

Financial results for interim FY2012

- IR presentation -

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President Koji Ikeda

The Hiroshima Bank , Ltd.





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1 . Summary of Financial Results

(1) Financial highlights for interim FY2011

■ **Net income** for the reporting period was **JPY 7.5 billion**, approximately equal to the same period last year (+0.6% yoy) due to the growth in **core banking profit to JPY 18.7 billion (+JPY 0.7bn, +4.1% yoy)** as a result of cost reduction that covered the decline in gains from securities.

【 Non-consolidated 】

	1st half of FY2012	Change from 1st half of FY2010		Difference from plan
			(JPY billion)	
Net interest income	37.8	-0.2	-	0.0
Net fees and commissions income	8.9	0.0	-	0.0
Core gross operating profit	46.7	-0.2	-0.4%	0.0
(-) Expenses	28.0	-0.9	-	-1.0
Core banking profit	18.7	0.7	4.1%	1.0
Gains/Losses from Securities	5.2	2.2	-	4.4
Real banking profit	23.9	2.9	14.0%	5.4
Gains/Losses on stocks	-6.6	-3.0	-	-6.0
(-) Credit costs	4.4	0.2	-	-0.1
Ordinary profit	12.2	0.2	2.0%	0.1
Net income	7.5	0.0	0.6%	0.0

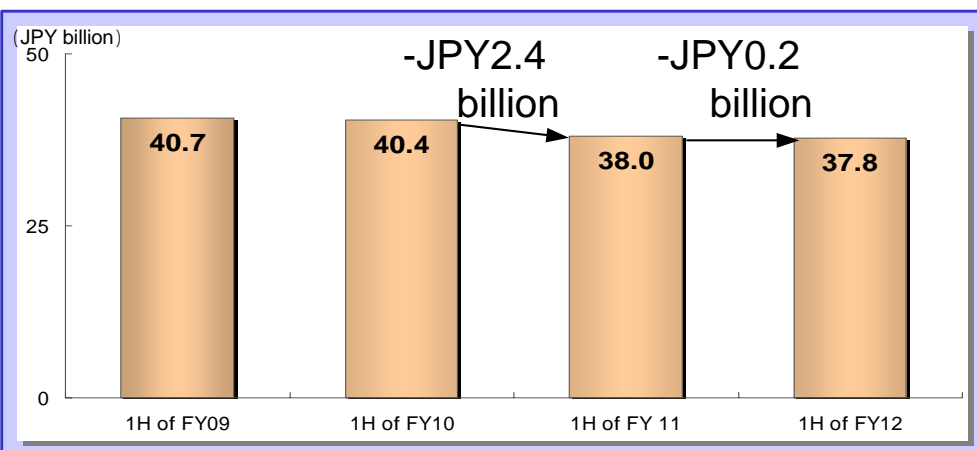
【 Consolidated 】

Ordinary profit	12.9	0.1	0.8%	0.1
Net income	7.7	0.0	0.8%	0.0

(2) Breakdown of profit ① (Net interest income)

While interest on yen-denominated loans declined by JPY1.3bn due to lower market interest rates, its impact on the net interest income was contained to **-JPY0.2bn yoy** due to increases in interest and dividends from securities by JPY0.5bn and a decline in interest on yen deposits of JPY0.6bn.

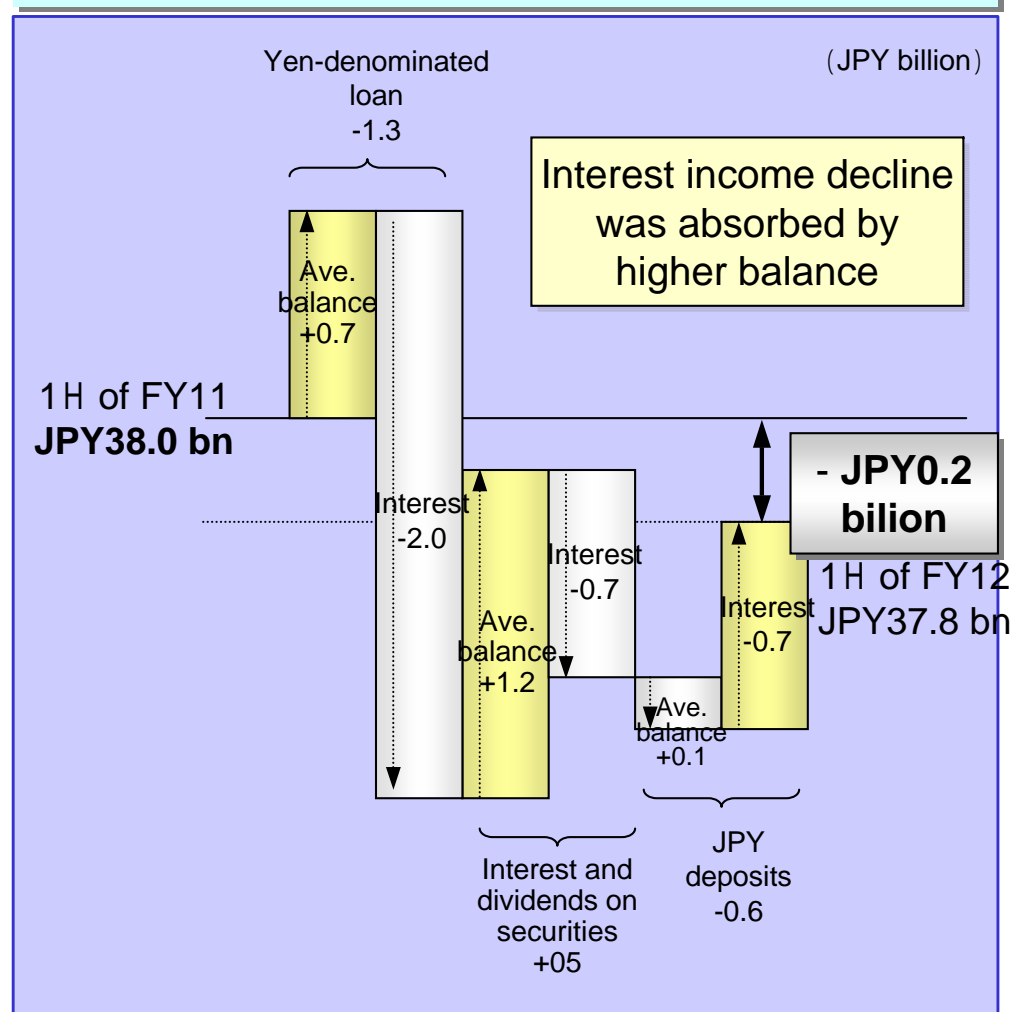
Net interest income



Breakdown of net interest income

	1st half of FY2012 (JPY billion)	
	1st half of FY2012	yoy change
Interest on loans	34.7	-1.3
Interest on securities	8.6	0.5
Interest on deposits(-)	2.4	-0.6
Other interest expenses(-)	3.1	0.0
Net interest income	37.8	-0.2

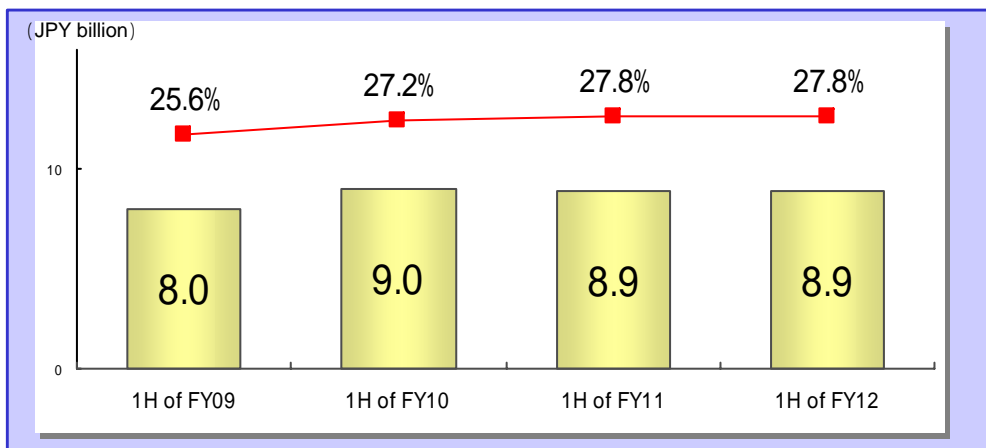
Movements of key factors (average balance and interest) of net interest income



(3) Breakdown of profit ② (Net fees and commissions income)

- Net fees and commissions income was on par with the same period last year due to increased income from syndicated loans and other investment bank operations that offset the decline in sales of investment trust and insurance policies.
- The ratio of income from net fees and commissions was 27.8%, one of the highest levels among top regional banks.

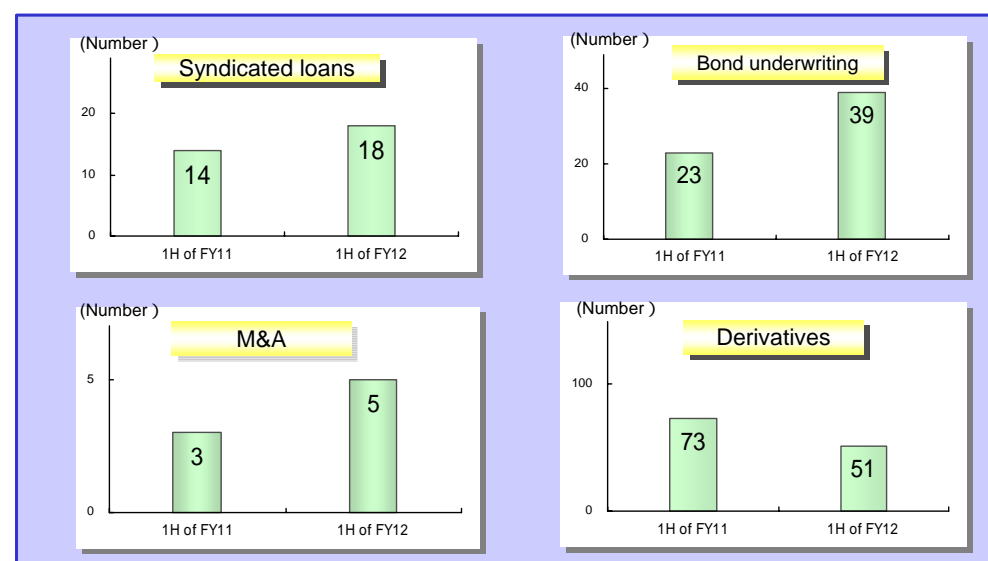
Movements of net fees and commissions income



