

THE 77 BANK INTEGRATED REPORT 2020

The 77 Bank aims to be
the “Best Consulting Bank”
that responds to customers’ needs
by offering the optimum solutions

77 BANK



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ESG Information

ESG is a word that combines the first letters of the three words, environment, social, and governance, and is a concept that advocates the use of non-financial aspects as factors for measuring corporate value. The 77 Bank actively addresses issues related to ESG based on the policies outlined on the above.

- E Environment**
The 77 Bank's stance towards the environment has been formulated as the Environmental Policy, and The 77 Bank conducts initiatives to reduce its environmental footprint, while supporting the environmental conservation efforts of customers.
- S Social**
The Bank Creed explains our stance on service for the prosperity of the local community. We will contribute to business partners and the local community and work to improve community value through our core business as a regional financial institution.
- G Governance**
The 77 Bank will work continuously to strengthen and enhance corporate governance, in order to promote sustained growth and improvements in corporate value over the medium- to long-term.

For The Customer & For The Future

Becoming the “Best Consulting Bank” that responds to customers’ needs by offering the optimum solutions

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.

Bank image sought by The 77 Bank

“Best Consulting Bank” that responds to customers’ needs by offering the optimum solutions

Become a bank that is truly supported by customers through differentiation from other banks and new contenders (other business formats) entering the financial field and establish a robust business foundation for the future by abandoning the low-earnings model.

Editorial Policy

The 77 Bank has prepared “THE 77 BANK stakeholders understand the Bank’s efforts for In editing this report, we have referred to the International Integrated Reporting Council (IIRC) and of Economy, Trade and Industry (METI) to provide an value creation mechanism. For detailed financial data on the Bank’s website at <https://www.77bank.co.jp>.

Note regarding forward-looking statements

This document contains forward-looking statements that believed to be reasonable by The 77 Bank. However, The significantly from forecasts, due to a variety of factors.

“INTEGRATED REPORT 2020” to help investors and other sustainable value creation.

“International Integrated Reporting Framework” proposed by the the “Guidance for Collaborative Value Creation” issued by the Ministry integrated explanation of the Bank’s business model and sustainable and other information, please refer to DISCLOSURE 2020 (available

are based on the information available at the time of disclosure, along with certain assumptions 77 Bank makes no guarantee that these forecasts will be achieved. Actual results may differ



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 generation of Reiwa, we will continue to walk together with the region.

1878.12

Started operations as The 77th National Bank



Head Office at the time of our foundation in 1878 (former Hinoya site)

1972.10

Shares listed (Second Section of the Tokyo Stock Exchange and the Sapporo Securities Exchange)



Current Head Office

1974.11

Established 77 Lease Co., Ltd.

1977.9

Head Office relocated to a new building at Sendai Chuo 3-chome

1985.10

Opened the London Representative Office

1990.11

Upgrade the New York Representative Office to the New York Branch

1999.3

Abolished the New York Branch and London Representative Office

1999.8

Merged The 77 Card Co., Ltd. and 77 Credit Services Co., Ltd., with The 77th Card Co., Ltd. as the surviving company

2017.4

Started business of 77 Securities Co., Ltd.

2017.6

Transitioned to a Company with an Audit & Supervisory Committee

2018.4

Start of the Medium-term Management Plan "For The Customer & For The Future" —Best Consulting Bank Project—

2018.7

Established 77 Research and Consulting Co., Ltd.

1893.5

Established Miyagi Savings Bank (Renamed Gojo Bank in 1921)

1932.1

The current The 77 Bank, Ltd. was established through the merger of The 77 Bank, Tohoku Jitsugyo Bank, and Gojo Bank

1960

1970

1980

1990

2000

2010

1910.6

Established Tohoku Jitsugyo Bank, Ltd.

1961.5

The Bank Creed established as the basic principle of management

1978.10

Established 77 Shin-Yo Hosyo Co., Ltd.

1978.12

Celebrated the 100th anniversary of our founding. Increased capital to ¥12.0 billion

1973.8

Share listing changed to the First Section of the Tokyo Stock Exchange

1988.4

Opened the New York Representative Office

1988.10

Increased capital to ¥22.2 billion

1983.2

Established The 77 Card Co., Ltd.

1998.4

Established 77 Business Support Foundation

1997.12

Established 77 Credit Services Co., Ltd.

2006.11

Established the Aomori Corporate Sales Office



Building housing the Singapore Representative Office

2005.7

Opened the Shanghai Representative Office

2016.1

Started operation of the common use system (MEJAR)

2016.5

Opened the Singapore Representative Office

2016.7

Established 77 Capital Co., Ltd.

2016.7

Established 77 Securities Preparatory Establishment Co., Ltd. (trading name was changed to 77 Securities Co., Ltd. in January 2017)

2016.9

Established the Hachinohe Corporate Sales Office

2016.11

Converted 77 Lease Co., Ltd., 77 Shin-Yo Hosyo Co., Ltd., and The 77 Card Co., Ltd. into wholly-owned subsidiaries

The roots of the 77 Bank's uniqueness

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
(The photograph in the possession of Fukaya City.)

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



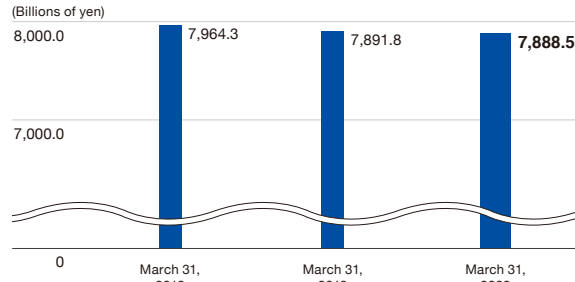
Seikei Ono
5th President

Financial and Non-financial Highlights

Financial information

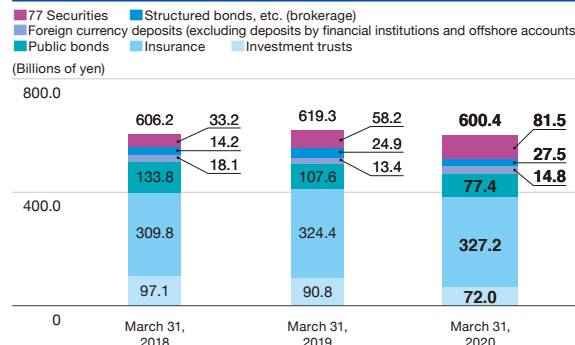
Balance of deposits and certificates of deposit

¥7,888.5 billion



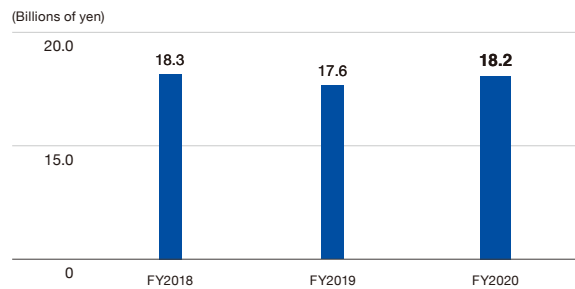
Balance of assets in custody (the Group)

¥600.4 billion



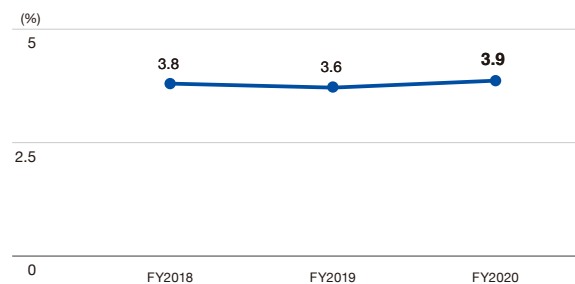
Net income (consolidated)

¥18.2 billion



ROE (consolidated)

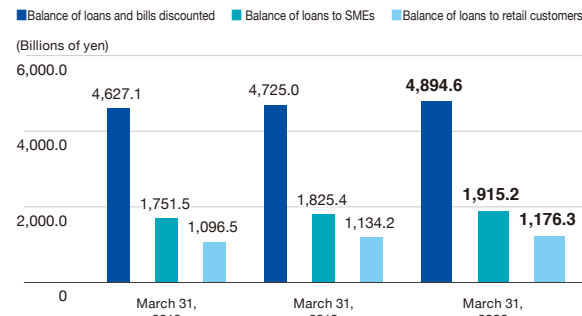
3.9%



Balance of loans and bills discounted

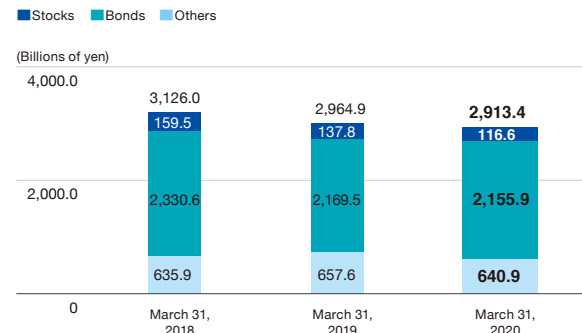
¥4,894.6 billion

(Loans to SMEs / ¥ 1,915.2 billion / Loans to retail customers / ¥ 1,176.3 billion)



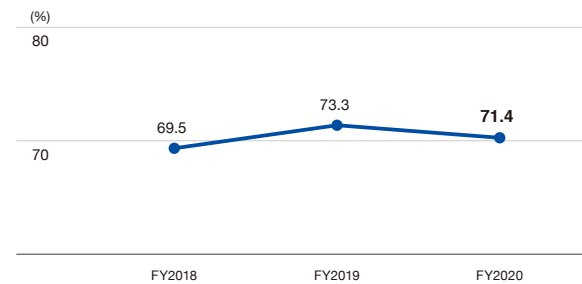
Securities balance

¥2,913.4 billion



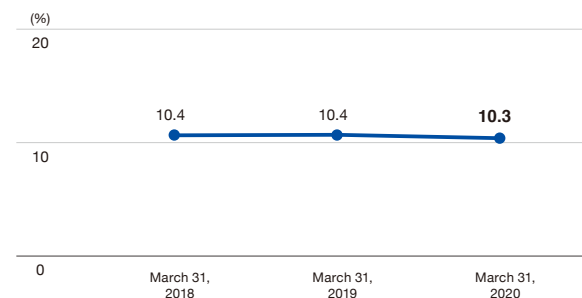
Core OHR

(core gross operating income expense ratio) 71.4%



Capital adequacy ratio

(domestic standards/consolidated) 10.3%



Non-financial information

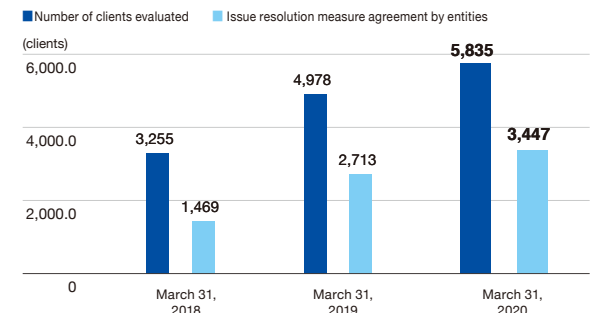
Consulting

Number of clients evaluated

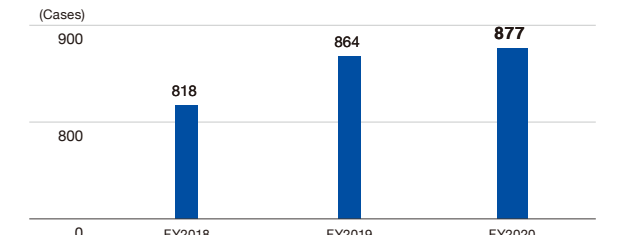
5,835 clients

Issue resolution measure agreement by entities

3,447 clients



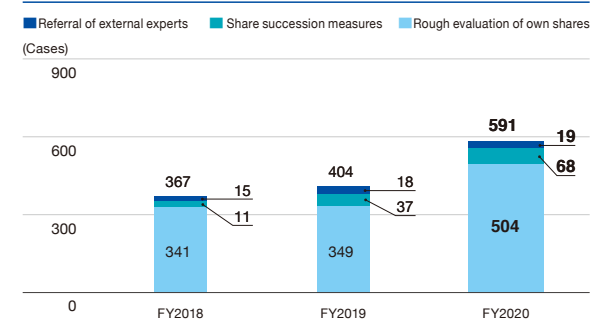
Number of start-up support projects (*) 877 cases



* Start-up plan formulation support, financing clients in the start-up stage, introduction of government-affiliated financial institutions and start-up support organizations, subsidies, financing, and investment in venture companies

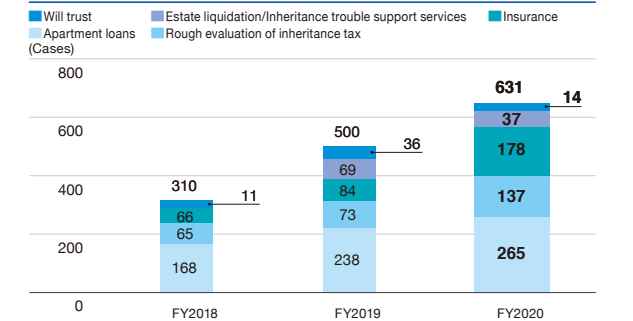
Number of business succession support cases

591 cases



Number of inheritance and asset succession support recipients

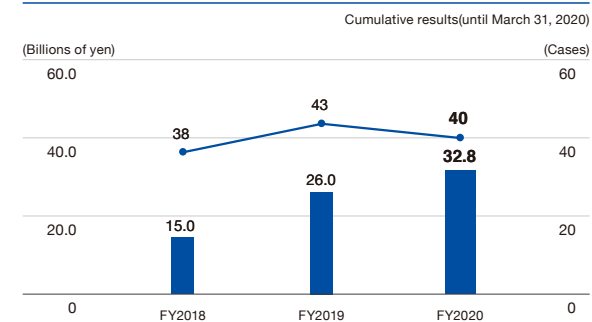
631 case



ESG

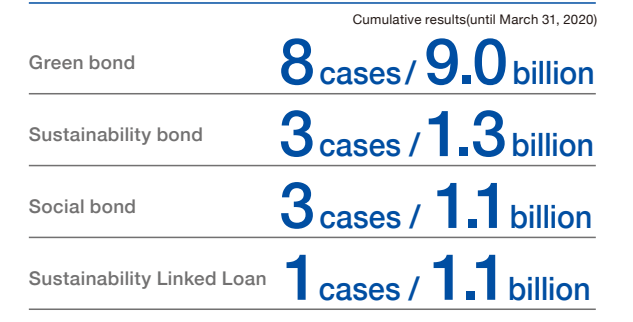
Renewable energy-related funding

326 Cases / ¥134.9 billion



ESG-based investment and lending

15 cases / ¥12.5 billion



Privately placed corporate bonds

77 Privately Placed Corporate Bonds for Social Contribution (Donation-Type)

253 cases / ¥19.5 billion

77 Privately Placed Corporate Bonds for Local Professional Sports Support (Donation-Type)

10 cases / ¥0.5 billion

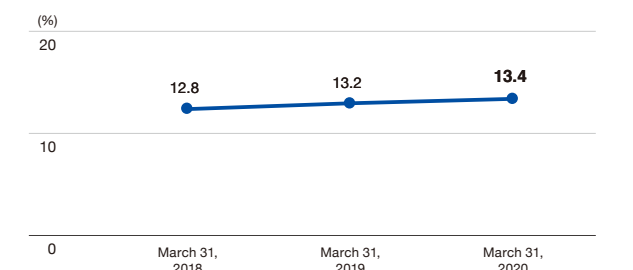
77 ESG Privately Placed Corporate Bonds

28 cases / ¥2.9 billion

Cumulative results (until March 31, 2020)

Percentage of women in management positions

13.4%



The Economy and Potential of Miyagi Prefecture

Miyagi Prefecture, where further potential lies unnoticed

Although Miyagi Prefecture experienced significant damage due to the Great East Japan Earthquake, particularly in coastal areas, reconstruction projects have now reached the final phase thanks to joint efforts by the public and private sectors.

In addition, with the expansion of major automotive and electronics companies, the manufacturing industry is expected to become a driver for post-recovery economic growth while economic concentration is advancing owing to active construction investment related to redevelopment projects in Sendai.



Basic data of Miyagi prefecture

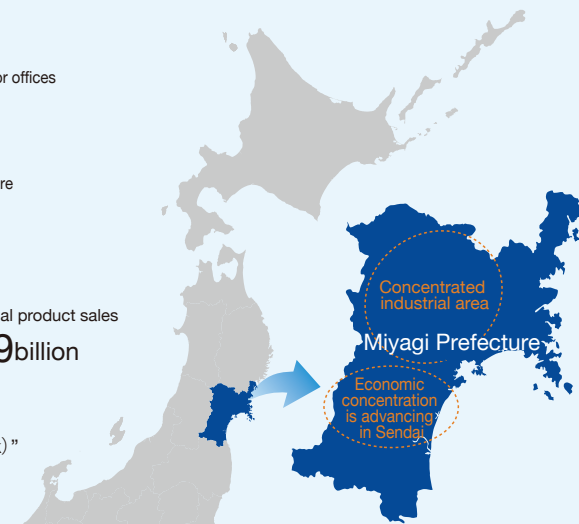
[Area / Population / Living]



[Industry / Economy]



* Reprinted from "2020 Shape of Miyagi (Miyagi Prefectural Handbook)"



Industrial transformation

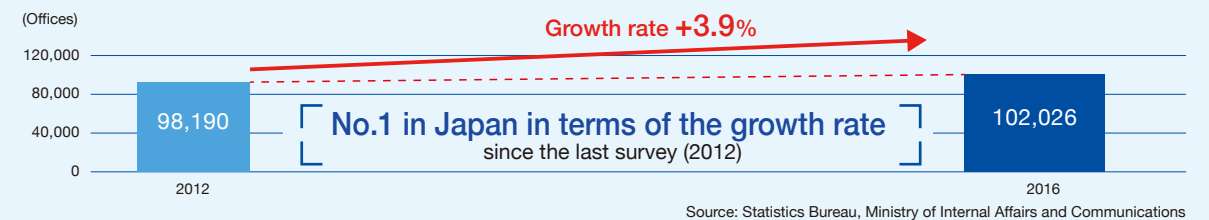
Accumulation of manufacturing industry

Expansion of manufacturing Company has created new jobs and grown peripheral industries

- Toyota Motor East Japan (Integration of production of small cars)
- Tokyo Electron Miyagi, etc.



Number of offices



Manufactured good shipment amounts



Progress of regional development projects

Sendai Urban Restructuring Project (launched by Sendai City in October 2019) * Project period : through FY2031

First measure for the reconstruction of obsolete buildings and promotion of corporate relocation into the city

- Establishment of "Subsidy System for Promoting Building Reconstruction in Sendai City Center"
- Relaxation of floor-area ratio with a view toward "developing highly functional office"
- Enhancement of business attraction framework and subsidy systems, etc.

Next-generation synchrotron radiation facility maintenance project (Scheduled for completion at the end of March 2023)

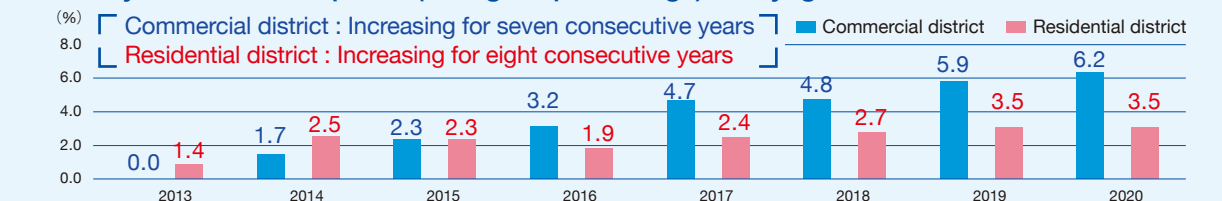
Economic ripple effects of the synchrotron radiation facility (estimated by Tohoku Economic Federation)

- JPY 1,901.7 billion in ten years after the commencement of operation (including JPY 1,624.0 billion of market creation effects across Japan such as new product development utilizing the research results)
- Local ripple effects within Miyagi Prefecture is JPY 277.7 billion
- The project is believed to contribute particularly in the areas such as fuel cell, gene drugs and nanocarbon materials



Next-generation synchrotron radiation facility (image)
Provided by: Photon Science Innovation Center

Publicly assessed land prices (change in percentage) in Miyagi Prefecture



Growth Vision of The 77 Bank, Ltd.

As the regional market is expected to contract due to a declining population over the medium to long term, competition has become institutions. Within this business environment, the Bank will overcome management issues through efforts under the Medium-term

increasingly intense, with the entry of other business formats and FinTech companies into the financial field, in addition to traditional financial Management Plan and aim to establish a robust business foundation that is resistant to changes in the external environment.

The 77 Bank Group's Strengths (Source of Value Creation)

Business model

Creation value

Financial capital

- Capital adequacy ratio (domestic standards, consolidated) : 10.31%
- Ratings : AA (JCR), A (R&I), A3 (Moody's) (As of June 30, 2020)

Manufactured capital

- Number of branches : 143 (Head office / Branches : 137, Sub-branches : 6)
- Corporate Sales Offices : 2
- Overseas Representative Offices : 2 (Shanghai and Singapore)
- ATM locations : 398

Intellectual capital

- Group companies: 6 companies (77 Lease, 77 Shin-Yo Hosyo, 77 Card, 77 Securities, 77 Research and Consulting, 77 Capital)
- MEJAR system (Shared with Bank of Yokohama, Hokuriku Bank, Hokkaido Bank, and Higashi-Nippon Bank)
- Know-how on business reform and corporate rehabilitation support through the recovery from the Great East Japan Earthquake

Human capital

- Number of employees (consolidated) : 2,836
- Number of employees with qualifications : 105 1st grade Certified Financial Planner, CFP, 36 Small and Medium enterprise Management Consultants, 20 Movable Valuation Advisors, 21 Agricultural Management Advisors, 2 In-house attorneys, 1 In-house certified public accountant

Social capital

- Deposit share in Miyagi Prefecture : 55.6% Ranked No. 1 in Japan for 23 consecutive years in terms of the share of deposits in the prefecture (FY3/1997–FY3/2019) (Source: KINYU JOURNAL)
- Loans and bills discounted share in Miyagi Prefecture: 43.0%
- Number of signing of a cooperation agreement with regional public bodies : 33 (as of June 30, 2020)
- Certified "Platinum Kurumin," "Gold Certified Company," "Eruboshi (Grade 3)," and "Health and Productivity Management Organization 2020 (White 500)"
- Chosen as a constituent of MSCI Japan Empowering Women Index
- Management Philosophy that inherits the spirit of Eiichi Shibusawa's "harmony of morality and the economy"

* As of March 31, 2020, for those without a date

Social Issues

- Lack of successors for SMEs
- Labor shortage
- Advance of an aging society
- Continued low economic growth
- Progress in globalization
- Diversification of lifestyle
- The occurrence of large-scale disasters due to global warming
- Drop in demand related to reconstruction from the Great East Japan Earthquake
- Outflow of students to Tokyo area

Management Issues

- Shrinking interest margins due to the introduction of negative interest rates
- Decrease in revenue opportunities through the emergence of other business formats and FinTech companies
- Increasing difficulty in securing human resources due to a deterioration of bank performance

1 Growth strategy

- Training of specialists
- Consulting through business evaluation
- Support for asset formation and asset succession

2 Regional economy vitalization strategy

- Response to COVID-19
- Earthquake reconstruction support
- Initiatives for regional revitalization

4 Governance strategy

- Strengthening and enhancement of corporate governance
- Dialogue with shareholders

3 Productivity enhancement strategy

- Promotion of paperwork-free
- Utilization of digital technology
- Promote Work Style Reform

Business model

Further enhance the satisfaction and through consulting solutions by identifying issues. Moreover, employee satisfaction

Business model

degree of customer confidence in the Bank offering the optimum customers' needs and enhance profitability and through these initiatives.

Medium-term
"For The Customer
—Best Consulting
[from April 1, 2018

Management Plan
& For The Future"
Bank Project—
to March 31, 2021]

Customers

- Improving customer satisfaction through problem solving
- Sustained growth of client companies
- Stable asset formation and asset succession for customers

Local community

- Realization of a sustainable society

Employees

- A workplace where each and every employee can engage in a diverse range of activities
- Improvement of employee satisfaction (job accomplishment and sense of fulfillment)

Shareholders

- Improvement of shareholder value over the medium to long term

Realization of our management philosophy and contribution to the achievement of the SDGs

Bank Creed

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.

SUSTAINABLE DEVELOPMENT GOALS





President
Hidefumi Kobayashi

A bank’s mission is to serve its customers. We Aiming aim to further improve our its services through enhanced utilization of “digital” and “human” elements.

Introduction

We would like to express our deepest sympathy to all those who have been affected by the spread of COVID-19 infection.

In addition to setting up a loan consultation desk and providing information on government and prefectural systematic loans, the Bank has made it a priority from early on to hear directly from customers about their circumstances and requests. Moreover, we have set up support teams and dispatched specialized personnel to branches to enable speedy decision-making on loans.

The contents of our consultations have become more complex as time goes by. We are now entering a phase where we need to provide multifaceted advice not only on

cash flow but also on how to continue our clients’ businesses.

We will continue to work hand in hand with our customers to solve their problems by providing as much support as possible, including by improving BS and PL.

In the midst of these activities, we have reaffirmed our role as a bank. Each and every one of us feels strongly that our mission is to support the development of all people, including local businesses, individuals, and local governments, in a way that can only be done by a regional financial institution that deeply understands the characteristics and background of this community.

Message from the President

Consulting services for survival in this challenging environment

In addition to the impact of the novel coronavirus, the environment surrounding banks is becoming more severe every year. Regional financial institutions are faced with the challenge of coping with new threats, such as declining profitability due to negative interest rate policies and other factors, a shrinking market over the medium to long term due to the declining birth rate and aging population, and reduced profit opportunities due to competition with other banks and industries.

In Miyagi Prefecture, which is our main business base, the recovery is slowing down, as production and housing investment are weakening in a rebound to the demand for

post-disaster reconstruction following the Great East Japan Earthquake.

In order for us to survive in this local economy, we need to make a firm commitment to each and every customer and provide them with effective business services. This means providing services not only in the traditional areas of deposits, loans, and foreign exchange but also in nonfinancial areas, including consulting services, which is also the aim of our medium-term management plan, concluding this year “‘For The Customer & For The Future’: The Best Consulting Bank Project.”

“For The Customer & For The Future” –Best Consulting Bank Project–

(April 1, 2018- March 31, 2021)

Key strategies	Main efforts
Growth strategy ~Strengthening of profitability~	•Establish systems and structures for strengthening consulting capabilities •Strengthen and demonstrate consulting-based sales capabilities throughout the Group •Strengthen the channel strategy utilizing digital technologies •Promote sophisticated management of securities
Regional economy vitalization strategy ~Enhancement of value of the region~	•Continue earthquake reconstruction support •Contribute to regional revitalization •Promotion and improvement of regional public bodies trade •Strengthen support for corporate rehabilitation and business reform
Productivity enhancement strategy ~Effective and efficient allocation of resources~	•Strategic allocation of management resources •Streamline and increase sophistication of operations •Promote working style reform
Governance strategy ~Strengthening of governance for sustainable growth~	•Enhancement and strengthening of governance •Initiatives to enhance corporate value

Targets

Item		FY2020 results	FY2021 targets
Enhancement of profitability	• Net income (consolidated)	¥18.2 billion	¥19.0 billion or more
	• Interest on loans and bills discounted	¥41.9 billion	¥45.0 billion or more
	• Fees and commissions	¥ 9.7 billion	¥11.5 billion or more
Pursuit of efficiency	• Core OHR (core gross operating income expense ratio)	71.4%	70% or less
	• ROE (consolidated)	3.9%	3.7% or more
Pursuit of soundness	• Capital adequacy ratio (consolidated)	10.3%	10% or more
Strengthening of corporate sales capabilities	• Balance of corporate loans (term-end)	¥3,027.2 billion	¥3,000.0 billion or more
	Of which, Miyagi Prefecture	¥1,778.2 billion	¥1,900.0 billion or more
	Of which, Sendai City	¥1,306.6 billion	¥1,370.0 billion or more
Strengthening of retail sales capabilities	• Balance of assets in custody, Group (term-end) *	¥ 600.4 billion	¥ 740.0 billion or more
	• Balance of consumer loans (term-end)	¥1,181.6 billion	¥1,200.0 billion or more

* Sum of assets in custody of The 77 Bank and those of 77 Securities (foreign currency deposits exclude deposits by financial institutions and offshore accounts)

Key performance indicators (KPIs) for strengthening consulting capabilities

Item		FY2020 results	FY2021 target
Enhancement of consulting capabilities	• No. of employees with qualifications(1st grade Certified Financial Planner, CFP, and Small and Medium Enterprise Management Consultant) (final year)	141 people	700 people or more
Strengthening of consulting for corporate clients	• No. of corporate loan borrowers (final year)	12,106 borrowers	13,000 borrowers or more
	• No. of clients who signed contracts for customized solutions based on business evaluation (cumulative total for 3 years)	1,978 clients	2,000 clients or more
	• Fees and commissions from corporate clients (final year)*	¥1.5 billion	¥1.8 billion or more
Strengthening of consulting for retail customers	• No. of business succession, inheritance, and asset succession support recipients (cumulative total for 3 years)	2,126 recipients	3,300 recipients or more
	• No. of increases in contracts for installment-type assets in custody [compared with FY2018 term-end]	28,921 contracts	40,000 contracts or more
	• No. of seminars for customers (cumulative total for 3 years)	927 times	1,100 times or more

* Fees and commissions for syndicated loans, commitment lines, business matching, M&A, privately placed corporate bonds, manager insurance products, etc.



Advancement towards becoming the “Best Consulting Bank” and continuing efforts for regional revitalization

In our medium-term management plan, we are working on four strategies: a growth strategy, a regional economy vitalization strategy, a productivity enhancement strategy, and a governance strategy.

Of these, the major theme of regional revitalization included in the regional economy vitalization strategy contains many issues that must be addressed continuously in the future.

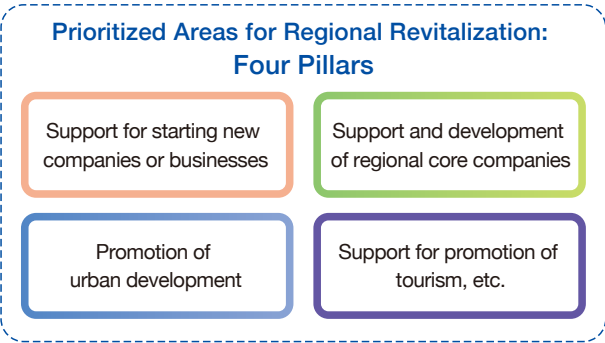
The main objective of regional revitalization is to disperse the population from the Tokyo metropolitan area to other regions of Japan. The four pillars of regional revitalization are efforts to halt the current situation of the increasing concentration of people in Tokyo. In order to make the most of these four pillars, two major points are continuity over the medium to long term and cooperation with local governments.

