



**Aomori Bank** **A**nnual  
**R**eport  
2002

## Profile

The Aomori Bank, Ltd. has traveled the path of sound business management for over 120 years since its founding in 1879. In 1943, five banks based in Aomori Prefecture merged to form the present-day Aomori Bank, while in 1973, we became listed on the Tokyo Stock Exchange, following which we have continued our strong growth as the region's leading financial institution.

In October 2003 we will celebrate our 60th year since merging to form a new company, and in January of 2004, we will achieve a major milestone in the form of the 125th anniversary of the founding of our predecessor, the 59th National Bank. These events have encouraged us to formulate a new medium-term management plan to cover a foreshortened two-year period, as opposed to the typical three-year plan. The theme of the new medium-term management plan is embodied in the slogan *The Region's Best Partner – a strong business base*, and epitomizes management's commitment to an appropriate response to overwhelming changes in the economy and the financial environment.



### Five-Year Summary (Non-consolidated)

The Aomori Bank, Ltd. Years ended March 31

Millions of yen

	2002	2001	2000	1999	1998
<b>For the year</b>					
Total income .....	¥ 49,597	¥ 46,646	¥ 58,508	¥ 67,456	¥ 70,142
Total expenses .....	46,859	44,010	56,319	66,175	62,548
Income before income taxes .....	2,738	2,635	2,188	1,281	7,593
Net income .....	1,427	1,475	1,160	1,213	1,445
Net income per share (in yen) .....	7.61	7.86	6.18	6.46	7.70
<b>At year end</b>					
Total assets .....	¥ 2,140,374	¥ 2,103,402	¥ 2,097,439	¥ 2,116,614	¥ 2,061,683
Deposits .....	1,975,531	1,936,892	1,938,473	1,914,596	1,857,135
Loans and bills discounted .....	1,429,680	1,372,702	1,432,641	1,440,874	1,402,489
Investment securities .....	462,171	472,092	416,374	411,898	419,722
Shareholders' equity .....	87,731	92,280	84,352	77,787	77,550

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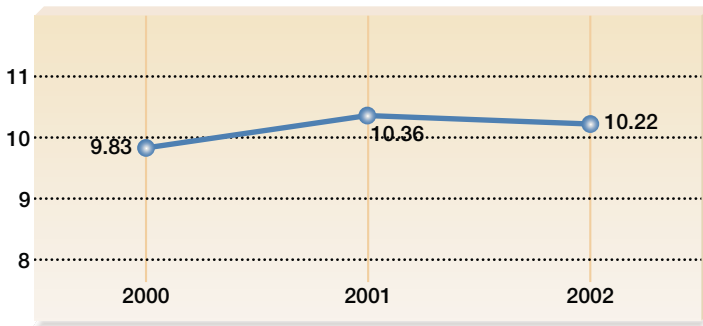
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# Aomori Bank's Strengths

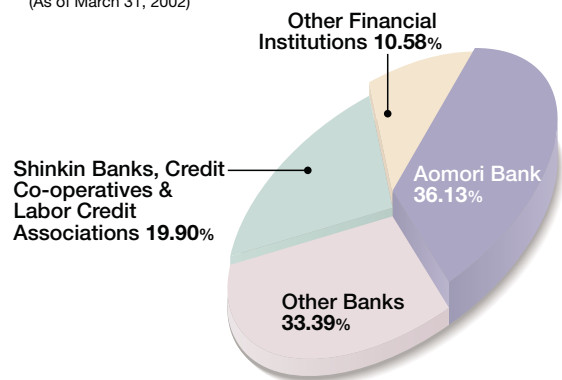
The Bank's key operational base is Aomori Prefecture, where we are the primary financial institution in the region, having the highest market share in both lending and deposits. Our share of both has been growing throughout the financial year, and that growth provides clear evidence of the high regard in which we are held and the strong support we receive from our customers. In accordance with the principle of sound management, we have also maintained a high capital adequacy ratio, and a high bond rating. At 10.22%, our capital adequacy ratio is far in excess of the standard of the 4% set by the Japanese government for domestic banks. Our management expertise, as evidenced by these results, has earned us a high level of regard from both corporate and personal banking customers. At Aomori Bank we will continue to strive to ensure that our business management remains worthy of that trust.

**Capital Adequacy Ratio (%)**

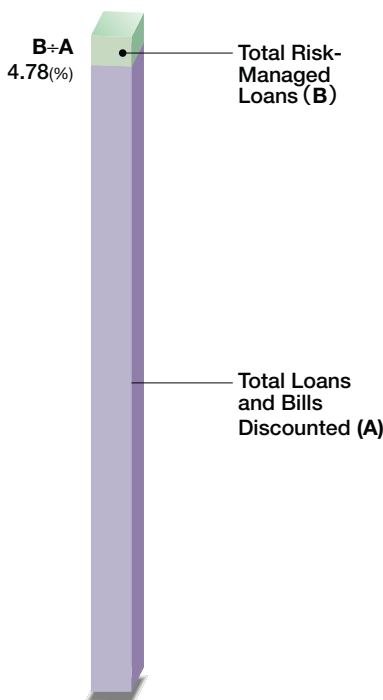


**Market Share in Aomori Prefecture of Deposits (%) (Excluded Postal savings)**

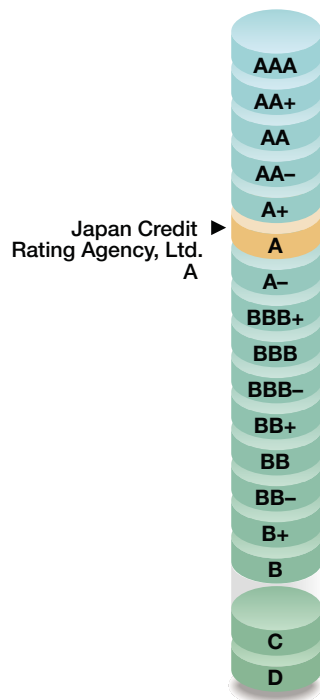
(As of March 31, 2002)



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

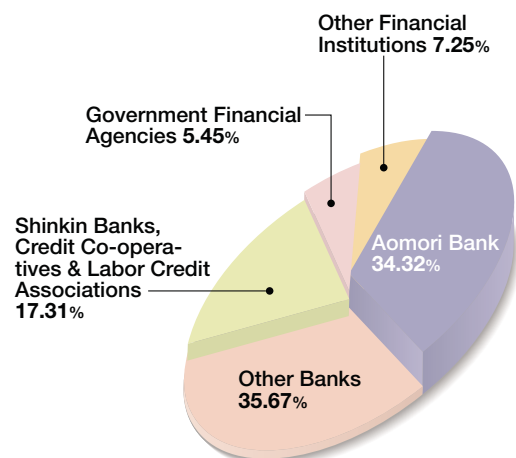


**Bond Credit Ratings**



**Market Share in Aomori Prefecture of Loans (%)**

(As of March 31, 2002)





## A Message from the President

### **Operating Environment**

The Japanese economy in fiscal 2001 (April 1, 2001 to March 31, 2002) experienced a significant drop in exports, primarily of electronics components and semiconductors, as a result of the downturn in the information technology industry. Drastic cuts had to be made in domestic production, and overall the economy showed increasing signs of a decline. Private capital investment continued to fall, suffering the effects of sluggish corporate results, relocation of production offshore, and grim prospects for economic recovery. There also remained few signs of a recovery in personal consumption as incomes remained stagnant, and the employment market became even tighter.

