

# Interim financial results for FY2010

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- IR presentation -

The Hiroshima Bank, Ltd.



December 2010

President Isao Sumihiro



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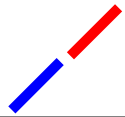
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# 1. Summary of Interim Financial Results

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(FY 2010)

# (1) Key points for FY2010

## Mid-term management Plan < STEPS > (From FY2009 to 2011)

Establish strong operational base in region and profitability for achieving sustainable growth in future.

Build strong relationship with customers

Establish solid operational base

Enhance sustainable profitability

Strengthen capital base



## Key points for FY 2010

*Hiroshima’s economy has steadily improved, but future direction is still unclear.*

Enhance our business strategies for future growth with consideration for the changes in the management environment.

Key Points

1. Enhance asset business by strengthening our sales power



Enhance net interest income by strengthening loan-deposit business (Fund intermediation).

2. Streamline business operation



Steady reduction of expenses. (especially in non-personnel expense)

3. Improve asset portfolio



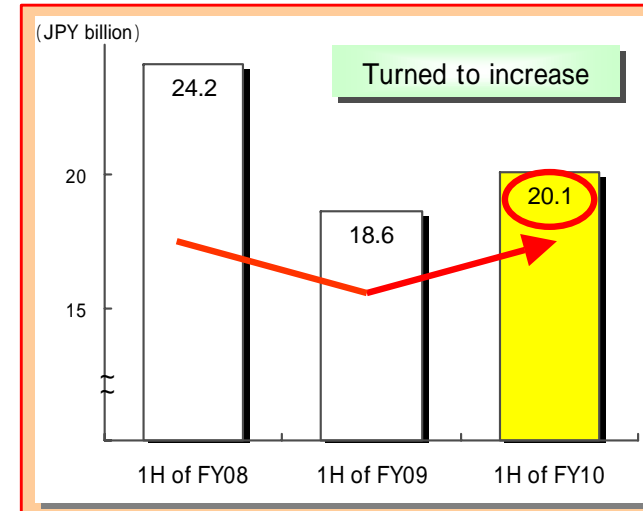
Reviewing securities portfolio and establish solid credit risk management.

## (2) Financial highlights for interim FY2010

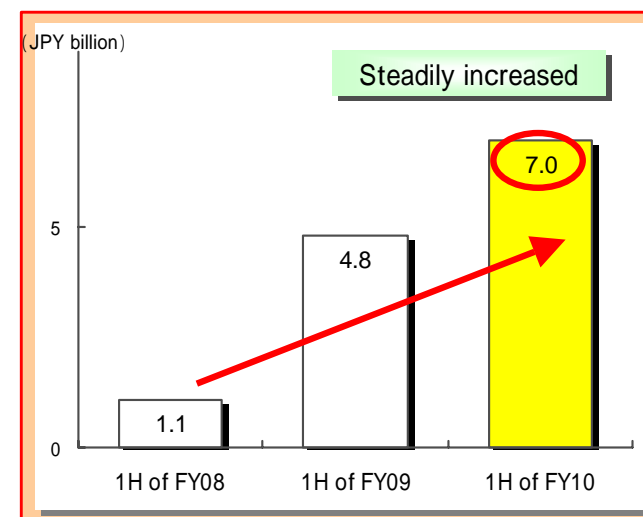
- **Core banking profit** ·· increased by JPY 1.5 billion (+8.1%) to JPY20.1 billion.  
(increased by JPY 1.8 billion from the initial plan)
- **Interim net income** ·· increased by JPY 2.2 billion (+44.8%) to JPY7.0 billion.  
(increased by JPY 1.1 billion from the initial plan)

	1st half of FY2010	(JPY billion)		
		Change from 1st half of FY09		Difference from the initial plan
Net interest income	40.4	-0.3	-	0.1
Net fees and commissions income	9.0	1.0	-	0.9
<b>Core gross banking profit</b>	<b>49.4</b>	<b>0.7</b>	<b>1.5%</b>	<b>1.0</b>
(-) Expenses	29.3	-0.8	-	-0.8
<b>Core banking profit</b>	<b>20.1</b>	<b>1.5</b>	<b>8.1%</b>	<b>1.8</b>
Gains/Losses from securities	3.5	2.3	-	3.5
<b>Real banking profit</b>	<b>23.6</b>	<b>3.8</b>	<b>19.3%</b>	<b>5.3</b>
Gains/Losses from stocks	-4.5	-3.8	-	-4.5
(-) Credit costs	6.1	-2.9	-	-0.9
<b>Ordinary profit</b>	<b>11.8</b>	<b>4.0</b>	<b>50.5%</b>	<b>1.8</b>
<b>Interim net income</b>	<b>7.0</b>	<b>2.2</b>	<b>44.8%</b>	<b>1.1</b>

### Core banking profit

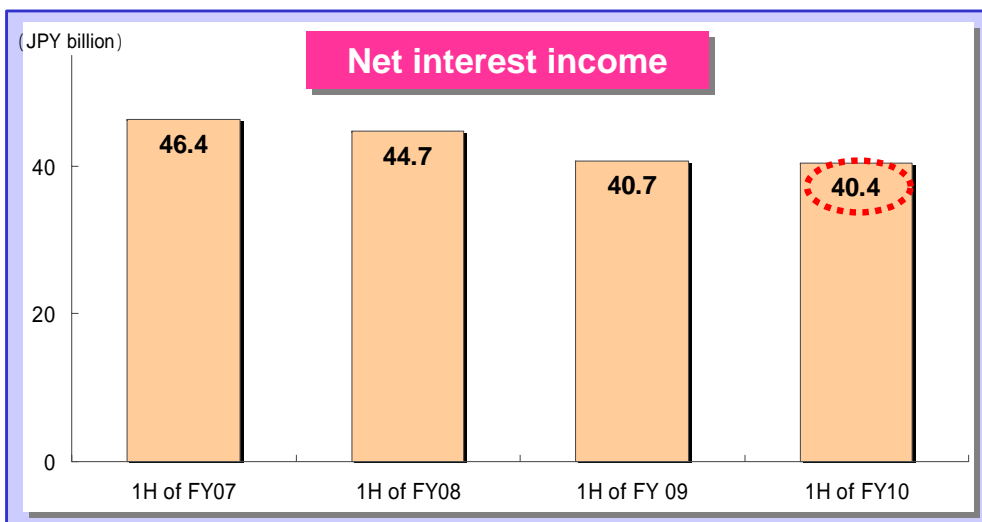


### Interim net income



### (3) Breakdown of profits

Net interest income kept the previous period level

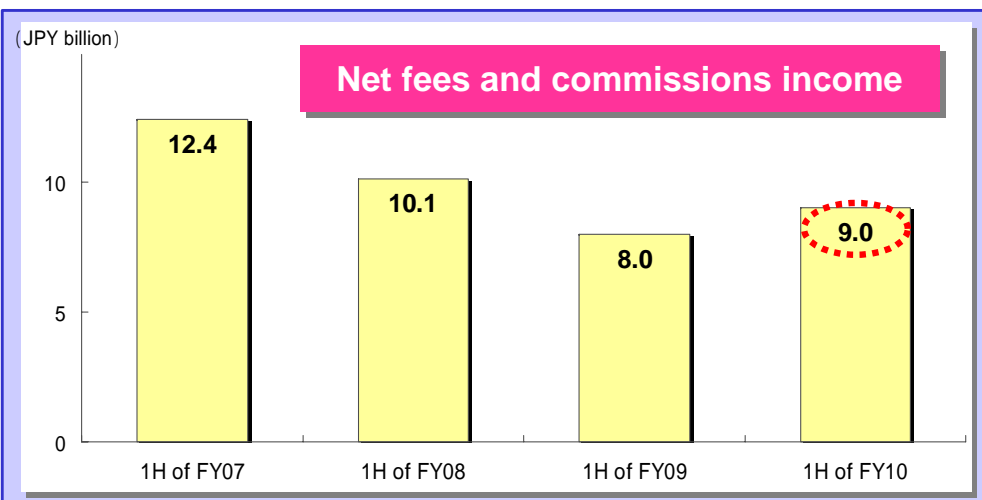


Breakdown of Net interest income

Interest on securities increased.

	1st half of FY10	(JPY billion) yoy change
Interest on loans	38.1	-2.5
Interest on securities	9.3	0.7
Interest on deposits(-)	3.9	-1.8
Other interest expenses(-)	3.1	0.3
<b>Net interest income</b>	<b>40.4</b>	<b>-0.3</b>

Net fees and commissions income increased by JPY 1.0billion



Breakdown of Net fees and commissions income

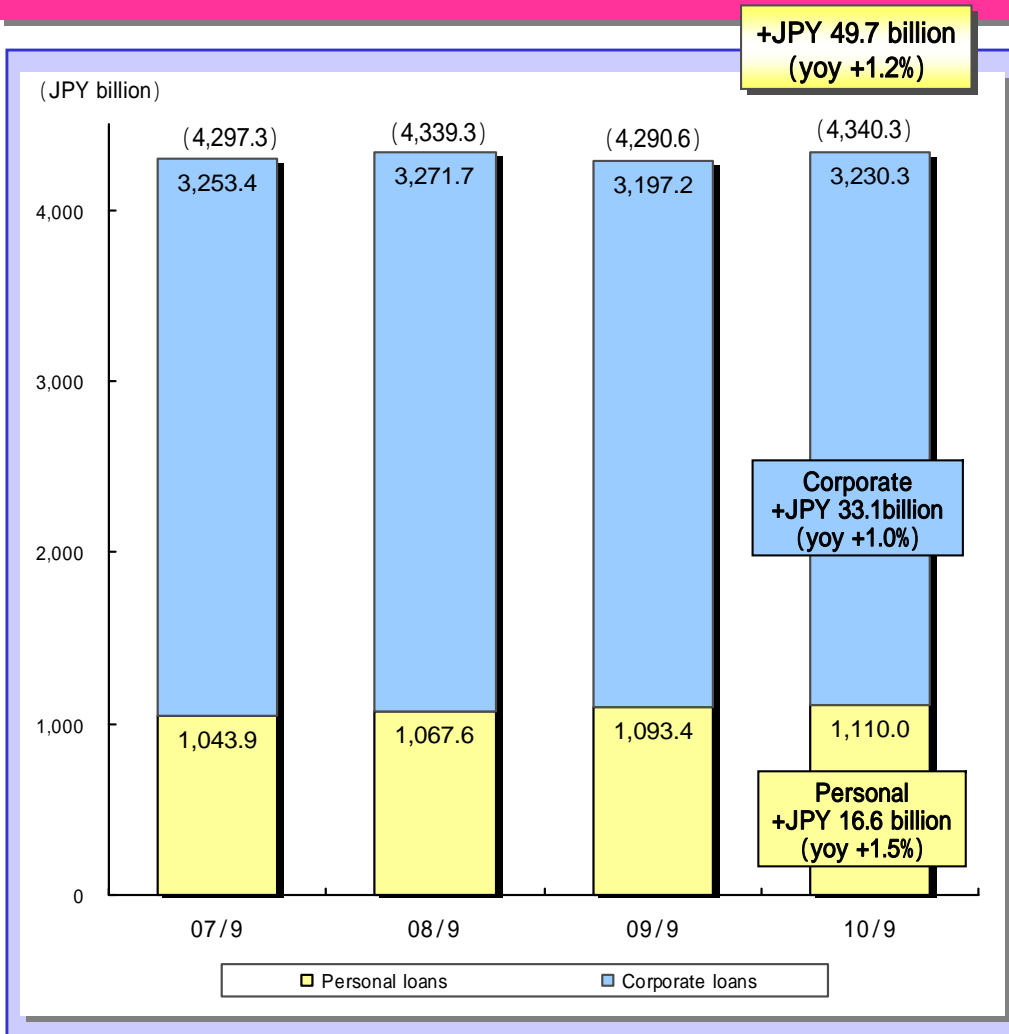
Income from retail investment banking and asset management increased.