Regional revitalization cannot be achieved unless each of these efforts not only bears fruit but also continues to be

connected to the others, becoming an extensive “plane.” To this end, we are doing our best to support as many start-ups and new businesses as possible as well as to support and foster core companies that will support the region and create jobs.

The other key point, cooperation with local governments, can be realized by resolving issues such as differences in the systems and equipment environment of each local government. Currently, we are at the stage of creating a platform for cooperation, with the 77 Bank acting as a secretariat, holding study sessions, supporting matching with private companies, and offering our videoconference system.

We would like to overcome these issues while looking at both the short term and the long term to realize regional revitalization.



Message from the President

Digitalization and human resource development to create ideal services for the future of banking

Due in part to the impact of COVID-19, the need for internet banking and cashless payment has increased, and digitalization is accelerating. For example, the 77 Bank application for smartphones has become dramatically more convenient, as all customers can now use it without having to fill out an application form. I believe that not only individual but also corporate customers will be able to make more use of digitalization as a way to solve a shortage of manpower and eliminate waste in business operations.

The ideal is to be able to choose between face-to-face and digital services at any given time, taking advantage of the security, adjustability, and flexibility of human services and the convenience and efficiency of digital services. We are working to achieve this ideal model.

In this sense, human resource development is an indispensable backbone for us to approach the best consulting bank. We believe that we need people in order to be most

useful to our customers and that we can improve our services by providing both human and digital services.

In order to further enhance the expertise of our consulting sales staff, we have created an environment where many of them can take advantage of training programs and online courses. The “President’s School,” which will be launched this year for mid-career employees in their 30s, is one of the initiatives.

We are also working to create an organization where all generations can play an active role, regardless of gender or environment. I believe that if we can provide a workplace where people can work even when they have limited working hours, such as while raising a child or caring for a family member, we will be able to understand the feelings of our customers more, which will eventually lead to higher productivity.

77 Bank Group SDG Declaration to achieve goals together with local communities

In July 2020, we announced the 77 Bank Group SDG Declaration. This is in support of the purpose of the SDGs (Sustainable Development Goals), which are in line with our philosophy of desiring communal prosperity and serving local communities.

I believe this declaration will help unify the consciousness of the entire organization and our group as well as help us discipline ourselves. From the perspective of the SDGs, banks have the potential to influence the direction of society through their investments and loans. Therefore, we are also disclosing our lending policy, which states that we will not take any action that would have a negative impact on society.

In the future, we would like to restructure our social contributions from the perspective of this declaration and work together with local communities toward the realization of a sustainable society without turning a blind eye to our societal role.



About Corporate Slogan and Logo

	Slogan	Logo
	More than ever, and forever, with our region.	
Concept	Our slogan expresses our commitment to our customers. We are committed to moving forward with our region, growing with our region, and creating the future with our region. We will do this by providing highly specialized solutions that harness the collective strengths of the Group while valuing the traditions, trust, and regional foundations that we have established over the years.	A simple design that can be recognized at a glance as representing the 77 Bank Group, with a ring symbolizing our connections with our region and our strong group ties and sense of unity. The logo also promotes the Group’s proactive work on SDG-related initiatives.
Underlying meaning	“More than ever” expresses the mission and shared values of the 77 Bank Group to always seek to deliver better solutions for customers and make greater contributions to the prosperity of local communities than we have made before, by providing the highly specialized solutions that customers have come to expect from us. “And forever” includes the dual meaning of “from now on” and “up till now” and expresses the 77 Bank Group’s commitment to building everlasting relations with local communities and customers. “With our region” expresses the Group’s commitments to contribute to regional development and always put customers first in corporate in the principle “Elevation of the Spirit of Service” stated in our Bank Creed.	The colorful ring, which expands as it turns, is composed of the 17 colors used to represent the SDGs and symbolizes the comprehensive capabilities and solutions customers have come to expect from the 77 Bank Group as well as the Group’s constant tackling of new challenges to create a bright future for the region , in line with the principle in our Bank Creed of “Elevation of the Spirit of Service” .



Connecting “change at the Bank” to trust, security, and regional development

Going forward, we will continue to go back to the basics of “the role of a bank” and pursue how we can meet customer needs, generate sustainable profits, and be useful to our customers while maintaining soundness. We believe that by responding quickly to the changing times and upgrading our organization, individuals, and initiatives, we will be able to contribute to our local communities.

The recent response to COVID-19 has made me keenly aware of the importance of corporate financial strength. I also feel that it is important to continue to devise and make efforts to increase profits even in a difficult environment, and to work on improving productivity through efficiency.

The Bank’s role is to provide the local community with management resources in the form of people, goods, money, information, and time. In September 2020, we plan to enter the recruitment business, and we hope to develop together with the local community while exploring ways to provide support beyond the framework of finance.

We will continue to deepen our relationship with the local community, and as a local financial institution, we will contribute to the development of the local economy by providing created value to the local community, customers, employees, and shareholders. Your continued support will be most appreciated.

77 Bank Group SDG Declaration~More than ever, and forever, with our region.~

The 77 Bank Group, in keeping with the philosophy of the Bank Creed passed down from our founders—“The Bank’s progress goes hand in hand with prosperity in the local community”—aims to contribute to the future of the region and the realization of a sustainable society by working toward the achievement of the Sustainable Development Goals(SDGs) on a Group-wide basis.

1. Revitalization of the regional economy

We aim to contribute to the realization of a sustainable society through consulting with, and building partnerships with, local public organizations and corporate and individual customers.

2. Responding to global warming and climate change

Through our responses to climate change, we will contribute to the protection of Earth from destruction and contribute to urban development that is more in harmony with nature.

3. Encouraging and supporting the activities of our employees

We are creating an organization where each and every employee and director can engage in diverse range of activities.

4. Advancing corporate governance

We will collaborate appropriately with our stakeholders to strengthen and enhance corporate governance.

Best Consulting Bank

In order to become a bank that is truly supported by its customers and to establish a solid management base for the future, we have set the image of the bank we aspire to become as the following, and actively trained specialist resources.

“Best Consulting Bank” that responds to customers’ needs by offering the optimum solutions



Consulting approach targeted by The 77 Bank

"Consulting services" at The 77 Bank	Refers to services in which we identify the needs and issues of customers, and propose optimum solutions by bringing together the collective strength of the Group, while supporting problem solving and customer development by supporting the implementation of these solutions.
"Scope of consulting" at The 77 Bank	Consulting covers a broad range of services. We receive consultation requests from all of our customers, including corporate customers, individuals, and regional public bodies, in areas requiring specialized expertise such as business succession and M&As, problem solving through business evaluations, and acceptance of deposits.
"Consulting service providers" at The 77 Bank	As a banking service professional, each and every Bank employee serves as a consultant, and all Bank employees provide consulting services in their areas of responsibility.
"Purpose of strengthening consulting capabilities" at The 77 Bank	We will strengthen our consulting capabilities, and work to improve customer satisfaction and revitalize the regional economy, in order to realize the bank image sought by The 77 Bank of being the “Best Consulting Bank.”
"Requirements for strengthening consulting capabilities" at The 77 Bank	We will rebuild our structures at Headquarters and branches, as well as human resource development frameworks, in order to gain an understanding of customer needs and issues, propose solutions, and provide implementation support. In this process, it is necessary to improve the skills and skill levels of each and every employee.

Training of specialists personnel through external secondments.

Digital field	Japan Digital Design,Inc., MEJAR Digital Innovation Hub (MDIH) ,etc.	3 people
International business/market field	Japan External Trade Organization (UK), Bangkok Bank (Thailand), Vietcom Bank (Vietnam) ,etc.	10 people
Solutions business field	Mizuho Bank, MUFG Bank, Nihon M&A Center ,etc.	11 people
Regional revitalization field	Regional public bodies (Miyagi Prefecture and Sendai City) , (General Incorporated Association)Tohoku Tourism Promotion Organization	3 people

27 people as of May 31, 2020

Human Resource Development

Interview 01



Striving to solve the issues of quality assurance and manpower shortage on the front line of manufacturing.

Corporate Support Department
Kei Akama

I was assigned to Tohoku Electronics Industry Co., Ltd. with headquarters in Ishinomaki City, Miyagi Prefecture for one year under the Local Company Trainee program that started in 2018. I was assigned to the Quality Assurance Department, where I dealt with automobile manufacturers and interacted with manufacturing sites to ensure the quality of automobile-related parts. I was interested in the manufacturing industry, including automobiles and machinery, and I thought I had acquired some prior knowledge before I was transferred to the company, but I had to make a series of discoveries in the field and gained a lot of insights.

One of the things that left a deep impression on me was the strictness of quality control. The automobile manufacturer required us to improve quality down to the smallest invisible details and to thoroughly eliminate unnecessary costs. In order to meet these demands, we repeatedly reviewed and improved our processes and other aspects of our operations while listening to feedback from the front line. In addition, although

Tohoku Electronics Industry has about 1,000 employees in the entire group, I was forced to be keenly aware of the issue of the shortage of manpower at the manufacturing front line. I believe that these valuable experiences as a trainee at a local company can be utilized in my current work. I am currently working in the Corporate Support Office, providing support mainly to customers in the fishery processing industry in the coastal areas of the prefecture that are still on the road to recovery from the Great East Japan Earthquake. Although the fields and products we handle are different from those of the company to which I was assigned, I believe that the fundamentals of manufacturing are the same. In addition, there are many customers who are facing issues such as quality assurance and labor shortage in the field of fishery processing. My future goal is to contribute to such customers with the specialized knowledge I have acquired on the program and to solve their problems by making proposals that take into account their front line of manufacturing behind the numbers.



Service development from the user’s point of view, learned in the cutting-edge field.

Assistant Manager, Digital Strategy Department
Junya Segawa

From December 2017 to December 2019, I was assigned for two years to Japan Digital Design ,Inc., a FinTech company that provides services that integrate finance and IT, where I worked on two major tasks. The first was system development. I oversaw the programming of the business automation system RPA, which is also being introduced at our bank, and designed the process for managing it.

The other task was the service planning for digital currency. We worked together with external organizations to design products, procedures for payment, user screen transitions, and legal and regulatory checks. In particular, 2019 is the first year of the “cashless era” in Japan, a time of large-scale initiatives, and it was a great learning experience for me to be able to experience this major turning point firsthand. Cashless is one of

the major themes at our bank, and I hope to make use of my experience.

I learned a lot about digital technology by working in the field of FinTech, but the most important thing I realized was to think from the user’s perspective first. For example, if the system is for internal use, it must be easy for employees to use, and if it is for digital currency, it must be easy for customers to use otherwise, the equipment alone is meaningless. In particular, I feel that until now, some systems have been designed primarily for the convenience of the bank, and I would like to review them once again and change them to systems that focus on the convenience of customers. I also believe that more open discussions involving other departments and more flexible ideas will lead to better services for our customers.

Business Evaluation Initiatives

We conduct appropriate business evaluations of the business content and growth potential of clients in various life stages, while appropriately grasping and analyzing the current state and issues of the regional economy and industry as we actively engage in business evaluations that provide funds smoothly and proposals for solutions to resolve issues.

Interview 02



Sendai Haranomachi Branch
Kosuke Takeo

CEO, MAKABE GIKEN Co., Ltd.
Masahiro Makabe

Supporting the company's development by encouraging expansion to the private sector, backed up by business strategies.

We interviewed Mr. Makabe, CEO of MAKABE GIKEN Co., Ltd. which manufactures equipment for developing new materials using Japan's leading technology, about his impressions and results of our consulting services.

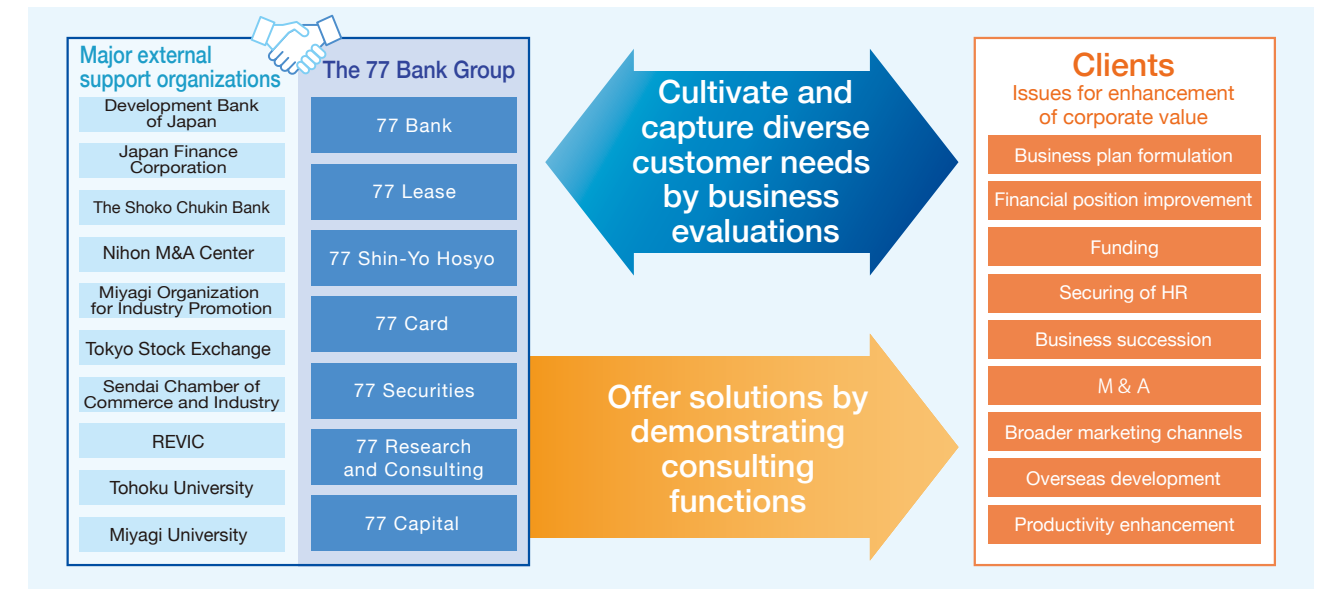
Makabe: MAKABE GIKEN is mainly engaged in the development and manufacture of equipment for researching metal materials and the materials themselves. One of our main products in recent years has been gas atomized powder production equipment for use in 3D printers for metals. We have been manufacturing these products for more than 30 years and provide high-quality powder production equipment. This is a very niche field, but Mr. Takeo has been visiting our company since before I became the CEO in 2019 to deepen his understanding.

Takeo: Even though I was young and not knowledgeable, you took a lot of time to teach me in detail. It helped me understand the value of your company, which I could not understand just



Equipment for manufacturing gas atomized powder, which is the material for metal 3D printers. The demand for this material has been increasing in recent years, and MAKABE GIKEN has been developing and manufacturing it for over 30 years.

Image of Business evaluation



by looking at numbers on a desk. I feel that I was able to provide funding and other support thanks to that. In particular, I was convinced that the development and technological capabilities that you have cultivated over your long history are unrivaled and will be required in a variety of fields in the coming digital age. I have been working with Mr. Makabe for about a year and a half on the succession of the business, and we are only in the final stages of transferring assets and developing the internal management system, but the first thing we did was to develop the financial foundation of the company.

Makabe: That was one of the issues that I felt we needed to address. Since the company's founding, we have been very much a manufacturing-driven company, and we have never had a solid business strategy in place. In addition, the company is currently going through a transition period. For a long time, our company has been receiving most of its orders from universities and other research institutions, but with the reduction of research expenses, we must now accelerate our expansion into the private sector. Thus, we asked the 77 Bank to help us develop a strategy for financial management and sales channel development necessary for this initiative. You even went so far as to suggest cost setting.

Takeo: As we started working with Mr. Makabe on formulating the business strategy, we felt his enthusiasm for the kind of company he wanted MAKABE GIKEN to be in the future, and this strengthened our desire to respond as the main bank to his expectations. As for the cost setting, I think it has been difficult to determine the appropriate price in the absence of competing products, but after we estimated the value from various perspectives, we suggested that it would be possible to set a higher price for such an excellent and rare technology.

Makabe: In the past, we often took on projects based on the price offered by research institutes, but now that we have an objective evaluation from the outside, we have one standard. In addition, the visualization of our finances has helped us to clarify the path to our sales targets, which has motivated our employees and made them more cost-conscious. Recently, we received an order for manufacturing equipment from France, and we hope to increase our business with Europe, the U.S.,

and other foreign countries in the future, and to receive help in the areas of compliance and legal affairs overseas.

Takeo: Our bank has an extensive platform for overseas business, from credit inquiries to legal risk management, so we can provide a one-stop service. We are no longer in an era when banks only deal with funds. We will continue to meet our clients' expectations based on our day-to-day relationship with them.



The company's technology is attracting attention both domestically and internationally. Recently, the company's excellent powder manufacturing technology has been highly evaluated, and the company has been conducting R&D and developing new businesses in cooperation with major private companies.



MAKABE GIKEN Co., Ltd.

Established in 1922, MAKABE GIKEN develops and manufactures research equipment for developing new materials and new materials themselves with abundant know-how and advanced technology.

M&A Cases

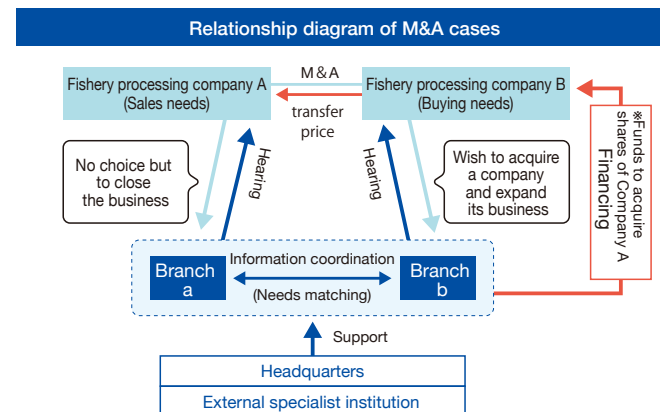
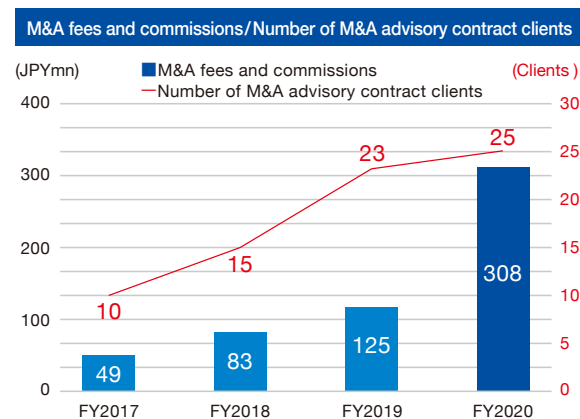
In order to meet the needs of our customers, we utilize our extensive network to provide support from consultation to the closing of M&A transactions.

At Branch A, the M&A specialist took the lead in proposing to Company A, a fishery processor that was considering closing down its business due to the absence of a successor, that the company hand over its business through M&A with a view to utilizing outside specialized organizations. However, there was no progress on selecting a candidate, and the decision to close the business was being made.

At that point, Branch B identified the needs of Company B, another fishery processor, to expand sales channels and secure human resources through M&A with a business feasibility assessment, and information coordination (needs matching) between the two branches and the head office was speedily carried out to realize the M&A.

As a result of this M&A, Company B was able to expand its seafood processing business by acquiring Company A's raw material suppliers and sales routes, and Company A was able to maintain its business and employment rather than simply closing down.

Company B is currently preparing to further expand its overseas business of Tohoku's food culture (processed marine products, etc.).



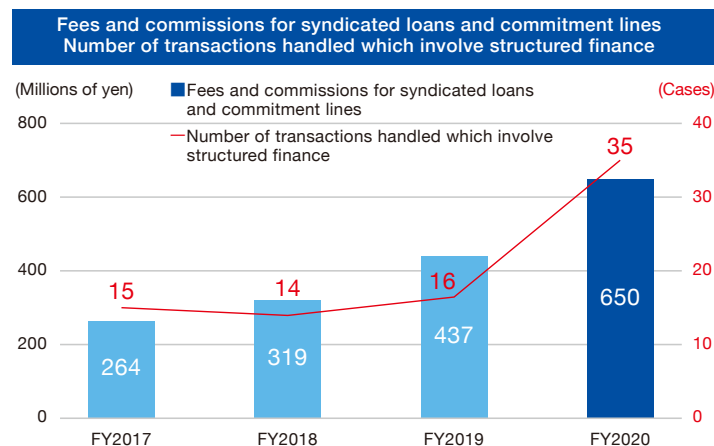
Signing a Project Finance Agreement for a Wind Power Generation Project in Kami District, Miyagi Prefecture

We have arranged syndicated loan project finance for the largest wind power generation project in Miyagi Prefecture.

JRE Miyagi Kami, a limited liability company in which Japan Renewable Energy Corporation has an equity stake, will be the main contractor for the project, which will construct 10 large wind turbines in Kami, Kami District, Miyagi Prefecture. After the start of commercial operation, all electricity will be sold to Tohoku Electric Power Co., Inc.

We believe that this project will contribute to the "Renewable Energy and Energy Conservation Plan" formulated by Miyagi Prefecture with the aim of increasing the introduction of renewable energy and improving the self-sufficiency ratio of electricity. In order to support the promotion of renewable energy projects and the revitalization of the local economy, a syndicated loan will be formed by regional banks in Tohoku to provide project finance for this 42.0 MW-class wind power generation project—one of the largest in scale in Miyagi Prefecture.

Banks in the six prefectures of Tohoku (Aomori Bank, Akita Bank, Bank of Iwate, Toho Bank, and Yamagata Bank, in addition to The 77 Bank) will participate in the project and work toward the scheduled start of commercial operations in April 2023.



Collaboration with 77 Research and Consulting



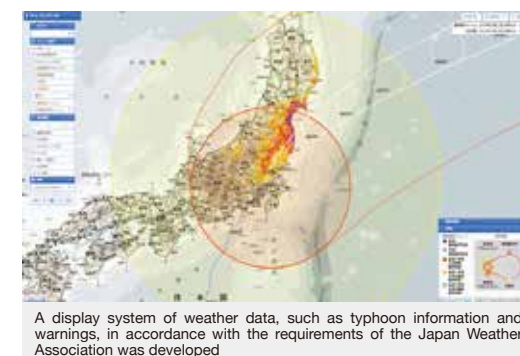
The 77 Bank Group members join forces to help customers realize their wishes.

We interviewed Mr. Sato, CEO of Arces Inc., which is working to establish its corporate philosophy and improve its personnel system through consulting by 77 Research and Consulting (77 R&C), a 77 Bank Group company.

Arces Inc., is a company that develops systems such as weather-related ones. The data provided by our client, the Japan Weather Association, is used in a wide range of fields, including ministries, local governments, media, railroad companies, and road management companies. Recently, we have also developed a system for rockets.

Our company was established in 2010 by becoming independent from a system company headquartered in Tokyo, and we inherited the personnel system as it was. However, as we signed a partnership agreement with a company that was leading the way in Working Style Reform initiatives, and as the number of employees increased, changing the working environment, we began to feel the need to improve our HR system. It was right around this time that Mr. Yamazaki, deputy branch manager of 77 Bank's Nakakecho branch (currently deputy manager of the Higashi-Sendai branch), introduced us to 77 R&C. So we decided to ask their support.

At first, what we wanted to consult on was the HR system, but 77 R&C suggested that we go beyond that area and first create a corporate philosophy, establish a business strategy, and then develop the HR system accordingly. I was quite convinced by that proposal.



Mr. Kaoru Sato, CEO of Arces Inc. (center)
Hirafu Yamazaki, 77 Bank (left)
Katsushi Saiki, 77 Research and Consulting (right)

I think the reason we were able to create a corporate philosophy based on the thoughts of our employees was that we were provided with tailor-made solutions to meet the challenges of our organization. Through the process of consulting, including employee surveys and hearings, we were able to deepen communication with our employees and realize that our company was chosen because of the emotional connection between our employees and customers. In the future, we will work with customers to solve various issues on the basis of our corporate philosophy, striving to gain trust by focusing on proposal-based system development while valuing the strong relationship of trust that we have built through our business activities.

From 77 R&C Staff

We were introduced to Arces Inc., by the Nakakecho branch and had several meetings with the CEO, Mr. Sato. After it had been about 10 years since the transfer of the business, he wanted to improve the personnel system and working environment for further growth. Thus, we proposed the creation of a plan to promote Working Style Reform and a Revision of the Personnel System.

As we interacted with the employees through questionnaires and interviews, we were convinced that we could promote their growth and enhance their sense of fulfillment by facilitating communication between them, which would lead to growth as a company. We discussed various measures with Mr. Sato, and we have supported the presentation of the Working Style Reform Promotion Plan to employees and the Revision of the Personnel System as the next step.

As one of the members of the 77 Bank Group, we will continue to support our customers with solving their business issues in order to live up to their trust.

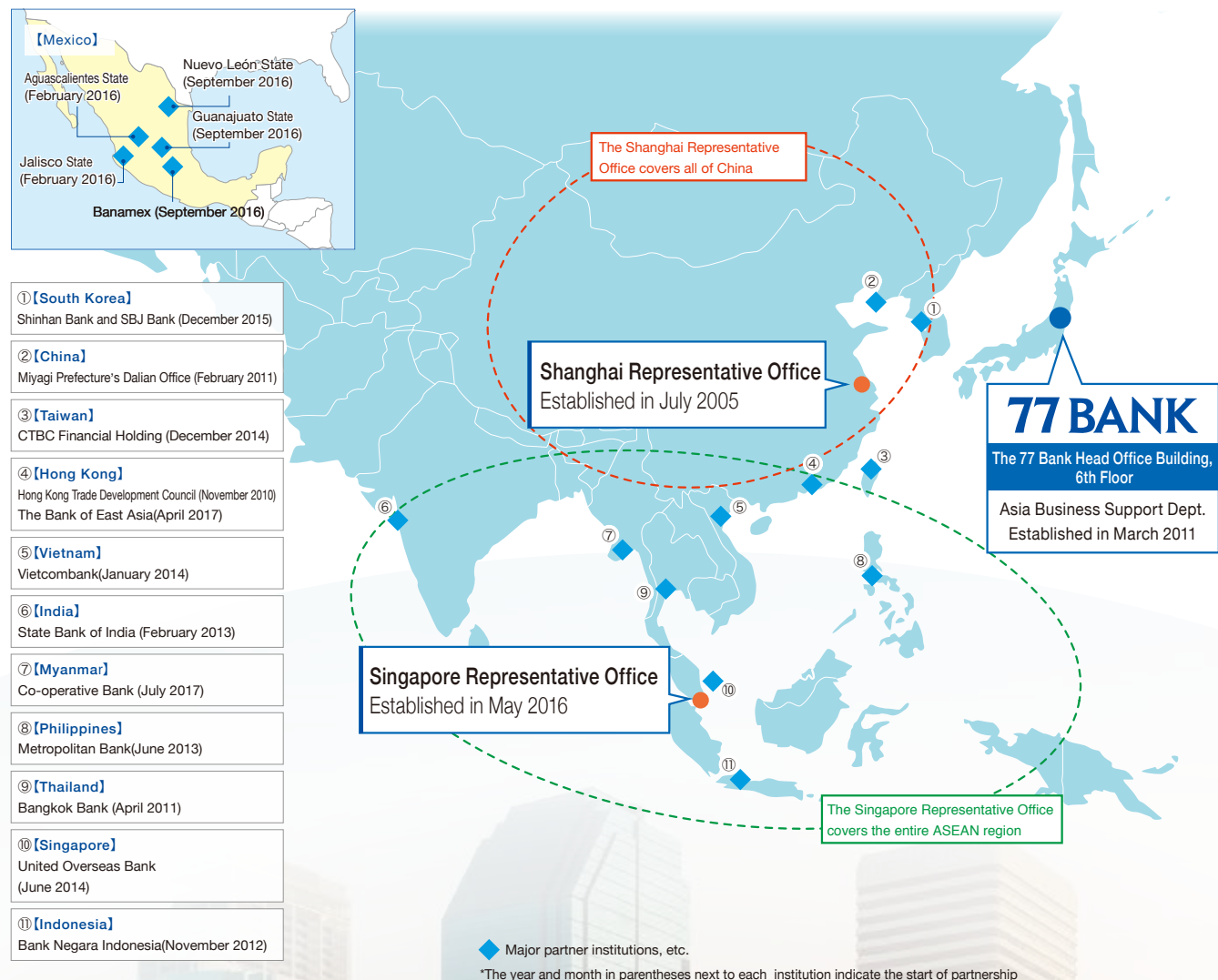
77 Research and Consulting Co., Ltd.

77 Research and Consulting conducts research and consulting by leveraging the network and information-gathering capabilities of the 77 Group. In the consulting field, we provide business succession, business strategy planning, financial advice, and various other management issues and requests.

Overseas Business Support

The Bank provides overseas business support, including support for overseas expansion, development of overseas marketing channels, and various trade transactions of clients using a broad network led by the Asia Business Support Department, and in coordination with our two representative offices (Shanghai and Singapore), employees deployed abroad in nine cities located in seven countries (regions), and partner overseas financial institutions.

Expansion of overseas network



Interview 03

Responding to the diverse needs of overseas businesses with flexible capabilities in cooperation with local correspondences

Assistant Manager,
Asia Business Support Department
Akinori Chiba

One of the strengths of our overseas business support is that we are able to provide a one-stop service from start to finish for consultations with customers whose needs vary greatly depending on the type of business and the target country. Our goal is to be a “one-stop shop for all your overseas needs” in our consulting business. In addition to overseas expansion and development of sales channels, we also receive many consultations on the acquisition of overseas human resources due to the declining birth rate and aging population in the Tohoku region.

In recent years, some of the contents that have been attracting attention from overseas are the high-quality food products of Tohoku. This has been driven by the registration of washoku (Japanese food) as a UNESCO Intangible Cultural Heritage in 2013. However, many customers of Tohoku’s primary industry said that it was difficult for them to move forward on a single-company basis when they were aiming to expand overseas. In response to this, we have organized the “Tohoku Food Sola Michi Council” in cooperation with specialized organizations in various fields, such as logistics and insurance, to support the promotion of exports of high-quality and safe food, agriculture, forestry, and fisheries products from Tohoku. From a long-term perspective, we believe that by connecting the dots that are products of Tohoku companies and expanding them into a plane of the Tohoku brand as well as by promoting Tohoku’s food culture to the world, we can help businesses increase their sales.

We also have one of the largest overseas networks among regional banks in the Tohoku region, which enables us to provide detailed support for the overseas business development of customers in a wide range of industries throughout the region. In recent years, our customers have

been accelerating their overseas business development, especially in Southeast Asia, and their expansion into Vietnam particularly has been increasing. We dispatch our staff to major financial institutions and Japanese consulting companies in Vietnam to provide the best solutions to our customers’ needs, including support for local financing and sales channel development.

The spread of the novel coronavirus has become a major issue in considering future overseas business development. When facing a situation such as this, especially in overseas markets, it is important to respond flexibly according to the situation at the time, rather than sticking to one particular approach. We are also working on such response, making efforts to utilize more non-face-to-face approaches in overseas business development, which was based on traffic of people. For example, in the area of sales channel development, we are actively creating overseas contact points using online channels. In cooperation with major cross-border EC management companies and specialized organizations such as the Japan External Trade Organization and SME Support, Japan, we are supporting our customers in introducing non-face-to-face channels and building systems for overseas business development.

