

## Interim financial results for FY2009

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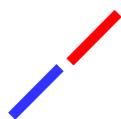
- IR presentation -

The Hiroshima Bank, Ltd.



December 8 , 2009

President Isao Sumihiro



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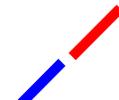
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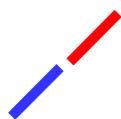
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A decorative diagonal line consisting of a blue segment followed by a red segment.

# 1. Mid-term Management Plan < STEPS >

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(Planning Period : FY2009 ~ FY2011)



# (1) Summary of < STEPS > (FY2009 ~ FY2011)



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" |

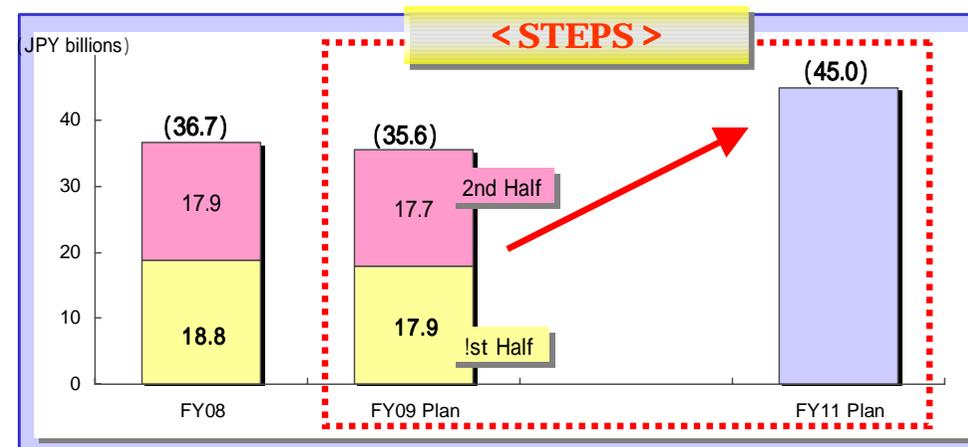
## (2) Earning estimate of < STEPS >

We pursue sustainable growth of profits based on **strong and solid operational base in region.**

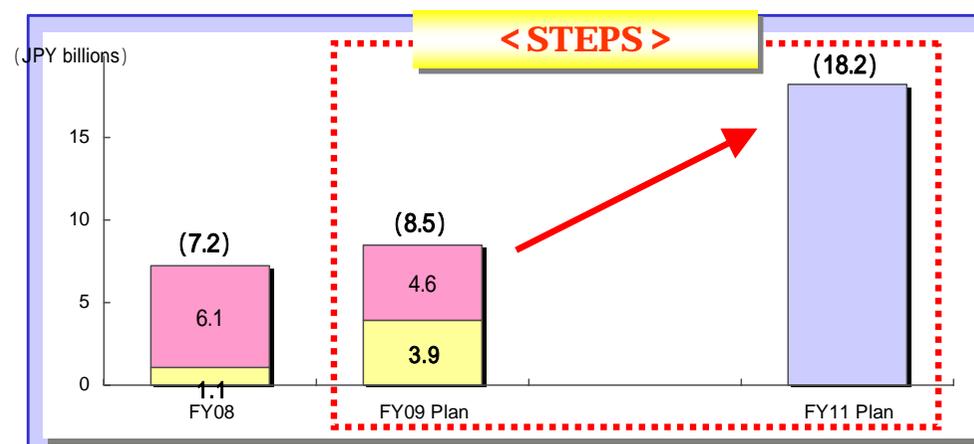
### Earning estimate for FY 2011

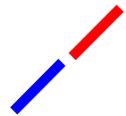
Real banking profit	More than	<b>JPY 45.0 billion</b>
Net income (Non-consolidated)	More than	<b>JPY 17.7 billion</b>
Net income (Consolidated)	More than	<b>JPY 18.2 billion</b>
Core OHR	Less than	<b>57.5 %</b>
Capital adequacy ratio (Consolidated)	More than	<b>11.0 %</b>
Tier1 ratio (Consolidated)	More than	<b>8.0 %</b>

### Real Banking Profit (Plan)



### Consolidated Net Income (Plan)





## 2. Summary of Interim Financial Results

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(FY 2009)

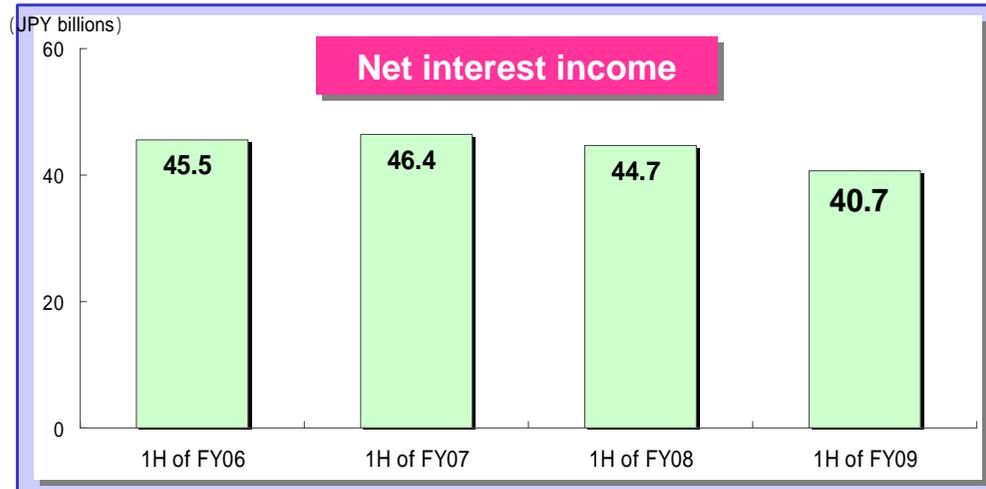
## (1) Financial highlights for interim FY2009

- **Real banking profit** ∙ ∙ **increased JPY 1.0 billion** mainly due to decrease in expenses.
- **Interim net income** ∙ ∙ **increased JPY 3.7 billion** mainly due to decrease in credit

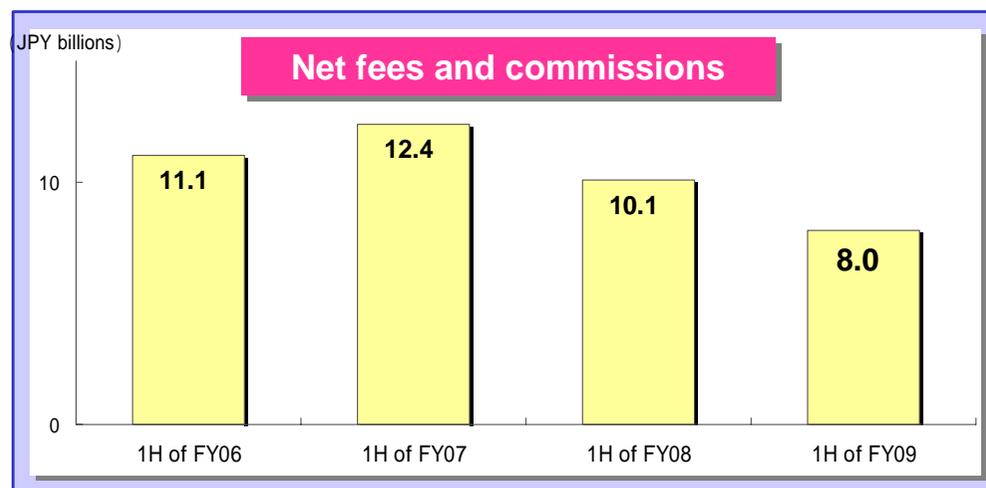
	1st half of FY09	(JPY billion)		
		Change from 1st half of FY08		Difference from the initial plan
Net interest income	40.7	-4.0	-	0.3
Net fees and commissions income	8.0	-2.1	-	-0.2
<b>Core gross operating profit</b>	<b>48.7</b>	<b>-6.1</b>	<b>- 11.1%</b>	<b>0.1</b>
Expenses	30.1	-0.5	-	-0.6
<b>Core banking profit</b>	<b>18.6</b>	<b>-5.6</b>	<b>- 23.1%</b>	<b>0.7</b>
Gains/Losses from securities	1.2	6.6	-	1.2
<b>Real banking profit</b>	<b>19.8</b>	<b>1.0</b>	<b>5.3%</b>	<b>1.9</b>
Credit costs	9.0	-7.9	-	-1.0
Gains/Losses on stocks	-0.7	-1.5	-	-0.7
<b>Ordinary profit</b>	<b>7.8</b>	<b>5.9</b>	<b>310.5%</b>	<b>1.4</b>
<b>Interim net income</b>	<b>4.8</b>	<b>3.7</b>	<b>336.4%</b>	<b>1.0</b>

## (2) Breakdown of profit

Net interest income decreased by JPY4.0 billion mainly due to decrease in interest on loans and securities.

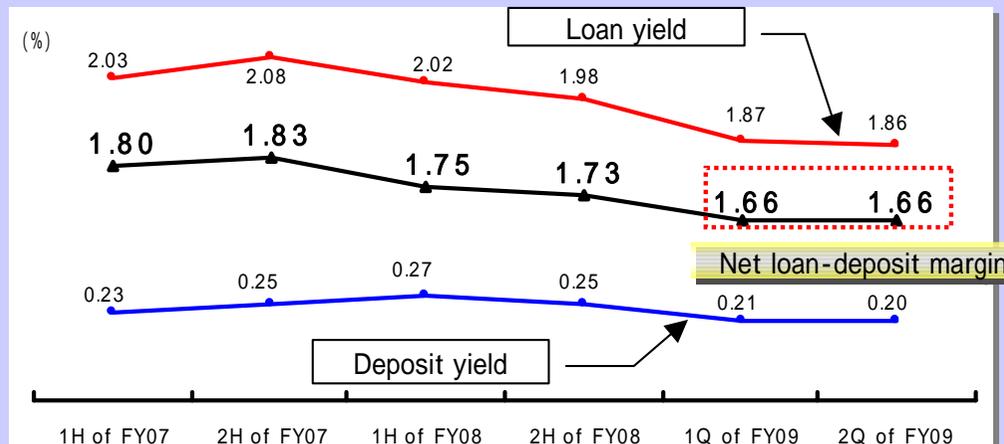


Net fees and commissions income decreased by JPY2.1 billion mainly due to decrease in income on retail asset management and investment banking.



