



Overview of Financial Results in Interim FY2017

- IR Presentation -

The Hiroshima Bank, Ltd.



December 6, 2017

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1. Highlights of Interim FY2017 2

2. Overview of Financial Results in Interim FY2017

(1) Summary of business performance in Interim FY2017	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 (NPLs)	11
(9) Capital adequacy ratio and ROE	12

3. Progress of “Mid-term Plan 2017”

(1) Recognition of environment and direction of strategy	14
(2) Toward realization of sustainable growth	15
(3) Enhancement of sales promotion system	16
(4) Enhancement of asset management business 1 - Collaboration between banking and securities businesses -	17
<Reference> Network of Hirogin Securities (in Hiroshima Prefecture)	18
(5) Enhancement of asset management business 2 - Enhancement of business for wealthy customers -	19
(6) Enhancement of high value-added banking business 1 - Promotion of feasibility studies -	20
(7) Enhancement of high value-added banking business 2 - Promotion of consumer loans -	21
(8) Enhancement of profit base 1 - Overview-	22
(9) Enhancement of profit base 2 - Efforts to reform of working-styles at branch offices -	23
(10) Enhancement of profit base 3 - Efforts to reform of working-styles at headquarters-	24
(11) Enhancement of profit base 4 - Efforts for new services -	25

4. Business Forecast in FY2017

(1) Forecast of business performance and dividend in FY2017	27
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1. Highlights of Interim FY2017

1

Interim net income **increased compared with the estimate announced in May**, thanks to the rise of net interest income and reduction of expenses.

2

Ratio of non-interest income steadily **rose**, achieving **33.6%** after adding the contribution from Hirogin Securities.

3

Average balance of focus areas such as loans to SMEs and personal loans **increased** year-on-year.

→ Loan interest income has **increased year-on-year since July**.

4

Aided mainly by support for management improvements, non-performing loan ratio **hit a record low at 1.25%**.

5

ROE (consolidated) indicates that management efficiency is maintained at **6% level**.

6

Due to a larger-than-expected increase in profits, the annual dividend forecast was revised up by **¥2.0 per share to ¥18.0 per share***

*Dividend after the reverse stock split



2. Overview of Financial Results in Interim FY2017

(1) Summary of business performance in interim FY 2017

- In spite of the reduction in expenses and the decrease of credit costs, net income for interim FY2017 decreased by ¥2.7 billion from the year earlier to ¥17.6 billion, and interim profit attributable to owners of the parent decreased by ¥5.7 billion to ¥15 billion, mainly due to a decrease of gains on securities.
- As we made efforts to increase net interest income, and net fees and commissions income as well as further reduce expenses, interim net income was **higher than the estimates announced in May both on a consolidated and non-consolidated basis.**

(¥billion)

	Results for interim FY2017	YoY change (Change rate)	Difference from estimates announced in May
Net interest income	34.9	-0.8	1.9
Net fees and commissions income	8.8	-0.3	0.6
Core gross banking profit	43.8	-1.0 (-2.3%)	2.6
- Expenses	26.6	-0.7	-1.0
Core banking profit	17.1	-0.3 (-1.6%)	3.5
Gains/losses on securities	3.9	-9.9	0.2
- Credit costs	0.8	-1.1	0.3
Ordinary profit	23.7	-4.5 (-15.9%)	6.4
Interim net income	17.6	-2.7 (-13.1%)	5.3
Consolidated ordinary profit	18.7	-10.2 (-35.3%)	0.5
Interim profit attributable to owners of the parent	15.0	-5.7 (-27.5%)	1.9

(2) Net interest income

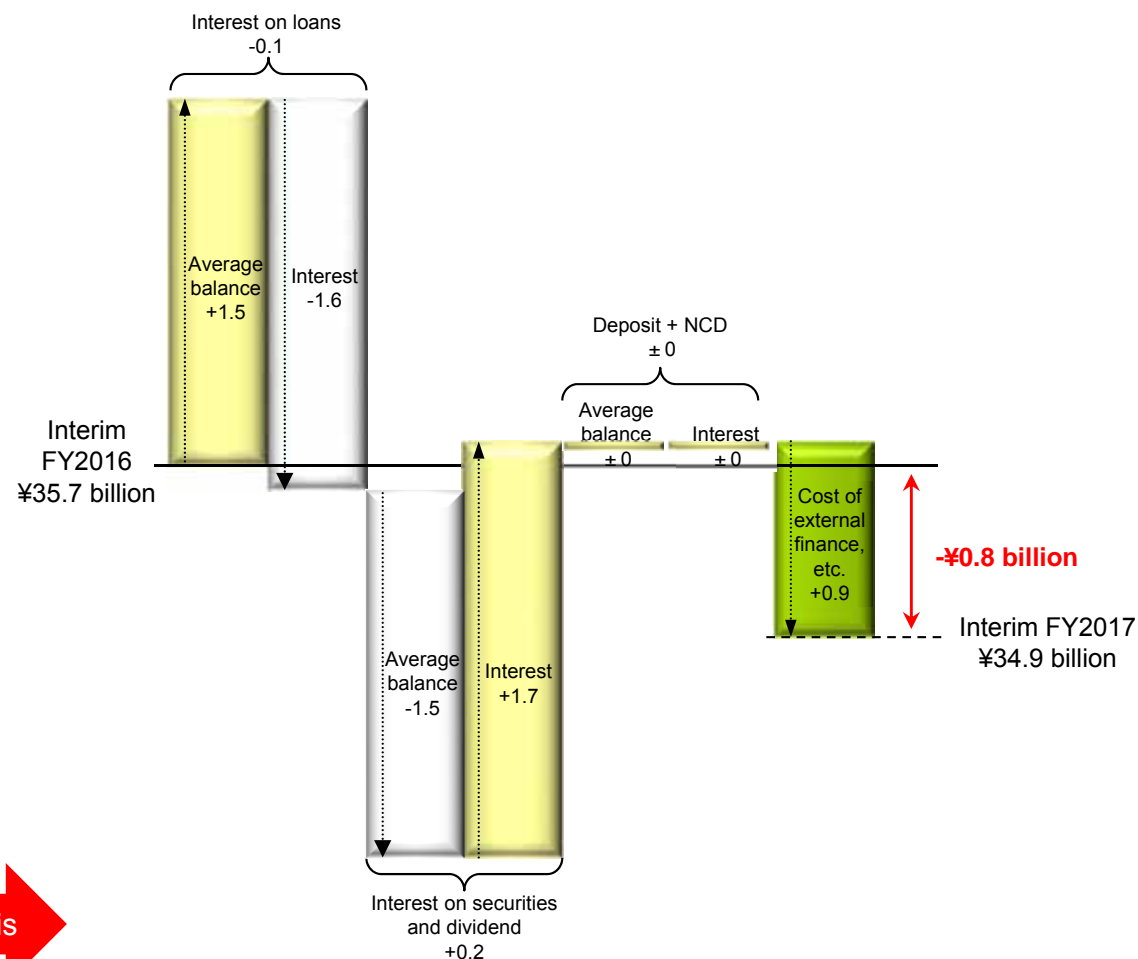
Net interest income was down by ¥0.8 billion from the previous year due to the increase of costs of external finance, etc., although the decreased amount of interest on loans shrunk in the ongoing low interest-rate environment.

Breakdown of net interest income

(¥billion)

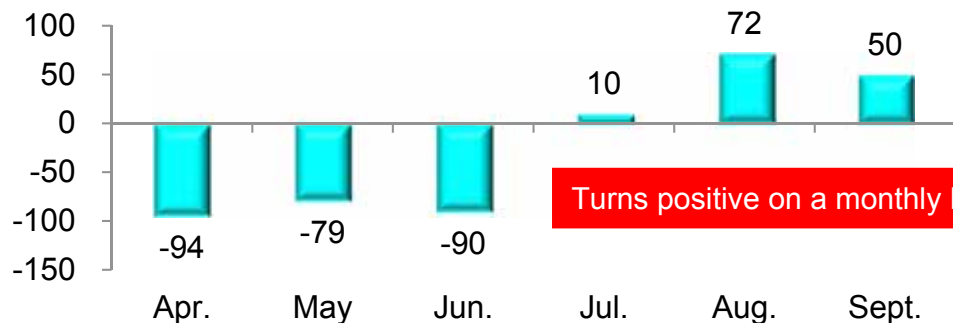
	Results for interim FY2017	
	YoY change	
Interest on loans	30.4	-0.1
Interest and dividends on securities	8.9	0.2
Deposits + NCD interest (-)	1.6	0.0
Cost of external finance, etc. (-)	2.8	0.9
Net interest income	34.9	-0.8

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



<Interest on loans; YoY>

(¥million)



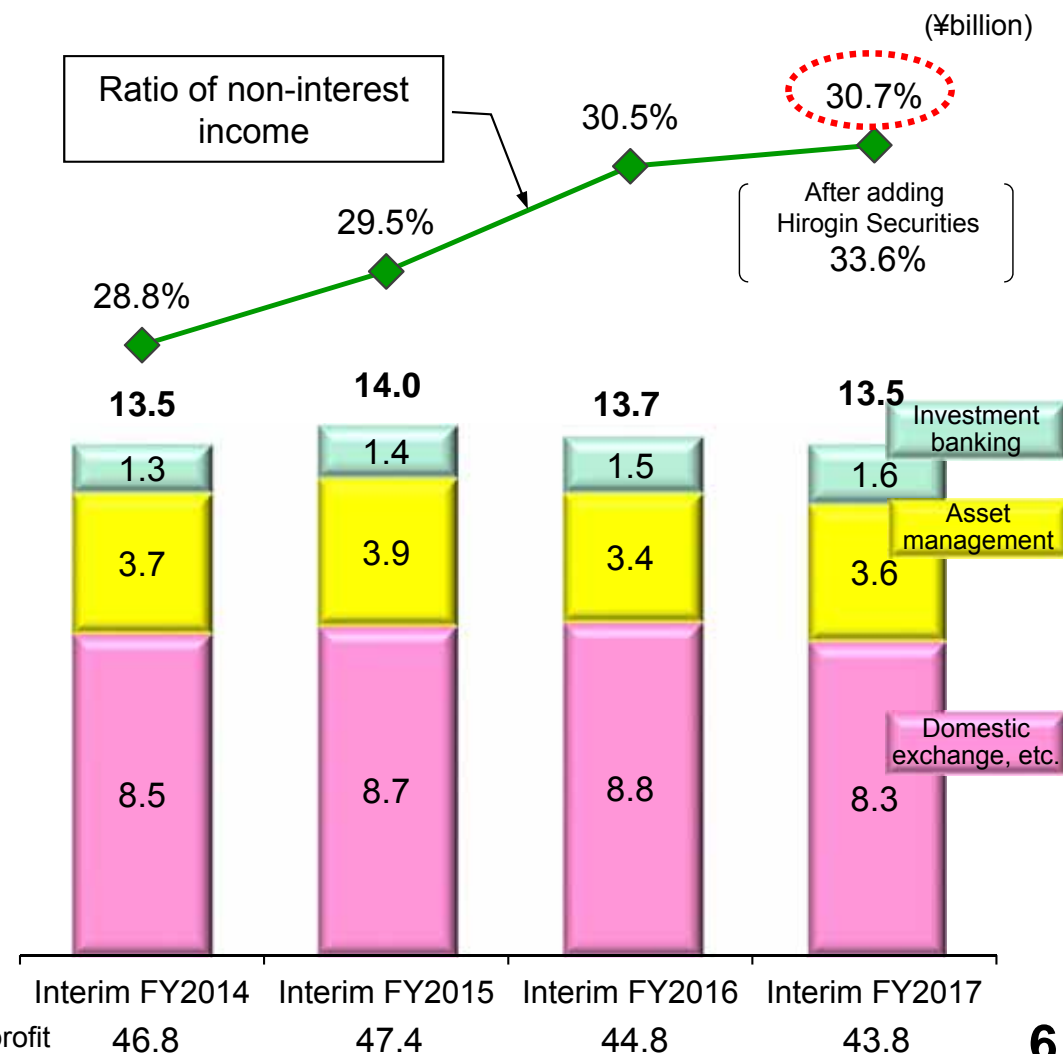
(3) Net fees and commissions income

- Net fees and commissions income decreased by ¥0.3 billion on a year-on-year basis due to decrease of domestic exchange profit, in spite of **an increase of asset management income by ¥0.2 billion on a year-on-year basis**.
- The ratio of non-interest income to core gross banking profit **was maintained** at 30% level. (or **33.6%** including Hirogin Securities)

Breakdown of net fees and commissions income

	Results for interim FY2017 (¥billion)	
	FY2017	YoY change
Investment banking	1.6	0.1
Syndicated loans, etc.	1.0	0.2
Sales of derivatives to customers	0.2	-0.1
Asset management	3.6	0.2
Insurance products	1.4	-0.3
Investment trusts	1.1	0.0
Financial products intermediary	0.2	0.1
Foreign currency deposit	0.7	0.3
Personal loan	-1.8	-0.2
Domestic exchange, etc.	5.4	-0.4
Net fees and commissions income	8.8	-0.3

