

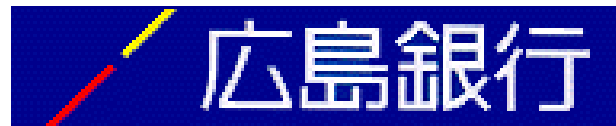
# THE HIROSHIMA BANK

---

**Investor relations presentation material**

President Isao Sumihiro

October 2009



# Table of contents

---

. Outlook/Financial highlights			
of The Hiroshima Bank	1. Outlook of The Hiroshima Bank	.....	2
	2. Financial highlights	.....	3
	3. Summary of the Mid-term business plan	.....	4
	4. Earning estimates and key points	.....	5
. Hiroshima's economy	1. Outlook	.....	6
	2. Recent conditions (Bank of Japan's regional economic report)	.....	7
	3. Expansion to Asia (by Hiroshima-based companies)	.....	8
. Business style	1. Overall structure	.....	9
	2. Corporate business	.....	10
	3. Retail business	.....	11
	4. Diversification of profit sources	.....	12
. Balance sheet	1. Loans ~	.....	13 ~ 14
	2. Deposits	.....	15
	3. Securities	.....	16
. Financial soundness	1. Indices	.....	17
	2. Non performing loans	.....	18
	3. Capital adequacy ratio	.....	19
. Shareholder returns	1. Shareholder returns	.....	20

# 1. Outlook of The Hiroshima Bank

- Change in number of banks in Japan -

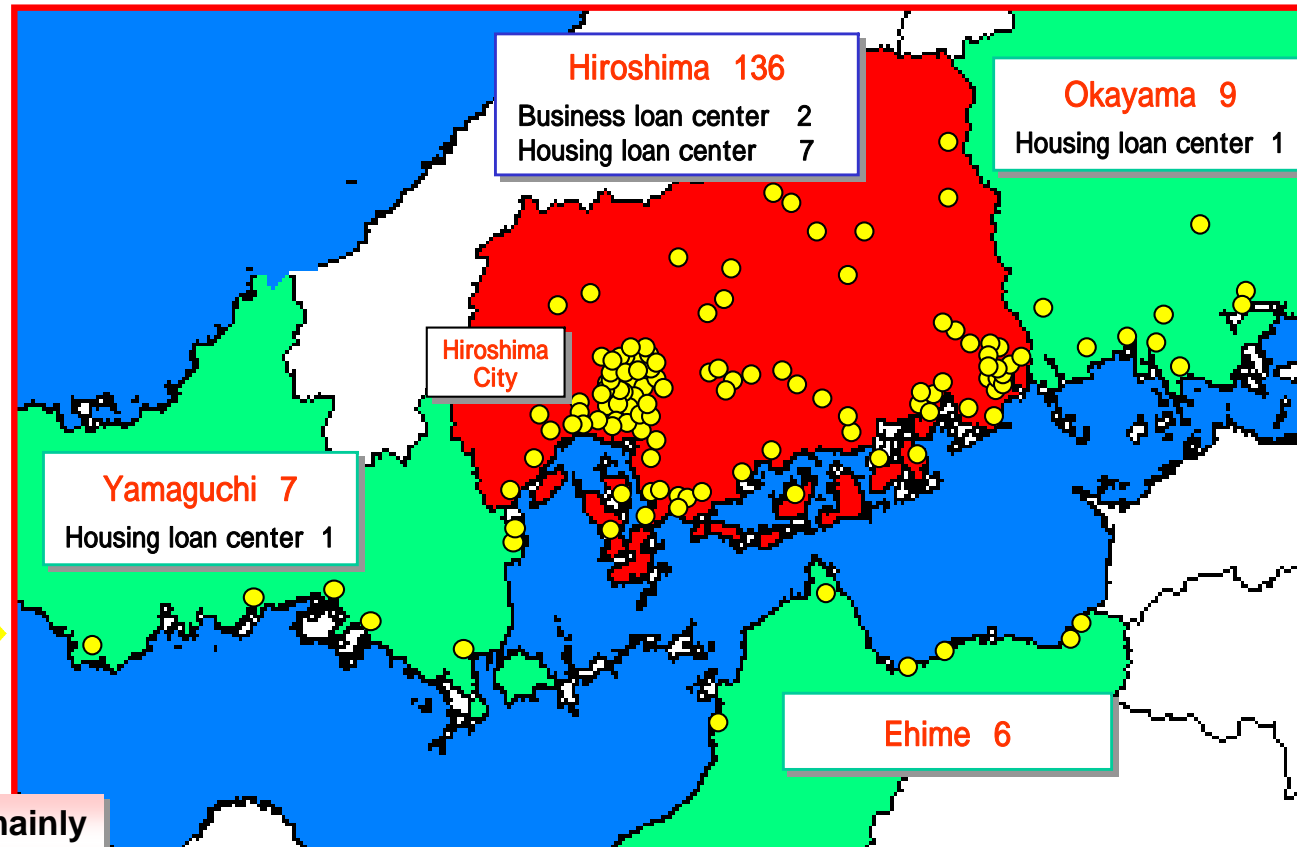
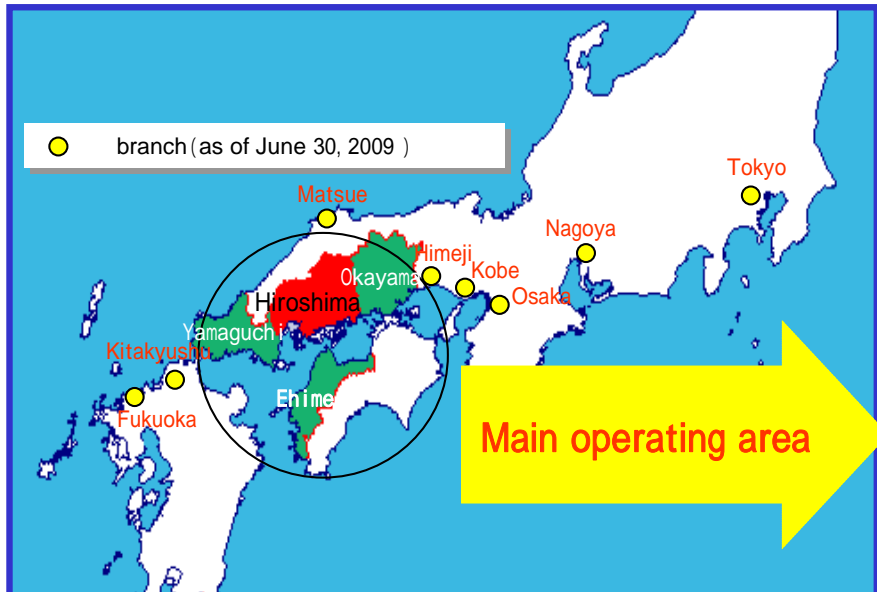
	1990	2009
Mega banks	12	5
Trust banks	9	5
<b>1st tier regional banks</b>	<b>64</b>	<b>64</b>
<b>Hiroshima Bank</b>		
2nd tier regional banks	69	44
Shinkin banks	426	279



**Hiroshima Bank**

- **Foundation** 1878 (130<sup>th</sup> Anniversary)
- **Capitalized at** ¥54.6 billion
- **Deposits** ¥5,413.5 billion (No.9 among 64 1<sup>st</sup> tier regional banks)
- **Loans** ¥4,427.3 billion (No.7 among 64 1<sup>st</sup> tier regional banks)
- **Employees** 3,417
- **Offices** Domestic branches 166

## Hiroshima Bank's Network



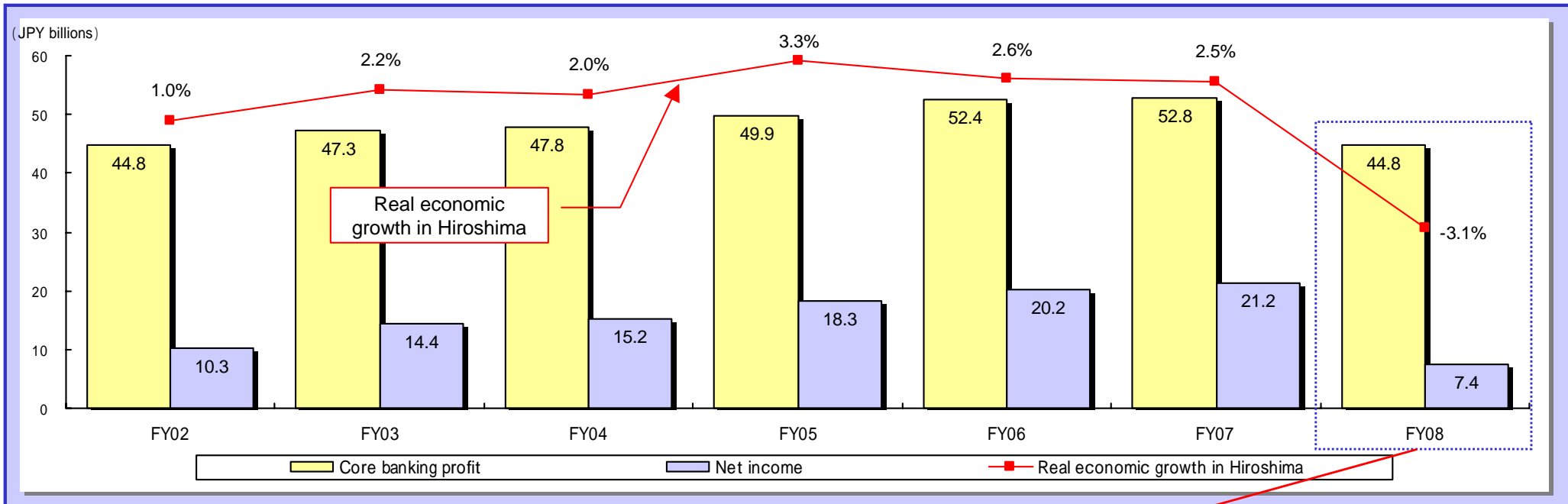
Hiroshima Bank has a broad network of branches, mainly located in Hiroshima and neighboring prefectures.

(Numbers after the name of the prefectures are number of branches )

## 2. Financial Highlights

. Outlook/Financial highlights

Profitability



< FY 2008 >

**Profit decreased mainly due deterioration of economy and market confusion.**

**< Core banking profit >**

- Decreased profit in retail asset management due to the weaker equity markets.
- Decreased profit in currency derivative transactions due to decrease in import-export transactions.

**< Net income >**

- Suffered from impairment losses on securitized products(CDO).
- Credit cost increased due to bankruptcy of large-sized companies (such as Urban Corp./Lehman Bros.)

**Risk of large credit costs and impairment loss on securities occurring in the future is limited**

(We have already taken such costs and loss in FY2008)

### 3. Summary of the Mid-term management plan (FY09 ~ FY2011)

. Outlook/Financial highlights

In 2008, regional economy deteriorated due to deterioration of economy and market confusion

Under our assumption that it will take time for the economy to recover, we have decided to revise our business strategies with consideration for the changes in the management environment.

