

Overview of Interim Financial Results for FY2019

— IR Presentation —

December 11, 2019

The Hiroshima Bank, Ltd.



Table of Contents

1. Summary of Business Performance

Overview of profit/loss in FY2019 1H	...	3
Balances, deposits, and other management indicators in FY2019 1H	...	4
Main measures in FY2019 2H and full-year forecasts of results and dividends	...	5
State of achievement of management objectives under Mid-term Plan 2017	...	6

2. Shift to a Holding Company Structure

Rationale for establishing a holding company structure	...	8
Efforts to establish a holding company	...	9

Appendix Business Strategies

Advancement of sales of corporate solutions	...	11
Strengthening capability to propose solutions related to asset management and asset building	...	12
Businesses related to inheritance and business succession	...	13
Support for urban redevelopment	...	14
Regional trading company business	...	15
Digital transformation (DX) efforts	...	16
Structural reform efforts	...	17

Appendix SDGs/ESG Initiatives

Basic concepts	...	19
Main social and environmental initiatives	...	20

Appendix Overview of Interim Financial Results for FY2019

Net interest income	...	22
Net fees and commissions income	...	23
Expenses	...	24
(Reference) Comparison with other banks (FY2019 1H)	...	25
Balance of loans, deposits, etc. (deposits + NCD) and foreign currency funding	...	26
Loans to SMEs and personal loans	...	27
Securities	...	28
Credit costs and non-performing loans	...	29
Capital adequacy ratio and ROE	...	30

1. Summary of Business Performance

Overview of profit/loss in FY2019 1H

Overview of profit/loss

(Billion yen)

	FY2019	1H	YoY change	(Change rate)
Net interest income	34.7		-0.5	
Interest on loans	30.9		0.2	
Interest and dividends on securities	7.4		-0.4	
Deposits + NCD interest (-)	1.0		-0.1	
External procurement costs, etc. (-)	2.6		0.4	
Net fees and commissions income	7.8		-1.0	
Investment banking business	1.4		0.0	
Asset management business	3.1		-0.4	
Personal loan-related	-2.2		-0.4	
Foreign exchange	0.7		0.0	
Traditional fees and commissions income	4.8		-0.2	
Gross income from core businesses	42.5		-1.6	(-3.6%)
Expenses (-)	26.5		0.0	(-0.1%)
Net income from core businesses	16.0		-1.6	(-8.9%)
Net income from core businesses (not including gains/losses from cancellation of investment trusts)	16.0		-1.6	(-8.9%)
Gains/losses related to government bonds and other bonds	1.6		2.6	
Effective business gains/losses	17.7		1.2	
Gains/losses related to equities, etc.	2.2		-1.0	
Credit costs (-)	1.0		-1.5	
Other temporary gains/losses	0.5		0.2	
Ordinary profit	19.4		1.9	(10.7%)
Interim net income	14.0		1.4	(10.7%)

Consolidated ordinary profit	19.5	2.1	(12.2%)
Interim net income attributable to owners of the parent	13.5	1.5	(12.3%)

Key points

Overview of profit/loss

- Due to decreases in net interest income, net fees, and commissions income, **net income from core businesses fell by 1.6 billion yen on a year-on-year basis to 16 billion yen.**
- Due to factors including increases in gains/losses related to government bonds and other bonds and decreases in credit costs, **ordinary profit rose by 1.9 billion yen on a year-on-year basis to 19.4 billion yen, while interim net income rose by 1.4 billion yen year on a year-on-year basis to 14 billion yen.**
- **Interim net income attributable to owners of the parent rose by 1.5 billion yen on a year-on-year basis to 13.5 billion yen.**
- On both a consolidated and a nonconsolidated basis, thanks to **steady business performance**, interim income rose for the first time in three years.

Net interest income

- Net interest income declined by 500 million yen year-on-year to 34.7 billion yen, due mainly to a decrease in interest and dividends on securities, despite an increase in interest on loans accompanying an increase in loan balances.

Net fees and commissions income

- Net fees and commissions income fell by 1 billion yen year-on-year to 7.8 billion yen, due to factors including decreased gains on sales of investment trusts and insurance.

Expenses

- Expenses were largely unchanged year-on-year (down slightly), at 26.5 billion yen, as personnel expenses fell, due mainly to lower retirement benefit costs, although non-personnel expenses increased.

Balances, deposits, and other management indicators in FY2019 1H

Overview of assets, liabilities, etc. (average balances)

(Billion yen)

	FY2019 1H	YoY change	(Annual rate)
Loan balances	6,209.0	290.6	(4.9%)
Loans to local governments	942.5	106.0	(12.7%)
Business loans	3,701.7	115.7	(3.2%)
(SME loans included in above)	2,559.7	87.0	(3.5%)
Personal loans	1,564.8	68.9	(4.6%)
Securities, etc.	1,138.0	-118.3	
Yen bonds, etc.	867.7	-147.9	
Equities	76.1	-4.4	
Foreign bonds	194.2	34.0	
Other	1,877.9	39.7	
Total assets	9,224.9	212.0	

	FY2019 1H	YoY change	(Annual rate)
Balance of deposits, etc.	7,693.5	232.6	(3.1%)
Personal deposits	4,890.9	131.5	(2.8%)
Corporate deposits	2,317.5	70.8	(3.2%)
Public sector, financial deposits	485.0	30.3	(6.7%)
Other	1,531.4	-20.6	
Total liabilities and net assets	9,224.9	212.0	
Total balance of deposit assets	9,373.2	205.4	

Overview of management indicators

	FY2019 1H	YoY change
Consolidated ROE	5.4%	0.5pt
Consolidated capital adequacy ratio	11.07%	0.04pt
Non-interest income ratio	33.8%	-0.2pt
Non-interest income	15 billion yen	-0.7 billion yen
Contributions or consolidation of Group companies	6.4%	-0.8pt
Adjusted overhead ratio	62.3%	2.2pt
Credit cost ratio	0.03%	-0.05pt
NPL ratio	1.06%	-0.14pt

Key points

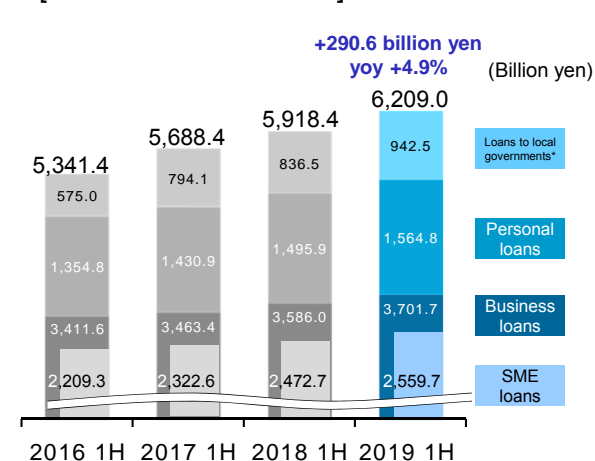
Loan balances

- Business loans rose by on a year-on-year basis 115.7 billion yen, or 3.2%, to 3.7017 trillion yen, thanks to proactive lending to SMEs through efforts to strengthen the consulting business.
- Personal loans rose on a year-on-year basis by 68.9 billion yen, or 4.6%, to 1.5648 trillion yen, due to efforts led by the Head Office to strengthen this business.

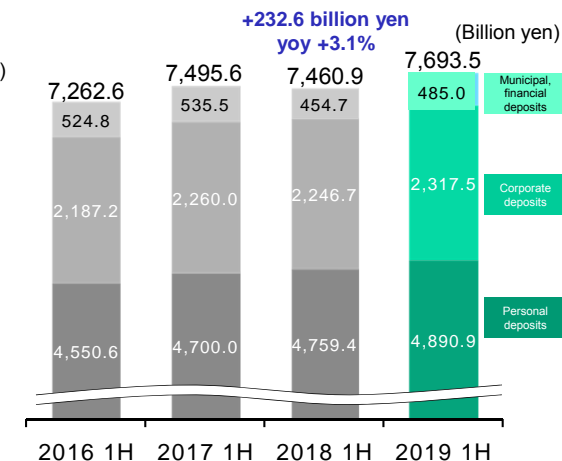
Balance of deposits, etc.

- The balance of deposits, etc. rose on a year-on-year basis by 232.6 billion yen, or 3.1%, to 7.6935 trillion yen, as personal deposits, corporate deposits, and municipal, financial deposits all increased.

[Trend in loan balances]



[Trend in balance of deposits, etc.]



*Loans to local governments: Loans to local public organizations and public corporations

Credit cost ratio, NPL ratio

- The credit cost ratio remained low, improved by just 0.05 points.
- The NPL ratio recorded its lowest level ever, at 1.06%.

Main measures in FY2019 2H and full-year forecasts of results and dividends

In FY2019 H2, we will respond appropriately to the shift to a holding company structure to evolve a new group management system, in addition to making progress on strengthening core businesses, expanding business domains, and strengthening structural reform efforts.

For FY2019, we forecast net income attributable to owners of the parent of 25.5 billion yen, unchanged from the performance forecasts announced in May. In addition, we project annual dividends of 18 yen per share, based on the payout table.

Main measures in FY2019 2H

Evolution of a new group management system

- To build a **regional comprehensive services group** that meets all the needs of its customers, centered on finance **P.8**
P.9

➔ **Increasing the Group's corporate value**

Strengthening core businesses

- Realizing potential customer needs and providing optimal solutions based on **feasibility studies** **P.11**

➔ **Building up loans to SMEs centered on local customers and revenues from the investment banking business**

- Rather than simply investing funds from assets under management, supporting the **management and succession of customer assets as a whole** (banking and securities business collaboration, support for inheritance and business succession measures) **P.12**
P.13

➔ **Building up revenues from the asset management business**

Expanding business domains

- Strengthening efforts targeting the **equity business** **P.11**
- Revitalizing local communities through **support for urban redevelopment** and **participation in the regional trading company business** **P.14**
P.15
- Increasing customer convenience by strengthening efforts related to **digital transformation (DX)** **P.16**

➔ **Securing new opportunities for earnings**

Strengthening structural reform efforts

- Transforming branches into consulting-centered institutions, based on **reviews of sales promotion structures** and by **promoting the project to eliminate administrative tasks at branches** **P.17**

➔ **Increasing labor productivity and improving the adjusted overhead ratio**

FY2019 full-year performance forecasts

(Billion yen)

	FY2019 performance forecast	
		YoY change
Net interest income	66.9	-1.2
Net fees and commissions income	16.5	-0.7
Gross income from core businesses	83.4	-1.9
Expenses (-)	53.4	0.7
Net income from core businesses	30.0	-2.6
Net income from core businesses (not including gains/losses from cancellation of investment trusts)	30.0	-2.6
Gains/losses related to securities	5.7	0.2
Credit costs (-)	1.0	-2.1
Ordinary profit	35.5	-0.4
Net income	25.0	-0.3
Net income attributable to owners of the parent	25.5	0

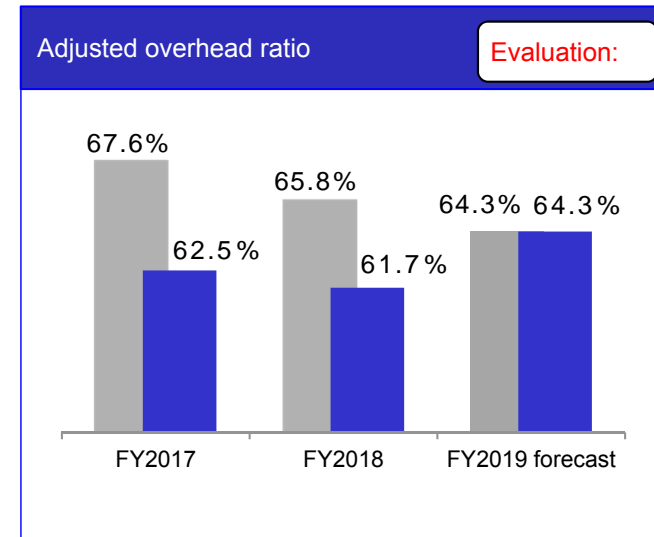
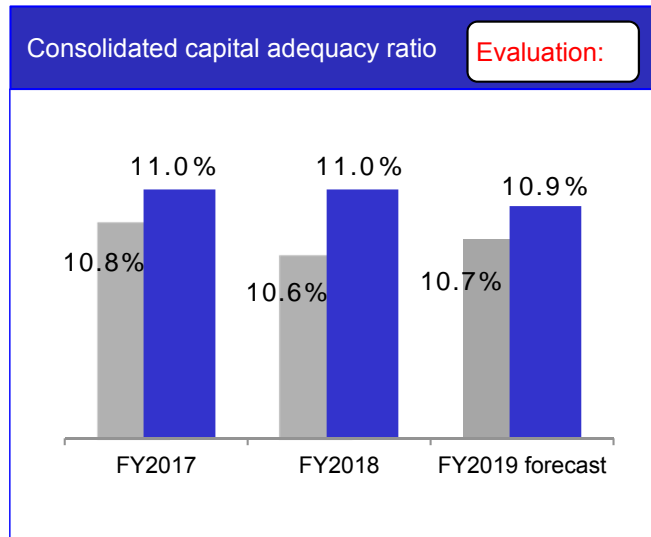
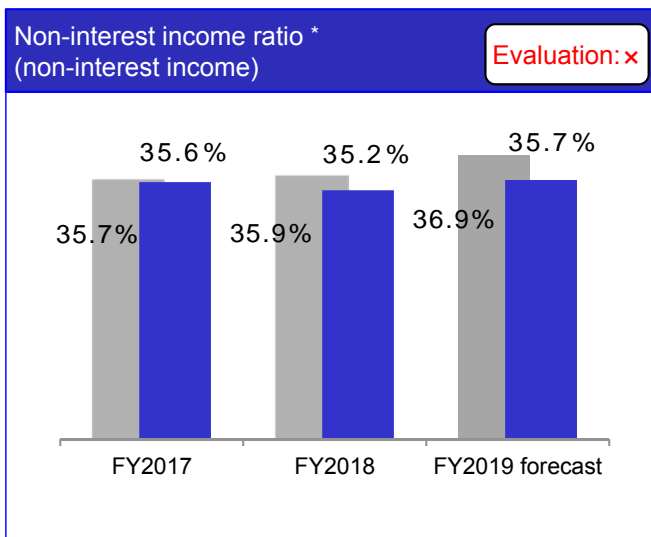
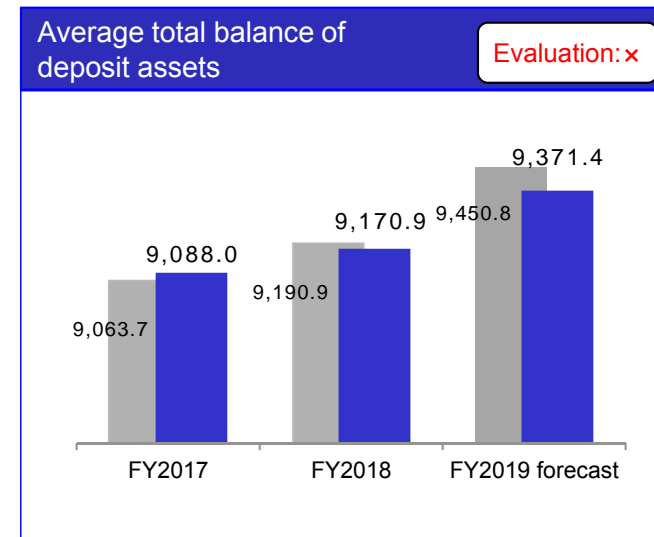
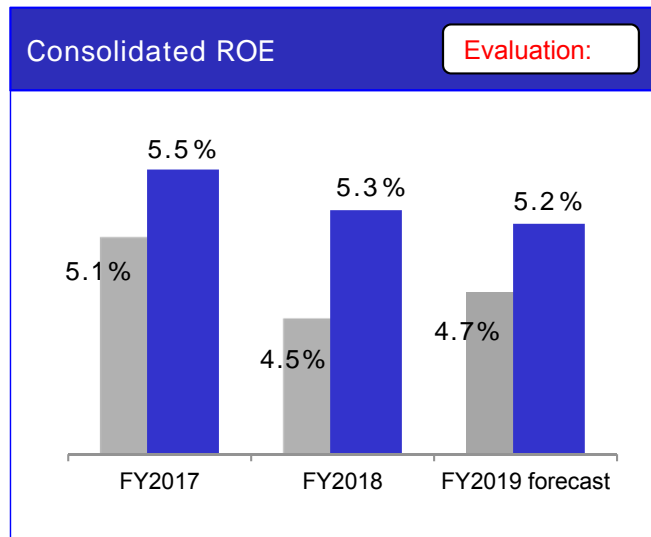
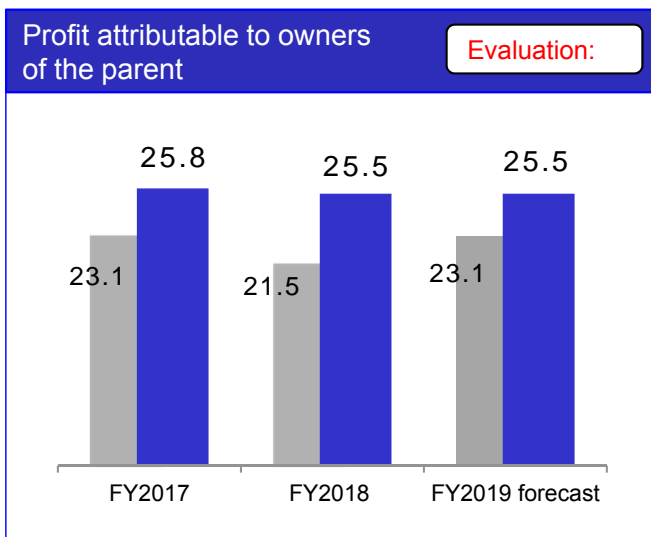
[Dividend forecasts]

