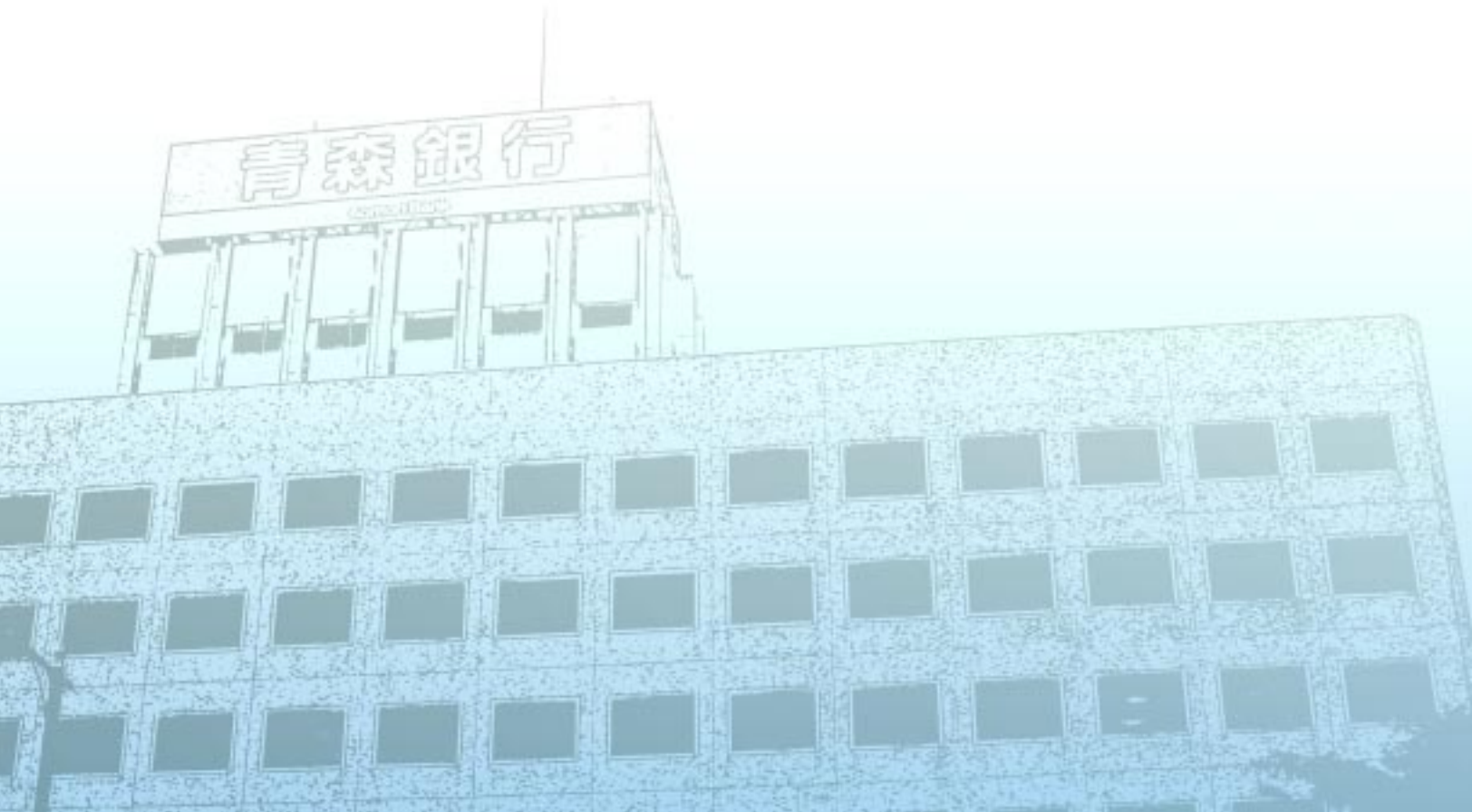


AOMORI BANK 2003

Annual Report



Message from the President

At The Aomori Bank, Ltd., we started our medium-term management plan in fiscal 2002, which targeted being *The Region's Best Partner – a strong business base*, and have aggressively implemented business strategies to survive and prosper with the region.