### Breakdown of change in interest income

	1st half of FY09 (JPY billions)	
	1st half of FY09	yoy change
Interest on loans	40.2	-3.6
Interest on securities	8.6	-1.6
Interest on deposits	5.3	-1.5
Other interest expenses	2.8	0.3
<b>Net interest income</b>	<b>40.7</b>	<b>-4.0</b>



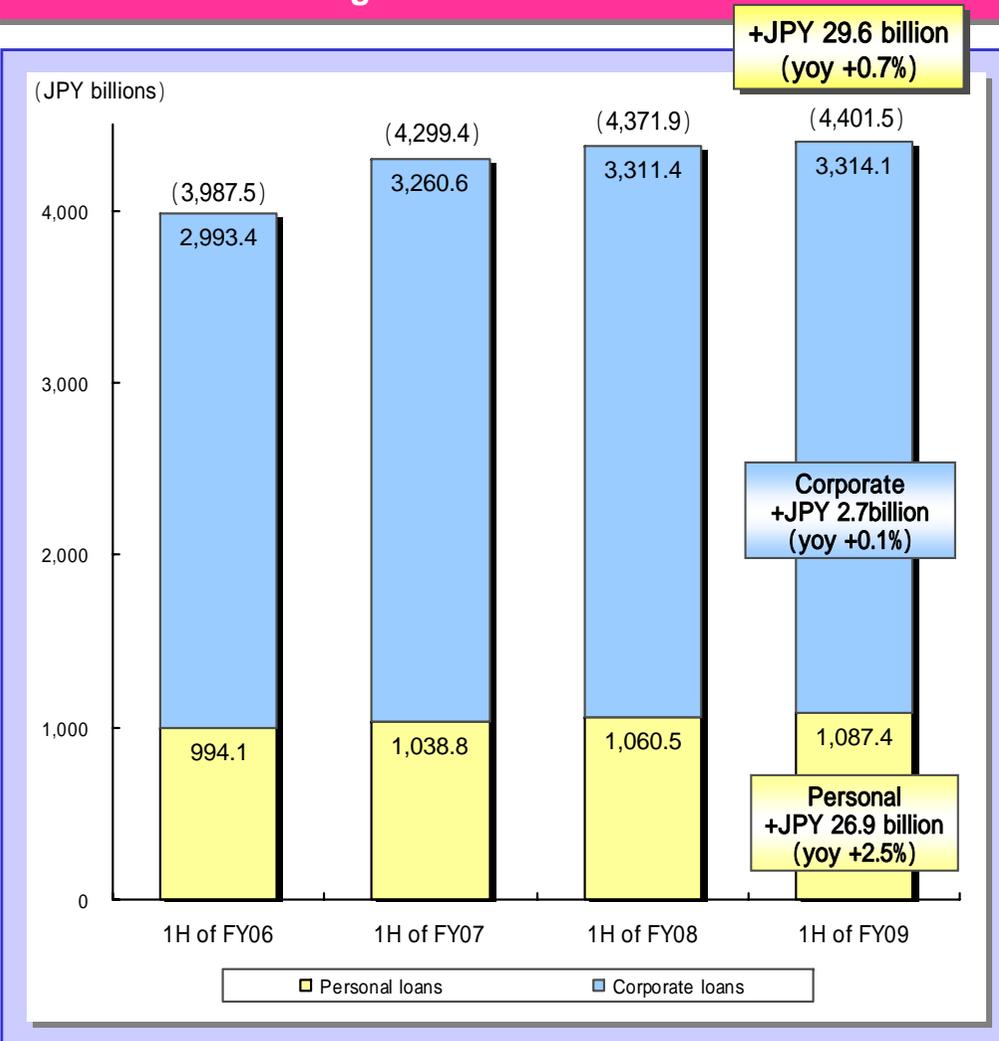
### Breakdown of change in net fees and commissions

	1st half of FY09 (JPY billions)	
	1st half of FY09	yoy change
Investment Banking	0.9	-0.3
Retail asset management	2.6	-1.3
<b>Net fees and commissions</b>	<b>8.0</b>	<b>-2.1</b>

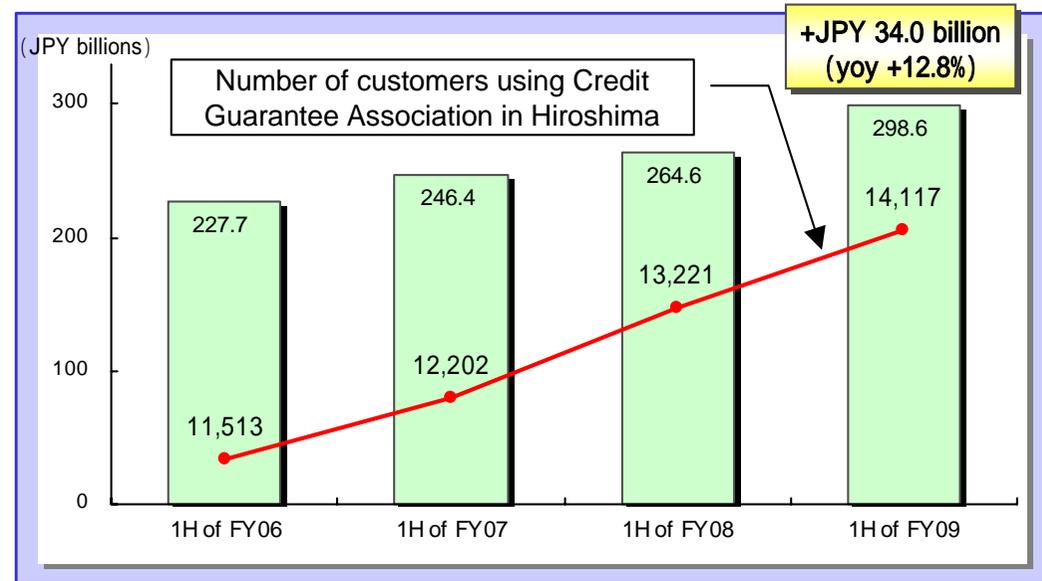
### (3) Loans

- Total loans (Corporate / Personal) **steadily increased**.
- The number of corporate loan customers turned to upward trend, mainly in retail customers.

