

# IR Presentation

**Results for First Half of Fiscal Year Ending March 31, 2014**

Materials were prepared for the Bank's presentation of its results for the first half of the fiscal year ending March 31, 2014 held on December 3, 2013.

**December 3, 2013**

**77 BANK**

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## 1. Results for first half of FY2014

(JPY bn, %)

Summary of profits and losses (Non-consolidated)	First half FY2013	First half FY2014	YoY change	
			Increase/ decrease	Rate of change %
Gross operating income	40.8	39.0	(1.8)	(4.3)
[Core gross operating income]	[ 39.8]	[ 40.3]	[ 0.5]	[ 1.2]
Interest income	34.7	35.1	0.4	1.1
Fees and commissions	4.9	5.0	0.1	3.2
Other operating income	1.2	(1.1)	(2.3)	
Gains (losses) on bonds	1.0	(1.3)	(2.3)	
Expenses	27.5	27.9	0.4	1.4
Operating income before provision of general reserve for possible loan losses	13.3	11.1	(2.2)	(16.4)
[Core operating income]	[ 12.3]	[ 12.4]	[ 0.1]	[ 0.8]
Provision of general reserve for possible loan losses	—	—	—	
Operating income	13.3	11.1	(2.2)	(16.4)
Special income and losses	(6.7)	2.2	8.9	
Bad debt disposals (-)	0.4	0.4	0.0	
Gains on reversal of reserve for possible loan loss	2.4	1.0	(1.4)	
Gains (losses) on stocks	(7.1)	0.3	7.4	
Ordinary income	6.6	13.3	6.7	102.0
Extraordinary income	—	0.3	0.3	
Extraordinary loss	0.3	0.1	(0.2)	
Income taxes (incl. deferred taxes)	2.2	5.4	3.2	
Net income	4.1	8.1	4.0	97.8
Credit-related expenses	(2.0)	(0.6)	1.4	

## &lt;Core operating income&gt;

Despite an increase in expense, core operating income increased due to an increase in interest and dividends on securities.

## &lt;Ordinary income/Net income&gt;

Both ordinary income and net income increased due partly to a decrease in impairment loss on securities.

## 2. Interest income

	First half FY2013	First half FY2014	YoY change
Interest income	34.7	35.1	0.4
Investment income	36.5	36.9	0.4
(Interest on loans)	24.9	23.5	(1.4)
(Dividends on securities)	11.3	13.1	1.8
Fund procurement costs	1.9	1.8	(0.1)
(Interest on deposits)	1.7	1.6	(0.1)

Major accounts (average balances)	First half FY2013	First half FY2014	YoY change
Loans and bills discounted	3,565.9	3,750.4	184.5
Securities	2,976.9	3,478.5	501.6
Deposits and certificates of deposits	6,872.3	7,444.4	572.1

Interest rates / Interest margin	First half FY2013	First half FY2014	YoY change
Loans and bills discounted interest rate	1.39	1.24	(0.15)
Securities interest rate	0.75	0.74	(0.01)
Interest rate on deposits	0.04	0.04	0.00
Interest rate spread	0.97	0.90	(0.07)
Net interest margin	0.17	0.16	(0.01)

\* Figures in YoY change shows percentage points.

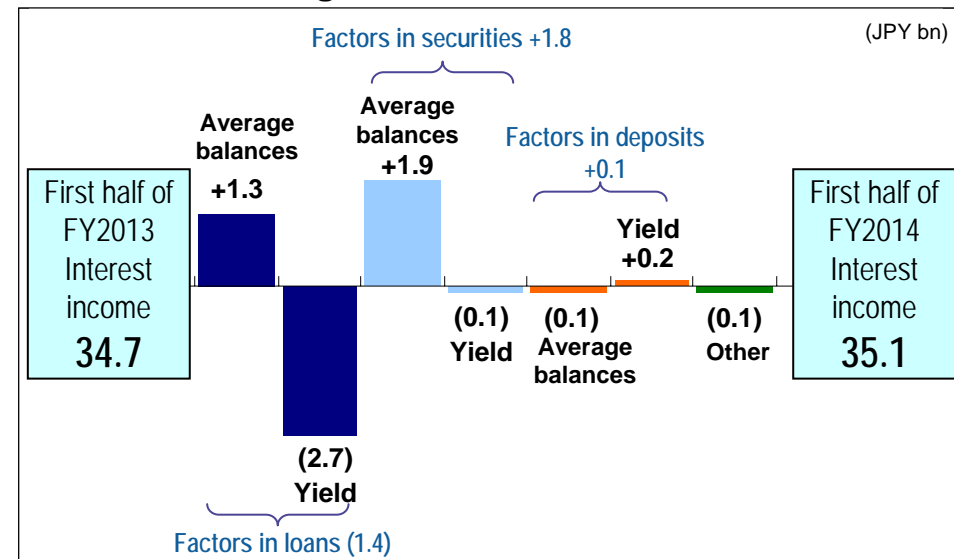
(JPY bn)

FY2014 (Plan)	YoY change
69.2	0.7

<First half of FY2014 summary>

• Interest income increased by JPY 400 million YoY, resulting from an increase in interest and dividends on securities, despite a decrease in interest on loans with lower yields.

<Change factors in interest income>



<Reference> Trends of market interest rates

	First half of FY2013	First half of FY2014
JPY TIBOR (3 months)	0.33%	0.23%
5-year JGBs	0.22%	0.28%
10-year JGBs	0.83%	0.75%

### 3. Loans and bills discounted

Loans and bills discounted ( average balances)	First half FY2013	First half FY2014	YoY change %
Loans and bills discounted	3,565.9	3,750.4	5.1
Corporate loans	2,153.7	2,321.4	7.7
[Excl. spread loans]	1,187.4	1,205.9	1.5
[Spread loans]	966.3	1,115.5	15.4
Consumer loans	744.1	761.5	2.3
[Housing loans]	700.0	720.5	2.9
Loans for local governments	668.1	667.5	(0.0)

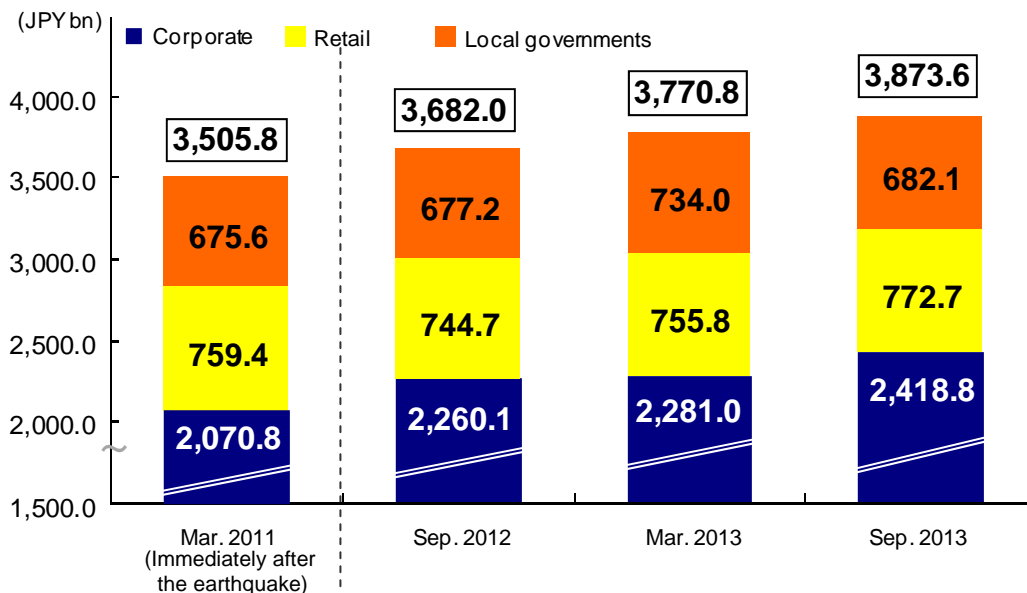
(JPY bn, %)

FY2014 (Plan)	YoY change %
3,762.7	3.3

#### <First half of FY2014 summary>

- Loans and bills discounted increased resulting from an increase in loans for SMEs despite a decrease in loans for local governments.
- Consumer loans increased due to an increase in housing loans granted along with growing housing starts.