Nevertheless the operating environment for financial institutions has become even more severe with the prolonged recession and the deflationary economy, and there are concerns about new distressed loans. Moreover, in October 2002 the Financial Services Agency announced its *Financial Revitalization Program*, and in the *Action Program Concerning Enhancing the Functionality of Relationship Banking* in March 2003, demanded stricter assessment of assets, and greater action to energize regional economies.

Within these circumstances we have positioned the two fiscal years of 2003 and 2004 as being a period to take intensive action towards revitalizing the regional economy. For this reason in fiscal 2002 we implemented even stricter standards towards working out distressed loans, in order to achieve a financial position that would enable us to respond with flexibility to the management environment, and to achieve a vigorous operating position that will enable us to earn stable profits in the future. We also implemented accounting for impaired assets in connection with our stock holdings in association with the fall in stock prices.

As a result of taking these actions we have posted a loss in our settlement for fiscal 2002, but this will enable us to achieve a sounder financial position and enhance our earnings capability in the future.

Going forward we will work to earn stable revenues through efficient management in all areas, and further enhance our actions to revitalize the local economy.

July 2003



Akio Ibata, *President*

Consolidated Balance Sheets

The Aomori Bank, Ltd. and consolidated subsidiaries
As of March 31, 2003 and 2002

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Assets			
Cash and due from banks	¥ 91,788	¥ 146,908	\$ 763,630
Call loans	40,000	20,000	332,779
Trading account securities	1,047	1,146	8,716
Investment securities (Note 5)	469,864	462,510	3,909,019
Loans and bills discounted (Notes 3, 5)	1,425,792	1,422,677	11,861,836
Foreign exchanges	880	457	7,329
Other assets (Note 5)	32,988	35,775	274,447
Premises and equipment (Note 4)	40,536	41,320	337,238
Deferred income taxes (Note 9)	17,868	10,087	148,655
Customers' liabilities for acceptances and guarantees (Note 7)	34,283	37,092	285,224
Reserve for possible loan losses	(32,696)	(12,722)	(272,015)
Total assets	<u>¥ 2,122,354</u>	<u>¥ 2,165,254</u>	<u>\$ 17,656,858</u>
Liabilities and shareholders' equity			
Liabilities			
Deposits (Note 5)	1,948,891	1,972,957	16,213,740
Call money	5,889	1,998	49,000
Borrowed funds (Note 5)	31,041	30,711	258,245
Foreign exchanges	31	4	259
Other liabilities (Note 5)	12,752	20,170	106,092
Reserve for employee bonus	845	1,032	7,035
Reserve for employee retirement benefit	9,136	7,732	76,011
Other reserves	2	119	17
Deferred tax liabilities on land revaluation (Note 6)	2,190	2,266	18,221
Acceptances and guarantees (Note 7)	34,283	37,092	285,224
Total liabilities	<u>2,045,064</u>	<u>2,074,087</u>	<u>17,013,844</u>
Minority interest in consolidated subsidiaries	<u>2,355</u>	<u>4,458</u>	<u>19,593</u>
Shareholders' equity			
Common stock	15,221	15,221	126,633
Capital surplus	8,575	8,575	71,340
Retained earnings	47,293	62,647	393,459
Revaluation reserve for land, net of taxes (Note 6)	3,172	3,113	26,394
Net unrealized gains on investment securities, net of taxes	1,574	(897)	13,095
Common stock in treasury	(901)	(1,950)	(7,500)
Total shareholders' equity	<u>74,935</u>	<u>86,708</u>	<u>623,421</u>
Total liabilities and shareholders' equity	<u>¥ 2,122,354</u>	<u>¥ 2,165,254</u>	<u>\$ 17,656,858</u>

See accompanying notes to consolidated financial statements.

