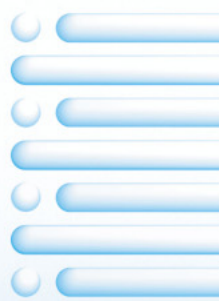
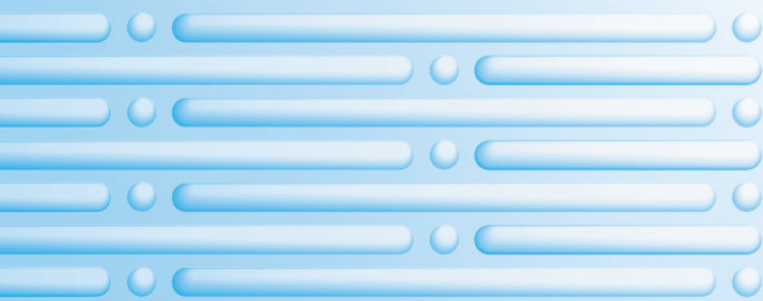


A O M O R I  
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Annual Report

## Message from the President

The Japanese economy in fiscal 2003 showed steady signs of improvement, particularly in manufacturing activity and private capital investment. Aomori prefecture economy, however, continued to show weakness in personal consumption and housing investment based on the severe labor market and personal income situation, and moreover with the cuts in budgets related to public investment, a major decline could not be avoided. For this reason the steps towards an economic recovery in Aomori have been weaker than in other parts of the country.

In the banking industry, restrictions on the ¥10 million deposit guarantee cap (otherwise known as the “payoff system”) are scheduled for complete elimination in April of 2005, which will lead to even more pressure from customers and the market for sound financial management and high profitability. Consequently at Aomori Bank we believe that fiscal 2004 will be a very important time for the purpose of working towards revitalizing the local area and building affluent daily lifestyles that achieve a true economic recovery in the region. Moreover, we are also pursuing enhancement of financing functions centered around relationship banking, and have started a medium-term management plan for the purpose of being able to provide rapid and well tailored responses to the financing needs of the local community.

During the next three years we intend to endeavor in achieving sound management, with all directors and employees working as one unit, to achieve improvement in all of our operating results and to firmly implement the medium-term management plan.

July 2004



**Akio Iбата**, *President*

## Consolidated Balance Sheets

The Aomori Bank, Ltd. and consolidated subsidiaries  
As of March 31, 2004 and 2003

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Assets</b>			
Cash and due from banks .....	¥ 100,758	¥ 91,788	\$ 953,336
Call loans .....	40,000	40,000	378,465
Trading account securities .....	892	1,047	8,448
Investment securities (Note 5) .....	505,123	469,864	4,779,292
Loans and bills discounted (Notes 3 and 5) .....	1,404,735	1,425,792	13,291,094
Foreign exchanges .....	972	880	9,202
Other assets (Note 5) .....	36,233	32,988	342,825
Premises and equipment (Note 4) .....	42,186	40,536	399,156
Deferred income taxes (Note 9) .....	13,735	17,868	129,964
Customers' liabilities for acceptances and guarantees (Note 7) .....	34,263	34,283	324,193
Reserve for possible loan losses .....	(22,601)	(32,696)	(213,844)
Total assets .....	<u>¥ 2,156,301</u>	<u>¥ 2,122,354</u>	<u>\$ 20,402,131</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits (Note 5) .....	¥ 1,966,784	¥ 1,948,891	\$ 18,608,992
Call money .....	14,902	5,889	141,000
Borrowed funds (Note 5) .....	29,056	31,041	274,921
Foreign exchanges .....	5	31	55
Other liabilities (Note 5) .....	17,106	12,752	161,851
Reserve for employee bonus .....	758	845	7,173
Reserve for employee retirement benefit .....	7,549	9,136	71,426
Other reserves .....	2	2	20
Deferred tax liabilities on land revaluation (Note 6) .....	2,201	2,190	20,825
Acceptances and guarantees (Note 7) .....	34,263	34,283	324,193
Total liabilities .....	<u>2,072,629</u>	<u>2,045,064</u>	<u>19,610,455</u>
Minority interests .....	<u>2,737</u>	<u>2,355</u>	<u>25,902</u>
<b>Shareholders' equity</b>			
Common stock .....	15,221	15,221	144,018
Capital surplus .....	8,575	8,575	81,136
Retained earnings .....	49,280	47,293	466,271
Revaluation reserve for land, net of taxes (Note 6) .....	3,188	3,172	30,167
Net unrealized gains on investment securities, net of taxes .....	5,219	1,574	49,386
Common stock in treasury .....	(550)	(901)	(5,204)
Total shareholders' equity .....	<u>80,934</u>	<u>74,935</u>	<u>765,773</u>
Total liabilities and shareholders' equity .....	<u>¥ 2,156,301</u>	<u>¥ 2,122,354</u>	<u>\$ 20,402,131</u>

