

## Consolidated Balance Sheets

The Aomori Bank, Ltd. and consolidated subsidiaries  
As of March 31, 2006 and 2005

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Assets</b>			
Cash and due from banks .....	¥ 46,687	¥ 100,686	\$ 397,438
Call loans .....	60,000	60,000	510,769
Trading account securities .....	581	678	4,946
Investment securities (Note 5) .....	597,570	581,898	5,087,001
Loans and bills discounted (Notes 3 and 5) .....	1,346,296	1,341,415	11,460,764
Foreign exchanges .....	1,332	529	11,339
Other assets (Note 5) .....	40,927	37,107	348,404
Premises and equipment (Notes 4 and 6) .....	45,621	46,139	388,363
Deferred income taxes (Note 9) .....	11,126	12,136	94,714
Customers' liabilities for acceptances and guarantees (Note 7) .....	33,113	34,588	281,885
Reserve for possible loan losses .....	(24,629)	(26,583)	(209,662)
Total assets .....	<u>¥ 2,158,627</u>	<u>¥ 2,188,596</u>	<u>\$ 18,375,985</u>
<b>Liabilities and shareholders' equity</b>			
Liabilities			
Deposits (Note 5) .....	¥ 1,975,558	¥1,989,638	\$ 16,817,553
Call money .....	11,747	25,434	100,000
Borrowed funds (Note 5) .....	27,880	26,730	237,337
Foreign exchanges .....	12	4	102
Other liabilities (Note 5) .....	16,072	19,261	136,818
Reserve for employee bonus .....	737	740	6,274
Reserve for employee retirement benefit .....	1,781	2,904	15,161
Deferred tax liabilities on land revaluation (Note 6) .....	2,913	2,982	24,798
Acceptances and guarantees (Note 7) .....	33,113	34,588	281,885
Total liabilities .....	<u>2,069,816</u>	<u>2,102,285</u>	<u>17,619,954</u>
Minority interests .....	<u>3,137</u>	<u>2,899</u>	<u>26,705</u>
Shareholders' equity			
Common stock .....	15,221	15,221	129,574
Capital surplus .....	8,576	8,575	73,006
Retained earnings .....	52,663	50,300	448,310
Revaluation reserve for land, net of taxes (Note 6) .....	2,452	2,395	20,873
Net unrealized gains on investment securities, net of taxes .....	7,009	7,547	59,666
Common stock in treasury .....	(248)	(629)	(2,111)
Total shareholders' equity .....	<u>85,674</u>	<u>83,410</u>	<u>729,327</u>
Total liabilities and shareholders' equity .....	<u>¥ 2,158,627</u>	<u>¥ 2,188,596</u>	<u>\$ 18,375,985</u>

See accompanying notes to consolidated financial statements.

## Consolidated Income Statements

The Aomori Bank, Ltd. and consolidated subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Income</b>			
Interest on:			
Loans and discounts .....	¥ 28,011	¥ 29,144	\$ 238,452
Securities .....	7,264	6,245	61,837
Other .....	1,650	578	14,046
	<u>36,925</u>	<u>35,968</u>	<u>314,336</u>
Fees and commissions .....	6,069	5,610	51,664
Other income .....	18,448	15,828	157,044
Total income .....	<u>61,443</u>	<u>57,407</u>	<u>523,053</u>
<b>Expenses</b>			
Interest on:			
Deposits .....	741	812	6,308
Borrowings and rediscounts .....	480	487	4,086
Other .....	2,218	837	18,881
	<u>3,439</u>	<u>2,137</u>	<u>29,276</u>
Fees and commissions .....	2,367	2,180	20,150
General and administrative expenses .....	25,449	25,057	216,643
Loss on impairment of fixed assets .....	403	—	3,431
Other expenses .....	21,813	23,165	185,690
Total expenses .....	<u>53,474</u>	<u>52,540</u>	<u>455,214</u>
Income before income taxes and others .....	7,970	4,866	67,847
Current income taxes (Note 9) .....	2,194	2,129	18,677
Deferred income taxes (Note 9) .....	1,302	(6)	11,084
Minority interests .....	247	192	2,103
Net income .....	<u>¥ 4,224</u>	<u>¥ 2,550</u>	<u>\$ 35,958</u>
		Yen	Cents
Net income per share .....	<u>¥ 23.09</u>	<u>¥ 13.77</u>	<u>¢ 19.66</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, 2006 and 2005