Consolidated Income Statements

The Aomori Bank, Ltd. and consolidated subsidiaries
Years ended March 31, 2003 and 2002

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Income			
Interest on;			
Loans and discounts	¥ 31,080	¥ 31,558	\$ 258,575
Securities	5,691	7,749	47,346
Other	113	137	949
	<u>36,885</u>	<u>39,444</u>	<u>306,870</u>
Fees and commissions	8,142	7,934	67,738
Other income	13,154	14,430	109,436
Total income	<u>58,182</u>	<u>61,808</u>	<u>484,044</u>
Expenses			
Interest on;			
Deposits	1,153	2,534	9,597
Borrowings and rediscounts	583	810	4,857
Other	144	277	1,198
	<u>1,881</u>	<u>3,621</u>	<u>15,652</u>
Fees and commissions	2,753	1,843	22,906
General and administrative expenses	28,439	29,214	236,605
Other expenses	48,057	23,647	399,813
Total expenses	<u>81,132</u>	<u>58,326</u>	<u>674,976</u>
Income before income taxes and others	(22,950)	3,482	(190,932)
Current income taxes (Note 9)	1,100	3,026	9,154
Deferred income taxes (Note 9)	(9,374)	(1,402)	(77,992)
Minority interest in net income	(251)	348	(2,089)
Net income	<u>¥ (14,424)</u>	<u>¥ 1,510</u>	<u>\$ (120,005)</u>
		Yen	Cents
Net income per share	<u>¥ (77.17)</u>	<u>¥ 8.21</u>	<u>¢ (64.20)</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

The Aomori Bank, Ltd. and consolidated subsidiaries
As of March 31, 2003 and 2002

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Balance at beginning of year	¥ 62,647	¥ 61,883	\$ 521,194
Additions:			
Reversal of revaluation reserve for land	9	201	82
Deductions:			
Cash dividends	(917)	(919)	(7,634)
Bonuses for directors and statutory auditors	(21)	(28)	(178)
Net income	<u>(14,424)</u>	<u>1,510</u>	<u>(120,005)</u>
Balance at end of year	<u>¥ 47,293</u>	<u>¥ 62,647</u>	<u>\$ 393,459</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The Aomori Bank, Ltd. and consolidated subsidiaries
Years ended March 31, 2003 and 2002

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and others.....	¥ (22,950)	¥ 3,482	\$ (190,932)
Depreciation.....	6,595	6,940	54,868
Net increase (decrease) in Reserve for possible loan losses.....	19,974	1,183	166,173
Net increase (decrease) in Reserve for employee bonus.....	(187)	1,032	(1,559)
Net increase (decrease) in Reserve for employee retirement benefit.....	1,403	1,118	11,679
Net increase (decrease) in Other reserves.....	(117)	5	(976)
Interest income.....	(36,885)	(39,444)	(306,870)
Interest expenses.....	1,881	3,621	15,652
Net loss (gain) on Investment securities.....	6,144	(1,382)	51,119
Net loss (gain) on Foreign exchange.....	450	(411)	3,745
Net loss (gain) on Sales of Premises and equipment.....	138	42	1,155
Net decrease (increase) in Trading account securities.....	98	(695)	820
Net decrease (increase) in Loans and bills discounted.....	(3,115)	(51,779)	(25,916)
Net increase (decrease) in Deposits.....	(24,066)	38,659	(200,219)
Net increase (decrease) in Borrowed funds excluding Subordinated debt.....	330	(5,051)	2,745
Net decrease (increase) in Due from banks excluding deposits with the Central bank.....	(63)	112,836	(524)
Net decrease (increase) in Call loans.....	(21,660)	17,157	(180,205)
Net increase (decrease) in Call money.....	3,891	(1,705)	32,371
Net decrease (increase) in Foreign exchanges (assets).....	(423)	61	(3,520)
Net increase (decrease) in Foreign exchanges (liabilities).....	26	0	220
Interest received.....	38,389	41,439	319,379
Interest paid.....	(2,196)	(5,330)	(18,271)
Others, net.....	(2,179)	2,022	(18,133)
Sub total.....	(34,521)	123,801	(287,199)
Income taxes paid.....	(2,653)	(1,815)	(22,075)
Net cash provided by (used in) operating activities.....	(37,174)	121,985	(309,274)
Cash flows from investing activities:			
Purchases of Investment securities.....	(174,812)	(214,957)	(1,454,347)
Proceeds from sales of Investment securities.....	110,295	151,848	917,603
Proceeds from maturities of Investment securities.....	54,219	63,969	451,081
Expenditures for Premises and equipment.....	(6,437)	(7,122)	(53,558)
Proceeds from sales of Premises and equipment.....	457	973	3,807
Net cash provided by (used in) investing activities.....	(16,276)	(5,288)	(135,414)
Cash flows from financing activities:			
Proceeds from issuance of Subordinated debt.....	5,000	—	41,597
Expenditures for repayment of Subordinated debt.....	(5,000)	—	(41,597)
Cash dividends paid.....	(917)	(919)	(7,634)
Cash dividends paid to Minority interests.....	(9)	(9)	(79)
Purchase of Treasury stock.....	(775)	(465)	(6,449)
Proceeds from sales of Treasury stock.....	—	99	—
Others, net.....	6	—	50
Net cash provided by (used in) financing activities.....	(1,696)	(1,294)	(14,112)
Effect of exchange rate changes on Cash and cash equivalents.....	(35)	25	(293)
Net increase in Cash and cash equivalents.....	(55,182)	115,428	(459,093)
Cash and cash equivalents at beginning of year (Note 8).....	144,590	29,161	1,202,913
Cash and cash equivalents at end of year (Note 8).....	¥ 89,407	¥ 144,590	\$ 743,820