#### <Loans and bills discounted balances>



#### <Earthquake disaster-related loan performance>

Cumulative total of earthquake disaster-related loans **14,319 cases / JPY 354.4 billion**  
(After the earthquake to end-Sep. 2013)

#### □ Corporate

(cases, JPY bn)

	Operating	Capital expenditure	Total
Cases	4,837	1,497	6,334
Amount	177.3	72.3	249.6

#### □ Retail

(cases, JPY bn)

	Operating	Capital expenditure	Total
Cases	2,827	5,158	7,985
Amount	5.0	99.8	104.8

## 4. Deposits and certificates of deposits

### <First half of FY2014 summary>

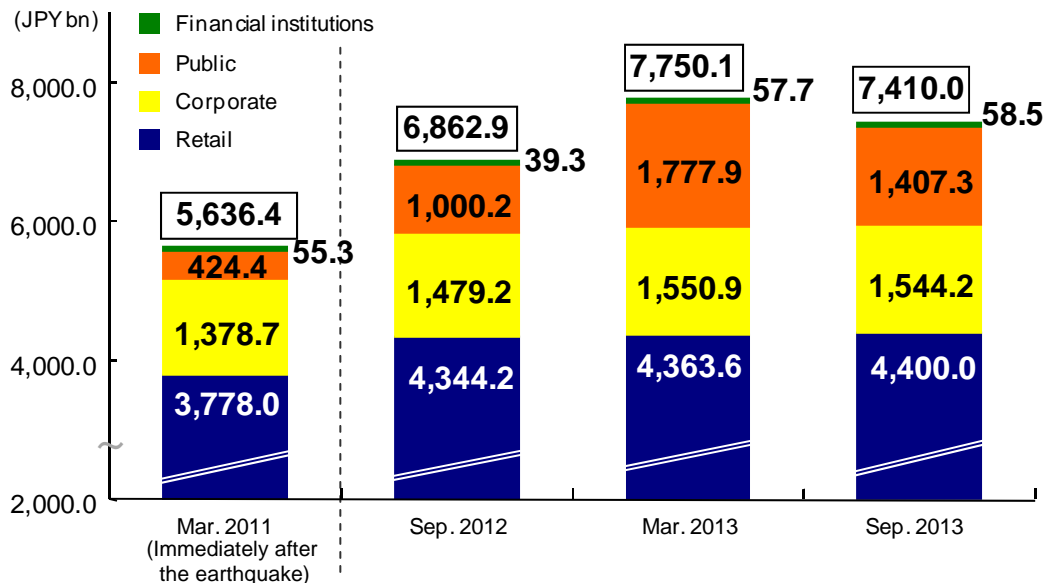
Deposits and certificates of deposits (average balances)	First half FY2013	First half FY2014	YoY change %
Deposits and certificates of deposits	6,872.3	7,444.4	8.3
Retail deposits	4,363.8	4,410.1	1.0
Corporate deposits	1,483.5	1,561.7	5.2
Public deposits	1,001.8	1,447.9	44.5

(JPY bn, %)

FY2014 (Plan)	YoY change %
7,347.3	6.4

- Term-end balance in first half of FY2014 decreased by JPY 340.1 billion from FY2013 due to a decrease in public deposits, but remained higher than the level of 1H FY2013.
- Deposits are projected to remain at high levels for the time being due to the delay in reconstruction-related businesses, although some withdrawals are expected along with the reconstruction progress.

### <Deposits and certificates of deposits balances>



### <Increasing trends in deposits after the earthquake>

#### □ Insurance payouts, etc. (Miyagi Pref. portion)

- Earthquake insurance payouts (Source: The General Insurance Association of Japan HP)  
Approx. JPY 560.0 billion (As of end-May 2012)

- Relief funds (Source: Japanese Red Cross Society HP)  
Approx. JPY 180.0 billion (As of Jun. 12, 2013)

#### □ Recovery grants from the government (Miyagi Pref. portion) (As of end-Sep. 2013)

- Recovery grants (Source: Reconstruction Agency HP)  
Approx. JPY 910.0 billion
- Special local allocation tax grants for recovery from earthquake disaster (Source: Ministry of Internal Affairs and Communications HP)  
Approx. JPY 790.0 billion

## 5. Securities(1)

## ■ Yields and duration

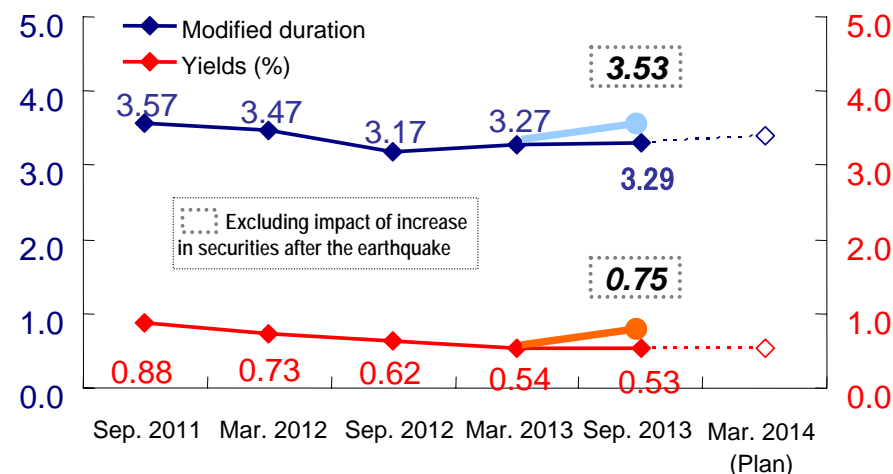
Yields and duration are declining due to continuous investments mainly in short- and medium-term public bonds

<Additional investment accompanying the significant increase in deposits following the earthquake>

	End-Mar. 2013	End-Sep. 2013
Investment balance	Approx. JPY 700 billion	Approx. JPY 880 billion
Yield	0.27%	0.31%
Modified duration	2.32	2.69

## &lt;Yields and modified duration of yen-denominated bonds&gt;

\* Yen-denominated bonds other than investment trusts (6 months basis)



## &lt;Balance of securities (based on market value)&gt;

(JPY bn)

	End-Mar. 2011	End-Mar. 2012	End-Sep. 2012	End-Mar. 2013	End-Sep. 2013	Change from end-Mar. 2013	Change % from end-Mar. 2013	Gains (losses) from revaluation end-Sep. 2013	Change from end-Mar. 2013
<b>Securities</b>	2,118.0	2,849.4	3,099.6	3,402.9	3,630.5	227.6	6.7%	111.9	21.0
Bonds	2,024.1	2,764.3	3,030.3	3,304.6	3,516.6	212.0	6.4%	59.8	5.7
(Yen-denominated bonds)	1,780.9	2,552.6	2,782.1	2,966.0	3,111.3	145.3	4.9%	37.8	(5.5)
National gov. bonds	864.8	1,577.1	1,800.2	1,993.1	2,124.5	131.4	6.6%	20.9	(1.9)
Floating-rate national gov. bonds	365.5	319.6	318.7	315.5	317.5	2.0	0.6%	5.1	2.0
Local gov. bonds	107.9	82.2	94.9	87.9	76.7	(11.2)	(12.7%)	0.8	(0.3)
Corporate bonds	760.7	865.7	865.9	865.7	894.4	28.7	3.3%	16.0	(3.4)
Others	290.7	239.3	269.3	357.9	421.0	63.1	17.6%	22.1	11.3
Foreign bonds in foreign currency	118.1	82.5	100.0	148.3	194.4	46.1	31.1%	(2.6)	(2.5)
Stocks	93.9	85.1	69.3	98.3	113.9	15.6	15.9%	52.1	15.3

## 5. Securities(2)

### Strengthen securities investment

Use portfolios with higher liquidity / Reduce risk and secure investment returns by diversifying tenors and types

#### Investment in yen-denominated bonds adjusted to interest rate trends

##### Ensure safety and liquidity

- Maintain a higher allocation to short- and medium term public bonds
- Maintain the current position in floating-rate national gov. bonds
- Investment in medium- to long-term bonds adjusted to interest rate levels

#### Sophistication of market risk management

- Strengthen proactive management of the risk of rising interest rates
- Reducing risks focusing on asset portfolio diversification

#### Diversify investments to secure investment returns

##### Enhance sources of investment returns

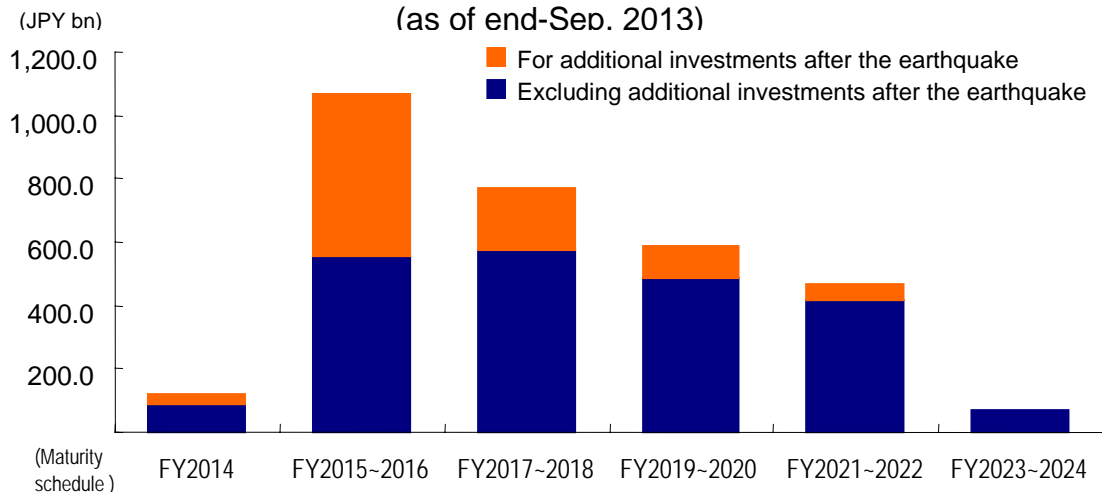
- Continue to invest in inflation proof assets such as stocks and REITs
- Diversified investments targeting foreign bonds and investment trusts (mainly in Asia)

