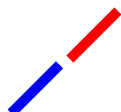


# Overview of Financial Results in Interim FY2016



- IR Presentation -

The Hiroshima Bank, Ltd.



November 30, 2016

President Koji Ikeda



## 1. Highlights of Interim FY2016 2

## 2. Overview of Financial Results in Interim FY2016

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1

Interim net income increased for the eighth consecutive year on a parent basis and for the fourth consecutive year on a consolidated basis, hitting an all-time high.

2

Average balance of both loans and deposits, etc. (deposits + NCD) surged from the same period a year earlier.

3

Average balance of both loans to SMEs and personal loans, areas of focus, increased steadily.

4

Aided mainly by support for management improvement, the non-performing loan ratio dropped 0.51 points from the same period of the previous year to 1.28%.

5

ROE surpassed the 9% level despite an increase in net assets.

6

Due to a larger-than-expected increase in profits, the annual dividend forecast has been raised by ¥1.0 per share to ¥11.0 per share.



## 2. Overview of Financial Results in Interim FY2016

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# (1) Summary of business performance in interim FY2016

- Ordinary profit for interim FY2016 advanced ¥1.7 billion (6.5%) from the corresponding period of the prior year to ¥28.2 billion, owing chiefly to an increase in gains on securities.
- Interim net income jumped ¥2.4 billion (14.0%) year-on-year to ¥20.3 billion, an increase for the eighth consecutive year. Interim net income attributable to owners of the Parent also gained ¥2.2 billion (12.3%) from the same period of the previous year to ¥20.7 billion, marking an increase for the fourth straight year.

(¥ billion)

	Results for interim FY2016		
	Results for interim FY2016	YoY change ( Change rate )	Difference from estimates announced in May
Net interest income	35.7	-1.7	1.2
Net fees and commissions income	9.1	-0.9	-0.7
<b>Core gross banking profit</b>	<b>44.8</b>	<b>-2.6 ( -5.4% )</b>	<b>0.5</b>
- Expenses	27.3	0.8	-0.9
<b>Core banking profit</b>	<b>17.4</b>	<b>-3.5 ( -16.5% )</b>	<b>1.3</b>
Gains/losses on securities	13.8	9.8	3.2
- Credit costs	1.9	3.4	1.4
<b>Ordinary profit</b>	<b>28.2</b>	<b>1.7 ( 6.5% )</b>	<b>2.8</b>
<b>Interim net income</b>	<b>20.3</b>	<b>2.4 ( 14.0% )</b>	<b>2.6</b>
<b>Consolidated ordinary profit</b>	<b>28.9</b>	<b>1.4 ( 5.3% )</b>	<b>2.9</b>
<b>Interim profit attributable to owners of the parent</b>	<b>20.7</b>	<b>2.2 ( 12.3% )</b>	<b>2.6</b>

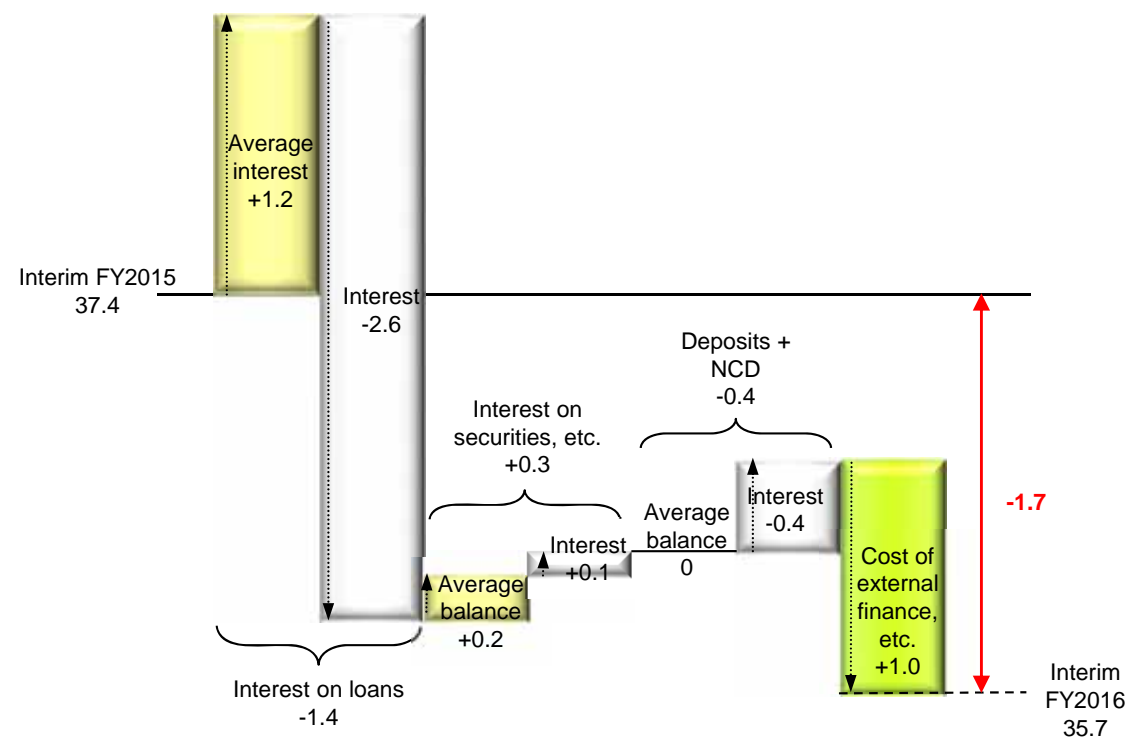
## (2) Net interest income

Net interest income **declined ¥1.7 billion from the same period last year**, dented by decreased interest on loans resulting from the introduction of the negative interest rate policy and increased cost of external finance.

Breakdown of net interest income

	Results for interim FY2016	(¥ billion)
		YoY change
<b>Net interest income</b>	<b>35.7</b>	<b>-1.7</b>
Interest on loans	30.5	-1.4
Interest on securities, etc.	8.7	0.3
Deposits + NCD interest (-)	1.6	-0.4
Cost of external finance, etc. (-)	1.9	1.0

Details of each item in net interest income (Average balance and interest)



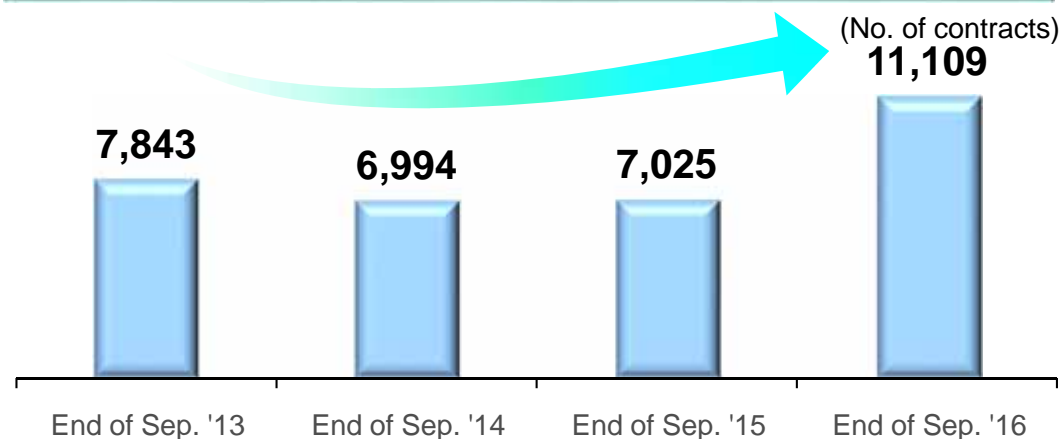
### (3) Net fees and commissions income

- Net fees and commissions income slid ¥900 million from the same period of the preceding year, due mainly to a decrease in commissions related to sales of investment trusts affected by sluggish financial product markets.
- Thanks to steady operating activities, the number of periodic investment trust and level-premium insurance contracts increased steadily and our business foundation expanded.

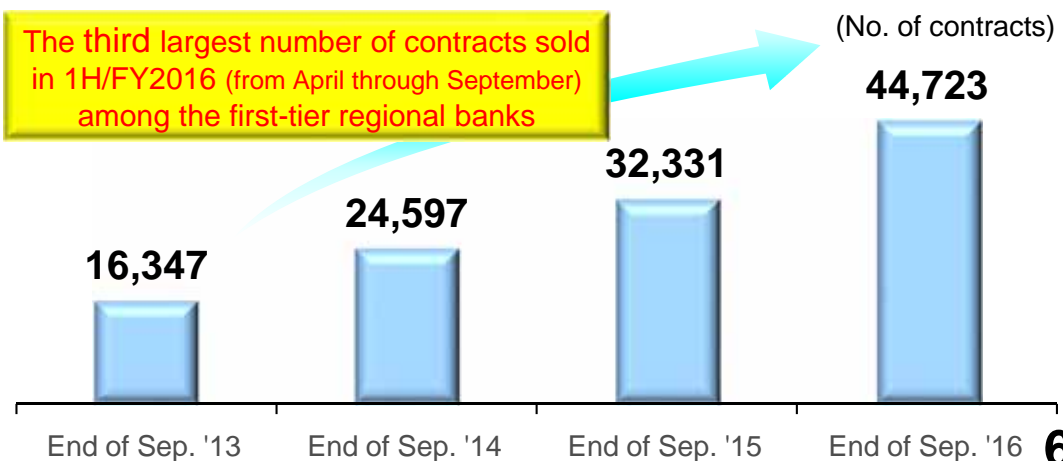
Breakdown of net fees and commissions income

	Results for (¥ billion)	
	interim FY2016	YoY change
Net fees and commissions income	9.1	-0.9
Investment banking	1.5	0.1
Retain asset management	3.4	-0.5
Personal loan	-1.6	-0.3
Foreign exchange	0.7	0.0
Others	5.1	-0.2

Trend in the number of periodic investment trust contracts



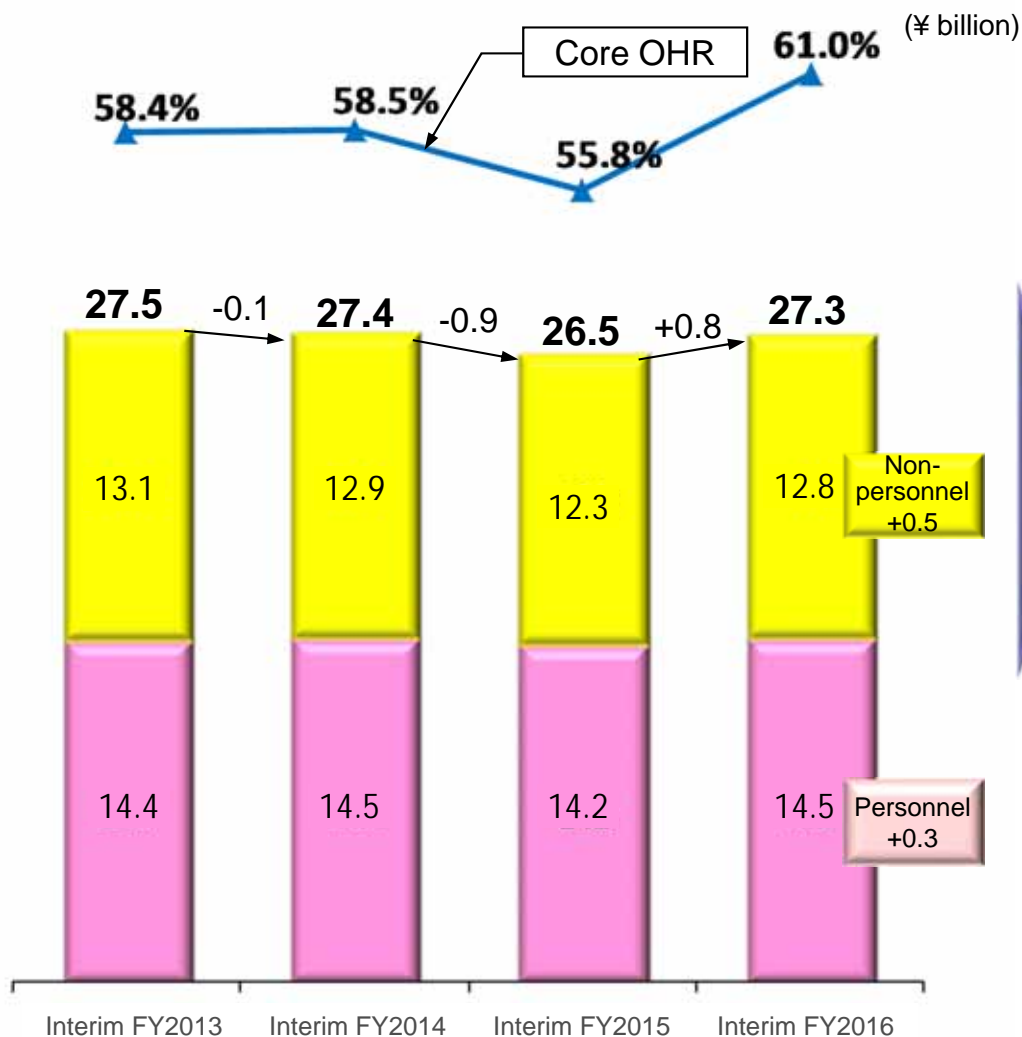
Trend in the number of valid level-premium insurance contracts



# (4) Expenses

Expenses **inched up ¥800 million year-on-year**, attributable mainly to larger depreciation expense associated with a large-scale investment to improve customer services which had continued from the previous fiscal year as well as an increase in retirement benefit costs, while core OHR slightly surpassed the 60% level.

