Overview of Interim Financial Results for FY2020 and Overview of Mid-term Plan 2020

— IR Presentation —

December 2020

Hirogin Holdings, Inc.

未来を、ひろげる。

ひろぎんホールディングス

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To achieve the Sustainable Development Goals (SDGs) adopted by the United Nations, the Hirogin Group will strive to help local communities address social and environmental issues and enjoy sustainable growth by providing high value added regional comprehensive services.
Click here to learn more about our activities:

https://www.hirogin-hd.co.jp/csr/pdf/sdgs_esg.pdf

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1. Summary of Business Performance

Overview of profit/loss and management indicators in FY2020 1H

Bank

Overview of profit/loss
(Bank consolidated basis as of September 30, 2020)

(Billion yen)

	FY2020 1H	YoY change	(Change rate)
Net interest income	36.6	1.9	
Other income*1	7.4	-0.4	
Gross income from core businesses	44.1	1.6	
Expenses (−)	**26.0**	**-0.5**	**(-1.8%)**
Net income from core businesses	**18.1**	**2.1**	**(13.0%)**
Gains/losses related to government bonds and other bonds	1.6	0.0	
Effective business gains/losses	19.7	2.0	
Gains/losses related to equities, etc.	1.4	-0.8	
Credit costs (−)	4.3	3.3	
Interim net income	**12.9**	**-1.1**	**(-7.5%)**
Hirogin Securities	**0.3**	**0.1**	
Shimanami Servicer	**0.0**	**-0.1**	
Hirogin Lease	**0.1**	**0.0**	
Hirogin Capital Partners	**0.0**	**0.0**	
Interim net income for Group companies*2	**1.0**	**0.2**	**(18.0%)**
Interim net income attributable to owners of the parent	**10.6**	**-2.9**	**(-21.3%)**

*1 Other income = Net fees and commissions income + segregated trading income + other ordinary income - gains/losses related to bonds
*2 Interim net income for each company × our percentage equity stake

Overview of management indicators

	FY2020 1H	YoY change
Consolidated ROE	4.3%	-1.1%pt
Consolidated capital adequacy ratio	10.25%	−0.82%pt
Contributions of Group companies to consolidated performance	9.5%	3.1%pt

Key points

Net interest income and other income

- Net interest income grew 1.9 billion yen year-on-year to 36.6 billion yen, due mainly to the increase in interest and dividends on securities, including dividends received from subsidiaries/affiliates.
- Other income fell 400 million yen year-on-year to 7.4 billion yen due to a drop in net fees and commissions income, including commissions from the sale of investment trusts and insurance.

Credit costs

- Credit costs grew 3.3 billion yen year-on-year to 4.3 billion yen, due mainly to an increase in additions to the reserve for possible loan losses booked in response to deteriorating business conditions facing customers due to the impact of COVID-19.

Interim net income attributable to owners of the parent

- On a standalone basis, the bank's interim net income fell 1.1 billion yen year-on-year to 12.9 billion yen. The primary reason was the rise in credit costs.
- Interim net income for Group companies climbed 200 million yen year-on-year to one billion yen thanks to efforts to further strengthen joint efforts within the Group.
- If we exclude dividend income from subsidiaries/affiliates of 3.6 billion yen, which is booked on a parent-only basis, interim net income attributable to owners of parent falls 2.9 billion yen year-on-year to 10.6 billion yen.

Consolidated capital adequacy ratio

- The consolidated capital adequacy ratio fell 0.82%pt year-on-year to 10.25%. Major contributing factors were an increase in risk assets stemming from a rise in lending and the payment of dividends in kind (booked as future external outflow)*3 in conjunction with restructuring as part of the shift to a holding company structure.
- However, if we exclude changes resulting from restructuring, our consolidated capital adequacy ratio is around 10.7% (a year-on-year decline of just 0.3%pt).

*3 In conjunction with the shift to a holding company structure, shares in four subsidiaries held by Hiroshima Bank worth 14.4 billion yen were transferred to Hirogin Holdings as dividends in kind. This will not affect the holding company's consolidated capital adequacy ratio calculated after December 31, 2020.

2. Mid-term Plan 2020

Background and purposes of the transformation to holding company structure

Holding company

- **While deepening and expanding the operation axis and customer axis in the markets of our four local prefectures (Okayama, Yamaguchi, Ehime, and Hiroshima), which have potentials in terms of economic scale and growth opportunities, Hirogin Holdings will thoroughly work on solving every issue faced by the regional community and customers and actively commit itself to the development of the region, thereby realizing its management philosophy and achieving the group's sustainable growth.**

Our business environment → Transformation to a holding company structure → Vision for ourselves

Harsh conditions

- Negative interest rate policies
- Intensifying competition
- Spread of COVID-19

etc.

The previous bank-centered structure made sustainable growth difficult to achieve.

Growth opportunities

- Deregulation
- Lifestyle changes
- Urban redevelopment and extensive tourism resources

etc.

Our approach

We will makes thorough efforts to solve every issue, including those in non-financial areas, in response to customers' needs becoming more diversified, complex, and sophisticated

Actively committing to the region's development

Future initiatives

- **Enhance Group synergies**
- **Further expand the operation axis**
- **Achieve optimal management resource allocation**
- **Strengthen Group governance**

Pursue regional development and sustainable growth for the Group (improvement of corporate value)

Business model under a holding company structure

Holding company

◆ **As we deepen our ties to regional communities and our customers, we will learn about and strive to resolve their needs and issues. By offering solutions not just in the field of finance but in nonfinancial realms, we will contribute to the region's development and the growth of our customers and translate these achievements into sustainable growth for the Group.**

☐ The Hirogin Holdings business model

Management Philosophy (Management Vision)

- Closely offer thorough support to customers and be trusted
- As a regional comprehensive services group
- Contribute to the creation of a prosperous future for the regional community

Relations with the regional community and our customers

Deepening and expanding the customer axis

Provision of solutions

Deepening and expanding the operation axis

Further expanding the operation axis through the transformation to a holding company structure

The development of the region and customer growth

=

Contribution to achieving SDGs

Strong evaluations from the regional community and from customers

Sustainable growth of the Group

- Strengthening profitability
- Establishing a stable management base
- Improving corporate value (fulfilling shareholder return)

Strong market evaluations (from investors and shareholders)

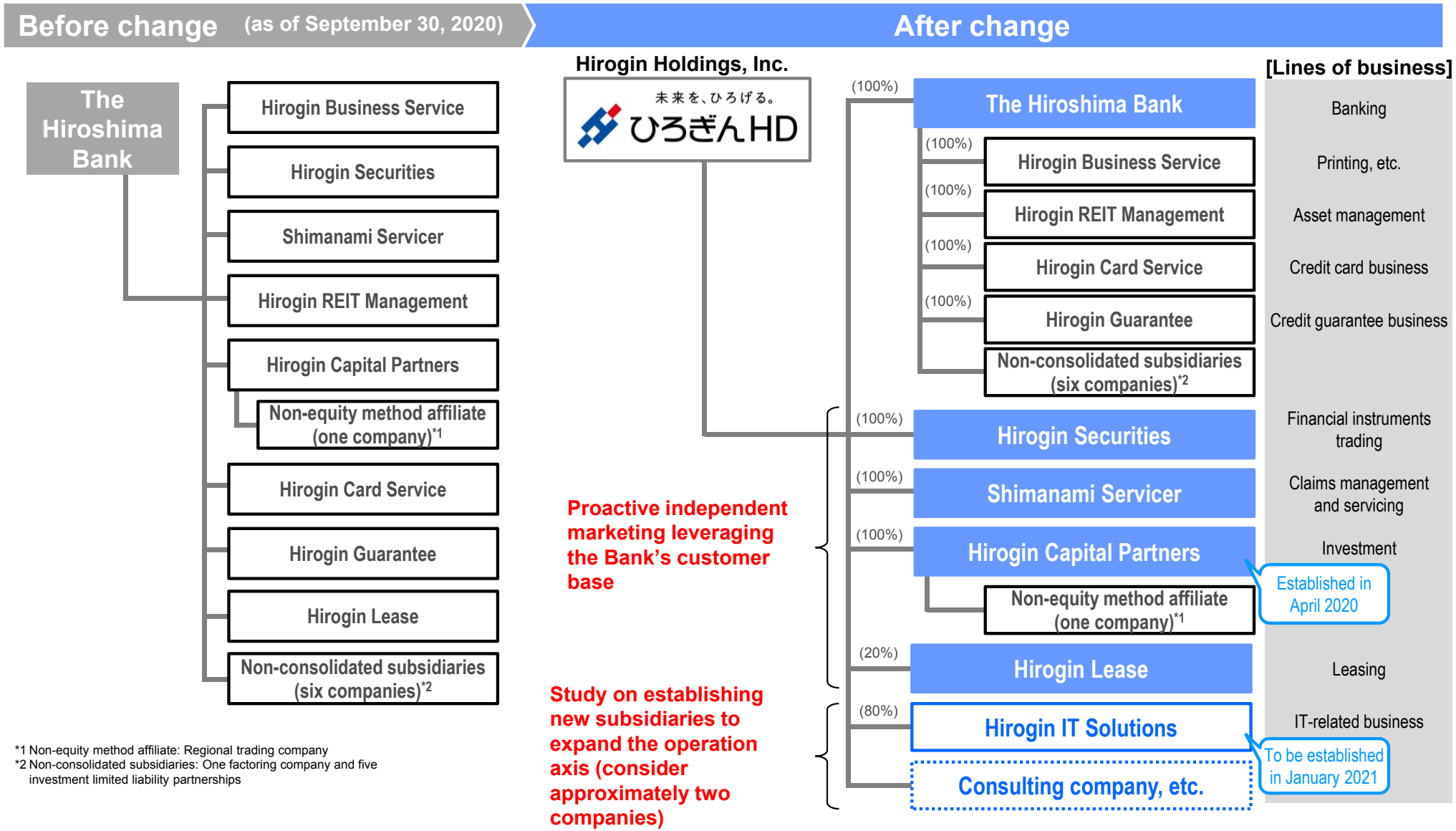
Further risk-taking in the region

Differentiation from other companies (source of competitive advantage)

Details of the holding company structure

Holding company

- As we started as a holding company, we revised the structure with a view to building robust relations with the regional communities and customers, and to offering a broad range of solutions that will meet respective needs and resolve respective issues.
- We will further expand the operation axis and consider establishing new subsidiaries.



*1 Non-equity method affiliate: Regional trading company
*2 Non-consolidated subsidiaries: One factoring company and five investment limited liability partnerships

Achieving Group synergies

Holding company

◆ **By targeting achieving sustainable growth for the Group, we will deepen/expand the customer axis through joint efforts among Group companies, and strive to deepen/expand the operation axis by amplifying new solutions functions and creating new businesses.**

Sustainable growth for the Group

Strengthen external marketing

Shimanami Servicer

Reinforce consulting functions and expand customer transactions

Hirogin Capital Partners | The Hiroshima Bank | Hirogin Securities | Hirogin Lease

Establish new companies and leverage alliances with external parties

Hirogin IT Solutions | Establishment of new companies | Alliances with external parties

Achieve a cooperative approach in introducing customers and meeting their needs; find new customers

Finance-centered initiatives by Group companies

- Deepen/expand customer axis -

Bank

- Leverage the bank's customer base to offer solutions, including solutions in the nonfinancial field, provided by the bank and by Group companies.

Non-bank

- Leverage the bank's customer base to offer solutions.
- Attract new customers.

➡ **Expand the Group's customer base**

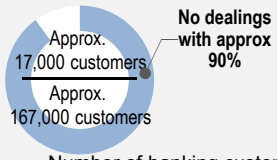
- Deepen/expand operation axis -

- Expand new solutions functions and create new businesses in fields in which needs are projected to increase and growth is expected.

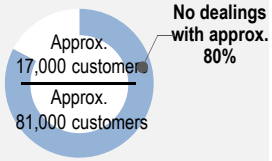
➡ **Establish new earnings sources**

[Reference]

Number of securities customers (number of persons with financial instruments brokerage accounts) as a proportion of the bank's financial instruments customers



Number of banking customers (number of persons with financial instruments brokerage accounts) as a proportion of all securities customers



[April 2021] Dispatch **30–40 bank employees** to Group companies

Initiatives to develop business in the nonfinancial field

- Establish new companies/leverage alliances -

- Expand customer-facing solutions functions in the nonfinancial field

Role of Hirogin IT Solutions

(1) Enhance the sophistication of IT operations departments by semi-internalizing certain banking system development/operations.