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Aomori Bank, Ltd. and consolidated subsidiaries
Fiscal year ended March 31, 2003 and 2002

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 ¥120.20 = U.S.\$1, the prevailing rate as of March 31, 2003. 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 9 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 assets and liabilities of consolidated subsidiaries are measured at their fair values when they are included in the scope of 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) Derivative transactions
Derivative transactions are stated at the market value.
- (5) 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.

- (6) 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.
- (7) 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 ¥20,190 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.

- (8) 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.
- (9) 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.

(10) 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.

(11) Exchange rate

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

(12) 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	
	2003	2002
(a) Loans to bankrupt borrowers	¥ 4,907	¥ 6,541
(b) Loans past due six months or more	48,771	22,875
(c) Loans past due more than three months	1,003	488
(d) Loans with renegotiated conditions	41,974	39,966
Total	<u>¥96,657</u>	<u>¥69,871</u>

4. Premises and equipment

The accumulated depreciation as of March 31, 2003 and 2002 was ¥64,067 and ¥59,455 millions, respectively.

5. Breakdown of assets pledged as collateral by the Bank

	Millions of Yen	
	2003	2002
Breakdown of assets pledged as collateral:		
Securities	¥ 27,401	¥26,702
Loans	¥ 50,000	¥ —
Other assets	¥ 19,449	¥17,733
Debt relating to assets pledged as collateral:		
Deposits	¥ 27,048	¥31,961
Borrowed funds	¥ 13,330	¥12,867
Other liabilities	¥ 2,698	¥ —

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, 2003 and 2002 was ¥73,446 and ¥76,009 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.

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 ¥1,729 million.

7. 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.

8. 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	
	2003	2002
Cash and due from banks	¥ 91,788	¥ 146,908
Time deposits with other banks	(846)	(1,022)
Other deposits with other banks	(1,535)	(1,296)
Cash and cash equivalent	<u>¥ 89,407</u>	<u>¥ 144,590</u>

9. 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%.

Deferred income taxes arising from temporary differences between taxable income and income for financial statement purposes are recognized.

