



THE MICHINOKU BANK, LTD.

**ANNUAL REPORT 2007**

The Michinoku Bank, Head Office, Business Division

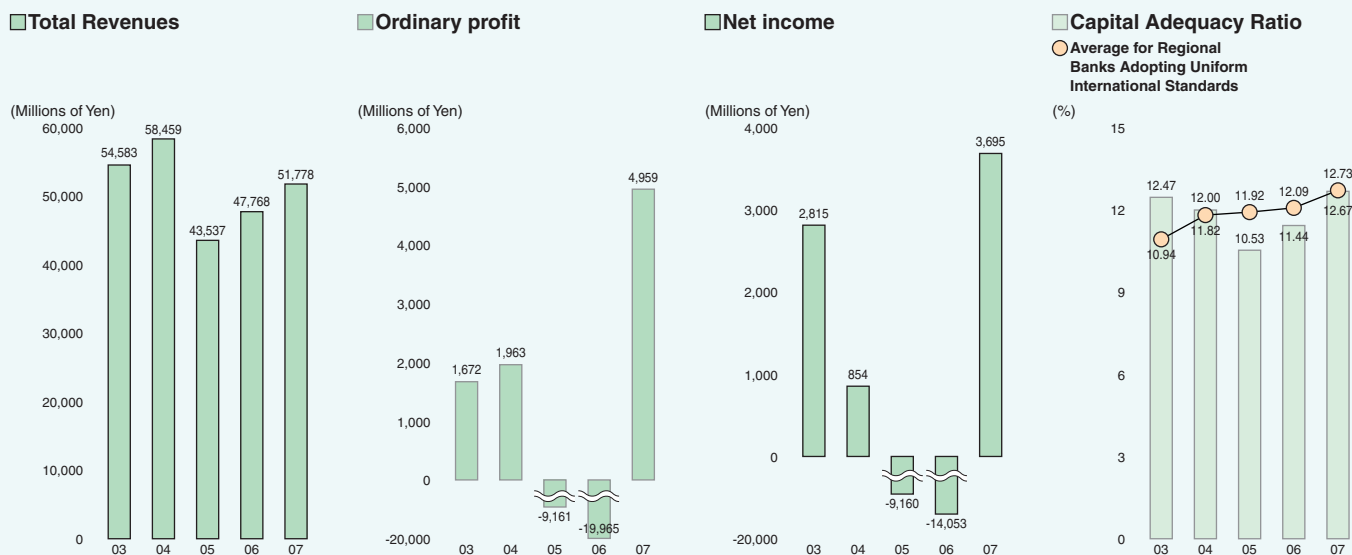


- 1 Consolidated Financial Highlights
- 2 Message from the Management
- 3 CSR Management at Michinoku Bank
- 5 Financial Review
- 6 Consolidated Balance Sheets
- 7 Consolidated Statements of Income and Retained Earnings
- 8 Consolidated Statement of Changes in Net Assets
- 9 Consolidated Statements of Cash Flows
- 10 Notes to Consolidated Financial Statements
- 21 Organizations and Officers
- 22 Corporate Group
- 22 Overseas and Domestic Network

## Consolidated Financial Highlights

Years Ended March 31	Millions of Yen				
	2007	2006	2005	2004	2003
Total Revenues	¥ 51,778	¥ 47,768	¥ 43,537	¥ 58,459	¥ 54,583
Ordinary Profit	4,959	(19,965)	(9,161)	1,963	1,672
Net Income	3,695	(14,053)	(9,160)	854	2,815
Shareholders' Equity	81,941	79,837	91,157	96,087	99,170
Total Assets	1,857,565	1,898,480	1,964,482	1,981,370	1,975,996
Cash Flows from Operating Activities	62,598	(28,536)	130,430	(17,906)	13,995
Cash Flows from Investing Activities	(77,863)	(15,988)	(199,723)	111,398	(33,530)
Cash Flows from Financing Activities	(6,797)	11,510	(811)	(2,122)	(3,424)
Cash and Cash Equivalents at End of Year	28,599	50,562	82,616	152,723	62,059
Book Value per Share (¥)*	530.67	516.80	588.35	619.95	637.73
Net Income per Share (¥)*	23.93	(90.95)	(59.12)	5.32	17.84
Capital Adequacy Ratio (BIS criteria) (%)	12.67	11.44	10.53	12.00	12.47
Return on Equity (%)	4.6	(16.4)	(9.8)	0.9	2.9
Price Earnings Ratio (Times)	17	—	—	121	38
Number of Employees	1,481	1,465	1,458	1,459	1,492

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



## Message from the Management

First, I would like to express my appreciation to you for your patronage of the Michinoku Bank. The 2007 Annual Report is designed to provide you with in-depth information and insights concerning the Bank's performance and prospects.

The year ended March 31, 2008, is the second year of the Bank's First Medium-Term Business Plan launched in April 2006, covering the three-year period from April 2006 to March 2009. The plan envisions the Michinoku Bank gaining a pre-eminent position as the foremost bank in the region with an overwhelmingly powerful presence. To make this vision an everyday reality, the Bank is working to strengthen its management structure and enhance customer services. As a part of this drive, we revised our international strategy and are now devoting our resources to the region we serve. We are also vigorously engaged in corporate citizenship activities. In October 2006, we celebrated the 30th anniversary since the merger that created the Michinoku Bank, and to mark this milestone, the Bank established the Michinoku Hometown Contribution Fund.

Cash dividends for the fiscal year ended March 31, 2007, amounted to ¥7 per share for the full year, consisting of a common dividend of ¥5 and a commemorative dividend of ¥2 for the 30th anniversary. For the fiscal year ending March 31, 2008, we intend to increase the common



Yasuo Sugimoto, *President*

dividend by ¥1 per share compared with the year ended March 31, 2006, and pay a common dividend of ¥6 for the full year.

At the Michinoku Bank, all officers and employees are making a concerted effort to earn the trust of the people in the region and to deliver satisfaction. In these endeavors, we would greatly appreciate your continued support and patronage.

July 2007

A handwritten signature in black ink, appearing to read 'Y. Sugimoto', written in a cursive style.

Yasuo Sugimoto,  
*President*

## Status of Corporate Governance

### **Basic Approach**

We recognize that the establishment of a reliable corporate governance system attuned to the changes in the operating environment is one of the most critical tasks for management.

For the Bank to grow and prosper far into the future, it is important to enhance operating efficiency and secure sound management while responding to the changing operating environment. To this end, management believes it is necessary to continue to strengthen and fine-tune the governance system. In addition, the Bank is reinforcing its internal controls to inculcate the corporate governance policy throughout the Bank and ensure thorough implementation of the policy.

## Management Organization and Internal

### Control Systems

#### **Board of Corporate Auditors**

The Board of Corporate Auditors consists of six corporate auditors (two full-time corporate auditors and four part-time corporate auditors), five of whom are outside 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. To reinforce the auditing structure, the Corporate Auditors' Office has been established as a dedicated organization directly under the control of the Board of Corporate Auditors. In addition to periodically obtaining audit reports from the accounting auditor, corporate auditors conduct on-site audits as necessary, and employ various measures to ensure sound and efficient auditing.

