

Financial results for interim FY2011

- IR presentation -

December 2011

President Isao Sumihiro

The Hiroshima Bank, Ltd.

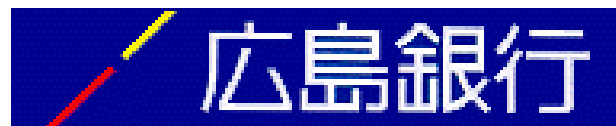




Table of contents

1. Summary of financial results

(1) Financial highlights for interim FY2011	3
(2) Breakdown of profit	4
(3) Loans	5
(4) Loans	6
(5) Securities	7
(6) Deposits	8
(7) Investment banking and sale of financial products	9
(8) Expenses	10
(9) Non-performing loans and credit costs	11
(10) Capital adequacy ratio	12

2. Business strategies

(1) Summary of the Mid-term management plan (Key points for FY2011)	14
(2) Growth strategy Enhance area sales staff system	15
(2) Growth strategy Adapt to market shrinkage	16
(2) Growth strategy Establish new sources of income (personal customer strategy)	17
(2) Growth strategy Turn support for customers establishing overseas operations into profitable business	18
(3) Promote local community-oriented banking services	19
(3) Promote local community-oriented banking services	20

3. Earnings estimate for FY2011

(1) Earnings estimate for FY2011	22
(2) Dividends and introduction of shareholder benefits scheme	23



1 . Summary of Financial Results

(1) Financial highlights for interim FY2011

- Interim net income has increased by JPY 0.5 billion to JPY 7.5 billion (+7.1% year-on-year), driven by credit costs reduction in addition to the improvement of gains/losses from stocks, despite the decrease of real banking profit owing mainly to decreased net interest income and gains/losses from securities.

【Non-consolidated】

	1st half of FY2011	(JPY billion)		
		Change from 1st half of FY2010		Difference from plan
Net interest income	38.0	-2.4	-	-0.5
Net fees and commissions income	8.9	-0.1	-	0.1
Core gross operating profit	46.9	-2.5	-5.1%	-0.4
(-) Expenses	28.9	-0.4	-	-0.3
Core banking profit	18.0	-2.1	-10.7%	-0.1
Gains/Losses from Securities	3.0	-0.5	-	3.0
Real banking profit	21.0	-2.6	-11.3%	2.9
Gains/Losses on stocks	-3.6	0.9	-	-3.6
(-) Credit costs	4.2	-1.9	-	-0.8
Ordinary profit	12.0	0.2	1.3%	0.2
Net income	7.5	0.5	7.1%	0.4

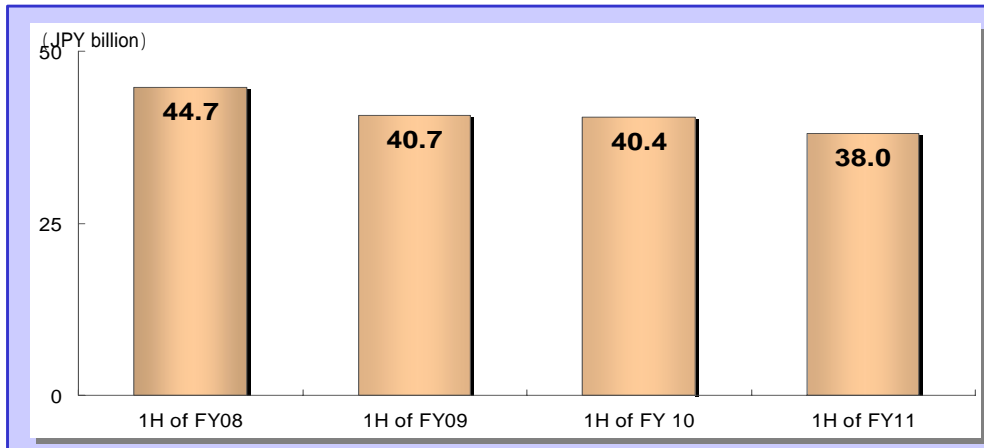
【Consolidated】

Ordinary profit	12.8	0.3	2.1%	0.3
Net income	7.7	0.6	8.8%	0.4

(2) Breakdown of profit

- Net interest income was -JPY 2.4 billion yoy, with the decrease of both interest on loans and interest on securities due to declining market rates.