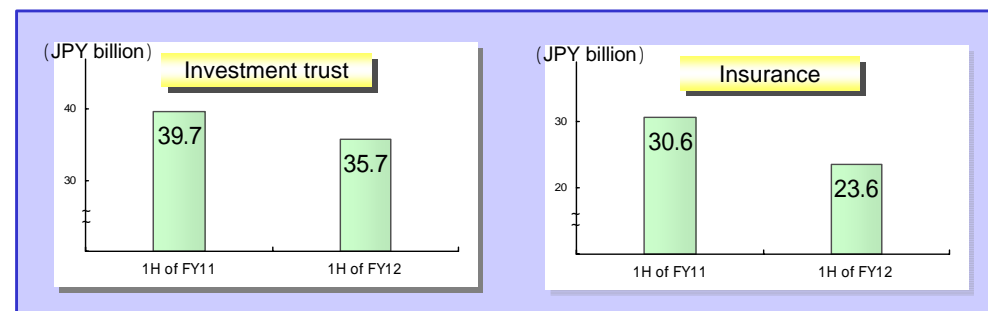
Breakdown of net fees and commissions income

	1st half of FY2012 (JPY billion)	
	1st half of FY2012	yoy change
Interest banking	1.6	0.3
Retail asset management	2.8	-0.4
Other	4.5	0.1
Net fees and commissions	8.9	0.0

Investment banking transaction volume



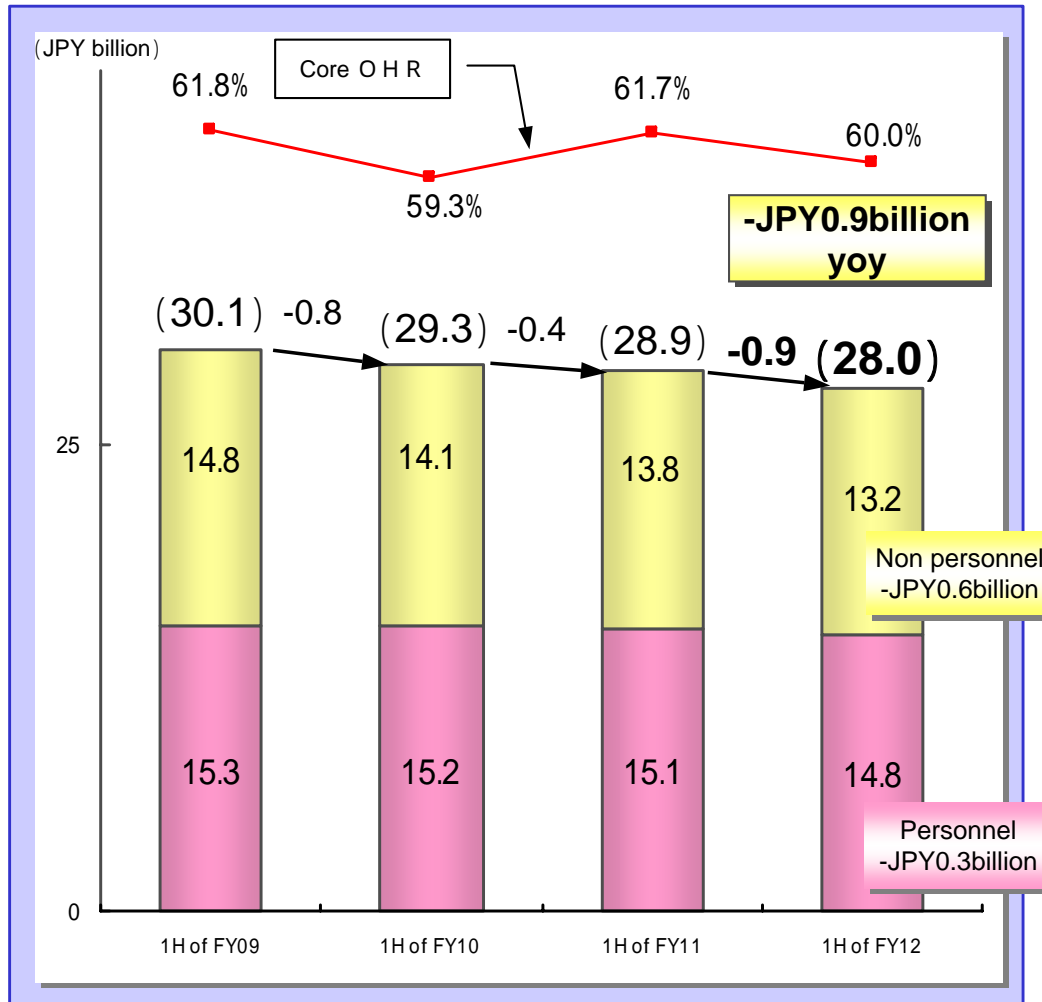
Investment trust/ insurance policies sold



(4) Breakdown of profit ③ (Expenses)

Our aggressive cost reduction efforts resulted in further improvement by **JPY0.9bn to JPY28bn yoy** with **1.7pt improvement in core OHR to 60.0%**.

Expenses and Core OHR



Breakdown of expenses

Non-personnel cost

(JPY billion)

Factors	Reduction
Review of outsourcing contracts for ATM	
Review of ATM security transport services and email center operations	-0.4
Reduction in depreciation costs	-0.1
Review of existing cost structure (bank-wide cost reduction efforts)	-0.1

Personnel cost

(JPY billion)

Factors	Reduction
Retirement benefit expenses	-0.2
Head count reduction	-0.1

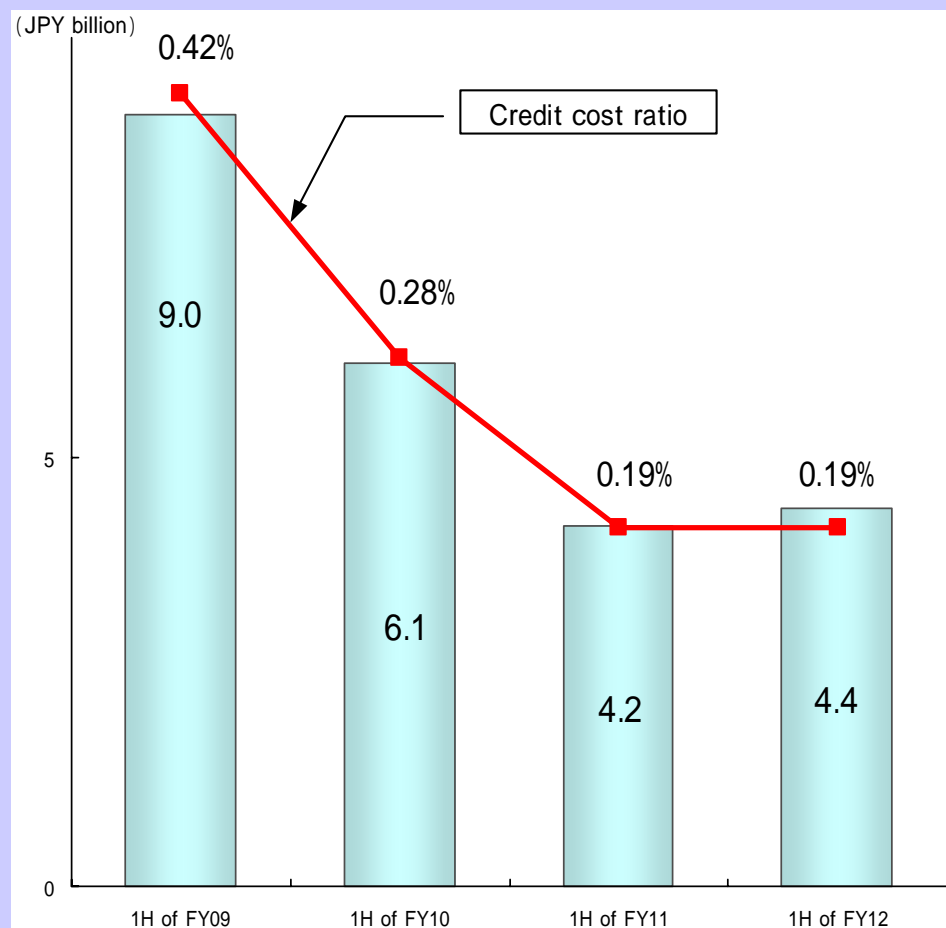
Core OHR = Expenses/Core gross profit

(5) Breakdown of profit ④ (Credit costs)

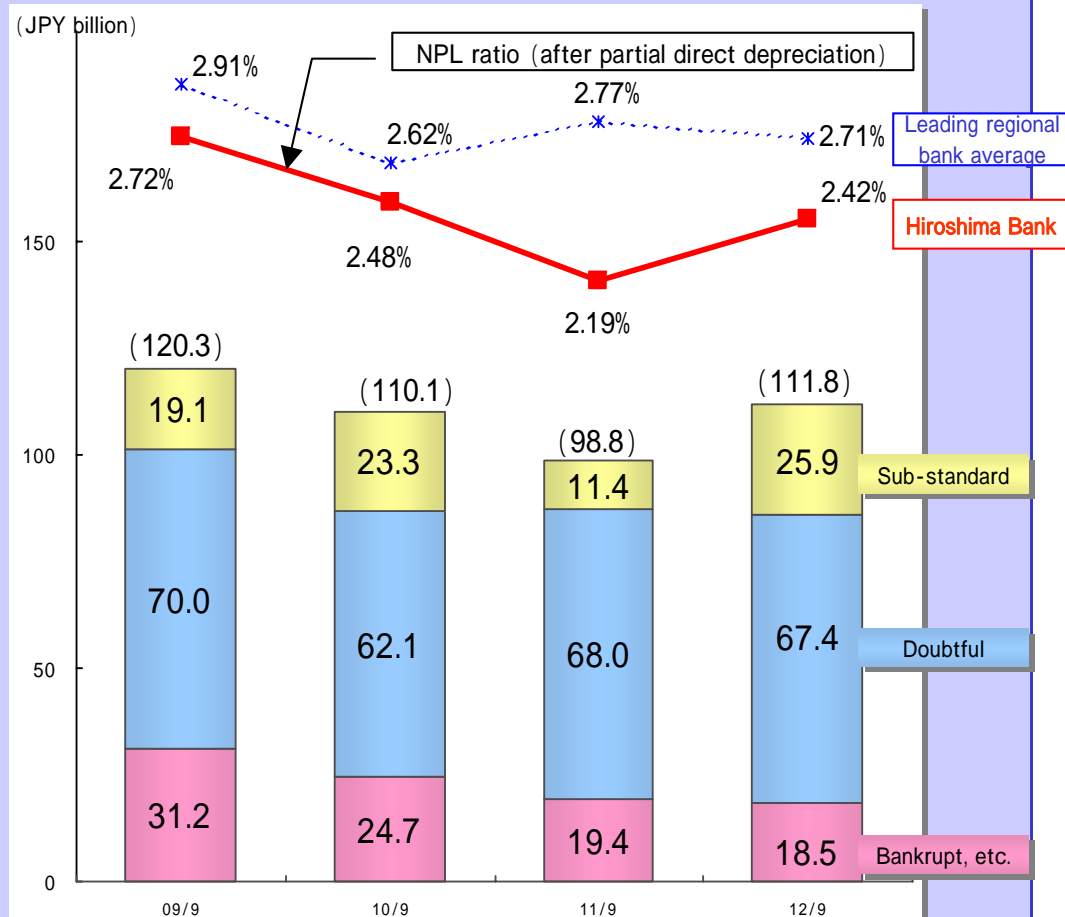
■ The credit cost of the reporting period was up JPY0.2bn yoy to JPY4.4bn, however, the credit cost ratio was 0.19%, maintained at a healthy level of below 0.20%.

