HIROGIN INTEGRATED REPORT HIROGIN REPORT 2019 INTEGRATED REPORT

11

Management Vision | The Hiroshima Bank Group's "Aspiration" Building a reliable Hiroshima Bank Group united through trusting relations with the regional community

Code of Conduct

Our basic approach and commitment to stakeholders when implementing specific initiatives tied to our "management vision"

The Hiroshima Bank Group shall rigorously implement sound management based on the following code of conduct:

- **1** Work in step with regional communities to actively contribute to their development
- 2 Strive to enhance customer satisfaction and peace of mind
- **3** Continuously enhance the Bank's corporate value
- **4** Create a cheerful, rewarding workplace
- 5 Exercise a high level of compliance

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Notes on the Publication of the "HIROGIN REPORT 2019"

The Hiroshima Bank, Ltd. (the "Bank") has prepared this HIROGIN REPORT 2019 (INTEGRATED REPORT) to facilitate understanding among stakeholders, particularly investors, of the Bank's initiatives aimed at sustainable value creation.

In editing this report, we referred to the International Integrated Reporting Framework advocated by the International Integrated Reporting Council (IIRC), the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation advocated by the Ministry of Economy, Trade and Industry, and other guidelines, in order to present the Bank's business model and provide integrated explanations of mechanisms to sustainably create value. Furthermore, please refer to HIROGIN REPORT 2019 (DISCLOSURE REPORT) for detailed financial data, etc.



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Responsibility (CSR)

History

At 10:00 a.m. on August 8, 1945, just two days after the atomic bomb was dropped, the Bank restarted its operations by borrowing a floor space of 20 tsubo (approx. 66 square meters) from the Bank of Japan's business room along with desks, chairs, and other furnishings. Even though most of its customers did not have their personal seals or passbooks, the Bank relied on employees' memories and took crisis measures in a flexible manner such as responding to requests for refund for convenience purposes. Despite these measures, the Bank managed to maintain its credibility without any particular dispute at a later date. The Bank's DNA of "customer-oriented business operations" remains unchanged to this day.



1878

The 66th National Bank, the Bank's predecessor, was established in November in Onomichi as the first bank in the prefecture, before opening for business in April 1879.

1988

(April) Enacted the CI and established the current corporate badge (July)

Characters used in Japanese name changed (no change to the English name)



1980

100th anniversary of the founding

Opened Hiroshima Museum of Art and established Hirogin no Mori

1978 (November)

· 1945

(May)

New Geibi Bank was established by merging five banks consisting of Geibi Bank, Kure Bank, Binan Bank, Miyoshi Bank, and Hiroshima Godo Chochiku Bank.

(August 6) Suffered losses as a result of the atomic bomb (11 branches out of 16 in Hiroshima City together with 144 officers and employees of the Bank were lost)



the atomic bomb (photograph taken on August 8)

1960

1950 (August 6)

Name changed to Hiroshima Bank five years after the atomic bomb, in connection to "Hiroshima, the City of Peace"

Social trends ightarrow

1940~

3

1945 Atomic bomb dropped 964 Tokyo Olympics

1960~

1970 ~

1973 The first oil shock

979 The second oil shoc

1980~

Hiroshima Museum of Art

1985 The Plaza Accord1989 Consumption tax was introduced

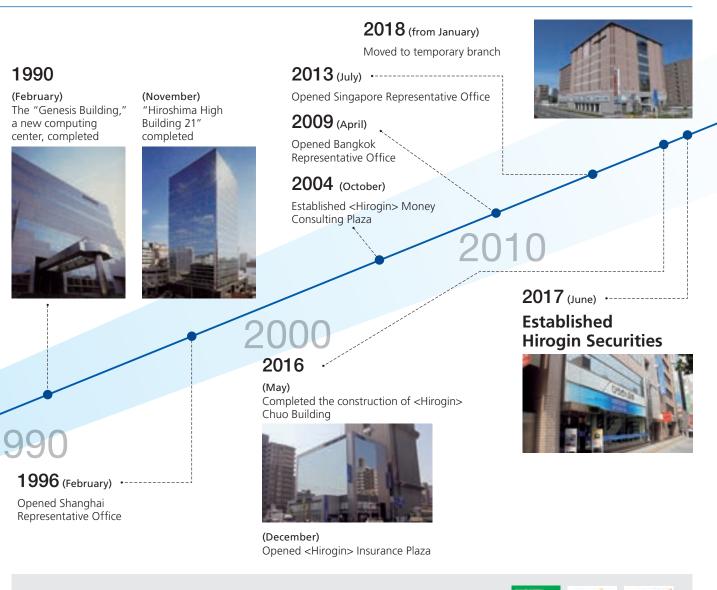


1965 (February)

Completion of new Head Office building

1971 (February)

Listed stocks on the first sections of Tokyo Stock Exchange and Osaka Securities Exchange



Corporate Data (As of March 31, 2019, non-consolidated)		#BETER #20100			
Head Office 1-1-7, Nishikaniya, Minami-ku, Hiroshima Cit Hiroshima 732-0804, Japan (temporary Head Office		Branches and Offices	151 domestic branches including 1 branch dedicated for bank transfers and 1 Internet		
Phone +81-82-247-5151			branch 13 offices Shanghai Representative Office Bangkok Representative Office		
Established November 1878					
Common Stock ¥54,573 million					
Deposits + NCD ¥7,262.9 billion			Singapore Representative Office		
Loans	oans ¥6,014.6 billion		https://www.hirogin.co.jp/		
Employees 3,405			Hiroshima Bank Search		

1990~

- 1991 Economic bubble collapsed
- 1995 The Great Hanshin-Awaji Earthquake

2000~

- 2005 Deposit insurance fully deregulated
- 2006 Bank of Japan ended zero interest rate policy
- 2007 Subprime mortgage crisis occurred in the U.S.
- 2008 Global financial crisis occurred

2010~

2019 Constit MSCI日本株

女性活躍指数 (W

MSCI 🛞

- 2012 The second Abe cabinet formed "Abenomics" started
- 2013 Bank of Japan introduced "quantitative and qualitative monetary easing"

1000

2017 Trump administration formed in the U.S.

Mid-Term Management Plan 2017 (FY2017 – FY2021)

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

— A "True First Call Bank Group" —

The business environment surrounding regional financial institutions remains more difficult than we have ever experienced, including prolonged ultra-low interest rates and entry to the banking industry of competitors from other industries, in addition to declines in population and the number of business establishments. In addition, customer behavior is changing rapidly in line with the development of ICT, and the traditional business model centered on deposits and lending is reaching a major turning point.

Even under these circumstances, we formulated our Mid-Term Management Plan 2017, incorporating our intent to establish new growth drivers and grow together with our customers, as we mobilize the strength of the entire Hiroshima Bank Group and practice customer-oriented operations. All employees of the Hiroshima Bank Group will come together as one to become a true first-call bank group.

Basic policies (three pillars of the Mid-Term Management Plan)

Reform the earnings structure based on implementing value-added sales focused on customer needs

Nurturing a corporate culture that promotes workstyle reform and a desire to take on challenges

Active commitment to regional revitalization

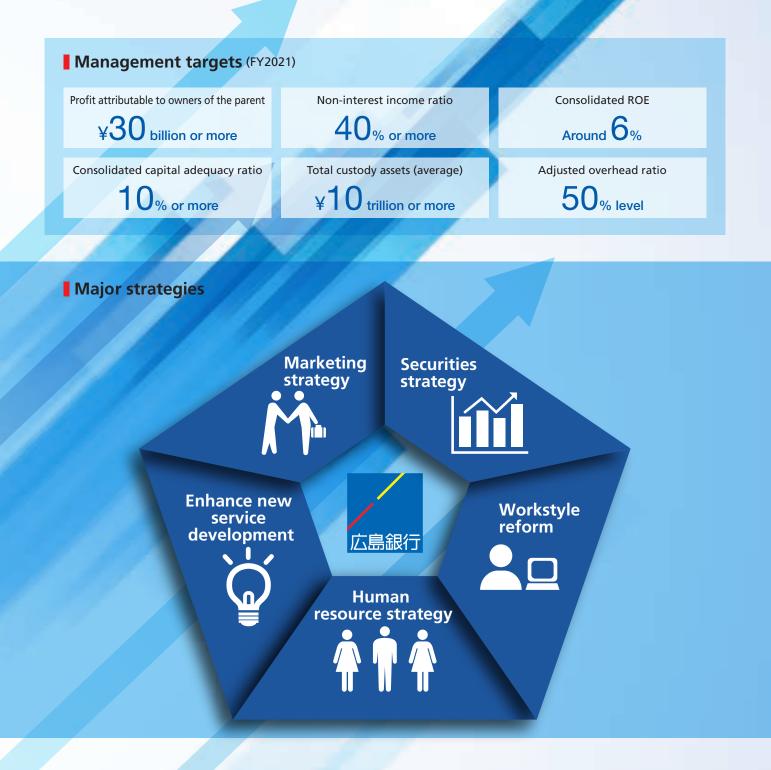
Key initiatives

Further development of measures toward high value-added banking business

Promotion of measures for asset management business that meet the asset formation needs of customers

Enhancement of the profit base

Building a reliable Hiroshima Bank Group united through trusting relations with the regional community



About Hiroshima Bank

Summary of Business Performance (FY2018)

¥25.3 billion

(¥(1.7) billion)

Net income

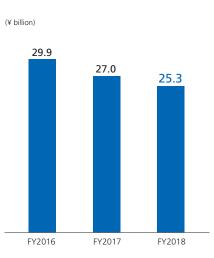
Core banking profit

(¥ billion)

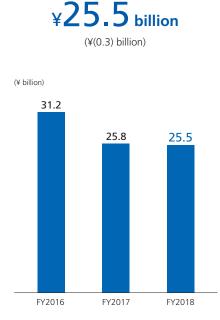


(+¥0.3 billion)



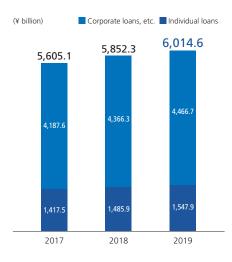


Profit attributable to owners of the parent



Loan balance





Loans to SMEs

(¥ billion)

2,293.5

2017



2,426.3

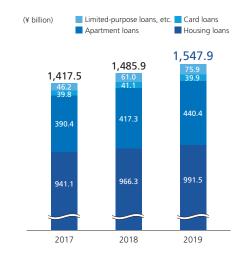
2018

2,516.9

2019

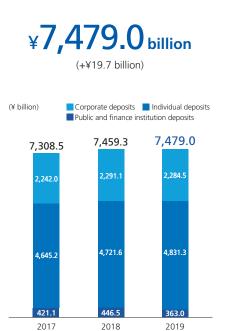
Individual loans

¥**1,547.9** billion (+¥62.0 billion)



HIROSHIMA BANK INTEGRATED REPORT 2019

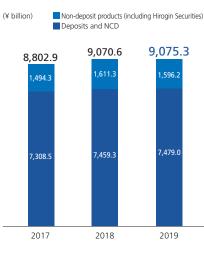
Deposits and NCD



* Deposits and NCD include negotiable certificates of

Consolidated capital adequacy ratio

11.01%



* The balance of Hirogin Securities' non-deposit products

Non-performing loan ratio

1.15%

((0.05) points)

is stated at fair value.

Total custody assets (including Hirogin Securities)

¥9,075.3 billion

(+¥4.7 billion)

Non-interest income ratio (including income from Hirogin Securities) 35.2% ((0.4) points)

(%)

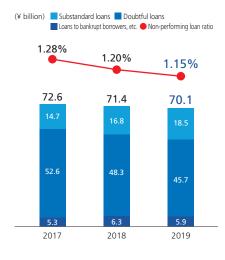


Consolidated ROE



(%) 6.9 5.5 5.3 FY2016 FY2017 FY2018

11.10 11.01 11.07 Domestic standard (Regulatory floor) 4.00 2017 2018 2019



* Amounts of loans reported under the Financial Reconstruction Act have been rounded to the nearest whole unit.





((0.06) points)

(%)

deposit.

Value Creation Process

Capital to be utilized

Financial capital

- High earning power
- Sound lending assets
- Strong capital
- Advanced risk management

Human capital

- Diverse human resources
- FP skills and other advanced expertise
- Organizational culture focused on employees' motivation to work

Intellectual capital

- Feasibility studies accumulated based on expertise thus far
- Functions for providing advanced and diverse solutions
- Functions for developing new services utilizing state-of-the-art digital technology
- Comprehensive financial services offered by the Group as a whole

Social capital

- ► High-quality and steady customer base
- Corporate culture that thoroughly implements customer-oriented business operations, inherited from the time of our founding and the atomic bomb
- Store network closely attached to the region

Natural capital

- Rich in tourism resources, including World Heritage Sites such as the Hiroshima Peace Memorial and Itsukushima Shinto Shrine
- A temperate area with an abundant natural environment, surrounded by the Seto Inland Sea and the Chugoku Mountains



Strong management base to support the business model (Corporate governance and risk governance)

Management Policy (Management Vision + Code of Conduct)

Mid- to long-term changes in economic and social environments

Declining population
 Demand for workstyle reference

- Falling birthrate and aging society
 Domand for more conhisticated
- Demand for workstyle reform
 Demand for more sophisticated risk management
- Stimulation of regional economy



Global warming and climate change

Accelerated progression of digitalization

Message from the President

"Hiroshima Bank never develops without the development of regional communities. We will remain committed to our customeroriented 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





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 valueadded 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 longterm 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 yearon-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 customeroriented 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

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

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.



President



Business Strategies

Major strategies



As we aim to coexist and co-prosper with "regional society" and the "environment and society," we shall provide value in various forms, while incorporating an SDGs-based perspective. (P63)

Banking Business

We strive to grow together with the regional economy, through support for the core businesses of local companies based around "feasibility studies"

We are striving to practice "high-value-added banking business," based around "feasibility studies," which are the advantages of Hiroshima Bank. Automakers, shipbuilders, and companies in other distinctive industries are clustered in this region, and the Bank has long focused proactively on understanding industry trends and business details and supporting the resolution of issues, while also taking steps to systematize the "connoisseur" capabilities, which tend to be dependent on individual expertise, and utilize them in systematic ways. As we previously realized the importance of qualitative information linked to future business prospects, we have positioned the Bank's "feasibility studies" at the core of sales based on customer needs, in order to practice "high-value-added banking business."

Hiroshima Bank's "feasibility studies"

Hiroshima Bank's "feasibility studies" evaluate the details of customers' businesses, their growth potential, and other factors in an appropriate manner, and exert consulting functions, including proposing solutions to issues and providing implementation support. Based on these studies, we strive to revitalize regional industries through financing and support for customers' core businesses.

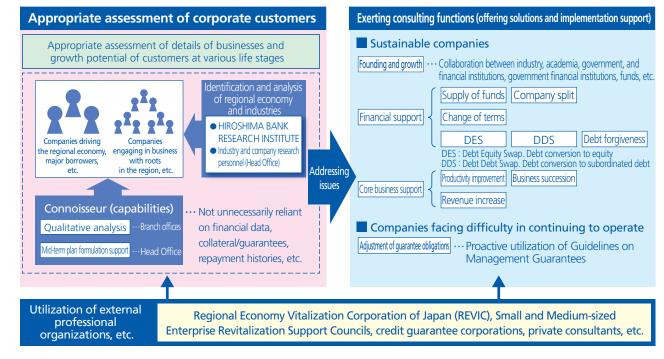
Background to this initiative

In the 1990s, a decade plagued by the issue of bad debt disposal, the Bank provided financing to suppliers in the automobile industry (components manufacturers) by looking at their financials. However, the suppliers that possess technical expertise irreplaceable in the automobile industry must be supported by taking a step into management restructuring even if they are in a financially difficult position. It became necessary to place more importance on qualitative information from the perspective of whether or not they were necessary for their industry cluster, instead of looking solely at their financial position.



In January 2001, in order to accurately respond to the diversification and sophistication of business partners in the automobile-related industries, the Bank

newly established the "Automobile-related Measures Office" by hiring personnel transferred from the auto industry. Experts visited suppliers' plants and gained an understanding of the technical side of their businesses. To this, we added financial analysis as a bank, enabling us to understand customers' businesses in terms of both "technical" and "financial" aspects. Even in the midst of rapid external changes such as the Lehman shock, we were able to deal with these changes while remaining committed to this approach. This led to the development of the Bank's feasibility studies.

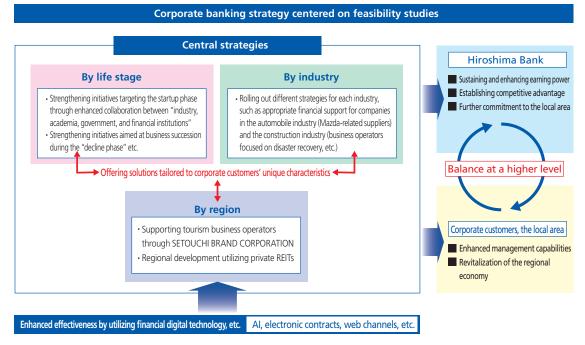


Hiroshima Bank's "feasibility studies"

Corporate banking strategy centered on "feasibility studies" (key measures)

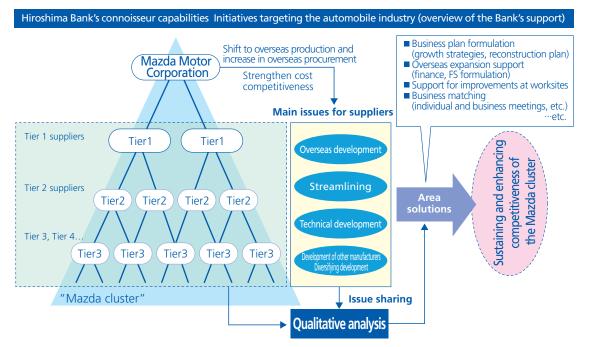
We shall further strengthen our offering of comprehensive consulting services (core business support, business succession, etc.) to local companies, and focus on establishing a business model that can achieve a balance between regional economic development and expansion of earnings opportunities for the Bank at a higher level.

Corporate banking strategy concept



Hiroshima Bank's connoisseur capabilities

- There is a cluster of many suppliers in Hiroshima Prefecture, centering around Mazda Motor Corporation, and the Bank appointed automobile-related screening personnel in the Credit Supervising Division and automobilerelated personnel in the Investment Banking Division, as it sees this entire "Mazda cluster" as customers.
- The Bank identifies and analyzes the current status and trend of Mazda Motor Corporation and the automobile industry, and it has been proactively providing management improvement support, overseas expansion support, etc. to customers that are suppliers with a significant impact on the regional economy (Tier 1, Tier 2, Tier 3...).



Status of initiatives for improving SME management and regional revitalization

At the Bank, we consider exerting smooth financial intermediary functions for customers to the fullest as the most important mission and role of regional financial institutions, and we will strengthen our efforts to provide management support for our customers and propose optimal solutions for achieving management targets and resolving management issues.

Start-up and new business development support

Initiatives for venture company support

In order to enhance the vitality of the local economy, there has been a strong demand for "revitalization of startups" and "new business creation" by venture companies.

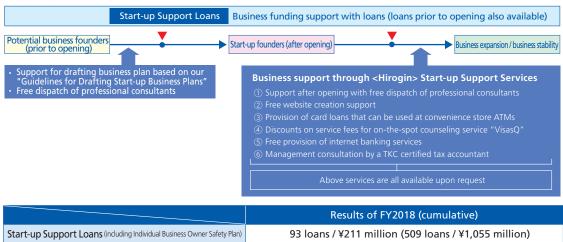
The Bank contributes to the revitalization of the regional economy and practices financing activities that are rooted in the local community by utilizing its network to support business start-ups and business growth, while conducting proper and active financing.



<Hirogin> Start-up Support Loans

In addition to providing loans of the funds necessary to start a business (loans prior to opening also available), we provide comprehensive support for those who are aiming to establish a business or who have just started up recently, including providing services to help resolve various issues such as providing support for drafting a start-up business plan, improving administrative efficiency, and expanding sales channels.

Support process



Support during growth stages

As support for the growth stages of our customers, we offer a wide range of financing schemes, including support for expanding into new sales channels by facilitating business matching and technology development, information provision and advising for new business development such as overseas expansion, utilization of loans secured by way of assignment of movables and claims and loans secured by intellectual property.

Financial support (financing)

The Bank provides consulting-type loans to address our customers' diverse needs.

Provision of consulting-type loans

<Hirogin> Health Management Evaluation-based Loan System System features

- Hirogin evaluates initiatives for "health management." Based on a program jointly developed with the Hiroshima Branch of Japan Health Insurance Association, health management is evaluated in four grades of S, A, B, and C, and if the business achieves a grade higher than a B, they are provided with a "certificate" after their loan is granted.
- ② Companies that receive outstanding evaluation results will be announced in news releases by Hirogin. We also give advice on improving "health management" based on the results of this evaluation.

<Hirogin> Cybersecurity Countermeasures Support Loans System features

- We will conduct a free diagnosis of cybersecurity systems and the potential financial impact of a cyberattack in collaboration with a non-life insurance company, and provide feedback on the results of the diagnosis after the loan is granted.
- 2 Based on the diagnosis results, and at the customer's request, individual support for the introduction and improvement of relevant countermeasures will be provided in collaboration with a non-life insurance company and cybersecurity countermeasure specialists.
- ③ Cyber risk insurance is set up to compensate for losses incurred from legal liability for damages due to information leaks resulting from cybersecurity incidents during the loan period. (The insurance premium is covered by the Bank)

<Hirogin> Business Succession Support Loan

System features

- For business succession, we will support every step from the plan formulation phase to the funds ultimately required.
- 2 To ensure that the successor of a company can operate businesses smoothly after business succession, the loan period is set to a maximum of 15 years, and a grace period (up to 5 years) can be allowed based on the business succession plan.

<Hirogin> Disaster Prevention / BCP Support Loans

System features

- We will conduct a free diagnosis of the status of formulation of disaster prevention measures and BCPs and the financial impact on business performance in the event of a disaster in collaboration with a non-life insurance company.
- If our customer wishes to formulate/review their BCP, they can use either a free or paid plan for BCP formulation support.
- ③ Commitment lines can also be set if certain conditions are met.

<Hirogin> Loans with Business Continuity Cost Insurance

System features

- These financial products offer loans with insurance to cover the cost of business continuity.
- 2 The insurance covers any additional expenses incurred to continue business operations, such as "borrowing costs for temporary branches" and "premium expenses for rush construction project," in the event of distress resulting from a fire or natural disaster (excluding earthquakes, volcanic eruptions, and tsunamis) during the borrowing period. (The insurance premium is covered by the Bank)
- 3 The insurance amount (payment limit) is determined based on the amount of the loan at the time of borrowing.

Results from consulting-type loans (total)

Results of FY2018

94 loans / ¥3,081 million

Core business support

By strengthening our relationships with our customers, we share information on the issues and problems they face, and provide support for formulating management improvement plans and follow up on progress being made. Furthermore, we are actively deepening collaborative efforts with external professional organizations to provide support for business improvement, business rehabilitation, and changes in business activities, while nurturing human resources that are highly skilled in business rehabilitation.

Selection and utilization of optimal management improvement support

In addition to the financial situation of our customers, we actively support their management improvement by utilizing the knowledge and expertise of external professional organizations and other sources, as necessary, to resolve various management issues, such as increasing sales and facilitating business succession.

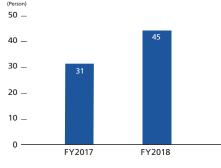
	Results of FY2018	
SME Business Rehabilitation Support Co-operative (number of consultations)	10 consultations	
Management Improvement Plan Formulation Support Business	28 consultations	
Yorozu Support Center [*]	540 consultations	

* Includes consultations through video conferencing systems

Nurture human resources to enhance business rehabilitation skills

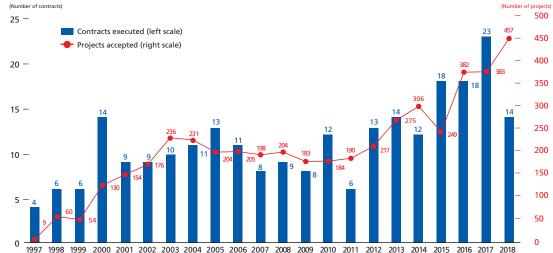
The Bank continuously nurtures human resources that have skills in business rehabilitation.

<Number of participants in corporate skill-up training programs>



Business succession support through M&A

The Bank is focusing on M&A operations to support companies that have issues with business succession with no successor. Hiroshima Bank started the operations in 1997, being first among regional banks to take on such initiatives, and the team of 11 people has been currently taking on the operation. In FY2018, we achieved a record-high number of 457 projects accepted and 14 contracts executed.

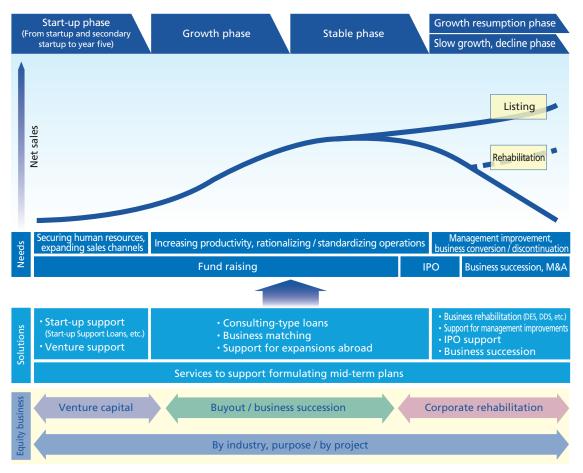


Initiatives for "expansion of business fields"

Through the expansion of business fields, the Bank will strive to acquire new opportunities to generate earnings and seek to become a comprehensive financial services group that is not bound by conventional frameworks as initiatives with an eye toward deregulation in the future (reviews of investment regulations, etc.) are being taken.

Equity business

The Bank seeks to enhance the corporate value of unlisted customers by investing in funds (equity business) in accordance with a variety of corporate life stages, such as the start-up and re-growth phases in addition to the growth and stable phases.



• The Bank provides equity funds that contribute to our customer's business growth and business succession measures.

 In addition, we support business rehabilitation through purchases of credits and DES / DDS, etc. for companies planning business rehabilitation by utilizing professional consulting services of our subsidiary Shimanami Servicer Co., Ltd. (servicer).

Regional development

Regarding urban development support, the Bank actively participates in activities based on the concept of area management in collaboration with local governments, placing emphasis on intangible or "soft" initiatives that contribute to enhancing the area's value, including efforts to generate prosperity, going beyond the idea of "buildings = construction and renovation of tangible or "hard" structure.

Initiatives for urban development span over a long period of time. We will establish a dedicated team, aiming to increase the entire value of the city by undertaking integrated efforts from a long-term perspective without making a distinction between hard and soft initiatives.

As one specific initiative, we have been entrusted with the designated management of the Rest House of Hiroshima Peace Memorial Park, jointly with other local companies. In addition to the designated management of a single facility like this, we plan to expand activities positioned as important bases for area management, as a hub for connecting the Peace Park, a site recognized around the world, with the metropolitan area of Hiroshima City and nearby tourist attractions.

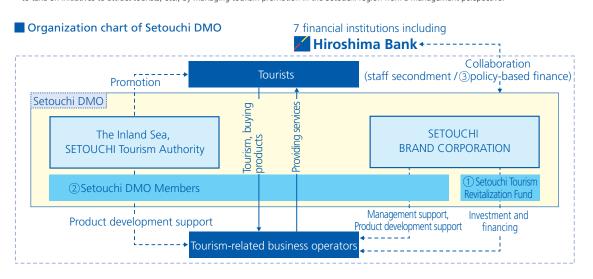
The Head Office of the Bank, currently undergoing reconstruction, is based on the concept of creating a "solution terminal" that realizes "development" and "innovation" in the regional economy together with our customers, under the "HEIWA Project" (Hiroshima's Evolution & Innovation With All). A cafe and event space will be set up on the first floor, and this facility will be used as a base for area management activities with the goal of contributing to the prosperity of the city center.





