



Overview of Financial Results in Interim FY2015

– IR Presentation –

The Hiroshima Bank, Ltd.



December 7, 2015

President Koji Ikeda



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1. Highlights of Interim FY2015

1

Interim net income **increased for seven consecutive periods on a parent company basis, updating the historical high in three consecutive periods on a consolidated basis**

2

Realized gains on the sale of securities **totaled 4.0 billion yen**, helped by the dynamic trading with proactive insights regarding market trends

3

Banking profit (before transfer to general reserve for possible loan losses) increased by 6.0 billion yen year-on-year

4

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

5

Core OHR **dropped to some 50%**

6

ROE **reached a high level close to 9%** despite an increase in net assets



2. Overview of Financial Results in Interim FY2015

(1) Summary of business performance in interim FY2015

- Net banking profit in the interim FY2015 was up by 6.0 billion yen (+32.5%) to 24.3 billion yen on a year-on-year basis, reflecting an increase in net fees and commissions income thanks to enhanced consulting sales, lower expenses, along with the improvement of gains/losses on bonds.
- Interim net income was up by 5.2 billion yen (+40.6%) to 17.9 billion yen, recording an increase for the seventh consecutive interim period. Interim profit attributable to owners of parent also increased on a year-on-year basis, up 5.7 billion yen (+44.2%), to 18.5 billion yen, recording an increase for the three consecutive periods.

(billion yen)

	Result in interim FY2015		
	Result in interim FY2015	YoY change (Change rate)	Difference from the announcement in May
Net interest income	37.4	-0.1	1.9
Net fees and commissions income	10.0	0.7	0.5
Core gross banking profit	47.4	0.6 (1.3%)	2.4
- Expenses	26.5	-0.9	-0.5
Core banking profit	20.9	1.5 (7.7%)	2.9
Gains/Losses on bonds	3.4	4.5	3.1
Net banking profit	24.3	6.0 (32.5%)	6.0
Gains/Losses on stocks	0.6	-0.2	0.4
- Credit costs	-1.5	-0.6	-2.0
Ordinary profit	26.5	7.3 (37.8%)	8.6
Interim net income	17.9	5.2 (40.6%)	6.0
Consolidated net income	27.5	8.1 (41.7%)	9.0
Interim profit attributable to owners of parent	18.5	5.7 (44.2%)	6.2

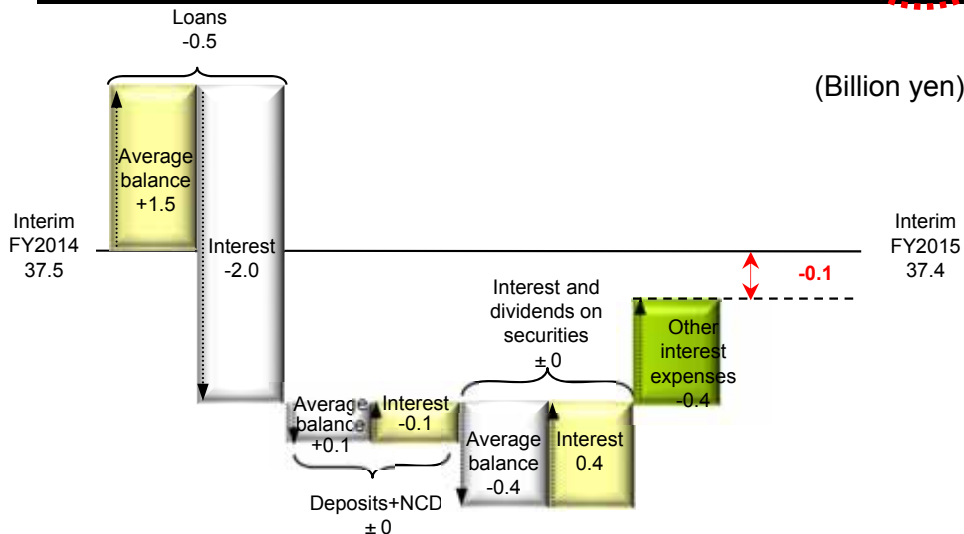
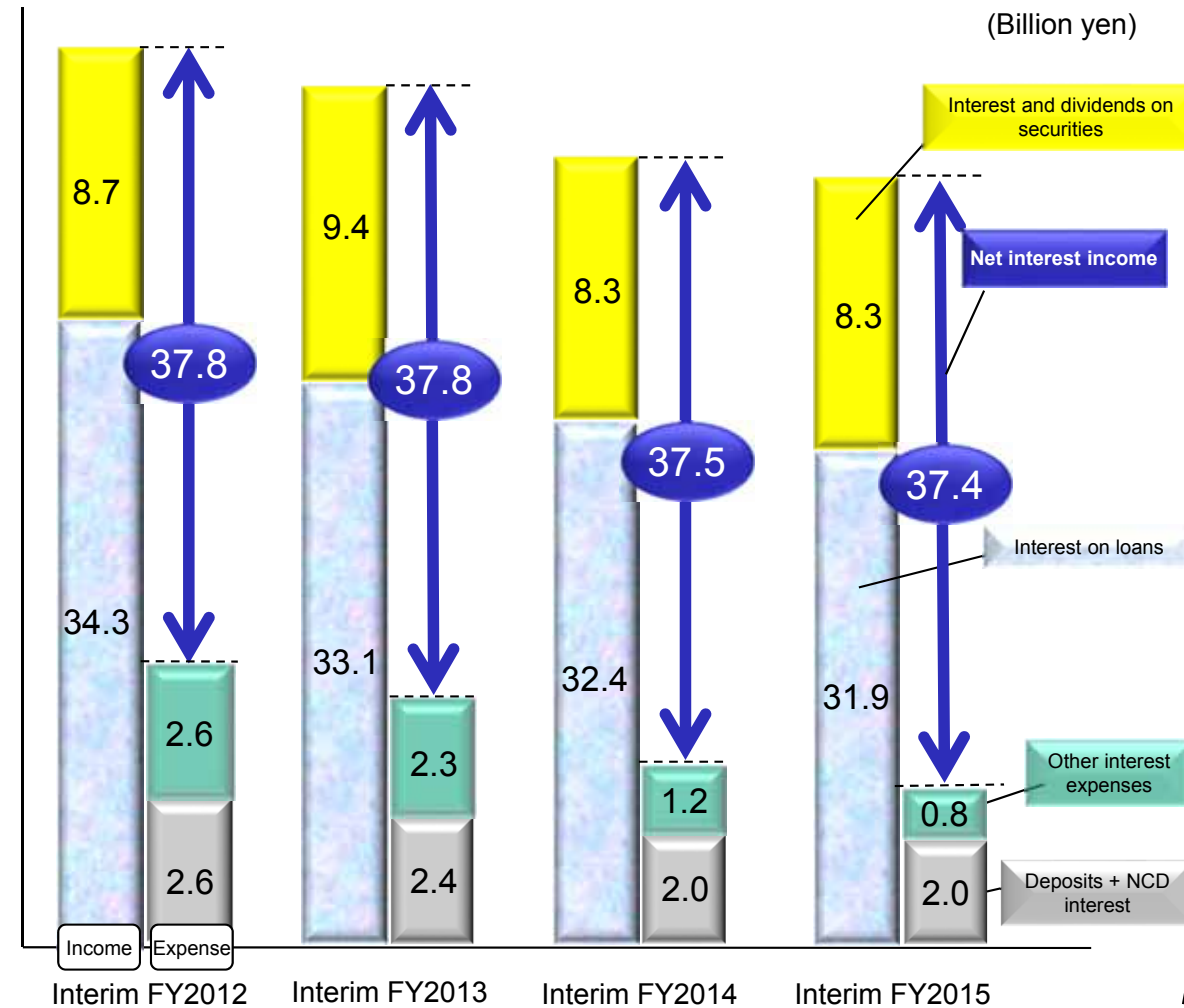
(2) Net interest income

- A decrease in interest on loans was largely offset by a reduction in funding costs, which **left a decrease in net interest income limited to 0.1 billion yen on a year-on-year basis.**
- Net interest income remained more or less in line with the previous year's level,** largely helped by the efforts focused on seeking a net interest spread amid the protracted low interest rates.

Breakdown and change details of net interest income (average balance and interest)

	Result in (Billion yen)	
	interim FY2015	YoY change
Interest on loans	31.9	-0.5
Interest and dividends on securities	8.3	0.0
Deposits + NCD interest (-)	2.0	0.0
Other interest expenses (-)	0.8	-0.4
Subordinated financing costs (-)	0.2	-0.3
Net interest income	37.4	-0.1

Trend of net interest income



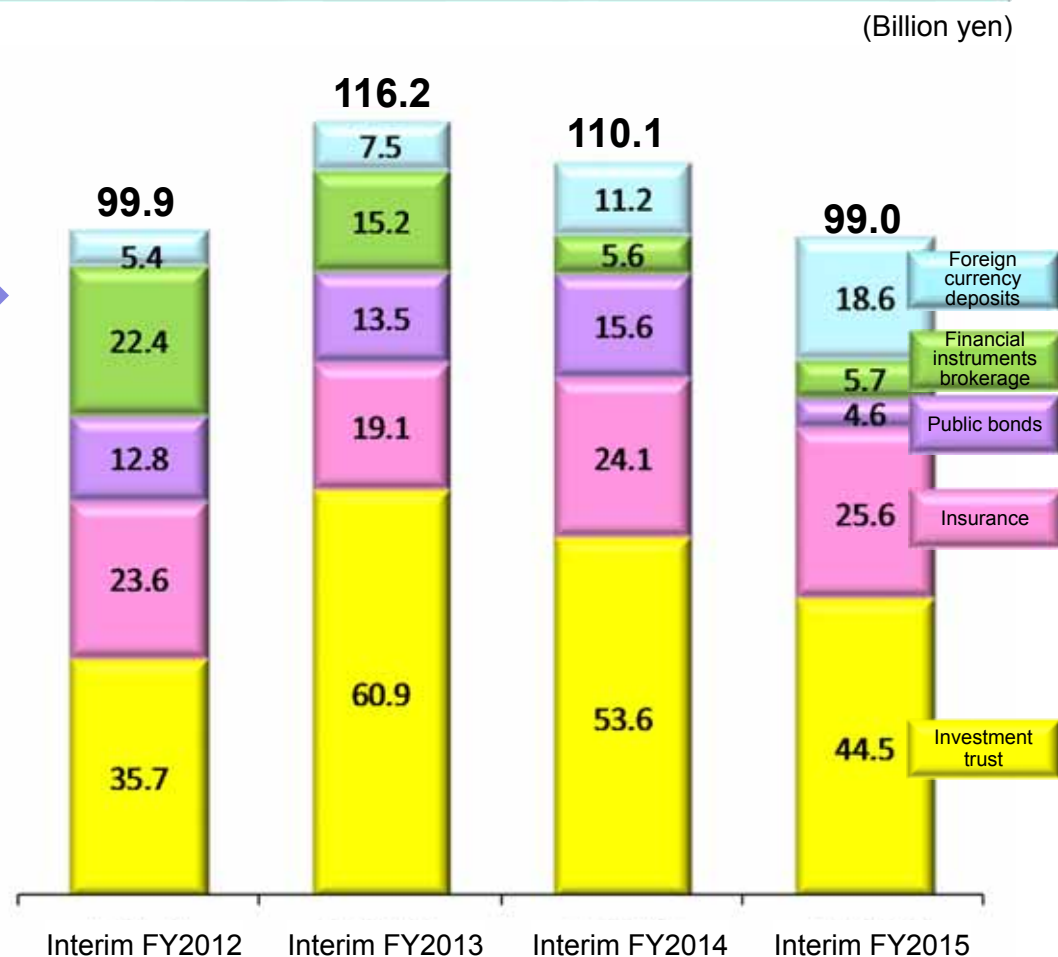
(3) Net fees and commissions income

- Net fees and commissions income **increased by 0.7 billion yen on a year-on-year basis**, reflecting an increase in commissions related to retail asset management on the strength of the intensified sales campaign for installment insurance products catering to the needs in relation to inheritance.
- Sales value of financial instruments **remained more or less in line with the previous year's level, disregarding the lower sales value of public bonds.**

