

A O M O R I
B A N K
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Annual Report 2005

Message from the President

At The Aomori Bank, Ltd., we began our three-year medium-term management plan “Win-Win Plan Up10” from fiscal 2004, in order to address the needs of our customers for diversification and greater sophistication in realizing our vision under this management plan. As aspirations under this plan, we have stated the goals of *creating wealth* and *becoming a core bank in the region*. By “wealth” we mean making a positive contribution to the revitalization and development of the local economy, thereby achieving our own growth together with that of the region. The term “core bank” is an expression of our desire to take responsibility for the core financial functions in the regional economy and to be an indispensable bank for the region.

In order to achieve our vision we have set forth the three management policies of *pursuing sound management*, *increasing profitability*, and *thorough compliance*. We have also worked to enhance our efforts to support local businesses, as well as to maintain and improve the overall soundness of our management by achieving an early workout of non-performing assets, and to provide new products and services that are geared towards the customer’s perspective.

Fiscal 2005 is the second year in our three year medium-term management plan. Even though the economic environment continues to be severe, it is human will that will supports economic activities, as unlike a natural phenomenon, the economy is created by human will. We believe that by having a strong will to create a future, we will without fail make the initial signs into a true recovery. With the confidence that we will create our own future with our own will, we are continuing to bring our visions into actual reality.

July 2005

A handwritten signature in black ink, appearing to read "a. Ibata". The signature is written in a cursive, flowing style.

Akio Ibata, *President*

Consolidated Balance Sheets

The Aomori Bank, Ltd. and consolidated subsidiaries
As of March 31, 2005 and 2004

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Assets			
Cash and due from banks.....	¥ 100,686	¥ 100,758	\$ 937,573
Call loans	60,000	40,000	558,711
Trading account securities	678	892	6,313
Investment securities (Note 5)	581,898	505,123	5,418,549
Loans and bills discounted (Notes 3, 5)	1,341,415	1,404,735	12,491,061
Foreign exchanges	529	972	4,926
Other assets (Note 5)	37,107	36,233	345,535
Premises and equipment (Note 4)	46,139	42,186	429,640
Deferred taxes assets (Note 9)	12,136	13,735	113,009
Customers' liabilities for acceptances and guarantees (Note 7)	34,588	34,263	322,078
Reserve for possible loan losses	(26,583)	(22,601)	(247,537)
Total assets	<u>¥ 2,188,596</u>	<u>¥ 2,156,301</u>	<u>\$ 20,379,886</u>
Liabilities and shareholders' equity			
Liabilities			
Deposits (Note 5)	¥ 1,989,638	¥ 1,966,784	\$ 18,527,219
Call money	25,434	14,902	236,838
Borrowed funds (Note 5)	26,730	29,056	248,906
Foreign exchanges	4	5	37
Other liabilities (Note 5)	19,261	17,106	179,356
Reserve for employee bonus	740	758	6,891
Reserve for employee retirement benefit	2,904	7,549	27,042
Other reserves	—	2	—
Deferred tax liabilities on land revaluation (Note 6)	2,982	2,201	27,768
Acceptances and guarantees (Note 7)	34,588	34,263	322,078
Total liabilities	<u>2,102,285</u>	<u>2,072,629</u>	<u>19,576,171</u>
Minority interests	<u>2,899</u>	<u>2,737</u>	<u>26,995</u>
Shareholders' equity			
Common stock	15,221	15,221	141,736
Capital surplus	8,575	8,575	79,849
Retained earnings	50,300	49,280	468,386
Revaluation reserve for land, net of taxes (Note 6)	2,395	3,188	22,302
Net unrealized gains on investment securities, net of taxes	7,547	5,219	70,277
Common stock in treasury	(629)	(550)	(5,857)
Total shareholders' equity	<u>83,410</u>	<u>80,934</u>	<u>776,702</u>
Total liabilities and shareholders' equity	<u>¥ 2,188,596</u>	<u>¥ 2,156,301</u>	<u>\$ 20,379,886</u>

See accompanying notes to consolidated financial statements.

