



2005

ANNUAL REPORT
THE MICHINOKU BANK, LTD.

Michinoku Bank

The Michinoku Bank, Head Office, Business Division

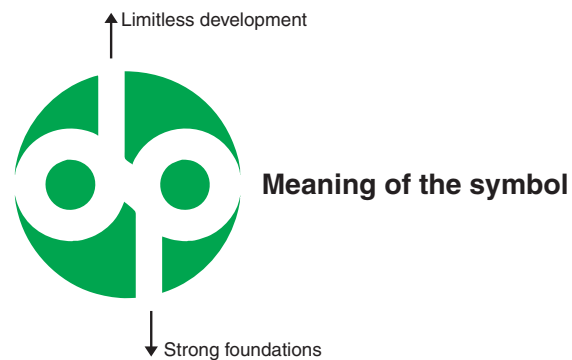


Symbol

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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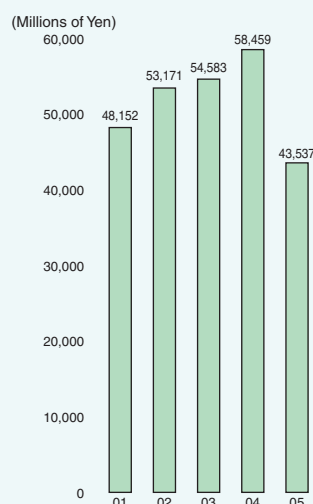
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Consolidated Financial Highlights

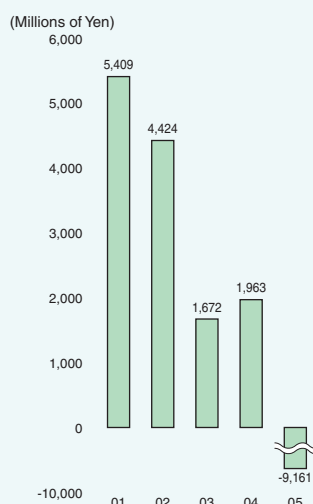
Years Ended March 31	Millions of Yen				
	2005	2004	2003	2002	2001
Total Revenues	¥ 43,537	¥ 58,459	¥ 54,583	¥ 53,171	¥ 48,152
Ordinary Profit	(9,161)	1,963	1,672	4,424	5,409
Net Income	(9,160)	854	2,815	2,489	2,995
Shareholders' Equity	91,157	96,087	99,170	96,740	99,588
Total Assets	1,964,482	1,981,370	1,975,996	1,930,247	1,903,775
Cash Flows from Operating Activities	130,430	(17,906)	13,995	(49,727)	133,046
Cash Flows from Investing Activities	(199,723)	111,398	(33,530)	100,701	(132,438)
Cash Flows from Financing Activities	(811)	(2,122)	(3,424)	(1,962)	(4,780)
Cash and Cash Equivalents at End of Year	82,616	152,723	62,059	85,564	35,729
Book Value per Share (¥)*	588.35	619.95	637.73	620.71	638.82
Net Income per Share (¥)*	(59.12)	5.32	17.84	15.96	19.21
Capital Adequacy Ratio (BIS criteria) (%)	10.53	12.00	12.47	12.57	13.10
Return on Equity (%)	(9.8)	0.9	2.9	2.5	3.1
Price Earnings Ratio (Times)	–	121	38	41	36
Number of Employees	1,458	1,459	1,492	1,549	1,596

* 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.

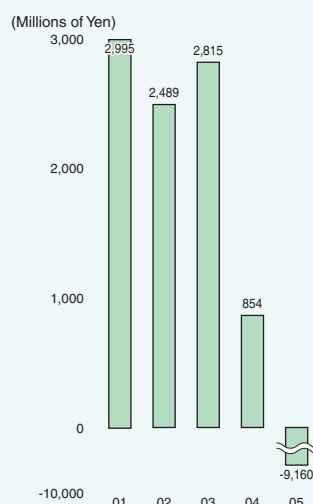
■ Total Revenues



■ Ordinary profit

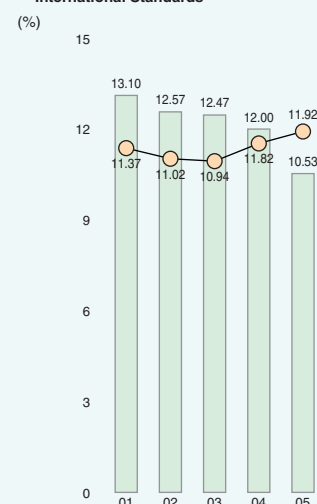


■ Net income



■ Capital Adequacy Ratio

○ Average for Regional Banks Adopting Uniform International Standards



Message from the Management

Introduction

On May 20, 2005, we received business improvement orders from the Tohoku Local Finance Bureau under the Banking Law, the Insurance Business Law and the Securities and Exchange Law, together with a warning from the Financial Services Agency (FSA) regarding breaches of data privacy under the Personal Information Security Law. To all our customers, shareholders and others who place their trust in Michinoku Bank, we wish to express our heartfelt apologies for any problems or inconvenience that we have caused. In all our endeavors from now on, we are determined to earn the wholehearted support and confidence of all stakeholders in Michinoku Bank.

We had implemented a variety of measures to improve legal and regulatory compliance following the issuance of similar improvement orders to Michinoku Bank on two previous occasions. The results of a recent FSA inspection have pointed to multiple compliance breaches since the issuance of these earlier orders. We are forced to conclude that our business improvement plans were insufficiently effective, and that our operations remain deficient in terms of both compliance and related management controls. We also recognize that internal risk management and privacy controls are not functioning adequately. In part, this reflects insufficient awareness of legal compliance requirements on the part of the bank's executive officers. Another problem that we believe contributed to the lapses was a lack of effective reciprocal checks between head office and local branches.

We treat these latest improvement orders and the FSA warning with the utmost seriousness. Our entire senior management team is fully committed to revising and upgrading our compliance and management controls so that our business operates in full compliance with the law and all operational procedures are sound and appropriate.

As a regional financial institution, our business philosophy has always placed a strong emphasis on our responsibility to society and our role as a pillar of the local community. These unfortunate events have prompted a re-examination of our management policies. Below is an



Yasuo Sugimoto, *President*

overview of the progress achieved within the framework of our latest medium-term business plan (which began in April 2004), our ongoing efforts to improve the quality of our assets, our results for the year ended March 2005 and our plans for the year to March 2006.

Fundamental Business Policies

The basic ethos of Michinoku Bank is to be a trustworthy, helpful “Family Bank” for the local community. Catering to families as the basic unit of society, we aim to provide a variety of products and services to support increasingly affluent customer lifestyles. By helping people proactively to find solutions to financial issues, our hope is to contribute to the greater prosperity of the Tohoku region.

We continue to invest in the development of products and services and in our branch network to make this ethos a reality for people living and working in the region. At the same time, our management policies aim to reflect our recognition of the social responsibilities that are incumbent on us as a bank.

Medium-Term Business Plan Progress

The year ended March 2005 was the second year of our current medium-term business plan, which covers the period

from April 2004 to March 2007. Key facets of the current business conditions for regional banks are summarized below.

Business environment for Japanese regional banks

(1) Stalled profits from lending operations

- A prolonged economic downturn and structural factors have caused the lending market for regional businesses to contract.
- The “zero” interest-rate environment continues to put pressure on lending margins.

(2) Enhanced retail banking focus by megabanks

- Provincial expansion by Japan’s megabanks poses a threat of fiercer competition in the local banking market.

(3) End of blanket deposit protection in April 2005

- Customers are becoming increasingly selective in choosing banks.
- There is an increased emphasis on a bank’s financial health, profitability and reliability.

Our response to these challenges has been grounded in our “Family Bank” ethos. Based on this thinking, we have developed strategies for individual retail customers and for small-to-medium-sized enterprises (SMEs). Our SME strategy revolves around the development of “relationship banking functions” to support company growth and regeneration within the region. With these twin policies, we aim to boost our profits while contributing to local growth and prosperity.

Our first key strategic objective within the framework of the current plan is to boost profits. This means reducing expenses while reinforcing core retail banking operations, particularly personal loans, deposits (including sales of investment trusts and insurance) and SME finance. The second key issue is to rebuild a high level of customer trust by improving our performance in terms of compliance and risk management. Third, we are focusing on personnel development to enable us to provide a wider range of banking services to cater to more varied and sophisticated customer needs.

Ongoing Initiatives

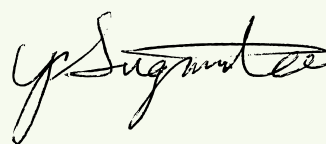
We continue to upgrade our credit assessment and management systems to restrict the future emergence of bad loans. Coupled with the medium-term business plan activities to boost profitability outlined above, we are pursuing initiatives to raise operational efficiency, centered on an overhaul of the branch and ATM network. Our overall aim is to achieve stable profit growth.