<Payout table (excerpt)>

Net income attributable to owners of the parent	Dividends per share			Consolidated payout ratio
	(i) Fixed	(ii) based	+	
⋮				
27-30 billion yen	12 yen	8 yen	20 yen	20.8-23.1%
24-27 billion yen	12 yen	6 yen	18 yen	20.8-23.4%
21-24 billion yen	12 yen	4 yen	16 yen	20.8-23.8%
⋮				

State of achievement of management objectives under Mid-term Plan 2017

Thanks to steady deployment of related measures, business performance shows a favorable trend, while management objectives have largely been achieved.



*Including income from Hirogin Securities

■ Mid-term Plan
 ■ Results (Billion yen, %)

2. Shift to a Holding Company Structure

Rationale for establishing a holding company structure

Evolution of a new group management system

Strengthening core businesses

Expanding business domains

Strengthening structural reform efforts

By migrating in October 2020 to a holding company structure, we will aim to evolve a new group management system and build a regional comprehensive services group that meets all the needs of its customers, centered on finance.

Changes in the business environment

Worsening of bank earning capabilities



Continued low interest rates



Emerging competitors from other industries



Decreasing prefectural total production (decreasing scale of banking business)

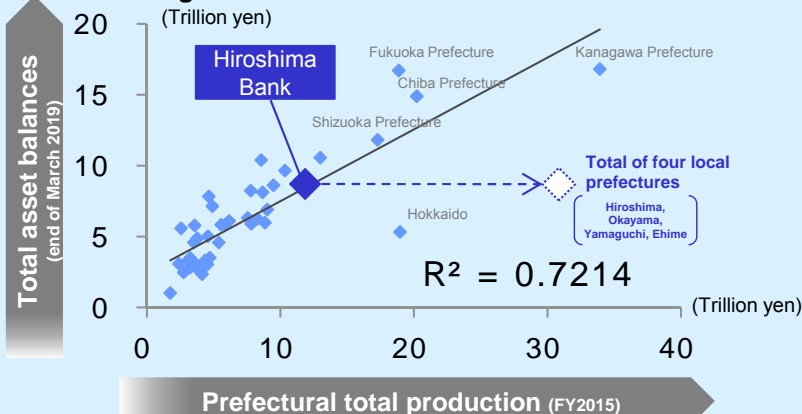


Decreasing populations, low birth rates, an aging population



Centralization in urban areas

Reference: Prefectural total production and total asset balances of regional banks



Note: Not including regional banks in Tokyo, Osaka, Aichi, Saitama, and Hyogo prefectures and those ranked second or lower in their prefectures by total asset balances

Rationale for establishing holding company structure

Halting the contraction of local economies through proactive regional vitalization efforts

➔ **Demonstrating an overwhelming presence in the community**

The four local prefectures that make up the Bank's main business area



Prefectural total production: **Approx. 31 trillion yen** (total of four prefectures)
National share: **5.6%**

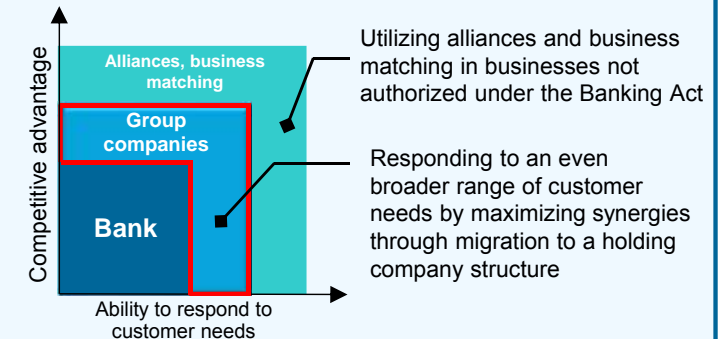
Source: Cabinet Office (FY2016)

Number of businesses: **Approx. 342,000** (total of four prefectures)
National share: **6.1%**

Source: Ministry of Internal Affairs and Communications (2016)

Expanding business domains in the Bank's main business area

- ❑ Taking advantage of the Bank's overwhelming customer base throughout the Hirogin Group
- ❑ Providing solutions in areas including non-financial fields, through even more integrated efforts across the Hirogin Group, in response to evolving and diversifying customer needs



To build a regional comprehensive services group that meets all the needs of its customers, centered on finance

Efforts to establish a holding company

Evolution of a new group management system

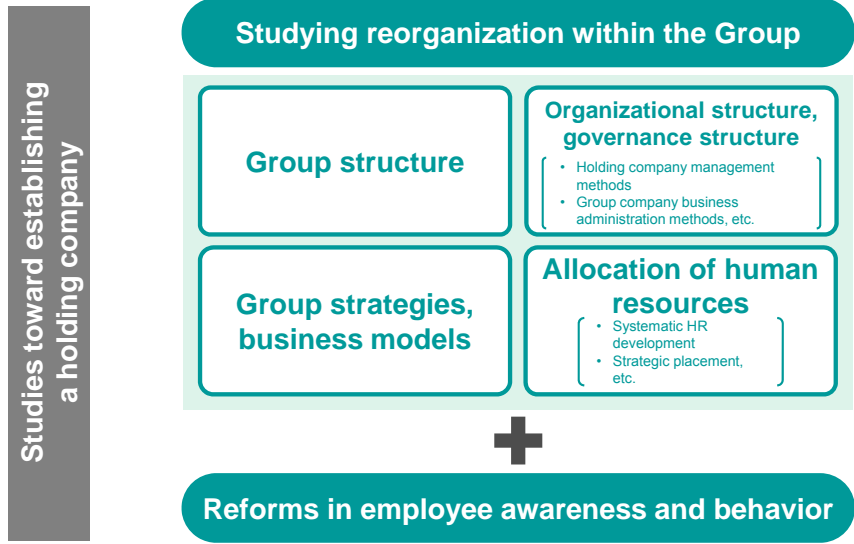
Strengthening core businesses

Expanding business domains

Strengthening structural reform efforts

Growing opportunities for new revenues and strengthening management foundations via reorganization within the Group and reallocation of management resources on a Group basis

Efforts to establish a holding company



Migration to a holding company structure

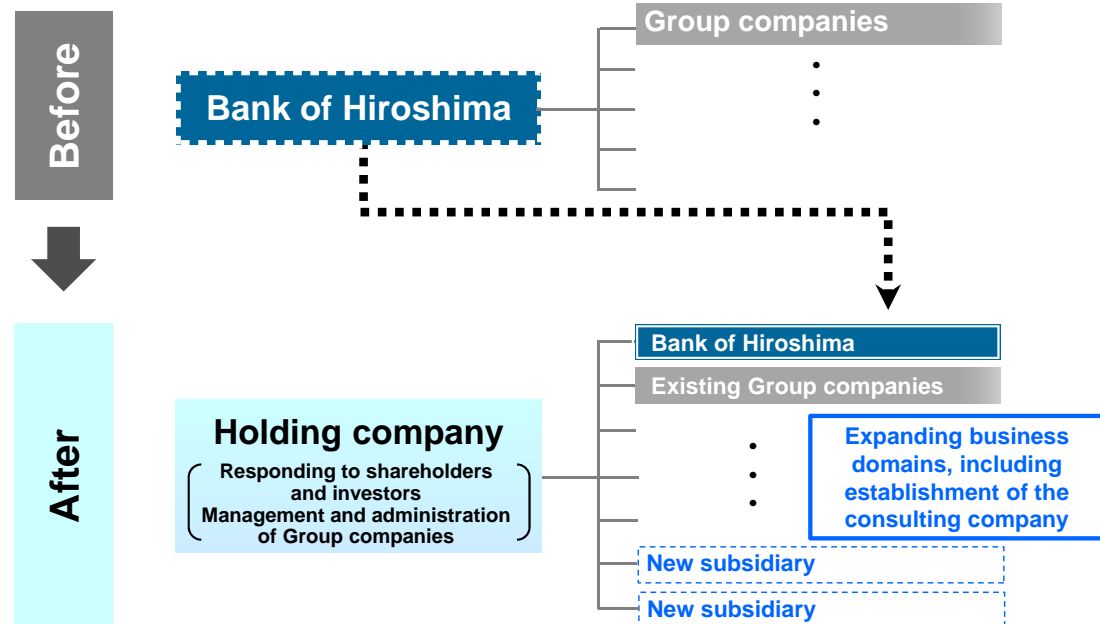
(i) Dynamic and flexible response to reorganization

Differentiation from competitor banks and other industries through reorganization within the Group

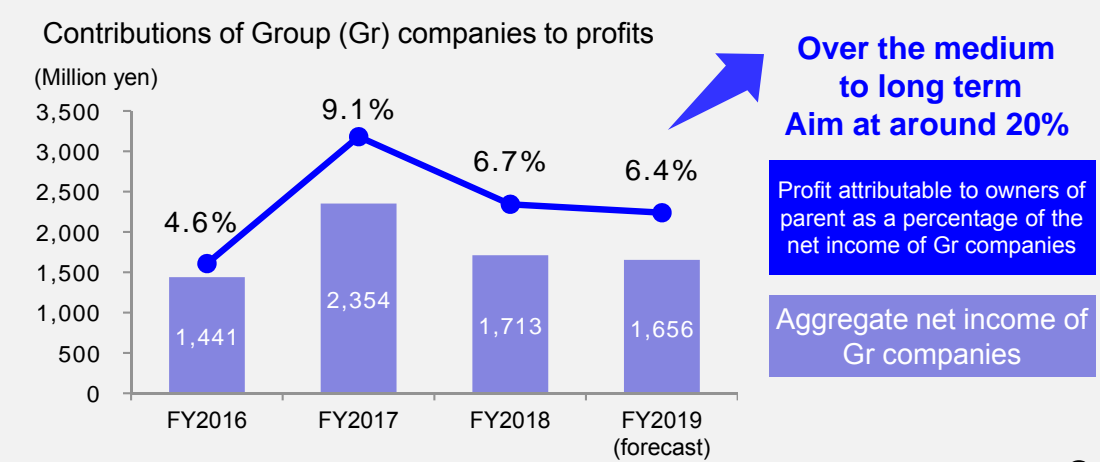
(ii) Optimization of allocation of management resources on a Group basis

Alongside optimal allocation of management resources to the Bank and Group companies in accordance with customer needs, increasing productivity by improving business efficiency on a Group basis

New Group management structure



Note: The illustration above is a rough estimate. The specific structure is subject to future consideration.



