

● Message from the President

The 77 Bank aims to be the “Value-creating bank” that grows together with and is the most trusted by the region.



Teruhiko Ujiie, President

Regarding the Japanese economy, production and exports are trending upward in line with the moderate improvement of overseas economies and vigorous demand for electronic components. In addition, personal consumption showed signs of an upturn amid improvement in both the labor market and personal incomes. Consequently, the Japanese economy is continuing along a moderate recovery track.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, a high level of economic activity is being sustained through the concentration and development of manufacturing industry as well as an increase in the nonresident population due to the improved transportation infrastructure, although labor shortages have become an issue owing to decreasing population mainly in the coastal areas severely damaged by the Great East Japan Earthquake in 2011.

Looking to the future, there is a growing need for financial institutions to continuously improve the quality of their financial interme-

diary functions based on close relations with their corporate customers in the region, including provision of proposals and support contributing to resolution of management issues through business feasibility evaluation and enhancement of business value. As the business environment becomes increasingly challenging owing to the ongoing progression in population aging, declining birthrate and shrinking population in addition to low interest rates, financial institutions are urged to develop business models that will be sustainable far into the future while strengthening their governance framework.

As a financial institution based in the region struck by the Great East Japan Earthquake, our task is to support the acceleration of reconstruction and recovery through proposals of solutions and support of implementation according to the circumstances and needs of the disaster victims.

Meanwhile, in Sendai and the surrounding area, competition is intensifying as other banks pursue opportunities for profit in view of the moves to enhance the role of Sendai, the core city in the Tohoku region.

In order to vigorously address these issues, based on the medium-term management plan “Value Up: Challenge Value Creation” launched in April 2015, we are deepening our relationships with the people of the region and ensuring that all aspects of our business contribute to the fulfillment of our mission as a regional financial institution, that is, to contribute to the revitalization and development of the regional society and economy.

Outline of Medium-term Management Plan

Bank Image Sought by The 77 Bank	<p>“Value-creating bank that grows together with and is the most trusted by the region”</p>										
Name	<p>Medium-term Management Plan “VALUE UP: Challenge Value Creation”</p> <ul style="list-style-type: none"> • Vitality • Activity (Action) • Low-cost (Improved productivity) • Utility (Contribution) • Effort 	<p>Code of Conduct of Officers and Employees</p> <p>We will take <u>action</u> with <u>vitality</u>, undeterred by changes, and further <u>improve productivity</u>. At the same time, in order to <u>contribute</u> to the region, we will make our <u>best efforts</u> and <u>unceasingly</u> take on challenges of value creation.</p>									
Period	<p>Three years (from April 1, 2015 to March 31, 2018)</p>										
Basic Policies	<ol style="list-style-type: none"> 1. Strengthen earthquake recovery support (Support acceleration of recovery) 2. Reinforce the earnings base (Shrug off the low-profit structure) 3. Enhance the value of the region (Enhanced value of the region will lead to enhancement of the Bank's corporate value.) 4. Smooth migration to and utilization of MEJAR (Achieve smooth migration and effective utilization) 										
Basic Objectives	<p>Earnings power</p> <p>Proposal capabilities</p>	<p>Targets for the final year of the Plan (FY2018)</p> <table border="1"> <tr> <td>Enhancement of profitability</td> <td> <ul style="list-style-type: none"> • Net income(*) • Increase of interest on loans and bills discounted [compared with FY2015] • Fees and commissions </td> <td> <p>JPY20.0 billion or more</p> <p>JPY 1.5 billion or more</p> <p>JPY 10.5 billion or more</p> </td> </tr> <tr> <td>Pursuit of efficiency</td> <td> <ul style="list-style-type: none"> • Core OHR (core gross operating income expense ratio) </td> <td> <p>Less than 65%</p> </td> </tr> <tr> <td>Increase of the market shares</td> <td> <ul style="list-style-type: none"> • Increase of loans and bills discounted in Miyagi Prefecture (balance as of March 31, 2018) [compared with the balance as of March 31, 2015] • Increase of loans and bills discounted in Sendai (balance as of March 31, 2018) [compared with the balance as of March 31, 2015] </td> <td> <p>JPY 250.0 billion or more</p> <p>JPY 150.0 billion or more</p> </td> </tr> </table> <p>*When net income of JPY20.0 billion or more is achieved, ROE (net income basis) is expected to be around 5%.</p>	Enhancement of profitability	<ul style="list-style-type: none"> • Net income(*) • Increase of interest on loans and bills discounted [compared with FY2015] • Fees and commissions 	<p>JPY20.0 billion or more</p> <p>JPY 1.5 billion or more</p> <p>JPY 10.5 billion or more</p>	Pursuit of efficiency	<ul style="list-style-type: none"> • Core OHR (core gross operating income expense ratio) 	<p>Less than 65%</p>	Increase of the market shares	<ul style="list-style-type: none"> • Increase of loans and bills discounted in Miyagi Prefecture (balance as of March 31, 2018) [compared with the balance as of March 31, 2015] • Increase of loans and bills discounted in Sendai (balance as of March 31, 2018) [compared with the balance as of March 31, 2015] 	<p>JPY 250.0 billion or more</p> <p>JPY 150.0 billion or more</p>
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The Bank's Configuration in 10 Years (Long-term Vision)	<p>“Leading bank in the Tohoku region with scale and earnings power ranked within the top 10 regional banks based on the established earnings base capable of coping with any change in the business environment through creation of new value in the region”</p> <ol style="list-style-type: none"> 1. Total of deposits, loans and assets in custody: around JPY 15 trillion (as of March 31, 2015: JPY 12.8 trillion) —Achieve deposits of JPY 8 trillion and loans of JPY 5 trillion— 2. ROE (net income basis): around 7% (FY2015: 4.0%) 										
Priorities (FY 2018)	<ol style="list-style-type: none"> 1. Strengthen earthquake recovery support <ul style="list-style-type: none"> • Vigorously supply risk money • Strengthen support for business rehabilitation and management improvement 2. Reinforce the earnings base (Shrug off the low-profit structure) <ul style="list-style-type: none"> • Increase interest income and fees and commissions • Strengthen corporate sales through utilization of business feasibility evaluation and other means • Strengthen business promotion targeting mass customers 3. Enhance the value of the region <ul style="list-style-type: none"> • Diversify sources of earnings by expanding the scope of business • Offer comprehensive financial services by integrating the Group's resources • Further pursue productivity improvement • Contribute to revitalization of the region • Display the overwhelming presence in the Tohoku region (Enhance the share in Tohoku) • Strengthen and utilize the information network • Bolster the 77 brand (differentiation from other banks) 										

