



2006

ANNUAL REPORT
THE MICHINOKU BANK, LTD.

Michinoku Bank

The Michinoku Bank, Head Office, Business Division



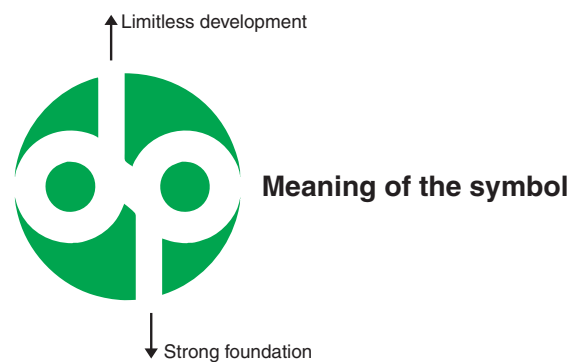
Symbol

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 a firm foundation, The Michinoku Bank pursues limitless development.

The Michinoku Bank's symbol (right) is based on the trinity of service, friendship and progress. The bank derives its youthful energy from a firm foundation while striving for limitless development.

Every employee wears a badge bearing the symbol.



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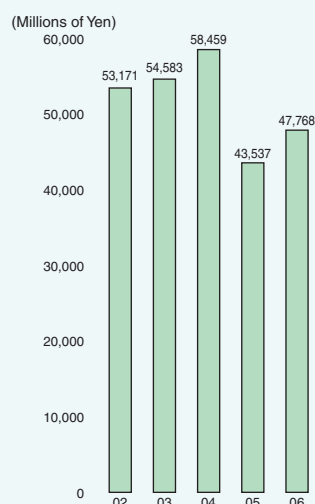
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Consolidated Financial Highlights

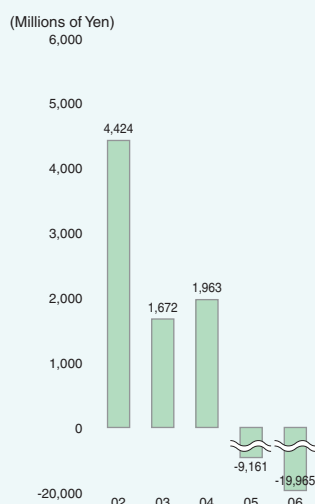
Years Ended March 31	Millions of Yen				
	2006	2005	2004	2003	2002
Total Revenues	¥ 47,768	¥ 43,537	¥ 58,459	¥ 54,583	¥ 53,171
Ordinary Profit	(19,965)	(9,161)	1,963	1,672	4,424
Net Income	(14,053)	(9,160)	854	2,815	2,489
Shareholders' Equity	79,837	91,157	96,087	99,170	96,740
Total Assets	1,898,480	1,964,482	1,981,370	1,975,996	1,930,247
Cash Flows from Operating Activities	(28,536)	130,430	(17,906)	13,995	(49,727)
Cash Flows from Investing Activities	(15,988)	(199,723)	111,398	(33,530)	100,701
Cash Flows from Financing Activities	11,510	(811)	(2,122)	(3,424)	(1,962)
Cash and Cash Equivalents at End of Year	50,562	82,616	152,723	62,059	85,564
Book Value per Share (¥)*	516.80	588.35	619.95	637.73	620.71
Net Income per Share (¥)*	(90.95)	(59.12)	5.32	17.84	15.96
Capital Adequacy Ratio (BIS criteria) (%)	11.44	10.53	12.00	12.47	12.57
Return on Equity (%)	(16.4)	(9.8)	0.9	2.9	2.5
Price Earnings Ratio (Times)	—	—	121	38	41
Number of Employees	1,465	1,458	1,459	1,492	1,549

* 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.

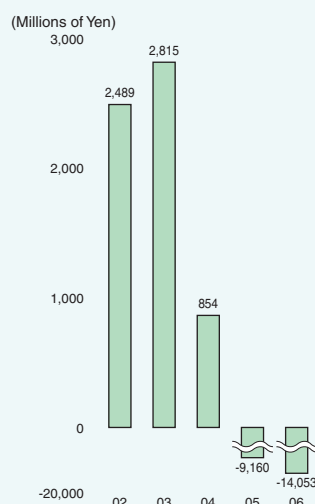
■ Total Revenues



■ Ordinary profit

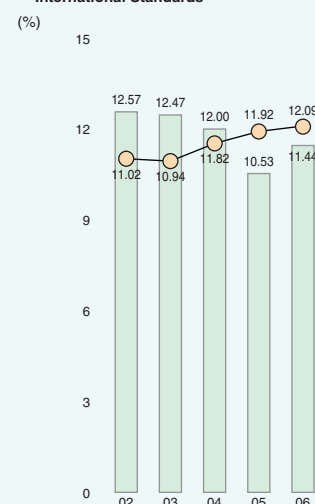


■ Net income



■ Capital Adequacy Ratio

○ Average for Regional Banks Adopting Uniform International Standards



Message from the Management

Introduction

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

Corporate Governance

Basic Policy on Corporate Governance

The Bank recognizes that the construction of a corporate governance system that appropriately responds to changes in the business environment and is always reliable is the most important management task.

For the Bank to permanently grow and develop, it is important to increase management efficiency and ensure management soundness while responding to changes in the business environment. To that end, management believes it is necessary to continuously reinforce and develop the corporate governance system.

In addition to reinforcing and developing the corporate governance system, management will work to inculcate the corporate governance policy internally and reinforce internal controls to ensure that the policy is implemented.

Description of Management Organization and State of Development of Internal Control Systems

Board of Corporate Auditors

The Board of Corporate Auditors consists of six outside corporate auditors (two full-time corporate auditors and four part-time corporate auditors). The Board audits the directors' execution of business. All six corporate auditors attend meetings of the Board of Directors, and the full-time corporate auditors attend other important business meetings. The Bank employs various measures to ensure efficient auditing, including maintenance of the Corporate Auditors' Office as a dedicated organization directly under the control of the Board of Corporate Auditors to enhance the auditing structure, periodically obtaining audit reports from the accounting auditor, and conducting on-site audits as necessary.

Board of Directors

With regard to the management decision-making function, the Board of Directors meets regularly once each month and

convenes special meetings as necessary to decide important matters concerning management of the Bank. The Board of Directors consists of seven directors, two of whom are outside directors.

Management Committee

The Management Committee consists of the full-time directors and serves as an organization to discuss and decide matters delegated by the Board of Directors. To ensure rapid decision-making, the Committee meets regularly once each week and otherwise as necessary.

Operations Supervision Committee

To reinforce corporate governance, the Bank maintains a structure for the supervision of the Board of Directors and the appropriateness of business management. The Bank has established the Operations Supervision Committee, which consists of the chairman of the Board of Directors, two part-time directors, and an outside expert (an attorney).

Internal Auditing

Internal auditing consists of on-site audits of the business of headquarters, branches, and consolidated subsidiaries performed by the Audit Division and self-assessment audits verified by the Audit Division's Asset Audit Office. The audit results are reported to the representative directors and the Board of Directors. The Bank also receives advice from the Accounting Auditor and strives to enhance internal auditing.