Finish the previous 3-year mid-term management plan (FY07 ~ FY09) in FY08 (2 years)

## New Mid term Management Plan **< STEPS >** (From FY 2009 to FY 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

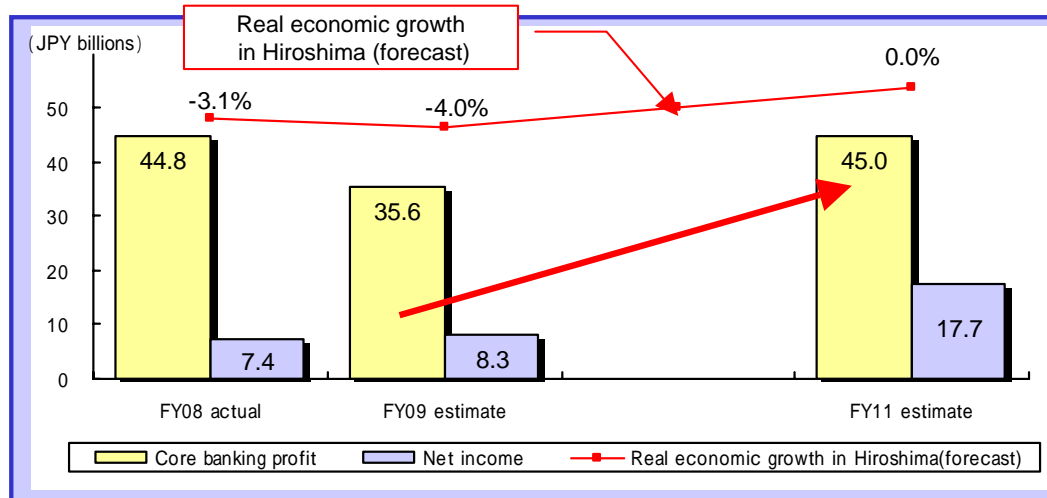
Strengthen capital base

Action Slogan of 'STEPS'

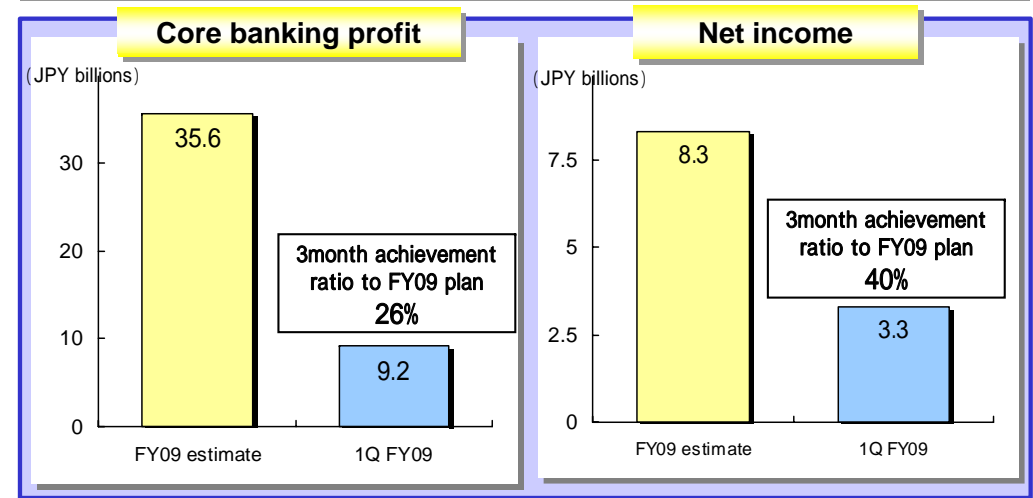
<b>S</b>	...	" <u>S</u> tart Action"	
	<b>T</b>	...	" <u>T</u> ry Best"
		...	" <u>E</u> nergize Persons"
	<b>P</b>	...	" <u>P</u> ositive Thinking"
		...	" <u>S</u> atisfy Customers"

## 4. Earning estimate and key points

### Earning estimate



### Achievement ratio to FY09 earning estimate



1. Strong regional economy

- Transport machinery, steel, and high-tech sector have accumulated and developed technologies while industrial structure has diversified.
- Hiroshima-based companies' aggressive expansion of business activities to Asia.

2. Highly-evaluated business style

- Provision of speedy and convenient service to retail customers by following customer needs in each life stage.
- Increasing the number of corporate customers and enhance "fund intermediary function" by pursuing regional finance initiatives to strengthen profitability.

3. High market share

- Our market share in loans and deposits in Hiroshima prefecture has been expanding.
- Aggressive enhancement of "fund intermediary" function as the leading bank in Hiroshima.

4. Advanced system base

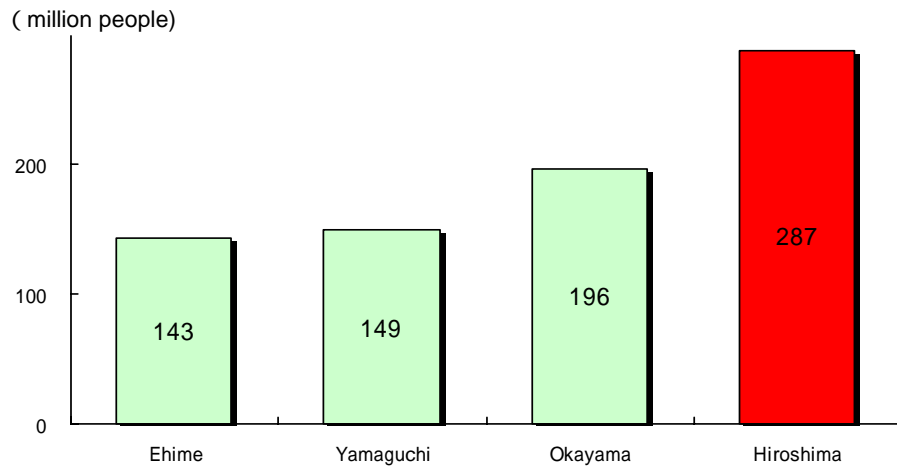
- Establishment and sharing of sophisticated system with Fukuoka Financial Group

Hiroshima's economy

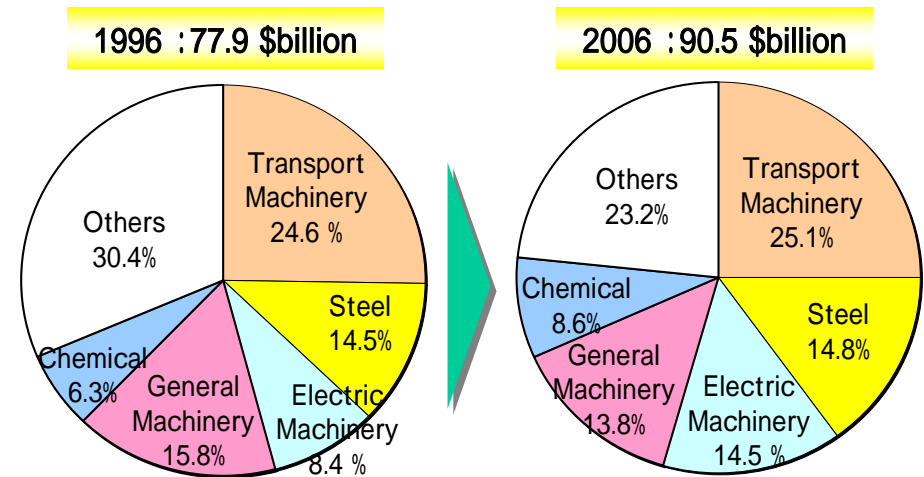
# 1. Outlook of Hiroshima's economy

- Hiroshima's population is 287 million, and GDP of Hiroshima is almost equivalent to Kuwait and New Zealand.
- In addition to the transport machinery and steel sectors, the high-tech sector has accumulated and developed technologies.

## Population of Hiroshima (2008)



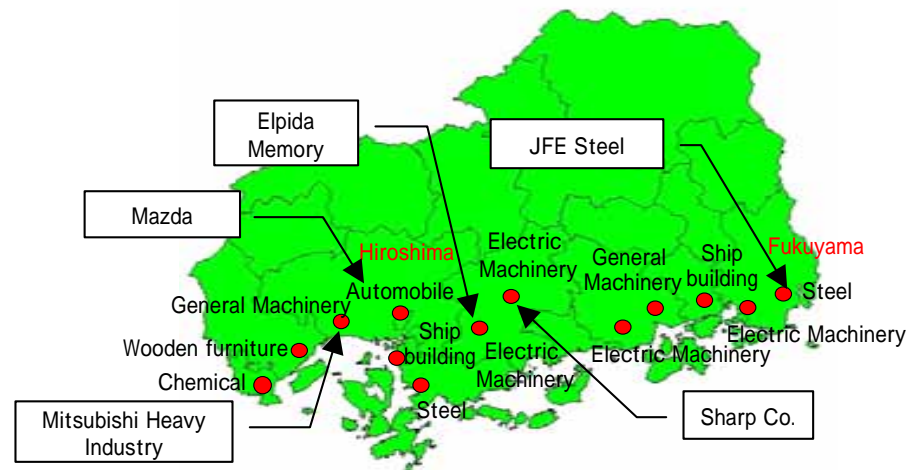
## Breakdown of Manufacturing Industry in Hiroshima (Total value of shipped manufactured products: 1996 → 2006)



## Economic Scale of Hiroshima (2006)

Nations/Regions	Nominal GDP (\$ billion)
Philippines	167.3
Hungary	160.0
New Zealand	150.5
<b>Hiroshima Prefecture</b>	<b>128.4</b>
Kuwait	127.4
Peru	125.2
Vietnam	82.1

## Diversity of industries in Hiroshima



## 2. Recent conditions

■ According to the Bank of Japan's regional economic report, Hiroshima's production and exports are gradually increasing compared to other main regional prefectures in Japan.

Report in April 2009	Report in September 2009
Hiroshima : Deteriorating	Hiroshima : Bottoming out
Sapporo : Increase difficult situation	Sapporo : Sluggish
Sendai : Deteriorating significantly	Sendai : Continue difficult situation
Takamatsu : Deteriorating significantly	Takamatsu : Continue difficult situation
Fukuoka : Deteriorating significantly	Fukuoka : Slightly bottoming out



	Overall	Production	Business sentiment	Export	Consumer spending
<b>Hiroshima</b>	<b>Bottoming out</b>	<b>Increasing</b>	<b>Slightly better</b>	<b>Increasing</b>	<b>Weakening slightly</b>
Sapporo	Sluggish	Deteriorating	Plateau	Decreasing greatly	Difficult situation
Sendai	Difficult situation	Bottoming out	Plateau	Decreasing	Weakening
Takamatsu	Difficult situation	Bottoming out	Plateau	Bottoming out	Weakening
Fukuoka	Slightly bottoming out	Increasing	Plateau	Bottoming out	Weakening

