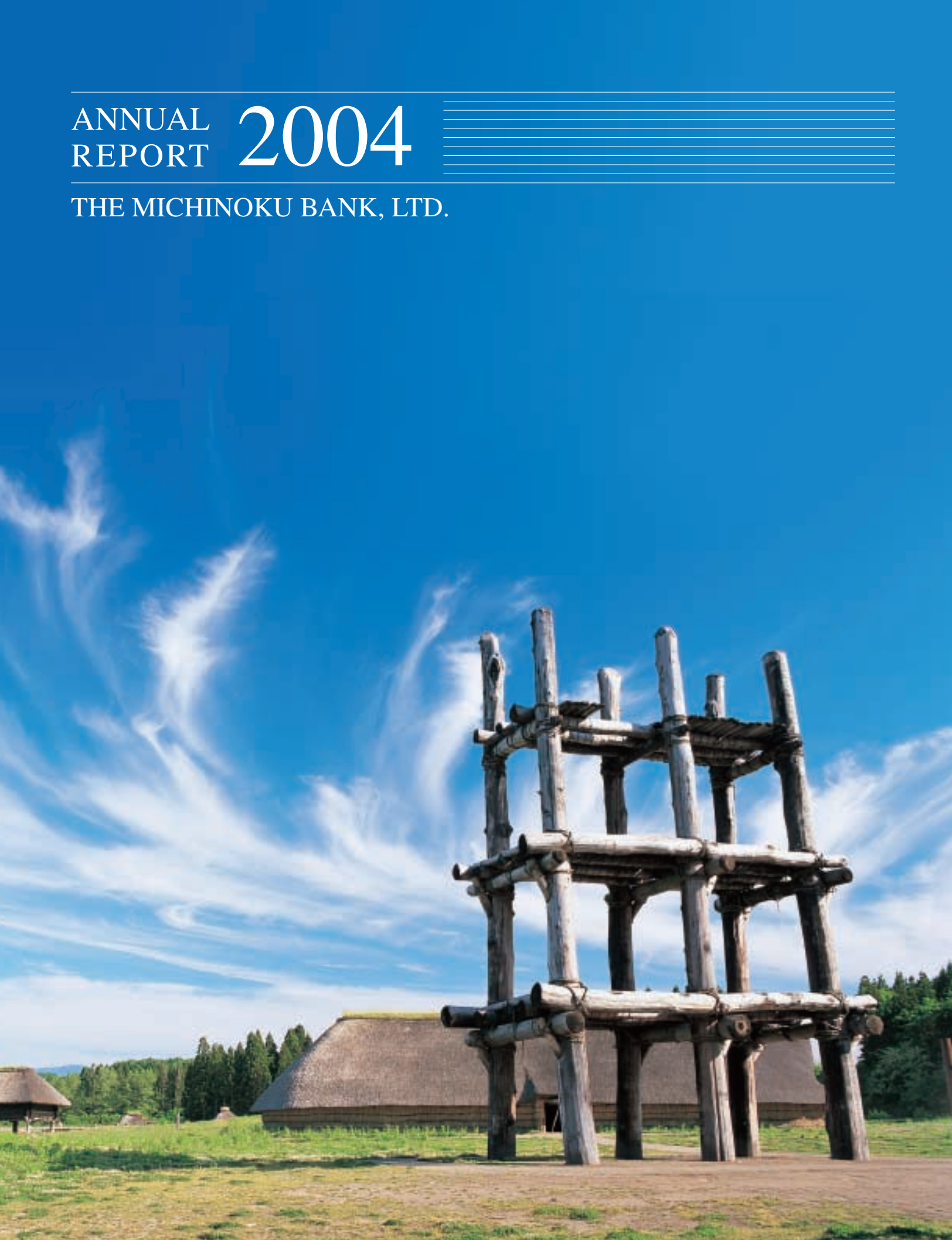


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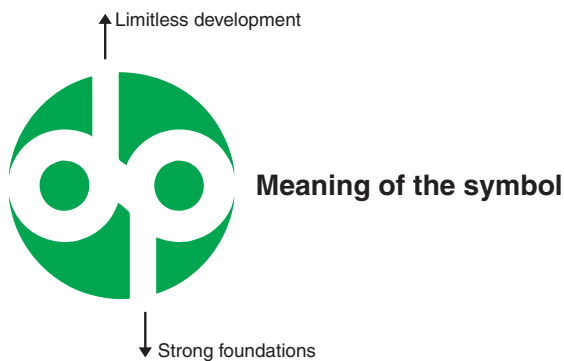
THE MICHINOKU BANK, LTD.



Michinoku Bank



The Michinoku Bank, Head Office, Business Division



The Michinoku Bank's symbol has a threefold meaning.

- Service: Serving people
- Friendship: Unity of two banks (2 circles)
- Progress: It also symbolizes limitless possibilities. Based on firm foundations, The Michinoku Bank pursues limitless development.

The Michinoku Bank's youthful energy which is progressing based on this threefold meaning is expressed by this symbol. Every employee wears a badge bearing the symbol.

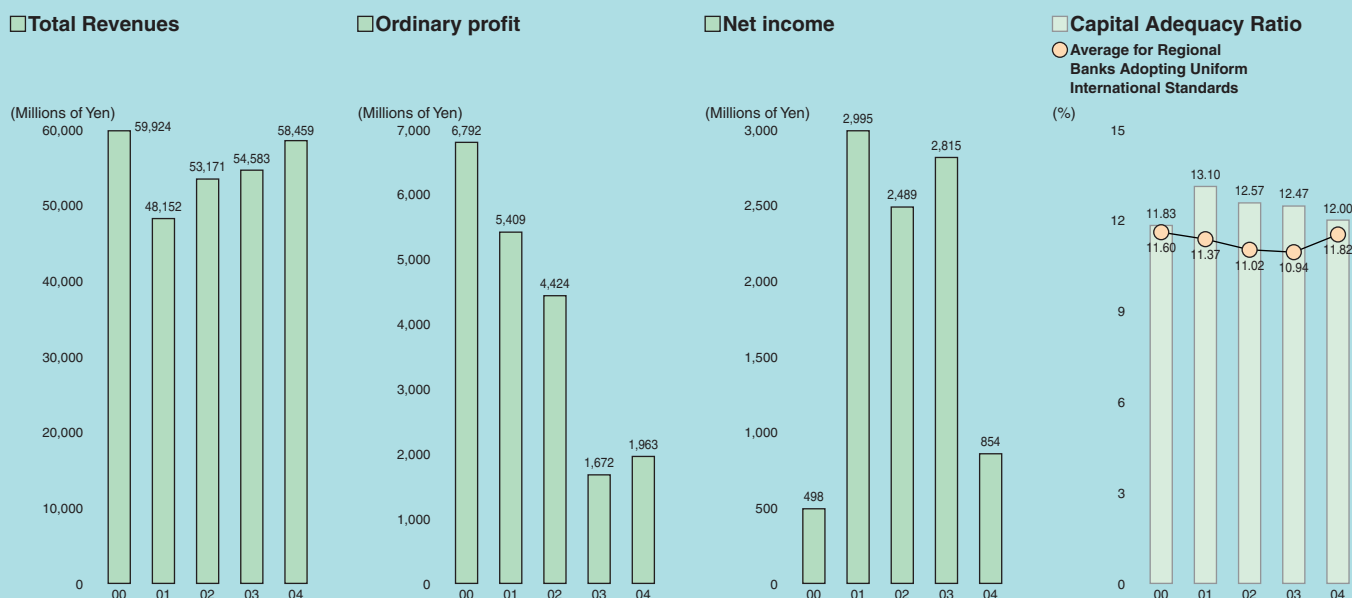
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Consolidated Financial Highlights

Years Ended March 31	Millions of Yen				
	2004	2003	2002	2001	2000
Total Revenues	¥ 58,459	¥ 54,583	¥ 53,171	¥ 48,152	¥ 59,924
Ordinary Profit	1,963	1,672	4,424	5,409	6,792
Net Income	854	2,815	2,489	2,995	498
Shareholders' Equity	96,087	99,170	96,740	99,588	90,824
Total Assets	1,981,370	1,975,996	1,930,247	1,903,775	1,841,667
Cash Flows from Operating Activities	(17,906)	13,995	(49,727)	133,046	(82,781)
Cash Flows from Investing Activities	111,398	(33,530)	100,701	(132,438)	86,503
Cash Flows from Financing Activities	(2,122)	(3,424)	(1,962)	(4,780)	(657)
Cash and Cash Equivalents at End of Year	152,723	62,059	85,564	35,729	39,206
Book Value per Share (¥)*	619.95	637.73	620.71	638.82	582.60
Net Income per Share (¥)*	5.32	17.84	15.96	19.21	3.19
Capital Adequacy Ratio (BIS criteria) (%)	12.00	12.47	12.57	13.10	11.83
Return on Equity (%)	0.9	2.9	2.5	3.1	0.5
Price Earnings Ratio (Times)	121	38	41	36	197
Number of Employees	1,459	1,492	1,549	1,596	1,715

* From the fiscal year ended March 31, 2003, the Bank and its domestic subsidiaries have applied “Accounting Standard for Net Income Per Share” (Financial Accounting Standard No. 2) and “Implementation Guidance for Accounting Standard for Net Income Per Share” (Financial Accounting Standards Implementation Guidance No. 4) issued by the Accounting Standards Board of Japan.



Message from the Management



Kosaburo Daidoji, *Chairman*



Kazuo Harada, *President*

We would like to thank all of you for your patronage of the Michinoku Bank. The Annual Report 2004 is prepared in order to provide you with a greater insight into our bank. We will be pleased if this annual report helps you to understand the Bank's policy and its financial performance.

Fully aware of the social responsibility and public mission with which banks are entrusted, we are endeavoring to provide high-quality financial services responsive to the changes in the economic environment while improving the efficiency of our operations and strengthening our fundamentals so as to meet your expectations.