Breakdown of net fees and commissions income

	Result in (Billion yen)	
	interim FY2015	YoY change
Investment banking	1.4	0.1
Syndicated loan, etc.	0.8	0.1
Retain asset management	3.9	0.2
Insurance products	1.9	0.2
Personal loan-related	-1.3	0.4
Others	6.0	0.0
Net fees and commissions income	10.0	0.7

Sales trend of financial instruments

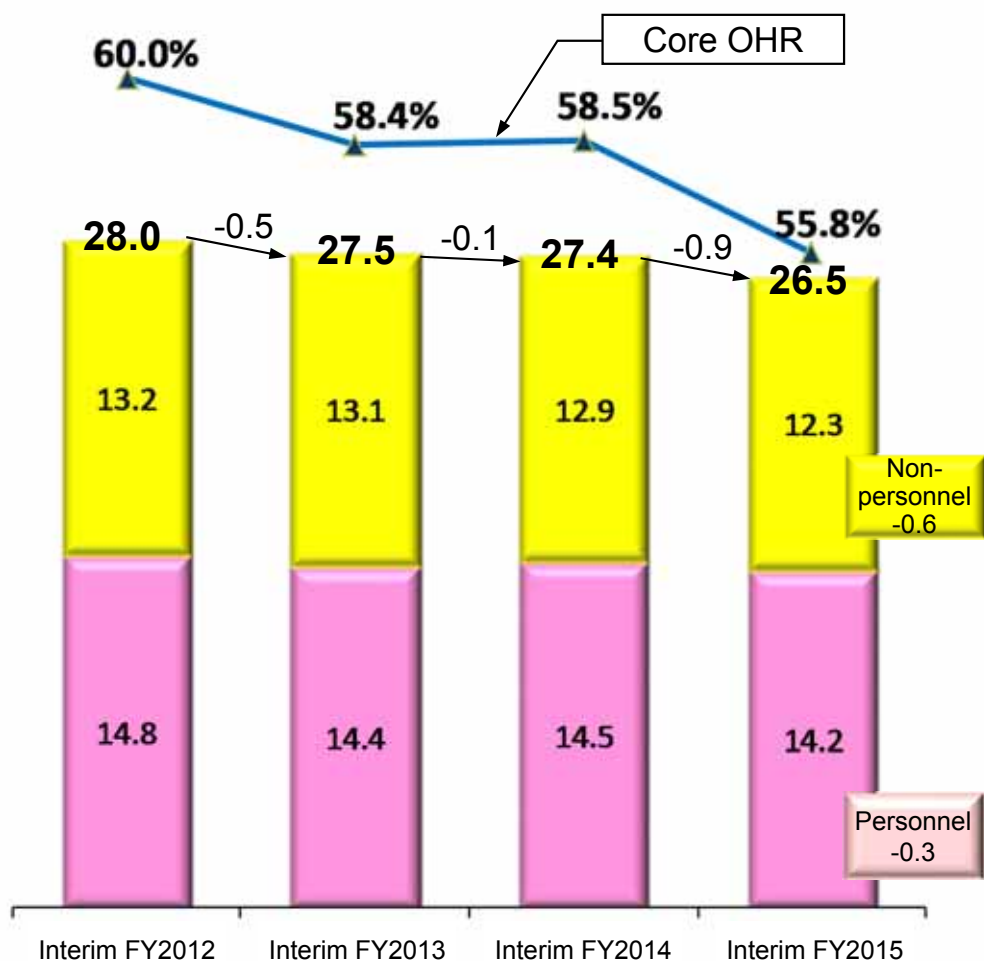


(4) Expenses

- Expenses were **down by 0.9 billion yen from the corresponding period of last year**, chiefly due to a decrease in deposit insurance premiums and retirement benefit expenses.
- Core OHR was **reduced to some 50%**

Trend of expenses and core OHR

(Billion yen)



* Core OHR = Expenses / Core gross banking profit

Breakdown of expenses

(Billion yen)

Non-personnel expenses

Main factors	Change
Decrease of deposit insurance premiums: -1.1	
System upgrades, etc. associated with customer channel development: +0.4 (ATMs, Personal internet banking)	-0.6
Increase of size-based business tax, etc.: +0.1	

Personnel expenses

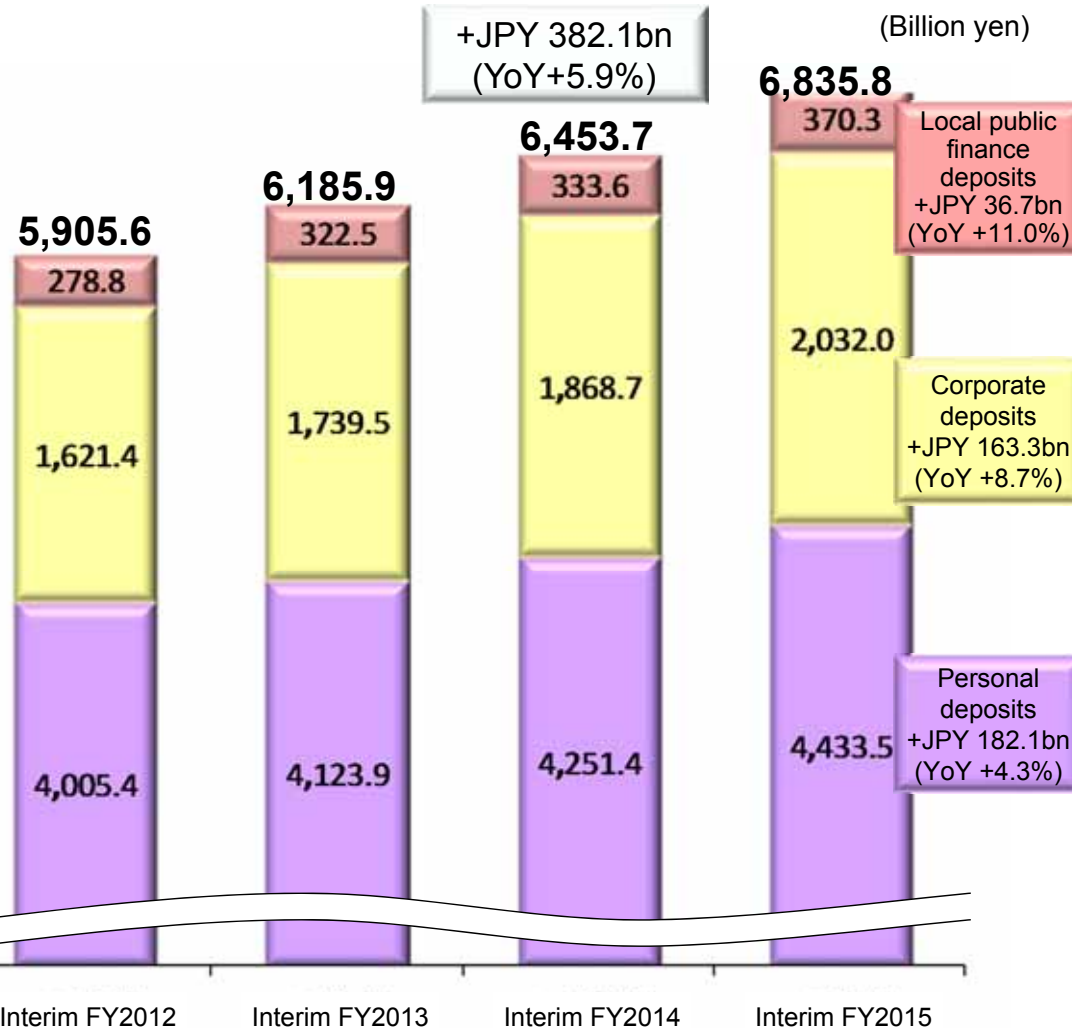
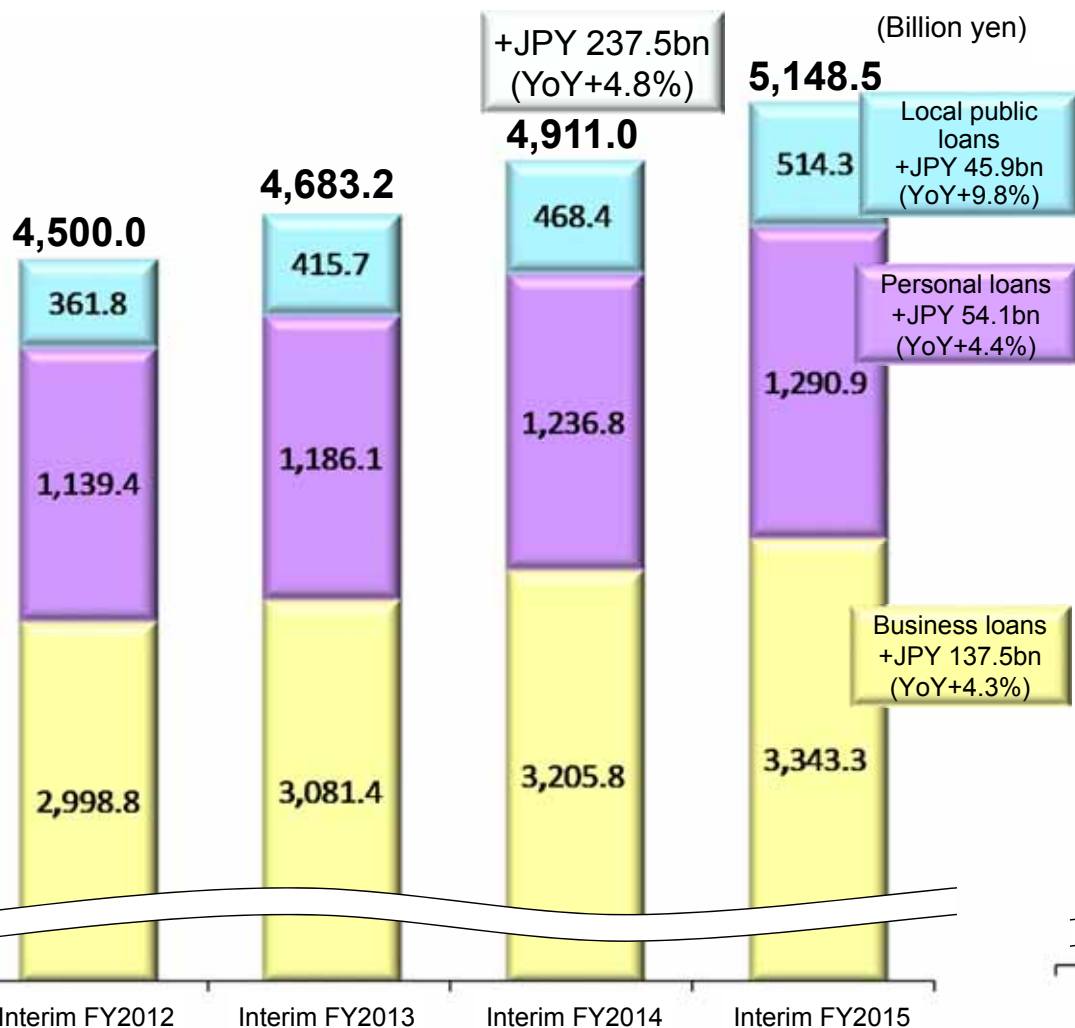
Main factors	Change
Decrease of retirement benefit costs: -0.5	
Increase of social insurance costs, etc.: +0.2	-0.3

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

- Average balance of loans significantly increased in business, personal and local public sectors, **up by 237.5 billion yen (+4.8% YoY)**
- Average balance of deposits significantly increased in both personal and corporate sectors, **up by 382.1 billion yen (+5.9% YoY)**

Trend of average balance of loans

Trend of average balance of deposits (deposits + NCD)

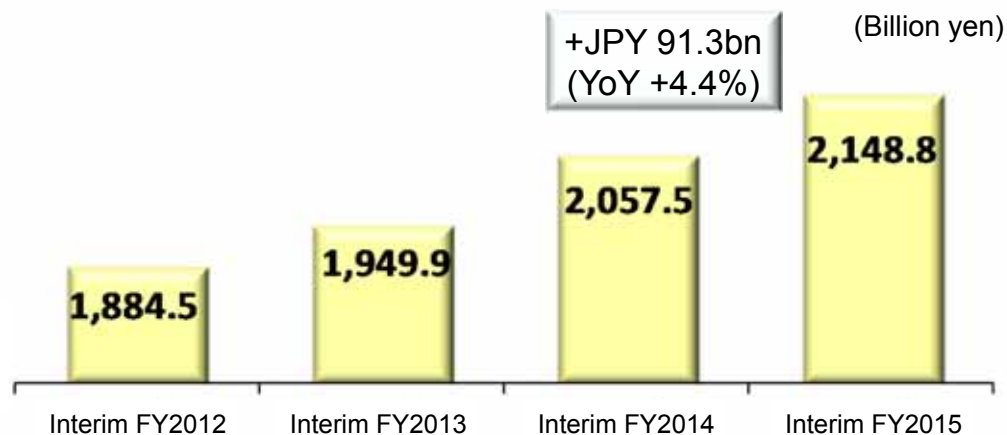


* Local public loans means loans to local public organizations and public corporations.

