

HIROGIN REPORT 2020 INTEGRATED REPORT



Management Policy (Management Vision + Code of Conduct)

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

Notes on the Publication of the "HIROGIN REPORT 2020 (INTEGRATED REPORT)"

The Hiroshima Bank, Ltd. (the "Bank") has prepared this HIROGIN REPORT 2020 (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, and divisions of the Bank worked closely together. The Report details the Bank's business model and explains the mechanisms to sustainably create value. We will continue to take advantage of the Report as a tool for dialogue with all stakeholders with the aim of improving corporate value.

Furthermore, please refer to HIROGIN REPORT 2020 (DISCLOSURE REPORT) for detailed financial data, etc.

Toshio Heya, President



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History

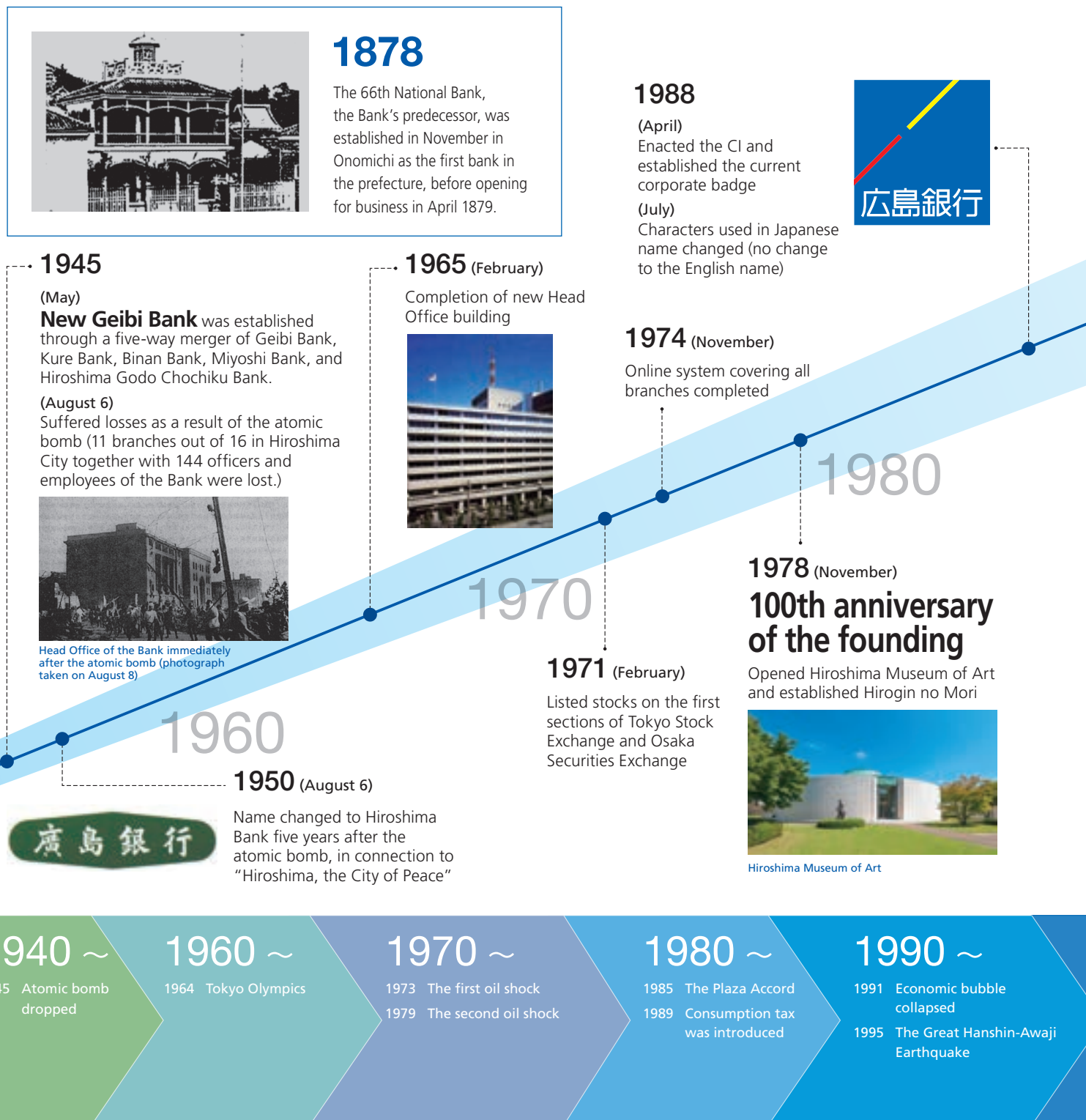
On August 8, 1945, just two days after the atomic bomb was dropped, the Bank restarted its operations by borrowing a floor space from the Bank of Japan's business room along with desks, chairs, and other furnishings. Even though most of its customers did not have their personal seals or passbooks, the 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.

After the period of reconstruction from the devastation of atomic bombing, we steadily expanded operations as the local economy grew. In November 1997, however, after the economic bubble collapsed in

Japan, we faced the second major crisis involving a sharp drop in share prices in reputational damage and a surge in withdrawals.

But we were able to recover the market's confidence by actively disclosing our earnings and asset details, having many employees visit customers to explain the situation, and carrying out bold structural reforms.

Although we experienced two grave crises, we were able to overcome the difficulties and have continued to grow to this day, thanks to warm support from our customers and our employees' sincere and honest effort. The Bank's DNA of "customer-oriented business operations" remains unchanged to this day.



1990 (February)

The "Genesis Building," a new computing center, completed

**2016** (May)

Completed the construction of <Hirogin> Chuo Building

2013 (July)

Opened Singapore Representative Office

2009 (April)

Opened Bangkok Representative Office

2003 (January)

Joint system operation with the Bank of Fukuoka introduced

2019

(April)

Digital Strategy Division established
Inheritance Consultation Plaza opened

(September)

Announced a plan to shift to a holding company structure (scheduled in October 2020)

Opened Hanoi Representative Office

2000

2010

1990

1996 (February)

Opened Shanghai Representative Office

1997 (November)

Share prices plunged in reputational damage

2017

(March)

Formulated Mid-Term Management Plan 2017

Adopted a slogan: "Aiming to be a comprehensive financial services group that continues to grow with local customers— A True First Call Bank Group —"

(June)

Made Hirogin Securities a wholly owned subsidiary

2018 (from January)

Moved Head Office to temporary branch

1998

(February)

- "Promise of the 120th year" for structural reforms announced
- Consolidated overseas branches and urban branches as part of a plan to return to a "Bank of the Region"

(October)

Launched "Reliance 21", a new Long-Term Management Plan

**2020**

(April)

Hirogin Capital Partners established (October)



HIROGIN HOLDINGS

Hirogin Holdings established

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 ~

- 2011 The Great East Japan Earthquake occurred
- 2012 The second Abe cabinet formed; "Abenomics" started
- 2013 Bank of Japan introduced "quantitative and qualitative monetary easing"

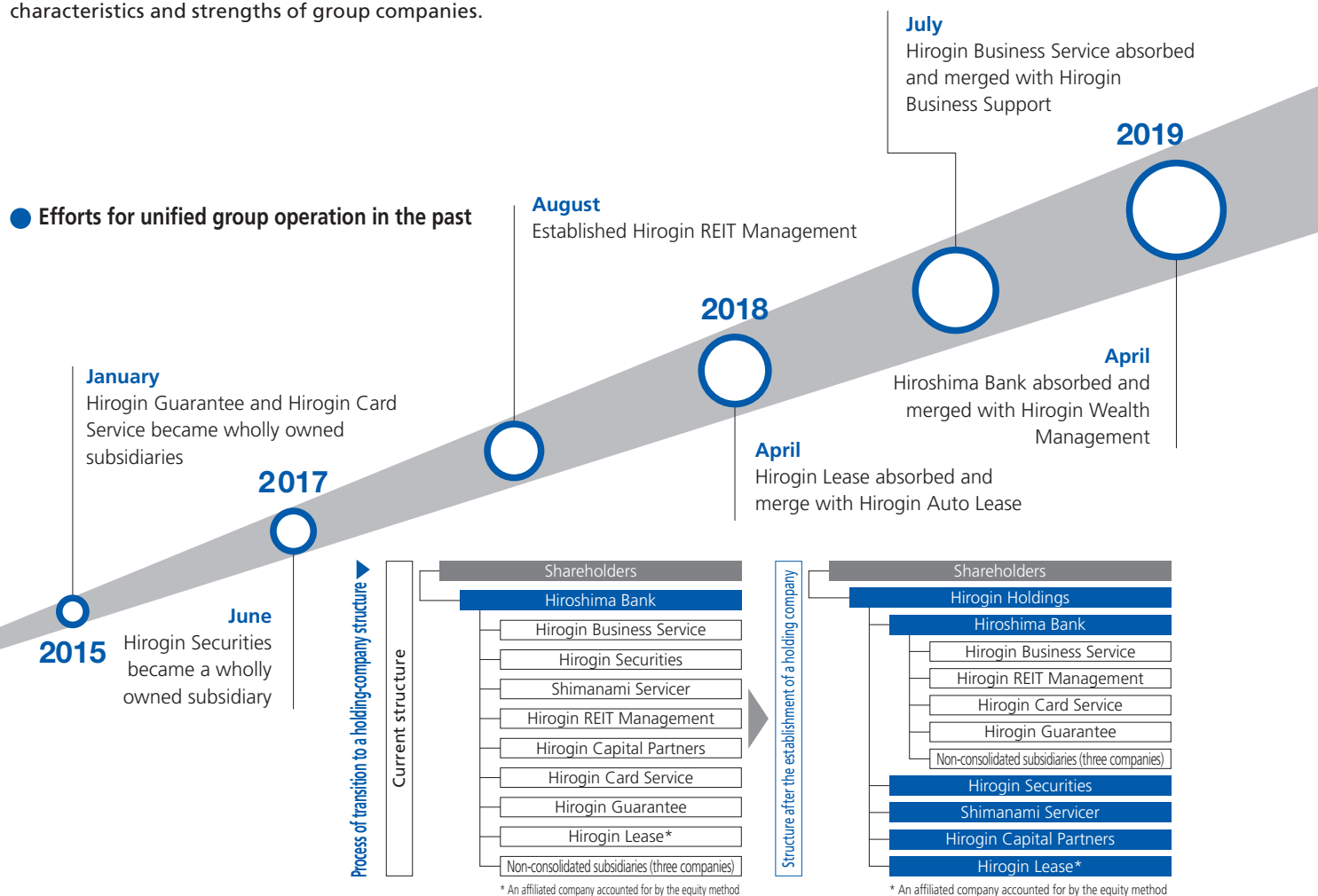
2020 ~

- 2020 New coronavirus pandemic

Transition to a Holding Company Structure

[Maximizing group synergy under a holding company structure]

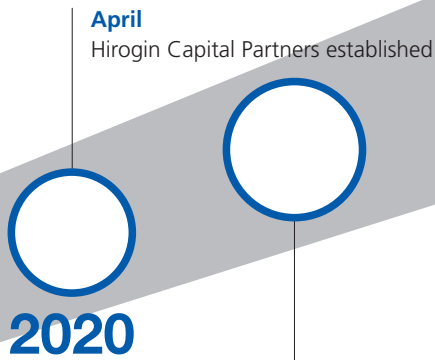
Starting on October 1, we will take steps to strengthen our unified group operation and collaboration within the group under a new group business structure and maximize the group synergy by taking advantage of characteristics and strengths of group companies.



Business model of the holding company

We are deepening and expanding the scope of our business operations and our customer base in the markets of our four local prefectures of Okayama, Yamaguchi, Ehime, and, in particular, Hiroshima, which has enormous potential in terms of the size of economy and growth opportunities. At the same time, we aim to realize our management policy and achieve sustainable growth of the group by thoroughly working to resolve every issue that faces the local community and customers and actively committing ourselves to development of the region.





October 2020
Transition to a holding-company structure

We aim to become a **Comprehensive Regional Services Group** that makes thorough effort to solve every issue including in nonfinancial areas, to respond to more diversified, complex and sophisticated customer needs.

Active commitment to development of the region



HIROGIN HOLDINGS

Hirogin Holdings, Inc.

\\ **What we mean by the trade name** //

By adding "Hirogin," a brand that our group companies have built up over the years, to the trade name of the holding company, we made it clear that the new company is the holding company of the group and hoped that the company would strengthen the sense of unity among group members and boost our popularity in the market.

Management Policy (Management Vision+ Code of Conduct)

\\ **Management Vision** //

Contribute to the creation of a prosperous future for the regional community as a trusted Regional Comprehensive Services Group by closely offering thorough support to customers.

\\ **Code of Conduct** //

Hirogin Holdings will endeavor to create the shared values with the regional community and realize a sustainable society, based on five items of the Code of Conduct.

- 1 Work in step with regional communities to actively contribute to their development**
- 2 Think and act from the customers' points of view to contribute to their prosperous life and business development**
- 3 Continuously enhance the Bank's corporate value**
- 4 Create a cheerful, rewarding corporate group where everyone works healthfully**
- 5 Exercise a high level of compliance**

Outline of future profit expansion

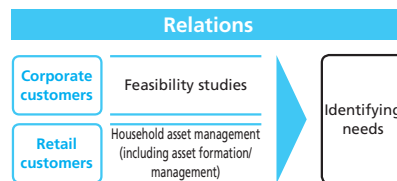
In addition to our efforts in existing financial areas that focus on deposit and lending businesses, we are strengthening inheritance services, business succession supports, the equity business, and other services that are expected to enjoy further growing demand. We aim to take advantage of every available function within the group and alliances with companies, including those in other industries, to provide solutions in financial and non-financial areas.

● **Outline of revenue makeup of overall group**

Non-banking	Group company revenue, etc.
	Revenue related to consulting service, etc. for corporate and retail customers
Bank	Revenue related to conventional financial services (Interest on loans and discounts, etc.)

Profit structure reforms with aim to establish stable management base

Deepening/expanding customer base and operations



Solutions

Put all functions and alliance within the Group to effective use to provide solutions, including in nonfinancial areas

Growth driver for profit expansion

- Active use of Group company functions
- Active use of alliance with other companies/business formats
- Support of inheritance and business succession measures
- Equity business
- Urban redevelopment support and tourism promotion

Provide every available solution to solve issues for customers

Contribution to regional development and customer growth

Sustainable growth of Group

Realization of Management Policy

Message from the President



We will continue to contribute to creating a prosperous future for the regional community as a trusted Regional Comprehensive Services Group by closely offering thorough support to customers.

Toshio Heya
President

Hiroshima Bank Group continues to grow with customers

The 66th National Bank, the predecessor of Hiroshima Bank or “Hirogin,” was established in Onomichi in 1878. Hirogin eventually established its Head Office in Hiroshima and grew with customers in local prefectures of Hiroshima, Okayama, Yamaguchi and Ehime, the area of our operation.

In recent years, we have gone beyond the boundaries of banking business and operated under the slogan of a true first-call bank group or a group that can be approached by customers for consultation on any issue troubling them through our assistance for solving respective issues faced by the local community, companies and individuals as a comprehensive financial service group.

Transition to a holding company structure, aiming to evolve further

The business environment surrounding financial institutions, especially regional banks, is undergoing a dramatic change as customers’ needs become increasingly diversified, complex and sophisticated driven by declining population, intensifying competition fueled by entry by non-financial companies, and change in economic and social climate and lifestyles and values, and as digital transformation rapidly progresses. The traditional framework of banking service has been becoming inadequate for addressing these changes flexibly and appropriately.

We believe that what the Bank should do under these circumstances is to find out specific needs and issues for the local community and customers, aiming

to deepen relations (deepening/expanding customer base), and thoroughly work to address needs and solve issues and provide reliable solutions (deepening/expanding the scope of our business operations). We thus decided to take the Bank forward and adopt a new group business structure—a holding company structure—in order to realize our wish to contribute to creating an abundant future for the local community as a Comprehensive Local Service Group sympathetic to customers and trusted by them.

On the strength of the Hirogin brand that we have grown over the 140 years of our history, we will strive to increase corporate value in a sustainable manner by continuing to grow with local customers as a comprehensive regional service group, an organization that can maximize group synergy and respond to every needs of customers in both financial and nonfinancial areas.

Changing world and change in required financial functions — from lending to investment —

Amid a dramatically changing world, we think it is difficult for a regional bank operating only in Japan to continue to contribute to the development of its region only by financial services, especially the banking service centered on lending. If the Japanese economy were still on a steady growth track, we believe “lending” would have a significant role to play in fund mediation, or the process of accepting surplus funds in deposits and lend them to businesses in need of funds. However, we cannot expect the pace of economic growth seen during the period of high economic growth from 1965 to 1974. Under the circumstances, we think the role played by lending is likely to become limited and smaller. In this situation,

what is playing an increasingly important role, in place of lending, is equity, that is, the function of investing.

In Hiroshima and our three other local prefectures, there are numerous manufacturers. We believe we must maintain this precious industrial structure and help the manufacturing industry continue to develop. We also think that helping new industries develop and expand the scope of industries is a good way to improve the growth potential of this region.

To make that happen, it is especially important to support startups to be launched going forward and venture businesses with growth potential. For such companies, investment can meet the needs of customer companies more precisely than loans, in our view. From that viewpoint, we think the role of investment plays in our region is going to become extremely important.

To respond to issues and needs that are expected to grow more diversified in the future

If we do not broaden our perspective or address customer needs in areas other than funding and issues that should be overcome, customers will not recognize us as a “first-call bank group.”

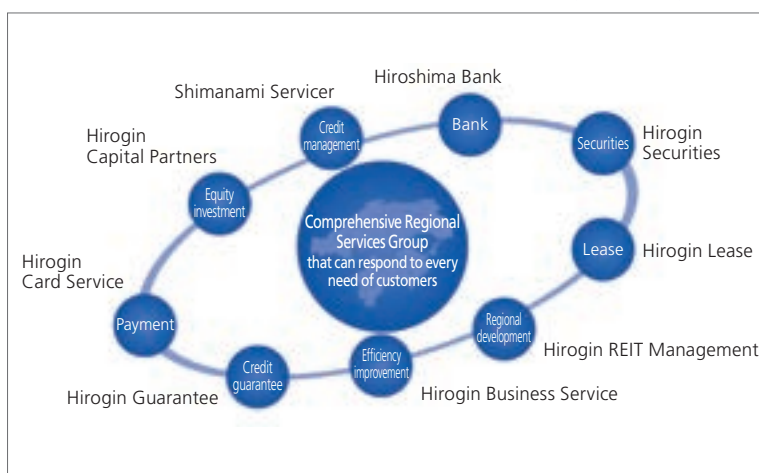
As their needs diversify, customers would not be satisfied if we continue to make the same kind of proposals that we made in the past and we would not be able to get to the essence of true solutions for customers. As there are companies in many different stages, their issues and needs differ, naturally. This holds true for individual customers. For example, some companies expand their fields of activity globally, while others diligently seek to remain in existence, maintaining a viable size, and other companies never stop trying to expand into new areas.

It will be, therefore, extremely important for us to build solid relations with customers so that both corporate and individual customers can open up and frankly talk about what they have in mind.

Furthermore, we need to have necessary expertise and be ready to offer high-quality, broad and deep services when proposing solutions to address a wide-ranging issues and needs of customers.

I am convinced that building solid relations and providing high value-added solutions is what we need to increase the Hiroshima Bank Group’s value. We aim to step up efforts to achieve these goals under six key themes. Namely: **(i) contribution to sustainable development of the regional economy, (ii) creation of new industries/businesses and growth of customer companies, (iii) enhancing business targeting the elderly, (iv) supporting**

Group structure after establishment of the holding company (plan)





family businesses and business owners, (v) fundamental reform of channels addressing customer needs, and (vi) stepping up digital transformation efforts.

Deepening and expanding relations and solutions

(i) Contribution to sustainable development of the regional economy

(ii) Creation of new industries/businesses and growth of customer companies

We think the biggest risk is declining population, which seems to be true for any region in the country.

It may be difficult to stop a natural drop in population, but it is very important to have the viewpoint of seeking to increase it socially. In other words, a regional economy needs to develop sustainably and for that, the viewpoint of creating new businesses in areas such as tourism, in addition to create new industries, is essential.

To that end, there are two roles a bank can play. One is to support business startup or growth efforts by providing solutions including in nonfinancial areas and taking advantage of every available function, network, and alliance with other companies and in other business formats, in addition to appropriate and active fund provision as a bank. The other is to create a platform on which government agencies and specialized entities work closely together and close coordination between efforts by industry, the public

sector, the academia and the financial sector will create innovation on a sustained basis. We believe these two roles are major missions the Hiroshima Bank Group should undertake in our region.

As part of our efforts to accomplish these missions, we are working to build an innovation ecosystem (structure in which a whole industry provides value) that can continuously create new industries and business operators. Hiroshima Prefecture, Hiroshima University, Hiroshima Industrial Promotion Organization, Hiroshima Venture Development Fund, and Hiroshima Bank are working closely together and integrating and combining their human resources, funds, information, etc. to revitalize the regional industry.

In addition, we have worked with the Hiroshima prefectural government, Creww Inc. and Hiroshima Venture Capital Co., Ltd. to hold Hiroshima Open Accelerator 2019, an initiative that aims for new business creation by local companies through open innovation that connects management resources of businesses based in Hiroshima Prefecture and startups across Japan. This was the first-ever endeavor of its kind for a regional bank in Japan, not just the Chugoku, Shikoku and Kyushu regions. In the first event, eight tie-up ideas were adopted.

In addition, we invested in the first fund recognized by Hiroshima University that supports startups based on research seeds held by universities in Hiroshima Prefecture, including Hiroshima University. We aim to actively engage in activities to help new industries and businesses grow and joint projects with regional industries and businesses to create shared value, including financial support.

Of course, it is also important to think of how we can support sustainable growth of existing industries and customers. While further progress of work-style reform can be seen in the coronavirus crisis, we feel the need to bolster efforts to support introduction of IT to strengthen competitiveness, raise productivity and improve efficiency of work processes at companies going forward, in addition to active efforts to address funding and business succession needs. For this, we recently began discussing the launch of a joint venture with Mighty Net Co., a business partner with whom we have built a relationship of trust through collaborations in a project to develop and operate our systems and joint sales activities. Going forward, we plan to bring together our IT strength and our strength in offering solutions based on feasibility studies to contribute to solving management issues and introducing IT at local companies.

In addition to the initiatives described above, we will work to build a structure that will enable us to continue to support customers on efforts to solve

their issues, from every angle, for many years to come, including measures to address the type of needs that remain under the surface at present but are likely to emerge in the future.

(iii) Enhancing business targeting the elderly

Aging society is an issue that needs to be addressed urgently for Japan, especially rural regions, as households with the elderly have increased significantly. We introduced the Hirogin Life Partner service in 2017, believing that it is important to provide a comprehensive support that includes life-related support, in addition to making efforts to enhance finance-related support, by offering additional support for handover of property to the next generation, not just investing or managing the funds entrusted to us.

It has gained recognition as a comprehensive service that includes services in the non-financial area, and the number of users increased, including home- and life-related support for issues within households, such as housekeeping and cleaning, caring for the garden, disposal of articles that are no longer needed, moving, monitoring and security, as well as support related to use, sale or passing down of real estate properties.

Going forward, we will strive to create a structure in which issues that need to be solved can be conveyed to heirs at the early stage, while enhancing our support service lineup and increasing contact points with families.

(iv) Supporting family businesses and business owners

As problems such as shortage of talents to succeed current leaders at small- and medium-sized companies are surfacing, smooth handover of assets and business to the next generation is a major issue for the development of the regional economy. In response to increased needs related to business succession

and M&As, we combined Investment Banking Division and a business succession function of the Asset Management Division in April 2020 to create a business succession and M&A team in the Investment Banking Division's financial service office.

In addition, we set up a "business owner relations office" in the Banking Business Planning Division for the purpose of supporting family-run small-to-medium businesses and business owners for a medium to long term. We aim to deepen relations with owners of family-operated businesses with a focus on consulting services that capitalize on feasibility studies, while taking advantage of nonbanking service functions operated by group companies, and continue to enhance unified support for both corporate and retail customers. By doing so, we hope to increase the presence as the reliable Hiroshima Bank Group.

(v) Fundamental reform of channels addressing customer needs

(vi) Stepping up digital transformation efforts

As we are and will be required to adopt a new life style amid and after the coronavirus pandemic, it is necessary to establish new ways to make contact with customers other than branches where face-to-face contact is the basic style. In other words, we think it is an urgent task to drastically reform our business channels in a way that will make them better suited to the change in life styles and behaviors of customers. Some of the services that have traditionally been handled at physical branches are already available at noncustomer-facing channels using digital technology, including the internet branch and the Hirogin App. Going forward, we aim to further expand options to allow customers to avail themselves to services without visiting a branch.

Meanwhile, we will continue to step up efforts to transform our branches in a way that makes customers would say, "It's hard to live without Hiroshima Bank," and make them "a place of relaxed consultation where frank conversation takes place" and highly specialized advice is offered. Furthermore, we will make our branches a place where more familiar and reliable services are offered, by establishing infrastructure for online interviews, etc. that maintain such added values.

In addition to business channel reforms, we believe that we also need to step up efforts to realize digital transformation (DX). There are two ways of promoting DX in our plans. One is digitalization of existing businesses, aimed at reinforcing contact points with customers and achieving higher efficiency of operations. The other is development of new digital businesses to establish new revenue sources.

Development of new digital businesses is a kind of investment for creating new businesses. The

Relations with regional community and customers

Deepening/expanding customer base

Corporate customers: Feasibility studies
Retail customers: Household asset management (including asset formation/management)



Deepening/expanding operations

Solutions

Put all functions and alliance within the Group to effective use to provide solutions, including in nonfinancial areas

development team led by young members are working passionately on this project and trying new things aggressively and boldly. Currently, a project related to a business targeting the elderly and another project for employee benefits of companies are taking shape. Going forward, we will seek to create services that can help deepen and expand customer relations and solutions.

Structural reforms that will realize efficient business operation Reinforcing management base through more sophisticated risk governance and increased fulfillment in work

In order to contribute to solving issues for the local community and customers, we need to construct a solid management base that can play a role of a financial infrastructure and enable aggressive risk taking. The most important premise for this is “a review of work and decision-making processes,” which will improve efficiency of existing business operation. We have been working on drastic structural reforms to improve productivity.

And as we seek to expand our service offerings through the transition to a holding company structure, we face the need to go back to the basics of our business, namely, “receiving the value generated by taking risks in the form of returns,” and rethink it and convert it to, “how we should take risk within a permissible scope in order to generate returns.” For example, there is no need to explain whether lending or investing carries a higher risk than the other. In order to aggressively take risks in a high-risk business, we need to assess the risk in more advanced way. We will clarify where credit and compliance risks lie and manage them, and enhance our risk governance.

On the other hand, accepting a degree of risk means that we will face more opportunities of experiencing failures. If the company only regards any failure as negative, it will make it difficult for employees to take on new challenges. We need to eliminate such a mindset if it exists in the company. We thus aim to create a corporate culture in which employees think “a tendency to maintain status quo will likely lead to the company’s decline and doing nothing when there are things one can do is the most negative thing.”

I have been thinking that people hate to do work that they are forced to do and they do a good job and achieve high productivity when they are motivated to do the work. I believe the most important thing for improving fulfillment in work is to create a company where each employee can concentrate on the work

that makes them think for themselves and want to do it.

When times are changing very fast and needs are becoming more diversified, each employee needs to be a human resource with their own strength continuing to evolve. If they fail to do so, we cannot be trusted by customers. We have drastically changed our personnel system in the hope that employees can become more conscious about the importance of creating a positive cycle in which employees putting their skills to maximum use in their fields of expertise will lead to more satisfied customers. I am convinced that if we achieve a true reform of employee consciousness and behavior, we will be able to achieve the goal of introducing a holding company structure and stay alive in our region as a Hiroshima Bank Group that continues to contribute to the development of the region.

Hirogin’s SDGs Declaration and strengthened support for local companies’ SDGs efforts

Going forward, we will need to run the Bank company keeping in mind with the sustainable development goals (SDGs) adopted by the United Nations in operating business. Otherwise, we cannot fulfill our corporate social responsibility.

The Hiroshima Bank Group adopted a declaration in which we promise to start from where and what we can do, one by one, as an organization, under the four themes of “region,” “aging society,” “human rights” and “environment.” In the meantime, we endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and decided to work to step up measures against climate change and enhance disclosure of information on climate-related risk opportunities.

We also launched the Hirogin SDGs support services in which we handle bank-guaranteed privately placed bonds (SDGs type), check how efforts on SDGs are made by customer companies, and give feedback

■ Hiroshima Bank Group SDGs Declaration



on the results compiled by sorting out necessary measures, as part of a project to support SDGs efforts by local companies. The service has already been used in more than 60 instances since January 2020, providing companies to work out their SDGs declarations.

Going forward, we hope to play a role in helping local people deepen their understanding of SDGs through provision of various structures and products so that activities based on SDGs will progress further in all areas of the region.

Fiscal 2019 summary and key areas of focus for fiscal 2020

In fiscal 2019, profit attributable to owners of the parent dropped from a year earlier and failed to reach the announced target. We recognize that this is a major issue.

On the other hand, in the areas that we focused on, our efforts are starting to bear fruit. Specifically, feasibility studies, which are our strength, and collaboration with Hirogin Securities have produced certain results, and the banking-securities collaboration strategy is taking root. Furthermore, trust-related services, which we focused on as part of efforts to bolster the business targeting the elderly,

have produced results exceeding the initial targets. Overall, we have concluded that it was a fruitful year in which we have steadily made achievements.

In fiscal 2020, which started with measures to address the spread of new coronavirus infection, we will carry out business to maximize our financial intermediary function as our top priority, in order to ensure circulation of “money” or the blood for the economy, for supporting financing at companies.

We are also feeling the importance of thinking about how the economy can be brought back to normal once the coronavirus pandemic is over. For that purpose, we believe the key is finding ways to support customers in areas other than lending, including support for improving efficiency of operation and productivity, in anticipation of a new era.

We were unable to have contact especially with retail customers in April and May due mainly to the impact of the state of emergency. We will, therefore, seek to establish new ways of having contact with customers suited to the new era in an early stage, in order to promote consulting services which we are currently focused on.

To our stakeholders: We aim for a further leap as new Hiroshima Bank Group

Hiroshima Bank Group has come to a point where we must change drastically.

The biggest goal of the evolution to a new business structure, the holding company structure, is to expand the scope of our business operations to become a company that can appropriately address local customers’ needs and solution of issues. In other words, we want to transcend the established notion of “bring money matters to the bank” and grow into a company that can say, “bring your problems to Hirogin.” And we will pursue sustainable growth and improved corporate value by actively contributing to the development of our region, which has a great potential in terms of both economic scale and growth opportunities, under our Management Vision, “Contribute to creating a prosperous future for the regional community as a trusted regional comprehensive services group by closely offering thorough support to customers.”