See accompanying notes to consolidated financial statements.

## Consolidated Income Statements

The Aomori Bank, Ltd. and consolidated subsidiaries  
Years ended March 31, 2004 and 2003

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Income</b>			
Interest on;			
Loans and discounts .....	¥ 30,077	¥ 31,080	\$ 284,579
Securities .....	5,664	5,691	53,596
Other .....	174	113	1,650
	<u>35,916</u>	<u>36,885</u>	<u>339,824</u>
Fees and commissions .....	5,243	8,142	49,607
Other income .....	17,289	13,154	163,589
Total income .....	<u>58,448</u>	<u>58,182</u>	<u>553,021</u>
<b>Expenses</b>			
Interest on;			
Deposits .....	904	1,153	8,559
Borrowings and rediscounts .....	480	583	4,550
Other .....	310	144	2,937
	<u>1,695</u>	<u>1,881</u>	<u>16,047</u>
Fees and commissions .....	2,791	2,753	26,411
General and administrative expenses .....	27,850	28,439	263,508
Other expenses .....	17,857	48,057	168,958
Total expenses .....	<u>50,194</u>	<u>81,132</u>	<u>474,925</u>
Income before income taxes and others .....	8,254	(22,950)	78,097
Current income taxes (Note 9) .....	2,042	1,100	19,323
Deferred income taxes (Note 9) .....	1,626	(9,374)	15,385
Minority interests .....	404	(251)	3,830
Net income .....	<u>¥ 4,180</u>	<u>¥ (14,424)</u>	<u>\$ 39,558</u>
		Yen	Cents
Net income per share .....	<u>¥ 22.51</u>	<u>¥ (77.17)</u>	<u>¢ 21.30</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Capital Surplus and Retained Earnings

The Aomori Bank, Ltd. and consolidated subsidiaries  
As of March 31, 2004 and 2003

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Capital surplus</b>			
Balance at beginning of year .....	¥ 8,575	¥ 8,575	\$ 81,135
Additions:			
Gains on sale of common stock .....	0	—	1
Deductions: .....	—	—	—
Balance at end of year .....	<u>¥ 8,575</u>	<u>¥ 8,575</u>	<u>\$ 81,136</u>
<b>Retained earnings</b>			
Balance at beginning of year .....	¥ 47,293	¥ 62,647	\$ 447,476
Additions:			
Reversal of revaluation reserve for land .....	—	9	—
Deductions:			
Cash dividends .....	(904)	(917)	(8,562)
Bonuses for directors and statutory auditors .....	0	(21)	(7)
Retirement of common stock .....	(1,273)	—	(12,045)
Transfer from revaluation reserve for land .....	(15)	—	(149)
Net income .....	4,180	(14,424)	39,558
Balance at end of year .....	<u>¥ 49,280</u>	<u>¥ 47,293</u>	<u>\$ 466,271</u>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

The Aomori Bank, Ltd. and consolidated subsidiaries  
Years ended March 31, 2004 and 2003

