

A O M O R I

B A N K

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Annual Report

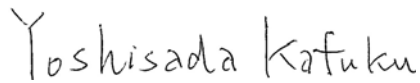
Message from the President

During fiscal 2007, the economy of Aomori Prefecture has shown moves towards improvement in areas such as production. However, within the local economy, moves towards recovery from stagnation still remain weak compared to the national economy. In addition, the sphere of monetary facilities has been developing on a broad scale due to financial deregulation, privatization of Postal Savings and reinforcement of internal control.

Under such circumstances, here at Aomori Bank we aim to fulfill our corporate idea of working “for the region, together with our customers, showing respect to all individuals”. We aim to thoroughly implement legal and regulatory compliance, as we coexist and prosper with the region as a member of the regional society, and we wish to take responsibility and help to create a better regional society.

I would like to express my appreciation to all of our stakeholders for their continued support and ask for their further support and assistance in the future.

July 2007

A handwritten signature in black ink that reads "Yoshisada Kafuku". The signature is written in a cursive, slightly slanted style.

Yoshisada Kafuku, *President*

The Aomori Bank, Ltd.
Consolidated Financial Statements
March 31, 2007 and 2006

Consolidated Balance Sheets
The Aomori Bank, Ltd. and consolidated subsidiaries
As of March 31, 2007 and 2006

	Millions of Yen		Thousands of
	(Note 1)		U.S. dollars
	2007	2006	(Note 1)
	2007	2006	2007
Assets			
Cash and due from banks	¥ 59,182	¥ 46,687	\$501,328
Call loans	80,000	60,000	677,679
Trading account securities	467	581	3,960
Investment securities (Note 5)	621,441	597,570	5,264,217
Loans and bills discounted (Note 3, 5)	1,316,289	1,346,296	11,150,263
Foreign exchanges	1,658	1,332	14,047
Other assets (Note 5)	35,149	40,927	297,746
Premises and equipment (Note 4)	-	45,621	-
Tangible fixed assets (Note 4, 6)	44,820	-	379,672
Intangible fixed assets	5,119	-	43,360
Deferred income taxes (Note 9)	6,521	11,126	55,241
Customers' liabilities for			
acceptances and guarantees (Note 7)	26,121	33,113	221,278
Reserve for possible loan losses	(22,027)	(24,629)	(186,592)
Total assets	<u>2,174,740</u>	<u>2,158,627</u>	<u>18,422,199</u>
Liabilities and shareholders' equity			
Liabilities			
Deposits (Note 5)	¥1,974,100	¥1,975,558	\$16,722,573
Call money	10,270	11,747	87,000
Borrowed funds (Note 5)	26,287	27,880	222,677
Foreign exchanges	27	12	229
Corporate bond	20,000	-	169,420
Other liabilities (Note 5)	18,244	16,072	154,546
Reserve for employees' bonus	726	737	6,150
Reserve for employees' retirement benefit	44	1,781	367
Retirement benefits for directors and			
corporate auditors	624	-	5,285
Deferred tax liabilities on land revaluation (Note 6)	2,853	2,913	24,165
Acceptances and guarantees (Note 7)	26,121	33,113	221,278
Total liabilities	<u>2,079,296</u>	<u>2,069,816</u>	<u>17,613,690</u>
Minority interests	-	3,137	-
Shareholder's equity			
Common stock	-	15,221	-
Capital surplus	-	8,576	-
Retained earnings	-	52,663	-
Revaluation reserve for land (Note 6)	-	2,452	-
Net unrealized gains on securities	-	7,009	-
Treasury stock	-	(248)	-
Total Shareholder's equity	-	85,674	-
Total liabilities and shareholders' equity	<u>¥ -</u>	<u>¥2,158,627</u>	<u>\$-</u>
Net assets			
Shareholder's equity			
Common stock	15,221	-	128,939
Capital surplus	8,575	-	72,640
Retained earnings	54,227	-	459,357
Treasury stock	(382)	-	(3,235)
Total Shareholders' equity	<u>77,642</u>	-	<u>657,701</u>
Valuation and translation adjustments			
Net unrealized gains on securities	10,199	-	86,392
Deferred gains(losses) on hedging instruments	0	-	3
Revaluation reserve for land (Note 6)	2,376	-	20,131
Total Valuation and translation adjustments	<u>12,575</u>	-	<u>106,526</u>
Minority interests	5,227	-	44,281
Total net assets	<u>95,444</u>	-	<u>808,508</u>
Total liabilities and net assets	<u>¥2,174,740</u>	<u>¥2,158,627</u>	<u>\$18,422,199</u>

See accompanying notes to consolidated financial statements.