Non-Consolidated Balance Sheets

The Aomori Bank, Ltd.
As of March 31, 2003 and 2002

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Assets			
Cash and due from banks	¥ 90,784	¥ 145,708	\$ 755,281
Call loans	40,000	20,000	332,779
Trading account securities	1,047	1,146	8,716
Investment securities (Notes 3, 7)	469,589	462,171	3,906,735
Loans and bills discounted (Notes 4, 7)	1,432,976	1,429,680	11,921,604
Foreign exchanges	880	457	7,329
Other assets	14,833	17,952	123,409
Premises and equipment (Note 5)	26,707	27,420	222,196
Deferred income taxes (Note 12)	16,516	9,524	137,410
Customers' liabilities for acceptances and guarantees (Note 9)	34,283	37,092	285,224
Reserve for possible loan losses	(29,089)	(10,781)	(242,008)
Total assets	<u>¥ 2,098,532</u>	<u>¥ 2,140,374</u>	<u>\$ 17,458,675</u>
Liabilities and shareholders' equity			
Liabilities			
Deposits (Notes 6, 7)	¥ 1,952,252	¥ 1,975,531	¥ 16,241,703
Call money	5,889	1,998	49,000
Borrowed funds	13,427	13,765	111,711
Foreign exchanges	31	4	259
Other liabilities (Note 7)	6,413	13,217	53,361
Reserve for employee bonus	789	969	6,564
Reserve for employee retirement benefit	9,086	7,678	75,594
Other reserves	2	119	17
Deferred tax liabilities on land revaluation (Note 8)	2,190	2,266	18,221
Acceptances and guarantees (Note 9)	34,283	37,092	285,224
Total liabilities	<u>2,024,366</u>	<u>2,052,642</u>	<u>16,841,654</u>
Shareholders' equity			
Common stock (Note 10)	15,221	15,221	126,633
Capital surplus (Note 10)	8,575	8,575	71,340
Legal reserve (Note 11)	5,040	4,849	41,938
Appropriated retained earnings	53,900	53,700	448,419
Unappropriated retained earnings	(12,529)	3,182	(104,239)
Revaluation reserve for land, net of taxes (Note 8)	3,172	3,113	26,394
Net unrealized gains on investment securities, net of taxes	1,573	(897)	13,091
Common stock in treasury	(788)	(12)	(6,555)
Total shareholders' equity	<u>74,165</u>	<u>87,731</u>	<u>617,021</u>
Total liabilities and shareholders' equity	<u>¥ 2,098,532</u>	<u>¥ 2,140,374</u>	<u>\$ 17,458,675</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, 2003 and 2002

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Income			
Interest on;			
Loans and discounts	¥ 30,863	¥ 31,281	\$ 256,767
Securities	5,683	7,744	47,280
Other	113	136	948
	<u>36,660</u>	<u>39,161</u>	<u>304,995</u>
Fees and commissions	8,198	7,987	68,211
Other income	956	2,448	7,958
Total income	<u>45,815</u>	<u>49,597</u>	<u>381,164</u>
Expenses			
Interest on;			
Deposits	1,154	2,540	9,603
Borrowings and rediscounts	261	371	2,174
Other	144	275	1,199
	<u>1,559</u>	<u>3,187</u>	<u>12,976</u>
Fees and commissions	3,339	2,475	27,782
General and administrative expenses	30,889	31,886	256,984
Other expenses	32,493	9,310	270,331
Total expenses.....	<u>68,282</u>	<u>46,859</u>	<u>568,073</u>
Income before income taxes	(22,466)	2,738	(186,909)
Current income taxes (Note 12)	494	2,583	4,111
Deferred income taxes (Note 12)	(8,587)	(1,273)	(71,447)
Net income	<u>¥ (14,372)</u>	<u>¥ 1,427</u>	<u>\$ (119,573)</u>
Retained earnings—unappropriated			
Balance at beginning of year	¥ 3,182	¥ 3,711	\$ 26,481
Net income	(14,372)	1,427	(119,573)
Reversal of revaluation reserve for land	9	201	82
Appropriations:			
Transfer to;			
Legal reserve (Note 11)	191	193	1,596
Appropriated retained earnings	200	1,000	1,664
Cash dividends (Note 11)	937	938	7,803
Other	20	26	166
Total appropriations	<u>1,349</u>	<u>2,157</u>	<u>11,229</u>
Balance at end of year	<u>¥ (12,529)</u>	<u>¥ 3,182</u>	<u>\$ (104,239)</u>
	Yen		Cents
Net income per share.....	<u>¥ (76.79)</u>	<u>¥ 7.61</u>	<u>¢ (63.89)</u>

See accompanying notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

The Aomori Bank, Ltd.
March 31, 2003 and 2002

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 ¥120.20 = U.S.\$1, the prevailing rate as of March 31, 2003. 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 ¥20,190 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.
- (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.