Despite the constant need for change in overseas business support, our fundamental stance remains unchanged. Unlike megabanks, we have a long history of working with customers who operate businesses in the Miyagi and Tohoku regions. For this reason, we are able not only to track numerical information but also to act on the basis of our firsthand understanding of what our customers are struggling with and what they want to do about it. We will continue to provide the necessary services while keeping pace with each of our customers.

Outline of the Tohoku Food Culture Export Promotion Cooperative Association



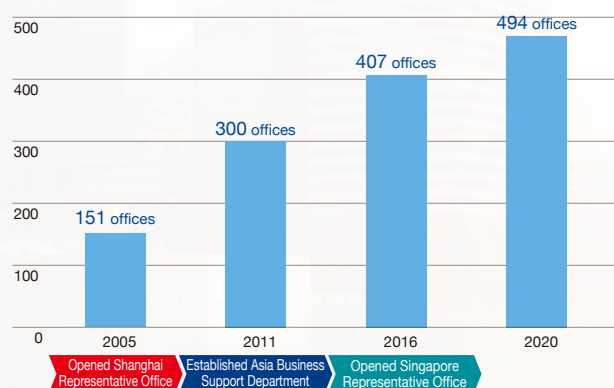
* Tohoku Food Sola Michi Council
Established with Sendai International Airport Co., Ltd., TOPPAN PRINTING CO., LTD., NIPPON EXPRESS CO., LTD., and Mitsui Sumitomo Insurance Co., Ltd., this council aims to connect Tohoku and the world through food, bringing revitalization of the community.

Number of employees deployed overseas

	Dalian, China	Miyagi Prefecture's Dalian Office	1
	Shanghai, China	Oversees representative office, etc.	3
	Hong Kong	Financial institution	1
	Hanoi, Vietnam	Financial institution	1
	Ho Chi Minh, Vietnam	Japanese consulting company	1
	Bangkok, Thailand	Financial institutions, etc.	2
	Singapore	Oversees representative office	2
	London, United Kingdom	Japan External Trade Organization	1
	New York, United States	Financial institution	1
total			13

* As of June 30, 2020

Number of overseas offices of local companies



Initiatives for Retail Customers

Interview 04



We provide support for asset succession and asset formation from the perspective of our clients, especially senior citizens.

Deputy Manager,
Consulting Promotion Department
Takayuki Endo

As the role of banks shifts from saving to supporting asset building, we provide services that are necessary for customers at various stages of their lives, from cradle to grave. In the Tohoku region, where the population is aging, we are receiving an increasing number of consultations from senior customers, so we use balance sheets to visualize their assets, such as insurance and deposits, as well as consider the life events expected for their families, and we make proposals to help them spend their lives in a more fulfilling manner. In addition, we are also working on inheritance measures. Many customers used to be reluctant to even talk about inheritance planning, but the Great East Japan Earthquake made them to reconsider their ways of life, and I have the impression that the number of customers asking for advice has been increasing for about 10 years. As an agent, we offer “testamentary trust” services, which include the preparation and storage of wills and

the execution of wills prior to the occurrence of inheritance, and “estate liquidation services,” which include the preparation of an inventory of assets after the occurrence of inheritance, to help ensure an amicable and smooth inheritance.

In the midst of these developments, two specific needs are growing: inheritance tax countermeasures and asset management for the age of the 100-year life cycle.

With the inheritance tax revision in 2015, we are receiving many requests for inheritance tax planning, especially from customers who are newly subject to the tax. We provide detailed support for everything from the basic concept of inheritance to succession measures such as the allocation of assets.

As for “asset management in the age of the 100-year life cycle,” more and more clients are becoming aware of their health expectancy and asking for advice on how to manage their assets while they are still healthy. One of the services that has recently become popular with these customers is the “civil trust” system, which allows them to set up a successor administrator for their real estate in advance in case something happens to them. The number of people using this service is increasing because it is a smooth procedure.

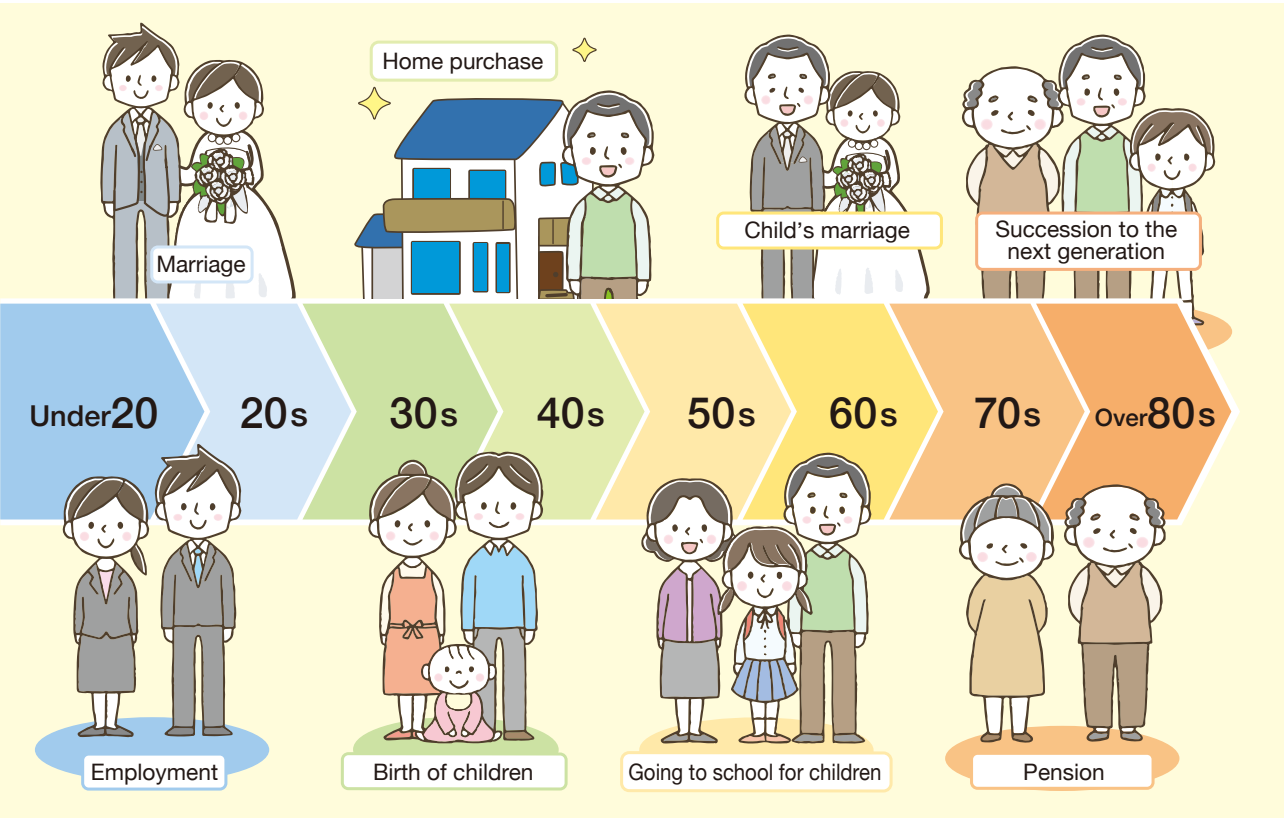
One of our major themes is to develop human resources within the bank so that we can offer the best solutions to our customers. At our bank, we try to acquire the necessary knowledge and experience through training sessions, role-playing based on case studies, and discussions in which a wide range of people, from branch managers to young employees, participate. In addition, we visit our branches on a

daily basis and visit customers with our staff members in order to develop human resources. At this time, we repeatedly tell our employees to always think about whether the proposals from the bank side are really beneficial to the customers and whether they would recommend them to their parents or family members. Customers are well aware that they cannot grow their funds only by making deposits, but in Japan, where there are few opportunities for investment education, there is still a lack of understanding about asset management. That’s why we try to provide them with detailed and easy-to-understand explanations. Our bank also holds investment seminars and study groups for customers, to which we invite them to stimulate their interest in and understanding of asset management.

My mission as a banker is to give back to my hometown. In particular, I believe that providing support for fulfilling lifestyles in old age and smooth succession of property to the next generation are important missions, and I would like to continue to provide honest assistance from the perspective of a customers.



Customer's life event image

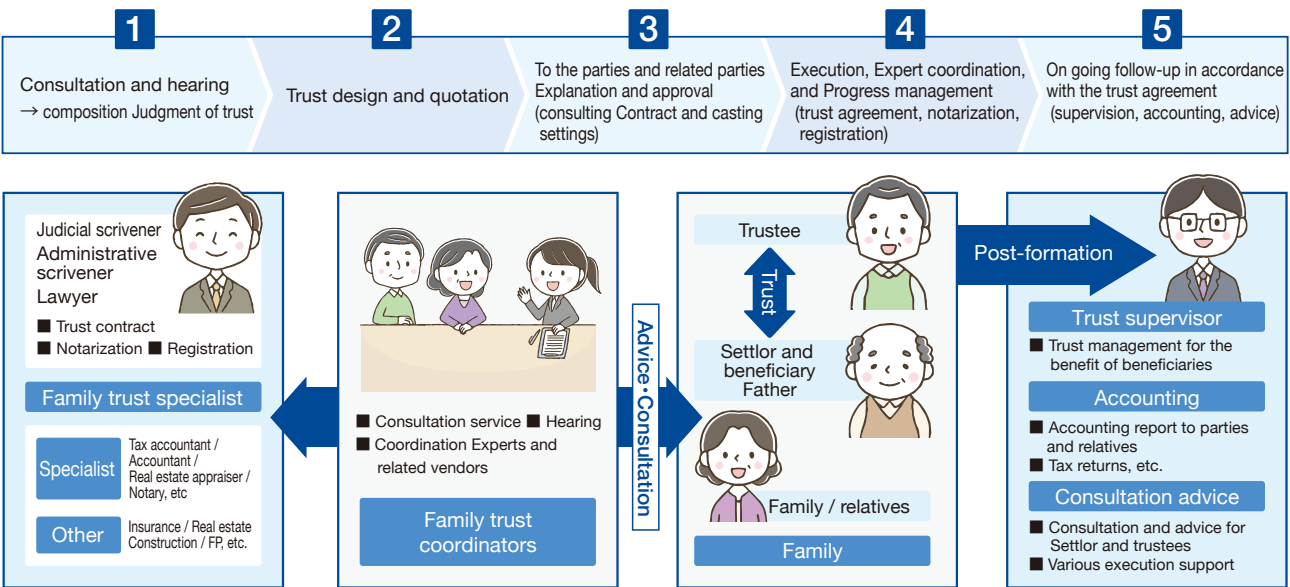


Expansion of handling of deposit accounts and so forth based on civil trust agreements

Close up

A civil trust is a method that allows an aging trustee to entrust the management of assets (real estate, deposits, etc.) to a trusted family member (trustee) in case the trustee loses the ability to make decisions due to dementia, etc. It is also commonly referred to as a “family trust.” In 2018, we started handling deposit accounts based on civil trust agreements, and in 2019, we started handling “77 Apartment Loans (Civil Trust Account).”

Five Steps from consideration to execution of a civil trust



Collaboration with 77 Securities

Interview 05



77 Securities Co., Ltd. Assistant Manager, Minamimachi-dori Branch
Orié, Kobayashi (left) Ami Hoshi (right)

Synergistic effects of cooperation between a bank and a securities company in developing products and intra-bank training

Committed to providing customer-oriented services as a member of the 77 Bank Group

Hoshi: With the establishment of 77 Securities, I now have many opportunities to propose asset management to customers who have not been active in asset management. Since there are many customers who have no experience in securities investment, I try to explain the difference between deposits and investments and the risks involved in investment in simple terms, avoiding too much technicality, and try to provide more understandable and careful explanations, thereby practicing the philosophy of “customer-oriented business management” set forth by the 77 Bank Group.

If customers have a need to invest in securities, we will introduce the customer to 77 Securities after confirming the customer’s intentions. Even after introducing the customer to 77 Securities, our staff will be present when the staff of 77 Securities

makes investment proposals to the customer, if necessary. In the event of a major change in the market, we will promptly provide the necessary information in cooperation with our staff at 77 Securities.

Kobayashi: In the three years since 77 Securities opened, we have been making investment proposals to customers and providing after-sales services under the motto “Customer First.” Against the backdrop of social trends such as the “shift from savings to asset formation” and the government’s encouragement of asset formation through stock investment, we have seen an increase in customer interest in asset management, and we have also seen an increase in requests for products with highly specialized themes, such as investment trusts related to the next-generation 5G communication standard. In order to meet the diverse needs of our customers and provide them with the



most suitable proposals, we strive to share information closely between bank and securities companies within the group, such as by having the 77 Bank provide us with information based on its long relationship with customers and by sharing customer needs identified by 77 Securities.

Focus on training employees to improve the quality of proposals.

Hoshi: At our bank, there are more and more opportunities for education, such as training sessions within the bank to improve the quality of proposals to customers. At the Minamimachi-dori branch, where I work, we hold study sessions twice a month, inviting speakers from 77 Securities, to learn about the market and share information about our customers. In addition, the Bank encourages employees to obtain qualifications related to the sale of financial products, such as FP and CFP, and many employees participate in in-house study sessions to raise their awareness of the need to acquire specialized knowledge. Most of the employees at the branch are also studying hard for the next exam.

In addition, there is a training program called the Trainee Program from the Bank to 77 Securities, in which trainees attend the on-site proposal sessions of 77 Securities sales staff to acquire skills in proposing and explaining products to customers. Based on the knowledge gained through the trainee

experience, the salespersons make proposals from a new perspective, which draws out the needs of customers and often leads to contracts.

Kobayashi: I also visit the branches I am in charge of and hold study sessions on a regular basis, and I have the impression that the number of motivated employees is increasing. We also hold a newspaper reading session every morning, and I have heard that some employees who went through the Trainees Program from the 77 Bank have been gathering their staff members to read the newspaper after returning to their own branches. I hope that this kind of movement will spread more widely.

Deepening cooperation to even better meet customers’ needs

Hoshi: Originally, as a bank, we made comprehensive proposals based on the asset status of our customers, including life plans for not only them but also their families. In particular, the Minamimachi-dori branch is surrounded by many other banks and securities companies and has many customers with strong interest in investments, so we will continue to deepen our cooperation with 77 Securities to meet a variety of needs.

Kobayashi: In general, I feel that we are cooperating well with the 77 Bank, but the degree of cooperation varies from branch to branch, so I think there is room for the 77 Bank Group as a whole to further deepen cooperation. Through our study sessions, daily sales activities, and other communication with our employees, we will continue to educate them on the importance of cooperation between the Bank and the securities company, and we will do our best to be of further assistance to our customers.

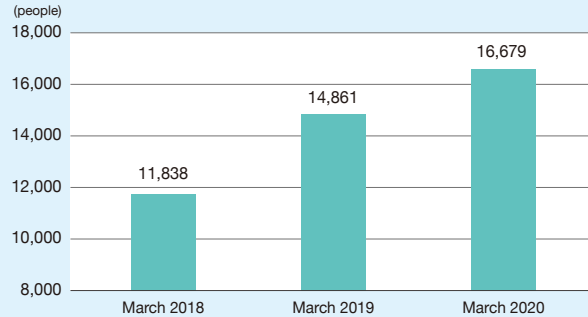
Strengthening of bank-brokerage partnership

Item	Results (branches / participants)	
Holding of bank-brokerage workshops by 77 Securities for the 77 Bank <small>Bank-brokerage workshops instructed by 77 Securities sales personnel are held for the purpose of improving financial product sales skills among employees of the 77 Bank.</small>	FY2019 1H	18 branches
	FY2019 2H	42 branches
	FY2020 1H	31 branches
	FY2020 2H	25 branches
The 77 Bank and 77 Securities collaborate to hold asset management seminars <small>The 77 Bank and 77 Securities jointly hold mutual fund seminars to provide customers with opportunities to receive reports on the investment status of investment trust products.</small>	August 2018	69 people
	February 2019	145 people
	August 2019	122 people
	February 2020	101 people

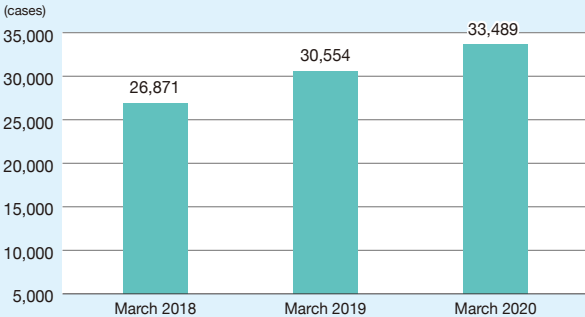
Provision of services that are appropriate for customers

The Bank actively propose the 77 Savings Investment Trust and tax-exempt accounts such as NISA, which are useful for asset formation by customers.

Number of 77 Savings Investment Trust contract holders



Number of tax-exempt accounts (NISA, etc.) opened



<77>Initiatives for Operations that Put Customers First

The Bank and 77 Securities Co., Ltd. have established the 77 Basic Policy on Operations that Put Customer First in order to promote the provision of quality financial products and service to customers. This policy is complied with executives and employees, and the status of initiatives is announced regularly.

* The 77 Basic Policy on Operations that Put Customers First can be viewed here.



The 77 Bank



77 Securities

* Japanese Language only

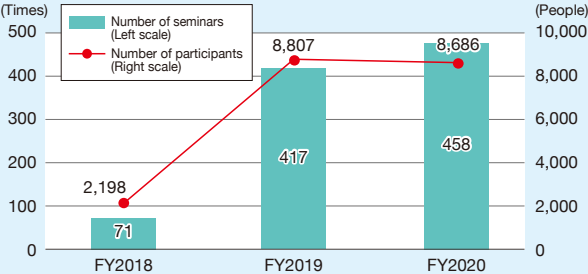
77 Securities Co., Ltd.

As the only securities company headquartered in Miyagi Prefecture, our bank-brokerage partnership with The 77 Bank allows us to support a broad range of needs through the provision of high-quality services from a customer perspective as well as highly specialized products.

Provision of information that is easy-to-understand for customers

The Bank and 77 Securities regularly holds seminars for customers in order to provide information on asset management that is easy-to-understand for customers.

<The 77 Bank> Number of seminars held for customers and number of participants



<77 Securities>

Item	Results (participants)
First anniversary seminar (April 2018)	143people
Mutual fund seminar (July 2018)	54people
New Year's seminar (January 2019)	110people
<77>Corporate briefings/Investment seminar(September 2019)	103people
Market Seminar "Seven Salon" (June 2019-February 2020)	9times/126people
77 Securities New Year's seminar and 77 Bank Corporate briefings (January 2020)	110people
<77 Securities>Market Seminar (February 2020)	30people

Initiatives of the COVID-19 Emergency Support Team and Earthquake Reconstruction Support

Interview 06



Utilizing our experience in earthquake and tsunami reconstruction support, we will support our customers with swift countermeasures against the spread of the novel coronavirus.

Deputy General Manager,
Consulting Promotion Division
Takuya Kyono (left)

Senior Credit Officer,
Credit Supervision Division
Masashi Mohri (right)

Responding to the changing needs after COVID-19

Kyono: Six months have passed since the COVID-19 Emergency Support Team was established, and I have the impression that the number of consultations about immediate cash flow—which were overwhelmingly common when the team was first established—have peaked out. Since May, there has been an increase in needs related to post-pandemic services, such as employment-related consultations and the search for ways to change existing business models.

In the Consulting Sales Department, to which I belong, liaison officers from the headquarters are stationed at core branches in the region, and we try to respond quickly and proactively while strengthening cooperation with the field.

Speedy decision-making and provision of information are essential for responding to emergencies

Mohri: It has been about eight years since I started working on reconstruction support, and we have developed a variety of measures. We have been able to make full use of these experiences in our countermeasures against the spread of the novel coronavirus. For example, the “on-site evaluation” system that we have developed to conduct evaluation close to customers in the affected areas has been reappropriated for us to make quick decisions on the spot. In the future, as in the process of reconstruction support, it is expected that there will be many aspects of making business plans and management improvement plans. In such cases, we will utilize the know-how we have accumulated so far and respond quickly in cooperation with external experts and organizations.

In addition, it is important to not only wait for consultations from customers but also proactively approach them and provide information. This time, the unforeseen outbreak of COVID-19 caused even latent needs to erupt at once. We will continue to build close relationships with our customers so that we can respond flexibly to their needs even in such an emergency situation.

The true value of our bank is being tested. This is where our support activities really begin.

Kyono: As a member of the Consulting Sales Department, I am determined to do everything I can to help our customers. I believe that this is a phase in which the true value of regional banks will be at stake, with regard to what kind of companionship and support we can provide from a long-term perspective, even when the future is uncertain.

Mohri: I feel that this incident has broadened our customer base by, for example, allowing us to support sole proprietorship customers with whom we had no previous relationship. From this point on, we will be even closer to the people in the community, and we will become a bank that people can consult about anything.

Together with our customers, we aim not at recovery but at reconstruction.

Kyono: In the activities of the COVID-19 Emergency Support Team, I believe that what we should do is essentially the same as what we do on a daily basis, which is to contribute to the growth and development of local economies by providing optimal solutions that meet the needs of our customers. In recent years, the business model of banks has changed dramatically, and we are striving to provide not only traditional

financial intermediary services but also consulting services to help our customers solve their various problems. We will continue to make initiatives to promote these initiatives widely so that our customers can make effective use of us.

Mohri: In our initiatives to support the recovery from the earthquake and tsunami, we often said that we wanted to “build back better, not just restore.” This means not just restoring

companies and stores to the state they were in before the disaster, but revitalizing them into a better state with an eye to the future. In response to the current situation, I would like to work with customers to create business revitalization and improvement plans that take into account the next few years and work together with them toward building back better.

COVID-19-related loan performance

Status of loan provision to businesses affected by COVID-19 (cumulative total up to June 2020, including changes in loan conditions) >> **3,248 cases / ¥245.5 billion**

Information provision to regional public bodies through public-private collaboration

By utilizing the video conference system of the Bank, Miyagi Prefecture, Sendai City, Tohoku Bureau of Economy, Trade and Industry, Miyagi Labour Bureau, and Miyagi Guarantee collectively provided information to all regional public bodies in Miyagi Prefecture as well as some of the regional public bodies in Fukushima Prefecture, on the topics including the emergency economic measures, employment support measures, and financial support measures.



Reconstruction Support Policy

In view of the massive damage inflicted by the Great East Japan Earthquake, The 77 Bank formulated its “Reconstruction Support Policy” to contribute to the reconstruction and development of the regional economy. The objective of this policy is to fulfill the Bank’s responsibility as a regional financial institution that should work hand-in-hand with the local region, through the provision of financial services and financial intermediary functions aimed at supporting reconstruction efforts of the region and customers.

All executives and employees of the Bank are working to support the region and the Bank’s customers by tackling various challenges in order to restore Miyagi and the wider Tohoku region to their original states of places brimming with vitality, affluence and kindness.



In “Reconstruction Support Policy” Click here for more information You can see it.
* Japanese Language only

Efforts toward earthquake reconstruction

Earthquake-related loan performance (cumulative total after the earthquake to March 31, 2020) >> **26,750 cases / ¥743.6 billion**

[Corporate]

	Operating	Capital expenditure	Total
Number of cases	6,044	2,605	8,649
Amount	¥273.5 billion	¥166.5 billion	¥440.0 billion

Results of Loans related to Recovery and Development Subsidy Project for SME Group Facilities, etc. (Miyagi Prefecture)



Bridge financing results — **860 cases / ¥61.9 billion**
Principal investment results — **175 cases / ¥12.8 billion**

Results of response to the double debt problems of businesses affected by the disaster



Businesses affected by the Great East Japan Earthquake designated by the Corporation for Revitalizing Earthquake-Affected Business — **188 cases**
Organization for Industry Reconstruction support clients — **75 cases**

77 Earthquake Reconstruction Support Housing Loans (for collective relocation/leased land type) disbursements



943 cases / ¥21.1 billion Number of housing rebuilding consultation meetings held >> **226 times**

Results of response to the double debt problems of retail customers affected by the disaster



Personal voluntary liquidation guideline support results
Consultations received — **507 cases**
Applications received — **258 cases**
Repayment plan proposals received — **216 cases**
Repayment plan proposals agreed to — **216 cases**
(Zero refused plans)

Initiatives for Regional Revitalization

Support for starting new companies or businesses

In order to create new industries and new businesses in the region, we actively support startups, second startups, and efforts to enter growth fields.

Cooperation with Tomiya school, an entrepreneur development project conducted by Tomiya City

We are cooperating with the Tomiya school, an entrepreneur development project conducted by Tomiya City. The Bank provides hands-on support for this program, including seminars based on our expertise and individual consultations, in order to make it a highly effective program that leads to the further growth of business seeds for those who aspire to start a business in Tomiya City.



Cooperation with regional public bodies

First “77 Regional Revitalization Business Matching Event” Held

We held the “77 Regional Revitalization Business Matching Event,” an information exchange meeting between regional public bodies that had concluded comprehensive cooperation agreements with us and private companies. The purpose of this event was to promote collaboration between regional public bodies and private companies, which can provide solutions to the challenges regional public bodies are facing. The event saw a very lively exchange of information.

〈Part 1〉
Presentations by regional public bodies



〈Part 2〉
Information exchange meeting

Regional public bodies with issues and challenges



Private companies that want to contribute to the community

Sharing of Regional Issues



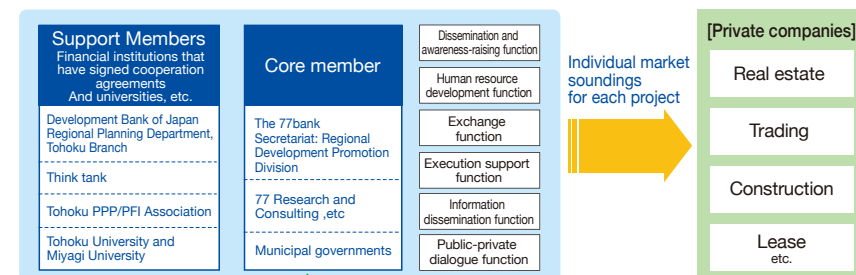
Proposals for solving problems



Business matching

Formation of Miyagi wide-area PPP platform

As part of the efforts to promote urban development projects based on the “Agreement on Comprehensive cooperation for Regional Revitalization” and other agreements with local governments, we have formed a regional platform as a place to continuously share information and promote dialogue between the public and private sectors in order to promote the use of private capital and know-how in the provision of public facilities and services.



Regional public bodies with which 77 Bank has concluded Comprehensive Cooperation Agreements for Regional Revitalization (33 as of June 30, 2020)



Promotion of urban development

We are actively participating in public-private partnership projects and providing support for the redevelopment of public infrastructure.

Support for Onagawa Town's public-private partnership organization through crowdfunding

In June 2020, we cooperated in the formation of a crowdfunding-based fundraising project by an organization to promote community development in Onagawa Town, Miyagi Prefecture, through a public-private partnership, with the aim of revitalizing the town's industry in the face of the novel coronavirus. In addition to providing support for the launch of the crowdfunding project and participating in the organization, we have also rendered financial support by contributing to the project's costs.



Four priority items for regional revitalization have been set as the following: “Support for starting new companies or businesses,” “Support and development of regional core companies,” “Promotion of urban development,” and “Support for promotion of tourism, etc.” The 77 Bank Group aims to achieve regional revitalization by contributing to the growth of local economies and the development of industries through cooperation with regional public bodies.

The 77 Bank

77 Research and Consulting
77 Capital, etc.

Tohoku University

Miyagi University

Tohoku Gakuin University,
etc.

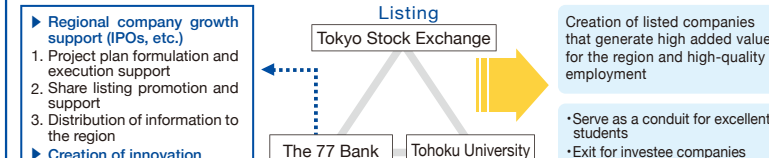
Support and development of regional core companies

We promote business evaluations and provide various solutions to meet the life stages of companies.

Collaboration with Tohoku University and the Tokyo Stock Exchange

In collaboration with Tohoku University and the Tokyo Stock Exchange, we are working to develop the regional economy by making individual visits to companies seeking to list their shares and proposing the use of the stock market operated by the Tokyo Stock Exchange, holding events for venture companies, and collaborating with Tohoku University's Business Innovation Promotion Program for regional companies.

The 77 Bank x Tohoku University x Tokyo Stock Exchange Collaboration Scheme



Support for promotion of tourism, etc.

We support tourism promotion projects that contribute to the expansion of the exchange population in order to revitalize the region.

Supporting the revitalization of a local railroad line through industry-academia-government-finance collaboration

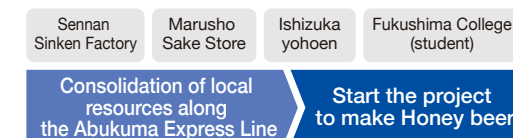
With the aim of revitalizing the areas along the Abukuma Express Line between Fukushima City in Fukushima Prefecture and Shibata-machi in Miyagi Prefecture, we worked on a project to raise funds for the production of “Honey beer” through crowdfunding in cooperation with universities, private businesses, and related regional public bodies along the Abukuma Express Line.

With the goal of making the area along the railway line more lively through industry-academia-government-finance collaboration



Decline in the number of passengers on the Abukuma Express, a local train that runs through both Fukushima and Miyagi Prefecture

[Honey beer production project]



Forum on regional revitalization along the Abukuma Express Line (December 2016~)

With 16 constituent organizations for revitalization, 5 working discussions were held [report on collaborative project was produced].

• Survey report on the area along the railway line
• Proposals for tourism PR methods

The 77 Bank

• Proposal for the use of crowdfunding
• Introduction of collaborators and asking them to participate in the project
• Financial planning support



Raised more funds than the target amount and succeeded in creating a new local product

Disseminating the charm of the railway line area!

Initiatives of the Financial Network of TOHOKU Tourism

With the aim of revitalizing the tourism industry in the Tohoku region and communicating its attractiveness, the 2nd FINE+ Tohoku Instagram Photo Contest was held as a part of the efforts of the Financial Network of TOHOKU Tourism*. The contest was open until the end of March 2020, and the initiative was a continuation of the first event held from April to the end of August 2019, which was very well received and decided to continue.

*The Network consists of Aomori Bank, Akita Bank, the Bank of Iwate, Yamagata Bank, Toho Bank, and the Development Bank of Japan



Hitome Senbon Zakura, (One thousand cherry trees in one view) Miyagi Prefecture



Mt. Kattadake summit, Miyagi Prefecture

Support for starting new companies or businesses

■ Launch of the Sendai Startup Ecosystem Promotion Committee

In December 2019, the Sendai Startup Ecosystem Promotion Committee was established with local industry, government, academia, and financial organizations. In July 2020, Sendai was selected by the Cabinet Office as a “Hub City for the Promotion of a Startup Ecosystem” in recognition of these and other efforts.



■ Provision of the 77 Business Startup Support Package

We are providing the 77 Business Startup Support Package, which covers our menu of business launch support services, in an aim to satisfy customers in the foundation stage with needs to optimize their operation, including for accounting and payment.

