

Consolidated Performance for Fiscal 2004

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

Financial and Economic Conditions

Amid continued growth in exports and higher production levels, signs of recovery in the domestic economy shone more brightly in fiscal 2004, ended March 31, 2004, supported by a clear rally in corporate earnings and increased capital spending. Economic conditions in Miyagi Prefecture, the primary base of operations for The 77 Bank, showed some indications of improvement, particularly in production levels. Unfortunately, the overall situation remained challenging as adverse developments, especially cuts on spending for public works, overshadowed positive developments.

In this environment, long-term interest rates suddenly jumped, but the rise was short-lived. Short-term interest rates stayed at extremely low levels, reflecting sustained application of an easing policy by the Bank of Japan. As financial system instability gave way to stability and the outlook for corporate earnings became more optimistic, stock prices rallied, with the Nikkei Stock Average returning to the 10,000 mark in August 2003 for the first time in about a year. In the foreign exchange market, expectations of economic recovery in Japan prompted yen appreciation.

Consolidated Business Results

Deposits, including negotiable deposits, grew 2.9%, to ¥4,936.5 billion, still predominantly supported by more deposits from individuals. Although the Bank continued to stress 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 0.6% decrease in loans and bills discounted, to ¥3,116.7 billion. In the Bank's investment portfolio, investment securities climbed 7.2%, to ¥1,718.6 billion. Total assets as of March 31, 2004, stood at ¥5,404.2 billion, up 3.0%.

On the profit and loss front, efforts to cut expenses and enhance fund operation were again eclipsed by the challenges of the operating

environment. Total income fell 0.2%, to ¥120.3 billion, mirroring the effect of persistently low interest rates on interest income. Total expenses decreased 7.0%, to ¥95.6 billion, largely due to lower losses on devaluation of stocks and other securities.

These results, combined with extraordinary profit accompanying a correction in the employees' pension fund system, caused net income to soar 48.5%, to ¥12.3 billion. Net income per share rose to ¥32.31.

The Bank's capital adequacy ratio rebounded 0.73 percentage point, to 10.78%, as calculated to the domestic standard.

In a breakdown of performance by business segment, banking operations provided total income of ¥95.5 billion, down 6.9%, primarily owing to the negative impact of prolonged low interest rates on investment returns. Ordinary income remained on a par, at ¥16.6 billion, because of lower losses on devaluation of stocks and other securities.

Leasing operations contributed total income of ¥16.2 billion, up 0.9%, and ordinary income of ¥876 million, up 159.2%.

In other operations, including credit card operations, total income expanded 9.9%, to ¥5.3 billion, while ordinary income skyrocketed 67.8 times, to ¥746 million.

In regard to cash flow, cash provided by operating activities tumbled 46.8%, to ¥134.2 billion, primarily because a net decrease in loans and bills discounted and call loans, offset an increase in deposits, including negotiable deposits. Net cash used in investing activities dropped 55.0%, to ¥104.1 billion, because the redemption of investment securities offset new purchases of investment securities. Net cash used in financing activities jumped slightly more than four times, to ¥12.8 billion, largely reflecting reductions in repayment of subordinated loans with special conditions.

Consequently, cash and cash equivalents as at March 31, 2004, amounted to ¥166.8 billion, up 11.5%.