



Top Message
President
Hidefumi Kobayashi

We will present a new future for the region and make continuous efforts for a sustainable society.

Looking back on FY2022

Permeation of consulting services aligned with customer issues and needs

The outbreak of COVID-19 has finally entered its third year, causing a major impact on social and economic activities. With the complete containment of COVID-19 still out of sight, due to soaring prices of crude oil and other resources, raw materials, and grains, as well as difficulties in procurement, caused by the normalization of life with COVID-19 and Russia's invasion of Ukraine, among others, prices have risen along with the deterioration of business confidence, raising concerns worldwide about the acceleration of inflation.

In the financial markets, the yen has depreciated significantly, and both interest rates and stock prices have become unstable.

It is difficult to predict the future, and there is a growing sense of uncertainty about the outlook of politics, the economy, and society. Even after the containment of COVID-19 and other circumstances, its effects and scars will be so great that I believe we will not return to the previous world.

In addition, some of our branches were severely damaged by a large magnitude 7.4 earthquake with its epicenter off the coast of Fukushima Prefecture on March 16. We need to continue to pay close attention to natural disasters and other emergencies.

In addition, the Tohoku region, including Miyagi Prefecture, is facing a mountain of social issues such as aging society with low birthrate, falling population, a lack of

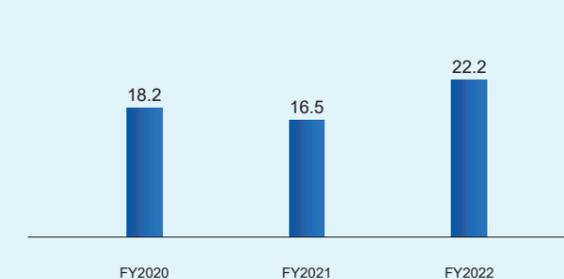
successors for SMEs, a shortage of human resources, and sustainment of local industries and employment.

Under these circumstances, to continue to fulfill our mission as a regional financial institution into the future, we launched in April 2021 "Vision 2030: ~Leading Company Creating a Path to the Future~, " our management plan covering a period of 10 years until FY2031. Based on this, with aims to offer our customers the optimal solutions by enhancing our financial services and expanding the scope of our businesses in the non-financial sector, and to deepen our capabilities as a corporate group leading the region by creating networks centered on the Miyagi and Sendai areas and expanding the scope of our operations, we have stepped up our response to various measures, including digital transformation (DX) and initiatives for new businesses.

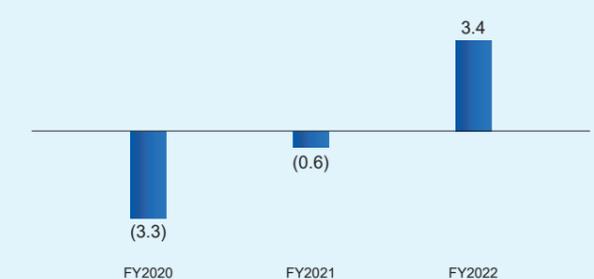
As a result, due to the permeation of consulting services aimed at solving customer issues and other factors, for the fiscal year ended March 31, 2022, we secured consolidated net income after-tax of ¥22.2 billion, reaching a record high, and "income from customer services (Note)" amounted to ¥3.4 billion, returning to the black for the first time in nine years. My view is that we made a good step toward strengthening profitability, which is the Bank's top priority.

We are deeply grateful that this was thanks to the support of our stakeholders, including customers, local communities, employees, and shareholders.

■ Net income (consolidated) (Billions of yen)



■ Income from customer services (Billions of yen)



(Note) Income from customer services = (Average balance of loans and bills discounted × Loan to deposit spread) + Fees and commissions - Expenses (including retirement benefit costs)

Main achievements in FY2022 and challenges

First step toward realizing “Vision 2030”

Achievements

I would like now to discuss the achievements of FY2022, the first year of “Vision 2030.” The first achievement is that “Vision 2030” got off to a good start.

The management plan “Vision 2030,” which commenced in April 2021, is the first 10-year plan for the Bank created by backcasting from “our target form (what we want to become)” and “what we want to achieve” in 10 years. Even if we plan and implement goals and measures that are likely to be achieved in about three years by extending the status quo, we will not be able to keep up with the speed of changes in the world and will become content with small changes. In other words, maintaining the status quo will be the best we can do in the rapidly changing financial industry. It is necessary to make a leap forward if we want to grow. I believe that we need to show the direction of management, set big goals, think hard to achieve them, and act boldly and carefully.

