

## Message from the President

*The 77 Bank aims to be the “Best creative bank” that creates a new era together with the region.*



Teruhiko Ujiie, President

In the fiscal year ended March 31, 2010, the Japanese economy continued to rally. Although the momentum for an autonomous recovery of private demand is weak, exports and production are showing signs of recovery, reflecting such factors as progress in inventory adjustments and the effects of economic stimulus packages in Japan and internationally.

In Miyagi Prefecture, the primary base of operations for The 77 Bank, the economic climate remained challenging. Despite some signs of recovery, mainly in the manufacturing sector, personal consumption and residential investments remained weak overall amid a slump in the job market. Currently, although some personal consumption is recovering thanks to economic stimulus, there is little sense that the economy will break out of its current slump.

As for the future outlook, we expect further worldwide economic crises, and for the business climate to remain challenging. Financial institutions must therefore strive to build stronger compliance and risk

management systems, in order to maintain and improve their own governance and sound financial management. Moreover, expected new capital adequacy requirements and the introduction of International Financial Reporting Standards will massively affect the business of financial institutions, and so it is also necessary to pay close attention to trends in international debate over these areas.

Furthermore, amid continuing tough times for regional economies, regional financial institutions must help support the underpinnings of their regional economies, by helping their client companies improve their operations in accordance with the Act on Facilitating Financing to Small and Medium-sized Enterprises, and providing appropriate support for consultations from small-and-medium-sized business clients and users of home loans over such matters as changing loan terms.

In order to proactively tackle these issues, the Bank has launched a medium-term management plan for the three-year period commencing April 2009 dubbed the “SSS Improvement Plan: For the Creation of a New Era.” Based on this Plan, we will not only work to reform our business model and seek to enhance our operating capabilities and improve productivity, but also endeavor to execute management in a highly transparent manner with the aim of becoming the “Best creative bank” that creates a new era together with the region.

### **Medium-term Management Plan: “SSS Improvement Plan: For the Creation of a New Era”**

We have launched the “SSS Improvement Plan: For the Creation of a New Era,” a medium-term management plan for the three-year period commencing FY2009, in order to aggressively forge ahead into the new era and proactively fulfill our role as a regional financial institution by foreseeing reforms in the regional industrial structure and other new trends.

The challenge for the management set forth in the “SSS Improvement Plan: For the Creation of a New Era” is to “buckle down and work on reforming the business model,” focusing on “business model clarification,” “differentiation to the extreme” and “productivity improvement.” Our aim is to switch to a “business model that creates profit-making opportunities,” improve productivity by effectively utilizing limited business resources, increase enterprise value by building a win-win relationship with stakeholders, and fulfill a more proactive role as a regional financial institution.

## Outline of Medium-term Management Plan

### 1. Bank Image Sought by The 77 Bank

“Best creative bank” that creates a new era together with the region

While continuing to seek our ideal as a bank to “grow with the region” as envisioned under the previous medium-term management plan, we will aggressively forge ahead into the new era and proactively fulfill our role as a regional financial institution by foreseeing reforms in the regional industrial structure driven by the influx of major corporations into the Tohoku region centering on Miyagi Prefecture and other new trends.

### 2. Name

Medium-term Management Plan: “SSS Improvement Plan: For the Creation of a New Era”

“SSS” is the acronym of “Sales,” “Speed-up” and “Service” referred to in the basic policies. It is also the Bank’s action guideline: “77 (Seventy-seven) Bank” “Sincerely” “Supports” customers.

### 3. Basic Policies

1. “Sales”: Enhance operating capabilities — Reform the business model into one that adapts to changes in customers’ needs and business environment.
2. “Speed-up”: Improve productivity — Boost results and effects generated by each unit of business resource (human resources, goods, time and money).
3. “Service”: Contribute to stakeholders — Increase enterprise value by building a win-win relationship.

