



# Overview of Financial Results in FY2015

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- IR Presentation -

The Hiroshima Bank, Ltd.



June 1, 2016

President Koji Ikeda



## 1. Highlights of FY2015 2

## 2. Overview of Financial Results in FY2015

|                                                       |    |
|-------------------------------------------------------|----|
| (1) Summary of business performance in FY2015         | 4  |
| (2) Net interest income                               | 5  |
| (3) Net fees and commissions income                   | 6  |
| (4) Expenses                                          | 7  |
| (5) Balance of loans, deposits, etc. (deposits + NCD) | 8  |
| (6) Loans to SMEs and personal loans                  | 9  |
| (7) Securities                                        | 10 |
| (8) Credit costs and non-performing loans             | 11 |
| (9) Capital adequacy ratio and ROE                    | 12 |

## 3. Progress of “Mid-term Plan 2015– Create the Future with Local Communities”

|                                                                                                                                                                 |    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| (1) Strategies in the Mid-term Plan                                                                                                                             | 14 |
| (2) Enhancement of approaches to the personal market 1<br>- Promotion of consumer loans -                                                                       | 15 |
| (3) Enhancement of approaches to the personal market 2<br>- Promotion of the card business -                                                                    | 16 |
| (4) Enhancement of approaches to the personal market 3<br>- Expansion of customer base in collaboration with insurance companies -                              | 17 |
| (5) Enhancement of consulting sales<br>- Promotions of business for elderly clients -                                                                           | 18 |
| (6) Active efforts for regional development 1<br>- Results of our efforts -                                                                                     | 19 |
| (7) Active efforts for regional development 2<br>- Promotion of feasibility studies -                                                                           | 20 |
| (8) Active efforts for regional development 3<br>- Revitalization of tourism industry in the Setouchi region -                                                  | 21 |
| (9) Realization of channel cooperation (Omni-channel retailing)                                                                                                 | 22 |
| (10) Development of a corporate culture in which a diverse range of people can play active roles                                                                | 23 |
| (11) Enhancement of profitability in collaboration with asset management companies<br>- Investment and dispatching of personnel to asset management companies - | 24 |

## 4. Business Forecasts in FY2016

|                                                             |    |
|-------------------------------------------------------------|----|
| (1) Forecast of business performance and dividend in FY2016 | 26 |
|-------------------------------------------------------------|----|



# 1. Highlights of FY2015

1

Net income **increased for seven consecutive years** on a parent company basis, **setting the historical high in three consecutive years** on a consolidated basis.

2

Average balance of both loans and deposits, etc. (deposits + NCD) **significantly increased year-on-year**.

3

Average balance of focused areas of loans to SMEs and personal loans **significantly increased year-on-year**.

4

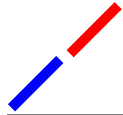
The non-performing loan ratio **improved by 0.51 points year-on-year to 1.37%** thanks to support for management improvement.

5

ROE, an indicator of management efficiency, **reached 7%**.

6

Net income increased more than initially expected and **the year-end dividend is planned to be ¥5.5 per share (initial projection + ¥1.0)**.



## 2. Overview of Financial Results in FY2015

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# (1) Summary of business performance in FY2015

- As for profit and loss in FY2015, ordinary profit **increased by 5.4 billion yen (+13.6%) on a year-on-year basis to 45.1 billion yen** thanks to an increase in gains on securities and a decrease in credit costs.
- Net income was up by 6.1 billion yen (+25.6%) to 30.0 billion yen, and profit attributable to owners of the parent was up by 4.8 billion yen (+18.0%) to 31.4 billion yen from the year earlier, **both recording profit increases in seven consecutive years and setting the record high in three consecutive years on a both parent and consolidated basis.**

(Billion yen)

|                                                | Results in<br>FY2015 | YoY change<br>(Change rate) | Difference from the<br>announcement in November |
|------------------------------------------------|----------------------|-----------------------------|-------------------------------------------------|
|                                                |                      |                             |                                                 |
| Net interest income                            | 74.7                 | -0.8                        | 1.6                                             |
| Net fees and commissions income                | 18.8                 | -1.1                        | -1.0                                            |
| <b>Core gross banking profit</b>               | <b>93.5</b>          | <b>-1.9 ( -1.9% )</b>       | <b>0.6</b>                                      |
| - Expenses                                     | 53.7                 | -0.5                        | 0.5                                             |
| <b>Core banking profit</b>                     | <b>39.8</b>          | <b>-1.4 ( -3.3% )</b>       | <b>0.1</b>                                      |
| Gains/Losses on securities                     | 5.0                  | 4.4                         | 0.0                                             |
| - Credit costs                                 | 1.7                  | -0.9                        | 1.7                                             |
| <b>Ordinary profit</b>                         | <b>45.1</b>          | <b>5.4 ( 13.6% )</b>        | <b>-0.9</b>                                     |
| <b>Net income</b>                              | <b>30.0</b>          | <b>6.1 ( 25.6% )</b>        | <b>-1.1</b>                                     |
| <b>Consolidated net income</b>                 | <b>47.2</b>          | <b>6.9 ( 17.1% )</b>        | <b>-0.6</b>                                     |
| <b>Profit attributable to owners of parent</b> | <b>31.4</b>          | <b>4.8 ( 18.0% )</b>        | <b>-0.8</b>                                     |



## (2) Net interest income

- Net interest income was down by 800 million yen from the previous year, due to a decrease in loan interest, securities interest, and dividends caused by the lower interest rate environment.
- Expansion of loan volume and reductions in high-cost funding **mitigated the decrease in income due to lowered interest rates.**

### Breakdown of net interest income

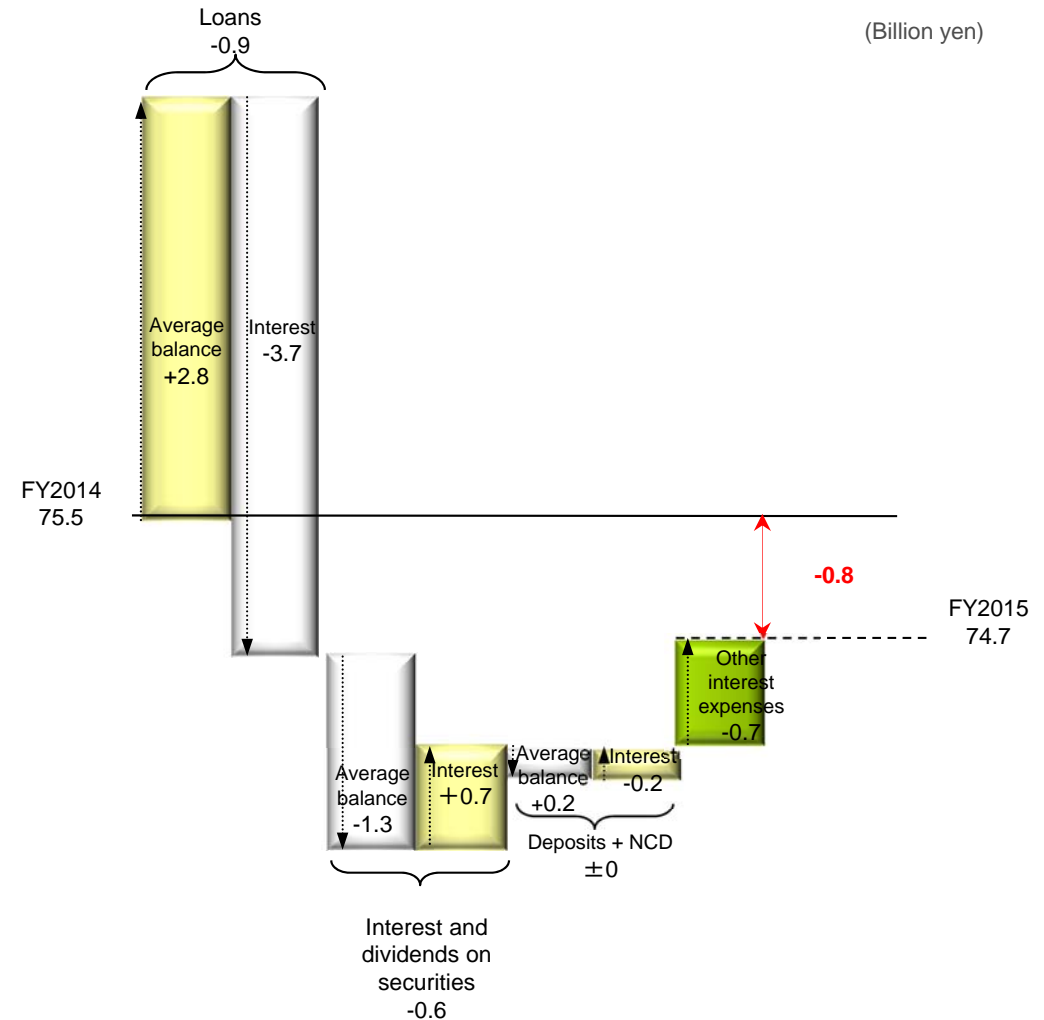
(Billion yen)

|                                      | Result for FY2015 |             |
|--------------------------------------|-------------------|-------------|
|                                      | YoY chnage        |             |
| Interest on loans                    | 63.9              | -0.9        |
| Interest and dividends on securities | 16.7              | -0.6        |
| Deposits + NCD interest (-)          | 3.8               | 0           |
| Other interest expenses (-)          | 2.1               | -0.7        |
| Subordinated financing costs (-)     | 0.4               | -0.5        |
| <b>Net interest income</b>           | <b>74.7</b>       | <b>-0.8</b> |

### Details of each item in net interest income

(average balance and interest)

(Billion yen)



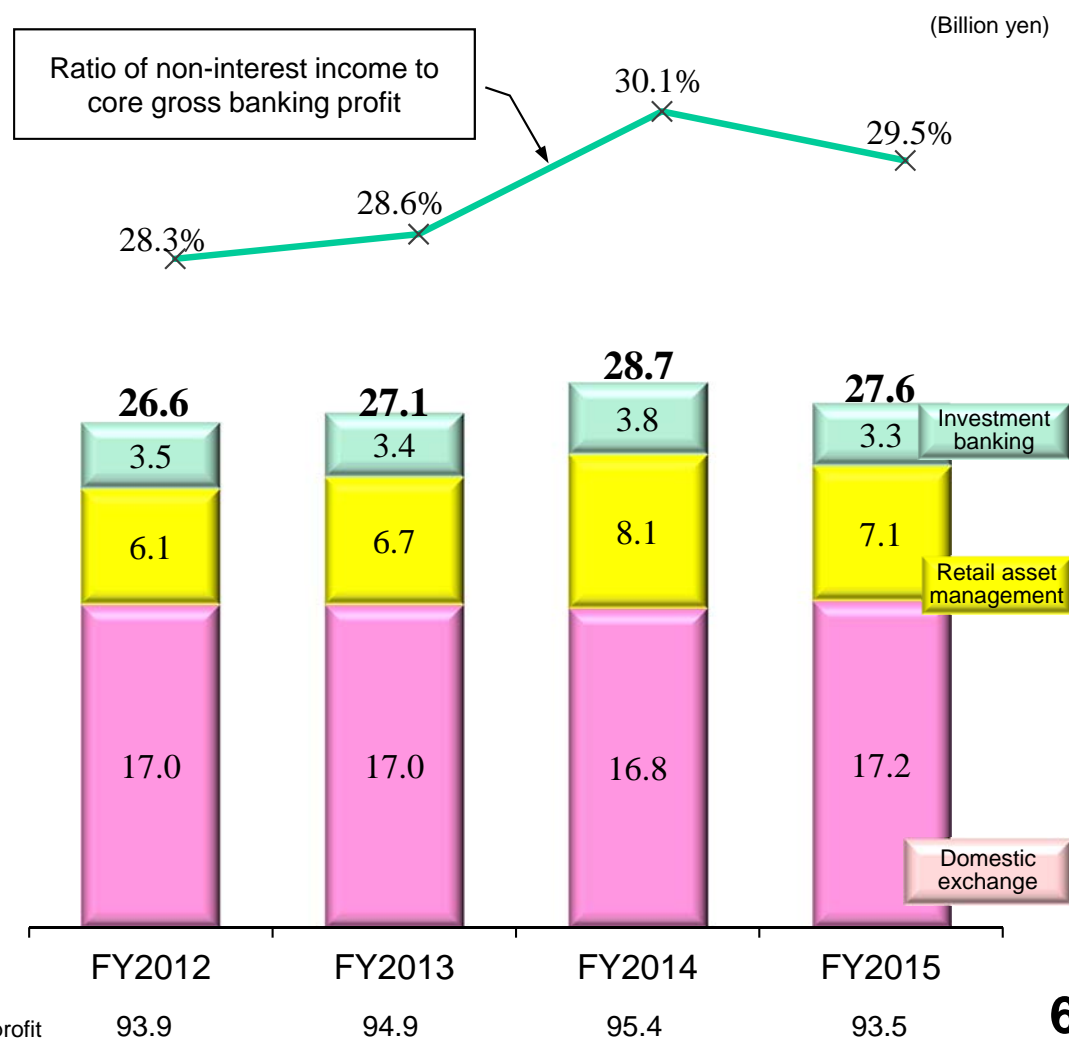
### (3) Net fees and commissions income

- Net fees and commissions income decreased by 1.1 billion yen on a year-on-year basis due mainly to a decrease in commissions related to sales of investment trusts.
- The ratio of non-interest income to core gross banking profit **maintained the level of around 30%.**

