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# IR Presentation

Results for the First Half of Fiscal Year Ending March 31, 2013

December 4, 2012

Materials were prepared for the Bank's presentation of its results for the first half of the fiscal year ending March 31, 2013 held on December 4, 2012.

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## 1. Results for the first half of FY2013

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# 1. Results for the first half of FY2013

## Summary of profits and losses

(JPY bn, %)

	First half FY2012	First half FY2013	YoY change	
			Increase/ decrease	Rate of change %
Gross operating income	42.0	40.8	(1.2)	(2.8)
[Core gross operating income]	[ 41.2]	[ 39.8]	[ (1.4)]	[ (3.4)]
Interest income	36.4	34.7	(1.7)	(4.8)
Fees and commissions	4.6	4.9	0.3	6.3
Gains (losses) on bonds	0.8	1.0	0.2	
Foreign exchange transaction income	0.2	0.1	(0.1)	
Expenses	28.1	27.5	(0.6)	(2.3)
Operating income before provision of general reserve for possible loan losses	13.9	13.3	(0.6)	(3.7)
[Core operating income]	[ 13.1]	[ 12.3]	[ (0.8)]	[ (5.8)]
Provision of general reserve for possible loan losses	1.1	—	(1.1)	
Operating income	12.8	13.3	0.5	4.4
Special income and losses	(7.4)	(6.7)	0.7	
Gains (losses) on bad debt written-off	4.5	0.4	(4.1)	
Gain on reversal of reserve for possible loan loss	—	2.3	2.3	
Reversal of reserve for contingent losses	—	0.1	0.1	
Gains (losses) on stocks	(1.3)	(7.1)	(5.8)	
Ordinary income	5.4	6.6	1.2	21.3
Extraordinary income	0.0	—	(0.0)	
Extraordinary loss	1.0	0.3	(0.7)	
Income taxes (incl. deferred taxes)	2.4	2.2	(0.2)	
Net income	2.0	4.1	2.1	104.3
Credit-related expenses	5.6	(2.0)	(7.6)	

### Interest income

Decreased because of a fall in interest on loans and bills discounted (JPY 1.7 billion) due to declining interest rates

### Core operating income

Decreased due to a decrease in interest income

Gains on reversal of reserve for possible loan losses due to reversals from the general reserve for possible loan losses (-JPY 1.5 billion) and specific reserve for possible loan losses (-JPY 0.8 billion)

### Ordinary income/Net income

First increase in two years

# 1. Results for the first half of FY2013

## Major accounts / Interest rates / Interest margin

### ■ Major accounts (average balances)

(JPY bn, %)

	First half FY2012	First half FY2013	YoY change
Loans and bills discounted	3,491.7	3,565.9	2.1
Corporate loans	2,049.0	2,153.7	5.1
[excl. spread loans]	[ 1,175.3]	[ 1,187.4]	[ 1.0]
[Spread loans]	[ 873.7]	[ 966.3]	[ 10.5]
Consumer loans	753.9	744.1	(1.2)
[Housing loans]	[ 705.2]	[ 700.0]	[ (0.7)]
Loans for local governments	688.8	668.1	(3.0)
Securities	2,326.0	2,976.9	27.9
National government bonds	1,025.5	1,720.2	67.7
Local government bonds	99.1	83.6	(15.6)
Corporate bonds	825.6	847.0	2.5
Stocks	70.2	67.4	(3.9)
Others	305.6	258.7	(15.3)
Deposits and certificates of deposits	6,274.0	6,872.3	9.5
Retail deposits	4,172.0	4,363.8	4.5
Corporate deposits	1,410.7	1,483.5	5.1
Public deposits	661.2	1,001.8	51.5

### ■ Interest rates / Interest margin

(%)

	First half FY2012	First half FY2013	YoY change
Loans and bills discounted interest rate	1.51	1.39	(0.12)
Corporate loans	1.46	1.32	(0.14)
[excl. spread loans]	[ 2.10]	[ 1.96]	[ (0.14)]
[Spread loans]	[ 0.59]	[ 0.54]	[ (0.05)]
Consumer loans	2.25	2.12	(0.13)
[Housing loans]	[ 2.01]	[ 1.90]	[ (0.11)]
Loans for local governments	1.19	1.03	(0.16)
Securities interest rate	1.01	0.75	(0.26)
Interest rate on deposits	0.06	0.04	(0.02)
Interest rate spread	1.10	0.97	(0.13)
Net interest margin	0.21	0.17	(0.04)

\* Ref.

Assets in custody (Term-end balance)	654.7	697.1	6.4
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(Note) Figures of "Assets in custody" are total of investment trusts, insurance, public bonds and foreign-currency deposits

# 1. Results for the first half of FY2013

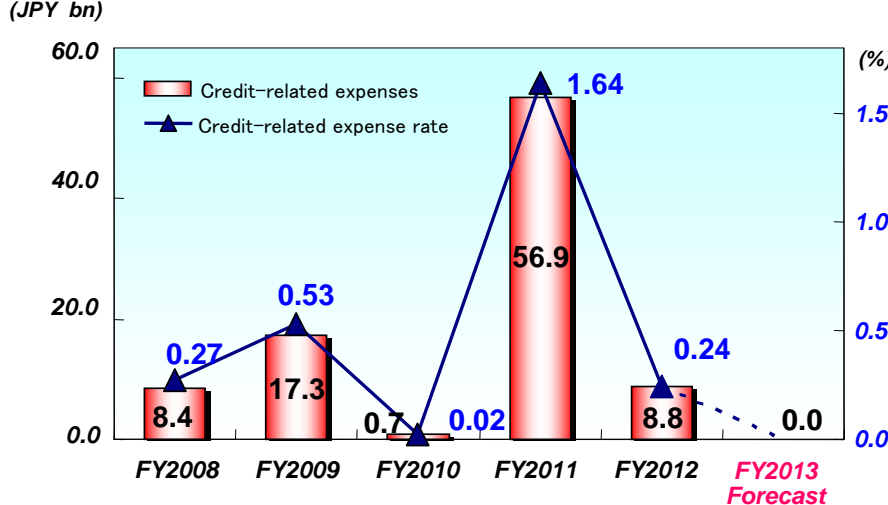
## Credit-related expenses and credits disclosed under the Financial Reconstruction Law