Appendix

Business Strategies

Advancement of sales of corporate solutions

Evolution of a new group management system

Strengthening core businesses

Expanding business domains

Strengthening structural reform efforts

Providing proactive support to boost corporate value by demonstrating consulting functions, including proposing comprehensive solutions, in response to needs of customer firms identified through evaluations of business potential

Providing solutions based on evaluation of business potential

<The Bank's consulting process (evaluation of business potential)>



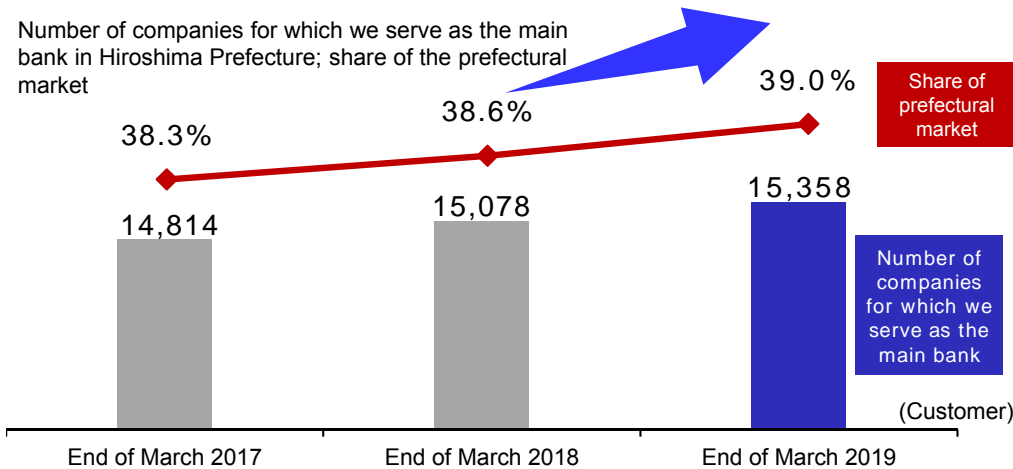
Products and services

- Our unique consulting-based financial products
 - Loans with riders on waiver of principal in the event of earthquakes
 - Loans with riders on waiver of principal in the event of flooding
 - Business succession support loans, etc.
- Business matching
- Derivatives (forex, interest rate swap hedging)
- Support for efforts to expand abroad
- Support for formulating medium-term plans

Support structure

- Industry RMs
- Business matching staff
- Overseas resident offices
- Owner consulting staff

Ascertaining customer needs and providing solutions through assessments of business potential



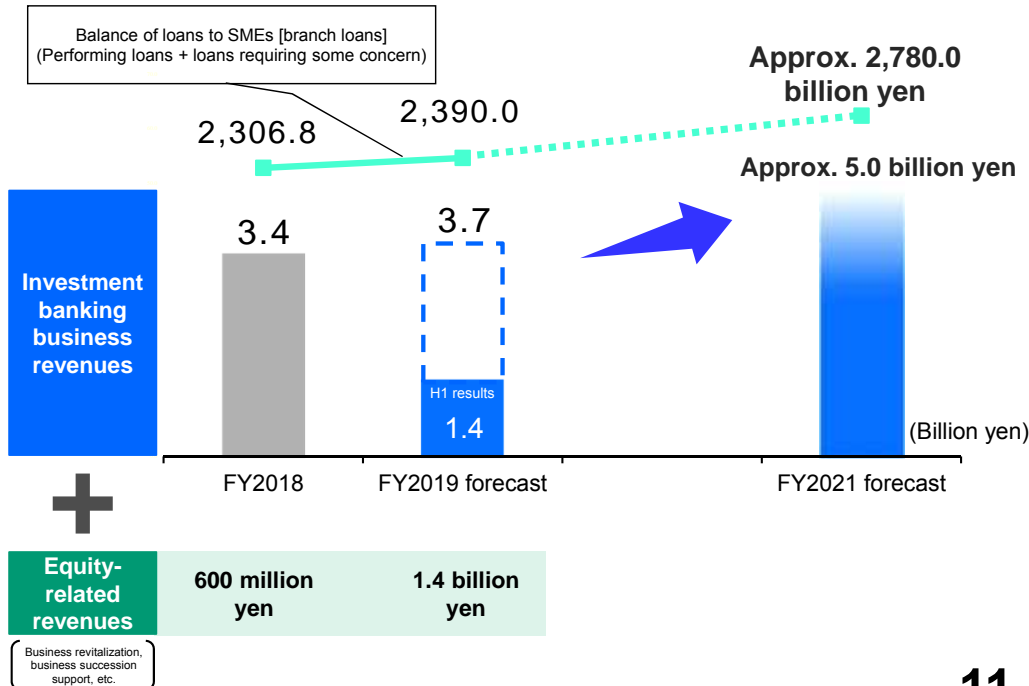
Building up loans to SMEs and revenues from the investment banking business

Helping customers boost corporate value by providing comprehensive solutions on a Groupwide basis

Fields in which we will further strengthen our efforts

- (i) Support for business succession (M&A support, etc.)
- (ii) Equity business (DES, DDS, etc.)
- (iii) Regional creation (regional development, tourism promotion)

Balance of loans to SMEs, investment banking business revenues, and forecasts



Source: Tokyo Shoko Research

Strengthening capability to propose solutions related to asset management and asset building

Evolution of a new group management system

Strengthening core businesses

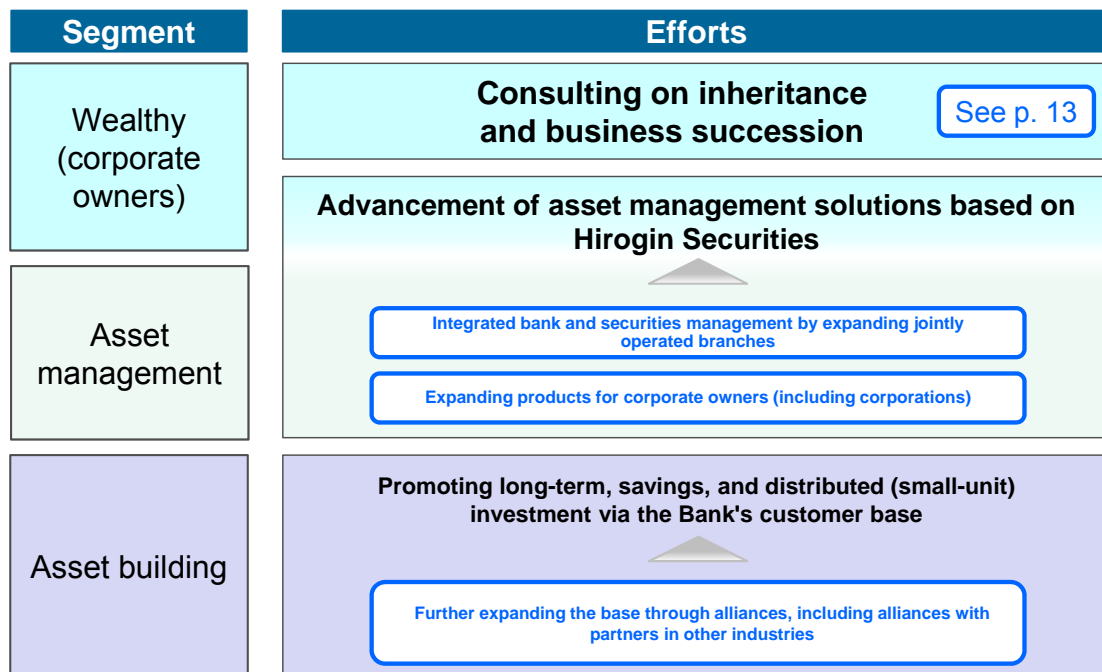
Expanding business domains

Strengthening structural reform efforts

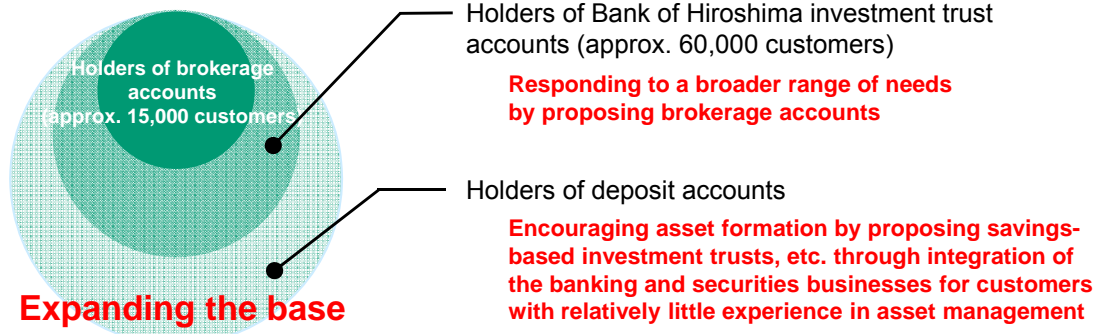
In addition to proposing inheritance and business succession consulting for the growing senior market, utilizing the advanced, specialized asset management proposals of Hirogin Securities and other resources to propose optimal solutions suited to customer life cycles

Consulting solutions suited to customer life cycles

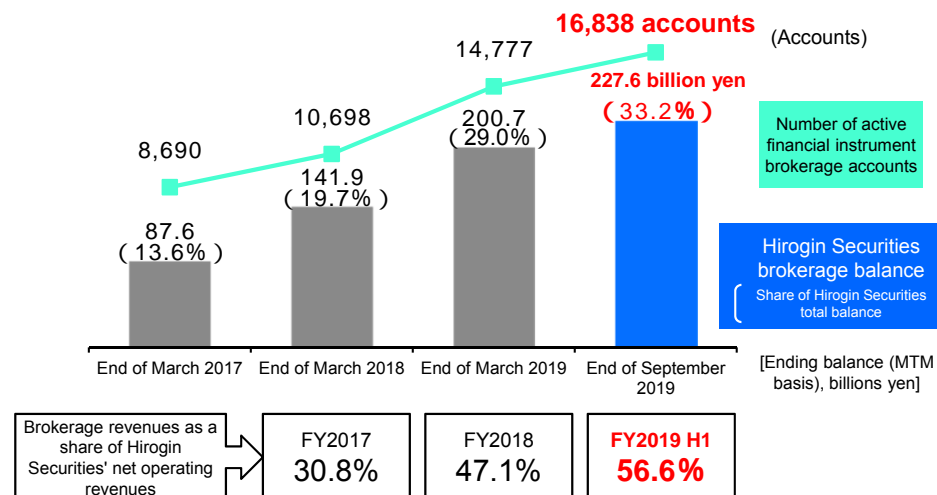
Overview of promotion



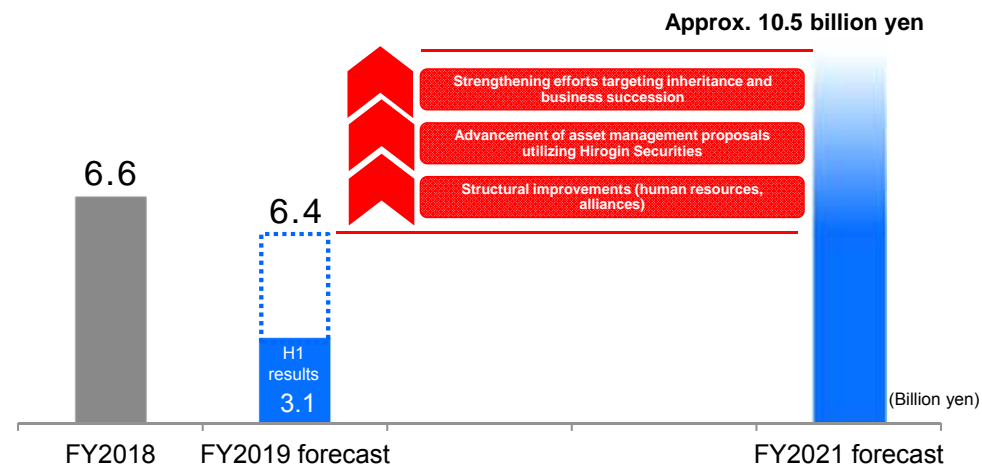
Reference: Overview of promotion of integrated operation of banking and securities businesses



Current progress in the evolution of the financial instrument brokerage business



Building up asset management business revenues



Providing optimal solutions utilizing consulting-based trusts, etc. in response to rising needs related to inheritance
By strengthening efforts to assist with business succession at local firms, contributing to employment in the community and the continual growth of local economies

Inheritance and business succession efforts

Inheritance

<Needs>

Inheritee (s)	<ul style="list-style-type: none"> ❑ Smooth inheritance ❑ Controlling inheritance tax
Inheritor	<ul style="list-style-type: none"> ❑ Smooth procedures ❑ Secondary inheritance

<Solutions>

- ❑ **Proposing inheritance measures**
- ❑ **Testamentary trust**
- ❑ **Calendar year gift trust**
- ❑ **Estate management**
- ❑ **Execution of will**

Business succession

<Succession patterns>

Successor present	<ul style="list-style-type: none"> ❑ In-family succession ❑ Executives, employees
No successor present	<ul style="list-style-type: none"> ❑ M&A ❑ Attracting human resources from outside the region

<Solutions>

- ❑ **Business succession advisory services (Evaluating company stock, formulating business succession plans, etc.)**
- ❑ **Equity finance (MBO, LBO, PE alliance)**
- ❑ **M&A advisory services**
- ❑ **Recruitment services**

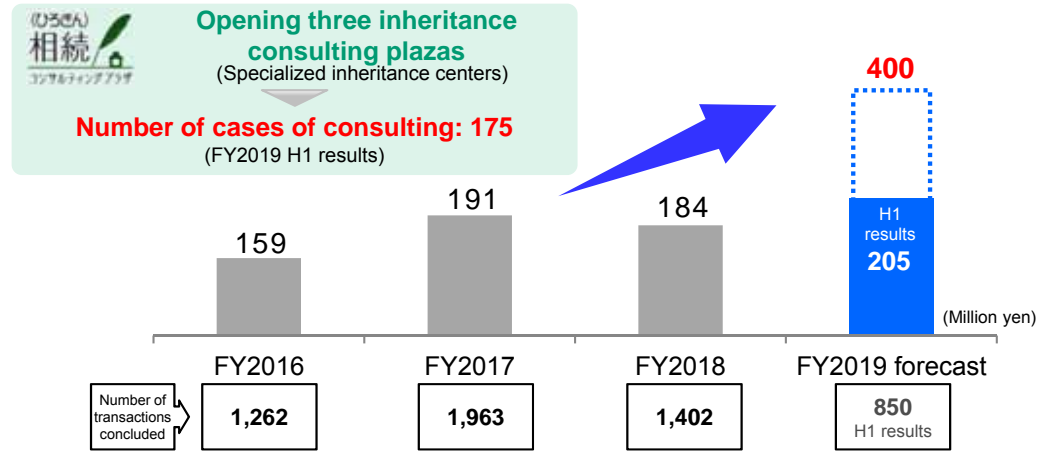
[Number of consultation on recruitment services]

FY2018	FY 2019 H1
41	140

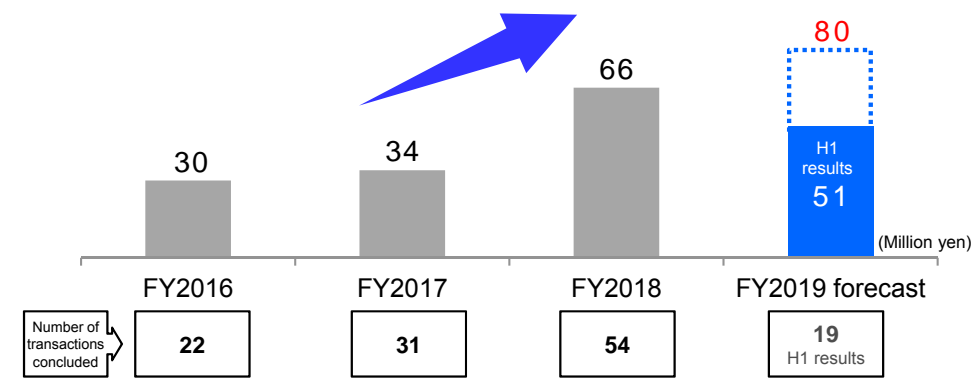
Adopted March 2019

Building up revenues related to inheritance and business succession businesses

Actual/projected inheritance-related revenues and numbers of transactions concluded



Actual/projected business succession advisory service revenues and numbers of transactions concluded



Support for urban redevelopment

Evolution of a new group management system

Strengthening core businesses

Expanding business domains

Strengthening structural reform efforts

We contribute to regional development through our network and by providing solutions from the project entry stage for major regional development projects in Hiroshima Prefecture.

