

Message from the President

“Hiroshima Bank never develops without the development of regional communities. We will remain committed to our customer-oriented stance as we respond to the changes of the times.”

Hiroshima Bank's raison d'être in the region

The Bank finally established its Head Office in Hiroshima in the course of a series of mergers, etc., following the founding of its predecessor, The 66th National Bank, in Onomichi in 1878. While the Bank's long and eventful history extends over 140 years, there are two major symbolic events.

First, after the atomic bombing of Hiroshima in 1945, which led to the death of 144 persons out of the Bank's approximately 450 employees and the total destruction by fire of its eight offices, including its Head Office, we restarted our operations two days later by borrowing a floor space inside the Bank of Japan. I believe this event shows the spirit of Hiroshima Bank or “Hirogin” that persists to this day, whereby we stand alongside the local community and are firmly committed to fulfilling the roles required of us. The second symbolic event came in 1997 when the price of the Bank's shares plummeted owing to the spread of so-called rumors, and we were supported by the generous assistance of many of our local customers.

These two historical events represent “Hirogin” as a bank that remains rooted in our local communities,

which has moved forward and developed alongside our customers in our four local prefectures of Okayama, Yamaguchi, Ehime, and, in particular, Hiroshima, and these events also symbolize that the mission of a regional bank is to contribute to the development of local communities.

I believe that the Bank's raison d'être lies in exerting every effort to contribute to invigorating the region through “strengthening our initiatives aimed at regional revitalization,” which is also one of the three pillars of basic policies for the mid-term plan currently underway.

External environment, risks, and opportunities surrounding Hiroshima Bank

The declining population and aging society are the greatest risks facing all regions across Japan. Under these conditions, how we invigorate regions and stem the flow of people out of these areas have become major challenges, and the areas where we operate are no exception in that regard.

In addition, the four prefectures where the Bank is based are home to a significant number of companies engaged in the manufacturing industry, so it can



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President



be said that the region is very susceptible to the impact of foreign exchange rates. Looking at the global economy in recent years, while movements in foreign exchange rates have been difficult to predict owing to a multitude of uncertain factors, including trade friction between the U.S. and China and issues surrounding Brexit, it is assumed that there is a high risk of yen appreciation, which will be likely to cause a negative impact on the industries in our region. Furthermore, when looking at the current macroeconomic environment, we would have to say that the global business sentiment has passed its peak and the outlook for both the global economy and the Japanese economy is uncertain, so we are aware that it is very difficult to be optimistic.

In the financial industry where the Bank operates, I recognize that we will face increasingly fierce competition, including with companies in other industries as well as among companies traditionally operating within the financial industry, as entrants from other industries are expected to increase along with the development of trends toward cashless payment.

In addition, during the period of rapid economic growth from the 1950s to the 1960s, banks could sufficiently operate their businesses by financing companies that needed it, as there was a very high demand for financing, mainly from corporations. However, as the Japanese economy matured, we have come to a situation where we must admit that the role and presence of indirect financing has diminished. At present, while there are many companies that maintain the so-called debt-free management, unfortunately regional banks have entered an age where they cannot sufficiently operate their businesses by relying solely on the traditional indirect financing operations.

Amid these conditions, we must ask whether we can expand the scope of our operations to businesses other than the lending business. Or to put it in a different way, we must identify “where the needs of our customers lie.” Certainly, many customers, both corporate and retail, require funds, but if we adopt a broader perspective, there is also a large pool of demand other than financing. For example, corporate managers have issues and needs related to their businesses, such as “What should be our approach going forward?” and “What should we do to resolve issues?” In these circumstances, I think that in order to coexist and co-prosper with local customers, it will be important for us to exert our comprehensive capabilities as a group and enhance the range of services we can offer, based on a market-in approach.

We are in a period of major change, so people and companies must also adapt to survive. Facing unavoidable changes will inevitably bring an opportunity for transformation. I firmly believe that taking a positive stance toward risk and looking at these changes as opportunities for taking on new challenges will lead to positive results.

Mid- to long-term vision

When we formulated our “Mid-Term Management Plan 2017,” which is currently underway and ends in fiscal 2021, we presented our future vision for the Bank as a “comprehensive financial services group” that continues to grow with local customers.

This vision incorporates our desire to serve our customers and continue growing alongside them into the future, through establishing businesses that will become new growth drivers, and becoming a true first-call bank group, as we practice customer-oriented business operations.

In this mid-term plan, we have established the following three pillars of its basic policies: (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; and (3) Active commitment to regional revitalization.