	1st half of FY10	(JPY billion) yoy change
Investment Banking	1.4	0.5
Retail asset management	3.4	0.8
others	4.2	-0.3
<b>Net fees and commissions</b>	<b>9.0</b>	<b>1.0</b>

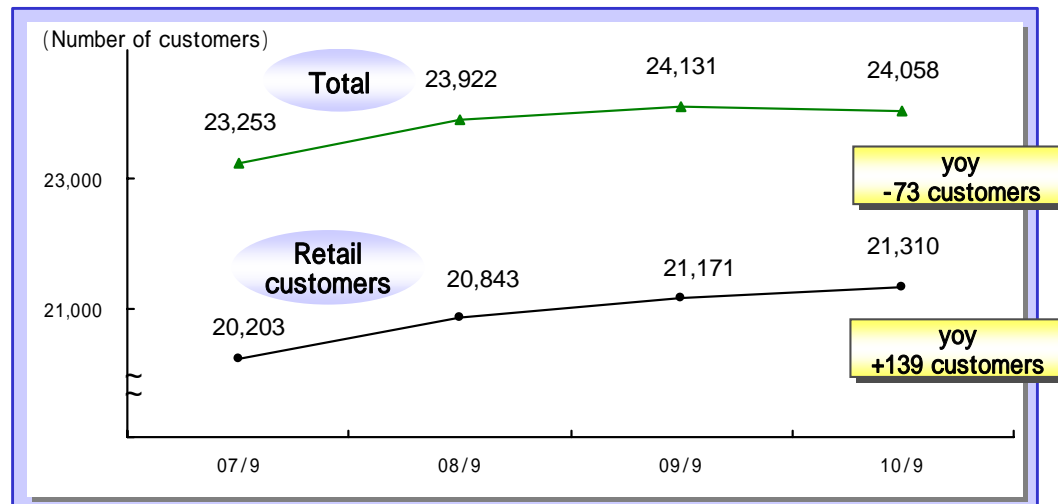
# (4) Loans

- Total loans (Corporate / Personal) **steadily increased.**
- Term-end balance increased yoy by JPY49.7billion(+1.2%).

## Term-end balance of total loans



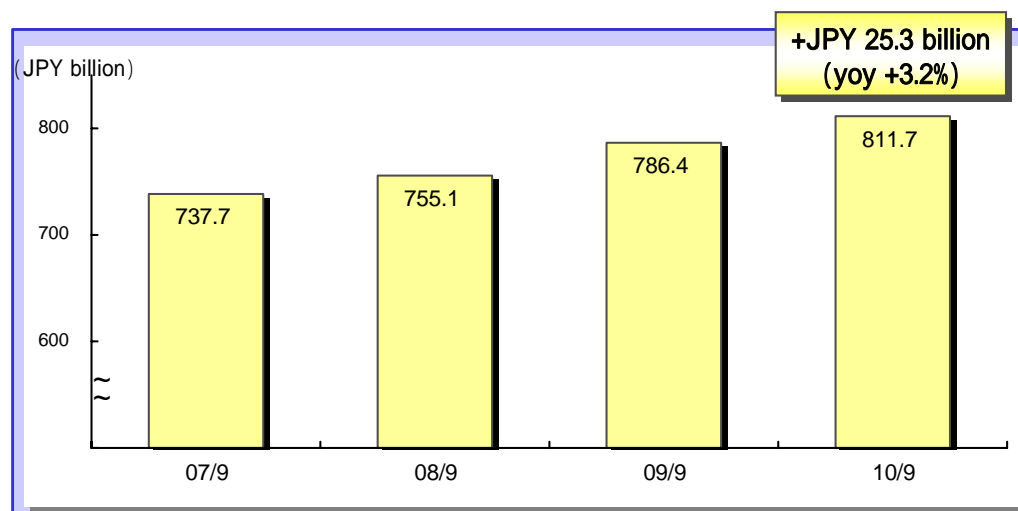
## Number of corporate loan customers



Retail customers = customers with sales less than JPY 1.0billion

## Term-end balance of housing loan

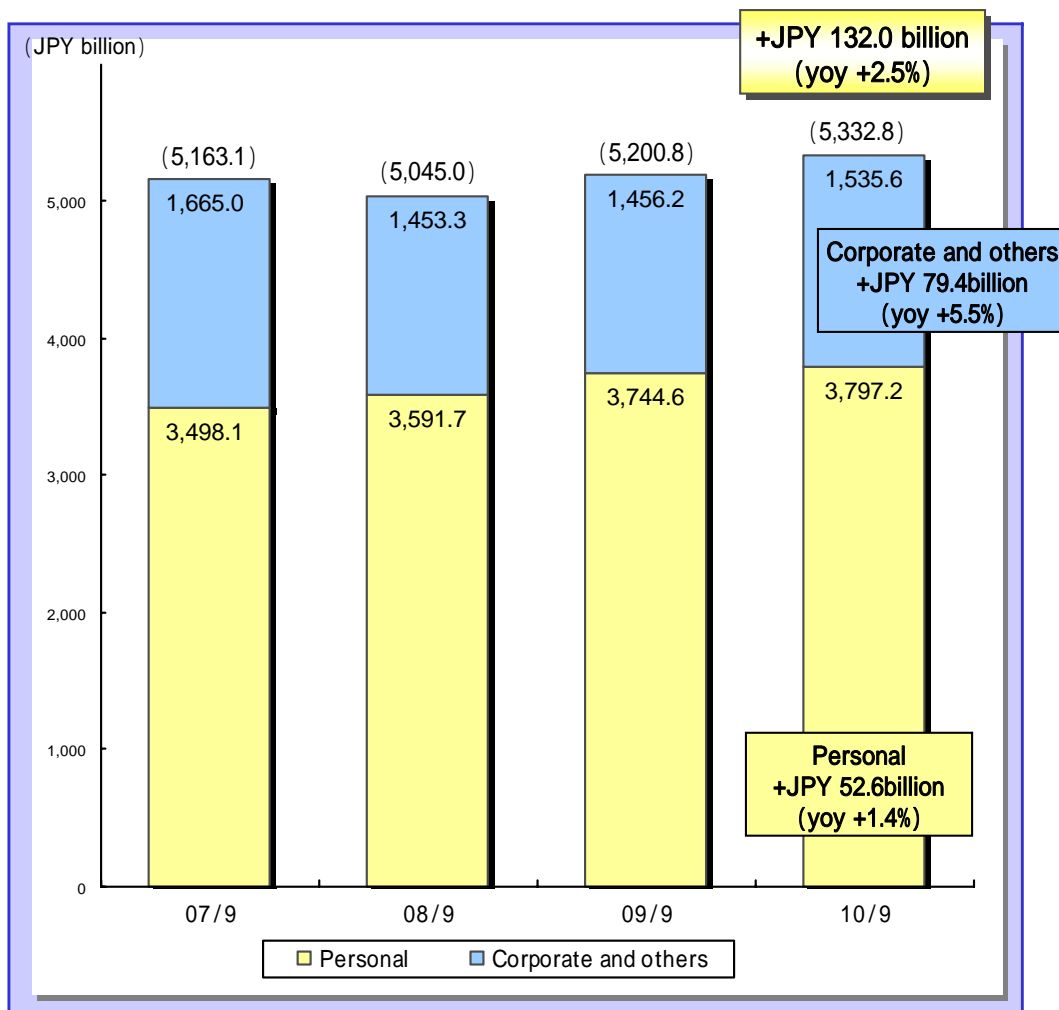
Balance of housing loan has steadily increased.



## (5) Deposits (Retail asset management)

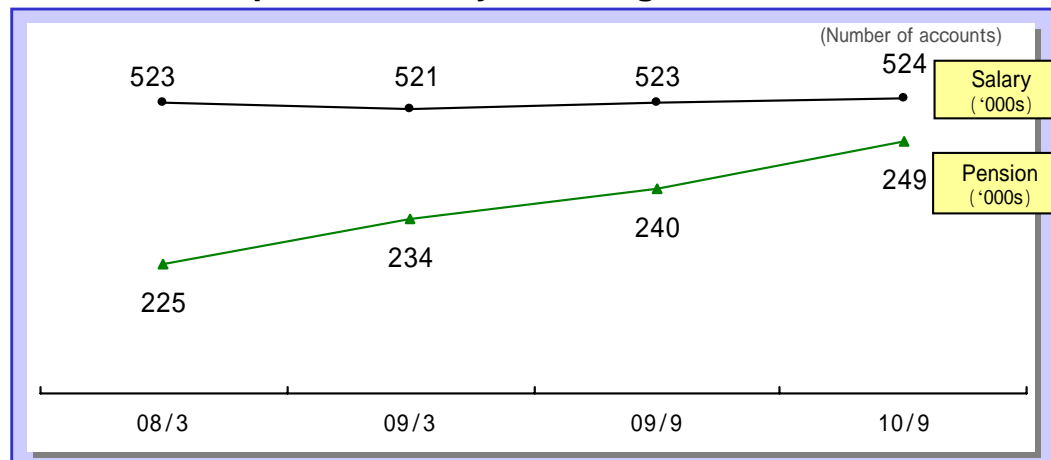
- Total deposits **steadily increased**.
- Term-end balance increased yoy by JPY132.0billion(+2.5%).