##### Strengthen flexible investments

- Increase periodic income by taking advantage of market changes
- Promote to rebalance equity and investment trust portfolios

### <Composition of written-off yen-denominated bonds>

(as of end-Sep. 2013)



### <Composition ratio by type (on an amortized cost base)>

	Mar. 2011	Mar. 2012	Mar. 2013	Sep. 2013	Mar. 2014 Plan
National gov. bonds	40.6%	55.4%	59.5%	59.8%	59%
Local gov. bonds	5.1%	2.8%	2.6%	2.1%	2%
Corporate bonds	36.0%	30.3%	25.5%	25.0%	25%
Stocks	3.4%	2.4%	1.9%	1.8%	2%
Others	14.9%	9.1%	10.5%	11.3%	12%
Of which, foreign bonds in foreign currency	5.8%	3.0%	4.5%	5.6%	6%



## 6. Credit-related expenses and credits disclosed under the Financial Reconstruction Law

### ■ Credit-related expenses

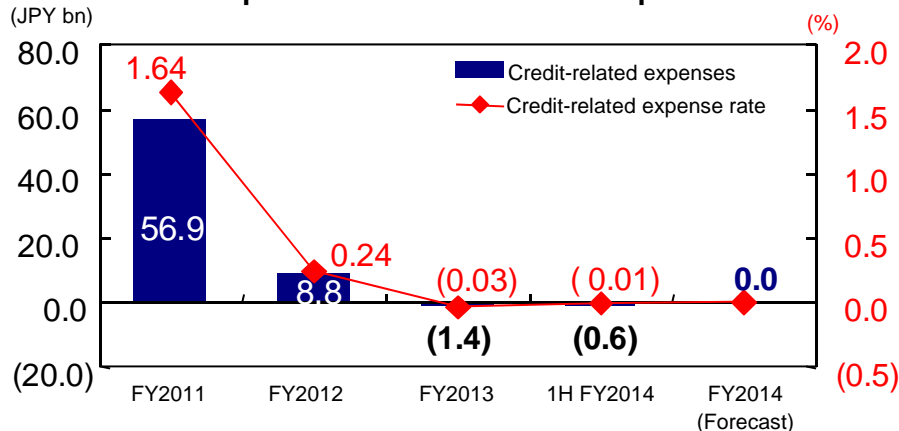
A gain on reversal of general loan loss reserves was recognized as a result of excess reserves due to a decline in the loan-loss ratio and other factors.

	(JPY bn)			
	FY2011	FY2012	FY2013	1H FY2014
Provision of general reserve for possible loan losses	3.1	2.5	—	—
Bad debt disposals	5.7	6.4	1.0	0.4
Provision of specific reserve for possible loan losses	4.4	5.2	—	—
Losses on sales of NPLs, etc.	1.3	1.2	1.0	0.4
Gains on reversal of reserve for possible loan losses (-)	—	—	2.3	0.9
Gains on reversal of reserve for contingent losses (-)	—	0.1	0.1	0.1
Provision of reserve for possible loan losses (Extraordinary loss)	48.1	—	—	—
<b>Total</b>	<b>56.9</b>	<b>8.8</b>	<b>(1.4)</b>	<b>(0.6)</b>

### <Reference> Reserve for possible loan losses (JPY bn)

Mar. 2011	Mar. 2012	Mar. 2013	Sep. 2013
95.6	100.7	89.2	87.3

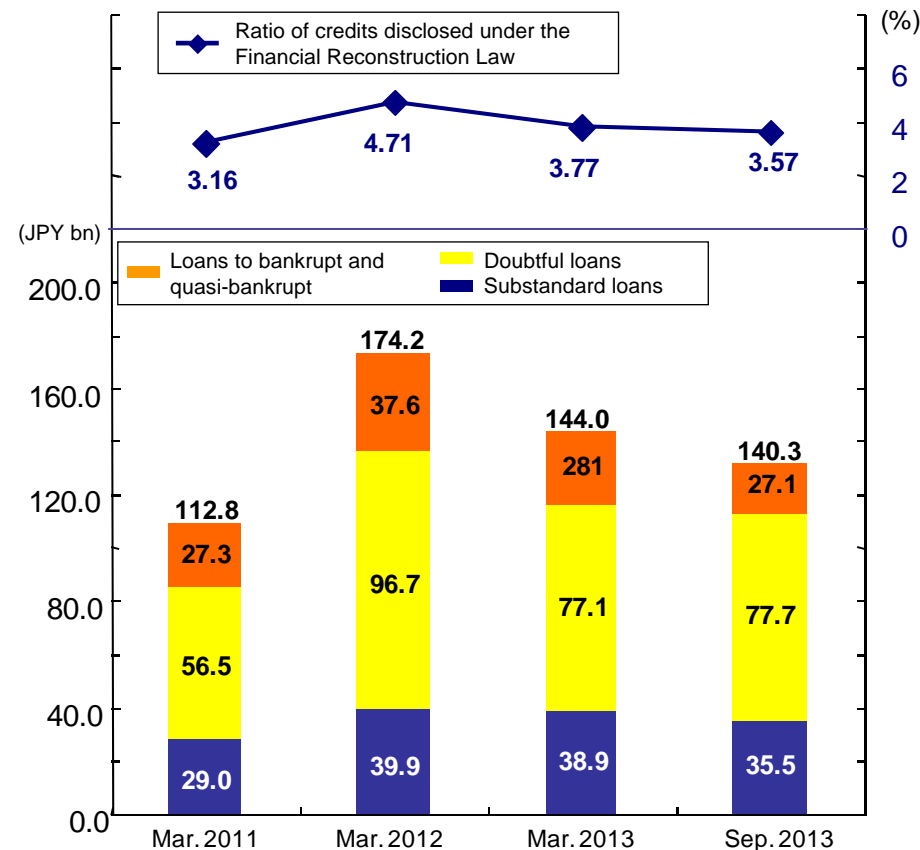
### <Credit-related expenses and credit-related expense rate trends>



### ■ Credit disclosed under the Financial Reconstruction Law

The ratio of credits disclosed under the Financial Reconstruction Law is declining

### <Credits disclosed under the Financial Reconstruction Law>



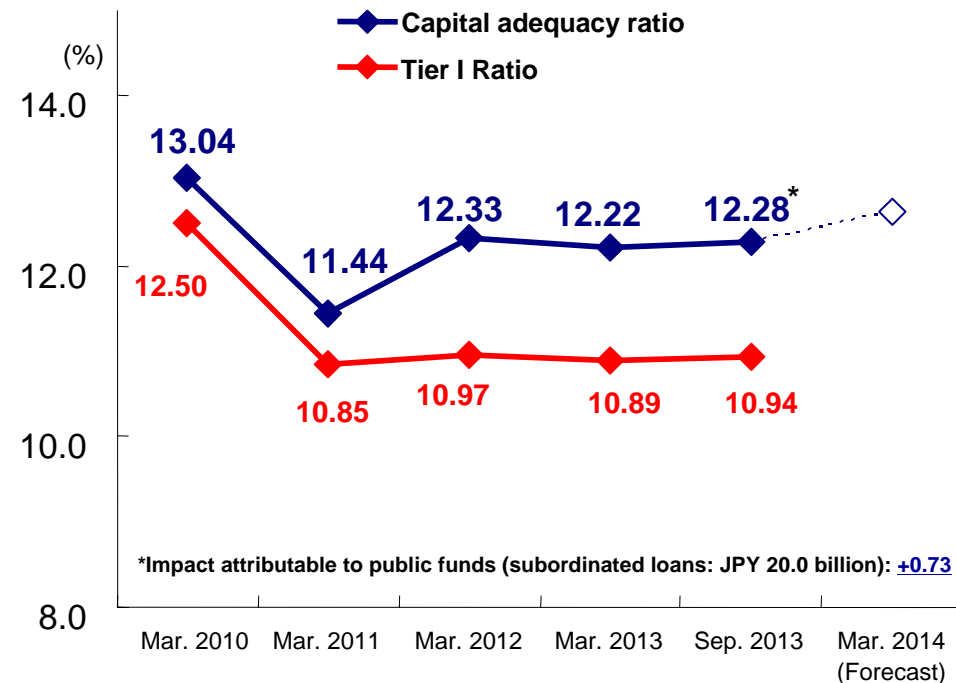
\* The balance of credits disclosed under the Financial Reconstruction Law as of Mar. 2011 shown above indicates the balance before we carried out self-assessment in consideration of the effect of the earthquake.

