

Mid-Term Management Plan 2017 (FY2017–FY2021)

The business environment continues to be challenging with the declining birthrate and aging population, ongoing low interest rates, and enhanced Basel regulations. Recognizing that following the same trajectory would not bring us closer to creating a better cycle in the local economy, we decided to revise our mid-term management plan one year before it was due to finish, and embark on the new Mid-Term Management Plan 2017. We are designating the next five years as a period for establishing new growth drivers by bringing together the comprehensive capabilities of the Hiroshima Bank Group and promoting customer-oriented business operations.

Slogan

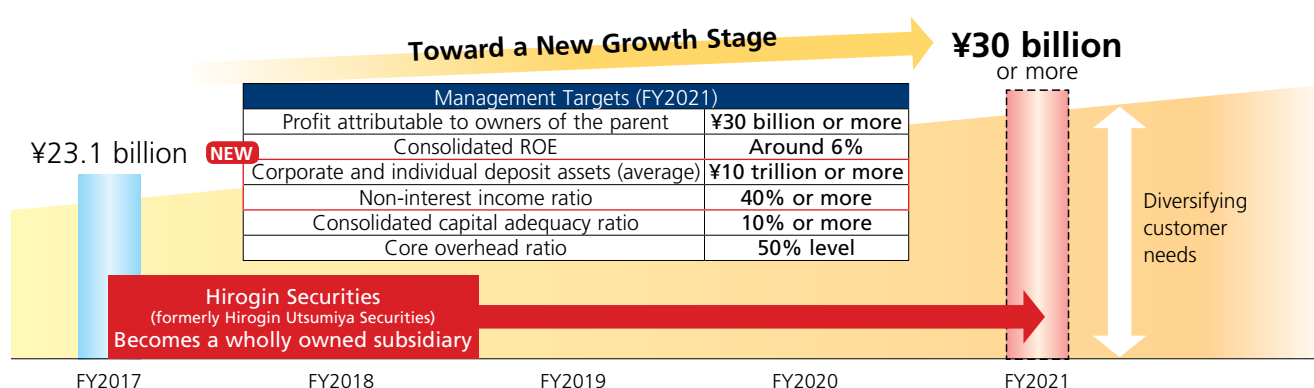
“Aiming to be a comprehensive financial services group that continues to grow with local customers”
— A “True First Call Bank Group” —

Basic Policy of the Mid-Term Management Plan

Basic Policies

Three Pillars of the Mid-Term Management Plan

1. Reform the earnings structure based on implementing value-added sales focused on customer needs
2. Nurturing a corporate culture that promotes workstyle reform and a desire to take on challenges
3. Active commitment to regional revitalization



Strategies in the Mid-Term Management Plan

Key initiatives

- I. Further development of measures toward high value-added banking business
- II. Promotion of measures for asset management business that meet the asset formation needs of customers
- III. Enhancement of the profit base

Major strategies	1. Marketing strategy	(1) Enhance value-added marketing based on customer needs i. Enhance consulting sales (such as feasibility studies) and provide comprehensive solutions ii. Expand asset management business based on long-term relationships, including the next generation iii. Promote efforts for regional development, tourism promotion, and local medical support
	2. Securities strategy	(1) Ensure stable income with proper risk-taking based on market conditions
	3. Workstyle reform	(1) Promote a thorough reduction of labor burden (2) Improve labor productivity using Tomorrow Navi
	4. Human resource strategy	(1) Foster human resources able to quickly respond to changes and create value for local communities (2) Conduct human resource development measures that fit the banking and asset management business framework and establish career paths (3) Promote diversity i. Employ professional people with various values and skills ii. Implement measures to help advance the careers of women
	5. Enhance new service development	(1) Focus on ICT*, especially FinTech (2) Improve development of new services by collaborating with other non-financial companies

*ICT means Information and Communication Technology.

Enhancement of High Value-Added Banking Business

— Promotion of Feasibility Studies —

The Bank will enhance high-value-added banking operations that meet the needs of customers and provide comprehensive solutions for corporate customers. We will also aim to increase the balance of loans to SMEs and income from investment banking operations by promoting our own consulting-based financial products, offering mid-term planning support services, and enhancing personnel training by augmenting training programs related to feasibility studies.

Main target in corporate loan strategy	Classification by scale of net sales (sales)	Percentage of corporate loans Top: Borrowers Bottom: Balance	Points for promotion
	Large-scale listed companies (over ¥3 billion)	About 5% (about 65%)	
	Upper-middle scale (¥1–3 billion)	About 6% (about 16%)	Specific measures
	Low-middle scale (¥0.2–1 billion)	About 18% (about 11%)	
	Small scale (less than ¥0.2 billion)	About 71% (about 8%)	
	Of which, sales under ¥10 million	About 16% (—)	

