

**77 BANK**  
**ANNUAL REPORT**  
**2002**

**THE 77 BANK, LTD.**

# Profile

**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 Tohoku region's largest regional bank, with its branch network covering this area in northeastern Japan.**

**Adhering to a corporate philosophy “to contribute to the region for its prosperity,” The 77 Bank continues to strengthen its business foundation and enhance its management quality in order to be a bank entrusted by the community and customers, and to consistently create new value. As of March 31, 2002, The 77 Bank had capital of ¥24.7 billion, 145 domestic branches and 3,049 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
	2002	2001	2002
<b>For the fiscal year</b>			
Net interest income	¥ 87,354	¥ 89,789	\$ 656
Net fees and commissions	11,446	11,274	86
Net other operating income (loss)	(905)	1,476	(7)
Net income	2,177	11,197	16
<b>At the fiscal year-end</b>			
Total assets	¥5,192,871	¥5,212,706	\$38,971
Deposits	4,694,029	4,582,584	35,227
Loans and bills discounted	3,176,555	3,163,042	23,839
Trading account securities and investment securities	1,355,475	1,273,007	10,172
Stockholders' equity	300,468	323,744	2,255
Common stock	24,659	24,659	185
		Yen	U.S. Dollars
	2002	2001	2002
<b>Per share of common stock</b>			
Net income	¥ 5.68	¥ 29.24	\$0.042
Diluted net income		28.02	
Stockholders' equity	784.94	845.66	5.890
Cash dividends applicable to the year	6.00	6.00	0.045
<b>Capital adequacy ratio (%)</b>			
BIS standard	[11.86]	[12.36]	
Domestic standard	10.08	10.26	

Note: Throughout this report, U.S. dollar amounts are translated, for convenience only, at the rate of ¥133.25 = US\$1, the exchange rate prevailing on March 31, 2002. The capital adequacy ratios according to the BIS standard, in parentheses, are indicated for reference only.



**Chugo Marumori, President**

The 77 Bank strives to be a financial institution that warrants the trust of clients, the community and the market, and consistently creates new value.

### **Goals**

Amid the challenging operating environment that currently prevails, The 77 Bank efficiently allocates available financial and human resources where they will yield the greatest results. Prudent application of these assets creates added value that attracts potential employees, shareholders and clients to the Bank and invokes lasting loyalty.

Guided by a three-point perspective that hinges on employees, shareholders, and clients, we seek to be a bank that:

- accurately perceives and swiftly responds to the needs of clients and the community
- maintains sound assets and high profitability, and
- demonstrates creativity and a challenging spirit.

The 77 Bank has highlighted the following four strategies in New Age Plan “Challenge Seven,” a three-year management plan implemented in April 2000, to successfully surmount competitive challenges and better meet the expectations of clients, the community and the market as a whole.

### ***1. A solid operating foundation—to reinforce profitability***

A sluggish economy and low interest rates have severely eroded corporate profitability. Under these circumstances, business conditions for banks have become more challenging, especially with the reorganization of financial institutions and the elimination of payoff rules. To secure the confidence and support of clients, the community and the market in general, The 77 Bank has prioritized improved profitability and a wider transaction base, which will arise from higher interest income achieved, for example, through the promotion of loans as well as enhanced fees and commissions.

### ***2. Higher productivity—to enhance investment and cost-effectiveness***

Rapid progress in information technology (IT) has helped to reshape the financial landscape and restructure the industry itself, while participation from outside traditional industry borders has exacerbated competition.

Amid these challenging conditions, effective and efficient allocation of limited resources becomes all the more essential. On the expense front, as well, we must diligently cut costs and buoy profits to reach our business goals.

### ***3. Better asset quality—to resolve problem assets***

With a high rate of corporate bankruptcy and a downward trend in land prices in Japan, financial institutions are under considerable pressure to clear problem assets quickly and completely. The 77 Bank has always maintained strict asset-assessment practices and remains committed to appropriate processing of problem assets. We will continue to reinforce our assessment structure and duly implement other measures to hedge credit risk. We will strive to minimize the turn of good loans into new problem assets and will make every effort to write off non-performing loans as quickly as possible.

### ***4. Employee training—to redefine perspectives and upgrade skills***

Competition among financial institutions in Japan has grown intense. Faced with such heightened competition within the industry, The 77 Bank has implemented a personnel system that will elevate the skills of every employee, boost morale throughout the entire Group, and reap solid returns from enhanced capabilities. Indeed, a revitalized perception of the organization, through dynamic reform of the personnel system, will be the key to future growth at The 77 Bank.



Chugo Marumori  
President

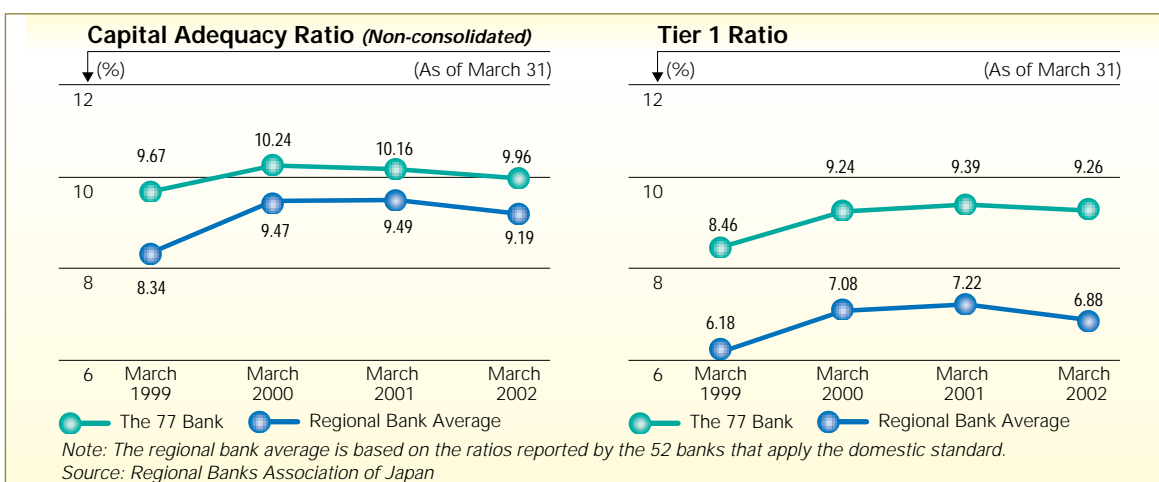
# Pursuing a Sound Business Position

Representative indicators of sound operations are the Tier 1 capital ratio and ratings by rating agencies. The 77 Bank has secured a commendable standing through concerted efforts to ensure its operational well-being and strengthen its internal management system.

## Tier 1 Capital Ratio

The Tier 1 capital ratio is based only on Tier 1 capital, that is, capital stock, capital surplus, earned surplus reserves and retained earnings. 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.

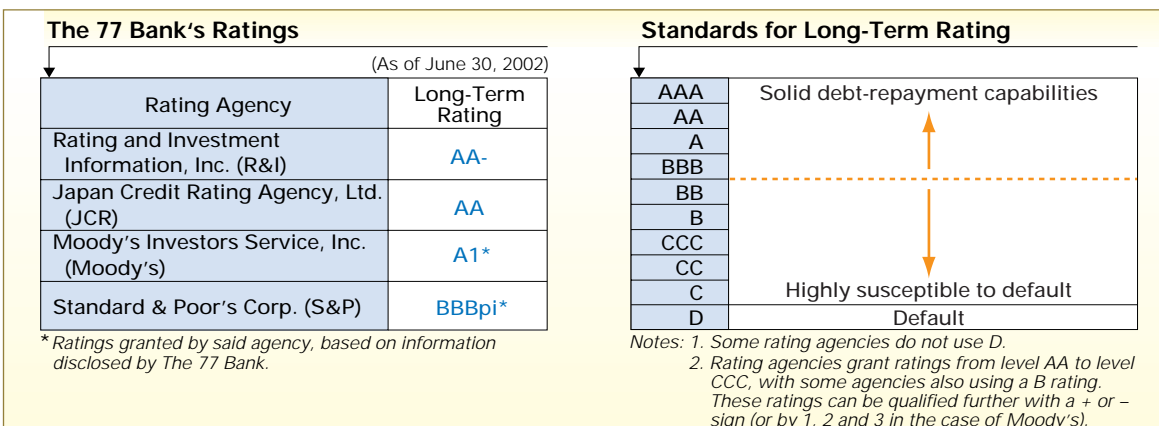
The Tier 1 capital ratio for The 77 Bank reached 9.26% on a non-consolidated basis, as at March 31, 2002, considerably higher than the average for the 52 regional banks that apply the domestic standard. This statistic places the Bank among the top performers in this sector of the banking industry.



## 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 company.

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



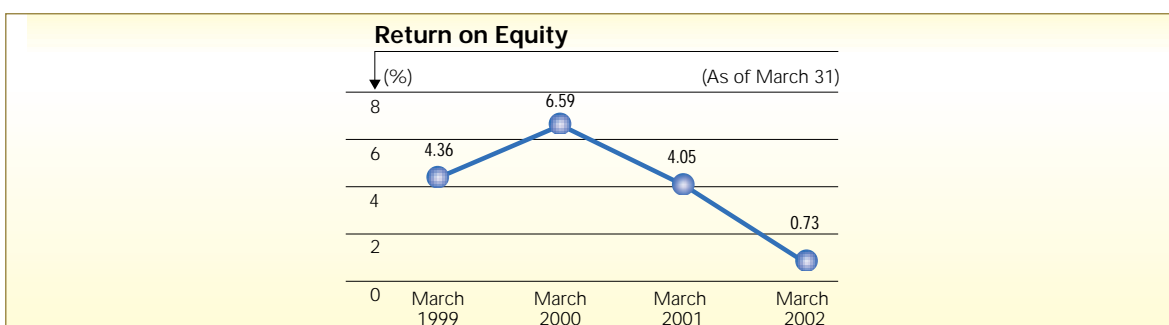
## Business Indicators

### ROE (Return on Equity)

$$ROE = \text{net income} / \text{capital account average} \times 100$$

ROE is the ratio of profitability to capital entrusted to the Bank by its shareholders.

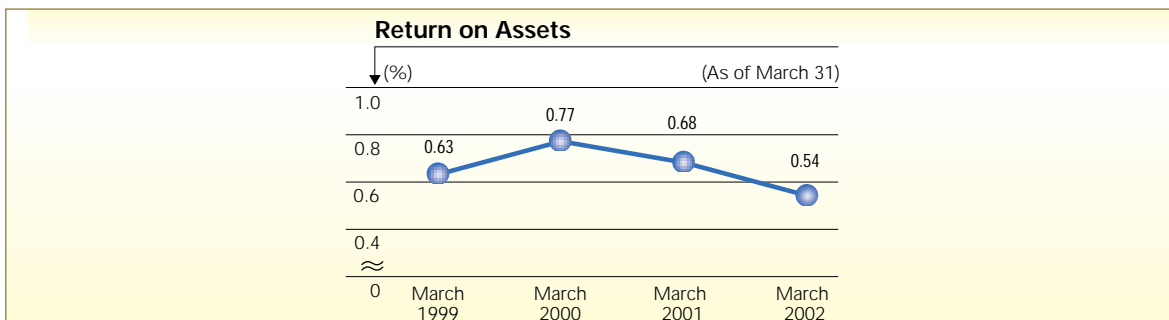
In the fiscal year ended March 31, 2002, net income fell and the Bank marked a huge decline in ROE.



### ROA (Return on Assets)

$$ROA = \text{core business profit} / \text{average total assets (excluding acceptances and guarantees)} \times 100$$

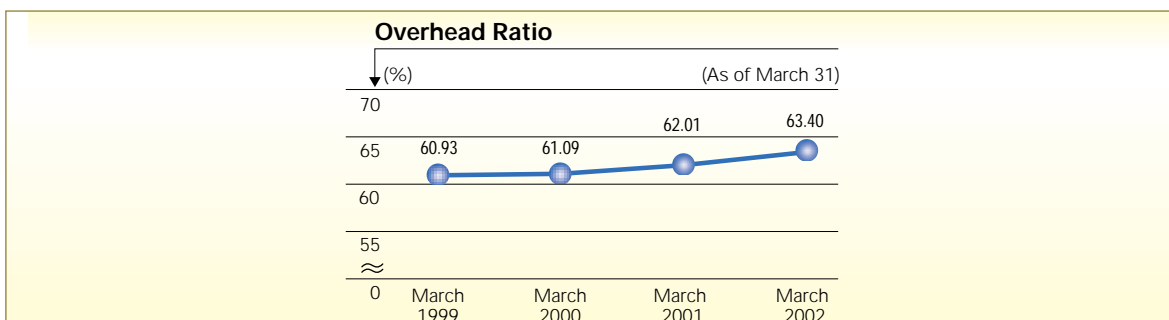
ROA is the ratio of profits to invested assets and represents the Bank's ability to effectively utilize assets. As with the Bank's ROE, its ROA decreased because of the drop in net income.



### OHR (Overhead Ratio)

$$OHR = \text{expenses} / \text{gross operating profit} \times 100$$

OHR is the ratio of expenses to gross operating profit. Improvement in the OHR—that is, a lower ratio—requires an increase in gross operating profit and a decrease in expenses. Despite efforts to reduce expenses, gross operating profit fell even more than expenses, leading to a higher OHR.



## Risk-Monitored Loans and Classified Assets Based on the Financial Reconstruction Law

### **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.

Beginning in the fiscal year ended March 31, 2002, loans in the self-assessed categories of debtors in legal bankruptcy, virtual bankruptcy and possible bankruptcy are viewed as loans to borrowers under bankruptcy or past due loans, regardless of any actual accrued interest, based on the amount of the loan with accrued interest unrecorded. The Bank also applied strict standards to restructured loans. As a result, risk-monitored loans accounted for 8.03% of the Bank's lending balance.

