

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.



Hiroshi Kamata, President

Japan's economic recovery was gradual but unmistakable in the fiscal year ended March 31, 2005. But this positive aspect was tarnished slightly by developments, such as sluggish exports and the skyrocketing price of oil, which required corrections to anticipated fiscal results for many companies.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, the local economy also experienced a slowdown in demand, as weaker production trends paralleled a lackluster business climate.

The earnings environment for financial institutions remained challenging, owing to persistently low interest rates and decelerating demand for funds. But the industry welcomed a clearer direction in its future activities, as the chapter on nonperforming assets, which had plagued the entire financial industry for so long, finally came to a close and attention shifted from stabilization of the financial system to its revitalization.

With the April 2005 completion of the pay-off system, financial institutions have become more vulnerable to the power of selection by existing and potential clients. Indeed, the spotlight on sound management and enhanced profitability is far more intense than it once was, and financial institutions are duty-bound to respond quickly and honestly in full public view.

Meanwhile, the Financial Services Agency initiated an action plan aimed at reinforcing the relationship banking function of regional financial institutions. This plan requires local institutions to work harder to fulfill their social obligations to local communities, particularly in the area of easier lending processes for small and mid-sized businesses and the introduction of services with added convenience for clients.

Challenge 400: Core Business Profit of ¥40 Billion

The 77 Bank seeks to be a bank that provides the utmost value to shareholders, clients and the region as a whole and one that supports the local activities of people and businesses. Underpinning this enduring mission is a new medium-term business plan—Challenge 400, a four-year effort launched in April 2005.

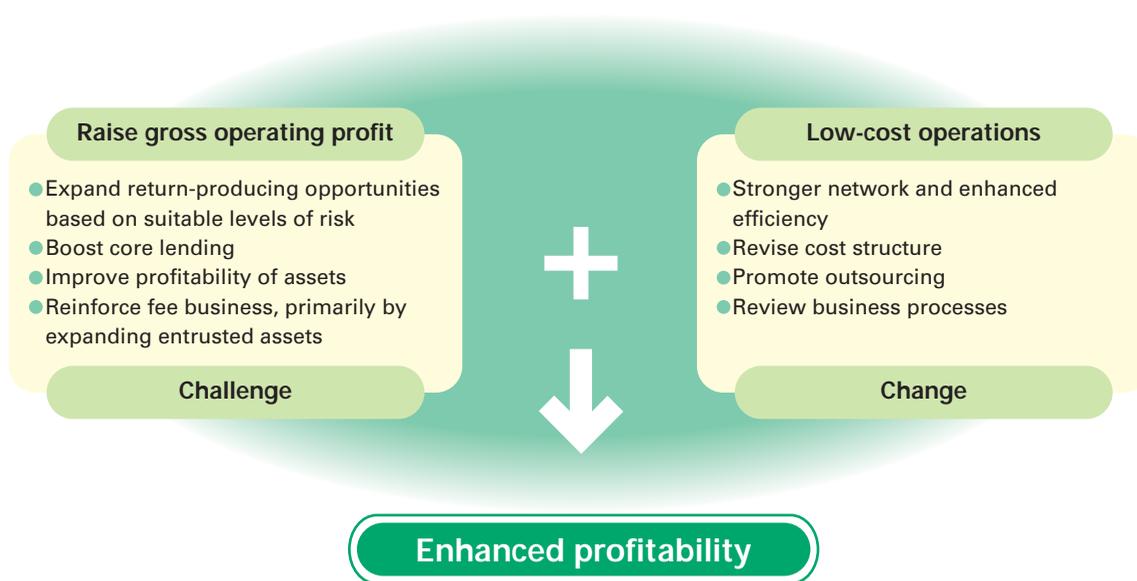
The ultimate goal of Challenge 400—¥40 billion in core business profit by March 2009—has been embraced by everyone at the Bank. Our plan will enable us to take a long-term perspective on certain issues and formulate successful solutions. It will also facilitate the implementation of vital strategies. The end result will be higher profitability and a solid business platform for growth.

The 77 Bank's approach to business emphasizes strong ties to local citizens and businesses. This attitude embodies our desire to be the “best regional bank,” one that grows along with our clients and is committed to the sustainable development of the region.

Business Topics

Our biggest priority during the course of the new medium-term management plan is to identify a direction that leads to greater profitability. The signposts along this route will be maintaining a healthy financial position, raising return-producing assets based on suitable levels of risks, and improving management efficiency.

Overcoming obstacles along the way, we will boost gross operating profit and establish a low-cost operating structure. We will become a bank that can post stable profits regardless of the challenges that loom as obstacles in our path.