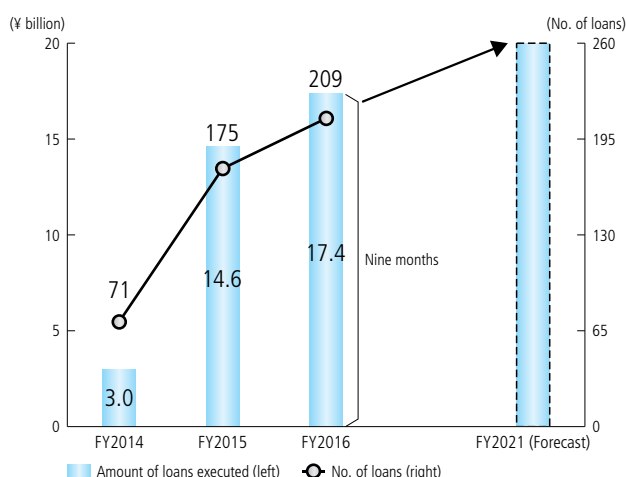
Expand volume and income by providing comprehensive solutions based on stronger efforts in feasibility studies

- Specific measures**
- ☑ Leverage the Bank's unique consulting-type loans
 - First in Japan**
 - Loans with principal exemption in case of earthquake
 - Loans for supporting cyber security measures, etc.
 - ☑ Promote mid-term planning support services
 - ☑ Foster HR development by increasing training courses for feasibility studies

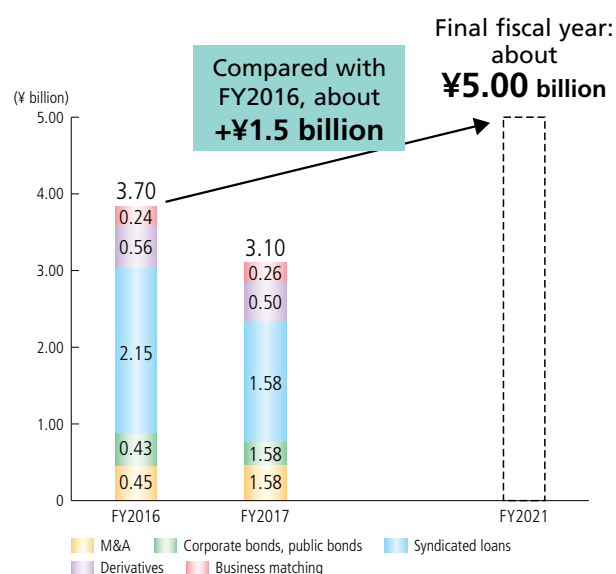
Results of feasibility studies based on qualitative analysis

Interest on loans to borrowers subject to feasibility studies

Compared with average interest on loans to all borrowers, about +0.2%



Accumulate investment banking income by capturing needs through feasibility studies



Enhancement of High Value-Added Banking Business

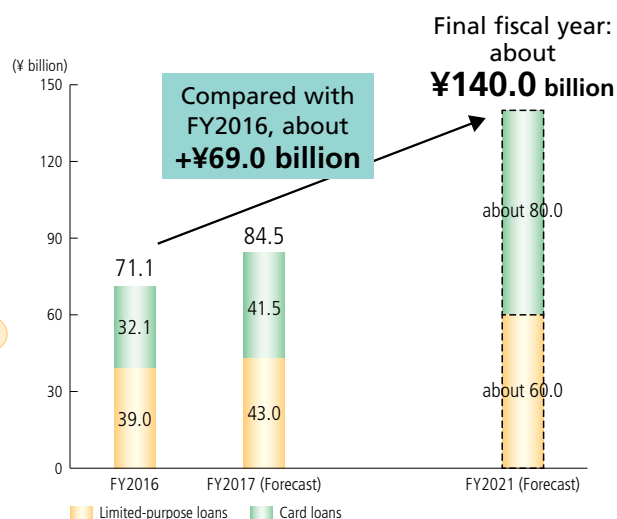
— Promotion of Personal Loans —

The Bank aims to expand housing loans by providing attractive products and services, such as housing loans with enhanced coverage and riders, and promoting Flat 35. For consumer loans, we will establish a promotion structure with the headquarters functions including telemarketing, and improve efficiency by going paperless and concentrating the administrative functions at the headquarters.