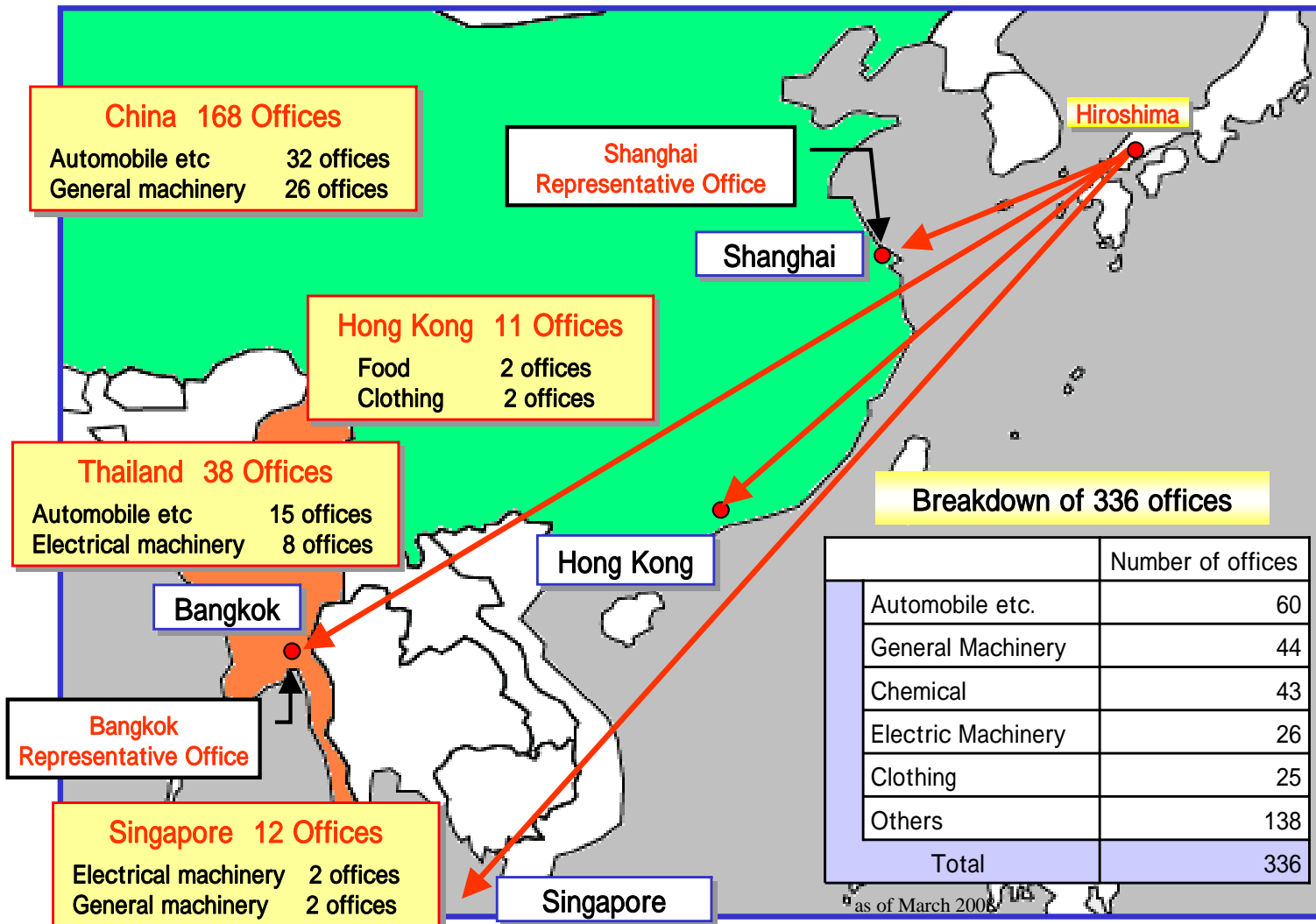


**Hiroshima's economy**

### 3. Expansion to Asia (by Hiroshima-based companies)

- Hiroshima-based companies are internationally expanding their activities and have opened **336 operating offices in East Asia**.
- Consequently an increase in business for our bank can be expected along with the growth of the economy of East Asia.

#### Hiroshima-based companies' expansion of activities



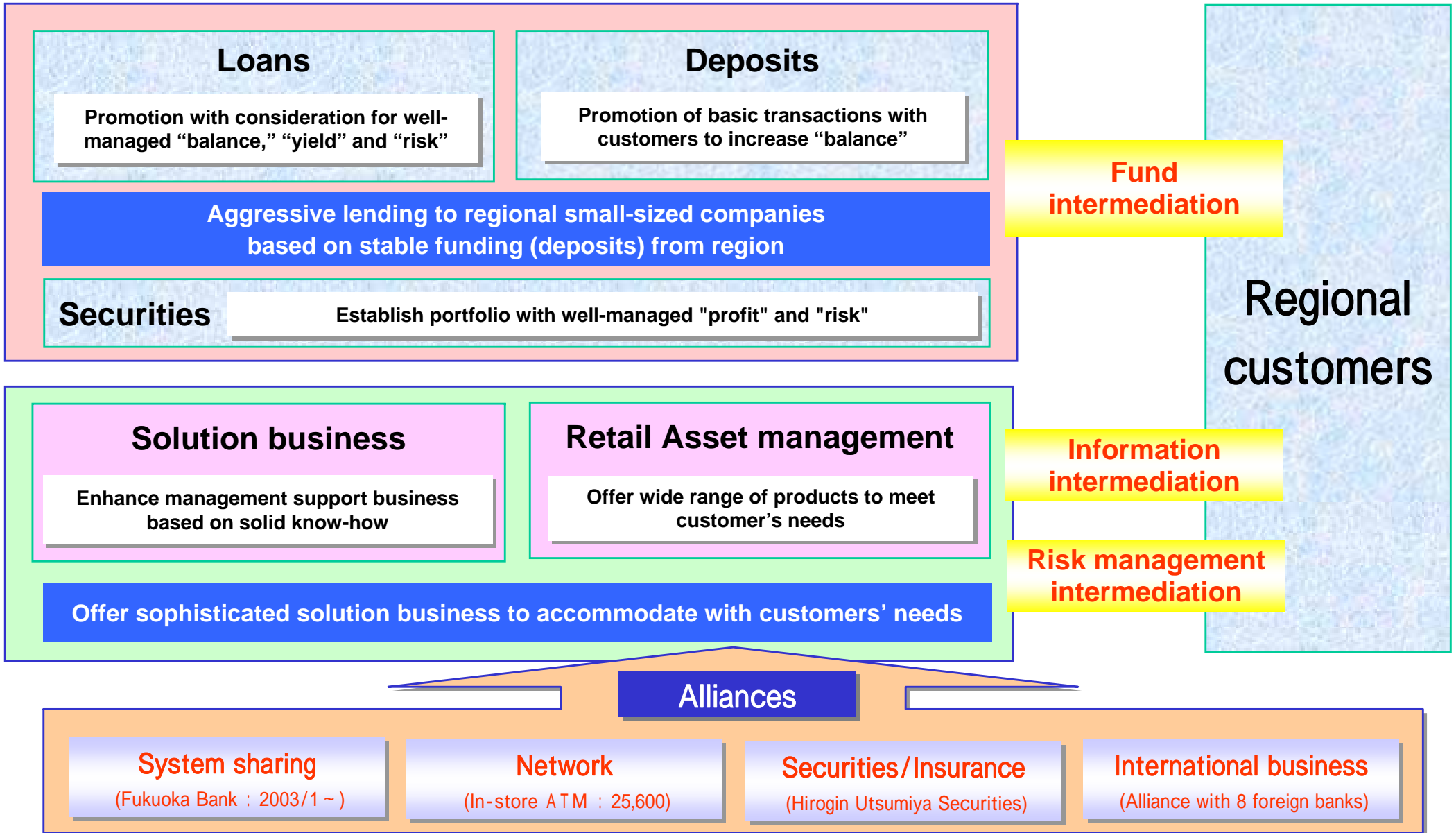
#### Export counterpart nations of Hiroshima-based companies

	Proportion	yoy change
1 China	14.1%	+8.6%
2 Panama	12.6%	+24.3%
3 America	12.1%	-16.1%
4 Korea	9.8%	+9.8%
5 Thailand	5.6%	+34.3%
6 Taiwan	4.6%	-11.4%
7 Singapore	2.9%	+50.6%