Consolidated Income Statements
The Aomori Bank, Ltd. and consolidated subsidiaries
Years ended March 31, 2007 and 2006

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Income			
Interest on;			
Loans and discounts	¥27,925	¥28,011	\$236,558
Securities	7,782	7,264	65,918
Other	1,655	1,650	14,019
	<u>37,362</u>	<u>36,925</u>	<u>316,495</u>
Fees and commissions	6,154	6,069	52,129
Other income	17,507	18,448	148,305
Total income	<u>61,023</u>	<u>61,443</u>	<u>516,929</u>
Expenses			
Interest on;			
Deposits	2,033	741	17,225
Borrowings and rediscounts	537	480	4,546
Corporate bond	347	-	2,938
Other	1,887	2,218	15,989
	<u>4,804</u>	<u>3,439</u>	<u>40,698</u>
Fees and commissions	2,671	2,367	22,625
General and administrative expenses	25,151	25,449	213,057
Loss on impairment of fixed assets	140	403	1,188
Other expenses	19,875	21,813	168,355
Total expenses	<u>52,641</u>	<u>53,474</u>	<u>445,923</u>
Income before income taxes and minority interests	8,382	7,970	71,006
Income taxes			
Current income taxes (Note 9)	922	2,194	7,810
Deferred income taxes (Note 9)	2,375	1,302	20,120
Total income taxes	<u>3,297</u>	<u>3,496</u>	<u>27,930</u>
Minority interests	286	247	2,427
Net income	<u>¥4,799</u>	<u>¥4,224</u>	<u>\$40,649</u>
	Yen	Yen	Cents
Net income per share	<u>¥26.77</u>	<u>¥23.09</u>	<u>¢ 22.67</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes In Net Assets
The Aomori Bank, Ltd. and consolidated subsidiaries
As of March 31, 2007 and 2006

	Millions of yen				
	Shareholder's equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balances as of March 31,2006	¥15,221	¥8,576	¥52,663	(¥248)	¥76,212
Changes during the accounting period					
Dividends from surplus			(884)		(884)
Bonuses to directors			(31)		(31)
Net Income			4,799		4,799
Purchase of treasury stock				(2,538)	(2,538)
Disposal of treasury stock		0		8	8
Erasure of treasury stock		(1)	(2,397)	2,398	0
Reversal of land revaluation excess			76		76
Changes other than Shareholders' equity(net)					
Total changes during the accounting period		(1)	1,563	(132)	1,430
Balances as of March 31,2007	¥15,221	¥8,575	¥54,227	(¥382)	¥77,642

	Thousands of US. dollars				
	Shareholder's equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balances as of March 31,2006	\$128,939	\$72,648	\$446,113	(\$2,109)	\$645,592
Changes during the accounting period					
Dividends from surplus			(7,488)		(7,488)
Bonuses to directors			(264)		(264)
Net Income			40,649		40,649
Purchase of treasury stock				(21,503)	(21,503)
Disposal of treasury stock		1		66	66
Erasure of treasury stock		(9)	(20,301)	20,311	1
Reversal of land revaluation excess			648		648
Changes other than Shareholders' equity(net)					
Total changes during the accounting period		(8)	13,244	(1,126)	12,109
Balances as of March 31,2007	\$128,939	\$72,640	\$459,357	(\$3,235)	\$657,701

Consolidated Statements of Changes In Net Assets
The Aomori Bank, Ltd. and consolidated subsidiaries
As of March 31, 2007 and 2006

	Valuation and translation adjustments				Minority interests	Millions of yen
	Net unrealized gains(losses) on securities	Deferred gains(losses) on hedging instruments	Revaluation reserve for land	Total		Total net assets
Balances as of March 31,2006	¥7,009	-	¥2,452	¥9,462	¥3,137	¥88,811
Changes during the accounting period						
Dividends from surplus						(884)
Bonuses to directors						(31)
Net Income						4,799
Purchase of treasury stock						(2,538)
Disposal of treasury stock						8
Erasure of treasury stock						0
Reversal of land revaluation excess						76
Changes other than Shareholders' equity(net)	3,190	0	(76)	3,113	2,090	5,203
Total changes during the accounting period	3,190	0	(76)	3,113	2,090	6,633
Balances as of March 31,2007	¥10,199	¥0	¥2,376	¥12,575	¥5,227	¥95,444