### Term-end balance of total deposits

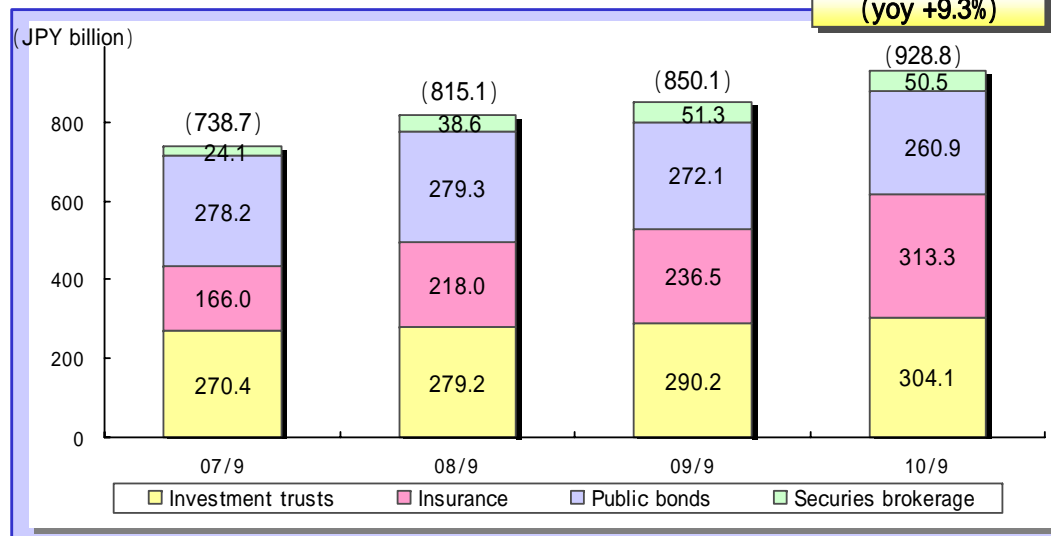


### Number of pension / salary receiving accounts

Personal deposits have increased partly by increasing number of pension/salary receiving accounts.



### Term-end balance of retail financial products

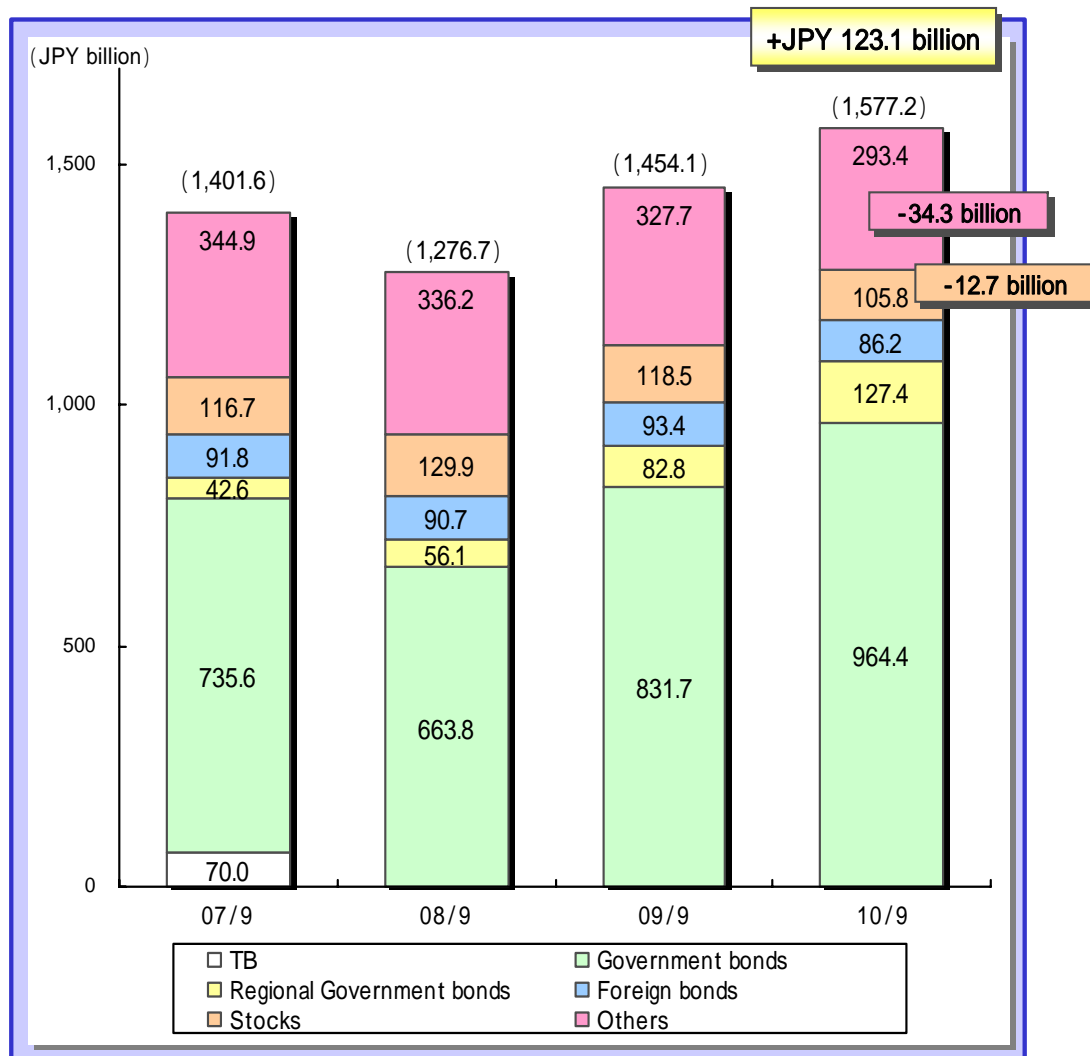




## (6) Securities

Established a soundness portfolio pursuing stable profitability not subject to impacts from interest rate risk and credit risk.

### Securities portfolio (term-end balance)



Balance before fair value adjustment

### Reviewed portfolio to pursue soundness and profitability.

		(JPY billion)	
		1H of FY10	
Gains/losses from securities			3.5
(Flexibly bought and sold Government bonds)			
Gains/losses from stocks			-4.5
(Sold investment trust etc. to reduce unrealized losses)			
	Net loss	-JPY 1billion	

### Unrealized gain/loss on securities improved.

	09/9	10/9	(JPY billion) change
<b>Unrealized gain/loss on securities</b>	<b>-8.2</b>	<b>10.9</b>	19.1
Stocks	1.7	-5.8	-7.5
Bonds	13.6	33.1	19.5
Others	-23.5	-16.4	7.1

### Stocks held for customer relationship decreased.

	09/9	10/9	(JPY billion) change
<b>Stocks held for customer relationship</b>	<b>111.2</b>	<b>102.7</b>	-8.5

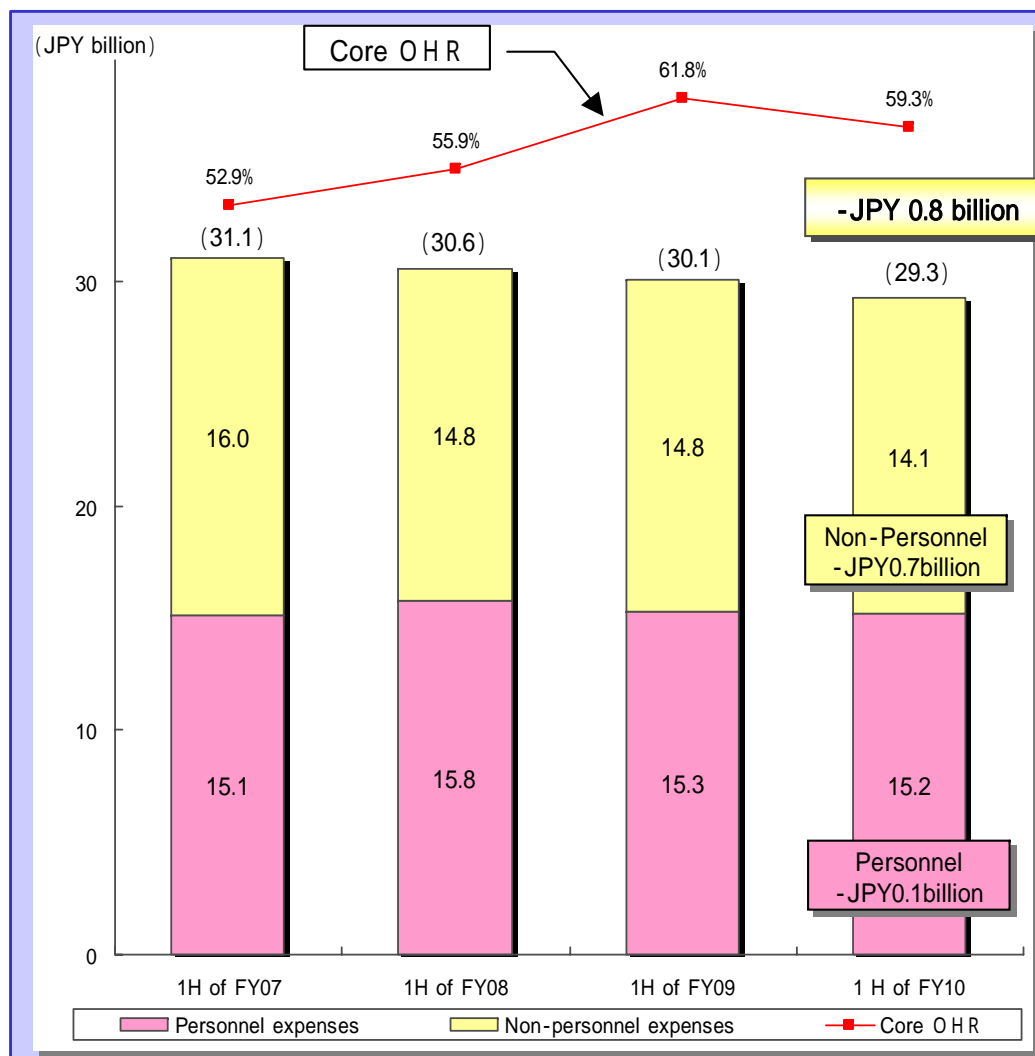
### Interest rate risks are at very low level.

	10/9	Regulatory ceiling
<b>Outlier Measurement</b>	<b>12.5%</b>	20%

## (7) Expenses

Expenses decreased by JPY0.8billion from the previous period of FY09 due to thorough cost-cutting operations to offset the increase in costs of opening and renovating branches.

### Total cost and core overhead ratio (Core OHR)



FY 2010 -

### Strengthen 'Cost Reduction Project'

The project pursue reduction of total expenses absorbing additional non-personal expense such as depreciation expenses for branch facility renovation.

- Conduct detailed review of expense items.
- Reduce business consignment expenses.

Non-Personnel  
-JPY0.7billion

Core OHR improved to less than 60% level (59.3%).

- Mid-term strategies -

- Reduce system maintenance costs.
- Review and renovate back office operations.