■ Loans based on the Financial Reconstruction Act and NPL ratio also remained at a healthy level as a result of the enhanced support for borrowers in their business improvement effort.

Credit costs and credit cost ratio

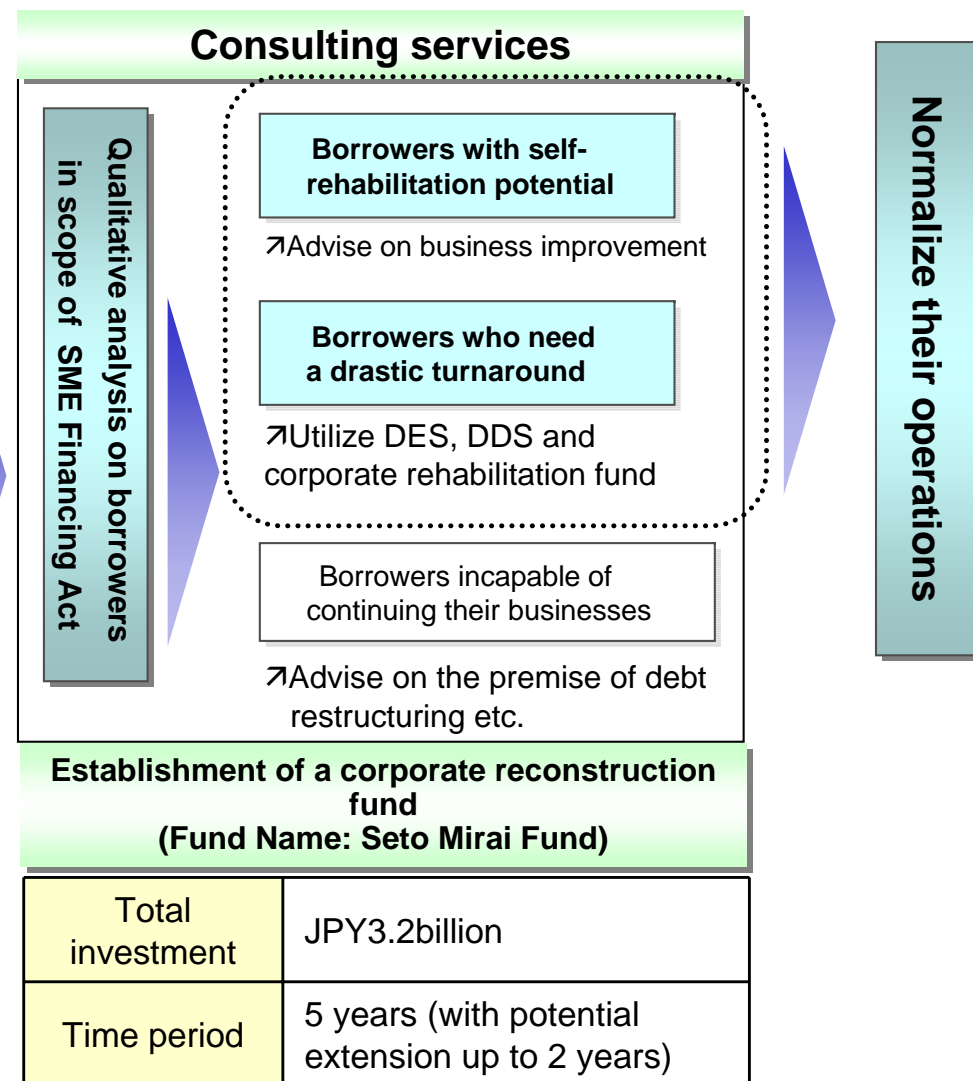
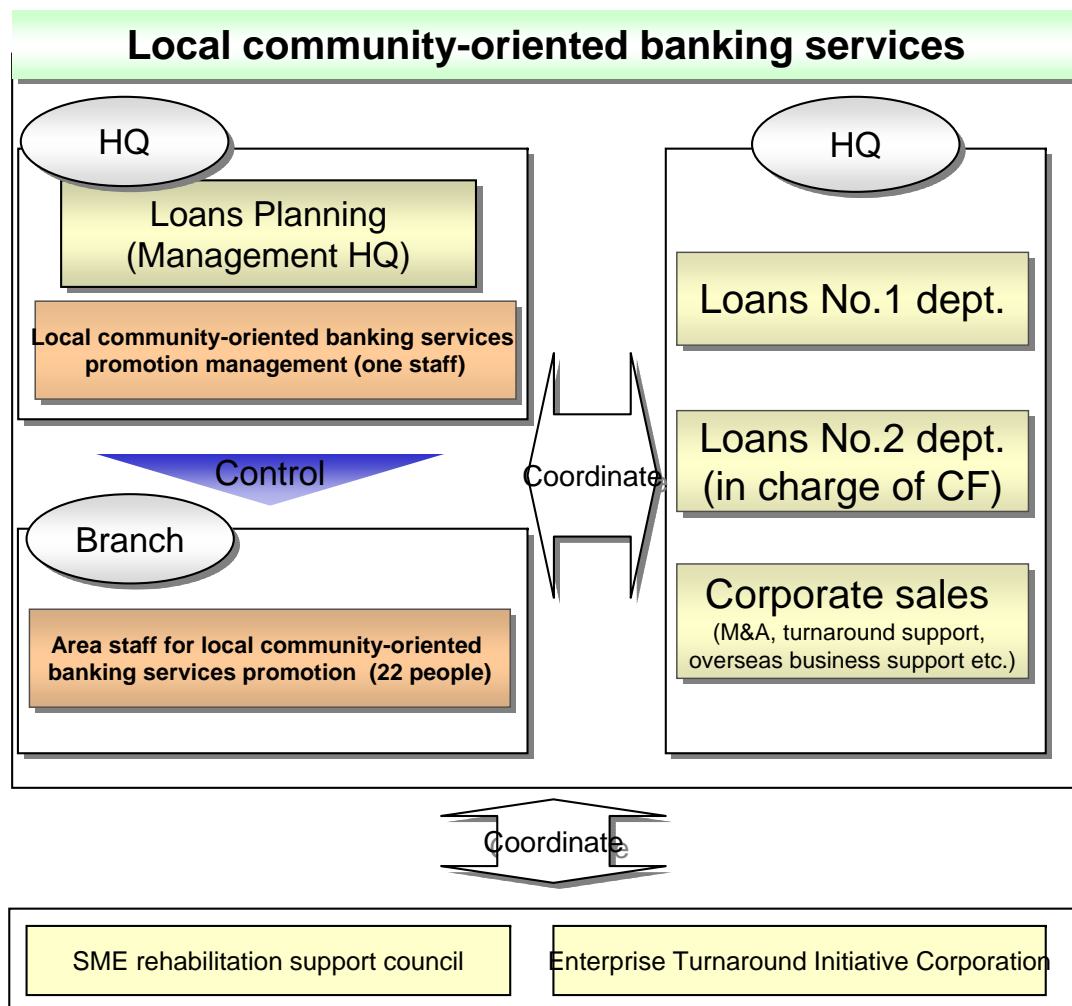


NPLs (term-end balance) and NPL ratio



(6) Breakdown of profit ⑤ (Credit costs)

- Strengthen our execution structure for the community-based financing services to further extend our support for clients' business revitalization efforts.
- Conduct quantitative and qualitative analyses to design best-suited solutions for the clients under the SME Financing Facilitation Act
- Already prepared provisions (JPY4bn) for credit needs in the future for the clients under the SME Financing Facilitation Act
- Establish a corporate reconstruction fund (fund name: Seto Mirai Fund) to step up our support for clients' business revitalization efforts as part of the exit strategy from the SME Financing Facilitation Act

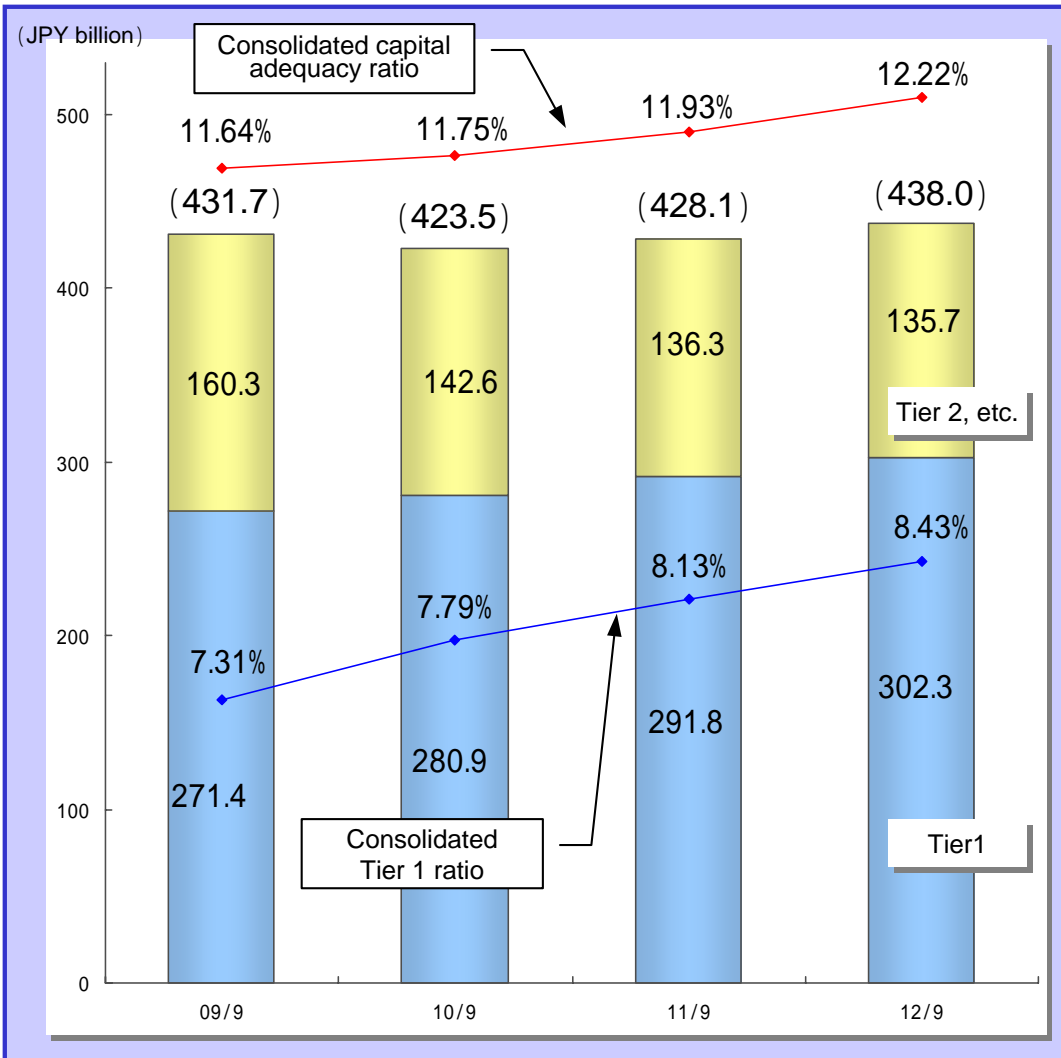


(7) Capital adequacy and ROE

■ The non-consolidated capital adequacy ratio has risen **over 12% to 12.22%** with the non-consolidated tier 1 ratio improving to **8.43%**.