Net interest income

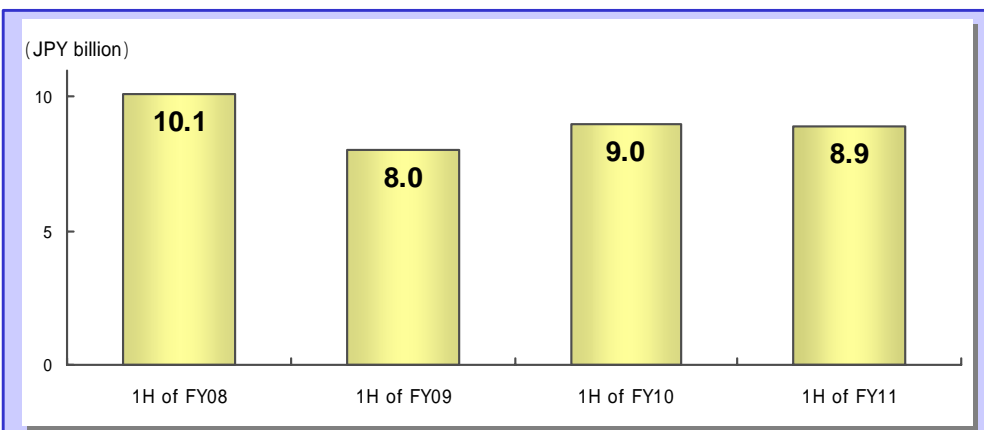


Breakdown of net interest income

	1st half of FY2011	(JPY billion) yoy change
Interest on loans	36.0	-2.1
Interest on securities	8.1	-1.2
Interest on deposits(-)	3.0	-0.9
Other interest expenses(-)	3.1	0.0
Net interest income	38.0	-2.4

- Net fees and commissions income has remained almost flat yoy at -JPY 0.1 billion, owing to the increase of Other category (such as domestic exchange).

Net fees and commissions income



Breakdown of net fees and commissions income

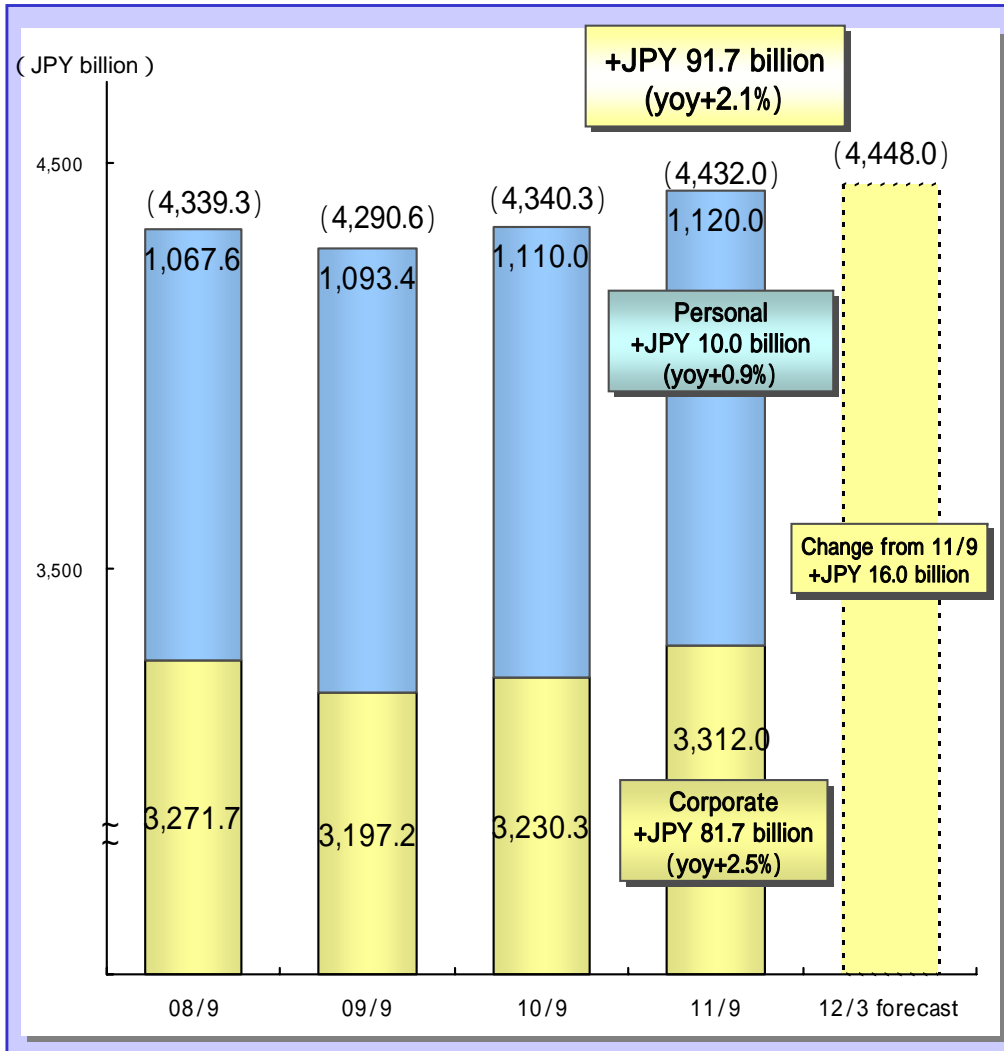
	1st half of FY2011	(JPY billion) yoy change
Interest banking	1.3	-0.1
Retail asset management	3.2	-0.2
Other	4.4	0.2
Net fees and commissions	8.9	-0.1