Consolidated Income Statements

The Aomori Bank, Ltd. and consolidated subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Income			
Interest on;			
Loans and discounts	¥ 29,144	¥ 30,077	\$ 271,385
Securities	6,245	5,664	58,153
Other	578	174	5,382
	<u>35,968</u>	<u>35,916</u>	<u>334,929</u>
Fees and commissions	5,610	5,243	52,240
Other income	15,828	17,289	147,388
Total income	<u>57,407</u>	<u>58,448</u>	<u>534,566</u>
Expenses			
Interest on;			
Deposits	812	904	7,561
Borrowings and rediscounts	487	480	4,535
Other	837	310	7,794
	<u>2,137</u>	<u>1,695</u>	<u>19,899</u>
Fees and commissions	2,180	2,791	20,300
General and administrative expenses	25,057	27,850	233,327
Other expenses	23,165	17,857	215,709
Total expenses	<u>52,540</u>	<u>50,194</u>	<u>489,245</u>
Income before income taxes and minority interests	4,866	8,254	45,311
Income taxes (Note 9)			
Current	2,129	2,042	19,825
Deferred	(6)	(1,626)	(56)
Minority interests	192	(404)	1,788
Net income	<u>¥ 2,550</u>	<u>¥ 4,180</u>	<u>\$ 23,745</u>
		Yen	Cents
Net income per share	<u>¥ 13.77</u>	<u>¥ 22.51</u>	<u>c 12.82</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, 2005 and 2004

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Capital surplus			
Balance at beginning of year	¥ 8,575	¥ 8,575	\$ 79,849
Additions:			
Gains on sale of common stock	—	0	—
Deductions:	0	—	0
Balance at end of year	<u>¥ 8,575</u>	<u>¥ 8,575</u>	<u>\$ 79,849</u>
Retained earnings			
Balance at beginning of year	¥ 49,280	¥ 47,293	\$ 458,888
Additions:			
Reversal of revaluation reserve for land	6	—	—
Deductions:			
Cash dividends paid	(1,075)	(904)	(10,010)
Bonuses paid to directors and statutory auditors	(31)	0	(289)
Retirement of common stock	(428)	(1,273)	(3,985)
Disposal of treasury stock	0	—	0
Transfer from revaluation reserve for land	—	(15)	—
Net income	2,550	4,180	23,745
Balance at end of year	<u>¥ 50,300</u>	<u>¥ 49,280</u>	<u>\$ 468,386</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The Aomori Bank, Ltd. and consolidated subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 4,866	¥ 8,254	\$ 45,311
Depreciation	7,065	6,503	65,788
Net increase (decrease) in Reserve for possible loan losses	3,982	(10,095)	37,080
Net increase (decrease) in Reserve for employee bonus	(17)	(87)	(158)
Net increase (decrease) in Reserve for employee retirement benefit	(4,644)	(1,587)	(43,244)
Net increase (decrease) in Other reserves	(2)	0	(19)
Interest income	(35,968)	(35,916)	(334,929)
Interest expenses	2,137	1,695	19,899
Net loss (gain) on Investment securities	(546)	75	(5,084)
Net loss (gain) on Foreign exchange	(389)	3,083	(3,622)
Net loss (gain) on Sales of Premises and equipment	34	(40)	317
Net decrease (increase) in Trading account securities	214	154	1,993
Net decrease (increase) in Loans and bills discounted	63,320	21,057	589,627
Net increase (decrease) in Deposits	22,853	17,892	212,804
Net increase (decrease) in Borrowed funds excluding Subordinated debt	(2,325)	(1,984)	(21,650)
Net decrease (increase) in Due from banks excluding deposits with the Central bank	(1,361)	(609)	(12,673)
Net decrease (increase) in Call loans	(22,148)	(1,112)	(206,239)
Net increase (decrease) in Call money	10,532	9,012	98,072
Net decrease (increase) in Foreign exchanges (assets)	443	(91)	4,125
Net increase (decrease) in Foreign exchanges (liabilities)	0	(25)	0
Interest received	36,598	36,538	340,795
Interest paid	(2,218)	(1,705)	(20,654)
Others, net	4,088	1,061	38,067
Sub total	86,513	52,074	805,596
Income taxes paid	(2,677)	(846)	(24,928)
Net cash provided by (used in) operating activities	83,836	51,228	780,669
Cash flows from investing activities:			
Purchases of Investment securities	(178,301)	(110,716)	(1,660,313)
Proceeds from sales of Investment securities	39,599	8,624	368,740
Proceeds from maturities of Investment securities	66,238	69,236	616,799
Expenditures for Premises and equipment	(11,715)	(8,640)	(109,088)
Proceeds from sales of Premises and equipment	499	507	4,647
Net cash provided by (used in) investing activities	(83,679)	(40,988)	(779,207)
Cash flows from financing activities:			
Proceeds from issuance of Subordinated debt	—	2,000	—
Expenditures for repayment of Subordinated debt	—	(2,000)	—
Cash dividends paid	(1,075)	(904)	(10,010)
Cash dividends paid to Minority interests	(10)	(10)	(93)
Purchase of Treasury stock	(550)	(925)	(5,122)
Proceeds from sales of Treasury stock	42	4	391
Others, net	—	—	—
Net cash provided by (used in) financing activities	(1,595)	(1,837)	(14,852)
Effect of exchange rate changes on Cash and cash equivalents	4	(42)	37
Net increase in Cash and cash equivalents	(1,433)	8,359	(13,344)
Cash and cash equivalents at beginning of year (Note 8)	97,766	89,407	910,383
Cash and cash equivalents at end of year (Note 8)	¥ 96,333	¥ 97,766	\$ 897,039