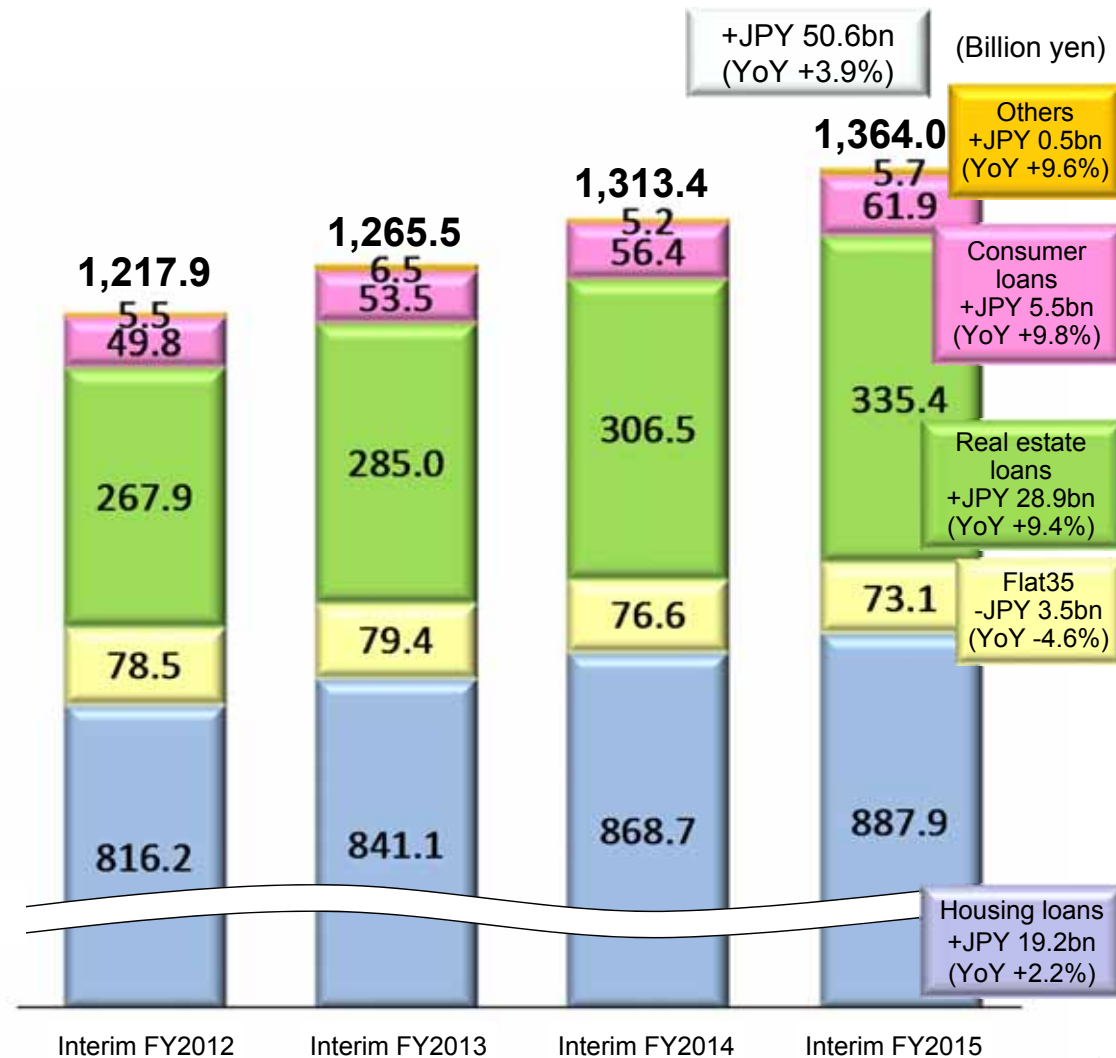
(6) Loans to retail clients and individuals

- Average balance of loans to small- and medium-sized enterprises and the number of borrowers for business loans **significantly increased**, supported by active marketing using the area marketing system.
- The balance of personal loans significantly **increased by 50.6 billion yen (+3.9% YoY)** as a result of bank-wide promotions focused on personal loans.

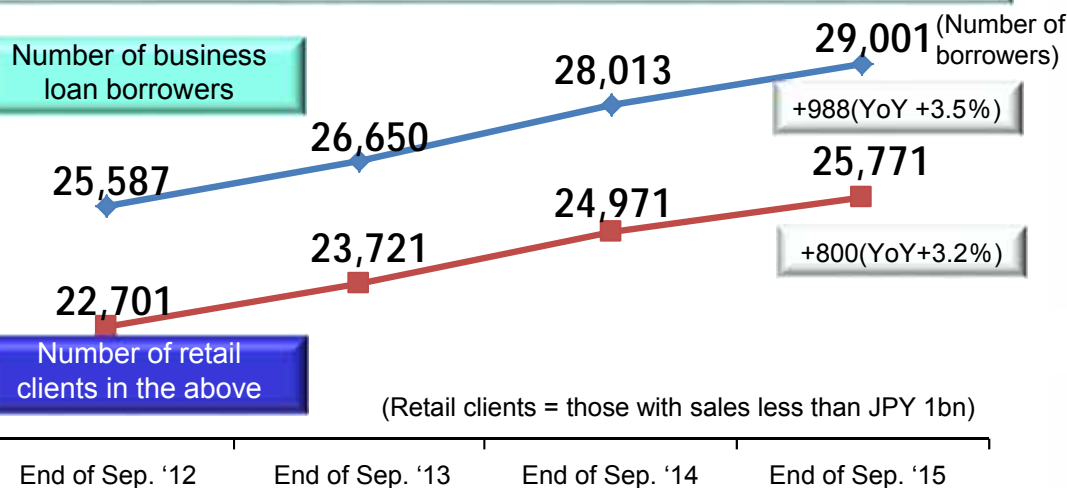
Trend of loans to SMEs (average balance)



Trend of average balance of personal loans (including Flat35)



Trend of the number of business loan borrowers

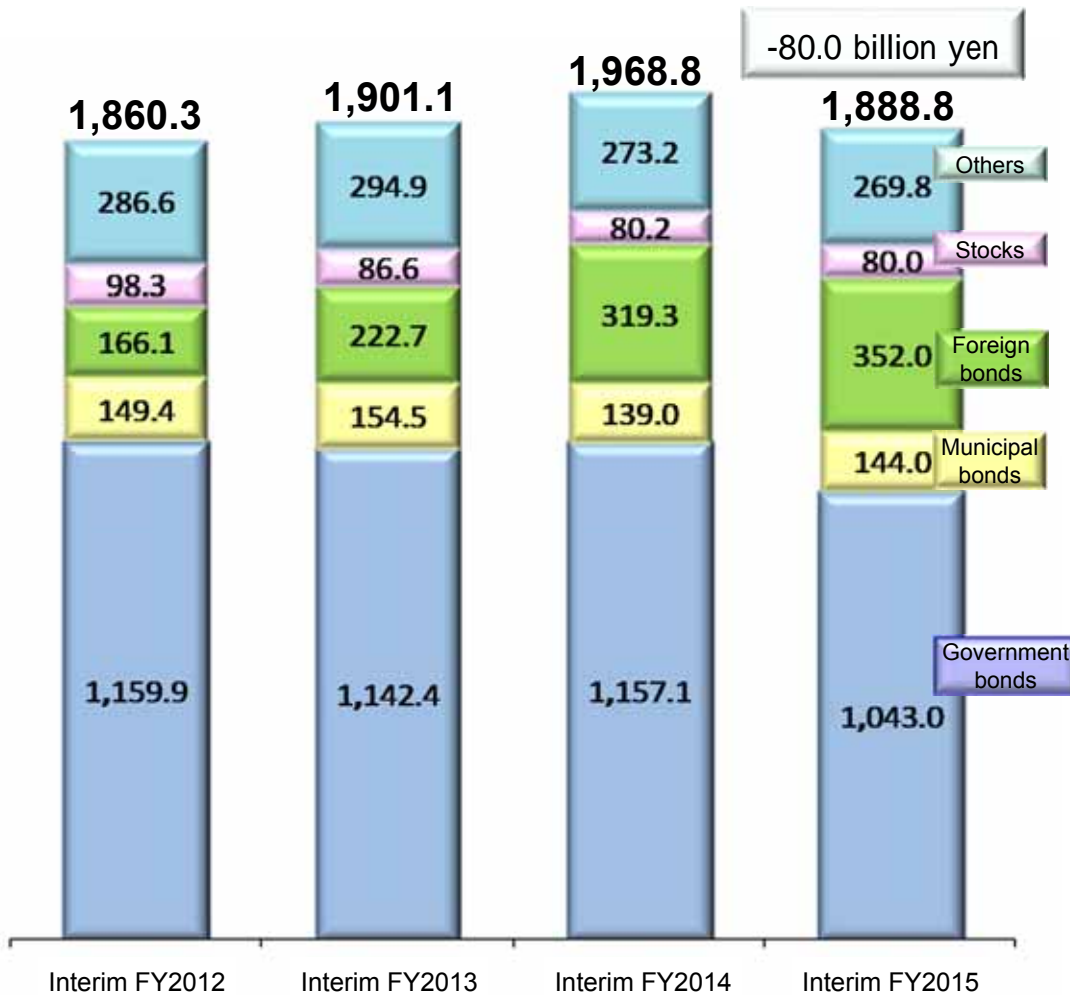


(7) Securities

- Balance of securities decreased by 80.0 billion yen compared with the end of March 2015, reflecting a reduction in JGB holdings, with **bond duration remaining short**.
- In addition to the high level of unrealized profit, realized gains on the sale of securities totaled 4.0 billion yen, helped by the dynamic trading with proactive insights regarding the market trends.

