

77 BANK
ANNUAL REPORT
2004

THE 77 BANK, LTD.

The 77 Bank, Ltd., was founded in 1878 as Japan's 77th national bank. Headquartered in Sendai—the capital of Miyagi Prefecture—the Bank is the largest in the Tohoku region, with its branch network covering this area in northern Honshu, Japan's largest island.

Based on its philosophy, The 77 Bank continues to strengthen its business foundation and enhance its management quality in order to be the “best regional bank,” one that grows along with its customers and is committed to the sustainable development of the region. As of March 31, 2004, The 77 Bank had capital of ¥24.7 billion, 142 domestic branches and 2,884 employees.



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Consolidated Financial Highlights

THE 77 BANK, LTD. AND SUBSIDIARIES
As of March 31

	Millions of Yen		Millions of U.S. Dollars
	2004	2003	2004
For the fiscal year			
Net interest income	¥ 75,797	¥ 80,832	\$ 717
Net fees and commissions	11,644	11,480	110
Net other operating income	2,435	1,794	23
Net income	12,339	8,308	116
At the fiscal year-end			
Total assets	¥5,404,205	¥5,245,579	\$51,132
Deposits	4,936,569	4,798,228	46,708
Loans and bills discounted	3,116,779	3,135,735	29,489
Trading account securities and investment securities	1,727,328	1,609,579	16,343
Stockholders' equity	323,994	295,951	3,065
Common stock	24,658	24,658	233
		Yen	U.S. Dollars
	2004	2003	2004
Per share of common stock			
Net income	¥ 32.31	¥ 21.62	\$0.305
Stockholders' equity	852.93	776.92	8.070
Cash dividends applicable to the year	6.00	6.00	0.056
Capital adequacy ratio (%)			
BIS standard	[12.42]	[11.56]	
Domestic standard	10.78	10.05	

Note: Throughout this report, U.S. dollar amounts are translated, for convenience only, at the rate of ¥105.69 = US\$1, the exchange rate prevailing on March 31, 2004. The capital adequacy ratios according to the BIS standard, in brackets, are indicated for reference only.

Message from the President

The 77 Bank aims to be the “best regional bank,” one that grows along with its customers and is committed to the sustainable development of the region.



Chugo Marumori, President

Amid a brightening world economic scene, signs of gradual recovery appeared in Japan, supported by positive business developments, such as rising export volume, increased production, better corporate earnings and expanding capital investment.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, the economy improved in some areas, but with investment in public works and housing still sluggish, a full-fledged recovery will probably need more time to take root.

A tough earnings environment continued to surround financial institutions, characterized by relentlessly difficult investment obstacles, such as persistently low interest rates and lackluster demand for funds. But the write-off of nonperforming assets peaked, and competition among financial institutions is intensifying as all members of the industry explore new business styles to reinforce profitability.

Basic Direction, and Medium- and Long-Term Management Strategies

The 77 Bank's mission is to respond accurately to the varied financial requirements of its customers and the region in which it operates, and to contribute to the sustainable development of the local community. The Bank also strives to uphold the public obligations that every financial institution bears, to sustain a healthy financial footing and to ensure stable dividends to stockholders.

We are actively implementing a number of measures, based on this mission. We seek to build a stronger profit structure and motivate employees to uphold high principles and a strong work ethic. We aim to improve asset quality even more than before and cut costs more effectively than before. In addition, we are restructuring our business promotion system, increasing noninterest income and extending more loans.

By efficiently allocating available management resources, we will create a firmer operating foundation, enhance the quality of loan assets and enhance profitability. We aim to be a bank that has the unshakable support of customers, stockholders and the community at large.

Business Goals to Achieve

In the 77 ACTIVE Plan, a two-year medium-term business reform program that runs from April 2003 to March 2005, we have highlighted five goals to achieve.

Goal to March 31, 2005

Balance of loans	Above ¥3,140 billion
Balance of core loans (excluding marketable loans)	Above ¥2,950 billion
Operating profit*	Above ¥31 billion
Overhead ratio	Below 68%
Capital adequacy ratio (domestic basis)	Above 10%
Ratio of nonperforming assets	Improvement of at least 1% every fiscal year

* A bank profitability indicator used in Japan, based on profit after deduction of certain expenses and provisions.

Issues and Major Tasks in Fiscal 2005

Looking ahead, we expect that completion of the prevailing payoff system, effective April 2005, will make financial institutions more vulnerable to the power of selection by existing and potential clients.

We have prioritized three issues in the 77 ACTIVE Plan to appropriately deal with this situation. We aim to reinforce business promotion activities, particularly lending operations, to reduce costs, and to enhance asset quality.

In fiscal 2005, the head office and branches directed concerted efforts to achieving four major tasks:

1. Strengthen lending operations, primarily corporate loans and consumer loans.
2. Improve profitability by enhancing fund management, boosting fee income, and cutting costs.
3. Expand the base for transactions through the establishment of a firmer marketing foundation.
4. Raise the quality of assets, with a focus on steady improvement of the nonperforming assets ratio.

Reinforcing Our Relationship Banking Capabilities

Regional financial institutions have been asked to direct greater efforts toward such tasks as revitalizing loans to small and medium-sized businesses, securing a healthier financial position and improving profitability, in accordance with individually prepared plans required by the Financial Services Agency to reinforce the relationship banking function of all regional banks.

The 77 Bank recognizes that relationship banking requires the Bank to contribute to the development of its own operations as well as to the prosperity of customers and the local community through financial services underscored by a relationship of trust. Toward this end, we strive to provide a variety of services and facilitate the smooth supply of funds in our geographical sphere of operations.

We will continue to improve our volume of transactions with customers and offer higher-value-added services. We will also work to maintain highly transparent operations with greater attention to corporate governance, and execute continuous, proactive disclosure of management information. These efforts will form a solid cornerstone of trust with our customers and the region.

Corporate Governance

The 77 Bank has always emphasized management priorities that serve to fortify its business administration structure. Concerted efforts are directed toward strengthening the capabilities of the Board of Directors, augmenting compliance and risk management structures, reinforcing auditing activities, including those of external auditors of the Bank.

Of note, the Board of Directors is responsible for decisions on major issues relating to the execution of the Bank's operations, while the Executive Committee forms pertinent decisions on issues within the authority granted by the Board of Directors.

The Bank maintains a Board of Auditors system and has raised the effectiveness of internal audits by inviting three external auditors to sit on the five-member auditors. Auditors attend Board of Directors' meetings and offer opinions and suggestions to ensure that the Bank's operations are effective and appropriate.

The Board of Directors drafted Basic Policies for Compliance and Basic Policies for Risk-Management to ensure clarity and integrity in compliance efforts and to forge a strong risk-management structure that underpins steady, long-lasting growth.



Chugo Marumori
President

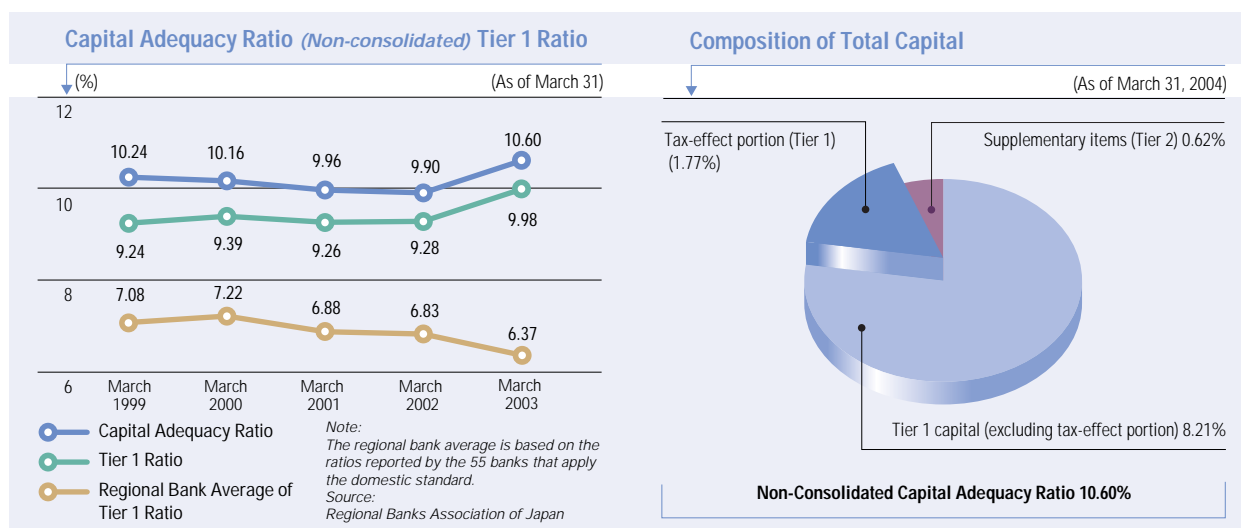
Toward a Firmer Business Position

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 9.98% on a non-consolidated basis, as at March 31, 2004, considerably higher than the average 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.

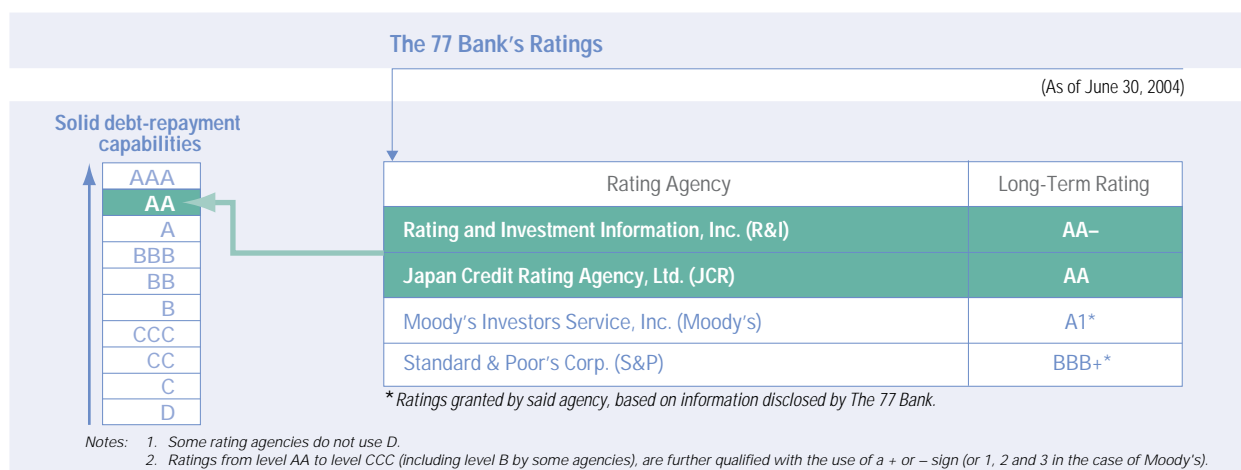
The Bank's non-consolidated capital adequacy ratio, excluding tax effects, reached 8.83%, and its Tier 1 ratio amounted to 8.21% at March 31, 2004. The composition of total capital indicates the Bank's continued financial stability.



