ANNUAL REPORT 2005

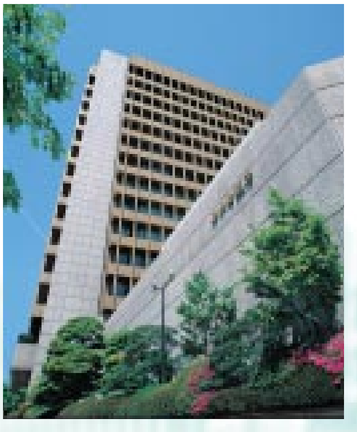
# 77 BANK ANNUAL REPORT 2005

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 largest in the Tohoku region, with its branch network covering this area in northern Honshu, Japan's largest island.*

*Based on its philosophy, The 77 Bank continues to strengthen its business foundation and enhance its management quality in order to be the "best regional bank," one that grows along with its customers and is committed to the sustainable development of the region. As of March 31, 2005, The 77 Bank had capital of ¥24.7 billion, 141 domestic branches and 2,784 employees.*



## Contents

# Consolidated Financial Highlights

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

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **For the fiscal year** | | | |
| Net interest income | ¥ 74,873 | ¥ 75,797 | $ 697 |
| Net fees and commissions | 11,887 | 11,644 | 110 |
| Net other operating income | 2,239 | 2,435 | 20 |
| Net income | 9,044 | 12,339 | 84 |
| **At the fiscal year-end** | | | |
| Total assets | ¥5,616,224 | ¥5,404,205 | $ 52,297 |
| Deposits | 5,043,654 | 4,936,569 | 46,965 |
| Loans and bills discounted | 3,202,879 | 3,116,779 | 29,824 |
| Trading account securities and investment securities | 1,931,010 | 1,727,328 | 17,981 |
| Stockholders' equity | 333,680 | 323,994 | 3,107 |
| Common stock | 24,658 | 24,658 | 229 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Per share of common stock** | | | |
| Net income | ¥ 23.65 | ¥ 32.31 | $0.220 |
| Stockholders' equity | 877.76 | 852.93 | 8.173 |
| Cash dividends applicable to the year | 6.00 | 6.00 | 0.055 |
| Capital adequacy ratio (%) | | | |
| BIS standard | [12.75] | [12.42] | |
| Domestic standard | 11.23 | 10.78 | |

Note: *Throughout this report, U.S. dollar amounts are translated, for convenience only, at the rate of ¥107.39 = US$1, the exchange rate prevailing on March 31, 2005. The capital adequacy ratios according to the BIS standard, in brackets, are indicated for reference only.*

# Message from the President

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

Hiroshi Kamata, President

Japan's economic recovery was gradual but unmistakable in the fiscal year ended March 31, 2005. But this positive aspect was tarnished slightly by developments, such as sluggish exports and the skyrocketing price of oil, which required corrections to anticipated fiscal results for many companies.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, the local economy also experienced a slowdown in demand, as weaker production trends paralleled a lackluster business climate.

The earnings environment for financial institutions remained challenging, owing to persistently low interest rates and decelerating demand for funds. But the industry welcomed a clearer direction in its future activities, as the chapter on nonperforming assets, which had plagued the entire financial industry for so long, finally came to a close and attention shifted from stabilization of the financial system to its revitalization.

With the April 2005 completion of the pay-off system, financial institutions have become more vulnerable to the power of selection by existing and potential clients. Indeed, the spotlight on sound management and enhanced profitability is far more intense than it once was, and financial institutions are duty-bound to respond quickly and honestly in full public view.

Meanwhile, the Financial Services Agency initiated an action plan aimed at reinforcing the relationship banking function of regional financial institutions. This plan requires local institutions to work harder to fulfill their social obligations to local communities, particularly in the area of easier lending processes for small and midsized businesses and the introduction of services with added convenience for clients.

## Challenge 400: Core Business Profit of ¥40 Billion

The 77 Bank seeks to be a bank that provides the utmost value to shareholders, clients and the region as a whole and one that supports the local activities of people and businesses. Underpinning this enduring mission is a new medium-term business plan—Challenge 400, a four-year effort launched in April 2005.

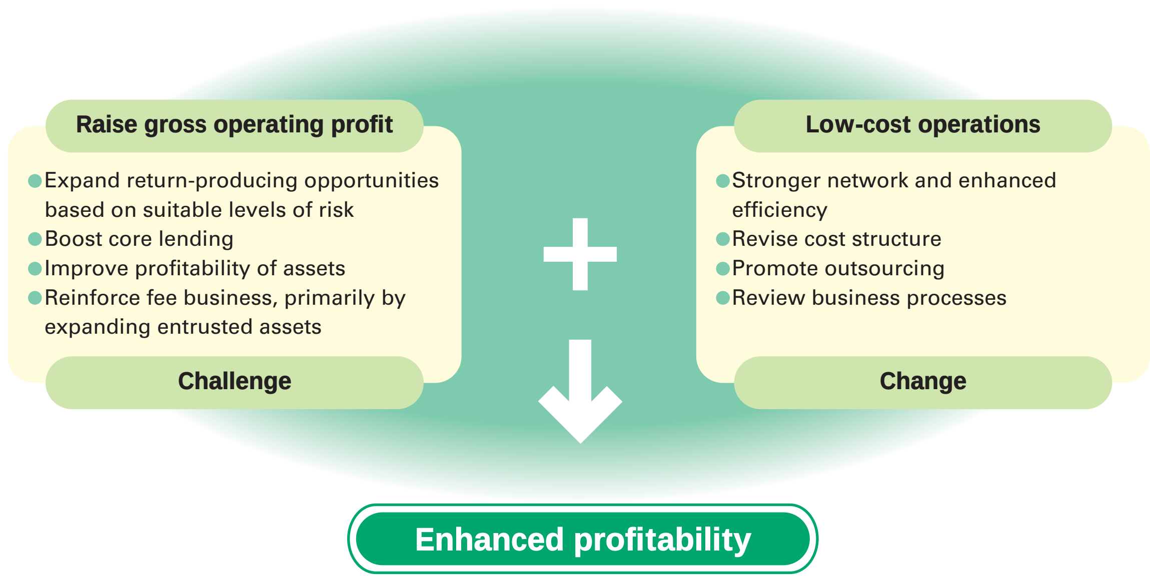
The ultimate goal of Challenge 400—¥40 billion in core business profit by March 2009—has been embraced by everyone at the Bank. Our plan will enable us to take a long-term perspective on certain issues and formulate successful solutions. It will also facilitate the implementation of vital strategies. The end result will be higher profitability and a solid business platform for growth.

The 77 Bank's approach to business emphasizes strong ties to local citizens and businesses. This attitude embodies our desire to be the "best regional bank," one that grows along with our clients and is committed to the sustainable development of the region.

## Business Topics

Our biggest priority during the course of the new medium-term management plan is to identify a direction that leads to greater profitability. The signposts along this route will be maintaining a healthy financial position, raising return-producing assets based on suitable levels of risks, and improving management efficiency.

Overcoming obstacles along the way, we will boost gross operating profit and establish a low-cost operating structure. We will become a bank that can post stable profits regardless of the challenges that loom as obstacles in our path.




## Basic Policies

**1. Redouble efforts to elicit a steady rise in gross operating profit and create a low-cost structure**

The Bank will steadily increase gross operating profit by strengthening core lending operations and raising the profitability of assets to expand the return on capital; and by improving the return on banking services through a heightened focus on attracting more assets from clients. In tandem with these activities, the Bank will enhance profitability by promoting the establishment of a low-cost structure.

**2. Cement strong relationships with shareholders, clients and the region**

For shareholders, the Bank will bolster shareholder value by improving profitability and maintaining a sound financial position.

For clients, the Bank will increase its value by raising levels of client satisfaction and striving always to be their No. 1 choice.

For the region as a whole, the Bank will cement its solid business footing in the community and strive to contribute to the area through its full range of banking services.

**3. Cultivate an atmosphere that encourages new perspectives**

The Bank will cultivate an atmosphere that welcomes fresh perspectives, encourages free thought and continuously applies new ideas to reinvigorate the in-house environment.

## Basic Objectives

| Basic Objectives | | |
|---|---|---|
| 1. Enhanced profitability | Core operating profit[1] | More than ¥38 billion by March 2009 |
| 2. Specific targets to reach for enhanced profitability | | |
| i. Stronger operating capabilities | Core lending balance[2] | More than ¥3 trillion by March 2009 |
| | Assets in the Bank's care | More than ¥700 billion by March 2009 |
| ii. Improved operating efficiency | Overhead ratio | Less than 60% by March 2009 |
| 3. Sustained financial health | Capital adequacy ratio (domestic standard) | More than 12% by March 2009 |

*Notes:*
*1. Core operating profit: amount left after deducting gains (losses) on bonds, including government bonds, from operating profit before transfer to reserve for possible loan losses.*
*2. Balance of core loans: value of loans, excluding such instruments as loan participation.*

## Major Business Strategies

### *1. Strengthen operating capabilities*

- Concentrate on increasing balance of core loans.
- Fortify operating platform for corporate and individual transactions.
- Boost fee business.
- Reinforce fund application capabilities.
- Distribute key management resources to business divisions.

### *2. Improve operating efficiency*

- Revise cost structure.
- Improve business processes.
- Raise profitability of assets.

### *3. Build a solid, efficient network*

- Enhance convenience for clients by making the branch network stronger and more efficient.
- Make system networks better.

### *4. Maintain healthy financial position*

- Lower credit costs.
- Sustain higher net worth.

### *5. Reinforce internal controls*

- Ensure thorough compliance.
- Sharpen profit management and risk management skills.
- Strengthen information security measures.

### *6. Provide training for employees*

- Develop staff who accept the challenge of new perspectives.
- Develop staff who boast top-level business talents.

## Key Themes in Fiscal 2006

To quickly implement the measures outlined in the new medium-term management plan and mark steady progress toward stated objectives, in fiscal 2006 The 77 Bank will concentrate the energies of the head office and branches on the following four themes.

1. Strengthen operating capabilities to boost loans and expand assets from clients.
2. Improve operating efficiency, hinging on enhanced fund application skills and a revised cost structure.
3. Maintain a healthy financial position by fortifying credit risk management and maintaining suitable returns.
4. Reinforce internal controls, including better-defined compliance efforts.

## Tighter Bonds with the Community

A regional bank is the driving force behind the circulation of funds in the community, and to fulfill this responsibility a regional bank must strive to promote activities that strengthen its ability to vitalize the local economy and facilitate financing to small and midsized companies based in its operating area.