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Aomori Bank, Ltd. and consolidated subsidiaries
Fiscal year ended March 31, 2005 and 2004

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. ("the Bank") and its subsidiaries in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.
- (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 ¥107.39 = U.S.\$1, the prevailing rate as of March 31, 2005. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars at this or any other rate of exchange.

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
Held-to-maturity bonds 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. Unrealized gains (losses) on valuation of other securities, net of the related income taxes, are included as a separate component of shareholders' equity.
- (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 on and after 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 ¥18,632 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.
Unrecognized net retirement benefit obligation at transition is amortized using the straight-line method based on 10 years.
Prior service cost is amortized as incurred by the straight-line method over periods (3 years) which are shorter than the average remaining service years of employees.
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
 - ① Interest rate risk hedge
As for the hedge accounting for interest rate risks arising from financial assets and liabilities, the Bank applies deferred hedge accounting stipulated in the Industry Audit Committee Report No.24
"Treatment of Accounting and Auditing for Application of Standard for Financial Instruments in the Banking Industry" issued by the JICPA.
With regard to hedging activities offsetting changes in interest rate, the Bank assesses the effectiveness of such hedges by grouping the hedged items (such as deposits and loans) and the hedging instruments (such as interest swaps) by their maturities.
As for hedges to fix cash flows, the Bank assesses the effectiveness of such hedges by verifying correlation of interest fluctuation factors

between the hedge items and the hedging instruments.

② Foreign exchange risk hedge

With respect to hedge accounting for exchange rate risk attributable to foreign-currency denominated financial assets and liabilities, the Bank applies deferred hedge accounting stipulated in the Industry Audit Committee Report No.25 "Treatment of Accounting and Auditing for Foreign Currency Transactions in Banking Industry" issued by JICPA.

The Bank assesses the effectiveness of such hedge by designating currency swap transactions and foreign exchange swap transactions, which are entered into to offset foreign exchange rate risks inherent in these assets and liabilities, as hedging instruments, and by verifying 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) Foreign currency translation

Receivable and payable denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date.

(12) Finance leases

Finance lease transactions other than those that are expected to transfer ownership of the assets to the lessee are accounted for as operating leases.

3. Loans and bills discounted

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

	Millions of Yen	
	2005	2004
(a) Loans to bankrupt borrowers	¥ 4,578	¥ 5,982
(b) Loans past due six months or more	50,266	46,663
(c) Loans past due more than three months	53	444
(d) Loans with renegotiated conditions	26,659	30,070
Total	<u>¥ 81,557</u>	<u>¥ 83,160</u>

4. Premises and equipment

The accumulated depreciation amounts as of March 31, 2005 and 2004 were ¥60,828 and ¥54,991 millions, respectively.