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 two domestic rating agencies that are among the highest of any Japanese financial institution.



Risk-Monitored Loans

The 77 Bank discloses risk-monitored loans—loans to borrowers under bankruptcy, past due loans, accruing loans contractually past due three months or more and restructured loans—according to the Banking Law.

At March 31, 2004, the Bank's risk-monitored loans amounted to ¥200 billion, and accounted for 6.39% of the Bank's lending balance. The Bank does not implement a partial write-off of its risk-monitored loans, but if the Bank did so, the amount after the write-off would have amounted to ¥173.3 billion, which would represent 5.57% of the Bank's lending balance.

(As of March 31)

(Billions of Yen/%)

	2004	Percentage of total	2003	Percentage of total
Loans to borrowers under bankruptcy	¥ 22.4	0.71%	¥ 28.3	0.89%
Past due loans	98.6	3.14	127.8	4.05
Accruing loans contractually past due three months or more	0.4	0.01	0.5	0.01
Restructured loans	78.9	2.51	102.3	3.24
Total	200.4	6.39	259.0	8.21
Balance of total loans	¥3,135.5	100.00%	¥3,152.6	100.00%

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 improved business health 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 for 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.

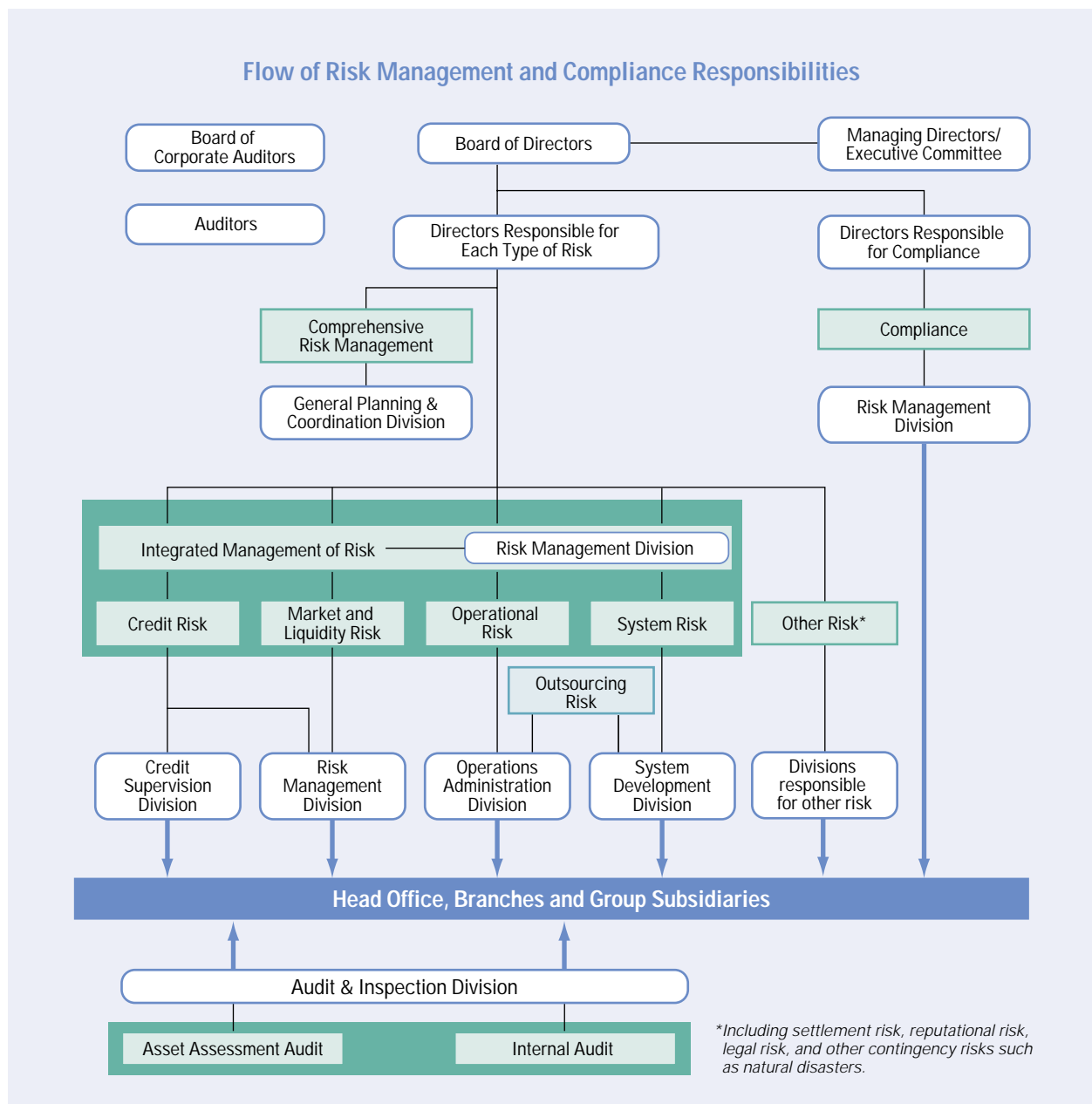
Roles of the Bank's Risk-Management Units

The 77 Bank has classified risk into seven categories—credit risk, market risk, liquidity risk, operational risk, system risk, outsourcing risk and other—and assigned supervisory units to each risk category. The General Planning & Coordination Division is responsible for the infrastructure of the risk-management system. However, each risk category is also overseen by dedicated divisions: the Risk Management Division for market risk and liquidity risk; the Operations Administration Division for operational risk; the System Development Division for system risk; the Operations Administration Division and System Development Division together for outsourcing risk; and credit risk under the supervision of both the Risk Management Division and the Credit Supervision Division.

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 in the assigned division. 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 assigned division as each risk is identified.

The Audit & Inspection Division is independent of the business promotion units and risk-management units and, as the evaluating unit for internal processes and asset status, assesses the risk-management positions of each division and branch as well as those of group companies more than once a year. The 77 Bank undergoes external audits, performed by outside auditors, to further consolidate the internal management structure. In April 2003, the Bank introduced a new audit system to strengthen the internal auditing process. The Bank also separated the nature of its audits into two categories: a comprehensive audit for internal management systems, including compliance, governance and management systems for operational, credit and system risk; and inspection of cash and cash equivalents for the prevention of illegality.



Compliance

In 1999, The 77 Bank formulated Basic Policies for Compliance to function as principles for clarifying responsibilities for compliance and ensuring appropriate actions to compliance issues. The Bank also established 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 other compliance issues is a vital requirement of business. The Board therefore put together a set of corporate ethics that underscores the Bank's social responsibility and public duty, and does its best to ensure that all members of the Bank uphold these standards of conduct.
- ii. The Board reviews compliance programs annually and implements new measures, based on progress achieved in the previous year.
- iii. If behavior contrary to stated compliance measures should occur, the Bank will take appropriate steps, based on laws or in-house rules, such as the Work Regulations, and will swiftly adopt the countermeasures required to safeguard the health of the Bank's business.

2. Establishing a Solid Compliance Structure

- i. The Bank ensures a smooth response to compliance issues through the timely and suitable introduction of 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 extend smooth financing.
- ii. Comply with laws and rules for corporate conduct, and maintain fair and honest practices.
- iii. Apply considered principles to issues that threaten social order or public peace.
- iv. Provide financial services that customers and the community trust, and develop sustainably together.
- v. Foster an open office atmosphere and promote a healthy workplace environment.

Compliance Structure

Thorough compliance to laws and rules for corporate conduct is essential for a financial institution if it is to uphold its social responsibility and public duty, and 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 supplanted by the Legal Affairs Section of the Risk Management Division, which now tracks the status of 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 compliance status.

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.

Growing with the Community

The State of Miyagi Prefecture Economy

Miyagi Prefecture, the primary base of operations for The 77 Bank, is located in the southeast corner of the Tohoku region. The prefecture is an important crossroads linking Tohoku to Tokyo, the nation's capital.

In 1989, Sendai, the prefectural capital, became the 11th city in Japan specially designated by ordinance. The higher profile encouraged major national businesses and organizations, including government agencies, to set up branches and offices in Sendai, thereby turning the city into an urban hub of the Tohoku region.

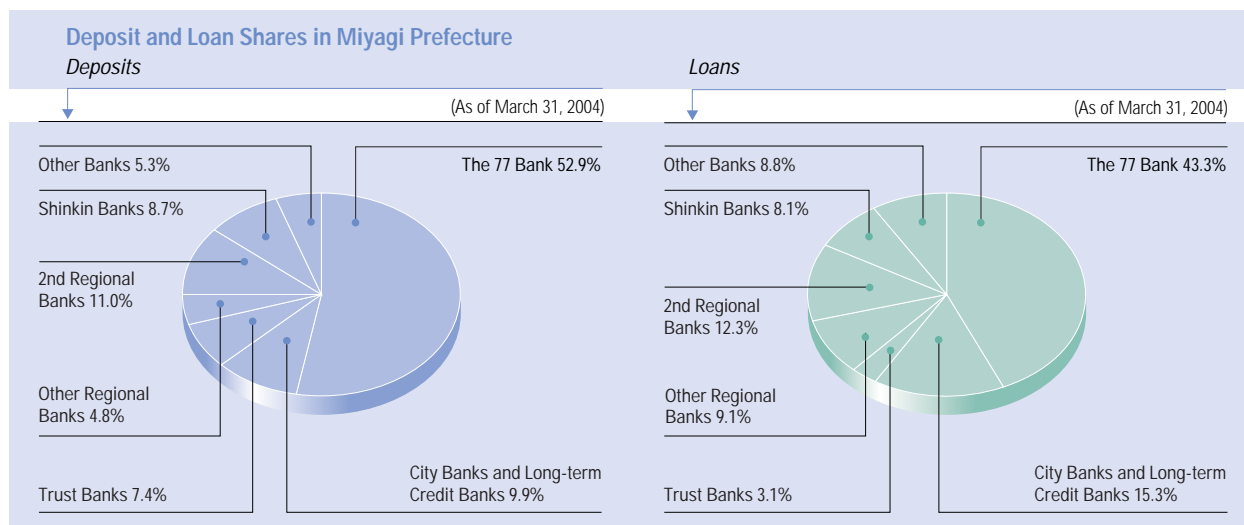
In terms of major economic indicators, such as population, gross prefectural product and retail trade amount, Miyagi Prefecture is ranked around 15 out of Japan's 47 prefectures. The prefecture contributes slightly less than 2% to national totals.

Miyagi Prefecture is working steadily to establish an industrial infrastructure, such as an improved transportation network to connect the region better to other prefectures as well as to places abroad.

