



# Overview of Interim Financial Results for FY2018

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— IR Presentation —

**The Hiroshima Bank, Ltd.**



**December 4, 2018**

**President Toshio Heya**



## 1. Highlights of FY2018 1H 2

## 2. Overview of Interim Financial Results for FY2018

(1) Summary of business performance in FY2018 1H	4
(2) Net interest income	5
(3) Net fees and commissions income	6
(4) Expenses	7
(Reference) Comparison with other banks (FY2018 1H)	8
(5) Balance of loans, deposits, etc. (deposits+NCD) and foreign currency funding	9
(6) Loans to SMEs and personal loans	10
(7) Securities	11
(8) Credit costs and non-performing loans	12
(9) Capital adequacy ratio and ROE	13

## 3. Progress of Mid-term Plan 2017

(1) Summary of Progress of Mid-term Plan 2017	15
(2) State of achievement of Management objectives	16
(3) Enhancement of asset management business 1 — Collaboration between banking and securities businesses —	17
(4) Enhancement of asset management business 2 — Business for HNWI and corporations —	18
(5) Enhancement of high value-added banking business 1 — Business loans —	19
(6) Enhancement of high value-added banking business 2 — Personal loans —	20
(7) Initiatives for efforts for regional development (Reference) Major development projects in Hiroshima City	21 22
(8) Initiatives for structural reform	23
(9) Initiatives for the work-style reform	24
(10) Response to financial digitalization — Branch office strategies —	25
(11) Response to financial digitalization — Responding to diversification in payment methods —	26

## 4. Initiatives for ESG

(1) Initiatives for ESG	28
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## 5. Business Forecast for FY2018

(1) Forecast of business performance and dividend in FY2018	30
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# 1. Highlights of FY2018 1H

1	Core banking profit <b>increased year on year</b> , due mainly to an increase in net interest income and lower expenses.	P.4
2	The interest on loans <b>increased</b> on an interim basis <b>for the first time in 10 years</b> .	P.5
3	Due to stronger ties between banking and securities business, the non-interest income ratio, including income from Hirogin Securities, <b>increased at a steady pace to 34.0%</b> .	P.6
4	Due to focusing on consulting sales, <b>lending to SMEs increased at a steady pace</b> .	P.10
5	Support to improve management helped <b>maintain</b> the non-performing loan ratio was <b>at a favorable historical low of 1.20%</b> .	P.12
6	We made the decision to pay a commemorative dividend (2.0 yen per share); accordingly, <b>the dividend payout ratio projection was revised upwards</b> . ⇒ Initial projection for FY2018 consolidated dividend payout ratio: <b>21.1% → 23.5%</b>	P.30



## 2. Overview of Interim Financial Results for FY2018

# (1) Summary of business performance in FY2018 1H

- As for profit and loss in FY2018 1H, net income decreased by 5.0 billion yen on a year-on-year basis to 12.6 billion yen, while net interest income increased and expenses fell and credit costs rose due to bankruptcies at major borrowers. Losses resulting from the impact of gains on the reversal of the allowance for investment losses booked the previous year also hurt net income.
- Due to the loss of the impact of gains from negative goodwill booked in the previous year, interim net income attributable to owners of the parent decreased by 3.0 billion yen on a year-on-year basis to 12.0 billion yen.

(Billion yen)

	FY2018 1H	YoY change	( Change rate )
Net interest income	35.2	0.3	
Net fees and commissions income	8.8	0.0	
<b>Core gross banking profit</b>	<b>44.1</b>	<b>0.3</b>	<b>( 0.8% )</b>
- Expenses	26.5	-0.1	
<b>Core banking profit</b>	<b>17.6</b>	<b>0.5</b>	<b>( 2.4% )</b>
Gains/Losses on securities	2.2	-1.7	
- Credit costs	2.5	1.7	
(Reversal of allowance for investment losses)	(-)	(-4.9)	
<b>Ordinary profit</b>	<b>17.5</b>	<b>-6.2</b>	<b>( -25.8% )</b>
<b>Interim net income</b>	<b>12.6</b>	<b>-5.0</b>	<b>( -28.5% )</b>
<b>Consolidated ordinary profit</b>	<b>17.4</b>	<b>-1.3</b>	<b>( -6.8% )</b>
Interim net income attributable to owners of the parent (including gains from negative goodwill etc.)	12.0	-3.0	( -20.1% )
	(-)	(-2.0)	

## (2) Net interest income

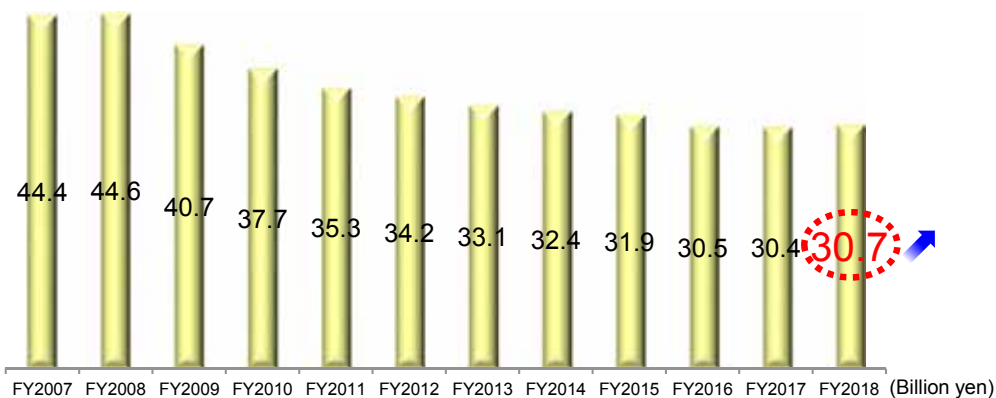
Net interest income was up by 3.0 billion yen from the previous year, due mainly to **an increase in interest on loans for the first time in an interim period for 10 years** (on a full-year basis, it increased in FY2017 for the first time in 10 years) and despite a decrease in interest and dividends on securities.

### Breakdown of net interest income

(Billion yen)

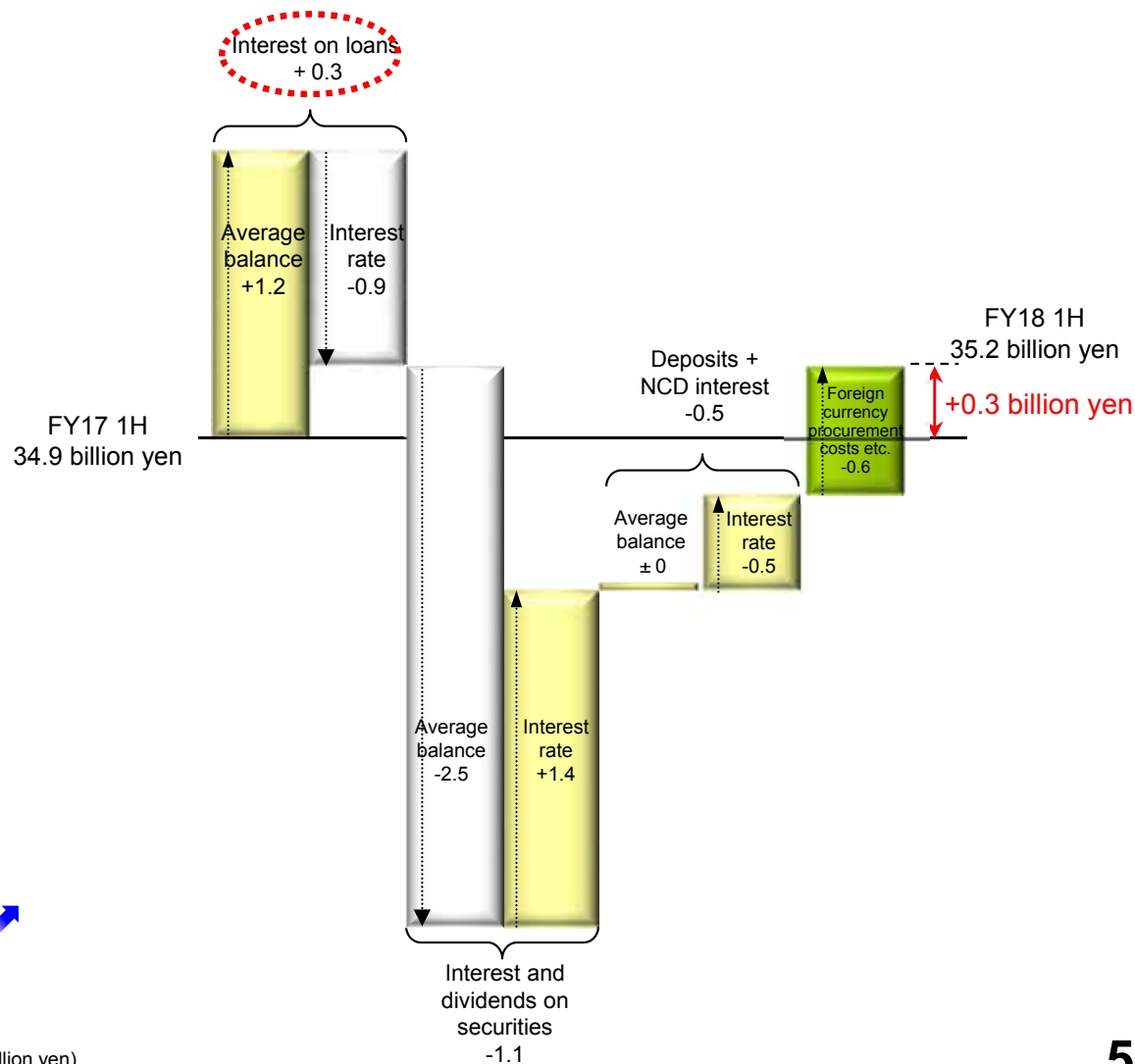
	FY2018 1H	
		YoY change
Interest on loans	30.7	0.3
Interest and dividends on securities	7.8	-1.1
Deposits + NCD interest (-)	1.1	-0.5
Foreign-currency procurement costs etc. (-)	2.2	-0.6
<b>Net interest income</b>	<b>35.2</b>	<b>0.3</b>

### Changes in loan interest (1H)



### Details of each item in net interest income

(Average balance and interest rate)



### (3) Net fees and commissions income

- Net fees and commissions income remained unchanged on a year-to-year basis. This was because while profit from the investment banking business and asset management business decreased, costs associated with domestic exchange etc. also declined.
- The ratio of non-interest income (including income from Hirogin Securities) **grew steadily to 34.0%** due to an increase in net sales income from Hirogin Securities.

Breakdown of net fees and commissions income

	(Billion yen)	
	FY2018 1H	YoY change
Investment banking business	1.4	-0.2
Syndicated loans, etc.	0.7	-0.3
Sales of derivatives to customers	0.2	0.1
Asset management business	3.5	-0.1
Insurance products	1.9	0.4
Investment trusts	0.8	-0.2
Financial instrument intermediary services	0.2	0.0
Foreign currency deposits	0.4	-0.3
Personal loan-related	-1.8	0.0
Domestic exchange, etc.	5.7	0.3
<b>Net fees and commissions income</b>	<b>8.8</b>	<b>0.0</b>

Trend of non-interest income and its ratio

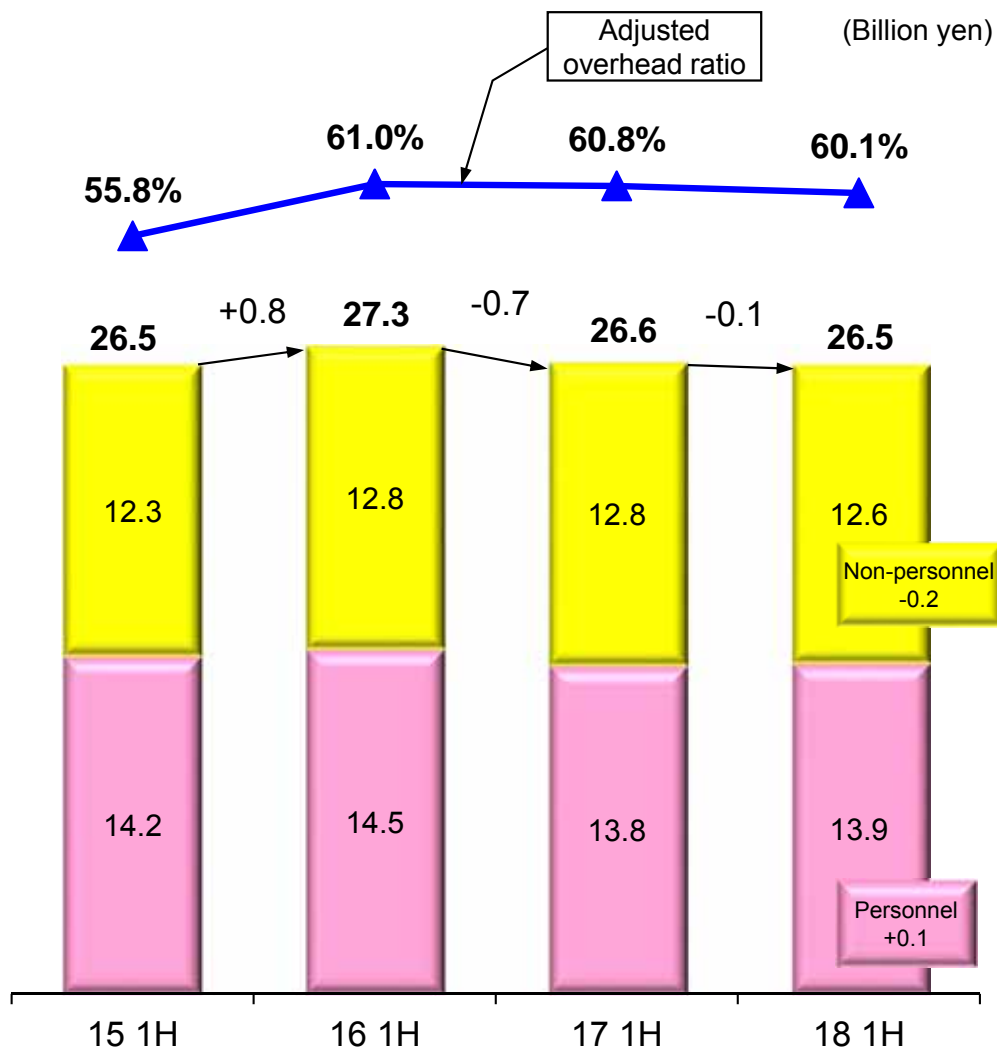
(including income from Hirogin Securities)



# (4) Expenses

- Due mainly to lower tax burdens, **expenses were down by 0.1 billion yen from the previous year.**
- The adjusted overhead ratio improved **by 0.7 points to 60.1% on a year-on-year basis.**

Trend of expenses and Adjusted overhead ratio



\* Adjusted overhead ratio = Expenses / Core gross banking profit

Breakdown of expenses

(Billion yen)

