

Progress of Mid-Term Management Plan 2017

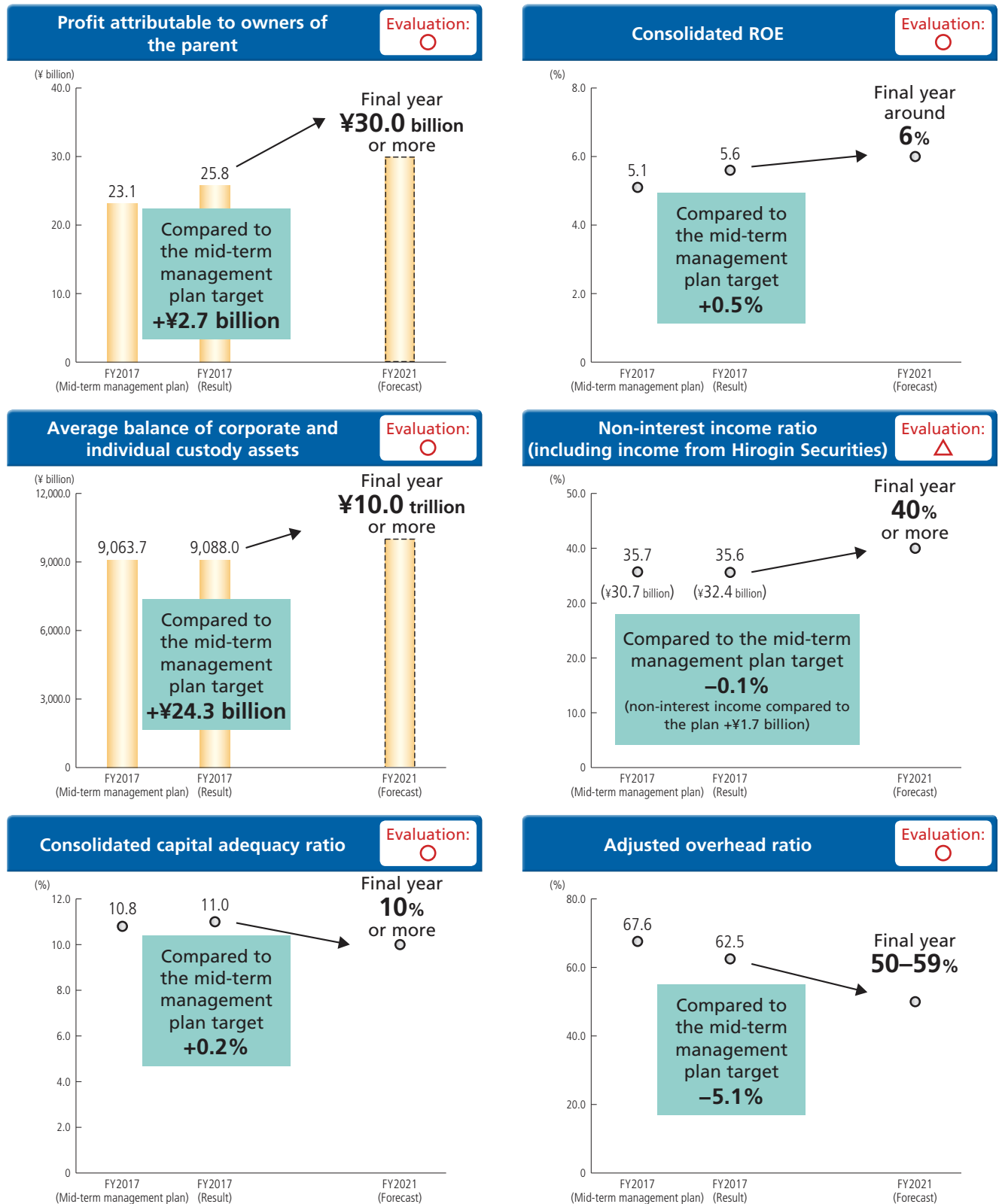


Results of FY2017 (Summary)

- 1 We steadily executed management strategies and generally achieved the management objectives in the first year of the mid-term plan.
- 2 We enhanced asset management business, including collaboration between banking and securities businesses, achieving the targets for the balances of corporate and individual custody assets.
- 3 We enhanced consulting sales through feasibility studies (qualitative analysis) to practice value-added sales.
- 4 We actively participated in local development, including structuring of private REITs.
- 5 We managed to secure personnel members by implementing the workstyle reform and reallocated them to promising markets.
- 6 We enhanced the system to make a speedy response and strengthened efforts for new payment methods.
- 7 We considered building new channels (including branch offices) to provide customers with optimal financial services, including establishing innovative branch offices with a view to the next generation.

State of achievement of management objectives

We generally achieved the management objectives in the first fiscal year of the mid-term management plan. We did not achieve the target for the non-interest income ratio, mainly due to the fact that core gross banking profit exceeded our forecast, but non-interest income reached our forecast. We will continue to steadily execute our strategies and will aim to achieve the management targets in FY2021, the final year of the mid-term management plan.