2008 calendar year

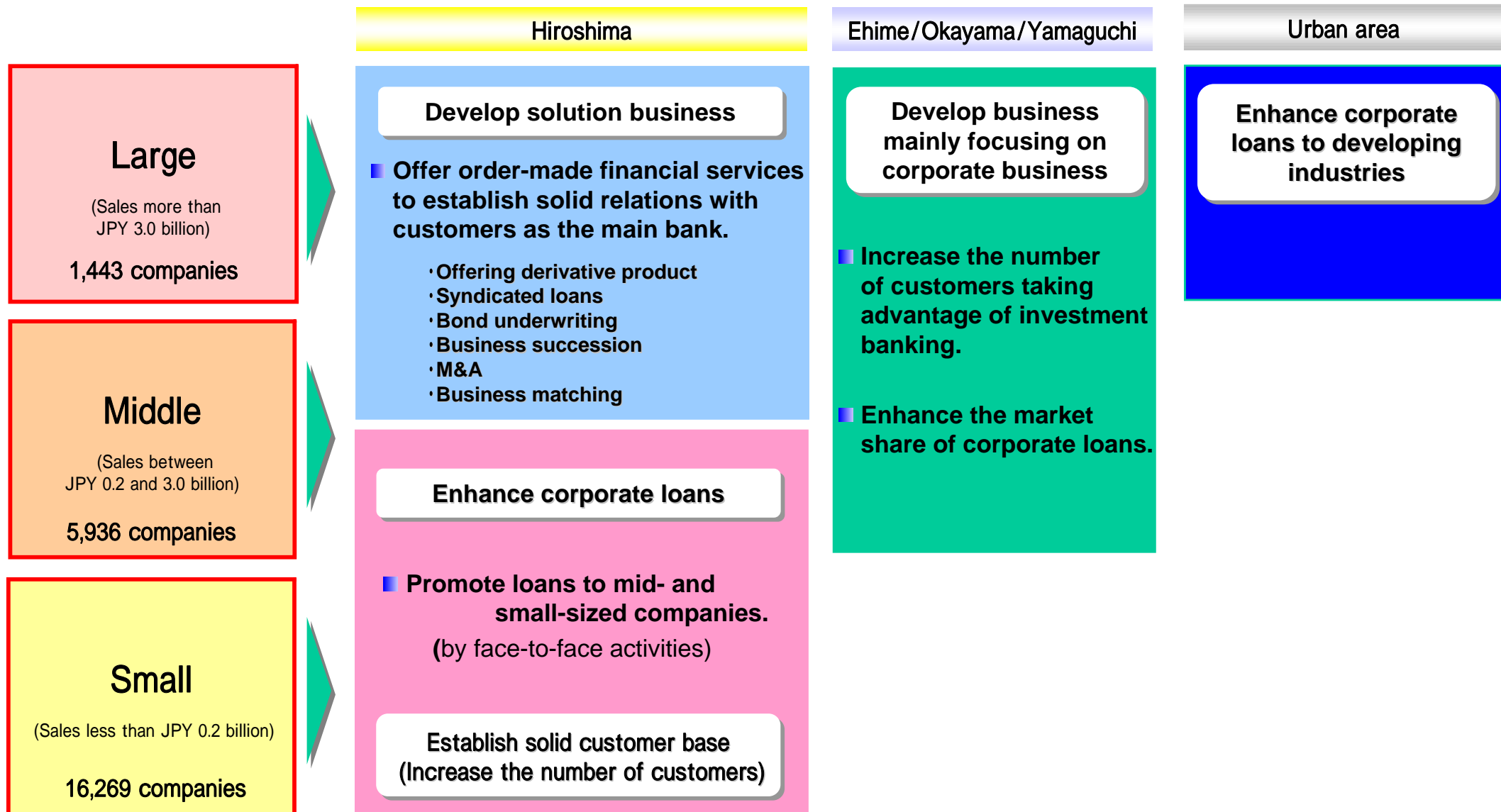
# 1. Basic structure

Leveraging key strengths: **Funds / Information / Risk management**



## 2. Corporate business

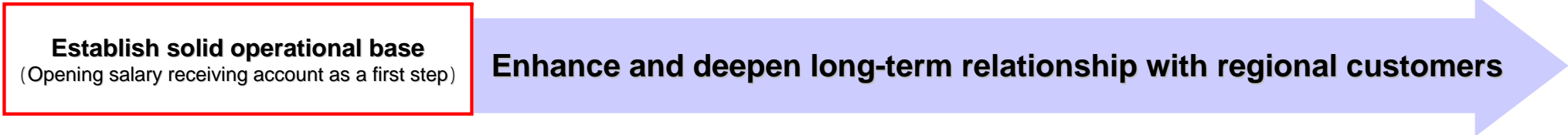
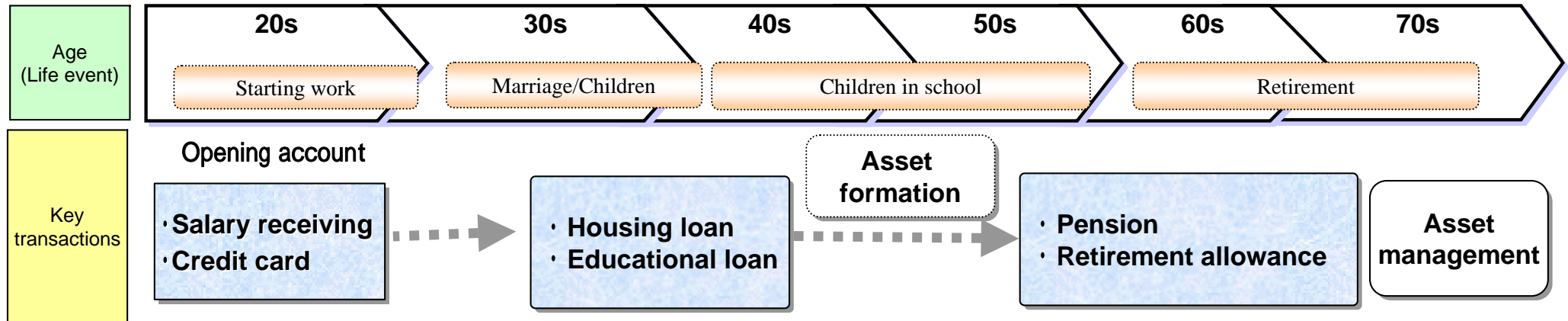
Establish a solid operating base in region and enhance "Fund intermediary function" by pursuing regional finance initiatives



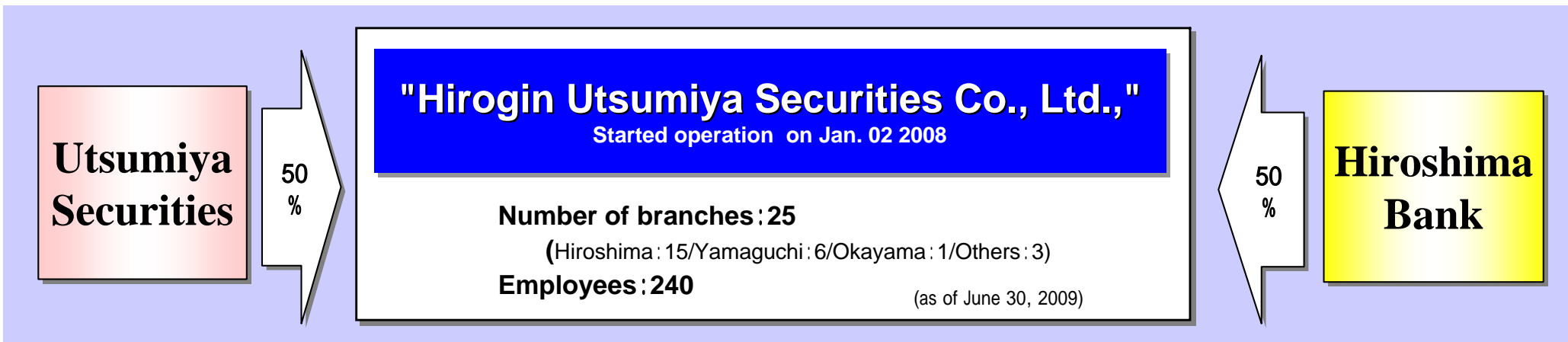
\*Number of companies stands for our clients in each category.

### 3. Retail business

Establish strong relationships with regional customers by following customers' needs in each life stage



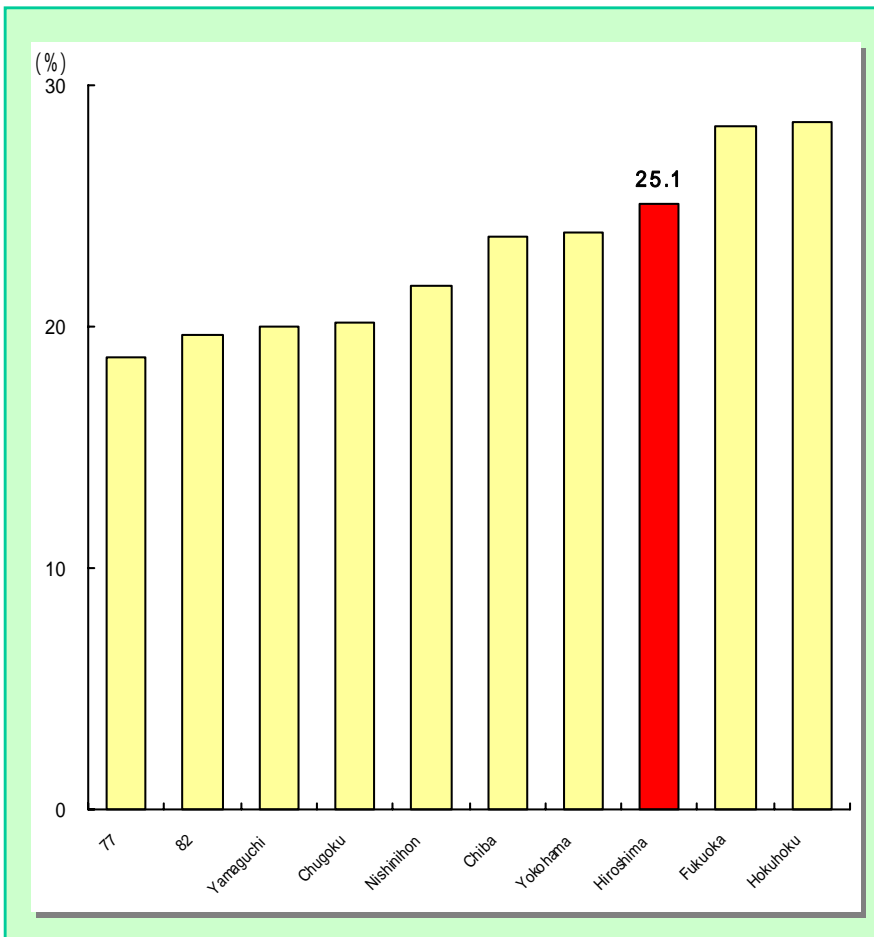
■ Offering customers the widest range of innovative and valuable securities services



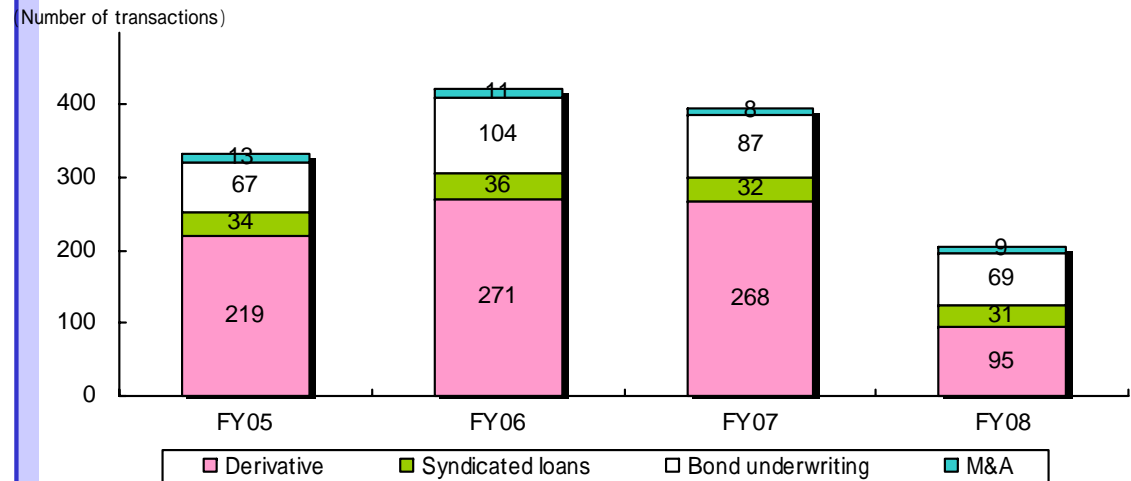
## 4. Diversification of profit sources

High non-interest income ratio shows diversification of the Bank's sources of profits