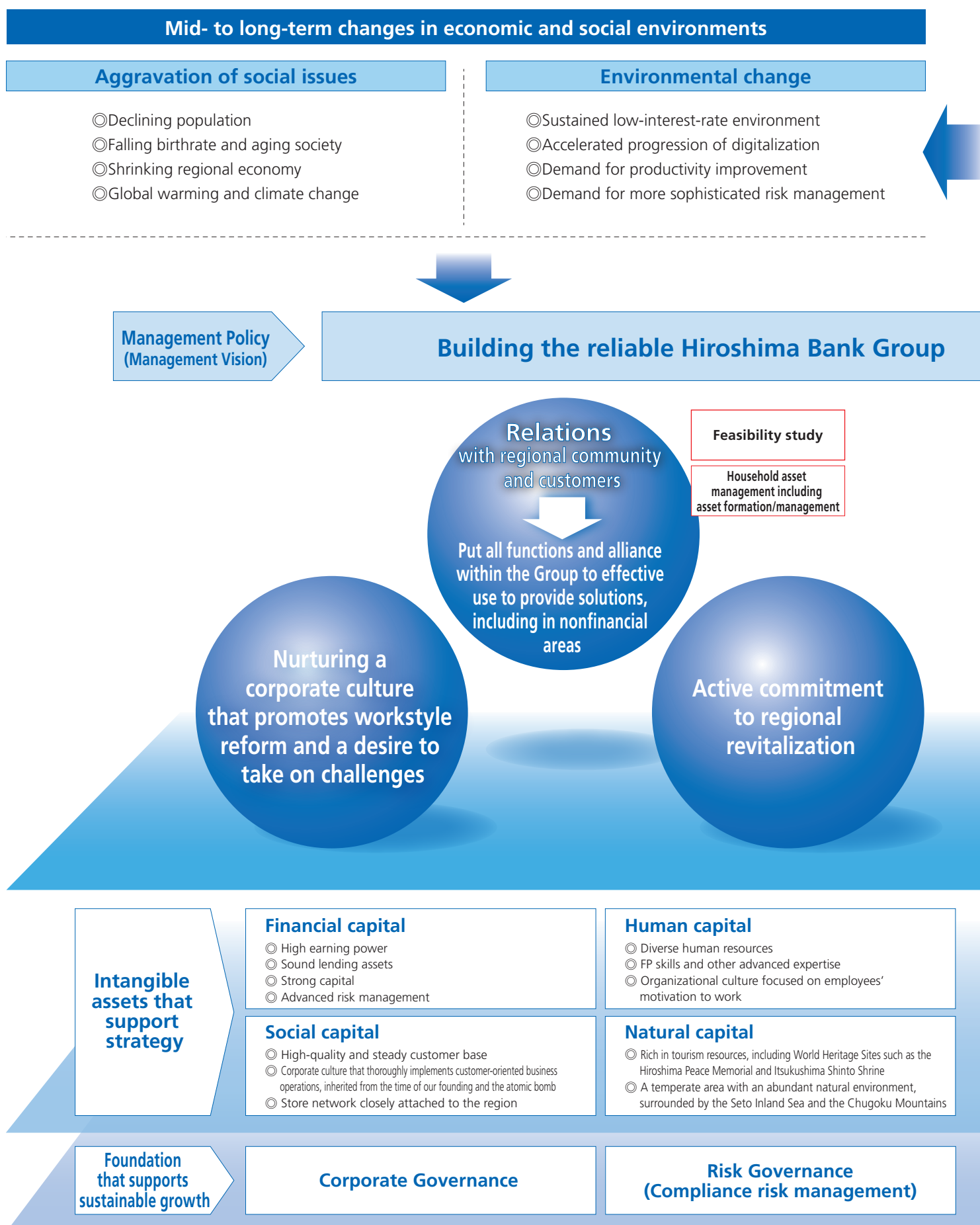
I hope our stakeholders, as colleagues who paint dreams with us for the coming new era, will have high hopes for the future of the reborn Hiroshima Bank Group and continue to support us.



Toshio Heya

President

Value Creation Process



Hiroshima Bank Group SDGs Declaration

Key SDGs issues (materiality)



Region



Human rights



Aging society



Environment



united through trusting relations with the regional community

Creation of shared value

Provision of value to all
Hiroshima Bank Group
stakeholders

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

Customers

- ◎ Customer's growth (increase in corporate value)
- ◎ Stable asset formation and succession for customers
- ◎ Customer satisfaction and peace of mind

Regional community

- ◎ Contribution to development of regional community
- ◎ Stimulation of the regional economy through development of industry and job creation
- ◎ Contribution to creation of a sustainable regional community through our main businesses

Employees

- ◎ A bright working environment that motivates employees
- ◎ Promotion of a diverse range of workstyles and achievement of work-life balance
- ◎ Promotion of diversity and inclusion

Shareholders

- ◎ Sustainable increase in shareholder value
- ◎ Highly transparent information disclosure
- ◎ Constructive dialogue

Message from Financial Officer



We will work to improve the Group's corporate value and contribute to sustainable growth of the region by maintaining and improving the capital adequacy ratio through ample retained earnings, appropriate risk taking and strategic investment.

Akira Ogi,
Director & Senior
Managing Executive Officer

Business performance

The economy in this region during fiscal 2019 saw capital expenditure remain resilient and public investment related to disaster recovery and reconstruction stay at high levels.

On the other hand, economic activities were weak as export and production activities slumped especially in the manufacturing industry, the main industry of the region, due to a global economic slowdown associated with the emergence of geopolitical risk, including a U.S.-China trade frictions, and consumer spending decreased, affected by a consumption tax hike.

In addition, corporate and consumption activities slowed significantly since the beginning of the year affected by the spread of new coronavirus infections, making the impression that an economic downturn has deepened.

Under such economic circumstances, the Bank's core gross banking profit decreased ¥1.6 billion year on year to ¥83.7 billion as net interest income increased due to a rise in interest on loans and discounts but fees and commissions dropped due mainly to a decline in operating income from asset management business.

Expenses stayed flat from a year ago at ¥52.7 billion as non-personnel expenses and taxes increased due to an increase in depreciation of premises, equipment and others and a consumption tax hike but personnel expenses decreased due mainly to a drop in retirement benefit expenses. As a result, core banking profit fell ¥1.6 billion from a year ago to ¥31.0 billion.

Although impairment loss on shareholdings was booked amid a falling stock market affected by the spread of new coronavirus infection, ordinary profit increased ¥1.5 billion to ¥37.4 billion due mainly to a year-on-year increase in securities-related gains after sale of cross-shareholdings and other factors.

Credit expenses increased ¥1.1 billion year on year, due mainly to booking of proactive allowance to take account of the expected operational environment in the future.

Net income decreased ¥1.2 billion year on year to ¥24.1 billion as a result of booking impairment losses on tangible fixed assets planned to be disposed of.

Profit attributable to owners of the parent decreased ¥1.3 billion year on year to ¥24.2 billion.

Financial results forecasts for fiscal 2020

	FY2020	<Reference> FY2019
Profit attributable to owners of the parent	¥22.5 billion	¥24.2 billion
Consolidated ROE	4.5%	5.0%
Adjusted overhead ratio	64.1%	62.9%

The financial results forecasts have been prepared on the assumption that the interest rates, exchange rates and share prices would remain in the same range of the current market. Impact of the spread of new coronavirus infections is estimated using the information available to the

Bank as of May 12, 2020. If economic activities remain stagnant, actual figures may diverge significantly from the forecasts.

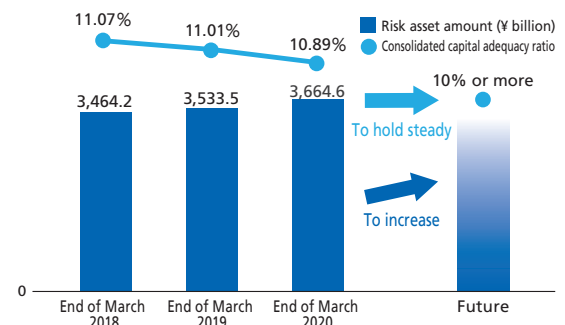
If we decide that the financial results forecasts need to be revised, we will promptly disclose the revised figures.

Capital policy

The consolidated capital adequacy ratio of the Bank was 10.89% at the end of March 2020. The figure would be well above 4% or the regulatory floor* even under a stress test reflecting changes in the market, etc. at the time of the Lehman shock.

The Bank sets a risk appetite framework to operate business in a way that soundness is maintained and the capital efficiency is improved. We position active credit risk-taking in the region and strategic investment aimed at gaining new revenue opportunities as one of the pillars of our management strategy. We aim to maintain a consolidated capital adequacy ratio of at least 10% for a medium to long term by attaching special importance to achieving appropriate levels of profitability in relation to the amount of risk assets and striking the right balance against capital adequacy ratio.

* The criteria specified in the "Criteria for a bank to judge if adequacy of its equity capital is appropriate in relation to assets, etc. it holds, based on provisions in Article 14-2 of the Banking Act" (Financial Services Agency Notice No. 19 of 2006).



<Reference> External credit rating

Japan Credit Rating Agency (JCR)	Rating and Investment Information (R&I)	Moody's
AA-	A+	A2

Shareholder returns

The Bank takes care to enhancing shareholder returns and retained earnings in order to execute its financial intermediary function and contribute to the region's sustainable growth as a regional leading bank, and pays "performance-linked dividends," which reflect profit attributable to owners of the parent, in addition to "stable dividends."

In February 2020, we revised the dividend criteria table and changed the consolidated payout ratio target to a range between 31% and 36% from a range between 20% and 24%, after comprehensively reviewing the balance between the level of the medium- to long-term capital adequacy ratio target and shareholder returns.

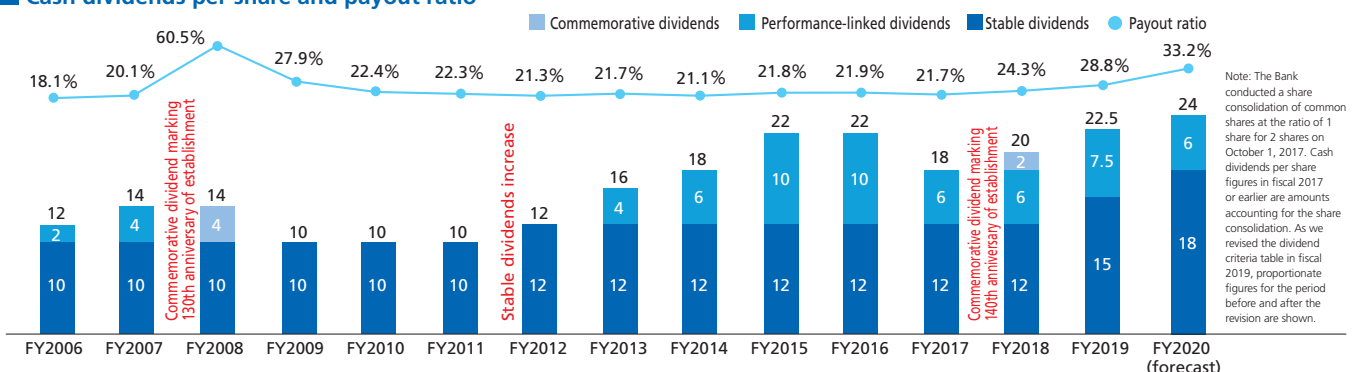
In fiscal 2019, we paid out an annual ordinary dividend of ¥22.5 per share after the above revision, and the consolidated payout ratio came to 28.8%. For fiscal 2020, we plan to pay an annual dividend of ¥24 per share, based on the dividend criteria table.

We will continue to enhance shareholder returns, while considering increasing retained earnings.

■ Dividend criteria table (revised February 2020)

Profit attributable to owners of the parent	Cash dividends per share			Consolidated payout ratio
	(i) Stable dividends	(ii) Performance-linked dividends	(i) + (ii)	
Over ¥33.0 billion	¥18	¥18	¥36	Below 34.1%
Over ¥30.0 billion - up to ¥33.0 billion		¥15	¥33	31.2% - below 34.4%
Over ¥27.0 billion - up to ¥30.0 billion		¥12	¥30	31.2% - below 34.7%
Over ¥24.0 billion - up to ¥27.0 billion		¥9	¥27	31.2% - below 35.1%
Over ¥21.0 billion - up to ¥24.0 billion		¥6	¥24	31.2% - below 35.7%
Over ¥18.0 billion - up to ¥21.0 billion		¥3	¥21	31.2% - below 36.4%
Up to ¥18.0 billion		¥0	¥18	31.2% or more

■ Cash dividends per share and payout ratio



Note: The Bank conducted a share consolidation of common shares at the ratio of 1 share for 2 shares on October 1, 2017. Cash dividends per share figures in fiscal 2017 or earlier are amounts accounting for the share consolidation. As we revised the dividend criteria table in fiscal 2019, proportionate figures for the period before and after the revision are shown.

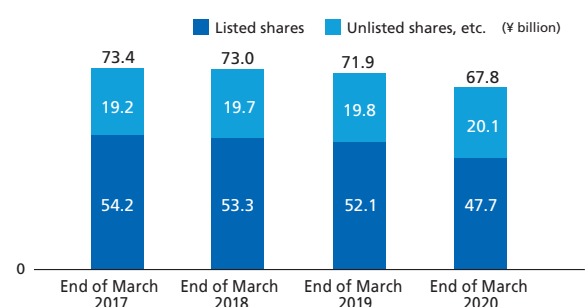
Policy on cross-shareholdings

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 Bank confirms the rationale for the shareholding. If the Bank cannot find sufficient rationale, it will decide whether to continue to hold them after having dialogue with the investee company.

In fiscal 2019, we reduced our cross-shareholdings by ¥4.1 billion as a result of dialogue with issuers.

See page 60 for details of our policy regarding cross-shareholdings, etc.



Summary of Business Performance (FY2019)

Core banking profit (excluding gains/losses on investment trust cancellations)

¥31.0 billion

(¥(1.6) billion)

(¥ billion)

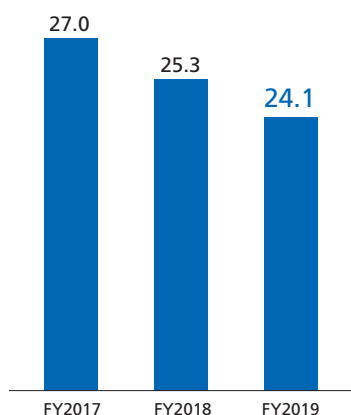


Net income

¥24.1 billion

(¥(1.2) billion)

(¥ billion)

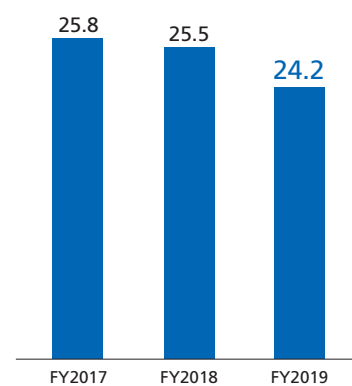


Profit attributable to owners of the parent

¥24.2 billion

(¥(1.3) billion)

(¥ billion)



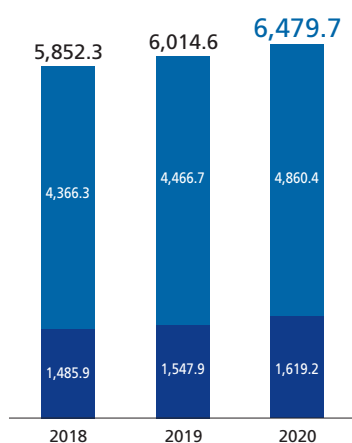
Loan balance

¥6,479.7 billion

(+¥465.1 billion)

(¥ billion)

■ Corporate loans, etc. ■ Individual loans

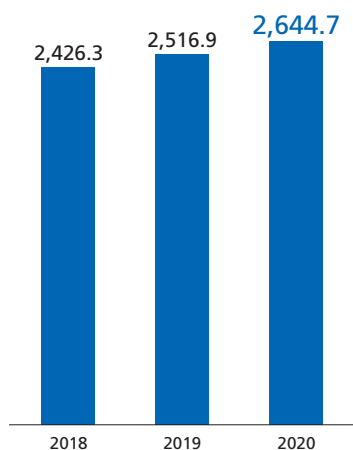


Loans to SMEs

¥2,644.7 billion

(+¥127.8 billion)

(¥ billion)



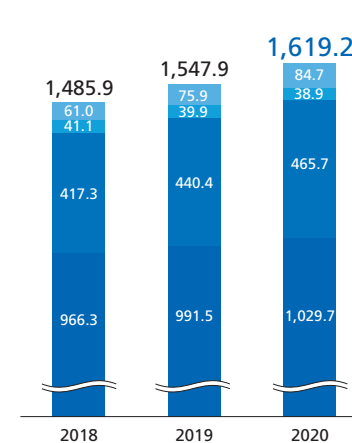
Individual loans

¥1,619.2 billion

(+¥71.3 billion)

(¥ billion)

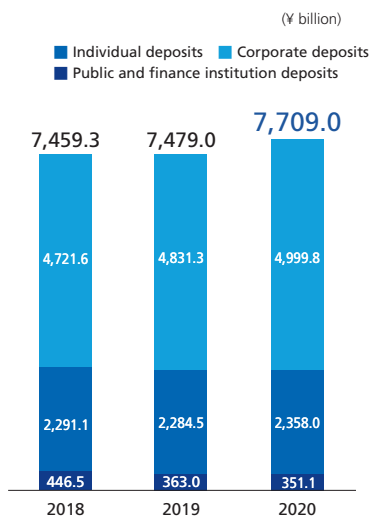
■ Limited-purpose loans, etc. ■ Card loans
■ Apartment loans ■ Housing loans



Deposits and NCD

¥7,709.0 billion

(+¥230.0 billion)

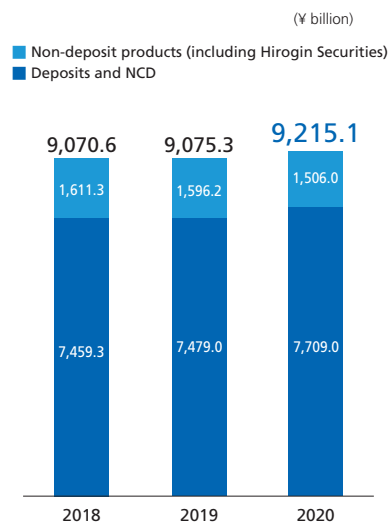


* Deposits and NCD include negotiable certificates of deposit.

Total custody assets (including Hirogin Securities)

¥9,215.1 billion

(+¥139.8 billion)

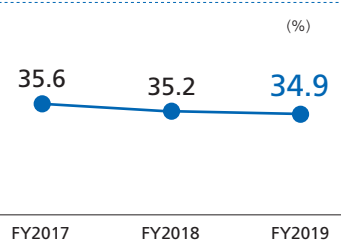


* The balance of Hirogin Securities' non-deposit products is stated at fair value.

Non-interest income ratio (including income from Hirogin Securities)

34.9%

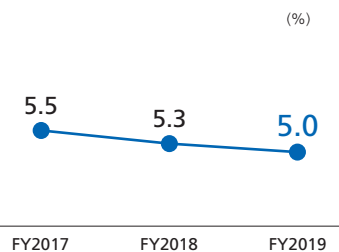
((0.3) points)



Consolidated ROE

5.0%

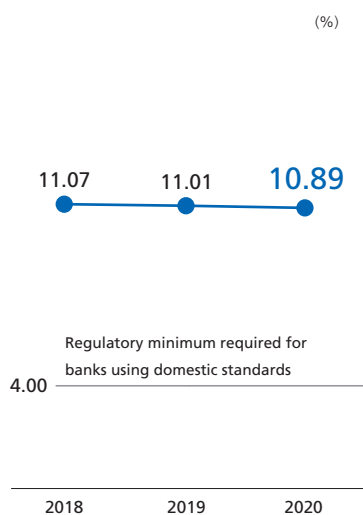
((0.3) points)



Consolidated capital adequacy ratio

10.89%

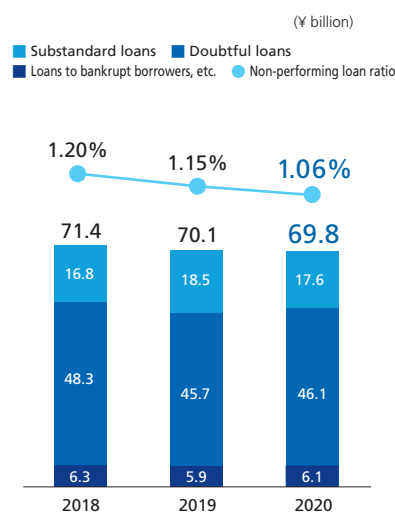
((0.12) points)



Non-performing loan ratio

1.06%

((0.09) points)

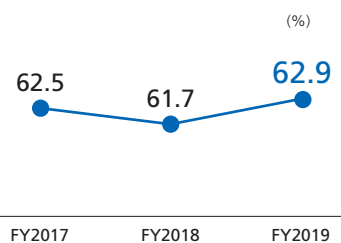


* Amounts of loans reported under the Financial Reconstruction Act have been rounded to the nearest whole unit.

Adjusted overhead ratio

62.9%

(+1.2 points)



Nonfinancial Highlights

■ Corporate customers



Approx.
31,000
companies

(as of the end of March 2020)

■ Number of qualified financial planners



CSPFP 1st grade:

356 persons

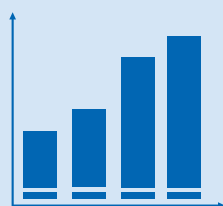
CSPFP 2nd grade:

1,556 persons

(as of the end of March 2020)

Note: 1st and 2nd grades include CFP and AFP holders, respectively.

■ Number of borrowers to whom loans are granted based on feasibility studies and balance of outstanding loans



3,539 customers
¥711.2 billion

(as of the end of March 2020)

■ Number of cases of loans granted to support business start-up or new business and granted amounts



280 cases
¥923 million

(FY2019)

■ Number of cases of consultation offered by business succession advisory service



249 cases

(FY2019)

■ M&A support



27 cases

(FY2019)

■ Reduction in greenhouse gas emission

Between FY2017 and FY2018

10.6%
reduction



■ Employment of disabled persons



2.2%
(82 persons)

(June 1, 2020)

■ Promotion of active participation of women

(ratio of women in managerial and supervisory positions)

12.5%
(172 persons)

(April 1, 2020)

■ Health management



Characteristics of Hiroshima Bank's Business Area

Combined population and GDP of four prefectures in the Bank's area



Population

Approx. **7.51** million

A size rivaling
Aichi Prefecture

Source: "Population Based on Basic Resident Registration" by the Ministry of Internal Affairs and Communications (January 2019)

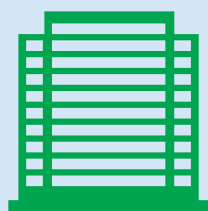
GDP

Approx. **¥31** trillion

A size rivaling
Kanagawa Prefecture

Source: Cabinet Office (fiscal 2016)

Number of companies for which Hiroshima Bank is the main bank



Chugoku region (ranked No. 1 for 10 consecutive years)

15,536 companies
16.02%

Hiroshima Prefecture (ranked No. 1 for 10 consecutive years)

14,515 companies
37.21%

(as of the end of October 2019)

Source: Teikoku Databank

Number of tourists visiting Hiroshima Prefecture



Number of foreign tourists

2.75 million

Total number of tourists

65.04 million

(2018)

Source: Japan Tourism Agency, Hiroshima Prefecture

Mid-Term Management Plan 2017

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 in March 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.

■ 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

■ Major strategies



Ahead of the transition to a holding company structure scheduled for October 1, 2020, we are reviewing the current Mid-Term Management Plan 2017 and developing a new mid-term management plan for the period from October 2020 to fiscal 2023.

The holding company structure will allow us to maximize the group synergy. We will strive to contribute to the development of the region through efforts to resolve issues for the regional community and customers.

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.”

[Views on environment and issues]

Prolonged period of negative interest rates, decreasing population and business offices, diversifying needs of businesses

[Issues that need to be addressed]

Support to companies’ growth and new business creation, contribution to efforts to revitalize regional communities and sustainable economic development in the region

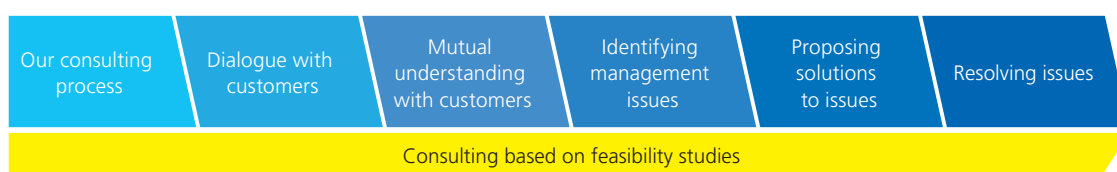
[Goals]

Practice high-value-added banking business based around “feasibility studies,” which are the advantages of Hiroshima Bank

Our “feasibility studies,” which we have developed through many years providing support suited to characteristics of local industries, is one of our advantages.

Our goal as a financial institution that will remain in the region is to understand the region and its industry and provide loans and core business support that can lead to customers’ growth.

Consulting process



[Building relations]

Understanding and sharing of issues

- Qualitative analysis
- Mid-term plan formulation support, etc.

Industry RM

Autos, ships/shipping, medical/nursing care, tourism, etc.

HIROSHIMA BANK RESEARCH INSTITUTE

+

[Provision of solutions]

Maximizing consulting

- Consulting-type loans
- M&A / business succession
- Business matching
- Derivatives (foreign exchange, risk hedge)
- Support for expansions abroad
- Recruitment consultancy business
- Equity business
- others

Hiroshima Bank's "feasibility studies"

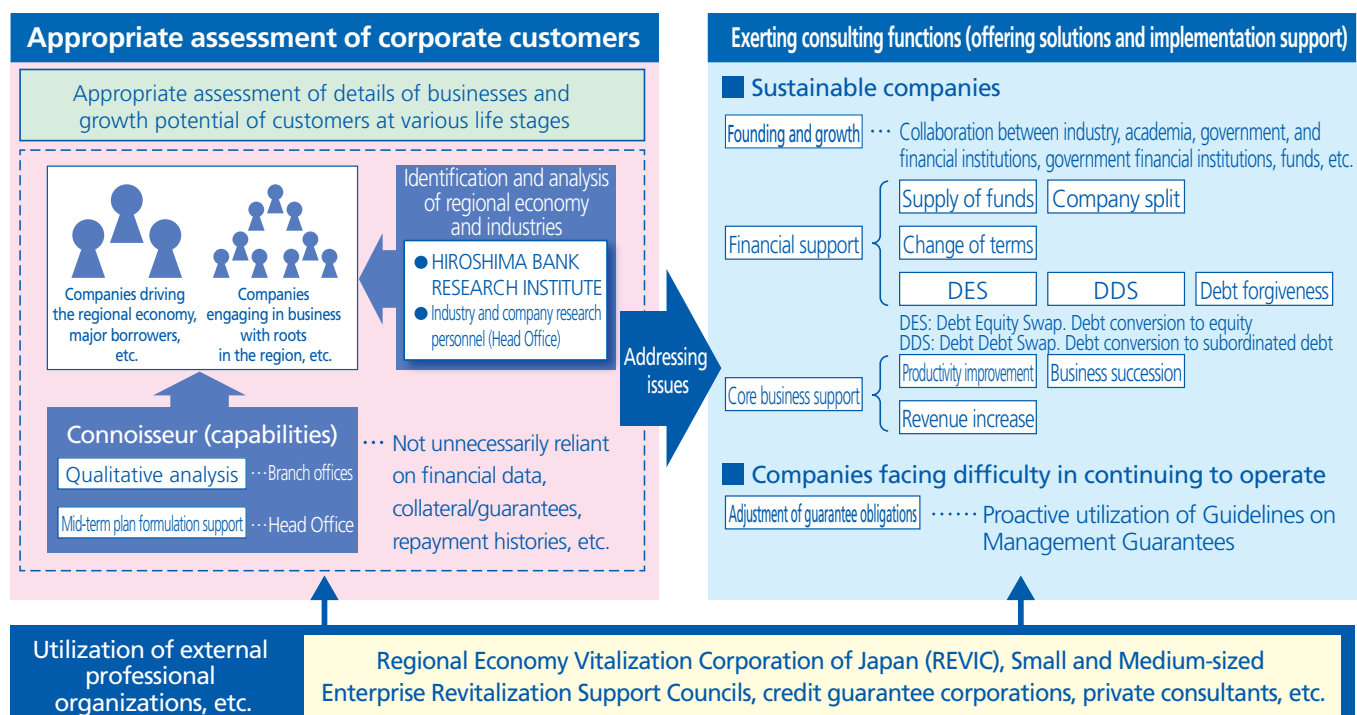
■ Background to this initiative

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"



Topics

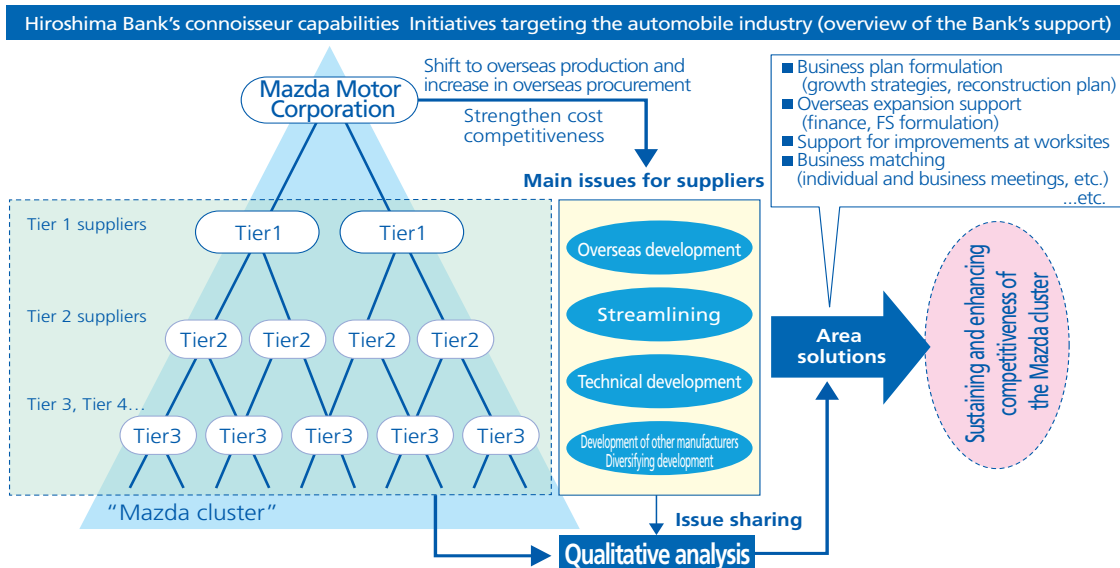
The Bank reorganizes the structure of its Head Office in April 2020

- © Combined the business succession functions of the Investment Banking Division and the Asset Management Division and created the Business Succession and M&A Team in Investment Banking Division's Financial Service Office in response to increasing needs for services related to business succession and M&As.
- © Created the Business Owner Relations Office in the Banking Business Planning Division to support family-run small-to-medium businesses and business owners for a medium to long term.