Main projects in the city of Hiroshima

Construction of soccer stadium

- Decision on final candidate site made in February 2019
- Plans call for building a stadium with 30,000 seating capacity.

Futabanosato land readjustment project

- Relocation of JR West Japan Hiroshima Branch

Redevelopment of Hiroshima Station South Exit Square

- Development of the South Exit Square
- Elevation of entry routes
- Reconstruction of the station building
- Reconstruction of the Hiroshima East Post Office

Designated as areas urgently requiring urban renewal

Project to rebuild Hiroshima Bank, Head Office building

- Expected to complete in January 2021

Project for the use of the former site of Hiroshima University headquarters

- Condominium construction

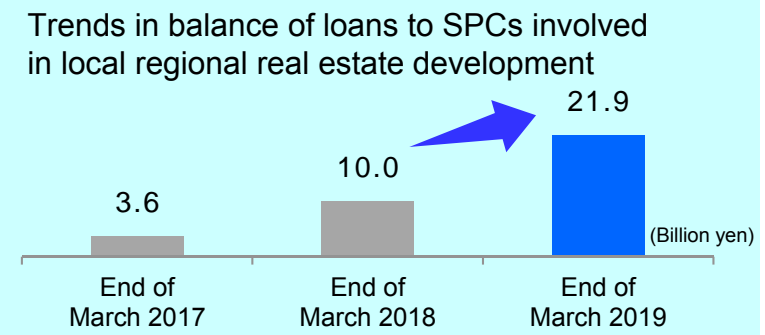
Redevelopment of the area around Fukuyama Station

Fukuyama Castle Center of urban development

- Multipurpose retail facility
- Revitalization and utilization of empty storefronts, etc.
- Adoption of park PFI

Chuo Park Another center of urban development

Responding to public and private sector needs through proactive involvement in central urban development projects



Other projects

Project name	Developer	State of progress on development
Redevelopment of the area around Nishi-Hiroshima Station	City of Hiroshima	Construction has begun.
Project to utilize the former site of Hiroshima-nishi Airport	Hiroshima Prefecture	Construction has begun.
Redevelopment of the area around Kure Station	City of Kure	A basic plan has been formulated.
Privatization of Hiroshima Airport	Hiroshima Prefecture	The bidding process for project participants has begun.

Regional trading company business

Evolution of a new group management system

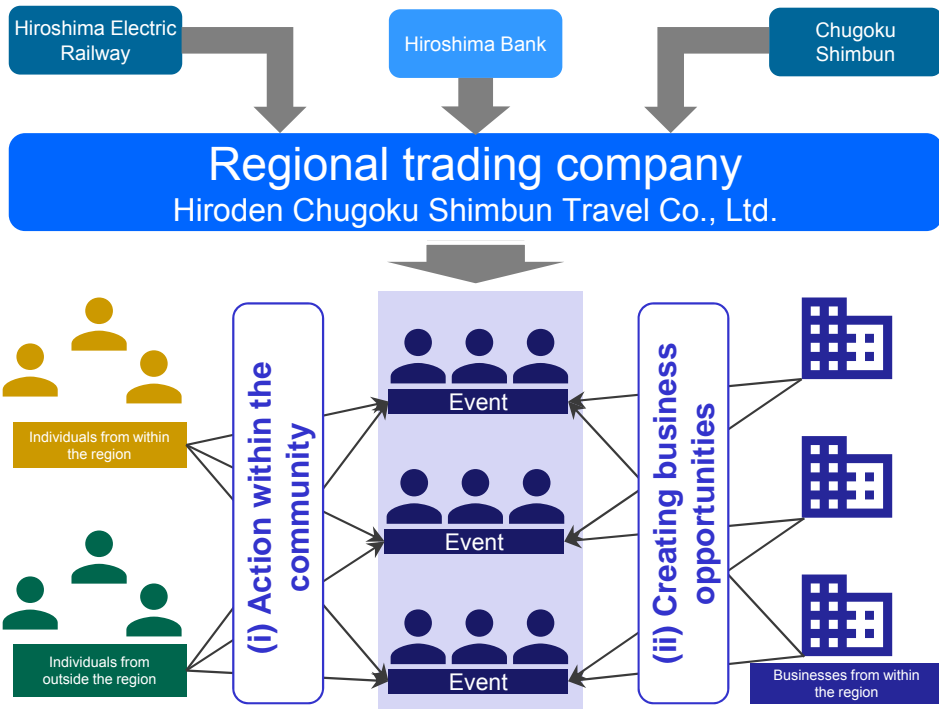
Strengthening core businesses

Expanding business domains

Strengthening structural reform efforts

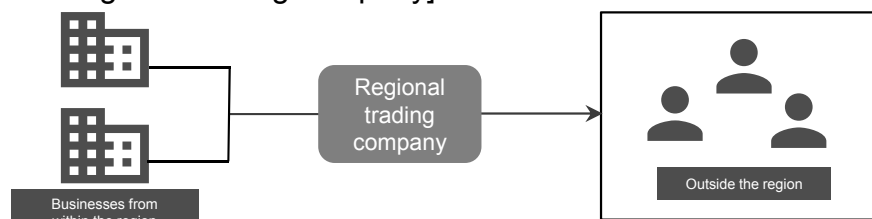
Contributing to regional economic stimulation and development not just through sales of regional specialty products, but through measures to attract people to the region, thereby expanding future business opportunities

A regional trading company in which the Bank participates



Step (i): Forming communities of individuals within and outside the region and attracting them to facilities by holding events and organizing other activities
 Step (ii): Inviting businesses that want to offer their products and services to the events

[A general regional trading company]



Purchasing regional products and selling them outside the region

Managing the Rest House at Hiroshima Peace Park under contract



Source: Hiroshima Prefecture

A joint project centered on the regional trading company had been named to manage the Rest House at Hiroshima Peace Park under contract as a facility where people from inside and outside the region gather.

[Rest House at Hiroshima Peace Park]
 Built in 1929, this steel-reinforced concrete structure was the only prewar building to survive in the Nakajima district, the epicenter of the atom bomb blast.

Direct support by the bank

- Business matching between the Bank's customers and the regional trading company
- Project financing centered on the regional trading company

Reference: Hiroshima Prefecture basic tourism promotion plan

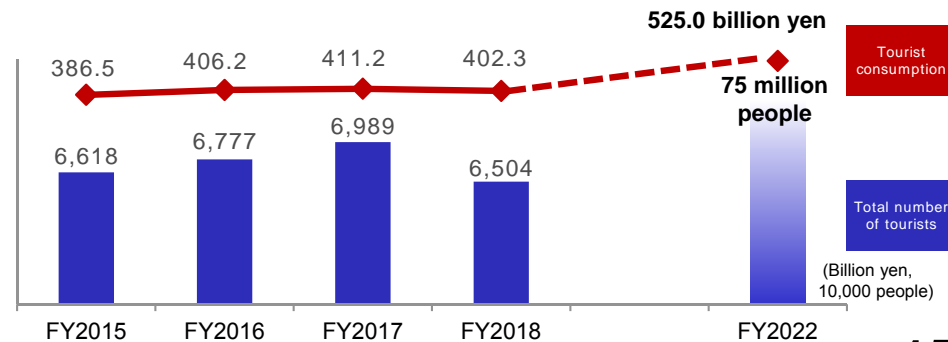
Three objectives to make the prefecture a tourism center

Increasing numbers of tourists

Increasing unit prices of tourist consumption

Increasing tourist satisfaction

Numbers of tourists and tourist consumption: results and targets



Source: Hiroshima Prefecture

Digital transformation (DX) efforts

Evolution of a new group management system

Strengthening core businesses

Expanding business domains

Strengthening structural reform efforts

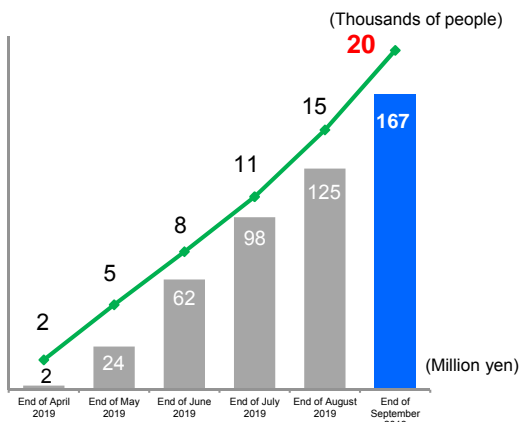
Increasing customer convenience through efforts to diversify means of settlement via apps, as lifestyles centered on smartphone use spread

Future efforts will include deployment of new digital businesses to secure new revenues and proactive digitalization of existing businesses to maintain and strengthen existing revenues

State of progress of various services, etc.

Branded (JCB, VISA) debit cards

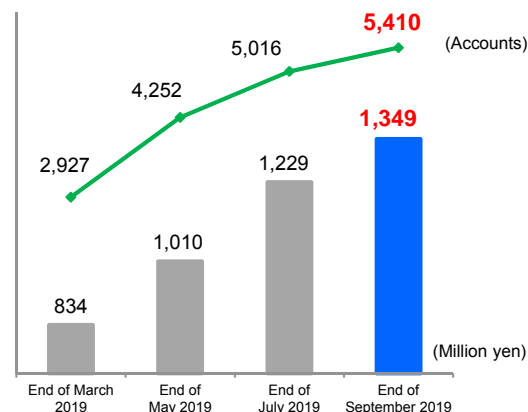
[Cardholders and transaction volume]



Number of cardholders exceeds 20,000
Monthly transaction volume approx. 170 million yen

Hirogin Carp Branch (Internet-based branch)

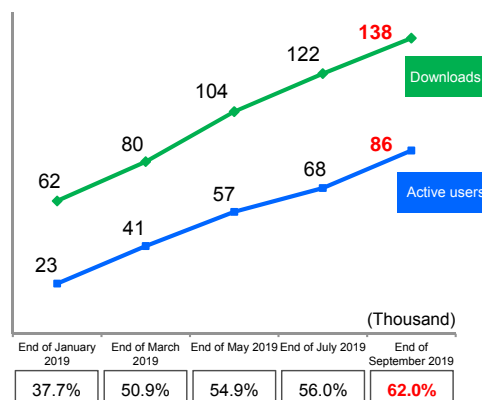
[Number of accounts and balance of assets under management]



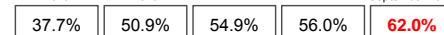
Number of accounts exceeds 5,000, with steady growth of assets under management.

Hirogin App

[Active users and cumulative downloads]



Additional features (e.g., balance inquiries, IB login) have led to increases in both downloads and users.



Considering "new" adoption of QR code settlement



Planned for introduction in FY2020 H1

Planned for introduction in FY2019 H2

Goals of service deployment

- Realizing deployment beyond the regional framework
- Deploying new services utilizing settlement data in the future

Future measures to create new digital businesses

(i) Digital new business development

Securing new revenues through new businesses

Policy

Approaching customers based on non-financial needs before financial needs arise; utilizing digital technologies in coordination with existing businesses

<Solutions>



New business creation through alliances with other companies, etc.



Hiroshima Sandbox Data linkage infrastructure

(ii) Digitization of existing businesses

Strengthening points of contact with customers and increasing efficiency to maintain and strengthen existing financial revenues

Policy

Responding more quickly from the perspective of differentiation from other banks and businesses, based on customer needs

<Solutions>



Advancement of the Hirogin App



AI credit reviews



RPA

Structural reform efforts

Evolution of a new group management system

Strengthening core businesses

Expanding business domains

Strengthening structural reform efforts

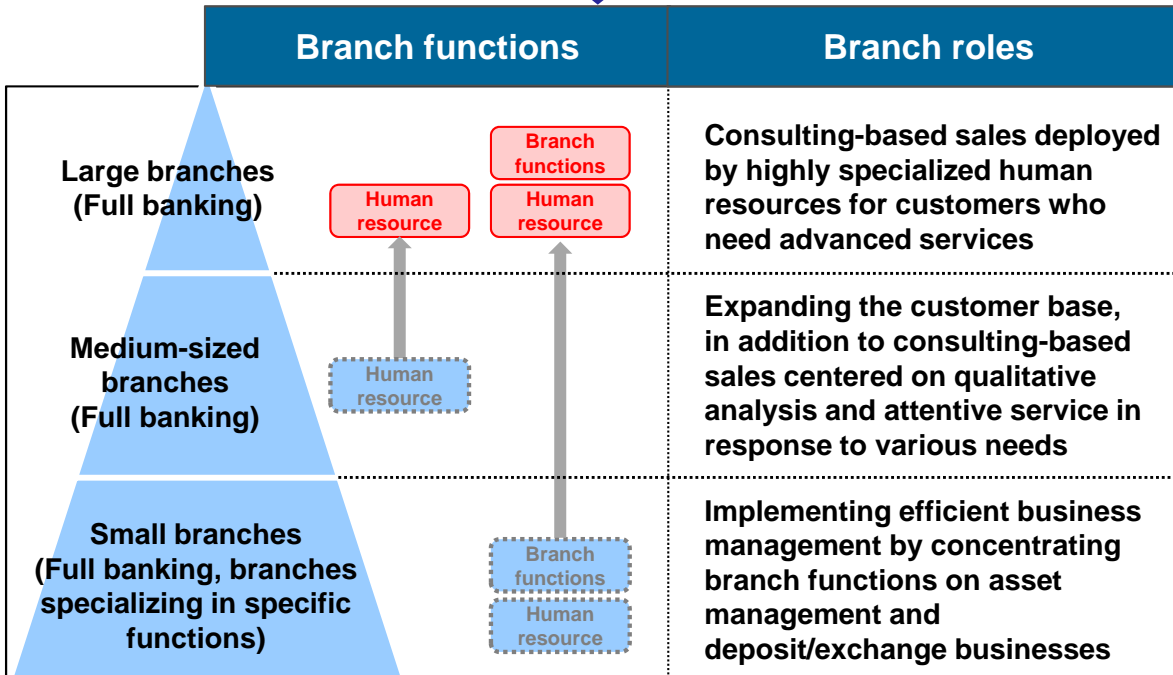
Transforming branches into consulting centers through various structural reform efforts to realize efficient business operations

Review of sales structures

Environmental changes

- ❑ Diversification and advancement of customer needs such as inheritance, business succession, and securing human resources
- ❑ Decreasing numbers of customers visiting branches due to expansion of indirect channels (e.g., Internet transactions)

Structural overview



Goals of revising branch functions and clarifying branch roles

- ❑ Improving efficiency of branch operations and specialization of Bank employees by concentrating branch functions and human resources
- ❑ Demonstrating full use of consulting functions through effective injection of management resources

Implementation status of project to eliminate administrative tasks at branches

	FY2018	FY2019 (planned)
Branch tablets	Adopted at 10 branches	Adopted at 53 branches in total
No passbook required	Transactions: four types	PICK UP! Transactions: 13 types
No manager approval required	Smart e-transactions launched	Web-based application launched
No safe required	Launched at 13 branches	Expanded to 20 branches
	Automated cash buses installed at all branches	Expanding sequentially

Other: Increasing efficiency of business loan administration and beginning and expanding the centralization of the personal loan business at the Head Office

PICK UP!
Types of transactions handled using branch tablets increased.

