

**77 BANK**

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# IR Presentation

Results for Fiscal Year Ended March 31, 2017

**June 6, 2017**



Materials were prepared for the Bank's presentation of its results for the fiscal year ended March 31, 2017 held on June 6, 2017.

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## 2. Key Management Measures

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Strengthen earthquake recovery support <ul style="list-style-type: none"> <li>• Proactively supplying risk money</li> </ul>	10
Reinforce the earnings base <ul style="list-style-type: none"> <li>• Rebalancing loan assets</li> <li>• Increase revenues from fees and commissions</li> <li>• Strengthening securities business</li> <li>• Providing comprehensive financial services</li> <li>• Further building productivity</li> </ul>	11 13 14 15 16
Enhance the value of the region <ul style="list-style-type: none"> <li>• Contributing to regional revitalization</li> <li>• Support for overseas expansion</li> <li>• Strengthen, leverage information networks</li> <li>• Enhancing the 77 Bank brand</li> </ul>	17 19 21 22

## 3. Projected Performance

Progress of the Medium-term Management Plan	23
Projected performance for FY2018	24

(JPY bn, %)

Summary of profits and losses (Non-consolidated)	FY2016	FY2017	YoY change	
			Increase/ decrease	Rate of change %
<b>Gross operating income</b>	<b>75.1</b>	<b>69.2</b>	(5.9)	(7.9)
<b>[Core gross operating income ]</b>	<b>[ 79.6 ]</b>	<b>[ 73.7 ]</b>	<b>[ (5.9) ]</b>	<b>[ (7.4) ]</b>
Interest income	70.8	67.6	(3.2)	(4.5)
Fees and commissions	10.0	9.4	(0.6)	(5.5)
Other operating income	(5.7)	(7.8)	(2.1)	
Gains (losses) on bonds	(4.5)	(4.5)	0.0	
Gains (losses) on forex transactions	(1.2)	(2.6)	(1.4)	
Expenses	60.9	53.2	(7.7)	(12.6)
Operating income before provision of general reserve for possible loan losses	14.2	16.0	1.8	12.4
<b>[Core operating income]</b>	<b>[ 18.7 ]</b>	<b>[ 20.5 ]</b>	<b>[ 1.8 ]</b>	<b>[ 9.4 ]</b>
Provision of general reserve for possible loan losses	—	—	—	
<b>Operating income</b>	<b>14.2</b>	<b>16.0</b>	<b>1.8</b>	<b>12.4</b>
Special income and losses	10.1	5.6	(4.5)	
Bad debt disposals (-)	0.4	0.4	0.0	
Gains on reversal of reserve for possible loan loss	6.6	2.0	(4.6)	
Gains (losses) on stocks	1.5	1.9	0.4	
Gains (losses) on investments in money held in trust	1.8	2.5	0.7	
<b>Ordinary income</b>	<b>24.3</b>	<b>21.6</b>	<b>(2.7)</b>	<b>(11.1)</b>
Extraordinary income	—	—	—	
Extraordinary loss	0.4	0.5	0.1	
Income taxes (incl. deferred taxes)	8.2	4.5	(3.7)	
<b>Net income</b>	<b>15.7</b>	<b>16.6</b>	<b>0.9</b>	<b>6.1</b>
<b>Credit-related expenses</b>	<b>(6.2)</b>	<b>(1.6)</b>	<b>4.6</b>	

## &lt;Core operating income&gt;

Despite lower interest income, core operating income increased due to a drop in computer system expenses, etc., recognized in the previous term, in line with the migration to MEJAR

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

Net income increased due to lower corporation taxes, etc., despite a fall in ordinary income due to a decline in gains on reversal of reserve for possible loan loss, etc.

# 1. Financial Summary

## Interest income

(JPY bn)

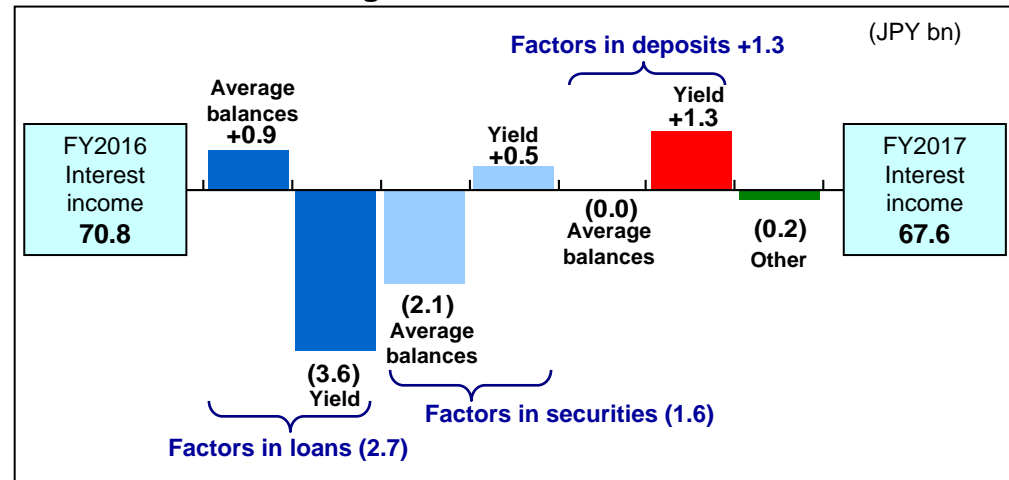
	FY2016	FY2017	YoY change
<b>Interest income</b>	<b>70.8</b>	<b>67.6</b>	<b>(3.2)</b>
<b>Investment income</b>	<b>74.8</b>	<b>70.4</b>	<b>(4.4)</b>
(Interest on loans and bills discounted)	<b>43.9</b>	<b>41.2</b>	<b>(2.7)</b>
(Interest and dividends on securities)	<b>30.6</b>	<b>29.0</b>	<b>(1.6)</b>
<b>Fund procurement costs</b>	<b>4.0</b>	<b>2.8</b>	<b>(1.2)</b>
(Interest on deposits)	<b>2.8</b>	<b>1.5</b>	<b>(1.3)</b>

FY2018 (Plan)	YoY change
<b>67.4</b>	<b>(0.2)</b>

### <FY2017 summary>

Interest income declined JPY 3.2 billion year-on-year due to a decline in interest on loans and reduced dividends on securities, despite the reduced interest on deposits from lower deposit rates, etc.

### <Change factors in interest income>



(JPY bn)

Major accounts (average balances)	FY2016	FY2017	YoY change
Loans and bills discounted	<b>4,266.8</b>	<b>4,355.1</b>	88.3
Securities	<b>3,469.0</b>	<b>3,214.2</b>	(254.8)
Deposits and certificates of deposits	<b>7,655.7</b>	<b>7,727.7</b>	72.0

(%)

Interest rates/ Interest margin	FY2016	FY2017	YoY change
Loans and bills discounted interest rate	<b>1.02</b>	<b>0.94</b>	(0.08)
Securities interest rate	<b>0.88</b>	<b>0.90</b>	0.02
Interest rate on deposits	<b>0.03</b>	<b>0.01</b>	(0.02)
Interest rate spread	<b>0.88</b>	<b>0.84</b>	(0.04)
Net interest margin	<b>0.10</b>	<b>0.16</b>	0.06

### <Reference> Trends of market interest rates

(%)

	FY2016	FY2017	YoY change
JPY TIBOR (3 months)	<b>0.16</b>	<b>0.06</b>	<b>(0.10)</b>
5-year JGBs	<b>0.02</b>	<b>(0.18)</b>	<b>(0.20)</b>
10-year JGBs	<b>0.28</b>	<b>(0.05)</b>	<b>(0.33)</b>

\* Figures in YoY change (increase/decrease) show percentage points.

# 1. Financial Summary

## Loans and bills discounted

Loans and bills discounted (average balances)	FY2016	FY2017	YoY change
Loans and bills discounted	4,266.8	4,355.1	2.0
Corporate loans	2,628.6	2,691.3	2.3
[Excl. spread loans]	1,344.3	1,509.5	12.2
[Spread loans]	1,284.3	1,181.8	(7.9)
Retail loans	890.9	962.8	8.0
[Housing loans]	853.0	922.2	8.1
Loans for local governments	747.3	701.0	(6.1)

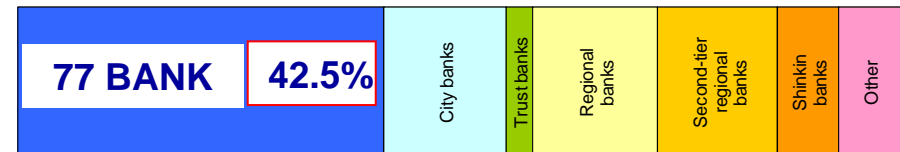
(JPY bn, %)

FY2018 (Plan)	YoY change
4,415.0	1.3

### <FY2017 summary>

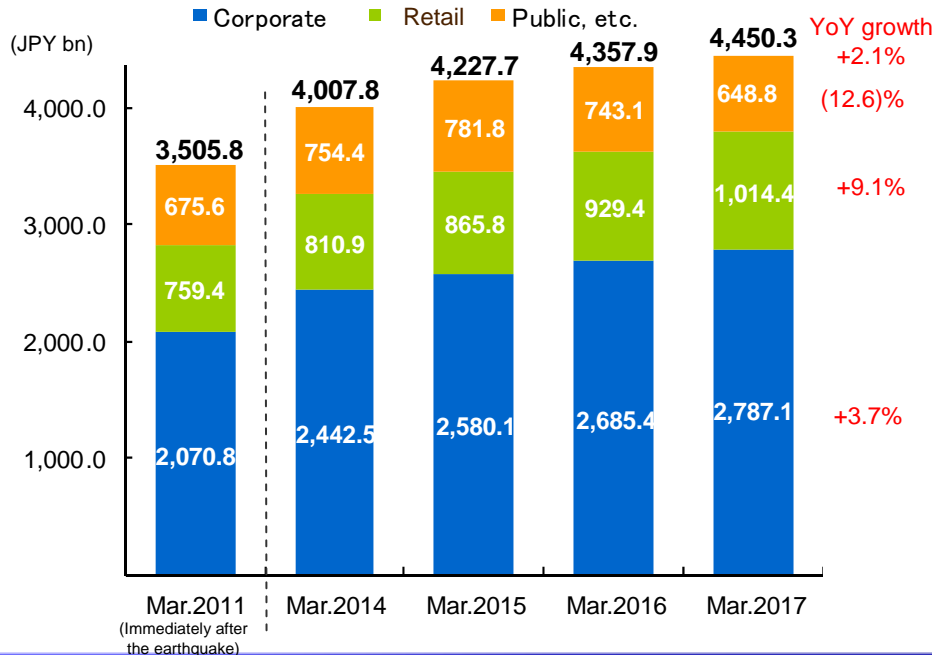
Average balances increased 2.0% year-on-year on average due to an increase chiefly in corporate loans centered in SMEs, and in retail loans centered in loans, and the term-end balance increased 2.1%