5. Breakdown of assets pledged as collateral by the Bank

	Millions of Yen	
	2005	2004
Breakdown of assets pledged as collateral:		
Securities	¥ 70,026	¥ 26,749
Loans	¥ —	¥ 20,000
Other assets	¥ 7,411	¥ 14,526
Debt relating to assets pledged as collateral:		
Deposits	¥ 17,951	¥ 19,281
Borrowed funds	¥ 5,268	¥ 9,530
Other liabilities	¥ 15,599	¥ 4,178

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, 2005 and 2004 were ¥70,541 and ¥73,402 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 ¥3,232 million.

7. Acceptances and guarantees

All contingent liabilities including guarantees, letter of credit and acceptance, are 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	
	2005	2004
Cash and due from banks	¥ 100,686	¥100,758
Time deposits with other banks	(1,236)	(936)
Other deposits with other banks	(3,116)	(2,055)
Cash and cash equivalent	<u>¥ 96,333</u>	<u>¥ 97,766</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.

With the enactment of the "Partial Revision of the Local Tax Law" (Law No. 9, March 2003) on March 31, 2003, certain basis of enterprise taxes imposed on banks were changed to "amount of added value" and "amount of capital," effective the consolidated fiscal year beginning on April 1, 2004. As a result, effective this consolidated fiscal period, the Bank and some of its consolidated domestic subsidiaries included the "value-added" and "capital" portions of enterprise taxes in "General and administrative expenses" of the consolidated statement of income in accordance with Practical Report No. 12 "Practical Treatment for Presentation of External Standards Taxation portion of Enterprise Taxes in the Statement of Income" issued by the Accounting Standards Board of Japan.

Non-Consolidated Balance Sheets

The Aomori Bank, Ltd.
As of March 31, 2005 and 2004

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Assets			
Cash and due from banks	¥ 98,191	¥ 99,759	\$ 914,340
Call loans	60,000	40,000	558,711
Trading account securities	678	892	6,313
Investment securities (Notes 3, 7)	581,642	504,869	5,416,165
Loans and bills discounted (Notes 4, 7)	1,355,152	1,413,147	12,618,978
Foreign exchanges	529	972	4,926
Other assets	16,690	17,535	155,415
Premises and equipment (Note 5)	29,913	26,961	278,545
Deferred taxes assets (Note 12)	10,852	12,347	101,052
Customers' liabilities for acceptances and guarantees (Note 9)	34,588	34,263	322,078
Reserve for possible loan losses	(22,264)	(18,812)	(207,319)
Total assets	<u>¥ 2,165,973</u>	<u>¥ 2,131,938</u>	<u>\$ 20,169,224</u>
Liabilities and shareholders' equity			
Liabilities			
Deposits (Notes 6, 7)	¥ 1,994,670	¥ 1,970,274	\$ 18,574,076
Call money	15,034	14,902	139,994
Borrowed funds	12,811	13,096	119,294
Foreign exchanges	4	5	37
Other liabilities (Note 7)	19,848	8,914	184,822
Reserve for employee bonus	693	708	6,453
Reserve for employee retirement benefit	2,851	7,500	26,548
Other reserves	—	2	—
Deferred tax liabilities on land revaluation (Note 8)	2,982	2,201	27,768
Acceptances and guarantees (Note 9)	34,588	34,263	322,078
Total liabilities	<u>2,083,486</u>	<u>2,051,869</u>	<u>19,401,117</u>
Shareholders' equity			
Common stock (Note 10)	15,221	15,221	141,736
Capital surplus (Note 10)	8,575	8,575	79,849
Legal reserve (Note 11)	5,452	5,226	50,768
Appropriated retained earnings	41,200	40,200	383,648
Unappropriated retained earnings	2,611	2,875	24,313
Revaluation reserve for land, net of taxes (Note 8)	2,395	3,188	22,302
Net unrealized gains on investment securities, net of taxes	7,546	5,219	70,267
Common stock in treasury	(516)	(436)	(4,805)
Total shareholders' equity	<u>82,487</u>	<u>80,069</u>	<u>768,107</u>
Total liabilities and shareholders' equity	<u>¥ 2,165,973</u>	<u>¥ 2,131,938</u>	<u>\$ 20,169,224</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, 2005 and 2004