#### **Board of Directors**

With regard to the management decision-making function, the Board of Directors meets regularly once each month and convenes additional meetings as necessary to make decisions on 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, consisting of the full-time directors, a managing executive officer, and senior executive officers, discusses matters delegated by the Board of Directors and takes decisions on them. 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 has put in place a structure for the supervision of the Board of Directors and the appropriateness of business management. The Bank has established the Operations Supervision Committee, consisting 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 reviewed 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**

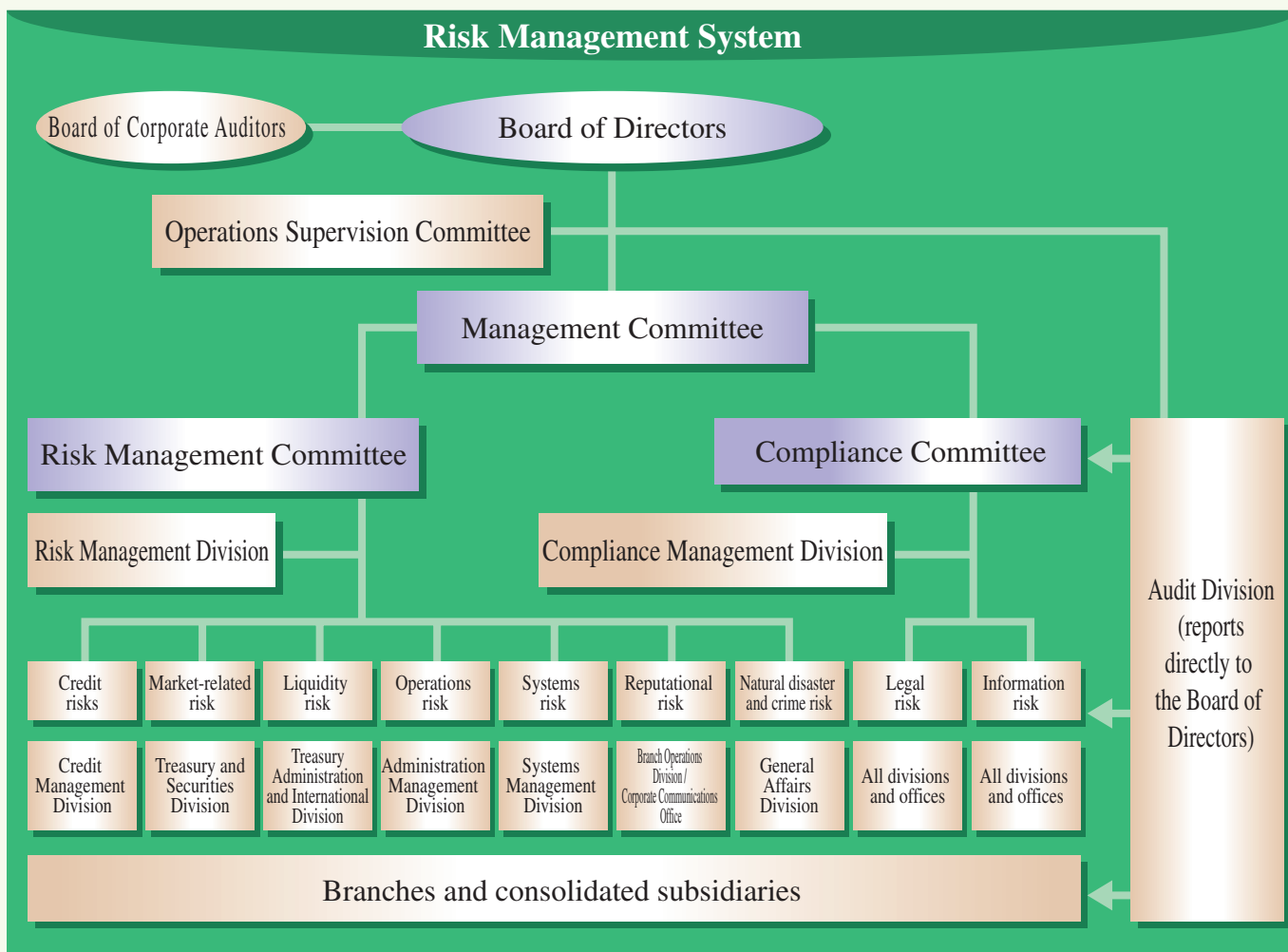
The Bank has put in place systems and procedures to ensure provision of accurate management information to the accounting auditor and performance of rigorous audits.

**Risk Management System at the 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 risks is a task involving greater responsibility than for other companies.

The Bank has established the Risk Management Division and the Compliance Management Division to

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



As of July 1, 2007

## Financial Review

During the fiscal year ended March 31, 2007, the Japanese economy achieved moderate growth underpinned by continued domestic and foreign demand. Corporate earnings remained high thanks to rising exports, capital investment trended upward, personal consumption was solid, reflecting the continued gradual increase in personal incomes of salaried workers, and residential investment rose at a modest pace. In view of this economic situation, the Bank of Japan ended the zero-interest-rate policy in July 2006 after 5 years and 4 months and increased interest rates again in February 2007.

In Aomori Prefecture, where the Bank is based, the local economy achieved little progress overall despite indications of an upturn in production. Many companies based in Aomori were reluctant to make capital investment owing to their concern about prospects in view of sharp increases in prices of raw materials. Gains in personal consumption were slight as the lackluster employment situation held back wages. Nevertheless, there were some positive developments. The total number of housing starts increased, albeit slightly, from the previous year, with construction activity centering on owner-occupied houses and rental accommodation, whereas there was a decline in houses built for sale. Other green shoots include the extension to the Tohoku Shinkansen line, which is nearing completion, and a concerted effort to market the region as a tourist destination, for which Aomori Prefecture has great untapped potential. It is envisaged that such developments will broaden the base of the economy by attracting companies to the region, which will have a ripple effect, while innovation through

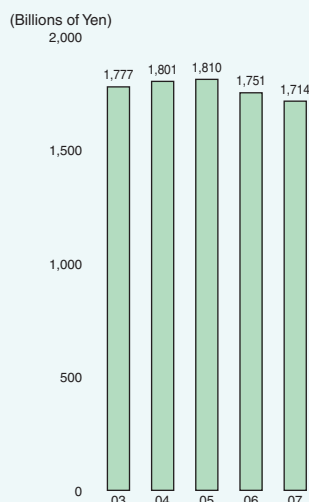
collaboration between industry, academia, government and the financial sector has an essential role to play in revitalizing the local economy.

The Bank formulated the First Medium-Term Business Plan covering the three-year period to March 2009 and launched it in April 2006. Envisioning the Michinoku Bank gaining a pre-eminent position as the foremost bank serving the region, the plan sets out four key policies to accomplish that objective: reinforcement of earning power; promotion of operating efficiency; improvement of asset quality; and human resources development and CSR activities.

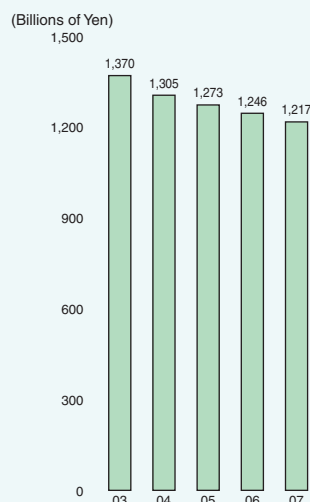
As a result, for the fiscal year ended March 31, 2007, the Michinoku Bank Group recorded an ordinary profit of ¥4.9 billion, an improvement of ¥24.9 billion from the ordinary loss for the previous year, and net income of ¥3.6 billion, an increase of ¥17.7 billion compared with the previous year. These advances were attributable to an increase in interest income in line with the strengthening of investments in securities and an increase in personal loans, as well as ongoing efforts to enhance operating efficiency, including reduction of expenses. Also, a great decrease in the costs of disposal of nonperforming loans contributed to the improvements.

The Bank's consolidated capital adequacy ratio (international standard) was 12.67%, an increase of 1.23 percentage points compared with the end of the previous fiscal year.