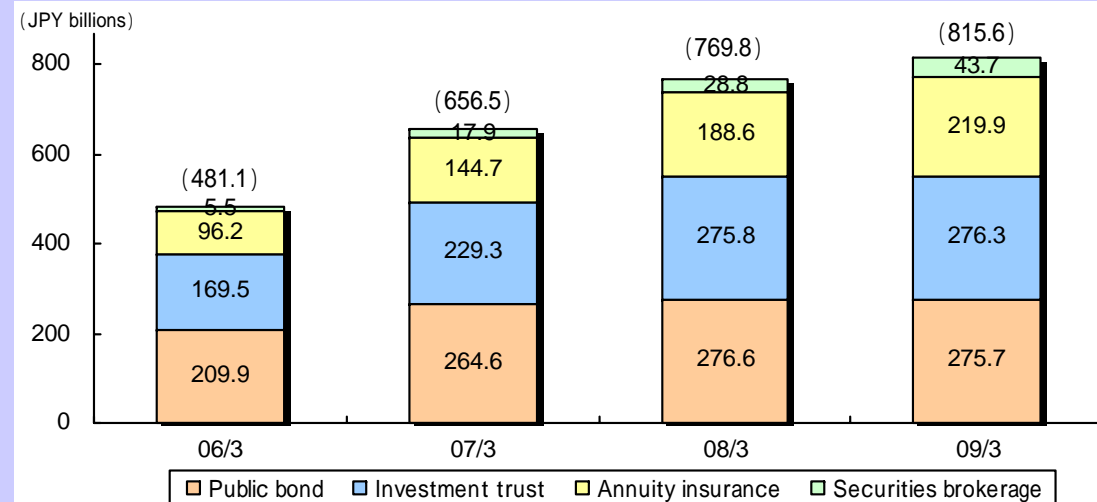
Comparison of non-interest income ratio



### < Corporate > Number of transactions for investment banking



### < Personal > Balance of retail customer assets

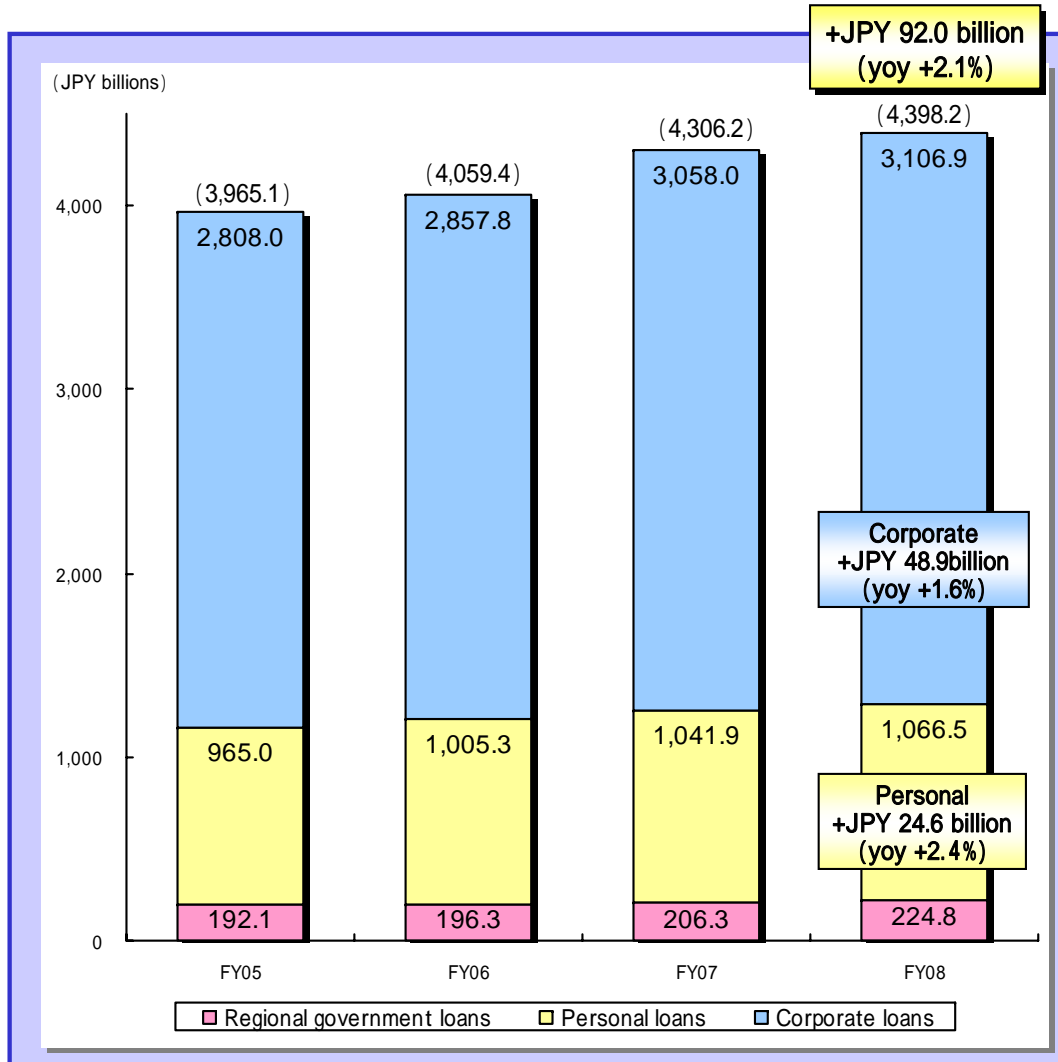


Balance is acquisition basis

# 1. Loans

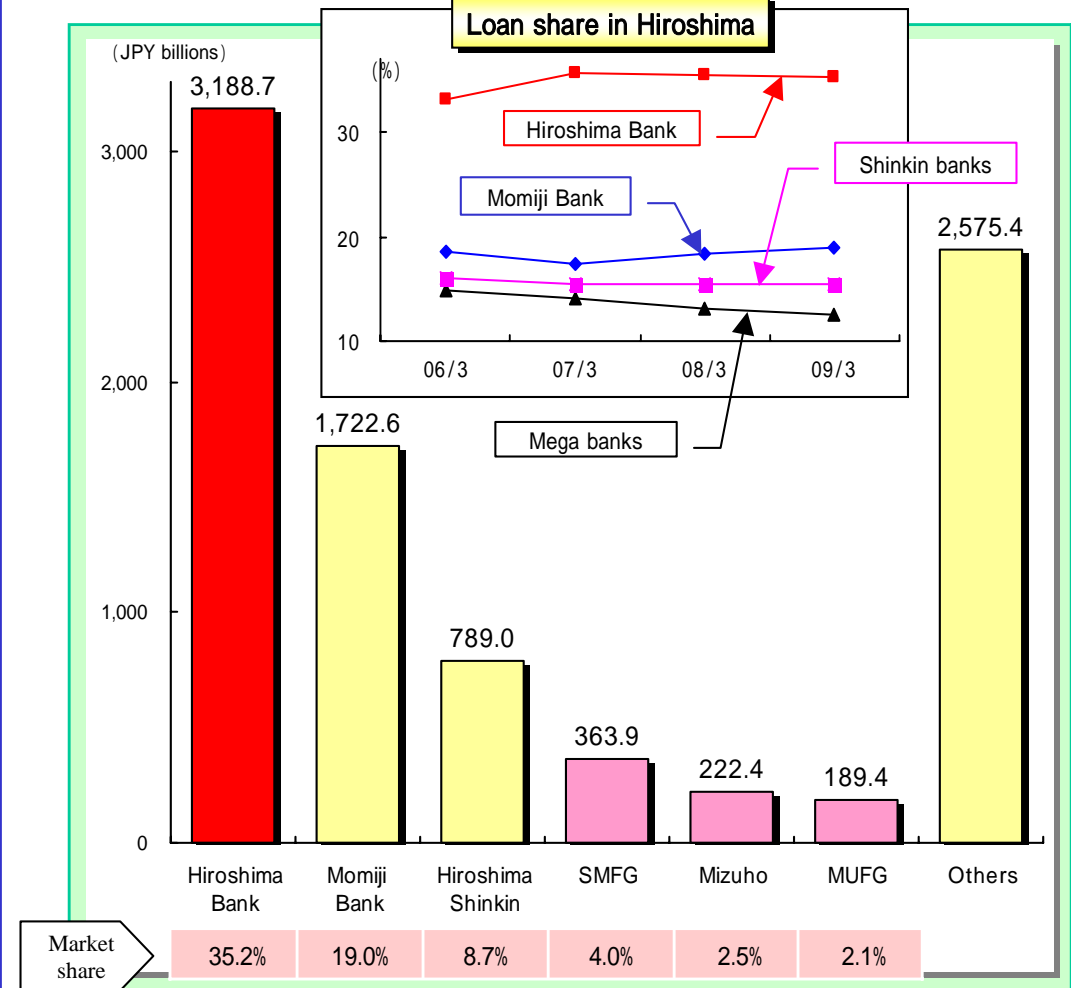
## Total loan balance (average balance)

■ Total loan balance (average balance), both corporate and personal loans, has steadily increased.



## Loans outstanding by bank in Hiroshima (09/3 term-end)

■ Hiroshima Bank has the most loans outstanding and the highest market share in Hiroshima prefecture.  
 ■ The mega banks' position is weak.

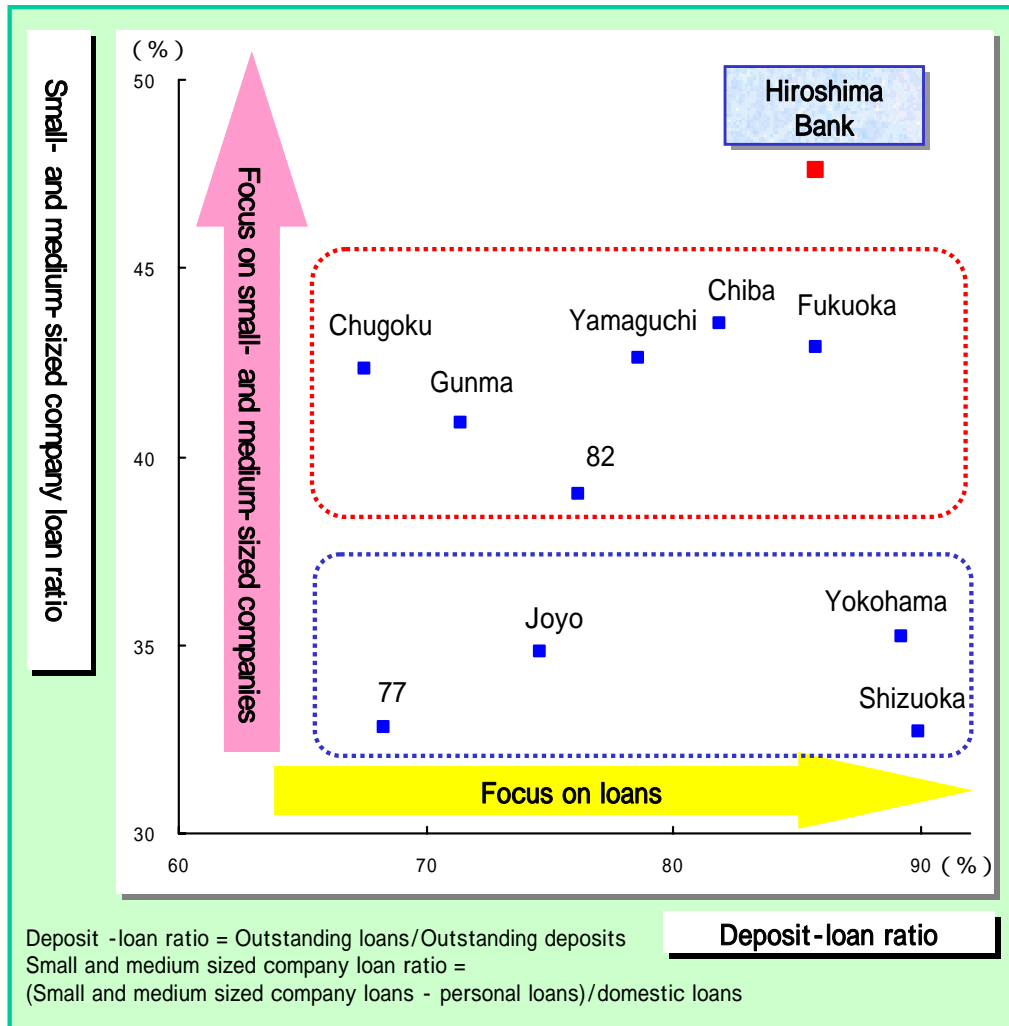


# 1. Loans

## Balance sheet

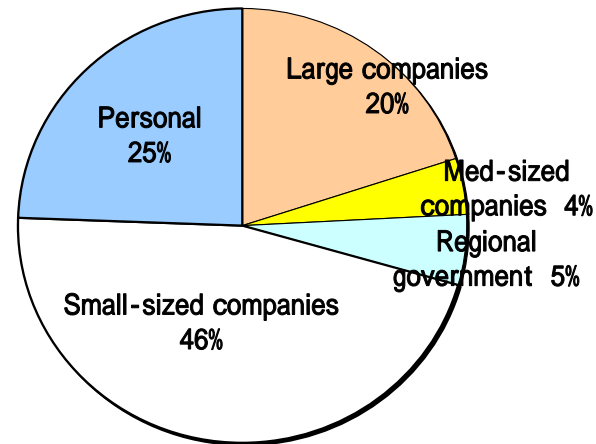
### Loan portfolio

- High loan-deposit ratio
- Focus on small- and medium- sized companies



- Portfolio with stable profitability, mainly focused on small and medium-sized companies