Offer housing loans with enhanced coverage and riders

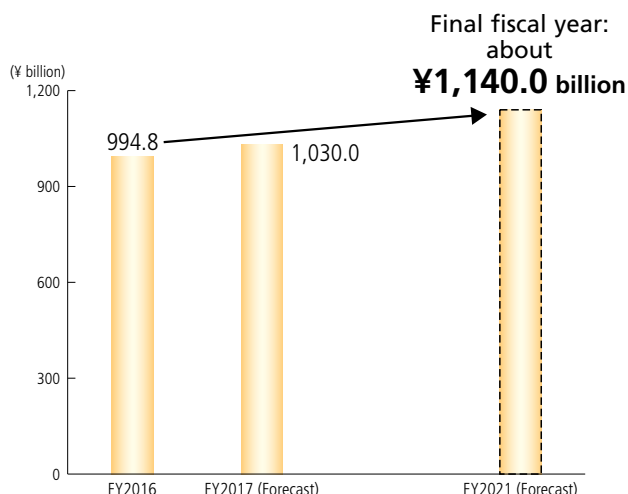
Insured	Conditions	Coverage
Debtor	<ul style="list-style-type: none"> Death or serious disability Diagnosis of one of three major diseases 	Loan balance reduced to zero (fully repaid by insurance)
	<ul style="list-style-type: none"> Hospitalization 	One-time benefit of ¥100,000 and repayment forgiven during hospitalization
	<ul style="list-style-type: none"> Diagnosis of cancer in situ/skin cancer 	One-time benefit of ¥300,000
	<ul style="list-style-type: none"> Advanced medical care for cancer 	Technical fee for advanced medical care: up to ¥10 million in total <i>First in Japan (females insured)</i>
Spouse (female)	<ul style="list-style-type: none"> Diagnosis of female-specific cancer 	One-time benefit of ¥1 million

Accumulation of average balance of consumer loans



Accumulation of average balance of housing loans (including Flat 35)

Hiroshima Bank's share of new housing loans in Hiroshima Prefecture
29% (FY2015) → about 40% (FY2021)



Improve administrative efficiency for personal loans

Accept Review Execute Implement

- ☑ Shorten review periods
- ☑ Paperless and no need for personal seal
- ☑ Everything done by the headquarters

Enhancement of Asset Management Business

Amid growing inheritance/donation needs, we are focusing more on services for elderly customers and business owners. We aim to pivot from a flow-type to a stock-type business model through measures that contribute to stable asset formation for customers by promoting sales of level premium insurance. By advancing these measures, we aim to expand the balance of corporate/personal deposit assets, including at Hirogin Securities, to more than ¥10 trillion by the final fiscal year of the mid-term management plan. We also aim for a non-interest income ratio of at least 40% through the accumulation of asset management business income.

Enhancement of inheritance-related services

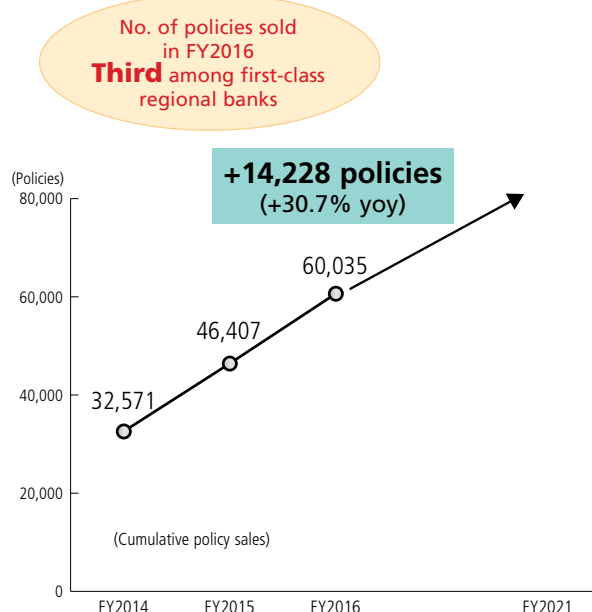
Increasing needs for inheritance-related services	
(In Hiroshima Prefecture)	
Inheritance tax exemption amount	No. of taxable heirs (ratio to the total)
<Up until December 2014> ¥50 million + ¥10 million × No. of legal heirs	<2014> 2,839 (3.3%)
<From January 2015> ¥30 million + ¥6 million × No. of legal heirs	Double <2015> 5,724 (6.6%)

(Source: Hiroshima Regional Taxation Bureau)

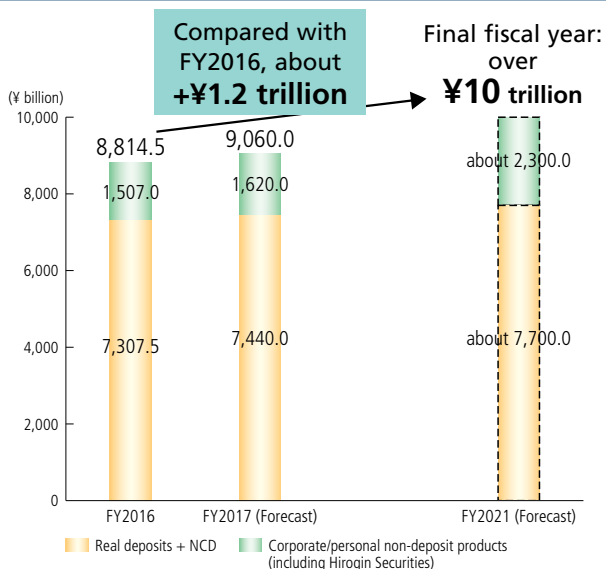
Providing services that meet needs

What	By whom
<ul style="list-style-type: none"> Private trusts Living trusts Testamentary trusts Calendar year gift trusts, etc. 	<ul style="list-style-type: none"> Private bankers (Headquarters) Salespersons in branches <p>No. 1 among regional banks</p> <p>No. of employees with the 1st grade financial planner qualification (asset consultation business) About 280 (as of April 2017)</p>