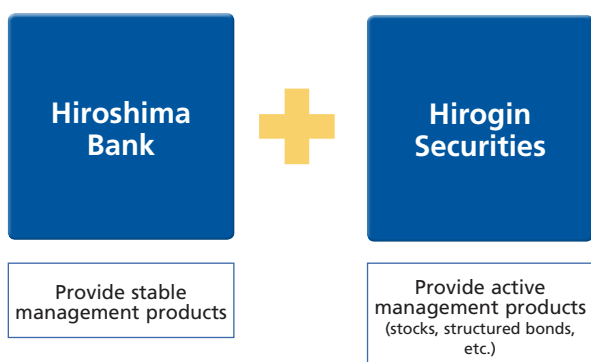


Enhancement of asset management business

— Collaboration between banking and securities businesses —

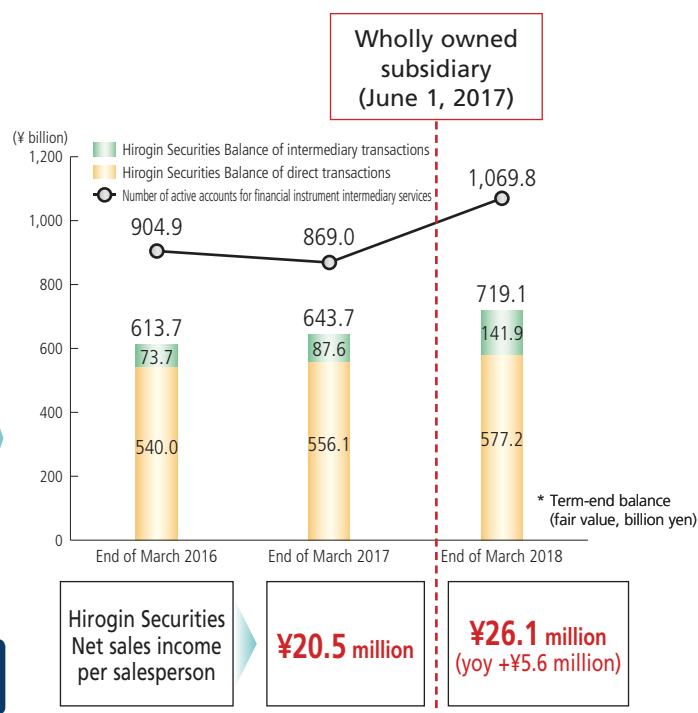
We have been enhancing our marketing capabilities to acquire financial instrument intermediary services accounts and increased the number of joint branches to provide one-stop products and services to customers. Since converting Hirogin Securities into a wholly owned subsidiary, we have been steadily increasing the balance of custody assets and the number of active financial instrument intermediary services accounts by offering products matching customers' diverse needs.

Enhancement of the Bank/ Securities unified management



Measures	Results (including estimates)
Strengthen sales power to acquire new accounts for financial instrument intermediary services	The number of employees of the Bank seconded to Hirogin Securities 20 persons (April 1, 2017 to April 1, 2018) Japan's first securities company affiliated with regional banks
Enhance measures to meet needs for inheritance tax saving	Hirogin Securities was certified to conduct trust agreement agency business and bank agency business (January 4, 2018)
Increase the number of joint branches to provide one-stop function	Number of joint branches (total number including booths) 3 (FY2016) ⇒ 8 (FY2017) ⇒ 14 (Planned for FY2018)