(3) Loans

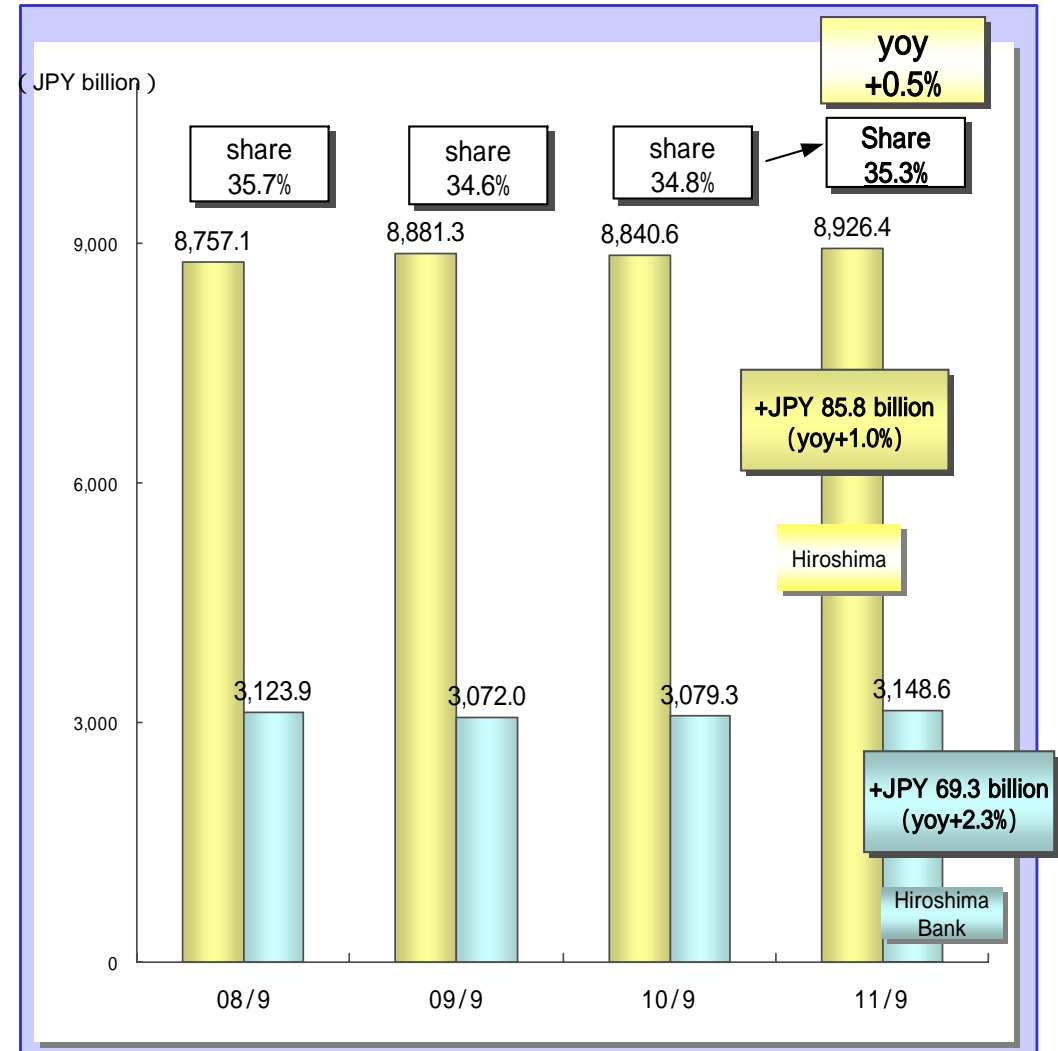
■ (Term-end) balance of total loans has increased significantly both for Personal and Corporate customers, with +JPY 91.7 billion year-on-year (+2.1%).

