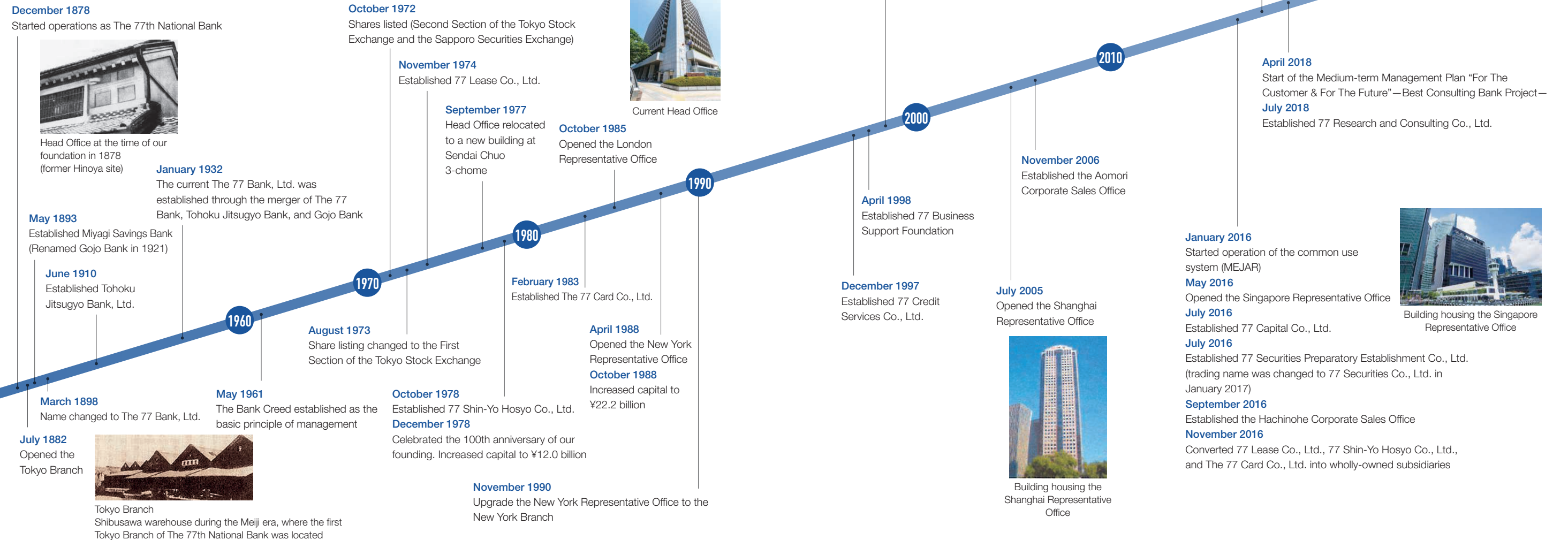


# About The 77 Bank, Ltd.

## The Trajectory of Trust and Growth

Since its foundation in 1878, based on our management philosophy of dedication to serve the local community for the prosperity of the local community, throughout the four generations of Meiji, Taisho, Showa, and Heisei, The 77 Bank, Ltd. has developed steadily by overcoming many difficulties while pursuing sound management. In this new generation of Reiwa, we will continue to walk together with the region.



## Sources of competitive advantages

### ① Deep connection with Eiichi Shibusawa

Eiichi Shibusawa, a businessman who was known as "the father of Japanese capitalism," had a strong interest in the Tohoku region through Munenari Date, who provided him with the opportunity to enter the Ministry of Finance. At the time, there was no bank based in Miyagi Prefecture and for this reason, when The 77th National Bank was established, Shibusawa not only provided investment and various advice regarding such matters as the nature of the banking business and basic management concepts, he also seconded exceptional talent including Keishi Endo (the second and fourth President) and Seikei Ono from The Dai-ichi Bank Limited.

Furthermore, Shibusawa provided both mental and practical support to the Bank over many years, including his transfer of The Dai-ichi Bank Limited's banking business in Miyagi Prefecture to The 77th National Bank and his appointment as Advisor in 1908. Eiichi Shibusawa's spirit of "harmony of morality and the economy" lives on today in the line from the Bank Creed, which describes the Bank's management philosophy, that states "the Bank's progress goes hand in hand with prosperity in the local community."



Eiichi Shibusawa

### ② Trust relationship with the Tokyo Stock Exchange

The Tokyo Stock Exchange (currently Tokyo Stock Exchange, Inc.), which was established in May 1878, along with an increase in trading volume, in 1894 designated The 77th National Bank as the only bank among many banks to handle receipts and disbursements operations (\*) for all trades of shares cleared.

The reasons for this designation include a recommendation from Eiichi Shibusawa and the provision of relief financing to the Tokyo Stock Exchange during a stock market crash caused by a recession when Seikei Ono, who became the fifth president, was manager of the Tokyo Branch, which rescued the exchange.

Over the next 120 years and to the present, The 77 Bank, Ltd. remains the only regional bank designated as a funds settlement bank, alongside the mega banks.

\* Receipts and disbursements operations refers to account processing for the trading floor of a stock exchange



Seikei Ono  
5th President

## 1

### Effective Corporate Governance

In order to improve the effectiveness of the Board of Directors through the diversification of Directors, the Bank is proactively appointing Outside Directors and female Directors, and the ratios of Outside Directors and female Directors now stand at 41.1% and 11.7%, respectively.

## 2

### Trust from the local community

The Bank is supported by many customers, as seen by the high percentages of approximately 55% deposit share and approximately 43% loans and bills discounted share in Miyagi Prefecture.

## 3

### Strong partnerships with the region and customers through earthquake reconstruction support

On March 11, 2011, unprecedented damage was caused when the Great East Japan Earthquake, one of the largest recorded natural disasters in our history, struck Japan. Immediately after the earthquake, The 77 Bank, Ltd. worked to provide financial infrastructure and fulfill financial intermediary functions, and has since provided financial support for the reconstruction efforts of the region and customers.



Onagawacho

## Strengths of The 77 Bank, Ltd.



**Hidefumi Kobayashi**  
President

## “For The Customer & For The Future” Becoming the “Best Consulting Bank”

We will further enhance the degree of customer satisfaction and confidence in the Bank through consulting, offering the optimum solutions by identifying customers’ needs and issues.