In accordance with these pillars, we have set forth the following key initiatives: “further development of measures toward high value-added banking business,” by enhancing consulting sales and providing comprehensive solutions; “promotion of measures for asset management business that meet the asset formation needs of customers,” based on long-term and continuous transactions including the next generation; and the “enhancement of the profit base,”

through efforts for regional development, tourism promotion, measures for community healthcare, etc.

Overview of strategies aimed at achieving our vision

As we look to achieve our vision, we are focusing on developing our businesses by exploring the banking business and expanding the asset management business.

◇Banking business◇

When exploring the banking business, it will be very important as we look to create new added value that we have a deep understanding of our customers, including not only the details of their businesses but also their strengths and weaknesses, issues they face, and other factors. To achieve this, the Bank was quick to actively take on feasibility studies.

When gaining an understanding of customers' actual circumstances through feasibility studies, it will be essential that we build stronger relationships with customers while sharing with them how to enhance their strengths or improve their weaknesses, and link this to consulting proposals.

Hiroshima Prefecture is an area with a strong manufacturing presence even on a national level, with auto, shipbuilding, and shipping as its main industries. Many companies are involved in each industry, and naturally, we cannot build relationships of trust with our customers unless we ourselves possess an understanding and deep insight of these industries. In order to build strong relationships with customers, we established the Automobile-related Measures Office in 2001, as well as other specialized departments tailored to specific industries, including the Shipping Finance Division to support customers in the shipbuilding and

shipping industries. We are focusing our efforts on building relationships of trust by nurturing professional human resources with deep understanding and advanced expertise concerning these industries, who are capable of engaging in dialogue on an equal footing with our customers.

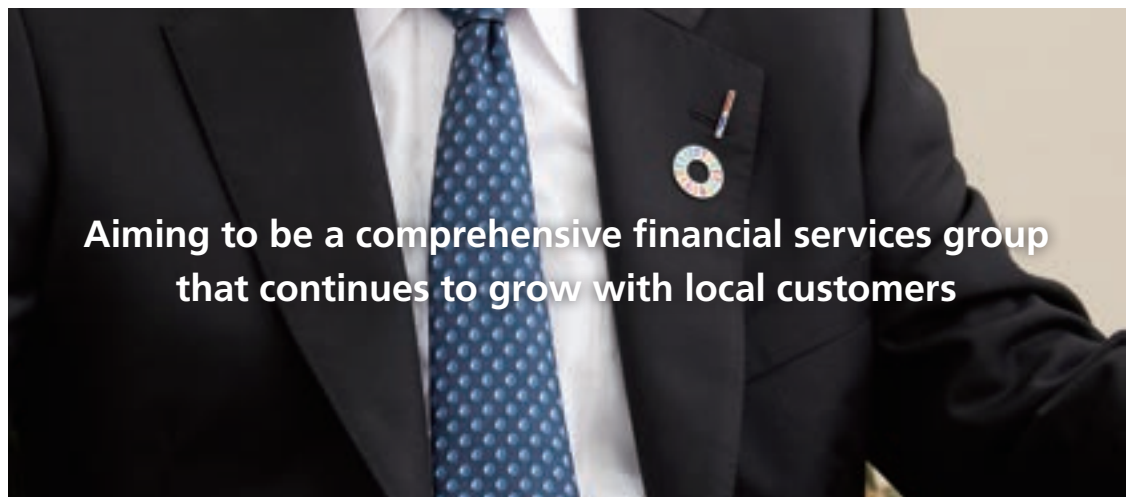
In addition, surveys have shown that Hiroshima Prefecture is the fifth-highest prefecture in the country in terms of the percentage of businesses with no successor, so it could be said that there is a high demand for services related to business succession in the area. I believe that in order to maintain the vitality of the region it is extremely important that businesses are properly passed on to the next generation instead of being shuttered. In order to address this need, we launched a recruitment consultancy business in April 2019 so as to strengthen our initiatives aimed at providing support related to nurturing business successors and the area of M&A, and to address the need for recruitment consultancy services related to executives in management positions.

Our fundamental approach to the banking business lies in how we can support companies' sustainable development and contribute to regional development.

◇Asset management business◇

In the asset management business, there is a tendency to focus on the management of "funds," while operations may tend to be dominated by discussions of investment trusts, insurance, and other products, but we prioritize the management of our customers "assets" as a whole. In other words, we believe that true asset management lies in firmly protecting our customers' household assets and finding solutions to support their asset formation.

Of course, our collaboration with Hirogin Securities will enable us to enhance our asset management product lineups, but we will also make proposals



Aiming to be a comprehensive financial services group that continues to grow with local customers

related to the management and effective utilization of customers' wide variety of assets, including real estate, insurance, and marketable securities. For retail customers in particular, the transfer of these assets to the next generation is an extremely important issue, and we are enhancing our ability to address these needs by strengthening initiatives focused on our trust and inheritance operations.