### Credit-related expenses

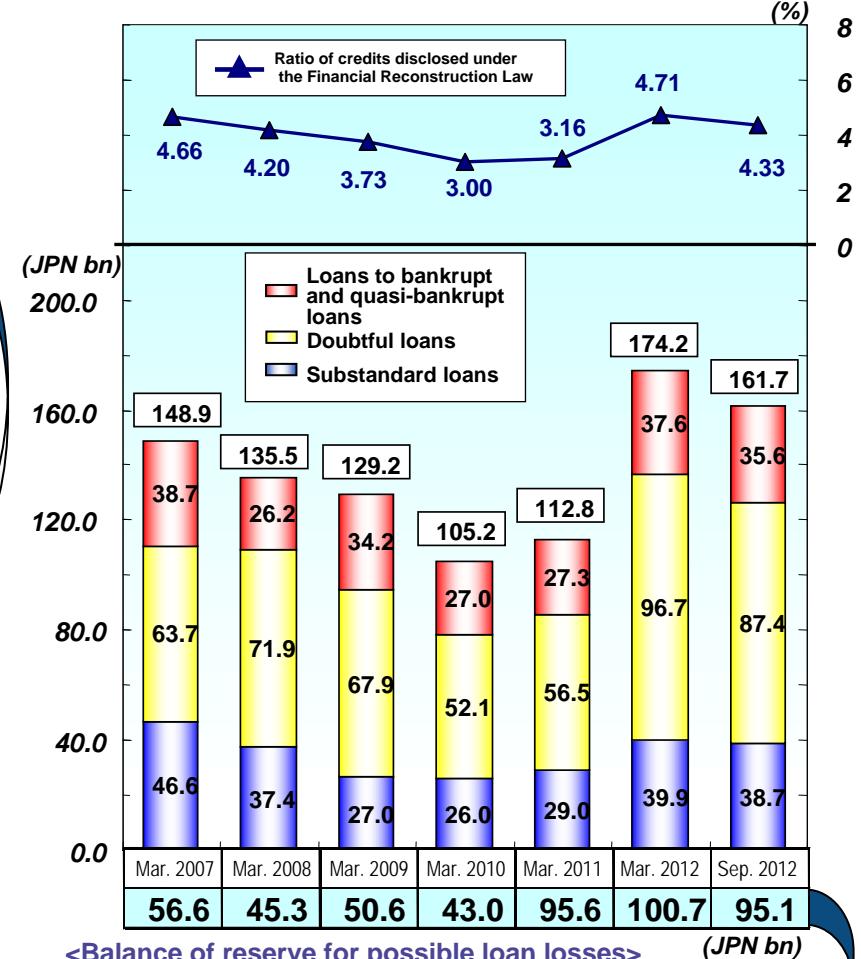
	(JPY bn)		
	FY2011	FY2012	1H FY2013
Provision of general reserve for possible loan losses	3.1	2.5	-
Loss on bad debt written-off	5.7	6.4	0.4
Provision of specific reserve for possible loan losses	4.4	5.2	-
Loss on sale of NPLs, etc.	1.3	1.2	0.4
Gains on provision of reserve for possible loan losses	-	-	2.3
Gains on provision of reserve for contingent losses	-	0.1	0.1
Gains (losses) on provision of reserve for possible loan losses (Extraordinary loss)	48.1	-	-
<b>Total</b>	<b>56.9</b>	<b>8.8</b>	<b>(2.0)</b>

Gains on reversal of reserve for possible loan losses due to a rise in the number of earthquake-affected companies upgraded to higher categories, etc.

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



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



### <Balance of reserve for possible loan losses>

Reserve for possible loan losses is at an adequate level

# 1. Results for the first half of FY2013

## Capital adequacy

### <Capital adequacy ratio>

○ As of end-Sep. 2012  
**Capital adequacy ratio (non-consolidated): 12.18%**  
 Vs. end-Mar. 2012 **-0.15**  
Increase in risk assets related to growth in lending

Impact attributable to public funds  
 (subordinated loans: JPY 20.0 billion): **+0.76**

○ As of end-Sep. 2012  
**Tier I ratio (non-consolidated): 10.83%**  
 Vs. end-Mar. 2012 **-0.14**  
**Secured an appropriate capital adequacy ratio level**

### < Capital adequacy ratio / Tier I ratio >

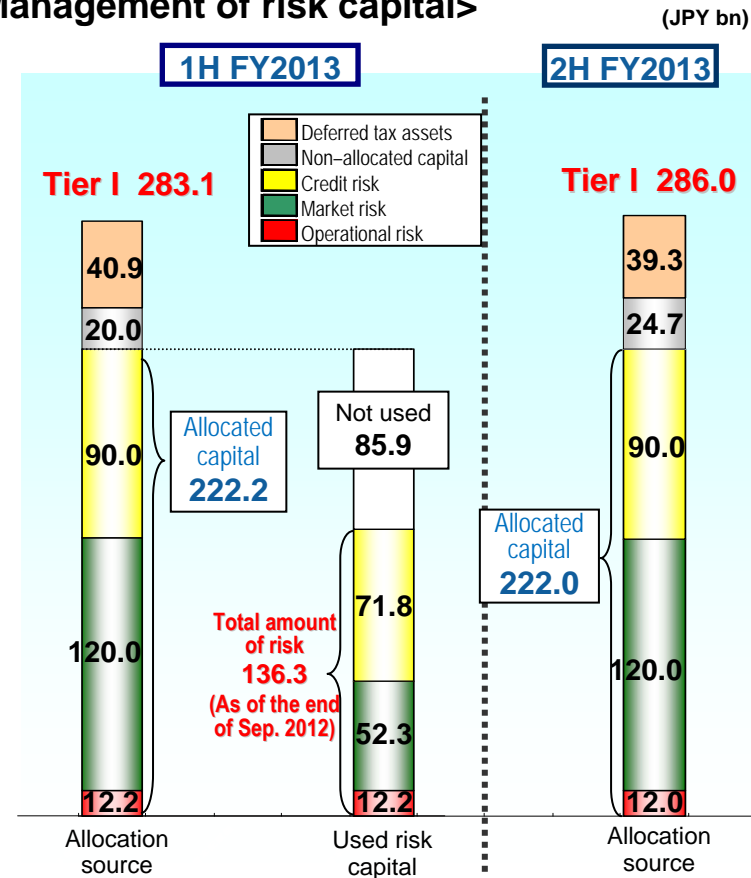
	Mar. 2010	Mar. 2011	Mar. 2012	Sep. 2012
Capital adequacy ratio	13.04	11.44	12.33	12.18
Tier I Ratio	12.50	10.85	10.97	10.83
Tier I ratio excluding tax effect	10.72	8.89	9.38	9.34
(Reference) Capital adequacy ratio (BIS standard)	13.69	12.08	12.89	13.14

○ Reference: Outlier ratio (as of end-Sep. 2012)

Amount of interest rate risk	Tier I + Tier II	Outlier ratio
JPY 25.3 billion	JPY 322.4 billion	* 7.84%

\* When the internal model is not applied to liquid deposits: 3.16%

### <Management of risk capital>



### ○Credit Risk

Projecting an increase in the value of credit extended due to the provision of funds for restoration and reconstruction

### ○Market Risk

Forecasting an increase in investment in securities and higher volatility

## Securities (1)

### ■ Fund position and yields

**Fund position increased sharply after the earthquake disaster**

↓

**Increase in balance of securities**

**Approx. JPY 700.0 billion**  
**(As of end-Sep. 2012)**  
**<Assets under management>**

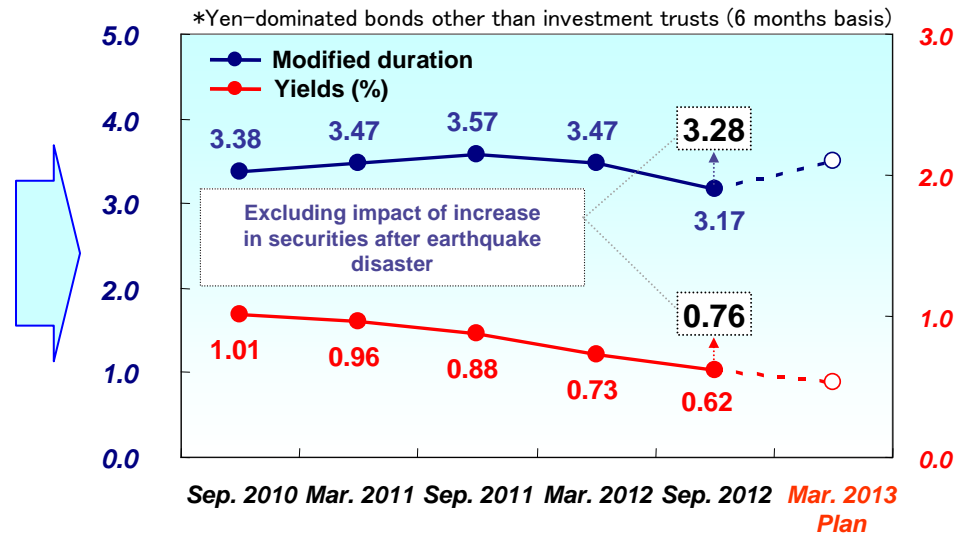
**Modified duration : 2.87 (Yields : 0.28%)**