The financial services provided by The 77 Bank hinge on a relationship of trust between the Bank and local clients as well as the wider community. These services and smooth access to funds underpins growth for all concerned: clients benefit, as does the Bank, and ultimately, the region as well.

We will lay a cornerstone of trust in the community and cement it into place by consistently seeking to enhance our transactions with clients and offering high-value-added services that address the needs of clients and highlight the characteristics of the community at large. In addition, we will ensure highly transparent management by reinforcing corporate governance and undertake active and ongoing disclosure of pertinent management information.

## Corporate Governance Status

The 77 Bank has always emphasized management priorities that serve to build a better business administration structure. Concerted efforts have been directed toward strengthening the capabilities of the Board of Directors, fortifying its compliance and risk management systems, and reinforcing auditing activities by inviting outside auditors to sit on the Board of Auditors.

The Board of Directors is responsible for decisions on pertinent issues related to operations, while the Executive Committee discusses important business matters and determines courses of action within the power granted to it by the Board of Directors.

The Bank maintains an auditor system under which three of the five auditors on the Board of Auditors—a majority—are outside auditors, a composition that raises the effectiveness of internal audits. Auditors check that the actions of directors are appropriate and effective by attending Board of Directors' meetings and issuing opinion statements on discussions and decisions made at these meetings.

The 77 Bank emphasizes clarity and integrity in its compliance efforts, a stance underpinned by Basic Policies for Compliance, drafted by the Board of Directors. The Bank applies Basic Policies for Risk Management, also drafted by the Board of Directors, to maintain a solid risk management system that promotes stable, long-lasting growth as a regional bank.

H. Kamata

Hiroshi Kamata
President

## Tier 1 Capital Ratio

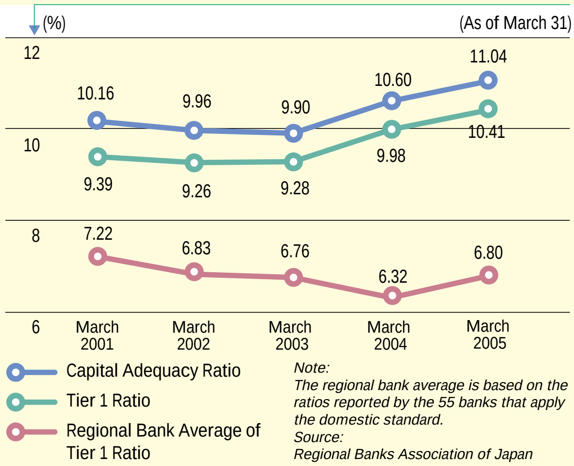
The Tier 1 capital ratio is based only on Tier 1. It excludes supplementary items, such as subordinated loans, from the current components that are used to determine the capital adequacy ratio and therefore better represents the financial status of a bank, compared with the capital adequacy ratio, which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

The Tier 1 capital ratio for The 77 Bank reached 10.41% on a non-consolidated basis, as at March 31, 2005, considerably higher than the average for the 55 regional banks that apply the domestic standard. This statistic places the Bank among the top performers in this sector of the banking industry.

The Bank's non-consolidated capital adequacy ratio, excluding tax effects, reached 9.12%, and its Tier 1 ratio amounted to 8.49% at March 31, 2005. The composition of total capital indicates the Bank's continued financial stability.

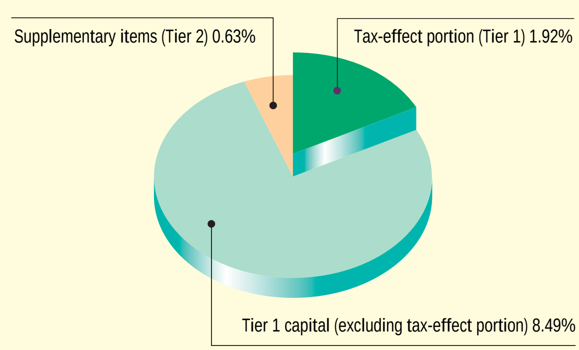
### Capital Adequacy Ratio *(Non-consolidated)* and Tier 1 Ratio

(As of March 31)




### Composition of Total Capital

(As of March 31, 2005)




**Non-Consolidated Capital Adequacy Ratio 11.04%**

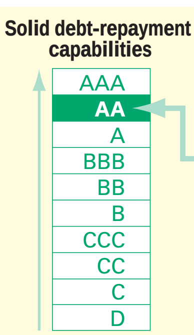
## Ratings

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

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

### The 77 Bank's Ratings

(As of June 30, 2005)




| Rating Agency | Long-term Rating |
|---|---|
| Rating and Investment Information, Inc. (R&I) | AA– |
| Japan Credit Rating Agency, Ltd. (JCR) | AA |
| Moody's Investors Service, Inc. (Moody's) | A1* |
| Standard & Poor's Corp. (S&P) | A–* |

* *Ratings granted by said agency, based on information disclosed by The 77 Bank.*

*Notes: 1. Some rating agencies do not use D.*
*2. Ratings from level AA to level CCC (including level B by some agencies) are further qualified with the use of a + or – sign (or 1, 2 and 3 in the case of Moody's).*

## Risk-Management Structure

### *Sophisticated Techniques Based on Sound Principles*

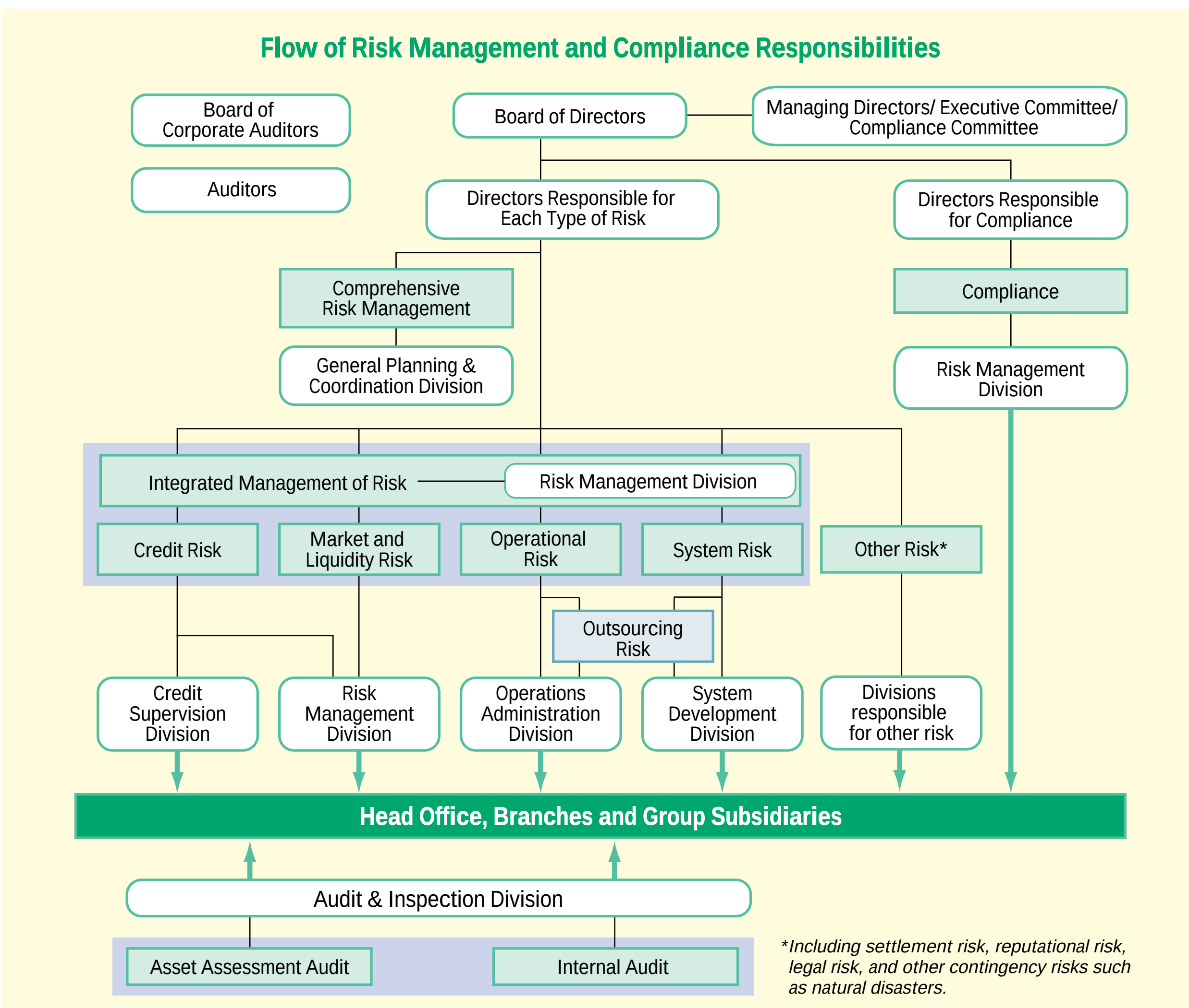
Rapidly changing conditions in the financial sector have significantly transformed the operating environment for financial institutions and caused the risk that surrounds financial institutions to become comparatively more complex than in the past. These conditions demand that financial institutions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

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

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

### *Roles of the Bank's Risk-Management Units*

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



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

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

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

## Compliance

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

### Basic Policies for Compliance

***1. Fundamental Concepts***

i. The Board of Directors recognizes that full adherence to laws and other compliance issues is a vital requirement of business. The Board therefore put together a set of corporate ethics that underscores the Bank's social responsibility and public duty, and does its best to ensure that all members of the Bank uphold these standards of conduct.

ii. The Board reviews compliance programs annually and implements new measures, based on progress achieved in the previous year.

iii. If behavior contrary to stated compliance measures should occur, the Bank will take appropriate steps, based on laws or in-house rules, such as the Work Regulations, and will swiftly adopt the countermeasures required to safeguard the health of the Bank's business.

### *2. Establishing a Solid Compliance Structure*

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

## Compliance Guidelines

### *Basic Direction*

i. Ensure sound management and pay the utmost attention to sustaining the Bank's credibility and its ability to extend smooth financing.
ii. Comply with laws and rules for corporate conduct, and maintain fair and honest practices.
iii. Apply considered principles to issues that threaten social order or public peace.
iv. Provide financial services that customers and the community trust, and develop sustainably together with them.
v. Foster an open office atmosphere and promote a healthy workplace environment.