Corporate Banking Strategy Centered on “Feasibility Studies” (Key Measures)

■ Hiroshima Bank’s connoisseur capabilities

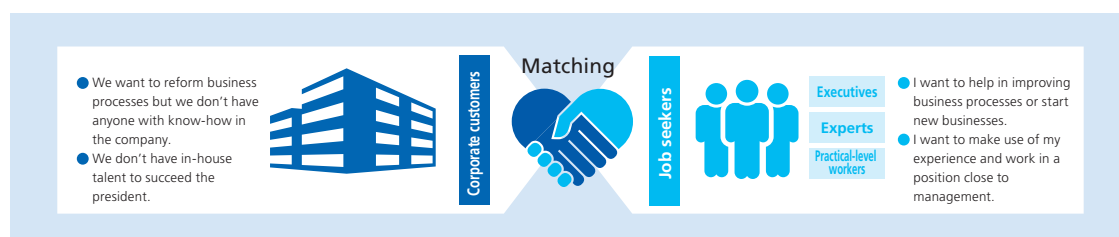
- There is a cluster of many suppliers in Hiroshima Prefecture, centering around Mazda Motor Corporation, and the Bank appointed automobile-related screening personnel in the Credit Supervising Division and automobile-related personnel in the Investment Banking Division, as it sees this entire “Mazda 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...).



■ Efforts in the recruitment consultancy business

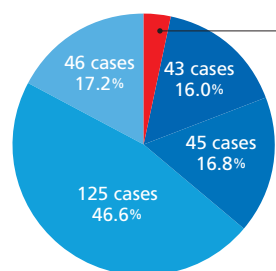
We launched a recruitment consultancy business in April 2019 to help corporate customers address issues of labor shortage. In particular, we have been focusing on providing referrals of executive-level personnel

by taking advantage of our experience in sharing management issues with customers through feasibility studies, as part of our support to resolve issues.

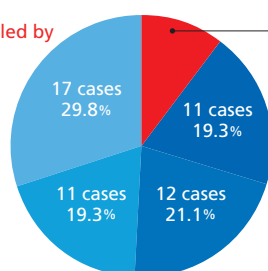


■ Statistics for April 2019 - March 2020 *Ratios represent percentage shares

Number of recruitment applications accepted (268 cases)



Successful job offers (57 cases)



■ [BM] Executives ■ Middle-level ■ Practical-level workers ■ Experts

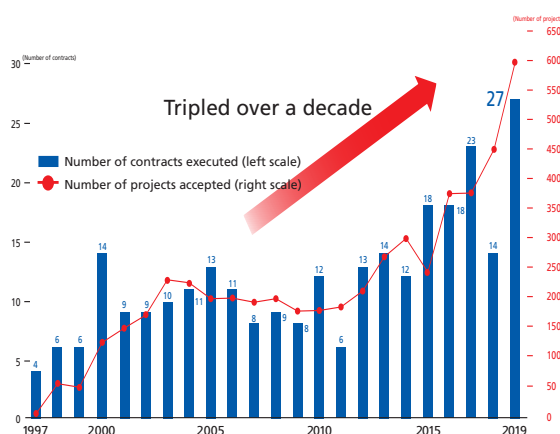
- The Bank itself introduces executive candidates to customers for whom our Investment Banking Division conducted feasibility studies.
- Middle, practical and expert level candidates are introduced by employment agencies in a tie-up with the Bank.

■ Efforts in business succession

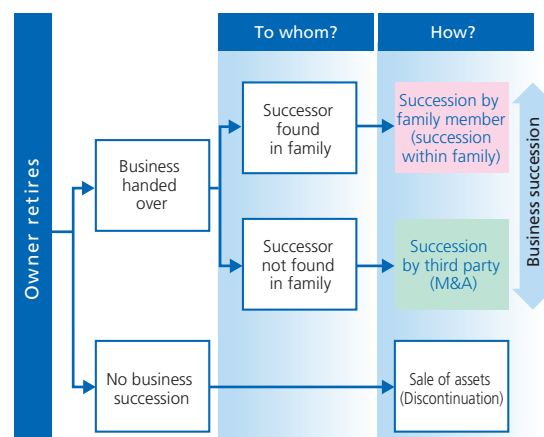
As business succession has become a serious issue in the regional economy amid aging business owners and shortage of successors, the Bank supports business succession through the M&A advisory service. The number of customers seeking our support has been increasing in recent years.

In April 2020, we combined divisions supporting family members' business succession to create a structure to provide one-stop support to address a variety of needs.

■ Number of successful M&A contracts and consultation offered



■ Major flow of business succession



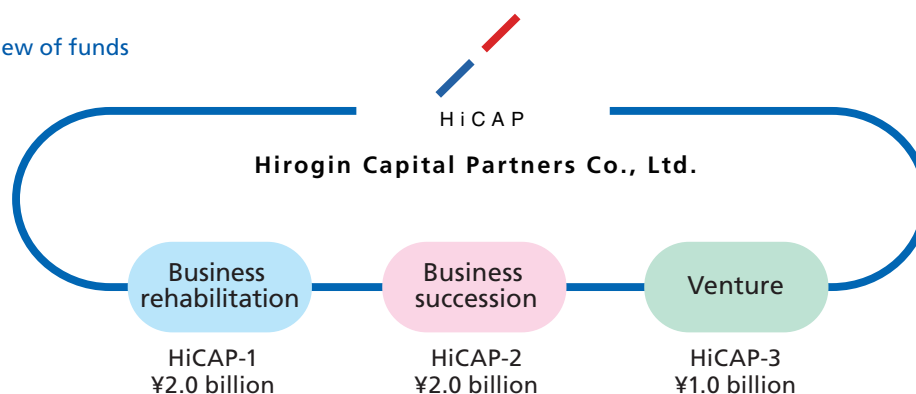
■ Initiatives for equity business

The Bank invests in three funds formed by Hirogin Capital Partners Co., Ltd., which are the Business Rehabilitation Fund, the Business Succession Fund and the Venture Fund.

Taking advantage of these funds, the Bank will provide a kind of support in the forms of "business participation," which goes beyond the escort-runner style support," by leveraging "equity investment,"

which targets customers contributing to solving regional issues and those working to grow their business, and "consulting functions," which we have developed over the years. Through these efforts, we aim to deepen and expand the Group's customer and business axes, improve corporate value of investee companies and help revitalize the regional economy.

■ Overview of funds



Name	HiCAP-1 Investment limited partnership	HiCAP-2 Investment limited partnership	HiCAP-3 Investment limited partnership
Scope of investment targets	Business rehabilitation*	Business succession	Venture
Fund size	¥2.0 billion	¥2.0 billion	¥1.0 billion
Partners	Limited partner (LP): The Hiroshima Bank, Ltd. General partner (GP): Hirogin Capital Partners Co., Ltd.		
Date of establishment	July 3, 2020		

* The business rehabilitation fund also aims to actively support customers affected directly or indirectly by the coronavirus pandemic.

Asset Management Business

Pursue growth with customers through consulting and proposals suited to specific lifecycle phases

Hiroshima Bank works to propose solutions optimized for needs specific to the customer's life cycle phase or generation.

As we are approaching the "era of the 100-year life," we will provide support for the growing elderly market to ensure smooth succession of assets to the next generation and effective use of assets, and optimum solutions using consulting-style trusts and others, which allow them to manage properties in preparation for cases where it becomes difficult for them to make judgment due to conditions such as dementia.

Furthermore, we will support customers' asset management and formation through coordinated efforts of the entire Hiroshima Bank Group, taking advantage of sophisticated, expert investment proposals by Hirogin Securities.



[Views on environment and issues]

Prolonged period of negative interest rates, falling population, aging society, diversified/sophisticated/complex customer needs

[Issues that need to be addressed]

Customers' household asset management, wide-ranging asset formation support, smooth asset transfer/succession support

[Goals]

Realization of serviced that last over a long period (life-long services)

We will offer proposals on management and use of "overall assets" that vary widely, including real estate properties, through not just management or proposals for financial assets but consultation on inheritance, gift, etc., by bringing together capabilities of the entire Hiroshima Bank Group.

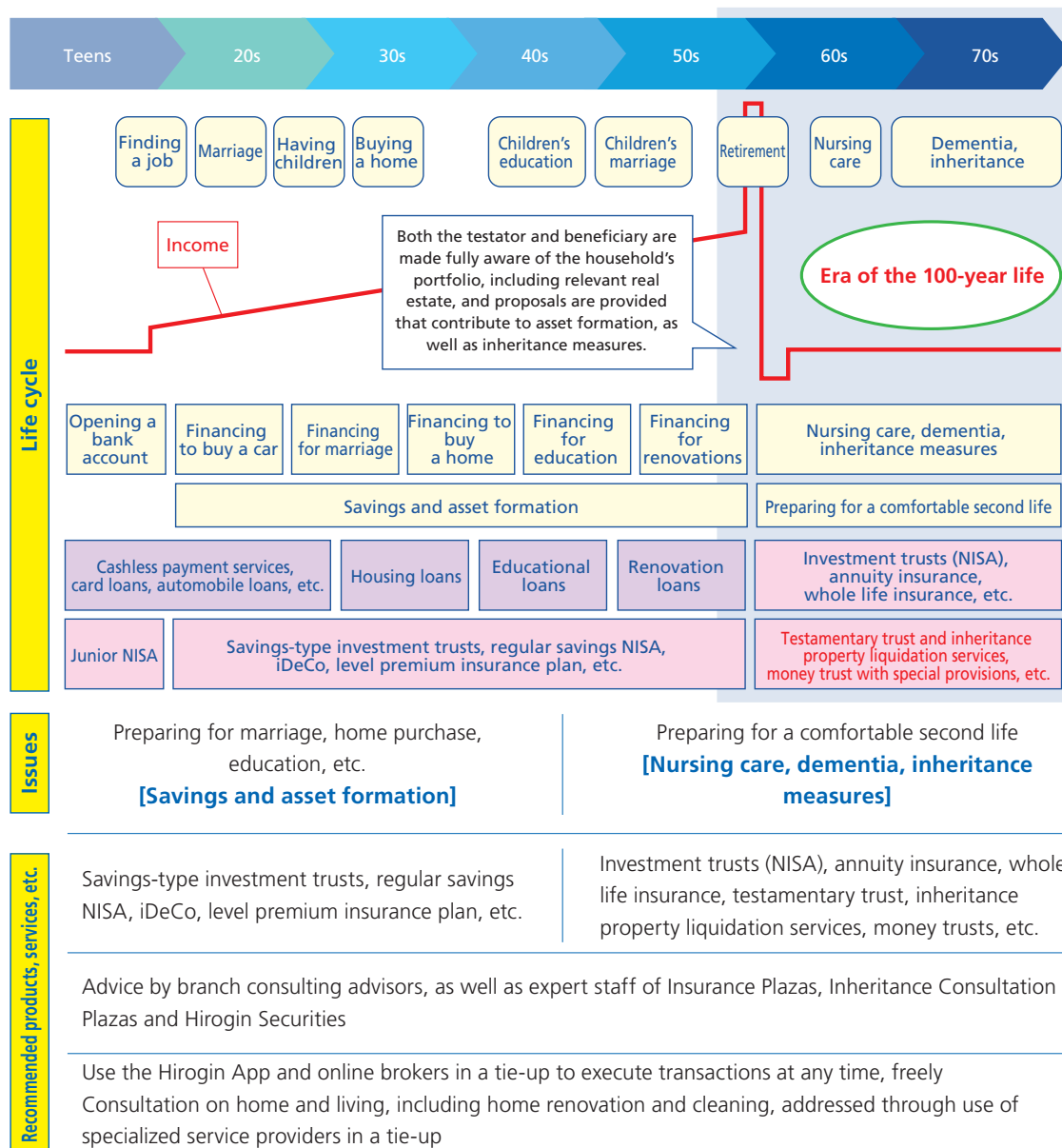
The Bank's goal is to continue to provide a comprehensive support for "precious assets of families" for many years to come, by recommending ways to transfer assets smoothly to heirs, etc. and supporting subsequent investment and management.

How we proceed

Segment	Initiatives
Wealthy class (Business owners)	Inheritance / business succession consulting
Asset management class	Enhance proposals for asset management by utilizing Hirogin Securities <div>Integrated operation of Banking and Securities through expansion of joint branches</div> <div>Expand/enhance products for business owners (including companies)</div>
Asset formation class	Utilize the Bank's customer base to promote long-term, savings, diversified (small-lot) investment <div>Expand field further by utilizing alliance that includes companies in other industries</div>

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.



Topics

© Hirogin Inheritance Consultation Plazas opened to respond to customers' inheritance consulting needs even on holidays

1. April 2019 -: Inside Hiroshima Station North Branch (Saturdays and Sundays only: 9 a.m. - 3 p.m.)
2. August 2019 -: Inside Head Office Business Department (Weekdays only: 9 a.m. - 3 p.m.)
3. October 2019 -: Inside Fukuyama Sales Division (Sundays only: 9 a.m. - 3 p.m.)

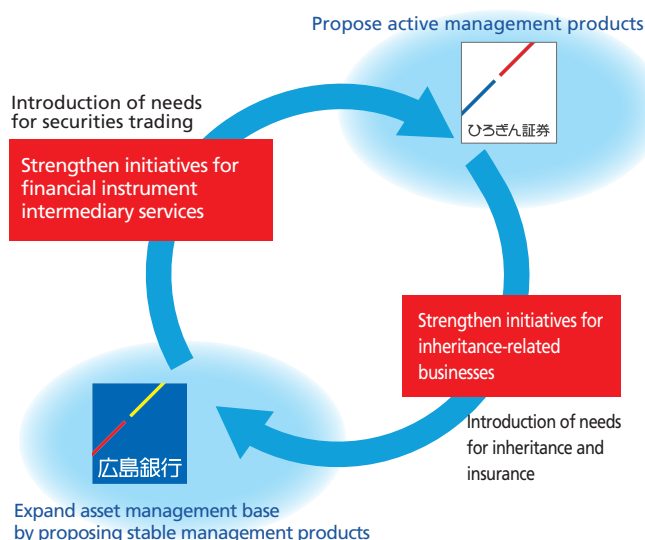
© A "Reliable Watch Service" introduced for customers who apply for trust products to help them maintain a stress-free life without worries in their elderly life.

1. "Watch Service" by security companies to ensure safe and secure life
2. "Warranty Service" by insurance companies to prepare for contingencies

Enhancing Proposal Capabilities on Asset Management and Formation

■ Expansion of joint branches with Hirogin Securities

The Bank has 22 branches jointly operated with Hirogin securities. They can address a wide range of consultation needs and requests related to asset management and inheritance under a one-stop service platform. (Inside the Hiroshima Bank branches below, Hirogin Securities branch has its own branches.)



■ Joint branches established (as of April 30, 2020)

Hiroshima Bank	Hirogin Securities	Date of establishment	Hiroshima Bank	Hirogin Securities	Date of establishment
Yume Town Hiroshima Branch Office	Yume Town Hiroshima Branch Office	February 2008	Iwakuni Branch	Iwakuni Branch	November 2018
Hatsukaichi Branch	Hatsukaichi Branch	November 2008	Fukuyama Sales Division	Fukuyama Branch	January 2019
Okayama Branch	Okayama Branch Office	May 2014	Tokyo Branch	Tokyo Branch	March 2019
Mihara Branch	Mihara Branch Office	January 2018	Saio Branch	Higashihiroshima Branch	July 2019
Furuichi Branch	Satellite Booth Furuichi	March 2018	Onomichi Branch	Onomichi Branch	August 2019
Ube Branch	Ube Branch	March 2018	Hiroshima-Nishi Branch	Hiroshima-Nishi Branch	September 2019
Kabe Branch	Kabe Branch	May 2018	Matsuyama Branch	Matsuyama Branch Office	November 2019
Kure Branch	Kure Branch	May 2018	Innoshima Branch	Innoshima Branch	December 2019
Fuchu Branch	Fuchu Branch	July 2018	Takehara Branch	Takehara Branch	January 2020
Imabari Branch	Imabari Branch Office	August 2018	Kaita Branch	Kaita Branch Office	January 2020
Tokaichi Branch	Miyoshi Branch	October 2018	Tokuyama Branch	Tokuyama Branch	February 2020
			Minamimachi Branch	Minamimachi Branch Office*	April 2020

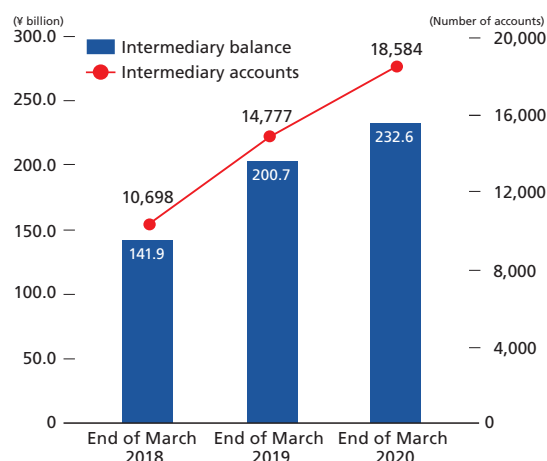
* Yume Town Hiroshima Branch Office was closed.

■ Financial instrument intermediary services

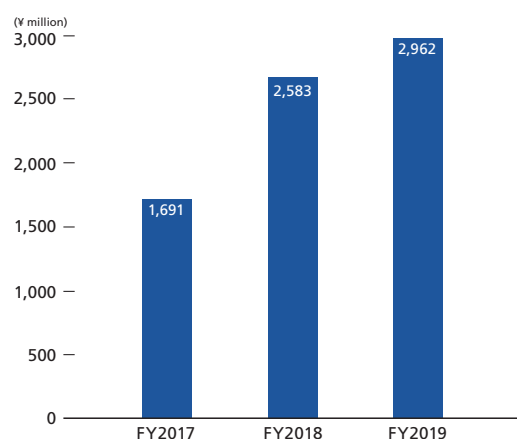
At Hiroshima Bank, customers can open a securities account with Hirogin Securities and the Bank handles some of the products offered by Hirogin Securities' products.



■ Trends in the number of <Hirogin Securities> intermediary accounts and balance



■ Trends in earnings from <Hirogin Securities> intermediary services



Providing Optimum Solutions for Inheritance Needs

■ Inheritance Consultation Plazas

We have Inheritance Consultation Plazas where staff specialized in inheritance give easy-to-understand explanations and provide support for free at dedicated consultation booths, for which customers are asked to make reservation.



Basic knowledge about inheritance

I want to research inheritance property and confirm legal heirs.



I want to learn about necessary procedures and actions to take for eventualities.



I want to learn about how to prepare a will.



What happens to inheritance for a couple without children?



Open only on Saturdays and Sundays

Inside Hiroshima Station North Branch (11-2, Wakasusacho, Higashi-ku, Hiroshima City)

Open only on weekdays

Inside Head Office Business Department (1-1-7, Nishikaniya, Minami-ku, Hiroshima City)

Open only on Sundays

Inside Fukuyama Sales Division (1-1-1, Kasumicho, Fukuyama City)

■ Key solutions

We offer optimum solutions for customers to address issues including from inheritance measures taken before the devisor's death to support for procedures after his or her death.

Consultation topics

Devisor

- Smooth inheritance
- Will preparation

Heir

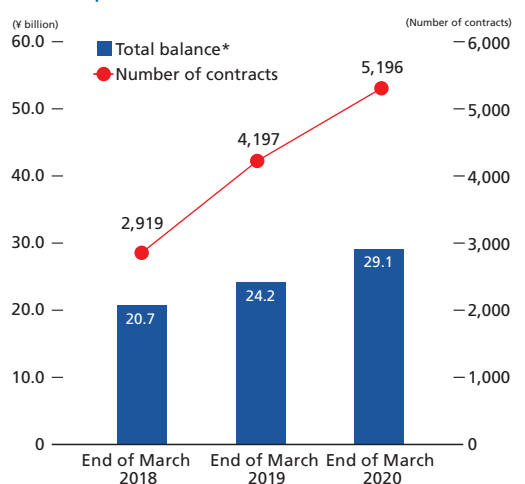
- Smooth procedures
- Secondary inheritance measures

Solutions

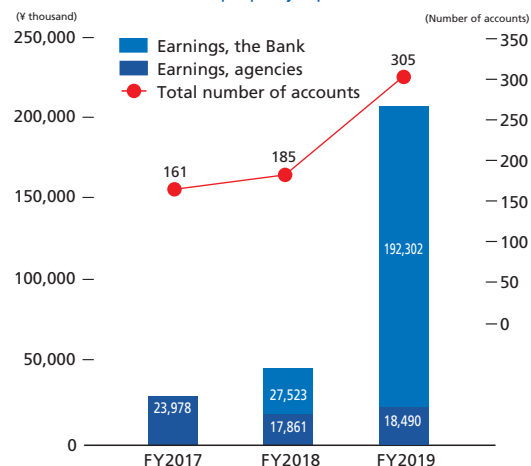
- Inheritance measure proposals
- Testamentary trusts
- Yearly gift trusts
- Inheritance property liquidation services
- Will execution
- Insurance
- Others



■ Number of contracts of inheritance-related trust products and balance



■ Number of accounts opened and earnings of 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.

“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:

1. 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.

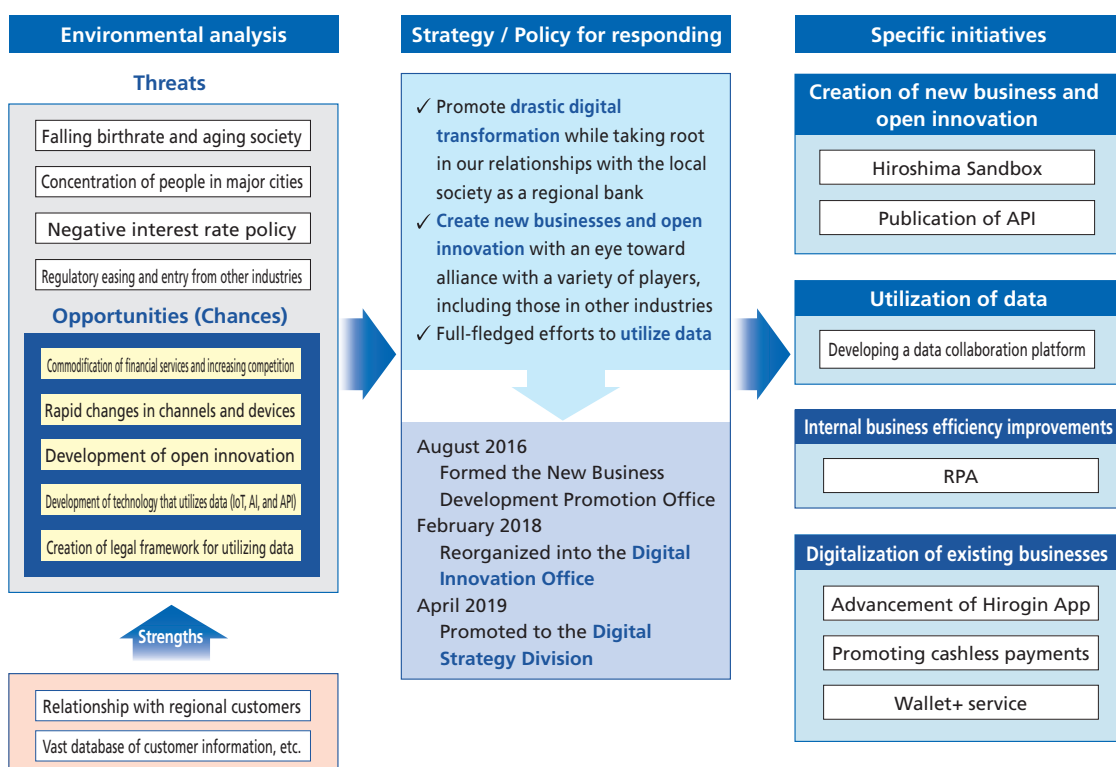
Digital strategy will be the most fundamental strategy for the Bank over the next ten years

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 long-term 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's Digital Transformation (DX) Efforts

Advancement of Hirogin App

Hirogin App is positioned as a new customer contact point to emerge after branch counters and ATMs, which is closer to customers and can be very convenient. We have enhanced its functionality since the February 2019 update. Its slogan is "Hirogin, always in your hand."

Aiming to make it a portal app serving as an entrance and a starting point for carrying out daily transactions, from balance inquiry to banking transactions, in simple operation, we will continue to add new functions and enhance its convenience.

[Functions added in the past]

- ◎ November 2016: Hirogin App released; function of open account request (Hirogin Carp Branch); FAQ function using automated response (AI support)
- ◎ April 2017: Security check function added
- ◎ February 2019: Balance inquiry function added
- ◎ August 2019: Biometric identification for internet banking logins introduced
- ◎ December 2019: Function to request opening of investment trust accounts added
- ◎ April 2020: Linkage with online brokers (SBI Securities and Rakuten Securities)



Promoting cashless payment

We help customers issue "multifunctional IC employee identification cards," which hold several brands of electronic money and can serve as their employee ID cards. Customers have put these IC cards to effective use for reducing administrative workload and improving efficiency of internal management processes for security (entry to and exit from the office) management with their personal identification function and workstyle reforms by digitalizing attendance management, besides their cashless payment function.



We have stepped up a mobile payment service, whose use has recently increased rapidly. We have worked to expand handling of charges from the Bank's accounts to services, and in June 2020, we introduced COi Pay, our proprietary mobile payment service. It is a very convenient service, accepted at shops bearing "Ginko

Pay" mark across Japan. Users do not need to charge COi Pay because payment is immediately debited from the users' bank accounts, the payment is made to the member shops on the next business day at the earliest.

Going forward, we will continue to actively work toward contributing to promotion of cashless payment in the local market.



COi Pay

Promotion of workstyle reforms with utilization of RPA

As part of measures to reform work styles, we are proactively focusing on "RPA (Robotics Process Automation)," aiming to improve the efficiency of internal business 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 to

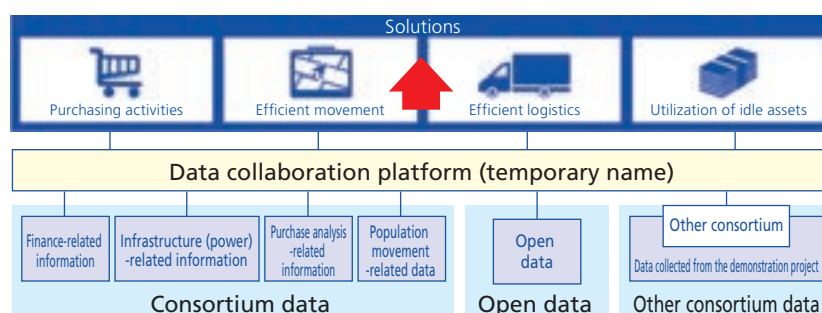
review the allocation of resources, aiming to provide higher value-added services by taking maximum advantage of the saving time.



Regional Data Collaboration Platform Creation Demonstration Project

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. The demonstration project is being carried out with an aim to contribute to establishing services by promoting data distribution among companies in Hiroshima and improving convenience for the prefecture’s residents, by processing and analyzing

information provided by diverse companies in different business formats, and integrating such information into a single platform so that possibilities of creating new services are explored, which was not possible by individual companies.



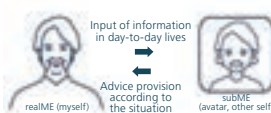
For fulfilling 11,000 days of post-retirement life! Connected Seniors Consortium

We are part of the Connected Seniors Consortium (The Japan Research Institute, Limited, etc.) for the purpose of realizing and commercializing of the subME service which provides functions to utilize accumulated data for helping senior citizens enjoy active life for a long period. As the era of 100-year lifespan is approaching, the consortium is conducting a project to test a subME digital twin, which recreates the information of the user in cyberspace, is used to help the elderly make their long later life from the age 70, when many people retire from

work, fulfilling through their own efforts. What kind of contribution can Hiroshima Bank make as a regional financial institution?

We are now thinking about this question seriously, in anticipation of the service’s commercial introduction in 2022 or later.

Users (elderly people) recreate their information in cyberspace



HIROSHIMA
POWERED BY HIROSHIMA BANK

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.

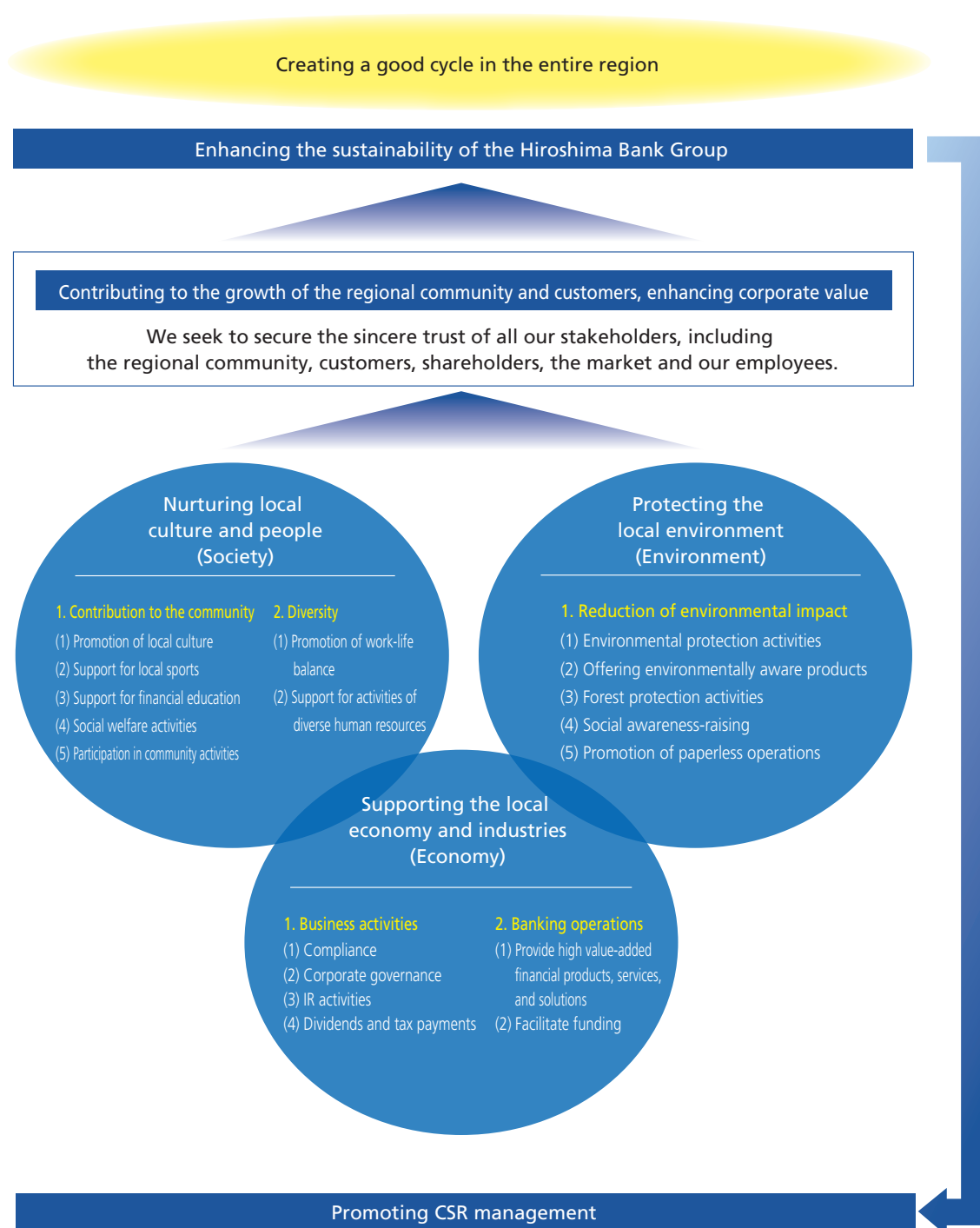
Our Approach to Corporate Social Responsibility (CSR) and SDGs Initiatives

Hiroshima Bank Group's approach to corporate social responsibility (CSR)

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.



