

## We will accurately gauge environmental changes to enhance the value of the 77 Bank Group and our local communities over the medium to long term.

President **Hidefumi Kobayashi**

### ▼ Achieving “Our Target Form” in “Vision 2030”

It has now been three years since we started working toward “Vision 2030: Leading company creating a path to the future.” Looking back over the previous three years, in terms of our performance we have achieved record-high profits for three consecutive terms. Moreover, in addition to launching 10 new projects in new businesses and sectors, we have engaged in various other initiatives such as optimizing our branch network. As a result, we have achieved a more robust

management structure and enhanced the level of our offensive and defensive strategies. I believe this has given our officers confidence that with hard work, anything is possible. We are now entering the next stage of efforts to achieve “our target form” for FY2030. Building on our momentum to date, our aim is to further enhance the level of our activities in every field throughout the 77 Bank Group.

### ▼ Changes in the Management Environment

With the reclassification of COVID-19 as a Class 5 disease in 2023, economic activity is gradually returning to normal. While regional banks were very much in the clutches of the pandemic, it was also a time in which the significance of regional banks’ roles in underpinning regional economies was reaffirmed. In the post-COVID society, we will provide comprehensive, side-by-side support for businesses’ restructuring projects and financing needs.

In the financial environment, with a return to positive short-term interest rates and other monetary policy changes by the Bank of Japan, I believe we are finally returning to a sense of normality. As the economy recovers, while stable and continuous price increases will be important to create a virtuous economic cycle, the current price increases are the result of global inflation and a weak yen. Another major challenge moving forward will be personnel shortages, and so for the Japanese economy to continue to grow, it will be essential to link improvements in productivity

to wage increases.

In our main base of operations in Miyagi Prefecture, alongside the start of operations at the world-class synchrotron radiation facility “NanoTerasu” in April 2024, developments are ongoing with the Sendai Urban Restructuring Project in central Sendai, which is the heart of economic activity and interaction in the prefecture, and as such we expect even further growth in economic activity.

Moreover, with the major Taiwanese semiconductor manufacturer PSMC announcing its plans to build a new plant in Miyagi Prefecture, we also expect an increase in suppliers, a growing local population, the creation of wealth, and a rise in opportunities to communicate information both domestically and internationally. This is a huge business opportunity not only for Miyagi Prefecture but for the whole Tohoku region, and at the 77 Bank Group we will do everything we can to help regional economies flourish.



## ▼ Reconfirming Our Starting Point

As we transition to a new phase marked by an inflationary economy and rising interest rates, rather than responding through an extension of our initiatives to date, it is paramount that both our organizations and individuals go one step further. To do so, it is important that we return to the starting point of “Vision 2030,” which we formulated using a back-casting approach. In April 2024, the fourth year of the process, I again explained the background to the formulation of “Vision 2030” to all officers and employees.

“Vision 2030” outlines our main course of action and important targets as we work toward the ideal

future vision for the 77 Bank Group, and will guide us toward the fulfillment of our management philosophy. If we were to formulate targets and measures as simply an extension of our current initiatives, we would become a company lacking in growth, development, and ambition.

As such, based on our strong desire to respond to contemporary trends and transform into an ever-growing corporate group, we have put together “our target form,” deciding what is required for us to achieve these ideals, and showcasing our desire for change.

## ▼ Creating a Platform for the Next Stage of Growth

I would now like to explain our main achievements in FY2023.

First, our Finance & Consulting business model has spread throughout the Group and we are beginning to see signs of change. Customers carefully select the banks they deal with to ensure they are completely satisfied. As such, it is essential that we constantly think from the customer's standpoint and provide useful services that exceed their expectations. The fruits of our efforts can also be seen in our performance, with integrated consulting sales via our headquarters, branches, and Group companies leading to an increase in interest on loans and bills discounted, as well as fees and commissions.