■ ROE of the reporting period was 5.1% with an expectation to **reach 5.7% for a full year**.

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



Breakdown of non-consolidated capital adequacy ratio

Tier 1: Improved steadily due to increased internal reserves

Tier 2: Reduced subordinated debts due by 2bn yen

	11/9	12/9	(JPY billion) vs. 11/9
Basic items (Tier 1)	291.8	302.3	10.5
Complementary items (Tier 2)	137.0	136.4	-0.6
Outstanding subordinated debts	97.0	95.0	-2.0
Deductions()	0.7	0.7	0.0
Own capital	428.1	438.0	9.9
Risk asset	3,588.9	3,584.5	-4.4

■ Further improve the capital adequacy ratio by building up internal reserves and reducing risk assets

ROE (based on net profit of the term)

	1H FY2012	FY2012 full year	Over LY
ROE	5.1%	5.7%	1.0%

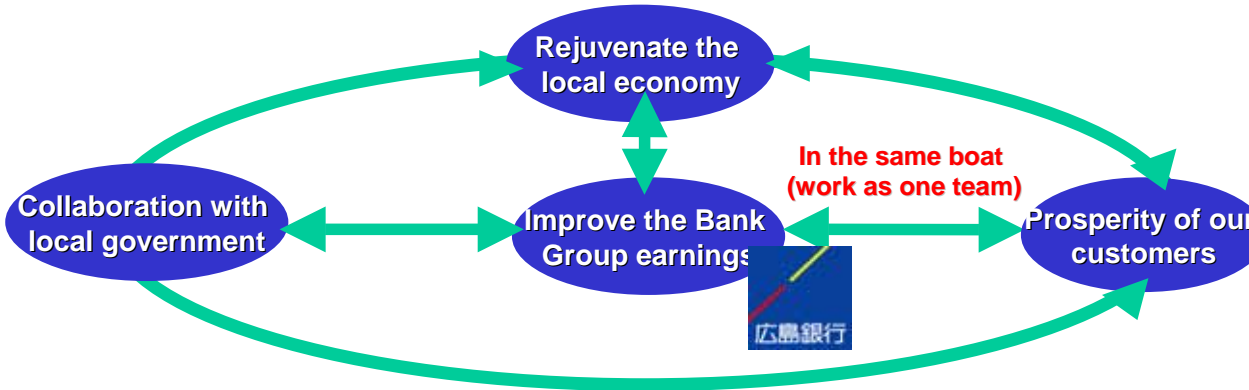
2. Overview of the mid-term plan 2012 'Challenge for Innovation'

(1) Framework of the mid-term plan 2012

Management vision

Developing a reliable 'Hiroshima Bank Group' (the Bank Group) with a strong connection of mutual trust with the local community.

Customers' growth and prosperity will stimulate the local economy, and improve our earnings as a result.



Mid-term plan 2012 'Challenge for Innovation' (FY12 – FY14)

To ensure overwhelming position as a leading bank under ever-competitive and harsh environment in financial services industry, we need a drastic change in our mindset and behavior to be the preferred bank by our customers.

Changing our mindset/behavior

All employees should drastically review conventional processes, make a bold move to deliver results.

Basic policy

Ensure overwhelming position as a leading bank through drastic 'transformation of mindset and behavior'

Slogan

Be the 'First call bank' that always puts customer-service as top priority !

(2) Framework of the mid-term plan 2012

Management KPI's

	FY2012 plan	FY2014 forecast
Core banking profit	JPY37.4billion	Above JPY 40 billion
Consolidated Net Income	JPY17.0billion	Above JPY 20 billion With 1 Yen dividend increase (7 Yen/year)
Consolidated Tier1 ratio	8.5%	9.0% or more
Credit cost ratio	0.18%	0.15% or less
Core OHR	60.2%	58.5% or less
ROE	5.7%	6.0% or more

Sales Strategy Pillars

Key strategic points	
	Grow the steady stream of earnings (stock business)
	Enhance the consultation-based sales
	Contribution to local economy through better alliance with government sector
	Channel restructuring

(3) Growing the steady stream of earnings (stock business)

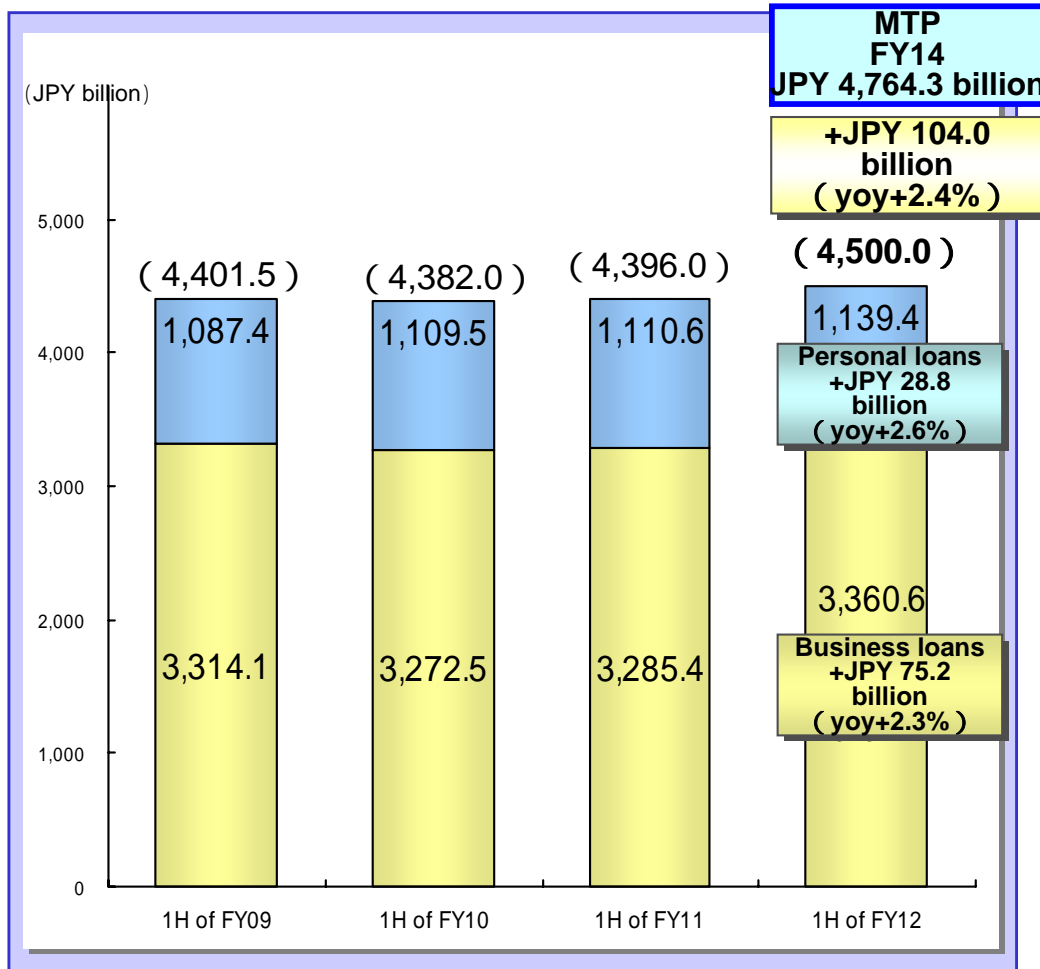
Details of the approach for stock business enhancement

①	<p>Growing loans for SMEs</p> <p>P14, 15</p>	<ul style="list-style-type: none"> ■ Transforming our mindset and behavior to be a truly action-oriented team that always thinks of the customer first in order to enhance relationships with a wider group of customers as we facilitate implementation of area-based operations. <ul style="list-style-type: none"> · Reviewing the Behavioral Guideline for Sales (to double the number of visits per day (10→20 visits) (September average: 21.3 visits) · Increasing sales staff by 100 (by FY2014) · Increasing assessors' visits to branches to facilitate discussions on sales opportunities (H1: 280 visits)
②	<p>Promoting housing and consumer loans</p> <p>P16</p>	<ul style="list-style-type: none"> ■ Proactively seizing housing loan opportunities of that are likely to arise along with scheduled consumption tax hikes. ■ Expanding and enhancing functions of the Mortgage Loan Center. <ul style="list-style-type: none"> · Building new mortgage loan centers (in Kurashiki and Hiroshima Higashi)
③	<p>Strengthening OTC sales capabilities (e.g. AUM)</p> <p>P17</p>	<ul style="list-style-type: none"> ■ Increasing repeat customers through enhanced sales efforts of individual branches. <ul style="list-style-type: none"> · Achieving OTC sales ratio of financial products: 46.5% (H1 FY2012)

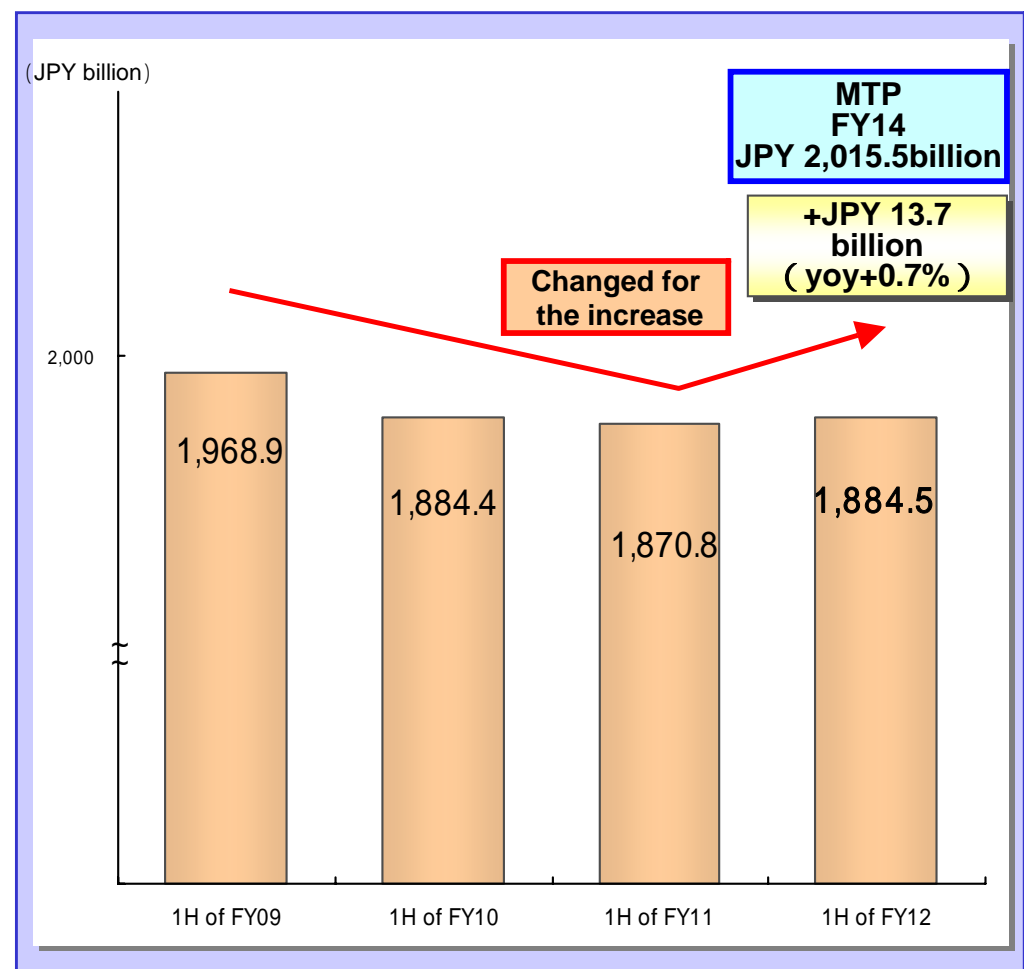
(4) Growing the steady stream of earnings (stock business) (loans)

