<u>2,043,960</u>	<u>16,447,302</u>
Minority interest in consolidated subsidiaries .....	<u>4,153</u>	<u>3,787</u>	<u>33,519</u>
<b>Shareholders' equity</b>			
Common stock .....	15,221	15,221	122,851
Capital surplus .....	8,575	8,575	69,210
Revaluation reserve for land, net of taxes (Note 6) .....	3,315	—	26,758
Retained earnings .....	61,883	61,326	499,464
Net unrealized gains on investment securities, net of taxes .....	4,102	—	33,110
Common stock in treasury .....	(0)	(2)	(6)
Shares held by subsidiaries .....	(1,585)	(1,585)	(12,795)
Total shareholders' equity .....	<u>91,511</u>	<u>83,535</u>	<u>738,593</u>
Total liabilities and shareholders' equity .....	<u>¥2,133,485</u>	<u>¥2,131,282</u>	<u>\$17,219,414</u>

See accompanying notes to consolidated financial statements.



## Consolidated Income Statements

The Aomori Bank, Ltd. and consolidated subsidiaries Years ended March 31, 2001 and 2000

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Income</b>			
Interest on;			
Loans and discounts .....	¥32,812	¥34,047	\$ 264,829
Securities .....	7,379	12,008	59,560
Other .....	781	1,308	6,308
	<u>40,973</u>	<u>47,364</u>	<u>330,696</u>
Fees and commissions.....	4,897	6,760	39,527
Other income.....	12,891	16,612	104,051
Total income .....	<u>58,762</u>	<u>70,737</u>	<u>474,274</u>
<b>Expenses</b>			
Interest on;			
Deposits .....	4,372	5,365	35,288
Borrowings and rediscounts .....	990	1,114	7,997
Other .....	709	1,357	5,726
	<u>6,072</u>	<u>7,837</u>	<u>49,011</u>
Fees and commissions.....	2,027	4,677	16,367
General and administrative expenses.....	29,299	30,911	236,474
Other expenses .....	17,889	24,013	144,387
Total expenses.....	<u>55,288</u>	<u>67,439</u>	<u>446,238</u>
Income before income taxes and others .....	3,473	3,297	28,036
Current income taxes .....	1,986	2,455	16,034
Deferred income taxes .....	(395)	(977)	(3,191)
Minority interest in net income .....	374	493	3,025
Net income.....	<u>¥ 1,507</u>	<u>¥ 1,326</u>	<u>\$ 12,168</u>
		Yen	Cents
Net income per share .....	<u>¥8.17</u>	<u>¥7.19</u>	<u>¢6.59</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Retained Earnings

The Aomori Bank, Ltd. and consolidated subsidiaries As of March 31, 2001 and 2000

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Balance at beginning of year .....	¥61,326	¥54,550	\$ 494,965
Adjustment to retained profit on tax effect of previous terms.....	—	6,404	—
Deductions:			
Cash dividends .....	(921)	(923)	(7,440)
Bonuses for directors and statutory auditors.....	(28)	(32)	(228)
Net income.....	<u>1,507</u>	<u>1,326</u>	<u>12,168</u>
Balance at end of year .....	<u>61,883</u>	<u>61,326</u>	<u>\$ 499,464</u>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

The Aomori Bank, Ltd. and consolidated subsidiaries Years ended March 31, 2001 and 2000