#### Breakdown of net fees and commissions income

|                                        | Result for FY2015 (Billion yen) |             |
|----------------------------------------|---------------------------------|-------------|
|                                        | YoY change                      |             |
| Investment banking                     | 3.3                             | -0.5        |
| Syndicated loans, etc.                 | 1.8                             | -0.4        |
| Sales of derivatives to customers      | 0.6                             | -0.2        |
| Retail asset management                | 7.1                             | -1.0        |
| Insurance products                     | 3.6                             | -0.3        |
| Investment trusts                      | 2.4                             | -0.7        |
| Personal loan-related                  | -3.5                            | 0.4         |
| Group insurance premiums               | -2.0                            | 0.4         |
| Others                                 | 11.9                            | -0.1        |
| <b>Net fees and commissions income</b> | <b>18.8</b>                     | <b>-1.1</b> |

#### Trend of non-interest income and its ratio to core gross banking profit

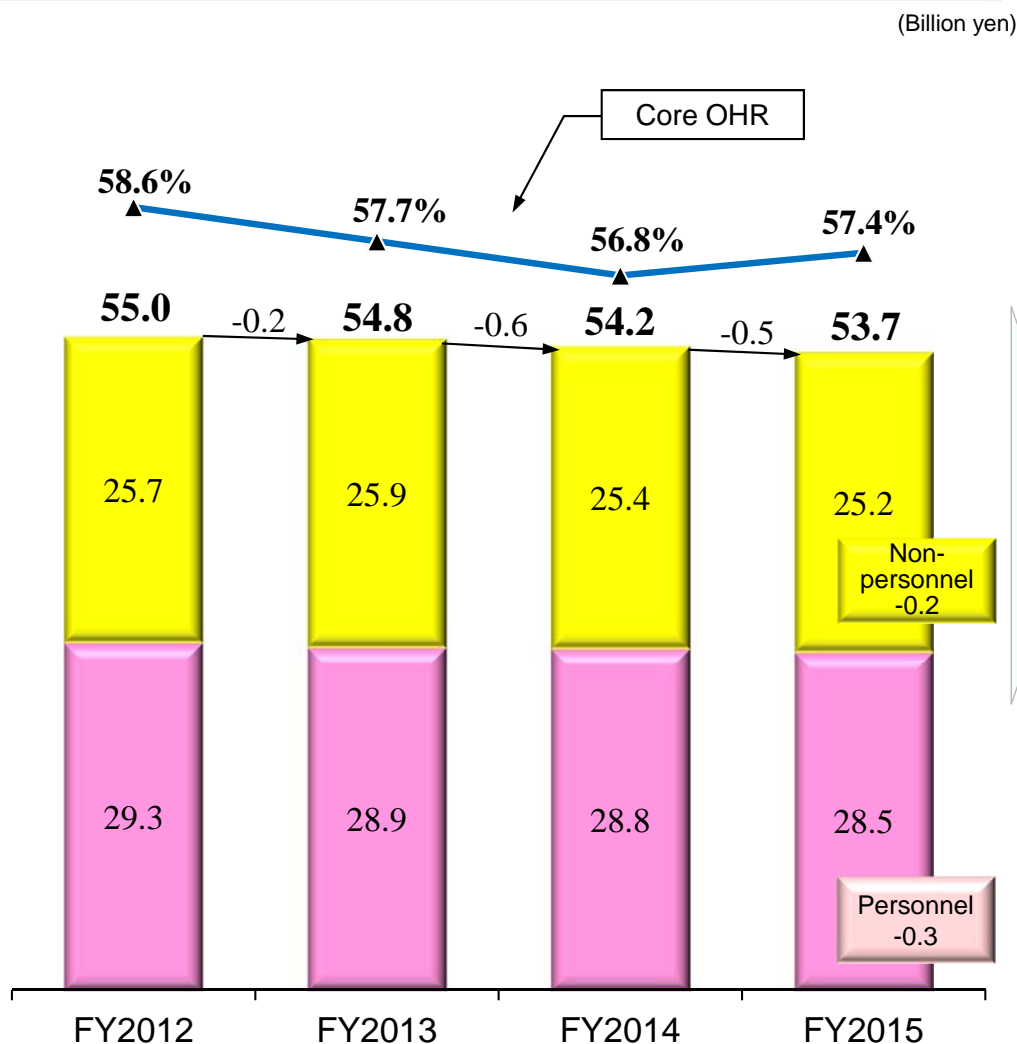


Core gross banking profit

# (4) Expenses

Expenses were **down by 500 million yen from the previous year** thanks to a decrease in retirement benefit costs and deposit insurance costs despite increases regarding expenses for the improvement of customer convenience and sales promotion. Core OHR **maintained the level of 50%**.

Trend of expenses and core OHR



Breakdown of expenses

(Billion yen)

| Non-personnel expenses                                                             |        |
|------------------------------------------------------------------------------------|--------|
| Major factors                                                                      | Change |
| Decrease in deposit insurance premiums: -1.5                                       | -0.2   |
| Upgrade of personal internet banking and ATMs (advertisement expenses, etc.): +0.2 |        |
| Promotion of consumer loans, etc.: +0.2                                            |        |
| Pro-forma standard taxation and consumer tax: +0.6                                 |        |
| Personnel expenses                                                                 |        |
| Major factors                                                                      | Change |
| Decrease in retirement benefit costs: -1.0                                         | -0.3   |
| Pay raise: +0.2                                                                    |        |
| Increase in bonuses, etc.: +0.4                                                    |        |

\* Core OHR= Expenses / Core gross banking profit



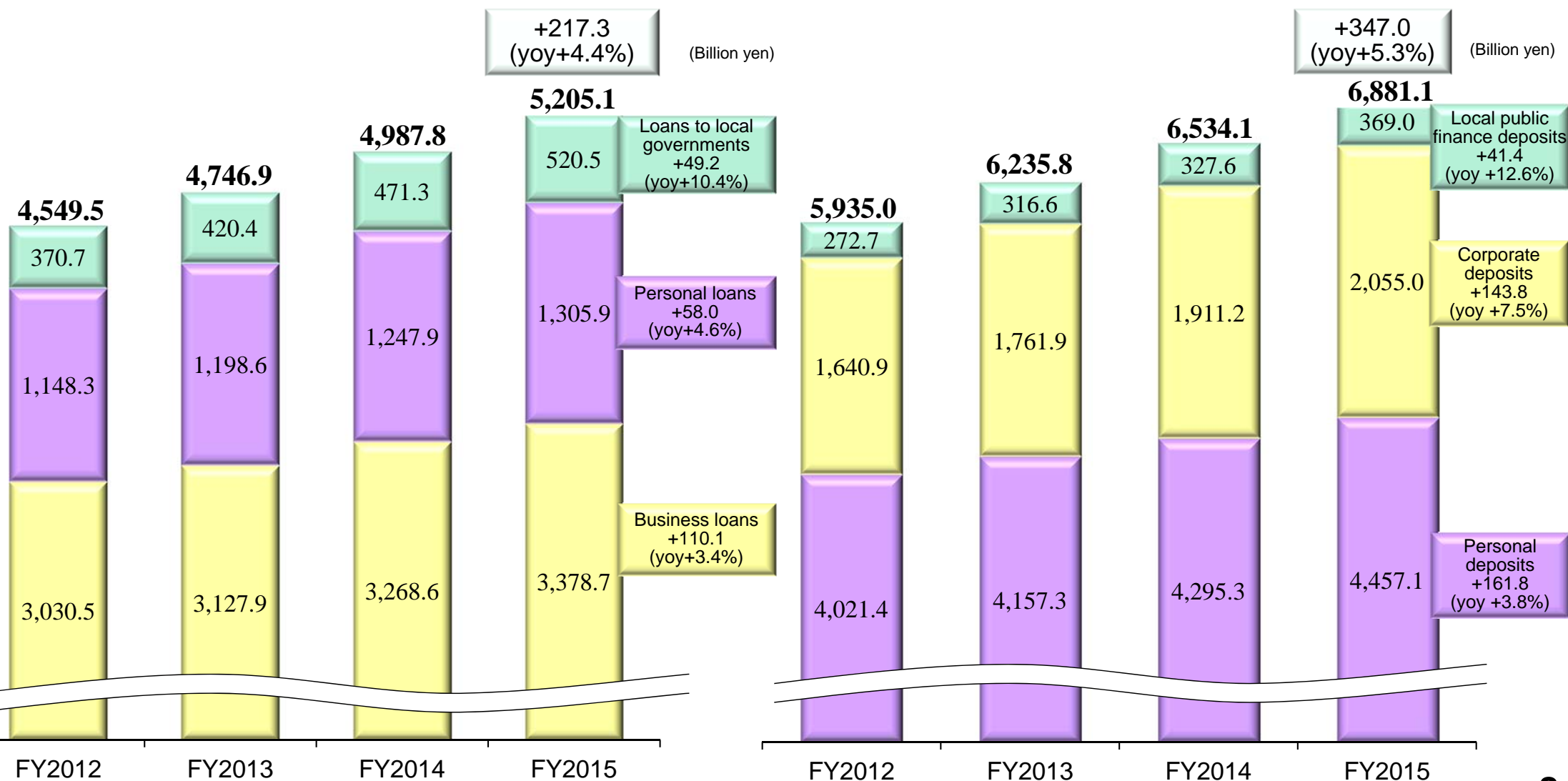


# (5) Balance of loans, deposits, etc. (deposits + NCD)

- Average balance of loans significantly increased in business, personal, and local public sectors, up by **217.3 billion yen (+4.4% yoy)**.
- Average balance of deposits significantly increased in both personal and corporate sectors, up by **347.0 billion yen (+5.3% yoy)**.

Trend of average balance of loans

Trend of average balance of deposits, etc. (deposits +NCD)

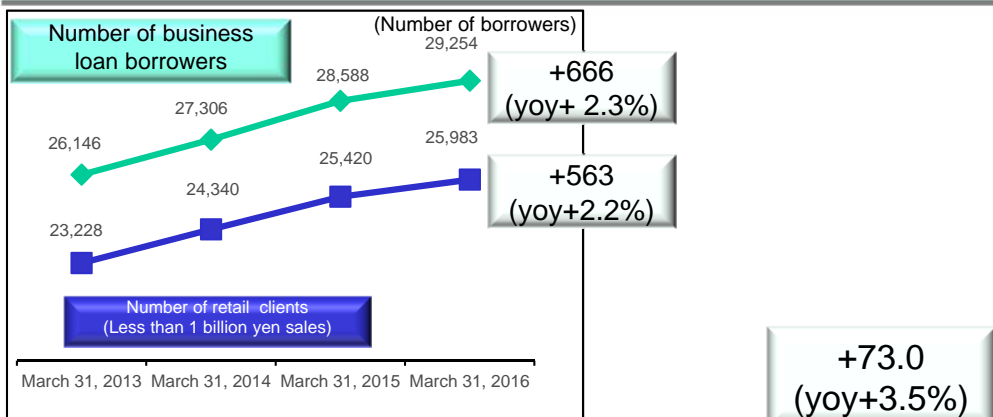


\* Loans to local governments include public corporations

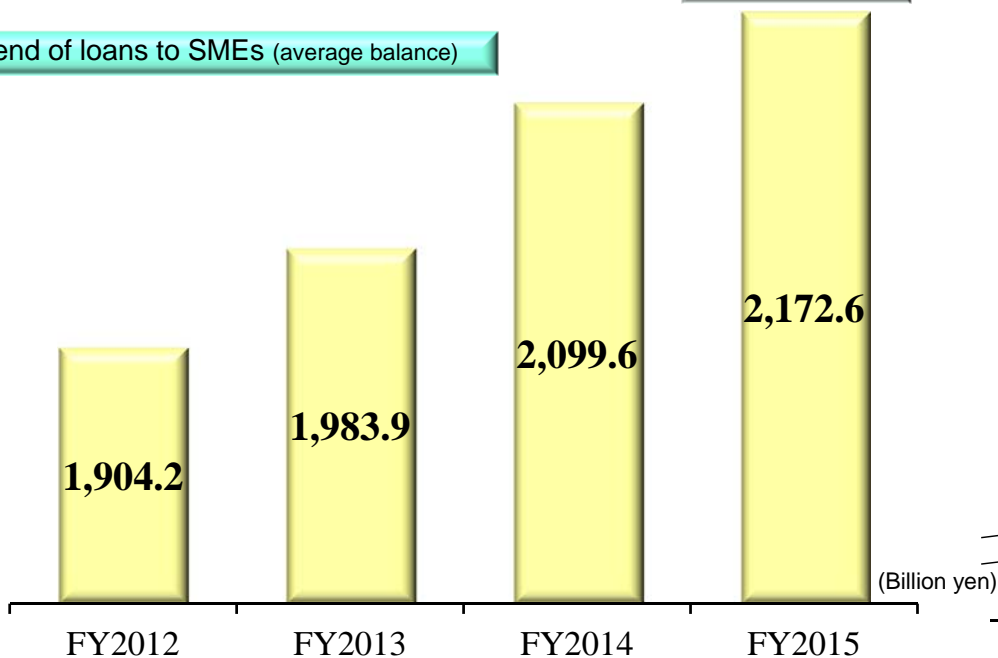
# (6) Loans to SMEs and personal loans

- The average balance of loans to SMEs and the number of business loan borrowers **significantly increased**, supported by active marketing using the area marketing system.
- The balance of personal loans significantly **increased by 56.5 billion yen (+4.3% yoy)** as a result of bank-wide promotions.

