



THE MICHINOKU BANK, LTD.

ANNUAL REPORT 2008

The Michinoku Bank, Head Office, Business Division



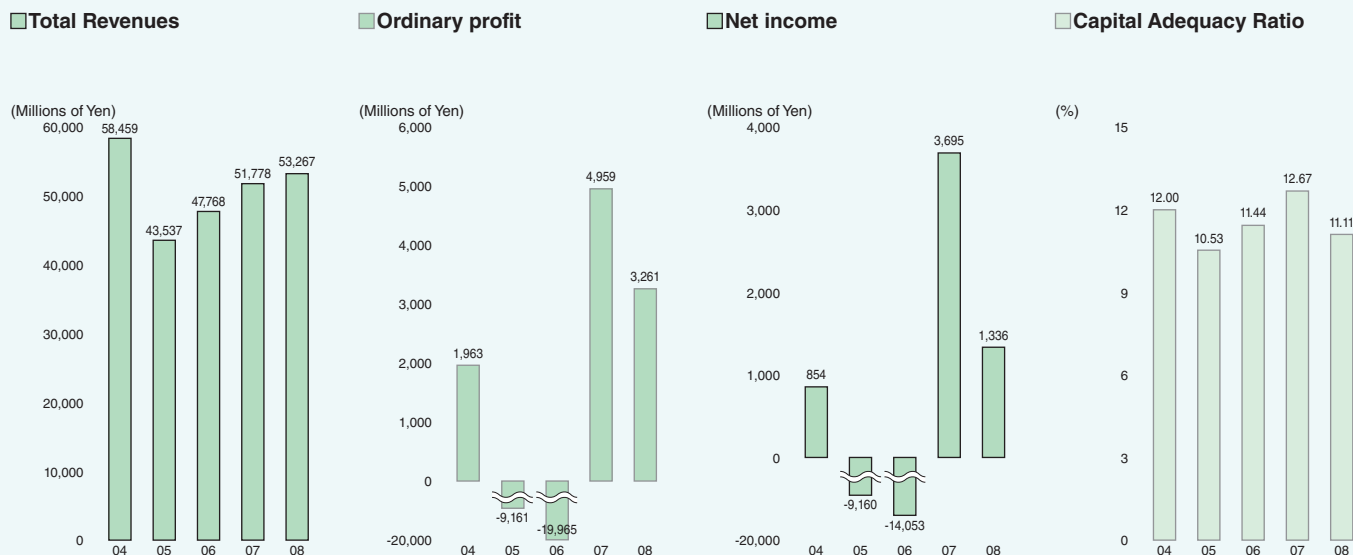
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Consolidated Financial Highlights

Years Ended March 31	Millions of Yen				
	2008	2007	2006	2005	2004
Total Revenues	¥ 53,267	¥ 51,778	¥ 47,768	¥ 43,537	¥ 58,459
Ordinary Profit	3,261	4,959	(19,965)	(9,161)	1,963
Net Income	1,336	3,695	(14,053)	(9,160)	854
Shareholders' Equity	75,511	81,941	79,837	91,157	96,087
Total Assets	1,858,537	1,857,565	1,898,480	1,964,482	1,981,370
Cash Flows from Operating Activities	(68,700)	62,598	(28,536)	130,430	(17,906)
Cash Flows from Investing Activities	64,697	(77,863)	(15,988)	(199,723)	111,398
Cash Flows from Financing Activities	2,748	(6,797)	11,510	(811)	(2,122)
Cash and Cash Equivalents at End of Year	27,353	28,599	50,562	82,616	152,723
Book Value per Share (¥)*	463.91	530.67	516.80	588.35	619.95
Net Income per Share (¥)*	8.86	23.93	(90.95)	(59.12)	5.32
Capital Adequacy Ratio (%)	11.11	12.67	11.44	10.53	12.00
Return on Equity (%)	1.8	4.6	(16.4)	(9.8)	0.9
Price Earnings Ratio (Times)	33	17	-	-	121
Number of Employees	1,476	1,481	1,465	1,458	1,459

* 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.

With respect to capital adequacy ratio, the Bank adopted the BIS criteria until the fiscal year ended March 31, 2007; however, it has applied Domestic standard since the fiscal year ended March 31, 2008.



Message from the Management

First, I would like to express my appreciation to you for your patronage of the Michinoku Bank. The 2008 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, 2009, is the final 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.

Toward realization to be the foremost bank in the region set out in the Medium-Term Business Plan, we will continue in our endeavor to accomplish "reinforcement of earning power," "promotion of operating efficiency," "improvement of asset quality," and "human resources development and CSR activities."

In order to further profit-sharing with our shareholders, for and after the fiscal year ended March 31, 2008, we plan to pay an annual dividend (common dividend) of ¥6 per share, an increase of ¥1 from the previous year. In addition, the Bank is implementing a comprehensive profit-sharing policy for our shareholders through the acquisition and cancellation of treasury stocks.

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 2008

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.

Internal Control Committee

To reinforce corporate governance, the Bank has established the Internal Control Committee, consisting of the chairman of the Board of Directors, the chief executive officer, the other representative directors, and a few outside experts selected and appointed by the Board of Directors, by which the appropriateness of business management necessary for improving its internal control systems is reviewed, with multiple viewpoints from the outside experts.

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.