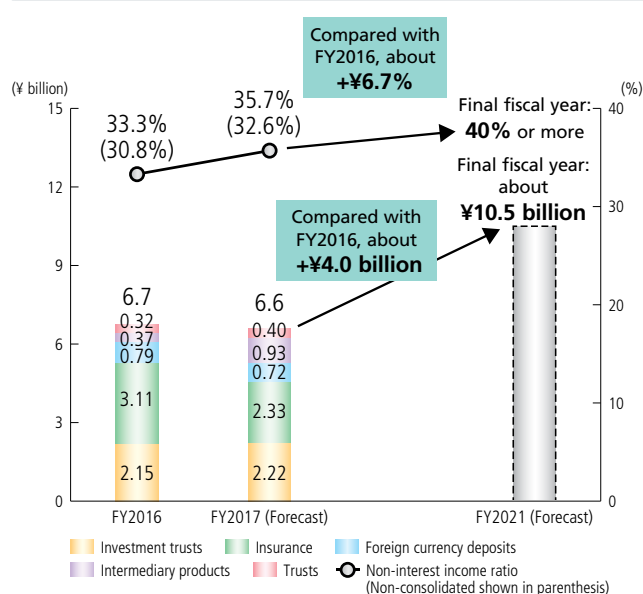
Acquire level premium insurance policyholders to strengthen stock-type business income



Increase in average balance of corporate/personal deposit assets (including Hirogin Securities)



Improvement of non-interest income ratio through expansion in asset management business income (deposit assets)



Enhancement of Asset Management Business

— Collaboration between Banking and Securities Businesses —

On June 1, 2017, Hirogin Utsumiya Securities became a wholly owned subsidiary, and changed its name to Hirogin Securities Co., Ltd. The Hirogin Group will provide products and services in line with the needs and true interests of customers while emphasizing customer-oriented business operations (fiduciary duty). Specifically, we will promote collaboration between banking and securities businesses with a focus on expanding the product lineup, enhancing inheritance-related business, and increasing the number of joint branches.

Promotion framework for collaboration between banking and securities businesses

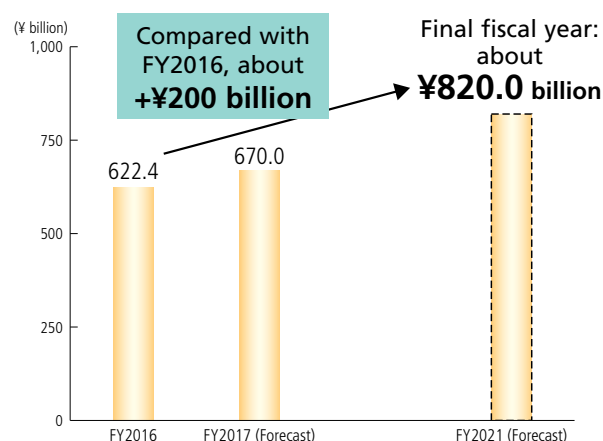
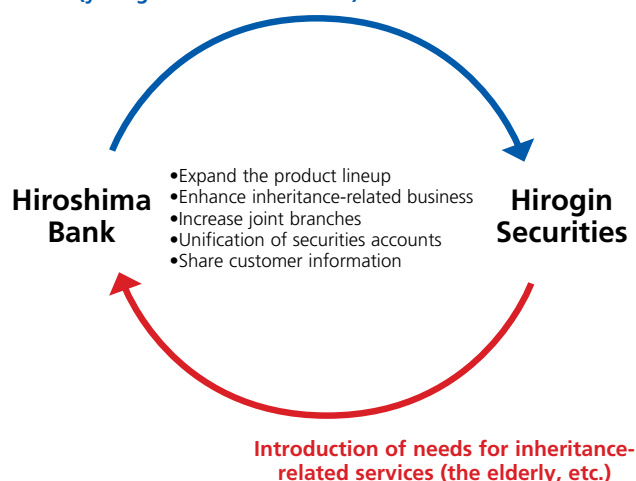
Customer classification (by balance of deposit assets)	% Upper: Number Lower: Balance		Promotion framework	
	Hiroshima Bank	Hirogin Securities	Hiroshima Bank	Hirogin Securities
Wealthy investors (¥30 million or more)	0.8% (21.8%)	3.8% (38.6%)		Actively managed products <ul style="list-style-type: none"> •Stocks •Structured bonds •Foreign bonds •Theme-type funds Etc.
Middle-class asset management customers (¥10–30 million)	5.5% (36.4%)	11.4% (30.4%)	Stably managed products <ul style="list-style-type: none"> •Deposits •Public bonds •Foreign currency deposits 	Expand product lineup
Mass-class asset formation customers (less than ¥10 million)	93.7% (41.8%)	84.8% (31.0%)	<ul style="list-style-type: none"> •Core funds (active trusts) •Insurance Etc. 	