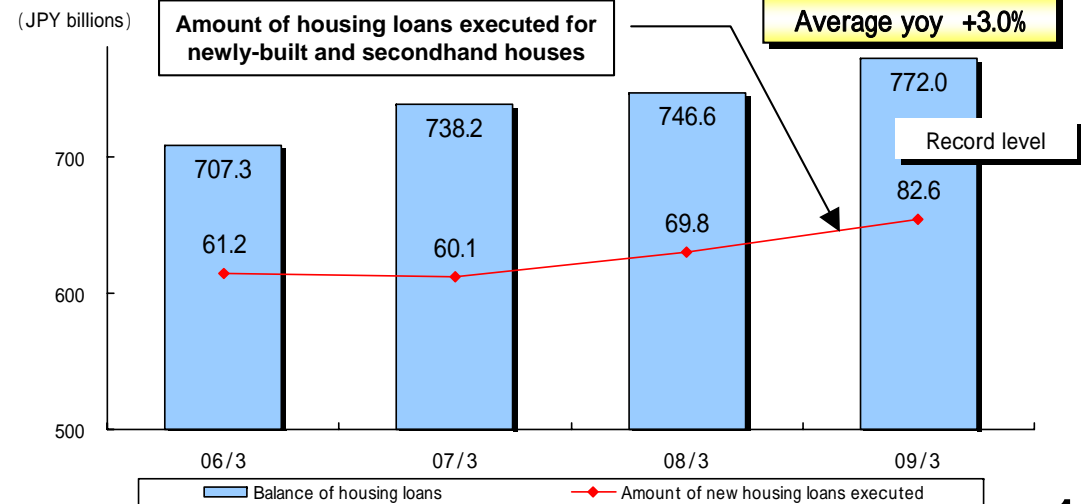
### Breakdown of the loan portfolio



### Loan interest rates

Large companies	App. 1.2%
Med-sized companies	App. 1.6%
Regional government	App. 1.5%
<b>Small-sized companies</b>	<b>App. 1.9%</b>
Personal	App. 2.8%

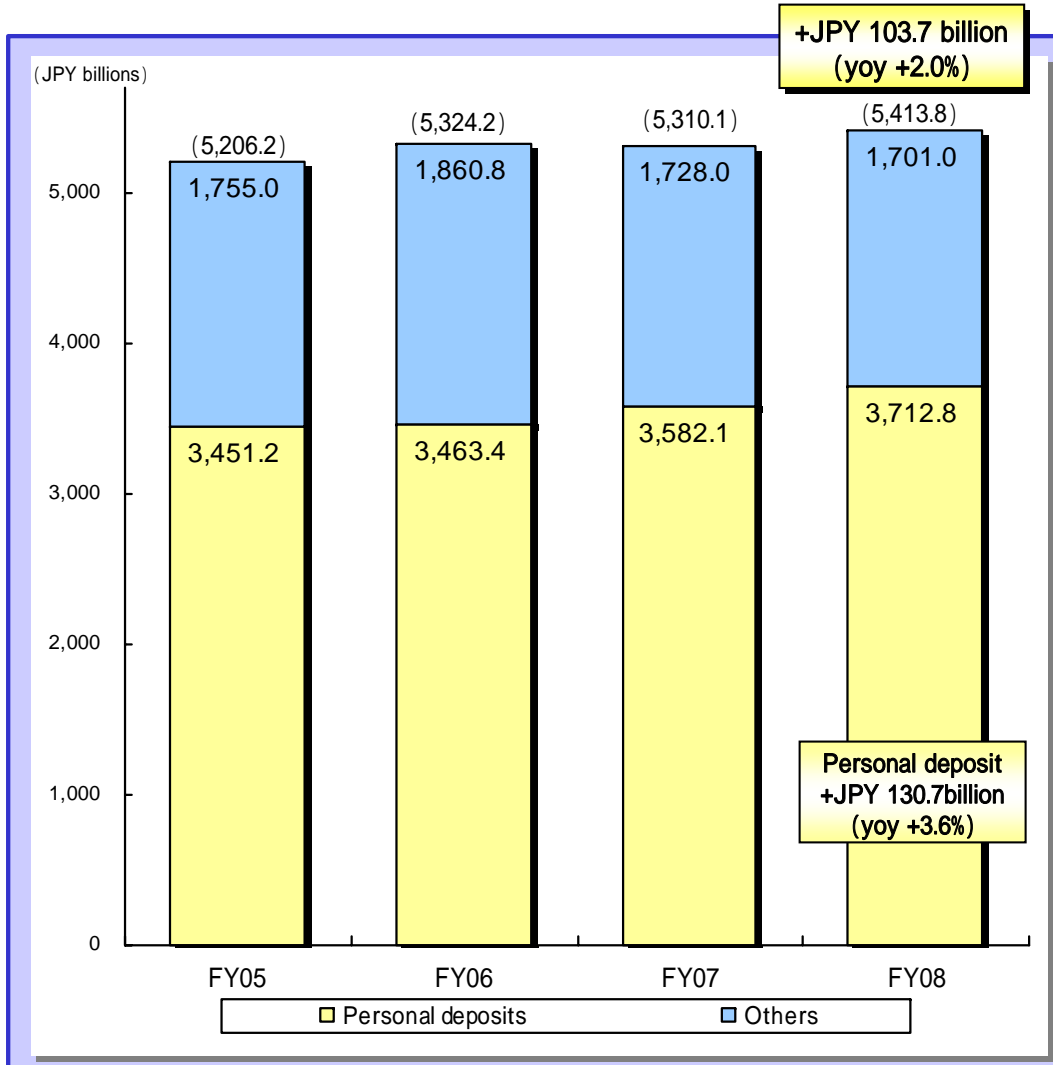
### Amount of new housing loans executed and balance of loans



## 2. Deposit

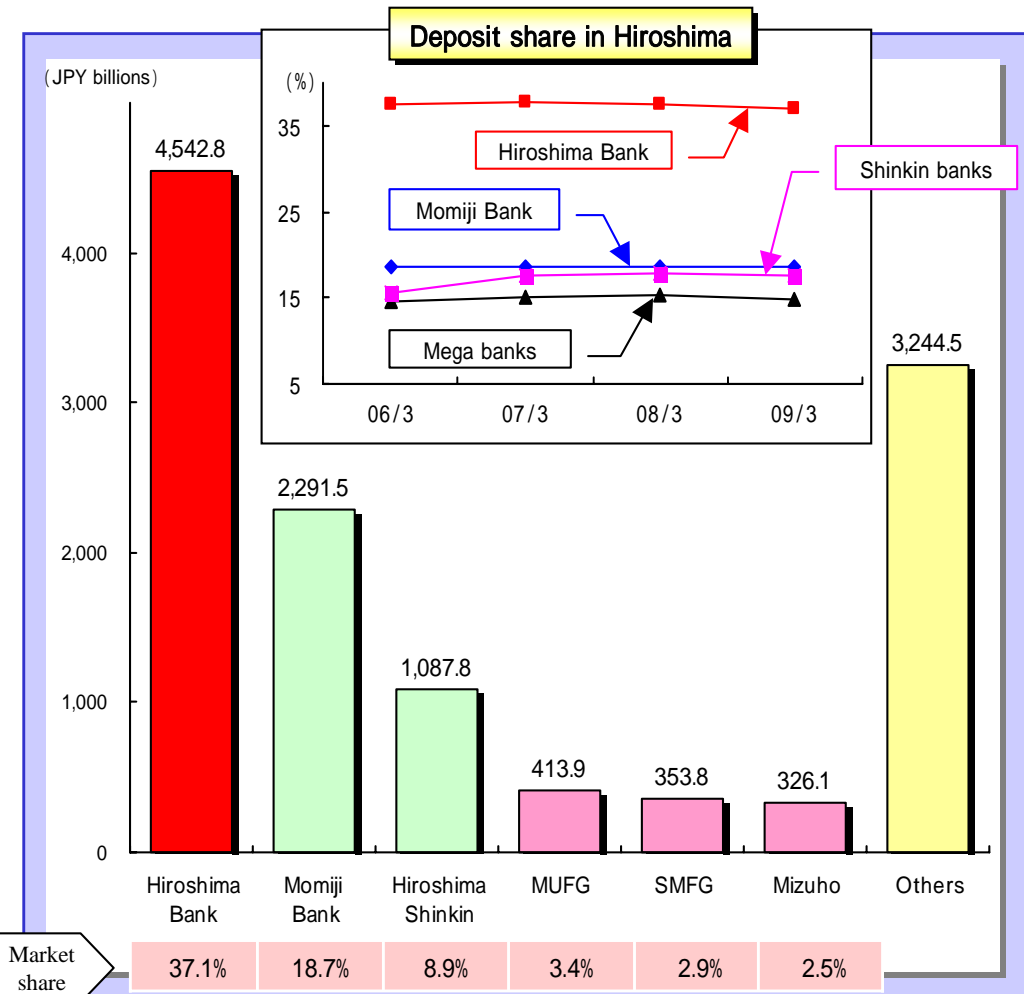
### Total deposit balance (term-end)

- Total deposit balance **steadily increased**, mainly in personal deposits.



### Deposits outstanding by bank in Hiroshima (09/3 term-end)

- Hiroshima Bank has **the most** deposits outstanding and the highest market share in Hiroshima prefecture.
- The mega banks' position is weak.

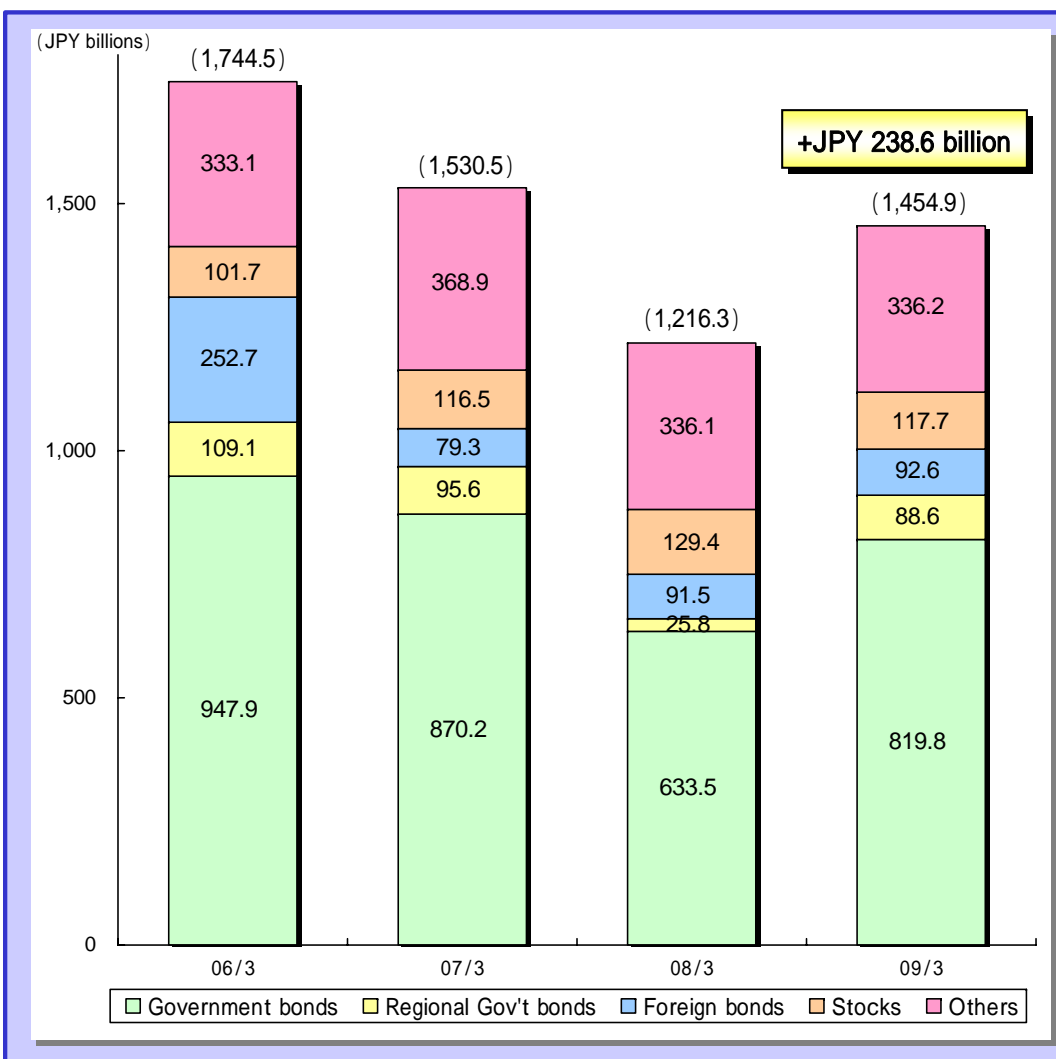




### 3. Securities

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

Risk of impairment losses on securities occurring in the future is quite limited

#### Stocks

The risk of impairment loss on stocks is limited even at the NIKKEI 8,000 yen level.