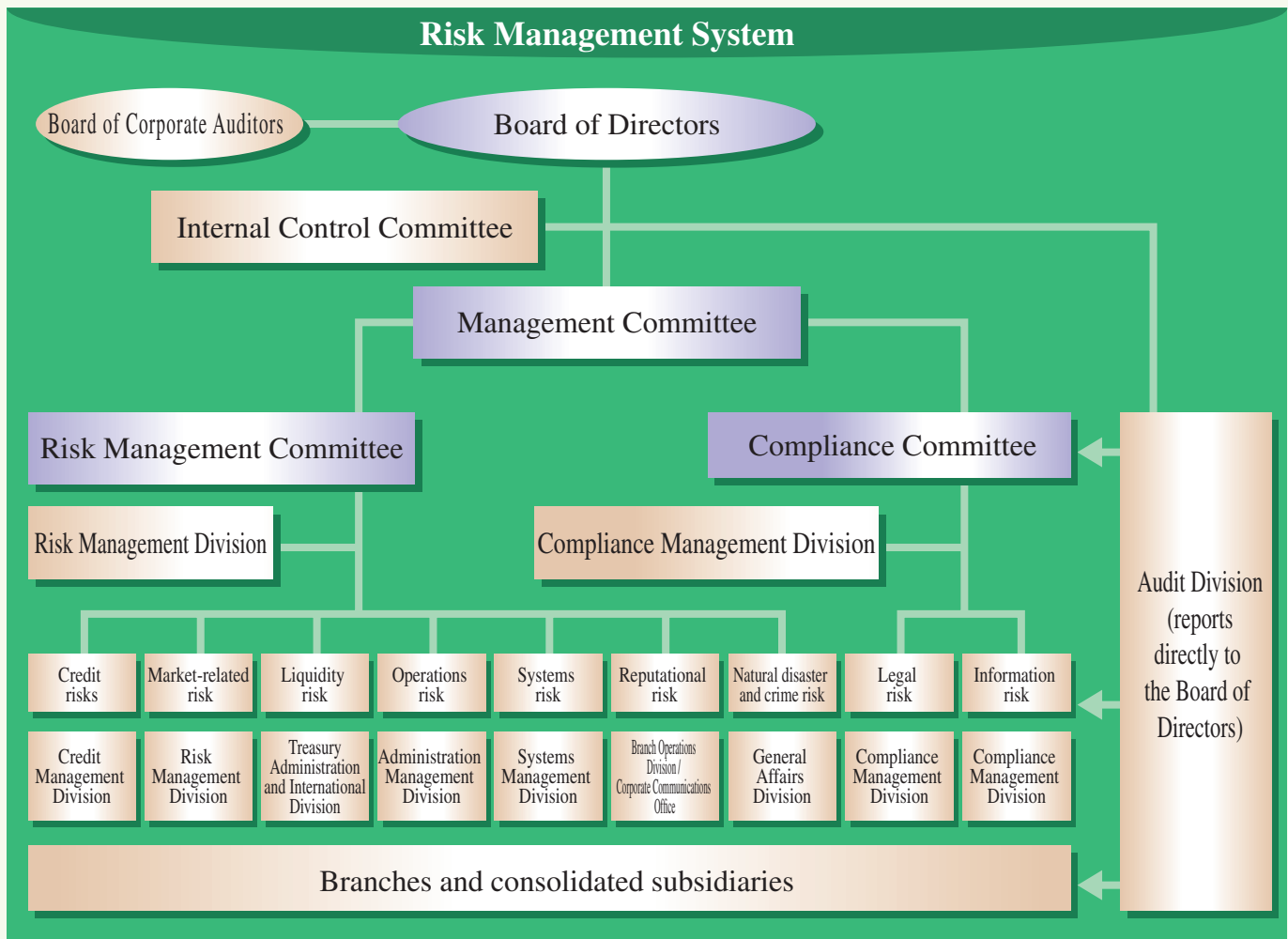
Accounting Auditor

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 each to manage its risk management systems and compliance

management systems, as well as General Management Divisions for each of risk categories. 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 Internal Control Committee to supervise risk management.



As of August 1, 2008

Financial Review

(Financial and Economic Climate)

During the year ended March 31, 2008, as there was an increasing concern about recession in the US economy due to the low-credit mortgage loans (subprime loans) in the U.S., continuous drop in the US dollar and stock price as well as rise in crude oil price rippled through the entire world economy. Under such circumstances, the European and Asian economies were on a growth path thanks to rising exports.

During the same period, the Japanese economy enjoyed a favorable trend with steady capital investment and personal consumption in spite of weak corporate profits itself, although the overall economy hit a lull due to the impact of the rise in the prices of energy and raw materials and the downward trend in housing and public investment.

In Aomori Prefecture, where the Bank is based, the local economy continues to stagnate overall with both forward and backward moves in production (which still maintains high levels) and the downward trend of corporate profits due to the rise in prices of energy and raw materials. Gains in personal consumption were slight as the lackluster employment situation held back wages.

Nevertheless, the primary industry shows an upturn trend, such as increasing exports of apples to Taiwan and moderate recovery of the fishing industry. In addition, the momentum for departure from stagnation is building as improvement of infrastructure in the environmental and energy industries is promoted, businesses to the Tsugaru and Southern part of Aomori Prefecture areas are enticed, and tourism-related industry is developed with the anticipated opening of the Shinaomori Station on the Tohoku Shinkansen line in 2010.

(Business Results)

The Michinoku Bank Group recorded total revenues of ¥50.8 billion, a decrease of ¥700 million from the previous year owing to an increase of interests on loans and foreign currency transaction gain, etc. as well as a decrease of interests on securities, etc. and gain from services, etc.

The Group recorded an ordinary expense of ¥47.6 billion, a rise of ¥1.1 billion from the previous year due to an increase of interests on deposit, etc. As a result, ordinary profit amounted to ¥3.2 billion, decrease of ¥1.7 billion from the previous year.

Net income amounted to ¥1.3 billion, a decrease of ¥2.3 billion from the previous year, due to the inclusion of a ¥2.0 billion of gain on transfer of subsidiary (The Michinoku Bank (Moscow) Ltd.) as an extraordinary gain and a ¥1.0 billion of loss on Michinoku Furusato Contribution Fund as an extraordinary loss.

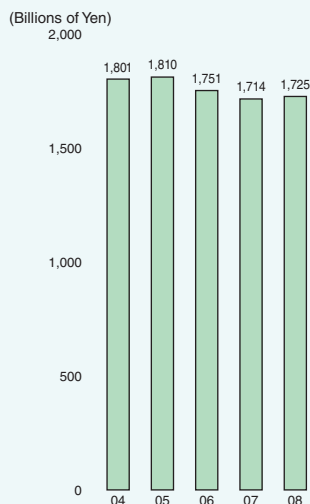
(Cash Flow)

Cash flows from operating activities decreased by ¥68.7 billion due to an increase of loans and deposits, etc. A decrease of ¥131.2 billion was recorded compared from the previous year primarily owing to an increase of loans and deposits.

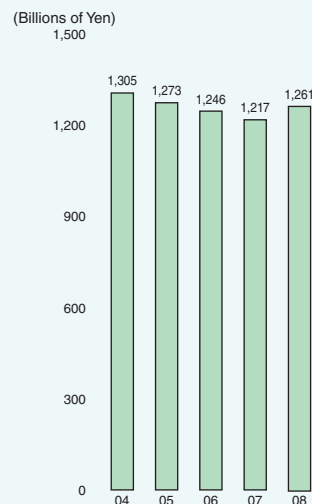
Cash flows from investing activities increased by ¥64.6 billion due to a decrease of securities, etc. An increase of ¥142.5 billion was recorded compared from the previous year primarily owing to proceeds from redemption of bonds.

Cash flows from financing activities grew by ¥2.7 billion thanks to issuance of preferred equity certificates and market buying of treasury stocks, etc. An increase of ¥9.5 billion was recorded compared from the previous year primarily owing to issuance of preferred equity certificates. As a result, cash and cash equivalents as of March 31, 2008 amounted to ¥27.3 billion, a decrease of ¥1.2 billion from March 31, 2007.