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Cash flows from operating activities:</b>			
Income before income taxes and others .....	¥ 8,254	¥ (22,950)	\$ 78,097
Depreciation .....	6,503	6,595	61,532
Net increase (decrease) in Reserve for possible loan losses .....	(10,095)	19,974	(95,516)
Net increase (decrease) in Reserve for employee bonus .....	(87)	(187)	(828)
Net increase (decrease) in Reserve for employee retirement benefit .....	(1,587)	1,403	(15,021)
Net increase (decrease) in Other reserves .....	0	(117)	0
Interest income .....	(35,916)	(36,885)	(339,824)
Interest expenses .....	1,695	1,881	16,047
Net loss (gain) on Investment securities .....	75	6,144	718
Net loss (gain) on Foreign exchange .....	3,083	450	29,179
Net loss (gain) on Sales of Premises and equipment .....	(40)	138	(384)
Net decrease (increase) in Trading account securities .....	154	98	1,464
Net decrease (increase) in Loans and bills discounted .....	21,057	(3,115)	199,234
Net increase (decrease) in Deposits .....	17,892	(24,066)	169,295
Net increase (decrease) in Borrowed funds excluding Subordinated debt .....	(1,984)	330	(18,778)
Net decrease (increase) in Due from banks excluding deposits with the Central bank .....	(609)	(63)	(5,771)
Net decrease (increase) in Call loans .....	(1,112)	(21,660)	(10,523)
Net increase (decrease) in Call money .....	9,012	3,891	85,273
Net decrease (increase) in Foreign exchanges (assets) .....	(91)	(423)	(867)
Net increase (decrease) in Foreign exchanges (liabilities) .....	(25)	26	(240)
Interest received .....	36,538	38,389	345,714
Interest paid .....	(1,705)	(2,196)	(16,134)
Others, net .....	1,061	(2,179)	10,039
Sub total .....	52,074	(34,521)	492,710
Income taxes paid .....	(846)	(2,653)	(8,007)
<b>Net cash provided by (used in) operating activities .....</b>	<b>51,228</b>	<b>(37,174)</b>	<b>484,703</b>
<b>Cash flows from investing activities:</b>			
Purchases of Investment securities .....	(110,716)	(174,812)	(1,047,559)
Proceeds from sales of Investment securities .....	8,624	110,295	81,604
Proceeds from maturities of Investment securities .....	69,236	54,219	655,087
Expenditures for Premises and equipment .....	(8,640)	(6,437)	(81,751)
Proceeds from sales of Premises and equipment .....	507	457	4,802
<b>Net cash provided by (used in) investing activities .....</b>	<b>(40,988)</b>	<b>(16,276)</b>	<b>(387,817)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of Subordinated debt .....	2,000	5,000	18,923
Expenditures for repayment of Subordinated debt .....	(2,000)	(5,000)	(18,923)
Cash dividends paid .....	(904)	(917)	(8,562)
Cash dividends paid to Minority interests .....	(10)	(9)	(102)
Purchase of Treasury stock .....	(925)	(775)	(8,761)
Proceeds from sales of Treasury stock .....	4	—	42
Others, net .....	—	6	0
<b>Net cash provided by (used in) financing activities .....</b>	<b>(1,837)</b>	<b>(1,696)</b>	<b>(17,382)</b>
Effect of exchange rate changes on Cash and cash equivalents .....	(42)	(35)	(407)
Net increase in Cash and cash equivalents .....	8,359	(55,182)	79,097
Cash and cash equivalents at beginning of year (Note 8) .....	89,407	144,590	845,938
Cash and cash equivalents at end of year (Note 8) .....	¥ 97,766	¥ 89,407	\$ 925,035

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Aomori Bank, Ltd. and consolidated subsidiaries  
Fiscal year ended March 31, 2004 and 2003