- Loan balance (average balance) **increased for both business and personal loans by JPY104bn yoy (annualized +2.4%).**
- Business loans for SMEs (average balance) **started to grow by JPY13.7bn yoy (annualized +0.7%) as a result of establishment of the area-based operation.**

Movements of loan balance (average balance)



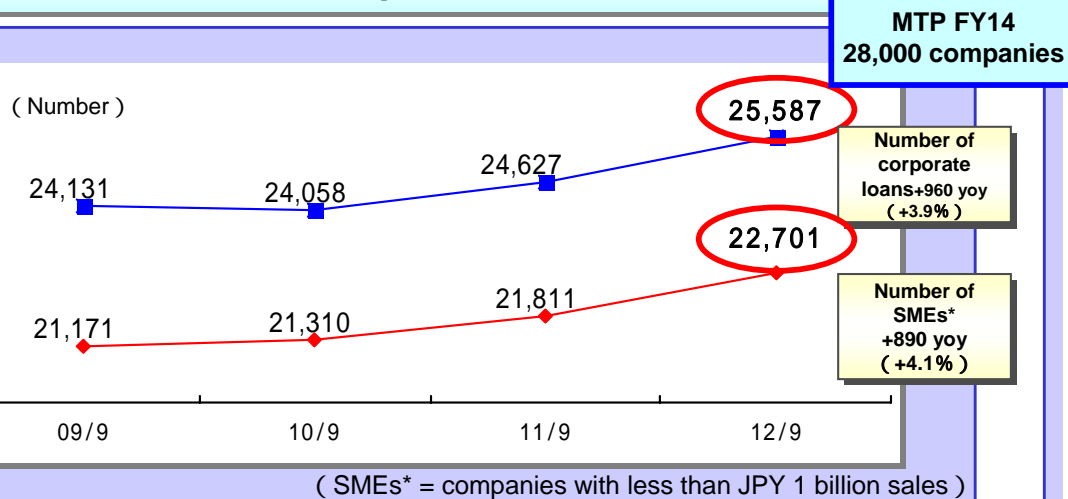
Business loan balance (average balance) for SMEs



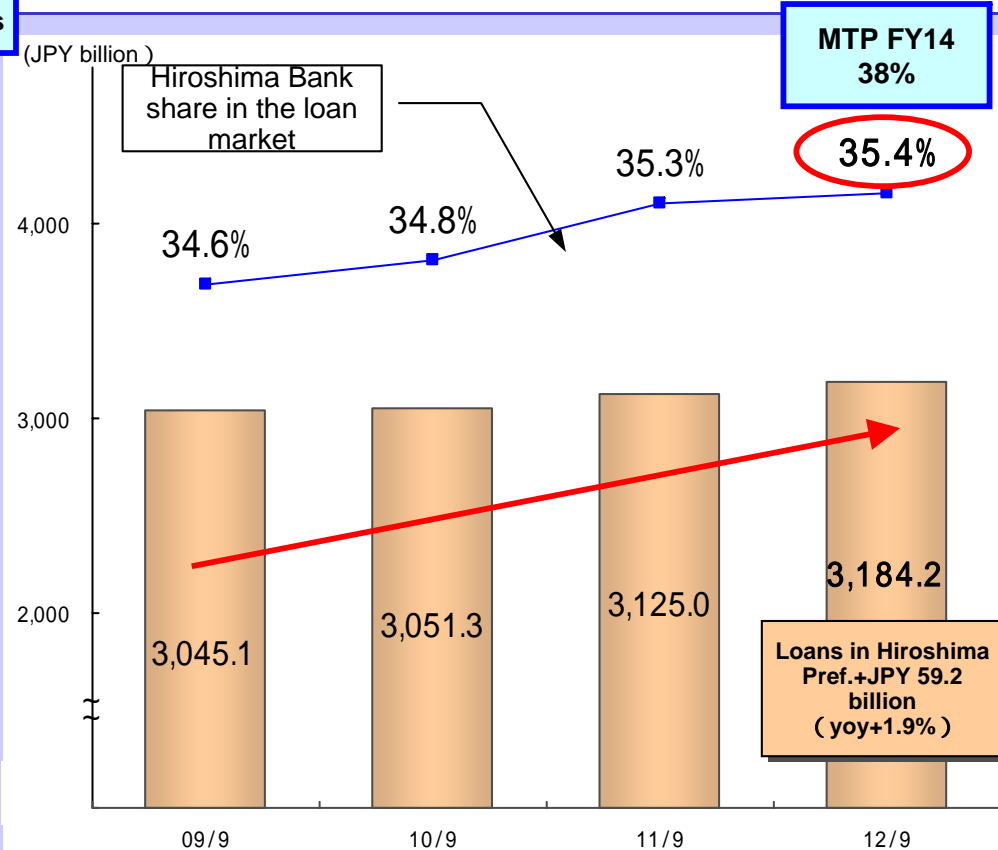
(5) Growing the steady stream of earnings (stock business) (loans)

- The number of borrowers of business loans **steadily increased especially in the retail industry due to the establishment of the area-based operations. (Going forward, we are planning to increase borrowers by 1,000 annually with the target of reaching 28,000 at the end of FY2014).**
- The ratio of banks using Hiroshima Bank as the main bank (main bank %) **increased by 0.28pt to 15.07%, the leading ratio in the Chugoku region (Teikoku Databank).**
- Loans extended to businesses in Hiroshima have also enjoyed healthy growth to push up our share in the prefectural market steadily.

Number of corporate loan customers



Hiroshima Bank's loan balance (closing balance) in Hiroshima and market share movements



Main Bank %

Note: Data is gathered by Teikoku Databank. Teikoku Databank selected companies in the Chugoku region from their data base and asked what bank they use as their main banks.

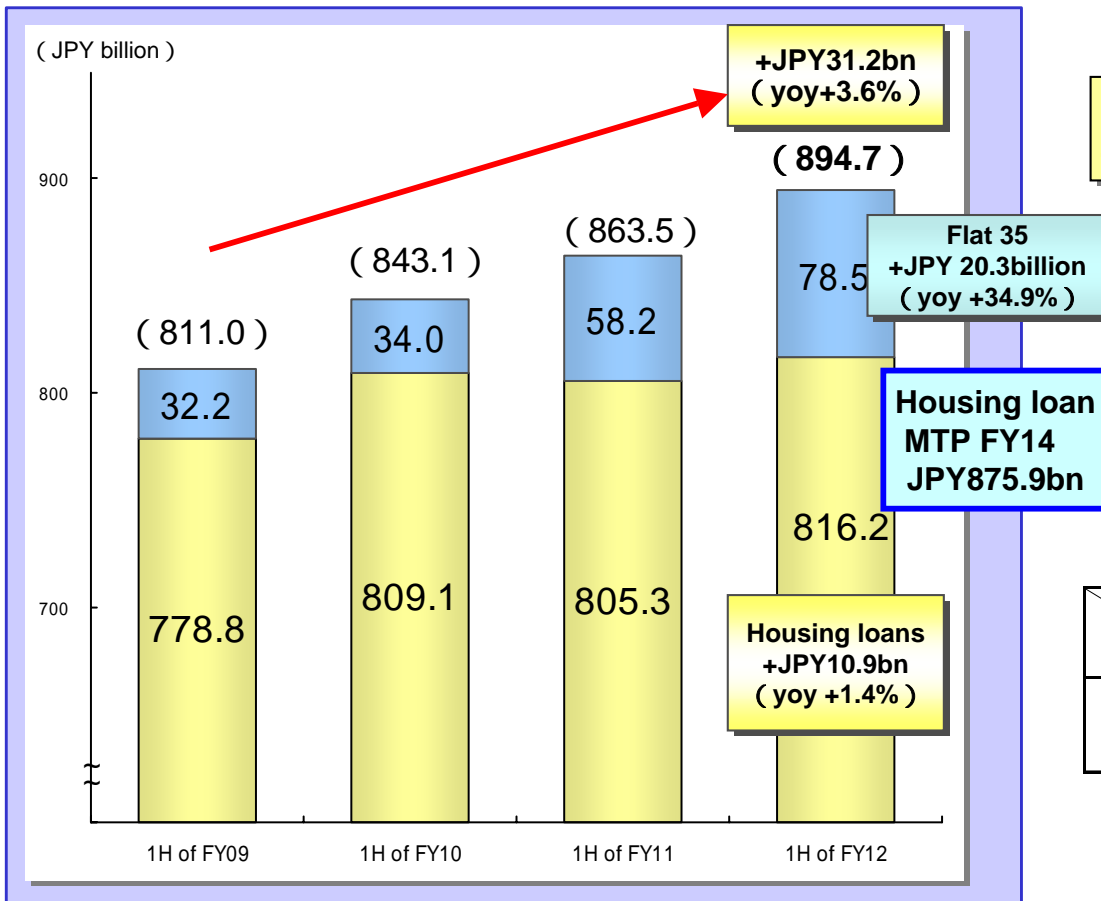
Banks	FY11		FY12		(Companies)	
	# companies	Share	# companies	Share	Change #	Change %
Hiroshima Bank	13,532	14.79%	14,259	15.07%	727	0.28%