Promotion of financial instrument intermediary services

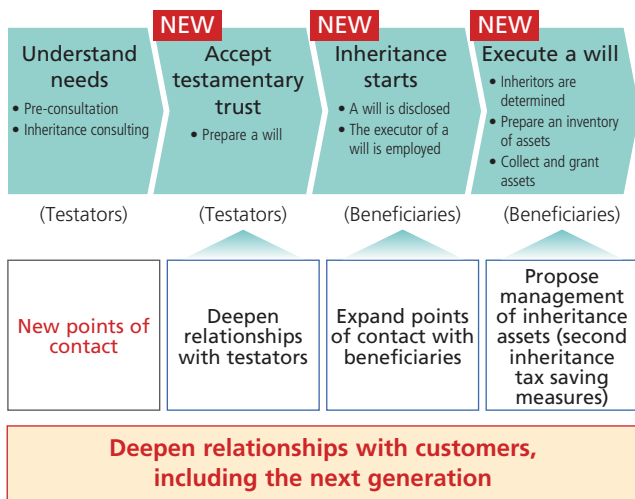


Enhancement of asset management business

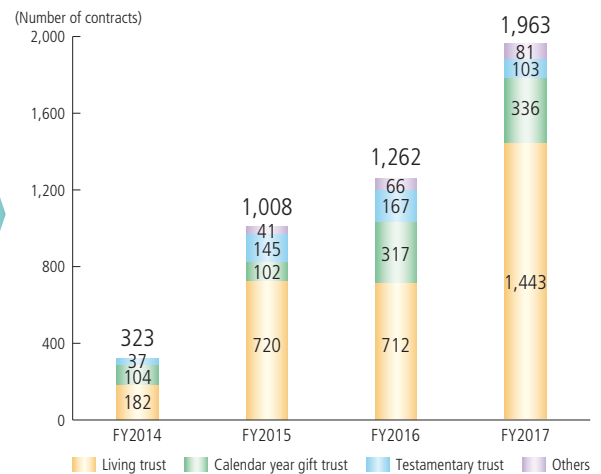
— Business for senior customers —

We entered into the trust business from this April in order to strengthen our efforts towards senior customers (including business owners) based on inheritance and gifting needs. By establishing new points of contact with customers that we have never worked with before, and cultivating deeper business relationships with these customers and the next generation, we will further promote business for seniors, and by practicing customer-oriented business operations, we aim to have a corporate and individual custody asset balance of ¥9,360 billion and a non-interest income ratio of 35.8%.

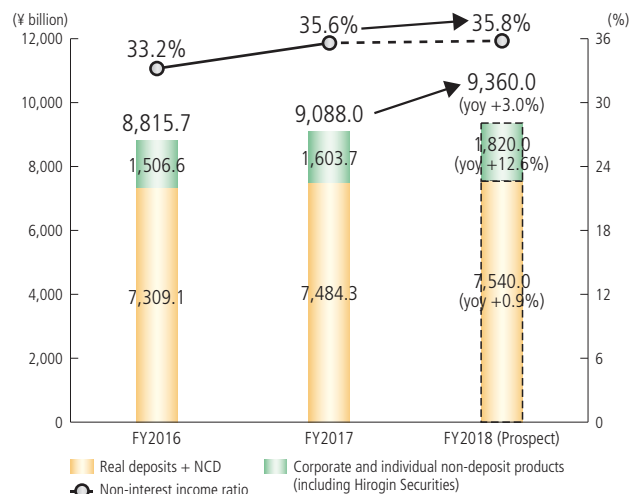
Hiroshima Bank entered into the trust business (testamentary trust) (from April 2018)



Number of contracts with senior customers (inheritance-related businesses)



Increase in the average balance of corporate and individual custody assets (including Hirogin Securities)



* The balance of Hirogin Securities' non-deposit products is stated at fair value.

Enhancement of high-value-added banking business

— Business loans —

In addition to enhancing our lineup of products and services such as our unique consulting-type loans, we will build a branch office support system utilizing specialized Head Office personnel and provide comprehensive solutions to address customers' diverse needs. By doing so, we will increase the balance of loans to SMEs as well as income from investment banking business.

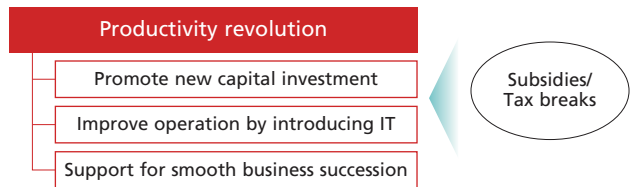
Mazda-related suppliers' needs

Mazda Motor Corporation	Relevant suppliers
<ul style="list-style-type: none"> ✓ Launch the next-generation products from FY2018 (7th generation) ✓ Establish a joint venture with Toyota Motor Corporation and build a new plant in the U.S. (2021) 	<ul style="list-style-type: none"> ➢ Establish and update facilities for the next-generation products ➢ Build new plants and enhance existing plants in line with Mazda's advance to the U.S.

Needs arise for funding, overseas advance and business matching

Government support for SMEs

- ✓ The government developed a new economic policy package to aim to realize a nominal GDP of ¥600 trillion.
- ✓ The next three years until 2020 have been set as a period of intensive investments.



Needs arise for capital investment and business succession

Ratio of absence of successor in Hiroshima Prefecture 73.4% (National average 66.5%) ⇒ 5th in Japan

Higher needs for business succession than other prefectures

(Reference) Teikoku Databank, Ltd.

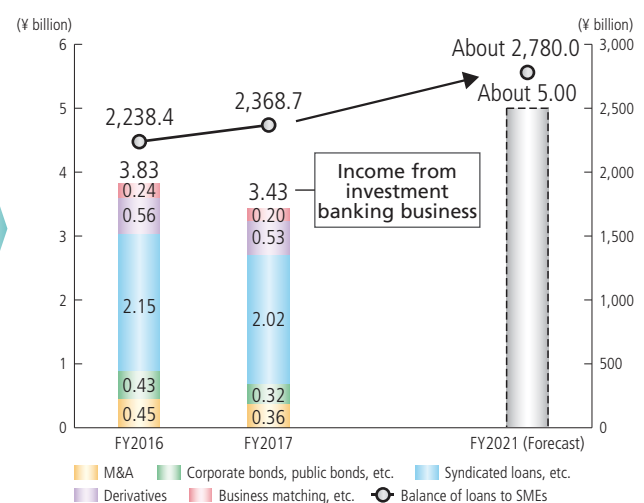
Develop a system to meet diverse needs

Products and services	Support system
<ul style="list-style-type: none"> ✓ Our unique consulting-type loans <ul style="list-style-type: none"> • Loans with principal exemption in case of earthquake • Loan system to support growing fields • Business succession support loan, etc. ✓ Business matching ✓ Derivatives (hedge against foreign exchange and interest rate risk) ✓ Support for overseas advance 	<ul style="list-style-type: none"> ☐ Relationship management by industry ☐ Persons in charge of business matching ☐ Persons in charge of M&A ☐ Overseas representative offices ☐ Persons in charge of consulting with corporate owners