Trend of expenses and core OHR



\*Core OHR = Expenses/ Core gross banking profit.

Breakdown of expenses

Non-personnel expenses		(¥ billion)
Major factors	Change	
Increase in depreciation expense: +0.3 (Upgrade of ATMs and personal internet banking aimed at expansion of sales opportunities and increase in earnings, and transfer of the Headquarters' administrative division aimed at streamlining through a centralized administrative operation)	+0.5	
Pro-forma standard taxation, etc.: +0.2 etc.		
Personnel expenses		(¥ billion)
Major factors	Change	
Increase in retirement benefit costs: +0.2	+0.3	
Bonuses, etc.: +0.1 etc.		

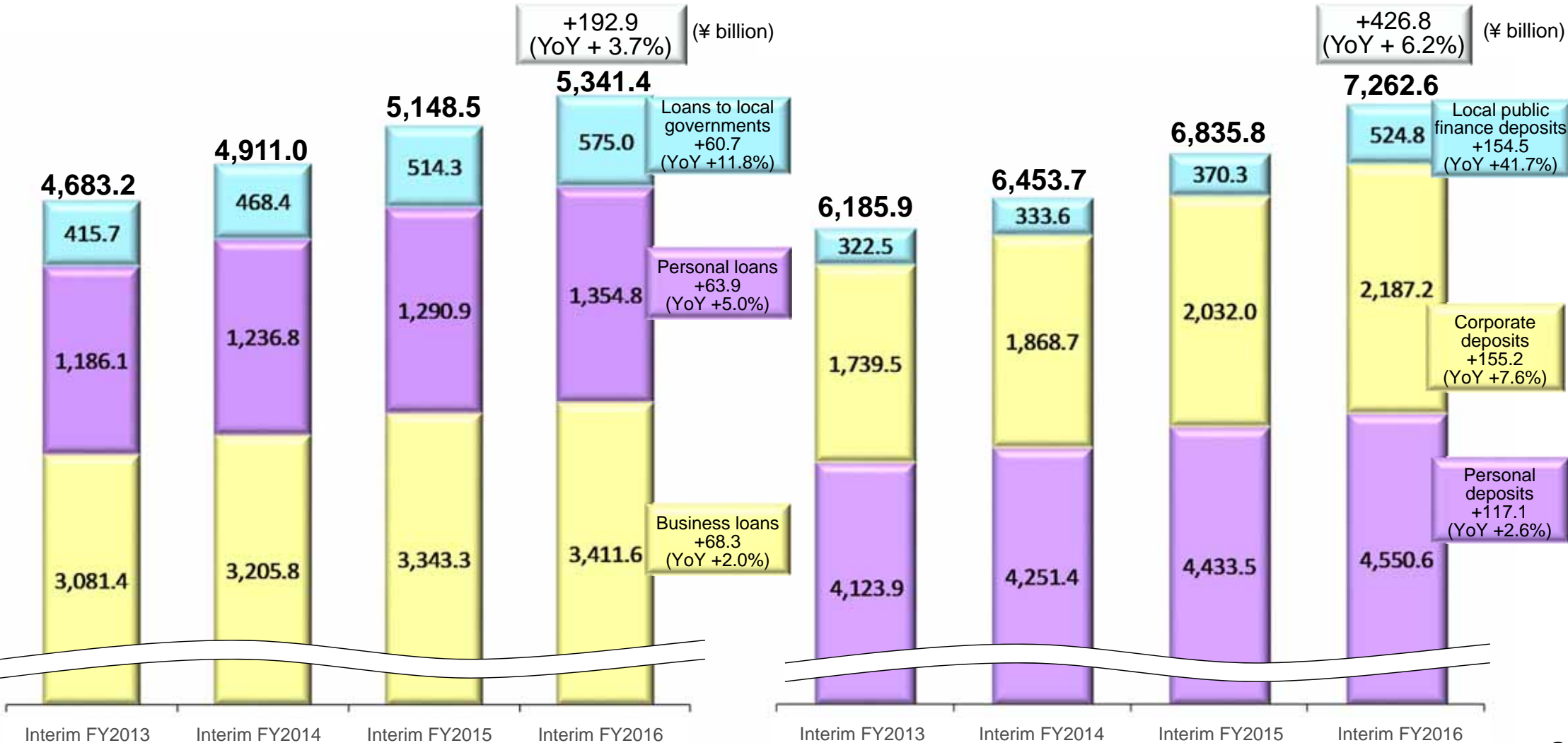


# (5) Balance of loans, deposits, etc. (deposits + NCD)

- Average balance of loans increased in business, personal, and local public sectors, **up ¥192.9 billion (3.7%) compared with the year-earlier period.**
- Average balance of deposits, etc. significantly increased in both personal and corporate sectors, **up ¥426.8 billion (6.2%) compared with the year-earlier period.**

Trend of average balance of loans

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

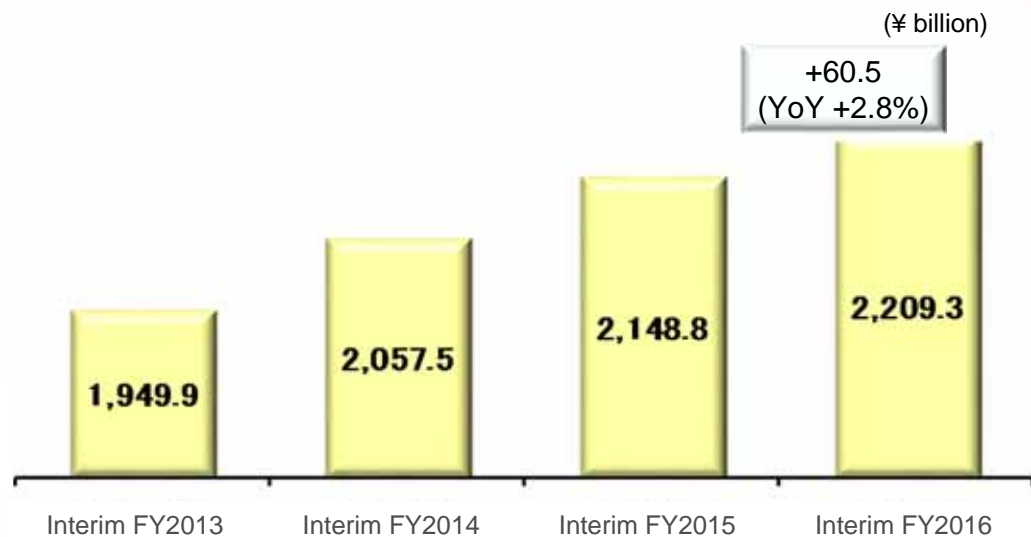


\*Loans to local governments include loans to public corporations.

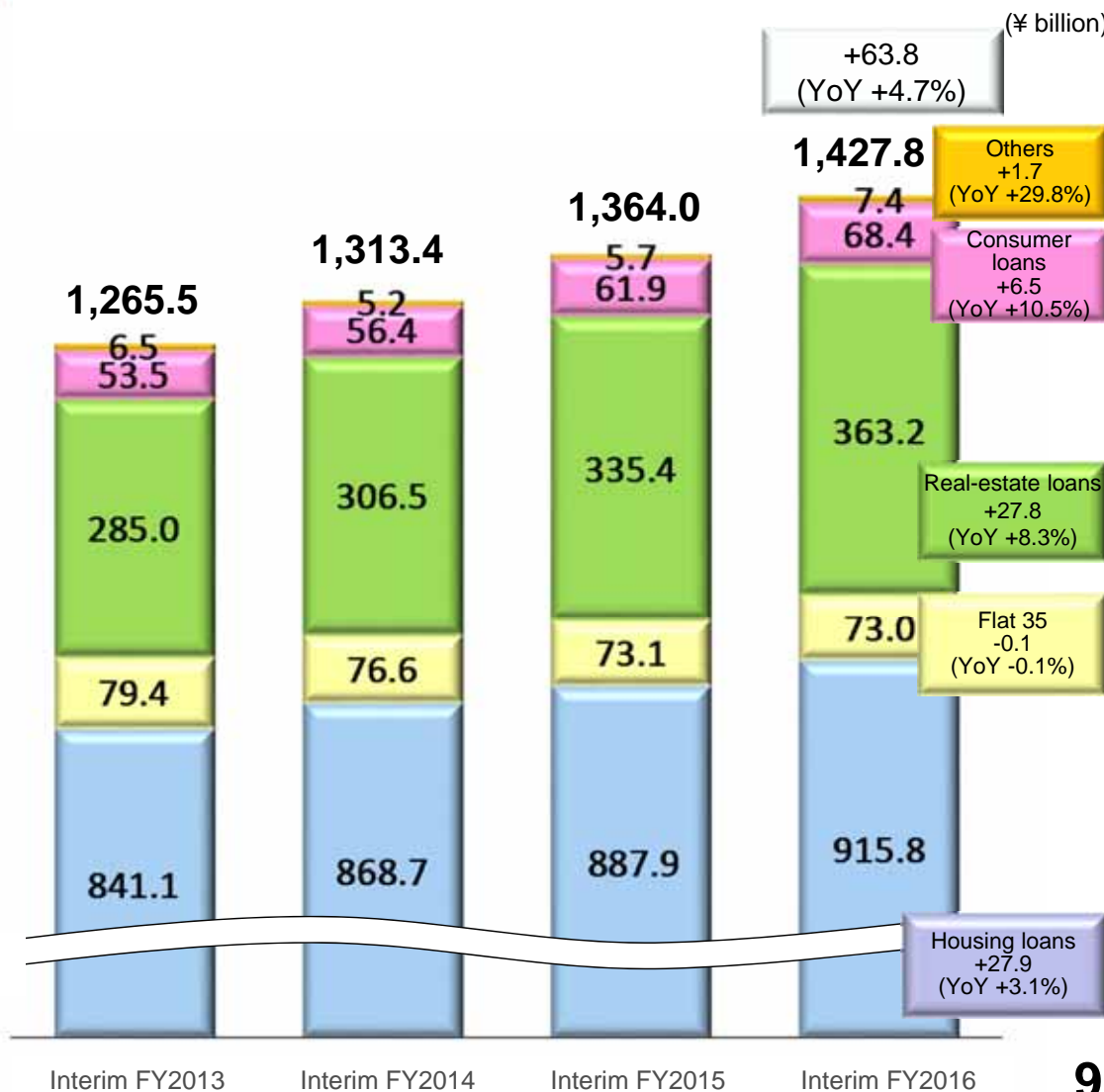
# (6) Loans to SMEs and personal loans

- Average balance of loans to SMEs and the number of business loan borrowers **increased steadily**, as a result of our efforts to promote loans, provide startup support, etc. based on feasibility studies.
- Balance of personal loans surged **¥63.8 billion (4.7% YoY)** from the same period of the prior year thanks to bank-wide promotional efforts.