Non-personnel expenses	
Major factors	YoY change
Response to disaster caused by heavy rain in Western Japan (donations etc.)	+0.1
Deposit insurance premium	-0.1
Taxes -0.2, etc.	-0.2
Total YoY change: -0.2	

Personnel expenses	
Major factors	YoY change
Bonus	+0.2
Retirement benefit expenses	-0.1
-0.1, etc.	
Total YoY change: +0.1	

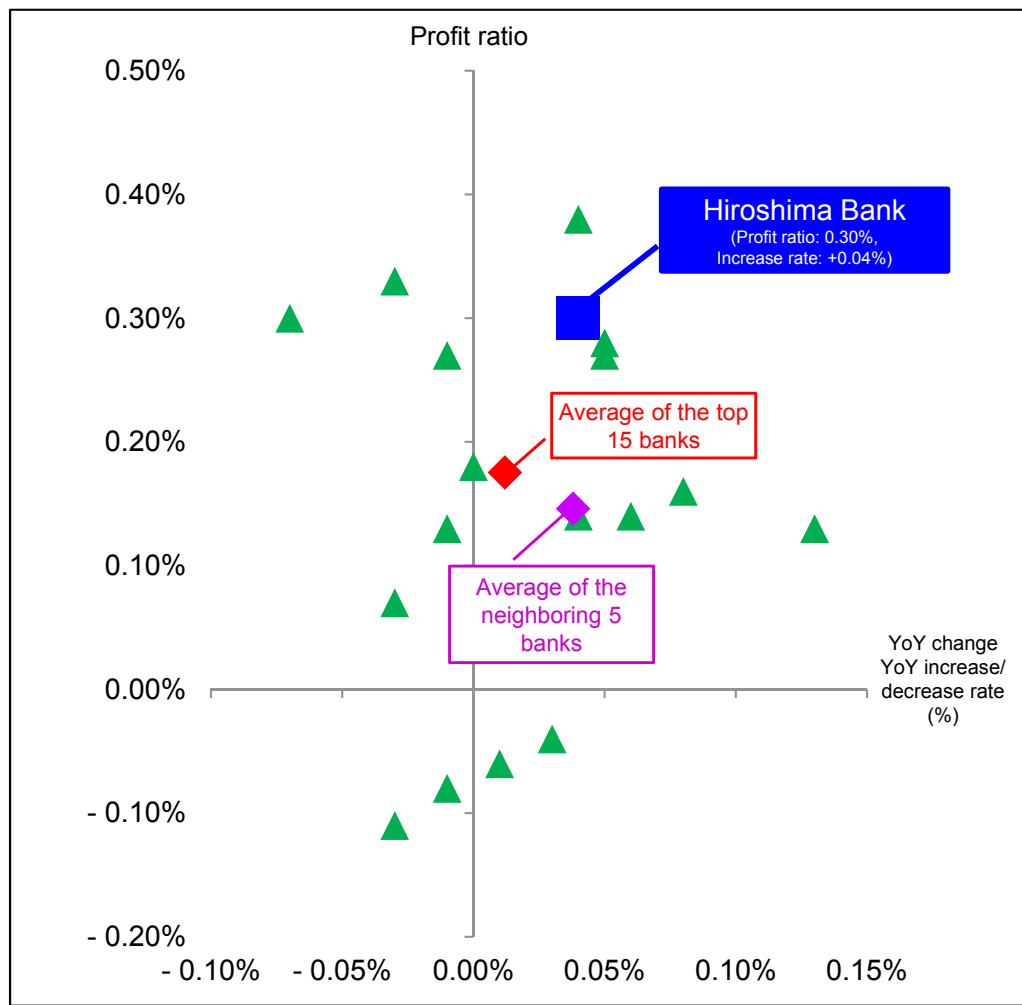


# (Reference) Comparison with other banks\*1 (FY2018 1H)

(\*1) Target... Top 15 first-tier regional banks, including FG and FH, in terms of the amount of funds (deposits + NCD) and first-tier regional banks in Hiroshima, Yamaguchi, Ehime, Okayama, and Shimane prefectures  
 Mebuki FG, Kyushu FG, Concordia FG, Nishi-Nippon FH, Kansai Mirai FG, Chiba Bank, Gunma Bank, 77 Bank, Fukuoka FG, Shizuoka Bank, Hachijuni Bank, Bank of Kyoto, Hokuohoku FG, San-in Godo Bank, Chugoku Bank, Iyo Bank, and Yamaguchi FG

Note: Data is based on calculations performed by Hiroshima Bank based on earnings briefings from each bank. FG/FH figures are simple aggregates of figures for banks under FG/FH control.

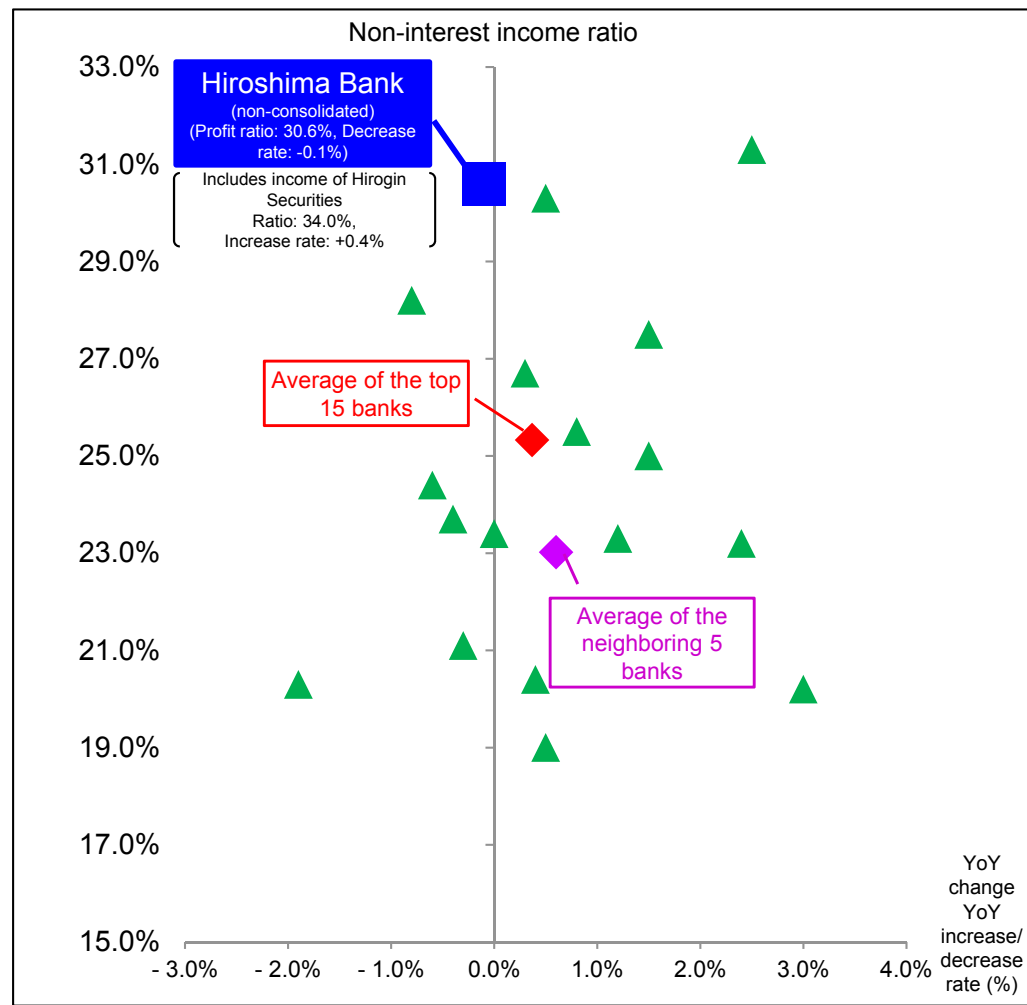
## Banking profit margins and changes therein



$$\text{Banking profit margin} = \left[ \frac{\text{Loan balance} \times (\text{loan interest rate} - \text{deposit rate}) / 2 + \text{fees and commissions income} - \text{operating expenses}}{\text{Average balance of deposits, etc.}^{*2}} \right] \times 2$$

(\*2) Our bank uses the formula given below to calculate average deposit balances for banks that do not publish figures for average deposit balances.  
 Average deposit balance + (beginning balance of NCDD + ending balance of NCD)/2

## Non-interest income ratio and its increase/decrease rate

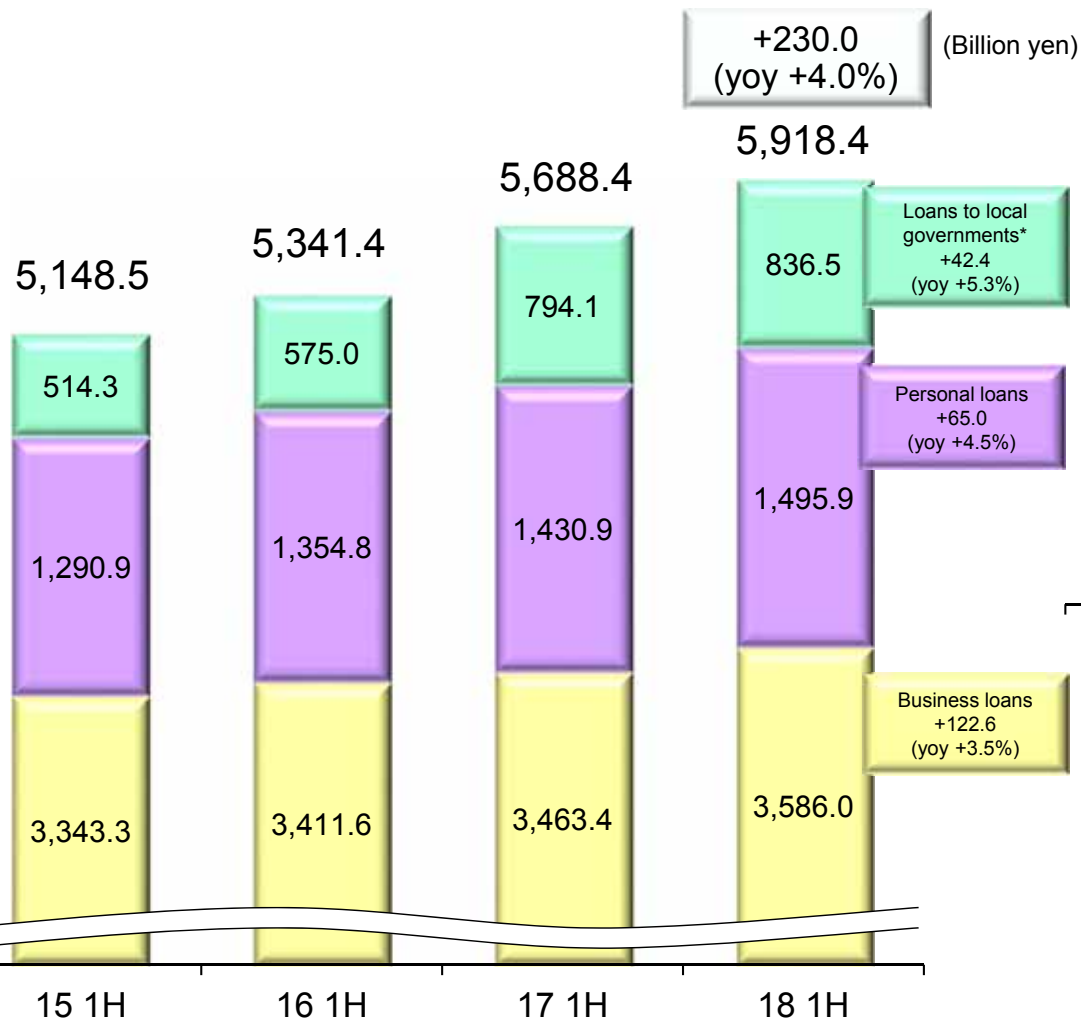


$$\text{Non-interest income ratio} = \left[ \frac{\text{Fees and commissions income} + \text{segregated trading income} + \text{other banking income (excluding bonds-related gains/losses)}}{\text{Core gross banking profit}} \right]$$

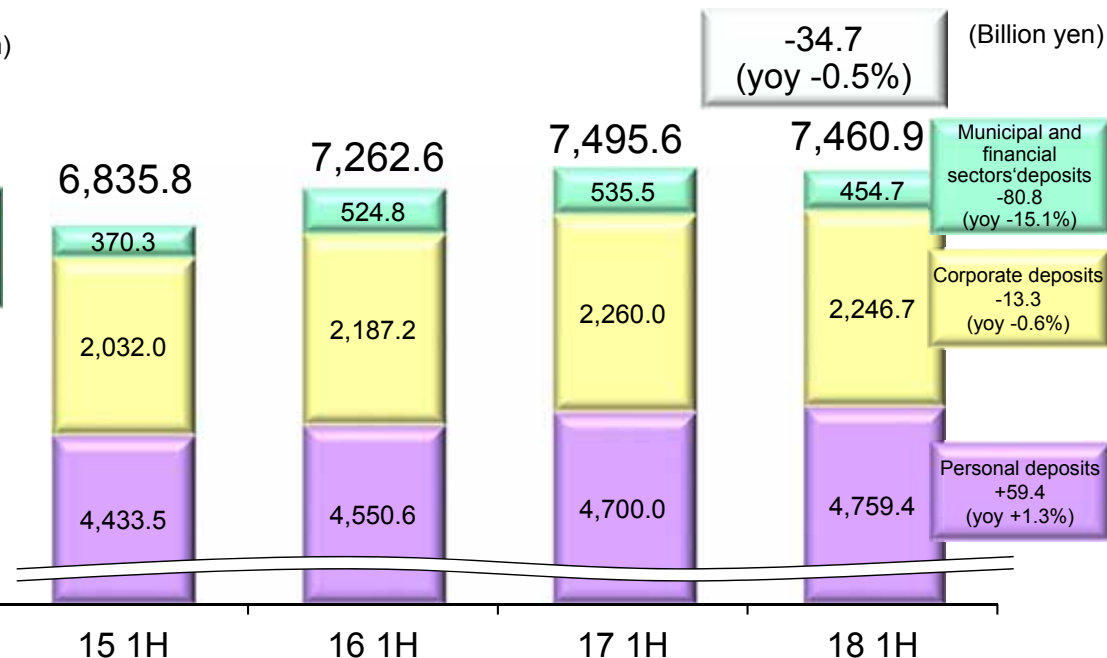
# (5) Balance of loans, deposits, etc. (deposits+NCD) and foreign currency funding

- The average balance of loans increased in business, personal, and municipal sectors **by 230.0 billion yen (+4.0% YoY)**.
- The average balance of deposit assets increased in the personal sector but declined in municipal and financial sectors. Overall, the average balance of deposit assets decreased **34.7 billion yen (-0.5% YoY)**.
- Sufficient and stable fund-raising capacity was secured for foreign currency loans.