This is a package of products and services provided by the 77 Bank Group and business partners that can be used to improve the efficiency of operation including for accounting and payment. We support for a startup with a variety of services.



■ The 77 New Business Subsidy

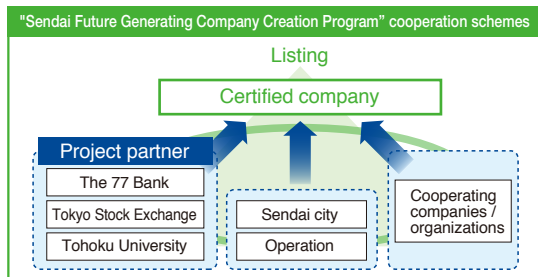
Since 1998, THE 77 Business Support Foundation has been awarding and subsidizing companies that are actively developing their businesses by utilizing new and original technologies and know-how. To date, a total of 76 companies have been selected and subsidized.

Support and development of regional core companies

■ Cooperation with the "Sendai Future Generating Company Creation Program"

The Bank works together with Sendai City towards intensive support for the listing of local companies, through cooperation in the Sendai Future Generating Company Creation Program implemented by Sendai City.

This program provides intensive support for stock listing, after recruiting and selecting local companies that could possibly be listed within roughly five years, and certifying them as Sendai Future Generating Companies. (eight companies were certified in FY 2020).

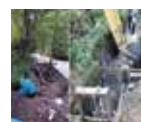


■ Support for Y.K. Sugawara

Y. K. Sugawara (Taiwa Town, Miyagi Prefecture), which cultivates Date Iwana, a specialty fish product of Miyagi Prefecture, suffered extensive damage from Typhoon No. 19 in 2019, making it difficult to continue cultivating the fish. The Bank proposed that Sugawara raise funds by crowdfunding for restoration of the aquaculture facility and of communicating the appeal of the product to a wide audience. For that purpose, we introduced our business matching partner, Music Securities Inc.

■ Support for the post-disaster business restoration, by utilizing crowd-funding

Securing funds for business continuity Business continuity at regional industries Publicity for the value of "Date Iwana (Japanese char)"



Scenes of damage in the aftermath



Date Iwana, Miyagi Prefecture's local specialty

Photograph Source: Project pages by Music Securities, Inc.

Promotion of urban development

■ Promotion of PPP / PFI project

In response to an expected increase in PPP/PFI projects led by municipal governments stemming from a declining population and aging public facilities, The Bank has further strengthened relationships with municipal governments, through initiatives including involvement in the project from the formulation stage. To date, the Bank has participated as a financing financial institution for 13 PPP/PFI projects in Miyagi Prefecture, and has conducted arranger services as the main bank for seven of these projects.

Track record of the Bank's PPP/PFI project in Miyagi Prefecture

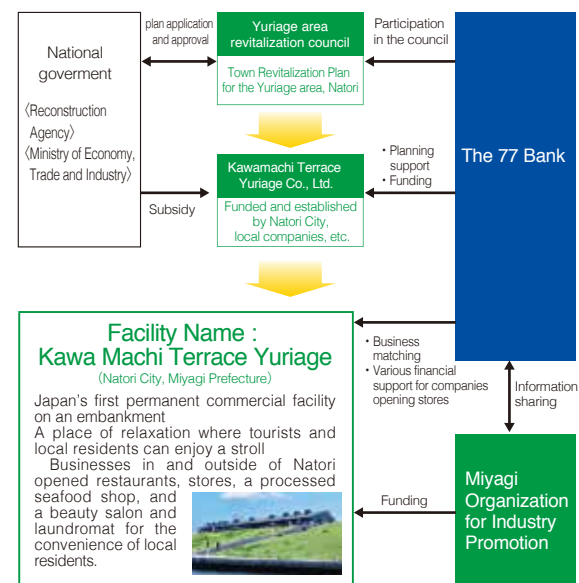
owner	Project
Sendai City	Matsumori Plant Related Civic Facilities Development Project "Spopark Matsumori"
Sendai City	Observatory Development and Operation Project
Tohoku University	Sanjo Student Dormitory Development Project
Ishinomaki District Integrated Administration of a Large Region Office Work Association	Fire Department Headquarters Transfer and Development Project
Sendai City	Nomura School Lunch Center Development Project
Ishinomaki District Integrated Administration of a Large Region	Office Work Association/ Nursing Home Improvement Project "Mansei-en"
Miyagi Prefecture	Fire Academy Transfer and Development Project
Miyagi Prefecture	Education and Welfare Complex Development Project
Higashimatsushima City	School Lunch Center Development Operation Project
Onagawa Town	Onagawa Seafood Processing Complex Wastewater Treatment Facility Development Project "Fishery Support Ogawa"
Ministry of Land, Infrastructure, Transport and Tourism	Sendai Airport Special Operation Project
Sendai City	Minamiyoshinari School Lunch Center Development Project
Tohoku University	Aobayama University House Development Project

■ Support for the Kawa Machi Terasu Yuriage Co., Ltd.,

It was established in September 2017 by a group of local businesses to build, operate, and promote new commercial facilities as part of the reconstruction and local development efforts in the Yuriage area of Natori, which was severely damaged by the Great East Japan Earthquake.

The new commercial facility, located near the mouth of the Natori River, is the first permanent commercial facility on the embankment in Japan and an attractive spot integrated with the waterfront, with restaurants and stores.

As a member of the local Town Revitalization Council, The 77 Bank has been involved from the business planning stage, and in addition to providing funds and business matching services, we have also provided funds and support to install cashless payment for companies that have opened their stores in Kawa Machi Terasu.



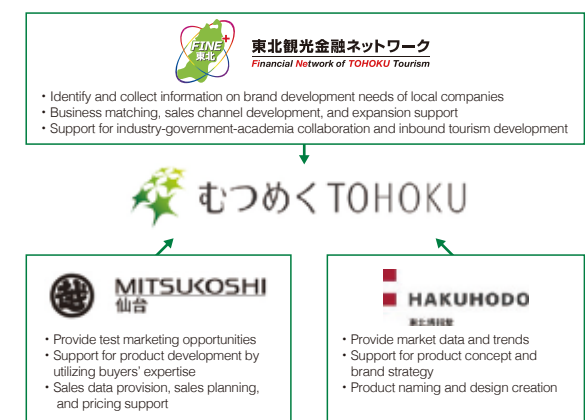
Photograph Source: Kawamachi Terrace Yuriage Co., Ltd.

Support for promotion of tourism, etc.

■ Initiatives of the Mutsumeku TOHOKU Laboratory

In March 2018, the Financial Network of TOHOKU Tourism, Sendai Mitsukoshi, and Tohoku Hakuhoodo signed a business cooperation agreement with the aim of developing regional industries and so on, launching the Mutsumeku TOHOKU Laboratory.

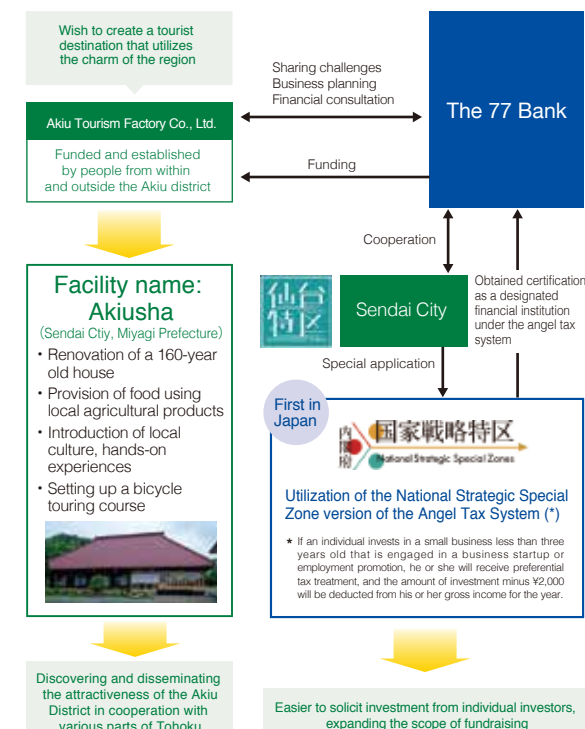
We are working on the development of local industries and the promotion of tourism by discovering processed products and handicrafts that utilize the local resources of Tohoku, refining them into new local brands, and promoting their sales.



■ Support for the Akiu Tourism Factory Co., Ltd.

Business owners and business representatives of several companies in Miyagi Prefecture have been working together to make use of traditional Japanese houses and to attract tourists to the prefecture. A 160-year-old traditional Japanese house in the Akiu district of Sendai has been renovated into a tourist exchange center, which also houses a restaurant.

The 77 Bank has been providing support for efforts to promote the attractiveness of the region as a tourist destination and to revitalize the local community, such as by obtaining a designated financial institution for the use of the angel tax system in Sendai using the national strategic special zone to encourage diversification of fund procurement.

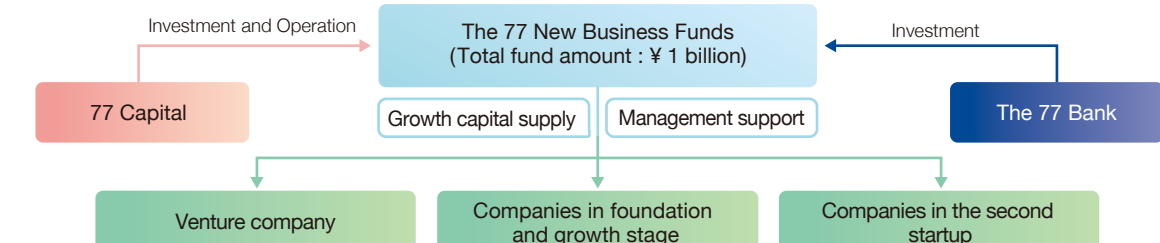


Photograph Source: Akiu Tourism Factory Co., Ltd.

■ Supply of funds by 77 Capital Co., Ltd.

The 77 New Business Fund, which The 77 Bank established with its group company 77 Capital Co., Ltd. supports the growth of companies in various life stages, mainly by providing capital funds.

Kakiya Co., Ltd. (Shiroishi City, Miyagi Prefecture) manufactures processed marine products such as salmon flakes and squid okra as well as daikon garnish to accompany sashimi made from locally grown Zao Kogen Daikon and cut vegetables made from its own produce, and it sells them widely throughout Japan. The company is working on the succession of the business from the founding owner and is making efforts to expand products that meet consumer needs and to enhance manufacturing facilities to increase supply volume. The 77 Bank and 77 Capital Co., Ltd. proposed raising funds through equity as part of efforts to strengthen their management structure. The company aims to achieve further growth by utilizing the obtained funds.



77 Capital Co., Ltd.

77 Capital's main business activities include the formation and management of investment limited partnerships (funds). In addition to providing a wide range of funding in response to the business characteristics and needs of companies, the company is actively engaged in company development and company support through investment and is working to improve regional value.

Paperwork-free × Digital

Strengthening consulting capabilities based on human

Paperwork-free

Reduction, centralization, and simplification of branch office administrative work

- Abolition of excessive administrative work
- Centralization of branch operations at headquarters
- Simplification of the remaining paperwork at branches



services through Paperwork-free × digital

Digital

Promotion of Paperwork-free through the digitalization and expansion of non-face-to-face channels

- Automation and streamlining of branch office operations
- Realization of paperless, seal-less, passbook-less, and cash-handling-less
- Provision of full banking functionality through personal apps



Interview 07

Reducing administrative work at branch offices and increasing the time spent with customers

In order to improve the Bank's profitability, we must increase the amount of time we spend on customer-facing consulting. To achieve this goal, we have started full-scale "Paperwork-free" initiatives to reduce inefficient work and inefficient desk-bound hours.

One initiative with which we are currently experimenting is Centralization to Headquarters. This work can be broadly divided into that of the Operations Group and that of the Loan Group. In the Operations Group, much of the administrative work and time-consuming tasks generated at the branches are transferred to a specialized department at the headquarters for centralized administrative processing. In addition, the Loan Group at headquarters handles the examination and storage of approval documents and contracts related to transactions with customers, execution operations, foreign exchange operations, and other tasks that used to be handled by staff at branches. Centralizing these operations will allow branch employees to spend more time with customers, which will lead to proposals that are more highly specialized as well as tailored support. We are gradually expanding this initiative to cover all parts of the Bank while checking for improvements and problems. So far, the feedback has been positive, and I am confident about the success of this initiative.

Eliminating paperwork will also have a significant impact on the digital strategy we are pursuing. We can maximize our digital strategy's effectiveness by thoroughly reducing inefficient operations and then identifying operations that can be replaced by digital ones. In order to go seal-less, passbook-less, paperless, and so forth, we must form a new framework through the power of digital technology. To this end, we are working closely with the Digital Strategy Division on each initiative.

There is no end to reducing administrative work. In each era, technology evolves, and customers' needs change. We must constantly review our style and adapt to changes. In the past, we have been too busy to address many issues in day-to-day operations, even if we found them to be wasteful or inefficient. With this initiative, we have received many opinions and ideas from branches toward the realization of Paperwork-free.

In order to accurately respond to societal changes, we will continue to foster a culture within the Bank in which each employee is always conscious about the efficiency of office work and proactively seeks to improve it.



Senior Officer, General Planning & Coordination Division
Hiroaki Takahashi

Seeking to strengthen consulting sales by promoting digitalization within the organization

Society is changing toward digitalization, so our bank also must change its business model. In order to achieve this, we must first eliminate inefficient administrative work, which will lead to our digital transformation. This will strengthen consulting sales, which are close to customers and unique to regional banks.

One of the things we are currently focusing on in our digitalization efforts is expanding our non-face-to-face channels. By using non-face-to-face channels, we can collect data that cannot be obtained through face-to-face conversations, which can be used for analysis and research to uncover needs that even customers are unaware of and to propose optimal services. In particular, the penetration rate of Internet banking using smartphones and PCs is increasing rapidly, and we are making ground-up efforts to upgrade and enhance the functions of our Web services and applications.

On the other hand, RPA has been introduced at the headquarters to automate routine tasks. We also plan to greatly promote the use of AI in the future. For example, in the past, when we proposed services to customers, we contacted them based on their balance sheet at the end of the month. Ideally, it would be more effective to check the trends on a daily basis, but this was not possible, considering the time and workload involved. However, with the use of AI, we can acquire customer data automatically and cross-analyze the data with other information, making it possible to propose the necessary services at more precise times.

We would also like to enhance our equipment. For example, by having our employees use tablets, we can provide our customers with timely information on industry trends and highly specialized content. This will be a great help, especially for young employees who are still inexperienced.

While promoting these initiatives, we must be aware that digital technology is not a panacea. In particular, unlike megabanks and Internet banks, our bank is rooted in this region and has a mission to work together with the community. In this sense, we must take advantage of digital technology to enhance our convenience as a bank; at the same time, we must value our unique qualities, such as the fact that our employees will continue to visit our customers and provide face-to-face support. I believe that our mission going forward will be to transform our business model by skillfully integrating digital with non-digital and face-to-face with non-face-to-face.

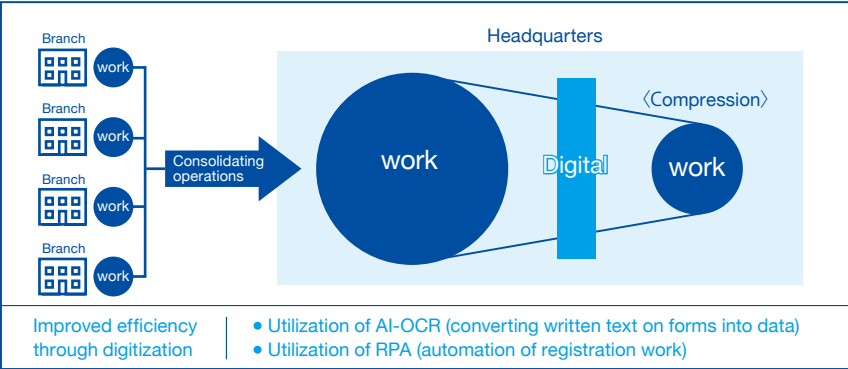


Manager, Digital Strategy Division
Hiraku Nakatsugawa

Automating and Streamlining Branch Office Operations with Digital Technologies

We are creating more time to focus on consulting by consolidating the remaining administrative work at the branches to the headquarters and automating it through the use of RPA and other digital technologies.

〈Case Study〉
Credit rating operations in the financing business, etc.



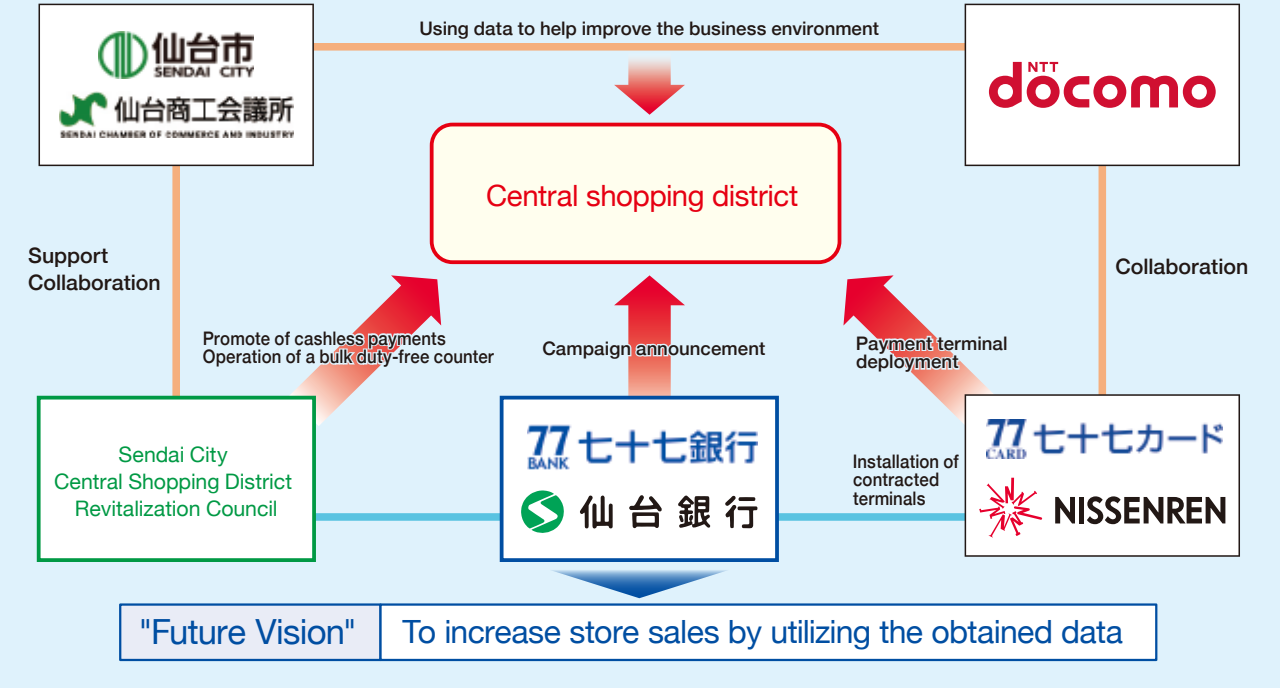
Realization of a Cashless Society

Cashless payments are spreading around the world. The central government's goal is to increase the domestic cashless payment ratio from the current 25% to 80% in the future in order to improve payment efficiency and attract inbound tourism consumption. In order to enhance customer convenience through cashless transactions, we support debit cards as well as a wide variety of smartphone-based cashless-payment services provided by external companies.



Collaboration with 77 Card

MORI-NO-MIYAKO CASHLESS TOWN initiative of Sendai's Central Shopping District is aimed at making the district the most convenient place to shop in Japan. With the aim of further promoting the use of cashless payments, The 77 Bank, together with 77 Card, is working with the Sendai City and other organizations to revitalize shopping areas. We aim to increase sales at local stores by utilizing the data obtained from the spread of cashless payments.



77 Card Co., Ltd. 77 Card issues credit cards for retail and corporate customers and is also engaged in the card loan guarantee business. In addition, the company is working together with government agencies to support the introduction of cashless terminals to promote the further spread of cashless payments.

Expansion of Non-face-to-face Channels

The Bank is making efforts to expand its non-face-to-face channels, such as the 77 Bank App.

77 Bank App

App that enables retail customers to use various services whenever they want without visiting a teller, including viewing balances, or having fun saving for preset goals like buying a car or going on a trip.

Balance, deposit, and withdrawal details

You can check your account balance and deposit/withdrawal details in real time.

Transfers and other transactions (Internet Banking)

Customers can log into their Internet banking account to make transfers and other transactions.*

Lifetime Passbook by Moneytree

By linking up to Moneytree, a personal-asset-management app, users can manage their bank, securities, credit card and point services balances and so forth all in one place.*

Deposit by Purpose

Clients can set a target amount and deadline for saving for each purpose, such as purchasing a car or taking a trip.

77 BANK PayB

App that enables payments to be made anytime, anywhere without going to an ATM or convenience store, as long as you have a smartphone and payment handling slip.

77 Bank app account opening

App that enables a user to apply to open an ordinary deposit account or investment trust trading account from the comfort of their home, etc. at any time without visiting a teller.

Coupon

We will send out special coupons.

The 77 Bank Website for Our Customers' Employees 77 Web Relations

We are constantly updating this site with exclusive information, such as about campaigns and products that are available only to employees of our customer companies.

Links to Other Companies' Websites

77 Bank app can provide links to other companies' websites in order to enhance convenience by providing local information and convenient information from other companies' services, and the list of links is expanding.

Internet Insurance

Internet insurance is an insurance product that can be completed from application to contract via smartphone. One can also use the Insurance Robot Advisor for detailed simulations.

Insurance Review Simulation

With nine questions, customers can get a solid quote and automatically calculate their premiums.

IB Investment Trust

The fees are more reasonable than over the counter. Users can also set goals with the email function.

Investment Trust Information Distribution Service

You will receive information about funds (NAV, distributions and so forth), stock market information and recommendations from us according to your settings.

100% Web based Loans

100% Web based loans are a loan product that can be completed from application to contract via smartphone. (Lineup)

- 77 Car Loan
- 77 Wide Loan
- 77 Educational Loan
- 77 Card Loan
- 77 multi-purpose Loan

WEB Passbook

WEB Passbook is an environmentally friendly and convenient service that allows users to inquire about their balance, deposits, and withdrawals without providing a paper passbook. Users can check transactions from the past 13 months.

便利シカー!

Message from an Outside Director



Interview 08

Outside Director
Emiko Okuyama

In 1975, she was hired as a Sendai City official. After working on the Citizens' Affairs Bureau and the Education Bureau, she ran for Sendai mayor in 2009 and first elected. Served two terms as mayor, which ended in 2017.

As an outside director, she makes proposals for the further promotion of Working Style Reform from an objective standpoint.

I believe that the role of outside directors is to confirm various initiatives and make recommendations from an objective perspective to allow The 77 Bank to contribute to the development of the regional economy in Tohoku and become customers' preferred bank. There is a wide range of issues I can confirm, including those that are difficult to notice from within the bank and determining the balance between risk and safety. One of the things I am focusing on is Working Style Reform through promoting diversity. I believe that if each of our diverse employees can perform their duties with a sense of satisfaction and fulfillment, it will lead to the improvement of productivity and services.

In 2015, while serving as the mayor of Sendai, I gave a speech at a symposium on the promotion of women's advancement hosted by the Bank, and I got the impression that the Bank is enthusiastic about promoting diversity. In fact, it has been proactive in its efforts to date, including the establishment of the Working Group for the Promotion of Women's Participation in 2013 and the Diversity Promotion Office in 2016. When I met female employees at symposiums and seminars, I found that many of them were active and talented, and I felt the need to create an organization that would put them in positions that prompt them to demonstrate their abilities. Compared to 10 years ago, the percentage of women in management positions has increased significantly, but I believe we can increase it further.

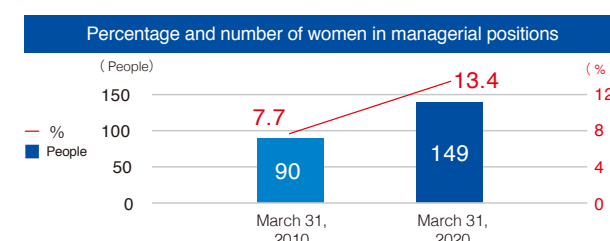
One of the themes I am focusing on as an inseparable part of this issue is young employees' visualization of their career plans, including female employees. If too many employees leave the bank within a few years, the investment in human resources will not be worthwhile, and the transfer of business know-how may be hindered. To prevent such a situation, we need to communicate the job's attractiveness to employees and evolve into a workplace that appeals to long-term employees; the job of a banker is enticing and significant. With the financial crisis of 2007–2008, the Great East Japan Earthquake, COVID-19, and other unimaginable events happening one after

another, banks are playing an extremely important role in society and the economy. Being involved in a job that supports the social economy is highly rewarding and helps employees grow as people.

To address the issues of female managers and career advancement, I think it is important "to deepen the perspective of employees" and "to share information within the bank." In FY2020, we will continue to hold a number of career seminars and round-table talks for childcare leave participants, and I hope that employees will take advantage of these opportunities to learn management skills based on accepting diversity and communication skills for improving the work environment.

Also, to motivate young employees, it is necessary for management to present a clear vision of their policies and what they are thinking. For example, to make young employees feel that there is a connection between the headquarters and the front line in the field, it is necessary not only to disclose information formally, but also to devise ways to disseminate information that is easy for young employees to understand.

Through the Board of Directors and various events, I feel that President Kobayashi is also focusing on Working Style Reform, and our efforts are making steady progress, such as receiving awards from the Ministry of Health, Labor and Welfare and Miyagi Prefecture as a model company for promoting diversity. I will continue to support the company in its efforts to make further progress.



Working Style Reform Efforts

The Bank is committed to creating a highly productive organization where each and every employee can perform to their full potential in a healthy state of mind and body, and with a greater sense of fulfillment and job accomplishment. By allowing our employees and the organization to continue to grow together while enhancing our consulting capabilities, we aim to be the bank chosen by customers in the region.

Develop promising human capital —People make companies—

1. Fostering an organizational culture of self-education
2. Enhancement of consulting capabilities through human resources development programs, etc.
3. Initiatives aimed at career development support
4. Initiatives aimed at improving abundant personal capabilities

Realize work-life balance —From work-work to work-life—

1. Strengthen efforts aimed at reducing total working hours
2. Supporting employees to balance work and childcare/nursing, etc.

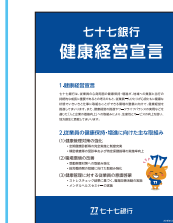
Promote health and productivity management —A healthy body is capital—

1. Formulation of the Health and Productivity Management Declaration
2. Strengthening health management measures
3. Improving the work environment
4. Raising employee awareness of health management

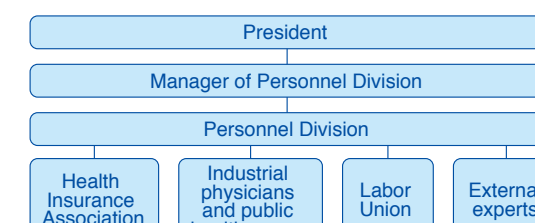
Working Style Reform Efforts

Promote Health and Productivity Management

In December 2018, the Bank issued the Health and Productivity Management Declaration and has been strengthening its efforts accordingly. As for specific initiatives for Health and Productivity Management, based on the results of the previous fiscal year, we have established a system in which the Personnel Division plays a central role in the management of the program and implements it in cooperation with the health insurance association, industrial physicians and public health nurses, labor union and external experts.