Following the recent enactment in April 2005 of privacy legislation in Japan, our negligence was unworthy of a financial institution. Again, I would like to express my heartfelt apologies to our customers for this error on our part. We have made a thorough assessment of the situation and formulated plans to upgrade security measures across our entire operations to ensure that no such breach occurs again. We are also redoubling our efforts to protect the security of personal information and taking comprehensive steps to educate and train all personnel on this important issue so as to prevent future problems.

To reassure customers, shareholders and investors and to demonstrate our commitment to attaining higher standards, we have established the Operations Supervision Committee. Composed of external directors and experts, this group will provide senior management with an unbiased external perspective on issues such as legal compliance and risk management. The committee will act as a strong independent check on the soundness of our operational management.

Our directors and top managers are united in their commitment to take the actions required to restore the trust of customers and shareholders in Michinoku Bank. We are also working hard to improve financial performance. We hope that you will give us your continued support and understanding.

July 2005



Yasuo Sugimoto,
President

What is CSR?

Corporate social responsibility (CSR) means that companies ensure all operating activities adhere to social, legal, ethical and environmental norms. Through the management of CSR-related issues, companies take responsibility for behavior toward all stakeholders, including customers, consumers, business partners, shareholders, investors, financial institutions, employees and the public at large.

The aim of the CSR management approach is to promote the sustainability of the company's operations by establishing and maintaining strong relations with society. Increased CSR-related activities by companies of all types promise to enrich society, while also promoting industrial and economic development.

CSR Management

Risk Management

What types of risk management does Michinoku Bank employ?

The diverse operations of a financial institution generate a variety of risks that need to be managed, making risk control an important management issue. Michinoku Bank employs various management methods to handle the different types of risk inherent in its operations. These activities are outlined below.

Credit risk

Rigorous credit screening and credit risk management methods are applied on a case-by-case basis. At the loan portfolio management level, the Credit Risk Quantification System, a tool developed by a consortium of regional banks, supplements the internally developed credit rating system.

Operational and systems risk

Internal audit functions conduct checks to prevent problems caused by clerical errors, system failure or other operational processes. Besides reinforcing such functions, Michinoku Bank also arranges for regular systems audits by external specialists to ensure rigorous risk management.

Market and liquidity risk

Market risk management controls include internally designated risk limits as well as ceilings for securities balances and currency positions. Strict monitoring and risk management controls are applied to all market operations to prevent any large, unexpected losses. To manage liquidity risk, Michinoku Bank applies various techniques to ensure proper and stable cash flows in the management and procurement of marketable funds, transfers of large sums and management of payment reserves.

Legal risk

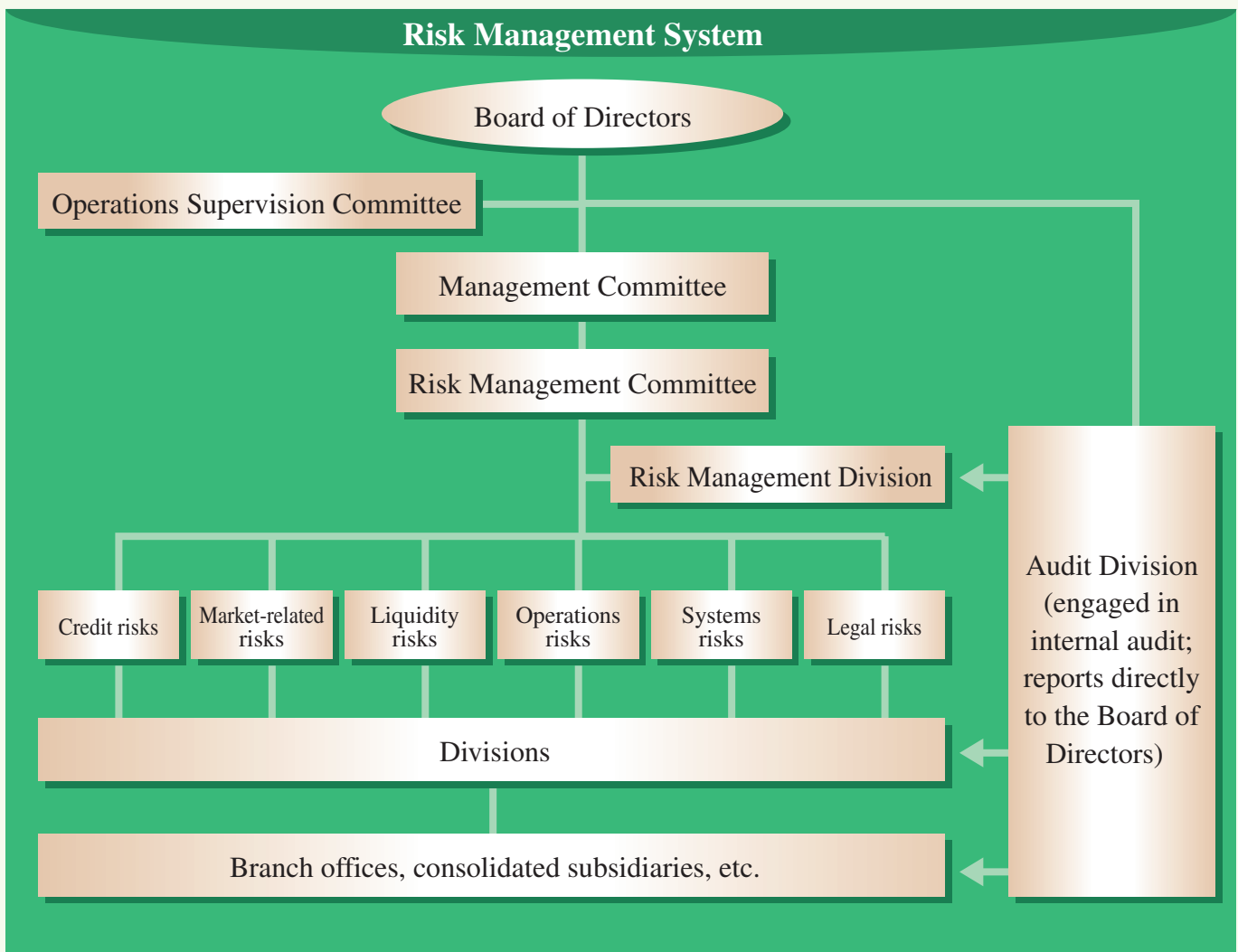
Michinoku Bank policies demand full compliance with laws and regulations as well as internal rules in all operational and management activities. A program to upgrade internal compliance procedures is currently underway, based on the business improvement plan submitted to the Tohoku Local Finance Bureau on June 20, 2005.

What is the overall risk management system at Michinoku Bank?

Banks today face increasingly complex risks as financial operations become more diverse. Accurate risk assessment and application of proper controls are critical management issues.

The Risk Management Division coordinates risk management activities to ensure an integrated approach. The Risk Management Committee provides a forum for cross-functional discussion and deliberation of risk management

issues between all bank divisions. This committee is also responsible for initiatives to strengthen internal procedures and systems for managing risk. Separately, the Operations Supervision Committee provides a further check on the status of risk management systems. Together, these various risk management measures aim to ensure sound operations and stable earnings.



International Network

China

In October 2004, Michinoku Bank opened the Shanghai Representative Office as its third base of operations in China. The move promises further operational synergies with the two established bases, the Wuhan Representative Office (Hubei Province, opened October 1997) and Michinoku Finance (Hong Kong), Ltd. (established September 1993). These operations actively conduct research on financial and economic trends within China and gather other information to assist clients.



Shanghai Representative Office

Russia

In July 1999, Michinoku Bank became the first Japanese bank to open a wholly owned local subsidiary in Russia with the establishment of Michinoku Bank (Moscow) Ltd. Michinoku Bank achieved another first in August 2002 with the opening of a branch in the Russian Far East in Yuzhno-Sakhalinsk. This was the first foreign bank branch to open in the region. In July 2003, Michinoku Bank established a second branch in Khabarovsk. In January 2005, the bank received approval from federal authorities to enter Russia's recently established deposit insurance scheme.

Commercial and economic ties between Japan and Russia are expected to expand substantially as the Russian economy continues to undergo development and reform. Ongoing development of extensive oil, natural gas and other energy projects in the Russian Far East provides a major business opportunity.

In Moscow, Michinoku Bank began offering housing loans and other financial services to personal customers in June 2003. Michinoku Bank is also seeking to service the financial needs of Japanese corporate clients and their local business partners.



The Michinoku Bank (Moscow) Ltd. Head Office



Yuzhno-Sakhalinsk Branch



Khabarovsk Branch

The Japanese economy expanded in the first half of the year ended March 2005 as production levels recovered steadily. Aided by growth in the United States, China and other overseas markets, large companies expanded exports, and domestic demand also continued to grow. Increased corporate earnings contributed to higher capital investment and a sustained improvement in employment trends. However, the robust expansion of the first half slowed to a more modest pace of recovery in the second half amid slower growth in overseas economies and the impact of soaring prices for crude oil and steel. The additional uncertainties caused by a prolonged typhoon season, a major earthquake and other natural disasters also had a negative impact. Having expanded strongly in the first half, consumer spending slackened and showed signs of deterioration in some sectors.