### Review of the First Year of the Medium-term Management Plan

#### 1. Celebrating the 140th anniversary of the Bank’s foundation

FY2019 was a memorable year for the Bank during which we started our new three-year Medium-term Management Plan and, in December 2018, celebrated the 140th anniversary of the Bank’s foundation.

We held a number of commemorative projects to mark our 140th anniversary, including the “One branch, one social contribution campaign,” whereby all branches engage in social contribution activities, and business forums which were held with the aim of expanding business opportunities for customers and contributing to regional economy vitalization, as well as some new initiatives such as business contests to collect IT-based service models and ideas from startup companies, announcement of the official mascot “Shichi-Shika-Kun,” and renovation of the Currency and Banking Museum.

By engaging with the local community in a way that surpassed previous efforts, we were able to further strengthen our connection with customers and the local community, as well as reaffirm the Bank’s history. Above all, I believe that we were able to convey our gratitude to our customers.

Looking back over the past thirty years that have formed the Heisei era, the environments surrounding finance and the Japanese economy have undergone significant change. With the collapse of the “bubble” economy, the issue of bad debt disposal, deregulation such as the financial Big Bang, the bankruptcy of Lehman Brothers and more, the environment surrounding financial institutions has become increasingly harsh as Japan’s economic growth has slowed, and today we are entering a new phase of monetary easing and negative interest rates.

Many areas of the economy, not just finance, have undergone significant change due to globalization and exposure to the market economy. I believe that in the future, with the addition of the further progress of digitalization, we will face even greater changes at an accelerated pace.

Under these circumstances, as a leading bank in the Tohoku region that provides integrated financial services, in order to create an outstanding business model, be the most useful and the most trusted by our customers and the region, and to continue to contribute to the development of society, we must respond to the changing times even more quickly and astutely and regard those changes as opportunities.

To that end, as we pass the milestone year of our anniversary, I feel even more strongly the need to further enhance our ability to respond to the changes of the era, while enriching our ideas and proactively researching and preparing for the new experiences that lie ahead.

#### 2. Consulting by the Bank

The Medium-term Management Plan that we started in FY2019 stipulates a business model whereby we further enhance the degree of customer satisfaction and confidence in the Bank, and achieve higher profitability and employee satisfaction through consulting.

Consulting is about “always putting the customer first” and “being of use to the customer,” as well as the resulting initiatives that lead to the Bank’s earnings. It is a business model whereby we demonstrate our consulting capabilities in order to achieve goals and resolve development and growth issues by establishing relationships with customers and conducting business evaluations in the case of corporate clients and becoming involved with household finances and life planning in the case of retail customers, so that we can contribute to our customers while at the same time achieve increased transactions and earnings overall.

The main point of consulting is not simply the products and services that the Bank wants to sell; it is about

initiatives that are based on the actual or potential needs of customers. In order to carry out consulting, it is necessary to make frequent visits to customers and use our ingenuity. This is not something that can be achieved overnight but involves time-consuming effort, and that is exactly why it will be appreciated by customers and lead to differentiation with other banks.

It is a rewarding business model which enables us to share issues face to face with customers, and utilize our ingenuity to think how to be of use to customers, deal with difficulties together, and reach a resolution. I believe that consulting-based sales will enrich all customers and the local community, regardless of whether the customers are corporate or retail customers.

As the nation’s declining birthrate, aging population and population decline continue, the biggest concerns for small and medium enterprises (SMEs) are the lack of successors and business succession. If these trends continue, it is said that one third of SMEs will go out of business. Ninety nine percent of Japanese corporations are SMEs, and if the number of SMEs continues to decline, the niche areas that are not covered by large corporations will no longer be filled, possibly resulting in the decline and collapse of local industries and the loss of jobs in local communities. This will lead to a crisis whereby the regional banking market, which includes the



Bank, shrinks and disappears, which will in turn have a major impact on regional revitalization.

In addition, the coastal areas in Miyagi Prefecture have entered the development period of the Miyagi Prefecture Earthquake Disaster Recovery Plan. However, as the reconstruction budget has shrunk, there are companies among our clients whose sales channels have not recovered, while other companies are facing issues of the aging of their employees, a shortage of labor, and a lack of successors. In order to recover from the earthquake disaster, we must focus on corporate rehabilitation, business succession, and M&A, which is also a measure that provides a solution to these issues.

Local industry and finance are two sides of the same coin. Through consulting-based sales utilizing the Bank's network, we will protect the regional economy, regional companies, and our market.

### 3. Initiatives for our key strategies

#### Key Strategy 1: Growth strategy

##### —Strengthening of profitability—

<Establish systems and structures for strengthening consulting capabilities>

In order to improve the sales promotion structure of Headquarters, the name of the Corporate & Retail Banking Division was changed to Consulting Promotion Division, and the Corporate Finance Department, which offers financing services for corporate clients, including syndicated loans and structured finance, was established. In addition, the name of the Asset Management Support Department was changed to the Consulting Promotion Department to develop a structure that can support a wide range of customer needs including business succession, M&As, inheritance, and asset management. Furthermore, branches have been categorized into six areas within Miyagi Prefecture, and Region Support Team staffed by liaison personnel from the Consulting Promotion Division in each area was formed in order to strengthen the support system for branches by Headquarters.

In addition to these system improvements, the number of sales personnel in the Consulting Promotion Division was increased from 42 prior to the start of the current Medium-term Management Plan to 68 as of March 31, 2019, and will be further increased to approximately 80 by March 31, 2020.

Additionally, 77 Research and Consulting Co., Ltd. was established as a subsidiary to undertake highly specialized research studies involving the regional economy and industry trends, etc. and to provide effective consulting services for resolving clients' issues.

<Human resources development>

When it comes to "putting the customer first," I believe that customers will not be satisfied with digital services alone, and I do not believe that there will no longer be a need for services provided by people. There are still many services that must be provided by human beings, including business such as sales activities and negotiations with customers, and planning and management operations, and I believe that the quality and level of our employees will result in differentiation with our competitors. Education for this purpose is essential, and we have therefore formulated human resources development programs to enhance consulting capabilities, and are working on human resources development.

The weekday evening seminars that we launched in FY2019 as part of our working style reforms have been held on seven occasions with 807 participants.

<Business evaluation initiatives>

All businesses receive consideration for responding to the various needs of customers. It is customers who bring profits to banks, and knowing your customers well, broadly capturing their needs, and considering how to meet those needs are fundamental to considering a business model. Business evaluations are also conducted for this purpose, and it is important to give thorough consideration to our customers.