We would be grateful for your continued and undiminished support and guidance.

Economic Environment

During fiscal 2003, the fiscal year ended March 31, 2004, the Japanese economy remained weak as the instability in the Middle East exacerbated the already uncertain outlook for the real economy. However, in the second half of the fiscal year a more favorable environment for exporters brought about modest, albeit patchy, improvement in production and employment.

The primary industry of Aomori prefecture, which is our core area of business, experienced an unusually cool summer, the coolest since 1993. In regard to the market price of that portion of the rice crop that is not subject to government price controls, prices of certain brands exceeded the previous year's level because of lower yields. As for apples, despite lower shipments due to damage wrought by typhoon No. 14 in September 2003, the average market price remained higher than the previous year's level because high quality was maintained, notably that of the mainstay Fuji variety. On the other hand, the fishing industry contracted due to the continuing decline of squid catches.

Personal consumption was adversely affected by the cool summer and mild winter. Generally, retailing lacked vigor. The number of passenger cars sold declined from the previous year partly due to lackluster sales of compact car and mini van models introduced some time ago. Housing starts further decreased owing to the uncertain outlook for personal incomes. On a positive note, the opening of Hachinohe Station on the Tohoku Shinkansen super-express line had a favorable impact on tourism, leading to an increase in the number of tourists visiting Aomori.

Manufacturing showed a moderate improvement overall. Although food processing, centering on that of marine products, was somewhat lacking in vigor, electronic equipment-related production increased, spurred by rising demand for digital camera lenses.

Although private-sector capital investment is on the rise, fueled by the opening of new retail outlets, as well as consolidation and refurbishment of existing ones, public investment remained weak, with the value of the backlog of contracts declining due to the maintenance of tight fiscal policy by local government.

Thus, despite rather weak domestic demand, there are indications (the upward trend of certain types of production etc.) that the economy of Aomori prefecture, the Bank's core business area, is on the road to recovery. Led by tourism, the economy of Aomori prefecture is poised for growth.

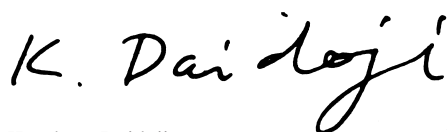
Issues and Challenges

Amid the current intensification of competition across the traditional boundaries between sectors, we aim to meet our customers' expectations by pursuing a proactive approach. We are improving the quality of our assets and taking aggressive action to strengthen our financial position. These efforts include cutting costs through such means as the shared use of computer systems.

We aspire to be a "Family Bank" benefiting society and trusted by the local community. To this end, we are making a concerted effort to proactively meet local needs with an ever broader array of financial services.

In all our endeavors, we request your continued and undiminished support and guidance.

July 2004



Kosaburo Daidoji,
Chairman



Kazuo Harada,
President

Management Policy

In accordance with our Family Bank ethos, we aim to be a bank that enjoys the confidence of the people in the local community and serves them. In our view, the family is the very fiber from which the fabric of society is woven. In this vein, we conceive of a Family Bank as a highly responsive provider of various banking services tailored to customers' lifestyles. We are committed to assisting local residents to plan their future and achieve the lifestyles to which they aspire so that they can live in comfort and security.

Moreover, we are convinced that our commitment also contributes to the prosperity of the local community. To make this vision a reality, we are taking prompt action to develop a panoply of financial products, enhance our services, and improve our sales organization.

10th Medium-term Business Plan

In April 2004 we launched our 10th Medium-term Business Plan, which covers the three years to March 2007. The plan sets the following goals for Michinoku Bank:

- (1) To offer innovative, excellent retail services, and earn the complete confidence of the community.
- (2) To further enhance the Bank's low-cost, high-income structure and financial soundness.
- (3) To build an organizational structure that enables everyone at the Bank to bring his or her capabilities into full play and that can respond quickly to changes in the environment.

In order to improve the Bank's profitability and to contribute to vitalization of the region we serve in accordance with our Family Bank ethos, the following two basic policies have been set:

- (1) To implement the retail strategy based on the Family Bank ethos.
- (2) To enhance the Bank's support for vitalization and revival of medium-scale and small enterprises (relationship banking function).

We are making a concerted effort to address the following four major challenges:

(1) Improvement of profitability through strengthening of the retail business and reduction of costs

We are committed to expanding our business with individuals and local medium-scale and small enterprises by offering attractive products and services, including deposits, personal loans, investment trusts and insurance. We aim to improve profitability through expansion of the retail business and further reduction of costs.

(2) Revision to the system of offering full banking at all outlets and strengthening of the support provided to offices

In order to enhance the operational efficiency of offices, we intend to reengineer and streamline business processes, and at the same time, establish a sales structure attuned to customer needs. Also, the provision of head office support to offices will be strengthened to enhance customer services at offices.

(3) Strengthening of internal control systems

In the light of revisions to legislation relevant to banks and diversification of banking, identification of increasing risks and their control constitute a critical issue for management. We are working to ensure compliance and strengthen risk management.

(4) Human resources development and contribution to the local community

In line with diversification of banking as a result of deregulation, customer needs are also increasingly diversified and sophisticated. In order to provide precisely the services customers desire, it is necessary to increase the quality of our personnel. To this end, we are enhancing our training programs, including the fostering of experts in particular fields. As a financial institution rooted in the community, we are strengthening our relationship banking function to contribute to the local community.

Improving Risk Management

With the progress of financial deregulation and the development of information technology, the risks facing financial institutions have grown in complexity and will continue to do so. In this context, based on the recognition that our urgent task was to put in place an integrated control system that would allow us to accurately identify risks and execute appropriate control, in December 2000 we established the Risk Management Committee, an organization designed to achieve integrated risk management, whereas previously responsibility for risk management had been divided among head office divisions. With the achievement of continuous improvement in the quality of risk management positioned as a core management objective, we are committed to enhancing our risk management techniques.

Credit Risk Management

To manage credit risk, we have implemented an internal credit rating system to supplement our rigorous case-by-case screening process and other conventional risk management techniques. We have also introduced the Credit Risk Quantification System developed by a consortium of regional banks for portfolio management.

Operational Risk and Systems Risk Management

We are augmenting the internal audit function to prevent trouble resulting from clerical errors, system failure, and other operational processing. Moreover, we have our computer systems audited by outside specialists to ensure rigorous risk management.

Market and Liquidity Risk Management

At Michinoku our efforts to monitor, control and manage risk include setting risk limits to control market risks, as well as setting limits to our securities balances and foreign exchange positions, to prevent occurrence of any avoidable loss. We are also committed to maintaining stable and appropriate cash flows to address liquidity risks, as we manage the investment and financing of marketable funds, transfer of large amounts of money, and payment reserves.

Legal Risk Management

By ensuring thorough compliance with laws and regulations and internal rules, we are striving to achieve soundness and appropriateness throughout management and operations.

Compliance

The Bank's role is to manage funds deposited by its customers safely and soundly and to make good use of them for the local community. At Michinoku Bank, we have long been cognizant of banks' societal role and public mission. Accordingly, we have earnestly endeavored to earn the unwavering trust of our customers and the local community. To this end, everyone at the Bank is doing their utmost to earn the confidence of our customers and shareholders through their daily work, adhering to the Michinoku Bank Code of Ethics, a set of action guidelines for ensuring compliance.

Compliance Manual

In line with our commitment to the ensuring of compliance as one of the most critical issues, we have prepared the Compliance Manual, which has been distributed to all directors and personnel of the Bank and is being utilized effectively. An annual compliance program, which is an action plan, has also been established.

Compliance Committee

The Compliance Committee has been established to systematically ensure compliance with laws and regulations, internal rules and procedures. The committee meets monthly to ensure integrated management of compliance issues. We are thus actively addressing the issue of compliance in a bid to become a bank able to thrive in the new era.

Becoming an Environmentally Friendly Company

Aomori Prefecture, our primary base of operations, is blessed with a beautiful natural environment. The Michinoku Bank is striving to enhance its credentials as an environmentally friendly enterprise in order to pass this precious treasure on to posterity. To date, we have introduced wind power generation and hybrid cars, started using recycled office supplies, and invested in a “Government-Corporate Partnership Forest” in the interest of forest preservation.

To proceed even more vigorously with such environmentally friendly activities, we obtained ISO14001 certification, an international standard for environmental management systems, on March 31, 2000. To the best of our knowledge, we were the first regional bank in Japan to obtain ISO14001 certification for its head office and all domestic branches. ISO14001 certification is conferred upon enterprises that have implemented systems to consistently alleviate the burdens they impose on the environment in the course of doing business and to implement activities beneficial to the environment.

Accordingly, we are promoting activities to reduce our environmental impacts through such means as saving energy and other resources at all our domestic offices. We also provide various products to companies and individuals that are addressing environmental issues. Moreover, all our personnel are involved in carrying out environmentally beneficial activities such as assisting others to obtain ISO14001 certification.

We expanded the scope of our ISO14001 certification to encompass our head office and all domestic offices in order to broadly promote environmental protection in our local communities. By having all our executives and employees take action on their own initiative to address environmental issues in their own communities, we hope we can contribute in some measure to a flourishing global environment for future generations. This is the spirit we hope to share with our neighbors through our environmental activities.



Michinoku Bank (Moscow) operates three branches in Russia

Since 1991 we have pursued economic, cultural and medical exchanges in the Russian Far East, and in 1995 we opened a representative office in Yuzhno-Sakhalinsk. Since then we have devoted considerable resources to information gathering and other activities in Russia. Our efforts bore fruit on July 7, 1999, when we opened the Michinoku Bank (Moscow). This was the first subsidiary of a Japanese bank to be opened in Russia. The subsidiary focused on serving the needs of Japanese companies and individuals in Moscow in regard to deposits and remittance transactions. As a result of these efforts the Central Bank of the Russian Federation granted approval in June 2001 for Michinoku Bank (Moscow) to handle personal accounts. Account balances and foreign exchange transaction balances have steadily increased.