Term-end balance of total loans



■ Our share is steadily increasing

Loans in Hiroshima Prefecture and Hiroshima Bank's share



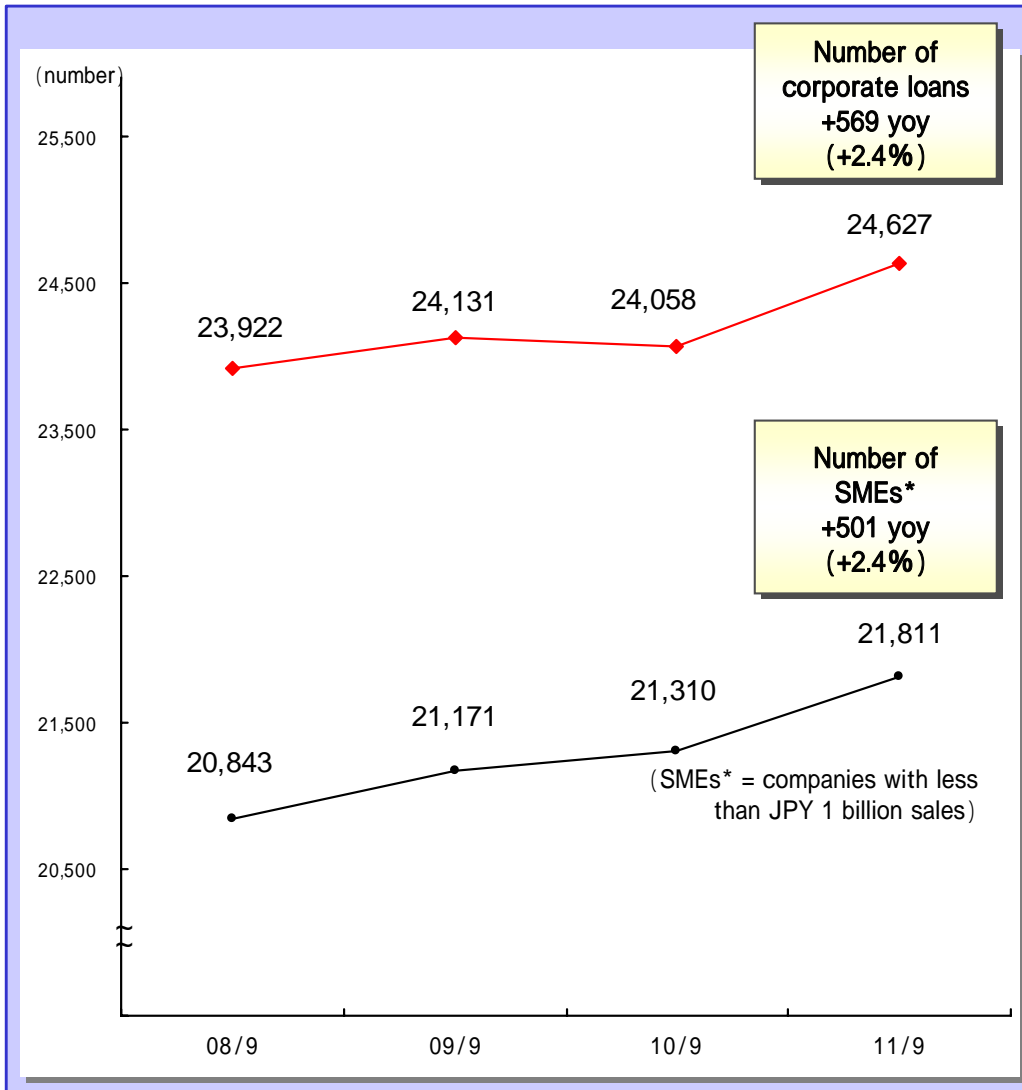
Share calculation: before partial direct depreciation