3. Investment securities

	Millions of Yen	
	2003	2002
Government bonds	¥ 124,199	¥ 126,493
Local government bonds	61,368	83,071
Corporate bonds	193,978	166,521
Stocks	27,598	30,207
Other securities.....	62,444	55,877
Total	<u>¥ 469,589</u>	<u>¥ 462,171</u>

4. Loans and bills discounted

	Millions of Yen	
	2003	2002
Bills discounted	¥ 17,959	¥ 22,381
Loans on bills	196,445	283,155
Loans on deeds	992,513	897,522
Overdrafts	226,058	226,620
Total.....	<u>¥ 1,432,976</u>	<u>¥ 1,429,680</u>

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

	Millions of Yen	
	2003	2002
(a) Loans to bankrupt borrowers	¥ 4,288	¥ 6,295
(b) Loans past due six months or more.....	47,779	22,382
(c) Loans past due more than three months but less than six months	990	486
(d) Loans with renegotiated conditions	41,557	39,298
Total	<u>¥ 94,616</u>	<u>¥ 68,462</u>

5. Premises and equipment

The accumulated depreciation as of March 31, 2003 and 2002 was ¥28,303 and ¥27,484 millions, respectively.

6. Deposits

	Millions of Yen	
	2003	2002
Current deposits	¥ 52,211	¥ 59,462
Ordinary deposits.....	708,929	673,815
Savings accounts	52,153	55,825
Deposits at notice	12,022	14,876
Time deposits	987,143	1,021,778
Other deposits	57,072	51,093
Negotiable certificates of deposit.....	82,720	98,680
Total	<u>¥ 1,952,252</u>	<u>¥ 1,975,531</u>

7. Breakdown of assets pledged as collateral by the Bank

	Millions of Yen	
	2003	2002
Breakdown of assets pledged as collateral:		
Securities	¥ 27,000	¥ 26,251
Loans	¥ 50,000	—
Debt relating to assets pledged as collateral:		
Deposits	¥ 27,048	¥ 31,961
Other liabilities.....	¥ 2,698	—

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, 2003 and 2002 was ¥73,446 and ¥76,009 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 ¥1,729 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, 2003 and 2002 with a par value of ¥50 per share.

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

	Millions of Yen	
	2003	2002
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 and capital surplus equal 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%.

Deferred income taxes arising from temporary differences between taxable income and income for financial statement purposes are recognized.

Board of Directors and Corporate Auditors

(as of June 27, 2003)