Accounting Auditor

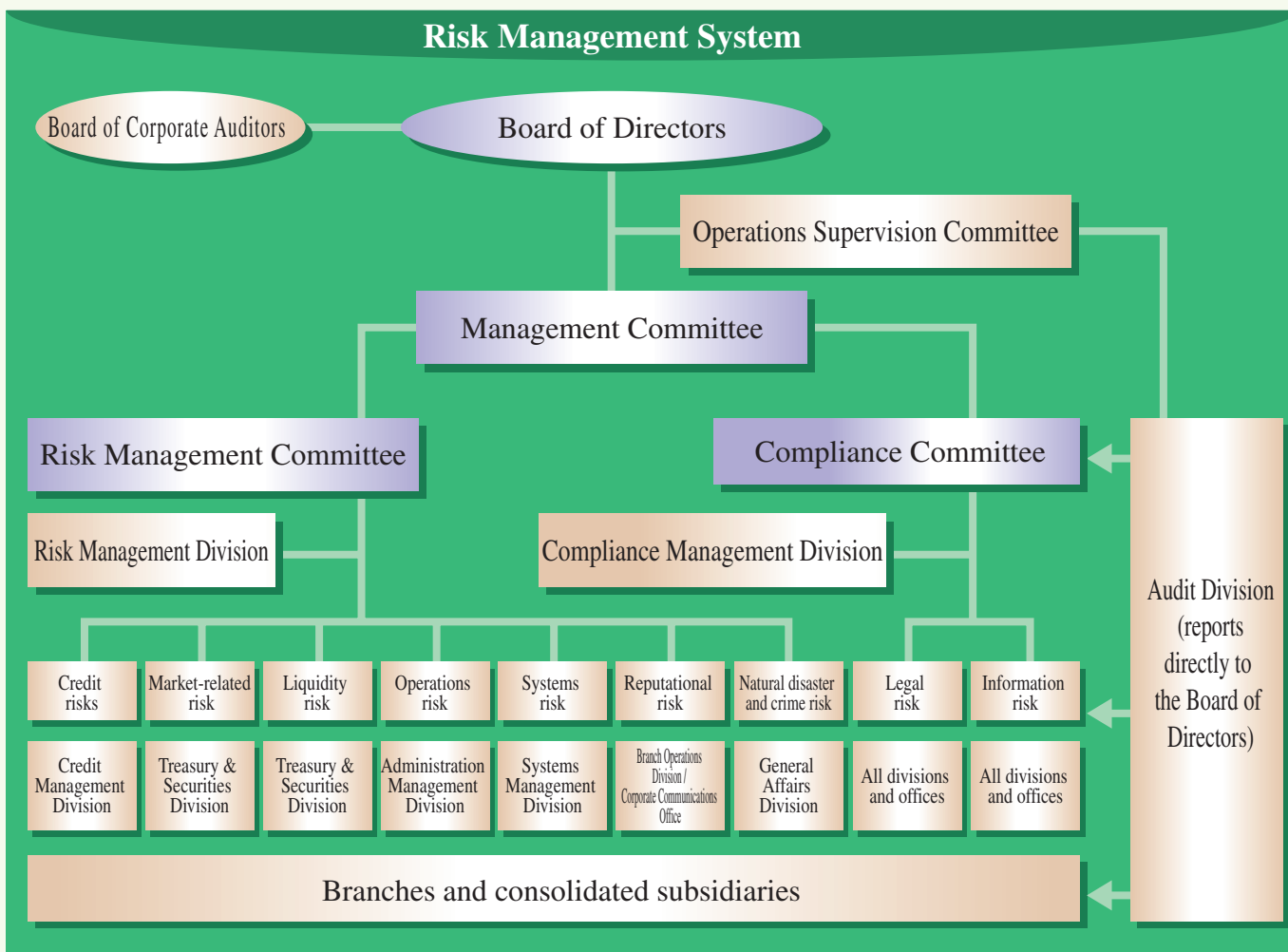
The Bank maintains an environment to ensure that accurate management information is provided to the Accounting Auditor and that rigorous audits are performed.

Risk Management System at Michinoku Bank

Management of an enterprise entails the risk of various forms of loss, including diminution or loss of value of owned assets. For financial institutions, which hold customer assets in safekeeping, management of business risk is a management task that involves greater responsibility than for other companies.

Michinoku Bank has established the Risk Management Division and Compliance Management Division as

organizations to manage its risk management systems and compliance management systems, respectively. The Bank has also established the Risk Management Committee and Compliance Management Committee as forums in which all bank divisions engage in cross-organizational discussion and deliberation of risk management and compliance. To ensure management soundness, the Bank has established the Operations Supervision Committee to engage in risk management supervision.



International Network

China

The Bank anticipates synergy from collaboration between the Shanghai Representative Office (opened in October 2004) and Michinoku Finance (Hong Kong), Ltd. (established in September 1993) and will more actively engage in financial and economic trend surveys and information gathering and dissemination activities in China.



Shanghai Representative Office

Russia

Michinoku Bank became the first Japanese bank to open a wholly owned subsidiary in Russia when it established Michinoku Bank (Moscow) Ltd. in July 1999. The Bank became the first foreign bank to establish a branch in the Russian Far East when it opened a branch in Yuzhno-Sakhalinsk in August 2002. The Bank subsequently opened a branch in Khabarovsk in July of 2003 and received approval from federal authorities to enter Russia's recently established deposit insurance scheme in January 2005.

Commercial and economic ties between Japan and Russia are expected to expand substantially as the Russian economy continues to steadily develop and economic reform progresses. In particular, the development of oil, natural gas, and other resources is expected to represent a major opportunity for business in the Russian Far East, a barometer of economic conditions in Russia. Michinoku Bank (Moscow) intends to actively promote housing loans and other types of personal loans it began offering in June 2003 and will fully engage in the financing of excellent companies such as affiliates of Japanese companies and their local business partners.



The Michinoku Bank (Moscow) Ltd. Head Office



Yuzhno-Sakhalinsk Branch



Khabarovsk Branch

Economic Environment

In developments in the Japanese economy in the fiscal year ended March 2006, inventory adjustment in the IT sector was completed and structural adjustment pressures such as excess facilities and excess inventory were mostly eliminated. In these circumstances, the economy steadily improved. Exports gradually increased in line with overseas economic expansion, and business confidence improved. These developments led to an increase in capital investment and improvement in the employment situation, and personal consumption was brisk.

At the same time, despite a gradual recovery in production at some companies, the economy of Aomori Prefecture, the Bank's principal business territory,

continued to tread water owing to concerns about the future among the majority of companies in light of factors such as a spike in the price of crude oil. Recovery in personal consumption was weak due to uncertainty about employment, and the prospects for economic vitalization remain difficult. The Bank believes that regional economic vitalization depends on exploiting the potential for tourism, an important aspect of Aomori Prefecture, while actively attracting and promoting industry that has a major economic ripple effect and expanding the economic base by means of new initiatives involving collaboration between business, academia, and government.



