

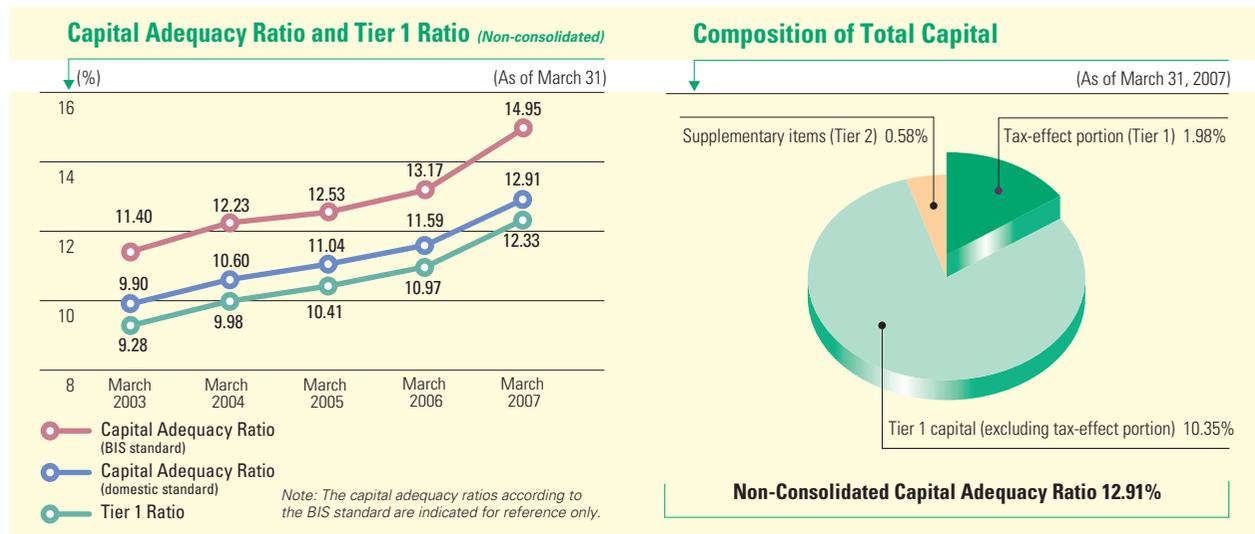
Toward a Firmer Business Position

Tier 1 Capital Ratio

The Tier 1 capital ratio is based only on Tier 1. It excludes supplementary items, such as subordinated loans, from the current components that are used to determine the capital adequacy ratio, and therefore, better represents the financial status of a bank, compared with the capital adequacy ratio, which includes supplementary items.

The Tier 1 capital ratio for The 77 Bank reached 12.33% on a non-consolidated basis, at March 31, 2007, considerably higher than the average (8.02%, preliminary figure) for the 55 regional banks that apply the domestic standard. This statistic places the Bank among the top performers in this sector of the banking industry.

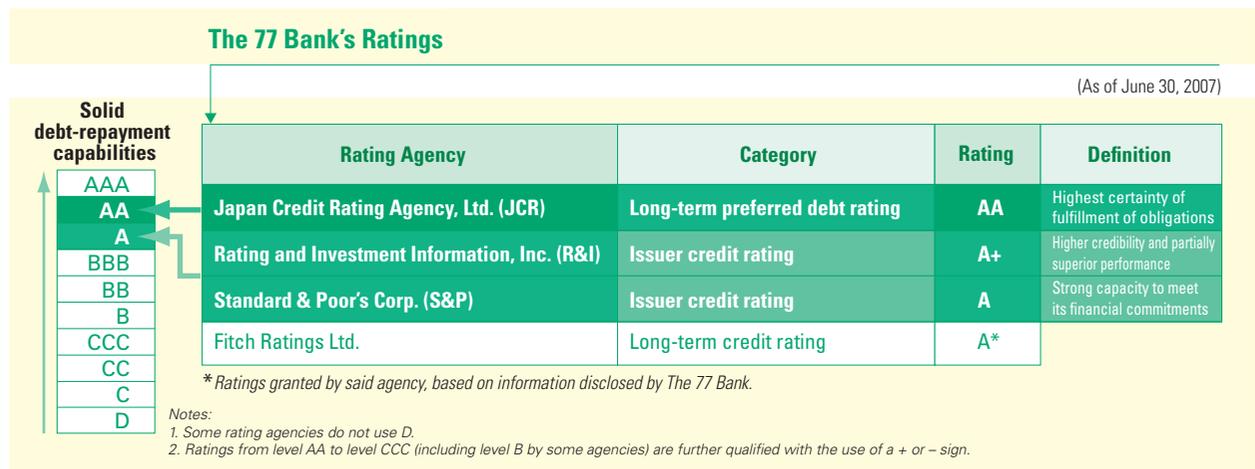
The Bank's non-consolidated capital adequacy ratio, excluding tax effects, reached 10.93%, and its Tier 1 ratio amounted to 10.35% at March 31, 2007. The composition of total capital indicates the Bank's continued financial stability.