The economy was also heavily affected in Aomori Prefecture, our principal area of operations. There were major cuts in production and signs of stress in employment and income conditions, as

in the latter half of the year the economy showed every sign of undergoing further adjustment. Personal consumption remained weak, with ongoing uncertainty in sales, particularly by large retailers, and investment in housing was lower than in the previous year, particularly on the part of homeowners. Private capital investment in plant and equipment declined at a greater rate, the victim of worsening corporate earnings and an uncertain future. Public sector capital investment continued at low levels.



### **Business Performance**

In the context of the business environment described, we succeeded in achieving the following operating outcomes.

A concerted marketing campaign targeting personal deposits saw an end of fiscal year balance in deposits, including negotiable certificates of deposit, was ¥1,975,531 million (US\$14,825 million), an increase of ¥38,639 million (US\$290 million) on the

previous year. We worked hard to improve on loans to both local companies and personal loans, primarily for housing, and we took initiative in addressing the need for financing on the part of entities such as local governments, thereby achieving a total loans and bills discounted of ¥1,429,680 million (US\$10,729 million) at the end of the financial year, up ¥56,978 million (US\$428 million) over the previous year. Our securities declined by ¥9,921 million (US\$74 million) from the previous year to ¥462,171 million (US\$3,468 million), which reflected our careful management of assets, with due regard for market trends, while at the same time making efforts to improve efficiencies in asset management. The overall outcome was a ¥48 million (US\$360 thousand) decline in net income for the period over the previous year to ¥1,427 million (US\$11 million), and a net income per share of ¥7.61 (US\$5.71 cents).



### **Outlook**

The Bank launched its new medium-term management plan in April 2002. We have reduced the usual three-year term to two in order to respond more quickly to the rapidly changing business environment, and we are embarking on a structural reform that will lead to a healthier earnings base. The present medium-term management plan presents a theme of becoming *The Region's Best Partner – a strong business base*, which reflects our view that in order to respond to stakeholder expectations it is important to build high value businesses that emphasize stronger earnings capability.

The key issues addressed in the new medium-term management plan are: more efficient management; reformulating our business strategy; and strategic human resources management. It is our desire to improve earnings capability by providing financial services that recognize the customer's perspective, on a foundation of addressing the three issues identified in the plan. The outlook for the period ending March 2003 is colored by an extremely tough earnings environment, but we are targeting net income of ¥1,800 million (US\$14 million).

We look forward to the ongoing support of our shareholders and customers.

**Akio Iбата, President**



## Retail Banking

April 2001 can be seen as marking the completion of the “big bang” reform of the Japanese financial system as the Japanese government lifted some of its restrictions against making only a partial refund to depositors and closing out accounts in the event of a bank failure.

Deregulation of the finance industry has not stopped there, however, as the barriers between the securities and insurance industries will be even further reduced. Major Japanese banks are working harder in the personal banking market, in response to the abolition of regulations. At the Aomori Bank, however, our focus is on marketing activities that are supported by our long history of credibility and reliability, and on providing thorough services that can satisfy the expectations of each customer, and their financial plans that match their lifestyles.

The single greatest improvement in service achieved in fiscal 2001 was the enhancement of our ATM network. ATM access hours were increased from 7:00 in the morning to 9:00 in the evening, and the Aomori Bank is the first financial institution in Aomori Prefecture to offer 365-day-a-year ATM operation. We have also reached an online ATM agreement with the Post Office, the world’s largest financial institution, enabling the use of Aomori Bank cash cards in some 25,500 CD and ATM facilities in post offices all over Japan. This initiative provides substantially improved convenience to Aomori Bank customers.



## Corporate Banking

In the midst of Japan’s prolonged economic recession, Aomori Bank has been beefing up its financial support to local companies. We have been engaging in discussions with its corporate customers about funds procurement and management, and are endeavoring to provide financial information that is both sophisticated and diverse. This work is all part of our efforts to make an appropriate contribution amidst economic circumstances that are increasingly complex.

In November 2001, we began engaging in the business of managing defined contribution pension plans. These schemes have been topical for some time, being touted as Japan’s equivalent of the US 401k pension system, and we have taken initiative in seeking clients in this sub-sector, from the time that we registered as an institution to manage plans of this nature. For corporate-based pension funds, we have been acting in an advisory capacity from the first stages of considering the introduction of a fund, and have been providing other appropriate support. We have also begun operation of AINES to provide our corporate customers with information services. AINES offers information on management and the economy over the Internet, and our corporate clients can access a wide range of information 24 hours a day, 365 days a year.

## New Products and New Services

The “big bang” reform of the banking industry is complete. It has therefore become easier to deliver services and develop new products. Banks are now able to sell non-life and accident insurances, and in fiscal 2001, the Aomori Bank began handling a variety of new insurance products. One such is *weather derivative insurance*, which provides cover against the risk of inclement weather. The product was developed to reduce the risks associated with variable weather, such as cool summers or warm winters, which are extremely significant in a place like Aomori, well known for the production and shipment of such agricultural products as apples, and for its many festivals and public events. Another popular product is readily accessible indemnity insurance, available for as little as ¥300,000.

Housing loans are low risk and represent a stable source of income, and we are therefore focusing our effort in this field on developing new types of housing loans. In fiscal 2001, the Bank was selling two products; Aogin Housing Loan Support 200, and Aogin Super Housing Loan. Both products make it easier to obtain additional housing loan financing, and a particular feature is that loans can be made available even when a customer has none of their own funds.

## Corporate Citizenship

The Aomori Bank is committed to the development of regional industry and cultural promotion, and considers contributing to regional society to be its social mission. Throughout the year the Bank engaged in a variety of activities which are annual events. They included staging seminars by distinguished invited cultural personages, and a clean-up campaign.

### • Medical Research Grant

Starting in 1997 we have been providing an annual grant to the School of Medicine of the local Hirosaki University. The grant is designed to promote medical research and education, and its objective is for the Bank and the University to cooperate in furthering medicine in the region.

### • 9th Aogin Award

The Aogin Award recognizes people or groups that have contributed to Aomori Prefecture through industry, regional development, academia, culture, or sport. There were two recipients of the 9th Award: a company that specializes in building shrines, recognized for its contribution to preserving and handing down ancient Japanese architectural methods and to fostering human resources, and an agricultural equipment manufacturer, recognized for contributing to the modernization of the agricultural industry.

### • 7th Big Clean-Up Campaign

The annual clean-up campaign was implemented at 500 locations throughout Aomori Prefecture, and attracted 100,000 participants.