Realize stable asset formation for customers by providing high-quality customer-oriented financial products and services via a unified group

Promotion of unified management of banking and securities businesses

Build up average balance of assets under management (Hirogin Securities)

Introduction of needs for securities
(young and new customers)



Enhancement of Efforts for Regional Development

We aim to secure earnings opportunities by strengthening collaboration with government agencies and becoming a core player in regional revitalization by being actively engaged in regional development, tourism promotion, and local medical support ahead of other banks. We will continue to focus efforts on start-up support to boost job creation by promoting start-up support loans and holding start-up support seminars.

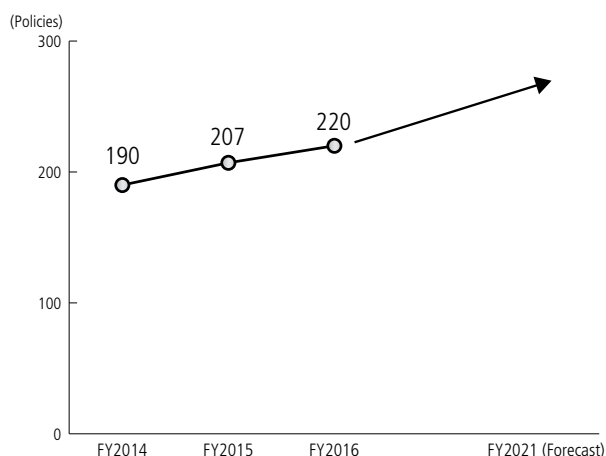
Strengthen initiatives for "regional development," "tourism promotion," and "local medical support"

	Initiative	Business development/expected return
Regional development	<ul style="list-style-type: none"> Prepare the Town Creation Plan (for the Kamiya-cho/Hatchobori areas) in line with the Central Urban Revitalization Plan* 	<ul style="list-style-type: none"> Use loans and funds for development Support development of water infrastructure Facilitate participation by local companies in regional development plan, etc. <p>Expected return (five-year total) About ¥0.4 billion</p>
Tourism promotion	<ul style="list-style-type: none"> Upgrade tourism infrastructure Support establishment of DMO Establish loan system for tourism operators 	<ul style="list-style-type: none"> Support establishment/growth of tourism operators Support infrastructure development for airport privatization Facilitate participation by local companies in tourism infrastructure development projects, etc. <p>Expected return (five-year total) About ¥0.5 billion</p>
Local medical support	<ul style="list-style-type: none"> Collaborate more with government agencies through regular communication Identify problems facing medical institutions and provide solutions 	<ul style="list-style-type: none"> Business succession due to aging of business owners Support capital investment, etc. <p>Expected return (five-year total) About ¥0.1 billion</p>

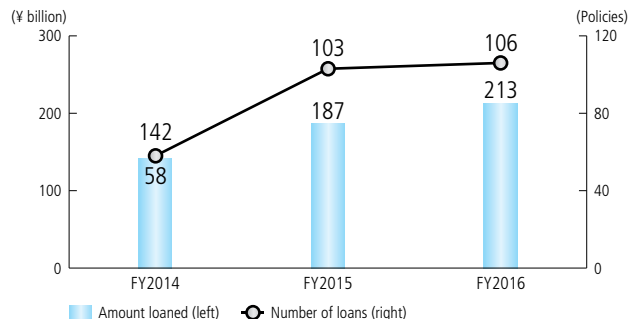
* A central urban development plan created by Hiroshima City and Hiroshima Prefecture for revitalizing the center of the city.

Strengthen start-up support to boost job creation

■ No. of start-ups supported



■ Promotion through start-up support loans



■ Establishment of card loans for quick start-up (March 2017)

- Existing bank customers are eligible
- Start-ups can use loaned money if capital suddenly deteriorates after starting business

■ Start-up support seminar for women (March 2017)

- Jointly held with Hiroshima Industrial Promotion Organization
- Provide forum for creating a future vision

Strategies for Securities

We aim to secure stable earnings via appropriate risk-taking depending on market conditions, while paying due consideration to the Basel Accords (new regulations on interest rate risk and capital adequacy ratios), avoiding negative interest rates on current account deposits held at the Bank of Japan, and monitoring liquidity, profitability and stability. We also aim to create new earnings opportunities by reinforcing the equity business, including subsidiary funds.