(Formulated in December 2018)



Vision aimed for by the Bank through working style reform

Become the bank chosen by customers

through improvements in productivity and service

Establish an environment where diverse human resources can demonstrate their full potential —Rewarding working environments—

1. Strengthening initiatives to promote the active participation of women
2. Utilizing seniors, part-timers, etc.
3. Revision of personnel evaluation systems



Held "Career Seminar / Exchange Meeting" with Outside Director Okuyama

46 female employees participated

External evaluations on the Bank's initiatives

Certified "Platinum Kurumin", a special certification pursuant to the Act on Advancement of Measures to Support Raising Next-Generation Children



Certified "Gold Certified Company" for successfully fulfilling potential of female talents in Miyagi Prefecture



Certified "Eruboshi (Grade 3)," commending general business proprietors meeting the requirements for promoting female participation, pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace



Chosen as a constituent of MSCI Japan Empowering Women Index, which recognizes companies with outstanding efforts in promoting the participation and advancement of women in the workplace



Received "Commendation for a Model Business Committed to Creating Attractive Workplace" from Miyagi Prefecture and Miyagi Labour Bureau



2020 健康経営優良法人 Health and productivity ホワイト500

Certified as "Health and Productivity Management Organization 2020 (White 500)"

* Notes on MSCI indexes and logos, etc., THE INCLUSION OF The 77 Bank, Ltd., IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF The 77 Bank, Ltd., BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

Board of Directors and Audit & Supervisory Committee Members

(As of July 31, 2020)



Hidefumi Kobayashi

President

Apr. 1981 Joined the Bank
Jun. 2006 General Manager, Treasury Div., the Bank
Jun. 2008 General Manager, General Planning & Coordination Div., the Bank
Jun. 2010 Director and General Manager, General Planning & Coordination Div., the Bank
Jun. 2013 Director and General Manager, Head Office Business Div., the Bank
Jun. 2014 Managing Director and General Manager, Head Office Business Div., the Bank
Jun. 2015 Managing Director, the Bank
May. 2016 Managing Director, the Bank, General Manager, Ishinomaki Branch and Minato Branch
Jun. 2016 Managing Director, the Bank
Jun. 2017 Representative Director and Deputy President, the Bank
Jun. 2018 Representative Director and President, the Bank (current position)

Teruhiko Ujiei

Chairman

Apr. 1969 Joined The Industrial Bank of Japan, Limited
Aug. 1992 Associate Director-General, Related Business Department, The Industrial Bank of Japan, Limited
Jun. 1993 Director and General Manager, Business Development Div., the Bank
Jun. 1995 Director and General Manager, Business Promotion Div., the Bank
Jun. 1997 Director and General Manager, Head Office Business Div., the Bank
Jun. 1998 Managing Director and General Manager, Head Office Business Div., the Bank
Jun. 1999 Managing Director and General Manager, Investigation Div., the Bank
Mar. 2000 Managing Director, the Bank
Jun. 2002 Senior Managing Director, the Bank
Jun. 2005 Representative Director and Deputy President, the Bank
Jun. 2010 Representative Director and President, the Bank
Jun. 2018 Representative Director and Chairman, the Bank (current position)

Makoto Igarashi

Senior Managing Director

Apr. 1980 Joined the Bank
Sep. 2000 General Manager, Onahama Branch, the Bank
Jun. 2002 General Manager, Bashonotsuji Branch, the Bank
Jun. 2004 General Manager, Shiroishi Branch, the Bank
Jun. 2005 General Manager, General Affairs Div., the Bank
Jun. 2006 General Manager, Personnel Div., the Bank
Jun. 2009 Director and General Manager, Tokyo Branch, the Bank
Jun. 2012 Director and General Manager, Business Promotion Div., the Bank
Jun. 2013 Managing Director, the Bank
Jun. 2017 Senior Managing Director, the Bank
Jun. 2018 Representative Director and Senior Managing Director, the Bank (current position)



Managing Director Koichi Suzuki

Apr. 1984 Joined the Bank
Mar. 2005 General Manager, Wakuya Branch, the Bank
Sep. 2007 General Manager, Masuda Branch, the Bank
Jun. 2009 General Manager, General Affairs Div., the Bank
Jun. 2013 General Manager, Business Promotion Div., the Bank
Jun. 2014 Executive Officer and General Manager, Business Promotion Div., the Bank
Jun. 2015 Director, Executive Officer and General Manager, Oroshimachi Branch, the Bank
Jun. 2018 Managing Director, the Bank (current position)



Managing Director Yoshikazu Onodera

Apr. 1985 Joined the Bank
Sep. 2007 General Manager, Hachimanmachi Branch, the Bank
Mar. 2009 General Manager, Yoshoka Branch, the Bank
Jun. 2011 General Manager, Operations Management Div., the Bank
Jun. 2013 General Manager, General Planning & Coordination Div., the Bank
Jun. 2014 Executive Officer and General Manager, General Planning & Coordination Div., the Bank
Jun. 2016 Director, Executive Officer and General Manager, Ishinomaki Branch and Minato Branch, the Bank
Jun. 2018 Managing Director, the Bank (current position)



Outside Director Masahiro Sugita

Apr. 1967 Joined the Bank of Japan
May. 1996 General Manager, International Dept., the Bank of Japan
Jun. 1998 Director, Research Institute of Overseas Investment, the Export-Import Bank of Japan
Sep. 1999 Auditor, the Bank of Japan
Dec. 2003 Standing Audit & Supervisory Board Member, Banyu Pharmaceutical Co., Ltd. (currently MSD K.K.)
Jun. 2006 Director, Horiba, Ltd. (current position)
Jun. 2007 Audit & Supervisory Board Member, the Bank
Oct. 2009 Audit & Supervisory Board Member, Banyu Pharmaceutical Co., Ltd. (currently MSD K.K.)
Jun. 2013 Director, the Bank (current position)



Outside Director Emiko Okuyama

Apr. 1975 Joined the Sendai City Government
Aug. 2009 Mayor, Sendai City
Jun. 2018 Director, the Bank (current position)



Director, Audit & Supervisory Committee Member Yoshiaki Nagayama

Apr. 1971 Joined the Bank
Jun. 1993 General Manager, New York Branch, the Bank
Jun. 1995 General Manager, International Div., the Bank
Jun. 1997 Director and General Manager, Business Promotion Div., the Bank
Jun. 1999 Director and General Manager, Tokyo Branch, the Bank
Apr. 2001 Director and General Manager, General Planning & Coordination Div., the Bank
Jun. 2003 Managing Director, the Bank
Nov. 2003 Managing Director and General Manager, International Div., the Bank
Jun. 2004 Managing Director, the Bank
Jun. 2006 Senior Managing Director, the Bank
Jun. 2008 Representative Director and Senior Managing Director, the Bank
Jun. 2010 Representative Director and Deputy President, the Bank
Jun. 2017 Director, Audit & Supervisory Committee Member, the Bank (current position)



Director, Audit & Supervisory Committee Member (Outside Director) Toshio Suzuki

Apr. 1970 Joined Tohoku Electric Power Co., Inc.
Jun. 2001 Deputy Director and General Manager, Human Resources Division, Tohoku Electric Power Co., Inc.
Jun. 2005 Director and General Manager, Human Resources Division, Tohoku Electric Power Co., Inc.
Jun. 2006 Director and General Manager, Miyagi Branch, Tohoku Electric Power Co., Inc.
Jun. 2007 Senior Executive Officer and General Manager, Miyagi Branch, Tohoku Electric Power Co., Inc.
Jun. 2009 Standing Statutory Auditor, Tohoku Electric Power Co., Inc.
Jun. 2010 Corporate Auditor, The Desk Bank, Ltd.
Jun. 2013 Audit & Supervisory Board Member, the Bank
Jun. 2015 Chairman and Representative Director, Tohoku Intelligent Telecommunication Co., Inc.
Jun. 2017 Advisor, Tohoku Intelligent Telecommunication Co., Inc.
Jun. 2017 Director, Audit & Supervisory Committee Member, the Bank (current position)



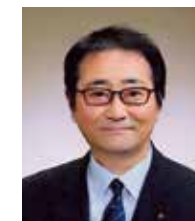
Director, Audit & Supervisory Committee Member (Outside Director) Masahiro Wako

Apr. 1975 Joined the Miyagi Prefectural Government
Jul. 2010 Vice Governor, Miyagi Prefecture
Jun. 2017 President and Representative Director, TECHNIO PLAZA Miyagi, Inc.
Jun. 2017 President, Miyagi Organization for Industry Promotion (current position)
Jun. 2017 Director, Audit & Supervisory Committee Member, the Bank (current position)



Managing Director Atsushi Shitoh

Apr. 1985 Joined the Bank
Jun. 2005 Chief Secretary, the Bank
Jun. 2008 General Manager, Fukushima Branch, the Bank
Jun. 2010 General Manager, Izumi Branch, the Bank
Jun. 2012 General Manager, Treasury Administration & International Div., the Bank
Jun. 2014 Executive Officer and General Manager, Tokyo Branch, the Bank
Jun. 2016 Director, Executive Officer and General Manager, Head Office Business Div., the Bank
Jun. 2018 Managing Director and General Manager, Head Office Business Div., the Bank
Jun. 2019 Managing Director, the Bank (current position)



Managing Director Takuji Tabata

Apr. 1986 Joined the Bank
Sep. 2007 General Manager, Koriyama Branch, the Bank
Jun. 2009 General Manager, Tokyo Liaison Office, the Bank
Jun. 2012 General Manager, Treasury Div., the Bank
Jun. 2015 General Manager, Credit Supervision Div., the Bank
Jun. 2016 Executive Officer and General Manager, Credit Supervision Div., the Bank
Jun. 2018 Senior Executive Officer and General Manager, Credit Supervision Div., the Bank
Jun. 2019 Managing Director, the Bank (current position)



Outside Director Ken Nakamura

Apr. 1974 Registered as Attorney-at-Law (Sendai Bar Association)
Sep. 1977 Opened Nakamura Ken Law Office (current position)
Jun. 1996 Audit & Supervisory Board Member, KOHSOKU CORPORATION
Nov. 2004 Auditor, HOKUSHU Co., Ltd. (current position)
Jun. 2007 Audit & Supervisory Board Member, the Bank
Jun. 2013 Director, KOHSOKU CORPORATION
Jun. 2015 Director, the Bank (current position)
Jun. 2016 Director (Audit & Supervisory Committee Member), KOHSOKU CORPORATION (current position)



Outside Director Seiichi Ohtaki

Oct. 1987 Assistant Professor, Faculty of Economics, Tohoku university
Apr. 1992 Professor, Faculty of Economics, Tohoku university
Apr. 1999 Professor, Graduate School of Economics and Management, Tohoku university
Apr. 2011 Dean Graduate School of Economics and Management / Faculty of Economics, Tohoku University
Jul. 2014 President, The Sanaburi Foundation (current position)
Jun. 2016 Auditor, Yurtec Corporation
Nov. 2016 President, Organization for Creating Local Good (current position)
Apr. 2018 Vice-President, Shizenkan University (current position)
Jun. 2020 Director, the Bank (current position)



Director, Audit & Supervisory Committee Member Mitsuo Chubachi

Apr. 1985 Joined the Bank
Mar. 2011 General Manager, Nihonbashi Branch, the Bank
Jun. 2013 General Manager, Risk Management Div., the Bank
Jun. 2015 Audit & Supervisory Board Member, MIYAGI SYOJI Co., Ltd.
Jul. 2016 Director and General Manager, Administration Div., 77 Securities Co., Ltd.
Jun. 2019 Director, Audit & Supervisory Committee Member, the Bank (current position)



Director, Audit & Supervisory Committee Member (Outside Director) Masai Yamaura

Oct. 1973 Joined the Sendai City Government
Sep. 2005 Vice Mayor, Sendai City
Apr. 2006 Chief Director, Sendai Green Association
Jun. 2007 President and Representative Director, Sendai Software Center Co., Ltd.
Jun. 2008 Auditor, Sendai Meat Wholesale Market Co., Ltd. (current position)
Apr. 2014 Chairman, Sendai Council of Social Welfare (current position)
Jun. 2015 Audit & Supervisory Board Member, the Bank
Jun. 2017 Director, Audit & Supervisory Committee Member, the Bank (current position)



Director, Audit & Supervisory Committee Member (Outside Director) Yoko Ushio

May. 2001 Senior Managing Director and General Manager, Fujisaki Comfortable Lifestyle Research Institute Co., Ltd.
May. 2003 Director, Department Store Fujisaki Co., Ltd.
Jan. 2011 Advisory Fellow, Tohoku Regional Advancement Center
Apr. 2012 Fellow, Tohoku Regional Advancement Center
Apr. 2016 Auditor, Tohoku University (current position)
Jun. 2019 Director, Audit & Supervisory Committee Member, the Bank (current position)

Senior Executive Officers

General Manager, Audit & Inspection Division **Kenji Kikuchi**
General Manager, Head Office Business Division, and Basho no Tsuji Branch **Atsushi Kobayashi**
General Manager, Tokyo Branch **Masanori Muranushi**
General Manager, Business Promotion Division **Yoshihiro Endo**

Executive Officers

General Manager, Personnel Division **Naoshi Aoyagi**
General Manager, Oroshimachi Branch **Kazuhiro Chida**
General Manager, Ishinomaki Branch **Shuichi Ibuka**
General Manager, Treasury Division **Hirokimi Fukushi**

General Manager, Credit Supervision Division **Kazutoshi Saito**
General Manager, Digital Strategy Division **Masahide Kato**
General Manager, Consulting Promotion Division **Takashi Kuroda**
General Manager, Compliance Management Division **Kuniaki Endo**

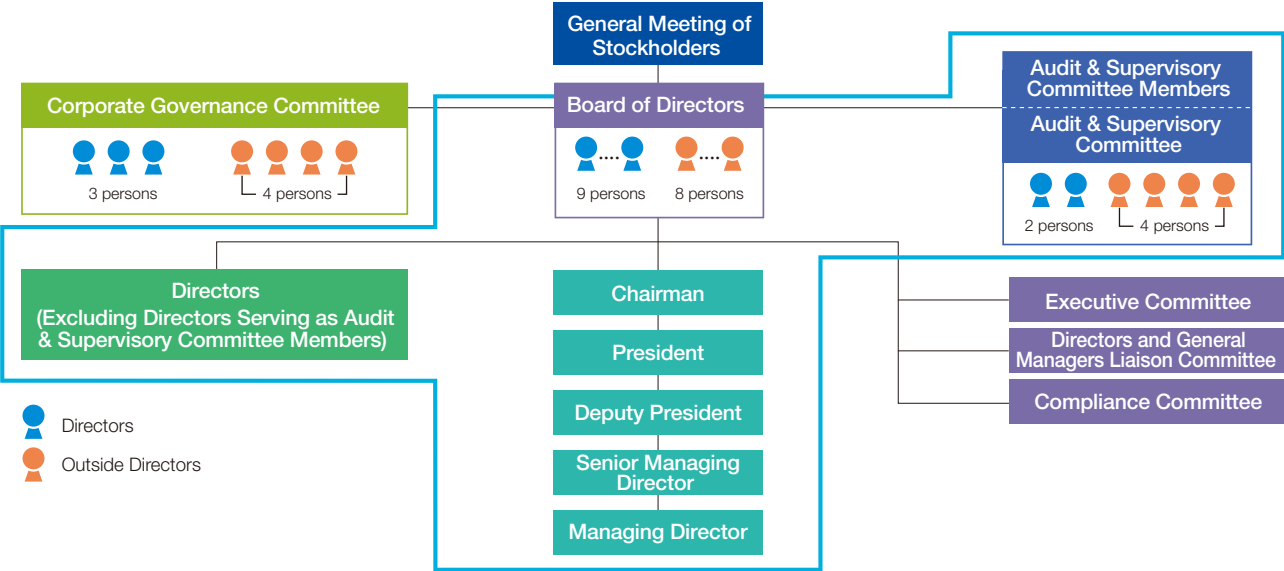
Corporate Governance Initiatives

Basic stance toward corporate governance

We will work to strengthen and enhance corporate governance in accordance with the following basic stance.

- In accordance with the Bank Creed, which is our basic principle of management, we will operate business that give constant consideration to the public mission of a regional bank — contributing to the development of the regional economy and society — through banking operations.
- We will improve the transparency of management and the appropriateness of processes and work together appropriately with stakeholders including the regional society, clients, and shareholders for the Bank’s sustained growth and improvements in corporate value over the medium- to long-term.

Corporate Governance Structure



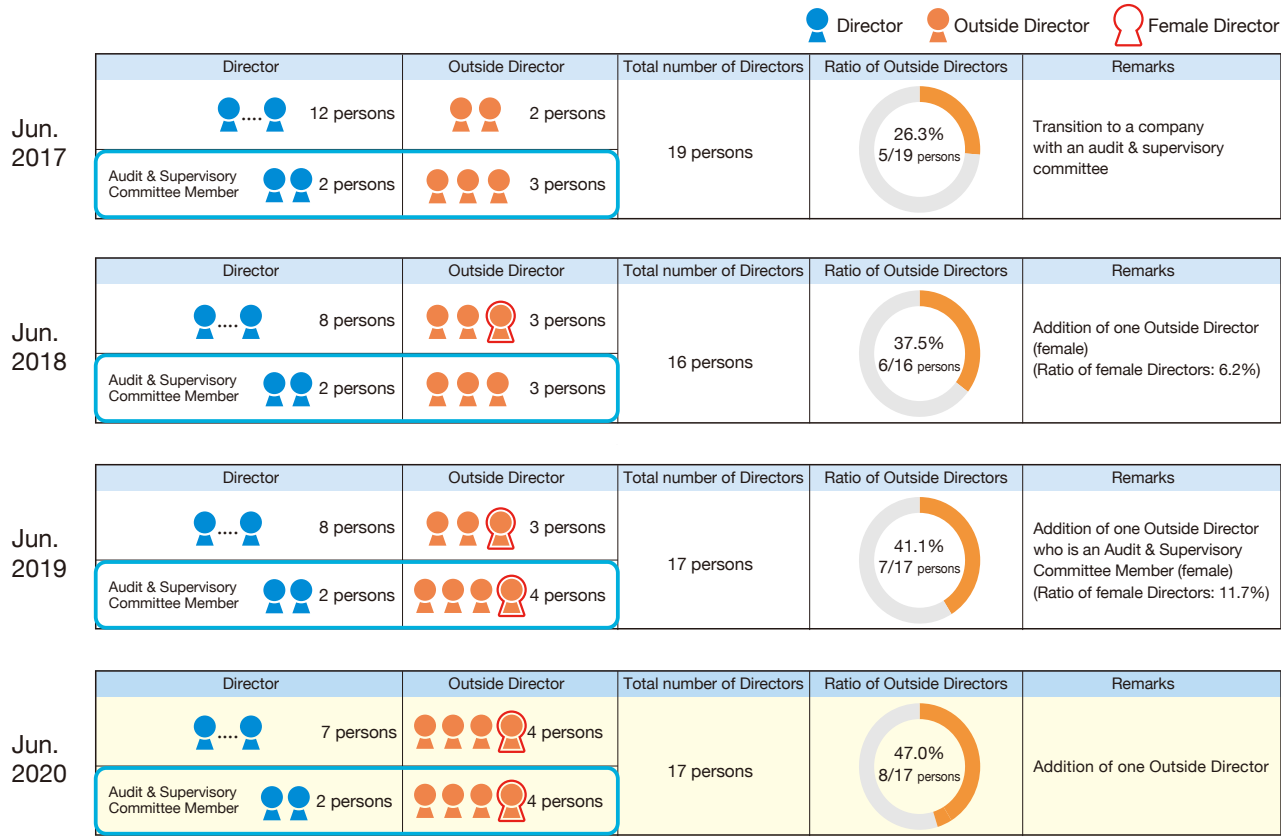
Main members by organization

Title	Name	Board of Directors	Executive Committee	Corporate Governance Committee	Audit & Supervisory Committee	Compliance Committee
(Representative Director) Chairman	Teruhiko Ujiie	○ (Chairperson)	○	○		
(Representative Director) President	Hidefumi Kobayashi	○	○ (Chairperson)	○		○ (Chairperson)
(Representative Director) Senior Managing Director	Makoto Igarashi	○	○	○		○
Managing Director	Koichi Suzuki	○	○			○
Managing Director	Atsushi Shitoh	○	○			○
Managing Director	Yoshikazu Onodera	○	○			○
Managing Directo	Takuji Tabata	○	○			○
Director	Masahiro Sugita	○		○ (Chairperson)		
Director	Ken Nakamura	○		○		
Director	Emiko Okuyama	○		○		
Director	Seiichi Ohtaki	○		○		
Director, Audit & Supervisory Committee Member	Yoshiaki Nagayama	○	△ (Note 3)		○ (Chairperson)	△ (Note 3)
Director, Audit & Supervisory Committee Member	Mitsuo Chubachi	○	△ (Note 3)		○	△ (Note 3)
Director, Audit & Supervisory Committee Member	Toshio Suzuki	○			○	
Director, Audit & Supervisory Committee Member	Masai Yamaura	○			○	
Director, Audit & Supervisory Committee Member	Masahiro Wako	○			○	
Director, Audit & Supervisory Committee Member	Yoko Ushio	○			○	
Other members			General Manager of General Planning & Coordination Division, General Manager of Compliance Management Division, General Manager of Audit & Inspection Division			

*1 A Deputy President has not been appointed.
 *2 Directors Masahiro Sugita, Ken Nakamura, Emiko Okuyama, Seiichi Ohtaki, Toshio Suzuki, Masai Yamaura, Masahiro Wako, and Yoko Ushio are Outside Directors prescribed in Article 2, Item 15 of the Companies Act.
 *3 Standing Directors who are Audit & Supervisory Committee Members attend the Executive Committee and Compliance Committee, and state their opinions as necessary.
 *4 The Chairperson of the Audit & Supervisory Committee observes the Corporate Governance Committee.

Improvements in governance

The Bank transitioned in June 2017 from a company with the Board of Corporate Auditors to a company with an Audit & Supervisory Committee to improve corporate value through further enhancement of corporate governance, which was followed by initiatives for developing further effective corporate governance structure through appointing Outside Directors and female Directors.



Evaluating the Effectiveness of the Board of Directors

The Bank’s “Corporate Governance Policy” stipulates that the effectiveness of the Board of Directors as a whole is analyzed and evaluated at the end of each fiscal year, and a summary of the results is disclosed. After deliberation by the Corporate Governance Committee, the Board of Directors conducted an analysis and evaluation of the overall effectiveness of the Board of Directors for FY2019 at its annual meeting on May 15, 2020. In this context, we have confirmed that the effectiveness of the Board of Directors as a whole has been ensured. On the other hand, with the aim of further improving the effectiveness of the Board of Directors, the following matters have been confirmed and shared, and we intend to make improvements in the future.

- To strive to diversify the composition of the Board of Directors.
- To review the management of the Board of Directors to further invigorate discussions.

Enhancement of IR activities

The Bank is actively involved in IR activities including the holding of corporate briefings for institutional investors and individual investors so that stakeholders such as customers, the local community, and shareholders can understand the management conditions of the Bank.

Results for FY2020	
Corporate briefings for institutional investors	2 times/approximately 270 participants
Corporate briefings for individual investors	4 times/approximately 360 participants
Corporate briefings for clients by region	5 times/approximately 400 participants
Visits to foreign investors	February 2018: North America, April 2019: Asia



Social Responsibility

Compliance structure

The Bank formulated the Compliance Policies in order to clarify its stance on compliance and to ensure the effectiveness thereof. Further, the Bank established the Compliance Guidelines (Compliance Standards) to articulate specific guidelines and a code of conduct so that the executives and employees place importance on compliance, thereby ensuring the lawful conduct of business.

Compliance Guidelines (Compliance Standards)

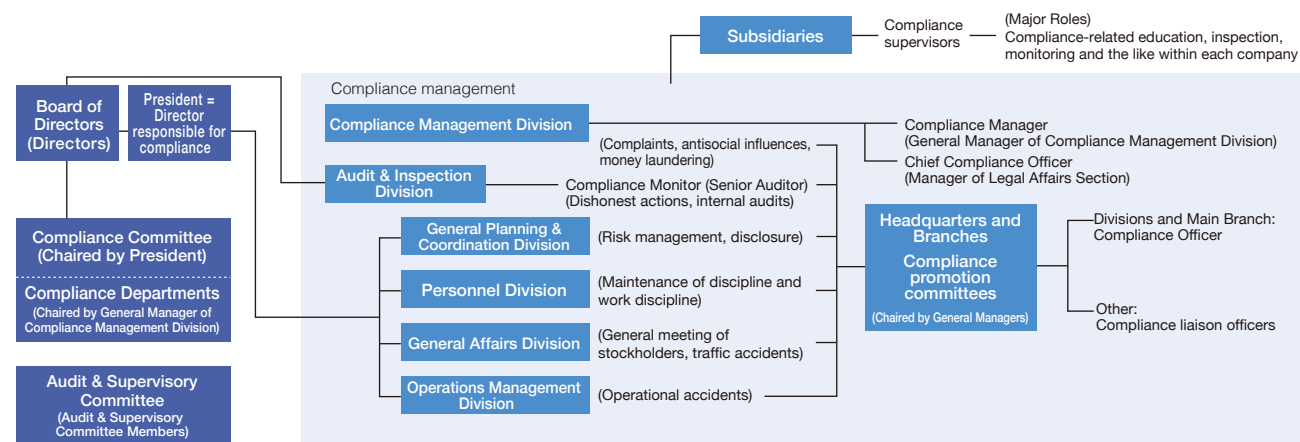
[Basic Direction]

1. Ensure sound management and pay the utmost attention to sustaining the Bank's credibility and its ability to maintain smooth financing.
2. Comply with laws and the code of corporate ethics and maintain fair and honest practices.
3. Take a principled stand with regard to issues that threaten social order or public peace.
4. Provide financial services that the region, customers, and society broadly trust and endeavor to achieve sustainable development together with them as a good corporate citizen.
5. Foster a flexible and constructive working environment conducive to the well-being of all employees.

[Code of Conduct]

1. We will comply with laws, ordinances, the Articles of Incorporation, the Rules of Employment, and internal rules of the Bank.
2. We will not force unfair transaction on our customers.
3. We will not divulge confidential information of our customers or the Bank, or material information that has not been made public.
4. We will not neglect to provide reports required by laws, ordinances, and internal rules of the Bank, or provide false reports.
5. We recognize the public nature and the large social responsibility of the Bank and will devote ourselves to our duties.
6. We will not follow instructions or orders given by an individual that go beyond or deviate from the authorities given to said individual.
7. We will not engage in such conduct as will undermine the credibility or honor of the Bank.
8. We will not do favors for our customers in violation of law, ordinances, or internal rules of the Bank.
9. We will not seek to make unfair profits by taking advantage of our duties or position.
10. We will not borrow from or mediate for someone to borrow from our customers, other executives, or other employees without legitimate reason.
11. We will not engage in socially unacceptable entertaining or gift giving.
12. We will make efforts to maintain order in the workplace.

Compliance structure



Note: Compliance officers and compliance liaisons maintain their independence in the performance of their duties related to compliance and do not follow the instructions of higher-ranking individuals.

Risk Management

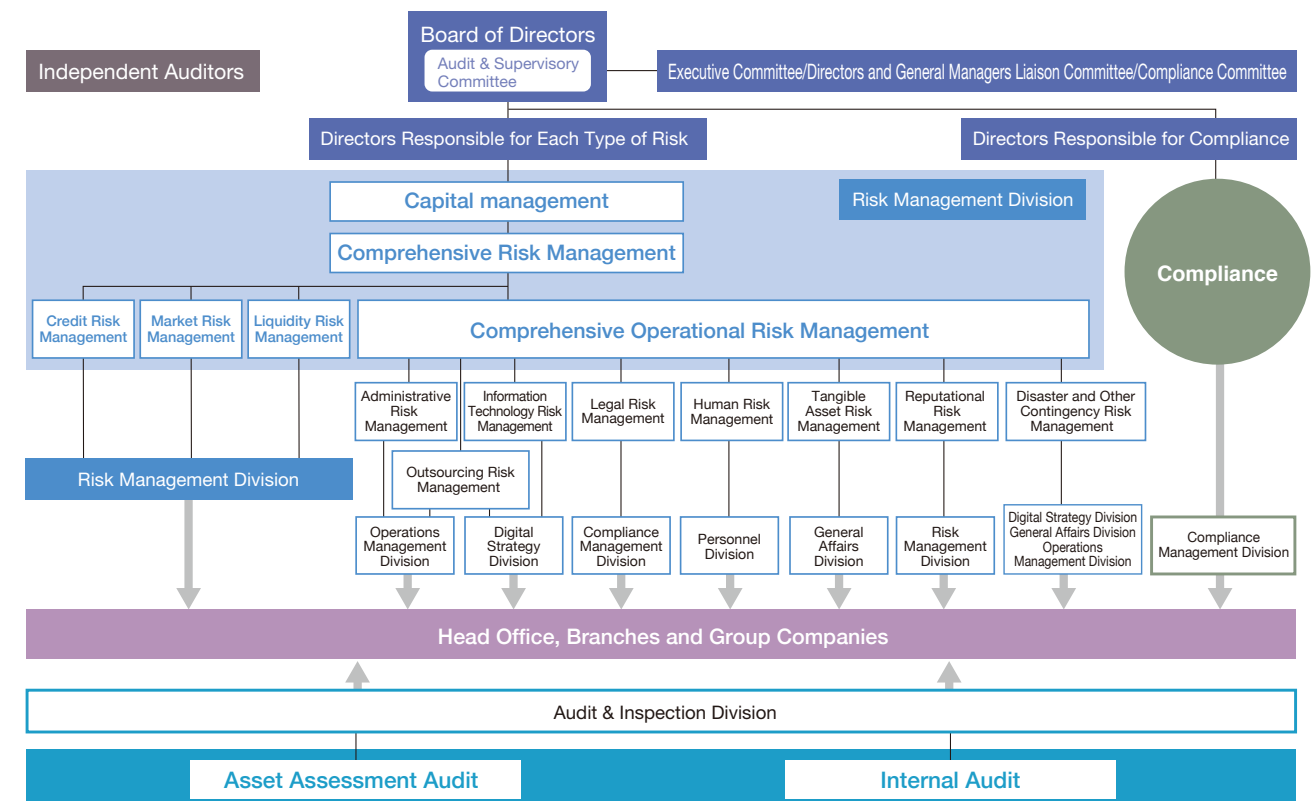
Strengthening of comprehensive risk management

The operating environment surrounding financial institutions has significantly changed in recent years, exposing them to an unprecedented variety of risks. In this environment, financial institutions are required more than ever before to accurately identify, analyze and appropriately control risks.

From the viewpoint of increasing the soundness of management, the risks the Bank faces are assessed by category, and comprehensive risk management systems are established for self-control type risk management through comprehensive assessment, and by comparison and contrast with the Bank's capital. At the same time, efforts are being made to improve risk management methods through means such as the enhancement of risk measurement techniques.

We have implemented risk capital management as a specific framework for comprehensive risk management. Risk capital management is a management method where a risk capital budget, which represent risk tolerance, is allocated by risk category to each unit (domestic business units, funds and securities units, and other units), and the risks measured for each unit are monitored to ensure that they do not exceed their respective budgets. Risk capital management is also utilized to monitor whether the expected profits that are suitable for the risks taken are being secured.

Risk management structure



Verification of the risk management system by the Audit & Inspection Division: The Audit & Inspection Division is the auditing unit for internal processes and asset status, and is independent of all business units. This division audits branches, Headquarters and Group companies through comprehensive audits focusing on the verification of internal management systems (financial facilitation, compliance, customer protection, governance and management, and risk management systems) and physical inspections with the primary aim of preventing illegality.

Responding to increasing cyberattacks

In order to respond to cyberattacks, which are becoming increasingly advanced and sophisticated on a daily basis, the Bank has established Cyber Security Management Regulations, and has implemented multi-layer technical measures, including the prevention of unauthorized intrusions and blocking of information leakage, as well as detection of malicious viruses.

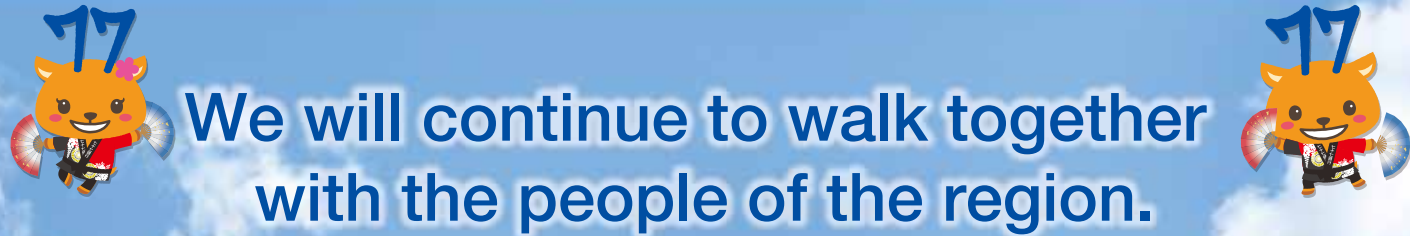
In addition, the Bank has undertaken organizational measures such as drills and exercises that assume the occurrence of a cyberattack, and is continuously working to strengthen systems for swiftly responding to cyberattacks.

Development of business continuity systems in response to the occurrence of large-scale disasters

The Bank has developed a Disaster Emergency Response Plan that clarifies the basic principles of action for times of emergency, such as earthquakes or other disasters and systems failures.

Under the Disaster Emergency Response Plan, we have worked to develop systems to ensure business continuity through the establishment of business continuity plans for continuing the minimum operations required to maintain the finance function, and to achieve the prompt resumption or recovery of this function, in the event that the Bank incurs sufficient damage that it becomes impossible to fulfill normal bank operations, due to an unforeseen disaster. In addition, in order to confirm the effectiveness of the Disaster Emergency Response Plan, we conduct regular disaster drills and business continuity drills and conduct revisions to make our preparations for disaster more robust in consideration of the damage caused by the Great East Japan Earthquake in an effort to strengthen the Bank's crisis response capabilities.

Social Contribution Activities



Basic Policy on Social Contribution Activities

We will achieve co-prosperity with the region and dedicate ourselves to serving the region by deepening interaction with regional society as a member of the local community and through our ongoing social contribution activities, including support for cultural and educational promotion as well as social welfare activities.

Interaction with the Region

As a member of the local community, we actively participate in community events to deepen our interaction with regional society.



Participation in regional events

During the Sendai Aoba Festival held every May, we participate in the Yamaboko Parade, which is the highlight of the festival. At the traditional Dontosai Festival that marks koshogatsu every January, we make the traditional hadakamairi (naked shrine visit) to Osaki Hachimangu Shrine wearing only light clothing.