Feasibility studies (qualitative analysis)

FY2017 results: 735 cases

Accumulate income from banking business



Enhancement of high-value-added banking business

— Individual loans —

We will aim to increase the balance of individual loans by introducing new products and constructing a promotion framework that utilizes the Head Office function and does not require involvement by branch offices. We will also strive to wrap in customers by providing companies and schools with employee and student identification IC cards that integrate daily-use functions and financial functions, and thereby differentiate ourselves from other banks.

Increase in the average balance of individual loans

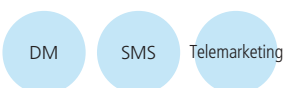
Introduction of Flat 35 (Security version)

- ✓ Fixed rate is available for the entire period (up to 35 years)
- ✓ Greater interest advantage than the existing Flat 35
- ✓ Our interest risk and credit risk are reduced by securitization

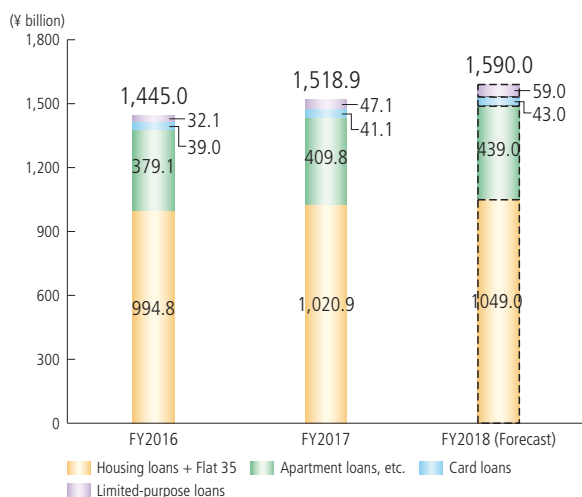
* Launched on May 7, 2018

First regional bank in western Japan

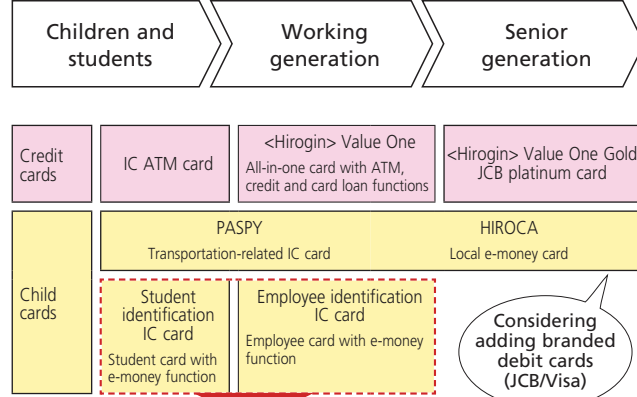
Effective promotion led by the Head Office with sophisticated EMB* support



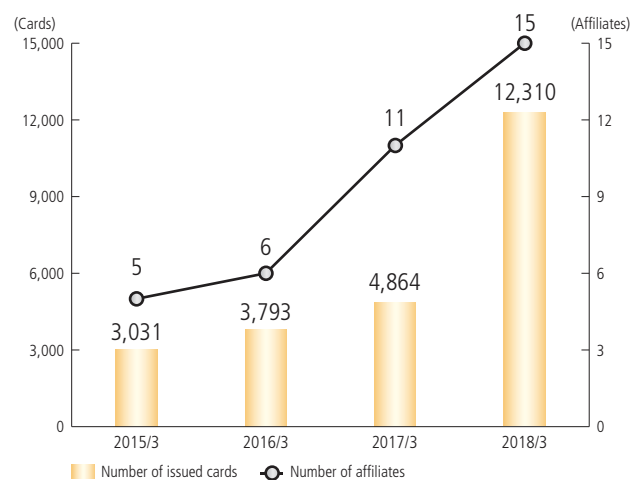
* Event-Based Marketing – Marketing reflecting changes in customer behavior