## 7. Capital adequacy

### Capital adequacy ratio

Risk assets increased due to an increase in loans while internal reserve grew. As a result, capital adequacy ratio as of the end of Sep. 2013 (domestic standards) rose by **0.06 percentage points** to **12.28%** from the end of Mar. 2013.

<Capital adequacy ratio> (non-consolidated / domestic standards)



<Capital adequacy>

(JPY bn)

	End-Mar. 2010	End-Mar. 2011	End-Mar. 2012	End-Mar. 2013	End-Sep. 2013
Capital	323.6	290.3	318.2	328.6	336.2
Tier I	310.2	275.5	283.1	292.8	299.6
Tier II	15.5	15.9	36.1	36.8	37.1
Subordinated loans	—	—	20.0	20.0	20.0
Risk assets	2,480.2	2,537.4	2,579.8	2,687.1	2,736.5

\* For calculating operational risks, we shifted from the Basic Indicator Approach to the Standardized Approach since the end of Mar. 2013.

### <Reference> Effect of Basel III

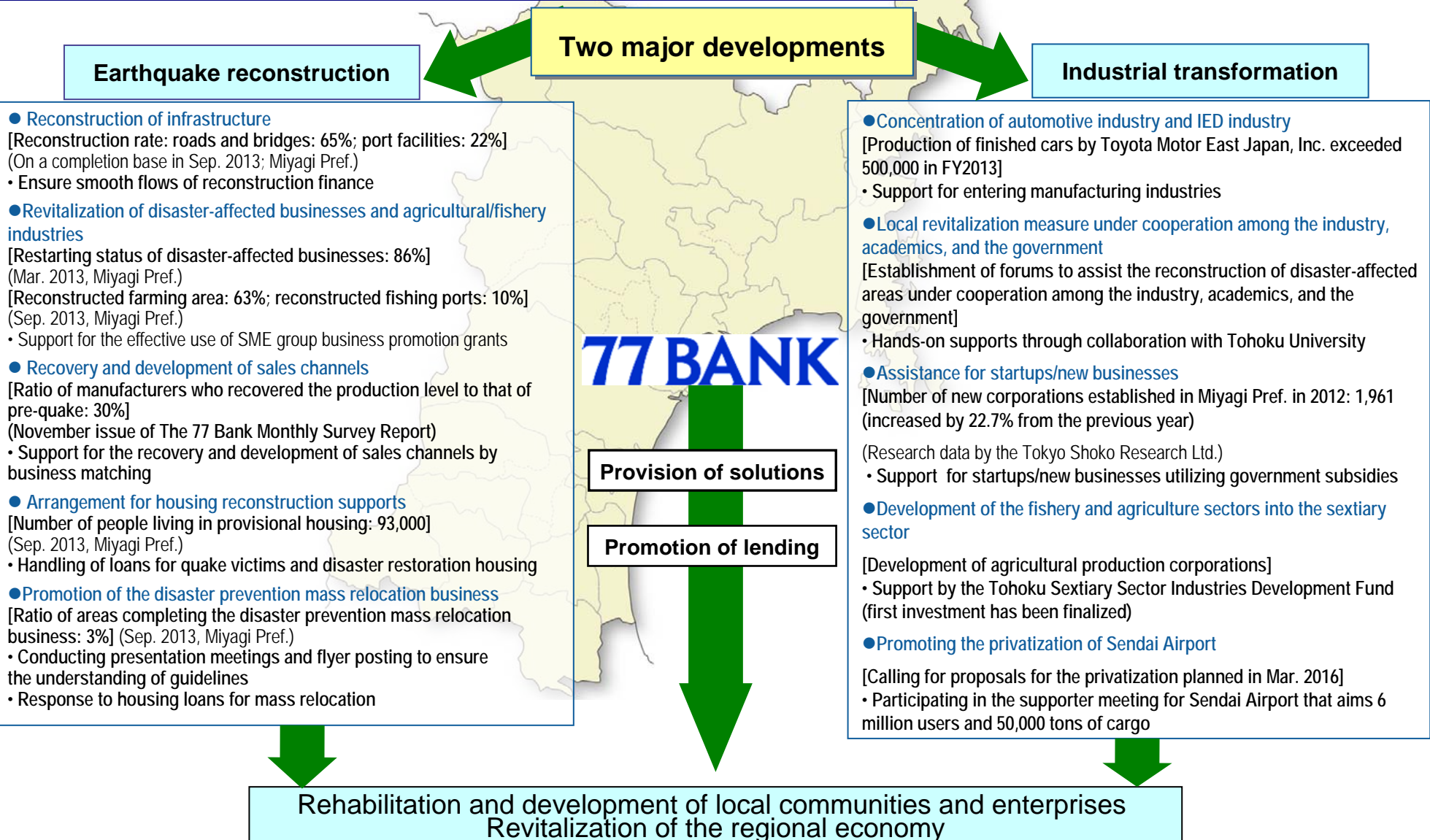
Capital adequacy ratio under Basel III (domestic standards)

As of end-Sep. 2013 (our provisional calculation): **12.49%**

Comparison with the current level: **+0.21**

# 1. Trends in Miyagi Prefecture

## ■ Reconstruction following the earthquake and industrial transformation



## 2. Promote lending (1)

### ■ Promoting corporate loans (1)

Capture the demand of loans by enhancing the relationship with customers

#### ■ Enhance consulting functions for customers

□ Reinforcing customer relationship through visits to customers

The number of visits to customers largely increased  
 <Total number of visits to customers>

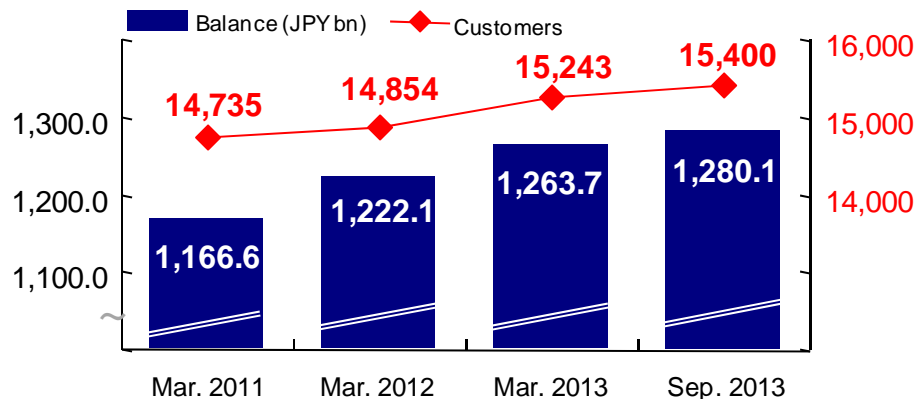
	FY2011	FY2012	FY2013	1H FY2014
Number of visits	246	323	488	293

(thousand times)

#### ■ Loans to SMEs

Both the number of customers and the balance are increasing

<Number of customers and loan balance to SMEs>



#### ■ Response to earthquake recovery / reconstruction finance

##### □ SME group business promotion grants

Recovery development assistance projects for SME group facilities

Bridging finance performance:

470 cases, JPY 37.0 billion

(After the earthquake to end-Sep. 2013)

Portion of own funds performance:

109 cases, JPY 10.0 billion

(After the earthquake to end-Sep. 2013)

##### □ ABL (Asset Based Lending)

Of which, first half of FY2014

Performance

52 cases  
 JPY 8.1 billion

15 cases  
 JPY 1.9 billion

(After the earthquake to end-Sep. 2013)

Efficient use of the Personal property appraisal advisors: 15 people

No. 1 in Japan among financial institutions in terms of the number of employees who has the qualification (As of end-Oct. 2013)

##### • Reconstruction support funds

The investment results  
 (After the earthquake to end-Sep. 2013)

9 cases  
 JPY 2.4 billion

##### The Great East Japan Earthquake SME Reconstruction Support Fund

• Established jointly with Daiwa Corporate Investment Co., Ltd. in Jan. 2012

##### Miyagi Reconstruction Bridge Fund

• Established jointly with the Development Bank of Japan in Aug. 2011

• Private placement bonds (reconstruction private placement bonds, prefectural credit guarantee private placement bonds, etc.)