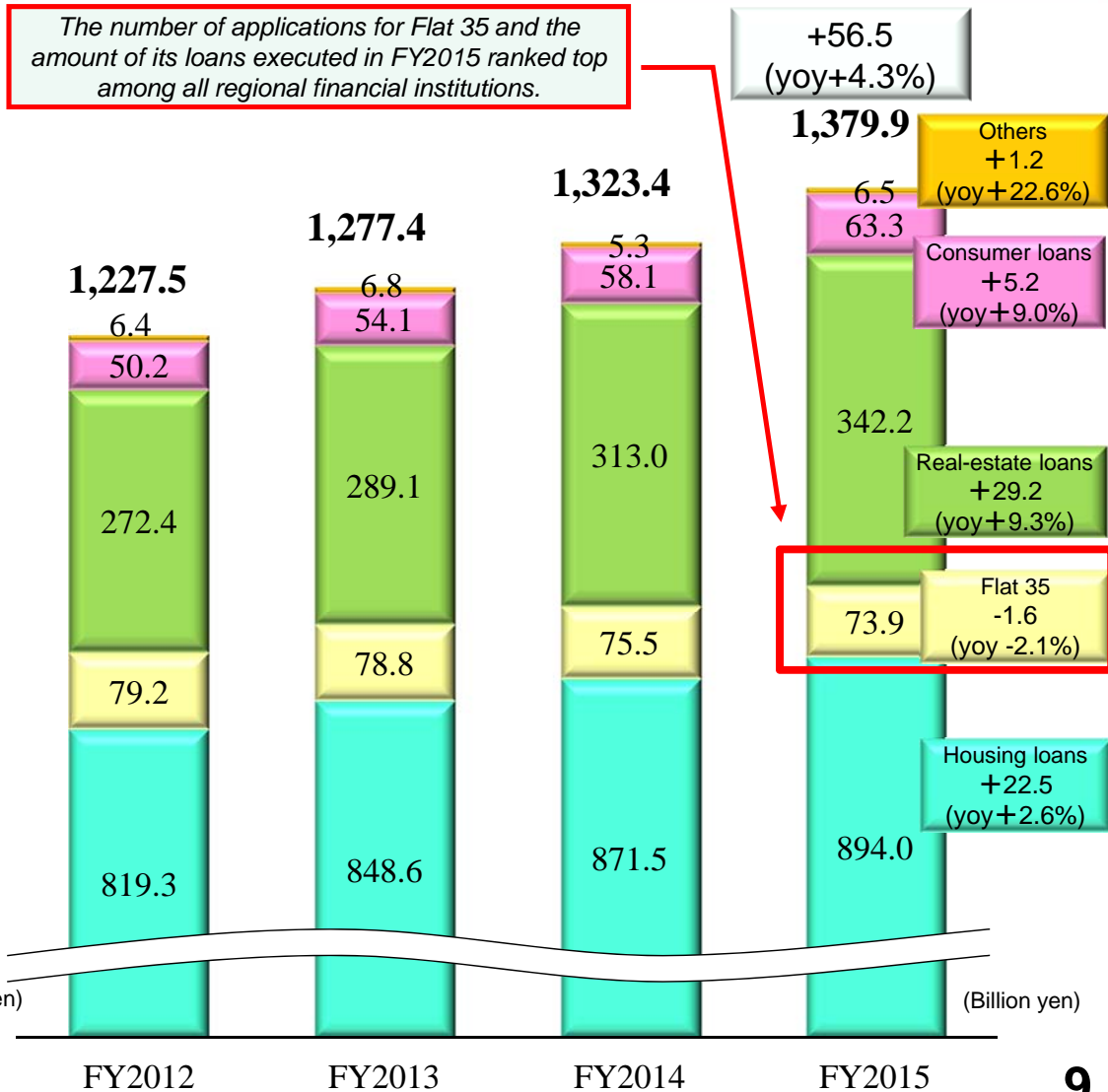
Trend of loans to SMEs (average balance) and the number of business loan borrowers



Trend of loans to SMEs (average balance)



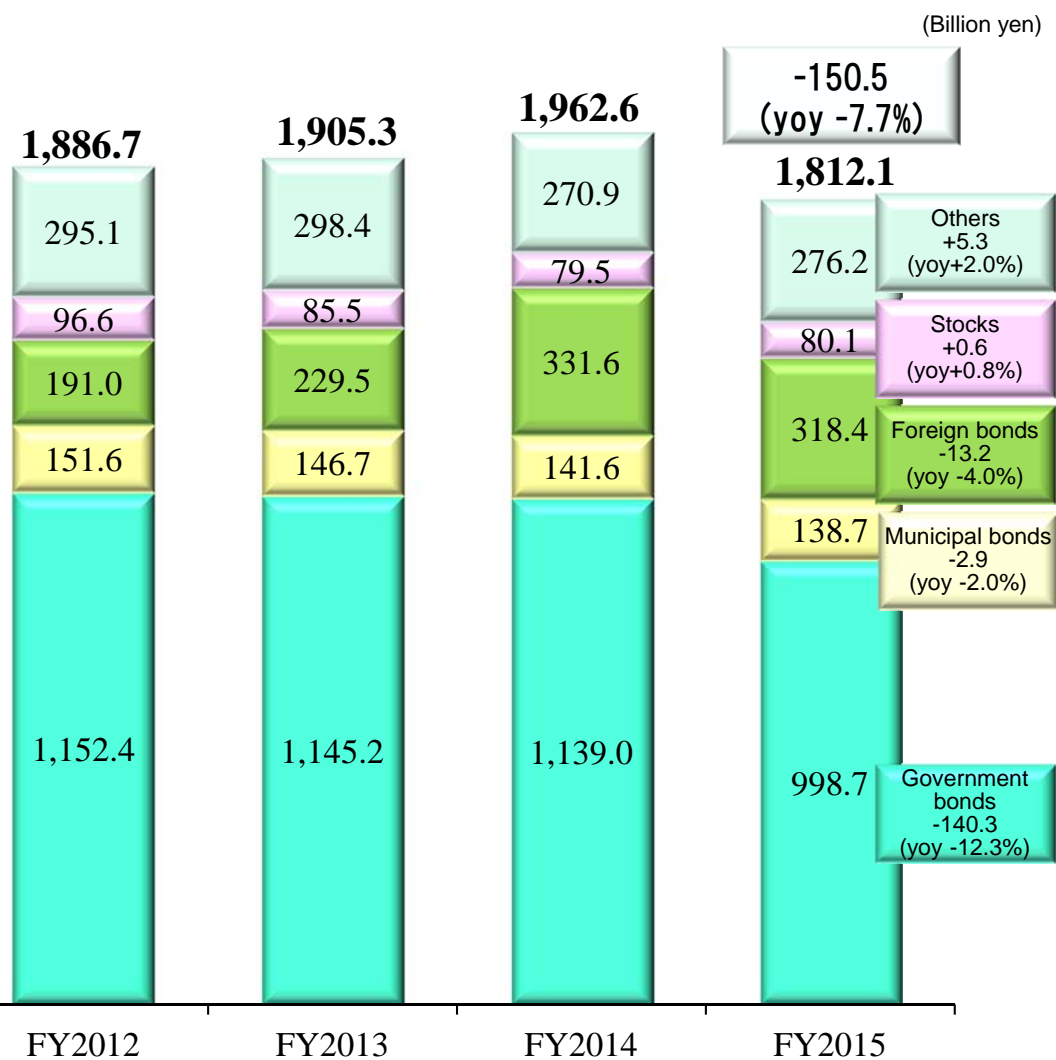
Trend of personal loans (average balance including Flat 35)



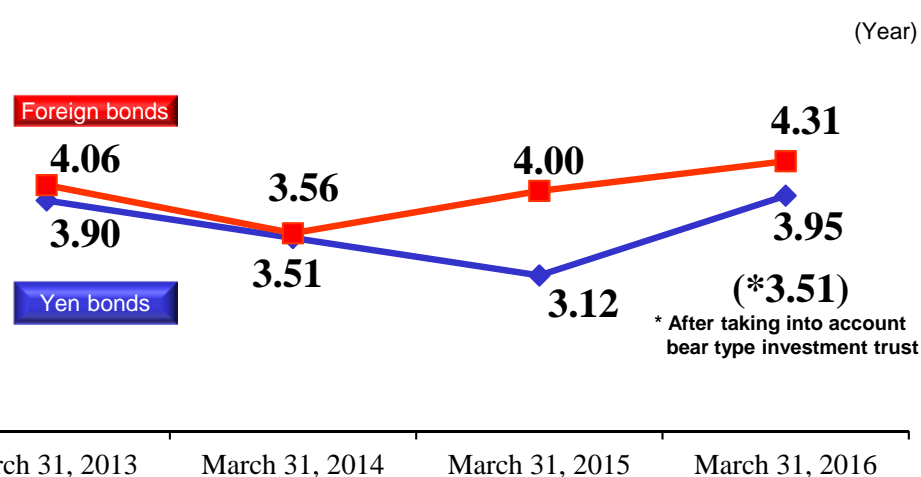
# (7) Securities

- Average balance of securities **decreased by 150.5 billion yen on a year-on-year basis** due to the restraint in buying low-yield government bonds reflecting lowered market interest rates.
- Bond duration, whether yen bonds or foreign bonds, **remained around 4 years**.
- Balance of cross-shareholdings **reduced by 2.6 billion yen on a year-on-year basis** through dialogues with issuing entities.