Trend of the average balance of loans



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



Foreign currency fund-raising for foreign currency loans

(Total of all currencies as of the end of September 2018)

Items	Balance	
Loans	241.6	
<b>Total</b>	<b>241.6</b>	<b>Stable fund-raising capacity (credit line)</b> <b>+62.8</b>
Deposits	136.5	
Long-term fund-raising	91.6	
Commitment line	76.3	
<b>Total</b>	<b>304.4</b>	

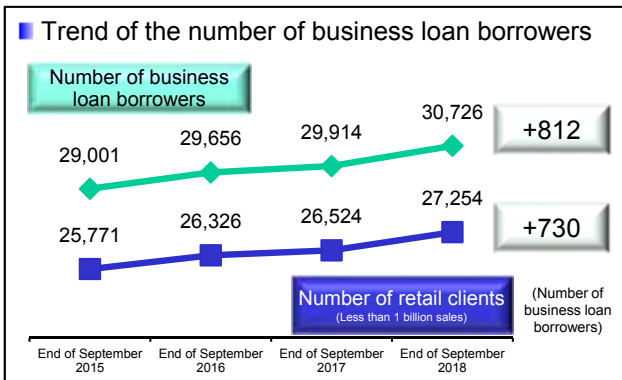
(Billion yen)

\*Loans to local governments refers to loans to local public bodies and publicly-owned corporations.

# (6) Loans to SMEs and personal loans

- The average balance of loans to SMEs continued to **increase** at a steady pace, supported by financial intermediary functions, including enhancements in consulting sales.
- The **ratio of loans to SMEs in business loans continued to increase at a steady pace**, based on steady portfolio adjustments.
- Due to efforts to increase personal loans led by the headquarters, including telemarketing, personal loans increased by **61.2 billion yen (YoY +4.1%)**.
- In the apartment loan sector, we assumed loans judged to have sufficient stress tolerance based on a recognition of these loans as effective inheritance tax shelters or reliable property investments.

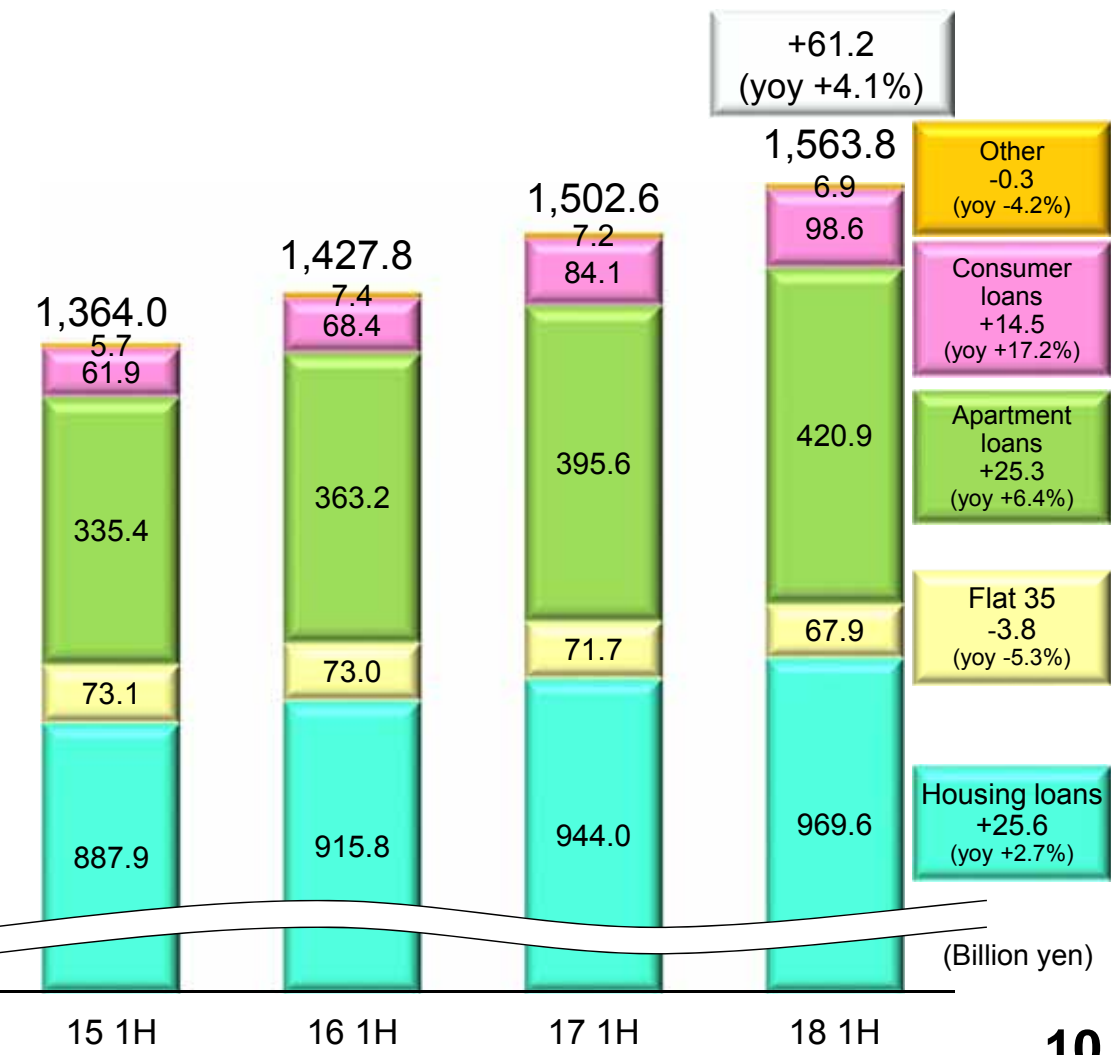
Trends in the average balance of and number of business loans



Average rate for new loans

	2nd half of FY2017	FY18 1H
Major companies	0.33%	0.34%
Mid-sized companies	0.41%	0.40%
SMEs	0.73%	0.76%
Total	0.75%	0.75%

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



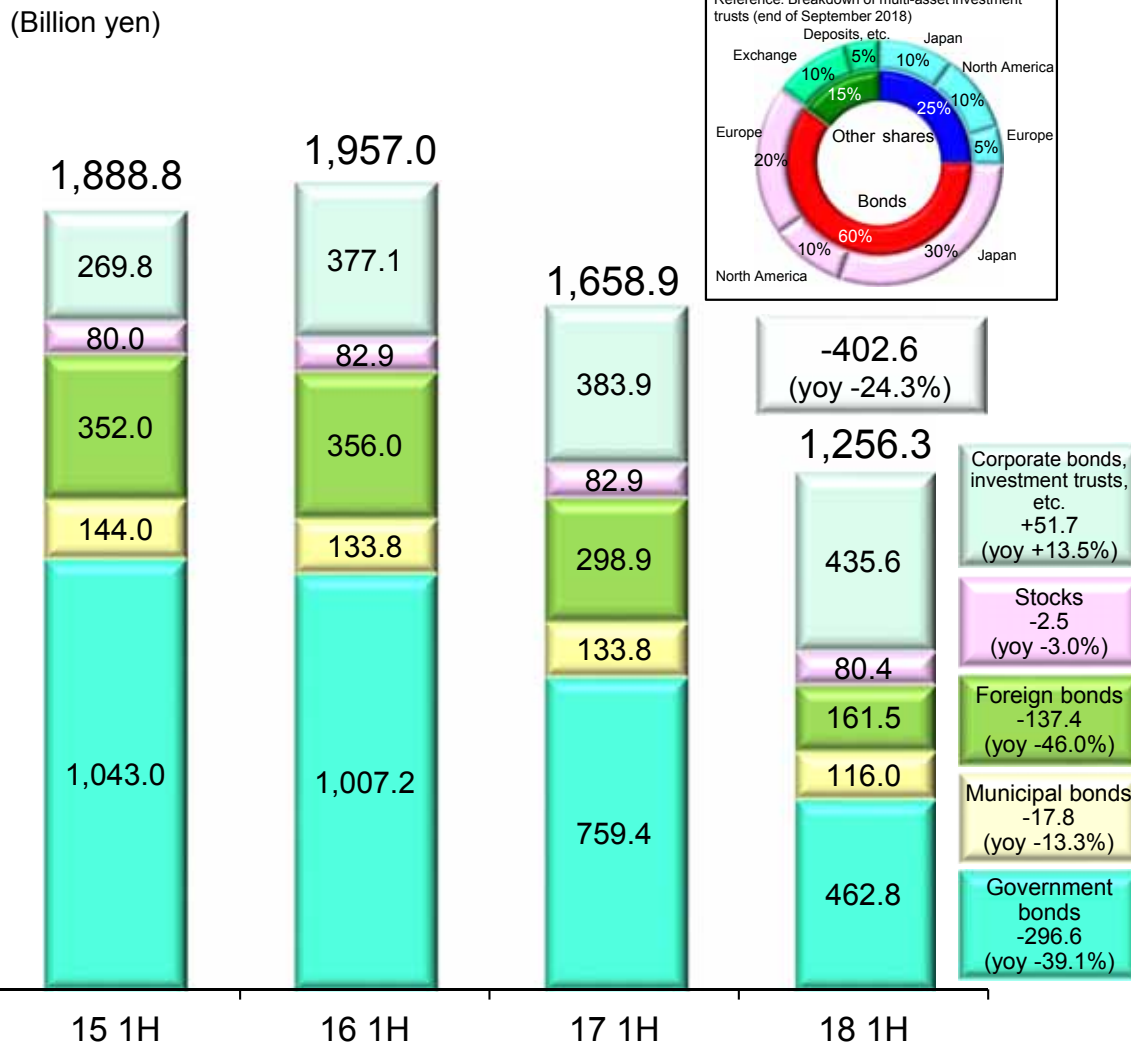
Ratio of loans to SMEs in business loans

15 1H	64.3%
16 1H	64.8%
17 1H	67.1%
18 1H	69.0%

# (7) Securities

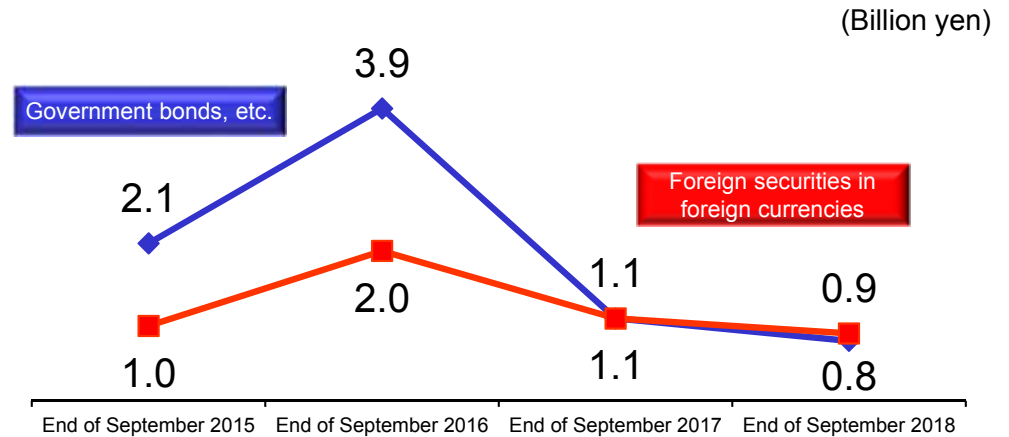
- The average balance of securities **decreased by 402.6 billion yen** due to the redemption of government bonds.
- Interest-rate risk **declined on a year-on-year basis**.
- The balance of cross-shareholdings was **reduced by 0.3 billion yen on a year-on-year basis** through dialogue with issuing entities.

Trend of the average balance of securities

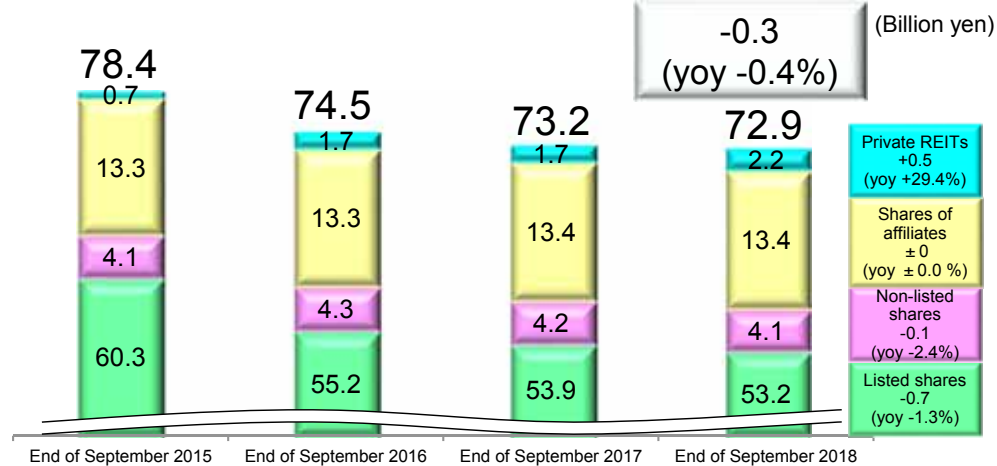


Trend of the interest rate delta

\*The amount of change in the fair value when the interest rate declines by 10bp



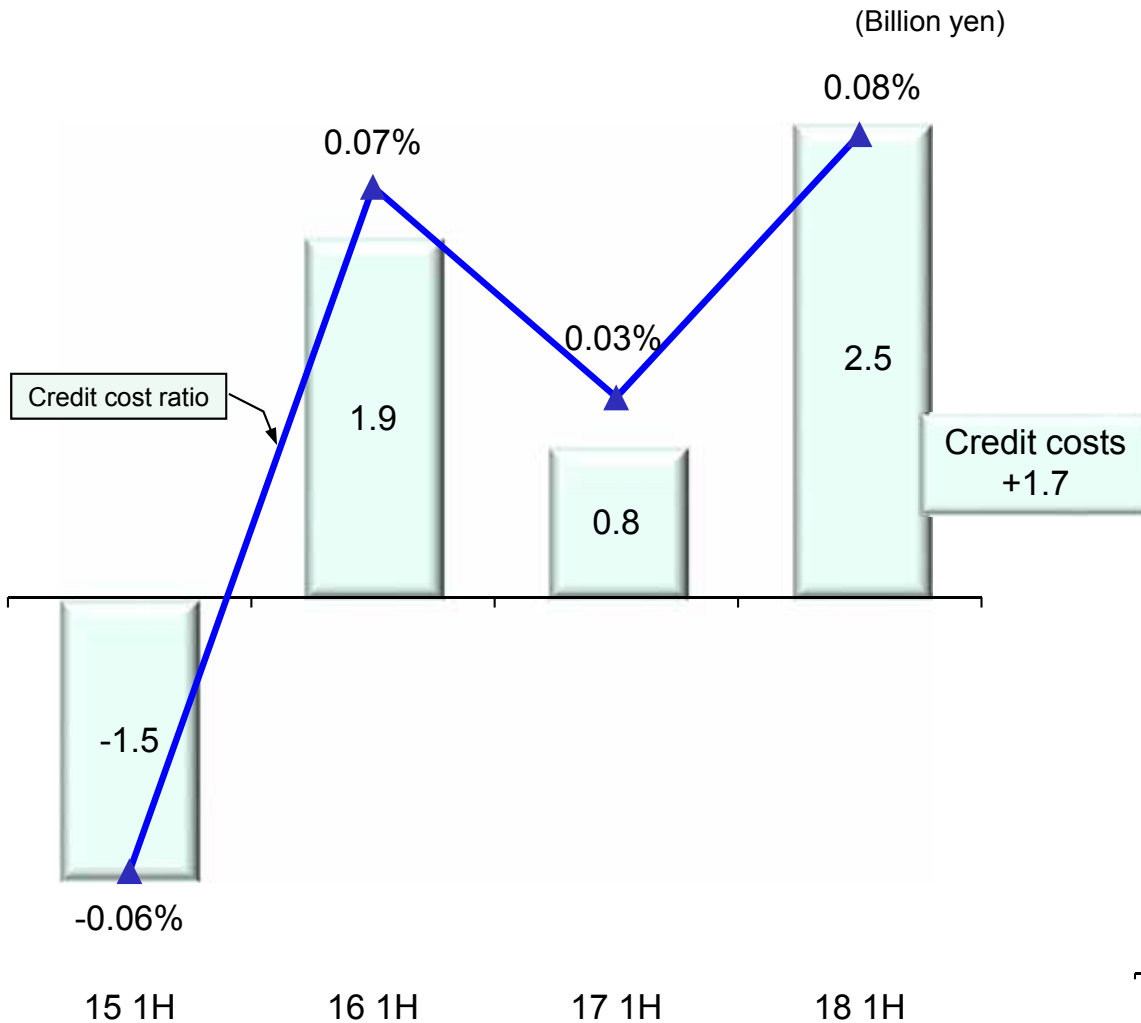
Trend of the term-end balance of cross-shareholding (including private REITs)