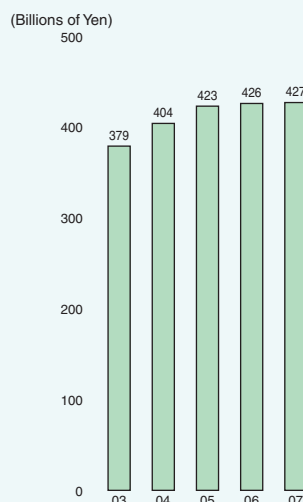
### Deposits



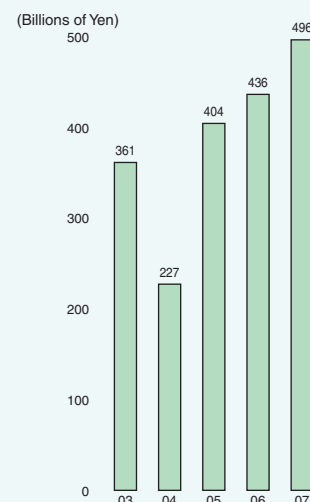
### Loans and bills discounted



### Consumer loans to individuals



### Securities



## Consolidated Balance Sheets

As of March 31, 2007 and 2006	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
<b>ASSETS</b>			
Cash and Due from Banks .....	¥ 32,625	¥ 54,785	\$ 276,370
Call Loans .....	65,588	138,954	555,598
Commercial Paper and Other Debt Purchased.....	4,130	4,241	34,992
Trading Account Securities (Note 5) .....	220	94	1,866
Money Held in Trust .....	20,011	—	169,513
Securities (Note 5) .....	496,787	436,308	4,208,284
Loans and Bills Discounted (Note 7).....	1,217,887	1,246,536	10,316,711
Foreign Exchange .....	1,908	1,028	16,170
Other Assets (Note 10).....	7,430	10,311	62,944
Tangible Fixed Assets .....	12,171	12,502	103,103
Intangible Fixed Assets.....	1,495	990	12,664
Deferred Tax Assets (Note 21) .....	16,562	16,106	140,301
Consolidated Adjustment Account .....	—	524	—
Customers' Liabilities for Acceptances and Guarantees (Note 16) .....	15,675	17,017	132,786
Reserve for Possible Loan Losses (Note 2) .....	(34,930)	(40,921)	(295,893)
<b>Total Assets</b> .....	<b>¥ 1,857,565</b>	<b>¥ 1,898,480</b>	<b>\$ 15,735,415</b>
<b>LIABILITIES</b>			
Deposits (Notes 8 and 12).....	¥ 1,714,735	¥ 1,751,188	\$ 14,525,501
Call Money.....	1,605	2,337	13,600
Payables under Repurchase Agreements (Note 8).....	—	1,255	—
Borrowed Money (Note 13).....	6,500	12,500	55,061
Foreign Exchange .....	46	113	395
Bond (Note 2).....	15,000	15,000	127,064
Other Liabilities (Note 14).....	9,576	7,171	81,124
Reserve for Employee Bonuses (Note 2).....	1,235	1,202	10,464
Reserve for Employees' Retirement Benefits (Notes 2 and 15) .....	9,920	9,384	84,036
Reserve for Retirement Benefits for Directors and Corporate Auditors.....	242	—	2,052
Deferred Tax Liabilities (Note 21).....	7	50	62
Deferred Tax Liabilities for Revaluation Reserve for Land (Note 2) .....	1,078	1,421	9,138
Acceptances and Guarantees (Note 16) .....	15,675	17,017	132,786
<b>Total Liabilities</b> .....	<b>¥ 1,775,624</b>	<b>¥ 1,818,643</b>	<b>\$ 15,041,288</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common Stock (Note 17) .....	¥ 24,167	¥ 24,167	\$ 204,726
Capital Surplus.....	19,775	19,775	167,517
Retained Earnings .....	30,766	27,946	260,623
Treasury Stock .....	(937)	(918)	(7,942)
Total Shareholders' Equity .....	73,772	70,971	624,924
Unrealized Gains (Losses) on Securities Available for Sale .....	6,764	7,793	4,247
Revaluation Reserve for Land, Net of Taxes (Note 2) .....	501	403	57,302
Foreign Currency Translation Adjustment .....	903	668	7,652
Total Valuation and Translation Adjustments .....	8,169	8,865	69,202
<b>Total Shareholders' Equity</b> .....	<b>81,941</b>	<b>79,837</b>	<b>694,127</b>
<b>Total Liabilities and Shareholders' Equity</b> .....	<b>¥ 1,857,565</b>	<b>¥ 1,898,480</b>	<b>\$ 15,735,415</b>

Accompanying notes are an integral part of these financial statements.

## Consolidated Statements of Income and Retained Earnings

For the Years Ended March 31, 2007 and 2006	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
<b>INCOME</b>			
Interest on:			
Loans and Discounts .....	¥ 29,030	¥ 29,104	\$ 245,918
Securities .....	6,530	5,443	55,316
Other .....	549	332	4,658
Fees and Commissions .....	6,728	6,421	57,000
Other Income (Note 19) .....	8,938	6,465	75,720
<b>Total Income</b> .....	<b>¥ 51,778</b>	<b>¥ 47,768</b>	<b>\$ 438,613</b>
<b>EXPENSES</b>			
Interest on:			
Deposits .....	¥ 2,213	¥ 853	\$ 18,747
Borrowings and Rediscounts .....	605	543	5,133
Other .....	40	0	344
Fees and Commissions .....	3,734	3,335	31,637
Other Operating Expenses .....	1,404	1,170	11,894
General and Administrative Expenses .....	28,450	28,835	241,000
Other Expenses:			
Reserve for Possible Loan Losses .....	1,726	24,483	14,626
Other (Note 20) .....	9,880	8,678	83,698
<b>Total Expenses</b> .....	<b>¥ 48,056</b>	<b>¥ 67,899</b>	<b>\$ 407,082</b>
<b>Income (Loss) before Income Taxes</b> .....	<b>3,722</b>	<b>(20,131)</b>	<b>31,531</b>
<b>Income Taxes – Current (Note 21)</b> .....	<b>162</b>	<b>263</b>	<b>1,373</b>
<b>Income Taxes – Deferred (Note 21)</b> .....	<b>(135)</b>	<b>(6,342)</b>	<b>(1,150)</b>
<b>Net Income (Loss)</b> .....	<b>¥ 3,695</b>	<b>¥ (14,053)</b>	<b>31,308</b>
<b>RETAINED EARNINGS</b>			
Balance at Beginning of Year .....	¥	¥ 42,730	\$
Increase in Retained Earnings .....		46	
Decrease in Retained Earnings:			
Net Loss .....		14,053	
Dividends .....		775	
Bonuses to Directors and Corporate Auditors .....		–	
Loss on Sale of Treasury Stock .....		2	
<b>Balance at End of Year</b> .....	<b>¥</b>	<b>¥ 27,946</b>	<b>\$</b>
<b>Book Value per Share (in Yen and U.S. Dollars)</b> .....	<b>¥</b>	<b>¥ 516.80</b>	<b>\$</b>
<b>Net Income (Loss) per Share (in Yen and U.S. Dollars)</b> .....	<b>¥</b>	<b>¥ (90.95)</b>	<b>\$</b>

Accompanying notes are an integral part of these financial statements.