Financial Review

Consolidated Business Results

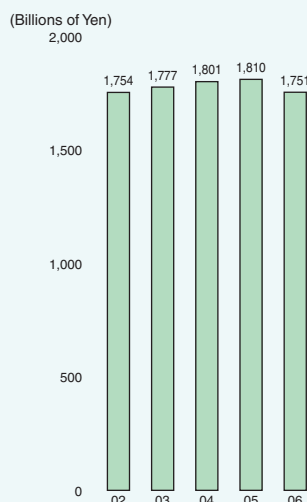
Under the new management structure initiated in July 2005, the Bank engaged in radical management reform, including strengthening compliance and other aspects of management control and reviewing asset quality and the cost structure. As a result, consolidated business performance for the Michinoku Bank Group during the fiscal year under review was as follows.

Deposits decreased by ¥59.2 billion year on year to ¥1,751.1 billion. Loans and bills discounted decreased by ¥26.7 billion to ¥1,246.5 billion. Securities increased by ¥31.8 billion to ¥436.3 billion.

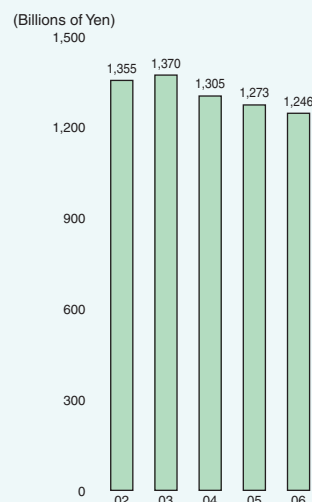
In profit and loss, with the aim of substantially increasing earning power the Bank stepped up securities investment, increased personal loans, and continued with expense reductions and other measures to increase

management efficiency. At the same time, as part of management reform, the bank conducted a rigorous review of asset quality and considerably increased bad loan write-offs and other credit costs (loan write-off and reserve costs) by as far as possible bringing forward and disposing of bad loans at risk of occurring in future. As a result, the Bank recorded a consolidated ordinary loss of ¥19,965 million and a net loss of ¥14,053 million. However, as a result of measures taken during the year, prospects for solving the bad loan problem are good and asset quality improved substantially. Accordingly, management believes that a solid foundation that can adequately withstand future changes in the business environment has been established. The capital adequacy ratio (BIS standards) rose by 0.91 percentage points from the previous year to 11.44%.

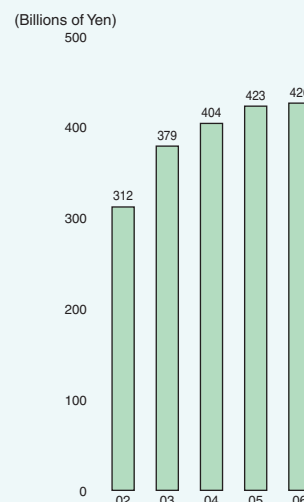
Deposits



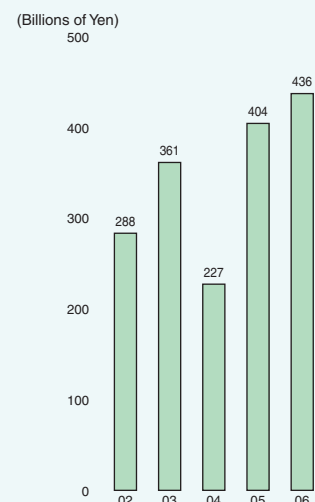
Loans and bills discounted



Consumer loans to individuals



Securities



Consolidated Balance Sheets

As of March 31, 2006 and 2005	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
ASSETS			
Cash and Due from Banks	¥ 54,785	¥ 89,954	\$ 466,375
Call Loans	138,954	153,881	1,182,192
Commercial Paper and Other Debt Purchased.....	4,241	4,992	36,108
Trading Account Securities (Note 4)	94	728	803
Securities (Note 4)	436,308	404,550	3,714,212
Loans and Bills Discounted (Note 6).....	1,246,536	1,273,246	10,611,527
Foreign Exchange	1,028	380	8,758
Other Assets (Note 9).....	9,011	13,467	76,715
Premises and Equipment (Notes 2 and 10)	14,793	15,641	125,932
Deferred Tax Assets (Note 20)	16,106	12,035	137,114
Consolidated Adjustment Account	524	655	4,463
Customers' Liabilities for Acceptances and Guarantees (Note 15)	17,017	18,561	144,867
Reserve for Possible Loan Losses (Note 2)	(40,921)	(23,615)	(348,359)
Total Assets	¥ 1,898,480	¥ 1,964,482	\$ 16,161,410
LIABILITIES			
Deposits (Notes 8 and 11).....	¥ 1,751,188	¥ 1,810,352	\$ 14,907,541
Call Money.....	2,337	8,229	19,900
Payables under Repurchase Agreements (Note 7).....	1,255	1,165	10,687
Borrowed Money (Note 12).....	12,500	15,100	106,410
Foreign Exchange	113	102	964
Bond (Note 2).....	15,000	–	127,692
Other Liabilities (Note 13).....	7,171	9,317	61,051
Reserve for Employee Bonuses (Note 2).....	1,202	1,187	10,236
Reserve for Employees' Retirement Benefits (Notes 2 and 14)	9,384	8,317	79,889
Deferred Tax Liabilities (Note 20).....	50	66	431
Reserve for Litigation Loss.....	–	156	
Deferred Tax Liabilities for Revaluation Reserve for Land (Note 2)	1,421	769	12,099
Acceptances and Guarantees (Note 15)	17,017	18,561	144,867
Total Liabilities	¥ 1,818,643	¥ 1,873,325	\$ 15,481,771
SHAREHOLDERS' EQUITY			
Common Stock (Note 16)	¥ 24,167	¥ 24,167	\$ 205,737
Capital Surplus	19,775	19,775	168,344
Retained Earnings	27,946	42,730	237,907
Revaluation Reserve for Land, Net of Taxes (Note 2)	403	1,133	3,435
Unrealized Gains (Losses) on Securities Available for Sale	7,793	4,496	66,347
Foreign Currency Translation Adjustment	668	(253)	5,687
Treasury Stock	(918)	(892)	(7,821)
Total Shareholders' Equity	79,837	91,157	679,638
Total Liabilities and Shareholders' Equity	¥ 1,898,480	¥ 1,964,482	\$ 16,161,410

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income and Retained Earnings