Tourism promotion

As the role of regional financial institutions becomes important in the "regional revitalization," which is one of the growth strategies set forth by the government, seven regional banks in the Setouchi region including the Bank participate in initiatives facilitated by Setouchi DMO and provide support for local tourism-related companies. The Bank seeks to collaborate with Setouchi DMO and provides financial support to tourism-related operators using the Setouchi Tourism Revitalization Fund and provides direct business support through the Setouchi DMO Members. * Setouchi DMO...A cooperative system, under the collaboration of The Inland Sea, SETOUCHI Tourism Authority and SETOUCHI BRAND CORPORATION, to take on initiatives to attract tourists, etc., by managing tourism promotion in the Setouchi region from a management perspective.



SETOUCHI BRAND CORPORATION attracts global brand hotels to redevelopment sites in the center of Hiroshima City

The Bank provides financing and dispatches personnel to SETOUCHI BRAND CORPORATION

Regional DMO establishment support

Each local government refers to regional revitalization through tourism promotion in the "Comprehensive Strategy for Overcoming Population Decline and Vitalizing Local Economy." Tourism promotion through the establishment of DMO is attracting attention nationwide (123 DMOs registered and 114 candidates for registration as DMOs as of March 29, 2019), and as requests for consultation from local governments both within and outside of Hiroshima Prefecture related to the establishment of DMO are rapidly increasing, the Bank collaborates with its branch offices to provide consulting services for local governments in regard to the establishment of DMO and post-establishment support.

FY2015	• Onomichi / Shimanami DMO Promotion Support Business
FY2016	Akiota Regional Trading Company Establishment Planning Business Miyoshi DMO Establishment Support Business
FY2017	• Tokushima Eastern Region DMO Establishment Preparation Advisory Business • Tsuyama Extended-Stay Tourism Development Project Promotional DMO Establishment Plan Support Business
FY2018	Fukuyama Tourism Promotion System Establishment Support Business Shobara Tourism Promotion Planning Business

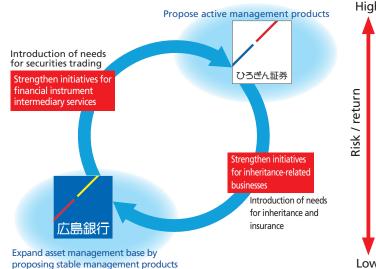
Asset Management Business (Collaboration between Banking and Securities Businesses)

In June 2017, Hiroshima Bank converted Hirogin Securities (former Hirogin Utsumiya Securities Co., Ltd.) into a wholly-owned subsidiary and established a system that can address the diversifying and sophisticated needs of our customers.

We will endeavor to provide and propose highvalue-added products and services by integrating Hiroshima Bank's customer base with Hirogin Securities' expertise (collaboration between banking and securities businesses).



Initiatives for asset management business through collaboration between banking and securities businesses



ligh		Hiroshima Bank	Hirogin Securities		
	Active management products	An assortment of internet-only investment trusts and savings-only investment trusts	Stocks, foreign bonds, structured bonds, theme-type investment trusts, etc.		
.ow	Stable management products	Yen deposits, public bonds, foreign currency deposits, savings-type investment trusts, low- risk investment trusts, insurance, etc.	An assortment of low-risk investment trusts, etc.		

Financial instrument intermediary services

Hiroshima Bank offers "financial instrument intermediary services," in which the Bank handles procedures to open securities accounts for customers, based on entrustment by Hirogin Securities. Customers can open a securities account, a doorway to securities management, over the counter at Hiroshima Bank, which has an extensive branch network. In addition, the counter at Hiroshima Bank handles some products offered by Hirogin Securities (public structured bonds*, etc.), and the entire Hirogin Group works together to address our customers' securities management needs.

(*Structured bonds: bonds that allow a relative degree of freedom in defining terms such as maturity and interest rates by pairing a standard bond with a derivative instrument, etc.)



Increasing the number of joint branches between Hiroshima Bank and Hirogin Securities

We are increasing the number of joint branches in order to provide one-stop services as the Hirogin Group that cover services including consultations on highly specialized inheritance measures as well as asset management. (Hirogin Securities branches are established inside the following Hiroshima Bank branches)

Joint branches established (As of March 31, 2019)						
Hiroshima Bank	Hirogin Securities	Date of establishment		Hiroshima Bank	Hirogin Securities	Date of establishment
Youme Town Hiroshima Office	Youme Town Hiroshima Branch Office	February 2008		Kabe Branch	Kabe Branch	May 2018
Hatsukaichi Branch	Hatsukaichi Branch	November 2008		Kure Branch	Kure Branch	May 2018
Okayama Branch	Okayama Branch Office	May 2014		Fuchu Branch	Fuchu Branch	July 2018
Mihara Branch	Mihara Branch Office	January 2018		Imabari Branch	Imabari Branch Office	August 2018
Hiroshima-Nishi Branch	Satellite Booth Hiroshima-Nishi	March 2018		Tokaichi Branch	Miyoshi Branch	October 2018
Furuichi Branch	Satellite Booth Furuichi	March 2018		Iwakuni Branch	Iwakuni Branch	November 2018
Kaita Branch	Satellite Booth Kaita	March 2018		Fukuyama Sales Division	Fukuyama Branch	January 2019
Ube Branch	Ube Branch	March 2018		Tokyo Branch	Tokyo Branch	March 2019

Joint branches established (As of March 31, 2019)

Launched simple account-to-account transfer services

In order to sophisticate settlement functions within the Group, we launched a convenient service for transferring funds free of charge simply by submitting a request over the phone or at the Hirogin Securities counter when transferring funds from Hiroshima Bank to Hirogin Securities.

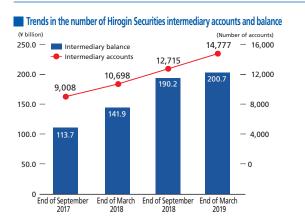


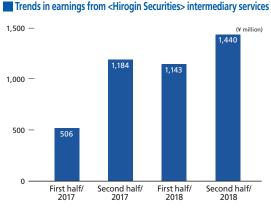
Launched "trust agreement agency business" and "banking agency business"

Customers of Hirogin Securities will also be introduced to Hiroshima Bank's trust products, and the entire Hirogin Group will address local customers' needs for inheritance measures.



Summary of Business Performance



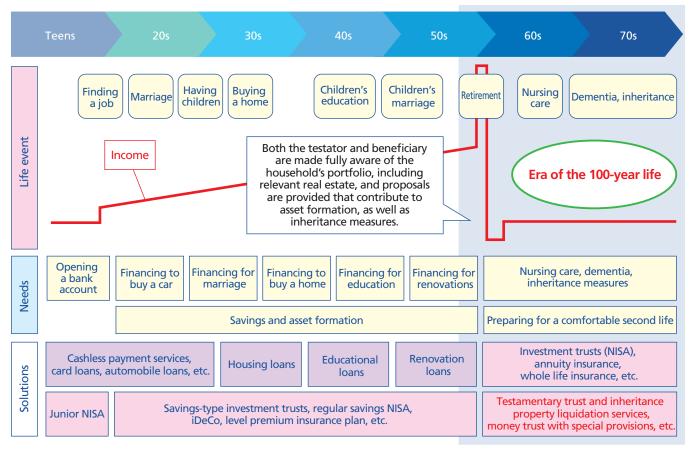


Asset Management Business (Inheritance-Related Businesses)

As we are approaching the "era of the 100-year life," we will provide support for the growing elderly market in ensuring smooth succession of assets to the next generation and effective use of assets, and also provide schemes that allow them to manage properties in preparation for cases where it becomes difficult to make judgment due to conditions such as dementia. Through these services, we aim to achieve smooth inheritance and succession of assets based on customers' needs.

Proposing solutions in accordance with each life event

The Bank seeks to propose optimal solutions that address the life events of our customers and the needs of each generation. For those in the period of asset formation, we will contribute to their stable asset formation by long-term and diversified investments. For the elderly generation, in addition to strengthening efforts for inheritance-related business and helping with smooth inheritance and succession of assets, we will proceed with relationship building with the next generation through efforts such as proposing secondary inheritance measures.



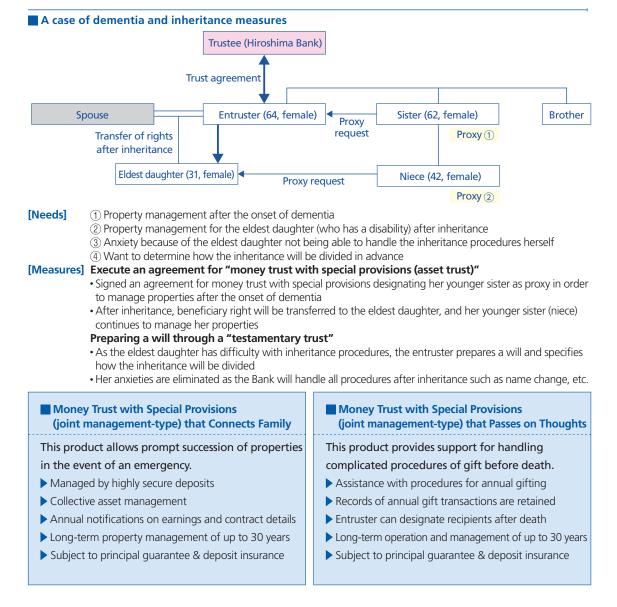
Key measures

1. Expand contact points between seniors and the next generation by proposing measures for dementia and inheritance

2. Expand systems to accept requests for consultations by establishing the "Inheritance Consultation Plaza"

3. Improve consultation abilities for the inheritance and trust businesses by establishing a section specializing in trusts

4. Propose long-term asset management to the elderly in collaboration with Hirogin Securities

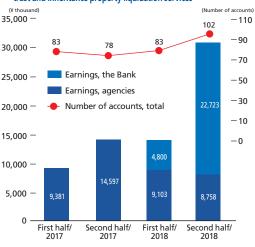


Example of our initiatives



Trends in the balance and number of contracts of inheritance-related trust products (Number of contracts) 30.000 --5,000 Total balance of three products* 4,197 Total number of contracts of three products 3,644 -4,000 25,000 -2,919 -3,000 2.201 -2,000 20 000 --1.000 15,000 --0 22.868 10.000 -18.222 20.658 24.235 5.000 -0 End of September End of March End of September End of March 2017 2018 2018 2019 *Asset trust, Trust that Connects Family, Trust that Passes on Thoughts

Trends in the number of accounts and earnings of the testamentary trust and inheritance property liquidation services



Initiatives Aimed at Digital Transformation

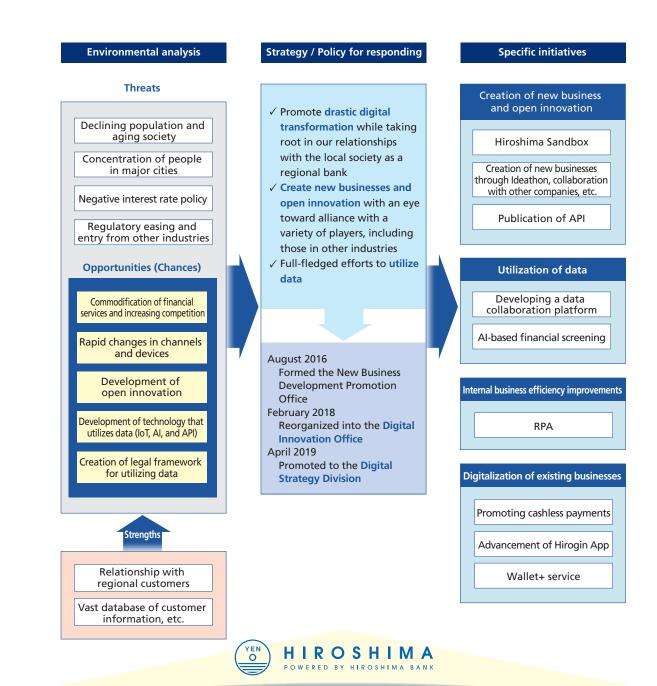
Amid the trend of rapidly advancing digitalization, the Bank believes that the initiative aimed at digital transformation (transformation of business structure through digital technologies) is one of its important management strategies. Based on the major premise that we take root in our relationships with the local society as a regional bank, the Bank will continue taking on the challenge of revitalizing the regional economy and improving convenience for corporate and retail customers centered around the local communities by utilizing state-of-the-art digital technologies.

Understanding the background and environment

We are facing issues specific to the financial industry, such as negative interest rate policies, and regulatory easing of financial services and entry of competitors from other industries, in addition to the trend of market contraction across the industries and regional areas, as seen in the declining birth rate and aging population and the concentration of people in the major cities. Amid these conditions, we cannot be optimistic about the environment surrounding the Bank. On the other hand, we are also aware that these threats may become major opportunities if we deftly ride the current of digitalization by utilizing our strengths, namely, "relationship with regional customers," "vast wealth of data centered on the region," and "credibility within the region."

Organization and policy for addressing these issues

Based on the above understanding of the environment, in August 2016, we established the "New Business Development Promotion Office" within the Management Planning Division as a department that conducts evaluations over a mid- to long-term perspective to create drastically new businesses, including non-financial businesses. In February 2018, we reorganized the office as the "Digital Innovation Office," by integrating smartphone app functions, positioning the office as a department that plays a central role in the "digitalization of finance." In April 2019, the office was promoted to the "Digital Strategy Division" by integrating cashless payment functions. Under the initiative of top management, we have been strengthening our organization to "strengthen initiatives toward digital transformation," which are speedier and more challenging.



YEN HIROSHIMA[©] PROJECT

- YEN HIROSHIMA[®] PROJECT is the brand name of an innovation hub for collaboration across the region and different industries, which was newly launched by Hiroshima Bank based on the concept of "contributing to revitalizing the regional economy as a circular platform in the Hiroshima region."
- The word "YEN" incorporates the three ideas of: (1) "yen (*en*)," the currency; (2) "*en*" (the Japanese word for "circle"), the circular platform within the region; and (3) "*en*" (the Japanese word for "connection"), the connection with people and corporations.
- The symbol of this brand is designed in the motif of a five-yen coin, which simply symbolizes these three concepts. It also represents the Bank's strong co-creating relationship with the region, by expressing itself in blue, which is the Bank's corporate color, along with the shape of the Seto Inland Sea.
- The "YEN HIROSHIMA" project will continue to implement various initiatives that contribute to revitalizing the economy of the Hiroshima region on an ongoing basis.

"Hirogin" will realize the optimal solution for "regional bank×digital technology×local communities"



The Digital Strategy Division of Hiroshima Bank will realize a drastic innovation, aiming to make a greater contribution to the local community based on the following three key strategies:

- Drastic overhaul of existing services and channels (Utilization of new technologies and responding to changes in customer behavior)
- (2) Identify an ideal model while utilizing its strengths "as a regional financial institution," and create new businesses and open innovation, including alliance with other businesses

(3) Promotion of data utilization.

Koichi Seo

General Manager, Digital Strategy Division

Digital strategy will be the most fundamental strategy for the Bank over the next ten years

As a financial institution that plays a role in the social infrastructure, we are aware that digitalization is a priority issue that must be addressed as soon as possible. Based on this understanding, we are committed to taking on a variety of initiatives aimed at the "fundamental overhaul of existing services and channels," including the "release and enhancement of our banking app," "introduction and a gradual launching of product lineups for cashless payment services," and the "introduction of RPA."

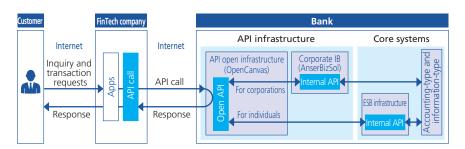
On the other hand, as a bank that should grow together with the local community, the Bank must build a business model that will contribute to the improvement of convenience for regional customers and the revitalization of the regional economy over the medium- and longterm span, while always foreseeing the trend of the times. For this purpose, by focusing on the "utilization of data," we will constantly take on new challenges, aiming to create new businesses based on open innovation, through means such as "alliance with various entities in industry, academia, and the government centered on the local region."

What will be necessary for regional corporate and retail customers in five or ten years? What should we do as a regional financial institution? These issues are directly related to how the management of the Bank should be. We will make efforts based on the understanding that digital strategy will be the most fundamental strategy for the Bank over the next ten years.

Hirogin is focusing on these types of digital innovation (introduction of an example)

Publication of API

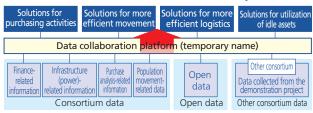
The Bank makes available to external companies a part of its banking services, such as balance inquiry and transaction history inquiry as an open API (users are required to go through certain screening processes). As we look to continue increasing our API lineups going forward, we will seek to collaborate and cooperate with a diverse range of companies, while ensuring the protection of the users. These efforts will be made based on the perspective of diversifying our channels that contribute to enhanced convenience for our customers and promoting open innovation such as creating new value for customers through mutual creation of new services with other businesses.



Hiroshima Regional Data Collaboration Platform Creation Demonstration Project

As part of measures to promote the utilization of data, the Bank participates in the "Regional Data Collaboration Platform Creation

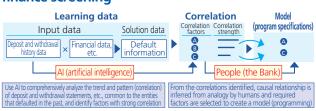
Demonstration Project," which was adopted by "Hiroshima Sandbox," a project outsourced by the Hiroshima prefectural government, jointly with SoftBank, The Chugoku Electric Power Company, and Izumi. We have been conducting



demonstration tests since October 2018, aiming to build services that will contribute to the promotion of data distribution between companies in Hiroshima and enhanced convenience for residents of the prefecture.

Utilization of AI for business feasibility finance screening

In February 2017, the Bank launched a demonstration test aimed at utilizing AI (artificial intelligence) for business feasibility finance screening for small businesses. The consideration of utilizing AI for business feasibility finance, which is one of the main businesses of a bank, is a pioneering effort in the industry, and we will continue considering the implementation of this technology, aiming to achieve speedy and low-cost financing.



Promotion of workstyle reforms with utilization of RPA

As part of measures to reform work styles, we are also proactively focusing on "RPA (Robotics Process Automation)," aiming to improve the efficiency of internal operations. After demonstration tests, we began the full-fledged application of RPA to all business operations at Head Office in October 2018. While seeking to make a drastic improvement of cost structure, we will take steps



Automate routine operations without programming

to review the allocation of resources, aiming to provide high value-added services by utilizing the time saved.

Holding the Ideathon and taking on challenges such as the Hiroshima Sandbox

In order to create new businesses and services, the Bank is taking on new challenges in a variety of areas. In April 2017, we held the "First Finance Ideathon: YEN HIROSHIMA," a participatory idea generation event for the general public. Many participants accepted and supported this initiative, which projects an image different from the traditional image of a bank, and regarding the prize-winning ideas, we will continue to consider the feasibility of implementing them as our services. In addition, we are also looking for all types of possibilities for collaboration between industry, academia, and the government, including actively participating in the "Hiroshima



Sandbox" organized by Hiroshima Prefecture.

Banking apps and response to transition to cashless payment

We are also continuing to implement advanced initiatives aimed at digitalizing existing businesses. In 2016, we launched support for "HIROCA," a local e-money card, the first of its kind issued by a bank. This card is used as a personal identification card doubling as a method of local payment by companies and universities.

In addition, we were quick to address the transition towards cashless payments across the country, as we introduced J-Coin Pay in March 2019, and we will also continue to take steps to create a diverse lineup of payment methods. We are also focusing on smartphone apps, and in November 2016 we released "Hirogin App" as a public portal app.



Furthermore, as we introduced balance inquiry functions in February 2019, we will continue to take more steps to enhance our services.

Hiroshima Bank will continue proactively taking on new challenges aimed at "digital innovation"!

Corporate Governance

Basic approach

While fulfilling our social responsibility and public mission, the Bank will receive high evaluation from and build unshakable bonds of trust with our stakeholders, including both customers and shareholders by raising management soundness, efficiency, and transparency. In this way, the Bank works to promote sustainable medium- to long-term growth and increase corporate value.

To attain this goal, we respect the intent and spirit of the Corporate Governance Code of the Tokyo Stock Exchange, Inc., and set out the following five basic principles in an effort to realize effective corporate governance.

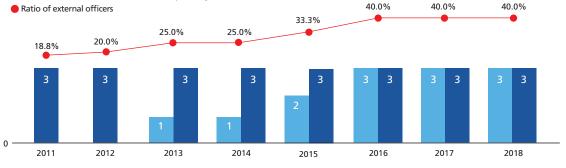
- (1) We respect shareholders' rights, secure equality and develop an appropriate environment for the exercise of the rights.
- (2) We strengthen measures in corporate social responsibility (CSR) and work in effective collaboration with all stakeholders, including the regional community, customers and employees, thereby fostering a corporate culture and climate in respect for their rights and standpoints.
- (3) We maintain transparent management by providing fuller disclosure in a timely and appropriate manner.
- (4) Our Board of Directors supervises the Bank's business execution effectively and makes decisions swiftly, based on its fiduciary responsibility and accountability to shareholders.
- (5) We promote constructive dialogues with shareholders and respond appropriately.

Efforts to enhance governance

June 2015	December 2015	June 2016	June 2017
 One external director (woman) was appointed Reduced the number of directors and the term to one year Review performance-linked compensation for directors Review the executive officer system 	The Compensation Committee and the Nomination Advisory Committee were established	• One external director was added	Introduced the stock compensation scheme (BIP trust) for directors and executive officers

Trends in external officers





Corporate Governance Overview

The Bank's Board of Directors consists of 10 members, including three external directors. The board convenes once a month, in principle, and is responsible for making management decisions and overseeing business execution. The Bank has established the Management Board as a body for discussing and determining important matters relating

to overall management based on the basic policy determined by the Board of Directors. The members of the committee are the Chairman, President, and directors in charge of the respective divisions, and the committee convenes once a week, in principle. In addition, the Bank has established the Directors' Loan Evaluation Board as a body

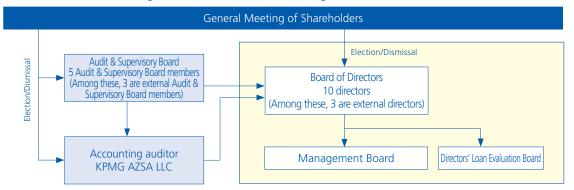
(Persons)

to discuss and determine important loan projects based on the basic policy formulated by the Board of Directors. The members of the committee are the Chairman, President, Senior Managing Directors, and directors in charge of the respective divisions, and the committee convenes once a week, in principle. The Articles of Incorporation of the Bank prescribe that the number of directors of the Bank does not exceed 15 and that terms of office are for one year, to clarify management responsibility and build a management framework to respond rapidly to changes in the management environment.

The external directors receive reports on the results of internal audits, Audit & Supervisory Board members' audits, and accounting audits as well as reports on the state of internal control from the division in charge of internal control during meetings of the Board of Directors as part of their roles of providing management supervisory functions from an external perspective. In particular, the external directors receive detailed explanations of the agendas for the meetings of the Board of Directors and reporting materials in advance from the divisions in charge of internal audit and internal control, respectively, and provide appropriate suggestions and advice during such advanced explanation or meetings of the Board of Directors, thereby endeavoring to raise the effectiveness of their management supervisory functions. The Audit & Supervisory Board consists of five members, including three external Audit & Supervisory Board members. It convenes once a month and as required. The Audit & Supervisory Board members participate in meetings of the Board of Directors and provide appropriate suggestions and advice on management decision-making.

The Audit & Supervisory Board members, including external Audit & Supervisory Board members, are striving to implement efficient audits by maintaining close coordination with the division in charge of internal audits and accounting auditors through the active exchange of opinions and information and by attending audits of branches by the division in charge of internal audits and on-site audits by accounting auditors. In addition, the Audit & Supervisory Board members receive reports on the progress of the tasks of developing sub-systems in the internal control system and important matters that affect the effectiveness of the sub-systems from the division in charge of internal control, including the status of the response to such matters, periodically or as required. The Audit & Supervisory Board members are endeavoring to develop and strengthen the internal control system from their standpoint as Audit & Supervisory Board members by requesting explanations and providing suggestions and advice as required on such occasions.

(Mechanism for overseeing business execution and management)



* In addition to the above, 14 executive officers who do not concurrently serve as directors (as of June 27, 2019) are appointed by the Board of Directors to execute their duties

Reasons for selecting the current corporate governance structure

The Bank has adopted an Audit & Supervisory Board system as part of its efforts to strengthen corporate governance for the following reasons and purposes:

- For responding promptly and accurately to changes in the management environment and ensuring the appropriateness of the Bank's business operations, it is important to have a system in which internal Bank directors, who have a wealth of expert knowledge and experience in the banking business and bank management and a deep understanding of the operation and execution of the Bank's business, oversee as members of the Board of Directors the management's decision-making and the execution of duties by the other directors;
- Having the Audit & Supervisory Board whose members, including external Audit & Supervisory Board members, audit the execution of duties by the directors is effective and serves as a management monitoring function; and
- The highly independent external directors and external Audit & Supervisory Board members provide their supervising and auditing functions in a fair and objective manner from a neutral perspective and give appropriate suggestions and advice on the execution of the duties by the directors and on the status of the operation of internal controls, thereby ensuring an adequate management supervisory system.

Composition and functions, etc., of the Board of Directors

In addition to deciding on important management issues including formulation of mid-term management plans, the Board of Directors values its overall balance between knowledge, experience and ability as well as diversity to exert highly effective management supervisory functions. To this end, the Board of Directors is comprised of internal directors who are familiar with the Bank's operations and external directors who have great experience and deep insight in their areas of expertise. Additionally, based on requirements for external directors stipulated by the Companies Act and independence standards for external officers set forth by the Tokyo Stock Exchange, Inc., the Bank appoints external directors who are independent officers.

Under such circumstances, every fiscal year the Board of Directors receives a report on the status of development and operation concerning systems for ensuring appropriate business operation and confirms that they are appropriately developed and implemented. The board also conducts a "Board of Directors Self-evaluation Questionnaire" to analyze and evaluate the effectiveness of the Board of Directors based on its results.

Effective use of external officers

The highly independent external directors and external Audit & Supervisory Board members are providing their supervising and auditing functions in a fair and objective manner from a neutral perspective and giving appropriate suggestions and advice on the execution of the duties by the directors and on the status of the operation of internal controls, thereby ensuring an adequate management monitoring system.

In such an environment, the Bank has established the Compensation Committee and the Nomination Advisory Committee, which include external directors among their members, to secure transparency and objectivity for processes of determining compensation and nomination of directors. Resolutions are made in view of deliberations of the committees.

We have introduced a system for external officers to view and confirm in advance the agenda for a meeting of the Board of Directors and its reporting materials from outside the Bank, and we provide devices for this purpose. Furthermore, the secretariat and various departments responsible for administrative work for Board of Directors meetings hold advance explanatory meetings

Analysis and evaluation of effectiveness of the Board of Directors

Regarding the status of development and operation of internal control systems, the Board of Directors receives a report at every fiscal year-end and confirms that there are no issues with effectiveness.

Furthermore, we work to raise the Board of Directors' effectiveness by taking the measures below.

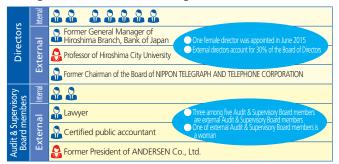
- · Selection of external officers and implementation of advance explanations to external officers regarding Board of Directors meeting materials
- · Advance deliberations and summarizing of key points via the management committee and various other committees · Revisions as needed on matters resolved and reported by the Board of Directors, etc.