(2) **Offer IT solutions to local companies to help them boost operational efficiency and raise productivity.**

- Deploy RPA
- Deploy attendance management systems
- Deploy security systems
- Utilize cloud services

etc.

➡ **Evolve into a regional comprehensive services group.**

+

Achieve differentiation from other companies.

Growth drivers (growth strategy)

Holding company

◆ **While strengthening the existing approach in relation to the financial sector, centering on loan and deposit services as well as support services for which the needs are expected to increase, such as inheritance and business succession as well as equity operations, etc., Hirogin Holdings will proceed to provide solutions for the sectors including non-financial sectors by utilizing various functions of the group and alliances with other companies and business categories.**

Provide various solutions to solve customers' issues → **Contribute to the regional development and to the growth of customers** → **Achieve sustainable growth for the Group**

Growth drivers

FY2019

12.6 billion yen

FY2023 (final fiscal year of mid-term plan)

At least **16.0 billion yen**

Applying the functions of Group companies

Drawing on alliances with other companies and industries

Support for inheritance and business succession measures

Equity business

Support for urban redevelopment and tourism promotion

Non-bank

Net income for Group companies

Bank

Earnings from consulting services for corporate and individual customers

Earnings from traditional banking operations (e.g., interest income from lending)

Relations

Corporate customers: **Business potential evaluations**

Individual customers: **Family asset management** (including asset building/investment)

→ **Identify needs** + **Harness information already accumulated and held**

Solutions

Draw on all Group functions and fully leverage alliances to offer solutions, including solutions in the nonfinancial field

Summary of each strategy

Holding company

Three pillars of the mid-term plan

Enhancing efforts to revitalize the community and find solutions to community issues.

Enhancing the core businesses of each Group company to contribute to customer growth and expanding business domains through Group integration (establishing new revenue generation fields).

Establishing stable management foundations to support the sustained growth of our community and customers

Targets in mid-term plan

Regional vitalization and local revitalization

Rebuild structures to strengthen relationships with various organizations and business partners and to boost sales of consulting services.

Strategy for incorporated entities | Strategy for individuals | Strategy for corporate owners

Develop the business over the medium to long term by strengthening sales of consulting services related to business succession, inheritance, etc.

Earnings from consulting services targeting corporate and individual customers and net income from Group companies

FY2019	FY2023
12.6 billion yen	At least 16.0 billion yen

Channel strategy

Build channels that fuse the physical and the digital to support our growth strategy.

Numbers of branches	Numbers of ATMs
Reduce by approx. 10%	Reduce by approx. 20%

(compared to FY2019)

Digital strategy

Create new digital businesses to serve as revenue generators for the future.

Reinforce and expand settlement/channel functions (offer cashless payments/ strengthen app functions).

Earnings from new digital businesses

Approx. 300 million yen

IT strategy

Apply the new subsidiary to bolster the IT solutions business.

Enhance Group IT development/ administration structures.

HR strategy

Build a robust organization by optimizing the Group's internal human resources.

Group personnel total

March 31, 2020	March 31, 2024
Approx. 4,000 persons	Approx. 3,700 persons

Restructuring

Strengthen intra-Group cooperation and implement a radical restructuring of Group companies.

Eliminate routine clerical tasks through digital technologies.

Impact of restructuring

Approx. 1.2 billion yen

(compared to FY2019)

Contribute to achievement of SDGs

Regional vitalization and local revitalization

Holding company

◆ **With a view to delivering fundamental solutions to issues with regional communities and industrial structures, we will step up initiatives we have been implementing for some time. In cooperation with local public bodies and business operators, we will ensure that the Group plays a central role in pushing forward with new businesses tied to local revitalization.**

Current issues

Group basic policy as a premise

"We are targeting our four local prefectures due to their potential. We will commit ourselves to working to solve every issue facing the regional community and our customers."

[Our promising four local prefectural markets]

Population*1	GDP*2
Approx. 7.47 million Size equivalent to that of Aichi prefecture	Approx. 31 trillion yen Size equivalent to that of Kanagawa prefecture

However ...

Issues with regional society and industrial structure

- Outflow of regional industries to other regions
- Outflow of population to large cities
- Shortage of personnel for urban development
  - Decay of buildings in city centers
  - Shortage of hotels and offices
  - Slump in demand from foreign tourists due to COVID-19 pandemic

Shrinking regional economy
(Decline in the region's GDP)

Initiatives in mid-term plan

Further strengthen past initiatives.

Urban redevelopment
Details on next page

- Attracted Hilton Hotels.
- Established a private REIT.
- Participated in PPP projects, including projects to redevelop central urban areas.

Tourism promotion

- Established Setouchi DMO.
- Participated in regional trading company business.
- Participated in privatization of Hiroshima Airport.

Consulting for government organizations

- Assisted with formulation of Regional Comprehensive Strategy.
- Provided tailored services in response to requests from local public bodies.

etc.

+

Develop new businesses.

Actively participate in local revitalization projects implemented by local public bodies, starting from identifying the issues facing the regional community concerned.

Resolution of local issues and development of industry

- Make Hiroshima more attractive in connection with its wealth of tourism resources.
- Act to address fundamental issues—e.g., participate in local job search support projects.

etc.

Strengthen relationships with various organizations and business partners.

- Build new relationships by stepping up external PR.
- Gather information ahead of time to enable suggestions concerning consulting services and solutions; be more proactive in proposing solutions.

etc.

Revamp the Group's internal structure to help strengthen relations.

- Redesign structures to build stronger ties to local public bodies involved in regional vitalization and local revitalization and to facilitate the offering of more timely solutions.

(Consider over the medium to long term)
Consider establishing subsidiaries

Increase the region's GDP
(Reinvigorate regional industry, create employment, etc.)

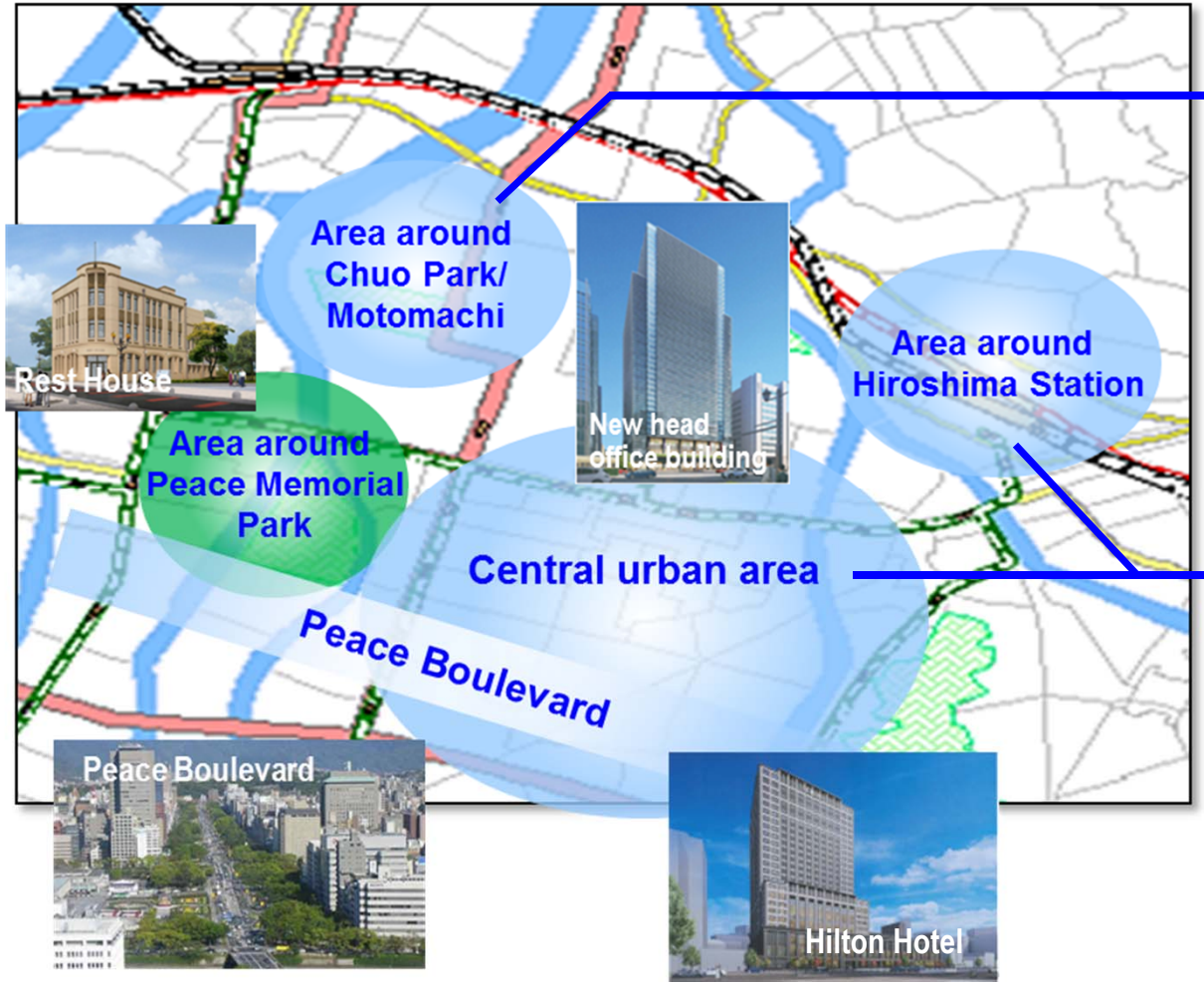
*1 Source: Ministry of Internal Affairs and Communications, population data from the basic resident register (January 2020)

*2 Source: Cabinet Office (FY2017)

Urban redevelopment

Holding company

- **We begin our involvement in urban redevelopment projects at the planning stage and pursue various measures to contribute to regional vitalization by enhancing the attractiveness of central Hiroshima City.**



Zone for sports, events, and history

- Construction of football stadium
- Development of site of former Hiroshima Municipal Stadium
- Refurbishment of outermost parts of Hiroshima Castle

- PPP/PFI participation
- Involvement in projects through regional trading company
- Providing various types of finance

Zone for offices and commercial facilities

- Construction of Hilton Hotel
- Enlivening Peace Boulevard
- Rebuilding Hiroshima Station
- Rebuilding our head office

- Inclusion of properties being developed in private REITs
- Involvement in projects through regional trading company
- Providing various types of finance
- Making a local revitalization space in the new head office building

We're also involved (through a capital stake and the dispatch of personnel) with the company administering the privatization of Hiroshima Airport.

Strategy for corporate customers

Holding company

◆**Through business potential evaluations, we will identify both clear and hidden needs. The Group will work as one to address all kinds of management issues facing customers, including those in nonfinancial aspects.**

Initiatives in mid-term plan

Group companies, etc. …Non-bank

Support for corporate owners (Resolving business issues)

- Assistance in nurturing successors and establishing governance structures
- Creation of community for owners to help them form partnerships and create new businesses

IT consulting

- Assistance in improving operational efficiency through construction of systems and provision of packages
- Providing comprehensive financial techniques that utilize partnerships with external IT vendors and leasing

IT Solutions | Lease | Alliances

Business succession/ rehabilitation support (Equity business)

- Business succession support (equity stakes/hands-on support/IPO support)
- Business rehabilitation support (capital enhancement through purchase of other company's debt and equity stakes)

Securities | Shimanami Servicer | Capital Partners

Challenge of new operations

- Advancing into new fields of leasing
- Potential for utilizing trust accounts to offer investment products to large deposit holders
- Potential for providing personnel/labor-related consulting services (plan to steadily add areas to our consulting portfolio)

Securities | Lease

Challenge of non-face-to-face/digital businesses

- Speedy response to funding needs through utilization of AI
- Providing new payment services through alliances with other companies

Alliances

Nonfinancial field — Operation axis — Financial field

Existing customers — Customer axis — New customers

Revenue goals in mid-term plan

Bank

Earnings from corporate solutions

FY2019 actual	FY2023 target
3.5 billion yen*	**At least 5.0 billion yen**

* Excludes earnings from large equity stakes assumed in the past.

Lease | **Shimanami Servicer** | **IT Solutions** | **Capital Partners**

Net income (total)

FY2019 actual	FY2023 target
0.9 billion yen	**At least 1.4 billion yen**

Bank

Number of companies for whom we serve as the primary bank

Figures in parentheses indicate ranking among regional banks

2015 actual	2020 actual
16,020 companies (10th)	**17,203 companies (7th)**

Target further increases by offering solutions that go beyond financing services.