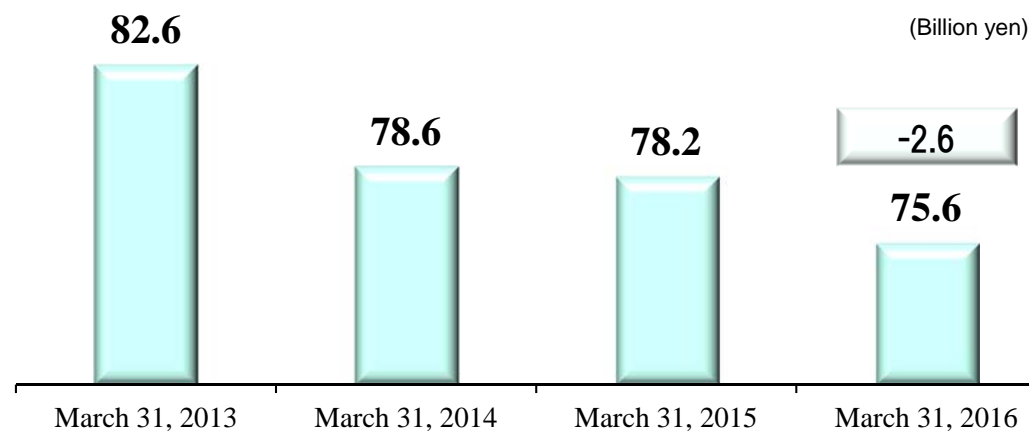
Trend of average balance of securities



Trend of bond duration



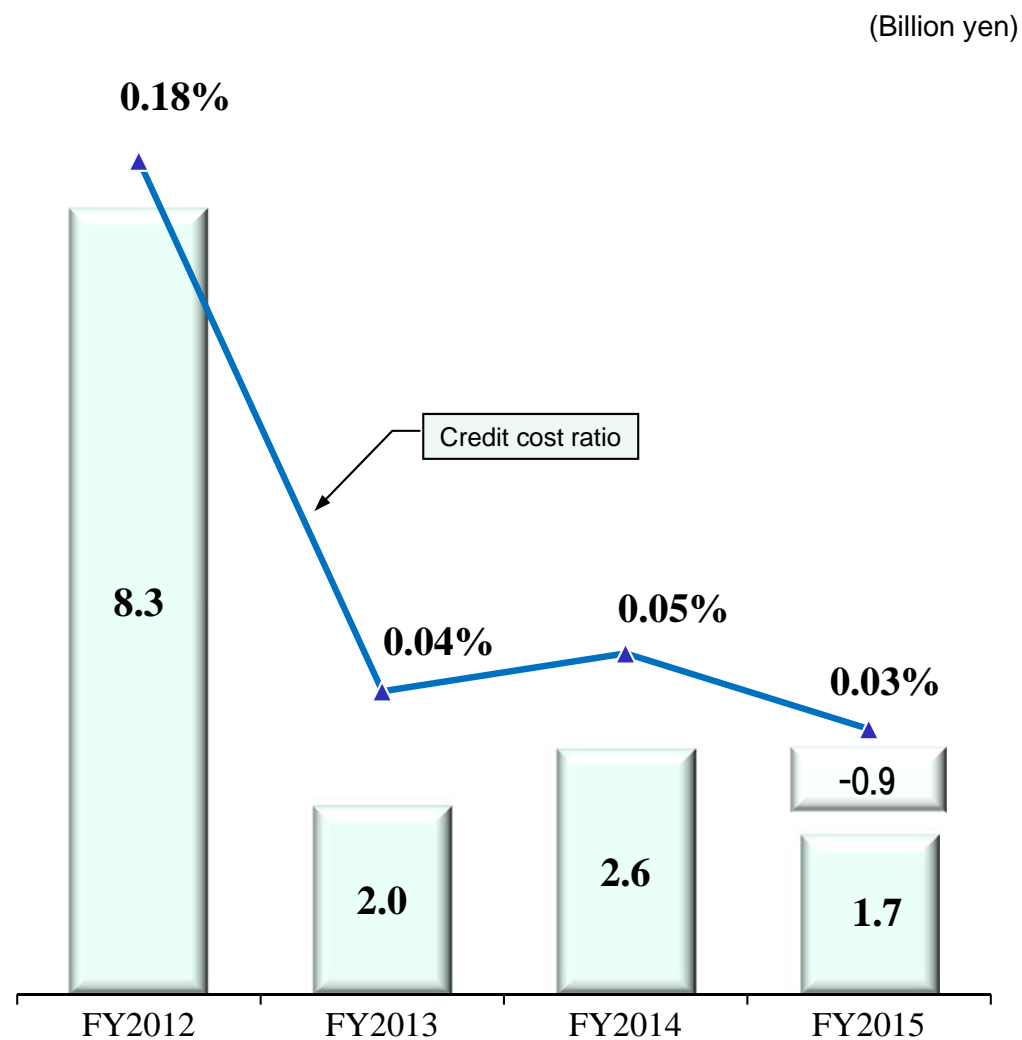
Trend of cross-shareholdings



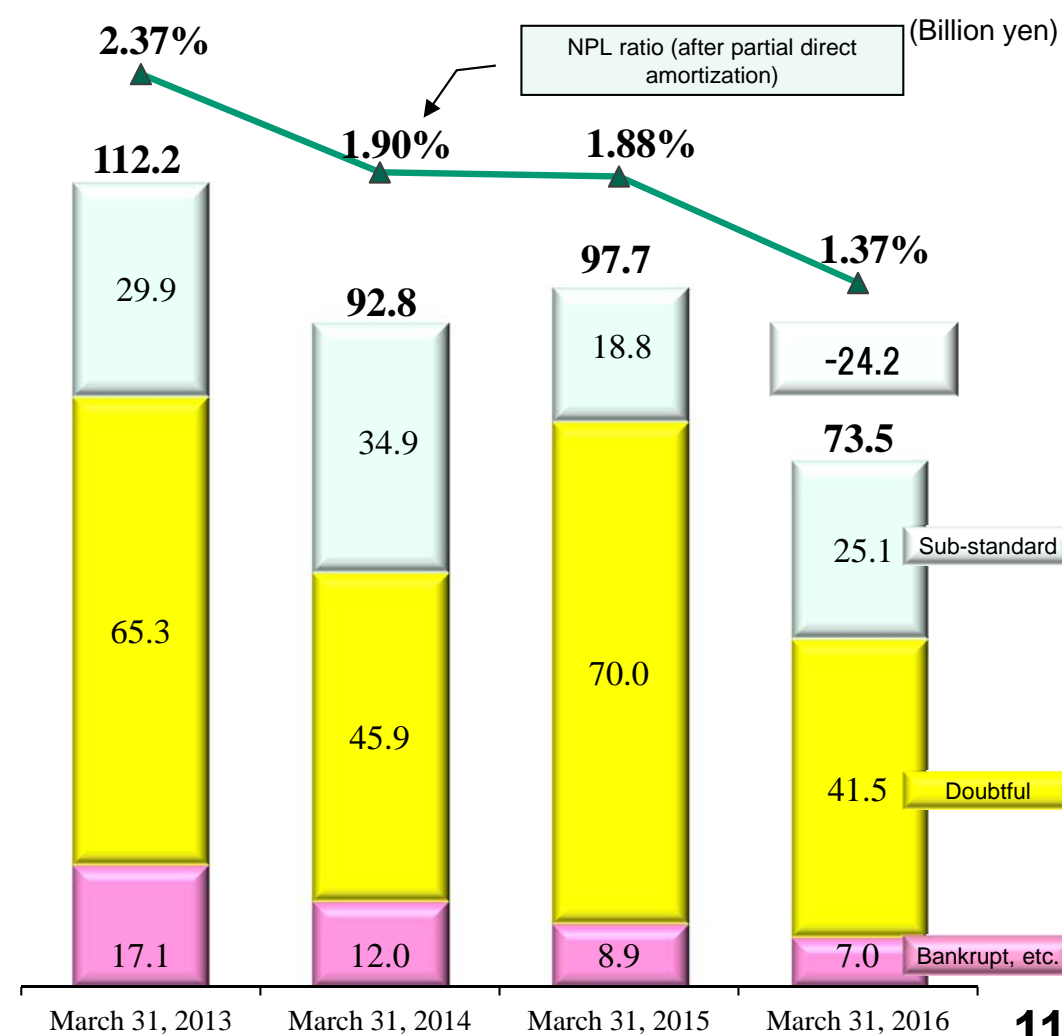
# (8) Credit costs and non-performing loans

- Credit costs **remain continuously low** as a result of active support for management improvement of clients, including business revitalization.
- NPLs (term-end balance) significantly decreased to **73.5 billion yen** on a year-on-year basis, with NPL **ratio decreasing to 1.37%**.

Trend of credit costs



Trend of NPLs (term-end balance) and NPL ratio

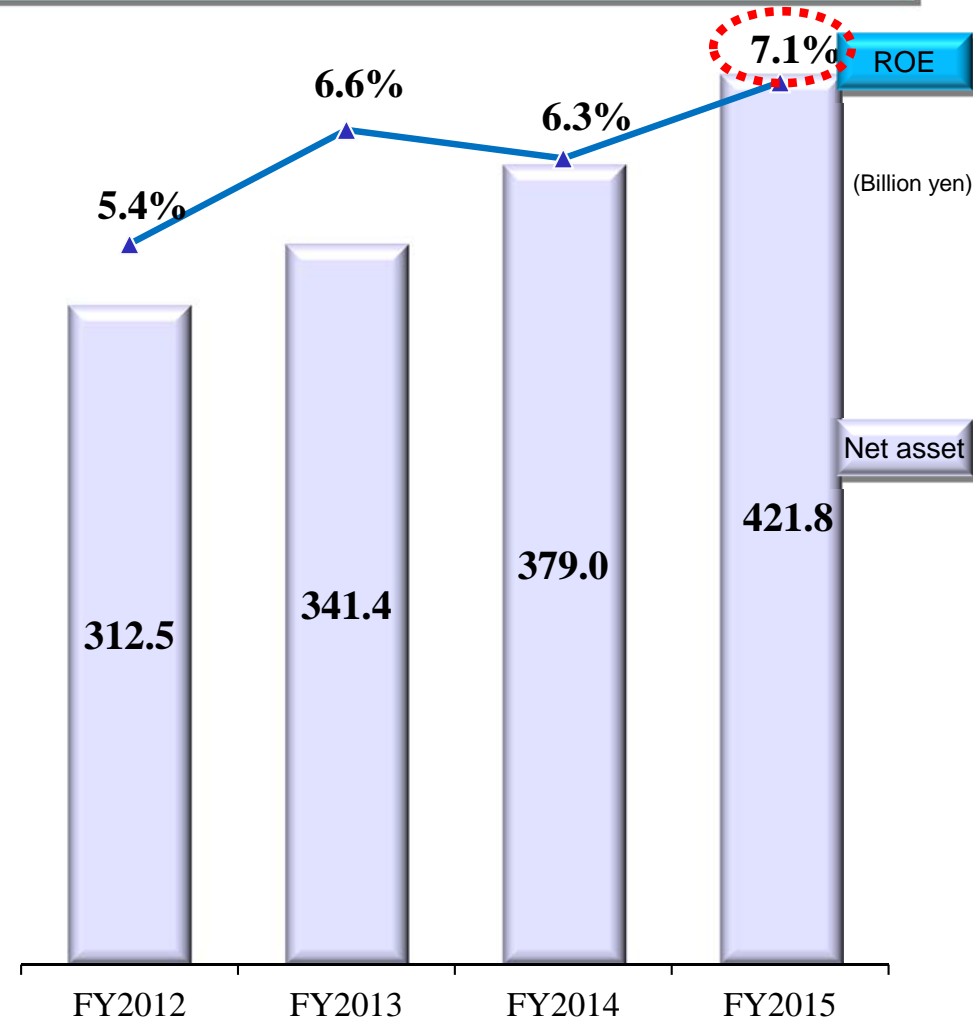
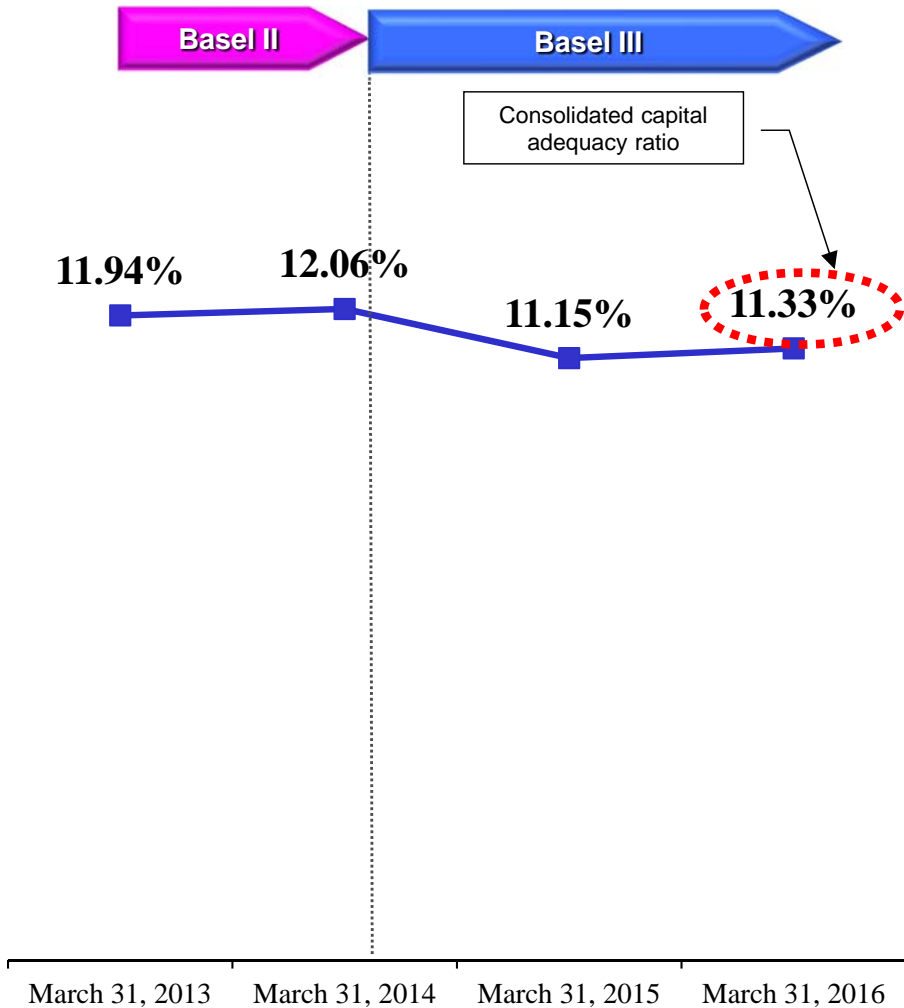


# (9) Capital adequacy ratio and ROE

■ Consolidated capital adequacy ratio was at a sufficient level of 11.33%.  
 ■ ROE reached 7%, exceeding 6%, the target of the mid-term plan despite the consistent expansion in net assets.

Breakdown of consolidated capital adequacy ratio

Trend of ROE



Net asset=[total net asset at the beginning of FY (excluding stock acquisition rights) + total net asset at the end of FY (excluding the same)]/2





### **3. Progress of "Mid-term Plan 2015 – Create the Future with Local Communities"**

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Main points in each strategy

|                                                     |                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>(1) Marketing strategy</b></p>                | <ul style="list-style-type: none"> <li>(i) Enhance approaches to the personal market (Pg. 15-17)</li> <li>(ii) Enhance consulting sales (Pg. 18)</li> <li>(iii) Active efforts for regional development (Pg.19-21)</li> <li>(iv) Realize channel cooperation (omni-channel retailing) (Pg.22)</li> </ul> |
| <p><b>(2) Human resource strategy</b></p>           | <ul style="list-style-type: none"> <li>(i) Nurture human resources that contribute to the development of local communities by creating and providing new value</li> <li>(ii) Develop a corporate culture in which a diverse range of people can play active roles (Pg. 23)</li> </ul>                    |
| <p><b>(3) ALM/Securities strategy</b></p>           | <ul style="list-style-type: none"> <li>(i) Enhance profitability in collaboration with asset management companies (Pg. 24)</li> <li>(ii) Enhance profitability of the portfolio through proper risk taking</li> <li>(iii) Appropriate and effective practice of ALM</li> </ul>                           |
| <p><b>(4) Operational streamlining strategy</b></p> | <ul style="list-style-type: none"> <li>(i) Drastic streamlining in preparation for an increase in the amount of activity</li> <li>(ii) Streamline the administrative sector</li> </ul>                                                                                                                   |
| <p><b>(5) IT strategy</b></p>                       | <ul style="list-style-type: none"> <li>(i) Study next generation systems while enhancing and nurturing IT personnel responsible for the future</li> <li>(ii) Active utilization of IT to realize various strategies and measures</li> </ul>                                                              |
| <p><b>(6) Group strategy</b></p>                    | <ul style="list-style-type: none"> <li>(i) Maximize synergy effects by enhancing Group governance</li> <li>(ii) Expand business fields (challenge of new business)</li> </ul>                                                                                                                            |