## Consolidated Statement of Changes in Net Assets

Fiscal year from April 1, 2006, to March 31, 2007	Millions of Yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at March 31, 2006</b> .....	¥ 24,167	19,775	27,946	(918)	70,971
<b>Changes during the year</b> .....					
Dividends from retained earnings * .....			(387)		(387)
Dividends from retained earnings .....			(387)		(387)
Net income .....			3,695		3,695
Acquisition of treasury stock .....				(31)	(31)
Disposal of treasury stock .....			(3)	12	8
Reversal of revaluation reserve for land, net of taxes...			(97)		(97)
Net changes in the items other than shareholders' equity during the year .....					
<b>Total changes during the year</b> .....	¥ -	-	2,819	(18)	2,800
<b>Balance at March 31, 2007</b> .....	¥ 24,167	19,775	30,766	(937)	73,772

Fiscal year from April 1, 2006, to March 31, 2007	Valuation and translation adjustments				
	Net unrealized gains on securities available for sale	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Total valuation and translation adjustments	Total net assets
	<b>Balance at March 31, 2006</b> .....	¥ 7,793	403	668	8,865
<b>Changes during the year</b> .....					
Dividends from retained earnings * .....					(387)
Dividends from retained earnings .....					(387)
Net income .....					3,695
Acquisition of treasury stock .....					(31)
Disposal of treasury stock .....					8
Reversal of revaluation reserve for land, net of taxes...		97		97	-
Net changes in the items other than shareholders' equity during the year .....	(1,029)		235	(794)	(794)
<b>Total changes during the year</b> .....	¥ (1,029)	97	235	(696)	2,104
<b>Balance at March 31, 2007</b> .....	¥ 6,764	501	903	8,169	81,941

Note: Appropriation of retained earnings approved at the general meeting of shareholders held in June 2006

## Consolidated Statements of Cash Flows

For the Years Ended March 31, 2007 and 2006	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (Loss) before Income Taxes and Other Adjustments.....	¥ 3,722	¥ (20,131)	\$ 31,531
Depreciation and Amortization.....	1,230	1,208	10,419
Impairment loss.....	1,081	246	9,164
Amortization of goodwill.....	524	131	4,441
Equity in Loss (Gain) of Affiliates .....	31	(19)	266
Net Increase (Decrease) in Reserve for Possible Loan Losses .....	(5,999)	17,306	(50,823)
Net Increase (Decrease) in Reserve for Employee Bonuses.....	32	14	278
Net Increase (Decrease) in Liability for Employees' Retirement Benefits ....	535	1,066	4,538
Increase in Reserve for Retirement Benefits for Directors and Corporate Auditors .....	242	–	2,052
Interest Income Recognized on Statement of Income .....	(36,110)	(34,880)	(305,893)
Interest Expenses Recognized on Statement of Income .....	2,859	1,396	24,225
Net (Gain) Loss Related to Securities.....	(4,711)	(3,617)	(39,913)
Net (Gains) Losses from Money Held in Trust.....	(502)	–	(4,259)
Foreign Exchange Loss.....	(37)	(61)	(318)
Net Loss on Sale of Premises and Equipment .....	202	115	1,716
Net Decrease (Increase) in Loans .....	28,914	26,710	244,934
Net Increase in Deposits .....	(36,956)	(59,163)	(313,062)
Net Decrease (Increase) in Due from Banks Other than The Bank of Japan..	297	3,116	2,523
Net Decrease (Increase) in Call Loans.....	73,601	15,678	623,477
Net Increase (Decrease) in Call Money .....	(1,987)	(5,891)	(16,837)
Net Decrease (Increase) in Foreign Exchange Assets .....	(747)	(648)	(6,332)
Net Increase (Decrease) in Foreign Exchange Liabilities.....	(70)	11	(598)
Interest Received.....	36,009	34,855	305,034
Interest Paid.....	(2,028)	(1,388)	(17,180)
Others .....	2,155	(2,821)	18,257
Subtotal .....	62,288	(26,920)	527,644
Refund of Income Taxes .....	753	–	6,386
Income Taxes Payable .....	(443)	(1,615)	(3,757)
<b>Net Cash Provided by (Used in) Operating Activities .....</b>	<b>62,598</b>	<b>(28,536)</b>	<b>530,273</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Stock and Other Securities.....	(243,703)	(104,021)	(2,064,405)
Proceeds from Sales of Stock and Other Securities.....	133,914	77,971	1,134,384
Proceeds from Redemption of Bonds .....	52,355	10,502	443,506
Increase in Money Held in Trust.....	(30,000)	–	(254,129)
Decrease in Money Held in Trust .....	10,491	–	88,875
Purchases of Tangible Fixed Assets.....	(521)	(549)	(4,418)
Purchases of Intangible Fixed Assets.....	(829)	–	(7,027)
Proceeds from Sales of Tangible Fixed Assets.....	428	109	3,633
<b>Net Cash Provided by (Used in) Investing Activities .....</b>	<b>(77,863)</b>	<b>(15,988)</b>	<b>(659,580)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Subordinated Debt.....	(6,000)	(2,600)	(50,825)
Repayment of Subordinated Debt.....		14,918	
Dividends Paid.....	(774)	(775)	(6,563)
Purchases of Treasury Stock.....	(31)	(42)	(263)
Proceeds from Sales of Treasury Stock .....	8	9	72
<b>Net Cash Used in Financing Activities .....</b>	<b>(6,797)</b>	<b>11,510</b>	<b>(57,580)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents.....</b>	<b>99</b>	<b>960</b>	<b>839</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents.....</b>	<b>(21,963)</b>	<b>(32,053)</b>	<b>(186,048)</b>
<b>Cash and Cash Equivalents at Beginning of Year .....</b>	<b>50,562</b>	<b>82,616</b>	<b>428,317</b>
<b>Cash and Cash Equivalents at End of Year .....</b>	<b>¥ 28,599</b>	<b>¥ 50,562</b>	<b>\$ 242,268</b>

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.

Securities held as trust assets included in money held in trust for trading purposes are stated at market value.

### (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, 2007, 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 ¥16,752 million (US\$141,906 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 Retirement Benefits for Directors and Corporate Auditors**

Reserve for retirement benefits for directors and corporate auditors is provided for payment of retirement benefits to directors and corporate auditors in the amount deemed accrued at the fiscal year-end based on the Bank's internal regulations.

### **Change in the Accounting Policy**

Retirement benefits for directors and corporate auditors were previously expensed upon payment. However, in view of the introduction of the "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan (ASBJ) Statement No. 4, November 29, 2005), which requires bonuses for directors and corporate auditors, including provision of reserve, to be accounted for as an expense, and in accordance with the public announcement of the "Auditing Treatment concerning Reserve under the Special Taxation Measures Law, Reserve under Special Laws, and Reserve for Retirement Benefits to Directors and Corporate Auditors" (The Japanese Institute of Certified Public Accountants (JICPA) Auditing and Assurance Practice Committee Report No. 42, April 13, 2007), effective from the fiscal year ended March 31, 2007, the Bank changed the accounting method and effective from the fiscal year ended March 31, 2007, records reserve for retirement benefits for directors and corporate auditors in the amount deemed accrued at the fiscal year-end based on the Bank's internal regulations.

As a result of this change, the Bank recorded ¥182 million, the amount applicable for the previous year to be recorded at April 1, 2006, as an extraordinary loss and recorded the ¥59 million accrued for the fiscal year ended March 31, 2007, as general and administrative expenses. As a result, ordinary profit decreased ¥59 million and income before income taxes decreased ¥242 million compared with what would have been the case had the former method been applied. Because the "Accounting Standard for Directors' Bonus" and the "Auditing Treatment concerning Reserve under the Special Taxation Measures Law, Reserve under Special Laws, and Reserve for Retirement Benefits to Directors and Corporate Auditors" were adopted in the second half of the fiscal year ended March 31, 2007, the Bank employed the former method for presentation in the interim consolidated financial statements for the six-month period ended September 30, 2006. Accordingly, ordinary profit and income before income taxes for the six-month period ended September 30, 2006, were

¥30 million and ¥212 million higher, respectively, compared with what would have been the case had the new method been applied.