(4) Loans

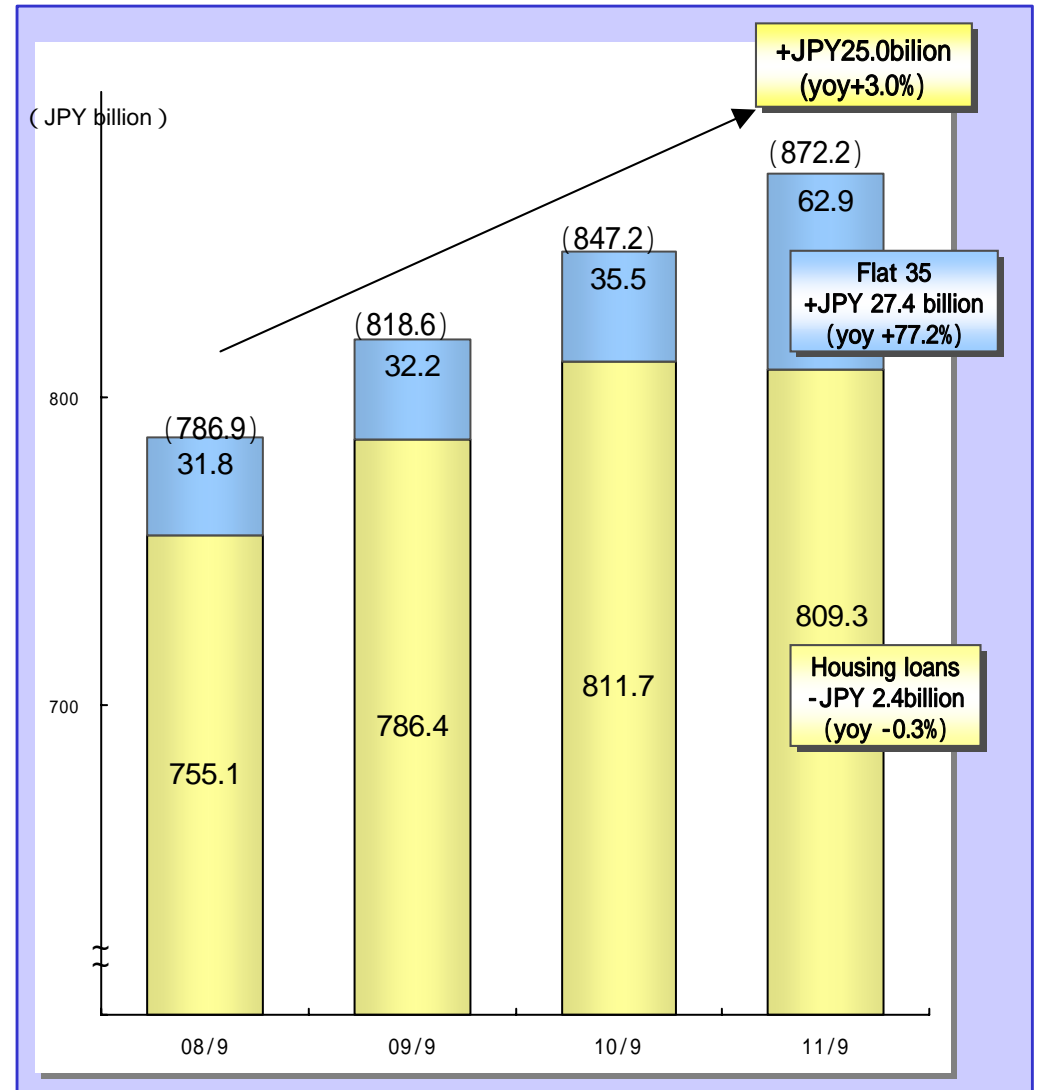
■ Number of corporate loan customers is steadily increasing, primarily among SMEs*.