Source: Excerpts from Teikoku Databank's material issued on 24 Nov 2012

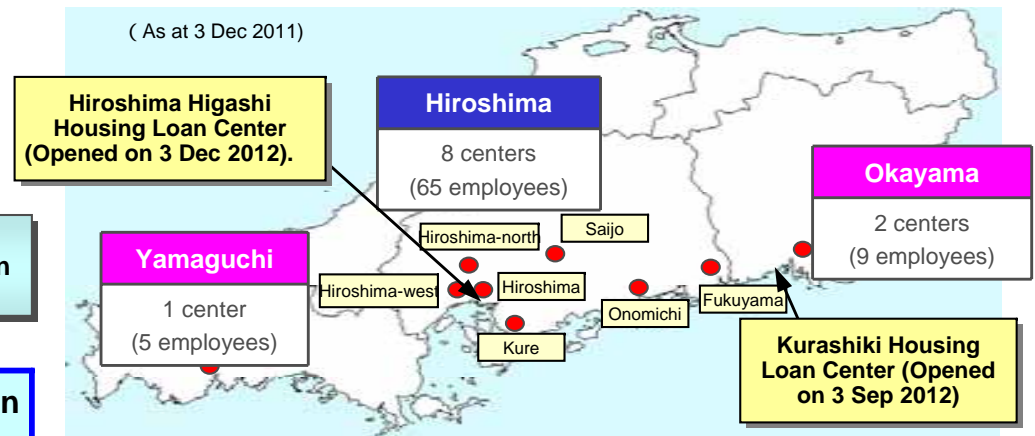
(6) Growing the steady stream of earnings (stock business) (personal loans)

- As a result of solution propositions catered for customers' needs, housing loan (average) balance including Flat 35 enjoyed a healthy growth.
- Acquisitions of new mortgage customers have been facilitated by expansion of the Housing Loan Center network. Newly opened centers: Kurashiki Housing Loan Center (3 Sep 2012) and Hiroshima Higashi Housing Loan Center (3 Dec 2012).
- 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 (including Flat 35, average)



Housing Loan Center network (11 centers)



Consumer loan (unsecured)

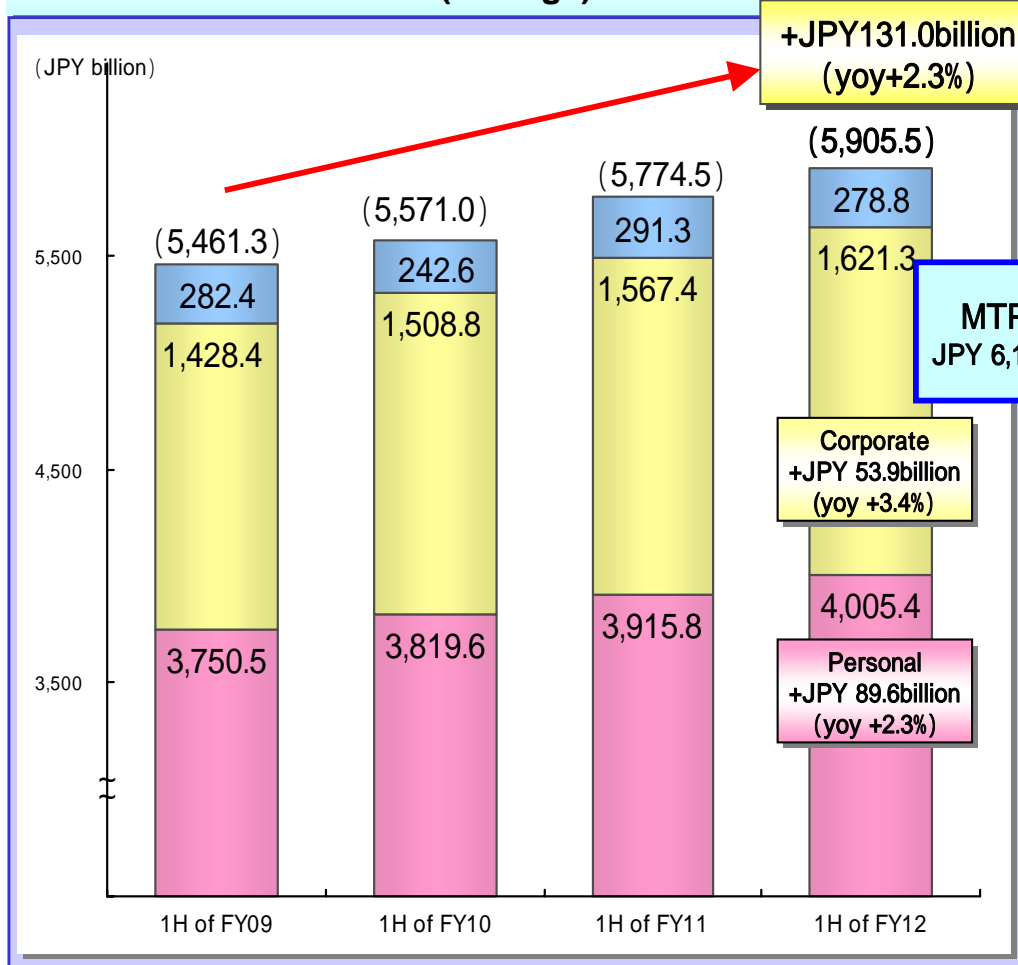
	1H of FY11		2H of FY11		1H of FY12		2H of FY12 (plan)	
	Balance	yoy	Balance	yoy	Balance	yoy	Balance	yoy
Consumer loan (Ave. balance)	51.0	7.1%	50.0	5.5%	49.8	2.4%	50.1	0.2%

Turn around to positive %

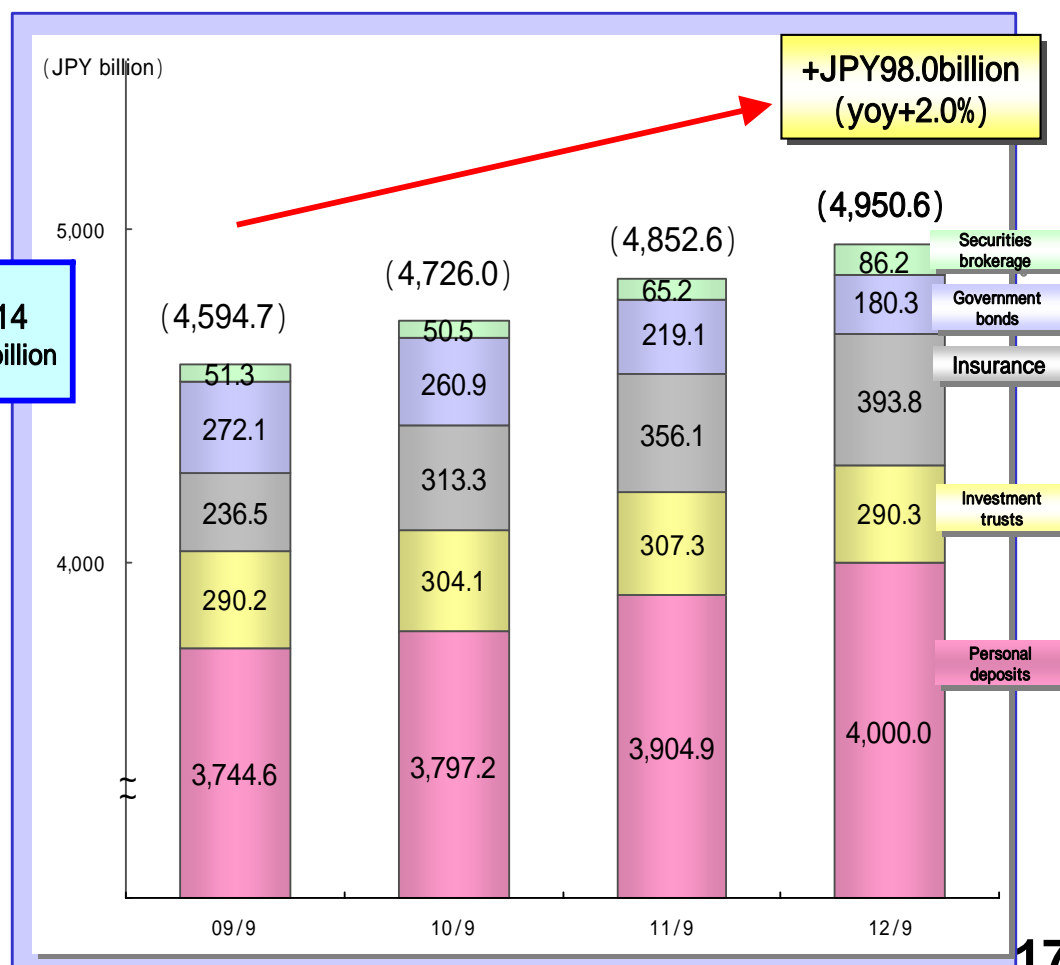
(7) Growing the steady stream of earnings (stock business) (Deposits)

- 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 was **+JPY131bn yoy (annualized +2.3%)**.
- Personal AUM also grew steadily by **JPY98bn (annualized, +2.0%)**, with an expectation to reach **JPY5trillion at the end of FY2012**.
- Through enhanced collaboration with Hironin Utsumiya Securities, **securities brokerage increased significantly by JPY21bn (annualized +32.2%)**.

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



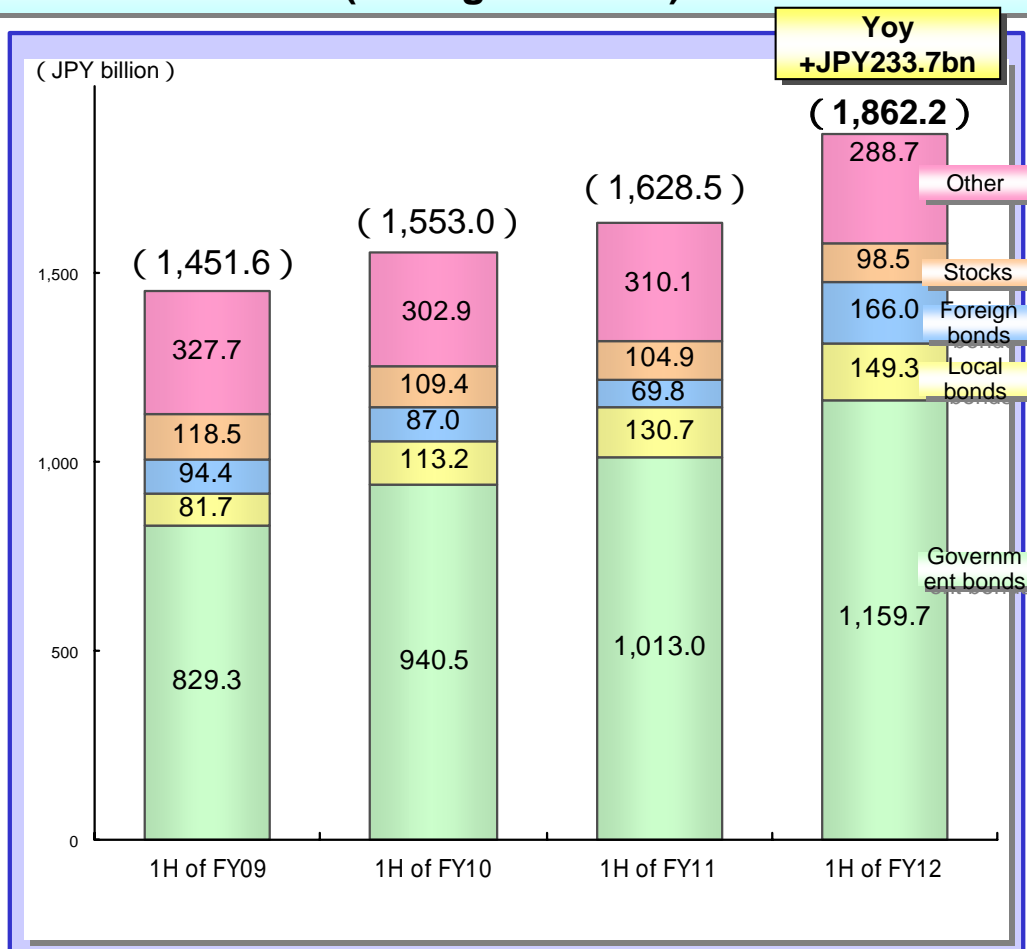
Trend of personal assets under management