Our path to achieving our vision
Fiscal 2018 summary and key areas of focus for fiscal 2019

Results in fiscal 2018 were slightly below our targets, but I recognize that our business performance may be viewed favorably to a certain degree, including year-on-year increases in core banking profit and net business profit, which are indicators of our earning power in our core businesses as a financial institution. Additionally, I think we have sowed many seeds that will support the development of new customer-oriented services and the establishment of businesses that will become new growth drivers, as we aim to become a true first-call bank group.

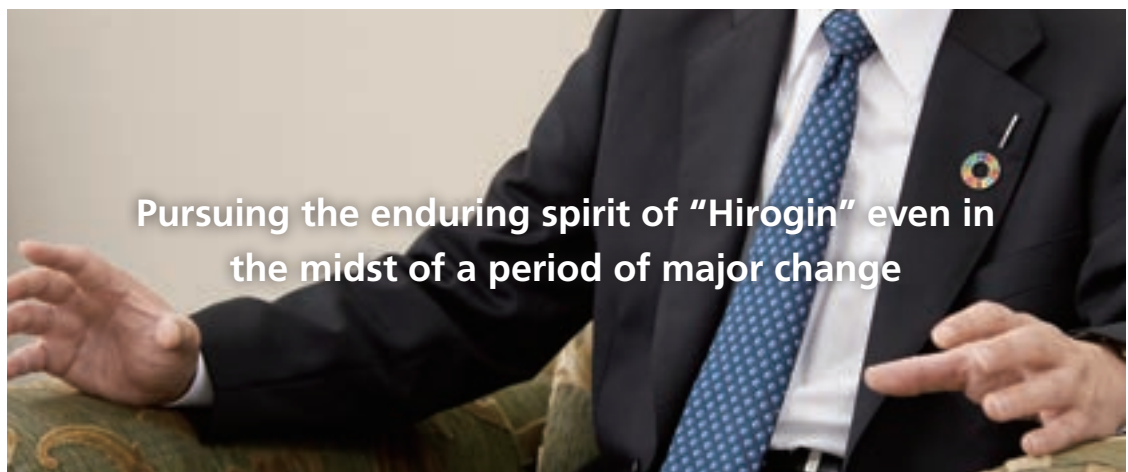
In fiscal 2019, the third year of our mid-term plan, in order to ensure that the management objectives we set forth in our five-year mid-term plan are achievable, we shall nurture the seeds we have sown and make them bear fruit and we must also sow new seeds to expand the scope of our business operations. As we proceed with these initiatives, it will be of prime importance that we strengthen our relationships with customers. It will be important that we establish a corporate culture where we identify our customers' true needs and support them, including exploring feasibility studies, while also raising our customers' expectations as much as we can. This year, we intend to take on the challenge of making as many customers as possible feel that Hirogin provides them with good proposals.

Pursuing the enduring spirit of "Hirogin" even in the midst of a period of major change

We intend to expand the scope of our business operations, but we have no intention to expand the scope of the regions where we operate, based on our approach of prioritizing our home region. Furthermore, there shall be absolutely no change to our corporate philosophy of earning the trust of our customers in the region and continuing to be the first bank customers consult when they face issues.

I believe the greatest asset for any bank is its people. I think that in order for us to know what our customers want and how we can make appropriate proposals through "dialogue," it is crucially important that each employee is constantly aware of our true *raison d'être* when engaging with customers. Business issues related to succession and M&A for corporate customers, and asset succession for retail customers, are not the type of issues that can be easily discussed. In order for customers to consult us on these types of issues, it is vital that we build relationships that enable customers to trust us, through mutual understanding from dialogue on a "person-to-person" level, for both corporate and retail customers. Accordingly, it will be important that our approach to business operations shall not be "bank-oriented," but instead we shall continue to engage with customers and provide the optimal solutions for customers' needs, i.e., it will be important that all employees have a true understanding of a market-in approach and stance. I think it will take some time for this stance to take root as our corporate and organizational culture, but we shall ensure it is spread properly by repeatedly conveying our message.

As a precondition for the above, I consider it my role to create an environment where employees feel motivated, and can engage in their work with



a constructive, positive attitude, and take on new challenges at any time. Of course, measures such as reducing overtime hours will be important in terms of workstyle reform. However, in addition to initiatives on this level, I think that a pivotal part of workstyle reform lies in a firm sense of awareness among employees that a variety of workstyles do exist.