The number of business evaluations conducted as of March 31, 2019 increased by 1,723 compared with the number as of March 31, 2018 to 4,978 evaluations. Since we share a great many management issues with our customers, we would like to contribute to the sustainable growth and development of customers by way of initiatives aimed at resolving these issues.

#### Key Strategy 2: Regional economy vitalization strategy

##### —Enhancement of value of the region—

We have engaged in earthquake reconstruction support in accordance with the situation in the affected area, while taking into consideration the change in the stage of the Miyagi Prefecture Earthquake Disaster Recovery Plan from the regeneration to the development period, and trends in reconstruction demand.

Regional revitalization involved initiatives for the revitalization of towns, people, and jobs. With a focus on the creation of jobs, we worked on four frameworks: support for starting new companies and businesses, support and development of regional core companies, promotion of urban development, and support for promotion of tourism. In addition to support for starting new companies and businesses through recommendations to companies that will drive the future of the region, there are also many other good examples such as business matching that also leads to PR for products from Miyagi Prefecture, support for formulation of business plans utilizing former schools, and support for enhancing tourism resources.

#### Key Strategy 3: Productivity enhancement strategy

##### —Effective and efficient allocation of resources—

The Nozomino Sub-Branch, a next generation branch, was established in order to secure manpower and time to focus on consulting services, while branches introducing next generation branch functions, including a remote consultation system and the use of tablets, were expanded. In addition to reviewing business hours, we also expanded operations in the form of branches within branches.

Furthermore, we are working to automate operations by centralizing branch operations at Headquarters, reviewing administrative workflow, and introducing RPA (robotics process automation), thereby creating a reduction effect of approximately 85,000 hours per annum.

In terms of working style reforms, we formulated the "health and productivity management declaration" to establish an environment where each and every employee can work actively in a healthy state of mind and body, and implemented initiatives including a total prohibition of smoking on all Bank property.

#### Key Strategy 4: Governance strategy

##### —Strengthening of governance for sustainable growth—

<Enhance and strengthen governance>

In light of the increasing international importance of preventing money laundering and financing of terrorism, we established the Money Laundering Countermeasures Department, and also formulated the Policy for Prevention of Money Laundering.

In addition, as part of measures to strengthen corporate governance, we increased the number of Outside Directors serving as Audit & Supervisory Committee Members by one in order to enhance the management oversight functions of the Audit & Supervisory Committee and establish a more effective corporate governance system.

As a result of these efforts, the ratio of Outside Directors now stands at 41.1% and the ratio of female Directors at 11.7%.

<Enhance shareholder value>

With regard to shareholder returns, the Bank's basic policy is to continue stable dividend returns while holistically considering the public nature of banks and the maintenance of sound management.

For the fiscal year ended March 31, 2019, we increased the annual dividend by ¥2.50 per share from the previous fiscal year to ¥47.50 per share from the perspectives of comprehensively taking into consideration business performance and enhancing shareholder returns. The annual dividend for the fiscal year ending March 31, 2020 is expected to be ¥50.00 per share.

In addition, the Bank has acquired treasury stock of approximately ¥800 million from the perspective of implementing flexible capital policies and returning profits to shareholders.

Going forward, we will continue to enhance shareholder returns, including through the acquisition of treasury stock, taking into account changes in the business environment.

## Message to stakeholders

In April this year, the government announced that the portrait of Eiichi Shibusawa would be used on ¥10,000 bills scheduled to be issued in 2024. Eiichi Shibusawa, who is also known as "the father of Japanese capitalism," has an extremely deep connection with the Bank, as seen in his support, both mental and practical, at the time of the Bank's foundation.

The "harmony of morality and the economy" advocated by Shibusawa is the idea of the coexistence of profit and public interest that warns against a monopoly on profits and encourages the return of profits to society. This spirit is one of the models that corporate managers should use as reference, and I believe that it also leads to the idea of the Sustainable Development Goals (SDGs) that are promoted by the United Nations.

Shibusawa's spirit of coexistence is reflected in the line from the Bank Creed, which is the Bank's management philosophy, that states "the Bank's progress goes hand in hand with prosperity in the local community." Today this lives on in the hearts of all our executives and employees.

The environment surrounding financial institutions is becoming increasingly severe due to social structural issues such as the declining birthrate, aging population and population decline, and the continuation of the monetary easing policy by the Bank of Japan. I believe that it is precisely because this is the era in which we live that we must once again go back to our management philosophy, develop a business model that has its roots in the region, and contribute to the prosperity of the local community.

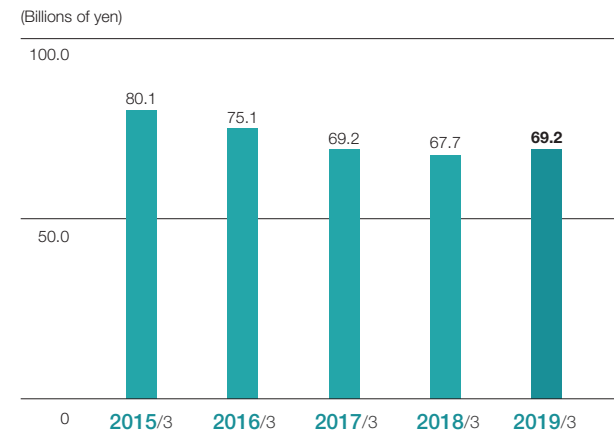
Going forward, we will continue to aim to be a bank that is trusted, useful, and brings happiness to all our customers, and we hope for your continued understanding and support.