	Valuation and translation adjustments				Minority interests	Thousands of US. dollars
	Net unrealized gains(losses) on securities	Deferred gains(losses) on hedging instruments	Revaluation reserve for land	Total		Total net assets
Balances as of March 31,2006	\$59,373	-	\$20,779	\$80,152	\$26,577	\$752,320
Changes during the accounting period						
Dividends from surplus						(7,488)
Bonuses to directors						(264)
Net Income						40,649
Purchase of treasury stock						(21,503)
Disposal of treasury stock						66
Erasure of treasury stock						1
Reversal of land revaluation excess						648
Changes other than Shareholders' equity(net)	27,018	3	(647,511)	26,373	17,705	44,078
Total changes during the accounting period	27,018	3	(647,511)	26,373	17,705	56,188
Balances as of March 31,2007	\$86,392	\$3	\$20,131	\$106,526	\$44,281	\$808,508

Consolidated Statements of Cash Flows
The Aomori Bank, Ltd. and consolidated subsidiaries
Years ended March 31, 2007 and 2006

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and others	¥8,382	¥7,970	\$71,006
Depreciation	9,463	7,531	80,160
Loss on impairment of fixed assets(Note 10)	140	403	1,188
Net increase (decrease) in Reserve for possible loan losses	(2,602)	(1,954)	(22,043)
Net increase (decrease) in Reserve for employees' bonus	(12)	(2)	(98)
Net increase (decrease) in Reserve for employees' retirement benefit	(1,738)	(1,123)	(14,722)
Net increase (decrease) in Retirement benefits for directors and corporate auditors	624	-	5,285
Net increase (decrease) in Other reserves			
Interest income	(37,362)	(36,925)	(316,495)
Interest expenses	4,804	3,439	40,698
Net loss (gain) on Investment securities	(517)	(3,091)	(4,383)
Net loss (gain) on Foreign exchange	(89)	(2,149)	(752)
Net loss (gain) on Sales of Premises and equipment	-	164	-
Net loss (gain) on Sales of Tangible fixed and Intangible fixed assets	86	-	729
Net decrease (increase) in Trading account securities	114	97	963
Net decrease (increase) in Loans and bills discounted	30,008	(4,881)	254,200
Net increase (decrease) in Deposits	(1,458)	(14,080)	(12,354)
Net increase (decrease) in Borrowed funds excluding Subordinated debt	(1,593)	4,149	(13,498)
Net decrease (increase) in Due from banks excluding deposits with the Central bank	2,080	(489)	17,622
Net decrease (increase) in Call loans	(18,392)	(218)	(155,798)
Net increase (decrease) in Call money	(1,477)	(13,687)	(12,509)
Net decrease (increase) in Foreign exchanges (assets)	(325)	(803)	(2,757)
Net increase (decrease) in Foreign exchanges (liabilities)	15	7	123
Interest received	36,925	37,343	312,793
Interest paid	(3,982)	(3,393)	(33,733)
Others, net	3,523	(6,400)	29,844
Sub total	26,617	(28,093)	225,469
Income taxes paid	(2,212)	(2,089)	(18,738)
Net cash provided by (used in) operating activities	24,405	(30,182)	206,731
Cash flows from investing activities:			
Purchases of Investment securities	(216,755)	(122,840)	(1,836,134)
Proceeds from sales of Investment securities	81,368	38,648	689,268
Proceeds from maturities of Investment securities	119,062	72,431	1,008,573
Expenditures for Premises and equipment	-	(10,370)	-
Proceeds from sales of Premises and equipment	-	2,200	-
Expenditures for Tangible fixed assets	(9,161)	-	(77,602)
Proceeds from sales of Tangible fixed assets	946	-	8,013
Expenditures for Intangible fixed assets	(1,861)	-	(15,771)
Net cash provided by (used in) investing activities	(26,401)	(19,929)	(223,653)
Cash flows from financing activities:			
Expenditures for repayment of Subordinated debt	-	(3,000)	-
Proceeds from the publication of the corporate bond	20,000	-	169,420
Cash dividends paid	(884)	(890)	(7,488)
Cash dividends paid to Minority interests	(15)	(10)	(124)
Purchase of Treasury stock	(2,538)	(519)	(21,502)
Proceeds from sales of Treasury stock	8	17	66
Net cash provided by (used in) financing activities	16,571	(4,403)	140,372
Effect of exchange rate changes on Cash and cash equivalents	2	27	14
Net increase in Cash and cash equivalents	14,575	(54,488)	123,464
Cash and cash equivalents at beginning of year (Note8)	41,845	96,333	354,470
Cash and cash equivalents at end of year (Note8)	¥56,420	¥41,845	\$477,934

See accompanying notes to consolidated financial statements.