## 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 ¥105.69 = U.S.\$1, the prevailing rate as of March 31, 2004. 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 ¥17,173 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.  
On March 1, 2004, according to the enactment of the Defined Benefit Pension Plan Law, the Bank obtained an approval of exemption from the substitutional portion of employee pension obligation by the Minister of Health, Labor and Welfare.  
The bank applied a transitional measurement prescribed in Article 47-2 of the Accounting Committee Report No.13, “Practical Guidelines for Accounting for Retirement Benefits (Interim Report)” issued by The Japanese Institute of Certified Public Accountants and recognized extinguishment of benefit obligation and plan assets as of the date of approval.  
The substitutional portion of the plan assets to be transferred to the government measured at the end of this fiscal year was ¥10,190 million.
- (10) Hedge accounting method
  - ① Interest rate risk hedge  
With respect to the hedge accounting for interest rate risk arising from financial assets and liabilities, the Bank applies deferred hedge accounting.  
In the previous fiscal year, the Bank applied the transitional treatment stipulated in the “Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry” (The Japanese Institute of Certified Public Accountants Industry Audit Committee

Report No.24) to the “macro hedge,” which is management of interest rate risk arising from huge transactions in various deposits and loans, etc as a whole using derivatives.

From the current fiscal year, the Bank applies the full treatment of The Japanese Institute of Certified Public Accountants Industry Audit Committee Report No.24.

With regard to hedging for offsetting changes in interest rate, the Bank assesses the effectiveness of such hedge by grouping the hedged items (such as deposits and loans) and the hedging instruments (such as interest swaps) by their maturities.

With regard to hedging for fixing cash flows, the Bank assesses the effectiveness of such hedge by verifying the correlation between the hedged items and hedging instruments.

#### ② Foreign exchange risk hedge

With respect to the hedge accounting for exchange rate risk arising from foreign-currency-denominated financial assets and liabilities, the Bank applies deferred hedge accounting.

In the previous fiscal year, the Bank applied the transitional treatment prescribed in the “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry” (The Japanese Institute of Certified Public Accountants Industry Audit Committee Report No.25).

From the current fiscal year, the Bank applied the hedge accounting pursuant to the full treatment of The Japanese Institute of Certified Public Accountants Industry Audit Committee Report No.25 to currency swap and foreign exchange swap transactions carried out for the purpose of converting to fund borrowing currency (Japanese Yen) or to fund lending currency (foreign currencies).

The bank assesses the effectiveness of such hedge by designating currency swap transactions and foreign exchange swap transactions, which are for the purpose of offsetting foreign exchange rate risks involved in these assets and liabilities, as hedging instruments, and by confirming the existence of foreign currency positions of such hedging instruments matching up to the foreign-currency-denominated assets and liabilities, the hedged items.

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	
	2004	2003
(a) Loans to bankrupt borrowers .....	¥ 5,982	¥ 4,907
(b) Loans past due six months or more .....	46,663	48,771
(c) Loans past due more than three months but less than six months .....	444	1,003
(d) Loans with renegotiated conditions .....	30,070	41,974
Total .....	<u>¥ 83,160</u>	<u>¥ 96,657</u>

### 4. Premises and equipment

The accumulated depreciation as of March 31, 2004 and 2003 was ¥54,991 and ¥64,067 millions, respectively.

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

	Millions of Yen	
	2004	2003
Breakdown of assets pledged as collateral:		
Securities .....	¥ 26,749	¥ 27,401
Loans .....	¥ 20,000	¥ 50,000
Other assets .....	¥ 14,526	¥ 19,449
Debt relating to assets pledged as collateral:		
Deposits .....	¥ 19,281	¥ 27,048
Borrowed funds .....	¥ 9,530	¥ 13,330
Other liabilities .....	¥ 4,178	¥ 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, 2004 and 2003 was ¥73,402 and ¥73,446 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 ¥2,421 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	
	2004	2003
Cash and due from banks .....	¥ 100,758	¥ 91,788
Time deposits with other banks .....	(936)	(846)
Other deposits with other banks .....	(2,055)	(1,535)
Cash and cash equivalent .....	<u>¥ 97,766</u>	<u>¥ 89,407</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 40%.