Source: Tokyo Shoko Research

Business expansion spurred by business succession

Holding company

◆ **Business succession consulting is a highly specialized field. We intend to leverage it to build even deeper ties to our customers and thereby continue to offer customers a wide range of Group solutions, even after their business succession has been completed, thereby contributing to their growth.**

Business expansion leveraging our strengths → **Offer highly-specialized business succession solutions that meet the various needs of each generation** → **Secure earnings over the medium to long term (even after business succession)**

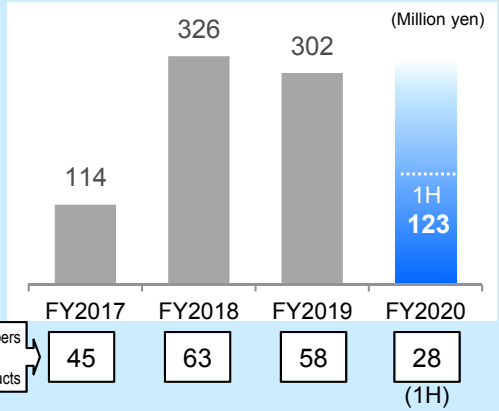
Shortage of successors
||
Increase in needs related to business succession

Seize on business succession as an opportunity for the Group to pull together to pursue businesses oriented towards problem solving.

Strengths

- Establishing relationships around a core of business potential evaluations
- Accumulated know-how in services related to business succession

◆Revenues and contracts involving business succession



	Needs	Main provider of solutions
Current manager	Successor coaching	Bank
	Business divestiture/M&A	Bank
	Business/asset succession	Bank
	Winding up	Shimanami Servicer
Successor	Capital enhancement	Capital Partners
	Capital procurement	Bank・Lease
	Talent acquisition (managers)	Bank
	Business expansion/ diversification	Bank
	Lease utilization	Lease
	Asset divestiture	Alliances
	ICT/operational efficiency improvement	IT Solutions
	Asset management	Bank/Securities
	IPOs	Bank/Securities

etc.

Link to inheritance consulting

Total consultant for business (business advisory and assistance)

Providing various solutions

- Lending
- Support with main business
- Leasing
- Equity financing
- Personnel introductions
- ICT/operational efficiency improvement support
- Asset management, etc.

Further expand operation axis to resolve customer issues (Expand Group functions)

Business expansion through equity investment involving newly-established subsidiary

Holding company

◆ **We are ramping up efforts in the equity business through Hirogin Capital Partners, established in April 2020, and by working with funds for which the general partner (GP) is another company (below: "other GP funds"). We plan to offer solutions for small and medium enterprises (SMEs) in the region that go beyond just finance.**

Business succession/growth capital | Business rehabilitation

Blue Investment Fund

- Allow investment for time horizon of over five years.
- A wide variety of investments in companies is possible, including in companies that have been granted altered conditions or that have consolidated debts.

HiCAP-2 fund (business succession)

- Invests in companies concerned about business succession for a period of no more than five years.

HiCAP-1 fund (business rehabilitation)

- Invests in companies who have been granted altered conditions, who have consolidated their debts, or who have drawn up a rehabilitation plan.

Shimanami Value Creation Fund

- Fund that buys debt held by other financial institutions
- Seeks to support SMEs in rehabilitating or winding up their businesses.

Other GP funds

- Allow investment in a wide range of vehicles, from business succession to growth investments.
- Investment in conjunction with HiCAP-2 and -3 funds also possible

Hirogin Group invests.
(The GP of the funds is Capital Partners)

Completed deals **2**
Projected deals **6**

Flash-Flood Damage Recovery Fund

- Can purchase loans and other forms of debt.
- At least 70% of the total amount of investment available must go to SMEs.

University venture funds

- Target seed and early-stage startups.
- Investments in conjunction with HiCAP-3 fund also possible

HiCAP-3 fund (venture)

- Invests in startup companies established for less than ten years or in the middle and later stage of their growth.

Hiroden Chugoku Shimbun Travel (regional trading company)

- Invests directly in companies that are contributing to the vitalization of the regional economy.

Private REIT

- Seeks to promote urban development that will lead to local revitalization.
- Invests in local regional development projects.

Venture | Other (regional vitalization)

Note: The percentage stakes held by the Group in non-consolidated subsidiary funds are as follows: HiCAP-1 to -3 funds: 100%, Blue Investment and Shimanami Value Creation Fund: 99%. Hiroden Chugoku Shimbun Travel is a non-equity method affiliate.

Strategy for individual customers

Holding company

◆ **With household management as the foundations, we will serve as a personal concierge who makes life more comfortable. In this capacity, we will offer total support across a broad range of customer needs. With the Hirogin app as a starting point, we will apply digital technologies to expand our menu of products and services.**

Initiatives in mid-term plan

Group companies, etc. …Non-bank

Nonfinancial field

Operation axis

Financial field

Total support for the life plans of all household members

- Expand services to meet a wide range of needs, including the needs of family members.
- Consider offering advisory services concerning asset management and life design.
- Provide total support by integrating headquarters channels.

Securities

Alliances

Expand nonfinancial services through marketing and various channels

- Further utilize the Hirogin Life Partner service.
- Consider harnessing online communities to deliver new services.

Inheritance consulting

- Expand products and services designed to facilitate the smooth handover of assets to the next generation (expand bequeathed-property disposition services and real estate-related business).

Securities

Alliances

Corporate owner assistance (resolution of issues facing owners themselves)

- Consider offering private banking services and develop exclusive investment products.

Securities

Alliances

Challenge of non-face-to-face/digital business

- Expand the functions of the Hirogin app.
- Leverage alliances to offer products and services remotely.
- Harness information to reinforce marketing.
- Promote cashless payments through Group cooperation.

Card Service

Alliances

Existing customers — Customer axis — New customers

Revenue goals in mid-term plan

Bank

Earnings from asset management

FY2019 actual	FY2023 target
6.0 billion yen	**At least 8.0 billion yen**

Securities

Net income

FY2019 actual	FY2023 target
0.5 billion yen	**At least 1.3 billion yen**

Business expansion spurred by inheritance

Holding company

◆ **Using inheritance consulting as an opportunity for further deepening relationships with customers, address issues with asset management, including asset management for the next generation, as well as everyday concerns, thereby delivering total support for the life planning of all household members.**

Business expansion leveraging our strengths → **Offer highly-specialized inheritance-related solutions that meet the various needs of each generation** → **Secure earnings over the medium to long term (even after the inheritance)**

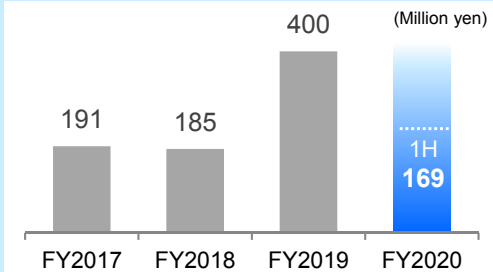
Fewer children and aging population
||
Increase in needs related to inheritance

Seize on inheritance as an opportunity for the Group to pull together to pursue businesses oriented toward problem solving.

Strengths

- Know-how and relationships acquired through asset management (asset building/investment) and life planning
- Highly-specialized human resources such as personnel from the Inheritance Consulting Plaza and the trust section at headquarters

◆Inheritance-related revenues and contracts



Numbers of contracts	FY2017	FY2018	FY2019	FY2020
	1,963	1,402	1,529	424 (1H)

	Needs	Main provider of solutions
Inheritee	Will preparation/execution	Bank
	Pre-death gifting	Bank・Securities
	Comfortable old age (financially)	Bank・Securities
	Nursing care	Alliances
	Inheritance tax avoidance	Bank・Securities
	Asset management	Bank・Securities
	Asset divestiture	Alliances
Inheritor	Asset building	Bank・Securities
	Secondary inheritance	Bank・Securities
	Borrowing	Bank
	Saving for a rainy day etc.	Bank

Link to business succession consulting

Life planning throughout the future by building relationships with the next generation

Total support for the life plans of all household members

Providing various solutions

- Secondary/tertiary inheritance strategies
- Asset management/fund procurement
- Asset divestiture
- Nonfinancial services etc.

Further expand operation axis to resolve customer issues. (Expand Group functions)

Digital strategy

Holding company

- ◆ **We will digitize existing financial services by making more sophisticated use of digital technologies and information assets (data) held by the Group.**
- ◆ **We will also pursue new businesses that go beyond finance through alliances with other business categories and through digital technologies.**

Strengthen the web channel

App

- Expand functions to make it an entry point for transactions with individual customers.
- Strengthen ties to online brokerages and cashless payment service providers.

Portal site

- Build a platform with services and functions that meet customer needs; provide a one-stop service for resolving managerial issues.

Salesforce-support device

- Equip the device with data analytics functions to enable salespersons to propose tailored solutions.

Digitize existing financial services

- Offer services that can be completed digitally—e.g., AI lending and digital contract signing.
- Establish models for assisting with the provision of proposals for each customer based on AI-driven data analysis. (Strengthen consulting capabilities)
- Expand cashless payments in community-based way.

AI lending	Digital contracts
Data marketing	Cashless payments

etc.

Pursue new businesses that utilize digital technology (financial and nonfinancial fields)

- Work with Group companies to create new, digitally-driven businesses.
- Develop regional alliance-based businesses that deliver a broad range of data and services via the web channel.

Corporate business support	Data-driven businesses
Providing APIs for banking services	Services for senior citizens

etc.

Earnings from new digital businesses

FY2023 target

Approx. 0.3 billion yen

More sophisticated data utilization

Restructuring

Holding company

◆ **Through various Group-integrated "transformations," we will establish a stable management base that supports our growth strategy.**

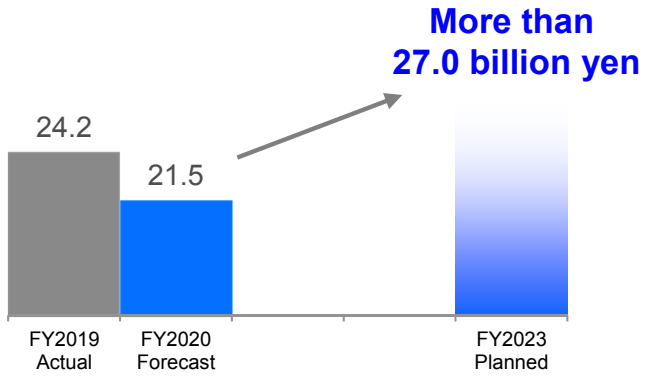
	Initiatives in mid-term plan	Targets in mid-term plan	Long-term prospects
Branch transformation	**Revamping branches in view of environmental changes** - Achieve efficient branch operation by clarifying the roles of large branches, medium-sized branches, and small branches (e.g., ones specializing in deposit/exchange business) in view of changes in the market. - At joint branches (the number of which has been expanded to 23), offer a one-stop service by integrating banking and securities. - Establish Personal Concierge Plaza. (integration of headquarters channels)	**Branches** **Approx. 10% reduction** **ATMs** **Approx. 20% reduction** (compared to FY2019)	**Pursue new businesses that utilize bank branches to help vitalize the region.**
Operational transformation	**Minimizing clerical work at branches** - Deploy tablet PCs in branches to make in-branch clerical work (in the case of personal transactions) completely self-service. - Allow the receipt of various notifications via smartphone. - Expand elimination of two-line system (centralize back-office processes at headquarters) from area branches to cover the whole of Hiroshima Prefecture. **Strengthening operational joint efforts within the Group** - Centralize common tasks performed by all Group companies. - Minimize flow of cash outside the Group.	**Group employees*1** **Approx. 3,700 persons** (reduction of approx. 300 persons compared to FY2019) **Personnel selection** **Approx. 220 persons*2** (cumulative total from FY2018)	**Achieve efficient branch operations by focusing on area units rather than branch units.**
Expense transformation	**Fundamentally transforming operations at Group companies** - Radically overhaul business processes through the thorough structural separation of operations performed by each company. - Digitize operations within the Group. **Enhancing business efficiency through alliances with companies in the same and other sectors** - Partnership with Chugoku Bank to eliminate customer fees when using each other's ATMs (starting in December 2020)	**Impact of restructuring** **Approx. 1.2 billion yen** (compared to FY2019)	**Build a muscular earnings structure.**