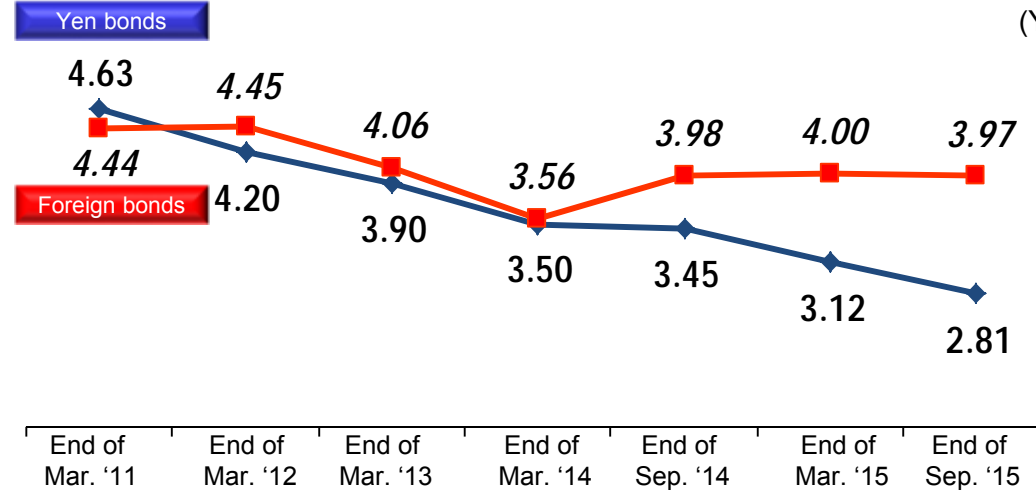
Trend of average balance of securities

(Billion yen)



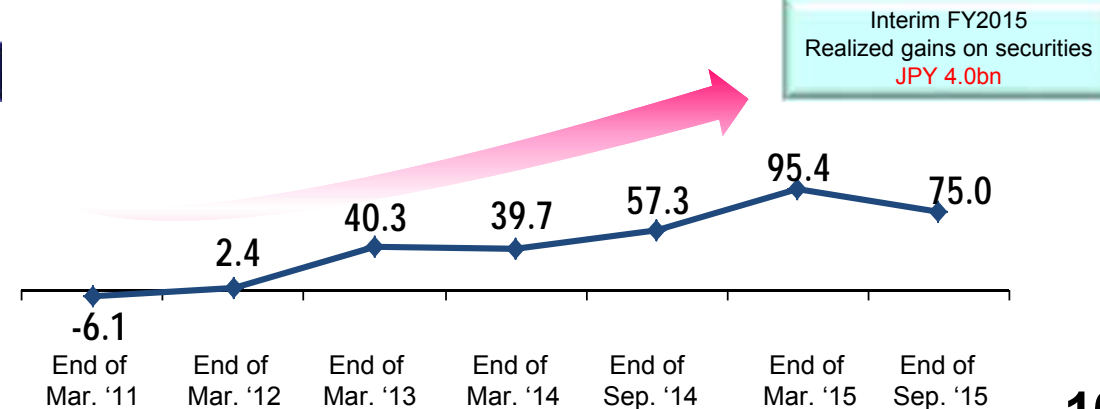
Trend of bond duration

(Year)



Trend of net unrealized gains (losses) on securities

(Billion yen)

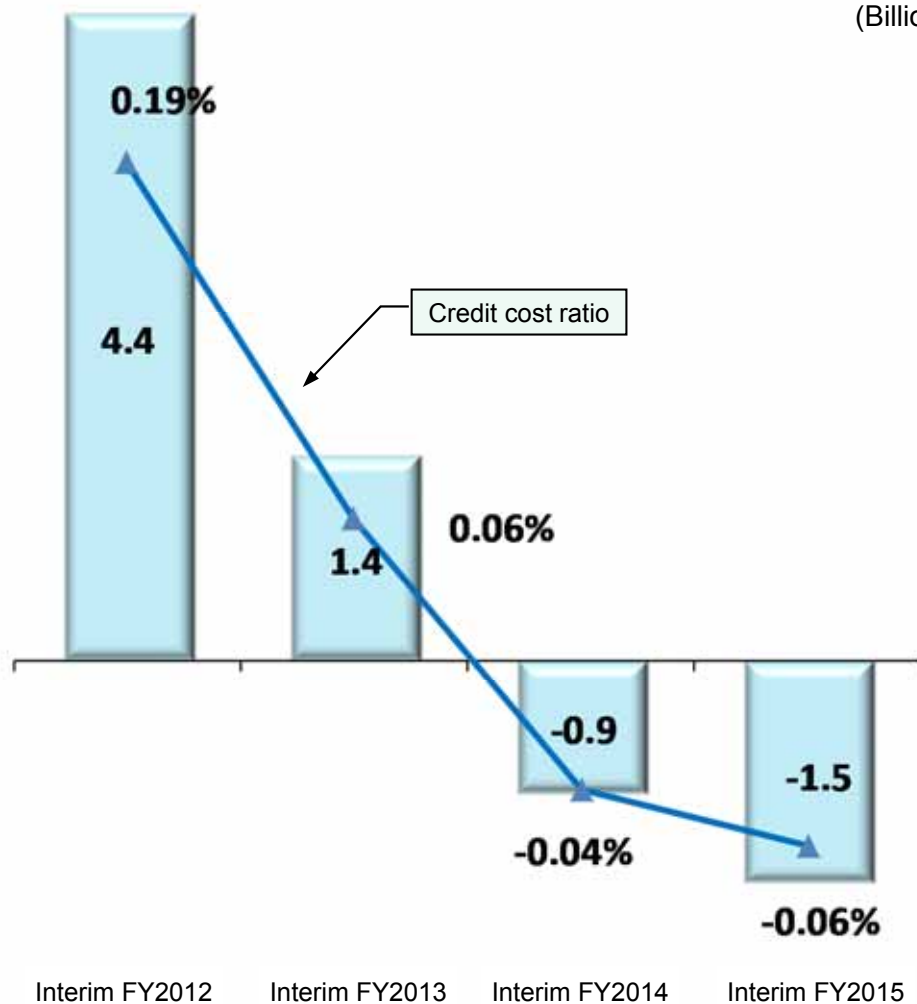


(8) Credit costs and nonperforming loans

- **1.5 billion yen was booked as a gain** associated with the reversal in credit costs, as a result of active support for management improvement of clients.
- **NPLs (term-end balance) increased by 7.9 billion yen on a year-on-year basis**, with NPL ratio **remaining low at 1.79%**.

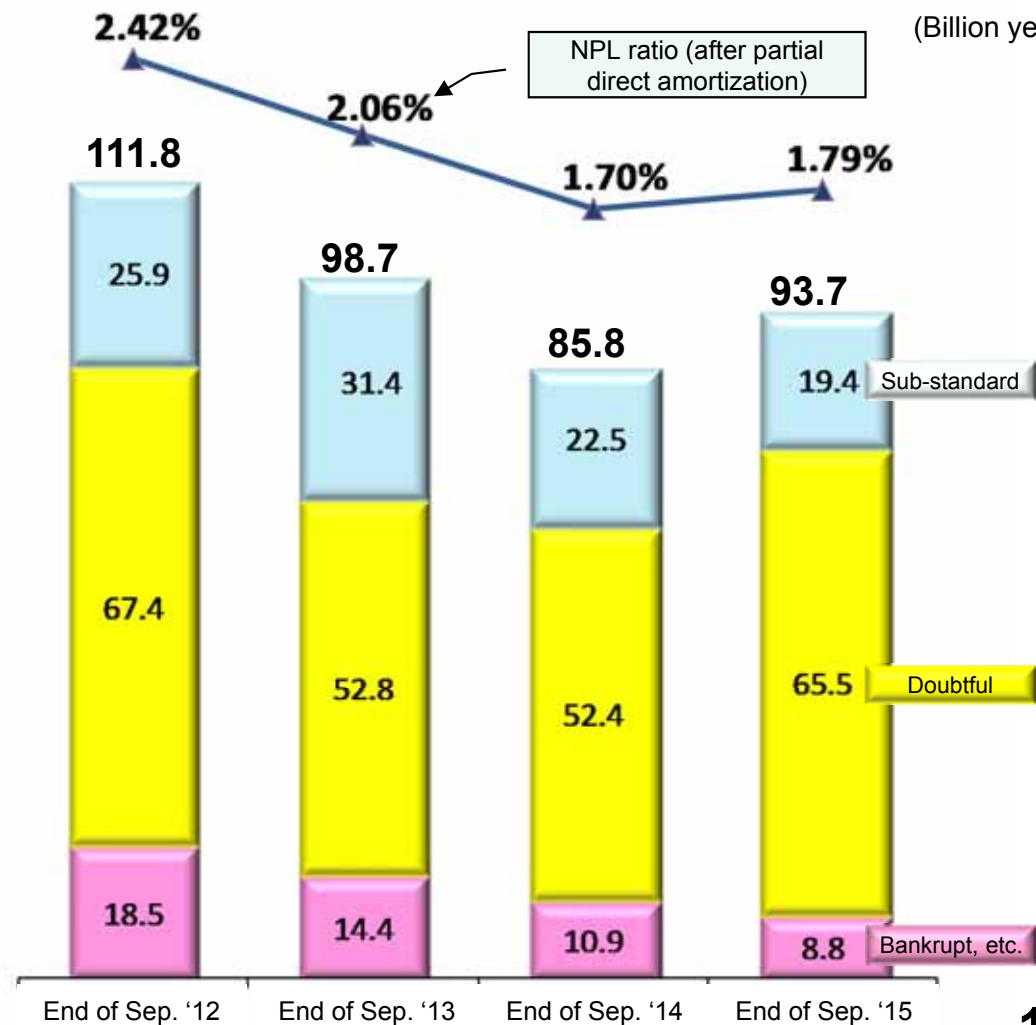
Trend of credit costs

(Billion yen)



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

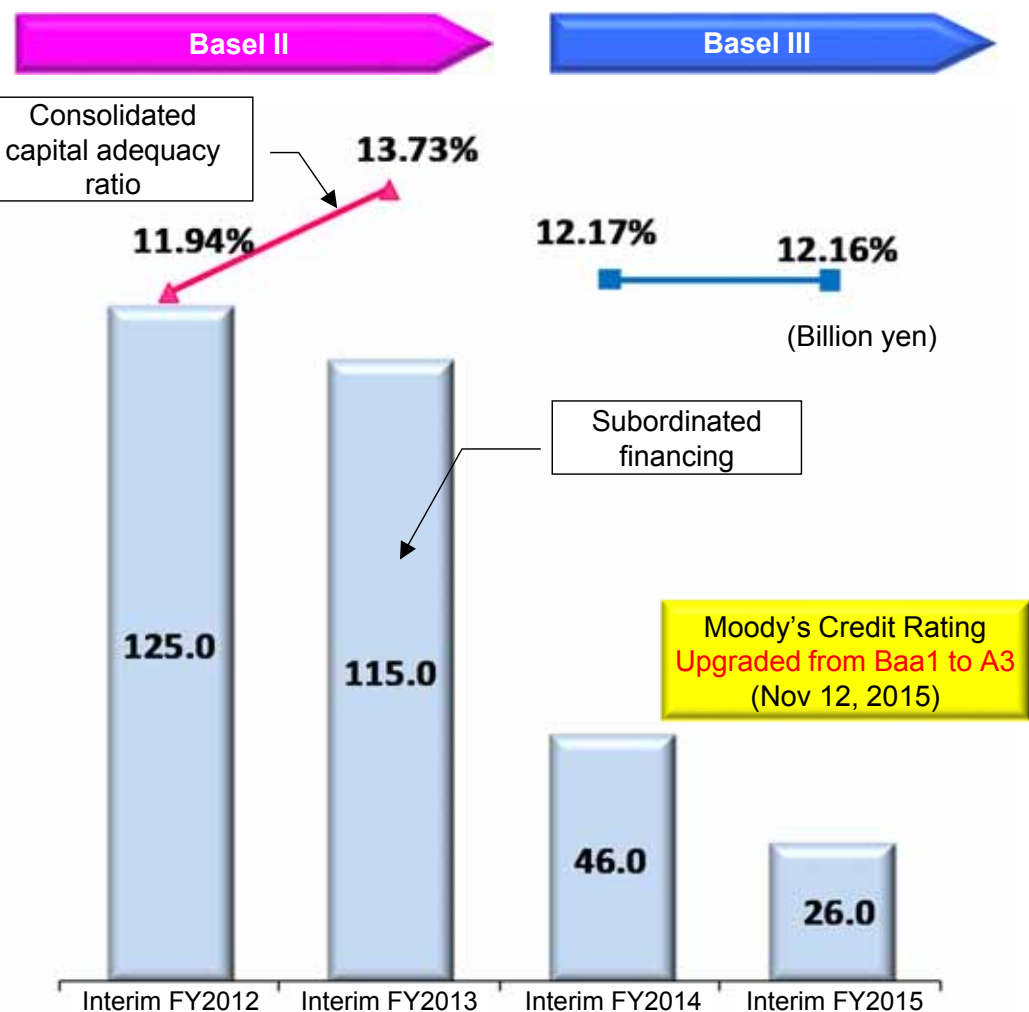
(Billion yen)



