

Message from the Management

Introduction

First, I would like to thank you for your patronage of Michinoku Bank. A year has passed since we embarked on rebuilding the Bank's management structure under the leadership of a new management team with the aim of recovering the trust of our customers and shareholders. Although many problems remain to be solved, we are confident that we are making steady progress. As we move forward, we will continue with structural reform and redouble our efforts to secure a rapid recovery in business performance.

The Bank aims to be a "family bank" enjoying the trust of the people of the region it serves and benefiting them. Our basic philosophy as a family bank is to contribute to building regional prosperity by serving as an essential supporter of the family, the basic unit of society. We seek to meticulously provide functions and services suited to our customers' lifestyles and assist customers in planning affluent lives. To put this philosophy into practice, the Bank will actively enhance its product development and service functions and aim to put in place a strong operating structure and develop the business while, at the same time, recognizing and fulfilling the social responsibility required of a bank as a public institution.

Results of Operations

During the past year the Japanese economy has followed an overall recovery trajectory in the corporate, public, and individual sectors. Moreover, future prospects are bright, as shown by the Bank of Japan's lifting of the quantitative easing policy. Nevertheless, in Aomori Prefecture, where the Bank is based, despite a modest economic recovery trend, land prices, the ratio of effective job offers to job seekers, and housing starts remain depressed.

In these circumstances, in the fiscal year ended March 2006 the Bank posted a net business profit of ¥8.4 billion, a year-on-year increase of ¥0.9 billion, due to an increase in



Yasuo Sugimoto, *President*

interest income in line with the strengthening of investments in securities and an increase in personal loans, as well as continuing expense reductions and other improvements in management efficiency. At the same time, by conducting a rigorous review of asset quality and, as part of management reform, as far as possible bringing forward disposal of loans at risk of becoming nonperforming loans in the future, the Bank booked bad loan and other credit costs of ¥30.2 billion.

As a result of these developments, for the fiscal year ended March 2006 the Bank incurred an ordinary loss of ¥20.2 billion and a net loss of ¥14.1 billion. However, owing to the measures taken during the year, prospects for solving the bad loan problem are good, and management believes that a solid foundation to adequately withstand future changes in the business environment has been established.

The First Medium-Term Business Plan

The Bank has formulated and launched the First Medium-Term Business Plan, a business plan covering the three-year period from April 2006 to March 2009. The plan sets forth

the Bank's vision for the future, which calls for Michinoku Bank to be the premier bank in the region and secure an overwhelmingly powerful presence in our operating base. By the premier bank in the region, we mean the bank with the highest customer satisfaction, a bank that contributes to regional development, and a vital bank whose employees work energetically. We will implement four key management policies to realize our vision of being the premier bank in the region: reinforcement of earning power; promotion of management efficiency; improvement of asset quality; and personnel development and CSR activities. Although in the coming years the Bank will be exposed to unprecedented change in financial conditions owing to the privatization of the postal service, the introduction of the bank agent system, and moves on the part of megabanks and securities companies, the management and employees will work as one to implement the policies in the First Medium-Term Business Plan and overcome an adverse business environment.

Future Initiatives

Although the First Medium-Term Business Plan is a three-year plan, management expects that the success of the plan will be determined in the first year. Accordingly, for the current fiscal year (the year ending March 2007) we have made the achievement of the profit targets in the plan the major objective. Specifically, the objectives for the current year are net business profit of ¥8.0 billion or higher and ordinary profit of ¥5.2 billion. The Bank will focus its efforts on the following five priorities to achieve the objectives:

1) Active promotion of small and medium-sized business loans

Since the change to the new management structure, the Bank has announced that it will actively extend new loans to small and medium-sized companies. We will step up efforts to promote small business loans.

2) Expansion of deposit assets

To a bank, the number and balance of deposits is a barometer of trust. In addition to selling investment trusts and life insurance, we will redouble our efforts to secure deposits, the foundation of the banking business.

3) Expansion of personal loans

The Bank has long actively extended housing loans and consumer loans as an important pillar of earnings. We recognize that expansion of personal loans is essential to building a solid earnings base.

4) Expansion of salary deposits and pensions

These are important components of individual deposits. To secure this business, we will develop a sales strategy and engage in active selling activities.

5) Expense reductions

We will step up control of expenses and further review the expense structure. In particular, we will increase awareness of the cost effectiveness of expenses.

By implementing these measures, the Bank will mount an all-out effort to achieve the profit objectives for the current fiscal year and realize the vision set forth in the First Medium-Term Business Plan of being the premier bank in the region.

October 2006 marks the 30th anniversary of the founding of Michinoku Bank. I believe that we have reached this milestone thanks to the support of our customers, shareholders, employees, and residents of the region we serve. I am deeply grateful for that support and request your continued patronage in the years to come.

July 2006



Yasuo Sugimoto,
President