Trend of non-interest income and its ratio

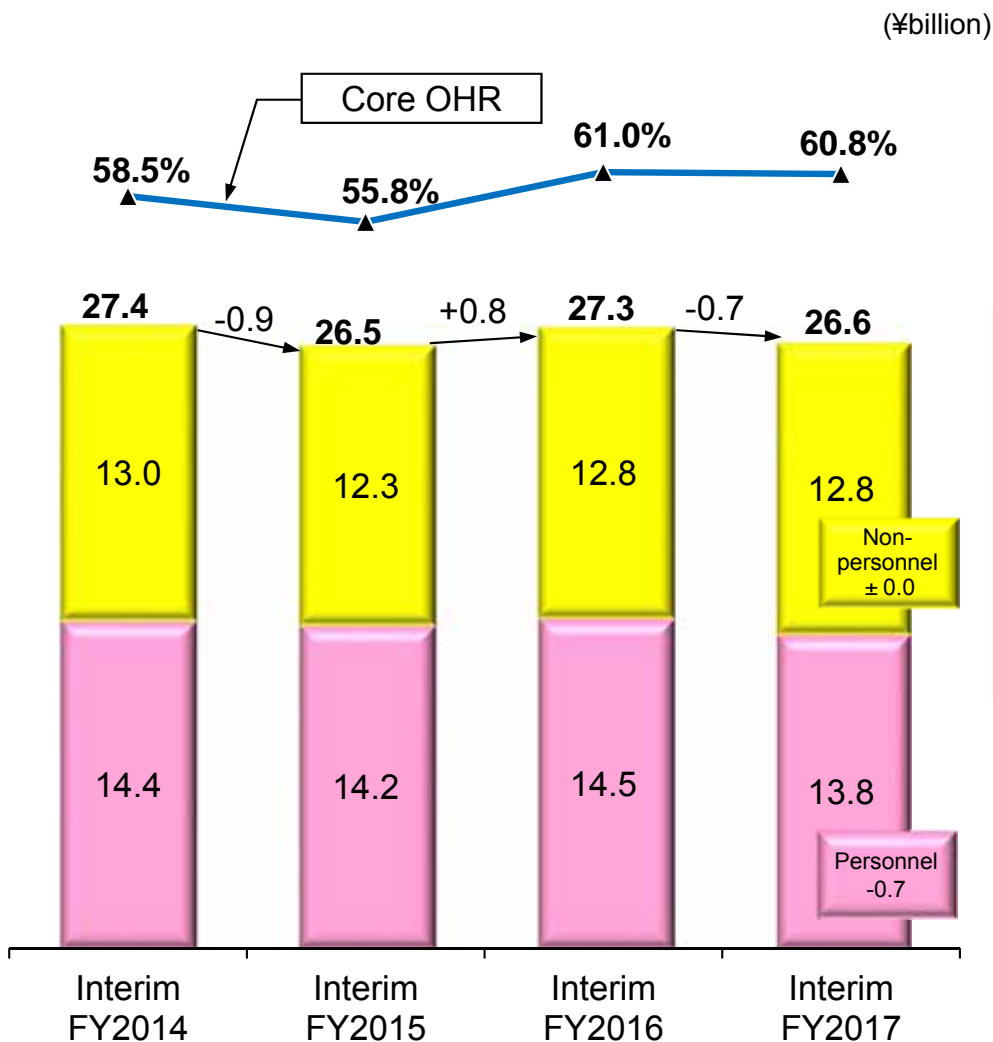


Core gross banking profit

(4) Expenses

- Expenses were **down by ¥0.7 billion from the previous year**, mainly due to a decrease of personnel expenses.
- Core OHR **improved by 0.2 points from the previous year to 60.8%**.

Trend of expenses and core OHR (Overhead Ratio)



*Core OHR – Expenses/Core gross banking profit

Breakdown of expenses

(¥billion)

Non-personnel expenses		YoY change
Major factors		
Depreciation costs	+0.1	± 0.0
Deposit insurance premium, etc.	-0.1	

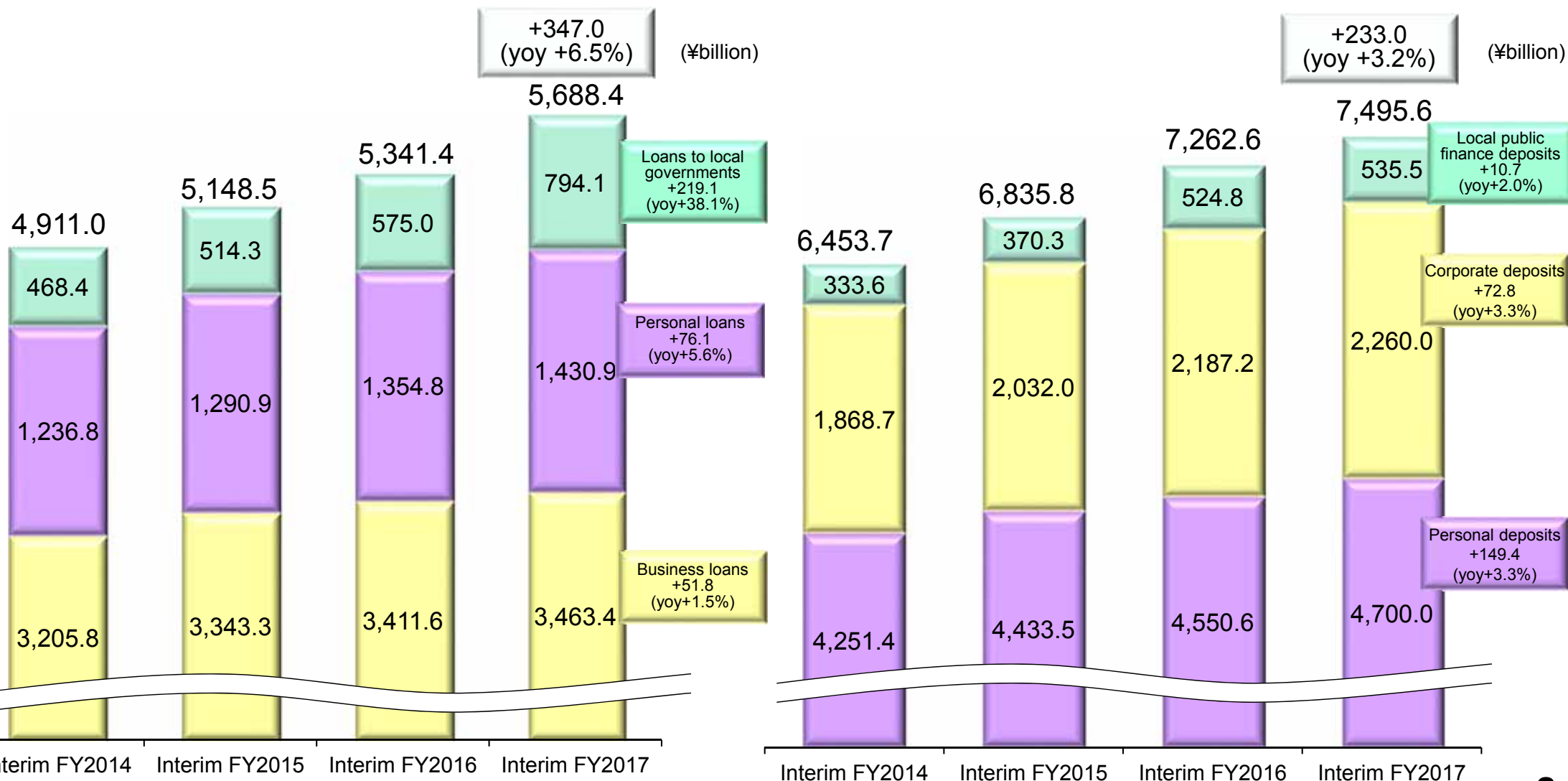
Personnel expenses		YoY change
Major factors		
Bonus	-0.4	-0.7
Overtime pay	-0.1	
Retirement benefit cost, etc.	-0.1	

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

- Average balance of loans increased in business, personal, and local public sectors, **up by ¥347 billion (+6.5%) compared with the year-earlier period.**
- Average balance of deposits increased in all personal, corporate, and public sectors, **up by ¥233 billion (+3.2%) compared with the previous year.**

Trend of average balance of loans

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

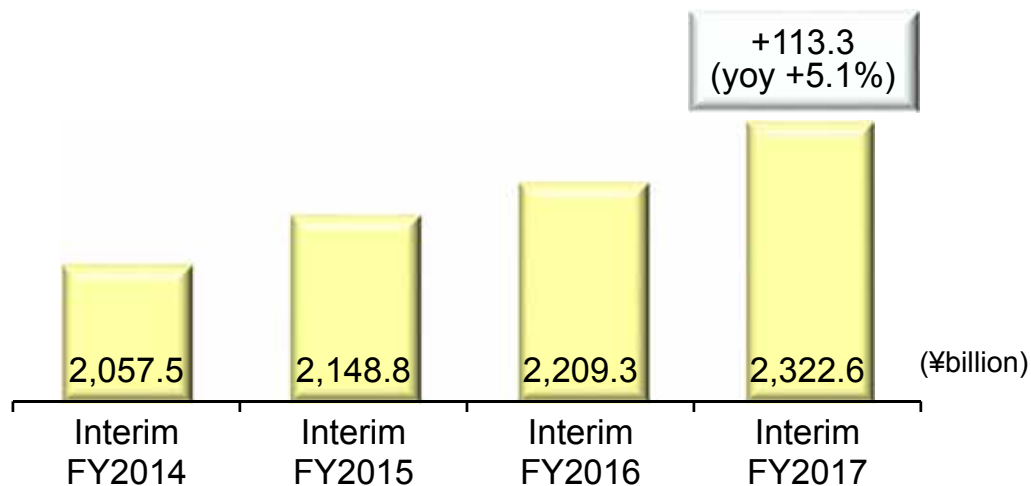


*Loans to local governments include loans to public corporations.

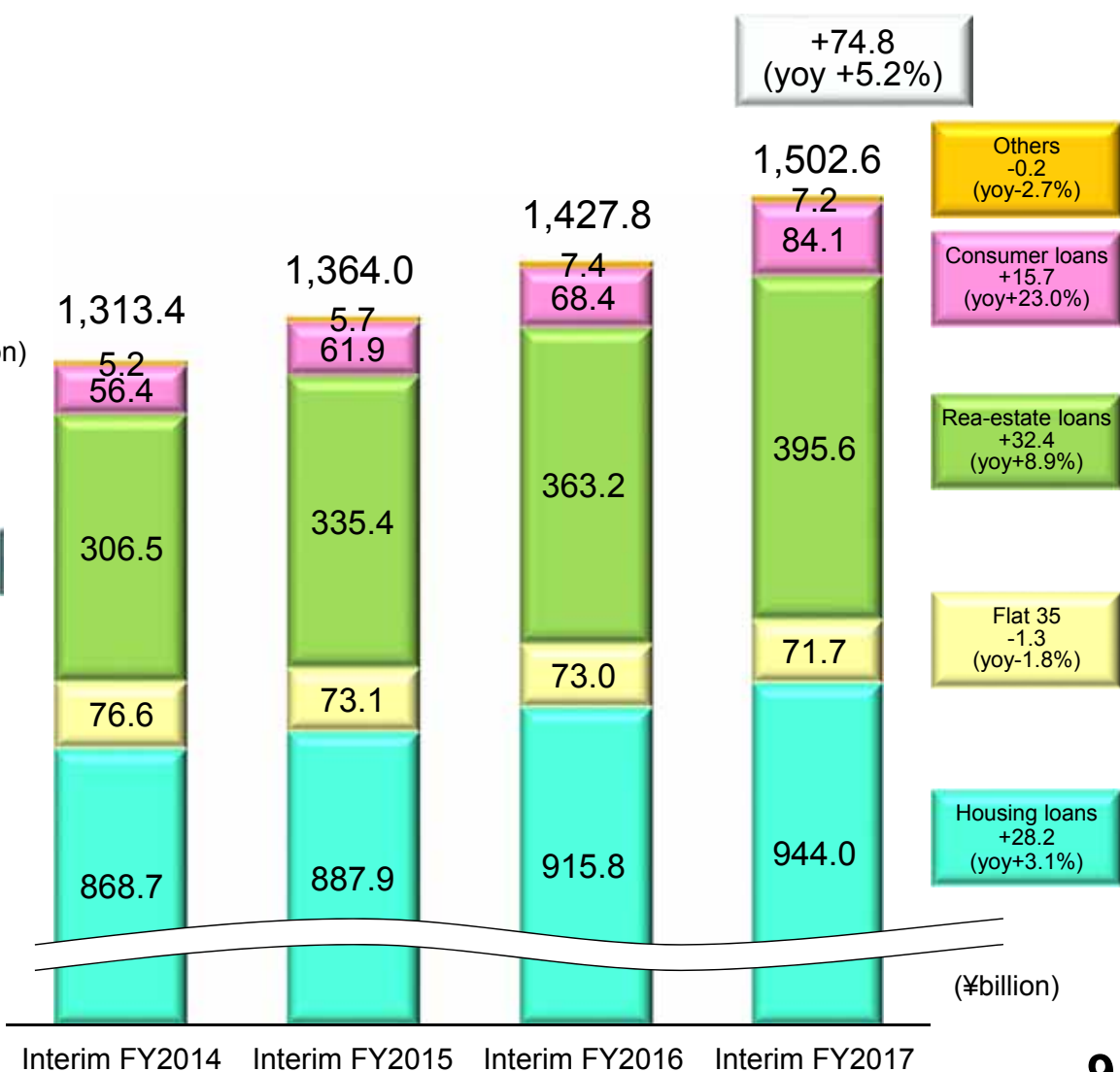
(6) Loans to SMEs and personal loans

- The average balance of loans to SMEs and the number of business loan borrowers steadily **increased**, supported by the enhancement of consulting sales.
- Thanks to sophisticated EBM (event-based management) and enhanced promotional activities, as well as the focus on personal loans allowed by headquarters, personal loans **increased by ¥74.8 billion (+5.2%)** from the previous year