### *Compliance Structure*

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

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

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

In June 2005, the Bank established the Compliance Committee, of which the President is chairman, to further strengthen the compliance structure.

# Growing with the Community

## The State of Miyagi Prefecture Economy

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

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

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

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

**Composition of Gross Domestic Product by Industry (Nominal)**

(%)

| | Miyagi Prefecture | Japan |
|---|---|---|
| Agriculture, forestry and fishery | 2.1 | 1.3 |
| Manufacturing | 15.6 | 20.8 |
| Construction | 6.3 | 6.2 |
| Utilities | 3.0 | 2.9 |
| Wholesale and retail | 15.4 | 14.3 |
| Financial institutions | 4.9 | 7.0 |
| Real estate | 14.9 | 13.3 |
| Transportation and communications | 8.4 | 6.7 |
| Services | 20.3 | 21.3 |
| Municipalities and others | 9.1 | 6.2 |
| Total | 100.0 | 100.0 |

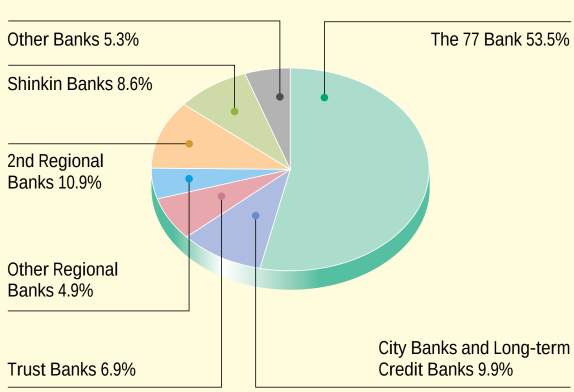
## Along with the Community

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

**Deposit and Loan Shares in Miyagi Prefecture**

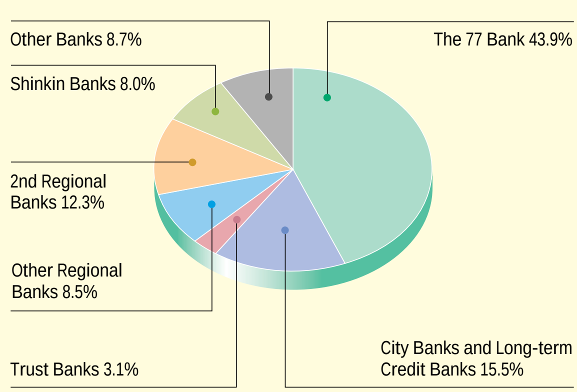
*Deposits*

(As of March 31, 2005)




*Loans*

(As of March 31, 2005)



# 77 Bank Group

(As of June 30, 2005)

## 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:

- The 77 Bank, Ltd.
  - Head Office, 132 branches, and 8 sub-branches
  - Three consolidated subsidiaries engaged mainly in operations directly related to the banking business
    - 77 Business Services Co., Ltd.
      - *Management of cash and other banking clerical operations and maintenance of ATMs*
    - 77 Staff Services Co., Ltd.
      - *Temporary employment agency*
    - 77 Jimu Daiko Co., Ltd.
      - *Investigation and valuation of mortgaged property and custody of credit documents*
  - Four consolidated subsidiaries engaged mainly in businesses related to financial services
    - Shichijushichi Lease Company Limited
      - *Leasing business*
    - 77 Shin-Yo Hosyo Co., Ltd.
      - *Guaranty and credit investigation services*
    - 77 Computer Services Co., Ltd.
      - *Computer-based contract services such as calculations for other companies*
    - The 77 Card Co., Ltd.
      - *Credit card business*

## Consolidated Subsidiaries

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

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

# Board of Directors and Corporate Auditors

(As of June 30, 2005)

*From left:* Hiroshi Kamata, President; Chugo Marumori, Chairman; and Teruhiko Ujiie, Deputy President

**Chairman**
Chugo Marumori

**President**
Hiroshi Kamata

**Deputy President**
Teruhiko Ujiie

**Senior Managing Director**
Seikichi Watanabe

**Managing Directors**
Yoshiaki Nagayama
Toshikazu Nakamata
Nobuhiro Chiba
Reiichi Sato

**Directors**
Katsumi Owada
Kimitsugu Nagao
Masayuki Yamada
Shinichi Takahashi
Mitsutaka Kambe
Tetsuya Fujishiro
Masashi Saijo
Eiji Ouchi

**Standing Statutory Auditors**
Naoto Kobayashi
Toshio Onodera

**Statutory Auditors**
Toshihiro Moriya
Yuzuru Aoki
Torao Imasato

# Organization

(As of June 30, 2005)

- General Meeting of Stockholders
  - Board of Statutory Auditors
  - Board of Directors
    - Executive Committee/ Compliance Committee
    - *Chairman*
    - *President*
    - *Deputy President*
    - *Senior Managing Director*
    - *Managing Directors*
      - Secretariat
      - General Planning & Coordination Division
      - Risk Management Division
      - Business Promotion Division
      - Corporate Banking Division
      - Personal Banking Division
      - Public Institutions Division
      - Credit Supervision Division
      - Treasury Division
      - Head Office Business Division
      - Branches
      - Treasury Administration & International Division
      - Personnel Division
      - Research Division
      - General Affairs Division
      - Operations Administration Division
      - System Development Division
      - Audit & Inspection Division
      - Tokyo Liaison Office

※Shanghai Representative Office (opened July 22, 2005)

## Consolidated Five-Year Summary

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

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | 2002 | 2001 |
| **For the fiscal year** | | | | | |
| Net interest income | **¥ 74,873** | ¥ 75,797 | ¥ 80,832 | ¥ 87,353 | ¥ 89,789 |
| Net fees and commissions | **11,887** | 11,644 | 11,480 | 11,446 | 11,274 |
| Net other operating income (loss) | **2,239** | 2,435 | 1,794 | (904) | 1,476 |
| Net income | **9,044** | 12,339 | 8,308 | 2,177 | 11,197 |
| **At the fiscal year-end** | | | | | |
| Total assets | **¥5,616,224** | ¥5,404,205 | ¥5,245,579 | ¥5,192,870 | ¥5,212,706 |
| Deposits | **5,043,654** | 4,936,569 | 4,798,228 | 4,694,028 | 4,582,584 |
| Loans and bills discounted | **3,202,879** | 3,116,779 | 3,135,735 | 3,176,555 | 3,163,042 |
| Trading account securities and investment securities | **1,931,010** | 1,727,328 | 1,609,579 | 1,355,474 | 1,273,006 |
| Stockholders' equity | **333,680** | 323,994 | 295,951 | 300,467 | 323,743 |
| Common stock | **24,658** | 24,658 | 24,658 | 24,658 | 24,658 |

| | Yen | | | | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | 2002 | 2001 |
| **Per share of common stock** | | | | | |
| Net income | **¥ 23.65** | ¥ 32.31 | ¥ 21.62 | ¥ 5.68 | ¥ 29.24 |
| Diluted net income | | | | | 28.02 |
| Stockholders' equity | **877.76** | 852.93 | 776.92 | 784.94 | 845.66 |
| Cash dividends | **6.00** | 6.00 | 6.00 | 6.00 | 6.00 |
| Capital adequacy ratio (%) | | | | | |
| BIS standard | **[12.75]** | [12.42] | [11.56] | [11.86] | [12.36] |
| Domestic standard | **11.23** | 10.78 | 10.05 | 10.08 | 10.26 |

*Notes: 1. The national consumption tax and the local consumption tax are excluded from transaction amounts.*

*2. The Bank's capital adequacy ratio on the domestic standard is accompanied by the revision of Article 14, Paragraph 2, of the Banking Law of Japan, in line with enforcement of the related law for financial system reform. The capital adequacy ratios according to the BIS standard, in brackets, are indicated for reference only.*

# Consolidated Performance for Fiscal 2005

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

## Financial and Economic Conditions

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

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

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

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

## Consolidated Business Results

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

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

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

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

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

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

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

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

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

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

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

# Consolidated Balance Sheets

THE 77 BANK, LTD. AND SUBSIDIARIES
March 31, 2005 and 2004

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Assets:** | | | |
| Cash and due from banks | ¥ 220,194 | ¥ 168,578 | $ 2,050,420 |
| Call loans and bills bought | 50,550 | 130,128 | 470,719 |
| Commercial paper and other debt purchased (Note 4) | 87,091 | 123,949 | 810,987 |
| Trading account securities (Note 4) | 7,779 | 8,669 | 72,446 |
| Money held in trust (Note 5) | 39,810 | 36,575 | 370,708 |
| Investment securities (Notes 4 and 11) | 1,923,230 | 1,718,659 | 17,908,840 |
| Loans and bills discounted (Note 6) | 3,202,879 | 3,116,779 | 29,824,746 |
| Foreign exchange assets (Note 7) | 523 | 747 | 4,878 |
| Premises and equipment—net (Notes 9 and 11) | 50,502 | 53,965 | 470,270 |
| Deferred tax assets (Note 21) | 14,617 | 13,672 | 136,112 |
| Customers' liabilities for acceptances and guarantees (Note 10) | 47,029 | 44,970 | 437,934 |
| Other assets (Note 8) | 53,490 | 62,652 | 498,095 |
| Reserve for loan losses | (81,476) | (75,143) | (758,698) |
| Total | ¥5,616,224 | ¥5,404,205 | $52,297,462 |
| **Liabilities:** | | | |
| Deposits (Notes 11 and 13) | ¥5,043,654 | ¥4,936,569 | $46,965,771 |
| Call money | 70,405 | 13,304 | 655,609 |
| Payables under securities lending transactions (Note 11) | 18,276 | | 170,189 |
| Borrowed money (Note 11) | 15,921 | 15,704 | 148,254 |
| Foreign exchange liabilities (Note 7) | 113 | 133 | 1,061 |
| Liability for employees' retirement benefits (Note 15) | 35,816 | 34,095 | 333,516 |
| Acceptances and guarantees (Note 10) | 47,029 | 44,970 | 437,934 |
| Other liabilities (Note 14) | 44,162 | 28,938 | 411,234 |
| Total liabilities | 5,275,380 | 5,073,715 | 49,123,573 |
| Minority interests | 7,163 | 6,495 | 66,703 |
| **Stockholders' equity** (Notes 16 and 26): | | | |
| Common stock—authorized, 1,344,000,000 shares in 2005 and 2004; issued, 383,278,734 shares in 2005 and 2004 | 24,658 | 24,658 | 229,617 |
| Capital surplus | 7,838 | 7,836 | 72,990 |
| Retained earnings | 243,661 | 236,934 | 2,268,940 |
| Unrealized gain on available-for-sale securities (Note 4) | 59,033 | 55,996 | 549,712 |
| Less: treasury stock—at cost, 3,188,504 shares in 2005 and 3,075,065 shares in 2004 | (1,511) | (1,430) | (14,076) |
| Total stockholders' equity | 333,680 | 323,994 | 3,107,185 |
| Total | ¥5,616,224 | ¥5,404,205 | $52,297,462 |