### **(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) Consumption Tax**

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

### **(13) Assets and Liabilities of Consolidated Subsidiaries**

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

### **(14) Appropriation of Retained Earnings**

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

### **(15) 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 ¥2,124 million (US\$17,992 thousand) than the book value of the land after revaluation.

### **(16) 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.

## **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 ¥118.05 to US\$1, the approximate effective rate of exchange as of March 31, 2007. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that assets and liabilities originated in yen have been or could be readily converted, realized, or settled in dollars at the given rate or at any other rate.

#### 4. Securities

##### (1) Market Value of Securities

Market value and valuation differences of securities are as follows:

##### (a) Trading securities

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Amount in the balance sheet .....	¥ 220	¥ 94	\$ 1,866
Valuation gain included in income before income taxes .....	0	(0)	8

##### (b) Marketable securities available for sale

	Millions of Yen				
	2007				
	Cost	Balance sheet amount	Valuation differences	Gain	Loss
Stock .....	¥ 26,791	¥ 40,288	¥ 13,497	¥ 13,668	¥ 170
Bonds .....	428,481	425,745	(2,735)	537	3,273
Government bonds .....	257,425	255,188	(2,236)	211	2,447
Municipal bonds .....	73,937	73,751	(185)	165	351
Corporate bonds .....	97,118	96,805	(313)	160	473
Others .....	22,817	22,957	139	261	121
Total .....	¥ 478,089	¥ 488,991	¥ 10,901	¥ 14,467	¥ 3,565

	Thousands of U.S. Dollars (Note 4)				
	2007				
	Cost	Balance sheet amount	Valuation differences	Gain	Loss
Stock .....	\$ 226,946	\$ 341,279	\$ 114,335	\$ 115,782	\$ 1,446
Bonds .....	3,629,657	3,606,483	(23,173)	4,553	27,727
Government bonds .....	2,180,643	2,161,697	(18,946)	1,789	20,736
Municipal bonds .....	626,327	624,752	(1,575)	1,400	2,975
Corporate bonds .....	822,685	820,034	(2,651)	1,363	4,015
Others .....	193,288	194,468	1,183	2,214	1,030
Total .....	\$ 4,049,892	\$ 4,142,236	\$ 92,342	\$ 122,550	\$ 30,198

- Balance sheet amounts are stated at fair value based on the market prices at the fiscal year-end.
- "Gain" and "Loss" are components of "Valuation differences".
- Of marketable securities available for sale with market value, securities whose market value is significantly lower than the purchase cost and cannot be expected to recover to the purchase cost are recorded at market value for presentation in the balance sheet and the valuation differences are recognized as impairment losses for the fiscal year.

During the fiscal year ended March 31, 2007, impairment losses of ¥493 million were recorded for marketable securities available for sale with market value, which were all stocks.

The Bank's criteria for judgment of a significant decrease in market value is as stated below:

- Stock whose market value decreased 50% or more from the purchase cost.
- Stock whose market value decreased 30% or more and less than 50% and whose market price has been lower than a certain level

	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

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, 2007	As of March 31, 2006
(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

## Notes to Consolidated Financial Statements

### (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)
	2007	2006	2007
Proceeds from sale .....	¥ 118,771	¥ 68,439	\$ 1,006,107
Gain .....	6,775	4,966	57,391
Loss .....	1,387	1,251	11,749

### (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)
	2007	2006	2007
Debt Securities being held to maturity			
Non-listed corporate bonds .....	¥ 3,970	¥ 4,200	\$ 33,629
Other corporate bonds .....	–	1,190	–
Other Securities			
Non-listed stocks .....	2,937	3,406	24,887
Non-listed foreign securities .....	213	205	1,805
Loan trust beneficiary rights .....	3,435	3,406	29,099
Equity in investment limited partnerships .....	656	1,150	5,562
Investment in subsidiaries and affiliates			
Investment in affiliates .....	¥ –	¥ 19	\$ –

### (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			
	2007			
	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 .....	¥ 165,054	¥ 110,609	¥ 113,583	¥ 40,467
Government bonds .....	139,318	29,358	46,043	40,467
Municipal bonds .....	3,331	20,064	50,355	–
Corporate bonds .....	22,403	61,186	17,184	–
Others .....	2,807	9,671	4,649	3,871
Total .....	¥ 167,861	¥ 120,281	¥ 118,233	¥ 44,338

	Thousands of U.S. Dollars (Note 4)			
	2007			
	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 .....	\$ 1,398,170	\$ 936,973	\$ 962,167	\$ 342,801
Government bonds .....	1,180,162	248,696	390,036	342,801
Municipal bonds .....	28,223	169,969	426,558	0
Corporate bonds .....	189,783	518,307	145,572	0
Others .....	23,781	81,928	39,388	32,792
Total .....	\$ 1,421,951	\$ 1,018,901	\$ 1,001,556	\$ 375,593

	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

## 5. Derivative Financial Instruments

### (1) Status of Transactions

(a) The Bank employs derivative transactions, including forward exchange contracts, bond futures contracts, and stock-index futures contracts, primarily for the purpose of mitigating price risk of securities and hedging exchange risk associated with its assets and liabilities denominated in foreign currencies. The Bank enters into derivative transactions for the purpose of short-term gains upon approval of management and sets position limited loss-cutting rules for such derivative transactions.

During the fiscal year ended March 31, 2007, the Bank entered into forward exchange contracts.

### (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, 2007	As of March 31, 2006
(a) Interest Rate Related Transactions .....	<b>Not applicable</b>	Not applicable
(b) Foreign Exchange Related Transactions .....		

Millions of Yen

	As of March 31, 2007				As of March 31, 2006			
	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 .....	<b>1,209</b>	-	(1)	(1)	58	-	0	0
Bought .....	¥ <b>89</b>	¥ -	¥ 0	¥ 0	¥ 82	¥ -	¥ (0)	¥ (0)

Thousands of U.S. Dollars (Note 4)

	As of March 31, 2007			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Foreign exchange forward contracts:				
Sold .....	\$ 10,241	\$ -	\$ (8)	\$ (8)
Bought .....	\$ 753	\$ -	\$ 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, 2007	As of March 31, 2006
(c) Equity Related Transactions .....	<b>Not applicable</b>	Not applicable
(d) Bond Related Transactions .....	<b>Not applicable</b>	Not applicable
(e) Commodities Related Transactions .....	<b>Not applicable</b>	Not applicable
(f) Credit Derivatives Transactions .....	<b>Not applicable</b>	Not applicable

## 6. Loans and Bills Discounted

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Bills Discounted .....	¥ <b>7,403</b>	¥ 6,996	\$ <b>62,715</b>
Loans on Bills .....	<b>78,923</b>	88,916	<b>668,563</b>
Loans on Deeds .....	<b>991,585</b>	989,173	<b>8,399,705</b>
Overdrafts .....	<b>139,975</b>	161,449	<b>1,185,727</b>
Total .....	¥ <b>1,217,887</b>	¥ 1,246,536	<b>\$10,316,711</b>

## Notes to Consolidated Financial Statements

### (1) Nonaccrual Loans

Loans to legally bankrupt borrowers, on which the Bank stopped accruing interest under Japanese tax laws, as of March 31, 2007 and 2006, 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, 2007 and 2006. 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, 2007 and 2006, totaled ¥0 million (US\$0 thousand) and ¥0 million, respectively.

### (3) Restructured Loans

Restructured loans as of March 31, 2007 and 2006, 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, 2007 and 2006.