### Share in the loans in Miyagi Pref. (end of Mar. 2017)

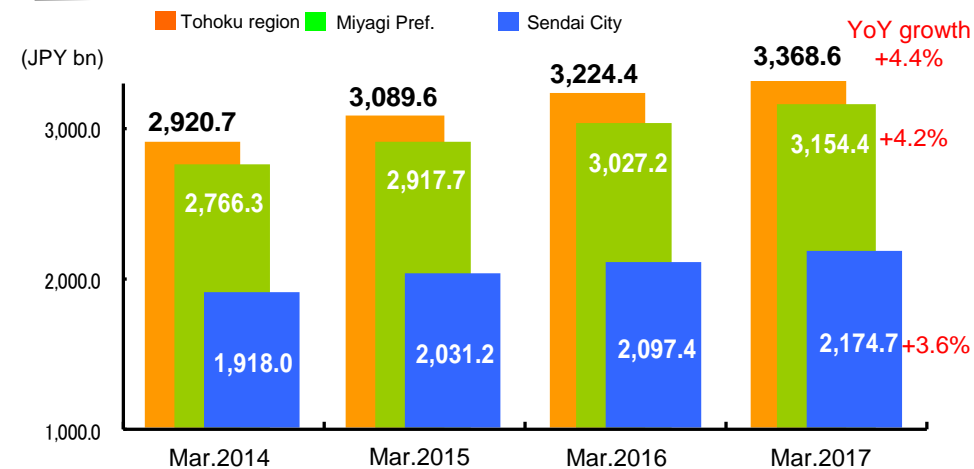


\* Excludes agricultural and fishery cooperatives

### Loans and bills discounted balances



### Loans and bills discounted balances by region



Deposits and certificates of deposits (average balances)	FY2016	FY2017	YoY change
	Deposits and certificates of deposits	7,655.7	
Retail deposits	4,615.7	4,700.0	1.8
Corporate deposits	1,666.6	1,755.1	5.3
Public deposits	1,348.5	1,243.8	(7.7)

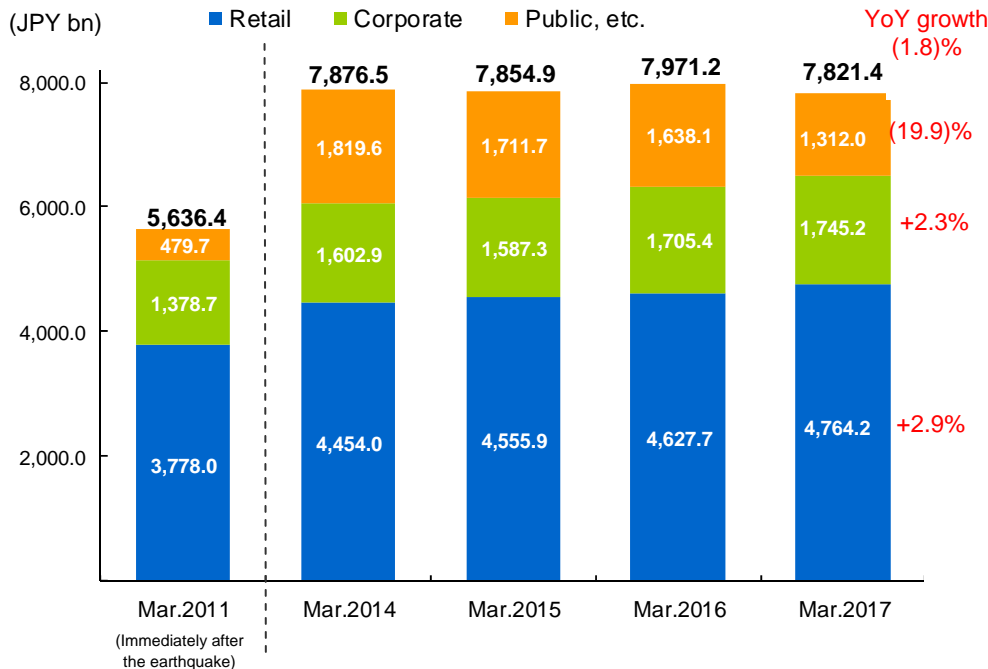
(JPY bn, %)

FY2018 (Plan)	YoY change
7,566.0	(2.0)

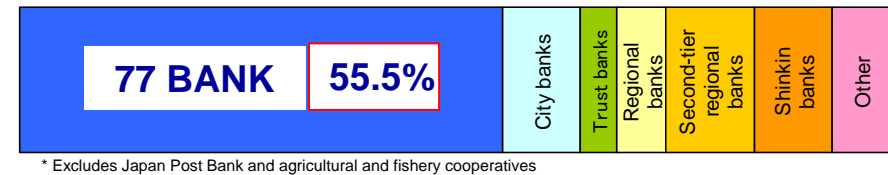
## <FY2017 summary>

- Average balances increased 0.9% year-on-year on average, due to an increase in retail and corporate deposits
- The term-end balance fell 1.8% year-on-year, on a decline in public deposits following progress in quake recovery

## Deposits and certificates of deposits balances



## Share in deposits in Miyagi Pref. (end of Mar. 2017)



## Providing convenience to expand the customer base

### Use of non-face-to-face channels

#### Expand online banking services (November 2016)

Fixed amount automatic remittance and registration of investment trust trading accounts, etc.

#### Launch of account-opening app (March 2017)

Opening of ordinary deposit and investment trust trading accounts

### FinTech measures

#### Big data analysis using artificial intelligence (March 2017)

Examine timely proposals of optimal services through big data analysis including transaction histories, in collaboration with Generic Solution Corporation

### Expansion of settlement services

#### Launch of 77 JCB debit card transactions (April 2017)

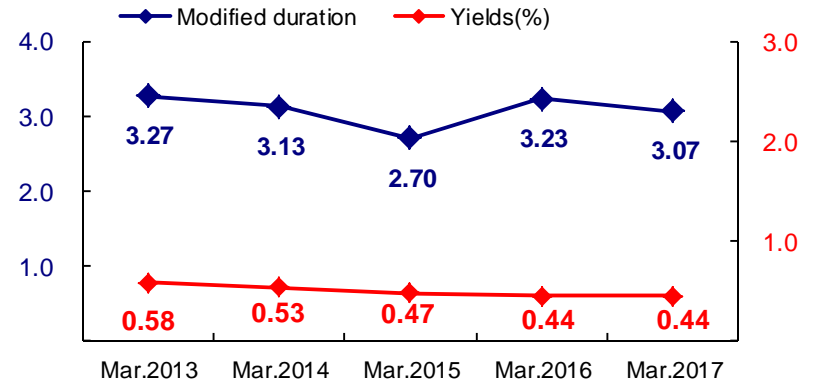
Provide quick fund settlement services from deposit accounts

## <FY2017 summary>

- Balance of marketable securities decreased owing to a decrease in public deposits
- Progress in yen-bond management and portfolio rebalancing to cope with negative rate environment
  - Continue yen-bond management guided by interest-rate risk
  - Ensure spread-based earnings through investment in corporate bonds, etc.
  - Broaden asset shift from yen bonds into investment trusts, etc.
- Secured revenues and expanded revenue sources by flexible trading

## ● Yields and modified duration of yen-denominated bonds

\*Yen-dominated bonds other than investment trusts



## ● Balance of securities (based on market value)

(JPY bn)

	End-Mar. 2015	End-Mar. 2016	End-Mar. 2017	YoY change	Gains (losses) from evaluation end-Mar. 2017	Change from end-Mar. 2016
	<b>Securities</b>	3,683.6	3,478.9	3,242.6	(236.3)	156.2
<b>Bonds</b>	3,541.1	3,353.7	3,091.6	(262.1)	77.6	(10.7)
National gov. bonds	2,003.3	1,560.9	1,225.5	(335.4)	17.1	(7.9)
Local gov. bonds	75.6	229.0	246.9	17.9	4.5	(1.0)
Corporate bonds	950.7	997.2	983.2	(14.0)	13.9	(5.0)
Others	511.5	566.6	636.0	69.4	42.1	3.2
Investment trusts, etc.	274.7	327.8	414.7	86.9	43.7	4.4
Foreign bonds	236.8	238.8	221.3	(17.5)	(1.6)	(1.2)
<b>Stocks</b>	142.5	125.2	151.0	25.8	78.6	14.8

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

	Mar. 2015	Mar. 2016	Mar. 2017	Mar.2018 Plan
National gov. bonds	56.6%	46.2%	↓ 39.2%	↓ 32.6%
Local gov. bonds	2.1%	6.7%	7.9%	11.8%
Corporate bonds	26.7%	29.4%	31.4%	31.4%
Others	12.8%	15.8%	↑ 19.2%	↑ 21.7%
Investment trusts, etc.	6.0%	8.6%	↑ 12.0%	↑ 13.7%
Foreign bonds	6.8%	7.2%	7.2%	8.0%
Stocks	1.8%	1.9%	2.3%	2.5%



# 1. Financial Summary

# Assets in custody

Sales of assets in custody	FY2016	FY2017	
			YoY change
<b>Investment trusts and insurance</b>	<b>96.0</b>	<b>74.9</b>	(21.9)
Investment trusts	50.2	44.8	(10.7)
Insurance	45.8	30.1	(34.2)
<b>Public bonds</b>	<b>15.4</b>	<b>3.9</b>	(74.6)
<b>Total</b>	<b>111.4</b>	<b>78.8</b>	(29.2)