The Bank has set aside reserves against possible loan losses, based on a fundamental premise that management will not leave problem loans for future processing.

(As of March 31)

(Billions of Yen/%)

	2002		2001	
	Amount	Percentage of total	Amount	Percentage of total
Loans to borrowers in bankruptcy	¥ 28.5	0.89%	¥ 20.8	0.65%
Past due loans	126.7	3.96	46.2	1.45
Accruing loans contractually past due three months or more	0.6	0.01	4.5	0.14
Restructured loans	100.7	3.15	117.6	3.69
Total	256.5	8.03	189.1	5.94

Balance of total loans	¥3,192.6	100.00%	¥3,179.0	100.00%
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### **Classified Assets Based on the Financial Reconstruction Law**

The 77 Bank assesses assets grouped by balance sheet account—securities loaned, loans and foreign exchange, interest receivable and suspense payments on other assets, and acceptances and guarantees on the balance sheet—according to the financial position and operating performance of each debtor, as stipulated by the Financial Reconstruction Law. The results of this assessment and coverage status are presented in the accompanying chart.

(As of March 31, 2002)

(Billions of Yen/%)

	Amount (A)		Coverage (B)	Collateral guarantees	Reserve for possible loan losses	Coverage ratio (B/A)
	Amount	Percentage of total (%)				
Unrecoverable or valueless assets	¥ 72.7	2.21%	¥ 72.7	¥ 35.9	¥36.8	100.0%
Risk assets	82.5	2.51	73.9	48.3	25.6	89.7
Special attention assets	101.6	3.10	72.5	61.3	11.2	71.3
Subtotal assets	256.8	7.82	219.1	145.5	73.6	85.3
Non-classified assets	3,027.9	92.18				
Total of assessed assets	¥3,284.7	100.00%				



We have fully covered unrecoverable or valueless claims. In line with our financial assessment manual, effective from the fiscal year in review, we set aside reserves based on historical loan loss ratios for risk claims and achieved a coverage ratio of 89.7%. Similarly, through reserves based on historical loan loss ratios, we raised the coverage ratio on special attention claims to 71.3%. Our total coverage ratio thus stood at 85.3%, as of March 31, 2002.

### Relationship Between Classified Assets Based on Self-Assessment, the Financial Reconstruction Law and Risk-Monitored Loans

(Billions of Yen)

Self-Assessment Categories (Total credit basis)					Assets Based on the Financial Reconstruction Law (Total Credit Basis*)	Risk-Monitored Loans (Loans Only)
Debtor Classification	Uncategorized	Category II	Category III	Category IV		
Debtors in legal bankruptcy ¥28.6	¥19.0	¥9.6	¥ — (—)	¥ — (15.2)	Unrecoverable or valueless assets ¥72.7	Loans to borrowers in bankruptcy ¥28.5 [13.3]
Debtors in virtual bankruptcy ¥44.1	¥25.5	¥18.6	¥ — (0)	¥ — (21.6)		Risk assets ¥82.5
Debtors in possible bankruptcy ¥82.5	¥34.3	¥39.7	¥8.5 (25.6)	Reserve ratio 75% (Aggregate three-year historical loan loss ratio)	Special attention assets ¥101.6	
Debtors under caution						Subtotal assets ¥256.8
Debtors under special attention ¥189.4	¥51.6	¥137.8	Reserve ratio 11.012% (Aggregate three-year historical loan loss ratio)		Normal assets ¥3,027.9	
Debtors under caution excluding debtors under special attention ¥443.3	¥272.3	¥171.0	Reserve ratio 1.872% (Aggregate two-year historical loan loss ratio)			Total ¥3,284.7
Normal debtors ¥2,490.1	¥2,490.1	Reserve ratio 0.148% (Aggregate two-year historical loan loss ratio)				
Total ¥3,278.0	¥2,892.8	¥376.7	¥8.5 (25.6)	¥ — (36.8)		

Notes: 1. Numbers in parentheses in the self-assessment assets are reserve amounts assigned to each category.

2. The reserve ratio for debtors in possible bankruptcy is a reserve ratio for the category III.

3. The reserve ratio for normal debtors and debtors under caution is a reserve ratio for the balance of total loans.

\* Except for special attention assets, which are loans only

\* Numbers in [ ] are amounts on condition of reflecting partially direct write-offs.

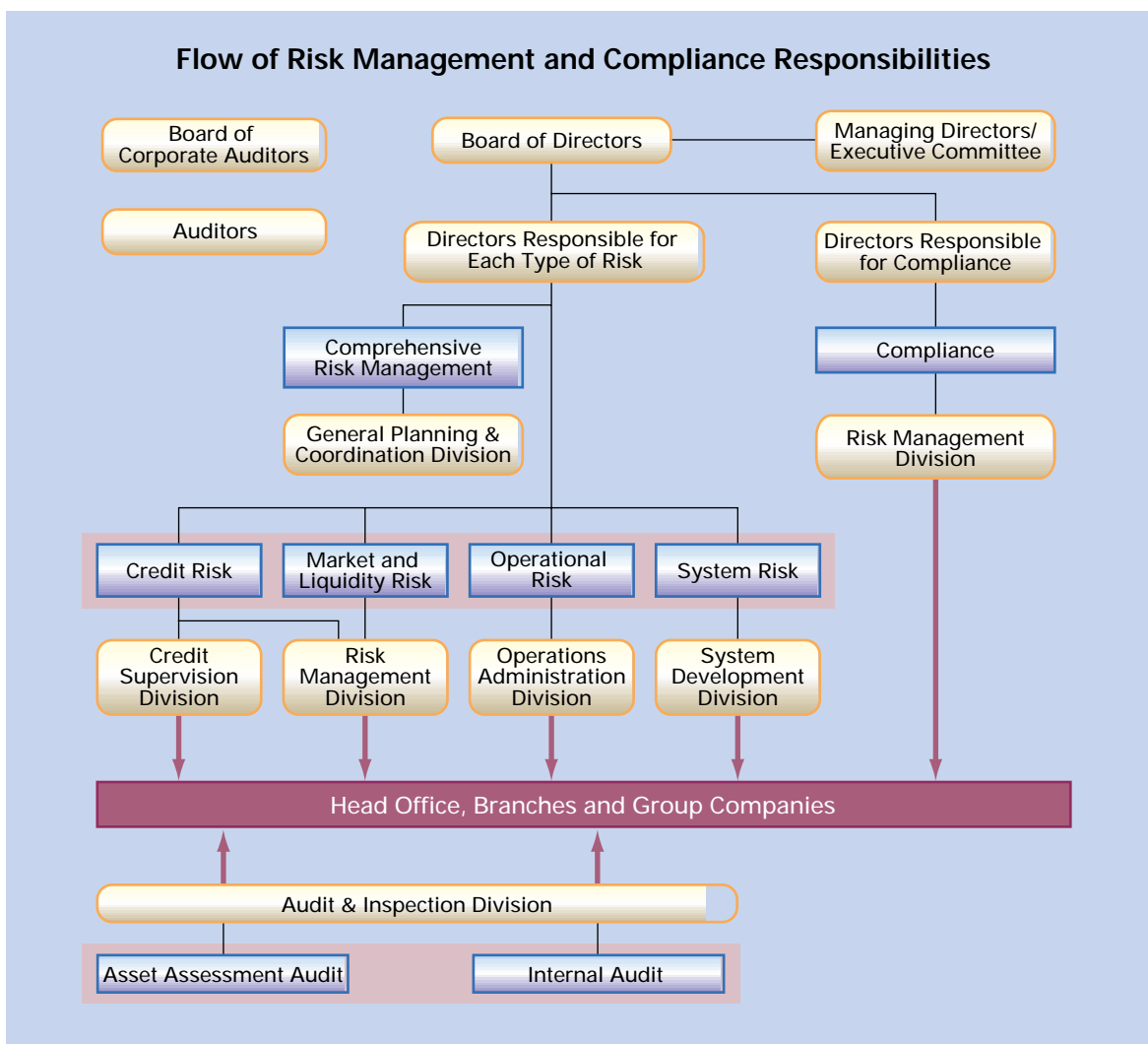
## Risk-Management Structure

### *Stronger Overall Risk Management*

Through progress in financial liberalization and globalization, and the development of new financial techniques, the risk that surrounds financial institutions has 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 has drafted 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 lasting growth at The 77 Bank. 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 five categories—credit risk, market risk, liquidity risk, operational risk and system risk—and assigned supervisory units to each risk category. The General Planning & Coordination Division is responsible for overall risk management. However, each risk category is also watched by a separate division—the Risk Management Division for market risk and liquidity risk; the Operations Administration Division for operational risk; and the System Development Division for system risk—with 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 measurable risk and monitors risk amounts. 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.

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 business administration and management practises of each division and ascertains respective risk-management positions.

The 77 Bank undergoes external audits, performed by outside auditors, to further consolidate the internal management structure.

### ***Credit Risk Management***

Credit risk is the potential for the Bank to incur losses should, for example, the worsening financial position of a borrower cause the value of collateral assets to fall or be eliminated altogether.

In extending loans to clients, The 77 Bank undertakes credit analysis based on strict assessment criteria. The Bank also strives to reinforce credit risk management through appropriate system development and rigid administrative procedures that ensure methodical risk control. In addition, the Bank endeavors to polish assessment capabilities through such means as specialized programs for employees engaged in lending operations and practical credit-control guidance extended through branch visits by members of the Credit Supervision Division.

To ensure the health of assets, we clarified our basic position on lending through the establishment of a Credit Risk Management Policy, which functions as a guide for credit risk management, as well as a credit policy, directing the course taken in loan assessments. In addition, to objectively identify credit risk and elevate credit risk management expertise, we apply the Credit Rating System to normal corporate borrowers.

### ***Market Risk Management***

Market risk is the possibility that the value of assets will be adversely affected by fluctuations in interest rates, foreign exchange rates, market prices and other market-based factors, and lead to losses.

The 77 Bank reviews its direction for market-based transactions every fiscal year, reflecting such influences as the medium-term management plan. The Bank emphasizes the delivery of stable returns while assuming a stable level of risk through, for example, the establishment of a position that works investments within a safe range.

On the organizational front, the Risk Management Division undertakes blanket control of market risk. In the Securities Division and Capital Markets Division, front offices, which execute market transactions, and back offices, which process the transactions, operate independently of each other to uphold the double-check system for market transactions. We have also seconded a member of the Risk Management Division to each division involved in market transactions to monitor risk status.

While divisions engaging in market transactions advise assigned directors of risk status on a daily basis, the Risk Management Division also submits daily reports to directors. In addition, the Risk Management Division handles risk adjustments and provides monthly overall risk updates on assets and liabilities, including market transactions, to the ALM Committee.

The Bank has established a Market Risk Management Policy to facilitate control of market risk through such means as the Market Risk-Hedging Standards.

### ***Liquidity Risk Management***

Liquidity risk carries the prospect of losses in the event that a poor financial position hampers the Bank's ability to secure the necessary capital for cash flow or in the event that the Bank must obtain capital at significantly higher rates than normal to maintain required levels of funding.

The 77 Bank has implemented a structure for liquidity risk that maximizes the double-check function afforded by the Capital Markets Division and the Risk Management Division. The Capital Markets Division is responsible for cash flow management and executes controls on a daily basis, while the Risk Management Division is responsible for liquidity risk management, supervising the activities of the Capital Markets Division and identifying the Bank's overall liquidity risk position.

The Capital Markets Division prepares daily and monthly outlooks for cash flow management, determines procurable amounts and asset liquidity, and confirms due dates collection of large-lot funds. This division also tracks discrepancies between deposit and lending performances and capital gaps in fund-procurement. Details are provided to the ALM Committee.

The Bank maintains a Liquidity Risk Management Policy as well as an assortment of responses that cover all possible scenarios. For example, we have Liquidity Risk-Hedging Standards to guide us in controlling applicable risk and contingency measures for emergency use.

### ***Operational Risk Management***

Operational risk is the possibility of losses caused by accidents, management errors or dishonest actions. To effectively deal with operational risk, The 77 Bank strives to enhance relevant controls and inspection systems. The Bank has established an Operational Risk Management Policy and undertakes appropriate measures to avert risk.

In regard to controls, we aim for faster and more accurate administrative processing with on-site direction from the Operations Administration Division at branches, as well as training sessions and guidance reports. Audits serve to prevent accidents by ascertaining levels of regulatory compliance and the management status of each type of risk.

The Audit & Inspection Division conducts an annual check of branches, the head office and group companies. This division comprises members with business experience in each division of the Bank to expedite audits in all aspects of operations. We further refine inspection capabilities through specialized training for inspection staff to keep pace with business diversification.

### ***System Risk Management***

System risk is the possibility that losses may result from malfunction or inappropriate use of the systems used to execute banking business.

The 77 Bank prioritizes the stable operation of computer systems in the control of system risk. The establishment of a System Risk Management Policy underscores the Bank's concerted efforts to maintain the security and reliability of its systems. The Izumi Center, for example, boasts innovative flooring that protects systems in the event of unexpected catastrophe, such as an earthquake. Our state-of-the-art security system is only a part of wider-ranging measures to prevent unauthorized external access.

We have implemented rules to protect the data in our systems and remind all employees on an ongoing basis that such information is to be strictly safeguarded. In addition, the Audit & Inspection Division undertakes regular inspections of systems to ensure security.

These activities underpin and further reinforce the reliability of our computer systems in terms of both hardware and software.

### ***Compliance***

The 77 Bank has always been aware of its social duties and public mission. To earn and preserve the trust of clients and the community at large, the Bank prioritizes thorough legal compliance and exemplary corporate ethics. This practice reflects the hugely transformed financial environment, which requires financial institutions to ensure fair conduct and greater transparency in management practices, based on the principle of self-responsibility.