Additionally, the Bank analyzes and evaluates the effectiveness of the Board of Directors at every fiscal year-end based on selfevaluation by directors and Audit & Supervisory Board members,

Additionally, the Bank encourages and supports self-improvement efforts by directors and Audit & Supervisory Board members to acquire knowledge and information necessary for effectively fulfilling their roles and responsibilities, and it holds and provides various training sessions and seminars in cooperation with external institutions and organizations.

on documents for external officers, in addition to building a support system such as by developing an environment to view internal regulations, notices and other internal bank information

Alongside the above, the Bank works to strengthen ties with external directors and Audit & Supervisory Board members through measures such as holding liaison conferences (external officer liaison conferences), aiming to secure information sharing and common understanding.



and an analysis and evaluation for FY2018 took place at the Board of Directors meeting in April 2019.

As a result, in comprehensive view of overall balance between knowledge, experience and ability, and status of operation, it was confirmed that the Board of Directors of the Bank demonstrated highly effective management supervisory functions. Also confirmed was that directors and Audit & Supervisory Board members appropriately fulfilled their duties and responsibilities and that adequate support systems for external officers were in place.

In addition, in consideration of the future management environment, the Board of Directors shared the recognition that further efforts are required for response to diversity and promotion of more active discussion by the Board of Directors.

The Bank's Board of Directors will continue to conduct adequate discussions in light of the above analysis and evaluation and improve response to issues, while moving forward with initiatives to strengthen governance.

Operational and other revisions in the Board of Directors implemented in FY2018 in light of evaluation results for FY2017

Issues recognized in FY2017

5		5
In deliberations concerning important	Revised procedures on deliberations	 Revisions were made such that agenda items (reports) were submitted to the
management issues, there are no	at the Board of Directors meetings	Board of Directors from the planning stage, with final resolution made by the
frameworks to take in the opinions of	regarding formulation of	Board of Directors (previously, only the final resolution was made by the Board
external officers from the planning stage	"management plans"	of Directors)
A significant portion of the time	Reducing time used for explanations	 Operated such that, in principle, time for explanations was within 1/4 of the
dedicated to Board of Directors meetings	to secure time for deliberation at the	total time overall Provided adequate explanations for external officers at advance explanatory
is used to explain agenda items	Board of Directors meetings	meetings

Measures implemented during FY2018

Officer compensation system

Policies and procedures for determining officer compensation

Based on the following policies and procedures, the Board of Directors of the Bank determines compensation that provides healthy incentives for sustainable growth while giving consideration to the viewpoints of transparency, objectivity, and fairness.

Officer compensation comprehensively reflects such factors as the status of officer compensation at other banks similar in scale to the Bank, historical payment results, and salary standards of the Bank's employees. Compensation for directors is determined by a resolution of the Board of Directors, while compensation for Audit & Supervisory Board members by their discussion. However, the total compensation for directors and Audit & Supervisory Board members comes within the range as resolved by a General Meeting of Shareholders. (a) Compensation for directors (excluding external directors) is composed of fixed-amount compensation based on job titles, performance-linked compensation, and stock-based compensation. They are appropriately balanced in consideration of the Bank's business results and linkage with shareholder return.

The stock-based compensation system utilizes a framework known as an officer compensation board incentive plan (BIP; hereinafter the same) trust. Utilizing compensation amounts for eligible officers as funds, the trust acquires shares of the Bank, and provides the shares and cash equivalent to disposal of the Bank's shares upon directors' retirement.

(b) Compensation for executive officers is composed of fixed amount compensation, bonuses, and stock-based compensation (officer compensation BIP trust). They are appropriately balanced in consideration of the Bank's business results and linkage with shareholder return.

(c) For the sake of neutrality, compensation for external directors and Audit & Supervisory Board members is only composed of fixed amount compensation without factors related to business results and stock prices.

Deliberations by the Compensation Committee and the Nomination Advisory Committee

To secure transparency and objectivity for the process of determining compensation for directors and executive officers, the Compensation Committee and Nomination Advisory Committee comprised of a majority of independent external directors as its members have been established, and matters on compensation are determined in light of deliberations by these committees.

Development of successors to management

The Bank has put in place a rank-based training system and clarifies the standards and abilities required for each job position and rank in order to develop human resources systematically. The training system includes the "Hirogin Management School" aimed at developing management personnel from a medium- to long-term perspective. The Hirogin Management School provides a program in which selective employees who are expected to undertake future management of the Bank learn to demonstrate the "ability of thinking befitting of a corporate manager (management strategy, business reform, etc.)." (See page 55 for details)

Cross-shareholdings

As shown below, the Bank defines (1) Policies regarding crossshareholdings of listed shares and (2) Standards for exercise of voting rights for cross-shareholdings, and appropriately addresses crossshareholdings.

(1) Policies regarding cross-shareholdings of listed shares

The Bank has a basic policy of not engaging in cross-shareholding, except where it is deemed that the holding has a rationale such as development of the regional economy or improvement of corporate value. As for shares held, the Board of Directors periodically evaluates the following aspects to determine the rationale for the shareholding: (a) whether the benefits and risks of each shareholding are commensurate with capital costs associated with the holding; and (b) the company's (i) level of contribution to the regional economy, (ii) growth potential and future prospects and (iii) medium- to long-term profitability in banking transactions. Evaluations on cross-shareholdings carried out at the Board of Directors meeting in March 2019 showed that approximately 80% of the companies in which the Bank holds shares satisfy these conditions. For shares in companies that fail to satisfy these conditions, the Bank is currently holding discussions to improve profitability in transactions or reduce shareholdings.

(2) Standards for exercise of voting rights for cross-shareholdings

In exercising voting rights, the Bank examines the management principles and status of maintenance of corporate governance at the company in question, and then comprehensively determines voting for or against proposals in view of factors such as (a) if the company is conducting appropriate decision-making that will lead to medium- to long-term increases in corporate value and improvement of shareholder value and (b) if the company is free from the possibility that it inflicts damage to the Bank as a shareholder. Items to be examined to find potential impacts on corporate value and shareholder value in particular are as follows: (a) proposals for appropriation of surplus that potentially have a significantly detrimental effect on financial soundness, (b) proposals for election of directors and Audit & Supervisory Board members and provision of retirement benefits at companies that have recorded losses or paid no dividends for a certain period of time, and (c) proposals for anti-takeover measures, among other items.

Board of Directors, Executive Officers and Audit & Supervisory Board Members (As of June 26, 2019)

Directors



Koji Ikeda Chairman

Joined the Bank in April 1977. After serving as General Manager of Management Planning Division, Managing Executive Officer and General Manager of Fukuyama Sales Division, and other posts, assumed office as Managing Director and General Manager of Management Planning Division in June 2009, and President in June 2012. Working in the current position since June 2018.



Yasushi Kojiri Director & Managing Executive Officer

Joined the Bank in April 1984. After serving as General Manager of Personnel & General Affairs Division, Managing Executive Officer and General Manager of Tokyo Branch, and other posts, assumed the current position in June 2018.

In charge of Personnel & General Affairs Division and Risk Management Division



Akira Ogi Director & Managing Executive Officer

Joined the Bank in April 1996. After serving as General Manager of Personnel & General Affairs Division, General Manager of Management Planning Division, and other posts, assumed office as Managing Executive Officer in October 2018. Working in the current position since June 2019. In charge of Management Planning Division, Banking Operation Management Division, and Information Technology Planning & Administration Division, Deputy General Management Division, 2019. General Manager in charge of Digital Strategy Division



Toshio Heya President

Joined the Bank in April 1983. After serving as General Manager of Management Planning Division, Managing Executive Officer and General Manager of Head Office Business Department, and other posts, assumed office as Director & Managing Executive Officer in June 2016. Working in the current position since June 2018. In charge of Secretariat Department, Tokyo

Liaison Office, and Digital Strategy Division



Katsuhiko Nakama Director & Managing Executive Officer

Joined the Bank in April 1985. After serving as General Manager of Credit Supervising Division, Executive Officer and General Manager of Onomichi Branch, and other posts, assumed the current position in June 2018. In charge of Credit Supervising Division and

Shipping Finance Division

Executive Officers

Senior Managing Executive Officer (Area Officer)	Hiroshi Honkawa	Executive Officer (General Manager of Tokyo Branch)
Senior Managing Executive Officer (Area Officer and General Manager of Eastern Area Headguarters)	lkuo Kojiri	Executive Officer (General Manager of Tokuyama Branch)
Managing Executive Officer	Masahiro Koike	Executive Officer (General Manager of Imabari Branch)
(General Manager of Head Office Business Department)		Executive Officer (General Manager of Onomichi
Managing Executive Officer	Kimio Okano	Branch)
(Area Officer) Executive Officer (General	Atsuhiro Kunimura	Executive Officer (General Manager of Audit Division)
Manager of Okayama Branch)		Executive Officer (Investment Banking Division and
Executive Officer (General Manager of Treasury &	Hiroyuki Higashiyama	International Business Division)
Investment Division)	Kana Khana a	Executive Officer (General
Executive Officer (General Manager of Kure Branch and General Manager of Kure City Municipal Office Branch)	Kazuo Kiyomune	Manager of Fukuyama Sales Division)



Tohru Hirota Director & Senior Managing Executive Office

Joined the Bank in April 1981. After serving as General Manager of Otemachi Branch, Managing Executive Officer and General Manager of Imabari Branch, and other posts, assumed office as Managing Director and General Manager of Eastern Area Headquarters in June 2013. Working in the current position since June 2015. In charge of Banking Business Planning Division, Corporate Planning Division, and Public Services Business Division



Akira Maeda Director & Managing Executive Officer

Joined the Bank in April 1985. After serving as General Manager of Retail Division, General Manager of Management Planning Division, and other posts, assumed office as Executive Officer in April 2016. Working in the current position since June 2018. In charge of Asset Management Division, Retail Loan Division, and Treasury & Investment Division

Fumitsugu Kariyada

Hideki Toi

Koji Hakoda

Shinichi Fukamachi

Yoshitaka Yamashita

ve Officer (Investment Koji Sakai

ive Officer (General ger of Fukuyama Sales Hironori Sato



Masahiro Sumikawa Director

Assumed office as General Manager of Hiroshima Branch, Bank of Japan in May 2000. After serving as Representative Senior Managing Director of The Tokyo Tomin Bank, Limited and Senior Advisor of American Family Life Assurance Company of Columbus, and other posts, assumed office as Director of the Bank in June 2013 (current position).

Audit & Supervisory Board Members



Kaori Maeda Director

Assumed office as Assistant of School of Engineering, Hiroshima University in April 1982. After serving as Assistant of Department of Computer and Network Engineering, Faculty of Information Sciences, Hiroshima City University, Assistant Professor of Information Processing Center, Hiroshima City University, and other posts, assumed office as Professor of Graduate School of Information Sciences, Hiroshima City University since April 2007 (current position). Working as Director of the Bank since June 2015 (current position).



Satoshi Miura Director

Assumed office as Senior Vice President and Head of Personnel of NIPPON TELEGRAPH AND TELEPHONE CORPORATION in June 1996. After serving as President and Representative Director of Nippon Telegraph and Telephone East Corporation, President & CEO of NIPPON TELEGRAPH AND TELEPHONE CORPORATION, and other posts, assumed office as Director of the Bank in June 2016 (current position).



Hitoshi Katayama Audit & Supervisory Board Member

Joined the Bank in April 1985. After serving as General Manager of Fukuoka Branch, General Manager of Hiroshima-Nishi Branch, and other posts, assumed office as Senior General Manager of Compliance Management Division in April 2017. Working in the current position since June 2017.



Yuji Eki Audit & Supervisory Board Member

Joined the Bank in April 1986. After serving as General Manager of Secretariat Department, General Manager of Hiroshima-Higashi Branch, and other posts, assumed office as Senior General Manager of Risk Management Division in April 2019. Working in the current position since June 2019.



Yasutoshi Takei Audit & Supervisory Board Member External Registered as attorney-at-law in April 1979 (current position). Assumed office as Audit & Supervisory Board Member of the Bank in June 2011 (current position).



Yoshinori Takahashi

Audit & Supervisory Board Member External Registered as certified public accountant in March 1980. After serving as General Manager of Hiroshima Branch, KPMG AZSA LLC and other posts, assumed office as Representative of Takahashi CPA & Tax Accountant Office in July 2011 (current position). Working as Audit & Supervisory Board Member of the Bank since June 2015 (current position).



Masako Yoshida Audit & Supervisory Board Member External

Assumed office as President of ANDERSEN Co., Ltd. in April 2006. After serving as President of ANDERSEN Institute of Bread & Life Co., Ltd., Corporate Advisor of ANDERSEN Institute of Bread & Life Co., Ltd., and other posts, assumed office as Audit & Supervisory Board Member of the Bank in June 2015 (current position). (*) Directors, Masahiro Sumikawa, Kaori Maeda, and Satoshi Miura, are External Directors as stipulated in Article 2, Paragraph 15 of the Companies Act. In addition, Masahiro Sumikawa, Kaori Maeda, and Satoshi Miura are independent officers as stipulated by Tokyo Stock Exchange, Inc.

Director Kaori Maeda's name in the family register is Kaori Aibara.

(*) Audit & Supervisory Board Members, Yasutoshi Takei, Yoshinori Takahashi, and Masako Yoshida, are External Audit & Supervisory Board Members as stipulated in Article 2, Paragraph 16 of the Companies Act. In addition, Yasutoshi Takei and Yoshinori Takahashi are independent officers as stipulated by Tokyo Stock Exchange, Inc.

Initiatives Aimed at Practicing Customer-Oriented Business Operations

Basic approach

The Bank holds the management vision of "building a reliable Hiroshima Bank Group united through trusting relations with the regional community." To realize the vision, we have stipulated in the Hiroshima Bank's Corporate Behavior Charter that we will "strive to enhance customer satisfaction and peace of mind and contribute to the regional economy by taking ownership of our role as a financial institution to support the regional economy and providing the highest quality financial services with full consideration for protection of customers' interests." This notion is shared and implemented by all of our officers and employees. In particular, in sales of financial instruments, we hold customers' interests to the maximum priority based on customer-oriented business operations (fiduciary duty). In line with this attitude, we maintain a high level of expertise and offer high-value-added products and services from a customer perspective, which we believe would result in improved corporate value of the Bank over the medium and long term. Based on such recognition, we have established, published, and practiced the policy for Hirogin's customer-oriented business operations.

Customer-oriented lineup of products

Hiroshima Bank and Hirogin Securities work as one to offer a wide range of financial products that meet a variety of asset formation needs depending on the customer's purpose for asset management, knowledge and experience, asset and liability composition, and risk tolerance.

When adopting new financial products, we review matters to be considered in product selection below at the Product Selection Meeting comprised of branch offices (consulting advisers), Risk Management Division, Banking Business Planning Division, Corporate Planning Division, Asset Management Division, and Treasury & Investment Division, to select customer-oriented products.

Matters to be considered in product selection O The product meets prospective customers' needs The product is easy to understand for prospective customers (easily explained by service representatives)
 The product is in line with prospective customers' risk tolerance and expected returns

 The product's commission level is appropriate in terms of the management of conflicts of interest
 The product's merchantability produces customers' interests compared to similar products

 \bigcirc The product's past performances complies with investment policies

In addition, we periodically verify at the Product Selection Meeting whether the current lineup of our products complies with the items above.

When adopting products, we check matters on credit quality and support systems of asset management companies based on a set of check items.

Proposals for portfolios that contribute to customer asset formation (promotion of long-term, deposit, or diversified investment)

For inexperienced or beginner investors, we utilize the Life Plan Guide, an asset management handbook, to help them understand the necessity of asset investment in line with life events, risk and return relationships, and investment procedures.

In addition, we precisely identify customers' investment purposes, risk tolerance, needs, knowledge and experience, and financial assets utilizing a consulting sheet and a questionnaire on insurance products.

When proposing products based on customers' purposes, risk tolerance, needs and other information identified, we provide an easy-to-understand explanation of products, including commissions that customers bear, using materials and tools such as an investment trusts lineup, a product brochure, and a portfolio proposal tool in accordance with the customer's level of understanding.

Furthermore, in order to reduce customer paperwork for product applications, we are improving operational efficiency by digitalizing the procedures.

To meet a variety of customer needs for asset management, we strive to research on and actively use FinTech, including the introduction of a robo-advisor, as well as hold seminars to help customers improve financial literacy in areas such as understanding market environments and gaining knowledge on finance and investment.

Customer-oriented follow-up services

For elderly customers, we confirm the content of products, explain the management status of the products at least once a year, and verify any changes in the initially identified investment purpose, risk tolerance and needs in order to propose reviews of the portfolio. As such, we provide information according to the customer's understanding.

In addition, for customers owning complicated products such as structured bonds, we reconfirm the content of the products based on the initially identified investment purpose, risk tolerance and needs more than three months after sales, providing information according to the customer's understanding.

In the case of a sudden change in market value, change of merchantability, or downgrade of an issuer's rating, we provide customers with information in a timely and appropriate manner in accordance with the customer's risk tolerance to eliminate any anxiety.

Additionally, we hold periodical seminars to provide customers with information including related market trends and management status necessary for making investment decisions on products that customers hold.

Frameworks to give appropriate incentives to employees for the pursuit of customer-oriented business operations

We have established a performance evaluation system that contributes to customer-oriented business operations.

In addition, we appoint salespersons qualified by our certification system to maintain a high level of expertise that is responsive to diversifying and more sophisticated customer needs for asset management. At the same time, we enhance the quality of education for operators and improve performance evaluation management by encouraging employees to acquire the financial planner certification and providing lectures (e-learning) to improve asset management skills.

Also, we study the status of customer-oriented consultation and information provision conducted by sales representatives through monitoring by headquarters and utilize it for the education of sales representatives.

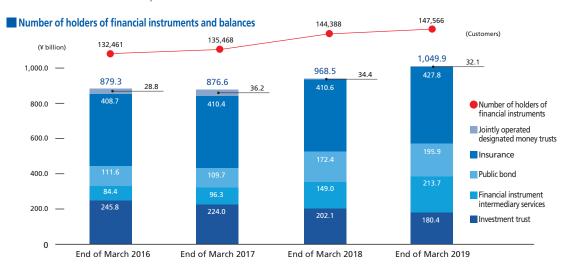
Report on initiatives for customer-oriented business operations

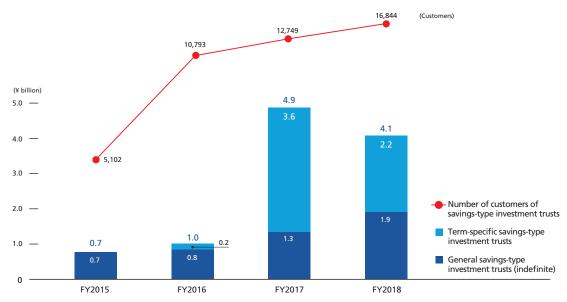
We verify the compliance status of the "policy for Hirogin's customer-oriented business operations" on a semiannual basis and publish a report every year.

Status of "initiatives for customer-oriented business operations"

Ensuring customer-oriented business operations

Both the number of holders of financial instruments and balances increased successfully due to the practice of customer-oriented business operations.

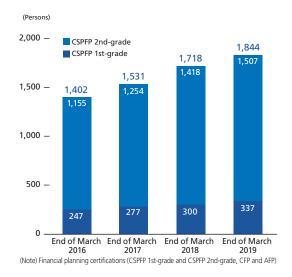




Number of customers of savings-type investment trusts and amount of transfers

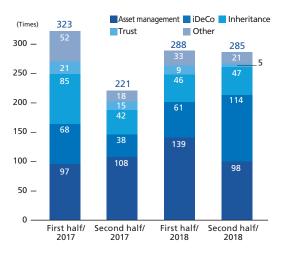
Initiatives for development of human resources with expertise and training on investment

The number of qualified financial planners is steadily increasing, and we are enhancing initiatives for advanced expertise. We seek to provide a wide range of information by actively holding seminars for customers in asset investment, iDeCo, and inheritance.



Number of qualified financial planners

Number of seminars for customers held



System to gather customers' voice

Customer opinion cards

We place customer opinion cards on counters or desks so that they can easily catch the eyes of customers, to gather a wide range of customers' voice. Opinions received are utilized to improve our services.



Customer satisfaction survey

We periodically conduct customer satisfaction surveys for individual and corporate customers. Based on the results, the Bank identifies areas for improvement in customer satisfaction, and then branch offices and headquarters team up to improve and enhance our services.



Call center

The customer relations office and call center listen to customers' opinions and inquiries via telephone. Utilizing the opinions and wishes of our customers, we are working toward improving customer satisfaction.

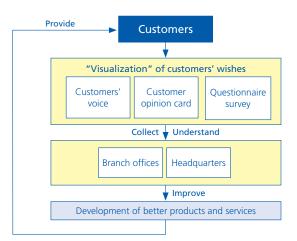
In fiscal 2018, we received about 480,000 inquiries and references via telephone.





System to translate customer' voice into better customer satisfaction

In addition to customers' voice sent to branch offices and the call center, we receive numerous opinions and wishes via customer opinion card placed at each branch office. To convert customers' voice into customer satisfaction, we analyze customers' opinions and wishes and identify areas for improvement in products and services, and then branch offices and headquarters work together to research and analyze the causes as well as to identify problems. Based on the results, we consider steps to offer better products and services.



Customer Protection Management

Solicitation policy

In the solicitation of financial products, the Bank complies with the rules below.

- The Bank endeavors to solicit customers for suitable products in consideration of the customer's knowledge of the product, experience, asset composition, and investment purpose.
- 2. The Bank endeavors to provide the customer with adequate information on important matters such as the content of the product and details of risks to enable the customer to carry out transactions at their own discretion.
- 3. The Bank does not solicit customers by providing misleading statements, such as arbitrary decisions or false information.
- 4. The Bank does not solicit customers in a time or a place causing inconvenience to them.
- 5. The Bank continues to develop knowledge of products to make sound and appropriate solicitations that satisfy customers.

Structure of customer protection management

The Bank has established Customer Protection Management Regulations at the Board of Directors as a guideline to secure a structure aimed at protecting and enhancing convenience for customers.

In the Customer Protection Management Regulations, we formulate policies and management matters regarding explanation to customers, customer support (consultation and complaints), customer information, outsourcing, and conflict of interests, making these known to all operators.

Information management

Based on our published Privacy Policy, the Bank acquires or provides personal information prudently and strives to continuously improve safety control measures including strengthening system protections against cyber attacks.

In order to manage customers' valuable information assets in an appropriate and prudent manner, all employees regularly receive training for information security to ensure a high level of awareness when handling information. In addition, we have designated the Risk Management Division as the controlling department and established a compliance program at the Board of Directors meeting on a semiannual basis as basic procedures to be performed to ensure customer protection, and status of progress in the plan is reported to the Board of Directors on a regular basis.

We conduct thorough internal audits on handling personal information to improve the effectiveness of information management.

If disclosure, correction, or suspension of personal information is requested by a customer, the Bank responds to the request after verifying the customer's identification.

Compliance

Basic approach

As the environment surrounding financial institutions changes drastically, the Bank believes it is important to meet various needs as a leading bank in the region, build a stronger management base and execute compliance-oriented business for earning great trust from our shareholders, investors, and customers.

Establishment of the system

The Bank has established a Compliance Committee to follow laws and regulations thoroughly and build corporate ethics, and the committee deliberates and considers matters relating to compliance. In this and other ways, we ensure that we never commit violations of compliance.

In addition, compliance managers have been placed in all divisions in the Head Office and all branches to exchange legal information and monitor daily

In this regard, the Bank makes compliance a top priority of management and has made utmost efforts for establishing a compliance system and encouraging each and every employee to understand the system so that corporate ethics will take root as a culture.

compliance status. The Bank is also continuously striving to strengthen a central management system relating to compliance and management functions through the Risk Management Division.

Furthermore, a compliance supervisor has been placed in the Audit Division for independent monitoring so that the internal check and balance system will be reinforced.

The Board of Directors resolves on a compliance program every half fiscal year as a practical plan for realization of desired compliance. Based on the compliance program, we carry out relevant measures steadily.

Specifically, the Bank has disclosed the compliance manual on the Bank intranet and strived to ensure that all employees are familiar with this manual, through various activities such as rank-based training sessions and training sessions for compliance managers. Also, the Bank has been promoting initiatives including the development of a check system by involving executive members actively in compliance and strengthening a central compliance management system.

Progress and achievements of the compliance program are reviewed every quarter. While striving to identify and solve problems, the Bank has been making persistent efforts for realizing greater compliance.

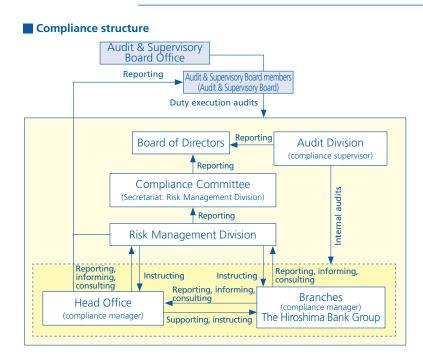
Money laundering and other fraud prevention system

[Money laundering prevention system]

A growing number of organizations are taking action against money laundering and terrorism funding (hereinafter, "Money Laundering, Etc.") as laws and regulations controlling Money Laundering, Etc. are developed in Japan and overseas. In response to this trend as well as requests from FATF and other

international institutions, the Bank and its Group companies regard the prevention of Money Laundering, Etc. as a critical management issue and established an effective control system for the entire Group with involvement of executive members. Specifically, the Bank has strengthened measures such as verification at the time of initial transaction,

Operation



prevention of transactions with persons subject to asset-freezing sanctions and other economic sanctions, and detection of suspicious transactions, in order to prevent various transactions, products and services of the Bank and its Group companies from being used for the purpose of Money Laundering, Etc. that seriously affects healthy economic activities.

In light of a business environment surrounding the Bank and its management strategies, the Bank conducts risk identification and assessment of Money Laundering, Etc. by using a risk-based approach and then risk reduction measures considering the identified risk to promote efforts for preventing Money Laundering, Etc.

Actions against anti-social elements

Based on the "Guideline for How Companies Prevent Damage from Anti-Social Forces" set forth by the Japanese government in June 2007, the Bank completely severs any and all relations with anti-social elements which threaten the order and safety of civil society, including provision of financial services through an alliance with any other company (credit sales companies, etc.).

We positioned the Risk Management Division as a controlling division for eliminating any relationships with anti-social elements and established various regulations.

Designated dispute resolution organization

The Bank has concluded a basic contract for the implementation of dispute resolution procedures with designated dispute resolution organizations below. These

Bank operations

- Japanese Bankers Association
- Contacts: Japanese Bankers Association
- Consultation Office
- (http://www.zenginkyo.or.jp/adr/)
- Consultation contact (telephone):

0570-017109 or 03-5252-3772

[Internal whistleblowing system (hotline)]

The Bank has established an internal whistleblowing system (hotline) in 2006 for the prevention and early detection of misconducts. To ensure effectiveness of internal whistleblowing, the Bank has taken measures to protect whistleblowers from any disadvantages and established external contacts and multiple whistleblowing channels.

The Bank believes that an effective internal whistleblowing system (hotline) will enhance the Bank's ability of self-correction and contributes to compliance-oriented management, leading to an

[Bribery prevention system]

The Bank and the Group companies have stipulated compliance rules regarding bribery and corruption prevention in the internal regulations and regard them as an important compliance matter to promote Groupwide efforts for the prevention with the involvement of the executive members.

The Bank has been strengthening the internal management system and making constant efforts for preventing bribery and corruption. Such efforts include establishing a prior approval system for business entertainment and gifts and a hotline system, conducting monitoring by internal audits and other means, and giving regular training and tests to directors and employees.

In addition, we provide regular training to our employees for the purpose of eliminating such relationships.