Echoing the national picture, the economy of Aomori prefecture benefited from the general upturn in manufacturing activity, although a reduction in production volumes of electronic components intensified the slowdown in some areas. Primary industries had a generally good year. The rice harvest exceeded national crop indicators for the first time in four years. Although some farmers suffered crop damage due to typhoons, the local apple harvest was largely unaffected. With the impact of natural disasters in other areas of Japan reducing the overall size of the fruit crop, a relative scarcity pushed ex-producer and market prices above levels recorded in the previous year. In the fishing industry, the total value of the catch landed at Hachinohe port rose on a year-on-year basis for the first time in a decade, despite a drop in volume caused by a sharp decline in the squid catch from the southern and western reaches of the Pacific.

High summer temperatures and the effects of the Athens Olympics boosted consumer spending on seasonal items, consumer electronics and other products slightly, but retail sales dipped later in the year amid unseasonable weather in

the fall and heavy snowfall over the winter. Overall, consumer spending within the region remained lackluster. Although the launch of new models helped to stimulate passenger car demand in the subcompact segment, sales of compacts and sedans remained poor. Annual auto sales volumes declined for the fourth year in a row. Housing starts fell for the fifth consecutive year, reflecting both a decline in the number of owner-occupier housing starts (which typically account for half the total) and lower sales of built-for-sale family housing.

The economy of Aomori prefecture, which is the bank's main operating base, thus continued to mark time during the year. Although production picked up in some sectors, a slowdown in overseas demand led to corrections in production levels in others. Dampened by increasing uncertainty, consumer spending remained subdued, and the pace of recovery was weak. On a more positive note, plans were confirmed to extend the Tohoku Shinkansen super-express line beyond Hachinohe to a new station at Shin-Aomori by 2012. Construction of the new line promises to contribute to the regional economy by boosting demand for various products and services. The tourist industry already makes a significant and broad-based contribution to Aomori's economy. In recent years, Aomori has become a destination for many different types of visitors as the number of tourist opportunities has proliferated. Efforts are ongoing to promote the entire region for tourism. We expect the ripple effects to begin to benefit all industries within the region over time, leading to its invigoration.

Consolidated Business Results

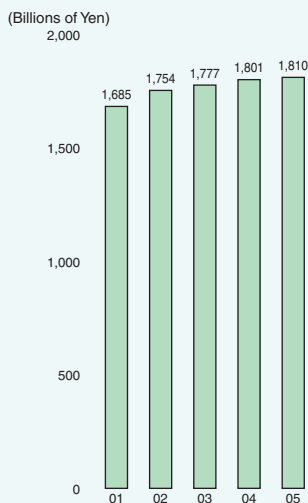
On a consolidated basis, deposits increased during the year by ¥8.3 billion (US\$ 77 million) to ¥1,810.3 billion (US\$ 16,857 million). Loans and bills discounted declined by ¥32.0 billion (US\$ 297 million) to ¥1,273.2 billion (US\$ 11,855 million). Securities increased by ¥177.0 billion (US\$ 1,648 million) to ¥404.5 billion (US\$ 3,766 million).

Total income fell by ¥14.9 billion (US\$ 138 million) to ¥43.5 billion (US\$ 405 million). Although expenses declined by ¥3.8 billion (US\$ 35 million) to ¥52.6 billion (US\$ 489 million), the steep fall in operating revenues resulted in a pretax loss of ¥9.1 billion (US\$ 84 million),

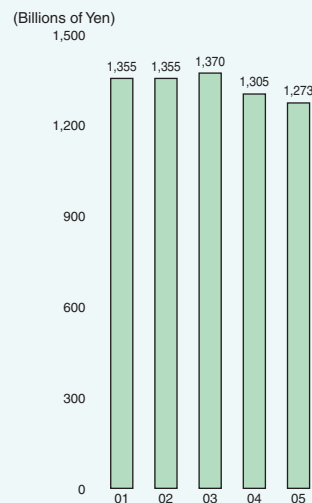
which represented a year-on-year decline of ¥11.1 billion (US\$ 103 million) in earnings. The net loss for the year amounted to ¥9.1 billion (US\$ 84 million), a decline of ¥10.0 billion (US\$ 93 million) compared with the previous year.

The consolidated net loss had a negative impact on the BIS capital adequacy ratio, which is the primary measure of financial health for banks. Although this ratio fell by 1.47 points from the previous year to 10.53%, it remained high by international standards, confirming the resilience of Michinoku Bank's financial position.

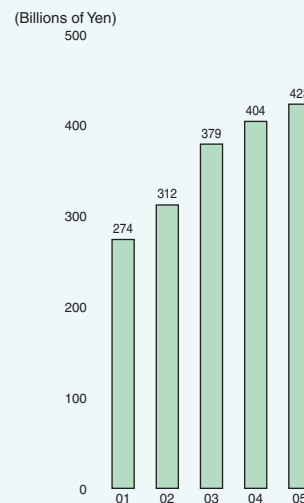
Deposits



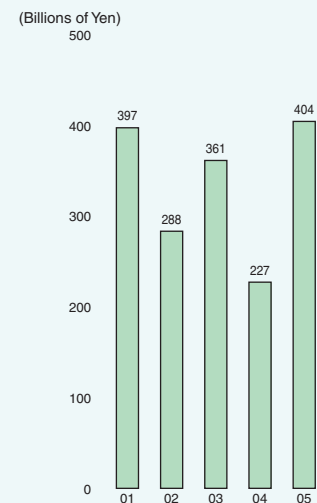
Loans and bills discounted



Consumer loans to individuals



Securities



Consolidated Balance Sheets

As of March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
ASSETS			
Cash and Due from Banks	¥ 89,954	¥ 158,754	\$ 837,638
Call Loans	153,881	240,433	1,432,917
Commercial Paper and Other Debt Purchased.....	4,992	237	46,484
Trading Account Securities (Note 5)	728	770	6,779
Securities (Note 5)	404,550	227,470	3,767,110
Loans and Bills Discounted (Note 7).....	1,273,246	1,305,264	11,856,280
Foreign Exchange	380	1,770	3,538
Other Assets (Note 10).....	13,467	9,874	125,402
Premises and Equipment (Notes 2 and 11)	15,641	14,802	145,646
Deferred Tax Assets (Note 21)	12,035	14,262	112,068
Consolidated Adjustment Account	655	–	6,099
Customers' Liabilities for Acceptances and Guarantees (Note 16)	18,561	19,952	172,837
Reserve for Possible Loan Losses (Note 2)	(23,615)	(12,222)	(219,899)
Total Assets	¥ 1,964,482	¥ 1,981,370	\$ 18,292,969
LIABILITIES			
Deposits (Note 8 and 12)	¥ 1,810,352	¥ 1,801,959	\$ 16,857,733
Call Money.....	8,229	12,202	76,627
Payables under Repurchase Agreements (Note 8).....	1,165	–	10,848
Borrowed Money (Note 13).....	15,100	15,100	140,608
Foreign Exchange	102	38	949
Other Liabilities (Note 14).....	9,317	26,056	86,758
Reserve for Employee Bonuses (Note 2).....	1,187	1,277	11,053
Reserve for Employees' Retirement Benefits (Notes 2 and 15).....	8,317	7,795	77,446
Deferred Tax Liabilities (Note 21).....	66	105	614
Reserve for Litigation Loss.....	156	–	1,452
Deferred Tax Liabilities for Revaluation Reserve for Land (Note 2)	769	793	7,160
Acceptances and Guarantees (Note 16)	18,561	19,952	172,837
Total Liabilities	¥ 1,873,325	¥ 1,885,282	\$ 17,444,128
SHAREHOLDERS' EQUITY			
Common Stock (Note 17)	¥ 24,167	¥ 24,167	\$ 225,039
Capital Surplus.....	19,775	19,775	184,141
Retained Earnings	42,730	52,613	397,895
Revaluation Reserve for Land, Net of Taxes (Note 2)	1,133	1,168	10,550
Unrealized Gains (Losses) on Securities Available for Sale	4,496	(792)	41,866
Foreign Currency Translation Adjustment	(253)	(214)	(2,355)
Treasury Stock	(892)	(631)	(8,306)
Total Shareholders' Equity	91,157	96,087	848,840
Total Liabilities and Shareholders' Equity	¥ 1,964,482	¥ 1,981,370	\$ 18,292,969

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income and Retained Earnings