Steady increase of internal reserves through profitability enhancement

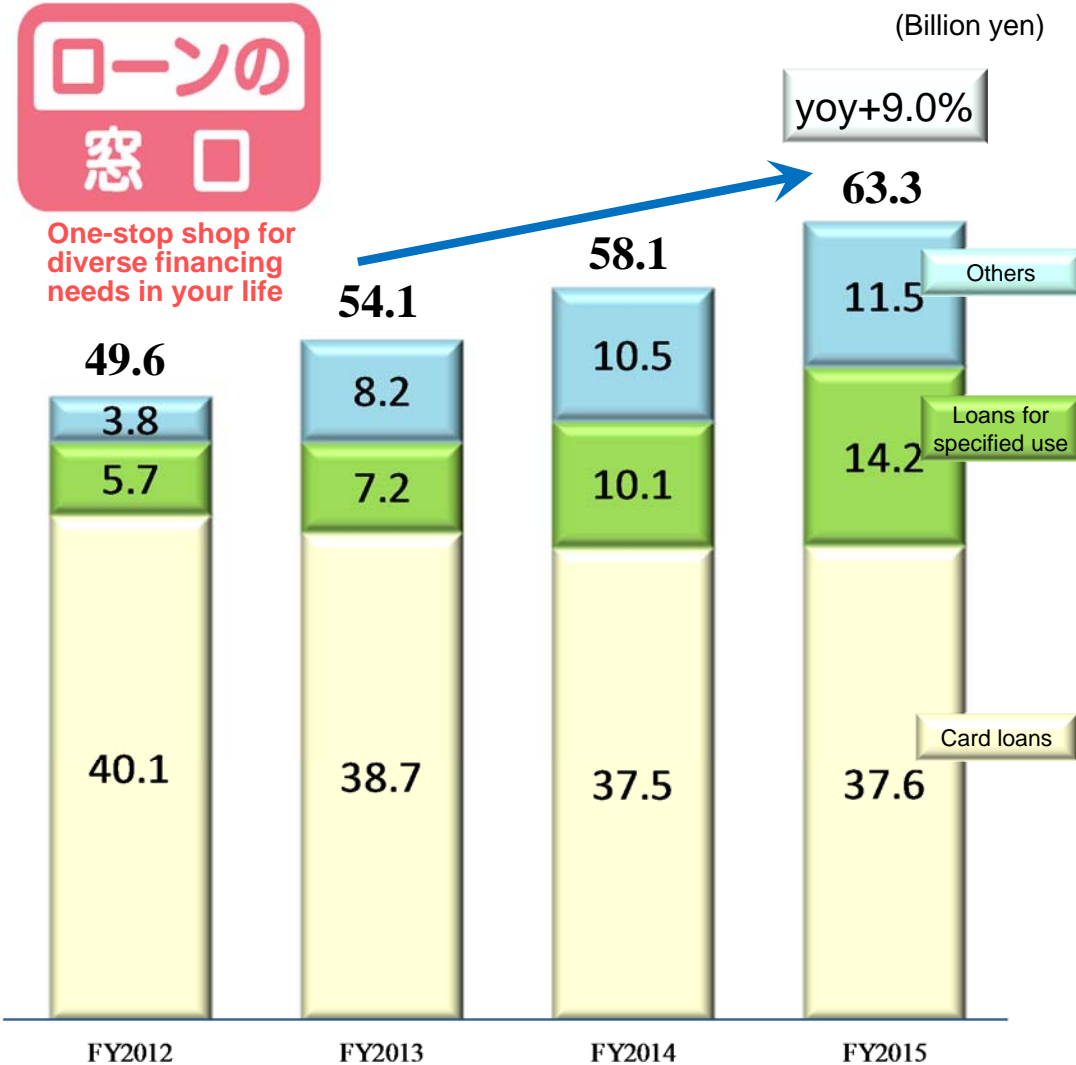
Enhance the management foundation

# (2) Enhancement of approaches to the personal market 1

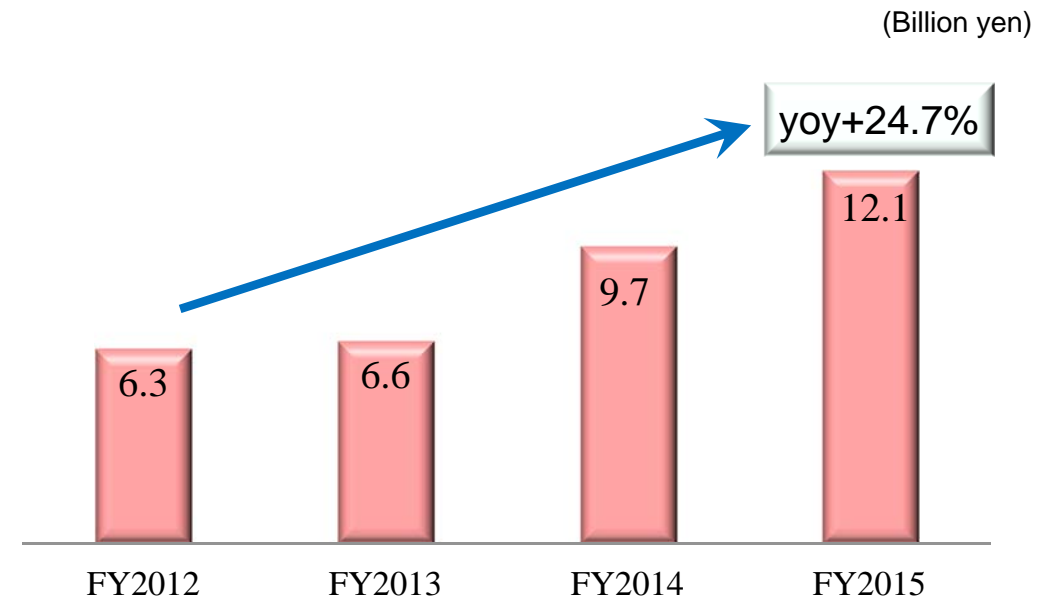
## - Promotion of consumer loans -

- Achieved an improvement in the loan yield by promoting consumer loans with a relatively high interest rate.
- The amount of consumer loans executed increased by 25% on a year-on-year basis, reflecting the intensified PR activities.

Trend of average balance of consumer loans



Trend of the amount of consumer loans executed



Introduction of new products

PR enhancement

Loans on the website  
(from April 2016)



Card loans without  
a repayment account  
(from June 2016)



TV commercials



# (3) Enhancement of approaches to the personal market 2

## - Promotion of card business -

- In 2015, the bank started handling the first local e-money (cards) “Premium coupons” across prefectures of Japan.
- After FY2016, the bank has promoted the expansion of individual customer base by spreading the e-money “HIROCA.”

Outline of “e-money premium coupons (cards)”



Outline of local e-money “HIROCA” (from April 11, 2016)



- The spread of local e-money-type “HIROCA” can attract deposits into settlement accounts with our bank and expand related transactions.



|                   |                                                                                     |
|-------------------|-------------------------------------------------------------------------------------|
| Name              | Premium coupon “HIROCA”*<br>* available as premium coupon (until February 28, 2016) |
| Pre-paid (charge) | 50,000 yen (per person)                                                             |
| Maximum amount    | 50,000 yen (per person)                                                             |
| Premium amount    | 25% of the charged amount ⇒ 20% by other local governments                          |

|                        |               |
|------------------------|---------------|
| Number of applications | 103,000       |
| Available amount       | 4 billion yen |

Stimulate consumption in local communities

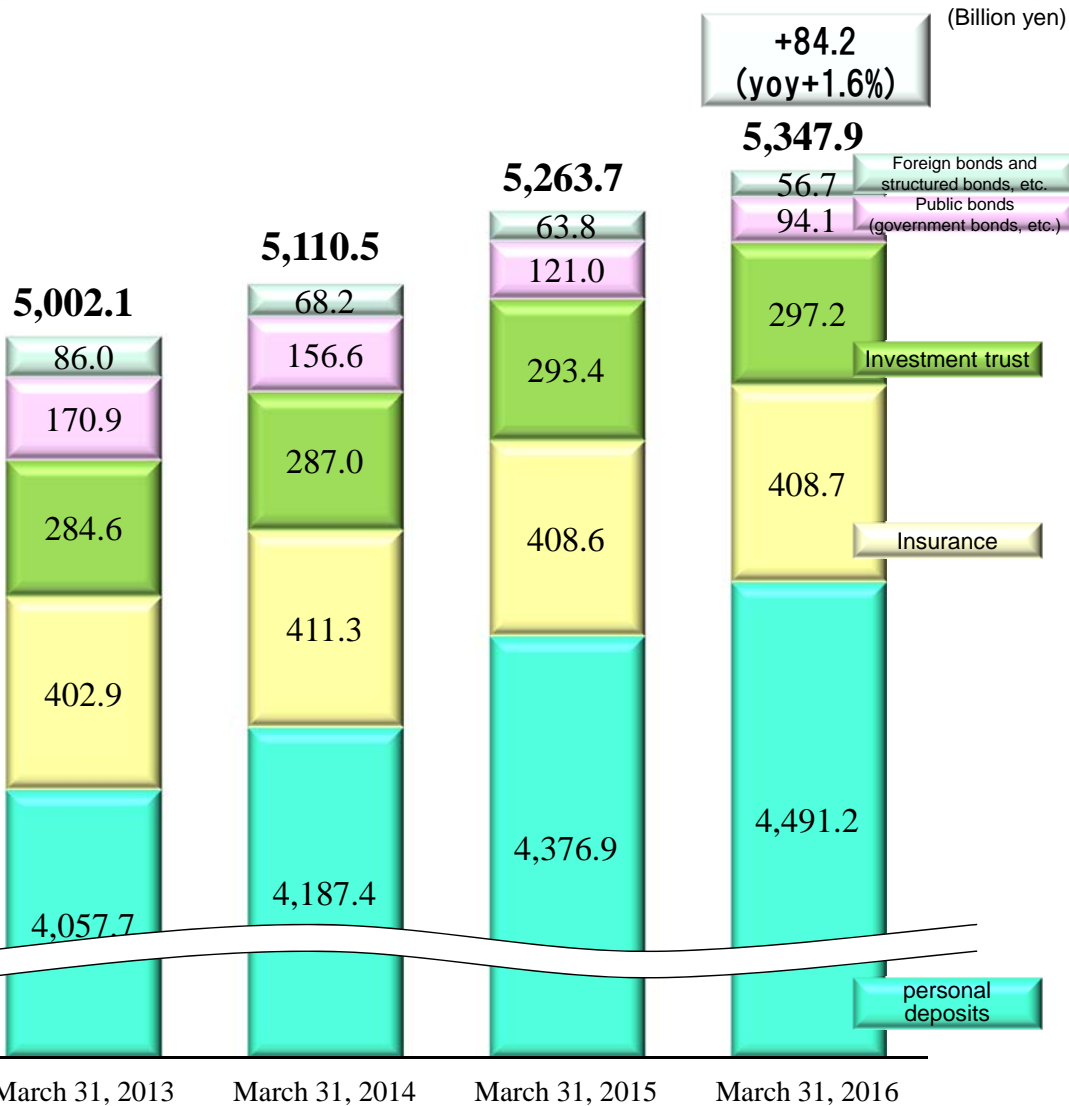


# (4) Enhancement of approaches to the personal market 3

## - Expansion of customer base in collaboration with insurance companies -

Through the development of new channels in collaboration with insurance companies in addition to the existing sales channels, the bank has expanded its customer base, which is indispensable for increasing the balance of personal retail assets.

Trend of end-term balance of personal deposit assets



Promotion of level-premium insurance in collaboration with Aflac and Zurich Insurance



