

● 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.

The moderate recovery of the Japanese economy continued despite weakening of both production and exports reflecting elements such as the slowing growth of China and other emerging economies.

In a recent development, the U.K. vote in favor of Brexit has increased uncertainties concerning the world economy and there is anxiety about the impact on financial markets.

Five years have passed since the Great East Japan Earthquake. In Miyagi Prefecture, the primary base of operations for The 77 Bank, development and supply of land for housing in coastal areas moved into full swing despite labor shortages and other issues. Initiatives for community development and industrial revitalization progressed, such as improvement of transportation infrastructure and opening of commercial facilities.

Looking to the future, financial institutions need to fulfill intermediary functions for their corporate customers in the region. At the same time, financial institutions should contribute to growth and development of the region's industries by appropriately evaluating the feasibility and potential of companies by utilizing their own expertise and by providing support that helps the customers enhance the value of their business. Moreover, in view of population aging, a declining birthrate and the shrinking population confronting regional cities, financial institutions should strengthen their initiatives to revitalize the regions, including support for establishment of new industrial infrastructure and creation of employment so as to enhance the value of the regions.

As a financial institution based in the region struck by the Great East Japan Earthquake, we need to identify the situation in the disaster-stricken areas and the changing needs of the disaster victims corresponding to the phase of the recovery. Our task is to support the acceleration of reconstruction and recovery through proposals of solutions and support of implementation.

Meanwhile, in Sendai and the surrounding area, competition among banks is intensifying as other banks based in the Tohoku Region have opened branches in quick succession in view of the moves to enhance the role of Sendai, the core city in the Tohoku region. Amid concerns about competition based on lower interest rates because of the negative interest rate policy introduced by the Bank of Japan, in order to enhance our presence and reinforce the management foundation, we must strengthen our earnings power and enhance operational efficiency. Moreover, we should tackle the creation of new value to earn greater trust and support from the region.

In order to vigorously address these issues, based on the new 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.



Teruhiko Ujiie, President

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 We will take <u>action with vitality</u>, undeterred by changes, and further <u>improve productivity</u>. At the same time, in order to <u>contribute to the region</u>, we will make our <u>best efforts</u> and <u>unceasingly take on challenges of value creation</u>.</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 2017)	<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 • Diversify sources of earnings by expanding the scope of business • Further pursue productivity improvement 3. Enhance the value of the region <ul style="list-style-type: none"> • Contribute to revitalization of the region • Display the overwhelming presence in the Tohoku region (Enhance the share in Tohoku) • Bolster the 77 brand (differentiation from other banks) 4. Effective utilization of MEJAR 										

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

Having established the Corporate Governance Committee and the Basic Policy for Corporate Governance in November 2015, The 77 Bank is striving to enhance corporate governance. The Bank positions enhancement of the corporate governance structure, including the enhancement of compliance and risk management systems, as a management priority.

The Board of Directors consisting of 15 directors, two of whom are outside directors, is responsible for decision-making on key issues related to operations. 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 introduced 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.

The Bank maintains an audit & supervisory board member system under which two of the four members of the Audit & Supervisory Board are outside audit & supervisory board members, a structure that raises the level of impartiality of internal audits. Audit & supervisory board members 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.

With regard to compliance and risk management structures, in accordance with the Compliance Policies and the Basic Policy for Risk Management established by the Board of Directors, The 77 Bank emphasizes clarity and effectiveness of compliance-related initiatives and aims to establish a sturdy risk management system for the Bank's stable and sustainable growth.

Teruhiko Ujiie
President