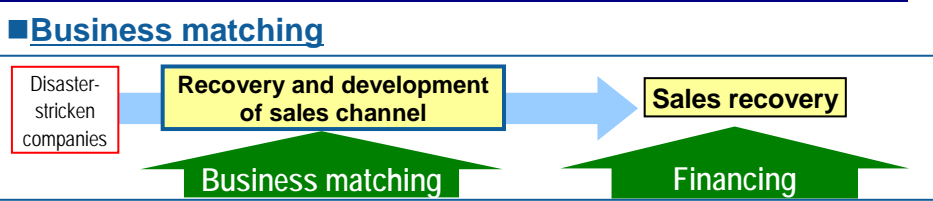
Underwriting performance  
 (After the earthquake to end-Sep. 2013)

40 cases  
 JPY 4.1 billion

Of which, first half of FY2014  
 7 cases  
 JPY 0.6 billion

## 2. Promote lending (2)

### ■ Promoting corporate loans (2)



□ Provide business matching opportunities by holding trade fairs

<Performance in 1H FY2014>

<b>Japan (Sendai) 1 meeting</b> (Participating companies: 77)	<b>Overseas (China) 1 meeting</b> (11 customer companies of The 77 Bank participated)
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Food Kingdom Miyagi Joint Business Fair



FBC Shanghai 2013

<Past trade fairs> (After the earthquake to end-Sep. 2013)

<b>Japan 8 meetings (414 customers attended)</b>	} <b>468 customers attended in total</b>
<b>Overseas 6 meetings (54 customers attended)</b>	

Number of business contracts entered:  
**11 cases**  
(After the earthquake to end-Sep. 2013)

□ Provide highly promising individual business opportunities

- Individual meeting between disaster-stricken companies and major distributors

□ Number of business matching contracts:

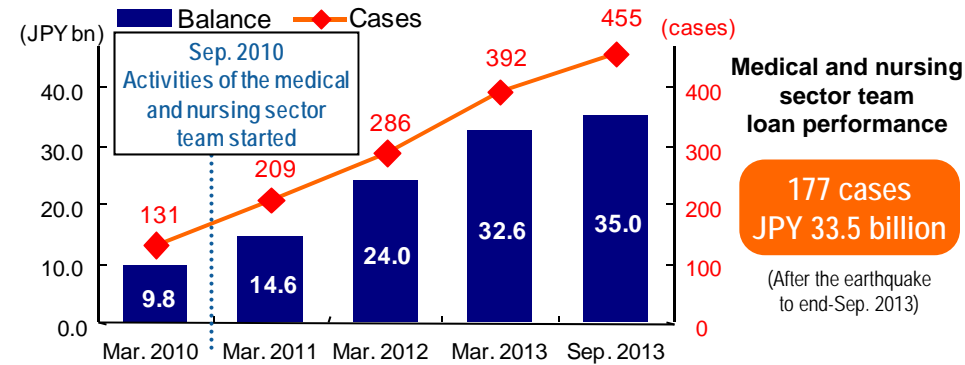
**Total number of business matching contracts** (After the earthquake to end-Sep. 2013) **More than 2,100 cases**

Of which, Loan performance **Approx. JPY 10.7 billion**  
Real estate information utilization, etc.

### ■ Loans for businesses in growth fields

□ Medical and nursing fields

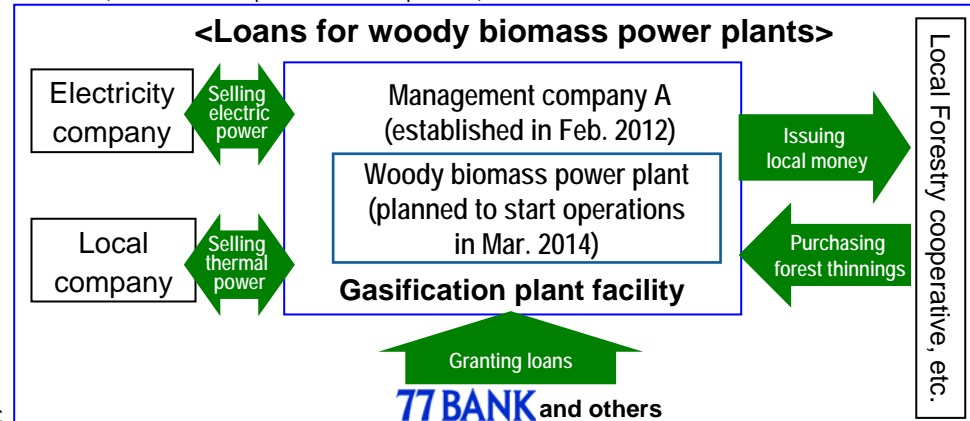
<77 Bank medical and welfare loan balance and number of cases >



□ Renewable energy business

Renewable energy-related loan performance: **25 cases**, **JPY 5.3 billion** (After the earthquake to end-Sep. 2013). Solar power, biomass, etc.

<Loans for woody biomass power plants>



## 2. Promote lending (3)

### ■ Promotion of retail loans

Capture the demand of post-quake housing rehabilitations

### ■ Housing loans

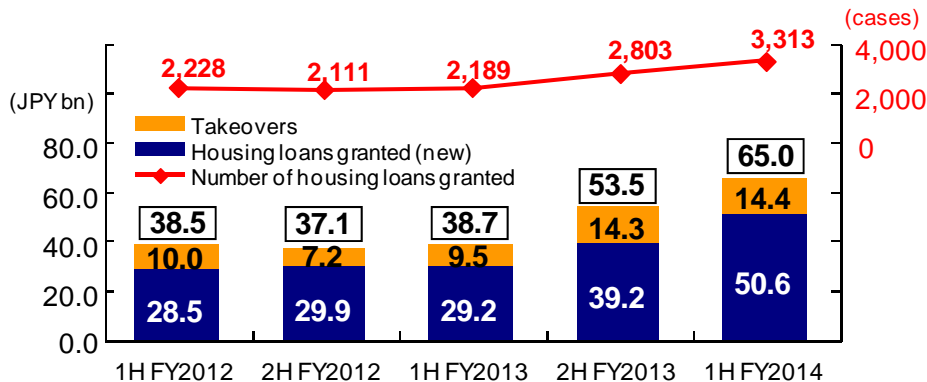
<Trend of housing starts in Miyagi Pref. (owner occupied/housing for household) >  
(cases)

1H FY2011	2H FY2011	1H FY2012	2H FY2012	1H FY2013	2H FY2013	1H FY2014
3,992	3,943	4,078	6,074	6,503	6,947	7,014

Continue Sunday loan consultations

Capture the demand of loans by enhancing the relationship with house builders

<Number of housing loans granted and balance of housing loans >



<Housing loan balances (term-end) > (JPY bn)

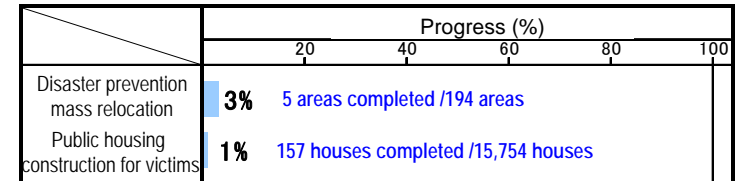
Mar. 2011	Sep. 2011	Mar. 2012	Sep. 2012	Mar. 2013	Sep. 2013
708.0	704.1	702.8	701.5	714.1	732.6

Toward the upward trend

### ■ Current conditions of housing-related reconstruction projects and the initiatives of The 77 Bank

<Progress of housing-related reconstruction projects >

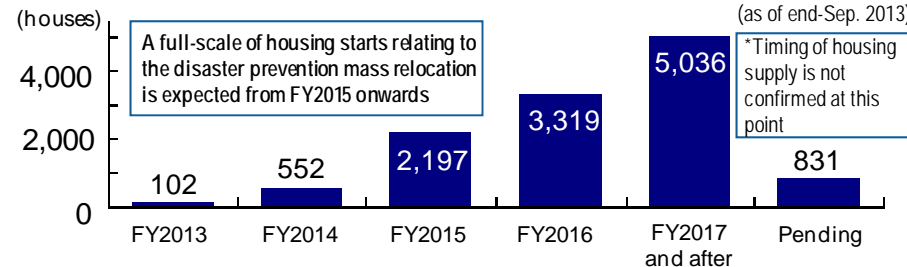
(as of end-Sep. 2013)



(Data prepared by The 77 Bank based on documents published by Miyagi Pref.)