I feel that it is very important to show our major direction both inside and outside the Bank, and although it was a big challenge, I am glad that we formulated the 10-year management plan.

As briefings on “Vision 2030” by the Bank’s officers were held at all branches, the interest of employees is high compared to the previous medium-term management plans. Judging by their reaction and level of understanding, I believe that “Vision 2030” provided an opportunity for employees to think about not only the immediate future but also actions each of them should take. I feel that it was a year in which the understanding and permeation of big goals, in addition to the long-term management direction and thinking, deepened.

The second achievement is that consulting services have been put into practice and started to generate results for both corporate and individual customers. In the previous

medium-term management plan, we had developed a structure for consulting services as a top priority, and “Vision 2030” put forward “Financial × Consulting” as a business model. Therefore, I feel that the awareness of consulting services is spreading reasonably within the Group.

As a result of this, fees and commissions from corporate clients grew from ¥600 million in FY2018 to ¥2.7 billion in FY2022, as we gradually increased the number of employees in the Consulting Promotion Division, which was established in 2018, and stationed headquarters staff at each location in Miyagi Prefecture to discover customer needs and provide solutions in cooperation with branches.

Furthermore, group-wide fees and commissions from assets in custody amounted to ¥4.0 billion in FY2022, as we have been carrying out initiatives in collaboration with 77 Securities, which was established in July 2016, and created the “Wealth Management Office” within the Business Promotion Division in June 2021 to implement measures in response to customer needs.

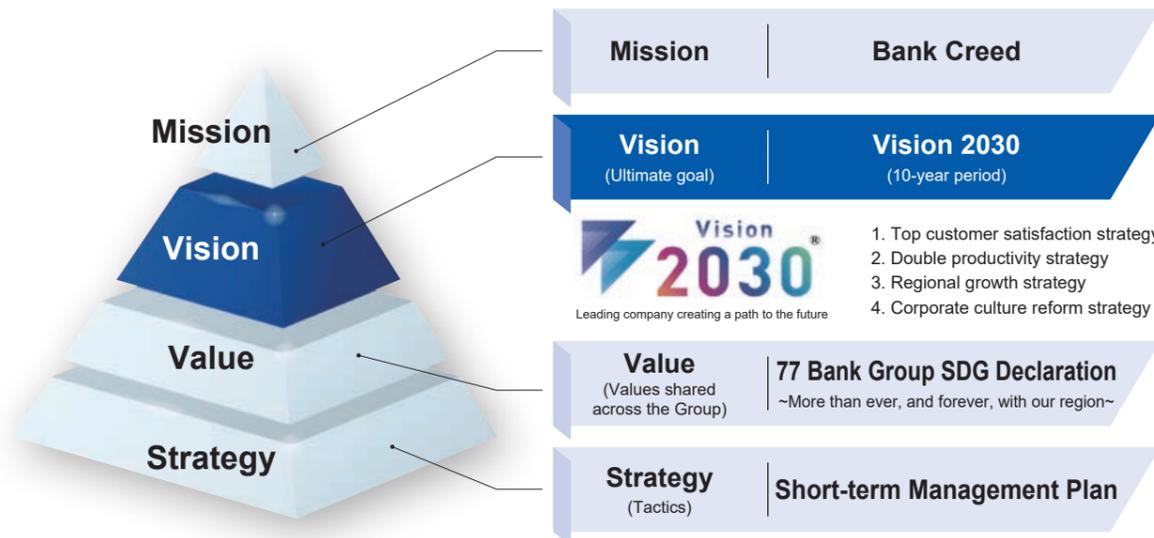
In addition, our involvement in structured finance as a new means of lending moved forward.

Following the establishment of the “Structured Finance Section” within the Consulting Promotion Division in June 2021, we have improved our structure to strengthen our measures targeting regional redevelopment and renewable energy facilities, among others. The loan balance is expected to increase by about 20% each fiscal year (FY2022: ¥166.3 billion).