For the Years Ended March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
INCOME			
Interest on:			
Loans and Discounts	¥ 29,162	¥ 29,305	\$ 271,552
Securities	4,369	4,811	40,683
Other	353	64	3,287
Fees and Commissions	6,029	5,386	56,141
Other Income (Note 19)	3,621	18,892	33,718
Total Income	¥ 43,537	¥ 58,459	\$ 405,410
EXPENSES			
Interest on:			
Deposits	¥ 773	¥ 818	\$ 7,198
Borrowings and Rediscounts	456	347	4,246
Other	0	10	0
Fees and Commissions	3,215	3,205	29,937
Other Operating Expenses	2,393	16,410	22,283
General and Administrative Expenses	28,728	30,085	267,510
Other Expenses:			
Reserve for Possible Loan Losses	12,266	1,532	114,219
Other (Note 20)	4,797	4,088	44,668
Total Expenses	¥ 52,630	¥ 56,496	\$ 490,082
Income (Loss) before Income Taxes	(9,093)	1,963	(84,672)
Income Taxes – Current (Note 21)	1,642	508	15,290
Income Taxes – Deferred (Note 21)	(1,574)	600	(14,656)
Net Income (Loss)	¥ (9,160)	¥ 854	(85,296)
RETAINED EARNINGS			
Balance at Beginning of Year	¥ 52,613	¥ 52,574	\$ 489,924
Increase in Retained Earnings	90	854	838
Decrease in Retained Earnings:			
Net Loss	9,160	–	85,296
Dividends	775	776	7,216
Bonuses to Directors and Corporate Auditors	29	39	270
Loss on Sale of Treasury Stock	7	–	65
Balance at End of Year	¥ 42,730	¥ 52,613	\$ 397,895
Book Value per Share (in Yen and U.S. Dollars)	¥ 588.35	¥ 619.95	\$ 5.47
Net Income (Loss) per Share (in Yen and U.S. Dollars)	¥ (59.12)	¥ 5.32	\$ (0.55)

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (Loss) before Income Taxes and Other Adjustments.....	¥ (9,093)	¥ 1,963	\$ (84,672)
Depreciation and Amortization.....	1,165	730	10,848
Equity in Loss (Gain) of Affiliates	63	7	586
Net Increase (Decrease) in Reserve for Possible Loan Losses.....	9,538	(590)	88,816
Net Increase (Decrease) in Reserve for Losses on Real Estate – Collateralized Loans Sold.....	–	(287)	–
Net Increase (Decrease) in Reserve for Employee Bonuses.....	(94)	(33)	(875)
Net Increase (Decrease) in Liability for Employees' Retirement Benefits	522	159	4,860
Increase in Reserve for Litigation Loss	156	–	1,452
Interest Income Recognized on Statement of Income	(33,885)	(34,181)	(315,532)
Interest Expenses Recognized on Statement of Income	1,229	1,175	11,444
Net (Gain) Loss Related to Securities.....	1,264	(1,207)	11,770
Foreign Exchange Loss.....	35	30	325
Net Loss on Sale of Premises and Equipment	69	61	642
Net Decrease (Increase) in Loans	33,289	64,908	309,982
Net Increase in Deposits	14,041	24,666	130,747
Net Decrease (Increase) in Due from Banks Other than The Bank of Japan..	(1,307)	(4,132)	(12,170)
Net Decrease (Increase) in Call Loans.....	81,796	(107,094)	761,672
Net Increase (Decrease) in Call Money	(2,808)	6,120	(26,147)
Net Decrease (Increase) in Foreign Exchange Assets	1,389	(1,456)	12,934
Net Increase (Decrease) in Foreign Exchange Liabilities.....	63	23	586
Interest Received.....	33,696	35,004	313,772
Interest Paid.....	(1,266)	(1,338)	(11,788)
Others	45	(38)	419
Subtotal	129,915	(15,508)	1,209,749
Income Taxes Payable	514	(2,397)	4,786
Net Cash Provided by (Used in) Operating Activities	130,430	(17,906)	1,214,545
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Stock and Other Securities.....	(314,457)	(536,923)	(2,928,177)
Proceeds from Sales of Stock and Other Securities.....	113,311	632,427	1,055,135
Proceeds from Redemption of Bonds	5,414	16,564	50,414
Purchases of Premises and Equipment.....	(2,064)	(670)	(19,219)
Proceeds from Sales of Premises and Equipment.....	83	0	772
Purchases of Shares of a Subsidiary Accompanying The Change in The Scope of Consolidation	(2,009)	–	(18,707)
Net Cash Provided by (Used in) Investing Activities	(199,723)	111,398	(1,859,791)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Subordinated Debt	–	(1,000)	–
Dividends Paid	(775)	(776)	(7,216)
Purchases of Treasury Stock	(47)	(349)	(437)
Proceeds from Sales of Treasury Stock	11	3	102
Net Cash Used in Financing Activities	(811)	(2,122)	(7,551)
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	(2)	(704)	(18)
Net Increase (Decrease) in Cash and Cash Equivalents.....	(70,107)	90,664	(652,826)
Cash and Cash Equivalents at Beginning of Year	152,723	62,059	1,422,134
Cash and Cash Equivalents at End of Year	¥ 82,616	¥152,723	\$ 769,308

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 from International Financial Reporting Standards in certain respects as to application and disclosure requirements. 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.
- Michinoku Credit Guarantee, Ltd.

1) Michinoku Credit Guarantee, Ltd., which had been an affiliate accounted for by the equity method until the fiscal year ended March 31, 2004, has become a consolidated subsidiary from the fiscal year ended March 31, 2005, due to the Bank's additional acquisition of its shares as of February 24, 2005. Michinoku Credit Guarantee, Ltd. increased its capital by ¥1,980 million on March 25, 2005, of which the entire amount was subscribed by the Bank, and accordingly, the common stock of Michinoku Credit Guarantee, Ltd. amounted to ¥1,010 million. As a result of the reduction in capital on May 20, 2005, the common stock of Michinoku Credit Guarantee, Ltd. amounts to ¥100 million.

Foreign Subsidiaries

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

2) Fiscal year-ends of consolidated subsidiaries are as follows:

December	31: 2 subsidiaries
March	31: 4 subsidiaries

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

- 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) Derivative Transactions

Derivative transactions are stated at fair value.

(4) 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 by the straight-line method.

(5) 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.

(6) Reserve for Possible Loan Losses

For the year ended March 31, 2005, 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 written off and totals ¥18,813 million (US\$175,183 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.

(7) 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.

(8) Reserve for Employees' Retirement Benefits

Reserve for employees' retirement benefits is provided based on the estimated retirement benefit obligation and the pension assets at the end of the fiscal year. Prior service cost is amortized using the straight-line method over the average estimated remaining years of service of the eligible employees (5 years). Net actuarial gain (loss) is amortized using the straight-line method over the average estimated remaining years of service of the eligible employees (5 years) following the year in which the gain or loss is recognized.

(9) Reserve for Litigation Loss

In order to prepare for a possible loss relating to the ongoing litigation, the estimated amount of loss based on the progress of the litigation is accounted for.

(10) Foreign Currency Translation

The Bank's assets and liabilities denominated in foreign currencies are translated into Japanese yen using the primarily applicable rate of exchange effective at the balance sheet date.

Consolidated subsidiaries' assets and liabilities denominated in foreign currencies are translated into Japanese yen using the applicable rate of exchange effective at the respective balance sheet date.

(11) Lease Transactions

Finance leases concerning the Bank and its consolidated domestic subsidiaries, other than those by which the ownership of the leased assets are deemed to be transferred to the lessee, are accounted for as regular operating leases.

(12) Hedge Accounting

The Bank applies fair-value hedge accounting as a part of macro hedge accounting to hedge foreign-currency-denominated securities available for sale (other than bonds), provided that foreign currency securities to be hedged are designated prior to the inception of transaction and that spot and forward liabilities exist for such securities on a foreign currency basis that exceed acquisition costs of such pre-designated securities.

(13) Consumption Tax

The National Consumption Tax and the Local Consumption Tax are excluded from transaction amounts.

(14) Assets and Liabilities of Consolidated Subsidiaries

Assets and liabilities of consolidated subsidiaries are valued using the full mark-to-market method.

(15) Amortization of Consolidation Adjustment

Consolidation adjustment account incurred for the fiscal year ended March 31, 2005, is amortized by the straight-line method over five years.

(16) Appropriation of Retained Earnings

A consolidated statement of retained earnings is prepared based on the appropriation of earnings fixed in a fiscal year.

(17) Equity Interests in Limited Liability Partnerships

In the previous years, equity interests in limited liability partnerships (LLPs), and those in voluntary partnership under the Civil Code and silent partnership under the Commercial Code, characteristics of which are similar to those of LLPs had been included in "Other assets". However, from this fiscal year, these are included in "Others" of "Securities" as they are defined as securities under the Securities and Exchange Law by the "Partial Revision of Securities and Exchange Law" (Law No.97 dated June 9, 2004).

(18) 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 ¥1,501 million (US\$13,977 thousand) than the book value of the land after revaluation.

(19) The Number of the Bank's Shares Held by Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method

Common stock: 958 thousand shares

(20) 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.

