

**Financial results for FY2012**

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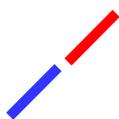
**- IR presentation -**

**The Hiroshima Bank , Ltd.**



**June 6 , 2013**

**President Koji Ikeda**



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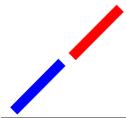
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## 1 . Summary of financial results

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# (1) Financial highlights of FY2012

- Core gross banking profit **increased by 4.2% (annualized) or JPY1.6bn** over the previous year to **JPY38.9bn** due to cost reduction initiatives.
- Net income **grew for four successive years by 25.1% (annualized) or JPY3.3bn year on year** to **JPY16.7bn** due mainly to increase in revenues from securities and reduction in credit costs.

[Non-consolidated]

(JPY billion)

	FY2012	Change from FY2011	Difference from plan
Net interest income	76.0	-1.0	0.3
Net fees and commission	17.9	-0.2	-0.2
Core gross operating profit	93.9	-1.2 ( -1.3% )	0.1
(-) Expenses	55.0	-2.8	-1.4
Core banking profit	38.9	1.6 ( 4.2% )	1.5
Gains/Losses on securities	5.7	1.0	-0.1
Real banking profit	44.6	2.6 ( 6.3% )	1.4
Gains/Losses on stocks	-1.2	3.8	5.8
(-) Credit costs	8.3	-0.8	-0.1
<small>Incl. above</small> Provision of reserve for loss on investment	5.4	5.4	
Ordinary Profit	29.7	3.5 ( 13.2% )	2.4
Net income	16.7	3.3 ( 25.1% )	0.1

[consolidated]

Ordinary Profit	32.2	4.4 ( 15.9% )	3.5
Net income	17.4	3.5 ( 25.6% )	0.4

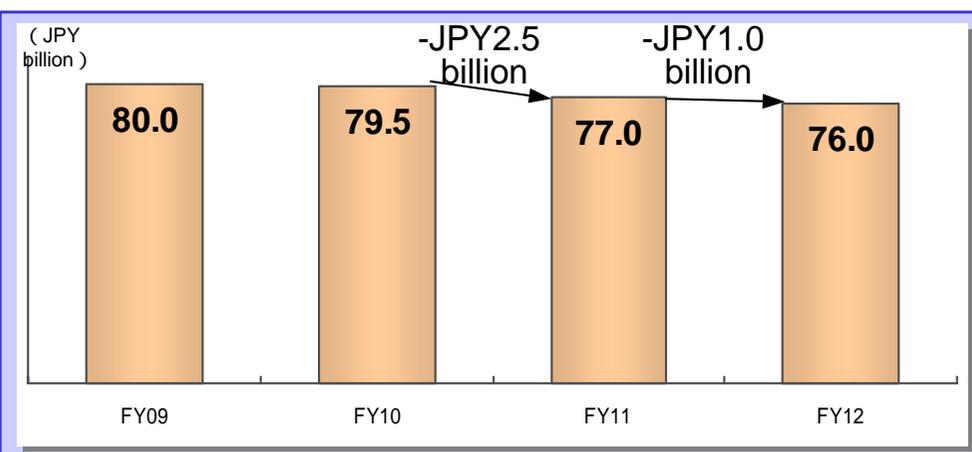
## (2) Net interest income

■ Although interest on loans declined by JPY2.3bn due to lower market interest rates, other favorable movements including increase in interest on securities by JPY0.9bn and fall of deposits + NCD interest by JPY1.1bn partly offset the net interest income contraction to **-JPY1bn yoy**.

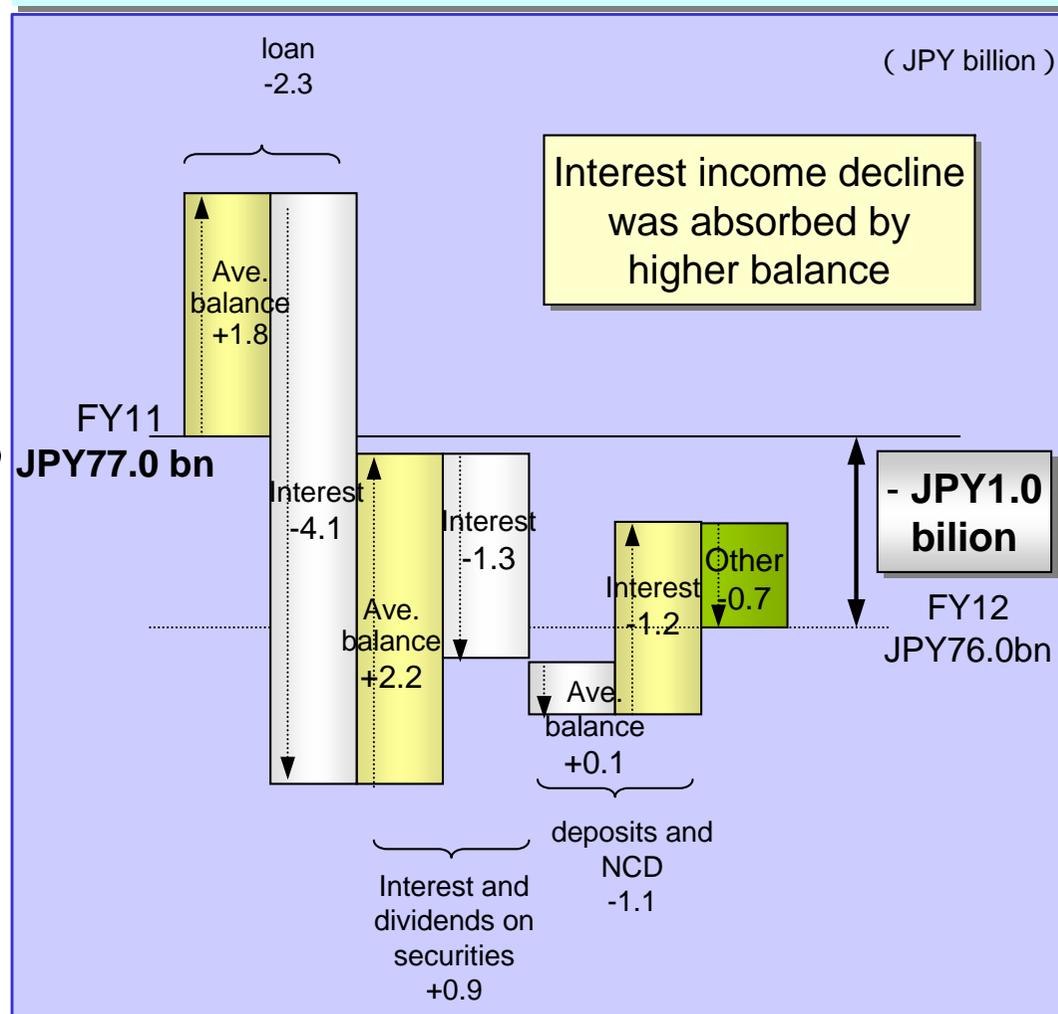
### Breakdown of net interest income

	FY2012 (JPY billion)	
	FY2012	yoy change
Interest on loans	68.2	-2.3
Interest on securities	17.9	0.9
Deposits + NCD interest (-)	5.0	-1.1
Other interest expenses (-)	5.1	0.7
<b>Net interest income</b>	<b>76.0</b>	<b>-1.0</b>

### Net interest income



### Movements of key factors (average balance and interest) of net interest income



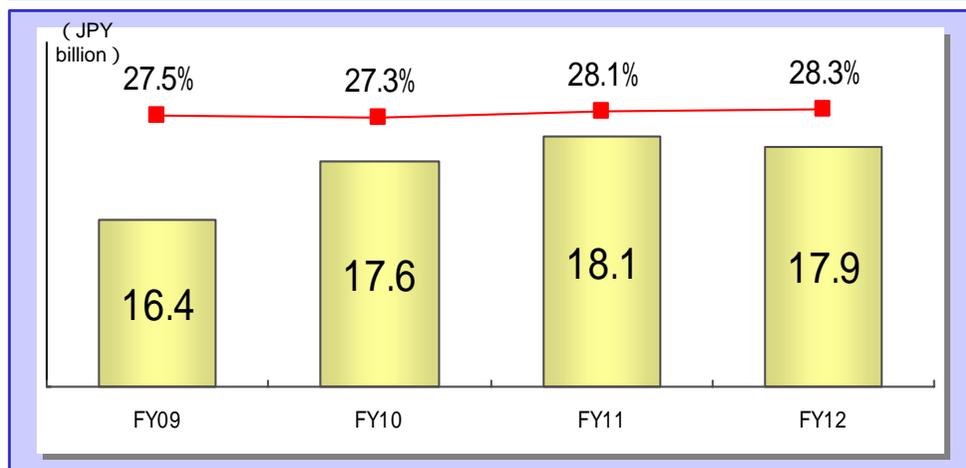
### (3) Net fees and commissions income

- Net fees and commissions income showed a slight decline of –JPY0.2bn.
- On the back of the recovery of market conditions, the transaction volume of the investment banking and sales of investment trust **made a steady improvement**.
- **The proportion of income from net fees and commissions was 28.3%; maintaining one of the highest levels among top regional banks was maintained.**

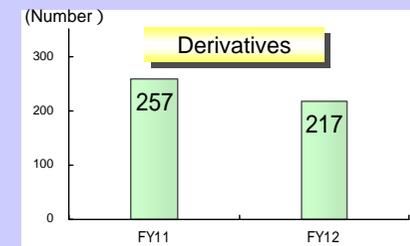
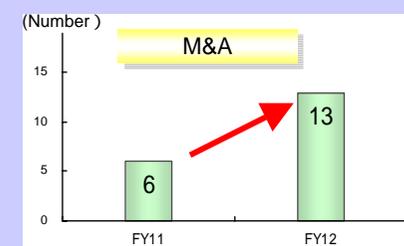
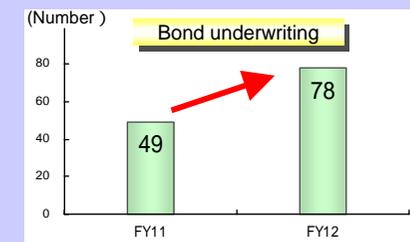
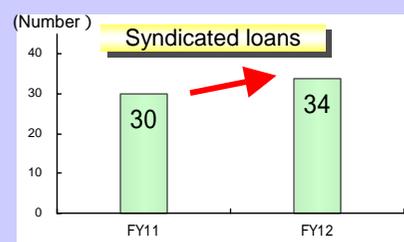
#### Breakdown of net fees and commissions income

	FY2012 (JPY billion)	
		yoy change
Investment banking	3.5	-0.2
Retail asset management	6.1	0.0
Other	8.3	0.0
<b>Net fees and commissions</b>	<b>17.9</b>	<b>-0.2</b>

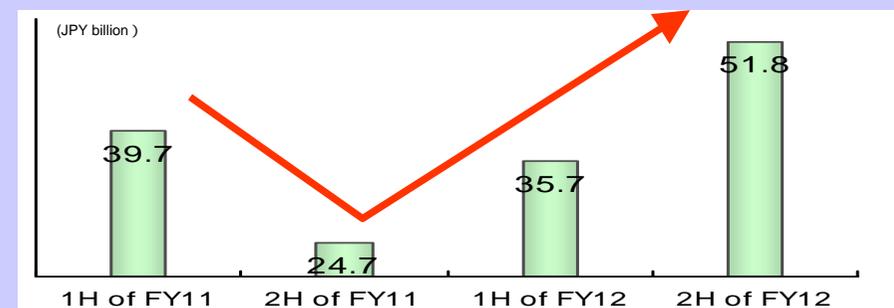
#### Movements of net fees and commissions income