In September 1998, we set up the Legal Affairs Office to oversee legal compliance. Later, through subsequent organizational reforms, the Legal Affairs Section of the Risk Management Division was designated to keep tabs on the status of legal compliance.

The president is the director ultimately responsible for internal compliance and he is supported by the General Manager of the Risk Management Division, who supervises inspections, and the head of the Legal Affairs Department, who acts as compliance officer. Inspections are performed by members of the Audit & Inspection Division. Compliance officers and liaison administrators, posted to each branch and office, undertake routine in-house inspections to ascertain compliance status. These efforts are underpinned by clear-cut measures to deal with violations of compliance rules and regulations.

To firmly entrench the concept of compliance in the corporate consciousness, the Board of Directors formulated the Basic Policies Concerning Compliance and Compliance Guidelines in March 1999, and also revised relevant office regulations. The Guidelines set out the fundamental objectives of legal compliance and specify acceptable standards of ethical conduct.

In April 1999, The 77 Bank published the Compliance Manual and distributed it to all employees. We produced an amended version based on a review of the compliance program and our internal reorganization. To foster greater awareness of compliance issues and to facilitate a deeper understanding of pertinent laws by executives and employees, we send directors to external seminars, convene regular compliance training sessions at branches and arrange for outside lawyers or members of our own legal affairs section to give lectures.

The Board of Directors regularly reviews the Bank's compliance program, including the activities noted above, to further elevate levels of compliance.

## Organizational Changes

In March 2002, The 77 Bank restructured the head office to boost lending and reinforce profitability through flexible application of assets.

1. To increase consumer loans and entrepreneurial loans and to reinforce operating capabilities, The 77 Bank reorganized the business promotion division by client group—that is, individuals and corporations. The Business Promotion Division, Institutional Banking Division and Credit Division became the Business Promotion Division, Corporate Banking Division and Personal Banking Division, respectively.
  - (a) The Business Promotion Division, which monitors operations, comprises the Business Planning Section, Branch Supervision Section and Information Development Section.
  - (b) The Corporate Banking Division, which handles products and services for corporate clients, comprises the newly established Corporate Banking Section, which promotes business, and the Institutional Banking Section, which caters to institutional clients through the head office.
  - (c) The Personal Banking Division, which caters to individuals, comprises the newly established Personal Banking Section, which promotes business, the Individual Credit Section, the Customer Service Section and the Government Housing Loan Corporation Section.
2. To strengthen surplus fund management capabilities through investment in marketable securities, for example, the Bank established a dedicated unit; and to fortify fund management abilities by unifying yen and foreign currency funds, the Bank reorganized the Securities Division, Capital Markets Division and the International Division.
  - (a) The Securities Management Section was newly established to watch management of surplus funds in the Securities Division.
  - (b) The Bank shifted loan services for nonresidents, which had been the responsibility of the International Finance Section of the International Division, to the Capital Markets Section of the Capital Markets Division. The Investment and Loan Section of the International Division was incorporated into the Securities Section of the Securities Division.
3. To make management of legal risk more meticulous, the Bank separated the Legal Division from the Audit & Inspection Division. The Legal Affairs Section of the Audit & Inspection Division was incorporated into the Risk Management Division.

Following this head office reorganization, The 77 Bank still maintains 16 divisions, one office, one secretariat, 40 sections and one center. Please turn to page 18 for details on the Bank's structure.

## 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 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 value of retail trade, 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 that encompasses both products and services. The prefecture maintains a transportation network that connects to other prefectures as well as to places abroad, while its institutes of higher learning and other educational facilities promote the development of new technologies.

## 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 clients, boosting our regional share of deposits and loans to the highest level among regional banks on a national basis.

**Changes in Deposit and Loan Shares in Miyagi Prefecture** (As of March 31)

		77 Bank	City Banks	Trust Banks	Long-term Credit Banks	Other Regional Banks	2nd Regional Banks	Shinkin Banks	Other
Deposits	2002	53.7	8.2	7.2	1.2	4.6	11.2	8.5	5.4
	1998	51.4	7.9	4.1	1.3	5.6	14.8	8.9	6.0
Loans	2002	43.0	13.3	3.5	4.5	8.2	11.3	7.7	8.5
	1998	37.6	13.5	2.5	9.0	9.2	14.6	6.6	7.0

Note: Postal savings and agricultural cooperatives are not included.

Sources: Bankers Association of Miyagi Prefecture, Sendai Branch of the Bank of Japan

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## Marketing Principles Formulated

In March 2001, The 77 Bank drafted marketing principles that define the basic attitude staff must maintain when promoting financial products and services to clients. These principles are displayed in the lobbies of our branches and in our cash service corners as well as on our web site.

## Payoff System Response

The 77 Bank consistently strives to maintain a stable financial profile and achieve a stronger operating foundation.

In April 2002, rules governing payoffs on term deposits were lifted. The next step, covering ordinary savings accounts, is scheduled for April 2003. These developments put the health of financial institutions under closer market scrutiny than ever before.

With excellent operating indicators, including capital adequacy ratio, and a high share of regional banking business, The 77 Bank has earned credit ratings from domestic agencies that put the Bank among top financial institutions in Japan. Moreover, the Bank is fully prepared for industry changes with a comprehensive risk-management system and an internal structure geared to the new payoff system.

The Bank will strive to uphold sound business practices and provide timely and appropriate disclosure of business results to secure the trust of its clients.

## **Expanding Transaction Channels**

Responding to the varied needs of the market, The 77 Bank is expanding its transaction channels to make services more accessible to clients.

### ***Internet Banking***

77 Internet Banking is a service that enables clients with personal computers to execute transactions through the Internet. A broad menu grants individuals round-the-clock access to check balances and account activity, as well as transfer funds and set up or terminate term deposits. The Bank's URL is <http://www.77bank.co.jp/>

### ***Mobile Banking***

In March 2002, The 77 Bank augmented existing 77 Mobile Banking access through iMode-equipped cellular phones from NTT DoCoMo, Inc., and cellular phones featuring EZweb from au Corp. to include J-SKY cellular phone services.

### ***Telephone Banking***

Individuals with a banking card may take advantage of 77 Telephone Banking, which facilitates balance inquiries, updates on account activity and address changes. Clients who sign up for our membership service can track fund transfers, open accounts, and set up or terminate time deposits.

### ***Automated Teller Machine Network***

#### ***Extended Hours of Operation***

In November 2001, the Bank extended the operating hours of cash service corners at 22 locations in Sendai by one hour, to 7 p.m. Now, nearly all 63 automated teller machine (ATM) stations in Sendai are open to clients up to or past 7 p.m.

#### ***Opening the ATM Network to Credit Card Companies***

The 77 Bank forged agreements with five additional credit card companies—JACCS, Orient, Central Finance, Orix Credit and Aeon Credit Service—so that cardholders can use the Bank's ATMs for cash advances. Expanded access went into effect in August 2001, complementing previous agreements with four other credit card companies—JCB, Visa Japan, DC Card and Nissenren—and thus brings to nine the number of credit cards accepted at The 77 Bank's ATMs.

#### ***Tie-up with Postal Services Agency (Postal Savings)***

In October 2001, The 77 Bank and the Postal Services Agency initiated reciprocal online access to ATMs, enabling clients to use the Bank's cash dispensers (CDs) and ATMs as well as those at post offices to withdraw funds, make deposits and confirm account balances. Through this online connection, the Bank's clients can use their client cards to execute the aforementioned transactions at some 25,000 CDs and ATMs at post offices around the country.



## Topics

### ***Centralized System for Credit Evaluation of Consumer Loans***

In November 2001, The 77 Bank began using a centralized credit-risk evaluation system for consumer loans to expedite consumer loan applications. The system consolidates at the head office loan applications submitted at branches and through other channels, such as Mail Service, and evaluates credit risk systematically.

To date, applications made at a branch, for example, required a week to process, from the time the potential borrower submitted the application form until the Bank evaluated the credit risk and returned an answer to the applicant. Under the new system, a client can have an answer as soon as the next day.

### ***Consumer Loan Application by Internet or Facsimile***

The Bank tapped 77 Kurashi Up Loan and 77 Mini Card Loan for a convenient application process executed through the Internet or by facsimile. Since December 2001, clients have been able to apply for these loans 24 hours a day.

By Internet, the applicant must go to the Bank's homepage, open the online 77 Loan Service application form to enter required fields, such as name and address, and then submit the completed document.

By facsimile, the applicant must fill in required fields on the Mail Service Form, and then send in the form.

### ***Foreign Exchange Services at Two More Branches***

Greater diversity in the foreign-exchange needs of clients has prompted demand for more sophisticated international banking services. In response, The 77 Bank introduced related services at the Futsukamachi and Izumi branches in April 2002. As of June 30, 2002, a total of 22 branches offer foreign exchange services.

### ***Bank Starts Handling Weather Derivatives***

With ties to three nonlife insurers, The 77 Bank began handling weather derivatives in October 2001.

Weather derivatives serve to ameliorate the risk of falling profits, for example, caused by abnormal or unfavorable weather conditions. Clients pay an option premium that provides compensation based on the difference between results anticipated by preset indicators, such as temperatures and snow accumulation, and actual results.

Corporate clients can thus ensure stable corporate returns regardless of changing weather patterns.

### ***China Investment Seminar***

The Bank held a China Investment Seminar in February 2002. To provide a richer array of information on overseas investments, the Bank invited outside lecturers to speak on the theme "Current Status of Investments in China and Precautions for Future Investment Activity." Presentations hinged on conditions in China since its entry into the World Trade Organization.

## Lines of business

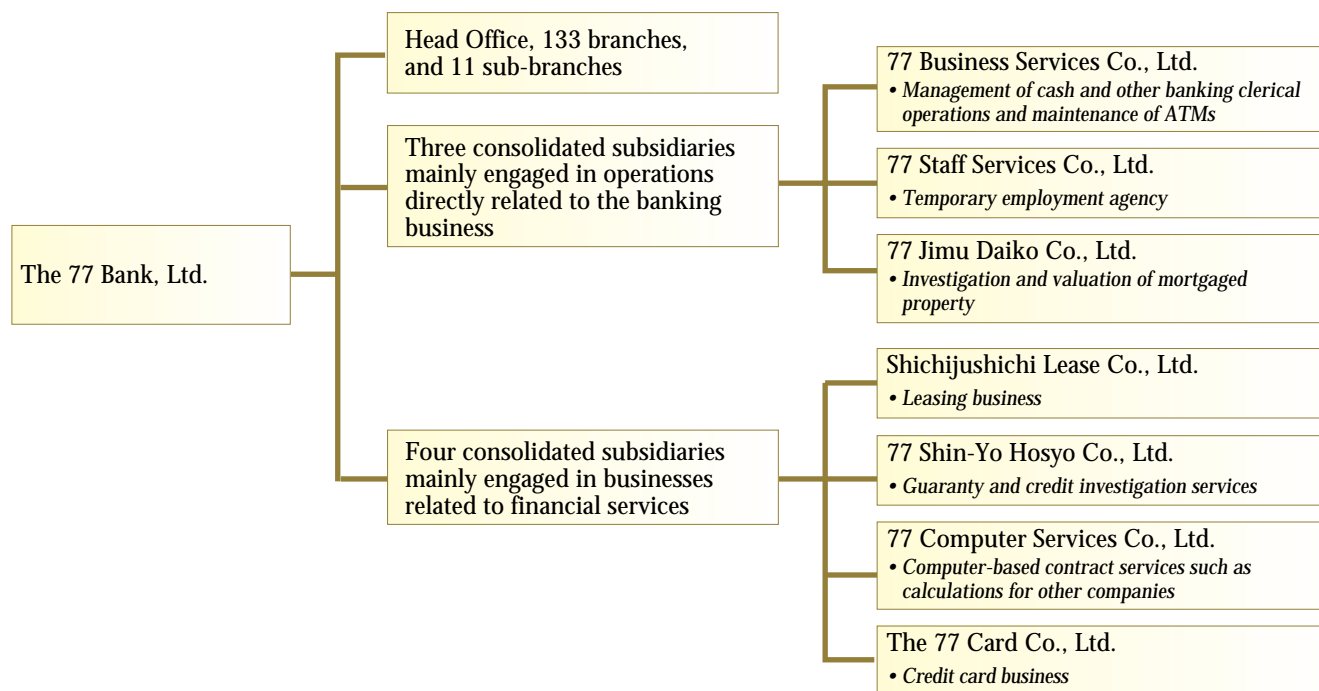
<b>Deposits</b>	Deposits	<i>Handling current deposits, ordinary deposits, savings deposits, deposits at notice, time deposits, miscellaneous deposits, deposits for tax payment, nonresident yen deposits and foreign currency deposits</i>
	Negotiable deposits	<i>Handling negotiable time certificates of deposit</i>
<b>Loans</b>	Lending	<i>Handling loans on bills, loans on deeds and overdrafts</i>
	Discounting of bills	<i>Discounting of bank acceptances, commercial bills and documentary bills</i>
<b>Purchase and sale of trading securities</b>	<i>Conducting wholesale transactions of government bonds and other public bonds</i>	
<b>Securities investment</b>	<i>Investing in government bonds, local government bonds, corporate bonds, corporate stocks and other certificates to prepare for payment of deposits and funds management</i>	
<b>Domestic exchange</b>	<i>Handling remittance bills, credits to current account and collections</i>	
<b>Foreign exchange</b>	<i>Handling various operations related to exports, imports, overseas money transfers and other foreign exchange transactions</i>	
<b>Trust and registration of corporate bonds</b>	<i>Handling operations related to trusted corporate bonds, flotation of public and corporate bonds and registration in accordance with the Secured Debenture Trust Law</i>	
<b>Dealings in futures</b>	<i>Handling dealings in futures and options, dealings in securities futures and options, and forward rate and forward exchange transactions</i>	
<b>Auxiliary operations</b>	Agency	<i>Agency of the Bank of Japan, revenue agency of the Bank of Japan and agency of government bonds</i>
		<i>Handling of public funds of local public entities</i>
		<i>Agency of the Workers' Retirement Benefit Mutual Aid Organization and others</i>
		<i>Agency acceptance of subscriptions to the capital, as well as agency payment of dividends and the principal and interest on public and corporate bonds</i>
		<i>Agency loans of the Small Business Finance Corporation and others</i>
		<i>Trust agency</i>
		<i>Agency of non-life insurance</i>
	<i>Safe custody and safe deposit</i>	
	<i>Securities loans</i>	
	<i>Guarantee of debts (bank's liabilities on accounts of guaranty)</i>	
<i>Purchase and sale of gold</i>		
<i>Underwriting of public bonds</i>		
<i>Over-the-counter sale of public bonds such as government bonds and securities investment trusts</i>		
<i>Bank card-related operations</i>		
<i>Handling of commercial paper</i>		

# 77 Bank Group

(As of June 30, 2002)

## 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 ownership	Percentage of ownership by subsidiaries and affiliated companies excluding The 77 Bank, Ltd.
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 CO., LTD.	November	1974	¥100 million	5.00%	60.00%
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	4.68%	44.53%

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 35.15% of capital, respectively.