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, 2004 and 2003

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Assets</b>			
Cash and due from banks .....	¥ 99,759	¥ 90,784	\$ 943,887
Call loans .....	40,000	40,000	378,465
Trading account securities .....	892	1,047	8,448
Investment securities (Notes 3 and 7) .....	504,869	469,589	4,776,888
Loans and bills discounted (Notes 4 and 7) .....	1,413,147	1,432,976	13,370,687
Foreign exchanges .....	972	880	9,202
Other assets .....	17,535	14,833	165,915
Premises and equipment (Note 5) .....	26,961	26,707	255,099
Deferred income taxes (Note 12) .....	12,347	16,516	116,831
Customers' liabilities for acceptances and guarantees (Note 9) .....	34,263	34,283	324,193
Reserve for possible loan losses .....	(18,812)	(29,089)	(177,998)
Total assets .....	<u>¥ 2,131,938</u>	<u>¥ 2,098,532</u>	<u>\$ 20,171,618</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits (Notes 6 and 7) .....	¥ 1,970,274	¥ 1,952,252	\$ 18,642,018
Call money .....	14,902	5,889	141,000
Borrowed funds .....	13,096	13,427	123,910
Foreign exchanges .....	5	31	55
Other liabilities (Note 7) .....	8,914	6,413	84,341
Reserve for employee bonus .....	708	789	6,699
Reserve for employee retirement benefit .....	7,500	9,086	70,971
Other reserves .....	2	2	20
Deferred tax liabilities on land revaluation (Note 8) .....	2,201	2,190	20,825
Acceptances and guarantees (Note 9) .....	34,263	34,283	324,193
Total liabilities .....	<u>2,051,869</u>	<u>2,024,366</u>	<u>19,414,032</u>
<b>Shareholders' equity</b>			
Common stock (Note 10) .....	15,221	15,221	144,018
Capital surplus (Note 10) .....	8,575	8,575	81,136
Legal reserve (Note 11) .....	5,226	5,040	49,448
Appropriated retained earnings .....	40,200	53,900	380,358
Unappropriated retained earnings .....	2,875	(12,529)	27,210
Revaluation reserve for land, net of taxes (Note 8) .....	3,188	3,172	30,167
Net unrealized gains on investment securities, net of taxes .....	5,219	1,573	49,381
Common stock in treasury .....	(436)	(788)	(4,131)
Total shareholders' equity .....	<u>80,069</u>	<u>74,165</u>	<u>757,586</u>
Total liabilities and shareholders' equity .....	<u>¥ 2,131,938</u>	<u>¥ 2,098,532</u>	<u>\$ 20,171,618</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, 2004 and 2003

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Income</b>			
Interest on;			
Loans and discounts .....	¥ 29,867	¥ 30,863	\$ 282,595
Securities .....	5,658	5,683	53,538
Other .....	174	113	1,649
	<u>35,700</u>	<u>36,660</u>	<u>337,782</u>
Fees and commissions .....	5,311	8,198	50,254
Other income .....	4,542	956	42,984
Total income .....	<u>45,554</u>	<u>45,815</u>	<u>431,020</u>
<b>Expenses</b>			
Interest on;			
Deposits .....	905	1,154	8,565
Borrowings and rediscounts .....	226	261	2,145
Other .....	310	144	2,938
	<u>1,442</u>	<u>1,559</u>	<u>13,649</u>
Fees and commissions .....	3,348	3,339	31,680
General and administrative expenses .....	30,022	30,889	284,066
Other expenses .....	3,299	32,493	31,216
Total expenses .....	<u>38,113</u>	<u>68,282</u>	<u>360,612</u>
Income before income taxes .....	7,441	(22,466)	70,409
Current income taxes (Note 12) .....	1,674	494	15,839
Deferred income taxes (Note 12) .....	1,663	(8,587)	15,735
Net income .....	<u>¥ 4,104</u>	<u>¥ (14,372)</u>	<u>\$ 38,835</u>
<b>Retained earnings—unappropriated</b>			
Balance at beginning of year .....	¥ (12,529)	¥ 3,182	\$ (118,550)
Net income .....	4,104	(14,372)	38,835
Reversal of revaluation reserve for land .....	(15)	9	(149)
Retirement of common stock .....	(1,273)	—	(12,045)
Transfer from appropriated retained earnings .....	13,700	—	129,624
Appropriations:			
Transfer to;			
Legal reserve (Note 11) .....	185	191	1,752
Appropriated retained earnings .....	—	200	—
Cash dividends (Note 11) .....	925	937	8,754
Other .....	—	20	—
Total appropriations .....	<u>1,110</u>	<u>1,349</u>	<u>10,506</u>
Balance at end of year .....	<u>¥ 2,875</u>	<u>¥ (12,529)</u>	<u>\$ 27,210</u>
		Yen	Cents
Net income per share .....	<u>¥ 22.08</u>	<u>¥ (76.79)</u>	<u>¢ 20.89</u>