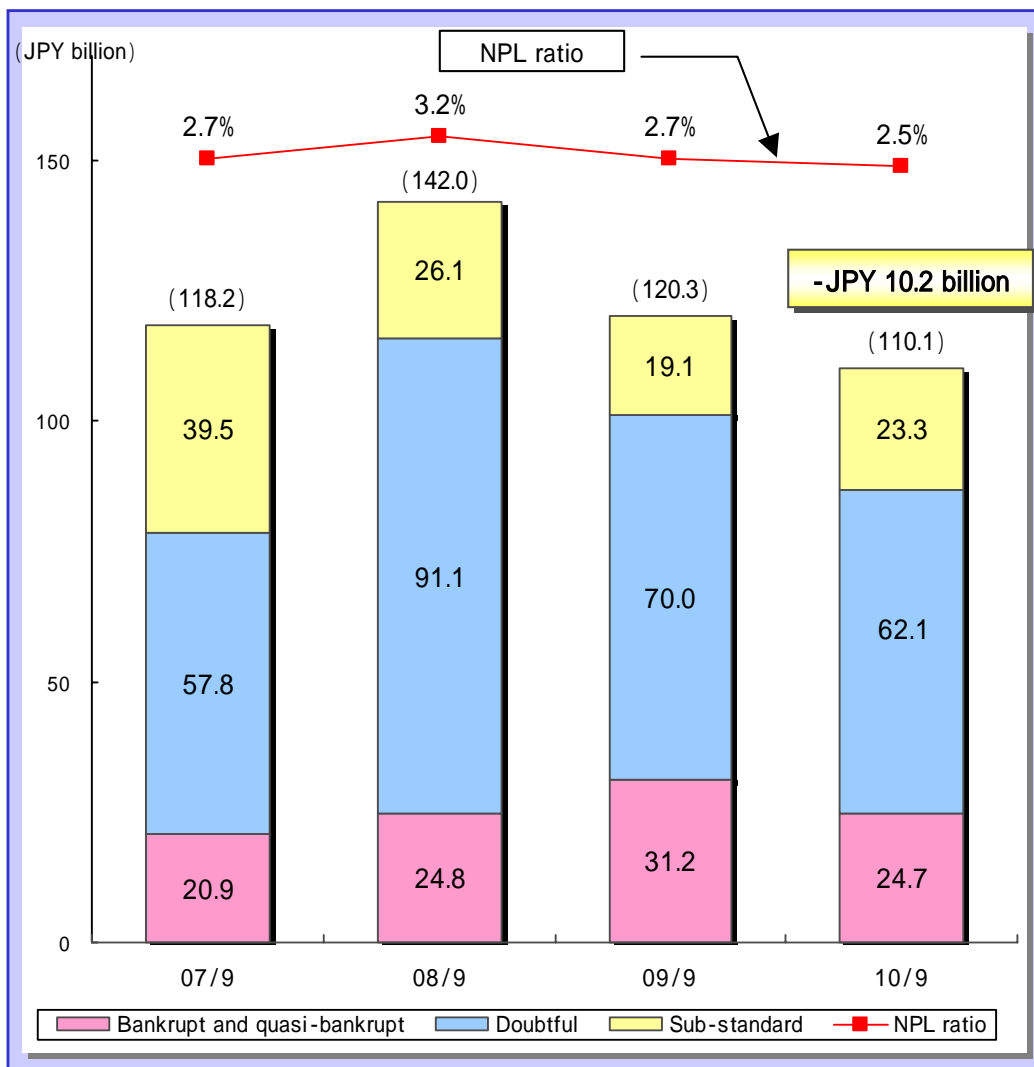
With  
Fukuoka FG

Set target of Core OHR less than 55% level.

## (8) Non-performing loans and credit cost

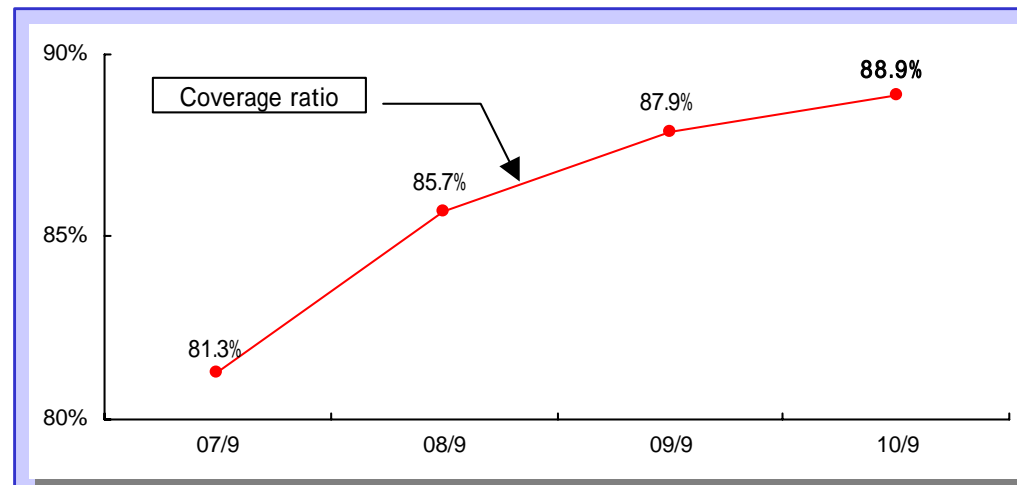
**NPL decreased** by JPY10.2billion because of our efforts in corporate revitalization and final disposal.

### NPL(term-end balance) and NPL ratio



### Coverage to NPL

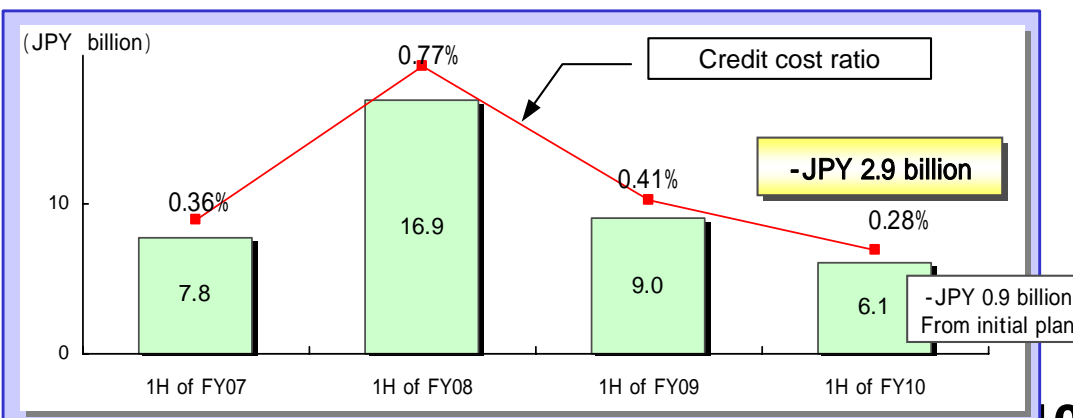
Strengthen coverage to NPL by the mortgage and guarantee.



Coverage ratio: amount of mortgage and guarantee to NPLs

### Credit cost and Credit cost ratio

Credit cost has steadily decreased, and credit cost ratio decreased to **0.28%**.

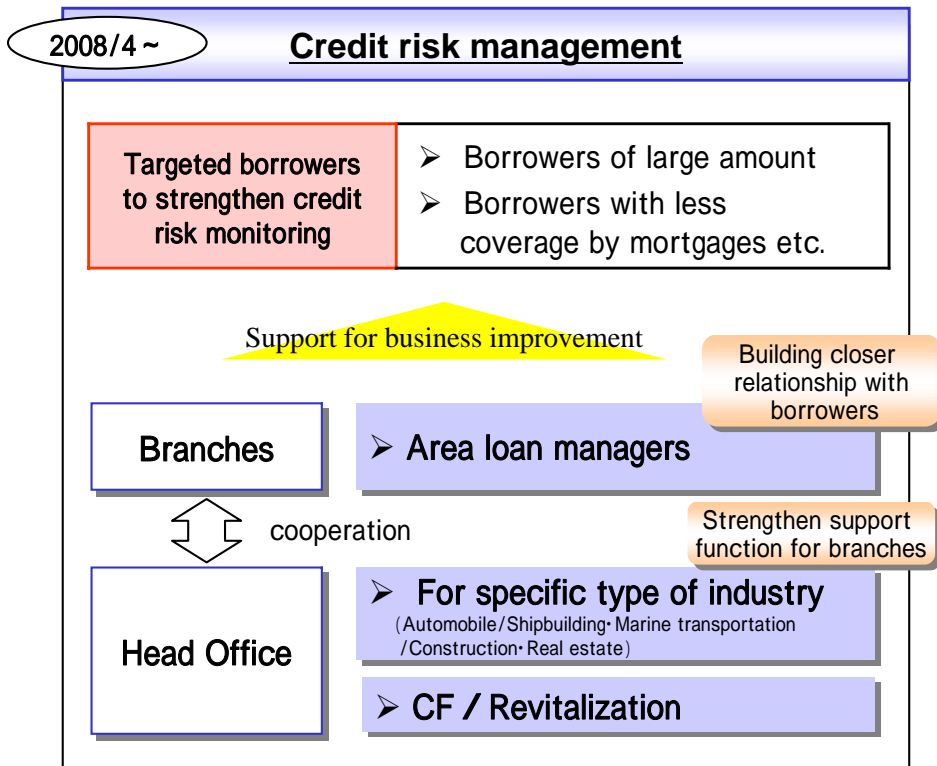


## (9) Effort to strengthen credit risk management

We strengthen both 'risk take' and 'risk control' function **by accurately understanding borrowers' financial situations.**

**[ FY2008 ~ ]**

**Enforce to prevent deterioration of loan.**



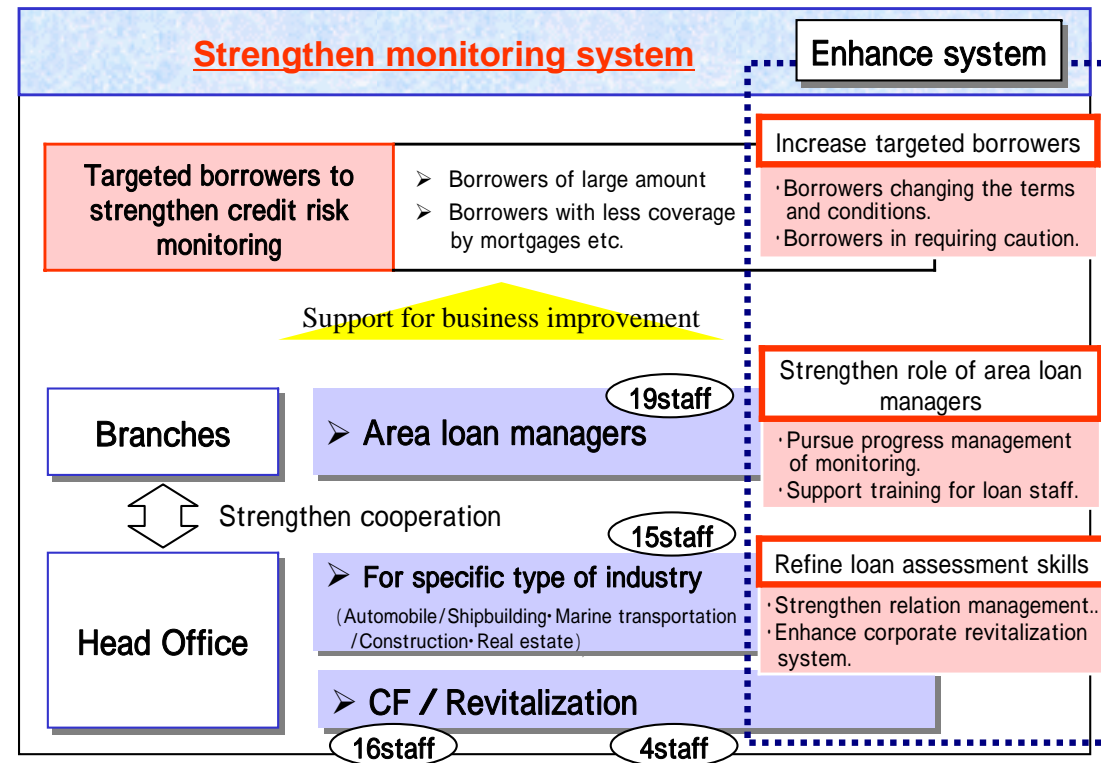
**Correspond to the Law "Facilitate financing for SMEs".**

- Review the terms and conditions of loans for borrowers using Law of 'Facilitate financing' (2009/12 ~).

