

● Consolidated Performance for Fiscal 2012

THE 77 BANK, LTD. AND SUBSIDIARIES

Year Ended March 31

Financial and Economic Conditions

In fiscal 2012, the year ended March 31, 2012, the tempo of manufacturing slowed markedly in the aftermath of the Great East Japan Earthquake. However, along with the restoration of disrupted supply chains, there were signs of a modest improvement across the Japanese economy. Meanwhile, in Miyagi Prefecture, the heartland of The 77 Bank, there were indications of a modest uptick in the economy following the sharp decline in the immediate aftermath of the Great East Japan Earthquake as restoration projects got under way. On the other hand, economic activities in the devastated area along the Pacific coast continued to be sluggish. Overall, the challenging economic situation in Miyagi Prefecture persisted.

In these circumstances, long-term interest rates trended downward from early fiscal 2012 and were around 1% in the second half of the fiscal year. Short-term interest rates remained extremely low partly due to the Bank of Japan's strengthening of its accommodative monetary policies. Although anxiety about the slowing of the world economy caused share prices to trend downward, they subsequently recovered owing to expectations of improved corporate performance and were generally higher at the end of the fiscal year than they had been at the beginning. Meanwhile, in foreign exchange markets, the yen remained strong against the backdrop of the European sovereign debt crisis, reaching a record-high against the dollar.

In view of the massive damage caused by the Great East Japan Earthquake of March 11, 2011, the Bank strove to maintain the provision of financial services and fulfill its financial intermediation function.

Immediately following the earthquake, the operation of many branches had to be suspended. As part of efforts to promptly restore the provision of financial services, in the case of damaged branches where the security of customers could not be ensured, the Bank used space within neighboring branches to restart operations or relocated branches to new premises in the neighborhood. As a result of these efforts, all of the Bank's branches had resumed business operations by July 2011. The Bank resumed operation of ATMs in line with the progress of recovery in the disaster-stricken area.

In terms of customer support, in order to respond to the need for consultations and inquiries from customers affected by the earthquake, a dedicated toll-free number was set up at the Head Office. Moreover, the Bank opened temporary counters to handle repayment of deposits using simplified treatment for customers who had lost their bankbooks or personal seals, reissuing of bankbooks, and provision of support for inheritance procedures.

In terms of loans, the Bank established a Finance Consultation Counters for Reconstruction and Restoration and Financial Facilitation at all branches to respond to finance-related inquiries from customers. The Bank provided support to customers facing difficulties in continuing business or making loan repayments because of the impact of the natural disaster through financial facilitation initiatives, including proactive responses to requests for postponement of loan repayments, change of loan terms and conditions, and support for restoration of businesses. In addition, the Bank responded flexibly in terms of treatment of notes and checks in order to facilitate settlement.

In December 2011, the Bank received public funds for restoring capital adequacy undermined by the earthquake and to fully prepare for future growth in risk assets and increases in credit costs. Our aim is to fulfill our financial intermediation function in order to support restoration and reconstruction of Miyagi Prefecture where we are based. As a financial institution serving the needs of the region, we strive to meet funding needs, working in concert with the Japanese government.

Consolidated Business Results

Deposits, including negotiable deposits, amounted to ¥7,170.2 billion at the end of the year under review, having increased by ¥1,536.8 billion.

Loans and bills discounted increased by ¥143.8 billion to ¥3,639.5 billion at the end of the year. Investment securities increased by ¥731.9 billion to ¥2,860.9 billion at the end of the year.

Total assets stood at ¥7,616.7 billion at the end of the year under review, having increased by ¥1,399.1 billion.

With regard to profit and loss, total income increased by ¥1,361 million from the previous year to ¥116,736 million owing to an increase in proceeds from sales of investment securities and an increase in revenues of consolidated subsidiaries despite a decrease in interest income as a result of the decreased interest on loans and discounts. Despite the Bank's effort to reduce expenses, total expenses increased by ¥1,524 million from the previous year to ¥98,742 million owing to impairment of investment securities and an increase in provision of reserve for possible loan losses. As a result, ordinary income decreased by ¥162 million from the previous year to ¥17,994 million. Whereas the Bank recorded a net loss for the previous year because of the extraordinary loss owing to the Great East Japan Earthquake, net income of ¥10,690 million was posted for the year under review due partly to the recording of a gain on transfer of a substitutional portion of the government pension program fund as extraordinary income. Net income per share was ¥28.60.

The Bank's capital adequacy ratio according to the domestic standard was 12.57%, up 0.88 percentage points compared with the end of the previous year.

Regarding performance by business segment, banking operations' total income decreased by ¥27 million from the previous year to ¥99,129 million, and segment income increased by ¥553 million to ¥16,811 million. Leasing operations' total income increased by ¥1,478 million from the previous year to ¥16,566 million, and segment income decreased by ¥667 million to ¥253 million. In other operations, total income decreased by ¥302 million from the previous year to ¥4,672 million, while segment income decreased by ¥29 million to ¥1,004 million.

Cash Flows

Net cash provided by operating activities amounted to ¥1,051,524 million, an increase of ¥704,497 million from the previous year, owing to an increase in deposits, etc.

Net cash used in investing activities totaled ¥735,640 million, a decrease of ¥512,738 million from the previous year, mainly due to the purchase of investment securities.

Net cash provided by financing activities amounted to ¥17,238 million, an increase of ¥21,932 million from the previous year, mainly due to an increase in subordinated borrowings.

Consequently, cash and cash equivalents at March 31, 2012 amounted to ¥775,396 million, having increased by ¥333,108 million from the previous year.