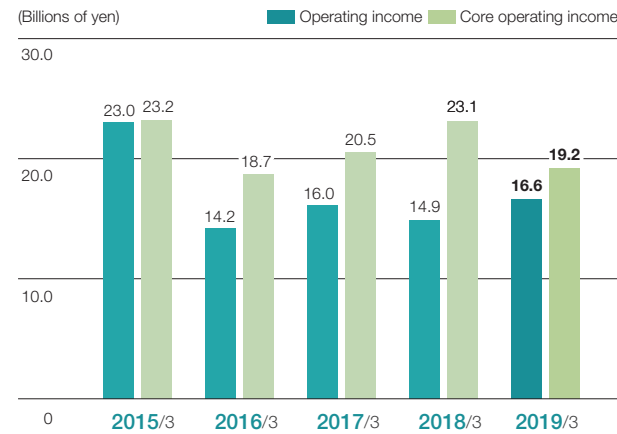
# Financial and Non-financial Highlights

## Financial information

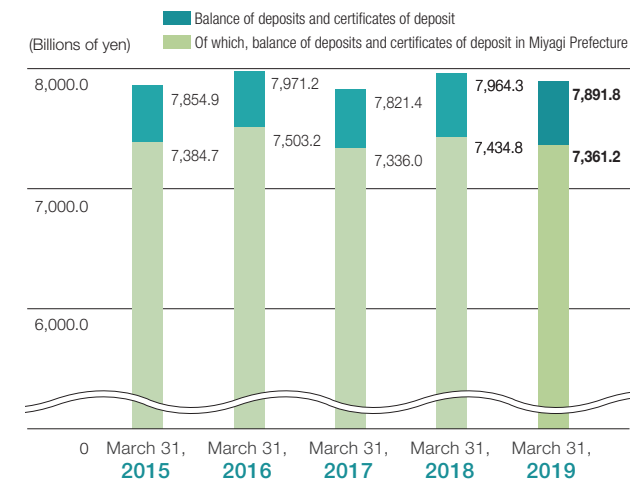
### Gross operating income



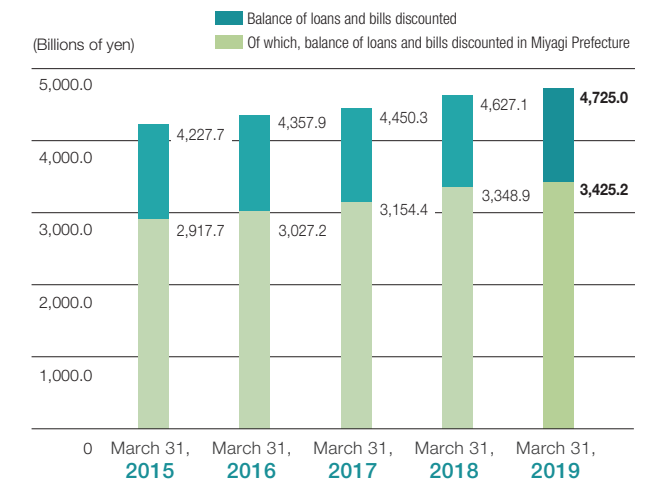
### Operating income/Core operating income



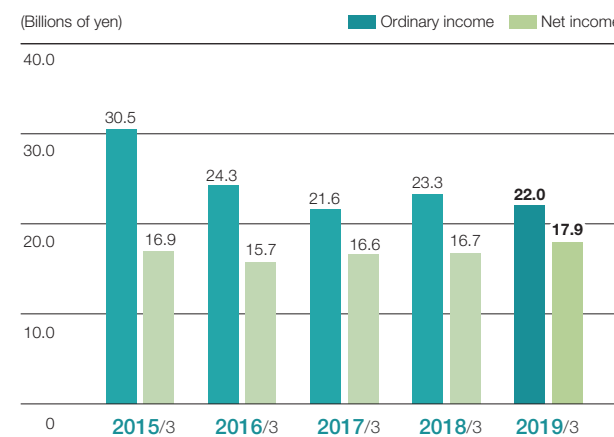
### Balance of deposits and certificates of deposit



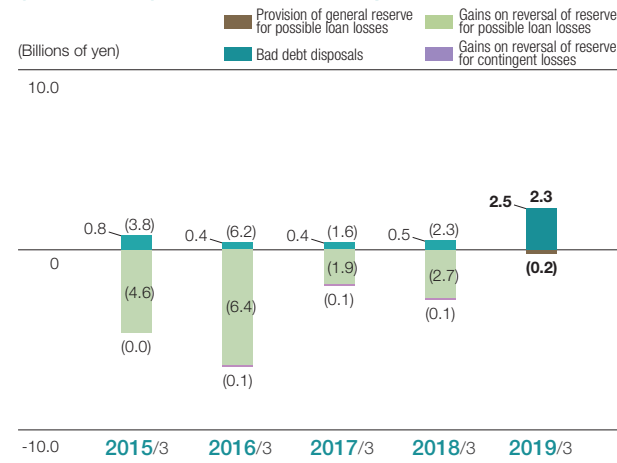
### Balance of loans and bills discounted



### Ordinary income/Net income

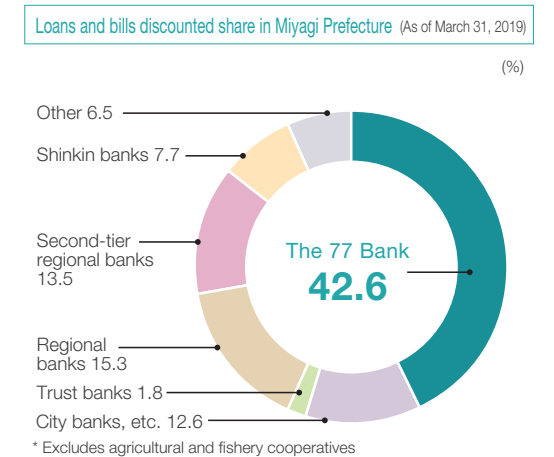
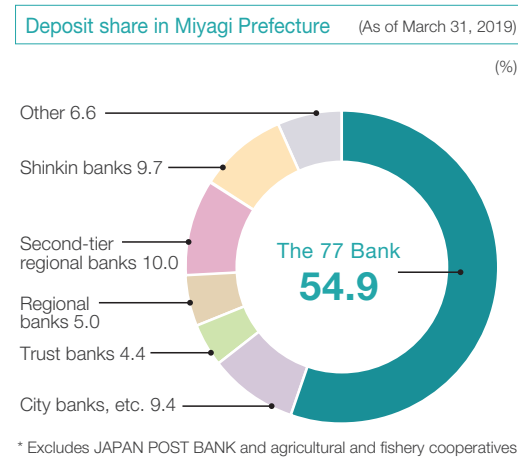


### (Reference) Credit-related expenses trends

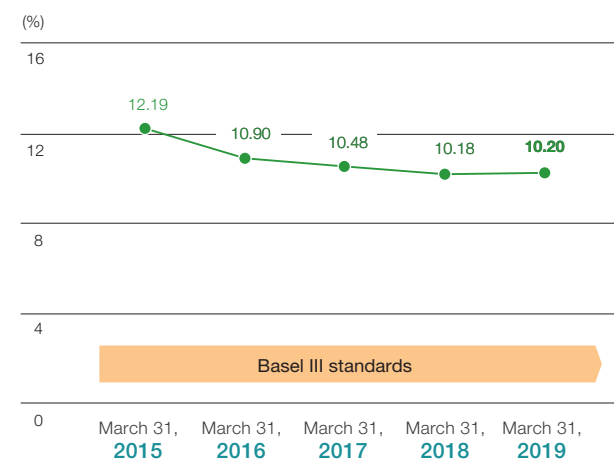


(Note) From the fiscal year ended March 31, 2015 through the fiscal year ended March 31, 2018, gains on reversal of reserve for possible loan losses and gains on reversal of reserve for contingent losses were recorded, as the total general reserve for possible loan losses and the specific reserve for possible loan losses, as well as gains on reserve for contingent losses were reversed.