For the Years Ended March 31, 2006 and 2005	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
INCOME			
Interest on:			
Loans and Discounts	¥ 29,104	¥ 29,162	\$ 247,761
Securities	5,443	4,369	46,339
Other	332	353	2,833
Fees and Commissions	6,421	6,029	54,666
Other Income (Note 18)	6,465	3,621	55,041
Total Income	¥ 47,768	¥ 43,537	\$ 406,641
EXPENSES			
Interest on:			
Deposits	¥ 853	¥ 773	\$ 7,267
Borrowings and Rediscounts	543	456	4,622
Other	0	0	0
Fees and Commissions	3,335	3,215	28,392
Other Operating Expenses	1,170	2,393	9,961
General and Administrative Expenses	28,835	28,728	245,471
Other Expenses:			
Reserve for Possible Loan Losses	24,483	12,266	208,424
Other (Note 19)	8,678	4,797	73,874
Total Expenses	¥ 67,899	¥ 52,630	\$ 578,015
Income (Loss) before Income Taxes	(20,131)	(9,093)	(171,374)
Income Taxes – Current (Note 20)	263	1,642	2,246
Income Taxes – Deferred (Note 20)	(6,342)	(1,574)	(53,989)
Net Income (Loss)	¥ (14,053)	¥ (9,160)	(119,630)
RETAINED EARNINGS			
Balance at Beginning of Year	¥ 42,730	¥ 52,613	\$ 363,760
Increase in Retained Earnings	46	90	393
Decrease in Retained Earnings:			
Net Loss	14,053	9,160	119,630
Dividends	775	775	6,598
Bonuses to Directors and Corporate Auditors	–	29	–
Loss on Sale of Treasury Stock	2	7	17
Balance at End of Year	¥ 27,946	¥ 42,730	\$ 237,907
Book Value per Share (in Yen and U.S. Dollars)	¥ 516.80	¥ 588.35	\$ 4.39
Net Income (Loss) per Share (in Yen and U.S. Dollars)	¥ (90.95)	¥ (59.12)	\$ (0.77)

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2006 and 2005	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (Loss) before Income Taxes and Other Adjustments.....	¥ (20,131)	¥ (9,093)	\$ (171,374)
Depreciation and Amortization.....	1,208	1,165	10,290
Impairment loss.....	246	–	2,097
Amortization of goodwill.....	131	–	1,115
Equity in Loss (Gain) of Affiliates	(19)	63	(170)
Net Increase (Decrease) in Reserve for Possible Loan Losses	17,306	9,538	147,328
Net Increase (Decrease) in Reserve for Employee Bonuses.....	14	(94)	127
Net Increase (Decrease) in Liability for Employees' Retirement Benefits	1,066	522	9,080
Increase in Reserve for Litigation Loss	(156)	156	(1,332)
Interest Income Recognized on Statement of Income	(34,880)	(33,885)	(296,934)
Interest Expenses Recognized on Statement of Income	1,396	1,229	11,890
Net (Gain) Loss Related to Securities.....	(3,617)	1,264	(30,791)
Foreign Exchange Loss.....	(61)	35	(519)
Net Loss on Sale of Premises and Equipment	115	69	984
Net Decrease (Increase) in Loans	26,710	33,289	227,383
Net Increase in Deposits	(59,163)	14,041	(503,647)
Net Decrease (Increase) in Due from Banks Other than The Bank of Japan..	3,116	(1,307)	26,528
Net Decrease (Increase) in Call Loans.....	15,678	81,796	133,468
Net Increase (Decrease) in Call Money	(5,891)	(2,808)	(50,155)
Net Decrease (Increase) in Foreign Exchange Assets	(648)	1,389	(5,519)
Net Increase (Decrease) in Foreign Exchange Liabilities.....	11	63	95
Interest Received.....	34,855	33,696	296,721
Interest Paid.....	(1,388)	(1,266)	(11,823)
Others	(2,821)	45	(24,014)
Subtotal	(26,920)	129,915	(229,170)
Income Taxes Payable	(1,615)	514	(13,752)
Net Cash Provided by (Used in) Operating Activities	(28,536)	130,430	(242,922)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Stock and Other Securities.....	(104,021)	(314,457)	(885,517)
Proceeds from Sales of Stock and Other Securities	77,971	113,311	663,756
Proceeds from Redemption of Bonds	10,502	5,414	89,401
Purchases of Premises and Equipment.....	(549)	(2,064)	(4,675)
Proceeds from Sales of Premises and Equipment.....	109	83	930
Purchases of Shares of a Subsidiary Accompanying the Change in the Scope of Consolidation	–	(2,009)	–
Net Cash Provided by (Used in) Investing Activities	(15,988)	(199,723)	(136,104)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Subordinated Debt	(2,600)	–	(22,133)
Repayment of Subordinated Debt	14,918	–	127,002
Dividends Paid	(775)	(775)	(6,598)
Purchases of Treasury Stock	(42)	(47)	(360)
Proceeds from Sales of Treasury Stock	9	11	78
Net Cash Used in Financing Activities	11,510	(811)	97,987
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	960	(2)	8,175
Net Increase (Decrease) in Cash and Cash Equivalents	(32,053)	(70,107)	(272,864)
Cash and Cash Equivalents at Beginning of Year	82,616	152,723	703,296
Cash and Cash Equivalents at End of Year	¥ 50,562	¥ 82,616	\$ 430,431

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

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 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, 2006, 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 developing 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 division, 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 ¥23,649 million (US\$201,319 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 Employees' 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, 2006, 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 partnerships under the Civil Code and silent partnerships 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 "Deferred Tax Liabilities for Revaluation Reserve for Land." in Liabilities.

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 ¥1,894 million (US\$16,123 thousand) than the book value of the land after revaluation.

(19) Subordinated bonds amounted to ¥15 million.

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

Common stock: 1,401 thousand shares

(21) 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.

(22) 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 a 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 into dollars on the basis of ¥117.47 to US\$1, the approximate effective rate of exchange as of March 31, 2006. 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

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 4)
	2006	2005	2006
Amount in the balance sheet	¥ 94	¥ 728	\$ 800
Valuation gain included in income before income taxes	(0)	1	(0)

(b) Marketable securities available for sale

	Millions of Yen				
	2006				
	Cost	Balance sheet amount	Valuation differences	Gain	Loss
Stock	¥ 31,710	¥ 49,130	¥ 17,419	¥ 17,978	¥ 558
Bonds	337,938	331,702	(6,236)	250	6,486
Government bonds	155,961	151,491	(4,470)	8	4,478
Municipal bonds	63,965	63,552	(413)	189	602
Corporate bonds	118,011	116,658	(1,353)	52	1,405
Others	43,526	45,304	1,778	2,205	427
Total	¥ 413,175	¥ 426,137	¥ 12,962	¥ 20,434	¥ 7,472

	Thousands of U.S. Dollars (Note 4)				
	2006				
	Cost	Balance sheet amount	Valuation differences	Gain	Loss
Stock	\$ 269,941	\$ 418,234	\$ 148,284	\$ 153,043	\$ 4,750
Bonds	2,876,802	2,823,716	(53,085)	2,128	55,214
Government bonds	1,327,666	1,289,614	(38,052)	68	38,120
Municipal bonds	544,522	541,006	(3,515)	1,608	5,124
Corporate bonds	1,004,605	993,087	(11,517)	442	11,960
Others	370,281	385,664	15,135	18,770	3,634
Total	\$ 3,517,281	\$ 3,627,624	\$ 110,343	\$ 173,950	\$ 63,607

Valuation differences, net of ¥5,181 million (US\$44,104 thousand) of related deferred tax liabilities, are ¥7,780 million (US\$66,229 thousand). Valuation differences, including the Bank's share of affiliates' unrealized loss on securities available for sale of ¥0 million (US\$0 thousand), are ¥7,780 million (US\$66,229 thousand) which appears in the accompanying balance sheets.