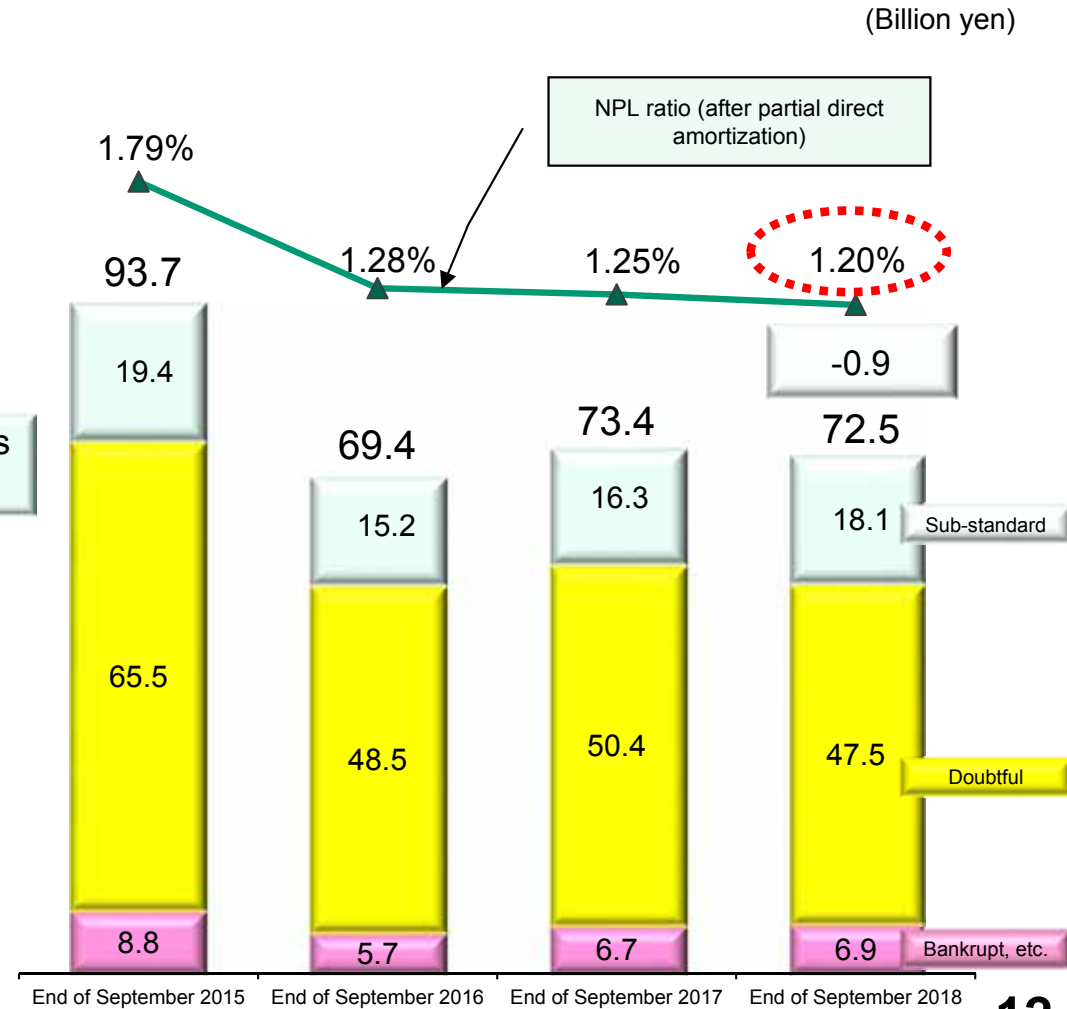
# (8) Credit costs and non-performing loans

- Credit costs increased by 1.7 billion yen on a year-on-year basis due to an increase in the disposal of non-performing loans following bankruptcies at major borrowers.
- The NPL ratio **remained favorable, staying at the historically low level of 1.20%**, thanks to a year-on-year decrease of 0.9 billion yen in the claims disclosed under the Financial Revitalization Act.

Trend of credit costs



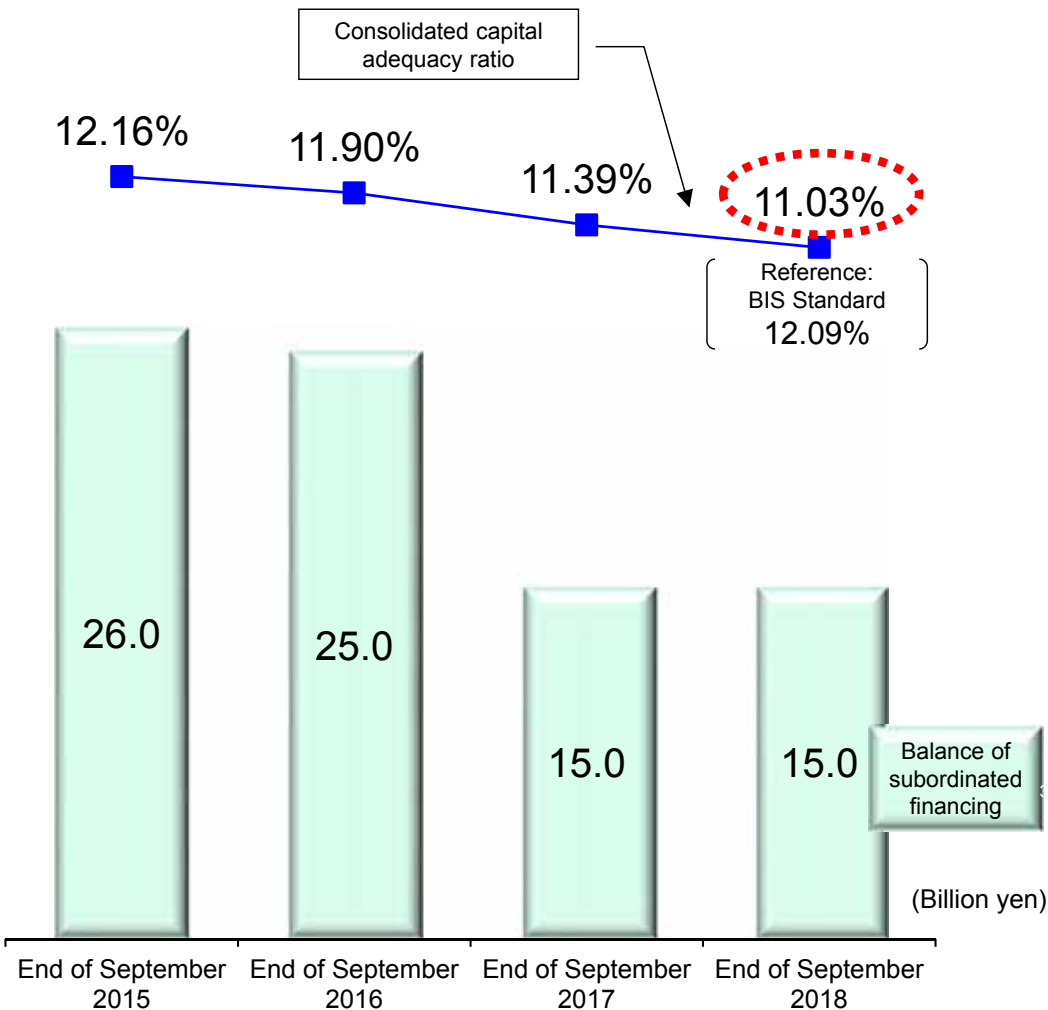
Trend of NPLs (term-end balance) and NPL ratio



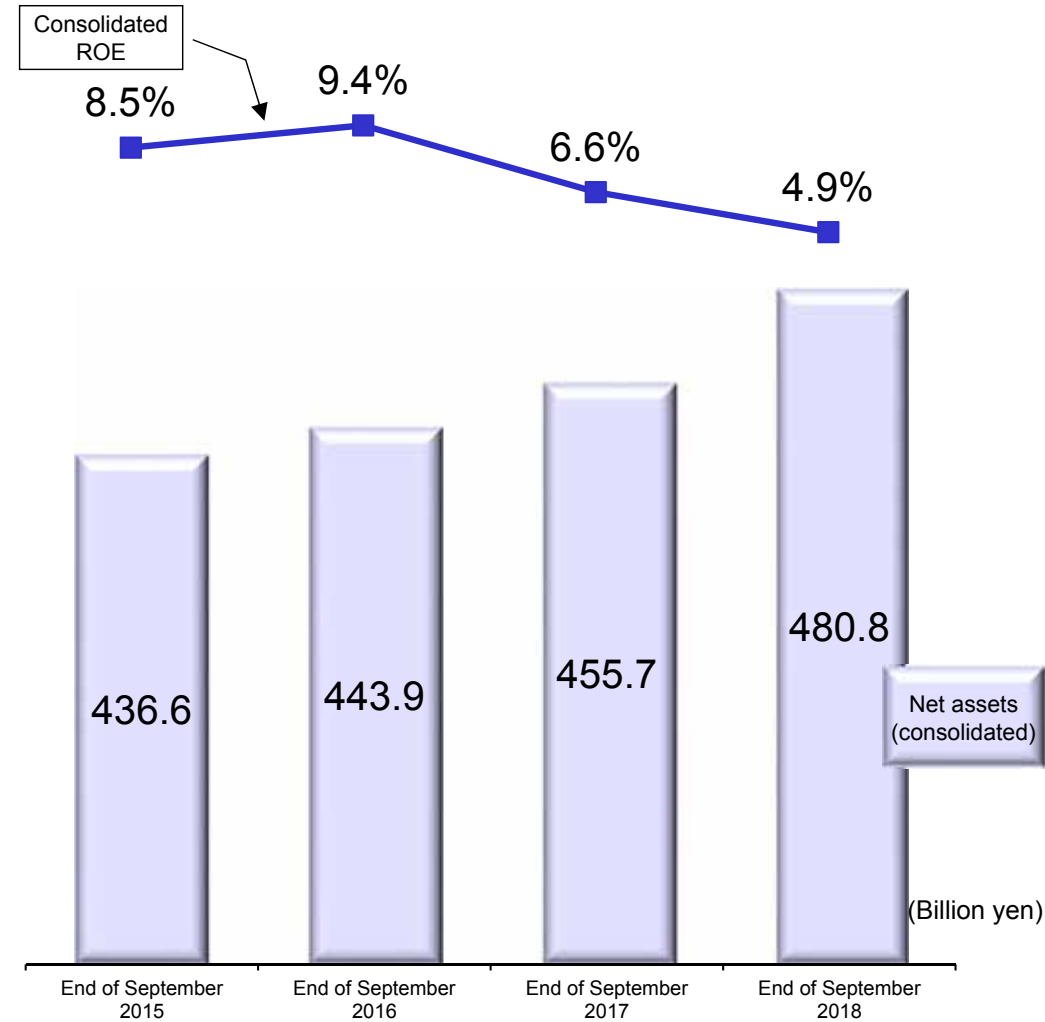
# (9) Capital adequacy ratio and ROE

- The consolidated capital adequacy ratio **remained acceptable at 11.03%**.
- Against the backdrop of a steady increase in net assets, consolidated ROE fell 1.7% year-on-year.

