

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

In the fiscal year ended March 31, 2008, there was an increasing sense of a slowdown in the Japanese economy as exemplified by the continued trend in weak consumer spending in general in spite of exports maintaining an upward trend, with production and capital investment weakening due, among other things, to soaring crude oil and raw material prices, as well as the global confusion in financial and capital markets.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, the economy has come to a standstill overall, with the recovery in personal consumption slowing down in addition to residential investment continuing to decline and public investment remaining weak.

As regards the environment surrounding financial institutions, financial institutions are urged to further improve and strengthen internal management systems, including measures against antisocial forces and

systems for preventing money laundering, in addition to thoroughly implementing measures for the protection of customers and for other issues in accordance with the Financial Instruments and Exchange Law that went into full effect in September 2007. Meanwhile, it is necessary for regional financial institutions to place further emphasis on region-based business management by enhancing their support for local companies through loans and the like, and reinforcing efforts to stimulate regional economy.

The 77 Bank is vigorously addressing these issues.

Management Priority and Medium-term Management Plan Challenge 400

The Bank is working on Challenge 400, a medium-term business plan that extends over a four-year period from FY2005 to FY2008, aspiring to enjoy strong and sustained support through the provision of the best added value to our region, customers, and shareholders.

The most important task under the medium-term business plan is to ensure a path to enhanced profitability by accumulating high return-producing assets and improving management efficiency by taking suitable levels of risk, backed by sound financial position. Our aim is to accomplish this task, thereby successfully expanding our gross operating profit and building a low-cost operating structure. In the end, Challenge 400 will have given us the structure and capabilities to post stable profits regardless of the challenges we may face.

The fiscal year ending March 31, 2009, is the final year of Challenge 400. Everyone at The 77 Bank understands the significance of Challenge 400 and is working hard to reach the ultimate goal of ¥40 billion in core business profit.

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 customers. 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, customers and the region

- For the region as a whole, the Bank will cement its solid business footing in the region and strive to contribute to the area through its full range of banking services.
- For customer, the Bank will increase its value by raising levels of customer satisfaction and striving always to be their No. 1 choice.
- For shareholders, the Bank will bolster shareholder value by improving profitability and maintaining a sound financial position.

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

1. Enhanced profitability	Core operating profit ¹	More than ¥38 billion by March 2009
2. Specific targets for enhanced profitability		
i. Stronger operating capabilities	Balance of core loans	More than ¥3 trillion by March 2009
	Assets in custody	More than ¥700 billion by March 2009
ii. Improved operating efficiency	Overhead ratio	Less than 60% by March 2009
3. Sustained financial soundness	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.

Key Themes in Fiscal 2009

The fiscal year ending March 31, 2009, is the final year of Challenge 400. As we progress toward the goals of this medium-term management plan, we will strive to implement various measures swiftly in accordance with the following priority policies.

Stronger operating capabilities

- Enhance corporate transactions
- Reinforce consumer loans centering on housing loans
- Increase handling of financial assets in terms of both deposits and assets in custody
- Strengthen the business base

Improve operational efficiency

Strengthen internal control systems and develop human resources

Promotion of Relationship Banking

• Basic Policy on Promotion of Relationship Banking

“Relationship banking” means banking based on information accumulated from close long-term relationships with customers. The 77 Bank’s basic ideas concerning the promotion of relationship banking are the very principles expressed in the Bank Creed and are deeply rooted among the Bank’s executives and employees as a code of conduct.

In accordance with these basic principles, The 77 Bank will contribute even more than before to the development of the region for the realization of the following objectives set forth in the medium-term management plan.

1. Bank image sought (“Bank Image Sought” of the Medium-Term Management Plan)

“Best regional bank,” one that grows along with its customers and is committed to the sustainable development of the region

2. Strengthening of relationships with the region and customers (“Basic Policies” of the Medium-Term Management Plan)

(1) Relationship with region

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

(2) Relationship with customers

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

• Progress of Implementation of the Relationship Banking Promotion Plan in Fiscal 2008

1. Strengthen support for client companies in accordance with their stage of corporate life cycle

- Strengthen support for the start up of new companies, the development of new businesses by existing companies, and other similar efforts

Target Support the start up of and/or the development of new businesses by 50 companies

Result 68 companies

- Strengthen support for the revitalization of businesses and improvement of management

Target Utilize the business revitalization fund with respect to 2 companies

Result 2 companies

2. Ensure a financing method suitable for small and medium-sized businesses, including a loan procedure for determining business value

- Make efforts to curb loans guaranteed by third parties

Target Achieve a balance of 30,000 million yen on loan products that do not require collaterals or third-party guarantees

Result 31,130 million yen

3. Contribute to sustainable local economy by utilizing information accumulated on the community

- Organize business fairs

Target Provide leads on 1,500 business-matching opportunities

Result 2,516 leads

• Relationship Banking Promotion Plan in Fiscal 2009

1. Strengthen support for client companies in accordance with their stage of corporate life cycle

- We will strengthen support for the start up of new companies, the development of new businesses by existing companies, and other similar efforts.

Target Support the start up of and/or the development of new businesses by 50 companies

- We will strengthen support for the revitalization of businesses and improvement of management.
- We will strengthen efforts to promote business successions and M&A through such means as the organization of seminars and provision of opportunities for consultations.

2. Ensure a financing method suitable for small and medium-sized businesses, including a loan procedure for determining business value

- We will make efforts to diversify the means of procuring funding.

Target Achieve a balance of 10,000 million yen on loan products that utilize a restrictive financial covenant

3. Contribute to sustainable local economy by utilizing information accumulated on the region

- We will organize business fairs for food and industrial products.
- We will aggressively address local development projects within the region, such as PFI projects.
- We will develop products that give favorable treatment, in terms of interest rates and commissions, to companies that are contributing to the society through local environmental protection, child support and the like.

Corporate Governance Status

The 77 Bank has always emphasized management priorities that serve to build a better business administration structure. In particular, we have devoted considerable efforts toward strengthening the capabilities of the Board of Directors, reinforcing auditing activities by inviting outside auditors to sit on the Board of Auditors, and enriching our compliance and risk management systems.

The Board of Directors is responsible for decisions on key issues related to operations. The Executive Committee, a separate authority, discusses important business matters and determines courses of action within the power granted to it by the Board of Directors. The Bank maintains a corporate auditor system under which three of the five auditors on the Board of Auditors are outside auditors, a structure that raises the level of impartiality of internal audits. Auditors check that the actions of directors are constructive and appropriate by attending Board of Directors' meetings and issuing opinion statements on discussions and decisions made at those meetings.

In regard to compliance, The 77 Bank emphasizes clarity and integrity, a position underpinned by Compliance Policies, drafted by the Board of Directors. With regard to risk management, the Bank applies its Basic Policy for Risk Management, also drafted by the Board of Directors, to maintain a sound structure that promotes stable, long-lasting growth as a regional bank.

Hiroshi Kamata
President