Ratings

Ratings are granted by rating agencies, which assume a third-party perspective in assessing the financial status of businesses. The results are disclosed to the market. Ratings include a long-term rating, which targets such instruments as deposits and bonds with maturity periods exceeding one year; a short-term rating, which targets such instruments as deposits and debentures with maturity periods under one year; and a financial position rating, which evaluates the fiscal status of a bank.

The 77 Bank has acquired ratings from three domestic and overseas rating agencies that are among the highest of any Japanese financial institution.



Risk-Management Structure

Sophisticated Techniques Based on Sound Principles

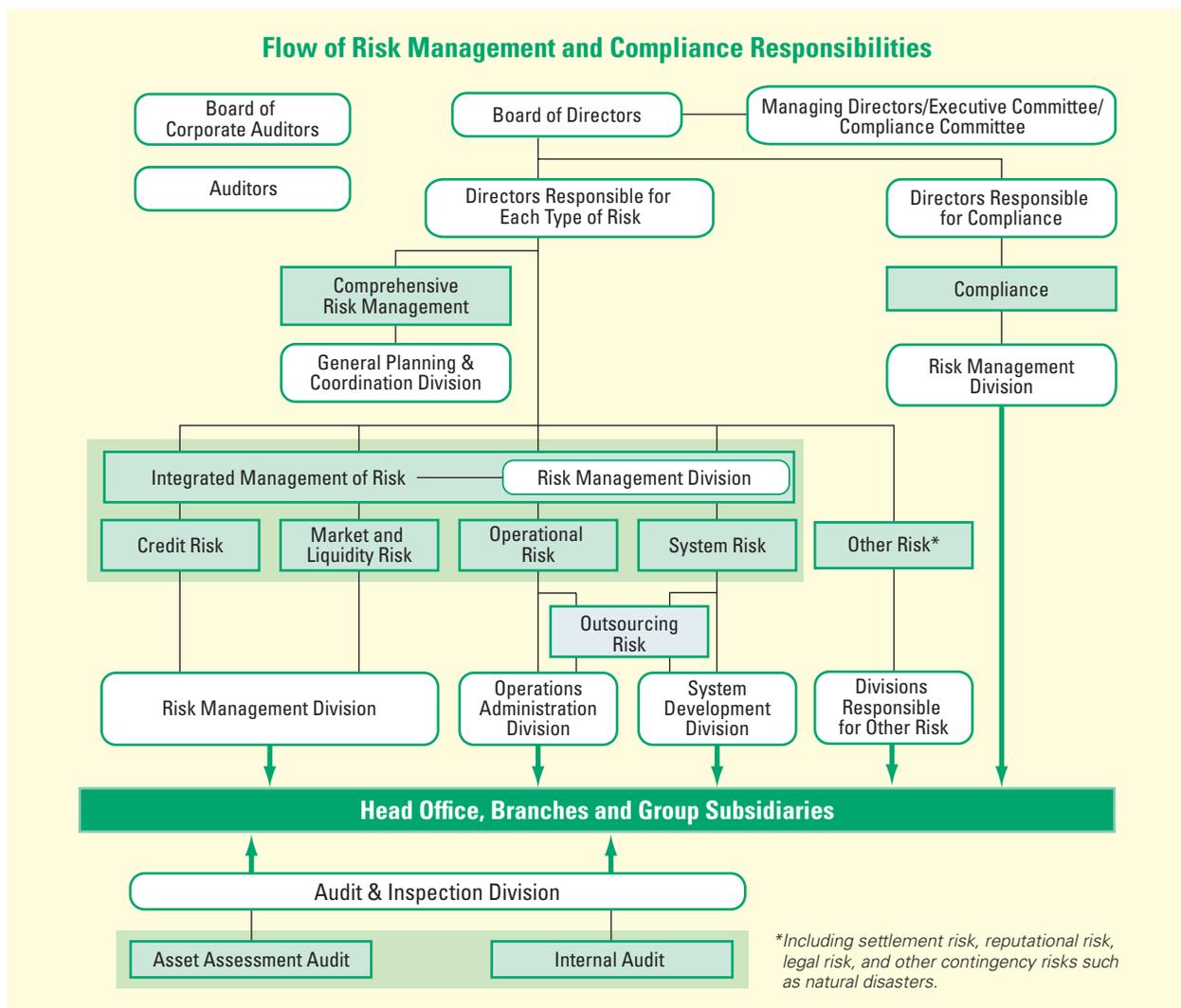
Rapidly changing conditions in the financial sector have significantly transformed the operating environment for financial institutions and caused the risk that surrounds financial institutions to become comparatively more complex than in the past. These conditions demand that financial institutions execute even more accurate identification and analysis of risks, and take appropriate control of such risks.