(Reference)

<b>Structured bonds</b>	<b>7.3</b>	<b>37.9</b>	419.1
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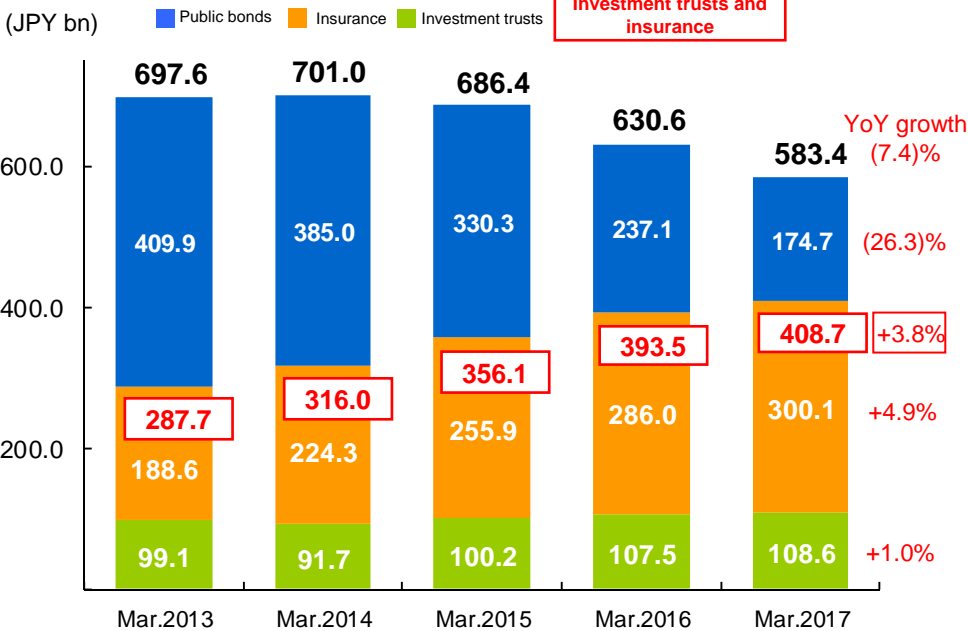
(JPY bn, %)

FY2018 (Plan)	YoY change
<b>88.0</b>	17.4

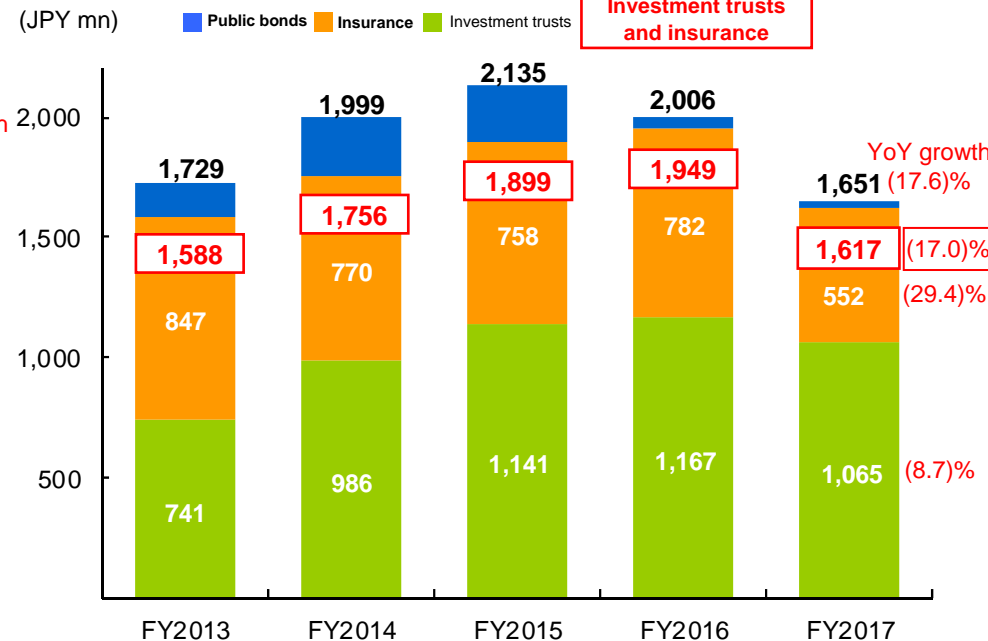
## <FY2017 summary>

- Sales amounts and commissions both declined year-on-year due to product withdrawal amid a first-half slump in the investment trust market and a scheduled rate reduction on insurance products
- Drastic rise year-on-year in sales of structured bonds due to accurate appraisal of diversifying asset management needs

## Balance of assets in custody



## Sales commissions of assets in custody





# 1. Financial Summary

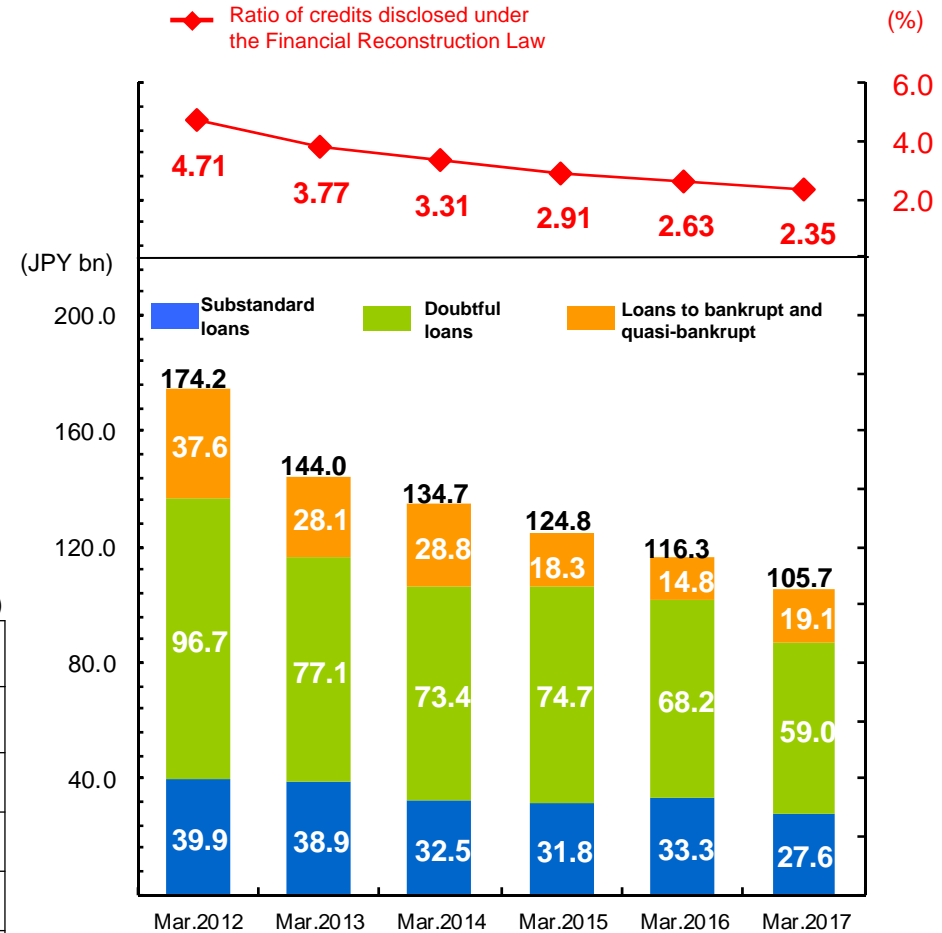
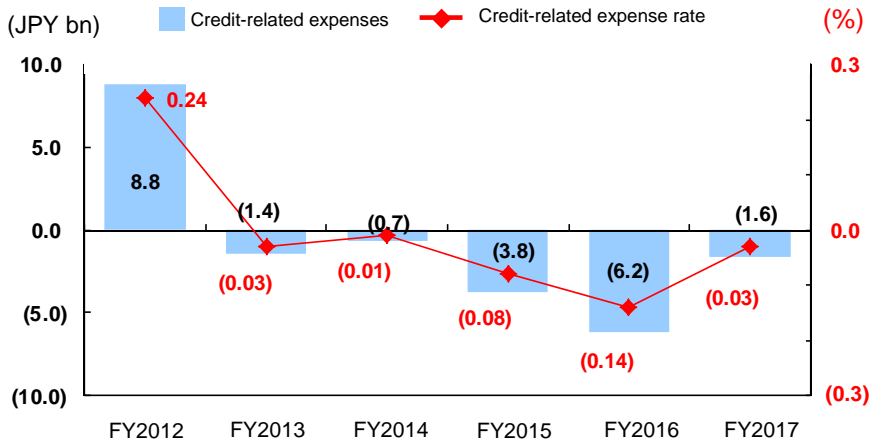
## Credit-related expenses/capital adequacy ratio/ credits disclosed under the Financial Reconstruction Law

### Credit-related expenses

### Credits disclosed under the Financial Reconstruction Law

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

#### Credits disclosed under the Financial Reconstruction Law



### Capital adequacy ratio

	(JPY bn, %)	
	End-Mar. 2016	End-Mar. 2017
Capital adequacy ratio (non-consolidated/ domestic standards) (a/b)	10.90	10.48
Capital (a)	364.2	373.4
(Core capital: instruments and reserves)	364.3	373.5
(Core capital: regulatory adjustments)	0.1	0.1
Risk assets (b)	3,340.4	3,561.6

Bolstering of urban functions

Industrial transformation

Post-earthquake reconstruction

Progress of the Regional Development Project

### Providing strong support for the prefectural economy

Bolstering of urban functions

#### Urban infrastructure

**Sendai Subway Tozai Line** (opened December 2015)

**Sendai Airport** (Japan's first such privatization, July 2016)

#### Inviting international conferences

**UN World Conference on Disaster Risk Reduction**  
(March 2015; economic effect JPY 1.7 billion)

**G7 Finance Ministers and Central Bank Governors' Meeting**  
(May 2016; economic effect JPY 500 million)

**World Bosai Forum**

(Biennial event; launched November 2017)

**World Conference on Earthquake Engineering**  
(scheduled for September 2020)

#### Overnight overseas visitors

2010 (pre-quake)	2016 (preliminary)	Difference
159,000	202,000	+43,000

**Miyagi inbound DMO** (established March 2017)

Industrial transformation

#### Plant sites (from 1000 m<sup>2</sup>)

Prefecture ranked 5th in no. of plant sites in Japan in 2016

	2012	2013	2014	2015	2016
Sites	31	43	81	38	48

#### Effective job/applicant ratio (Miyagi Prefecture)

FY2010	FY2016
0.47 times	1.50 times

Entry of TOYOTA MOTOR, Tokyo Electron, and other leading

manufacturers

Toyota Motor East Japan, Inc.



