

## 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.

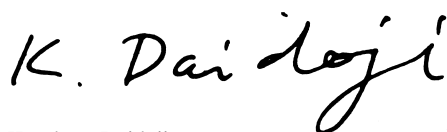
## Issues and Challenges

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