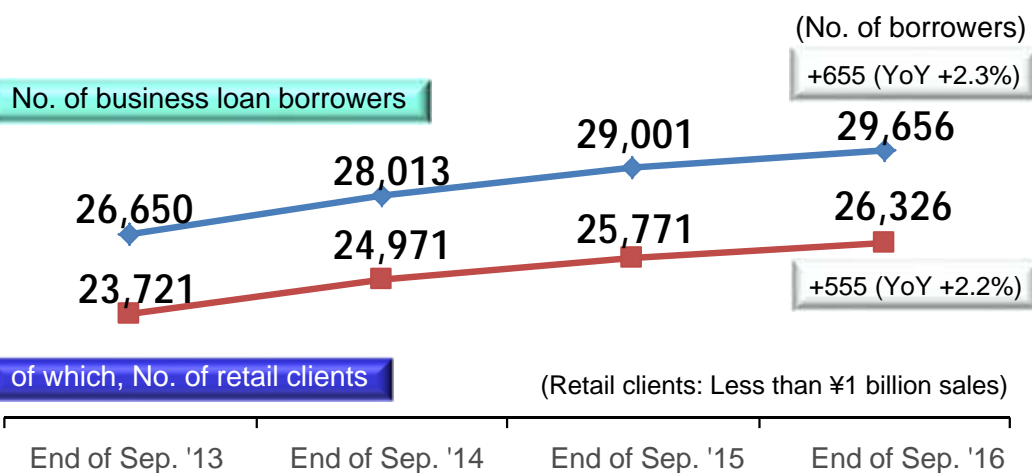
Trend of average balance of loans to SMEs



Trend of average balance of personal loans (including Flat 35)



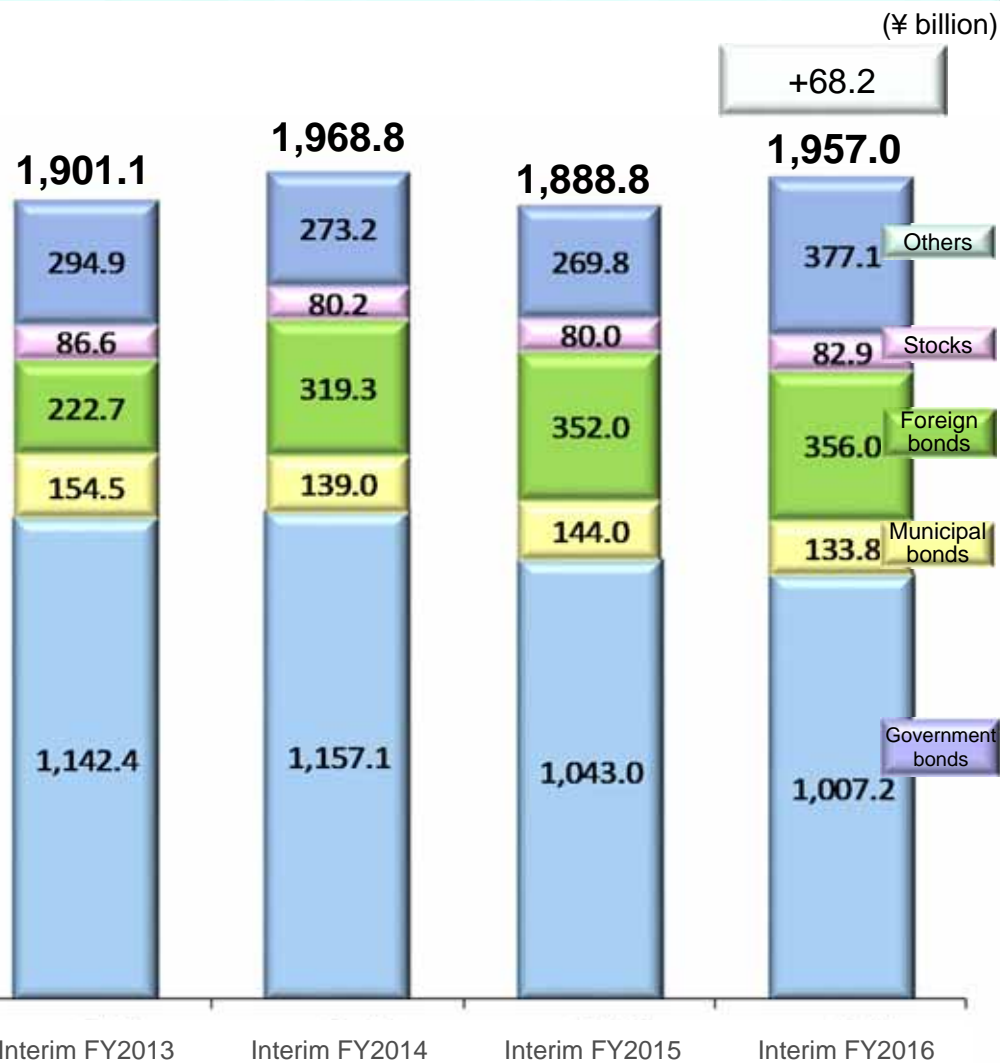
Trend in the number of business loan borrowers



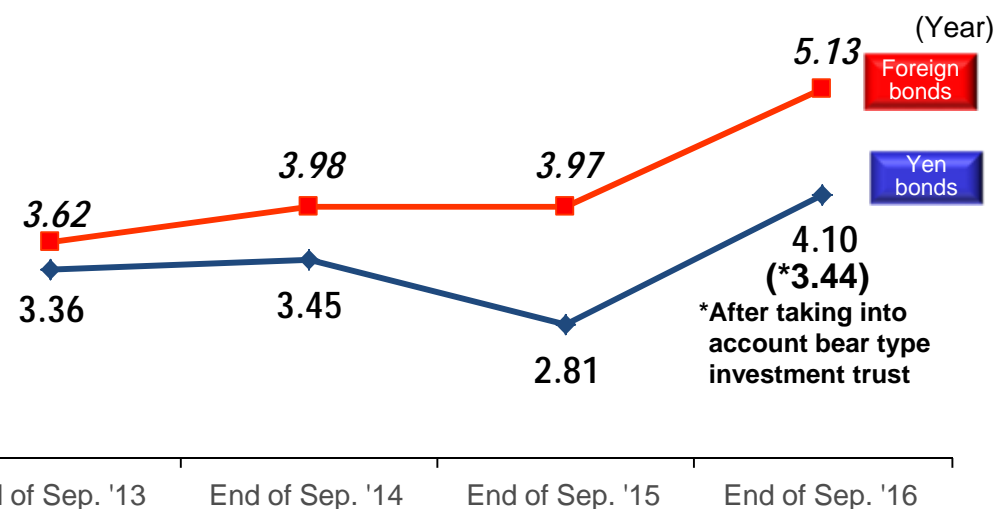
# (7) Securities

- Average balance of securities **gained ¥68.2 billion year-on-year**, as a decrease in government bonds, etc. was reinvested in investment trusts and others.
- Bond duration was extended by around one year.
- Balance of cross-shareholdings **reduced ¥4.0 billion from the same period of the preceding year** through dialogue with issuing entities.

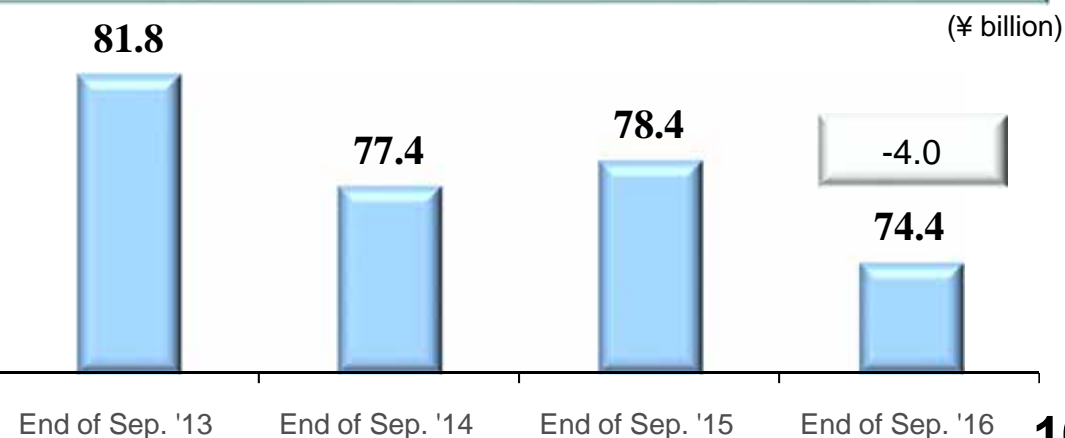
Trend of average balance of securities



Trend of bond duration



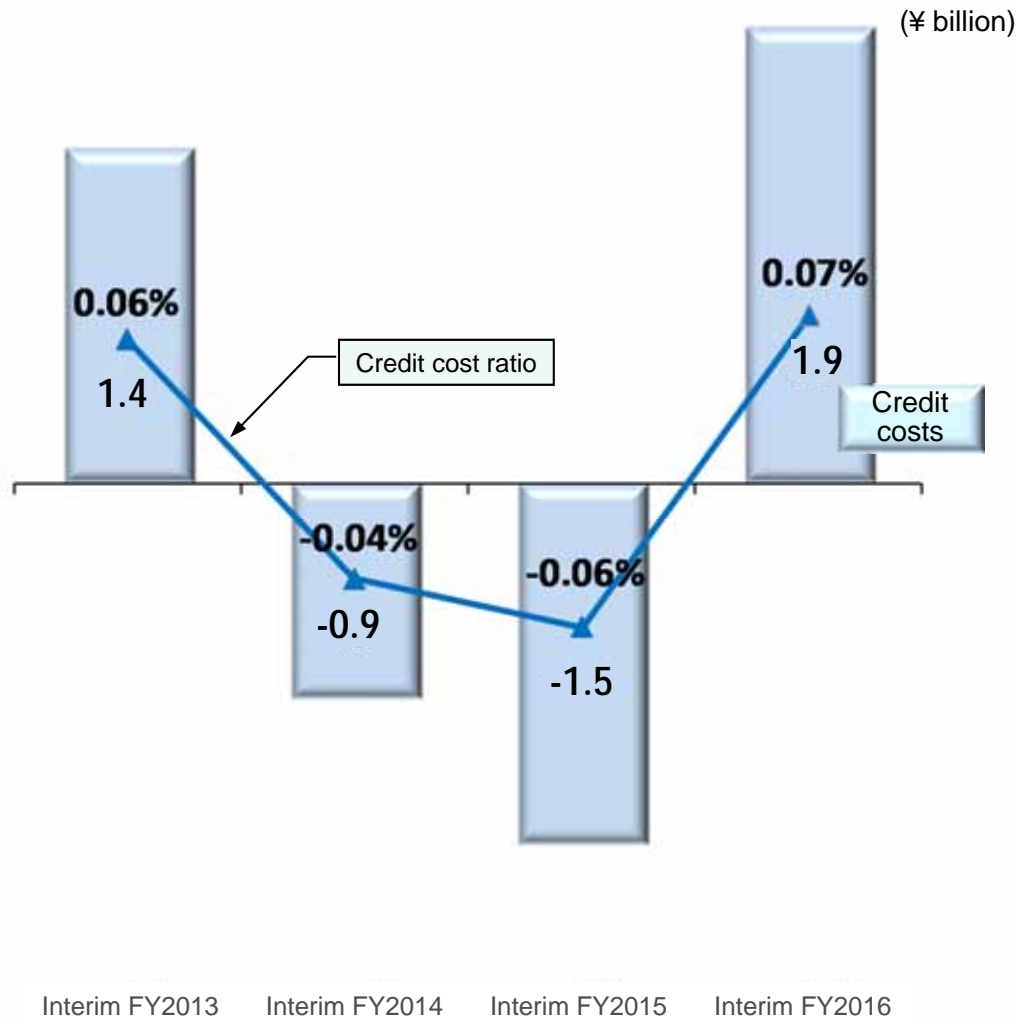
Trend in balance of cross-shareholdings (including private REITs)