Trend of the number of sales of level-premium insurance



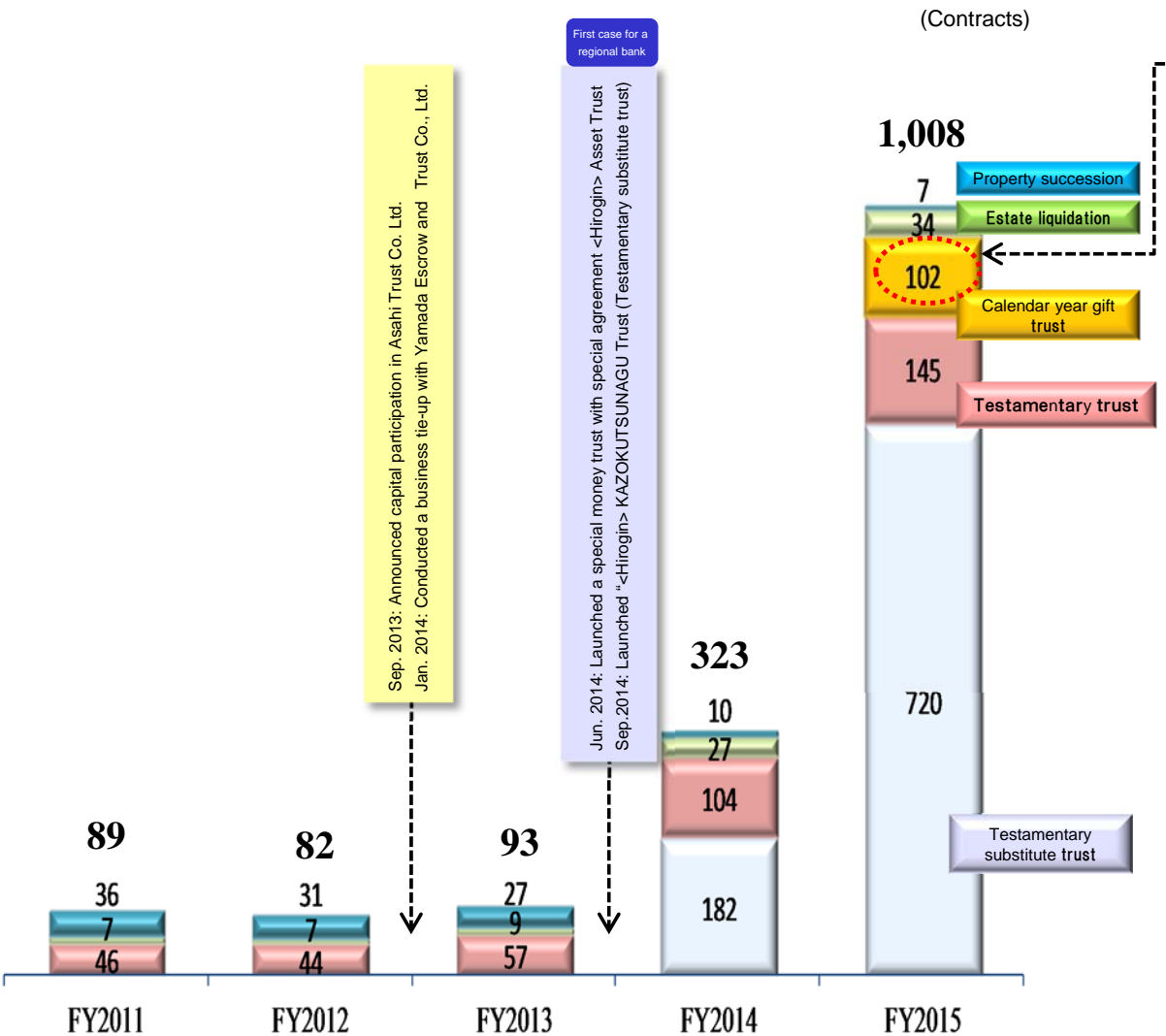


# (5) Enhancement of consulting sales

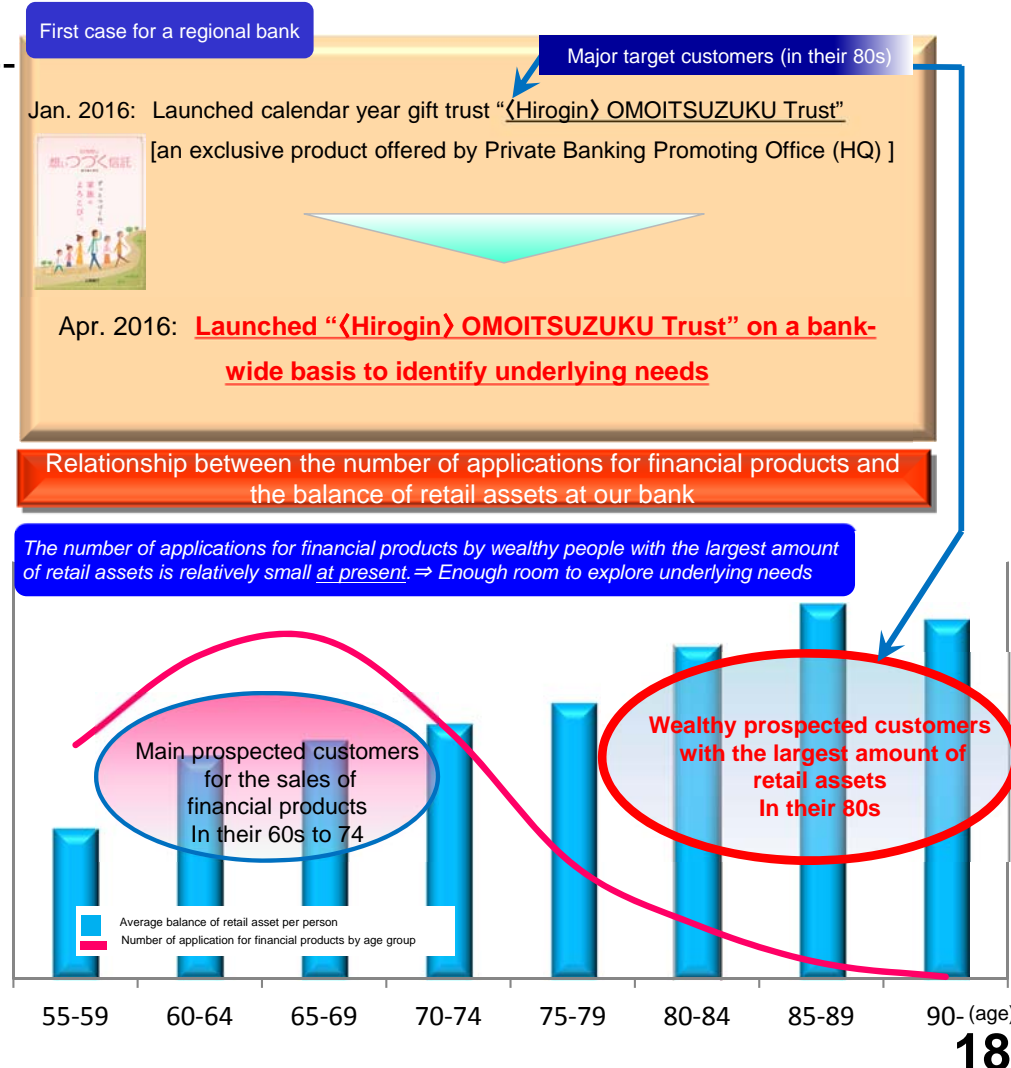
## - Promotion of business for the elderly clients -

Seek to achieve further growth in business for the elderly by providing products that meet their needs as well as identify underlying needs on a bank-wide basis.

### Trend of contracts for the elderly (inheritance-related)



### Provide products that meet customer's needs



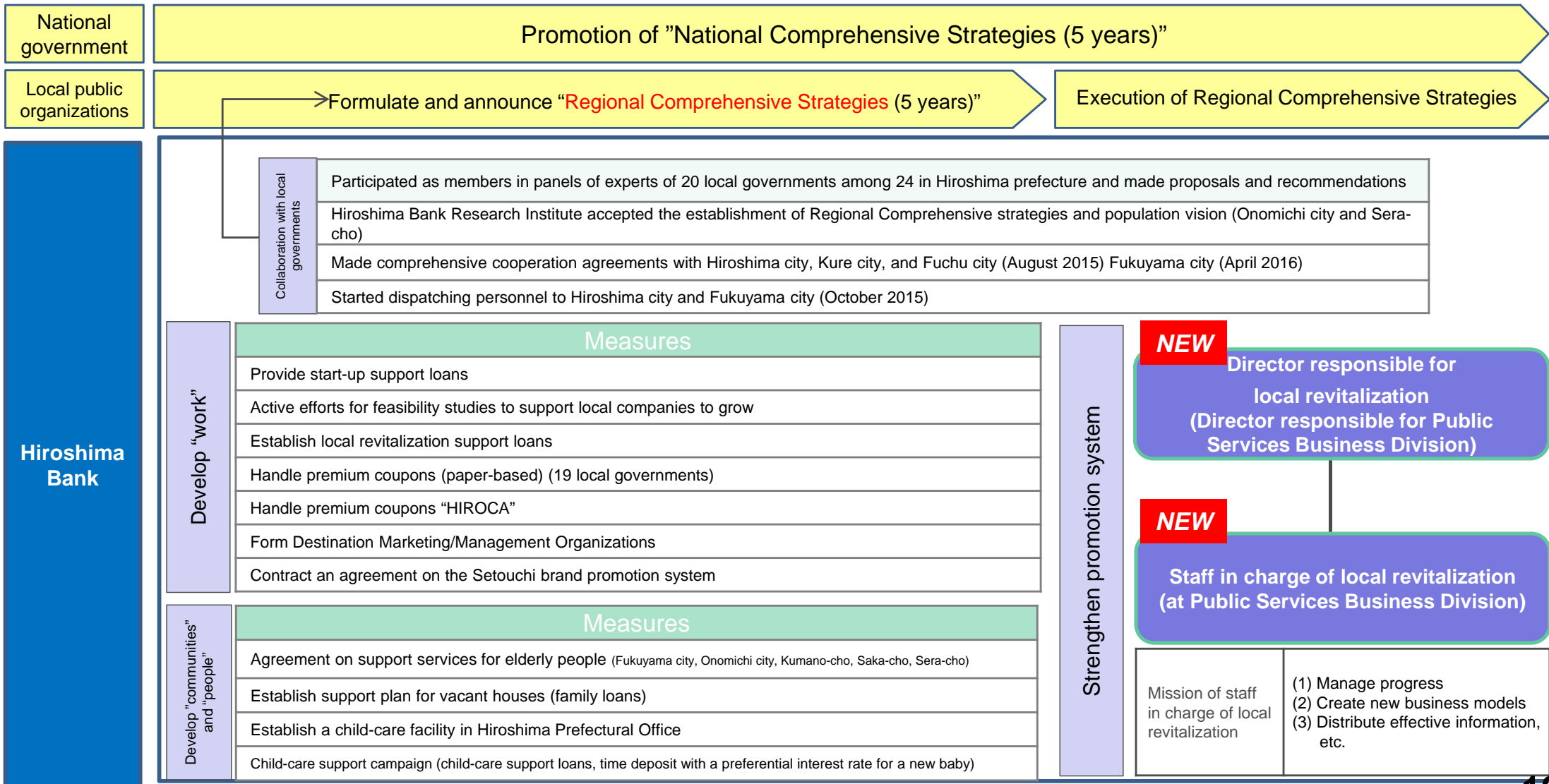
# (6) Active efforts for regional development 1

## - Results of our efforts -

- In FY2015, actively participated in panels of experts conducted by local governments and made proposals and recommendations for their establishment of "Regional Comprehensive Strategies"
- Actively provided solutions to "develop communities, people, and work"

April 2015

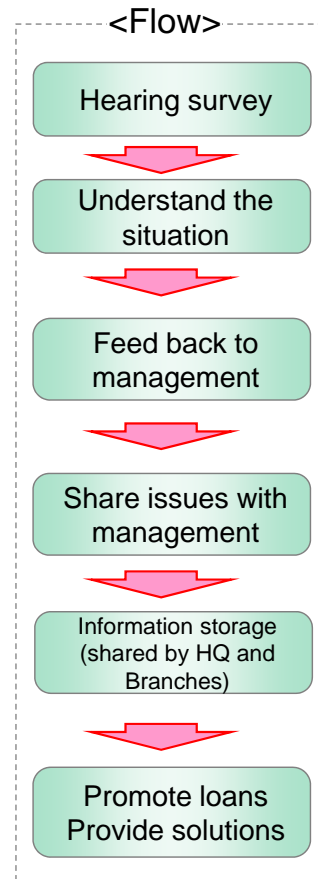
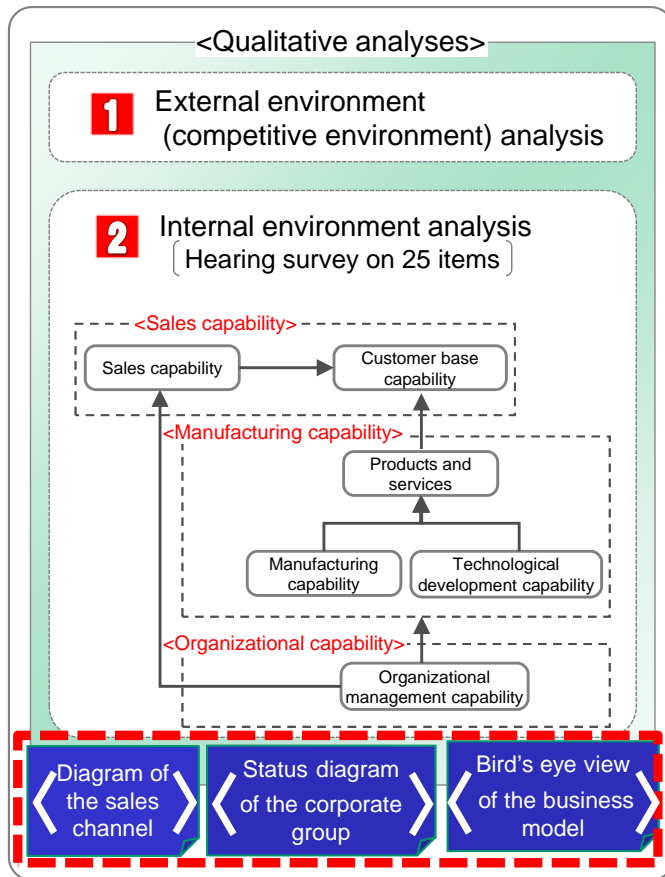
April 2016



# (7) Active efforts for regional development 2

## – Promotion of feasibility studies –

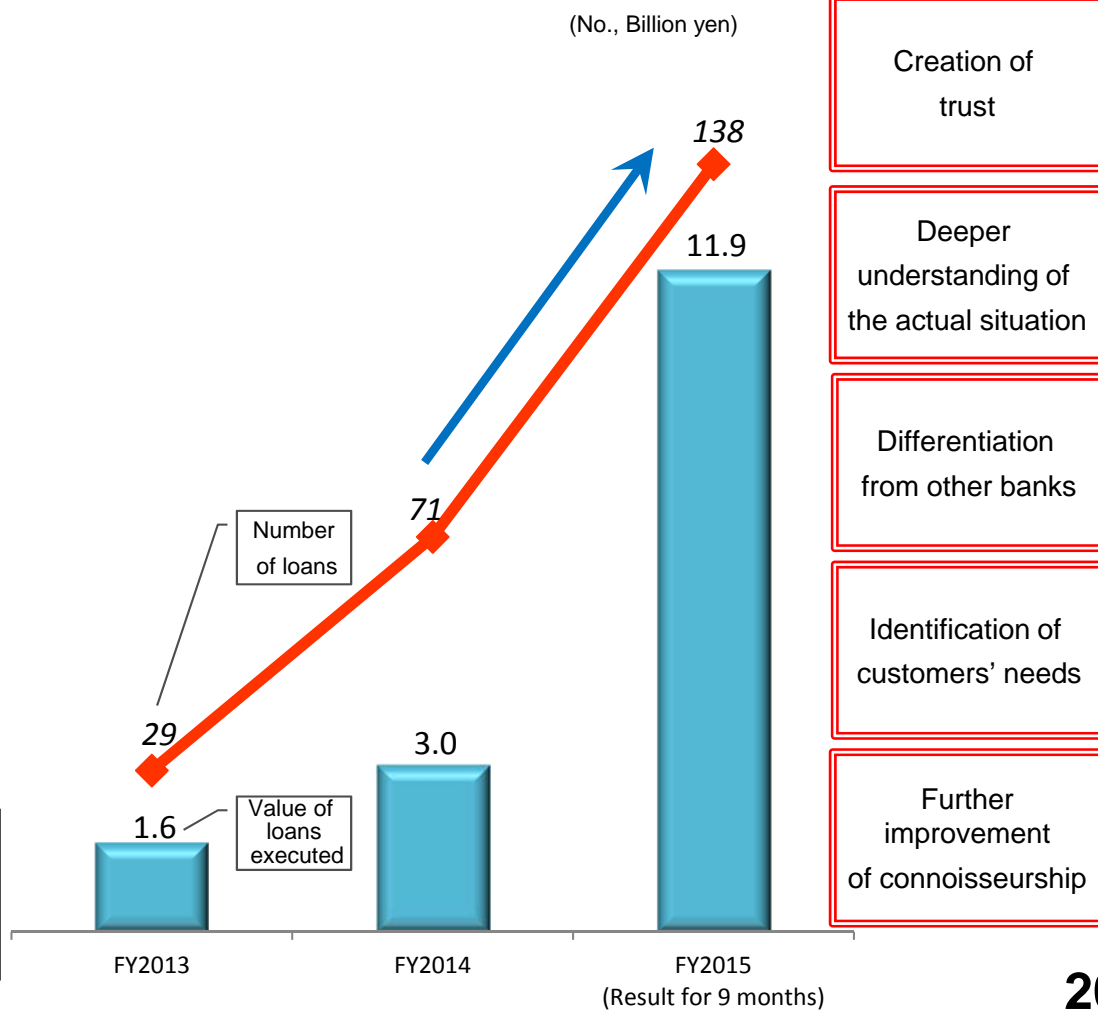
- Actively provide solutions through business feasibility studies focusing on qualitative analyses.
- Both the number and value of loans are on the increase thanks to the creation of trust among customers and the improvement of connoisseurship.



