

● 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, 2006, economic conditions in Japan showed steady improvement, as favorable corporate earnings and a better employment environment prompted increases in capital spending and personal consumption.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, positive national trends were reflected in the local economy as well, substantiated by solid signs of a rally, such as generally stable personal consumption and rising production levels.

Against this backdrop, the operating environment for financial institutions is becoming progressively more competitive, even on the local stage, as financial deregulation continues to unfold amid greater sophistication and diversification in market needs.

Whether the operating sphere is national or regional, financial institutions throughout the country are faced with a pressing obligation to reinforce internal controls, including corporate governance and legal

compliance, and to implement appropriate responses to the regulations set forth by the Bank for International Settlements. These regulations go into effect in the fiscal year ending March 31, 2007.

Now more than ever, regional financial institutions are also duty-bound to fulfill a social mission to their local communities. The Financial Services Agency (FSA) has obligated regional financial institutions to enhance relationship banking, which emphasizes easier access to small-business loans and support for business revitalization efforts through locally rooted operations as well as services with added convenience for clients. The 77 Bank has implemented the required promotion plan and is working to satisfy the FSA's requirements.

Management Priority and Medium-term Management Plan Challenge 400

Our medium-term management plan is called Challenge 400—the “400” represents “400 oku en,” or ¥40 billion in English, in core business profit by March 2009. Through this plan, we aim to be a “best regional bank,” one that grows with clients and is committed to the sustainable development of the region.

Our key priority is to identify a path that leads to enhanced profitability. The signposts along this route will be improved management efficiency and higher return-producing assets, derived from a healthy financial position and the application of funds based on suitable levels of risk.

During the course of Challenge 400, we will overcome obstacles that block our way so that we can successfully expand gross operating profit and build 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.

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 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 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.
- For clients, the Bank will increase its value by raising levels of client 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	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.

Key Themes in Fiscal 2007

The fiscal year ending March 31, 2007, will mark the second year of Challenge 400. As we work toward the stated goals of this medium-term management plan, we will strive to implement the following business policies swiftly and effectively.

Raise core operating profit

- **Extend more core loans and increase deposit assets**
By expanding our balance of high-profit core loans, we will boost interest income from loans, and by encouraging clients to deposit their liquid assets with us, we will raise our tally of fees and commissions.

- **Widen the business base**

We will attract wider market attention and reinforce our client base by strengthening our relationship with clients and the community at large. This goal will be achieved by providing the right products and services at the right time and by polishing our consulting capabilities.

- **Improve profitability of assets and invigorate financial position**

We will raise the profitability of assets by enhancing the interest yield on loans and by reinforcing fund application capabilities in the capital markets division. We will also seek to keep a healthy financial standing by trimming our nonperforming loan ratio and limiting credit costs.

Establish low-cost operating structure

We will constantly review our cost structure, revise administrative procedures and endeavor to boost efficiency in office processes to achieve a low-cost operating structure.

Reinforce internal controls and provide more training for employees

We will maintain a firm perspective on internal controls, one that emphasizes enhanced compliance efforts.

Progress on Relationship Banking Promotion Plan

A crucial component to the success of relationship banking is in a regional financial institution's ability to enhance its function vis-à-vis its community and the clients within the community and thereby invigorate the local economy and facilitate loans for small and medium-sized businesses.

In August 2005, The 77 Bank formulated a relationship banking promotion plan for submission to the Financial Services Agency and currently uses this plan as a guide in growing along with the region.

1. Facilitating business revitalization and loans to small and medium-sized businesses

- We will enhance our ability to help entrepreneurs set up companies and support existing companies in their efforts to develop new businesses.

Target Arrange more than 40 loans for venture firms each year between April 2005 and March 2007

Result for year ended March 2006: 54 loans

- We will offer corporate clients assistance from both management and financial perspectives.

Target Provide leads on more than 700 business-matching opportunities each year between April 2005 and March 2007

Result for year ended March 2006: 759 leads

Target Introduce about 70 corporate clients to potential partners of a higher level between April 2005 and March 2007

Result for year ended March 2006: 77 introductions

- We will reinforce efforts to revitalize ailing businesses.
- We will strive to make it easier for clients to acquire funds.

Target By March 2009, achieve a balance exceeding ¥50 billion on business loans that do not necessarily require collateral or third-party guarantees or utilize a restrictive financial covenant.

As of March 2006: ¥50.6 billion

- We will describe our products and services thoroughly and fine tune our ability to deal with inquiries and complaints.
- We will give our employees the practical, high-level skills to facilitate business revitalization and finance loans to small and medium-sized businesses.

2. Strengthening Management Capabilities

- Maintain a healthy financial position so that clients feel secure in selecting the Bank as their financial services provider.
- Redouble efforts to boost core operating profit—buoy earnings—and ensure low-cost operations—trim costs—to underpin improved profitability.
- Reinforce corporate governance efforts, including a solid stance on compliance issues.

3. Create greater convenience for clients in the region

- We will identify the needs of clients in the region and promote services that address these needs. We will also disclose information to the community in an easy-to-understand format.
- We will undertake more activities that underpin the importance of our role in the community as a regional financial institution.

Target Participate in more than five regional private finance initiative projects between April 2005 and March 2007

Result for year ended March 2006: Two projects

Corporate Governance Status

The 77 Bank has always emphasized management priorities that serve to build a better business administration structure. In particular, we have applied 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 these meetings.

In regard to compliance, The 77 Bank emphasizes clarity and integrity, a position underpinned by Basic Policies for Compliance, drafted by the Board of Directors. As for 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