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

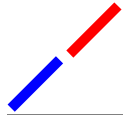


Trends in consolidated ROE



\* Redemption date: December 2021

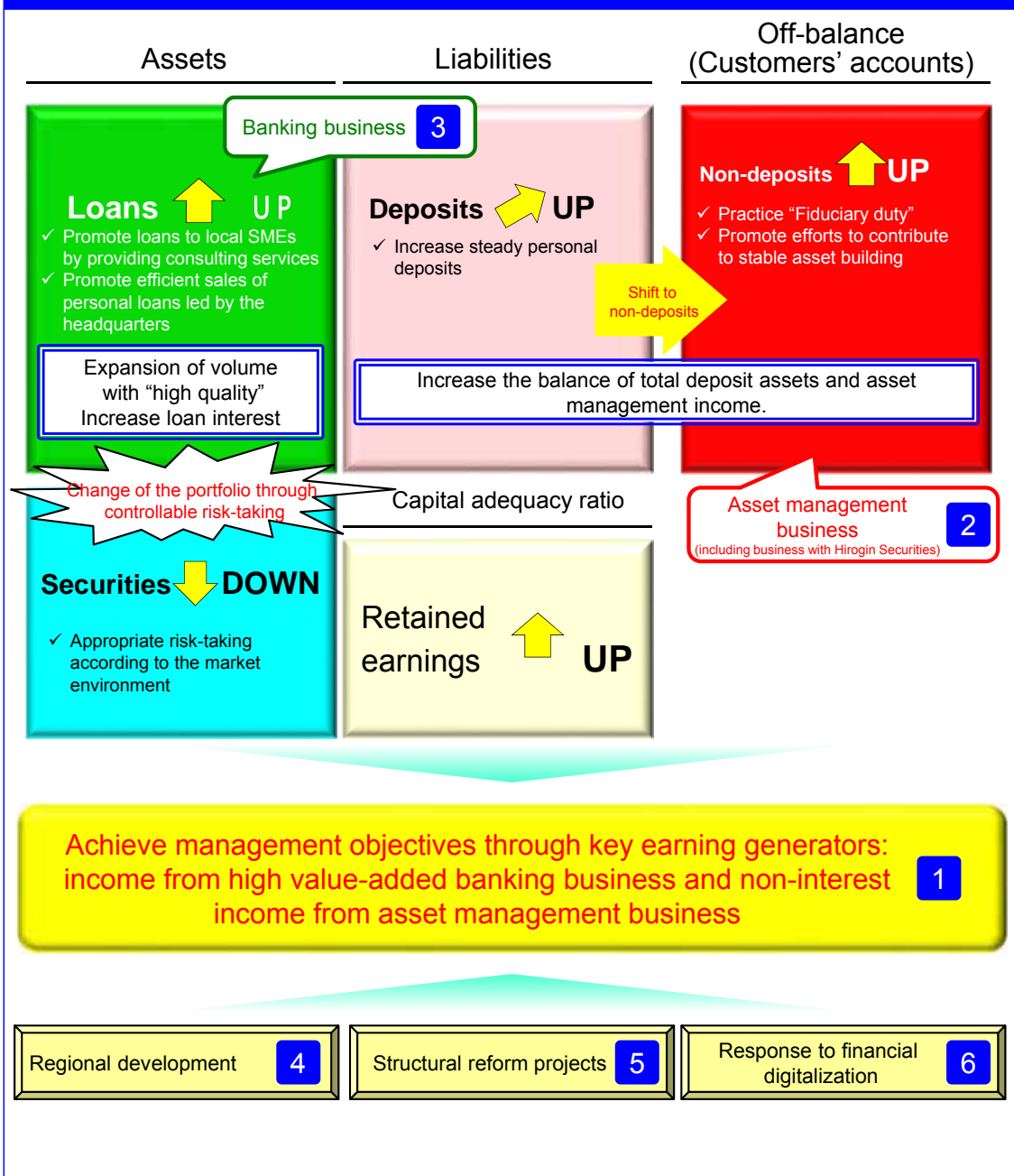
Net assets = [Total term-beginning balance of net assets (excluding share acquisition rights) + Total first-half-ending balance of net assets (excluding share acquisition rights)] / 2



### **3. Progress of Mid-term Plan 2017**

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## Management strategies in Mid-term Plan 2017



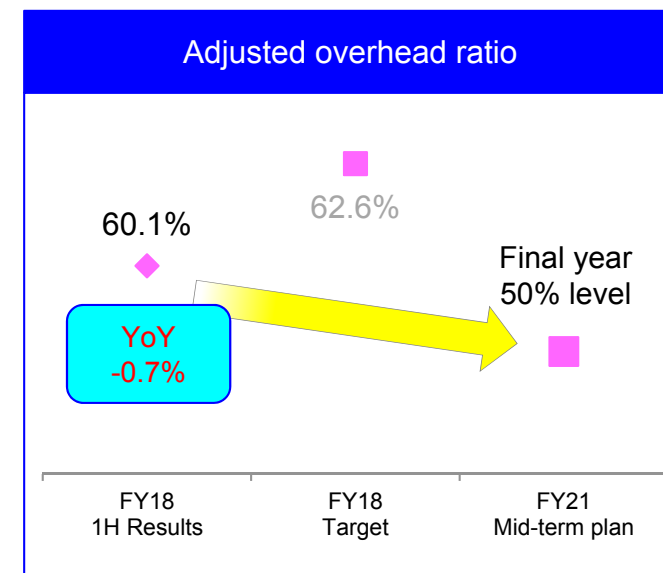
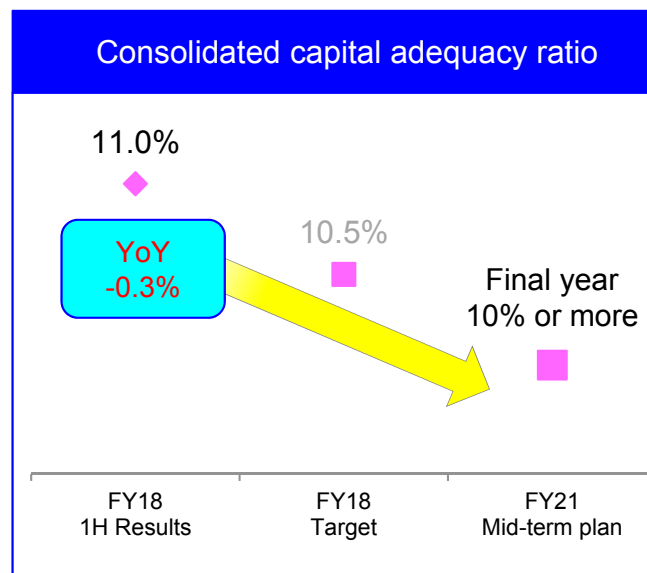
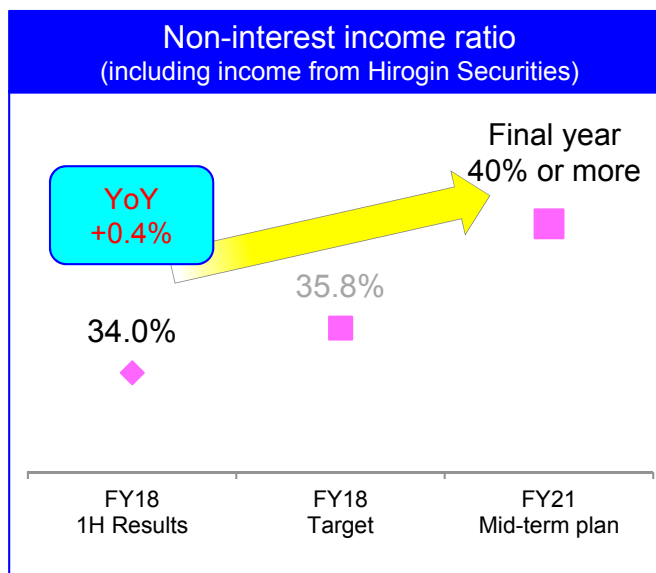
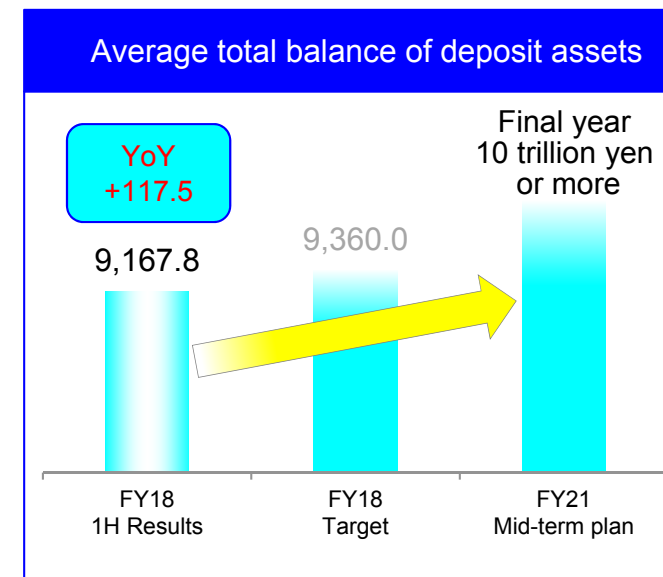
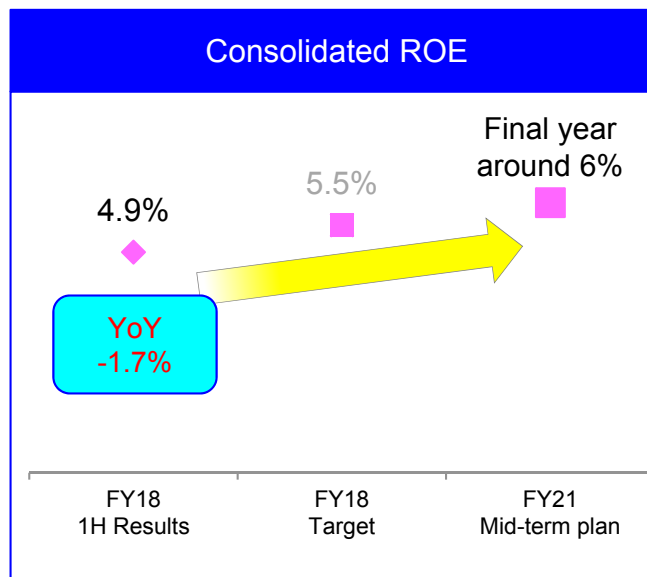
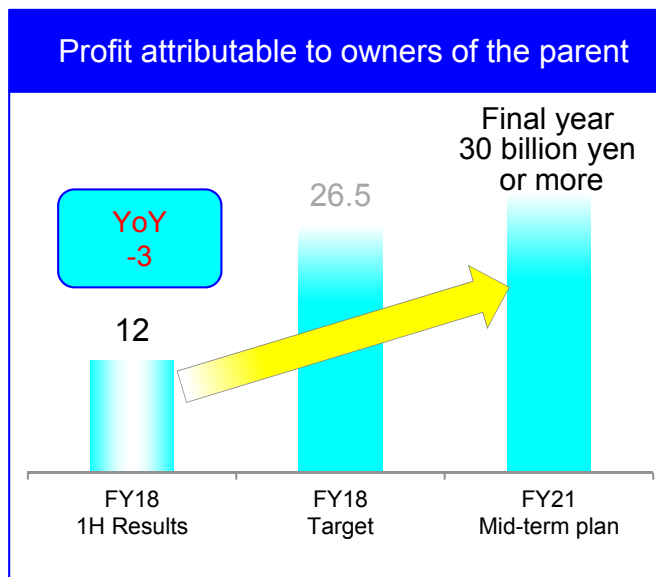
## Results of FY2018 1H (summary)

- Core banking profit increased year on year, but the impact of bankruptcies at major borrowers resulted in a 45% progress rate for consolidated net income (full-year). P.16
- We stepped up efforts to strengthen ties between banking and securities business, to make investment proposals to corporations with excess funds, etc. with the aim of **increasing the balance of total deposit assets and non-interest income**. P.17-18
- We focused on high value-added businesses **by identifying needs related to operational risk**, including the response to the disaster caused by heavy rain in Western Japan. P.19
- We expanded regional development efforts to **respond effectively to growth in inbound tourism**. P.21-22
- We **implemented workstyle reform** and personnel reassignments to promising markets **to maximize the effectiveness of our personnel**. P.23-24
- We established channels (face-to-face and non-face-to-face) capable of offering customers optimal financial services and stepped up the provision of new services. P.25-26



## (2) State of achievement of Management objectives

(Billion yen, %)



# (3) Enhancement of asset management business 1

— Collaboration between banking and securities businesses —

■ Increase the number of joint offices, strengthen sale forces, and step up mutual introductions of customers; enhance the efficiency of front office services, integrate banking and securities, and provide products and services that meet diverse customer needs.

## Enhancement of BK/SE unified management

### Measures

Increase the number of joint offices to provide one-stop function

Strengthen sales power to acquire new accounts of financial instrument intermediary services

Enhance measures to meet needs for inheritance tax saving

Enhance ability to meet insurance needs

Strengthen ability to adapt to customer needs + enhance business efficiency + go paperless

### Results (including estimates)

Number of joint offices (total number including booths)  
 3 (FY2016) ⇒ 8 (FY2017) ⇒ 16 (FY2018)

YoY change (FY2018 1H)	Joint offices	Average for all offices
Number of accounts of financial instruments intermediary services acquired	Approx. +50%	Approx. +40%
Income from financial instruments intermediary services	Approx. 2.7-fold	Approx. 2.2-fold

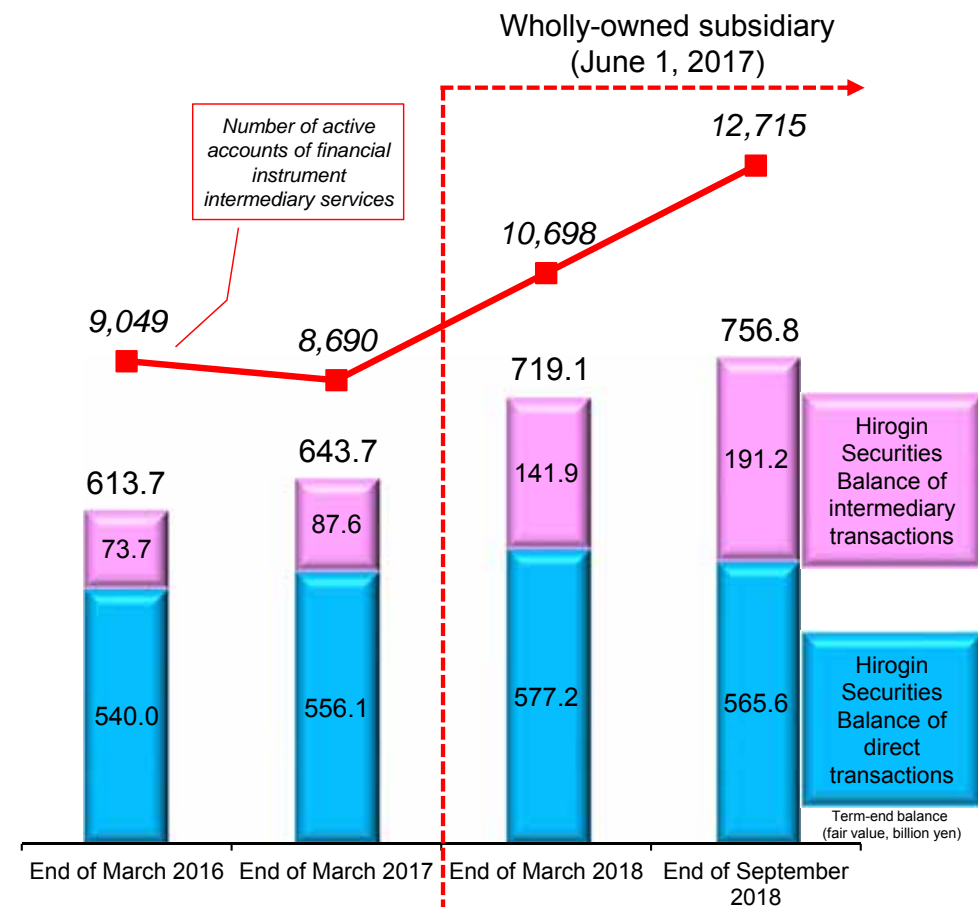
**The number of employees** of the bank seconded to Hirogin Securities **+ 20 persons** (April 1, 2017 to April 1, 2018.)