See accompanying notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

The Aomori Bank, Ltd.  
March 31, 2004 and 2003

## 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 ¥105.69 = U.S.\$1, the prevailing rate as of March 31, 2004. 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 ¥17,173 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.  
On March 1, 2004, according to the enactment of the Defined Benefit Pension Plan Law, the Bank obtained an approval of exemption from the substitutional portion of employee pension obligation by the Minister of Health, Labor and Welfare.  
The bank applied a transitional measurement prescribed in Article 47-2 of the Accounting Committee Report No.13, "Practical Guidelines for Accounting for Retirement Benefits (Interim Report)" issued by The Japanese Institute of Certified Public Accountants and recognized extinguishment of benefit obligation and plan assets as of the date of approval.  
The substitutional portion of the plan assets to be transferred to the government measured at the end of this fiscal year was ¥10,190 million.
- (9) Hedge accounting method
  - ① Interest rate risk hedge  
With respect to the hedge accounting for interest rate risk arising from financial assets and liabilities, the Bank applies deferred hedge accounting.  
In the previous fiscal year, the Bank applied the transitional treatment stipulated in the "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" (The Japanese Institute of Certified Public Accountants Industry Audit Committee Report No.24) to the "macro hedge," which is management of interest rate risk arising from huge transactions in various deposits and loans, etc as a whole using derivatives.  
From the current fiscal year, the Bank applies the full treatment of The Japanese Institute of Certified Public Accountants Industry Audit Committee Report No.24.  
With regard to hedging for offsetting changes in interest rate, the Bank assesses the effectiveness of such hedge by grouping the hedged items (such as deposits and loans) and the hedging instruments (such as interest swaps) by their maturities.  
With regard to hedging for fixing cash flows, the Bank assesses the effectiveness of such hedge by verifying the correlation between the hedged items and hedging instruments.
  - ② Foreign exchange risk hedge  
With respect to the hedge accounting for exchange rate risk arising from foreign-currency-denominated financial assets and liabilities, the Bank applies deferred hedge accounting.  
In the previous fiscal year, the Bank applied the transitional treatment prescribed in the "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (The Japanese Institute of Certified Public Accountants Industry Audit Committee Report No.25)  
From the current fiscal year, the Bank applied the hedge accounting pursuant to the full treatment of The Japanese Institute of Certified Public Accountants Industry Audit Committee Report No.25 to currency swap and foreign exchange swap transactions carried out for the purpose of converting to fund borrowing currency (Japanese Yen) or to fund lending currency (foreign currencies).  
The bank assesses the effectiveness of such hedge by designating currency swap transactions and foreign exchange swap transactions, which are for the purpose of offsetting foreign exchange rate risks involved in these assets and liabilities, as hedging instruments, and by confirming the existence of foreign currency positions of such hedging instruments matching up to the foreign-currency-denominated assets and liabilities, the hedged items.  
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	
	2004	2003
Government bonds .....	¥ 134,554	¥ 124,199
Local government bonds .....	80,068	61,368
Corporate bonds .....	182,342	193,978
Stocks .....	35,388	27,598
Other securities .....	72,515	62,444
Total .....	<u>¥ 504,869</u>	<u>¥ 469,589</u>