Promotion of affiliated credit cards



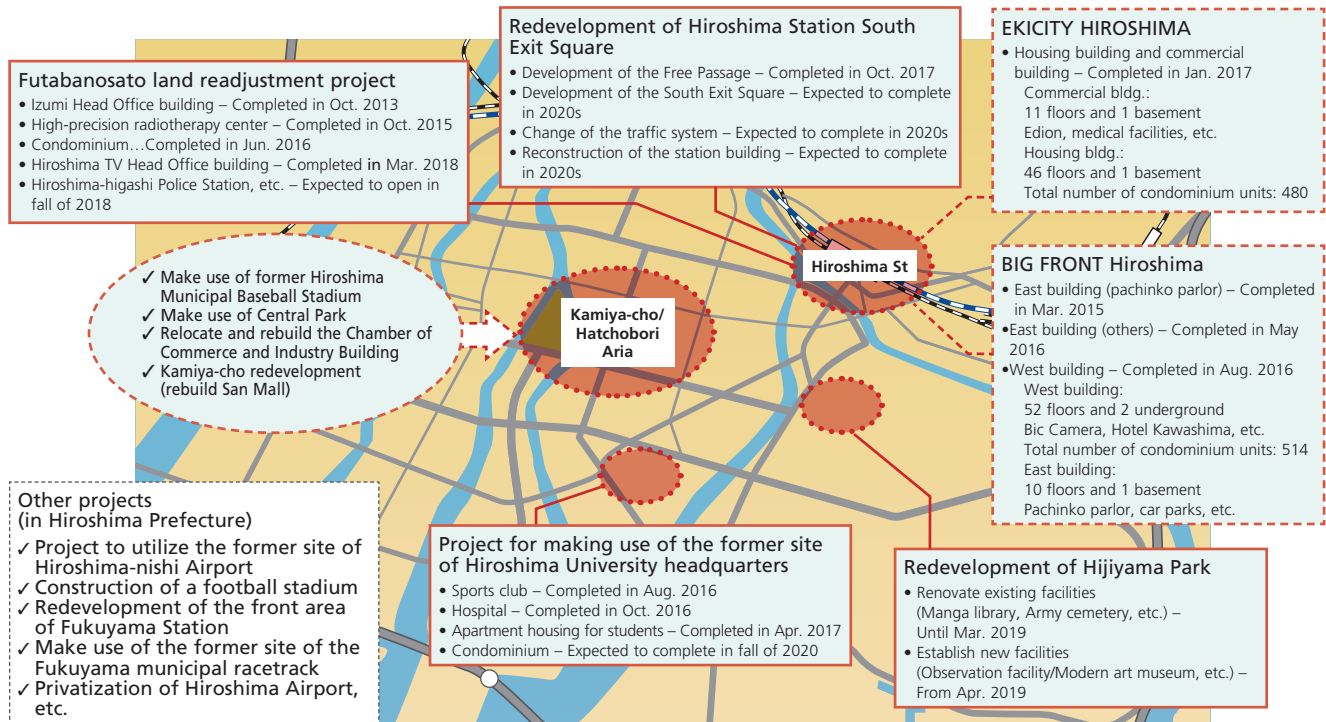
<Progress of promotion of affiliated cards>



Initiatives for the revitalization of the regional economy

By actively participating in redevelopment projects in Hiroshima, such as the Head Office reconstruction project scheduled for completion in 2021, and the origination of a private placement REIT, the first for a regional bank, we will proactively support community development and contribute to the revitalization of the regional economy as a leader.

Major projects in Hiroshima City



Hiroshima Bank Head Office Reconstruction Project

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

(Conceptual image of the completed new Head Office building)



First regional bank

Origination of a private placement REIT

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

The Kamiya-cho and Hatchobori area of Hiroshima was nominated as an urgent city revitalization development area (February 2018)

⇒ Being designated (determined), the area will have special benefits

- ✓ Restrictions 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.)


- It is expected that the population and the number of households will increase, and the level of land prices and rent also will increase.
- The number of private urban development projects will probably increase.

Contribute to the improvement of regional productivity

Actively engaged in community development from the planning stage, contributing to the revitalization of the regional economy

Initiatives for structural reform

Through various structural reform initiatives, such as reforming sales promotion and reducing the labor burden at branch offices, we are working to improve productivity and free up personnel members and time for sales promotion, as well as reallocating personnel to promising markets and the Head Office. In addition, we will respond to financial digitalization and create new earnings opportunities.