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スーパー住宅ローン  
ご相談は最寄りの(あおぎん)窓口へ  
自己資金ゼロでも!!  
担保評価の最大 120%  
担保評価の最大 130%  
Personal Main Bank AOGIN  
0120-6054068



President Iбата makes a speech of thanks to participants in the annual clean-up campaign

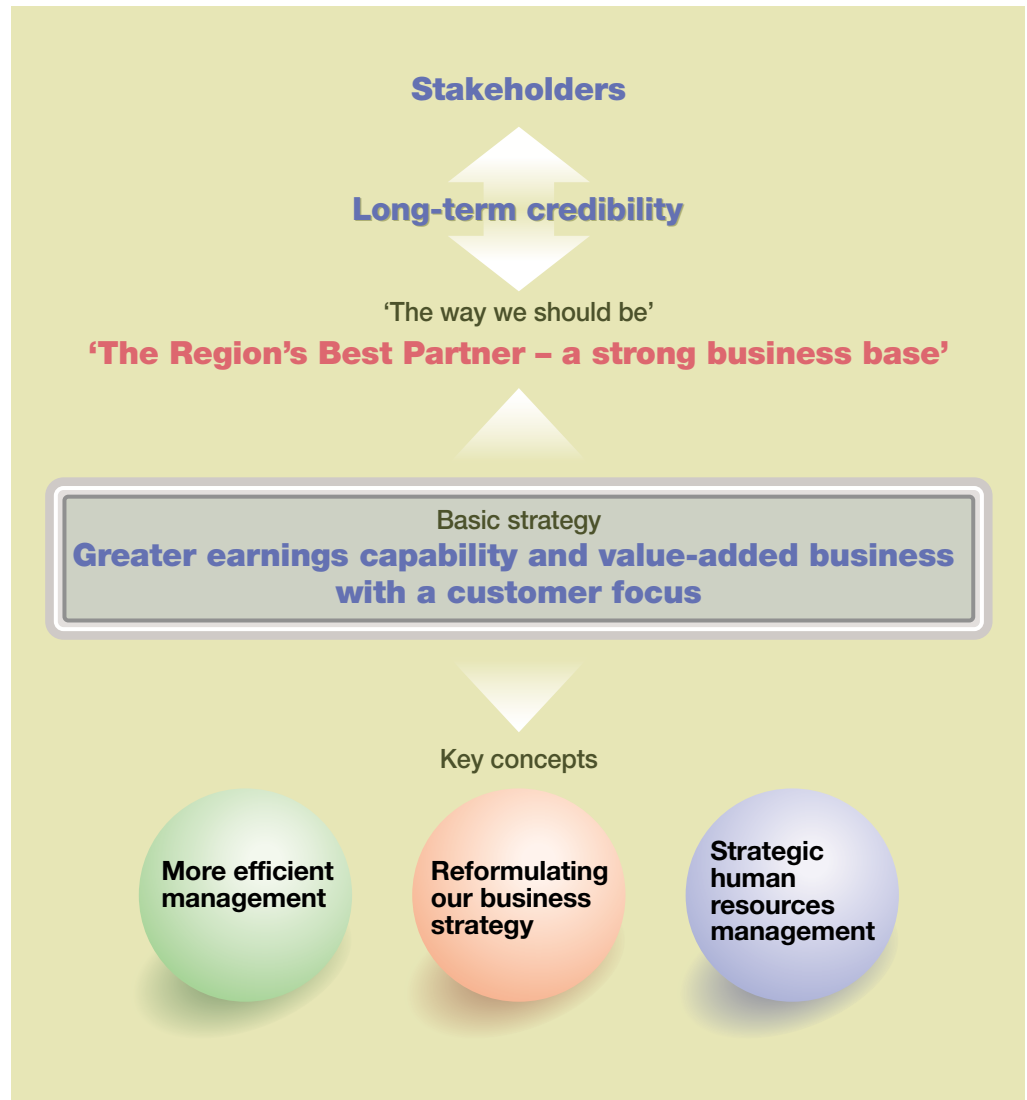


# New Medium-Term Management Plan

In October 2003, the Bank will celebrate its 60th anniversary since the 1943 merger. January 2004 will be another major milestone; the 125th anniversary of the founding of our predecessor, the 59th National Bank. These events have encouraged our Bank to formulate a new medium-term management plan to cover a foreshortened two-year period, as opposed to the traditional three-year plans. The theme of the new medium-term management plan is embodied in the slogan, *The Region's Best Partner – a strong business base*, and embodies management's commitment to an appropriate response to the rapid changes taking place in the economic and financial environment.

The key concepts addressed in the new medium-term management plan are: more efficient management; reformulating our business strategy; and strategic human resources management. Based on these key concepts, we will provide financial services suited to the customer's perspective, and a proactive approach to compliance and disclosure of corporate information, in order to win yet higher credibility with stakeholders.

## New Foundation – New Challenges







# Operating Results (Non-Consolidated Basis) for the Year Ended March 31, 2002

## Deposits

The Aomori Bank implemented a proactive marketing campaign targeting personal deposits, using the strategy of providing high value-added products and services. The result was steady growth in deposit balances, including negotiable certificates of deposit. With partial lifting of the prohibition against closing out accounts by making only a partial refund in the event of a bank failure, there was a shift in business from fixed term to ordinary deposits, but the balance at the end of the fiscal year in deposits, including negotiable certificates of deposit, was ¥1,975,531 million (US\$14,825 million), an increase of ¥38,639 million (US\$290 million).

Analysis of types of deposit by depositor reveal that personal deposits were up ¥47,408 million (US\$356 million) to ¥1,270,865 (US\$9,537 million). Despite a climate of low interest, therefore, we have continued to achieve increases.

Deposits by Depositors	Millions of yen				
	2002	2001	2000	1999	1998
Individuals .....	<b>¥1,270,865</b>	¥1,223,457	¥1,197,048	¥1,159,046	¥1,099,914
Corporations .....	<b>449,569</b>	445,305	438,483	435,152	422,748
Financial institutions .....	<b>22,557</b>	27,629	58,980	67,854	71,882
Public institutions .....	<b>133,850</b>	130,651	241,617	247,792	260,958
Other .....	<b>9</b>	18	2	100	31
<b>Total .....</b>	<b>¥1,876,851</b>	¥1,827,062	¥1,936,133	¥1,909,946	¥1,855,535

Note: Excluding negotiable certificates of deposit.

Deposits per Office and per Employee	Millions of yen				
	2002	2001	2000	1999	1998
Deposits per office* .....	<b>¥18,814</b>	¥18,446	¥18,461	¥18,234	¥17,520
Number of offices** .....	<b>105</b>	105	105	105	106
Deposits per employee* .....	<b>1,167</b>	¥ 1,098	¥ 1,065	¥ 1,038	¥ 1,007
Number of employees*** .....	<b>1,744</b>	1,818	1,867	1,880	1,844

\* Excluding negotiable certificates of deposit.

