

Consolidated Performance for Fiscal 2003

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31

Financial and Economic Conditions

In Japan, fiscal 2003, ended March 31, 2003, was characterized by a gradual rise in export activity. But this improvement was overshadowed by still-sluggish demand at home, leading to a challenging business situation overall. Personal spending remained weak against a tough employment environment and reduced incomes.

A sluggish tone also colored economic conditions in Miyagi Prefecture, The 77 Bank's primary base of operations, where, most notably, production levels seemed caught at a standstill.

Under these inclement business skies, long and short-term interest rates remained at extremely low levels, reflecting the continued application of an easing policy by the Bank of Japan. Stock prices plied an unsteady route on a sea of heightened anxiety over the direction of international politics and uncertainty over domestic business conditions. The fiscal year ended without any rally in stock prices, a situation substantiated by the Nikkei Stock Average falling through the 8,000 mark. Exchange rates followed a similarly rocky path.

Consolidated Business Results

Deposits, including negotiable deposits, grew 2.2%, to ¥4,798.2 billion, supported once again by more deposits from individuals. Although the Bank emphasized measures to promote loans locally, especially to small and medium-sized businesses and to individuals, the persistent economic slump eroded demand for funds and caused a 1.3% decrease in loans and bills discounted, to ¥3,135.7 billion. In the Bank's investment portfolio, investment securities increased 18.6%, to ¥1,602.8 billion. Total assets as of March 31, 2003, stood at ¥5,245.6 billion, up 1.0%.

On the profit and loss front, efforts to cut expenses and enhance fundraising and fund

application were eclipsed by the challenges of the operating environment. Total income fell 16.3%, to ¥120.0 billion mirroring a drop in proceeds from sales of investment securities and persistently low interest rates. Total expenses tumbled 26.3%, to ¥102.9 billion, largely due to a reduced level of loan write-offs.

Consequently, net income nearly quadrupled, to ¥8.3 billion. Net income per share rose to ¥21.62.

The Bank's capital adequacy ratio slipped 0.03 percentage point, to 10.05%, as calculated to the domestic standard.

In a breakdown of performance by business segment, banking operations provided total income of ¥102.6 billion, down 18.0%, primarily owing to lower gains on the sale of investment securities. Ordinary income skyrocketed more than six times, to ¥16.6 billion, thanks to a reduction in loan write-offs.

Lease operations contributed total income of ¥16.1 billion, down 6.1%, and ordinary income of ¥338 million, up more than three times.

Other operations, including credit card operations, generated total income of ¥4.8 billion, up 3.1%, and ordinary income of ¥12 million, down 97.8%.

In regard to cash flow, cash provided by operating activities was held to a 15.1% expansion, to ¥252.1 billion, because sluggish demand for funds tempered an increase in deposits, including negotiable deposits. Net cash used in investing activities jumped 79.0%, to ¥231.5 billion, paralleling new purchases of investment securities. Net cash used in financing activities dropped 92.4%, to ¥3.2 billion, largely reflecting reductions in both repayment of subordinated loans with special conditions and redemption of convertible bonds.

Consequently, cash and cash equivalents as at March 31, 2003, amounted to ¥149.7 billion, up 13.2%.