

Financial results for interim FY2013

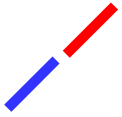
- IR presentation -

The Hiroshima Bank, Ltd.



December 12 , 2013

President Koji Ikeda



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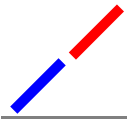
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1. Highlights of FY2013 Interim Results

(1) Interim profit and loss in FY2013

- Core banking profit in interim FY2013 **increased by 5.0% (annualized) or 9 hundred million yen year on year to 196 hundred million yen** due to increase in net fees and commissions income and cost reduction.
- Consolidate interim net income **grew for five successive years and increased by 37.5% (annualized) or 28 hundred million yen year on year to 105 hundred million yen** as a result of considerable reduction of credit cost.

(Hundred million yen)

	Interim FY2013	yoy change (percent)	Difference from publication in May
Net interest income	378	0	6
Net fees and commissions income	93	4	-2
Core gross operating profit	471	4 (0.9%)	4
(-) Expenses	275	-5	-6
Core banking profit	196	9 (5.0%)	10
Gains/Losses on securities	-28	-80	0
Net core banking profit	168	-71 (-29.5%)	-23
Gains/Losses on shares	14	80	-14
(-) Credit costs	14	-30	-26
Ordinary profit	163	41 (33.3%)	28
Interim net income	104	29 (37.5%)	21
Consolidated ordinary profit	169	40 (31.4%)	28
Consolidated interim net income	105	28 (37.5%)	21

(2) Net interest income

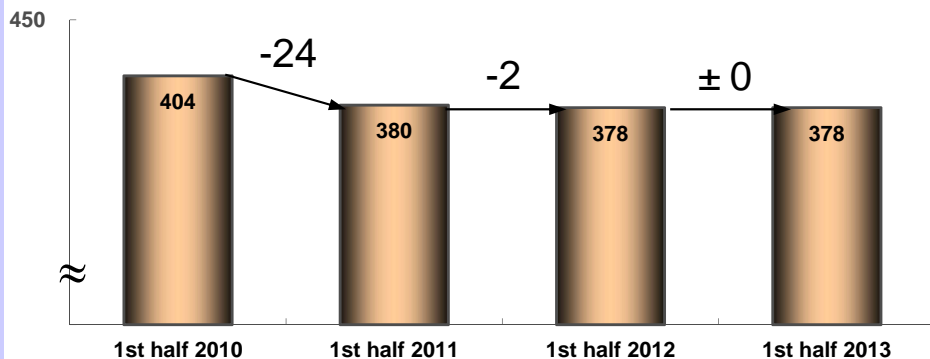
With respect to net interest income, although interest on loans declined by 11 hundred million yen due to low market interest rate, fall of deposits and NCD interest, and other interest expenses by 2 hundred million yen as well as increase in interest and dividends on securities by 7 hundred million yen, **secured income remained unchanged from the same period of the previous year.**

Breakdown of net interest income

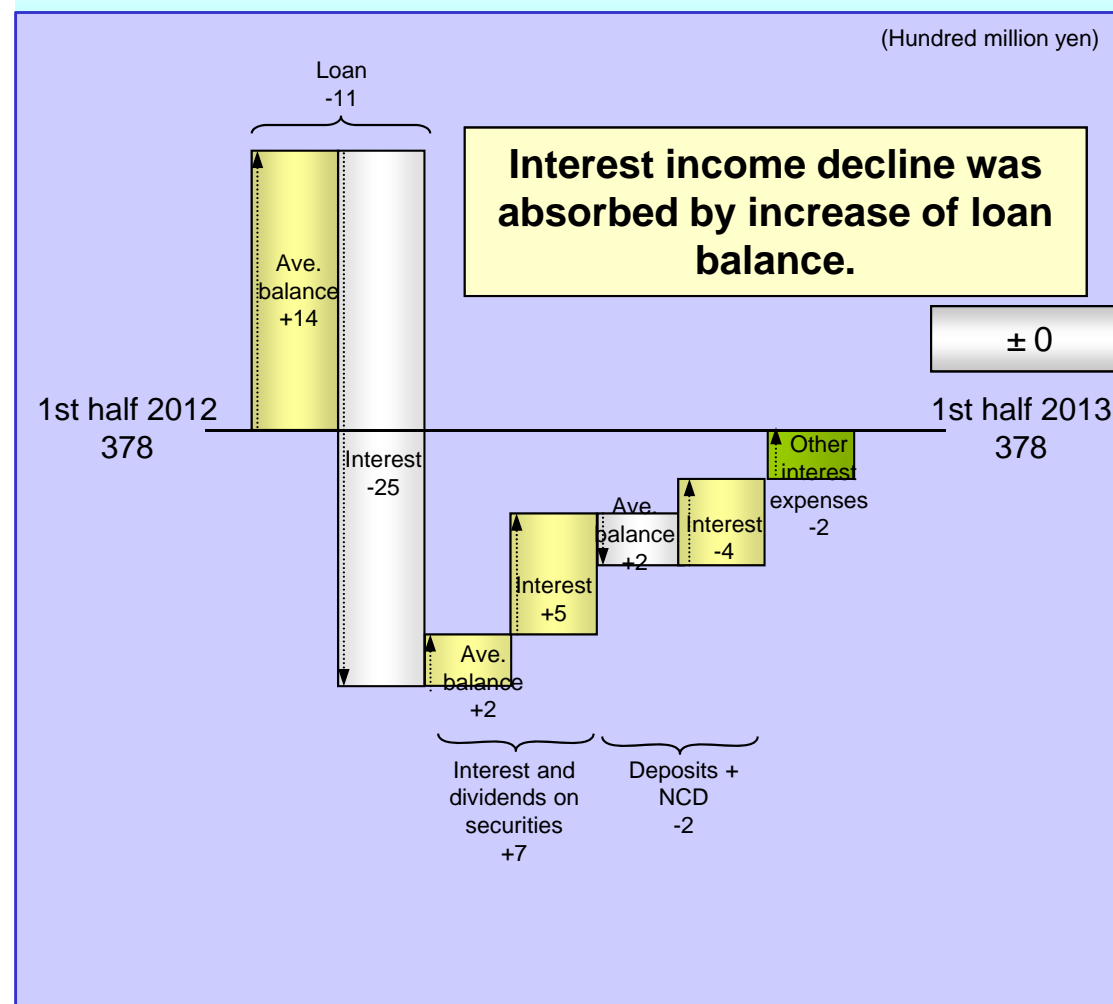
	Interim	(Hundred million yen)
	FY2013	yoy change
Interest on loans	332	-11
Interest and dividends on securities	94	7
Deposits + NCD interest (-)	24	-2
Other interest expenses (-)	24	-2
Net interest income	378	0

Net interest income

(Hundred million yen)



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



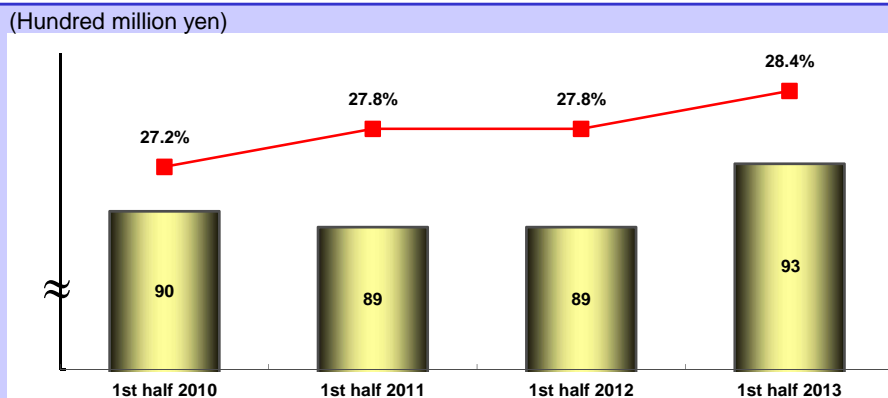
(3) Net fees and commissions income

- Net fees and commission income **increased by 4 hundred million yen** year on year due mainly to strong sales of investment trust.
- The proportion of non-interest income in core gross operating profit was 28.4%: continuously maintaining a high level among top regional banks.**
- Sales of financial instruments **recovered steadily** mainly with investment trust along with market recovery.

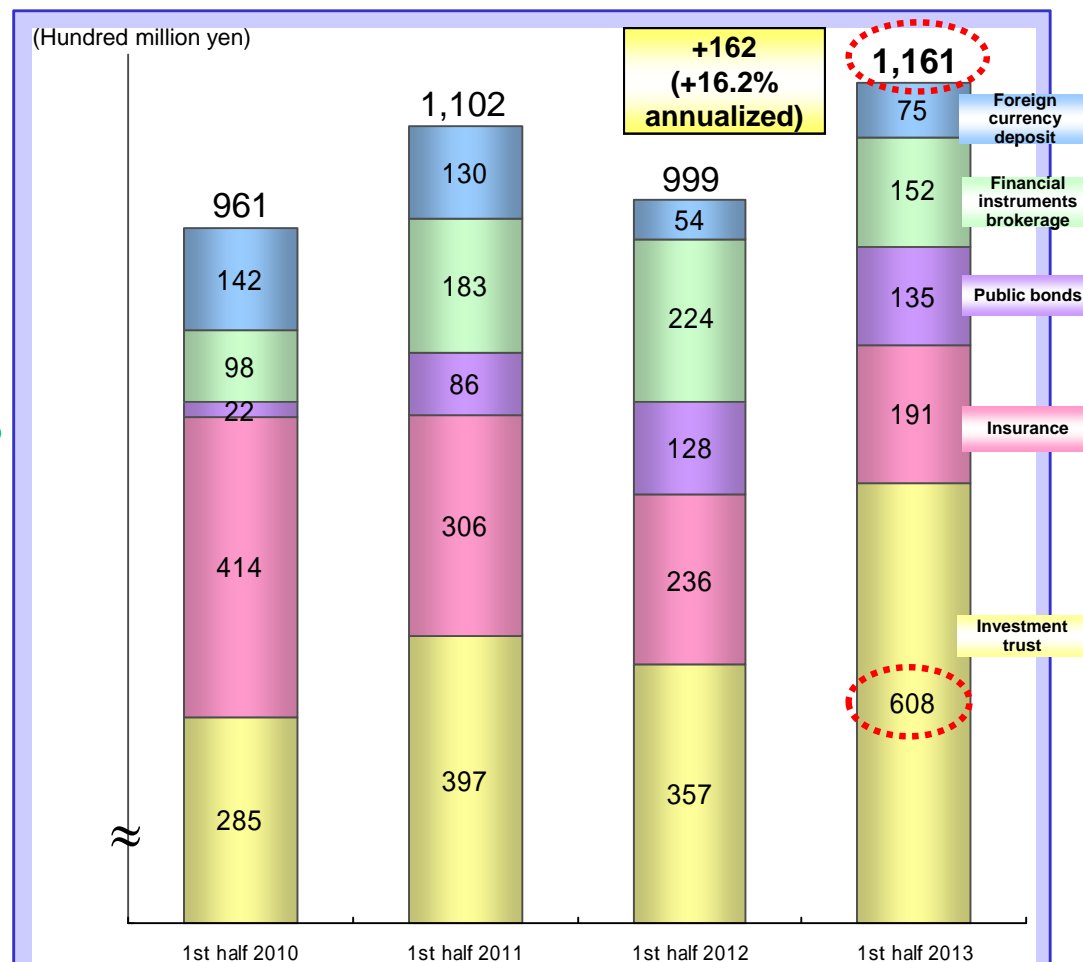
Breakdown of net fees and commissions income