### 4. Loans and bills discounted

	Millions of Yen	
	2004	2003
Bills discounted .....	¥ 15,148	¥ 17,959
Loans on bills .....	172,658	196,445
Loans on deeds .....	988,045	992,513
Overdrafts .....	237,295	226,058
Total .....	<u>¥ 1,413,147</u>	<u>¥ 1,432,976</u>

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

	Millions of Yen	
	2004	2003
(a) Loans to bankrupt borrowers .....	¥ 5,535	¥ 4,288
(b) Loans past due six months or more .....	45,514	47,779
(c) Loans past due more than three months but less than six months .....	435	990
(d) Loans with renegotiated conditions .....	29,580	41,557
Total .....	<u>¥ 81,065</u>	<u>¥ 94,616</u>

### 5. Premises and equipment

The accumulated depreciation as of March 31, 2004 and 2003 was ¥28,685 and ¥28,303 millions, respectively.

### 6. Deposits

	Millions of Yen	
	2004	2003
Current deposits .....	¥ 57,857	¥ 52,211
Ordinary deposits .....	730,356	708,929
Savings accounts .....	49,402	52,153
Deposits at notice .....	11,795	12,022
Time deposits .....	1,006,119	987,143
Other deposits .....	42,712	57,072
Negotiable certificates of deposit .....	72,030	82,720
Total .....	<u>¥ 1,970,274</u>	<u>¥ 1,952,252</u>

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

	Millions of Yen	
	2004	2003
Breakdown of assets pledged as collateral:		
Securities .....	¥ 26,315	¥ 27,000
Loans .....	¥ 20,000	50,000
Debt relating to assets pledged as collateral:		
Deposits .....	¥ 19,281	¥ 27,048
Other liabilities .....	¥ 4,178	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, 2004 and 2003 was ¥73,402 and ¥73,446 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 ¥2,421 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 297 and 300 million as of March 31, 2004 and 2003 with a par value of ¥50 per share.

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

	Millions of Yen	
	2004	2003
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 .....	(184,621)	(187,621)
Capital surplus:		
Capital reserve		
Balance at beginning of year .....	¥ 8,575	¥ 8,575
Balance at end of year .....	<u>¥ 8,575</u>	<u>¥ 8,575</u>
Other capital surplus		
Balance at beginning of year .....	¥ —	¥ —
Gains on sale of common stock .....	0	—
Balance at end of year .....	<u>¥ 0</u>	<u>¥ —</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 40%.

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 29, 2004)