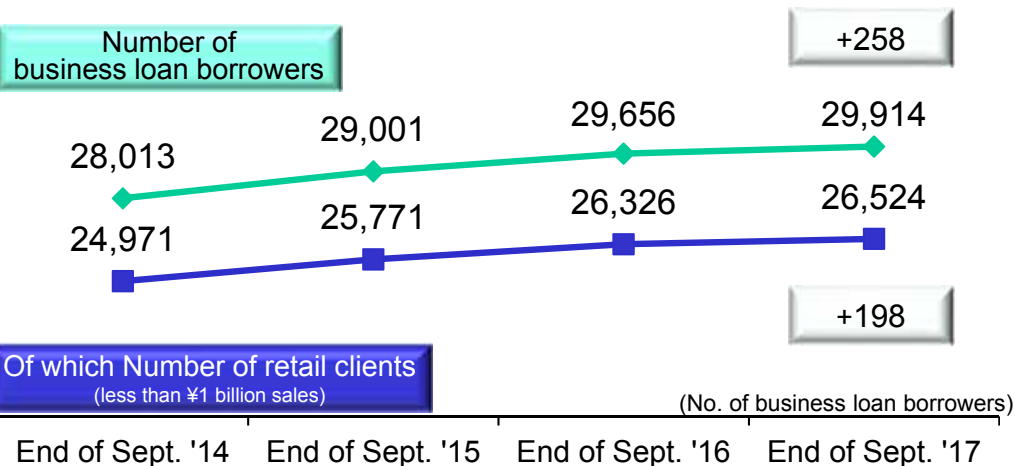
Trend of average balance of loans to SMEs



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



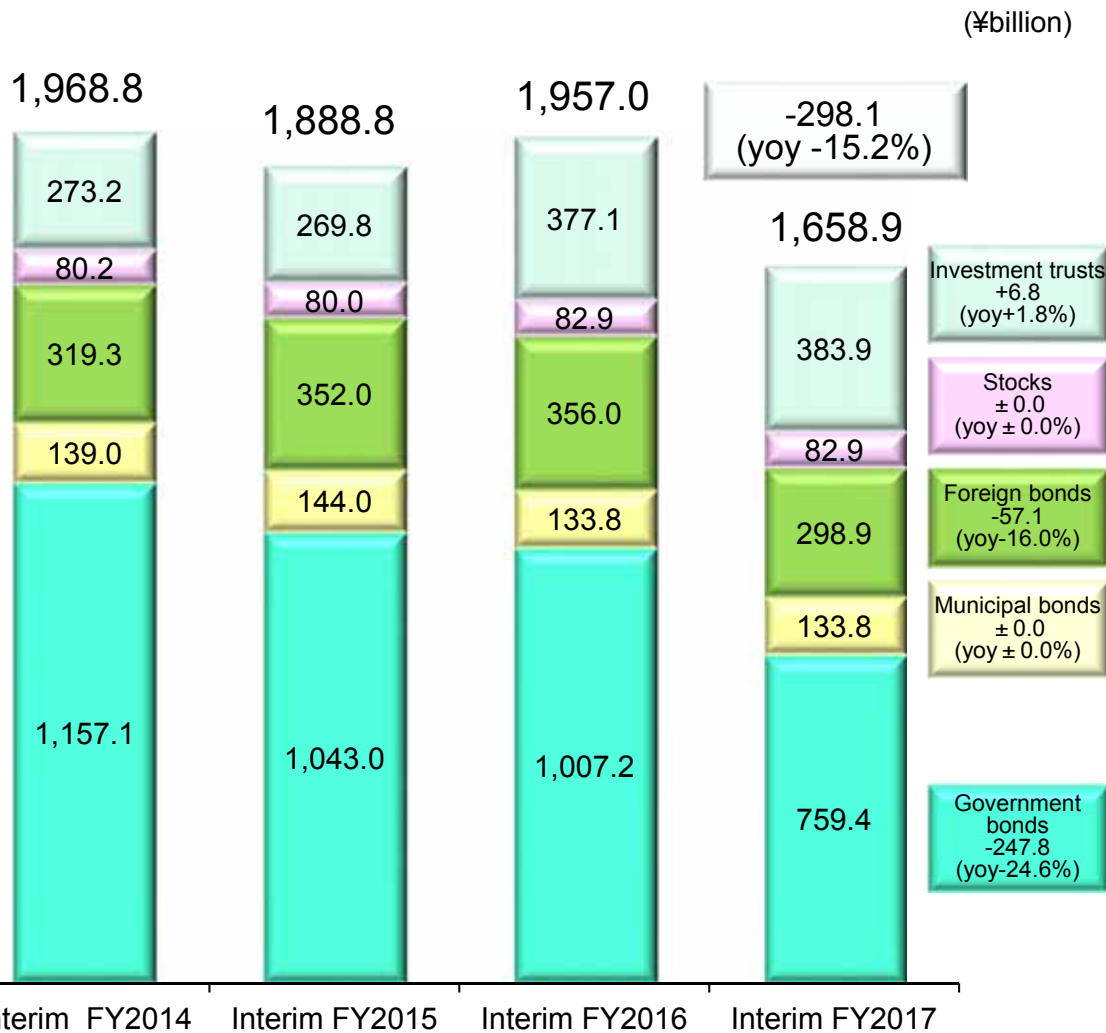
Trend in the number of business loan borrowers



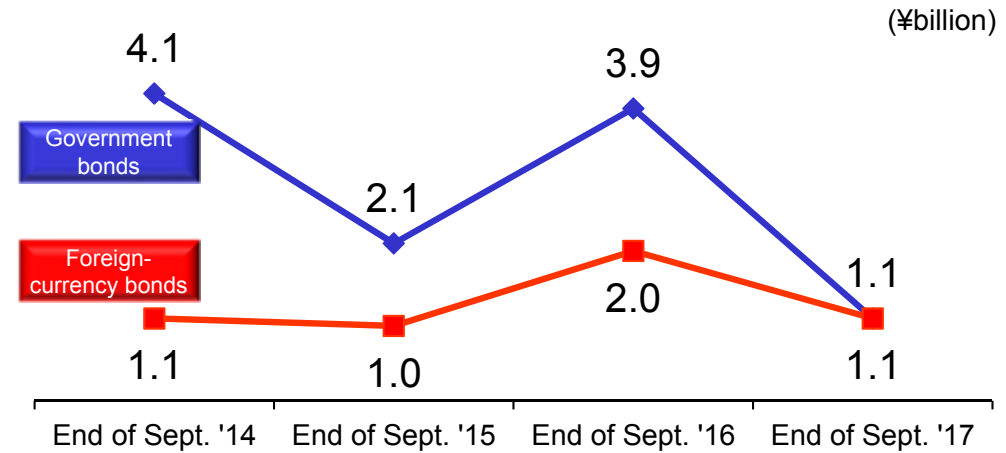
(7) Securities

- Average balance of securities **decreased by ¥298.1 billion** due to the redemption of government bonds.
- Interest risk volume **decreased from the same period of the previous year.**
- Balance of cross-shareholding **reduced by ¥1.2 billion from the previous year** through dialogue with the issuing entities.

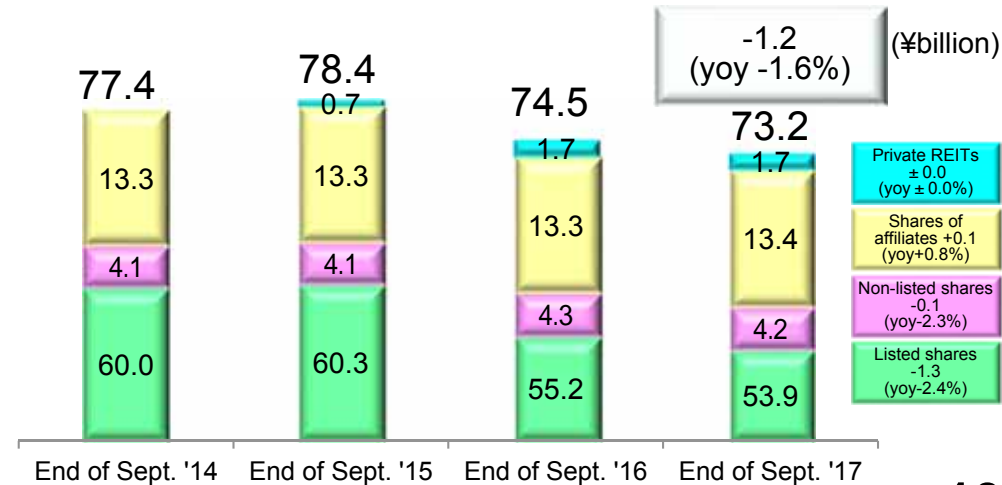
Trend of average balance of securities



Trend of interest delta *Change of market value per decline of 10 bps



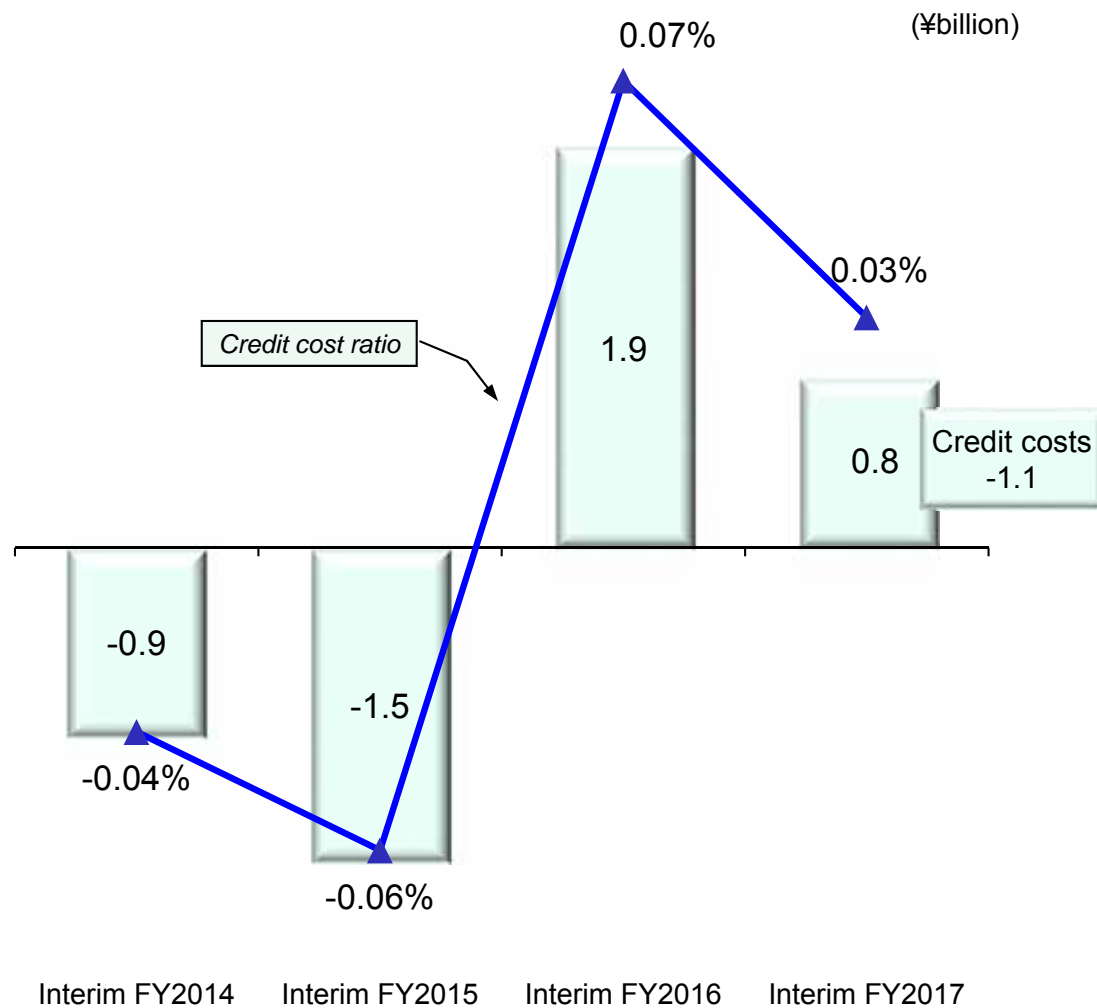
Trend of cross-shareholdings (including private REITs)