Hiroshima Bank Group's SDGs

In September 2019, the Hiroshima Bank Group developed the Hiroshima Bank Group SDGs Declaration, in which the Bank's policy for SDGs efforts is summarized, to help achieve the "sustainable development goals (SDGs)" adopted by the United

Nations, aiming to contribute to solving social and environmental issues of the region and achieving sustainable growth through provision of high value-added financial services and by coordinating efforts by group members.

Hiroshima Bank Group SDGs Declaration

1. Region

► Efforts to revitalize local communities and economy

- We will contribute to revitalizing the regional economy by supporting sustainable growth of local industries and companies.
- We will contribute to building a livable town in the region through efforts for regional revitalization.



2. Aging society

► Provision of financial service suited to aging society

- We will practice customer-first business operation, and support stable asset formation for the future and smooth inheritance and business succession by promoting financial and economic education and making optimum consulting, proposals, etc.
- We will contribute to improving customers' lives and living by offering advanced and highly convenient networks and financial services from which customers can choose according to their stage of life.



3. Human rights

► Diversity and inclusion

- We respect human rights of all people, and diversity of society and individuals, and will contribute to creating a society where every person can have a fulfilling job and lead a satisfying life.

► Building a community where local customers can live in peace

- We will never associate with any antisocial organization that threatens the order and security of the citizenry, and will strive to enhance measures to counter financial crimes, including money laundering and financing of terrorism, and contribute to creating a society where customers can live in safe.



4. Environment

► Response to Climate Change and Global Warming

- We will contribute to the realization of a sustainable society while working to reduce climate change risks by working to reduce the environmental impact on local communities and engaging in environmental protection activities of our home area including the Seto Inland Sea as well as by supporting customers' businesses and initiatives to conserve the environment.



Efforts to raise awareness for SDGs

Hiroshima Bank Group SDGs Handbook

We have issued an SDGs Handbook which explains SDGs and plainly outlines the Hiroshima Bank Group's efforts under themes of "region," "aging," "human rights" and "environment."



"Hirogin free college" SDGs seminars

We held a workshop-style seminar where the 2030 SDGs Card Game was used to deepen understanding of the nature of SDGs.



Employee training by job grades

We raise awareness of employees by holding employee training by job grades, to deepen understanding of the nature of SDGs and our Bank's effort policy for them.



Response to Climate Change and Global Warming



Hiroshima Bank has established Environmental Protection Activities in its Corporate Behavior Charter, and has positioned environmental protection as the foundation of bank management. In addition, the Bank has announced that it will actively pursue environmental protection activities in the Environmental Declaration and the Hiroshima Bank Group SDGs Declaration. We will continue to contribute to the realization of a sustainable society while working to reduce climate change risks by working to reduce the environmental impact on local communities and engaging in environmental protection activities of our home area including the Seto Inland Sea as well as by supporting customers' businesses and initiatives to conserve the environment.

Response to the Task Force on Climate-related Financial Disclosures (TCFD)

In March 2020, the Bank agreed to the Task Force on Climate-related Financial Disclosures (TCFD)*1, amid an international emphasis on responding to social changes caused by climate change.

We will continue to strengthen our response to climate change, and will enhance our disclosures on

climate-related risks and opportunities based on TCFD recommendations.



*1 Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In December 2015, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) in response to the intentions of the G20 Finance Ministers and Central Bank Governors. In June 2017, TCFD published the final report outlining recommendations for encouraging voluntary disclosure by companies. The recommendations are not only for the financial sector alone, but for all firms.

Governance	When the Board of Directors and the Management Board formulate the Hiroshima Bank Group SDGs Declaration, the status of responses to TCFD are reviewed and future measures are considered. In formulating management plans, we use "climate change risks" as a possible risk scenario for formulation of bank management, and assess the degree of impact and likelihood from both quantitative and qualitative perspectives.
Strategy	The Hiroshima Bank Group SDGs Declaration stipulates "the environment (measures to deal with global warming and climate change)" as a priority (materiality) of our SDGs, and is working to reduce climate change risks through the provision of high-value-added financial services, including eco-friendly financing products.
Risk Management	The Bank recognizes that the risk of climate change-related transition and physical risks affect its business and financial condition. In the future, we will identify and analyze the impact of these risks and consider the establishment of a management system within the comprehensive risk management framework.
Indicators and Targets	Calculating our greenhouse gas emissions, we are working to reduce them. (See page40.)

Efforts to combat climate change by exerting financial intermediary functions

Promotion of eco-friendly finance

The Bank actively provides financial support to companies and projects that contribute to measures for climate change through its eco-friendly financing system, aiming to realize a low-carbon society and to transition

to a decarbonized society, including the utilization of renewable energy.

Hirogin Solar Power Loan

System features

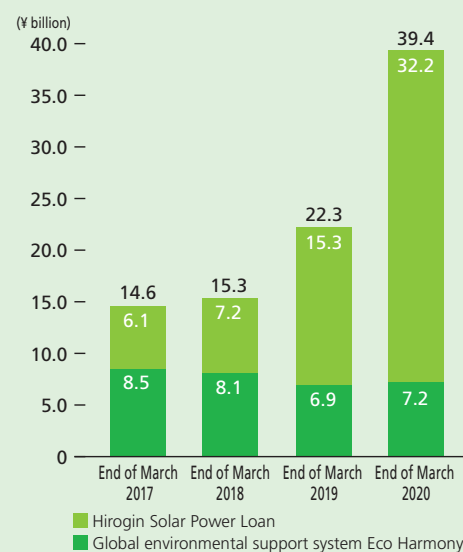
- ◎ Available for users of the Feed-in Tariff Scheme for Renewable Energy
- ◎ Applicable up to 15 years of loan period

Global environmental support system Eco Harmony

System features

- ◎ Available for companies that have obtained ISO 14001 certification or Eco-Action 21 certification, aiming to reduce the environmental load
- ◎ Available for purchases of low-emission vehicles, installation of clean energy equipment, and acquisition of emission credits

Track records of eco-friendly finance



Adoption as the Ministry of the Environment's ESG Financing Promotion Project

In September 2019, the Bank became the only financial institution in the Chugoku region that was designated by the Interest Subsidy Program for Regional ESG Loan Promotion

Projects implemented by the Ministry of the Environment and the only financial institution decided to be supported by the FY2019 Regional ESG Financing Promotion Project.

Project name	Description
Regional ESG Loan Interest Subsidy Project	In order to promote ESG financing by regional financial institutions and promote ESG management by borrowers, interest subsidies are provided for renewable energy and energy-saving capital investment, which are highly effective in reducing CO ₂ , for a maximum of 1% per annum for a period of three years. (Applications are being made to be a designated financial institution in FY2020 with a target of 10 billion yen for the implementation of ESG loans that involve environmental factors.)
ESG financing promotion projects in the region	In order to promote ESG financing by regional financial institutions, support will be provided for regional market surveys of promising green projects, etc., uncovering potential and profitability, evaluating business feasibility by considering ESG elements in the target areas, and establishing their processes.

Investment in Green Bonds

Through investments in Green Bonds, the Bank supports companies and individual customers who actively

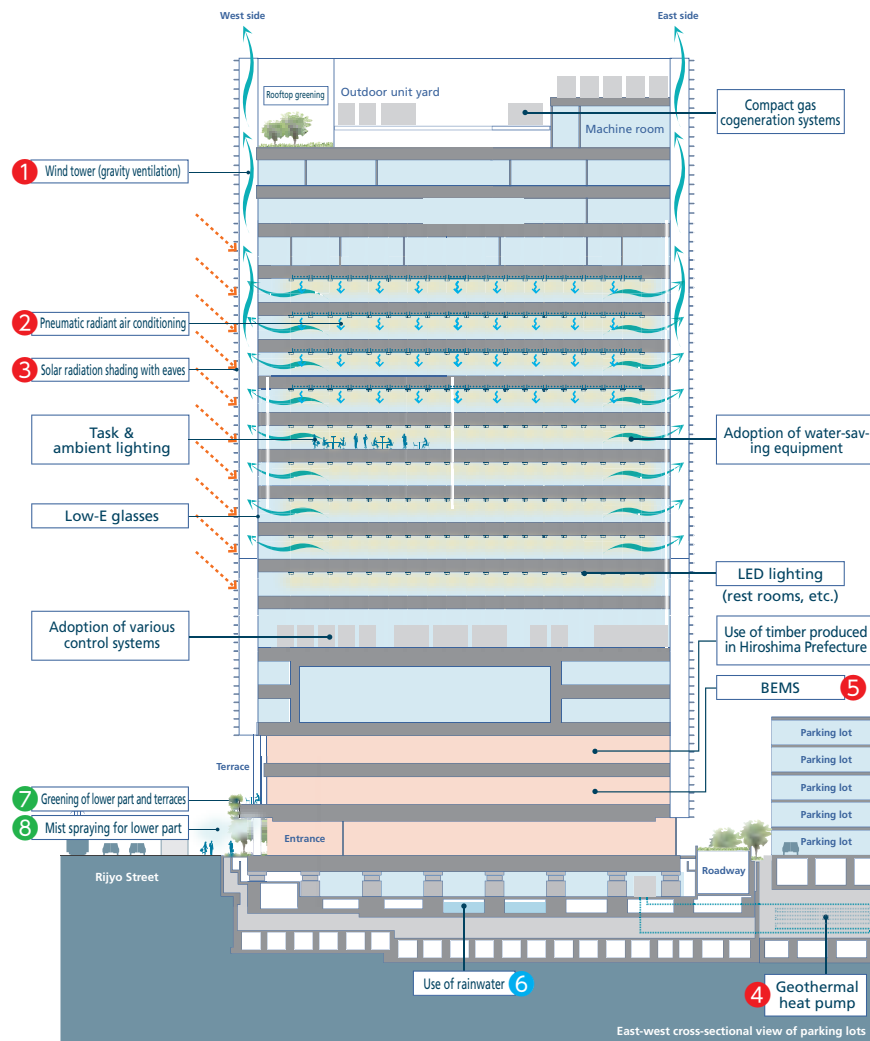
engage in social contribution activities and we also actively promote social contribution activities.



Efforts for reducing environmental load

New environment-conscious Head Office building under construction

The new Head Office building, scheduled for completion in February 2021, aims to be an environmentally friendly office building that uses the latest technology to conserve electricity and water resources.



[Environment-conscious plans for the new Head Office building]

Heat

- 1. Wind tower (Ecovoid/gravity ventilation):** Securing gravity ventilation routes for the office at the four corner of the building, creating a wind flow to increase natural ventilation effect
- 2. Pneumatic radiant air conditioning:** Controlling the temperature of the ceiling surface to provide a comfortable air-conditioning environment and mitigating the indoor temperature
- 3. Solar radiation shading with eaves:** Installing eaves that are finely spaced on the exterior to shield the sunlight while securing a view
- 4. Geothermal heat pump:** Burying underground heat utilization piping to use for air-conditioning the entrance of the Head Office

- 5. BEMS (Building Energy Management System):** Visualization of energy consumption

Water

- 6. Use of rainwater:** Reuse of rainwater for miscellaneous purposes such as plant watering and toilet flushing

Heat island mitigation

- 7. Terrace greenery:** Greening the lower part and the second-floor terrace to create comfort and mitigate heat island effect
- 8. Mist spraying:** Spraying dry mist from the piloti area facing the Rijo Street to create cool spots and mitigate heat island effect

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.

[Room temperature control in summer and winter]

We are working to reduce electricity and gas consumption (reduce CO₂ emissions) through controlling room temperatures in summer and winter. Employees are allowed to be dressed comfortably based on their judgment in accordance with the TPO, and heightens

their awareness so that they will set temperature for air conditioners in a conservative manner.

[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

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, employees and 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 planted saplings of Japanese cherry trees at the Bank's *Hirogin no Mori* seminar-training center over the ten years from 2010 to 2019. A total of 60 Japanese 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.



Initiatives to Revitalize Local Communities and Economy



The Bank supports SDGs efforts of its business partners in order to make the region a better place and to lead to sustainable growth. As a regional financial institution, we actively promote and support SDGs efforts of local companies, because SDGs initiatives, which are becoming a social requirement for companies, lead to

business expansion, innovation, and other opportunities, and are also effective in securing human resources. We will realize sustainable growth for both the region and the Bank by resolving ESG issues through our business activities.

Supporting SDGs Initiatives by Local Companies

Handling of privately placed bonds (SDGs Type): Community Development Contribution Type and Corporate SDGs PR Type

Through the issuance of these privately placed bonds, we will make donations within 0.2% of the issue amount of privately placed bonds with the aim of contributing to local communities, and publicize SDGs efforts of the issuing companies.



Donation ceremony for Community Development Contribution Type privately placed bonds

MYKITT Co., Ltd., a beauty salon company, has donated a graduation trip to a local child care facility, Hiroshima Shudoin, for children graduating from elementary school. We received comments of joy saying, "It has become a support that is truly needed."



Example of corporate SDGs PR advertisement

Handling started in November 2019 -- 45 cases worth ¥5.37 billion handled as of the end of June 2020

Handling of Hirogin SDGs support services

This is a service that checks the status of SDGs efforts of business partners using the Bank's original check sheet, feeds back the results, and supports the formulation of the SDGs Declaration as external PR. SDGs Formulated declarations will be provided in the form of data that can be posted on the website.



Handling started in January 2020 -- 68 cases handled as of the end of June 2020

Creation of shared values with regional industries

Hiroshima Open Accelerator 2019

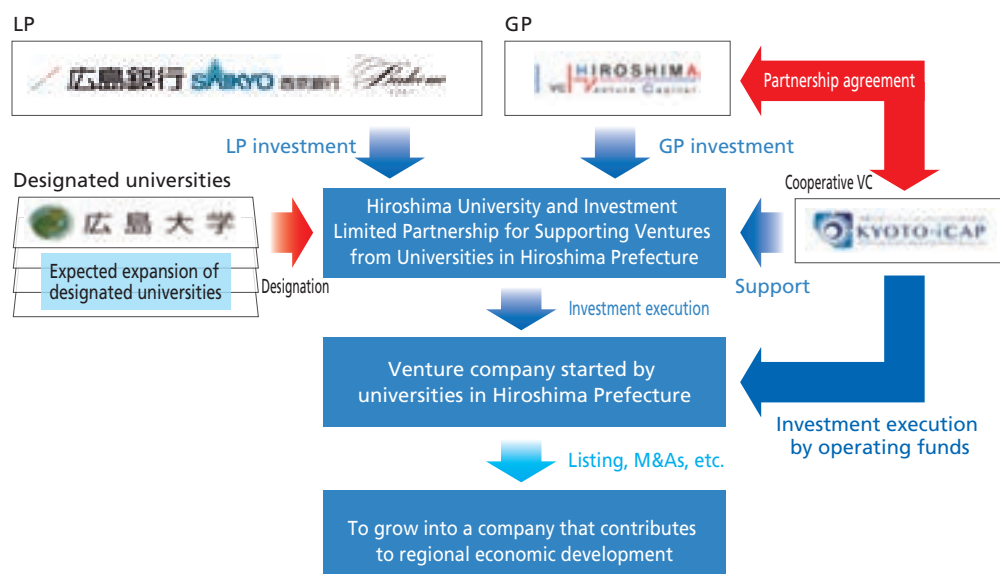
We are working to create new businesses through open innovation that links the management resources of companies in Hiroshima Prefecture with the services of startup companies nationwide. In fiscal 2019, eight cooperative proposals were adopted.

In 2020, the event was held for the second time, and we began recruiting participating companies in July.



Investment in Hiroshima University's first certified fund

We invest in research seeds owned by Hiroshima University and other universities and research institutions in Hiroshima Prefecture, as well as venture companies initiated by researchers, students, and other concerned parties, and contribute to regional revitalization through sustainable development of regional economies and job creation.



In order to enhance support for investees, we will seek the cooperation of Kyoto University Innovation Capital Co., Ltd., which has a wealth of experience in investing in research seeds and supporting commercialization. In this way, we will seek to discover investment destinations with innovative technologies at an early stage and accelerate the improvement of corporate value and work to foster a momentum for commercialization at universities in Hiroshima Prefecture.

We will donate part of the investment income from this fund to Hiroshima University to expand the circle of the startup ecosystem, which will lead to the creation of next-generation research seeds.

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

In the human resources strategy of the Mid-Term Management Plan 2017, we have put a priority on "Foster human resources able to quickly respond to changes and create value for local communities."

We believe that strengthening human resource development is indispensable in order to realize our management vision of "building a reliable Hiroshima Bank Group united through trusting relations with the regional community." Based on this idea, we are implementing the following measures.

1. Helping younger employees grow to become professional early on

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

sophisticated consulting business with customer needs as a starting point.

(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 experience multiple operations in a systematic way in their first year for an understanding of a basic flow of the bank business and grow steadily over two to three years to become a core player.

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.

(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.

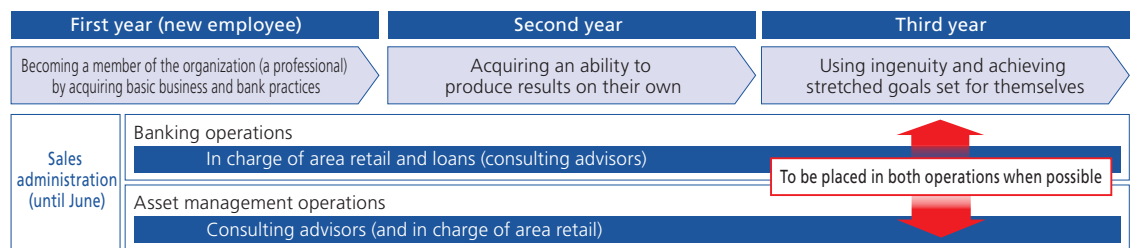
We are improving training effects by proactively adopting practical training programs such as group work and active learning, in addition to knowledge acquisition through lectures.

Specific example of active learning

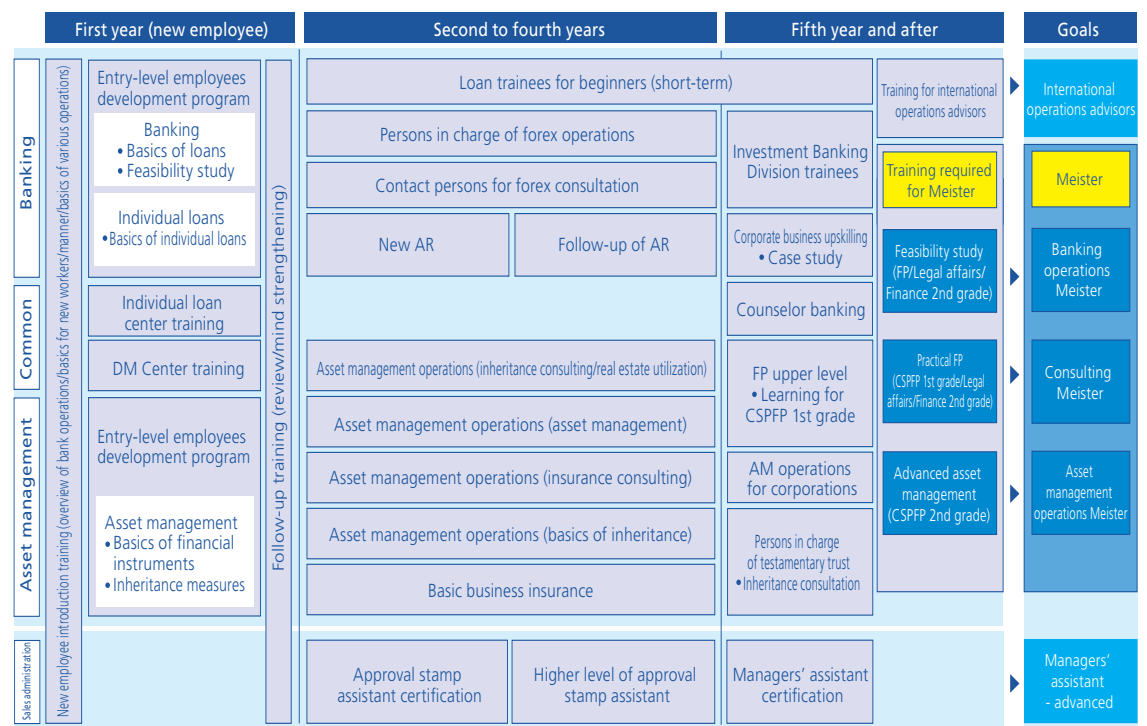
Theater learning: a training program through theatrical experience for the improvement of communication skills and training of team building

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 for the new employees in FY2019 (job rotation rule)



Training system for personnel in charge of each operation (FY2019)



Number of trainees in FY2019

• Entry-level employees development program

Operations	Number of trainees
Banking	110 persons
Individual loans	66 persons
Asset management	116 persons
Total	292 persons

• Training required for Meister

Classification of Meister	Number of trainees
Banking operations	48 persons
Consulting	9 persons
Asset management operations	42 persons
Total	99 persons

• Number of certified Meister

Number of certified persons for FY2019
23 persons
5 persons
22 persons
50 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 learning support system @Home-Web” which enables online

learning using their household computer and smart-phone. In this way, we encourage employees to develop themselves.

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

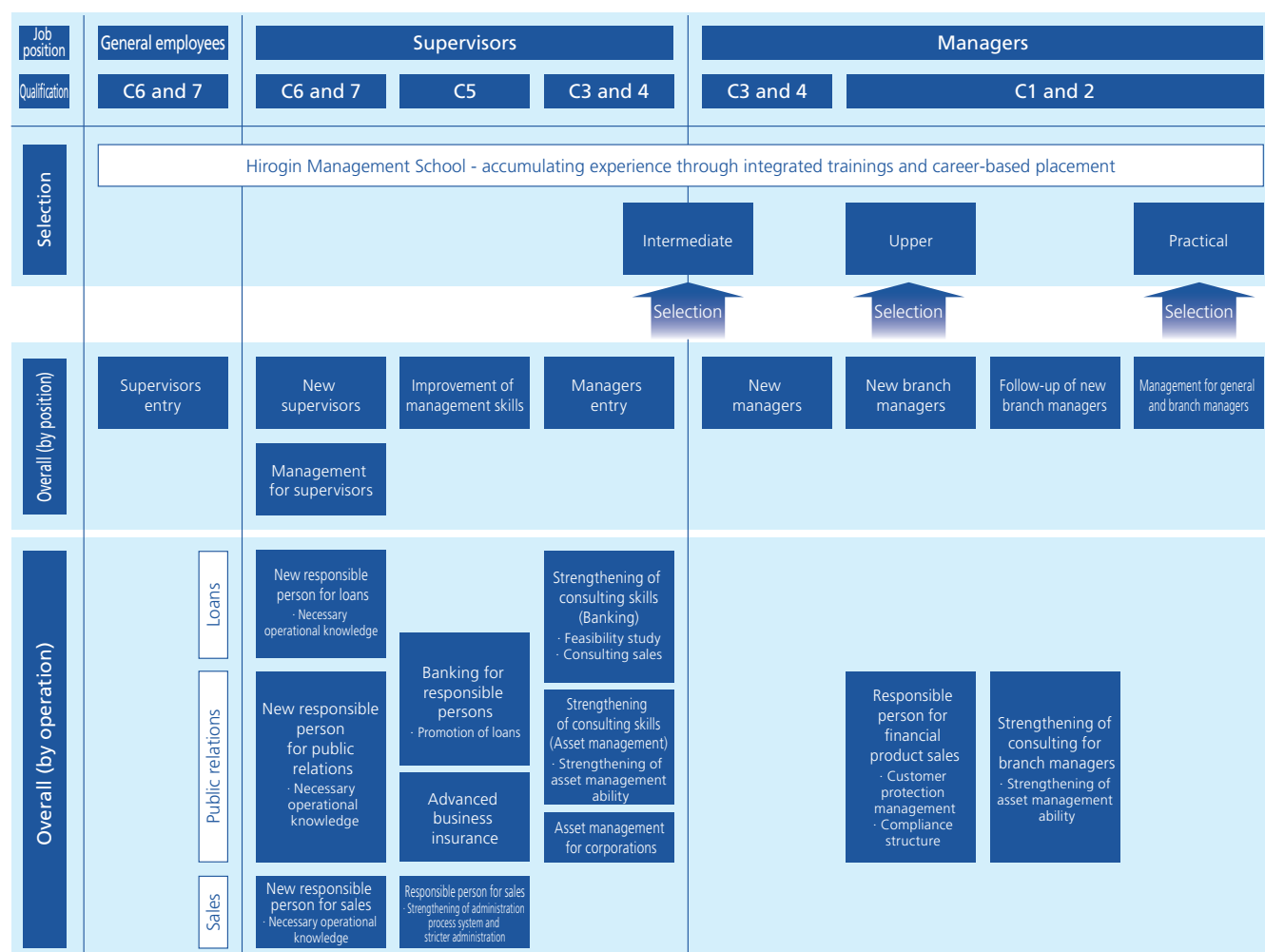
establishing the Meister System as a final goal of operational skills for employees and proactively sending employees to business schools in and outside Japan.

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) (FY2019)



■ Hirogin Management School for selective employees conducted in FY2019

Level	Main contents	Lecturer	Number of trainees
Inter-mediate	<input type="checkbox"/> Leadership application <input type="checkbox"/> Human resource development and question skills <input type="checkbox"/> Facilitation for independence	GLOBIS CORPORATION	19 persons
Upper	<input type="checkbox"/> Business strategies <input type="checkbox"/> Technovate strategies		24 persons
Practical	<input type="checkbox"/> Ambition as a leader and integrity as a person <input type="checkbox"/> Organizational reform <input type="checkbox"/> Acquisition of competitive advantage through business innovation	Business school attached to the Keio University Graduate School	18 persons
Total			61 persons

■ Rank-based training programs for managers conducted in FY2019

Program	Target	Frequency	Number of trainees
Training for new managers	Persons promoted to managers	Twice a year	41 persons
Training for new branch managers	New branch managers	Twice a year	15 persons
Follow-up training for new branch managers	Three months after assigned as new branch managers	Once a year (Note 1)	20 persons
Management training for general and branch managers	All general and branch managers	Once a year	178 persons

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

(Note 1) We have held twice a year every year, but it was not held in the second half of 2019 due to the small number of new branch managers.

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 as mid-career employment.

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	FY2017	FY2018	FY2019
Specialists at the Head Office	7 persons	8 persons	8 persons
Work-ready human resources at branches	3 persons	2 persons	2 persons

2. Support of career development of women

Currently, the male-female ratio is almost 50:50 among hires of new graduates at the Bank.

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]

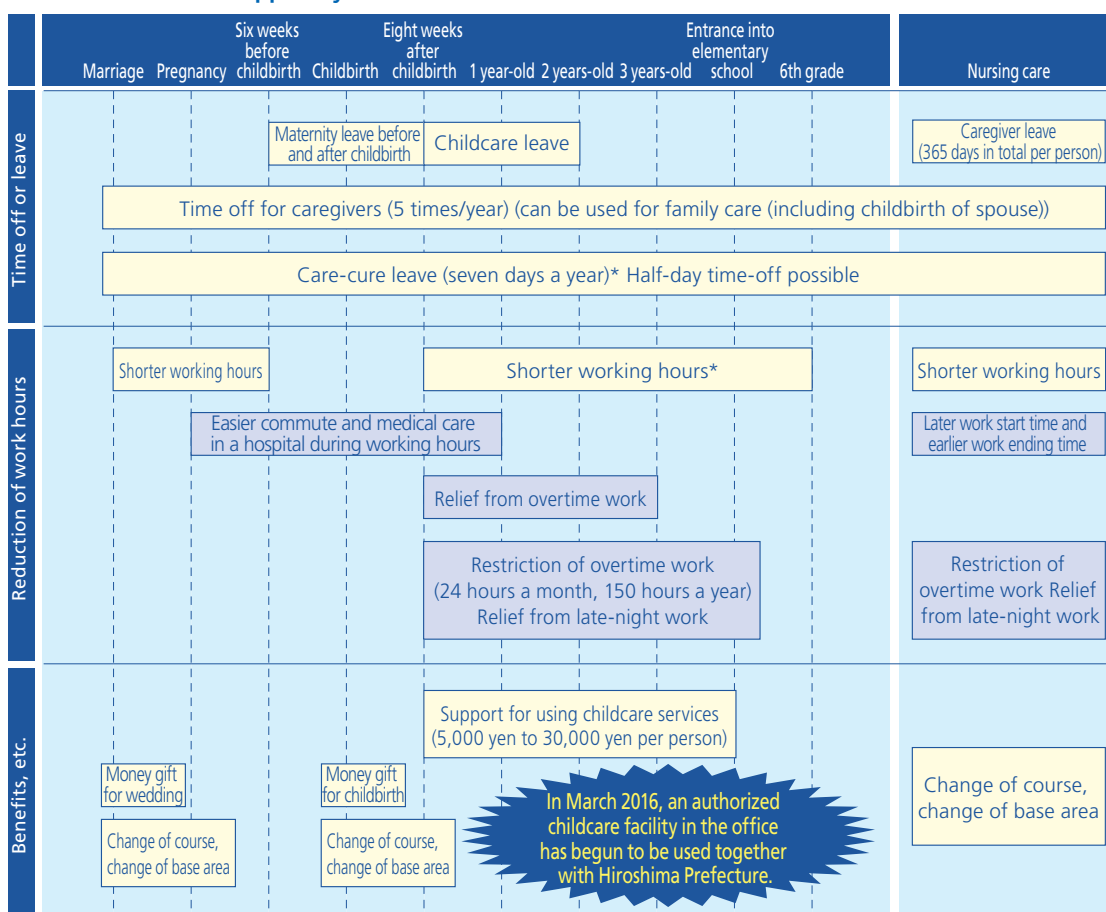
"I want to live with my family because I got married," "I want to avoid my child from changing schools," "I want to live near my parents because they need care" — our employees have different needs arising from changes in their lifestyles. Catering to such needs, the Bank offers a career course where 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 six-week maternity leave before birth (14 weeks if multiple births) so that they can rest without hesitation. In addition,

employees can choose from 6 hours, 7 hours, and 8 hours for short working 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 who leave the Bank due to childbirth and 65 employees newly took a childcare leave in FY2019.