*1 Number of regular employees and contract employees within the Group
*2 Number of persons selected, including bank staff

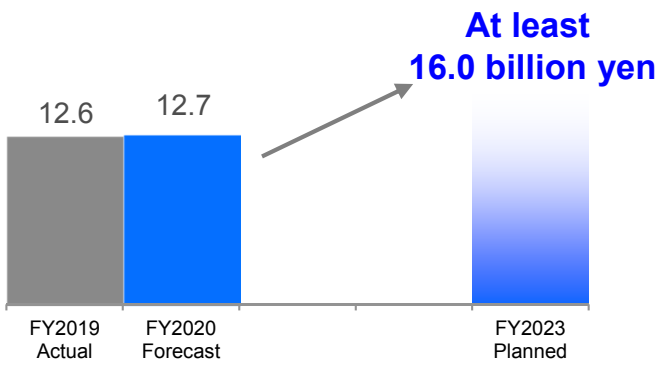
Management objectives (FY2023)

Holding company

Net income attributable to owners of parent



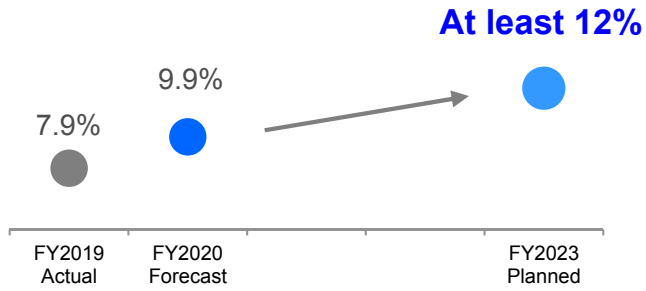
Total of revenues from consulting businesses for corporate and individual customers*1 and Group company net income*2



*1 Revenues from consulting businesses for corporate and individual customers = Total of revenues from corporate solutions, asset management, and equity business

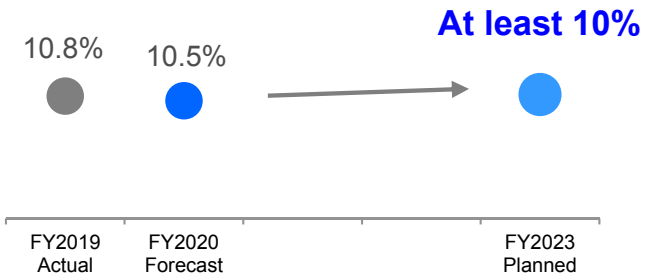
*2 Net income for the Group companies = Total of net income for consolidated subsidiaries, excluding the bank, and the amount of net income for equity method affiliate multiplied by investment ratio

Contributions of Group companies to consolidated performance*3

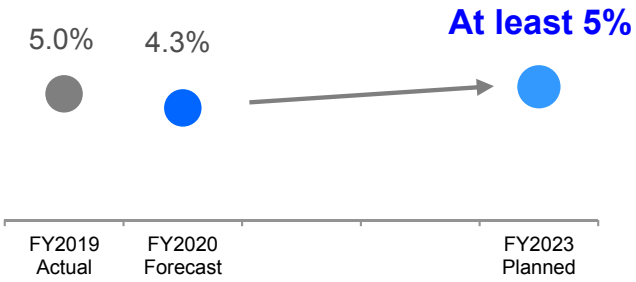


*3 Contributions of Group companies to consolidated performance = $\frac{\text{Net income for the Group companies (*2)}}{\text{Net income attributable to owners of parent}}$

Consolidated capital adequacy ratio



Consolidated ROE



(Reference) Strategies of Group companies

Holding company

	Strengthen own marketing	Strengthen Group cooperation
The Hiroshima Bank	➢ Further strengthen relationships through business potential evaluations and family asset management. ➢ Offer financial solutions primarily to respond to lending/investment needs.	➢ Offer solutions in conjunction with Group companies in IT consulting business, equity business, and related areas. ➢ Bolster collaboration with Group companies in consulting related to inheritance and business succession.
Hirogin Securities	➢ Strengthen marketing of shares (expand base through multi-channel marketing). ➢ Boost ability to sell PO and IPO services to nonfinancial corporations.	➢ Establish a stable earnings foundation by expanding the customer base in terms of financial instruments brokerage accounts and proper accounts and boosting investment trust balances. ➢ Boost the capacity to meet inheritance and insurance needs among elderly HNWIs (refer to Bank).
Shimanami Servicer	➢ Step up assistance to other financial institutions in rehabilitating customers, particularly through the use of new debt purchasing techniques. ➢ Utilize Shimanami Value Creation Fund as a pathway to assisting companies in rehabilitation or in winding up their operations.	➢ Strengthen debt collection, winding-up assistance, etc. undertaken for Group companies.
Hirogin Capital Partners	➢ Enhance ability to put together deals and administrative capabilities by formulating investing schemes involving other funds, absorbing know-how, etc.	➢ Make investments (business succession/business rehabilitation/venture) through funds etc. that contribute to regional vitalization by creating, maintaining, etc. employment in the region. ➢ Work with the Bank to provide support that goes beyond hands-on escort-type assistance.
Hirogin Lease	➢ Reinforce ability to win customers for highly-profitable auto leases and core leases (from small to large). ➢ Redouble efforts in growth fields (medical/nursing care, environment, tourism, etc.). ➢ Develop new leasing fields (for the agricultural, forestry, and fisheries industries; for local partners, etc.).	➢ With the manufacturing sector as the target, strengthen touchpoints with customers and engage in proposal-oriented marketing.
Hirogin IT Solutions	➢ Assist local companies in adopting IT.	➢ Assemble a comprehensive proposal model that involves working with Group companies to dig deep into customers' IT investments and investment needs.
Banking subsidiaries	➢ Boost profitability by including properties handled by property management companies (real estate maintenance/management companies) [target company: Hirogin REIT Management]. ➢ Steadily include properties that have been carefully selected as optimal properties for urban development in the region [target company: Hirogin REIT Management].	➢ Through stronger cooperation with the Bank, step up efforts to land contracts that other banks and guarantee companies are vying for [target company: Hirogin Guarantee]. ➢ By strengthening cooperation with Group companies, promote cashless payments and expand new settlement functions [target company: Hirogin Card Service].

Build strong relationships with customers centered on the Bank.

Capital policy

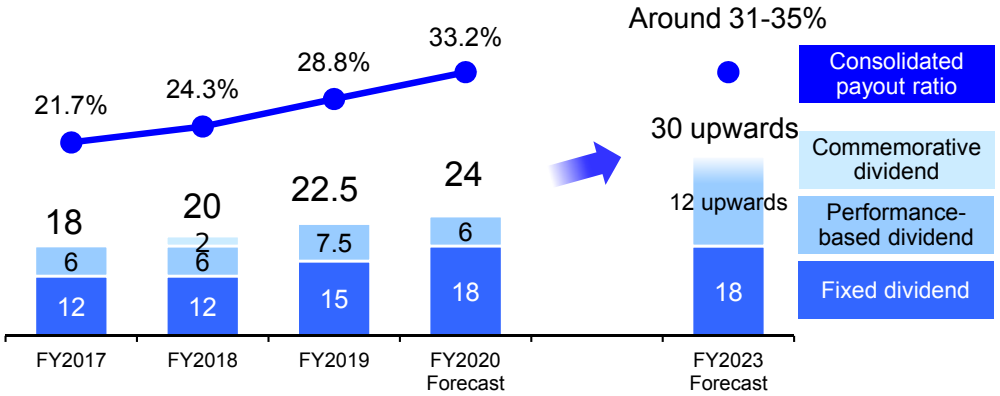
Holding company

◆ **As we aggressively take on risks in the region in aspects that go beyond mere lending, we will strive to ensure a consolidated capital adequacy ratio of at least 10%.**

Basic approach

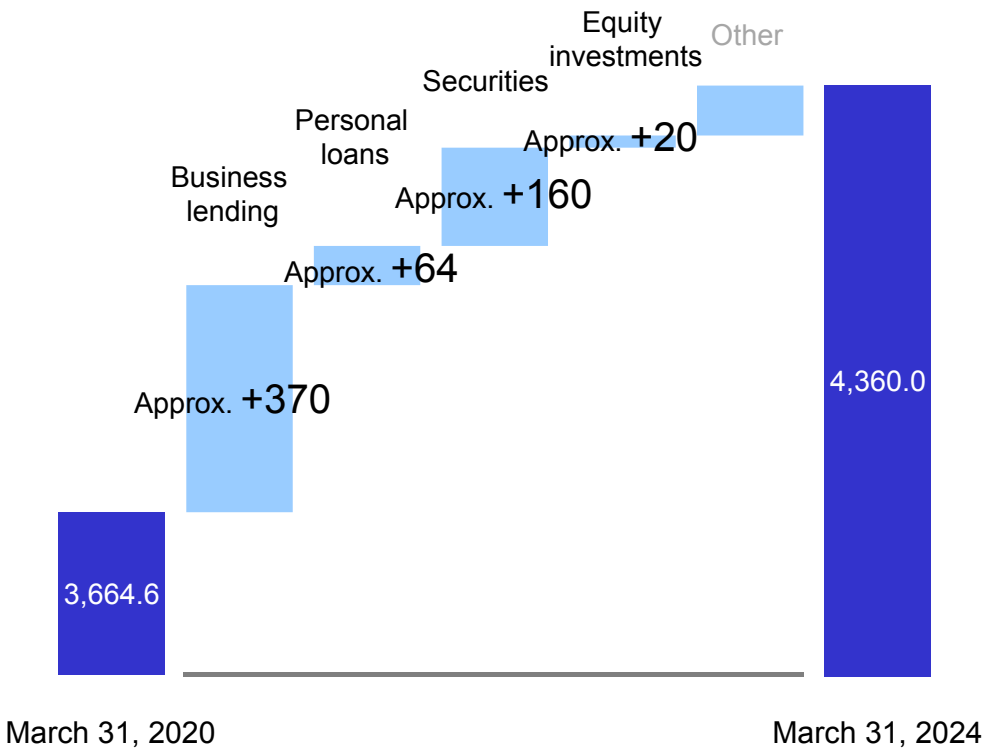
Maintain soundness.	**Consolidated capital adequacy ratio of at least 10%** (March 31, 2024)
Make strategic investments.	**Make investments with a view to enthusiastically taking on credit risk in the region and securing new earnings opportunities.**
Return value to shareholders.	**Ensure consolidated payout ratio of 31-36%.** In addition to the above, we will review our shareholder privilege scheme with an eye to boosting the numbers of individual shareholders.

■ Trends in dividend per share (yen) and consolidated payout ratio



■ Trends in risk assets (capital allocation)

(Billion yen)



Note: We completed a reverse stock split (2-for-1 reverse split) in October 1, 2017. Dividend per share figures for FY2017 and prior years have been adjusted to reflect the reverse split. In FY2019, we revised the payout table and allocated amounts proportionately to before and after the revision.

3. Business Forecast for FY2020

FY2020 performance and dividend forecasts

Holding company

- For FY2020, we forecast net income attributable to owners of parent of 21.5 billion yen.
- We project a year-end dividend of 12 yen per share in FY2020, based on the new payout table. Note that Hiroshima Bank paid an interim dividend of 12 yen; we expect the total annual dividend per share to be 24 yen.

FY2020 performance forecasts

(Billion yen)

	FY2020 performance forecast	YoY change
Ordinary profit	**31.0**	–
Net income attributable to owners of the parent	**21.5**	–

Reference: FY2020 standalone forecast for Hiroshima Bank

(Billion yen)

	FY2020 performance forecast	YoY change
Net interest income	69.2	0.9
Other income	16.7	1.3
Gross income from core businesses	**86.0**	**2.3**
Expenses (−)	54.1	1.4
Net income from core businesses	**31.9**	**0.9**
Credit costs (−)	8.5	4.3
Ordinary profit	**31.5**	**-5.9**
Net income	**22.5**	**-1.6**

Market scenarios used in performance forecasts
JPY TIBOR3M: 0.07%; 10-year JGBs: -0.02%; exchange rate (USD/JPY): 107.0 yen; Nikkei Average: 21,000 yen

Payout table and FY2020 dividend forecasts

Net income attributable to owners of the parent	Dividends per share			Consolidated payout ratio
	(i) Fixed	(ii) performance-based	(i) + (ii)	
More than 33 billion yen		18 yen	36 yen	Less than 34.1%
30-33 billion yen		15 yen	33 yen	31.2-34.4%
27-30 billion yen		12 yen	30 yen	31.2-34.7%
24-27 billion yen		9 yen	27 yen	31.2-35.1%
21-24 billion yen	18 yen	6 yen	24 yen	31.2-35.7%
18-21 billion yen		3 yen	21 yen	31.2-36.4%
18 billion yen or less		0 yen	18 yen	31.2% or more

*The Hiroshima Bank payout table as of September 2020 has not been changed

Note: Hirogin Holdings was established on October 1, 2020 as the sole parent company of Hiroshima Bank, Ltd. following a transfer of the latter company's shares. The above consolidated performance forecasts include first-half consolidated results for Hiroshima Bank, Ltd., which became a wholly-owned subsidiary of Hirogin Holdings following the aforementioned share transfer (performance forecast calculation period: April 1, 2020–March 31, 2021).