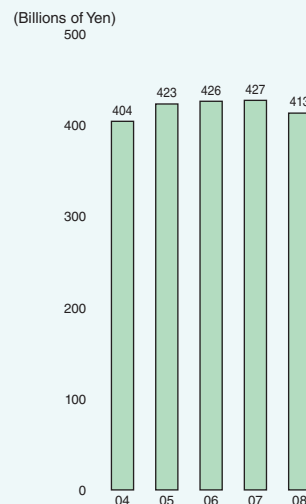
Deposits



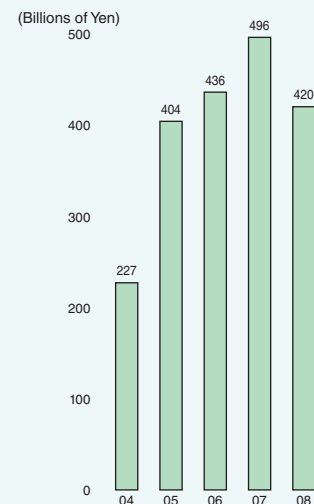
Loans and bills discounted



Consumer loans to individuals



Securities



Consolidated Balance Sheets

As of March 31, 2008 and 2007	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
ASSETS			
Cash and Due from Banks	¥ 39,334	¥ 32,625	\$ 392,594
Call Loans	87,084	65,588	869,198
Commercial Paper and Other Debt Purchased.....	9,119	4,130	91,019
Trading Account Securities (Note 5)	72	220	723
Money Held in Trust	19,996	20,011	199,583
Securities (Note 5)	420,513	496,787	4,197,159
Loans and Bills Discounted (Note 7).....	1,261,568	1,217,887	12,591,761
Foreign Exchange	452	1,908	4,520
Other Assets (Note 10).....	6,978	7,430	69,656
Tangible Fixed Assets	12,846	12,171	128,218
Intangible Fixed Assets	1,346	1,495	13,442
Deferred Tax Assets (Note 21).....	19,877	16,562	198,402
Customers' Liabilities for Acceptances and Guarantees (Note 16).....	13,976	15,675	139,498
Reserve for Possible Loan Losses (Note 2)	(34,630)	(34,930)	(345,651)
Total Assets	¥ 1,858,537	¥ 1,857,565	\$ 18,550,128
LIABILITIES			
Deposits (Notes 8 and 12).....	¥ 1,752,305	¥ 1,714,735	\$ 17,220,333
Call Money.....	60	1,605	600
Borrowed Money (Note 13).....	5,500	6,500	54,895
Foreign Exchange	240	46	2,402
Bond (Note 2)	15,000	15,000	149,715
Other Liabilities (Note 14).....	9,771	9,576	97,529
Reserve for Employee Bonuses (Note 2).....	1,279	1,235	12,773
Reserve for Employees' Retirement Benefits (Notes 2 and 15)	10,044	9,920	100,257
Reserve for Retirement Benefits for Directors and Corporate Auditors.....	146	242	1,457
Reserve for Return of Dormant Deposits.....	576	–	5,758
Reserve for Contingent Loss.....	184	–	1,838
Deferred Tax Liabilities (Note 21).....	0	7	3
Deferred Tax Liabilities for Revaluation Reserve for Land (Note 2)	940	1,078	9,383
Acceptances and Guarantees (Note 16)	13,976	15,675	139,498
Total Liabilities	¥ 1,783,025	¥ 1,775,624	\$ 17,796,445
SHAREHOLDERS' EQUITY			
Common Stock (Note 17).....	¥ 24,167	¥ 24,167	\$ 241,221
Capital Surplus.....	19,775	19,775	197,379
Retained Earnings	30,954	30,766	308,954
Treasury Stock	(3,798)	(937)	(37,908)
Total Shareholders' Equity.....	71,099	73,772	709,646
Unrealized Gains (Losses) on Securities Available for Sale.....	(4,096)	6,764	(40,891)
Deferred Gains or Losses on Hedges.....	(217)	–	(2,167)
Revaluation Reserve for Land, Net of Taxes (Note 2)	374	501	3,740
Foreign Currency Translation Adjustment.....	286	903	2,864
Total Valuation and Translation Adjustments	(3,652)	8,169	(36,453)
Minority Interests.....	8,064	–	80,489
Total Shareholders' Equity	75,511	81,941	753,682
Total Liabilities and Shareholders' Equity	¥ 1,858,537	¥ 1,857,565	\$ 18,550,128

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

For the Years Ended March 31, 2008 and 2007	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
INCOME			
Interest on:			
Loans and Discounts	¥ 30,001	¥ 29,030	\$ 299,450
Securities	5,599	6,530	55,891
Other	831	549	8,301
Fees and Commissions	6,350	6,728	63,386
Other Income (Note 19)	10,483	8,938	104,636
Total Income	¥ 53,267	¥51,778	\$ 531,667
EXPENSES			
Interest on:			
Deposits	¥ 4,854	¥ 2,213	\$ 48,456
Borrowings and Rediscounts	464	605	4,634
Other	132	40	1,322
Fees and Commissions	3,871	3,734	38,643
Other Operating Expenses	602	1,404	6,010
General and Administrative Expenses	28,512	28,450	284,583
Other Expenses:			
Reserve for Possible Loan Losses	3,164	1,726	31,585
Other (Note 20)	8,096	9,880	80,809
Total Expenses	¥ 49,698	¥ 48,056	\$ 496,045
Income (Loss) before Income Taxes	3,568	3,722	35,621
Income Taxes – Current (Note 21)	233	162	2,329
Income Taxes – Deferred (Note 21)	1,819	(135)	18,155
Minority Interests in Income	180	–	1,797
Net Income (Loss)	¥ 1,336	¥ 3,695	\$ 13,339

Accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Net Assets

Fiscal year from April 1, 2007, to March 31, 2008	Millions of Yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2007	¥ 24,167	19,775	30,766	(937)	73,772
Changes during the year					
Dividends from retained earnings			(697)		(697)
Dividends from retained earnings			(464)		(464)
Net income			1,336		1,336
Acquisition of treasury stock				(3,208)	(3,208)
Disposal of treasury stock			(113)	348	234
Reversal of revaluation reserve for land, net of taxes ...			126		126
Net changes in the items other than shareholders' equity during the year					
Total changes during the year	¥ -	-	187	(2,860)	(2,672)
Balance at March 31, 2008	¥ 24,167	19,775	30,954	(3,798)	71,099

Fiscal year from April 1, 2007, to March 31, 2008	Valuation and translation adjustments						
	Net unrealized gains on securities available for sale	Deferred gains or losses on hedges	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
	Balance at March 31, 2007	¥ 6,764	-	501	903	8,169	-
Changes during the year							
Dividends from retained earnings *							(697)
Dividends from retained earnings							(464)
Net income							1,336
Acquisition of treasury stock							(3,208)
Disposal of treasury stock							234
Reversal of revaluation reserve for land, net of taxes ...			(126)		(126)		-
Net changes in the items other than shareholders' equity during the year	(10,861)	(217)		(616)	(11,695)	8,064	(3,630)
Total changes during the year	¥(10,861)	(217)	(126)	(616)	(11,821)	8,064	(6,430)
Balance at March 31, 2008	¥ (4,096)	(217)	374	286	(3,652)	8,064	75,511