The types of transactions handled have increased centered on transactions that involve lengthy interactions at the bank counter and those for which large numbers of transactions are handled.
Nine transactions added
Total: 13 types
Self-service now possible for approx. 60% of personal transactions

Goals of the project to eliminate administrative tasks at branches

- ❑ Eliminating administrative tasks considered a matter of course to date by transforming traditional ways of thinking
- ❑ Minimizing branch administration and transforming branches into consulting-centered facilities

By increasing productivity through various structural reforms (including work-style reforms)

Through FY2021

Staff: approx. 3300 people (down 180 from current level)

Adjusted overhead ratio: at the 50% level

Appendix

SDGs/ESG Initiatives

Basic concepts

Strengthening SDGs initiatives through our main businesses to achieve growth in corporate value over the medium to long term
 Releasing SDGs statement to effectively share information on SDGs efforts with outsiders; issuing integrated reports to strengthen communication, including non-financial information

New SDGs/ESG initiatives

Starting April 2019

Assignment of staff responsible for SDGs/ESG

- Promotion structure strengthened with the assignment of one staff member in the General Planning Division
- Measures and other activities being planned to realize sustained growth in corporate value

July 2019

Integrated report published

- Integrated report published to communicate information effectively, including non-financial information

September 2019

SDGs statement released

- SDGs statement released to communicate our intent to contribute to the strengthening of the local community, economy, etc.

Adoption by ESG indices

We have been listed in indices used by the Government Pension Investment Fund when choosing investments.



MSCI Japan Empowering Women Index (WIN)

- Identifies companies with outstanding gender diversity and positioned to withstand future labor shortages.

2018 Constituent
 MSCI Japan Empowering Women Index (WIN)




S&P/JPX Carbon Efficient Index


- Identifies companies that fully disclose environmental information and have high levels of carbon efficiency.


The Hirogin Group SDGs statement


To achieve the Sustainable Development Goals (SDGs) adopted by the United Nations, the Hirogin Group will contribute to solutions to social and environmental challenges in our community and to sustainable growth by **providing high value added financial services.**

Initiatives

Community

 • Efforts to vitalize the local community and economy

Ageing of society

 • Providing financial services suited to an ageing society

Human rights

 • Diversity and inclusion
 • Building a community in which our customers can live in peace of mind

Environmental

 • Combating global warming and climate change

SDGs



Main social and environmental initiatives

Aiming to increase corporate value by creating shared value, including social contributions through ESG investment and finance and proactive environmental protection activities

ESG investment and finance



Investment in social bonds

Purchasing JICA bonds issued by the Japan International Cooperation Agency^{*1}
Contributing to sustainable economic and social development in developing countries and to sound international economic and social development



*1 The issue of JICA bonds is one of the practical measures included in the Japanese government's SDGs implementation guidelines.

Investing in Green Bonds

Purchasing JHFA Green Bonds issued by the Japan Housing Finance Agency^{*2}
Contributing to further progress in adopting housing with high energy performance



*2 Funds raised from trading in these home loan bonds are used to fund new home construction meeting technical standards for energy conservation.

Adoption by ESG finance promotion programs

The Bank has been named a designated financial institution under the Ministry of the Environment's ESG Regional Finance Interest Subsidy Program and a supporting institution under the Ministry's ESG Regional Finance Promotion Program.

The only financial institution in the Chugoku region to be adopted for these programs

ESG Regional Finance Interest Subsidy Program

Supports and promotes ESG initiatives and investment by local firms; with a goal of 10 billion yen in ESG finance, including environmental factors, in FY2019.

Began offering Hirogin Eco Harmony (a plan employing the ESG interest subsidy system)

ESG Regional Finance Promotion Program

Considering adoption of business potential evaluation, taking into consideration ESG factors for automotive suppliers

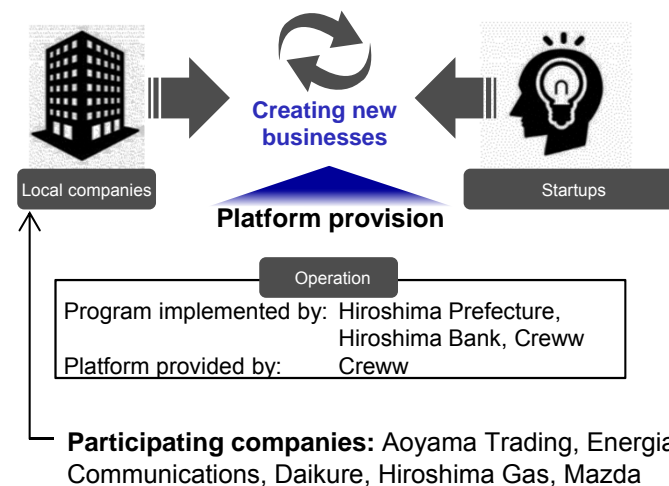
Vitalization of regional industry



Launching the Hiroshima Open Accelerator project

An initiative aiming to create new businesses among participating firms through open innovation linking management resources of companies in Hiroshima Prefecture with the services of startups nationwide

The joint program with Crew is the first of any regional bank in the Chugoku and Kyushu areas.



Environmental protection initiatives



Hiroshima Bank Smart-e passbook-free accounts

Promoting paperless banking by offering accounts for which no passbooks are issued



Eliminating use of plastic straws

Eliminating use of plastic straws inside the temporary Head Office



Appendix

Overview of Interim Financial Results for FY2019

Net interest income

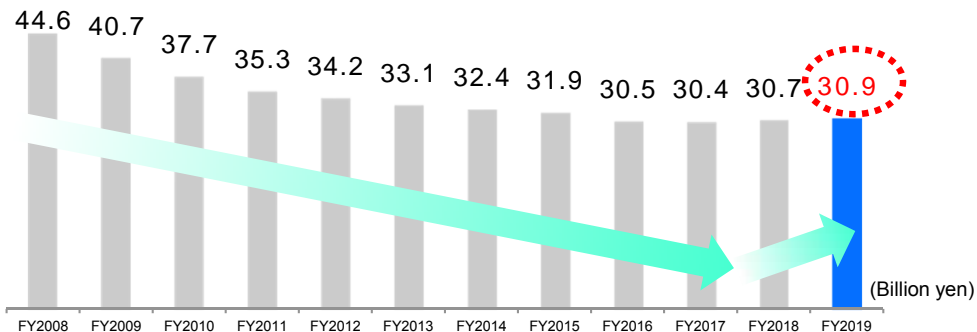
Net interest income was down 500 million yen from the previous year, due to a decrease in interest and dividends on securities, despite an increase in interest on loans resulting from increased business lending and personal loans.

Breakdown of net interest income

(Billion yen)

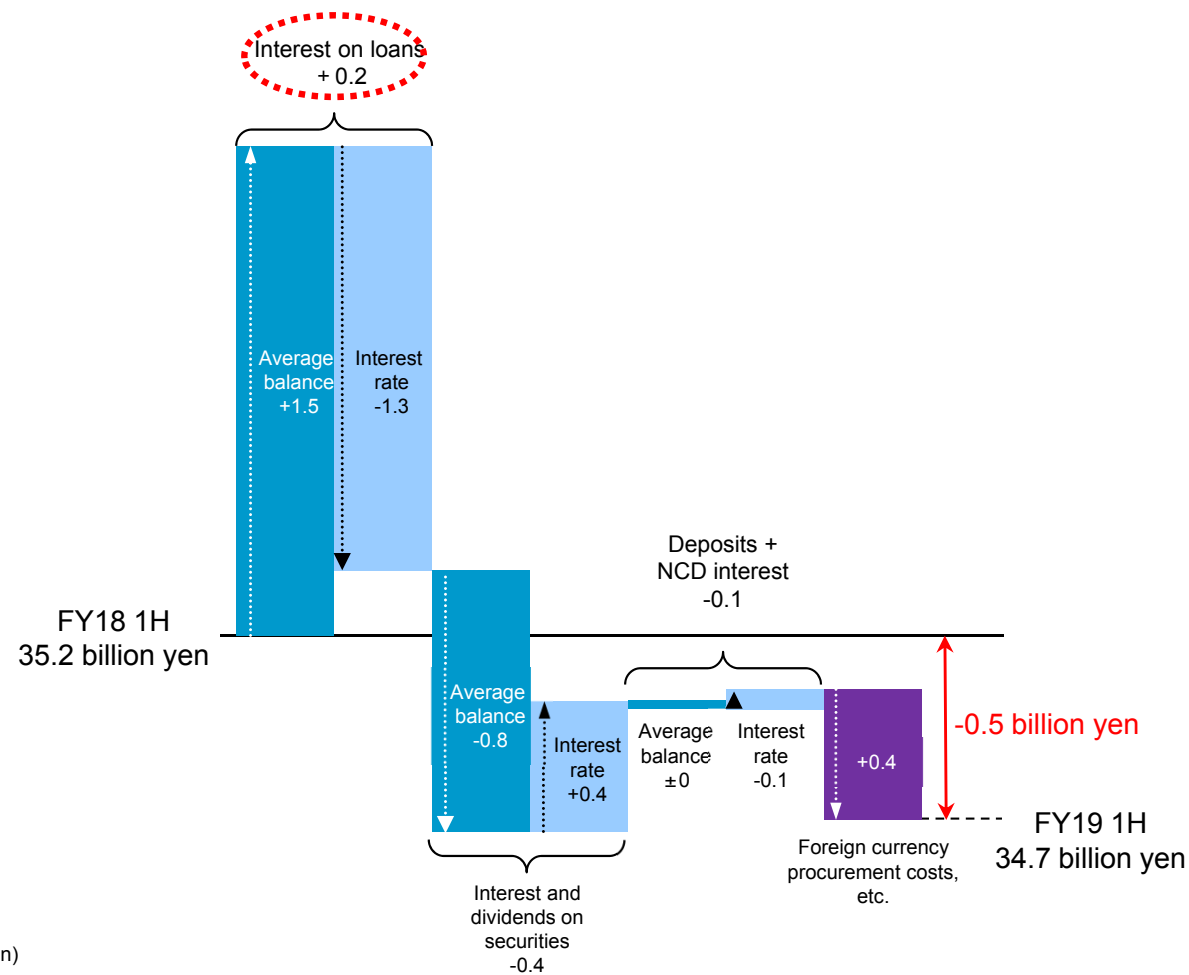
	FY2019 1H	YoY change
Interest on loans	30.9	0.2
Interest and dividends on securities	7.4	-0.4
Deposits + NCD interest (-)	1.0	-0.1
Foreign currency procurement costs, etc. (-)	2.6	0.4
Net interest income	34.7	-0.5

Changes in loan interest (1H)



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

(Billion yen)



Net fees and commissions income

Net fees and commissions fell by 1 billion yen on a year-on-year basis due to decreased profits from the asset management business and other factors.

The ratio of non-interest income (including income from Hirogin Securities) fell by 0.2 points from last year to 33.8%.

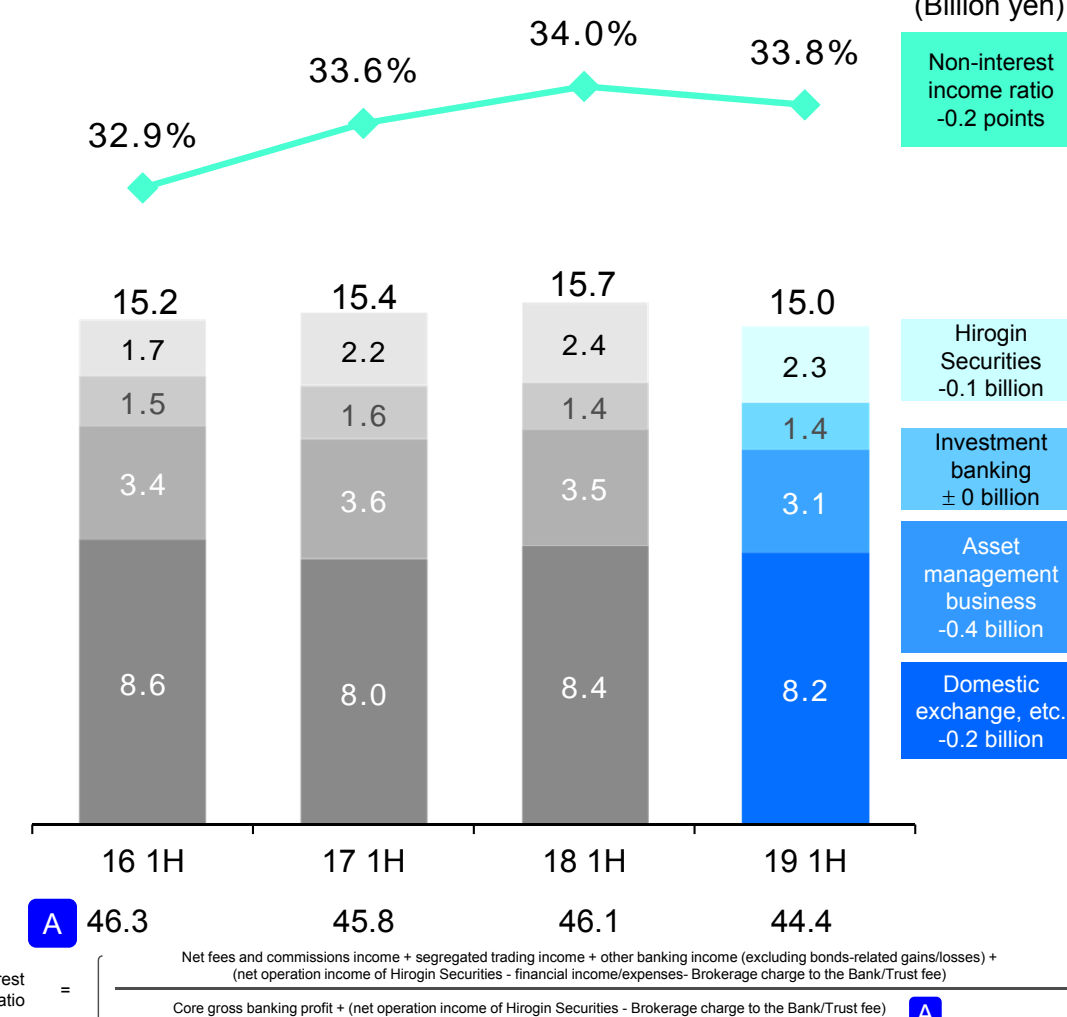
Breakdown of net fees and commissions income

(Billion yen)

	FY2019 1H	YoY change
Investment banking business	1.4	0.0
Syndicated loans, etc.	0.4	-0.2
Sales of derivatives to customers	0.4	0.2
Asset management business	3.1	-0.4
Insurance products	1.3	-0.6
Investment trusts	0.7	-0.1
Financial instrument intermediary services	0.3	0.0
Foreign currency deposits	0.4	0.1
Personal loan-related	-2.2	-0.4
Domestic exchange, etc.	5.5	-0.2
Net fees and commissions income	7.8	-1.0