**2nd half of FY 2010 ~**

**Strengthen monitoring system for accurately understanding borrowers' financial situations.**

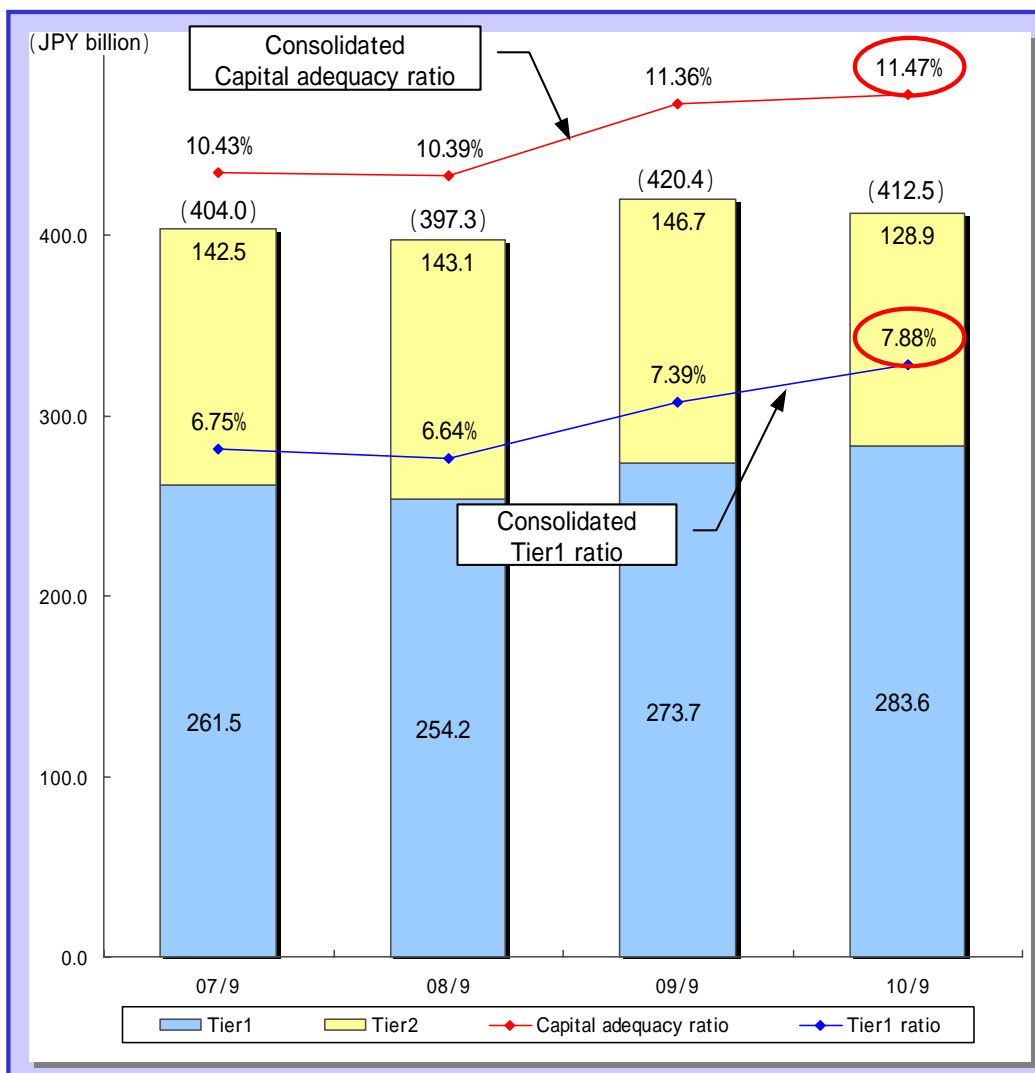
**Change function from 'credit management' to 'monitoring'**



# (10) Capital adequacy ratio

- Capital adequacy ratio has steadily increased through the **accumulation of retained earnings**.
- Capital adequacy ratio (Consolidated) was 11.47%, Tier 1 ratio (Consolidated) was 7.88%.

## Consolidated Capital adequacy ratio and Tier1 ratio



## Breakdown of Capital adequacy ratio

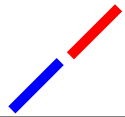
- Tier1 ... Enhance accumulation of retained earnings.
- Tier2 ... Repay JPY 20.0 billion of subordinated capital.

	09/9	10/9	(JPY billion) change
Capital adequacy ratio	11.36%	11.47%	0.11%
Tier1 ratio	7.39%	7.88%	0.49%
Tier1 capital	273.7	283.6	9.9
Tier2 capital	161.2	143.5	-17.7
Subordinated capital	122.0	102.0	-20.0
Deduction	14.5	14.5	0.0
Capital + -	420.4	412.5	-7.9
Risk assets	3,699.9	3,594.8	-105.1

## Enhancement of Tier1 capital

Enhance Tier1 capital through accumulation of retained earnings.

Targeting Tier1 ratio to **above 8%**

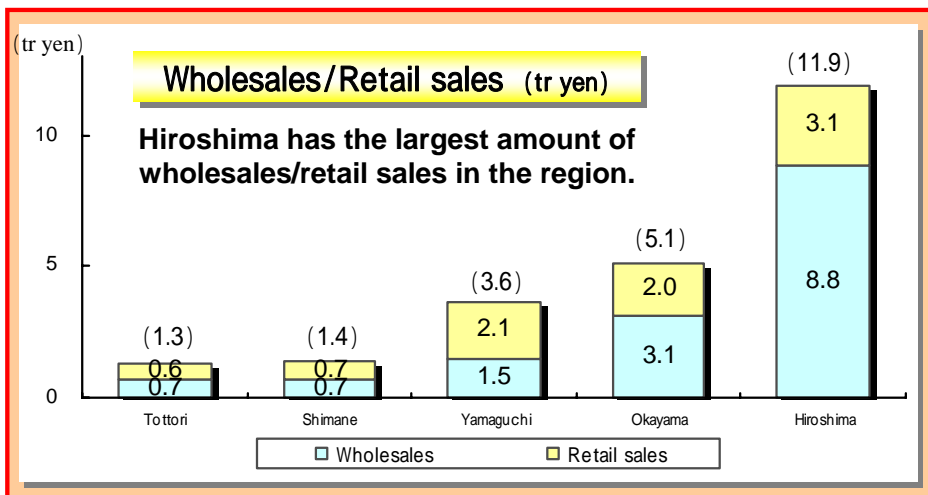
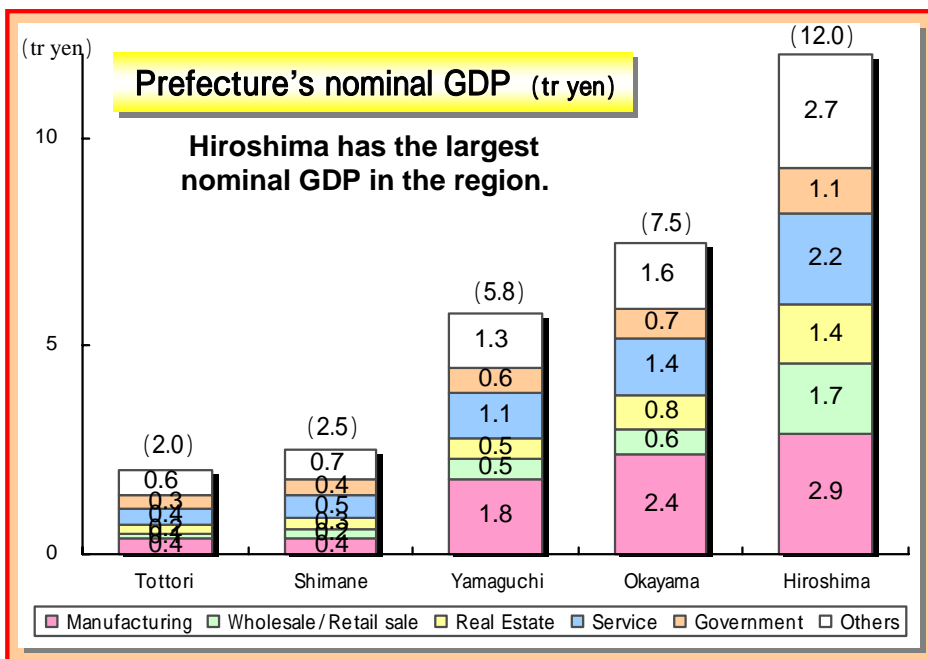


## 2. Key points of business strategies

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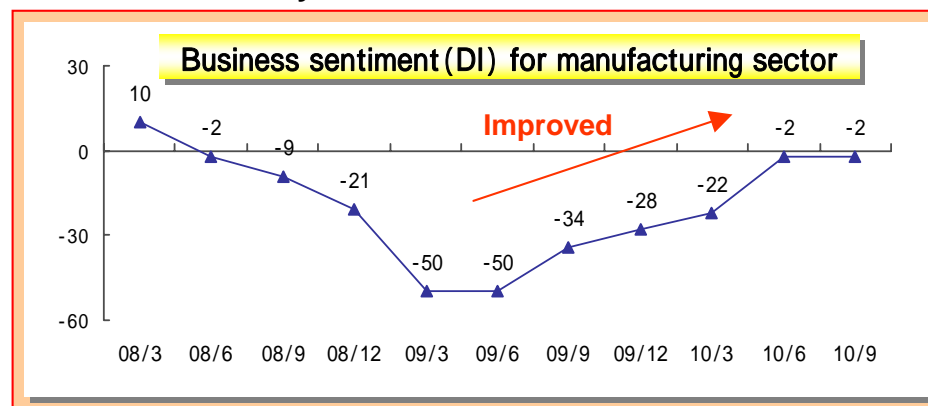
# (1) Economy of Hiroshima

Hiroshima is in No.1 position in terms of both population and business activities in Chugoku-Shikoku Region.