Furthermore, we have built a system for eliminating those transaction relationships by, for example, maintaining close relationships with the police, the National Center for Removal of Criminal Organizations, lawyers and other external professional organizations. The Bank will take determined steps to counter any unjustified demands through all legal measures in cooperation with the police and other external professional organizations.

organizations accept complaints and dispute resolution petitions from customers.

Trust operations

Trust Companies Association of Japan, Trust Consultation Center (http://www.shintaku-kyokai.or.jp/profile/ profile04.html) Consultation contact (telephone): 0120-817335 (toll-free) or 03-6206-3988

increase in corporate value. Therefore, the Bank holds Meetings of All Branch Managers and All Branch Compliance Day Study Sessions through which all employees can learn about contents and importance of the internal whistleblowing system.

Contact points of the hotline and whistleblowing methods

Contact point	Risk Management Division	Bank lawyer
Whistleblowing methods	Extension line, dedicated phone number, mobile phone, e-mail	Dedicated phone number

Risk Management

Basic approach

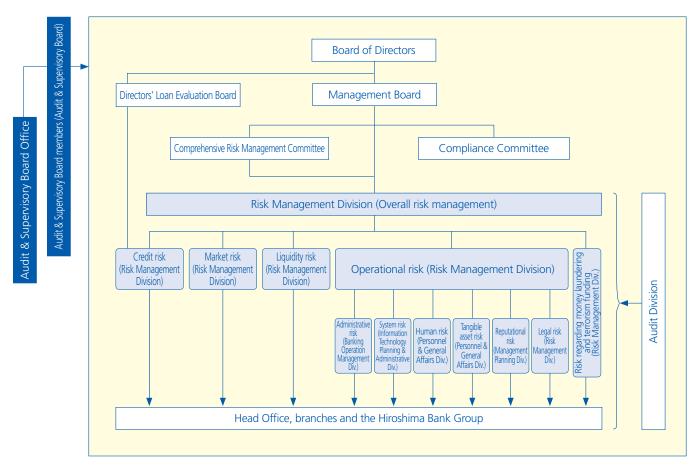
In order to fully justify the trust of customers and shareholders, the Bank must be able to ensure appropriate levels of earnings and stable operations, by dealing appropriately with various kinds of risk its operations are subject to, while remaining a soundly managed institution. Based on our Comprehensive Risk Management Regulations laid down by the Board of Directors, the Bank decides on a detailed risk management policy for each fiscal year, and manages all categories of risk on an integrated basis.

Risk management framework

For management of major categories of risk—credit, market, liquidity and operational risk—we have dedicated offices. The Risk Management Division manages risk centrally and comprehensively. To position us to deal appropriately with the increasing diversification and complexity of risk, we have established a Comprehensive Risk Management Committee and carry out regular audits through the Audit Division into the appropriateness and effectiveness of our risk management systems.

Under this risk management regime, we aim to ensure sound, profitable banking operations, while striking an ideal balance between capital adequacy, risk management and earnings imperatives.

Risk management framework (as of April 1, 2019)



Comprehensive Risk Management

Comprehensive risk management is undertaken by measuring the various risks faced by the Bank using uniform benchmarks such as value at risk (VaR) and then measuring such risk against the Bank's corporate strength.

We set ceilings (risk capital allocations) for riskmonitored assets in the categories of credit risk, market risk, and operational risk, with dedicated offices controlling risk-monitored assets. Centralized appraisal of risk-monitored assets as a proportion of

Credit risk

Credit risk is the risk of sustaining losses due to reduction or loss in value of assets due to deteriorating credit circumstances at a borrower.

Credit screening structure

For all major loans made by our branches, the Bank has in place a system of rigorous credit-screening carried out by a credit-screening department, which is independent of the marketing department. In addition to establishing teams for each sector, the creditscreening department has established dedicated teams to ensure sounder borrower finances and effective corporate rehabilitation, and also offers support to management trying to improve operations.

In approving a loan, the Bank not only follows the basic principles and rules for credit extension laid down by the Board of Directors, turning down any application that runs counter to the law or public morals, but also takes careful account of profitability and public benefit, in addition to fund use, repayment source, and guarantee and collateral arrangements.

In cases where customers apply for a review of borrowing terms, the Bank will give a considered response accounting for actual circumstances faced by the customer, in line with the Board of Directors' basic policy for management of funding facilitation. Appropriate and prompt credit screening is carried out after joint appraisal of a customer's needs and concerns—and is not just based on a mechanical, uniform judgment informed only by financial statements and other superficial statistics and industry-specific guidelines.

To strengthen and expand the credit screening system, the Bank seeks to appraise the creditworthiness of a given company through caseby-case credit management and takes continuous measures to improve the credit-screening skills of employees such as various kinds of training programs. Bank capital is undertaken by the Risk Management Division. We have also created a system for risk management reports to be submitted regularly to the Board of Directors, with implementation of appropriate countermeasures.

In addition, we evaluate and review the adequacy of our capital ratio through periodic stress tests, which clarify the possible impact on capital and earnings of losses arising from risk that could not be evaluated using statistical methods.

Risk-management using the borrower category system

We have introduced the borrower category system to clearly identify objective credit risk on loans we extend. Based on financial and other data indicating the level of creditworthiness of the borrower, we have divided borrowers into 12 grades, and continuously monitor changes in credit risk. We then carry out credit risk quantification based on these grades to assess credit risk on loan assets and manage risk capital allocations.

We also accumulate and organize the data necessary for quantification of credit risks, such as the default rate within each grade and progress in asset recovery from customers in default, combined with our highly sophisticated quantification technologies, to obtain a still more detailed picture of risk-monitored assets.

Bank's own assessment

In parallel with the borrower category system, we conduct strict checks into the soundness of loan assets through annual assessment carried out by ourselves. Screening is carried out by particular Bank branches in light of the financial situation faced by the borrower, and the results are checked by the credit-screening department of the Head Office. In addition, the Risk Management Division extracts important information and conducts a rigorous review of screening due process and accuracy, and the Audit Division carries out the process audit. Based on this inhouse assessment, in cases where there is no realistic prospect of asset recovery, provisions are made to the reserve for possible loan losses to cover the entire value of the sum at risk. This provision is then recorded as a loss for the fiscal year under review. In this way, we ensure asset soundness.

Market risk

Market risk is the risk of incurring losses due to fluctuation in interest rates, stock and bond prices and foreign exchange rates, leading to changes in the market value of assets we hold.

The Bank seeks to stabilize earnings by controlling interest rate and other market risk by expanding and strengthening asset-liability management (ALM), including not only securities holdings but also deposits and loans. Findings of ALM analysis and simulations are incorporated into annual management policy as a significant element in management planning judgments.

In addition, we have created frameworks to ensure stable earnings through rigorous management of market risk, enabling us to respond swiftly and appropriately to market movements. We set limits on risk-monitored assets and lay down hedging policy and reporting and consulting rules for when asset value falls. We monitor compliance with ceilings and other limits through major measures such as total value of positions, amount of risk-monitored assets and earnings performance, as well as management on a daily basis.

In addition, accounting is rigorously based on a holding-purpose category, using mark-to-market

accounting principles, that enables us to reflect changing market prices appropriately and accurately in financial data.

Trading account risk

With regard to our trading accounts (for securities and off-balance-sheet transactions that involve shortterm gains on sales or purchases and trading at the behest of customers), we have special management mechanisms in place, since these transactions differ qualitatively from banking account transactions (involving deposits and loans, investment securities, and related transactions). The Bank has set up designated trading accounts, and is strengthening their management using transparent accounting procedures based on mark-to-market principles. For proprietary position dealing, we limit our position by complying with strict rules in terms of position limits and losscutting measures. For positions and transactions on behalf of customers, we follow a policy of square positions by fully covering them through the interbank market.

Liquidity risk

Liquidity risk is the risk of losses arising from unforeseen fund outflows leading to a drying up of cash flow, and the necessity of raising funds at higher rates than normal.

The Bank prepares for capital outflow under shortterm stress conditions by holding highly liquid assets such as government bonds. Furthermore, to alleviate long-term fund procurement risk, the Bank manages

the stability gap between loans with low liquidity and stable funding such as deposits and long-term market funding.

Furthermore, we monitor liquidity risk, cash flow, and matters that could affect cash flow, and have in place measures to ensure a swift and appropriate response to unexpected events.

Operational risk

Operational risk is the risk of losses arising due to failures in work processes and employee activities, computer system irregularities and the impact of external events.

To comprehensively and accurately manage operational risk, the Bank has divided such risk into a number of subcategories: administrative risk, system risk, human risk, legal risk, tangible asset risk, and reputational risk. Such risk is managed comprehensively.

Administrative risk

Administrative risk is the possibility of losses arising from negligent processing by employees, accidents, or unauthorized activities.

Through various training programs, the Bank ensures rigorous performance of administrative duties to high standards of accuracy, speed, propriety and courtesy. It has also compiled a procedure for administrative duties based on the five principles of making a record of everything, keeping a hard copy, self-responsibility, checking and confirming. The Bank has a reporting system for relaying complaints and opinions from customers and details of major clerical errors and incidents. To better meet in-house regulations and ensure deeper staff commitment, we analyze factors and trends in matters raised in this feedback, and, where necessary, take effective countermeasures. In addition to proactively using underlying data to prevent recurrence of clerical errors, incidents and the like, we also identify and analyze potential administrative risk and take preventative measures.

System risk

System risk is the possibility of a loss arising from the failure, malfunction, or unauthorized use of computer systems.

The Bank has established a basic security policy for due protection of information assets and specific operating rules. Their management is geared to the degree of importance of information systems and of data.

Depending on their importance, IT systems use duplicated computers, communication lines, power supplies and other items. For core systems, we have backup centers located in both Hiroshima and Fukuoka, operated jointly with the Fukuoka Financial Group. We have taken measures to ensure that we can stay in business even in cases of major disasters.

For critical customer information (data), we use strict security controls, such as encryption and other measures, to prevent unauthorized external access and information leaks.

Moreover, in response to increasingly sophisticated and serious cyber attacks, the Bank has made the issue a management priority and conducts constant information collection and analysis regarding attack trends. The Bank has also established Hiroshima Bank CSIRT* as an organization to respond rapidly in the event of a cyber attack, thereby strengthening its security management stance.

Furthermore, to prepare for unexpected situations, cybersecurity incidents, and other events that can jeopardize the stable operation of computer systems, the Bank has formulated contingency plans and conducts regular drills.

* Computer Security Incident Response Team

Human risk

Human risk is the risk of losses arising from a fall in employee productivity or employee resignations, and employee acts leading to a loss of public confidence in the Bank. We seek to optimize personnel management through employee education, training and work guidance, by ensuring appropriate personnel management based on job description and personnel policy. We also have in place preparations for dealing with pandemic influenza and other major disasters that could interrupt operations, with measures in place for each stage in the development of a possible pandemic. By increasing key staff at our Head Office, we aim to create a framework for continuing operations.

Legal risk

Legal risk is the risk of sustaining losses due to penalties or legal liabilities arising from legal violations or a breach of contract.

In addition to daily awareness-raising and training in compliance, we ensure appropriate management through steady implementation of legal checks and establishment of a legal consultation framework.

Tangible asset risk

Tangible asset risk is the risk of losses arising due to damage to tangible assets caused by disasters, illegal acts or inappropriate asset management.

We keep full records on locations and status of movable assets and real estate that we own, borrow or lend out, and have in place management mechanisms for anticipated damage caused by disasters, illegal behavior, etc.

Reputational risk

Reputational risk is the risk of losses arising due to a loss of confidence in the Bank on the part of customers and markets, as a result of the spreading of false information.

In addition to ensuring the highest standards of transparency in disclosure, we seek to prevent reputational risk from arising by monitoring the Bank's reputation.

Risk regarding money laundering and terrorism funding

Based on the "Act on Prevention of Transfer of Criminal Proceeds" and the Enforcement Order and Enforcement Regulation of the same act, we ensure appropriate management through efforts as described on pages 46 and 47, by establishing a management framework regarding money laundering and terrorism funding.

Crisis management system

In addition to the above risk management measures, we have compiled a business continuity plan (BCP), a plan to continue major operations on a priority basis in our Emergency Management Regulations to deal properly with risk in cases where earthquakes and other large-scale natural disasters disrupt our services. In this way, we have established our crisis management framework appropriately.

Internal Audits

Basic approach

For the purpose of contributing to sound and appropriate business operations, the internal audit department evaluates appropriateness and effectiveness of the internal control system of the audited departments in observance of disciplines

Implementation structure

With respect to internal auditing of the Bank, the Board of Directors is engaged in building an effective internal audit framework according to types and degree of each risk in order to realize compliance. Based on internal audit regulations—which were formulated with the aim of contributing to sound and appropriate operations of the business—the internal audit department, which is independent from the audited departments, conducts internal audits on items related to compliance, risk management and internal control associated with financial reporting, among other areas, for each department and branch, subsidiary, and affiliated company, as well as outsourced contractors. and represents objective opinions from a fair and independent standpoint, while requesting improvement of problems or recommending correction as well as providing advice.

Specifically, these audits are conducted by conforming to the basic internal audit plan established by the Board of Directors every half fiscal year. The results of the audits are reported every month to the Board of Directors.

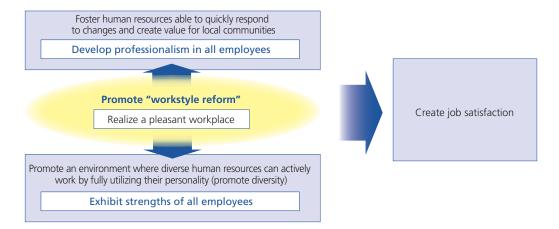
Also, the internal audit department notifies the audited departments of the internal audit results in writing, requests improvement or recommends correction regarding items necessary to be improved or corrected, and reports the status of these actions on a regular basis to the Board of Directors.

Human Resource Strategies

Basic policy

The Bank encourages each and every employee to proactively contribute to the regional community through bank operations with pride, grow on their own, and work actively in and outside the Bank until 65 years old. In light of this, the Bank has developed human resource strategies to enhance quality (skills and abilities) and awareness (motivation and job satisfaction) of the Bank's employees and to contribute to improving its organizational strength.

Specifically, the Bank is working to increase job satisfaction of employees, centering on initiatives to "Foster human resources able to quickly respond to changes and create value for local communities" and "Promote diversity," in accordance with the human resource strategy of Mid-Term Management Plan 2017.



Strengthening of human resource development

1. Helping younger employees grow to become professional early on

We are conducting various growth support measures mainly for younger employees to realize more

(1) Establishing systems and plans for developing younger employees

The three year period after joining the Bank is important for developing new employees as core personnel.

We set out a job rotation rule where new employees initially experience multiple operations in a systematic way for an understanding of a basic flow of the bank business and grow steadily over two to three years to become a core player.

(2) Strengthen off-JT

We have development programs and training systems for each operation area through which entry-level employees can step up to mid- or high-level in a steady manner.

We are improving training effects by proactively adopting practical training programs such as group work and active learning, in addition to knowledge acquisition through lectures. sophisticated consulting business with customer needs as a starting point.

Also, we present career path models for each operation area to help each and every employee envisage their own career path and become a highly specialized talent.

Furthermore, based on the concept that new employees should be educated organizationally, we have established an instructor system to strengthen their mind and integrity as a person, in addition to their operating abilities.

Specific example of active learning

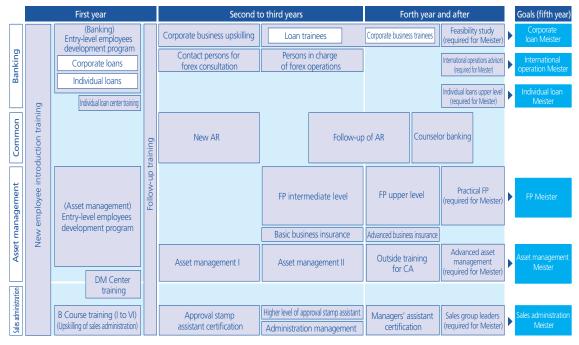
Theater learning: a training program through theatrical experience for the improvement of communication skills and training of team building

Blind soccer: a training program for improving mutual understanding and communication skills and generating a sense of unity through soccer playing with a blindfold

Development system for three years after joining the Bank (job rotation rule)

First year (new employee)		Second year	Third year
Becoming a member of the organization (a professional) by acquiring basic business and bank practices		Acquiring an ability to produce results on their own	Using ingenuity and achieving stretched goals set for themselves
	Banking operations		
Sales assistants	In charge of area retail, loans, and consulting advisors		To be placed in both operations when possible
(until June)	Asset management operations		
	Consulting advisors (and in charge of area retail)	

Training system for personnel in charge of each operation (FY2018)



Number of trainees in FY2018

Entry-level employees development program

Operations	Number of trainees
Banking (Corporate loans)	98 persons
Individual loans	74 persons
Asset management	93 persons
Total	265 persons

Training required for Meister

Operations	Number of trainees
Corporate loans	47 persons
International operations	19 persons
Individual loans	10 persons
FP	14 persons
Asset management	27 persons
Sales administration	12 persons
Total	129 persons

Number of certified Meister

FY2018	Total (accumulated)
10 persons	25 persons
4 persons	12 persons
1 person	6 persons
6 persons	22 persons
15 persons	36 persons
12 persons	23 persons
48 persons	124 persons

(3) Creating learning opportunities

We have created a learning environment by holding "free college" seminars on Saturday at which attendance is voluntary and adopting the "home

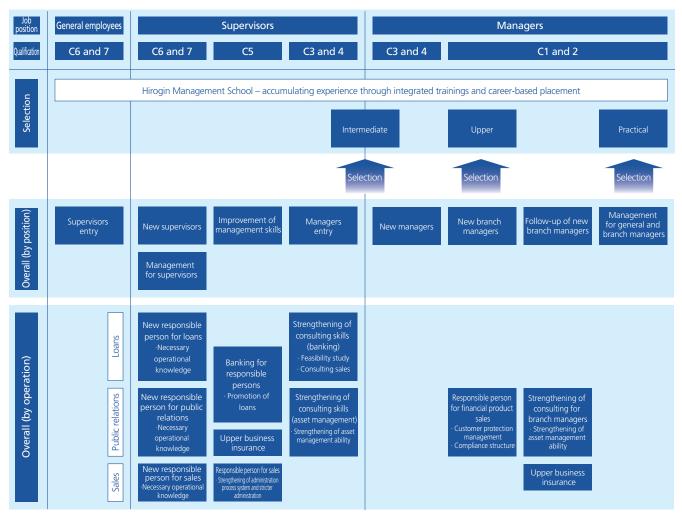
2. Strengthening expertise

As an environment surrounding the financial industry is increasingly sophisticated, we are required to strengthen the expertise of each and every employee to respond to customer needs reliably. Based on this concept, we are taking various measures including learning support system @Home-Web" which enables online learning using their household computer and smartphone. In this way, we encourage employees to develop themselves.

establishing the Meister System as a final goal of operational skills for employees and proactively sending employees to business schools in and outside Japan.

3. Development of future executives (for strengthening governance into the future)

The Bank holds the Hirogin Management School for developing future executive candidates with support from the Keio University Graduate School and GLOBIS CORPORATION to strengthen the "ability of thinking befitting of a corporate manager" in considering management strategies and business reform. Under the program, participants learn the leadership and management theory and business frameworks with specific cases as examples and ultimately make suggestions on management.



Training system for the management position (managers and supervisors) (FY2018)

Level	Main contents	Lecturer	Number of trainees
Intermediate	Leadership application Human resource development and question skills Facilitation for independence	GLOBIS CORPORATION	20 persons
Upper	 Business strategies Technovate strategies 		36 persons
Practical	 Ambition as a leader and integrity as a person Organizational reform Acquisition of competitive advantage through digitalization Creation of organization for innovation 	Business school attached to the Keio University Graduate School	10 persons
Total			66 persons

Hirogin Management School for selective employees conducted in FY2018 🛛 Rank-based training programs for managers conducted in FY2018

Program	Target	Frequency	Number of trainees
Training for new managers	Persons promoted to managers	Twice a year	45 persons
Training for new branch managers	New branch managers	Twice a year	32 persons
Follow-up training for new branch managers	Three months after assigned as new branch managers	Twice a year	37 persons
Management training for general and branch managers	All general and branch managers	Once a year	180 persons

All programs include lectures for strengthening management skills, human resource management, thorough compliance and elimination of harassment.

4. Fair evaluation and treatment

To attain an objective of the human resource system, or to enhance the quality and motivation of employees, it is necessary to offer fair treatment based on fair evaluation and develop them by providing feedback of evaluation results.

For this purpose, the Bank has clarified our missions and evaluation criteria. Furthermore, we evaluate both results and actions based on target management for well-balanced evaluation between results and skills, which is reflected in the treatment of our employees.

Diversity and inclusion

Companies' perpetual growth essentially requires the ability to innovate continuously according to changes of the times. Such innovation will be realized when employees with diverse viewpoints and values exhibit their abilities based on their intention and awareness. And this necessitates an environment and corporate culture where diverse human resources can continue to work lively.

The Bank regards the initiative to "promote diversity" as one of the major human resource strategies in the Mid-Term Management Plan 2017 and conducts: 1. recruitment of specialists with diverse values and skills; and 2. support of career development of women.

1. Recruitment of specialists with diverse values and skills

We recruit about ten specialists such as IT specialists and lawyers every year. For creating an environment where they can exhibit their abilities without quitting the Bank, we hold a gathering with mid-career entrants every year to gather their opinions and support the creation of networks among them.

Recruitment of skilled persons for the past three years

Category	FY2016	FY2017	FY2018
Specialists at the Head Office	7 persons	7 persons	8 persons
Work-ready persons at branches	5 persons	3 persons	2 persons

2. Support of career development of women

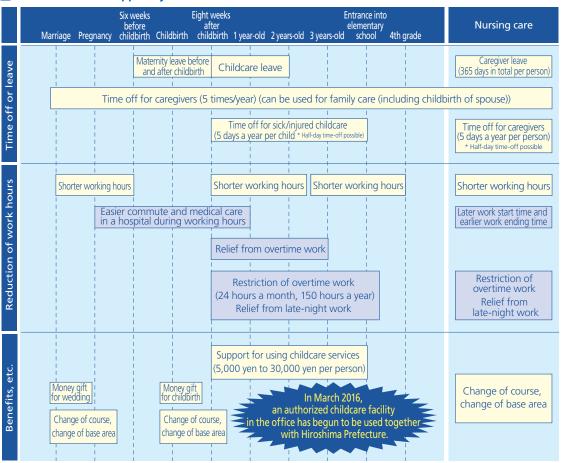
The Bank has established systems and offered more learning opportunities such that female workers, who account for approximately half of persons joining the Bank, can continue to work actively while balancing work and various life events such as marriage, childbirth, childcare, and nursing care.

Work-life balance support system

"I want to live with my family because I got married," "I want to avoid my child from changing schools," "I want to live near my parents because they need care" — our employees have different needs arising from changes in their lifestyles. Catering to such needs, the Bank offers a career course where employees do not transfer to other work locations. Employees can change courses after joining the Bank, and this option allows them to work in a flexible manner: for example, they accumulate a wide range of experience without restricting work locations and then opt for the work-location-restricted course when it is necessary to live with their family.

Regarding the balance between childcare, nursing care and work, our systems offer more than legally required. For example, we require employees to take sixweek maternity leave before birth (14 weeks if multiple births). Also, employees working for shorter hours can select the number of working days (17 days or every business day) and working hours (five, six or eight hours). Furthermore, in cooperation with Hiroshima Prefecture, we have an authorized childcare facility in the office for employees returning to work. For nursing care, we have established systems such as caregiver leave and time off for caregivers as well as a shorter working hour system.

To explain the purposes of these systems clearly and facilitating optimal utilization, we conduct lectures about the systems for employees before their maternity leave. In addition, we hold work-life balance support seminars for employees taking a childcare leave or a shorter working hour system to promote communication among colleagues having similar problems and help them learn together. As a result of these efforts, there are almost no employees that left the Bank due to childbirth and 56 female employees took a childcare leave in fiscal 2018 (return to work ratio: 100%).



Work-life balance support system of Hiroshima Bank

* Gray rectangles indicate the same content as legally required.

* Eight hours / every day is the only option offered to employees who have a child and work for shorter hours, during the period from October of the child's first-grade year until the beginning of the fourth-grade year.

Learning and communication opportunities for career development

The Bank offers opportunities for awareness and learning as well as communication for each career and life stage to help female employees develop their own career paths after experiencing various life events. In not a few cases, female employees lose

confidence and give up on their career development

while raising a child after giving birth as they find it difficult to work in the same way as before. To avoid such cases, the Bank offers opportunities for younger employees to contemplate a mid- to long-term career plan before they experience the life events. At the next stage, the Bank provides opportunities for potential managers and supervisors to improve their skills and mindsets and for managers and supervisors to interact with other employees of the same gender that they can share their worries with.

Through these initiatives, the number of female managers and supervisors of the Bank has increased to 160 (11.5% of all managers and supervisors), up 1.8 times compared to five years ago. In addition, as a result of these initiatives, the Bank was selected as a stock in the MSCI Japan Empowering Women Index (WIN), which selects companies that can address future workforce shortage with excellent gender diversity.

In the future, the Bank will further take measures to eliminate the stereotype of gender-based division of labor and consider new positions for proactive female assignment. Also, we are considering measures for gender diversity such as the promotion of understanding of LGBT.

Third year after joining the Bank	Before childbirth o	During childcare period	Mid-career employees	• Managers and supervisors •
Seminar for considering a mid- to long-term career plan	Lectures about systems available before and after childbirth and their usage methods	Communication events for employees using shorter working hour system and other systems	Upskilling seminars Meetings for cross-industrial exchange	Communication events for female managers and supervisors

Number of employees by rank (by gender)

As of April 1, 2009

	Men	Women	
Managers	534 persons	10 persons	
Supervisors	786 persons	49 persons	
General	1,094 persons	1,311 persons	
Senior employees	-	-	
Staff	188 persons	1,383 persons	

As of April 1, 2019

		Men	Women	
	Managers	550 persons	17 persons	
•	Supervisors	681 persons	143 persons	
	General	1,074 persons	1,236 persons	
	Senior employees	77 persons	35 persons	
	Staff	67 persons	1,234 persons	

3. Employment of disabled persons

The Bank actively employs disabled persons based on its social mission: "Support independent living of disabled persons." To create a workplace that gives them a sense of satisfaction with their life and job instead of just a place for social engagement, the Bank offers jobs and work environments suitable for different types of their disabilities and aptitudes.

Work placement Duty		Work details	Remarks
Work Support Center	General affairs	Printing bills and business cards, sealing and sending letters, sorting and sending documents, jobs at printing center, etc.	We established a better environment where persons with various disabilities can work comfortably, such as barrier-free facilities and a rest area.
General Affairs Department	Cleaning	Cleaning the Head Office	Persons with hearing deficiency conduct jobs as a team.
Branch	General affairs	Guiding at the lobby, cleaning in and outside the branch, guiding at a parking lot, etc.	They are employed at their local branch so that they can commute from home.

* Beyond the above, the Bank are developing jobs suitable for characteristics of disabled persons in divisions of the Head Office.

Workstyle reform

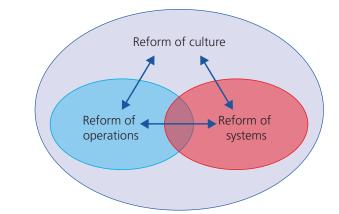
Diverse human resources work actively with higher job satisfaction, which will result in the provision of high value-added services to customers. Based on such belief, the Bank puts the workstyle reform as one of the three pillars of the Mid-Term Management Plan 2017, and is endeavoring to nurture a corporate culture accordingly.