Bank Creed as a Code of Conduct

The Bank Creed has been deeply engrained as a code of conduct among the Bank's executives and employees to this day, since its establishment as the basic principle of management in 1961. The Bank Creed declares our commitment to "contribute to the local community while achieving a harmonious balance between self-interest and public interest." In this context, it gives top priority to "elevating the spirit of voluntary service" and advocates a service-minded approach to bring about prosperity in the local community.

Bank Creed

The Bank's mission is to absorb funds and create credit by exercising its own creativity based on the principle of self-responsibility, in a spirit of maintaining orderly credit conditions and protecting depositors, and thereby contribute to the growth of the national economy. In light of such public mission, the Bank shall contribute to the local community while seeking a harmonious balance between self-interest and public interest as a regional bank.

Based on the aforementioned principles, the code of conduct to be observed by any and all persons employed by the Bank is set forth as follows.

1. Elevate the Spirit of Voluntary Service

Acknowledge that the Bank's progress goes hand in hand with prosperity in the local community, and seek to elevate the spirit of voluntary service at all times.

2. Improve Creditworthiness

Bear in mind that credit is the Bank's lifeblood, and endeavor to improve credit at all times.

3. Nurture the Spirit of Harmony

Recognize that the spirit of harmony is fundamental to the execution of duties, and strive to nurture such spirit at all times.

Based on such basic principles, the Bank aspires to become an enterprise in harmony with the local community by demonstrating its leadership and fulfilling its social responsibility for the sustained growth of the local community.

Specifically, our activities include supplying the region with funds smoothly, offering products and services tailored to customers' needs and providing support to corporate activities as well as various information. We also continually engage in activities that contribute to society, from the standpoint of a good corporate citizen.

In order to fulfill the principles set forth in our Bank Creed, we will continue to proactively contribute to the local community and make efforts so that they are fully understood by local residents.

Corporate Governance Status

The Bank transitioned to a "company with an audit & supervisory committee" in June 2017. The purpose of this transition is to enhance corporate value through further enhancement of corporate governance.

The Board of Directors consists of a total of 19 Directors, comprising 14 Directors (excluding Directors serving as Audit & Supervisory Committee Members), of whom two are Outside Directors, and five Directors serving as Audit & Supervisory Committee Members, of whom three are Outside Directors. The Board of Directors is responsible for decision-making on key issues related to management. The Executive Committee discusses important business matters and determines courses of action within the authority granted to it by the Board of Directors. The Bank has an executive officer system for the purpose of separating management decision-making and supervision from execution of operations, as well as from the viewpoint of strengthening and expediting implementation of these functions. Moreover, the Bank has the Corporate Governance Committee, which is a voluntary Committee advisory body for the Board of Directors to further enhance management transparency and appropriateness of processes and thus strengthen corporate governance functions.

The Audit & Supervisory Committee, consisting of five Directors serving as Audit & Supervisory Committee Members (of whom three are Outside Directors), audits execution of duties of Directors and monitors the Board of Directors' oversight functions.

Teruhiko Ujiie
President