*See notes to consolidated financial statements.*

# Consolidated Statements of Income

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2005 and 2004

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Income:** | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 56,269 | ¥ 58,733 | $ 523,973 |
| Interest and dividends on trading account and investment securities | 21,044 | 19,910 | 195,966 |
| Other | 189 | 209 | 1,763 |
| Fees and commissions | 15,871 | 15,365 | 147,791 |
| Other operating income (Note 17) | 17,671 | 16,874 | 164,554 |
| Other income (Note 18) | 1,921 | 9,206 | 17,892 |
| Total income | 112,968 | 120,300 | 1,051,942 |
| **Expenses:** | | | |
| Interest expenses: | | | |
| Interest on deposits | 1,509 | 1,840 | 14,059 |
| Interest on borrowings and rediscounts | 412 | 374 | 3,841 |
| Other | 708 | 841 | 6,595 |
| Fees and commissions | 3,984 | 3,721 | 37,098 |
| Other operating expenses (Note 19) | 15,431 | 14,438 | 143,698 |
| General and administrative expenses | 59,817 | 61,366 | 557,010 |
| Provision for loan losses | 10,291 | 3,203 | 95,836 |
| Other expenses (Note 20) | 4,260 | 9,871 | 39,670 |
| Total expenses | 96,415 | 95,656 | 897,810 |
| **Income before income taxes and minority interests** | 16,552 | 24,643 | 154,132 |
| **Income taxes** (Note 21): | | | |
| Current | 9,926 | 914 | 92,434 |
| Deferred | (3,110) | 10,574 | (28,963) |
| Total income taxes | 6,816 | 11,488 | 63,471 |
| **Minority interests in net income** | (691) | (815) | (6,437) |
| **Net income** | ¥ 9,044 | ¥ 12,339 | $ 84,223 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| **Per share of common stock** (Note 2.n): | | | |
| Basic net income | ¥23.65 | ¥32.31 | $0.220 |
| Cash dividends applicable to the year | 6.00 | 6.00 | 0.055 |

*See notes to consolidated financial statements.*

# Consolidated Statements of Stockholders' Equity

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2005 and 2004

| | Thousands | Millions of Yen | | | | |
|---|---|---|---|---|---|---|
| | Issued Number of Shares of Common Stock | Common Stock | Capital Surplus | Retained Earnings | Unrealized Gain on Available-for-Sale Securities | Treasury Stock |
| Balance, April 1, 2003 | 383,278 | ¥24,658 | ¥7,835 | ¥226,913 | ¥37,444 | ¥ (900) |
| Net income | | | | 12,339 | | |
| Cash dividends: | | | | | | |
| Year end for prior year, ¥3.00 per share | | | | (1,141) | | |
| Interim for current year, ¥3.00 per share | | | | (1,141) | | |
| Bonuses to directors and corporate auditors | | | | (36) | | |
| Purchases of treasury stock (1,086 thousand shares) | | | | | | (538) |
| Sales of treasury stock (18 thousand shares) | | | 1 | | | 8 |
| Net increase in unrealized gain on available-for-sale securities | | | | | 18,551 | |
| Balance, March 31, 2004 | 383,278 | 24,658 | 7,836 | 236,934 | 55,996 | (1,430) |
| Net income | | | | 9,044 | | |
| Cash dividends: | | | | | | |
| Year end for prior year, ¥3.00 per share | | | | (1,139) | | |
| Interim for current year, ¥3.00 per share | | | | (1,139) | | |
| Bonuses to directors and corporate auditors | | | | (38) | | |
| Purchases of treasury stock (121 thousand shares) | | | | | | (84) |
| Sales of treasury stock (8 thousand shares) | | | 1 | | | 3 |
| Net increase in unrealized gain on available-for-sale securities | | | | | 3,037 | |
| Balance, March 31, 2005 | 383,278 | ¥24,658 | ¥7,838 | ¥243,661 | ¥59,033 | ¥(1,511) |

| | Thousands of U.S. Dollars (Note 1) | | | | |
|---|---|---|---|---|---|
| | Common Stock | Capital Surplus | Retained Earnings | Unrealized Gain on Available-for-Sale Securities | Treasury Stock |
| Balance, March 31, 2004 | $229,617 | $72,974 | $2,206,295 | $521,427 | $ (13,324) |
| Net income | | | 84,223 | | |
| Cash dividends: | | | | | |
| Year end for prior year, $0.027 per share | | | (10,609) | | |
| Interim for current year, $0.027 per share | | | (10,608) | | |
| Bonuses to directors and corporate auditors | | | (359) | | |
| Purchases of treasury stock (121 thousand shares) | | | | | (786) |
| Sales of treasury stock (8 thousand shares) | | 16 | | | 34 |
| Net increase in unrealized gain on available-for-sale securities | | | | 28,285 | |
| Balance, March 31, 2005 | $229,617 | $72,990 | $2,268,940 | $549,712 | $(14,076) |

*See notes to consolidated financial statements.*

# Consolidated Statements of Cash Flows

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2005 and 2004

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Operating activities:** | | | |
| Income before income taxes and minority interests | ¥ 16,552 | ¥ 24,643 | $ 154,132 |
| Adjustments for: | | | |
| Income taxes—paid | (645) | (3,017) | (6,009) |
| Depreciation and amortization | 15,893 | 15,960 | 147,999 |
| Change in reserve for loan losses | 6,332 | (22,915) | 58,970 |
| Change in liability for employees' retirement benefits | 1,721 | (3,944) | 16,028 |
| Interest income | (77,503) | (78,853) | (721,703) |
| Interest expenses | 2,630 | 3,055 | 24,496 |
| Investment securities losses (gains)—net | 249 | (156) | 2,322 |
| Gains on money held in trust—net | (623) | (993) | (5,810) |
| Foreign exchange (gains) losses—net | (2,597) | 7,886 | (24,191) |
| Losses (gains) on sale and disposal of premises and equipment—net | 281 | (51) | 2,619 |
| Write down of premises | 1,395 | | 12,994 |
| Net change in loans and bills discounted | (86,099) | 18,955 | (801,748) |
| Net change in deposits | 107,084 | 138,341 | 997,156 |
| Net change in other borrowings | 216 | 1,184 | 2,015 |
| Net change in due from banks | 412 | 324 | 3,840 |
| Net change in call loans and bills bought | 79,578 | (54,485) | 741,018 |
| Net change in commercial paper and other debt purchased | 36,856 | 31,453 | 343,201 |
| Net change in call money and others | 57,101 | 4,284 | 531,721 |
| Net change in payable under securities lending transactions | 18,276 | | 170,189 |
| Net change in trading account securities | 889 | (1,930) | 8,284 |
| Net change in foreign exchange assets | 223 | 1,139 | 2,078 |
| Net change in foreign exchange liabilities | (19) | 43 | (180) |
| Interest received | 77,613 | 80,154 | 722,725 |
| Interest paid | (2,810) | (3,781) | (26,173) |
| Other—net | 4,693 | (23,064) | 43,702 |
| Total adjustments | 241,149 | 109,591 | 2,245,548 |
| Net cash provided by operating activities | 257,701 | 134,235 | 2,399,681 |
| **Investing activities:** | | | |
| Purchases of investment securities | (523,333) | (1,131,967) | (4,873,206) |
| Proceeds from sales of investment securities | 48,586 | 163,213 | 452,430 |
| Proceeds from maturity of investment securities | 276,022 | 869,661 | 2,570,283 |
| Investment in money held in trust | (2,000) | (5,000) | (18,623) |
| Proceeds from disposition of money held in trust | 623 | 3,881 | 5,810 |
| Purchases of premises and equipment | (3,816) | (4,477) | (35,537) |
| Proceeds from sales of premises and equipment | 617 | 531 | 5,750 |
| Net cash used in investing activities | (203,299) | (104,156) | (1,893,093) |
| **Financing activities:** | | | |
| Repayments of borrowed money | | (10,000) | |
| Purchases of treasury stock | (84) | (538) | (786) |
| Proceeds from sales of treasury stock | 5 | 9 | 50 |
| Dividends paid | (2,276) | (2,280) | (21,200) |
| Dividends paid for minority interests stockholders | (8) | (8) | (74) |
| Net cash used in financing activities | (2,363) | (12,818) | (22,011) |
| **Foreign currency translation adjustments on cash and cash equivalents** | (10) | (44) | (94) |
| **Net increase in cash and cash equivalents** | 52,028 | 17,216 | 484,482 |
| **Cash and cash equivalents, beginning of year** | 166,886 | 149,670 | 1,554,024 |
| **Cash and cash equivalents, end of year (Note 3)** | ¥ 218,915 | ¥ 166,886 | $2,038,506 |

*See notes to consolidated financial statements.*

# Notes to Consolidated Financial Statements

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2005 and 2004

## 1. Basis of Presenting Consolidated Financial Statements

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2004 financial statements to conform to the classifications and presentations in 2005.

In conformity with the Japanese Commercial Code (the "Code") and the other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items.

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 translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥107.39 to U.S.$1, the approximate rate of exchange at March 31, 2005. Such translation should not be construed as representation 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"). The number of consolidated subsidiaries as of March 31, 2005 and 2004 was seven companies.

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

All significant intercompany balances and transactions have been eliminated in consolidation. All material 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 companies' intent, as follows:

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

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

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

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

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

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

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

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

*f. Software*—Capitalized cost of computer software developed/obtained for internal use is amortized by the straight-line method over the estimated useful lives of 5 years.

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

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

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

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

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

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

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

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

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

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

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

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

The liability for employees' retirement benefits is provided for the payment of employees' retirement benefits based on estimated amounts of the actuarial retirement benefit obligation and the related pension assets. Net actuarial gain (loss) is amortized using the straight-line method over 10 years commencing from the next fiscal year of incurrence, while prior service costs are all charged to income in the fiscal year incurred.

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

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

This ¥6,447 million is also shown in Note 18 presented as amortization of prior service benefit in the table of net periodic benefit costs.