Work-life balance support system of Hiroshima Bank



* Gray rectangles indicate the same content as legally required.

* This selection of 6 hours or 7 hours for the purpose of childcare is available up to 5 years and a half (2010 days) in total for each eligible child

Learning and communication opportunities for career development

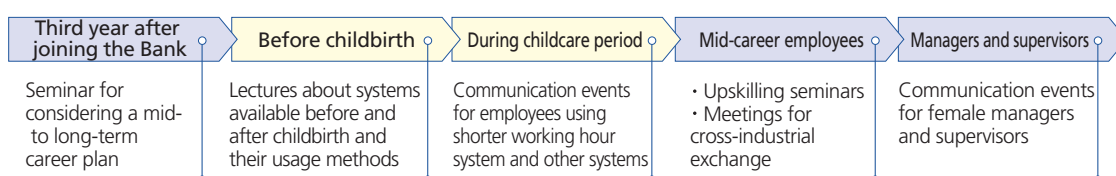
The Bank offers opportunities for awareness and learning as well as communication for each career and life stage to help female employees develop their own career paths after experiencing various life events.

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 currently increased to 172 (12.5% of all managers and supervisors), 1.9 times compared to five years ago.

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.



■ Number of employees (by gender)

As of April 1, 2010

	Men	Women
Managers	544 persons	12 persons
Supervisors	786 persons	50 persons
General	1,074 persons	1,298 persons

As of April 1, 2020

	Men	Women
Managers	535 persons	19 persons
Supervisors	670 persons	153 persons
General	1,039 persons	1,227 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 lives and jobs instead of just a place for social engagement, the Bank offers

jobs and work environments suitable for different types of their disabilities and aptitudes. In addition, we have follow-up system to prevent turnover. As of June 1, 2020, disabled persons account for 2.2% of our employees, which is above the legal employment rate.

Work placement	Duty	Work details	Remarks
Work Support Center	General affairs	Printing bills and business cards, sealing and sending letters, sorting and sending documents, and printing operations, etc.	We established a better environment where persons with disabilities can work comfortably, such as barrier-free facilities and a rest area.
General Affairs Department	Cleaning General affairs	Cleaning the Head Office	People with hearing impairments and other disabilities work 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.
Administration Center	General affairs	Data entry (tax, currency transfer, etc.)	Enhancing the teaching system so that even beginners can perform data entry operation

* Beyond the above, the Bank is 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.

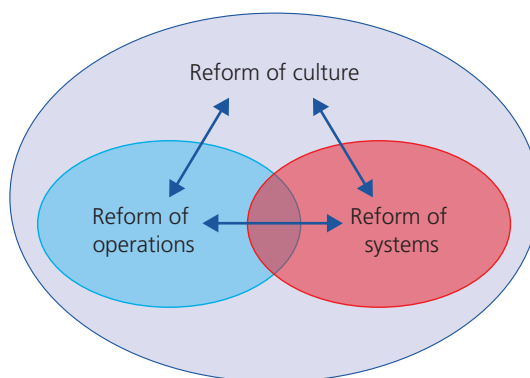
The Bank regards the reform of culture, reform of operations and reform of systems as the core of our workstyle reform, and has been promoting well-balanced reform. We realize the reform of culture by changing mindsets and behaviors of employees

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 32% during five years from fiscal 2015. In addition, the number of days of paid leave taken increased to an average of 12.7 from 10 over the five years.

In recognition of these efforts, the Bank was accredited as one of the First Hiroshima Prefecture Workstyle Reform Good Practice Companies in September 2017.

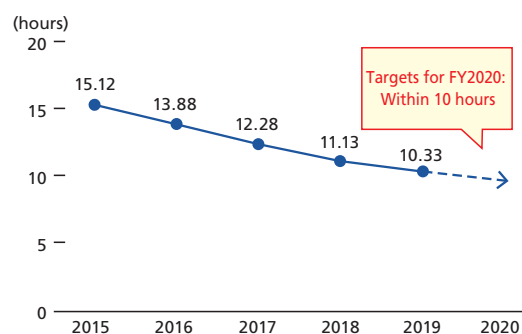
We will continue to strive to offer high value-added services while enhancing job satisfaction of employees by promoting the workstyle reform.



Specific efforts

Reform of culture	<ul style="list-style-type: none"> “Efforts for enhancing labor productivity” was added to the items of the “result evaluation” and “action evaluation” of employees.
Reform of operations	<ul style="list-style-type: none"> Adoption of an electronic approval workflow - Paperless meeting Use of tablets at branch counters - Trial of remote work
Reform of systems	<ul style="list-style-type: none"> 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.

Based on the guideline that sets the direction of the efforts, the Personnel & General Affairs Division and related organizations and groups inside and outside the company cooperate with each other under the supervision and order of the president and director in charge of the personnel and human resources to operate and promote the system.

We are working for realizing health management, with "efforts for keeping and enhancing health," "creating a pleasant workplace with job 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 March 2020, we were recognized under the 2020 Certified Health & Productivity Management Outstanding Organizations Recognition Program.

Initiatives 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, 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.

As a measure to comply with the revised Health Promotion Act, with smoking at the site prohibited from April 2020, the Hiroshima Bank Health Insurance Association established a new subsidy system starting in October 1, 2019 for compensating for the cost to stop smoking in order to help smokers to quit smoking.

We have signed a health-related agreement with Hiroshima International University to promote efforts to maintain and improve health.

Creating a pleasant workplace with job satisfaction

We value the work-life balance approach and are proactively promoting the workstyle reform.

We have introduced a work interval system to reduce long working hours.

As a general rule, we have set a rule to take 11 hours of rest between the end of work and the start of work.

As such, we are creating a culture of finishing work 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 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.

In addition, we revised the personnel system in July 2020 with the aim of “building a system that can enhance and utilize specialized expertise” and “demonstrate the ability and skill in the right place.” The Bank has adopted a personnel system based on specific course categories that enables employees to select either the BK business field or the AM business field according to their own aptitude and to increase their expertise within the business field, and to pursue higher expertise in specific fields such as the IT field and the market field.

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, to create a vibrant workplace and organizational culture, we conduct coaching and harassment training for managers and supervisors. To introduce measures that incorporate diverse opinions, we focus on dialogues with the employees union. The dialogues were held 30 times in fiscal 2019. In this connection, 58% of employees of Hiroshima Bank are members of the employees union as of the end of March 2020.



Dream Challenge Ticket Granting Ceremony

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

rights as one of the corporate social responsibilities (CSR).

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

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 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 that "Hiroshima Bank respects the human rights of all people."

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 the Bank and promotion to a higher position or rank as well as 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.

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 anti-discrimination issue and

executing corporate social responsibility, the Bank established the Anti-discrimination 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.

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 six months ending September and March and conducts

a periodic anonymous 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.

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.

■ Number of hires by gender for the past three years

Joined in:	Number of hires		
	Total	Men	Women
FY2018	175 persons	88 persons	87 persons
FY2019	166 persons	84 persons	82 persons
FY2020	114 persons	61 persons	53 persons

Provision of Value to the Community



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.



Hiroshima Flower Festival
"Flower Parade (*orizuru mikoshi*
(paper crane floats))"



Hiroshima Flower Festival
"Kinsai YOSAKOI Dance Parade"



Fukuyama Rose Festival "Rose
Parade"



Mihara Yassa Festival

Cleaning activity

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.



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.

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-of-court 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, infant homes, and foster parent organizations 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 FY2019, from a viewpoint of developing the next generation, we started to hold a Hirogin Dream Future Concert to provide an opportunity at which high school students can perform with Hiroshima Symphony Orchestra.



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.

Response to New Coronavirus Infection

Amid the nationwide outbreak of new coronavirus infection, the Bank, as a public institution essential for maintaining social functions, is responsible for supporting business partners' financial positions and economic activities so that our basic policy has been to

continue our operation in tackling the issue. We place top priority on "protecting the health and lives of our customers and employees," and constantly consider what we can do as a regional financial institution and take action accordingly.

Support for customers

- Establishment of loan consultation desks (including holidays)
- Establishment of a Holiday Loan Consultation Desk during the Golden Week holiday
- Handling of Special Loan to Cope with New Corona Virus (up to ¥1 billion, 5-year grace period)
- Holding sales promotion events to support sales of goods of business partners
- Handling of the scheme of substantially interest-free loans
- Waiving part of loan-related fees (loan modification fees, etc.)
- Introduction of business partners (desired suppliers)
- Fee incentives for new users of Hirogin Business Online Service

Ensuring the Safety and Security of Customers and Employees

- Acrylic boards and vinyl sheets installed at all stores
- Periodic disinfection of equipment in branch offices
- Shortening of business days and business hours and implementation of extraordinary closure
- Implementation of business operations with minimum personnel (introduction of closure for lunch)
- Promotion of time difference and remote work
- Split operations (decentralized work) implemented at the headquarters



Donation

- We donated 10 million yen to Hiroshima Prefecture to help strengthen the medical care system and provide corporate support
- Face masks, raincoats, and protective clothing donated to Hiroshima Prefecture



Other

- Implementation of remote training for new employees
- Use of video conference system with visitors to the head office (announcement of financial results, IR, etc., also held at video conferences)
- Implementation of "Friday Ovation" to express appreciation to healthcare and welfare workers



While placing top priority on protecting the health and lives of our customers and employees, we will continue to support local economic activities by providing financial infrastructure essential to maintaining social functions, such as prevention of splash infection and remote work, keeping "new lifestyles" in mind.

Corporate Governance

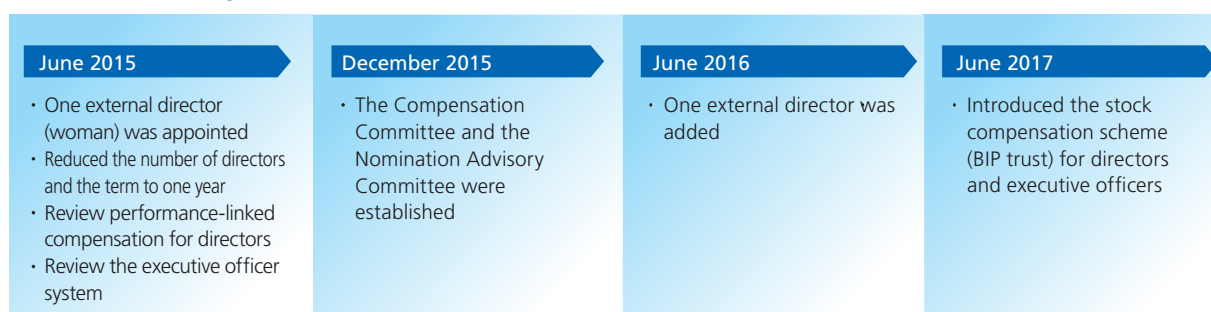
Basic approach

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.

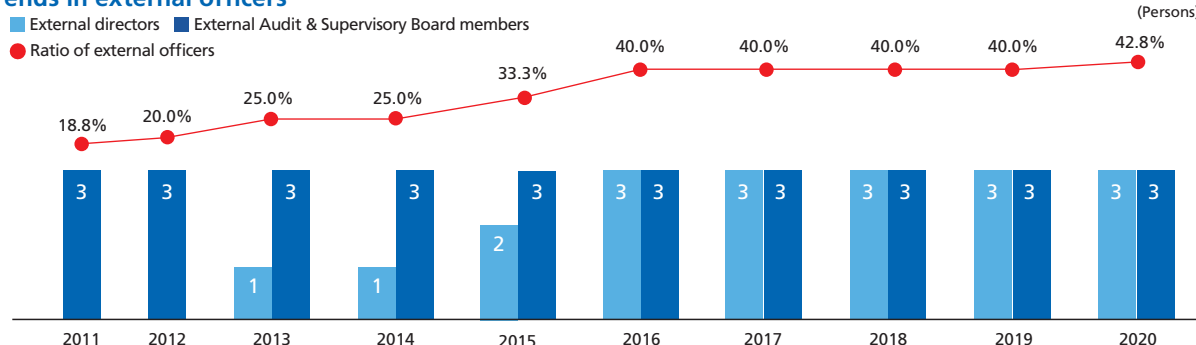
To attain this goal, we respect the intent and spirit of the Corporate Governance Code of the Tokyo Stock Exchange, Inc., and set out the following five basic principles in an effort to realize effective corporate governance.

- (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



Trends in external officers



Corporate Governance Overview

The Bank's Board of Directors consists of 9 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 to discuss and determine

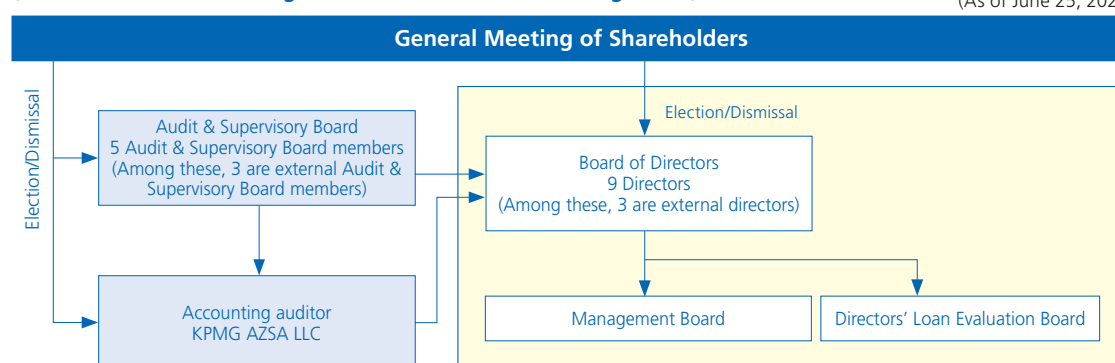
important loan projects based on the basic policy formulated by the Board of Directors. The members of the committee are the Chairman, President, and directors in charge of the credit-screening divisions, and the committee convenes once a week, in principle. The Articles of Incorporation of the Bank 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)

(As of June 25, 2020)



* In addition to the above, 16 executive officers who do not concurrently serve as directors (as of June 25, 2020) 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.

Following the transition to a holding company structure (scheduled for October 1, 2020), the holding company will adopt a company with an audit and supervisory committee structure to strengthen corporate governance in light of the intent of establishing the holding company to strengthen group governance.

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 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.

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
- Appropriate reflection of the opinions given in advance explanation at the Board of Directors
- 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

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.

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.

Directors	Internal		<ul style="list-style-type: none"> ● One female director was appointed in June 2015 ● External directors account for one-third of the Board of Directors
	External	 Professor of Hiroshima City University  Former Chairman of the Board of NIPPON TELEGRAPH AND TELEPHONE CORPORATION  Former Branch Manager of the Bank of Japan, Director of The Securities Analysts Association of Japan	
	Internal		
	External	 Certified public accountant  Former President of ANDERSEN Co., Ltd.  Lawyer	

based on self-evaluation by directors and Audit & Supervisory Board members, and an analysis and evaluation for FY2019 took place at the Board of Directors meeting in April 2020.

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 business expansion under the holding company structure.

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.

Officer compensation system

Policies and procedures for determining officer compensation

The Board of Directors of the Bank determines compensation that provides healthy incentives for sustainable growth while giving consideration to the following policies and procedures from 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 and executive officers is determined by a resolution of the Board of Directors,

and compensation for Audit & Supervisory Board members is determined by the members' 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.

(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.

■ Officer compensation system

	Directors	Executive Officers	External Directors and Audit & Supervisory Board members
Fixed amount compensation	○	○	○
Stock-based compensation*	○	○	—
Performance-linked compensation	○	—	—
Bonuses to officers	—	○	—

* A system that utilizes a framework known as an officer compensation board incentive plan (BIP) 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 officers' retirement.

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 45 for details)

Cross-shareholdings

As shown below, the Bank defines (1) Policies regarding cross-shareholdings of listed shares and (2) Standards for exercise

of voting rights for cross-shareholdings, and appropriately addresses cross-shareholdings.

(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 December 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.

Risk Governance

Risk governance

In order to establish robust risk governance, the Bank has introduced a risk appetite framework, prepared a risk appetite statement describing the risk appetite framework and risk appetite to make them well understood within the Bank.

In addition, to ensure that the risk appetite framework functions effectively, we are working to foster a sound risk culture that encourages everyone in the Bank to behave in accordance with the Bank's values regarding risk taking and risk appetite.

Risk culture

In order to realize the sustainable development of local communities and the sustainable enhancement of the corporate value of Hiroshima Bank, it is essential for each employee to make decisions and act not only in compliance with laws and regulations but also in accordance with the expectations and requests of all stakeholders, including customers, and the Bank's management policy.

The Bank recognizes that risk culture is the fundamental concept for organizational and individual

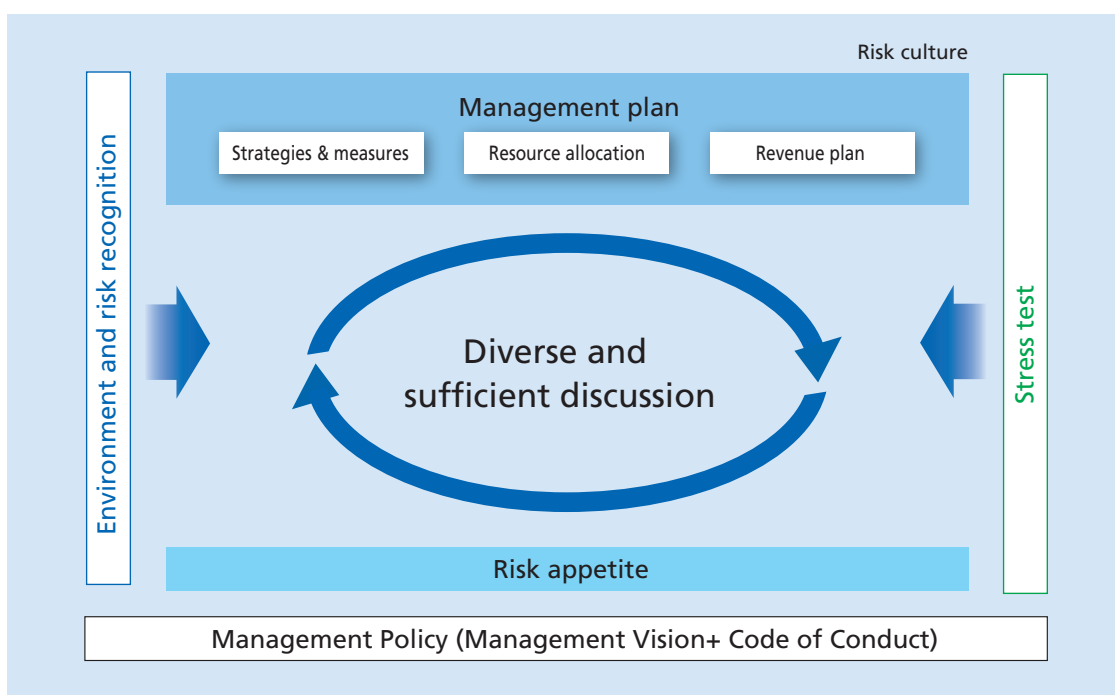
decision-making related to risk recognition, risk-taking, risk management, etc., and that it is the basis for building strong risk governance. Based on that recognition, the Bank has established the Hiroshima Bank's Risk Culture, while ensuring consistency with its Code of Conduct.

In addition, in order to foster and disseminate the risk culture within the bank, we share and disseminate it through such means as sending messages from management and conducting training.

Risk appetite framework

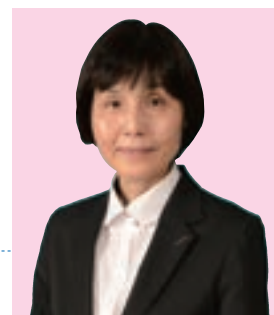
The risk appetite framework is positioned as a framework that supports the management of the Bank as a whole to "promote risk taking and control risk," based on the appropriate recognition of the environment and risks.

The introduction of the risk appetite framework clarifies the risk appetite (the type and level of risk that the Bank is prepared to accept) for achieving the management plan and enables the Bank to pursue more profit opportunities and promote appropriate risk-taking.



Interview with an External Director

Expecting new value creation at the next stage, which will proceed with advanced and challenging decisions conscious of changes in the times



Kaori Maeda, External director

Q What kind of roles do you think regional communities expect the Hiroshima Bank Group to play?

I strongly feel that the management stance of Hiroshima Bank demonstrates the strong sense of responsibility toward the region as a regional bank. I feel the management's strong determination that it has to work harder because this is a tough time. In addition to providing financial support to local companies, I believe that Hiroshima Bank will play an increasingly important role in efforts to revitalize local communities and create new businesses through mutual collaboration among industry, government, academia, and financial institutions.

We played an active role in inviting a hotel operator with high global recognition to open a hotel in Hiroshima (scheduled to open in 2022), which will contribute to the tourism business from the perspectives of increasing the number of inbound visitors and inviting international conferences. In this region, where manufacturing industries are concentrated, we participate in IT Integration Forum and Hiroshima Open Accelerator 2019 in order to create innovation by integrating cutting-edge IT technologies, diverse data utilization, and various real-world industries. Expectations are rising for the role of promptly and smoothly encouraging the creation of new businesses, including support in terms of financing and know-how.

Q What are your strengths when you serve as external director? What should Hiroshima Bank do to increase corporate value in the future?

The Internet, which has become essential infrastructure, is playing an even greater role as a foundation for the creation of new value, including IoT, data collection, and digital transformation.

In the past, the banking system was independent from the world outside the bank, but now there are increasing opportunities for end users to use banking functions via the Internet (e.g. balance inquiries and transaction history checks) through smartphone apps. In the future, it will become extremely important to ensure quick, smooth, and secure access to services provided through the banking system and the Internet.

Over the five years since I became an external director, the way cash is used has changed dramatically. In the future, information and data may have value in place of the monetary value that current money has. The spread of new coronavirus infection has made it impossible to move things including cash, and I think this is a trigger to change what people expect from banks. We have begun to hear the phrase "information bank." Now it is all the more important to have the perspective of how to utilize information and data. I believe that there will be more opportunities to utilize the experience and knowledge that we have cultivated over the years in this field.

Q How do you evaluate the corporate governance of Hiroshima Bank?

I feel that the Bank is making extremely forward-looking judgments fully aware of changes in the times, including the appointment of three independent external directors, which account for one-third of the Board of Directors, hiring people like me in the IT field. In addition, from the perspective of effectiveness, I think that the external directors have knowledge and expertise in a variety of fields, and that they are well-balanced. Under these circumstances, I believe that the functions of execution and supervision are exercised effectively, not only by speaking out with an awareness of risk governance from each perspective, but also by constructively deepening discussions on unexpected inquiries and severe opinions from external experts, presenting concepts and concrete actions, and ensuring directions in the case of what cannot be implemented immediately. For example, the Bank is proactively making its APIs accessible from outside. It is a meaningful judgment from the perspective of increasing corporate value and sustainable growth, and I believe that it is one example of the successful functioning of the current organization.

Q Please tell us about the shift change in perspectives that will be needed in the future.

That is the way the Bank contacts customers. This is also a prerequisite for the decision to shift to a holding company.

Traditionally, the management body of a bank focused on face-to-face channels and measured the value of the bank by the number of customers visiting its branch offices. In recent years, the Financial Services Agency has been encouraging open innovation between banks and Fintech providers by making APIs accessible to outsiders. In the future, banks will need to create a variety of contact points and provide more services that can be offered through non-face-to-face contacts. Until now, it may have been difficult to use local banks for a long period of time if customers move their main residence to different places. However, in light of the increasing spread of banking services over networks in the coming era, it is necessary to change the way banks interact with each other, for example, by providing services that can be used continuously even if they move to other cities or overseas.

Under such a shift change, I believe that the transition to a holding company will lead to further enhancement of corporate value by accelerating efforts to advance into fields and other areas that could not be moved by the framework of a bank alone, and to create new services that utilize new technologies and the environment, based on the credibility, trust, and sense of security of our bank.

profile

Born in Hiroshima Prefecture. After working as an assistant at School of Engineering, Hiroshima University, joined the Radiation Effects Research Foundation, a Cooperative Japan-US Research Organization, in 1990. Worked on establishing an Internet connection point*, which was rare at that time in Japan, and then went on to the field of information communication and computer network research. Joined Hiroshima City University in June 1994, then assumed office as professor of the Graduate School of Information Sciences of the same university in April 2007. Assumed office as External Director of the Bank in June 2015.

* A point to connect with the Internet, offered by companies and internet service providers

Board of Directors, Executive Officers and Audit & Supervisory Board Members (As of June 25, 2020)

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. After serving as President for six years since June 2012, assumed the current position in June 2018. With experience mainly in business divisions and planning divisions, he has a wealth of experience as well as thorough knowledge about overall operations. Served as President for six years and Chairman of the Board of Directors for two years. With abundant management experience, he has strengthened the effectiveness of the decision-making and supervisory functions of the Board of Directors by leveraging his experience and knowledge therein.



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. With experience mainly in business divisions and planning divisions, he has a wealth of experience as well as thorough knowledge about overall operations. Having served as President for two years, he has strengthened the effectiveness of the decision-making and supervisory functions of the Board of Directors by leveraging his experience and knowledge therein.



Akira Ogi
Director & Senior Managing Executive Officer

Joined the Bank in April 1986. 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 and as Director & Managing Executive Officer in June 2019. Working in the current position since April 2020. In charge of Management Planning Division, Information Technology Planning & Administration Division, Banking Operation Management Division, and Deputy General Manager in charge of Digital Strategy Division. With experience mainly in the planning divisions and business divisions, he has a wealth of experience as well as thorough knowledge about overall operations.



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. With experience mainly in compliance divisions and loan divisions, he has a wealth of experience as well as thorough knowledge about overall operations.



Kazuo Kiyomune
Director & Managing Executive Officer

Joined the Bank in April 1986. After serving as General Manager of Otemachi Branch, Executive Officer and General Manager of Kure Branch, and other posts, assumed the current position in June 2020. In charge of Banking Business Planning Division, Corporate Planning Division, and Public Services Business Division. With experience mainly in business divisions and planning divisions, he has a wealth of experience as well as thorough knowledge about overall operations.



Shinichi Fukamachi
Director & Managing Executive Officer

Joined the Bank in April 1987. After serving as General Manager of Retail Banking Division, General Manager of Personnel & General Affairs Division, Executive Officer and General Manager of Onomichi Branch, and other posts, assumed the current position in June 2020. In charge of Personnel & General Affairs Division and Risk Management Division. With experience mainly in the business divisions and personnel divisions, he has a wealth of experience as well as thorough knowledge about overall operations.



Kaori Maeda
Director External

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). Assumed office as Director of the Faculty of Information Sciences and Dean of the Graduate School of Information Sciences, Hiroshima City University in April 2020 (current position). Working as Director of the Bank since June 2015 (current position). With experiences as a scholar in the IT field, as well as a wide range of knowledge and high level of insight, she has been contributing to strengthening the effectiveness of the decision-making and supervisory functions of the Board of Directors from a perspective independent from that of the management by leveraging her extensive experience and broad insight as an IT expert.



Satoshi Miura
Director External

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 Special Advisor of NIPPON TELEGRAPH AND TELEPHONE CORPORATION in June 2018 (current position). Outside Director of Nippon Life Insurance Company (current position). Working as Director of the Bank since June 2016 (current position). Engaged in management as President & CEO and Chairman of the Board of NIPPON TELEGRAPH AND TELEPHONE CORPORATION, and has experience in supervising business execution as a manager. Contributing to strengthening the effectiveness of the decision-making and supervisory functions of the Board of Directors from a perspective independent from that of the management by leveraging his extensive experience and broad insight.



Yoshinori Shinmen
Director External

Assumed office as Internal Auditor of the Bank of Japan in July 2009. After serving as Secretary General, and Representative Director of the Securities Analysts Association of Japan, assumed office as Director of the Securities Analysts Association of Japan in August 2017 (current position). Working as Director of the Bank since June 2020 (current position). Has experience in supervising business execution after having experienced management and administration as Branch Manager of the Bank of Japan and as the Representative Director of the Securities Analysts Association of Japan. Contributing to strengthening the effectiveness of the decision-making and supervisory functions of the Board of Directors from a perspective independent from that of the management by leveraging his extensive experience and broad insight as a manager.

Audit & Supervisory Board Members

**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.

**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). Assumed office as Audit & Supervisory Board Member of the Bank in June 2015 (current position).

**Masako Yoshida**Audit & Supervisory Board Member External

Assumed office as Representative Director of ANDERSEN Co., Ltd. in April 2006. Assumed offices as President of ANDERSEN Institute of Bread & Life Co., Ltd., Corporate Advisor of ANDERSEN Institute of Bread & Life Co., Ltd. Assumed office as Outside Director of Sompō Japan Insurance Inc. in June 2018 (current position). Assumed office as Audit & Supervisory Board Member of the Bank in June 2015 (current position).

**Tadashi Osako**Audit & Supervisory Board Member External

Registered as attorney-at-law in April 1982. Joined Hiroshima All-In Law and Accounting Office in July 2011, and assumed office as General Manager of Hiroshima All-In Law and Accounting Office in January 2019 (current position). Director (Audit & Supervisory Committee Member) of Nishikawa Rubber Co., Ltd. (current position). Assumed office as Audit & Supervisory Board Member of the Bank in June 2020 (current position).

(*) Directors Kaori Maeda, Satoshi Miura, and Yoshinori Shinmen are External Directors as stipulated in Article 2, Paragraph 15 of the Companies Act, and in addition, they 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, Yoshinori Takahashi, Masako Yoshida, and Tadashi Osako are External Audit & Supervisory Board Members as stipulated in Article 2, Paragraph 16 of the Companies Act. In addition, Yoshinori Takahashi and Tadashi Osako are independent officers as stipulated by Tokyo Stock Exchange, Inc.