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2008 and 2007	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (Loss) before Income Taxes and Other Adjustments	¥ 3,568	¥ 3,722	\$ 35,621
Depreciation and Amortization	1,328	1,230	13,258
Impairment loss	378	1,081	3,776
Amortization of goodwill	601	524	5,999
Equity in Loss (Gain) of Affiliates	68	31	682
Net Increase (Decrease) in Reserve for Possible Loan Losses	(299)	(5,999)	(2,988)
Net Increase (Decrease) in Reserve for Employee Bonuses	44	32	443
Net Increase (Decrease) in Liability for Employees' Retirement Benefits	124	535	1,240
Increase in Reserve for Retirement Benefits for Directors and Corporate Auditors	(96)	242	(960)
Increase in Reserve for Return of Dormant Deposits	576	–	5,758
Increase in Reserve for Contingent Loss	184	–	1,838
Interest Income Recognized on Statement of Income	(36,433)	(36,110)	(363,644)
Interest Expenses Recognized on Statement of Income	5,451	2,859	54,413
Gain on Sale of Consolidated Subsidiaries	(2,078)	–	(20,746)
Net (Gain) Loss Related to Securities	(4,955)	(4,711)	(49,463)
Net (Gains) Losses from Money Held in Trust	122	(502)	1,225
Foreign Exchange Loss	(7)	(37)	(78)
Net Loss on Sale of Premises and Equipment	190	202	1,903
Net Decrease (Increase) in Loans	(44,722)	28,914	(446,375)
Net Increase in Deposits	13,593	(36,956)	135,681
Net Decrease (Increase) in Due from Banks Other than The Bank of Japan..	(9,964)	297	(99,455)
Net Decrease (Increase) in Call Loans	(28,292)	73,601	(282,393)
Net Increase (Decrease) in Call Money	(1,545)	(1,987)	(15,424)
Net Decrease (Increase) in Foreign Exchange Assets	(514)	(747)	(5,133)
Net Increase (Decrease) in Foreign Exchange Liabilities	(3)	(70)	(36)
Interest Received	36,716	36,009	366,465
Interest Paid	(4,089)	(2,028)	(40,819)
Others	1,272	2,155	12,702
Subtotal	(68,781)	62,288	(686,507)
Refund of Income Taxes	287	753	2,868
Income Taxes Payable	(206)	(443)	(2,061)
Net Cash Provided by (Used in) Operating Activities	(68,700)	62,598	(685,700)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Stock and Other Securities	(791,472)	(243,703)	(7,899,712)
Proceeds from Sales of Stock and Other Securities	105,628	133,914	1,054,282
Proceeds from Redemption of Bonds	747,487	52,355	7,460,697
Increase in Money Held in Trust	(271)	(30,000)	(2,704)
Decrease in Money Held in Trust	142	10,491	1,422
Purchases of Tangible Fixed Assets	(2,320)	(521)	(23,159)
Purchases of Intangible Fixed Assets	(955)	(829)	(9,537)
Proceeds from Sales of Tangible Fixed Assets	238	428	2,384
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	6,219	–	62,075
Net Cash Provided by (Used in) Investing Activities	64,697	(77,863)	645,747
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Subordinated Debt	(1,000)	(6,000)	(9,981)
Proceeds from stock issuance to minority shareholders	8,000	–	79,848
Dividends Paid	(1,161)	(774)	(11,596)
Cash dividends paid to minority shareholders	(115)	–	(1,156)
Purchases of Treasury Stock	(3,208)	(31)	(32,025)
Proceeds from Sales of Treasury Stock	234	8	2,341
Net Cash Used in Financing Activities	2,748	(6,797)	27,430
Effect of Exchange Rate Changes on Cash and Cash Equivalents	7	99	78
Net Increase (Decrease) in Cash and Cash Equivalents	(1,246)	(21,963)	(12,443)
Cash and Cash Equivalents at Beginning of Year	28,599	50,562	285,455
Cash and Cash Equivalents at End of Year	¥ 27,353	¥ 28,599	\$ 273,011

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.
- Michinoku Preferred Capital Cayman Limited

From the fiscal year ended March 31, 2008, Michinoku Preferred Capital Cayman Limited was newly consolidated due to establishment.

The Michinoku Bank (Moscow), Ltd. was excluded from the scope of consolidation because all of their shares were transferred to Mizuho Corporate Bank, Ltd. and others.

(2) Non-consolidated subsidiaries

Not applicable.

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

- Michinoku Card Co., Ltd.
- Michinoku Capital Co., Ltd.

(3) Affiliates not accounted for by the equity-method

Not applicable.

3. Fiscal years of consolidated subsidiaries

(1) Fiscal year-ends of consolidated subsidiaries

December 31: 1 subsidiaries

March 31: 5 subsidiaries

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

1) Tangible fixed assets

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.

(Changes in the Accounting Policy)

As the tax system was revised in 2007, with respect to tangible fixed assets acquired on April 1, 2007 or after, depreciation expenses are recorded according to depreciation methods prescribed in the revised Corporate Tax Law. This change had an insignificant impact on the Bank's consolidated balance sheets and other similar statements.

(Further Information)

From the fiscal year ended March 31, 2008, with respect to tangible fixed assets acquired on March 31, 2007 or before, the residual value is depreciated equally each year (5 years) from and after the year following the year when the depreciable limit was reached. The change had an insignificant impact on the Bank's consolidated balance sheets and other similar statements.

2) Intangible fixed assets

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.

Goodwill is amortized in lump-sum during the fiscal year in which it is incurred.

(5) 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 ¥13,103 million (US\$130,785 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.

(6) 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.

(7) 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.

(8) Reserve for Retirement Benefits for Directors and Corporate Auditors

Reserve for retirement benefits for directors and corporate auditors is provided for the payment of retirement benefits for directors and corporate auditors based on estimated amounts of retirement benefit obligations for directors and corporate auditors that are deemed to have been accrued by the end of the fiscal term.

(9) Standards of Accounting for Reserve for Return of Dormant Deposits

Deposits that are no longer recorded as liabilities but recorded as proceeds for reason that there was no transaction for a specific period of time (hereinafter "Dormant Deposits") are provided in preparation for depositors' requests for return in estimated amounts of loss due to future returns based on the actual return history.

(Changes in the Accounting Policy)

Return of Dormant Deposits was previously expensed upon payment. However, in view of the application 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 Accountant (JICPA) Auditing and Assurance Practice Committee Report No. 42, April 13, 2007), effective from the fiscal year commencing on and after April 1, 2007, the Bank changed the method in a way that reserve for return of Dormant Deposits is provided in estimated amounts of loss due to future returns based on the actual return rate for a particular period of time.

As a result of this change, the Bank recorded ¥255 million, the amount to be recorded on April 1, 2007, as other extraordinary loss. As a result, the Bank marked an increase of ¥442 million in other ordinary expenses and an increase of ¥255 million in other extraordinary loss, compared with the previous method. Accordingly, the Bank recorded a decrease of ¥321 million in ordinary profit and a decrease of ¥576 million in income before income taxes.

(10) Standards of Accounting for Reserve for Contingent Loss

Reserve for contingent loss is provided for the payment of obligations subject to the responsibility sharing system with Credit Guarantee Corporations based on amounts of future payment that is estimated in accordance with the depreciation and reserve standard set forth in advance and that is deemed necessary.

(Further Information)

As the responsibility sharing system with Credit Guarantee Corporations had been introduced on October 1, 2007, the Bank started recording reserve for contingent loss from the fiscal year ended March 31, 2008. As a result, the Bank recorded an increase of ¥184 million in other ordinary expenses and a decrease of ¥184 million in ordinary profit and income before income taxes.

(11) 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.

(12) 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.

(13) Significant Hedge Accounting

The Bank adopts deferred hedge accounting for hedge transactions on interest rate risk that arises from financial assets and liabilities.

The Bank employs hedge that offsets fluctuation in the rates of fixed interest bonds which are classified into other securities in compliance with the comprehensive hedge policies set forth in the "Practical Guidance of Accounting for Financial Instruments" (The Japanese Institute of Certified Public Accountants (JICPA) Accounting System Committee Report No. 14). The Bank assesses hedge effectiveness by grouping and specifying financial assets as hedged items and interest rate swap transactions as hedging instruments by a certain remaining period.

(14) Consumption Tax

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

(15) Assets and Liabilities of Consolidated Subsidiaries

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

(16) Amortization of goodwill and negative goodwill

Goodwill is amortized in lump-sum during the fiscal year in which it is incurred.

(17) 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.

4. Japanese Yen and U.S. Dollar Amounts

The Bank maintains its accounting records in yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetic results of translating yen into dollars on the basis of ¥100.19 to US\$1, the approximate effective rate of exchange as of March 31, 2008. 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.