Investing in short- and medium-term public bonds to ensure liquidity and diversify investment timeframes based on forecasts for fund flows

↓

**Duration and yields are declining**

<Yields and modified duration of yen-denominated bonds>



<Reference> Balance of securities, yield trend (6 months basis)

(JPY bn, %)

	End-Mar. 2011		End-Mar. 2012		End-Sep. 2012			
		Yield		Yield		Yield	Gains (losses) from revaluation	Change from End-Mar. 2012
<b>Securities</b>	<b>2,118.0</b>	<b>1.10</b>	<b>2,849.4</b>	<b>0.84</b>	<b>3,099.6</b>	<b>0.75</b>	<b>27.6</b>	<b>(10.5)</b>
<b>Bonds</b>	<b>2,024.1</b>	<b>1.04</b>	<b>2,764.3</b>	<b>0.80</b>	<b>3,030.3</b>	<b>0.69</b>	<b>17.5</b>	<b>(2.4)</b>
<b>Yen-denominated bonds</b>	<b>1,780.9</b>	<b>0.96</b>	<b>2,552.6</b>	<b>0.73</b>	<b>2,782.1</b>	<b>0.62</b>	<b>41.6</b>	<b>5.3</b>
National gov. bonds	864.8	0.75	1,577.1	0.54	1,800.2	0.43	22.5	2.6
Floating-rate national gov. bonds	365.5	0.33	319.6	0.31	318.7	0.20	6.4	(0.9)
Local gov. bonds	107.9	1.24	82.2	1.18	94.9	1.07	1.4	(0.2)
Corporate bonds	760.7	1.15	865.7	1.00	865.9	0.96	17.7	3.0
Others	290.7	1.45	239.3	1.39	269.3	1.34	(24.1)	(7.8)
<b>Stocks</b>	<b>93.9</b>	<b>2.88</b>	<b>85.1</b>	<b>2.46</b>	<b>69.3</b>	<b>3.49</b>	<b>10.1</b>	<b>(8.1)</b>

## Securities (2)

### ■ Breakdown of investment securities by type and remaining terms to maturity

<Composition ratio by type>

	Mar. 2011	Mar. 2012	Sep. 2012	Change
National gov. bonds	40.6%	55.4%	57.9%	2.5
Local gov. bonds	5.1%	2.8%	3.0%	0.2
Corporate bonds	36.0%	30.3%	27.6%	(2.7)
Stocks	3.4%	2.4%	1.9%	(0.5)
Others	14.9%	9.1%	9.6%	0.5

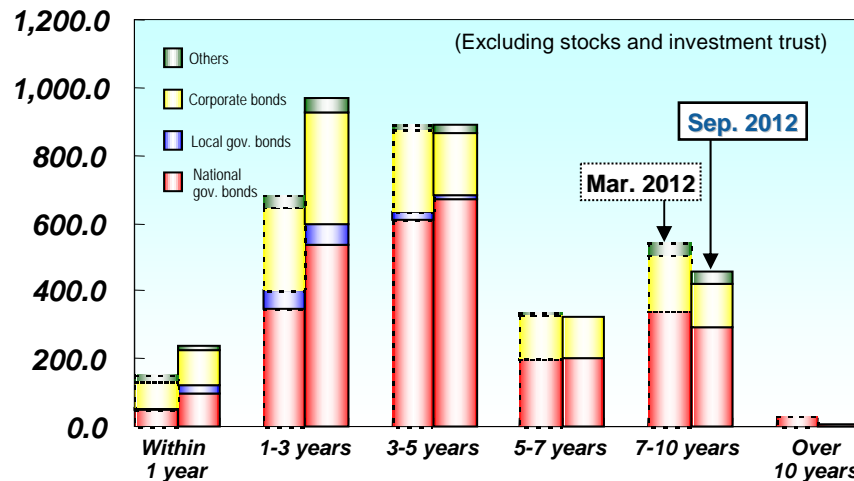
<Composition ratio by maturity period>

(Excluding stocks and investment trust)

	Mar. 2011	Mar. 2012	Sep. 2012	Change
Within 1 year	8.9%	5.8%	8.3%	2.5
1 – 3 years	18.9%	26.0%	33.6%	7.6
3 – 5 years	23.0%	33.8%	30.9%	(2.9)
5 – 7 years	15.1%	12.7%	11.2%	(1.5)
7 – 10 years	29.3%	20.5%	15.9%	(4.6)
Over 10 years	4.8%	1.2%	0.1%	(1.1)

< Balance by type and remaining terms to maturity >

(JPY bn)



### ■ Securities investment strategy

- Using a ladder strategy and boosting investment efficiency
  - Secure earnings opportunities by rebuilding the redemption profile of the portfolio
  - Switch to long-term bonds in response to interest rate trends
  - Rebalance equity and investment trust portfolios
  - Conduct expeditious investment in bonds and equities
- Diversify asset types and investment strategies
  - Spread investment into equities and overseas assets, including in Asia
  - Strengthen investment strategy using investment trusts and other approaches