(21) 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 fully 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. Accounting Change for Enterprise Taxes

With the promulgation of "The Law for Partial Amendments to Local Tax Law" (Law No.9) on March 31, 2003, a portion of taxation basis of enterprise taxes was changed (pro forma standard taxation basis introduced), and "added value component" and "capital component" were newly added to the taxation basis from the fiscal years beginning on April 1, 2004. As a result, the Bank included the portion of enterprise tax amounts calculated based on "added value component" and "capital component" in "General and administrative expenses" on the consolidated statements of income from this fiscal year pursuant to "Practical Treatment for Presentation of Pro Forma Standard Taxation Portion of Enterprise Tax on Corporation in the Statement of Income" (Accounting Standards Board of Japan, Practice Report No.12)

4. 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 into dollars on the basis of ¥107.39 to US\$1, the approximate effective rate of exchange as of March 31, 2005. 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.

Notes to Consolidated Financial Statements

5. 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 4)
	2005	2004	2005
Amount in the balance sheet	¥ 728	¥ 770	\$ 6,779
Valuation gain included in income before income taxes	1	(0)	9

(b) Marketable securities available for sale

	Millions of Yen				
	2005				
	Cost	Balance sheet amount	Valuation differences	Gain	Loss
Stock	¥ 38,829	¥ 41,316	¥ 2,486	¥ 4,271	¥ 1,785
Bonds	299,028	302,417	3,389	3,579	189
Government bonds	132,197	132,922	724	864	139
Municipal bonds	60,824	62,558	1,734	1,737	3
Corporate bonds	106,005	106,937	931	977	46
Others	49,290	50,877	1,586	1,814	228
Total	¥ 387,148	¥ 394,611	¥ 7,462	¥ 9,666	¥ 2,203

	Thousands of U.S. Dollars (Note 4)				
	2005				
	Cost	Balance sheet amount	Valuation differences	Gain	Loss
Stock	\$ 361,569	\$ 384,728	\$ 23,149	\$ 39,770	\$ 16,621
Bonds	2,784,505	2,816,062	31,557	33,327	1,759
Government bonds	1,230,999	1,237,750	6,741	8,045	1,294
Municipal bonds	566,384	582,530	16,146	16,174	27
Corporate bonds	987,103	995,781	8,669	9,097	428
Others	458,981	473,759	14,768	16,891	2,123
Total	\$ 3,605,065	\$ 3,674,560	\$ 69,485	\$ 90,008	\$ 20,514

Valuation differences, net of ¥2,966 million (US\$27,618 thousand) of related deferred tax liabilities, are ¥4,496 million (US\$41,866 thousand). Valuation differences, including the Bank's share of affiliates' unrealized loss on securities available for sale of ¥0 million (US\$0 thousand), are ¥4,496 million (US\$41,866 thousand) which appears in the accompanying balance sheets.

As of March 31, 2005, the Bank wrote down the market value of marketable securities by ¥64 million (US\$595 thousand). Write-downs of marketable securities were made for all those for which the market prices at the fiscal year-end had fallen by 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 had fallen by 30 to 50 percent and were not expected to recover.

	Millions of Yen				
	2004				
	Cost	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

Valuation differences, net of ¥759 million of related deferred tax assets, amounted to ¥792 million. Valuation differences, including the Bank's share of affiliates' unrealized loss on securities available for sale of ¥0 million, amounted to ¥792 million which appears in the accompanying balance sheets.

	As of March 31, 2005	As of March 31, 2004
(c) Held-to-maturity securities with available market values	Not applicable	Not applicable
(d) Held-to-maturity securities sold during or after the end the fiscal year	Not applicable	Not applicable
(e) Securities whose categories were transferred	Not applicable	Not applicable

(2) Securities Available for Sale Sold

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

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Proceeds from sale	¥ 115,550	¥ 633,761	\$ 1,075,984
Gain	2,310	17,777	21,510
Loss	3,281	16,242	30,552

(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 4)
	2005	2004	2005
Debt Securities being held to maturity			
Non-listed corporate bonds	¥ 4,200	¥ 3,564	\$ 39,109
Other corporate bonds	1,060	—	9,870
Other Securities			
Non-listed stocks	3,474	3,493	32,349
Non-listed foreign securities	6	46	55
Loan trust beneficiary rights	4,271	—	39,770
Equity in investment limited partnerships	1,178	—	10,969
Investment in subsidiaries and affiliates			
Investment in affiliates	¥ 19	¥ —	\$ 176

(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			
	2005			
	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	¥ 4,976	¥125,059	¥ 131,475	¥ 45,105
Government bonds	1,577	35,926	50,312	45,105
Municipal bonds	733	7,533	54,291	—
Corporate bonds	2,655	81,599	26,872	—
Others	2,227	21,179	12,668	6,436
Total	¥ 7,204	¥146,239	¥ 144,144	¥ 51,542

	Thousands of U.S. Dollars (Note 4)			
	2005			
	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	\$ 46,335	\$1,164,531	\$ 1,224,276	\$420,011
Government bonds	14,684	334,537	468,497	420,011
Municipal bonds	6,825	70,146	505,549	—
Corporate bonds	24,722	759,837	250,228	—
Others	20,737	197,215	117,962	59,931
Total	\$ 67,082	\$1,361,756	\$ 1,342,247	\$479,951

	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

6. Derivative Financial Instruments

(1) Status of Transactions

(a) Policies on transactions and contents and purpose of transactions

Derivative transactions “The Bank enters into the following types of derivative transactions” are foreign exchange forward contracts, bond futures contracts and stock-index futures contracts.

The Bank utilizes derivative transactions primarily for the purpose of hedging exchange risk associated with its assets and liabilities denominated in foreign currencies. The Bank enters into derivative transactions for the purpose of achieving short-term gains upon approval of management and sets position limited loss-cutting rules for such derivative transactions.

(b) Risks relating to transactions

Of risks inherent in derivative transactions, market risks and credit risks may affect the Bank’s financial position.

Market risks refer to the risks of incurring a loss due to changes in and fluctuation of interest rates, foreign exchange rates, etc. Credit risks refer to the risks of incurring a loss when the counterparty fails to fulfill its obligations under the agreement with the Bank.

(c) Risk management system relating to transactions

The Bank has put in place strict risk management for derivative transactions. Each derivative transaction requires management’s approval. Regarding derivative transactions for the purpose of achieving short-term gains, managers perform strict verification and management of transactions in accordance with the predetermined position limits and loss-cutting rules and mutual supervision is strengthened through monitoring by the Risk Management Division.

(2) Fair Value of Transactions

	As of March 31, 2005	As of March 31, 2004
(a) Interest Rate Related Transactions	Not applicable	Not applicable

Notes to Consolidated Financial Statements

(b) Foreign Exchange Related Transactions

	Millions of Yen							
	As of March 31, 2005				As of March 31, 2004			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:								
Foreign exchange forward contracts:	¥ 166	¥ -	¥ 0	¥ 0	¥ 939	¥ -	¥ 4	¥ 4
Sold	37	-	(0)	(0)	506	-	(1)	(1)
Bought	¥ 129	¥ -	¥ 0	¥ 0	¥ 433	¥ -	¥ 6	¥ 6

	Thousands of U.S. Dollars (Note 4)			
	As of March 31, 2005			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Foreign exchange forward contracts:	\$ 1,552	\$ -	\$ 2	\$ 2
Sold	348	-	(0)	(0)
Bought	\$ 1,204	\$ -	\$ 2	\$ 2

Notes: 1. The above transactions were revalued at the end of the years and the related gain and loss figures are reflected in the accompanying consolidated statements of income.

2. Market values are based on the discounted cash flow method.

	As of March 31, 2005	As of March 31, 2004
(c) Equity Related Transactions	Not applicable	Not applicable
(d) Bond Related Transactions	Not applicable	Not applicable
(e) Commodities Related Transactions	Not applicable	Not applicable
(f) Credit Derivatives Transactions	Not applicable	Not applicable

7. Loans and Bills Discounted

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
	Bills Discounted	¥ 8,284	¥ 9,883
Loans on Bills	131,050	141,712	1,220,318
Loans on Deeds	977,980	999,061	9,106,806
Overdrafts	155,931	154,607	1,452,006
Total	¥ 1,273,246	¥ 1,305,264	\$11,856,280

(1) Nonaccrual Loans

Loans to legally bankrupt borrowers, on which the Bank stopped accruing interest under Japanese tax laws, as of March 31, 2005 and 2004, totaled ¥5,402 million (US\$50,302 thousand) and ¥4,413 million, respectively. Other delinquent loans, on which the Bank also stopped accruing interest under Japanese tax laws, totaled ¥66,881 million (US\$622,786 thousand) and ¥53,976 million, respectively, as of March 31, 2005 and 2004. 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 Overdue 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, 2005 and 2004, totaled ¥0 million (US\$0 thousand) and ¥49 million, respectively.

(3) Restructured Loans

Restructured loans as of March 31, 2005 and 2004, were ¥9,874 million (US\$91,945 thousand) and ¥21,004 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 ¥82,158 million (US\$765,043 thousand) and ¥79,444 million, respectively, as of March 31, 2005 and 2004.