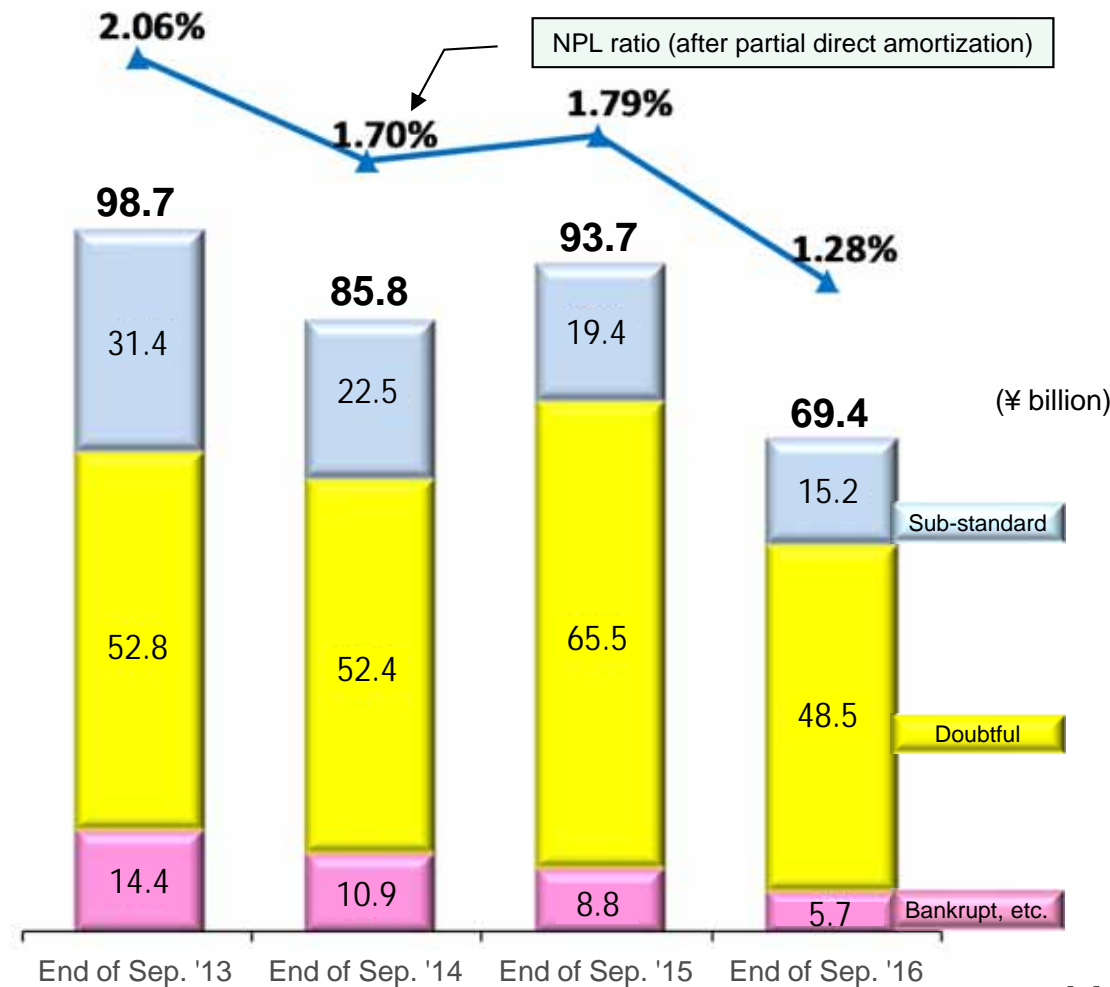
# (8) Credit costs and non-performing loans

- As we conducted self-assessment in a conservative manner, credit costs **jumped ¥3.4 billion from the same period a year earlier.**
- While NPLs (term-end balance) **declined ¥24.3 billion year-on-year**, NPL ratio **improved 0.51 points to a record low level of 1.28%.**

Trend of credit costs and credit cost ratio



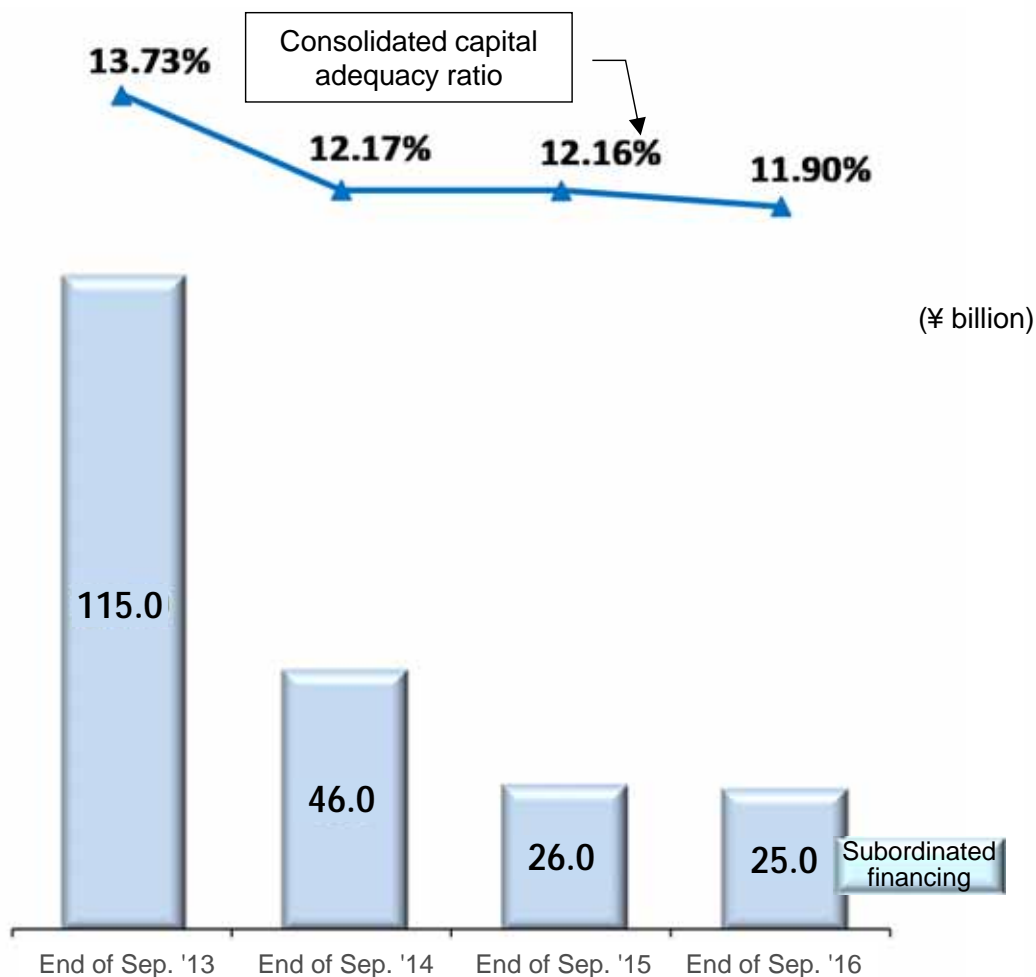
Trend of NPLs (term-end balance) and NPL ratio



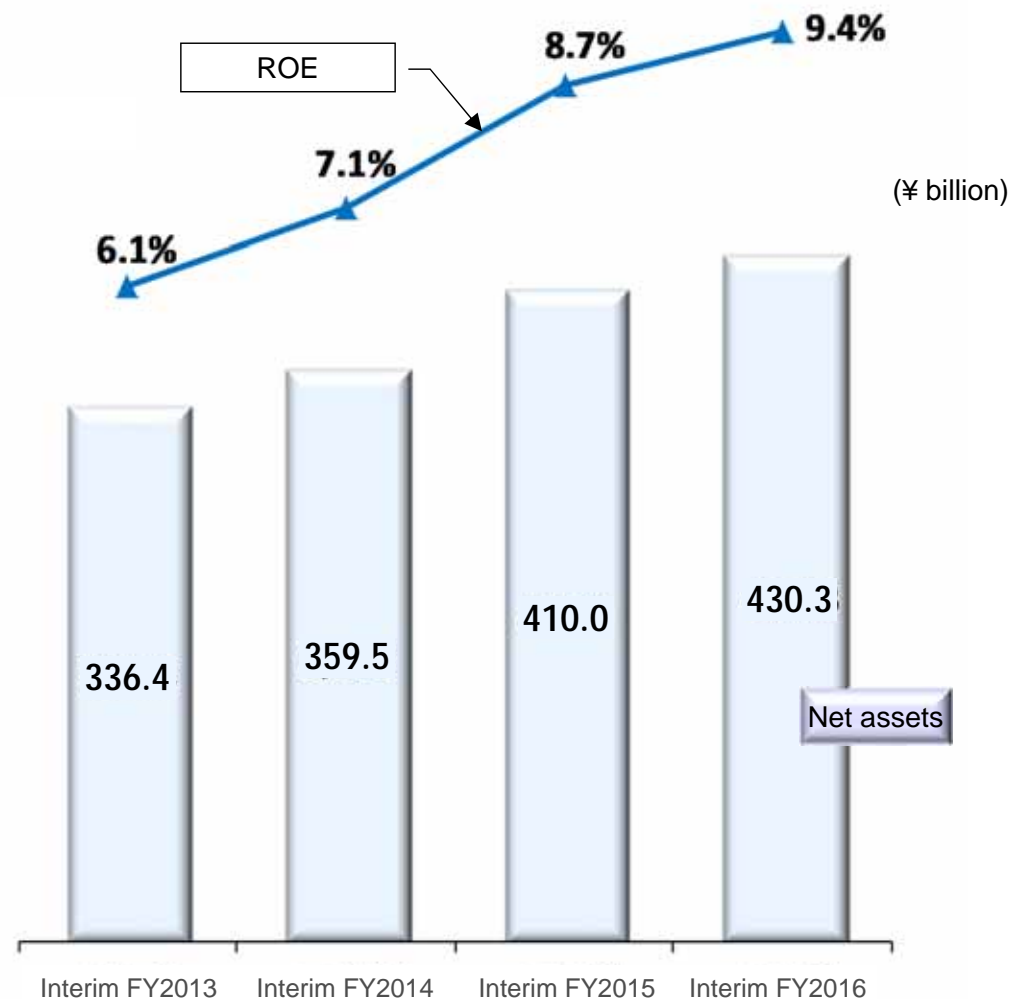
# (9) Capital adequacy ratio and ROE

- Consolidated capital adequacy ratio **stood at a sufficient level of 11.90%** amid an increase in outstanding loans and contraction of subordinated financing.
- ROE **reached a high level of over 9%** despite the consistent expansion in net assets.