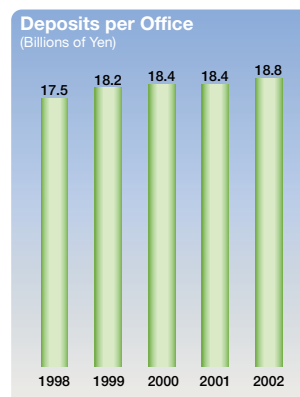
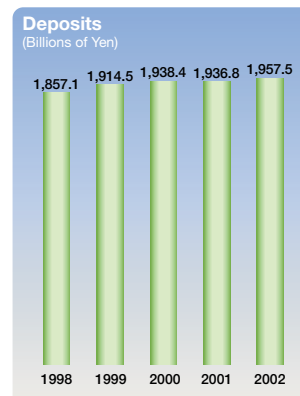
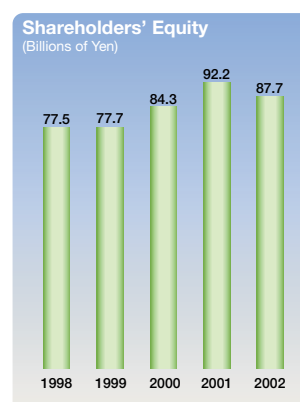
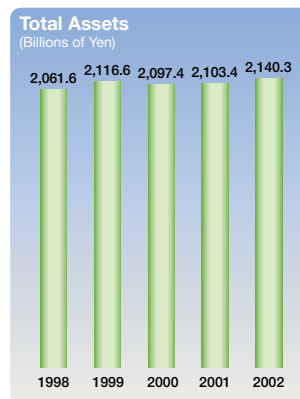
\*\* Excluding the number of sub-branches.

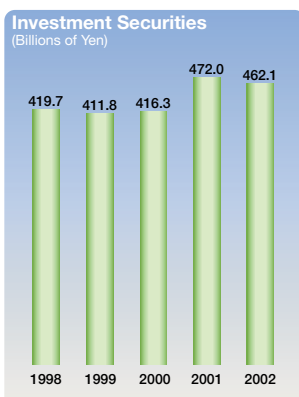
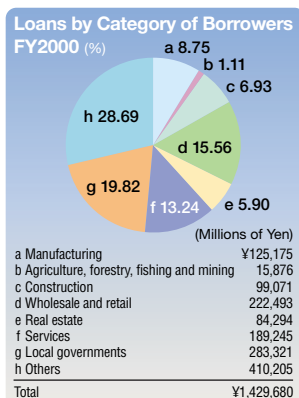
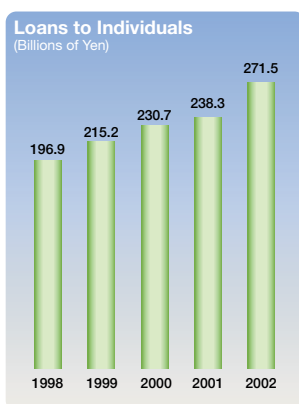
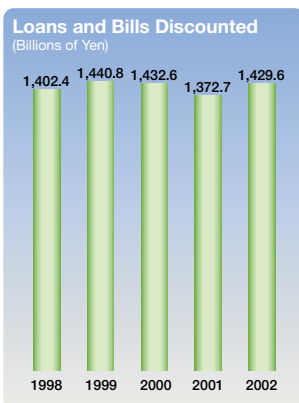
\*\*\* The figures for "Number of employees" are averages calculated during each term.

## Loans

The Bank sought to step up its lending to local companies, despite continuing stagnant economic activity and poor growth in demand for funds. We have also taken initiative in addressing the need for financing on the part of local governments and similar organizations, and as a result, lending was up ¥56,978 million (US\$428 million) over the previous year to ¥1,429,680 (US\$10,729 million). Loans to SMEs were up ¥16,193 million (US\$122 million) to ¥924,526 million (US\$6,938 million), but lending ratios were down 1.52 percentage points to 64.66%. Personal lending set a good trend, being up ¥33,212 million (US\$249 million) on the previous year, primarily in housing loans, to ¥271,595 million (US\$2,038 million).

Risk managed loans were up ¥3,601 million (US\$27 million) on the previous year to a total of ¥68,462 million (US\$514 million). That figure was made up of: ¥6,295 million (US\$47 million) in loans to bankrupt borrowers; ¥22,382 million (US\$168 million) in loans past due six months or more; ¥486 million (US\$3.6 million) in loans past due more than three months but less than six months; and ¥39,298 million (US\$295 million) in loans with renegotiated conditions. As a result, the ratio of risk managed loans to total lending was 4.78%. Since all risk managed loans are subject to disclosure regardless of whether they are backed by security or guarantee, these totals also include claims that do not present concerns about collection. The entire amount necessary to cover the proportion of unsecured risk managed loans has already been allocated to loan-loss reserves.





Millions of yen

Loans by Business Category	2002	2001	2000	1999	1998
Manufacturing .....	¥ 125,175	¥ 126,386	¥ 136,198	¥ 159,597	¥ 157,647
Agriculture, forestry, fishing and mining ...	15,876	15,685	16,917	18,900	18,185
Construction .....	99,071	105,335	105,616	113,304	104,530
Wholesale and retail .....	222,493	232,199	240,977	257,014	248,507
Real estate .....	84,294	80,984	89,848	95,411	89,821
Services .....	189,245	177,735	177,905	201,434	193,330
Local governments .....	283,321	267,254	301,813	272,223	260,277
Others .....	410,205	366,815	363,038	322,440	328,934
Total .....	¥1,429,680	¥1,372,393	¥1,432,312	¥1,440,321	¥1,401,231

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	2002	2001	2000	1999	1998
Housing loans .....	¥217,627	¥182,912	¥172,039	¥146,760	¥128,108
Consumer loans .....	53,968	55,470	58,753	68,486	68,825
Total .....	¥271,595	¥238,383	¥230,793	¥215,246	¥196,934

Millions of yen

Risk Managed Loans	2002	2001	2000	1999	1998
Loans to bankrupt borrowers .....	¥ 6,295	¥ 5,205	¥ 5,757	¥ 10,194	¥ 14,155
Loans past due six months or more .....	22,382	17,735	10,778	23,259	5,011
Loans past due more than three months but less than six months .....	486	364	548	2,457	14,563
Loans with renegotiated conditions .....	39,298	41,555	38,604	25,105	4,618
Total .....	¥ 68,462	¥ 64,861	¥ 55,688	¥ 61,015	¥ 38,348

## Securities

Our main securities business is to underwrite bonds issued by the national government and local governments, as well as public sector corporations and organizations, and to cooperate in underwriting their funds procurement activities. We also sell and act as a dealing agent for newly issued national government bonds, as well as public sector bonds that have already been issued. Our end of year balance of securities fell by ¥9,921 million (US\$74 million) from the previous year to ¥462,171 million (US\$3,468 million). This result reflected the Bank's careful management of assets with due regard for market trends, while at the same time making efforts to improve efficiencies in managed assets.

Billions of yen

Public Bond Dealing	2002	2001	2000	1999	1998
National government bonds .....	¥ 14.7	¥ 9.8	¥ 2,263.7	¥ 434.5	¥ 2,965.6
Local government bonds, government-guaranteed bonds .....	—	—	—	—	—
Total .....	14.7	¥ 9.8	¥ 2,263.7	¥ 434.5	¥ 2,965.6

Note: Figures are indicated on a commitment basis.

## Income and Expenses

Total income increased by ¥2,951 million (US\$22 million) over the previous year to ¥49,597 million (US\$372 million), primarily due to fees, commissions and other income. Expenses, on the other hand, included an increase in the reserve for possible loan losses associated with writing off distressed claims, and valuation losses on securities, against which a loss was recorded in interest paid on deposits. The result was that net income for the period was down ¥48 million (US\$360 thousand) over the previous year to ¥1,427 million (US\$11 million), and net income per share was ¥7.61 (US\$5.71 cents). The dividend per share continues to be a total of ¥5 per annum, made up of an interim dividend of ¥2.5, and an end of year dividend of ¥2.5. The Bank's capital adequacy ratio was 10.22%, in accordance with the domestic standard as at the end of March 2002.