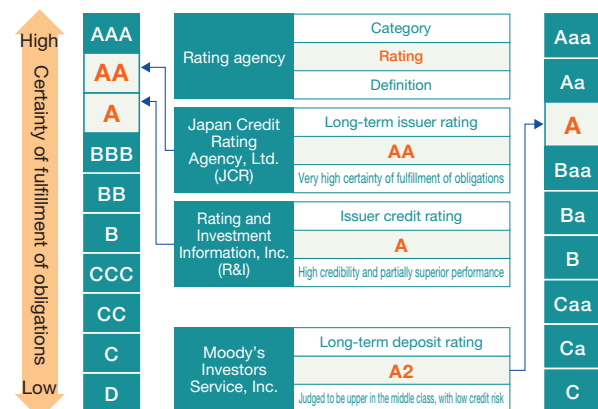
### Deposits and loans and bills discounted share in Miyagi Prefecture



### Capital adequacy ratio (domestic standards)

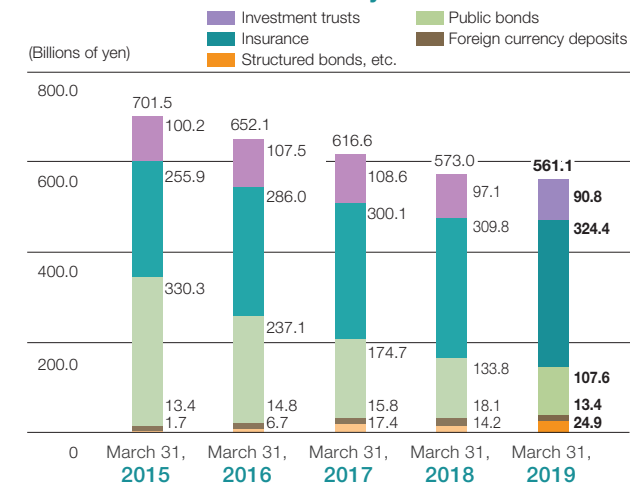


### Rating (as of July 31, 2019)



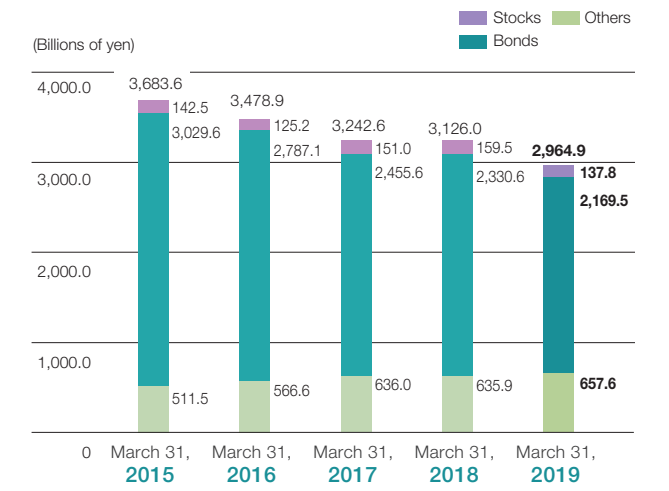
Notes:  
 1. Some rating agencies do not use D.  
 2. Ratings from level AA to level CCC (including level B by some agencies) are further qualified with the use of a + or - sign, or 1 through 3.

### Balance of assets in custody



\* Foreign currency deposits do not include deposits by financial institutions and offshore accounts.

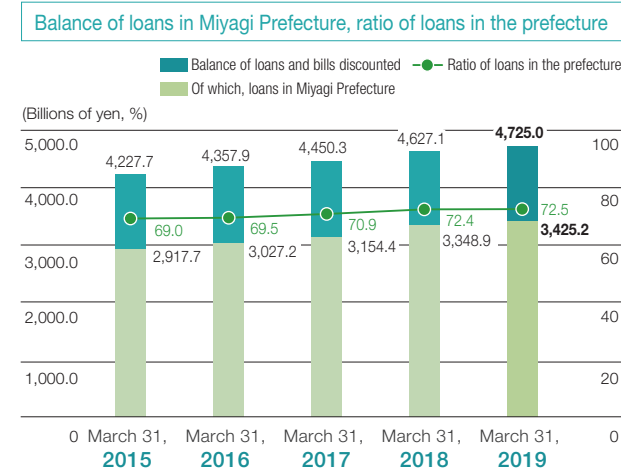
### Securities balance



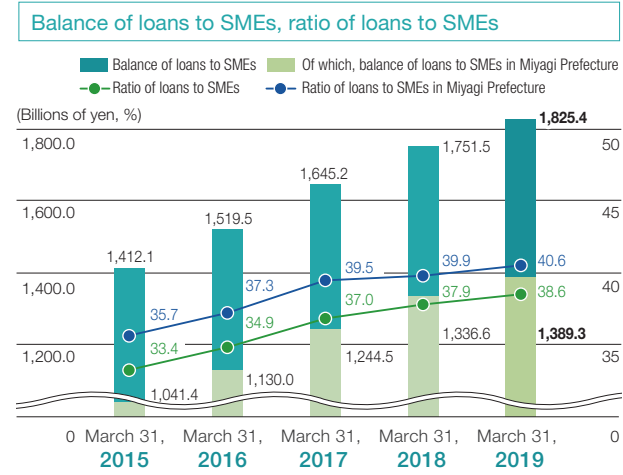


## Financial information

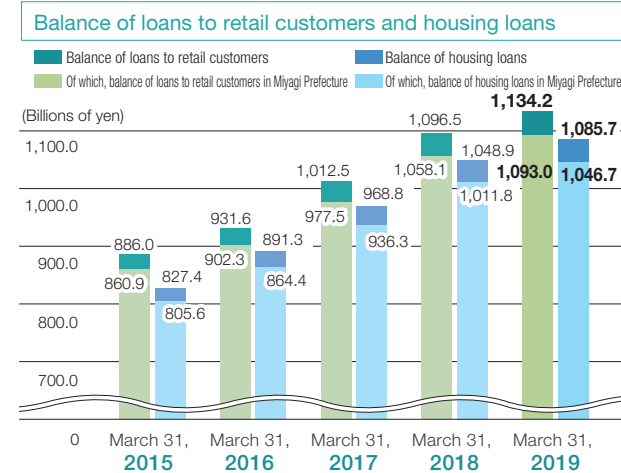
### Status of loans in Miyagi Prefecture