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 ("the 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 ¥ 118.05 = U.S.\$1, the prevailing rate as of March 31, 2007. 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.
- (2) Trading account securities

Trading account securities are stated at the market value.
- (3) Derivative transactions

Derivative transactions are stated at the market value.

(4) Accounting Standard for Presentation of Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Bank adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet "(Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007, prepared in accordance with the New Accounting Standards, comprises three sections, which are the assets, liabilities and net assets sections.

(5) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Bank adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets"(Statement No.6 issued by the Accounting Standards Board Japan on December 27, 2005), and the implementation guidance for the accounting for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Bank prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards.

(6) Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation.

Depreciation of tangible fixed assets 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.

In accordance with the Additional New Accounting Standards for the year ended March 31,2007, premises and equipment are classified into tangible fixed assets, intangible fixed assets, and other assets; concession money is included in intangible fixed assets; and guarantee money is included in other assets. Under the previous presentation rules, concession money and guarantee money were included in premises and equipment.

Software is included in intangible fixed assets for the year ended March 31,2007.

(7) Software and intangible fixed assets

Intangible assets are amortized by the straight-line method.

Internal use software is amortized by the straight-line method over five years as estimated useful lives.

(8) Bonuses to directors

The Bank adopted the new accounting standard, "Accounting Standard for Directors' Bonus" (Statement No.4 issued by the Accounting Standards Board of Japan on November 29, 2005).

Under the new accounting standard, bonuses to directors are recorded as expenses, and the amount imputed in this accounting period is included in other liabilities.

Under the previous presentation rules, bonuses to directors were recorded as a decrease of appropriated retained earnings.

As a result, operating expense has increased by ¥52 million, and net income before income taxes and has decreased by the same amount.

(9) Hedge accounting method

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.

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.

(10) 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 ¥ 16,307 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.

(11) Reserve for employees' bonus

Reserve for employees' 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.

(12) Reserve for employees' retirement benefit

Reserve for employees' 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.

(13) Finance leases

Lease payments under finance leases are charged to expenses in conformity with the accounting standard for leases in Japan.

(14) Exchange rate

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

(15) Accounting standard for Retirement benefits for directors and corporate auditors

Conventionally, the retirement benefits for directors and corporate auditors of the Bank were charged to expenses at the time of the retirement. Retirement benefits for directors and corporate auditors are provided for at an amount based upon internal rules at the balance sheet date.

Due to this change, ¥ 621 million (\$ 5,265 thousand), which represents the retirement benefits for directors and corporate auditors is recorded as other expenses.

As a result, income before income taxes decreased by ¥ 621 million (\$ 5,265 thousand) compared with what would have been reported using the previous method.

(16) Net assets per share

"Guidance on Accounting Standard for Earnings per Share"(Accounting Board of Japan (ASBJ) Guidance No. 4 issued on September 25 , 2002) was revised on January 31 , 2006 , and it became applicable from the consolidated fiscal year ending on or after the enactment date Company Law.

Effective from this fiscal year , the Bank applied the revised Guidance and calculated net assets per share by including "Gains (losses) on deferred hedging instruments.

(17) 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.

Gain (losses) on valuation of other securities are all processed using the capital direct method.

3. Loans and bills discounted

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

	Millions of Yen	
	2007	2006
(a) Loans to bankrupt borrowers	¥ 4,146	¥ 3,928
(b) Loans past due six months or more	54,723	52,704
(c) Loans past due more than three months	-	58
(d) Loans with renegotiated conditions	15,716	19,761
Total	¥ <u>74,586</u>	¥ <u>76,451</u>

4. Tangible fixed assets

The accumulated depreciation as of March 31, 2007 and 2006 was ¥ 56,383 and ¥ 66,155 millions, respectively.

5. Assets pledged as collateral by the Bank

	Millions of Yen	
	2007	2006
Assets pledged as collateral:		
Securities	¥ 56,460	¥ 46,117
Other assets	¥ 4,274	¥ 6,232
Debt relating to assets pledged as collateral:		
Deposits	¥ 12,090	¥ 16,538
Borrowed funds	¥ 3,649	¥ 4,548
Other liabilities	¥ 546	¥ 1,381

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, 2007 and 2006 was ¥ 70,402 and ¥ 70,245 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, 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 ¥ 2,376 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.