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, 2007 and 2006, 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)
	2007	2006	2007
Assets pledged as collateral			
Securities .....	¥ 1,172	¥ 2,508	\$ 9,927
Cash .....	¥ 31	31	\$ 262
Liabilities related to the above pledged assets			
Deposit .....	¥ 1,184	¥ 5,787	\$ 10,029
Payables under Repurchase Agreements .....	¥ -	¥ 1,255	\$ -

In addition, securities as of March 31, 2007 and 2006, totaling ¥79,224 million (US\$671,105 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, 2007 and 2006, of ¥573 million (US\$4,853 thousand) and ¥708 million, were included in Other Assets 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, 2007 and 2006, totaled ¥253,053 million (US\$2,143,608 thousand) and ¥217,502 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, 2007 and 2006, amount to ¥250,457 million (US\$2,121,617 thousand) and ¥217,502 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)
	2007	2006	2007
Prepaid Expenses.....	¥ 139	¥ 100	\$ 1,185
Accrued Income .....	2,863	2,744	24,256
Derivative Financial Instruments .....	-	0	-
Other.....	4,427	7,465	37,502
Total .....	¥ 7,430	¥ 10,311	\$ 62,944

## 10. Tangible Fixed Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Net Book Value			
Buildings .....	¥ 3,191	¥ 3,608	\$ 27,031
Land.....	6,541	8,352	55,414
Construction in progress.....	34	23	292
Other tangible fixed assets .....	2,404	518	20,364
Total .....	¥ 12,171	¥ 12,502	\$ 103,103

Premises and equipment are stated at cost less accumulated depreciation. The accumulated depreciation at March 31, 2007 and 2006, 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. Intangible Fixed Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Software .....	¥ 1,227	¥ 929	\$ 10,399
Other intangible fixed assets .....	267	61	2,265
Total .....	¥ 1,495	¥ 990	\$ 12,664

## 12. Deposits

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Current Deposits.....	¥ 41,601	¥ 54,020	\$ 352,409
Ordinary Deposits .....	651,873	649,429	5,522,007
Savings Deposits .....	55,835	57,919	472,984
Deposits at Notice .....	11,639	11,256	98,595
Time Deposits .....	942,492	953,733	7,983,843
Other Deposits.....	11,292	24,829	95,661
Total .....	¥ 1,714,735	¥ 1,751,188	\$14,525,501

## 13. Borrowed Money

Borrowed money is subordinated borrowings as of March 31, 2007 and 2006, of ¥6,500 million (US\$55,061 thousand) and ¥12,500 million, respectively.

## 14. Bonds

Bonds are subordinated bonds amounting to ¥15,000 million (US\$127,604 thousand).

## 15. Other Liabilities

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Domestic Exchange Settlement.....	¥ 5	¥ 10	\$ 44
Accrued Expenses .....	2,013	1,057	17,056
Unearned Income .....	4,780	4,678	40,499
Reserve for Taxes.....	91	100	778
Derivative Financial Instruments .....	1	0	9
Other.....	2,683	1,324	22,736
Total .....	¥ 9,576	¥ 9,317	\$ 81,124

## 16. 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.

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

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Projected benefit obligations.....	¥ (18,934)	¥ (18,892)	\$ (160,391)
Fair value of plan assets .....	8,389	7,869	71,064
Projected benefit obligations in excess of plan assets.....	(10,545)	(11,022)	(89,327)
Unrecognized net actuarial loss.....	600	1,601	5,085
Unrecognized prior service cost.....	24	36	205
Net liability recognized .....	¥ (9,920)	¥ (9,384)	\$ (84,036)
Prepaid pension cost.....	-	-	-
Reserve for employees' retirement benefits.....	¥ (9,920)	¥ (9,384)	\$ (84,036)

Net pension expense related to the retirement benefits for the years ended March 31, 2007 and 2006, was as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Service cost .....	¥ 539	¥ 556	\$ 4,568
Interest cost .....	358	364	3,040
Expected return on plan assets .....	(200)	(84)	(1,699)
Amortization of prior service cost.....	12	12	102
Amortization of actuarial losses.....	1,061	1,458	8,989
Other.....	(41)	(42)	(353)
Total .....	¥ 1,729	¥ 2,264	\$ 14,647

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

## Notes to Consolidated Financial Statements

Assumptions used in the calculation of the above information for the years ended March 31, 2007 and 2006, were as follows:

	2007	2006
Discount rate .....	1.90%	1.9%
Expected rate of return on plan assets .....	2.55%	1.38%
Method of attributing the projected benefits to periods of services .....	<b>Straight-line basis</b>	Straight-line basis
Amortization of prior service cost .....	<b>5 years</b>	5 years
Amortization of unrecognized actuarial differences .....	<b>5 years from next fiscal year</b>	5 years from next fiscal year

### 17. Common Stock

Information with respect to common stock of the Bank at March 31, 2007 and 2006, is as follows:

	Thousands of Shares	
	2007	2006
Number of Shares:		
Authorized .....	300,000	200,000
Issued and Outstanding .....	155,895	155,895

### 18. Other Income

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Gain on sale and redemption of bonds .....	¥ 2,745	¥ 962	\$ 23,256
Gain on sale of equity securities .....	4,029	4,003	34,135
Other .....	2,163	1,499	18,328
Total .....	¥ 8,938	¥ 6,465	\$ 75,720

### 19. Other Expenses — Other

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Write-down for stocks .....	¥ 591	¥ 19	\$ 5,010
Loan amortization .....	2,087	6,205	17,682
Loss on transfer of receivables .....	3,769		31,932
Other .....	3,432	2,168	29,073
Total .....	¥ 9,880	¥ 8,393	\$ 83,698

### 20. Income Taxes

The tax allocation of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Deferred Tax Assets:	¥ 22,697	¥ 24,506	\$ 192,272
Reserve for possible loan losses .....	16,871	22,758	142,921
Reserve for employees' retirement benefits .....	4,010	3,794	33,975
Deficit carried forward for tax purposes .....	2,621		22,209
Net valuation difference of securities available for sale .....	1,431	2,999	12,126
Reserve for employee bonuses .....	496	486	4,207
Impairment loss on fixed assets .....	484		4,101
Depreciation .....	212	246	1,795
Enterprise tax payable .....	15	24	129
Amortization of securities .....	408	184	3,456
Other .....	992	647	8,408
Valuation allowance .....	(4,847)	(6,635)	(41,060)
Deferred Tax Liabilities:	(6,142)	(8,450)	(52,032)
Retained earnings of foreign subsidiaries .....	(539)	(211)	(4,568)
Net valuation difference of securities available for sale .....	(5,599)	(8,190)	(47,430)
Other .....	(4)	(48)	(34)
Net Deferred Tax Assets .....	¥ 16,555	¥ 16,056	\$ 140,239

The reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2007 is as follows:

	<b>2007</b>
Statutory tax rate .....	<b>40.4%</b>
Non-deductible amortization of goodwill .....	<b>5.6%</b>
Retained earnings of subsidiaries .....	<b>5.9%</b>
Dividends received from overseas subsidiaries .....	<b>7.2%</b>
Increase (decrease) in valuation reserve .....	<b>(48.0%)</b>
Increase in taxes resulting from permanent non-deductible items including entertainment expenses .....	<b>2.1%</b>
Permanent non-taxable items including dividend income .....	<b>(3.7%)</b>
Resident tax per capital levy .....	<b>1.0%</b>
Reversal of revaluation reserve for land, net of taxes .....	<b>(9.2%)</b>
Other .....	<b>(0.6%)</b>
Effective income tax rate .....	<b>0.7%</b>

The figure for fiscal 2006 is not stated because a loss before income taxes is reported.