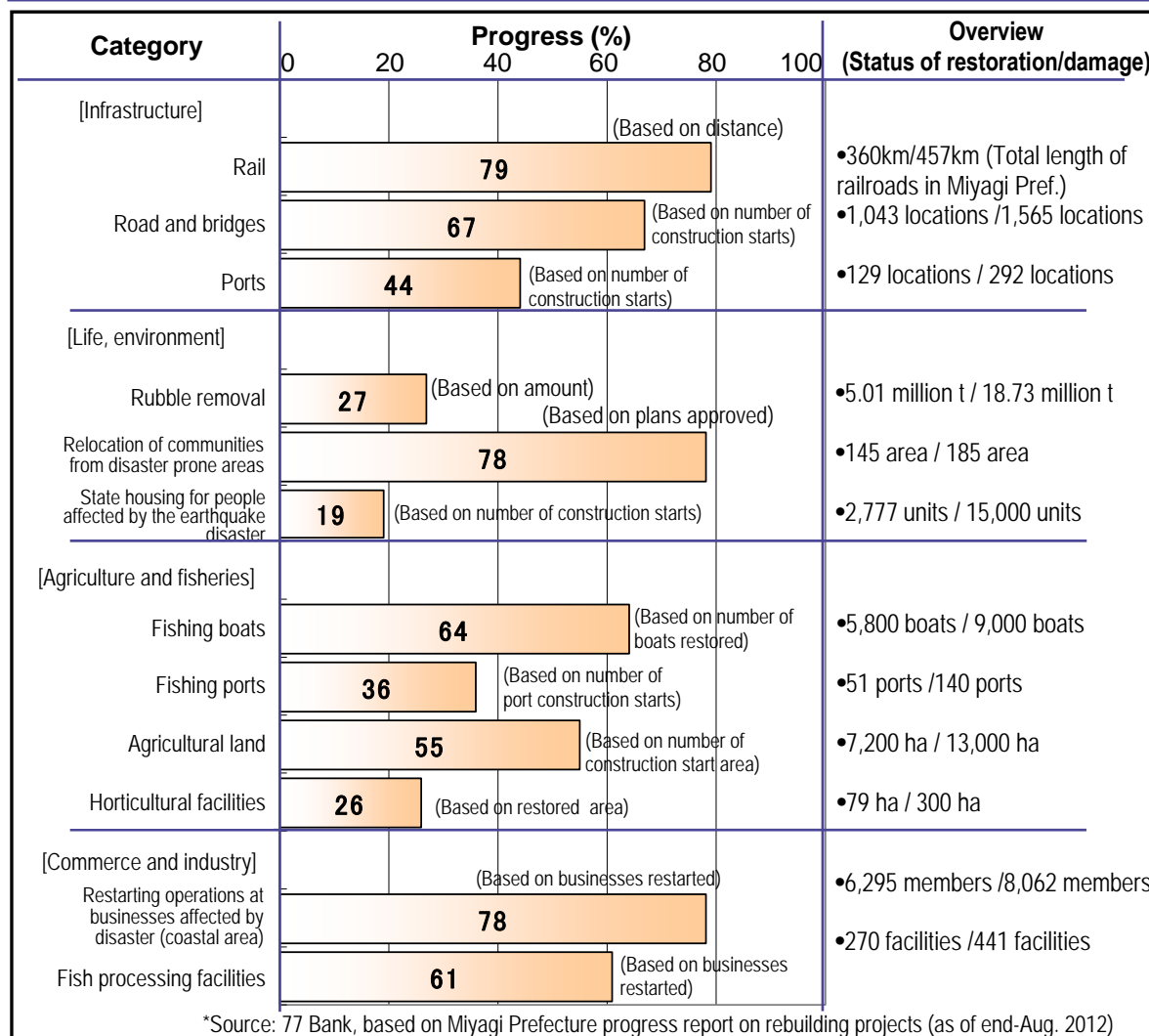


**Boost profitability through expeditious investment and asset diversification**



### Reconstruction work in Miyagi Prefecture

#### Progress with Great East Japan Earthquake reconstruction projects



#### <Current state>

- Shortage of materials such as embanking material, crushed rock and ready-mixed concrete
- Lack of workers on rebuilding projects
- Lack of facilities to house workers on rebuilding projects
- Details of land usage plans still not finalized, etc.

Over 70% of companies believe the rapid implementation of restoration and improvement plans for land affected by the disaster

will become an issue

\*Survey of 790 companies in Miyagi Prefecture during Jun-Jul 2012; 498 companies (63%) provided valid responses

Infrastructure-related rebuilding work is progressing well, but progress is limited for life, environment, agriculture and fisheries categories

#### <Prospects>

- To be completed by FY2014 : Rubble removal, etc.
- To be completed by FY2015 : Horticultural facilities, etc.
- To be completed by FY2016 : Road and bridges, state housing for people affected by the earthquake disaster, etc.

**Earthquake rebuilding is not yet half completed**

### Reconstruction work in Miyagi Prefecture

#### Trends in reconstruction funding in Miyagi Prefecture

**Cost of damage to Miyagi Prefecture's capital stock** **JPY 9,177.1 billion** (As of Oct. 10, 2012)

Private sector damage	JPY 7,056.5 billion	Public sector damage	JPY 2,120.6 billion
<ul style="list-style-type: none"> <li>{ Housing damage</li> <li>{ Company facilities</li> </ul>	<ul style="list-style-type: none"> <li>JPY 5,115.5 billion</li> <li>JPY 1,941.0 billion</li> </ul>		

Source: Miyagi Prefecture \*Cost breakdown is the Bank's estimate

#### <Funding demands for reconstruction>

##### <Public funds>

Infrastructure upgrades, etc.

##### <Corporate>

Operating fund

Capital expenditure funds

##### <Retail>

Home loans, etc.

#### <Sources of funds>

##### [Recovery grants and other public funds]

- Recovery grants: **approx. JPY 416.0 billion** (tranches 1-3 to cover Miyagi portion of business expenses)
- Special local allocation tax grants for recovery from earthquake disaster: **approx. JPY 450.0 billion** (Miyagi portion)

##### [Loans from financial institutions]

- **77 Bank** Loans provided for reconstruction work: **9,597 cases/JPY 235.0 billion** (- End-Sep. 2012)

- Local financial institutions, major banks, etc.
- Public financial bodies such as the Japan Finance Corporation and Japan Housing Finance Agency

##### [Recovery development assistance projects for SME group facilities]

- Amount approved for Miyagi (- End-Sep. 2012) **approx. JPY 150.0 billion (1,694 recipients in 89 groups have received approval)**
- Applications for sixth round of subsidies started in Nov. 2012
- Amount earmarked for Miyagi: **approx. JPY 80.0 billion**

##### [Own funds]

- Earthquake insurance payouts  
Source: General Insurance Association of Japan (Announced on Jun. 21, 2012)  
**approx. JPY 560.0 billion** (Miyagi portion)
- Other insurance payouts, relief funds, etc.

##### <Reference>

- Increase in the Bank's Miyagi deposits (vs. end-Mar. 2011)  
Public: approx. JPY 550.0 billion  
Retail: approx. JPY 550.0 billion  
Corporate: approx. JPY 230.0 billion (as of end-Sep. 2012)

**Expecting demand for funds to gain momentum as reconstruction efforts move forward**

### Overview of the Medium-term Management Plan

Started in April 2012 (three-year plan)

Medium-term Management Plan: “POWER for the Future” — 36 Months of Renewal and Growth —

#### <Priority policies>

1. Support earthquake recovery and revitalize the regional economy

2. Strengthen loan and consulting capabilities

3. Further improve productivity

4. Continue to develop the financial services platform

#### <Basic objectives>

□ Balance of retail loans and bills discounted <sup>\*1</sup> (As of Mar 31, 2015) JPY 2,150.0 billion or more

Balance of retail loans and bills discounted in Miyagi Pref. <sup>\*2</sup> (As of Mar 31, 2015)

JPY 2,000.0 billion or more

\*1. Balance of loans and bills discounted excluding local government and other public authority, Tokyo, Osaka, and Nagoya area 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 sales

(Cumulative total for the period of the Medium-term Management Plan)

JPY 450.0 billion or more

□ Net income (FY2013 and FY2014 respectively) JPY 11.0 billion or more  
(FY2015, final year of the Plan) JPY 13.0 billion or more

□ Core OHR (FY2015) Less than 67%

The kind of bank we aim to be:

“Best creative bank” that creates a new era together with the region

### Support earthquake recovery and revitalize the regional economy

#### Fulfill the Bank's financial intermediation function

##### ■ Address reconstruction stage funding needs

□ Recovery development assistance projects for SME group facilities

• Central and local governments cover 3/4 of expenses of businesses eligible for subsidies

➡ Address needs for bridging finance until subsidies are paid

**<Bridging finance performance>**  
(Miyagi businesses / as of end-Sep. 2012)  
**197 loans totaling JPY 16.7 billion**

• Businesses eligible for subsidies have to cover the remaining 1/4 of expenses themselves

➡ Address needs for own portion of funds

**<Portion of own funds performance>**  
(Miyagi businesses / as of end-Sep. 2012)  
**52 loans totaling JPY 5.9 billion**

##### ■ Earthquake disaster-related loan performance (to end-Sep. 2012) **9,597 loans totaling JPY 235.0 billion**

Operating funding needs account for roughly 75%

→ Demand for capital expenditure funding expected to follow

##### <Corporate loans>

(JPY bn)

	Operating	Facilities	Total
Cases	406.7	101.7	508.4
Amount	136.1	49.8	185.9

##### <Retail loans>

(JPY bn)

	Unsecured	Housing loan	Total
Cases	208.9	242.4	451.3
Amount	3.7	45.4	49.1

##### ■ Diversify methods with respect to the provision of funds

• Promote loans that do not overly rely on collateral and guarantees

◆ Promote ABL (asset based lending)