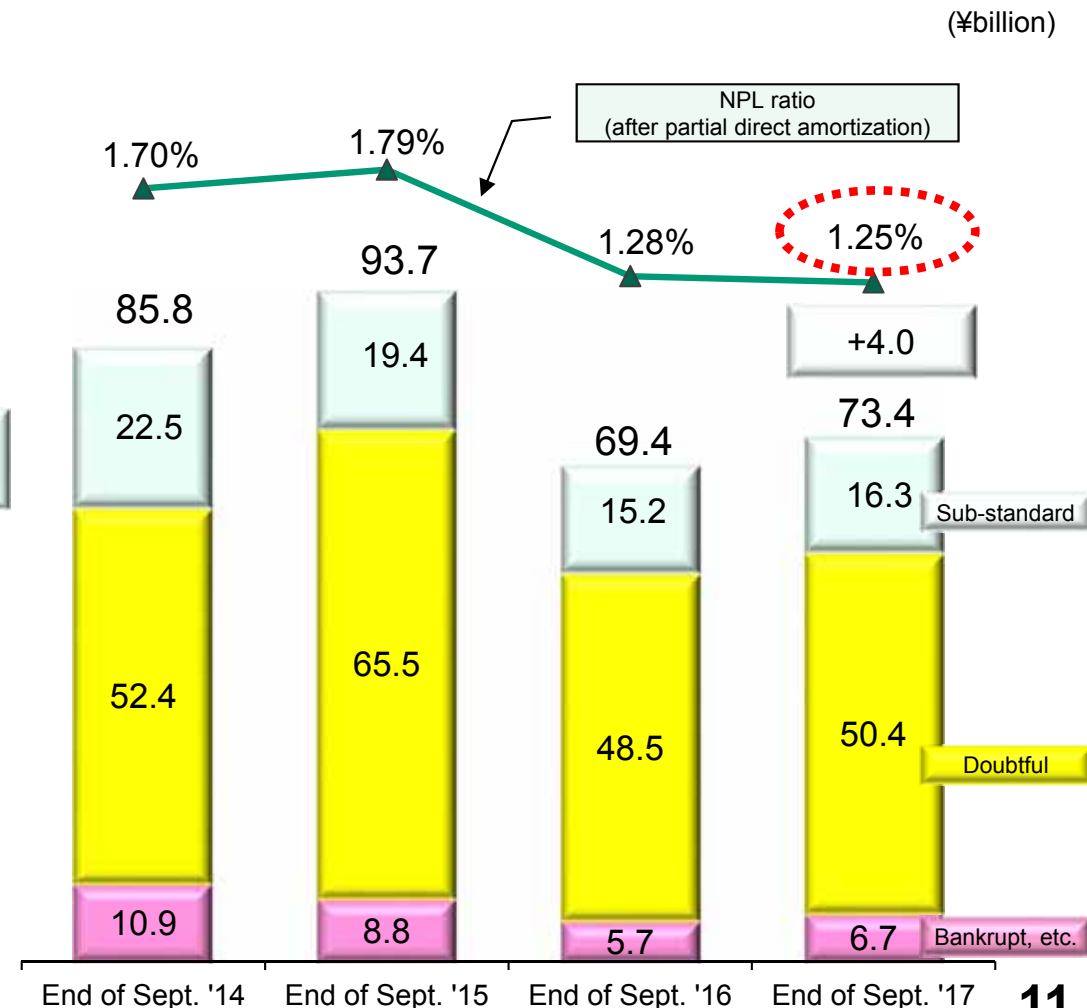
(8) Credit costs and non-performing loans

- Credit costs **remained low** as a result of active support for management improvement of customers.
- Although NPLs (term-end balance) increased by ¥4 billion on a year-on-year basis, the NPL ratio hit a **record low at 1.25%.**

Trend of credit costs



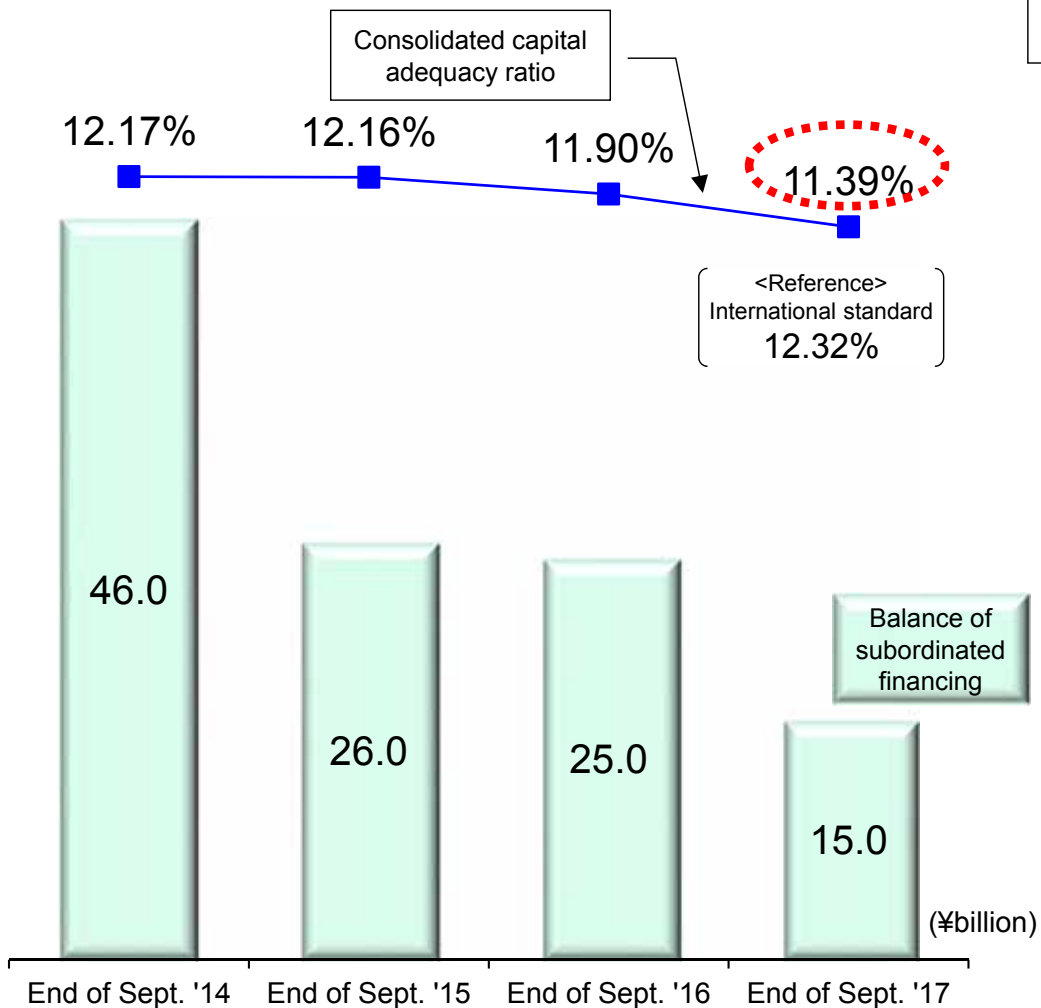
Trend of NPLs (term-end balance) and NPL ratio



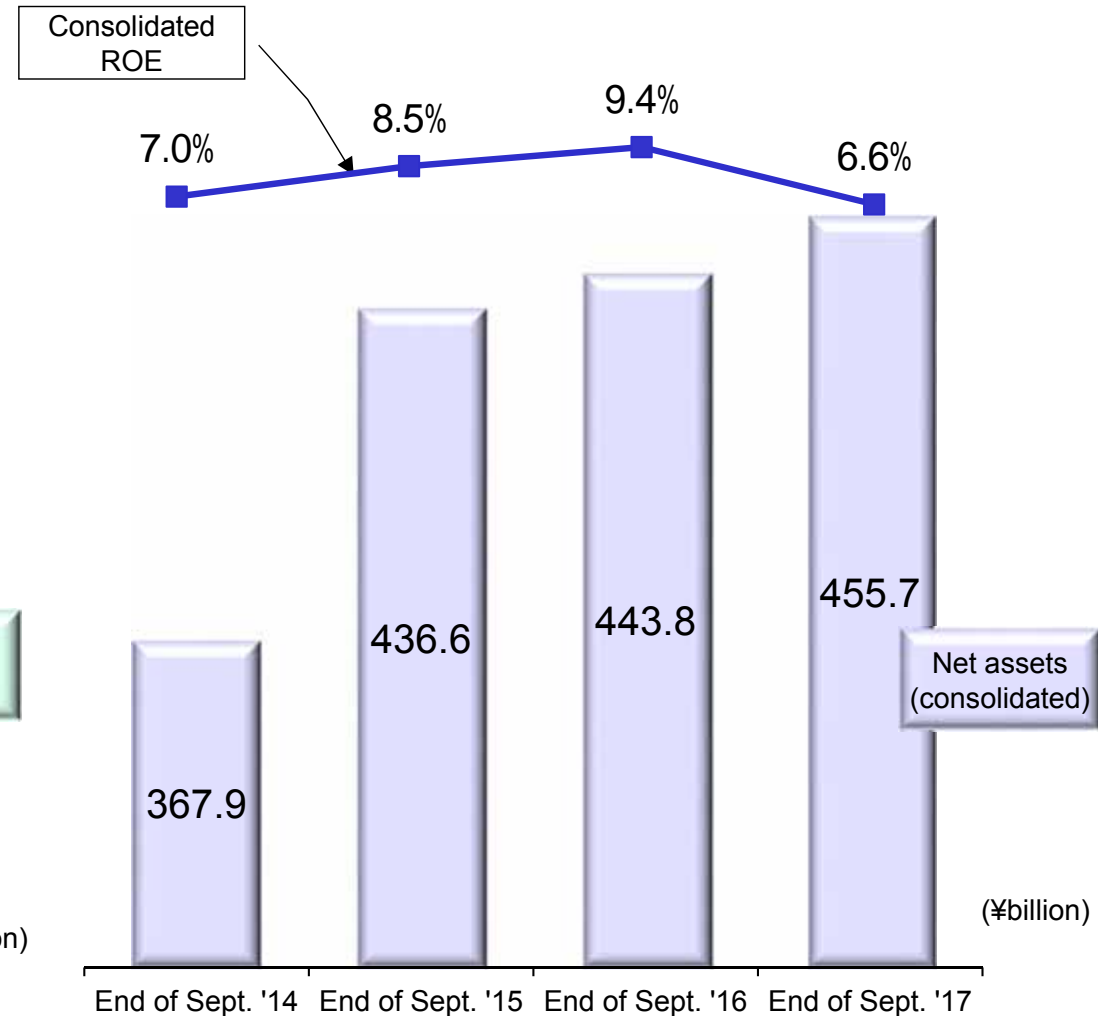
(9) Capital adequacy ratio and ROE

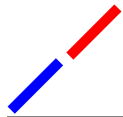
- Consolidated capital adequacy ratio **stood at a sufficient level of 11.39%**.
- Consolidated ROE **maintained 6% level** supported by the steady increase of net assets.

Trend of consolidated capital adequacy ratio and the balance of subordinated financing



Trend of ROE (consolidated)

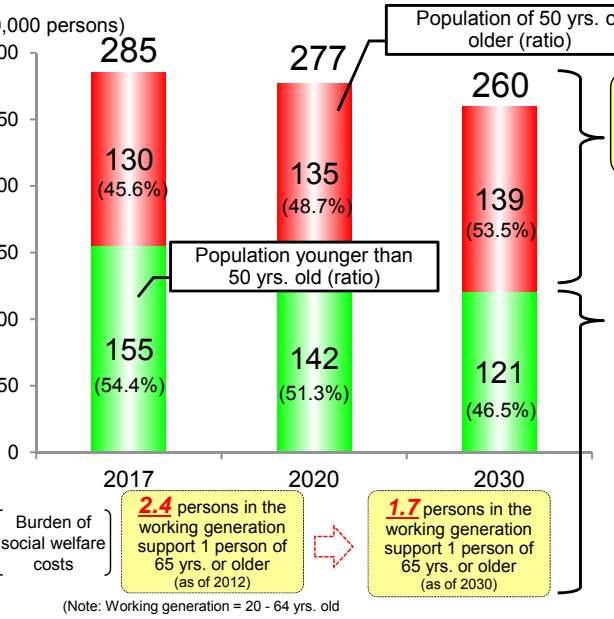




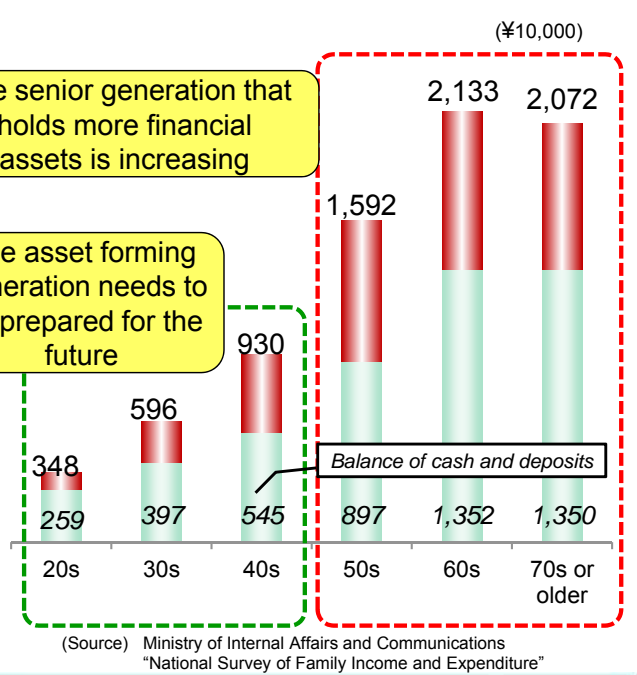
3. Progress of “Mid-term Plan 2017”

(1) Recognition of environment and direction of strategy

Population of Hiroshima Prefecture



Amount of financial assets held by generations (in 2014)



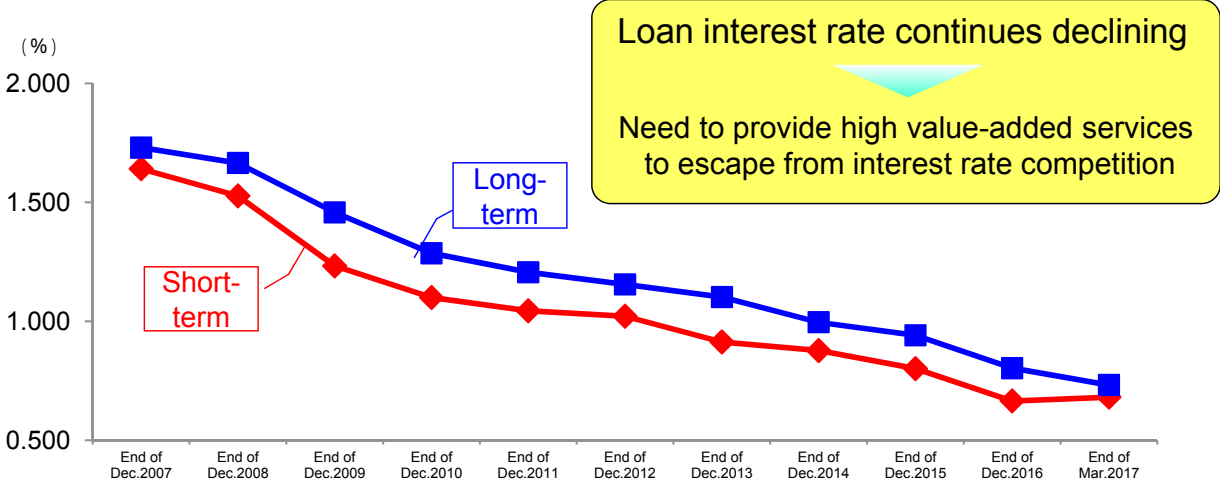
Realization of "Mid-term Plan 2017"