<Number of houses by planned completion schedule under the housing land (land lease/lot for sale)preparation project >

(as of end-Sep. 2013)



□ Initiatives for housing loans (for mass relocation/leased land) (Feb. 2013 ~)

\* For the first time in Japan

Number and amount of projected loans: 52 cases totaling JPY 1.2 billion (as of end-Oct. 2013; including loans granted)

□ Increased opening days on holidays of Loan Centers in the disaster-stricken area (Ishinomaki) (Nov. 2013 ~)

□ Modified the terms of housing loans to include existing housing loans due to mass relocation (Nov. 2013 ~)

<Reference >

Japan Housing Finance Agency's "Disaster Restoration Housing Loans"

Loans approved by the agency: 4,040 cases (Total loans approved by the agency as of Oct. 7, 2013)  
(After the earthquake - end-Sep. 2013) totaling JPY 70.3 billion

### 3. Support the earthquake recovery

#### ■ Corporate rehabilitation supports

Promote business improvement through corporate rehabilitation support

#### ■ Tighten procedures in the Credit Supervision Division

□ Increase the number of personnel in the Enterprise Assistance Dept  
 Increased **9 people**  
 (After the earthquake)  
 Total 14 people

□ Assigned external specialists at the headquarters  
 Increased **2 people** since Oct. 2013  
 Total 5 people in the Credit Supervision Division

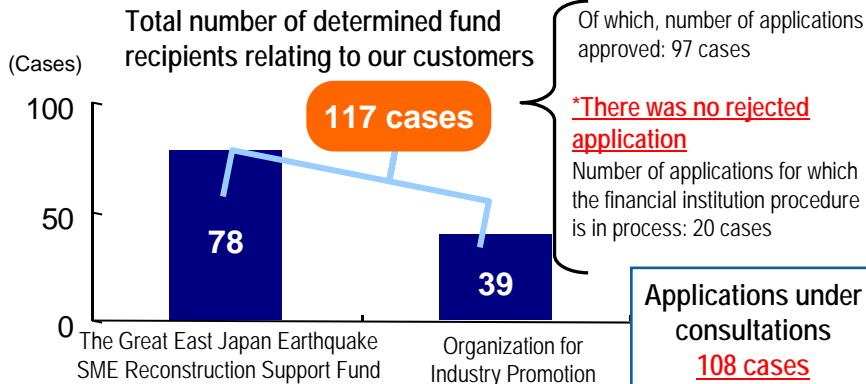
**19 personnel in total** (As of end-Nov. 2013)

#### <Business operations improvement support>

Number of businesses turnaround plan developed **2,700 customers** (First half of FY2013)

Of which, upgraded to higher borrower category: **202 customers**

#### <Use of credit purchase corporations> (After the earthquake to end-Sep. 2013)

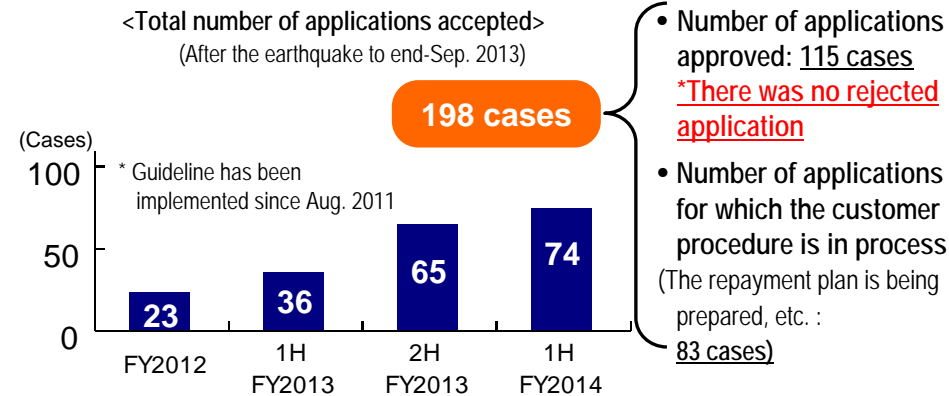


#### ■ Response to a double loan problem

Effective use of Guidelines for Individual Debtor Out-of-Court Workouts

#### ■ Effective use of Guidelines

<Number of Guideline applications accepted (by the 77 Bank)>



#### □ Efforts to continue the awareness of the Guidelines

##### • Gave free consultation sessions

At 12 venues in total jointly with the Sendai Bar Association and the Tohoku Local Finance Bureau, etc.  
 (8 venues in Miyagi Pref. and 4 venues in Fukushima Pref. through end-Nov. 2013)

##### • Continued follow-up activities such as direct mails and visits to housing loan customers

<Reference> Treatment of mortgage cancellation relating to land acquisition by local government

Mortgages can be cancelled by making repayment with land sales proceeds even full

Applications of mortgage cancellation **85 cases** (as of end-Sep. 2013)

## 4. Revitalize the regional economy

### ■ Responses to the concentration of manufacturing industry

Provide support to customers leveraging the network encompassing the industry, academics, and the government

#### □ Tohoku University laboratory tour

-Visits to laboratories of Tohoku University by local enterprises

- **Goal:** Improvement of technological strength, development assistance of younger engineers

- **Theme:** Automobile- and semiconductor-related sectors, marine products and foods, etc.



First session (Feb. 2013)  
43 participants

Second session (Nov. 2013)  
74 participants

#### □ Subsidy application support to support startups

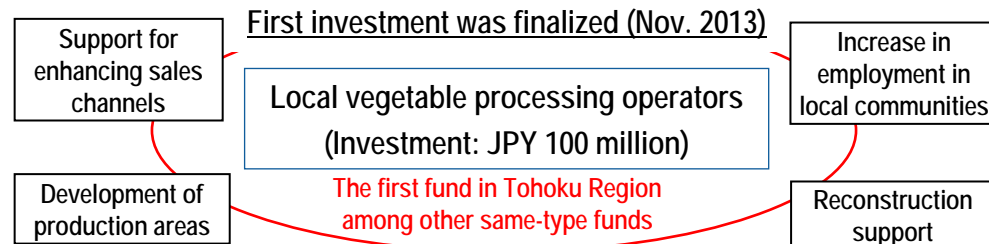
Subsidies granted **62 cases** Startup support / manufacturing support grants, etc  
(The 77 Bank supported) (As of end-Sep. 2013)

### ■ Promotion of agribusiness and development into the sextiary sector

Effective use of human resources with strength in agriculture as well as the Tohoku Sextiary Sector Industries Development Fund

- Agricultural management advisors: **20** (As of end-Sep. 2013)

- Effective use of Tohoku Sextiary Sector Industries Development Fund (Established in Apr. 2013, Fund size JPY 2.0 billion)



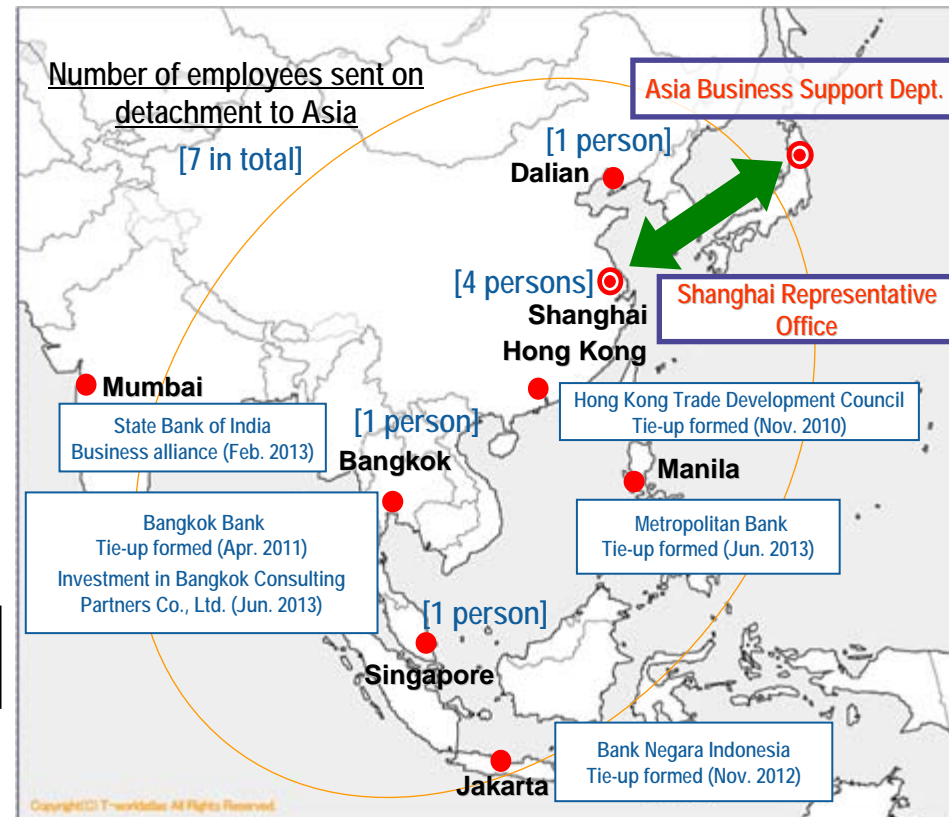
### ■ Support for local companies for Asia business