• Utilize five movable asset appraisal advisors

<ABL performance >

(After the earthquake – end-Sep. 2012)

**24 loans totaling JPY 4.1 billion**

Examples: large-scale cranes, hydraulic shovels, dairy cattle, electronically recorded and medical fee monetary claims

◆ Private placement bond performance

• 77 Bank reconstruction private placement bonds (start Mar. 2012)

<Private placement bond underwriting performance>

(After the earthquake – end-Sep. 2012)

**24 issues totaling JPY 2.8 billion**

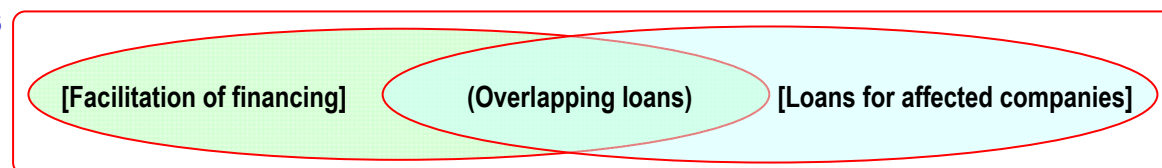
**(of this total 77 Bank private placement bonds account for 12 issues amounting to JPY 1.5 billion)**

**Restoration and reconstruction support through the smooth facilitation and provision of funds**

### Support earthquake recovery and revitalize the regional economy

#### Exit strategy ahead of expiration of the SME Finance Facilitation Act

##### ■ Status of customers



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

- Establish a new Credit Supervision Planning Dept.
- Increase the number of people in the Enterprise Assistance Dept. by 5 (9→14)

##### ■ Conduct ongoing on-site assessments

- Head office to guide bank branches in assessments and monitoring of business revitalization projects

Visiting assessments  
cumulative total  
1,221 branches

Long-term on-site assessments  
cumulative total 95 days

##### ■ Progress with revitalizing local businesses (first half of FY2013)

- Business rehabilitation and business operations improvement support by the Enterprise Assistance Department  
No. of eligible businesses: 1,756 (increase of 1,124 vs. end-Mar. 2012)



- No. of business turnaround plans developed: 285
- No. of businesses upgraded to higher borrower category: 181



##### ■ Response to double loan problem

###### □ Use of public institutions

- Support provided through tools such as purchasing loan claims, debt guarantees and bridging finance

- Enterprise Turnaround Initiative Corporation of Japan (ETIC)

Organization for Industry Promotion

The Great East Japan Earthquake Business

Operator Rehabilitation Assistance Organization

Total cases approved: 14

Total cases in application process: 9 (As of end-Sep. 2012)

###### □ Use of reconstruction support and other funds

- Miyagi Reconstruction Bridge Fund

- The Great East Japan Earthquake SME

Reconstruction Support Fund

Determined fund (investment)

recipients: 7

(As of end-Sep. 2012)

###### □ Promote the use of DDS and DES

DDS used for a chemical manufacturer in Jun. 2012

###### □ Responding to Guidelines for Individual Debtor Out-of-Court Workouts, etc.

- Raise awareness and propose use of system through phone, DM and seminar contacts
- Support projects to relocate communities from disaster prone areas



Reinforce support for customers to help them turn round and improve businesses / reduce credit costs

### Support earthquake recovery and revitalize the regional economy

#### Contribute to regional reconstruction and development (1)

##### ■ Promote the business matching initiative

###### □ Trade fairs with customers \*Number of meetings since the earthquake

- Japan: Sendai, Ishinomaki, Yamagata, Tokyo  
(Total of 7 meetings, 337 business customers attended)
- Overseas: China, Thailand  
(Total of 3 meetings, 25 business customers attended)

###### □ Strengthen business matching support

- Directly introduce buyers from Tokyo and other areas to customers in each region  
(Total of 2 business meetings held, a total of 21 business customers attended)

###### □ Use food ingredient selection tool

- Effective use of food-related business matching site on our homepage  
Number of registered businesses: **111 companies (as of end-Sep. 2012)**

Number of business matching contracts: **over 1,300**  
(Since the earthquake)

###### □ Catalogue of local products produced in Miyagi

- Published *Miya Gi Hajimemashite (Meet Miyagi's flavor and art)*  
Number of product orders: **over 5,000 (as of end-Sep. 2012)**

##### ■ Advice for business transfers and successions, etc.

Impact of earthquake, lack of successors, aging society

###### ➡ Address growing needs for support to transfer businesses

- Two specialists attached to head office
- Proposal of various business transfer schemes, including methods to value shares of company

Number of proposals: **73**

Revitalize the region by securing new sales channels and business successors

##### ■ Strengthen activities in growth fields

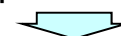
###### □ Step up support for the renewable energy sector

- Japan launched a fixed-price feed-in tariff system for renewable energy in Jul. 2012

A number of mega solar projects are now under way in Miyagi Pref. (Ishinomaki, Natori, Iwanuma, Higashi Matsushima, etc.)

###### <Our initiatives>

- Head office support through provision of information and help in formulating business plans, etc.
- Renewable energy seminar held (Aug. 2012)
- Funds for capital expenditure provided to a solar power generation business in Oct. 2012 (first project for the Bank)  
Three projects implemented as of end-Nov. 2012



Expected number of loans for solar power generation projects:  
**over 30 loans / JPY 5.0 billion and more**

###### □ Strengthen activities in medical /nursing fields

- Use three specialists in the medical / welfare field (grade-3 medical management specialists)
- Related loans provided so far: **114 loans / totaling JPY 21.5 billion**  
(since the earthquake – as of end-Oct. 2012)

###### □ Facilitating fund provision to the agricultural, forestry and fisheries sector

- Training personnel with a strong background in agriculture
- 17 Agriculture Management Advisors, one Voluntary Planner
- Seminars to promote shift to a new “sixth type of industry”

Step up efforts to identify new fund demand



### Support earthquake recovery and revitalize the regional economy

#### Contribute to regional reconstruction and development (2)

##### Efforts for companies new to Miyagi and Tohoku

<Impact of opening new Kitakami branch (June 2012)>

- Increase in business with auto sector companies
- Business matching between Iwate and Miyagi customers
- Provision of overseas business support to Iwate companies

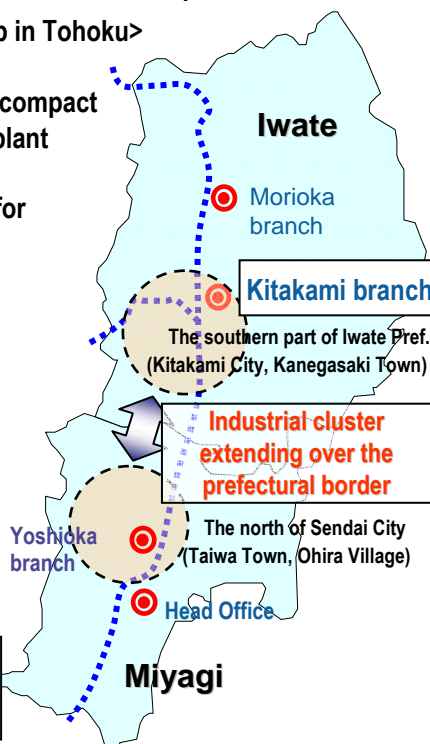
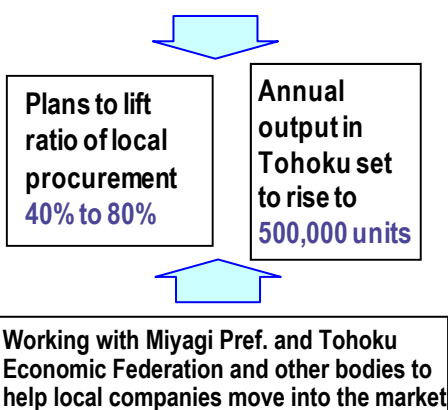
<Recent activities by the Toyota Group in Tohoku>