Appendix

Overview of Interim Financial Results for FY2020

Net interest income

Bank

◆**Net interest income was up 1.9 billion yen from the previous year due to an increase in interest and dividends on securities and despite a drop in interest from foreign currency lending due to the impact of US rate cuts.**

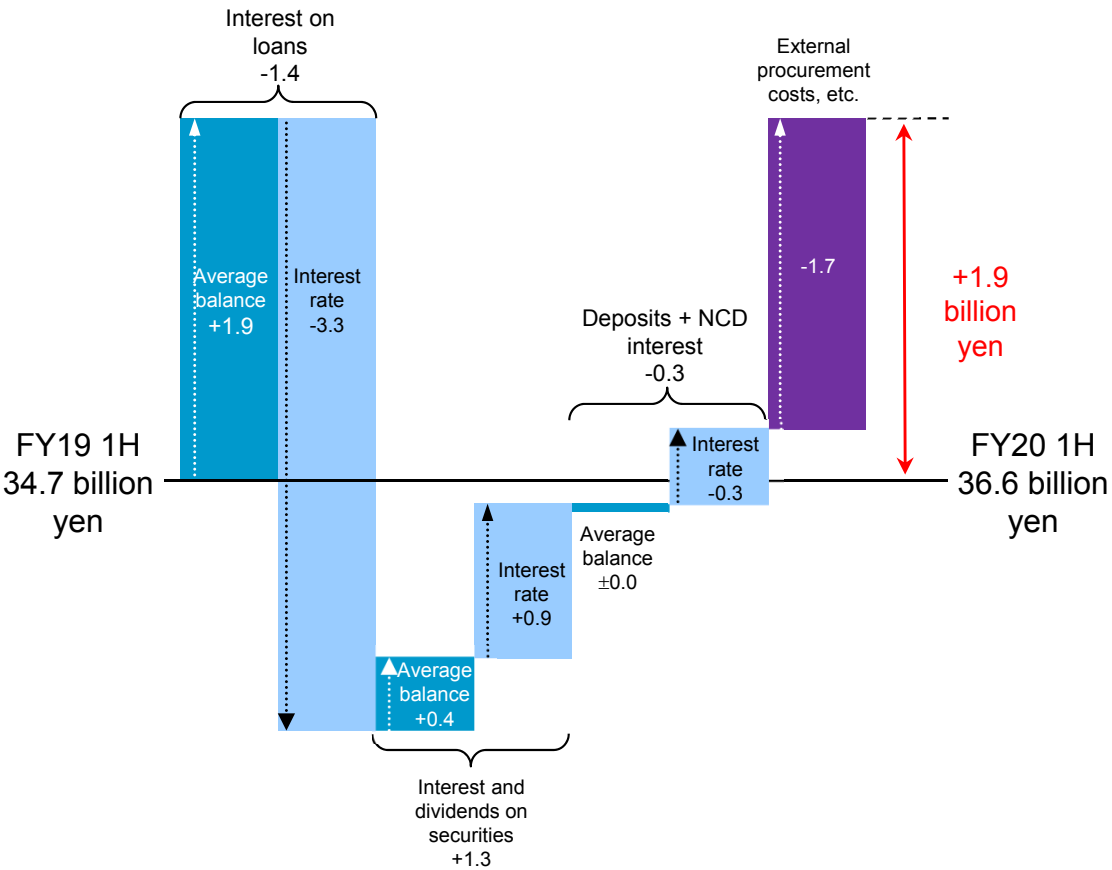
Breakdown of net interest income

(Billion yen)

	FY2020 1H	YoY change
Interest on loans	29.5	-1.4
Interest and dividends on securities	8.7	1.3
Deposits + NCD interest (-)	0.7	-0.3
External procurement costs, etc. (-)	0.9	-1.7
Net interest income	**36.6**	**1.9**

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

(Billion yen)



Other income

Bank

◆**Other income fell 400 million yen year-on-year due to lower net fees and commissions income, including commissions from the sales of investment trusts and insurance.**

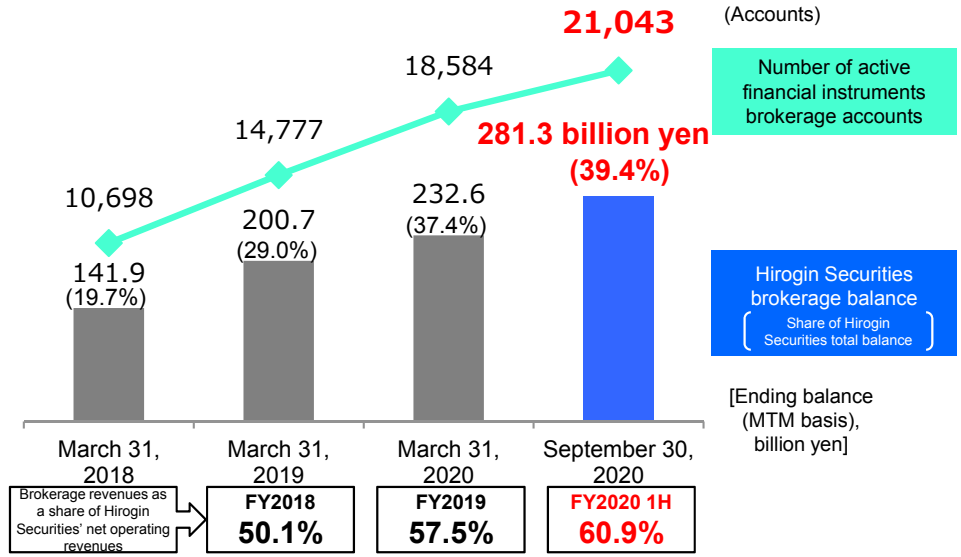
Breakdown of other income*1

(Billion yen)

	FY2020 1H	YoY change
Corporate solutions	1.4	-0.1
Business succession support, M&A, etc.	0.2	0.0
Syndicated loans, etc.	0.3	0.0
Sales of derivatives to customers	0.5	0.1
Asset management	2.4	-0.6
Trust-related	0.2	0.0
Financial instrument intermediary services	0.5	0.2
Investment trusts	0.5	-0.2
Insurance products	0.9	-0.4
Cashless	0.1	0.0
Personal loan-related	-2.2	0.0
Domestic exchange, etc.	5.7	0.3
Other income	**7.4**	**-0.4**

*1 Other income = Net fees and commission income + segregated trading income + other business income - gains/losses related to government bonds and other bonds

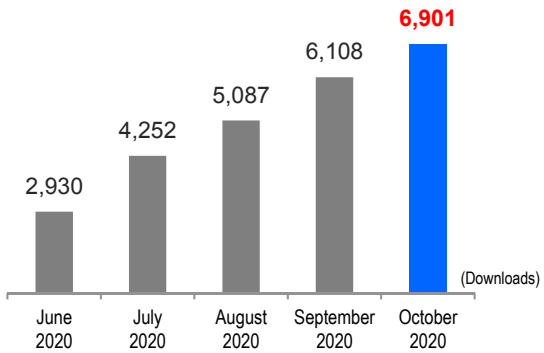
Progress of financial instruments intermediary business



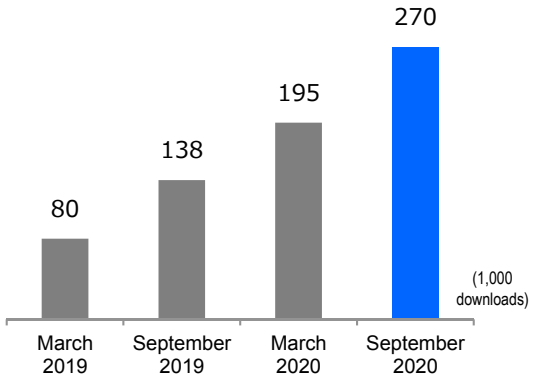
Applications for cashless services

◆COi Pay*2 cumulative downloads

(since service launched in June 2020)



◆Hirogin app cumulative downloads



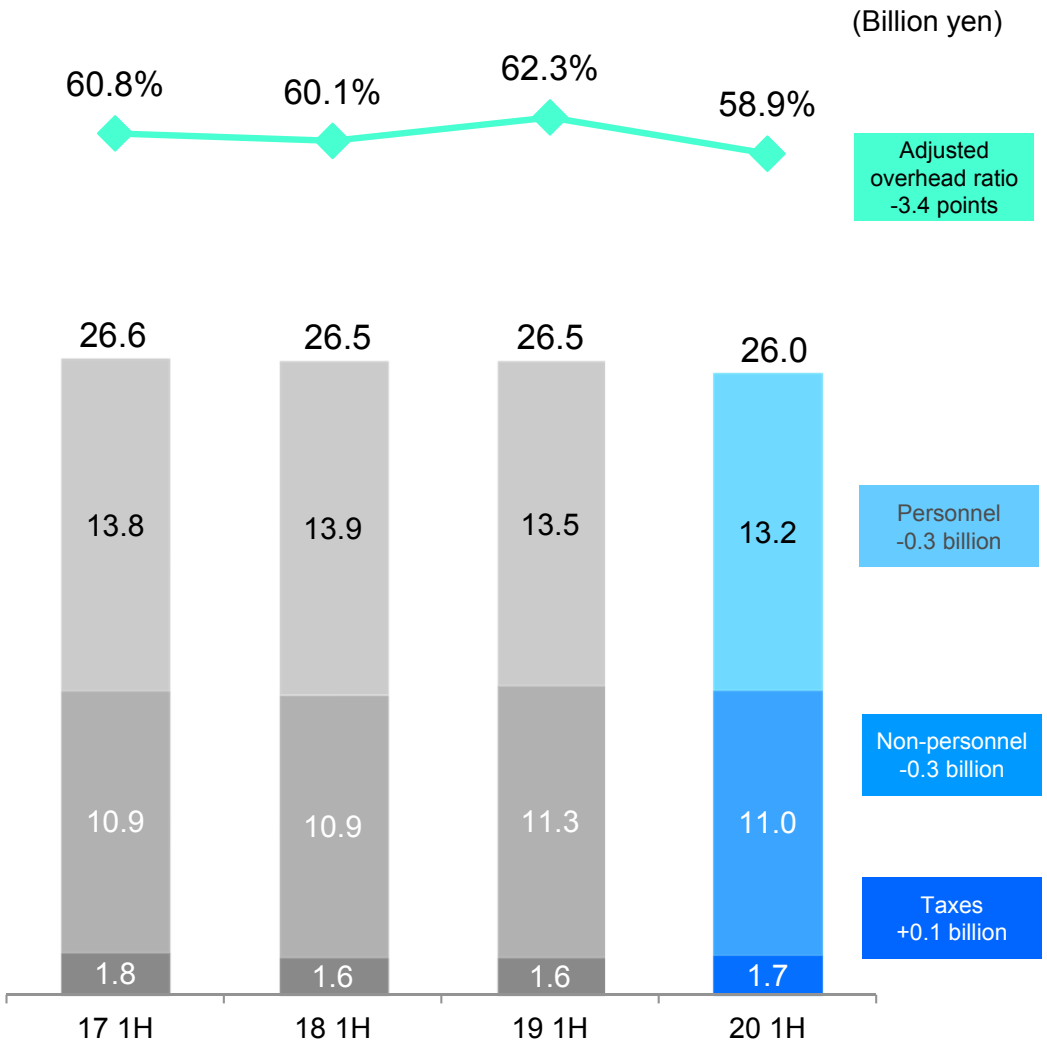
*2 Hiroshima Bank's proprietary smartphone payment service based on the Ginko Pay infrastructure system