#### Investment banking transaction volume



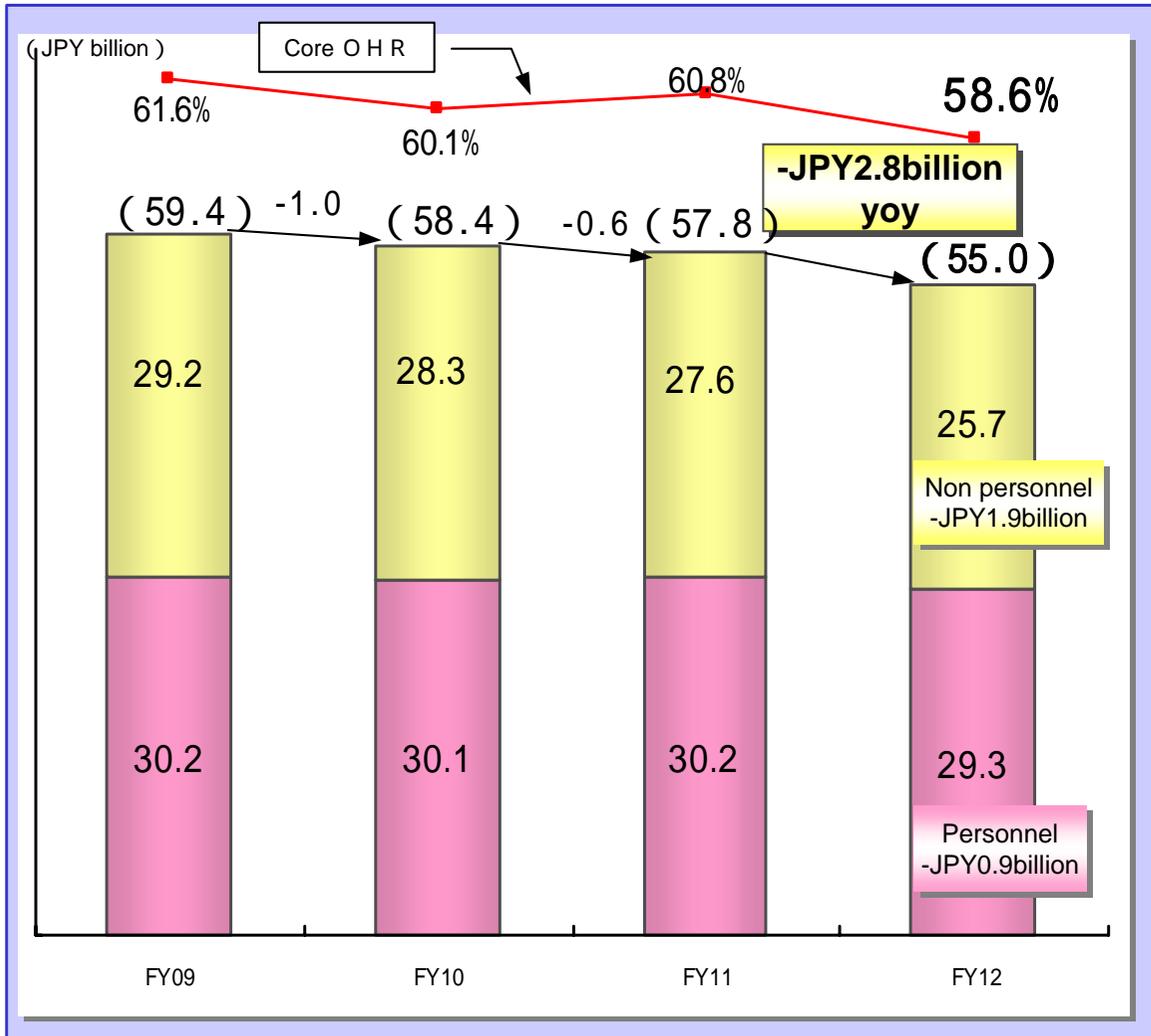
#### Investment trusts sold



# (4) Expenses

Our stepped-up cost reduction efforts shoed a further improvement of **JPY28bn yoy**, lowering the core OHR to below 60.0%.

## Expenses and Core OHR



Core OHR = Expenses/Core gross profit

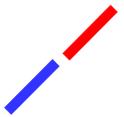
## Breakdown of expenses

(JPY billion)

Non-personnel cost	
Factors	Reduction
Impact of the refund from the Deposit Insurance Corp	-0.8
Review of outsourcing contracts for ATM	-0.4
Reduction in depreciation costs	-0.3
Review of existing cost structure	-0.2

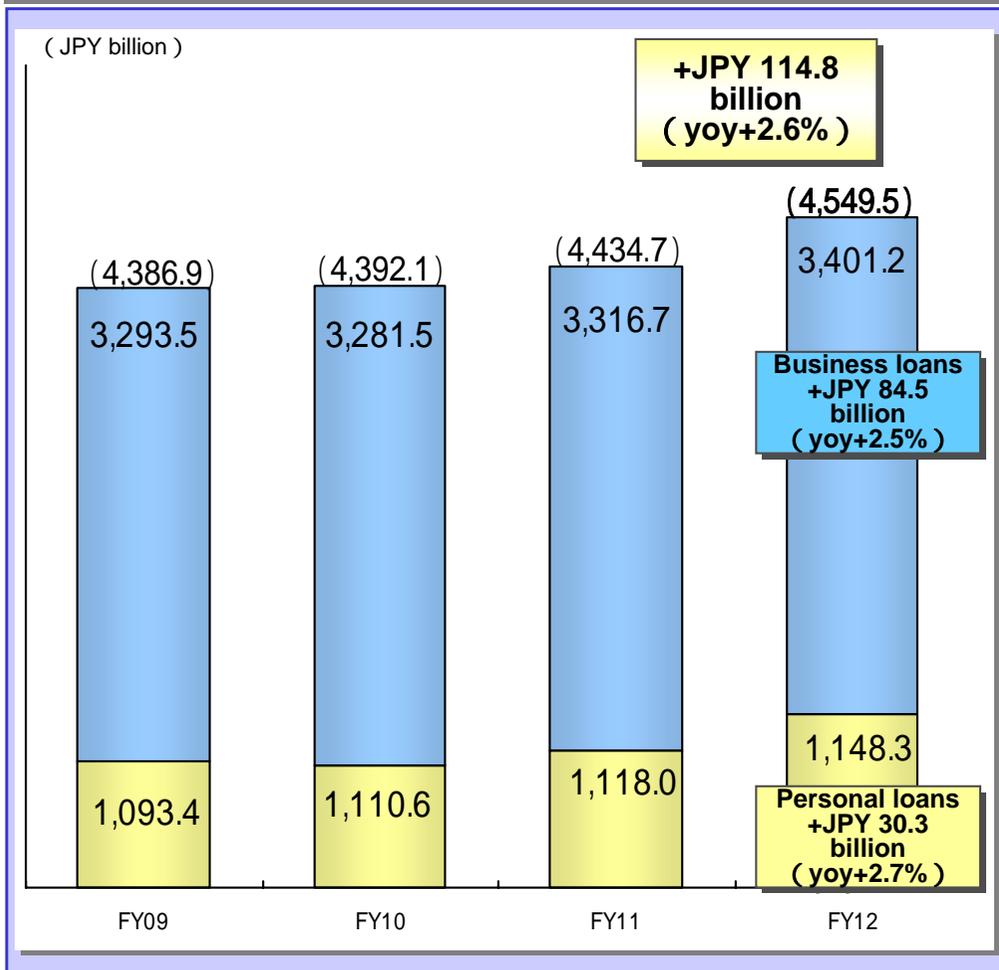
Personnel cost	
Factors	Reduction
Retirement benefit expenses	-0.4
Head count reduction	-0.4



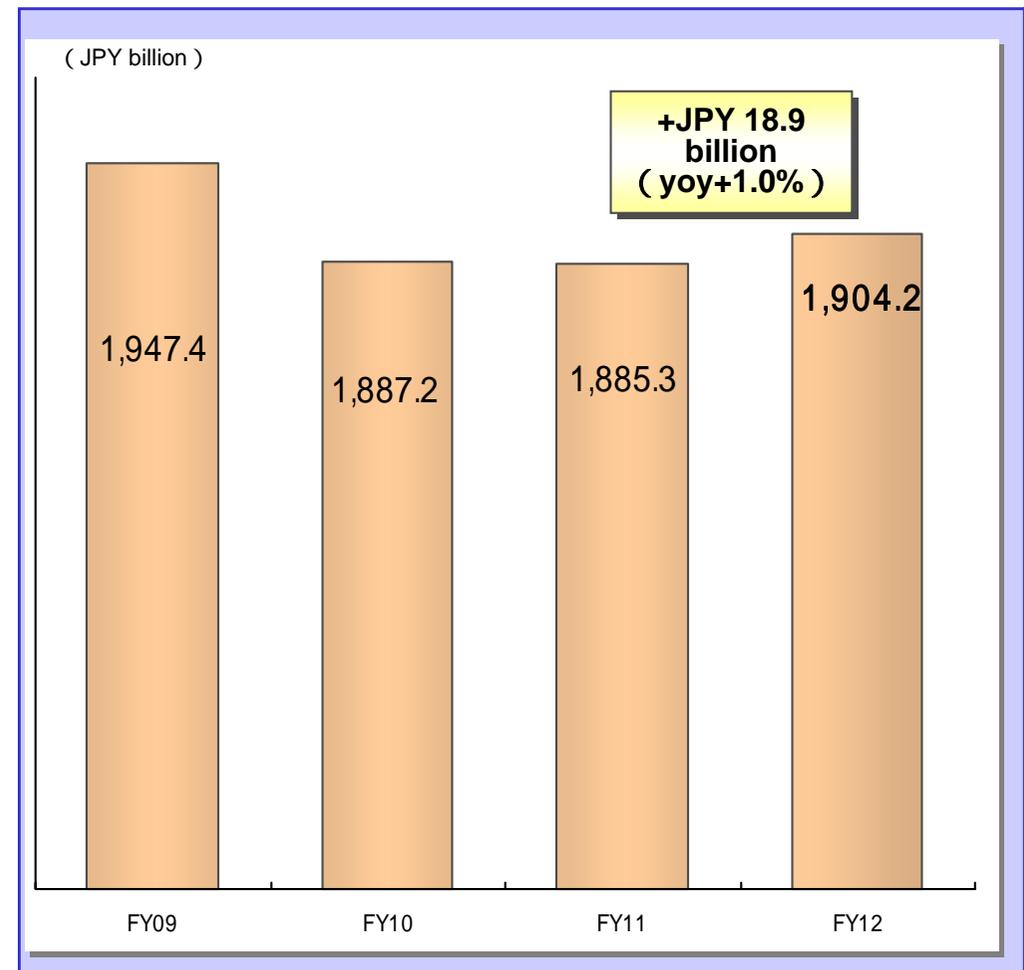
## (5) Loans

- Loan balance (average balance) grew **significantly for both Personal and Corporate customers with an increase of JPY 114.8 billion (+2.6%) from the previous year.**
- Establishment of the area-based operation model, loans to SMEs (average balance) increased by **JPY 18.9 billion (+1.0%) year-on-year.**