	Interim FY2013 (Hundred million yen)	
		yoy change
Investment banking	15	-1
AUM related	33	5
Domestic exchange management	45	0
Net fees and commissions income	93	4

Proportion of net fees and commissions income and non-interest income



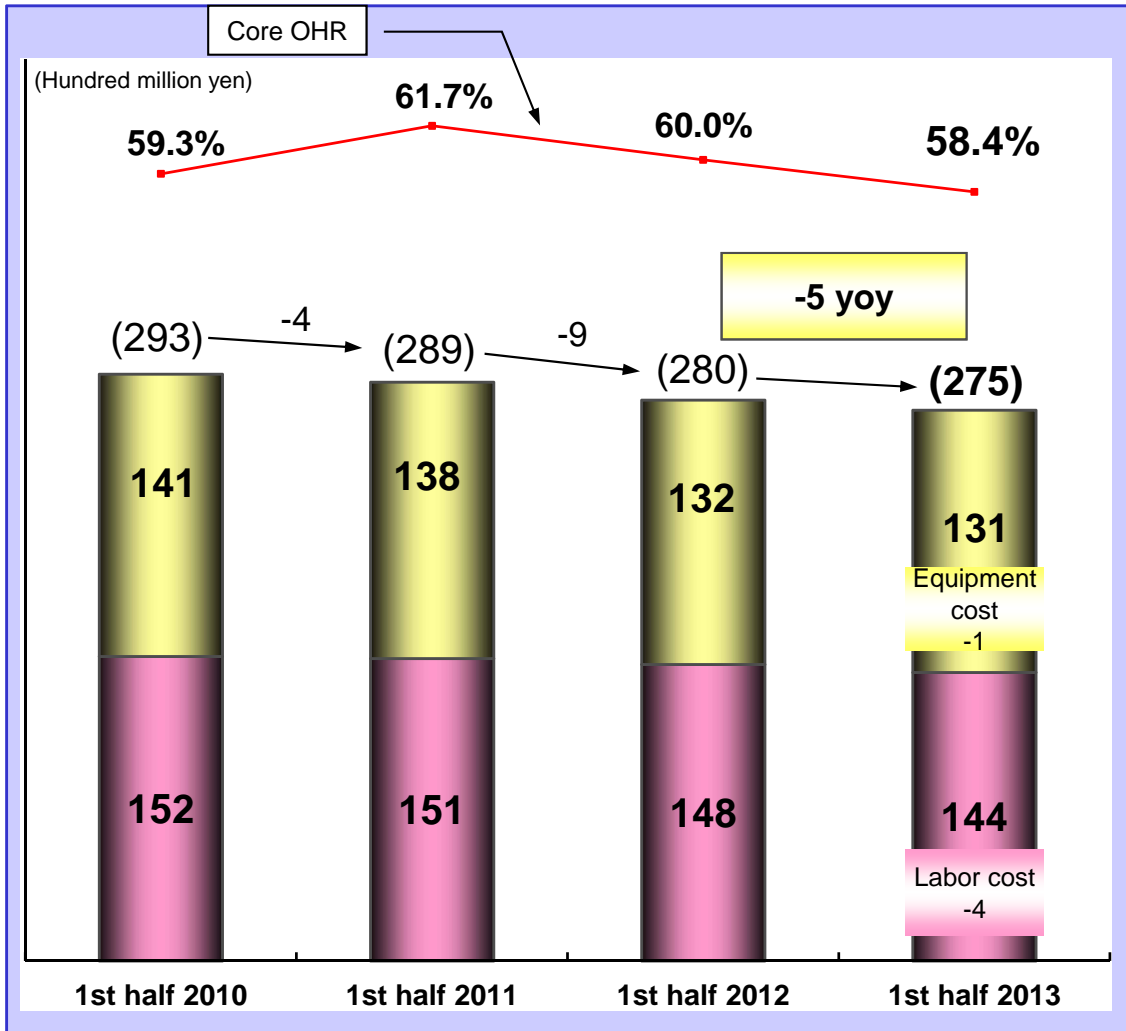
Sales of financial instruments



(4) Expenses

- The expense declined by 5 hundred million yen year on year due to equipment cost reduction and labor cost reduction along with promotion of operational reforms.
- The core OHR, which indicates business efficiency dropped below 60%.

Expenses and core OHR (core overhead ratio)



Breakdown of expenses

(Unit: Hundred million yen)

Equipment cost	
Key factors	Change
Reduction by operational reforms	
- Scrap-and-build system	
- Review of outsourcing cost	
- Decrease in copy charge fee	
- Review of mailing methods, etc.	-1

Labor cost	
Key factors	Change
Reduction in retirement benefit expenses	-2
Head count reduction	-2

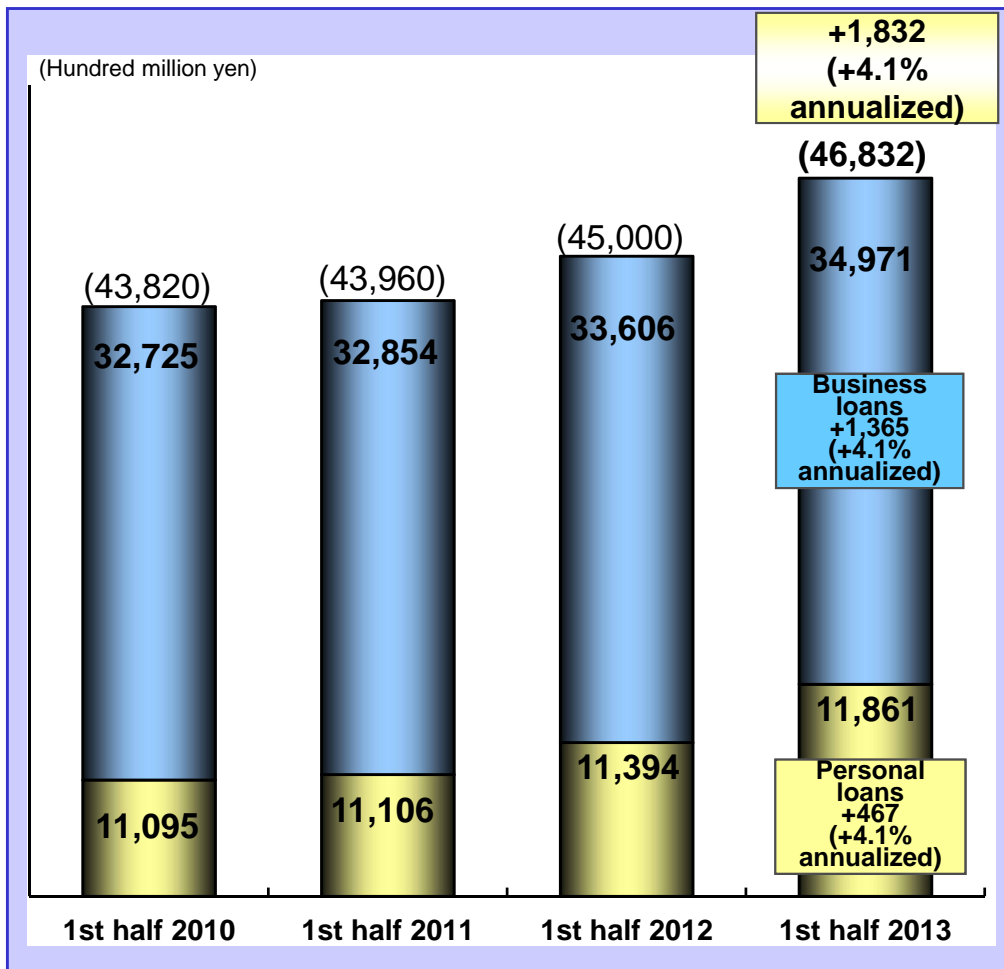
* Core OHR = Expenses/ Core gross operating profit



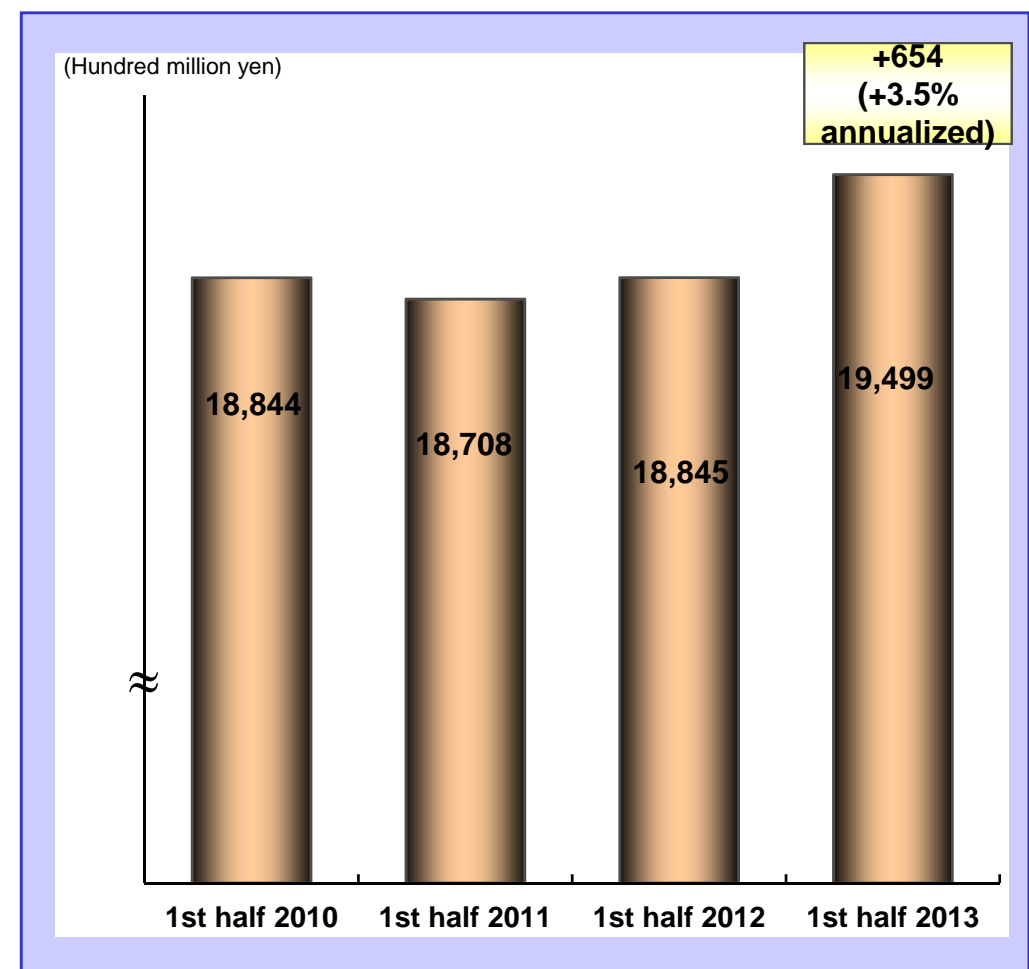
(5) Loans - 1

- Loan balance (average balance) grew significantly for both corporate and personal customers **with an increase of 1,832 hundred million yen (+4.1%) from the previous year.**
- Loans to SMEs (average balance) **increased by 654 hundred million yen (+3.5%) year on year** due to the establishment of the area promotion system