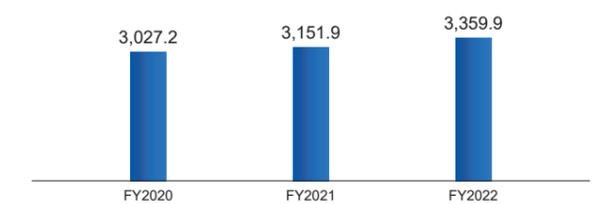
The third achievement is that, in light of trends such as a significant decline in the number of customers visiting our branches over the medium- to long-term as well as changing customer flow lines, we revamped our branch network through branches within branches, etc. As a result, non-personnel and personnel expenses were significantly reduced, and core OHR improved to 58.22%. In addition, the personnel generated by the revamp of our branch network was allocated to boost the number of liaison personnel from headquarters and to increase training opportunities such as external trainees. At branches that became branches within branches, internal job rotation was enhanced due to the increased number of personnel. All of these contributed greatly to human resources development.

The fourth achievement is that, as part of efforts to reform our corporate culture, we held a “business contest” and an “essay contest” to solicit new business ideas not only from within the Bank but also from our Group companies. These contests were held to encourage the officers and employees of the 77 Bank Group to

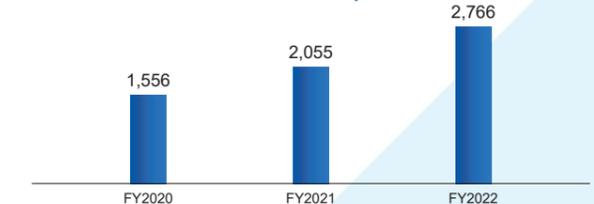
demonstrate their creativity unrestricted by conventional ideas, to develop new attractive businesses and sectors, and to foster a challenger spirit, so that the 77 Bank Group will go beyond its existing trajectory and become a “leading company creating a path to the future.” Many employees took on the challenge to participate in the “business contest,” with young employees who had been with the Bank for five years or less accounting for about 20% of the applicants. There were also many unique ideas. I feel that all branches, headquarters, and Group companies deepened their understanding of the efforts to reform our corporate culture and are starting to change positively.



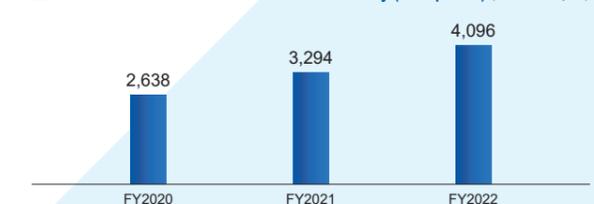
■ Balance of corporate loans (term-end) (Billions of yen)



■ Fees and commissions from corporate clients (Millions of yen)



■ Fees and commissions from assets in custody (Group total) (Millions of yen)



■ Core OHR (core gross operating income expense ratio) (%)



Challenges

“Vision 2030” sets forth key factors to unlock a new future. I believe that we must respond to the changing environment, focusing on the key factors.

As for “next challenges,” the first challenge is efforts for “digital transformation.” We are still implementing various initiatives related to the digital field, and there are areas that we need to further strengthen as a “leading company” that leads the region, such as initiatives for new things, responses to customer needs, cyber security, and streamlining of administrative processing.

The second challenge is initiatives for “new businesses and sectors.” In “Vision 2030,” we aim to establish 10 projects in new businesses or sectors by FY2024 with the potential to become viable businesses in the future. Considering the extent to which customer needs have been met and contributions to earnings have been made in collaboration with Group companies or in fields other than banking, we need to further level up our efforts for new businesses and sectors.

The third challenge is “sustainability” efforts. Various countries and companies are accelerating their efforts for climate change issues and carbon neutrality, and a wide range of initiatives is being called for. Regional financial institutions are expected to play the role of leading their regions toward the realization of a sustainable society, as well as addressing their own issues related to ESG and the SDGs.

We also need to further enhance our “disclosure of non-financial information” related to sustainability going forward.

The fourth challenge is initiatives for “corporate culture reform.” “Culture eats strategy for breakfast” is a famous quote. To change corporate culture, each individual must take on the challenge of self-transformation.

Corporate culture does not change quickly in a short period of time. As I mentioned earlier, things are changing for the better, but we need to aim for further growth and take on challenges.

Priority initiatives for FY2023

Enhancing our strengths, improving our weaknesses, and revitalizing our organization

Top customer satisfaction strategy

The core concept of the “top customer satisfaction strategy” is “Financial × Consulting + Non-financial.” It means to expand our business areas in the non-financial field and provide the best solutions to our customers, while pursuing the highest-level of financial functions and consulting.