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Capital surplus</b>			
Balance at beginning of year .....	¥ 8,575	¥ 8,575	\$ 72,997
Additions:			
Gains on sale of common stock .....	0	—	0
Deductions: .....	—	0	—
Balance at end of year .....	<u>¥ 8,576</u>	<u>¥ 8,575</u>	<u>\$ 73,006</u>
<b>Retained earnings</b>			
Balance at beginning of year .....	¥ 50,300	¥ 49,280	\$ 428,194
Additions:			
Reversal of revaluation reserve for land .....	—	6	—
Deductions:			
Cash dividends .....	(890)	(1,075)	(7,576)
Bonuses for directors and statutory auditors .....	(31)	(31)	(264)
Retirement of common stock .....	(884)	(428)	(7,525)
Losses on disposition of treasury stock .....	—	0	—
Transfer from revaluation reserve for land .....	(57)	—	(485)
Net income .....	4,224	2,550	35,958
Balance at end of year .....	<u>¥ 52,663</u>	<u>¥ 50,300</u>	<u>\$ 448,310</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

The Aomori Bank, Ltd. and consolidated subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Cash flows from operating activities:</b>			
Income before income taxes and others .....	¥ 7,970	¥ 4,866	\$ 67,847
Depreciation .....	7,531	7,065	64,110
Loss on impairment of fixed assets (Note 10) .....	403	—	3,431
Net increase (decrease) in Reserve for possible loan losses .....	(1,954)	3,982	(16,634)
Net increase (decrease) in Reserve for employee bonus .....	(2)	(17)	(17)
Net increase (decrease) in Reserve for employee retirement benefit .....	(1,123)	(4,644)	(9,560)
Net increase (decrease) in Other reserves .....	—	(2)	—
Interest income .....	(36,925)	(35,968)	(314,336)
Interest expenses .....	3,439	2,137	29,276
Net loss (gain) on Investment securities .....	(3,091)	(546)	(26,313)
Net loss (gain) on Foreign exchange .....	(2,149)	(389)	(18,294)
Net loss (gain) on Sales of Premises and equipment .....	164	34	1,396
Net decrease (increase) in Trading account securities .....	97	214	826
Net decrease (increase) in Loans and bills discounted .....	(4,881)	63,320	(41,551)
Net increase (decrease) in Deposits .....	(14,080)	22,853	(119,860)
Net increase (decrease) in Borrowed funds excluding Subordinated debt .....	4,149	(2,325)	35,320
Net decrease (increase) in Due from banks excluding deposits with the Central bank .....	(489)	(1,361)	(4,163)
Net decrease (increase) in Call loans .....	(218)	(22,148)	(1,856)
Net increase (decrease) in Call money .....	(13,687)	10,532	(116,515)
Net decrease (increase) in Foreign exchanges (assets) .....	(803)	443	(6,836)
Net increase (decrease) in Foreign exchanges (liabilities) .....	7	0	60
Interest received .....	37,343	36,598	317,894
Interest paid .....	(3,393)	(2,218)	(28,884)
Others, net .....	(6,400)	4,088	(54,482)
Sub total .....	(28,093)	86,513	(239,150)
Income taxes paid .....	(2,089)	(2,677)	(17,783)
<b>Net cash provided by (used in) operating activities .....</b>	<b>(30,182)</b>	<b>83,836</b>	<b>(256,934)</b>
<b>Cash flows from investing activities:</b>			
Purchases of Investment securities .....	(122,840)	(178,301)	(1,045,714)
Proceeds from sales of Investment securities .....	38,648	39,599	329,003
Proceeds from maturities of Investment securities .....	72,431	66,238	616,591
Expenditures for Premises and equipment .....	(10,370)	(11,715)	(88,278)
Proceeds from sales of Premises and equipment .....	2,200	499	18,728
<b>Net cash provided by (used in) investing activities .....</b>	<b>(19,929)</b>	<b>(83,679)</b>	<b>(169,652)</b>
<b>Cash flows from financing activities:</b>			
Expenditures for repayment of Subordinated debt .....	(3,000)	—	(25,538)
Cash dividends paid .....	(890)	(1,075)	(7,576)
Cash dividends paid to Minority interests .....	(10)	(10)	(85)
Purchase of Treasury stock .....	(519)	(550)	(4,418)
Proceeds from sales of Treasury stock .....	17	42	145
<b>Net cash provided by (used in) financing activities .....</b>	<b>(4,403)</b>	<b>(1,595)</b>	<b>(37,482)</b>
Effect of exchange rate changes on Cash and cash equivalents .....	27	4	230
Net increase in Cash and cash equivalents .....	(54,488)	(1,433)	(463,846)
Cash and cash equivalents at beginning of year (Note 8) .....	96,333	97,766	820,065
Cash and cash equivalents at end of year (Note 8) .....	¥ 41,845	¥ 96,333	\$ 356,219