### Loans to SMEs



### Status of loans to retail customers



### Status of loans by industry

Balance of loans by industry (As of March 31, 2019)	Balance of loans and bills discounted (Billions of yen, %)		
	Balance of loans and bills discounted	Of which, Miyagi Prefecture	Percentage
Manufacturing	420.0	179.9	42.8
Agriculture and forestry	6.5	5.6	86.4
Fisheries	5.0	4.9	99.6
Mining and quarrying of stones and gravel	3.7	1.1	31.3
Construction	153.6	130.0	84.6
Electricity, gas, heat supply and water	192.7	159.3	82.7
Information and communications	29.2	6.9	23.7
Transport and postal activities	127.7	72.0	56.4
Wholesale and retail trade	384.4	268.6	69.9
Finance and insurance	305.9	100.2	32.8
Real estate and goods rental and leasing	979.5	577.9	59.0
Other services	341.2	280.3	82.1
Municipal governments	640.7	544.6	85.0
Other	1,134.2	1,093.0	96.4
<b>Total</b>	<b>4,725.0</b>	<b>3,425.2</b>	<b>72.5</b>

\* The breakdowns of the balance of loans by industry have been rounded down to the unit displayed.

### Status of credit disclosed under the Financial Reconstruction Act and risk-monitored loans

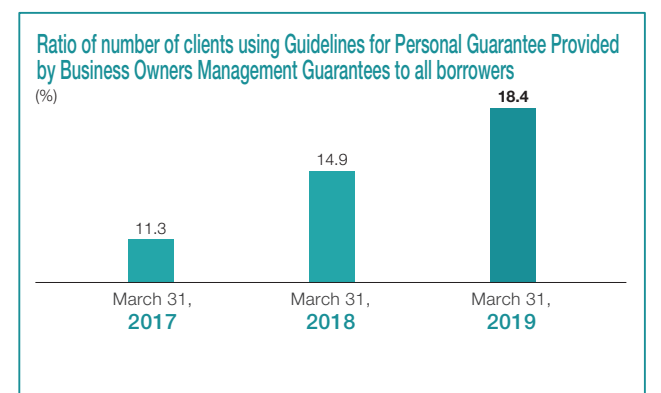
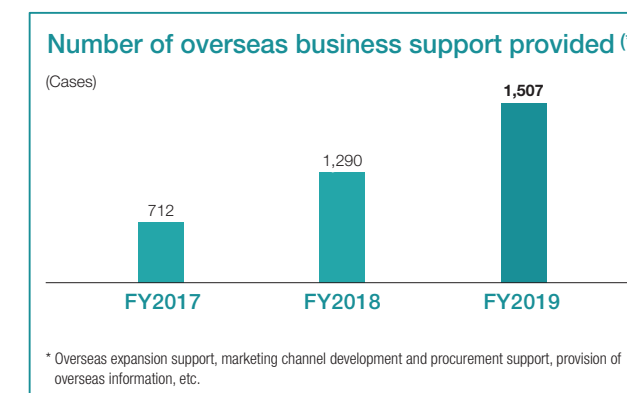
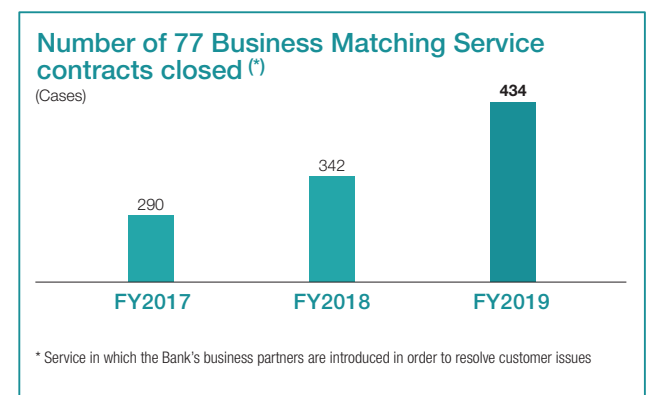
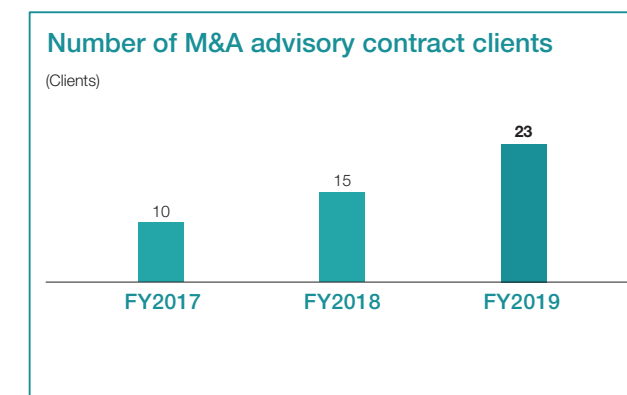
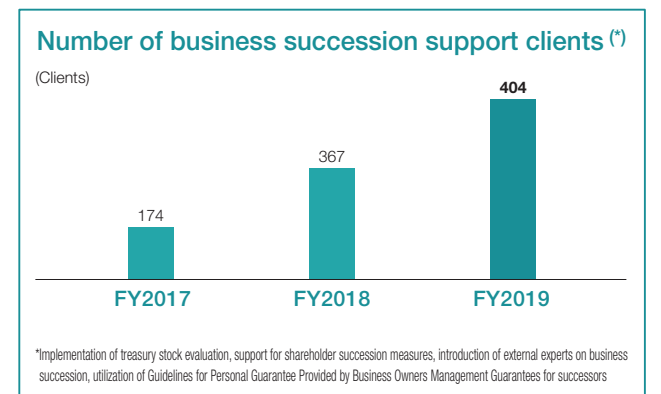
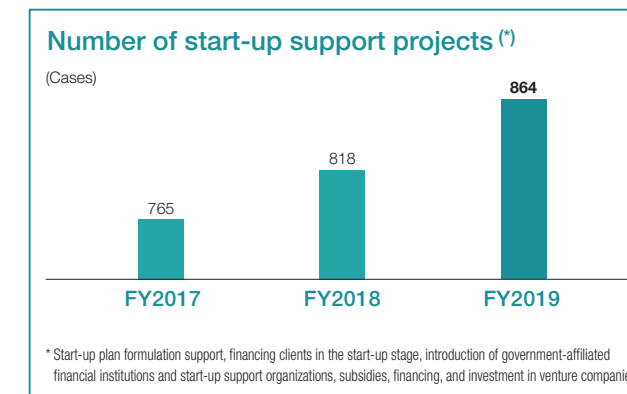
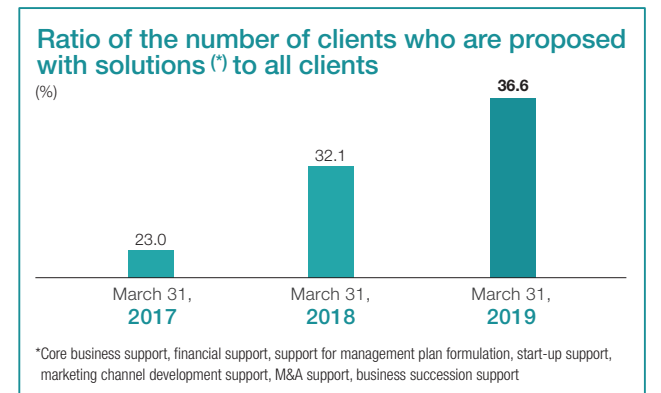
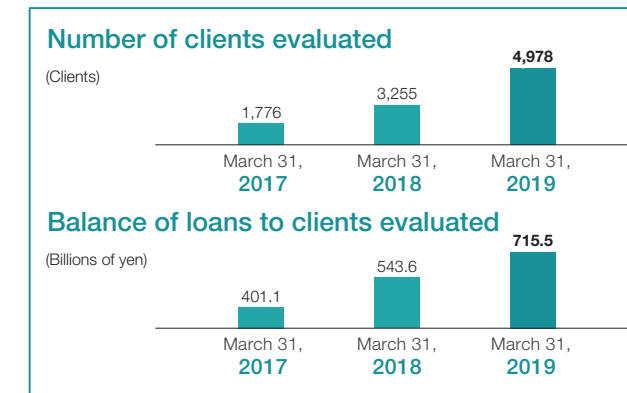
Credit disclosed under the Financial Reconstruction Act (Scope: credit related accounts, only loans and bills discounted for substandard loans)			Risk-monitored loans (Scope: loans and bills discounted)	
Classification	Total coverage	Coverage ratio	Classification	Amount (Billions of yen)
Loans to bankrupt and quasi-bankrupt	15.3	100%	Loans to bankrupt borrowers	4.8
Doubtful loans	53.9	89.8%	Delinquent loans	63.8
Substandard loans	26.8	54.2%	Loans past due 3 months or more	1.9
Subtotal	96.0	81.5%	Restructured loans	24.9
Normal loans	4,680.7		Total	95.4
Total	4,776.7			