Hirogin Securities was qualified to conduct trust agreement agency business and bank agency business (January 4, 2018)  
 First in nation (regional bank securities subsidiary)

**Introduce customers with insurance needs to the bank** (from October 1, 2018).

Allow digital signing of certain application forms used to open intermediary accounts (from November 3, 2018)  
 ⇒ Enable accounts to be opened and structured notes to be purchased simultaneously

## Promotion of financial instrument intermediary services



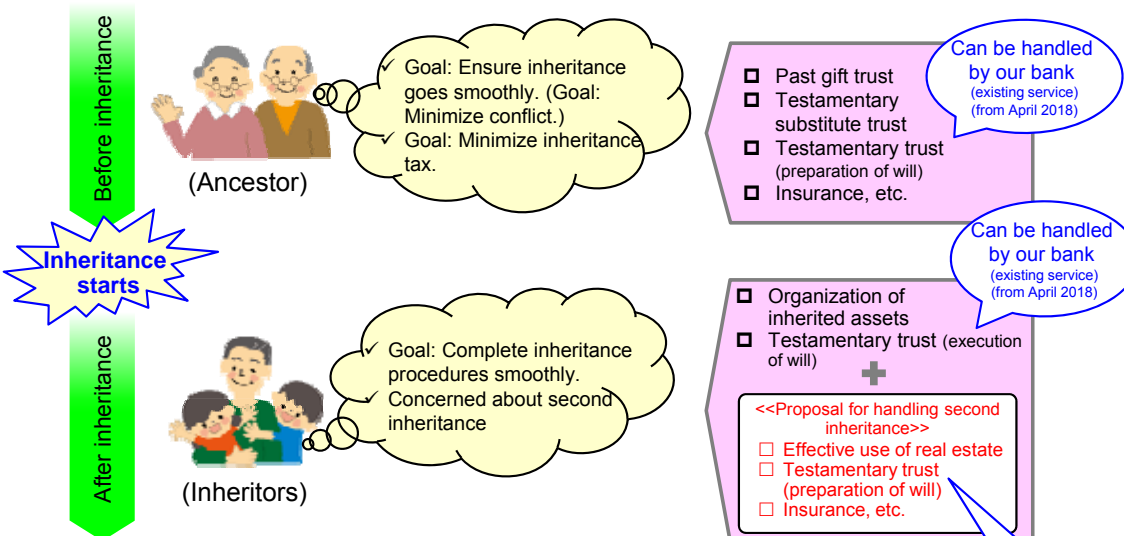
Proportion of Hirogin Securities' net operating income corresponding to Intermediary income	FY2016	FY2017	FY2018 1H
	18.4%	30.8%	44.4%

# (4) Enhancement of asset management business 2

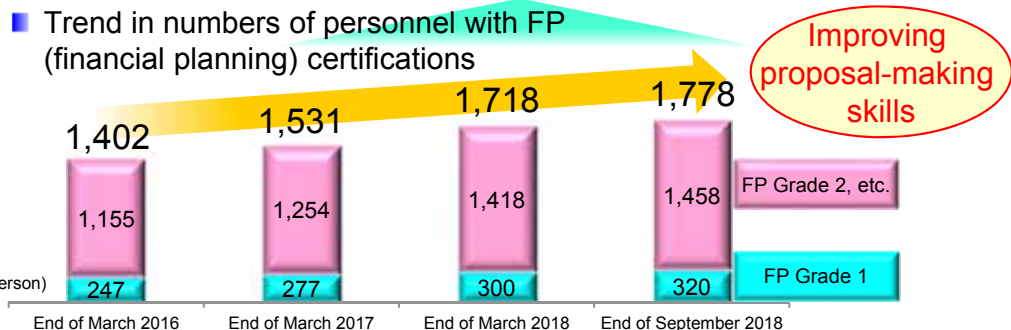
— Business for HNWI and corporations —

Have personnel with strong proposal-presenting skills respond proactively to inheritance/gift-related needs. Also endeavor to offer solutions to corporations that meet their needs not only for financial products, but also for risk management.

## Proactive responses to inheritance needs (including proposals to corporate owners)

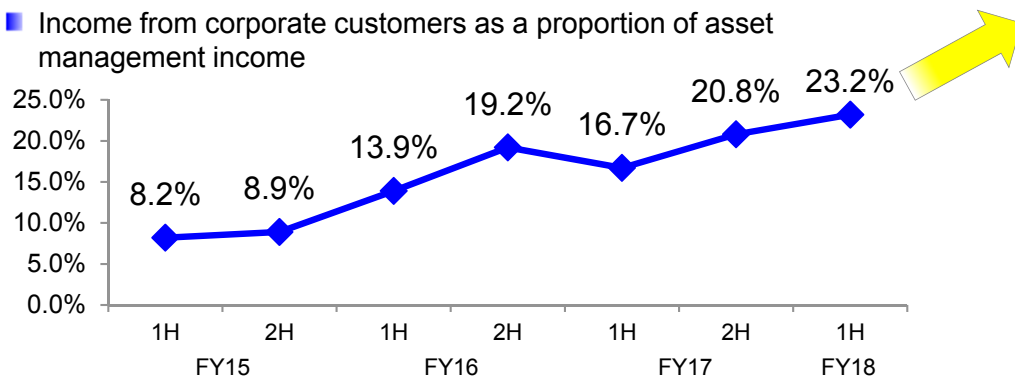
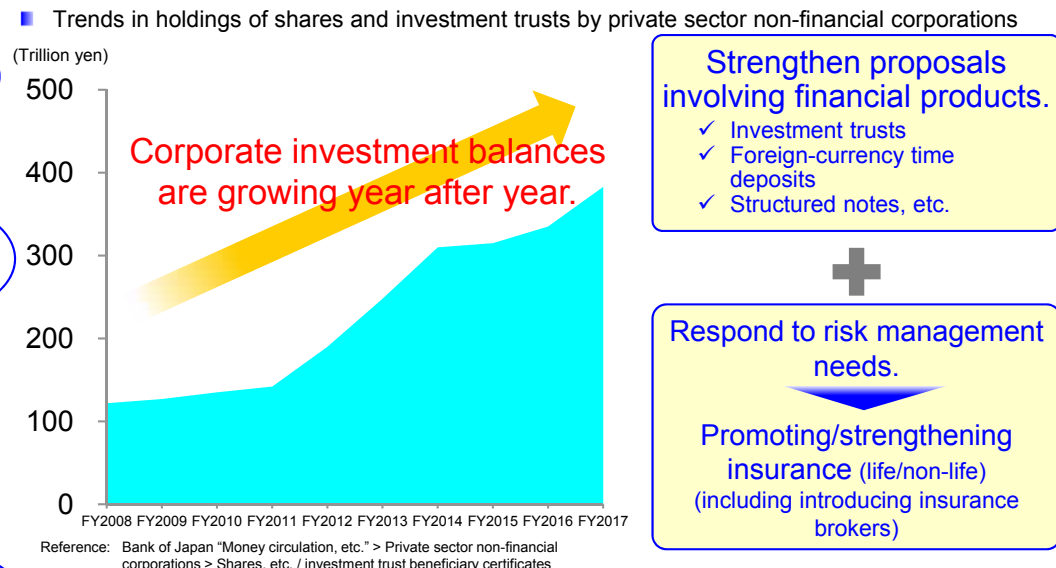


Making inheritance the starting point for strengthening the inheritance consulting business for the next generation (including strengthening measures concerning business succession for corporate owners)



Note: FP Grade 1: Grade 1/CFP of Financial Planning Certification, FP Grade 2: Grade 2/AFP of Financial Planning Certification

## Strengthen proposals targeting corporations.



Provide comprehensive solutions that go beyond lending money.

# (5) Enhancement of high value-added banking business 1

— Business loans —

**Leverage operational risk as an opportunity to strengthen the consulting business to increase loan balances to SMEs and boost income from investment banking business.**

## Leveraging operational risk to strengthen consulting business

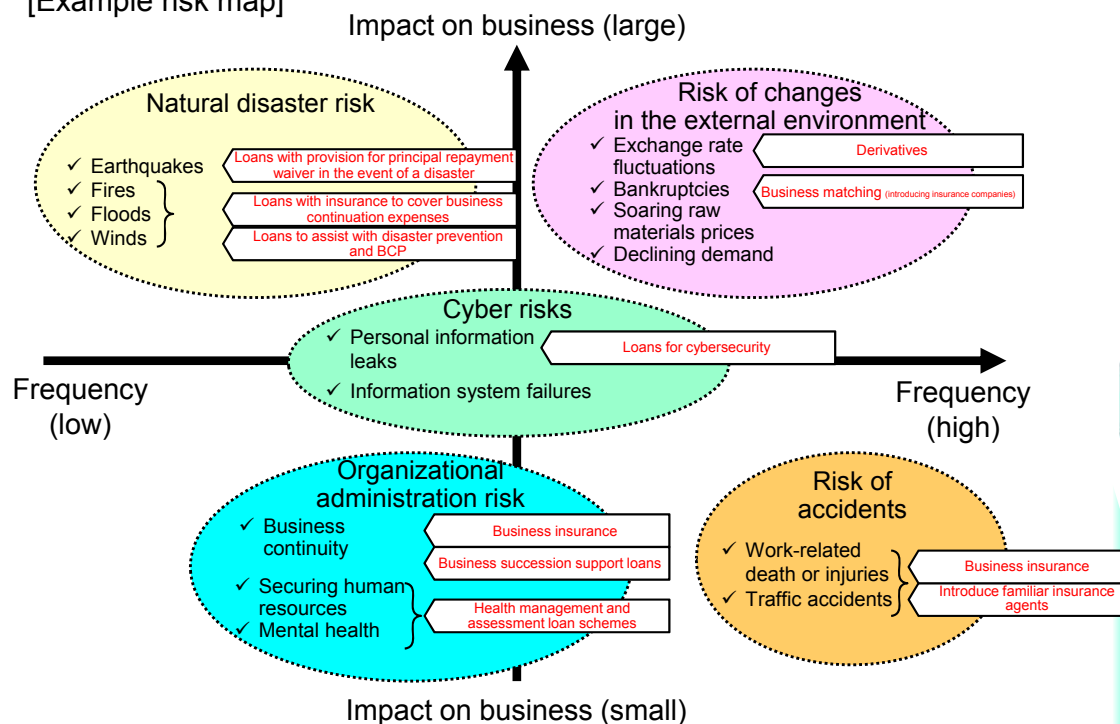
- ✓ Earthquake in northern Osaka prefecture
- ✓ Heavy rains in Western Japan in July 2018
- ✓ 2018 Hokkaido Eastern Iubun Earthquake, etc.

Suspension of operations, declining sales, etc.

Increasing concerns about operational risks

Actions our bank can take to respond to increased concerns

[Example risk map]



- Offer appropriate solutions to meet the various needs identified using the risk map.
- Expand the lineup of consulting-based loan products.

## Mazda-related suppliers' needs

Mazda



Source: Mazda

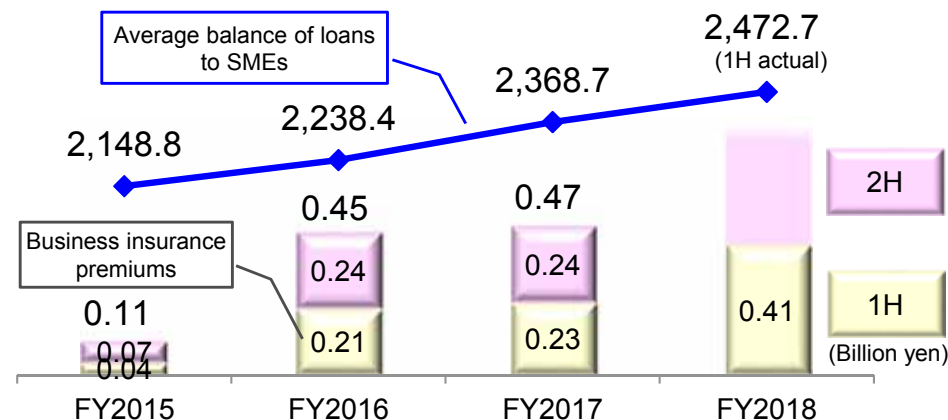
Relevant suppliers

- ✓ Procure funds and operating capital for the next generation of products
- ✓ Formulate business plan to accompany overseas expansion and respond to exchange risks.

Amendment of Subcontracting Act (requires improvements in payment terms)

- For subcontractors:
- ✓ Increasing cash payments
  - ✓ Reducing settlement periods for trade notes, etc.
- Procurement of funds

## Promoting loans for SMEs and business insurance



# (6) Enhancement of high value-added banking business 2

## — Personal loans —

■ Increase the balance of personal loans by strengthening related headquarters functions; endeavor to enhance business efficiency and reinforce governance.

Strengthening efforts to promote housing loans and apartment loans



Personal Loan Center

Past activities focused on promoting loans for new and used homes; now...

- ✓ Support with housing loans
- ✓ Apartment loans

Newly assign dedicated staff to promote:

Support for housing loans

Apartment loans

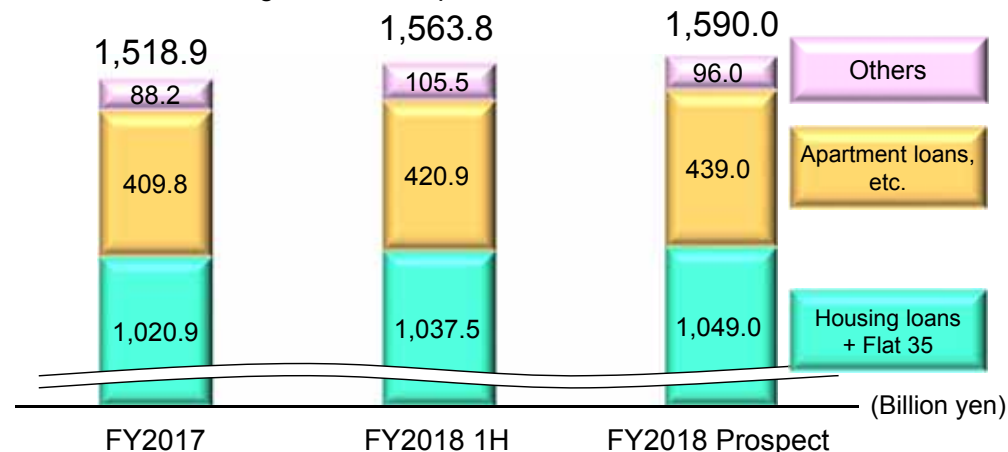
- Expand opportunities for contact with customers (on holidays and at night).
- Increase introductions from home builders.
- Step up cooperation with builders.
- Integrate/network contact points to achieve rapid response.
- Reinforce governance through more rigorous loan screening



Free up personnel through enhanced business efficiencies (reassign to activities that promote markets).