# Board of Directors and Corporate Auditors

(As of June 30, 2002)



Yasuyuki Katsumata



Chugo Marumori



Hiroshi Kamata



Teruhiko Ujiie



Osamu Ichijo



Masayuki Aoki



Isamu Sato



Seikichi Watanabe

**Chairman**  
Yasuyuki Katsumata

**President**  
Chugo Marumori

**Deputy President**  
Hiroshi Kamata

**Senior Managing Director**  
Teruhiko Ujiie

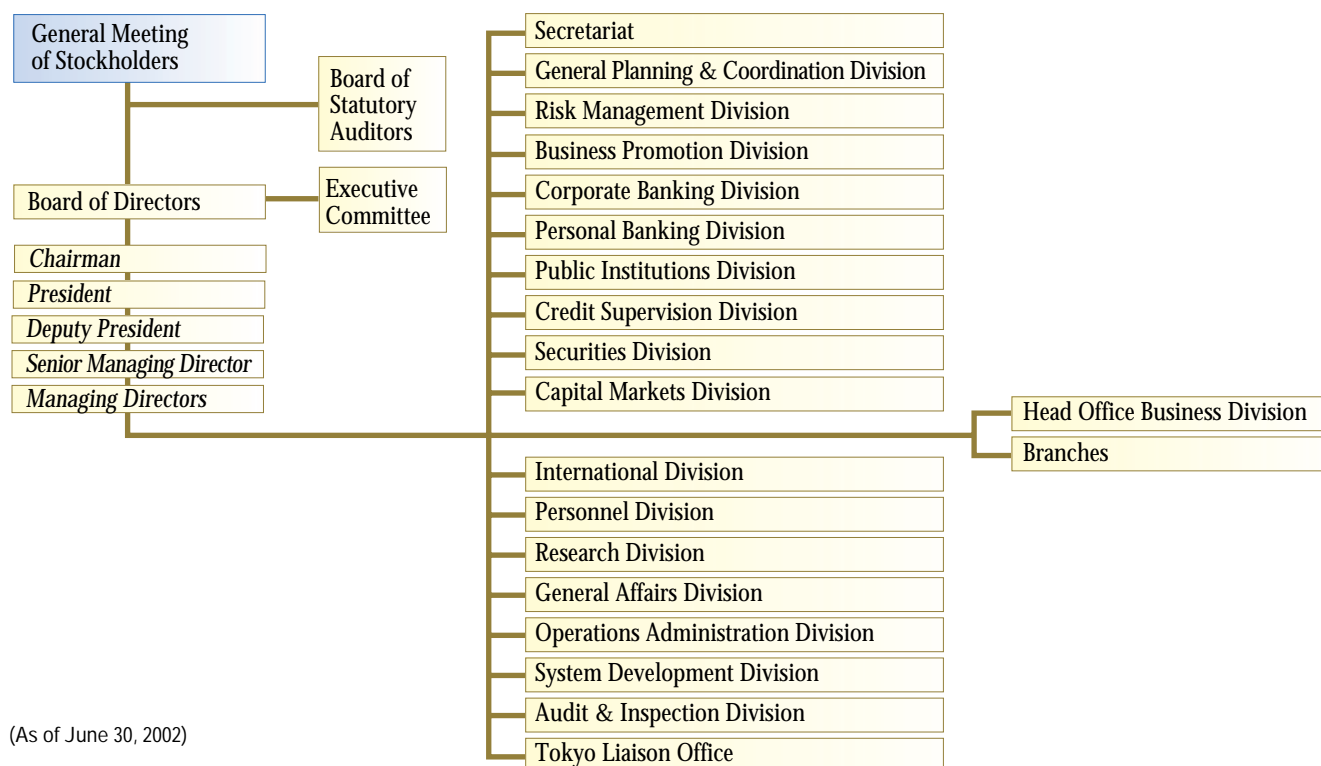
**Managing Directors**  
Osamu Ichijo  
Masayuki Aoki  
Isamu Sato  
Seikichi Watanabe

**Directors**  
Yoshiaki Nagayama  
Tomokazu Sato  
Naoki Takahashi  
Yoshimasa Kohama  
Toshikazu Nakamata  
Nobuhiro Chiba  
Shigenori Hottai  
Reiichi Sato

**Standing Statutory Auditors**  
Hideaki Sasaki  
Naoto Kobayashi

**Statutory Auditors**  
Yoh Makino  
Hiroo Onodera

## Organization



# Financial Section

## Consolidated Five-Year Summary

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

	Millions of Yen				
	2002	2001	2000	1999	1998
<b>For the fiscal year</b>					
Net interest income	¥ 87,354	¥ 89,789	¥ 93,584	¥ 92,475	¥—
Net fees and commissions	11,446	11,274	11,183	10,372	—
Net other operating income (loss)	(905)	1,476	(54)	1,674	—
Net income	2,177	11,197	15,389	9,653	—
<b>At the fiscal year-end</b>					
Total assets	¥5,192,871	¥5,212,706	¥4,993,833	¥4,902,017	¥—
Deposits	4,694,029	4,582,584	4,503,575	4,350,307	—
Loans and bills discounted	3,176,555	3,163,042	3,124,638	3,128,096	—
Trading account securities and investment securities	1,355,475	1,273,007	1,027,733	1,036,647	—
Stockholders' equity	300,468	323,744	244,374	231,317	—
Common stock	24,659	24,659	24,659	24,659	—

	Yen				
	2002	2001	2000	1999	1998
<b>Per share of common stock</b>					
Net income	¥ 5.68	¥ 29.24	¥ 40.19	¥ 25.21	¥ —
Diluted net income		28.02	38.46	23.93	—
Stockholders' equity	784.94	845.66	638.34	604.23	—
Cash dividends	6.00	6.00	6.00	6.00	—
<b>Capital adequacy ratio (%)</b>					
BIS standard	[11.86]	[12.36]	[12.55]	[11.41]	9.94
Domestic standard	10.08	10.26	10.34	9.77	—

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. Until the year ended March 31, 1998, the BIS standard was applicable to the ratio, which was calculated on a non-consolidated basis because the Bank did not employ consolidated figures. 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 parentheses, are indicated for reference only.

# Consolidated Performance for Fiscal 2002

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

## Financial and Economic Conditions

Domestic economic conditions in fiscal 2002, ended March 31, 2002, continued to worsen, marked by deflation and sluggish demand at home and abroad. Amid the gloom, however, one bright spot emerged: The downward trend in exports and production bottomed out at the end of the term, paralleling economic recovery overseas. Consumer spending also remained poor, with any possibility of improvement hampered by diminished disposable income and increased unemployment.

In Miyagi Prefecture, The 77 Bank's primary base of operations, several unfavorable developments, including a year-on-year drop in production volume, served only to extend the local economic slump.

Against this background, long- and short-term interest rates hovered low, reflecting further efforts by the Bank of Japan to relax financial regulations. Stock prices continued to fall, culminating in the February 2002 plunge to the lowest level since the asset-inflated bubble burst in the early 1990s. With growing concern over the direction of Japan's economy, the yen remained weak in foreign exchange markets.

## Business Results

The Bank's consolidated performance for fiscal 2002 is presented below.

Deposits, including negotiable deposits, rose 2.4%, to ¥4,694.0 billion, largely supported by more deposits from individuals. Although demand for funds has been streamlined because of the prolonged economic downturn, the Bank marked a 0.4% increase in loans and bills discounted, to ¥3,176.6 billion, mirroring efforts to promote loans to local small and medium-sized businesses and to individuals. In the Bank's investment portfolio, investment securities expanded 6.3%, to ¥1,351.2 billion. Total assets as of March 31, 2002, stood at ¥5,192.9 billion, down 0.4%.

Despite efforts to minimize expenses and make fundraising and fund application activities more efficient, the Bank was unable to escape the effects of the difficult operating environment. Total income fell 13.4%, to ¥143.4 billion, even with gains from the disposal of investment securities. Total expenses

reached ¥139.6 billion, down 4.6%, but influenced by the prolonged slump in the stock market and higher provision for possible loan losses that accompanied the sluggish economy and falling land prices.

As a result, net income tumbled 80.6%, to ¥2.2 billion. Net income per share settled at ¥5.68. The Bank's capital adequacy ratio slipped 0.18 percentage point, to 10.08%, as calculated to the domestic standard.

Performance by business segment shows that banking operations provided total income of ¥125.2 billion, up 1.2%, primarily due to an increase in gains on the sale of investment securities. Ordinary income dropped 85.5%, to ¥2.7 billion, owing to an increase in amortization of stock and other investments as well as expanded transfer to reserve for possible loan losses.

Lease operations contributed ¥17.1 billion to total income, a 2.3% decrease from the previous fiscal year. Ordinary income fell 85.8%, to ¥109 million.

Other operations, including credit card operations, accounted for ¥4.7 billion of total income, up 1.8%. Ordinary income rebounded to ¥492 million after a loss of ¥82 million a year earlier.

In regard to cash flow, cash provided by operating activities doubled, to ¥219.0 billion. Although the Bank recorded an increase in loans and bills discounted, financial deregulation policies precipitated fund-application difficulties that led to a drastic reduction in call loans and bills purchased. Another contributing factor was an increase in deposits, including negotiable deposits, despite a decrease in regional call money.

Net cash used in investing activities came to ¥129.3 billion, up 5.9%, mirroring a drop in proceeds from sales of investment securities and the fact that the amount of newly established money in trust exceeds the amount of repayment from money in trust.

Net cash used in financing activities reached ¥41.7 billion, a huge increase from ¥2.3 billion a year earlier, largely owing to the retirement of subordinated loans with special conditions and redemption of convertible bonds.

Consequently, cash and cash equivalents as at March 31, 2002, stood at ¥132.3 billion, a 57.1% improvement.

# Consolidated Balance Sheets

THE 77 BANK, LTD. AND SUBSIDIARIES  
March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>Assets:</b>			
Cash and due from banks	¥ 134,007	¥ 85,699	\$ 1,005,678
Call loans and bills purchased	259,801	416,887	1,949,722
Commercial paper and other debt purchased	60,557	60,940	454,461
Trading account securities (Notes 3 and 10)	4,226	2,087	31,714
Money held in trust (Note 4)	89,068	79,660	668,430
Investment securities (Notes 3 and 10)	1,351,249	1,270,919	10,140,704
Loans and bills discounted (Note 5)	3,176,555	3,163,042	23,839,064
Foreign exchange assets (Note 6)	530	459	3,979
Other assets (Note 7)	55,795	58,838	418,726
Premises and equipment—net (Notes 8 and 10)	55,386	58,772	415,657
Deferred tax assets (Note 22)	26,206	1,549	196,668
Customers' liabilities for acceptances and guarantees (Note 9)	80,488	92,979	604,034
Allowance for possible loan losses	(100,997)	(79,124)	(757,949)
Allowance for losses on investment securities		(1)	
<b>Total</b>	<b>¥5,192,871</b>	<b>¥5,212,706</b>	<b>\$38,970,888</b>
<b>Liabilities:</b>			
Deposits (Notes 10 and 12)	¥4,694,029	¥4,582,584	\$35,227,232
Call money	8,650	37,839	64,918
Payable under repurchase agreements (Note 10)	1,500		11,257
Borrowed money (Notes 10 and 13)	26,193	49,002	196,566
Foreign exchange liabilities (Note 6)	115	125	865
Convertible bonds (Note 14)		19,334	
Other liabilities (Note 15)	39,371	64,056	295,468
Liability for employees' retirement benefits (Note 16)	36,260	34,891	272,123
Deferred tax liabilities (Note 22)		2,641	
Acceptances and guarantees (Note 9)	80,488	92,979	604,034
<b>Total liabilities</b>	<b>4,886,606</b>	<b>4,883,451</b>	<b>36,672,463</b>
<b>Minority interests</b>	<b>5,797</b>	<b>5,511</b>	<b>43,510</b>
<b>Stockholders' equity (Notes 17 and 25):</b>			
Common stock, authorized—1,344,000,000 shares in 2002 and 2001; issued—383,278,734 shares in 2002 and 2001	24,659	24,659	185,055
Additional paid-in capital	7,835	7,835	58,800
Retained earnings	220,902	221,066	1,657,804
Unrealized gain on available-for-sale securities (Note 3)	47,422	70,513	355,886
<b>Total</b>	<b>300,818</b>	<b>324,073</b>	<b>2,257,545</b>
Treasury stock—at cost —489,732 shares in 2002 and 452,753 shares in 2001	(350)	(329)	(2,630)
<b>Total stockholders' equity</b>	<b>300,468</b>	<b>323,744</b>	<b>2,254,915</b>
<b>Total</b>	<b>¥5,192,871</b>	<b>¥5,212,706</b>	<b>\$38,970,888</b>

See notes to consolidated financial statements.