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

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

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

***m. Derivatives and Hedging Activities***—It is the Bank's policy to use derivative financial instruments ("derivatives") primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities. The Bank enters into interest rate swaps and interest rate caps as a means of hedging its interest rate risk on certain loans and investment securities. The Bank also enters into 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 are recognized as either assets or liabilities and measured at fair value. Gains or losses on derivative transactions are recognized in the consolidated statements of income. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

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

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

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

However, the Bank had no transaction to apply portfolio hedging approach as of March 2005 and 2004.

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

The basic net income available to common stockholders and weighted-average number of common shares used in the computation were ¥8,993 million ($83,742 thousand) and 380,150 thousand shares for 2005 and ¥12,287 million and 380,204 thousand shares for 2004, respectively.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock is not disclosed because there are no outstanding potentially dilutive securities.

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

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

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

The Companies expect to adopt these pronouncements as of April 1, 2005 and are currently in the process of assessing the effect of adoption of these pronouncements.

## 3. Cash and Cash Equivalents

The reconciliation of cash and cash equivalents at the end of the fiscal year and cash and due from banks in the consolidated balance sheets as of March 31, 2005 and 2004 was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Cash and due from banks | **¥220,194** | ¥168,578 | **$2,050,420** |
| Due from banks, excluding due from the Bank of Japan | **(1,279)** | (1,691) | **(11,913)** |
| Cash and cash equivalents at the end of year | **¥218,915** | ¥166,886 | **$2,038,506** |

## 4. Trading Account Securities and Investment Securities

Trading account securities as of March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| National government bonds | **¥7,681** | ¥8,568 | **$71,529** |
| Local government bonds | **98** | 100 | **916** |
| Total | **¥7,779** | ¥8,669 | **$72,446** |

Investment securities as of March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| National government bonds | **¥ 951,152** | ¥ 888,246 | **$ 8,856,996** |
| Local government bonds | **138,062** | 139,464 | **1,285,617** |
| Corporate bonds | **499,740** | 376,621 | **4,653,510** |
| Equity securities | **135,280** | 133,157 | **1,259,713** |
| Other securities | **198,993** | 181,169 | **1,853,001** |
| Total | **¥1,923,230** | ¥1,718,659 | **$17,908,840** |

The carrying amounts and aggregate fair values of securities at March 31, 2005 and 2004 were as follows:

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

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Trading | | | | ¥ 24,779 |
| Available-for-sale: | | | | |
| Equity securities | ¥ 62,112 | ¥69,916 | ¥ 159 | 131,869 |
| Debt securities | 1,550,931 | 22,962 | 616 | 1,573,277 |
| Other securities | 215,890 | 2,738 | 1,635 | 216,992 |
| Held-to-maturity | 5,408 | 23 | 1 | 5,429 |

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

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Trading | | | | $ 230,741 |
| Available-for-sale: | | | | |
| Equity securities | $ 578,382 | $651,052 | $ 1,486 | 1,227,949 |
| Debt securities | 14,442,050 | 213,822 | 5,739 | 14,650,133 |
| Other securities | 2,010,340 | 25,499 | 15,232 | 2,020,606 |
| Held-to-maturity | 50,358 | 215 | 11 | 50,562 |

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | 2005 | 2004 | 2005 |
| Available-for-sale: | | | |
| Equity securities | ¥ 3,411 | ¥ 3,548 | $ 31,764 |
| Debt securities | 10,270 | 8,369 | 95,632 |
| Held-to-maturity | 2,000 | | 18,623 |
| Total | ¥15,681 | ¥11,918 | $146,020 |

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥48,586 million ($452,430 thousand) and ¥163,213 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥794 million ($7,399 thousand) and ¥302 million ($2,817 thousand), respectively, for the year ended March 31, 2005 and ¥663 million and ¥426 million, respectively, for the year ended March 31, 2004.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005 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 | ¥ 316,497 | ¥ 551 | $ 2,947,181 | $ 5,134 |
| Due after one year through five years | 949,387 | 6,856 | 8,840,555 | 63,848 |
| Due after five years through ten years | 300,147 | | 2,794,928 | |
| Due after ten years | 216,484 | | 2,015,867 | |
| Total | ¥1,782,516 | ¥7,408 | $16,598,533 | $68,982 |

Unrealized gain on available-for-sale securities for the years ended March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Valuation differences: | | | |
| Available-for-sale securities | ¥ 93,205 | ¥ 89,239 | $ 867,916 |
| Available-for-sale held in trust | 3,721 | 2,487 | 34,658 |
| Deferred tax liabilities | (37,850) | (35,684) | (352,454) |
| Minority interests | (43) | (46) | (405) |
| Unrealized gain on available-for-sale securities | ¥ 59,033 | ¥ 55,996 | $ 549,712 |

## 5. Money Held in Trust

The carrying amounts and aggregate fair values of money held in trust at March 31, 2005 and 2004, were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Money held in trust classified as: | | | | |
| Trading | | | | ¥19,453 |
| Available-for-sale | ¥16,635 | ¥3,721 | | 20,357 |

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

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Money held in trust classified as: | | | | |
| Trading | | | | $181,143 |
| Available-for-sale | $154,906 | $34,658 | | 189,565 |

## 6. Loans and Bills Discounted

Loans and bills discounted at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Bills discounted | ¥ 31,117 | ¥ 34,356 | $ 289,762 |
| Loans on bills | 346,558 | 340,829 | 3,227,106 |
| Loans on deeds | 2,256,472 | 2,140,908 | 21,011,942 |
| Overdraft | 568,730 | 600,685 | 5,295,935 |
| Total | ¥3,202,879 | ¥3,116,779 | $29,824,746 |

Bills discounted are accounted for as financial transactions in accordance with "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24). The Bank has rights to sell or pledge these bills discounted. The total of the face value of bills discounted was ¥31,117 million ($289,762 thousand) and ¥34,382 million at March 31, 2005 and 2004, respectively.

Loans and bills discounted at March 31, 2005 and 2004 included the following loans:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Loans to borrowers in bankruptcy | ¥ 23,454 | ¥ 22,896 | $ 218,409 |
| Past due loans | 124,844 | 100,727 | 1,162,532 |
| Past due loans (three months or more) | 519 | 478 | 4,834 |
| Restructured loans | 48,577 | 79,030 | 452,350 |
| Total | ¥197,396 | ¥203,132 | $1,838,126 |

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

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

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

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

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

## 7. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Assets | | | |
| Foreign exchange bills bought | ¥ 11 | ¥ 42 | $ 105 |
| Foreign exchange bills receivable | 74 | 101 | 690 |
| Due from foreign correspondent accounts | 438 | 603 | 4,082 |
| Total | ¥523 | ¥747 | $4,878 |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Liabilities | | | |
| Foreign exchange bills sold | ¥ 36 | ¥ 55 | $ 343 |
| Foreign exchange bills payable | 77 | 78 | 718 |
| Total | ¥113 | ¥133 | $1,061 |

## 8. Other Assets

Other assets at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Accrued income | ¥ 7,682 | ¥ 7,291 | $ 71,533 |
| Prepaid expenses | 39 | 39 | 369 |
| Premises and equipment for lease—net of accumulated depreciation | 30,608 | 30,382 | 285,018 |
| Other | 15,160 | 24,938 | 141,173 |
| Total | ¥53,490 | ¥62,652 | $498,095 |

## 9. Premises and Equipment

The accumulated depreciations of premises and equipment at March 31, 2005 and 2004 amounted to ¥79,175 million ($737,269 thousand) and ¥77,754 million, respectively.

## 10. Customers' Liabilities for Acceptances and Guarantees

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

## 11. Assets Pledged

Assets pledged as collateral and their relevant liabilities at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Assets pledged as collateral— | | | |
| Investment securities | ¥132,243 | ¥114,373 | $1,231,432 |
| Relevant liabilities to above assets: | | | |
| Deposits | 44,634 | 40,309 | 415,625 |
| Payables under securities lending transactions | 18,276 | | 170,190 |

Additionally, investment securities amounting to ¥131,885 million ($1,228,102 thousand) and ¥111,277 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, 2005 and 2004, respectively.

Premises and equipment includes deposit for leased premises and equipment and amounted to ¥1,009 million ($9,399 thousand) and ¥1,048 million at March 31, 2005 and 2004, respectively.

Other than the balance sheet items above future lease receivables, which are off-balance sheet items, amounting ¥4,663 million ($40,760 thousand) and ¥4,308 million are pledged for borrowed money amounting to ¥3,468 ($30,343 thousand) and ¥3,207 million at March 31, 2005 and 2004, respectively.

Also, another future lease receivables amounting to ¥13,970 million ($130,086 thousand) and ¥14,136 million are placed under quasi pledge arrangement for borrowed money amounting to ¥11,642 million ($108,408 thousand) and ¥11,780 million at March 31, 2005 and 2004, respectively.

### 12. Loan Commitments

Contracts of overdraft facilities and loan commitments are contracts with customers to lend up to the prescribed limits in response to customers' application of loan, as long as there is no violation of any condition within the contracts. The unused amount of such contracts totals ¥1,368,175 million ($12,740,247 thousand) relating to these contracts, of which the amounts with the original agreement terms of less than one year were ¥1,347,770 million ($12,550,239 thousand).

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

### 13. Deposits

Deposits at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Current deposits | ¥ 186,606 | ¥ 174,409 | $ 1,737,655 |
| Ordinary deposits | 2,156,873 | 2,024,450 | 20,084,494 |
| Deposits at notice | 24,604 | 21,403 | 229,111 |
| Time deposits | 2,184,380 | 2,277,174 | 20,340,631 |
| Negotiable certificates of deposit | 241,610 | 189,600 | 2,249,837 |
| Other deposits | 249,578 | 249,530 | 2,324,042 |
| Total | ¥5,043,654 | ¥4,936,569 | $46,965,771 |

### 14. Other Liabilities

Other liabilities at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Domestic exchange settlement account credit | ¥ 121 | ¥ 183 | $ 1,133 |
| Accrued expenses | 6,514 | 6,778 | 60,661 |
| Unearned income | 9,542 | 9,213 | 88,855 |
| Income taxes payable | 9,760 | 479 | 90,887 |
| Other | 18,223 | 12,283 | 169,697 |
| Total | ¥44,162 | ¥28,938 | $411,234 |

### 15. Liability for Employees' Retirement Benefits

The Companies have severance payment plans for employees.