## Economy of Hiroshima

Business sentiment and capital investment of manufacturing sector in Hiroshima have improved reflecting steady growth of Asian economy.



Capital Investment	FY2010 Plan (YOY change : %)	FY2010 Plan (YOY change : %)
Hiroshima	27.6	All - Japan -1.0
Manufacturing	39.1	Manufacturing 3.7
Non-manufacturing	17.2	Non-manufacturing -3.4

In addition to the large scale of economy, accumulation of technologies in manufacturing sector and growth of Asian economy contribute **Hiroshima to expand the economy.**

Hiroshima has **stable growth potential** than other areas

## (2) Overall structure of business style

We have an advantage of attractive market Hiroshima that has more growth potential than other areas.

### Problem in Japan

- Decrease in population
- Progress of aging society

Shrink in domestic market

Decrease rate of population in Hiroshima is moderate than other areas.

	Number of office ('000s)	YOY change for 5 years	Population ('000s)	YOY change for 5 years	Number of households ('000s)	YOY change for 5 years
Hiroshima	140	-3.9%	2,860	-0.4%	1,210	5.0%
Okayama	85	-8.0%	1,950	-0.4%	770	5.8%
Yamaguchi	72	-8.3%	1,480	-2.6%	640	3.4%
Ehime	72	-11.2%	1,470	-2.2%	620	3.8%

Hiroshima

**No.1 position in terms of business activities in Chugoku-Shikoku Region.**

Reflecting growth potential than other areas

**Severe competition among banks in Hiroshima.**

**Strengthen sales activities in the region**

Aiming increase in customers of small-sized companies and individuals.

**【Business Strategies】** We aim to increase our loan balance by expanding shares in the region by fully utilizing our existing competitive advantages.

<b>Hiroshima</b>	<ul style="list-style-type: none"> <li>• Increase the number of loan customers by enhancing points of contact.</li> <li>• Promote loans to small-sized companies.</li> <li>• Increase transaction volume as the main bank offering innovative financial services.</li> <li>• Enhance support for our customers' overseas operations in Asia.</li> </ul>
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Regional three prefectures (Okayama, Ehime, Yamaguchi)	<ul style="list-style-type: none"> <li>• Increase customers by taking advantage of our investment banking expertise.</li> <li>• Enhance market share in corporate loans.</li> </ul>
Urban area	<ul style="list-style-type: none"> <li>• Extend corporate loans mainly to developing industries.</li> </ul>

Shrink in domestic market can be covered by expanding share.

Increase loan market share in Hiroshima by <b>5%</b>  (35% 40%)	Loan Balance  + JPY 300 billion
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Increase loan market share in the region by <b>2%</b> (5% 7%)	Loan Balance  + JPY 200 billion
Increase the number of loans in the urban areas	Loan Balance  + JPY 100 billion

**Challenging target of total loan balance**  
 Loan +JPY 600billion  
JPY 5 trillion



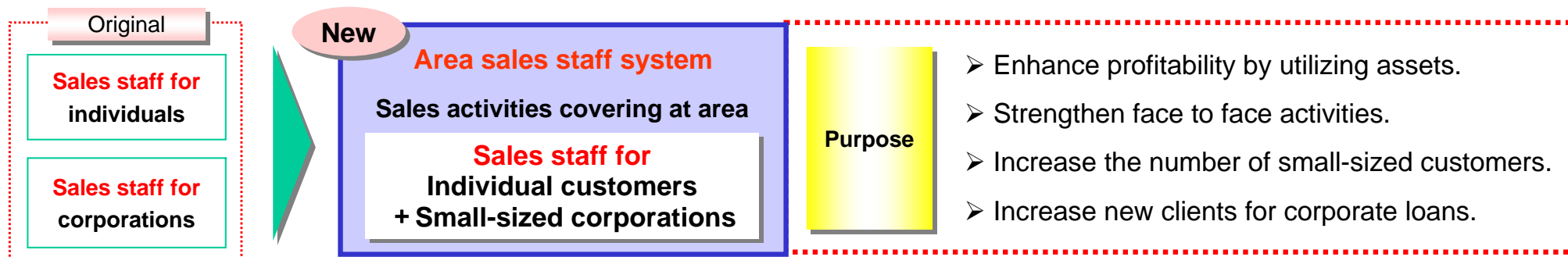
**Fully utilizing our investment banking expertise**  
Enhance fee business



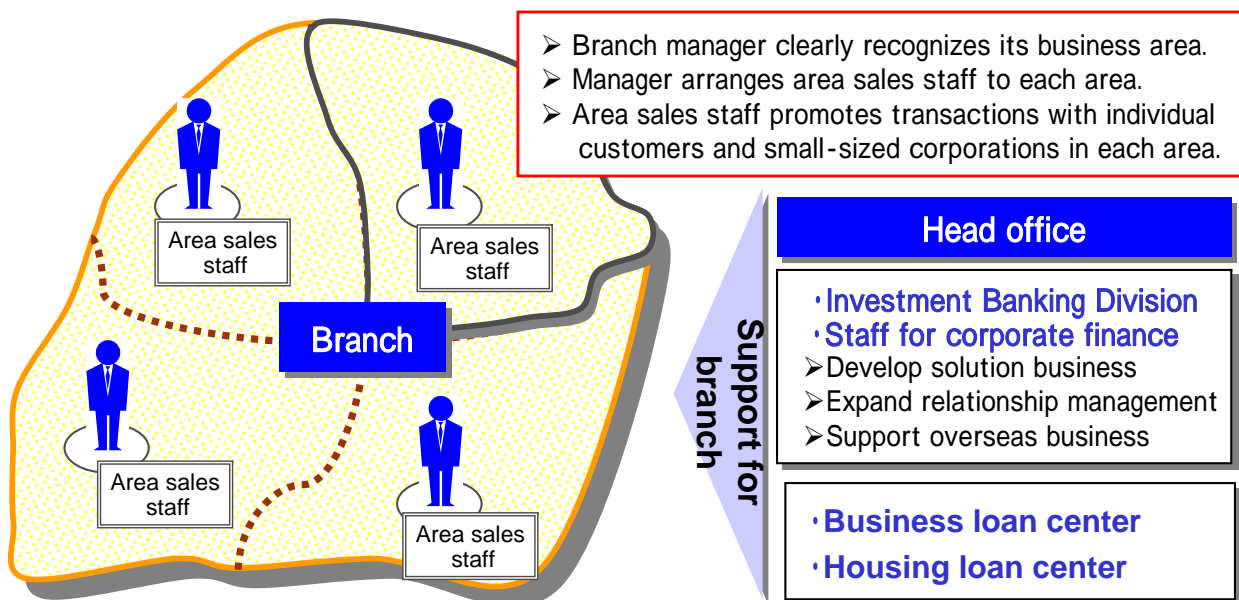
### (3) Area sales staff system

Enhance sales staff    Level-up training for sales staff    Introduction of Area sales staff system.

#### Introduction of 'Area sales staff system' in branch sales activities

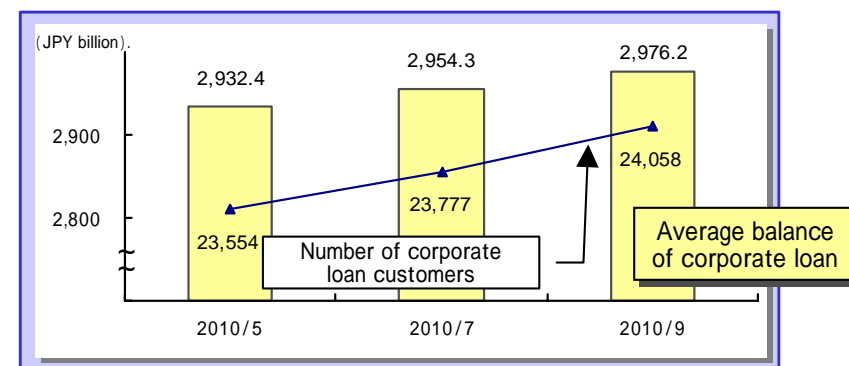


#### Details of Area sales staff system



• Average balance of corporate loan  
• Number of corporate loan customers

Introduction of Area sales staff contribute to increase in balance of corporate loans and number of loan customers.

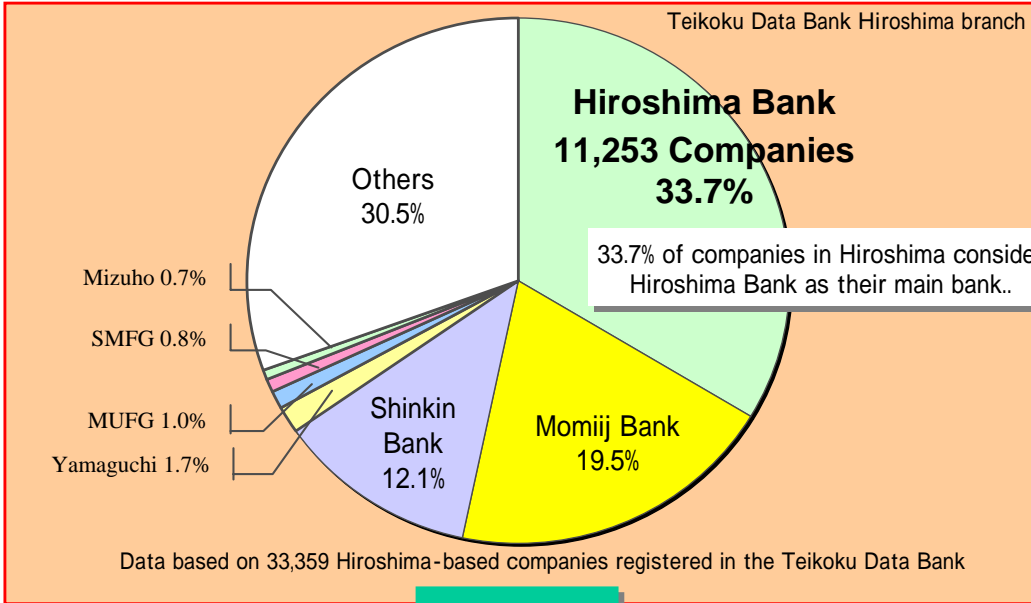


➢ Increase the number of corporate customers by offering effective service and promotion.

➢ Expand share by acquiring loans and deposits from other banks.