Points to watch

(1) Uncertain market environment

- Signs to exit include low inflation, low interest rates, and low growth
- Policies under the new US administration

(2) Basel Accords








- New interest rate risk regulations (introduction of IRRBB)
- Capital adequacy regulations

(3) Cash position

- Avoid negative interest rates on current account deposits at the Bank of Japan

(4) Liquidity, profitability, and stability of individual investments

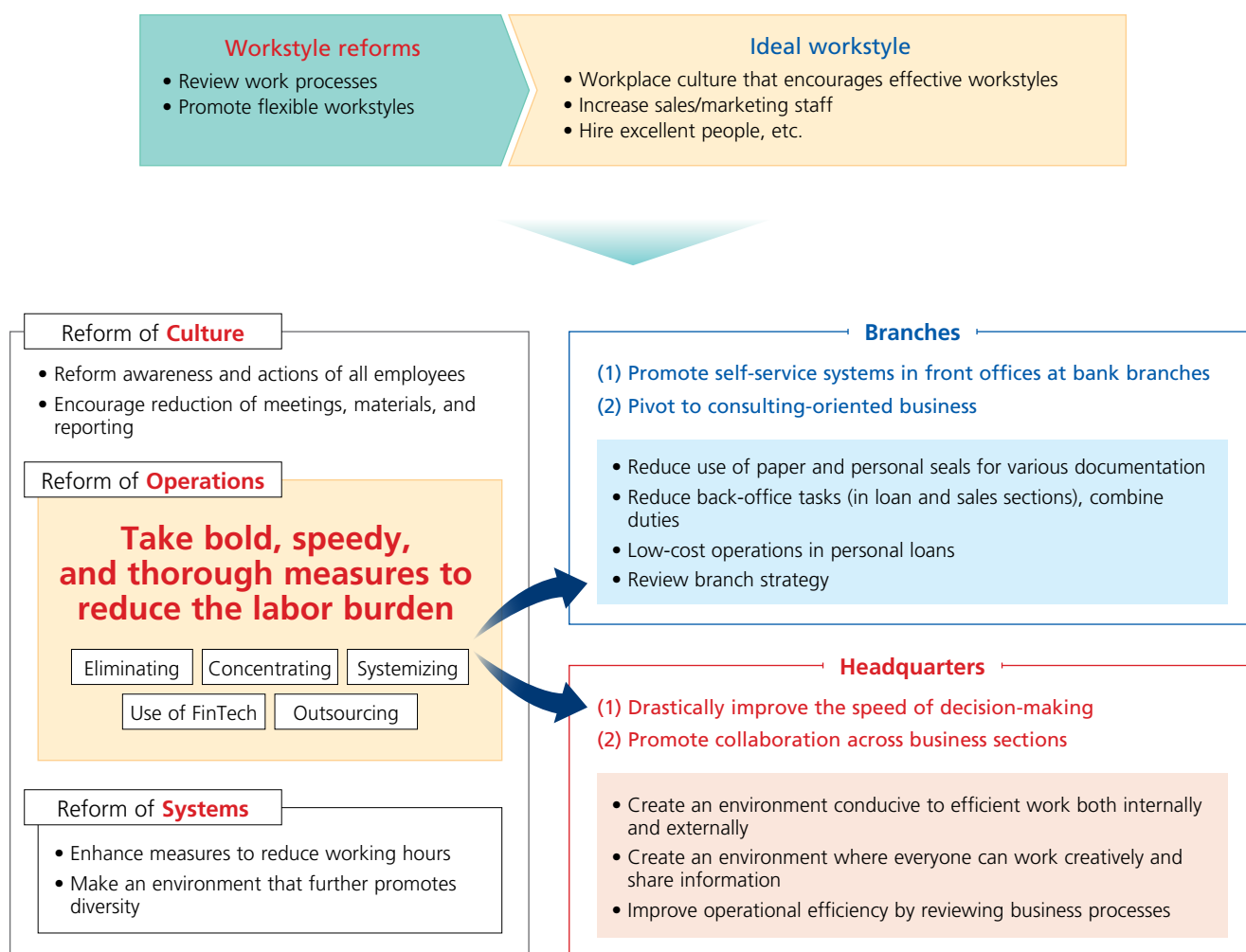
Strategy for managing marketable securities

		Balance trend	Management policy
Interest rate	Yen bonds		• Gradually reduce Japanese government bond holdings and actively trade bonds with an eye on market conditions
	Foreign bonds		• Gradually reduce US Treasury Bond holdings and actively trade bonds with an eye on market conditions
Credit			• Purchase highly liquid and safe products, such as Government Housing Loan Corporation mortgage-backed securities
Stocks, J-REITs, etc. (including cross-held shares)			• Increase holdings of highly liquid assets able to provide a stable and high dividend
Equity business			• Increase balance by structuring and contributing to subsidiary funds (under consideration)
Investment trusts, etc.			• Increase holdings of multi asset-type investment funds with the aim of securing stable income
Total			• Balance of securities declines due to reducing holdings of yen bonds and foreign bonds