(JPY billions)				
Unrealized gain(loss)	08/3	09/3	09/6	change from 09/3
Stocks	23.8	-10.1	7.0	17.1

#### Foreign Bonds

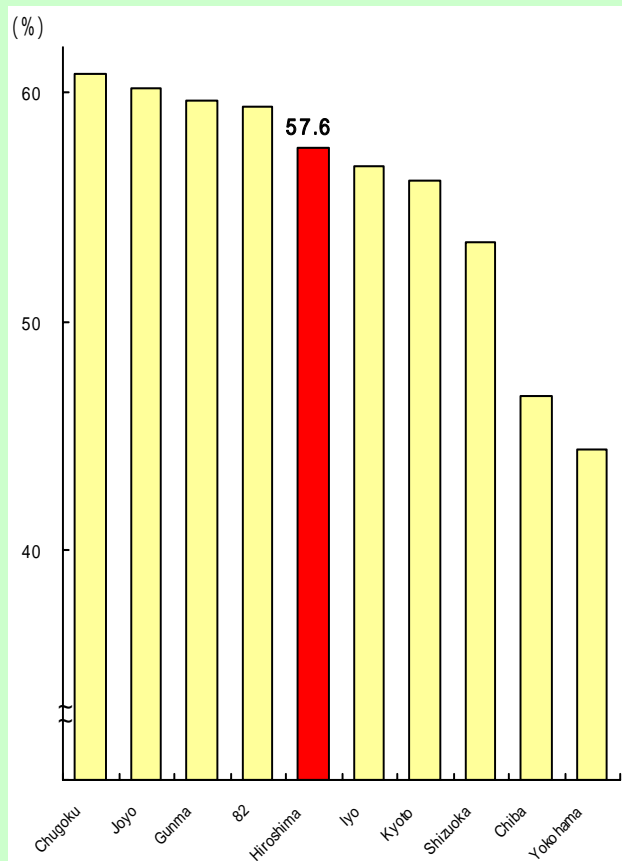
No CDO and no other securitized bonds are included in our foreign bond portfolio.

(JPY billions)				
Balance	08/3	09/3	09/6	change from 09/3
Government bond	0.0	10.4	27.1	16.7
Ginnie Mae	12.1	25.4	20.5	-4.9
Fannie Mae	33.8	22.6	20.7	-1.9
Freddie Mac	45.6	34.2	28.4	-5.8
<b>Total</b>	<b>91.5</b>	<b>92.6</b>	<b>96.7</b>	<b>4.1</b>

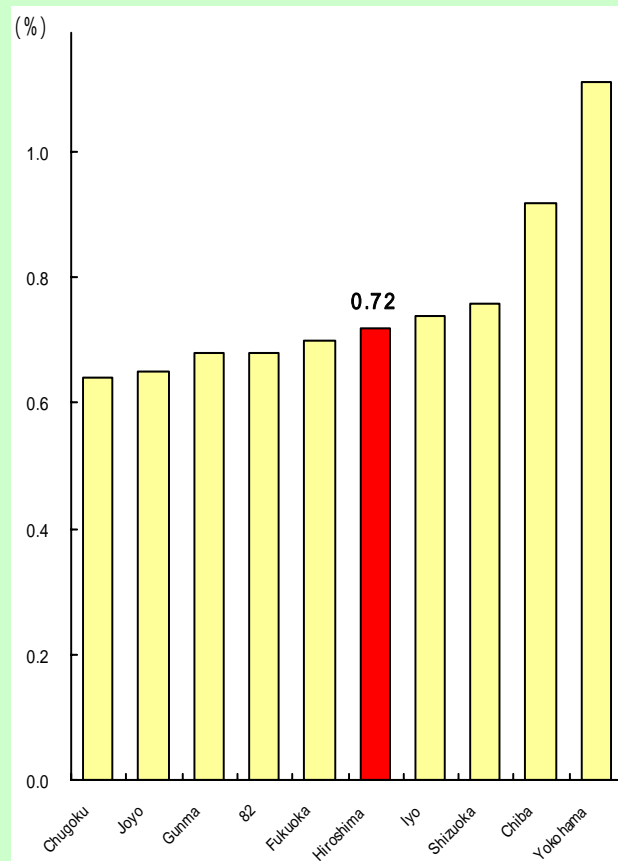
# 1. Indices (FY09)

High level of operating efficiency / Stable return from asset management / High profitability based on equity capital  
 (Core OHR) (Core ROA) (ROE)

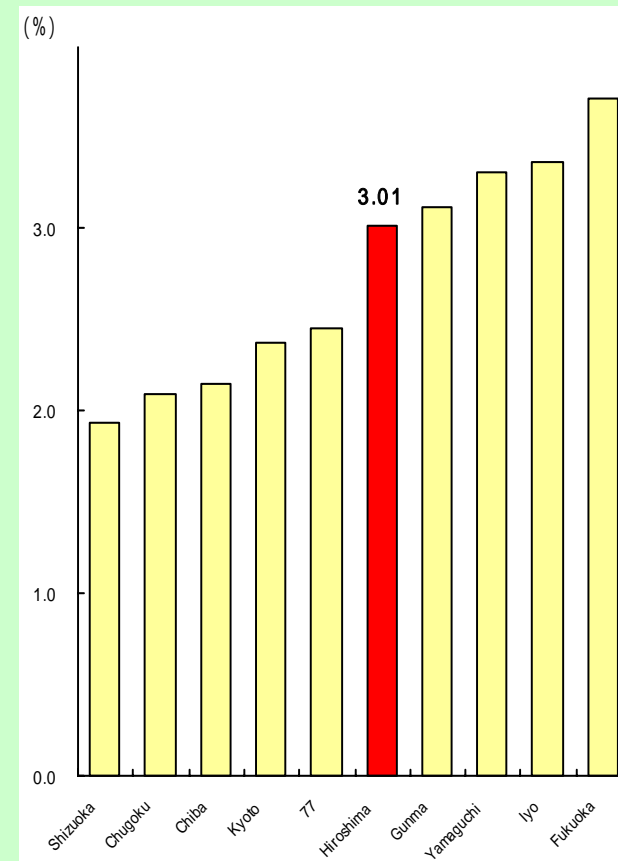
Core OHR



Core ROA



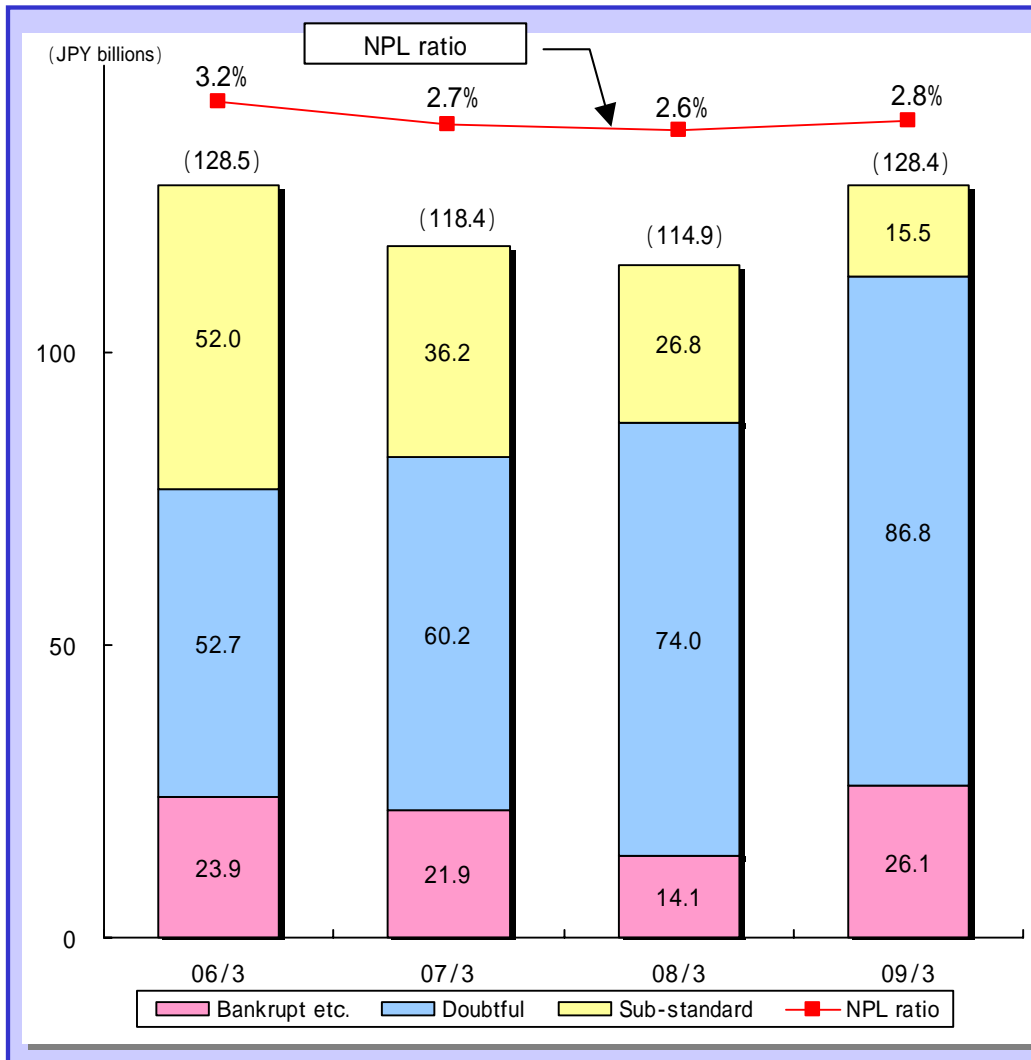
ROE



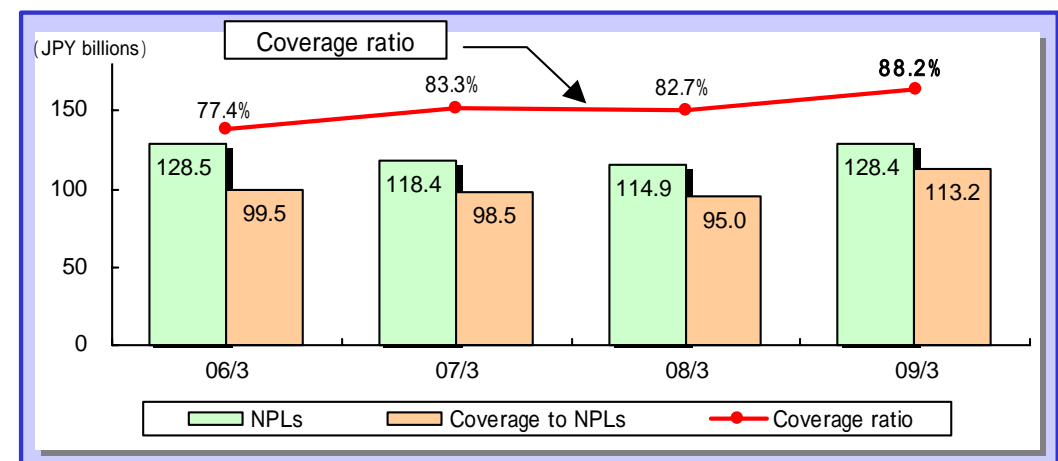
## 2. Non performing Loans (NPLs)

- Still considering the downward trend in corporate performance, we have executed a **conservative self-assessment for loans**.
- Coverage to NPLs by mortgage and guarantee increased / Coverage ratio rose to **88.2%**.