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

The liability (asset) for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Projected benefit obligation | ¥ 86,311 | ¥ 84,945 | $ 803,717 |
| Fair value of plan assets | (36,523) | (34,528) | (340,101) |
| Unrecognized net actuarial loss | (13,971) | (16,321) | (130,099) |
| Net liability | ¥ 35,816 | ¥ 34,095 | $ 333,516 |

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Service cost | ¥ 2,032 | ¥ 2,251 | $ 18,931 |
| Interest cost | 2,113 | 2,154 | 19,684 |
| Expected return on plan assets | (1,208) | (1,065) | (11,253) |
| Amortization of prior service benefit | | (6,447) | |
| Recognized actuarial loss | 2,026 | 2,279 | 18,872 |
| Net periodic benefit costs | ¥ 4,964 | ¥ (828) | $ 46,233 |

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

| | 2005 | 2004 |
|---|---|---|
| Discount rate | 2.5% | 2.5% |
| Expected rate of return on plan assets | 3.5% | 3.5% |
| Amortization period of prior service cost | 1 year | 1 year |
| Recognition period of actuarial gain/loss | 10 years | 10 years |

## 16. Stockholders' Equity

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

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing stockholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the stockholders' accounts.

The Banking Law provides that an amount at least 20% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period, shall be appropriated and set aside as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 100% of common stock. The amount of total additional paid-in capital and legal reserve which exceeds 100% of common stock may be available for dividends by resolution of the stockholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors. The Bank's legal reserve amount, which is included in retained earnings, totals ¥24,658 million ($229,617 thousand) and ¥24,658 million as of March 31, 2005 and 2004, respectively.

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

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥216,228 million ($2,013,492 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

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.

## 17. Other Operating Income

Other operating income for the years ended March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Gains on sales and redemption of bonds and other securities | ¥ 820 | ¥ 422 | $ 7,637 |
| Lease receipt | 12,752 | 12,762 | 118,745 |
| Other | 4,099 | 3,690 | 38,171 |
| Total | ¥17,671 | ¥16,874 | $164,554 |

## 18. Other Income

Other income for the years ended March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Gains on sales of stocks and other securities | ¥ 79 | ¥ 265 | $ 740 |
| Gains on sales of money held in trust | 623 | 1,088 | 5,810 |
| Gains on sales of premises and equipment | 136 | 322 | 1,275 |
| Amortization of prior service benefit | | 6,447 | |
| Other | 1,081 | 1,083 | 10,067 |
| Total | ¥1,921 | ¥9,206 | $17,892 |

## 19. Other Operating Expenses

Other operating expenses for the years ended March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Losses on sales, redemption and devaluation of bonds and other securities | ¥ 920 | ¥ 407 | $ 8,567 |
| Lease cost | 11,587 | 12,072 | 107,901 |
| Other | 2,924 | 1,958 | 27,229 |
| Total | ¥15,431 | ¥14,438 | $143,698 |

## 20. Other Expenses

Other expenses for the years ended March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Losses on sales of stocks and other securities | | ¥ 28 | |
| Losses on devaluation of stocks and other securities | ¥ 124 | 74 | $ 1,155 |
| Bad debt losses | 980 | 2,422 | 9,130 |
| Losses on dispositions of money held in trust | | 94 | |
| Losses on sales of loans | 1,239 | 6,289 | 11,537 |
| Write down of premises | 1,395 | | 12,994 |
| Other | 521 | 961 | 4,853 |
| Total | ¥4,260 | ¥9,871 | $39,670 |

## 21. Income Taxes

The Companies are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.3% and 41.6% for the years ended March 31, 2005 and 2004, respectively.

With the enactment of the "Revision of Law regarding Regional Taxation, etc." (Law No. 9 of March 31, 2003), the tax basis of the enterprise taxes has been changed to include "added value" and "amount of capital," as defined, effective fiscal years beginning on April 1, 2004. As a result, for the year ended March 31, 2005, the enterprise taxes based on "added value" and "amount of capital" are included in "General and administrative expenses" on the consolidated statement of income in accordance with the Practical Issues No. 12, "Practical Treatment of Presentation of External Standards Taxation Portion of Enterprise Taxes on the Statement of income," issued by ASB.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Deferred tax assets: | | | |
| Reserve for loan losses | ¥27,404 | ¥25,947 | $255,184 |
| Liability for employees' retirement benefits | 14,163 | 13,214 | 131,892 |
| Premises and equipment (depreciation) | 5,511 | 5,416 | 51,321 |
| Losses on devaluation of stocks and other securities | 3,891 | 3,923 | 36,238 |
| Unrealized loss on available-for-sale securities | 961 | 1,985 | 8,957 |
| Other | 4,195 | 2,952 | 39,067 |
| Less valuation allowance | (2,179) | (1,590) | (20,297) |
| Total | 53,948 | 51,848 | 502,364 |
| Deferred tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | 38,812 | 37,669 | 361,414 |
| Premises and equipment (deferral gain on sales and replacement) | 519 | 499 | 4,835 |
| Other | | 6 | |
| Total | 39,331 | 38,175 | 366,251 |
| Net deferred tax assets | ¥14,617 | ¥13,672 | $136,112 |

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 year ended March 31, 2004 was as follows, where as no reconciliation was presented for the year ended March 31, 2005 because the difference was immaterial (less than 5% of the normal statutory tax rate):

| | 2004 |
|---|---|
| Normal effective statutory tax rate | 41.6% |
| Expenses not deductible for income tax purposes | 0.5 |
| Non-taxable dividend income | (1.4) |
| Inhabitants taxes | 0.3 |
| Valuation allowance | 5.7 |
| Other—net | (0.1) |
| Actual effective tax rate | 46.6% |

## 22. Leases

*Lessor*

Finance leases

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

Total lease receipts under finance leases for the years ended March 31, 2005 and 2004 were ¥12,377 million ($115,253 thousand) and ¥12,453 million, respectively.

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | Equipment and Other Assets | | Equipment and Other Assets |
| | 2005 | 2004 | 2005 |
| Acquisition cost | ¥ 72,623 | ¥ 72,661 | $ 676,263 |
| Accumulated depreciation | (42,034) | (42,274) | (391,421) |
| Net leased property | ¥ 30,589 | ¥ 30,387 | $ 284,842 |

Future lease payments receivables under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Receivables: | | | |
| Due within one year | ¥ 9,688 | ¥ 9,841 | $ 90,221 |
| Due after one year | 21,279 | 20,933 | 198,150 |
| Total | ¥30,968 | ¥30,774 | $288,371 |

Depreciation expense and interest income under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Depreciation expense | ¥10,724 | ¥10,869 | $99,863 |
| Interest income | 1,509 | 1,499 | 14,057 |

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

Operating leases

As of March 31, 2005 and 2004, future lease receivables including interest receivables under non-cancelable operating leases were as follows:

Future lease payment receivables:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Due within one year | ¥18 | ¥3 | $176 |
| Due after one year | 35 | 5 | 331 |
| Total | ¥54 | ¥9 | $507 |

## 23. Derivatives

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

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

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

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

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

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

In accordance with the Banking Law requirements of the capital adequacy ratio, credit risk equivalent which was measured using the current exposure method amounted to ¥1,598 million ($14,885 thousand) and ¥3,684 million at March 31, 2005 and 2004, respectively.

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

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

The Bank has the following derivatives contracts outstanding at March 31, 2005 and 2004:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | | 2005 | | |
| | Contract or Notional Amount | Fair Value | Unrealized Gain/Loss | Contract or Notional Amount | Fair Value | Unrealized Gain/Loss | Contract or Notional Amount | Fair Value | Unrealized Gain/Loss |
| Interest rate-related transaction— | | | | | | | | | |
| Interest rate swaps—floating rate receipt, fixed rate payment | ¥13,975 | ¥ (80) | ¥ (80) | ¥14,425 | ¥ (97) | ¥ (97) | $130,133 | $ (745) | $ (745) |
| Currency-related transaction: | | | | | | | | | |
| Foreign exchange forward contracts: | | | | | | | | | |
| Selling | 57,689 | (1,801) | (1,801) | 65,661 | 1,245 | 1,245 | 537,196 | (16,772) | (16,772) |
| Buying | 898 | 9 | 9 | 7,339 | (168) | (168) | 8,366 | 83 | |
| Currency options: | | | | | | | | | |
| Selling | 108 | (1) | | | | | 1,007 | (9) | |
| Buying | 108 | 1 | | | | | 1,007 | 9 | |

Unrealized gains (losses) for the years ended March 31, 2005 and 2004 were recognized in the consolidated statements of income.

Derivatives which qualify for hedge accounting for the years ended March 31, 2005 and 2004 were not included 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.

## 24. Related Party Transactions

Related party transactions for the years ended March 31, 2005 and 2004 were as follows:

| Related Party | Category | Description of Transactions | Balance from Related Party: Millions of Yen 2005 | Millions of Yen 2004 | Thousands of U.S. Dollars 2005 |
|---|---|---|---|---|---|
| Yuzuru Aoki, Representative of Higashinihon Kogyo Co., Ltd. | Corporate Auditor | Lending operation loans | ¥4,277 | ¥4,883 | $39,828 |

## 25. Segment Information

(1) Business Segment Information

Information about operations in different business segments of the Companies for the years ended March 31, 2005 and 2004 was as follows:

*a. Ordinary income*

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | | | |
| | Banking Operations | Lease Operations | Other Operations | Total | Eliminations | Consolidated |
| Income from customers | ¥93,820 | ¥15,286 | ¥3,683 | ¥112,790 | | ¥112,790 |
| Intersegment income | 512 | 1,702 | 1,592 | 3,807 | ¥(3,807) | |
| Total income | 94,332 | 16,988 | 5,276 | 116,597 | (3,807) | 112,790 |
| Ordinary expenses | 77,452 | 16,078 | 4,832 | 98,363 | (3,761) | 94,602 |
| Ordinary income | ¥16,879 | ¥ 909 | ¥ 443 | ¥ 18,233 | ¥ (45) | ¥ 18,188 |

*b. Assets, depreciation and capital expenditures*

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | | | |
| | Banking Operations | Lease Operations | Other Operations | Total | Eliminations | Consolidated |
| Assets | ¥5,585,575 | ¥41,259 | ¥21,537 | ¥5,648,373 | ¥(32,148) | ¥5,616,224 |
| Depreciation | 3,843 | 12,023 | 26 | 15,893 | | 15,893 |
| Capital expenditures | 2,463 | 12,867 | 20 | 15,352 | (46) | 15,305 |

*a. Ordinary income*

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | | | |
| | Banking Operations | Lease Operations | Other Operations | Total | Eliminations | Consolidated |
| Income from customers | $873,641 | $142,342 | $34,302 | $1,050,287 | | $1,050,287 |
| Intersegment income | 4,770 | 15,851 | 14,830 | 35,452 | $(35,452) | |
| Total income | 878,412 | 158,194 | 49,133 | 1,085,739 | (35,452) | 1,050,287 |
| Ordinary expenses | 721,230 | 149,720 | 45,000 | 915,951 | (35,030) | 880,921 |
| Ordinary income | $157,183 | $ 8,473 | $ 4,133 | $ 169,789 | $ (422) | $ 169,366 |

*b. Assets, depreciation and capital expenditures*

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | | | |
| | Banking Operations | Lease Operations | Other Operations | Total | Eliminations | Consolidated |
| Assets | $52,012,068 | $384,205 | $200,553 | $52,596,826 | $(299,363) | $52,297,462 |
| Depreciation | 35,791 | 111,965 | 243 | 147,999 | | 147,999 |
| Capital expenditures | 22,940 | 119,822 | 194 | 142,956 | (437) | 142,519 |

*a. Ordinary income*

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

*b. Assets, depreciation and capital expenditures*

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

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

Segment information by geographic area was not presented because the Companies conduct banking and other related activities in Japan without having foreign subsidiaries or foreign branches.