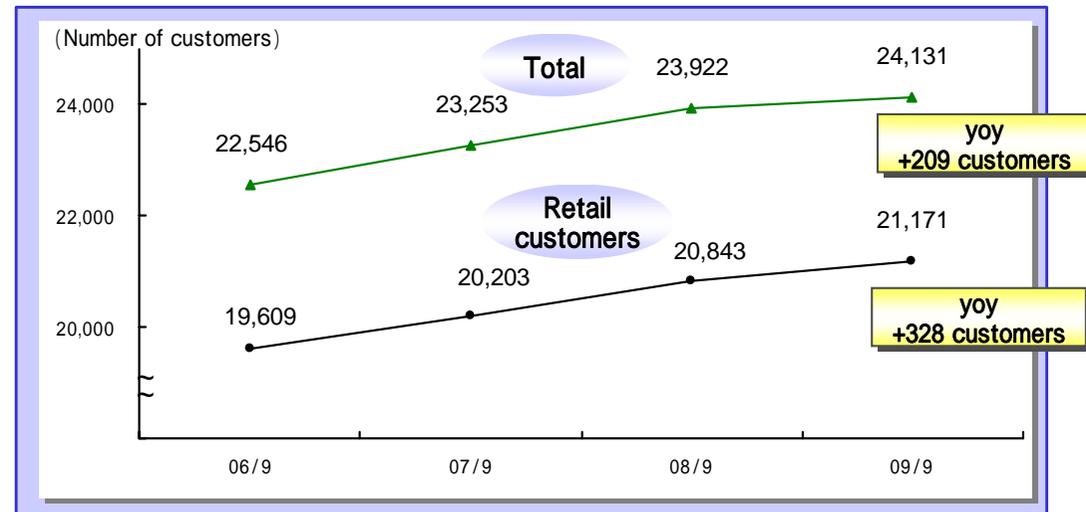
#### Average balance of total loans



#### Average balance of loans under the guarantees by Credit Guarantee Association



#### Number of corporate loan customers

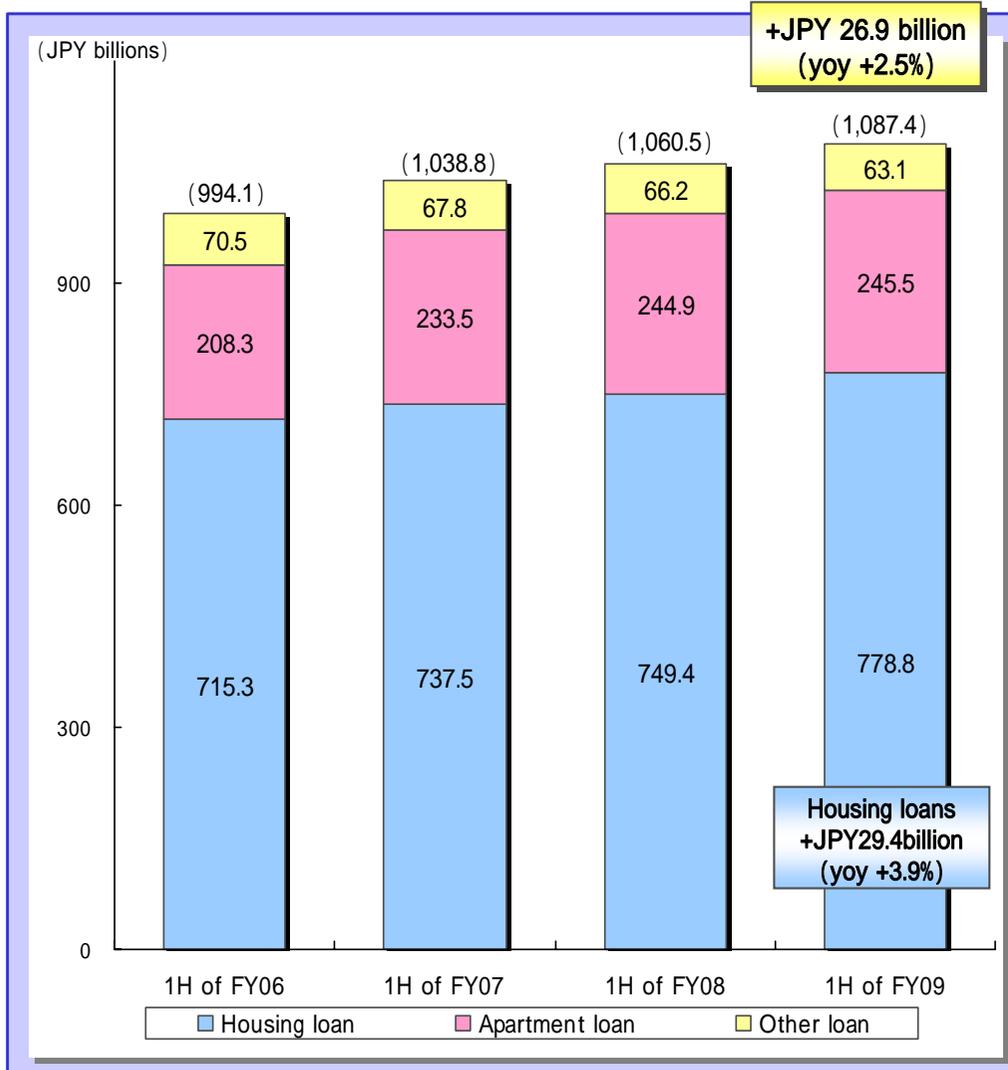


Retail customers = customers with sales less than JPY 1.0billion

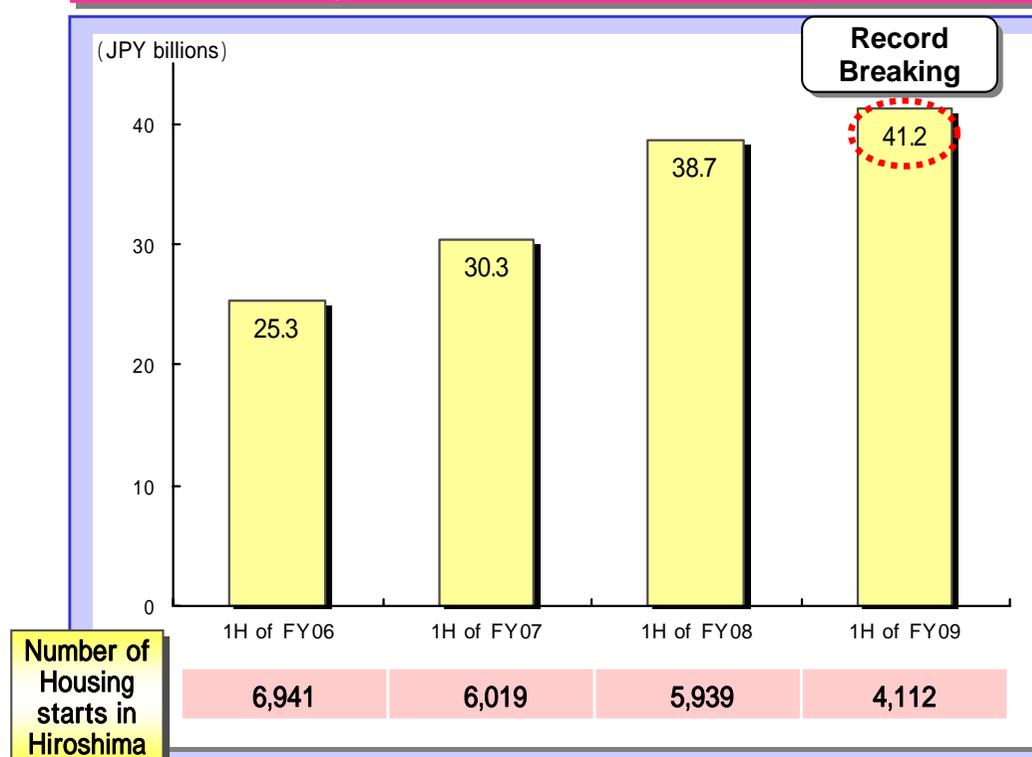
# (4) Personal Loans

- Personal loans has **steadily increased** mainly by increasing housing loans.
- Amount of new housing loan for newly-built and second-hand houses reached **record breaking level**.

Average balance of personal Loans



Amount of new housing loan for newly-built and second-hand houses

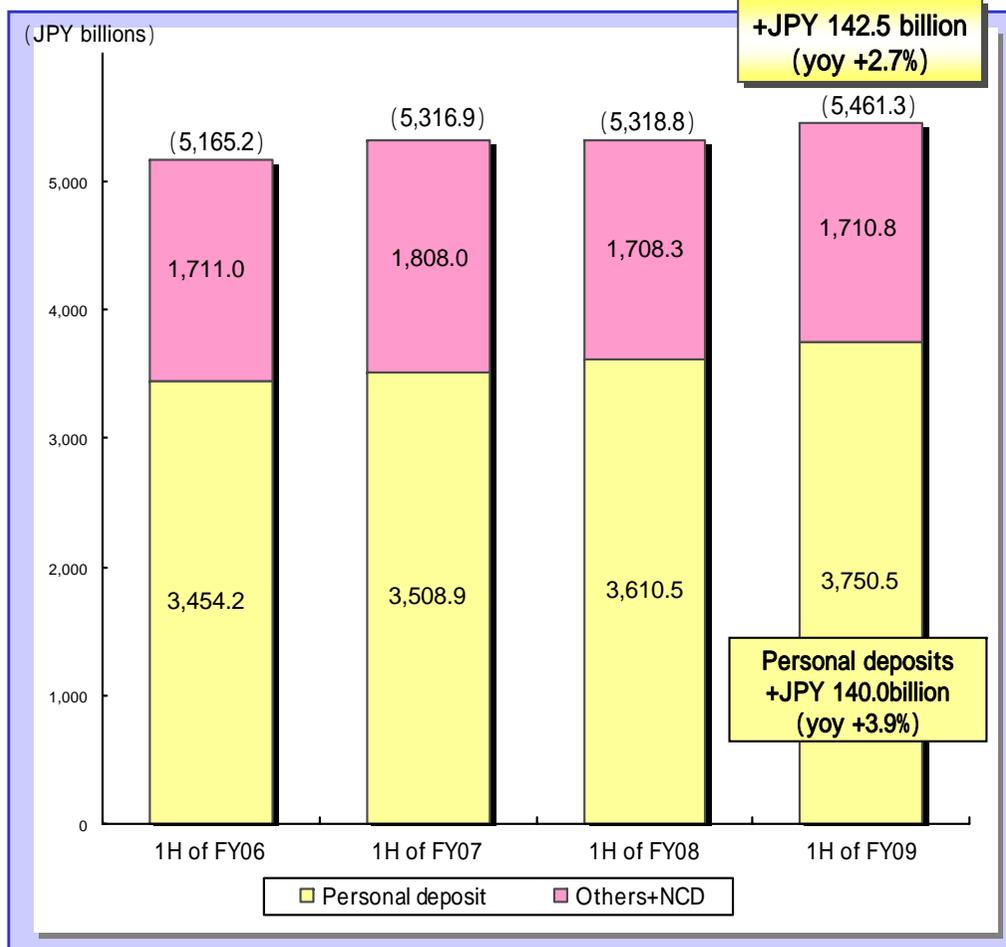


- Expanding shares in Hiroshima
  - Developing new market outside of Hiroshima
- Strengthen approach to real estate companies  
Increase the number of sales staff

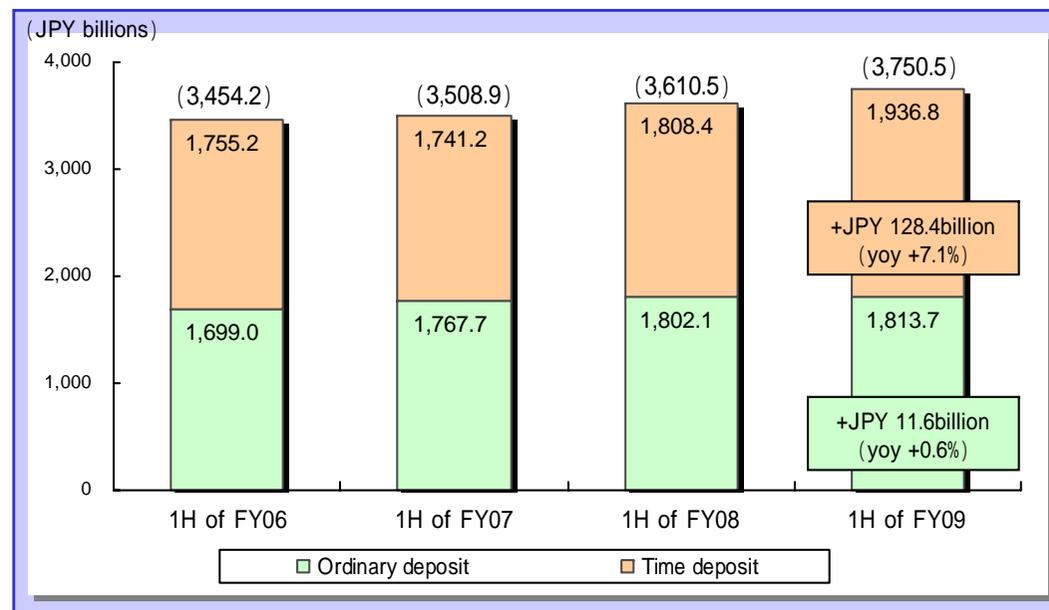
## (5) Deposits + NCD

- Average balance of deposit steadily increased mainly in **personal deposit (yoy +JPY140.0billion)**.
- As stable and low-cost funding, we continue to increase the overall balance of deposit.

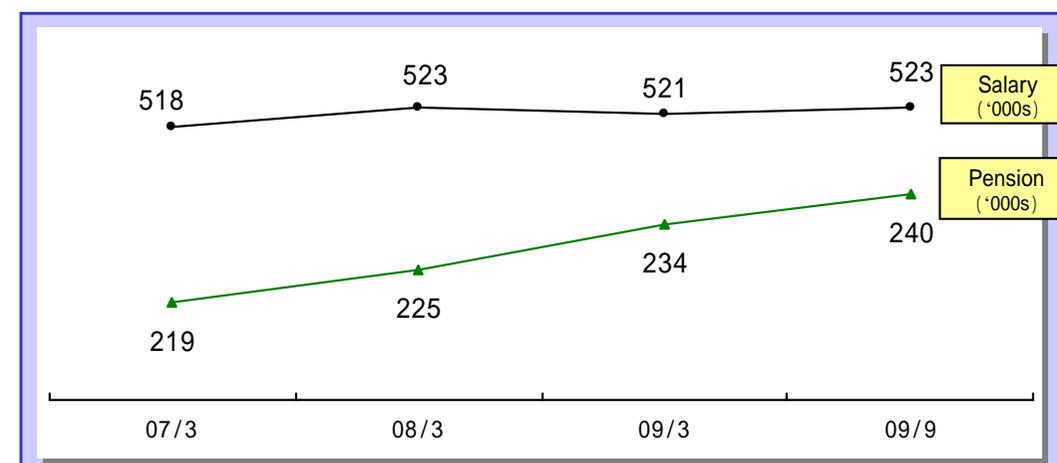
### Average balance of total deposits and NCD