Composition of Gross Domestic Product by Industry (Nominal)		
	Miyagi Prefecture	Japan
Agriculture, forestry and fishery	2.2	1.3
Manufacturing	14.8	20.3
Construction	6.9	6.6
Utilities	3.1	2.9
Wholesale and retail	15.8	14.8
Financial institutions	4.7	7.0
Real estate	14.5	13.0
Transportation and communications	8.8	6.7
Services	20.2	21.2
Municipalities and others	9.0	6.2
Total	100.0	100.0

Along with the Community

Our mission, as a regional financial institution, is to contribute to regional socioeconomic development through the timely and accurate provision of financial services geared to the needs of the community. Our efforts have earned us the support of customers, boosting our regional share of deposits and loans to the highest level among Japanese regional banks.

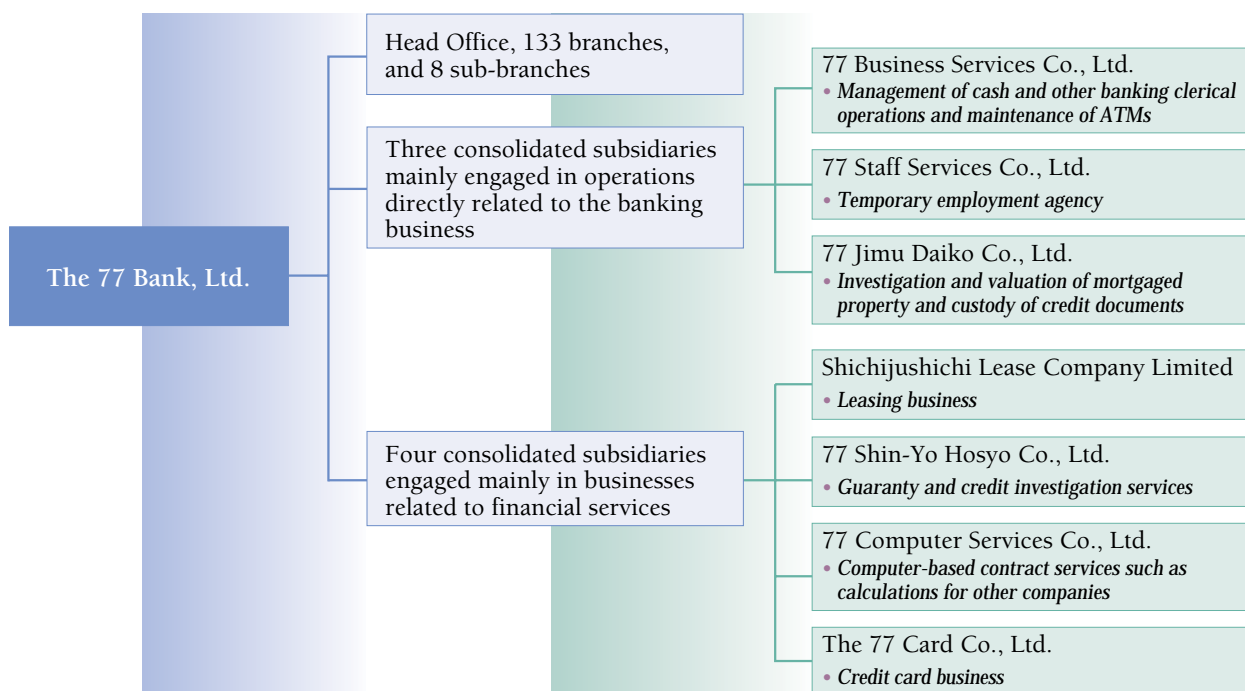


77 Bank Group

(As of June 30, 2004)

Main Business and Organization of the Bank and Subsidiaries

The 77 Bank Group is engaged in leasing, credit card and other financial businesses in addition to the banking business. The Group consists of the following:



Consolidated Subsidiaries

	Established		Paid-in capital	Percentage of parent company's voting stock	Percentage of consolidated company's voting stock
77 Business Services Co., Ltd.	January	1980	¥ 20 million	100.00%	—
77 Staff Services Co., Ltd.	March	1987	¥ 30 million	100.00%	—
77 Jimu Daiko Co., Ltd.	October	1988	¥ 30 million	100.00%	—
Shichijushichi Lease Company Limited	November	1974	¥100 million	5.88%	52.94%
77 Shin-Yo Hosyo Co., Ltd.	October	1978	¥ 30 million	5.00%	45.90%
77 Computer Services Co., Ltd.	January	1982	¥ 20 million	5.00%	45.00%
The 77 Card Co., Ltd.	February	1983	¥ 64 million	6.06%	28.28%

Note: 77 Computer Services Co., Ltd., and The 77 Card Co., Ltd., are regarded as consolidated subsidiaries because institutions which have a close relationship with the Bank hold 45.00% and 45.45% of voting stock, respectively.

Board of Directors and Corporate Auditors

(As of June 30, 2004)



From left: Chugo Marumori, President; Yasuyuki Katsumata, Chairman; and Hiroshi Kamata, Deputy President

Chairman
Yasuyuki Katsumata

President
Chugo Marumori

Deputy President
Hiroshi Kamata

Senior Managing Director
Teruhiko Ujiie

Managing Directors
Seikichi Watanabe
Yoshiaki Nagayama
Tomokazu Sato
Toshikazu Nakamata

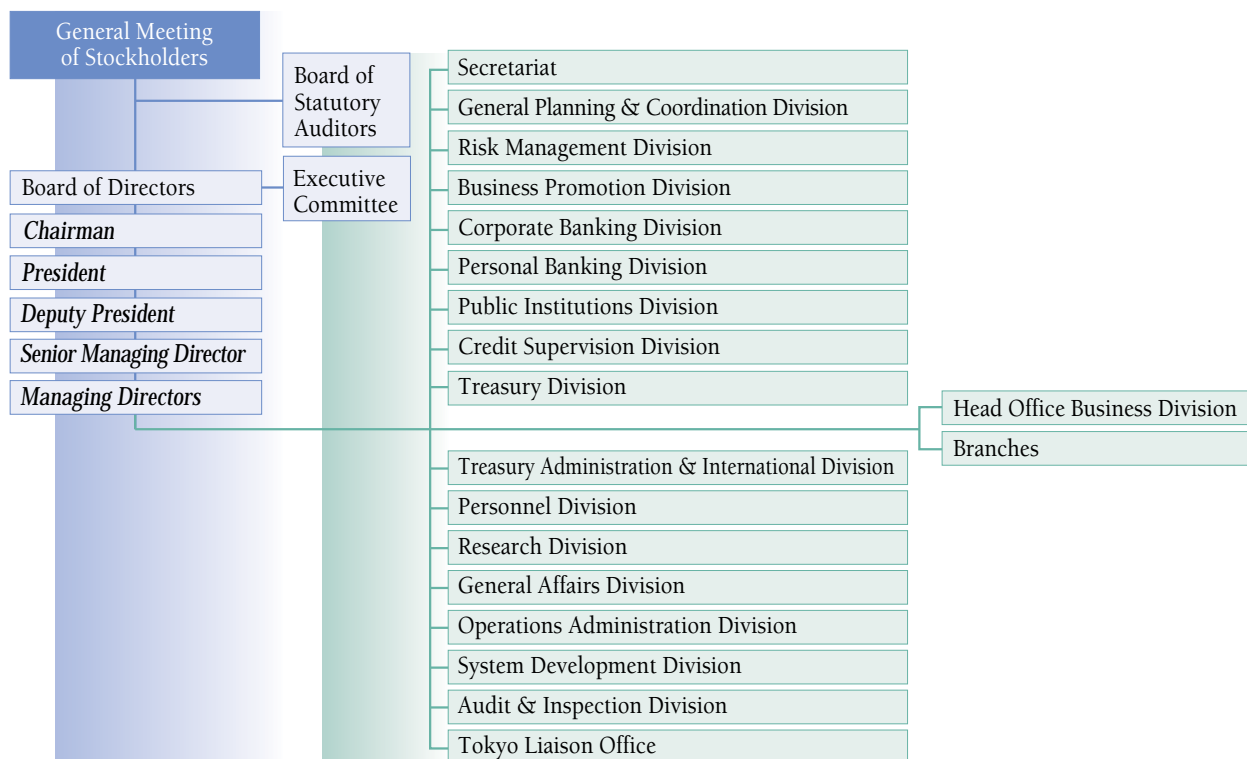
Directors
Nobuhiro Chiba
Shigenori Hottai
Reiichi Sato
Katsumi Owada
Kimitsugu Nagao
Masayuki Yamada
Shinichi Takahashi
Mitsutaka Kambe

Standing Statutory Auditors
Naoto Kobayashi
Toshio Onodera

Statutory Auditors
Toshihiro Moriya
Yuzuru Aoki
Torao Imasato

Organization

(As of June 30, 2004)



Financial Section

Consolidated Five-Year Summary

THE 77 BANK, LTD. AND SUBSIDIARIES
As of March 31

	Millions of Yen				
	2004	2003	2002	2001	2000
For the fiscal year					
Net interest income	¥ 75,797	¥ 80,832	¥ 87,353	¥ 89,789	¥ 93,584
Net fees and commissions	11,644	11,480	11,446	11,274	11,182
Net other operating income (loss)	2,435	1,794	(904)	1,476	(54)
Net income	12,339	8,308	2,177	11,197	15,389
At the fiscal year-end					
Total assets	¥5,404,205	¥5,245,579	¥5,192,870	¥5,212,706	¥4,993,832
Deposits	4,936,569	4,798,228	4,694,028	4,582,584	4,503,575
Loans and bills discounted	3,116,779	3,135,735	3,176,555	3,163,042	3,124,637
Trading account securities and investment securities	1,727,328	1,609,579	1,355,474	1,273,006	1,027,733
Stockholders' equity	323,994	295,951	300,467	323,743	244,373
Common stock	24,658	24,658	24,658	24,658	24,658

	Yen				
	2004	2003	2002	2001	2000
Per share of common stock					
Net income	¥ 32.31	¥ 21.62	¥ 5.68	¥ 29.24	¥ 40.19
Diluted net income				28.02	38.46
Stockholders' equity	852.93	776.92	784.94	845.66	638.34
Cash dividends	6.00	6.00	6.00	6.00	6.00
Capital adequacy ratio (%)					
BIS standard	[12.42]	[11.56]	[11.86]	[12.36]	[12.55]
Domestic standard	10.78	10.05	10.08	10.26	10.34

Note: The Bank's capital adequacy ratio is calculated using the method set forth by the Ministry of Finance as specified in Article 14, Paragraph 2, of the Banking Law of Japan. For the year ended March 31, 1999, the Bank adopted the domestic standard calculation method in line with the closure of overseas offices as of March 1999. The Bank's capital adequacy ratio on the domestic standard is accompanied by the revision of Article 14, Paragraph 2, of the Banking Law of Japan, in line with enforcement of the related law for financial system reform. The capital adequacy ratios according to the BIS standard, in brackets, are indicated for reference only.

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%.