Average balance of total loans



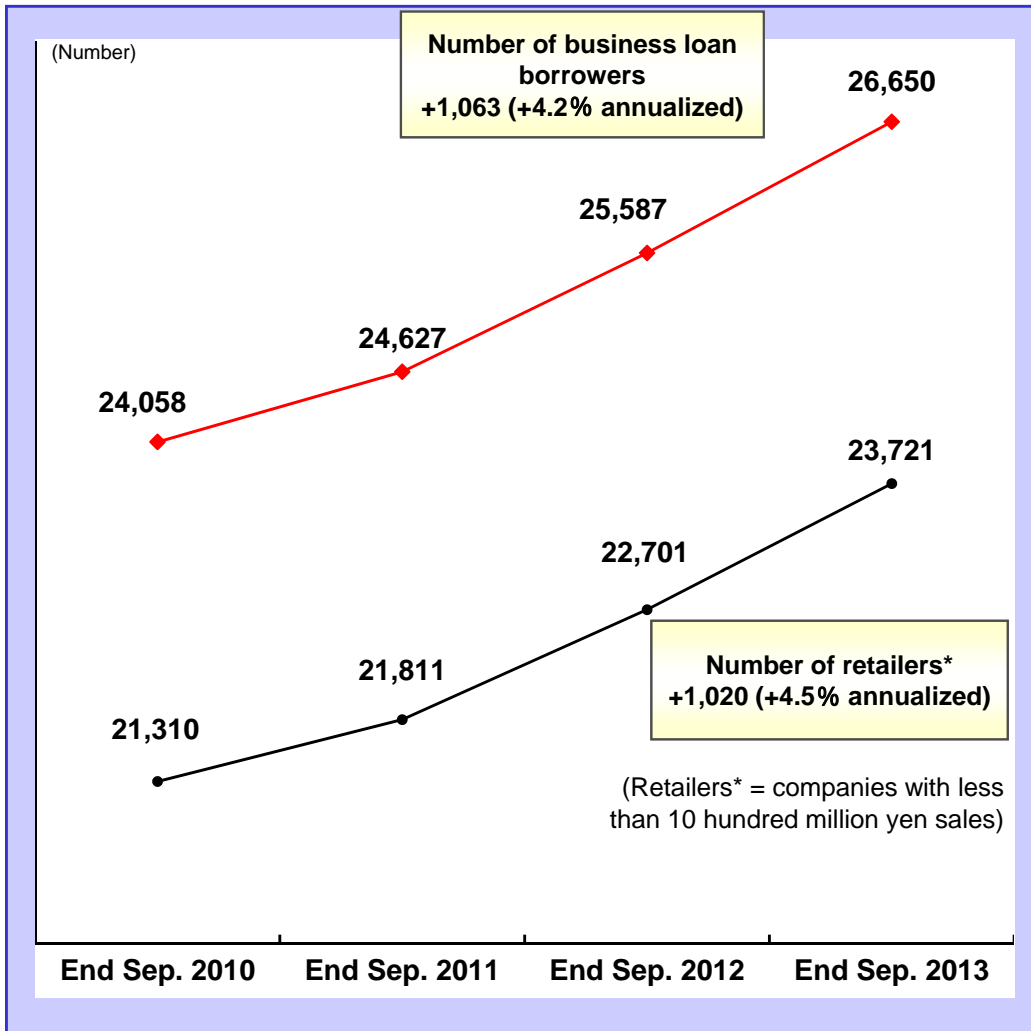
Movements of loans to SMEs (average balance)



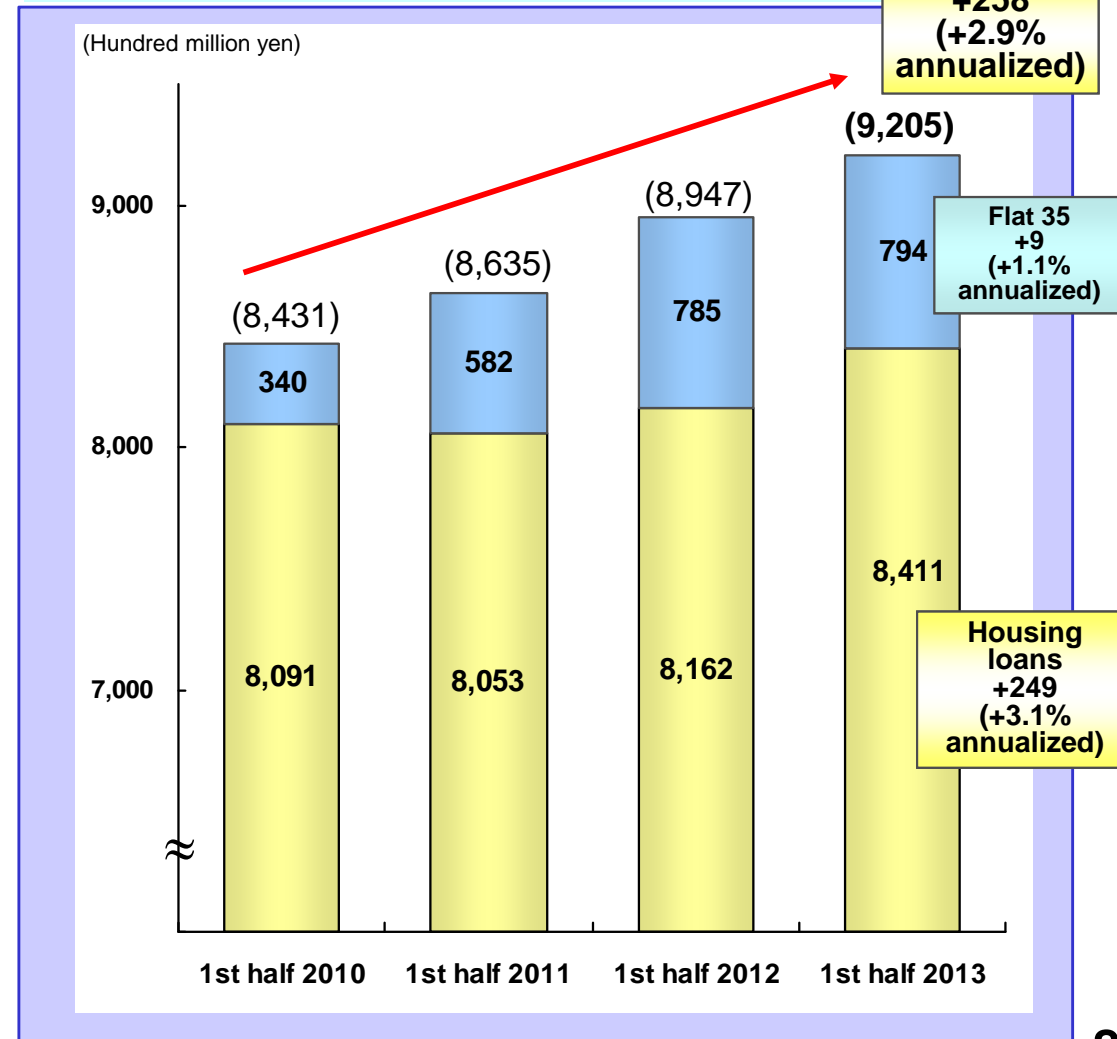
(6) Loans - 2

- The number of business loan borrowers **steadily increased, mainly among retailers**, due to intensive sales by the area promotion system.
- Housing loan balance (average balance), including Flat 35**, increased smoothly as a result of proposals to address clients' needs.

Trend in the number of business loan borrowers



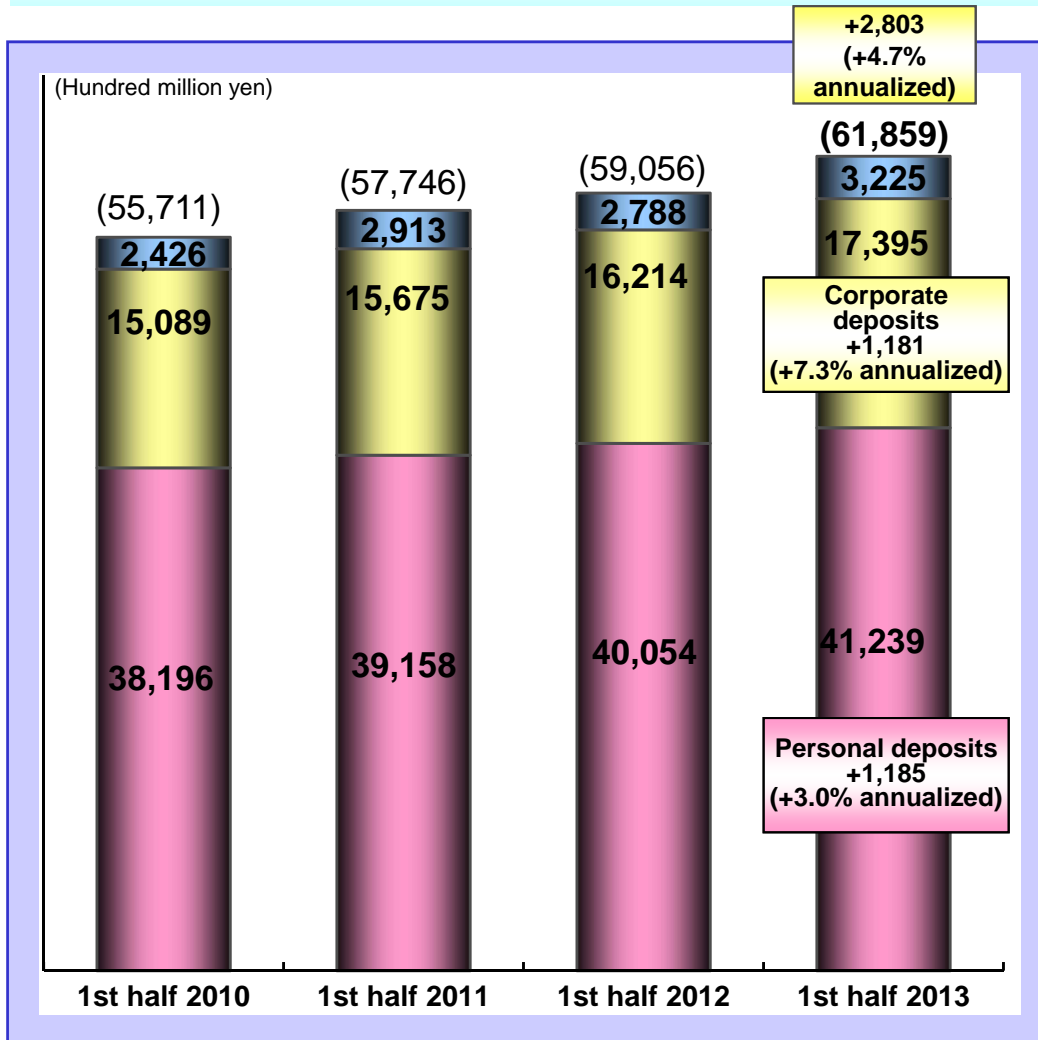
Trend in housing loan balance (average balance including Flat 35)