Workstyle Reform

— Emphasis on Reducing the Labor Burden —

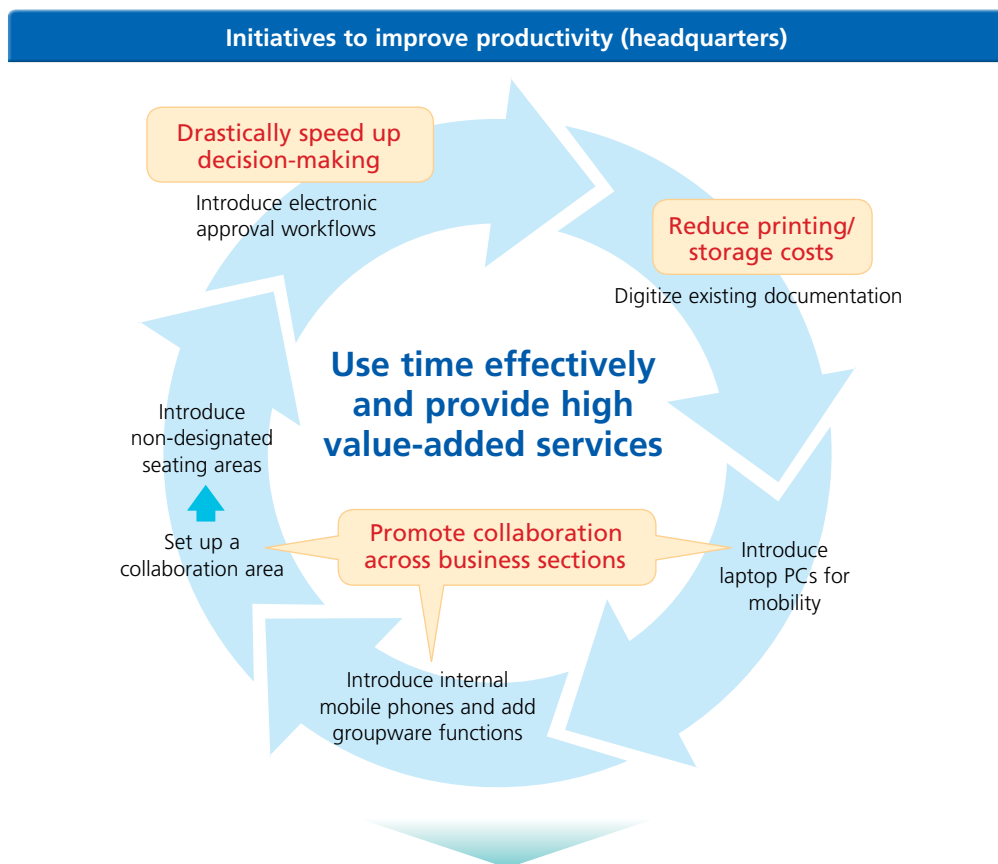
We believe we must promote workstyle reforms in order to provide high-value-added services. We seek to foster a workplace culture that values efficient workstyles while increasing the number of marketing personnel. We will take bold, speedy, and thorough measures to reduce the labor burden by utilizing FinTech and outsourcing, while eliminating, centralizing, and systemizing work processes. We will promote self-service systems in the front offices of bank branches, as well as paperless and personal seal-less processes in a pivot toward consulting-oriented operations, and review our branch strategy.



Workstyle Reform

— Initiatives to Improve Productivity —

Taking advantage of the temporary relocation of the Head Office for rebuilding, we are using this time effectively to introduce electronic approval workflows, digitize existing documentation, and start non-designated seating in the office and advancing initiatives to provide high value-added services. We are considering initiatives to improve productivity at branches based on the outcome of advanced implementation at headquarters.



Using the opportunity of the Head Office rebuild (temporary relocation)

Image of the new Head Office building



Basic concepts of the new Head Office building

Deepen regional development and CSR
(Contribute to the local community)

Provide cutting-edge financial services
(Improve customer satisfaction)

Enhance BCP
(Improve safety for customers)