# Consolidated Statements of Income

THE 77 BANK, LTD. AND SUBSIDIARIES  
Years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>Income:</b>			
Interest on:			
Loans and discounts	¥ 69,814	¥ 71,956	\$ 523,935
Trading account and investment securities	29,790	32,929	223,562
Other	102	227	767
Fees and commissions	14,723	14,488	110,492
Other operating income (Note 18)	16,406	17,047	123,121
Other income (Note 19)	12,568	29,010	94,319
<b>Total income</b>	<b>143,403</b>	<b>165,657</b>	<b>1,076,196</b>
<b>Expenses:</b>			
Interest on:			
Deposits	5,137	9,811	38,556
Borrowings and rediscounts	1,372	2,788	10,298
Other	5,843	2,724	43,847
Fees and commissions	3,277	3,214	24,592
Other operating expenses (Note 20)	17,311	15,571	129,913
General and administrative expenses	62,713	62,764	470,645
Provision for possible loan losses	31,364	22,901	235,374
Other expenses (Note 21)	12,565	26,520	94,298
<b>Total expenses</b>	<b>139,582</b>	<b>146,293</b>	<b>1,047,523</b>
<b>Income before income taxes and minority interests</b>	<b>3,821</b>	<b>19,364</b>	<b>28,673</b>
<b>Income taxes (Note 22):</b>			
Current	12,186	27,415	91,452
Deferred	(10,851)	(19,595)	(81,436)
<b>Total income taxes</b>	<b>1,335</b>	<b>7,820</b>	<b>10,016</b>
<b>Minority interests in net income</b>	<b>(309)</b>	<b>(347)</b>	<b>(2,318)</b>
<b>Net income</b>	<b>¥ 2,177</b>	<b>¥ 11,197</b>	<b>\$ 16,339</b>
<b>Per share of common stock:</b>			
Basic net income	¥5.68	¥29.24	\$0.042
Diluted net income		28.02	
Cash dividends applicable to the year	6.00	6.00	0.045

See notes to consolidated financial statements.



# Consolidated Statements of Stockholders' Equity

THE 77 BANK, LTD. AND SUBSIDIARIES  
Years ended March 31, 2002 and 2001

	Thousands		Millions of Yen			
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for- Sale Securities	Treasury Stock
<b>Balance, April 1, 2000</b>	383,279	¥24,659	¥7,835	¥212,210		¥(329)
Net income				11,197		
Cash dividends:						
Year-end for prior year, ¥3.00 per share				(1,149)		
Interim for current year, ¥3.00 per share				(1,149)		
Bonuses to directors and corporate auditors				(43)		
Purchases of treasury stock (55 thousand shares)						(43)
Sales of treasury stock (55 thousand shares)						43
Net increase in unrealized gain on available-for-sale securities					¥70,513	
<b>Balance, March 31, 2001</b>	383,279	24,659	7,835	221,066	70,513	(329)
Net income				2,177		
Cash dividends:						
Year-end for prior year, ¥3.00 per share				(1,149)		
Interim for current year, ¥3.00 per share				(1,149)		
Bonuses to directors and corporate auditors				(43)		
Purchases of treasury stock (70 thousand shares)						(43)
Sales of treasury stock (33 thousand shares)						22
Net decrease in unrealized gain on available-for-sale securities					(23,091)	
<b>Balance, March 31, 2002</b>	<b>383,279</b>	<b>¥24,659</b>	<b>¥7,835</b>	<b>¥220,902</b>	<b>¥47,422</b>	<b>¥(350)</b>

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for- Sale Securities	Treasury Stock
<b>Balance, March 31, 2001</b>	\$185,055	\$58,800	\$1,659,032	\$529,177	\$(2,470)
Net income			16,339		
Cash dividends:					
Year-end for prior year, \$0.023 per share			(8,619)		
Interim for current year, \$0.023 per share			(8,619)		
Bonuses to directors and corporate auditors			(329)		
Purchases of treasury stock (70 thousand shares)					(326)
Sales of treasury stock (33 thousand shares)					166
Net decrease in unrealized gain on available-for-sale securities				(173,291)	
<b>Balance, March 31, 2002</b>	<b>\$185,055</b>	<b>\$58,800</b>	<b>\$1,657,804</b>	<b>\$355,886</b>	<b>\$(2,630)</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

THE 77 BANK, LTD. AND SUBSIDIARIES  
Years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>Operating activities:</b>			
Income before income taxes and minority interests	¥ 3,821	¥ 19,364	\$ 28,673
Adjustments for:			
Income taxes-paid	(29,208)	(15,240)	(219,194)
Depreciation and amortization	17,510	17,698	131,408
Increase in allowance for possible loan losses	21,873	14,451	164,144
(Decrease) increase in allowance for losses on investment securities	(1)	1	(11)
Increase in liability for employees' retirement benefits	1,369	23,449	10,276
Interest income	(99,706)	(105,112)	(748,264)
Interest expenses	12,352	15,323	92,701
Investment securities gains—net	(510)	(2,672)	(3,826)
Losses on money held in trust—net	989	398	7,419
Foreign exchange gains—net	(4,264)	(9,107)	(32,000)
(Gains) losses on disposal of premises and equipment—net	(507)	133	(3,802)
Net increase in loans and bills discounted	(13,513)	(38,404)	(101,413)
Net increase in deposits	111,445	79,009	836,355
Net decrease in other borrowings	(2,810)	(4,268)	(21,087)
Net (increase) decrease in due from banks	(235)	1,112	(1,766)
Net decrease in call loans and bills purchased	157,087	28,722	1,178,896
Net decrease (increase) in commercial paper and other debt purchased	383	(23,734)	2,874
Net (decrease) increase in call money	(27,689)	22,670	(207,793)
Net increase in trading account securities	(2,139)	(584)	(16,050)
Net increase in foreign exchange assets	(71)	(18)	(532)
Net (decrease) increase in foreign exchange liabilities	(5,407)	7,953	(40,580)
Interest received	102,587	103,164	769,885
Interest paid	(16,030)	(16,994)	(120,299)
Other—net	(8,309)	(8,210)	(62,360)
Total adjustments	215,196	89,740	1,614,981
Net cash provided by operating activities	219,017	109,104	1,643,654
<b>Investing activities:</b>			
Purchases of investment securities	(338,672)	(394,627)	(2,541,632)
Proceeds from sales of investment securities	25,275	117,651	189,683
Proceeds from maturity of investment securities	197,530	164,616	1,482,403
Increase in money held in trust	(40,000)	(6,000)	(300,188)
Decrease in money held in trust	28,979		217,478
Purchases of premises and equipment	(3,805)	(4,137)	(28,559)
Proceeds from sales of premises and equipment	1,377	407	10,337
Net cash used in investing activities	(129,316)	(122,090)	(970,478)
<b>Financing activities:</b>			
Repayment for borrowed money	(20,000)		(150,094)
Repayments of convertible bonds	(19,334)		(145,096)
Dividends paid	(2,297)	(2,297)	(17,237)
Dividends paid to minority interests stockholders	(8)	(8)	(60)
Purchases of treasury stock	(43)	(43)	(326)
Proceeds from sales of treasury stock	22	43	167
Net cash used in financing activities	(41,660)	(2,305)	(312,646)
Foreign currency translation adjustments on cash and cash equivalents	31	57	238
Net increase (decrease) in cash and cash equivalents	48,072	(15,234)	360,768
Cash and cash equivalents, beginning of year	84,196	99,430	631,866
Cash and cash equivalents, end of year	¥ 132,268	¥ 84,196	\$ 992,634

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

THE 77 BANK, LTD. AND SUBSIDIARIES  
Years ended March 31, 2002 and 2001

## 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 and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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.

Certain reclassifications have been made in the 2001 consolidated balance sheet and cash flow statement to conform to the classifications used in 2002.

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 ¥133.25 to U.S.\$1, the approximate rate of exchange at March 31, 2002. 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.

Investment in one associated company is stated at cost, at March 31, 2001. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealised 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.

Effective April 1, 2001, *gensaki* transactions (securities purchased under resale agreements and securities sold under repurchase agreements) that are not for trading purpose are accounted for as financing transactions and not as purchases and sales. This change was required based on the Accounting Standard for Financial Instruments issued by the Business Accounting Deliberation Council in January 1999.

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. Property and Equipment for Lease**—Property and equipment for lease included in other assets are stated at cost less accumulated depreciation. Depreciation of property and equipment for lease 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 five to 31 years for buildings, and from five to 20 years for equipment.

**f. Software**—Cost of computer software obtained for internal use is amortized using 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.

**h. Allowance for Possible Loan Losses**—The Bank determines the amount of the allowance for possible 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 allowance for possible 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 allowance for possible loan losses by a similar self-assessment system to that of the Bank.

**i. Allowance for Losses on Investment Securities**—The allowance for losses on investment securities is stated in amounts based on the estimated losses on non-marketable investment securities.

**j. 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.

Effective April 1, 2000, the Companies adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation of ¥24,278 million, determined as of April 1, 2001, is charged to income and presented as other expenses in the consolidated statement of income for the year ended March 31, 2001.

**k. 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.

**l. 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.

**m. 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.

**n. 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 fund swap are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and for derivatives used for hedging purposes, 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 method of hedge accounting is a “Macro Hedge” in which the Bank manages interest rate risks arising from various assets and liabilities with derivatives transactions as a whole. The Bank applies a risk adjustment approach based on the report issued by Japanese Institute of Certified Public Accountants (“JICPA”) “Tentative Treatment in Accounting and Audit for Banks on Application Standard for Financial Instruments.” The effectiveness of the macro hedge is reviewed for a reduction in interest rate risk exposure and for the actual risk amount of derivatives within the permitted risk amount under the Bank’s risk control policies.

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.

Fund swap transactions are accounted for on an accrual basis based on the report issued by the JICPA, “Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry.”

For fund swap transactions, the amounts on the consolidated balance sheet are net yen conversions of the principal equivalents of assets and liabilities using the fiscal-year-end exchange rate. Differences between spot and forward rates in fund swap transactions are recorded in interest income or expense on an accrual basis for the period from the settlement date of spot foreign exchange to the settlement date of forward foreign exchange. Therefore, accrued interest income or expenses are recognized at the fiscal year-end.

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

**o. Per Share Information**—The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The

weighted average number of common shares used in computation was 382,814 thousand shares for 2002 and 382,826 thousand shares for 2001.

Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax for 2001, and is not disclosed because convertible bonds were redeemed for 2002.

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

### 3. Trading Account Securities and Investment Securities

Trading account securities as of March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
National government bonds	<b>¥4,020</b>	¥1,835	<b>\$30,168</b>
Local government bonds	<b>206</b>	252	<b>1,546</b>
Total	<b>¥4,226</b>	¥2,087	<b>\$31,714</b>

Investment securities as of March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
National government bonds	<b>¥ 677,132</b>	¥ 639,653	<b>\$ 5,081,668</b>
Local government bonds	<b>165,973</b>	154,772	<b>1,245,578</b>
Corporate bonds	<b>276,260</b>	219,661	<b>2,073,248</b>
Equity securities	<b>114,766</b>	149,477	<b>861,280</b>
Other securities	<b>117,118</b>	107,356	<b>878,930</b>
Total	<b>¥1,351,249</b>	¥1,270,919	<b>\$10,140,704</b>

The carrying amounts and aggregate fair values of securities at March 31, 2002 and 2001 were as follows:

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

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				<b>¥ 22,225</b>
Available-for-sale:				
Equity securities	<b>¥ 67,506</b>	<b>¥45,197</b>	<b>¥1,468</b>	<b>111,235</b>
Debt securities	<b>1,078,494</b>	<b>39,682</b>	<b>651</b>	<b>1,117,525</b>
Other securities	<b>146,072</b>	<b>807</b>	<b>1,872</b>	<b>145,007</b>
Held-to-maturity	<b>501</b>	<b>1</b>		<b>502</b>
	Millions of Yen			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				<b>¥ 32,682</b>
Available-for-sale:				
Equity securities	<b>¥ 78,417</b>	<b>¥69,345</b>	<b>¥2,214</b>	<b>145,548</b>
Debt securities	<b>958,521</b>	<b>54,243</b>	<b>108</b>	<b>1,012,656</b>
Other securities	<b>124,498</b>	<b>1,106</b>	<b>1,764</b>	<b>123,840</b>
Held-to-maturity	<b>480</b>	<b>59</b>		<b>539</b>

	Thousands of U.S. Dollars			Fair Value
	2002			
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Trading				\$ 166,790
Available-for-sale:				
Equity securities	\$ 506,609	\$339,190	\$11,013	834,786
Debt securities	8,093,764	297,805	4,885	8,386,684
Other securities	1,096,227	6,054	14,049	1,088,232
Held-to-maturity	3,757	11		3,768

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2002 and 2001 were as follows:

	Millions of Yen		Carrying Amount
			Thousands of U.S. Dollars
	2002	2001	2002
Available-for-sale:			
Equity securities	¥3,530	¥3,919	\$26,494
Debt securities	1,448	1,361	10,870
Total	¥4,978	¥5,280	\$37,364

Proceeds from sales of available-for-sale securities for the years ended March 31, 2002 and 2001 were ¥25,275 million (\$189,683 thousand) and ¥114,130 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥10,228 million (\$76,761 thousand) and ¥3,592 million (\$26,956 thousand), respectively, for the year ended March 31, 2002 and ¥26,422 million and ¥803 million, respectively, for the year ended March 31, 2001.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2002 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	¥ 239,129	¥300	\$1,794,586	\$2,252
Due after one year through five years	788,741	201	5,919,254	1,505
Due after five years through 10 years	204,472		1,534,502	
Due after 10 years	20,615		154,709	
Total	¥1,252,957	¥501	\$9,403,051	\$3,757

Unrealized gains on available-for-sale securities for the years ended March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Valuation differences:			
Available-for-sale securities	¥ 81,696	¥120,608	\$613,101
Available-for-sale held in trust	(470)	154	(3,528)
Deferred tax liabilities	(33,790)	(50,237)	(253,582)
Minority interests	(14)	(12)	(105)
Net unrealized gain on available-for-sale securities	¥ 47,422	¥ 70,513	\$355,886

#### 4. Money Held in Trust

The carrying amounts and aggregate fair values of money held in trust at March 31, 2002 and 2001, were as follows:

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				<b>¥73,731</b>
Available-for-sale	<b>¥15,807</b>	<b>¥</b>	<b>¥470</b>	<b>15,337</b>
	Millions of Yen			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥73,506
Available-for-sale	¥ 6,000	¥154	¥	6,154
	Thousands of U.S. Dollars			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				<b>\$553,329</b>
Available-for-sale	<b>\$118,629</b>	<b>\$</b>	<b>\$3,528</b>	<b>115,101</b>

#### 5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
	Bills discounted	<b>¥ 54,658</b>	¥ 67,448
Loans on bills	<b>517,405</b>	556,164	<b>3,882,966</b>
Loans on deeds	<b>1,966,863</b>	1,961,156	<b>14,760,696</b>
Overdraft	<b>637,629</b>	578,274	<b>4,785,206</b>
Total	<b>¥3,176,555</b>	¥3,163,042	<b>\$23,839,064</b>

The total of the face value of bills accepted by commercial bills discounted by the Bank is ¥54,712 million (\$410,600 thousand) and ¥67,448 million for the years ended March 31, 2002 and 2001, respectively.