One Branch, One Social Contribution Campaign

The One Branch, One Social Contribution Campaign is an effort to deepen interactions with the region as a member of the local community and raise the awareness of the Bank employees regarding social contribution. These activities were conducted at all of the Bank's 142 branches (excluding branches that only offer transfers) after selecting social contribution activities in accordance with the Bank's six themes.

Supporting Cultural Activities

To contribute to the promotion of region culture, we sponsor many cultural activities, festivals, and events.



77 Starlight Symphony

The Bank has held a charity concert named the 77 Starlight Symphony since 1991 in order to enhance the experience of the Sendai Pageant of Starlight, which is becoming established as a winter tradition, as a member of the city.

In December 2019, Kohmi Hirose was invited as a guest, and performed various hit songs with the backing of the Sendai Philharmonic Orchestra. In addition, fundraising activities were conducted to support earthquake reconstruction and operation of the Sendai Pageant of Starlight.



77 Fureai Concert

The 77 Fureai Concert has been held continuously since FY1993 in cooperation with the Sendai Philharmonic Orchestra, in order to give students from regional elementary schools and junior high schools the opportunity to experience a live orchestra.

Concerts were held at Wakuya Junior High School (Wakuya Town) and Kakuda Citizen's Center (Kakuda City) in FY2020, where approximately 970 people including children, students, and family members viewed a powerful musical performance and enjoyed introductions of the orchestral instruments and conductor experiences.

Supporting Financial Education

We support financial education by utilizing the The 77 Bank Currency and Banking Museum in the head office and experiential programs.



The 77 Bank Currency and Banking Museum

The 77 Bank Currency and Banking Museum was opened in celebration of the 120th anniversary of our founding and in gratitude for the many years of support we have received from people in the region. The museum introduces topics, including the history and roles of money, the birth and development of banks, and the industry and economy in Miyagi Prefecture and Japan in a manner that is fun and easy to understand.

The museum was partly renewed in March 2019 as part of the 140th Anniversary Project, and new features, including a projection mapping and a children's area, have been added to introduce the relationship between The 77 Bank and the community, the relationship between money and daily life, and The three major business operations of banks. In FY2020, approximately 2,960 people, including students from a total of 72 elementary and junior high schools, visited the museum.



Course provided at Tohoku Gakuin University

A course provided by The 77 Bank has been held at the Faculty of Business Administration at Tohoku Gakuin University since FY2012 for the purpose of promoting social contributions to the region through education and research contributing to the development of the regional economy and human resources.

This course is taught by an employee of the Bank, and covers topics such as specific details of bank operations, recent financial trends, and the role of regional financial institutions. The course was held for the 9th time in FY2020, and the course in September 2019 was participated by approximately 290 students.



National High School Student Finance and Economics Quiz Championship "Economics Koshien" Miyagi Tournament

The Miyagi Tournament of the National High School Student Finance and Economics Quiz Championship "Economics Koshien" has been held since FY2010 through joint sponsorship with the Association for the Promotion of Financial Literacy, in an effort to make social contributions to the region through an educational project for acquiring the financial and economics knowledge that is essential for life planning and safeguarding one's lifestyle. In December 2019, the 11th Miyagi Tournament was held at the Head Office of the Bank.

Promoting Sports

We promote sports in this region through sport club activities.



Close-up

Para-badminton player on the World Stage

The baseball team, track and field team, and badminton team participate in national-level competitions, such as the Intercity Baseball Tournament, JAAF Athletics Championships, and THE BADMINTON S/J LEAGUE, while also holding training workshops as part of their everyday activities to contribute to the promotion of sports in the community. We interviewed Ayako Suzuki of the Badminton team.

Badminton team
Ayako Suzuki

“The best part of playing badminton is that you don't have to use all your strength, but use your brain to play. I enjoy working on tactics observing the opponent's moves,” says Ayako Suzuki, who is a member of our badminton club. She won the 2017 Para-Badminton World Championships’ upper limb impairment SU5 class, in addition to winning many other international competitions, and she has been ranked high in the world for several years. She is expected to be one of the leading para-sport athletes in Japan.

Although she once retired, she returned after a five-year absence when para-badminton was adopted as an official sporting event in the global para-sport competition. After winning her first domestic tournament following her return, she became a member of the Bank's badminton club, as her high school coach was coaching at

the Bank at the time.

She usually works at the head office in the morning and practices at our Nakayama Gymnasium in the afternoon. “This is the first time for me to belong to a company's sports club, but I am grateful for the environment that allows me to concentrate on competition. I hope to live up to the expectations of those around me,” says Suzuki. On the team, she sometimes plays together with local junior high school students and ladies' teams. Turning such experience she had never had in her career as an athlete into energy, she strives everyday.

Suzuki's goal is to be selected for Japan's national team and to win the gold medal by defeating the Chinese rival. “I'm confident that I can win the gold medal,” Suzuki expresses her confidence.

77 Kids Challenge—Run! Hit! Throw!—joint sports workshops held by three sports clubs



We are actively offering technical trainings, etc., with the hope of helping with the recovery from the Great East Japan Earthquake through the promotion of sports.

In September 2019, the Bank's three sport clubs held joint workshops for first- and second-grade elementary school children and their parents. Approximately 300 participants enjoyed trying baseball, track and field, and badminton.

Responding to Environmental Issues

The 77 Bank is actively participating in activities to tackle environmental issues, such as forest conservation and installation of energy-efficient facilities.

Environmental Policy	【Basic Principle】	【Action Guidelines】
	<p>The 77 Bank believes that it has a social responsibility to protect the beautiful and abundant natural environment and to pass it down to the next generation in an improved state as a good corporate citizen.</p> <p>Based on the mindset to “Elevate the Spirit of Voluntary Service,” which is the first item in the Bank Creed, our basic principle of management, the Bank aims to be a company that coexists with regional society, and for this reason the Bank is actively and continuously engaged in environmental conservation activities aimed at creation of a sustainable society.</p>	<ol style="list-style-type: none"> 1. We will comply with laws and regulations, agreements, and other matters related to the environment to which the Bank has agreed. 2. We will promote energy conservation, resource conservation and recycling activities, and work to reduce our environmental burden. 3. We will support customers involved in environmental conservation through the provision of environmentally-friendly financial products and services. 4. We will conduct awareness raising activities to deepen the awareness of each and every executive and employee regarding the environment and promote environmental conservation activities in regional society.



Forest conservation activities

The Bank's executives and new employees from FY2019 planted 1,000 black pine seedlings in the Arahama District of Sendai City, based on the “Citizens’ Reforestation Activities to Restore the Miyagi Coastal Forests” agreement that was entered into with Miyagi Prefecture, etc. in September 2018 as part of the 140th Anniversary Project. The tree planting area has been named the “77 Forest for the Future,” and will be managed as a coastal disaster prevention forest to protect the region from disaster.



Environmental conservation activities through financial products and services

The Bank supports companies and individual customers actively involved in social contribution activities, such as those for environmental conservation through the provision of environmentally friendly financial products and services.

• Products for Businesses

We offer the 77 Social Contribution Activities Support Loan and the77 ESG Privately Placed Corporate Bond for companies engaged in efforts such as the prevention of global warming and the introduction of recycling-related equipment.

• Products for Individual Customers

We started offering the 77 ESG Japanese Equities Open (Alias:Miyagi no Kizuna) to commemorate the 140th Anniversary of our foundation. The fund donates a portion of the trust fees that the Bank has received to restore the coastal disaster prevention forest, which suffered catastrophic damage from the Great East Japan Earthquake.



Conducting Material Recycling

We participated in the BRING project that the JEPLAN, INC. organized to recycle the used office uniforms of female employees, which were disposed of as industrial waste, into materials that can be reused as new resources.

Material recycling is a system of collecting used clothing and reusing them as materials or raw materials for new products. It is considered to be effective in combating global warming because it can reduce CO2 emissions by about 55% when one uses recycled materials to manufacture clothing.

Contribution to Social Welfare

We contribute to social welfare by cooperating with fundraising activities and blood donation projects.



77 Caring Fund Raising Committee

The 77 Caring Fund Raising Committee was established in 1994 by the executives and employees of the Bank for the purpose of donating to social welfare projects and facilities in appreciation of the support received from the local community to that time.

During FY2020, a total of ¥3.33 million was donated to 10 social welfare facilities recommended by the Miyagi Prefecture Social Welfare Council and 14 volunteer groups. The donated funds are used to cover facility repair costs, running costs for volunteer activities, and other expenses. In addition, a total of ¥1.71 million was donated to the Japanese Red Cross Society in response to Typhoon No. 19 in 2019.



Small Kindness Movement

Since the establishment of the Miyagi Prefecture Headquarters of the Small Kindness Movement, the Bank has been involved in the planning and operation of these activities, while serving as the secretariat for 44 years.

The Summer Sendai Cleaning Campaign is conducted each year prior to opening of the Sendai Tanabata Festival. Each year, we donate wheelchairs to social welfare facilities in the prefecture, and make visits to welfare facilities for the elderly and hold entertainment performances. In addition, we donate flower seeds to elementary schools in the prefecture, and gather used stamps and donate them to stamp collection organizations.

Financial Section

Consolidated Five-Year Summary

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31

	Millions of Yen				
	2020	2019	2018	2017	2016
For the fiscal year					
Net interest income	¥ 67,886	¥ 65,217	¥ 69,644	¥ 67,678	¥ 70,908
Net fees and commissions	11,458	11,345	10,963	10,973	11,519
Net other operating (loss) income	(2,186)	(3,104)	(7,869)	(5,213)	(2,988)
Net income attributable to owners of the parent	18,261	17,670	18,314	16,114	15,857
At the fiscal year-end					
Total assets	¥8,770,037	¥8,627,510	¥8,718,097	¥8,649,396	¥8,598,583
Deposits	7,865,991	7,872,834	7,946,100	7,805,860	7,963,738
Loans and bills discounted	4,886,221	4,718,942	4,621,062	4,443,883	4,350,795
Trading account securities and investment securities	2,922,506	2,978,130	3,146,865	3,262,638	3,519,568
Equity	447,436	489,077	490,737	468,195	452,310
Common stock	24,658	24,658	24,658	24,658	24,658

	Yen				
	2020	2019	2018	2017	2016
Per share of common stock					
Basic net income	¥ 246.97	¥ 237.90	¥ 246.87	¥ 215.73	¥ 42.37
Diluted net income			246.45	214.74	42.18
Equity	6,057.30	6,582.31	6,613.28	6,306.73	1,165.83
Cash dividends	50.00	47.50	45.00	45.00	9.00
Capital adequacy ratio (%)					
Domestic standard	10.31	10.38	10.43	10.73	11.21

Notes: 1. The national consumption tax and the local consumption tax are excluded from transaction amounts.

2. The Bank's capital adequacy ratio on the domestic standard is accompanied by the revision of Article 14, Paragraph 2, of the Banking Law of Japan, in line with enforcement of the related law for financial system reform.

3. On October 1, 2017, the Bank conducted consolidation of shares at a ratio of five shares to one share. Per share information is computed as if the share consolidation was conducted on April 1, 2016.

Consolidated Balance Sheet

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
ASSETS:			
Cash and due from banks (Notes 3 and 26)	¥ 747,105	¥ 711,025	\$ 6,864,881
Call loans and bills bought	429	511	3,941
Debt purchased	4,000	4,071	36,754
Trading account securities (Note 4)	18,873	19,848	173,417
Money held in trust (Notes 5 and 26)	82,344	115,613	756,629
Investment securities (Notes 4, 10, 11, 26 and 27)	2,903,632	2,958,281	26,680,437
Loans and bills discounted (Notes 6, 12, 26, 27 and 28)	4,886,221	4,718,942	44,897,739
Foreign exchange assets (Note 7)	9,528	4,734	87,549
Lease receivables and investments in leases (Notes 25 and 28)	19,261	17,622	176,982
Tangible fixed assets (Notes 8, 9 and 16):			
Buildings	8,208	8,319	75,420
Land	19,315	19,321	177,478
Lease assets	56	70	514
Construction in progress	282	138	2,591
Other tangible fixed assets	4,388	4,592	40,319
Intangible fixed assets:			
Software	120	50	1,102
Other intangible fixed assets	264	267	2,425
Deferred tax assets (Note 23)	4,173	1,136	38,344
Customers' liabilities for acceptances and guarantees (Notes 10 and 28)	45,258	24,622	415,859
Other assets (Notes 11, 27 and 28)	79,792	79,208	733,180
Reserve for possible loan losses	(63,220)	(60,868)	(580,906)
TOTAL	¥8,770,037	¥8,627,510	\$80,584,737
LIABILITIES:			
Deposits (Notes 11, 13 and 26)	¥7,865,991	¥7,872,834	\$72,277,781
Call money and bills sold	8,706	16,104	79,996
Payables under securities lending transactions (Note 11)	11,986	17,414	110,135
Borrowed money (Notes 11, 14 and 26)	285,901	116,643	2,627,042
Foreign exchange liabilities (Note 7)	116	339	1,065
Liability for employees' retirement benefits (Note 15)	25,539	23,902	234,668
Reserve for stock-based benefits (Note 17)	735	750	6,753
Reserve for reimbursement of deposits	337	464	3,096
Reserve for contingent losses	860	781	7,902
Deferred tax liabilities (Note 23)		20,462	
Acceptances and guarantees (Notes 10 and 28)	45,258	24,622	415,859
Other liabilities (Notes 16 and 27)	77,167	44,111	709,060
Total liabilities	8,322,600	8,138,432	76,473,398
EQUITY (Notes 17,18 and 31):			
Common stock—authorized, 268,800,000 shares; issued, 76,655,746 shares in 2020 and 2019	24,658	24,658	226,573
Capital surplus	20,517	20,517	188,523
Retained earnings	361,462	346,926	3,321,345
Less: treasury stock—at cost, 2,788,464 shares and 2,353,956 shares in 2020 and 2019, respectively	(7,040)	(6,391)	(64,688)
Accumulated other comprehensive income:			
Unrealized gains on available-for-sale securities (Note 4)	56,207	111,108	516,466
Deferred losses on derivatives under hedge accounting (Note 27)	(826)	(1,451)	(7,589)
Defined retirement benefit plans (Note 15)	(7,541)	(6,290)	(69,291)
Total equity	447,436	489,077	4,111,329
TOTAL	¥8,770,037	¥8,627,510	\$80,584,737

See notes to consolidated financial statements.

Consolidated Statement of Income

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
INCOME:			
Interest income:			
Interest on loans and discounts	¥ 41,956	¥ 42,131	\$ 385,518
Interest and dividends on trading account and investment securities	28,031	26,381	257,566
Other	242	266	2,223
Fees and commissions (Note 28)	17,801	17,705	163,567
Other operating income (Note 19)	12,025	10,832	110,493
Gains on sales of stocks and other securities	4,967	5,989	45,639
Gains on sales of money held in trust	10,392	3,908	95,488
Other income (Note 20)	1,510	2,268	13,874
Total income	116,926	109,483	1,074,391
EXPENSES:			
Interest expense:			
Interest on deposits	762	1,490	7,001
Interest on borrowings and rediscounts	399	610	3,666
Other	1,182	1,460	10,860
Fees and commissions	6,343	6,360	58,283
Other operating expenses (Note 21)	14,211	13,937	130,579
General and administrative expenses	58,141	58,735	534,236
Provision for reserve for possible loan losses	6,644	1,521	61,049
Other expenses (Notes 9 and 22)	3,066	2,777	28,172
Total expenses	90,751	86,893	833,878
INCOME BEFORE INCOME TAXES	26,175	22,590	240,512
INCOME TAXES (Note 23):			
Current	8,047	5,809	73,941
Deferred	(133)	(889)	(1,222)
Total income taxes	7,913	4,919	72,709
NET INCOME	18,261	17,670	167,793
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 18,261	¥ 17,670	\$ 167,793

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 30):		
Basic net income	¥246.97	¥237.90
Cash dividends applicable to the year	50.00	47.50
		0.45

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥ 18,261	¥ 17,670	\$ 167,793
OTHER COMPREHENSIVE LOSS (Note 24):			
Unrealized losses on available-for-sale securities	(54,901)	(16,174)	(504,465)
Deferred gains on derivatives under hedge accounting	624	22	5,733
Defined retirement benefit plans	(1,251)	(80)	(11,494)
Total other comprehensive loss	(55,528)	(16,233)	(510,226)
COMPREHENSIVE (LOSS) INCOME	¥ (37,267)	¥ 1,437	\$ (342,433)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO—			
Owners of the parent	¥ (37,267)	¥ 1,437	\$ (342,433)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2020

	Thousands	Millions of Yen							
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			
						Unrealized Gains on Available-for- Sale Securities	Deferred Losses on Derivatives under Hedge Accounting	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 2018	74,205	¥24,658	¥20,517	¥332,619	¥(6,658)	¥127,283	¥(1,473)	¥(6,209)	¥490,737
Net income attributable to owners of the parent				17,670					17,670
Cash dividends, ¥45.00 per share				(3,364)					(3,364)
Purchase of treasury stock	(1)				(4)				(4)
Sales of treasury stock	98				271				271
Net change in the year						(16,174)	22	(80)	(16,233)
BALANCE, MARCH 31, 2019	74,302	24,658	20,517	346,926	(6,391)	111,108	(1,451)	(6,290)	489,077
Net income attributable to owners of the parent				18,261					18,261
Cash dividends, ¥50.00 per share				(3,725)					(3,725)
Purchase of treasury stock	(490)				(802)				(802)
Sales of treasury stock	56				153				153
Net change in the year						(54,901)	624	(1,251)	(55,528)
BALANCE, MARCH 31, 2020	73,867	¥24,658	¥20,517	¥361,462	¥(7,040)	¥ 56,207	¥ (826)	¥(7,541)	¥447,436

	Thousands of U.S. Dollars (Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total Equity
					Unrealized Gains on Available-for- Sale Securities	Deferred Losses on Derivatives under Hedge Accounting	Defined Retirement Benefit Plans		
BALANCE, MARCH 31, 2019	\$226,573	\$188,523	\$3,187,779	\$(58,724)	\$1,020,931	\$(13,332)	\$(57,796)		\$4,493,953
Net income attributable to owners of the parent			167,793						167,793
Cash dividends, \$0.45 per share			(34,227)						(34,227)
Purchase of treasury stock				(7,369)					(7,369)
Sales of treasury stock				1,405					1,405
Net change in the year					(504,465)	5,733	(11,494)		(510,226)
BALANCE, MARCH 31, 2020	\$226,573	\$188,523	\$3,321,345	\$(64,688)	\$ 516,466	\$ (7,589)	\$(69,291)		\$4,111,329

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 26,175	¥ 22,590	\$ 240,512
Adjustments for:			
Income taxes—paid	(7,075)	(3,823)	(65,009)
Depreciation and amortization	3,227	4,378	29,651
Losses on impairment of fixed assets	126	761	1,157
Net change in reserve for possible loan losses	2,351	(1,668)	21,602
Net change in reserve for reimbursement of deposits	(127)	9	(1,166)
Net change in reserve for contingent losses	79	85	725
Net change in reserve for stock-based benefits	(15)	(125)	(137)
Net change in liability for employees' retirement benefits	(161)	(9,963)	(1,479)
Interest income	(70,229)	(68,779)	(645,309)
Interest expense	2,343	3,561	21,528
Gains on investment securities—net	(2,191)	(3,012)	(20,132)
Gains on money held in trust—net	(8,967)	(3,110)	(82,394)
Foreign exchange losses (gains) —net	3,022	(7,187)	27,768
Losses (gains) on sales and disposals of fixed assets—net	49	(91)	450
Net change in loans and bills discounted	(167,278)	(97,879)	(1,537,057)
Net change in deposits	(6,843)	(73,265)	(62,877)
Net change in borrowed money (except for subordinated loans)	169,257	4,939	1,555,242
Net change in due from banks (except for the Bank of Japan)	(3,656)	(2,414)	(33,593)
Net change in call loans and bills bought	152	843	1,396
Net change in call money and bills sold	(7,398)	1,762	(67,977)
Net change in payables under securities lending transactions	(5,428)	4,528	(49,875)
Net change in trading account securities	974	5,127	8,949
Net change in foreign exchange assets	(4,793)	1,221	(44,041)
Net change in foreign exchange liabilities	(222)	226	(2,039)
Net change in lease receivables and investments in leases	(1,638)	(1,497)	(15,050)
Interest received	75,035	73,299	689,469
Interest paid	(2,425)	(3,669)	(22,282)
Other—net	22,326	(41,209)	205,145
Total adjustments	(9,507)	(216,954)	(87,356)
Net cash provided by (used in) operating activities—(Forward)	¥ 16,667	¥(194,364)	\$ 153,147
INVESTING ACTIVITIES:			
Purchases of investment securities	(645,953)	(344,105)	(5,935,431)
Proceeds from sales of investment securities	37,056	32,581	340,494
Proceeds from maturity of investment securities	601,904	461,174	5,530,680
Proceeds from dispositions of money held in trust	30,508	53,510	280,327
Purchases of tangible fixed assets	(3,144)	(2,520)	(28,889)
Proceeds from sales of tangible fixed assets	32	169	294
Purchases of intangible fixed assets	(96)	(8)	(882)
Payment for execution of asset retirement obligations	(19)	(28)	(174)
Net cash provided by investing activities	20,289	200,773	186,428
FINANCING ACTIVITIES:			
Purchases of treasury stock	(802)	(4)	(7,369)
Dividends paid	(3,718)	(3,362)	(34,163)
Net cash used in financing activities	(4,521)	(3,366)	(41,541)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(12)	5	(110)
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,423	3,047	297,923
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	704,983	701,935	6,477,836
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	¥ 737,406	¥ 704,983	\$ 6,775,760

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Year Ended March 31, 2020

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS
The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and the Enforcement Regulation for the Banking Law of Japan (the “Banking Law”), and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2019 consolidated financial statements to conform to the classifications used in 2020. In accordance with the Japanese Financial Instruments and Exchange Act and other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items. Also, U.S. dollar amounts have been rounded down to the nearest thousand dollars. The consolidated financial statements are stated in Japanese yen, the currency of the country in which The 77 Bank, Ltd. (the “Bank”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥108.83 to U.S.\$1, the approximate rate of exchange as of March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
<i>a. Consolidation</i> —The consolidated financial statements include the accounts of the Bank and its significant subsidiaries (collectively, the “Companies”). There were five consolidated subsidiaries as of March 31, 2020 and 2019. Under the control and influence concepts, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated in consolidation.
(1) Scope of consolidation Consolidated Subsidiaries There was no change in the scope of consolidation during the fiscal year ended March 31, 2020.

Unconsolidated Subsidiaries 77 Capital Co., Ltd. 77 New Business Investment Limited Partnership 77 Strategic Investment Limited Partnership Unconsolidated subsidiaries are excluded from the scope of consolidation because they are not material to the consolidated financial statements in terms of total assets, income, net income (corresponding to the Bank's share), retained earnings (corresponding to the Bank's share) and accumulated other comprehensive income (corresponding to the Bank's share).
(2) Equity method Unconsolidated Subsidiaries Not Accounted for by the Equity Method 77 Capital Co., Ltd. 77 New Business Investment Limited Partnership 77 Strategic Investment Limited Partnership These companies are excluded from the scope of equity method accounting because they are not material to the consolidated financial statements in terms of net income (corresponding to the Bank's share), retained earnings (corresponding to the Bank's share) and accumulated other comprehensive income (corresponding to the Bank's share).
<i>b. Business Combinations</i> —Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.
<i>c. Cash and Cash Equivalents</i> —For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash and amounts due from the Bank of Japan.

d. Trading Account Securities, Investment Securities and Money Held in Trust—Securities other than investments in affiliates are classified into three categories, based principally on the Companies’ intent, as follows: (1) trading account securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

The cost of trading account securities and available-for-sale securities sold is determined based on the moving-average method.

In addition, investments in unconsolidated subsidiaries not accounted for by the equity method are reported at cost determined by the moving-average method.

Available-for-sale securities for which fair value is extremely difficult to determine are reported at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Securities included in money held in trust are also classified and accounted for using the same method as above.

The components of trust assets are accounted for based on the standard appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other income/ expenses. Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains/losses recorded directly in a separate component of equity. Instruments held in trust classified as held to maturity are carried at amortized cost.

e. Tangible Fixed Assets—Tangible fixed assets are stated at cost less accumulated depreciation and gains deferred on the sale and replacement of certain assets. Depreciation of tangible fixed assets, except for lease assets, is mainly computed using the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 5 to 31 years for buildings and from 4 to 20 years for equipment. Lease assets under finance lease transactions, in which substantial ownership is not deemed to have been transferred, are depreciated using the straight-line method over the lease term. The salvage value is zero or the guaranteed amounts if specified in the lease contracts (see Note 2.o).

f. Intangible Fixed Assets—The amortization of intangible fixed assets is calculated using the straight-line method. Capitalized costs of computer software developed/obtained for internal use are amortized using the straight-line method over the estimated useful lives of five years.

g. Long-Lived Assets—The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows (“DCF”) from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. Foreign Currency Items—Assets and liabilities denominated in foreign currencies held by the Bank at year-end are translated into Japanese yen at the current exchange rates in effect at each consolidated balance sheet date. Exchange gains and losses are recognized in the fiscal periods in which they occur.

i. Reserve for Possible Loan Losses—The Bank determines the amount of the reserve for possible loan losses by means of management’s judgment and assessment of future losses based on a self-assessment system. This system reflects past experience of credit losses, possible future credit losses, business and economic conditions, the character, quality and performance of the portfolio, and other pertinent indicators.

As part of the Bank’s self-assessment system, the quality of all loans is assessed by branches and the credit supervisory division with a subsequent audit by the Bank’s asset review and inspection division in accordance with the Bank’s policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its debtors are classified into five categories. The credit rating system is used in the self-assessment of asset quality. All loans are classified into one of the following five categories for self-assessment purposes: “normal,” “caution,” “possible bankruptcy,” “virtual bankruptcy,” and “legal bankruptcy.”

For loans to borrowers classified as legal bankruptcy or virtual bankruptcy, the Bank fully provides the net amount of loans and estimated collectible amounts by collateral or guarantees. Regarding loans to borrowers classified as possible bankruptcy, a specific reserve is provided to the necessary extent for the net amount of loans and estimated collectible amounts by collateral or guarantees.

For large debtors who are likely to become bankrupt and debtors with restructured loans, if the cash flows from collection of the principal and interest can be reasonably estimated, the reserve is provided based on the difference between the relevant cash flows discounted by the initial contractual interest rates and the carrying amounts of the loans (the “DCF method”).

The reserve for other possible loan losses is recorded principally at the amount of estimated losses over the next two or three years. Estimated losses are determined by calculating a loss rate based on the average of actual loss ratio over the past certain period, which is calculated with credit loss experience over two or three years. Adjustments are to be made as necessary in light of future outlook and other factors.

All the loans are assessed by sales related department in accordance with the self-assessment standard and the results are audited by asset audit department independent from the sales related department.

The Bank’s subsidiaries determine the reserve for possible loan losses by a similar self-assessment system as that of the Bank.

(Additional Information)

The Bank records the reserve for possible loan losses for the risk of future economic recession but specifically increased the reserve for certain loans considering the worsening business conditions due to the impact of the novel coronavirus infectious disease. This accounting estimate is based on the assumption that the domestic economy is prospected to continue to be weak for the time being because of the impact of the novel coronavirus infectious disease, and therefore, is judged to be reasonable.

The economy is in the situation that further economic downside risk is concerned due to the impact of the disruption of supply chains on production activities and continued sluggish personal consumption with consumers refraining from going out, and accordingly, the reserve for possible loan losses may possibly fluctuate in future.

In addition, the Bank is making the accounting estimates based on the information available at the time of preparing consolidated financial statements, including worsening business conditions caused from the impact of the novel coronavirus infectious disease.

j. Reserve for Stock-Based Benefits—Reserve for stock-based benefits is provided for the grants of the Bank’s shares to directors, etc. in accordance with the stock grant program based on the estimated stock-based benefits liabilities as of the fiscal year end.

k. Reserve for Reimbursement of Deposits—Reserve for reimbursement of deposits which were derecognized as liabilities is provided for the future estimated payments for reimbursement claims on dormant deposit accounts based on the historical reimbursement experience.

l. Reserve for Contingent Losses—Reserve for contingent losses is provided for the future estimated payments of burden money to the Credit Guarantee Corporations based on the historical experience of subrogation.

m. Employees’ Retirement and Pension Plans—In calculation of projected benefit obligations, expected benefits are attributed to periods on a benefit formula basis. Treatment of prior service cost and actuarial gains and losses is as follows:

Prior service cost is charged to expenses when incurred.

Unrecognized actuarial gains and losses are amortized by the straight-line method from the following fiscal year after the fiscal year when they were incurred over a definite period (10 years) with the employees’ average remaining service period when incurred.

Consolidated subsidiaries apply a shortcut method whereby the amount of the retirement benefits required to be paid if all the employees voluntarily retired at the end of the fiscal year is regarded as projected benefit obligations in determining the liability for employees’ retirement benefits and net periodic retirement benefit costs.

n. Asset Retirement Obligations—The asset retirement obligation is recognized as the sum of the DCFs required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. Leases

As a lessee

Finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet.

As a lessor

All finance leases that are deemed to transfer ownership of the leased property to the lessee are recognized as lease receivables, and all finance leases that are deemed not to transfer ownership of the leased property to the lessee are recognized as investments in leases.

p. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

q. Derivatives and Hedging Activities—It is the Bank’s policy to use derivative financial instruments (“derivatives”) primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities. The Bank enters into interest rate swaps and interest rate swaptions as a means of hedging its interest rate risk on certain loans and investment securities and to meet the needs of its clients. The Bank also enters into currency swaps, foreign exchange forward contracts, and currency options to hedge foreign currency exchange risk associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients.

Derivatives are recognized as either assets or liabilities and measured at fair value. Gains or losses on derivative transactions are recognized in the consolidated statement of income. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, the gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

r. Per Share Information—Basic net income per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits or share consolidation.

Cash dividends per share presented in the consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

s. New Accounting Pronouncements—On March 31, 2020, the Accounting Standards Board of Japan (“ASBJ”) issued ASBJ Statement No. 31, “Accounting Standard for Disclosure of Accounting Estimates.”

The standard aims to disclose useful information for the readers of the financial statements about the contents of accounting estimates of the items which may be exposed to a risk that may have a significant impact to the financial statements for the following fiscal year, in cases where the amount recorded in the financial statements for the current fiscal year is based on accounting estimate.

The Companies will apply this accounting standard from the end of the fiscal year beginning on April 1, 2020.

3. CASH AND CASH EQUIVALENTS

The reconciliation of cash and cash equivalents at the end of the year and cash and due from banks in the consolidated balance sheet as of March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Cash and due from banks	¥747,105	¥711,025	\$6,864,881
Due from banks, excluding due from the Bank of Japan	(9,698)	(6,042)	(89,111)
Cash and cash equivalents at the end of year	¥737,406	¥704,983	\$6,775,760

4. TRADING ACCOUNT SECURITIES AND INVESTMENT SECURITIES

Trading account securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
National government bonds	¥ 649	¥ 590	\$ 5,963
Local government bonds	12,222	8,257	112,303
Other securities	6,000	11,000	55,131
Total	¥18,873	¥19,848	\$173,417

Investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
National government bonds	¥ 453,343	¥ 712,606	\$ 4,165,606
Local government bonds	744,437	516,074	6,840,365
Corporate bonds	959,084	944,892	8,812,680
Equity securities	105,845	127,056	972,571
Other securities	640,922	657,651	5,889,203
Total	¥2,903,632	¥2,958,281	\$26,680,437

Securities loaned under securities lending agreements are included in the above national government bonds in the amount of nil and ¥61,439 million as of March 31, 2020 and 2019, respectively.