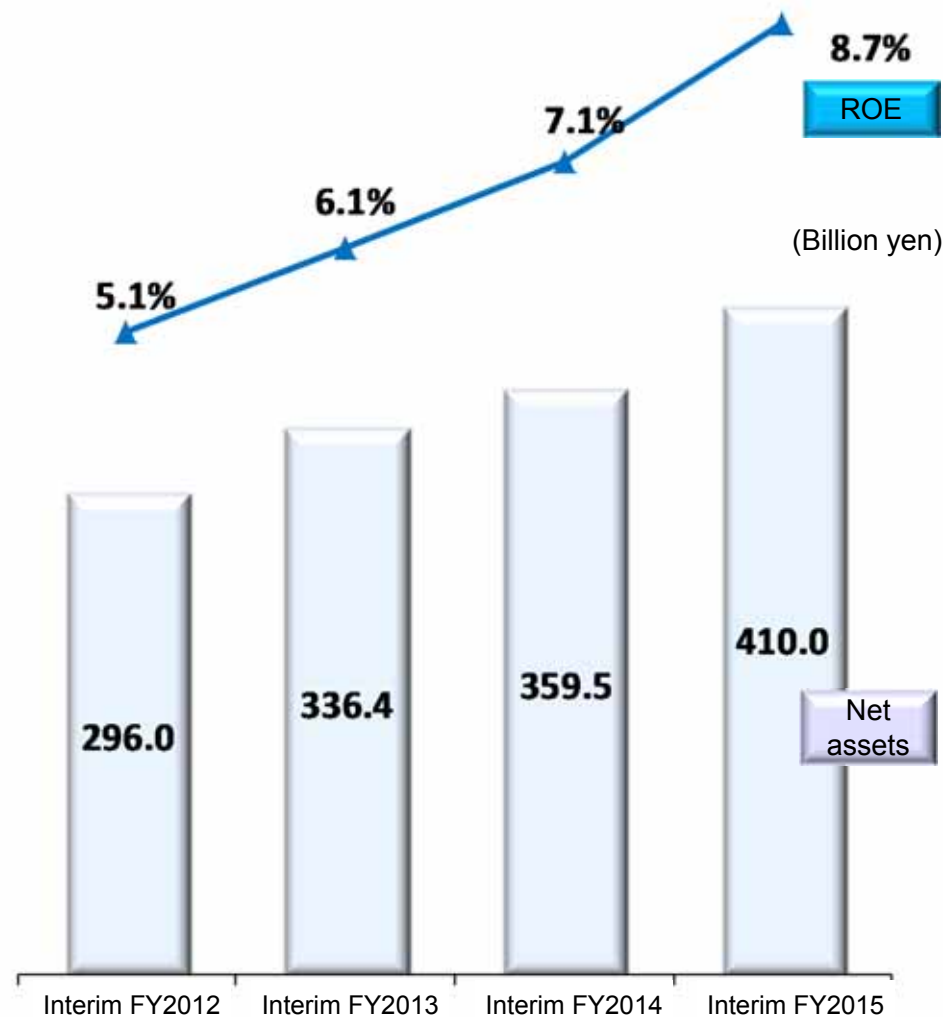
(9) Capital adequacy ratio and ROE

- Consolidated capital adequacy ratio was **at a sufficient level of 12.16%** despite an increase in loan balance, helped by a reduction in subordinated bond balance.
- ROE **reached a high level close to 9%** despite the consistent expansion in net assets.

Breakdown of consolidated capital adequacy ratio



Trend of ROE



Net assets= [Opening net assets total (equity warrants excluded) + interim term-end net assets total (equity warrants excluded)] / 2



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

(1) Strategies in the Mid-term Plan

Main points in each strategy

<p>(1) Marketing strategy</p>	<p>(i) Enhance approaches to the personal market (Pg.15-17) (ii) Enhance consulting sales (Pg.18-19) (iii) Active efforts for regional development (Pg.20-23)</p>
<p>(2) Human resource strategy</p>	<p>(i) Nurture human resources that contribute to the development of local communities by creating and providing new value (ii) Develop a corporate culture in which a diverse range of people can play active roles (Pg.24)</p>
<p>(3) ALM/Securities strategy</p>	<p>(i) Enhance profitability of the portfolio through proper risk taking (ii) Appropriate and effective practice of ALM</p>
<p>(4) Operational streamlining strategy</p>	<p>(i) Drastic streamlining in preparation for an increase in the amount of activity (ii) Streamline the administrative sector (Pg.25)</p>
<p>(5) IT strategy</p>	<p>(i) Study next generation systems while enhancing and nurturing IT personnel responsible for the future (ii) Active utilization of IT to realize various strategies and measures</p>
<p>(6) Group strategy</p>	<p>(i) Maximize synergy effects by enhancing group governance (ii) Expand business fields (challenge new business)</p>

Steady increase of internal reserves through profitability enhancement

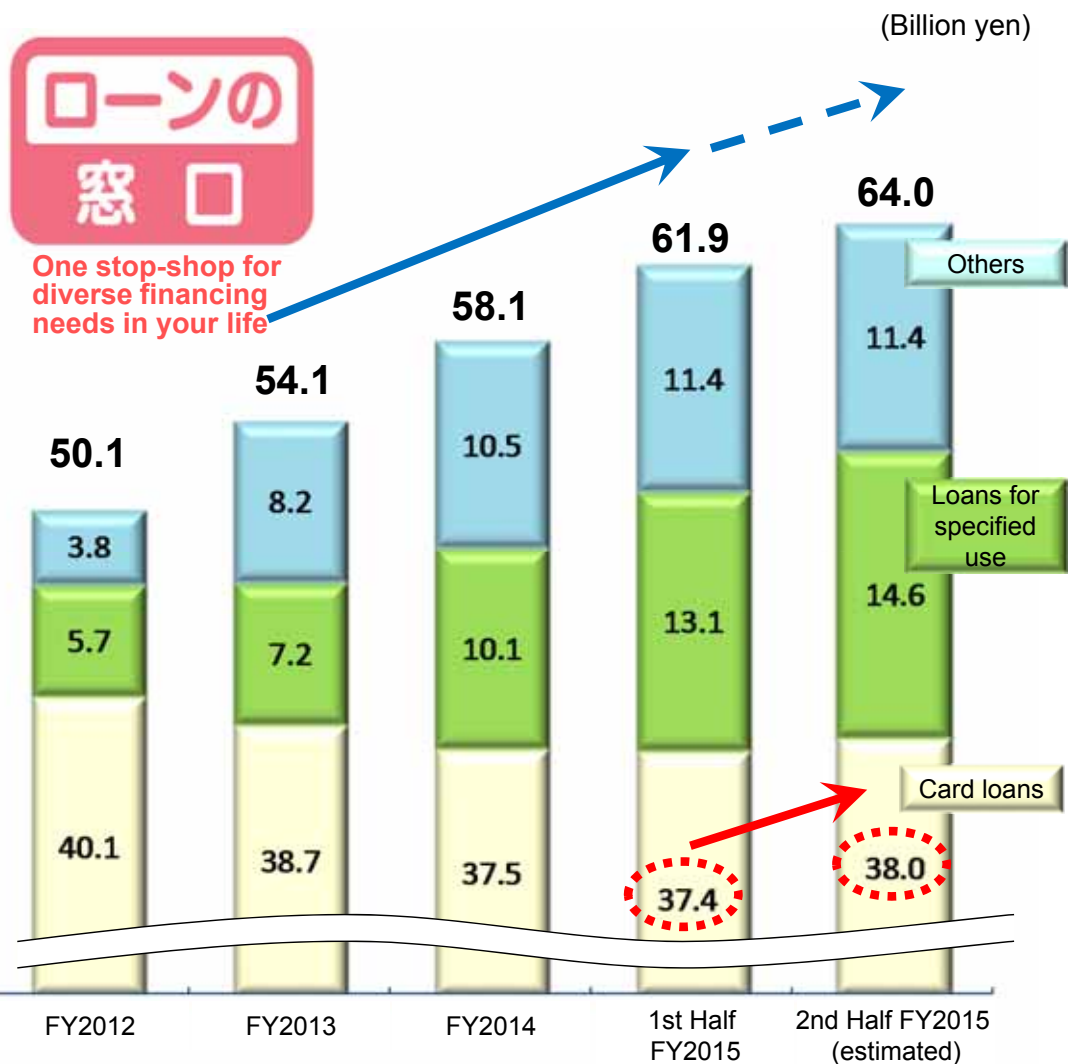
Enhance the management foundation

(2) Enhancement of approaches to the personal market 1

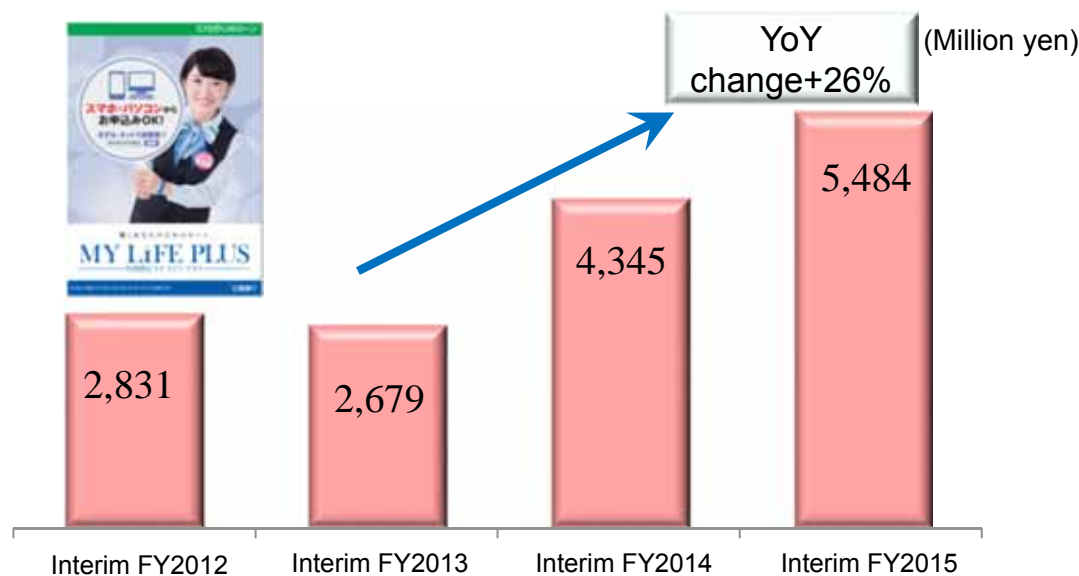
- Promotion of consumer loans -

- Achieved an improvement in the loan portfolio yield by promoting consumer loans with a relatively high interest rate.
- The amount of consumer loans executed increased by 26% on a year-on-year basis, reflecting the intensified PR activities focused on the card loan business.

Trend of average balance of consumer loans



Trend of the amount of consumer loans executed



PR enhancement



Hanging ads in large shopping malls



(3) Enhancement of approaches to the personal market 2

- Promotion of the Card Business -

- Aim to acquire individual customers in the middle-mass market** by intensifying sales activities toward schools and business companies.
- Aim to grow the number of VALUE ONE card holders** by stimulating potential needs for a multi-functional card among the people applying for E-money-type premium coupons "HIROCA".