### Average balance of total loans



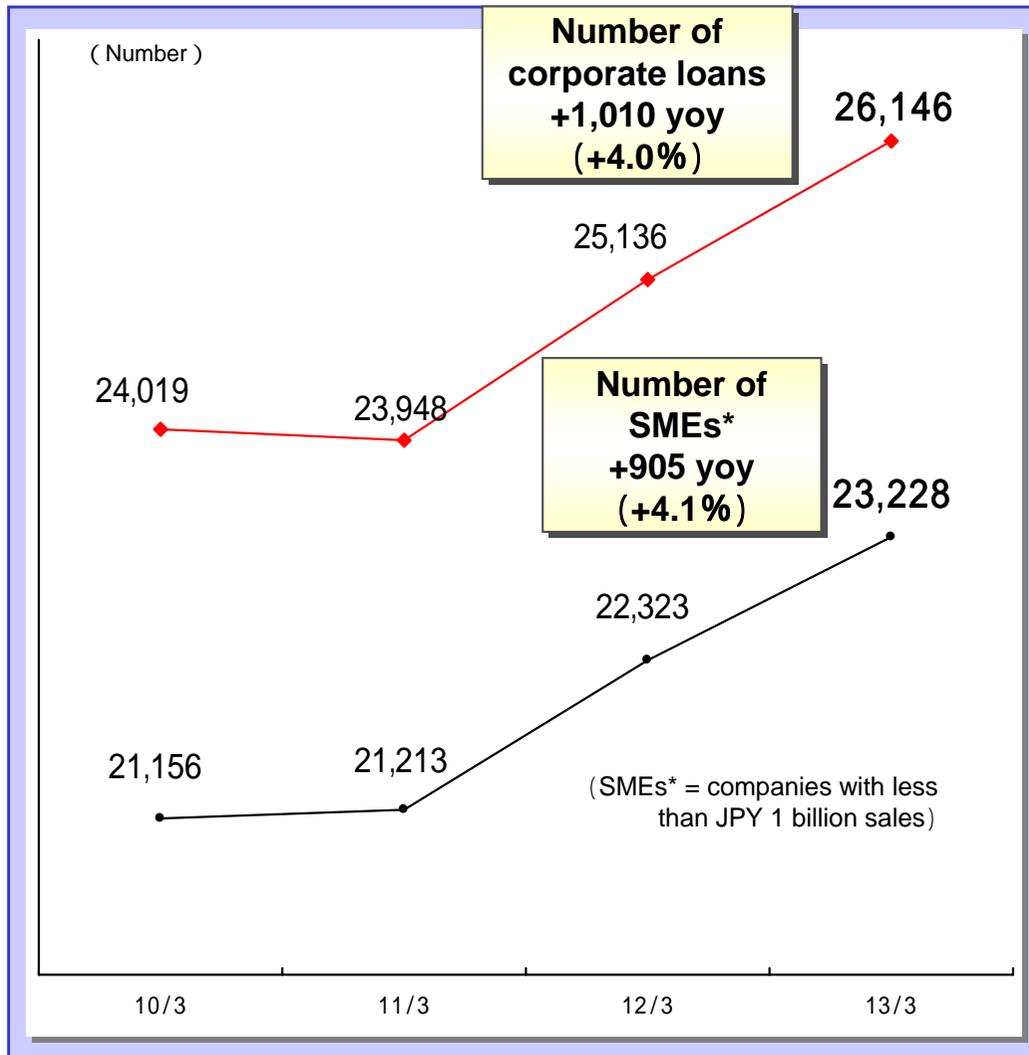
### Movements of loans to SMEs (average balance)



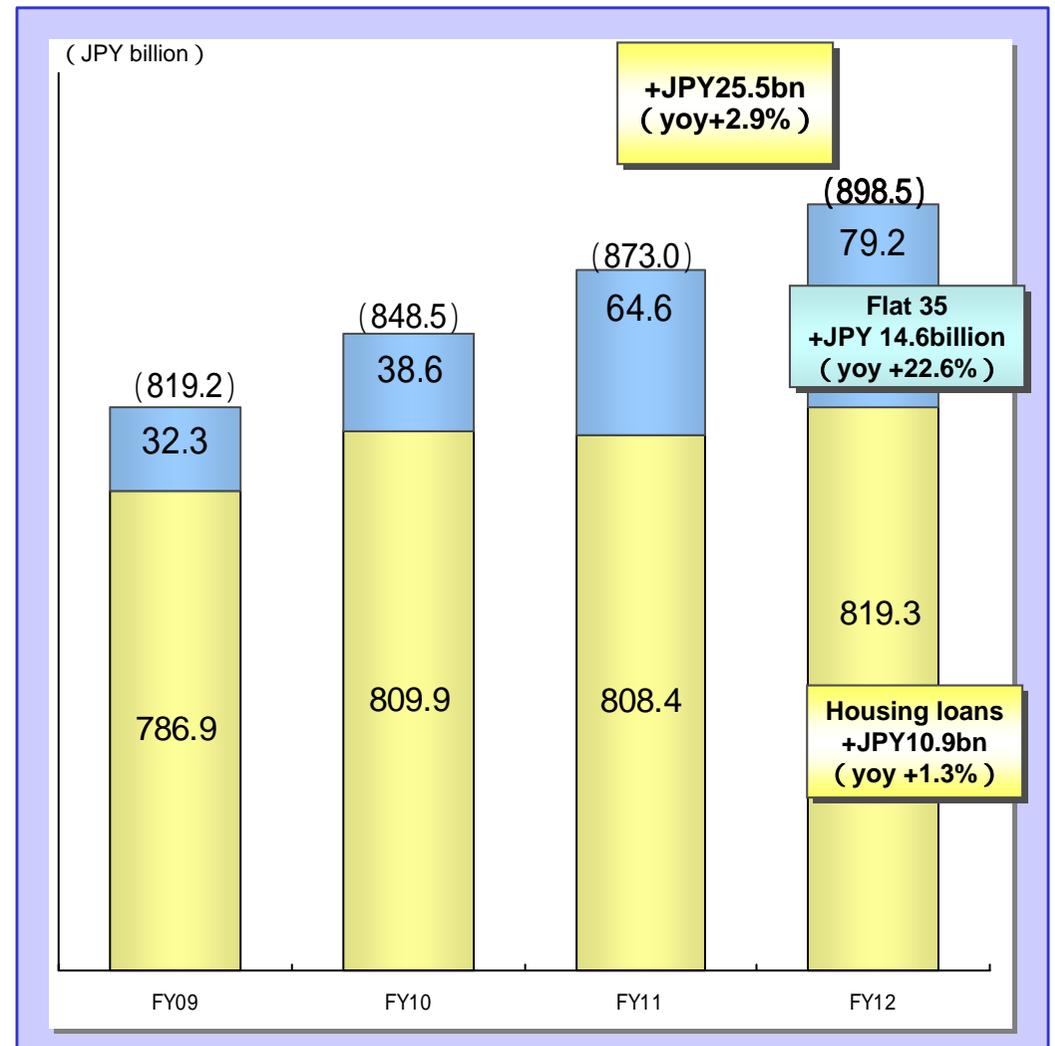
## (6) Loans

- The number of borrowers of business loans **steadily increased especially in the retail industry** due to active sales activities through the area-based operation models.
- As a result of solution propositions catered for customers' needs, **housing loan (average) balance including Flat 35 enjoyed healthy growth.**

### Number of corporate loan customers



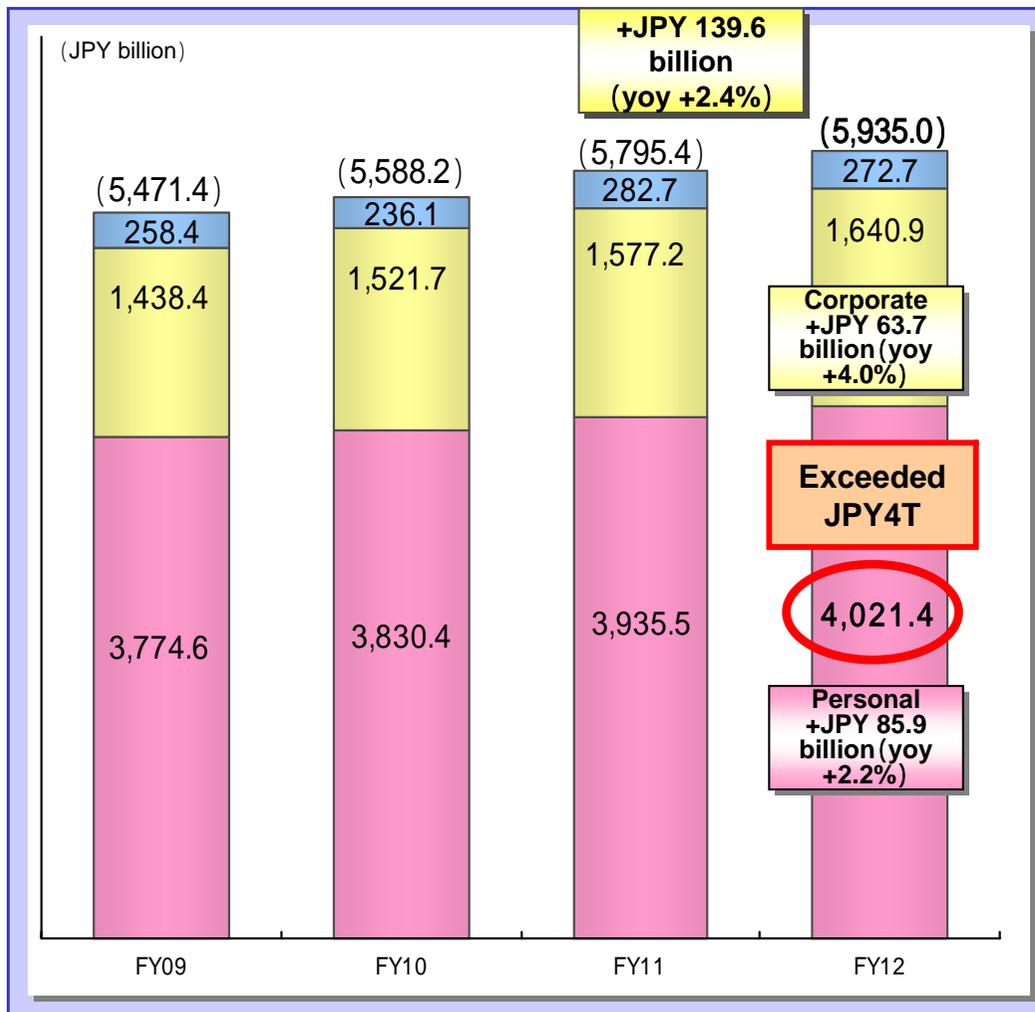
### Movements of housing loan balance (including Flat 35, average)



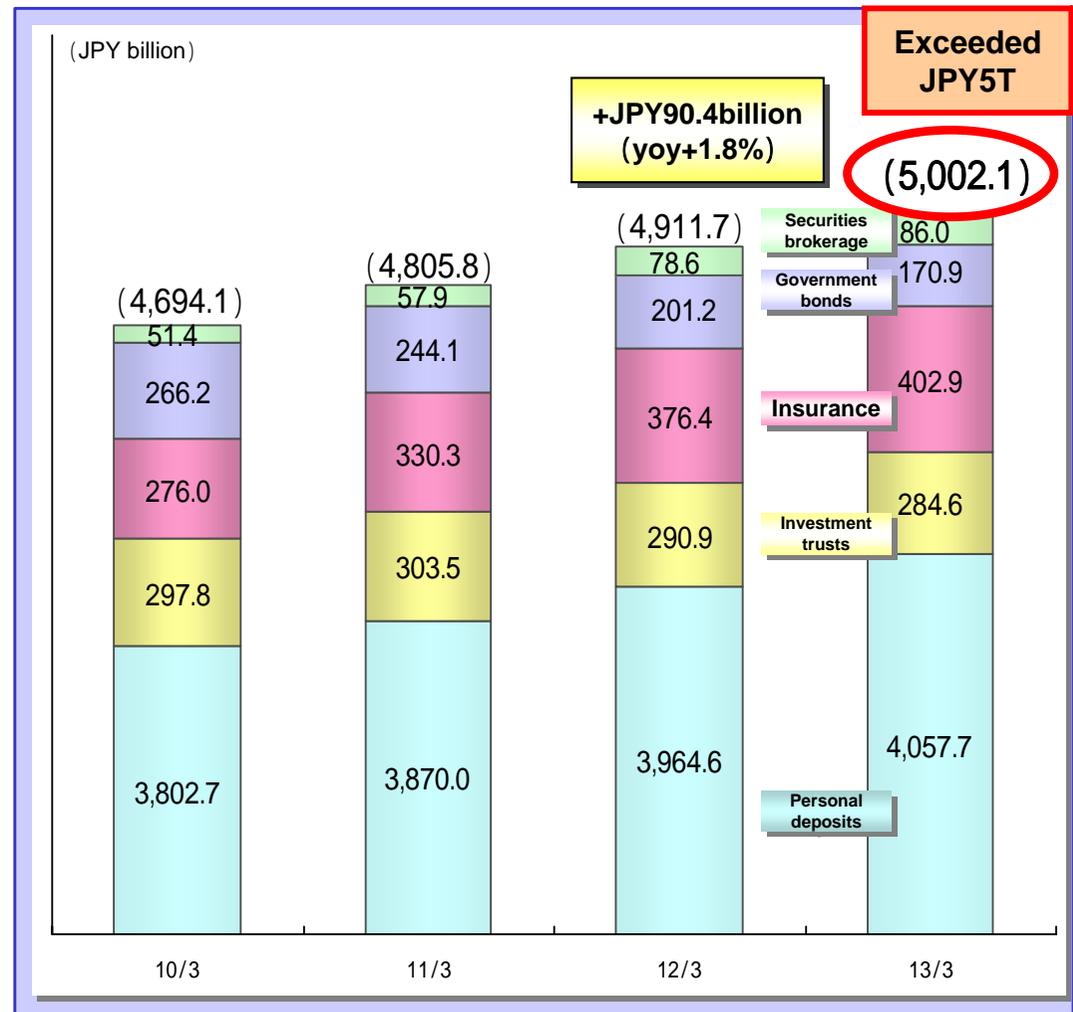
# (7) Deposits (Deposits + NCD)