Structural reform project name	Outline	Effects
Sales Promotion Reform Project	<ul style="list-style-type: none"> ✓ Introduce sales-supporting devices (tablet) ✓ Integrate customer information and management tools dispersed by business type ✓ Receive applications for individual loans by tablet ✓ Secure customer service time through intensive management of actions and results 	<p>Managed to free up 180 personnel members (FY2017)</p>  <p>Reallocated personnel (April 2018)</p>
Individual Loan Low Cost Operation	<ul style="list-style-type: none"> ✓ Receive applications for individual loans by tablet ✓ Centralize back-office work to the Head Office ✓ Centralize housing loan refinance and apartment loan sales to the Head Office 	
Project to Reduce the Labor Burden at Branch Offices	<ul style="list-style-type: none"> ✓ Thorough reduction <ul style="list-style-type: none"> <input type="checkbox"/> Reduce documents <input type="checkbox"/> Reduce the use of seals or signatures <input type="checkbox"/> Reduce the vault <input type="checkbox"/> Reduce manager's tasks <input type="checkbox"/> Reduce the use of passbooks 	<p>Free up about 130 personnel members (in total between FY2018 and FY2021)</p>
Head Office Reconstruction Project	<ul style="list-style-type: none"> ✓ Implement measures to reform workstyles at the headquarters, taking advantage of the temporary Head Office <ul style="list-style-type: none"> <input type="checkbox"/> Non-territorial office <input type="checkbox"/> Electronic approval <input type="checkbox"/> Internal mobile phones <input type="checkbox"/> Mobile PCs 	<p>Free up personnel members by improving productivity (FY2018 to FY2021)</p>
Response to Financial Digitalization	<ul style="list-style-type: none"> ✓ Enhance functions of new channels (mobile application) ✓ Diversification and sophistication of settlement functions ✓ Respond to open API ✓ Enhance marketing 	<p>Create new earnings opportunities</p>

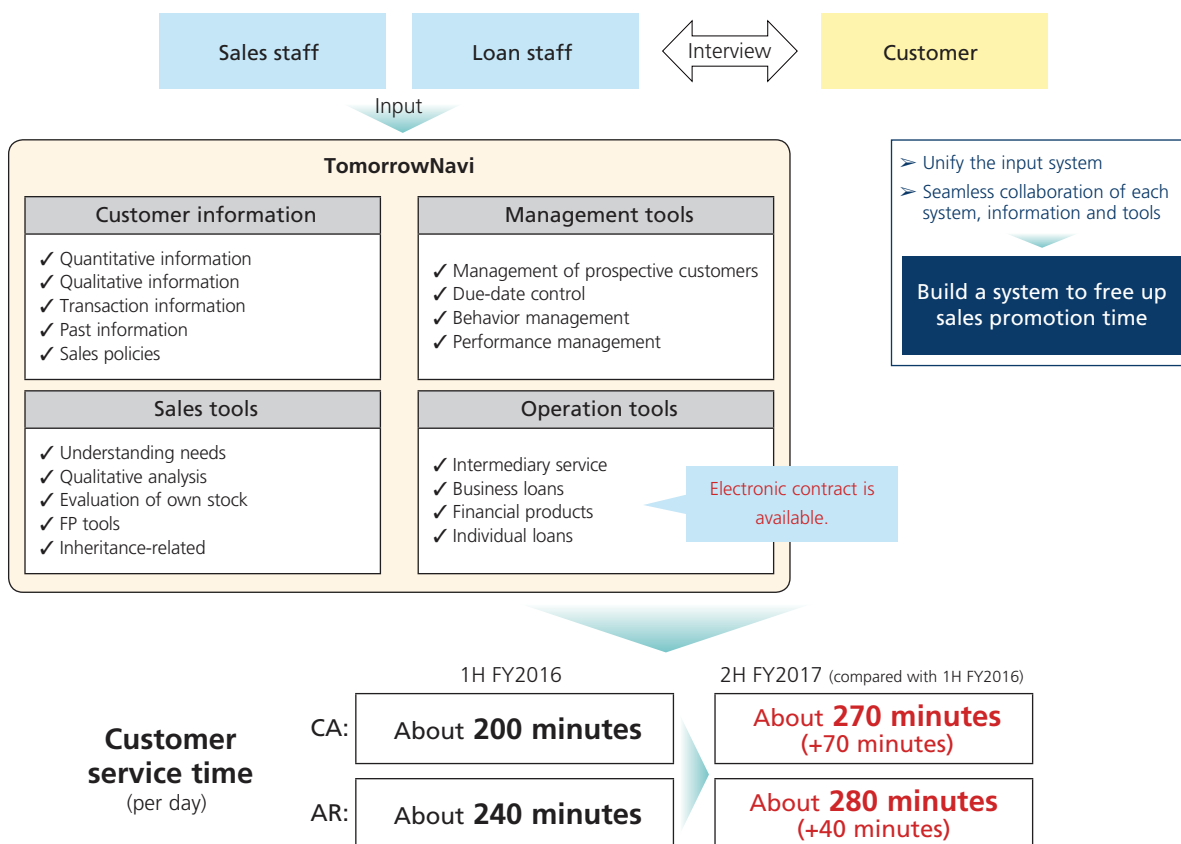
Initiatives for workstyle reform

— Branch offices —

We will free up time and personnel members to work with customers and deliver high-value-added services by introducing the integrated marketing support system TomorrowNavi and ramping up the project to reduce the labor burden at branch offices.