Second, we have successfully developed new markets. In addition to increasing the number of high-quality clients from outside the prefecture and creating new business opportunities, in August 2023 we established the Utsunomiya Corporate Office to connect companies with an interest in Sendai, Miyagi, and Tohoku with local companies, and in turn revitalize their respective regional economies. Moreover, in line with the Aomori Corporate Office's upgrade to the Aomori Branch in September 2022, we are enhancing our support for clients to help them tackle their issues and conducting information-based sales, and transactions are steadily increasing.

Our third achievement is the progress we have made with our new businesses and sectors.

Specifically, we established 77 Insurance Service in March 2024 and launched our marriage consultation business in April 2024. Our aim is to diversify the income streams of the 77 Bank Group while addressing regional issues. At the same time, however, we believe that examining new business opportunities helps to enrich the ideas of officers and employees and develop their spirit of endeavor. Moreover, in May 2024 we announced our preparations to establish a local subsidiary in Singapore and our establishment of an outsourcing subsidiary, and successfully launched 10 new projects as per our initial targets. Both of these new businesses will help to increase the range of support services on offer for our clients, and we will ensure that we prepare thoroughly for the start of operations.

Fourth is our progress in digitalization. We have proceeded with our so-called “branches within branches” measures in line with changes in customer behavior and the spread of indirect channels, and are using the extra personnel and time for sales promotion activities. Further, to maintain and improve our levels of customer service, we have installed branch tablets at all our branches to enable various paperless and seal-less transactions. In addition, we have updated and added various functions to the 77 Bank app to improve the convenience of our indirect channels.

In terms of the joint-use MEJAR system, in January

2024 we became the first in the banking industry to adopt and begin use of an open platform enabling the flexible selection of different hardware and software as our core system.

Our fifth achievement was corporate culture reform. Although the priority issues in these reforms are diversity, endeavor, and communication, in April 2023 we implemented drastic reforms to our personnel systems. While working to establish these reforms

through one-on-one meetings, we will aim to enhance our organizations' and individuals' thirst for growth. These reforms are already bearing fruit in our performance and in our reputation among customers, regional public bodies, and other banks. Our corporate culture and employees' mindsets are gradually changing, and the results are steadily coming to the surface.

## ▼ Distribution of Management Resources

To become a leading company, we have set out four strategies: the top customer satisfaction strategy, the double productivity strategy, the regional growth strategy, and the corporate culture reform strategy.

### (1) Top Customer Satisfaction Strategy

In FY2024, it is important that we engage in sales activities while keeping in mind an inflationary economy and rising interest rates. As our management environment changes, we recognize that our regional customers are facing various issues related to human resources, equity, the use of digital technologies, and expertise, for example. To ensure our Finance & Consulting business model is a success, we will make full use of the Group's regional information, domestic and international networks, and partner collaboration to, in turn, address our customers' issues.

For individual customers, in line with the government's “Doubling Asset-based Income Plan,” we are supporting asset formation and regional financial literacy improvements. In addition to promoting the new NISA scheme, we will proceed with life plan consulting through our new subsidiary 77 Insurance Service. In doing so, while supporting customers' asset formation activities, we will reinforce Groupwide stock-based income.

Moreover, we will work to reinforce Group businesses to establish a third income pillar after the customer sales department and marketable securities trading department. Elsewhere, when looking at long-term trends in Group company performance, there has been a lack of major growth with largely flat progress in the last 10 years. In line with this, we have reviewed the nature of “Vision 2030” for each Group company



and established the Group Business Strategy Committee for the integrated reinforcement of Group governance. While combining the specialist solutions of each Group company to capture business opportunities, we will work to achieve positive results throughout the Group.

Further, with headquarters, branches, and Group companies working together, we will increase the scope of consulting services provided by the 77 Bank Group, inspiring customers with our optimal solutions while at the same time boosting Group income.