Consolidated Balance Sheets

THE 77 BANK, LTD. AND SUBSIDIARIES
March 31, 2004 and 2003

Thousands of
U.S. Dollars
(Note 1)

	Millions of Yen		2004
	2004	2003	
Assets:			
Cash and due from banks	¥ 168,578	¥ 151,687	\$ 1,595,027
Call loans and bills purchased	130,128	75,643	1,231,229
Commercial paper and other debt purchased (Note 3)	123,949	155,405	1,172,766
Trading account securities (Notes 3 and 10)	8,669	6,739	82,028
Money held in trust (Note 4)	36,575	30,766	346,065
Investment securities (Notes 3 and 10)	1,718,659	1,602,839	16,261,324
Loans and bills discounted (Note 5)	3,116,779	3,135,735	29,489,826
Foreign exchange assets (Note 6)	747	1,347	7,069
Premises and equipment—net (Notes 8 and 10)	53,965	54,879	510,599
Deferred tax assets (Note 21)	13,672	34,648	129,368
Customers' liabilities for acceptances and guarantees (Note 9)	44,970	42,407	425,493
Other assets (Note 7)	62,652	51,539	592,797
Reserve for loan losses	(75,143)	(98,058)	(710,982)
Total	¥5,404,205	¥5,245,579	\$51,132,612
Liabilities:			
Deposits (Notes 10 and 12)	¥4,936,569	¥4,798,228	\$46,708,010
Call money	13,304	8,020	125,881
Payable under repurchase agreements (Note 10)		999	
Borrowed money (Notes 10 and 13)	15,704	24,520	148,591
Foreign exchange liabilities (Note 6)	133	89	1,262
Liability for employees' retirement benefits (Note 15)	34,095	38,039	322,594
Acceptances and guarantees (Note 9)	44,970	42,407	425,493
Other liabilities (Note 14)	28,938	31,659	273,800
Total liabilities	5,073,715	4,943,965	48,005,634
Minority interests	6,495	5,662	61,460
Stockholders' equity (Notes 16 and 25):			
Common stock— authorized, 1,344,000,000 shares in 2004 and 2003; issued, 383,278,734 shares in 2004 and 2003	24,658	24,658	233,310
Capital surplus	7,836	7,835	74,148
Retained earnings	236,934	226,913	2,241,783
Unrealized gain on available-for-sale securities (Note 3)	55,996	37,444	529,814
Less: treasury stock—at cost, 3,075,065 shares in 2004 and 2,006,428 shares in 2003	(1,430)	(900)	(13,538)
Total stockholders' equity	323,994	295,951	3,065,518
Total	¥5,404,205	¥5,245,579	\$51,132,612

See notes to consolidated financial statements.

Consolidated Statements of Income

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Income:			
Interest on:			
Loans and discounts	¥ 58,733	¥ 61,644	\$ 555,717
Trading account and investment securities	19,910	23,837	188,386
Other	209	116	1,978
Fees and commissions	15,365	14,918	145,382
Other operating income (Note 17)	16,874	16,130	159,659
Other income (Note 18)	9,206	3,370	87,113
Total income	120,300	120,017	1,138,236
Expenses:			
Interest on:			
Deposits	1,840	2,576	17,413
Borrowings and rediscounts	374	553	3,539
Other	841	1,636	7,958
Fees and commissions	3,721	3,438	35,208
Other operating expenses (Note 19)	14,438	14,335	136,613
General and administrative expenses	61,366	61,069	580,630
Provision for loan losses	3,203	4,910	30,307
Other expenses (Note 20)	9,871	14,346	93,398
Total expenses	95,656	102,867	905,069
Income before income taxes and minority interests	24,643	17,150	233,166
Income taxes (Note 21):			
Current	914	8,593	8,652
Deferred	10,574	64	100,047
Total income taxes	11,488	8,657	108,699
Minority interests in net income	(815)	(184)	(7,717)
Net income	¥ 12,339	¥ 8,308	\$ 116,750
Per share of common stock (Note 2.n):			
Basic net income	¥32.31	¥21.62	\$0.305
Cash dividends applicable to the year	6.00	6.00	0.056

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Thousands		Millions of Yen			
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for- Sale Securities	Treasury Stock
Balance, April 1, 2002	383,278	¥24,658	¥7,835	¥220,902	¥47,421	¥ (350)
Net income				8,308		
Cash dividends:						
Year end for prior year, ¥3.00 per share				(1,148)		
Interim for current year, ¥3.00 per share				(1,148)		
Bonuses to directors and corporate auditors				(1)		
Purchases of treasury stock (1,925 thousand shares)						(846)
Transfer to minority interests						296
Net decrease in unrealized gain on available-for-sale securities					(9,977)	
Balance, March 31, 2003	383,278	24,658	7,835	226,913	37,444	(900)
Net income				12,339		
Cash dividends:						
Year end for prior year, ¥3.00 per share				(1,141)		
Interim for current year, ¥3.00 per share				(1,141)		
Bonuses to directors and corporate auditors				(36)		
Purchases of treasury stock (1,086 thousand shares)						(538)
Sales of treasury stock (18 thousand shares)						8
Gains on sales of treasury stock			1			
Net increase in unrealized gain on available-for-sale securities					18,551	
Balance, March 31, 2004	383,278	¥24,658	¥7,836	¥236,934	¥55,996	¥(1,430)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for- Sale Securities	Treasury Stock
Balance, March 31, 2003	\$233,310	\$74,133	\$2,146,974	\$354,282	\$ (8,517)
Net income			116,750		
Cash dividends:					
Year end for prior year, \$0.028 per share			(10,796)		
Interim for current year, \$0.028 per share			(10,796)		
Bonuses to directors and corporate auditors			(349)		
Purchases of treasury stock (1,086 thousand shares)					(5,097)
Sales of treasury stock (18 thousand shares)					76
Gains on sales of treasury stock		14			
Net increase in unrealized gain on available-for-sale securities				175,531	
Balance, March 31, 2004	\$233,310	\$74,148	\$2,241,783	\$529,814	\$(13,538)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Operating activities:			
Income before income taxes and minority interests	¥ 24,643	¥ 17,150	\$ 233,166
Adjustments for:			
Income taxes—paid	(3,017)	(8,439)	(28,553)
Depreciation and amortization	15,960	16,877	151,016
Change in reserve for loan losses	(22,915)	(2,937)	(216,814)
Change in liability for employees' retirement benefits	(3,944)	1,778	(37,317)
Interest income	(78,853)	(85,598)	(746,081)
Interest expenses	3,055	4,766	28,910
Investment securities losses (gains)—net	(156)	5,672	(1,481)
Losses (gains) on money held in trust—net	(993)	2,996	(9,400)
Foreign exchange losses—net	7,886	4,861	74,622
Gains on disposal of premises and equipment—net	(51)	(124)	(487)
Net change in loans and bills discounted	18,955	40,819	179,352
Net change in deposits	138,341	104,199	1,308,932
Net change in other borrowings	1,184	(1,672)	11,206
Net change in due from banks	324	(278)	3,073
Net change in call loans and bills purchased	(54,485)	184,156	(515,517)
Net change in commercial paper and other debt purchased	31,453	(94,846)	297,601
Net change in call money and others	4,284	(1,130)	40,535
Net change in trading account securities	(1,930)	(2,513)	(18,264)
Net change in foreign exchange assets	1,139	(1,356)	10,783
Net change in foreign exchange liabilities	43	(2,566)	412
Interest received	80,154	89,195	758,393
Interest paid	(3,781)	(6,063)	(35,775)
Other—net	(23,064)	(12,855)	(218,225)
Total adjustments	109,591	234,940	1,036,918
Net cash provided by operating activities	134,235	252,091	1,270,085
Investing activities:			
Purchases of investment securities	(1,131,967)	(661,872)	(10,710,260)
Proceeds from sales of investment securities	163,213	104,415	1,544,262
Proceeds from maturity of investment securities	869,661	276,781	8,228,420
Investment in money held in trust	(5,000)	(180,000)	(47,308)
Proceeds from disposition of money held in trust	3,881	234,564	36,728
Purchases of premises and equipment	(4,477)	(5,838)	(42,363)
Proceeds from sales of premises and equipment	531	448	5,030
Net cash used in investing activities	(104,156)	(231,500)	(985,490)
Financing activities:			
Repayments of borrowed money	(10,000)		(94,616)
Dividends paid	(2,280)	(2,295)	(21,580)
Dividends paid for minority interests stockholders	(8)	(8)	(75)
Purchases of treasury stock	(538)	(846)	(5,097)
Proceeds from sales of treasury stock	9		91
Net cash used in financing activities	(12,818)	(3,150)	(121,279)
Foreign currency translation adjustments on cash and cash equivalents	(44)	(39)	(418)
Net increase in cash and cash equivalents	17,216	17,401	162,896
Cash and cash equivalents, beginning of year	149,670	132,268	1,416,123
Cash and cash equivalents, end of year	¥ 166,886	¥149,670	\$ 1,579,020

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2004 and 2003

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and the Enforcement Regulation for the Banking Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Japanese yen figures less than one million yen are rounded down to the nearest million yen, except for per share data.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which The 77 Bank, Ltd. (the "Bank") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.69 to U.S.\$1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation—The consolidated financial statements include the accounts of the Bank and its subsidiaries (together, the "Companies").

Under the control or influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits and losses resulting from transactions within the Companies is eliminated.

b. Cash and Cash Equivalents—For the purpose of the consolidated statements of cash flows, cash and cash equivalents represent cash and amounts due from The Bank of Japan.

c. Trading Account Securities, Investment Securities and Money Held in Trust—Securities other than investments in affiliates are classified into three categories, based principally on the Bank's intent, as follows:

- (1) trading account securities which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings,

- (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and
- (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity.

The cost of trading account securities and available-for-sale securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are reported at cost or amortized cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Securities included in money held in trust are also classified and accounted for by the same method as above.

The components of trust assets are accounted for based on the standard appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other income/expenses. Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains/losses recorded directly in a separate component of stockholders' equity. Instruments held in trust classified as held to maturity are carried at amortized cost.

d. Lease Assets—Lease assets included in other assets are stated at cost less accumulated depreciation. Depreciation of lease assets is mainly computed by the straight-line method over lease periods.

e. Premises and Equipment—Premises and equipment are stated at cost less accumulated depreciation and gains deferred on the sale and replacement of certain assets. Depreciation of premises and equipment is mainly computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 5 to 31 years for buildings, and from 5 to 20 years for equipment.

f. Software—Capitalized cost of computer software developed/obtained for internal use is amortized by the straight-line method over the estimated useful lives of five years.

g. Foreign Currency Items—Assets and liabilities denominated in foreign currencies held by the Bank at the year end are translated into Japanese yen at the current exchange rates in effect at each balance sheet date. Exchange gains and losses are recognized in the fiscal periods in which they occur.