Loans and bills discounted at March 31, 2002 and 2001 included the following loans:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
	Loans to borrowers in bankruptcy	<b>¥ 28,859</b>	¥ 20,989
Past due loans	<b>128,801</b>	48,352	<b>966,613</b>
Past due loans (three months or more)	<b>570</b>	4,479	<b>4,281</b>
Restructured loans	<b>100,707</b>	117,586	<b>755,775</b>
Total	<b>¥258,937</b>	¥191,406	<b>\$1,943,243</b>

Nonaccrual loans are defined as loans (after the partial charge-off of claims deemed uncollectible) in respect of which the Bank discontinues the accruing of interest income when substantial doubt is deemed to exist as to the ultimate collectibility of either principal or interest if they are past due for a certain period or for other reasons, such that the loans classified as "possible bankruptcy" and "virtual bankruptcy" under the Bank's self-assessment guidelines.



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”.

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).

Past due loans (three months or more) consist of loans for 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, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower’s reorganization, but 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, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
<b>Assets</b>			
Foreign exchange bills bought	¥ 72	¥ 85	\$ 543
Foreign exchange bills receivable	123	169	920
Due from foreign correspondent accounts	335	205	2,516
<b>Total</b>	<b>¥530</b>	<b>¥459</b>	<b>\$3,979</b>
<b>Liabilities</b>			
Foreign exchange bills sold	¥ 97	¥ 83	\$ 726
Foreign exchange bills payable	18	42	137
Due to foreign correspondent accounts			2
<b>Total</b>	<b>¥115</b>	<b>¥125</b>	<b>\$ 865</b>

## 7. Other Assets

Other assets at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Accrued income	¥10,244	¥12,074	\$ 76,878
Prepaid expenses	45	92	337
Premises and equipment for lease—net	28,957	31,726	217,312
Other	16,549	14,946	124,199
<b>Total</b>	<b>¥55,795</b>	<b>¥58,838</b>	<b>\$418,726</b>

## 8. Premises and Equipment

The accumulated depreciation of premises and equipment at March 31, 2002 and 2001 amounted to ¥72,570 million (\$544,614 thousand) and ¥69,896 million, respectively.

Gains deferred on the sale and replacement of certain assets of ¥8,009 million (\$60,105 thousand) and ¥8,009 million were deducted from the related premises and equipment at March 31, 2002 and 2001, respectively.

## 9. Customers’ Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are reflected in “Acceptances and guarantees.” As a contra account, “Customers’ liabilities for acceptances and guarantees” are shown as 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, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Assets pledged as collateral:			
Trading account securities	¥ 1,500	¥	\$ 11,257
Investment securities	141,092	127,818	1,058,855
Relevant liabilities to above assets:			
Deposits	30,551	31,164	229,275
Payable under repurchase agreement	1,500		11,257

Additionally, investment securities amounting to ¥112,248 million (\$842,386 thousand) and ¥114,225 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, 2002 and 2001, respectively.

Other than the items shown above, rights under finance leases amounting to ¥4,881 million (\$36,631 thousand) and ¥5,416 million are pledged for borrowed money amounting to ¥3,577 million (\$26,844 thousand) and ¥4,020 million at March 31, 2002 and 2001, respectively.

Leased deposits amounting to ¥1,070 million (\$8,026 thousand) and ¥1,084 million are included in "Premises and equipment" at March 31, 2002 and 2001, respectively.

## 11. Loan Commitments

The Bank issues commitments to extend credit and establishes credit lines for overdraft by making agreements to meet the financing needs its customers. The unused amount within these limits total ¥1,259,187 million (\$9,449,810 thousand) relating to these contracts.

Since many of these 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' creditworthiness). At the inception of contracts, the Companies obtain real estate, securities, etc. as collateral 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, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Current deposits	¥ 162,639	¥ 146,567	\$ 1,220,554
Ordinary deposits	1,774,704	1,469,126	13,318,605
Deposits at notice	26,017	42,368	195,248
Time deposits	2,455,764	2,627,303	18,429,746
Negotiable certificates of deposit	6,380	810	47,880
Other deposits	268,525	296,410	2,015,199
Total	¥4,694,029	¥4,582,584	\$35,227,232

## 13. Borrowed Money

Borrowed money included subordinated borrowings of ¥10,000 million (\$75,047 thousand) and ¥30,000 million at March 31, 2002 and 2001, respectively.

14. Convertible Bonds Convertible bonds at March 31, 2001 consisted of 0.45% convertible bonds due 2002. The conversion price of the above convertible bonds was ¥1,036 per share at March 31, 2001 and the conversion price is subject to adjustments in certain circumstances. The convertible bonds were redeemed at March 29, 2002.

15. Other Liabilities Other liabilities at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Domestic exchange settlement account credit	¥ 221	¥ 170	\$ 1,656
Accrued expenses	8,681	12,151	65,150
Unearned income	7,436	7,683	55,802
Income taxes payable	2,429	19,451	18,230
Other	20,604	24,601	154,630
Total	¥39,371	¥64,056	\$295,468

16. 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 determined 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, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Projected benefit obligation	¥ 80,921	¥ 75,318	\$ 607,290
Fair value of plan assets	(33,903)	(35,060)	(254,432)
Unrecognized net actuarial loss	(10,758)	(5,367)	(80,735)
Net liability	¥ 36,260	¥ 34,891	\$ 272,123

The components of net periodic benefit costs for the years ended March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Service cost	¥ 2,210	¥ 2,293	\$16,586
Interest cost	2,255	2,215	16,924
Expected return on plan assets	(1,227)	(1,348)	(9,209)
Amortization of prior service cost	(25)	(1,648)	(191)
Recognized actuarial loss	536		4,028
Amortization of transitional obligation		24,278	
Net periodic benefit costs	¥ 3,749	¥25,790	\$28,138

Assumptions used for the years ended March 31, 2002 and 2001 were set forth as follows:

	2002	2001
Discount rate	3.0%	3.0%
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
Amortization period of transitional obligation		1 year

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**17. Stockholders' Equity** Japanese banks are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001, and to the Japanese Banking Law (the "Banking Law") also to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, 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. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Banking Law provided that an amount at least equal to 20% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 100% of the stated capital. Effective October 1, 2001, the revised Banking Law allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 100% of 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 ¥24,659 million (\$185,055 thousand) and ¥24,659 million as of March 31, 2002 and 2001, 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. Prior to October 1, 2001, the amount calculated by dividing the total amount of stockholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing 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 after March 31, 2002. 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, 2002, retained earnings recorded on the Bank's book were ¥196,188 million (\$1,472,327 thousand) which is available for future dividends subject to the approval of the stockholders.

18. Other Operating Income

Other operating income for the years ended March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Gains on sales and redemption of bonds and other securities	¥ 106	¥ 503	\$ 797
Lease receipt	12,880	13,225	96,658
Other	3,420	3,319	25,666
<b>Total</b>	<b>¥16,406</b>	<b>¥17,047</b>	<b>\$123,121</b>

19. Other Income

Other income for the years ended March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Gains on sales of stocks and other securities	¥10,122	¥ 3,289	\$75,966
Gains on sales of money held in trust	361	436	2,710
Gains on sales of stocks contributed to employees' retirement benefits		22,630	
Amortization period of prior service cost		1,648	
Gains on sales of premises and equipment	778	123	5,841
Other	1,307	884	9,802
<b>Total</b>	<b>¥12,568</b>	<b>¥29,010</b>	<b>\$94,319</b>

20. Other Operating Expenses

Other operating expenses for the years ended March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Losses on sales, redemption and devaluation of bonds and other securities	¥ 1,770	¥ 916	\$ 13,283
Lease cost	12,093	11,892	90,754
Other	3,448	2,763	25,876
<b>Total</b>	<b>¥17,311</b>	<b>¥15,571</b>	<b>\$129,913</b>

21. Other Expenses

Other expenses for the years ended March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Losses on sales of stocks and other securities	¥ 3,519	¥ 15	\$26,410
Losses on devaluation of stocks and other securities	4,428	189	33,234
Charge for full amount of transitional obligation for employees' retirement benefits		24,278	
Bad debt losses	1,891	377	14,190
Losses on dispositions of money held in trust	1,350	834	10,129
Losses on sales of loans	419	124	3,145
Other	958	703	7,190
<b>Total</b>	<b>¥12,565</b>	<b>¥26,520</b>	<b>\$94,298</b>

## 22. 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, 2002 and 2001.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets:			
Allowance for possible loan losses	<b>¥36,002</b>	¥26,165	<b>\$270,183</b>
Liability for employees' retirement benefits	<b>13,751</b>	13,052	<b>103,195</b>
Premises and equipment (depreciation)	<b>5,090</b>	3,496	<b>38,196</b>
Accrued enterprise tax	<b>229</b>	1,735	<b>1,722</b>
Losses on devaluation of stocks and other securities	<b>2,144</b>	1,012	<b>16,092</b>
Other	<b>3,129</b>	3,822	<b>23,486</b>
Total	<b>60,345</b>	49,282	<b>452,874</b>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	<b>33,790</b>	50,237	<b>253,582</b>
Premises and equipment (defferal gain on sales and replacement)	<b>349</b>	137	<b>2,624</b>
Total	<b>34,139</b>	50,374	<b>256,206</b>
Net deferred tax assets (liabilities)	<b>¥26,206</b>	¥ (1,092)	<b>\$196,668</b>

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, 2002 and 2001 was as follows:

	2002	2001
Normal effective statutory tax rate	<b>41.6%</b>	41.6%
Expenses not deductible for income tax purposes	<b>5.7</b>	0.8
Income not taxable for income tax purposes	<b>(14.0)</b>	(3.3)
Inhabitants taxes	<b>1.8</b>	0.4
Other—net	<b>(0.2)</b>	0.8
Actual effective tax rate	<b>34.9%</b>	40.3%

## 23. 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, 2002 and 2001 were ¥12,579 million (\$94,398 thousand) and ¥12,917 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, 2002 and 2001 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Equipment and Other Assets	2001	Equipment and Other Assets
	2002		2002
Acquisition cost	<b>¥70,293</b>	¥73,050	<b>\$527,528</b>
Accumulated depreciation	<b>(41,321)</b>	(41,335)	<b>(310,103)</b>
Net leased property	<b>¥28,972</b>	¥31,715	<b>\$217,425</b>

Future lease payments receivable under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Receivables:			
Due within one year	<b>¥ 9,447</b>	¥10,129	<b>\$ 70,895</b>
Due after one year	<b>19,482</b>	20,954	<b>146,209</b>
<b>Total</b>	<b>¥28,929</b>	¥31,083	<b>\$217,104</b>

Depreciation expense and interest income under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Depreciation expense	<b>¥11,022</b>	¥10,778	<b>\$82,719</b>
Interest income	<b>1,571</b>	1,653	<b>11,793</b>

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

## 24. Derivatives

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 customers 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 customers.

Furthermore, the Bank enters into interest rate futures, bond futures, bond future options and foreign exchange forward contracts for 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 part of 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 of Japan requirements of the capital adequacy ratio, credit risk equivalent which was measured using the current exposure method amounted to ¥2,553 million (\$19,161 thousand) and ¥3,759 million at March 31, 2002 and 2001, 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 check 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, 2002 and 2001:

	Millions of Yen				Thousands of U.S. Dollars	
	2002		2001		2002	
	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
Interest rate swaps:						
Fixed rate receipt, floating rate payment	¥ 1,000	¥ 4	¥ 1,000	¥ 11	\$ 7,505	\$ 32
Floating rate receipt, fixed rate payment	16,222	(291)	19,082	(378)	121,738	(2,183)
Credit default swap:						
Selling	1,000	994			7,505	7,457

Valuation gains (losses) for the years ended March 31, 2002 and 2001 were recognized in the consolidated statements of income.

Derivatives which qualify for hedge accounting for the years ended March 31, 2002 and 2001, 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, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Contract Amount		Contract Amount
	2002	2001	2002
Foreign exchange forward contracts:			
Selling	¥135,739	¥181,841	\$1,018,676
Buying	10,525	14,390	78,986
Currency options:			
Selling	191	363	1,432
Buying	191	363	1,432

25. Subsequent Events At the Bank's general stockholders meeting held on June 27, 2002, the Bank's stockholders approved the following:

**a. Appropriations of retained earnings**

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥3.00 (\$0.023) per share	¥1,150	\$8,628

**b. Purchase of treasury stock for the related reduction of retained earnings**

The Bank is authorized to repurchase, at management's discretion, up to 28,000 thousand shares of the Bank's common stock.