- Realizing sustainable growth (Profit attributable to owners of the parent: More than ¥30 billion)
- Establishing new growth drivers (Non-interest income ratio: More than 40%)

Improved competitiveness by providing high added value

- Enhancement of asset management business (p. 17-19)
- Enhancement of high value-added banking business (p. 20-21)
- Enhancement of profit base (p. 22-25)

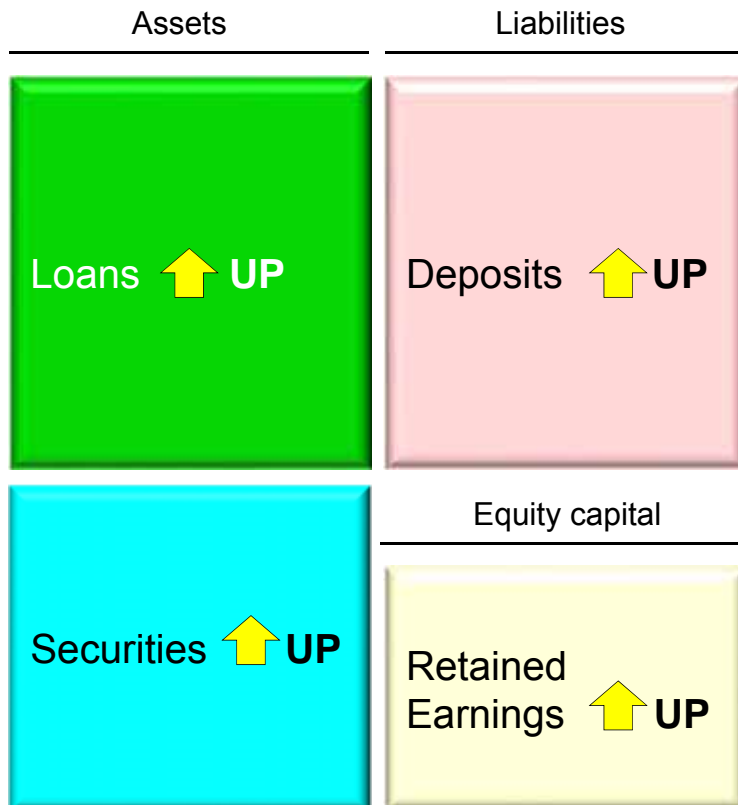
Average loan interest rate of domestic banks (floating rate)



(2) Toward realization of sustainable growth

In “Mid-term Plan 2017”, we are making efforts to achieve sustainable growth by enhancement of the Asset Management business (AM business) as a new growth driver, in addition to enhancement of “the Banking business” (BK business) which is highly value-added.

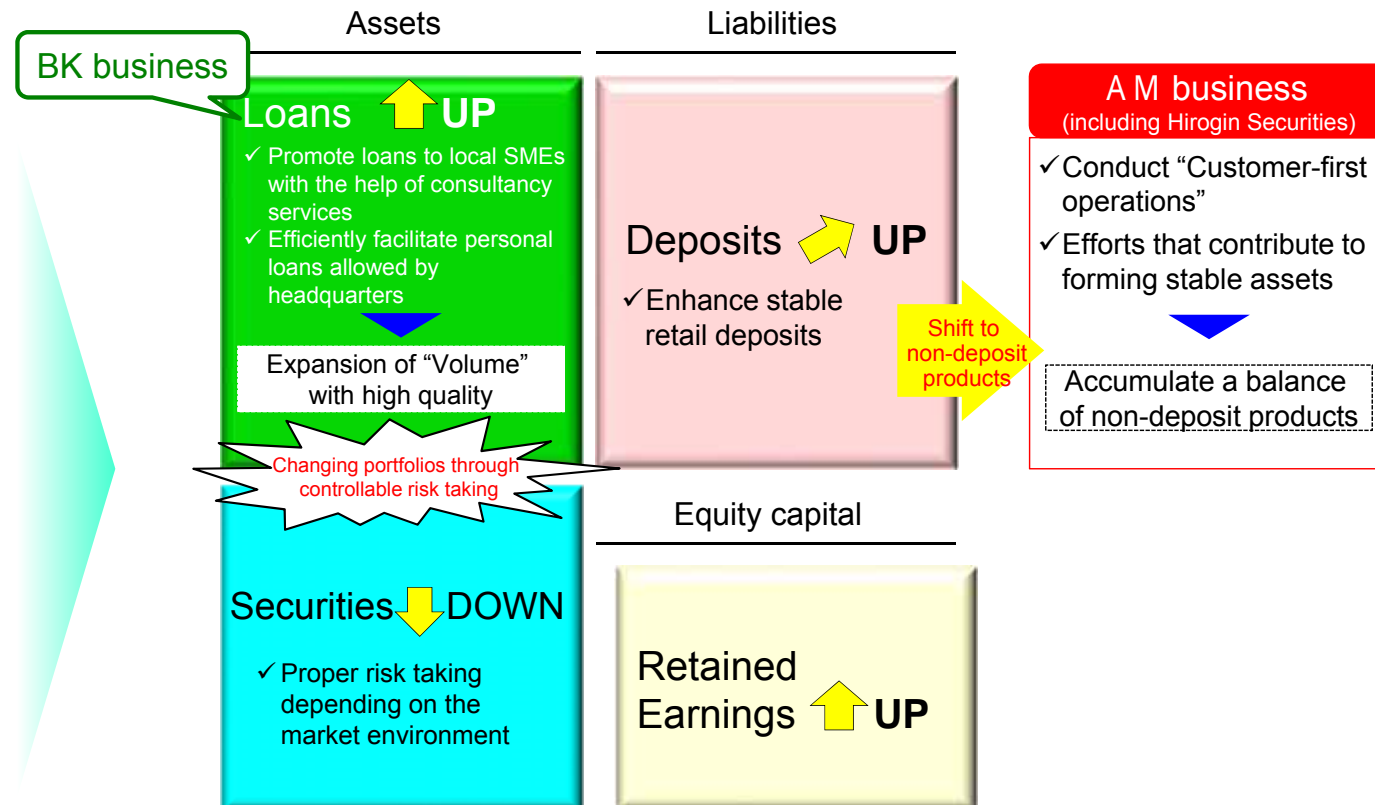
Previous (before the negative interest rate policy was introduced)



P/L

Major sources of profit are loans and securities management

Management strategy in “Mid-term Plan 2017”



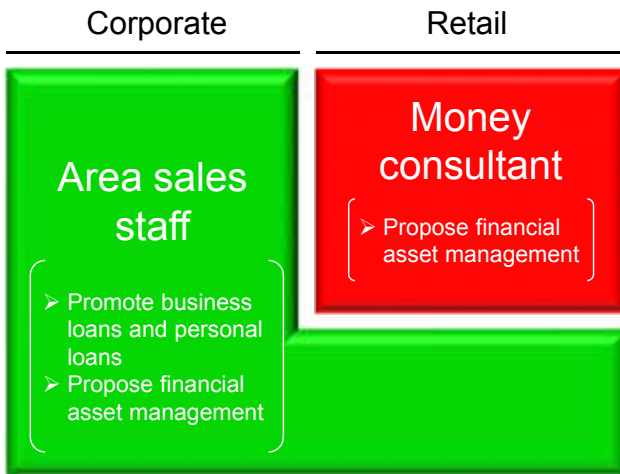
P/L

Major sources of profit are income from the high value-added BK business and non-interest income from the AM business

(3) Enhancement of sale promotion system

■ Improve customer services supported by a high level of professional knowledge for the purpose of enhancing the AM business and the high value-added BK business throughout the Bank Group.

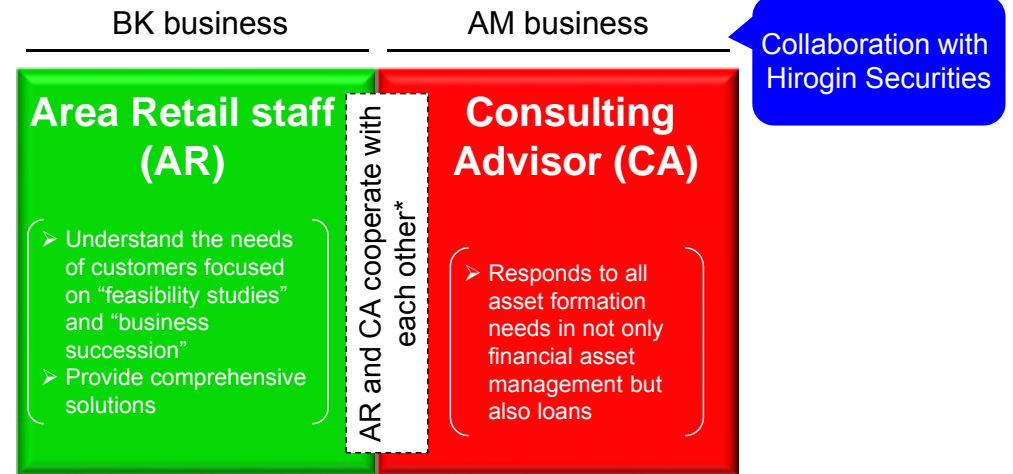
Past sales promotion system



Establish the BK/AM business structure and clarify the roles

Improve customer services supported by a high level of professional knowledge

Overview of the new sales promotion system



*Example of collaborated operations: Apartment loans, asset management by corporate owners

Title	No. of staff (as of end of Mar. 2017)
Money consultant	About 230
Area sales staff	About 310
Special customer sales staff (mainly for corporate customers)	About 100
Total	About 640

Enhance sales force

Title	Current No. of staff (as of end of Oct. 2017)
Consulting adviser	About 300 (+70)
Area retail staff	About 290
Sales staff for specific corporate customers (mainly for corporate customers)	About 80
Total	About 670 (+30)

<During the Mid-term Plan>

Further enhance the sales force through the promoting reform of working-style and branch office strategy (See p.22 for details)

- ✓ Develop human resources who have a high level of professional knowledge
- ✓ Consider a career path model that is consistent with the assumed tasks

(4) Enhancement of asset management business 1

– Collaboration between banking and securities businesses –

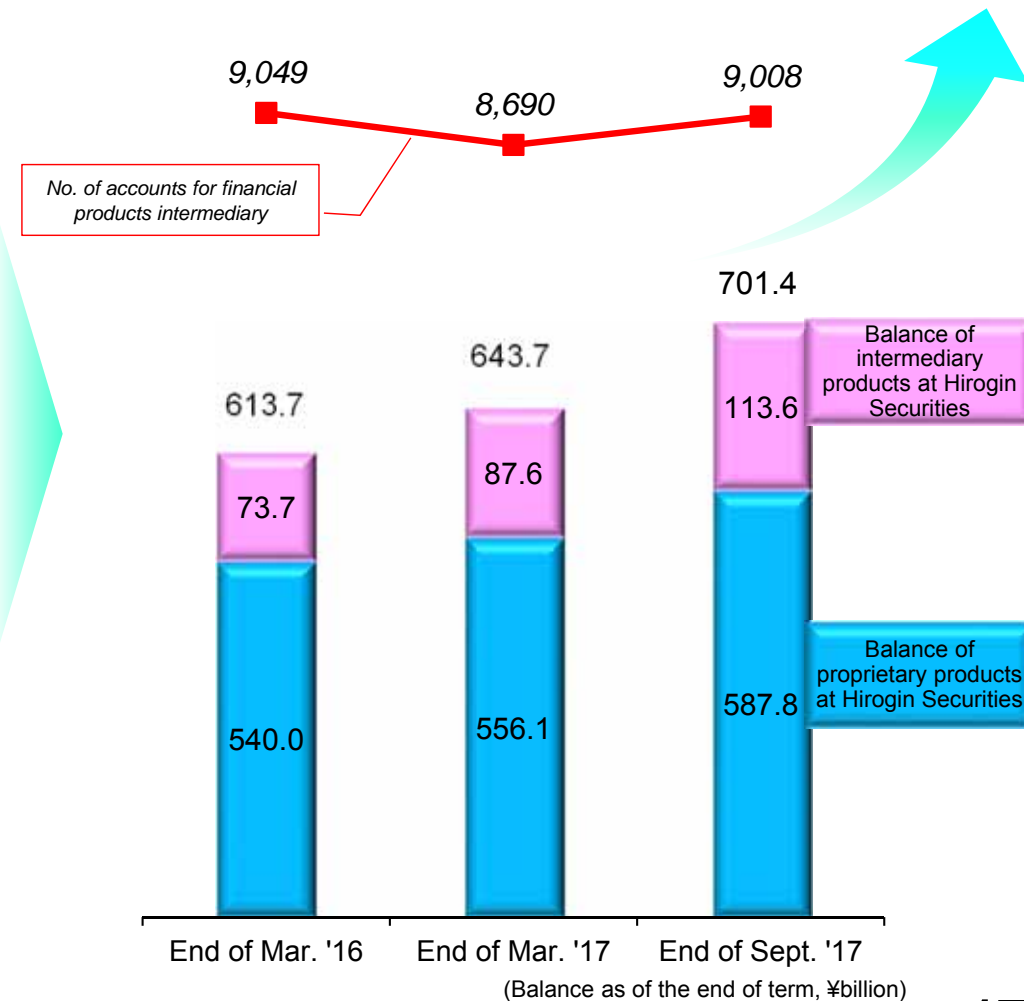
To implement customer-first operations (fiduciary duty), provide products and services that can meet customers' needs and profits through unified efforts with the Hirogin Group, and increase the number of accounts for and balances of the financial products intermediary.