In an effort to make meaningful progress in the workstyle reform, we launched the Workstyle Reform Promotion Headquarters led by the President in October 2017. The Bank regards the reform of culture, reform of operations and reform of systems as the core of our workstyle reform, and has been promoting well-balanced reform. We realize the reform of culture by changing mindsets and behaviors of employees through the reform of operations and reform of systems, and push forward with the reform of operations and reform of systems through the reform of culture. Through this interplay of the reforms, the Bank is creating an employee-friendly work environment.

As a result of these efforts, overtime hours have

declined by 26% during four years from fiscal 2015. In addition, the number of days of paid leave taken increased to an average of 12 from 10 in fiscal 2017. In recognition of these efforts, the Bank was accredited as one of the First Hiroshima Prefecture Workstyle Reform Good Practice Companies in September 2017.

We will continue to strive to offer high value-added services while enhancing job satisfaction of employees by promoting the workstyle reform.



Specific efforts

Reform of culture	"Efforts for enhancing labor productivity" were added to the items of the result evaluation and action evaluation of employees.
Reform of operations	 Adoption of an electronic approval workflow Paperless meeting Use of tablets at branch counters Trial of remote work
Reform of systems	 Auto log off for limiting hours of PC use Lowered upper limit of hours regarding application of special clause under the agreement based on Article 36 of the Labor Standards Act Adoption of the work interval system (11 hours) Abolition of the core time in the flex time system (from April 2019)

Average monthly overtime per person



Average number of paid leave taken per person



Health of employees

Based on the recognition that keeping and enhancing the mental and physical health of employees and their families are indispensable for sustainable growth of corporations, the Bank formulated the "Hiroshima Bank Health Management Declaration" in August 2018. We are working for realizing health management, with "efforts for keeping and enhancing health," "creating a pleasant workplace with job

Efforts for keeping and enhancing health

The Bank focuses on establishing health management and consulting systems in cooperation with industrial physicians and the health insurance association, satisfaction" and "promoting close relationship with and contribution to the regional community" as priority items to be addressed.

As a result of these activities, in February 2019, we were selected as a brand of the 2019 Health & Productivity Stock Selection and recognized under the 2019 Certified Health & Productivity Management Outstanding Organizations Recognition Program.

and actively recommends that employees take a comprehensive health screening and a cancer examination. We have substantial support systems for the medical checkups: Employees can take a special leave to take a comprehensive health screening; and when employees of a certain age or older insured by the health insurance association take a comprehensive health screening or a breast and uterus cancer screening, the Bank subsidizes all of the expenses incurred. These efforts have been highly evaluated and the Bank received the "Hiroshima Prefectural Governor Award" as a registered company under the "Team for Fighting Cancer in Hiroshima" in October 2018.

Creating a pleasant workplace with job satisfaction

We value the work-life balance approach and are proactively promoting the workstyle reform. To eliminate long working hours, we adopted a work interval system in divisions of the Head Office to make sure that our employees are given at least 11 hours of uninterrupted rest between leaving and starting work in principle. In addition, a system where personal computers are automatically shut down at a certain time was introduced in all branches. As such, we are creating a culture of returning home early while employees are increasingly concentrating on truly necessary jobs. Meanwhile, the Bank is creating a workplace with job satisfaction by taking measures for improving both the productivity and workplace such as recommending internal recreational activities by creating a cost subvention system to facilitate communication in the workplace and holding sports events for all employees every year.

Promoting close relationship with and contribution to the regional community

The Bank is fully working for helping employees enhance their health by forming a business alliance with the Hiroshima Branch of Japan Health Insurance Association in May 2015, for the purpose of enhancing and contributing to the health of employees in the local offices. We launched a Hirogin Health Management Evaluation Loan System and Hirogin Health Management Support Loan as part of initiatives toward expansion of health investment through the Bank's businesses. We offer these services actively to regional small- and medium-sized companies so that the services will be widely introduced and expanded to facilitate activities for enhancing working people's health.

Nurturing a corporate culture

Respecting diversifying values and changing lifestyles, Hiroshima Bank has prepared plans and training systems for each and every employee to develop their career path on their own and realize their ideal working style, while striving to create a corporate culture which gives job satisfaction.

For employees to fully exhibit their abilities with high motivation, it is necessary to consider their respective situations and willingness carefully. Hiroshima Bank has established the work-location-restricted course with limited duties and the shorter working hour system, and therefore employees can select their workstyle depending on their physical and economic conditions. Also, we have developed systems to draw out their can-do spirits such as the Post Challenging System where employees can apply for a desired post toward realizing their career path and the Dream Challenging System where employees can apply for a transfer to another division through their efforts.

Employees' diverse working styles cannot be realized without an understanding by people around

them including division and branch managers. We are steadily promoting awareness-raising through rank-based training programs and branch manager meetings, and focusing on creation of a culture that supports each employee trying something new.

Recognizing that "giving praise" means finding and communicating the value of individuals, things or events, the Bank aims to establish a culture allowing employees to actively try something new and also a "praising culture."

In addition, for the purpose of creating a lively workplace and organizational culture, we have held coaching training programs targeting all division and branch managers. They all obtained the "Third-Grade Praising Master Certificate."

To introduce measures that incorporate diverse opinions, we focus on dialogues with the employees union. The dialogues were held 23 times in fiscal 2018. In this connection, 57% of employees of Hiroshima Bank are members of the employees union as of the end of March 2019.

Human rights

The Bank has deep relationships with customers through daily transactions.

With such relationships, words and behaviors of our employees may significantly influence customers and society. Therefore, the Bank considers execution of management and operations in respect for human

1. Development of Ethics Regulations

The Bank formulated Ethics Regulations for the purpose of clarifying the code of conduct expected of Hiroshima Bank and all employees, establishing corporate ethics that are the base of trust, and fulfilling social responsibility and public missions of the Bank.

For promoting response to the recently increasing attention to SDGs and ESG, we revised the Ethics

2. Periodic awareness-raising activities

The Bank has actively conducted awareness-raising activities by, for example, giving a lecture on the anti-discrimination and human rights issue during training programs on timing of milestones such as entering of new graduate recruits into the Bank and promotion to a higher position or rank as well as

3. Anti-discrimination measures

The Bank regards anti-discrimination measures as a particularly important theme among awareness-raising activities for human rights.

For the purpose of deepening a proper understanding and recognition of the antidiscrimination issue and executing corporate social

4. Prevention of sexual, power and other harassment

The Bank is striving to prevent sexual, power and other harassment behaviors as they must be strictly forbidden.

To prevent harassment behaviors in advance, the Bank conducts awareness-raising at the Meetings of All Branch Managers held at the beginning of every fiscal year and conducts a periodic anonymous

5. Fair screening for employment

The Bank recruits employees based on their personality rather than their gender and educational backgrounds. As our motto, we meet all candidates to check their aptitude and aspiration through interviews, without screening by job application forms. rights as one of the corporate social responsibilities (CSR).

Furthermore, the Bank positions the antidiscrimination and human rights issue as an important issue when considering relationship between corporations and human rights.

Regulations (Hiroshima Bank's Corporate Behavior Charter) in December 2018.

Companies are required to take steps to eliminate violations of human rights from a wider viewpoint and we are also required to respect broader human rights. Therefore, we added a new provision to the regulations, clearly describing that "Hiroshima Bank respects the human rights of all people."

training programs provided to staff and mid-career hires just after they are employed.

Also, in addition to these activities in training programs, the Bank conducts education to all employees as the anti-discrimination issue workplace study every year, using an e-learning system within the Bank.

responsibility, the Bank established the Antidiscrimination Issue Awareness Raising Promotion Committee chaired by the director in charge of the Personnel & General Affairs Division in 1977 and has since worked to eradicate prejudice and discrimination.

questionnaire survey for all employees to detect such behaviors at their early stage.

In addition, we set up hotlines in the Head Office and an external lawyer firm for consultation and complaints about harassment and any perpetrators are strictly punished.

Number of hires by gender for the past three years

Joined in:	Number of hires				
Joined In.	Total	Men	Women		
FY2017	191 persons	104 persons	87 persons		
FY2018	175 persons	88 persons	87 persons		
FY2019	166 persons	84 persons	82 persons		

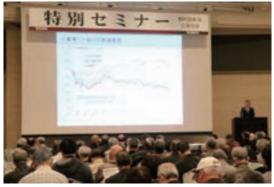
Communication with Shareholders and Investors

1. Briefing for investors

Activities for individual investors

The Bank holds and livestreams a briefing for all individual investors to provide information actively. In addition, we hold a briefing at Hirogin Securities Co., Ltd., which is our affiliated company, and Hiroshima Museum of Art every year for informing a broader range of shareholders of the attractiveness of the Bank.

Briefing session



For individual shareholders



For analysts and institutional investors

Activities for institutional investors

The Bank holds a briefing of financial results for analysts and institutional investors twice a year on the occasion of full-year and interim results. In addition, we explain management strategies and financial positions at individual meetings in domestic and overseas IR events.

IR-related activities



Person in charge of IR administrative liaison: General Manager of the Management Planning Division

2. General Meeting of Shareholders

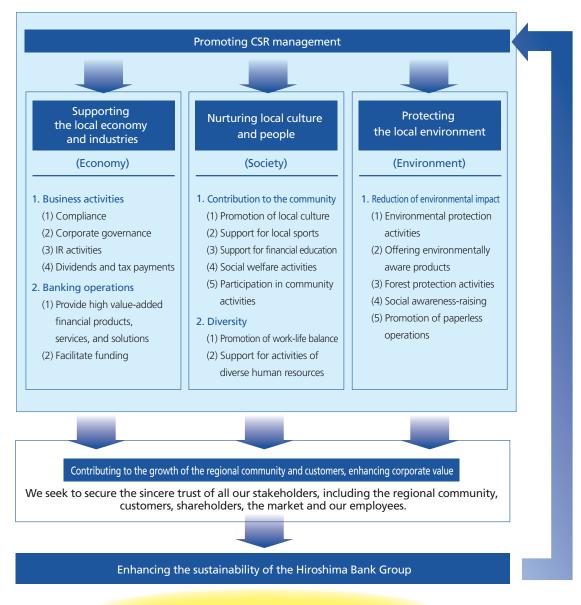
With respect to the Ordinary General Meeting of Shareholders held in June every year, the Bank is improving the environment for exercising voting rights for shareholders and its convenience. Also, we post a resolution notice on the Bank's website promptly after the meeting.

- (1) Early sending of a convocation notice*
- (2) Voting rights exercisable via the Internet or mobile phone (including a smartphone)
- (3) Participation in a voting rights exercise platform
- * It is posted on the securities exchange and the Bank's website about a week before sending (in Japanese and English).

The Bank Group's Approach to Corporate Social Responsibility

The Hiroshima Bank Group has accumulated its history while receiving support from many customers as a regional leading bank group.

For being a bank group indispensable for the region until and from now, we aim to gain trust from all stakeholders and further enhance its existence value by actively promoting all CSR aspects such as social contribution and environmental protection, in addition to contributing to the sustainable growth of the regional economy through its businesses.



Creating a good cycle in the entire regiona

Efforts for reducing environmental load

New environment-conscious Head Office building under construction



We plan to introduce the state-of-the-art environmental technologies for new Head Office building to be completed in January 2021. We aim for creating an environmentally friendly office building by applying a natural ventilation system where a building itself takes in wind by using natural energy, terrestrial heat that keeps the building cool in summer and warm in winter, power-saving LED lights, and rainwater harvesting that saves water resources.

Special features of the building

- Installation of greenery areas around the building and in the terrace on the second floor
- © Creation of pilotis space in the building entrance area
- Installation of a memorial monument for people killed by the atomic bombing
- Building with base isolation and securing of fuel for emergency power generation

Environment-conscious office activities

Reduction of the amount of electric power, gas and copy paper used

We are making efforts to reduce the amount of electric power, gas and copy paper used by encouraging use of stairs, duplex printing, and N-up printing.

Promotion of "Cool Biz" and "Warm Biz" campaigns We conduct "Cool Biz" (light clothing) in summer and "Warm Biz" (heavy clothing) in winter every year.

Also, for strengthening energy-saving measures, the Head Office conducts the Casual Cool Biz campaign and the Warm Biz campaign by lowering the preset temperature of air conditioners.

Use of environment-conscious business vehicles

For reducing environmental load, we use low-emission cars for business to eliminate greenhouse gas emission. **Collection of eco-caps (plastic bottle caps)** We started to collect eco-caps in February 2010 for the purpose of recycling them and providing vaccines to

children in developing countries.

Amount of electricity used and CO₂ emission

	FY2014	FY2015	FY2016	FY2017	FY2018
Amount of electricity used (thousand kwh)	21,113	19,881	20,371	20,559	18,795
Amount of CO ₂ emission(t-CO ₂)	15,682	14,400	14,631	14,665	13,096

Communication with the region

Participation in events

As a regional financial institution, the Bank aims to place a high value on communication with the regional community and participates in various local events.





'Kinsai YOSAKOI Dance Parade'



Fukuyama Rose Festival "Rose Parade"

Mihara Yassa Festival

Cleaning activity

"Flower Parade (*orizuru mikoshi*

Hiroshima Flower Festival

(paper crane floats))"

The Bank's employees and their families participate in local cleaning activities such as "Zero Litter & Clean Walk Campaign" and "Ota-gawa River Cleaning Project." In addition, we actively work for cleaning activities around the branches for showing our gratitude to local residents.

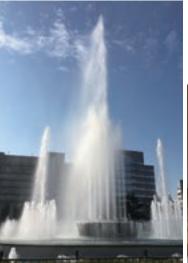


Zero Litter & Clean Walk Campaign



Cleaning activity by new employees

Contribution to the peace city



Inori-no-izumi (fountain of prayer) in the Hiroshima Peace Memorial Park

We constructed "*Inori-no-izumi* (fountain of prayer)" in the Hiroshima Peace Memorial Park in November 1964 and presented it to Hiroshima City in order to console the souls of the victims, who passed away while feeling thirsty for water in a town burnt by the atomic bomb, and wish everlasting peace. The fountain of prayer was completely renovated as part of our 140th anniversary business in 2018 and was cleaned up by our new employees in the spring of 2019.



Memorial monument for people killed by the atomic bombing

Also in 1968, the Bank constructed a memorial monument for people killed by the atomic bombing to honor atomic bomb victims and predecessors who built the foundation of the Bank's development. The Bank's directors, as well as former and current employees, visit the monument every year on August 6, the day the atomic bomb was dropped.

Environmental protection activities

Activities for protecting forests

In order to preserve the rich nature of our home area and pass it on to future generations, our directors and employees as well as their families planted a total of 1,500 saplings such as Japanese chestnut, Japanese oaks, beeches and wild cherry trees in *Hirogin no* *Satoyama* (village forest) (Akiota-cho, Yamagata-gun, Hiroshima Prefecture; 3.0 ha) over five years from 2010. Furthermore, we have maintained the village forest by, for example, removing undergrowth since 2015 to grow the trees planted in the forest.

Activities for maintaining Hirogin no Satoyama



As part of environmental protection activities, our new employees have planted saplings of Japanese cherry trees at the Bank's Hirogin no Mori seminar-training center since April 2010. A total of 60 cherry trees are growing steadily.



The Bank has been a member of "Save The Forest In Japan" since its foundation. It consists of 64 member regional banks. In accordance with the organization's philosophy of "passing on beautiful and healthy forests to the next generation," we will continue our efforts for protecting rich nature.



Support for financial education

Financial education activities

The Bank provides a variety of financial education programs to get younger generations that will bear the future of the region familiar with finance indispensable for people's life.

The Kids Money School for elementary school students provides tours at the Bank and lectures about the importance and proper use of money; the Work Experience Programs for junior and senior high school students provide lectures about the financial system, economic conditions, and other matters to give opportunities for the participants to acquire better financial literacy.

In addition, the Bank's directors and employees in charge of various operations visit local universities to provide lectures about such matters as the financial system, financial products, and services of banks and management strategies of the Bank to students who are about to enter the world of work.





Welfare and volunteer activities

Response to damage from the Heavy Rain Event of July 2018

Toward reconstruction from significant damage caused by the Heavy Rain Event of July 2018, we, as a regional financial institution, carried out measures as below:

Donation: donations from Hiroshima Bank and the Group companies as well as their directors and employees

Accepting donations from customers Establishing a response promotion team Providing assistance to disaster victims in the region

(1) Measures for convenience, (2) establishment of "special loan for recovery from the disaster," (3) establishment of "consultation service for damage caused by the torrential rain," (4) special treatment for areas covered by the Disaster Relief Act under insurance policies, (5) exemption of fees when disaster victims use a safe-deposit box, (6) measures in line with the "guidelines for out-ofcourt settlements for a natural disaster relating to debt adjustment for affected victims," (7) visits and provision of relief material to disaster victims, etc. **Volunteers:** dispatch of a total of about 300 employees to affected areas **Establishing the West Japan Torrential Rain Reconstruction Fund**



This fund covers the entire affected areas through cooperation among major financial institutions located in the affected areas to support continuation, restarting and reconstruction of business operations of the affected companies.

Welfare activities

The Bank gives Christmas presents to children's homes in Hiroshima Prefecture every year from 1994.

Furthermore, we, together with MetLife, Inc., donate money to children's homes and infant homes organized as a social welfare corporation from 2007, to create an environment where children who will lead the next generation can grow healthily by equally receiving education and participating in communities.



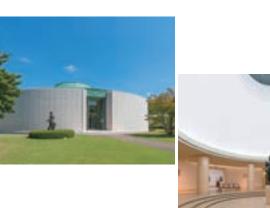
Promotion of culture and sports

Hiroshima Museum of Art

The Hiroshima Museum of Art was established in November 1978 by Hiroshima Bank in commemoration of the 100th anniversary of its foundation as we move through history together with the region. In the hope that the museum would bring peace of mind to the people of Hiroshima, the city once reduced to ruins by the atomic bomb on August 6, 1945, the museum came into being as a magnificent edifice of art on the theme of love and peace of mind. It was also built to pray for the repose of souls of the victims that laid the foundation of today's Hiroshima and to express wishes for peace.

Collection

The art gallery exhibits some 80 works throughout the year among about 300 works we own, comprising European modern art works centered on the French Impressionists from the Romantics in the mid-19th century to the Ecole de Paris school, including paintings by Degas, Monet, Renoir, Van Gogh, and Picasso, and Japanese modern art works since the Meiji Period, including traditional-style nihonga works.





Support for three Hiroshima-based professional bodies

The Bank supports three professional sports and cultural organizations in Hiroshima, the Hiroshima Toyo Carp baseball team, the Sanfrecce Hiroshima (FC) football team, and the Hiroshima Symphony Orchestra. We join hands with local companies to cheer the teams, hold games sponsored by us, and hold Hirogin Tomorrow Concert performed by the Hiroshima Symphony Orchestra.

In July 2019, from a viewpoint of developing the next generation, we held a new concert to provide an opportunity at which high school students can perform with professionals.







Other than the above, we support a local women's soccer team ANGE VIOLET HIROSHIMA and a professional basketball team HIROSHIMA DRAGONFLIES to contribute to local revitalization through sports.

Financial Section Consolidated Balance Sheets

For more details about the financial information contained in this annual report, please refer to the financial information that has been made public on the Hiroshima Bank website.

https://www.hirogin.co.jp/eng/index.html

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES As of March 31, 2018 and 2019

	Millions of yen		Millions of U.S. dollars (Note 1)	
	2018	2019	2019	
ASSETS				
Cash and due from banks (Notes 4, 13 and 21)	¥1,511,177	¥1,432,022	\$12,902	
Call loans and bills purchased (Note 21)	18,521	19,953	180	
Financial receivables purchased (Notes 4 and 21)	7,424	7,813	70	
Trading assets (Notes 4 and 21)	5,847	5,839	53	
Money held in trust (Notes 5 and 21)	8,256	10,312	93	
Securities (Notes 4, 7, 11 and 21)	1,382,716	1,175,920	10,595	
Loans and bills discounted (Notes 6,7, 8 and 21)	5,861,796	6,020,840	54,247	
Foreign exchanges	7,741	7,536	68	
Other assets (Note 7)	88,949	91,384	823	
Tangible fixed assets (Note 10)	91,982	95,392	859	
Intangible fixed assets	9,585	9,530	86	
Net defined benefit assets (Note 17)	54,607	65,106	587	
Deferred tax assets (Note 18)	735	734	7	
Customers' liabilities for acceptances and guarantees (Note 11)	38,237	43,479	392	
Reserve for possible loan losses (Note 21)	(35,429)	(33,194)	(299)	
Total assets	¥9,052,152	¥8,952,671	\$80,662	
LIABILITIES AND NET ASSETS				
Liabilities:				
Deposits (Notes 7 and 21)	¥7,441,054	¥7,464,155	\$67,251	
Call money and bills sold (Note 21)	50,000	_	_	
Payables under repurchase agreements (Notes 7 and 21)	111,329	88,521	798	
Deposits received for bonds lending/borrowing transactions (Notes 7 and 21)	262,859	260,108	2,344	
Trading liabilities	4,023	3,856	35	
Borrowed money (Notes 7, 9 and 21)	585,551	516,331	4,652	
Foreign exchanges	224	339	3	
Due to trust account	42	23	0	
Other liabilities	49,741	60,935	549	
Net defined benefit liabilities (Note 17)	42	39	0	
Reserve for retirement benefits of directors and corporate auditors	26	23	0	
Reserve for reimbursement of deposits	4,447		32	
Reserve for point loyalty programs	4,447	3,558 120	1	
Reserve for stock payments	176	341	3	
Reserve for loss related to Head Office rebuilding	1,987	846	8	
Reserve under Special Laws	41	39	0	
Deferred tax liabilities (Note 18)	10,876	8,947	81	
Deferred tax liabilities for land revaluation reserve (Note 10)	13,613	13,610	123	
Acceptances and guarantees (Note 11)	38,237	43,479	392	
Total liabilities	¥8,574,404	¥8,465,280	\$76,271	
Net Assets (Note 12):				
Common stock:				
Authorized – 1,000,000,000 shares	54,573	54,573	\$ 492	
Issued – 312,633,171 shares				
Capital surplus	30,746	30,740	277	
Retained earnings	309,747	329,367	2,968	
Common stock in treasury	(1,260)	(1,040)	(9)	
Total stockholders' equity	393,807	413,641	3,727	
Net unrealized holding gains on securities available for sale (Note 4)	48,399	35,676	321	
Net deferred gains (losses) on hedging instruments, net of tax	(547)	(2,016)	(18)	
Land revaluation and translation adjustments, net of tax (Note 10)	27,763	27,792	250	
Land revaluation and translation aujustments, net of tax (Note TO)	8,016	12,121	109	
Remeasurements of defined benefit plans	83.632	73.574	663	
Remeasurements of defined benefit plans Total accumulated other comprehensive income	83,632 308	73,574	663 2	
Remeasurements of defined benefit plans		73,574 176 487,391		

Consolidated Statements of Income

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 2018 and 2019

	Million	s of yen	Millions of U.S. dollars (Note 1)	
	2018	2019	2019	
Income:				
Interest income:				
Interest on loans and discounts	¥ 61,786	¥ 62,534	\$ 563	
Interest and dividends on securities	13,945	11,186	101	
Other interest income	1,340	1,806	16	
Fees and commissions	31,732	29,677	267	
Other operating income	4,525	7,552	68	
Other income (Note 14)	15,774	8,483	76	
Total income	129,105	121,242	1,092	
Expenses:				
Interest expenses:				
Interest on deposits	2,865	2,218	20	
Interest on borrowings and rediscounts	3,779	3,465	31	
Other interest expenses	2,890	2,846	26	
Fees and commissions	9,518	9,443	85	
Other operating expenses	4,691	3,417	31	
General and administrative expenses (Note 22)	61,129	58,044	523	
Other expenses (Note 14)	7,975	5,073	46	
Total expenses	92,850	84,509	761	
Income before income taxes and others	36,255	36,733	331	
Income taxes (Note 18):				
Provision for income taxes and others	10,696	8,559	77	
Deferred income taxes	(250)	2,591	23	
Net income	25,809	25,581	230	
Profit attributable to owners of the parent	¥ 25,809	¥ 25,581	\$ 230	
	Y	en	U.S. dollars (Note 1)	
Amounts per share of common stock (Note 12):				
Net assets	¥1,534.40	¥1,564.51	\$14.10	
Net income	82.81	82.16	0.74	
Diluted net income	82.71	82.09	0.74	
Cash dividends applicable to the year	13.50	20.00	0.18	

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 2018 and 2019

	Million	s of yen	Millions of U.S. dollars (Note 1)	
-	2018	2019	2019	
Net income	¥25,809	¥ 25,581	\$ 230	
Other comprehensive income (loss) (Note 23):				
Net unrealized holding gains (losses) on securities available for sale	8,900	(12,719)	(115)	
Net deferred gains (losses) on hedging instruments, net of tax	(34)	(1,469)	(13)	
Remeasurements of defined benefit plans	3,004	4,105	37	
Share of other comprehensive income (loss) of affiliated companies accounted for by equity method	6	(3)	(0)	
Comprehensive income	¥37,686	¥ 15,494	140	
Attributable to:				
Comprehensive income attributable to owners of the parent	¥37,686	¥ 15,494	\$ 140	
See notes to concelled the financial statements				

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 2018 and 2019

_			Millions of yen		
-			2018 Stockholders' equity		
Item	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	¥54,573	¥30,743	¥290,180	¥(437)	¥375,060
Changes of items during the period					
Dividends from surplus			(6,242)		(6,242)
Profit attributable to owners of the parent			25,809		25,809
Purchase of common stock in treasury				(855)	(855)
Disposal of common stock in treasury		2		32	35
Net changes of items other than stockholders' equity					
Total changes of items during the period	_	2	19,566	(822)	18,746
Balance at the end of current period	¥54,573	¥30,746	¥309,747	¥(1,260)	¥393,807

				Millions of yen			
				2018			
		Accumulate	ed other comprehen	sive income			
Item		Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	¥39,492	¥(512)	¥27,763	¥5,011	¥71,755	¥322	¥447,138
Changes of items during the period							
Dividends from surplus							(6,242)
Profit attributable to owners of the parent							25,809
Purchase of common stock in treasury							(855)
Disposal of common stock in treasury							35
Net changes of items other than stockholders' equity	8,906	(34)	_	3,004	11,877	(14)	11,862
Total changes of items during the period	8,906	(34)		3,004	11,877	(14)	30,609
Balance at the end of current period	¥48,399	¥(547)	¥27,763	¥8,016	¥83,632	¥308	¥477,748

			Millions of yen		
			2019		
			Stockholders' equity		
Item	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	¥54,573	¥30,746	¥309,747	¥(1,260)	¥393,807
Changes of items during the period					
Dividends from surplus			(5,932)		(5,932)
Profit attributable to owners of the parent			25,581		25,581
Purchase of common stock in treasury				(0)	(0)
Disposal of common stock in treasury		(6)		220	214
Reversal of land revaluation reserve			(28)		(28)
Net changes of items other than stockholders' equity					
Total changes of items during the period	_	(6)	19,620	220	19,833
Balance at the end of current period	¥54,573	¥30,740	¥329,367	¥(1,040)	¥413,641

				Millions of yen			
				2019			
		Accumulate	d other comprehen	sive income			
Item	Net unrealized holding gains (losses) on securities available for sale	Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	¥48,399	¥(547)	¥27,763	¥8,016	¥83,632	¥308	¥477,748
Changes of items during the period							
Dividends from surplus							(5,932)
Profit attributable to owners of the parent							25,581
Purchase of common stock in treasury							(0)
Disposal of common stock in treasury							214
Reversal of land revaluation reserve							(28)
Net changes of items other than stockholders' equity	(12,722)	(1,469)	28	4,105	(10,058)	(131)	(10,190)
Total changes of items during the period	(12,722)	(1,469)	28	4,105	(10,058)	(131)	9,643
Balance at the end of current period	¥35,676	¥(2,016)	¥27,792	¥12,121	¥73,574	¥176	¥487,391