Basic Policies

1. Redouble efforts to elicit a steady rise in gross operating profit and create a low-cost structure

The Bank will steadily increase gross operating profit by strengthening core lending operations and raising the profitability of assets to expand the return on capital; and by improving the return on banking services through a heightened focus on attracting more assets from clients. In tandem with these activities, the Bank will enhance profitability by promoting the establishment of a low-cost structure.

2. Cement strong relationships with shareholders, clients and the region

For shareholders, the Bank will bolster shareholder value by improving profitability and maintaining a sound financial position.

For clients, the Bank will increase its value by raising levels of client satisfaction and striving always to be their No. 1 choice.

For the region as a whole, the Bank will cement its solid business footing in the community and strive to contribute to the area through its full range of banking services.

3. Cultivate an atmosphere that encourages new perspectives

The Bank will cultivate an atmosphere that welcomes fresh perspectives, encourages free thought and continuously applies new ideas to reinvigorate the in-house environment.

Basic Objectives

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1. Enhanced profitability	Core operating profit ¹	More than ¥38 billion by March 2009
2. Specific targets to reach for enhanced profitability		
i. Stronger operating capabilities	Core lending balance ²	More than ¥3 trillion by March 2009
	Assets in the Bank's care	More than ¥700 billion by March 2009
ii. Improved operating efficiency	Overhead ratio	Less than 60% by March 2009
3. Sustained financial health	Capital adequacy ratio (domestic standard)	More than 12% by March 2009

Notes:

1. Core operating profit: amount left after deducting gains (losses) on bonds, including government bonds, from operating profit before transfer to reserve for possible loan losses.

2. Balance of core loans: value of loans, excluding such instruments as loan participation.

Major Business Strategies

1. Strengthen operating capabilities

- Concentrate on increasing balance of core loans.
- Fortify operating platform for corporate and individual transactions.
- Boost fee business.
- Reinforce fund application capabilities.
- Distribute key management resources to business divisions.

4. Maintain healthy financial position

- Lower credit costs.
- Sustain higher net worth.

2. Improve operating efficiency

- Revise cost structure.
- Improve business processes.
- Raise profitability of assets.

5. Reinforce internal controls

- Ensure thorough compliance.
- Sharpen profit management and risk management skills.
- Strengthen information security measures.

3. Build a solid, efficient network

- Enhance convenience for clients by making the branch network stronger and more efficient.
- Make system networks better.

6. Provide training for employees

- Develop staff who accept the challenge of new perspectives.
- Develop staff who boast top-level business talents.

Key Themes in Fiscal 2006

To quickly implement the measures outlined in the new medium-term management plan and mark steady progress toward stated objectives, in fiscal 2006 The 77 Bank will concentrate the energies of the head office and branches on the following four themes.

1. Strengthen operating capabilities to boost loans and expand assets from clients.
2. Improve operating efficiency, hinging on enhanced fund application skills and a revised cost structure.
3. Maintain a healthy financial position by fortifying credit risk management and maintaining suitable returns.
4. Reinforce internal controls, including better-defined compliance efforts.

Tighter Bonds with the Community

A regional bank is the driving force behind the circulation of funds in the community, and to fulfill this responsibility a regional bank must strive to promote activities that strengthen its ability to vitalize the local economy and facilitate financing to small and mid-sized companies based in its operating area.

The financial services provided by The 77 Bank hinge on a relationship of trust between the Bank and local clients as well as the wider community. These services and smooth access to funds underpins growth for all concerned: clients benefit, as does the Bank, and ultimately, the region as well.

We will lay a cornerstone of trust in the community and cement it into place by consistently seeking to enhance our transactions with clients and offering high-value-added services that address the needs of clients and highlight the characteristics of the community at large. In addition, we will ensure highly transparent management by reinforcing corporate governance and undertake active and ongoing disclosure of pertinent management information.

Corporate Governance Status

The 77 Bank has always emphasized management priorities that serve to build a better business administration structure. Concerted efforts have been directed toward strengthening the capabilities of the Board of Directors, fortifying its compliance and risk management systems, and reinforcing auditing activities by inviting outside auditors to sit on the Board of Auditors.

The Board of Directors is responsible for decisions on pertinent issues related to operations, while the Executive Committee discusses important business matters and determines courses of action within the power granted to it by the Board of Directors.

The Bank maintains an auditor system under which three of the five auditors on the Board of Auditors—a majority—are outside auditors, a composition that raises the effectiveness of internal audits. Auditors check that the actions of directors are appropriate and effective by attending Board of Directors' meetings and issuing opinion statements on discussions and decisions made at these meetings.

The 77 Bank emphasizes clarity and integrity in its compliance efforts, a stance underpinned by Basic Policies for Compliance, drafted by the Board of Directors. The Bank applies Basic Policies for Risk Management, also drafted by the Board of Directors, to maintain a solid risk management system that promotes stable, long-lasting growth as a regional bank.

Hiroshi Kamata
President