- Establishment of area-based operations and enhanced OTC sales capabilities contributed to a significant increase in both personal and corporate deposits. With personal deposit balance reaching **JPY4trillion for the first time, the total deposit balance for the reporting period increased by JPY139.6bn yoy or 2.4% (annualized).**
- Personal AUM also **grew steadily by JPY90.4bn or 1.8% (annualized) from the previous year, exceeding JPY5trillion.**

Average balance of total deposits and NCD



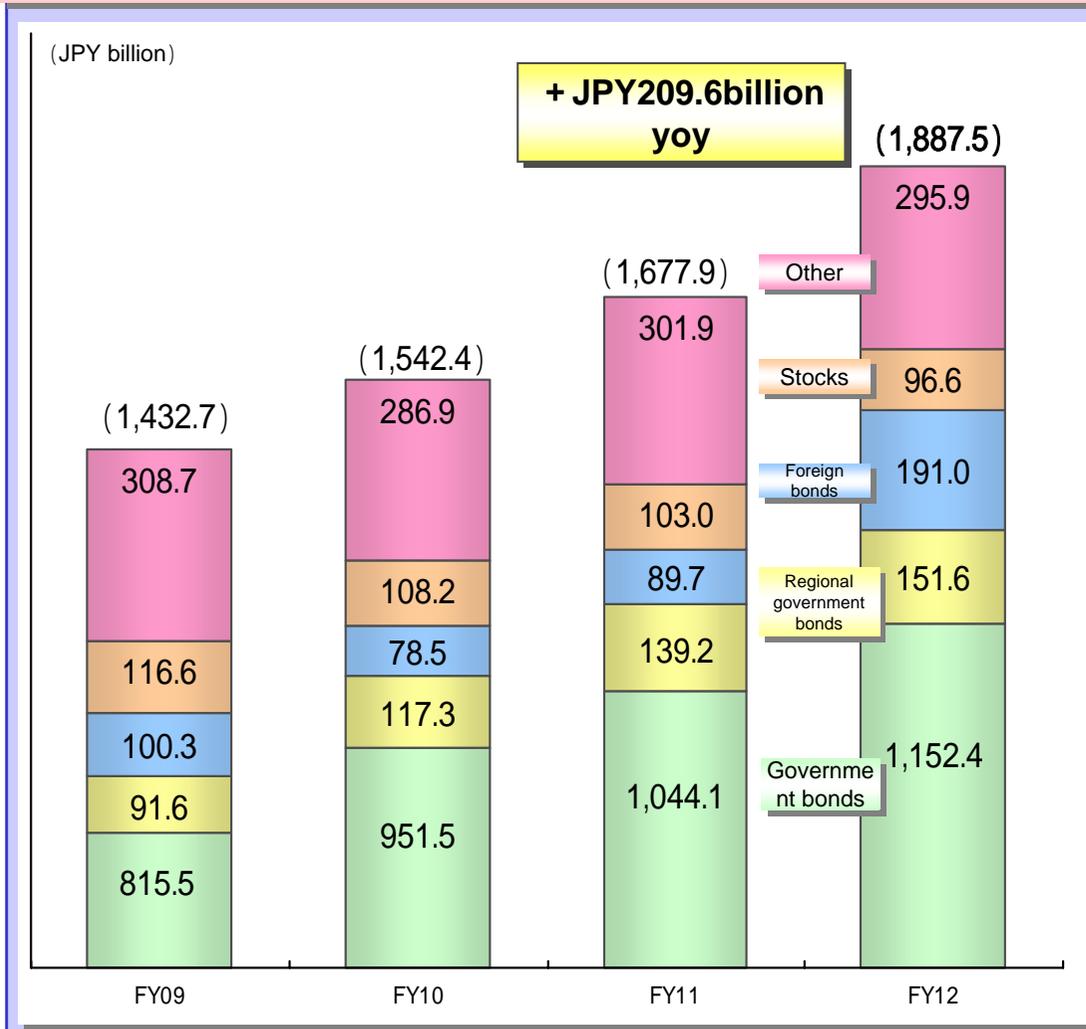
Movements of personal AUM (closing balance)



## (8) Securities

- Latent gain on securities **improved significantly by JPY37.9bn over the previous year** due to portfolio improvement initiatives and recovery in market conditions.
- Considering the interest rate risk, the bank shortened the duration of **yen-denominated bonds by 0.30 year from the previous year. The outlier ratio has been kept at a low level of 4.1%.**
- Gain/ loss on securities improved by **JPY4.8bn over the previous year to JPY4.5bn.**

### Movements of balance of securities (average)



### Latent gain on securities

	Mar '12	Mar '13	(JPY billion) yoy change
Stocks	1.9	12.6	10.7
Bonds	11.5	20.1	8.6
Other	-11.0	7.6	18.6
Total	2.4	40.3	37.9

### Status of key risk assets

	Mar '12	Mar '13	(JPY billion) yoy change
Securitized products	4.3	1.6	-2.7
Policy investment stocks	90.5	82.6	-7.9
Total	94.8	84.2	-10.6

### Interest risk metrics

	Mar '12	Mar '13	yoy change
Duration of domestic bonds	4.20years	3.90years	-0.30years
Outlier ratio	9.5%	4.1%	-5.4%

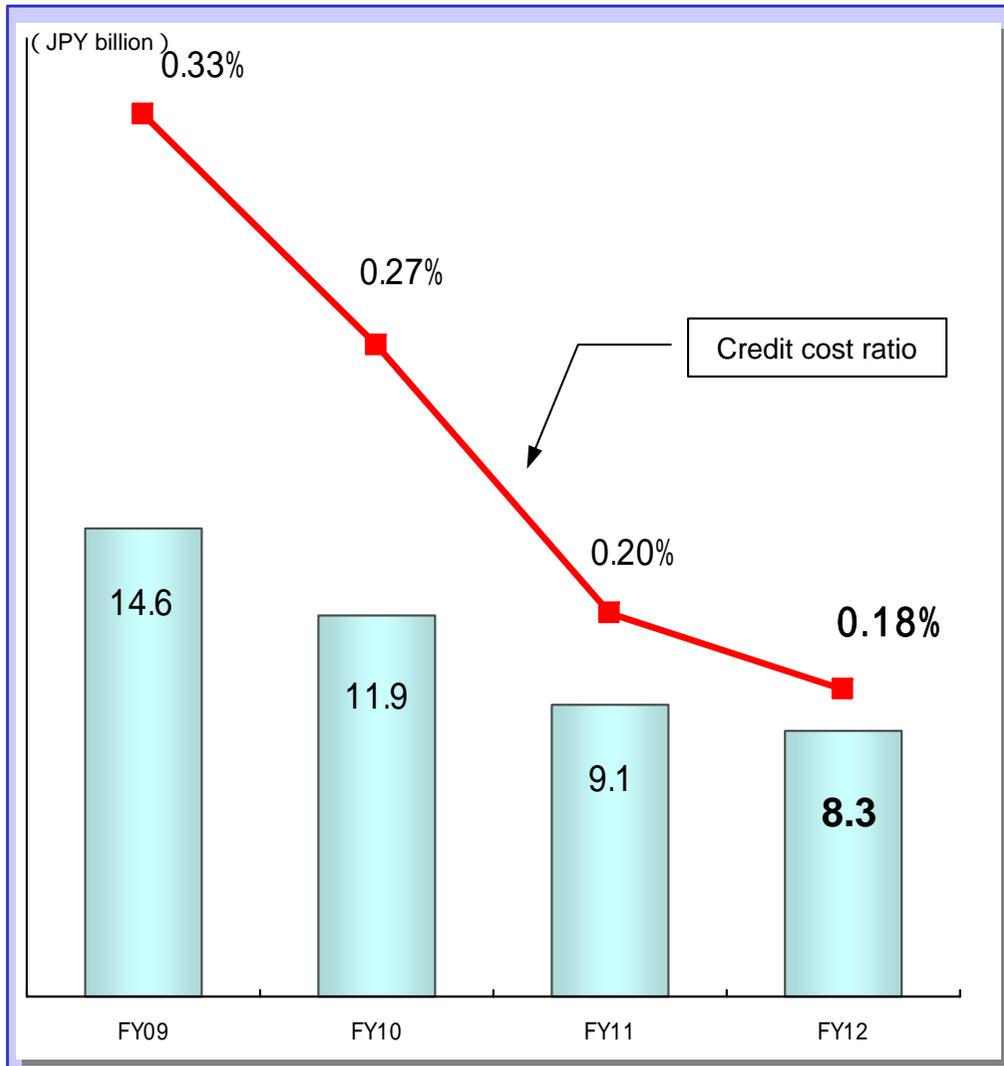
### Gains/losses from securities/stocks

	FY11	FY12	(JPY billion) yoy change
Gain/loss on bonds	4.7	5.7	1.0
Gain/loss on stocks	-5.0	-1.2	3.8
Gains/losses from securities/stocks	-0.3	4.5	4.8

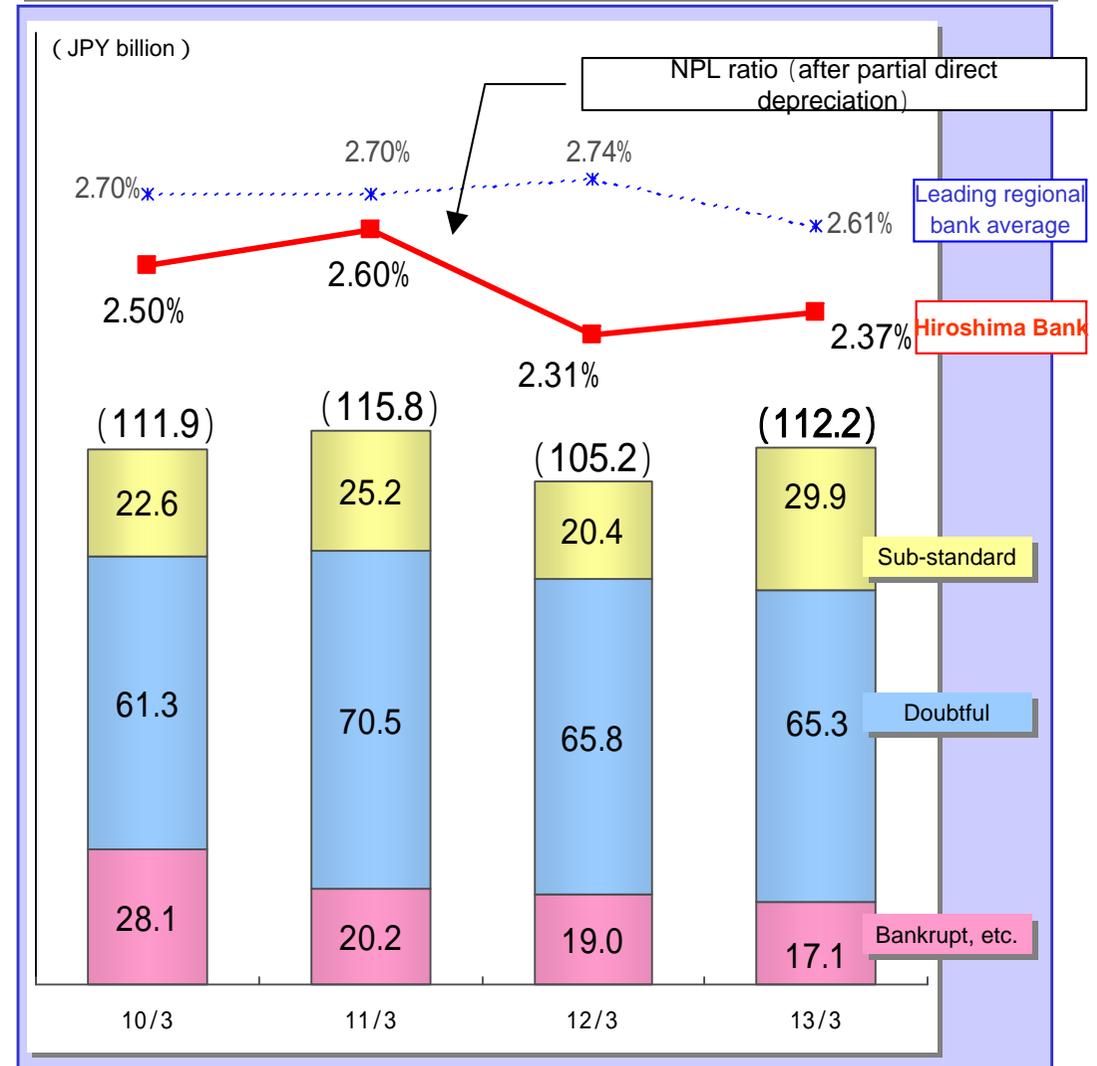
# (9) Credit costs and nonperforming loans