Number of corporate loan customers



■ We see solid growth of housing loans including Flat 35 by capturing customer demand.

Term-end balance of housing loans (including Flat 35)

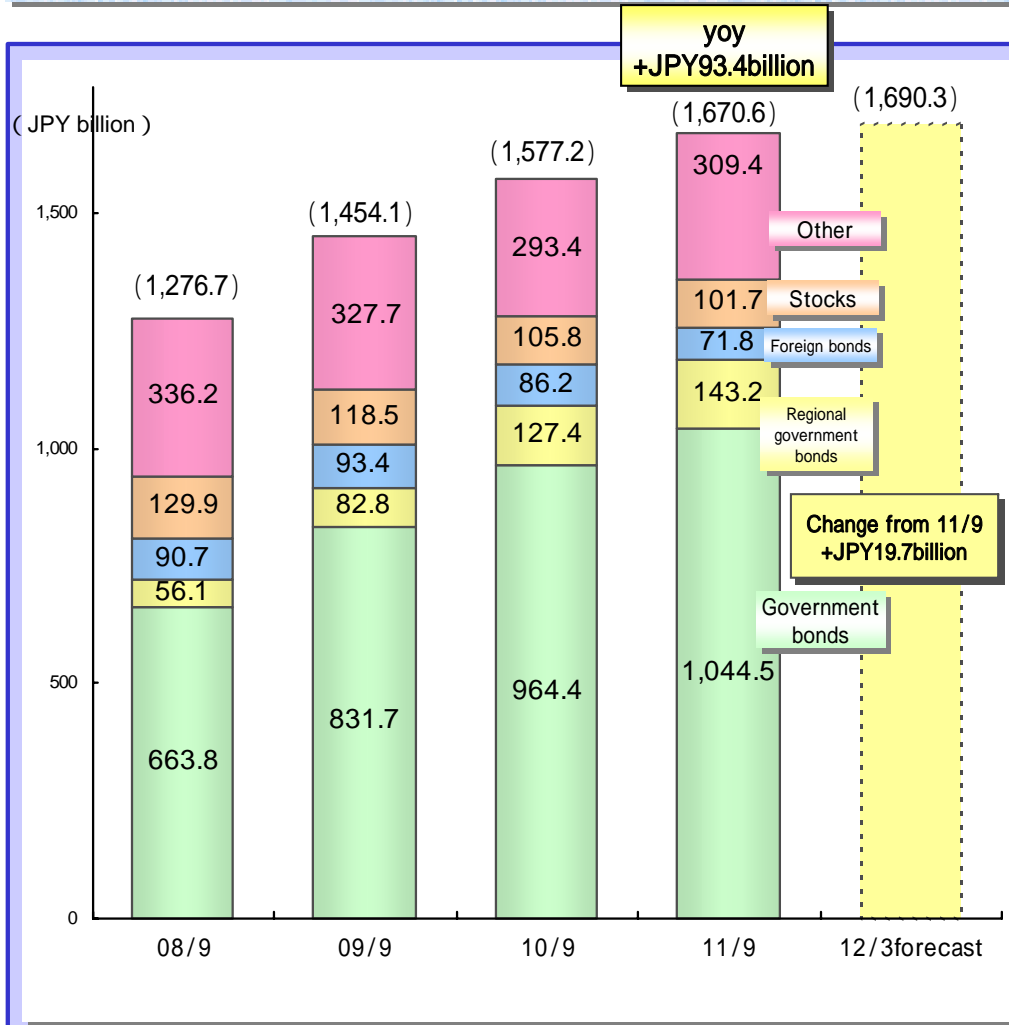


(5) Securities

■ We have enhanced our portfolio with stable asset management while closely monitoring interest risk and credit risk