_			Millions of U.S. dollars		
			2019		
			Stockholders' equity		
ltem	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	\$492	\$277	\$2,791	\$(11)	\$3,548
Changes of items during the period					
Dividends from surplus			(53)		(53)
Profit attributable to owners of the parent			230		230
Purchase of common stock in treasury				(0)	(0)
Disposal of common stock in treasury		(0)		2	2
Reversal of land revaluation reserve			(0)		(0)
Net changes of items other than stockholders' equity					
Total changes of items during the period		(0)	177	2	179
Balance at the end of current period	\$492	\$277	\$2,968	\$ (9)	\$3,727

			l	Millions of U.S. dolla	ars		
				2019			
		Accumulate	d other comprehen	sive income			
Item	Net unrealized holding gains (losses) on securities available for sale	Net deferred gains (losses) on hedging instruments, net of tax	Land revaluation and translation adjustments, net of tax	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	\$436	\$ (5)	\$250	\$72	\$754	\$3	\$4,304
Changes of items during the period							
Dividends from surplus							(53)
Profit attributable to owners of the parent							230
Purchase of common stock in treasury							(0)
Disposal of common stock in treasury							2
Reversal of land revaluation reserve							(0)
Net changes of items other than stockholders' equity	(115)	(13)	0	37	(91)	(1)	(92)
Total changes of items during the period	(115)	(13)	0	37	(91)	(1)	87
Balance at the end of current period	\$321	\$(18)	\$250	\$109	\$663	\$2	\$4,391

Consolidated Statements of Cash Flows

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 2018 and 2019

	Million	s of ven	Millions of U.S. dollars (Note 1)
-	2018	2019	2019
Cash flows from operating activities:			
Income before income taxes and others	¥ 36,255	¥ 36,733	\$ 331
Depreciation of premises, equipment and others	6,610	4,678	42
Impairment losses of fixed assets	31	130	1
Gains on negative goodwill	(4,196)	—	—
Equity in earnings of affiliates	(149)	(148)	(1)
Loss on step acquisitions	2,123	—	-
Net change in reserve for possible loan losses	(2,504)	(2,235)	(20)
Decrease (increase) in net defined benefit assets	(8,529)	(10,498)	(95)
Increase (decrease) in net defined benefit liabilities	4	(3)	(0)
Net change in reserve for retirement benefits of directors and corporate auditors	(1)	(3)	(0)
Net change in reserve for reimbursement of deposits	2,985	(888)	(8)
Net change in reserve for point loyalty programs	3	(9)	(0)
Net change in reserve for stock payments	176	165	1
Net change in reserve under special laws	(2)	(1)	(0)
Net change in reserve for loss related to Head Office rebuilding	892	(1,140)	(10)
Interest income	(77,073)	(75,528)	(680)
Interest expense	9,534	8,530	77
Net losses on securities transactions	(3,981)	(6,041)	(54)
Net losses on dispositions of fixed assets	130	158	1
Net change in trading assets	3,369	7	0
Net change in trading liabilities	(3,159)	(166)	(1)
Net change in loans	(244,990)	(159,043)	(1,433)
Net change in deposits	185,386	82,903	747
Net change in negotiable certificates of deposit	(40,444)	(59,802)	(539)
Net change in borrowed money excluding subordinated loans	128,681	(69,219)	(624)
Net change in due from banks other than from the Bank of Japan	285	894	8
Net change in call loans and bills purchased	(1,458)	(1,819)	(16)
Net change in call money and bills sold	20,775	(72,807)	(656)
Net change in deposits received for bonds lending/borrowing transactions	(138,782)	(2,750)	(25)
Net change in foreign exchanges (assets)	148	205	2
Net change in foreign exchanges (liabilities)	60	115	1
Interest received	83,171	78,156	704
Interest paid	(9,776)	(9,131)	(82)
Net change due to issuance and redemption of straight bonds	(20,000)	_	_
Other – net	(27,331)	3,254	29
Subtotal	(138,010)	(292,037)	(2,631)
Income taxes paid	(14,415)	(8,873)	(80)
Total adjustments	(152,426)	(300,910)	(2,711)
Net cash provided by (used in) operating activities	(116,170)	(264,177)	(2,380)
Cash flows from investing activities:			
Purchases of securities	(284,859)	(430,007)	(3,874)
Proceeds from sales of securities	249,618	306,396	2,761
Proceeds from maturity of securities	420,335	326,020	2,937
Increase in money held in trust	(0)	(2,079)	(19)
Decrease in money held in trust	1,300	23	0
Purchases of tangible fixed assets	(3,545)	(5,539)	(50)
Purchases of intangible fixed assets	(2,037)	(2,763)	(25)
Proceeds from sales of tangible fixed assets	(2,057)	2	0
Payments for retirement of tangible fixes assets	(9)	(33)	(0)
Net cash provided by (used in) investing activities	380,803	192,018	1,730
			.,
Cash flows from financing activities:			
Dividends paid	(6,242)	(5,934)	(53)
Purchases of treasury stock	(855)	(0)	(0)
Proceeds from sales of treasury stock	0	0	0
Payments of lease liabilities	(70)	(72)	(1)
Net cash provided by (used in) financing activities	(7,167)	(6,008)	(54)
Effect of foreign exchange rate changes on cash and cash equivalents	2	(94)	(1)
Net change in cash and cash equivalents	257,466	(78,260)	(705)
Cash and cash equivalents at the beginning of year	1,245,160	1,502,680	13,539
Increase in cash and cash equivalents at the beginning of year	53	1,302,000	5,01
Cash and cash equivalents at the end of year (Note 13)	¥1,502,680	¥1,424,420	\$12,834
See notes to consolidated financial statements	+1,302,000	+ 1,727,42V	Ψ12,00 4

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES March 31, 2018 and 2019

1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of The Hiroshima Bank, Ltd. (the "Bank") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The Bank maintains its accounting records in Japanese yen, the currency in which the Bank is incorporated and operates. In preparing the accompanying consolidated financial statements and notes thereto, Japanese yen figures less than one million yen have been rounded down to the nearest million yen, except for per share data, in accordance with the Financial Instruments and Exchange Law and Enforcement Regulation concerning Banking Law of Japan. Therefore, total or subtotal amounts shown in the accompanying consolidated financial statements and notes thereto do not necessarily agree with the sums of individual amounts. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2019, which was ¥110.99 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 Principles of consolidation

The consolidated financial statements include the accounts of the Bank and 7 subsidiaries for the year ended March 31, 2019. The Bank includes the accounts of several companies which are less than 50% owned in the accompanying consolidated financial statements in the case that the Bank has control over these companies through crossshareholdings, transfer of management, and provision of debt guarantees and loans. All significant intercompany balances and transactions have been eliminated.

Investment in 20% to 50% owned company is carried at cost adjusted for equity in undistributed earnings or losses since acquisition (the equity method). The Bank also applies the equity method for investments in certain companies which are less than 20% owned in the case that the Bank is able to exercise significant influence over these companies.

The consolidated financial statements do not include the accounts of a subsidiary because the total assets, total income, net income, retained earnings and total accumulated other comprehensive income of the subsidiary would not have had a material effect on the consolidated financial statements.

Investments in the unconsolidated subsidiaries were stated at cost. If the equity method of accounting had been applied to the investments in the subsidiaries, the effect on the accompanying consolidated financial statements would not be material.

Consequently, the consolidated financial statements include the account of the Bank and its 7 subsidiaries and an affiliated company for the year ended March 31, 2019.

As of March 31, 2019, the fiscal year ending dates are March 31 for 7 subsidiaries.

3 Significant accounting policies

Trading assets and trading liabilities

The Bank adopted mark-to-market accounting for trading assets and trading liabilities including securities, financial receivables and financial derivatives for trading purpose. Trading assets and trading liabilities are recorded on a trade date basis, and revenues and expenses related to trading securities transactions are also recorded on a trade date basis. Securities and financial receivables for trading purposes are stated at market or fair value at the balance sheet date. Financial derivatives such as futures and option transactions are stated at a deemed settlement amount at the balance sheet date. Unrealized gains or losses incurred by the markto-market method are charged to income.

Securities

All companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and an affiliated company, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

Available-for-sale securities whose fair value cannot be reliably determined are carried at cost determined by the moving-average method.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies not consolidated or accounted for by the equity method, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the following year. When market values of available-for-sale securities with fair market values decline by 50% or more of the acquisition cost at the balance sheet date, the Bank writes down such securities to the fair market values and records the related write-downs as loss in its consolidated statements of income. When market values of available-for-sale securities with fair market value decline by 30% or more but less than 50% of the acquisition cost, write-downs to the fair market values may be recognized for certain issuers based on evaluation of issuers' debtor classification. The Bank devaluated the securities other than securities held for trading purposes and recognized a loss of ¥46 million (¥46 million for debt securities) and ¥353 million (\$3 million) (¥249 million (\$2 million) for equity securities and ¥104 million (\$1 million) for debt securities) for the years ended March 31, 2018 and 2019, respectively.

Derivatives and hedge accounting

Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

(1) Hedging against interest rate fluctuations

The Bank applies deferred hedge accounting pursuant to the treatment regulated by "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24) to hedge transactions such as interest rate swaps entered into to mitigate interest rate risk arising from financial assets and liabilities. The Bank assessed the hedge effectiveness by considering the adequacy of offsetting movement of the fair value by the changes in interest rates through classifying the hedged items such as loans and the hedging instruments such as interest rate swaps by their maturity.

With respect to hedging transactions to fix the cash flows, hedging instruments (e.g. interest rate swaps) are designated to hedged items collectively by interest rate indices and tenors in accordance with JICPA Industry Audit Committee Report No. 24. Since material terms related to hedged items and hedging instruments are substantially identical, and such hedging transactions are deemed highly effective, the assessment of effectiveness is based on the similarity of the terms.

(2) Hedging against foreign currency fluctuations The Bank applies deferred hedge accounting to hedge transactions such as currency swaps and foreign exchange swaps entered into to mitigate foreign exchange risk arising from foreign-currency-denominated financial assets and liabilities. The Bank applies the hedge accounting pursuant to "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25) to currency swap transactions and foreign exchange swap transactions for the purpose of funds lending and borrowing in different currencies. The Bank assesses the hedge effectiveness by confirming that the positions of hedge instruments (currency swap and foreign exchange swap transactions) do not exceed the corresponding foreigncurrency-denominated monetary receivables and payables as hedged items.

(3) Exceptional treatment

For some assets and liabilities, the Bank defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized. Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Tangible fixed assets (except for lease assets)

Tangible fixed assets except for land utilized for business operations are stated at cost less accumulated depreciation. Accumulated impairment losses are deducted from acquisition costs.

The Bank and its consolidated subsidiaries depreciate their tangible fixed assets under the straight-line method over their estimated useful lives. Estimated useful lives of major items are as follows:

Buildings:	22–50 years
Others:	3–20 years

Accumulated depreciation for tangible assets as of March 31, 2018 and 2019 amounted to ¥50,922 million and ¥51,982 million (\$468 million), respectively.

Deferred revenue deducted from the acquisition cost was ¥12,779 million and ¥12,779 million (\$115 million) as of March 31, 2018 and 2019, respectively.

Intangible fixed assets (except for lease assets)

Intangible fixed assets are amortized using the straight-line method. Software utilized by the Bank is amortized over the period in which it is expected to be utilized mainly for 5 or 10 years.

Lease assets

Lease assets of the finance leases included in "Tangible fixed assets" other than those that transfer the ownership of leased property to the lessees are depreciated using the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

Reserve for possible loan losses

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to available security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after evaluating the customer's overall financial conditions.

For other loans, the reserve for possible loan losses is provided based on the Bank's actual rate of loan losses in the past.

Consolidated subsidiaries provide the reserve for possible loan losses mainly based on the actual rate of loan losses in the past.

All branches and the credit supervision department evaluate all loans in accordance with the self-assessment rule, and their evaluations are audited by the asset audit section, which is independent from branches and the credit supervision department, and the evaluations are revised as required based on the audits.

Secured and guaranteed loans which are for insolvent borrowers or in a similar financial condition are disclosed based on the amount of loans net of amounts estimated not to be collected through disposition of collateral or through execution of guarantees. Such amounts directly set off against those loans at March 31, 2018 and 2019 were ¥15,536 million and ¥15,444 million (\$139 million), respectively.

Employees' severance and retirement benefits

The liabilities and expenses for severance and retirement benefits were determined based on the amounts actuarially calculated using certain assumptions.

The Bank and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2018 and 2019 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates. Actuarial gains and losses were recognized in expenses using the straight-line method over 14 years, which was not longer than the average of the estimated remaining service lives, commencing with the following period.

In calculating the projected benefit obligation, the straightline method is used to attribute the expected benefit attributable to the respective fiscal year. Prior service costs were recognized in the consolidated statements of income as incurred.

Certain consolidated subsidiaries adopt the simplified method for the calculation of net defined benefit liability and expenses for severance and retirement benefits.

Reserve for retirement benefits of directors and Audit & Supervisory Board members

Reserve for retirement benefits of directors and Audit & Supervisory Board members is provided for in payment of retirement benefits to directors, corporate auditors and other executive officers, in the amount deemed accrued at the fiscal year-end based on our internal regulations.

Reserve for retirement of deposits

Reserve for retirement of deposits which were derecognized as liabilities under certain conditions is provided for the possible losses on the future claims of withdrawal.

Reserve for point loyalty programs

Reserve for point loyalty program is provided for the estimated expenses based on an estimate of the future usage of points. Points are granted to credit card holders through card usage under the point loyalty program which is designed to promote card usage.

Reserve for stock payments

Reserve for stock payments is provided for the Bank's stock payment to its directors and executive officers based on the Director Share Payment Regulations at the estimated amount at the fiscal year-end.

Reserve for loss related to Head Office rebuilding

Reserve for loss related to Head Office rebuilding is provided to cover estimated losses arising from the rebuilding of the Head Office of the Bank.

Reserve under Special Laws

Reserve under special laws is provided for contingent liabilities and provided for compensation for losses from securities-related transactions or derivative transactions, pursuant to Article 46-5-1 of the Financial Instruments and Exchange Act and Article 175 of the related cabinet order.

Foreign currency translation

The consolidated financial statements of the Bank are maintained in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates, etc.

Income taxes

Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of the Bank and each of its consolidated subsidiaries with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Valuation allowances are recorded to reduce deferred tax assets based on the assessment of the recoverability of the tax benefits.

Consumption taxes

National and local consumption taxes of the Bank and its consolidated domestic subsidiaries are accounted for using the tax-excluded method.

Consolidated statements of cash flows and cash equivalents

In preparing the consolidated statements of cash flows, cash and due from the BANK OF JAPAN are considered to be cash and cash equivalents.

Amounts per share

Net assets per share is calculated by dividing net assets by the number of common stocks outstanding at the year-end (excluding "treasury stock").

Net income per share is calculated by dividing profit attributable to owners of the parent by the average number of shares of common stock outstanding during the year (excluding "treasury stock").

Cash dividends per share represent the actual amounts declared as applicable to the respective years.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

Additional information

Transactions vesting treasury stocks through trust The Bank has introduced the Plan using a structure called a BIP (Board Incentive Plan) Trust aiming at improvement of the Bank's mid and long-term performance as well as increase of the awareness of contributions to increasing corporate value.

(1) Outline

The Plan grants specified points to directors, etc. depending on the Director Share Payment Regulations. The Bank's shares and cash in the amount of converted value of such Bank's shares equivalent to the number of such points may be granted and paid through trust at the time of retirement. The Bank's shares to be granted to directors are acquired through the trusted cash by the Bank.

(2) The Bank's share remaining in the trust

- 1. The shares of the Bank remaining in the trust are recorded as treasury stock under net assets through the carrying value.
- 2. The carrying value of treasury stock remaining in the trust is ¥847 million and ¥764 million (\$7 million) at March 31, 2018 and 2019, respectively.
- 3. The number of the shares of the Bank remaining in the trust is 968 thousand and 873 thousand at March 31, 2018 and 2019, respectively.

4 Securities

- (1) Trading account securities included in "Trading assets," certificates of deposit with banks included in "Cash and due from banks," and trust beneficiary rights included in "Financial receivables purchased," which are separately reported from "Securities" in the consolidated balance sheets, are included in this section.
- (2) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2018 and 2019:

a) Trading securities:

	Million	s of yen	U.S. dollars
	2018	2019	2019
Amount of net unrealized gains (losses) included in the consolidated statements of income	¥(2)	¥(0)	\$(0)

b) Available-for-sale securities:

At March 31, 2018

	Millions of yen					
Fair value exceeding cost:	Вс	ook value	A	cquisition cost	Gross unrealized gain	
Equity securities	¥	119,558	¥	45,888	¥73,669	
Bonds:		701,291		694,738	6,552	
National government bonds		445,288		442,539	2,749	
Local government bonds		96,230		94,889	1,340	
Bonds		159,772		157,309	2,463	
Others		85,513		80,938	4,574	
Subtotal		906,362		821,565	84,797	
Fair value not exceeding cost:						
Equity securities		13,885		16,396	(2,511)	
Bonds:		121,400		121,862	(462)	
National government bonds		40,982		41,103	(121)	
Local government bonds		25,193		25,259	(65)	
Bonds		55,223		55,499	(275)	
Others		332,639		345,354	(12,714)	
Subtotal		467,925		483,613	(15,688)	
Total	¥1	,374,288	¥1	,305,179	¥69,109	

At March 31, 2019

Others

Total

Subtotal

	Millions of yen				
Fair value exceeding cost:	Book value	Acquisition cost	Gross unrealized gain		
Equity securities	¥ 83,453	¥ 33,423	¥50,030		
Bonds:	633,156	623,083	10,072		
National government bonds	317,344	311,704	5,639		
Local government bonds	116,260	114,939	1,321		
Bonds	199,552	196,439	3,112		
Others	144,989	140,438	4,551		
Subtotal	861,599	796,945	64,654		
Fair value not exceeding cost:					
Equity securities	22,430	26,073	(3,642)		
Bonds:	7,256	7,281	(25)		
National government bonds	_	_	_		
Local government bonds	1,950	1,950	(0)		
Bonds	5,306	5,331	(25)		
Others	275,412	285,715	(10,303)		
Subtotal	305,099	319,071	(13,971)		
Total	¥1,166,699	¥1,116,016	¥50,682		
	Mil	lions of U.S. doll	ars		
Fair value exceeding cost:	Book value	Acquisition cost	Gross unrealized gain		
Equity securities	\$ 752	\$ 301	\$451		
Bonds:	5,705	5,614	91		
National government bonds	2,859	2,808	51		
Local government bonds	1,047	1,036	12		
Bonds	1,798	1,770	28		
Others	1,306	1,265	41		
Subtotal	7,763	7,180	583		
Fair value not exceeding cost:					
Equity securities	202	235	(33)		
Bonds:	65	66	(0)		
National government bonds	—	—	—		
Local government bonds	18	18	(0)		
Bonds	48	48	(0)		
	2 404		(0.2)		

2,481

2,749

10,512 \$

\$

2,574

2,875

10,055

(93)

(126)

\$457

(3) Total sales of available-for-sale securities sold at March 31, 2018 and 2019 were as follows:

At March 31, 2018

Proceeds	Total amount of gains on sales	of losses of	
Type from sales	Sales	sales	וונ
Equity securities ¥ 8,501	¥ 2,019	¥ 154	1
Bonds: 31,122	227	10)
National government bonds 25,870	215		_
Local government bonds 3,910	9	8	3
Bonds 1,342	2	1	1
Others 192,226	6,580	4,632	2
Total ¥ 231,850	¥ 8,827	¥ 4,797	7

At March 31, 2019

	Millions of yen				
Туре	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales		
Equity securities	¥ 6,360	¥ 2,446	¥ 259		
Bonds:	93,591	1,727	259		
National government bonds	92,251	1,674	258		
Local government bonds		·	—		
Bonds	1,340	53	0		
Others	199,815	5,253	3,009		
Total	¥299,767	¥9,427	¥3,528		
	Millions of U.S. dollars				
Туре			Total amount of losses on sales		
Equity securities	\$ 57	\$22	\$ 2		
Bonds:	843	16	2		
		4 5	2		
National government bonds	831	15	Ζ		
National government bonds Local government bonds	831				
	831 — 12		0		
Local government bonds	_		_		

5 Money held in trust

(1) Money held in trust classified as trading purpose

There was no money held in trust classified as trading purpose for the years ended March 31, 2018 and 2019.

(2) Money held in trust classified as held-to-maturity

There was no money held in trust classified as held-to-maturity for the years ended March 31, 2018 and 2019.

(3) Other money held in trust

			Millions of yen				
	Year ended March 31, 2018						
	Carrying amount	Acquisition cost	Net unrealized gain (loss)	Unrealized gain	Unrealized loss		
Other money held in trust	¥8,256	¥8,256	¥—	¥—	¥—		
	Millions of yen						
	Year ended March 31, 2019						
	Carrying amount	Acquisition cost	Net unrealized gain (loss)	Unrealized gain	Unrealized loss		
Other money held in trust	¥10,312	¥10,312	¥—	¥—	¥—		
	Millions of U.S. dollars						
		Year ended March 31, 2019					
	Carrying amount	Acquisition cost	Net unrealized gain (loss)	Unrealized gain	Unrealized loss		
Other money held in trust	\$93	\$93	\$—	\$—	\$—		

Notes: 1. Consolidated balance sheet amount is calculated using market prices at the fiscal year-end.

2. "Unrealized gain" and "Unrealized loss" are breakdowns of "Net unrealized gain (loss)."

6 Loans and bills discounted

 Doubtful loans included in loans and bills discounted at March 31, 2018 and 2019 were as follows:

	Million	s of yen	Millions of U.S. dollars
	2018	2019	2019
Non-accrual loans: Loans to borrowers under bankruptcy proceedings	¥ 1,538	¥ 1,200	\$ 11
Other delinquent loans	50,895	47,394	427
Accrual loans past due three months or more	2,876	3,755	34
Restructured loans, including loans to supported companies	13,923	14,728	133
Total	¥69,233	¥67,078	\$604

The Bank does not accrue interest on loans to borrowers under bankruptcy proceedings and other delinquent loans, which are classified based on the results of self-assessment.

(2) Bills discounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24). The Bank and its consolidated banking subsidiaries have rights to sell or pledge commercial bills discounted and foreign bills of exchange purchased without restrictions, and their total face amounts were ¥27,359 million and ¥27,146 million (\$245 million) at March 31, 2018 and 2019, respectively.

7 Assets pledged

At March 31, 2018 and 2019, the following assets were pledged as collateral for certain liabilities of the Bank and subsidiaries.

	Million	Millions of yen		
	2018	2019	2019	
Securities	¥848,175	¥704,024	\$6,343	
Loans and bills discounted		186,780	1,683	
Other assets	1,600	1,896	17	
Total	¥849,776	¥892,701	\$8,043	

The collateral was pledged to secure:

	Million	Millions of yen				
	2018	2019	2019			
Deposits	¥ 1,488	¥ 1,653	\$ 15			
Payables under repurchase agreements Deposits received	111,329	88,521	798			
for bonds lending/ borrowing transactions Borrowed money	262,859 555,664	260,108 479,236	2,344 4,318			

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as exchange settlements. These securities amounted to ¥5,013 million and nil at March 31, 2018 and 2019, respectively, and others amounted to ¥48,888 million and ¥50,000 million (\$450 million) at March 31, 2018 and 2019, respectively.

Security deposits, included in other assets, amounted to ¥2,567 million and ¥2,460 million (\$22 million) at March 31, 2018 and 2019, respectively, deposits for financial instruments amounted to ¥8,703 million and ¥11,792 million (\$106 million) at March 31, 2018 and 2019, respectively, and deposits for futures trading amounted to ¥1,115 and ¥226 million (\$2 million) at March 31, 2018 and 2019, respectively.

Of the securities received as collateral under transactions with repurchase agreement, those which the Bank holds rights to dispose of by sale or provision of collateral at its discretion amounted to ¥21,070 million and ¥16,326 million (\$147 million) at March 31, 2018 and 2019, respectively.

Bills rediscounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24), and the total face amount of commercial bills discounted and foreign exchanges purchased that have been pledged were nil and ¥1 million (\$0 million) at March 31, 2018 and 2019, respectively.

8 Commitment line

Commitment line contracts on overdrafts and loans are the contracts, under which the Bank lends to customers up to the prescribed limits in response to customers' application of loan as long as there is no violation of any condition in the contracts. The unused amount within the limits totaled ¥1,735,338 million and ¥1,735,804 million (\$15,639 million) relating to these contracts at March 31, 2018 and 2019, respectively. Among them, the amounts of unused commitment of which term of contracts is less than one year or revocable at any time totaled ¥1,655,587 million and ¥1,646,364 million (\$14,833 million) as of March 31, 2018 and 2019, respectively.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Bank and its consolidated subsidiaries can refuse customers' applications for loans or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of contracts, the Bank and its consolidated subsidiaries obtain real estate, securities, etc., as collateral if considered to be necessary. Subsequently, the Bank and its consolidated subsidiaries perform periodic review of the customers' business results based on internal rules, and take necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

9 Borrowed money

Subordinated loans included in borrowed money were ¥15,000 million and ¥15,000 million (\$135 million) at March 31, 2018 and 2019, respectively.

10 Privately placed bonds

The amount of guarantee obligations for privately placed corporate bonds (stipulated by Article 2-3 of the Financial Instruments and Exchange Law) included in "Securities" was ¥39,647 million and ¥37,878 million (\$341 million) at March 31, 2018 and 2019, respectively.

11 Net assets

Under the Company Law of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Banking Law of Japan provides that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 100% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 100% of common stock, they are available for distributions or certain other purposes by the resolution of the stockholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Bank can distribute as dividends is calculated based on the unconsolidated financial statements of the Bank in accordance with the Company Law of Japan.

In accordance with the customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period in which the stockholders' approval has been obtained. Retained earnings at March 31, 2019 include the amount representing the year-end cash dividend of ¥3,123 million (\$28 million), ¥10.00 (\$0.09) per share, which was approved at the stockholders' meeting held on June 26, 2019.

12 Cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2018 and 2019, was as follows:

	Millions of yen		Millions of U.S. dollars
	2018	2019	2019
Cash and due from banks	¥1,511,177	¥1,432,022	\$12,902
Foreign currency deposits with banks	(8,496)	(7,601)	(68)
Cash and cash equivalents	¥1,502,680	¥1,424,420	\$12,834

Significant non-monetary transactions

Year ended March 31, 2018

Hirogin Securities CO., LTD. (formerly Hirogin Utsumiya Securities Co., Ltd.) has been included in the scope of consolidation as it became a wholly owned subsidiary. The increased assets and liabilities due to consolidation were as follows:

	Millions of yen
	2018
Current assets	¥24,236
Non-current assets	611
Total assets	¥24,847
Current liabilities	¥15,607
Non-current liabilities	43
Total liabilities	¥15,650

Year ended March 31, 2019

There was no significant non-monetary transaction to be noted for the year ended March 31, 2019.

13 Lease transactions

Finance Leases

Tangible fixed assets in lease assets mainly consisted of branches. The depreciation method of lease assets is shown in "3. Significant accounting policies."

Finance leases other than those that transfer the ownership of the leased property to the lessees which commenced in fiscal years beginning prior to April 1, 2008 are accounted for in a similar way to operating leases.

