

Non-Consolidated Balance Sheets

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

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Assets			
Cash and due from banks	¥ 45,405	¥ 98,191	\$ 386,524
Call loans	60,000	60,000	510,769
Trading account securities	581	678	4,946
Investment securities (Notes 3 and 7)	597,286	581,642	5,084,583
Loans and bills discounted (Notes 4 and 7)	1,360,445	1,355,152	11,581,212
Foreign exchanges	1,332	529	11,339
Other assets	19,201	16,690	163,454
Premises and equipment (Note 5)	27,543	29,913	234,468
Deferred income taxes (Note 12)	9,917	10,852	84,422
Customers' liabilities for acceptances and guarantees (Note 9)	33,113	34,588	281,885
Reserve for possible loan losses	(20,340)	(22,264)	(173,151)
Total assets	<u>¥ 2,134,485</u>	<u>¥ 2,165,973</u>	<u>\$ 18,170,469</u>
Liabilities and shareholders' equity			
Liabilities			
Deposits (Notes 6 and 7)	¥ 1,984,511	¥ 1,994,670	\$ 16,893,769
Call money	11,747	15,034	100,000
Borrowed funds	9,606	12,811	81,774
Foreign exchanges	12	4	102
Other liabilities (Note 7)	5,498	19,848	46,803
Reserve for employee bonus	690	693	5,874
Reserve for employee retirement benefit	1,727	2,851	14,702
Deferred tax liabilities on land revaluation (Note 8)	2,913	2,982	24,798
Acceptances and guarantees (Note 9)	33,113	34,588	281,885
Total liabilities	<u>2,049,819</u>	<u>2,083,486</u>	<u>17,449,723</u>
Shareholders' equity			
Common stock (Note 10)	15,221	15,221	129,574
Capital surplus (Note 10)	8,576	8,575	73,006
Legal reserve (Note 11)	5,641	5,452	48,021
Appropriated retained earnings	42,200	41,200	359,241
Unappropriated retained earnings	3,701	2,611	31,506
Revaluation reserve for land, net of taxes (Note 8)	2,452	2,395	20,873
Net unrealized gains on investment securities, net of taxes	7,007	7,546	59,649
Common stock in treasury	(135)	(516)	(1,149)
Total shareholders' equity	<u>84,665</u>	<u>82,487</u>	<u>720,737</u>
Total liabilities and shareholders' equity	<u>¥ 2,134,485</u>	<u>¥ 2,165,973</u>	<u>\$ 18,170,469</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, 2006 and 2005

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Income			
Interest on;			
Loans and discounts	¥ 27,826	¥28,961	\$ 236,878
Securities	7,252	6,236	61,735
Other	1,650	578	14,046
	<u>36,728</u>	<u>35,776</u>	<u>312,659</u>
Fees and commissions	6162	5,680	52,456
Other income	4,721	2,666	40,189
Total income	<u>47,612</u>	<u>44,123</u>	<u>405,312</u>
Expenses			
Interest on;			
Deposits	742	813	6,317
Borrowings and rediscounts	231	240	1,966
Other	2,218	837	18,881
	<u>3,191</u>	<u>1,890</u>	<u>27,164</u>
Fees and commissions	2,843	2,694	24,202
General and administrative expenses	27,719	27,148	235,967
Other expenses	6,141	8,127	52,277
Loss on impairment of fixed assets	403	—	3,431
Total expenses	<u>40,298</u>	<u>39,861</u>	<u>343,049</u>
Income before income taxes	7,314	4,262	62,263
Current income taxes (Note 12)	1,914	1,856	16,294
Deferred income taxes (Note 12)	1,239	(108)	10,547
Net income	<u>¥ 4,160</u>	<u>¥ 2,514</u>	<u>\$ 35,413</u>
Retained earnings—unappropriated			
Balance at beginning of year	¥ 2,611	¥ 2,875	\$ 22,227
Net income	4,160	2,514	35,413
Reversal of revaluation reserve for land	(57)	6	(485)
Retirement of common stock	(884)	(428)	(7,525)
Appropriations:			
Transfer to;			
Legal reserve (Note 11)	189	226	1,609
Appropriated retained earnings	1,500	1,000	12,769
Cash dividends (Note 11)	910	1,100	7,747
Other	30	30	255
Total appropriations	<u>2,629</u>	<u>2,356</u>	<u>21,380</u>
Balance at end of year	<u>¥ 3,701</u>	<u>¥ 2,611</u>	<u>\$ 31,506</u>
		Yen	Cents
Net income per share	<u>¥ 22.71</u>	<u>¥ 13.57</u>	<u>¢ 19.33</u>

See accompanying notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

The Aomori Bank, Ltd.
March 31, 2006 and 2005

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 ¥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) 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) 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 (U.S.\$3,431 thousand). Accumulated impairment loss is directly deducted from respective premises and equipment.
- (6) 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.
- (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.

- (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 is amortized using the straight-line method based on 10 years.
Prior service cost is amortized using the straight-line 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.
- (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 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.
- (11) Finance leases
Lease payments under finance leases are charged to expenses in conformity with the accounting standard for leases in Japan.
- (12) 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	
	2006	2005
Government bonds	¥ 172,623	¥ 161,657
Local government bonds	137,810	116,360
Corporate bonds	149,358	174,144
Stocks	54,298	36,976
Other securities	83,195	92,504
Total	<u>¥ 597,286</u>	<u>¥ 581,642</u>

4. Loans and bills discounted

	Millions of Yen	
	2006	2005
Bills discounted	¥ 11,943	¥ 13,833
Loans on bills	139,203	159,247
Loans on deeds	1,000,408	981,274
Overdrafts	208,889	200,796
Total	<u>¥ 1,360,445</u>	<u>¥ 1,355,152</u>

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

	Millions of Yen	
	2006	2005
(a) Loans to bankrupt borrowers	¥ 2,976	¥ 3,712
(b) Loans past due six months or more	51,564	49,153
(c) Loans past due more than three months but less than six months	4	—
(d) Loans with renegotiated conditions	19,476	26,354
Total	<u>¥ 74,022</u>	<u>¥ 79,220</u>

5. Premises and equipment

The accumulated depreciation as of March 31, 2006 and 2005 was ¥29,780 and ¥29,766 millions, respectively.

6. Deposits

	Millions of Yen	
	2006	2005
Current deposits	¥ 64,153	¥ 70,111
Ordinary deposits	806,132	774,214
Savings accounts	44,315	45,422
Deposits at notice	4,794	6,463
Time deposits	941,648	979,762
Other deposits	55,407	42,735
Negotiable certificates of deposit	68,060	75,960
Total	<u>¥ 1,984,510</u>	<u>¥ 1,994,670</u>

7. Breakdown of assets pledged as collateral by the Bank

	Millions of Yen	
	2006	2005
Breakdown of assets pledged as collateral:		
Securities	¥ 46,117	¥ 69,586
Debt relating to assets pledged as collateral:		
Deposits	¥ 16,538	¥ 17,951
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.

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 ¥3,878 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 294 and 296 million as of March 31, 2006 and 2005 with a par value of ¥50 per share.

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

	Millions of Yen	
	2006	2005
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	(181,621)	(183,621)
Capital surplus:		
Capital reserve		
Balance at beginning of year	¥ 8,575	¥ 8,575
Balance at end of year	<u>¥ 8,576</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.

13. 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.