#### [Credits disclosed under the Financial Reconstruction Act]

- (1) Loans to bankrupt and quasi-bankrupt**  
Loans to borrowers that have fallen into, or effectively fallen into bankruptcy, and other loans equivalent thereto
  - (2) Doubtful loans**  
Loans to borrowers that are not bankrupt, but for which there is a high likelihood of not being able to reclaim the principal or collect interest according to the contract, due to a deterioration of business results or financial position
  - (3) Substandard loans**  
Loans past due 3 months or more or restructured loans other than those in (1) or (2)
  - (4) Normal loans**  
Loans other than those in (1) to (3) for which there are no particular issues in the business results or financial position of the borrower
- [Risk-monitored loans]
- (1) Loans to bankrupt borrowers**  
Loans for which interest receivable has not been recorded for borrowers that have conducted legal proceedings, such as those under the Bankruptcy Act, and for which transactions have been suspended by a business partner or clearinghouse
  - (2) Delinquent loans**  
Loans for which interest receivable has not been recorded (excluding loans in (1) and loans for which interest payments have been extended due to restructuring or support of the management of the borrower)
  - (3) Loans past due 3 months or more**  
Loans for which payments of the principal or interest are past due 3 months or more from the day following the prescribed payment date (excluding (1) and (2))
  - (4) Restructured loans**  
Loans for which favorable terms have been provided to the borrower or restructuring or support of the management of the borrower, such as a reduction of interest, an interest payment extension, or waiver of a claim (excluding (1) to (3))