The amount guaranteed by the Bank to privately - placed corporate bonds (Article 2, Section 3 of Securities Exchange Law) included in Securities was ¥ 5,760 million.

The appendix forms of the "Banking Law Enforcement Regulations (Ministry of Finance Ordinance No.10, 1982)" have been revised by the "Cabinet Office Ordinance to Amend Part of Enforcement Regulation of Banking Law." (Cabinet Office Ordinance No.38 , April 17, 2007) and became applicable from fiscal year beginning on or after April , 2006 . In accordance with this revision, Customer's liabilities for acceptances and guarantees are offset beginning from the current fiscal year. As a result, both Acceptances and guarantees and Customer's liabilities for acceptances and guarantees decreased ¥ 5,760 million respectively as compared with those stated under the former method.

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	
	2007	2006
Cash and due from banks	¥ 59,181	¥ 46,687
Time deposits with other banks	(1,236)	(1,236)
Other deposits with other banks	(1,525)	(3,605)
Cash and cash equivalent	¥ <u>56,420</u>	¥ <u>41,845</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.

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 ¥ 88 million (U.S.\$ 753 thousand) for land and ¥ 51 million (U.S. \$ 435 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.

The Aomori Bank, Ltd.

Non-Consolidated Financial Statements

March 31, 2007 and 2006

Non-Consolidated Balance Sheets
The Aomori Bank, Ltd.
As of March 31, 2007 and 2006

	Millions of Yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Assets			
Cash and due from banks	¥57,870	¥45,405	\$490,213
Call loans	80,000	60,000	677,679
Trading account securities	468	581	3,960
Investment securities (Note 3, 7)	621,255	597,286	5,262,648
Loans and bills discounted (Note 4, 7)	1,330,200	1,360,445	11,268,107
Foreign exchanges	1,658	1,332	14,047
Other assets	14,837	19,201	125,684
Premises and equipment (Note 5)	-	27,543	-
Tangible fixed assets (Note 5)	25,611	-	216,953
Intangible fixed assets	2,119	-	17,951
Deferred income taxes (Note 11)	5,268	9,917	44,627
Customers' liabilities for acceptances and guarantees (Note 9)	26,122	33,113	221,278
Reserve for possible loan losses	(18,025)	(20,340)	(152,690)
Total assets	¥2,147,383	¥2,134,485	\$18,190,457
Liabilities and shareholders' equity			
Liabilities			
Deposits (Note 6, 7)	¥1,981,075	¥1,984,511	\$16,781,663
Call money	10,270	11,747	87,000
Borrowed funds	9,500	9,606	80,474
Foreign exchanges	27	12	228
Corporate bond	20,000	-	169,420
Other liabilities (Note 7)	7,240	5,498	61,332
Reserve for employee's bonus	679	690	5,752
Retirement benefits for directors and corporate auditors	596	-	5,049
Reserve for employee's retirement benefit	-	1,727	-
Deferred tax liabilities on land revaluation (Note 8)	2,853	2,913	24,165
Acceptances and guarantees (Note 9)	26,122	33,113	221,278
Total liabilities	2,058,362	2,049,819	17,436,361
Shareholders' equity			
Common stock (Note 10)	-	15,221	-
Capital surplus (Note 10)	-	8,576	-
Legal reserve	-	5,641	-
Appropriated retained earnings	-	42,200	-
Unappropriated retained earnings	-	3,701	-
Revaluation reserve for land (Note 8)	-	2,452	-
Net unrealized gains on securities	-	7,007	-
Treasury stock	-	(135)	-
Total shareholders' equity	-	84,665	-
Total liabilities and shareholders' equity	¥ -	¥2,134,485	\$ -
Net assets			
Shareholder's equity			
Common stock (Note 10)	15,221	-	128,939
Capital surplus (Note 10)	8,575	-	72,640
Total retained earnings	53,033	-	449,240
Legal reserve	5,829	-	49,375
Appropriated retained earnings	43,700	-	370,182
Unappropriated retained earnings	3,504	-	29,683
Treasury stock	(382)	-	(3,235)
Total shareholder's equity	76,447	-	647,584
Valuation and translation adjustments			
Net unrealized gains on securities	10,197	-	86,378
Net deferred gains (losses) on hedging instruments	0	-	3
Revaluation reserve for land (Note 8)	2,377	-	20,131
Total Valuation and translation adjustments	12,574	-	106,511
Total net assets	89,021	-	754,096
Total liabilities and net assets	¥2,147,383	¥ -	\$18,190,457

See accompanying notes to non-consolidated financial statements.

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