• Dec. 2012

Planned shipment of auto engines for compact hybrid models from the Miyagi Taiwa plant

• Fall 2013

Production of Corolla hybrid planned for Miyagi Ohira plant



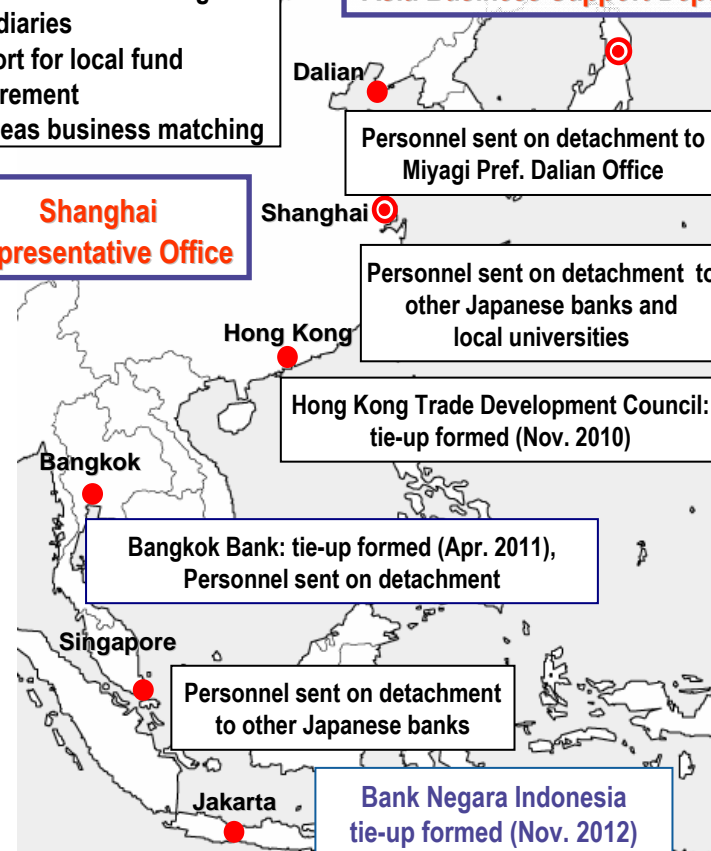
**Branches and head office working together to attract customers**

##### Support for local companies for Asia business

- Support for establishing local subsidiaries
- Support for local fund procurement
- Overseas business matching

**Shanghai Representative Office**

**Asia Business Support Dept.**



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**Provide support to clients through the overseas network**

### Strengthen loan and consulting capabilities

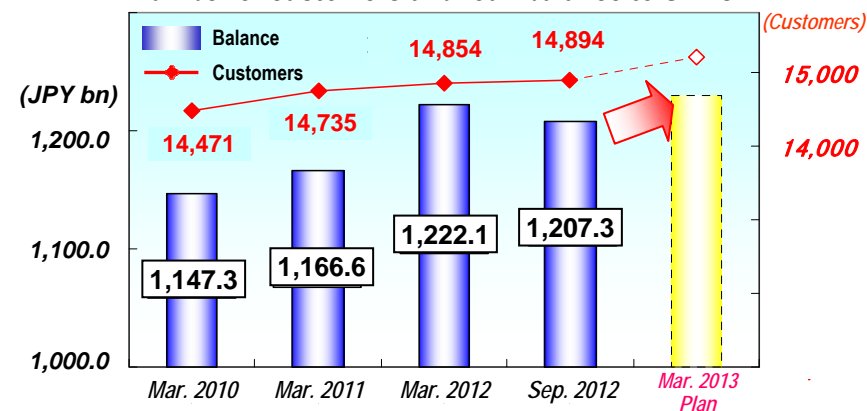
#### Strengthen loans

##### ■ Increase corporate loans

- Increase lending to SMEs
- Ongoing visits to customers and reinforcing customer relationships
- Capture demand related to rebuilding projects, such as funds for capital expenditure
- Step up efforts to win business from other banks
- Increase the number of branches outside Miyagi Pref.

Regain business from other banks and identify underlying needs

<Number of customers and loan balance to SMEs>



##### ■ Enhance housing loans

###### □ Current position

Small decrease in housing loan balance after the earthquake disaster due to an increase in repayments, but the balance remains above the JPY 700 billion level

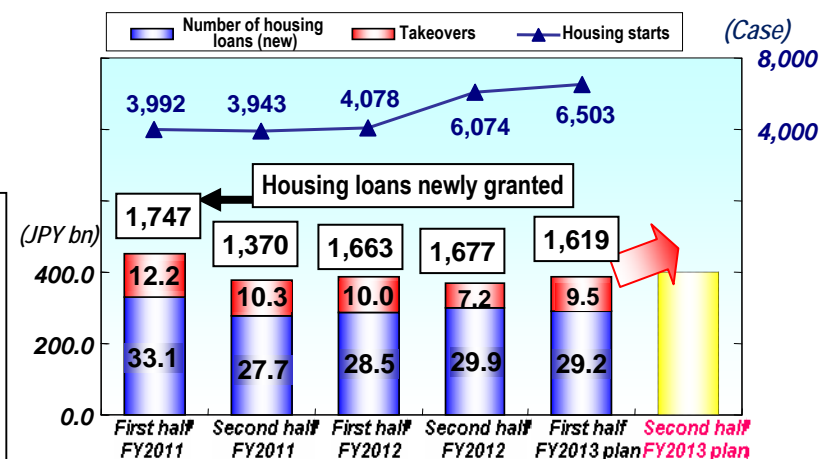
- Total for repayments and early full repayment through insurance payouts, etc. approx. JPY 30.0 billion (as of Sep 2012)  
⇒ Trending down recently
- Offer Japan Housing Finance Agency housing loans for those affected by the disaster  
Loans so far: approx. JPY 45.0 billion (loans approved by agency, as of Sep 2012)

###### □ Initiatives to drive growth

Aim to increase the housing loan balance by targeting the potential market more actively

- Target new demand for home rebuilding  
Potential home rebuilding demand in Miyagi  
Our estimate: **72,000 units**  
(Roughly 5.5 years)
- Offer competitive interest rates
- Use mail shots to win business from other banks

<Number of housing loans granted and housing starts in Miyagi>



<Balance of housing loans>

Period	Balance (JPY bn)
Sep. 2010	705.2
Mar. 2011	708.0
Sep. 2011	704.1
Mar. 2012	702.8
Sep. 2012	701.5

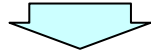


### Strengthen loan and consulting capabilities

#### Strengthen assets in custody

##### ■ Promote growth in the assets in custody base

- Capture customers' post-earthquake needs
- Respond to large-scale JGB redemptions for individual investors