## 26. Segment Information

### (1) Business Segment Information

Information about operations in different business segments of the Companies for the years ended March 31, 2002 and 2001 was as follows:

#### a. Ordinary income

	Millions of Yen					
	2002					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	¥124,626	¥14,822	¥3,134	¥142,582		¥142,582
Intersegment income	561	2,321	1,547	4,429	¥(4,429)	
Total income	125,187	17,143	4,681	147,011	(4,429)	142,582
Ordinary expenses	122,471	17,034	4,189	143,694	(4,383)	139,311
Ordinary income	¥ 2,716	¥ 109	¥ 492	¥ 3,317	¥ (46)	¥ 3,271

#### b. Assets, depreciation and capital expenditures

	Millions of Yen					
	2002					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	¥5,169,643	¥36,352	¥18,876	¥5,224,871	¥(32,000)	¥5,192,871
Depreciation	4,588	12,878	44	17,510		17,510
Capital expenditures	3,122	10,265	11	13,398	(132)	13,266

#### a. Ordinary income

	Thousands of U.S. Dollars					
	2002					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	\$935,274	\$111,234	\$23,522	\$1,070,030		\$1,070,030
Intersegment income	4,210	17,422	11,610	33,242	\$(33,242)	
Total income	939,484	128,656	35,132	1,103,272	(33,242)	1,070,030
Ordinary expenses	919,105	127,835	31,440	1,078,380	(32,896)	1,045,484
Ordinary income	\$20,379	\$ 821	\$ 3,692	\$ 24,892	\$ (346)	\$ 24,546

#### b. Assets, depreciation and capital expenditures

	Thousands of U.S. Dollars					
	2002					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	\$38,796,570	\$272,812	\$141,656	\$39,211,038	\$(240,150)	\$38,970,888
Depreciation	34,434	96,644	330	131,408		131,408
Capital expenditures	23,432	77,032	86	100,550	(994)	99,556

**a. Ordinary income**

	Millions of Yen					
	2001					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	¥123,131	¥14,930	¥3,136	¥141,197		¥141,197
Intersegment income	609	2,624	1,460	4,693	¥(4,693)	
Total income	123,740	17,554	4,596	145,890	(4,693)	141,197
Ordinary expenses	104,950	16,785	4,678	126,413	(4,654)	121,759
Ordinary income	¥ 18,790	¥ 769	¥ (82)	¥ 19,477	¥ (39)	¥ 19,438

**b. Assets, depreciation and capital expenditures**

	Millions of Yen					
	2001					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	¥5,185,719	¥39,840	¥18,411	¥5,243,970	¥(31,264)	¥5,212,706
Depreciation	4,877	12,773	48	17,698		17,698
Capital expenditures	3,572	12,079	22	15,673	(74)	15,599

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.

# Independent Auditors' Report

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The logo for Deloitte Touche Tohmatsu, featuring the company name in a bold, sans-serif font stacked vertically.

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

We have examined the consolidated balance sheets of The 77 Bank, Ltd. and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The 77 Bank, Ltd. and subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations 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 cursive script that reads "Deloitte Touche Tohmatsu".

June 27, 2002

# Consolidated Capital Adequacy Ratio

THE 77 BANK, LTD.  
Years ended March 31

		Millions of Yen		Millions of U.S. Dollars
		2002	2001	2002
<b>Domestic standard</b>				
Tier I capital:	Common stock	¥ 24,659	¥ 24,659	\$ 185
	Capital surplus	7,835	7,835	59
	Retained earnings	219,736	219,848	1,649
	Minority interests	5,784	5,500	43
	Treasury stock	(351)	(329)	(3)
	Subtotal (A)	257,663	257,513	1,933
Tier II capital:	General reserve for possible loan losses	36,129	28,413	271
	Debt funding instruments and others	2,000	4,000	15
	Subtotal	38,129	32,413	286
	Position included in stockholders' equity (B)	19,150	20,954	144
Deductions:	Cross-holdings with other financial institutions (C)	—	—	—
Total capital:	(A) + (B) - (C) = (D)	276,813	278,467	2,077
Risk-adjusted assets:	On-balance-sheet	2,665,103	2,620,845	20,001
	Off-balance-sheet	78,838	91,835	591
	Subtotal (E)	2,743,941	2,712,680	20,592
Capital adequacy ratio (Domestic standard) = (D)/(E) x 100 (%)		10.08	10.26	

# Non-Consolidated Five-Year Summary

THE 77 BANK, LTD.  
As of March 31

	Millions of Yen				
	2002	2001	2000	1999	1998
<b>For the fiscal year</b>					
Net interest income	¥ 86,810	¥ 89,400	¥ 93,450	¥ 92,891	¥ 89,647
Net fees and commissions	10,242	10,080	10,031	9,330	9,304
Net other operating income (loss)	(2,682)	(899)	(2,935)	(1,824)	(1,817)
Net income	2,308	11,506	15,674	9,540	12,111
<b>At the fiscal year-end</b>					
Total assets	¥5,169,481	¥5,185,664	¥4,964,710	¥4,873,731	¥4,683,407
Deposits	4,701,812	4,589,992	4,511,553	4,358,296	4,195,368
Loans and bills discounted	3,192,561	3,179,012	3,140,109	3,145,708	3,099,250
Trading account securities and investment securities	1,354,933	1,272,489	1,027,216	1,036,126	972,823
Stockholders' equity	300,738	323,884	244,209	230,877	205,848
Common stock	24,659	24,659	24,659	24,659	24,654
	Yen				
	2002	2001	2000	1999	1998
<b>Per share data</b>					
Net income	¥ 6.02	¥ 30.01	¥ 40.89	¥ 24.89	¥ 31.62
Diluted net income		28.75	39.12	23.63	29.76
Stockholders' equity	784.72	845.04	637.16	602.37	537.08
Cash dividends	6.00	6.00	6.00	6.00	6.00
Capital adequacy ratio (%)					
BIS standard	[11.75]	[12.26]	[12.45]	[11.31]	9.94
Domestic standard	9.96	10.16	10.24	9.67	—

# Non-Consolidated Balance Sheets (Parent Company)

THE 77 BANK, LTD.  
March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
<b>Assets:</b>			
Cash and due from banks	¥ 133,779	¥ 85,572	\$ 1,003,971
Call loans and bills purchased	259,801	416,887	1,949,722
Commercial paper and other debt purchased	60,557	60,940	454,461
Trading account securities	4,226	2,087	31,714
Money held in trust	89,068	79,660	668,430
Investment securities	1,350,707	1,270,402	10,136,636
Loans and bills discounted	3,192,561	3,179,012	23,959,180
Foreign exchanges	530	459	3,979
Other assets	20,135	20,489	151,107
Premises and equipment	50,965	53,135	382,476
Deferred tax assets	24,102		180,882
Customers' liabilities for acceptances and guarantees	80,488	92,979	604,034
Allowance for possible loan losses	(97,438)	(75,957)	(731,240)
Allowance for losses on investment securities		(1)	
<b>Total</b>	<b>¥5,169,481</b>	<b>¥5,185,664</b>	<b>\$38,795,732</b>
<b>Liabilities:</b>			
Deposits	¥4,701,812	¥4,589,992	\$35,285,640
Call money	8,650	37,839	64,918
Payable under repurchase agreements	1,500		11,257
Borrowed money	10,287	30,277	77,204
Foreign exchanges	115	125	865
Convertible bonds		19,334	
Other liabilities	29,956	54,005	224,813
Liability for employees' retirement benefits	35,935	34,595	269,680
Deferred tax liabilities		2,634	
Acceptances and guarantees	80,488	92,979	604,034
<b>Total liabilities</b>	<b>4,868,743</b>	<b>4,861,780</b>	<b>36,538,411</b>
<b>Stockholders' equity:</b>			
Common stock	24,659	24,659	185,055
Capital surplus	7,835	7,835	58,800
Legal reserve	24,659	24,659	185,055
Retained earnings	196,188	196,222	1,472,331
Net unrealized gain on available-for-sale securities	47,420	70,511	355,873
Treasury stock	(23)	(2)	(173)
<b>Total stockholders' equity</b>	<b>300,738</b>	<b>323,884</b>	<b>2,256,941</b>
<b>Total</b>	<b>¥5,169,481</b>	<b>¥5,185,664</b>	<b>\$38,795,732</b>

## Non-Consolidated Statements of Income (Parent Company)

THE 77 BANK, LTD.  
Years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
<b>Income:</b>			
Interest on:			
Loans and discounts	¥ 69,036	¥ 71,260	\$ 518,093
Trading account and investment securities	29,785	32,918	223,527
Other	102	226	767
Fees and commissions	14,066	13,849	105,560
Other operating income	149	644	1,120
Other income	12,703	29,104	95,333
<b>Total income</b>	<b>125,841</b>	<b>148,001</b>	<b>944,400</b>
<b>Expenses:</b>			
Interest on:			
Deposits	5,143	9,821	38,597
Borrowings and rediscounts	1,128	2,459	8,462
Other	5,842	2,724	43,847
Fees and commissions	3,824	3,769	28,696
Other operating expenses	2,831	1,543	21,248
General and administrative expenses	61,159	61,307	458,979
Provision for possible loan losses	30,461	21,711	228,603
Other expenses	11,956	25,665	89,725
<b>Total expenses</b>	<b>122,344</b>	<b>128,999</b>	<b>918,157</b>
<b>Income before income taxes</b>	<b>3,497</b>	<b>19,002</b>	<b>26,243</b>
<b>Income taxes:</b>			
Current	11,477	26,546	86,131
Deferred	(10,288)	(19,050)	(77,206)
<b>Total income taxes</b>	<b>1,189</b>	<b>7,496</b>	<b>8,925</b>
<b>Net income</b>	<b>¥ 2,308</b>	<b>¥ 11,506</b>	<b>\$ 17,318</b>
		Yen	U.S. Dollars
<b>Per share of common stock:</b>			
Net income	¥6.02	¥30.01	\$0.045
Diluted net income		28.75	
Cash dividends applicable to the year	6.00	6.00	0.045

## Non-Consolidated Statements of Retained Earnings (Parent Company)

THE 77 BANK, LTD.  
Years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
<b>Balance, beginning of year</b>	<b>¥196,222</b>	<b>¥187,058</b>	<b>\$1,472,586</b>
Net income	2,308	11,506	17,318
Dividends paid, ¥6.00 (\$0.045) per share in 2002 and ¥6.00 per share in 2001	(2,300)	(2,300)	(17,258)
Bonuses to directors and corporate auditors	(42)	(42)	(315)
<b>Balance, end of year</b>	<b>¥196,188</b>	<b>¥196,222</b>	<b>\$1,472,331</b>

# Loan Portfolio

Loan Portfolio by Industry	Billions of Yen/%				Millions of U.S. Dollars
	2002		2001		2002
	Domestic offices <i>(Excluding Japan offshore banking accounts)</i>	<b>¥3,191</b>	<b>100.0%</b>	¥3,177	100.0%
Manufacturing	<b>335</b>	<b>10.5</b>	311	9.8	<b>2,517</b>
Agriculture	<b>6</b>	<b>0.2</b>	7	0.2	<b>46</b>
Forestry	<b>0</b>	<b>0.0</b>	1	0.0	<b>4</b>
Fishery	<b>20</b>	<b>0.6</b>	22	0.7	<b>149</b>
Mining	<b>4</b>	<b>0.2</b>	4	0.1	<b>32</b>
Construction companies	<b>224</b>	<b>7.0</b>	245	7.7	<b>1,680</b>
Utilities	<b>54</b>	<b>1.7</b>	40	1.3	<b>402</b>
Transportation and communications	<b>100</b>	<b>3.1</b>	82	2.6	<b>748</b>
Wholesale, retail and restaurants	<b>476</b>	<b>14.9</b>	498	15.7	<b>3,573</b>
Financial institutions	<b>268</b>	<b>8.4</b>	248	7.8	<b>2,009</b>
Real estate companies	<b>373</b>	<b>11.7</b>	370	11.6	<b>2,798</b>
Services	<b>373</b>	<b>11.7</b>	365	11.5	<b>2,796</b>
Municipalities	<b>314</b>	<b>9.8</b>	336	10.6	<b>2,355</b>
Other	<b>644</b>	<b>20.2</b>	648	20.4	<b>4,835</b>
Japan's offshore banking accounts	<b>2</b>	<b>100.0</b>	2	100.0	<b>15</b>
Financial institutions	<b>2</b>	<b>100.0</b>	2	100.0	<b>15</b>
<b>Total</b>	<b>¥3,193</b>	<b>100.0</b>	¥3,179	100.0	<b>\$23,959</b>

Loans by Purpose	Billions of Yen/%				Millions of U.S. Dollars
	2002		2001		2002
	Funds for capital investment	<b>¥1,514</b>	<b>47.4%</b>	¥1,542	48.5%
Funds for working capital	<b>1,679</b>	<b>52.6</b>	1,637	51.5	<b>12,597</b>
<b>Total</b>	<b>¥3,193</b>	<b>100.0</b>	¥3,179	100.0	<b>\$23,959</b>

Loans by Collateral	Billions of Yen		Millions of U.S. Dollars
	2002	2001	2002
	Securities	<b>¥ 3</b>	¥ 5
Commercial claims	<b>79</b>	87	<b>593</b>
Commercial goods	<b>0</b>	0	<b>2</b>
Real estate	<b>879</b>	909	<b>6,596</b>
Subtotal	<b>961</b>	1,001	<b>7,216</b>
Guaranteed	<b>1,229</b>	1,240	<b>9,219</b>
Unsecured	<b>1,003</b>	938	<b>7,524</b>
<b>Total [Subordinated loans]</b>	<b>¥3,193 [10]</b>	¥3,179 [10]	<b>\$23,959 [75]</b>

Loans to Small and Medium-Sized Companies	Billions of Yen/%		Millions of U.S. Dollars
	2002	2001	2002
	Loans to small and medium-sized companies	<b>¥2,009</b>	¥2,084
Percentage of total loans	<b>62.9%</b>	65.5%	

Notes: 1. The figures above do not include Japan offshore banking accounts.