In line with our strategy of raising our profile in Russia, we opened the Yuzhno-Sakhalinsk Branch on August 12, 2002, and the Khabarovsk Branch on July 7, 2003, in the Russian Far East. At present, with three offices in Russia, we are taking the initiative both in business activities and in building up our database of information, while endeavoring to promote trade and commerce between Japan and Russia.

Since June 2003 our branches in Russia have been offering personal loans for housing, automobiles, education and home electronics products. Our marketing effort is focused on housing loans for which there is strong demand.

With full-scale development of the oil and natural gas resources of Sakhalin in prospect, the economy of Khabarovsk and that of the wider Russian Far East is showing signs of growing vitality. We intend to cultivate this business opportunity from now on, while at the same time keeping risks to a minimum.

Shanghai Representative Office to open shortly

The Michinoku Bank is preparing for the opening of the Shanghai Representative Office in the first half of fiscal 2004. It will be the Bank's second base in China. In recent years, numerous Japanese companies have set up business operations in Shanghai. With Shanghai, which is China's



preeminent center of commerce, on track to achieve continuing high economic growth, many of our customers are also interested in Shanghai's tremendous potential as a place to do business.

In order to cater to the needs of our customers, the Shanghai Representative Office will have a threefold mission: 1) research into and gathering of information on financial and economic trends in East China centering on Shanghai, 2) research into and gathering of information on excellent investment projects in East China, and 3) provision of information services concerning trade and the investment environment in East China. Working in cooperation with the Wuhan Representative Office, opened in October 1997, the Shanghai Representative Office will be the linchpin for the Bank's development in China.

The Michinoku Bank will always seek opportunities for new growth.

Financial Review

Michinoku Bank (the Bank) has addressed various changes to the operating environment in the context of the severe situation facing the financial sector and the economy as a whole. The Bank has also taken the initiative in building a retail strategy emphasizing transactions with consumers and has engaged in a review of its activities in order to build a corporate organization that achieves high revenues at a low cost. These efforts have enabled the Bank to achieve the following results.

Deposits

During the year under review, as a result of the Bank's efforts to increase personal deposits, deposits grew 1.3%, or ¥24,666 million (US\$ 233 million) from the previous fiscal year. At this fiscal year-end, the balance of deposits therefore totaled ¥1,801,959 million (US\$ 17,049 million).

Loans and Bills Discounted

Loans decreased by 4.7%, or ¥64,908 million (US\$ 614 million) during the period, giving a total loans and bills discounted balance at this fiscal year-end of ¥1,305,264 million (US\$ 12,349 million).

Securities

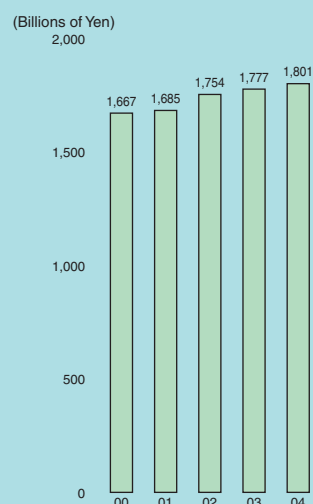
Making use of the various monitoring facilities available, the Bank engages in bond trading to ensure efficient management of funds. The balance at the end of the fiscal year was down 37.0 % or ¥133,686 million (US\$1,264 million) to ¥227,470 million (US\$ 2,152 million).

Earnings

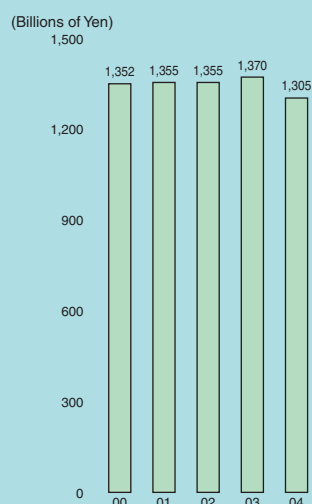
Throughout the year the Bank worked to improve efficiency in raising and managing funds, implemented measures to control increasing costs, and also conducted a severe internal assessment in order to maintain the soundness of assets.

Total income rose 7.0 % or ¥3,875 million (US\$ 36 million) to ¥58,459 million (US\$ 553 million). Expenses rose 15.2 % or ¥7,477 million (US\$ 70 million) from the previous fiscal year to ¥56,496 million (US\$ 534 million). As a result, income before income taxes decreased by 64.7%, or ¥3,601 million (US\$ 34 million) to ¥1,963 million (US\$ 18 million) and net income decreased to ¥854 million (US\$ 8 million), down 69.6 % or ¥1,960 million (US\$ 18 million) from the previous fiscal year.

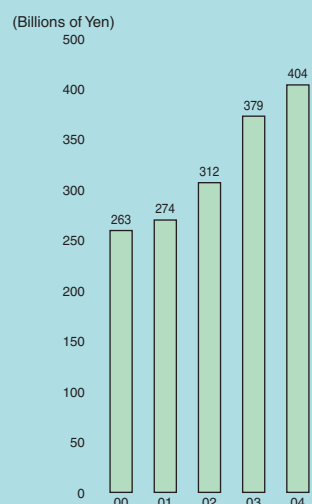
Deposits



Loans and bills discounted



Consumer loans to individuals



Securities



Consolidated Balance Sheets

As of March 31, 2004 and 2003	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
ASSETS			
Cash and Due from Banks	¥ 158,754	¥ 63,958	\$ 1,502,072
Call Loans	240,433	133,353	2,274,888
Commercial Paper and Other Debt Purchased.....	237	222	2,242
Trading Account Securities (Note 4)	770	1,374	7,285
Securities (Note 4)	227,470	361,157	2,152,237
Loans and Bills Discounted (Note 5).....	1,305,264	1,370,173	12,349,929
Foreign Exchange	1,770	313	16,747
Other Assets (Note 8).....	9,874	7,919	93,424
Premises and Equipment (Notes 2 and 9)	14,802	14,592	140,051
Deferred Tax Assets (Note 16)	14,262	13,334	134,941
Customers' Liabilities for Acceptances and Guarantees (Note 18)	19,952	22,410	188,778
Reserve for Possible Loan Losses (Note 2)	(12,222)	(12,812)	(115,640)
Total Assets	¥ 1,981,370	¥ 1,975,996	\$ 18,746,995
LIABILITIES			
Deposits (Note 10)	¥ 1,801,959	¥ 1,777,293	\$ 17,049,474
Call Money.....	12,202	6,082	115,450
Borrowed Money (Note 11).....	15,100	16,100	142,870
Foreign Exchange	38	15	359
Other Liabilities (Note 12).....	26,056	44,896	246,532
Reserve for Employee Bonuses (Note 2).....	1,277	1,311	12,082
Reserve for Employees' Retirement Benefits (Notes 2 and 13)	7,795	7,635	73,753
Reserve for Losses on Real Estate – Collateralized Loans Sold (Note 2)	–	287	–
Deferred Tax Liabilities	105	–	993
Deferred Tax Liabilities for Revaluation Reserve for Land (Note 2)	793	793	7,503
Acceptances and Guarantees (Note 18)	19,952	22,410	188,778
Total Liabilities	¥ 1,885,282	¥ 1,876,826	\$ 17,837,846
SHAREHOLDERS' EQUITY			
Common Stock (Note 21)	¥ 24,167	¥ 24,167	\$ 228,659
Capital Surplus.....	19,775	19,775	187,103
Retained Earnings	52,613	52,574	497,804
Revaluation Reserve for Land, Net of Taxes (Note 2)	1,168	1,168	11,051
Unrealized Gains (Losses) on Securities Available for Sale	(792)	1,293	(7,493)
Foreign Currency Translation Adjustment	(214)	482	(2,024)
Treasury Stock	(631)	(292)	(5,970)
Total Shareholders' Equity	96,087	99,170	909,139
Total Liabilities and Shareholders' Equity	¥ 1,981,370	¥ 1,975,996	\$ 18,746,995

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income and Retained Earnings

For the Years Ended March 31, 2004 and 2003	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
INCOME			
Interest on:			
Loans and Discounts	¥ 29,305	¥ 30,422	\$ 277,273
Securities	4,811	5,488	45,519
Other.....	64	57	605
Fees and Commissions.....	5,386	5,258	50,960
Other Income (Note 14)	18,892	13,355	178,749
Total Income	¥ 58,459	¥ 54,583	\$ 553,117
EXPENSES			
Interest on:			
Deposits.....	¥ 818	¥ 1,134	\$ 7,739
Borrowings and Rediscounts	347	451	3,283
Other.....	10	0	94
Fees and Commissions.....	3,205	2,984	30,324
Other Operating Expenses	16,410	1,280	155,265
General and Administrative Expenses	30,085	29,099	284,653
Other Expenses:			
Reserve for Possible Loan Losses.....	1,532	2,807	14,495
Other (Note 15).....	4,088	11,232	38,679
Total Expenses	¥ 56,496	¥ 49,018	\$ 534,544
Income before Income Taxes	1,963	5,565	18,573
Income Taxes – Current (Note 16)	508	2,362	4,806
Income Taxes – Deferred (Note 16)	600	387	5,676
Net Income	¥ 854	¥ 2,815	\$ 8,080
RETAINED EARNINGS			
Balance at Beginning of Year	¥ 52,574	¥ 50,551	\$ 497,435
Increase in Retained Earnings.....	854	2,845	8,080
Decrease in Retained Earnings:			
Dividends	776	779	7,342
Bonuses to Directors and Corporate Auditors	39	42	369
Balance at End of Year	¥ 52,613	¥ 52,574	\$ 497,804
Book Value per Share (in Yen and U.S. Dollars)	¥ 619.95	¥ 637.73	\$ 5.86
Net Income per Share (in Yen and U.S. Cents)	¥ 5.32	¥ 17.84	¢ 5.0