## 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		Thousands of U.S. Dollars (Note 4)
	<b>2007</b>	2006	<b>2007</b>
Cash deposit .....	¥ 32,625	¥ 54,785	\$ 276,370
Time deposit .....	(345)	(776)	(2,922)
Other .....	(3,680)	(3,445)	(31,179)
Cash and cash equivalents .....	¥ 28,599	¥ 50,562	\$ 242,268

## 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, 2007 and 2006, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	<b>2007</b>	2006	<b>2007</b>
Lease Rental Expenses .....	¥ 2,128	¥ 1,430	\$ 18,026

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)
	<b>2007</b>	2006	<b>2007</b>
Future Lease Payments			
Within one year .....	¥ 869	¥ 1,077	\$ 7,365
Over one year .....	1,426	2,286	12,080
Total .....	¥ 2,295	¥ 3,294	\$ 19,446

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)
	<b>2007</b>	2006	<b>2007</b>
Acquisition .....	¥ 5,899	¥ 7,115	\$ 49,978
Accumulated Depreciation .....	3,771	(4,026)	31,951
Net Book Value .....	2,128	3,088	18,026
Depreciation .....	¥ 1,116	¥ 1,229	\$ 9,455

## 23. Segmental information

### Business segment information

Fiscal year ended March 31, 2006, and fiscal year ended March 31, 2007

Other than banking operations, certain consolidated subsidiaries Provision of credit guarantee. However, because the proportion of such services is negligible, business segment information is not stated.

### Geographical segment information

Fiscal year ended March 31, 2006, and fiscal year ended March 31, 2007

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, 2006, and fiscal year ended March 31, 2007

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

## Notes to Consolidated Financial Statements

### 24. Related-party transactions

Fiscal year from April 1, 2005, to March 31, 2006

#### (1) Parent Company and Major 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	—	—	Corporate	—			Provision of loans	—	Loans	11
				Auditor of the Bank				Receipt of interest, etc.	0	Accrued income	0
	Yoshihiro Sakaki	—	—	Corporate	—			Guarantee of debt (*1)	1,013	—	—
				Auditor of the Bank				Guarantee of debt (*2)	2,522	—	—
Kenzo Osaka	—	—	Corporate	Direct 0.00			Provision of loans	0	Loans	38	
			Auditor of the Bank				Receipt of interest, etc.	1	Accrued income	0	
Company of which the majority of voting rights are 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	Provision of loans	6	Loans	2,406
				Michinoku Management Accounting Center Ltd. (*5)				Aomori-shi, Aomori prefecture	3	Accounting firm	No
	Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture	3		Accounting firm	No	Extending of credit			Receipt of interest, etc.	
				Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture			3	Accounting firm	No	Extending of credit
Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture	3	Accounting firm			No	Extending of credit		Receipt of interest, etc.		

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

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

(\*5) Kenzo Osaka, Corporate 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.

Fiscal year from April 1, 2006, to March 31, 2007

#### (1) Parent Company and Major 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	Tadao Yamamoto	—	—	Corporate	—			Provision of loans	—	Loans	11
				Auditor of the Bank				Receipt of interest, etc.	0	Accrued income	0
	Yoshihiro Sakaki	—	—	Corporate	—			Guarantees of loans (*1)	213	—	—
				Auditor of the Bank				Guarantees of loans (*2)	(815)	—	—
Kenzo Osaka	—	—	Corporate	Direct 0.00			Provision of loans	(10)	Loans	33	
			Auditor of the Bank				Receipt of interest, etc.	1	Accrued income	0	
Company of which the majority of voting rights are 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	Guarantees of loans (*3)	(8)	—	—
				Michinoku Management Accounting Center Ltd. (*5)				Aomori-shi, Aomori prefecture	3	Accounting firm	No
	Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture	3		Accounting firm	No	Extending of credit			Guarantee of debt	
				Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture			3	Accounting firm	No	Extending of credit
Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture	3	Accounting firm			No	Extending of credit		Provision of loans		
			Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture	3			Accounting firm	No	Extending of credit	Receipt of interest, etc.

(\*1) Tadamichi Yamamoto, Corporate Auditor of the Bank, provides the Bank with guarantees of loans to third parties amounting to ¥1,226 million. Mr. Yamamoto retired on September 23, 2006, and the amounts disclosed concerning him are the balances at the time of his retirement.

(\*2) Yoshihiro Sakaki, Corporate Auditor of the Bank, provides the Bank with guarantees of loans amounting to ¥1,512 million, and payment guarantees amounting to ¥195 million to Maruyo Seafood Co., Ltd., a third party.

(\*3) Kenzo Osaka, Corporate Auditor of the Bank, provides the Bank with guarantees of loans to Michinoku Management Accounting Center Ltd., a third party, amounting to ¥245 million.

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

(\*5) Kenzo Osaka, Corporate Auditor of the Bank, and his close relatives own 100% 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.

**25. Information about Shares**

	Yen		U.S. Dollars (Note 4)
	2007	2006	2007
Book Value per Share .....	¥ 530.67	¥ 516.80	\$ 4.49
Net Income per Share .....	23.93	(90.95)	0.20

Basis for calculation

**(1) Net Income per Share**

	Yen		U.S. Dollars (Note 4)
	2007	2006	2007
Net income (loss) .....	¥ 23.93	¥ (90.95)	\$ 0.20

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Net income (loss) .....	¥ 3,695	¥(14,053)	\$ 31,308
Amount not attributable to common shareholders .....	-	-	-
Net income (loss) per share of common stock .....	¥ 3,695	¥(14,053)	\$ 31,308

	Thousands of Shares	
	2007	2006
Average number of common stock shares outstanding during the year .....	154,435	154,512

**(2) Net Assets per Share**

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2007	2006	2007
Total net assets .....	¥ 81,941	¥ -	\$ 694,127
Amount excluded from total net assets .....	-	-	-
Net assets pertaining to common stock at end of year .....	¥ 81,941	¥ -	\$ 694,127

	Thousands of Shares	
	2007	2006
Number of shares of common stock at end of year used for the calculation of net assets per share .....	154,411	-

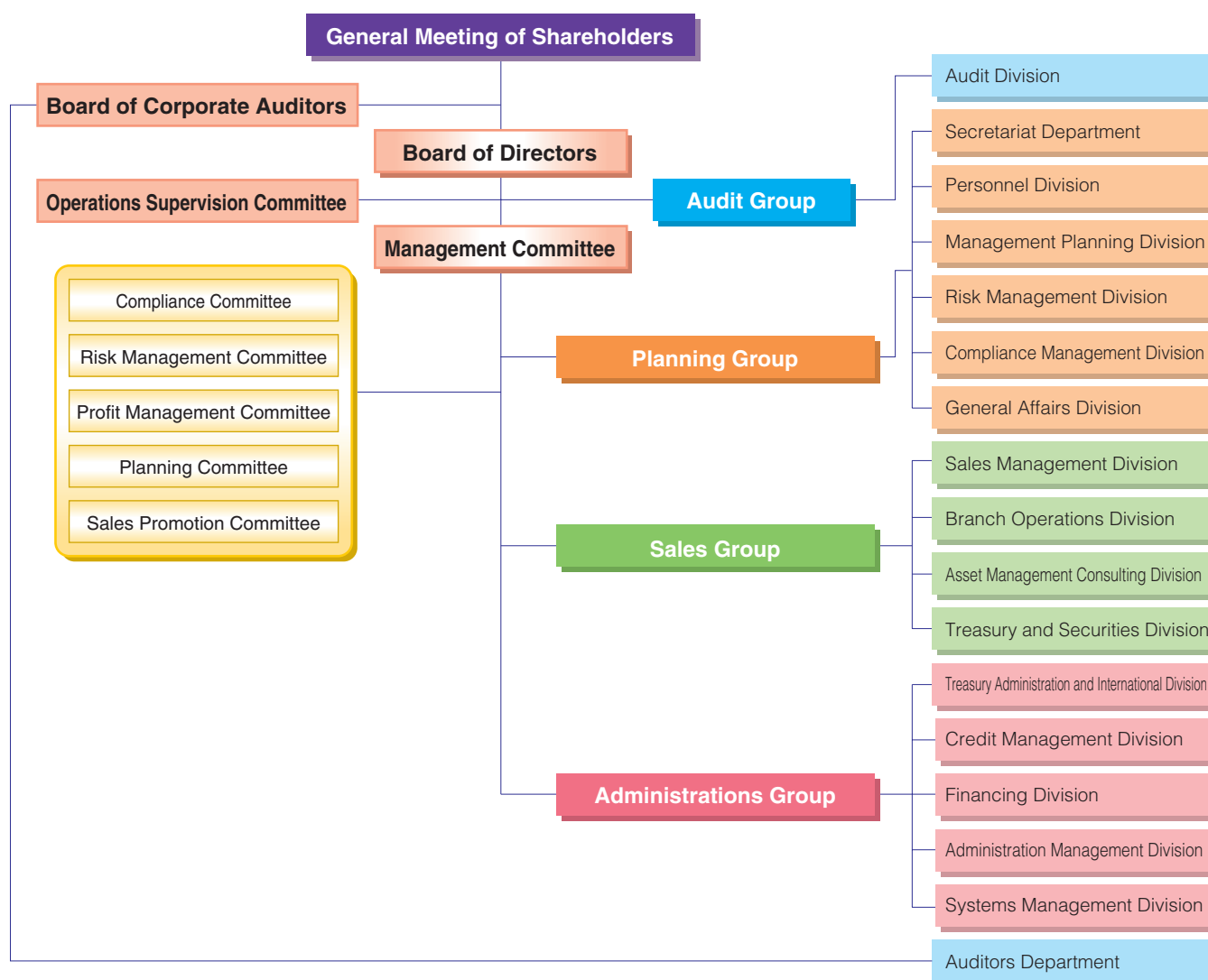
**(3) Data on fully diluted net income per share is not stated, as there are no potential shares outstanding.**