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

(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, 2005 and 2004, amounts to ¥8,289 million (US\$77,185 thousand) and ¥9,886 million, respectively.

8. Assets Pledged

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
	Assets pledged as collateral		
Securities	¥ 2,466	¥ 1,388	\$ 22,963
Liabilities related to the above pledged assets			
Deposit	¥ 5,830	¥ 5,834	\$ 54,288
Payables under Repurchase Agreements	¥ 1,165	¥ -	\$ 10,848

In addition, securities as of March 31, 2005 and 2004, totaling ¥52,572 million (US\$489,542 thousand) and ¥60,026 million, respectively, were pledged as collateral for the settlement of exchange and short money transactions or as variation margin for futures transactions. Leased deposits at March 31, 2005 and 2004, of ¥789 million (US\$ 7,347 thousand) and ¥899 million, were included in Premises and Equipment, respectively.

9. 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 undrawn amount within the limits of these contracts as of March 31, 2005 and 2004, totaled ¥222,228 million (US\$2,069,354 thousand) and ¥211,236 million, respectively. Of these, contracts whose original contract periods are one year or less (or which are unconditionally revocable at any time) as of March 31, 2005 and 2004, amount to ¥222,228 million (US\$2,069,354 thousand) and ¥210,315 million, respectively.

Since many of these commitments expire without being drawn down, the undrawn 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.

10. Other Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Prepaid Expenses.....	¥ 74	¥ 84	\$ 689
Accrued Income	2,818	2,217	26,240
Derivative Financial Instruments	0	8	0
Other.....	10,574	7,563	98,463
Total	¥ 13,467	¥ 9,874	\$ 125,402

11. Premises and Equipment

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Net Book Value			
Land.....	¥ 9,061	¥ 9,008	\$ 84,374
Buildings	3,793	3,782	35,319
Equipment	1,973	942	18,372
Other.....	813	1,069	7,570
Total	¥ 15,641	¥ 14,802	\$ 145,646

Premises and equipment are stated at cost less accumulated depreciation. The accumulated depreciation at March 31, 2005 and 2004, amounted to ¥12,747 million (US\$118,698 thousand) and ¥12,216 million, respectively.

12. Deposits

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Current Deposits.....	¥ 47,667	¥ 37,794	\$ 443,868
Ordinary Deposits	639,542	605,674	5,955,321
Savings Deposits	62,472	64,731	581,730
Deposits at Notice	11,685	14,680	108,809
Time Deposits	1,024,377	1,052,592	9,538,849
Other Deposits.....	24,605	26,485	229,118
Total	¥ 1,810,352	¥ 1,801,959	\$16,857,733

13. Borrowed Money

Borrowed money is subordinated borrowings as of March 31, 2005 and 2004, of ¥15,100 million (US\$ 140,608 thousand) and ¥15,100 million, respectively.

14. Other Liabilities

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Domestic Exchange Settlement.....	¥ 5	¥ 18	\$ 46
Account Credit	—	—	—
Accrued Expenses	961	985	8,948
Unearned Income	4,652	577	43,318
Reserve for Taxes.....	1,532	509	14,265
Derivative Financial Instruments	0	3	0
Payable for Securities Purchased	253	22,172	2,355
Other.....	1,911	1,789	17,794
Total	¥ 9,317	¥ 26,056	\$ 86,758

15. Reserve for Employees' Retirement Benefits

The Bank has defined benefit pension plans and lump-sum severance payment plans, which are defined-benefit plans. One of the Bank's consolidated subsidiaries has lump-sum severance payment plans.

Notes to Consolidated Financial Statements

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

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Projected benefit obligations	¥ (19,178)	¥ (16,923)	\$ (178,582)
Fair value of plan assets	6,091	6,139	56,718
Projected benefit obligations in excess of plan assets	(13,087)	(10,783)	(121,864)
Unrecognized net actuarial loss	4,720	2,988	43,951
Unrecognized prior service cost	48	-	446
Net liability recognized	¥ (8,317)	¥ (7,795)	\$ (77,446)
Prepaid pension cost	-	-	-
Reserve for employees' retirement benefits	¥ (8,317)	¥ (7,795)	\$ (77,446)

Net pension expense related to the retirement benefits for the years ended March 31, 2005 and 2004, was as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Service cost	¥ 488	¥ 518	\$ 4,544
Interest cost	456	468	4,246
Expected return on plan assets	(92)	(91)	(856)
Amortization of prior service cost	12	-	111
Amortization of actuarial losses	926	1,042	8,622
Other	(43)	(46)	(400)
Net pension expense	1,748	1,891	16,277
Total	¥ 1,748	¥ 1,891	\$ 16,277

* Pension expenses of consolidated subsidiaries that apply the convention are all included in "service cost."

Assumptions used in the calculation of the above information for the years ended March 31, 2005 and 2004, were as follows:

	2005	2004
Discount rate	1.9%	2.7%
Expected rate of return on plan assets	1.5%	1.8%
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

16. 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.

17. Common Stock

Information with respect to common stock of the Bank at March 31, 2005 and 2004, is as follows:

	Thousands of Shares	
	2005	2004
Number of Shares:		
Authorized	200,000	200,000
Issued and Outstanding	155,895	155,895

18. Appropriation of Retained Earnings

The following appropriation of Retained Earnings of the Bank was approved at the shareholders' meeting held on June 29, 2005.

	Millions of Yen	Thousands of U.S. Dollars (Note 4)
	2005	2005
Dividends	¥ 387	\$ 3,603
Bonuses to Directors and Corporate Auditors	-	-
Transfer to Voluntary Reserve	-	-
Total	¥ 387	\$ 3,603

19. Other Income

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Gain on sale and redemption of bonds	¥ 922	¥ 6,710	\$ 8,585
Gain on sale of equity securities	1,387	11,072	12,915
Other	1,311	1,108	12,207
Total	¥ 3,621	¥ 18,892	\$ 33,718

20. Other Expenses — Other

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Write-down for stocks	¥ 235	¥ 304	\$ 2,188
Loan amortization	2,757	3,258	25,672
Other	1,804	526	16,798
Total	¥ 4,797	¥ 4,088	\$ 44,668

21. Income Taxes

The tax allocation of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Deferred Tax Assets:	¥ 15,973	¥ 15,903	\$ 148,738
Reserve for possible loan losses	14,567	9,081	135,645
Reserve for employees' retirement benefits	3,307	3,039	30,794
Net valuation difference of securities available for sale	857	2,268	7,980
Reserve for employee bonuses	480	516	4,469
Depreciation	268	292	2,495
Enterprise tax payable	170	0	1,583
Amortization of securities	182	79	1,694
Other	683	624	6,359
Valuation allowance	(4,543)	—	(42,303)
Deferred Tax Liabilities:	(4,003)	(1,746)	(37,275)
Retained earnings of foreign subsidiaries	(184)	(146)	(1,713)
Net valuation difference of securities available for sale	(3,818)	(1,506)	(35,552)
Other	—	(93)	—
Net Deferred Tax Assets	¥ 11,969	¥ 14,156	\$ 111,453

The reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2005 and 2004, is as follows:

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

The figure for fiscal 2005 is not stated because a loss before income taxes is reported.

22. Consolidated Statements of Cash Flows

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

	Millions of Yen	
	2005	2004
Cash deposit	¥ 89,954	¥158,754
Time deposit	(1,194)	(3,322)
Other	(6,143)	(2,708)
Cash and cash equivalents	¥ 82,616	¥152,723

(2) Breakdown of assets and liabilities of the newly consolidated subsidiary due to the acquisition of shares

Breakdown of assets and liabilities at the start of consolidation of Michinoku Credit Guarantee, Ltd. due to the Bank's acquisition of its shares, and the relation between the acquisition cost of Michinoku Credit Guarantee shares and the expenditure (net) for the acquisition of Michinoku Credit Guarantee shares are as follows:

	Millions of Yen	
	2005	2004
Assets	¥ 7,260	¥ —
Liabilities	(5,905)	—
Consolidated adjustment account	655	—
Acquisition cost of Michinoku Credit Guarantee shares	2,009	—
Cash and cash equivalents of Michinoku Credit Guarantee, Ltd.	—	—
Difference: Expenditure for the acquisition of Michinoku Credit Guarantee shares	¥ 2,009	¥ —

Notes to Consolidated Financial Statements

23. 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, 2005 and 2004, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Lease Rental Expenses	¥ 1,615	¥ 1,609	\$ 15,042

The amounts of outstanding future lease payments due at March 31, 2005 and 2004, excluding the interest portion, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Future Lease Payments			
Within one year	¥ 1,266	¥ 1,344	\$ 11,788
Over one year	3,271	4,333	30,459
Total	¥ 4,537	¥ 5,677	\$ 42,247

Assumptions 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 4)
	2005	2004	2005
Acquisition	¥ 8,392	¥ 9,364	\$ 78,145
Accumulated Depreciation	(4,098)	(3,923)	(38,159)
Net Book Value	4,293	5,441	39,975
Depreciation	¥ 1,382	¥ 1,367	\$ 12,868

24. Segmental information

Business segment information

Fiscal year ended March 31, 2004, and fiscal year ended March 31, 2005

Other than banking operations, certain consolidated subsidiaries provide temporary staff services. However, because the proportion of such services is negligible, business segment information is not stated.