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2004 and 2003	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Income Taxes and Other Adjustments	¥ 1,963	¥ 5,565	\$ 18,573
Depreciation and Amortization	730	666	6,906
Equity in Loss (Gain) of Affiliates	7	(9)	66
Net Increase (Decrease) in Reserve for Possible Loan Losses	(590)	1,014	(5,582)
Net Increase (Decrease) in Reserve for Losses on Real Estate – Collateralized Loans Sold	(287)	15	(2,715)
Net Increase (Decrease) in Reserve for Employee Bonuses	(33)	(80)	(312)
Net Increase (Decrease) in Liability for Employees' Retirement Benefits	159	(3,721)	1,504
Interest Income Recognized on Statement of Income	(34,181)	(35,959)	(323,408)
Interest Expenses Recognized on Statement of Income	1,175	1,613	11,117
Net (Gain) Loss Related to Securities	(1,207)	(170)	(11,420)
Foreign Exchange Loss	30	648	283
Net Loss on Sale of Premises and Equipment	61	40	577
Net Decrease (Increase) in Loans	64,908	(14,364)	614,135
Net Increase in Deposits	24,666	22,593	233,380
Net Decrease (Increase) in Due from Banks Other than The Bank of Japan..	(4,132)	123	(39,095)
Net Decrease (Increase) in Call Loans	(107,094)	10,069	(1,013,284)
Net Increase in Call Money	6,120	2,084	57,905
Net Decrease (Increase) in Foreign Exchange Assets	(1,456)	187	(13,776)
Net Increase (Decrease) in Foreign Exchange Liabilities	23	(11)	217
Interest Received	35,004	36,903	331,195
Interest Paid	(1,338)	(2,472)	(12,659)
Others	(38)	(5,983)	(359)
Subtotal	(15,508)	18,743	(146,731)
Income Taxes Payable	(2,397)	(4,748)	(22,679)
Net Cash Provided by (Used in) Operating Activities	(17,906)	13,995	(169,420)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Stock and Other Securities	(536,923)	(456,905)	(5,080,168)
Proceeds from Sales of Stock and Other Securities	632,427	394,482	5,983,792
Proceeds from Redemption of Bonds	16,564	29,015	156,722
Purchases of Premises and Equipment	(670)	(175)	(6,339)
Proceeds from Sales of Premises and Equipment	0	53	0
Net Cash Provided by (Used in) Investing Activities	111,398	(33,530)	1,054,007
CASH FLOWS FROM FINANCING ACTIVITIES			
Subordinated Debt	–	3,500	–
Repayment of Subordinated Debt	(1,000)	(6,000)	(9,461)
Dividends Paid	(776)	(779)	(7,342)
Purchases of Treasury Stock	(349)	(145)	(3,302)
Proceeds from Sales of Treasury Stock	3	–	28
Net Cash Used in Financing Activities	(2,122)	(3,424)	(20,077)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(704)	(545)	(6,660)
Net Increase (Decrease) in Cash and Cash Equivalents	90,664	(23,505)	857,829
Cash and Cash Equivalents at Beginning of Year	62,059	85,564	587,179
Cash and Cash Equivalents at End of Year	¥ 152,723	¥ 62,059	\$ 1,445,008

Accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements of The Michinoku Bank, Ltd., (the "Bank") and its consolidated subsidiaries (collectively referred to as the "Group") have been prepared 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. These principles and practices derive from several sources including, but not limited to Financial Statements Regulations and Consolidated Financial Statements Regulations promulgated by the Cabinet Office, the statements and guidelines issued by the Accounting Standards Board of Japan and the Business Accounting Deliberation Council and industry practices for banks in Japan.

Certain items presented in the consolidated financial statements filed with the Financial Services Agency in Japan have been reclassified for the convenience of readers outside Japan.

The yen figures disclosed in the consolidated financial statements are expressed in millions of yen and have been rounded down. Consequently, differences may exist between the sum of the rounded figures and the totals listed in the annual report.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and all of its subsidiaries listed below, after the elimination of all significant inter-company transactions, balances, and unrealized profit.

Consolidated subsidiaries

Domestic Subsidiaries

- Michinoku Service Center Co., Ltd.
- Michinoku Office Service Co., Ltd.
- Michinoku Total Management Co., Ltd.

Foreign Subsidiaries

- Michinoku Finance (Hong Kong), Ltd.
- The Michinoku Bank (Moscow), Ltd.

Investments in the following affiliates are accounted for using the equity method.

- Michinoku Credit Guarantee, Ltd.
- Michinoku Card Co., Ltd.
- Michinoku UC Card Co., Ltd.
- Michinoku Capital Co., Ltd.

The difference between the cost and underlying net equity of investments in consolidated subsidiaries at the acquisition date is principally recognized in appropriate accounts in the accompanying financial statements.

(2) Financial Instruments

1) Trading Account Securities

Trading account securities purchased for trading purposes are stated at market value at the fiscal year-end. The sales value is calculated by the moving-average method.

2) Securities

Debt securities being held to maturity are stated at amortized cost determined by the moving-average method. Investments in affiliated companies are valued on a cost basis using the moving-average method. Other securities (securities available for sale) of which the current value can be estimated are stated at market value at the fiscal year-end and other non-marketable securities are stated at cost or amortized cost computed by the moving-average method. Unrealized

gains and losses on securities are, net of income taxes, included in shareholders' equity. Sales value is calculated by the moving-average method.

(3) Premises and Equipment

Depreciation of buildings and equipment is computed using the declining-balance method at the rates principally based on the following estimated useful lives:

Buildings	3 years to 50 years
Equipment and furniture	2 years to 20 years
Depreciation of buildings acquired after April 1, 1998, is computed on the straight-line method.	

(4) Software

Costs of computer software developed or obtained for internal use are deferred and amortized using the straight-line method over the estimated useful lives of 5 years.

(5) Reserve for Possible Loan Losses

For the year ended March 31, 2004, the reserve for possible loan losses is provided as follows, pursuant to the internal rules for self-assessment of asset quality and internal rules for providing reserves for credit losses:

- 1) The reserve for claims to debtors who are legally bankrupt (due to bankruptcy, restructuring, suspension of transactions with banks under clearing houses' rules, etc.) or virtually bankrupt is provided based on the amount remaining after deductions of the expected amount to be collected through the disposal of collateral or through the execution of guarantees.
- 2) The reserve for claims to debtors who are not currently legally bankrupt but are likely to become bankrupt is provided based on the necessary amount considering the solvency assessment of the amounts remaining after deductions of the expected amount to be collected through the disposal of collateral or through the execution of guarantees.
- 3) The reserve for claims to debtors other than the above is provided based on default rates, calculated using the actual defaults during a certain period in the past.
- 4) The special reserve for loans to certain under developed countries is provided based on the amount of expected or potential losses due to the economic situations in the respective countries.
- 5) All claims are assessed by the branches and credit supervision division based on the internal rules for self-assessment of asset quality. The asset examination team, which is independent of the branches and credit supervision divisions, audits these self-assessments, and the reserve is provided based on the audit results.
- 6) For collateralized or guaranteed claims to debtors who are legally bankrupt or virtually bankrupt, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off and totals ¥19,118 million (US\$180,887 thousand).
- 7) The reserve for possible loan losses of consolidated subsidiaries is provided in the amounts deemed necessary to cover such losses, principally based on past experience and management's assessment of the loan portfolio and estimated collectibility of specific claims.

(6) Reserve for Employee Bonuses

Reserve for employees' bonuses is provided for the payments of bonuses to employees based on estimated amounts of the future payments attributable to the current fiscal year.

(7) Reserve for Employees' Retirement Benefits

Reserve for employees' retirement benefits is provided for the payments of employees' retirement benefits based on estimated amounts of the actuarial retirement benefit obligation and the pension

assets. Prior service cost is amortized using the straight-line method over 5 years. Net actuarial gain (loss) is amortized using the straight-line method over 5 years commencing from the next fiscal year of incurrence.

(8) Translation of Foreign Currency Financial Statements

Foreign currency assets and liabilities of the Bank are principally translated into Japanese yen equivalents at the exchange rates prevailing at the fiscal year-end.

(Change in the accounting policy)

Translated Japanese yen differences arising from forward foreign exchange transactions were previously accounted for as “Other” under “Other Assets” or “Other Liabilities” on a net basis. However, from the fiscal year under review they are accounted for as “Derivative Financial Instruments” under “Other Assets” and “Other Liabilities” on a gross basis in accordance with the JICPA Industry Audit Committee Report No. 25. Consequently, “Other Assets” and “Other Liabilities” are each ¥3 million higher than those by the previous method.

Foreign currency assets and liabilities of the consolidated subsidiaries are translated into Japanese yen equivalents at the exchange rates prevailing at the fiscal year-end of each company.

(9) Important hedge accounting method

The Bank applies the exceptional hedge accounting method to interest rate swap contracts for certain assets and liabilities.

In addition to hedge against fluctuations in foreign currency exchange rates on available-for-sale securities denominated in foreign currencies (excluding bonds), the Bank applies fair value hedge accounting as a part of “macro” hedge accounting to foreign-currency-denominated securities designated in advance, provided that spot and forward liabilities exist for such securities on a foreign currency basis that exceed acquisition costs.

(10) Land Revaluation

In accordance with the Law concerning Revaluation of Land enacted on March 31, 1998, the land used for business owned by the Bank has been revalued, and the net amount on the revaluation of land, net of deferred tax, is reclassified to “Revaluation Reserve for Land, Net of Taxes” in Shareholders’ Equity and the relevant deferred tax is included in Liabilities to “Deferred Tax Liabilities for Revaluation Reserve for Land.”

Date of Revaluation : March 31, 2002

The method of revaluation is as follows:

Under Article 3-3 of the law concerning revaluation of land, the

land price for the revaluation is determined based on the official notice prices assessed and published by the National Land Agency of Japan (currently, the Ministry of Land, Infrastructure and Transport), after appropriate adjustments for the shape of the land and the timing of the assessment. The current market value of the revalued land is lower by ¥1,052 million (US\$9,953 thousand) than the book value of the land after revaluation.