Master card (with integrated financing and credit functions)

Family card (with multiple functions coordinated with local businesses)

[VALUE ONE]



ATM card

Credit card

VALUE LOAN

Repayable at any time

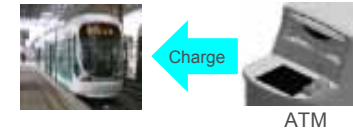
Fixed amount repayable

Repayable on schedule

[HIROGIN PASPY]



With PASPY function + QUICPay function



[Student ID]



With student ID function + QUICPay function

- Elisabeth University of Music
- Hiroshima Dental Academy
- Fukuyama University
- Fukuyama Heisei University

[Alumni ID]



With QUICPay function

[Employee ID]



With employee ID function + QUICPay function

- Elisabeth University of Music
- Mukaishima Dock
- Hattendo

[Premium gift certificate 'HIROCA']



With QUICPay function

New functions could be added to meet diverse personal needs

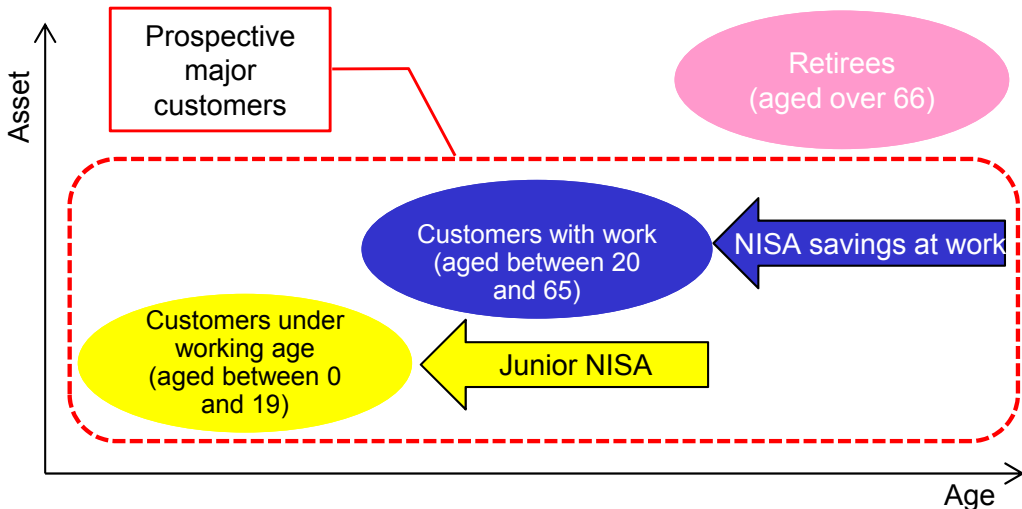
Lifelong learning program Student ID function	
Museum entry pass	Cinema entry pass
YUMECA function	SMILE MONEY function
Prepaid electronic money	Prepaid electronic money
Small amount settlement (up to 50,000 yen) (YUME TOWN, YUME MART, ETC.)	Small amount settlement (up to 50,000 yen) (FRESTA)
* Plans included	

(4) Enhancement of approaches to the personal market 3

- Expansion of customer base leveraging NISA -

Seek to achieve sustainable expansion of the customer base and growth of average balance of investment trusts, through the aggressive initiatives aimed at growing the customer base regarding NISA

Attracting major customers for the future, leveraging new products



Characteristics of <HIROGIN> NISA savings plan at work (Hiroshima Model)

- (1) For those who do not have time to meet a consultant at the bank on regular business days during the week. Interested in asset management opportunities without enough knowledge and experience.
Provide pamphlets and hold seminars at work, explaining the service/product
- (2) For those who cannot afford to start because of the heavy burdens including housing mortgage payments and expenses related to child education.
It is possible to start with only 1,000 yen/month, using a bank transfer
- (3) For those who do not have opportunities to keep abreast of the daily market movements and learn about financial instruments because most of the private time is usually spent on hobbies and self development.
Establish the NISA savings web site accessible 24 hours a day, 365 days a year. Provide information regarding daily investment performance by email named, Investment Trust NAV Notification.

Trend of average balance of investment trust for individual customers, Plan, Actual and Contracts

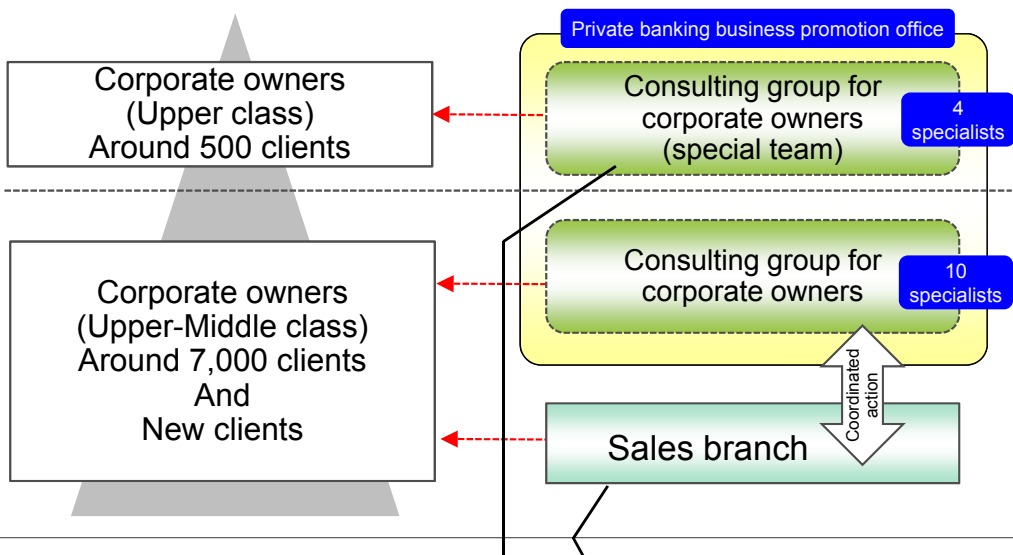


(5) Enhancement of consulting sales 1

– Promotion of business related to the business succession –

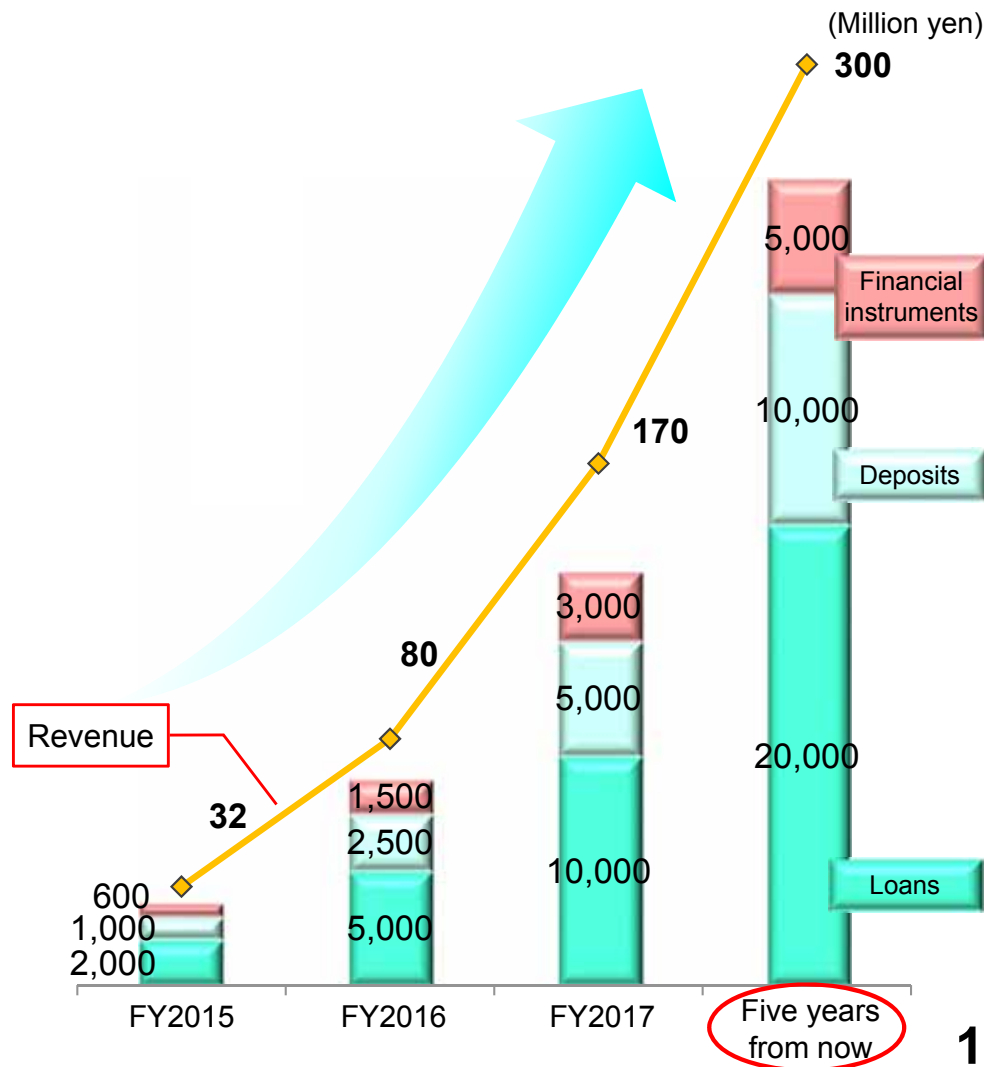
- Establish a system capable of responding to the needs related to business successions in an appropriate and timely manner
- Seek to grasp the potential needs of corporate owners for business succession, **aiming to provide solutions as well as achieving revenue for the bank**

Enhancement of sales approach towards the needs related to business successions



- Promote sales approaches by the special team to corporate owners
- Establish a system enabling each sales branch to close deals on its own, leveraging its consulting capabilities

(Reference) Corporate owner consulting group (special team) targets



(Reference)

Client company's stock evaluation (market capitalization)

Corporate owners (Upper, Upper-Middle): Around 7,500 clients	Around 5 trillion yen
upper-class corporate owners in those 7,500: Around 500 clients	Around 2.7 trillion yen

(6) Enhancement of consulting sales 2

– Promotion of business for the elderly clients –

Seek to achieve further growth in business for the elderly in collaboration with trust companies, while providing products tailored to customer needs