Geographical segment information

Fiscal year ended March 31, 2004, and fiscal year ended March 31, 2005

As Japan accounts for more than 90% of aggregated ordinary income of all segments and of aggregated amount of assets of all segments, geographical segment information is not stated.

Ordinary income of international operations

Fiscal year ended March 31, 2004, and fiscal year ended March 31, 2005

As ordinary income of international operations accounts for less than 10%, information on ordinary income of international operations is not stated.

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	(0)	Loans	9
								Receipt of interest, etc.	0	Accrued income	0
	Tadamichi Yamamoto	—	—	Company executive	—	—	—	Provision of loans	—	Loans	11
								Receipt of interest, etc.	0	Accrued income	0
	Kenzo Osaka	—	—	Company executive	Direct 0.00	—	—	Provision of loans	(16)	Loans	256
								Receipt of interest, etc.	8	Accrued income	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	(1)	Loans	33
								Receipt of interest, etc.	0	Accrued income	0
	Maruyo Seafood Co., Ltd. (*2)	Hachinohe-shi, Aomori prefecture	99	Marine product processing	Direct 0.17	No	Extending of credit	Provision of loans	(161)	Loans	1,784
								Payment guarantee	(34)	Payment guarantee endorsement	184
								Receipt of interest, etc.	13	Accrued income	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.

26. Related-party transactions

Fiscal 2005 (From April 1, 2004, to March 31, 2005)

(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	(0)	Loans	9
								Receipt of interest, etc.	0	Accrued income	0
	Tadamichi Yamamoto	—	—	Company executive	—	—	—	Provision of loans	—	Loans	11
								Receipt of interest, etc.	0	Accrued income	0
	Kenzo Osaka	—	—	Company executive	Direct 0.00	—	—	Provision of loans	(213)	Loans	42
								Receipt of interest, etc.	7	Accrued income	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	218	Loans	251
								Receipt of interest, etc.	1	Accrued income	0
	Maruyo Seafood Co., Ltd. (*2)	Hachinohe-shi, Aomori prefecture	99	Marine product processing	Direct 0.17	No	Extending of credit	Provision of loans	616	Loans	2,400
								Payment guarantee	(34)	Payment guarantee endorsement	150
								Receipt of interest, etc.	14	Accrued income	3

(*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.

27. Information for Share

	Yen		U.S. Dollars (Note 4)
	2005	2004	2005
Book Value per Share	¥ 588.35	¥ 619.95	\$ 5.47
Net Income per Share	(59.12)	5.32	(0.55)

The basis for calculating net income (loss) per share is as follows:

	Yen		U.S. Dollars (Note 4)
	2005	2004	2005
Net income (loss)	¥ (59.12)	¥ 5.32	\$(0.55)

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2005	2004	2005
Net income (loss)	¥ (9,160)	¥ 854	\$(85,296)
Amount not attributable to common shareholders	—	29	—
Of which bonuses to directors by appropriation of retained earnings	—	29	—
Net income (loss) per share of common stock	¥ (9,160)	¥ 825	\$(85,296)

	Thousands of Shares	
	2005	2004
Average number of common stock shares outstanding during the year	154,955	155,042

Data on fully diluted net income per share is not stated, as there are no potential shares outstanding.

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.

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, 2005 and 2004, 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, 2005 and 2004, 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 4 to the accompanying consolidated financial statements.

Chuo Aoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

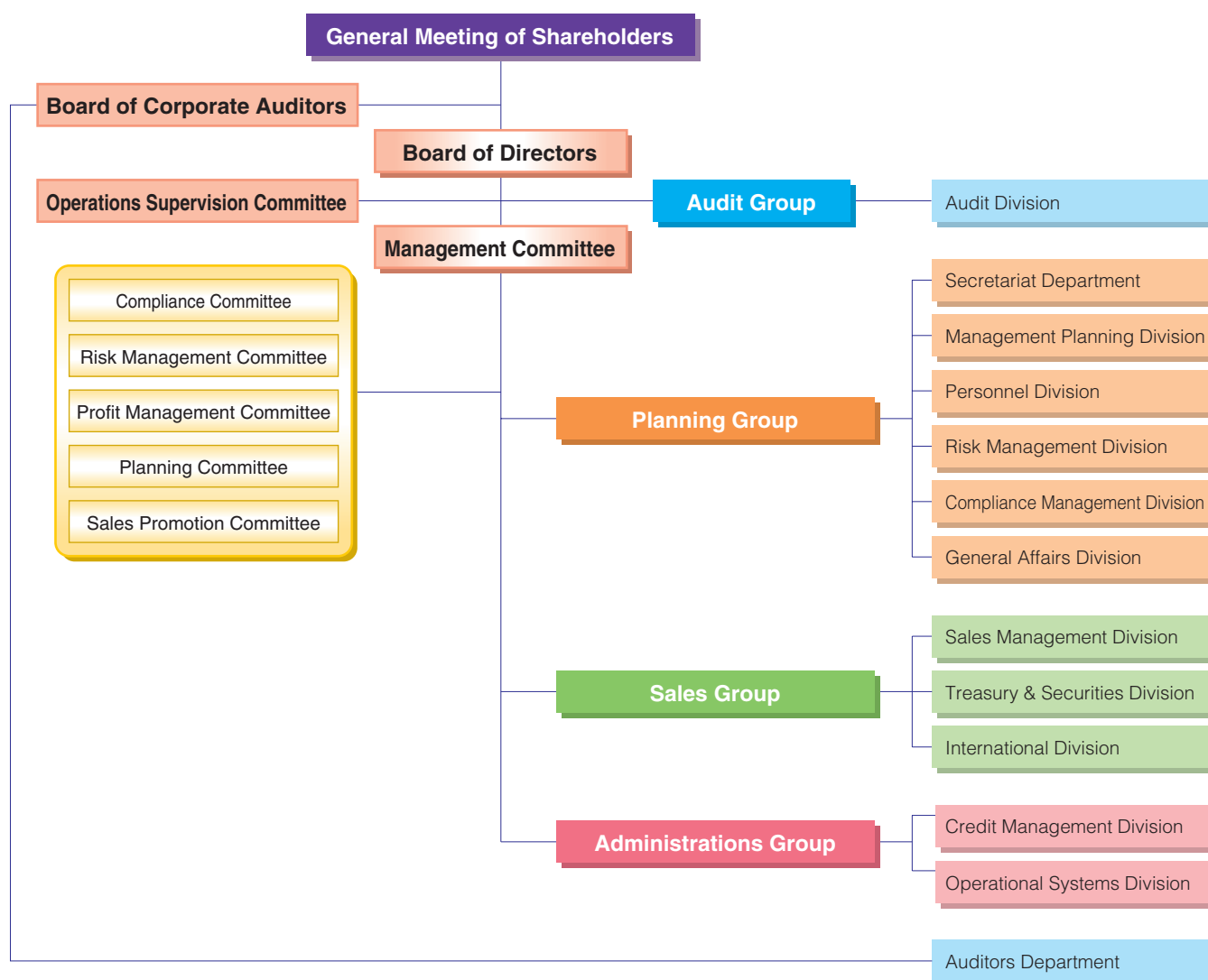
Tokyo, Japan

June 29, 2005

Organizations and Officers

(as of July 19, 2005)

Organization Chart



* Operations Supervision Committee was established during the year under review.
 * Directors Committee was renamed Management Committee

Officers

Chairman

Sumio Uesugi

President

Yasuo Sugimoto

Director

Hitoshi Akahira

Tatsuya Kudo

Satoshi Yazaki

Non-Executive Director

Toru Yanagiya

Juko Akatsu

Executive Officer, General Manager

Head Office

Makoto Komori

Hakodate Branch Office

Toshimitsu Sawaya

Hachinohe Branch Office

Susumu Terao

Hirosaki Business Div.

Norihisa Kogawa

Senior Corporate Auditor

Hiroyoshi Ogura

Corporate Auditor

Tadamichi Yamamoto

Yoshihiro Sakaki

Kenzo Osaka

Taiji Shirato

Notes:

1. Toru Yanagiya and Juko Akatsu are outside directors as stipulated in Article 188, Paragraph 2, Item 7-2 of the Commercial Code.
2. Hiroyoshi Ogura, Tadamichi Yamamoto, Yoshihiro Sakaki, Kenzo Osaka and Taiji Shirato are outside corporate auditors as stipulated in Article 18, Paragraph 1, of the Law for Special Provisions for the Commercial Code Concerning Audits, etc., of Kabushiki-Kaisha (Joint Stock Companies).