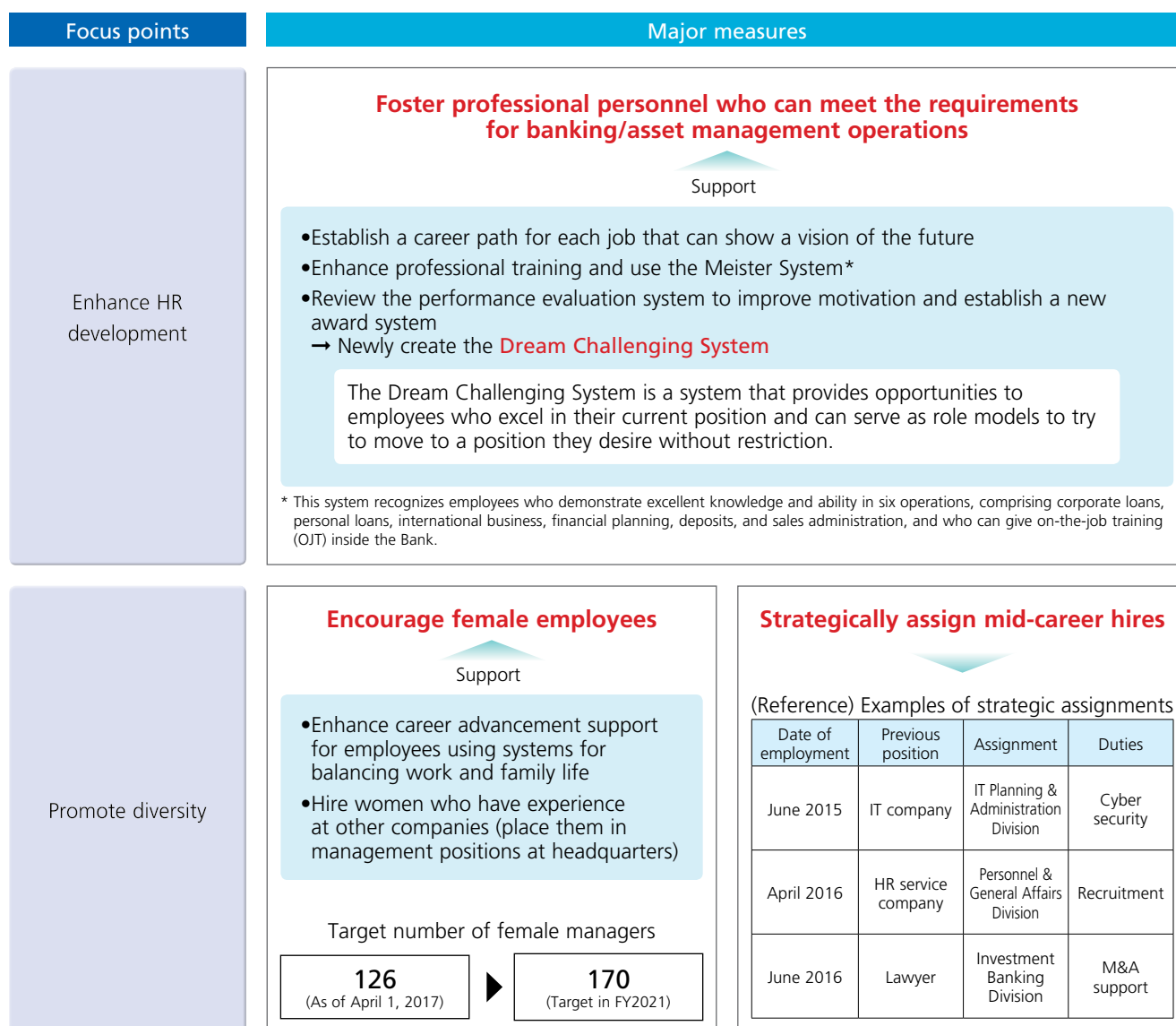
Generate group synergies
(Sustain improvement in corporate value)

Improve productivity and efficiency
(Provide better working environments)

Improve productivity through Company-wide efforts

Human Resource Strategies

We will move ahead with various measures to enhance human resource development and promote diversity to improving employee job satisfaction. Regarding enhancing human resource development, we aim to augment specialized training to nurture professionals who can meet requirements for the banking and asset management business. To this end, we are promoting the use of the Meister System to certify professionals with exceptional knowledge, abilities and leadership skills. We have reviewed the performance evaluation system to improve motivation and newly established an award system resulting in the creation of the Dream Challenging System. Regarding promoting diversity, we are encouraging female employees and enhancing support for their career advancement, while also strategically placing mid-career hires.



Enhance New Service Development

We aim to provide services that enhance convenience and offer apps that utilize cloud-computing and mobile devices. We also strive to increase efficiency, save labor, and enhance the sophistication of operations by using AI and robotics. Leveraging the information and creditworthiness of the Group as management resources, we are seeking partnerships with companies in other sectors, including non-financial companies, in order to offer customers value we would not be able to provide on our own in an integrated format. In this way, we are creating new earnings opportunities.

ICT initiatives centered on FinTech	
FinTech technology element	Projects under consideration
Cloud/Mobile	<ul style="list-style-type: none"> Continuously develop and provide new services such as apps for family budgeting and asset management and making branch visit appointments Consider constructing a platform for business customers with loan application and business support functions Use cloud-based systems, especially for distributed and internal operations
AI/Robotics	<ul style="list-style-type: none"> Create an app with advanced AI functionality that offers dialogue-style consultation and recommendations Improve efficiency of loan reviews by building an AI-based loan review model, and enhance earning power in the banking business Implement measures to improve operational efficiency at branches and centers <ul style="list-style-type: none"> Improve operational efficiency by introducing RPA (Robotic Process Automation) Use an AI-based FAQ system to support the Direct Marketing Center and branches Save labor and improve the customer/internal referral system using speech recognition and text mining
API	<ul style="list-style-type: none"> Provide accounting and household budgeting services by collaborating with cloud-based accounting service companies and personal financial management service companies Consider small-amount loan products with simplified (automatic) reviews offered via cloud-based accounting services Spur innovative services by continuing to hold hackathon/ideathon events
Blockchain technology	<ul style="list-style-type: none"> Consider and specify a low-cost, convenient small-amount payment service that could replace Zengin System/SWIFT

New services in collaboration with other sectors
<ul style="list-style-type: none"> Forge partnerships with other sectors (non-financial) and provide valuable one-stop services we would not be able to provide on our own
Utilize the management resources (information and creditworthiness) of the Group