Increase customer service time through the sales promotion reform project

Introduce integrated operation support system TomorrowNavi



Project to reduce the labor burden at branch offices

(1) Use of tablets for transactions in the lobby

Customers are recommended to use a tablet for the transaction during the waiting time

(2) Reduce the labor burden and manager's tasks

Eliminate reception desks and guide customers in the lobby to the appropriate channel

The number of managers can be reduced by reducing the labor burden

(3) Reduce the vault

Cash and passbooks, etc., stored in the vault
Manual management ⇒ System management

To reduce about **520,000 work hours** in total a year by implementing the above measures and other measures

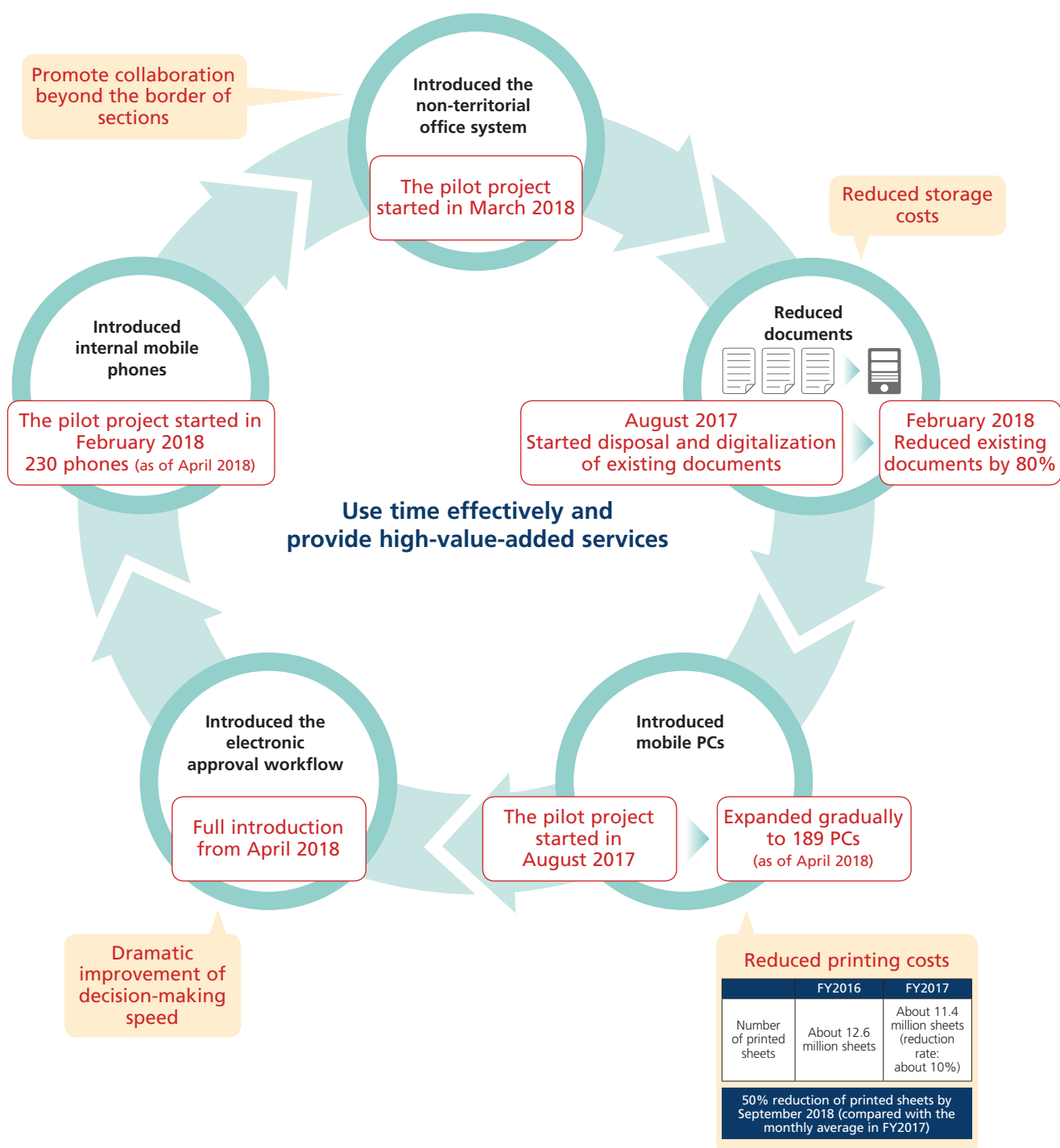
(between FY2018 and FY2021, compared with 2H FY2017)

Free up about **130** employees and relocate them (FY2018 to FY2021)

Initiatives for workstyle reform

— Head Office —

Taking advantage of the temporary Head Office relocation in February 2018, we are strengthening initiatives aimed at improving productivity, including reducing existing documents by 80% through disposal and digitalization, introducing non-territorial offices using mobile PCs as well as an electronic approval workflow.



Response to financial digitalization

In order to respond quickly to the rapid financial digitalization, we strengthened our internal framework, including integrating the Head Office functions related to smartphone apps. We are also working to introduce customer service utilizing new technologies, such as starting to use payment apps and launching demo testing of advanced loan screening utilizing AI.