Prior to April 1, 2003, the Bank accounted for fund swap and certain currency swap transactions on an accrual basis by applying one-year transitional treatment provided in Industry Audit Committee Report No. 25 issued by the Japanese Institute of Certified Public Accountants (the "JICPA") on July 29, 2002.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency. Fund swap transactions are used to convert the principal equivalent amount into spot foreign exchange contracts bought or sold with regard to the corresponding fund borrowing or lending. Such transactions convert the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts bought or sold.

Effective April 1, 2003, these swap transactions are accounted for using deferral hedge accounting by fully applying Industry Audit Committee Report No. 25. Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-dominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

As a result of the application of this new accounting standard, other assets and other liabilities decreased by ¥21 million (\$198 thousand) as of March 31, 2004, as compared to what they would have been under the previous method. The application of the new accounting standard did not affect the Companies' results of operations.

Also as a result of the application of this accounting standard, unrealized gains and losses for foreign currency forward transactions that were previously presented on a net basis are now recorded on a gross basis as derivative financial instruments in other assets and other liabilities. This change resulted in increase of other assets and other liabilities, as of March 31, 2004, of ¥197 million (\$1,863 thousand).

h. Reserve for Loan Losses—The Bank determines the amount of the reserve for loan losses by means of management's judgment and assessment of future losses based on a self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio, and other pertinent indicators.

The Bank implemented the self-assessment system for its asset quality. The quality of all loans is assessed by branches and the credit supervisory division with a subsequent audit by the Bank's asset review and inspection division in accordance with the Bank's policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes such as "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy."

The reserve for loan losses is calculated based on the specific actual past loss ratio for normal and caution categories, and the fair value of the collateral for collateral-dependent loans and other factors of solvency including value of future cash flows for other self-assessment categories.

The subsidiaries determine the reserve for loan losses by a similar self-assessment system to that of the Bank.

i. Employees' Retirement and Pension Plans—The Bank and certain subsidiaries have contributory funded pension plans and unfunded retirement benefit plans for employees which cover approximately 75% and 25%, respectively, of their benefits. Other subsidiaries have unfunded retirement benefit plans.

The liability for employees' retirement benefits is provided for the payment of employees' retirement benefits based on estimated amounts of the actuarial retirement benefit obligation and the related pension assets. Net actuarial gain (loss) is amortized using the straight-line method over ten years commencing from the next fiscal year of incurrence, while prior service costs are all charged to income in the fiscal year incurred.

Effective October 1, 2003, the Bank amended its pension plans design. In particular, the additional portion of employee pension fund reduced the pension liability by lowering expected interest rate and transferring to cash balance pension plans.

The effect of this amendment was to increase income before income taxes and minority interests by ¥6,447 million (\$61,007 thousand) for the fiscal year ended March 31, 2004, with the effect of reversal prior service cost.

This ¥6,447 million is also shown in Note 15 presented as amortization of service benefit in the table of net periodic benefit costs.

j. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements.

k. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of Retained Earnings—Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon stockholders' approval.

m. Derivatives and Hedging Activities—It is the Bank's policy to use derivative financial instruments ("derivatives") primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities. The Bank enters into interest rate swaps and interest rate caps as a means of hedging its interest rate risk on certain loans and investment securities. The Bank also enters into interest rate swaps, foreign exchange forward contracts and currency options to hedge exchange risk associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients. Furthermore, the Bank enters into interest rate futures, bond futures, bond future options and foreign exchange forward contracts for a short term as part of its trading activities.

Derivatives, except for the fund swaps described Note 2. g until fiscal year ended March 31, 2003, are recognized as either assets or liabilities and measured at fair value. Gains or losses on derivative transactions are recognized in the consolidated statements of income. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

Until fiscal year ended March 31, 2003, the Bank applied a "macro hedge" approach to interest rate risk and its ALM activities based on the transitional treatment prescribed in Industry Audit Committee Report No. 24 issued by the JICPA. The effectiveness of the macro hedge approach was reviewed for a reduction in interest rate risk exposure and the actual risk amount of derivatives within the preapproved limit under the Bank's risk control policies. However, as of March 31, 2003, there were no transactions remaining for the macro hedge approach to be applied.

Effective April 1, 2003, the Bank adopted portfolio hedging in accordance with Industry Audit Committee Report No. 24. Under portfolio hedging, a group of financial assets or liabilities such as loans or deposits, with common maturities, were matched with a group of hedging instruments such as interest rate swaps, with intent of offsetting fair value fluctuations. The effectiveness of the portfolio hedge is assessed by each group.

However, the Bank had no transaction to apply portfolio hedging approach as of March 31, 2004.

n. Per Share Information—Basic net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into

common stock. Diluted net income per share of common stock is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

o. New Accounting Pronouncements—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. Trading Account Securities and Investment Securities

Trading account securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
National government bonds	¥8,568	¥6,671	\$81,073
Local government bonds	100	67	955
Total	¥8,669	¥6,739	\$82,028

Investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
National government bonds	¥ 888,246	¥ 875,980	\$ 8,404,265
Local government bonds	139,464	164,931	1,319,560
Corporate bonds	376,621	317,224	3,563,453
Equity securities	133,157	90,106	1,259,887
Other securities	181,169	154,597	1,714,157
Total	¥1,718,659	¥1,602,839	\$16,261,324

The carrying amounts and aggregate fair values of securities at March 31, 2004 and 2003 were as follows:

Securities below include trading account securities, investment securities and commercial paper within "Commercial paper and other debt purchased":

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 33,668
Available-for-sale:				
Equity securities	¥ 60,858	¥68,895	¥ 145	129,608
Debt securities	1,373,520	21,659	3,824	1,391,355
Other securities	225,512	3,610	956	228,167
Held-to-maturity	4,606	5	15	4,597

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 40,737
Available-for-sale:				
Equity securities	¥ 60,937	¥29,781	¥3,788	86,929
Debt securities	1,312,624	38,543	686	1,350,481
Other securities	188,297	1,159	1,062	188,395
Held-to-maturity	3,705	18		3,723

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				\$ 318,562
Available-for-sale:				
Equity securities	\$ 575,822	\$651,864	\$ 1,377	1,226,309
Debt securities	12,995,749	204,932	36,183	13,164,498
Other securities	2,133,718	34,159	9,045	2,158,832
Held-to-maturity	43,588	52	142	43,498

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Available-for-sale:			
Equity securities	¥ 3,548	¥ 3,176	\$ 33,577
Debt securities	8,369	3,949	79,192
Held-to-maturity		26,687	
Total	¥11,918	¥33,813	\$112,770

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥163,213 million (\$1,544,262 thousand) and ¥104,415 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥663 million (\$6,277 thousand) and ¥426 million (\$4,030 thousand), respectively, for the year ended March 31, 2004 and ¥1,788 million and ¥132 million, respectively, for the year ended March 31, 2003.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 300,547		\$ 2,843,668	
Due after one year through five years	906,936	¥4,606	8,581,098	\$43,588
Due after five years through ten years	281,076		2,659,439	
Due after ten years	91,744		868,056	
Total	¥1,580,304	¥4,606	\$14,952,263	\$43,588

Unrealized gain on available-for-sale securities for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Valuation differences:			
Available-for-sale securities	¥ 89,239	¥ 63,945	\$ 844,349
Available-for-sale held in trust	2,487	(1,210)	23,532
Deferred tax liabilities	(35,684)	(25,282)	(337,630)
Minority interests	(46)	(8)	(436)
Unrealized gain on available-for-sale securities	¥ 55,996	¥ 37,444	\$ 529,814

4. Money Held in Trust

The carrying amounts and aggregate fair values of money held in trust at March 31, 2004 and 2003, were as follows:

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥17,453
Available-for-sale	¥16,635	¥2,487		19,122

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥15,341
Available-for-sale	¥16,635		¥1,210	15,424

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				\$165,134
Available-for-sale	\$157,398	\$23,532		180,930

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Bills discounted	¥ 34,356	¥ 41,551	\$ 325,069
Loans on bills	340,829	398,697	3,224,807
Loans on deeds	2,140,908	2,066,963	20,256,486
Overdraft	600,685	628,523	5,683,463
Total	¥3,116,779	¥3,135,735	\$29,489,826

Bills discounted are accounted for as financial transactions in accordance with “Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry” (JICPA Industry Audit Committee Report No. 24). The Bank has rights to sell or pledge these bills discounted. The total of the face value of bills discounted was ¥34,382 million (\$325,310 thousand) at March 31, 2004.

Loans and bills discounted at March 31, 2004 and 2003 included the following loans:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Loans to borrowers in bankruptcy	¥ 22,896	¥ 28,870	\$ 216,635
Past due loans	100,727	130,089	953,050
Past due loans (three months or more)	478	501	4,523
Restructured loans	79,030	102,408	747,759
Total	¥203,132	¥261,870	\$1,921,969

Loans to borrowers in bankruptcy represent nonaccrual loans to debtors who are legally bankrupt, as defined in the Enforcement Ordinance for the Corporation Tax Law.

Past due loans are nonaccrual loans which include loans classified as “possible bankruptcy” and “virtual bankruptcy”.

Nonaccrual loans are defined as loans (after the partial charge-off of claims deemed uncollectible) which the Bank has discontinued accruing interest income due to substantial doubt existing about the ultimate collection of principal and/or interest. Such loans classified either as “possible bankruptcy” and “virtual bankruptcy” under the Bank’s self-assessment guidelines.

In addition to past due loans as defined, certain other loans classified as “caution” under the Bank’s self-assessment guidelines include past due loans (three months or more), which consist of loans which the principal and/or interest is three months or more past due, but exclude loans to borrowers in bankruptcy and past due loans.

Restructured loans are loans where the Bank and its subsidiaries relax lending conditions, by reducing the original interest rate or by forbearing interest payments or principal repayments to support the borrower’s reorganization, restructure loans exclude loans to borrowers in bankruptcy, past due loans or past due loans (three months or more).

6. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets			
Foreign exchange bills bought	¥ 42	¥ 18	\$ 403
Foreign exchange bills receivable	101	237	959
Due from foreign correspondent accounts	603	1,091	5,705
Total	¥747	¥1,347	\$7,069

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Liabilities			
Foreign exchange bills sold	¥ 55	¥ 52	\$ 522
Foreign exchange bills payable	78	37	739
Total	¥133	¥ 89	\$1,262

7. Other Assets

Other assets at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Accrued income	¥ 7,291	¥ 7,995	\$ 68,993
Prepaid expenses	39	39	376
Premises and equipment for lease—net	30,382	28,915	287,471
Other	24,938	14,588	235,955
Total	¥62,652	¥51,539	\$592,797

8. Premises and Equipment

The accumulated depreciations of premises and equipment at March 31, 2004 and 2003 amounted to ¥77,754 million (\$735,681 thousand) and ¥74,069 million, respectively.

9. Customers’ Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are reflected in “Acceptances and guarantees.” “Customers’ liabilities for acceptances and guarantees” are shown as contra assets, representing the Bank’s right to receive indemnity from the applicants.