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Cash flows from operating activities:</b>			
Income before income taxes and others .....	¥ 3,473	¥ 3,297	\$ 28,036
Depreciation .....	7,007	2,267	56,561
Net increase (decrease) in Reserve for possible loan losses .....	873	(19,219)	7,049
Net increase (decrease) in Liabilities for employee severance indemnities .....	(5,956)	140	(48,078)
Net increase (decrease) in Reserve for employee retirement benefit.....	6,613	—	53,381
Net increase (decrease) in Other reserves .....	4	(183)	36
Interest income.....	(40,973)	(47,372)	(330,696)
Interest expenses .....	6,072	7,837	49,011
Net loss (gain) on Investment securities .....	19	190	153
Net loss (gain) on Money held in trust.....	65	(108)	527
Net loss (gain) on Foreign exchange .....	(1,026)	1,264	(8,281)
Net loss (gain) on Sales of Premises and equipment .....	108	(19)	872
Net decrease (increase) in Trading account securities .....	(248)	48	(2,002)
Net decrease (increase) in Loans and bills discounted .....	63,932	6,186	516,001
Net increase (decrease) in Deposits .....	(1,489)	23,559	(12,024)
Net increase (decrease) in Borrowed funds excluding Subordinated debt....	(1,833)	(182)	(14,794)
Net decrease (increase) in Due from banks excluding deposits with the Central bank..	(51,980)	17,389	(419,532)
Net decrease (increase) in Call loans .....	14,751	12,684	119,061
Net increase (decrease) in Call money.....	2,218	39	17,906
Net increase (decrease) in Collateral under repurchase agreements and securities lending transactions .....	—	(16,051)	—
Net decrease (increase) in Foreign exchanges (assets) .....	233	(148)	1,887
Net increase (decrease) in Foreign exchanges (liabilities) .....	(22)	13	(182)
Interest received .....	43,803	47,838	353,543
Interest paid.....	(9,027)	(9,757)	(72,857)
Others, net .....	(2,517)	6,264	(20,316)
Sub total .....	34,104	35,979	275,259
Income taxes paid .....	(3,274)	(804)	(26,431)
<b>Net cash provided by (used in) operating activities .....</b>	<b>30,829</b>	<b>35,175</b>	<b>248,828</b>
<b>Cash flows from investing activities:</b>			
Purchases of Investment securities .....	(201,224)	(189,811)	(1,624,087)
Proceeds from sales of Investment securities .....	71,232	110,355	574,915
Proceeds from maturities of Investment securities .....	79,469	73,776	641,398
Decrease in Money held in trust .....	934	2,093	7,544
Expenditures for Premises and equipment.....	(6,591)	(2,011)	(53,200)
Proceeds from sales of Premises and equipment .....	400	1,134	3,230
<b>Net cash provided by (used in) investing activities .....</b>	<b>(55,779)</b>	<b>(4,462)</b>	<b>(450,200)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of Subordinated debt .....	3,000	—	24,213
Expenditures for repayment of Subordinated debt .....	(5,000)	(5,500)	(40,355)
Cash dividends paid .....	(921)	(923)	(7,440)
Cash dividends paid to Minority interests .....	(8)	(8)	(68)
Purchase of Treasury stock .....	(38)	(157)	(309)
Proceeds from sales of Treasury stock.....	39	30	322
Others, net .....	16	—	129
<b>Net cash provided by (used in) financing activities.....</b>	<b>(2,912)</b>	<b>(6,559)</b>	<b>(23,507)</b>
Effect of exchange rate changes on Cash and cash equivalents .....	59	(36)	477
Net increase in Cash and cash equivalents .....	(27,803)	24,117	(224,401)
Cash and cash equivalents at beginning of year (Note7).....	56,964	32,847	459,765
Cash and cash equivalents at end of year (Note7).....	29,161	56,964	\$ 235,364

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Aomori Bank, Ltd. and consolidated subsidiaries Fiscal years ended March 31, 2001 and 2000

## 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 ¥123.90 = U.S.\$1, the prevailing rate as of March 31, 2001. 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

Trading account securities are stated at the market value.

### (3) Investment securities

Bonds held to maturity are stated at the moving-average amortized cost. Other securities with market value are stated at the market value at the end of the fiscal year. Other securities without market value are stated at the moving-average cost or amortized cost computed by the moving average method. Gains (losses) on valuation of other securities are all processed using the capital direct method.

### (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.

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 ¥23,108 million.

With respect to the Reserve for possible loan losses for the consolidated subsidiaries, the amounts deemed necessary are provided in the reserve based on the amounts of actual loan failures in the past. In cases where there is more reason for concern about the failure of the obligor than normal, amounts deemed uncollectible are provided in the reserve.

### (7) Reserve for employee retirement benefit

Reserve for employee retirement benefit is provided based on the pension liability and the estimated pension asset amount at the end of the fiscal year.