- Domestic lending to respond to borrowing needs overseas
- Promotion of credit transactions starting with overseas business support

- Number of overseas business support case (from Mar. 2011 to Sep. 2013)
- Number of loans related to overseas business support (from Mar. 2011 to Sep. 2013)

Approx. 900 cases in total

42 cases/approx. JPY 4.5 billion





## 5. Enhance the customer base and strengthen assets in custody

### ■ Enhance the customer base

#### ■ For retail customers

Support for a stable asset formation of customers

#### □ NISA (Nippon Individual Savings Account)

Planned to implement in Jan. 2014

Enhance the product line-up of investment trusts

Introduction of the original product for investment trusts via the Internet

Applications for NISA **more than 9,000 cases** (as of end-Sep. 2013)

#### □ Gifts to education funds for grandchildren, etc.

Tax-exempt gift as a lump-sum contribution to education funds (introduced in Apr. 2013)

#### Introducing products specific to gifts to education funds (Jul. 2013~)

<Gifts to education funds account>  
Utilizing the ordinary deposits of The 77 Bank

<Gifts to education funds trust>  
("Mago-eno-omoi")  
Trust products of Sumitomo Mitsui Trust Bank

Performance of "Gifts to education funds account"  
**83 accounts, JPY 637 million** (as of end-Sep. 2013)

#### ■ For corporate customers

Capture new customers by enhancing non-face-to-face sales channels

#### □ Enhance Internet banking functions

#### □ Promote electronically recorded monetary claims (ERMC)

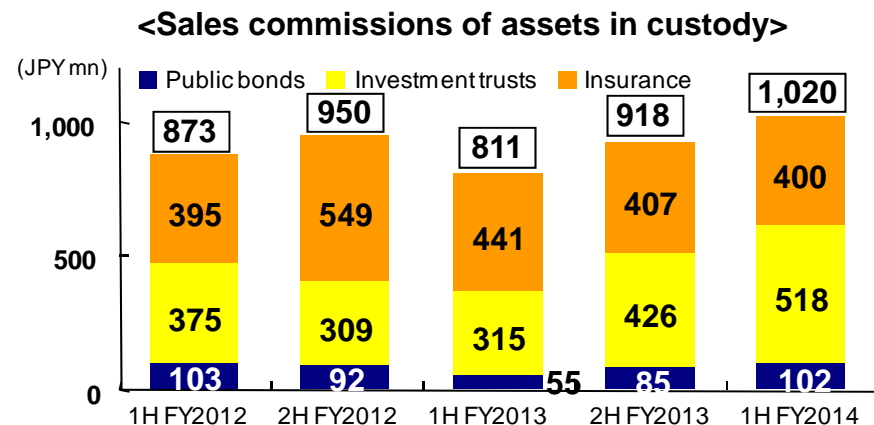
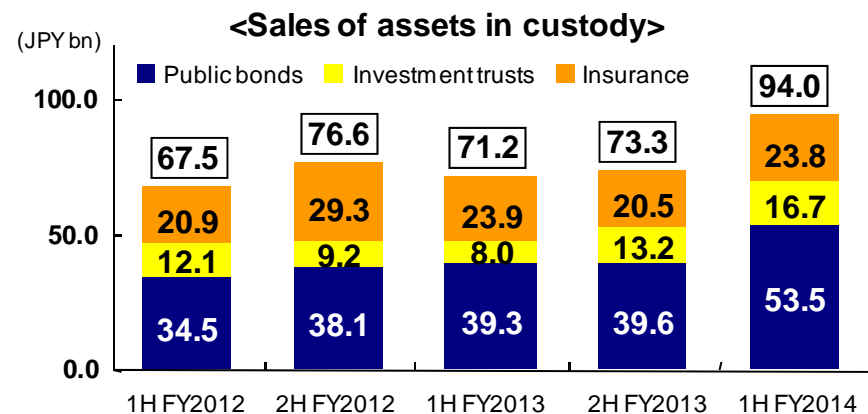
Applications for ERMC **More than 4,000 customers** (as of end-Sep. 2013)

### ■ Strengthen assets in custody

Promote a shift in funds from liquid deposits to assets in custody

Customer support by 10 head office money advisors

Implement individual commendations for the enhancement of assets in custody



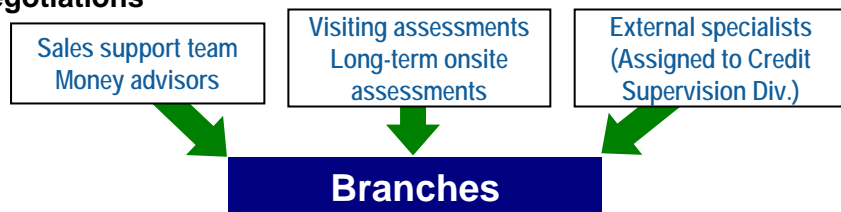
## 6. Expand investment in human resource development

### ■ Human resource development

Development of human resources who have interpersonal, information collection and negotiation skills

#### ■ Implement effective development of human resources

- Create opportunities to practice business conversations and negotiations



- Increase in the number of loan officers

⇒ Improvement of a practical financing skill

(End-Mar. 2012)

(Until end-Sep. 2013)

(End-Mar. 2014 Plan)

Approx. 470

**Increase 80**

Approx. 550

Implemented in Sep. 2013  
(ahead of schedule)

#### ■ Enhance and strengthen the training system

- The 77 Bank's internal school "Seven Juku"

Develop finance capabilities of young employees  
(Implement by area)

Participants: **215 in total**  
(Apr. 2012 ~ Sep. 2013)

- Corporate RM Development Program

Private instructions by the head office staff  
Occasionally conducted over the period of four months

Participants: **24**  
(Apr. 2012 ~ Sep. 2013)

- Use of video conference system (installation completed at all branches by May 2013) (~ End-Oct. 2013)

Hosting meetings and training seminars  
**More than 70 times in total**

Online distribution of training content  
**More than 50 times in total**

### ■ Promoting greater opportunities for female employees

Revitalize the entire organization by encouraging the active role of female employees

#### ■ Number of female employees

Ratio of female employees	End-Mar. 2003	End-Mar. 2013
Managerial position	Approx. 3%	Approx. 9%
Sales group	Approx. 3%	Approx. 24%

(increased by approx. 80)

(increased by approx. 100)

#### ■ Formulation of basic policies

Aug. 2013: Established the "Working Group for Female Employee Advancement" (Member: 10 female employees)

Oct. 2013: Formulated the "Basic Policies for Female Employee Advancement"

- Name

**Work Work Woman**

- Content

Active use of opinions from female employees

Enhance support for career and skill development

Enhance support for the work-life-balance of female employees

- Activities

- Hosting seminars for enhancement of financing and management skills
- Providing social communication opportunities for female employees in different departments and branches
- Introducing support measures for female employees who returned from child-care leave, etc.

## 7. Further improve productivity

### ■ Adhere strictly to a policy of low-cost operations

Strengthen sales operations utilizing the time and manpower created

### ■ Creation of time and manpower

#### □ Continue to push ahead with BPR

##### <Push ahead with BPR>

- Review the operation flows at operation branches
- Promote the centralization of administrative tasks relating to operation branches to the head office

##### <Impact of BPR>

Office work efficiency effect by BPR (Apr. 2012 ~ Sep. 2013)

**Approx. 3.5 hours**

\* Effect at each operation branch per day

#### □ Increased headcount by around 250, aiming at “1,000 part-time staff”

	Mar. 2012	Sep. 2013
Part timer	Approx. 750	Approx. 1,000
Bank clerks	Approx. 2,900	Approx. 2,900

- Increased staff of the financing group
- Enhanced sales strength by increasing relation opportunities

### ■ Radical review of costs

#### □ Carry out a radical review of costs by hiring external consultants

Targeting a cost reduction of JPY 1 billion per year by FY2016 (compared to FY2013 level)

<Reference>

A cost reduction during the previous medium-term plan: JPY 1.1 billion (on an average year basis)