President

Akio Ibata

Senior Managing Directors

Masaru Iwasaki

Kenichi Tanaka

Managing Director

Yoshisada Kafuku

Directors

Kunikatsu Kado

Shoichi Sawamukai

Mamoru Baba

Junichi Kitagawa

Tessho Izumiyama

Seiji Hayashi

Satoshi Hamaya

Naomitsu Kikuchi

Tetsuo Fukushima

Standing Corporate Auditor

Masanori Furusato

Corporate Auditors

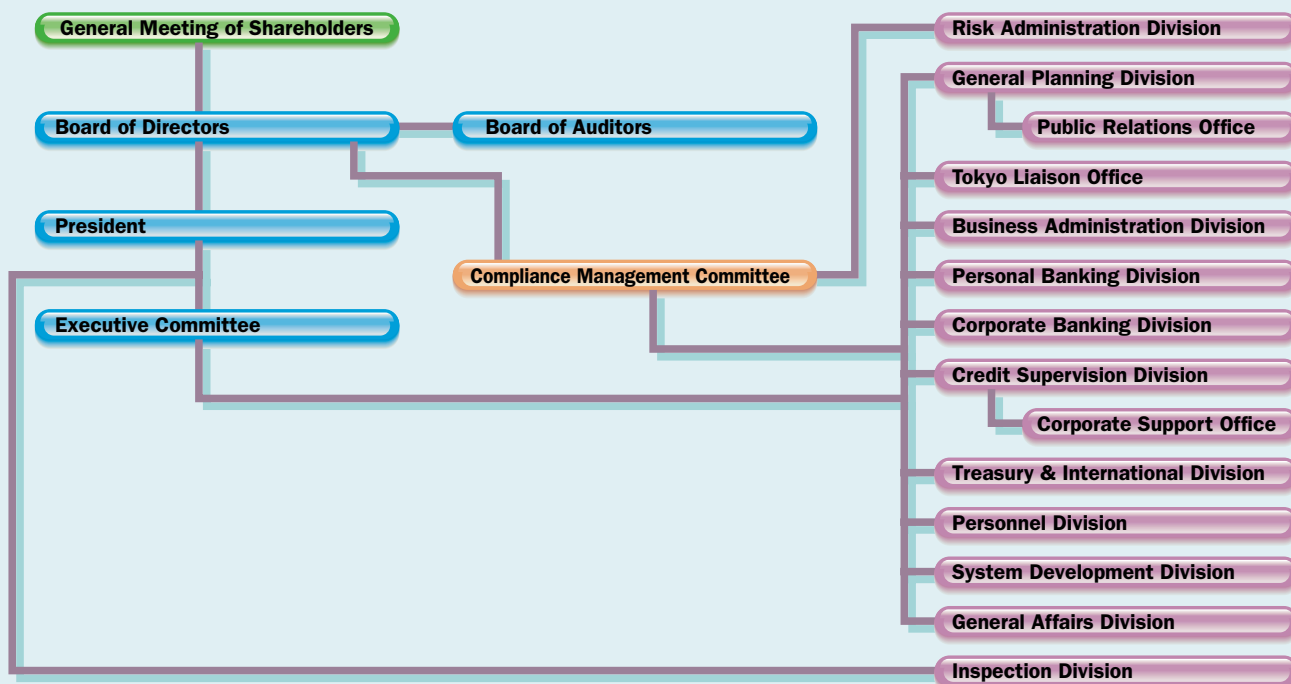
Hiroshi Sasa

Takuo Horiuchi

Yoshimi Kudo

Organization

(as of April 1, 2003)



Corporate Data

(as of March 31, 2003)

Company Name The Aomori Bank, Ltd.	Number of Employees 1,667	Loans and Bills Discounted 1,432.9 billion yen
Head Office 9-30, Hashimoto 1-chome, Aomori 030-0823, Japan	Number of Offices 112	Capital Adequacy Ratio 9.17% (Domestic Standards)
WEB URL http://www.a-bank.jp/	Paid-in Capital 15,221 million yen	Credit Rating A (Japan Credit Rating Agency, Ltd.)
Date of Establishment October 1, 1943	Number of Outstanding Shares 187,621,615	
Date of Foundation January 20, 1879	Total Assets 2,098.5 billion yen	

Group Companies

(as of April 1, 2003)

Company name	Business	Paid-in capital (¥ million)	Equity (%)
Aogin Koda Co., Ltd.	Property management	10	100
Aogin Business Service Co., Ltd.	Centralized processing of clerical operations	20	100
Aogin Property Research Co., Ltd.	Collateral evaluation	10	100
Aogin Staff Service Co., Ltd.	Dispatch of temporary staff	20	100
Aogin Lease Co., Ltd.	Leasing	60	5.0
Aogin DC Card Co., Ltd.	Credit card business	20	5.0
Aogin Credit Card Co., Ltd.	Credit card business	36	4.1
Aogin Computer Service Co., Ltd.	Computer systems development and services	30	5.0
Aogin Confidence Guarantee Co., Ltd.	Loan guarantees	30	2.5

The Aomori Bank, Ltd.

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Aomori 030-0823, Japan
Phone: 017-777-1111