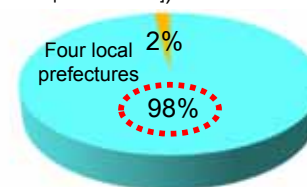
Promoting personal loans

■ Trends in average balance of personal loans

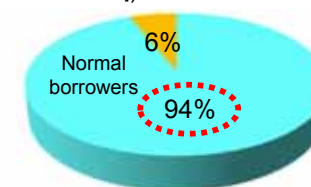


Reference: Status of apartment loans

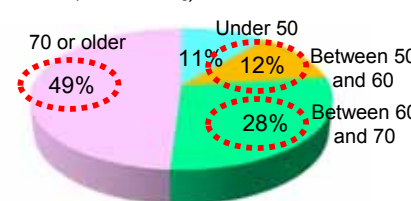
(Proportion of balance by region [as of end of September 2018])



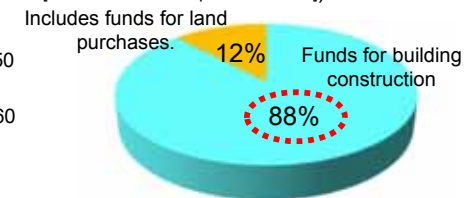
(Proportion of balance by credit rating [as of end of June 2018])



(Proportion of balance by age [as of end of September 2018])



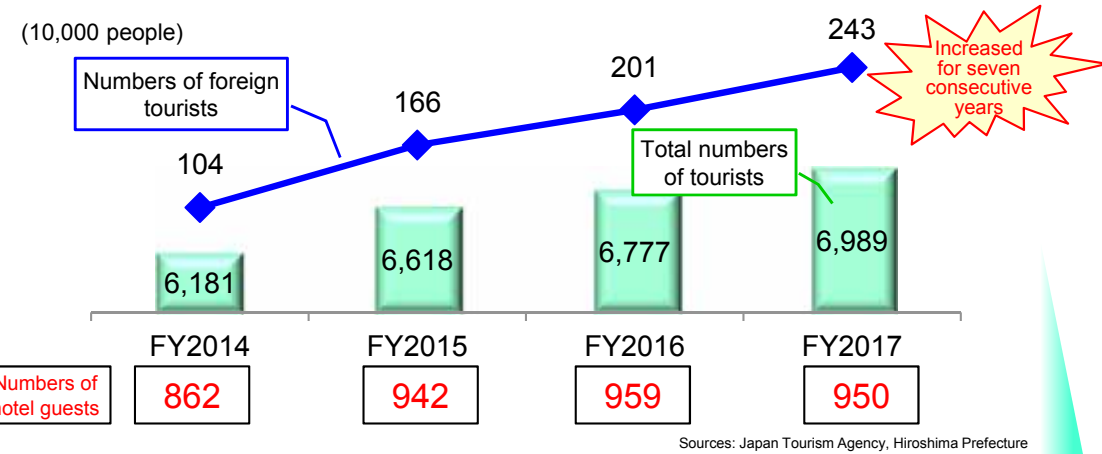
(Proportion of loans executed by purpose [loans executed in April–June 2018])



# (7) Initiatives for efforts for regional development

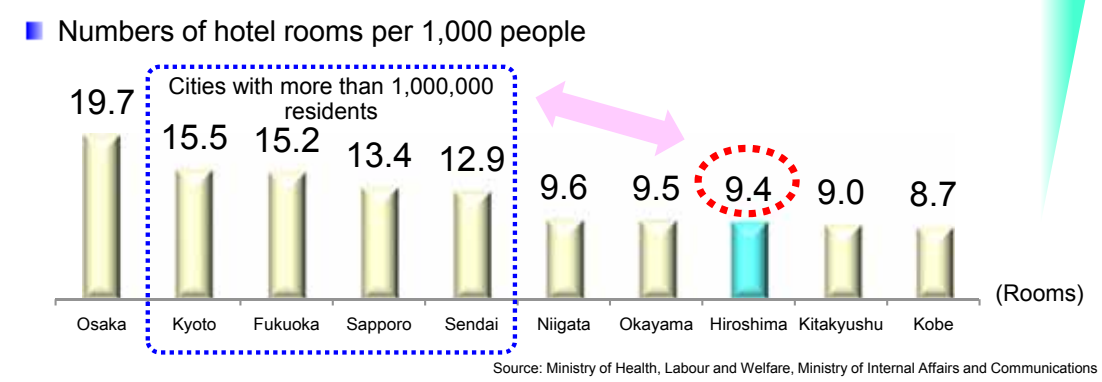
Actively promote regional development. For example, SETOUCHI BRAND CORPORATION, in which our bank has an equity stake, is attracting world-famous hotel chains to land earmarked for redevelopment in Hiroshima City.

Trends in tourist numbers



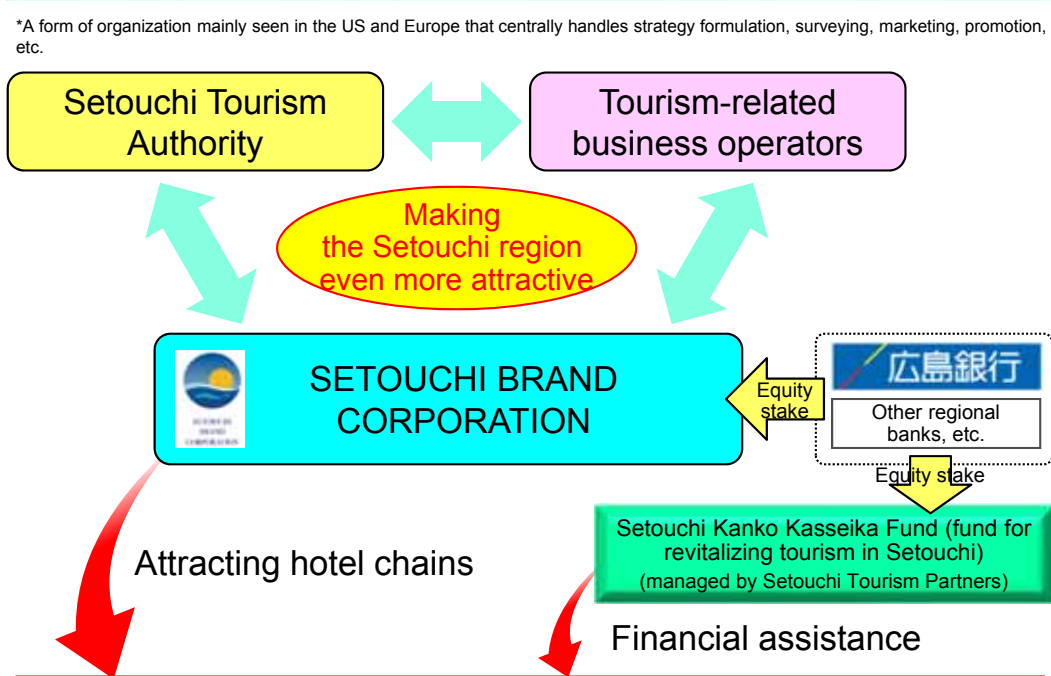
The number of tourists has been rising steadily, but the number of hotel guests has bottomed out.

Comparison of numbers of hotel rooms (2016)



Fewer hotel rooms compared to other major cities

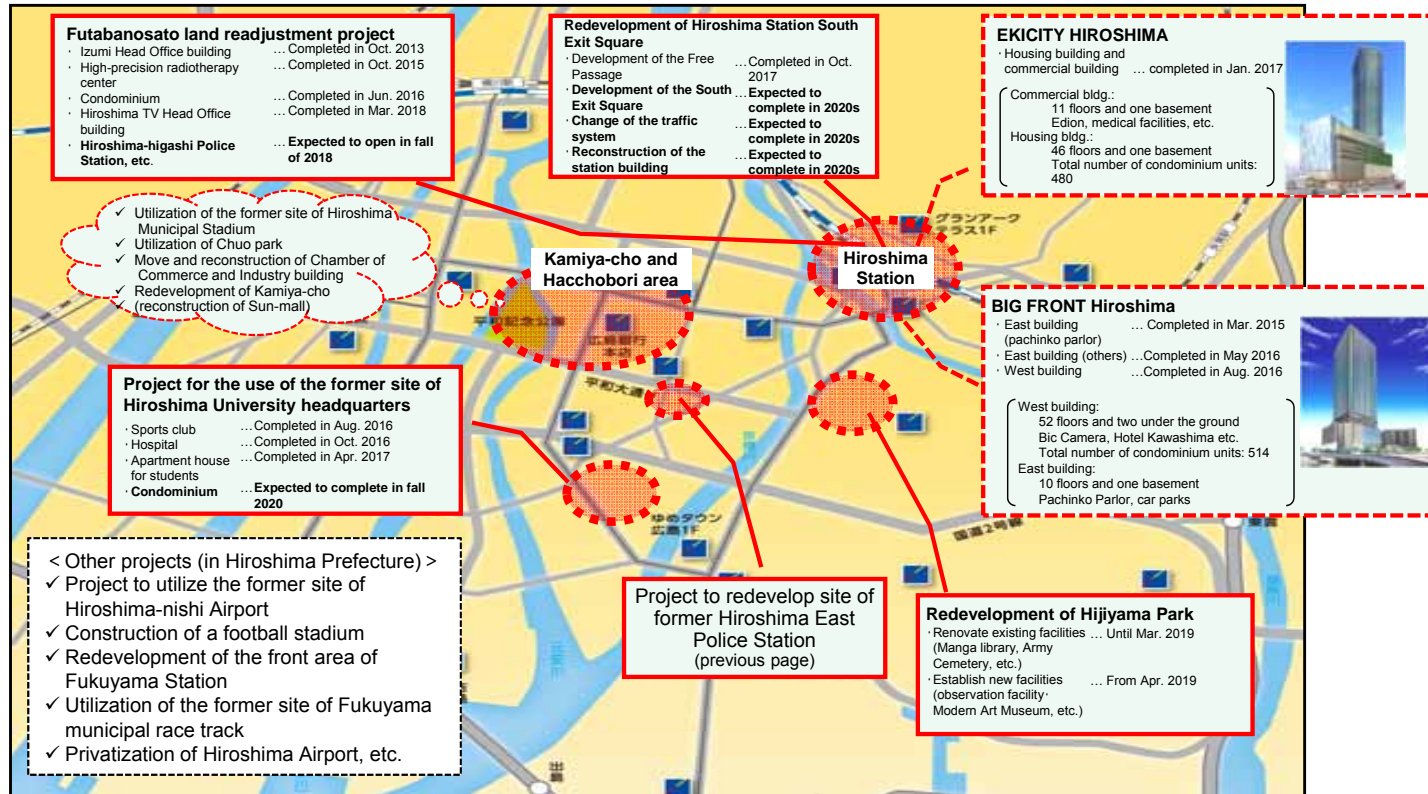
Setouchi Brand promotion structure (Setouchi DMO\*)



Establish a full-service hotel on approximately 6,400 m<sup>2</sup> of land earmarked for redevelopment in downtown Hiroshima City.

- Operated by the Hilton Group
- \* First Hilton in Chugoku and Shikoku regions. The Hilton Group currently operates 16 hotels/resorts nationwide.
- Plan is for 415 guestrooms, eight conference facilities, a spa, a gym, etc.
- Scheduled to open in 2022

## <Major projects in Hiroshima city>



**Project to rebuild Hiroshima Bank, Head Office building**

(Completion image of New H.O. building)



Expected to start construction in January 2019  
Expected to complete in January 2021

**Structuring of Private REITs**

**First regional bank**

- Investment targets are real estate related to local redevelopment and reconstruction projects
- Our wholly-owned subsidiary Hirogin REIT Management gives investment instructions
- As the leader of community development, the Bank takes initiatives for the regional redevelopment, contributing to local redevelopment and revitalization of regional economy

The Kamiyacho and Hatchobori districts of Hiroshima have been officially designated as areas urgently requiring urban renewal (October 2018).

- Revision of special measures
- Restriction and limitations (use restriction and floor area limitation) will be eased.
- Special taxation (tax reduction on registration and license and acquisition of real estate, etc.)


- Increase in population and numbers of households
- Higher land prices and rents
- Increase in private sector development projects, etc.

Expected impact:

Contribute to the improvement of regional productivity

# (8) Initiatives for structural reform

Free up more time for sales promotion and personnel through various structural reform projects; relocate human resources to promising markets and headquarters departments.

Structural reform project name	Outline	Outcomes (including expected outcomes)	Effects
<b>Sales Promotion Reform Project</b>	<ul style="list-style-type: none"> <li>✓ Use sales-supporting devices (tablet)</li> <li>✓ Integrate customer information and management tools dispersed by business type</li> <li>✓ Receive application for financial instruments by tablet</li> <li>✓ Secure customer service time through intensive management of actions and results</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Increased customer interaction times by 0.5–1.0 hours per day per person</b> (compared to FY2016 1H)</li> </ul>	<p>Managed to secure 180 members of personnel (FY2017)</p>  <p>Reallocated personnel (April 2018)</p>
<b>Personal Loan Low Cost Operation</b> P.20	<ul style="list-style-type: none"> <li>✓ Receive application for a personal loan by tablet</li> <li>✓ Centralize back office work to the headquarters</li> <li>✓ Centralize housing loan refinance and apartment loan sales to the headquarters</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Enhanced business efficiency</b></li> <li>➤ <b>Clearer promotion structure</b></li> <li>➤ <b>Stronger governance</b></li> </ul>	
<b>Project to Reduce the Labor Burden at Branch Offices</b> P.24	<ul style="list-style-type: none"> <li>✓ Thorough reduction                             <ul style="list-style-type: none"> <li><input type="checkbox"/> Reduce documents</li> <li><input type="checkbox"/> Reduce the use of seals or signatures</li> <li><input type="checkbox"/> Reduce the vault</li> <li><input type="checkbox"/> Reduce manager's tasks</li> <li><input type="checkbox"/> Reduce the use of passbooks</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Experimental deployment of tablets at branches (from December)</b>                              ⇒ Promoting self-transactions by customers</li> <li>➤ <b>Reducing manager tasks/eliminating second line of procedures (back office)</b>                              ⇒ Ease burden on managers by reducing administrative tasks.</li> </ul>	<p>To secure about 130 members of personnel (in total between FY2018 and FY2021)</p>
<b>Head Office Reconstruction Project</b> P.24	<ul style="list-style-type: none"> <li>✓ Implement measures to reform working styles at the headquarters, taking advantage of the temporary Head Office                             <ul style="list-style-type: none"> <li><input type="checkbox"/> Non-territorial office</li> <li><input type="checkbox"/> Electronic approval</li> <li><input type="checkbox"/> Internal mobile phones</li> <li><input type="checkbox"/> Mobile PC</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Electronic approval/deployment of mobile PCs (headquarters)</b> <ul style="list-style-type: none"> <li>◆ Shorten time required for approval by 40%.</li> <li>◆ Reduce number of printed sheets by approx. 50%.</li> </ul> </li> </ul>	<p>Free up personnel by improving productivity (planned). (FY2018 to FY2021)</p>
<b>Response to Financial Digitalization</b> P.25-26	<ul style="list-style-type: none"> <li>✓ Enhance functions of new channels (mobile application)</li> <li>✓ Diversification and enhancement of settlement functions</li> <li>✓ Step up provision of services based on new technologies (e.g., AI).</li> <li>✓ Respond to open API</li> <li>✓ Enhance marketing</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Explore possibility of creating a smartphone app, "Wallet+".</b></li> <li>➤ <b>Build technology infrastructure in partnership with electronic payment service provider.</b></li> <li>➤ <b>Participate in project to build a data sharing infrastructure through Hiroshima Sandbox.</b></li> </ul>	<p>Create new earning opportunities</p>