### 4. Period

Three years from April 1, 2009 to March 31, 2012

### 5. Basic Objectives

- Total deposits, loans and assets in custody (as of the end of FY2011): More than ¥10 trillion
- Balance of loans to small-and-medium-sized enterprises (as of the end of FY2011): More than ¥1.2 trillion
- Amount of sales of investment trusts and individual annuity insurance during the period: More than ¥200 billion
- Core Overhead Ratio (Core OHR = Ratio of expenses to core gross operating profit in FY2011): 65% or less

### Key Policies for FY2010

FY2010 is the second year of our medium-term management plan, titled “SSS Improvement Plan: For the Creation of a New Era.” We are committed to achieving the targets of this plan by implementing measures swiftly based on the following key policies.

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| <ul style="list-style-type: none"><li>• “Sales”: Enhance operating capabilities</li><li>• Further expand total deposits, loans and assets in custody</li><li>• Boost the promotion structure</li><li>• Upgrade relationships</li><li>• Capture diversifying needs</li></ul> | <ul style="list-style-type: none"><li>• “Speed-up”: Improve productivity</li><li>• Continue cost reduction</li><li>• Create sales time and relationship managers</li><li>• Activate human resources</li><li>• Increase sophistication of internal control system</li></ul> | <ul style="list-style-type: none"><li>• “Service”: Contribute to stakeholders</li><li>• Promotion of financial facilitation</li><li>• Contribute to regional economic growth</li><li>• Contribute to local community</li><li>• Improve customer satisfaction</li><li>• Improve stockholder value</li></ul> |
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## Promotion of Relationship Banking

### Basic Policy on Promotion of Relationship Banking

“Relationship banking” means banking based on information accumulated from close long-term relationships with customers. The 77 Bank’s basic ideas concerning the promotion of relationship banking are the very principles expressed in the Bank Creed and are deeply rooted among the Bank’s executives and employees as a code of conduct.

In accordance with these basic principles, The 77 Bank will contribute even more than before to the development of the region for the realization of the following objectives set forth in the medium-term management plan.

#### 1. Bank image sought (“Bank Image Sought” of the Medium-term Management Plan)

“Best creative bank” that creates a new era together with the region

#### 2. Contribute to Stakeholders (“Priority Measures” of the Medium-term Management Plan)

##### (1) Contribute to regional economic growth

Adapt to the restructuring of industries in the region and work on fostering and assisting in the revitalization of local companies.

##### (2) Improve customer satisfaction

Improve consulting capabilities and pursue hospitality in an effort to boost customer satisfaction.

### Relationship Banking Promotion Plan in Fiscal 2010

#### 1. Strengthen support for client companies in accordance with their stage of corporate life cycle

We will strengthen support for the start up of new companies, the development of new businesses by existing companies, and other similar efforts.

**Target** Support the start up of and/or the development of new businesses by 50 companies

- We will strengthen business support functions, management improvement support functions, etc.
- We will proactively meet the demand for business succession and inheritance solutions.

**Target** Propose business succession and inheritance solutions in 100 cases.

#### 2. Ensure a financing method suitable for small and medium-sized businesses, including a loan procedure for determining business value

- We will make efforts to diversify the means of procuring funding.

**Target** Achieve a balance of 10,000 million yen on loan products that utilize a restrictive financial covenant

**Target** Achieve handling of 10 cases of asset based lending (ABL)

- We will improve bank staff’s ability to make discerning judgments.

#### 3. Contribute to sustainable local economy by utilizing information accumulated on the community

- We will organize business fairs for food and industrial products.

**Target** Provide leads on 1,500 business-matching opportunities

- We will assist in the growth of local industries such as the automotive industry and agribusinesses.

## 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.

(Note) For the Bank, "region" first and foremost means "Miyagi Prefecture," the Bank's primary base of operations.

## 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 statutory auditors to sit on the Board of Statutory 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 statutory auditor system under which three of the five statutory auditors on the Board of Statutory Auditors are outside statutory auditors, a structure that raises the level of impartiality of internal audits. Statutory 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 Compliance Policies, 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.