(11) Income Taxes

Income taxes of the Bank and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(12) Statements of Cash Flows

For the purpose of the consolidated statements of cash flows, cash and cash equivalents represent cash and demand deposit with the Bank of Japan.

(13) Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued “Accounting Standard for Impairment of Fixed Assets”. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. An impairment loss should be recognized in the consolidated statement of operations by reducing the carrying amount of impaired assets of group of assets to the recoverable amount to be measured as the higher of net selling price or value in use. The standard is effective from the fiscal year ending March 31, 2006. Although application of the standard prior to the effective date is permitted, the Michinoku Bank Group has not applied for early adoption nor determined the impact of adoption on the consolidated financial statements.

3. Japanese Yen and U.S. Dollar Amounts

The Bank maintains its accounting records in yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetic results of translating yen to dollars on the basis of ¥105.69 to US\$1, the approximate effective rate of exchange as of March 31, 2004. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that assets and liabilities originated in yen have been or could be readily converted, realized, or settled in dollars at the given rate or at any other rate.

4. Securities

(1) Market Value of Securities

Market value and valuation differences of securities are as follows:

(a) Trading securities

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Amount in the balance sheet	¥ 770	¥ 1,374	\$ 7,285
Valuation gain included in income before income taxes	(0)	5	(0)

(b) Marketable securities available for sale

		Millions of Yen			
		2004			
		Balance sheet amount	Valuation differences	Gain	Loss
Stock	¥ 38,068	¥ 38,507	¥ 439	¥ 1,761	¥ 1,322
Bonds	167,601	164,454	(3,146)	960	4,107
Government bonds	110,842	107,570	(3,272)	80	3,353
Municipal bonds	20,318	20,386	67	327	259
Corporate bonds	36,439	36,497	58	552	494
Others	16,580	17,742	1,161	1,355	193
Total	¥ 222,250	¥ 220,704	¥ (1,546)	¥ 4,076	¥ 5,622

Notes to Consolidated Financial Statements

Thousands of U.S. Dollars (Note 3)

	2004				
	Cost	Balance sheet amount	Valuation		
			differences	Gain	Loss
Stock.....	\$ 360,185	\$ 364,339	\$ 4,153	\$ 16,661	\$ 12,508
Bonds.....	1,585,779	1,556,003	(29,766)	9,083	38,858
Government bonds	1,048,746	1,017,787	(30,958)	756	31,724
Municipal bonds	192,241	192,884	633	3,093	2,450
Corporate bonds	344,772	345,321	548	5,222	4,674
Others	156,873	167,868	10,984	12,820	1,826
Total	\$ 2,102,847	\$ 2,088,220	\$(14,627)	\$ 38,565	\$ 53,193

Valuation differences, net of ¥759 million (US\$7,181 thousand) of related deferred tax assets, are ¥787 million (US\$7,446 thousand). Valuation differences, including the Bank's share of affiliates' unrealized loss on securities available for sale of ¥0 million (US\$0 thousand), are ¥787 million (US\$7,446 thousand) which appears in the accompanying balance sheets.

As of March 31, 2004, the Bank has written down the market value of marketable securities by ¥240 million (US\$2,270 thousand). Write-downs of marketable securities were made for all those for which the market prices at the fiscal year-end were down 50 percent or more from book value. Write-downs were also made for those securities for which the market prices at the fiscal year-end were both down 30 to 50 percent and were not expected to recover.

	Millions of Yen				
	2003				
	Cost	Balance sheet amount	Valuation		
			differences	Gain	Loss
Stock.....	¥ 32,238	¥ 26,282	¥ (5,956)	¥ 1,406	¥ 7,362
Bonds.....	306,874	313,978	7,104	7,104	0
Government bonds	188,235	190,950	2,715	2,715	—
Municipal bonds	17,543	18,601	1,058	1,058	—
Corporate bonds	101,096	104,426	3,330	3,330	0
Others	15,709	16,514	805	1,128	322
Total	¥ 354,823	¥ 356,776	¥ 1,953	¥ 9,638	¥ 7,685

Valuation differences, net of ¥658 million of related deferred tax liabilities, amounted to ¥1,293 million. Valuation differences, including the Bank's share of affiliates' unrealized loss on securities available for sale of ¥0 million, amounted to ¥1,293 million which appears in the accompanying balance sheets.

(2) Securities Available for Sale Sold

Securities available for sale sold in this fiscal year are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
	Proceeds from sale	¥ 633,761	¥ 393,187
Gain	17,777	8,681	168,199
Loss	16,242	372	153,675

(3) Securities for which the Fair Value is not Readily Determinable

Principal items in securities for which fair value is not readily determinable are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
	Debt Securities being held to maturity		
Non-listed corporate bonds	¥ 3,564	¥ 1,100	\$ 33,721
Other Securities			
Non-listed stocks	3,493	3,661	33,049
Non-listed foreign securities	46	52	435

(4) Maturity Schedule of Bonds Held

The maturity schedule of bonds classified as securities available for sale and being held to maturity is as follows:

	Millions of Yen			
	2004			
	Due within 1 year	Due after 1 year but within 5 years	Due after 5 years but within 10 years	Due after 10 years
Bonds	¥ 1,651	¥ 55,711	¥ 110,090	¥ –
Government bonds	117	23,952	83,499	–
Municipal bonds	693	3,044	16,647	–
Corporate bonds	840	28,714	9,942	–
Others	2,787	5,654	3,869	1,387
Total	¥ 4,439	¥ 61,366	¥ 113,960	¥ 1,387

	Thousands of U.S. Dollars (Note 3)			
	2004			
	Due within 1 year	Due after 1 year but within 5 years	Due after 5 years but within 10 years	Due after 10 years
Bonds	\$ 15,621	\$ 527,117	\$ 1,041,631	\$ –
Government bonds	1,107	226,625	790,036	–
Municipal bonds	6,556	28,801	157,507	–
Corporate bonds	7,947	271,681	94,067	–
Others	26,369	53,496	36,607	13,123
Total	\$ 42,000	\$ 580,622	\$ 1,078,247	\$ 13,123

	Millions of Yen			
	2003			
	Due within 1 year	Due after 1 year but within 5 years	Due after 5 years but within 10 years	Due after 10 years
Bonds	¥ 14,819	¥ 76,940	¥ 223,319	¥ –
Government bonds	346	1,779	188,824	–
Municipal bonds	832	5,375	12,393	–
Corporate bonds	13,640	69,785	22,100	–
Others	1,026	7,058	6,358	743
Total	¥ 15,845	¥ 83,998	¥ 229,677	¥ 743

5. Loans and Bills Discounted

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
	Bills Discounted	¥ 9,883	¥ 12,040
Loans on Bills	141,712	154,187	1,340,826
Loans on Deeds	999,061	1,051,229	9,452,748
Overdrafts	154,607	152,716	1,462,834
Total	¥ 1,305,264	¥ 1,370,173	\$12,349,929

(1) Nonaccrual Loans

Loans to legally bankrupt borrowers, on which the Bank stopped accruing interest under Japanese tax laws, as of March 31, 2004 and 2003, totaled ¥4,413 million (US\$41,754 thousand) and ¥5,910 million, respectively. Other delinquent loans, on which the Bank also stopped accruing interest under Japanese tax laws, totaled ¥53,976 million (US\$510,701 thousand) and ¥52,395 million, respectively, as of March 31, 2004 and 2003. Other delinquent loans are nonaccrual loans other than loans to customers in bankruptcy and loans for which interest payments are deferred in order to assist the financial recovery of debtors facing financial difficulties.

(2) Loans Contractually Past Due 3 Months or More

Loans past-due three months or more, other than loans to legally bankrupt borrowers and other delinquent loans, as of March 31, 2004 and 2003, totaled ¥49 million (US\$463 thousand) and ¥50 million, respectively.

(3) Restructured Loans

Restructured loans as of March 31, 2004 and 2003, were ¥21,004 million (US\$198,732 thousand) and ¥20,699 million, respectively. Restructured loans represent loans with concessional interest rates and loans with negotiated terms regarding timing of interest and principal payments.

Nonaccrual Loans, loans contractually past due 3 months or more and restructured loans totaled ¥79,444 million (US\$751,669 thousand) and ¥79,055 million, respectively, as of March 31, 2004 and 2003.

The amounts reflected in (1) to (3) above represent the gross receivable amounts prior to reduction for the reserve for possible loan losses.

Notes to Consolidated Financial Statements

(4) Discounts of Notes

The Bank treats discounts of notes as financial transactions in accordance with the Industry Audit Committee Report No. 24 "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry." Accordingly, the Bank has a right to dispose of commercial notes received and foreign bills bought by means of sale or use as collateral at its discretion. Face value of such notes as of March 31, 2004 and 2003 amounts to ¥9,886 million (US\$93,538 thousand) and ¥12,049 million, respectively.

6. Assets Pledged

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Assets pledged as collateral			
Securities	¥ 1,388	¥ 1,427	\$ 13,132
Liabilities related to the above pledged assets			
Deposit	¥ 5,834	¥ 7,325	\$ 55,199

In addition, securities as of March 31, 2004 and 2003 totaling ¥60,026 million (US\$567,943 thousand) and ¥52,911 million, respectively, were pledged as collateral for the settlement of exchange and short money transactions or as variation margin for futures transactions. Leased deposits as March 31, 2004 and 2003 of ¥899 million (US\$ 8,506 thousand) and ¥943 million were included in Premises and equipment respectively.