At present, the users of the shortened working hour system are mostly female employees who have already taken maternity and childrearing leave. The traditional way of thinking has been that shortened working hours are an irregular way of working. However, the number of employees facing the pressing issue of care for elderly relatives is likely to increase in the future, for both men and women. In addition, if we think about how we can enable people to work past retirement age and rehire employees, it appears likely that a variety of workstyles, such as working three days a week, will emerge.

In other words, this will mean that the mainstream thinking itself will cease to exist, instead of the way of thinking that the traditional and stereotypical way of working is “regular working” and there is “irregular working.” Each employee will be able to work in his or her own style, and I believe that unless all employees are aware of this, workstyle reform, in its true sense, shall not progress.

I want to expand the rules of our organization to enable employees to sufficiently exert their individuality and capabilities and deepen mutual understanding through dialogue, while also fostering a corporate culture that enables all employees to take on new challenges in a proactive manner.

Our approach to future points of contact with customers

It used to be sufficient for banks to have counters and ATMs, but as the world undergoes major changes, it is becoming difficult for banks to maintain contact with customers with only counters and ATMs. Even now, bank counters are only open from 9 a.m. to 3 p.m., excluding certain branches, and many customers cannot come to our branches during these hours. In addition, the number of customers visiting counters is falling each year as those who previously visited our branches have less and less opportunities to do so. Looking ahead, I question whether we should maintain the full range of functions currently available at counters.

Furthermore, the number of ATMs will likely decline in the future, as we move toward cashless payments. On the other hand, there is also the view that we should move toward unmanned stores and increase efficiency by adding functions currently available at



counters to ATMs. However, I think that as the needs of our customers become increasingly diverse, we will enter a new age where the way we address those varied needs while maintaining convenience for our customers, without focusing entirely on one method, will become increasingly important.

While promoting digitalization utilizing the IoT and AI, the Bank will firmly proceed with efficient business operations while also maintaining and expanding points of contact with customers by creating new services that can meet the expectations of customers.

SDGs and ESG-based perspective aimed at sustainable regional development

In terms of addressing environmental issues (E), we are aware that supporting customers’ initiatives should be our roles to be fulfilled through our main businesses, such as providing eco-friendly financing products, not to mention our own ongoing initiatives aimed at environmental and forest conservation activities as well as construction of a new eco-friendly Head Office building and other measures.

Addressing social issues (S) will contribute directly to regional revitalization, and the Bank is focusing not just on increasing our initiatives aimed at regional development, but also actively participating in local projects, etc. Many redevelopment projects are currently underway in Hiroshima, but I believe that development of the region as a whole, i.e., development as an entire “area,” will be very significant for the region, as opposed to merely rebuilding aged buildings, i.e., development as an individual “point.” I believe that our role lies in bringing the region together as a steadfast entity to materialize these projects, by participating in such

projects from the beginning and creating a network of people with similar passion, including those in public administration.

In terms of our approach to governance (G), which supports “E” and “S” initiatives, I think we have entered an age where it is extremely important not just to focus on strengthening governance, but also to communicate those efforts to stakeholders and facilitate their understanding of them. In order to enhance our ability to provide information and properly communicate it to stakeholders, I think it will be necessary to streamline the content of our businesses once again and confirm the direction of different initiatives based on management policy while making revisions as required. In April 2019, the Bank appointed personnel to focus on SDGs and ESG on a full-time basis, and we are collecting information on environmental, social, and governance initiatives already implemented internally, while actively endeavoring to disclose related information both internally and externally.

Dialogue and mutual understanding are also important from the perspective of SDGs and ESG. I believe that how we can promote dialogue to advance mutual understanding with our stakeholders will become a very important key element.

Our role for our stakeholders

I believe the most important role to fulfill is to be a bank that continues to inspire the dreams of our

stakeholders.

For our customers, this means becoming a banking group that “provides high-quality solutions with a sense of speed,” i.e. precisely the banking group that they “want to call first.”

For the local community, this means being a reliable entity that people would think “will provide the optimal solutions when there is a project, or a change to be made.”

For employees, this means providing them with a place where they can work with the sense that “working at Hiroshima Bank is enjoyable, and we can grow as a person.”

In addition, for shareholders, this means continuing to be a company that shareholders would feel “will grow as a company as a result of its business activities and will bring about a high level of shareholder returns.”

I believe these are the important roles that the Bank should fulfill.

Amid major changes of the times, we intend to take steps to enhance corporate value in a sustainable manner while continuing to steadily return profits to shareholders, by expanding the scope of our business operations that constitute our growth strategies going forward.

Going forward, we continue to endeavor to enhance corporate value, aiming to become the Hiroshima Bank Group that is reliable and connected with local customers by strong relationships of trust. We look forward to the continued support of our stakeholders as companions with whom we continue to envision our dreams together.

Toshio Heya

President