5. Securities

(1) Market Value of Securities

Market value and valuation differences of securities are as follows:

(a) Trading securities

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Amount in the balance sheet	¥ 72	¥ 220	\$ 723
Valuation gain included in income before income taxes	0	0	4

(b) Marketable securities available for sale

	Millions of Yen				
	2008				
	Cost	Balance sheet amount	Valuation differences	Gain	Loss
Stock	¥ 25,622	¥ 26,014	¥ 392	¥ 2,880	¥ 2,488
Bonds	354,151	353,374	(776)	2,204	2,981
Government bonds	140,605	137,888	(2,716)	133	2,849
Municipal bonds	76,211	77,275	1,063	1,093	29
Short-term corporate bonds	38,492	38,477	(15)	0	15
Corporate bonds	98,841	99,733	891	977	85
Others	37,914	33,553	(4,360)	55	4,415
Total	¥ 417,688	¥ 412,943	¥ (4,745)	¥ 5,139	¥ 9,885

	Thousands of U.S. Dollars (Note 4)				
	2008				
	Cost	Balance sheet amount	Valuation differences	Gain	Loss
Stock	\$ 255,740	\$ 259,654	\$ 3,913	\$ 28,749	\$ 24,835
Bonds	3,534,798	3,527,044	(7,754)	22,000	29,754
Government bonds	1,403,386	1,376,274	(27,112)	1,328	28,441
Municipal bonds	760,670	771,284	10,614	10,912	297
Short-term corporate bonds	384,198	384,045	(152)	5	157
Corporate bonds	986,543	995,439	8,895	9,753	857
Others	378,424	334,901	(43,523)	550	44,074
Total	\$ 4,168,964	\$ 4,121,600	\$ (47,364)	\$ 51,299	\$ 98,664

- 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, 2008, impairment losses of ¥258 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				
	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

- 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

	As of March 31, 2008	As of March 31, 2007
(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)
	2008	2007	2008
Proceeds from sale	¥ 95,148	¥ 118,771	\$ 949,677
Gain	6,013	6,775	60,019
Loss	420	1,387	4,196

(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)
	2008	2007	2008
Debt Securities being held to maturity			
Non-listed corporate bonds	¥ 3,770	¥ 3,970	\$ 37,628
Other Securities			
Non-listed stocks	2,858	2,937	28,535
Non-listed foreign securities	199	213	1,990
Loan trust beneficiary rights	8,600	3,435	85,838
Equity in investment limited partnerships	741	656	7,404

(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			
	2008			
	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	¥ 157,061	¥ 82,903	¥ 87,054	¥ 30,125
Government bonds	89,353	3,494	14,915	30,125
Municipal bonds	1,279	20,968	55,026	—
Short-term corporate bonds	38,477	—	—	—
Corporate bonds	27,950	58,440	17,111	—
Others	—	11,912	11,920	7,969
Total	¥ 157,061	¥ 94,815	¥ 98,975	¥ 38,094

	Thousands of U.S. Dollars (Note 4)			
	2008			
	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	\$ 1,567,638	\$ 827,461	\$ 868,894	\$ 300,678
Government bonds	891,844	34,876	148,874	300,678
Municipal bonds	12,770	209,289	549,225	—
Short-term corporate bonds	384,045	—	—	—
Corporate bonds	278,978	583,295	170,794	—
Others	—	118,898	118,980	79,539
Total	\$ 1,567,638	\$ 946,360	\$ 987,874	\$ 380,218

	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

6. Derivative Financial Instruments

(1) Status of Transactions

The Bank employs derivative transactions, including forward exchange contracts, bond futures contracts and options, stock-index futures contracts and options and interest rate swap, primarily for the purpose of mitigating the 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 prior approval of management and sets position limited loss-cutting rules for such derivative transactions.

The Bank adopts deferred hedge accounting for hedge transactions on interest rate risk. In order to perform deferred hedge, the Bank sets forth a basic policy on hedge and policy on assessment of hedge effectiveness in accordance with the "Practical Guidance of Accounting for Financial Instruments" (The Japanese Institute of Certified Public Accountants (JICPA) Accounting System Committee Report No. 14). During the fiscal year ended March 31, 2008, hedge accounting was applied to other securities as hedged items and interest rate swap transactions as hedging instruments. The Bank assesses hedge effectiveness by grouping and specifying financial assets as hedged items and interest rate swap transactions as hedging instruments by a certain remaining period.

(2) Fair Value of Transactions

	As of March 31, 2008	As of March 31, 2007
(a) Interest Rate Related Transactions	Not applicable	Not applicable
(b) Foreign Exchange Related Transactions		

Millions of Yen

	As of March 31, 2008				As of March 31, 2007			
	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	¥ -	¥ -	¥ -	¥ -	¥ 1,209	¥ -	¥ (1)	¥ (1)
Bought.....	¥ 79	¥ -	¥ 0	¥ 0	¥ 89	¥ -	¥ 0	¥ 0

Thousands of U.S. Dollars (Note 4)

	As of March 31, 2008			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Foreign exchange forward contracts:				
Sold	\$ -	\$ -	\$ -	\$ -
Bought.....	\$ 797	\$ -	\$ 2	\$ 2

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

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

	As of March 31, 2008	As of March 31, 2007
(c) Equity Related Transactions	Not applicable	Not applicable
(d) Bond Related Transactions.....	Not applicable	Not applicable
(e) Commodities Related Transactions	Not applicable	Not applicable
(f) Credit Derivatives Transactions	Not applicable	Not applicable

7. Loans and Bills Discounted

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Bills Discounted.....	¥ 6,388	¥ 7,403	\$ 63,765
Loans on Bills	72,490	78,923	723,534
Loans on Deeds.....	1,036,498	991,585	10,345,330
Overdrafts.....	146,190	139,975	1,459,130
Total	¥ 1,261,568	¥ 1,217,887	\$ 12,591,761

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, 2008 and 2007, totaled ¥6,609 million (US\$65,967 thousand) and ¥6,409 million, respectively. Other delinquent loans, on which the Bank also stopped accruing interest under Japanese tax laws, totaled ¥58,405 million (US\$583,532 thousand) and ¥76,111 million, respectively, as of March 31, 2008 and 2007. 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

The Bank does not have any loans past due three months or more.

“Loans past due three months or more” refers to loans where the principal or interest is overdue for three months or more from the next day of the payment date specified under the contract and those that do not fall under loans to legally bankrupt borrowers and delinquent loans.

(3) Restructured Loans

Restructured loans as of March 31, 2008 and 2007, were ¥11,411 million (US\$113,902 thousand) and ¥13,991 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 ¥76,427 million (US\$762,820 thousand) and ¥84,631 million, respectively, as of March 31, 2008 and 2007.

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, 2008 and 2007, amounts to ¥6,394 million (US\$63,826 thousand) and ¥7,408 million, respectively.

8. Assets Pledged

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Assets pledged as collateral			
Securities.....	¥ 1,172	¥ 1,172	\$ 9,927
Cash.....	¥ 31	¥ 31	\$ 262
Liabilities related to the above pledged assets			
Deposit.....	¥ 1,184	¥ 1,184	\$ 10,029

In addition, securities as of March 31, 2008 and 2007, totaling ¥50,190 million (US\$500,955 thousand) and ¥79,224 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, 2008 and 2007, of ¥482 million (US\$ 4,816 thousand) and ¥573 million, were included in Other Assets respectively.

