

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, 2007, the Japanese economy continued to progress along a moderate growth track. With exports maintaining an upward trend owing to economic expansion overseas, capital investment and personal consumption were robust, reflecting a rise in corporate earnings and improved employment and income situations.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, while residential investment and personal consumption were generally robust mainly owing to brighter employment prospects, production trended upward. Thus, the broadly based recovery of the local economy continued.

In view of the accelerating structural reforms in the financial sector, including deregulation and privatization of postal services, it is necessary for financial institutions to step up their efforts to improve and strengthen internal management systems centering on internal control and compliance,

including thorough implementation and adherence to rules for sales of financial instruments related to protection of customers in accordance with the Financial Instruments and Exchange Law. Meanwhile, regional financial institutions are urged to play a leading role in community-based financing. To this end, it is necessary for regional financial institutions to enhance relationship banking by providing easier access to business loans and offering greater convenience to clients.

The 77 Bank is vigorously addressing these issues.

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 sound 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	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 2008

The fiscal year ending March 31, 2008, is the third year of Challenge 400. As we progress toward the goals of this medium-term management plan, we will strive to implement the following business policies swiftly and effectively.

Stronger operating capabilities

- Extend more core loans centering on business loans
- Increase handling of financial assets in terms of both deposits and assets in custody
- Strengthen the business base
- Strengthen fund management capabilities

Improve operational efficiency

- Introduce a comprehensive revenue management system
- Improve profitability and soundness of assets
- Review the cost structure and improve business processes

Strengthen internal control systems and develop human resources

Progress of Implementation of the Relationship Banking Promotion Plan

For a regional financial institution, a crucial component of successful relationship banking is the ability to enhance functions vis-à-vis the community and the clients within the community, thereby invigorating the local economy and facilitating loans for small and medium-sized businesses. The 77 Bank has been implementing a relationship banking promotion plan formulated in August 2005 with the aim of growing hand in hand 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

Result for year ended March 2007: 43 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

Result for year ended March 2007: 2,121 leads

Target Introduce about 70 corporate clients to superior potential partners between April 2005 and March 2007

Result for the period from April 2005 to March 2007: 85 introductions

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

Target By March 2007, 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 2007: ¥50.1 billion

- We will explain 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 necessary to facilitate business revitalization and provision of loans to small and medium-sized businesses.

2. Strengthening Management Capabilities

- Maintain a sound financial position so that clients can select the Bank as their financial services provider with confidence.
- Redouble efforts to boost core operating profit (increase 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 that is readily understandable.
- Mindful of the importance of our role in the community as a regional financial institution, we will strengthen our activities.

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

Result for the period from April 2005 to March 2007: Five 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 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 Basic Policies for Compliance, 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