Mt. Kurikoma



Post-earthquake reconstruction

#### Total of contracted public works

2011	2015	Difference
JPY 330.9 bn	JPY 824.7 bn	+149.2%

#### Housing starts

2011	2016	Difference
12,700 units	21,747 units	+71.2%

#### Publicly announced land prices (Jan 1, 2017)

4th straight year of increase for commercial sites and 5th straight year for residential sites

In both categories, rate of increase was second nationwide

Commercial sites (YoY)		Residential sites (YoY)	
Miyagi Pref.	+4.7%	Miyagi Pref.	+2.4%
Sendai	+9.0%	Sendai	+4.0%

Progress of the Regional Development Project

#### Transportation infrastructure

Extension and widening of **Sanriku Expressway**  
(March 2017: Opening to Minamisanriku-cho Shizugawa)

**JR Joban Line**: Reopening of entire line within Miyagi Prefecture (December 2016)

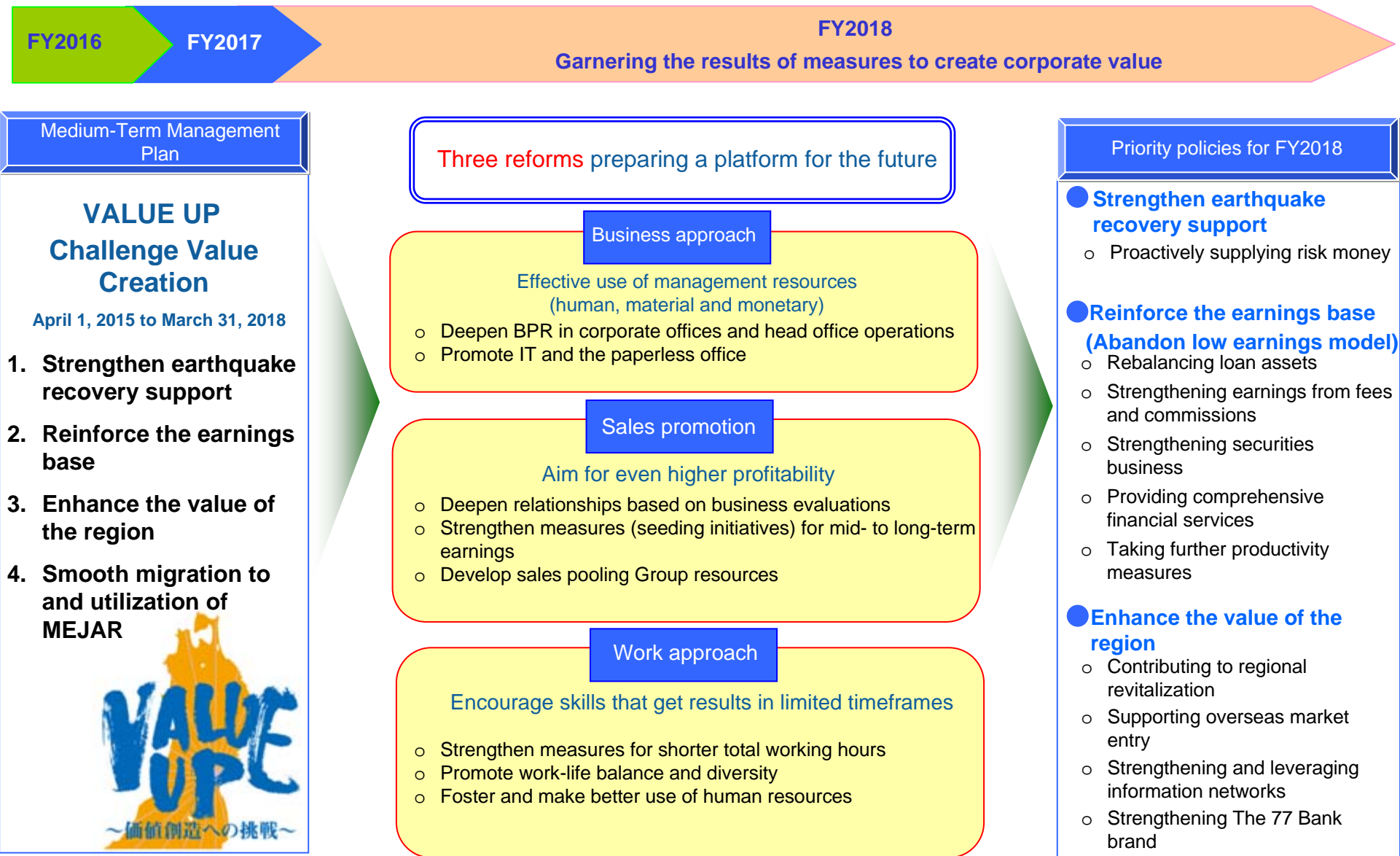
#### Regional development projects

Plan to attract firms to **Tohoku Synchrotron Radiation Facility**  
(April 2017: Decision to utilize Tohoku University grounds)

**Wide-area disaster hub concept** (relocation of JR Sendai Freight Terminal)  
(2017: Construction to begin)

Sources: Miyagi Pref., Sendai City, Ministry of Land, Infrastructure, Transport and Tourism, Tohoku Bureau of Economy, Trade and Industry, and EAST JAPAN CONSTRUCTION SURETY CO., LTD.

Summary of management policies for FY2018



**Earthquake disaster-related loan performance**

24,091 cases / JPY 636.5 billion

(after the earthquake to end-Mar. 2017, total)

<Corporate>

(cases, JPY bn)

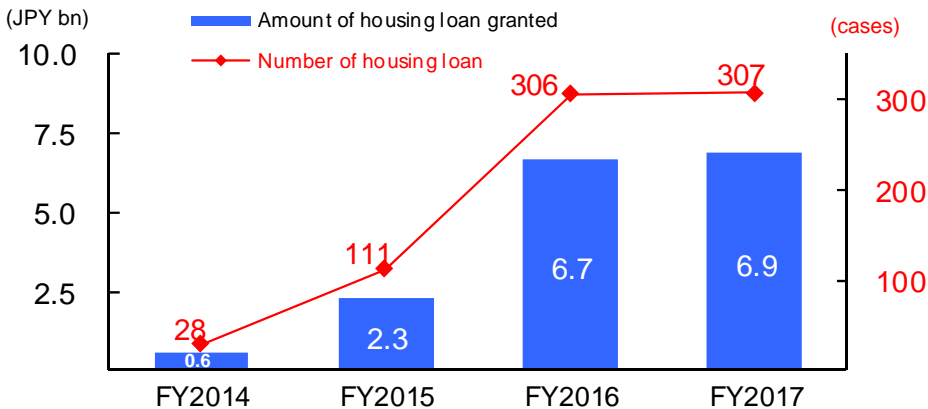
	Operating	Capital expenditure	Total
Cases	5,609	2,243	7,852
Amount	237.1	139.6	376.7

<Retail>

(cases, JPY bn)

	Unsecured	Housing	Total
Cases	4,193	12,046	16,239
Amount	7.2	252.6	259.8

**Performance of the handling of The Earthquake Reconstruction Support Housing Loans (for mass relocation/leased land)**



**Support for diversified funding and broader marketing channels**

● Asset-based lending (ABL)

(after the earthquake to end-Mar. 2017, total)  
 • Use 19 real estate appraisal advisors (after the earthquake to end-Mar. 2017, total)

151 cases / JPY 26.4 billion  
 (FY2017: 36 cases / JPY 6.9 billion)

**ABL: Collateral examples**

<Assets under management>

- Product inventory**  
Rice, molds, foodstuffs
- Accounts receivable**  
Electronically registered receivables  
Medical compensation claims



<Facility funding>

- Various types of property**  
Large cranes  
Hydraulic excavators  
Shipping and solar power generation units



Business-matching deals in Japan

(after the earthquake to end-Mar. 2017, total)

5,193 cases

No. of cases of support for overseas business

(after the earthquake to end-Mar. 2017, total)

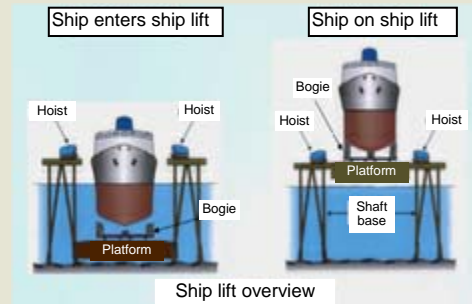
3,037 cases

**Recovery Support Case Study: "Mirai shipbuilding project"**

Risk of shipbuilding industry in Kesennuma disappearing due to earthquake

Group consolidation of shipbuilders for survival

**Mirai Ships Inc.** (established May 2015, with investments from 7 shipbuilders)



Construction of new shipyards  
 (3rd ship-lift-type facility in Japan)

Total project cost: JPY 10.5 billion  
 (Subsidy JPY 7.0 billion, syndicated loan JPY 3.36 billion)