Millions of U.S. dollars

Foreign Exchange Transactions	2002	2001	2000	1999	1998
Trade .....	\$ 115	\$ 136	\$ 123	\$ 162	\$ 142
Non-trade .....	139	133	140	1,872	2,848
Total .....	\$ 254	\$ 269	\$ 263	\$ 2,034	\$ 2,989

Yen

Per Share Amounts	2002	2001	2000	1999	1998
Net income .....	¥ 7.16	¥ 7.86	¥ 6.18	¥ 6.46	¥ 7.70
Cash dividends .....	5.0	5.00	5.00	5.00	5.00
(Interim dividends) .....	(2.50)	(2.50)	(2.50)	(2.50)	(2.50)
Net assets value .....	467.67	491.84	449.59	414.60	413.33
Payout ratio .....	65.7%	63.60%	80.90%	77.28%	64.91%

### 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, 2002				
Interest rate and currency swaps .....	¥6,533	\$49,028	¥7	\$53
Forward foreign exchange .....	91	683	2	15
Interest rate and currency options .....	—	—	—	—
Other derivatives .....	—	—	—	—
Total .....	¥6,624	\$49,711	¥9	\$68

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

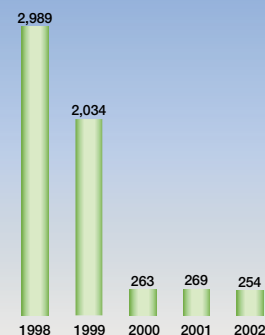
The contract values and notional principal amounts listed below are transactions on exchanges not subject to international standards, and foreign exchange related transactions with an original maturity of 14 days or less.

	Contract value / Notional principal amounts	
	Millions of yen	Thousands of U.S. dollars
March 31, 2002		
Interest rate and currency swaps .....	¥—	\$—
Forward foreign exchange .....	13	98
Interest rate and currency options .....	—	—
Other derivatives .....	—	—
Total .....	¥ 13	\$ 98

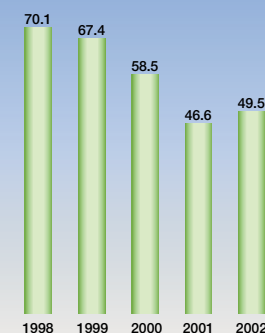
#### Credit-related transactions

	Contract value	
	Millions of yen	Thousands of U.S. dollars
March 31, 2002		
Commitments .....	¥418,874	\$3,143,520
Guarantees .....	37,092	278,364
Other .....	—	—
Total .....	¥455,967	\$3,421,891

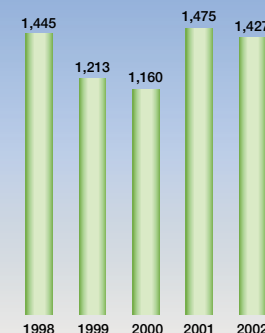
#### Foreign Exchange Transactions (Millions of U.S. Dollars)



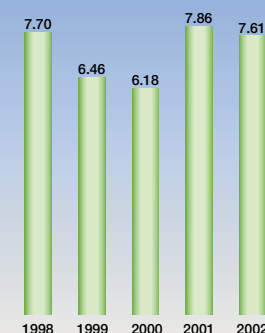
#### Total Income (Billions of Yen)



#### Net Income (Millions of Yen)



#### Net Income per Share (Yen)



## Non-Consolidated Balance Sheets

The Aomori Bank, Ltd. As of March 31, 2002 and 2001

	Millions of Yen (Note 1)		Thousands of U.S.dollars (Note 1)
	2002	2001	2002
<b>Assets</b>			
Cash and due from banks .....	¥ 145,708	¥ 142,908	\$ 1,093,501
Call loans .....	20,000	37,000	150,094
Trading account securities .....	1,146	450	8,601
Investment securities (Note 3) .....	462,171	472,092	3,468,455
Loans and bills discounted (Note 4) .....	1,429,680	1,372,702	10,729,311
Foreign exchanges .....	457	519	3,436
Other assets .....	17,952	15,212	134,730
Premises and equipment (Note 5) .....	27,420	27,855	205,782
Deferred income taxes .....	9,524	4,758	71,480
Customers' liabilities for acceptances and guarantees (Note 9) .....	37,092	39,396	278,369
Reserve for possible loan losses .....	(10,781)	(9,494)	(80,913)
Total assets .....	<u>¥2,140,374</u>	<u>¥2,103,402</u>	<u>\$16,062,844</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits (Note 6) .....	¥1,975,531	¥1,936,892	\$14,825,750
Call money .....	1,998	3,704	15,000
Borrowed funds .....	13,765	13,590	103,302
Foreign exchanges .....	4	5	35
Other liabilities .....	13,217	8,442	99,195
Reserve for employee bonus .....	969	—	7,272
Reserve for employee retirement benefit .....	7,678	6,562	57,621
Other reserves .....	119	113	896
Deferred tax liabilities on land revaluation (Note 8) .....	2,266	2,413	17,009
Acceptances and guarantees (Note 9) .....	37,092	39,396	278,369
Total liabilities .....	<u>2,052,642</u>	<u>2,011,122</u>	<u>15,404,450</u>
<b>Shareholders' equity</b>			
Common stock (Note 10) .....	15,221	15,221	114,231
Capital surplus (Note 10) .....	8,575	8,575	64,354
Legal reserve (Note 11) .....	4,849	4,655	36,392
Revaluation reserve for land, net of taxes (Note 8) .....	3,113	3,315	23,364
Appropriated retained earnings .....	53,700	52,700	403,002
Unappropriated retained earnings .....	3,182	3,711	23,887
Net unrealized gains on investment securities, net of taxes .....	(897)	4,101	(6,737)
Common stock in treasury .....	(12)	—	(97)
Total shareholders' equity .....	<u>87,731</u>	<u>92,280</u>	<u>658,395</u>
Total liabilities and shareholders' equity .....	<u>¥2,140,374</u>	<u>¥2,103,402</u>	<u>\$16,062,844</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, 2002 and 2001