Corporate Data

(As of March 31, 2005)

Date of Establishment:

October 27, 1921

Head Office:

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

Paid-in Capital:

¥24,167 million (US\$225 million)

Number of Employees:

1,212

Number of Offices:

In Japan: 108 branch offices, 9 offices

Overseas: 2 representative offices

(Wuhan, Shanghai)

Foreign Subsidiaries:

Michinoku Finance (Hong Kong) Ltd.

The Michinoku Bank (Moscow) Ltd.

Main Accounts:

Deposits ¥1,807 billion (US\$16,826 million)

Loans and Bills Discounted

¥1,269 billion (US\$11,816 million)

Securities ¥399 billion (US\$3,715 million)

Capital Adequacy Ratio:

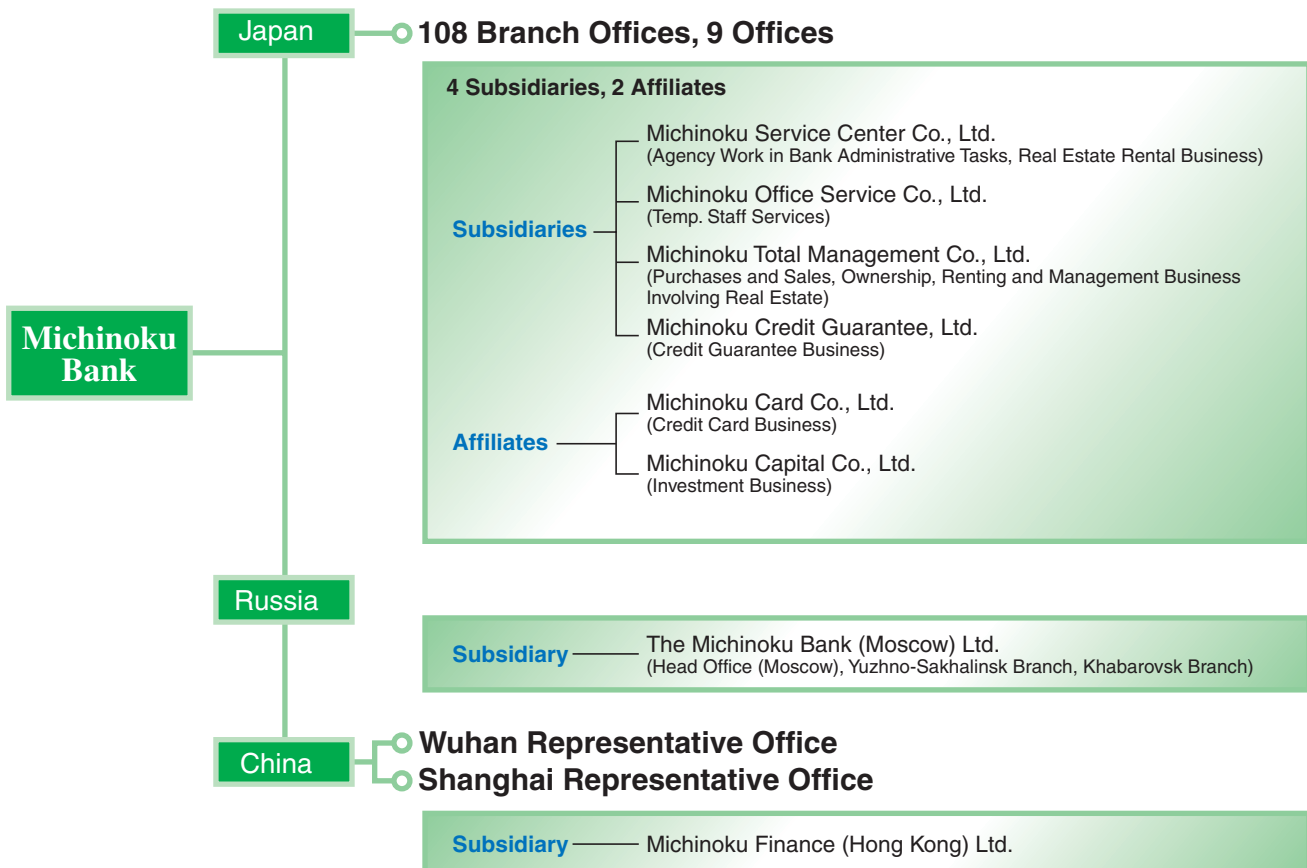
10.48%

Corporate Group

(As of July 1, 2005)

Organization Chart of Activities by Corporate Group

Our corporate group consists of four subsidiaries and two 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, 2005)

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-Odenmachi,
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

Shanghai Representative Office

28th Floor, HSBC Tower,
101 Yin Cheng East Road,
Pudong New Area, Shanghai,
200120, P.R. China
Phone: (86) 21-6841-0698
Facsimile: (86) 21-6841-0758

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
119017, Russian Federation
Phone: (7) 095-729-5858
Facsimile: (7) 095-729-5898
S.W.I.F.T.: MCHI RU MM

Yuzhno-Sakhalinsk Branch

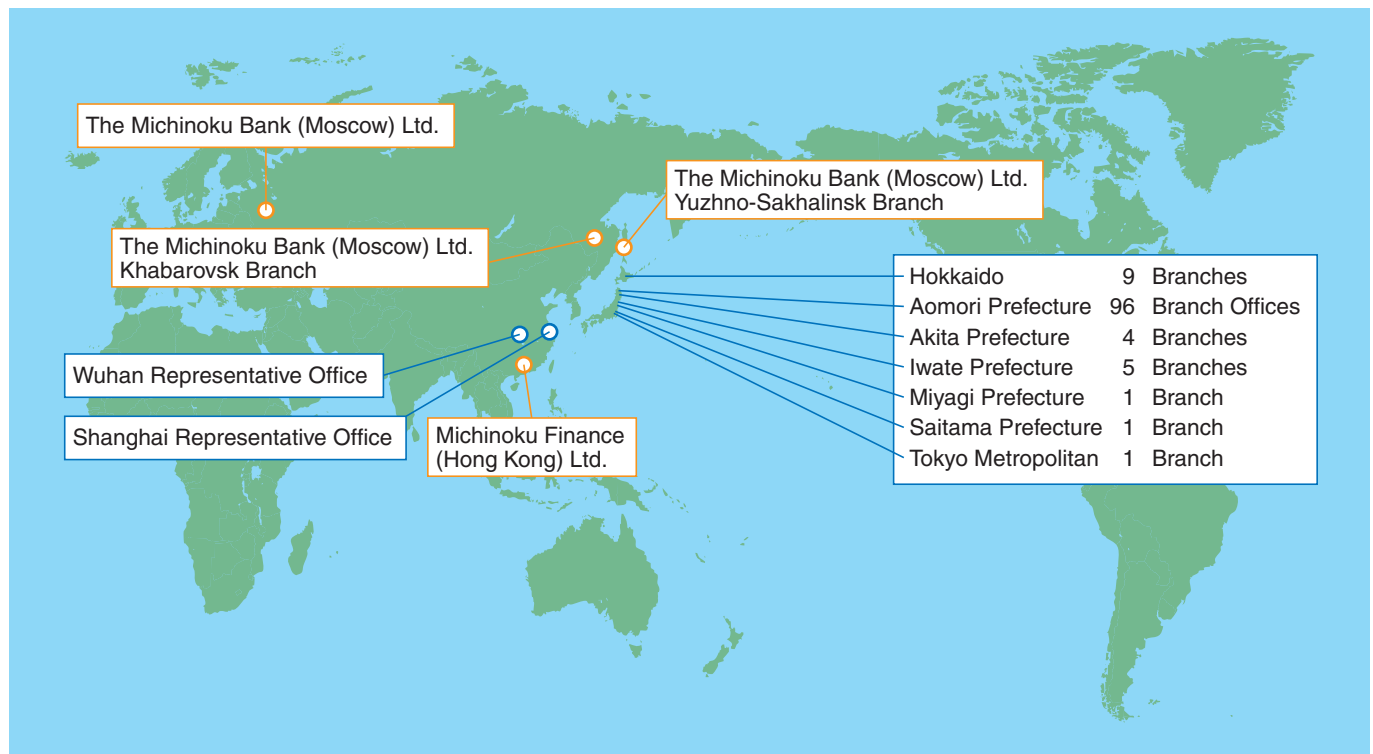
Michinoku Sakhalin Building 1st Floor,
234 Lenina St., Yuzhno-Sakhalinsk
693000, Russian Federation
Phone: (7) 4242-74-1111
Facsimile: (7) 4242-74-4750
S.W.I.F.T.: MCHI RU MMYUS

Khabarovsk Branch

Business Center Parus 2nd Floor,
5 Shevchenko St., Khabarovsk 680000,
Russian Federation
Phone: (7) 4212-64-9600
Facsimile: (7) 4212-64-9522
S.W.I.F.T.: MCHI RU MM KHV

Number of Branch Offices

	Head Office & Branch Offices	Offices	Representative Offices
Aomori Prefecture	87	9	—
Outside the Aomori Prefecture	21	—	—
Overseas	—	—	2
Total	108	9	2





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.