Rebalancing loan customers

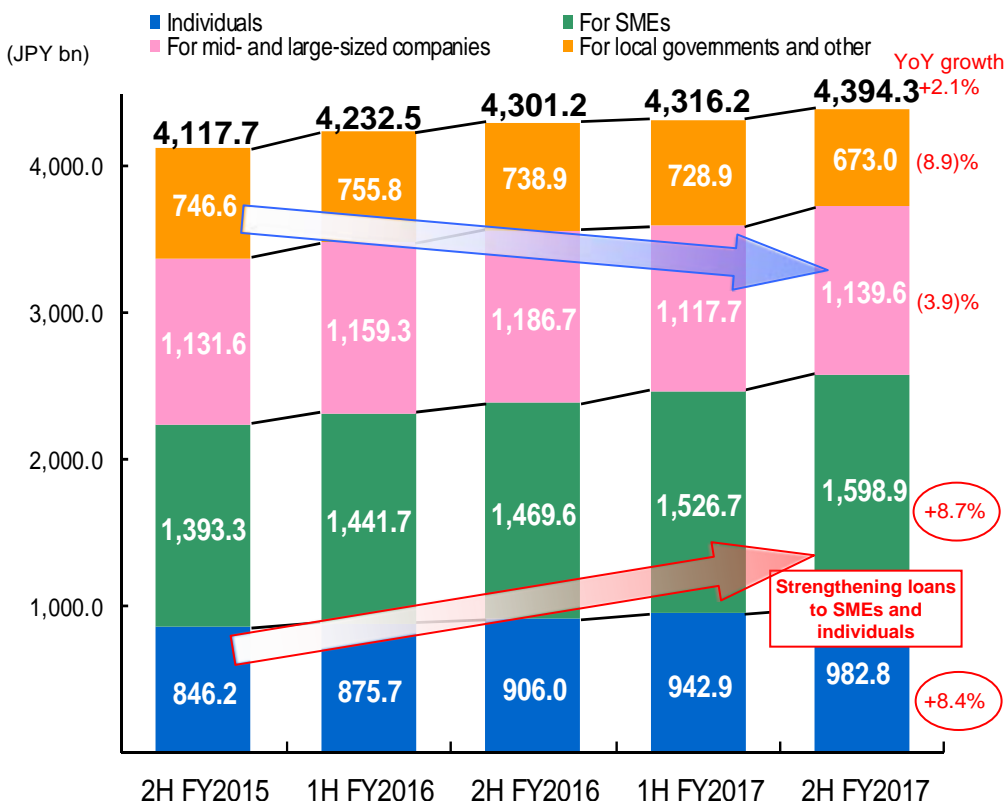
- Shifting to higher-margin SME and individual loans
- Proactive risk-taking through encouragement of business evaluation and exercise of good judgment
- Set interest rates with an eye on earnings

Rebalancing loan assets (regionally)

- Shifting from Tokyo, Nagoya and Osaka to the local market
- Identify funding demand throughout Tohoku area
- Use wide-area sales networks
  - Opening of Hachinohe Corporate Office (Sep. 2016)
  - Sending Head office staff to Koriyama and Yamagata areas (Mar. 2016)

Loan outstanding balance by type of borrowers (Average balance for the first half)

Changes in balances by region (year-end)

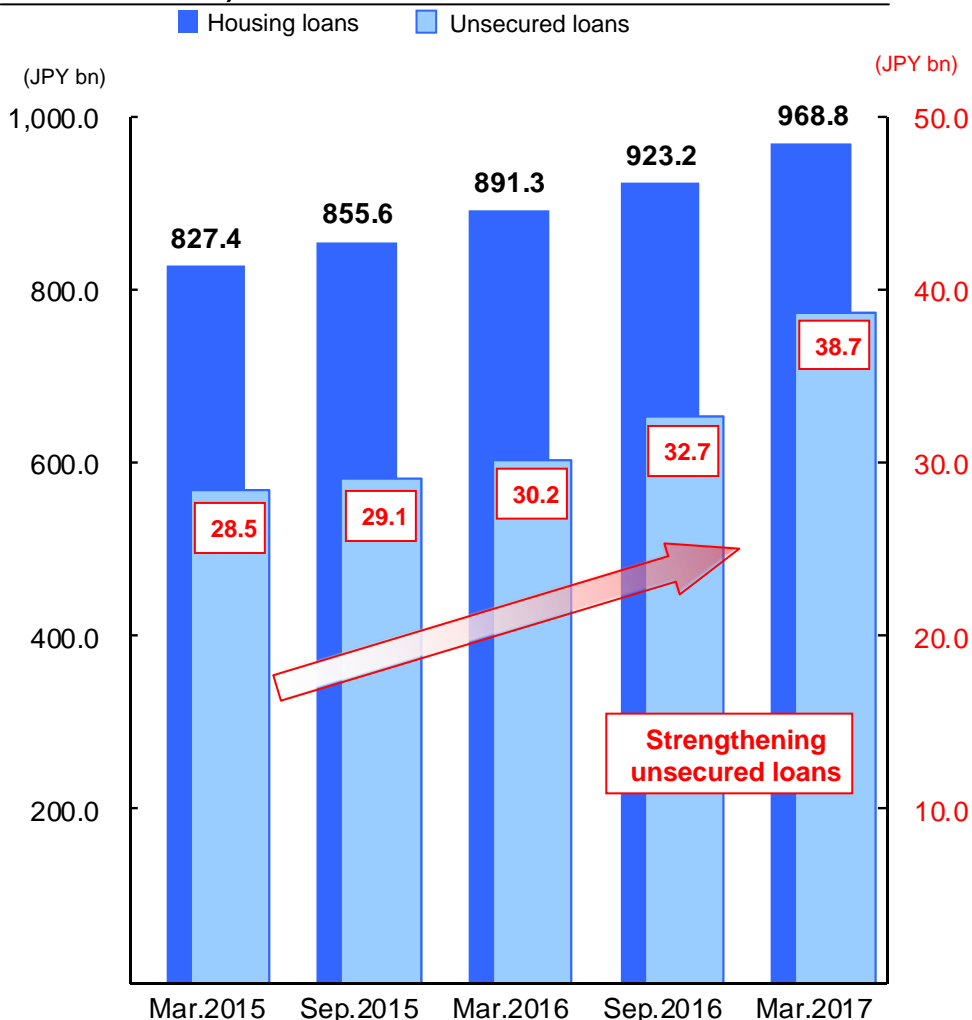


	Mar.2015		Mar.2016		Mar.2017		
	Balance	Balance	Increase (decrease)	YoY change %	Balance	Increase (decrease)	YoY change %
Miyagi	2,917.7	3,027.2	109.5	3.7	3,154.4	127.2	4.2
Sendai City	2,031.2	2,097.4	66.2	3.2	2,174.7	77.3	3.6
Other than Sendai City	886.5	929.8	43.3	4.8	979.7	49.9	5.3
Other areas	1,310.0	1,330.7	20.7	1.5	1,295.9	(34.8)	(2.6)
Tohoku	171.9	197.2	25.3	14.7	214.2	17.0	8.6
Sapporo	40.4	49.3	8.9	22.0	56.6	7.3	14.8
Tokyo, Nagoya, Osaka	1,097.7	1,084.2	(13.5)	(1.2)	1,025.1	(59.1)	(5.4)
Total	4,227.7	4,357.9	130.2	3.0	4,450.3	92.4	2.1



Strengthen consumer loans

● Outstanding balance of housing and unsecured loans (Term-end balances)



Housing loans

- Improve weekend opening and consulting services
  - Open 7 Loan Centers, 6 Counseling Plazas in key areas of prefecture
  - Weekend loan consultations at corporate offices: **Opened a total of 1,001 spaces in FY2017**
- Identify potential deals by strengthening ties with home builders
  - Explore home energy-saving and taxation options with home builders, hold site tours
- Expand products with incidental insurance
  - Meet insurance needs including the 3 major (cancer, stroke and heart attack) and 8 lesser illnesses, etc.
- Expand reverse mortgage loan lineup (April 2017)
  - Launch "non-recourse-type loans" without repayment of outstanding debt

Housing loans made

	FY2013	FY2014	FY2015	FY2016	FY2017
Housing loans made	4,535	6,342	5,890	5,911	6,109
Using Loan Centers	1,130	2,127	2,399	2,501	2,618
%	24.9%	33.5%	40.7%	42.3%	42.8%
Total value (JPY bn)	85.9	130.4	130.2	141.6	162.1

Unsecured loans

- Expand free loan product lineup
  - Raise lending limits Large-scale unsecured loan products
  - Expand fund use options Loan refinancing (provisional) measures
  - Expand borrower numbers Part-timers, pension recipients, housewives, etc.
- Launch support loans for households with children (April 2017)
  - Using system set up by Miyagi Prefecture, provide low-rate finance for childbirth and childcare, etc.
  - Support to lower financial burden on households with children
- Launch of ATM card loans (October 2016)

### Increase revenues from fees and commissions

Maximize customer base and relationship strengths

Boost revenues through diverse means

	(JPY mn)		
	FY2016	FY2017	Change
Fees and commissions, etc.	9,965	9,409	(556)
Fees and commissions, etc. (received)	16,182	16,076	(106)
Fees and commissions, etc. (paid)	6,217	6,667	450

#### Main items in fees and commissions (received)

Commissions received on foreign exchange	6,864	6,754	(110)
Account transfer commissions	2,601	2,631	30
Investment trust sales commissions	1,167	1,065	(102)
Insurance sales commissions	782	552	(230)
Financial product brokerage commissions	70	247	177
Syndicated loan related commissions	111	136	25
Commitment line commissions	72	128	56
Business-matching commissions	76	84	8
M&A-related commissions	40	50	10

#### Main items in fees and commissions (paid)

Creditor group insurance premiums	2,140	2,363	223
Loan repayment guarantee fees	1,249	1,438	189

### Support for M&A/business succession

Expand earnings opportunities through business client ties

#### M&A

- Full process support by 2 full-time staff for contract formation
- Highly specialized support in partnership with external experts

#### Succession Inheritance

- Identify possible deals through business evaluation
- Partnerships with external experts and Miyagi Prefecture Business Continuation Support Center
- Assessment of Bank capitalization value and estimation of inheritance tax

	FY2015	FY2016	FY2017
No. of business succession support recipients	169	169	174
No. of business succession and inheritance contracts	66	88	101
Of which cases of financing provided	32	34	61

### Business matching

Optimized solutions for issues at business clients

Bank 77 business-matching services provided: **63 clients** (End-Mar. 2017)

Construction-related, consulting-related, security, temporary labor, welfare, etc.