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
<b>Income</b>			
Interest on;			
Loans and discounts .....	¥31,281	¥32,458	\$ 234,756
Securities .....	7,744	7,372	58,117
Other .....	136	781	1,023
	<u>39,161</u>	<u>40,613</u>	<u>293,896</u>
Fees and commissions .....	7,987	4,954	59,941
Other income .....	2,448	1,079	18,374
Total income .....	<u>49,597</u>	<u>46,646</u>	<u>372,212</u>
<b>Expenses</b>			
Interest on;			
Deposits .....	2,540	4,374	19,066
Borrowings and rediscounts .....	371	376	2,787
Other .....	275	699	2,068
	<u>3,187</u>	<u>5,450</u>	<u>23,921</u>
Fees and commissions .....	2,475	2,705	18,574
General and administrative expenses .....	31,886	32,246	239,299
Other expenses .....	9,310	3,608	69,869
Total expenses .....	<u>46,859</u>	<u>44,010</u>	<u>351,663</u>
Income before income taxes .....	2,738	2,635	20,549
Current income taxes (Note 12) .....	2,583	1,408	19,388
Deferred income taxes .....	(1,273)	(248)	(9,556)
Net income .....	<u>¥ 1,427</u>	<u>¥ 1,475</u>	<u>\$ 10,717</u>
<b>Retained earnings — unappropriated</b>			
Balance at beginning of year .....	¥ 3,711	¥ 7,593	\$ 27,852
Net income .....	1,427	1,475	10,717
Reversal of revaluation reserve for land .....	201	—	1,513
Appropriations:			
Transfer to;			
Legal reserve (Note 11) .....	193	193	1,451
Appropriated retained earnings .....	1,000	4,200	7,505
Cash dividends (Note 11) .....	938	938	7,040
Other .....	26	26	200
Total appropriations .....	<u>2,157</u>	<u>5,357</u>	<u>16,195</u>
Balance at end of year .....	<u>¥ 3,182</u>	<u>¥ 3,711</u>	<u>\$ 23,887</u>
		Yen	Cents
Net income per share .....	<u>¥7.61</u>	<u>¥7.86</u>	<u>¢5.71</u>

See accompanying notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

The Aomori Bank, Ltd. March 31, 2002 and 2001

## 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 ¥133.25 = U.S.\$1, the prevailing rate as of March 31, 2002. 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 uncollectable are charged off against the respective loan balances. The total charged-off amounts are ¥24,157 million.

### (7) Reserve for employee bonus

Reserve for employee bonus, which is provided for the future bonus payment to employees, is maintained at the amount accrued at the end of the fiscal year, based on the estimated future payment and service periods.

In prior years, accrued liabilities for bonus payment to employees had been recorded in accrued expenses included in "Other liabilities."

### (8) 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.

Actuarial gains or losses are recognized as income or expenses from the following fiscal year under the straight-line method over the average remaining service period of the current employees.

### (9) 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 the deferral method is adopted for its hedge accounting.

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.

### (10) Finance leases

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

### (11) Exchange rate

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

### (12) Additional information

Common stock in treasury is deducted from and presented on the last line of the Shareholder's equity in accordance with the revision of the Regulation concerning Terminology, Format and Method of Presentation of Financial Statements, etc. In prior years, Common stock in treasury had been included in "Investment securities."

## 3. Investment securities

	Millions of Yen	
	2002	2001
Government bonds.....	¥126,493	¥150,174
Local government bonds.....	83,071	93,166
Corporate bonds.....	166,521	140,541
Stocks .....	30,207	34,253
Other securities .....	55,877	53,956
Total .....	<u>¥462,171</u>	<u>¥472,092</u>

## 4. Loans and bills discounted

	Millions of Yen	
	2002	2001
Bills discounted .....	¥ 22,381	¥ 25,809
Loans on bills.....	283,155	261,246
Loans on deeds .....	897,522	853,894
Overdrafts .....	226,620	231,752
Total .....	<u>¥1,429,680</u>	<u>¥1,372,702</u>

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

	Millions of Yen	
	2002	2001
(a) Loans to bankrupt borrowers.....	¥ 6,295	¥ 5,205
(b) Loans past due six months or more.....	22,382	17,735
(c) Loans past due more than three months but less than six months .....	486	364
(d) Loans with renegotiated conditions ....	39,298	41,555
Total .....	<u>¥68,462</u>	<u>¥64,861</u>

#### 5. Premises and equipment

The accumulated depreciation as of March 31, 2002 and 2001 was ¥27,484 and ¥26,620 millions, respectively.

#### 6. Deposits

	Millions of Yen	
	2002	2001
Current deposits .....	¥ 59,462	¥ 60,153
Ordinary deposits.....	673,815	553,646
Savings accounts.....	55,825	61,860
Deposits at notice.....	14,876	15,389
Time deposits.....	1,021,778	1,099,693
Other deposits .....	51,093	36,318
Negotiable certificates of deposit .....	98,680	109,830
Total .....	<u>¥1,975,531</u>	<u>¥1,936,892</u>

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

	Millions of Yen	
	2002	2001
Breakdown of assets pledged as collateral:		
Securities.....	¥26,251	¥26,708
Debt relating to assets pledged as collateral:		
Deposits .....	¥31,961	¥27,185

In addition to the above, the amounts of Securities pledged as collateral in connection with exchange settlement transaction or as a substitute for margin payments as of March 31, 2002 and 2001 was ¥76,009 and ¥72,005 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.

The excess of the aggregate amount of fair value of land for the Bank’s business activities at the end of the fiscal year, over the total amount of book value after revaluation of the land, is ¥660 million.

#### 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, 2002 and 2001 with a par value of ¥50 per share.

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

	Millions of Yen	
	2002	2001
Common stock:		
Balance at beginning of year .....	¥ 15,221	¥ 15,221
Balance at end of year.....	¥ 15,221	¥ 15,221
(Shares issued and outstanding 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.....	¥ 8,575	¥ 8,575

#### 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 94th business period from April 1, 2001 to March 31, 2002, 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 27, 2002, 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 27, 2002

*Shin Nihon & Co.*  
Shin Nihon & 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 Amori Bank, Ltd. and consolidated subsidiaries As of March 31, 2002 and 2001

	Millions of Yen (Note 1)		Thousands of U.S.dollars (Note 1)
	2002	2001	2002
<b>Assets</b>			
Cash and due from banks .....	¥ 146,908	¥ 144,315	\$ 1,102,502
Call loans .....	20,000	37,000	150,097
Trading account securities .....	1,146	450	8,603
Investment securities .....	462,510	472,438	3,470,997
Loans and bills discounted (Note 3) .....	1,422,677	1,370,898	10,676,753
Foreign exchanges .....	457	519	3,433
Other assets .....	35,775	32,903	268,483
Premises and equipment (Note 4) .....	41,320	41,914	310,097
Deferred income taxes .....	10,087	5,187	75,703
Customers' liabilities for acceptances and guarantees.....	37,092	39,396	278,367
Reserve for possible loan losses .....	(12,722)	(11,538)	(95,475)
Total assets.....	<u>¥2,165,254</u>	<u>¥2,133,485</u>	<u>\$16,249,561</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits.....	1,972,957	1,934,298	14,806,437
Call money .....	1,998	3,704	15,000
Borrowed funds.....	30,711	35,762	230,482
Foreign exchanges .....	4	5	36
Other liabilities.....	20,170	15,512	151,375
Reserve for employee bonus .....	1,032	—	7,750
Reserve for employee retirement benefit .....	7,732	6,613	58,032
Other reserves .....	119	113	899
Deferred tax liabilities on land revaluation (Note 6) .....	2,266	2,413	17,006
Acceptances and guarantees .....	37,092	39,396	278,364
Total liabilities .....	<u>2,074,087</u>	<u>2,037,820</u>	<u>15,565,381</u>
Minority interest in consolidated subsidiaries .....	4,458	4,153	33,460
<b>Shareholders' equity</b>			
Common stock .....	15,221	15,221	114,233
Capital surplus .....	8,575	8,575	64,353
Revaluation reserve for land, net of taxes (Note 6) .....	3,113	3,315	23,362
Retained earnings.....	62,647	61,883	470,146
Net unrealized gains on investment securities, net of taxes.....	(897)	4,102	(6,735)
Common stock in treasury .....	(12)	(0)	(94)
Shares held by subsidiaries .....	(1,938)	(1,585)	(14,544)
Total shareholders' equity.....	<u>86,708</u>	<u>91,511</u>	<u>650,720</u>
Total liabilities and shareholders' equity .....	<u>¥2,165,254</u>	<u>¥2,133,485</u>	<u>\$16,249,561</u>

See accompanying notes to consolidated financial statements.