7. Loan Commitments

Contracts for overdraft facilities and loan commitment limits are those under which the Bank lends to customers up to the prescribed limits in response to their loan applications as long as there is no violation of any condition in the contracts. The unused amount within the limits of these contracts as of March 31, 2004 and 2003 totaled ¥211,236 million (US\$1,998,637 thousand) and ¥222,208 million, respectively. Of which, contracts whose original contract periods are one year or less (or which are unconditionally revocable at any time) as of March 31, 2004 and 2003 amount to ¥210,315 million (US\$1,989,923 thousand) and ¥221,208 million, respectively.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions such that the Bank can refuse the customer's loan application or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in the customer's creditworthiness). At the inception of the contract, the Bank obtains real estate, securities, etc. as collateral if such is considered necessary. Subsequently, the Bank performs periodic reviews of the customer's business results based on internal rules, and implements the necessary measures to reconsider conditions in the contract and/or require additional collateral or guarantees.

8. Other Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Prepaid Expenses.....	¥ 84	¥ 115	\$ 794
Accrued Income	2,217	2,685	20,976
Derivative Financial Instruments	8	-	75
Receivable for securities sold.....	1,395	31	13,202
Other.....	6,168	5,086	58,359
Total	¥ 9,874	¥ 7,919	\$ 93,424

9. Premises and Equipment

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Net Book Value			
Land.....	¥ 9,008	¥ 8,964	\$ 85,230
Buildings	3,782	3,909	35,783
Equipment	942	649	8,912
Other.....	1,069	1,069	10,114
Total	¥ 14,802	¥ 14,592	\$ 140,051

Premises and equipment are stated at cost less accumulated depreciation. The accumulated depreciation at March 31, 2004 and 2003, amounted to ¥12,216 million (US\$115,583 thousand) and ¥12,066 million, respectively.

10. Deposits

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Current Deposits.....	¥ 37,794	¥ 37,150	\$ 357,592
Ordinary Deposits	605,674	579,298	5,730,665
Savings Deposits	64,731	65,165	612,460
Deposits at Notice	14,680	17,659	138,896
Time Deposits	1,052,592	1,054,046	9,959,239
Installment Savings	-	572	-
Other Deposits.....	26,485	23,400	250,591
Total	¥ 1,801,959	¥ 1,777,293	\$17,049,474

11. Borrowed Money

Borrowed money includes subordinated borrowings as of March 31, 2004 and 2003 of ¥15,100 million (US\$ 142,870 thousand) and ¥16,100 million, respectively.

12. Other Liabilities

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Domestic Exchange Settlement.....	¥ 18	¥ —	\$ 170
Account Credit	—	14	—
Accrued Expenses	985	918	9,319
Unearned Income	577	605	5,459
Reserve for Taxes	509	1,322	4,815
Derivative Financial Instruments	3	—	28
Payable for Securities Purchased	22,172	40,408	209,783
Other.....	1,789	1,626	16,926
Total	¥ 26,056	¥ 44,896	\$ 246,532

13. Reserve for Employees' Retirement Benefits

The funded status and amounts recognized in the consolidated balance sheets are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Projected benefit obligations.....	¥ (16,923)	¥ (17,345)	\$ (160,119)
Fair value of plan assets	6,139	5,097	58,084
Projected benefit obligations in excess of plan assets.....	(10,783)	(12,247)	(102,024)
Unrecognized net actuarial loss.....	2,988	4,612	28,271
Unrecognized prior service cost.....	—	—	—
Net liability recognized	¥ (7,795)	¥ (7,635)	\$ (73,753)
Prepaid pension cost.....	—	—	—
Reserve for employees' retirement benefits.....	(7,795)	(7,635)	(73,753)

Net pension expense related to the retirement benefits for the years ended March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Service cost	¥ 518	¥ 597	\$ 4,901
Interest cost	468	524	4,428
Expected return on plan assets	(91)	(287)	(861)
Amortization of prior service cost.....	—	(22)	—
Amortization of actuarial losses.....	1,042	655	9,859
Other.....	(46)	(71)	(435)
Net pension expense.....	1,891	1,397	17,891
Gain on the return of the entrusted government portion of National Pension Fund	—	(3,804)	—
Total	¥ 1,891	¥ (2,407)	\$ 17,891

Assumptions used in calculation of the above information for the years ended March 31, 2004 and 2003, were as follows:

	2004	2003
Discount rate	2.7%	2.7%
Expected rate of return on plan assets.....	1.8%	3.5%
Method of attributing the projected benefits to periods of services.....	Straight-line basis	Straight-line basis
Amortization of prior service cost.....	—	5 years
Amortization of unrecognized actuarial differences	5 years from next fiscal year	5 years from next fiscal year

14. Other Income

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Gain on sale and redemption of bonds	¥ 6,710	¥ 8,590	\$ 63,487
Gain on sale of equity securities	11,072	111	104,759
Other.....	1,108	4,654	10,483
Total	¥ 18,892	¥ 13,355	\$ 178,749

Notes to Consolidated Financial Statements

15. Other Expenses — Other

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Write-down for stocks	¥ 304	¥ 7,883	\$ 2,876
Loan amortization	3,258	1,798	30,826
Other	526	1,551	4,976
Total	¥ 4,088	¥ 11,232	\$ 38,679

16. Income Taxes

The tax allocation of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Deferred Tax Assets:	¥ 15,903	¥ 14,175	\$ 150,468
Reserve for possible loan losses	9,081	9,318	85,921
Reserve for employees' retirement benefits	3,039	2,907	28,753
Net valuation difference of securities available for sale	2,268	—	21,458
Reserve for employee bonuses	516	455	4,882
Depreciation	292	319	2,762
Enterprise tax payable	0	103	2
Amortization of securities	79	465	747
Other	624	603	5,904
Deferred Tax Liabilities:	(1,746)	(841)	(16,520)
Retained earnings of foreign subsidiaries	(146)	(182)	(1,381)
Net valuation difference of securities available for sale	(1,506)	(658)	(14,249)
Other	(93)	—	(879)
Net Deferred Tax Assets	¥ 14,156	¥ 13,334	\$ 133,938

The reconciliations of the statutory tax rate to the effective income tax rate for the years ended March 31, 2004 and 2003, are as follows:

	2004	2003
Statutory tax rate	41.7%	41.7%
Increase in taxes resulting from permanent non-deductible items including entertainment expenses	11.7	5.6
Permanent non-taxable items including dividend income	(4.6)	(1.1)
The change in the aggregate statutory income tax rate	4.6	6.2
Resident tax per capital levy	0.8	0.1
Other	2.2	(3.2)
Effective income tax rate	56.4%	49.4%

17. Consolidated Statements of Cash Flows

Relations between the cash and cash equivalents at fiscal year-end and amounts of items on the consolidated balance sheet

	Millions of Yen	
	2004	2003
Cash deposit	¥ 158,754	¥ 63,958
Time deposit	(3,322)	(714)
Other	(2,708)	(1,185)
Cash and cash equivalents	¥ 152,723	¥ 62,059

18. Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in this account. As a contra account, customers' liabilities for acceptances and guarantees are shown on the assets side in the accompanying balance sheets which represent the Bank's right of indemnity from these customers.

19. Lease Commitments and Contingent Liabilities

Finance lease contracts, other than those by which the ownership of the leased assets is to be transferred to lessees, are accounted for by a method similar to the operating lease method.

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2004 and 2003, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Lease Rental Expenses	¥ 1,609	¥ 1,465	\$ 15,223

The amounts of outstanding future lease payments due at March 31, 2004 and 2003, which excluded the interest portion, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Future Lease Payments			
Within one year	¥ 1,344	¥ 1,101	\$ 12,716
Over one year	4,333	3,356	40,997
Total	¥ 5,677	¥ 4,458	\$ 53,713

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery and equipment), are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Acquisition	¥ 9,364	¥ 7,771	\$ 88,598
Accumulated Depreciation	(3,923)	(3,521)	(37,117)
Net Book Value	5,441	4,250	51,480
Depreciation	1,367	1,221	12,934

Depreciation is based on the straight-line method over the lease term of the leased assets.

20. Derivative Financial Instruments

The Bank uses derivative financial instruments, which comprise principally foreign exchange forward contract, and interest rate and currency swap agreements, to reduce its exposure to market risks arising from fluctuations in foreign currency exchange and interest rates. The Bank also holds or issues financial instruments for trading purposes restricted with a certain internal limitation.

Contractual values or notional principal amounts, market values or estimated market values and unrealized profit / (loss) of derivative financial instruments of the Bank at March 31, 2004 and 2003, are shown below in accordance with the revised Financial Statements Regulation.

Interest Rate Related Transactions Not applicable	Foreign Exchange Related Transactions Not applicable	Equity Related Transactions Not applicable
Bond Related Transactions Not applicable	Commodities Related Transactions Not applicable	Credit Derivative Transactions Not applicable

21. Common Stock

Information with respect to common stock of the Bank at March 31, 2004 and 2003, is as follows:

	Thousands of Shares	
	2004	2003
Number of Shares:		
Authorized	200,000	200,000
Issued and Outstanding	155,895	155,895

22. Appropriation of Retained Earnings

The following appropriation of Retained Earnings of the Bank was approved at the shareholders' meeting held on June 29, 2004.

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
Dividends	¥ 387	\$ 3,661
Bonuses to Directors and Corporate Auditors	29	274
Transfer to Voluntary Reserve	1,500	14,192
Total	¥ 1,917	\$ 18,137

23. Information for Share

	Yen		U.S. Dollars
	2004	2003	2004
Book Value per Share	¥ 619.95	¥ 637.73	\$ 5.86
Net Income per Share	5.32	17.84	0.05

From the year ended March 31, 2003, the Bank adopts "Accounting Standard for Net Income Per Share" (Financial Accounting Standard No. 2) and "Implementation Guidance for Accounting Standard for Net Income Per Share" (Financial Accounting Standards Implementation Guidance No. 4) issued by the Accounting Standards Board of Japan.

Notes to Consolidated Financial Statements

24. Related-party transactions

Fiscal 2003 (From April 1, 2002, to March 31, 2003)

(1) Parent company and principal corporate shareholders

Not applicable.