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Income			
Interest on;			
Loans and discounts	¥ 28,961	¥29,867	\$ 269,681
Securities	6,236	5,658	58,069
Other	578	174	5,382
	<u>35,776</u>	<u>35,700</u>	<u>333,141</u>
Fees and commissions	5,680	5,311	52,891
Other income	2,666	4,542	24,825
Total income	<u>44,123</u>	<u>45,554</u>	<u>410,867</u>
Expenses			
Interest on;			
Deposits	813	905	7,571
Borrowings and rediscounts	240	226	2,235
Other	837	310	7,794
	<u>1,890</u>	<u>1,442</u>	<u>17,599</u>
Fees and commissions	2,694	3,348	25,086
General and administrative expenses	27,148	30,022	252,798
Other expenses	8,127	3,299	75,677
Total expenses	<u>39,861</u>	<u>38,113</u>	<u>371,180</u>
Income before income taxes	4,262	7,441	39,687
Income taxes (Note 12)			
Current	1,856	1,674	17,283
Deferred	(108)	1,663	(1,006)
Net income	<u>¥ 2,514</u>	<u>¥ 4,104</u>	<u>\$ 23,410</u>
Retained earnings—unappropriated			
Balance at beginning of year	¥ 2,875	¥(12,529)	\$ 26,772
Net income	2,514	4,104	23,410
Reversal of revaluation reserve for land	6	(15)	56
Retirement of common stock	(428)	(1,273)	(3,985)
Transfer from appropriated retained earnings	—	13,700	—
Appropriations:			
Transfer to;			
Legal reserve (Note 11)	226	185	2,104
Appropriated retained earnings	1,000	—	9,312
Cash dividends paid (Note 11)	1,100	925	10,243
Other	30	—	279
Total appropriations	<u>2,356</u>	<u>1,110</u>	<u>21,939</u>
Balance at end of year	<u>¥ 2,611</u>	<u>¥ 2,875</u>	<u>\$ 24,313</u>
		Yen	Cents
Net income per share	<u>¥ 13.57</u>	<u>¥ 22.08</u>	<u>¢ 12.64</u>

See accompanying notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

The Aomori Bank, Ltd.
March 31, 2005 and 2004

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. ("the Bank") 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 are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.
- (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 ¥107.39 = U.S.\$1, the prevailing rate as of March 31, 2005. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

- (1) Trading account securities
Trading account securities are stated at the market value.
- (2) Investment securities
Held-to-maturity bonds 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. Unrealized gains (losses) on valuation of other securities, net of the related income taxes, are included as a separate component of shareholders' equity.
- (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 on and after 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 ¥18,632 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.
Unrecognized net retirement benefit obligation at transition is amortized using the straight-line method based on 10 years.
Prior service cost is amortized as incurred by the straight-line method over periods (3 years) which are shorter than the average remaining service years of employees.
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
 - ① Interest rate risk hedge
As for the hedge accounting for interest rate risks arising from financial assets and liabilities, the Bank applies deferred hedge accounting stipulated in the Industry Audit Committee Report No.24
"Treatment of Accounting and Auditing for Application of Standard for Financial Instruments in the Banking Industry" issued by the JICPA.
With regard to hedging activities offsetting changes in interest rate, the Bank assesses the effectiveness of such hedges by grouping the hedged items (such as deposits and loans) and the hedging instruments (such as interest swaps) by their maturities.
As for hedges to fix cash flows, the Bank assesses the effectiveness of such hedges by verifying correlation of interest fluctuation factors between the hedge items and the hedging instruments.
 - ② Foreign exchange risk hedge
With respect to hedge accounting for exchange rate risk attributable to foreign-currency denominated financial assets and liabilities, the Bank applies deferred hedge accounting stipulated in the Industry Audit Committee Report No.25 "Treatment of Accounting and Auditing for Foreign Currency Transactions in Banking Industry" issued by JICPA.
The Bank assesses the effectiveness of such hedge by designating currency swap transactions and foreign exchange swap transactions, which are entered into to offset foreign exchange rate risks inherent in these assets and liabilities, as hedging instruments, and by verifying 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
Finance lease transactions other than those that are expected to transfer ownership of the assets to the lessee are accounted for as operating leases.
- (11) Foreign currency translation
Receivable and payable denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date.