Variance for accounting standard changes (¥8,691 million) is amortized using the straight-line method based on 10 years.

### (8) Hedge accounting method

"Macro-hedge," the total management of interest risk from various financial assets/liabilities such as loans, deposits and others using derivative transactions, is adapted for the hedge accounting method. The risk management with risk adjusting approach is provided in "Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Bank Industry" (Industry Auditing Committee Report No. 15 of the Japanese Institute of Certified Public Accountants) and its accounting treatment is by deferred hedging.

The volume of derivative risk as the risk adjusting method is within the scope of the risk volume allowed, provided in the risk management policy, and the hedge-efficiency is evaluated by verifying whether the hedging interest risk is setoff or not.

Certain assets are under special treatment of interest swap.

### (9) Exchange rate

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

### (10) Finance leases

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

### (11) Additional information

#### (Retirement benefit accounting)

Accounting standards for retirement benefits, "Opinion Concerning Establishment of Accounting standards for Retirement Benefits" (Business Accounting Deliberation Council, June 16, 1998) has been applied beginning from this fiscal year.

Additional reserve for employee retirement benefit is included in Liabilities for employee severance indemnities.

#### (Financial instruments accounting)

Accounting standards for financial instruments, "Opinion Concerning Establishment of Accounting Standards for Financial Instruments" (Business Accounting Deliberation Council, January 22, 1999) has been applied beginning from this fiscal year.

### 3. Loans and bills discounted

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

	Millions of Yen	
	2001	2000
(a) Loans to bankrupt borrowers.....	¥ 5,846	¥ 6,440
(b) Loans past due six months or more.....	18,800	12,328
(c) Loans past due more than three months...	369	567
(d) Loans with renegotiated conditions ....	43,692	42,681
Total .....	<u>¥68,709</u>	<u>¥62,017</u>

### 4. Premises and equipment

The accumulated depreciation as of March 31, 2001 and 2000 was ¥53,694 and ¥47,121 millions, respectively.

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

	Millions of Yen	
	2001	2000
Breakdown of assets pledged as collateral:		
Securities .....	¥27,198	¥23,900
Loans .....	¥ —	¥ 100
Other assets.....	¥ 9,728	¥24,523
Debt relating to assets pledged as collateral:		
Deposits .....	¥27,185	¥34,318
Borrowed funds .....	¥15,335	¥15,998

In addition to the above, the amounts of Securities pledged as collateral in connection with exchange settlement transactions or as a substitute for margin payments as of March 31, 2001 and 2000 was ¥72,005 and ¥46,189 millions, respectively.

### 6. Land revaluation

In accordance with the Land Revaluation Laws (Proclamation No.34 dated March 31, 1998), land used for the Bank's business activities was revalued at March 31, 2001.

The taxable portion of Revaluation reserve for land is included in Deferred tax Liabilities on land revaluation, and the remainder, net of the taxable portion is stated as Revaluation reserve for land, Net of taxes in Shareholders' equity.

### 7. 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	
	2001	2000
Cash and due from banks.....	¥ 144,315	¥ 120,139
Time deposits with other banks .....	(102,032)	(60,137)
Other deposits with other banks .....	(13,122)	(3,037)
Cash and cash equivalent.....	<u>¥ 29,161</u>	<u>¥ 56,964</u>

## Independent Auditors' Report

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

We have audited the consolidated balance sheet, the consolidated income statement, consolidated statements of retained earnings, consolidated statement of cash flows prepared in Japanese (consolidated financial statements) of The Aomori Bank, Ltd. and consolidated subsidiaries for the period from April 1, 2000 to March 31, 2001, from which the accompanying consolidated balance sheet, consolidated income statement, consolidated statements of retained earnings, consolidated statement of cash flows (summarized consolidated financial statements) were derived, in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. In our report dated June 28, 2001, we expressed an unqualified opinion on the financial statements from which the summarized financial statements were derived.

In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Company and consolidated subsidiaries' financial positions and the results of their operations for the period and the scope of our audit, the summarized consolidated financial information should be read in conjunction with the consolidated financial statements from which the summarized consolidated financial statements were derived and audit report thereon.