(2) Directors and principal individual shareholders

Attribute	Name	Address	Paid-in capital (Millions of yen)	Business or occupation	Ratio of voting rights (%)	Relationship		Transaction content	Transaction amount (Millions of yen)	Item	Balance at fiscal year-end
						Concurrent holding of directors' posts	Business relationship				
Directors	Hitoshi Akahira	—	—	Director of the Bank	Direct 0.00	—	—	Provision of loans Receipt of interest, etc.	(7) 0	Loans Accrued income	10 0
	Tadamichi Yamamoto	—	—	Company executive	—	—	—	Provision of loans Receipt of interest, etc.	— 0	Loans Accrued income	11 0
	Kenzo Osaka	—	—	Company executive	Direct 0.00	—	—	Provision of loans Receipt of interest, etc.	(17) 8	Loans Accrued income	272 0
Company whose majority of voting rights is owned by a director or his/her close relatives(including subsidiaries of such company)	Michinoku Management Accounting Center Ltd. (*1)	Aomori-shi, Aomori prefecture	3	Accounting firm	—	No	Extending of credit	Provision of loans Receipt of interest, etc.	34 0	Loans Accrued income	34 0
	Maruyo Seafood Co., Ltd. (*2)	Hachinohe-shi, Aomori prefecture	99	Marine product processing	Direct 0.17	No	Extending of credit	Provision of loans Payment guarantee Receipt of interest, etc.	151 34 8	Loans Payment guarantee endorsement Accrued income	1,946 219 2

(*1) Kenzo Osaka, Auditor of the Bank, and his close relatives own 97.1% of voting rights.

(*2) Yoshihiro Sakaki, Auditor of the Bank, and his close relatives own 60.7% of voting rights.

(*3) Trading conditions and the policy for determination of trading conditions

Regarding provision of loans to the above-mentioned individuals and companies, the Bank determines trading conditions in the same manner as for ordinary trading conditions, taking market interest rates into consideration.

(3) Subsidiaries

Not applicable.

(4) Fellow subsidiaries

Not applicable.

25. Related-party transactions

Fiscal 2004 (From April 1, 2003, to March 31, 2004)

(1) Parent company and principal corporate shareholders

Not applicable.

(2) Directors and principal individual shareholders

Attribute	Name	Address	Paid-in capital (Millions of yen)	Business or occupation	Ratio of voting rights (%)	Relationship		Transaction content	Transaction amount (Millions of yen)	Item	Balance at fiscal year-end
						Concurrent holding of directors' posts	Business relationship				
Directors	Hitoshi Akahira	—	—	Director of the Bank	Direct 0.00	—	—	Provision of loans Receipt of interest, etc.	(0) 0	Loans Accrued income	9 0
	Tadamichi Yamamoto	—	—	Company executive	—	—	—	Provision of loans Receipt of interest, etc.	— 0	Loans Accrued income	11 0
	Kenzo Osaka	—	—	Company executive	Direct 0.00	—	—	Provision of loans Receipt of interest, etc.	(16) 8	Loans Accrued income	256 0
Company whose majority of voting rights is owned by a director or his/her close relatives(including subsidiaries of such company)	Michinoku Management Accounting Center Ltd. (*1)	Aomori-shi, Aomori prefecture	3	Accounting firm	—	No	Extending of credit	Provision of loans Receipt of interest, etc.	(1) 0	Loans Accrued income	33 0
	Maruyo Seafood Co., Ltd. (*2)	Hachinohe-shi, Aomori prefecture	99	Marine product processing	Direct 0.17	No	Extending of credit	Provision of loans Payment guarantee Receipt of interest, etc.	(161) (34) 13	Loans Payment guarantee endorsement Accrued income	1,784 184 2

(*1) Kenzo Osaka, Auditor of the Bank, and his close relatives own 97.1% of voting rights.

(*2) Yoshihiro Sakaki, Auditor of the Bank, and his close relatives own 60.7% of voting rights.

(*3) Trading conditions and the policy for determination of trading conditions

Regarding provision of loans to the above-mentioned individuals and companies, the Bank determines trading conditions in the same manner as for ordinary trading conditions, taking market interest rates into consideration.

(3) Subsidiaries

Not applicable.

(4) Fellow subsidiaries

Not applicable.

Report of Independent Auditors

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Report of Independent Auditors

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

To the Board of Directors and Shareholders of
The Michinoku Bank, Ltd.

We have audited the accompanying consolidated balance sheets of The Michinoku Bank, Ltd. and its subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Michinoku Bank, Ltd. and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

Chuo Aoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 29, 2004

Board of Directors and Corporate Auditors

(As of July 1, 2004)



Kosaburo Daidoji Chairman



Kazuo Harada President



Mitsugi Kurita Vice President



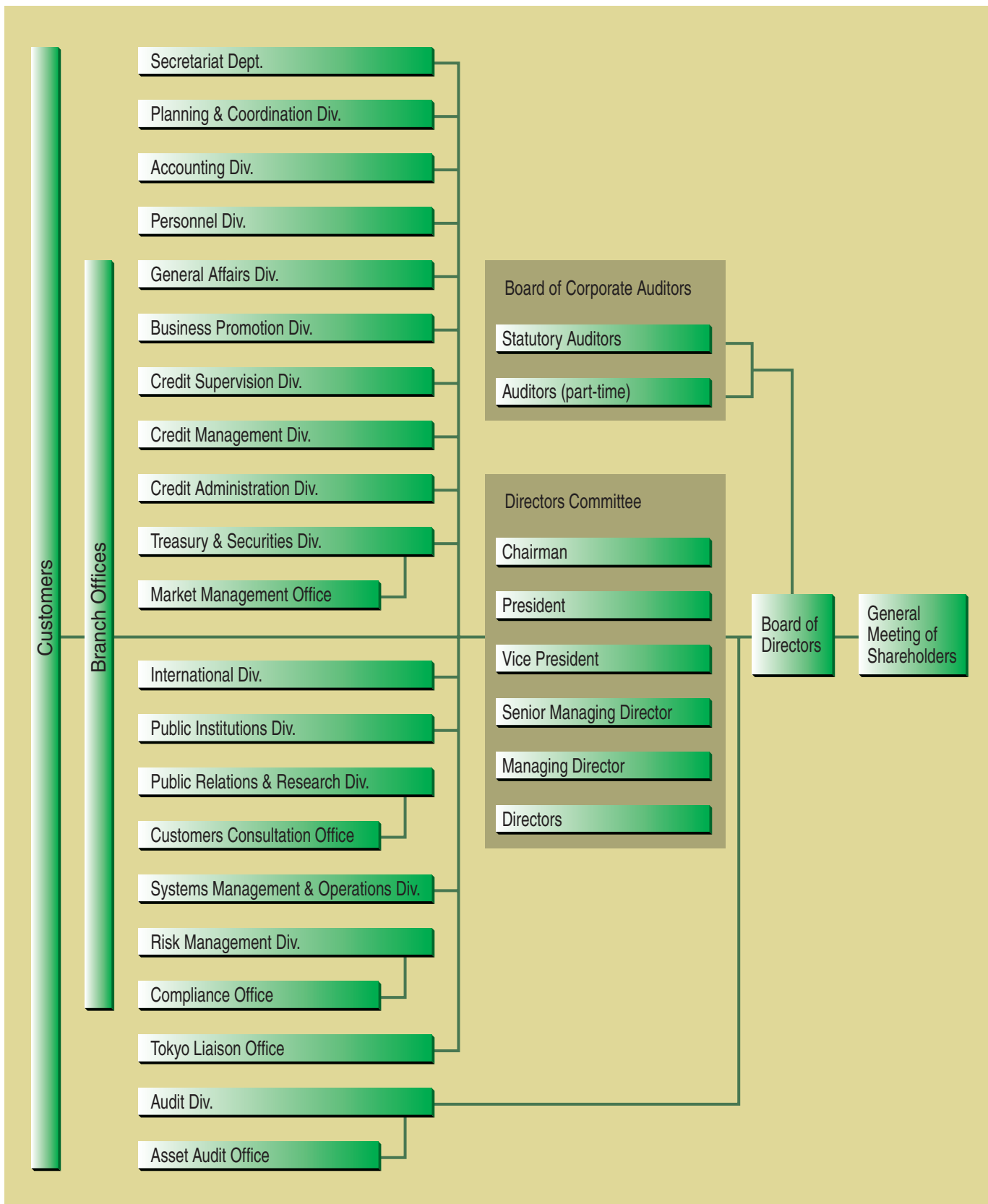
Toshimitsu Mori Executive Senior Managing Director

Managing Director Kiyomitsu Sakurada
Director Katsuhiro Sato
Director Makoto Komori
Director Toshimitsu Sawaya
Director Kunikazu Ebina
Director Hitoshi Akahira
Director Tatsuya Kudo
Director Satoshi Yazaki

Senior Corporate Auditor Hitoshi Naraoka
Corporate Auditor Tadamichi Yamamoto
Corporate Auditor Yoshihiro Sakaki
Corporate Auditor Kenzo Osaka

Organization Chart

(As of July 1, 2004)



Corporate Data

(As of March 31, 2004)

Date of Establishment:

October 27, 1921

Head Office:

1-3-1, Katta, Aomori 030-8622, Japan

Paid-in Capital:

¥24,167 million (US\$228 million)

Number of Employees:

1,251

Number of Offices:

In Japan: 108 branch offices, 9 offices

Overseas: 2 representative offices

(Yuzhno-Sakhalinsk, Wuhan)

*Yuzhno-Sakhalinsk Representative

Office closed as of May 14, 2004.

Foreign Subsidiaries:

Michinoku Finance (Hong Kong) Ltd.

The Michinoku Bank (Moscow) Ltd.