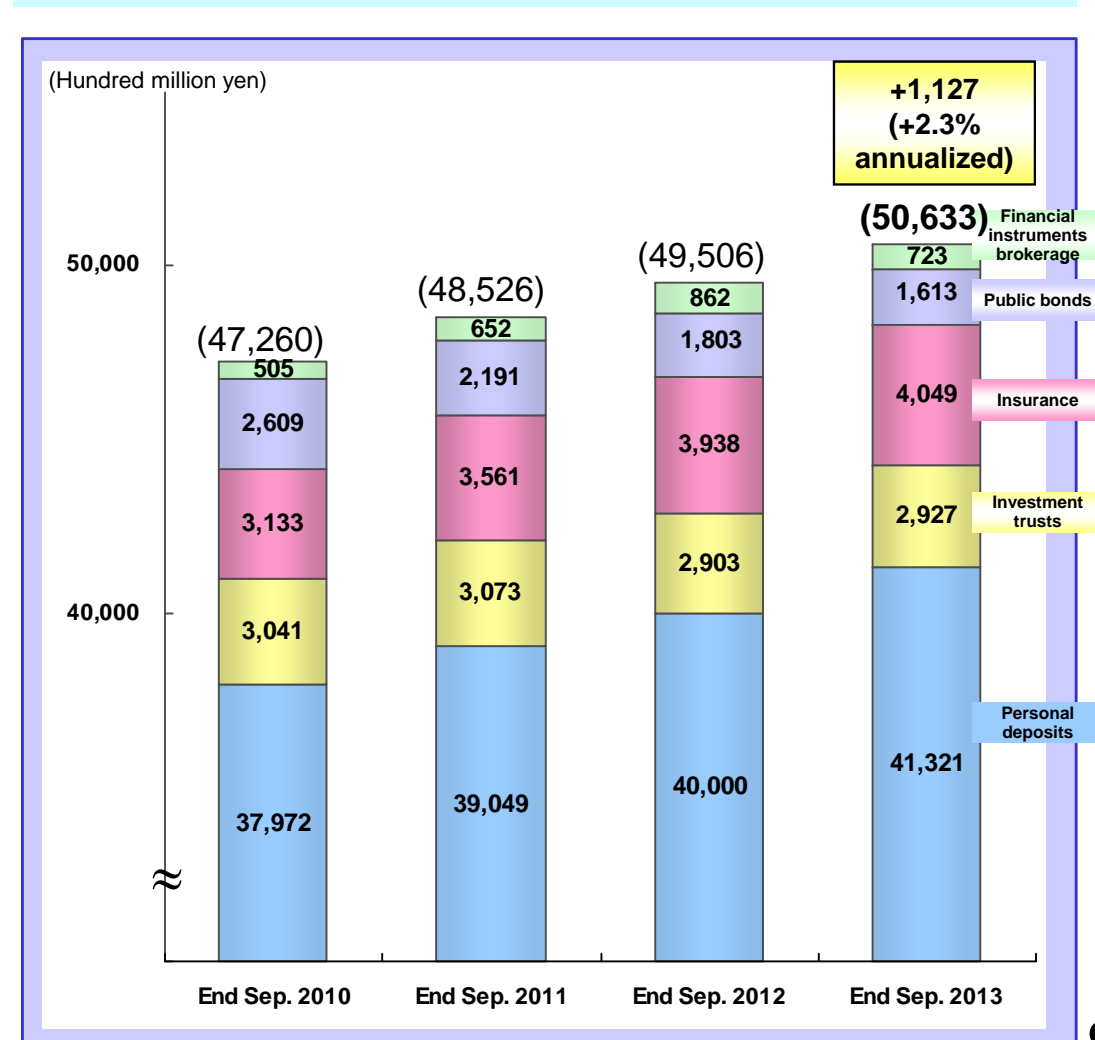
(7) Deposits, etc. (deposits + N C D)

- Deposit balance (average balance) significantly increased in both personal and corporate deposits, and the total balance increased by 2,803 hundred million yen or 4.7% (annualized) year-on-year.
- Personal AUM (closing balance) increased smoothly by 1,127 hundred million yen or 2.3% (annualized) from the previous year.

Average balance of total deposits+NCD



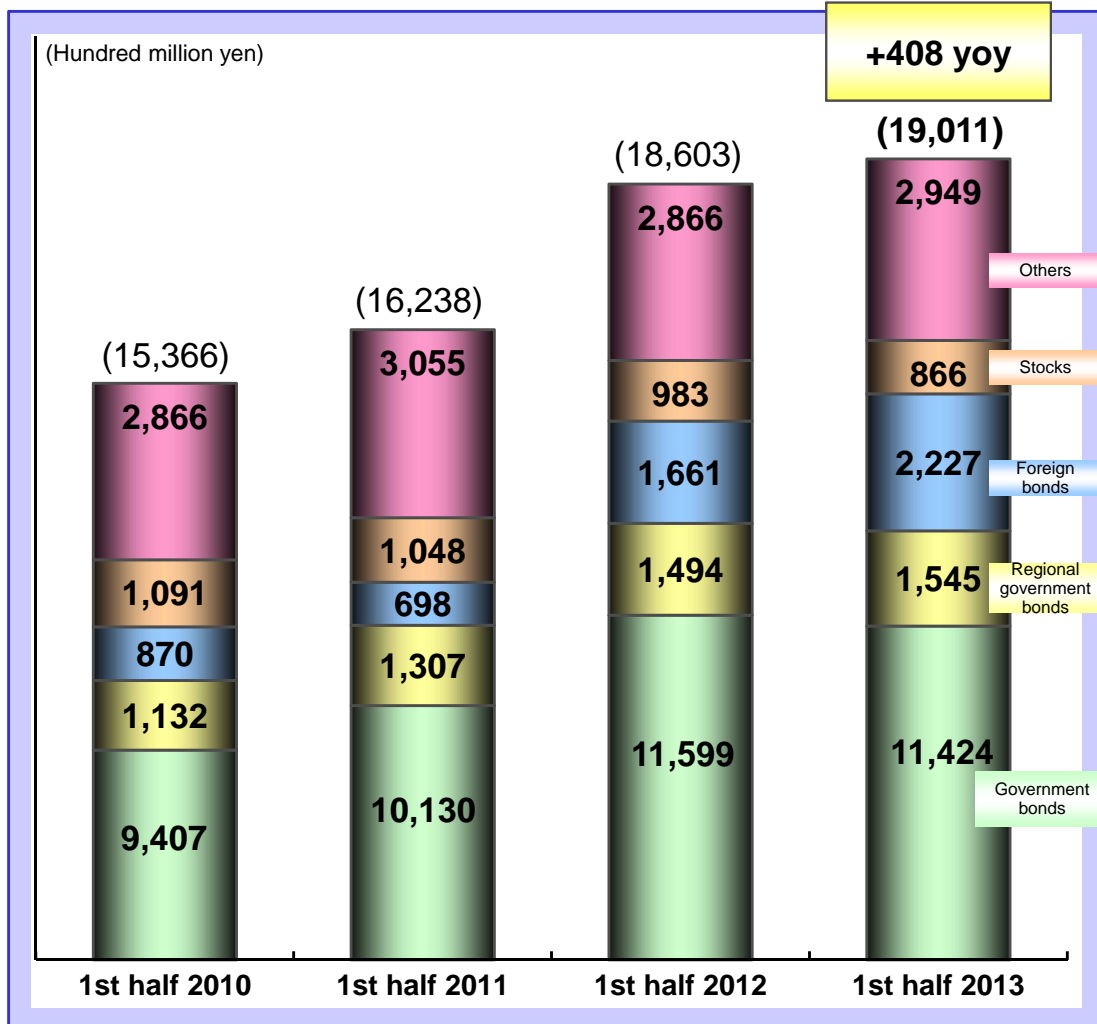
Movements of personal AUM (closing balance)



(8) Securities

- Unrealized profit of securities **made a significant improvement by 404 hundred million yen from the previous year** due to efforts of improving portfolios as well as market recovery.
- Duration of bonds in yen **shortened by 0.98 years compared to the previous year** with consideration for interest rate risk. **Outlier ratio has a low level of 2.8%.**

Movements of balance of securities (average)



Unrealized profit of securities

	End Sep. 2012	End Sep. 2013	(Hundred million yen)
			From End Sep. 2012
Stocks	-64	267	331
Bonds	169	106	-63
Others	-97	39	136
Total	8	412	404

Major risk assets

	End Sep. 2012	End Sep. 2013	(Hundred million yen)
			From End Sep. 2012
Securitized products	26	10	-16
Cross shareholding	850	818	-32
Total	876	828	-48

Index on interest rate risk

	End Sep. 2012	End Sep. 2013	From End Sep. 2012
Bond (yen) duration	4.34 years	3.36 years	-0.98 years
Outlier ratio	9.2%	2.8%	-6.4%

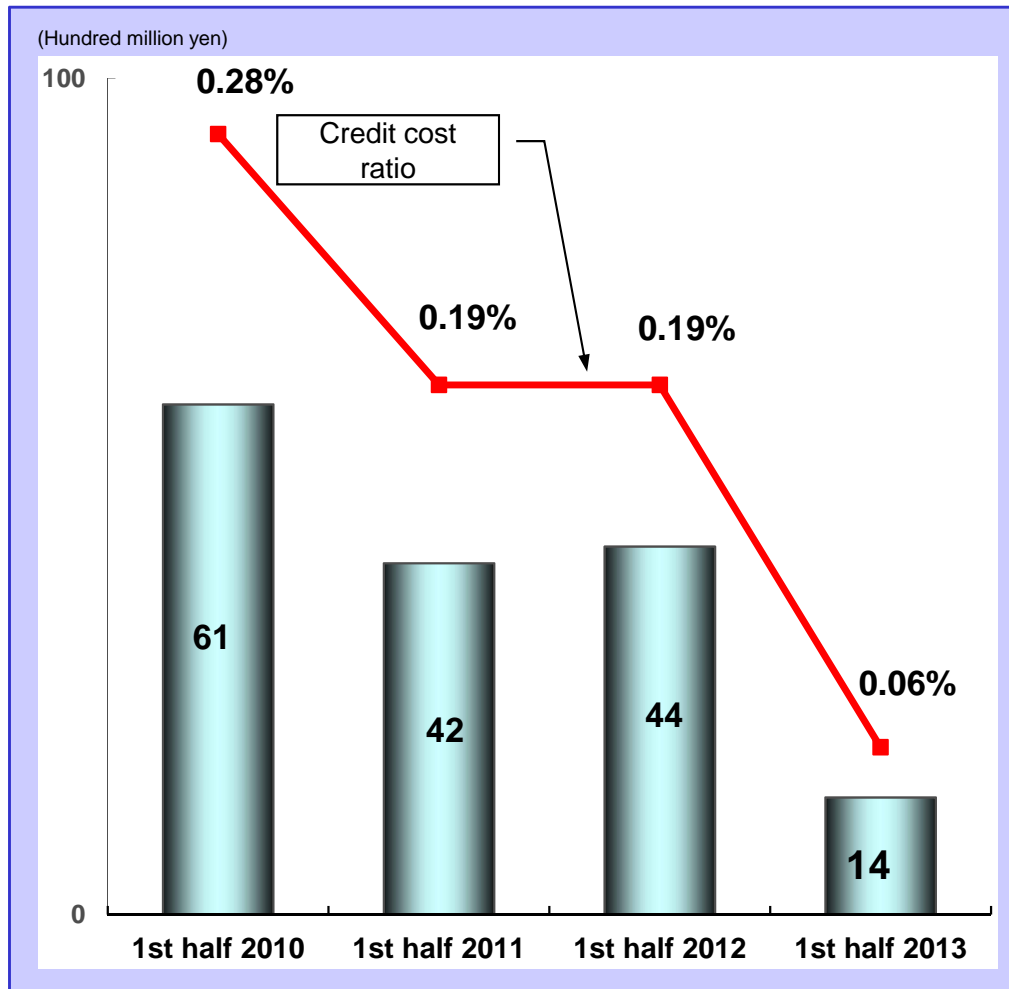
Gain/loss on securities

	1st half 2012	1st half 2013	(Hundred million yen)
			yoy change
Gain/loss on bonds	52	-28	-80
Gain/loss on shares	-66	14	80
Gain/loss on securities	-14	-14	0