Operating leases

Future minimum lease payments on operating leases which were not cancelable at March 31, 2018 and 2019 were as follows:

	Million	s of yen	Millions of U.S. dollars
	2018	2019	2019
Due within 1 year	¥ 4	¥4	\$0
Due after 1 year	7	3	0
Total	¥12	¥7	\$0

14 Derivative transactions

Derivative transactions to which hedge accounting is not applied

Contracted amount (including notional principal amount), fair value and unrealized gains or losses of financial derivatives at March 31, 2018 and 2019 were as follows:

Interest related:

Year ended March 31, 2018

			Millions	of yen	
		Contract	ed amount	Fair	Unrealized gains
	Туре		Over one year	value	(losses)
Items not traded on exchanges	Interest rate swaps:				
	Receive fixed, pay variable	¥100,356	¥ 90,390	¥ 2,738	¥ 2,738
	Receive variable, pay fixed	100,342	90,390	(1,961)	(1,961)
	Receive variable, pay variable	_	_	_	
	Interest rate options:				
	Sell	2,533	2,533	(2)	10
	Buy	2,533	2,533	2	(8)
	Other contracts:				
	Sell	_	_	_	
	Buy	_	_	_	_
	Total	¥ —	¥ —	¥ 777	¥ 779

Year ended March 31, 2019

				Million	s of yen	
		Сс	Contracted amount		Fair	Unrealized gains
	Туре			Over one year	value	(losses)
Items not traded on exchanges	Interest rate swaps:					
	Receive fixed, pay variable	¥105,5	526	¥94,487	¥ 3,002	¥ 3,002
	Receive variable, pay fixed	105,5	526	94,487	(2,164)	(2,164)
	Receive variable, pay variable			_	_	_
	Interest rate options:					
	Sell	2,2	266	2,266	(0)	8
	Buy	2,2	266	2,266	0	(7)
	Other contracts:					
	Sell			_	_	_
	Buy		_	_	_	_
	Total	¥	_	¥ —	¥ 837	¥ 838
				Millions of	U.S. dollars	

		Millions of U.S. dollars			
		Contrac	cted amount	Fair	Unrealized gains
	Туре		Over one year	value	(losses)
Items not traded on exchanges	Interest rate swaps:				
	Receive fixed, pay variable	\$951	\$851	\$ 27	\$ 27
	Receive variable, pay fixed	951	851	(19)	(19)
	Receive variable, pay variable	_	_	_	_
	Interest rate options:				
	Sell	20	20	(0)	0
	Buy	20	20	0	(0)
	Other contracts:				
	Sell	_	_	_	_
	Buy	_	_	_	_
	Total	\$ —	\$ —	\$8	\$8

Notes: 1. The unrealized gains or losses on interest rate swaps, interest rate options and other contracts are recognized in the consolidated statements of income. 2. Fair value of transactions listed on exchanges is calculated using the closing prices on the Tokyo Financial Exchange and others. Fair value of OTC transactions is calculated using the discounted present value and option pricing models.

Currency related:

Year ended March 31, 2018

		Millions	s of yen		
	Contracted amount		Fair	Unrealized gains	
Туре		Over one year	value	(losses)	
Currency swaps	¥411,637	¥257,397	¥ 129	¥ 207	
Forward foreign exchange contracts:					
Sell	43,733	6,479	1,278	1,278	
Buy	43,723	6,130	(654)	(654)	
Currency options:					
Sell	145,553	65,823	(4,305)	1,292	
Buy	145,553	65,823	4,305	(592)	
Total	¥ —	¥ —	¥ 752	¥1,530	
	Currency swaps Forward foreign exchange contracts: Sell Buy Currency options: Sell Buy	TypeCurrency swaps¥411,637Forward foreign exchange contracts:43,733Buy43,723Currency options:5ellSell145,553Buy145,553	Contracted amountTypeOver one yearCurrency swaps¥411,637¥257,397Forward foreign exchange contracts:Sell43,7336,479Buy43,7236,130Currency options:Sell145,55365,823Buy145,55365,823	Type Over one year Fair value Currency swaps ¥411,637 ¥257,397 ¥ 129 Forward foreign exchange contracts: 5 5 1,278 Buy 43,723 6,130 (654) Currency options: 5 5 43,753 65,823 (4,305) Buy 145,553 65,823 4,305 5 3 3	

Year ended March 31, 2019

			Millions	of yen	
		Contracted amount		Fair	Unrealized gains
	Туре		Over one year	value	(losses)
Items not traded on exchanges	Currency swaps	¥459,612	¥321,641	¥ 96	¥ 143
	Forward foreign exchange contracts:				
	Sell	63,899	24,287	768	768
	Buy	63,551	23,979	72	72
	Currency options:				
	Sell	155,252	59,371	(3,520)	1,451
	Buy	155,252	59,371	3,520	(1,016)
	Total	¥ —	¥ —	¥ 937	¥1,419

			Millions of U	J.S. dollars	
		Contrac	ted amount	Fair	Unrealized gains
	Туре		Over one year	value	(losses)
Items not traded on exchanges	Currency swaps	\$4,141	\$2,898	\$ 1	\$ 1
	Forward foreign exchange contracts:				
	Sell	576	219	7	7
	Buy	573	216	1	1
	Currency options:				
	Sell	1,399	535	(32)	13
	Buy	1,399	535	32	(9)
	Total	\$ —	\$ —	\$8	\$13

Notes: 1. The unrealized gains or losses on currency swaps, forward foreign exchange contracts and currency options are recognized in the consolidated statements of income. 2. Fair value is calculated using the discounted present value method and option pricing models.

Bond related:

There were no bond related transactions for the years ended March 31, 2017 and 2018.

Others:

Year ended March 31, 2018

			Millions of yen		
		Contrac	ted amount	Fair	Unrealized gains
	Туре		Over one year	value	(losses)
Items not traded on exchanges	Earthquake derivatives:				
	Sell	¥4,575	¥—	¥(55)	¥—
	Buy	4,575	—	55	—
	Total	¥ —	¥—	¥ —	¥—

Year ended March 31, 2019

		Millions of yen				
		Contr	acted amount	Fair value	Unrealized gains	
	Туре		Over one year		(losses)	
Items not traded on exchanges	Earthquake derivatives:					
	Sell	¥5,175	¥—	¥(64)	¥—	
	Buy	5,175	—	64	_	
	Total	¥ —	¥—	¥ —	¥—	
			Millions of U.S. dollars			
		Contr	Contracted amount		Unrealized gains	
	Туре		Over one year	Fair value	(losses)	
Items not traded on exchanges	Earthquake derivatives:					
	Sell	\$47	\$—	\$(1)	\$—	
	Buy	47	—	1	—	
	Total	\$ —	\$—	\$ —	\$—	

* Transactions above whose fair values are not readily determinable are stated at cost.

Derivative transactions to which hedge accounting is applied

The notional principal amount and fair value of financial derivatives at March 31, 2018 and 2019 were as follows:

Interest related:

Year ended March 31, 2018

			Millions of yen		
			Contract	ed amount	Fair
Method of hedge accounting	Туре	Main hedge items		Over one year	value
Deferral method	Interest rate swaps:	Loans and bills discounted,			
	Receive fixed, pay variable	securities	¥ 70,000	¥ 20,000	¥ 0
	Receive variable, pay fixed		111,831	107,831	(333)
Exceptional treatment	Interest rate swaps:	Loans and bills discounted			
of interest rate swaps	Receive variable, pay fixed		101,918	75,580	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		1,000	1,000	Note 3
	Total		¥ —	¥ —	¥ (333)

Year ended March 31, 2019

				Millions of yen	
			Contract	ed amount	Fair
Method of hedge accounting	Туре	Main hedge items		Over one year	value
Deferral method	Interest rate swaps:	Loans and bills discounted,			
	Receive fixed, pay variable	securities	¥ 40,000	¥ 40,000	¥ 289
	Receive variable, pay fixed		137,744	137,744	(2,869)
Exceptional treatment	Interest rate swaps:	Loans and bills discounted			
of interest rate swaps	Receive variable, pay fixed		72,336	58,832	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		1,000	_	Note 3
	Total		¥ —	¥ —	¥(2,580)
				Millions of U.S. dollars	i
			Contract	ed amount	Fair
Method of hedge accounting	Туре	Main hedge items		Over one year	value
Deferral method	Interest rate swaps:	Loans and bills discounted,			
	Receive fixed, pay variable	securities	\$ 360	\$ 360	\$ 3
	Receive variable, pay fixed		1,241	1,241	(26)
Exceptional treatment	Interest rate swaps:	Loans and bills discounted			
of interest rate swaps	Receive variable, pay fixed		652	530	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		9	_	Note 3
	Total		\$ —	\$ —	\$(23)

Notes: 1. As for interest rate swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 24.

Fair value of transactions listed on exchanges is calculated using the closing prices on the Tokyo Financial Exchange and others. Fair value of OTC transactions is calculated using the discounted present value, option pricing models and prices obtained from the counterparty financial institutions.
 Interest rate swaps which meet specific matching criteria are accounted for as a component of hedged loans and bills discounted. Therefore, the fair value of those interest rate swaps is included in the fair value of loans and bills discounted in fair value information shown in "21. Financial instruments and related disclosures."

Currency related:

Year ended March 31, 2018

			Millions of yen	
		Contract	ed amount	
Туре	Main hedge items		Over one year	Fair value
Currency swaps Forward foreign	Loans and bills discounted and securities denominated in	¥76,376	¥65,752	¥2,912
exchange contracts	foreign currencies	73,165	_	477
Total		¥ —	¥ —	¥3,390
	Currency swaps Forward foreign exchange contracts	Currency swapsLoans and bills discounted andForward foreignsecurities denominated inexchange contractsforeign currencies	TypeMain hedge itemsCurrency swapsLoans and bills discounted and securities denominated in foreign currencies¥76,376Forward foreignsecurities denominated in foreign currencies73,165	Currency swapsLoans and bills discounted and securities denominated in foreign currencies¥76,376¥65,752Forward foreign exchange contractsforeign currencies73,165—

Year ended March 31, 2019

				Millions of yen	
Method of hedge			Contract	ted amount	
accounting	Туре	Main hedge items		Over one year	Fair value
Deferral method	Currency swaps	Loans and bills discounted and	¥67,545	¥45,330	¥(1,248)
	Forward foreign exchange contracts	securities denominated in foreign currencies	87,819	_	(325)
	Total		¥ —	¥ —	¥(1,574)
				Millions of U.S. dollars	5
Method of hedge			Contract	ted amount	
accounting	Туре	Main hedge items		Over one year	Fair value
Deferral method	Currency swaps	Loans and bills discounted and	\$609	\$408	\$(11)
Forward foreign exchange contracts	securities denominated in foreign currencies	791	_	(3)	
	Total		\$ —	\$ —	\$(14)

Notes: 1. The Bank has applied the deferred hedge accounting stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (IICPA Industry Audit Committee Report No. 25, July 29, 2002). 2. Fair value has been measured on the basis of the calculation of discounted or present value.

15 Employees' severance and retirement benefits

For the years ended March 31, 2018 and 2019 Change in projected benefit obligation

	Millions	s of yen	Millions of U.S. dollars
	2018	2019	2019
Projected benefit obligation at beginning of the year	¥45,916	¥44,651	\$402
Service costs during the year	1,180	1,178	11
Interest cost on projected benefit obligation	21	19	0
Actuarial differences incurred	230	334	3
Benefits paid	(2,807)	(2,577)	(23)
Other	111	111	1
Projected benefit obligation at end			
of the year	¥44,651	¥43,718	\$394

Change in plan assets

	Millions of yen		Millions of U.S. dollars
	2018	2019	2019
Plan assets at beginning of the year	¥91,956	¥ 99,217	\$894
Expected return on plan assets	3,678	3,968	36
Actuarial differences incurred	4,933	6,752	61
Contribution by the business owner	737	738	7
Benefits paid	(2,194)	(1,998)	(18)
Other	106	106	1
Plan assets at end of the year	¥99,217	¥108,785	\$980

The adjustment of the ending balances of projected benefit obligation and plan assets to net defined benefit liability and net defined benefit assets

	Million	Millions of U.S. dollars	
	2018	2019	2019
Funded projected benefit			
obligation	¥ 44,609	¥ 43,678	\$ 394
Plan assets	(99,217)	(108,785)	(980)
	(54,607)	(65,106)	(587)
Unfunded projected benefit obligation	42	39	0
Net on consolidated	12		0
balance sheets	¥(54,565)	¥ (65,067)	\$(586)
			Millions of
	Million	s of yen	U.S. dollars
	2018	2019	2019
Net defined benefit liability	¥ 42	¥ 39	\$ O
Net defined benefit asset	(54,607)	(65,106)	(587)
Net on consolidated balance sheets	¥(54,565)	¥(65,067)	\$(586)

Severance and retirement benefit expenses

	Millions	s of yen	Millions of U.S. dollars
	2018	2019	2019
Service costs—benefits earned during the year	¥ 1,180	¥ 1,178	\$ 11
Interest cost on projected benefit obligation	21	19	0
Expected return on plan assets	(3,678)	(3,968)	(36)
Amortization of actuarial differences	(347)	(467)	(4)
Severance and retirement benefit expenses calculated by simplified method	4	4	0
Severance and retirement benefit expenses	¥(2,820)	¥(3,234)	\$ (29)

Remeasurements of accumulated defined benefit plans

	Million	s of yen	Millions of U.S. dollars
	2018	2019	2019
Actuarial differences	¥4,354	¥5,950	\$54

Remeasurements of defined benefit plans

	Millions	s of yen	Millions of U.S. dollars
	2018	2019	2019
Unrecognized actuarial differences	¥(11,617)	¥(17,567)	\$(158)

Classification of plan assets

	2018	2019
Debt securities	3.9%	2.3%
Equity securities	70.7	73.2
Cash and due from banks	0.1	0.1
Other	25.3	24.4
Plan assets at end of the year	100%	100%

(Note) Plan assets include the retirement benefit trust established for the corporate pension plans (60.2% in 2019 and 54.5% in 2018) and the retirement benefit trust established for lump-sum payment plans (13.9% in 2019 and 16.0% in 2018).

Assumptions

	2018	2019
Discount rate	0.2%	0.2%
Rates of expected return on plan assets	4.0%	4.0%
Expected salary increase rate	2.9%	3.1%

Defined contribution pension plan

Tangible fixed assets in lease assets mainly consisted of The amount required to be contributed by the Bank is ¥296 million and ¥296 million (\$3 million) for the years ended March 31, 2018 and 2019, respectively.

16 Income taxes

Income taxes in the consolidated statements of income consist of corporation tax, inhabitant taxes and enterprise tax. The effective statutory tax rate was approximately 31% and 31% as of March 31, 2018 and 2019, respectively.

Significant components of deferred tax assets as of March 31, 2018 and 2019 were as follows:

			Millions of
		s of yen	U.S. dollars
	2018	2019	2019
Deferred tax assets:			
Reserve for			
possible loan losses	¥ 14,932	¥ 14,030	\$ 126
Write-down of securities	747	765	7
Depreciation	1,865	1,809	16
Other	4,860	5,186	47
Subtotal deferred tax assets	22,406	21,791	196
Valuation allowance for tax loss carryforwards	_	-	-
Valuation allowance for total temporary differences			
deductible in future periods	(978)	(1,063)	(10)
Subtotal valuation allowance	(978)	(1,063)	(10)
Total deferred tax assets	21,428	20,728	187
Deferred tax liabilities:			
Net defined benefit assets	(10,156)	(13,235)	(119)
Gain on contribution or cancellation of securities			
to employee retirement benefit trust	(691)	(691)	(6)
Net unrealized holding	(051)	(051)	(0)
gains on securities			
available for sale	(20,721)	(15,013)	(135)
Total deferred tax liabilities	(31,569)	(28,941)	(261)
Net deferred tax assets	¥(10,140)	¥ (8,212)	\$ (74)

(Changes in presentation)

The Bank has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) (hereinafter "Partial Amendments to Tax Effect Accounting Standard") from the fiscal year under review, and changed Note 18 Income taxes. The Bank added the information indicated in explanatory note 8 (excluding the total amount of valuation allowance) and 9 of "Accounting Standard for Tax Effect Accounting" prescribed in Paragraph 3 to 5 of the Partial Amendments to Tax Effect Accounting Standard in Note 18 Income taxes. A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal year ended March 31, 2018 was as follows:

	2018
Normal effective statutory tax rate	31.0%
Reconciliation:	
Change in valuation allowance	(0.0)
Permanently tax-exempt income	(1.5)
Gains on negative goodwill	(3.5)
Loss on step acquisitions	1.8
Dividend income offset of consolidated subsidiaries	0.9
Other	0.2
Actual effective tax rate	28.8%

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal year ended March 31, 2019 has been omitted, since the difference between the actual effective tax rate and the normal effective statutory tax rate was less than 5% of the normal effective statutory tax rate.

17 Segment information

Operations of the Bank and its consolidated subsidiaries include appraisal of collateral premises and land, servicing businesses and other businesses, in addition to banking business. As such operations are immaterial, separate segment information is not required to be disclosed for the years ended March 31, 2018 and 2019.

Income by service

	Million	Millions of yen				
	2018	2019				
Lending	¥ 61,427	¥ 62,142	\$ 560			
Investment in securities	24,331	23,033	208			
Fees and commissions	31,732	29,677	267			
Other	7,418	6,384	58			
Total	¥124,908	¥121,238	\$1,092			

18 Related party transactions

Information about related party transactions for the years ended March 31, 2018 and 2019 is omitted since they are immaterial.

19 Financial instruments and related disclosures

(1) Policy for financial instruments

The Bank and its consolidated subsidiaries conduct financial services such as financial instruments transactions, credit guarantees, leasing and credit card services, with banking as their core activity. Among these businesses, core banking operations include fund procurement through deposit-taking and fund management through loans and investment security portfolios. The financial assets and liabilities of the Bank are subject to Asset Liability Management ("ALM," comprehensive management of assets and liabilities) in such a way as to prevent adverse impact from interest-rate, foreign-exchange and market-value fluctuation.

(2) Nature and extent of risk arising from financial instruments

Loans and bills discounted are primarily provided to domestic institutional and individual customers, in which the Bank is exposed to customers' credit risk. Securities primarily consist of stocks, bonds and investment trusts held by the Bank for the purposes of building and maintaining good relationships with customers, sole investment objective and held-tomaturity investment objective.

They are exposed to risk of fluctuation in interest rates and prices in the bond/stock markets and in addition, credit risk arising from downgrading of the issuer's credit rating. Borrowed money, bonds and commercial papers are exposed to liquidity risk, the risk that the Bank is unable to meet its obligations as they fall due.

The Bank enters into the following derivative transactions, such as currency swaps and forward foreign exchange contracts to meet the financial needs of customers and interest rate swaps for the purpose of optimizing ALM. As part of optimizing ALM, the Bank uses hedge accounting, specifying derivatives such as interest rate swaps as hedging instruments, and loans as hedged items.

(3) Risk management for financial instruments Credit risk management

Credit risk is the risk of sustaining losses due to reduction or loss of value of assets due to deteriorating credit circumstances at a borrower.

(Credit screening system)

For all major loans made by branches, the Bank has in place a system of rigorous credit-screening carried out by a creditscreening department, which is independent of the sales departments. In addition to establishing teams for each sector, the credit-screening department has established a dedicated team to ensure sounder borrower finances and effective corporate rehabilitation, and also offers support to management trying to improve operational management.

In evaluating a customer application for a loan, the Bank will give a considered response, in line with "The Basic Principles Prescribing Credit" set up by the Board of Directors, turning down any application that runs counter to the law or public morality and taking careful account of profitability and public benefit, in addition to fund use, repayment source, and guarantee and collateral arrangements.

In cases where customers apply for a review of borrowing terms, the Bank will give a considered response taking account of actual circumstances faced by the customer, in line with "The Basic Principles for Facilitation of Finance" set up by the Board of Directors. Appropriate and prompt credit screening is carried out after joint appraisal of a customer's needs and concerns—and not just based on a mechanical, uniform judgment informed only by financial statements and other superficial statistics and industry-specific guidelines.

To strengthen and expand the credit-screening system, the Bank seeks to duly appraise the creditworthiness of a given company through case-by-case credit management and takes continuous measures to improve the credit-screening skills of employees by various kinds of training program.

(Risk management using the credit rating system)

The Bank has introduced the credit rating system to give an objective overview of credit risk on loans. Based on financial and other data indicating the level of creditworthiness of the borrower, the Bank has divided borrowers into 12 grades, and continuously monitors changes in credit risk. The Bank then carries out credit risk quantification based on these grades, to assess credit risk on loan assets and set baseline interest rates on loans.

The Bank also accumulates and organizes the data necessary for quantification of credit risks, such as the default rate within each grade and extent of asset recovery from customers in default, and uses a highly sophisticated quantification technique to obtain a still more detailed picture of risk-monitored assets.

(Self-assessment of assets)

In parallel with the credit rating system, the Bank conducts strict checks into the soundness of loans and other assets through annual assessment. Screening is carried out by particular Bank branches in light of the financial situation faced by the borrower, and the results are checked by the credit-screening department of the Head Office. In addition, the Risk Management Division extracts important information and conducts a rigorous review of screening due process and accuracy, and the Audit Division carries out the process audit. Based on this self-assessment of assets, in cases where there is no realistic prospect of asset recovery, provisions are made to reserve for possible loan losses to cover the entire value of the sum at risk. This provision is then recorded as a loss for the fiscal year under review. In this way the Bank ensures asset soundness on a continuous basis.

Market risk management

(i) Market risk management system

Market risk which is associated with change in the value of financial instruments from fluctuations in interest rates, securities prices, foreign exchange rates, and other marketrelated indices, has an effect on our financial performance. The Bank controls market risk to stabilize earnings by endeavoring to improve and strengthen ALM.

Management of trading account risk

With regard to the trading accounts (for securities and offbalance-sheet transactions that target short-term gains on sales or purchases, and trading at the behest of customers), the Bank has special management mechanisms in place to guard against risk, since these transactions differ qualitatively from banking account transactions (involving deposits and loans, investment securities, and related transactions). The Bank has set up designated trading accounts, and is strengthening their management using transparent accounting procedures based on fair value.

For proprietary position dealing, the Bank limits the position by complying with strict rules in terms of position limits and loss-cutting measures. For positions and transactions on behalf of customers, the Bank follows a policy of square positions by fully covering them through the interbank market.

(ii) Quantitative information relating to market risk(a) Financial products for trading purposes

The Bank holds securities and derivative transactions including interest-rate and currency swaps for trading purpose.

To measure the amount of market risk, the Bank adopts VaR (Value at Risk) using the variance-covariance method (observation period: one year; confidence interval: 99.9%; holding period: one day).

As of March 31, 2018 and 2019, the entire VaR of the Bank was ¥1 million and ¥1 million (\$0 million), respectively.

(b) Financial products held for other than trading purpose The Bank holds various products such as loans, securities, deposits, corporate bonds, and derivatives for other than trading purpose.

To measure the amount of market risk associated with these products, the Bank uses the VaR method using the variance-covariance method (observation period: one year; confidence interval: 99.9%; holding period: six months for strategic equity investments, three months for securities other than strategic equity investments, and one year for others).

The total VaR as of March 31, 2018 and 2019 was ¥54,186 million and ¥65,243 million (\$588 million), respectively. Within liquid deposits, the Bank recognizes interest risks related to deposits left in the Bank for long periods without withdrawal, which are allocated each fiscal period as core deposits.

(c) VaR adequacy

The relationship between the VaR calculated with the model and actual gains and losses data is back-tested. The Bank has confirmed that the calculating model used for these measurements captures market risk with the necessary degree of accuracy.

However, because VaR is a method of measuring the amount of market risk in terms of the probability of a certain event happening based on past statistical variation, it cannot be used for assessing risk in a market environment characterized by abnormal change.

Management of liquidity risks related to fund procurement

Liquidity risk is the risk of incurring losses due to a decline in cash flow or being obliged to procure funds at interest rates that are markedly higher than usual due to an unexpected outflow of cash.

The Bank has secured highly liquid assets such as government bonds to prepare for cash outflows in times of short-term stress. Moreover, to mitigate long-term fund procurement risks, the Bank manages the gap between low-liquidity loans and stable procurement. The Bank has a structure to conduct liquidity measurements and to secure available reserves over the net cumulative outflow forecasted in an emergency situation.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used.

Since the calculations of the reasonably calculated prices are implemented under certain conditions and assumptions, the result of calculations would differ if such calculations are made under different conditions and assumptions.

Fair values of financial instruments as of March 31, 2018 and 2019 were as follows:

	Millions of yen					
		Year er	nded M	Aarch 31	, 20	18
		arrying nount	Enir	value	Dif	ference
(1) Cash and due from banks		511,177		11,177	¥	leience
(2) Call loans and	τı,	511,177	τı,J	11,177	Ŧ	_
bills purchased		18,521		18,521		_
(3) Financial receivables						
purchased		7,424		7,424		
(4) Trading assets* ²						
Securities held for		017		017		
trading purposes		917 9 25 6		917		—
(5) Money held in trust(6) Securities:		8,256		8,256		_
Securities held to maturity						
Securities available for sale	1	371,648	1 2	71,648		_
(7) Loans and bills discounted		861,796	د, ا	/1,040		
Reserve for possible loan	5,0	501,750				
losses*1		(32,737)				
Net	5,8	829,059	5,9	67,373	1	38,314
Total assets	¥8,	747,005	¥8,8	85,320	¥1	38,314
(1) Deposits	¥7,	170,925	¥7,1	71,400	¥	475
(2) Negotiable certificates of		120	2	70 121		1
deposit (3) Call money and bills sold		270,129 50,000		70,131 50,000		1
(4) Payables under		50,000		50,000		_
repurchase agreements		111,329	1	11,329		_
(5) Deposits received						
for bonds lending/						
borrowing transactions		262,859		62,859		
(6) Borrowed money		585,551		86,266		715
Total liabilities	¥ð,	450,793	¥8,4	51,986	¥	1,192
Derivative instruments* ^{1, 3} :						
Hedge accounting						
is not applied	¥	1,519	¥	1,519	¥	_
Hedge accounting is applied		3,056		3,056		_
Derivative instruments total	¥	4,576	¥	4,576	¥	_

	Millions of yen						
	Year e	nded March 3	1, 2019				
	Carrying amount	Fair value	Difference				
(1) Cash and due from banks	¥1,432,022	¥1,432,022	¥ —				
(2) Call loans and bills purchased	19,953	19,953	_				
(3) Financial receivables purchased	7,813	7,813	-				
(4) Trading assets* ² Securities held for							
trading purposes	1,048	1,048	—				
(5) Money held in trust	10,312	10,312	—				
(6) Securities:							
Securities held to maturity	—	_	—				
Securities available for sale	1,164,414	1,164,414	—				
(7) Loans and bills discounted	6,020,840						
Reserve for possible loan							
losses*1	(30,041)						
Net	5,990,799	6,143,725	152,925				
Total assets	¥8,626,364	¥8,779,289	¥152,925				
(1) Deposits	¥7,253,828	¥7,254,221	¥ 393				
(2) Negotiable certificates of deposit	210,327	210,328	1				
(3) Call money and bills sold	· _	· _	_				
(4) Payables under repurchase agreements	88,521	88,521	_				
(5) Deposits received for bonds lending/	·	·					
borrowing transactions	260,108	260,108	—				
(6) Borrowed money	516,331	517,939	1,608				
Total liabilities	¥8,329,118	¥8,331,120	¥ 2,002				
Derivative instruments*1, 3:							
Hedge accounting is not applied	¥ 1,770	¥ 1,770	¥ —				
Hedge accounting is applied	(4,155)	(4,155)	_				
Derivative instruments total	¥ (2,385)	¥ (2,385)	¥ —				

	Millions of U.S. dollars						
		Year er	ded	March 3	1, 20	19	
		rying					
		ount		· value		erence	
(1) Cash and due from banks	\$12	,902	\$12	2,902	\$	—	
(2) Call loans and bills		100		100			
purchased		180		180		_	
(3) Monetary clams bought		70		70		_	
(4) Trading assets* ²							
Securities held for trading		9		9			
purpose (5) Money held in trust		93		93		_	
(6) Securities:		95		33		_	
(-)							
Securities held to maturity	10		1.			_	
Securities available for sale		,491	10	0,491			
(7) Loans and bills discounted	54	,247					
Reserve for possible loan losses*1		(771)					
Net		(271) ,976	E		1	270	
		,970 ,722		5,354 9,100		378 378	
Total assets	\$//	,122	¢١:	9,100	پ ١,	3/8	
(1) Deposits	65	,356	6	5,359		4	
(2) Negotiable certificates of		/		-,			
deposit	1	,895		1,895		0	
(3) Call money and bills sold		_		_			
(4) Payables under repurchase							
agreements		798		798		—	
(5) Deposits received							
for bonds lending/	2	,344		2,344			
borrowing transactions (6) Borrowed money		,652		4,667		14	
Total liabilities		,032		+,007 5,062	\$	18	
	ر رو	,044	. т. ф.	5,002		10	
Derivative instruments* ^{1, 3} :							
Hedge accounting							
is not applied	\$	16	\$	16	\$		
Hedge accounting is applied		(37)		(37)		_	
Derivative instruments total	\$	(21)	\$	(21)	\$	_	
*1. The amounts only include the gene	ral rac						

*1. The amounts only include the general reserve for possible loan losses and the specific reserve for possible loan losses provided to "Loans and bills discounted." Reserve for possible loan losses provided in "Derivative instruments" is directly deducted from the carrying amounts due to immateriality.