Main Accounts:

Deposits ¥1,795 billion (US\$16,983 million)

Loans and Bills Discounted

¥1,304 billion (US\$12,343 million)

Securities ¥220 billion (US\$2,082 million)

Capital Adequacy Ratio:

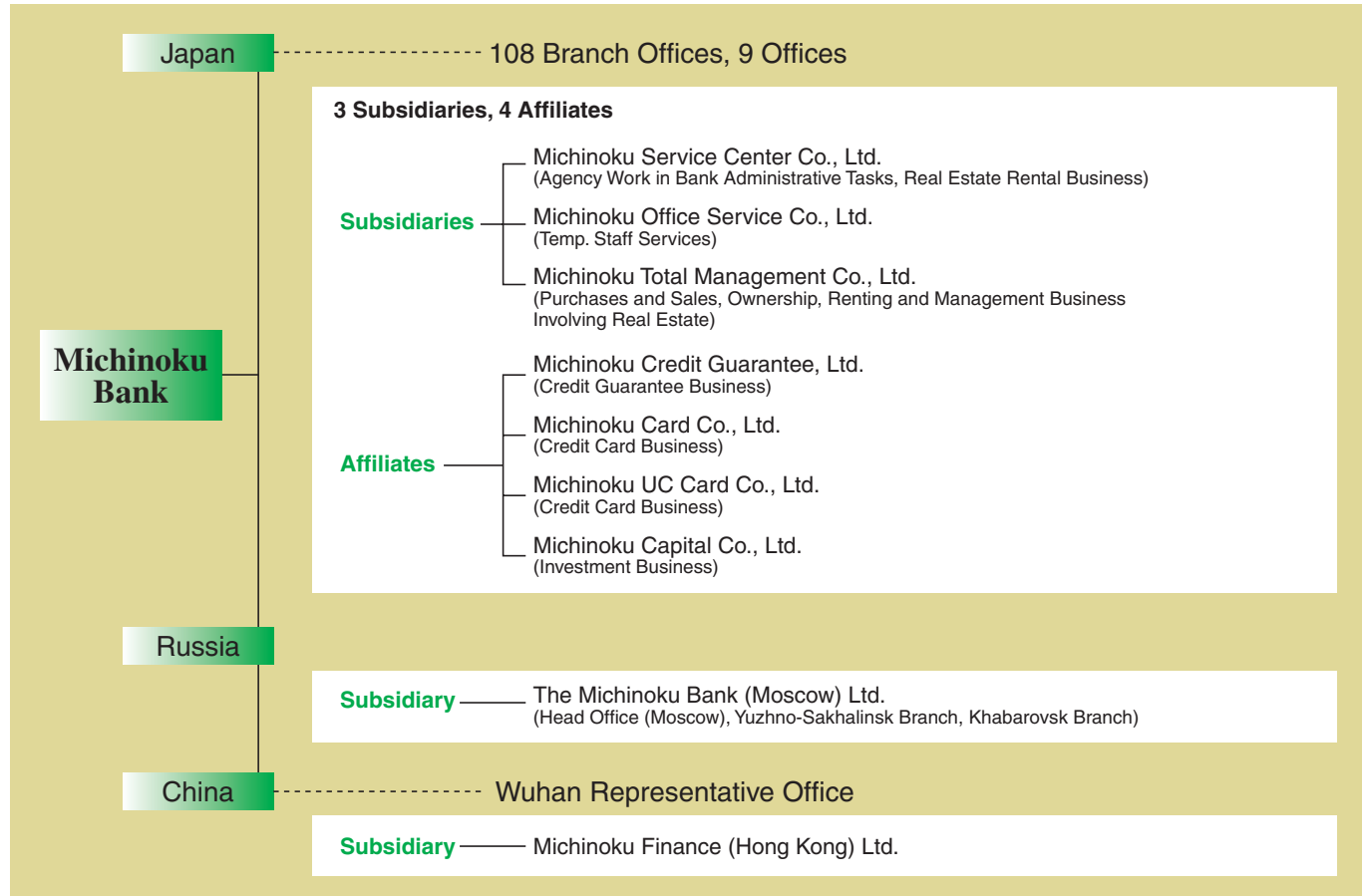
12.00% (On a consolidated basis)

Corporate Group

(As of July 1, 2004)

Organization Chart of Activities by Corporate Group

Our corporate group consists of five subsidiaries and four affiliates. These companies offer financial services such as agency work in banking administrative tasks as well as sending of temporary staff, centered on the banking business.



Overseas and Domestic Network

(As of July 1, 2004)

Head Office

1-3-1, Katta, Aomori 030-8622
 Phone: (81) 17-774-1111
 Facsimile: (81) 17-722-2113

International Division

1-3-1, Katta, Aomori 030-8622
 Phone: (81) 17-774-1130
 Facsimile: (81) 17-722-2113
 S.W.I.F.T.: MCHI JP JT

International Division, Tokyo Office

7-5, Nihonbashi-Odenmacho,
 Chuo-ku, Tokyo 103-8691
 Phone: (81) 3-3661-8020
 Facsimile: (81) 3-3661-8024

Representative Offices

Wuhan Representative Office

Room 2807, 28th Floor,
 China Merchants Bank Tower,
 518 Jianshe Avenue, Hankou,
 Wuhan 430022, P.R. China
 Phone: (86) 27-8572-8610
 Facsimile: (86) 27-8574-3812

Subsidiaries

Michinoku Finance (Hong Kong) Ltd.

Suite 1918, Hutchison House,
 10 Harcourt Road, Central, Hong Kong
 Phone: (852) 2869-0823
 Facsimile: (852) 2801-4128

The Michinoku Bank (Moscow) Ltd.

Head Office

37 Bolshaya Ordynka, Moscow
 109017, Russian Federation
 Phone: (7) 095-729-5858
 Facsimile: (7) 095-729-5898
 S.W.I.F.T.: MCHI RU MM

Yuzhno-Sakhalinsk Branch

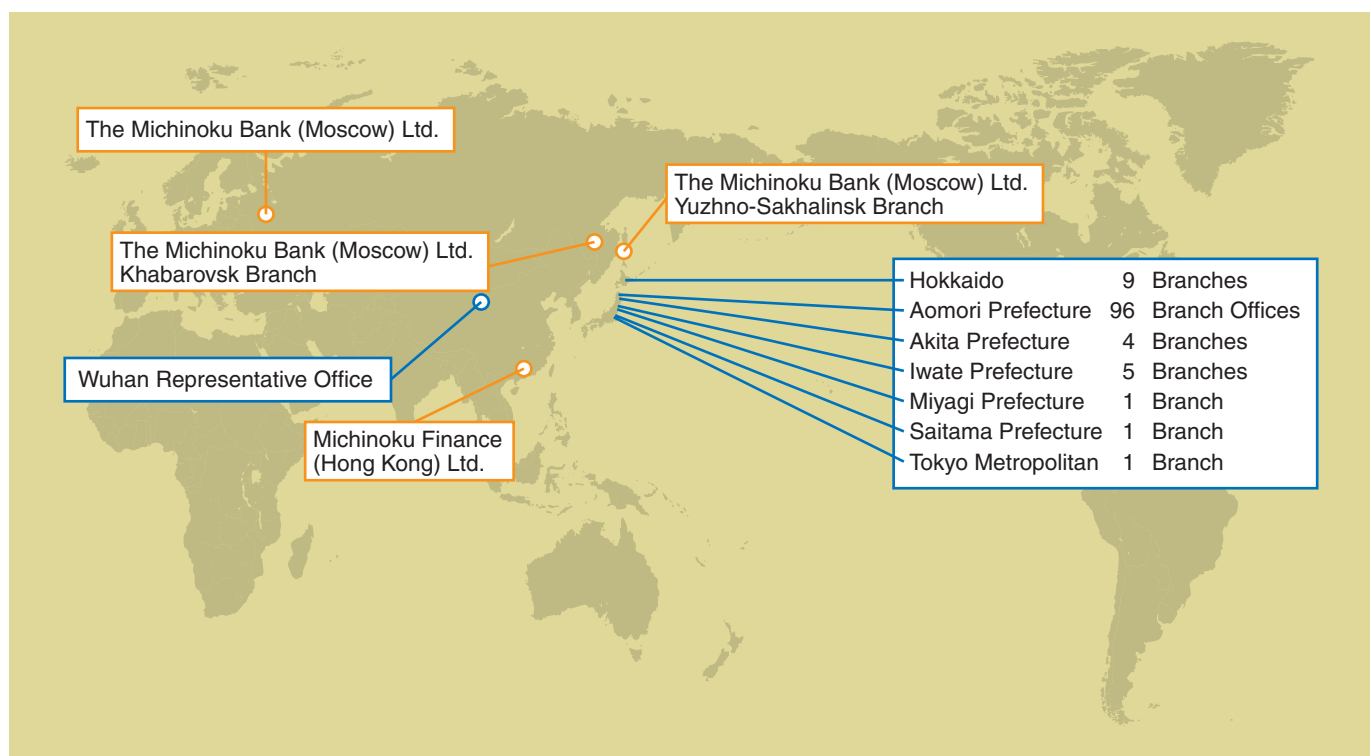
Michinoku Sakhalin Building 1st Floor,
 234 Lenina St., Yuzhno-Sakhalinsk
 693000, Russian Federation
 Phone: (7) 4242-74-1111
 Facsimile: (7) 4242-74-4750

Khabarovsk Branch

Business Center Parus 2nd Floor,
 5 Shevchenko St., Khabarovsk 680000,
 Russian Federation
 Phone: (7) 4212-64-9600
 Facsimile: (7) 4212-64-9522

Number of Branch Offices

	Head Office & Branch Offices	Offices	Representative Offices
Aomori Prefecture	87	9	—
Outside the Aomori Prefecture	21	—	—
Overseas	—	—	1
Total	108	9	1





Website <http://www.michinokubank.co.jp>



In recognition of its efforts to address environmental issues, Michinoku Bank became the first regional bank in Japan to obtain international certification ISO14001 for its head office and all of its domestic branch offices.

Cover: The Sannai-Maruyama Site