NPLs (term-end balance) and NPL ratio

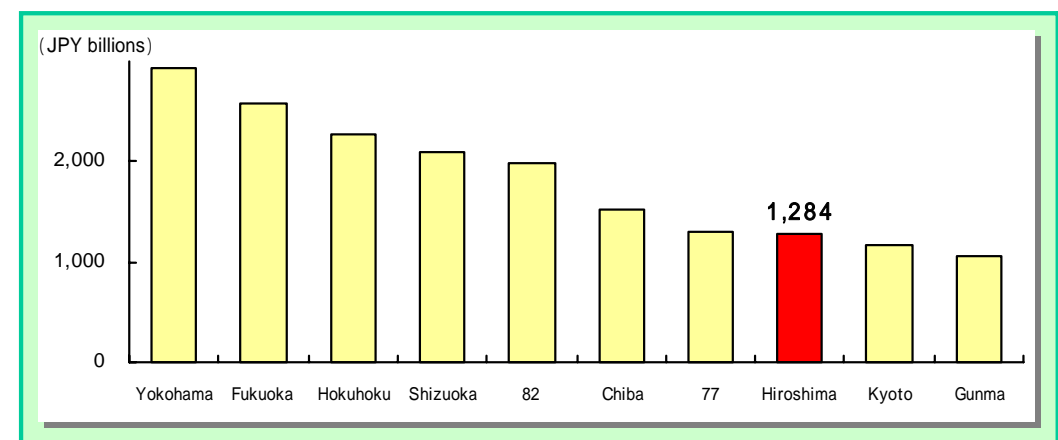


Coverage to NPLs



Coverage to NPLs = amount of mortgage and guarantee to NPLs

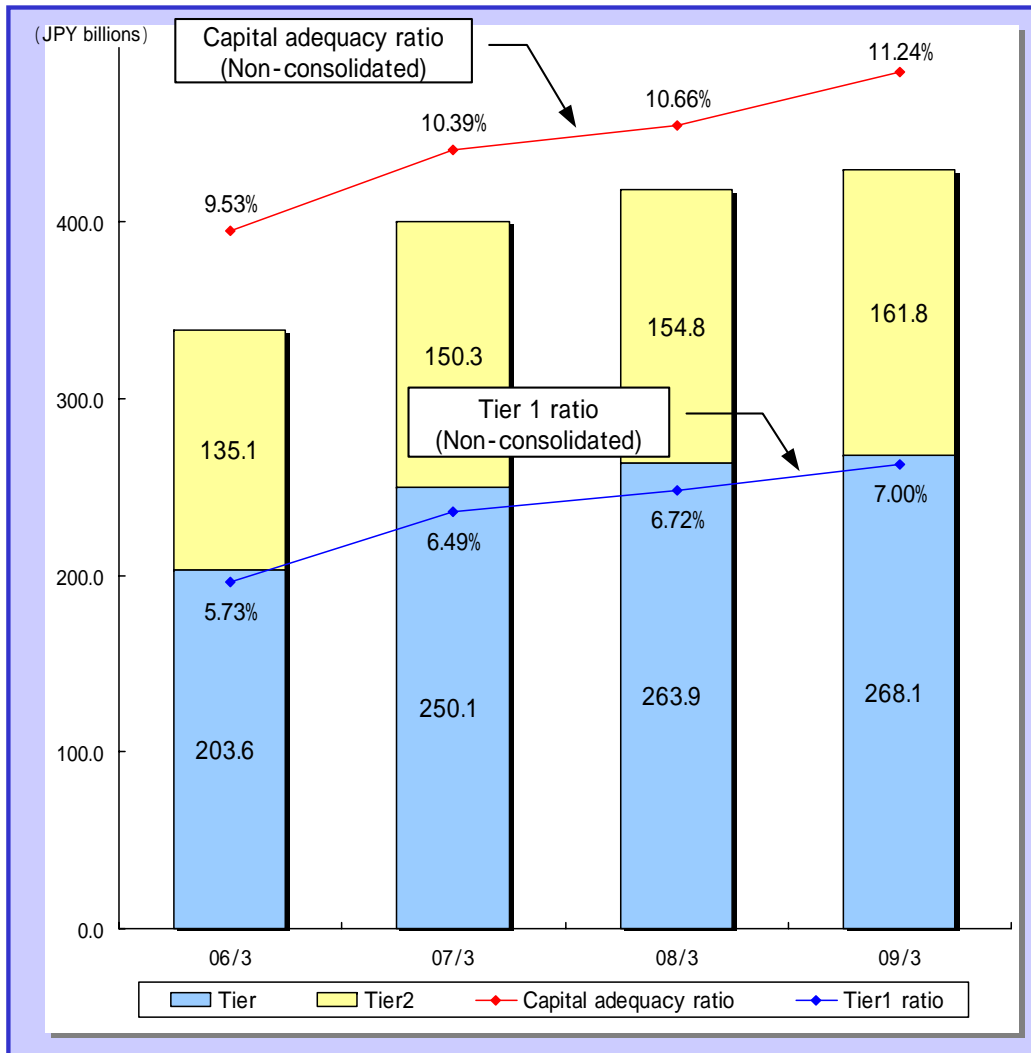
Comparison of NPLs (09/3)



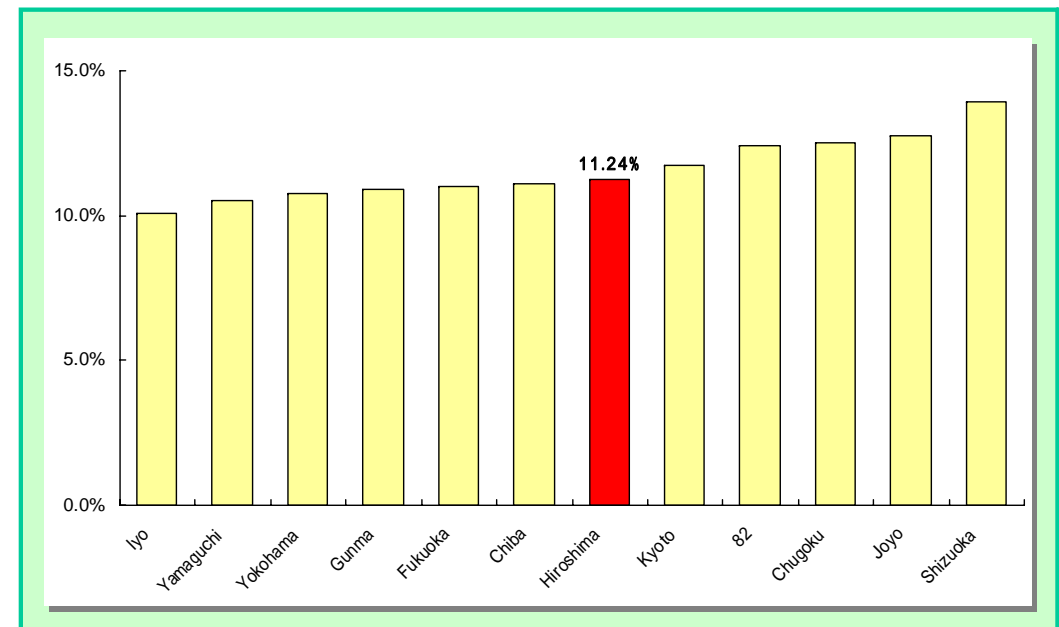
### 3. Capital adequacy ratio

- Capital adequacy ratio has steadily increased through the **accumulation of retained earnings**.
- Capital adequacy ratio (Non-consolidated) reached 11%, Tier 1 ratio (Non-consolidated) reached 7%.

Capital adequacy ratio and Tier 1 ratio (non-consolidated basis)



Comparison of Capital adequacy ratio (09/3)



Enhancement of capital

**Tier 1** ... Enhance through accumulation of retained earnings

**Tier 2** ... Ensure flexibility to cope with change in risk assets

# 1. Shareholder returns

## Shareholder returns in FY08

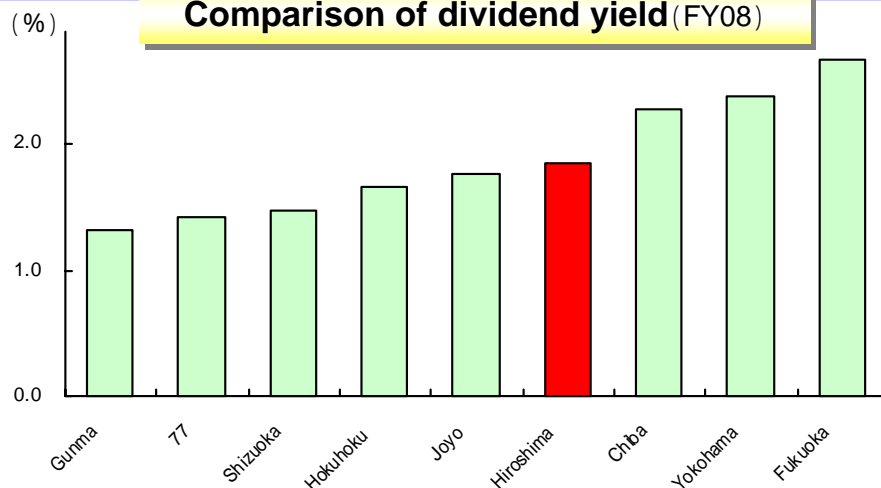
### Dividends

	Dividend per share (annual) FY08		7.0 Yen
	Interim	Year-end	
Dividend	3.5 Yen (memorial dividend 1 Yen)	3.5 Yen (memorial dividend 1 Yen)	

### Share Buybacks (Aug. 08 ~ Jul. 09)

	Actual
Number of shares purchased	6,000,000 shares
Amount of shares purchased	JPY 2.3 billion

### Comparison of dividend yield (FY08)



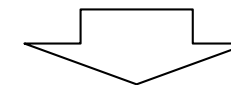
## Dividend forecast in FY09

Expect dividend of 5 Yen per share (annual) in FY09 based on dividend policy and payout table

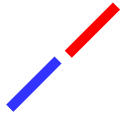
### Dividend policy and payout table

- (A) Basic 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 dividends

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



	Dividend per share (annual) FY09		5.0 Yen
	Interim	Year-end	
Dividend forecast	2.5 Yen	2.5 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.

Management Planning Division, The Hiroshima Bank, Ltd.

Phone: 082-504-3823

FAX: 082-504-0171

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