I believe that “consulting services” are a very compatible business model for banks. Banks collect a lot of information because they deal with many customers. Furthermore, if trusting relationships with customers deepen, we can expect to receive many various inquiries. By strengthening our “consulting services,” we will be able to support our customers in solving their issues.

In addition, our major difference from general consulting firms is that we can engage in financial operations such as lending. As dealings with customers will continue over a long period of time, regardless of whether they are corporate or individual customers, we hope to be of service to our customers by leveraging our unique strengths and enhancing our support for resolving customer issues. There are still issues to be addressed such as the handling of highly specialized fields, but I believe that if we raise the level of our responses to these issues, we will be able to create a strong business model.

However, as traditional deposit-taking and lending services and services related to assets in custody are

becoming commoditized these days, I believe that there will eventually be a limit to our business if we just stick to financial operations. Therefore, we aim to improve customer experience and become number one in customer satisfaction by expanding our business domains and providing services in new non-financial businesses and sectors.

We have four goals on initiatives for new businesses and sectors. The first goal is to expand the range of solutions we provide to our customers; the second goal is to diversify the 77 Bank Group’s businesses and revenue sources; the third goal is to improve our consulting capabilities by taking the same perspective as customers; and the fourth goal is to make our corporate culture challenging.

In “Vision 2030,” we aim to establish 10 projects in new businesses and sectors by FY2024 with the potential to become viable businesses in the future. I believe that it is necessary to break away from the overly cautious corporate culture of the past and address various challenges, including risk taking, at the same speed as changes in the world.



Key factors in “Vision 2030”

Key factors

An engine (key factors) will be necessary to go beyond our existing trajectory, and unlock a new future.



■ KPIs related to the top customer satisfaction strategy

	Result in FY2022	Target in FY2023	Interim target for FY2026	Our target form for FY2031
Proportion of companies in Miyagi Prefecture for whom we are their main bank (main bank trends surveys)*	— [56%]	—	Vs. FY2021 +5% [59%]	Vs. FY2021 +10% [62%]
Number of corporate lending clients outside Miyagi Prefecture	Vs. FY2021 1.07x	Vs. FY2021 1.08x	Vs. FY2021 1.2x	Vs. FY2021 1.5x
Proportion of households in Miyagi Prefecture holding assets	—	—	17%	Over 21%
Proportion of individuals in Miyagi Prefecture using loans from the 77 Bank	12.7%	—	17.0%	20.0%
Group net income	JPY 2.2 bn	JPY 1.8 bn	JPY 2.0 bn	JPY 3.0 bn
Other items	Establish 10 projects in new businesses or sectors (by FY2024)			

*TEIKOKU DATABANK, Ltd. research

Double productivity strategy

Improving productivity is a major issue for Japanese companies and is also the highest priority for us. Without productivity improvement, we cannot grow as a company.

In the external environment related to future digital utilization, in addition to Pay-easy and PayB for digital payments of taxes and public utilities bills, a unified QR code system for local tax payments is scheduled to be launched in 2023. The government, the Japanese Bankers Association and other parties aim to abolish the use of bills and checks by the end of FY2027 and shift to online banking transfers and “Densai.” As such, the Bank also needs to go digital.

In addition, the Bank of Japan is conducting research and demonstration on a central bank digital currency (CBDC), and efforts toward cashless payments are thought to progress further.

For individual transactions, the Bank will also aim to build a system that allows all transactions, including identity verification, to be carried out using smartphones. For corporate transactions, the Bank will introduce a portal site and promote online banking.

We will also analyze and utilize data obtained through digitalization for both individual and corporate transactions.

■ KPIs related to the double productivity strategy

	Result in FY2022	Target in FY2023	Interim target for FY2026	Our target form for FY2031
Labor productivity in core operations*	JPY 11 mn	JPY 11 mn	JPY 13 mn	JPY 16 mn
Administrative work at bank branches	Vs. FY2020 (15%)	Vs. FY2020 (25%)	Vs. FY2020 (50%)	Vs. FY2020 (50%)
Usage of non-face-to-face channels	(Corporate)13% (Retail)15%	(Corporate)15% (Retail)17%	(Corporate)20% (Retail)20%	(Corporate)30% (Retail)30%

* (Interest on loans and bills discounted + fees and commissions - interest on deposits, etc. - expenses + personnel expenses + depreciation) / number of employees (part-time employees counted as 0.4)

Regional growth strategy

I believe that it is important to support the growth and development of local companies and industries as part of efforts for regional revitalization. The increases of companies and jobs will create a virtuous cycle in which employment will be generated, more people will settle, and towns will be formed in local communities. The Bank hopes to firmly respond to various issues such as: growing customer needs related to human resources such as specialized talents; addressing business succession problems, which are said to be faced by about one-third of SMEs; support for the development of sales channels

Additionally, we will introduce branch tablets, a support system for sales and lending, and a data linkage platform, while promoting the use of AI in each operation and carrying out other measures.