Summary of Hirogin Securities

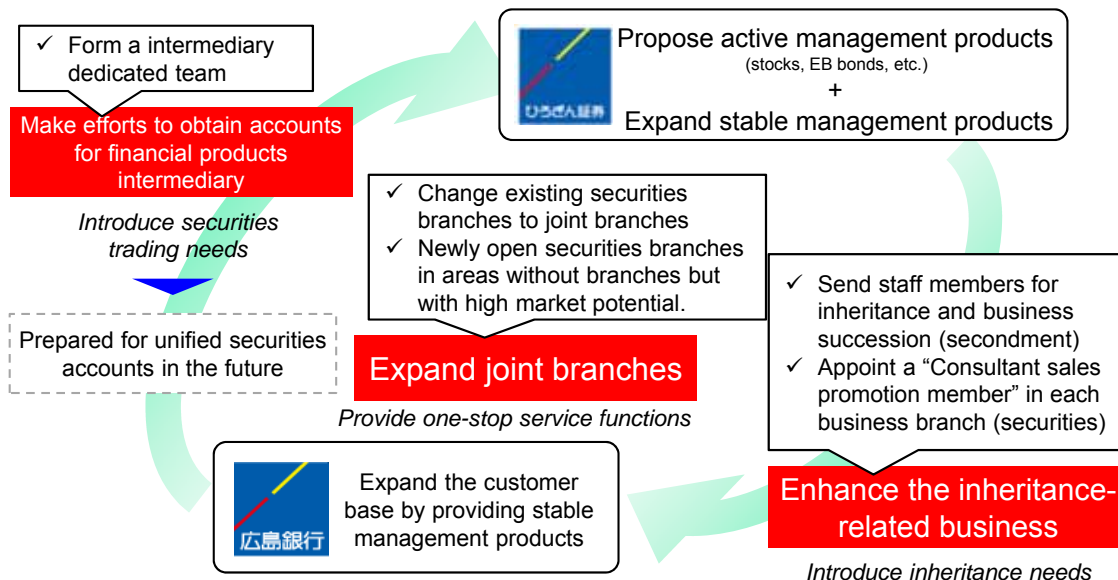
Established	January 2008 (Hirogin Utsumiya Securities)
100% Subsidized	June 2017
Capital	¥5 billion
No. of branches/employees	24 branches*/247 employees
Intermediary style	Intermediary/Introduction (both)

*As of the end of September 2017, including the number of call centers

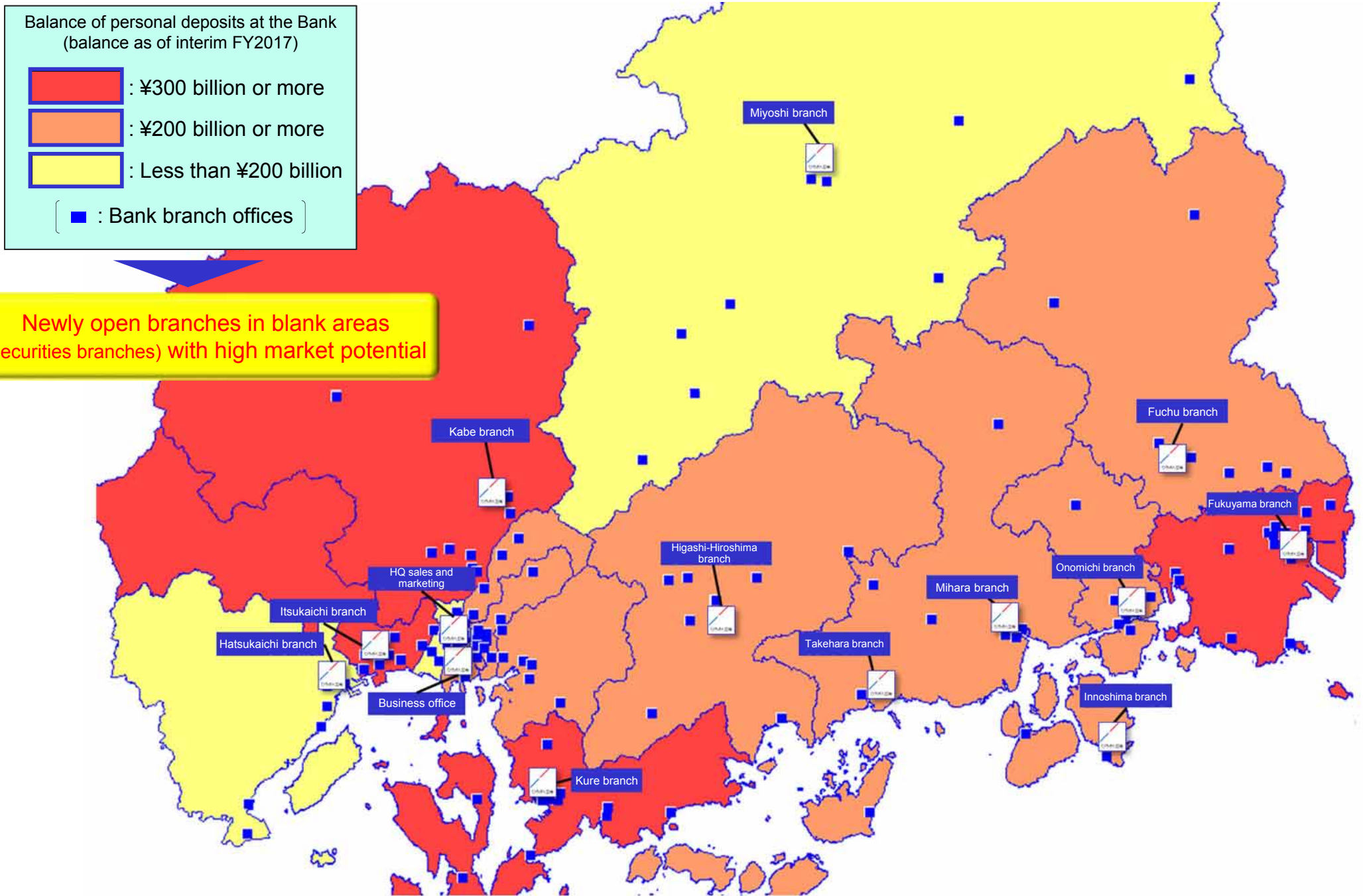
Promotion of financial products intermediary



Promotion of banking/securities unified management



<Reference> Network of Hirogin Securities (in Hiroshima Prefecture)



(5) Enhancement of asset management business 2

– Enhancement of business for wealthy customers –

- Enhance the business which targets the elderly based on services for inheritance/donations, and actively propose various services to corporate owners.
- Shift from “flow-type to stock-type business model” through efforts that contribute to forming stable assets for customers.

Enhancement of inheritance-related services

Increasing needs of inheritance-related services

(Hiroshima Prefecture)

Personal allowance for inheritance tax

No. of taxable heirs (ratio to the total)

<By December 2014>
¥50 million +
¥10 million x
No. of legal heirs

<2014>
2,839
(3.3%)

<From January 2015>
¥30 million +
¥6 million x
No. of legal heirs

Double
<2015>
5,724
(6.6%)

(Source: Hiroshima Tax Bureau)

Providing services that meet the needs

What

- ✓ Private trust
- ✓ Living trust
- ✓ Testamentary trust
- ✓ Calendar year gift trust, etc.

Who

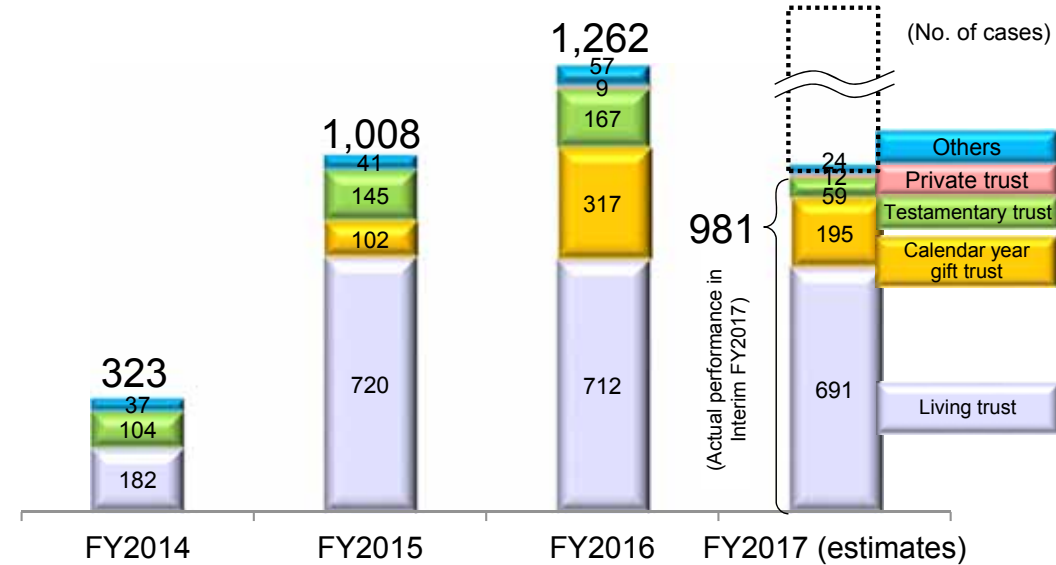
- Private banker (HQ)
- Salespersons in branch offices

No. 1 among regional banks

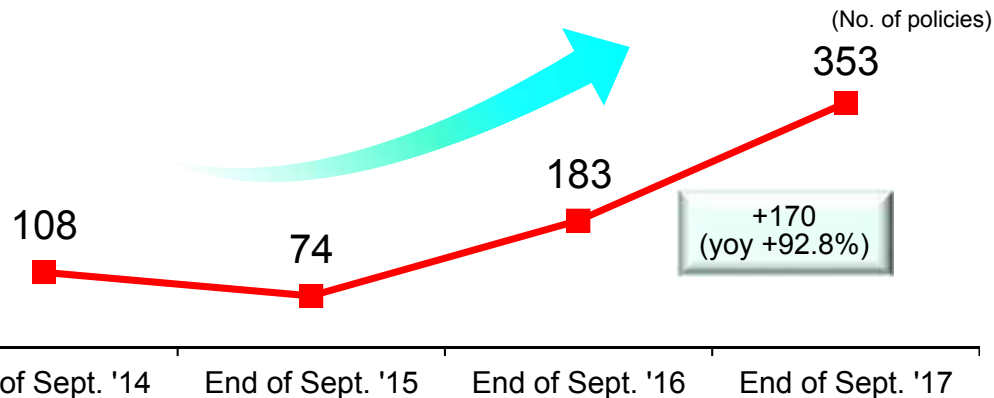
No. of employees with the 1st grade financial planner qualification (asset consultation business)

About 290 (as of Sept. 2017)

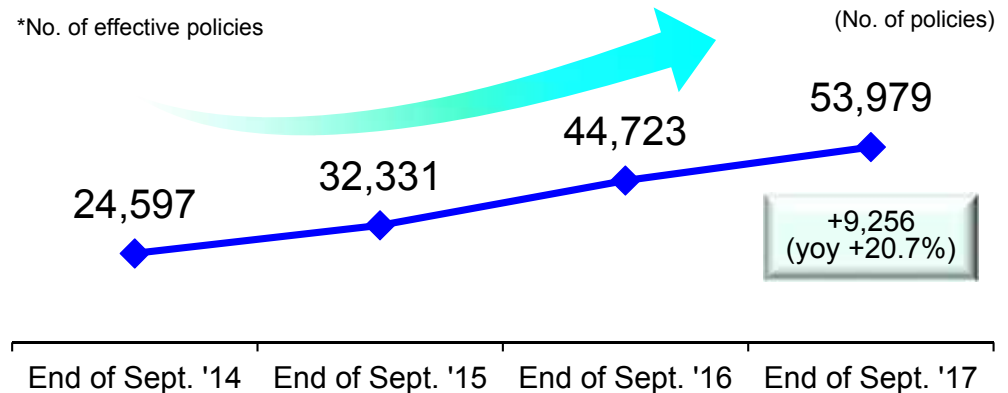
Trend of business execution for the senior generation (inheritance-related)



Obtaining business insurance to meet the needs of business inheritance



Obtaining level premium insurance for strengthening the stock income

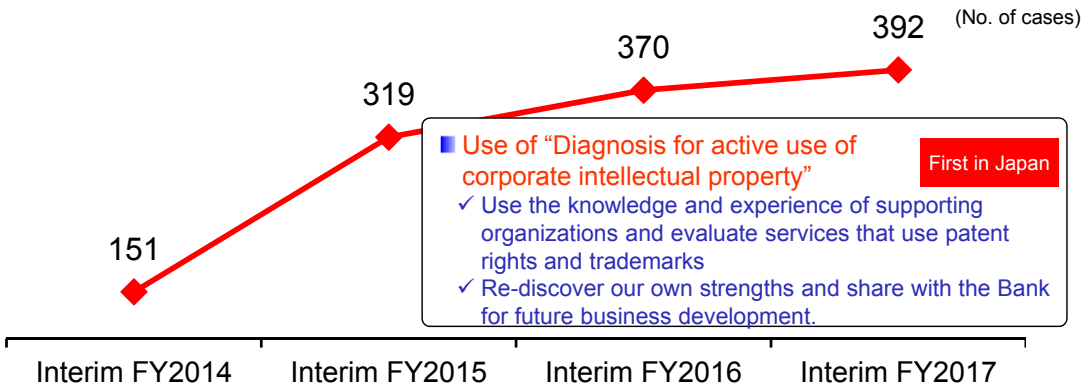


(6) Enhancement of high value-added banking business 1

– Promotion of feasibility studies –

- Provide comprehensive solutions such as consulting-type loans based on feasibility studies such as qualitative analysis
- Newly establish the “Shipping Finance Division” to establish a system which allows contribution to sustainable growth and development of the shipbuilding/marine transportation businesses, our major local industries, as a member of Setouchi Marine Cluster.