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Aomori Bank, Ltd. and consolidated subsidiaries  
Fiscal year ended March 31, 2006 and 2005

## 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 ¥117.47 = U.S.\$1, the prevailing rate as of March 31, 2006. 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 ¥18,670 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) Long-lived assets

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets."

The Bank adopted the new accounting standard for impairment of fixed assets as of April 1, 2005. The effect of adoption the new accounting standard for impairment of fixed assets resulted in a decrease in income before income taxes and minority interests for the year ended March 31, 2005 of ¥403 million (US\$3,431 thousand).

Accumulated impairment loss is directly deducted from respective premises and equipment.

### (9) 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.

### (10) 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 is amortized using the straight-line method based on 10 years.

Prior service cost is amortized using the straight-method over 3 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.

### (11) 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 of Application 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 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 risk attributable to foreign-currency denominated financial assets and liabilities, the Bank applies deferred hedge accounting. Stipulated in “Treatment of Accounting and Auditing for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No. 25).

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 verifying the existence of foreign currency positions of such hedging instruments matching up to the foreign-currency-denominated assets and liabilities, the hedged items.

#### (12) Exchange rate

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

#### (13) 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	
	2006	2005
(a) Loans to bankrupt borrowers .....	¥ 3,928	¥ 4,578
(b) Loans past due six months or more .....	52,704	50,266
(c) Loans past due more than three months .....	58	53
(d) Loans with renegotiated conditions .....	19,761	26,659
Total .....	¥ 76,451	¥ 81,557

### 4. Premises and equipment

The accumulated depreciation as of March 31, 2006 and 2005 was ¥66,155 and ¥60,828 millions, respectively.

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

	Millions of Yen	
	2006	2005
Breakdown of assets pledged as collateral:		
Securities .....	¥ 46,117	¥ 70,026
Other assets .....	¥ 6,232	¥ 7,411
Debt relating to assets pledged as collateral:		
Deposits .....	¥ 16,538	¥ 17,951
Borrowed funds .....	¥ 4,548	¥ 5,268
Other liabilities .....	¥ 1,381	¥ 15,599

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, 2006 and 2005 was ¥70,245 and ¥70,541 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 ¥3,878 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	
	2006	2005
Cash and due from banks .....	¥ 46,687	¥100,686
Time deposits with other banks .....	(1,236)	(1,236)
Other deposits with other banks .....	(3,605)	(3,116)
Cash and cash equivalent .....	¥ 41,845	¥ 96,333

### 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.

### 10. Losses on impairment of fixed assets

For measuring the amount of the impairment loss, fixed assets are grouped at the minimum level of operation branch for which are manageable. Idle assets are grouped individually and headquarters, operation centers, the corporate dormitory, welfare facilities are recognized as common assets as there are not identifiable cash flows that are generated independently. Because of the decrease in cash flows by decline of an operating profit and the continuous falling land prices, the book value was reduced to the recoverable amounts, recognizing impairment losses of ¥255 million (U.S.\$2,171 thousand) for land and ¥147 million (U.S.\$1,251 thousand) for buildings. The impairment losses are included in other expenses. The recoverable amounts of such assets were measured at their net realizable selling prices determined by quotations from real estate appraisal information less estimated expenses for disposing.