#### Business alliance with Linkers Corporation (February 2017)

Online matching for mid-sized and SME manufacturers with major firms

	FY2013	FY2014	FY2015	FY2016	FY2017
No. of cases	31	60	106	188	272
Commissions	JPY 13 mn	JPY 57 mn	JPY 16 mn	JPY 76 mn	JPY 84 mn

### Syndicated loans and structured finance

Target highly profitable deals better, strengthen arranger/agent commissions

### Forex and account transfer commissions

Adjust forex and account transfer commissions for local authorities/major storage firms



Support shift from “savings to asset formation”

● Strengthen NISA accounts

	End-Mar. 2015	End-Mar. 2016	End-Mar. 2017
NISA accounts	17,000	21,000	24,000
Percent of accounts with NISA contract	39.1%	49.5%	51.2%
Usage	JPY 5.4 billion	JPY 8.8 billion	JPY 11.0 billion

- Continue Resident Record acquisition agency service for NISA account opening
- Reduce minimum deposit for Savings Investment Trusts from JPY 10,000 to JPY 5,000

● Promote employee installment NISA and Junior NISA accounts

- Support for employee asset formation

Provide investment education material on the Bank’s website and arrange workplace seminars, etc.

No. of workplaces that have signed employee installment NISA contracts: 551 (End-Mar. 2017)

- More than 500 customers contracted in 2H 2016

- Publicize and promote Junior NISA through financial education

PR through “Student City” hands-on economic education program for elementary and middle schools arranged by Sendai City

● Financial product brokerage

	FY2014	FY2015	FY2016	FY2017
Sales (cases)	6	152	584	4,484
Sales (value)	JPY 0.4 billion	JPY 1.5 billion	JPY 7.3 billion	JPY 37.9 billion

● Promote iDeCo defined contribution pensions for individuals

- Support for post-retirement asset formation combined with public pension system

One-stop measures to meet asset formation needs at the Bank Group

77 Securities Co., Ltd.

(Launched April 5, 2017)



Highly specialized asset management needs

- Wide lineup of financial products (Shares, domestic and overseas bonds, investment trusts)
- Highly specialized services delivered by experts
- Campaign for tie-ups with banks

Expand earnings opportunities through comprehensive approach to business clients

Targets for FY2020 (3-year horizon)

- Achieve single-year profit
- Balance of assets under custody: JPY 100.0 billion

Further strengthen partnerships within the 77 Bank Group and expand business domains for greater profitability

Company	Main business
77 Lease Co., Ltd.	Leasing
77 Shin-Yo Hosyo Co., Ltd.	Credit guarantee services
77 Computer Services Co., Ltd.	Computerized calculation services using computing equipment, etc.
The 77 Card Co., Ltd.	Credit card operations
77 Business Services Co., Ltd.	Cash, etc., scrutiny and organization
77 Jimu Daiko Co., Ltd.	Collateralized real estate research, etc.
77 Securities Co., Ltd.	Financial product transaction services
77 Capital Co., Ltd.	Fund management services

**Fund No. 1** 77 New Business Investment Limited Partnership  
Total value of Fund (August 2016): JPY 1.0 billion

Strengthen capital relations

- Conversion into **fully consolidated subsidiary** in November 2016
- Create **unified comprehensive financial services provider**
- Faster, more efficient management with stronger corporate governance
- Raise consolidated earnings baseline
- Effective returns through flexible dividend

- BPR through administrative streamlining and centralization

Expansion of business domains

77 Securities Co., Ltd. (launched April 2017)

- **Integrated Group** drive to meet full-spectrum diversified asset management needs, support for asset formation
- Target for balance of assets under custody after 3 years: **JPY 100.0 billion**

77 Capital Co., Ltd. (established July 2016)

- Offer **growth money** to companies at various life stages
- Fund No. 1 investment performance: **4 deals/JPY 115 million**

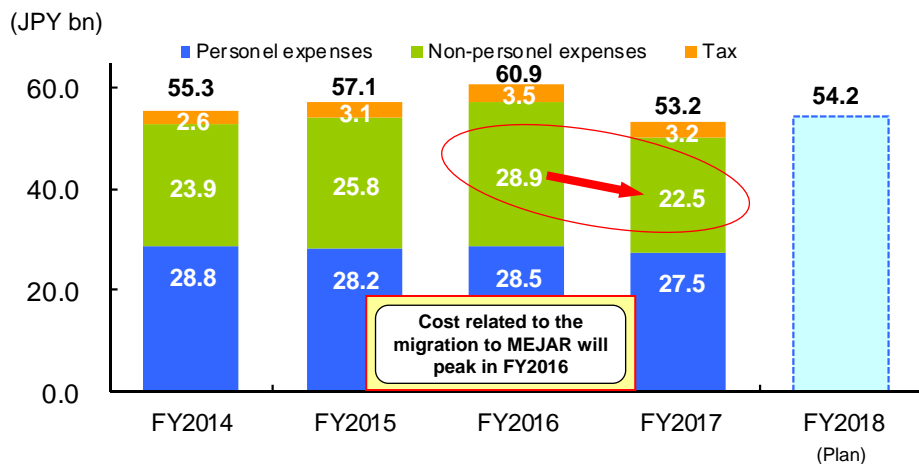
### Operational streamlining and expense reduction

Boost productivity by further streamlining operations by raising awareness of earnings and costs, action reforms and continuing to cut costs

#### Further promote BPR

- Carry out BPR project as an integrated group
- Reorganize and adjust service portfolio and processes
  - Promote IT and paperless office
  - Centralize operations at Head Office (postal communications with business clients)
  - Introduce automatic preparation system for loan-related agreements
  - Speed up decision-making by re-allotting workplace authorities

#### Expenses



### Using human resources (human capital)

Create a workplace environment where individual employees can fully bring their abilities to bear and proactively employ more women in sales and loan units

#### Reform of work approaches

- Promote work-life balance and diversity
  - Expand time management and leave systems as suitable (for work-life balance and healthcare, etc., reasons)
  - Extend childcare leave usage rate to 100% of male employees (FY2015-2017)
  - Acquire “Eruboshi” company certification from the Ministry of Health, Labour and Welfare, the top award for promotion of female engagement
  - No. of women in the loan unit: Target of at least 130 (End-Mar. 2018)

#### Employees

	End-Mar. 2007 1)	End-Mar. 2012 2)	End-Mar. 2017 3)	10-yr comparison 3) - 1)	5-yr comparison 3) - 2)
Bank employees	2,782	2,903	2,771	(11)	(132)
Of which, women	960	1,071	980	20	(91)
Sales unit	301	453	478	177	25
Of which, women	11	100	137	126	37
Loan unit	480	465	577	97	112
Of which, women	46	59	117	71	58
Part-timers	658	753	1,137	479	384

Create more time to promote sales by optimizing management resource use

Strengthen sales activities for improved earnings

Efforts for regional revitalization

Capitalizing on regional network and contributing to the growth and development of the local economy

Regional value

VALUE UP

77 Bank's value

Four priorities

1) Support for starting a new company or business

Support for initial and secondary business launch

- Help in making up a new business plan
- Support for applications for start-up subsidies

Support with fund supply

- Expand system financing for business innovators
- Leverage crowd-funding
- Leverage venture funds

Trilateral partnerships

- Organize and support events and business "Grand Prix" awards, etc. through partnerships of universities, local government and industry

Grants

- 77 Business Support Foundation
- Awards and subsidies for novel and innovative companies, etc.

○ Support for new companies and businesses (FY2017)

Support for new companies and businesses: 171 cases  
System financing supplied for start-ups: 144 cases/JPY 726 million

77 Capital Co., Ltd. (established July 2016)

Fund No. 1: "77 New Business Fund"

Total value of fund: JPY 1.0 billion (launched August 2016)

Investments made: 4 deals/JPY 115 million

Investments in diverse companies

- Technological development and commercialization support for venture companies started at Tohoku University
- Support for business expansion and growth of local marine-product processing company, etc.

2) Support and develop regional core companies (Evaluation of business feasibility)

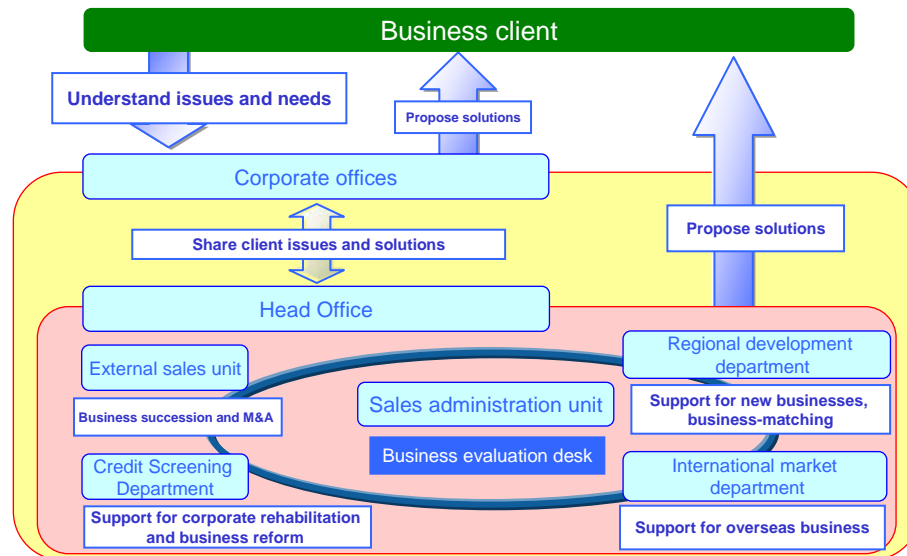
Deepen understanding of businesses of client companies and enhance their corporate value through solution proposals and implementation

○ Initiatives to raise business evaluation standards

- Compilation of written proposals for business clients (October 2016)
- Establishment of business evaluation desks (November 2016)
- Questionnaire-based verification from the client viewpoint (December 2016)

Business evaluations carried out: Approximately 1,700 clients (as of end-Mar. 2017)  
Looking ahead, increase evaluation clients served and help build corporate value at clients

Business evaluation flowchart



### 3) Promotion of urban development

OPartnership with regional public bodies

Start-up support for new companies and businesses

Support for industrial growth

Support for urban development businesses

Public and local entities with which partnership agreements are in place

Kami-machi	Minami-Soma (Fukushima)
Iwanuma	Ishinomaki
Zao	Marumori-machi
Shinchicho (Fukushima)	Onagawa-cho
Tomiya	Higashi Matsushima



OPPP and PFI

Participation in regional development projects

Corporate development sites

Public-private projects  
(Sendai Airport privatization, etc.)

