Consolidated Performance for Fiscal 2006

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

Financial and Economic Conditions

A recovery tone continued to color the Japanese economy in fiscal 2006, ended March 31, 2006, supported by strong export activity, higher production levels and enhanced corporate earnings. In Miyagi Prefecture, the primary base of operations for The 77 Bank, personal spending was generally steady and signs, such as a gradual improvement in production levels, indicated a rally in local business conditions, as well.

Against this backdrop, long-term interest rates jumped at the end of the fiscal year, as the Bank of Japan's quantitative financial relaxation policy came to an end. Short-term interest rates, however, remained at extremely low levels right to the end of the term. Under brighter economic skies and with steady improvement in corporate earnings, stock prices moved upward. The Nikkei Stock Average marked a dramatic rise at the end of March 2006, hitting the 17,000 level for the first time in about five-and-a-half years. In foreign exchange markets, recent fiscal policy in Japan and the United States caused some concern, which led to unsettled conditions and prompted a low yen–high dollar situation.

Consolidated Business Results

Deposits, including negotiable deposits, edged down 1.9%, to ¥4,947.5 billion. Loans and bills discounted decreased 4.2%, to ¥3,066.7 billion. In the Bank's investment portfolio, investment securities expanded 7.5%, to ¥2,068.0 billion.

Total assets as of March 31, 2006, stood at ¥5,551.9 billion, down 1.1%.

On the profit and loss front, efforts to trim expenses and raise fund application and procurement efficiency failed to overcome lingering challenges in the operating environment.

Total income grew 5.1%, to ¥118.7 billion, and total expenses increased 4.9%, to ¥101.1 billion.

As a result, net income improved 4.1%, to ¥9.4 billion. Net income per share rebounded to ¥24.63.

The Bank's capital adequacy ratio rose 0.60 percentage point, to 11.83%, as calculated to the domestic standard.

In a breakdown of performance by business segment, banking operations provided total income of ¥99.5 billion, up 5.4%, primarily owing to higher returns on fund application following an improvement in interest and dividends on trading account investment securities. Ordinary income slipped 4.2%, to ¥16.1 billion, reflecting such developments as higher costs on the creation of a next-generation core system.

In leasing operations, total income inched up 1.0%, to ¥17.1 billion, and ordinary income jumped 34.5%, to ¥1.2 billion.

In other operations, including credit card operations, total income climbed 1.6%, to ¥5.3 billion, and ordinary income surged 57.7%, to ¥699 million.

In regard to cash flow, cash provided by operating activities tumbled 82.8%, to ¥44.2 billion, owing to a significant reduction in loans and bills discounted. Net cash used in investing activities retreated 44.7%, to ¥112.2 billion, with the majority of funds applied to new purchases of investment securities. Net cash used in financing activities stayed on a par, at ¥2.3 billion, with funds used to pay dividends.

Consequently, cash and cash equivalents as at March 31, 2006, came to ¥148.5 billion, a sizable drop of 32.1%.