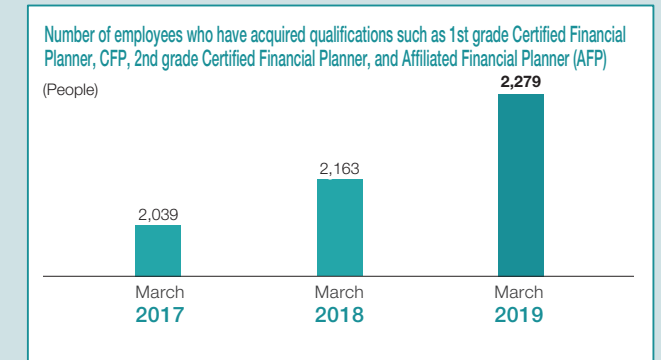
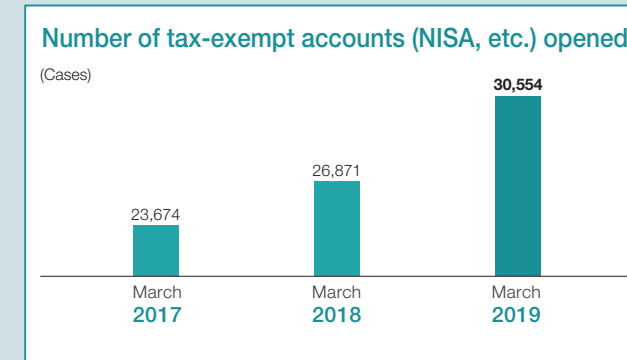
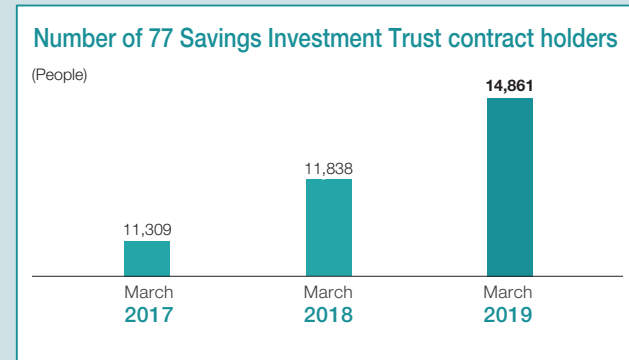
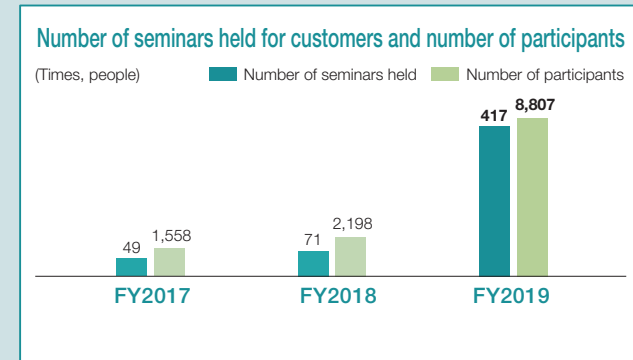
## Non-financial information

### Financial intermediation

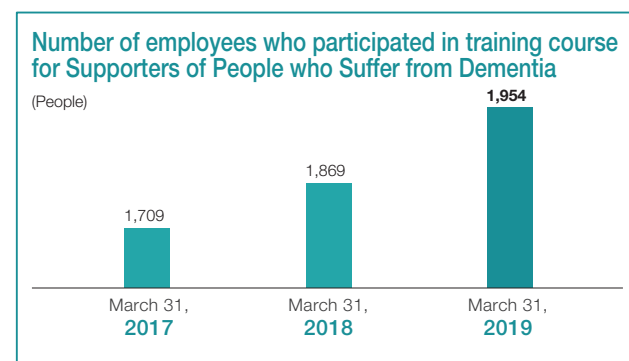
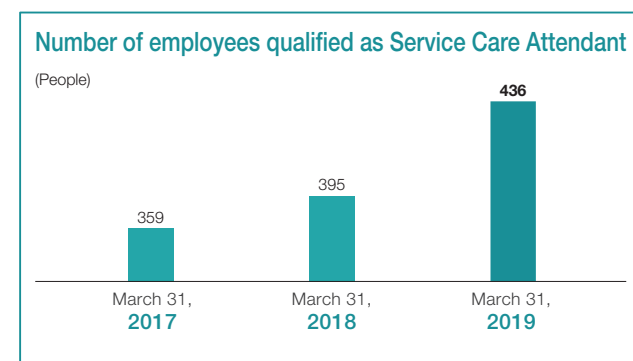
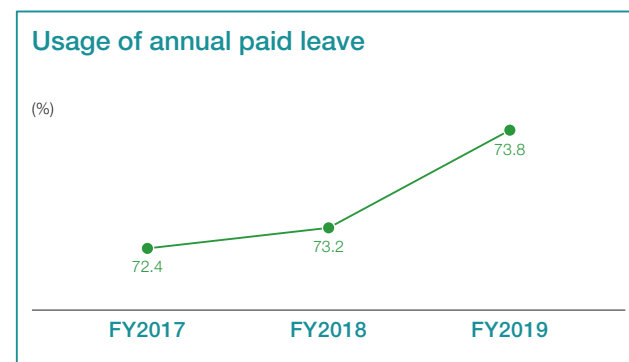
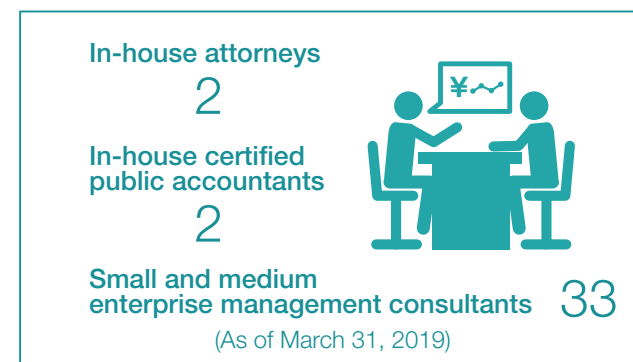
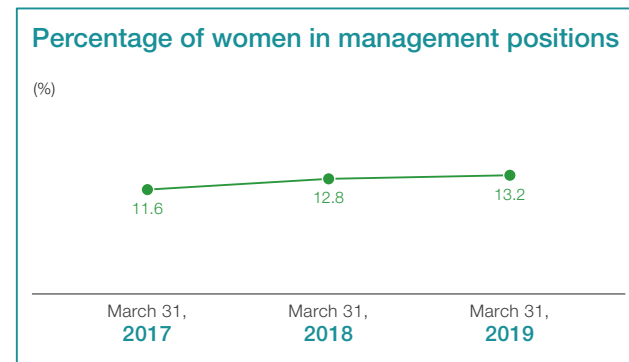
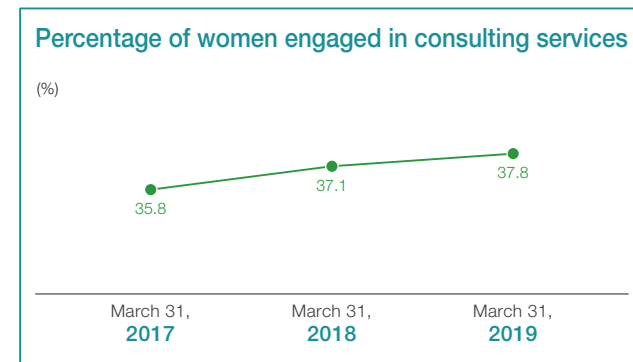


Non-financial information

▶ Customer-focused measures ▶ (Initiatives for operations that put customers first ... Page 63)



▶ Human resources ▶ (Working style reform efforts...Page 49)



▶ Social contribution activities ▶ (Social contribution activities...Page 69)