## President

Akio Ibata

## Senior Managing Directors

Masaru Iwasaki

Kenichi Tanaka

## Managing Directors

Yoshisada Kafuku

Tessho Izumiyama

## Directors

Kunikatsu Kado

Shoichi Sawamukai

Mamoru Baba

Seiji Hayashi

Satoshi Hamaya

Naomitsu Kikuchi

Tadanori Mikami

Tetsuo Fukushima

## Standing Corporate Auditor

Junichi Kitagawa

## Corporate Auditors

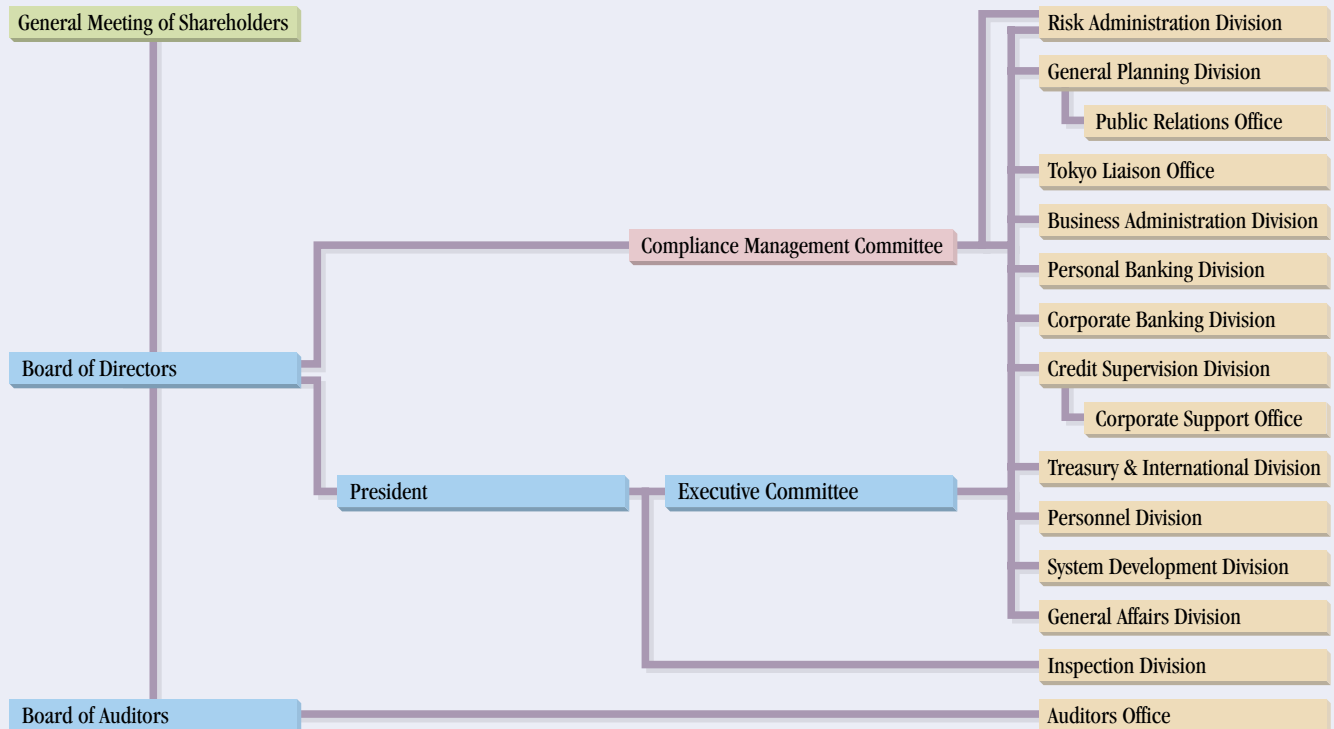
Takuo Horiuchi

Yoshimi Kudo

Kazumi Osawa

# Organization

(as of April 1, 2004)



## Corporate Data

(as of March 31, 2004)

<b>Company Name</b> The Aomori Bank, Ltd.	<b>Number of Employees</b> 1,576	<b>Loans and Bills Discounted</b> 1,413.1 billion yen
<b>Head Office</b> 9-30, Hashimoto 1-chome, Aomori 030-0823, Japan	<b>Number of Offices</b> 112	<b>Capital Adequacy Ratio</b> 9.73% (Domestic Standards)
<b>WEB URL</b> <a href="http://www.a-bank.jp/">http://www.a-bank.jp/</a>	<b>Paid-in Capital</b> 15,221 million yen	<b>Credit Rating</b> A (Japan Credit Rating Agency, Ltd.)
<b>Date of Establishment</b> October 1, 1943	<b>Number of Outstanding Shares</b> 184,621 thousand	
<b>Date of Foundation</b> January 20, 1879	<b>Total Assets</b> 2,131.9 billion yen	

## Group Companies

(as of April 1, 2004)

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	60	5.0
<b>Aogin DC Card Co., Ltd.</b>	Credit card business	20	5.0
<b>Aogin Credit Card Co., Ltd.</b>	Credit card business	36	4.1
<b>Aogin Computer Service Co., Ltd.</b>	Computer systems development and services	30	5.0
<b>Aogin Confidence Guarantee Co., Ltd.</b>	Loan guarantees	30	2.5

**The Aomori Bank, Ltd.**

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Aomori 030-0823, Japan

Phone: 017-777-1111