Trends in non-interest income and its ratio (including income from Hirogin Securities)

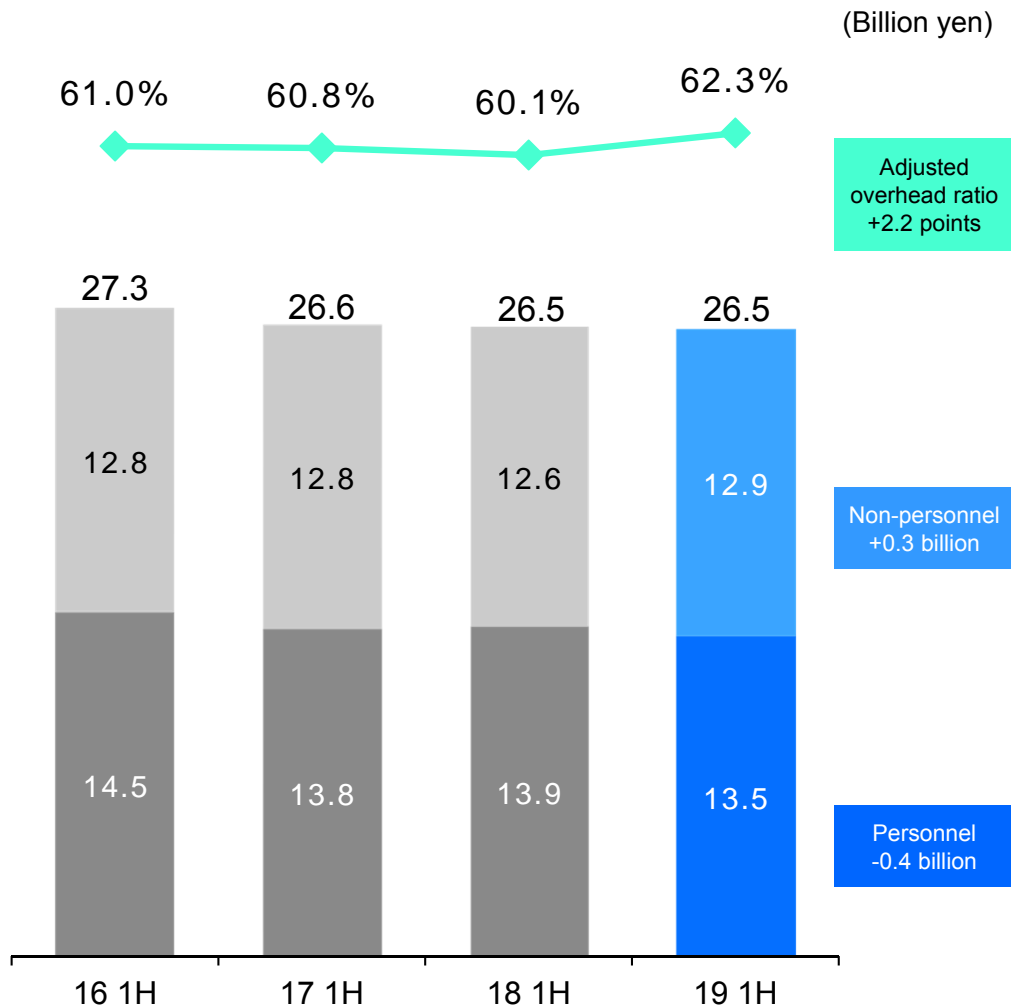
(Billion yen)



Expenses

Expenses were unchanged year on year, despite rising non-personnel expenses, as personal expenses decreased. The adjusted overhead ratio rose by 2.2 points to 62.3% on a year-on-year basis, due to decreased core gross banking profit.

Trends in 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
Expenses related to smartphone app development, etc. +0.2	+0.3
Depreciation etc. +0.1 etc.	
Personnel expenses	
Major factors	YoY change
Retirement benefit expenses -0.2	-0.4
Bonus -0.1 etc.	

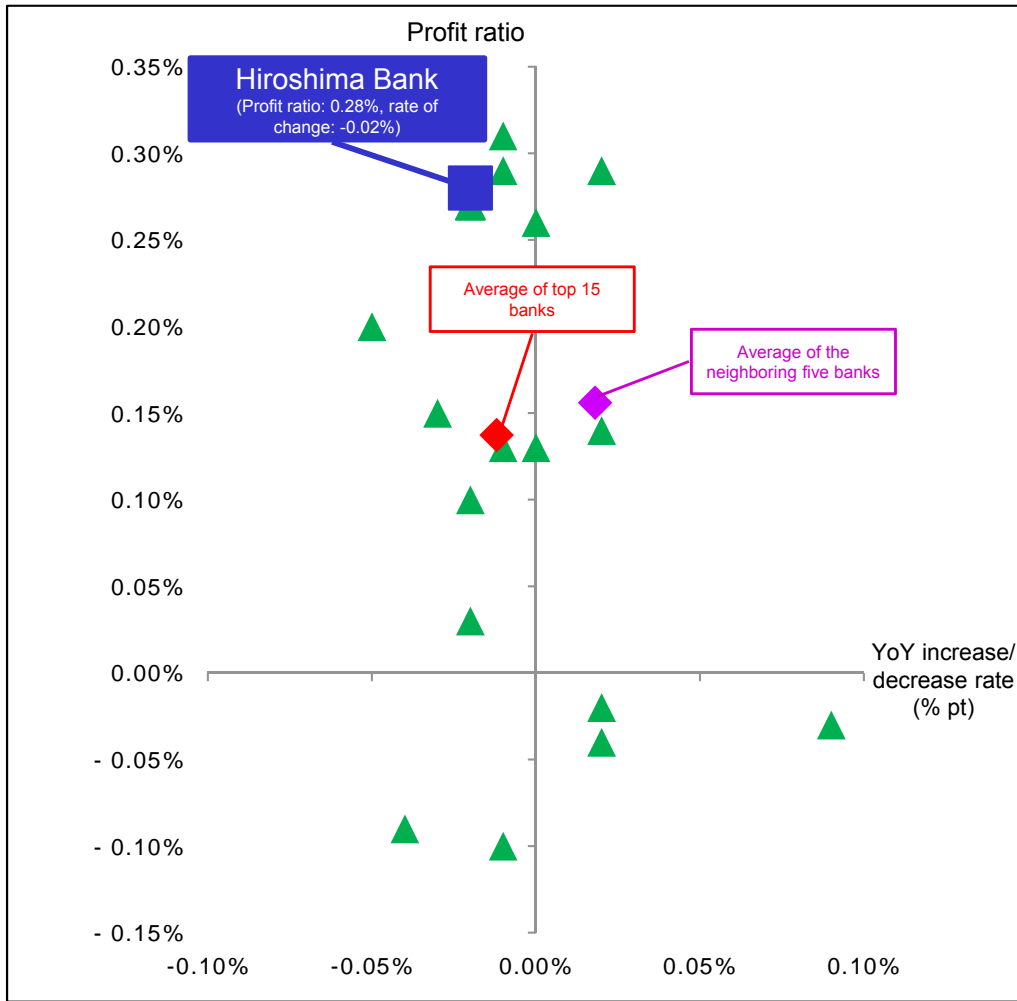
(Reference) Comparison with other banks*1 (FY2019 1H)

(*1) Target... Top 15 first-tier regional banks, including FG and FH, in terms of 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, 77 Bank, Fukuoka FG, Shizuoka Bank, Hachijuni Bank, Bank of Kyoto, Hokuohoku FG, Daishi Hokuetsu FG, San-in Godo Bank, Chugoku Bank, Iyo Bank, and Yamaguchi FG

Note: Data from 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.

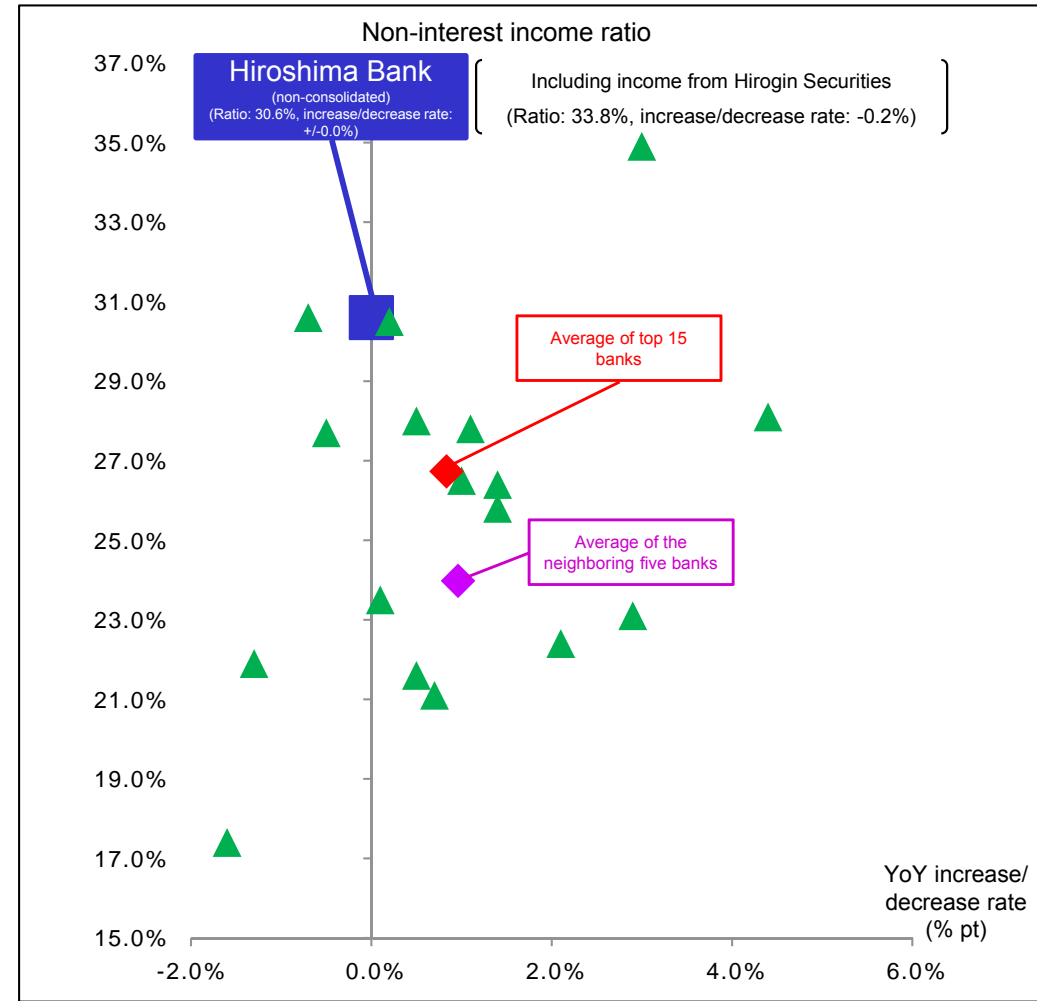
Banking profit margins and changes therein



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

(*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



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

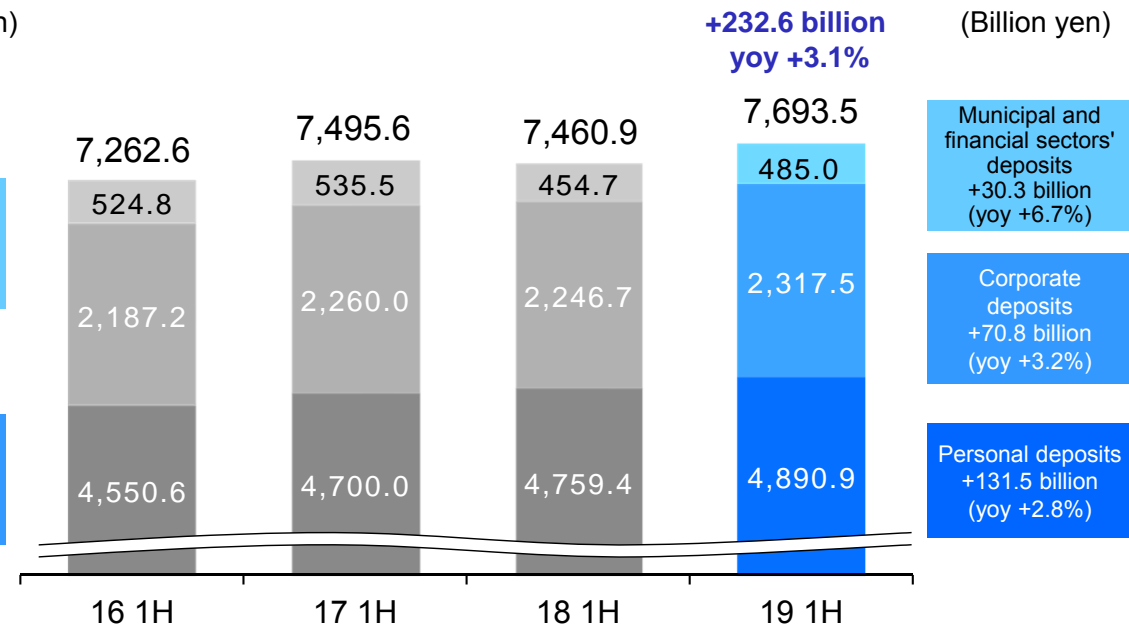
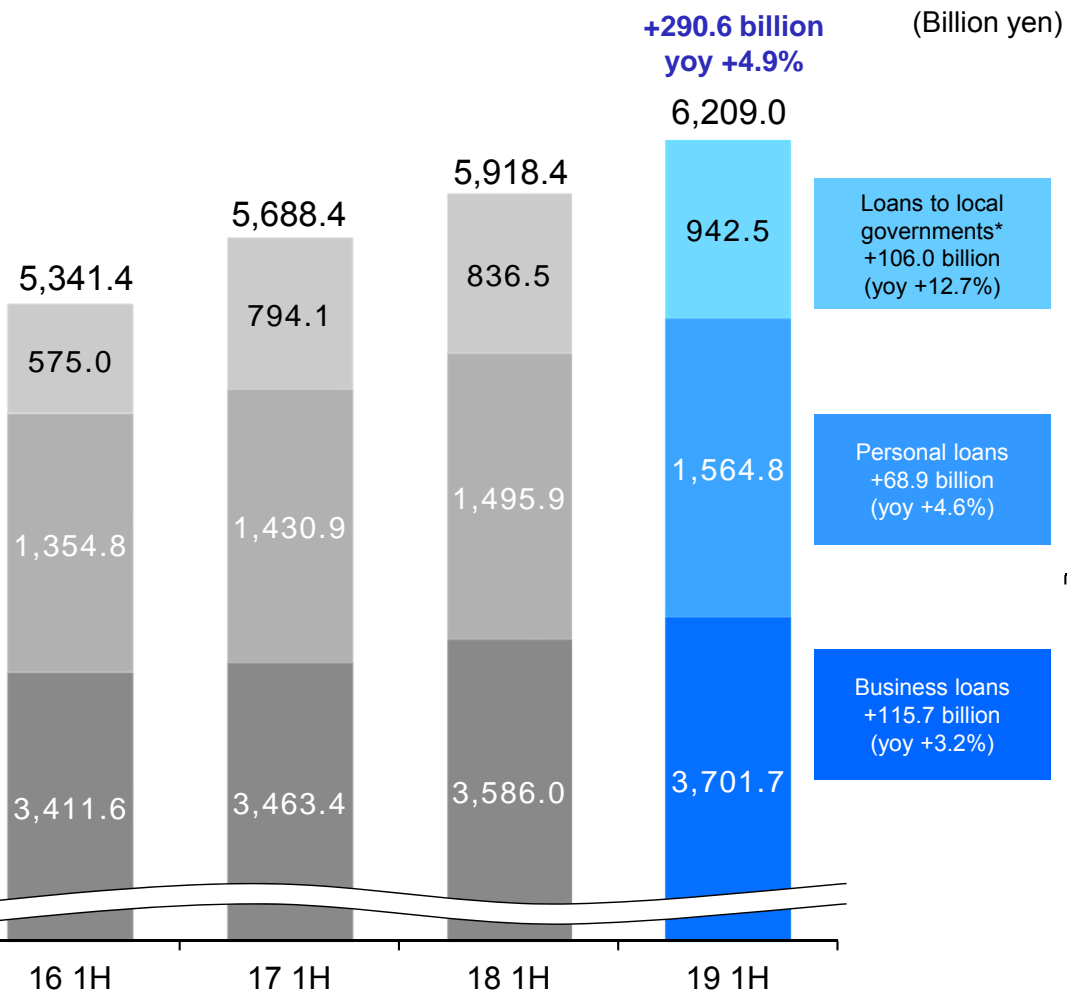
Balance of loans, deposits, etc. (deposits + NCD) and foreign currency funding

The average balance of loans increased in business, personal, and municipal sectors by 290.6 billion yen (+4.9% YoY). The average balance of deposit assets increased in the personal, corporate, and municipal and financial sectors by 232.6 billion yen (+3.1% YoY).