*2. Derivative instruments are not included in trading assets.

*3. Derivative instruments recorded in "Trading assets," "Liabilities," "Other assets" and "Other liabilities" are aggregated and shown herein. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented with brackets.

(Note 1) Valuation methodology for financial instruments

Assets

(1) Cash and due from banks

The carrying amounts of due from banks with no maturities approximate fair values because they have no maturity. For due from banks with maturities, the carrying amounts approximate fair value because most of them have short maturities.

(2) Call loans and bills purchased

The carrying amounts of call loans and bills purchased approximate fair values because most of these instruments have short maturities.

(3) Financial receivables purchased

Financial receivables purchased which have been divided by priority such as subordinated and preferred interest and which have multiple owners are measured at the quoted price from a third party. The carrying amounts of other financial receivables purchased approximate fair values because most of these instruments have short maturities.

(4) Trading assets

The fair values of securities held for trading purposes are measured at observable market prices or quoted price from a third party.

(5) Money held in trust

The fair values of money held in trust, which have an external rating, are determined using the discounted cash flow method. The fair values of other money held in trust approximate fair values because most consists of deposits with no maturities.

(6) Securities

The fair values of marketable equity securities are measured at market prices. The fair values of bonds are measured at market prices or quoted price from a third party.

The fair values of investment trusts are measured at the published benchmark price or quoted price from a third party.

The value reasonably estimated for such bonds was calculated by discounting the estimated future cash flows at the rate derived from yields of Japanese government bonds. The yields of Japanese government bonds and volatility are major variables in pricing.

(7) Loans and bills discounted

The fair values of loans and bills discounted are determined by discounting expected cash flows at the rates that would be applied for the new same contract for each type of loan product, interest, period of time and internal ratings-based classification.

For loans to obligors "legally bankrupt," "virtually bankrupt" and "possibly bankrupt," since the reserve is provided based on amounts expected to be collected through the disposal of collateral or execution of guarantees, the net carrying amount as of the consolidated balance sheet date is the reasonable estimate of the fair value of those loans.

Loans with no maturities approximate fair values because most are without concern of collectability.

Liabilities

(1) Deposits (2) Negotiable certificates of deposit

The fair values of demand deposits are recognized as the payment at the date of the consolidated balance sheets. The fair values of time deposits are determined by discounting the contractual cash flows at the rates that would be applied for the same, new contracts.

(3) Call money and bills sold, (4) Payables under repurchase agreements, (5) Deposits received for bonds lending/borrowing transactions

The carrying amounts of call money and bills sold, deposits received for bonds lending/borrowing transactions approximate fair values, because these instruments have short maturities.

(6) Borrowed money

The fair values of borrowed money are determined by discounting the contractual cash flows at the rate that would be applied for the same, new contracts. The carrying amounts of borrowed money with short maturities approximate fair values.

Derivative instruments

The fair values of derivative instruments are measured at the market prices or determined using the discounted cash flow method or option pricing models.

(Note 2) Financial instruments whose fair value cannot be reliably determined

		Carrying amount		
	Million	s of yen	Millions of U.S. dollars	
	2018	2019	2019	
Equity securities without readily available market price*1, 2	¥ 6,753	¥ 7,062	\$ 64	
Other	4,315	4,442	40	
Total	¥11,068	¥11,505	\$104	

*1. Equity securities without readily available market prices are out of the scope of fair value disclosure because their fair value cannot be reliably determined.

*2. Impairment loss on equity securities without readily available market prices was ¥1 million and ¥0 million (\$0 million) for the years ended March 31, 2018 and 2019, respectively.

(Note 3) Maturity analysis for financial assets with contractual maturities

As of March 31, 2018

			Million	is of yen		
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	¥1,431,761	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	18,521	_	—	_	—	—
Financial receivables purchased	7,424	_	—	_	—	—
Money held in trust	8,256	_	_	_	—	—
Securities	304,727	207,169	120,151	46,474	90,217	376,228
Held-to-maturity	—	_	—		—	—
Available-for-sale:	304,727	207,169	120,151	46,474	90,217	376,228
National government bonds	245,000	77,100	45,000	10,000	—	94,300
Local government bonds	18,479	36,812	10,360	18,350	35,745	—
Bonds	32,883	27,947	17,648	7,293	5,641	118,770
Others	8,365	65,309	47,142	10,830	48,830	163,158
Loans and bills discounted*	679,833	576,258	744,037	512,207	689,815	1,924,751
Total	¥2,450,525	¥783,428	¥864,188	¥558,681	¥780,032	¥2,300,980

As of March 31, 2019

			Million	is of yen		
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	¥1,351,129	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	19,953	—		—		—
Financial receivables purchased	7,813	—		—		—
Money held in trust	10,312	—		—		—
Securities	134,895	127,174	98,081	61,102	121,423	411,947
Held-to-maturity	—	—		—		—
Available-for-sale:	134,895	127,174	98,081	61,102	121,423	411,947
National government bonds	62,100	45,000	25,000	5,000		162,000
Local government bonds	32,912	9,490	9,360	30,620	34,265	_
Bonds	12,595	28,063	20,977	6,195	7,044	124,623
Others	27,288	44,621	42,743	19,287	80,113	125,323
Loans and bills discounted*	637,720	592,946	755,289	531,882	739,268	1,996,967
Total	¥2,161,824	¥720,121	¥853,370	¥592,985	¥860,691	¥2,408,914
	Millions of U.S. dollars					

			IVIIIIONS OT	U.S. dollars		
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Due from banks	\$12,173	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills purchased	180	_	—		_	_
Financial receivables purchased	70	_	—		_	_
Money held in trust	93	_	—		_	_
Securities	1,215	1,146	884	551	1,094	3,712
Held-to-maturity	_	_	—		_	_
Available-for-sale:	1,215	1,146	884	551	1,094	3,712
National government bonds	560	405	225	45	_	1,460
Local government bonds	297	86	84	276	309	_
Bonds	113	253	189	56	63	1,123
Others	246	402	385	174	722	1,129
Loans and bills discounted*	5,746	5,342	6,805	4,792	6,661	17,992
Total	\$19,478	\$6,488	\$7,689	\$5,343	\$7,755	\$21,704

* Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loans to "legally bankrupt" borrowers, loans to "virtually bankrupt" borrowers and loans to "possibly bankrupt" borrowers amounting to ¥52,433 million and ¥48,594 million (\$438 million), is not included in the above table as of March 31, 2018 and 2019, respectively. Loans that do not have contractual maturity, amounting to ¥682,459 million and ¥718,170 million (\$4,471 million), are not included either.

(Note 4) Maturity analysis for interest-bearing liabilities as of March 31, 2018 and 2019 As of March 31, 2018

		Millions of yen				
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	¥6,959,597	¥191,777	¥ 17,201	¥ 987	¥ 1,362	¥ —
Negotiable certificates of deposit	269,176	953	—		_	—
Call money and bills sold	50,000	_	—		—	—
Payables under repurchase agreements	111,329	_	—		—	—
Payables under securities lending						
transactions	262,859	—		—	—	
Borrowed money	75,857	309,046	181,779	1,551	16,080	1,235
Total	¥7,728,819	¥501,776	¥198,980	¥2,539	¥17,442	¥1,235

As of March 31, 2019

	Millions of yen					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	¥7,045,287	¥175,039	¥ 31,011	¥1,265	¥ 1,224	¥ —
Negotiable certificates of deposit	207,712	2,615	—			—
Call money and bills sold	_	_	—			—
Payables under repurchase agreements	88,521	_	_	_	_	_
Deposits received for bonds lending/						
borrowing transactions	260,108		_	—		—
Borrowed money	11,912	260,527	216,156	1,771	18,462	7,501
Total	¥7,613,542	¥438,181	¥247,167	¥3,037	¥19,686	¥7,501

	Millions of U.S. dollars					
	Less than 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years less than 7 years	More than 7 years less than 10 years	More than 10 years
Deposits*	\$63,477	\$1,577	\$ 279	\$11	\$ 11	\$—
Negotiable certificates of deposit	1,871	24			_	_
Call money and bills sold	—	_			_	_
Payables under repurchase agreements	798	_			_	_
Deposits received for bonds lending/ borrowing transactions	2,344	—	—	—	—	—
Borrowed money	107	2,347	1,948	16	166	68
Total	\$68,597	\$3,948	\$2,227	\$27	\$177	\$68

* Deposits on demand are included in "Less than 1 year."

20 Stock options

A) The Bank recorded stock option expenses in "General and administrative expenses" of ¥20 million and nil for the years ended March 31, 2018 and 2019, respectively

B) Outline of stock options, size and changes in the year ended March 31, 2019

(1) Outline of stock options

	Stock options 2010	Stock options 2011	Stock options 2012
Persons to whom stock options are granted	Directors of the Bank: 12	Directors of the Bank: 11	Directors of the Bank: 10
Type and number of shares*	Common stock: 191,600	Common stock: 179,150	Common stock: 225,050
Date of rights granted	July 28, 2010	July 27, 2011	July 27, 2012
Condition for vesting	Not applicable	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable	Not applicable
Period for exercise of stock options	From July 29, 2010 to July 28, 2040	From July 28, 2011 to July 27, 2041	From July 28, 2012 to July 27, 2042
	Stock options 2013	Stock options 2014	Stock options 2015
Persons to whom stock options are granted	Directors of the Bank: 10	Directors of the Bank: 10	Directors of the Bank: 8
Type and number of shares*	Common stock: 133,700	Common stock: 154,700	Common stock: 82,500
Date of rights granted	July 25, 2013	July 30, 2014	July 31, 2015
Condition for vesting	Not applicable	Not applicable	Not applicable
Eligible service period	Not applicable	Not applicable	Not applicable
Period for exercise of stock options	From July 26, 2013 to July 25, 2043	From July 31, 2014 to July 30, 2044	From August 1, 2015 to July 31, 2045
	Stock options 2016		
Persons to whom stock options are granted	Directors of the Bank: 7	-	
Type and number of shares*	Common stock: 125,350	-	
Date of rights granted	July 29, 2016		
Condition for vesting	Not applicable	-	
Eligible service period	Not applicable		
Period for exercise of stock options	From July 30, 2016 to July 29, 2046	-	

(2) Size and changes of stock options

a. Number of stock options for the year ended March 31, 2019

	Stock option 2010	Stock option 2011	Stock option 2012	Stock option 2013	Stock option 2014	Stock option 2015	Stock option 2016
Non-vested:							
Outstanding on April 1, 2018	_	—	—		_	—	_
Granted	—	_					_
Forfeited	—	—	—			—	—
Vested	_	—	—	_		—	_
Outstanding on March 31, 2019	—	—					
Vested:							
Outstanding on April 1, 2018	30,300	32,100	57,150	46,350	65,500	54,750	108,300
Vested	—	—					
Exercised	14,500	15,350	19,050	11,350	25,850	26,600	54,150
Forfeited	_	_	_	_	_	_	
Outstanding on March 31, 2019	15,800	16,750	38,100	35,000	39,650	28,150	54,150

b. Price information for the year ended March 31, 2019

b. The information for the year e		
	Yen	U.S. dollars
		otion 2010
Exercise price	¥ 1	\$0.00
Average exercise price	729	6.57
Fair value at the granted date	652	5.87
	Yen	U.S. dollars
	Stock op	otion 2011
Exercise price	¥ 1	\$0.00
Average exercise price	729	6.57
Fair value at the granted date	644	5.80
	Yen	U.S. dollars
	Stock op	otion 2012
Exercise price	¥ 1	\$0.00
Average exercise price	729	6.57
Fair value at the granted date	446	4.02
	Yen	U.S. dollars
	Stock op	otion 2013
Exercise price	¥ 1	\$0.00
Average exercise price	729	6.57
Fair value at the granted date	820	7.39
	Yen	U.S. dollars
	Stock op	otion 2014
Exercise price	¥ 1	\$0.00
Average exercise price	729	6.57
Fair value at the granted date	914	8.23
	Yen	U.S. dollars
	Stock op	otion 2015
Exercise price	¥ 1	\$0.00
Average exercise price	729	6.57
Fair value at the granted date	1,346	12.13
	Yen	U.S. dollars
	Stock op	otion 2016
Exercise price	¥ 1	\$0.00
Average exercise price	729	6.57
Fair value at the granted date	654	5.89

(3) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of stock options that will be forfeited in the future.

21 Other comprehensive income (loss)

Reclassification adjustments and the related tax effects concerning other comprehensive income (loss) for the years ended March 31, 2018 and 2019 were as follows:

	Millions of yen		Millions of U.S. dollars
-	2018	2019	2019
Net unrealized holding gains (losses) on securities available for sale:			
The amount arising during the period	¥16,860	¥(12,353)	\$(111)
Reclassification adjustments	(3,959)	(6,073)	(55)
Before adjustments for tax effect	12,900	(18,426)	(166)
The amount of tax effect	(3,999)	5,707	51
Net unrealized holding gains (losses) on securities available for sale	8,900	(12,719)	(115)
Net deferred gains (losses) on hedging instruments, net of tax:			
The amount arising during the period	(1,708)	(4,623)	(42)
Reclassification adjustments	1,658	2,493	22
Before adjustments for tax effect	(50)	(2,130)	(19)
The amount of tax effect	15	660	6
Net deferred gains (losses) on hedging instruments, net of tax	(34)	(1,469)	(13)
Remeasurements of defined benefit plans:			
The amount arising during the period	4,702	6,417	58
Reclassification adjustments	(347)	(467)	(4)
Before adjustments for tax effect	4,354	5,950	54
The amount of tax effect	(1,349)	(1,844)	(17)
Remeasurements of defined benefit plans	3,004	4,105	37
Share of other comprehensive income (loss) of affiliated companies accounted for by equity method:			
The amount arising during the period	6	(3)	(0)
Reclassification adjustments	_		_
Share of other comprehensive income (loss) of affiliated companies accounted			
for by equity method	6	(3)	(0)
Total other comprehensive income (loss)	¥11,877	¥(10,086)	\$ (91)

22 Business combination

Merger between consolidated subsidiaries

The Bank resolved the merger between Hirogin Mortgage Service Co., Ltd. and Hirogin Business Support Co., Ltd. at the board of directors meeting held on April 27, 2018, and these companies merged on July 1, 2018.

A) Outline of transaction

(1) Name and business of combined companies

Name of acquiring company: Hirogin Mortgage Service Co., Ltd.

Business of acquiring company: Investigation and evaluation of real estate collateral

Name of acquired company: Hirogin Business Support Co., Ltd.

Business of acquired company: Consolidated accounting, printing and bookbinding business

(2) Date of business combination July 1, 2018

(3) Legal form of business combination

Absorption-type merger in which Hirogin Mortgage Service Co., Ltd. is the surviving company and Hirogin Business Support Co., Ltd. is the absorbed company

(4) Name of the company after business combination Hirogin Business Service Co., Ltd.

(5) Others

This merger aims at efficiency of operations and further strengthening of the group management.

B) Outline of accounting treatment

The transaction is treated as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No.21, September 13, 2013), as well as the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, September 13, 2013).

23 Significant subsequent events

Absorption-type merger of a consolidated subsidiary

The Bank resolved the absorption-type merger of Hirogin Wealth Management Co., Ltd., which is a consolidated subsidiary of the Bank at the board of directors' meeting held on November 7, 2018, and these companies merged on April 1, 2019.

A) Outline of transaction

(1) Name of business of combined companies

Name of acquiring company: The Hiroshima Bank, Ltd. Business of acquiring company: Banking business

Name of acquired company: Hirogin Wealth Management Co., Ltd.

Business of acquired company: Insurance agency business

(2) Date of business combination April 1, 2019

(3) Legal form of business combination

Absorption-type merger in which the Bank is the surviving company and Hirogin Wealth Management Co., Ltd. is the absorbed company (4) Name of the company after business combination The Hiroshima Bank, Ltd.

(5) Others

This merger aims at further strengthening of the group management through streamlining operations and enhancement of services.

B) Outline of accounting treatment

The transaction is treated as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No.21, January 16, 2019), as well as the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, January 16, 2019).

Non-Consolidated Balance Sheets

THE HIROSHIMA BANK, LTD. As of March 31, 2018 and 2019

	Millions of yen		Millions of U.S. dollars
	2018	2019	2019
ASSETS	2010	2013	2013
Cash and due from banks	¥1,509,905	¥1,430,685	\$12,890
Call loans and bills purchased	18,521	19,953	180
Financial receivables purchased	5,904	6,253	56
Trading assets	5,842	5,830	53
Money held in trust	156	162	1
Securities	1,393,440	1,186,499	10,690
Loans and bills discounted	5,852,316	6,014,683	54,191
Foreign exchanges	7,741	7,536	68
Other assets	82,094	83,600	753
Tangible fixed assets	91,473	94,890	855
Intangible fixed assets	9,420	9,431	85
Prepaid pension cost	42,989	47,538	428
Customers' liabilities for acceptances and guarantees	36,506	41,996	378
Reserve for possible loan losses	(33,474)	(31,101)	(280)
Total assets	¥9,022,839	¥8,917,961	\$80,349
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits	¥7,459,316	¥7,479,040	\$67,385
Call money and bills sold	50,000	+7,+75,0+0	407,505
Payables under repurchase agreements	111,329	88,521	798
Deposits received for bonds lending/borrowing transactions	262,859	260,108	2,344
Trading liabilities	4,023	3,856	2,344
Borrowed money	581,122	514,289	4,634
Foreign exchanges	224	339	4,054
Due to trust account	42	23	0
Other liabilities	28,892	41,563	374
	4,447	3,558	374
Reserve for reimbursement of deposits	4,447 89	79	1
Reserve for point loyalty programs	176	341	3
Reserve for stock payments			8
Reserve for loss related to Head Office rebuilding	1,987	846	
Deferred tax liabilities	7,274	3,501	32
Deferred tax liabilities for land revaluation reserve	13,613	13,610	123
Acceptances and guarantees Total liabilities	36,506	41,996 ¥8,451,677	\$76,148
	¥8,561,905	\$8,431,077	\$76,148
Net Assets:			
Common stock:			
Authorized – 2,000,000,000 shares			
Issued – 312,633,171 shares	¥ 54,573	¥ 54,573	\$ 492
Capital surplus	30,745	30,739	277
Retained earnings	300,948	320,376	2,887
Common stock in treasury	(1,246)	(1,026)	(9)
Total stockholders' equity	385,022	404,663	3,646
Net unrealized holding gains on securities available for sale	48,387	35,668	3,040
Net deferred losses on hedging instruments, net of tax	(547)	(2,016)	(18)
Land revaluation reserve, net of tax	27,763	27,792	250
Total valuation and translation adjustments	75,604	61,444	554
Stock acquisition rights	308	176	2
Total net assets	460,934	466,283	4,201
Total liabilities and net assets	¥9,022,839	¥8,917,961	\$80,349

Non-Consolidated Statements of Income

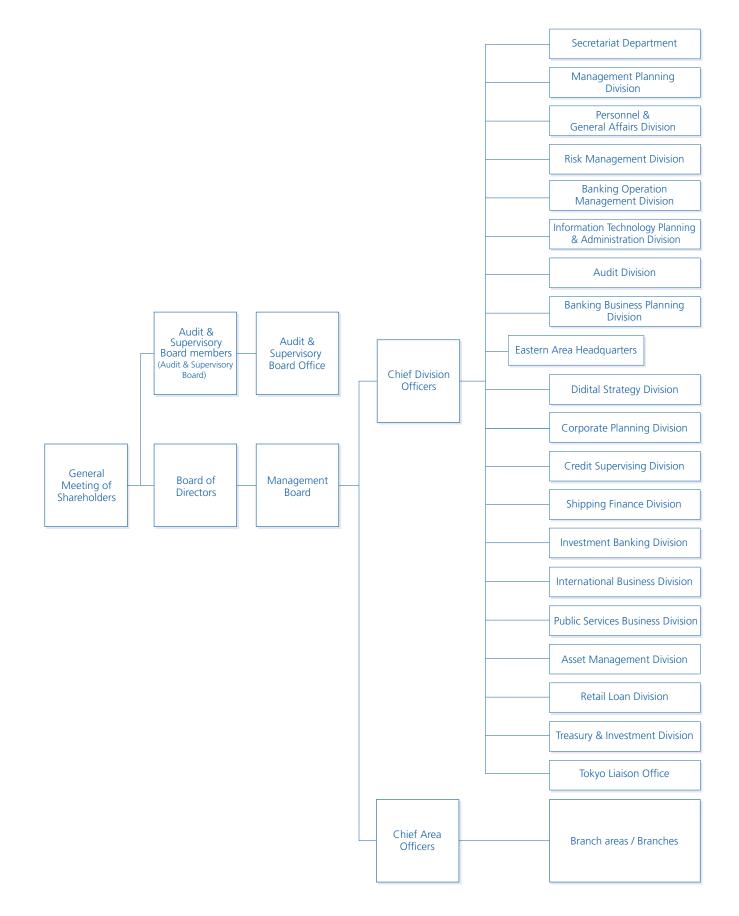
THE HIROSHIMA BANK, LTD. Years ended March 31, 2018 and 2019

	Millions of yen		Millions of U.S. dollars	
	2018	2019	2019	
Income:				
Interest income:				
Interest on loans and discounts	¥ 61,410	¥ 62,182	\$ 560	
Interest and dividends on securities	15,056	12,682	114	
Other interest income	1,300	1,779	16	
Fees and commissions	25,183	24,430	220	
Other operating income	4,515	7,537	68	
Other income	14,971	6,321	57	
Total income	122,438	114,932	1,036	
Expenses:				
Interest expenses:				
Interest on deposits	2,867	2,219	20	
Interest on borrowings and rediscounts	3,724	3,425	31	
Other interest expenses	2,886	2,842	26	
Fees and commissions	9,889	9,983	90	
Other operating expenses	4,691	3,417	31	
General and administrative expenses	55,740	52,625	474	
Other expenses	5,505	4,704	42	
Total expenses	85,304	79,218	714	
Income before income taxes and others	37,134	35,713	322	
Income taxes:				
Provision for income taxes and others	9,700	7,735	70	
Deferred income taxes	399	2,590	23	
Net income	¥ 27,034	¥ 25,388	\$ 229	
	Y	en	U.S. dollars	
Amounts per share of common stock:				
Net assets	¥1,480.24	¥1,496.60	\$13.48	
Net income	86.74	81.53	0.73	
Diluted net income	86.63	81.46	0.73	
Cash dividends applicable to the year	13.5	20.0	0.18	

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Organization

(As of April 1, 2019)



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Major Shareholders

(As of March 31, 2019)

Shareholders	Number of shares (Thousand)	Percentage of shares issued (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	18,352	5.87
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,125	3.88
Meiji Yasuda Life Insurance Company	9,504	3.04
Sompo Japan Nipponkoa Insurance Inc.	7,500	2.40
CP Chemical Incorporated	7,463	2.38
Nippon Life Insurance Company	6,042	1.93
Sumitomo Life Insurance Company	6,038	1.93
The Chugoku Electric Power Co., Inc.	6,004	1.92
Japan Trustee Services Bank, Ltd. (Trust Account 5)	5,698	1.82
The Bank of Fukuoka, Ltd.	5,500	1.76

Stock Information

(As of March 31, 2019)

Number of Shares Authorized	1,000,000 thousand
Number of Shares Issued	312,633 thousand
Number of Shareholders	18,701

Shareholder Incentive Plan

We have established shareholder incentives for shareholders to improve their satisfaction.

Shareholders eligible for the Shareholder Incentive Plan

Eligible shareholders' reference date	March 31 every year (hereafter, "the reference date")
Eligible shareholders	Shareholders who have more than 100 shares listed on the Bank's register of shareholders on the reference date
Operational period	From the beginning of July of the year containing the reference date to the end of June of the following year

• Content of the Shareholder Incentive Plan

Preferential tickets will be sent to the eligible shareholders.

One of the following four courses can be chosen for each preferential ticket.

Course name	Course overview
(1) Time deposit course	For time deposits made for one year, the course applies an additional interest rate up to the first date of maturity.
(2) Investment trust course	– The courses provide cashback of 20% of the accumulated fee (excluding tax, ¥20,000 maximum) on each _ transaction.
(3) Inheritance-related service course	
(4) Hirogin Securities-related trading course	

* Information about the Shareholder Incentive Plan is provided in branches and on the Bank's website. For details, please ask at the counter.

* Please study the explanatory notes for each course before choosing it.

* Please be aware that the Shareholder Incentive Plan may include revisions to the incentive plan itself, including terminating the use of the plan due to changes in the business environment and other factors, or have its contents changed.

We present tickets to the Hiroshima Museum of Art, a nonprofit organization, to our shareholders who make use of the Hirogin time deposits we have established as shareholder incentives.

Foundation Hiroshima Museum of Art

Overview

The Hiroshima Museum of Art was established in November 1978 by Hiroshima Bank in commemoration of the 100th anniversary of its foundation, as we move through history together with the region. We hope that the museum can offer spiritual repose to the people of Hiroshima, the city reduced to ruins by the atomic bomb on August 6, 1945. To this end, we have created a sanctuary of fragrant beauty around the themes of love and healing. We pray that it will also bring repose to the victims of the bomb that has led to today's Hiroshima, and peace to Hiroshima City.

Address:	3-2 Motomachi, Naka-ku,
	Hiroshima City (in Central Park) 730-0011, Japan
Opening Hours:	9:00 a.m.–5:00 p.m. (Last entry 4:30 p.m.)
	* Open until 7:00 p.m. on fridays during special exhibitions
Closed:	Mondays except during special exhibitions (or the following day if a public holiday
	falls on Monday) and December 29–January 2
	Note: The museum is sometimes closed temporarily to change exhibitions.

The collection

The art gallery exhibits some 80 works throughout the year, comprising European modern art works centered on the French Impressionists from the Romantics in the mid-19th century to the Ecole de Paris school, including paintings by Degas, Monet, Renoir, Van Gogh and Picasso, and Japanese modern art works since the Meiji Period, including traditional-style nihonga works. THE HIROSHIMA BANK, LTD.



Hirogin Report 2019 Integrated Report Issued: July 2019 Edited: Public Relations and Regional Contribution Office,

ted: Public Relations and Regional Contribution Office, Management Planning Division, THE HIROSHIMA BANK, LTD. 1-1-7, Nishikaniya, Minami-ku, Hiroshima City, Hiroshima 732-0804, Japan (temporary Head Office) TEL +81-82-247-5151 URL: https://www.hirogin.co.jp/