### Breakdown of Personal deposit (average balance)



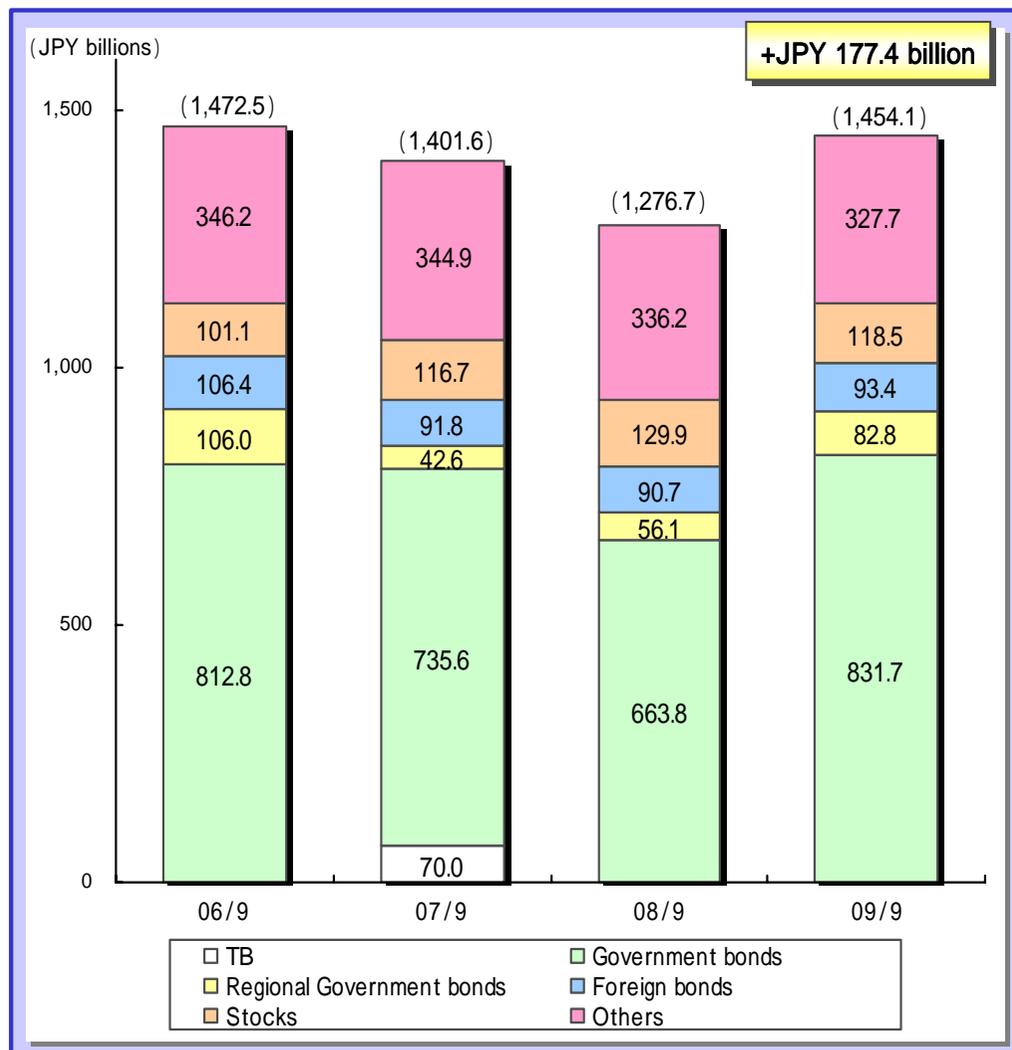
### Number of pension / salary receiving accounts



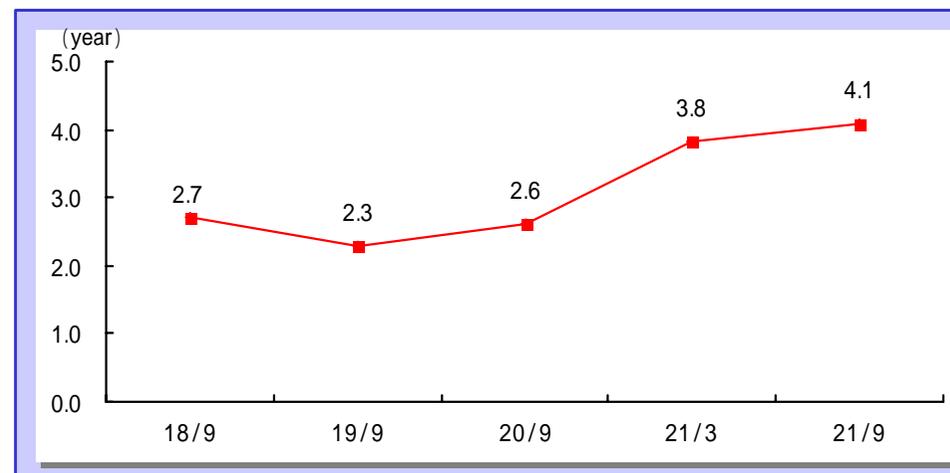
## (6) Securities

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

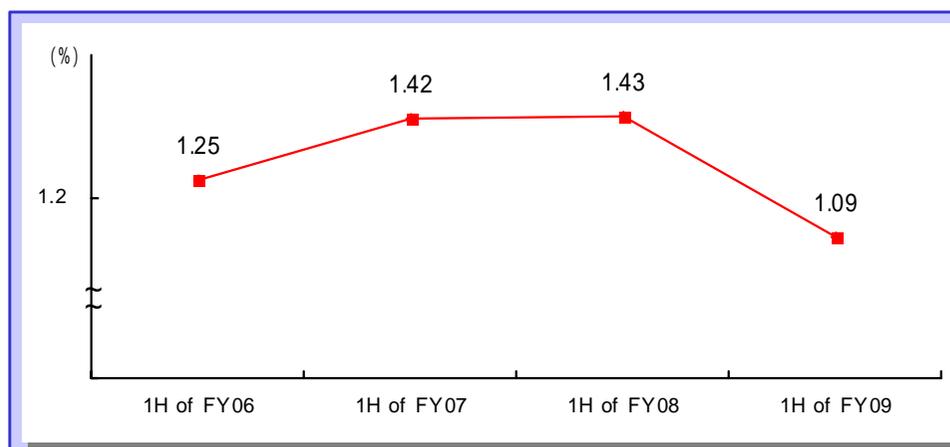
### Securities portfolio (term-end balance)



### Duration of domestic securities



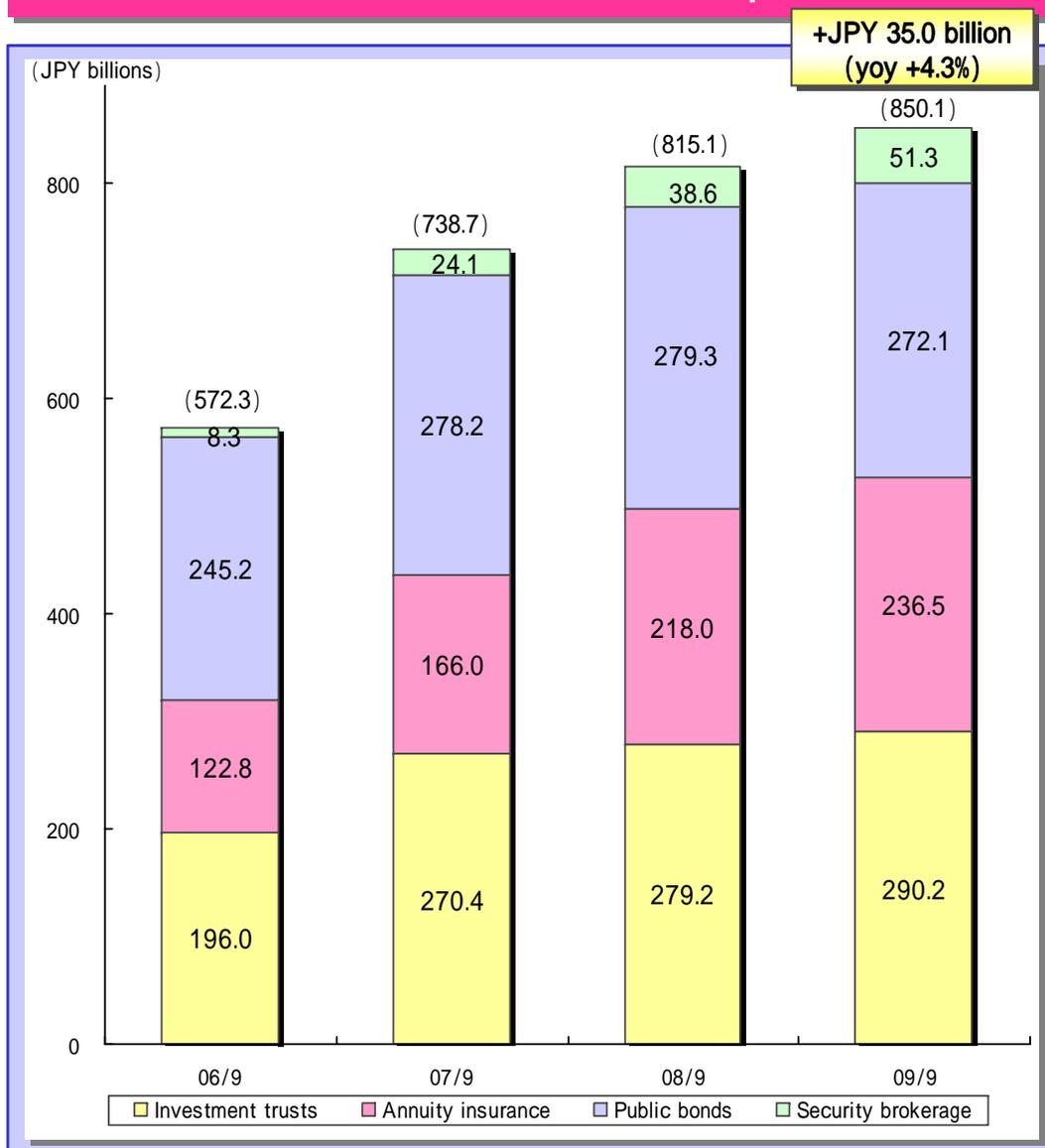
### Yield on domestic securities



# (7) Fee business ~ Retail asset management

Balance of retail financial products **steadily increased.**

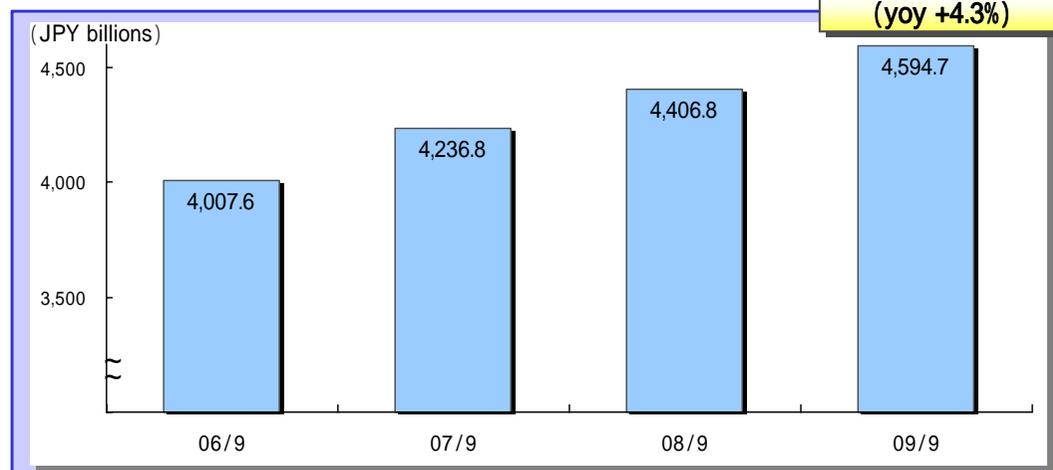
## Term-end balance of retail financial products