Trend of consolidated capital adequacy ratio



Trend of ROE





### **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

<b>(1) Marketing strategy</b>	<ul style="list-style-type: none"> <li>(i) Enhance approaches to the personal market (pp. 15-16)</li> <li>(ii) Enhance consulting sales (pg. 17)</li> <li>(iii) Make active efforts for regional development (pp. 18-19)</li> <li>(iv) Realize channel cooperation (Omni-channel retailing) (pg. 20)</li> </ul>
<b>(2) Human resource strategy</b>	<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</li> </ul>
<b>(3) ALM/Securities strategy</b>	<ul style="list-style-type: none"> <li>(i) Enhance profitability in collaboration with asset management companies</li> <li>(ii) Enhance profitability of the portfolio through proper risk taking</li> <li>(iii) Appropriate and effective practice of ALM</li> </ul>
<b>(4) Operational streamlining strategy</b>	<ul style="list-style-type: none"> <li>(i) Drastic streamlining in preparation for an increase in the amount of activity (pg. 21)</li> <li>(ii) Streamline the administrative sector</li> </ul>
<b>(5) IT strategy</b>	<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>
<b>(6) Group strategy</b>	<ul style="list-style-type: none"> <li>(i) Maximize synergy effects by enhancing Group governance</li> <li>(ii) Expand business fields &lt;efforts to create new business models (new businesses)&gt; (pg. 22)</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 --

- We increase consumer loans outstanding through launch of new products and enhancement of public relations.
- We continue to focus on sales expansion of consumer lending products with relatively high interest rates, thereby endeavoring to improve returns.

### Launch of new products

Loans on the website (from April 2016)

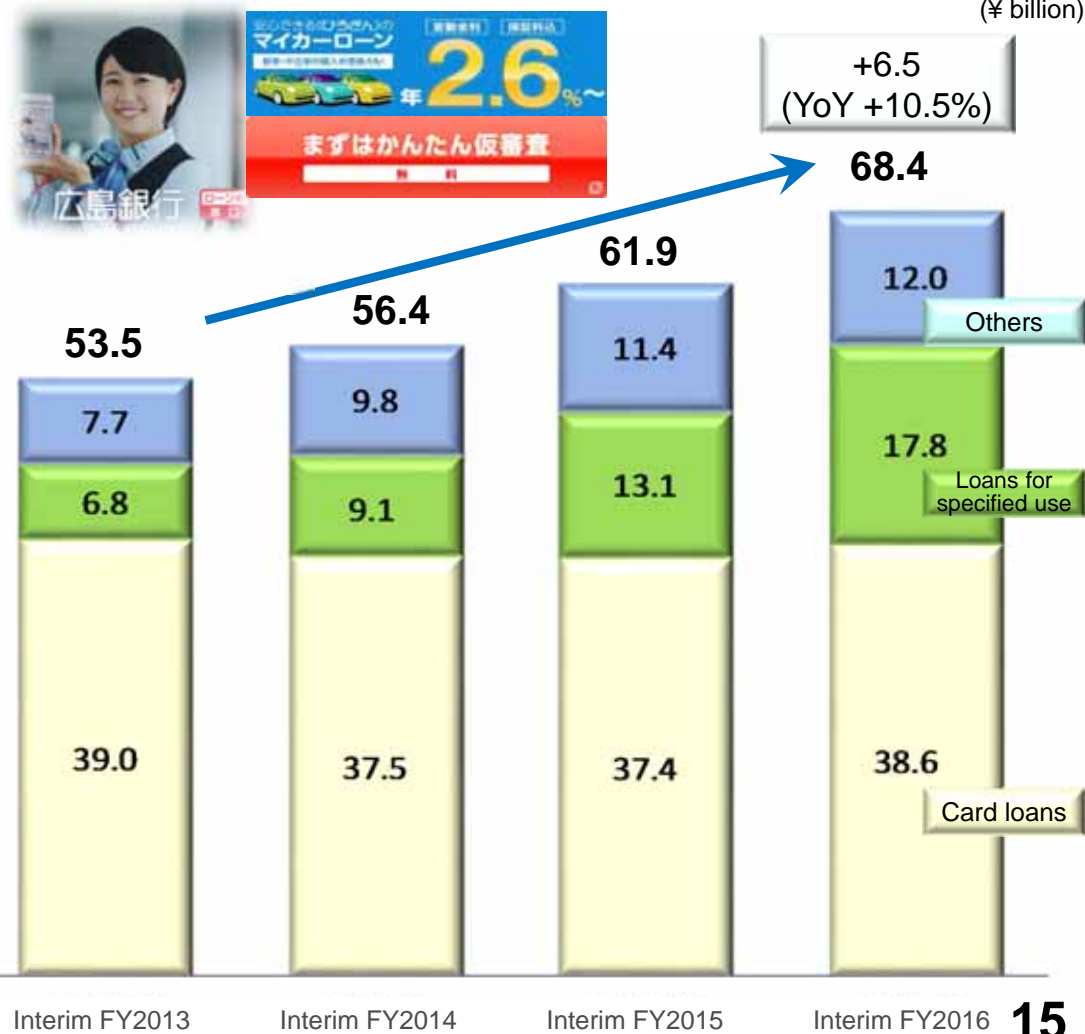


Card loans without a repayment account (from June 2016)



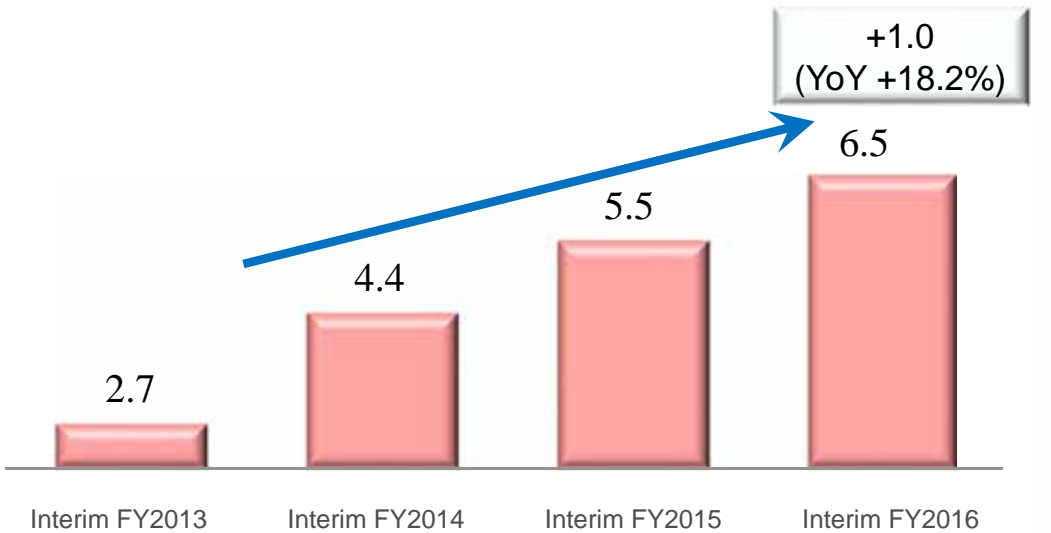
### Trend in average balance of consumer loans

- Enhancement of PR/channels (TV commercial broadcasting, website improvement, etc.) -



### Trend in the amount of consumer loans executed

(¥ billion)





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

-- Expansion of customer base in collaboration with other companies --

- In addition to existing sales channels, new channels are expected to be secured through business alliance with HOKEN NO MADOGUCHI GROUP INC.
- While striving to reinforce consulting sales skills, we expand our customer base, which is indispensable for increasing the balance of personal retail assets.

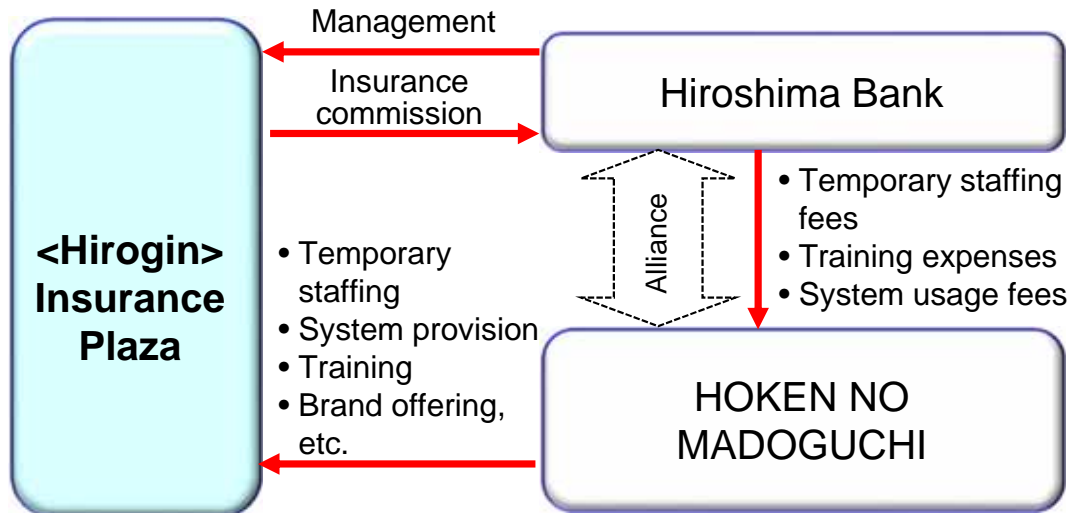
Business alliance with HOKEN NO MADOGUCHI GROUP INC.  
(from July 2016)

Purpose of alliance	Reinforce consulting sales skills through the use of HOKEN NO MADOGUCHI GROUP INC.'s sales knowhow, systems, various marketing data, etc.
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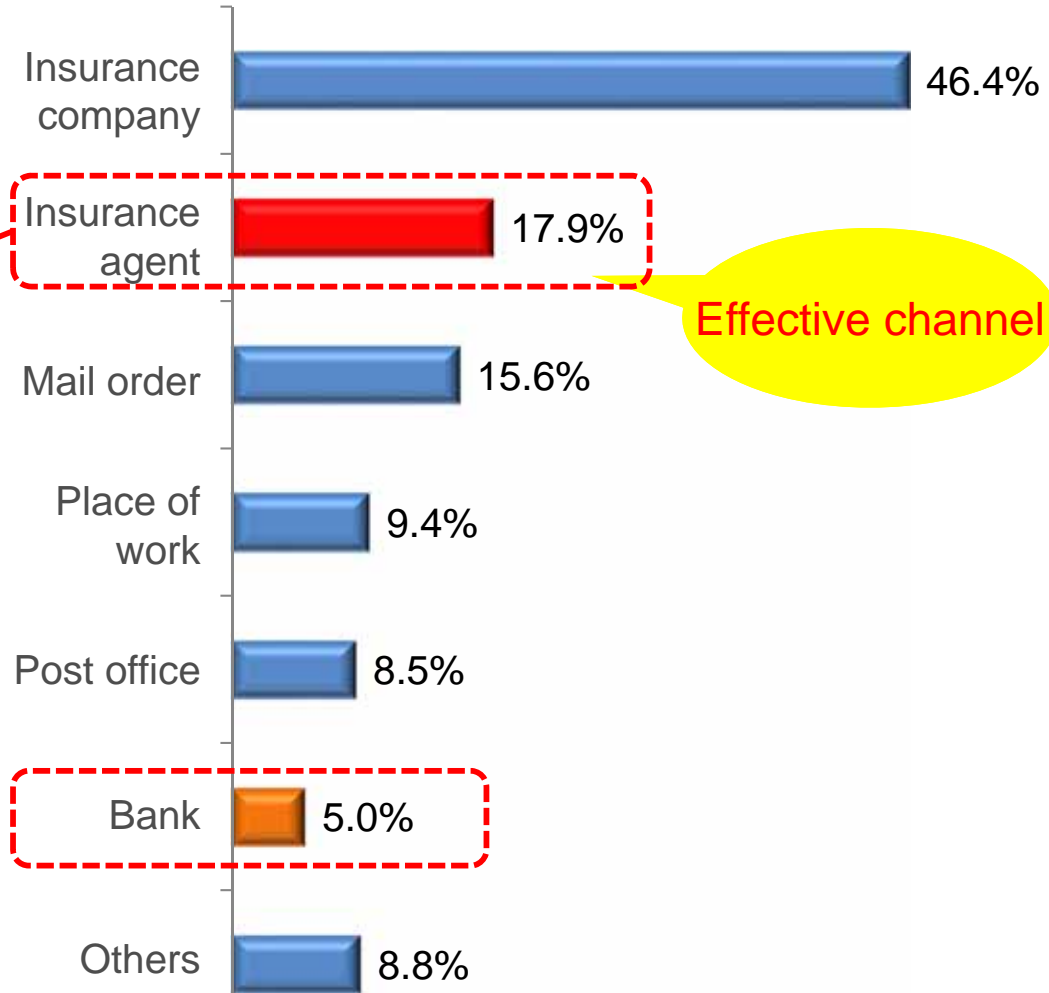
Alliance scheme, etc.