2. Small and medium-sized companies are defined as businesses having paid-in capital of not more than ¥300 million (but ¥100 million for wholesalers, and ¥50 million for retailers and service providers), or companies and individuals with not more than 300 full-time employees (100 for wholesalers and service providers, and 50 for retailers).



	Billions of Yen		Millions of U.S. Dollars
	2002	2001	2002
<b>Reserve for Possible Loan Losses</b>			
General reserve for possible loan losses	<b>¥35</b>	¥28	<b>\$263</b>
Specific reserve for estimated loan losses on certain doubtful loans	<b>62</b>	48	<b>468</b>
For non-resident loans			
Reserve for possible losses on specific overseas countries			
Total	<b>¥97</b>	¥76	<b>\$731</b>

	Billions of Yen		Millions of U.S. Dollars
	2002	2001	2002
<b>Write-off of Loans</b>			
Write-off of loans	<b>¥2</b>	¥0	<b>\$12</b>

	Billions of Yen		Millions of U.S. Dollars
	2002	2001	2002
<b>Risk-Monitored Loans (Non-Consolidated)</b>			
Loans to borrowers in bankruptcy	<b>¥ 28</b>	¥ 21	<b>\$ 214</b>
Past due loans	<b>127</b>	46	<b>951</b>
Accruing loans contractually past due three months or more	<b>0</b>	4	<b>4</b>
Restructured loans	<b>101</b>	118	<b>756</b>
Total	<b>¥256</b>	¥189	<b>\$1,925</b>

	Billions of Yen/%				Millions of U.S. Dollars
	2002		2001		2002
<b>Risk-Monitored Loans by Industry</b>					
Domestic offices ( <i>Excluding Japan offshore banking accounts</i> )	<b>¥256</b>	<b>100.0%</b>	¥189	100.0%	<b>\$1,925</b>
Manufacturing	<b>35</b>	<b>13.7</b>	21	11.0	<b>264</b>
Agriculture	<b>2</b>	<b>0.7</b>	2	1.0	<b>14</b>
Forestry	<b>1</b>	<b>0.2</b>	0	0.1	<b>4</b>
Fishery	<b>10</b>	<b>3.7</b>	10	5.3	<b>72</b>
Mining	<b>0</b>	<b>0.0</b>	0	0.0	<b>0</b>
Construction companies	<b>27</b>	<b>10.6</b>	16	8.3	<b>204</b>
Utilities					
Transportation and communications	<b>5</b>	<b>2.0</b>	5	2.8	<b>39</b>
Wholesale, retail and restaurants	<b>67</b>	<b>26.3</b>	43	22.5	<b>506</b>
Financial institutions	<b>2</b>	<b>0.8</b>	2	1.1	<b>14</b>
Real estate companies	<b>48</b>	<b>18.8</b>	40	21.4	<b>362</b>
Services	<b>53</b>	<b>20.7</b>	46	24.2	<b>398</b>
Municipalities					
Other	<b>6</b>	<b>2.5</b>	4	2.3	<b>48</b>
Japan's offshore banking accounts					
Total	<b>¥256</b>		¥189		<b>\$1,925</b>

# Securities Portfolio

## Investment Securities

### 1. Fiscal Year-End Balance

	Billions of Yen/%							
	2002				2001			
	Domestic	International	Total	Percentage	Domestic	International	Total	Percentage
National government bonds	¥ 677	¥	¥ 677	[50.1]%	¥ 639	¥	¥ 639	[50.3]%
Local government bonds	166		166	[12.3]	155		155	[12.2]
Corporate bonds	276		276	[20.4]	220		220	[17.3]
Stocks	115		115	[8.5]	149		149	[11.8]
Other securities	24	93	117	[8.7]	24	83	107	[8.4]
Foreign bonds	/	93	93	[6.8]	/	83	83	[6.5]
Foreign stocks	/				/			
<b>Total</b>	<b>¥1,258</b>	<b>¥93</b>	<b>¥1,351</b>	<b>[100.0]%</b>	<b>¥1,187</b>	<b>¥83</b>	<b>¥1,270</b>	<b>[100.0]%</b>

### 2. Average Balance

	Billions of Yen/%							
	2002				2001			
	Domestic	International	Total	Percentage	Domestic	International	Total	Percentage
National government bonds	¥608	¥	¥ 608	[50.6]%	¥ 601	¥	¥ 601	[54.5]%
Local government bonds	148		148	[12.3]	147		147	[13.3]
Corporate bonds	243		243	[20.2]	176		176	[16.0]
Stocks	81		81	[6.8]	89		89	[8.1]
Other securities	28	93	121	[10.1]	16	73	89	[8.1]
Foreign bonds	/	93	93	[7.7]	/	73	73	[6.6]
Foreign stocks	/				/			
<b>Total</b>	<b>¥1,108</b>	<b>¥93</b>	<b>¥1,201</b>	<b>[100.0]%</b>	<b>¥1,029</b>	<b>¥73</b>	<b>¥1,102</b>	<b>[100.0]%</b>

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
	2002	2001	2002
National government bonds	¥29	¥28	\$216
Local government bonds and government-guaranteed bonds	30	39	228
<b>Total</b>	<b>¥59</b>	<b>¥67</b>	<b>\$444</b>

<b>Sales Volume of Public Bonds and Investment Trusts</b>	Billions of Yen		Millions of U.S. Dollars
	2002	2001	2002
National government bonds	<b>¥1</b>	¥1	<b>\$10</b>
Local government bonds and government-guaranteed bonds	<b>4</b>	1	<b>32</b>
Total	<b>5</b>	¥2	<b>\$42</b>
Investment trusts	<b>¥1</b>	¥1	<b>\$ 9</b>

<b>Public Bonds Dealings (Trading Account Securities)</b>	Billions of Yen		Millions of U.S. Dollars
	2002	2001	2002
<b>Trading volume during the term</b>			
National government bonds	<b>¥135</b>	¥164	<b>\$1,015</b>
Local government bonds	<b>0</b>	1	<b>2</b>
Total	<b>¥135</b>	¥165	<b>\$1,017</b>

<b>Average Balances of Trading Account Securities</b>	Billions of Yen		Millions of U.S. Dollars
	2002	2001	2002
National government bonds	<b>¥4</b>	¥ 4	<b>\$30</b>
Local government bonds	<b>0</b>	0	<b>2</b>
Total	<b>¥4</b>	¥ 4	<b>\$32</b>

# Off-Balance-Sheet Transactions

THE 77 BANK, LTD.  
Years ended March 31

## Derivatives and Foreign Exchange Forward Contracts

	Billions of Yen			
	Notional Amount/ Contract Value		Credit Risk/ Equivalent Amount	
	2002	2001	2002	2001
Interest rate swaps	¥272	¥309	¥ 1	¥2
Forward foreign exchange transactions	146	196	2	2
Other derivatives				
(caps)	0	0		0
(currency option)	0	0	0	0
<b>Total</b>	<b>¥418</b>	<b>¥505</b>	<b>¥ 3</b>	<b>¥4</b>

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	
	2002	2001
Foreign exchange forward contracts	¥ 0	¥ 5

## Credit-Related Financial Instruments

	Billions of Yen	
	Contract Value	
	2002	2001
Commitments	¥1,170	¥1,239
Guarantees	79	93
<b>Total</b>	<b>¥1,249</b>	<b>¥1,332</b>

## International Operations

Foreign Exchange Transactions	Millions of U.S. Dollars	
	2002	2001
Foreign exchange transactions	\$4,542	\$3,087

Foreign Currency Assets	Millions of U.S. Dollars	
	2002	2001
Domestic offices	\$1,114	\$1,803

## Specific Overseas Loans

There are no applicable amounts.

# Non-Consolidated Capital Adequacy Ratio

THE 77 BANK, LTD.  
Years ended March 31

		Millions of Yen		Millions of U.S. Dollars
		2002	2001	2002
<b>Domestic standard</b>				
Tier I capital:	Common stock	¥ 24,659	¥ 24,659	\$ 185
	Capital surplus	7,835	7,835	59
	Legal reserve	24,659	24,659	185
	Voluntary reserve	192,996	192,698	1,448
	Retained earnings	2,042	2,332	15
	Treasury stock	(23)	(2)	(0)
	Subtotal (A)	252,168	252,181	1,892
Tier II capital:	General reserve for possible loan losses	35,018	27,486	263
	Debt funding instruments and others	2,000	4,000	15
	Subtotal	37,018	31,486	278
	Position included in stockholders' equity (B)	19,002	20,784	143
Deductions:	Cross-holdings with other financial institutions (C)	—	—	—
Total capital:	(A) + (B) - (C) = (D)	271,170	272,965	2,035
Risk-adjusted assets:	On-balance-sheet	2,641,508	2,593,640	19,824
	Off-balance-sheet	78,838	91,835	591
	Subtotal (E)	2,720,346	2,685,475	20,415
Capital adequacy ratio (Domestic standard) = (D)/(E) x 100 (%)		9.96	10.16	

Note: The above chart 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.

# Stock Information

THE 77 BANK, LTD.  
As of March 31, 2002

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<b>Paid-in Capital</b>	¥24,659 million (US\$185 million)
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<b>Number of Stockholders</b>	10,486
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<b>Shares Outstanding</b>	383,279 thousand
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## Major Stockholders

	Number of Shares (Thousands)	Percentage
The Meiji Mutual Life Company	17,629	4.59%
Nippon Life Insurance Company	15,876	4.14
Sumitomo Life Insurance Company	15,412	4.02
The Bank of Tokyo–Mitsubishi, Ltd.	12,393	3.23
The Dai-ichi Mutual Life Insurance Company	12,275	3.20
The Mitsubishi Trust and Banking Corporation (Trust Account)	11,319	2.95
UFJ Bank Limited	8,972	2.34
The Industrial Bank of Japan, Limited	7,969	2.07
Asahi Mutual Life Insurance Company	7,444	1.94
Mitsui Marine and Fire Insurance Co., Ltd.	6,401	1.67

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# Bank Data

THE 77 BANK, LTD.  
As of June 30, 2002

## FOREIGN EXCHANGE BRANCHES

### HEAD OFFICE

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## Head Office

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Facsimile: 022-266-7673

## Founded

December 1878

## Paid-in Capital

¥24,659 million (US\$185 million)

## Number of Branches

145

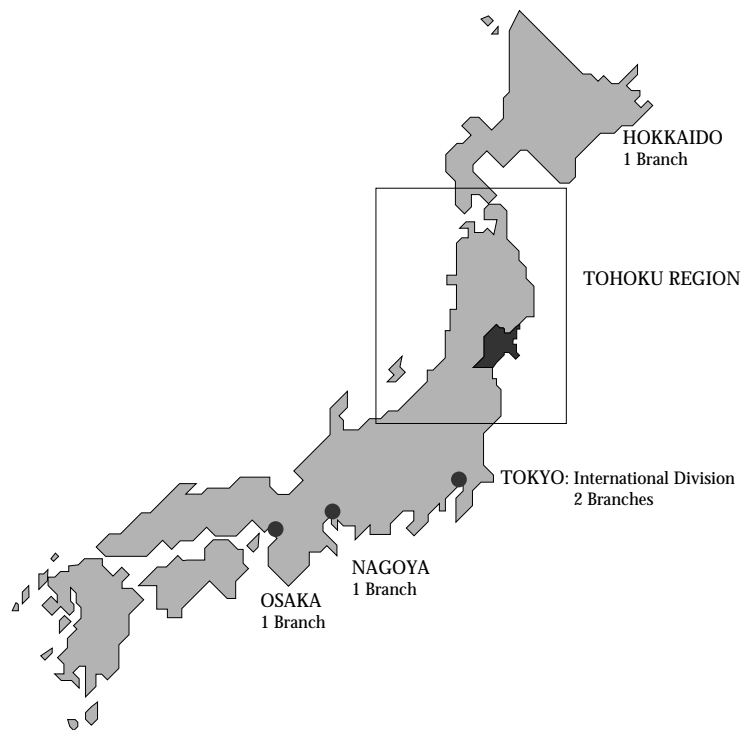
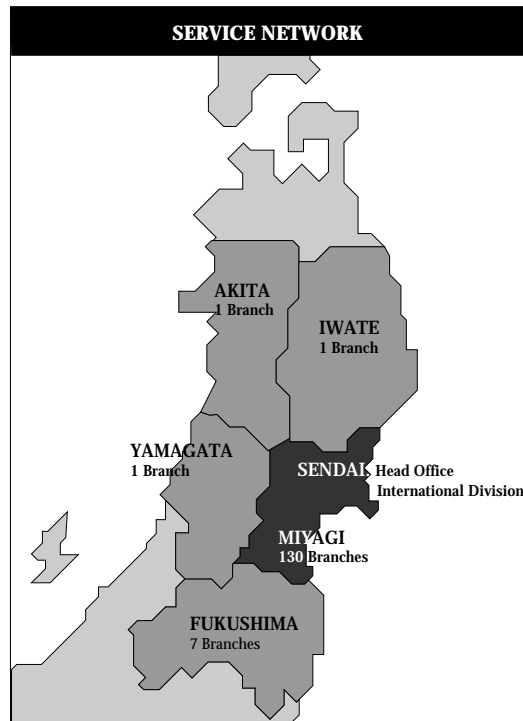
## Number of Employees

3,049

## International Division

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