3. Investment securities

	Millions of Yen	
	2005	2004
Government bonds	¥ 161,657	¥ 134,554
Local government bonds	116,360	80,068
Corporate bonds	174,144	182,342
Stocks	36,976	35,388
Other securities	92,504	72,515
Total	<u>¥ 581,642</u>	<u>¥ 504,869</u>

4. Loans and bills discounted

	Millions of Yen	
	2005	2004
Bills discounted	¥ 13,833	¥ 15,148
Loans on bills	159,247	172,658
Loans on deeds	981,274	988,045
Overdrafts	200,796	237,295
Total	<u>¥ 1,355,152</u>	<u>¥ 1,413,147</u>

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

	Millions of Yen	
	2005	2004
(a) Loans to bankrupt borrowers	¥ 3,712	¥ 5,535
(b) Loans past due six months or more	49,153	45,514
(c) Loans past due more than three months but less than six months	—	435
(d) Loans with renegotiated conditions	26,354	29,580
Total	<u>¥ 79,220</u>	<u>¥ 81,065</u>

5. Premises and equipment

The accumulated depreciation as of March 31, 2005 and 2004 was ¥29,766 and ¥28,685 millions, respectively.

6. Deposits

	Millions of Yen	
	2005	2004
Current deposits	¥ 70,111	¥ 57,857
Ordinary deposits	774,214	730,356
Savings accounts	45,422	49,402
Deposits at notice	6,463	11,795
Time deposits	979,762	1,006,119
Other deposits	42,735	42,712
Negotiable certificates of deposit	75,960	72,030
Total	<u>¥ 1,994,670</u>	<u>¥ 1,970,274</u>

7. Breakdown of assets pledged as collateral by the Bank

	Millions of Yen	
	2005	2004
Breakdown of assets pledged as collateral:		
Securities	¥ 69,586	¥ 26,315
Loans	¥ —	20,000
Debt relating to assets pledged as collateral:		
Deposits	¥ 17,951	¥ 19,281
Other liabilities	¥ 15,599	4,178

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, 2005 and 2004 were ¥70,541 and ¥73,402 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 ¥3,232 million.

9. Acceptances and guarantees

All contingent liabilities including guarantees, letter of credit and acceptance, are 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 296 and 297 million as of March 31, 2005 and 2004 with a par value of ¥50 per share.

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

	Millions of Yen	
	2005	2004
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	(183,621)	(184,621)
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>¥ —</u>	<u>¥ 0</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.

With the enactment of the "Partial Revision of the Local Tax Law" (Law No. 9, March 2003) on March 31, 2003, certain basis of enterprise taxes imposed on banks were changed to "amount of added value" and "amount of capital," effective the fiscal year beginning on April 1, 2004. As a result, effective this fiscal period, the Bank included the "value-added" and "capital" portions of enterprise taxes in "General and administrative expenses" of the statement of income in accordance with Practical Report No. 12 "Practical Treatment for Presentation of External Standards Taxation portion of Enterprise Taxes in the Statement of Income" issued by the Accounting Standards Board of Japan.