Reinforce sales of insurance products

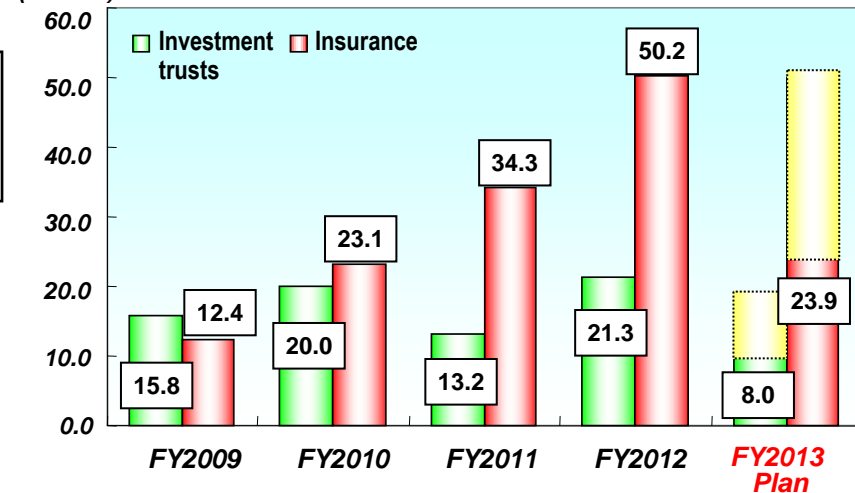
YoY increase in balance of assets in custody  
(As of Sep 30, 2012)  
**+JPY42.4 billion (+6.4%)**

<Improvements to the system to attract assets in custody>

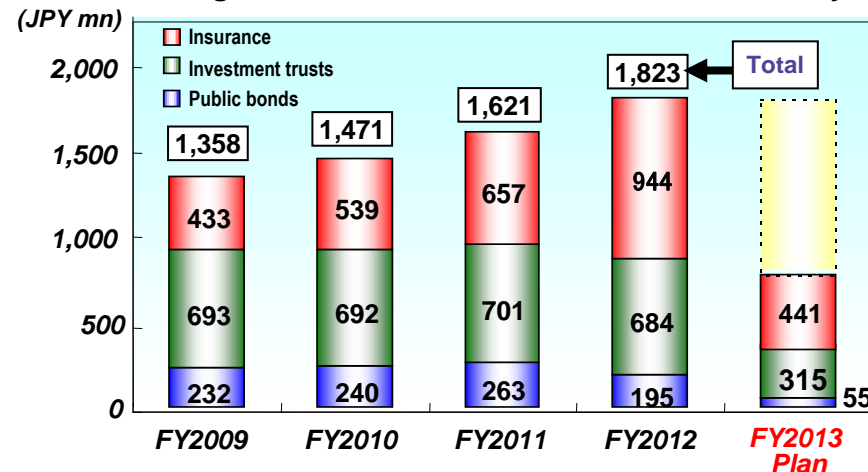
- Strengthen insurance sales system using life consulting services
  - Utilize the 77 Akaishidai Insurance Plaza dedicated insurance sales counters
  - Introduce tablet PCs at all branches
    - Reinforce asset management consulting capabilities
  - Enhance the product lineup
    - Introduce new insurance products to capture new demand that has emerged since the earthquake
  - Train personnel
    - Use head office money advisors (MAs)
    - Boost sales capabilities through new internal sales qualifications for assets in custody

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

(JPY bn) <Change in sales of investment trusts and insurance>



<Change in sales commissions of assets in custody>



### Strengthen loan and consulting capabilities

#### Expand investment in human resource development

##### ■ Strengthen finance capabilities

- Actively assign female and young employees to the loan and sales group
  - Increase the number of relationship managers (RMs) during the previous medium-term plan (completed)  
Increase from 300 to over 450 people
  - Train and increase the number of loan officers  
Increase from 470 now to 550 people by the final year of the medium-term plan (+80 people) (FY2014: 50, FY2015: 30)
- Develop human resources specializing in loans and sales aimed at growth fields
  - Energy and environment
  - Startups and new business clients
  - Health and nursing care
  - Overseas businesses, etc.

##### ■ Strengthen consulting capabilities

- Use head office RMs
  - Sales support team (Solution Sales Dept): 19 people  
Initiatives in growth fields  
ABLs, private placement bonds and assets in custody proposals
  - Regional Business Development Dept: 7 people  
Offer a range of proposals tailored to rebuilding efforts across the region
  - Asia Business Support Dept: 4 people  
Support for overseas businesses, addressing fund demand
- ▶ Enhance skills by accompanying branch staff on sales visits

##### ■ Developing human resources through training programs, etc.

- Training programs
  - Training program for business RMs: 16 people annually
  - New training program to enhance consulting capabilities: 57 people annually
  - Strengthen sales capabilities for assets in custody  
MA College: 60 people annually
  - Strengthen finance capabilities through courses run by the Bank's internal school, Seven Juku  
→ Total of 247 students since second half of FY2012
  - New training courses to boost the finance capabilities of young employees
- Upgrade and strengthen the training program with video conferencing systems
  - Gradually roll out from February 2013, aiming for completion by June 2013
  - Use in meetings and training between head office and branches  
→ Help to enhance ability to carry out business tasks and duties
- Provide incentives such as official announcements and commendations for individual performance
  - Encourage a greater sense of competition among employees to promote loans and assets in custody

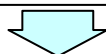
**Implement initiatives over the medium- and long-term to boost interpersonal skills, management capabilities and motivation**

### Further improve productivity

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

##### □ Continue to push ahead with BPR

Impact of BPR implemented during previous medium-term plan (time savings)  
**Around 9 hours** (per branch, per day)



Free up personnel and time for other tasks

##### <Ongoing implementation of BPR>

- Fundamental review of branch operating procedures
- Concentrate branch back-office operations at head office

##### <Effectively utilize benefits generated by BPR>

- Use personnel and time freed up by BPR to strengthen loan and sales capabilities

##### □ Effectively use part-time staff to free up personnel

- Increase headcount by around 250 during medium-term plan to create 1,000 part-time workforce

Use personnel and time freed up by BPR to increase sales opportunities

##### □ Review costs

- Hire external consultants
- Review head office business processes, etc.

Carry out a radical review of costs

#### ■ Take preparatory steps toward a joint banking system

##### □ Participate in the MEJAR joint banking system

(formally decided in May 2012)

##### • MEJAR

(Most Efficient Joint Advanced Regional banking system)

The industry's largest joint system use group

Participating banks: 77 Bank, Bank of Yokohama, Hokuuoku Financial Group (The Hokuriku Bank, The Hokkaido Bank)

##### □ Scope of system joint use

- Backbone system (deposits, transactions, loans, etc.),
- ATMs, Internet banking, etc.

##### □ Expected benefits

- Control medium- to long-term system expenses
- Better response to the growing diversification and sophistication of financial services
- Greater operational efficiencies through cooperation between the four banks

##### □ Prepare for shift to MEJAR system

~ System scheduled to go live in Jan. 2016 ~

- Change operating procedures ahead of the shift to MEJAR
- Bring forward the review of unpopular products and services

Take necessary steps before MEJAR system goes live in Jan. 2016

### Continue to develop the financial services platform

- **Improve the branch network**
  - Restore of branches damaged by the disaster
  - Develop the branch network in line with changes in the market
- **Reinforce statutory and regulatory compliance and enhance internal control systems**
  - Reinforce statutory and regulatory compliance
  - Bolster response to antisocial forces
  - Strengthen customer explanation, support, and other related management structures and systems
  - Strengthen risk control system
- **Strengthen investment securities management**
  - Reinforce business continuity systems and the ability of branches to respond to natural disasters and other emergencies
- **Step up initiatives that contribute to local communities**
  - Continue to provide support for disaster-affected areas and other social action programs