- Credit costs have **steadily declined** due to bank's support actively extended to customers for their business turnaround efforts.
- NPL ratio was **maintained at a healthy level lower than the average NPL ratio of leading regional banks.**

Credit costs and credit cost ratio



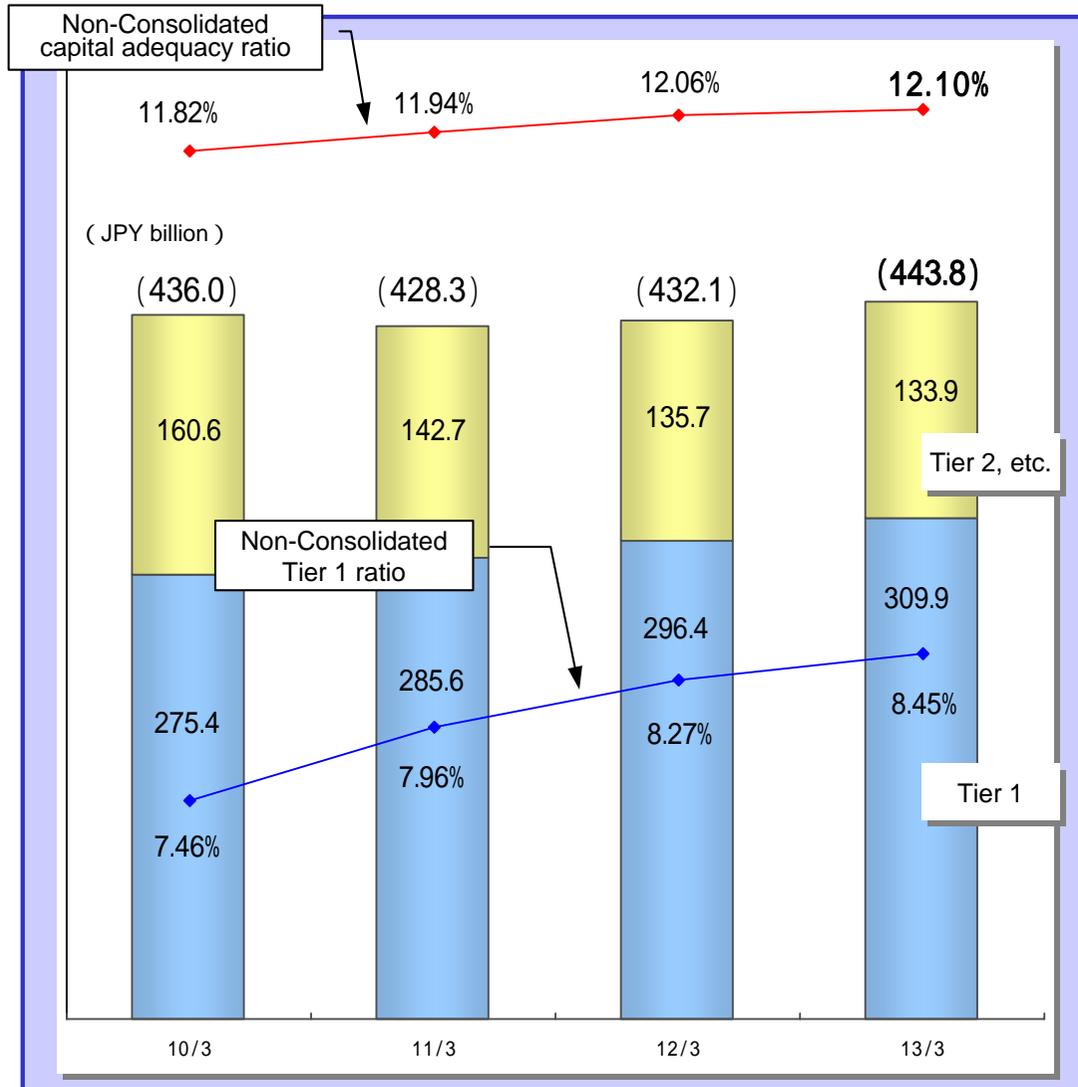
NPLs (term-end balance) and NPL ratio



# (10) Capital adequacy and ROE

- The non-consolidated capital adequacy ratio has risen to **12.10%** with the non-consolidated tier 1 ratio improving to **8.45%** as a result of efforts made to accumulate retained earnings and improve the quality of capital.
- ROE rose to **5.35%** on the back of improving the capital adequacy ratio.

Movements of non-consolidated capital adequacy ratios and tier 1 ratios



Breakdown of non-consolidated capital adequacy ratio

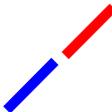
**Tier1** : Improved steadily due to increased internal reserves

**Tier2** : Reduced subordinated debts due by 3bn yen

	Mar '12	Mar '13	(JPY bn) vs. 12/3
Basic items (Tier 1)	296.4	309.9	13.5
Complementary items (Tier 2)	136.4	133.9	-2.5
Outstanding subordinated debts	95.0	92.0	-3.0
Deductions( )	0.7	0.0	-0.7
Own capital	432.1	443.8	11.7
Risk asset	3,580.6	3,666.5	85.9

ROE (based on net profit of the term)

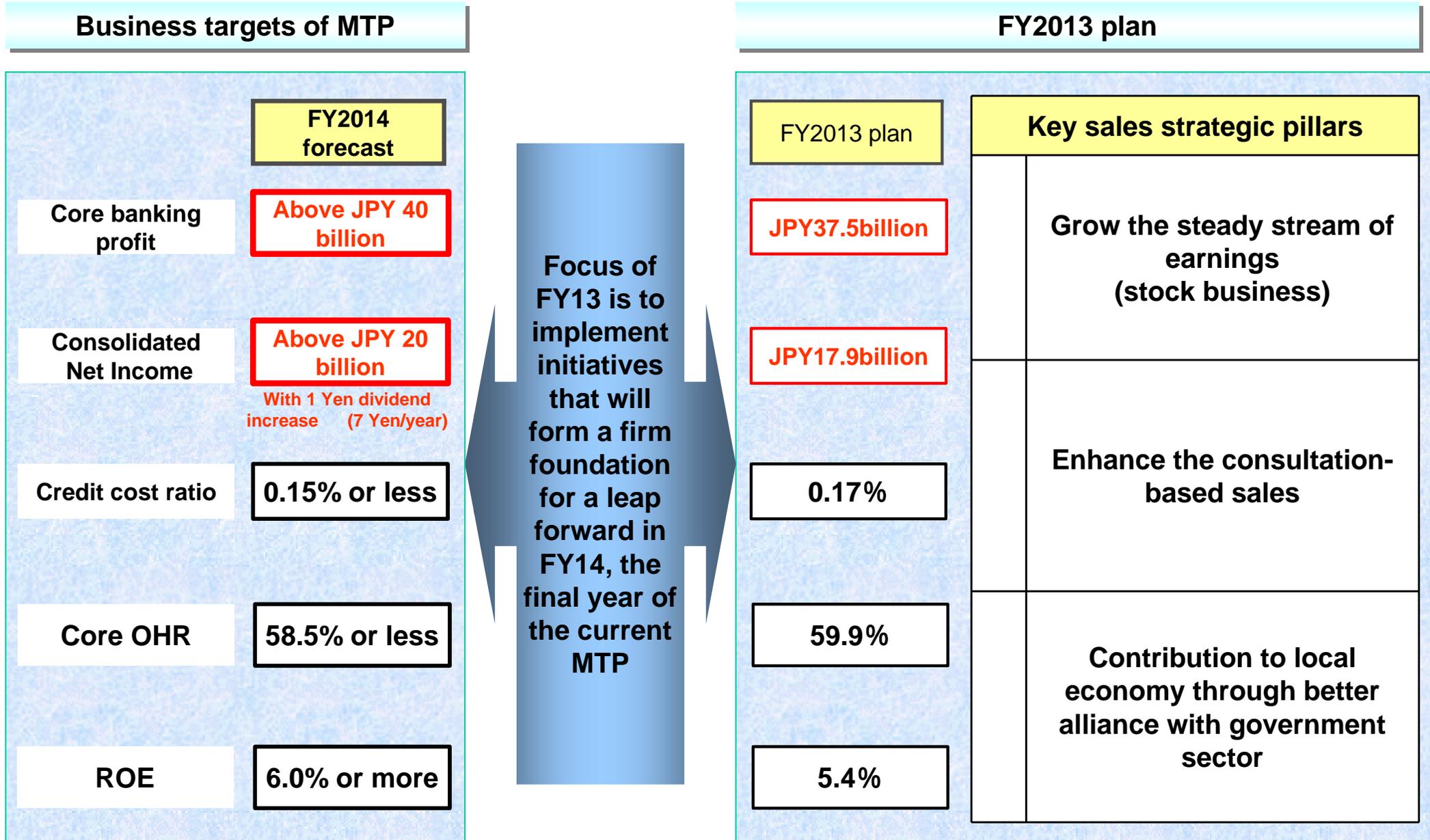
	FY11	FY12	Over LY
ROE	4.70%	5.35%	0.65%



2. Overview of the mid-term plan 2012  
'Challenge for Innovation'

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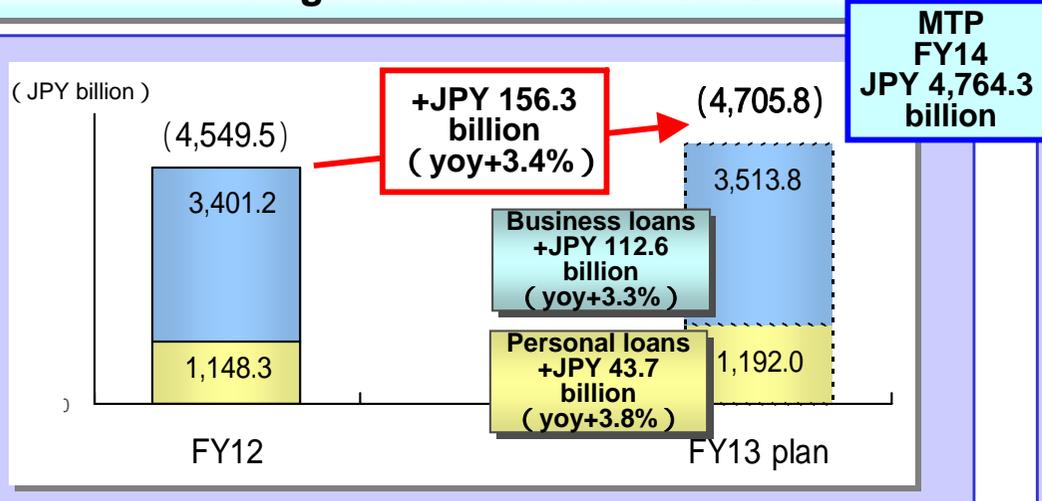
# (1) Mid-Term Management Plan 2012: Challenge for Innovation and FY2013 plan



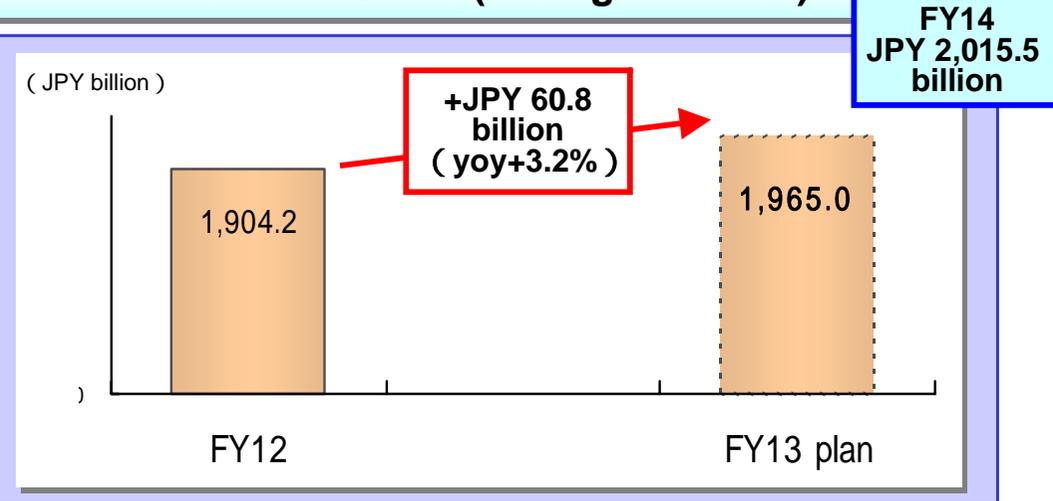
## (2) Growing the steady stream of earnings (stock business) - (loans )

■ Increase the number of daily contacts with SME and personal loan customers from 8 to 13 while carrying out thorough sales activities for retail customers to grow the lending business.