As of March 31, 2006, the Bank recorded no impairment loss. 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				
	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

Valuation differences, net of ¥2,966 million of related deferred tax liabilities are ¥4,496 million. Valuation differences, including the Bank's share of affiliates' unrealized loss on securities available for sale of ¥0 million, amounted to ¥4,496 million which appears in the accompanying balance sheets.

	As of March 31, 2006	As of March 31, 2005
(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)
	2006	2005	2006
Proceeds from sale	¥ 68,439	¥ 115,550	\$ 582,608
Gain	4,966	2,310	42,274
Loss	1,251	3,281	10,649

(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)
	2006	2005	2006
Debt Securities being held to maturity			
Non-listed corporate bonds	¥ 4,200	¥ 4,200	\$ 35,753
Other corporate bonds	1,190	1,060	10,130
Other Securities			
Non-listed stocks	3,406	3,474	28,994
Non-listed foreign securities	205	6	1,745
Loan trust beneficiary rights	3,406	4,271	28,994
Equity in investment limited partnerships	1,150	1,178	9,789
Investment in subsidiaries and affiliates			
Investment in affiliates	¥ 19	¥ 19	\$ 161

(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			
	2006			
	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	¥ 15,049	¥ 169,392	¥ 106,016	¥ 45,443
Government bonds	300	71,398	34,348	45,443
Municipal bonds	1,344	9,999	52,207	—
Corporate bonds	13,405	87,993	19,459	—
Others	2,131	18,581	9,684	5,184
Total	¥ 17,181	¥ 187,973	¥ 115,700	¥ 50,628

	Thousands of U.S. Dollars (Note 4)			
	2006			
	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	\$ 128,109	\$ 1,442,002	\$ 902,494	\$ 386,847
Government bonds	2,553	607,797	292,398	386,847
Municipal bonds	11,441	85,119	444,428	—
Corporate bonds	114,114	749,067	165,650	—
Others	18,140	158,176	82,438	44,130
Total	\$ 146,258	\$ 1,600,178	\$ 984,932	\$ 430,986

	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

5. 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, 2006	As of March 31, 2005
(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, 2006				As of March 31, 2005			
	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:	¥	¥	¥	¥	¥	¥	¥	¥
Sold	58	—	0	0	166	—	0	0
Bought	82	—	(0)	(0)	129	—	0	0

	Thousands of U.S. Dollars (Note 4)			
	As of March 31, 2006			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Foreign exchange forward contracts:	\$	\$	\$	\$
Sold	493	—	0	0
Bought	698	—	(0)	(0)

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, 2006	As of March 31, 2005
(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

6. Loans and Bills Discounted

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Bills Discounted	¥ 6,996	¥ 8,284	\$ 59,557
Loans on Bills	88,916	131,050	756,929
Loans on Deeds	989,173	977,980	8,420,651
Overdrafts	161,449	155,931	1,374,388
Total	¥ 1,246,536	¥ 1,273,246	\$ 10,611,527

(1) Nonaccrual Loans

Loans to legally bankrupt borrowers, on which the Bank stopped accruing interest under Japanese tax laws, as of March 31, 2006 and 2005, totaled ¥6,343 million (US\$53,996 thousand) and ¥5,402 million, respectively. Other delinquent loans, on which the Bank also stopped accruing interest under Japanese tax laws, totaled ¥76,111 million (US\$647,918 thousand) and ¥66,881 million, respectively, as of March 31, 2006 and 2005. 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, 2006 and 2005, totaled ¥0 million (US\$0 thousand) and ¥0 million, respectively.

(3) Restructured Loans

Restructured loans as of March 31, 2006 and 2005, were ¥13,255 million (US\$112,837 thousand) and ¥9,874 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 three months or more and restructured loans totaled ¥95,710 million (US\$814,761 thousand) and ¥82,158 million, respectively, as of March 31, 2006 and 2005.

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, 2006 and 2005, amounts to ¥7,039 million (US\$59,921 thousand) and ¥8,289 million, respectively.

7. Assets Pledged

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Assets pledged as collateral			
Securities	¥ 2,508	¥ 2,466	\$ 21,350
Cash	31	—	263
Liabilities related to the above pledged assets			
Deposit	¥ 5,787	¥ 5,830	\$ 49,263
Payables under Repurchase Agreements	1,255	1,165	10,683

In addition, securities as of March 31, 2006 and 2005, totaling ¥56,403 million (US\$480,148 thousand) and ¥52,572 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, 2006 and 2005, of ¥708 million (US\$ 6,027 thousand) and ¥789 million, were included in Premises and Equipment, respectively.

8. 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, 2006 and 2005, totaled ¥217,530 million (US\$1,851,791 thousand) and ¥222,228 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, 2006 and 2005, amount to ¥217,502 million (US\$1,851,553 thousand) and ¥222,228 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.

9. Other Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Prepaid Expenses.....	¥ 100	¥ 74	\$ 858
Accrued Income	2,744	2,818	23,363
Derivative Financial Instruments	0	0	0
Other.....	6,166	10,574	52,493
Total	¥ 9,011	¥ 13,467	\$ 76,715

10. Premises and Equipment

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Net Book Value			
Land.....	¥ 8,868	¥ 9,061	\$ 75,496
Buildings	3,611	3,793	30,740
Equipment	1,582	1,973	13,468
Other.....	731	813	6,226
Total	¥ 14,793	¥ 15,641	\$ 125,932

Premises and equipment are stated at cost less accumulated depreciation. The accumulated depreciation at March 31, 2006 and 2005, amounted to ¥13,455 million (US\$114,539 thousand) and ¥12,747 million, respectively.

Advanced depreciation of premises and equipment amounted to ¥2,781 million (US\$23,674 thousand).

11. Deposits

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Current Deposits.....	¥ 54,020	¥ 47,667	\$ 459,863
Ordinary Deposits	649,429	639,542	5,528,471
Savings Deposits	57,919	62,472	493,058
Deposits at Notice	11,256	11,685	95,828
Time Deposits	953,733	1,024,377	8,118,953
Other Deposits.....	24,829	24,605	211,364
Total	¥ 1,751,188	¥ 1,810,352	\$14,907,541

12. Borrowed Money

Borrowed money is subordinated borrowings as of March 31, 2006 and 2005, of ¥12,500 million (US\$ 106,410 thousand) and ¥15,100 million, respectively.