Executive Officers

Senior Managing Executive Officer
(Area Officer)

Managing Executive Officer (Area
Officer)

Managing Executive Officer (In charge
of Treasury & Investment Division)

Managing Executive Officer (President
of Hirogin Securities Co., Ltd.)

Managing Executive Officer (Area Officer and
General Manager of Eastern Area Headquarters)

Managing Executive Officer (General
Manager of Imabari Branch)

Executive Officer (General Manager of
Okayama Branch)

Executive Officer (General Manager of
Audit Division)

Hiroshi Honkawa**Kimio Okano****Hiroyuki Higashiyama****Fumitsugu Kariyada****Hideki Toi****Koji Hakoda****Atsuhiko Kunimura****Yoshitaka Yamashita**

Executive Officer (Investment Banking
Division, International Business
Division, Asset Management Division,
Retail Loan Division)

Executive Officer (General Manager
of Fukuyama Sales Division)

Executive Officer (General Manager
of Tokuyama Branch)

Executive Officer (General Manager
of Tokyo Branch)

Executive Officer (General Manager
of Onomichi Branch)

Executive Officer (General Manager
of Head Office Business Department)

Executive Officer (General Manager
of Kure Branch and General Manager
of Kure City Municipal Office Branch)

Executive Officer (General Manager
of Management Planning Division)

Koji Sakai**Hironori Sato****Mitsutoshi Tokunaga****Tsuyoshi Yanagida****Hiromi Iwate****Minoru Fujihiro****Yuji Hiroe****Shinichi Yokomi**

Communication with Shareholders, Investors and Customers

IR-related activities

Activities for individual investors

The Bank holds briefings for all individual investors and posts IR information on the website to actively provide information actively. In addition, the Bank holds 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.

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 with domestic and overseas institutional investors.

Activities in FY2019

Activities for individual investors	Number of events	Number of participants
Briefing sessions for individual investors	8 times	491 persons

Activities for institutional investors	Number of events	Number of participants/companies
Briefing sessions for analysts and institutional investors	2 times	260 persons
Small meetings for analysts and institutional investors	Once	7 companies
Interviews with overseas institutional investors	9 times	-
Interviews with Japanese institutional investors	16 times	-

* The Bank has not held any briefing sessions on site for the purpose of preventing the spread of new coronavirus infection since February 2020.

New initiatives related to IR

As a new effort related to IR, we held a small meeting in January 2020 to exchange views with analysts and institutional investors on growth strategies and capital policies after the transition to a holding company structure.

In addition, to prevent the spread of new coronavirus infection, we held an online briefing session for analysts and institutional investors, using a video conferencing system, instead of holding a meeting in Tokyo as in a usual year.

On the days of the meetings, a large number of people participated in the meeting, where the president explained financial results and responded to questions from participants.



The briefing session was held online to prevent the spread of new coronavirus infection

General Meeting of Shareholders

With respect to the Ordinary General Meeting of Shareholders held in June every year, we strived to enhance the environment for exercising voting rights and convenience for shareholders*¹, and we implemented measures to prevent the spread of new coronavirus infection*² this year. For shareholders who were unable to attend, we webcast the meeting. (Viewers were allowed to only view the meeting via live broadcast.)

*¹ Early mail-out of Convocation Notices and announcement (posted on the Stock Exchange and the Bank's website about a week before mail-out), participating in the voting platform, voting rights exercisable via the Internet from a PC or smartphone, and prompt posting of resolution notice on the Bank's website after the General Meeting of Shareholders, etc.

*² We reduced the number of seats at the venue to secure social distance, requested all participants to wear face masks with temperature inspection required, while our staff were wearing face guards, set up acrylic boards at the chairperson's seat and at the speaker seat for shareholders, and so on.



Measures were taken at the reception to prevent the spread of new coronavirus infection

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 2019, we received about 390,000 inquiries and references via telephone.

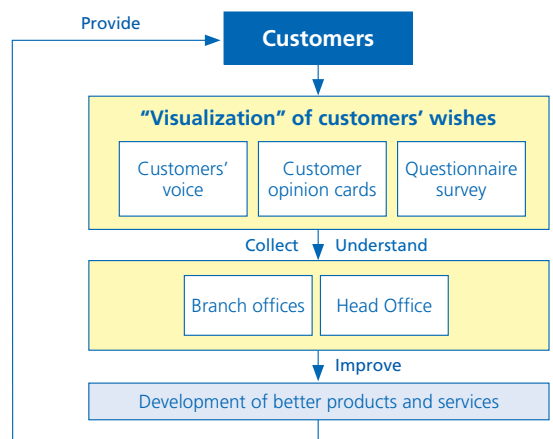


System to translate customers' voice into better customer satisfaction

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.

In addition, we carry out regular questionnaire surveys aiming at "Visualization" of customers' wishes.

In order to utilize customer feedback to improve satisfaction, we try to identify points for improvement in products and services based on customers' opinions and requests, and make every effort to provide better products and services with branch offices and the headquarters working together to consider countermeasures.



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

- 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
- The product’s past performance 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

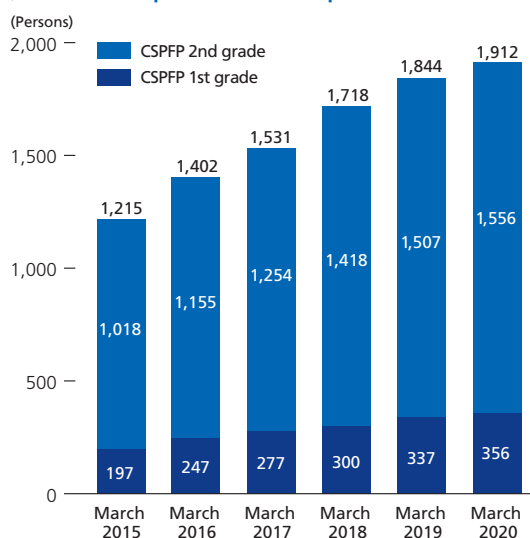
We verify the compliance status of the "policy for Hirogin's customer-oriented business operations" on a semiannual basis and publish a report every year.

Status of “Initiatives for Customer-oriented Business Operations”

■ Developing human resources with a high level of expertise

The number of qualified financial planners is steadily increasing, and we are enhancing initiatives for advanced expertise.

▶ Number of qualified financial planners

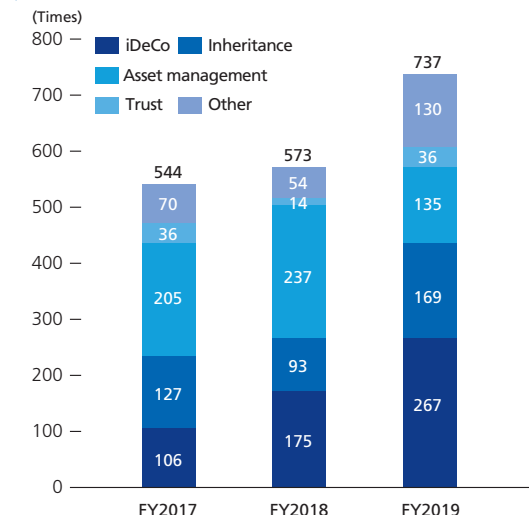


(Note) Holders of financial planning certifications (CSPFP 1st grade/CFP or CSPFP 2nd grade/AFP)

■ Enhancement of information provision to our customers

We seek to provide a wide range of information by actively holding seminars for customers in iDeCo, inheritance, asset management, etc.

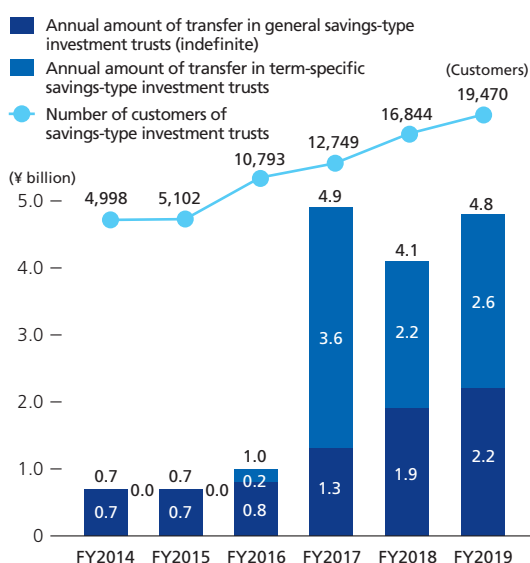
▶ Number of seminars for customers held



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

The number of contracts and the amount of transfer to general savings-type investment trust (indefinite) are steadily increasing due to our strengthened efforts to offer savings-type investment trust to the customer group wishing to build up assets.

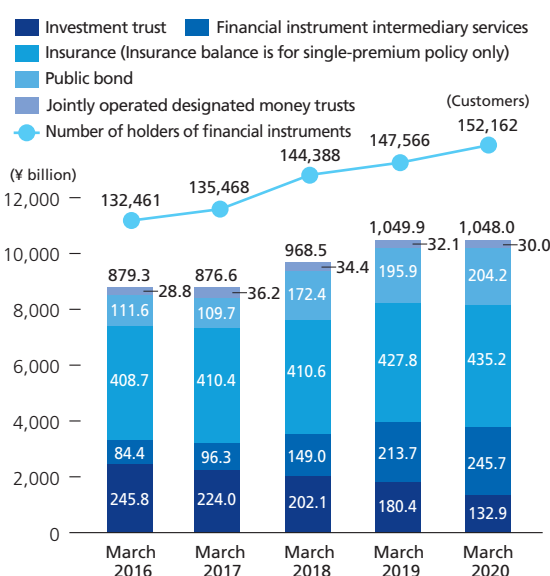
▶ Number of customers of savings-type investment trusts and amount of transfers



■ Expansion of customer base

The balance of financial instruments stays flat mainly due to decreased balance of investment trust, but the number of holders of financial instruments is increasing due to our efforts to implement customer-oriented operation.

▶ Number of holders of financial instruments and balances



Status of “initiatives for customer-oriented business operations” (FY2019)

Explanation of KPIs which are announced on our website and status of our initiatives other than the above can be found.



Customer Protection Management

Solicitation policy

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

1. 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.

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.

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.

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.

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.

Establishment of the system

The Bank has established a Compliance Committee to follow laws and regulations as well as social norms 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.

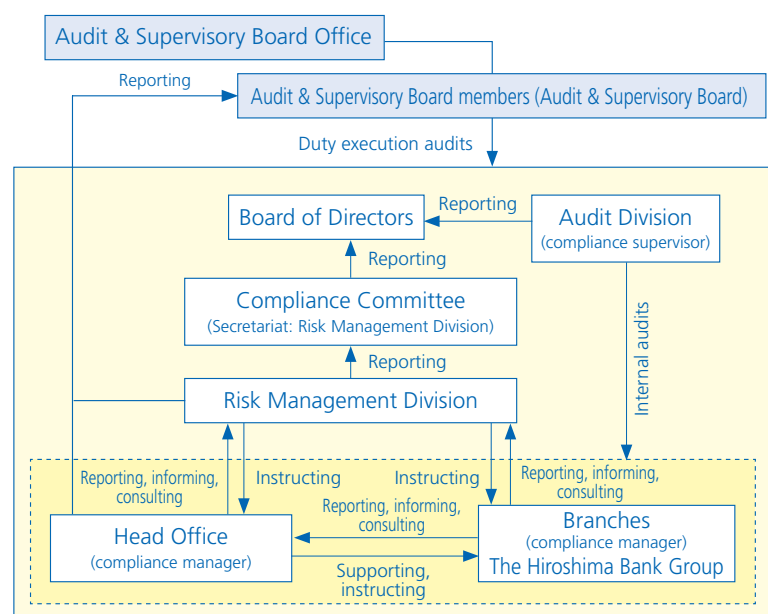
In addition, compliance managers have been placed in all divisions in the Head Office and all branches to exchange legal information and monitor daily

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.

Operation

Compliance structure



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, 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.

[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.

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.

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.

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. 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.

Designated dispute resolution organization

The Bank has signed a basic procedural agreement with the designated dispute resolution organization shown below.

Bank operations

Japanese Bankers Association
Contact: Japanese Bankers Association Consultation Office
(<https://www.zenginkyo.or.jp/adr/>)
[Consultation contact] (telephone):
0570-017109 or 03-5252-3772

The following organizations accept complaints and dispute claims from customers.

Trust operations

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

[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 the internal whistleblowing system, the Bank has taken measures to protect whistleblowers and reporters of investigation from any disadvantages and established multiple whistleblowing channels. In addition, a female lawyer (non-advisor) was added as an external contact in March 2020.

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 increase in

corporate value. Therefore, the Bank holds Meetings of 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, female lawyer (non-advisor)
Whistleblowing methods	Extension line, dedicated phone number, mobile phone, e-mail	Dedicated phone number, e-mail

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.

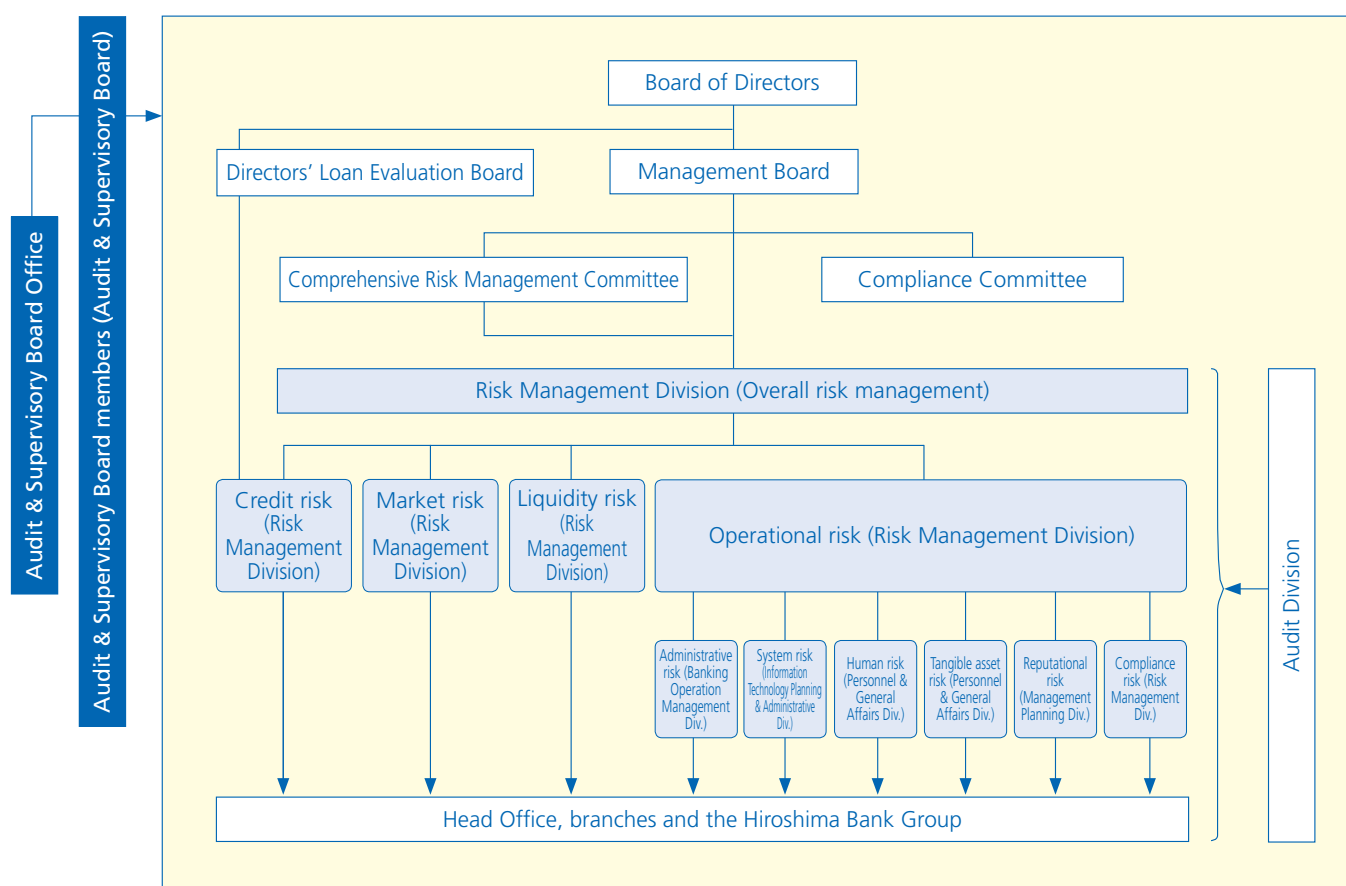
Risk management framework

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, 2020)



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 limit) for risk monitored 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 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.

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 credit-screening 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 case-by-case credit management and takes continuous measures to improve the credit-screening skills of employees such as various kinds of training programs.

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 be used, for example, to assess credit risk on loan assets.

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 in-house 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 short-term 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 loss-cutting 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 short-term 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, tangible asset risk, reputational risk, and compliance 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* (Note) 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.

* CSIRT: 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.

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.

Compliance risk

Compliance risk refers to the risk of incurring losses due to penalties or legal responsibilities arising from violations of laws and regulations or nonperformance of contracts, as well as the risk of seriously affecting the fairness and transparency of customers and the market and seriously impairing the trust of the Bank due to behaviors that deviate from social norms.

In addition to daily awareness-raising and training in compliance with laws and regulations as well as social norms, we ensure appropriate management through steady implementation of legal checks and establishment of a legal consultation framework.

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 as well as epidemics 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

and represents objective opinions from a fair and independent standpoint, while requesting improvement of problems or recommending correction as well as providing advice.

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.

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.

Branch Network

Branch Network (July 1, 2020)

Domestic Head Office and branches

151

(Including 1 branch dedicated for bank transfers

1

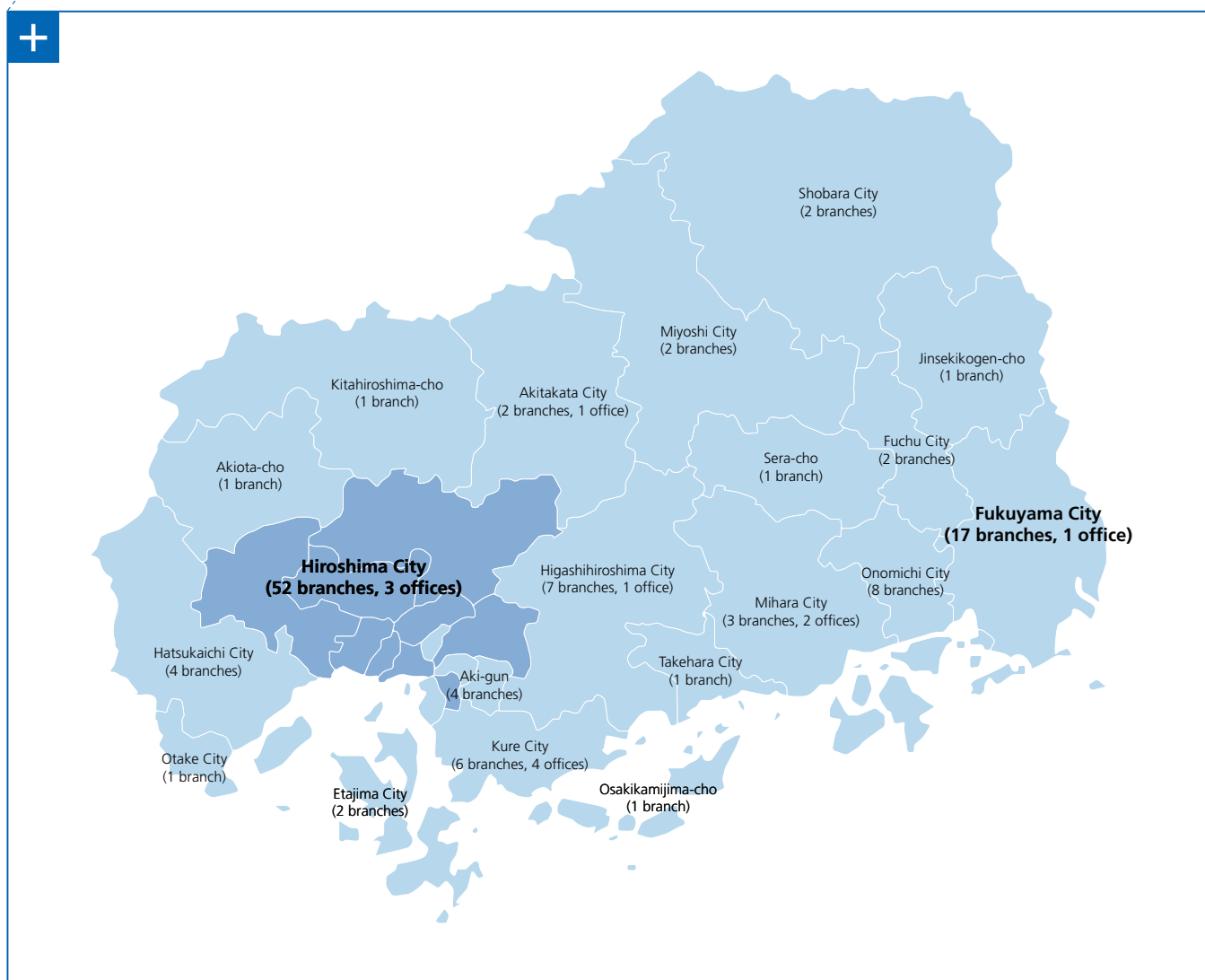
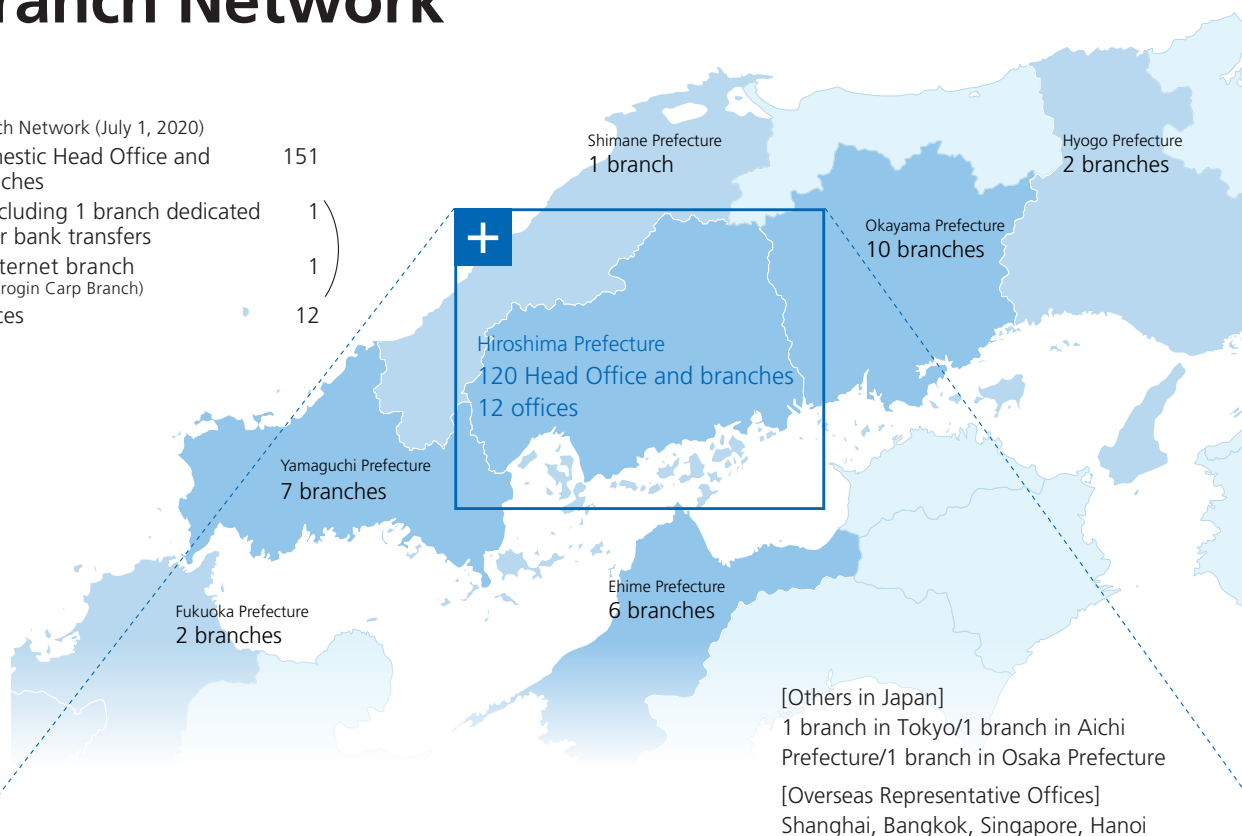
Internet branch

1

(Hirogin Carp Branch)

Offices

12



CORPORATE DATA

Overview of the Bank (As of March 31, 2020)

Head Office	1-1-7, Nishikaniya, Minami-ku, Hiroshima City, Hiroshima 732- 0804, Japan (temporary Head Office)
Phone	+81-82-247-5151
Established	November 1878
Common Stock	¥54,573 million
Deposits + NCD	¥7,541.5 billion
Loans	¥6,479.7 billion
Employees	3,412

Group Network (As of April 1, 2020)

Subsidiaries	Hirogin Securities Co., Ltd.	Financial instrument brokerage operations
	Shimanami Servicer Co., Ltd.	Administration and recovery of receivable debts
Affiliated companies	Hirogin REIT Management Co., Ltd.	Asset management business
	Hirogin Capital Partners Co., Ltd.	Investment business
	Hirogin Card Service Co., Ltd.	Credit card services
	Hirogin Guarantee Co., Ltd.	Credit guarantee services
	Hirogin Business Service Co., Ltd.	Consolidated accounting, printing, binding services
Affiliated companies	HB Asset Funding Corporation	Contract due diligence services
	Blue Investment Limited Partnership	Factoring services
	Shimanami Value Creation Investment Limited Partnership	Investment and financing business
	Hirogin Lease Co., Ltd.	Investment and financing business
		Leases, car leasing services

Refer to our website for our corporate profile and IR information.

Top page
(<https://www.hirogin.co.jp/>)



About Hiroshima Bank
(<https://www.hirogin.co.jp/company/>)



IR Library
(https://www.hirogin.co.jp/ir_library/)



Hiroshima Bank Group's SDGs
(<https://www.hirogin.co.jp/company/csr/sdgs/>)



Financial Section

Consolidated Balance Sheets

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2019 and 2020

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>

	Millions of yen		Millions of U.S. dollars (Note 1)
	2019	2020	2020
ASSETS			
Cash and due from banks (Notes 4, 15 and 22)	¥1,432,022	¥1,472,936	\$13,534
Call loans and bills purchased (Note 22)	19,953	6,711	62
Monetary claims bought (Notes 4 and 22)	7,813	7,820	72
Trading assets (Notes 4 and 22)	5,839	6,241	57
Money held in trust (Notes 5 and 22)	10,312	9,971	92
Securities (Notes 4, 7, 10 and 22)	1,175,920	1,125,896	10,345
Loans and bills discounted (Notes 6, 7, 8 and 22)	6,020,840	6,483,336	59,573
Foreign exchanges	7,536	34,990	322
Other assets (Note 7)	91,384	113,677	1,045
Tangible fixed assets (Notes 14 and 16)	95,392	93,446	859
Intangible fixed assets	9,530	9,244	85
Net defined benefit assets (Note 18)	65,106	70,853	651
Deferred tax assets (Note 19)	734	705	6
Customers' liabilities for acceptances and guarantees	43,479	36,470	335
Reserve for possible loan losses (Note 22)	(33,194)	(33,692)	(310)
Total assets	¥8,952,671	¥9,438,609	\$86,728
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 7 and 22)	¥7,464,155	¥7,691,285	\$70,672
Call money and bills sold (Note 22)	—	100,000	919
Payables under repurchase agreements (Notes 7 and 22)	88,521	79,420	730
Deposits received for bonds lending/borrowing transactions (Notes 7 and 22)	260,108	321,008	2,950
Trading liabilities	3,856	3,814	35
Borrowed money (Notes 7, 9 and 22)	516,331	641,035	5,890
Foreign exchanges	339	3,502	32
Due to trust account	23	32	0
Other liabilities	60,935	61,004	561
Net defined benefit liabilities (Note 18)	39	43	0
Reserve for retirement benefits of directors and corporate auditors	23	29	0
Reserve for reimbursement of deposits	3,558	2,530	23
Reserve for point loyalty programs	120	142	1
Reserve for stock payments	341	547	5
Reserve for loss related to Head Office rebuilding	846	—	—
Reserve for dismantling costs for fixed assets	—	1,177	11
Reserve under Special Laws	39	38	0
Deferred tax liabilities (Note 19)	8,947	861	8
Deferred tax liabilities for land revaluation reserve	13,610	13,605	125
Acceptances and guarantees	43,479	36,470	335
Total liabilities	¥8,465,280	¥8,956,552	\$82,299
Net Assets (Note 11):			
Common stock:			
Authorized – 1,000,000,000 shares	54,573	54,573	\$ 501
Issued – 312,633,171 shares			
Capital surplus	30,740	30,740	282
Retained earnings	329,367	347,714	3,195
Common stock in treasury	(1,040)	(998)	(9)
Total stockholders' equity	413,641	432,030	3,970
Net unrealized holding gains (losses) on securities available for sale (Note 4)	35,676	15,010	138
Net deferred gains (losses) on hedging instruments	(2,016)	(5,025)	(46)
Land revaluation reserve	27,792	27,781	255
Remeasurements of defined benefit plans	12,121	12,084	111
Total accumulated other comprehensive income	73,574	49,850	458
Stock acquisition rights (Note 23)	176	176	2
Total net assets	487,391	482,057	4,429
Total liabilities and net assets	¥8,952,671	¥9,438,609	\$86,728

See notes to consolidated financial statements.