## (4) Loan strategies Corporate loans

### Breakdown of companies in Hiroshima by their main bank.



### - Breakdown of above companies by scale of sales -

Scale of sales (JPY billion)	companies	1st (main bank)		2nd	Share
		companies	share		
more than 5.0	547	Hiroshima Bank	255 46.6%	Momiji	9.7%
1.0 ~ 5.0	1,872	Hiroshima Bank	767 41.0%	Momiji	17.4%
0.5 ~ 1.0	1,937	Hiroshima Bank	686 35.4%	Momiji	19.6%
less than 0.5	28,411	Hiroshima Bank	9,299 32.7%	Momiji	19.9%

Companies with sales amounting to less than JPY 1 billion are potential targets as loan customers.

Increase loan market share by targeting retail customers to expand our loan business.

#### System

#### Area sales staff system

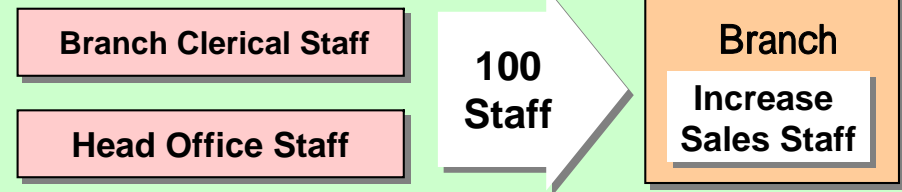
#### Sales activities covering at area

- Enhance market share by promoting area sales.
- Strong ties between branches and head office such as information sharing and cooperation can well correspond to customers' needs.

#### Staff

Aggressively deploying human resources to reinforce the corporate loan business.

#### Reallocating human resources



#### Products

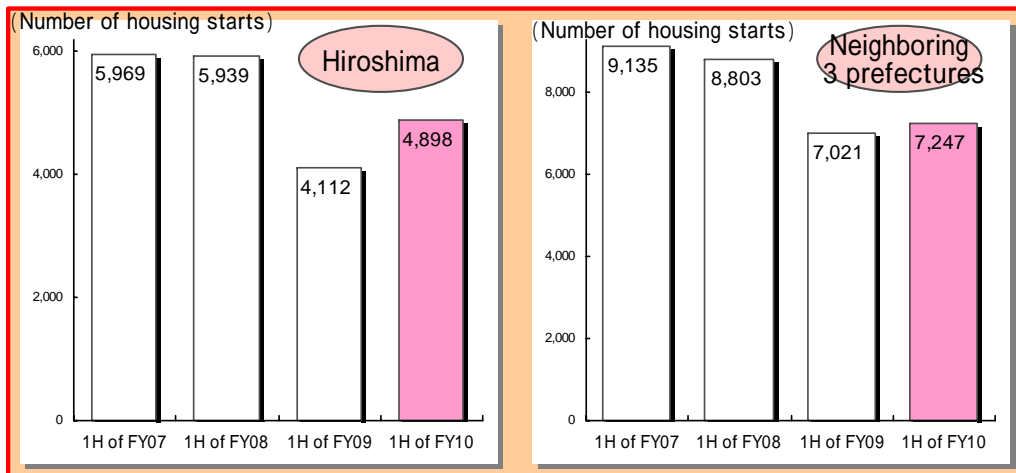
Offer financial products and services to growing and new-coming industries.

- New loan to support growing industries 'New Frontier'.  
Loan to industries regarded as growing sectors by BOJ.
- New loan to support agricultural industry 'Harvest'.  
Key products to approach to agricultural industry in the region.

## (5) Loan strategies Personal loans

### Number of new housing starts in the Region

New housing starts for both newly-built house and condominium steadily recovered in 1st half of FY10.



In addition to loans to new housing starts, we enhance loans to rebuilt and renovation of houses.

Hiroshima

#### Expand share of housing loan in Hiroshima.

- Enhance relations with real estate companies.
- Increase involvement in housing projects.

#### Promote refinance of loans provided by other banks.

- Promote refinance sales by area sales staff.
- Establish special team to promote refinance.

#### Strengthen loans for rebuilt and renovation of houses.

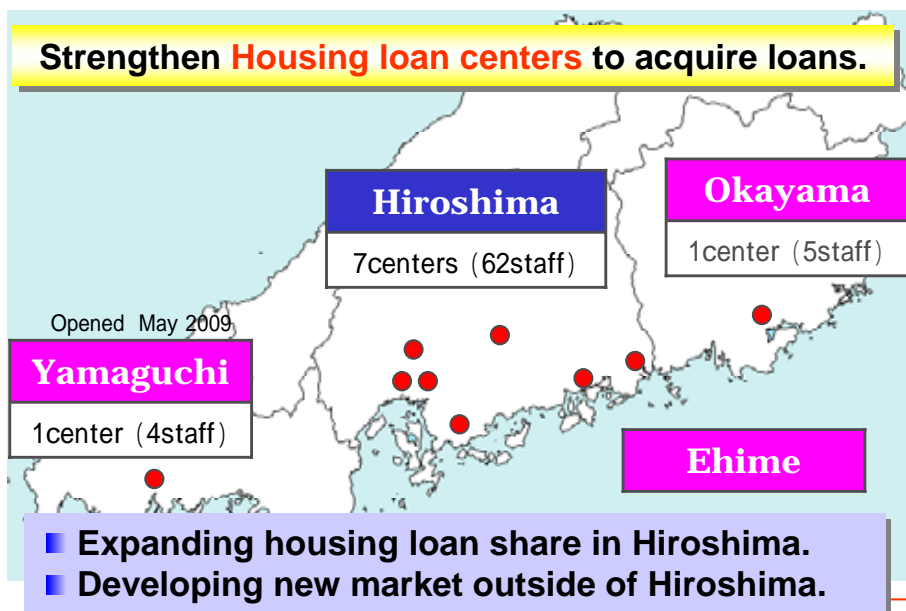
- Increase reception channel for housing loans.
- Introduction of new type of loans for rebuilt and renovation of houses.

Neighboring 3 prefectures

#### Strengthen sales activities by special staff.

- Strengthen sales at main cities (Ehime/Okayama).

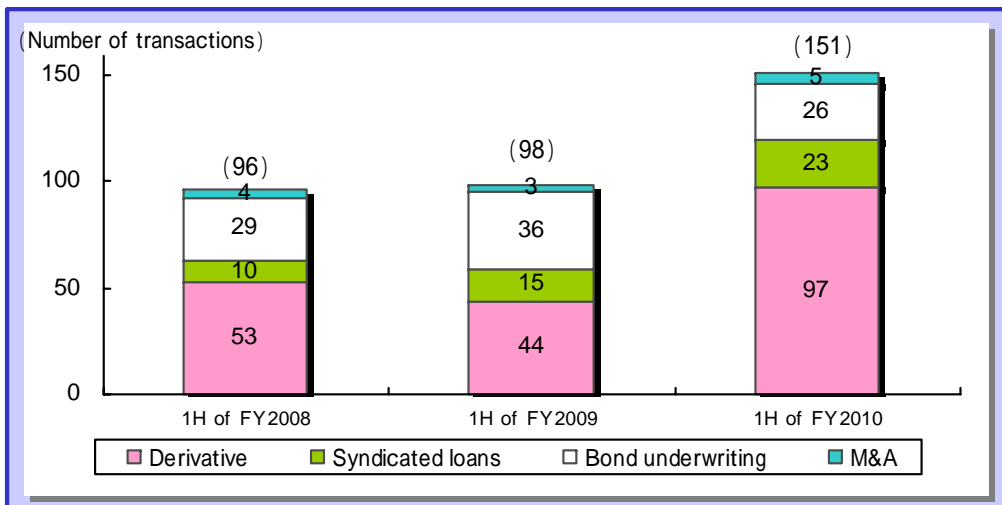
### Strengthen Housing loan centers to acquire loans.



(6) Business for corporate customers ~ Investment banking/Overseas business

Increase corporate customers by strategically enhancing our consulting business.

<Corporate> Number of Investment Banking Transactions



Our consulting business to offer tailor-made financial services

- **Expand tailor-made consulting business.**
  - Corporate revitalization/M&A/Business succession (Combined consulting).
- **Offer information services to corporate customers.**
  - Enhance business matching (Business matching fair).  
「Business network fairs in Osaka」
- **Strengthen approach to customers by RM staff.**
  - Support for specific industries (Automobile/Shipbuilding/Medical/Nursing).

An increase in business for our bank can be expected along with the growth of the Asian economy.

Our customers' expansion into Asia

Countries	Companies(offices)
China	309 (518)
Thailand	85 (103)
Vietnam	27 (28)
Singapore	26 (31)
Hong Kong	23 (24)
Amount	411 (847)

Bangkok Representative Office

Shanghai Representative Office

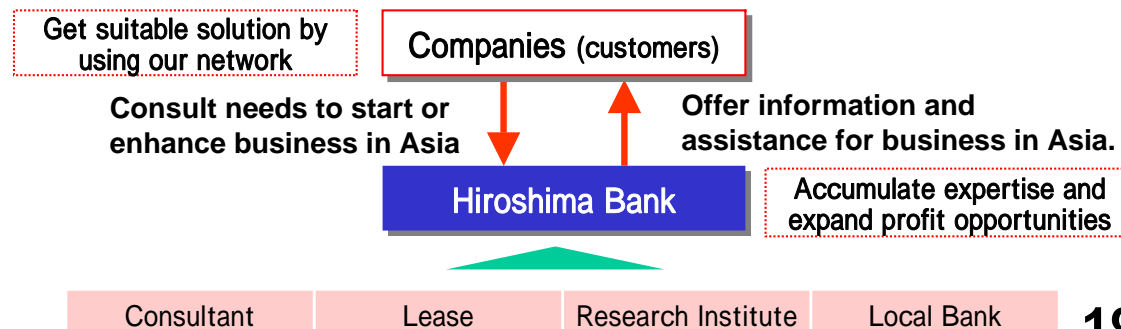
Hiroshima

Alliance with Foreign Banks

Countries	Alliance with Foreign Banks
China	Bank of China / Bank of Communications / Dalian Bank (Oct,2010)
Thailand	Bangkok Bank / Kasikorn Bank
Korea	Korea Development Bank / Korea Exchange Bank
Indonesia	Bank Negara Indonesia
Philippines	Metropolitan Bank (May,2010)

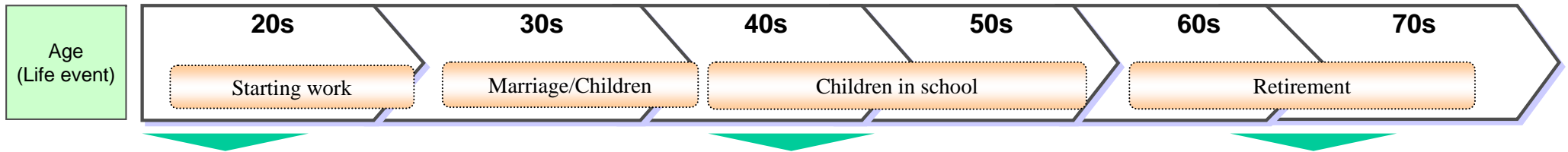
Establish "Asian Business Support Desk" (Oct.2010)

Establish "One Stop" consulting system and offer tailor-made solution.



