Consolidated Performance for Fiscal 2013

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 2013, the year ended March 31, 2013, the Japanese economy remained weak, affected by the slowdown of overseas economies. However, toward the end of the fiscal year, there were indications that a moderate recovery of the Japanese economy was afoot as production and exports picked up thanks to the impact of the Abe administration's economic policies. Meanwhile, in Miyagi Prefecture, the heartland of The 77 Bank, economic activities were generally upbeat as projects for recovery and reconstruction in the aftermath of the Great East Japan Earthquake gained momentum. However, the tempo of recovery slowed somewhat in the prefecture as production showed little increase and personal consumption tended to weaken in certain respects.

In these circumstances, long-term interest rates, which had been hovering slightly below 1% against a backdrop of greater monetary easing and a favorable supply/demand situation for Japanese bonds, declined to the 0.5% level toward the end of the fiscal year for the first time in nine years and nine months. Short-term interest rates, which had been extremely low, trended downward further in the second half of the fiscal year. Share prices started to rise in the second half of the fiscal year owing to rising expectations centering on the Japanese government's policies to extricate the economy from deflation. The Nikkei Stock Average rose above ¥12,000 for the first time in four and a half years. Meanwhile, in foreign exchange markets, the yen continued to appreciate until the middle of the fiscal year, reaching an exchange rate of ¥77 to the U.S. dollar, and then depreciation of the yen progressed toward the end of the fiscal year, reaching ¥96 to the U.S. dollar.

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.

The Shizugawa Branch (Minami-sanriku-cho) and the Nainowaki Branch (Kesennuma-shi), whose premises were destroyed by the Great East Japan Earthquake, had been operating in space rented within neighboring branches. The Bank relocated these two branches to newly constructed premises near the previous premises and they resumed business operations in the disaster-stricken area.

In terms of support for small and medium-sized enterprises (SMEs) that were affected by the Great East Japan Earthquake, we vigorously responded to their funding needs for the resumption of business 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. The Bank, through initiatives such as conferences focused on business matching, supported corporate customers in cultivating and expanding their sales channels.

To support customers facing difficulties in continuing business or making loan repayments because of the impact of the earthquake disaster, 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 commonly named "double loan" problem, the Bank utilized public institutions, such as 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 business. 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. In addition, the Bank held free-of-charge consultations about the Individual Debtor Guidelines for Out-of-Court Workouts and other matters in collaboration with the Tohoku Local Finance Bureau and the Management Committee of Individual Debtor Guidelines for Out-of-Court Workouts. Moreover, for customers subject to group relocation promotion project for disaster mitigation, the Bank started offering 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 and facilitate social and economic restoration of the region with the support of the shareholders and customers. Consolidated business results were as stated below.

Consolidated Business Results

Deposits, including negotiable deposits, amounted to ¥7,745.8 billion at the end of the year under review, having increased by ¥575.5 billion.

Loans and bills discounted increased by ¥123.0 billion to ¥3,762.6 billion at the end of the year. Investment securities increased by ¥553.9 billion to ¥3,414.9 billion at the end of the year.

Total assets stood at ¥8,261.1 billion at the end of the year under review, having increased by ¥644.3 billion.

With regard to profit and loss, ordinary income decreased by ¥4,625 million from the previous year to ¥112,111 million owing to a decrease in revenues of consolidated subsidiaries and a decrease in interest income as a result of the decreased interest on loans and discounts. Total expenses decreased by ¥10,481 million from the previous year to ¥88,261 million owing to a decrease in credit-related expenses despite an increase in impairment loss on investment securities.

As a result, ordinary profit increased by ¥5,856 million from the previous year to ¥23,850 million. Net income increased by ¥1,756 million from the previous year to ¥12,446 million. Net income per share was ¥33.29.

Regarding performance by business segment, banking operations' ordinary income decreased by ¥850 million from the previous year to ¥98,279 million, but segment income increased by ¥3,969 million to ¥20,780 million. Leasing operations' ordinary income decreased by ¥4,102 million from the previous year to ¥12,464 million, but segment income increased by ¥1,373 million to ¥1,626 million. In other operations, ordinary income decreased by ¥318 million from the previous year to ¥4,354 million, while segment income increased by ¥509 million to ¥1,513 million.

Cash Flows

Net cash from operating activities amounted to ¥298,237 million, a decrease of ¥753,287 million from the previous year, owing to an increase in deposits, etc.

Net cash from investing activities totaled ¥(497,878) million, an increase of ¥237,762 million from the previous year, mainly due to the purchase of investment securities.

Net cash from financing activities amounted to ¥(2,623) million, a decrease of ¥19,861 million from the previous year, mainly due to dividends paid, etc.

Consequently, cash and cash equivalents at March 31, 2013 amounted to ¥573,172 million, having decreased by ¥202,223 million from the previous year.