Consolidated Performance for Fiscal 2005

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

Financial and Economic Conditions

The domestic economic environment in fiscal 2005, ended March 31, 2005, was characterized by sustained recovery, despite adjustments in the information technology sector.

A similar improvement in economic conditions was experienced in Miyagi Prefecture, the primary base of operations for The 77 Bank, but certain developments, particularly a drop in production levels, prompted concern about a possible slowdown.

Against this backdrop, long-term interest rates rose, albeit temporarily, while short-term interest rates stayed at extremely low levels, mirroring the ongoing application of a quantitative financial relaxation policy by the Bank of Japan.

Expectations of a rosier domestic business climate buoyed stock prices, but this positive development was dampened by difficulties in foreign exchange markets, triggered by fears over rising interest rates in the United States and the effect on corporate and national deficits.

Consolidated Business Results

Deposits, including negotiable deposits, grew 2.1%, to ¥5,043.6 billion, a change largely supported by higher deposits from individuals. The Bank continued to stress measures to promote loans locally, especially to small and midsized businesses and to individuals, and encountered slightly better demand for funds this year as economic conditions rallied. Loans and bills discounted increased 2.7%, to ¥3,202.8 billion. In the Bank's investment portfolio, investment securities jumped 11.9%, to ¥1,923.2 billion.

Total assets as of March 31, 2005, stood at ¥5,616.2 billion, up 3.9%.

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

Total income fell 6.1%, to ¥112.9 billion, while total expenses inched up 0.8%, to ¥96.4 billion.

These results, along with an extraordinary loss from write down of premises—an amount based on self-assessment standards—that overshadowed an extraordinary gain following revision of the employees' pension plan in the previous fiscal year, caused net income to drop 26.7%, to ¥9.0 billion. Net income per share fell to ¥23.65.

The Bank's capital adequacy ratio rebounded 0.45 percentage point, to 11.23%, as calculated to the domestic standard.

In a breakdown of performance by business segment, banking operations provided total income of ¥94.3 billion, down 1.3%, largely because of the continuing negative impact of prolonged low interest rates on investment returns. Ordinary income improved 1.5%, to ¥16.8 billion, thanks to a successful reduction in expenses.

In leasing operations, total income rose 4.5%, to ¥16.9 billion, and ordinary income climbed 3.7%, to ¥909 million.

In other operations, including credit card operations, total income dipped 0.5%, to ¥5.2 billion, and ordinary income declined 40.6%, to ¥443 million.

In regard to cash flow, cash provided by operating activities soared 91.9%, to ¥257.7 billion, owing to an increase in deposits, including negotiable deposits, and a substantial decrease in call loans. Net cash used in investing activities skyrocketed 95.1%, to ¥203.2 billion, reflecting new purchases of investment securities and lower proceeds on sales of and maturity of investment securities. Net cash used in financing activities retreated 81.5%, to ¥2.3 billion, primarily because of additional reductions in repayment of subordinated loans with special conditions.

Consequently, cash and cash equivalents as at March 31, 2005, amounted to ¥218.9 billion, a solid improvement of 31.1%.