Expenses

Bank

- **Expenses declined by 500 million yen year-on-year as a result of efforts to reduce non-personnel and personnel expenses**
- **The adjusted overhead ratio improved by 3.4 points year-on-year to 58.9%**

Trends in expenses and adjusted overhead ratio



*Adjusted overhead ratio = Expenses/gross income from core businesses

Breakdown of expenses

(Billion yen)

Personnel expenses

Major factors	YoY change
Retirement benefit expenses -0.1 Bonus -0.1 Overtime pay due to workstyle reform -0.1 etc.	-0.3

Non-personnel expenses

Major factors	YoY change
Travel, entertainment, etc. -0.2	-0.3

Taxes

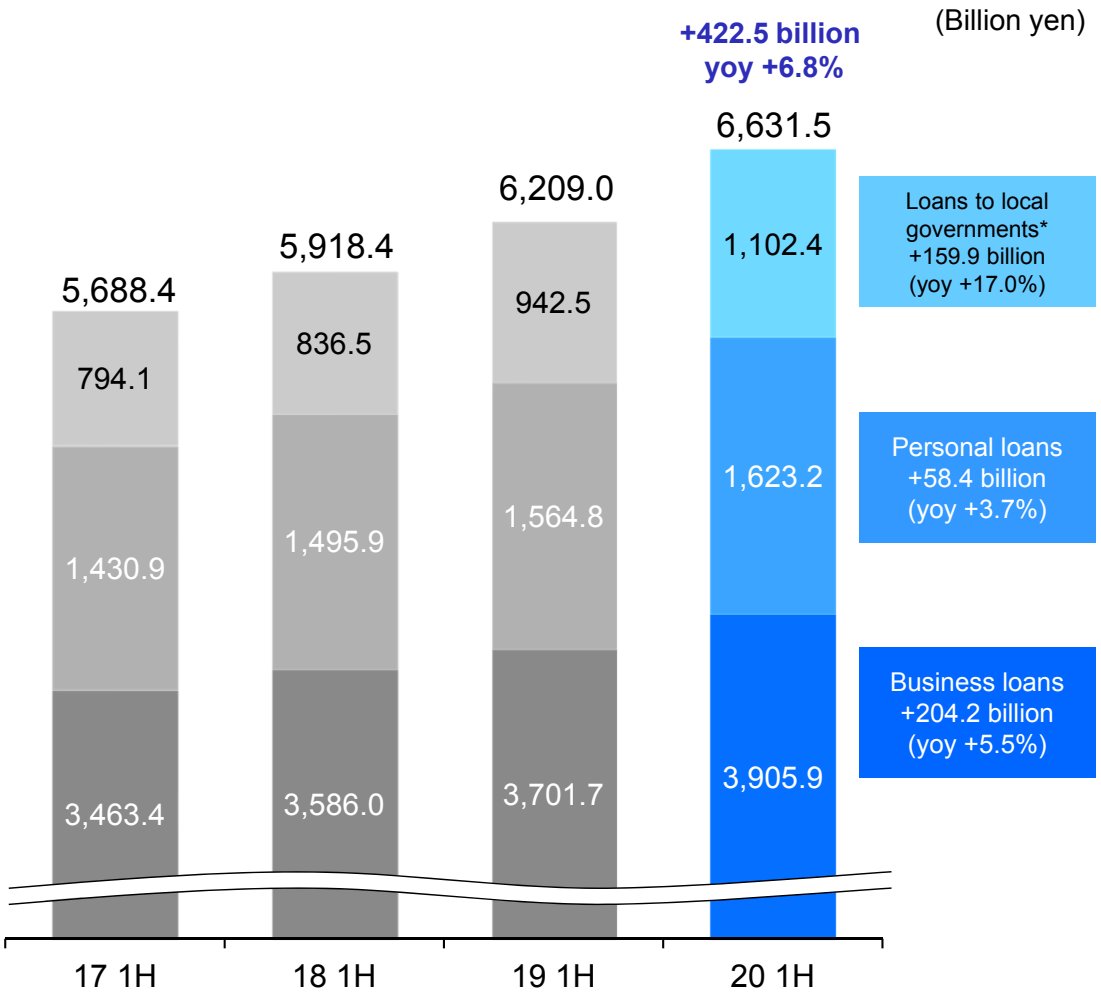
Major factors	YoY change
Consumption tax +0.1 etc.	+0.1

Balance of loans, deposits, etc. (deposits + NCD)

Bank

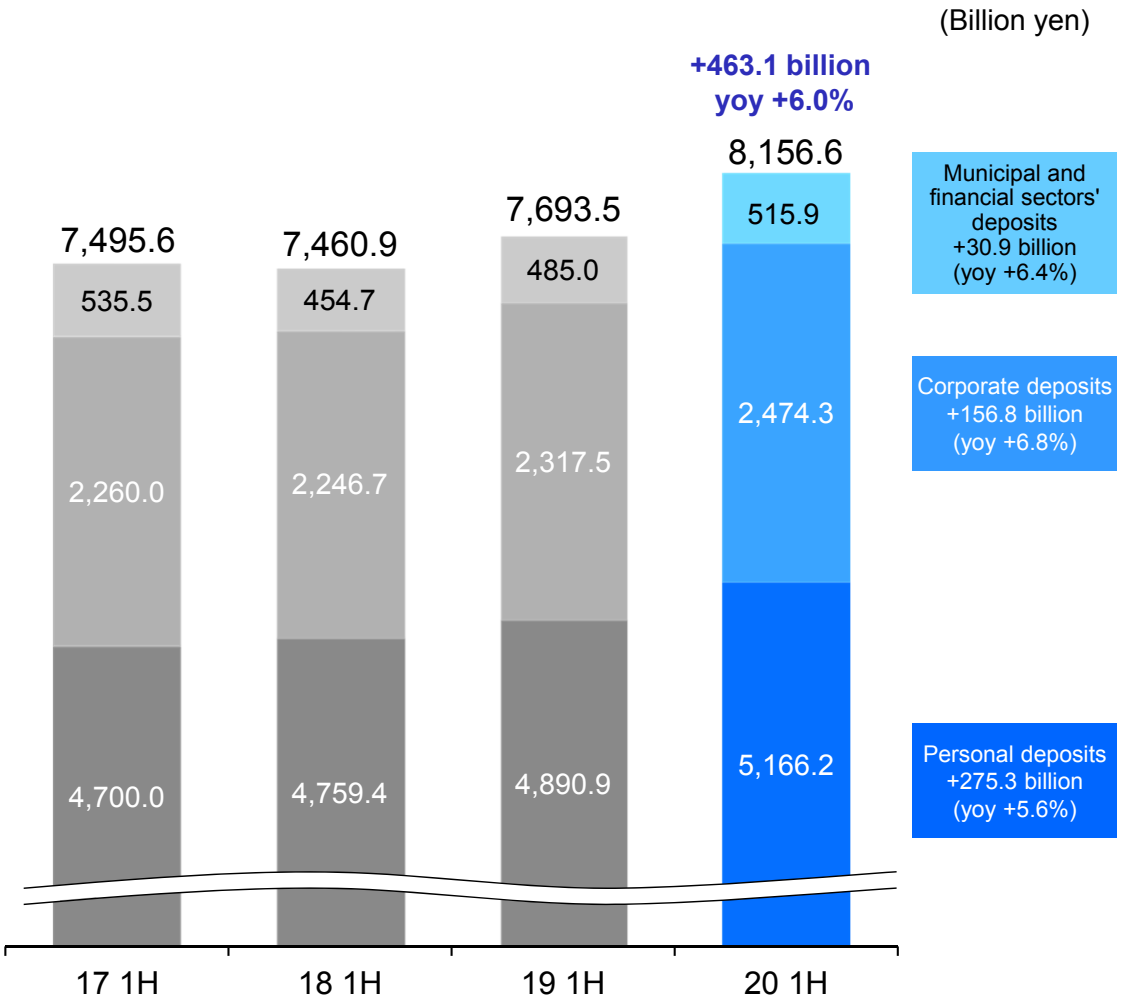
- **The average balance of loans increased in business, personal, and municipal sectors by 422.5 billion yen (+6.8% YoY).**
- **The average balance of deposit assets increased in the personal, corporate, and municipal and financial sectors by 463.1 billion yen (+6.0% YoY).**

Trends in the average balance of loans



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

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



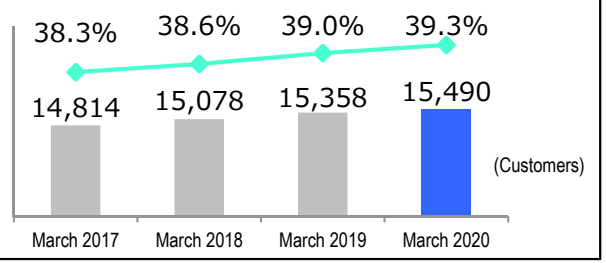
Loans to SMEs and personal loans

Bank

- **The average balance of loans to SMEs grew 148.5 billion yen (YoY +5.8%) due to proactive provision of funding support amid the protracted impact of COVID-19.**
- **Due to efforts to increase personal loans led by the headquarters, centered on the personal loan center, personal loans increased by 58.4 billion yen (YoY +3.7%).**
- **In the apartment loan sector, we assumed loans judged to have sufficient stress tolerance based on a recognition of these loans as effective inheritance tax shelters or reliable property investments.**

Trends in the average balance of business loans

◆ Trends in the number of companies for whom we are the primary bank and our prefectural share (Hiroshima Prefecture)

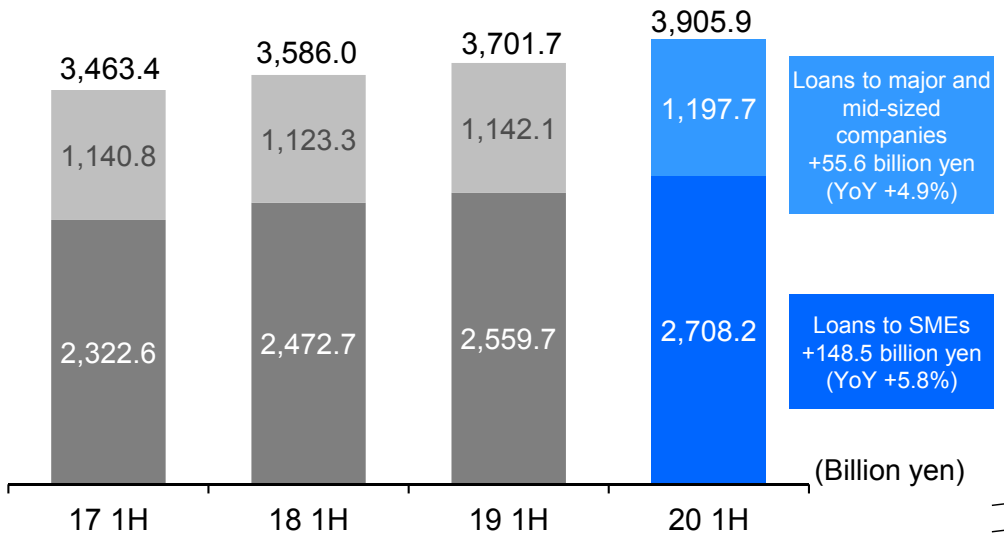


Source: Tokyo Shoko Research

Yield on lending (stock rate)