Meanwhile, large-scale cyber-attacks are on the rise worldwide, and frauds and other activities that exploit online banking and other systems are expected to further increase in the future. Therefore, it is necessary to strengthen our response to cyber security and to achieve both convenience and safety. As our operations become digital and DX advances, the Bank’s employees need to become more digitally literate, and it is also essential to develop and secure human resources with expertise. Therefore, due to the need to put more efforts into improving IT literacy, we announced in April 2022 our approach to developing and strengthening “digital technology human resources.” We will step up our efforts with the goal of increasing the number of “digital technology human resources” who are required to acquire the IT Passport, a national qualification, and meet other requirements, so that the number will reach 1,310 or more, equivalent to more than 50% of all bank employees, by March 31, 2025.

leveraging the strength of the Bank’s branch network and extensive overseas network; support for fostering start-up companies; building relationships with companies expanding into Miyagi Prefecture; and involvement in regional development projects, including the Sendai area.

In addition, the Bank will support customers’ initiatives for carbon neutrality and the SDGs, which they will be urged to address in their respective supply chains and society. By doing so, we hope to create businesses that are useful for local communities and customers.

■ KPIs related to the regional growth strategy

	Result in FY2022	Target in FY2023	Interim target for FY2026	Our target form for FY2031
Cases of growth support for founders	1,490 cases	1,550 cases	2,000 cases	3,000 cases
CO ₂ emissions (t-CO ₂)	10,331	10,200	10,000	9,069
Other items	Support increased economic growth rate in Miyagi Prefecture Aim for 100% participation in regional development projects in Miyagi Prefecture			

Corporate culture reform strategy

To reform corporate culture, it is important that each officer and employee thinks for themselves and transforms themselves. I hope to establish among officers and employees a common understanding that one’s attitude and actions to try to change will have an impact on those around them and that the accumulation of such changes will lead to major changes as a synergistic effect for the entire organization.

In FY2022, officers at the managing director level and above visited each branch and provided detailed explanations, such as the concept of “Vision 2030” and the aims of each key measure, as well as answers to questions from employees. I myself am still in the process of sharing my thoughts and having dialogue with employees at all branches.

This is the first stage of our corporate culture reform, but based on my observation of officers and employees, I have a good feeling that there is a growing understanding that an organization can change significantly if each individual thinks and acts for themselves.

There is no doubt that the business environment for regional financial institutions is difficult. While the situation where the conventional deposit-taking and lending business alone is no longer viable will further deepen, local communities face major problems of falling population and aging society with low birthrate.

Despite such circumstances, I hope that officers and employees will recognize again that “bank work is fun and valuable” under “Vision 2030.”

We support our customers, guide them at times, and even act together with them, helping them realize their various “dreams.” Moreover, finance is an integral part of business, and a banking job can be a rewarding career.

Although the business environment is difficult, I believe there is a lot of room for development because many new “non-financial” businesses that are different from conventional banking will be born due to the progress of deregulation.

The Bank’s officers and employees can enjoy their work even more by taking on challenges positively and contributing more broadly and deeply to local communities. If, to that end, each individual thinks about their own growth, acts, and absorbs various knowledge to make proposals to customers and delight them, it will result in the growth of the Bank. I will endeavor to foster this awareness.

I hope to give our officers and employees many opportunities such as presentations of new services and various contests, constantly stimulate our organization so that each individual will think and take the next step for themselves while taking action, and lead management while enhancing the diversity and challenger spirit of our officers and employees.

■ KPIs related to the corporate culture reform strategy

	Result in FY2022	Target in FY2023	Interim target for FY2026	Our target form for FY2031
Proportion of female managers	14.2%	15.0%	18.0%	30.0%
Other items	Implement various initiatives to “foster an ambitious spirit” Increase the number of “specialist personnel” that serve a purpose for customers and local communities			

Sustainability initiatives

Development of local communities

The philosophy of our Bank Creed is “desiring communal prosperity and serving local communities” and has been in our DNA since our founding. I believe that the spirit of constantly contributing to the development of local communities as a company that coexists with them is deeply rooted in each of our officers and employees.