Securities portfolio (term-end balance)

■ Do not own any European sovereign bonds as of September end, 2011



■ Interest rate risk and the duration of domestic bonds have been reduced

	10/9	11/9	(years) yoy change
Duration of domestic bonds	5.67	4.56	-1.11

■ Interest rate risk is at a low level

	10/9	11/9	yoy change
Outlier measurement	12.5%	10.4%	-2.1%

■ Gains/losses from securities are virtually unchanged yoy

	1H of FY10	1H of FY11	(JPY billion) yoy change
Gains/Losses from securities	3.5	3.0	-0.5
Gains/Losses from stocks	-4.5	-3.6	0.9
Gains/losses from securities/stocks	-1.0	-0.6	0.4

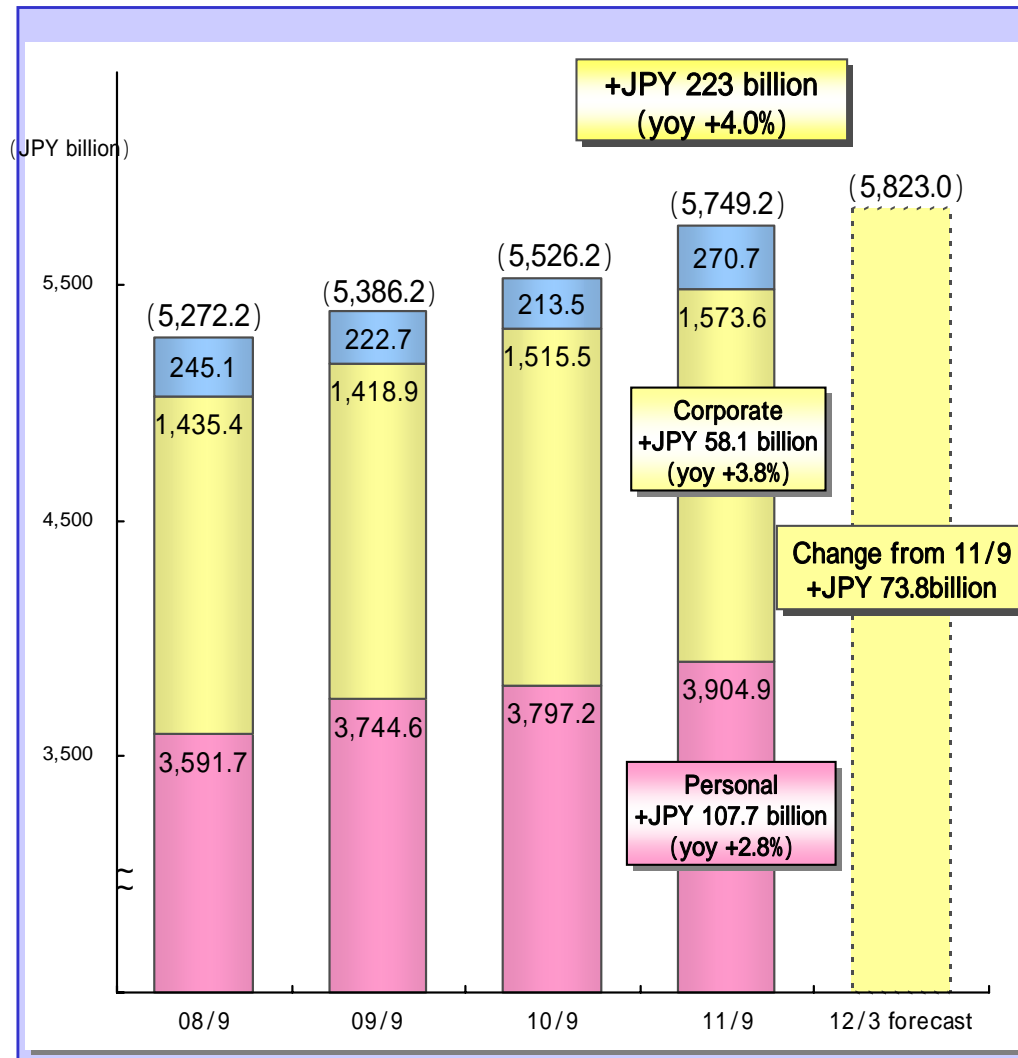
■ Amount of risk assets subject to significant fluctuation in value has been reduced