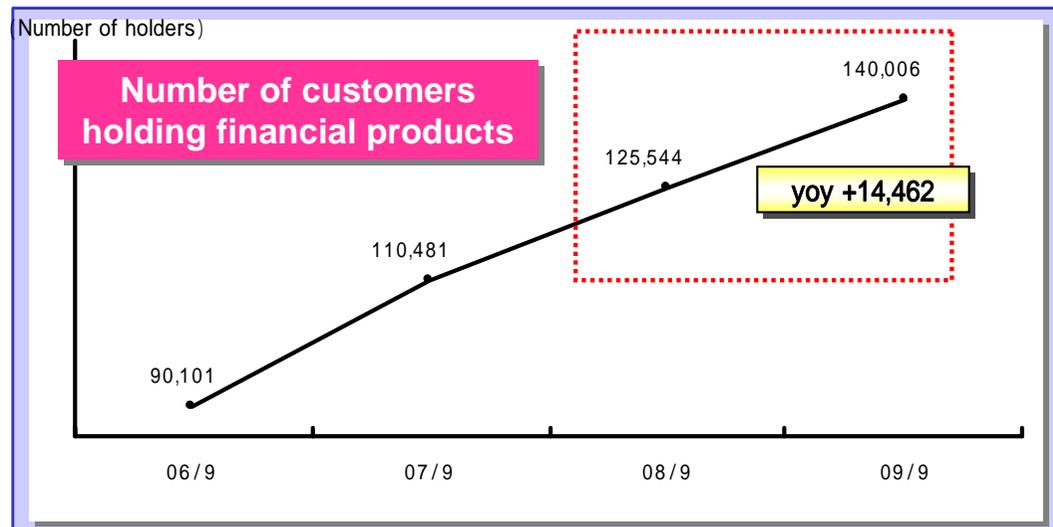
## Term-end balance of retail customer asset

(financial products + personal yen deposit)

**+JPY 187.9 billion (yoy +4.3%)**



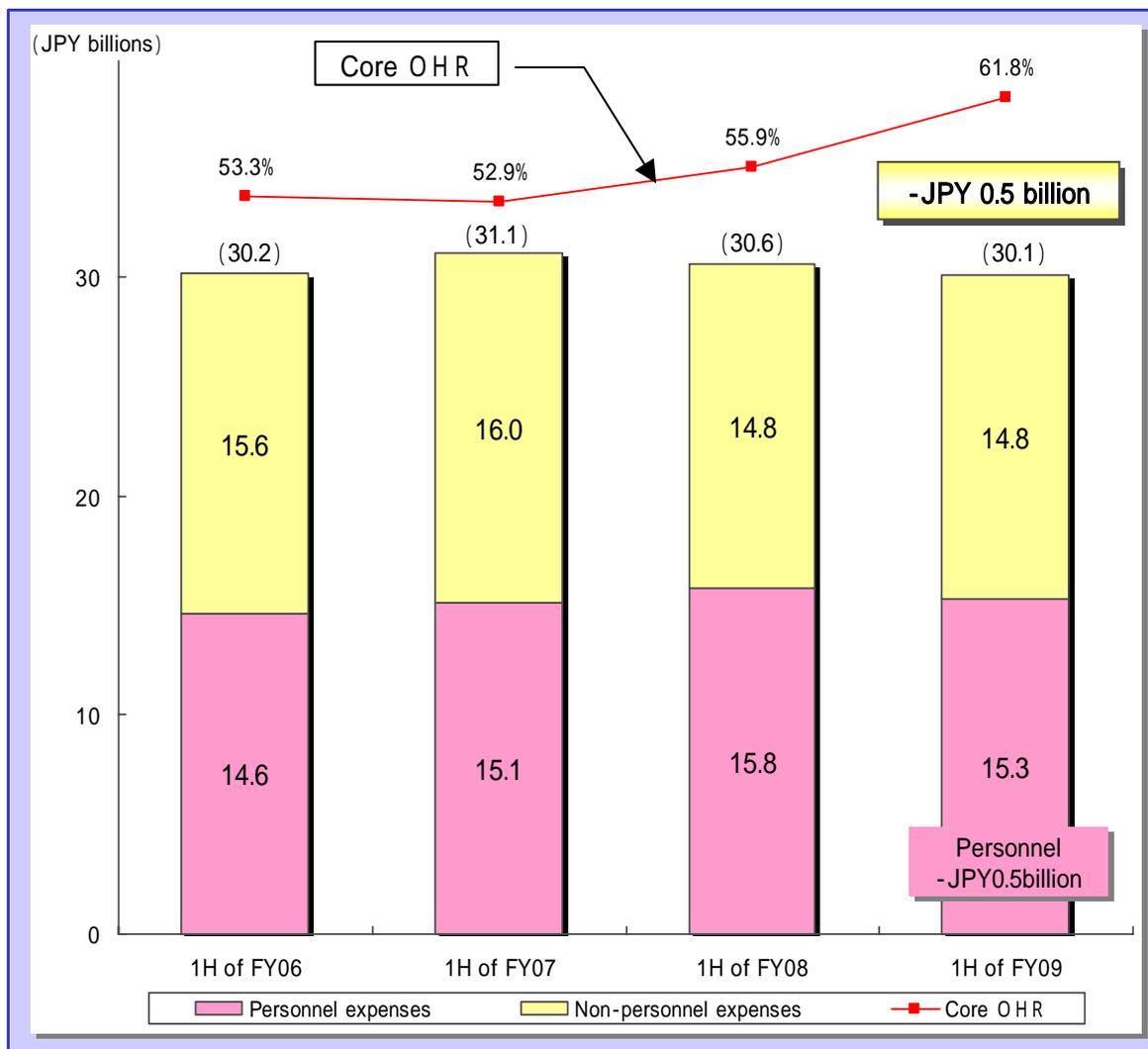
## Number of customers holding financial products steadily increased



## (8) Expenses

Expenses were controlled by reviewing non-personnel expenses, although the number of employees increased and branch facility renovation were promoted.

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



### Branch facility renovation (from 2007)

	Number	Name of branches	Year/Month
New branches	4	Yume town Hiroshima	08/2
		Seifu-shinto	09/2
		Nukushina	09/11
		Kaita-higashi	10/2

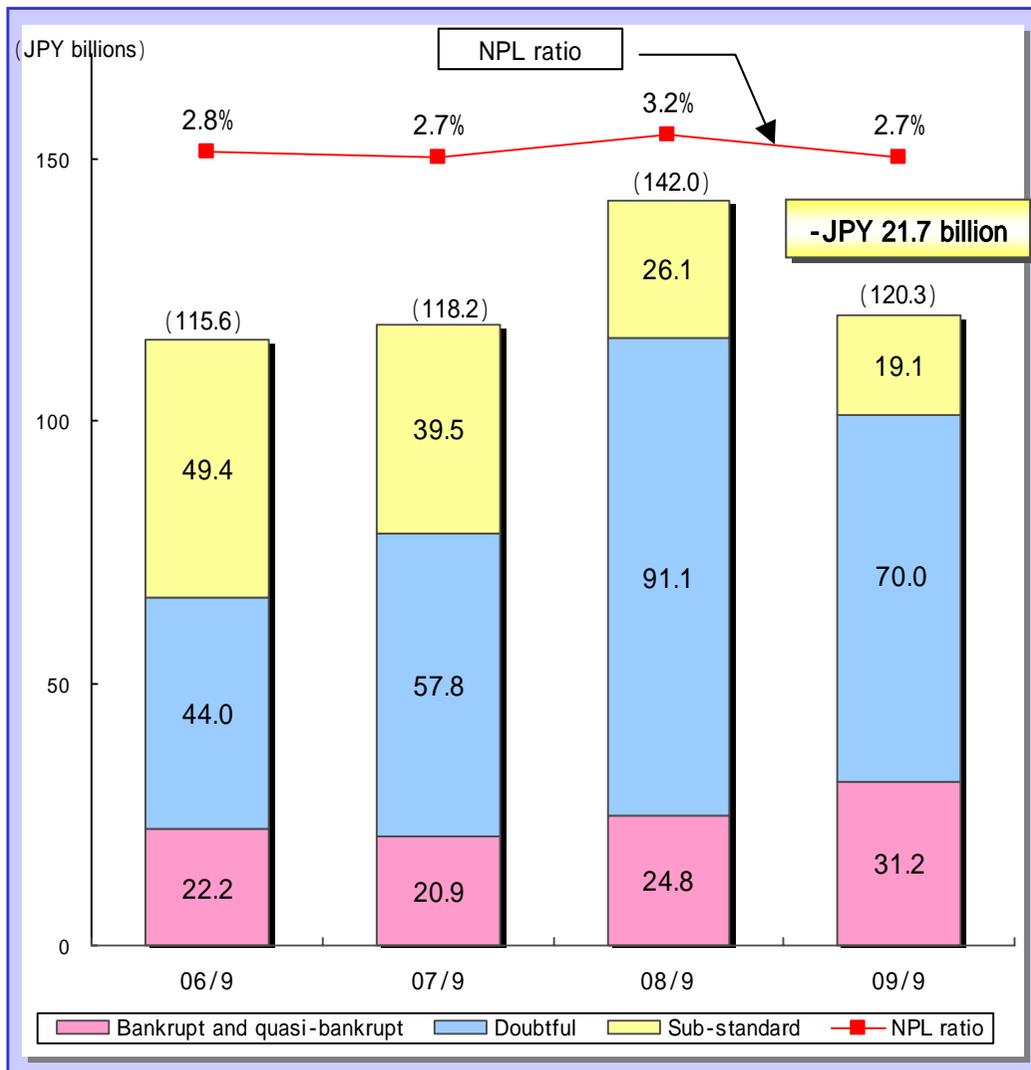
Establishment of 4 new branches projected in previous mid-term management plan has completed

Move to new location	5	Takehara	07/5
		Hatsukaichi	08/11
		Fukuyama-kita	09/1
		Mihara	09/4
		Fukuyama-minami	
Rebuild at present place	6	Shinonome	08/2
		Gion	08/12
		Mukainada	09/6
		Minamimachi	09/7
		Yasu	09/9
		Iwakuni	09/12