Qualitative analysis to understand customers and identify management issues

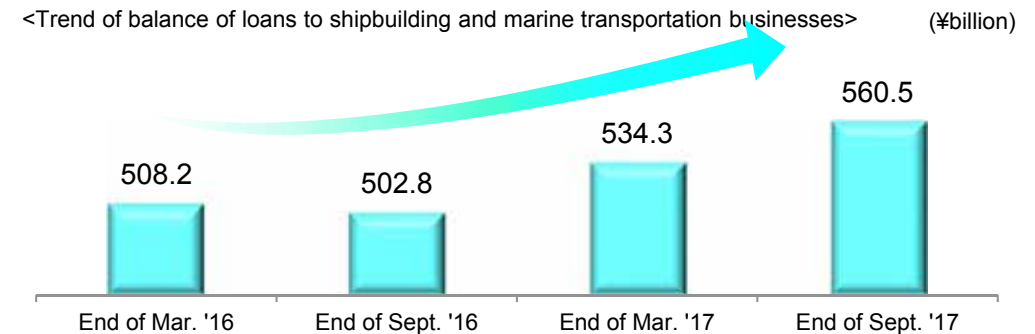


Provide consulting-type loans based on qualitative analysis

- **Loans with principal-exempted in case of large earthquake** First in Japan
 - Features**
 - ✓ Principal is exempted if an earthquake with a seismic intensity of 6 or stronger is observed, regardless of the damage (100% or 50%).
 - ✓ Covers not only direct damage (such as structures and facilities) but also indirect damage (damage suffered by suppliers).
- **<Hirogin> Healthy management support loans** First in Japan
 - Features**
 - ✓ Support efforts for healthy management that can contribute to improving productivity.
 - ✓ Provide employees with system tools (such as applications) that support healthy management for one year, in collaboration with “MTI Ltd.”*

* MTI Ltd. is a TSE 1st section-listed mobile content provider that provides site application software for “music.jp” and “Luna-Luna”.

Newly establish the “Shipping Finance Division”



- ✓ The Bank’s home area of four prefectures is a center for marine-related industries.
- ✓ These industries account for the largest portion of the Bank’s business loan portfolio.
- ✓ Performance of these industries fluctuates significantly depending on market conditions and the exchange rate.

Newly establish the “Shipping Finance Division” (November 6, 2017)

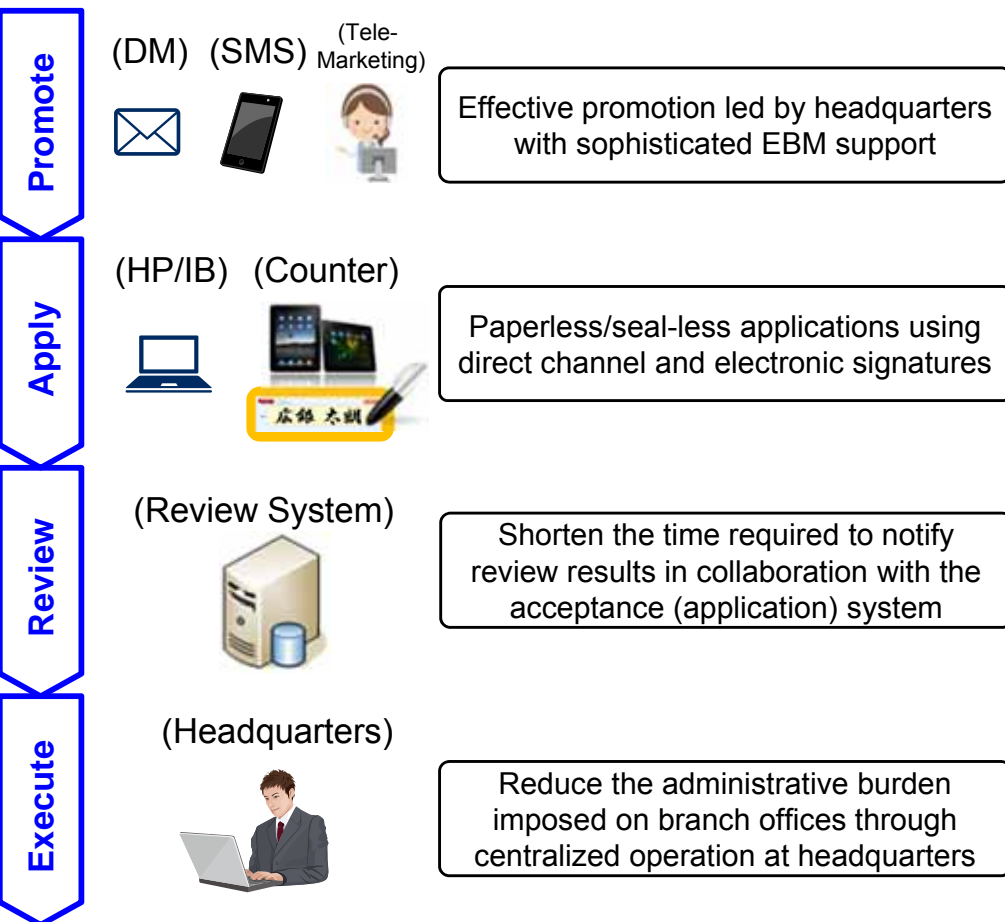
- ✓ Provide the best solution based on strong customer relationships
 - ✓ Check and analyze information on the shipbuilding/marine transportation industries quickly and precisely, and establish a system to further support our customers
 - ✓ Enhance human resource development systematically
- Contribute to sustainable growth and development of the shipbuilding/marine transportation industries, our major local industries

(7) Enhancement of high value-added banking business 2

- Promotion of consumer loans -

- Develop the business led by headquarters without involving branch offices, and establish an effective sales promotion system using paperless application procedures, etc.
- Promote specific-purpose loans by enhancing advertising activities

Establish an effective promotion system for personal loans



Promote specific-purpose loans

Enhance advertising activities (broadcasting new TV commercials)



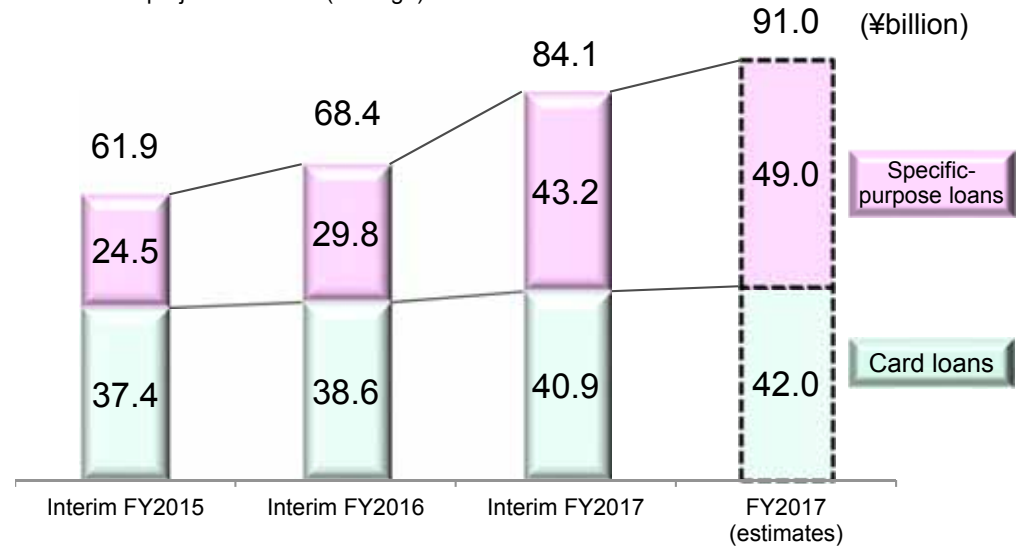
<Hirogin> My car loan



<Hirogin> Education loan card



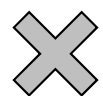
<Trend and projection for the (average) balance of consumer loans>



Manage to find time and staff for sales promotions by both “promoting the reform of working-styles” and “developing a branch office strategy”, and enhance sales power by re-allocating management resources.

Reform of working-style

Reform of culture	<ul style="list-style-type: none"> ✓ Reform awareness and actions of all the employees
Reform of operations	<ul style="list-style-type: none"> ✓ Fully start the integrated operation support system ✓ Project for eliminating administrative tasks at branch offices ✓ Increase operational efficiency at headquarters ✓ Establish a credit model using AI ✓ Improve efficiency of operations using RPA
Reform of system	<ul style="list-style-type: none"> ✓ Enhance measures to reduce working hours (Automatic PC log-off system, working time interval system) ✓ Promote diversity (Support female workers, allocate mid-career staff members strategically)



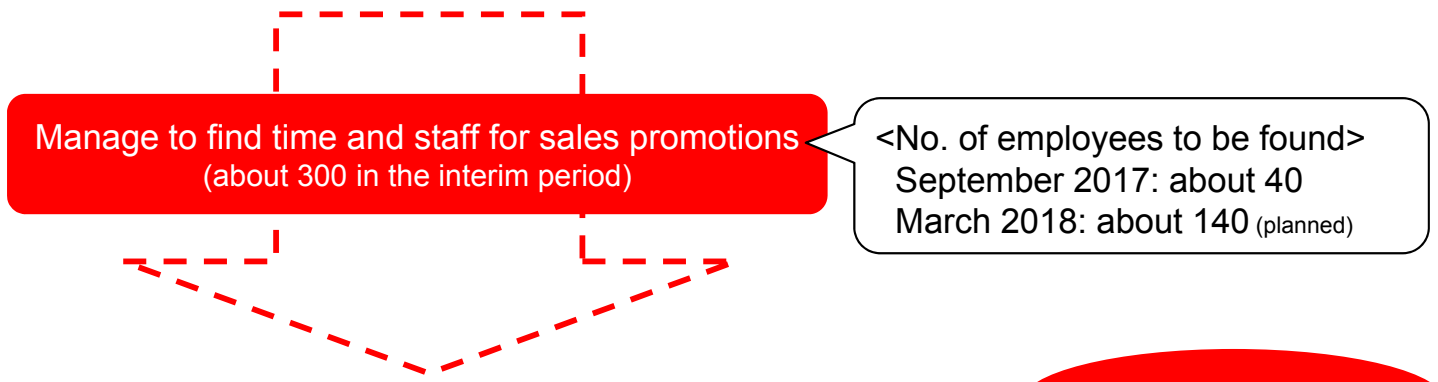
Branch office strategy

- Transform innovative branch offices with an eye on the next generation
 - *Pilot project at Hacchobori branch office (from December 18, 2017)
 - ➔ Open a sightseeing counter
 - ➔ Introduce a robot concierge
- <Future projection> Establish a system consisting of a core branch (hub branch) and small & light branches (spoke branches)
 - ✓ Reform branch office style and functions by eliminating administrative tasks (Full-service branch, consulting-dedicated branch, administration-dedicated branch, etc.)
 - ✓ Clarify the role of each branch office based on market attributes



“HQ for the promotion of reform of working style”
(Newly established in October 2017)

- Newly establish a “Headquarters to promote working style reform” with the President as the head.
- Increase competitiveness through promoting working style reform
- Actively canvass opinions from a wide range of staff members including female employees and mid-career employees, regardless of branch office or HQ



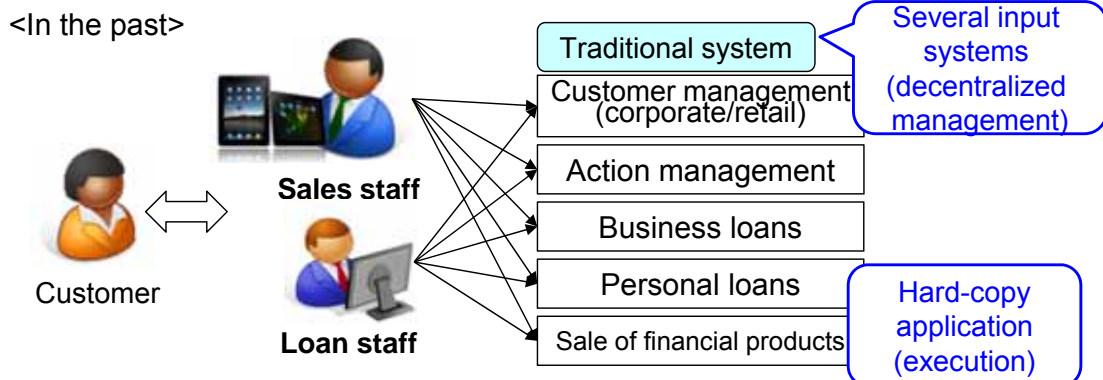
Enhance sales power

Re-allocate sales force to the high-value added banking business, the asset management business, and other promising markets

Strongly improve the productivity of the organization by managing to find time and staff for sales promotions