The 77 Bank works to reinforce overall risk management with the improved soundness of business in mind. The Bank is also enhancing management processes through, for example, the introduction of more sophisticated risk-quantification techniques and feedback on each aspect of business.

The Bank established the Basic Policy for Risk Management covering comprehensive risk-management activities to serve as the foundation of a solid risk-management structure, with appropriate risk hedging approaches that promote steady and sustainable development. This policy defines risk management, clarifies decision-making authority on risk-management issues and the role of the Board of Directors in this process, and outlines the structure and objectives of supervisory units that handle each type of risk.

Roles of the Bank's Risk-Management Units

The 77 Bank has classified risk into seven categories—credit risk, market risk, liquidity risk, operational risk, system risk, outsourcing risk and other risk—and assigned supervisory units to each risk



category. The General Planning & Coordination Division is responsible for the comprehensive risk management system. However, each risk category is also overseen by dedicated divisions: the Risk Management Division for credit risk, market risk and liquidity risk, the Operations Administration Division for operational risk, the System Development Division for system risk, and the Operations Administration Division and System Development Division together for outsourcing risk.

As a supervisory unit, the Risk Management Division tracks all risk and monitors risk quantity. These efforts are augmented by the ALM Committee, which comprises division general managers and directors responsible for operations of their respective divisions. Every month, the committee discusses measures to hedge market and liquidity risk. Other contingency risks, such as reputational risk and natural disasters, are managed appropriately by the respective divisions as each risk is identified.

The Audit & Inspection Division is independent of the business promotion units and risk management units, as it is the evaluating unit for internal processes and asset status. The Audit & Inspection Division assesses the risk-management positions of each division and branch as well as those of group companies at least once a year. The Bank has classified audits into two categories: a comprehensive audit for internal management systems, including compliance, governance and management systems for operational, credit and system risk; and physical inspection of cash and cash equivalents for the prevention of illegality. In addition, the Bank undergoes external audits, performed by outside auditors, in order to further consolidate the internal management structure.

Compliance

In 1999, The 77 Bank formulated Basic Policies for Compliance consisting of principles for clarifying responsibilities for compliance and ensuring appropriate actions with respect to compliance issues. The Bank also disseminated *Compliance Guidelines*, a publication that provides executives and employees with concrete procedures for dealing with laws and other compliance-related issues and outlines acceptable standards of ethical conduct.

Basic Policies for Compliance

1. Fundamental Concepts

- i. The Board of Directors recognizes that full adherence to laws and close attention to all compliance issues are central to its business activities. The Board therefore established a code of corporate ethics that underscores the Bank's social responsibility and public duty and endeavors to ensure that all members of the Bank uphold the code.
- ii. The Board reviews compliance programs annually and implements new measures based on progress achieved in the previous year.
- iii. If behavior contrary to laws and regulations should occur, the Bank takes appropriate steps, based on laws or in-house rules, such as the Work Regulations, and will swiftly adopt the countermeasures required to safeguard the soundness of the Bank's business.

2. Establishing a Solid Compliance Structure

- i. The Bank ensures a smooth response to compliance issues through the timely introduction of suitable organizational systems and in-house rules.
- ii. The Bank gathers the necessary legal information, such as amendments to laws, concerning compliance and adjusts in-house rules accordingly.

Compliance Guidelines

Basic Direction

- i. Ensure sound management and pay the utmost attention to sustaining the Bank's credibility and its ability to maintain smooth financing.
- ii. Comply with laws and the code of corporate ethics and maintain fair and honest practices.
- iii. Take a principled stand with regard to issues that threaten social order or public peace.
- iv. Provide financial services that clients and the community trust and endeavor to achieve sustainable development together with them.
- v. Foster a flexible and constructive working environment conducive to the well-being of all employees.

Compliance Structure

Thorough compliance with laws and the code of corporate ethics is essential for a financial institution if it is to uphold its social responsibility and public duty and thus maintain the trust of clients and the region in which it operates.

From this perspective, The 77 Bank established the Legal Affairs Office in 1998 to monitor legal compliance. Following subsequent organizational reforms, the authority of the Legal Affairs Office was superseded by the Legal Affairs Section of the Risk Management Division, which now tracks the situation with respect to legal compliance. The President is the director ultimately responsible for legal compliance. He is supported by the general manager of the Risk Management Division, who supervises inspections, and the head of the Legal Affairs Section, who acts as a compliance officer. Each division and branch is assigned a compliance officer and other oversight personnel who undertake regular inspections to ascertain the situation with respect to compliance.

The 77 Bank also advocates measures to preclude inappropriate behavior or legal errors. The Bank encourages greater awareness of laws and other compliance issues among executives and employees, and strives to foster a deeper understanding of pertinent laws.

To further strengthen the compliance structure, the Bank established the Compliance Committee chaired by the President and compliance departments as subcommittees of the Compliance Committee. Also, divisions and branches have compliance promotion committees.