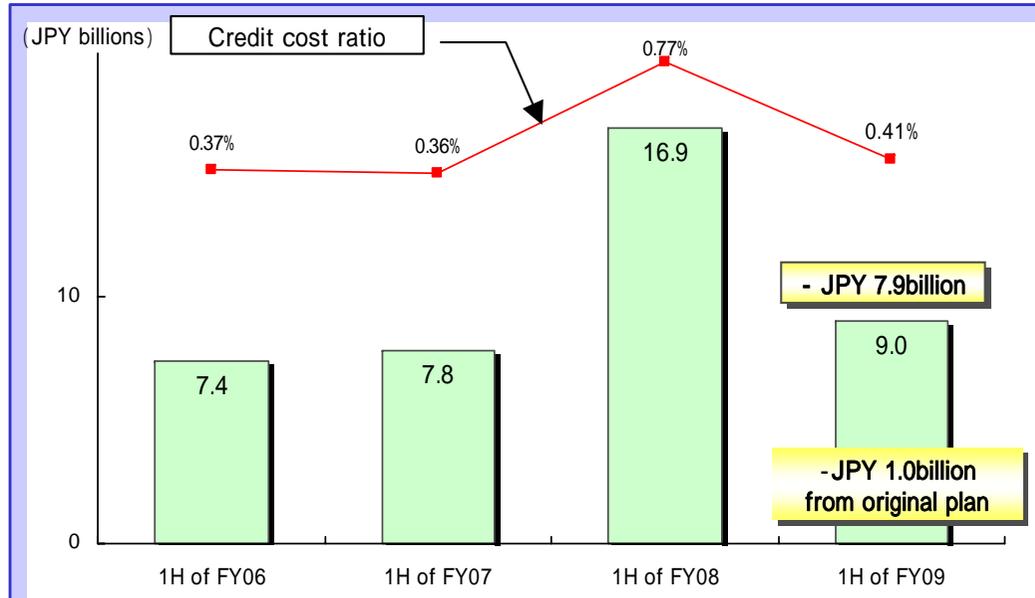
# (9) Non-performing loans and Credit cost

## Disclosed claims under the Financial Reconstruction Law

NPLs have decreased because of our efforts in corporate revitalization and final disposal of NPL.



## Credit cost and Credit cost ratio



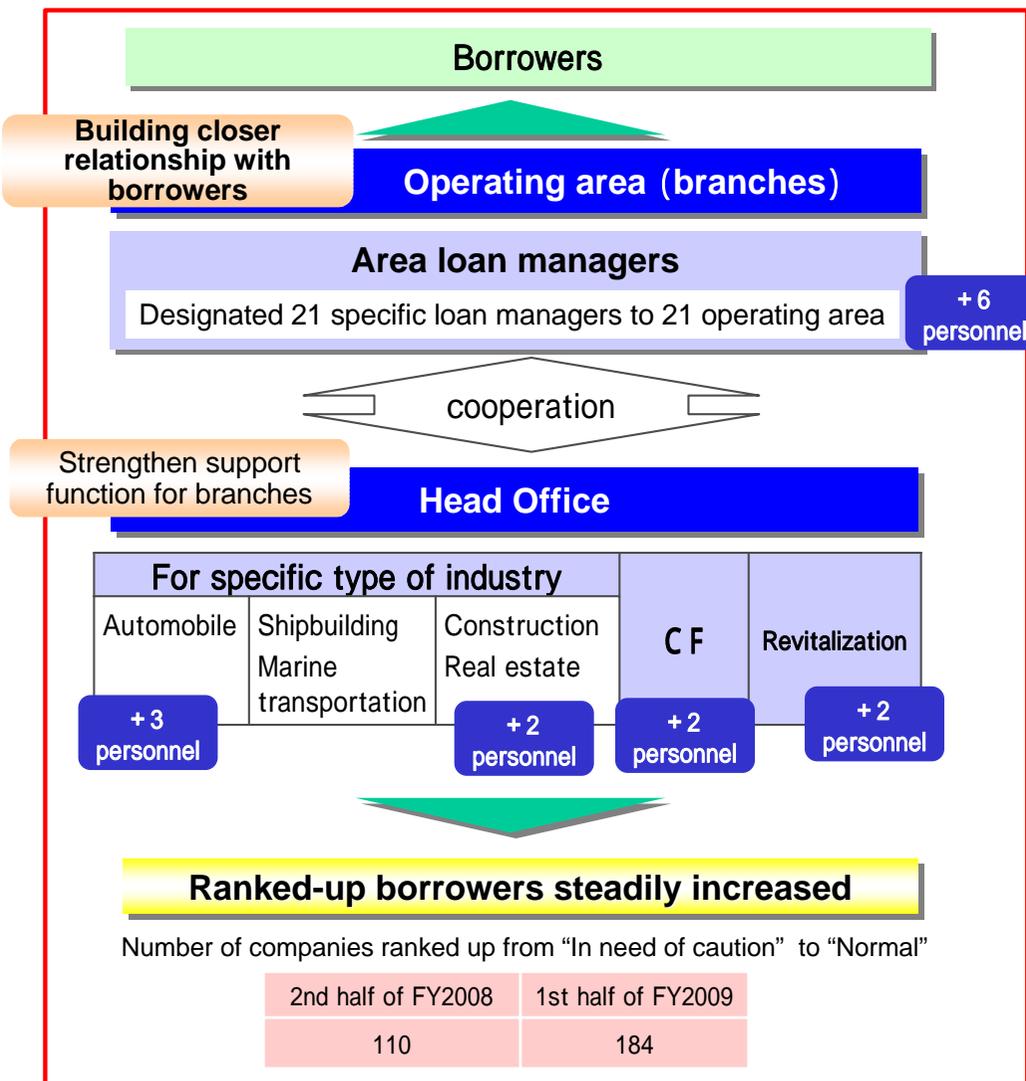
### Credit cost (FY09 forecast)

			FY09 (JPY billion)	
	1H	2H	forecast	yoy change
General transfer to loan loss reserves	2.4	1.4	3.8	3.8
Change in debtor classification (New recognition)	8.7	8.2	16.9	-13.4
Change in debtor classification (to riskier categories)	1.4	1.1	2.5	-1.0
· Collection	-3.5	-2.4	-5.9	4.6
· Reclassified to better category				
Transfer to specific reserves etc.	6.6	6.9	13.5	-9.8
<b>Total credit cost</b>	<b>9.0</b>	<b>8.3</b>	<b>17.3</b>	<b>-6.0</b>

# (10) Effort to strengthen credit risk management

We strengthened credit risk management by accurately understanding borrowers' financial situation through building closer relationship with borrowers and by strengthening the screening skill at head office.

## Strengthen credit risk management



## Facilitate financing for small and medium-sized companies

Corresponding to the Law "Facilitate financing for SMEs", we enhance financing and support for business improvement for SMEs.

**Head Office : Establish special team to facilitate financing for SMEs.**

30 members mainly consisting of managers for corporate and personal business planning divisions.

**Branches : Establish special consulting desk**

Arrange special consulting staffs in all branches to correspond to the request from customers

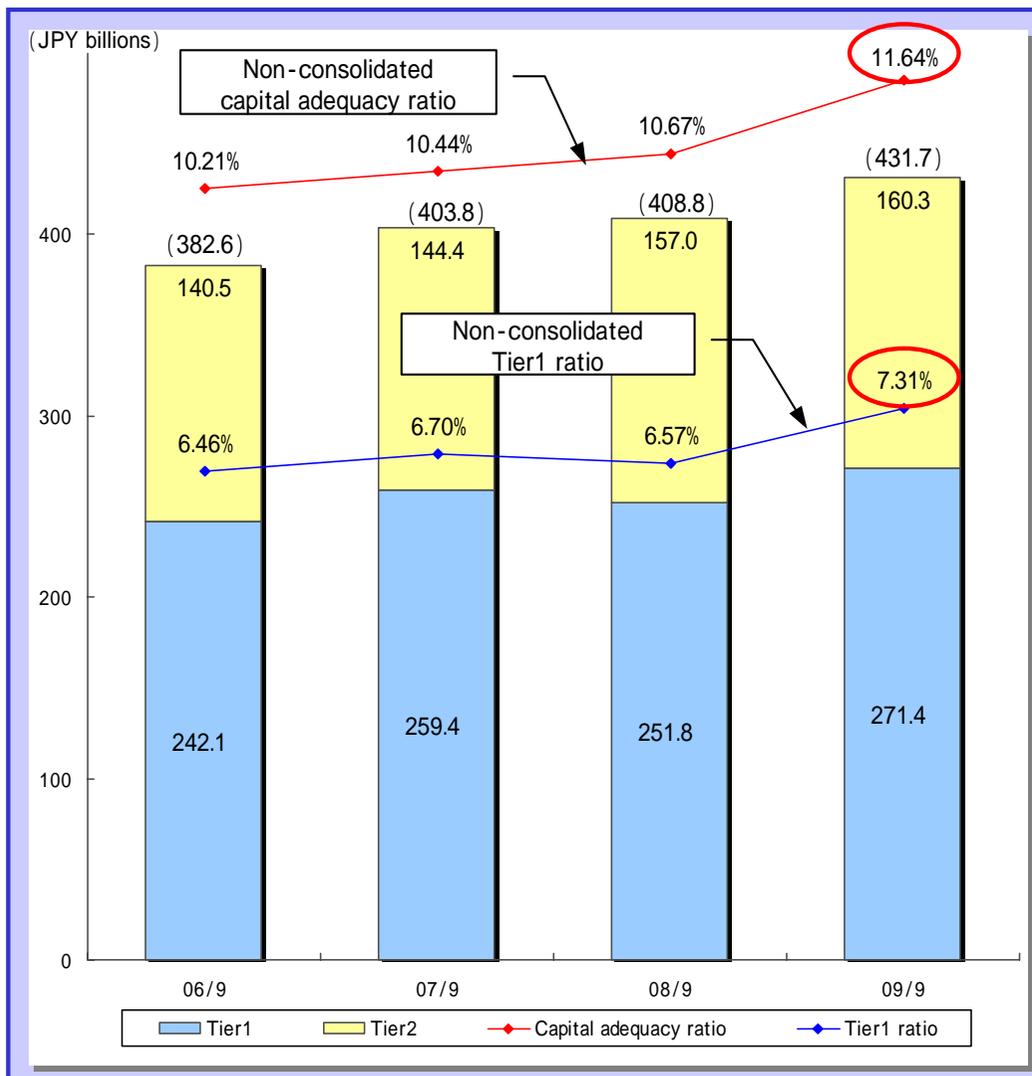
*In addition*

- **「Free Dial」** ・ ・ opening also Saturday, Sunday, and Holiday
- **「Consulting Desk」**
  - ・ for SMEs ・ ・ Business Loan Center (Hiroshima/Fukuyama)
  - ・ for individual ・ ・ Housing Loan Center (Hiroshima/Fukuyama)