Extra input and support for infrastructure obsolescence and rebuilding plans

PPP/PFI projects with Bank participation in the prefecture: 12

Participation in support for design, construction, maintenance/management and operation, etc., of public amenities (school canteen centers, educational-cum-welfare facilities, wastewater processing facilities, etc.)

### 4) Promotion of tourism, job creation

Financial network for Tohoku tourism

**Financial Network of TOHOKU Tourism**

The 77 Bank

Development Bank of Japan Inc.

The Toho Bank, Ltd.

The Yamagata Bank, Ltd.

The Bank of Iwate, Ltd.

The Akita Bank, Ltd.

The Aomori Bank, Ltd.

Support for commercialization and growth of tourist industries

Business-matching using networks

Investment and financing for tourist businesses

Support for identifying and developing potential tourist sites

Joint research

Action by individual banks

Action by bank alliances

DMO/tourist business operators

Create tourist hubs

Create tourist areas



東北観光金融ネットワーク  
Financial Network of TOHOKU Tourism

“Miyagi Inbound DMO”: Example of tourist appeal initiatives in partnership with local public bodies, etc.

Expected increase in tourists from privatization of Sendai Airport

There are individual initiatives to attract tourists but region-wide measures to boost numbers remain an issue

Partnership of 13 branches in southern Miyagi Pref.

Wide-area cooperation across administrative areas including local governments, trade and industry associations, tourism organizations etc.

Miyagi Inbound DMO public foundation (established March 2017)

Agreement on inbound tourism for 4 cities and 9 towns in southern Miyagi Pref.

Regional revitalization

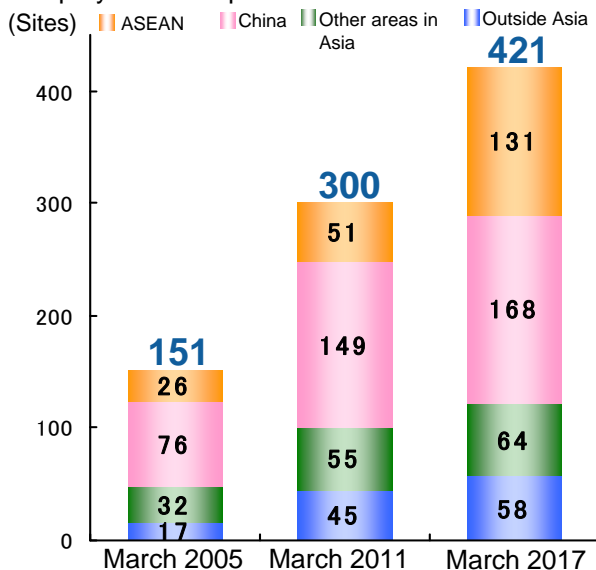
Attract overseas tourists

Create jobs



## Overseas network

- Changes in the number of business sites set up by local companies



- Overseas business support system

Asia Business Support Dept. (established March 2011)

Fund procurement

Marketing channel expansion

Trading

Materials procurement

Support for overseas units

Provision of local information

China/Hong Kong

Shanghai Representative Office (opened July 2005)

ASEAN region

Singapore Representative office (opened May 2016)



OBank staff deployed overseas: 12

Representative offices: 4  
Financial institutions: 5 Other: 3

OEmployment of foreigners: 2

OOverseas partner financial institutions: 10

OOther partner institutions in Japan and overseas: 16

Miyagi Prefecture, Tohoku Economic Federation, JICA  
Tohoku Branch Office, Nippon Export and Investment  
Insurance, Logistics companies, Security companies, Others

### Expansion of marketing networks, support for materials procurement

No. of meetings for overseas business held (FY2017): **8**

Total of participating companies: **982 companies and groups**

#### Manufacturer business meeting for FBC Hanoi 2017

No. of companies exhibiting: 108 Clients of the Bank: 5

No. of visitors: 2,878 companies No. of sessions: 3,460

Events held in 2H FY2017:

- Business matching meeting in Hsinchu, Taipei
- Business meeting held jointly with other regional banks in Dalian, China in 2016
- Manufacturer business meeting for FBC Hanoi 2017



#### Support for business clients with "food" as theme

Support for expansion of marketing channels in food business for local partners, by leveraging overseas network primarily in the Singapore representative office (opened in May 2016)

#### "Food Japan 2017"

Cooperation with general Japan food fair to be held in Singapore in October 2017

#### Tohoku Shoku no Soramichi Council

Support for exports of appealing food products from Tohoku region

### Provide information about overseas markets

Various seminars held (FY2017)

No. of times held: **21 times** Total of participants: **Approx. 950**

#### Asia business exchange meeting

Held annually since 2014, total of 4 times  
Total participants: Approx. 600

Provide latest information regarding overseas businesses

Create opportunities for information exchange among peer business clients



#### Main themes of seminars, etc., held during FY2017

- International economic situation
- Employment of foreigners
- Business risk management in overseas markets
- Impact of Britain's leaving the EU
- Using the TPP agreement
- Food Safety Enhancement Act in US
- Investment environment in Vietnam
- Expansion of marketing channels in China
- Japan food market in Hong Kong and in Taiwan
- Business in Africa
- Business in Malaysia

### Support for fund procurement

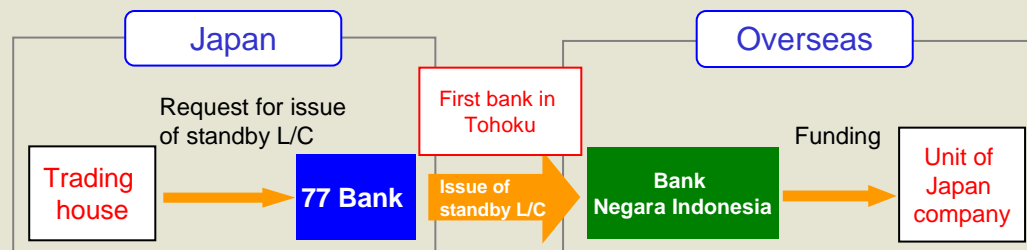
Financing for overseas businesses (FY2017)

No. of deals completed/value **62/Approx. JPY 6.8 billion**

#### Example of fund procurement by an overseas unit: "Rupiah standby L/C"

##### Partner institution: Bank Negara Indonesia

- A standby L/C was issued to alliance partner Bank Negara Indonesia to support fund procurement for expansion of business of local units of Japanese companies
- We were **the first regional bank in Tohoku** to issue a standby L/C to Bank Negara Indonesia





Strengthen sales promotion system

Strengthen sales promotion system for retail customers

- Strengthen planning and proposal role for sales to retail clients
- Strengthen customer mass marketing using IT and non-face-to-face channels
- Strengthen comprehensive services for younger clients and asset formation clientele

**Retail Customer Direct Sales Department**  
(newly established)

Strengthen data sales

- Collect, analyze and manage information on regions and client needs, etc.
- Strengthen coordination of information from wide-area networks
- Hold seminars and business meetings, etc., that meet regional and client needs

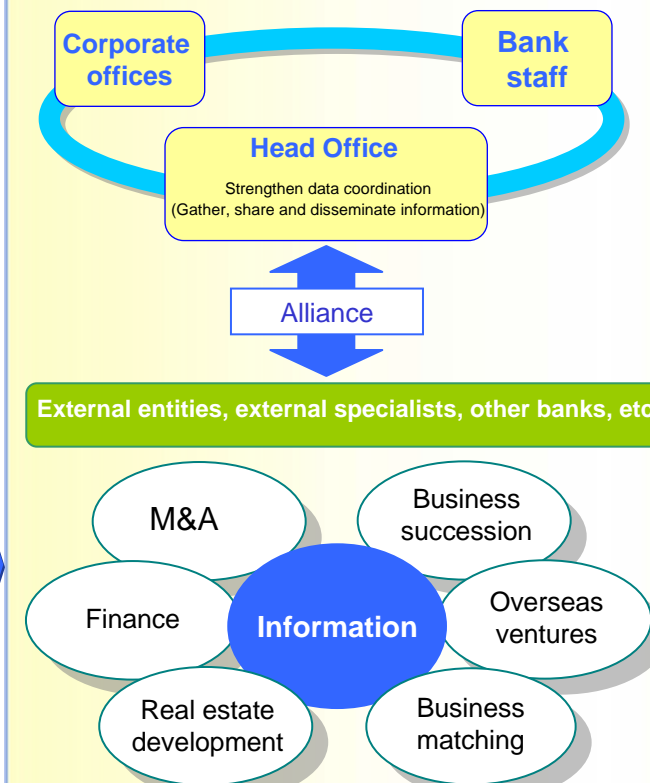
**Data Development Section**  
(newly established)

Strengthen alliance of Head Office with corporate offices

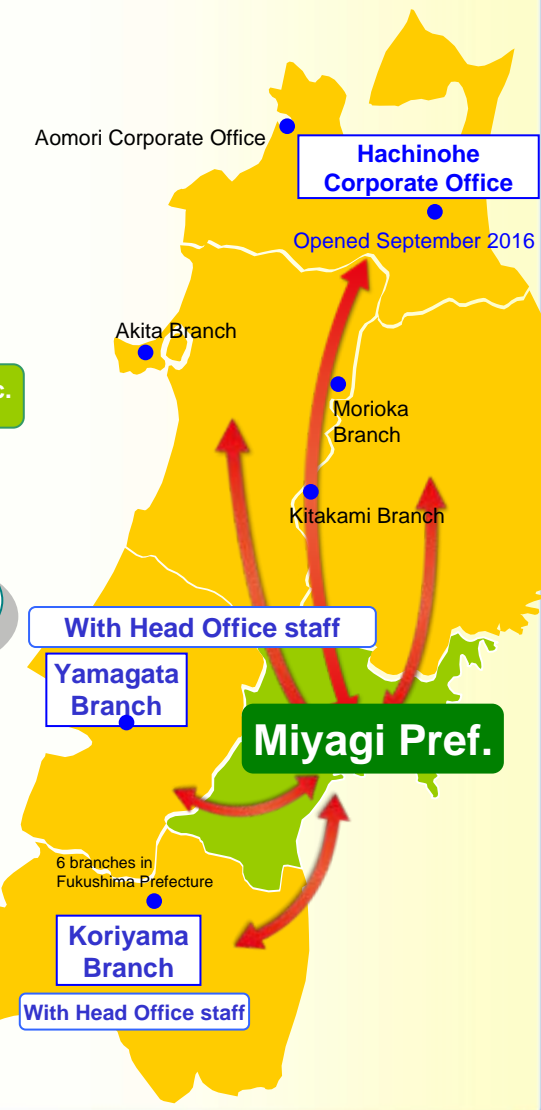
- Support business system and activities of corporate offices
- Coordinate and support strengthened earnings at corporate offices
- Consider incentive programs for corporate offices to strengthen earnings platforms