9. Loan Commitments

Contracts for overdraft facilities and loan commitment limits are those under which the Bank lends to customers up to the prescribed limits in response to their loan applications as long as there is no violation of any condition in the contracts. The undrawn amount within the limits of these contracts as of March 31, 2008 and 2007, totaled ¥224,739 million (US\$2,243,133 thousand) and ¥253,053 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, 2008 and 2007, amount to ¥219,905 million (US\$2,194,883 thousand) and ¥250,457 million, respectively.

Since many of these commitments expire without being drawn down, the undrawn amount does not necessarily represent a future cash requirement. Most of these contracts have conditions such that the Bank can refuse the customer’s loan application or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in the customer’s creditworthiness). At the inception of the contract, the Bank obtains real estate, securities, etc. as collateral if such is considered necessary. Subsequently, the Bank performs periodic reviews of the customer’s business results based on internal rules, and implements the necessary measures to reconsider conditions in the contract and/or require additional collateral or guarantees.

10. Other Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Prepaid Expenses.....	¥ 56	¥ 139	\$ 562
Accrued Income.....	2,698	2,863	26,938
Derivative Financial Instruments.....	0	-	2
Other.....	4,223	4,427	42,153
Total.....	¥ 6,978	¥ 7,430	\$ 69,656

11. Tangible Fixed Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Net Book Value			
Buildings.....	¥ 3,332	¥ 3,191	\$ 33,257
Land.....	7,095	6,541	70,817
Construction in progress.....	23	34	230
Other tangible fixed assets.....	2,395	2,404	23,912
Total.....	¥ 12,846	¥ 12,171	\$ 128,218

(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 ¥1,193 million (US\$11,907 thousand) than the book value of the land after revaluation.

12. Intangible Fixed Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Software	¥ 1,079	¥ 1,227	\$ 10,775
Other intangible fixed assets	267	267	2,666
Total	¥ 1,346	¥ 1,495	\$ 13,442

13. Deposits

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Current Deposits	¥ 41,364	¥ 41,601	\$ 412,856
Ordinary Deposits	647,721	651,873	6,464,933
Savings Deposits	56,653	55,835	565,463
Deposits at Notice	10,929	11,639	109,085
Time Deposits	952,551	942,492	9,507,455
Other Deposits	16,084	11,292	160,539
Total	¥ 1,725,305	¥ 1,714,735	\$ 17,220,333

14. Borrowed Money

Borrowed money is subordinated borrowings as of March 31, 2008 and 2007, of ¥5,500 million (US\$54,895 thousand) and ¥6,500 million, respectively.

15. Bonds

Bonds are subordinated bonds amounting to ¥15,000 million (US\$149,715 thousand).

16. Other Liabilities

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Domestic Exchange Settlement	¥ 6	¥ 5	\$ 63
Accrued Expenses	3,180	2,013	31,741
Unearned Income	4,712	4,780	47,032
Reserve for Taxes	152	91	1,517
Derivative Financial Instruments	638	1	6,374
Other	1,082	2,683	10,800
Total	¥ 9,771	¥ 9,576	\$ 97,529

17. 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)
	2008	2007	2008
Projected benefit obligations	¥ (19,330)	¥ (18,934)	\$ (192,941)
Fair value of plan assets	7,250	8,389	72,371
Projected benefit obligations in excess of plan assets	(12,079)	(10,545)	(120,570)
Unrecognized net actuarial loss	1,928	600	19,248
Unrecognized prior service cost	106	24	1,064
Net liability recognized	¥ (10,044)	¥ (9,920)	\$ (100,257)
Prepaid pension cost	-	-	-
Reserve for employees' retirement benefits	¥ (10,044)	¥ (9,920)	\$ (100,257)

Net pension expense related to the retirement benefits for the years ended March 31, 2008 and 2007, was as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Service cost	¥ 533	¥ 539	\$ 5,328
Interest cost	366	358	3,654
Expected return on plan assets	(212)	(200)	(2,118)
Amortization of prior service cost	26	12	266
Amortization of actuarial losses	601	1,061	6,006
Other	(41)	(41)	(415)
Total	¥ 1,274	¥ 1,729	\$ 12,721

* 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, 2008 and 2007, were as follows:

	2008	2007
Discount rate	1.90%	1.90%
Expected rate of return on plan assets.....	2.53%	2.55%
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

18. Common Stock

Information with respect to common stock of the Bank at March 31, 2008 and 2007, is as follows:

	Thousands of Shares	
	2008	2007
Number of Shares:		
Authorized.....	300,000	300,000
Issued and Outstanding.....	155,895	155,895

19. Other Income

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Gain on sale and redemption of bonds.....	¥ 254	¥ 2,745	\$ 2,541
Gain on sale of equity securities.....	4,652	4,029	46,438
Gain on Sale of Consolidated Subsidiaries.....	2,078	–	20,746
Other	3,497	2,163	34,911
Total	¥ 10,483	¥ 8,938	\$ 104,636

20. Other Expenses — Other

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Write-down for stocks.....	¥ 289	¥ 591	\$ 2,891
Loan amortization.....	1,848	2,087	18,453
Loss on transfer of receivables.....	1,113	3,769	11,116
Other	1,679	3,432	16,762
Total	¥ 4,931	¥ 9,880	\$ 49,224

21. Income Taxes

The tax allocation of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Deferred Tax Assets:	¥ 28,928	¥ 27,544	\$ 288,735
Reserve for possible loan losses.....	15,902	16,871	158,722
Reserve for employees' retirement benefits.....	4,061	4,010	40,533
Net valuation difference of securities available for sale	3,996	1,431	39,890
Amortization of securities.....	1,078	408	10,768
Deficit carried forward for tax purposes.....	768	2,621	7,667
Impairment loss on fixed assets	572	484	5,711
Reserve for employee bonuses.....	517	496	5,169
Loss on valuation of other assets	378	–	3,778
Depreciation.....	322	212	3,214
Reserve for Return of Dormant Deposits.....	233	–	2,327
Amortization of goodwill.....	194	–	1,940
Deferred Gains or Losses on Hedges.....	147	–	1,471
Enterprise tax payable.....	31	15	317
Other	723	992	7,220
Valuation allowance	(7,060)	(4,847)	(70,472)
Deferred Tax Liabilities:	(1,990)	(6,142)	(19,862)
Retained earnings of foreign subsidiaries.....	(6)	(539)	(60)
Net valuation difference of securities available for sale	(1,983)	(5,599)	(19,802)
Other	–	(4)	–
Net Deferred Tax Assets.....	¥ 19,877	¥ 16,555	\$ 198,402

The reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2008 is as follows:

	2008
Statutory tax rate	40.4%
Increase in taxes resulting from permanent non-deductible items including Contribution	12.8%
Permanent non-taxable items including dividend income	(3.1%)
Resident tax per capital levy	1.0%
Reversal of revaluation reserve for land, net of taxes	(3.8%)
Loss on exclusion from consolidation not qualifying for deduction	4.8%
Increase (decrease) in valuation reserve	1.1%
Other	4.3%
Effective income tax rate	57.5%

22. 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)
	2008	2007	2008
Cash deposit	¥ 39,334	¥ 32,625	\$ 392,594
Time deposit	(10,000)	(345)	(99,810)
Other	(1,980)	(3,680)	(19,772)
Cash and cash equivalents	¥ 27,353	¥ 28,599	\$ 273,011

23. Lease Commitments and Contingent Liabilities

Finance lease contracts, other than those by which the ownership of the leased assets is to be transferred to lessees, are accounted for by a method similar to the operating lease method.