A key role of financial institutions, who are an important part of social infrastructure, is to protect customers' assets from financial crimes such as bank transfer scams and fraudulent online banking

transfers. It is therefore also important that we reinforce our response to cybersecurity and improve both convenience and safety. Through initiatives such



## (2) Double Productivity Strategy

With low birthrates, aging societies, and declining populations, improving productivity is essential for the sustainable growth of the 77 Bank Group. While improved productivity tends to be thought of as greater efficiency and reduced expenses, there is in fact much more to it. In labor productivity, the numerator is the amount of added value and profit, and the denominator is the number of employees and working hours. It is an indicator for which the higher the number, the better the outcome. As such, it is essential to take a two-pronged approach to improving productivity: a review of operational processes to optimize human resources, time, and other management resources, and the reinforcement of top-line growth.

To provide integrated consulting sales via our headquarters, branches, and Group companies, we will promote a review of operational processes and a

as these, we will work to gain the trust of clients and regions, enhance their satisfaction, and improve the brand image of the 77 Bank Group.

reduction in administrative work at our banks, and aim to free up our branches from administrative work to transform them into locations predominantly for consulting sales. Moreover, the use of digital technologies will also be key to achieving greater efficiency, and to cater to an increasingly cashless society, we will aim for the further promotion and improvement of the 77 Bank app and the 77 Business Portal.

As for the optimization of our branch network, by shifting our management resources through our branches within branches measures, in addition to reducing expenses we will aim for greater sales efficiency and human resource development through more centralized operations. Moving forward, we will continue with examinations from various angles in line with market characteristics and regional circumstances.

## (3) Regional Growth Strategy

Since 2016 for regional revitalization, the 77 Bank Group has been working on four key items of implementation: Support for founding and new businesses; support and development of regional core companies; promotion of urban development; and support for promotion of tourism, etc.

In January 2020, we established the “Miyagi Wide-area PPP Platform” (MAPP), taking the role of secretariat and forming comprehensive cooperation agreements with all regional public bodies in Miyagi Prefecture, government-affiliated financial institutions, and local universities. Through these agreements, we have been consolidating the expertise of each domain of specialization to implement various revitalization projects to improve sustainability in local communities.

In the future, in addition to responding to business succession issues facing our region, we will work to support and develop medium-sized enterprises, produce listed companies, and uncover promising startups by combining the 77 Bank Group’s resources with those of external institutions, in turn contributing to the creation of an attractive region.

These efforts will be overshadowed by low birthrates, aging societies, and declining populations, and so we will further accelerate regional growth with the knowledge that the 77 Bank Group cannot grow and develop without the development of local economies. Various regional development projects are already underway, and by taking the lead in these projects, we will fulfill our important role in trailblazing the development of Miyagi and Tohoku.

## (4) Corporate Culture Reform Strategy

Human resources are the most important capital of the 77 Bank Group. We believe that the workplace culture changes and the organization gets stronger as each person grows and encourages and competes with one another to improve. In FY2024, while further establishing our new personnel system, we will promote diversity and aim to create an even more fulfilling and satisfying place to work. For the past three years we have hosted a business planning contest. We believe that independently thinking about new businesses helps to improve business acumen and management awareness. The theme for this year’s contest is DX, and we look forward to developing an awareness of problems and uncovering any issues. By enriching our employees’ ideas, we hope to enhance their spirit of endeavor.

Investment in our human resources will also be key. Although to date we have encouraged all employees to enhance their DX-related expertise, in the future we will also promote understanding of sustainability and link this to dialog with our clients. Moreover, in terms of the development of specialist human resources, we are focusing on dispatching our personnel to various different industries. By feeding back the expertise and knowhow they

develop through this external experience, we will aim to boost the overall level of the organization.

For us to become a leading company, it is essential that both our headquarters and branches enhance their thinking capabilities. While engaging in dialog and holding discussions on various issues and questions, it is important that, ultimately, each individual comes up with their own solutions to make the right decisions. Having all our officers and employees develop solutions with strategies and approaches unique to the 77 Bank Group will take us one step closer to becoming a leading company.





## ▼ The 77 Bank Group's Value Enhancement

To respond to the Tokyo Stock Exchange's request for action to implement management that is conscious of cost of capital and stock price, it is essential that we engage in initiatives to improve PBR. Our current PBR is below 1, and so as a listed company this request has provided us with an opportunity to once again recognize the importance of enhancing our corporate value through dialog with the stock market.

