

## Message from the President

***The 77 Bank aims to be the “best regional bank,” one that grows along with its customers and is committed to the sustainable development of the region.***



Chugo Marumori, President

Amid a brightening world economic scene, signs of gradual recovery appeared in Japan, supported by positive business developments, such as rising export volume, increased production, better corporate earnings and expanding capital investment.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, the economy improved in some areas, but with investment in public works and housing still sluggish, a full-fledged recovery will probably need more time to take root.

A tough earnings environment continued to surround financial institutions, characterized by relentlessly difficult investment obstacles, such as persistently low interest rates and lackluster demand for funds. But the write-off of nonperforming assets peaked, and competition among financial institutions is intensifying as all members of the industry explore new business styles to reinforce profitability.

### Basic Direction, and Medium- and Long-Term Management Strategies

The 77 Bank's mission is to respond accurately to the varied financial requirements of its customers and the region in which it operates, and to contribute to the sustainable development of the local community. The Bank also strives to uphold the public obligations that every financial institution bears, to sustain a healthy financial footing and to ensure stable dividends to stockholders.

We are actively implementing a number of measures, based on this mission. We seek to build a stronger profit structure and motivate employees to uphold high principles and a strong work ethic. We aim to improve asset quality even more than before and cut costs more effectively than before. In addition, we are restructuring our business promotion system, increasing noninterest income and extending more loans.

By efficiently allocating available management resources, we will create a firmer operating foundation, enhance the quality of loan assets and enhance profitability. We aim to be a bank that has the unshakable support of customers, stockholders and the community at large.

### Business Goals to Achieve

In the 77 ACTIVE Plan, a two-year medium-term business reform program that runs from April 2003 to March 2005, we have highlighted five goals to achieve.

### Goal to March 31, 2005

Balance of loans	Above ¥3,140 billion
Balance of core loans (excluding marketable loans)	Above ¥2,950 billion
Operating profit*	Above ¥31 billion
Overhead ratio	Below 68%
Capital adequacy ratio (domestic basis)	Above 10%
Ratio of nonperforming assets	Improvement of at least 1% every fiscal year

\* A bank profitability indicator used in Japan, based on profit after deduction of certain expenses and provisions.

## Issues and Major Tasks in Fiscal 2005

Looking ahead, we expect that completion of the prevailing payoff system, effective April 2005, will make financial institutions more vulnerable to the power of selection by existing and potential clients.

We have prioritized three issues in the 77 ACTIVE Plan to appropriately deal with this situation. We aim to reinforce business promotion activities, particularly lending operations, to reduce costs, and to enhance asset quality.

In fiscal 2005, the head office and branches directed concerted efforts to achieving four major tasks:

1. Strengthen lending operations, primarily corporate loans and consumer loans.
2. Improve profitability by enhancing fund management, boosting fee income, and cutting costs.
3. Expand the base for transactions through the establishment of a firmer marketing foundation.
4. Raise the quality of assets, with a focus on steady improvement of the nonperforming assets ratio.

## Reinforcing Our Relationship Banking Capabilities

Regional financial institutions have been asked to direct greater efforts toward such tasks as revitalizing loans to small and medium-sized businesses, securing a healthier financial position and improving profitability, in accordance with individually prepared plans required by the Financial Services Agency to reinforce the relationship banking function of all regional banks.

The 77 Bank recognizes that relationship banking requires the Bank to contribute to the development of its own operations as well as to the prosperity of customers and the local community through financial services underscored by a relationship of trust. Toward this end, we strive to provide a variety of services and facilitate the smooth supply of funds in our geographical sphere of operations.

We will continue to improve our volume of transactions with customers and offer higher-value-added services. We will also work to maintain highly transparent operations with greater attention to corporate governance, and execute continuous, proactive disclosure of management information. These efforts will form a solid cornerstone of trust with our customers and the region.

## Corporate Governance

The 77 Bank has always emphasized management priorities that serve to fortify its business administration structure. Concerted efforts are directed toward strengthening the capabilities of the Board of Directors, augmenting compliance and risk management structures, reinforcing auditing activities, including those of external auditors of the Bank.

Of note, the Board of Directors is responsible for decisions on major issues relating to the execution of the Bank's operations, while the Executive Committee forms pertinent decisions on issues within the authority granted by the Board of Directors.

The Bank maintains a Board of Auditors system and has raised the effectiveness of internal audits by inviting three external auditors to sit on the five-member auditors. Auditors attend Board of Directors' meetings and offer opinions and suggestions to ensure that the Bank's operations are effective and appropriate.

The Board of Directors drafted Basic Policies for Compliance and Basic Policies for Risk-Management to ensure clarity and integrity in compliance efforts and to forge a strong risk-management structure that underpins steady, long-lasting growth.



Chugo Marumori  
President