With aims to create a future for local communities and realize a sustainable society, the Bank formulated the “77 Bank Group SDG Declaration” in July 2020. In the management plan “Vision 2030,” the “SDG Declaration” is also regarded as a shared organizational value, and the SDGs are incorporated as part of the management strategy. We have, as needed, strengthened governance through the establishment of the “Sustainability Committee” and other measures and enhanced support for customers by launching “77 SDGs Support Services and Loans” and other services.

However, to solve a customer’s challenges in promoting the SDGs such as climate change, the customer itself must recognize its specific current issues and requires solutions and financial support for solving the issues clarified by

business feasibility evaluation that incorporates the external environment. In particular, solutions cannot be provided by the 77 Bank Group alone due to the breadth of solutions required. Therefore, it is important to build a network with companies inside and outside the region with technical capabilities and know-how, regional public bodies, and other parties. Through the expansion of solutions, we will build a support system to solve problems faced by local customers.

In addition, as climate-related environmental issues are being recognized as risks and attracting public attention, we are aware that social demands on financial institutions are also increasing.

The Bank announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in July 2021. In response to the four recommended areas of disclosure in the TCFD recommendations (governance, strategy, risk management, and metrics and targets), we need, and thus will continue to make active efforts, to further expand disclosure content by developing and strengthening the disclosure system.



Capital policy and shareholder returns

Delivering appropriate returns to shareholders

Based on “Vision 2030,” from the perspectives of building strong financial foundations by improving customer satisfaction and productivity as well as realizing our mission to our shareholders, “Offer growth and returns together with the 77 Bank Group,” we announced the “Policy of Return of Profits to Shareholders” on January 28, 2022.

Specifically, on the premise of strengthening our financial foundations, we will gradually increase the dividend payout ratio to net income attributable to owners of the parent to 30% by FY2024, aiming to improve shareholder returns and capital efficiency.

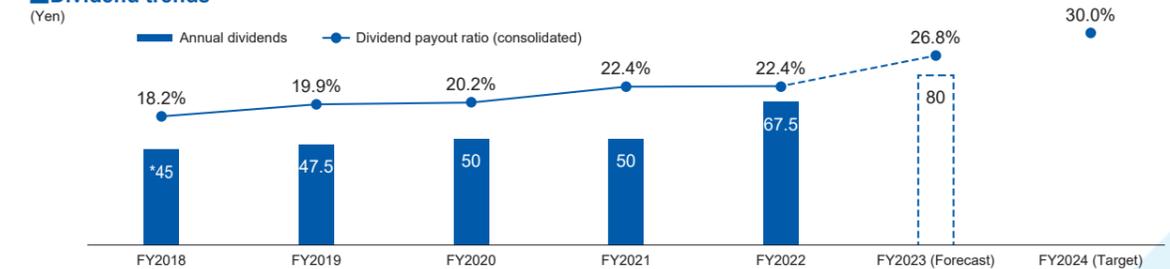
While the dividend payout ratio for FY2022 will be 22.4%, the same level as FY2021, we plan to increase the dividend payout ratio to 26.8% based on the earnings forecast for FY2023. In accordance with this policy, we will

endeavor for appropriate shareholder returns while taking into consideration changes in the business environment and other factors.

In terms of capital, we will pursue efficient utilization, by continuing to make investments that will enhance corporate value, including not only investments in new businesses but also investments for business expansion in existing sectors, while considering a balance with the enhancement of capital necessary for risk-taking in the local economy.

We will realize sustainable growth and enhancement of corporate value by continuing to engage with our stakeholders in a high-quality and constructive manner and proactively disclosing financial and non-financial information.

Dividend trends



* The Bank conducted a 1-for-5 consolidation of shares on October 1, 2017. If calculated based on the number of shares after the consolidation, the interim dividend for FY2018 is ¥22.50 per share and therefore the annual dividend equals ¥45 per share.

In closing

The environment surrounding regional financial institutions like the Bank is extremely harsh at present. However, I believe that if we steadily implement the Bank’s management plan, “Vision 2030,” we will be able to open up a bright future together with our local communities and customers.

I myself will take the lead for all officers and employees of the 77 Bank Group to make every effort for the development of the regional economy. We will meet the expectations of the 77 Bank Group’s stakeholders, including our customers, local communities, employees, and shareholders. We ask for your continued support and patronage.