## Consolidated Income Statements

The Aomori Bank, Ltd. and consolidated subsidiaries Years ended March 31, 2002 and 2001

	Millions of Yen (Note 1)		Thousands of U.S.dollars (Note 1)
	2002	2001	2002
<b>Income</b>			
Interest on;			
Loans and discounts .....	¥31,558	¥32,812	\$ 236,833
Securities .....	7,749	7,379	58,154
Other.....	137	781	1,028
	<u>39,444</u>	<u>40,973</u>	<u>296,015</u>
Fees and commissions.....	7,934	4,897	59,542
Other income.....	14,430	12,891	108,293
Total income .....	<u>61,808</u>	<u>58,762</u>	<u>463,850</u>
<b>Expenses</b>			
Interest on;			
Deposits.....	2,534	4,372	19,017
Borrowings and rediscounts .....	810	990	6,079
Other.....	277	709	2,079
	<u>3,621</u>	<u>6,072</u>	<u>27,174</u>
Fees and commissions.....	1,843	2,027	13,831
General and administrative expenses.....	29,214	29,299	219,246
Other expenses.....	23,647	17,889	177,467
Total expenses.....	<u>58,326</u>	<u>55,288</u>	<u>437,719</u>
Income before income taxes and others .....	3,482	3,473	26,131
Current income taxes .....	3,026	1,986	22,709
Deferred income taxes .....	(1,402)	(395)	(10,522)
Minority interest in net income .....	348	374	2,612
Net income.....	<u>¥ 1,510</u>	<u>¥ 1,507</u>	<u>\$ 11,332</u>
	Yen		Cents
Net income per share .....	<u>¥8.21</u>	<u>¥8.17</u>	<u>¢6.16</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Retained Earnings

The Aomori Bank, Ltd. and consolidated subsidiaries As of March 31, 2002 and 2001

	Millions of Yen (Note 1)		Thousands of U.S.dollars (Note 1)
	2002	2001	2002
Balance at beginning of year .....	¥61,883	¥61,326	\$ 464,413
Additions:			
Reversal of revaluation reserve for land .....	201	—	1,508
Deductions:			
Cash dividends .....	(919)	(921)	(6,897)
Bonuses for directors and statutory auditors.....	(28)	(28)	(210)
Net income.....	<u>1,510</u>	<u>1,507</u>	<u>11,332</u>
Balance at end of year .....	<u>¥62,647</u>	<u>¥61,883</u>	<u>\$ 470,146</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

The Amori Bank, Ltd. and consolidated subsidiaries Years ended March 31, 2002 and 2001

	Millions of Yen (Note 1)		Thousands of U.S.dollars (Note 1)
	2002	2001	2002
<b>Cash flows from operating activities:</b>			
Income before income taxes and others .....	¥ 3,482	¥ 3,473	\$ 26,131
Depreciation .....	6,940	7,007	52,083
Net increase (decrease) in Reserve for possible loan losses .....	1,183	873	8,878
Net increase (decrease) in Reserve for employee bonus .....	1,032	—	7,745
Net increase (decrease) in Liabilities for employee severance indemnities...	—	(5,956)	—
Net increase (decrease) in Reserve for employee retirement benefit.....	1,118	6,613	8,390
Net increase (decrease) in Other reserves .....	5	4	38
Interest income.....	(39,444)	(40,973)	(296,015)
Interest expenses .....	3,621	6,072	27,174
Net loss (gain) on Investment securities .....	(1,382)	19	(10,371)
Net loss (gain) on Money held in trust.....	—	65	—
Net loss (gain) on Foreign exchange .....	(411)	(1,026)	(3,084)
Net loss (gain) on Sales of Premises and equipment .....	42	108	315
Net decrease (increase) in Trading account securities.....	(695)	(248)	(5,216)
Net decrease (increase) in Loans and bills discounted .....	(51,779)	63,932	(388,585)
Net increase (decrease) in Deposits .....	38,659	(1,489)	290,124
Net increase (decrease) in Borrowed funds excluding Subordinated debt.....	(5,051)	(1,833)	(37,906)
Net decrease (increase) in Due from banks excluding deposits with the Central bank...	112,836	(51,980)	846,799
Net decrease (increase) in Call loans .....	17,157	14,751	128,758
Net increase (decrease) in Call money.....	(1,705)	2,218	(12,795)
Net increase (decrease) in Collateral under repurchase agreements and securities lending transactions.....	—	—	—
Net decrease (increase) in Foreign exchanges (assets) .....	61	233	458
Net increase (decrease) in Foreign exchanges (liabilities) .....	0	(22)	0
Interest received .....	41,439	43,803	310,991
Interest paid.....	(5,330)	(9,027)	(40,000)
Others, net .....	2,022	(2,517)	15,178
Sub total .....	123,801	34,104	929,088
Income taxes paid .....	(1,815)	(3,274)	(13,625)
<b>Net cash provided by (used in) operating activities .....</b>	<b>121,985</b>	<b>30,829</b>	<b>915,463</b>
<b>Cash flows from investing activities:</b>			
Purchases of Investment securities .....	(214,957)	(201,224)	(1,613,186)
Proceeds from sales of Investment securities .....	151,848	71,232	1,139,572
Proceeds from maturities of Investment securities .....	63,969	79,469	480,068
Decrease in Money held in trust .....	0	934	0
Expenditures for Premises and equipment.....	(7,122)	(6,591)	(53,448)
Proceeds from sales of Premises and equipment .....	973	400	7,306
<b>Net cash provided by (used in) investing activities .....</b>	<b>(5,288)</b>	<b>(55,779)</b>	<b>(39,689)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of Subordinated debt .....	0	3,000	0
Expenditures for repayment of Subordinated debt .....	0	(5,000)	0
Cash dividends paid .....	(919)	(921)	(6,897)
Cash dividends paid to Minority interests .....	(9)	(8)	(68)
Purchase of Treasury stock .....	(465)	(38)	(3,490)
Proceeds from sales of Treasury stock.....	99	39	743
Others, net.....	0	16	0
<b>Net cash provided by (used in) financing activities.....</b>	<b>(1,294)</b>	<b>(2,912)</b>	<b>(9,711)</b>
Effect of exchange rate changes on Cash and cash equivalents .....	25	59	191
Net increase in Cash and cash equivalents .....	115,428	(27,803)	866,255
Cash and cash equivalents at beginning of year (Note7).....	29,161	56,964	218,848
Cash and cash equivalents at end of year (Note7).....	¥ 144,590	¥ 29,161	\$ 1,085,103

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Aomori Bank, Ltd. and consolidated subsidiaries Fiscal year ended March 31, 2002 and 2001

## 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 ¥133.25 = U.S.\$1, the prevailing rate as of March 31, 2002. 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 10 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 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 uncollectable are charged off against the respective loan balances. The total charged-off amounts are ¥24,157 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 uncollectable are provided in the reserve.