## (7) Business for retail customers

Based on Hiroshima's competitive advantages (i.e. population factor), we strive to strengthen our retail business by focusing on customers' needs in each life stage and by conducting effective sales activities.



### <customers> Start receiving salary

Strengthen credit card business to capture new customers.

**Value One Card**



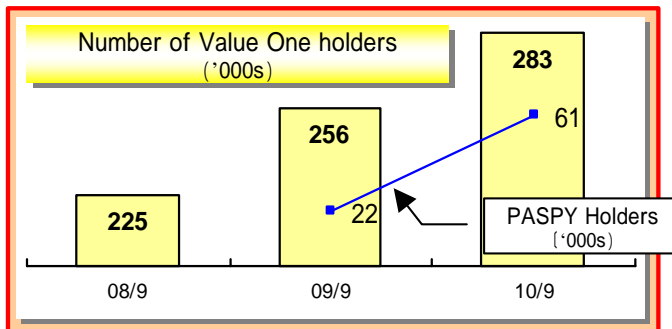
With 3 functions

- Cash Card
- Credit Card
- Card Loan

**Sub card**

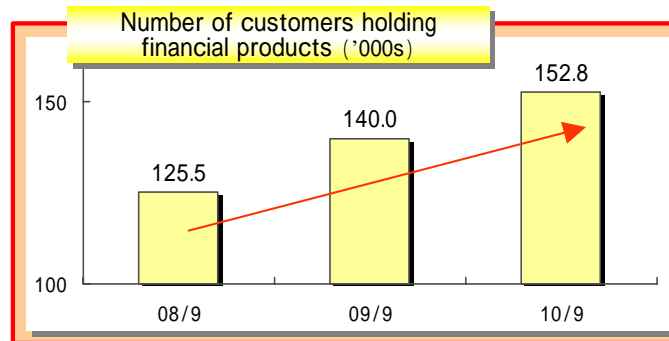


- Traffic IC function
- Post-pay function
- Member Card



### <customers> Asset formation

Increase the number of customers holding financial products.



### <customers> Need loans

Strengthen card loan business.

Term-end balance of Card Loans(10/9) **JPY 16.2billion**

### <customers> Asset management

Strengthen consulting advisory service.



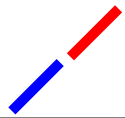
### Strengthen private banking

- Strengthen sales skills of PB in branches.
- PB in head office support consulting activities

Enhance consulting function for asset management and property succession.

- Develop consulting for property succession.
- Strengthen trust business for last will.
- Consult asset management (Apartment loan etc.).

Strengthen approach to customers by developing direct banking channel.



### **3. Earning estimate for FY2010 and Dividend policy**

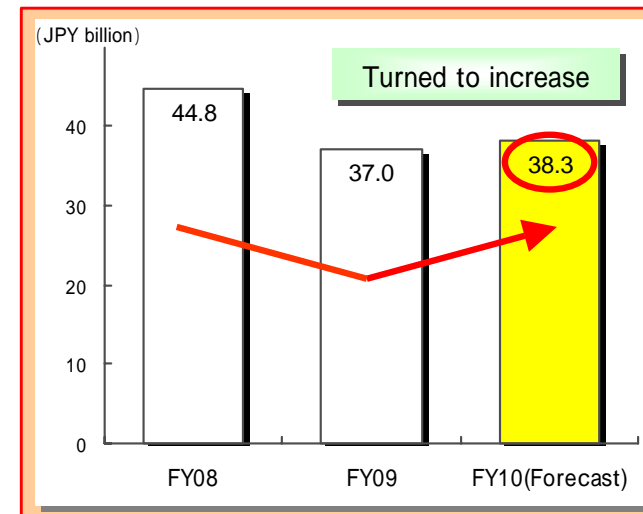
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# (1) Earning estimate for FY2010

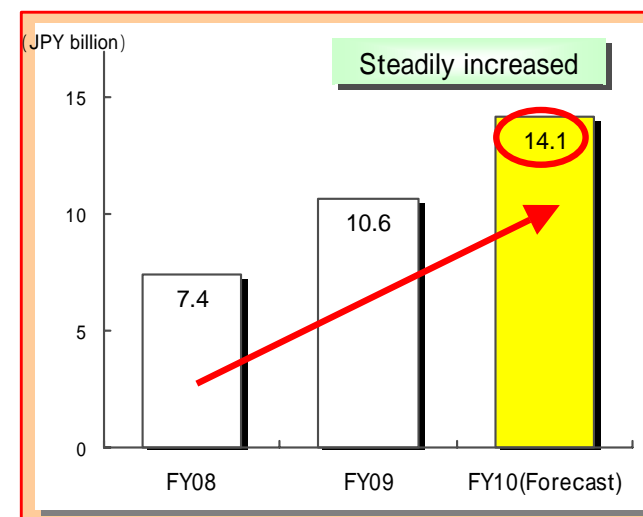
- **Core banking profit** ·· increased by JPY 1.3 billion to JPY38.3 billion.  
(increased by JPY 1.0 billion from the initial plan)
- **Net income** ·· increased by JPY 3.5 billion to JPY14.1 billion.  
(increased by JPY 1.1 billion from the initial plan)

	FY2010 (Forecast)	(JPY billion)	
		Change from FY2009	Difference from the initial plan
Net interest income	79.3	-0.7	-0.8
Net fees and commissions income	17.6	1.2	1.1
<b>Core gross banking profit</b>	<b>96.9</b>	<b>0.5</b>	<b>0.3</b>
( - ) Expenses	58.6	-0.8	-0.7
<b>Core banking profit</b>	<b>38.3</b>	<b>1.3</b>	<b>1.0</b>
Gains/Losses from securities	4.5	4.3	4.5
<b>Real banking profit</b>	<b>42.8</b>	<b>5.6</b>	<b>5.5</b>
Gains/Losses from stocks	-5.5	-2.4	-5.5
( - ) Credit costs	12.1	-2.5	-1.9
<b>Ordinary profit</b>	<b>24.2</b>	<b>6.6</b>	<b>2.1</b>
<b>Net income</b>	<b>14.1</b>	<b>3.5</b>	<b>1.1</b>

## Core banking profit



## Net income



## (2) Dividend policy

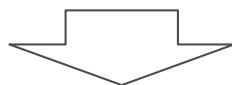
**Dividend policy** : Pay 5Yen per share of **Stable dividend** + **Performance-based dividend** based on consolidated net income.

### Dividend Policy and Payout Table

(A) **Stable dividend**: Annual dividend of 5 yen per share

(B) **Performance-based dividend**: If our consolidated net income exceeds JPY 18.0 billion, 20% of the surplus will be returned to our shareholders as dividend

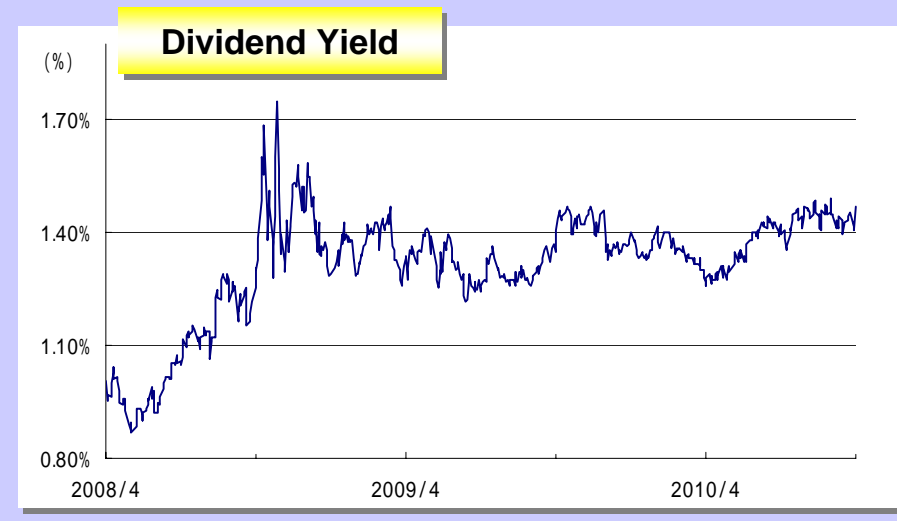
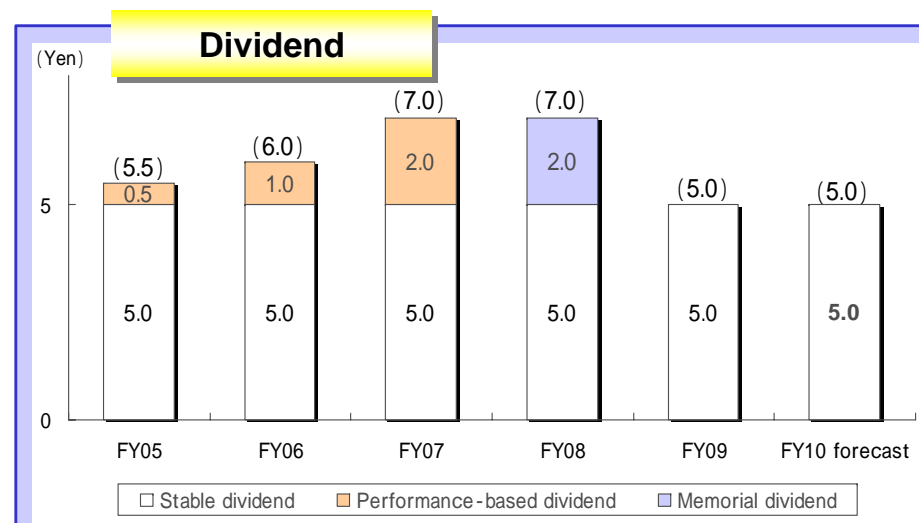
Consolidated net income	Dividend per share			Consolidated payout ratio
	(A) Stable	(B) Performance-based	(A) + (B)	
under 18 billion	5 yen	0 yen	5 yen	17.4% and over
18 - 21 billion	5 yen	1 yen	6 yen	17.9% and over and less than 20.8%
21 - 24 billion	5 yen	2 yen	7 yen	18.2% and over and less than 20.8%



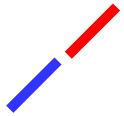
Expect dividend of 5 yen per share (annual) in FY2010 based on dividend policy and payout table.

	Dividend per share (annual) FY10		
	Interim	Year-end	
Dividend forecast	2.5 Yen	2.5 Yen	<b>5.0 Yen</b>

### Dividend and Dividend Yield







## 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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