	FY2020 1H
Major companies	0.34%
Mid-sized companies	0.54%
SMEs	1.03%
Total	0.97%

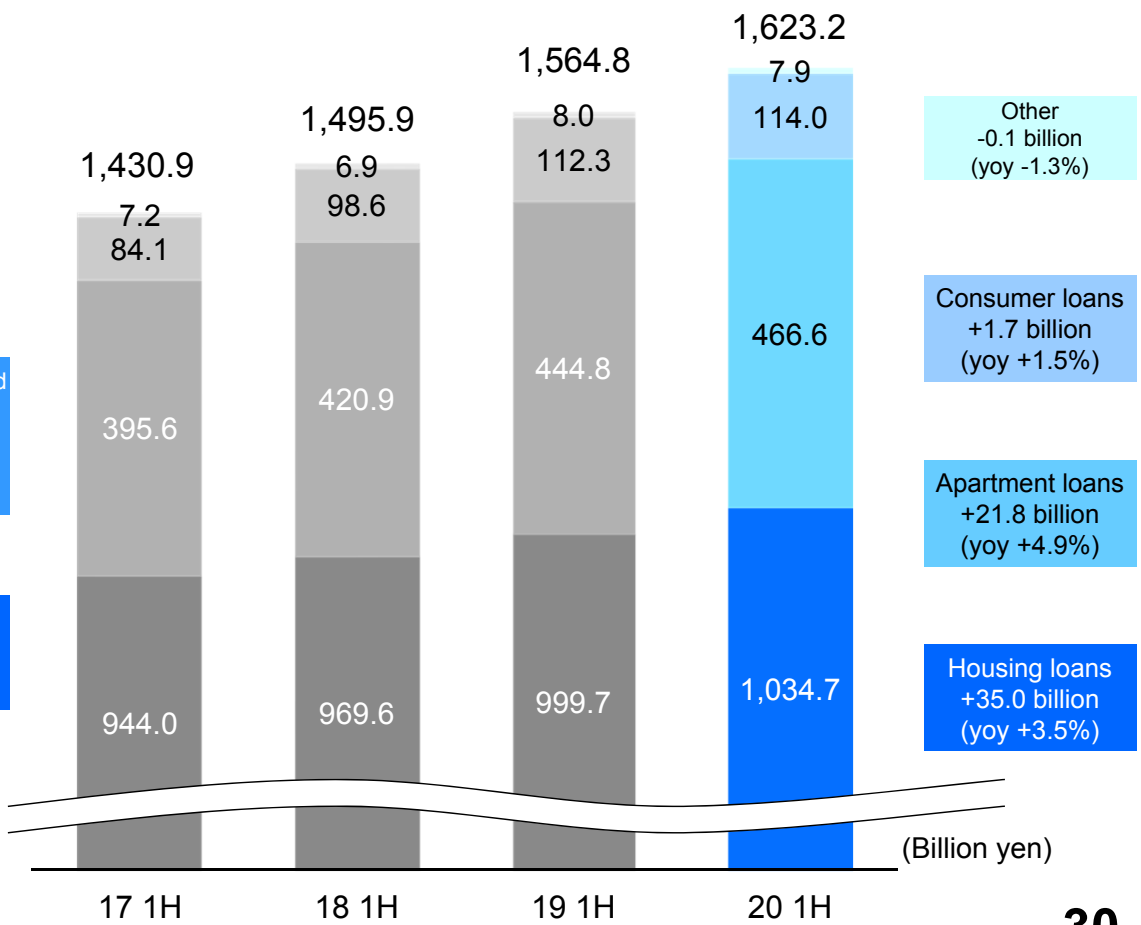
+204.2 billion yen
yoy +5.5%



Ratio of loans to SMEs in business loans	67.1%	69.0%	69.1%	69.3%

Trends in the average balance of personal loans

+58.4 billion
yoy +3.7%

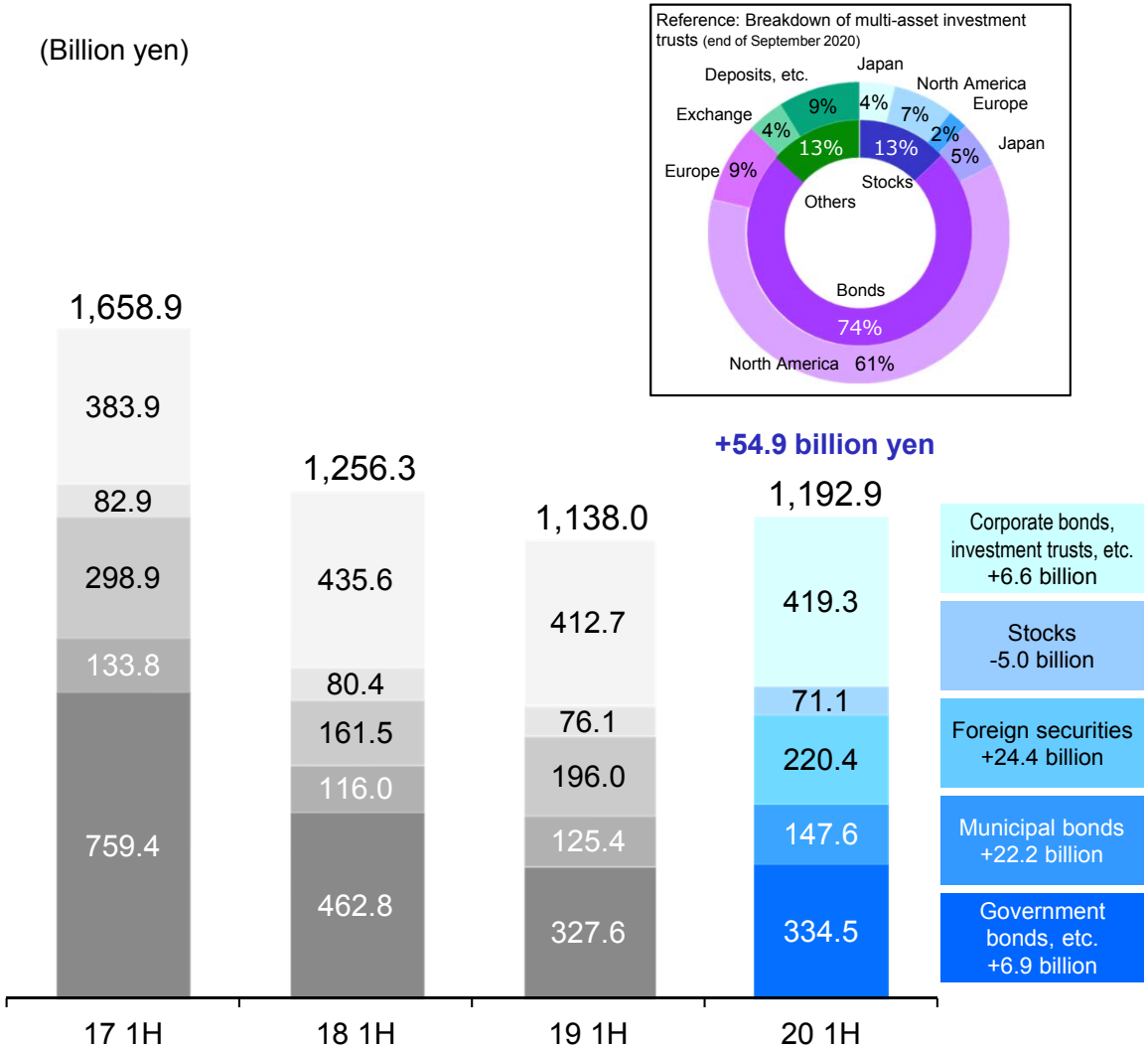


Securities

Bank

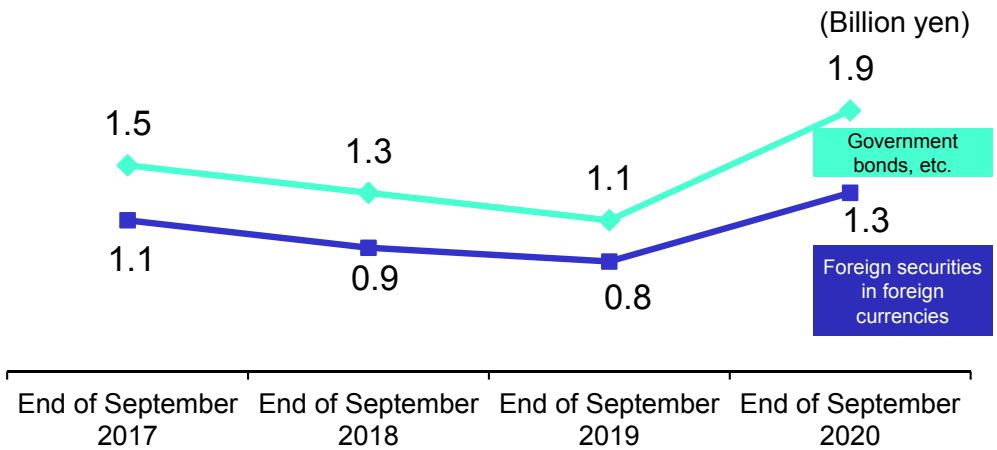
- **The average balance of securities grew 54.9 billion yen on a year-on-year basis due mainly to further acquisitions of foreign securities and municipal bonds.**
- **The balance of cross-shareholdings was reduced by 4.2 billion yen on a year-on-year basis through dialogue with issuing entities.**

Trends in the average balance of securities

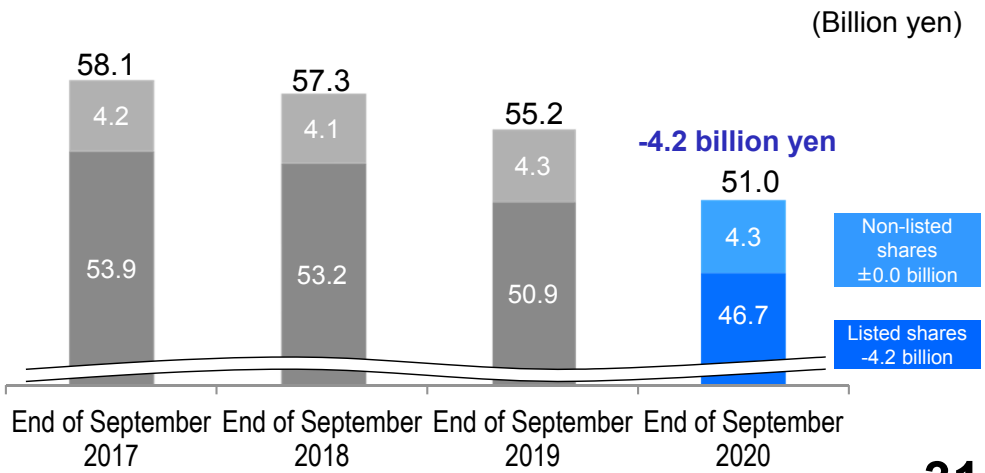


Trends in the interest rate delta

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



Trends in the term-end balance of cross-shareholding

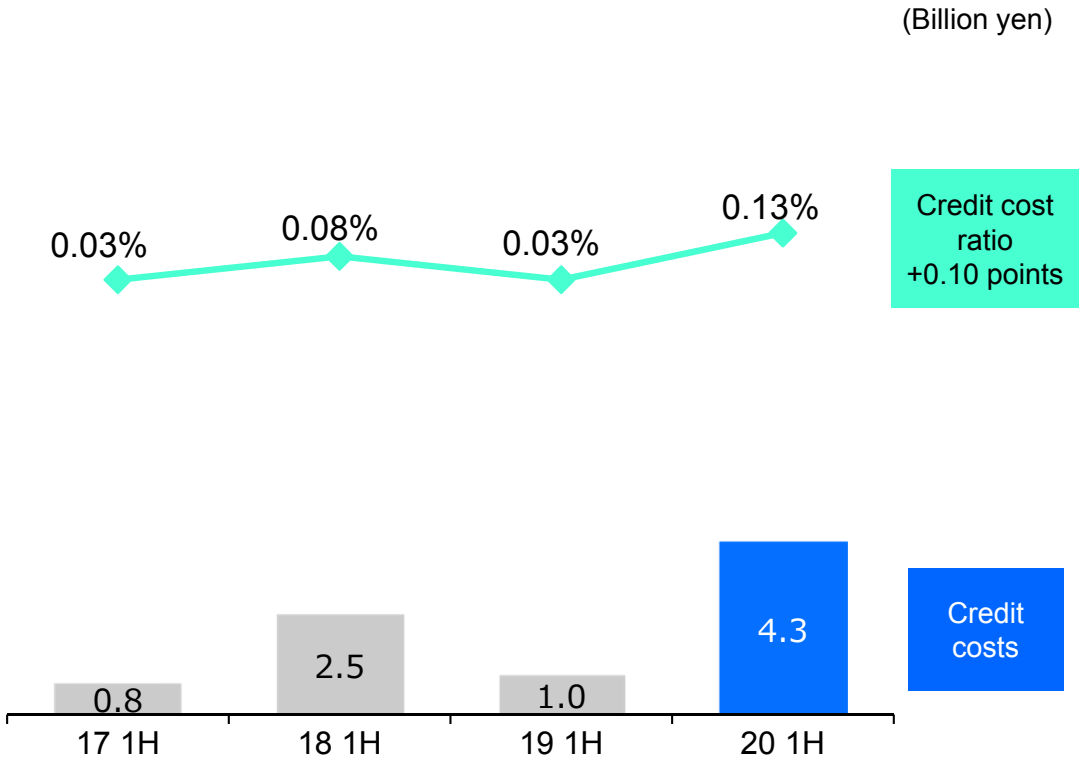


Credit costs and non-performing loans

Bank

- **In response to deteriorating business conditions facing customers due to coronavirus (COVID-19), credit costs grew 3.3 billion yen year-on-year, due mainly to an increase in additions to the reserve for possible loan losses and an increase in the disposal of nonperforming loans.**
- **The NPL ratio grew 0.12 points due to a year-on-year rise of 10.9 billion yen in claims disclosed under the Financial Reconstruction Act.**