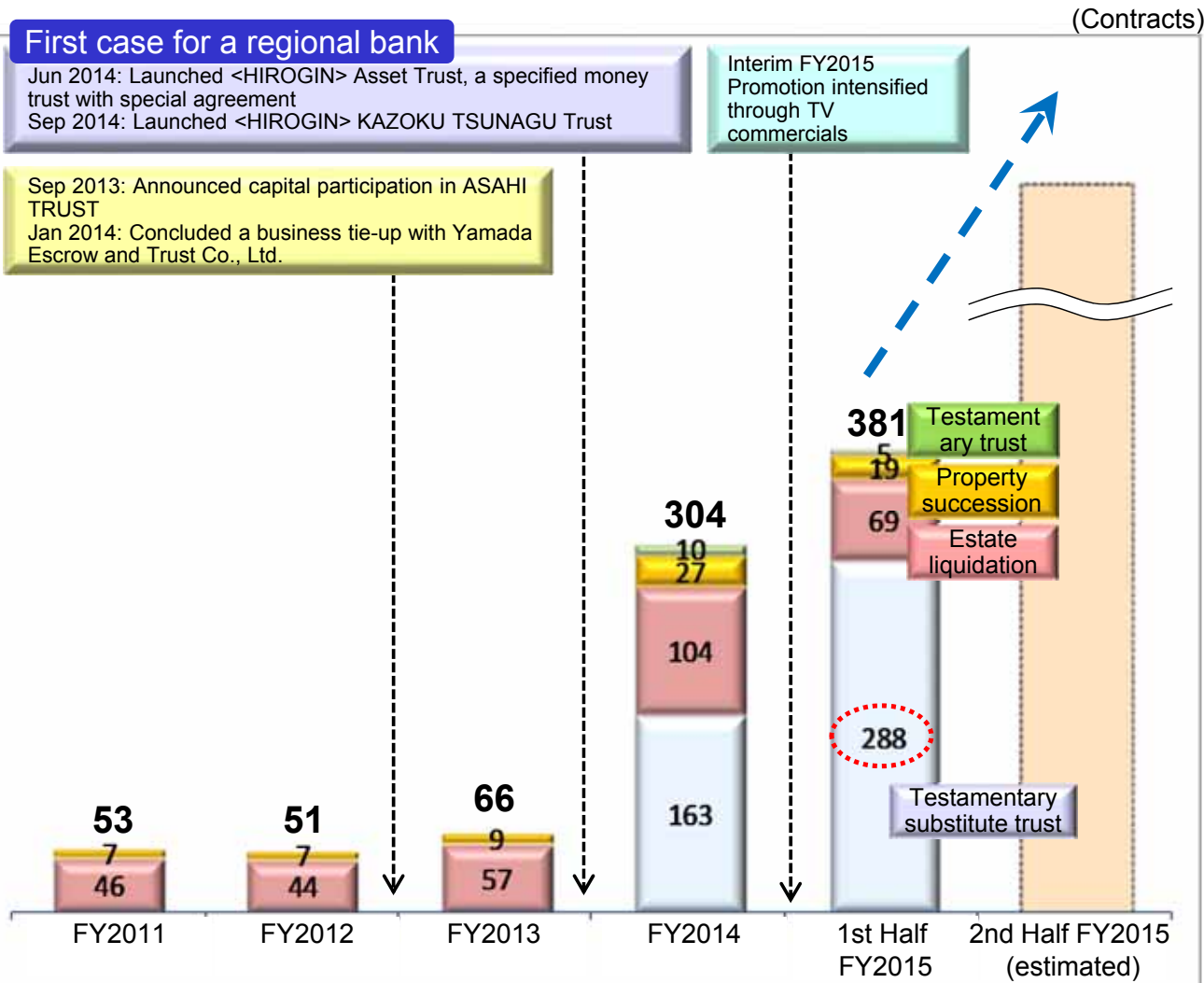
Trend of contracts concluded for the elderly (inheritance related)

First case for a regional bank

Jun 2014: Launched <HIROGIN> Asset Trust, a specified money trust with special agreement
 Sep 2014: Launched <HIROGIN> KAZOKU TSUNAGU Trust

Sep 2013: Announced capital participation in ASAHI TRUST
 Jan 2014: Concluded a business tie-up with Yamada Escrow and Trust Co., Ltd.

Interim FY2015 Promotion intensified through TV commercials



Provide products tailored to customer needs

First case for a regional bank

Established <HIROGIN>OMOI TSUZUKU Trust, the first calendar year gift trust announced by a regional bank

To be launched on January 4, 2016



Main target clients

- (1) Those who prefer lifetime gifting in consideration of a large payment of inheritance tax.
- (2) Those who would not want to bother with paper work, a bank transfer and other statutory procedures related to property settlement.
- (3) Those with concerns about forgetting the details of the gift trade executed years earlier.
- (4) Those desiring to execute a gift trade every year without fail.

(7) Active efforts for regional development 1

– Our visions for revitalization of local communities –

Regional challenges

Progress of declining birth rates with aging population, shrinking population
(declining working-age population)

Our visions for revitalization of regional communities

Develop work

Productivity improvement and creation of employment

To be achieved by leveraging our expertise based on long-standing experience

Develop communities and people

Curb declining population and create attractive communities

To be achieved by making proposals to local governments and communities, or industry-academia-government collaborations

(1) Revitalization of key and growth industries

- 1) Promotion of industry support for automobiles, vessels, medical services and tourism

(2) Productivity improvement and new business development

- 1) Promotion of feasibility studies

(3) Promotion of local consumption

(1) Support for regional revitalization

- 1) CCRC in Japan(*1)
- 2) Develop COMPACT CITY
- 3) Redevelopment, Housing complex redevelopment
- 4) Comprehensive community care

(*1)CCRC [Continuing Care Retirement Community]: Retirement community where an elderly person joins while healthy and spends the rest of his/her life

(1) Child care and elderly support

- 1) Support for child care
- 2) Elderly support

(8) Active efforts for regional development 2

– Promotion of feasibility studies –

- **Seek to achieve growth and development of a client company as well as an improvement in the soundness of the bank's assets by providing solutions based on the results of feasibility studies.**
- **Client company's growth in business will help to create work, triggering a move toward regional revitalization**

Feasibility studies

..... The feasibility studies are designed to help identify real challenges confronting our client companies, leveraging our analytical capabilities and acute insights regarding external business and industrial environments. This assessment process will also help to provide optimal consulting services tailored to the needs of our client companies at their respective stages of development in business.

1. Purpose of feasibility studies

- (1) For building strong relationships with client companies (sharing management agenda)
- (2) For offering added value without joining the interest rate competition (Provide solutions leveraging consulting expertise)
- (3) For internal discussions regarding credit rating of client companies (business strengths and weaknesses, business outlook, etc.)
- (4) For developing “connoisseurship” of employees as bankers (human resource development, enhancement of hands-on approach)

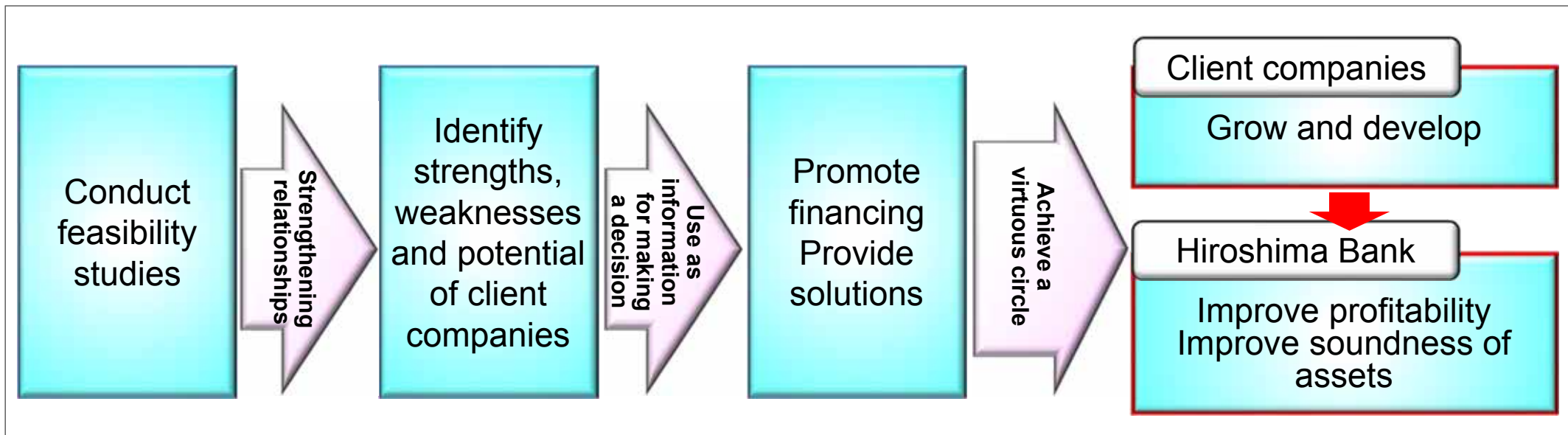
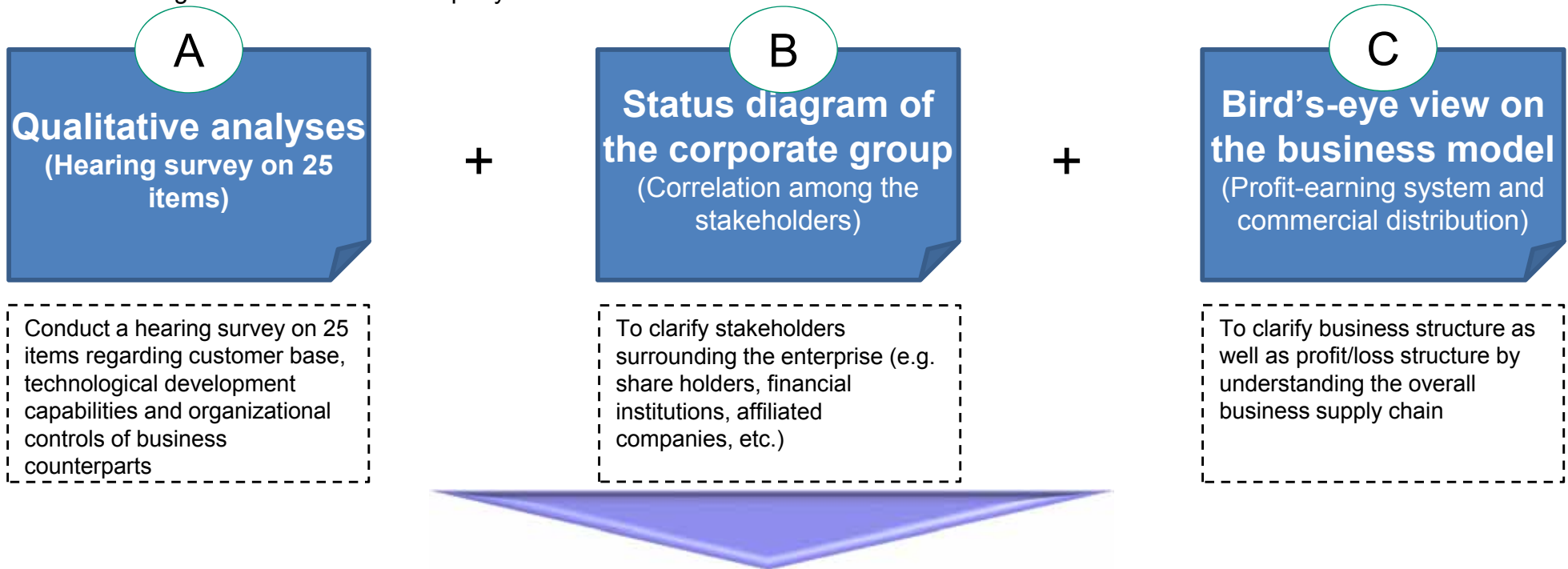
2 . Details of the feasibility studies

- (1) Choosing target clients
 - 1) Major and core client companies of each branch.
 - 2) Client companies which can be used a target for guidance and advice on improvements in the future, such as those which plan to formulate a management improvement plan.
 - 3) Client companies in the process of business succession, etc., where strengthening relationships with a new president can be expected.

300 clients for an interim period
×6 periods = over 1,800 clients
expected
<Actual for interim FY2015>
319 clients (19 clients more than
the target)

(2) Specifics of the feasibility studies conducted

The branch offices created the three items shown in the figure below for each company



(Reference) Specific examples of feasibility studies

■ The case in which the feasibility studies actually helped to identify and share views regarding strengths and weaknesses of a client company, **leading to successful management reforms** in collaboration with outside professionals

Client profile

Item	Description
Business	Seismic retrofit contractor
Annual sales	JPY 230mil.
# of employees	10
Net worth	JPY 15mil.