Opening of <Hirogin> Insurance Plaza  
(from December 2016)

Features	Open even on weekday nights as well as on Saturdays, Sundays, and National Holidays
	Consulting by experts well-versed in life planning
	A wide range of insurance products (including those sold only at Insurance Plaza)



Life insurance sales channels (2015)



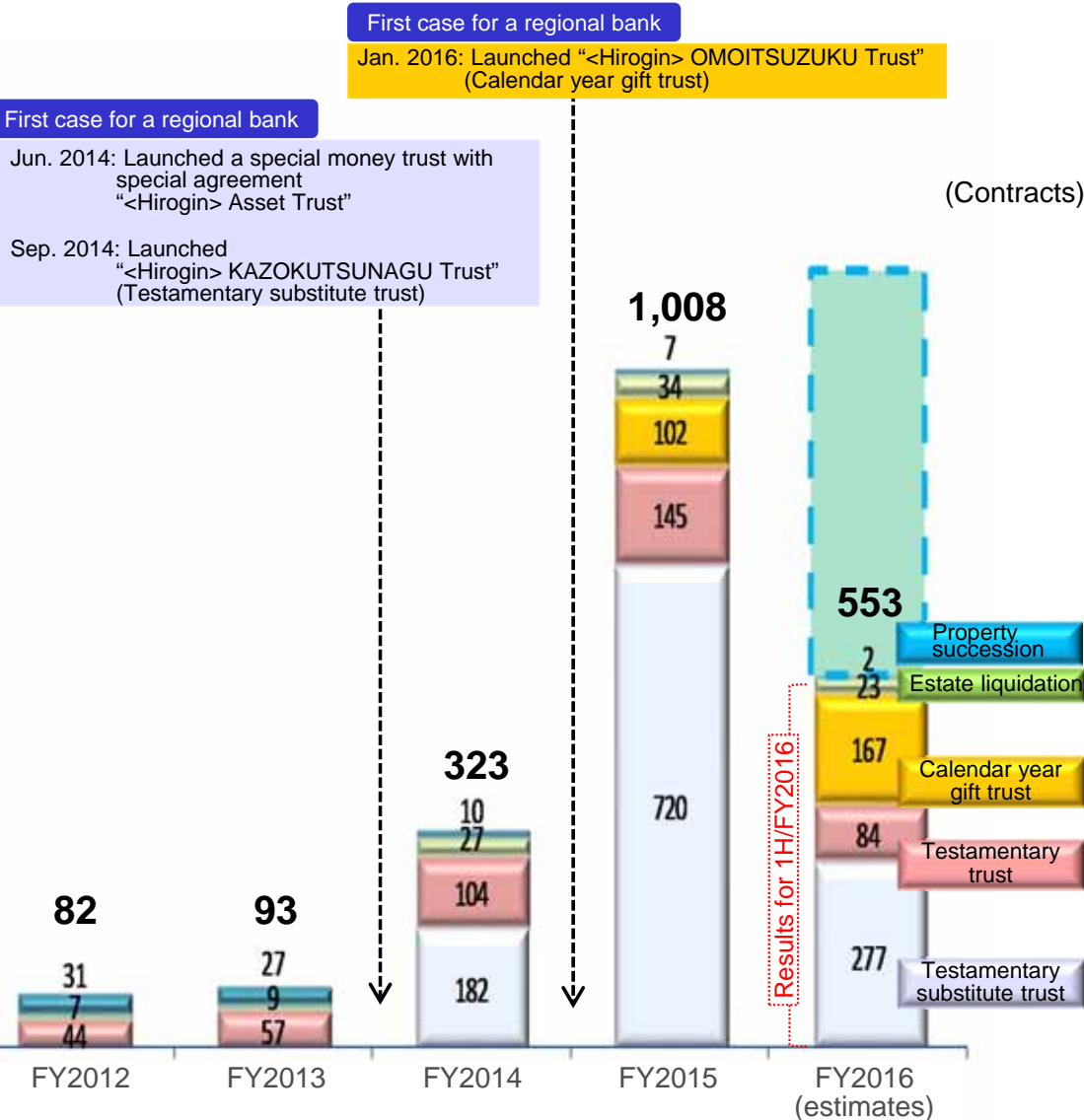
Source: Japanese Bankers Association, "Report of the results of a consumer survey on insurance purchase from banks."

# (4) Enhancement of consulting sales

-- Promotion of business for the elderly clients --

**We provide a wider range of products that are likely to stimulate needs of potential customers, thereby seeking to achieve further growth in business for the elderly.**

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



## Provide products that meet customer's needs

**First case for a regional bank in western Japan**

**Aug. 2016: Launched "Family Trust Management Services"**

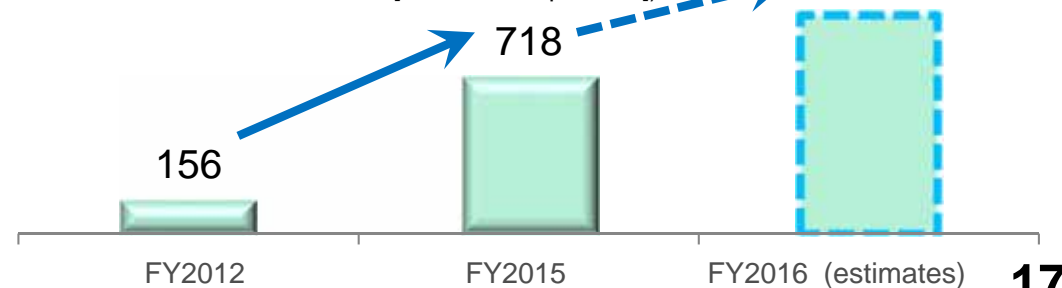
Target	Owner of corporation	Owner of real property
Potential customer needs	Smooth transfer of treasury shares	Property utilization if the owner's judgment is impaired
Service details	Transfer of property right alone, while allowing the owner to retain management right	Smooth transfer of shares to the successor
Property under management	Treasury shares	Real property

\* Family trust is a non-profit trust whose trustee is someone other than trust companies (successor, family, etc.).

**Our roles ⇒ Trust planning and advice**

Capture needs

(Reference: Number of inheritance and business succession consultation cases [Owner of corporation])



# (5) Active efforts for regional development 1

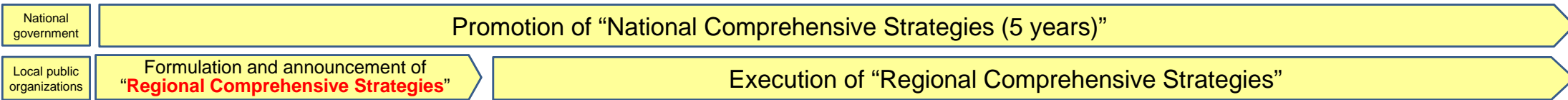
-- Results of our efforts --

- In FY2016, a director responsible for, and persons in charge of, local revitalization are newly appointed in order to accelerate our efforts for regional development.
- Centralizing our bank-wide efforts for regional development, we support the execution of “Regional Comprehensive Strategies” and are actively involved in the “development of work, communities, and people,” etc.

Promotional system reinforcement

April 2015

April 2016



Hiroshima Bank

### Support to the formulation of “Regional Comprehensive Strategies”

- Participate as members in expert panels of 20 local public organizations among 24 in Hiroshima Prefecture and make proposals and recommendations
- Comprehensive cooperation agreement entered into with five cities including Hiroshima City (as of the end of September 2016)

### Promotional system

Director responsible for local revitalization (Overall control)

Public Services Business Division [In charge of local revitalization] (Planning/Progress management)

Divisions concerned

Work

Category	Major activities in 1H/FY2016 <span style="float: right; font-size: 8px;">[ ]: YoY change</span>
Startup support	Startup support loans: 62 cases [+13 cases]
	Hold seven startup support seminars in collaboration with Hiroshima Prefecture
Support for local SMEs	Provide solutions based on feasibility studies Qualitative analysis: 370 cases [+51 cases]
	Local SME support loans: 328 cases [+59 cases]
	Management consulting utilizing “Yorozu Support Center”: 298 cases [+66 cases] Business matching with buyers, mail order companies, etc. in Tokyo: 107 cases [+14 cases]
Support for the automobile industry	Proposals to improve manufacturing sites made, and support for M&A/business succession offered, to a number of Mazda-related suppliers
Support for the tourism industry	The first contract for tourism revitalization fund signed Collaboration with “Setouchi DMO” and support for the establishment of “Miyoshi DMO,” etc.
Enhancement of real estate transactions/redevelopment projects	Participation in Hiroshima City’s “Urban Revitalization Planning Meeting”
Child-care support	Child-care support loans: 75 cases/¥102 million