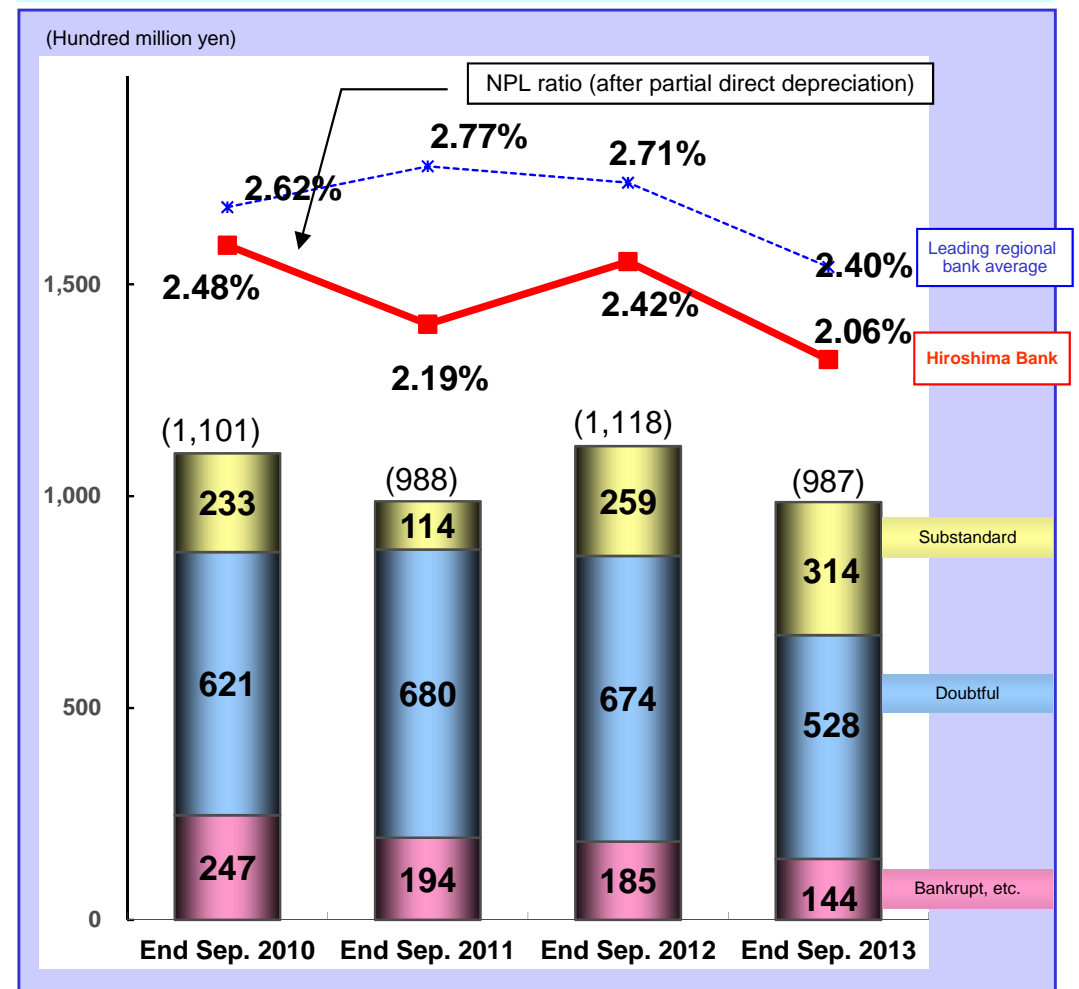
(9) Credit costs and nonperforming loans

- Credit costs **have considerably declined to 0.06%** due to active support for customers' business turnaround efforts.
 - Remaining debts based on the Financial Revitalization Law **decreased by 131 hundred million yen from the previous year.**
- Nonperforming loan (NPL) ratio **maintained at a lower level than leading regional banks.**

Credit costs and credit cost ratio



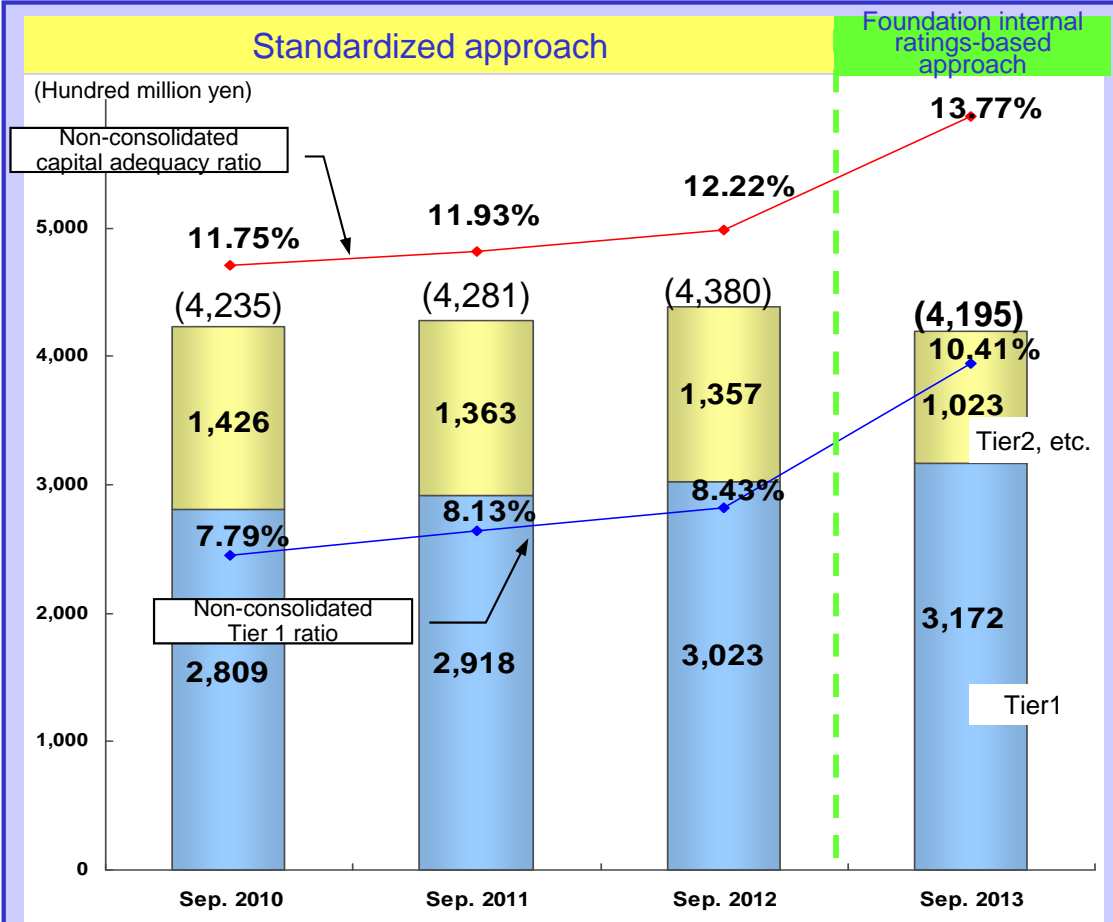
Remaining debts based on the Financial Revitalization Law and NPL ratio



(10) Capital adequacy and ROE

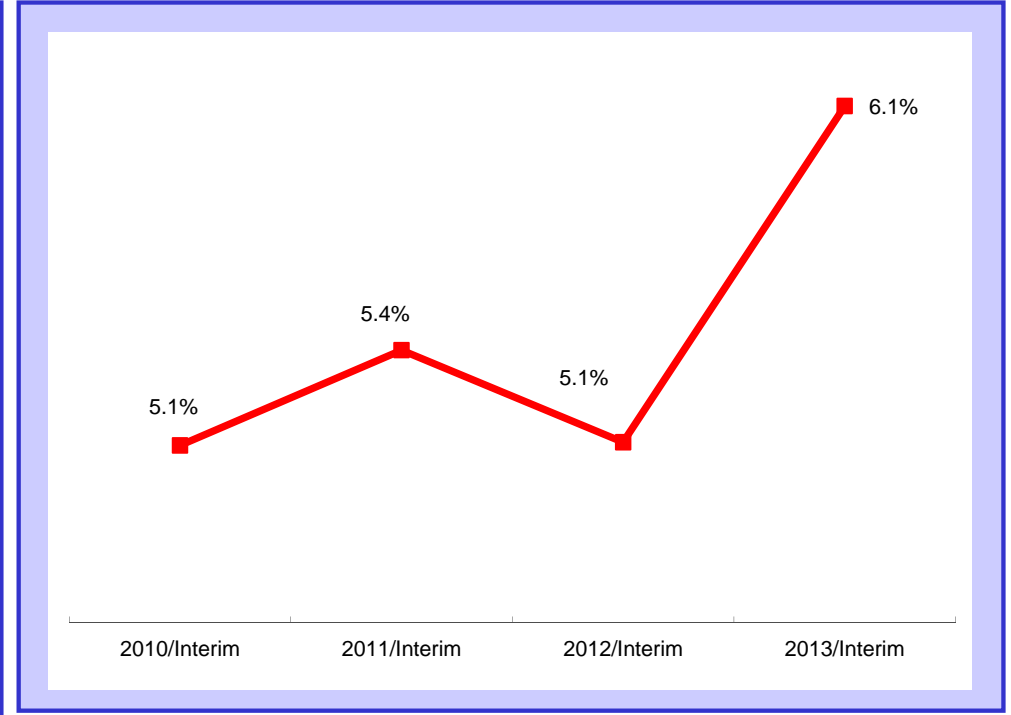
- **Non-consolidated capital adequacy ratio was 13.77%** at the end of September 2013, and **Tier 1 ratio also secured an adequate level of 10.41%**.
- **After repayment of 300 hundred million yen of preferred equity securities and 140 hundred million yen of subordinated term loans scheduled in the second half of 2013, Core capital ratio will secure the 12% level at the end of March 2014.**
- **ROE increased drastically** while capital adequacy increased.