**Branch Coordination Section**  
(newly established)

Strengthen and use wide-area data networks



Wide-area use of commercial, logistical, personnel and information flows in the Tohoku area centered on Sendai economic zone, using the Bank's information networks



### Measures to enhance corporate value

### Dividends

Agenda items for the 133rd Annual General Meeting of Shareholders scheduled for June 29, 2017

#### Expand and strengthen corporate governance

##### Transition to “Company with an Audit & Supervisory Committee”

- Strengthen supervisory functions of Directors and Executives through the Audit & Supervisory Committee
- Speed up decision-making by delegating some authority of the Board of Directors to Directors
- Further improve operational transparency and objectivity by increasing proportion of Outside Directors

#### Amendment of executive remuneration system

**Introduce performance-linked stock compensation system**  
(Abolition of stock compensation-type stock option system)

- Strengthen “correlation between executive remuneration and share price fluctuations” and improve “incentives for the Bank’s officers to increase corporate value”

#### Creating a better investment environment

Change in no. of shares constituting one unit of stock

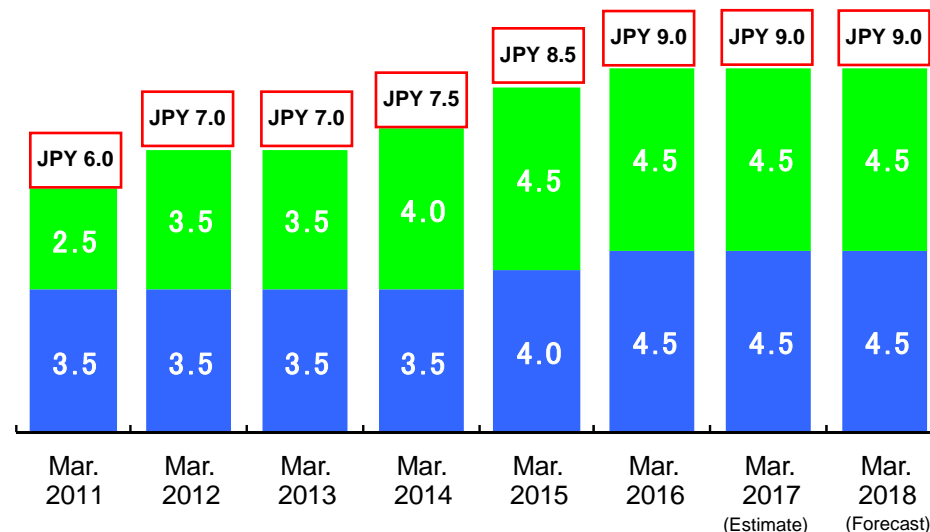
**1,000** shares  **100** shares

Consolidation of shares

**5** shares  **1** share

- Create a simpler environment for investment in the Bank’s stock
- Effective date of change in no. of shares constituting one unit of stock and consolidation of shares: **October 1, 2017 (planned)**

Term-end dividends Interim dividends Annual dividends



	Mar. 2011	Mar. 2012	Mar. 2013	Mar. 2014	Mar. 2015	Mar. 2016	Mar. 2017 (Estimate)	Mar. 2018 (Forecast)
Dividend ratio	—	24.6%	21.5%	19.0%	18.8%	21.5%	20.2%	18.6%
Net income (JPY bn)	(30.6)	10.6	12.1	14.7	16.9	15.7	16.6	18.0
Total sum paid out (JPY mn)	2,264	2,616	2,617	2,805	3,180	3,368	3,353	3,335

(Reference) Recent acquisitions of treasury stock

Timing	No. of shares acquired	Total cost of acquisition	Total return ratio
November 2016-January 2017	5,346,000	JPY 3,000 mn	38.2%

### 3. Projected Performance Progress of the Medium-term Management Plan

#### Medium-Term Management Plan: Basic Objectives

1. Strengthen earthquake recovery support
2. Reinforce the earnings base
3. Enhance the value of the region
4. Smooth migration to and utilization of MEJAR

#### Medium-Term Management Plan: Progress

Basic targets		FY2016 Results	FY2017		FY2018 Plan	Final year targets (FY2018)
			Plan	Results		
Enhancement of profitability	Net income	JPY 15.7 billion	JPY 17.0 billion	JPY 16.6 billion	JPY 18.0 billion	JPY 20.0 billion or more
	Increase of interest on loans and discounted [compared with FY2015] [FY2015] (JPY 45.4 billion)	JPY (1.5) billion (JPY 43.9 billion)	JPY (4.1) billion (JPY 41.3 billion)	JPY (4.2) billion (JPY 41.2 billion)	JPY (4.4) billion (JPY 41.0 billion)	JPY 1.5 billion or more (JPY 47.0 billion or more)
	Fees and commissions	JPY 10.0 billion	JPY 9.6 billion	JPY 9.4 billion	JPY 9.8 billion	JPY 10.5 billion or more
Pursuit of efficiency	Core OHR	76.48%	73.51%	72.17%	73.18%	Less than 65%
Increase of market share	Increase of loans and bills discounted in Miyagi Pref. (balance as of March 31, 2018) [compared with the balance as of March 31, 2015] [As of Mar. 31, 2015] (JPY 2,917.7 billion)	JPY 109.5 billion (JPY 3,027.2 billion)	JPY 127.3 billion (JPY 3,045.0 billion)	JPY 236.7 billion (JPY 3,154.4 billion)	JPY 252.3 billion (JPY 3,170.0 billion)	JPY 250.0 billion or more (JPY 3,170.0 billion)
	Increase of loans and bills discounted in Sendai (balance as of March 31, 2018) [compared with the balance as of March 31, 2015] [As of Mar. 31, 2015] (JPY 2,031.2 billion)	JPY 66.2 billion (JPY 2,097.4 billion)	JPY 53.8 billion (JPY 2,085.0 billion)	JPY 143.5 billion (JPY 2,174.7 billion)	JPY 153.8 billion (JPY 2,185.0 billion)	JPY 150.0 billion or more (JPY 2,185.0 billion)

### 3. Projected Performance

## Projected performance for FY2018

(JPY bn)

(JPY bn, %)

Projected performance (non-consolidated)	FY2017 (Results)	FY2018 (Plan)	
		YoY change	
<b>Gross operating income</b>	<b>69.2</b>	<b>72.5</b>	3.3
<b>[Core gross operating income]</b>	<b>[ 73.7 ]</b>	<b>[ 74.1 ]</b>	[ 0.4 ]
Interest income	67.6	67.4	(0.2)
Fees and commissions	9.4	9.8	0.4
Other operating income	(7.8)	(4.7)	3.1
Gains (losses) on bonds	(4.5)	(1.6)	2.9
Gains (losses) on forex transactions	(2.6)	(2.6)	0.0
<b>Expenses</b>	<b>53.2</b>	<b>54.2</b>	1.0
Operating income before provision of general reserve for possible loan losses	16.0	18.3	2.3
<b>[Core operating income]</b>	<b>[ 20.5 ]</b>	<b>[ 19.9 ]</b>	[ (0.6) ]
Provision of general reserve for possible loan losses	—	—	—
Operating income	16.0	18.3	2.3
<b>Special income (losses)</b>	<b>5.6</b>	<b>5.7</b>	0.1
Bad debt disposals (-)	0.4	0.6	0.2
Gains on reversal of reserve for possible loan losses	2.0	3.6	1.6
Gains (losses) on stocks	1.9	1.8	(0.1)
Gains (losses) on investments in money held in trust	2.5	2.4	(0.1)
<b>Ordinary income</b>	<b>21.6</b>	<b>24.0</b>	2.4
Extraordinary losses	(0.5)	(0.3)	0.2
Income taxes (incl. deferred taxes)	4.5	5.7	1.2
<b>Net income</b>	<b>16.6</b>	<b>18.0</b>	1.4
<b>Credit-related expenses</b>	<b>(1.6)</b>	<b>(3.0)</b>	(1.4)

Major accounts (average balances)	FY2017 (Results)	FY2018 (Plan)	YoY change
Loans and bills discounted	4,355.1	4,415.0	1.3
Securities	3,214.2	3,075.2	(4.3)
Deposits and certificates of deposits	7,727.7	7,566.0	(2.0)

(Reference)

Investment trusts and insurance (term-end balances)	408.7	458.0	12.0
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(%)

Interest rates/Interest margin	FY2017 (Results)	FY2018 (Plan)	YoY change
Loans and bills discounted interest rate	0.94	0.92	(0.02)
Securities interest rate	0.90	0.95	0.05
Interest rate on deposits	0.01	0.01	0.00
Interest rate spread	0.84	0.86	0.02
Net interest margin	0.16	0.13	(0.03)

<Interest rates and other assumptions underlying the projection>

	FY2017 (Results)	FY2018 (Forecast)
Unsecured call rate O/N	(0.05)%	(0.05)%
JPY TIBOR (3 months)	0.06%	0.06%
5-year JGBs	(0.18)%	(0.10)%
10-year JGBs	(0.05)%	0.05%
Exchange rate (JPY/USD)	¥108	¥117
Nikkei Average (At term-end)	¥18,909	¥19,750

**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.**

**七十七銀行**