Board of Directors and Corporate Auditors

(as of June 29, 2005)

President

Akio Ibata

Senior Managing Directors

Kenichi Tanaka

Yoshisada Kafuku

Managing Directors

Tessho Izumiyama

Mamoru Baba

Directors

Seiji Hayashi

Satoshi Hamaya

Naomitsu Kikuchi

Atsushi Naito

Tadashi Takayashiki

Toru Sasaki

Hiroshi Sugita

Hiroshi Yamagata

Standing Corporate Auditor

Junichi Kitagawa

Corporate Auditors

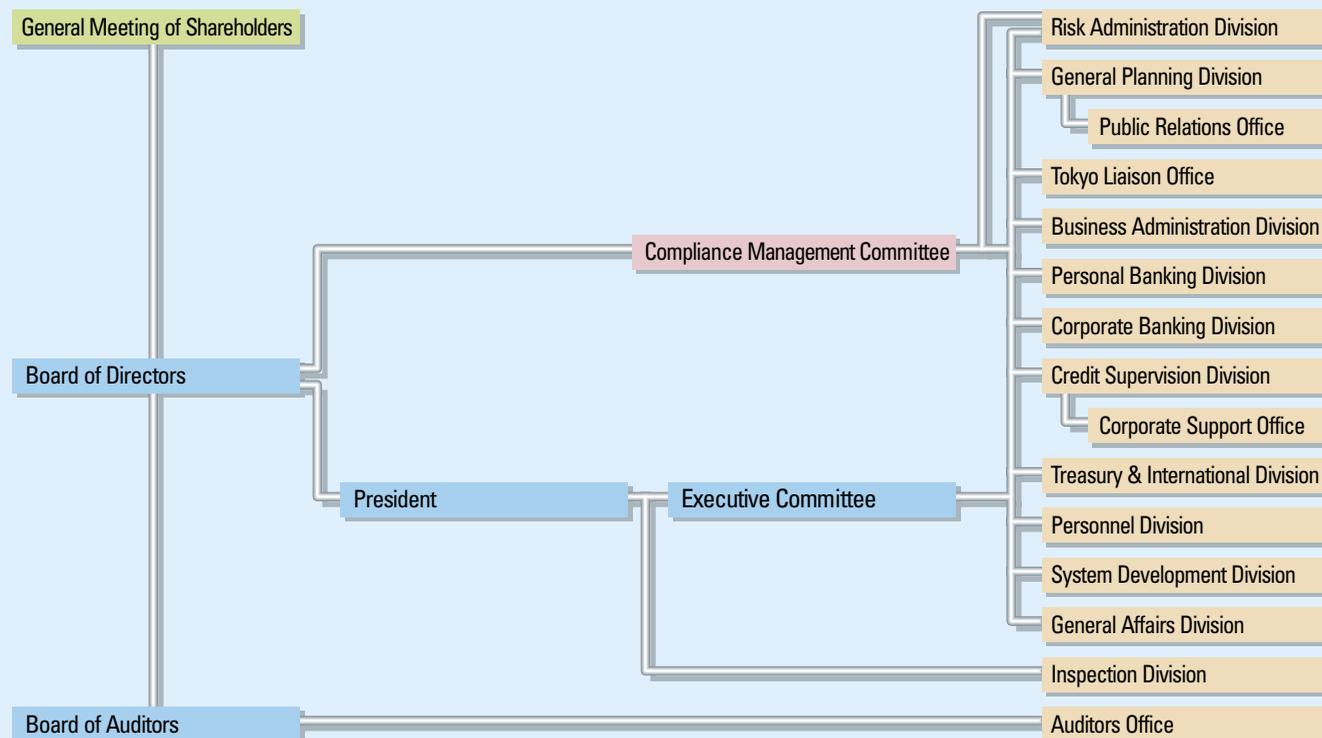
Takuo Horiuchi

Yoshimi Kudo

Kazumi Osawa

Organization

(as of April 1, 2005)



Corporate Data

(as of March 31, 2005)

Company Name The Aomori Bank, Ltd.	Number of Employees 1,498	Loans and Bills Discounted 1,355.1 billion yen
Head Office 9-30, Hashimoto 1-chome, Aomori 030-0823, Japan	Number of Offices 112	Capital Adequacy Ratio 9.93% (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 183,621 thousand	
Date of Foundation January 20, 1879	Total Assets 2,165.9 billion yen	

Group Companies

(as of April 1, 2005)

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