June 28, 2001

  
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 consists of the parent bank and 11 subsidiaries. Our overarching principle is to provide meticulous services in all areas of the group. With banking as our core business, we are also active in other areas including credit cards, leasing and mortgage credit guarantees, and we offer a broad range of financial services to our customers. In addition we are engaged in a number of businesses that are peripheral to banking, including outsourced back-office operations, real estate surveys, and real estate management. The following companies are consolidated subsidiaries of the Bank.

### Consolidated Subsidiaries

(As of March 31, 2001)

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

# Corporate Directory

## Corporate Data

As of March 31, 2001

**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:** 1,818  
**Number of Offices:** 112  
**Paid-in Capital:** 15,221 million yen  
**Number of Outstanding Shares:** 187,621,615  
**Total Assets:** 2,103.4 billion yen  
**Loans and Bills Discounted:** 1,372.7 billion yen  
**Capital Adequacy Ratio:** 10.36% (Domestic Standards)  
**ROA:** 0.07%  
**ROE:** 1.75%  
**Credit Rating:** A (Japan Credit Rating Agency, Ltd.)

## Service Network

As of June 30, 2001

### 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

### Principal Foreign Money 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

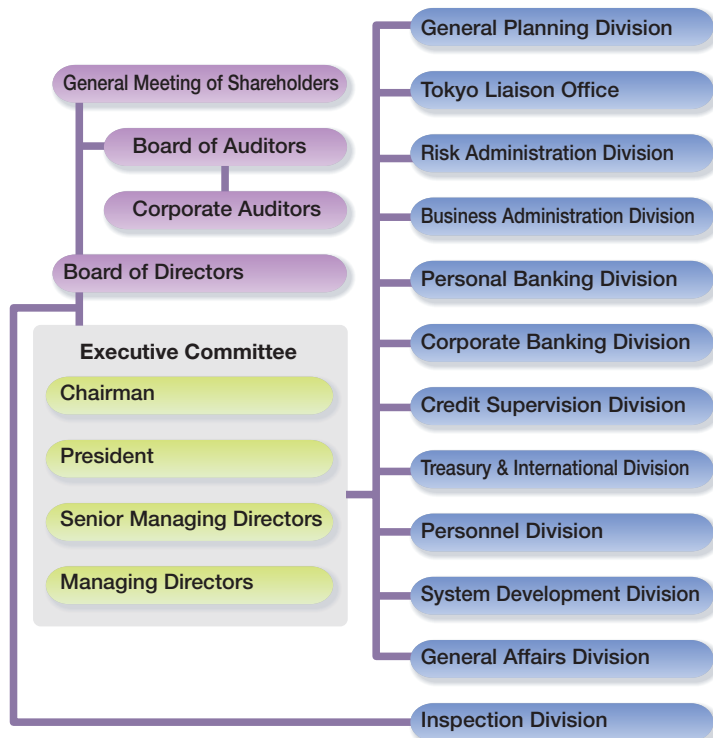
15-1, Inaoicho, Towada, Aomori 034-0011  
 Telephone: 0176-23-3141

#### Goshogawara Branch

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

## Organization

As of June 30, 2001



# Board of Directors and Auditors

(As of June 30, 2001)



**Toshihiro Umenai**  
Chairman



**Akio Ibata**  
President



**Tsuneyoshi Miura**  
Senior Managing Director



**Masaru Iwasaki**  
Senior Managing Director



**Ryoichi Osanai**  
Managing Director



**Kenichi Tanaka**  
Managing Director

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## Directors

Tadao Hayashi  
Kunikatsu Kado  
Yoshisada Kafuku  
Shouichi Sawamukai  
Mamoru Baba  
Junichi Kitagawa  
Tessho Izumiyama  
Tetsuo Fukushima

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## Standing Corporate Auditor

Masanori Furusato

## Corporate Auditors

Hiroshi Sasa  
Takuo Horiuchi  
Yoshimi Kudo



**The Aomori Bank, Ltd.**

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