Consolidated Statements of Income

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2019 and 2020

	Millions of yen		Millions of U.S. dollars (Note 1)
	2019	2020	2020
Income:			
Interest income:			
Interest on loans and discounts	¥ 62,534	¥ 62,539	\$ 575
Interest and dividends on securities	11,186	11,598	107
Other interest income	1,806	1,674	15
Fees and commissions	29,677	28,255	260
Other operating income	7,552	10,431	96
Other income	8,483	12,657	116
Total income	121,242	127,158	1,168
Expenses:			
Interest expenses:			
Interest on deposits	2,218	1,934	18
Interest on borrowings and rediscounts	3,465	3,040	28
Other interest expenses	2,846	3,422	31
Fees and commissions	9,443	10,057	92
Other operating expenses	3,417	4,933	45
General and administrative expenses (Note 12)	58,044	57,345	527
Other expenses (Notes 13 and 14)	5,073	11,000	101
Total expenses	84,509	91,732	843
Income before income taxes	36,733	35,425	326
Income taxes (Note 19):			
Current income taxes	8,559	8,698	80
Deferred income taxes	2,591	2,457	23
Net income	25,581	24,270	223
Profit attributable to owners of the parent	¥ 25,581	¥ 24,270	\$ 223

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net assets	¥1,564.51	¥1,547.15	\$14.22
Net income	82.16	77.92	0.72
Diluted net income	82.09	77.87	0.72
Cash dividends applicable to the year (Note 11)	20.00	22.50	0.21

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2019 and 2020

	Millions of yen		Millions of U.S. dollars (Note 1)
	2019	2020	2020
Net income	¥25,581	¥ 24,270	\$ 223
Other comprehensive income (loss) (Note 24):			
Net unrealized holding gains (losses) on securities available for sale	(12,719)	(20,662)	(190)
Net deferred gains (losses) on hedging instruments	(1,469)	(3,008)	(28)
Remeasurements of defined benefit plans	4,105	(37)	(0)
Share of other comprehensive income (loss) of an affiliated company accounted for by the equity method	(3)	(3)	(0)
Comprehensive income	¥15,494	¥ 557	5
Attributable to:			
Comprehensive income attributable to owners of the parent	¥15,494	¥ 557	\$ 5

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2019 and 2020

Item	Millions of yen				
	2019				
	Stockholders' equity				
	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

Item	Millions of yen						
	2019						
	Accumulated other comprehensive income						
	Net unrealized holding gains (losses) on securities available for sale	Net deferred gains (losses) on hedging instruments	Land revaluation reserve	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

Item	Millions of yen				
	2020				
	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	¥54,573	¥30,740	¥329,367	¥(1,040)	¥413,641
Changes of items during the period					
Dividends from surplus			(5,934)		(5,934)
Profit attributable to owners of the parent			24,270		24,270
Purchase of common stock in treasury				(0)	(0)
Disposal of common stock in treasury		(0)		42	42
Reversal of land revaluation reserve			10		10
Net changes of items other than stockholders' equity					
Total changes of items during the period	—	(0)	18,346	41	18,388
Balance at the end of current period	¥54,573	¥30,740	¥347,714	¥(998)	¥432,030

Item	Millions of yen						
	2020						
	Accumulated other comprehensive income						
	Net unrealized holding gains (losses) on securities available for sale	Net deferred gains (losses) on hedging instruments	Land revaluation reserve	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	¥35,676	¥(2,016)	¥27,792	¥12,121	¥73,574	¥176	¥487,391
Changes of items during the period							
Dividends from surplus							(5,934)
Profit attributable to owners of the parent							24,270
Purchase of common stock in treasury							(0)
Disposal of common stock in treasury							42
Reversal of land revaluation reserve							10
Net changes of items other than stockholders' equity	(20,666)	(3,008)	(10)	(37)	(23,723)	—	(23,723)
Total changes of items during the period	(20,666)	(3,008)	(10)	(37)	(23,723)	—	(5,334)
Balance at the end of current period	¥15,010	¥(5,025)	¥27,781	¥12,084	¥49,850	¥176	¥482,057

Millions of U.S. dollars					
2020					
Stockholders' equity					
Item	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Total stockholders' equity
Balance at the beginning of current period	\$501	\$282	\$3,026	\$ (10)	\$3,801
Changes of items during the period					
Dividends from surplus			(55)		(55)
Profit attributable to owners of the parent			223		223
Purchase of common stock in treasury				(0)	(0)
Disposal of common stock in treasury		(0)		0	0
Reversal of land revaluation reserve			0		0
Net changes of items other than stockholders' equity					
Total changes of items during the period	—	(0)	169	0	169
Balance at the end of current period	\$501	\$282	\$3,195	\$ (9)	\$3,970

Millions of U.S. dollars							
2020							
Accumulated other comprehensive income							
Item	Net unrealized holding gains (losses) on securities available for sale	Net deferred gains (losses) on hedging instruments	Land revaluation reserve	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
Balance at the beginning of current period	\$328	\$ (19)	\$255	\$111	\$676	\$2	\$4,478
Changes of items during the period							
Dividends from surplus							(55)
Profit attributable to owners of the parent							223
Purchase of common stock in treasury							(0)
Disposal of common stock in treasury							0
Reversal of land revaluation reserve							0
Net changes of items other than stockholders' equity	(190)	(28)	(0)	(0)	(218)	—	(218)
Total changes of items during the period	(190)	(28)	(0)	(0)	(218)	—	(49)
Balance at the end of current period	\$138	\$ (46)	\$255	\$111	\$458	\$2	\$4,429

Consolidated Statements of Cash Flows

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2019 and 2020

	Millions of yen		Millions of U.S. dollars (Note 1)
	2019	2020	2020
Cash flows from operating activities:			
Income before income taxes	¥ 36,733	¥ 35,425	\$ 326
Depreciation of fixed assets	4,678	4,664	43
Impairment losses on fixed assets	130	2,306	21
Share of loss (profit) of an affiliate accounted for using the equity method	(148)	(150)	(1)
Net change in reserve for possible loan losses	(2,235)	498	5
Net change in net defined benefit assets	(10,498)	(5,747)	(53)
Net change in net defined benefit liabilities	(3)	4	0
Net change in reserve for retirement benefits of directors and corporate auditors	(3)	6	0
Net change in reserve for reimbursement of deposits	(888)	(1,027)	(9)
Net change in reserve for point loyalty programs	(9)	21	0
Net change in reserve for stock payments	165	206	2
Net change in reserve under special laws	(1)	(1)	(0)
Net change in reserve for loss related to Head Office rebuilding	(1,140)	(846)	(8)
Net change in reserve for dismantling costs for fixed assets	—	1,177	11
Interest income	(75,528)	(75,813)	(697)
Interest expense	8,530	8,396	77
Net losses (gains) on securities transactions	(6,041)	(9,317)	(86)
Net losses (gains) on dispositions of fixed assets	158	194	2
Net change in trading assets	7	(401)	(4)
Net change in trading liabilities	(166)	(42)	(0)
Net change in loans	(159,043)	(462,496)	(4,250)
Net change in deposits	82,903	275,748	2,534
Net change in negotiable certificates of deposit	(59,802)	(48,618)	(447)
Net change in borrowed money excluding subordinated loans	(69,219)	124,704	1,146
Net change in due from banks other than from the Bank of Japan	894	(1,932)	(18)
Net change in call loans and bills purchased	(1,819)	13,234	122
Net change in call money and bills sold	(72,807)	90,899	835
Net change in deposits received for bonds lending/borrowing transactions	(2,750)	60,900	560
Net change in foreign exchanges (assets)	205	(27,454)	(252)
Net change in foreign exchanges (liabilities)	115	3,162	29
Interest received	78,156	80,810	743
Interest paid	(9,131)	(8,685)	(80)
Other – net	3,254	(10,993)	(101)
Subtotal	(292,037)	13,408	123
Income taxes paid	(8,873)	(7,587)	(70)
Total adjustments	(300,910)	5,821	53
Net cash provided by (used in) operating activities	(264,177)	41,247	379
Cash flows from investing activities:			
Purchases of securities	(430,007)	(570,180)	(5,239)
Proceeds from sales of securities	306,396	423,695	3,893
Proceeds from redemption of securities	326,020	155,049	1,425
Increase in money held in trust	(2,079)	(22)	(0)
Decrease in money held in trust	23	364	3
Purchases of tangible fixed assets	(5,539)	(2,369)	(22)
Purchases of intangible fixed assets	(2,763)	(2,731)	(25)
Proceeds from sales of tangible fixed assets	2	5	0
Payments for retirement of tangible fixed assets	(33)	(46)	(0)
Net cash provided by (used in) investing activities	192,018	3,762	35
Cash flows from financing activities:			
Dividends paid	(5,934)	(5,938)	(55)
Purchases of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	0	0	0
Payments of lease liabilities	(72)	(74)	(1)
Net cash provided by (used in) financing activities	(6,008)	(6,013)	(55)
Effect of foreign exchange rate changes on cash and cash equivalents	(94)	(15)	(0)
Net change in cash and cash equivalents	(78,260)	38,981	358
Cash and cash equivalents at the beginning of year	1,502,680	1,424,420	13,088
Cash and cash equivalents at the end of year (Note 15)	¥1,424,420	¥1,463,401	\$13,447

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

THE HIROSHIMA BANK, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2019 and 2020

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 Act 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, 2020, which was ¥108.83 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 six subsidiaries (collectively the “Group”) for the year ended March 31, 2020.

Under the control and influence concepts, the companies over which the Bank is able to exercise control, directly or indirectly, are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

All significant intercompany balances and transactions have been eliminated.

There are three subsidiaries which are not consolidated because the total assets, total income, net income, retained earnings and total other comprehensive income of these companies would not have a material effect on the consolidated financial statements.

Investment in an affiliated company is accounted for using the equity method. There is no affiliated company which is not accounted for using the equity method.

The three unconsolidated subsidiaries are not accounted for using the equity method, but they are stated at cost, because these companies would not have a material effect on the consolidated financial statements even if they are excluded from the equity method.

As of March 31, 2020, the fiscal year ending dates are March 31 for six consolidated 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, monetary claims 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 monetary claims 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 mark-to-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 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 values are stated at fair 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 value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair value are stated at moving-average cost.

If the fair 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 value and the difference between the fair value and the carrying amount is recognized as loss in the period of the decline. If the fair 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 value or the net asset value will be the carrying amount of the securities at the beginning of the following year.

When fair values of available-for-sale securities decline by 50% or more of the acquisition cost at the balance sheet date, the Bank writes down such securities to the fair values and records the related write-downs as loss in its consolidated statements of income. When fair values

of available-for-sale securities decline by 30% or more but less than 50% of the acquisition cost, write-downs to the fair 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 ¥353 million (¥249 million for equity securities and ¥104 million for debt securities) and ¥1,605 million (\$15 million) (¥1,605 million (\$15 million) for equity securities) for the years ended March 31, 2019 and 2020, 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 foreign-currency-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, 2019 and 2020 amounted to ¥51,982 million and ¥41,665 million (\$383 million), respectively.

Deferred revenue deducted from the acquisition cost was ¥12,779 million and ¥12,772 million (\$117 million) as of March 31, 2019 and 2020, 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

The Bank records its reserve for possible loan losses in accordance with a predetermined standard for write-off and provisions as follows:

For loans to borrowers who are legally bankrupt due to special liquidation, etc. (“legally bankrupt” borrowers) or borrowers in a similar financial condition (“virtually bankrupt” borrowers), the reserve for possible loan losses is provided in the carrying amounts of such loans which are stated after directly setting off the uncollectible amounts as mentioned below, less the disposable value of collaterals and the estimated recoverable value from relevant guarantees.

For loans to borrowers who are not bankrupt at present, but likely to become bankrupt in future (“possibly bankrupt” borrowers), the reserve for possible loan losses is provided in the amounts considered to be necessary after comprehensively evaluating the borrower’s overall financial conditions out of the amounts remaining after deducting the disposable value of collaterals and the estimated recoverable value from relevant guarantees from the carrying amounts of the loans.

Among loans to major borrowers who are possibly bankrupt and those with restructured loans, for loans to borrowers whose cash flows from collection of principal and interest can be reasonably estimated, the reserve for possible loan losses is provided in the amount of differences between the amount obtained by discounting the said cash flows at the contractual interest rate before restructuring and the carrying amounts of the loans (cash flow estimation method).

For other loans, the reserve for possible loan losses is provided based on the expected credit losses for the coming year or the coming three years. Expected credit losses are determined by adding necessary adjustments such as future prospects, etc. to the loss rate obtained by the average rate of actual loan losses for certain past periods based on bad debts for the past year or the past three years.

The sales-related department evaluates all the loans in accordance with the self-assessment rule, and their evaluations are audited by the asset audit department, which is independent from the sales-related department.

For collateralized or guaranteed loans to legally bankrupt and virtually bankrupt borrowers, the estimated uncollectible amounts, which are the amounts remaining after deducting the appraisal value of collaterals and the recoverable value from relevant guarantees, are directly set off against the carrying amounts of the loans. Such amounts directly set off against those loans at March 31, 2019 and 2020

were ¥15,444 million and ¥15,858 million (\$146 million), respectively.

Consolidated subsidiaries record the reserve for possible loan losses at the necessary amounts considering the past bad debt ratio for general loans, and at the estimated uncollectible amounts for specific loans to possibly bankrupt borrowers.

(Additional information)

Supposing that the impacts of the spread of coronavirus disease (COVID-19) would continue for a certain period in the future, the Bank recorded the reserve for possible loan losses based on the assumption that a significant amount of loss on loans, etc. would not be incurred thanks to economic measures by the government and municipalities and various supports from financial institutions, although the impact on certain businesses may temporarily intensify.

Since these assumptions involve uncertainty, the performance results for the following fiscal year and onward may be affected in the event of a prolonged spread of COVID-19 and changes to its impact on the economy.

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, 2019 and 2020 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 straight-line 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 for dismantling costs for fixed assets

Reserve for dismantling costs for fixed assets is provided to cover disbursements for dismantling buildings, etc. at the amount estimated to be incurred in future.

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 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation.

Unapplied new accounting standards

Accounting Standards for Fair Value Measurement, etc.

Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)

Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)

Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

In order to enhance comparability with provisions under international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively "Fair Value Accounting Standards, etc.") have been developed and the guidance on fair value measurement has been provided. Fair Value Accounting Standards, etc. will be applied to the fair value of financial instruments defined in "Accounting Standard for Financial Instruments."

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised and notes such as the breakdown of fair value of financial instruments under the fair value hierarchy were provided.

(2) Date of adoption

Fair Value Accounting Standards, etc. are scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

(3) The effect of adopting the accounting standards

The effect of adopting Fair Value Accounting Standards, etc. is under evaluation.

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 ¥764 million and ¥721 million (\$7 million) at March 31, 2019 and 2020, respectively.
3. The number of the shares of the Bank remaining in the trust is 873 thousand shares and 824 thousand shares at March 31, 2019 and 2020, 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 “Monetary claims bought,” which are separately reported from “Securities” in the consolidated balance sheets, are included in this section.

(2) The following tables summarize acquisition costs and carrying amounts of securities with available fair values as of March 31, 2019 and 2020:

a) Trading securities:

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Amount of net unrealized gains (losses) included in the consolidated statements of income	¥(0)	¥(2)	\$(0)

b) Available-for-sale securities:

At March 31, 2019

	Millions of yen		
	Carrying amount	Acquisition cost	Gross unrealized gains (losses)
Carrying amount exceeding cost:			
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
Carrying amount 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

At March 31, 2020

	Millions of yen		
	Carrying amount	Acquisition cost	Gross unrealized gains (losses)
Carrying amount exceeding cost:			
Equity securities	¥ 50,756	¥ 21,863	¥28,892
Bonds:	442,070	435,793	6,277
National government bonds	205,326	202,138	3,188
Local government bonds	79,883	79,047	836
Bonds	156,860	154,607	2,252
Others	172,608	168,987	3,620
Subtotal	665,434	626,644	38,790

Carrying amount not exceeding cost:

Equity securities	24,928	31,579	(6,650)
Bonds:	247,240	248,319	(1,079)
National government bonds	114,601	115,169	(568)
Local government bonds	53,031	53,182	(150)
Bonds	79,607	79,967	(360)
Others	178,408	188,599	(10,191)
Subtotal	450,577	468,498	(17,921)
Total	¥1,116,012	¥1,095,143	¥20,868

	Millions of U.S. dollars		
	Carrying amount	Acquisition cost	Gross unrealized gains (losses)
Carrying amount exceeding cost:			
Equity securities	\$ 466	\$ 201	\$265
Bonds:	4,062	4,004	58
National government bonds	1,887	1,857	29
Local government bonds	734	726	8
Bonds	1,441	1,421	21
Others	1,586	1,553	33
Subtotal	6,114	5,758	356

Carrying amount not exceeding cost:

Equity securities	229	290	(61)
Bonds:	2,272	2,282	(10)
National government bonds	1,053	1,058	(5)
Local government bonds	487	489	(1)
Bonds	731	735	(3)
Others	1,639	1,733	(94)
Subtotal	4,140	4,305	(165)
Total	\$ 10,255	\$ 10,063	\$192

(3) Total sales of available-for-sale securities sold during the years ended March 31, 2019 and 2020 were as follows:
Year ended March 31, 2019

Type	Millions of yen		
	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

Year ended March 31, 2020

Type	Millions of yen		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Equity securities	¥ 5,424	¥ 7,572	¥ 733
Bonds:	72,767	1,741	889
National government bonds	72,425	1,719	889
Local government bonds	—	—	—
Bonds	342	22	—
Others	341,456	7,746	4,377
Total	¥ 419,649	¥ 17,059	¥ 6,000

Type	Millions of U.S. dollars		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Equity securities	\$ 50	\$ 70	\$ 7
Bonds:	669	16	8
National government bonds	665	16	8
Local government bonds	—	—	—
Bonds	3	0	—
Others	3,138	71	40
Total	\$ 3,856	\$ 157	\$ 55

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 at March 31, 2019 and 2020.

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

There was no money held in trust classified as held-to-maturity at March 31, 2019 and 2020.

(3) Other money held in trust

	Millions of yen				
	At 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 yen				
	At March 31, 2020				
	Carrying amount	Acquisition cost	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Other money held in trust	¥9,971	¥9,971	¥—	¥—	¥—

	Millions of U.S. dollars				
	At March 31, 2020				
	Carrying amount	Acquisition cost	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Other money held in trust	\$92	\$92	\$—	\$—	\$—

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

(1) Doubtful loans included in loans and bills discounted at March 31, 2019 and 2020 were as follows:

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	¥ 1,200	¥ 1,304	\$ 12
Other delinquent loans	47,394	49,038	451
Accrual loans past due three months or more	3,755	2,429	22
Restructured loans, including loans to supported companies	14,728	15,167	139
Total	¥67,078	¥67,939	\$624

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 ¥27,146 million and ¥21,600 million (\$198 million) at March 31, 2019 and 2020, respectively.

In addition, other assets not included in the above schedules were pledged as collateral for operating transactions, such as exchange settlements. Other assets amounted to ¥50,000 million and ¥50,000 million (\$459 million) at March 31, 2019 and 2020, respectively.

Security deposits, included in other assets, amounted to ¥2,460 million and ¥2,357 million (\$22 million) at March 31, 2019 and 2020, respectively, deposits for financial instruments amounted to ¥11,792 million and ¥26,885 million (\$247 million) at March 31, 2019 and 2020, respectively, and deposits for futures trading amounted to ¥226 million and ¥1,469 million (\$13 million) at March 31, 2019 and 2020, 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 ¥16,326 million and ¥15,675 million (\$144 million) at March 31, 2019 and 2020, 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 ¥1 million and nil at March 31, 2019 and 2020, respectively.

7 Assets pledged

At March 31, 2019 and 2020, the following assets were pledged as collateral for certain liabilities of the Bank and subsidiaries.

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Securities	¥704,024	¥ 706,907	\$ 6,496
Loans and bills discounted	186,780	434,140	3,989
Other assets	1,896	1,496	14
Total	¥892,701	¥1,142,544	\$10,498

The collateral was pledged to secure:

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Deposits	¥ 1,653	¥ 1,671	\$ 15
Payables under repurchase agreements	88,521	79,420	730
Deposits received for bonds lending/borrowing transactions	260,108	321,008	2,950
Borrowed money	479,236	590,332	5,424

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 ¥1,735,804 million and ¥1,752,135 million (\$16,100 million) relating to these contracts at March 31, 2019 and 2020, respectively. Among them, the amounts of unused commitment of which term of contracts is less than one year or revocable at any time totaled ¥1,646,364 million and ¥1,668,372 million (\$15,330 million) at March 31, 2019 and 2020, 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 (\$138 million) at March 31, 2019 and 2020, 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 ¥37,878 million and ¥38,889 million (\$357 million) at March 31, 2019 and 2020, respectively.

11 Net assets

Under the Companies Act 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 Act 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 Companies Act 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, 2020 include the amount representing the year-end cash dividend of ¥4,216 million (\$39 million), ¥13.50 (\$0.12) per share, which was approved at the stockholders' meeting held on June 25, 2020.

12 General and administrative expenses

The general and administrative expenses include salaries and allowances in the amounts of ¥25,406 million and ¥25,156 million (\$231 million) for the years ended March 31, 2019 and 2020, respectively.

13 Other expenses

Other expenses for the years ended March 31, 2019 and 2020 include the following:

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Write-off of equity securities, etc.	¥ 250	¥1,741	\$16
Loss on sales of equity securities, etc.	259	1,160	11
Write-off of loans	3,051	1,147	11
Loss on sales of loans, etc.	589	486	4
Loss on provision of reserve for reimbursement of deposits	550	—	—
Reserve for possible loan losses	37	2,859	26
Loss on disposal of fixed assets	186	202	2
Impairment losses on fixed assets	130	2,306	21
Provision of reserve for dismantling costs for fixed assets	—	1,070	10

14 Impairment losses on fixed assets

The Group recognized impairment losses on fixed assets in the amounts of ¥130 million and ¥2,306 million (\$21 million) under "Other expenses" for the years ended March 31, 2019 and 2020, respectively (see Note 13). Main items for the year ended March 31, 2020 were as follows:

Location	Use	Type	Millions of yen	Millions of U.S. dollars
Hiroshima City, Hiroshima Pref.	Training center	Land, buildings and structures	¥1,105	\$10
Hiroshima City, Hiroshima Pref.	Temporary Head Office	Buildings and structures	1,072	10

(Reasons for recognizing impairment losses)

The carrying amount of the training center was reduced to the recoverable amount as it was determined to be transferred.

The carrying amount of the temporary Head Office was reduced to nil as it is scheduled to be dismantled.

(Asset grouping method)

The Group groups assets into units based mainly on sales branches within certain regions with interdependent cash flows. Idle assets are respectively treated as an independent unit. Head Office, company housing, welfare facilities and others are treated as common assets since they do not generate independent cash flows.

The recoverable value is measured based on the net selling value, and the amount is computed at the estimated transfer value.

15 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, 2019 and 2020 was as follows:

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Cash and due from banks	¥1,432,022	¥1,472,936	\$13,534
Foreign currency deposits with banks	(7,601)	(9,534)	(88)
Cash and cash equivalents	¥1,424,420	¥1,463,401	\$13,447

17 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, 2019 and 2020 were as follows:

Interest related:

At March 31, 2019

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
OTC	Interest rate swaps:				
	Receive fixed, pay variable	¥105,526	¥ 94,487	¥ 3,002	¥ 3,002
	Receive variable, pay fixed	105,526	94,487	(2,164)	(2,164)
	Receive variable, pay variable	—	—	—	—
	Interest rate options:				
	Sell	2,266	2,266	(0)	8
	Buy	2,266	2,266	0	(7)
	Other contracts:				
	Sell	—	—	—	—
Buy	—	—	—	—	
Total		¥ —	¥ —	¥ 837	¥ 838

16 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, 2019 and 2020 were as follows:

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Due within 1 year	¥4	¥3	\$0
Due after 1 year	3	—	—
Total	¥7	¥3	\$0

At March 31, 2020

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
OTC	Interest rate swaps:				
	Receive fixed, pay variable	¥ 125,307	¥ 119,881	¥ 3,750	¥ 3,750
	Receive variable, pay fixed	125,307	119,881	(2,553)	(2,553)
	Receive variable, pay variable	—	—	—	—
	Interest rate options:				
	Sell	2,000	2,000	(0)	5
	Buy	2,000	2,000	0	(4)
	Other contracts:				
	Sell	—	—	—	—
Buy	—	—	—	—	
	Total	¥ —	¥ —	¥ 1,196	¥ 1,197

		Millions of U.S. dollars			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
OTC	Interest rate swaps:				
	Receive fixed, pay variable	\$ 1,151	\$ 1,102	\$ 34	\$ 34
	Receive variable, pay fixed	1,151	1,102	(23)	(23)
	Receive variable, pay variable	—	—	—	—
	Interest rate options:				
	Sell	18	18	(0)	0
	Buy	18	18	0	(0)
	Other contracts:				
	Sell	—	—	—	—
Buy	—	—	—	—	
	Total	\$ —	\$ —	\$ 11	\$ 11

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:

At March 31, 2019

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
			Over one year		
OTC	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

At March 31, 2020

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
OTC	Currency swaps	¥485,220	¥466,710	¥ 88	¥ 184
	Forward foreign exchange contracts:				
	Sell	117,278	21,556	(1,521)	(1,521)
	Buy	109,916	20,732	2,645	2,645
	Currency options:				
	Sell	138,001	66,281	(3,083)	2,212
	Buy	138,001	66,281	3,083	(1,563)
	Total	¥ —	¥ —	¥ 1,212	¥1,957

		Millions of U.S. dollars			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
OTC	Currency swaps	\$4,459	\$4,288	\$ 1	\$ 2
	Forward foreign exchange contracts:				
	Sell	1,078	198	(14)	(14)
	Buy	1,010	190	24	24
	Currency options:				
	Sell	1,268	609	(28)	20
	Buy	1,268	609	28	(14)
	Total	\$ —	\$ —	\$ 11	\$18

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.

Others:

At March 31, 2019

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
OTC	Earthquake derivatives:				
	Sell	¥5,175	¥—	¥(64)	¥—
	Buy	5,175	—	64	—
	Total	¥ —	¥—	¥ —	¥—

At March 31, 2020

		Millions of yen			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
OTC	Earthquake derivatives:				
	Sell	¥6,050	¥—	¥(85)	¥—
	Buy	6,050	—	85	—
	Total	¥ —	¥—	¥ —	¥—

		Millions of U.S. dollars			
	Type	Contracted amount		Fair value	Unrealized gains (losses)
		Over one year			
OTC	Earthquake derivative:				
	Sell	\$56	\$—	\$ (1)	\$—
	Buy	56	—	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, 2019 and 2020 were as follows:

Interest related:

At March 31, 2019

			Millions of yen		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Interest rate swaps:	Loans and bills discounted, securities	¥ 40,000	¥ 40,000	¥ 289
	Receive fixed, pay variable				
	Receive variable, pay fixed		137,744	137,744	(2,869)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		72,336	58,832	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		1,000	—	
	Total		¥ —	¥ —	¥(2,580)

At March 31, 2020

			Millions of yen		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Interest rate swaps:	Loans and bills discounted, securities			
	Receive fixed, pay variable		¥ 40,000	¥ 20,000	¥ 287
	Receive variable, pay fixed		207,654	197,654	(6,683)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		56,556	46,931	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		—	—	
	Total		¥ —	¥ —	¥(6,396)

			Millions of U.S. dollars		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Interest rate swaps:	Loans and bills discounted, securities			
	Receive fixed, pay variable		\$ 368	\$ 184	\$ 3
	Receive variable, pay fixed		1,908	1,816	(61)
Exceptional treatment of interest rate swaps	Interest rate swaps:	Loans and bills discounted			
	Receive variable, pay fixed		520	431	Note 3
	Other contracts:	Loans and bills discounted			
	Buy		—	—	
	Total		\$ —	\$ —	\$(59)

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

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, option pricing models and prices obtained from the counterparty financial institutions.

3. 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:

At March 31, 2019

			Millions of yen		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted and securities denominated in foreign currencies	¥67,545	¥45,330	¥(1,248)
	Forward foreign exchange contracts		87,819	—	(325)
	Total		¥ —	¥ —	¥(1,574)

At March 31, 2020

			Millions of yen		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted and securities denominated in foreign currencies	¥69,459	¥69,459	¥ (155)
	Forward foreign exchange contracts		162,147	—	(168)
	Total		¥ —	¥ —	¥ (324)

			Millions of U.S. dollars		
Method of hedge accounting	Type	Main hedge items	Contracted amount		Fair value
			Over one year		
Deferral method	Currency swaps	Loans and bills discounted and securities denominated in foreign currencies	\$638	\$638	\$ (1)
	Forward foreign exchange contracts		1,490	—	(2)
	Total		\$ —	\$ —	\$ (3)

Notes: 1. The Bank has applied the deferred hedge accounting stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA 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.

18 Employees' severance and retirement benefits

For the years ended March 31, 2019 and 2020

Change in projected benefit obligation

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Projected benefit obligation at beginning of the year	¥44,651	¥43,718	\$402
Service costs during the year	1,178	1,150	11
Interest cost on projected benefit obligation	19	16	0
Actuarial differences incurred	334	419	4
Benefits paid	(2,577)	(2,880)	(26)
Other	111	109	1
Projected benefit obligation at end of the year	¥43,718	¥42,534	\$391

Change in plan assets

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Plan assets at beginning of the year	¥ 99,217	¥108,785	\$1,000
Expected return on plan assets	3,968	4,351	40
Actuarial differences incurred	6,752	1,354	12
Contribution by the business owner	738	862	8
Benefits paid	(1,998)	(2,115)	(19)
Other	106	105	1
Plan assets at end of the year	¥108,785	¥113,344	\$1,041

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

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Funded projected benefit obligation	¥ 43,678	¥ 42,490	\$ 390
Plan assets	(108,785)	(113,344)	(1,041)
	(65,106)	(70,853)	(651)
Unfunded projected benefit obligation	39	43	0
Net on consolidated balance sheets	¥ (65,067)	¥ (70,810)	\$ (651)

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Net defined benefit liability	¥ 39	¥ 43	\$ 0
Net defined benefit asset	(65,106)	(70,853)	(651)
Net on consolidated balance sheets	¥(65,067)	¥(70,810)	\$ (651)

Severance and retirement benefit expenses

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Service costs—benefits earned during the year	¥ 1,178	¥ 1,150	\$ 11
Interest cost on projected benefit obligation	19	16	0
Expected return on plan assets	(3,968)	(4,351)	(40)
Amortization of actuarial differences	(467)	(989)	(9)
Severance and retirement benefit expenses calculated by simplified method	4	4	0
Severance and retirement benefit expenses	¥(3,234)	¥(4,168)	\$ (38)

Remeasurements of accumulated defined benefit plans

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Actuarial differences	¥5,950	¥(54)	\$ (0)

Remeasurements of defined benefit plans

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Unrecognized actuarial differences	¥(17,567)	¥(17,513)	\$ (161)

Classification of plan assets

	2019	2020
Debt securities	2.3%	2.2%
Equity securities	73.2	72.5
Cash and due from banks	0.1	0.1
Other	24.4	25.2
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 64.1% in 2020) and the retirement benefit trust established for lump-sum payment plans (13.9% in 2019 and 12.5% in 2020).

Assumptions

	2019	2020
Discount rate	0.2%	0.2%
Rates of expected return on plan assets	4.0%	4.0%
Expected salary increase rate	3.1%	3.1%

Defined contribution pension plan

The Bank's required contribution to the defined contribution pension plan was ¥296 million and ¥296 million (\$3 million) for the years ended March 31, 2019 and 2020, respectively.

19 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% at March 31, 2019 and 2020.