Investment in an unconsolidated subsidiary in the amount of ¥25 million (\$229 thousand) and ¥25 million and investment in interest in partnership in the amount of ¥2,771 million (\$25,461 thousand) and ¥1,871 million are included in the above equity securities and other securities as of March 31, 2020 and 2019, respectively.

The carrying amounts and aggregate fair values of securities as of March 31, 2020 and 2019, were as follows:

Securities below include trading account securities and investment securities:

	Millions of Yen			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 18,873
Available-for-sale:				
Equity securities* ¥	52,054	¥54,647	¥ 2,724	103,977
Debt securities	2,146,298	13,036	3,471	2,155,864
Other securities*	617,863	42,635	25,176	635,321
Held to maturity	1,000			1,000

	Millions of Yen			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 19,848
Available-for-sale:				
Equity securities* ¥	51,936	¥73,735	¥ 611	125,061
Debt securities	2,146,590	22,937	54	2,169,473
Other securities*	603,455	57,393	8,184	652,664
Held to maturity	4,099	3		4,103

	Thousands of U.S. Dollars			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value

Securities classified as:				
Trading				\$ 173,417
Available-for-sale:				
Equity securities* \$	478,305	\$502,131	\$ 25,029	955,407
Debt securities	19,721,565	119,783	31,893	19,809,464
Other securities*	5,677,322	391,757	231,333	5,837,737
Held to maturity	9,188			9,188

* Unlisted equity securities for which the fair value is extremely difficult to determine are not included.

Securities, other than trading account securities, with readily determinable fair value, whose fair value significantly declined compared with the acquisition cost and whose fair value is not considered likely to recover to their acquisition cost, are written down to the respective fair value. The related losses on revaluation are charged to income for the fiscal year.

Impairment losses were recognized for available-for-sale securities in the amount of ¥201 million (\$1,846 thousand), consisting of ¥201 million (\$1,846 thousand) of equity securities, and ¥44 million, consisting of ¥44 million of equity securities for the years ended March 31, 2020 and 2019, respectively.

The criteria for determining whether the fair value has “significantly declined” are defined based on the asset classification of the issuer in the internal standards for asset quality self-assessment as follows:

- Normal issuer: Fair value declined by 50% or more of the acquisition cost or fair value declined between 30% and 50% and average fair value during the past one month declined by 50% or more (30% or more for issuers who have credit risk more than a certain level).
- Caution issuers: Fair value declined by 30% or more of the acquisition cost.
- Legally bankrupt, virtually bankrupt, and possibly bankrupt issuers: Fair value is lower than the acquisition cost.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2020 and 2019, were ¥37,056 million (\$340,494 thousand) and ¥32,581 million, respectively. Gross realized gains and losses on these sales, computed on a moving average cost basis, were ¥5,077 million (\$46,650 thousand) and ¥136 million (\$1,249 thousand), respectively, for the year ended March 31, 2020, and ¥6,051 million and ¥932 million, respectively, for the year ended March 31, 2019.

Unrealized gains on available-for-sale securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Valuation differences:			
Available-for-sale securities	¥ 78,690	¥144,958	\$ 723,054
Available-for-sale money held in trust	919	12,644	8,444
Deferred tax liabilities	(23,401)	(46,494)	(215,023)
Unrealized gains on available-for-sale securities	¥ 56,207	¥111,108	\$ 516,466

5. MONEY HELD IN TRUST

The carrying amounts and aggregate fair values of money held in trust as of March 31, 2020 and 2019, were as follows:

	Millions of Yen			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥59,843
Available-for-sale	¥21,581	¥919		22,500
Total	¥21,581	¥919		¥82,344

	Millions of Yen			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥ 81,387
Available-for-sale	¥21,581	¥12,644		34,225
Total	¥21,581	¥12,644		¥115,613

	Thousands of U.S. Dollars			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				\$549,875
Available-for-sale	\$198,300	\$8,444		206,744
Total	\$198,300	\$8,444		\$756,629

Available-for-sale securities held in trust, whose fair value significantly declined compared with the acquisition cost and whose fair value is not considered likely to recover to their acquisition cost, are written down to the respective fair value.

No impairment loss was recognized for money held in trust for the years ended March 31, 2020 and 2019.

6. LOANS AND BILLS DISCOUNTED

Loans and bills discounted as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Bills discounted	¥ 8,417	¥ 11,530	\$ 77,340
Loans on bills	134,989	133,908	1,240,365
Loans on deeds	4,126,107	4,033,494	37,913,323
Overdrafts	616,705	540,008	5,666,681
Total	¥4,886,221	¥4,718,942	\$44,897,739

Bills discounted are accounted for as financial transactions in accordance with “Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry” (the Japanese Institute of Certified Public Accountants (the “JICPA”) Industry Audit Committee Report No. 24). The Bank has rights to sell or pledge these bills discounted. The total of the face value of bills discounted was ¥8,417 million (\$77,340 thousand) and ¥11,530 million as of March 31, 2020 and 2019, respectively.

Loans and bills discounted as of March 31, 2020 and 2019, included the following loans:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans to borrowers in bankruptcy	¥ 9,976	¥ 4,974	\$ 91,665
Past due loans	65,808	64,970	604,686
Past due loans (three months or more)	867	1,842	7,966
Restructured loans	28,536	24,917	262,207
Total	¥105,188	¥96,704	\$966,534

Loans to borrowers in bankruptcy represent nonaccrual loans to debtors who are legally bankrupt, as defined in the Enforcement Ordinance for the Corporation Tax Law.

Past due loans are nonaccrual loans which include loans classified as “possible bankruptcy” and “virtual bankruptcy.”

Nonaccrual loans are defined as loans for which the Bank has discontinued accruing interest income due to substantial doubt existing about the ultimate collection of principal and/or interest. Such loans are classified either as “possible bankruptcy” or “virtual bankruptcy” under the Bank’s self-assessment guidelines.

In addition to past due loans, certain other loans classified as “caution” under the Bank’s self-assessment guidelines include past due loans (three months or more) which consist of loans for which the principal and/or interest is three months or more past due, but exclude loans to borrowers in bankruptcy and past due loans.

Restructured loans are loans where the Bank and its subsidiaries relax lending conditions by reducing the original interest rate or by forbearing interest payments or principal repayments to support the borrower’s reorganization. Restructured loans exclude loans to borrowers in bankruptcy, past due loans or past due loans (three months or more).

7. FOREIGN EXCHANGES

Foreign exchange assets and liabilities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Assets			
Foreign exchange bills receivable		¥ 71	
Due from foreign correspondent accounts	¥9,528	4,663	\$87,549
Total	¥9,528	¥4,734	\$87,549
Liabilities			
Foreign exchange bills sold	¥ 38	¥ 66	\$ 349
Foreign exchange bills payable	78	273	716
Total	¥116	¥339	\$1,065

8. TANGIBLE FIXED ASSETS

The accumulated depreciation of tangible fixed assets as of March 31, 2020 and 2019, amounted to ¥85,053 million (\$781,521 thousand) and ¥82,684 million, respectively.

As of March 31, 2020 and 2019, deferred gains for tax purposes of ¥7,695 million (\$70,706 thousand) and ¥7,695 million, respectively, on tangible fixed assets sold and replaced with similar assets have been deducted from the cost of newly acquired tangible fixed assets.

9. LONG-LIVED ASSETS

The Bank recognized impairment losses of ¥126 million (\$1,157 thousand) and ¥761 million on certain operating branches, business premises, branches to be closed, and unused facilities for the years ended March 31, 2020 and 2019, respectively.

The impairment losses were composed of ¥67 million (\$615 thousand) on buildings and ¥59 million (\$542 thousand) on other fixed assets for the year ended March 31, 2020, and ¥165 million on buildings, ¥525 million on land and ¥70 million on other fixed assets for the year ended March 31, 2019.

For the purpose of testing for impairment, the Bank recognizes each individual branch office as a cash-generating unit for which it continues to manage and monitor identifiable cash flows. Branch offices to be closed and facilities not in operation are individually assessed for impairment. Subsidiaries recognize each company as a cash-generating unit. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the DCFs from the continued use and eventual disposition of the asset or the net selling price at disposition. The DCFs were calculated using discount rates of 5.7% and 8.0% for the years ended March 31, 2020 and 2019, respectively, and the net selling price was determined by quotation from a third-party vendor.

10. CUSTOMERS' LIABILITIES FOR ACCEPTANCES AND GUARANTEES

All contingent liabilities arising from acceptances and guarantees are reflected in “Acceptances and guarantees.” “Customers’ liabilities for acceptances and guarantees” are shown as assets, representing the Bank’s right to receive indemnity from the applicants.

The amount of guarantee obligations for privately placed corporate bonds included in securities as of March 31, 2020 and 2019, was ¥25,859 million (\$237,609 thousand) and ¥14,993 million, respectively.

11. ASSETS PLEDGED

Assets pledged as collateral and their relevant liabilities as of March 31, 2020 and 2019, were as follows:

	Millions of Yen	Thousands of U.S. Dollars	
	2020	2019	2020
Assets pledged as collateral:			
Investment securities	¥628,124	¥245,060	\$5,771,607
Other assets	144	144	1,323
Relevant liabilities to above assets:			
Deposits	50,630	53,818	465,220
Payables under securities lending transactions	11,986	17,414	110,135
Borrowed money	279,189	110,129	2,565,368

In addition to the above, the following assets were offered as collateral for exchange settlement transactions, or as substitutes for future transaction initial margin and others:

	Millions of Yen	Thousands of U.S. Dollars	
	2020	2019	2020
Investment securities	¥ 100	¥ 100	\$ 918
Other assets	50,000	50,000	459,432
Of which:			
Cash collateral paid for financial instruments	4,033	3,700	37,057
Guarantee deposits for leased tangible fixed assets	93	92	854

12. LOAN COMMITMENTS

Contracts of overdraft facilities and loan commitments are contracts with customers to lend up to the prescribed limits in response to customers’ applications for a loan, as long as there is no violation of any condition within the contracts. As of March 31, 2020, the unused amount of such contracts totaled ¥1,617,531 million (\$14,862,914 thousand), of which amounts with original agreement terms of less than one year were ¥1,512,502 million (\$13,897,840 thousand). As of March 31, 2019, the unused amount of such contracts totaled ¥1,647,277 million, of which amounts with original agreement terms of less than one year were ¥1,564,783 million.

Since many of the commitments expire without being drawn upon, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions allowing the Companies to refuse customers’ applications for a loan or decrease the contract limits based on proper reasons (e.g., changes in financial situation, deterioration in customers’ creditworthiness). At the inception of the contracts, the Companies obtain collateral real estate, securities, etc., if considered to be necessary. Subsequently, the Companies perform a periodic review of the customers’ business results based on internal rules and take necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

13. DEPOSITS

Deposits as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current deposits	¥ 203,474	¥ 212,207	\$ 1,869,649
Ordinary deposits	5,041,623	4,756,017	46,325,673
Deposits at notice	14,922	15,377	137,112
Time deposits	2,097,525	2,197,737	19,273,408
Negotiable certificates of deposit	289,000	440,220	2,655,517
Other deposits	219,445	251,274	2,016,401
Total	¥7,865,991	¥7,872,834	\$72,277,781

14. BORROWED MONEY

As of March 31, 2020 and 2019, the weighted-average annual interest rates applicable to borrowed money were 0.056% and 0.094%, respectively.

Borrowed money consisted of borrowings from the Bank of Japan and other financial institutions. Annual maturities of borrowed money as of March 31, 2020, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥128,991	\$1,185,252
2022	1,343	12,340
2023	1,021	9,381
2024	153,425	1,409,767
2025	325	2,986
2026 and thereafter	794	7,295
Total	¥285,901	\$2,627,042

15. LIABILITY FOR EMPLOYEES’ RETIREMENT BENEFITS

The Bank has severance payment plans as defined benefit plans consisting of corporate pension fund plans and lump-sum retirement payment plans for employees. In addition, the Bank has established corporate defined contribution pension plans as defined contribution plans. The Bank has also established a retirement benefit trust under the lump-sum retirement payment plan.

The consolidated subsidiaries have lump-sum retirement payment plans and calculate liability for retirement benefit and retirement benefit costs using a shortcut method.

(1) The changes in projected benefit obligations for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥69,781	¥70,527	\$641,192
Service cost	1,677	1,782	15,409
Interest cost	443	447	4,070
Actuarial losses	455	523	4,180
Benefits paid	(3,289)	(3,680)	(30,221)
Prior service cost			
Others	180	181	1,653
Balance at end of year	¥69,248	¥69,781	\$636,295

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥45,879	¥36,778	\$421,565
Expected return on plan assets	1,455	1,287	13,369
Actuarial losses	(2,539)	(1,128)	(23,329)
Contributions from the employer	761	763	6,992
Establishment of retirement benefit trust		10,000	
Benefits paid	(2,028)	(2,002)	(18,634)
Others	180	181	1,653
Balance at end of year	¥43,708	¥45,879	\$401,617

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of projected benefit obligations and plan assets as of March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded projected benefit obligations	¥ 69,110	¥ 69,643	\$ 635,027
Plan assets	(43,708)	(45,879)	(401,617)
Total	25,401	23,764	233,400
Unfunded projected benefit obligations	137	137	1,258
Net liability arising from projected benefit obligations	¥ 25,539	¥ 23,902	\$ 234,668

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for employees’ retirement benefits	¥25,539	¥23,902	\$234,668
Asset for employees’ retirement benefits			
Net liability arising from projected benefit obligations	¥25,539	¥23,902	\$234,668

(4) The components of net periodic retirement benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥ 1,677	¥ 1,784	\$ 15,409
Interest cost	443	447	4,070
Expected return on plan assets	(1,455)	(1,287)	(13,369)
Recognized actuarial losses	1,196	1,535	10,989
Net periodic retirement benefit costs	¥ 1,861	¥ 2,480	\$ 17,100

Note:Employees’ contribution to corporate pension funds is deducted.

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Actuarial losses	¥(1,798)	¥(115)	\$(16,521)
Total	¥(1,798)	¥(115)	\$(16,521)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Thousands of U.S. Dollars	
	Millions of Yen	
	2020	2019
Unrecognized actuarial losses	¥10,836	¥9,037
Total	¥10,836	¥9,037

(7) Plan assets as of March 31, 2020 and 2019

a. Components of plan assets

Plan assets consisted of the following:

	2020	2019
Debt investments	23%	41%
Equity investments	23	24
Cash and cash equivalents	11	5
Life insurance company accounts (general accounts)	24	23
Call loans, etc.	19	7
Others		
Total	100%	100%

Note: Total plan assets as of March 31, 2020 and 2019, include retirement benefit trust established under lump-sum payment plans by 22%.

b. Method of determining the long-term expected rate of return on plan assets

The expected rate of return on plan assets is determined considering allocation of plan assets which are expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

	2020	2019
Discount rate	0.6%	0.6%
Long-term expected rate of return on plan assets	3.2	3.5
Expected rate of salary increase	4.5	4.5

(9) Defined contribution

The amount required to be contributed to the defined contribution plan of the Bank was ¥268 million (\$2,462 thousand) and ¥275 million for the fiscal years ended March 31, 2020 and 2019, respectively.

16. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations which were recognized on the consolidated balance sheet as of March 31, 2020 and 2019, were as follows:

a. Overview of asset retirement obligations

Asset retirement obligations are recognized for obligations of restoring leased buildings, such as branch premises, to their original state, based on the real estate lease contracts and asbestos removal costs.

b. Calculation of asset retirement obligations

Asset retirement obligations are calculated based on the estimated available periods of 16 to 31 years depending on the expected useful lives of buildings using discount rates from 0.139% to 2.324%.

c. The changes in asset retirement obligations for the years ended March 31, 2020 and 2019, were as follows:

	Thousands of U.S. Dollars	
	Millions of Yen	
	2020	2019
Balance at beginning of year	¥662	¥678
Increase due to acquisition of tangible assets	17	4
Reconciliation associated with passage of time	5	6
Decrease due to execution of asset retirement obligations	(15)	(22)
Other	(9)	(4)
Balance at end of year	¥661	¥662

17. PERFORMANCE-LINKED STOCK COMPENSATION SYSTEM

The Bank has introduced a performance-linked stock compensation system (the “System”) based on the Board Incentive Plan (“BIP”) trust from the perspective of enhancing motivation to make contributions to improving the medium- to long-term performance and corporate value by further clarifying the linkage between compensation to directors, etc. and stock value of the Bank.

Under the System, the Bank’s shares are acquired using the funds contributed by the Bank as compensation to directors, etc. through the trust and such shares are granted to directors, etc. through the trust according to their ranks and achievement of management plans. Said transactions are related to the System.

The Bank’s shares remaining in the trust are recorded as treasury stock under “Equity” and the carrying amount of such treasury stock was ¥1,089 million (\$10,006 thousand) and ¥1,243 million and the number of shares was 396 thousand shares and 452 thousand shares as of March 31, 2020 and 2019, respectively.

18. EQUITY

Japanese banks are subject to the Banking Law and to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act and the Banking Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the general meeting of stockholders. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Bank meets all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to stockholders subject to certain limitations and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Bank can do so because it stipulates this in its articles of incorporation. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Banking Law requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 100% of stated capital.

Under the Companies Act and the Banking Law, the aggregate amount of additional paid-in capital and the legal reserve that exceeds 100% of the stated capital may be made available for dividends by resolution of the stockholders after transferring such excess to retained earnings in accordance with the Companies Act. Under the Companies Act, the total amount of additional paid-in capital and the legal reserve may be reversed without limitation. The Companies Act also provides that stated capital, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

19. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2020 and 2019, consisted of the following:

	Thousands of U.S. Dollars	
	Millions of Yen	
	2020	2019
Gain on sales and redemption of bonds and other securities	¥ 110	¥ 113
Lease receipts	7,341	7,028
Other	4,573	3,690
Total	¥12,025	¥10,832

20. OTHER INCOME

Other income for the years ended March 31, 2020 and 2019, consisted of the following:

	Thousands of U.S. Dollars	
	Millions of Yen	
	2020	2019
Gains on sales of tangible fixed assets	¥ 12	¥ 107
Other	1,497	2,160
Total	¥1,510	¥2,268

21. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2020 and 2019, consisted of the following:

	Thousands of U.S. Dollars	
	Millions of Yen	
	2020	2019
Losses on sales, redemption and devaluation of bonds and other securities	¥ 2,595	¥ 2,858
Lease costs	6,746	6,457
Other	4,869	4,620
Total	¥14,211	¥13,937

22. OTHER EXPENSES

Other expenses for the years ended March 31, 2020 and 2019, consisted of the following:

	Thousands of U.S. Dollars	
	Millions of Yen	
	2020	2019
Bad debt losses	¥ 60	¥ 29
Losses on dispositions of money held in trust	1,546	798
Losses on sales of loans	452	434
Losses on impairments and disposals of fixed assets	188	777
Provision for reserve for reimbursement of deposits	118	245
Other	701	491
Total	¥3,066	¥2,777

23. INCOME TAXES

The Companies are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.5% for the years ended March 31, 2020 and 2019.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Reserve for possible loan losses	¥ 14,388	¥ 14,113	\$ 132,206
Liability for employees' retirement benefits	10,746	10,318	98,741
Fixed assets (depreciation)	5,850	6,002	53,753
Losses on devaluation of stocks and other securities	3,264	3,272	29,991
Other	6,406	6,554	58,862
Less valuation allowance (see Note below)	(12,754)	(12,758)	(117,191)
Total	27,903	27,501	256,390
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	23,401	46,494	215,023
Fixed assets (deferred gain on sales and replacements)	309	319	2,839
Other	17	14	156
Total	23,729	46,828	218,037
Net deferred tax assets (liabilities)	¥ 4,173	¥(19,326)	\$ 38,344

Note: Valuation allowance for the fiscal year ended March 31, 2019, decreased by ¥1,177 million. This decrease was mainly due to a decrease of ¥1,328 million in valuation allowance for reserve for possible loan losses at the Bank and consolidated subsidiaries.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2019, was as follows, whereas a reconciliation for the year ended March 31, 2020, is not required under Japanese accounting standards, since the difference is less than 5% of the normal effective statutory tax rate.

	2019
Normal effective statutory tax rate	30.5%
Expenses not deductible for income tax purposes	0.4
Nontaxable dividend income	(2.0)
Inhabitants taxes	0.3
Valuation allowance	(5.2)
Consolidation adjustment on gain on sales of shares of consolidated subsidiaries	(2.7)
Other—net	0.5
Actual effective tax rate	21.8%

24. OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized losses on available-for-sale securities:			
Loss arising during the year	¥(65,730)	¥(16,741)	\$(603,969)
Reclassification adjustment to profit or loss	(12,263)	(6,431)	(112,680)
Amount before income tax effect	(77,994)	(23,173)	(716,659)
Income tax effect	23,092	6,998	212,184
Total	¥(54,901)	¥(16,174)	\$(504,465)

Deferred gains on derivatives under hedge accounting:			
Gain (loss) arising during the year	¥ 25	¥ (795)	\$ 229
Reclassification adjustment to profit or loss	871	827	8,003
Amount before income tax effect	897	31	8,242
Income tax effect	(272)	(9)	(2,499)
Total	¥ 624	¥ 22	\$ 5,733

Defined retirement benefit plans:			
Loss arising during the year	¥ (2,994)	¥ (1,651)	\$ (27,510)
Reclassification adjustment to profit or loss	1,196	1,535	10,989
Amount before income tax effect	(1,798)	(115)	(16,521)
Income tax effect	546	35	5,016
Total	¥ (1,251)	¥ (80)	\$ (11,494)
Total other comprehensive loss	¥(55,528)	¥(16,233)	\$(510,226)

25. LEASES

Finance Leases

Lessor

A subsidiary leases certain equipment and other assets to various customers.

The net investments in leases as of March 31, 2020 and 2019, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Gross lease receivables	¥19,744	¥18,147	\$181,420
Estimated residual values	1,310	1,194	12,037
Unearned interest income	(1,901)	(1,847)	(17,467)
Investments in leases	¥19,153	¥17,494	\$175,990

Maturities of lease receivables for finance leases as of March 31, 2020, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 60	\$ 551
2022	15	137
2023	9	82
2024	6	55
2025	6	55
2026 and thereafter	14	128
Total	¥113	\$1,038

Maturities of investment in leases for finance leases as of March 31, 2020, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 5,967	\$ 54,828
2022	4,875	44,794
2023	3,758	34,530
2024	2,620	24,074
2025	1,358	12,478
2026 and thereafter	1,163	10,686
Total	¥19,744	\$181,420

26. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Companies provide financial services such as credit card business and leasing operations in addition to banking operations. In the course of these operations, the Companies raise funds principally through deposit taking and invest funds in loans, securities, and others. As such, the Bank holds financial assets and liabilities which are subject to fluctuation in interest rates and conducts comprehensive Asset and Liability Management (“ALM”) to avoid unfavorable effects from interest rate fluctuations. Derivatives are also employed by the Bank as part of ALM.

(2) Nature and Extent of Risks Arising from Financial Instruments

Financial assets held by the Companies mainly consist of loans to domestic corporations, local government agencies, and individual customers which are exposed to credit risk that the Companies may suffer from losses resulting from nonperformance of borrowers and interest rate risk that the Companies may suffer from losses resulting from fluctuations in interest rates.

Securities, mainly debt securities, equity securities, and investment trusts are held to maturity and for other purposes and also certain debt securities are held for the purpose of selling to customers. These securities are exposed to credit risk of issuers and market risks of fluctuations in interest rates and market prices. In addition, they are exposed to market liquidity risk that the Companies may suffer from losses resulting from difficulties in executing financial transactions in certain environments such as market turmoil.

Financial liabilities, mainly consisting of liquid deposits or time deposits taken from corporate and individual customers, are exposed to cash flow risk that the Bank may experience a situation where unexpected cash flows are incurred in certain environments where the credit rating of the Bank may be lowered and, accordingly, necessary funding may become difficult.

Foreign currency denominated assets and liabilities are exposed to foreign exchange risk that the Bank may suffer from losses resulting from fluctuations in foreign exchange rates.

Derivatives mainly include interest rate swaps and bond futures, which are used to manage exposure to market risks from changes in interest rates of loans and investment securities, and foreign exchange forward contracts, which are used to hedge foreign exchange risk associated with foreign currency-denominated assets and liabilities. Hedge accounting is applied to certain hedging activities related to loans and investment securities as hedged items.

(3) Risk Management for Financial Instruments

Credit risk management

The Bank has established the “Credit Risk Control Policy” as a basic policy for credit risk management and various rules concerning credit risk management. Based on these policies and rules, the Companies clarify fundamental approaches to secure the soundness of assets and control procedures for

identifying, monitoring, and controlling credit risk. Additionally, the Bank utilizes the “Credit Rating System” applied to counterparties granted with credit from the viewpoint of identifying credit risk objectively and enhancing credit risk control.

In addition, as an organization responsible for credit risk management, credit risk control functions and review functions have been established to secure the effectiveness of credit risk management.

The Risk Management Division, as a credit risk control function, is engaged in identifying the level of future possible credit risk and the status of credit concentration in major borrowers through measurement of the level of credit risk and analysis of credit portfolios.

The Credit Supervision Division, as a review control function, is engaged in reviewing lending operations based on strict examination standards, system development for strengthening the daily control of loan receivables, and appropriate maintenance of operational procedures.

Market risk management

a. Market Risk Management System

The Bank has established the “Market Risk Control Policy” as a basic policy for market risk management and various rules concerning market risk management. Based on these policies and rules, the Bank clarifies fundamental approaches for appropriate market risk control operations and control procedures for identifying, monitoring and controlling market risk.

As an organization responsible for market risk management, a market risk control function (middle office) has been established and furthermore, the operating function (front office) and the administration function (back office) have been separated. Additionally, market risk control function staffs are assigned to the operating function to secure the effectiveness of market risk management.

The Risk Management Division, as a market risk control function, measures the level of market risk of the Bank as a whole using Value-at-Risk (“VaR”) approach models and other models and regularly monitors the status of compliance with position limits and loss limits established according to the type and characteristics of transactions to control the level of market risk within a certain range.

In addition, an ALM and Income Control Committee was established for the purpose of analyzing flexible investment strategies in order to prevent risks resulting from fluctuations in interest rates and market prices, while forecasting future interest rates, market prices, and trends of fund and business conditions. The committee is also responsible for securing the soundness of management and also improving profitability at the same time based on appropriate asset and liability management through the unification of risk management and earnings control.

b. Quantitative Information about Market Risk

The Bank adopts the variance-covariance method (holding period: 125 business days for strategic equity securities and 60 business days for others; confidence interval: 99.0%; observation period: 250 business days) in computing the VaR with respect to money held in trust, securities, Japanese yen deposits and loans, and Japanese yen money market funds. The volume of market risk (estimated losses) that the Bank is exposed to as of March 31, 2020, amounts to ¥146,420 million (\$1,345,401 thousand) (¥76,667 million in 2019) as a whole. However, the risk under certain abnormal market fluctuations may not be captured since, under the VaR method, the volume of market risk under a definite probability of statistically computed incidence is measured based on historical market fluctuations.

The Bank implements back testing to compare the VaR computed by the model with actual profit and loss in the securities and confirms that the measurement model in use captures the market risk with sufficient precision.

Liquidity risk management

The Bank has established the “Liquidity Risk Control Policy” as a basic policy for liquidity risk management and various rules concerning liquidity risk management. Based on these policies and rules, the Bank clarifies fundamental approaches for stable funding of operations and control procedures for identifying, monitoring and controlling liquidity risk. In addition, the Bank has established the “Contingency Plan for Liquidity” to enable it to make quick and correct responses to unexpected events.

Furthermore, as an organization responsible for liquidity risk management, a liquidity risk control function has been established and a cash management function and a settlement control function have been established to control daily cash management and settlement related to cash and securities.

The Risk Management Division, as a liquidity risk control function, manages the liquidity risk of the Bank as a whole by identifying, monitoring and controlling liquidity risk.

The Treasury Administration and International Division, as a cash management control function and settlement control function, prepares daily or monthly cash flow projections and conducts cash management by identifying possible funds and liquidity of assets and verifying the concentration of settlement of major account funds to a certain date. The Division also controls settlement by identifying the status of settlement through systems such as the BOJ-NET and among financial institutions.

Risk management system of subsidiaries

The subsidiaries have a risk management system similar to that of the Bank.

(4) Supplementary Explanation about Fair Values of Financial Instruments

The fair values of financial instruments include, in addition to the value determined based on market prices, valuations calculated on a reasonable basis if no market prices are available. Since certain assumptions are used in calculating the value, the outcome of such calculation may vary if different assumptions are used.

(5) Fair Values of Financial Instruments

The carrying amount, the fair value, and the differences thereof as of March 31, 2020 and 2019, are disclosed below. Note that unlisted equity securities for which fair value is extremely difficult to determine are not included in the following table (see Note 2 below) and insignificant accounts in terms of the carrying amount are omitted:

March 31, 2020	Millions of Yen		
	Carrying Amount	Fair Value	Difference
(1) Cash and due from banks	¥ 747,105	¥ 747,105	
(2) Investment securities	2,896,163	2,896,164	
Held-to-maturity securities	1,000	1,000	
Available-for-sale securities	2,895,163	2,895,163	
(3) Loans and bills discounted	4,886,221		
Reserve for possible loan losses*	(61,450)		
	4,824,770	4,860,491	¥35,720
Total assets	¥8,468,039	¥8,503,760	¥35,721
(1) Deposits	¥7,865,991	¥7,866,162	¥ 171
(2) Borrowed money	285,901	285,903	1
Total liabilities	¥8,151,893	¥8,152,066	¥ 173

March 31, 2019	Millions of Yen		
	Carrying Amount	Fair Value	Difference
(1) Cash and due from banks	¥ 711,025	¥ 711,025	
(2) Money held in trust	115,613	115,613	
(3) Investment securities	2,951,299	2,951,303	¥ 3
Held-to-maturity securities	4,099	4,103	3
Available-for-sale securities	2,947,199	2,947,199	
(4) Loans and bills discounted	4,718,942		
Reserve for possible loan losses*	(59,183)		
	4,659,758	4,680,944	21,185
Total assets	¥8,437,697	¥8,458,886	¥21,189
(1) Deposits	¥7,872,834	¥7,873,063	¥ 228
(2) Borrowed money	116,643	116,617	(26)
Total liabilities	¥7,989,478	¥7,989,681	¥ 202

March 31, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
(1) Cash and due from banks	\$ 6,864,881	\$ 6,864,881	
(2) Investment securities	26,611,807	26,611,816	
Held-to-maturity securities	9,188	9,188	
Available-for-sale securities	26,602,618	26,602,618	
(3) Loans and bills discounted	44,897,739		
Reserve for possible loan losses*	(564,642)		
	44,333,088	44,661,315	\$328,218
Total assets	\$77,809,785	\$78,138,013	\$328,227
(1) Deposits	\$72,277,781	\$72,279,353	\$ 1,571
(2) Borrowed money	2,627,042	2,627,060	9
Total liabilities	\$74,904,833	\$74,906,422	\$ 1,589

*General and specific reserves for possible loan losses corresponding to loans and bills discounted are deducted.