13. Other Liabilities

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Domestic Exchange Settlement.....	¥ 10	¥ 5	\$ 85
Accrued Expenses	1,057	961	9,003
Unearned Income	4,678	4,652	39,829
Reserve for Taxes.....	100	1,532	859
Derivative Financial Instruments	0	0	0
Payable for Securities Purchased	100	253	859
Other.....	1,223	1,911	10,413
Total	¥ 7,171	¥ 9,317	\$ 61,051

14. 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)
	2006	2005	2006
Projected benefit obligations	¥ (18,892)	¥ (19,178)	\$ (160,824)
Fair value of plan assets	7,869	6,091	66,987
Projected benefit obligations in excess of plan assets	(11,022)	(13,087)	(93,828)
Unrecognized net actuarial loss	1,601	4,720	13,629
Unrecognized prior service cost	36	48	306
Net liability recognized	¥ (9,384)	¥ (8,317)	\$ (79,884)
Prepaid pension cost		-	
Reserve for employees' retirement benefits	¥ (9,384)	¥ (8,317)	\$ (79,884)

Net pension expense related to the retirement benefits for the years ended March 31, 2006 and 2005, was as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Service cost	¥ 556	¥ 488	\$ 4,733
Interest cost	364	456	3,098
Expected return on plan assets	(84)	(92)	(715)
Amortization of prior service cost	12	12	102
Amortization of actuarial losses	1,458	926	12,411
Other	(42)	(43)	(357)
Net pension expense	2,264	1,748	19,273
Total	¥ 2,264	¥ 1,748	\$ 19,273

* 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, 2006 and 2005, were as follows:

	2006	2005
Discount rate	1.9%	1.9%
Expected rate of return on plan assets	1.38%	1.5%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Amortization of prior service cost	5 years	5 years
Amortization of unrecognized actuarial differences	5 years from next fiscal year	5 years from next fiscal year

15. 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.

16. Common Stock

Information with respect to common stock of the Bank at March 31, 2006 and 2005, is as follows:

	Thousands of Shares	
	2006	2005
Number of Shares:		
Authorized	200,000	200,000
Issued and Outstanding	155,895	155,895

17. Appropriation of Retained Earnings

The following appropriation of Retained Earnings of the Bank was approved at the shareholders' meeting held on June 28, 2006.

	Thousands of U.S. Dollars (Note 4)	
	Millions of Yen	U.S. Dollars (Note 4)
Dividends	¥ 387	\$ 3,294
Bonuses to Directors and Corporate Auditors	-	-
Transfer to Voluntary Reserve	-	-
Total	¥ 387	\$ 3,294

18. Other Income

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Gain on sale and redemption of bonds	¥ 962	¥ 922	\$ 8,194
Gain on sale of equity securities	4,003	1,387	34,084
Other	1,499	1,311	12,762
Total	¥ 6,465	¥ 3,621	\$ 55,041

19. Other Expenses — Other

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Write-down for stocks	¥ 19	¥ 235	\$ 169
Loan amortization	6,205	2,757	52,825
Other	2,168	1,804	18,458
Total	¥ 8,393	¥ 4,797	\$ 71,453

20. Income Taxes

The tax allocation of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Deferred Tax Assets:	¥ 24,506	¥ 15,973	\$ 208,614
Reserve for possible loan losses	22,758	14,567	193,734
Reserve for employees' retirement benefits	3,794	3,307	32,297
Net valuation difference of securities available for sale	2,999	857	25,529
Reserve for employee bonuses	486	480	4,137
Depreciation	246	268	2,094
Enterprise tax payable	24	170	204
Amortization of securities	184	182	1,566
Other	647	683	5,507
Valuation allowance	(6,635)	(4,543)	(56,482)
Deferred Tax Liabilities:	(8,450)	(4,003)	(71,933)
Retained earnings of foreign subsidiaries	(211)	(184)	(1,796)
Net valuation difference of securities available for sale	(8,190)	(3,818)	(69,719)
Other	(48)	—	(408)
Net Deferred Tax Assets	¥ 16,056	¥ 11,969	\$ 136,681

Net deferred tax assets for fiscal 2005 are not provided because loss before income taxes was recorded.

21. Consolidated Statements of Cash Flows

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

	Millions of Yen	
	2006	2005
Cash deposit	¥ 54,785	¥ 89,954
Time deposit	(776)	(1,194)
Other	(3,445)	(6,143)
Cash and cash equivalents	¥ 50,562	¥ 82,616

22. 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, 2006 and 2005, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Lease Rental Expenses	¥ 1,430	¥ 1,615	\$ 12,173

The amounts of outstanding future lease payments due at March 31, 2006 and 2005, excluding the interest portion, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Future Lease Payments			
Within one year	¥ 1,007	¥ 1,266	\$ 8,572
Over one year	2,286	3,271	19,460
Total	¥ 3,294	¥ 4,537	\$ 28,041

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)
	2006	2005	2006
Acquisition	¥ 7,115	¥ 8,392	\$ 60,568
Accumulated Depreciation	(4,026)	(4,098)	(34,272)
Net Book Value	3,088	4,293	26,287
Depreciation	¥ 1,229	¥ 1,382	\$ 10,462

23. Segmental information

Business segment information

Fiscal year ended March 31, 2005, and fiscal year ended March 31, 2006

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, 2005, and fiscal year ended March 31, 2006

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, 2005, and fiscal year ended March 31, 2006

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

24. 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.

25. Related-party transactions

Fiscal 2006 (From April 1, 2005, to March 31, 2006)

(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	Tadamichi Yamamoto	—	—	Auditor of the Bank	—			Provision of loans	—	Loans	11	
								Receipt of interest, etc.	0	Accrued income	0	
								Guarantee of debt (*1)	1,013	—	—	
	Yoshihiro Sakaki	—	—	Auditor of the Bank	—				Guarantee of debt (*2)	2,522	—	—
									Provision of loans	0	Loans	38
									Receipt of interest, etc.	1	Accrued income	0
Kenzo Osaka	—	—	Auditor of the Bank	Direct 0.00				Guarantee of debt (*3)	254	—	—	
								Provision of loans	6	Loans	2,406	
								Payment guarantee	(34)	Payment guarantee endorsement	116	
Company whose majority of voting rights is owned by a director or his/her close relatives (including subsidiary of such company)	Maruyo Seafood Co., Ltd. (*4)	Hachinohe-shi, Aomori prefecture	99	Marine product processing	Direct 0.17	No	Extending of credit		Receipt of interest, etc.	18	Accrued income	2
									Provision of loans	2	Loans	254
									Payment guarantee	6	Accrued income	0
Company whose majority of voting rights is owned by a director or his/her close relatives (including subsidiary of such company)	Michinoku Management Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture	3	Accounting firm		No	Extending of credit		Provision of loans	2	Loans	254
									Receipt of interest, etc.	6	Accrued income	0
									Payment guarantee	18	Accrued income	2

(*1) Tadamichi Yamamoto, Auditor of the Bank, provides the Bank with debt guarantee for loans to third parties amounting to ¥1,013 million.

(*2) Yoshihiro Sakaki, Auditor of the Bank, provides the Bank with debt guarantee for loans amounting to ¥2,406 million, and payment guarantee amounting to ¥116 million to Maruyo Seafood Co., Ltd., a third party.

(*3) Kenzo Osaka, Auditor of the Bank, provides the Bank with debt guarantee for loans to Michinoku Management Accounting Center Ltd., a third party, amounting to ¥254 million.