# (11) 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%.

## Non-consolidated Capital adequacy ratio and Tier1 ratio

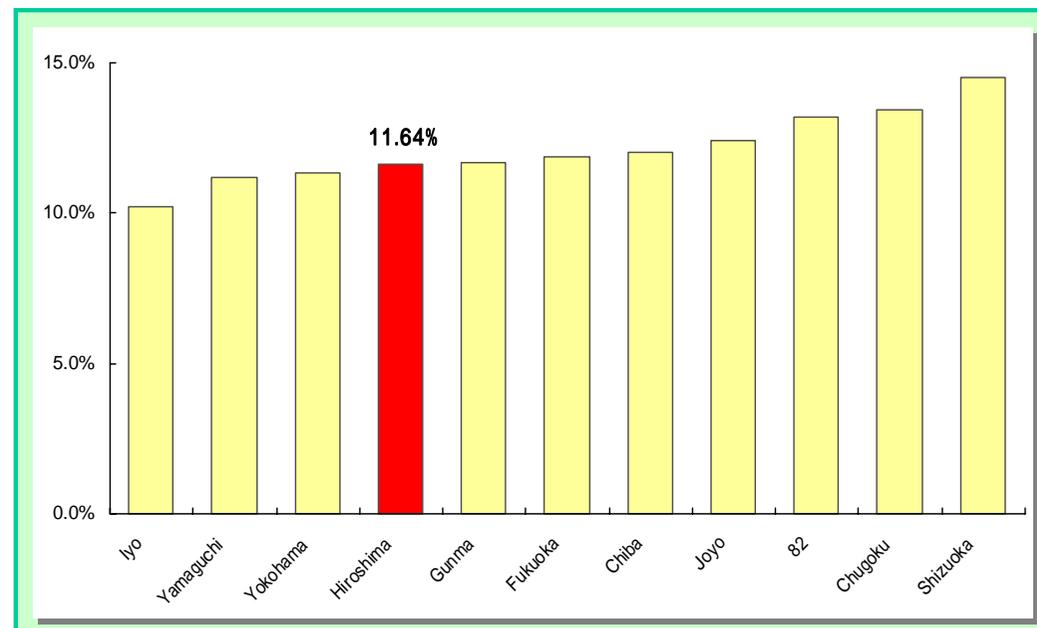


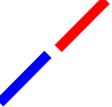
## Enhancement of capital

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

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

## Comparison of Capital adequacy ratio (09/9)



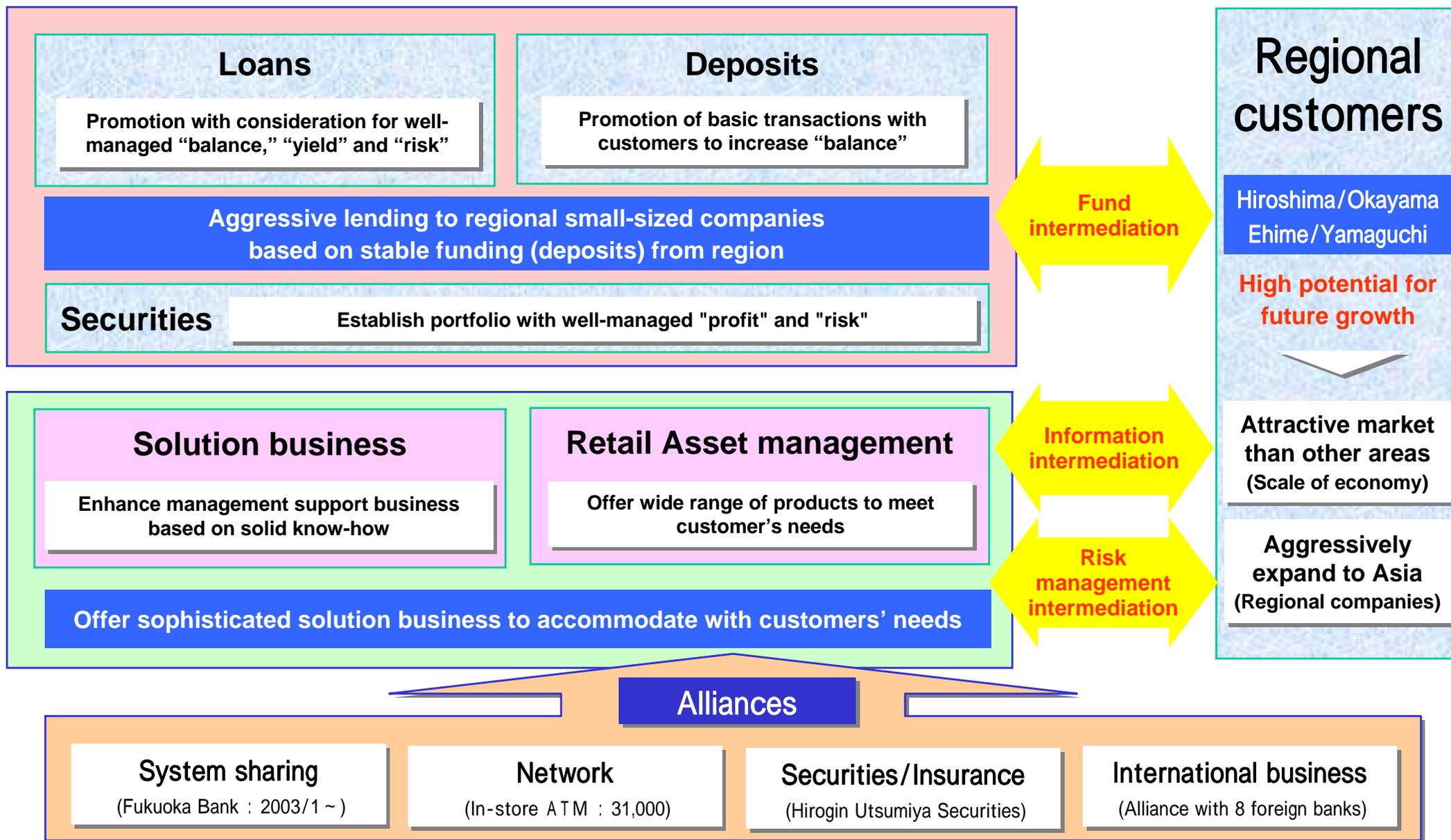


### **3. Business strategies and Earning estimate for FY2009**

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# (1) Overall structure of Business style

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



## (2) Scale of economy (Chugoku and Shikoku Region)

- Hiroshima has No.1 position in terms of both population and business activities in Chugoku-Shikoku Region.
- Economy scale of Hiroshima exceeds other areas Hiroshima has **stable growth potential than other areas.**

### Population

- Hiroshima has largest population in region.
- Decrease rate of population is moderate than other areas.

	Population ('000s)	Share
All-Japan	127,550	
Chugoku / Shikoku Region	11,579	9.1%

### Number of companies

- Hiroshima has the most number of companies in region.
- Decrease rate of number of companies is moderate than other areas.

	Number of companies ('000s)	Share
All-Japan	5,911	
Chugoku / Shikoku Region	575	9.7%

### Gross domestic products

- Hiroshima has the largest amount of gross domestic products in region.
- Both secondary and tertiary industries increase gross products.

	Gross domestic products ('000trillion)	Share
All-Japan	562.6	
Chugoku / Shikoku Region	47.1	8.4%

Population (000's)	2000	2009	change(%)
Hiroshima	2,879	2,867	-0.4
Okayama	1,951	1,943	-0.4
Yamaguchi	1,528	1,456	-4.7
Shimane	762	720	-5.5
Tottori	613	591	-3.6
Ehime	1,493	1,437	-3.8
Kagawa	1,023	1,000	-2.2
Tokushima	824	789	-4.2
Kochi	814	776	-4.7

(Sources:each prefecture)

Companies (000's)	2001	2006	change(%)
Hiroshima	146	140	-4.1
Okayama	93	85	-8.6
Yamaguchi	78	72	-7.7
Shimane	45	42	-6.7
Tottori	32	29	-9.4
Ehime	81	72	-11.1
Kagawa	57	52	-8.8
Tokushima	45	41	-8.9
Kochi	46	42	-8.7

(Sources:The Ministry of Public Management )

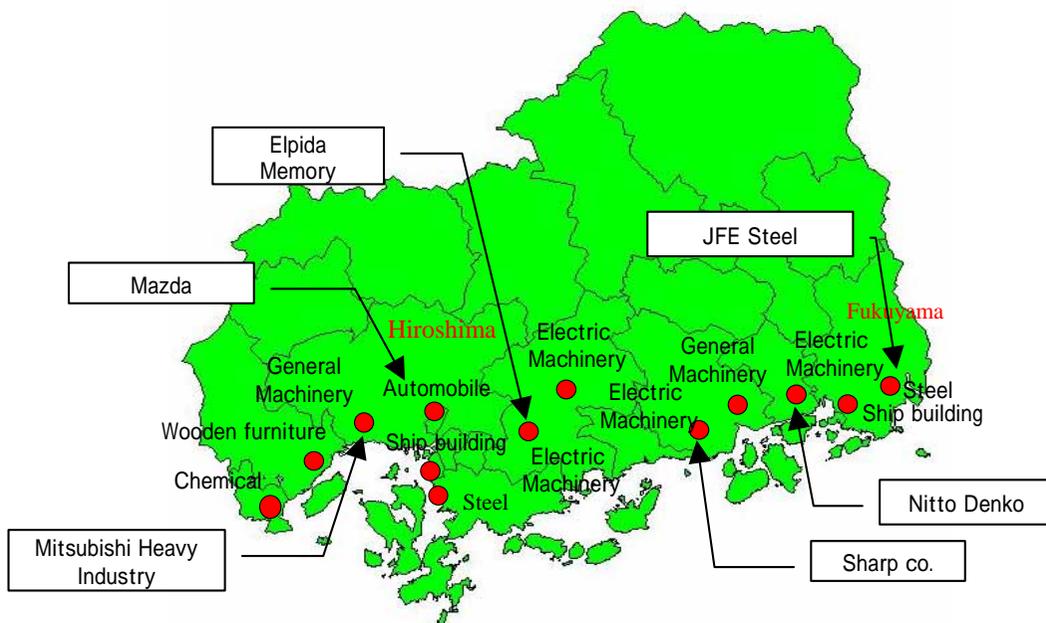
GDP (JPY trillion)	2000	2006	change(%)
Hiroshima	12.0	13.1	9.2
Okayama	7.2	8.1	12.5
Yamaguchi	5.8	6.1	5.2
Shimane	2.6	2.7	3.8
Tottori	2.2	2.3	4.5
Ehime	5.3	5.4	1.9
Kagawa	3.8	4.0	5.3
Tokushima	2.7	2.9	7.4
Kochi	2.6	2.5	-3.8

(Sources:The Cabinet Office)

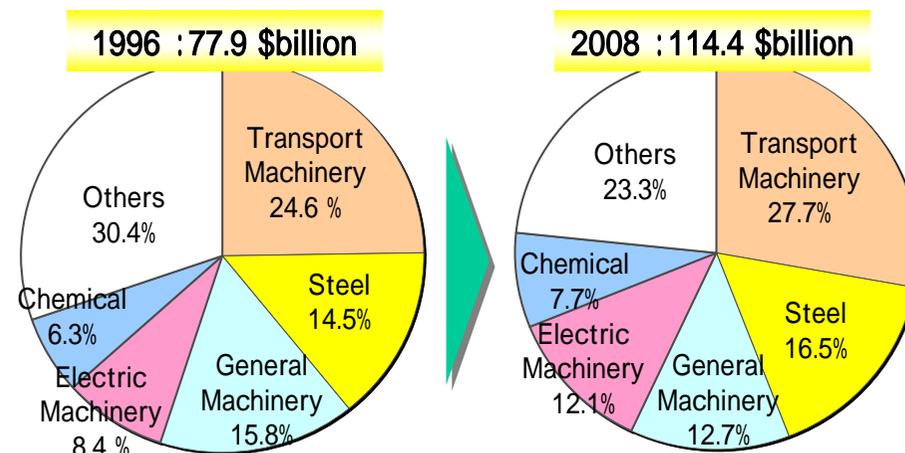
### (3) Economy of Hiroshima

- In addition to the transport machinery and steel sectors, the high-tech sector has accumulated and developed technologies.
- In recent years, business transactions of Hiroshima-based companies with Asian countries have expanded rapidly.