10. Assets Pledged

Assets pledged as collateral and their relevant liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets pledged as collateral:			
Trading account securities		¥ 999	
Investment securities	¥114,373	112,910	\$1,082,155
Relevant liabilities to above assets:			
Deposits	40,309	52,444	381,390
Payable under repurchase agreement		999	

Additionally, investment securities amounting to ¥111,277 million (\$1,052,871 thousand) and ¥111,734 million are pledged as collateral for transactions such as exchange settlement transactions or as substitute securities for future transaction initial margin and others at March 31, 2004 and 2003, respectively.

Other than the items shown above, rights under finance leases amounting to ¥4,308 million (\$40,760 thousand) and ¥3,984 million are pledged for borrowed money amounting to ¥3,207 million (\$30,343 thousand) and ¥2,757 million at March 31, 2004 and 2003, respectively.

Leased deposits for premises and equipment amounted to ¥1,048 million (\$9,921 thousand) and ¥1,069 million at March 31, 2004 and 2003, respectively.

11. Loan Commitments

Contracts of overdraft facilities and loan commitments are contracts with customers to lend up to the prescribed limits in response to customers' application of loan, as long as there is no violation of any condition within the contracts. The unused amount of such contracts totals ¥1,311,663 million (\$12,410,477 thousand) relating to these contracts, of which the amounts with the original agreement terms of less than one year were ¥1,310,863 million (\$12,402,908 thousand).

Since many of commitments expire without being drawn upon, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Companies can refuse customers' application of loan or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' credit-worthiness). At the inception of contracts, the Companies obtain collateral real estate, securities, etc. if considered to be necessary. Subsequently, the Companies perform periodic review of the customers' business results based on internal rules and take necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

12. Deposits

Deposits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current deposits	¥ 174,409	¥ 157,453	\$ 1,650,202
Ordinary deposits	2,024,450	1,894,194	19,154,610
Deposits at notice	21,403	23,551	202,514
Time deposits	2,277,174	2,318,820	21,545,791
Negotiable certificates of deposit	189,600	118,310	1,793,925
Other deposits	249,530	285,898	2,360,966
Total	¥4,936,569	¥4,798,228	\$46,708,010

13. Borrowed Money

Borrowed money included subordinated borrowings of ¥10,000 million at March 31, 2003.

14. Other Liabilities

Other liabilities at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Domestic exchange settlement account credit	¥ 183	¥ 119	\$ 1,732
Accrued expenses	6,778	7,512	64,133
Unearned income	9,213	8,850	87,176
Income taxes payable	479	2,582	4,533
Other	12,283	12,595	116,225
Total	¥28,938	¥31,659	\$273,800

15. Liability for Employees' Retirement Benefits

The Companies have severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Companies and annuity payments from trustees. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability (asset) for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥ 84,945	¥ 89,614	\$ 803,720
Fair value of plan assets	(34,528)	(30,450)	(326,699)
Unrecognized net actuarial loss	(16,321)	(21,124)	(154,426)
Net liability	¥ 34,095	¥ 38,039	\$ 322,594

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 2,251	¥ 2,182	\$ 21,302
Interest cost	2,154	2,417	20,385
Expected return on plan assets	(1,065)	(1,186)	(10,083)
Amortization of prior service benefit	(6,447)		(61,007)
Recognized actuarial loss	2,279	1,129	21,563
Net periodic benefit costs	¥ (828)	¥ 4,543	\$ (7,839)

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	3.5%	3.5%
Amortization period of prior service cost	1 year	1 year
Recognition period of actuarial gain/loss	10 years	10 years

16. Stockholders' Equity

Japanese banks are subject to the Japanese Commercial Code (the "Code") and to the Japanese Banking Law (the "Banking Law").

The Code requires at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital (included in capital surplus).

The Banking Law provides that at least 20% of the aggregate amount of cash dividends and certain other cash payments made as appropriation of retained earnings applicable to each fiscal period, shall be appropriated and set aside as a legal reserve until such reserve and additional paid-in capital equals 100% of the stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 100% of stated capital can be transferred to retained earnings by resolution of the stockholders and may be available for dividends. The Bank's legal reserve amount, which is included in retained earnings, totals ¥24,658 million (\$205,147 thousand) and ¥24,658 million as of March 31, 2004 and 2003, respectively.

Under the Code, companies may issue new common shares to existing stockholders without consideration as a stock split pursuant to resolution of the Board of Directors.

The Code allows companies to repurchase treasury stock by a resolution of the stockholders at the general stockholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general stockholders meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the stockholders.

Dividends are approved by the stockholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Bank's book. At March 31, 2004, retained earnings recorded on the Bank's book were ¥211,573 million (\$2,001,826 thousand) which is available for future dividends subject to the approval of the stockholders.

17. Other Operating Income

Other operating income for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Gains on sales and redemption of bonds and other securities	¥ 422	¥ 262	\$ 3,999
Lease receipt	15,507	12,512	146,723
Other	944	3,355	8,935
Total	¥16,874	¥16,130	\$159,659

18. Other Income

Other income for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Gains on sales of stocks and other securities	¥ 265	¥1,525	\$ 2,508
Gains on sales of money held in trust	1,088	546	10,298
Gains on sales of premises and equipment	322	225	3,049
Amortization of prior service benefit	6,447		61,007
Other	1,083	1,072	10,249
Total	¥9,206	¥3,370	\$87,113

19. Other Operating Expenses

Other operating expenses for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Losses on sales, redemption and devaluation of bonds and other securities	¥ 407	¥ 851	\$ 3,857
Lease cost	12,072	11,633	114,227
Other	1,958	1,850	18,529
Total	¥14,438	¥14,335	\$136,613

20. Other Expenses

Other expenses for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Losses on sales of stocks and other securities	¥ 28	¥ 36	\$ 268
Losses on devaluation of stocks and other securities	74	6,572	702
Bad debt losses	2,422	1,235	22,921
Losses on dispositions of money held in trust	94	3,543	897
Losses on sales of loans	6,289	2,833	59,509
Other	961	126	9,098
Total	¥9,871	¥14,346	\$93,398

21. Income Taxes

The Companies are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 41.6% for the years ended March 31, 2004 and 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Reserve for loan losses	¥25,947	¥33,681	\$245,505
Liability for employees' retirement benefits	13,214	14,520	125,028
Premises and equipment (depreciation)	5,416	5,011	51,249
Accrued enterprise tax		241	
Losses on devaluation of stocks and other securities	3,923	4,119	37,120
Unrealized loss on available-for-sale securities	1,985	2,718	18,782
Other	2,952	3,008	27,935
Less valuation allowance	(1,590)	(237)	(15,047)
Total	51,848	63,063	490,573
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	37,669	28,001	356,413
Premises and equipment (deferral gain on sales and replacement)	499	402	4,727
Other	6	10	64
Total	38,175	28,414	361,205
Net deferred tax assets	¥13,672	¥34,648	\$129,368

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2004 and 2003 was as follows:

	2004	2003
Normal effective statutory tax rate	41.6%	41.6%
Expenses not deductible for income tax purposes	0.5	0.7
Non-taxable dividend income	(1.4)	(1.9)
Inhabitants taxes	0.3	0.4
Valuation allowance	5.7	1.5
Effect of the enterprise tax rate's change		8.8
Other—net	(0.1)	(0.6)
Actual effective tax rate	46.6%	50.5%

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 41.6% to 40.3%, effective for years beginning on or after April 1, 2004. The effect of this change was to decrease deferred tax assets—non-current by ¥691 million, increase income taxes—deferred by ¥1,506 million, and increase unrealized gain on available-for-sale securities by ¥815 million in the consolidated financial statements for the year ended March 31, 2003. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at effective tax rate of 40.3% as at March 31, 2004 and 2003.

22. Leases

Lessor

A subsidiary leases certain equipment and other assets to various customers.

Total lease receipts under finance leases for the years ended March 31, 2004 and 2003 were ¥12,453 million (\$117,826 thousand) and ¥12,232 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, rights under finance leases, depreciation expense, interest income of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2004 and 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Equipment and Other Assets	Equipment and Other Assets	Equipment and Other Assets
	2004	2003	2004
Acquisition cost	¥ 72,661	¥ 70,915	\$ 687,494
Accumulated depreciation	(42,274)	(41,981)	(399,981)
Net leased property	¥ 30,387	¥ 28,933	\$ 287,512

Future lease payments receivables under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Receivables:			
Due within one year	¥ 9,841	¥ 9,680	\$ 93,117
Due after one year	20,933	19,536	198,062
Total	¥30,774	¥29,216	\$291,179

Depreciation expense and interest income under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Depreciation expense	¥10,869	¥10,670	\$102,844
Interest income	1,499	1,487	14,191

The imputed interest income portion which is computed using the interest method is excluded from receivable under finance leases.

23. Derivatives

It is the Bank's policy to use derivatives primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities.

The Bank enters into interest rate swaps and interest rate caps as a means of hedging its interest rate risk on certain loans and investment securities.

The Bank also enters into foreign exchange forward contracts and currency options to hedge foreign exchange risk associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients.

Furthermore, the Bank enters into interest rate futures, bond futures, bond future options and foreign exchange forward contracts for a short term as part of its trading activities.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations of market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform its obligations under a contract.

The Bank sets limits to credit risk by limiting the counterparties to those derivatives to major financial institutions and securities companies, and establishing maximum risk exposures to the counterparties.

In accordance with the Banking Law requirements of the capital adequacy ratio, credit risk equivalent which was measured using the current exposure method amounted to ¥3,684 million (\$34,862 thousand) and ¥2,655 million at March 31, 2004 and 2003, respectively.

The Bank has established a standard of risk management including management approaches to each type of risks. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate trading activities and credit risk management including maximum risk exposures and loss-cutting rules. Concerning risk management associated with derivative transactions, the front and back offices of the trading divisions are clearly separated, and risk managers are assigned to the trading divisions, while the Risk Management Division synthetically manages the Bank's market risks. In this manner, an internal control system is effectively secured.

The Bank's positions, gain-and-loss, risk amount and other conditions are periodically reported to the executive committee.

The Bank has the following derivatives contracts, which are not quoted on listed exchanges, outstanding at March 31, 2004 and 2003:

	Millions of Yen				Thousands of U.S. Dollars	
	2004		2003		2004	
	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
Interest rate swaps:						
Floating rate receipt, fixed rate payment	¥14,425	¥(97)	¥15,340	¥(246)	\$136,484	\$(927)
Credit default swap—						
Selling			1,000	997		

Valuation gains (losses) for the years ended March 31, 2004 and 2003 were recognized in the consolidated statements of income.

Derivatives which qualify for hedge accounting for the years ended March 31, 2004 and 2003, were not included in the above table.

The contracts or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Bank's exposure to credit or market risk.

Foreign exchange forward contracts and currency options were excluded from the above table, because they were revalued at the end of the fiscal year and their related profits or losses were reflected in the consolidated statements of income.