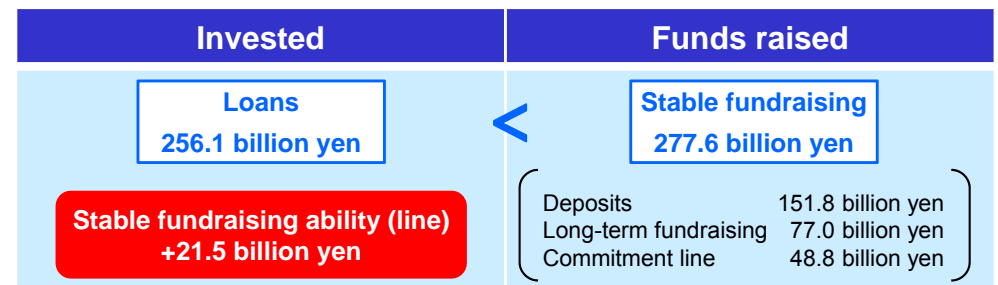
Sufficient and stable fundraising capacity was secured for foreign currency loans.

Trends in the average balance of loans

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



Foreign currency fundraising for foreign currency loans (Total of all currencies as of the end of September 2019)



*Loans to local governments: Loans to local public organizations and public corporations

Loans to SMEs and personal loans

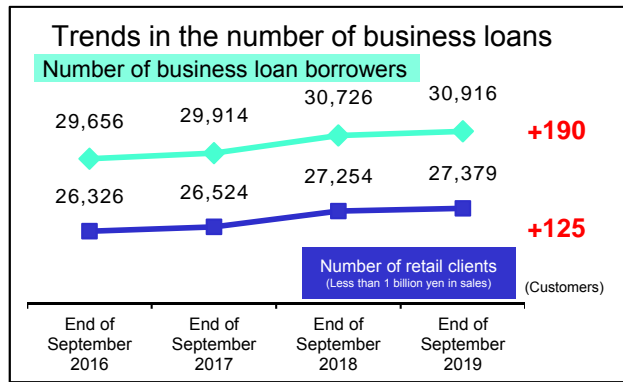
The average balance of loans to SMEs continued to increase at a steady pace, supported by factors including enhancements in consulting sales based on evaluations of business potential.

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, centered on the personal loan center, personal loans increased by 68.9 billion yen (YoY +4.6%).

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.

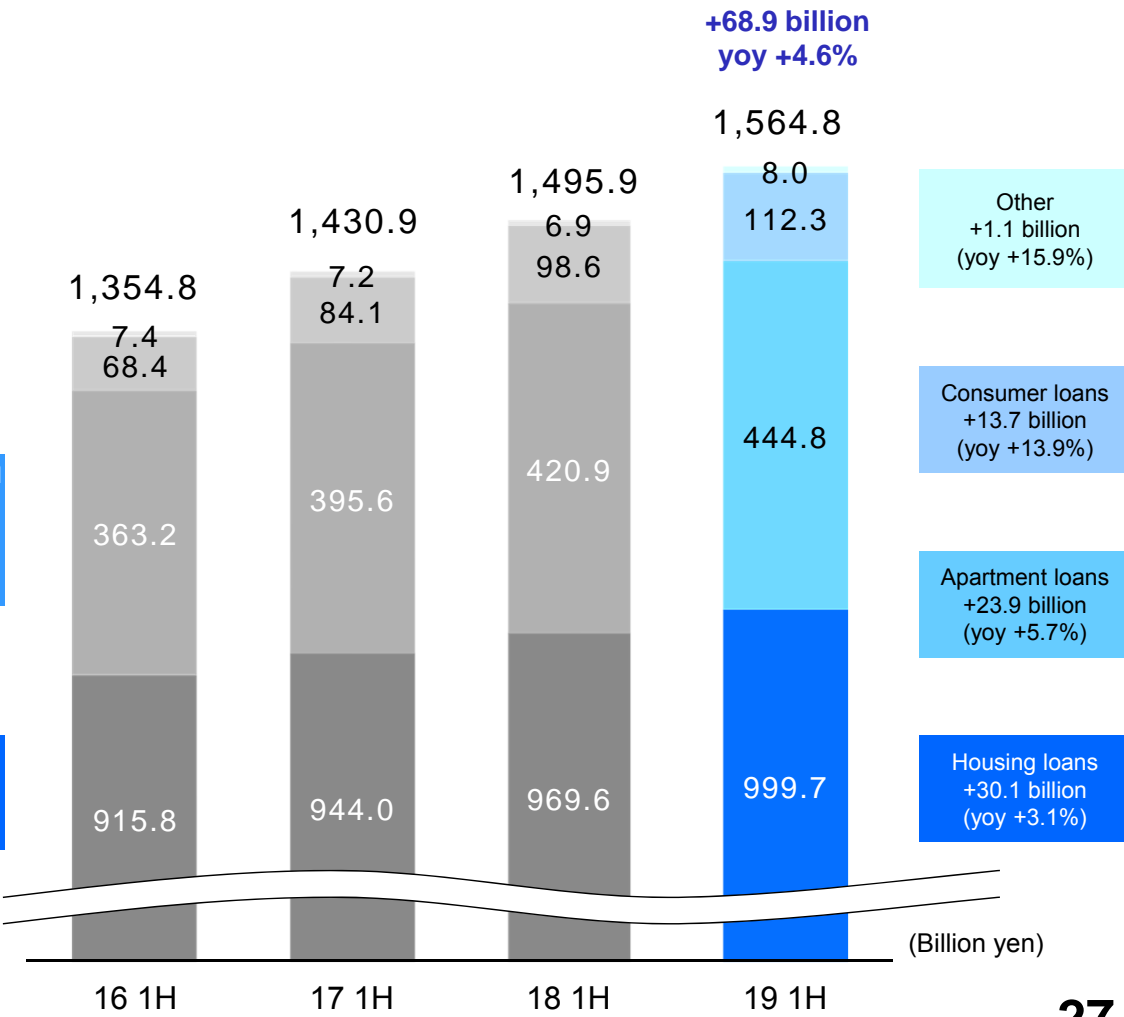
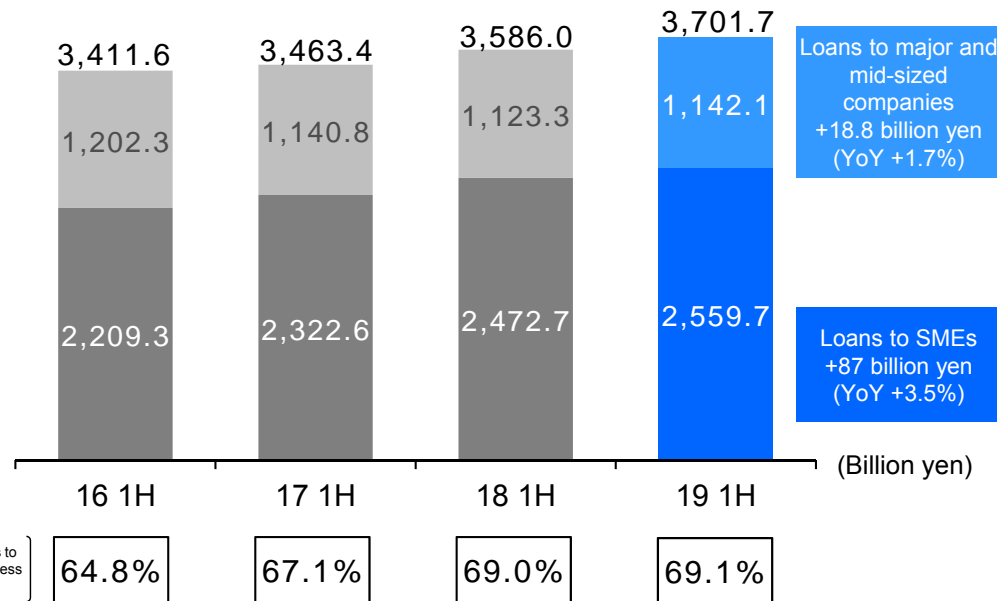
Trends in the average balance of and number of business loans



Yield on lending (stock rate)

	FY2019 H1
Major companies	0.35%
Mid-sized companies	0.61%
SMEs	1.05%
Total	1.08%

Trends in the average balance of personal loans



Ratio of loans to SMEs in business loans

16 1H	64.8%
17 1H	67.1%
18 1H	69.0%
19 1H	69.1%

Securities

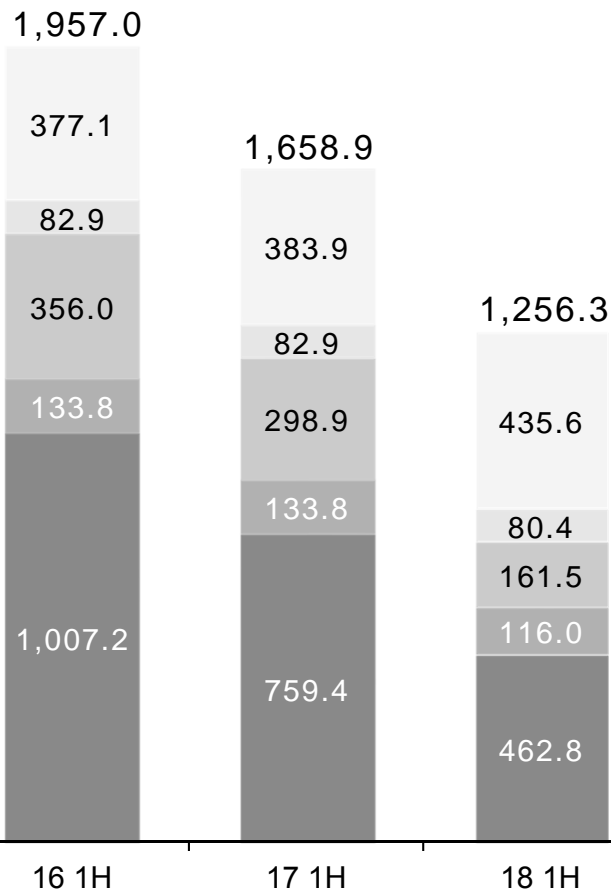
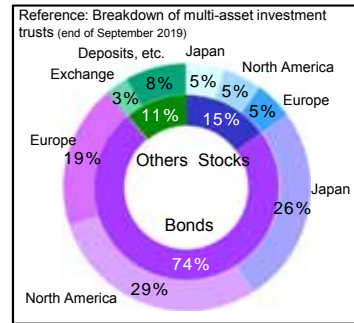
The average balance of securities decreased by 118.3 billion yen due to the redemption of government bonds.

Interest rate risk declined on a year-on-year basis.

The balance of cross-shareholdings was reduced by 2.2 billion yen on a year-on-year basis through dialogue with issuing entities.

Trends in the average balance of securities

(Billion yen)



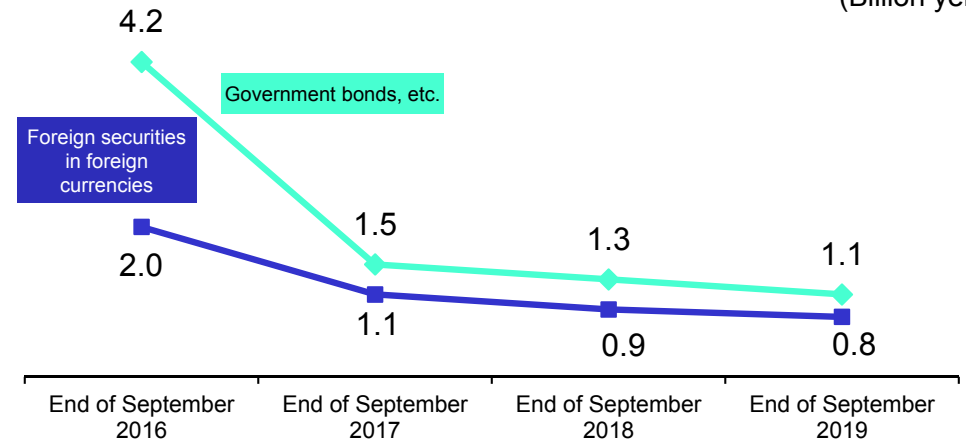
**-118.3 billion
yoy -9.4%**



Trends in the interest rate delta

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

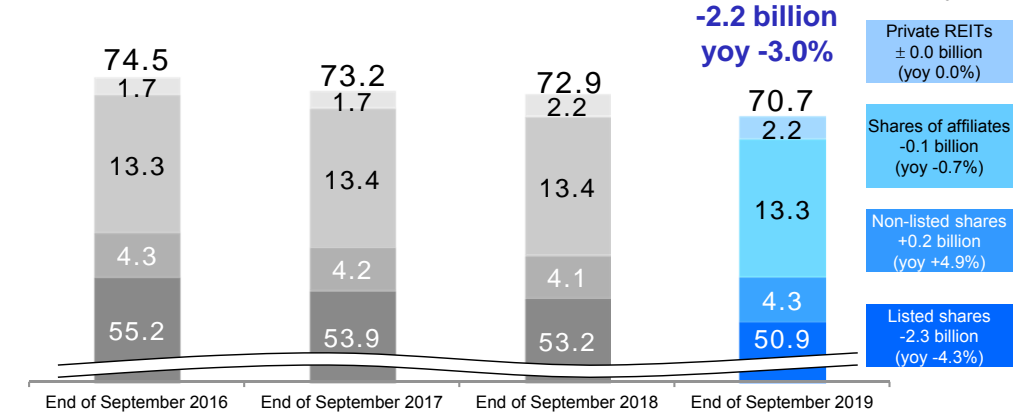
(Billion yen)