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.

# Organizations and Officers

(As of July 1, 2007)

## Organization Chart



## Officers (As of July 1, 2007)

### Chairman

Sumio Uesugi

### President and Chief Executive Officer

Yasuo Sugimoto

### Director and Senior Executive Officer

Susumu Terao

Fuminori Narumi

### Director and Executive Officer

Kunihiro Takada

### Non-Executive Director

Toru Yanagiya

Takayuki Umase

### Executive Officer

### General Manager, Sales Management Division

Hiroaki Furukawa

Notes:

1. Toru Yanagiya and Takayuki Umase are outside directors as provided for in Item 15, Article 2 of the Company Law of Japan.
2. Ikuo Sato, Yoshihiro Sakaki, Kenzo Osaka, Taiji Shirato, and Yasuo Azuma are outside auditors as provided for in Item 16, Article 2 of the Company Law of Japan.

### Executive Officer

### General Manager, Treasury and Securities Division

Soichi Fukui

### Executive Officer

### General Manager, Audit Division

Takashi Kumachi

### Executive Officer,

### General Manager Head Office

Tsutomu Inaniwa

### Executive Officer, General Manager

### Hirosaki Business Div.

Norihisa Kogawa

### Executive Officer, General Manager

### Hachinohe Branch Office

Masahiro Kato

### Executive Officer, General Manager

### Hakodate Branch Office

Katsuo Takeishi

### Senior Corporate Auditor

Ikuo Sato

Hisashi Ishida

### Corporate Auditor

Yoshihiro Sakaki

Kenzo Osaka

Taiji Shirato

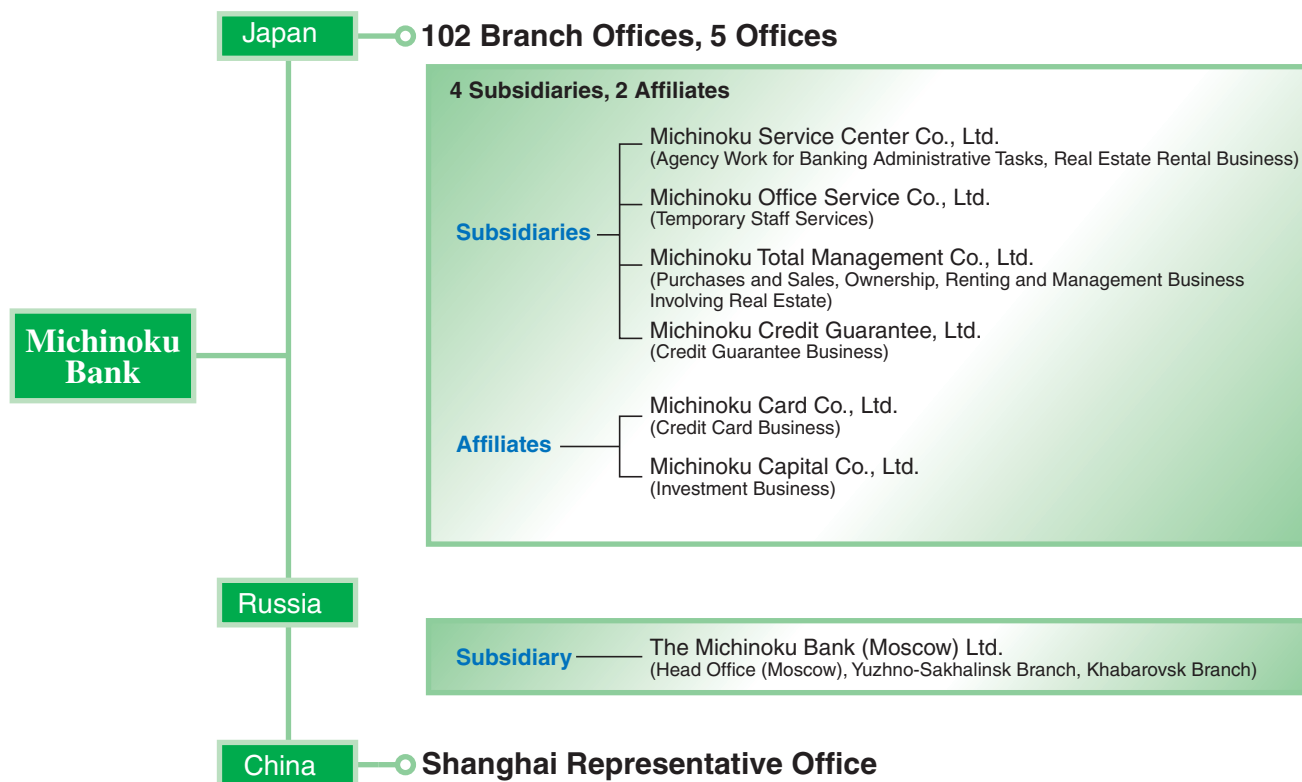
Yasuo Azuma

## Corporate Group

(As of July 9, 2007)

### Organization Chart of Activities by the Corporate Group

The corporate group consists of five 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 9, 2007)

### Head Office

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

### Treasury Administration & 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

### 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

#### The Michinoku Bank (Moscow) Ltd.

**Head Office, Moscow**  
37 Bolshaya Ordynka, Moscow  
119017, Russian Federation  
Phone: (7) 495-729-5858  
Facsimile: (7) 495-729-5898  
S.W.I.F.T.: MCHI RU MM

#### Yuzhno-Sakhalinsk Branch

No.101 Michinoku Sakhalin Building 1st  
Floor, 234 Lenina St., Yuzhno-Sakhalinsk  
693000, Russian Federation  
Phone: (7) 4242-461116  
Facsimile: (7) 4242-744750  
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	84	5	—
Outside Aomori Prefecture	18	—	—
Overseas	—	—	1
Total	102	5	1

家庭の銀行



THE MICHINOKU BANK, LTD.

<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.