Notes:

1. Calculation method for the fair value of financial instruments

Assets

- (1) Cash and due from banks
For due from banks, the carrying amount is presented as the fair value since the fair value approximates the carrying amount.
- (2) Investment securities
The fair values of equity securities and debt securities are determined using the quoted price of the stock exchange, Japan Securities Dealers Association, or the price calculated by financial institutions. The fair value of investment trust is determined using the published standard quotation or the standard quotation offered by the securities investment advisors. With respect to privately placed guaranteed bonds, the fair value is determined using the future cash flows (coupons, redemption of principal, guarantee fees) discounted at an interest rate considering the market interest rates and issuers’ credit risk.

- (3) Loans and bills discounted
With respect to loans with floating interest rates, the carrying amount is presented as the fair value since the fair value approximates the carrying amount as they reflect the market interest rates over a short period, unless the creditworthiness of the borrower has changed significantly since the loan origination. With respect to loans with fixed interest rates, for each category of loan based on the type of loan, internal ratings, and maturity length, the fair value is determined based on the present value of expected cash flows of aggregated amounts of principal and interest discounted at a rate which is the rate assumed if a new loan was made, or market interest rate, which is adjusted by the standard spread (including overhead ratio) by credit rating.

The carrying amount is presented as the fair value if the maturity is within a short time period (less than one year) and the fair value approximates the carrying amount.

For receivables from “legally bankrupt,” “virtually bankrupt,” and “possibly bankrupt” borrowers, possible loan losses are estimated based on the DCF method or factors such as the expected amounts to be collected from collateral and guarantees. Since the fair value of these items approximates the carrying amount, net of the currently expected loan losses, such carrying amount is presented as the fair value.

For loans for which the repayment due date is not defined because of the characteristics that the loan amount is limited within the pledged assets, the carrying amount is presented as the fair value since the fair value is assumed to approximate the carrying amount considering the expected repayment schedule and terms of the interest rates.

Liabilities

- (1) Deposits
Regarding demand deposits, the amount payable as of the balance sheet date (i.e., the carrying amount) is considered to be the fair value. Time deposits and negotiable certificates of deposit are grouped by maturity length, and the fair value is determined using the present value of the aggregate amounts of principal and interest discounted at an interest rate that would be applied to newly accepted deposits. For deposits with maturities within a short time period (less than one year) and whose fair value approximates the carrying amount, the carrying amount is presented as the fair value.

- (2) Borrowed money
For each type of borrowed money financed, the fair value is determined based on the present value of the aggregated amounts of principal and interest discounted at a rate which is the rate assumed if a new financing was made. The carrying amount is presented as the fair value if the maturity is within a short time period (less than one year) and the fair value approximates the carrying amount.
2. The financial instruments whose fair value is extremely difficult to determine are as follows. These items are not included in (2) “Available-for-sale securities” under “Assets” in the above table of fair value information of financial instruments.

Category	Carrying Amount		
	Millions of Yen	Thousands of U.S. Dollars	
	2020	2019	2020
Unlisted equity securities* ^{1,2}	¥1,868	¥1,995	\$17,164
Capital subscription in investment business partnerships ³	5,600	4,986	51,456
Total	¥7,469	¥6,982	\$68,629

^{*1} Unlisted equity securities are not treated as instruments whose fair value is required to be disclosed since there is no market price and it is extremely difficult to determine the fair value.

^{*2} Impairment losses in the amount of ¥57 million (\$523 thousand) were recognized for unlisted equity securities for the year ended March 31, 2020. No impairment losses were recognized in the year ended March 31, 2019.

^{*3} Capital subscription in investment business partnerships, whose assets (i.e., unlisted equity securities) consist of those whose fair values are extremely difficult to determine, is not treated as instruments whose fair value is required to be disclosed.

3. Maturity analysis for financial assets and securities with contractual maturities as of March 31, 2020

	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks	¥ 694,383					
Investment securities	437,986	¥ 656,068	¥ 584,930	¥417,842	¥ 519,350	
Held-to-maturity securities	1,000					
National government bonds						
Local government bonds	1,000					
Available-for-sale securities with contractual maturities	436,986	656,068	584,930	417,842	519,350	
National government bonds	227,350	180,700	26,000	5,000	9,000	
Local government bonds	6,500	51,400	124,500	218,900	333,800	
Corporate bonds	135,869	297,958	289,674	119,900	107,600	
Other	67,267	126,010	144,756	74,041	68,950	
Loans and bills discounted*	1,164,160	773,173	704,400	438,295	481,803	¥1,204,439
Total	¥2,296,531	¥1,429,241	¥1,289,331	¥856,137	¥1,001,154	¥1,204,439

	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Due from banks	\$ 6,380,437					
Investment securities	4,024,496	\$ 6,028,374	\$ 5,374,712	\$3,839,400	\$4,772,121	
Held-to-maturity securities	9,188					
National government bonds						
Local government bonds	9,188					
Available-for-sale securities with contractual maturities	4,015,308	6,028,374	5,374,712	3,839,400	4,772,121	
National government bonds	2,089,037	1,660,387	238,904	45,943	82,697	
Local government bonds	59,726	472,296	1,143,986	2,011,393	3,067,168	
Corporate bonds	1,248,451	2,737,829	2,661,710	1,101,718	988,697	
Other	618,092	1,157,860	1,330,111	680,336	633,556	
Loans and bills discounted*	10,697,050	7,104,410	6,472,480	4,027,336	4,427,115	\$11,067,159
Total	\$21,102,003	\$13,132,785	\$11,847,202	\$7,866,737	\$9,199,246	\$11,067,159

* Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loans to “legally bankrupt” borrowers, loans to “virtually bankrupt” borrowers, and loans to “possibly bankrupt” borrowers, amounting to ¥75,784 million (\$696,352 thousand) are not included in the above table. Loans that do not have a contractual maturity, amounting to ¥44,162 million (\$405,788 thousand), are not included either.

4. Repayment schedule of bonds, borrowed money, and other interest-bearing liabilities subsequent to March 31, 2020

	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Deposits*	¥7,475,191	¥340,076	¥ 50,723			
Borrowed money	128,991	2,365	153,750	¥145	¥190	¥458
Total	¥7,604,183	¥342,441	¥204,474	¥145	¥190	¥458

	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years through 7 Years	Due after 7 Years through 10 Years	Due after 10 Years
Deposits*	\$68,686,860	\$3,124,836	\$ 466,075			
Borrowed money	1,185,252	21,731	1,412,753	\$1,332	\$1,745	\$4,208
Total	\$69,872,121	\$3,146,568	\$1,878,838	\$1,332	\$1,745	\$4,208

* Demand deposits included in deposits are presented under “Due in 1 year or less.”

27. DERIVATIVES

It is the Bank’s policy to use derivatives primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities.

The Bank enters into interest rate swaps and interest rate swaptions as a means of hedging its interest rate risk on certain loans and investment securities while entering into interest rate swaps and interest rate swaptions to meet the needs of its clients.

The Bank also enters into currency swaps, foreign exchange forward contracts, and currency options to hedge foreign exchange risk associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations of market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty’s failure to perform its obligations under a contract.

The Bank sets limits on credit risk for those derivatives by limiting the counterparties to major financial institutions and securities companies and establishing maximum risk exposures to the counterparties.

The Bank has established a standard of risk management including management approaches for each type of risk. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate trading activities and credit risk management including maximum risk exposures and loss-cutting rules. Concerning risk management associated with derivative transactions, the front and back offices of the trading divisions are clearly separated and risk managers are assigned to the trading divisions, while the Risk Management Division synthetically manages the Bank’s market risks. In this manner, an internal control system is effectively secured.

The Bank’s positions, gain and loss, risk amount, and other conditions are periodically reported to the executive committee.

The Bank has the following derivatives contracts outstanding as of March 31, 2020 and 2019:

Derivative Transactions to Which Hedge Accounting Is Not Applied

With respect to derivatives to which hedge accounting is not applied, contract or notional amount, fair value, and unrealized gains/losses, and the calculation method of fair value are as shown below. Note that the contract or notional amounts of the derivatives which are shown in the table do not represent the amounts of the Bank’s exposure to credit or market risk.

	Millions of Yen								Thousands of U.S. Dollars			
	2020				2019				2020			
	Contract or Notional Amount				Contract or Notional Amount				Contract or Notional Amount			
	Total	Due after One Year	Fair Value	Unrealized Gains/Losses	Total	Due after One Year	Fair Value	Unrealized Gains/Losses	Total	Due after One Year	Fair Value	Unrealized Gains/Losses
Interest rate-related over-the-counter (“OTC”) transactions:												
Interest rate swaps:												
Fixed rate receipt/floating rate payment	¥ 10,431	¥10,431	¥ 375	¥ 375	¥ 11,167	¥10,867	¥ 287	¥ 287	\$ 95,846	\$ 95,846	\$ 3,445	\$ 3,445
Floating rate receipt/fixed rate payment	10,638	10,636	(284)	(284)	11,220	10,920	(183)	(183)	97,748	97,730	(2,609)	(2,609)
Currency-related OTC transactions:												
Currency swaps	46,908	10,295	104	104	41,365	21,654	(498)	(498)	431,020	94,597	955	955
Foreign exchange forward contracts:												
Selling	101,751		14	14	138,940	198	(541)	(541)	934,953		128	128
Buying	2,170		(16)	(16)	4,742	198	2	2	19,939		(147)	(147)
Currency option:												
Selling	19,738	15,147	(271)	365	6,379	4,146	(149)	160	181,365	139,180	(2,490)	3,353
Buying	19,738	15,147	271	(148)	6,379	4,146	149	(81)	181,365	139,180	2,490	(1,359)

Notes:

1. The above transactions are stated at fair value and unrealized gains (losses) for the years ended March 31, 2020 and 2019, are recognized in the consolidated statement of income.
2. The fair value of interest rate-related OTC transactions is determined using the discounted present value or option-pricing models, and the fair value of currency-related OTC transactions is determined using the discounted present value.

Derivative Transactions to Which Hedge Accounting Is Applied

With respect to derivatives to which hedge accounting is applied, contract or notional amount, fair value, and the calculation method of fair value are as shown below. Note that the contract or notional amounts of the derivatives which are shown in the table do not represent the amounts of the Bank’s exposure to market risk.

At March 31, 2020

			Millions of Yen		
	Hedge Accounting Method	Type of Derivatives	Major Hedged Item	Contract or Notional Amount	Fair Value
				Total	Due after One Year
Normal method	Interest rate swaps—	Loans and			
	Floating rate receipt/fixed rate payment	investment securities		¥224,744	¥94,777
					¥(1,341)
Special matching criteria	Interest rate swaps—				
	Floating rate receipt/fixed rate payment	Loans		54,965	48,135
					(636)
	Other—				
	Buying	Loans		416	416
					(1)
Total					¥(1,979)

At March 31, 2019

At March 31, 2019			Millions of Yen		
			Contract or Notional Amount		Fair Value
Hedge Accounting Method	Type of Derivatives	Major Hedged Item	Total	Due after One Year	
Normal method	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans and investment securities	¥227,920	¥226,608	¥(2,255)
Special matching criteria	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans	69,832	58,080	(893)
	Other— Buying	Loans	583	583	(3)
Total					¥(3,151)

At March 31, 2020

At March 31, 2020			Thousands of U.S. Dollars		
Hedge Accounting Method	Type of Derivatives	Major Hedged Item	Contract or Notional Amount		
			Total	Due after One Year	Fair Value
Normal method	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans and investment securities	\$2,065,092	\$870,872	\$(12,321)
Special matching criteria	Interest rate swaps— Floating rate receipt/ fixed rate payment	Loans	505,053	442,295	(5,843)
	Other— Buying	Loans	3,822	3,822	(9)
Total					\$(18,184)

Notes:

1. These are principally accounted for under the deferral hedge method in accordance with the JICPA Industry Audit Committee Report No. 24, “Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry.”

2. Fair value is determined using the discounted present value, option-pricing models, etc.

28. RELATED-PARTY TRANSACTIONS

Related-party transactions for the years ended March 31, 2020 and 2019, were as follows:

a. Transactions between the Bank and Its Related Parties

Related Party	Account Classification*3	Transactions for the Year*4			Balance at End of Year		
		Millions of Yen		Thousands of U.S. Dollars	Millions of Yen		Thousands of U.S. Dollars
		2020	2019	2020	2020	2019	2020
Department Store Fujisaki Co., Ltd.*1	Loans and bills discounted	¥4,731	¥4,636	\$43,471	¥4,827	¥4,699	\$44,353
	Customers' liabilities for acceptances and guarantees	437	356	4,015	437	351	4,015
Fuji Styling Co., Ltd.*1	Loans and bills discounted	151	274	1,387	143	158	1,313
Fujisaki Agency Co., Ltd.*1	Customers' liabilities for acceptances and guarantees	1,000	1,000	9,188	1,000	1,000	9,188
Mr. Minokichi Akaizawa*2	Loans and bills discounted	538	518	4,943	538	538	4,943

Notes: *1 Company whose voting rights are majority owned by a director or his close relatives (including subsidiaries of such company)

*2 Mr. Minokichi Akaizawa, a close relative of a director, passed away on November 14, 2018. Since the director, who is his related party, retired from the position of the Bank's director due to expiration of his term of office effective June 27, 2019, and the inheritance procedures were underway, the transaction in the above table is shown in the name of the deceased, and the transaction amount is recorded at the relevant amount until that date and the balance at end of year is recorded at the balance on that date.

*3 Terms are substantially the same as for similar transactions with third parties.

*4 Amounts of transactions were reported at the average balance for the period.

b. Transactions between Consolidated Subsidiaries and Their Related Parties

Related Party	Account Classification*2	Transactions for the Year			Balance at End of Year		
		Millions of Yen		Thousands of U.S. Dollars	Millions of Yen		Thousands of U.S. Dollars
		2020	2019	2020	2020	2019	2020
Department Store Fujisaki Co., Ltd.*1	Fees and commissions	¥30	¥28	\$275			
	Lease receivables and investments in leases	2		18	¥15		\$137
Fuji Styling Co., Ltd.*1	Other assets		46				

Notes: *1 Company whose voting rights are majority owned by a director or his close relatives (including subsidiaries of such company)

*2 Terms are substantially the same as for similar transactions with third parties.

29. SEGMENT INFORMATION

Description of Reportable Segments

The Companies are principally engaged in the banking business and also leasing business and other financial services. The reportable segments of the Bank are the segments for which separate financial information is available, and are subject to periodic review by the chief operating decision maker to determine the allocation of management resources and assess performance.

Since the reportable segments of the Companies consist only of the “Banking” segment and since the “Other” segment is immaterial, segment information is omitted.

Related Information for the Years Ended March 31, 2020 and 2019
Information by Service Line

	Millions of Yen				
	2020				
	Loan	Securities Investment	Lease	Other	Total
External customers	¥41,944	¥43,501	¥8,706	¥22,773	¥116,926

	Millions of Yen				
	2019				
	Loan	Securities Investment	Lease	Other	Total
External customers	¥42,119	¥36,342	¥8,127	¥22,894	¥109,483

	Thousands of U.S. Dollars				
	2020				
	Loan	Securities Investment	Lease	Other	Total
External customers	\$385,408	\$399,715	\$79,996	\$209,252	\$1,074,391

Information about Geographical Area

Information about geographical areas is omitted because the Companies conduct banking and other related activities only in Japan and do not have foreign subsidiaries or foreign branches.

Information about Major Customers

Information about major customers is not presented because there are no customers who account for over 10% of ordinary income.

Information about Asset Impairment Losses

Information about asset impairment losses for the years ended March 31, 2020 and 2019, is omitted because the only reportable segment is “Banking” and “Other” is immaterial.

Basic net income per share (“EPS”) for the years ended March 31, 2020 and 2019, is as follows:

The Bank's shares held by the directors' compensation BIP trust that are recorded as treasury stock under "Equity" are included in the treasury stock to be deducted when computing the average number of shares during the fiscal year for the calculation of basic net income per share.

The average number of shares of the treasury stock deducted in computing basic EPS was 412 thousand shares and 479 thousand shares, for the years ended March 31, 2020 and 2019, respectively.

Diluted EPS for the years ended March 31, 2020 and 2019, is not shown because there were no potential shares.

Cash Dividends

Note: Above total amount of cash dividends includes dividends for the Bank's shares held by BIP trust in an amount of ¥9 million (\$82 thousand).

Deloitte.

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements of The 77 Bank, Ltd. and its consolidated subsidiaries (the "Companies"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

Convenience Translation

Basis for Opinion

In preparing the consolidated financial statements, management is responsible for assessing the Companies' ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Companies or to cease operations, or has no realistic alternative but to do so.

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The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Companies' financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Companies' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Companies to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Companies to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Companies which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 26, 2020

Capital Adequacy Ratios

THE 77 BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Consolidated (Domestic standard)			
Capital adequacy ratio (Domestic standard) = (A)/(B) x 100 (%)	10.31	10.38	
Capital: (A)	422,268	408,494	3,880,069
Risk-adjusted assets: (B)	4,095,358	3,934,181	37,630,781

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Non-Consolidated (Domestic standard)			
Capital adequacy ratio (Domestic standard) = (A)/(B) x 100 (%)	10.14	10.20	
Capital: (A)	412,272	398,082	3,788,220
Risk-adjusted assets: (B)	4,062,387	3,902,624	37,327,823

Non-Consolidated Balance Sheet (Parent Company)

THE 77 BANK, LTD.
March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Assets:			
Cash and due from banks	¥ 747,051	¥ 710,996	\$ 6,864,384
Call loans and bills bought	429	511	3,941
Debt purchased	4,000	4,071	36,754
Trading account securities	18,873	19,848	173,417
Money held in trust	82,344	115,613	756,629
Investment securities	2,913,386	2,964,936	26,770,063
Loans and bills discounted	4,894,634	4,724,954	44,975,043
Foreign exchange assets	9,528	4,734	87,549
Tangible fixed assets:			
Buildings	8,187	8,294	75,227
Land	19,315	19,321	177,478
Lease assets	73	81	670
Construction in progress	282	138	2,591
Other tangible fixed assets	4,053	4,194	37,241
Intangible fixed assets	259	263	2,379
Customers' liabilities for acceptances and guarantees	45,258	24,622	415,859
Other assets	62,405	63,198	573,417
Reserve for possible loan losses	(58,226)	(55,511)	(535,017)
Total	¥8,751,857	¥8,610,271	\$80,417,688
Liabilities:			
Deposits	¥7,888,480	¥7,891,848	\$72,484,425
Call money	8,706	16,104	79,996
Payables under securities lending transaction	11,986	17,414	110,135
Borrowed money	280,257	111,228	2,575,181
Foreign exchange liabilities	116	339	1,065
Liability for retirement benefits	14,565	14,726	133,832
Reserve for stock compensation	735	750	6,753
Reserve for reimbursement of deposits	337	464	3,096
Reserve for contingent losses	860	781	7,902
Acceptances and guarantees	45,258	24,622	415,859
Deferred tax liabilities	229	23,238	2,104
Other liabilities	60,434	27,527	555,306
Total liabilities	8,311,967	8,129,047	76,375,696
Equity:			
Common stock	24,658	24,658	226,573
Capital surplus	8,937	8,937	82,118
Retained earnings	357,402	343,810	3,284,039
Treasury stock	(6,200)	(5,551)	(56,969)
Total stockholders' equity	384,798	371,855	3,535,771
Unrealized gains on available-for-sale securities	55,917	110,820	513,801
Deferred losses on derivatives under hedge accounting	(826)	(1,451)	(7,589)
Total valuation adjustments	55,091	109,368	506,211
Stock acquisition rights			
Total equity	439,889	481,223	4,041,982
Total	¥8,751,857	¥8,610,271	\$80,417,688

Non-Consolidated Statement of Income (Parent Company)

THE 77 BANK, LTD.
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Income:			
Interest income:			
Interest on loans and discounts	¥ 41,881	¥42,044	\$384,829
Interest on dividends on trading account and investment securities	28,732	27,139	264,008
Other	242	266	2,223
Fees and commissions	16,968	16,742	155,912
Other operating income	113	115	1,038
Other income	16,935	13,544	155,609
Total income	104,873	99,853	963,640
Expenses:			
Interest expense:			
Interest on deposits	764	1,491	7,020
Interest on call money	277	584	2,545
Other	1,284	1,472	11,798
Fees and commissions	7,279	7,171	66,884
Other operating expenses	6,181	6,411	56,795
General and administrative expenses	55,016	55,734	505,522
Other expenses	9,532	4,289	87,586
Total expenses	80,335	77,154	738,169
Income before income taxes	24,538	22,699	225,470
Income taxes:			
Current	7,408	4,984	68,069
Deferred	(188)	(253)	(1,727)
Total income taxes	7,220	4,730	66,342
Net income	¥ 17,317	¥17,968	\$159,119

Loan Portfolio

Loan Portfolio by Industry

	Billions of Yen	Millions of U.S. Dollars
	2020	2020
Domestic offices (Excluding Japan offshore banking accounts)	¥4,894	\$44,975
Manufacturing	445	4,097
Agriculture and forestry	6	60
Fisheries	5	46
Mining and quarrying of stone and gravel	3	30
Construction	146	1,343
Electricity, gas, heat supply and water	203	1,868
Information and communications	21	195
Transport and postal activities	121	1,115
Wholesale and retail trade	398	3,661
Finance and insurance	360	3,309
Real estate and goods rental and leasing	1,041	9,574
Services, N.E.C.	340	3,132
Government, except elsewhere classified	623	5,725
Other	1,176	10,812
Japan's offshore banking accounts		
Financial institutions	—	—
Total	¥4,894	\$44,975

Loan Portfolio by Industry

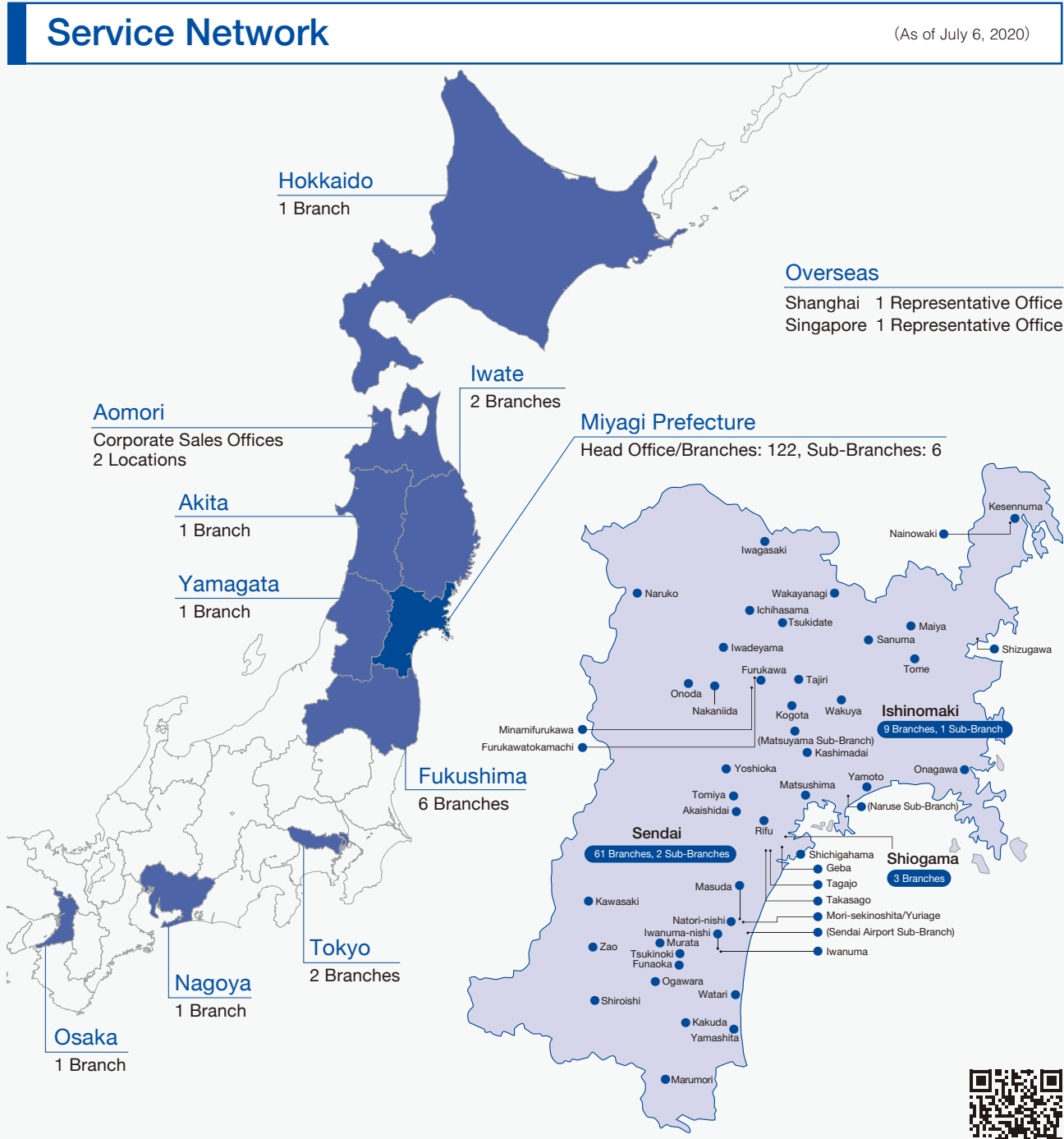
	Billions of Yen
	2019
Domestic offices (Excluding Japan offshore banking accounts)	¥4,724
Manufacturing	420
Agriculture and forestry	6
Fisheries	5
Mining and quarrying of stone and gravel	3
Construction	153
Electricity, gas, heat supply and water	192
Information and communications	29
Transport and postal activities	127
Wholesale and retail trade	384
Finance and insurance	305
Real estate and goods rental and leasing	979
Services, N.E.C.	341
Government, except elsewhere classified	640
Other	1,134
Japan's offshore banking accounts	
Financial institutions	—
Total	¥4,724

Loans by Collateral

	Billions of Yen		Millions of U.S. Dollars
	2020	2019	2020
Securities	¥ 5	¥ 5	\$ 46
Commercial claims	19	20	182
Real estate	826	794	7,594
Subtotal	851	820	7,823
Guaranteed	1,283	1,259	11,793
Unsecured	2,759	2,645	25,357
Total	¥4,894	¥4,724	\$44,975

Reserve for Loan Losses

	Billions of Yen		Millions of U.S. Dollars
	2020	2019	2020
General reserve for loan losses	¥28	¥27	\$263
Specific reserve for estimated loan losses on certain doubtful loans	29	28	271
Total	¥58	¥55	\$535



Service Network Data

	Number of municipalities (within Miyagi Prefecture)		Total number of the Bank's locations		Number of ATMs
		Of which, areas with the Bank's location		Of which branches within branches	
Within Miyagi Prefecture	35	31	128	7	764
Cities	14	14	109	7	668
[Of which, Sendai City]			[63]	[4]	[420]
Towns	20	17	19	—	95
Villages	1	—	—	—	1
Outside of Miyagi Prefecture			15	—	28
Within Tokyo			2	—	3
Other prefectures			13 ^{*1}	—	25
Total	35 municipalities	31 cities and towns	143 locations ^{*2}	7 locations	792 ATMs

(Note)
*1 Other branch locations: Sapporo City, Morioka City, Kitakami City, Akita City, Yamagata City, Fukushima City, Koriyama City, Soma City, Minamisoma City, Iwaki City (2 branches), Nagoya City, and Osaka City
*2 The total number of 143 locations includes one branch that only offers transfers, and the number of locations is 135, taking into account seven branches within branches.

Profile

Company Name	The 77 Bank, Ltd.	Number of Branches	143 (Head Office/Branches: 137, Sub-Branches: 6)
Head Office	3-20, Chuo 3-chome, Aobaku, Sendai, Miyagi 980-8777, Japan	Capital Adequacy Ratio (domestic standards)	non-consolidated 10.14% / consolidated 10.31%
Founded	December 9, 1878	Total Assets	¥8,751.9 billion
Paid-in Capital	¥24.6 billion	Deposits and Certificates of Deposits	¥7,888.5 billion
Number of Employees	2,791	Loans and Bills Discounted	¥4,894.6 billion

(As of March 31, 2020)

Group companies

1. 77 Lease Co., Ltd. (Leasing business) 2. 77 Shin-Yo Hosyo Co., Ltd. (Guaranty and credit investigation services)
3. The 77 Card Co., Ltd. (Credit card business) 4. 77 Securities Co., Ltd. (Financial instruments business)
5. 77 Research and Consulting Co., Ltd. (Research studies, consulting business, and computer-based contract services such as calculations for other companies)
6. 77 Capital Co., Ltd. (Fund management)



Disclosure materials

Introduction of Disclosure

This is a disclosure document based on Article 21 of the Banking Act (explanatory document regarding our business and financial condition). It states financial data and matters related to the status of capital adequacy, and is available on The 77 Bank's website.
* Japanese Language only

Introduction of Mini Disclosure

This small pamphlet provides a summary overview of our business results and state of operations, in consideration of our relationship with the local community, in a manner that is easy to understand. It is available at both The 77 Bank's Head Office and branches, and The 77 Bank's website.
* Japanese Language only

In addition to this document, The 77 Bank has prepared disclosures including DISCLOSURE based on the Banking Act, the Securities Report based on the Financial Instruments and Exchange Act, Mini DISCLOSURE for the general public and shareholders, and the INTEGRATED REPORT for countries overseas.

In addition, we are continuously working to provide investors with a better understanding of The 77 Bank, Ltd. through means such as the timely disclosure of management information through our website, etc. and the holding of corporate IR briefings twice per year.

Going forward, The 77 Bank, Ltd. will pursue sound management and work towards timely and appropriate disclosure.

Customer feedback

Customer Feedback Cards are available at lobbies and ATM corners at our branches, as a tool for gathering insights and feedback regarding products and services, as well as opinions and requests from customers.

We also accept opinions and requests from customers through our website. Please feel free to contact us.

Designated dispute resolution organization for The 77 Bank under the Banking Act

Japanese Bankers Association
Contact point: Japanese Bankers Association Customer Relations Center
Address: 2-6-1 Otemachi, Chiyoda-ku, Tokyo 19F, Asahi Seimei Otemachi Bldg. (within the Japanese Bankers Association)
Telephone number: +81-570-017109 or +81-3-5252-3772

<What is a designated dispute resolution organization?>
A designated dispute resolution organization is an organization designated by the Financial Services Agency that works to resolve complaints submitted by customers or requests for dispute resolution (mediation) related to banking services, etc. from a fair and neutral position.

The 77 Bank, Ltd

August 2020

Issued by The 77 Bank, Ltd.

General Planning & Coordination Division

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Phone: +81-22-267-1111

<https://www.77bank.co.jp/english/top.htm>