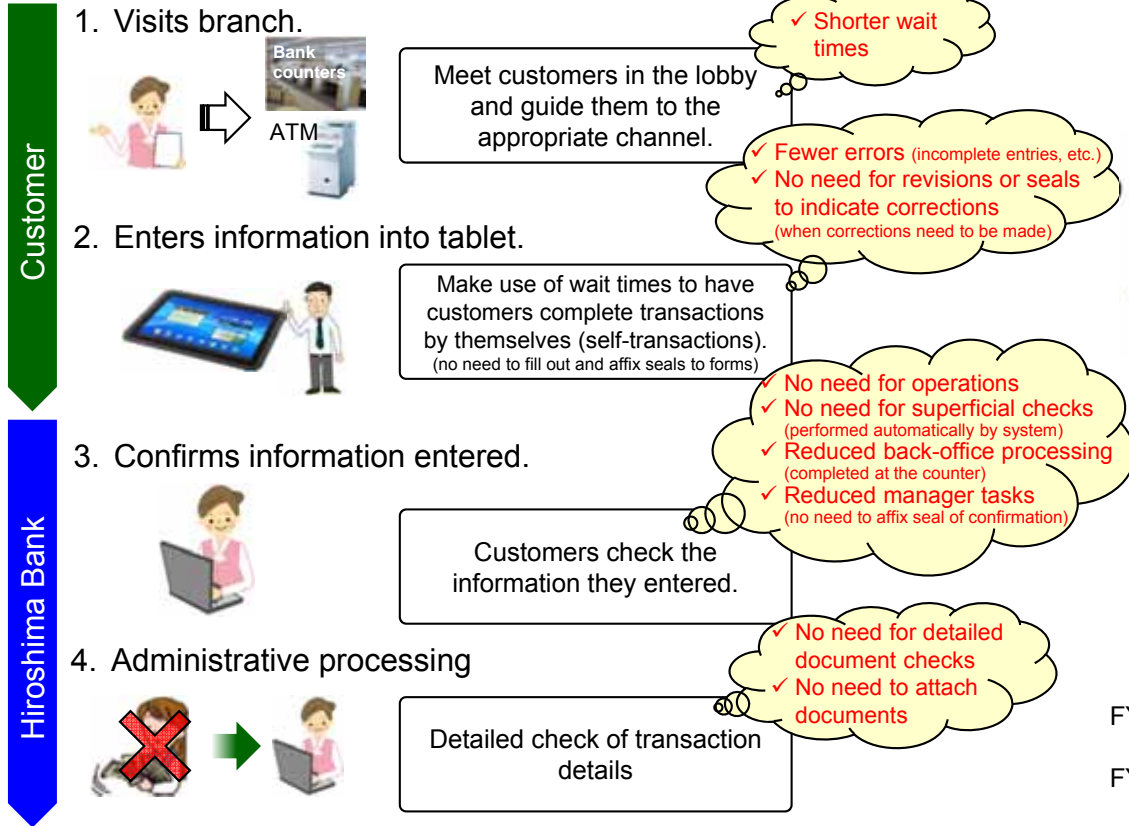
(\*) Dedicated smartphone app administered by iBank Marketing Co., Ltd., part of the Fukuoka Financial Group. For more information, see <http://ibank.co.jp>.



## Proactively and continuously implement various work-style reform measures to improve productivity.

### Use of tablets for transactions in the lobby (Project to reduce the labor burden at branch offices)

### Work-style reform measures at headquarters



### Introduced the electronic approval workflow



### Introduced mobile PCs



- ✓ Paper-free approval/reporting flow
- ✓ Electronic approval away from office

	Approval documents	Report documents, etc.	Numbers of printed sheets
FY2015 2H - FY2016 1H (number of days from issuance to approval)	3.8 days	5.2 days	Approx. four million sheets
FY2018 1H	2.6 days (-1.2 days)	2.8 days (-2.4 days)	Approx. 2.7 million sheets (approx. 33% reduction)

Huge improvement in decision-making speed

Lower printing costs

To reduce about 520,000 work hours in total a year by developing the above measures and other measures (between FY2018 and FY2021, compared with the 2nd half of FY2017)

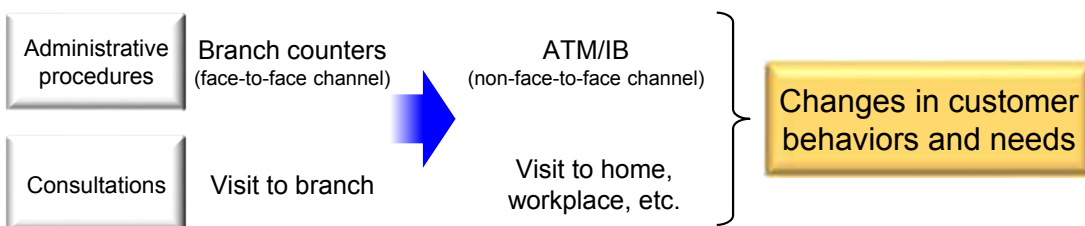
Secure about 130 employees and relocate them (FY2018 to FY2021)

# (10) Response to financial digitalization

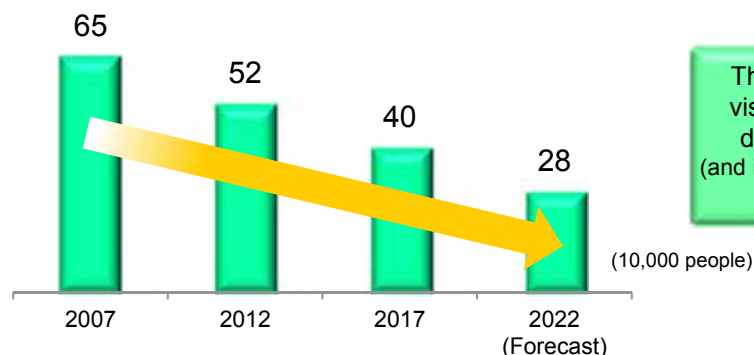
— Branch office strategies —

- In the face of changing consumer needs and behavior patterns and declining customer branch visits, urgent challenges include building channels (face-to-face and indirect), providing services that expand points of contact with customers, and delivering more sophisticated services.
- Study on revamping branch operations in light of deregulation and integrating external offices with branches

## Changing customer needs, fewer customers visiting branches



Trends in number of customers visiting branch counters at our bank (average per month)



The number of customers visiting branch counters is declining year after year (and is expected to continue falling in the future).

**Urgent**

**We must enhance customers interactions and continue to provide sophisticated services.**

## Overhaul of branch functions

➤ **Enhance customer services by building a network of core branches and small, compact branches.**

- ✓ Transform the form and functions of branches by reducing administrative burdens.
- ✓ Specify the roles of branch offices and optimize personnel assignments based on market characteristics.
- ✓ Increase the number of joint offices with Hirogin Securities, focusing on core branches.

➤ **Achieve flexible branch office management in response to deregulation.**

- ✓ Flexibly determining operating days and hours.
- ✓ “Strengthen interactions with and improve service for customers”; “enhance efficiency” in accordance with local conditions and customer needs.

**Integrate three external offices with branches (closure of external offices).**

With the number of visiting customers declining due to the popularity of other channels, we plan to close them (in January and March 2019) based on their proximity to their mother branches.

# (11) Response to financial digitalization

— Responding to diversification in payment methods —

- Seek to expand points of contact with new customers and increase earning opportunities by introducing a brand debit card and providing a smartphone app through a partnership with iBank Marketing Co., Ltd.
- Develop an AI credit-screening model for small businesses that doesn't require human involvement; begin making preparations to deploy the system.

Provide new means of payment.

## JCB/Visa-brand debit card

Spring 2019

**Debut!**

<Hiroshima Toyo Carp design>



First time our bank has collaborated on a design with the Carp

<Hirokun design>



First regional bank in the Chugoku and Shikoku regions to offer both JCB and Visa brands

Note: Actual designs may differ from these illustrations.

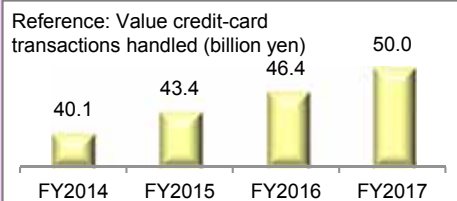
To date, we have lacked transaction points with the following customers (we lacked initiatives to attract them):

- ✓ Young people
- ✓ Credit-averse people

We will make an effort to attract such customers.

This is our future goal:

Achieve a smooth transition to Hirogin Value One.\*



Obtain data that can't be captured from users of Hirogin Value One.

Develop strategies involving use of the new data.

(\* All-in-one card with ATM card, credit card, and card loan functions)

Create "Wallet+" smartphone app.

**Bank** Equity partnership with iBank

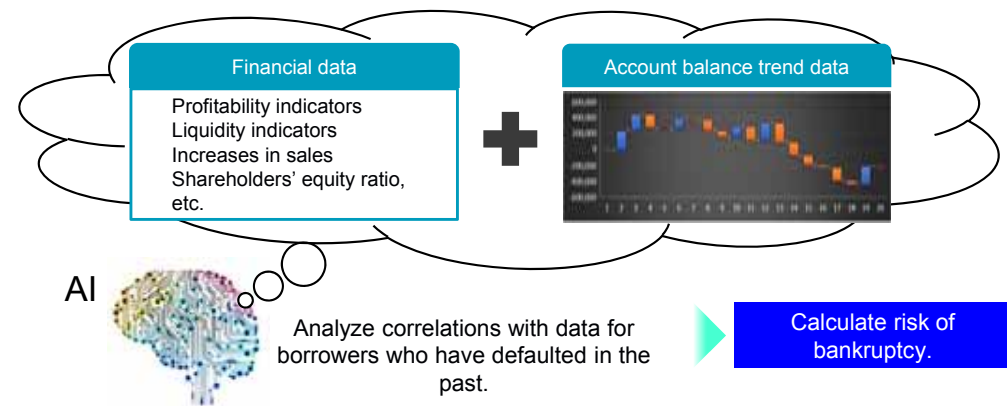
Provide functions not available with the Hirogin app (planned).



- ✓ Balance confirmation/managing income and expenses
- ✓ Automatic deposits
- ✓ Loan functions
- ✓ Investment functions, etc.

Through this partnership, which utilizes an open API, we will expand points of contact with young people, with whom we currently have little interaction.

Field testing of sophisticated loan screening involving AI (2nd round)

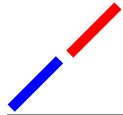


AI

Analyze correlations with data for borrowers who have defaulted in the past.

Calculate risk of bankruptcy.

- Build an AI credit-screening model for small businesses.
- Begin marketing ahead of the launch of loan products for small businesses (release planned for spring 2019).



## **4. Initiatives for ESG**

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# (1) Initiatives for ESG

■ Seek to enhance corporate value on a long-term and continual basis through initiatives targeting the environment, society, and governance.

## Efforts to enhance governance

June 2017 Made Hirogin Securities Co., Ltd. a wholly-owned subsidiary

Formulated Action Policy for Customer-Centric Business Administration

April 2018 Merged Hirogin Lease Co., Ltd. and Hirogin Auto Lease Co., Ltd.  
⇒ Hirogin Lease Co., Ltd.(surviving company)

June 2018 Published “Current Initiatives for Customer-Centric Business Administration”

July 2018 Merged Hirogin Mortgage Services Co., Ltd. and Hirogin Business Support Co., Ltd.  
⇒ Hirogin Business Services Co., Ltd.

April 2019 (announced in November 2018) Absorb and merge with Hirogin Wealth Management Co., Ltd.

## Environment/social initiatives

● March 2017 Construction of eco-friendly new Head Office building (publicly announced)

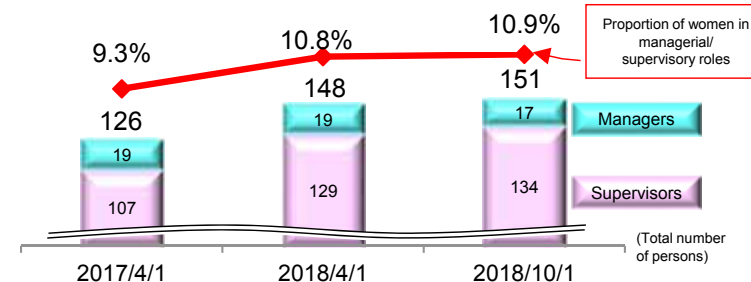
● July 2017 Selected for MSCI Japan Empowering Women Index



\* Expected to complete in January 2021

● December 2017 Began offering privately-placed bonds that provide donations to educational institutions

● April 2018 Women in managerial/supervisory roles surpasses 10%.



● July 2018 Donated money to those affected by heavy rain in Western Japan in July 2018; dispatched bank employees as volunteers

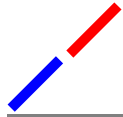
● August 2018 Formulated the Hiroshima Bank Health Management Declaration

● September 2018 Participated in activities in the Hirogin no Satoyama (weeding, etc.)

● November 2018 Restored and donated “Inori no Izumi” fountain to Hiroshima City (project celebrating our bank’s 140th anniversary)

Participated in every year for nine years





## **5. Business Forecast for FY2018**

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# (1) Forecast of business performance and dividend in FY2018

- With respect to performance in FY2018, there are no changes to the earnings forecast announced in May. This forecast specified **net income of 25.6 billion yen and net income attributable to owners of the parent of 26.5 billion yen.**
- The forecast for the annual dividend is expected **to be 20 yen**, which is **18 yen** per share based on the payout table **plus a commemorative dividend to mark our 140th anniversary.**

## Business forecast for FY2018

(Billion yen)

	1H performance	Forecast for FY2018	
			YoY change
Net interest income	35.2	69.0	0.8
Interest on loans	30.7	61.2	0.2
"Net fees and commissions income"	8.8	17.2	-0.6
<b>Core gross banking profit</b>	<b>44.1</b>	<b>86.2</b>	0.1
- Expenses	26.5	54.0	0.3
<b>Core banking profit</b>	<b>17.6</b>	<b>32.2</b>	-0.1
Gains/Losses on securities	2.2	3.7	-0.3
<b>Ordinary profit</b>	<b>17.5</b>	<b>36.3</b>	-1.6
<b>Current (interim) net income</b>	<b>12.6</b>	<b>25.6</b>	-1.4
<b>Current (interim) net income attributable to owners of the parent</b>	<b>12.0</b>	<b>26.5</b>	0.7

## Payout table and estimated dividend in FY2018

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



Dividend to mark our 140th anniversary  
(amount of addition to dividend per share)

**+2 yen**

Consolidated dividend payout ratio  
23.5% (+2.4% compared with forecast)



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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