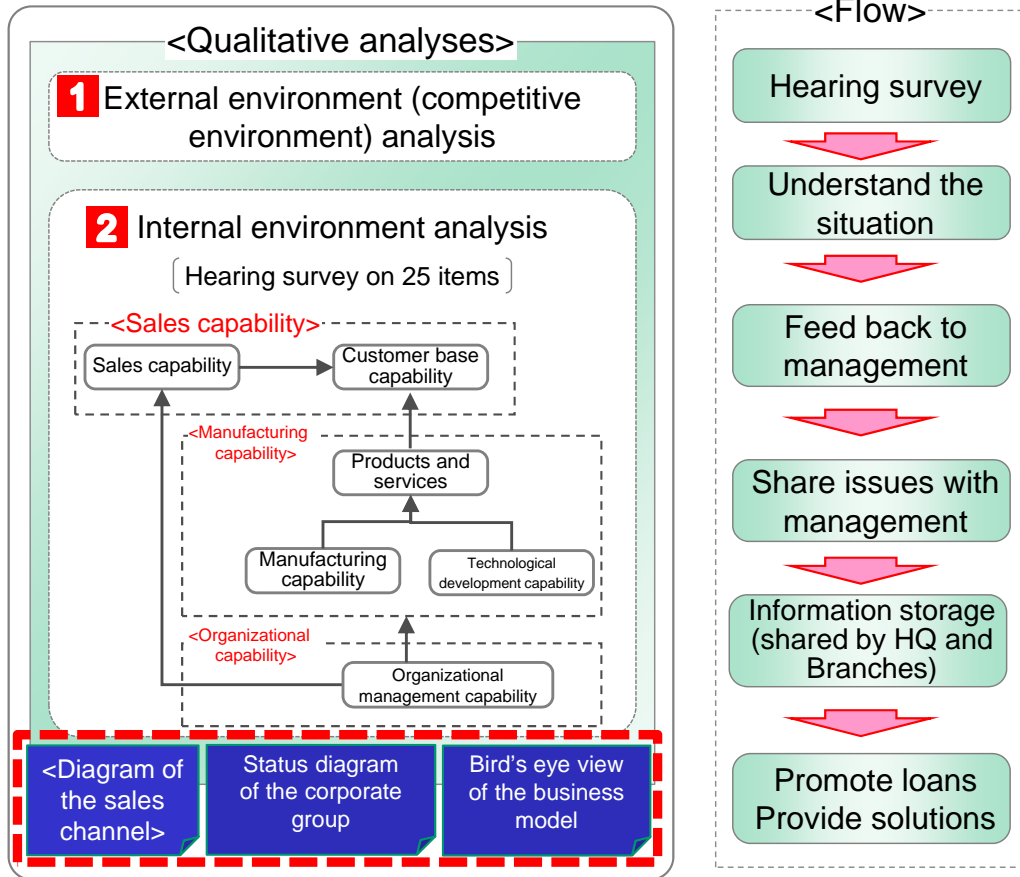
Communities

People

# (6) Active efforts for regional development 2

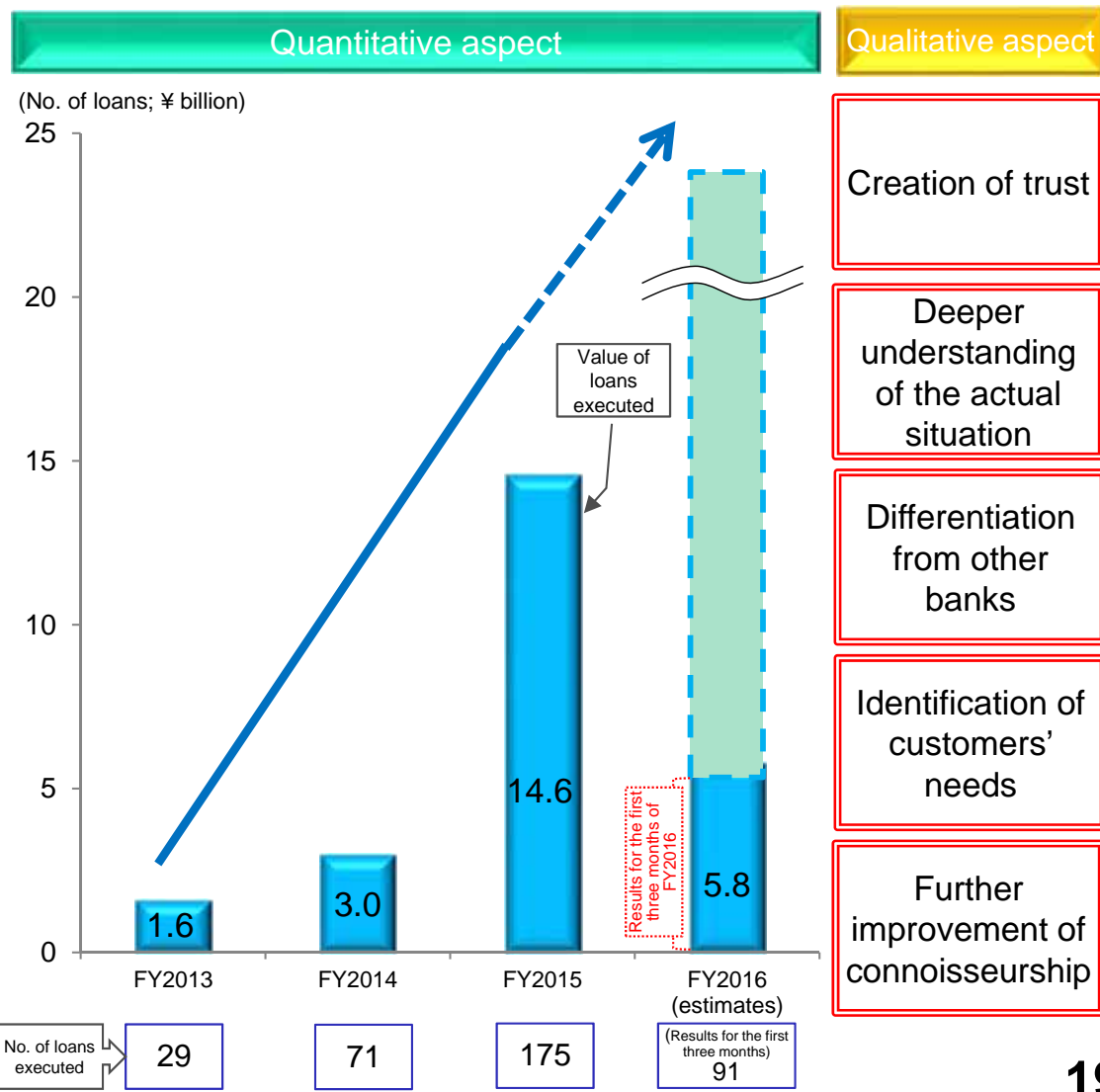
## -- Promotion of feasibility studies --

- We actively provide solutions through business feasibility studies focusing on qualitative analyses.
- Both the number and value of loans executed are expected to increase thanks to the creation of trust with our customers and the improvement of connoisseurship.



1H/FY2016: Conducted business feasibility studies focusing on qualitative analyses for 370 customers  
(Mid-term plan [FY2015 to FY2017] progress rate: 56% of the target of 1,800 customers)

### Results of business feasibility studies focusing on qualitative analyses



# (7) 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, we promote expansion of 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.).

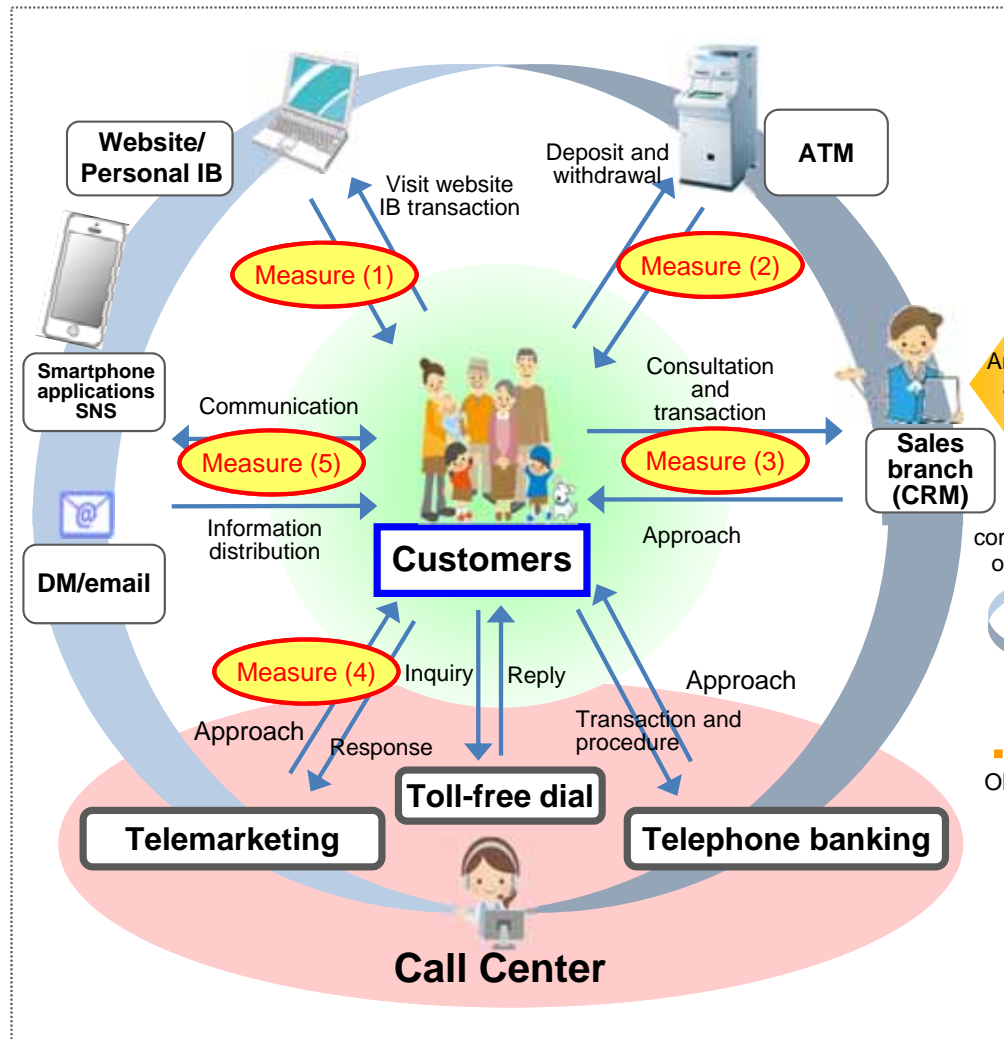
## Implemented measures

- |     |                                                                                                                                          |
|-----|------------------------------------------------------------------------------------------------------------------------------------------|
| (1) | One to one distribution of information on the website and personal IB (From July 2015)                                                   |
| (2) | One to one distribution of information by ATM (From Jan. 2016)                                                                           |
| (3) | Grasp customers' needs by CRM at sales branches for use in sales (From July 2015)                                                        |
| (4) | Telemarketing leveraging customer response via personal IB, ATM, etc. (From Sep. 2015)                                                   |
| (5) | Strengthen points of contact with customers leveraging SNS (Facebook) (From June 2016)                                                   |
| (5) | Launch Hiroshima Bank portal application “Hirogin Appli” (From Nov. 2016)<br>· Interactive Q & A utilizing AI<br>· Account opening, etc. |

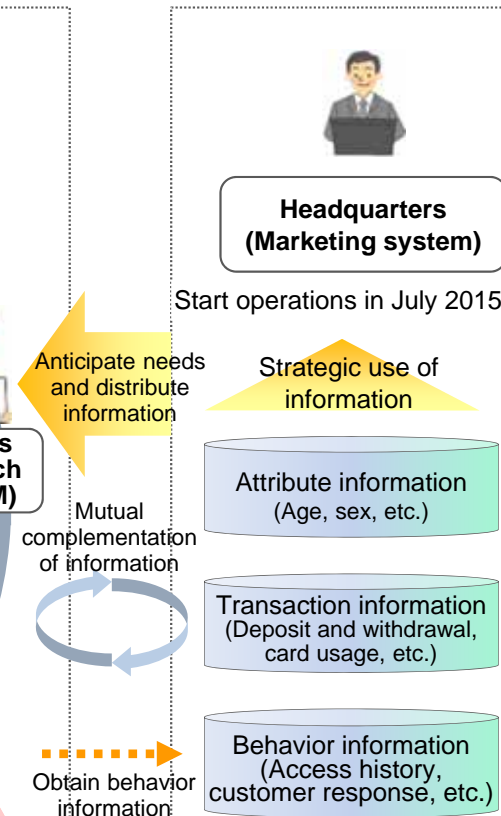
## Measures under consideration

- Enhance Call Center
  - Strengthen channel cooperation
  - Strengthen one to one sales leveraging points of contact with customers