(8) Growing the steady stream of earnings (stock business) (Securities)

- Balance of the securities (average balance) increased due mainly to growth of domestic bonds, local bonds and foreign bonds.
- Efforts were made to reduce interest-rate risks for government and local bonds and to **shorten the duration of yen-denominated bonds**.
- **Risk assets were reduced to improve the portfolio**

Movements of balance of securities (average balance)



Duration of domestic bonds

	11/9	12/9	(years) yoy change
Duration of domestic bonds	4.56	4.34	-0.22

Securitized products, structured products and policy investment stocks

	11/9	12/9	(JPY billion) yoy change
Securitized product	8.3	2.6	-5.7
Structured products	31.8	30.3	-1.5
Policy investment stocks	92.6	85.0	-7.6
Total	132.7	117.9	-14.8


Loss/ gain on valuation of securities

	11/9	12/9	(JPY billion) yoy change
Stocks	-5.6	-6.4	-0.8
Bonds	14.8	16.9	2.1
Other	-16.6	-9.7	6.9
Valuation losses/ gains	-7.4	0.8	8.2

* Balance before fair value adjustment; figures in parentheses () show yoy change

(9) Enhancement of consulting sales

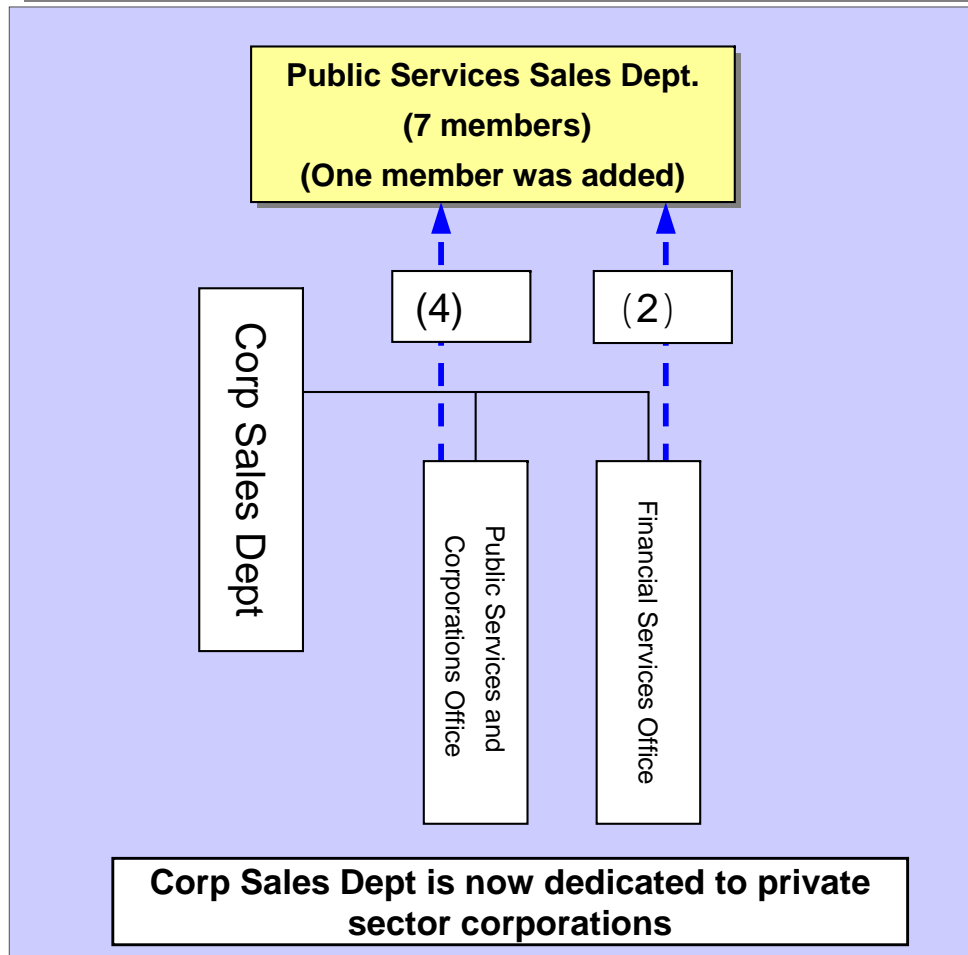
■ Enhancing differentiation from competitor banks by focusing more on growth and new business areas.

Consulting sales		New initiatives											
Growth areas	Approach to growth areas	<ul style="list-style-type: none"> ■ Environment and energy <ul style="list-style-type: none"> · Enhancing support structure for companies entering the solar power generation market 	<div style="border: 1px solid black; padding: 5px; text-align: center;">Establish a dedicated section</div> <div style="border: 1px solid black; padding: 5px; text-align: center;">Establish a dedicated assessment line (within the existing assessment line)</div> <div style="border: 1px solid black; padding: 5px; text-align: center;">Expansion of loan products line-up</div>	<p>【Actuals of business loans】 (Jul-Oct) (#, Billion yen)</p> <table border="1"> <thead> <tr> <th></th> <th>No.</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Prospective</td> <td>63</td> <td>19</td> </tr> <tr> <td>Executed</td> <td>5</td> <td>0.5</td> </tr> </tbody> </table>		No.	Amount	Prospective	63	19	Executed	5	0.5
		No.	Amount										
	Prospective	63	19										
Executed	5	0.5											
Aged-segment business	<ul style="list-style-type: none"> ■ Increased HQ PB staff members by two to enhance wealth management structure ■ Hiroshima Bank is in the leading position among regional banks in the volume of will trust under management ■ Started value-added inheritance related services by introducing an adult guardianship service in Oct 2012 <p>[Actuals of will trust] (# of trust)</p> <table border="1"> <thead> <tr> <th></th> <th>No.</th> </tr> </thead> <tbody> <tr> <td>Apr-Sep</td> <td>22</td> </tr> </tbody> </table>		No.	Apr-Sep	22								
	No.												
Apr-Sep	22												
Overseas business expansion support	<ul style="list-style-type: none"> ■ Enhancement of support for companies expanding overseas <ul style="list-style-type: none"> · Enhanced the Asia Strategy Support Desk and expanded partnerships with foreign banks 												
New business areas		<ul style="list-style-type: none"> ■ Agricultural area <ul style="list-style-type: none"> · Established a new loan product “Harvest” for the agricultural industry · Allocated 9 agribusiness management advisors in the bank 											

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

- Established the Public Services Sales Department to **promote business with local public offices and enhance collaborations to make a stronger contribution to the local economy.**
- Proactively provided our network and solutions** at the very beginning of re-development projects.

New Public Organization Sales Dept. (est. in Oct 2012)



Re-development around Hiroshima Station

The map shows the re-development area around Hiroshima Station, including the JR Hiroshima Station and the surrounding blocks. A medical services hub is planned, including a high precision radiation therapy center and a regional general medical support center. Block B (image) is shown with a construction start planned in Mar 2013 (Total investment: JPY35.5bn). Block C (image) is shown with a construction start planned in June 2013 (Total investment: JPY28bn). The map also shows the completed area and the planned construction area.

Medical services hub
 · High precision radiation therapy center
 · Regional general medical support center
 (planned construction)

Source: Hiroshima City website
 Futaba-no-sato Area Development website

B Block (image)
 Construction start is planned in
 Mar 2013
 (Total investment: JPY35.5bn)

C Block (image)
 Construction start is planned in
 June 2013
 (Total investment: JPY28bn)

(11) Channel restructuring

■ **Strengthening the internet channel** to promote convenience for the customer and enhance differentiation from competitor banks.

Initiatives for internet channel enhancement

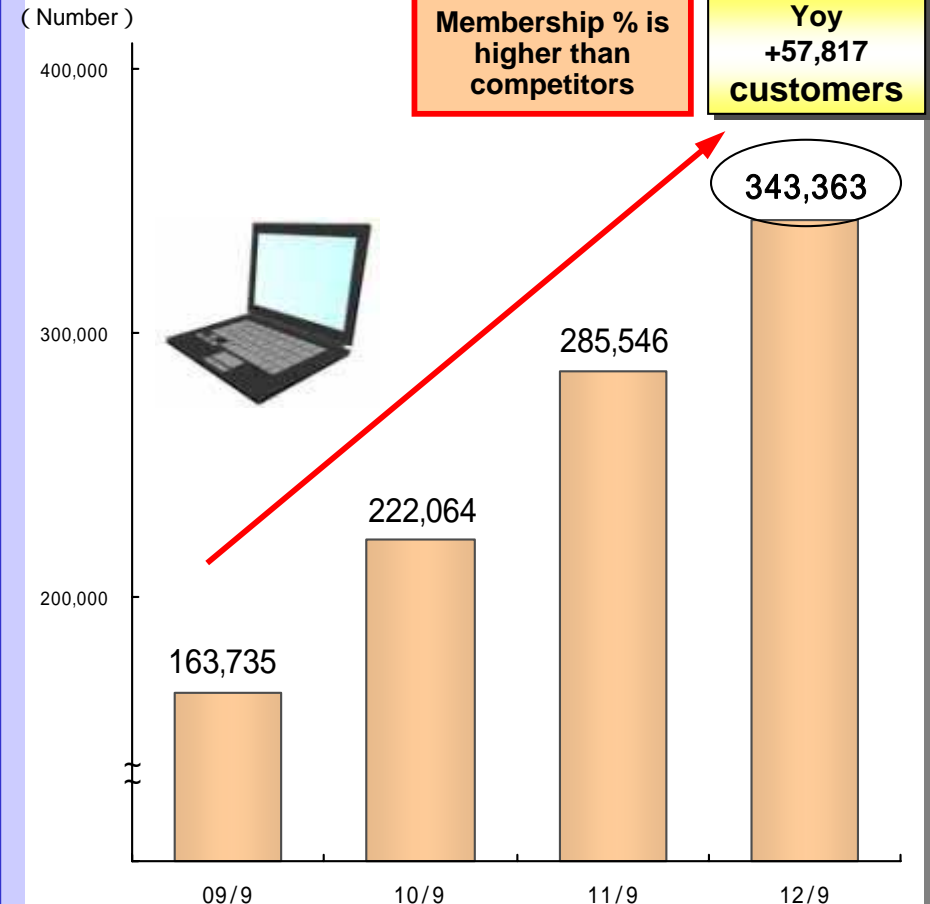
- Launched the internet banking service for the smartphone users (Oct 2012)
- Establishing an internet branch (Mar 2013, plan)

- Creating an online gateway to establish a new, non-face-to-face channel that is capable of completing all required transactions
- Capturing the young segment and customers who cannot come to the branch for time or geographical constraints

Future

Deposits and fundamental items acquiring channel
Personal loan sales promotion channel

Membership of the personal direct banking service



(12) Low cost operations

■ **Establishment of a thoroughly low-cost operational structure to increase efficiency in administrative work at branches and make savings in cost and in time for sales activities** (Joint initiatives with Fukuoka FG, Hiroshima Bank's independent initiatives).