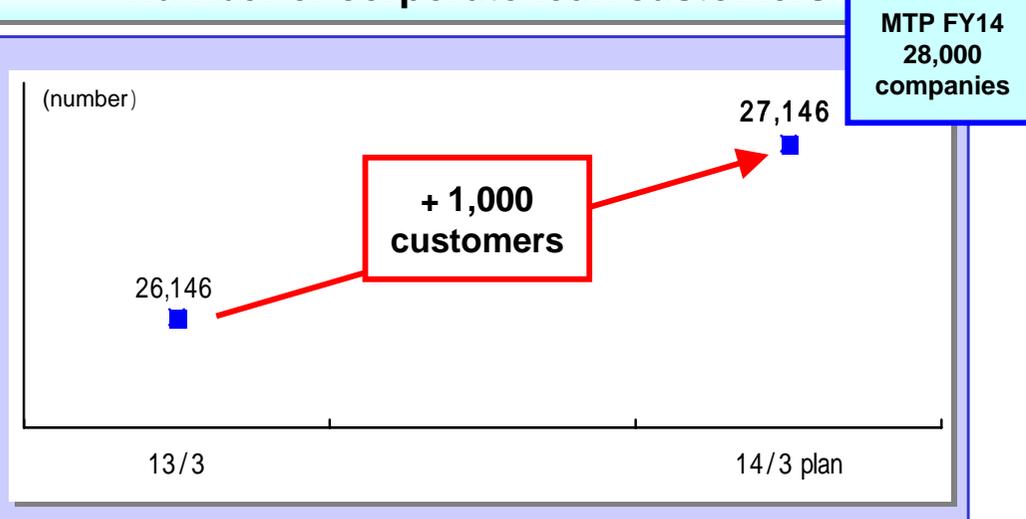
### Average balance of total loans



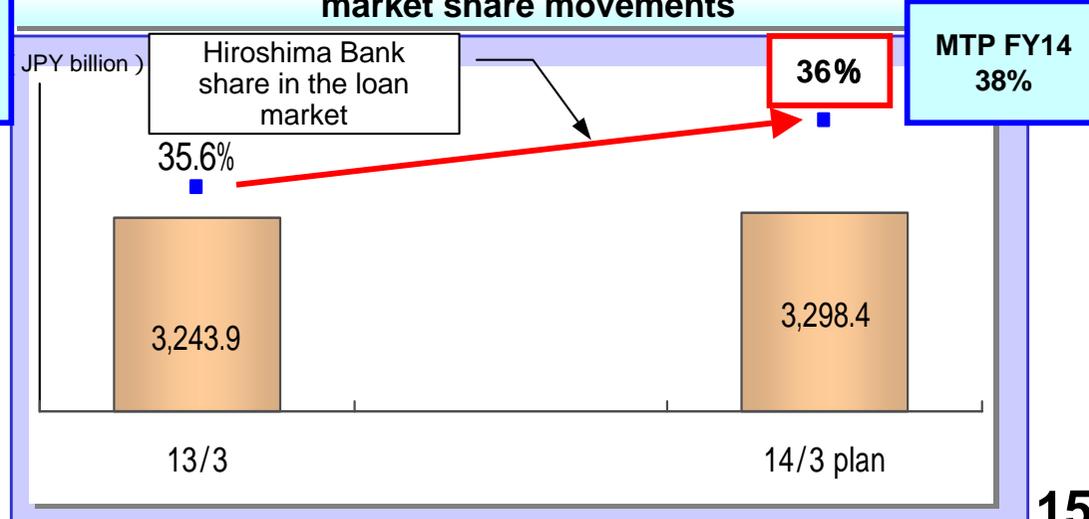
### Loans to SMEs (average balance)



### Number of corporate loan customers



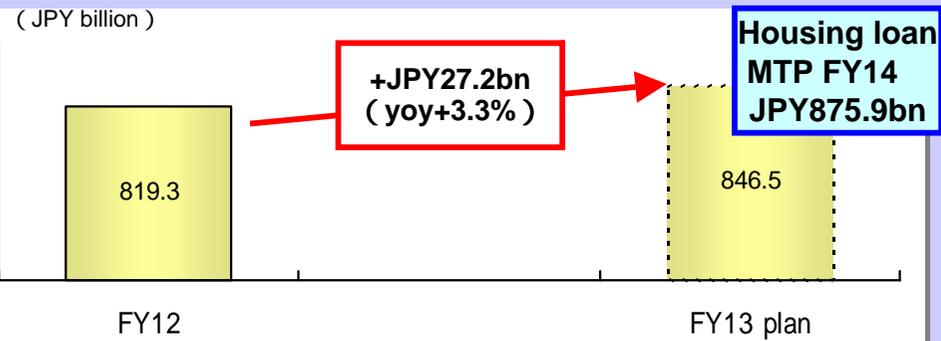
### Hiroshima Bank's loan (closing) in Hiroshima pref. and market share movements



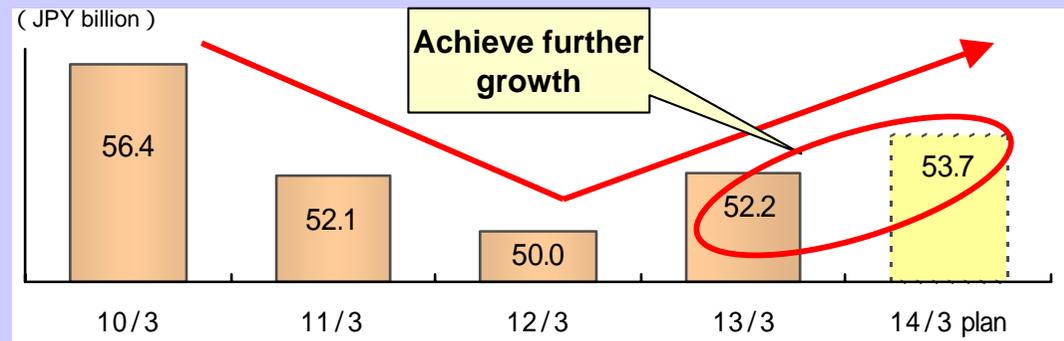
### (3) Growing the steady stream of earnings (stock business) - (personal loans )

- Responding actively with speed to increasing housing loan needs associated with the planned consumption tax hike
- **Acquisitions of new mortgage customers have been facilitated** by expansion of the **Housing Loan Center** network.  
With the opening of Kurashiki Housing Loan Center and Hiroshima-east Housing Loan Center, the bank now operates **11 centers** in its housing loan network.  
**Sunday operation has started at all housing loan centers.**
- **Acquisitions of new mortgage customers have been facilitated by making cross-sell initiatives an integral part** of sales propositions designed for customer's life-stages.

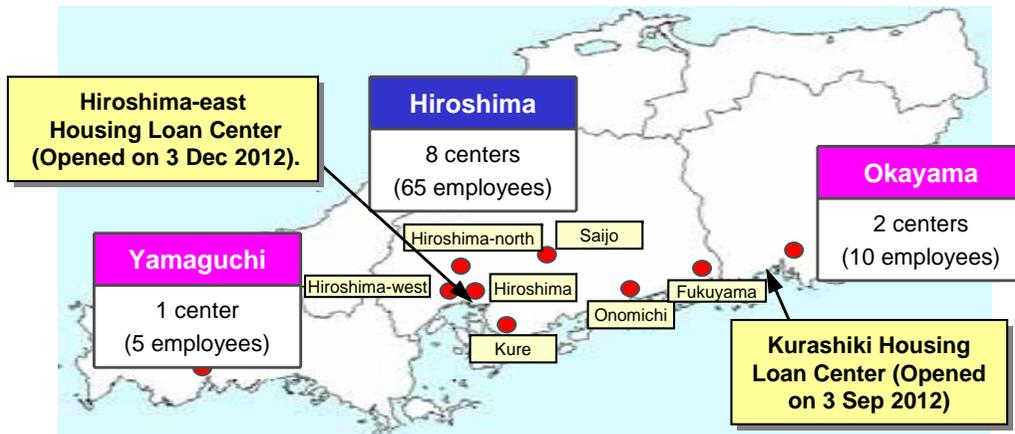
Movements of housing loan balance (average)



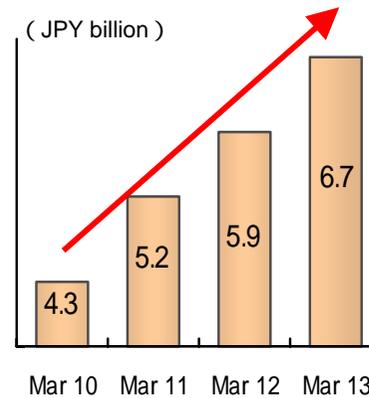
Consumer (unsecured) loan (closing balance)



Housing Loan Center network (11 centers)



Value One-related loans (closing balance)



Nation's first predetermined credit line

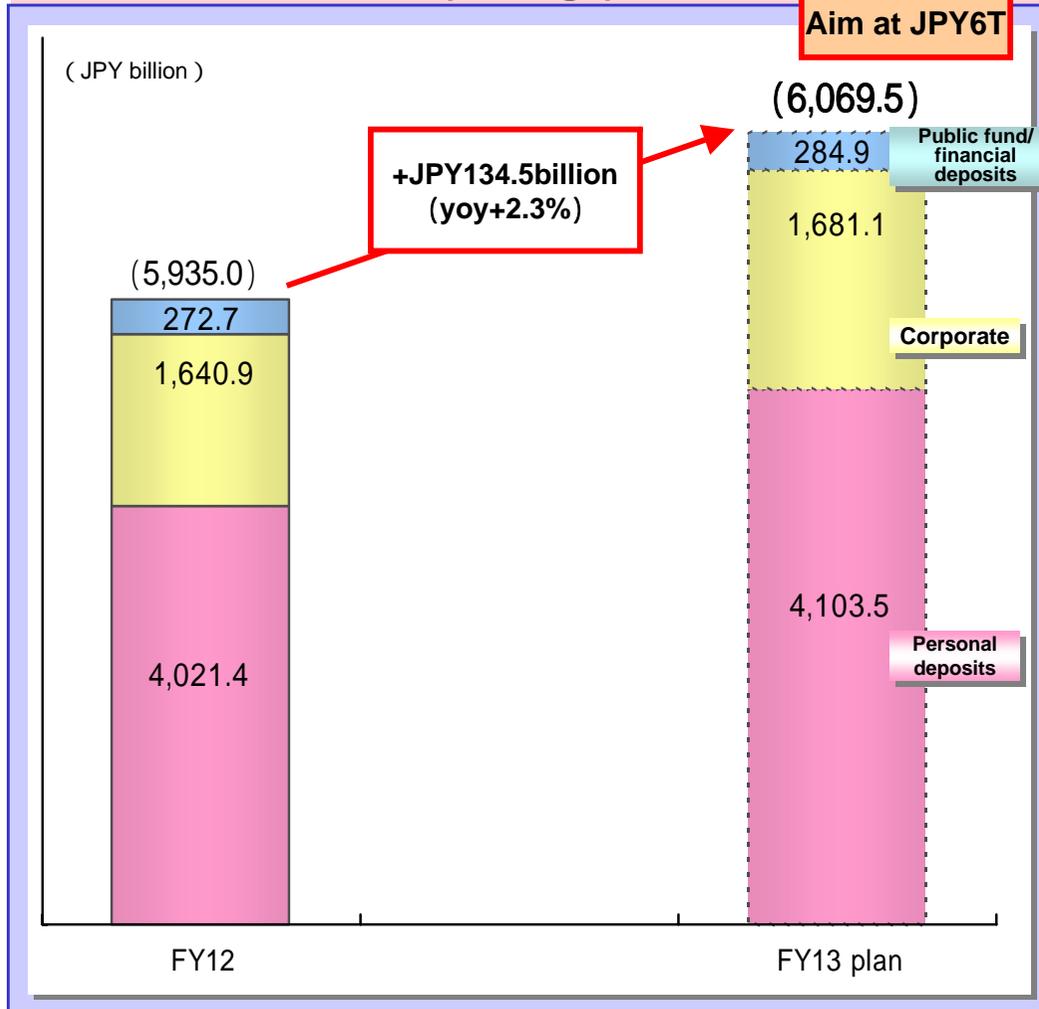
Launch of "Prebooking-type Value Loan" (Apr '13)