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2008 and 2007, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Lease Rental Expenses	¥ 4,425	¥ 2,128	\$ 44,170

The amounts of outstanding future lease payments due at March 31, 2008 and 2007, excluding the interest portion, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Future Lease Payments			
Within one year	¥ 593	¥ 869	\$ 5,919
Over one year	917	1,426	9,154
Total	¥ 1,510	¥ 2,295	\$ 15,073

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)
	2008	2007	2008
Acquisition	¥ 4,425	¥ 5,899	\$ 44,170
Accumulated Depreciation	3,021	3,771	30,153
Net Book Value	1,404	2,128	14,016
Depreciation	898	1,116	8,971

24. Segmental information

Business segment information

Fiscal year ended March 31, 2007, and fiscal year ended March 31, 2008

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, 2007, and fiscal year ended March 31, 2008

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, 2007, and fiscal year ended March 31, 2008

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

25. Related-party transactions

Fiscal 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
								Guarantees of loans (*1)	213	—	—
	Yoshihiro Sakaki	—	—	Corporate	—	—	—	Guarantees of loans (*2)	(815)	—	—
			Auditor of the Bank								
	Kenzo Osaka	—	—	Corporate	Direct 0.00	—	—	Provision of loans	(10)	Loans	33
				Auditor of the Bank				Receipt of interest, etc.	1	Accrued income	0
								Guarantees of loans (*3)	(8)	—	—
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	(893)	Loans	1,512
								Guarantee of debt	78	Payment guarantee	195
								Receipt of interest, etc.	16	Accrued income	2
	Michinoku Management Accounting Center Ltd. (*5)	Aomori-shi, Aomori prefecture	3	Accounting firm	—	No	Extending of credit	Provision of loans	(8)	Loans	245
								Receipt of interest, etc.	6	Accrued income	0

(*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.

Fiscal year from April 1, 2007, to March 31, 2008

(1) Parent Company and Major Corporate Shareholders

Not applicable.

(2) Officers 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				
Officers	Yoshihiro Sakaki	—	—	Corporate	—	—	—	Guarantees of loans (*1)	66	—	—
				Auditor of the Bank				Provision of loans	(4)	Loans	29
								Receipt of interest	1	Accrued income	0
	Kenzo Osaka	—	—	Corporate	Direct 0.00	—	—	Guarantees of loans (*2)	(8)	—	—
				Auditor of the Bank							
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. (*3)	Hachinohe-shi, Aomori prefecture	99	Marine product processing	Direct 0.18	No	Extending of credit	Provision of loans	106	Loans	1,619
								Guarantees of debt	(39)	Payment	155
								Underwriting of bonds	—	Guarantee	—
	Michinoku Management Accounting Center Ltd. (*4)	Aomori-shi, Aomori prefecture	3	Accounting firm	—	No	Extending of credit	Provision of loans	(8)	Loans	237
								Receipt of interest	7	Accrued income	0

(*1) Yoshihiro Sakaki, Corporate Auditor of the Bank, provides the Bank with debt guarantee for loans amounting to ¥1,619 million, and payment guarantee amounting to ¥155 million to Maruyo Seafood Co., Ltd., a third party.

(*2) 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 ¥237 million.

(*3) Yoshihiro Sakaki, Corporate Auditor of the Bank, and his close relatives own 60.7% of the voting rights. The Bank has underwritten and guaranteed the bonds issued by Maruyo Seafood Co., Ltd.

(*4) Kenzo Osaka, Corporate Auditor of the Bank, and his close relatives own 100% of the voting rights.

(*5) 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)
	2008	2007	2008
Book Value per Share.....	¥ 463.91	¥ 530.67	\$ 4.63
Net Income per Share.....	8.86	23.93	0.08

Basis for calculation

(1) Net Income per Share

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Net income.....	¥ 1,336	¥ 3,695	\$ 13.33
Amount not attributable to common shareholders.....	-	-	-
Net income per share of common stock.....	¥ 1,336	¥ 3,695	\$ 13.33

	Thousands of Shares	
	2008	2007
Average number of common stock shares outstanding during the year.....	150,896	154,435

(2) Net Assets per Share

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2008	2007	2008
Total net assets.....	¥ 75,511	¥ 81,941	\$ 753,682
Amount excluded from total net assets.....	8,064	-	80,489
(Minority Interests).....	(8,064)	-	80,489
Net assets pertaining to common stock at end of year.....	¥ 67,447	¥ 81,941	\$ 673,192

	Thousands of Shares	
	2008	2007
Number of shares of common stock at end of year used for the calculation of net assets per share.....	145,387	154,411

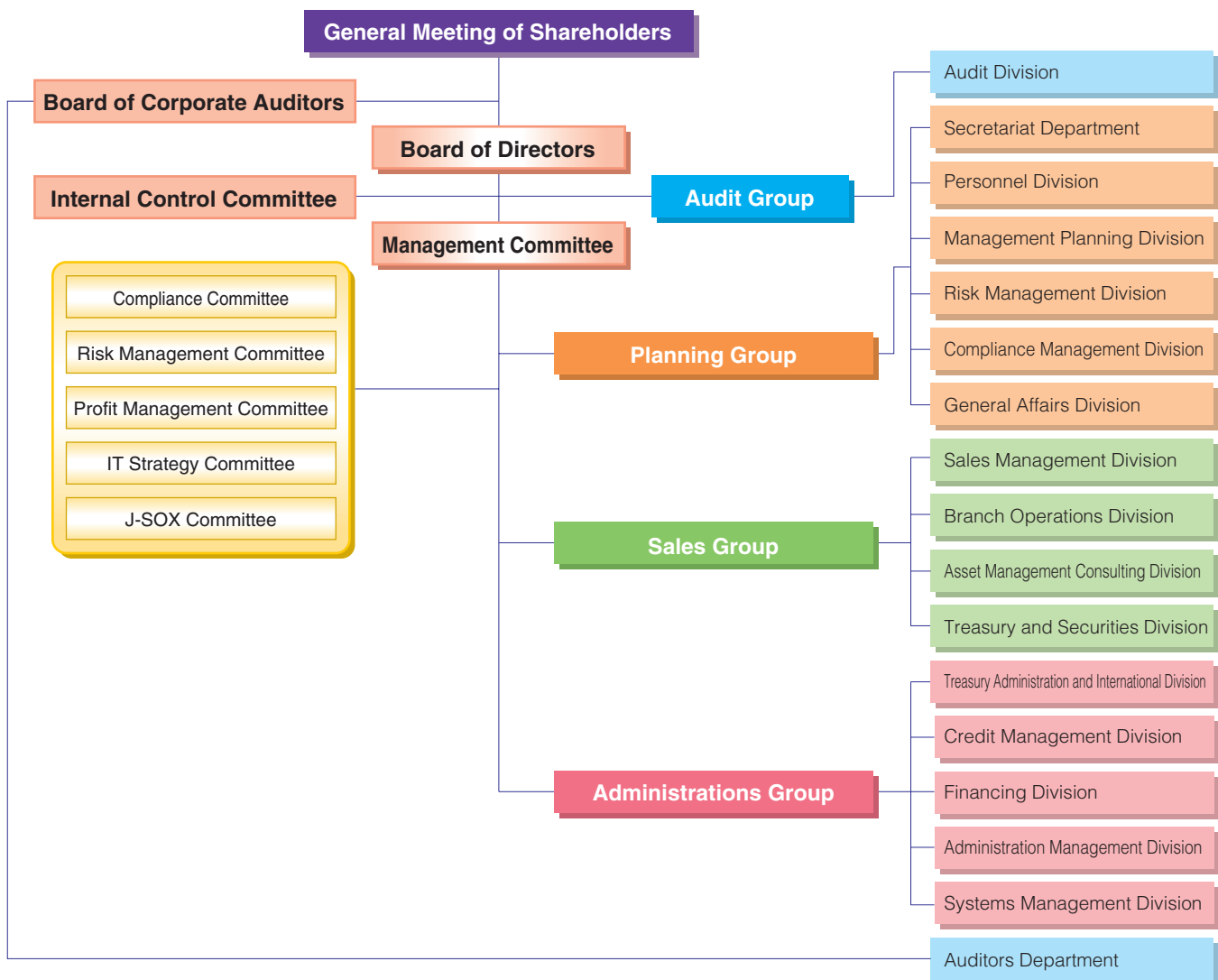
(3) Data on fully diluted net income per share is not stated, as there are no potential shares outstanding.