Trends in the term-end balance of cross-shareholding

(including private REITs)

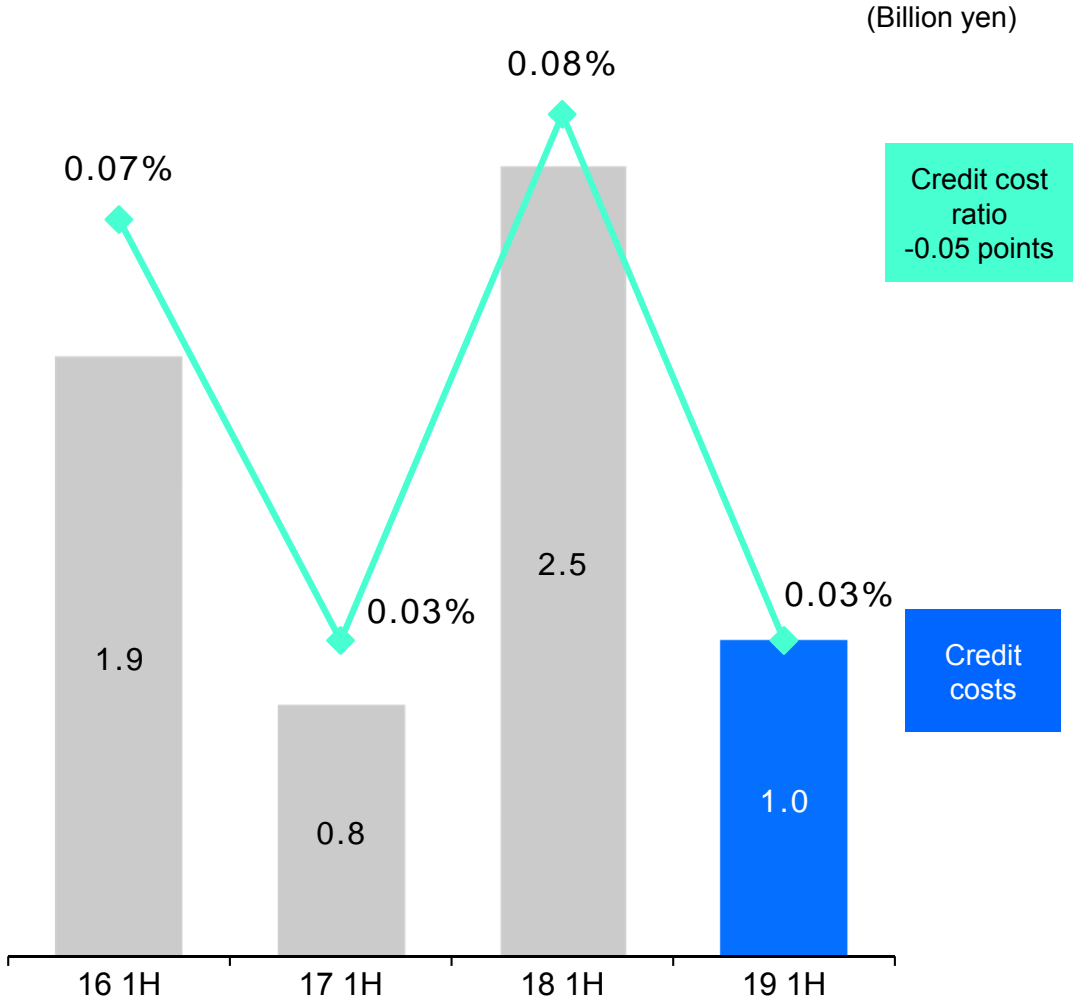
(Billion yen)



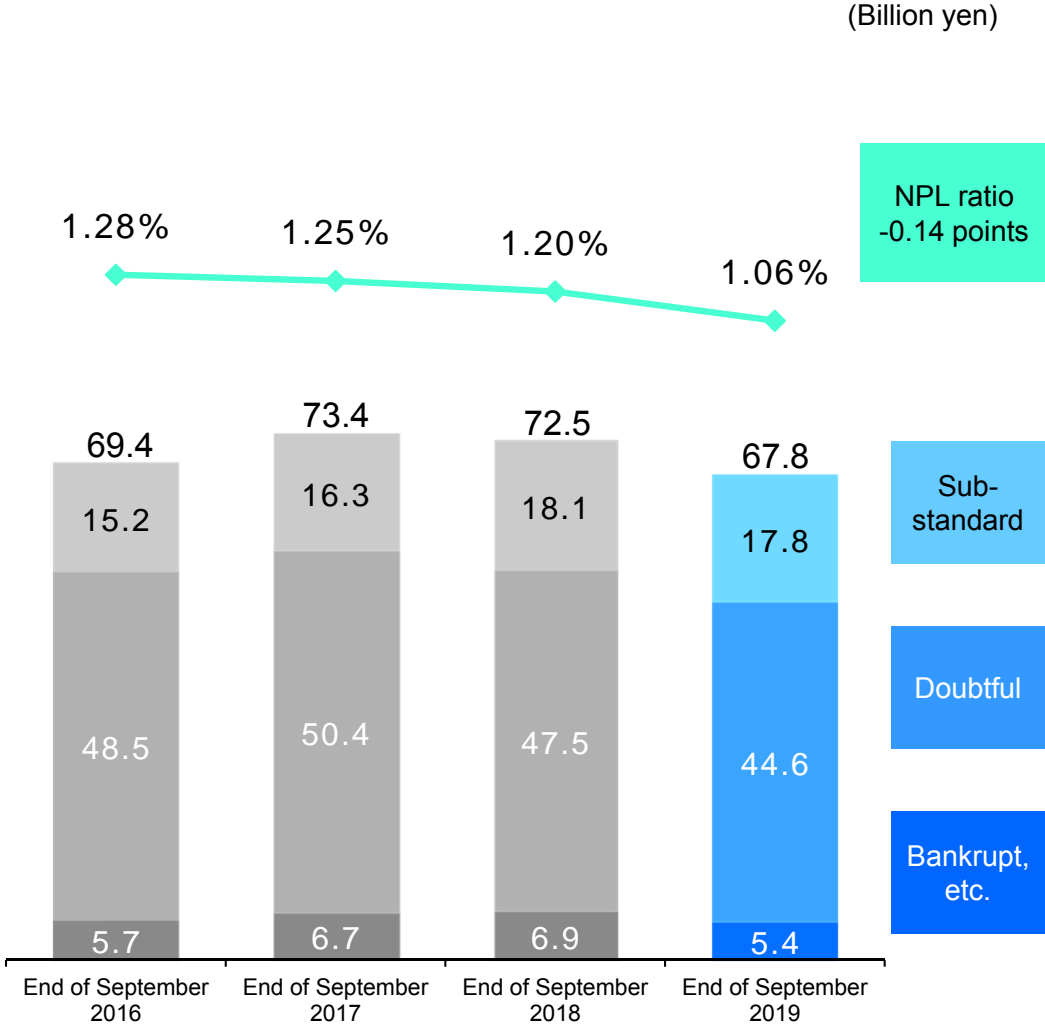
Credit costs and non-performing loans

Credit costs decreased by 1.5 billion yen on a year-on-year basis as the effects of the increase recorded in the disposal of non-performing loans following bankruptcies at major borrowers in the previous year faded. The NPL ratio remained at a historically low 1.06%, thanks to a year-on-year decrease of 4.7 billion yen in the claims disclosed under the Financial Reconstruction Act, to 67.8 billion yen.

Trends in credit costs



Trends in NPLs (term-end balance) and NPL ratio

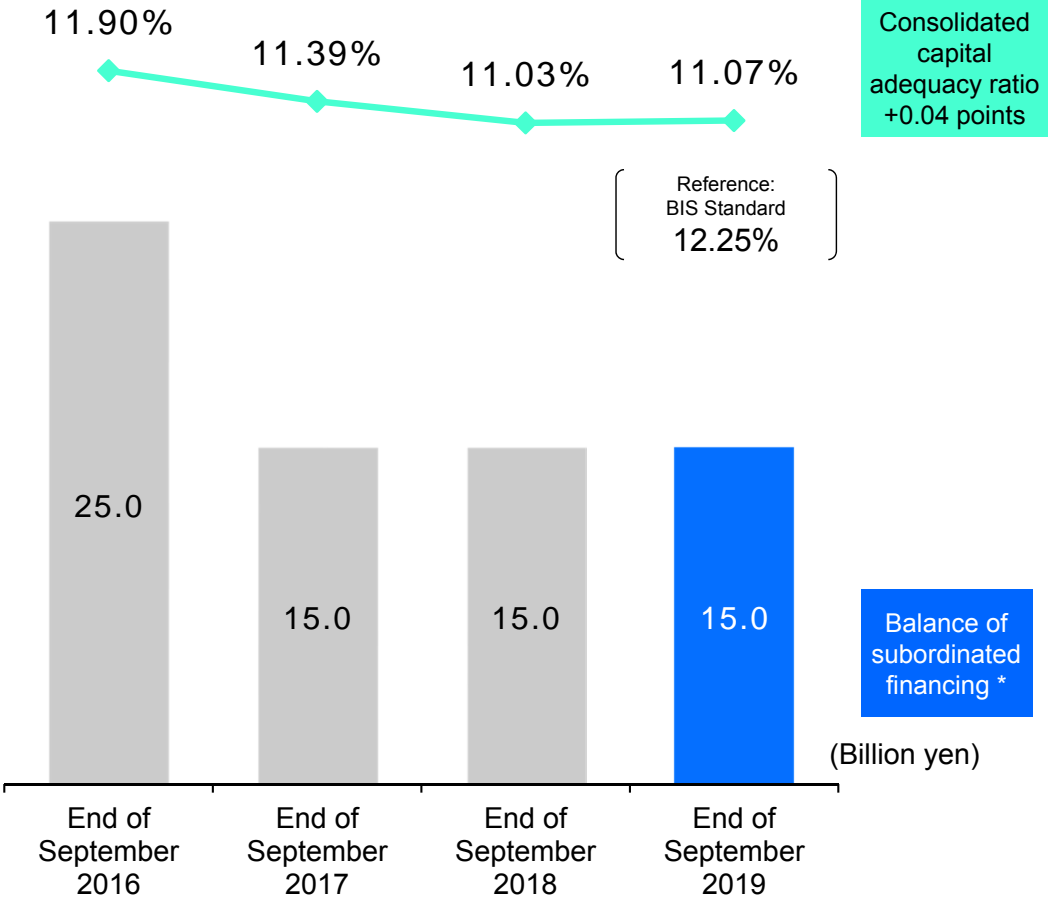


Capital adequacy ratio and ROE

The consolidated capital adequacy ratio remained acceptable at 11.07%.

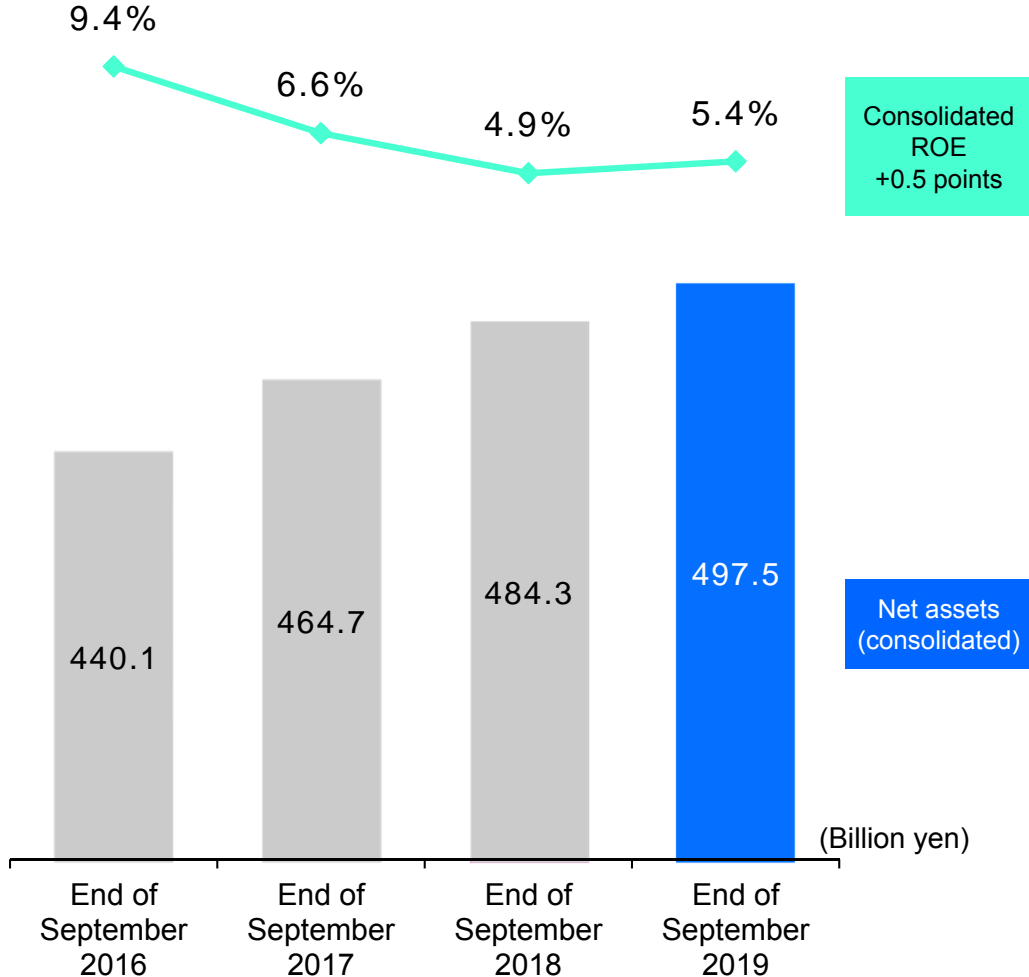
Against the backdrop of a steady increase in net assets, consolidated ROE improved by 0.5 points year-on-year, due to having recorded steady profits.

Trends in consolidated capital adequacy ratio and the balance of subordinated financing



*Redemption date: December 2021

Trend in consolidated ROE



$$\text{Consolidated ROE} = \frac{\text{Interim net income attributable to owners of the parent} \div 183 \times 365}{\left[\frac{\text{Total term-beginning balance of net assets (excluding share acquisition rights)} + \text{Total first-half-ending balance of net assets (excluding share acquisition rights)}}{2} \right]}$$

Reference for this material

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.

Management Planning Division, The Hiroshima Bank, Ltd.

Tel.: 082-504-3823

Fax: 082-504-0171

URL: <https://www.hirogin.co.jp/>