Steps toward management reform

- Study assumptions adjusted as the business worsened in July 2010
- Understand client needs for guidance and advice based on a long-term view
- Qualitative analyses proposed and conducted
- Management agenda identified and shared to overcome
- Back on the right track (with no adjusted assumptions applied any more)

Qualitative analyses

- Identify client company's strengths and weaknesses again
- Assessment by registered management consultant with support from SME Guarantee Association

[Qualitative analysis]



Gained trust from client company

Understood the status quo more deeply

Shared strengths and weaknesses

[Strength]

- **Successful reform in business structure** (entry into the seismic retrofit business)
- Renowned for its **high technologies and customer satisfaction**
- Looking to expand business into a new area (surveying consulting)

[Weakness (challenges)]

- Lack of decent controls on costs and profitability (management style based on cash-based accounting practice)
- Lack of controls on customers in terms of sales (ad hoc and unsystematic management style solely based on experience)

Implemented initiatives to tackle the weaknesses (challenges)

New approaches to systematic controls and sales activities, along with the progress of such initiatives

Segment management of customers

- Implemented segment management of customers in terms of sales value and order size, along with the introduction of a new sales approach accordingly. As a result, sales achieved over 20% growth year on year.

Cost controls

- Established a system that enables the monitoring of progress of work from the view point of cost controls and manage gross margins. As a result, operating profit ratio improved by over 5%.

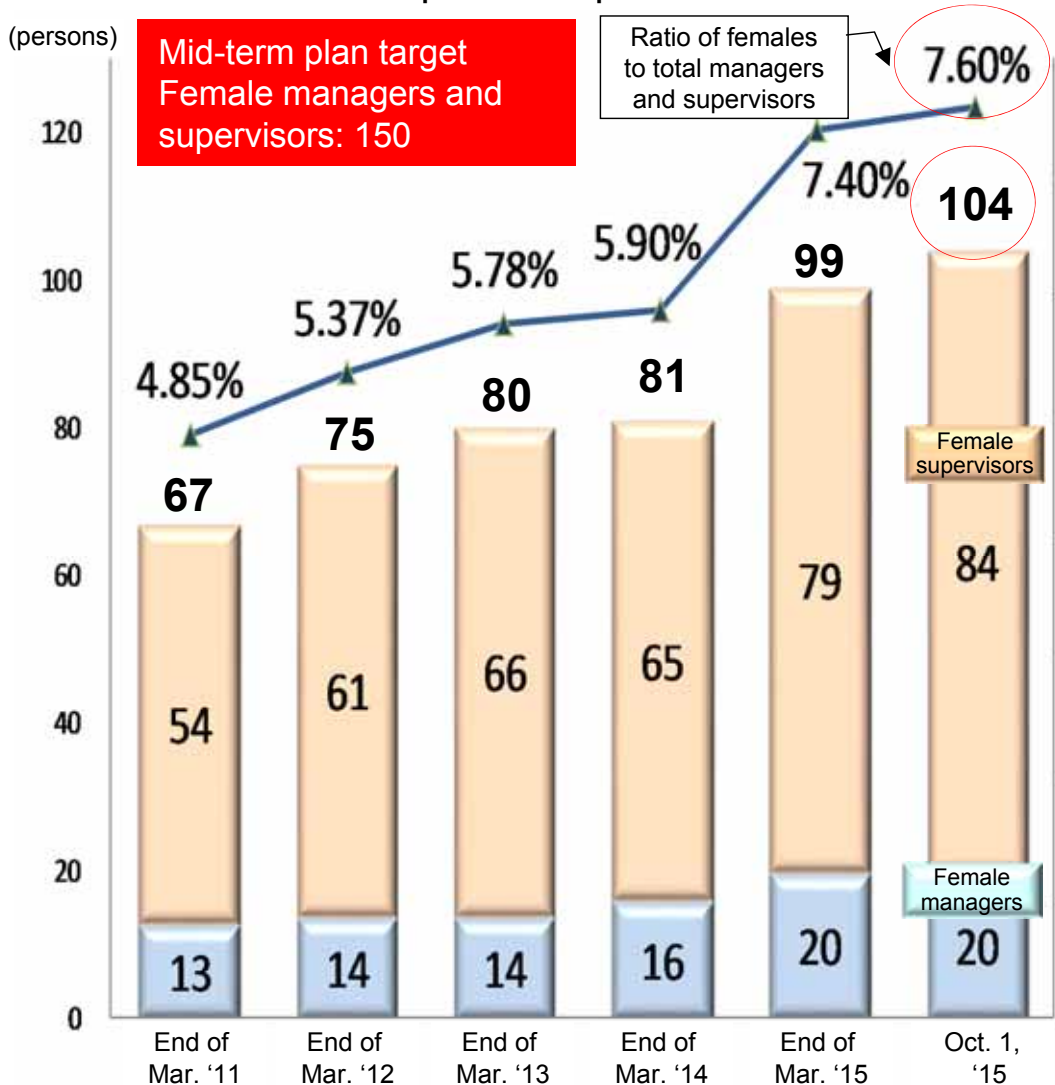
▪ Seeking to achieve further growth by leveraging the management strengths
 ▪ Achieved successful management reforms by overcoming the weaknesses (challenges)

(9) Organizational diversity

– Supporting women’s role in the workplace and promotion of mid-career employment –

In response to the need to achieve organizational diversity, **women will be given more opportunities to get promoted to managers or supervisors** and **mid-career employment will be introduced more widely**, with the aim of developing a corporate culture in which people with diverse backgrounds can work comfortably.

Trend of female managers and supervisors positions



Develop a rewarding workplace (Child care facilities in accredited business offices)

Type	Child care facility in a accredited business office (accredited nursery center under the governmental support program)
Place	Hiroshima Prefectural Hall, East Bldg. 1F
Eligibility	Workers of the Hiroshima Prefectural Government Office, Employees of Hiroshima Bank, and the local community residents
Capacity	18 people
Child age	Younger than three years old
Operated by	Outside operator
Application begins	December 2015
Opening	March 2016

Promotion of mid-career employment

Fiscal year	Hiring
FY2012	1 person
FY2013	1 person
FY2014	17 persons
FY2015 (as of Oct 1)	14 persons

Promote mid-career employment, hiring people with professional expertise, including lawyers and IT experts

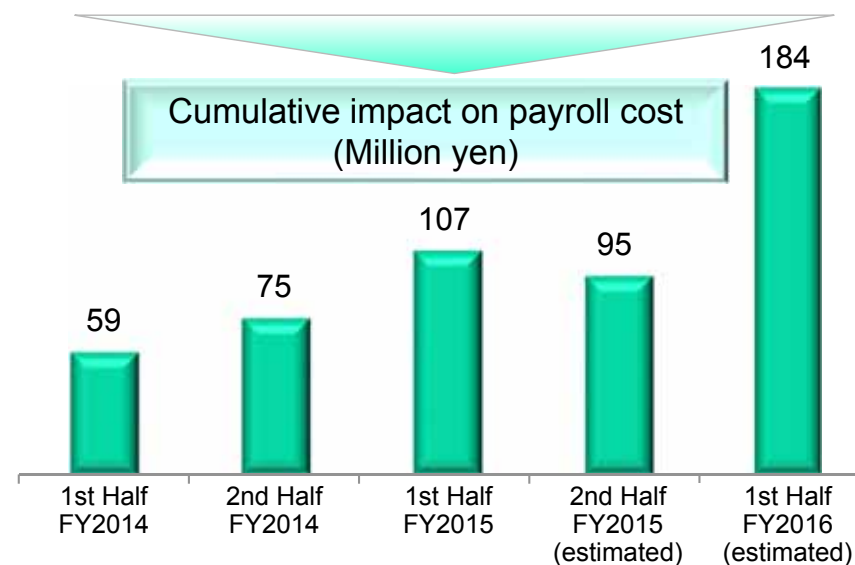
(10) Operational streamlining strategy

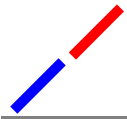
– Relocation of the Hiroshima Administration Center –

- Hiroshima Administration Center will be relocated to <HIROGIN>Chuo Building in May 2016
- Promote to achieve further operational efficiencies through the administrative restructuring and consolidation

Plans to take		Actual			Plan		Total
		End of Sep '14	End of Mar '15	End of Sep '15	End of Mar '16	End of Sep '16	
Pre-relocation	To consolidate administrative groups of the same nature	-8 persons	-4 persons				-12 persons
	To transfer administrative work to Hiroshima Administration Center	-4 persons				-6 persons	-10 persons
Post-relocation	Fukuyama Administration Center is to be absorbed into Hiroshima Administration Center		+1 person	-11 persons	+6 persons	-21 persons	-25 persons
	Two administration centers for personal loans and pension are to be integrated					-8 persons	-8 persons
Impact on headcount		-12 persons	-3 persons	-11 persons	+6 persons	-35 persons	-55 persons

(Concept image of the new administration center)





4. Business Forecast in FY2015

(1) Forecast of business performance and dividend in FY2015

- Net income is expected to **increase for seven consecutive periods, updating the record high in three consecutive periods** both on a parent and consolidated basis.
- The dividend in the current fiscal year is expected to be **11 yen per year** in accordance with the Payout Table

Business forecast in FY2015

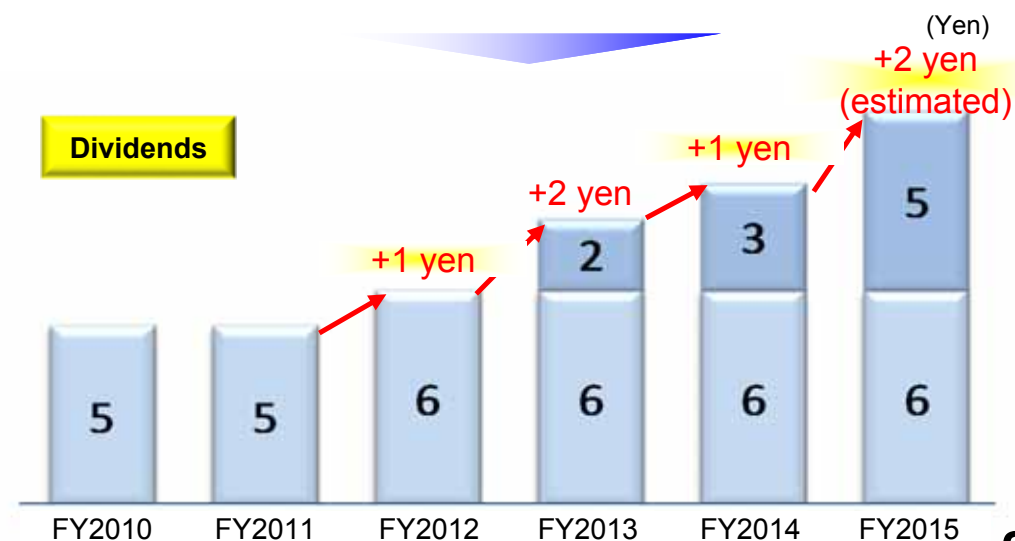
(Billion yen)

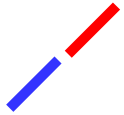
	1st Half Results	2nd Half Estimates	Forecast in FY2015	Comparison with estimates in May	
				YoY change	Comparison with estimates in May
Net interest income	37.4	35.7	73.1	-2.4	2.0
Net fees and commissions income	10.0	9.8	19.8	-0.1	0.7
Core gross banking profit	47.4	45.5	92.9	-2.5	2.7
- Expenses	26.5	26.7	53.2	-1.0	-0.4
Core banking profit	20.9	18.8	39.7	-1.5	3.1
Gains/Losses on bonds	3.4	0.6	4.0	6.0	3.5
Net banking profit	24.3	19.4	43.7	4.5	6.6
Gains/Losses on stocks	0.6	0.4	1.0	-1.6	0.5
- Credit costs	-1.5	1.5	0.0	-2.6	-2.0
Ordinary profit	26.5	19.5	46.0	6.3	8.7
Net income	17.9	13.2	31.1	7.2	6.2

Consolidated ordinary profit	27.5	20.3	47.8	7.5	9.2
Profit attributable to owners of parent	18.5	13.7	32.2	5.6	6.5

Payout Table and estimated dividend in FY2015

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





Reference for this material

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.

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