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 August 1, 2008)

Organization Chart



Officers (As of July 1, 2008)

Chairman

Sumio Uesugi

President and Chief Executive Officer

Yasuo Sugimoto

Director and Senior Executive Officer

Susumu Terao

Director and Managing Executive Officer

Fuminori Narumi

Kunihiro Takada

Director

Toru Yanagiya

Takayuki Umase

Executive Officer

General Manager, Treasury and Securities Division

Soichi Fukui

Executive Officer

General Manager, Audit Division

Takashi Kumachi

Executive Officer

General Manager, Credit Management Division

Masaaki Sato

Executive Officer

General Manager, Administration Management Division

Akihiko Matsuki

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

Hiroaki Furukawa

Senior Corporate Auditor

Ikuo Sato

Hisashi Ishida

Corporate Auditor

Yoshihiro Sakaki

Taiji Shirato

Yasuo Azuma

Masami Toriyabe

Notes:

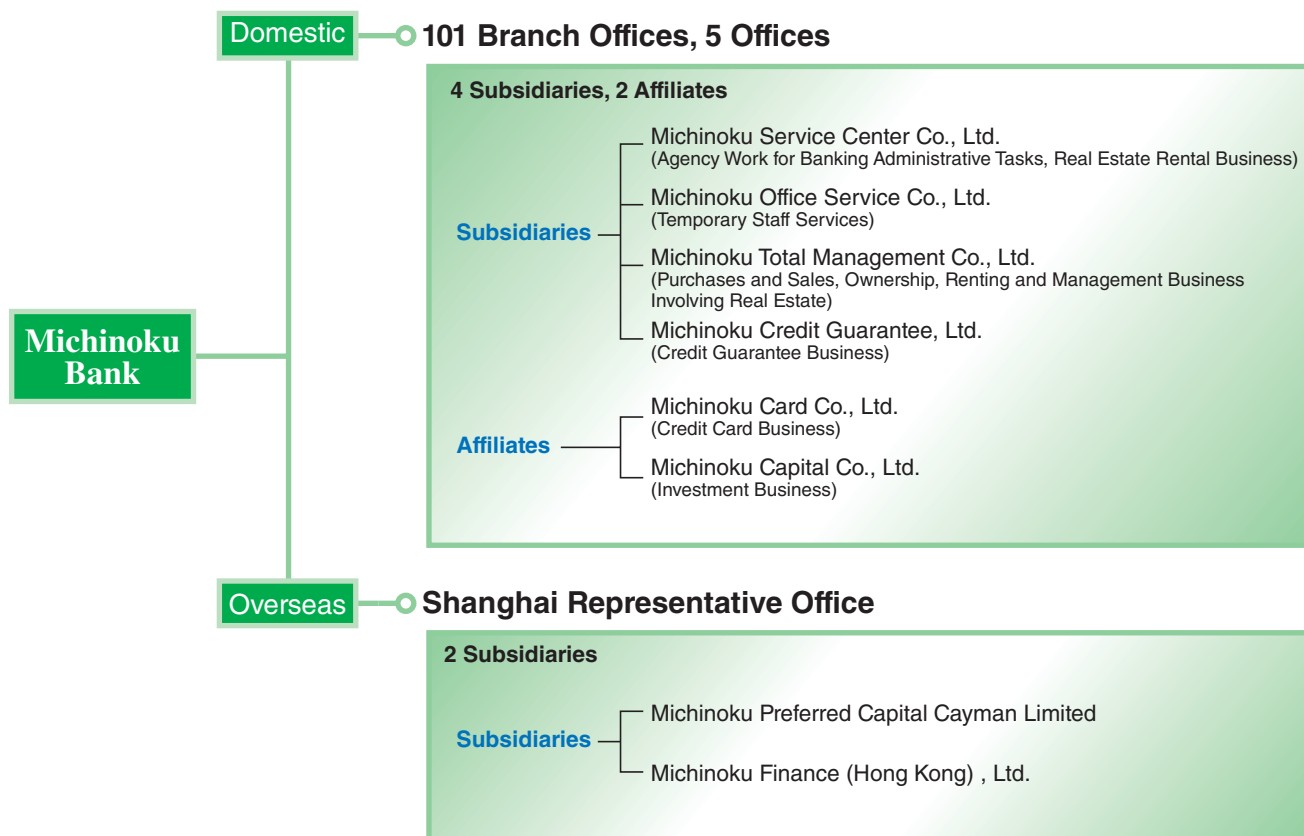
1. Toru Yanagiya and Takayuki Umase are outside directors as provided for in Item 15, Article 2 of the Company Law of Japan.
2. Ikuo Sato, Yoshihiro Sakaki, Taiji Shirato, Yasuo Azuma and Masami Toriyabe are outside auditors as provided for in Item 16, Article 2 of the Company Law of Japan.

Corporate Group

(As of March 31, 2008)

Organization Chart of Activities by the Corporate Group

The corporate group consists of six 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.



Notes:

1. The Board of Directors resolved to dissolve Michinoku Finance (Hong Kong), Ltd. at a meeting held on October 12, 2006, and Michinoku Finance (Hong Kong), Ltd. is currently undergoing liquidation proceedings.
2. To issue preferred securities, the Bank established Michinoku Preferred Capital Cayman Limited as a special purpose company on August 10, 2007.
3. The Board of Directors resolved to proceed with the plan to dissolve Michinoku Total Management Co., Ltd. at a meeting held on November 16, 2007.
4. The Michinoku Bank (Moscow), Ltd. was excluded from the scope of consolidation because all of their shares were transferred to Mizuho Corporate Bank, Ltd. and others on January 21, 2008.
5. The Board of Directors resolved to proceed with the plan to acquire additional shares of Michinoku Card Co., Ltd. and make it a consolidated subsidiary at a meeting held on May 15, 2008.

Overseas and Domestic Network

(As of March 31, 2008)

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

Number of Branch Offices

	Head Office & Branch Offices	Offices	Representative Offices
Aomori Prefecture	83	5	—
Outside Aomori Prefecture	18	—	—
Overseas	—	—	1
Total	101	5	1



<http://www.michinokubank.co.jp/>



In recognition of its efforts to address environmental issues, Michinoku Bank obtained international certification ISO 14001 for its head office and all of its domestic branch offices.