Significant components of deferred tax assets at March 31, 2019 and 2020 were as follows:

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Deferred tax assets:			
Reserve for possible loan losses	¥ 14,030	¥ 14,107	\$ 130
Write-down of securities	765	720	7
Depreciation	1,809	1,491	14
Other	5,186	6,358	58
Subtotal deferred tax assets	21,791	22,678	208
Valuation allowance for tax loss carryforwards	—	—	—
Valuation allowance for total temporary differences deductible in future periods	(1,063)	(1,085)	(10)
Subtotal valuation allowance	(1,063)	(1,085)	(10)
Total deferred tax assets	20,728	21,593	198
Deferred tax liabilities:			
Net defined benefit assets	(13,235)	(14,797)	(136)
Gain on contribution or cancellation of securities to employee retirement benefit trust	(691)	(691)	(6)
Net unrealized holding gains on securities available for sale	(15,013)	(5,863)	(54)
Retained earnings of an affiliate	—	(397)	(4)
Total deferred tax liabilities	(28,941)	(21,749)	(200)
Net deferred tax liabilities	¥ (8,212)	¥ (155)	\$ (1)

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal years ended March 31, 2019 and 2020 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.

20 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, 2019 and 2020.

Income by service

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Lending	¥ 62,142	¥ 62,256	\$ 572
Investment in securities	23,033	31,226	287
Fees and commissions	29,677	28,255	260
Other	6,384	5,411	50
Total	¥121,238	¥127,149	\$1,168

21 Related party transactions

Information about related party transactions for the years ended March 31, 2019 and 2020 is omitted since they are immaterial.

22 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 holding to maturity, pure investment, as well as for the development of regional society and the enhancement of corporate value over the medium to long term.

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 credit-screening 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 market-related 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 off-balance-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, 2019 and 2020, the entire VaR of the Bank was ¥1 million and ¥5 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, 2019 and 2020 was ¥65,243 million and ¥76,320 million (\$701 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 at March 31, 2019 and 2020 were as follows:

	Millions of yen		
	At March 31, 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) Monetary claims bought	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 yen		
	At March 31, 2020		
	Carrying amount	Fair value	Difference
(1) Cash and due from banks	¥1,472,936	¥1,472,936	¥ —
(2) Call loans and bills purchased	6,711	6,711	—
(3) Monetary claims bought	7,820	7,820	—
(4) Trading assets* ²			
Securities held for trading purposes	1,141	1,141	—
(5) Money held in trust	9,971	9,971	—
(6) Securities:			
Securities held to maturity	—	—	—
Securities available for sale	1,114,090	1,114,090	—
(7) Loans and bills discounted	6,483,336		
Reserve for possible loan losses* ¹	(31,180)		
Net	6,452,155	6,612,298	160,142
Total assets	¥9,064,827	¥9,224,970	¥160,142
(1) Deposits	¥7,529,577	¥7,529,950	¥ 373
(2) Negotiable certificates of deposit	161,708	161,709	0
(3) Call money and bills sold	100,000	100,000	—
(4) Payables under repurchase agreements	79,420	79,420	—
(5) Deposits received for bonds lending/borrowing transactions	321,008	321,008	—
(6) Borrowed money	641,035	643,554	2,518
Total liabilities	¥8,832,751	¥8,835,643	¥ 2,892
Derivative instruments* ^{1, 3} :			
Hedge accounting is not applied	¥ 2,403	¥ 2,403	¥ —
Hedge accounting is applied	(6,720)	(6,720)	—
Derivative instruments total	¥ (4,317)	¥ (4,317)	¥ —

	Millions of U.S. dollars		
	At March 31, 2020		
	Carrying amount	Fair value	Difference
(1) Cash and due from banks	\$13,534	\$13,534	\$ —
(2) Call loans and bills purchased	62	62	—
(3) Monetary claims bought	72	72	—
(4) Trading assets ²			
Securities held for trading purpose	10	10	—
(5) Money held in trust	92	92	—
(6) Securities:			
Securities held to maturity	—	—	—
Securities available for sale	10,237	10,237	—
(7) Loans and bills discounted	59,573		
Reserve for possible loan losses ¹	(287)		
Net	59,287	60,758	1,471
Total assets	\$83,293	\$84,765	\$1,471
(1) Deposits	69,187	69,190	3
(2) Negotiable certificates of deposit	1,486	1,486	0
(3) Call money and bills sold	919	919	—
(4) Payables under repurchase agreements	730	730	—
(5) Deposits received for bonds lending/borrowing transactions	2,950	2,950	—
(6) Borrowed money	5,890	5,913	23
Total liabilities	\$81,161	\$81,188	\$ 27
Derivative instruments ^{1, 3} :			
Hedge accounting is not applied	\$ 22	\$ 22	\$ —
Hedge accounting is applied	(62)	(62)	—
Derivative instruments total	\$ (40)	\$ (40)	\$ —

*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) Monetary claims bought

Out of monetary claims bought, trust beneficiary rights, that are divided by quality such as subordinated or preferred and owned by multiple holders, are measured at the quoted price from the counterpart financial institutions. For other monetary claims bought, the carrying amounts are considered as the fair value, as most of these instruments have short maturities and the fair values approximate the carrying amounts.

(4) Trading assets

The fair values of securities held for trading purposes are measured at observable market prices or quoted price from counterpart financial institutions.

(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. For other money held in trust, the carrying amounts are considered as the fair value, as the components of trust assets consist of deposits with no maturities and the fair values approximate the carrying amounts.

(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 counterpart financial institutions.

The fair values of investment trusts are measured at the published benchmark price or quoted price from counterpart financial institutions.

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.

For loans without any repayment due dates, the carrying amounts are considered as the fair values, as the fair values approximate the carrying amounts from the viewpoints of estimated payment terms and interest rate conditions, etc.

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 fair values of these items are considered as the carrying amounts, as the contract terms are short and the fair values approximate the carrying amounts.

(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. For borrowed money with short contract terms, the carrying amounts are considered as the fair values, as the fair values approximate the carrying amounts.

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 at March 31, 2019 and 2020

	Carrying amount		
	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Equity securities without readily available market price*1, 2	¥ 7,062	¥ 7,319	\$ 67
Other	4,442	4,486	41
Total	¥11,505	¥11,805	\$108

*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 ¥0 million and ¥135 million (\$1 million) for the years ended March 31, 2019 and 2020, respectively.

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

At 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
Due from banks	¥1,351,129	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	19,953	—	—	—	—	—
Monetary claims bought	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

At March 31, 2020

	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
Due from banks	¥1,395,214	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills purchased	6,711	—	—	—	—	—
Monetary claims bought	7,820	—	—	—	—	—
Money held in trust	9,971	—	—	—	—	—
Securities	32,676	116,521	100,639	78,285	202,586	415,734
Held-to-maturity	—	—	—	—	—	—
Available-for-sale:	32,676	116,521	100,639	78,285	202,586	415,734
National government bonds	15,000	45,000	10,000	5,000	57,000	173,000
Local government bonds	3,900	10,360	28,360	32,849	50,060	6,302
Bonds	12,626	29,470	36,787	8,669	13,687	131,370
Others	1,149	31,690	25,491	31,767	81,839	105,060
Loans and bills discounted*	838,887	587,928	778,888	553,370	771,518	2,140,758
Total	¥2,291,281	¥704,450	¥879,528	¥631,656	¥974,105	¥2,556,492

	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
Due from banks	\$12,820	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills purchased	62	—	—	—	—	—
Monetary claims bought	72	—	—	—	—	—
Money held in trust	92	—	—	—	—	—
Securities	300	1,071	925	719	1,861	3,820
Held-to-maturity	—	—	—	—	—	—
Available-for-sale:	300	1,071	925	719	1,861	3,820
National government bonds	138	413	92	46	524	1,590
Local government bonds	36	95	261	302	460	58
Bonds	116	271	338	80	126	1,207
Others	11	291	234	292	752	965
Loans and bills discounted*	7,708	5,402	7,157	5,085	7,089	19,671
Total	\$21,054	\$6,473	\$8,082	\$5,804	\$8,951	\$23,491

* 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 ¥48,594 million and ¥50,343 million (\$463 million), is not included in the above table as of March 31, 2019 and 2020, respectively. Loans that do not have contractual maturity, amounting to ¥718,170 million and ¥761,640 million (\$6,998 million), are not included either.

(Note 4) Maturity analysis for interest-bearing liabilities at March 31, 2019 and 2020

At 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	—	—	—	—	—
Payables under securities lending 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

At March 31, 2020

	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*	¥7,323,254	¥166,045	¥ 38,032	¥ 1,079	¥1,165	¥ —
Negotiable certificates of deposit	161,003	705	—	—	—	—
Call money and bills sold	100,000	—	—	—	—	—
Payables under repurchase agreements	79,420	—	—	—	—	—
Payables under securities lending transactions	321,008	—	—	—	—	—
Borrowed money	39,413	179,421	382,677	18,260	4,024	17,238
Total	¥8,024,100	¥346,171	¥420,710	¥19,339	¥5,190	¥17,238

	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*	\$67,291	\$1,526	\$ 349	\$10	\$ 11	\$ —
Negotiable certificates of deposit	1,479	6	—	—	—	—
Call money and bills sold	919	—	—	—	—	—
Payables under repurchase agreements	730	—	—	—	—	—
Payables under securities lending transactions	2,950	—	—	—	—	—
Borrowed money	362	1,649	3,516	168	37	158
Total	\$73,731	\$3,181	\$3,866	\$178	\$ 48	\$158

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

23 Stock options

A) No stock option expense was recorded for the years ended March 31, 2019 and 2020.

B) Outline of stock options, size and changes in the year ended March 31, 2020

(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 (excluding external directors) of the Bank: 10	Directors (excluding external directors) of the Bank: 10	Directors (excluding external 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 (excluding external 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, 2020

	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, 2019	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—
Outstanding on March 31, 2020	—	—	—	—	—	—	—
Vested:							
Outstanding on April 1, 2019	15,800	16,750	38,100	35,000	39,650	28,150	54,150
Vested	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—
Outstanding on March 31, 2020	15,800	16,750	38,100	35,000	39,650	28,150	54,150

b. Price information for the year ended March 31, 2020

	Yen	U.S. dollars
Stock option 2010		
Exercise price	¥ 1	\$0.00
Average exercise price	—	—
Fair value at the granted date	652	5.99
Stock option 2011		
Exercise price	¥ 1	\$0.00
Average exercise price	—	—
Fair value at the granted date	644	5.92
Stock option 2012		
Exercise price	¥ 1	\$0.00
Average exercise price	—	—
Fair value at the granted date	446	4.10
Stock option 2013		
Exercise price	¥ 1	\$ 0
Average exercise price	—	—
Fair value at the granted date	820	7.53
Stock option 2014		
Exercise price	¥ 1	\$0.00
Average exercise price	—	—
Fair value at the granted date	914	8.40
Stock option 2015		
Exercise price	¥ 1	\$0.00
Average exercise price	—	—
Fair value at the granted date	1,346	12.37
Stock option 2016		
Exercise price	¥ 1	\$0.00
Average exercise price	—	—
Fair value at the granted date	654	6.01

(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.

24 Other comprehensive income (loss)

Reclassification adjustments and the related tax effects concerning other comprehensive income (loss) for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Net unrealized holding gains (losses) on securities available for sale:			
The amount arising during the period	¥(12,353)	¥(21,431)	\$(197)
Reclassification adjustments	(6,073)	(8,382)	(77)
Before adjustments for tax effect	(18,426)	(29,813)	(274)
The amount of tax effect	5,707	9,150	84
Net unrealized holding gains (losses) on securities available for sale	(12,719)	(20,662)	(190)
Net deferred gains (losses) on hedging instruments, net of tax:			
The amount arising during the period	(4,623)	(6,677)	(61)
Reclassification adjustments	2,493	2,316	21
Before adjustments for tax effect	(2,130)	(4,360)	(40)
The amount of tax effect	660	1,351	12
Net deferred gains (losses) on hedging instruments, net of tax	(1,469)	(3,008)	(28)
Remeasurements of defined benefit plans:			
The amount arising during the period	6,417	934	9
Reclassification adjustments	(467)	(989)	(9)
Before adjustments for tax effect	5,950	(54)	(0)
The amount of tax effect	(1,844)	16	0
Remeasurements of defined benefit plans	4,105	(37)	(0)
Share of other comprehensive income (loss) of an affiliated company accounted for using the equity method:			
The amount arising during the period	(3)	(3)	(0)
Reclassification adjustments	—	—	—
Share of other comprehensive income (loss) of an affiliated company accounted for using the equity method	(3)	(3)	(0)
Total other comprehensive income (loss)	¥(10,086)	¥(23,712)	\$(218)

25 Business combination

Merger between consolidated subsidiaries

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 and business of combined companies

Name of acquiring company: The Hiroshima Bank, Ltd.

Business of acquiring company: Banking

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

Business of acquired company: Insurance agency

(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 group management and further improvement of services through improving efficiency of operations.

B) Outline of accounting treatment

The transaction is treated as a transaction under common control in accordance with 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).

26 Significant subsequent events

Transformation to a holding company structure through a sole-share transfer

The Bank resolved to transform to a holding company structure by incorporating “Hirogin Holdings, Inc.,” a holding company (the wholly owning parent company) (the “Holding Company”) at the board of directors meeting held on May 12, 2020 through sole-share transfer (the “Share Transfer”) dated October 1, 2020 (scheduled), on the assumption that approval at the annual stockholders’ meeting and necessary approvals of the relevant authorities will be obtained.

The Share Transfer plan was approved at the annual stockholders’ meeting held on June 25, 2020.

1. Purpose of the Share Transfer

The Bank’s management vision is to “build a reliable Hiroshima Bank Group, united through trusting relations with the regional community.” Based on this vision, for many years, from the perspective of implementing the group-integrated operation, the Bank has made an effort to strengthen in-group cooperation, and has built a position as a leading bank group in the region by demonstrating its comprehensive strength, and has also proceeded with healthy management on a stable operating base.

However, it is expected that the management environment encompassing current financial institutions, particularly regional financial institutions, will become harsher due to issues such as population decrease and entry from other industries. Moreover, due to changes in the economy and the social situation, such as the rapid progress of digital transformation, as well as changes in customers’ lifestyle and attitude, customers’ needs are becoming more diversified, complex, and sophisticated. Therefore, it is considered that it will become more difficult for the current bank-centered structure to respond flexibly to the changes in the management environment including the easing of regulations, etc. or to accurately respond to customers’ needs.

In this situation, in order to aim to become a regional comprehensive services group that meets all the needs of its customers, with a focus on finance, and to aim to constantly improve the popularity within the regional market and corporate value of the group, it is necessary to further strengthen group governance as well as to further expand the operation axis and enhance group synergy. To do so, the Bank has determined that it is necessary to evolve into a holding company structure, which will be the new group management structure.

Under a holding company structure, the management vision will be to “contribute to the creation of a prosperous future for the regional community, as a trusted regional comprehensive services group by closely offering thorough support to customers.” The Bank will realize “further contribution to the regional community and customers” and “the group’s sustainable growth and improvement of corporate value.”

Considering the purpose of its incorporation, i.e., strengthening group governance, the Bank will incorporate the Holding Company as a company with an audit and supervisory committee, and will further strengthen and enhance the corporate governance structure through measures such as further strengthening the board of directors’ supervisory function and the audit and supervisory committee’s audit function.

The Bank will be a wholly owned subsidiary of the Holding Company due to the Share Transfer, and thus the shares of the Bank will be delisted. The shares of the Holding Company to be delivered to the stockholders as the consideration for the shares of the Bank are scheduled to be registered to be listed on the First Section of the Tokyo Stock Exchange, Inc. (the “TSE”). The listing date is scheduled to be on October 1, 2020, which will be the effective date of the registration of incorporation of the Holding Company (the effective date of the Share Transfer).

2. Summary of the Share Transfer

(1) Schedule of the Share Transfer

Record date of the annual stockholders’ meeting	Tuesday, March 31, 2020
Board of directors meeting to approve the share transfer plan	Tuesday, May 12, 2020
Annual stockholders’ meeting to approve the share transfer plan	Thursday, June 25, 2020
Date on which our shares will be delisted	Tuesday, September 29, 2020 (scheduled)
Date on which the incorporation of the Holding Company will be registered (the effective date)	Thursday, October 1, 2020 (scheduled)
Date on which the shares of the Holding Company will be listed	Thursday, October 1, 2020 (scheduled)

The schedule is subject to change due to necessity in the course of the procedures of the Share Transfer or other reasons.

(2) Method of the Share Transfer

A sole-share transfer under which we will be the wholly owned subsidiary company resulting from a share transfer and the Holding Company will be the wholly owning parent company incorporated in a share transfer.

(3) Details of the allocation pertaining to the Share Transfer (the share exchange ratio)

Company name	Hirogin Holdings, Inc. (Wholly owning parent company incorporated in a share transfer)	The Hiroshima Bank, Ltd. (Wholly owned subsidiary company resulting from a share transfer)
Share exchange ratio	1	1

(i) Share transfer ratio

The stockholders holding the Bank's common shares entered in the latest stockholder register as of the day immediately preceding the effective date of the Share Transfer will be delivered and allocated one common share of the Holding Company to be incorporated per each of the common shares of the Bank held by the stockholders.

(ii) Share units

The Holding Company will adopt a share unit system under which the number of shares constituting one unit will be 100.

(iii) Calculation basis of the share transfer ratio

The Share Transfer will be conducted to incorporate one holding company that will be the wholly owning parent company through the sole-share transfer of the Bank. Thus, the stockholder structure of the Holding Company will not change upon the Share Transfer. Accordingly, by putting the first priority on not causing disadvantages to stockholders, the Bank has decided to allocate and deliver the stockholders one common share of the Holding Company per each of the common shares of the Bank held by the stockholders.

(iv) Results, methods, and the basis of calculation by a third party organization

For the reasons described in (iii) above, no third party organization has calculated the share transfer ratio.

(v) Number of new shares to be delivered through the Share Transfer (scheduled)

312,315,203 common shares (scheduled)

If the total number of the issued shares of the Bank changes prior to the Share Transfer takes effect, the above number of new shares to be delivered by the Holding Company will fluctuate. Since the Bank plans to cancel its treasury shares to the extent that they can practically be cancelled by the time

immediately prior to the time when the Holding Company acquires all of the Bank's issued shares (the "Record Time"), the number of the Bank's treasury shares as of March 31, 2020 (317,968 shares) has been excluded from the shares subject to the new share delivery in the above calculation. In cases where the number of the Bank's treasury shares as of March 31, 2020 fluctuates by the Record Time, including in the case where the Bank's stockholders exercise their appraisal rights, the number of new shares to be delivered by the Holding Company may fluctuate.

(4) Matters regarding stock acquisition rights and bonds with stock acquisition rights upon the Share Transfer

With regard to stock acquisition rights issued by the Bank, equivalent stock acquisition rights of the Holding Company will be delivered and allocated to holders of the Bank's stock acquisition rights in place of the Bank's stock acquisition rights held by them. The Bank has issued no bonds with stock acquisition rights.

(5) Handling of new listing of the Holding Company

The Bank will apply for new listing (technical listing) of shares of the Holding Company to be newly incorporated to the First Section of the TSE. The listing date is scheduled to be October 1, 2020. Since the Bank will become a wholly owned subsidiary of the Holding Company through the Share Transfer, the Bank will be delisted from the First Section of the TSE on September 29, 2020 prior to the listing of the Holding Company.

3. Outline of the Holding Company to be newly incorporated through the Share Transfer (the wholly owning parent company incorporated in a share transfer) (scheduled)

Name	Hirogin Holdings, Inc.		
Address	1-1-7, Nishikaniya, Minami-ku, Hiroshima-shi		
Representatives and directors to assume office	Chairman (Representative Director)	Koji Ikeda	(Current Chairman of The Hiroshima Bank)
	President (Representative Director)	Toshio Heya	(Current President of The Hiroshima Bank)
	Director	Akira Ogi	(Current Director & Senior Managing Executive Officer of The Hiroshima Bank)
	Director	Kazuo Kiyomune	(Current Director & Managing Executive Officer of The Hiroshima Bank)
	Director	Fumitsugu Kariyada	(Current Managing Executive Officer of The Hiroshima Bank)
	Director (Audit and supervisory committee member)	Hitoshi Katayama	(Current Audit & Supervisory Board Member of The Hiroshima Bank)
	Director (Audit and supervisory committee member)	Kaori Maeda	(Current External Director of The Hiroshima Bank)
	Director (Audit and supervisory committee member)	Yoshinori Takahashi	(Current External Audit & Supervisory Board Member of The Hiroshima Bank)
	Director (Audit and supervisory committee member)	Satoshi Miura	(Current External Director of The Hiroshima Bank)
	(Note1) Among the Directors (Audit and supervisory committee members), Kaori Maeda, Yoshinori Takahashi, and Satoshi Miura are external directors as provided in Article 2, item (xv) of the Companies Act.		
	(Note2) Kaori Maeda's name on her family register is Kaori Aibara.		
Business description	<ul style="list-style-type: none"> • Business management of banks and other companies that a bank holding company may have as its subsidiaries pursuant to the Banking Act and any other business activities incidental or related thereto. • In addition to those described in the above item, business activities that a bank holding company may engage in pursuant to the Banking Act. 		
Stated capital	¥60,000 million (\$551 million)		
Fiscal year end	March 31		

4. Outline of the accounting upon the Share Transfer

Since the Share Transfer will fall under a "transaction under common control" under corporate accounting, it will not affect profit or loss.

Incorporation of a subsidiary

The Bank resolved to incorporate a subsidiary wholly owned by the Bank at the board of directors meeting held on December 20, 2019 and it was incorporated on April 1, 2020.

1. Purpose of incorporation

The Bank has been committed to the development of the region including the support for tourism promotion as well as identifying the true management issues faced by regional customers through feasibility studies and appropriate financing according to the various usage of funds.

With a view to the future under such conditions, an increase is expected in funding needs relating to sophisticated and diversified management issues of customers and regional revitalization.

The incorporation of a subsidiary with investment expertise would enable us to actively commit to regional revitalization through strengthening financial intermediary functions including fund management and an active supply of equity financing as well as responding to customer needs.

The Group will contribute to the development of the region and build a strong group management base as well as expand the operation axis through the company and commit to the solution of the management issues of the customers by cultivating and supporting venture businesses and holding equity interests.

2. Outline of the subsidiary

(1) Name	Hirogin Capital Partners Co., Ltd.
(2) Business description	Investment
(3) Date of incorporation	April 1, 2020
(4) Stated capital	¥100 million (\$1 million)
(5) Stockholder	The Hiroshima Bank, Ltd. (wholly owned subsidiary)

Non-Consolidated Balance Sheets

THE HIROSHIMA BANK, LTD.
As of March 31, 2019 and 2020

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
ASSETS			
Cash and due from banks	¥ 1,430,685	¥ 1,471,326	\$13,519
Call loans and bills purchased	19,953	6,711	62
Monetary claims bought	6,253	6,313	58
Trading assets	5,830	6,235	57
Money held in trust	162	171	2
Securities	1,186,499	1,136,265	10,441
Loans and bills discounted	6,014,683	6,479,709	59,540
Foreign exchanges	7,536	34,990	322
Other assets	83,600	106,427	978
Tangible fixed assets	94,890	92,974	854
Intangible fixed assets	9,431	9,119	84
Prepaid pension cost	47,538	53,340	490
Deferred tax assets	—	4,965	46
Customers' liabilities for acceptances and guarantees	41,996	35,232	324
Reserve for possible loan losses	(31,101)	(31,848)	(293)
Total assets	¥8,917,961	¥9,411,933	\$86,483
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits	¥ 7,479,040	¥ 7,709,050	\$70,836
Call money	—	100,000	919
Payables under repurchase agreements	88,521	79,420	730
Deposits received for bonds lending/borrowing transactions	260,108	321,008	2,950
Trading liabilities	3,856	3,814	35
Borrowed money	514,289	639,493	5,876
Foreign exchanges	339	3,502	32
Due to trust account	23	32	0
Other liabilities	41,563	41,541	382
Reserve for reimbursement of deposits	3,558	2,530	23
Reserve for point loyalty programs	79	94	1
Reserve for stock payments	341	547	5
Reserve for loss related to Head Office rebuilding	846	—	—
Reserve for dismantling costs for fixed assets	—	1,177	11
Deferred tax liabilities	3,501	—	—
Deferred tax liabilities for land revaluation reserve	13,610	13,605	125
Acceptances and guarantees	41,996	35,232	324
Total liabilities	¥8,451,677	¥8,951,052	\$82,248
Net Assets:			
Common stock:			
Authorized – 1,000,000,000 shares			
Issued – 312,633,171 shares	¥ 54,573	¥ 54,573	\$ 501
Capital surplus	30,739	30,739	282
Retained earnings	320,376	338,614	3,111
Common stock in treasury	(1,026)	(984)	(9)
Total stockholders' equity	404,663	422,943	3,886
Net unrealized holding gains on securities available for sale	35,668	15,005	138
Net deferred losses on hedging instruments	(2,016)	(5,025)	(46)
Land revaluation reserve	27,792	27,781	255
Total valuation and translation adjustments	61,444	37,762	347
Stock acquisition rights	176	176	2
Total net assets	466,283	460,881	4,235
Total liabilities and net assets	¥8,917,961	¥9,411,933	\$86,483

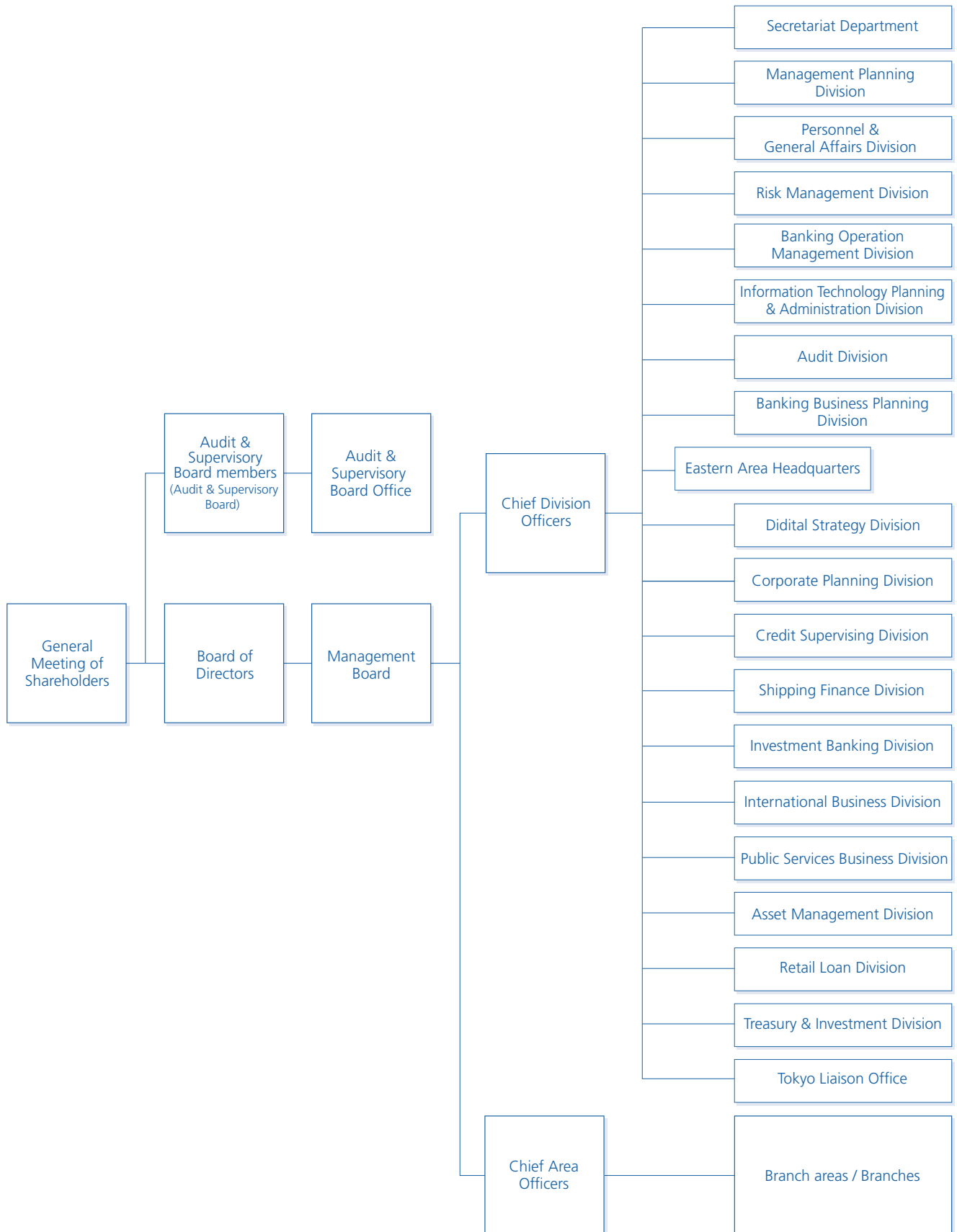
Non-Consolidated Statements of Income

THE HIROSHIMA BANK, LTD.
Years ended March 31, 2019 and 2020

	Millions of yen		Millions of U.S. dollars
	2019	2020	2020
Income:			
Interest income:			
Interest on loans and discounts	¥ 62,182	¥ 62,266	\$ 572
Interest and dividends on securities	12,682	12,765	117
Other interest income	1,779	1,630	15
Fees and commissions	24,430	23,760	218
Other operating income	7,537	10,413	96
Other income	6,321	10,284	94
Total income	114,932	121,120	1,113
Expenses:			
Interest expenses:			
Interest on deposits	2,219	1,935	18
Interest on borrowings and rediscounts	3,425	3,004	28
Other interest expenses	2,842	3,418	31
Fees and commissions	9,983	10,855	100
Other operating expenses	3,417	4,933	45
General and administrative expenses	52,625	52,138	479
Other expenses	4,704	10,706	98
Total expenses	79,218	86,992	799
Income before income taxes	35,713	34,127	314
Income taxes:			
Current income taxes	7,735	7,934	73
Deferred income taxes	2,590	2,031	19
Net income	¥ 25,388	¥ 24,161	\$ 222
	Yen		U.S. dollars
Amounts per share of common stock:			
Net assets	¥1,496.60	¥1,479.03	\$13.59
Net income	81.53	77.57	0.71
Diluted net income	81.46	77.51	0.71
Cash dividends applicable to the year	20.00	22.50	0.21

Organization

(As of April 1, 2020)



Major Shareholders

(As of March 31, 2020)

Shareholders	Number of shares (Thousand)	Percentage of shares issued (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	18,134	5.80
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,194	5.18
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)	5,920	1.89
The Bank of Fukuoka, Ltd.	5,500	1.76

Stock Information

(As of March 31, 2020)

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

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.



Securities code

8 3 7 9

Hirogin Report 2020 Integrated Report

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