### (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 was not presented.

## 26. Subsequent Event

At the Bank's general stockholders meeting held on June 29, 2005, the Bank's stockholders approved the following:

*Appropriations of retained earnings*

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥3.00 ($0.027) per share | ¥1,140 | $10,619 |
| Bonuses to directors and corporate auditors | 29 | 270 |

Deloitte.

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# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of The 77 Bank, Ltd. and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The 77 Bank, Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

June 29, 2005

# Capital Adequacy Ratios

THE 77 BANK, LTD. AND SUBSIDIARIES
March 31, 2005 and 2004

## Consolidated (Domestic standard)

| | | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | | 2005 | 2004 | 2005 |
| Tier I capital: | Common stock | ¥ 24,658 | ¥ 24,658 | $ 229 |
| | Capital surplus | 7,838 | 7,836 | 72 |
| | Retained earnings | 242,462 | 235,735 | 2,257 |
| | Minority interests | 7,119 | 6,449 | 66 |
| | Treasury stock | (1,511) | (1,430) | (14) |
| | Subtotal (A) | 280,567 | 273,249 | 2,612 |
| Tier II capital: | General reserve for loan losses | 22,839 | 29,221 | 212 |
| | Debt funding instruments and others | | | |
| | Subtotal | 22,839 | 29,221 | 212 |
| | Position included in stockholders' equity (B) | 16,523 | 16,814 | 153 |
| Deductions: | Cross-holdings with other financial institutions (C) | | | |
| Total capital: | (A) + (B) − (C) = (D) | 297,091 | 290,063 | 2,766 |
| Risk-adjusted assets: | On–balance-sheet | 2,598,152 | 2,653,080 | 24,193 |
| | Off–balance-sheet | 45,642 | 37,316 | 425 |
| | Subtotal (E) | 2,643,795 | 2,690,397 | 24,618 |
| Capital adequacy ratio (Domestic standard) = (D)/(E) x 100 (%) | | 11.23 | 10.78 | |

## Non-Consolidated (Domestic standard)

| | | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | | 2005 | 2004 | 2005 |
| Tier I capital: | Common stock | ¥ 24,658 | ¥ 24,658 | $ 229 |
| | Capital surplus | 7,838 | 7,836 | 72 |
| | Legal reserve | 24,658 | 24,658 | 229 |
| | Voluntary reserve | 214,674 | 208,045 | 1,999 |
| | Retained earnings carried forward | 2,341 | 2,358 | 21 |
| | Treasury stock | (1,481) | (1,400) | (13) |
| | Subtotal (A) | 272,690 | 266,157 | 2,539 |
| Tier II capital: | General reserve for loan losses | 21,500 | 28,072 | 200 |
| | Debt funding instruments and others | | | |
| | Subtotal | 21,500 | 28,072 | 200 |
| | Position included in stockholders' equity (B) | 16,358 | 16,660 | 152 |
| Deductions: | Cross-holdings with other financial institutions (C) | | | |
| Total capital: | (A) + (B) − (C) = (D) | 289,049 | 282,817 | 2,691 |
| Risk-adjusted assets: | On–balance-sheet | 2,571,746 | 2,628,319 | 23,947 |
| | Off–balance-sheet | 45,642 | 37,316 | 425 |
| | Subtotal (E) | 2,617,389 | 2,665,636 | 24,372 |
| Capital adequacy ratio (Domestic standard) = (D)/(E) x 100 (%) | | 11.04 | 10.60 | |

# Non-Consolidated Balance Sheets (Parent Company)

THE 77 BANK, LTD.
March 31, 2005 and 2004

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Assets:** | | | |
| Cash and due from banks | ¥ 220,018 | ¥ 168,416 | $ 2,048,783 |
| Call loans and bills bought | 50,550 | 130,128 | 470,719 |
| Commercial paper and other debt purchased | 87,091 | 123,949 | 810,987 |
| Trading account securities | 7,779 | 8,669 | 72,446 |
| Money held in trust | 39,810 | 36,575 | 370,708 |
| Investment securities | 1,917,732 | 1,713,957 | 17,857,641 |
| Loans and bills discounted | 3,221,000 | 3,135,513 | 29,993,484 |
| Foreign exchange assets | 523 | 747 | 4,878 |
| Premises and equipment | 45,919 | 49,367 | 427,597 |
| Deferred tax assets | 12,447 | 11,688 | 115,910 |
| Customers' liabilities for acceptances and guarantees | 47,029 | 44,970 | 437,934 |
| Other assets | 12,523 | 22,651 | 116,615 |
| Reserve for loan losses | (76,980) | (71,072) | (716,834) |
| Total | ¥5,585,447 | ¥5,375,563 | $52,010,874 |
| **Liabilities:** | | | |
| Deposits | ¥5,048,706 | ¥4,942,043 | $47,012,820 |
| Call money | 70,405 | 13,304 | 655,609 |
| Payable under securities lending transaction | 18,276 | | 170,189 |
| Borrowed money | 311 | 217 | 2,896 |
| Foreign exchange liabilities | 113 | 133 | 1,061 |
| Liability for employees' retirement benefits | 35,392 | 33,704 | 329,570 |
| Acceptances and guarantees | 47,029 | 44,970 | 437,934 |
| Other liabilities | 32,322 | 17,872 | 300,981 |
| Total liabilities | 5,252,559 | 5,052,245 | 48,911,064 |
| **Stockholders' equity:** | | | |
| Common stock | 24,658 | 24,658 | 229,617 |
| Capital surplus | 7,838 | 7,836 | 72,990 |
| Retained earnings: | | | |
| Legal reserve | 24,658 | 24,658 | 229,617 |
| Unappropriated | 218,185 | 211,573 | 2,031,709 |
| Unrealized gain on available-for-sale securities | 59,028 | 55,990 | 549,664 |
| Treasury stock | (1,481) | (1,400) | (13,790) |
| Total stockholders' equity | 332,888 | 323,317 | 3,099,809 |
| Total | ¥5,585,447 | ¥5,375,563 | $52,010,874 |

# Non-Consolidated Statements of Income (Parent Company)

THE 77 BANK, LTD.
Years ended March 31, 2005 and 2004

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Income:** | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥55,324 | ¥ 57,879 | $515,169 |
| Interest on dividends on trading account and securities | 21,024 | 19,893 | 195,774 |
| Other | 189 | 209 | 1,765 |
| Fees and commissions | 15,017 | 14,571 | 139,843 |
| Other operating income | 825 | 433 | 7,685 |
| Other income | 2,032 | 9,343 | 18,926 |
| Total income | 94,413 | 102,331 | 879,165 |
| **Expenses:** | | | |
| Interest expenses: | | | |
| Interest on deposits | 1,510 | 1,841 | 14,069 |
| Interest on call money | 285 | 241 | 2,657 |
| Other | 701 | 834 | 6,530 |
| Fees and commissions | 4,553 | 4,307 | 42,399 |
| Other operating expenses | 1,541 | 610 | 14,357 |
| General and administrative expenses | 57,886 | 59,676 | 539,027 |
| Provision for loan losses | 8,877 | 2,610 | 82,666 |
| Other expenses | 3,931 | 9,274 | 36,610 |
| Total expenses | 79,288 | 79,397 | 738,320 |
| Income before income taxes | 15,125 | 22,933 | 140,845 |
| **Income taxes:** | | | |
| Current | 9,129 | 603 | 85,016 |
| Deferred | (2,927) | 10,197 | (27,257) |
| Total income taxes | 6,202 | 10,801 | 57,759 |
| Net income | ¥ 8,922 | ¥ 12,132 | $ 83,086 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| **Per share of common stock:** | | | |
| Net income | ¥23.39 | ¥31.79 | $0.217 |
| Cash dividends applicable to the year | 6.00 | 6.00 | 0.055 |

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

THE 77 BANK, LTD.
Years ended March 31, 2005 and 2004

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Balance, beginning of year | ¥236,231 | ¥226,413 | $2,199,754 |
| Net income | 8,922 | 12,132 | 83,086 |
| Dividends paid, ¥6.00 ($0.055) per share in 2005 and ¥6.00 per share in 2004 | (2,281) | (2,284) | (21,243) |
| Bonuses to directors and corporate auditors | (29) | (29) | (270) |
| Balance, end of year | ¥242,843 | ¥236,231 | $2,261,327 |

# Loan Portfolio

## Loan Portfolio by Industry

| | Billions of Yen 2005 | Billions of Yen 2004 | Millions of U.S. Dollars 2005 |
|---|---|---|---|
| Domestic offices *(Excluding Japan offshore banking accounts)* | ¥3,221 | ¥3,135 | $29,993 |
| Manufacturing | 290 | 294 | 2,701 |
| Agriculture | 5 | 7 | 51 |
| Forestry | 0 | 0 | 4 |
| Fishery | 13 | 14 | 130 |
| Mining | 2 | 2 | 20 |
| Construction companies | 191 | 195 | 1,780 |
| Utilities | 66 | 90 | 617 |
| Information and communications | 24 | 30 | 227 |
| Transportation | 56 | 60 | 527 |
| Wholesale and retail | 383 | 380 | 3,567 |
| Financial institutions | 308 | 224 | 2,870 |
| Real estate companies | 357 | 358 | 3,331 |
| Services | 365 | 356 | 3,407 |
| Municipalities | 394 | 337 | 3,669 |
| Other | 760 | 782 | 7,085 |
| Japan's offshore banking accounts | | | |
| Financial institutions | | | |
| Total | ¥3,221 | ¥3,135 | $29,993 |