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

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

(*6) Trading conditions and the policy for determining trading conditions for the above-mentioned individuals and companies are determined in the same manner as for ordinary transactions.

(3) Subsidiaries

Not applicable.

(4) Fellow subsidiaries

Not applicable.

26. Information about Shares

	Yen		U.S. Dollars (Note 4)
	2006	2005	2006
Book Value per Share	¥ 516.80	¥ 588.35	\$ 4.39
Net Income per Share	(90.95)	(59.12)	(0.77)

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

	Yen		U.S. Dollars (Note 4)
	2006	2005	
Net income (loss)	¥ (90.95)	¥ (59.12)	\$ (0.77)

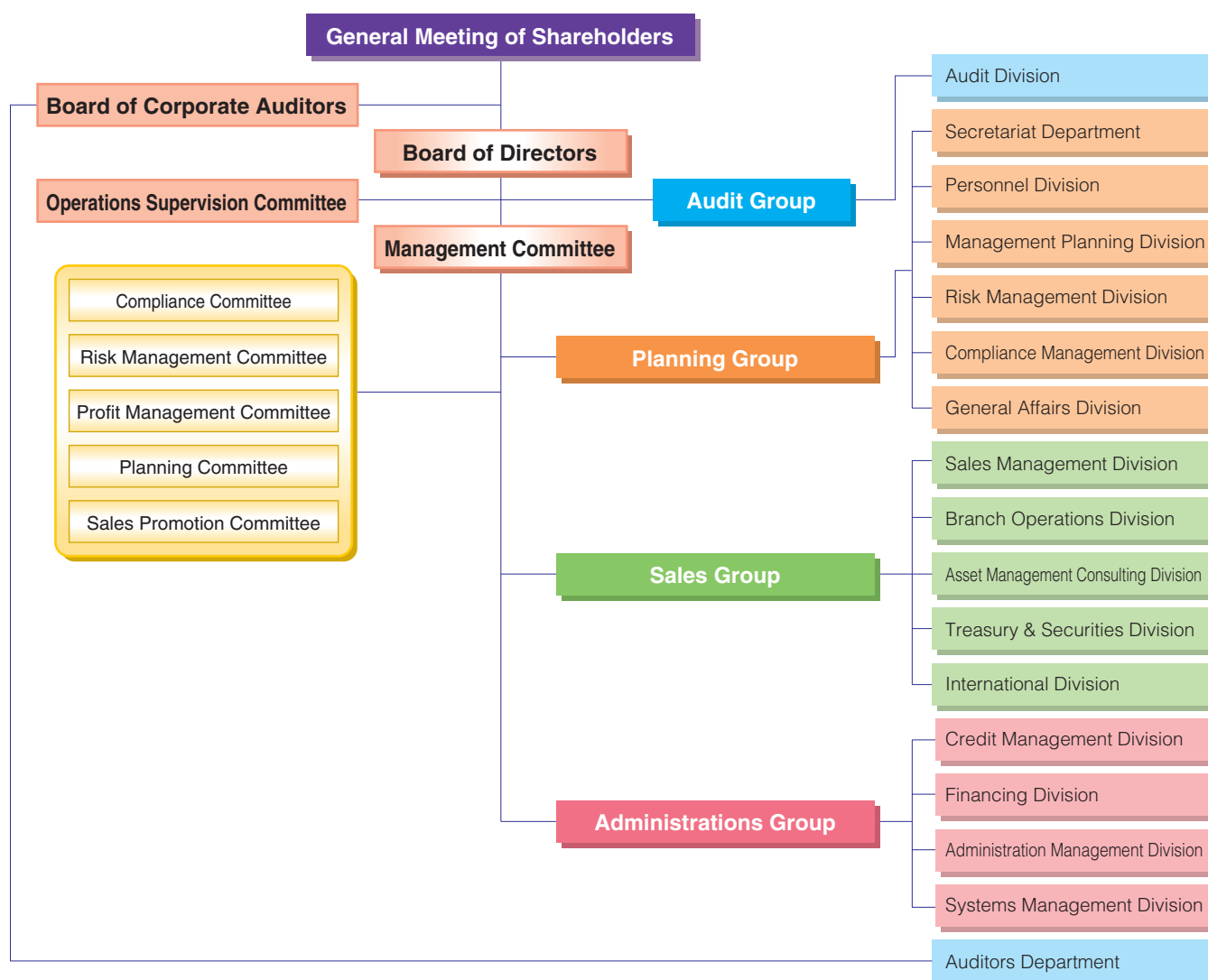
	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2006	2005	2006
Net income (loss)	¥(14,053)	¥ (9,160)	\$(119,630)
Amount not attributable to common shareholders	—	—	—
Of which bonuses to directors by appropriation of retained earnings	—	—	—
Net income (loss) per share of common stock	¥(14,053)	¥ (9,160)	\$(119,630)

	Thousands of Shares	
	2006	2005
Average number of common stock shares outstanding during the year	154,512	154,955

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.

Organization Chart



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

Officers

Chairman

Sumio Uesugi

President and Chief Executive Officer

Yasuo Sugimoto

Senior Executive Officer

Susumu Terao

Director and Executive Officer

Hitoshi Akahira

Tatsuya Kudo

Director and Executive Officer

General Manager, Management

Planning Division

Kunihiro Takada

Non-Executive Director

Toru Yanagiya

Juko Akatsu

Executive Officer,

General Manager Head Office

Hirosaki Business Div.

