

*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

Paralleling uncertainty over the direction that world economies will take, the business environment in Japan remains challenging, characterized by rising unemployment and reduced disposable income that continue to exert downward pressure on personal spending trends. In Miyagi Prefecture, the primary base of operations for The 77 Bank, economic conditions are also sluggish.

Financial institutions in Japan are experiencing extreme conditions at the moment. One of the major issues facing banks has been investment obstacles, such as persistently low interest rates, lackluster demand for funds and faltering stock prices. The severity of this situation, however, appears to be easing.

Against this demanding business backdrop, The 77 Bank is promoting efforts to tackle the management subjects discussed below as quickly as possible. Our focus is on reinforcing business promotion activities, reducing costs and improving asset quality. Through our banking business, we also strive to provide greater value to stockholders, customers and the community.

Toward this end, in April 2003 we embarked on the “Two-Year Reform Program—the 77 ACTIVE Plan”. “ACTIVE” is an acronym taken from the six elements vital to our success. These elements are:

***Asset quality, Cost reduction, Trust, Innovation, Value and Enhanced profitability***

Through this plan, we will build a stronger profit structure and motivate employees to uphold the high principles and strong work ethic that underpin our development as the best regional bank, one that grows along with its customers and is committed to the sustainable development of the region.

A close relationship with customers and stockholders will secure our position as one of the best financial service providers in the region. On behalf of everyone at The 77 Bank, I ask for your continued support of our efforts as we work to revitalize our business and our community.

### ***Management Subjects to Overcome***

The 77 Bank seeks to improve profitability while tackling three complementary themes:

- Reinforce business promotion activities.
- Reduce costs.
- Improve asset quality.

### ***Management Strategies***

***Innovation: Build a Stronger Profit Structure***

- Restructure business promotion format.
- Maximize profit opportunities.
- Establish new profit-management methods.
- Implement low-cost operating structure.

***Innovation: Motivate Employees to Uphold High Principles and Strong Work Ethic***

- Promote quick and appropriate responses to the needs of both customers and the region.
- Promote heightened awareness of costs and profits as they relate to our daily business.
- Improve employee productivity.
- Ensure that employees adhere to internal compliance policies and act as responsible citizens.

## Two-Year Reform Program—the 77 ACTIVE Plan April 2003 to March 2005

Primary Goals: The 77 Bank seeks to improve profitability by reducing costs and reinforcing lending operations, which will generate higher interest income. The Bank also aims to create a firmer financial foundation with a solid capital base and reduced credit costs.

Our efforts will be directed toward achieving four primary targets by March 31, 2005.

### 1. Indicator of Strong Operations

Balance of loans: Above ¥3,140 billion  
Balance of core loans: Above ¥2,950 billion  
(excluding marketable loans)

### 2. Indicator of Profitability

Operating profit: Above ¥31 billion  
\* A bank's profitability indicator used in Japan, based on profit after deduction of certain expenses and provisions.

### 3. Indicator of Efficiency

Overhead ratio: Below 68%

### 4. Indicators of Financial Stability

Capital adequacy ratio: Above 10%  
(Domestic basis)  
Ratio of non-performing assets:  
Improvement of at least 1% every fiscal year

## Primary Measures

- 1. Concentrate on lending business and enhance profitability**
  - Direct efforts toward increasing core loans.
  - Improve profitability of assets.
- 2. Increase non-interest income**
  - Reinforce fee business.
- 3. Restructure business promotion system**
  - Review branch functions and overall network.
  - Review business promotion systems.
  - Strengthen liaisons with individuals and corporate customers.
- 4. Improve asset quality**
  - Provide greater support to customers' restructuring efforts by demonstrating consultation expertise.
  - Reinforce credit risk management.
  - Promote disposal of non-performing assets.
  - Encourage the sale or effective utilization of non-performing real estate.
- 5. Facilitate a low cost structure**
  - Reduce costs related to personnel as well as premises and equipment.
  - Raise efficiency at the head office and branches.
  - Make greater use of outsourcing to enhance efficiency within The 77 Bank Group.
  - Encourage awareness of profitability through a deeper understanding of costs and profits.
- 6. Improve employee productivity**
  - Assign employees to posts based on the new personnel plan.
  - Implement training programs.
- 7. Create integrated profit-management and risk-management systems**
  - Promote a full understanding of costs and cost management through the introduction of an activity-based costing system.
  - Utilize quantified credit risk data.
  - Fine-tune profit management according to certain categories, such as by client or division.
  - Respond to system changes, including new accounting standards.
- 8. Reinforce internal controls**
  - Strengthen compliance structure, including responses to legislation.
  - Establish internal auditing process.
  - Improve operational risk management.

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