The contract amounts of the revalued currency derivatives at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Contract Amount		Contract Amount
	2004	2003	2004
Foreign exchange forward contracts:			
Selling	¥65,661	¥84,883	\$621,269
Buying	7,339	13,719	69,441
Currency options:			
Selling		591	
Buying		591	

26. Segment Information

(1) Business Segment Information

Information about operations in different business segments of the Companies for the years ended March 31, 2004 and 2003 was as follows:

a. Ordinary income

	Millions of Yen					
	2004					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	¥95,033	¥14,878	¥3,556	¥113,468		¥113,468
Intersegment income	559	1,372	1,748	3,680	¥(3,680)	
Total income	95,593	16,250	5,305	117,149	(3,680)	113,468
Ordinary expenses	78,968	15,374	4,558	98,902	(3,661)	95,240
Ordinary income	¥16,624	¥ 876	¥ 746	¥ 18,247	¥ (19)	¥ 18,228

b. Assets, depreciation and capital expenditures

	Millions of Yen					
	2004					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	¥5,375,690	¥40,238	¥21,303	¥5,437,232	¥(33,026)	¥5,404,205
Depreciation	4,150	11,778	31	15,960		15,960
Capital expenditures	2,254	15,328		17,583	(236)	17,347

24. Related Party Transactions

Related party transactions for the years ended March 31, 2004 and 2003 were as follows:

Related Party	Category	Description of Transactions	Balance from Related Party		
			Millions of Yen	2003	Thousands of U.S. Dollars
			2004		2004
Yuzuru Aoki, Representative of Higashi Nihonkogyoh Co., Ltd.	Statutory Auditor	Lending operation loans	¥4,883		\$46,206

25. Subsequent Event

At the Bank's general stockholders meeting held on June 29, 2004, the Bank's stockholders approved the following:

Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥3.00 (\$0.028) per share	¥1,140	\$10,786
Bonuses to directors and corporate auditors	29	271

a. Ordinary income

Thousands of U.S. Dollars						
2004						
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	\$899,172	\$140,775	\$33,653	\$1,073,601		\$1,073,601
Intersegment income	5,297	12,984	16,543	34,825	\$(34,825)	
Total income	904,469	153,760	50,196	1,108,426	(34,825)	1,073,601
Ordinary expenses	747,172	145,470	43,132	935,775	(34,641)	901,134
Ordinary income	\$157,297	\$ 8,289	\$ 7,064	\$ 172,650	\$ (184)	\$ 172,466

b. Assets, depreciation and capital expenditures

Thousands of U.S. Dollars						
2004						
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	\$50,862,808	\$380,719	\$201,568	\$51,445,097	\$(312,484)	\$51,132,612
Depreciation	39,269	111,446	300	151,016		151,016
Capital expenditures	21,329	145,034		166,369	(2,233)	164,135

a. Ordinary income

Millions of Yen						
2003						
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	¥102,108	¥14,262	¥3,378	¥119,748		¥119,748
Intersegment income	526	1,844	1,450	3,820	¥(3,820)	
Total income	102,634	16,106	4,828	123,568	(3,820)	119,748
Ordinary expenses	86,022	15,768	4,816	106,606	(3,841)	102,765
Ordinary income	¥ 16,612	¥ 338	¥ 12	¥ 16,962	¥ 21	¥ 16,983

b. Assets, depreciation and capital expenditures

Millions of Yen						
2003						
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	¥5,220,008	¥37,021	¥20,031	¥5,277,060	¥(31,480)	¥5,245,579
Depreciation	4,587	12,251	39	16,877		16,877
Capital expenditures	4,943	12,140	4	17,087	(56)	17,031

Notes: 1. Other operations consist of credit card transactions and others.

2. Ordinary income represents total income less certain special income included in other income in the accompanying consolidated statements of income.

3. Ordinary expenses represent total expenses less certain special expenses included in other expenses in the accompanying consolidated statements of income.

(2) Geographic Segment Information

As the operating income and total assets of foreign operations were not significant compared to the consolidated income and assets, the geographic segment information has been omitted.

(3) Operating Income from International Operations

As the operating income from international operations was not significant compared to the consolidated income, the information about the operating income from international operations has been omitted.



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
The 77 Bank, Ltd.:

We have audited the accompanying consolidated balance sheets of The 77 Bank, Ltd. and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The 77 Bank, Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu". The signature is written in a cursive, flowing style.

June 29, 2004

Consolidated Capital Adequacy Ratio

THE 77 BANK, LTD. AND SUBSIDIARIES
March 31, 2004 and 2003

		Millions of Yen		Millions of U.S. Dollars
Domestic standard		2004	2003	2004
Tier I capital:	Common stock	¥ 24,658	¥ 24,658	\$ 233
	Capital surplus	7,836	7,835	74
	Retained earnings	235,735	225,713	2,230
	Minority interests	6,449	5,654	61
	Treasury stock	(1,430)	(900)	(13)
	Subtotal (A)	273,249	262,961	2,585
Tier II capital:	General reserve for possible loan losses	29,221	35,333	276
	Debt funding instruments and others			
	Subtotal	29,221	35,333	276
	Position included in stockholders' equity (B)	16,814	17,437	159
Deductions:	Cross-holdings with other financial institutions (C)			
Total capital:	(A) + (B) - (C) = (D)	290,063	280,399	2,744
Risk-adjusted assets:	On-balance-sheet	2,653,080	2,751,275	25,102
	Off-balance-sheet	37,316	38,739	353
	Subtotal (E)	2,690,397	2,790,014	25,455
Capital adequacy ratio (Domestic standard) = (D)/(E) x 100 (%)		10.78	10.05	

Non-Consolidated Five-Year Summary

THE 77 BANK, LTD.
As of March 31

Millions of Yen

	2004	2003	2002	2001	2000
For the fiscal year					
Net interest income	¥ 75,064	¥ 80,149	¥ 86,809	¥ 89,399	¥ 93,450
Net fees and commissions	10,264	10,205	10,242	10,079	10,030
Net other operating (loss)	(176)	(1,015)	(2,682)	(899)	(2,935)
Net income	12,132	7,865	2,307	11,505	15,673
At the fiscal year-end					
Total assets	¥5,375,563	¥5,219,833	¥5,169,480	¥5,185,666	¥4,964,711
Deposits	4,942,043	4,804,218	4,701,811	4,589,992	4,511,552
Loans and bills discounted	3,135,513	3,152,618	3,192,560	3,179,012	3,140,108
Trading account securities and investment securities	1,722,626	1,605,845	1,354,932	1,272,490	1,027,218
Stockholders' equity	323,317	295,480	300,737	323,886	244,210
Common stock	24,658	24,658	24,658	24,658	24,658

Yen

	2004	2003	2002	2001	2000
Per share data					
Net income	¥ 31.79	¥ 20.48	¥ 6.02	¥ 30.01	¥ 40.89
Diluted net income				28.75	39.12
Stockholders' equity	850.20	774.82	784.72	845.04	637.16
Cash dividends	6.00	6.00	6.00	6.00	6.00
Capital adequacy ratio (%)					
BIS standard	[12.23]	[11.40]	[11.75]	[12.26]	[12.45]
Domestic standard	10.60	9.90	9.96	10.16	10.24

Non-Consolidated Balance Sheets (Parent Company)

THE 77 BANK, LTD.
March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets:			
Cash and due from banks	¥ 168,416	¥ 151,510	\$ 1,593,495
Call loans and bills purchased	130,128	75,643	1,231,229
Commercial paper and other debt purchased	123,949	155,404	1,172,766
Trading account securities	8,669	6,739	82,028
Money held in trust	36,575	30,766	346,065
Investment securities	1,713,957	1,599,106	16,216,833
Loans and bills discounted	3,135,513	3,152,618	29,667,082
Foreign exchange assets	747	1,347	7,069
Premises and equipment	49,367	51,293	467,095
Deferred tax assets	11,688	32,258	110,594
Customers' liabilities for acceptances and guarantees	44,970	42,407	425,493
Other assets	22,651	14,051	214,315
Allowance for possible loan losses	(71,072)	(93,313)	(672,461)
Total	¥5,375,563	¥5,219,833	\$50,861,608
Liabilities:			
Deposits	¥4,942,043	¥4,804,218	\$46,759,798
Call money	13,304	8,020	125,881
Payable under repurchase agreements		999	
Borrowed money	217	10,224	2,059
Foreign exchange liabilities	133	89	1,262
Liability for employees' retirement benefits	33,704	37,666	318,902
Acceptances and guarantees	44,970	42,407	425,493
Other liabilities	17,872	20,725	169,100
Total liabilities	5,052,245	4,924,353	47,802,497
Stockholders' equity:			
Common stock	24,658	24,658	233,310
Capital surplus:			
Additional paid-in capital	7,835	7,835	74,133
Retained earnings:			
Legal reserve	24,658	24,658	233,310
Unappropriated	211,573	201,754	2,001,826
Unrealized gain on available-for-sale securities	55,990	37,443	529,762
Treasury stock	(1,400)	(869)	(13,248)
Total stockholders' equity	323,317	295,480	3,059,110
Total	¥5,375,563	¥5,219,834	\$50,861,608

Non-Consolidated Statements of Income (Parent Company)

THE 77 BANK, LTD.
Years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Income:			
Interest on:			
Loans and discounts	¥ 57,879	¥ 60,786	\$547,630
Trading account and investment securities	19,893	23,827	188,226
Other	209	116	1,979
Fees and commissions	14,571	14,199	137,873
Other operating income	433	320	4,102
Other income	9,343	3,516	88,408
Total income	102,331	102,766	968,221
Expenses:			
Interest on:			
Deposits	1,841	2,578	17,424
Borrowings and rediscounts	242	390	2,292
Other	833	1,613	7,889
Fees and commissions	4,307	3,993	40,753
Other operating expenses	610	1,335	5,775
General and administrative expenses	59,676	59,268	564,641
Provision for possible loan losses	2,610	3,219	24,695
Other expenses	9,274	14,037	87,756
Total expenses	79,397	86,436	751,229
Income before income taxes	22,933	16,330	216,991
Income taxes:			
Current	603	8,117	5,709
Deferred	10,197	347	96,489
Total income taxes	10,801	8,464	102,199
Net income	¥ 12,132	¥ 7,865	\$114,792
		Yen	U.S. Dollars
Per share of common stock:			
Net income	¥31.79	¥20.48	\$0.300
Cash dividends applicable to the year	6.00	6.00	0.056

Non-Consolidated Statements of Retained Earnings (Parent Company)

THE 77 BANK, LTD.
Years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Balance, beginning of year	¥226,413	¥220,846	\$2,142,237
Net income	12,132	7,865	114,792
Dividends paid, ¥6.00 (\$0.056) per share in 2004 and ¥6.00 per share in 2003	(2,284)	(2,299)	(21,618)
Bonuses to directors and corporate auditors	(29)		(274)
Balance, end of year	¥236,231	¥226,413	\$2,235,137