### (7) Reserve for employee bonus

Reserve for employee bonus, which is provided for the future bonus payment to employees, is maintained at the amount accrued at the end of the fiscal year, based on the estimated future payment and service periods.

In prior years, accrued liabilities for bonus payment to employees had been recorded in accrued expenses included in “Other liabilities.”

### (8) 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.

### (9) 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 the deferral method is adopted for its hedge accounting.

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.

### (10) Exchange rate

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

### (11) Finance leases

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

### 3. Loans and bills discounted

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

	Millions of Yen	
	2002	2001
(a) Loans to bankrupt borrowers.....	¥ 6,541	¥ 5,846
(b) Loans past due six months or more.....	22,875	18,800
(c) Loans past due more than three months ...	488	369
(d) Loans with renegotiated conditions ....	39,966	43,692
Total .....	<u>¥69,871</u>	<u>¥68,709</u>

### 4. Premises and equipment

The accumulated depreciation as of March 31, 2002 and 2001 was ¥59,455 and ¥53,694 millions, respectively.

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

	Millions of Yen	
	2002	2001
Breakdown of assets pledged as collateral:		
Securities .....	¥26,702	¥27,198
Other assets .....	¥17,733	¥ 9,728
Debt relating to assets pledged as collateral:		
Deposits .....	¥31,961	¥27,185
Borrowed funds .....	¥12,867	¥15,335

In addition to the above, the amounts of Securities pledged as collateral in connection with exchange settlement transaction or as a substitute for margin payments as of March 31, 2002 and 2001 was ¥76,009 and ¥72,005 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	
	2002	2001
Cash and due from banks.....	¥ 146,908	¥ 144,315
Time deposits with other banks .....	(1,022)	(102,032)
Other deposits with other banks .....	(1,296)	(13,122)
Cash and cash equivalent.....	<u>¥ 144,590</u>	<u>¥ 29,161</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, 2001 to March 31, 2002, 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 27, 2002, 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 27, 2002

  
Shin Nihon & 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 Banking Group comprises the parent bank and ten subsidiaries. The Group strives to provide tailor-made services in response to ever more diverse and more sophisticated customer needs. Each member of the corporate Group leverages its field-specific expertise to provide a wide range of financial services such as credit cards and leasing, in addition to the core banking business. The following companies are consolidated subsidiaries of the Bank.

### Consolidated Subsidiaries

(As of April 1, 2002)

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 Lease Co., Ltd.</b>		
Leasing	20	5
<b>Aogin DC Card Co., Ltd.</b>		
Credit card business	20	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 Computer Service Co., Ltd.</b>		
Computer systems development and services	30	5
<b>Aogin Confidence Guarantee Co., Ltd.</b>		
Loan guarantees	30	2.5



## Corporate Data (As of March 31, 2002)

**Company Name:** The Aomori Bank, Ltd.  
**Head Office:** 9-30, Hashimoto 1-chome,  
 Aomori 030-0823, Japan  
**WEB URL:** <http://www.a-bank.co.jp/>  
**Date of Establishment:** October 1, 1943  
**Date of Foundation:** January 20, 1879  
**Number of Employees:** 1,744  
**Number of Offices:** 112

**Paid-in Capital:** 15,221 million yen  
**Number of Outstanding Shares:** 187,621,615  
**Total Assets:** 2,140.3 billion yen  
**Loans and Bills Discounted:** 1,429.6 billion yen  
**Capital Adequacy Ratio:** 10.22% (Domestic Standards)  
**ROA:** 0.06%  
**ROE:** 1.63%  
**Credit Rating:** A (Japan Credit Rating Agency, Ltd.)

## Service Network (As of June 30, 2002)

### Head Office

9-30, Hashimoto 1-chome, Aomori 030-0823  
 Telephone: 017-777-1111

### Treasury & International Division

9-30, hashimoto 1-chome, Aomori 030-0823  
 Telephone: 017-734-8535  
 Facsimile: 017-734-8543  
 SWIFT: AOMBJPJT

### Financial Markets Section

1-8, 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 030-0823  
 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

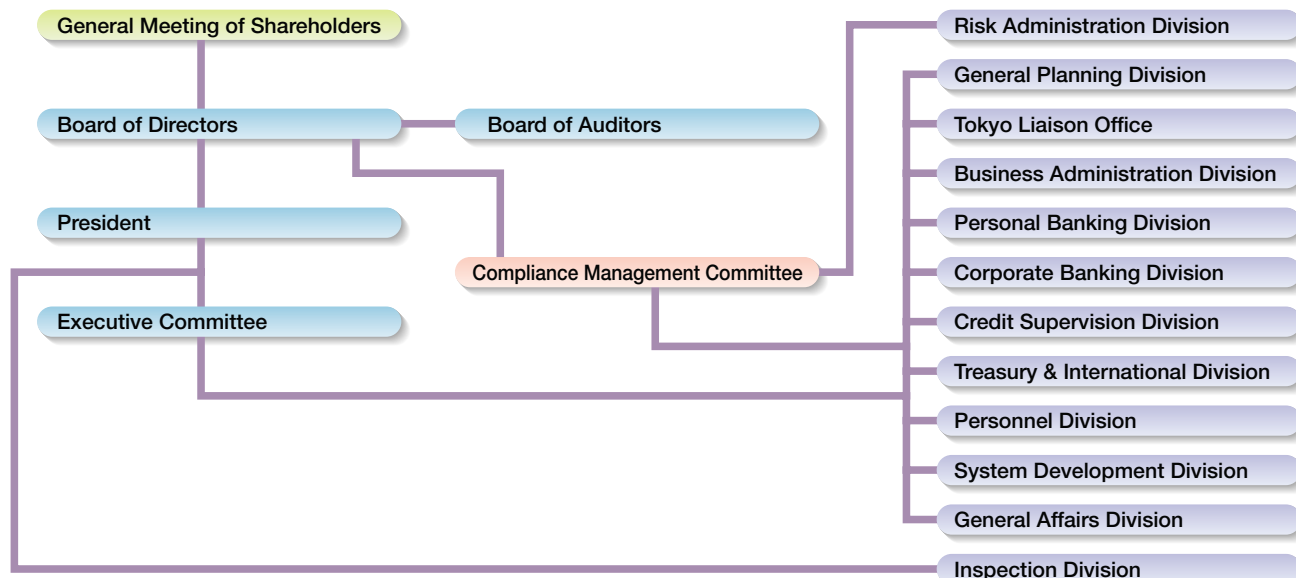
#### Towada Branch

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 July 1, 2002)





# Board of Directors and Corporate Auditors

(As of June 30, 2002)



**Akio Ibata**  
President



**Masaru Iwasaki**  
Senior Managing Director



**Ryoichi Osanai**  
Managing Director



**Kenichi Tanaka**  
Managing Director



**Yoshisada Kafuku**  
Managing Director

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## Directors

Kunikatsu Kado  
Shoichi Sawamukai  
Mamoru Baba  
Junichi Kitagawa  
Tessho Izumiyama  
Tsuneyoshi Miura  
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