Non-consolidated capital adequacy ratio and Tier1 ratio



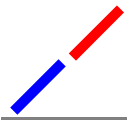
* The "Foundation internal ratings-based approach (F-IRB) has been adopted since the end of September 2013 to calculate credit risk assets.

ROE



ROE (based on current net income)

	Interim FY2012	Interim FY2013	yoy change
ROE	5.1%	6.1%	1.0%



2. Progress of the “Mid-term plan 2012 - Challenge for Innovation - ”

(1) “Mid-term plan 2012 - Challenge for Innovation - ” and FY2013 plan

In FY2013, measures to make a leap forward in FY2014, the final year of the mid-term plan, will be intensively taken.

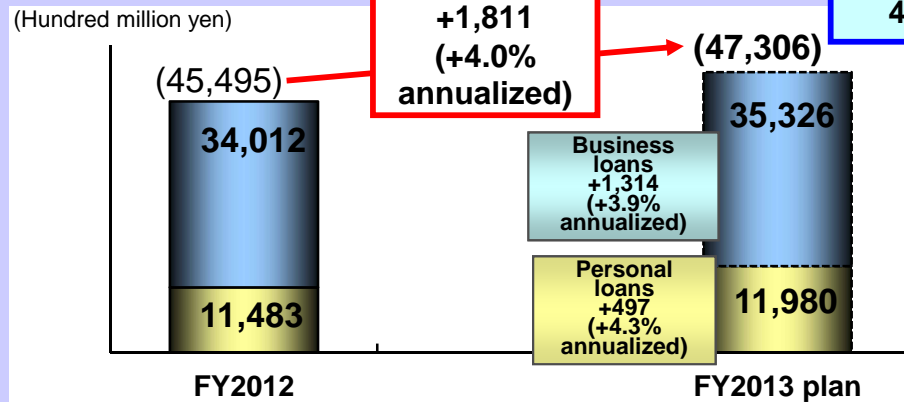
	FY2012 results (Mid-term plan 1st year)	FY2013 plan (Mid-term plan 2nd year)	Key sales strategies	FY2014 goal (Mid-term final year)
Core banking profit	389 hundred million yen	381 hundred million yen	1 Strengthening of stock business	400 hundred million yen and over
Consolidated current net income	174 hundred million yen	204 hundred million yen	2 Enhancement of consulting sales	200 hundred million yen and over <small>Level of 1-yen increase to be paid (annually 7 yen)</small>
Credit cost ratio	0.18%	0.10%		3 Contribution to local economy through better alliance with government sector
Core OHR	58.6%	59.2%		58.5% and under
ROE	5.35%	6.0%		6.0% and over

(2) Strengthening of stock business (loans)

- **Intensive sales** for loans to SMEs and personal loans increased loans.
- **Promoting creation of products for SMEs and transfer of decision authority on credit to branch managers** realized speedy response to clients' needs.

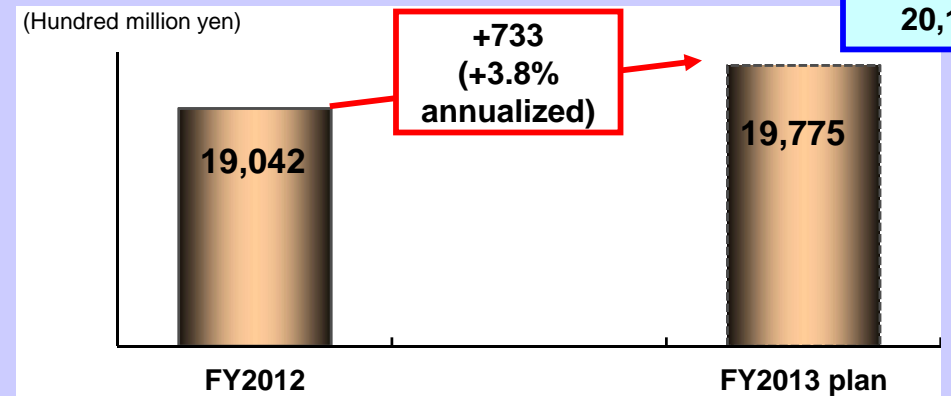
Average balance of loans

Mid-term plan
FY2014
47,643



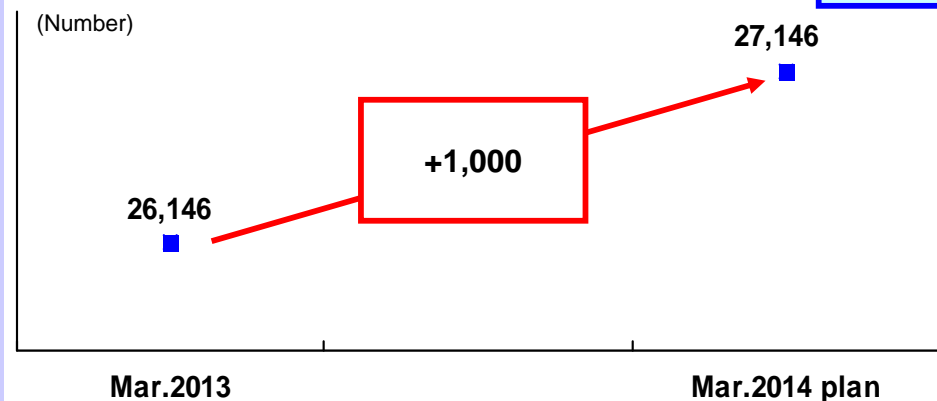
Average balance of loans to SMEs

Mid-term plan
FY2014
20,155



Number of business loan borrowers

Mid-term plan
End FY2014
28,000



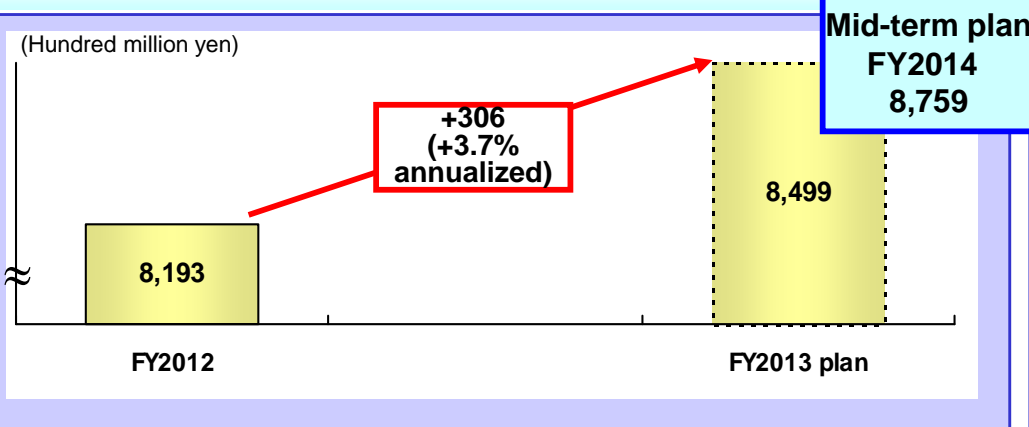
**Creation of "Good Support,"
a loan to support SMEs
[Start from October 28, 2013]**

As of November 15, 2013
Number of contract: 26
Loan amount: 134 million yen
Average interest rate:
approx. 2.5%

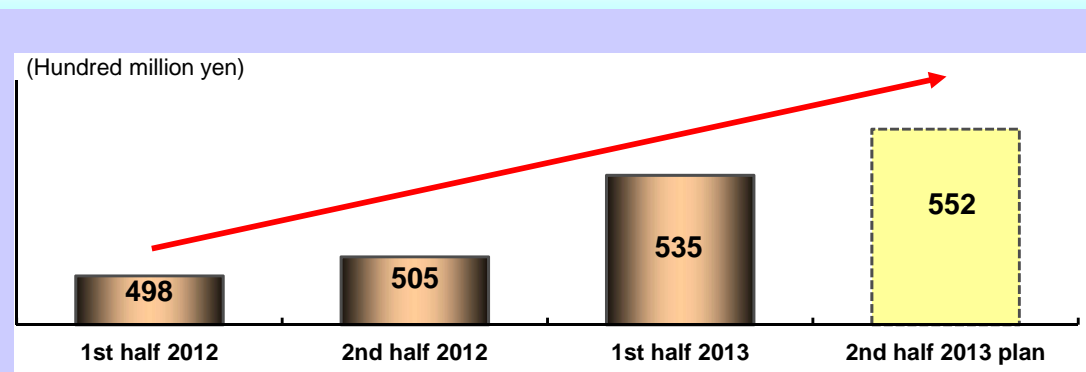
(3) Strengthening of stock business (personal loans)

- All the Housing Loan Centers (11 centers) started to open on Sundays to respond quickly and positively to the needs for housing loan in association with consumption tax increase.
- Cross-sell was fully enforced and the acquisition of consumer loans was promoted while making proposals based on the life cycle of customers.

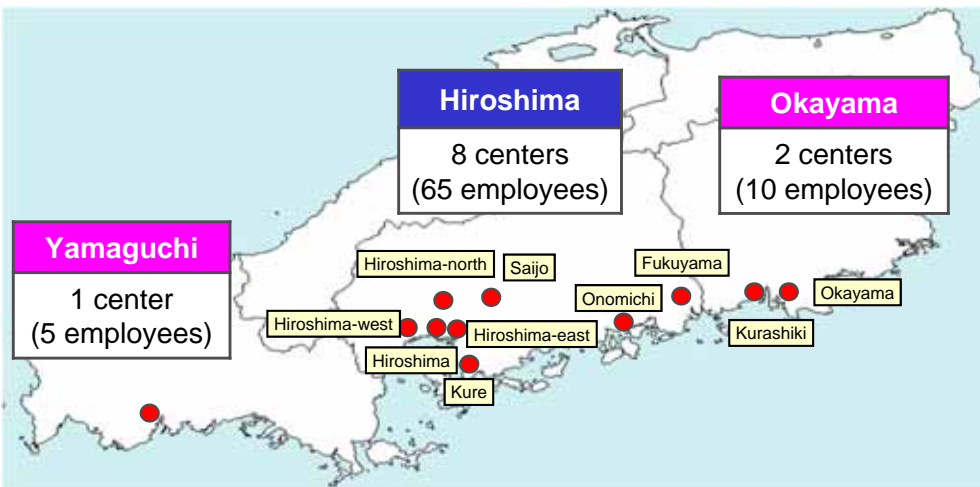
Average balance of housing loans



Consumer (unsecured) loan (average balance)



Housing Loan Center network (11 centers)



First reservation line in Japan

Enhancement of reform loan

Creation of "Value Loan Reservation" (Apr. 2013)

Promotion was intensified by setting a reservation line of car financing and education loan for the Value One members to enable them to get a loan when necessary.