Loan Portfolio

Loan Portfolio by Industry	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Domestic offices <i>(Excluding Japan offshore banking accounts)</i>	¥3,135	¥3,152	\$29,667
Manufacturing	294	326	2,786
Agriculture	7	9	66
Forestry	0	0	4
Fishery	14	17	140
Mining	2	2	23
Construction companies	195	213	1,850
Utilities	90	95	852
Information and communications	30	32	289
Transportation	60	53	574
Wholesale and retail	380	411	3,599
Financial institutions	224	253	2,125
Real estate companies	358	373	3,387
Services	356	366	3,376
Municipalities	337	311	3,189
Other	782	684	7,400
Japan's offshore banking accounts			
Financial institutions			
Total	¥3,135	¥3,152	\$29,667

Loans by Collateral	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Securities	¥ 3	¥ 3	\$ 30
Commercial claims	65	71	621
Commercial goods	0	0	0
Real estate	776	840	7,344
Subtotal	845	915	7,996
Guaranteed	1,280	1,194	12,114
Unsecured	1,009	1,041	9,555
Total [Subordinated loans]	¥3,135 [6]	¥3,152 [6]	\$29,667 [56]

Reserve for Possible Loan Losses	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
General reserve for possible loan losses	¥28	¥34	\$265
Specific reserve for estimated loan losses on certain doubtful loans	42	59	406
For non-resident loans			
Reserve for possible losses on specific overseas loans			
Total	¥71	¥93	\$672

Write-off of Loans	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
Write-off of loans	¥2	¥0	\$21

Securities Portfolio

Investment Securities (Average Balance)

Billions of Yen/%

	2004				2003			
	Domestic	International	Total	Percentage	Domestic	International	Total	Percentage
National government bonds	¥ 902	¥	¥ 902	[55.8]%	¥ 645	¥	¥ 645	[50.2]%
Local government bonds	145		145	[9.0]	153		153	[11.9]
Corporate bonds	336		336	[20.8]	284		284	[22.1]
Stocks	64		64	[4.0]	70		70	[5.5]
Other securities	38	129	167	[10.4]	27	105	133	[10.3]
Foreign bonds	/	129	129	[8.0]	/	105	105	[8.1]
Foreign stocks	/				/			
Total	¥1,487	¥129	¥1,616	[100.0]%	¥1,182	¥105	¥1,287	[100.0]%

Notes: 1. Investment securities loaned are categorized into each item.

2. Average balances of foreign currency transactions by domestic branches, which are included in international operations, are calculated based on the daily current method.

Public Bonds Underwritten

	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
National government bonds	¥17	¥17	\$160
Local government bonds and government-guaranteed bonds	49	32	472
Total	¥66	¥50	\$633

Sales Volume of Public Bonds and Investment Trusts

	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
National government bonds	¥ 9	¥ 4	\$ 94
Local government bonds and government-guaranteed bonds	5	7	50
Total	15	12	\$145
Investment trusts	¥ 5	¥ 1	\$ 51

Public Bonds Dealings (Trading Account Securities)

Trading volume during the term	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
National government bonds	¥284	¥255	\$2,694
Local government bonds	0	1	8
Total	¥285	¥256	\$2,703

Average Balances of Trading Account Securities

	Billions of Yen		Millions of U.S. Dollars
	2004	2003	2004
National government bonds	¥9	¥6	\$87
Local government bonds	0	0	1
Total	¥9	¥6	\$88

Off-Balance-Sheet Transactions

Derivatives and Foreign Exchange Forward Contracts

	Billions of Yen			
	Notional Amount/ Contract Value		Credit Risk/ Equivalent Amount	
	2004	2003	2004	2003
Interest rate swaps	¥125	¥130	¥0	¥0
Forward foreign exchange transactions	106	98	2	1
Other derivatives (caps) (currency option)		0		0
Total	¥232	¥229	¥3	¥2

- Notes: 1. The above figures are based on the Bank's capital adequacy ratio in compliance with domestic standards. The credit risk equivalent amounts were calculated using the current exposure method.
2. Netting is not applied in calculating the credit risk equivalent amount.
3. The contract value of forward foreign exchange transactions with a maturity of 14 days or less, which has been subtracted from the credit risk equivalent amount under the aforementioned guidelines, is as follows:

	Billions of Yen	
	Contract Value	
	2004	2003
Foreign exchange forward contracts	¥0	¥2

Credit-Related Financial Instruments

	Billions of Yen	
	Contract Value	
	2004	2003
Commitments	¥1,221	¥1,181
Guarantees	37	38
Total	¥1,258	¥1,220

International Operations

Foreign Exchange Transactions	Millions of U.S. Dollars	
	2004	2003
Foreign exchange transactions	\$2,893	\$3,275

Foreign Currency Assets	Millions of U.S. Dollars	
	2004	2003
Domestic offices	\$1,163	\$828

Specific Overseas Loans

There are no applicable amounts.

Non-Consolidated Capital Adequacy Ratio

THE 77 BANK, LTD.
March 31, 2004 and 2003

		Millions of Yen		Millions of U.S. Dollars
		2004	2003	2004
Domestic standard				
Tier I capital:	Common stock	¥ 24,658	¥ 24,658	\$ 233
	Capital surplus	7,836	7,835	74
	Legal reserve	24,658	24,658	233
	Voluntary reserve	208,045	198,201	1,968
	Retained earnings	2,358	2,380	22
	Treasury stock	(1,400)	(869)	(13)
	Subtotal (A)	266,157	256,864	2,518
Tier II capital:	General reserve for possible loan losses	28,072	34,091	265
	Debt funding instruments and others			
	Subtotal	28,072	34,091	265
	Position included in stockholders' equity (B)	16,660	17,294	157
Deductions:	Cross-holdings with other financial institutions (C)			
Total capital:	(A) + (B) - (C) = (D)	282,817	274,159	2,675
Risk-adjusted assets:	On-balance-sheet	2,628,319	2,728,408	24,868
	Off-balance-sheet	37,316	38,739	353
	Subtotal (E)	2,665,636	2,767,147	25,221
Capital adequacy ratio (Domestic standard) = (D)/(E) x 100 (%)		10.60	9.90	

Bank Data

THE 77 BANK, LTD.
As of March 31, 2004

Headquarters

3-20, Chuo 3-chome, Aoba-ku,
Sendai, Miyagi 980-8777, Japan
Phone: 022-267-1111
<http://www.77bank.co.jp/>

Founded

December 1878

Number of Branches

142

Number of Employees

2,884

Treasury Administration & International Division

*Planning & Business Department
(Sendai)*

3-20, Chuo 3-chome, Aoba-ku,
Sendai, Miyagi 980-8777, Japan
Phone: 022-211-9914
Facsimile: 022-211-9916
SWIFT Address: BOSSJPT

Paid-in Capital

¥24,658 million (US\$233 million)

Number of Stockholders

10,284

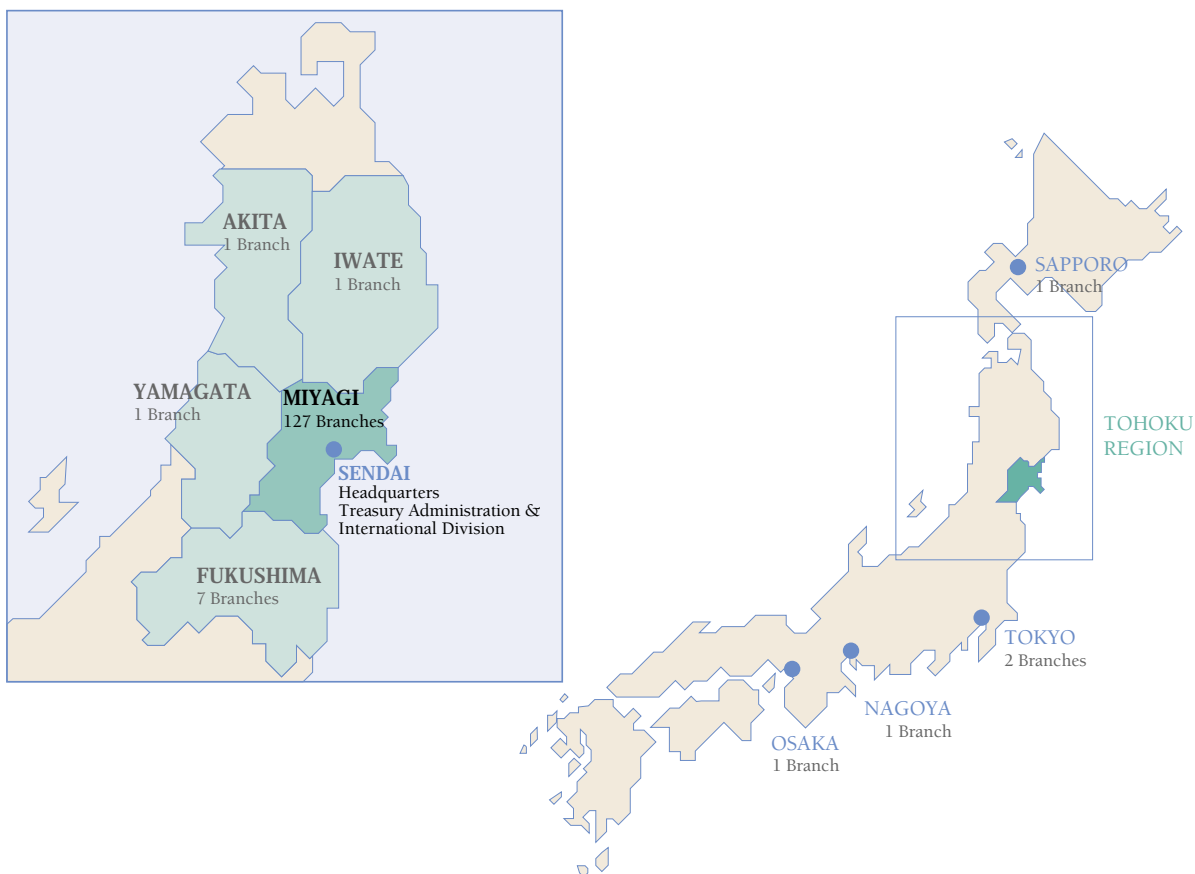
Shares Outstanding

383,278 thousand

Major Stockholders

	Number of Shares (Thousands)	%
Meiji Yasuda Life Insurance Company	21,526	5.71
Nippon Life Insurance Company	15,431	4.09
Sumitomo Life Insurance Company	15,412	4.08
Japan Trustee Services Bank, Limited (Trust Account)	14,842	3.93
The Master Trust Bank of Japan, Limited (Trust Account)	13,084	3.47
The Dai-ichi Mutual Life Insurance Company	12,275	3.25
The Bank of Tokyo-Mitsubishi, Ltd.	11,524	3.05
Mizuho Corporate Bank, Limited	7,421	1.96
UFJ Bank Limited	6,971	1.84
Employee Stock Ownership	6,552	1.73

Service Network



77 BANK