Norihisa Kogawa

Executive Officer

General Manager, Audit Division

Fuminori Narumi

Hakodate Branch Office

Katuo Takeishi

Hachinohe Branch Office

Masahiro Katou

Executive Officer

General Manager,

Credit Management Division

Tutomu Inaniwa

Senior Corporate Auditor

Hiroyoshi Ogura

Ikuo Sato

Corporate Auditor

Tadamichi Yamamoto

Yoshihiro Sakaki

Kenzo Osaka

Taiji Shirato

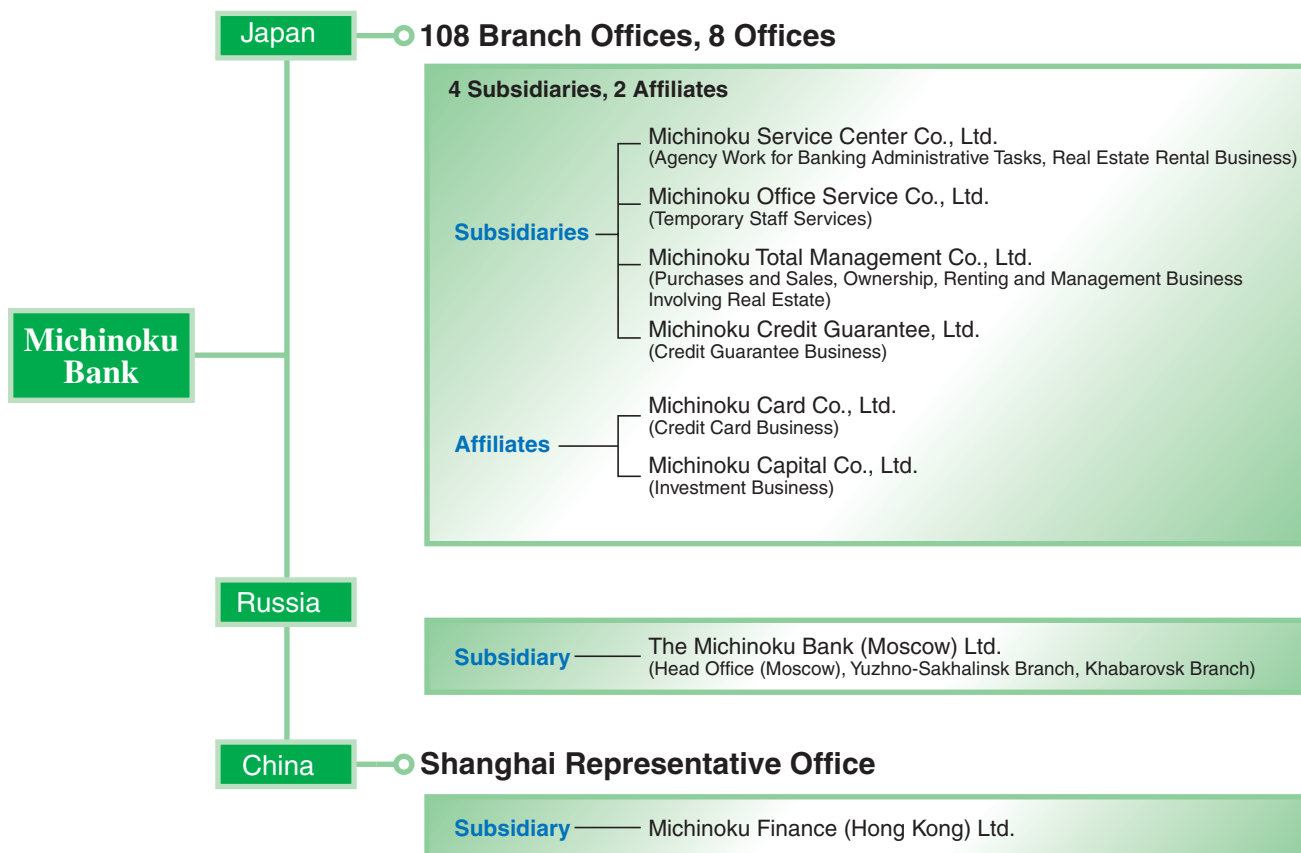
Notes:

1. Toru Yanagiya and Juko Akatsu are outside directors as provided for in Item 15, Article 2 of the Company Law of Japan.

2. Hiroyoshi Ogura, Ikuo Sato, Tadamichi Yamamoto, Yoshihiro Sakaki, Kenzo Osaka, and Taiji Shirato are outside auditors as provided for in Item 16, Article 2 of the Company Law of Japan.

Organization Chart of Activities by the Corporate Group

The 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 dispatch of temporary staff, primarily for the banking business.



Overseas and Domestic Network

(As of July 1, 2006)

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

Shanghai Representative Office

28th Floor, HSBC Tower,
 1000 Lujiazui Ring 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

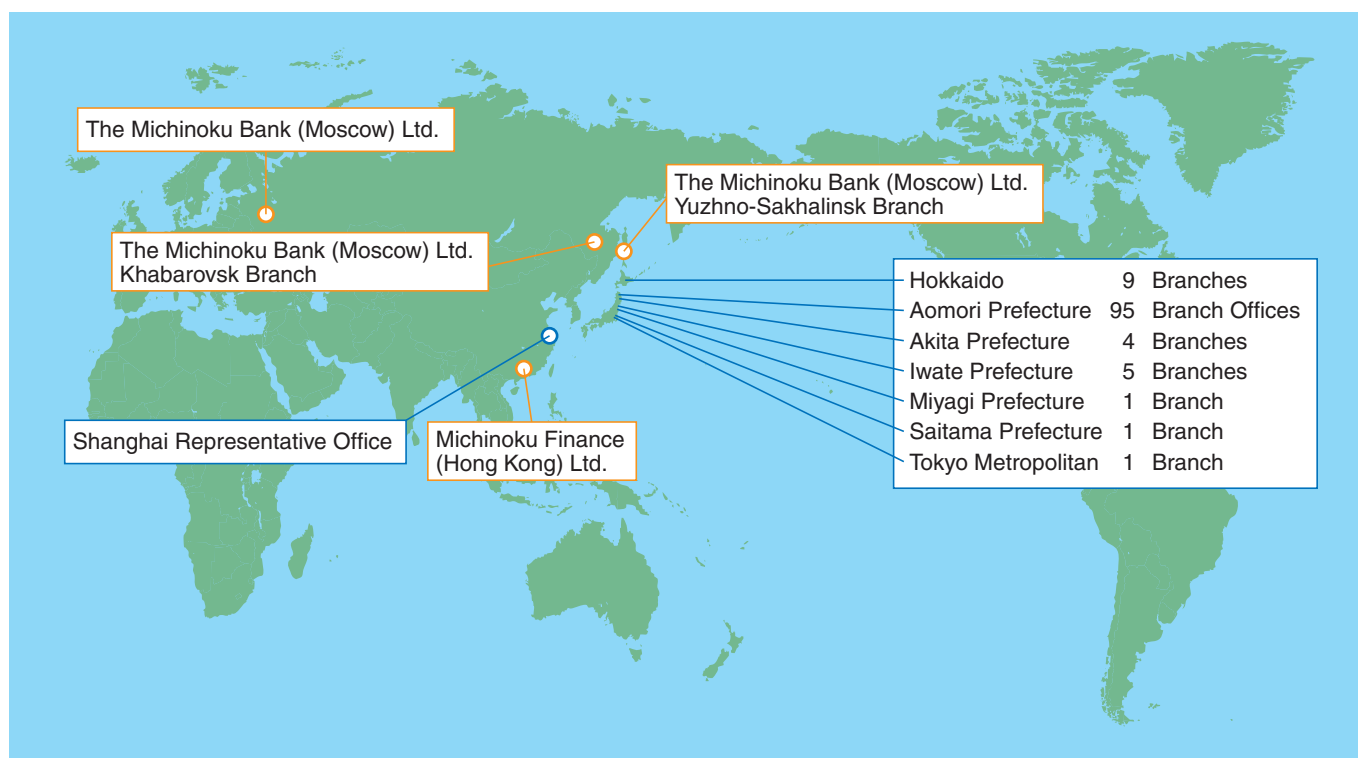
Michinoku Sakhalin Building 1st Floor,
 234 Lenina St., Yuzhno-Sakhalinsk
 693000, Russian Federation
 Phone: (7) 4242-74-1111
 Facsimile: (7) 4242-74-4750
 S.W.I.F.T.: MCHI RU MMYUS

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	8	—
Outside Aomori Prefecture	21	—	—
Overseas	—	—	1
Total	108	8	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.