## Loans by Collateral

| | Billions of Yen 2005 | Billions of Yen 2004 | Millions of U.S. Dollars 2005 |
|---|---|---|---|
| Securities | ¥ 2 | ¥ 3 | $ 22 |
| Commercial claims | 60 | 65 | 564 |
| Commercial goods | 0 | 0 | 0 |
| Real estate | 725 | 776 | 6,753 |
| Subtotal | 788 | 845 | 7,339 |
| Guaranteed | 1,244 | 1,162 | 11,584 |
| Unsecured | 1,188 | 1,127 | 11,068 |
| Total [Subordinated loans] | ¥3,221 [5] | ¥3,135 [6] | $29,993 [54] |

## Reserve for Loan Losses

| | Billions of Yen 2005 | Billions of Yen 2004 | Millions of U.S. Dollars 2005 |
|---|---|---|---|
| General reserve for loan losses | ¥21 | ¥28 | $200 |
| Specific reserve for estimated loan losses on certain doubtful loans | 55 | 42 | 516 |
| For non-resident loans | | | |
| Reserve for losses on specific overseas loans | | | |
| Total | ¥76 | ¥71 | $716 |

## Risk-Monitored Loans

| | Billions of Yen 2005 | Percentage of total | Billions of Yen 2004 | Percentage of total | Millions of U.S. Dollars 2005 |
|---|---|---|---|---|---|
| Loans to borrowers under bankruptcy | ¥ 22.6 | 0.70% | ¥ 22.4 | 0.71% | $ 211 |
| Past due loans | 123.0 | 3.81 | 98.6 | 3.14 | 1,145 |
| Accruing loans contractually past due three months or more | 0.5 | 0.01 | 0.4 | 0.01 | 4 |
| Restructured loans | 48.4 | 1.50 | 78.9 | 2.51 | 451 |
| Total | 194.7 | 6.04 | 200.4 | 6.39 | $ 1,813 |
| Balance of total loans | ¥3,221.0 | 100.00% | ¥3,135.5 | 100.00% | $29,993 |

## Securities Portfolio

### Investment Securities
(Average Balance)

| | Billions of Yen/% | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | | | | 2004 | | | |
| | Domestic | International | Total | Percentage | Domestic | International | Total | Percentage |
| National government bonds | ¥ 891 | ¥ | ¥ 891 | [51.0]% | ¥ 902 | ¥ | ¥ 902 | [55.8]% |
| Local government bonds | 154 | | 154 | [8.9] | 145 | | 145 | [9.0] |
| Corporate bonds | 449 | | 449 | [25.7] | 336 | | 336 | [20.8] |
| Stocks | 65 | | 65 | [3.7] | 64 | | 64 | [4.0] |
| Other securities | 38 | 148 | 186 | [10.7] | 38 | 129 | 167 | [10.4] |
| Foreign bonds | / | 148 | 148 | [8.5] | / | 129 | 129 | [8.0] |
| Foreign stocks | / | | | | / | | | |
| Total | ¥1,598 | ¥148 | ¥1,746 | [100.0]% | ¥1,487 | ¥129 | ¥1,616 | [100.0]% |

*Notes: 1. Investment securities loaned are categorized into each item.*
*2. Average balances of foreign currency transactions by domestic branches, which are included in international operations, are calculated based on the daily current method.*

### Public Bonds Underwritten

| | Billions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| National government bonds | ¥12 | ¥17 | $120 |
| Local government bonds and government-guaranteed bonds | 47 | 49 | 441 |
| Total | ¥60 | ¥66 | $562 |

### Sales Volume of Public Bonds and Investment Trusts

| | Billions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| National government bonds | ¥18 | ¥ 9 | $176 |
| Local government bonds and government-guaranteed bonds | 10 | 5 | 97 |
| Total | ¥29 | 15 | $274 |
| Investment trusts | ¥10 | ¥ 5 | $ 99 |

### Public Bonds Dealings (Trading Account Securities)
**Trading volume during the term**

| | Billions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| National government bonds | ¥365 | ¥284 | $3,400 |
| Local government bonds | 0 | 0 | 3 |
| Government guaranteed bonds | 6 | | 55 |
| Total | ¥371 | ¥285 | $3,460 |

### Average Balances of Trading Account Securities

| | Billions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| National government bonds | ¥7 | ¥9 | $71 |
| Local government bonds | 0 | 0 | 1 |
| Government guaranteed bonds | 0 | 0 | 0 |
| Total | ¥7 | ¥9 | $72 |

# Off–Balance-Sheet Transactions

## Derivatives and Foreign Exchange Forward Contracts

| | Billions of Yen | | | |
|---|---|---|---|---|
| | Notional Amount/ Contract Value | | Credit Risk/ Equivalent Amount | |
| | 2005 | 2004 | 2005 | 2004 |
| Interest rate swaps | ¥149 | ¥125 | ¥1 | ¥ 0 |
| Forward foreign exchange transactions | 58 | 106 | 0 | 2 |
| Other derivatives | | | | |
| (caps) | | | | |
| (currency option) | 0 | 0 | 0 | 0 |
| Total | ¥208 | ¥232 | ¥1 | ¥ 3 |

*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 | |
| | 2005 | 2004 |
| Foreign exchange forward contracts | ¥ 0 | ¥ 0 |

## Credit-Related Financial Instruments

| | Billions of Yen | |
|---|---|---|
| | Contract Value | |
| | 2005 | 2004 |
| Commitments | ¥1,282 | ¥1,221 |
| Guarantees | 36 | 37 |
| Total | ¥1,319 | ¥1,258 |

# International Operations

## Foreign Exchange Transactions

| | Millions of U.S. Dollars | |
|---|---|---|
| | 2005 | 2004 |
| Foreign exchange transactions | $2,624 | $2,893 |

## Foreign Currency Assets

| | Millions of U.S. Dollars | |
|---|---|---|
| | 2005 | 2004 |
| Domestic offices | $998 | $1,163 |

## Specific Overseas Loans

There are no applicable amounts.

# Bank Data

THE 77 BANK, LTD.
As of March 31, 2005

## Headquarters

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

## Founded

December 1878

## Number of Branches

141

## Number of Employees

2,784

## Treasury Administration & International Division

*Planning & Business Department*
*(Sendai)*
3-20, Chuo 3-chome, Aoba-ku,
Sendai, Miyagi 980-8777, Japan
Phone: 022-211-9914
Facsimile: 022-211-9916
SWIFT Address: BOSSJPJT

## Paid-in Capital

¥24,658 million (US$229 million)

## Number of Stockholders

9,812

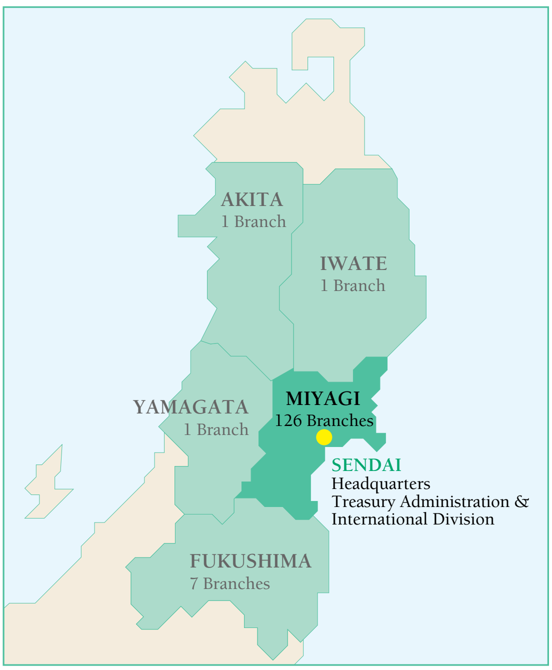
## Shares Outstanding

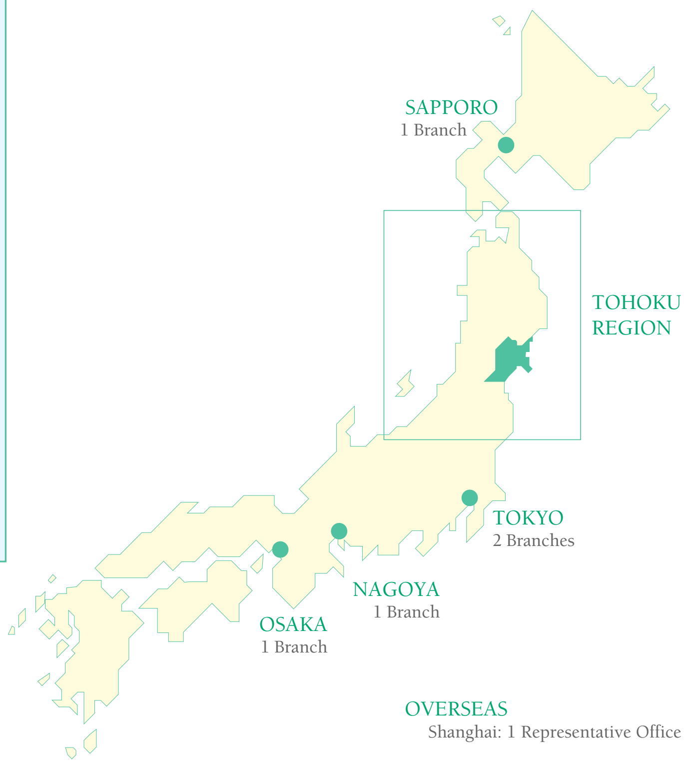
383,278 thousand

## Major Stockholders

| | Number of Shares (Thousands) | % |
|---|---|---|
| Meiji Yasuda Life Insurance Company | 18,928 | 4.93 |
| Nippon Life Insurance Company | 15,431 | 4.02 |
| Sumitomo Life Insurance Company | 15,412 | 4.02 |
| The Dai-ichi Mutual Life Insurance Company | 12,275 | 3.20 |
| Japan Trustee Services Bank, Limited (Trust Account) | 12,135 | 3.16 |
| The Bank of Tokyo–Mitsubishi, Ltd. | 11,524 | 3.00 |
| The Master Trust Bank of Japan, Limited (Trust Account) | 10,971 | 2.86 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 9,346 | 2.43 |
| UFJ Bank Limited | 6,971 | 1.81 |
| Mellon Bank NA as Agent for Its Client Melon Omnibus US Pension | 6,666 | 1.73 |

## Service Network



77 BANK

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