Promote the service by enhancing convenience of drawdowns by offering clients "predetermined" credit lines for financing cars and education

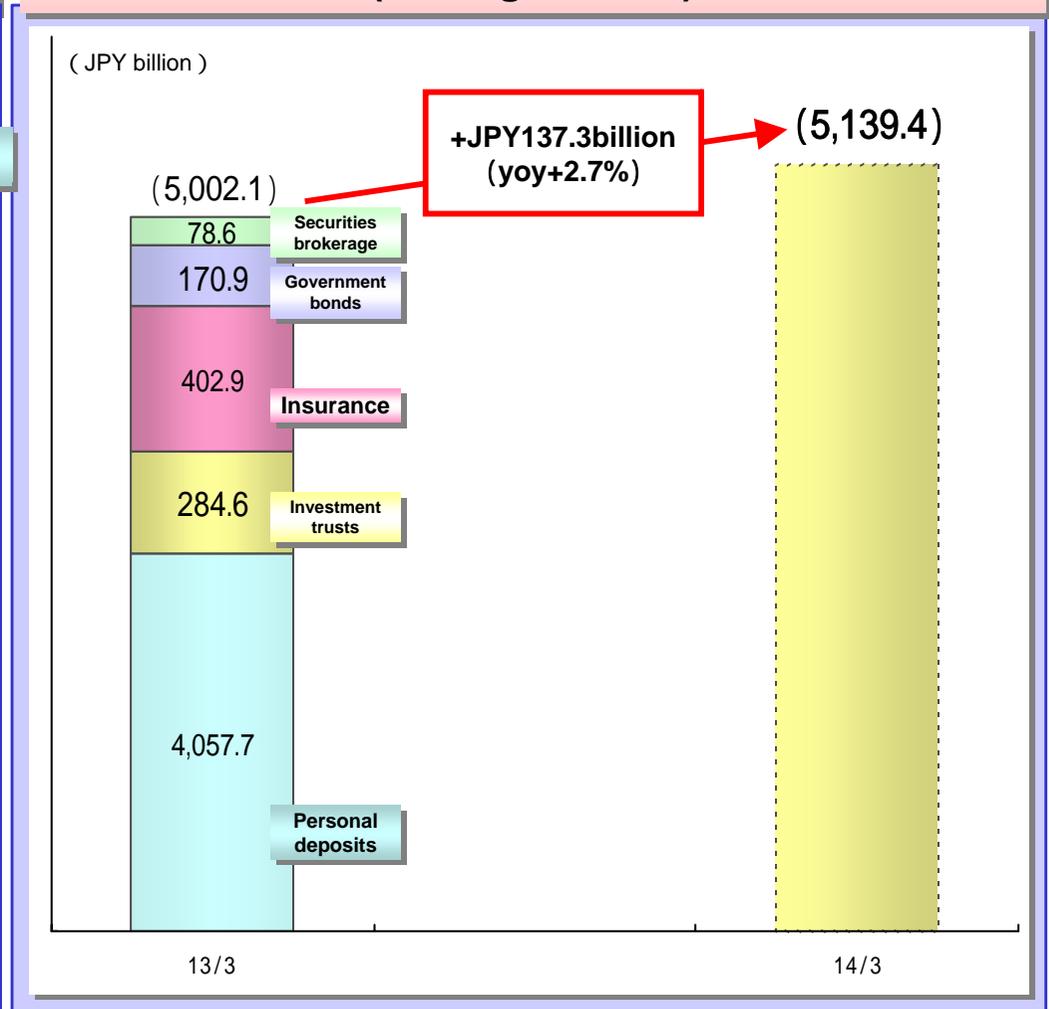
## (4) Growing the steady stream of earnings (stock business) - (AUM)

- Strengthen coordinated collaboration between the Area Sales and the Money Consultation Desk to respond to **asset management needs proactively**.
- Utilize the “**Private Banking Promotion Office**” established in the division in April this year to **build long term relationships with the wealth segment**.
- Respond proactively to new customer needs created by NISA (Japanese version of tax-free individual savings account program) and the tax-exemption scheme for lump-sum gift money for educational purposes

Movements of deposits (deposits and NCD) balance (average)



Movements of personal assets under management (closing balance)



# (5) Enhancement of consulting sales (growth areas)

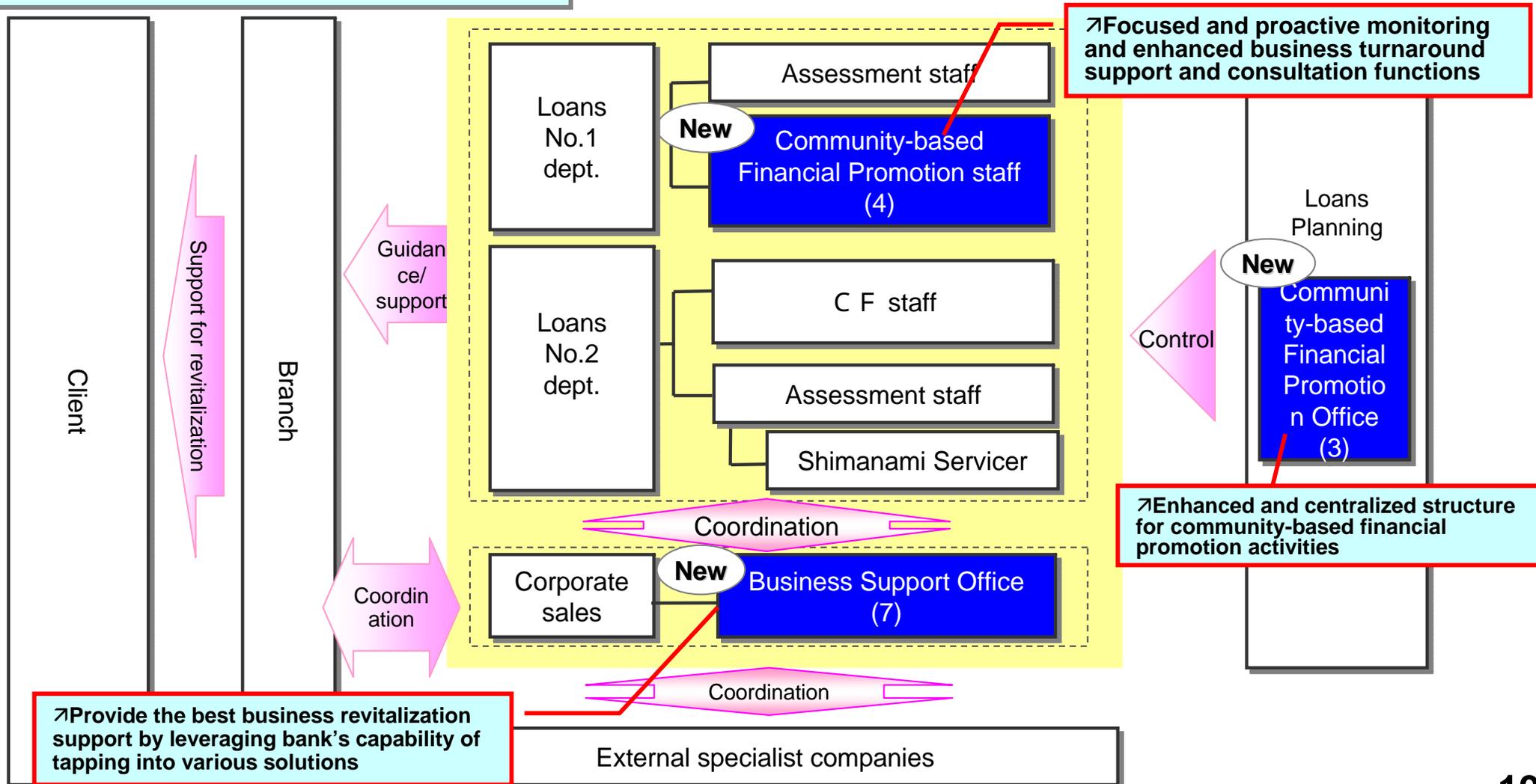
■ Further differentiate services from other banks by **focusing more on growth areas.**

Consulting sales	New initiatives								
<p>Approach to growth areas</p>	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>■ Environment and energy</p> <ul style="list-style-type: none"> <li>Enhancing support structure for companies entering the solar power generation market</li> </ul>  <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Establish a dedicated section</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Establish a dedicated assessment line (within the existing assessment line)</div> <div style="border: 1px solid black; padding: 5px;">Expansion of loan products line-up</div> </div> <div style="width: 45%;"> <p>[Actuals of business loans] (Jul-Mar) (Billion yen)</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>No.</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>39</td> <td>3.9</td> </tr> </tbody> </table> <p>37 prospects, JPY10.7bn as of Mar '13</p> <p>[Actual results of loans for medical/ nursing clients] (Apr-Mar) (Billion yen)</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>No.</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>161</td> <td>15.5</td> </tr> </tbody> </table> <p>Note: Only cases that involved HQ staff are shown.</p> </div> </div> <p>■ Medical and nursing business</p> <ul style="list-style-type: none"> <li>HQ staff to develop customer needs and actively deal with capital demands</li> </ul> <div style="border: 1px solid black; padding: 5px; background-color: #ffe6e6;">3 seminars were conducted in 2012 with a total of 314 participants.</div>	No.	Amount	39	3.9	No.	Amount	161	15.5
No.	Amount								
39	3.9								
No.	Amount								
161	15.5								
<p>Promotion of the business targeting the wealthy and elderly segment</p>	<p>■ Established the “Private Banking Promotion Office (30 staff)” within HQ in April this year to strengthen the business for the wealthy and elderly segments.</p> <div style="border: 1px solid black; padding: 10px; background-color: #e6e6ff;"> <p style="text-align: center;"><b>New</b> Private Banking Promotion Office</p> <div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid red; padding: 5px; width: 30%;"> <p style="text-align: center;"><b>Consulting Group</b> (10 employees)</p> <ul style="list-style-type: none"> <li>Inheritance and business succession consultation for the wealthy</li> <li>Respond to customers' needs relating to inheritance, business succession, effective use of real estate assets, etc.</li> </ul> </div> <div style="border: 1px solid red; padding: 5px; width: 30%;"> <p style="text-align: center;"><b>Promotion Group</b> (10 employees)</p> <ul style="list-style-type: none"> <li>Sales promotion of financial instruments</li> <li>People development through OJT for sales office staff</li> <li>After sales follow-up</li> </ul> </div> <div style="border: 1px solid red; padding: 5px; width: 30%;"> <p style="text-align: center;"><b>Insurance Group</b> (10 employees)</p> <ul style="list-style-type: none"> <li>Sale of level premium/ business insurance products</li> <li>Weekend insurance consultation seminars at the sales office</li> </ul> </div> </div> </div>								

# (6) Enhancement of consulting sales (support for corporate revitalization)

The bank has reviewed the existing organization structure and established **three specialized functions in April 2013** to further enhance its capability to support business turnaround in anticipation of ending of the SME Finance Facilitation Act.