Administrative reform project (Apr 2010-)

Reduce cost by JPY1.7bn by FY17

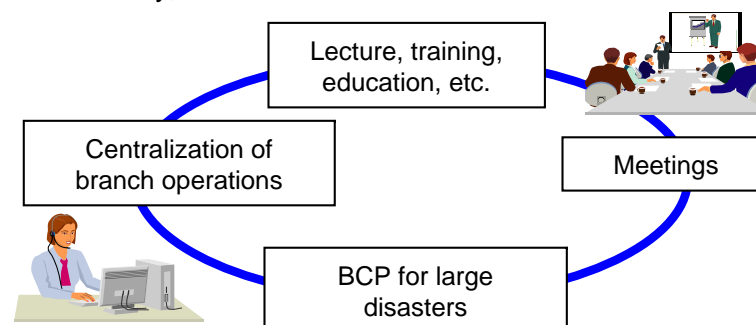
Key initiatives	Key actions	Timing
Counter clerk operations	Introduction of a new terminal (upgraded UBT)	1H FY13 at all branches
Back office operations	Concentrated response to incoming calls	Completed implementation at all branches in Aug 2012
	Concentrated handling of failed money transfers	Jun 2012-
	Concentrated document storing	Sep 2011-
ATM functions	ATM Pay-easy service	Aug 2011-
Other	On-the-spot issuance of the cash card and direct banking card	Implemented at all branches in Feb 2012

Operational reform project (Apr 2012-)

Reduce cost by JPY0.8bn by FY14

Key initiatives	Key actions
Saving time for more sales activities	Consideration of providing tablets to sales staff
Efficiency improvement of HQ operations	Reduction of time required for meetings by 50%
Cost reduction	Introduction of video conference systems
Video conference system	

- Create time for sales activities by reducing time and cost for meetings and group trainings
- Conduct timely, face-to-face communication



3. Earnings estimate for FY2012

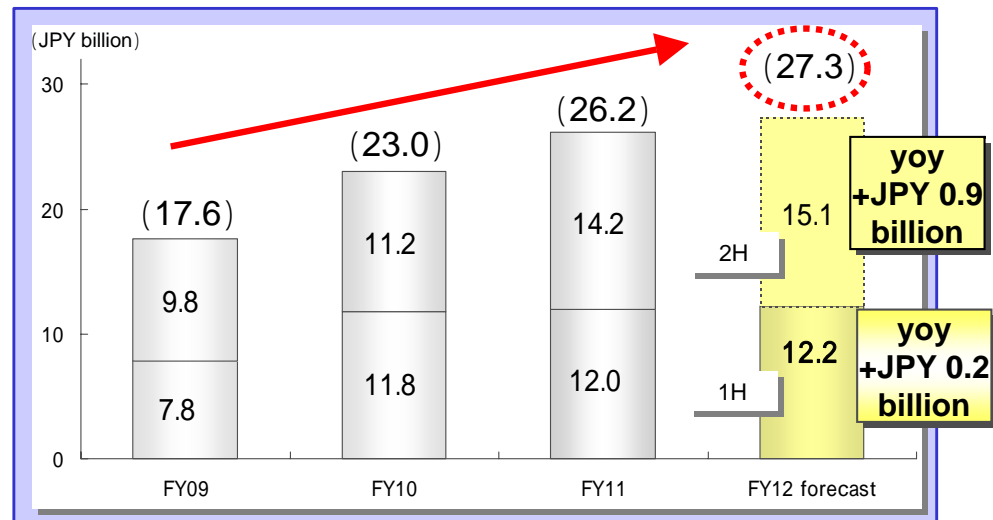
(1) Earning Estimate for FY 2012

■ Ordinary profit and net income are both expected to exceed results of last year.

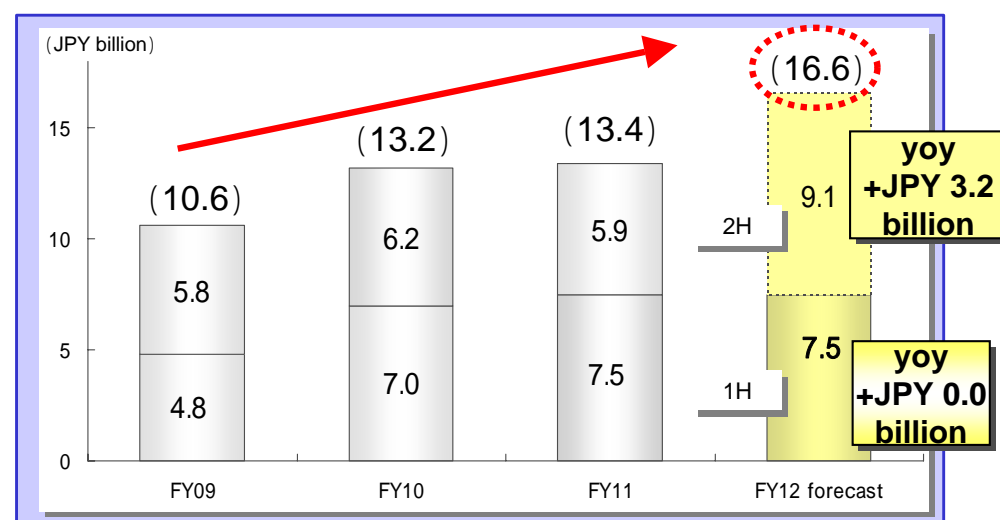
Ordinary profit JPY 27.3billion (yoy +JPY 1.1 billion +4.2%)
Net income JPY 16.6 billion (yoy +JPY 3.2 billion +24.0%)

	FY11 (Actual)	FY12 (forecast)	(JPY billion)	
			change	change
Net interest income	77.0	75.7	-1.3	-
Net fee and commissions	18.1	18.1	0.0	-
Core gross banking profit	95.1	93.8	-1.3	-1.4%
(-) Expenses	57.8	56.4	-1.4	-
Core banking profit	37.3	37.4	0.1	0.3%
Gains/Losses from securities	4.7	5.8	1.1	-
Core banking profit	42.0	43.2	1.2	2.9%
Gains/Losses from stocks	-5.0	-7.0	-2.0	-
(-) Credit costs	9.1	8.4	-0.7	-
Ordinary profit	26.2	27.3	1.1	4.2%
Net Income	13.4	16.6	3.2	24.0%
Consolidated Net Income	13.9	17.0	3.1	22.6%

Ordinary Income



Net Income



(2) Dividend increase

- Hiroshima Bank has distributed its surplus in the form of stable dividends and performance-linked dividends that are calculated based on the dividend guideline table. The dividend guideline table was updated on 3 August to **increase the stable dividend by one yen annually** from the interim dividend of FY12 (increase by 0.5yen for the interim period).
- The range of the consolidated payout ratio will be increased from a pre-dividend adjustment level of 17.4% - 20.8% to **20.8% - 24.3% to strengthen shareholder returns.**
- Increase ratios of **individual shareholders (15% → 20%)** and **foreign shareholders (5% → 10%)** to enhance liquidity by **increasing dividends, establishing a shareholder privilege term-deposit, and stepping up IR activities.**

Dividend forecast

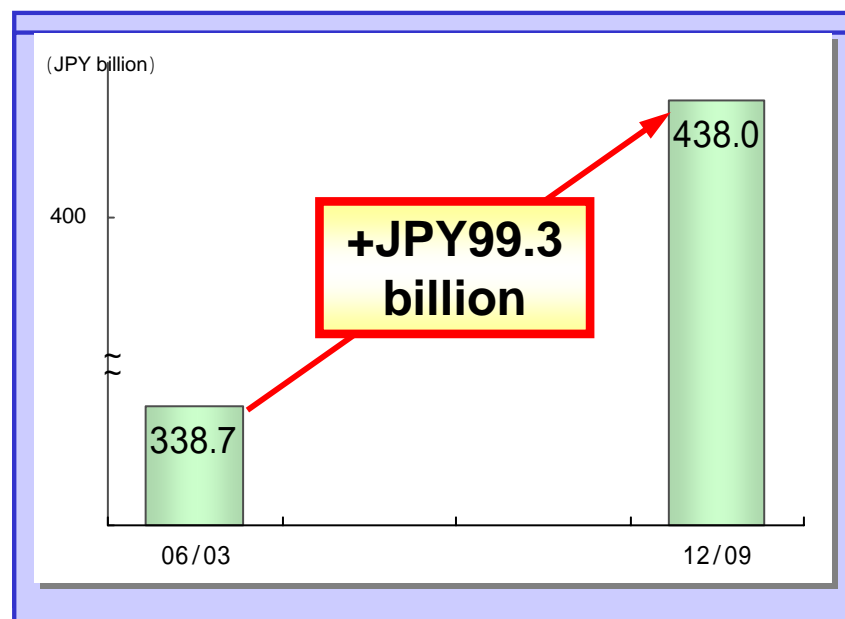
	Annual dividend (yen)		
	Interim	Year-end	Total
Modified forecast (Announced on 3 Aug)	3.0 Yen	3.0 Yen	6.0 Yen

Dividend guideline table update

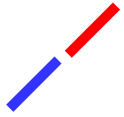
Stable dividend is increased from 5yen to 6yen

Consolidated net income	(A) Stable	(B) Performance-based	(A) + (B)	Consolidated payout ratio
under 18 billion	6 yen	0 yen	6 yen	20.8% and over
18 - 21 billion		1 yen	7 yen	20.8% and over and less than 24.3%
21 - 24 billion		2 yen	8 yen	20.8% and over and less than 23.8%
24 - 27 billion		3 yen	9 yen	20.8% and over and less than 23.4%

Non-consolidated capital growth (end of Mar '18 → end Sep '24)



Net worth increased by approximately JPY100bn over 6.5 years. We will continue to build internal reserve while **actively returning shareholders**



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 Division, The Hiroshima Bank, Ltd.

Phone: 082-504-3823

FAX: 082-504-0171

URL: <http://www.hirogin.co.jp/>