### ■ Take steps toward a joint banking system (MEJAR)

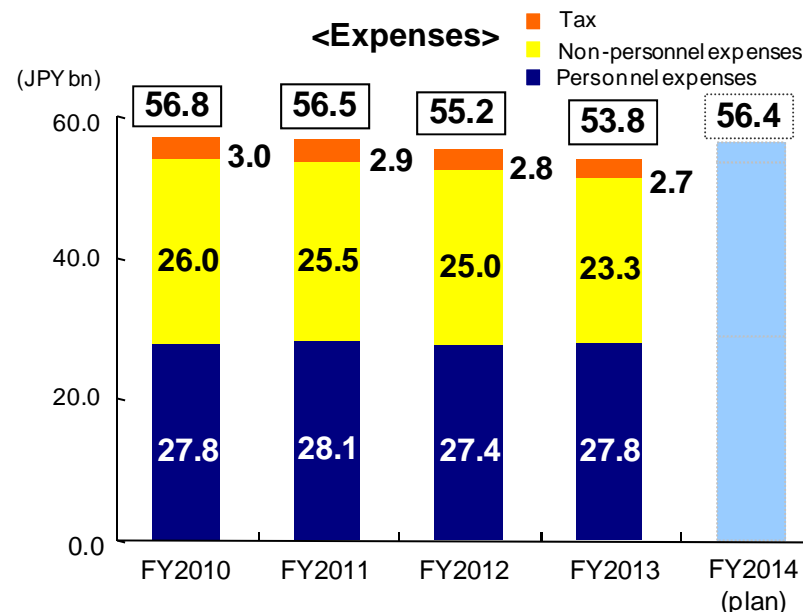
Scheduled to start operation in Jan. 2016; All-out preparation toward smooth transition

Participating banks: 4 banks [The 77Bank, Bank of Yokohama, Hokuu FG (The Hokuriku Bank, The Hokkaido Bank) ]

- The scope of joint use system expanded to “division systems”
- Advanced implementation of measures for efficient business operations by MEJAR member banks

### ■ Expenses

Expenses will increase in FY2014 due to early recognition of some of MEJAR-related costs, but maintain the average year level



# 8. Continue to develop the financial services platform / Improve shareholder value

**Enhancement of the 77 Bank brand through contribution to local communities and IR activities**

**■ Enhance the branch network**

**■ Market conditions in Sendai City**

**[Population] (Sep. 2013)**  
1,039,000 (+19,000 compared to Sep. 2011)

**[Standard land prices] (2013)**  
Commercial land +2.1%;  
Residential land +2.7%

**[Effective ratio of job offers to applicants] (Sep. 2013)**  
**1.4 times**

**[Large-scale projects]**  
Development of "Asto Nagamachi", a sub-center of Sendai City (south area)  

- Relocation of Sendai City Hospital
- Construction of large-scale housing and reconstruction public housing
- Opening of a large-scale commercial complex, etc

**■ Establishment of Nagamachi-Minami branch (provisional)**

- Establishment of a branch in Nagamachi area, the rapidly growing south areas of Sendai (planned to open in May 2014)
- Loan Center relocated, insurance customer service desk set up (second branch with this service)

**■ Response to environmental issues**

**■ Switch to LED lighting**  
 Target: All branches and ATM area in principle  
 Installation: by Sep. 30, 2015 in a phased manner  
 Effect: A reduction of 435,000 Kwh in annual electricity consumption is expected (equivalent to the usage of approx. 120 households)



**■ Promotion of financial education**

**■ Use of The 77 BANK CURRENCY and BANKING MUSEUM**

Establishment: On Dec. 1998, commemorating the 120th anniversary of The 77 Bank  
 Number of visitors: 1,169 in FY2013; 762 in the first half of FY2014

**■ Providing lectures at a local university**

University: Department of Business Administration, Faculty of Business Administration, Tohoku Gakuin University  
 Lecture: The staff of The 77 Bank provides lectures on banking operations every year since 2011.  
 Number of students: 155 in FY2012; 191 in FY2013; 252 in FY2014

**■ Setting up a booth at an interactive education program "Student City"**

Target: 5th & 6th graders of primary schools in Sendai City  
 Installation: Summer in 2014  
 Booth content: Exhibit a branch counter that allows children to simulate banking counter operations

**■ Improve shareholder value**

**■ Upgrade and expand IR activities**

- Secure stable shareholders through IR activities targeted at the local communities and individuals
- Continue IR activities targeted at foreign investors

**■ Maintain stable dividends**

• Continue to pay stable dividend even after the earthquake

<Reference> Recent acquisition of own shares

- Acquisition period: Feb. to Apr. 2011
- Total number of shares acquired: 5,563,000
- Total acquisition amount: approx. JPY 2.5 billion\*

\*Acquisition was suspended in Apr. 2011 in consideration of the effect of the earthquake.

# 1. Overview of the Medium-term Management Plan

## ■ Medium-term Management Plan Basic policies

1. Support earthquake recovery and revitalize the regional economy

2. Strengthen loan and consulting capabilities

3. Further improve productivity

## ■ Overview of the Medium-term Management Plan

Achieved most targets except Core OHR

Balance of retail loans and bills discounted *1	FY2013 result	(Fiscal year end, JPY bn)		Objective
		First half FY2014 result	FY2014 plan	
	2,138.3	2,178.0	2,142.0	As of Mar 31, 2015 (final year of the Plan)
Balance of retail loans and bills discounted in Miyagi Pref. *2	1,969.9	2,008.9	1,972.0	JPY 2.15 trillion or more
				JPY 2 trillion or more

\*1 Balance of loans and bills discounted excluding local government and other public authority, Tokyo, Osaka, and Nagoya areas branches as well as head office accounts

\*2 Balance of loans and bills discounted excluding local government and other public authority as well as head office accounts

Sales of investment trust, insurance, and public bond	FY2013 result	(JPY bn)		Objective
		First half FY2014 result	FY2014 plan	
	144.5	94.0	173.1	Cumulative total for the period of the Medium-term Management Plan
				JPY 450.0 billion or more

Net income	FY2013 result	(JPY bn)		Objective	
		First half FY2014 result	FY2014 plan	FY2013 and FY2014 respectively	FY2015, final year of the Plan
	12.1	8.1	14.0	JPY 11.0 billion or more	JPY 13.0 billion or more

Core OHR	FY2013 result	FY2014 plan (%)		Objective
		First half FY2014 result	FY2014 plan	
	68.5	69.1	71.0	FY2015
				Less than 67%

FY2014 plan is revised earnings projections announced Nov. 8, 2013.

## 2. Projected performance for FY2014

Projected performance (non-consolidated)	FY2013 results	FY2014 plan	(JPY bn)
			YoY change
Gross operating income	77.0	77.9	0.9
[Core gross operating income]	[ 78.5]	79.4	[ 0.9]
Interest income	68.5	69.2	0.7
Fees and commissions	9.8	10.0	0.2
Other operating income	(1.3)	(1.3)	0.0
Gains (losses) on bonds	(1.5)	(1.5)	0.0
Expenses	53.8	56.4	2.6
Operating income before provision of general reserve for possible loan losses	23.2	21.5	(1.7)
[Core operating income]	[ 24.7]	[ 23.0]	[ (1.7)]
Provision of general reserve for possible loan losses	–	–	–
Operating income	23.2	21.5	(1.7)
Special income (losses)	(2.6)	1.5	4.1
Bad debt disposals (-)	1.0	1.7	0.7
Gains on reversal of reserve for possible loan losses	2.4	1.7	(0.7)
Gains (losses) on stocks	(3.9)	0.6	4.5
Ordinary income	20.6	23.0	2.4
Extraordinary losses	(0.8)	0.0	0.8
Income taxes (incl. deferred taxes)	7.7	9.0	1.3
Net income (Net loss)	12.1	14.0	1.9
Credit-related expenses	(1.4)	0.0	1.4

Major accounts (average balances)	FY2013 results	FY2014 plan	(JPY bn, %)
			YoY change
Loans and bills discounted	3,641.7	3,762.7	3.3
Securities	3,112.2	3,538.6	13.7
Deposits and certificates of deposits	6,900.6	7,347.3	6.4
Ref.			
Assets in custody (term-end balances)	716.6	733.0	2.2

Interest rates/ Interest margin	FY2013 results	FY2014 plan	YoY change
			(%)
Loans and bills discounted interest rate	1.35	1.23	(0.12)
Securities interest rate	0.71	0.72	0.01
Interest rate on deposits	0.04	0.04	0.00
Interest rate spread	0.95	0.90	(0.05)
Net interest margin	0.17	0.13	(0.04)

\*Figures in YoY change shows percentage points.

## &lt;Interest rates and other assumptions underlying the projection&gt;

	FY2013 results	FY2014 forecast
Unsecured call rate O/N	0.08%	0.07%
JPY TIBOR (3 months)	0.32%	0.23%
5-year JGBs	0.20%	0.29%
10-year JGBs	0.78%	0.77%
Exchange rate (JPY/USD)	¥83	¥99
Nikkei Average (At the term-end)	¥12,397	¥14,500

This is a Japanese-English translation of the presentation material for your convenience. In the case that there is any discrepancy between the Japanese and English versions, the Japanese version is assumed to be correct.

Please note that the projections described in this document do not guarantee future performance. Future performance projections may differ from actual results due to uncertainty caused by factors such as changes in the business environment.

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