Strengthen the structure to make speedy responses

Changes in the environment surrounding the Bank

- ✓ Progress of cashless payment
- ✓ Diversified and sophisticated payment methods
- ✓ Progress of open innovation (including disclosure of API, etc.)

Compete with other industries

Apple Pay
LINE
Rakuten

Urgent

- ✓ Utilize mobile app
- ✓ Initiatives for diversified and sophisticated payment methods
- ✓ Develop new services and businesses according to the changing environment

Reorganized to create the Digital Innovation Office

(February 2018)

(Formerly the New Business Development Promotion Office)

- Unified headquarters' functions regarding the mobile application, etc.
- Strengthened the organization (4 members (April 1, 2017) ⇒ 11 members (April 1, 2018))

Start operation of payment application

Hirogin Pay B

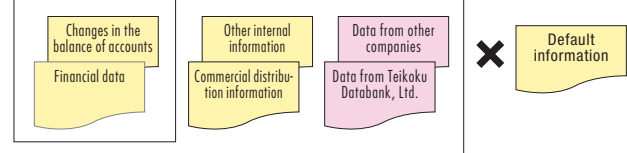


- ✓ Targets are tax, public utility and mail-order payments.
- ✓ Scan the bar code on a payment slip with a smartphone camera and the payer's account is debited simultaneously.
- ✓ Those payments are possible with a smartphone anytime, anywhere and easily.

Demo testing of advanced loan screening utilizing AI (Second round)

Second-round target

First-round target



- Aim to improve the accuracy of the business model and enhance versatility
- ➔ Consider structuring business loans in the future

Branch office strategies

In order to build channels that can provide optimal financial services to customers, we are reviewing branch office functions based on market changes, deregulation, and other factors, and will aim to be a bank that can provide customers with consultation services and transactions through any channel they prefer to use anytime, anywhere.

In addition, through collaboration with other sectors, we are promoting branch office innovation, including establishing innovative branch offices with a view to the next generation incorporating advanced equipment and information dissemination functions which will support regional development.

Review the branch office functions

Changes in the market

- ✓ Decreasing number of visitors to branch offices reflecting the declining population
- ✓ Various non-face-to-face channels and changing customer needs in line with the progress of ICT*/FinTech (*Information and Communication Technology)

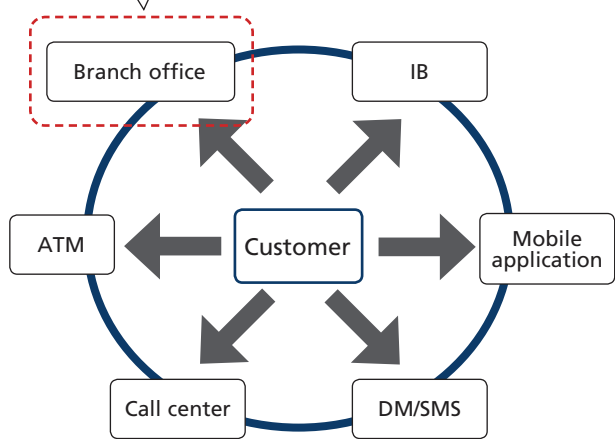
Deregulations (Banking Act)

- ✓ Flexible business days and hours set up by each branch office
- ✓ Joint office managed by multiple banks

The Bank aims to provide customers with consultation services and transactions through any channel they prefer to use anytime and anywhere.

Review the branch office functions

- Enhance customer services by building a network of core branch offices and small and compact branch offices
 - Review the form and functions of branch offices by reducing the labor burden
 - Specify the roles of branch offices according to the characteristics of the market
 - Increase the number of joint offices with Hirogin Securities, focusing on medium branch offices
- Flexible branch office management reflecting deregulations
 - Flexible setting of business days and hours (realize both "strengthening of customer contacts and enhanced customer services" and "efficiency" according to regional circumstances and customers' needs)



Establish innovative branch offices with a view to the next generation

(New) Hatchobori Branch* (from Dec. 19, 2017)

In addition to enhanced consulting functions, the office has advanced features and functions with the use of ICT and an information dissemination function that contributes to regional development and regional benefits.

* Startram 1-2F, 16-11 Hatchobori, Naka-ku, Hiroshima

Foreign tourist information center Setouchi Information Center @ HIROSHIMA BANK



- ✓ Operated by Setouchi Brand Corporation Ltd.
- ✓ Introduce specific places where tourists can discover the attractiveness of Setouchi
- ✓ Aim to inspire tourists to extend their stay and repeat visiting the Setouchi area

Robot concierge Robopin



- ✓ Communication robot developed by Fujitsu Laboratories Ltd.
- ✓ It guides office procedures and provides information on tourist facilities in the surrounding area on behalf of human employees
- ✓ Verify the scope of future banking operations that may be performed by robots (joint proof experiment with Fujitsu Ltd.)

Large digital signage



- ✓ Mesh LED display through which the other side is visible while displaying
- ✓ All windows have this display (First in western Japan)