Results of business feasibility studies focusing on qualitative analyses

Quantitative aspect

Qualitative aspect



FY2015: Conducted business feasibility studies focusing on qualitative analyses for 634 customers

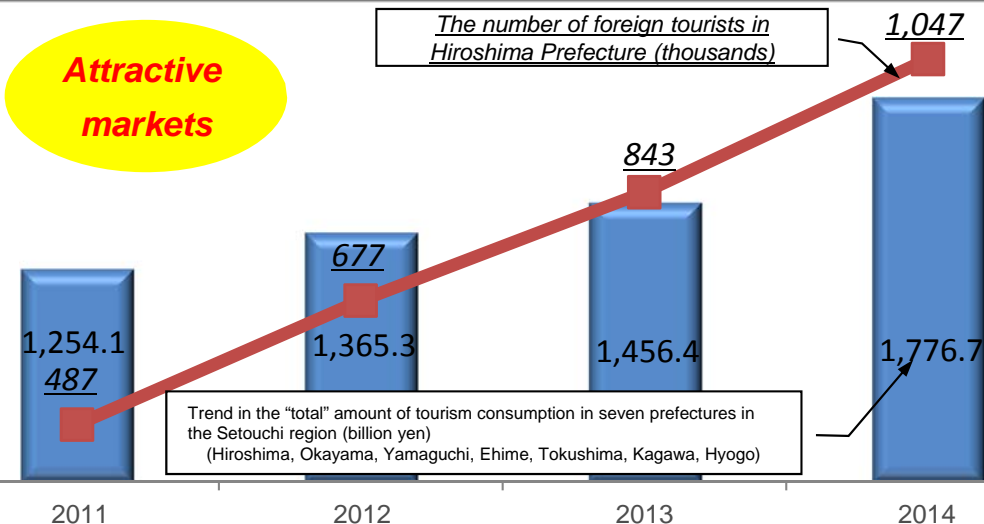
(Mid-term plan [FY2015 to FY2017] progress rate: 35% of the target of 1,800 customers)

# (8) Active efforts for regional development 3

## – Revitalization of tourism industry in the Setouchi region –

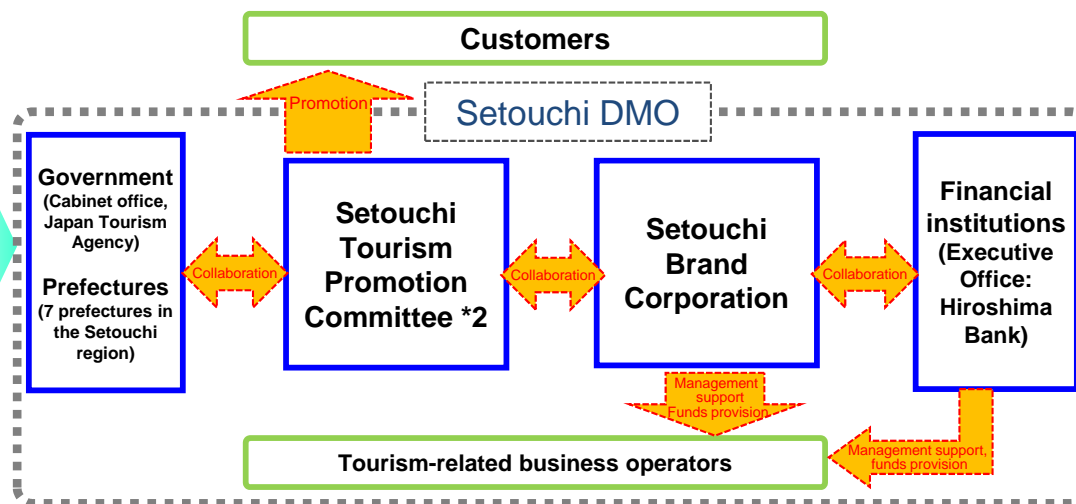
- Aiming at revitalization of the tourism industry in the Setouchi region, public administration, tourism-related business operators and financial institutions collaborated to establish “Setouchi DMO.”
- The Bank cooperated in establishing and investing in “Setouchi Brand Corporation” and “Setouchi Tourism Revitalization Fund,” which specialize in business support and funds provision for tourism-related business operators.

Trend in the number of foreign tourists in Hiroshima Prefecture and the amount of tourism consumption in seven prefectures in the Setouchi region



(Source: Tourism Agency, Hiroshima Prefecture The figure of tourism consumption in Hiroshima Prefecture in 2014 is the sum total of announced figures on the website of Hiroshima Prefecture, because of no announcement by Tourism Agency.

Promotion system for Setouchi Brand (Setouchi DMO \*1)



\*1 An organization mainly seen in USA and Europe that comprehensively implements strategy development, various surveys, marketing, product creation, promotion, etc.  
 \*2 A general incorporated association whose directors are seven prefectures, represented by a private citizen set up for the purpose of the establishment of the Setouchi Brand

### Our active efforts to revitalize the tourism industry in the Setouchi region

#### Establishment of Setouchi Brand Corporation (Invested)

|                   |                                                                                                                                                                                                                                              |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name              | Setouchi Brand Corporation (located in Hiroshima Prefecture)                                                                                                                                                                                 |
| Established       | April 2016                                                                                                                                                                                                                                   |
| Paid-in capital   | 450 million yen (25 million yen invested by our bank)                                                                                                                                                                                        |
| Investors         | Our bank and 18 other financial institutions and 27 business operators                                                                                                                                                                       |
| Lines of business | <ul style="list-style-type: none"> <li>Business support necessary for commercialization, business expansion, and development of new businesses</li> <li>Funds provision necessary for commercialization and business growth, etc.</li> </ul> |

#### Establishment of Setouchi Tourism Revitalization Fund (invested)

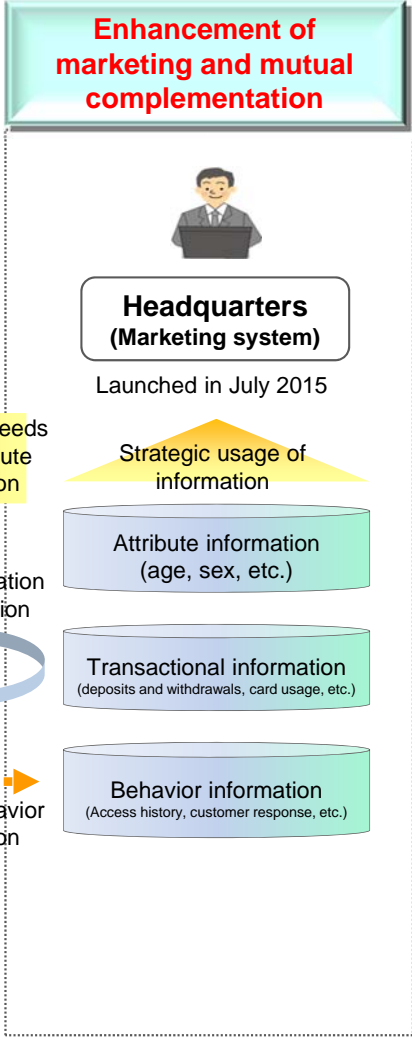
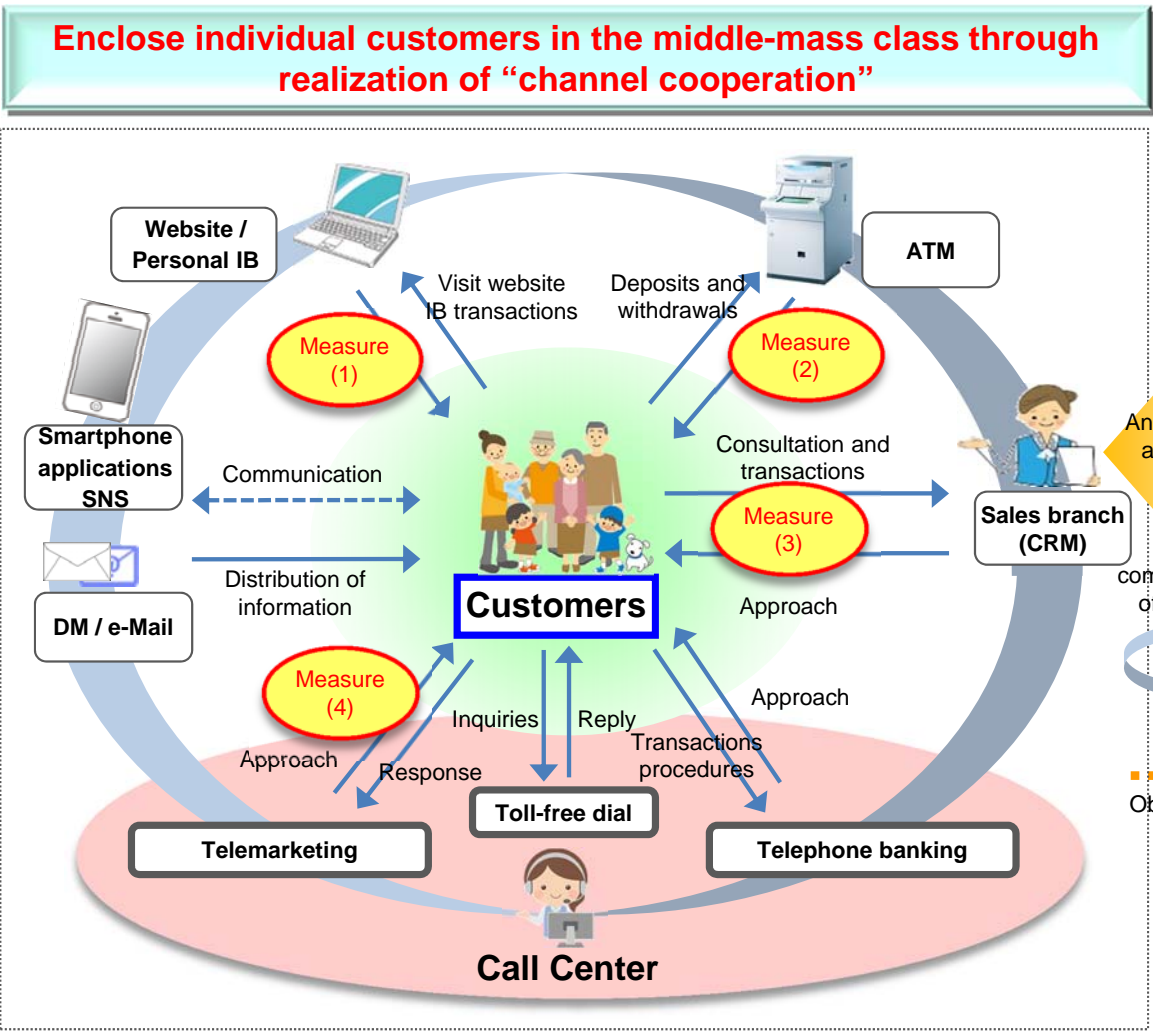
|                   |                                                                                                     |
|-------------------|-----------------------------------------------------------------------------------------------------|
| Name              | Setouchi Tourism Revitalization Investment Limited Partnership (located in Hiroshima Prefecture)    |
| Organized         | April 2016                                                                                          |
| Fund amount       | 9 billion yen (1 billion yen invested by our bank)                                                  |
| Unlimited partner | Setouchi Tourism Partners Co., Ltd.                                                                 |
| Limited partners  | Our bank, 6 regional banks in the Setouchi region, Development Bank of Japan, Cool Japan Fund, Inc. |



# (9) Realization of channel cooperation (Omni-channel retailing)

To become a reliable bank for customers, providing any channel that “they want to use” at “any time” and “any place” for their business and consultation, the Bank promotes to expand points of contact with customers by strengthening cooperation with face-to-face channels (branch network) and non-face-to-face channels (IB, ATM, Call Center, etc.)