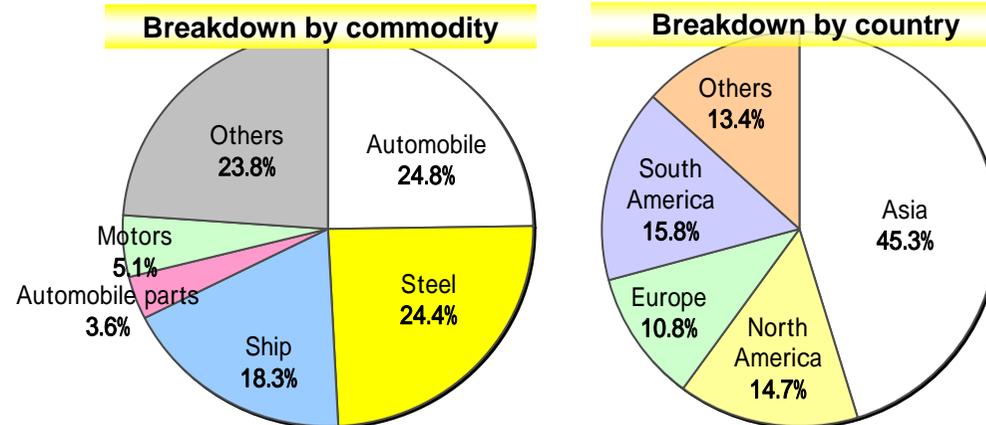
#### Diversity of industries in Hiroshima



#### Breakdown of Manufacturing Industry in Hiroshima (Total value of shipped manufactured products: 1996 → 2008)



#### Gross Export (Hiroshima prefecture : 2008)



#### Number of companies and employees in Hiroshima

Automobile	Number of companies	266
	Number of employees	33,584
Ship building	Number of companies	119
	Number of employees	7,012
Steel	Number of companies	156
	Number of employees	11,998
Electric machinery	Number of companies	290
	Number of employees	18,806

## (4) Overseas business support ~ in Asia

- Hiroshima-based companies are aggressively expanding their activities and **have opened 403 operating offices in 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

#### China

(162companies : 268offices)

Mazda	San-esu
Chugoku paints	Tsuneishi HD
Matsuoka Co.	Molten
Wood One	Nishikawa rubber

Shanghai  
Representative Office

Shanghai

Hiroshima

Support for  
advance

- Offer information
- Set up business in Asia

### Support for Asian business

- support of **'Information'** to set up business (International business Department/Representative Offices)  
Setting up factories/subsidiary companies
- support of **'Funds'**  
Offering Yen fund to set up business in Asia

Support for  
business

- Foreign exchange
- Business matching

- support of **'Information'** for business  
Business matching/Searching partners
- support of **'Funds'**  
Offer stand-by credit  
(Alliance with foreign banks)

#### Thailand

(43companies : 55offices)

Mazda	Satake
Shinko	Mikasa
Daikyo-Nishikawa	Kitagawa

Hanoi

Hong Kong

#### Hong Kong

(11companies : 11offices)

Teral	Asty
Wood One	Kumahira

#### Vietnam

(12companies : 12offices)

Asty	San-esu
Tempearl co.	Rorze co.

Bangkok

Bangkok  
Representative Office

Network

- Association of clients (Shanghai/Bangkok)

Nations	Alliance with foreign banks
China	Bank of China / Bank of Communications
Thailand	Bangkok Bank / Kasikorn Bank
Korea	Korea Exchange Bank
Indonesia	Bank Negara Indonesia
All Asia	Standard Chartered Bank

(5) Retail business

Hiroshima is the largest retail market in region

Moderate decrease in population than other prefectures

Population	2000	2009	( '000's)
			change(%)
Hiroshima	2,879	2,867	-0.4
Okayama	1,951	1,943	-0.4
Yamaguchi	1,528	1,456	-4.7
Ehime	1,493	1,437	-3.8

High level of saving amount per household

High portion of financial products among savings

	2009 March (JPY 0000's)		
	Total savings	Financial product	(Proportion)
Hiroshima	1,497	270	18.0%
Okayama	920	40	4.3%
Yamaguchi	1,240	89	7.2%
Matsuyama	1,360	132	9.7%

We struggle to increase retail asset customers by enhancing effective business promotion especially in Hiroshima having strong retail market among the region

Enhancement of Direct Channels and Expand the Business lineup

Investment trust / Annuity Insurance

Stocks

Increase the number of receiving accounts

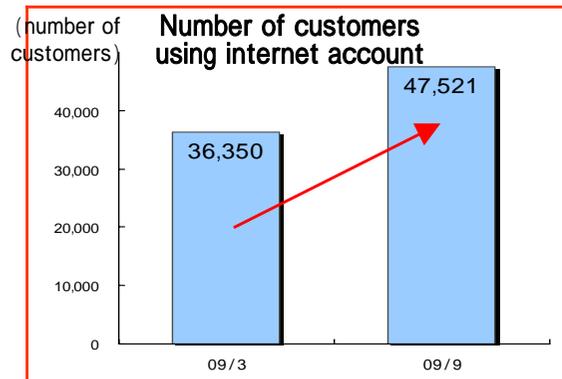
- pension
- salary



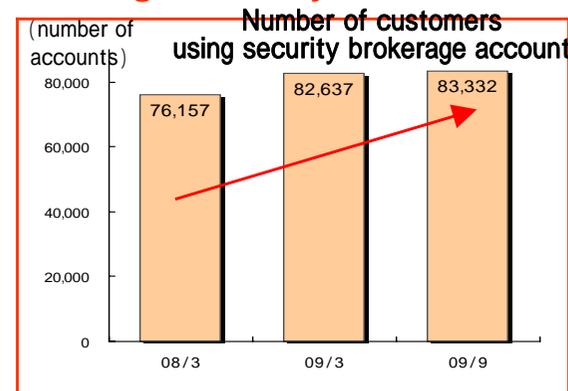
Money consulting desk



Direct channel



Hirogin Utsumiya Securities



(6) Card business

Issue multi-functional card involving traffic IC card < PASY > and non-contact IC settlement < QUICPay, Visa Touch >

Main card

「Value One」

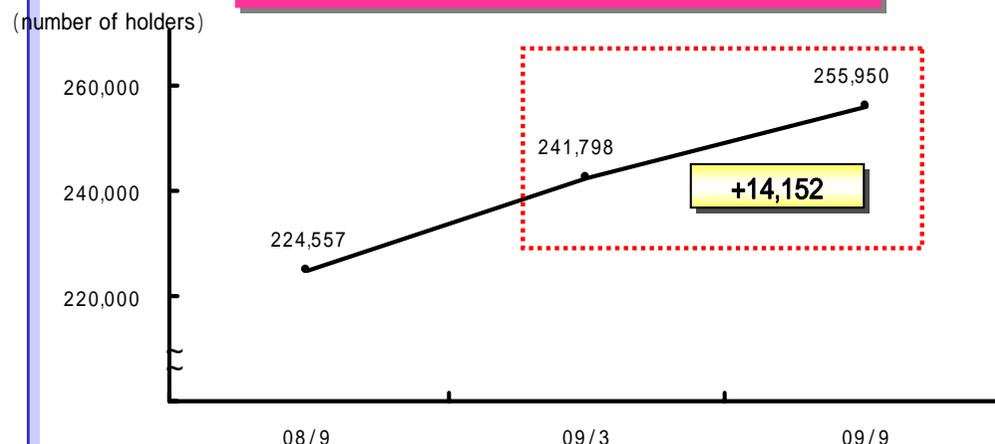


- Cash card
- Credit card
- Card loan

「Value one」 has 3 functions in one card

Number of 'Value One' holders steadily increased.

Number of 'Value One' holders

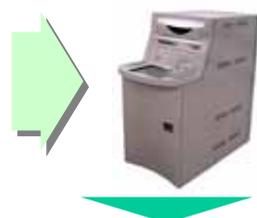


Sub card

「< Hirogin > PASY」



[Traffic IC card]



The Bank has ATM charge services to PASY

Charge produces fee income to the Bank

PASY

Serve as traffic IC card



QUICPay  
VisaTouch

Post payment function



Membership

Discount service at over 4,000 stores and restaurant



09/11 total issue 29,000 cards

(October, 2009)  
PASY introduced to all public transportation in Hiroshima

## (7) Earning estimate for FY2009 and dividend policy

## Earning estimate for FY2009

- **Real banking profit** JPY 37.8billion  
(yoy change +JPY1.1billion / from initial plan +JPY2.2billion)
- **Net income** JPY 10.5billion  
(yoy change +JPY3.1billion / from initial plan +JPY2.2billion)

	Earning estimate for FY2009 (JPY billion)		
	Earning estimate for FY2009	yoy change	Difference from the initial plan
Net interest income	80.2	-7.5	0.0
Net fees and commissions income	15.9	-2.0	-0.2
<b>Core gross operating profit</b>	<b>96.1</b>	<b>-9.5</b>	<b>-0.2</b>
Expenses	60.0	-0.8	-0.7
<b>Core banking profit</b>	<b>36.1</b>	<b>-8.7</b>	<b>0.5</b>
Gains/Losses from securities	1.7	9.8	1.7
<b>Real banking profit</b>	<b>37.8</b>	<b>1.1</b>	<b>2.2</b>
Gains/Losses on stocks	-0.7	-0.3	-0.7
Credit cost	17.3	-6.0	-2.7
<b>Ordinary profit</b>	<b>17.5</b>	<b>4.4</b>	<b>3.4</b>
<b>Net income</b>	<b>10.5</b>	<b>3.1</b>	<b>2.2</b>

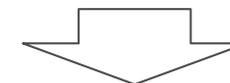
## Dividend policy

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

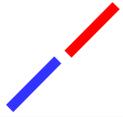
## Dividend policy and payout table

- (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.

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