Creation of "Family Loan (My House Plan)" (Aug. 2013)

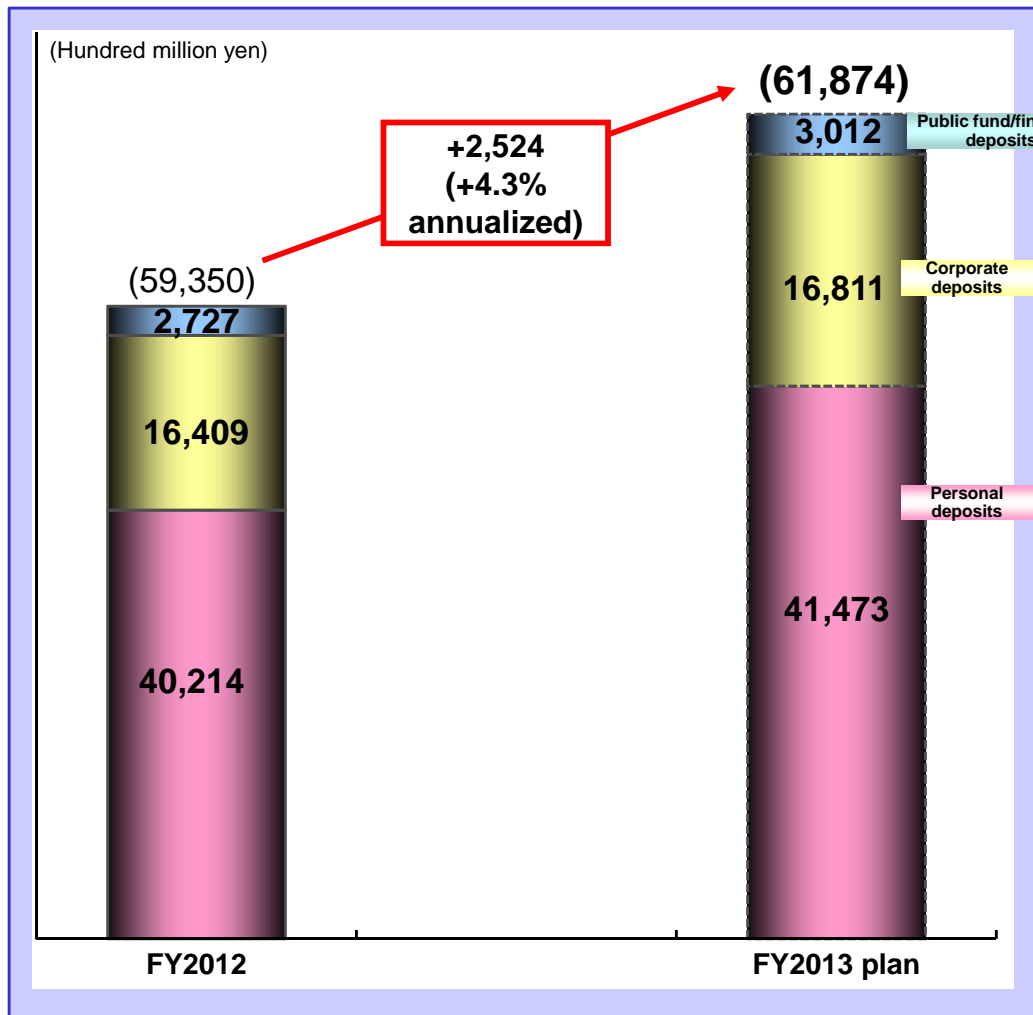
Acquisition of loan was strengthened by easing the loan condition of existing reform loans.



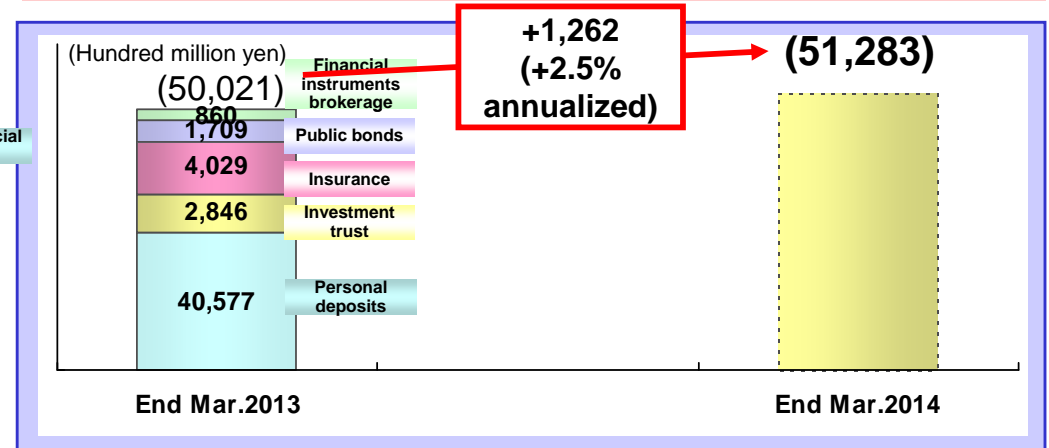
(4) Strengthening of stock business (AUM)

- Adequate response was given to merging clients' needs by tax exemption of educational fund given in a lump and the introduction of NISA.
- The "Private Banking Promotion Office," established in the HQs in April 2013, was utilized to construct a long-term relation with the wealthy class.
- The base of strengthening of personal deposits was established by steadily increasing income sources such as payroll/pension deposit accounts.

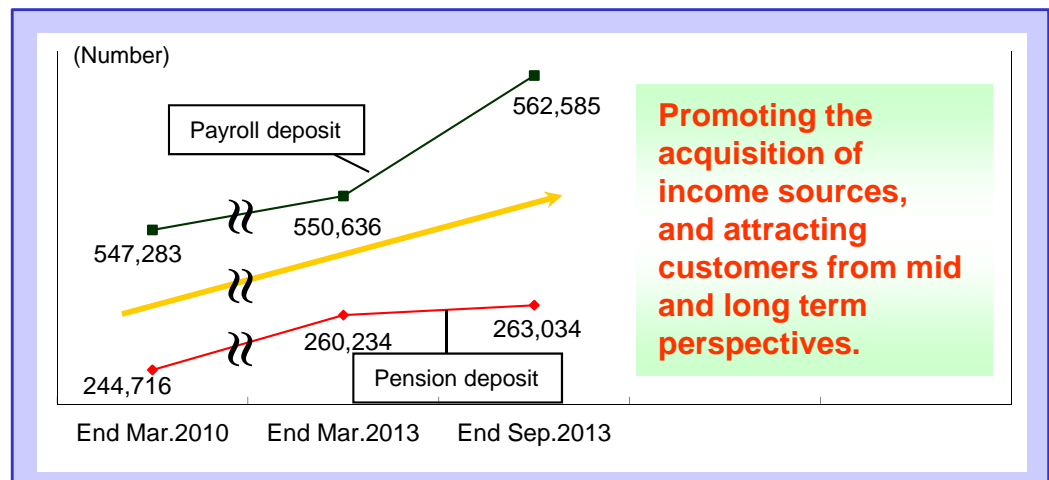
Average balance of deposits and NCD



Closing balance of personal AUM



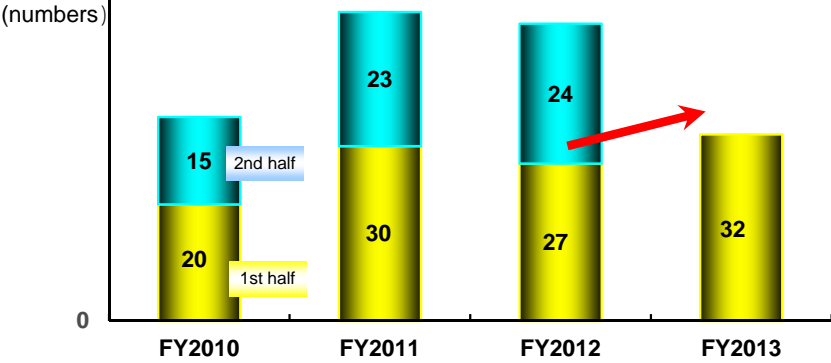


Number of payroll/pension deposit accounts



(5) Enhancement of consulting sales (growth areas)

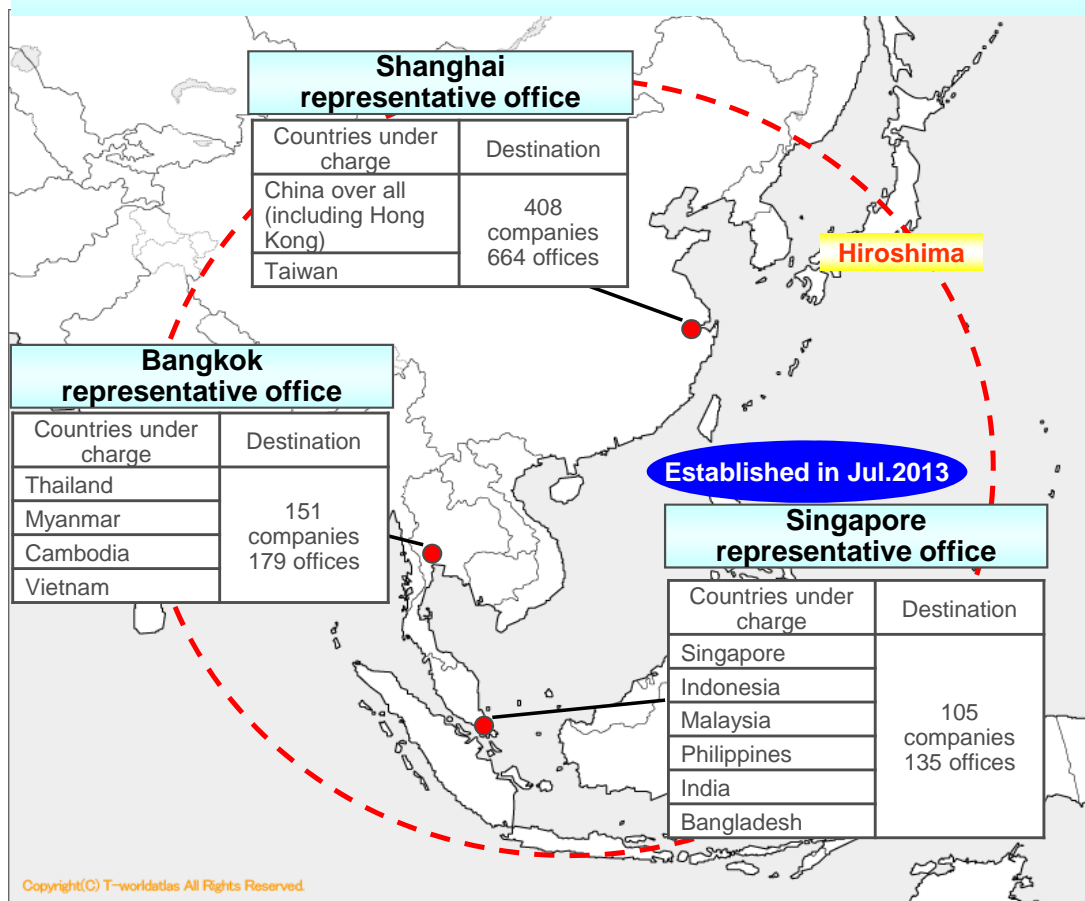
Further promoting the differentiation from other banks by improving approaches to growing areas