| Implemented measures |                                                                                                             |
|----------------------|-------------------------------------------------------------------------------------------------------------|
| (1)                  | One to one distribution of information on the website and personal Internet banking (Launched in July 2015) |
| (2)                  | One to one distribution of information by ATM (Launched in January 2016)                                    |
| (3)                  | Grasp customers' needs by CRM at sales branches to use for sales (Launched in July 2015)                    |
| (4)                  | Telemarketing leveraging customer response via individual IB/ATM, etc. (Launched in September 2015)         |



- <Measures under consideration>
- Enhancement of Call Center
    - Strengthening of channel cooperation
    - Strengthening of one to one sales leveraging points of contact with customers
  - Strengthening of points of contact with customers leveraging new channels (SNS, smartphone applications)

**Provide information on products and services that customers expect at the optimal channel timing**

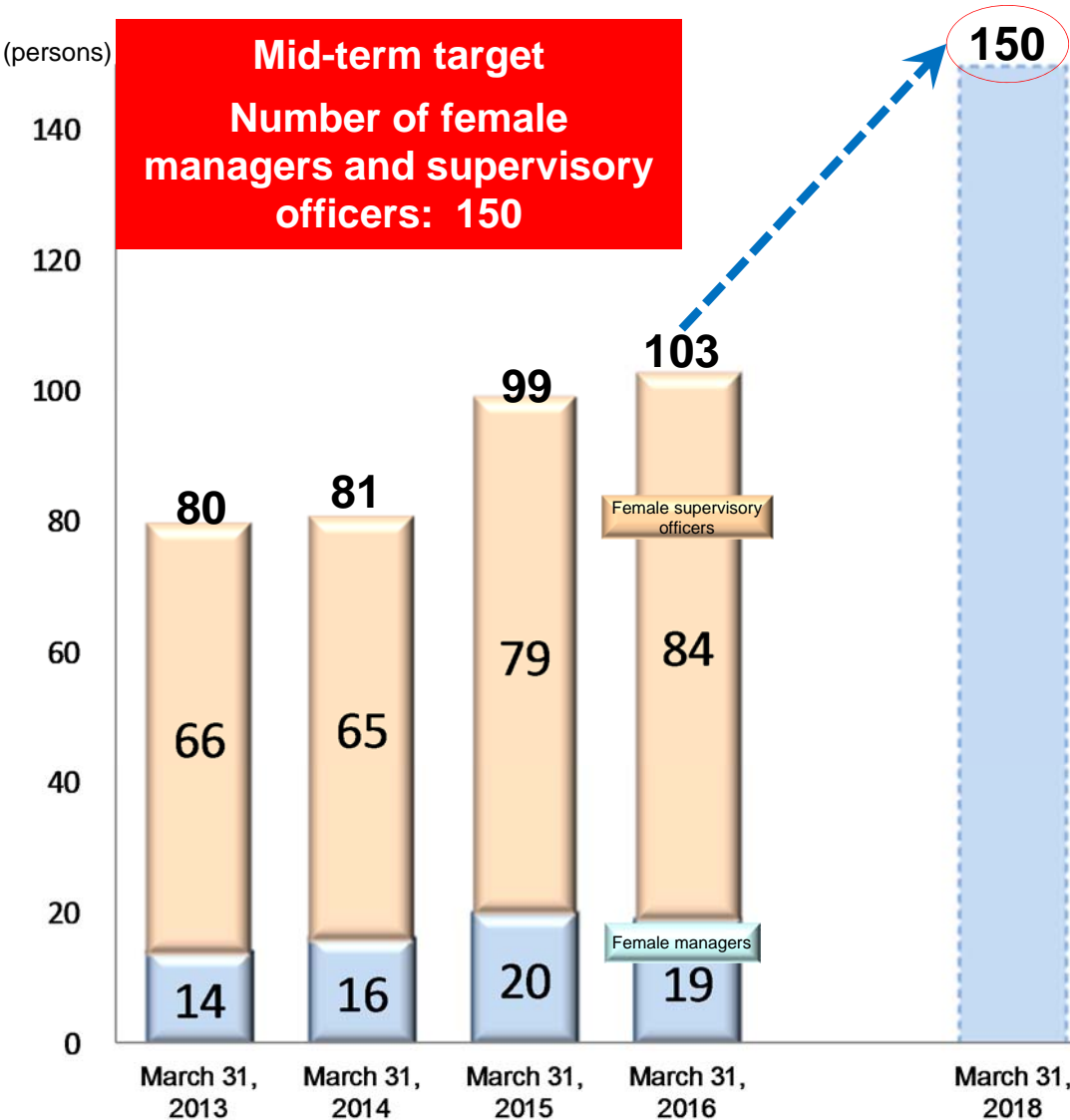


# (10) Development of a corporate culture in which a diverse range of people can play active roles

- As an effort toward diversity, the Bank has actively promoted female workers to managers and supervisory officers.
- In addition to active employment of experienced workers, the personnel system was revised to target specialists with expertise.

Trend in number of female managers and supervisory officers

Active employment of experienced workers



| Fiscal year | No. of employees |
|-------------|------------------|
| FY2014      | 17 employees     |
| FY2015      | 15 employees     |

Actively employ experienced experts including lawyers, IT personnel

Revision of the personnel system to target specialists with expertise  
 Establish S\* course (effective from July 2016) \* S means "special"

**Purpose of the revision** To stablish career paths where human resources with high expertise can improve their specialties and demonstrate their abilities.

[S course qualifications]

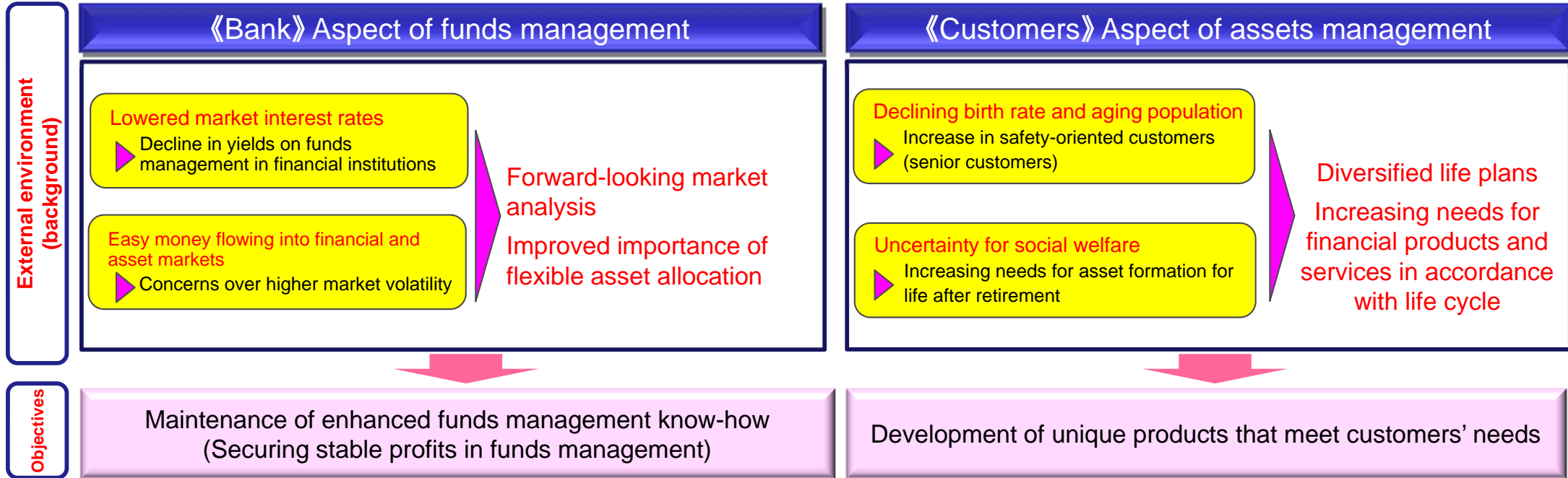
| Business field | Required qualifications                                                                                                                                                                                                                                                                               |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IT             | Successful examinees of Applied Information Technology Engineer Examination                                                                                                                                                                                                                           |
| PB             | In addition to 1 <sup>st</sup> grade Certified Skilled Worker of Financial Planning, one of the following qualifications is required:<br>○ Registered Real-estate Broker<br>○ Small and Medium Enterprise Management Consultant<br>○ Chartered Member of the Securities Analysts Association of Japan |
| Market-related | Chartered Member of the Securities Analysts Association of Japan                                                                                                                                                                                                                                      |

Enhance preparations to receive experts

# (11) Enhancement of profitability in collaboration with asset management companies

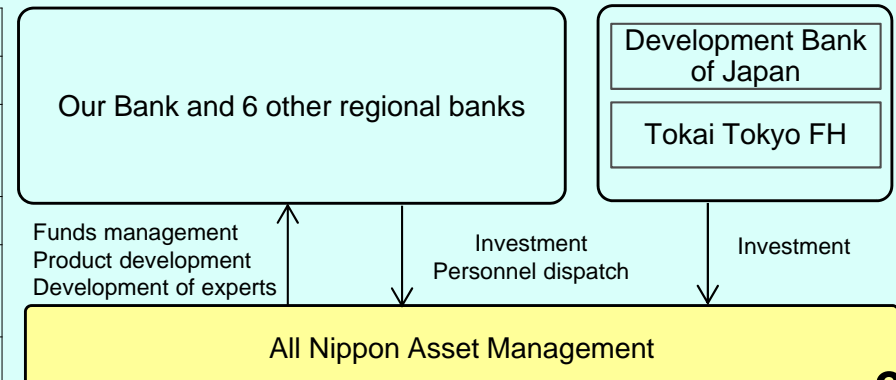
## – Investment and dispatching of personnel to asset management companies –

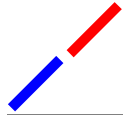
- Aiming to maintain enhanced funds management know-how, develop unique products that meet customers' needs, and develop personnel in the capital market sector, the Bank invested and dispatched personnel to "All Nippon Asset Management Co., Ltd. (ANAM)."



### Invested and dispatched personnel to "All Nippon Asset Management Co., Ltd. (ANAM)"

|                   |                                                                                                              |
|-------------------|--------------------------------------------------------------------------------------------------------------|
| Name              | All Nippon Asset Management Co., Ltd. (Location: Tokyo)                                                      |
| Established       | December 2015                                                                                                |
| Investors         | Our bank and 6 other regional banks, Tokai-Tokyo FH, Development Bank of Japan                               |
| Paid in capital   | 1.25 billion yen (0.1 billion yen invested by our Bank)                                                      |
| Lines of business | Investment management, investment advisory and agency business, Type II financial instruments business, etc. |
| Commencement      | April 2016                                                                                                   |





## 4. Business Forecast in FY2016

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# (1) Forecast of business performance and dividend in FY2016

- Parent net income is expected to be 28.2 billion yen and profit attributable to owners of parent is expected to be 29.2 billion yen.
- The dividend this fiscal year is expected to be 10 yen per year in accordance with the Payout Table.

## Business forecast in FY2016

(Billion yen)

|                                                | Forecast in | YoY         |
|------------------------------------------------|-------------|-------------|
|                                                | FY2016      |             |
| Net interest income                            | 67.8        | -6.9        |
| Net fees and commissions income                | 19.4        | 0.6         |
| <b>Core gross banking profit</b>               | <b>87.2</b> | <b>-6.3</b> |
| - Expenses                                     | 55.9        | 2.2         |
| <b>Net banking profit</b>                      | <b>31.3</b> | <b>-8.5</b> |
| - Gains/losses on securities                   | 11.7        | 6.7         |
| - Credit costs                                 | 2.0         | 0.3         |
| <b>Ordinary profit</b>                         | <b>40.7</b> | <b>-4.4</b> |
| <b>Net income</b>                              | <b>28.2</b> | <b>-1.8</b> |
| <b>Consolidated ordinary profit</b>            | <b>42.1</b> | <b>-5.1</b> |
| <b>Profit attributable to owners of parent</b> | <b>29.2</b> | <b>-2.2</b> |

## Payout Table and estimated dividend in FY2016

| Consolidated net income attributable to owners of parent | Dividend per share |                       |           | Consolidated payout ratio |
|----------------------------------------------------------|--------------------|-----------------------|-----------|---------------------------|
|                                                          | (1) Fixed          | (2) performance based | (1) + (2) |                           |
| Over 33 billion yen                                      | 6 yen              | 6 yen                 | 12 yen    | Less than 22.7%           |
| Over 30 -33 billion yen                                  | 6 yen              | 5 yen                 | 11 yen    | 20.8% - less than 22.9%   |
| Over 27 - 30 billion yen                                 | 6 yen              | 4 yen                 | 10 yen    | 20.8% - less than 23.2%   |
| Over 24 - 27 billion yen                                 | 6 yen              | 3 yen                 | 9 yen     | 20.8% - less than 23.4%   |
| Over 21 - 24 billion yen                                 | 6 yen              | 2 yen                 | 8 yen     | 20.8% - less than 23.8%   |
| Over 18 - 21 billion yen                                 | 6 yen              | 1 yen                 | 7 yen     | 20.8% - less than 24.3%   |
| 18 billion yen and less                                  | 6 yen              | 0 yen                 | 6 yen     | 20.8% and over            |





This material contains statements about future business performance.

These statements do not guarantee future business performance and are subject to uncertainties.

Please note that actual future business performance may differ from our goals depending on changes in the business environment and other factors.

Management Planning Division, The Hiroshima Bank, Ltd.

(Persons in charge of IR: Kato and Yashiki)

Phone: 082-504-3823

FAX: 082-504-0171

URL: <http://www.hirogin.co.jp/>