### Enhance 77Bank brand

- **Implement environmental initiatives**
  - Open eco-friendly branches
    - Install LED lighting and energy-efficient air conditioning systems
- **Reinforce the Bank's emphasis on warm-hearted customer service**
  - Improve the level of customer service
    - Use experts to provide ad hoc guidance to branches and run training sessions
    - Implement mystery shopper surveys and award commendations to operation branches that exhibit outstanding customer service
  - Initiatives aimed at older customers
    - Introduce universal design for application forms
    - Install priority seats in branch lobby areas
- **Improve shareholder value**
  - Maintain stable dividends
  - Upgrade and expand IR activities for local communities as well as individual and overseas investors

**Strive to enhance the 77 Bank brand  
through warm-hearted customer service and activities that contribute to local communities**

### 3. Projected performance for FY2013

## Profits and losses

(JPY bn)

	FY2012 result		FY2013 plan	
		YoY change		YoY change
Gross operating income	82.0	(1.0)	79.2	(2.8)
[Core gross operating income]	[ 82.1]	[ (0.5)]	[ 77.2]	[ (4.9)]
Interest income	72.5	(0.6)	67.4	(5.1)
Fees and commissions	9.5	0.3	9.6	0.1
Gains (losses) on bonds	(0.1)	(0.5)	2.0	2.1
Foreign exchange transaction income	0.1	(0.2)	0.1	0.0
Expenses	55.2	(1.3)	55.7	0.5
Operating income before provision of general reserve for possible loan losses	26.8	0.3	23.5	(3.3)
[Core operating income]	[ 26.9]	[ 0.8]	[ 21.5]	[ (5.4)]
Provision of general reserve for possible loan losses	2.5	(0.6)	–	(2.5)
Operating income	24.3	0.9	23.5	(0.8)
Special income (losses)	(7.8)	(0.6)	(7.5)	0.3
Losses on bad debt written-off	6.4	0.7	0.8	(5.6)
Reversal of reserve for possible loan losses	–	–	0.8	0.8
Reversal of reserve for contingent losses	0.1	0.1	0.0	(0.1)
Gains (losses) on stocks	0.1	(0.3)	(6.5)	(6.6)
Ordinary income	16.5	0.4	16.0	(0.5)
Extraordinary income	11.4	4.0	–	(11.4)
Extraordinary losses	1.6	(49.5)	0.5	(1.1)
Income taxes (incl. deferred taxes)	15.7	12.7	5.0	(10.7)
Net income	10.6	41.2	10.5	(0.1)
Credit-related expenses	8.8	(48.1)	0.0	(8.8)

### 3. Projected performance for FY2013

## Major accounts / Interest rates / Interest margin

(JPY bn, %)

		FY2012 result	YoY change	FY2013 plan	YoY change
Major accounts (average balances)	Loans and bills discounted	3,525.8	2.0	3,604.0	2.2
	Securities	2,537.0	24.0	3,102.9	22.3
	Deposits and certificates of deposits	6,370.0	18.6	6,868.5	7.8
Interest rates / Interest margin	Loans and bills discounted interest rate	1.49	(0.13)	1.35	(0.14)
	Securities interest rate	0.92	(0.19)	0.69	(0.23)
	Interest rate on deposits	0.05	(0.04)	0.04	(0.01)
	Interest rate spread	1.10	(0.19)	0.94	(0.16)
	Net interest margin	0.23	(0.01)	0.13	(0.10)

Reference (term-end balances)	Balance of retail loans and bills discounted	2,093.3	0.4	2,110.0	0.8
	Balance of assets in custody	681.2	4.8	706.2	3.7

(Note) Figures in the "YoY change" column of major accounts ("Loans and bills discounted," "Securities" and "Deposits and certificates of deposits" accounts) , "Balance of retail loans and bills discounted," "Balance of assets in custody" show the rate of changes, and figures in the "YoY change" column of interest rates / interest margin show percentage points.

## 4. Progress in implementing Medium-term Management Plan

### Progress of Medium-term Management Plan (1) (numerical plans are formulated and reviewed each fiscal year)

#### I. Average balances of major accounts

	FY2012 result	FY2013 plan	
		First half FY2013 result	FY2013 plan
Loans and bills discounted	3,525.8	3,565.9	3,604.0
Corporate loans	2,085.9	2,153.7	2,182.0
Consumer loans	751.6	744.1	745.5
Actual deposits and certificates of deposits	6,365.4	6,867.6	6,863.5
Retail deposits	4,259.9	4,363.8	4,362.2

(Original forecast)

(JPY bn, %)

FY2014 forecast	FY2015 forecast	Vs. FY2012	
		Change	Change (%)
3,592.0	3,624.0	98.2	2.8
2,172.0	2,197.0	111.1	5.3
764.0	776.0	24.4	3.2
6,365.0	6,353.0	(12.4)	(0.2)
4,194.0	4,202.0	(57.9)	(1.4)

#### II. Term-end balances, etc.

	FY2012 result	FY2013 plan	
		First half FY2013 result	FY2013 plan
Balance of retail loans and bills discounted	2,093.3	2,111.2	2,110.0
Balance of retail loans and bills discounted in Miyagi Pref.	1,931.1	1,946.2	1,947.0
Balance of retail loans and bills discounted outside of Miyagi Pref.	162.2	165.0	163.0
Actual deposits and certificates of deposits	7,163.9	6,853.1	7,040.0
Amount of investment trust, insurance, and public bond sales	144.1	71.2	131.5
Accumulated amount during the Plan		71.2	131.5

(Original forecast)

(JPY bn, %)

FY2014 forecast	FY2015 forecast	Vs. FY2012	
		Change	Change (%)
2,133.0	JPY 2.15 tn or more 2,157.0	63.7	3.0
1,967.0	JPY 2 tn or more 1,987.0	55.9	2.9
166.0	170.0	7.8	4.8
6,399.0	6,373.0	(790.9)	(11.0)
148.5	170.0	25.9	18.0
280.0	JPY 450.0 bn or more 450.0		

(Note) Figures in   represent the target at the end of the Medium-term Management Plan.

## 4. Progress in implementing Medium-term Management Plan

### Progress of Medium-term Management Plan (2) (numerical plans are formulated and reviewed each fiscal year)

III. Profits and losses, etc.

	FY2012 result	FY2013	
		First half FY2013 result	plan
Core gross operating income	82.1	39.8	77.2
Interest income	72.5	34.7	67.4
Fees and commissions	9.5	4.9	9.6
Expenses	55.2	27.5	55.7
Core operating income	26.9	12.3	21.5
Ordinary income	16.5	6.6	16.0
Net income	10.6	4.1	10.5
Core OHR	67.2	69.0	72.2
Capital adequacy ratio (Domestic standards)	12.3	12.1	12.1

(Original forecast)

(JPY bn, %)

FY2014 forecast	FY2015 forecast	Change from FY2012	
81.8	84.6	2.5	
72.3	75.1	2.6	
9.4	9.4	(0.1)	
56.7	56.6	1.4	
25.0	28.0	1.1	
19.7	21.2	4.7	
12.0	JPY 13.0 bn or more 13.0	2.4	
69.3	67% or less 66.9	(0.3)	
12.6	12.9	0.6	

(Note) Figures in    represent the target at the end of the Medium-term Management Plan.

[Forecast on the major interest rates, etc.]

	FY2012 result	First half FY2013 result	FY2013 plan
Unsecured call rate O/N	0.08	0.08	0.08
JPY TIBOR (3 months)	0.34	0.33	0.33
5-year JGBs	0.37	0.22	0.21
10-year JGBs	1.05	0.83	0.81
Exchange rate (JPY/ USD)	79	79	79
Nikkei Average (At the term-end)	10,083	8,870	9,000

(Original forecast)

(%, JPY)

FY2014 forecast	FY2015 forecast
0.08	0.08
0.34	0.35
0.40	0.50
1.15	1.25
82	84
10,000	10,500



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