Consolidated Performance for Fiscal 2014

THE 77 BANK, LTD. AND SUBSIDIARIES
Year Ended March 31

Financial and Economic Conditions

Based in Miyagi Prefecture, The 77 Bank has a network of branches extending across Fukushima Prefecture, Iwate Prefecture, Yamagata Prefecture, Akita Prefecture, Tokyo, Aichi Prefecture, Osaka, and Hokkaido. Making sound management a principle and aspiring to be the "Best Creative Bank that creates a new era together with the region," the Bank has three basic policies: 1) support earthquake recovery and revitalize the regional economy from a financial perspective while fulfilling the Bank's financial intermediation function, 2) strengthen loan and consulting capabilities by enhancing human resources development with a view to establishing a business model that coexists with the region in the medium to long term while achieving sustained growth together with the region amid rapid change, such as the shrinking of the Japanese market as the birthrate declines and the population ages, and 3) further improve productivity.

In fiscal 2014, the year ended March 31, 2014, the Japanese government's economic policies designed to escape from deflation and revitalize the economy led to expansion of production and an upturn in personal consumption. Positive impacts of the government's policies became evident from the middle of fiscal 2014 onward. Another notable factor was a spike in demand before the consumption tax increase. Overall, the Japanese economy was on a moderate recovery track. Meanwhile, in Miyagi Prefecture, the heartland of The 77 Bank, economic activities were generally upbeat owing to demand associated with recovery and reconstruction in the aftermath of the Great East Japan Earthquake, and the recovery of the economy of Miyagi Prefecture continued at a moderate pace.

In these circumstances, long-term interest rates, which had been hovering slightly below 1% against a backdrop of monetary easing by the Bank of Japan, further declined from the middle of fiscal 2014. Short-term interest rates remained extremely low. The upward trend in share prices persisted owing to rising expectations centering on the Japanese government's economic and other policies. The Nikkei Stock Average temporarily rose above ¥16,000 for the first time in six years. Meanwhile, in foreign exchange markets, the yen remained relatively weak throughout fiscal 2014, reaching an exchange rate of ¥105 to the U.S. dollar at the end of fiscal 2014.

In view of the massive damage caused by the Great East Japan Earthquake, the Bank strove to maintain the stable provision of financial services and continue to fulfill its financial intermediation function, in order to contribute to the recovery and reconstruction of communities and the regional economy as a financial institution working with the local region.

Regarding the Bank's branches that were damaged by the Great East Japan Earthquake, the Bank increased the floor area of the Morisekinoshita Branch (Natori-shi, Miyagi Prefecture) by building an extension. This branch is located in an area to which many people moved from disaster-stricken areas and is adjacent to a vibrant commercial complex. The range of services offered by the Branch was also expanded to include business financing for corporate customers and non-farm proprietors. At the same time, the Yuriage Branch (Natori-shi), which had been temporarily operating in space rented within the Masuda Branch (Natori-shi), was relocated to premises within the Morisekinoshita Branch.

In terms of support for enterprises that were affected by the Great East Japan Earthquake, we vigorously responded to their funding needs for the resumption of business and recovery of facilities by using the Restoration and Maintenance Subsidy Project for Facilities of Small and Medium-sized Enterprise Groups and other SME support schemes of central and local government. Through the initiatives for business matching, we continued to help corporate customers cultivate and expand sales channels to strengthen their fundamentals.

To support customers facing difficulties in continuing business or making loan repayments because of the impact of the earthquake, the Bank continued to be flexible, such as accepting change of loan terms and conditions, in light of the extent of the damage suffered by each customer. In response to the "double loan" problem, the Bank utilized external institutions, such as the Corporation for Revitalizing Earthquake-affected Business and Miyagi Industry Revitalization Corporation, as necessary, to support corporate customers burdened by double loans and offered consultation to help them improve management and revitalize their businesses through collaboration with external experts present at the Bank's headquarters. For individual customers, with the aim of helping them rebuild their lives and revitalizing the community as soon as possible, the Bank strove to communicate the advantages and implications of the Individual Debtor Guidelines for Out-of-Court Workouts by holding free-of-charge consultations at various locations in collaboration with the Tohoku Local Finance Bureau, etc. Moreover, for customers subject to group relocation promotion projects for disaster mitigation, the Bank vigorously offered the 77 Earthquake Recovery Support Home Loan (Group Relocation Type and Leased Land Type), a dedicated mortgage product to support the building of new homes.

In these circumstances, at the Bank and its consolidated subsidiaries, all officers and employees made a concerted effort to promote business while helping the region in its drive to recover from the Great East Japan Earthquake with the support of the shareholders and customers. Consolidated business results were as stated below.

Consolidated Business Results

Deposits, including negotiable deposits, amounted to ¥7,871.8 billion at the end of the year under review, having increased by ¥126.0 billion.

Loans and bills discounted increased by ¥235.5 billion to ¥3,998.2 billion at the end of the year. Investment securities increased by ¥315.4 billion to ¥3,730.3 billion at the end of the year.

Total assets stood at ¥8,507.2 billion at the end of the year under review, having increased by ¥246.1 billion.

With regard to profit and loss, total income decreased by ¥3,051 million from the previous year to ¥109,060 million owing to a decrease in other operating income mainly owing to a decrease in the gain on sales of government bonds and other bonds and a decrease in revenues of consolidated subsidiaries. Total expenses decreased by ¥8,107 million from the previous year to ¥80,154 million owing to a decrease in losses on devaluation of securities.

As a result, ordinary profit increased by ¥5,055 million from the previous year to ¥28,905 million. Net income increased by ¥2,613 million from the previous year to ¥15,059 million. Net income per share was ¥40.26.

Regarding performance by business segment, banking operations' ordinary income decreased by ¥1,709 million from the previous year to ¥96,570 million, but segment income increased by ¥4,930 million to ¥25,710 million. Leasing operations' ordinary income decreased by ¥2,320 million from the previous year to ¥10,144 million, and segment income decreased by ¥501 million to ¥1,125 million. In other operations, ordinary income increased by ¥626 million from the previous year to ¥4,980 million, while segment income increased by ¥631 million to ¥2,144 million.

Cash Flows

Net cash from operating activities amounted to ¥227,669 million, a decrease of ¥70,568 million from the previous year, owing to an increase in deposits and a decrease in call loans, etc.

Net cash from investing activities totaled ¥(293,723) million, an increase of ¥204,155 million from the previous year, mainly due to the purchase of securities.

Net cash from financing activities amounted to ¥(2,634) million, virtually unchanged from the previous year, mainly due to dividends paid, etc.

Consequently, cash and cash equivalents at March 31, 2014 amounted to ¥504,523 million, having decreased by ¥68,648 million from the previous year.