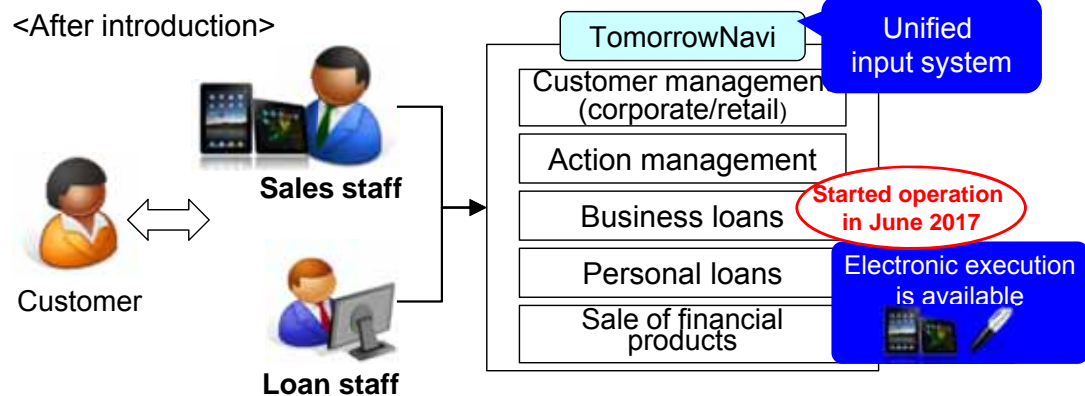
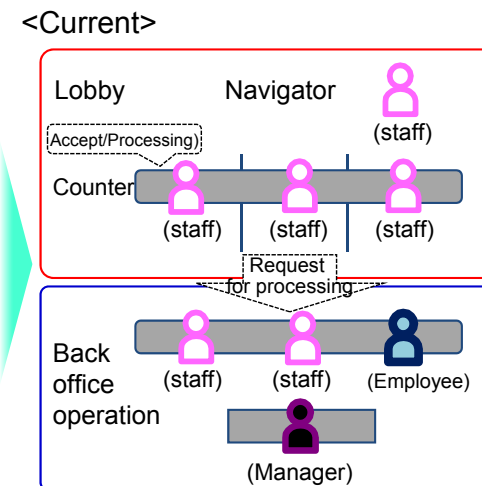
Full-fledged operation of the integrated operation support system "TomorrowNavi"

Start of the "Project to eliminate administrative tasks at branch offices"

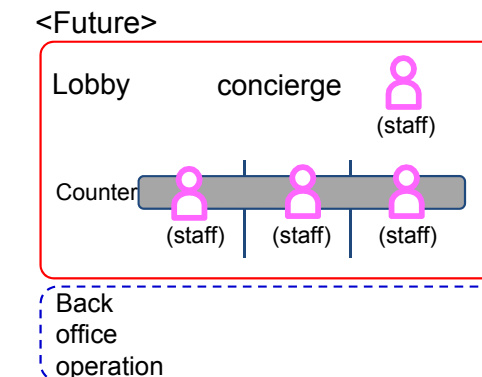


Project for eliminating administrative tasks at branch offices

- (i) Thoroughly paperless/seal-less
- (ii) Completely eliminate administrative tasks
Abolish unnecessary operations by reviewing the operational flow; Centralize tasks at the HQ
- (iii) No manager
Review the administrative processing authority / systemize the operation systems
- (iv) Promote the self-transaction
Request of advance processing during a waiting time



- Lead customers in the lobby to a transaction meeting the customer's needs
- Complete face-to-face transactions at the counter
- Re-allocate staff members, found by eliminating back-office operations, to promotion sections



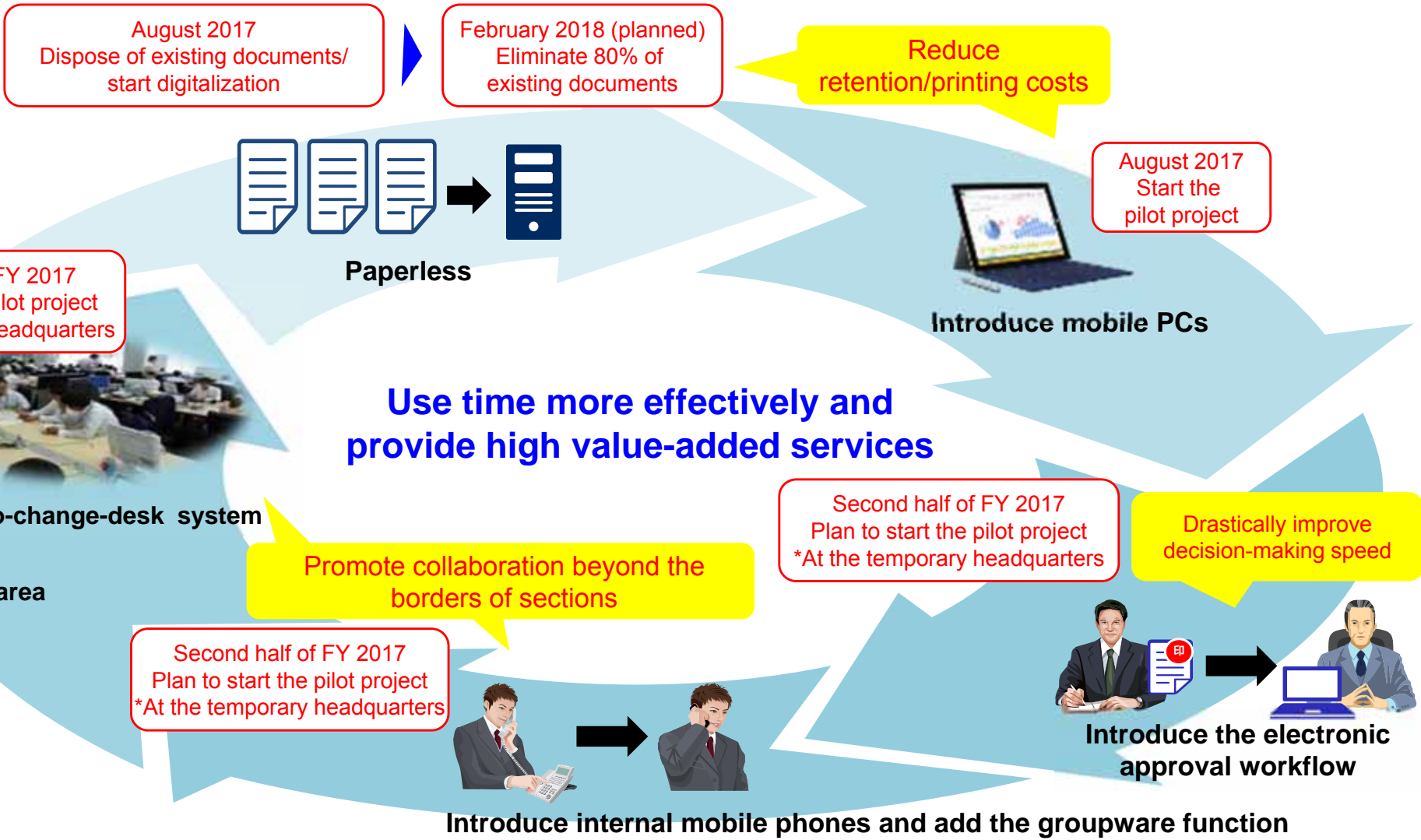
Improve performance by finding more time for sales promotions, active use of information, and enhanced proposal power

Efficient re-allocation of management resources

(10) Enhancement of profit base 3

- Efforts to reform of working-styles at headquarters -

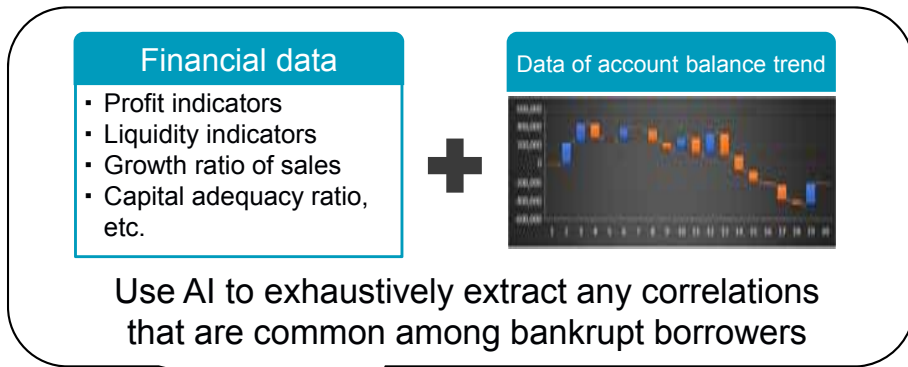
At the time of the move to temporary headquarters in February 2018, start actions to improve productivity



■ Create new profit opportunities as well as improve operational efficiency through new services supported by FinTech

Consider establishing a credit model using AI

Start demonstrations to improve operational efficiency using RPA



Artificial Intelligence (AI)

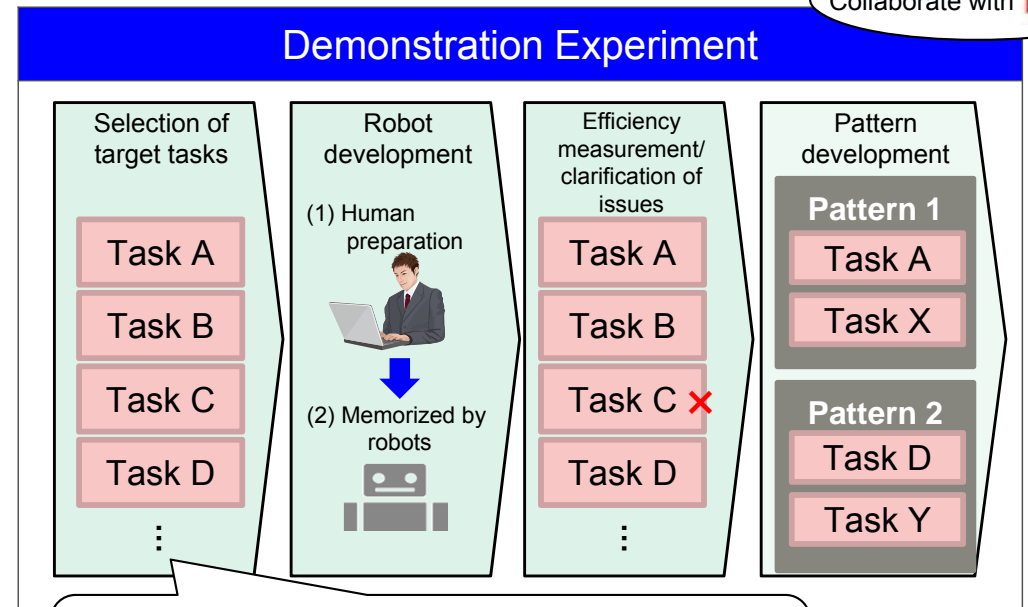


Calculating probability of bankruptcy

What is RPA (Robotic Process Automation)?

- ✓ Automate human operations by making the software memorize the entire PC operations done by human staff and do such operations on behalf of human staff.

Collaborate with FUJITSU



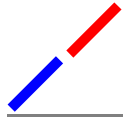
Full-fledged operation

- <Target tasks (candidates)>
- ✓ Foreign currency cash management
 - ✓ Acceptance of credit card application/issuance, etc.

In the future...

- ✓ Re-allocate reviewers after automating the review process (Promotion sections)
- ✓ Promote aggressive marketing based on individual advance reviews
- ✓ Consider using AI for other banking operations

Consider re-allocating the identified management resources by reducing the administrative burden



4. Business Forecast in FY2017

(1) Forecast of business performance and dividend in FY2017

In FY2017, we expect that the **net income will be ¥27.5 billion while profit attributable to owners of the parent will be ¥25.9 billion**, which is ¥2.8 billion higher than the estimate announced in May. The forecast for the **annual dividend is expected to be ¥18 per share**, which is ¥2 higher per share compared with the estimate announced in May, based on the payout table.

Business forecast for FY2017

(Units: ¥billion)

	1H results	2H estimates	FY2017 forecast		
				YoY change	Comparison with estimate in May
Net interest income	34.9	33.3	68.2	-3.2	2.4
Interest of loans	30.4	30.5	60.9	0.0	—
Net fees and commissions income	8.8	8.4	17.2	-0.5	1.2
Core gross banking profit	43.8	41.7	85.5	-3.6	3.7
- Expenses	26.6	27.7	54.3	-0.4	-1.0
Core banking profit	17.1	14.0	31.1	-3.3	4.6
Gains/losses on securities	3.9	1.3	5.2	-6.3	0.7
- Credit costs	0.8	1.5	2.3	-0.4	1.3
Ordinary profit	23.7	14.4	38.1	-5.1	7.1
Net (interim) income	17.6	9.9	27.5	-2.4	5.7
Profit attributable to owners of the parent (interim)	15.0	10.9	25.9	-5.3	2.8

Payout table and estimated dividend in FY2017

Profit attributable to owners of the parent	Dividend per share			Consolidated payout ratio
	(1) Fixed	(2) Performance-based	(1) + (2)	
Over ¥33 billion	¥12	¥12	¥24	Less than 22.7%
Over ¥30 billion to ¥33 billion	¥12	¥10	¥22	20.8% to less than 22.9%
Over ¥27 billion to ¥30 billion	¥12	¥8	¥20	20.8% to less than 23.2%
Over ¥24 billion to ¥27 billion	¥12	¥6	¥18	20.8% to less than 23.4%
Over ¥21 billion to ¥24 billion	¥12	¥4	¥16	20.8% to less than 23.8%
Over ¥18 billion to ¥21 billion	¥12	¥2	¥14	20.8% to less than 24.3%
¥18 billion or less	¥12	¥0	¥12	20.8% or over

(Note) This is the payout table after the reverse split occurred on October 1, 2017.



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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