## Enclosure of individual customers in the middle-mass class through realization of “channel cooperation”

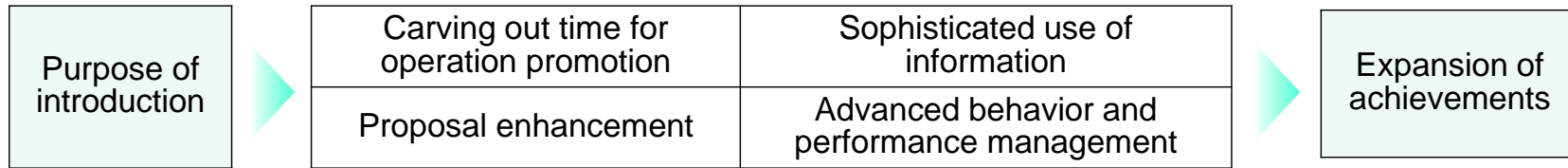


## Enhancement of marketing and mutual complementation

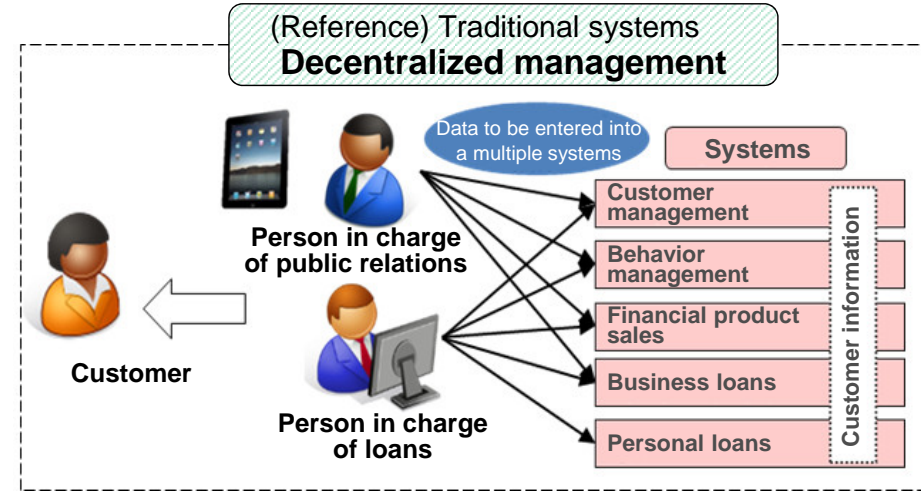
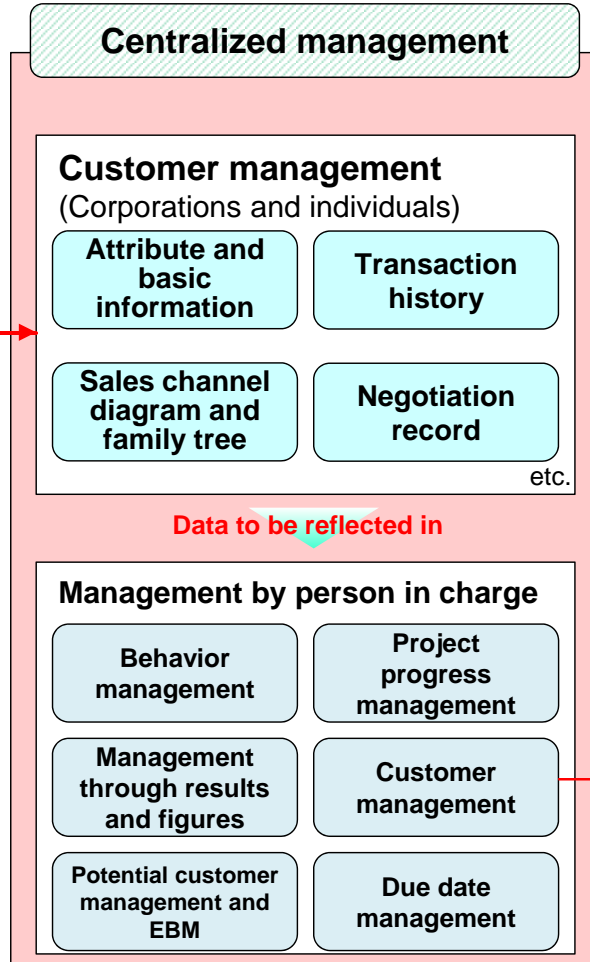
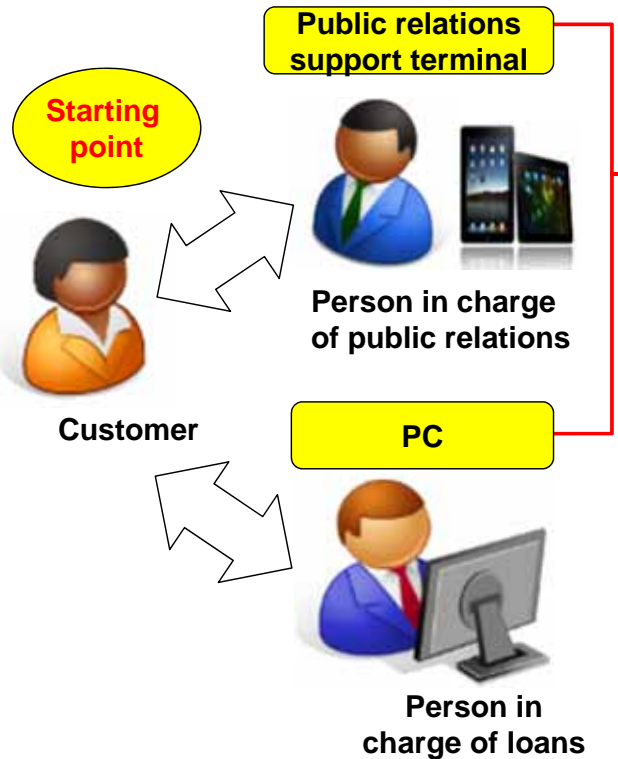


# (8) Introduction of integrated operation support system (Tomorrow Navi)

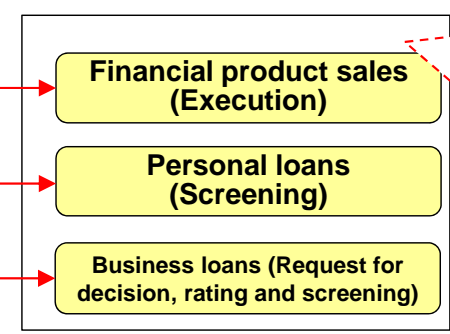
- We have realized centralized management of distributed systems through the introduction of the integrated operation support system (Tomorrow Navi).
- We expand our achievements through measures such as carving out time for operation promotion.



**Outline of integrated operation support system**  
(From Oct. 2016: Start operations in a phased manner)



Seamless collaboration

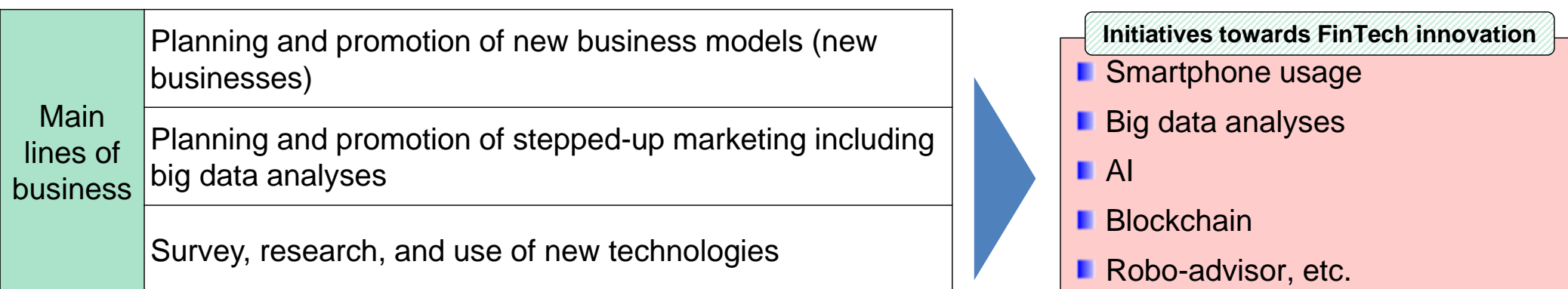


**Application (contract) to shift from paper documents to electronic records going forward!**

## (9) Efforts to create new business models (new businesses)

- “New Business Development Promotion Office” was established in the Management Planning Division in August 2016.
- It has commenced studies towards the launch of new services that will improve customer convenience by actively capitalizing on external knowledge obtained mainly through cross-industrial cooperation.

### Establishment of New Business Development Promotion Office (August 2016)

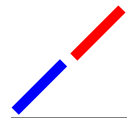


Active use of external knowledge obtained through cross-industrial cooperation, etc.

(December 2015)  
Cooperation with freee K.K. aimed at providing new financial services

(June 2016)  
Business alliance with TKC Corporation to develop FinTech services

(October 2016)  
Participation in a blockchain technology consortium



## 4. Business Forecast in FY2016

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

- Parent net income is expected to amount to ¥30.7 billion, while net income attributable to owners of the Parent is likely to reach ¥31.7 billion, hitting an all-time high for the fourth year in a row.
- The forecast for the annual dividend has been increased ¥1.0 per share from the initial forecast to ¥11.0 per share.

## Business forecast in FY2016

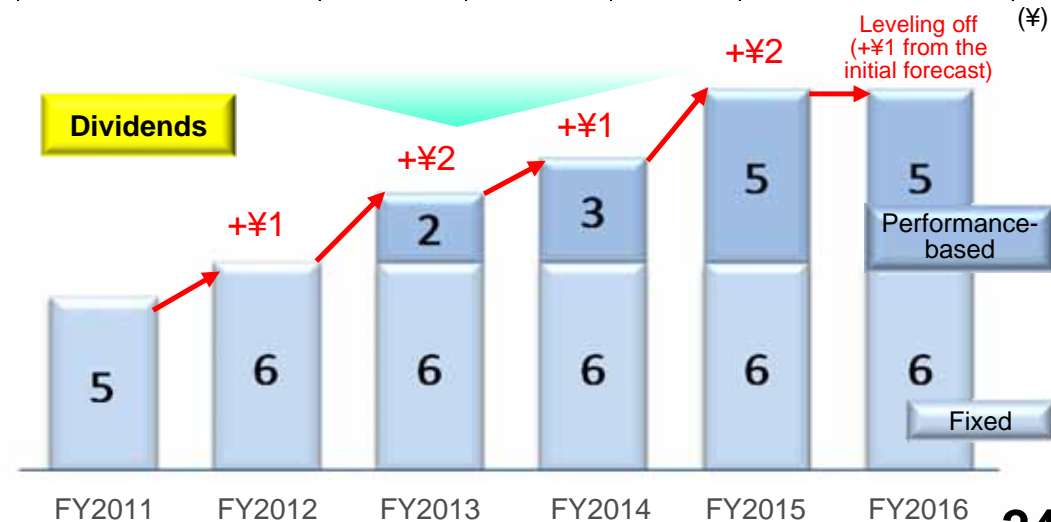
(¥ billion)

	1H results	2H estimates	Forecast in FY2016	YoY change	Comparison with estimates in May
Net interest income	35.7	33.8	69.5	-5.2	1.7
Net fees and commissions income	9.1	9.2	18.3	-0.5	-1.1
<b>Core gross banking profit</b>	<b>44.8</b>	<b>43.0</b>	<b>87.8</b>	<b>-5.7</b>	<b>0.6</b>
– Expenses	27.3	27.8	55.1	1.4	-0.8
<b>Core banking profit</b>	<b>17.4</b>	<b>15.2</b>	<b>32.6</b>	<b>-7.2</b>	<b>1.3</b>
Gains/losses on securities	13.8	1.1	14.9	9.9	3.2
– Credit costs	1.9	1.5	3.4	1.7	1.4
<b>Ordinary profit</b>	<b>28.2</b>	<b>15.0</b>	<b>43.2</b>	<b>-1.9</b>	<b>2.5</b>
<b>Net income</b>	<b>20.3</b>	<b>10.4</b>	<b>Record-high 30.7</b>	<b>0.7</b>	<b>2.5</b>

<b>Consolidated ordinary profit</b>	<b>28.9</b>	<b>15.9</b>	<b>44.8</b>	<b>-2.4</b>	<b>2.7</b>
<b>Net income attributable to owners of the Parent</b>	<b>20.7</b>	<b>11.0</b>	<b>Record-high 31.7</b>	<b>0.3</b>	<b>2.5</b>

## Payout Table and estimated dividend in FY2016

Net income attributable to owners of the Parent	Dividend per share			Consolidated payout ratio
	(1) Fixed	(2) Performance-based	(1) + (2)	
Over ¥33 billion	¥6	¥6	¥12	Less than 22.7%
<b>Over ¥30 billion to ¥33 billion</b>	<b>¥6</b>	<b>¥5</b>	<b>¥11</b>	<b>20.8%-less than 22.9%</b>
Over ¥27 billion to ¥30 billion	¥6	¥4	¥10	20.8%-less than 23.2%
Over ¥24 billion to ¥27 billion	¥6	¥3	¥9	20.8%-less than 23.4%
Over ¥21 billion to ¥24 billion	¥6	¥2	¥8	20.8%-less than 23.8%
Over ¥18 billion to ¥21 billion	¥6	¥1	¥7	20.8%-less than 24.3%
¥18 billion and less	¥6	¥0	¥6	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.

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