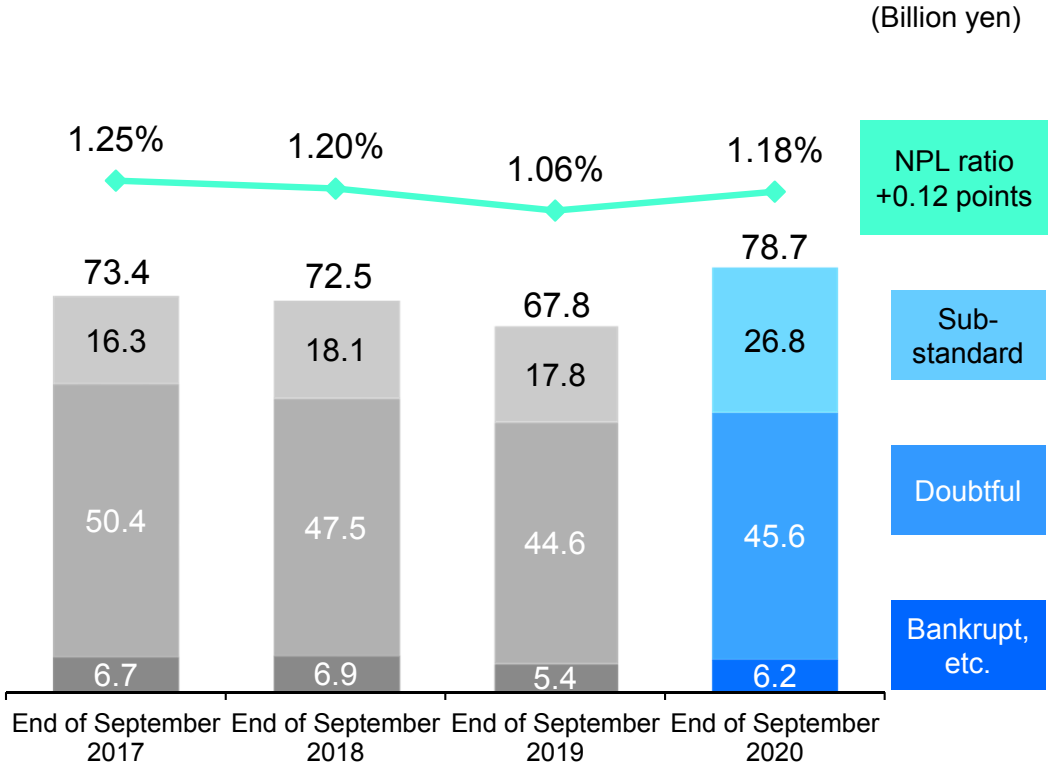
Trends in credit costs



(Billion yen)

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Credit costs	23.2	14.6	11.9	9.1	8.3	1.9	2.5	1.7	2.7	0.2	3.1	4.2
Credit cost ratio	0.53%	0.33%	0.27%	0.20%	0.18%	0.04%	0.05%	0.03%	0.05%	0.00%	0.05%	0.07%

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



(Billion yen)

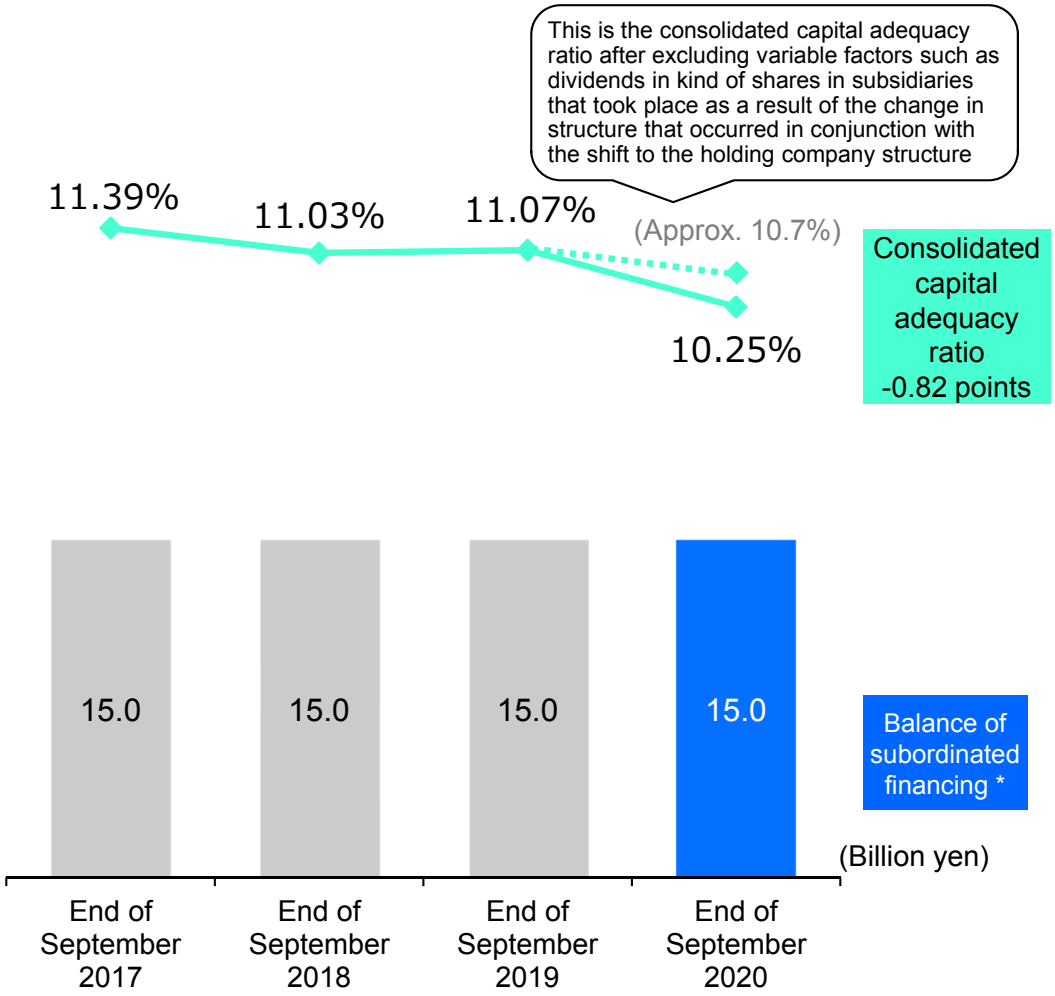
	End of March 2009	End of March 2010	End of March 2011	End of March 2012	End of March 2013	End of March 2014	End of March 2015	End of March 2016	End of March 2017	End of March 2018	End of March 2019	End of March 2020
NPLs	128.4	111.9	115.8	105.2	112.2	92.8	97.7	73.5	72.6	71.4	70.1	69.8
NPL ratio	2.82%	2.50%	2.60%	2.31%	2.37%	1.90%	1.88%	1.37%	1.28%	1.20%	1.15%	1.06%

Consolidated capital adequacy ratio and consolidated ROE

Bank

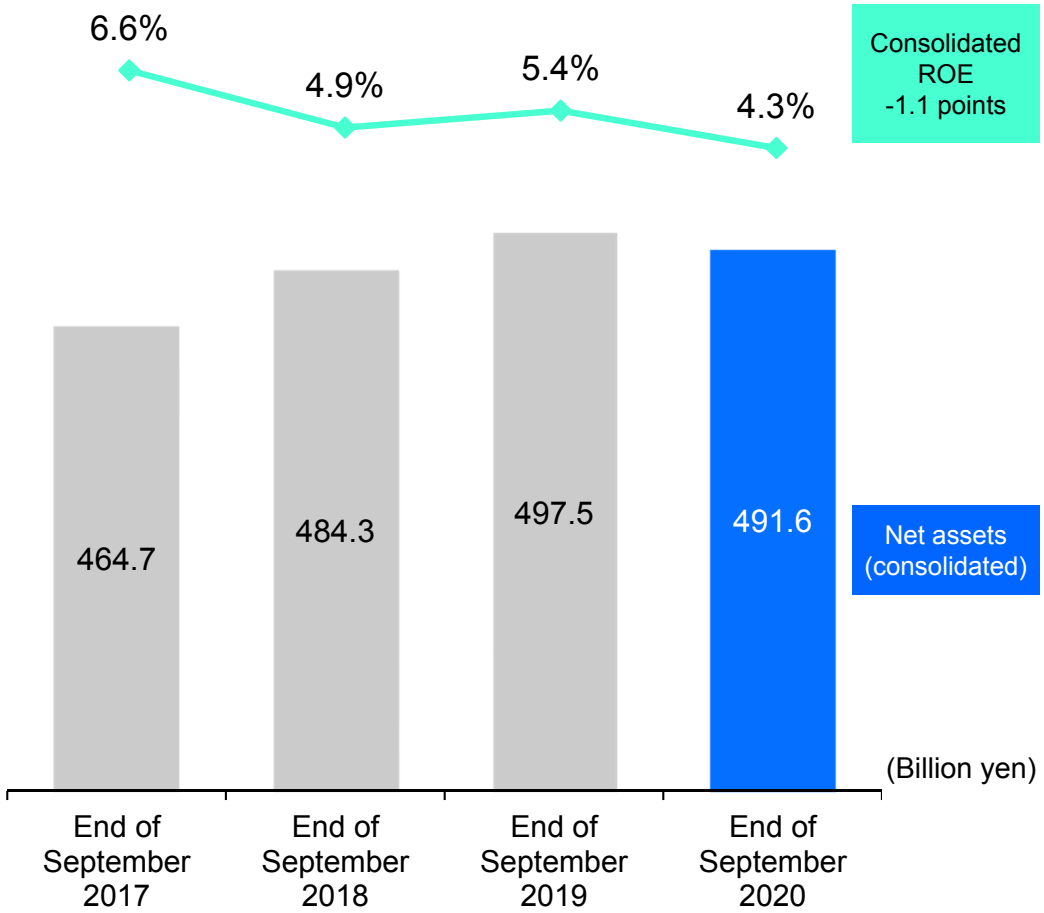
- **The consolidated capital adequacy ratio remained acceptable at 10.25%.**
- **Consolidated ROE dipped by 1.1 points year on year to 4.3%.**

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



*Redemption date: December 2021

Trend in consolidated ROE



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

Group companies

Bank

◆ **The total interim net income for Group companies excluding the Bank grew 247 million yen year-on-year to 1,389 million yen.**

(million yen)

	Company name	Date of establishment	Ordinary profit		Interim net income	
			FY2020 1H	YoY change	FY2020 1H	YoY change
Subsidiaries/affiliates of holding company	Hirogin Securities, Co., Ltd.	July 25, 2007	441	172	293	133
	Shimanami Servicer, Co., Ltd.	June 1, 2001	19	-79	12	-56
	Hirogin Capital Partners, Co., Ltd.	April 1, 2020	-13	—	-10	—
	Hirogin Lease, Co., Ltd.*	October 17, 1980	710	168	490	118
Bank subsidiaries	Hirogin REIT Management, Co., Ltd.	August 3, 2017	19	1	13	0
	Hirogin Card Service, Co., Ltd.	April 20, 1987	243	37	161	28
	Hirogin Guarantee, Co., Ltd.	June 12, 1978	643	49	423	34
	Hirogin Business Service, Co., Ltd.	August 24, 1989	7	-1	4	-1
	Group company total		**2,070**	**332**	**1,389**	**247**

* Interim net income for Hirogin Lease only

Reference for this material

This material contains statements about future business performance.
These statements do not guarantee future business performance and are subject to uncertainties.
Please note that actual future business performance may differ from our goals, depending on changes in the business environment and other factors.

Management Planning Group, Hirogin Holdings, Inc.

Tel.: 082-245-5151
URL: https://www.hirogin-hd.co.jp/