Following discussions at a Board of Directors meeting aimed at enhancing our corporate value, in November 2023 we revised the financial targets in "Vision 2030." In addition to a new target for FY2030—ROE (consolidated) of 7% or more—we revised our

policy of return of profits to shareholders, targeting a dividend payout ratio (consolidated) of 35% or more for FY2025. Through dialog with shareholders and the stock market, we will link these efforts to the enhancement of our corporate value.

Moving forward, while enhancing profitability and maintaining the soundness of our capital, for the sake of our shareholders it will be important to drive the growth of the 77 Bank Group and return profit to them. Based on the growth strategy set out in "Vision 2030," we will aim to increase profitability, improve management efficiency, and enhance our corporate value.

## ▼ Progress of Sustainability Management

Since its founding, the 77 Bank Group has worked as one to address its important issues (materiality) in line with the philosophy of the Bank Creed: Desiring communal prosperity and serving local communities. Moreover, based on this materiality, the Group has worked toward the achievement of a sustainable society through sustainability management.

At the Board of Directors, there has been an increase in sustainability-related discussions, and there is a real sense that the scope of sustainability issues is increasing. We have also received valuable advice from our Outside Directors through these discussions, who stressed the importance of thoroughly identifying the Group's resources and strengths and interacting with our clients and region to avoid the simple pursuit of ideals. By thoroughly demonstrating the strengths and individuality of the 77 Bank Group, our mission is to create a virtuous cycle for the Group, its clients, and the region.

Our sustainability initiatives can largely be divided into two. The first is in-Group initiatives, and the second is initiatives for our clients and region.

In terms of in-Group initiatives, to achieve decarbonization in response to climate change, we have set ourselves the target of realizing carbon neutrality by FY2030. Working with Tohoku Electric Power Co., Inc., we have signed an agreement with its

wholly owned subsidiary Tohoku Energy Service Co., Inc. to commence an off-site corporate PPA (self-consignment system) service in FY2024. The service will see solar power generation facilities installed on our unused land supply renewable energy to the head office building and other branches, which will facilitate a 15% reduction in our CO<sub>2</sub> emissions compared to FY2023.

In terms of financial education, we believe we can feed back the expertise we have as a financial institution to our region. Through lectures at local universities and classes at local elementary schools, we will provide the youth of the next generation with opportunities for financial education.

The new 10,000-yen note that went into circulation in July 2024 features Eiichi Shibusawa, an individual who supported us during our foundation. The 77 Bank Currency and Banking Museum includes numerous exhibits related to Eiichi Shibusawa, and we are very happy to see an increase in the number of elementary and junior high school students visiting the archives via school trips and extracurricular activities.

Another major role for us as a regional financial institution is to promote sustainability among our clients and region. Through workshops and seminars for our clients, we will actively communicate information on sustainability to raise awareness of relevant issues. Moreover, to achieve a decarbonized

society, we will lead the way for our clients and region through support for CO<sub>2</sub> emissions calculations and reductions, transition financing, and initiatives related

to the Ministry of the Environment's regional decarbonization engagement program.

## ▼ The Roles We Must Fulfill

With the Nikkei Average reaching a 34-year high of more than 40,000 yen and a return to positive short-term interest rates in line with changes in the Bank of Japan's monetary policies, there have been drastic changes in the environment surrounding financial institutions. On the other hand, with changes in political and economic situations overseas and inflation and labor shortages in Japan, for example, there has been a rise in the number of corporate bankruptcies.

As a regional financial institution, it is precisely in situations like these that we must provide financial

services in a stable manner and continue to demonstrate our financial intermediary functions. At the same time, we must reinforce our consulting functions and drive growth in our region and among our clients.

By working as a Group to steadily implement the measures in "Vision 2030," we believe we can pioneer a brighter future for our local communities and customers. We will do everything we can to meet the expectations of our customers, region, and shareholders, and we ask for your continued support and patronage as we proceed.