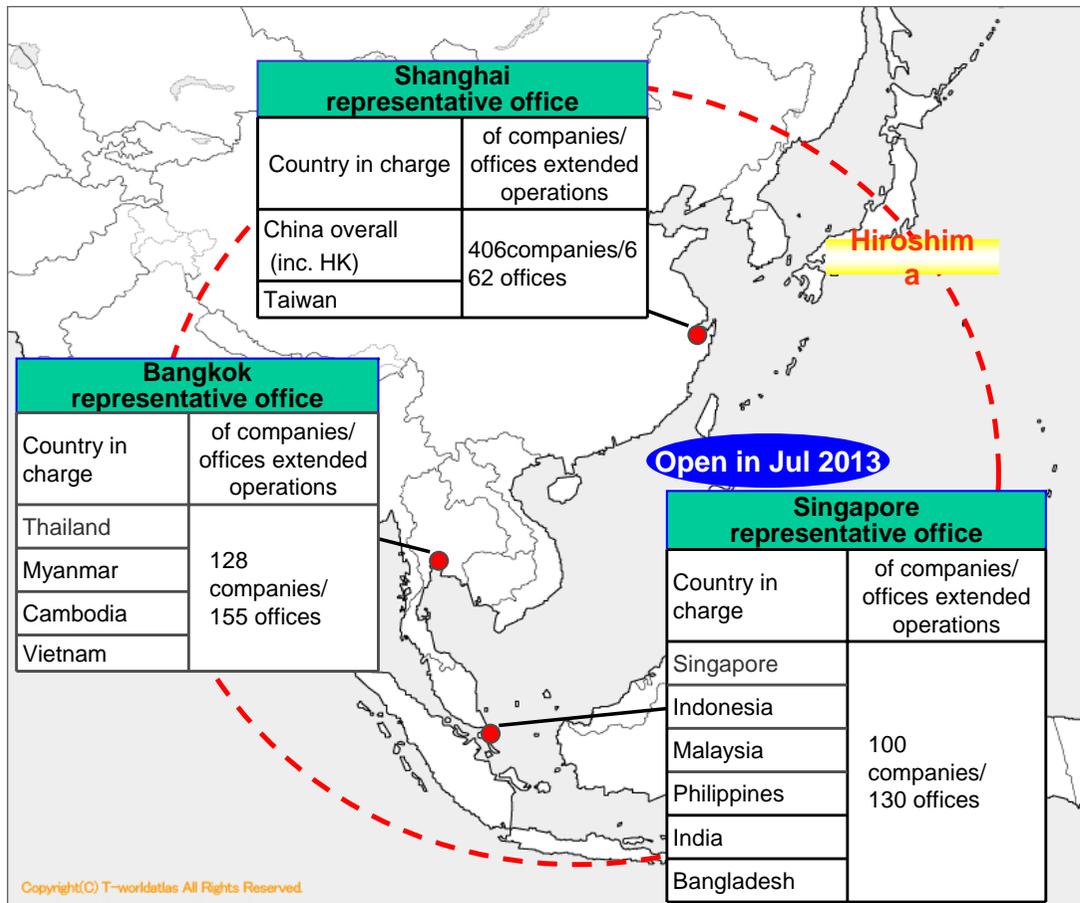
Hiroshima Bank's community-based financial promotion structure



# (7) Enhancement of consulting sales (support for clients' overseas expansion)

- 666 customers have expanded their business to Asia (980 locations) where stable growth is expected -> expanded business opportunities.
- Enhance support to these internationally expanding companies to help grow bank's business globally -> grasp a share of their growth as part of our profit.

## Hiroshima Bank customers' presence in Asia (as at the end of Sep 2012)



Almost all of the regions of East Asia and SE Asia are covered

## Support for companies expanding abroad

- Provide relevant information through the Int'l Sales Office and local outposts
- Financing support for overseas expansion
- Broad business-matching functions
- Local financing services through local and foreign banks

Extension of stand-by credit  
**Stand-by credit balance as at end/Mar 2012 -> JPY7.3bn**

## Enhancement of support structure

- Open Singapore office in July 2013
  - Develop personnel with deep knowledge in business in Asia
- Sponsoring study in SE Asia for MBA

Partnership with foreign banks	Country	Partner banks
	China	Bank of China/ Bank of Communications/ Bank of Dalian
	Thailand	Bangkok Bank/ Kasikorn Bank
	South Korea	Korea Dev't Bank/ Korea Exchange Bank
	Indonesia	Bank Negara Indonesia
	Philippines	Metropolitan Bank
	India	State Bank of India (Mar 2013)
	Asia	Standard Chartered Bank/ HSBC/ Credit Agricole

## (8) Contribution to the local economy through enhanced collaborations with the local government

- Making proactive **contributions to the local economy through cooperation with the government.**
- **Proactively provided our network and solutions** at the very beginning of re-development projects.

### Contributions to the local economy through enhanced collaboration with the government

#### Collaboration with Hiroshima Prefecture

- Prepared preferential housing loan interest rates for buyers of apartments certified under prefecture's "Smile Childrearing Apartment Certification Scheme"
- Sent staff to the executive committee of the "Setouchi Shimanowa 2014"

#### Collaboration with City of Hiroshima

- Awarded with Hiroshima Confectionary EXPO lottery operations
- Made a proposal for "revitalization of housing complex"

### Re-development around Hiroshima Station

#### Hutaba no Sato redevelopment project

The redevelopment project will be implemented according to the basic land-use policy specified below	
1	Mixed-use land development centering on urban housing with business and commercial functions leveraging convenience of proximity to the Hiroshima Station.
2	Mixed-use land development centering on medical and related businesses with other functions including education, human development, urban housing, etc.
3	Mixed-use land development centering on business and educational/ human development functions with commercial and cultural functions, which help create local centers in broad areas.



Block (image)  
Commencement: FY13  
Expected completion: FY16  
(Total investment: JPY35.3bn)

C Block (image)  
Expected commencement: FY13  
Expected completion: FY16  
(Total investment: JPY28bn)

## (9) Channel restructuring

■ **Review branch strategy/ facilities and strengthen the internet channel** to enhance convenience for customers further differentiate from other banks.

### Review of the branch strategy/ facilities

- Increase the number of branches open during weekends/ public holidays
- Increase services available during weekends/ public holidays and after hours on weekdays
- Identify and provide financial services most relevant to customers' needs by using new branch terminals
- Lower teller counters at branches
- Provide wifi ( public wireless LAN ) hot spot in branches



### Strengthen the internet channel

#### ■ Opened the internet branch (Mar 2013)【Hirogin Net Branch】

- Offer easy account opening procedures to acquire new customers from inside and outside Hiroshima to expand customer base and grow deposits and lending business

#### ■ Leverage the internet branch to further grow direct-banking membership

- Step up efforts to acquire 500,000 members

【Internet banking via smartphones (from Oct 2012)】

《Home screen》



《Balance information screen》



Started term-deposit services in May 2013

# (10) Operational reform (generating more time for sales activities/ cost reduction)

- **Generate time for sales activities** by reviewing operational processes and improving efficiency of clerical work at branches.
- **Reduce cost** by thoroughly assessing and reviewing operations and outsource contracts to identify and reduce waste.

## Operational reform project (from Apr 2012)

Items	Key initiatives
Saving time for more sales activities	Introducing tablets to sales reps (Oct '13)
Efficiency improvement of HQ operations	Initiatives to reduce meeting hours by half
Cost reduction	Paperless meeting initiatives
	Introducing video conference system (Apr '13)

## Tablets

- Strengthen sales consultation/ proposal capabilities of sales reps -> proposals based on timely information
- Reduced information leakage risks

《Tablet》

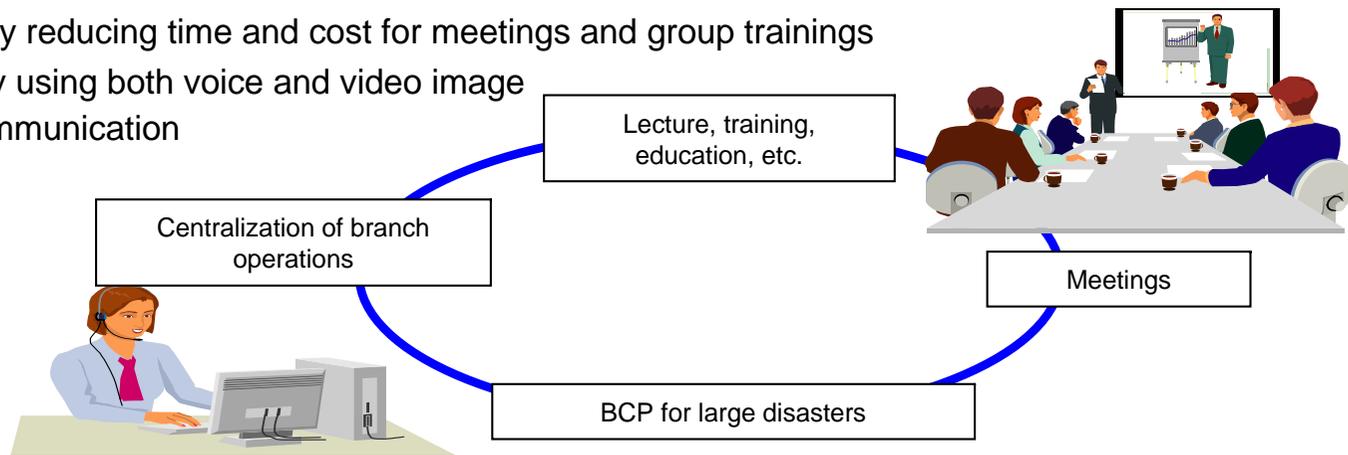
**Reduce time associated with preparation and taking out information-> 425 sales reps/ total of 65k hours**

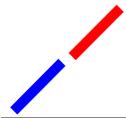


## Video conference system

- Create time for sales activities by reducing time and cost for meetings and group trainings
- Achieve good communication by using both voice and video image
- Conduct timely, face-to-face communication

**Reduce a total of 9,400 hours of travel (5,000 people in total)**





### 3. Earnings estimate for FY2013

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# (1) Performance outlook and dividends for FY2013

- **Five successive years of net income growth** is expected for FY2013
- **Annual dividends for FY2013 will be 6 yen per share** to be paid according to the Payout Table.

## Earning Estimate for 2013

	FY12 (Actual)	FY13 (Plan)	(JPY billion)	
			Change	
Net interest income	76.0	74.7	-1.3	-
Net fees and commissions	17.9	18.8	0.9	-
<b>Core gross banking profit</b>	<b>93.9</b>	<b>93.5</b>	-0.4	-0.4%
(-) Expenses	55.0	56.0	1.0	-
<b>Core banking profit</b>	<b>38.9</b>	<b>37.5</b>	-1.4	-3.6%
Gains/Losses on securities	5.7	1.0	-4.7	-
<b>Real banking profit</b>	<b>44.6</b>	<b>38.5</b>	-6.1	-13.7%
Gains/Losses on stocks	-1.2	-1.0	0.2	-
(-) Credit costs	8.3	8.0	-0.3	-
<b>Ordinary profit</b>	<b>29.7</b>	<b>28.8</b>	-0.9	-3.0%
<b>Net Income</b>	<b>16.7</b>	<b>17.6</b>	<b>0.9</b>	<b>5.4%</b>
<b>Consolidated Net Income</b>	<b>17.4</b>	<b>17.9</b>	<b>0.5</b>	<b>2.9%</b>

## Dividend Policy and Payout Table

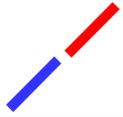
Stable dividend	Annual dividend of 6 yen per share
Performance-based dividend	Dividend will be paid according to the consolidated net income as shown in the table below

Consolidated net income	Dividend per share			Consolidated payout ratio
	(A) Stable	(B) Performance-based	(A) + (B)	
under 18 billion	6 yen	0 yen	6 yen	20.8% and over
18 - 21 billion	6 yen	1 yen	7 yen	20.8% and over and less than 24.3%
21 - 24 billion	6 yen	2 yen	8 yen	20.8% and over and less than 23.8%



## Dividend forecast for FY13

	Dividend per share (annual) FY13		
	Interim(plan)	Year end(plan)	
Dividend	3.0 Yen	3.0 Yen	6.0 Yen



## 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.

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