Consulting sales	New approaches									
<p>Approach to growing industries</p>	<ul style="list-style-type: none"> Environment and energy <p>In September 2013, approaching the large-scale solar power project led by Hiroshima Prefecture with syndicated loan (syndicated amount: 785 million yen).</p> <p>⇒ Other cases can be expected.</p> Medical and nursing business <ul style="list-style-type: none"> Actively approaching to evocation of clients' needs and capital demand by the responsible staff in the HQs Holding a seminar on medical/nursing business to actively provide know-how 	 <p>[Financing to business firms] (Jul. 2012 - Sep. 2013) (cases, Hundred million yen)</p> <table border="1" data-bbox="1742 485 2130 555"> <thead> <tr> <th>cases</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>85</td> <td>71</td> </tr> </tbody> </table> <p>25 cases/148 hundred million yen at end Sep. 2013</p> <p>[Financing to healthcare/nursing] (Apr. 2012 - Sep. 2013) (cases, Hundred million yen)</p> <table border="1" data-bbox="1742 715 2130 785"> <thead> <tr> <th>cases</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>252</td> <td>271</td> </tr> </tbody> </table> <p>* Cases in which responsible staff in the HQs were involved</p>	cases	Amount	85	71	cases	Amount	252	271
cases	Amount									
85	71									
cases	Amount									
252	271									
<p>Approach to the business targeting the wealthy and senior citizens</p>	<ul style="list-style-type: none"> Establishing "Private Banking Promotion Office (30 employees)" in the HQs in Apr.2013 to enhance the approach to the wealthy and senior citizens. Investing Asahi Trust Co., Ltd., a trust company, jointly with eight regional banks at the end Sep.2013 to enhance the structure. <p>Allocating staff members responsible for testamentary trusts and inheritance organization in all the sales offices (308 members as of end Oct.)</p> 	<p>Numbers of application for testamentary trusts and inheritance organization (End Sep. 2013)</p> 								
<p>Corresponding to Densai</p>	<ul style="list-style-type: none"> Starting to sell "Densai ABL" in Oct. 2013 as well as existing "Densai Discount" <p>⇒ Improving the product lineup on Densai to promote the differentiation from other banks</p> <div style="border: 1px solid red; padding: 5px; display: inline-block; color: red; font-weight: bold;">Service ahead of other banks in Japan</div>									

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

- 696 customers (1,011 offices) have expanded their business to Asia, where stable growth is expected
 - ⇒ Expanded business opportunities
- Enhancing support to internationally expanding companies to help grow business globally
 - ⇒ Grasping a share of their growth as part of our profit

Hiroshima Bank customers' presence in Asia (as of the end of Mar.2013)



Covering nearly everywhere in East and Southeast Asia

Strengthening support system

Singapore representative office newly opened
(Jul.2013)

International Business Division newly organized
(Oct.2013)

Functional enhancement of solution business/
Increase of international business income

- Establishment of a division which is specialized in international business enhances functions for supporting internationally expanding customers and providing financial service for overseas business
- Integration with the front/back offices regarding foreign exchange promotes efficiency of business operation

- Developing personnel with deep knowledge in business in Asia
Taking an MBA program in Southeast Asia

Active approach to financing

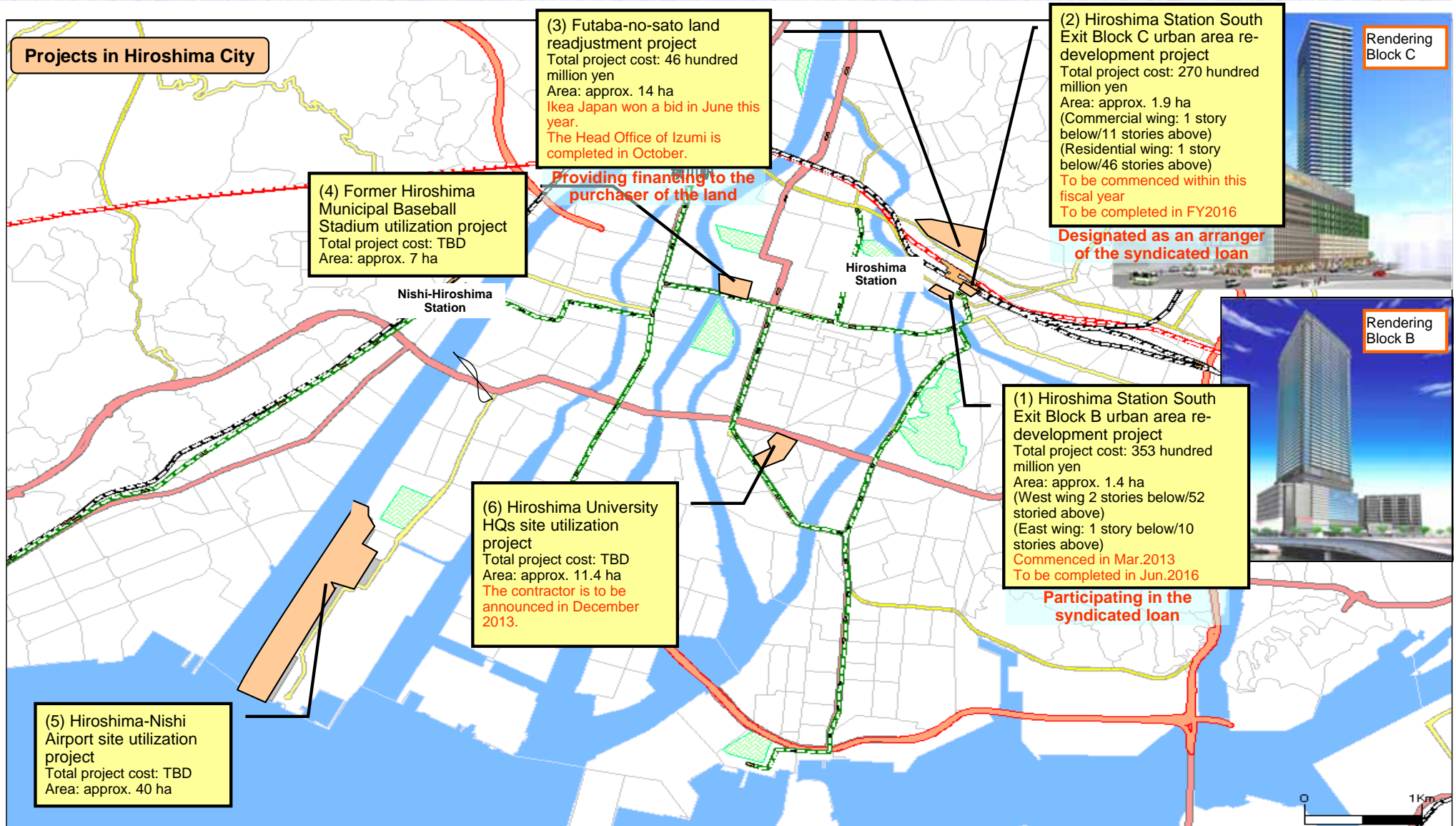
Cross-border syndicated loan (Jul.2013)

Contract firm	Y-TEC KEYLEX MEXICO,S.A.DE C.V	DaikyoNishikawa Mexicana,S.A.DE C.V.
Syndicated amount	60 million US dollars	26 million US dollars
Application of fund	Equipment fund	

- As the first regional bank based in Chugoku/Shikoku region, providing business fund in Mexico with cross-border syndicated loan as an arranger.

(7) Contribution to local economy through better alliance with government sector

- Making efforts for **positive contribution to local economy through better alliance with the government sector.**
- **Proactively providing our network and solutions** at the very beginning of re-development projects





(8) Channel restructuring

■ Making efforts to **strengthen the Internet channel** as well as **opening of new branches** and **reviewing branch strategies/facilities** in order to enhance convenience for customers and to differentiate from other banks

First opening of a new branch outside Hiroshima in 23 years

Okayama Nishi Branch; May 2014
to be newly opened

- **Opening a branch in Okayama City, where the biggest market growth can be expected** among the cities in the three adjacent prefectures
- **Expanding the share of loan** described in the mid-term plan



- Land area: 358.76 tsubo* • ATM: 2 units
- Floor area: 150.08 tsubo* • Safe-deposit box (fully-automatic): 158 boxes
- No. of floors: Two stories above ground
- Parking lot capacity (for customers): 17 cars

* One tsubo is about 3.3 square meters.

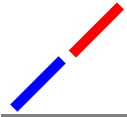
Image of Okayama Nishi Branch

Review of branch strategies/facilities

- Increase of branches that open on holidays
- Expansion of the services on holidays/extended hours on weekdays
- Provision of the optimal financial services by using new branch terminals
- Lower teller counters at branches
- Installment of Wi-Fi (public wireless LAN) spots in branches

Strengthening of Internet channels

- **Establishment of Internet Branch (Mar. 2013)**
[Hirogin Net Branch]
 - To expand the base of customers in the region and the area outside the region and to increase of deposits/loan by simple procedures of opening an account
- **Increase of Direct Banking members**
 - Enhanced efforts to acquire 500 thousand members
[Internet banking service by smartphone (From Oct. 2012)]



3. Earnings forecast in FY2013

(1) Performance outlook and dividends for FY2013

- **Five successive years' growth** is expected for consolidated current net income.
- Annual dividends will be **increased to 7 yen per share (+1 yen from the forecast)** according to the Payout Table.

Earning estimate for FY 2013

	FY2012 (actual)	FY 2013 (plan)	(Hundred million yen)	
			yoy	From forecast
Net interest income	760	746	-14	-1
Net fees and commissions income	179	189	10	1
Core gross operating profit	939	935	-4	0
Expenses (-)	550	554	4	-6
Core banking profit	389	381	-8	6
Gains/Losses on securities	57	-22	-79	-32
Net core banking profit	446	359	-87	-25
Gains/Losses on shares	-12	8	20	18
Credit costs (-)	83	49	-34	-31
Ordinary profit	297	320	23	32
Current net income	167	201	34	25
Consolidated current net income	174	204	30	25

Dividend Policy and Payout Table

(1) Stable dividend: Annual dividend of 6 yen per share
(Increase from 5 yen to 6 yen to be paid annually was decided in August 2012.)

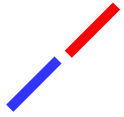
(2) Performance-based dividend: Dividend will be paid according to the consolidated current net income as shown in the Payout Table below.

Performance-based dividend will be increased by 1 yen according to the consolidated net income of the full year.

Consolidated current net income	Dividend per share			Consolidated payout ratio
	(1) Stable	(2) Performance-based	(1) + (2)	
180 hundred million yen and under	6 yen	0 yen	6 yen	20.8% and over
Over 180 to 210 hundred million yen	6 yen	1 yen	7 yen	20.8% and over and less than 24.3%
Over 210 to 240 hundred million yen	6 yen	2 yen	8 yen	20.8% and over and less than 23.8%

Revised forecast of dividends

	Annual dividend per share (FY2013)		
	Interim (actual)	Year-end (plan)	
Dividends (announced on Nov. 8)	3.5 yen	3.5 yen	7 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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