	10/9	11/9	(JPY billion) yoy change
Securitized products	21.8	8.3	-13.5
Structured products	34.8	31.8	-3.0
Policy investment stocks	102.7	92.6	-10.1
Total	159.3	132.7	-26.6

(6) Deposits

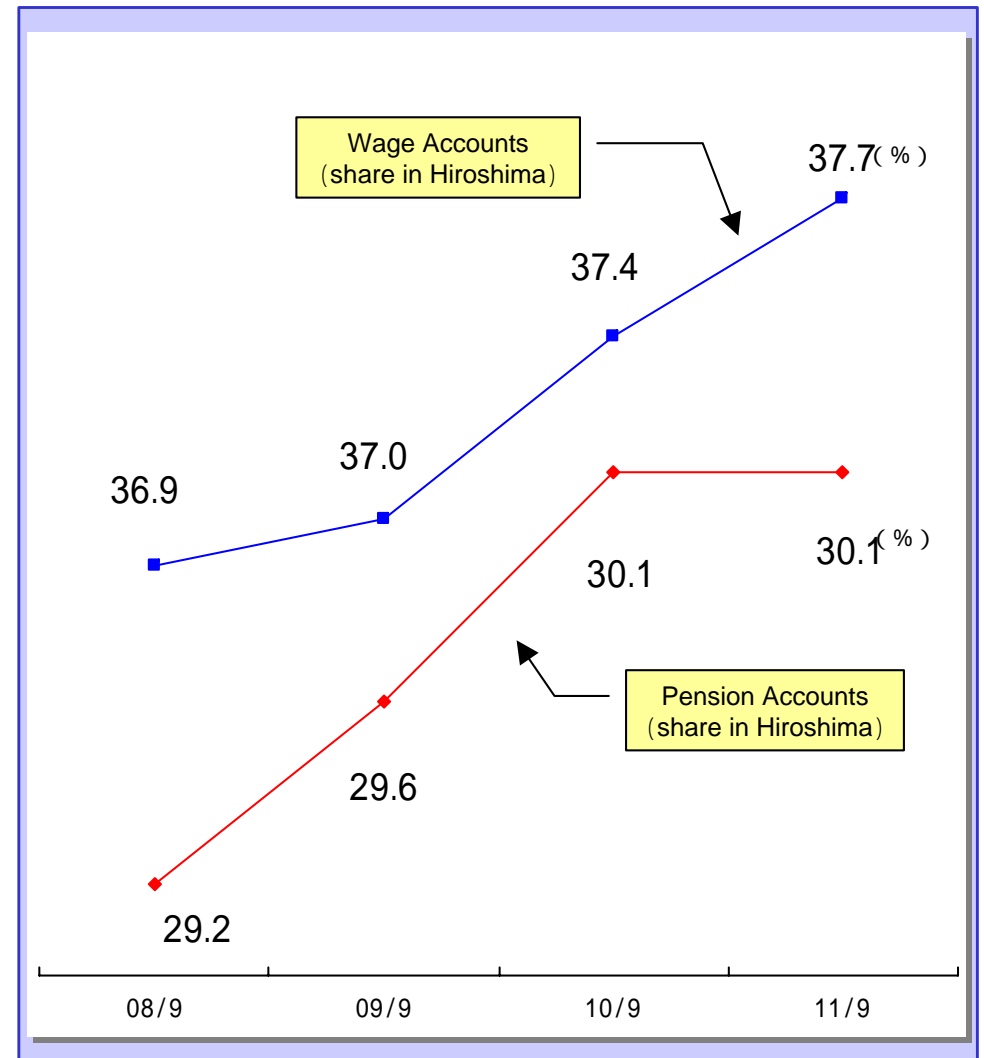
- (Term-end) balance of total deposits has increased significantly both personal and corporate deposits, with +JPY 223 billion year-on-year (+4.0%).

Term-end balance of total deposits



- Hiroshima Bank's share of pension- and wage-receiving accounts is increasing steadily.

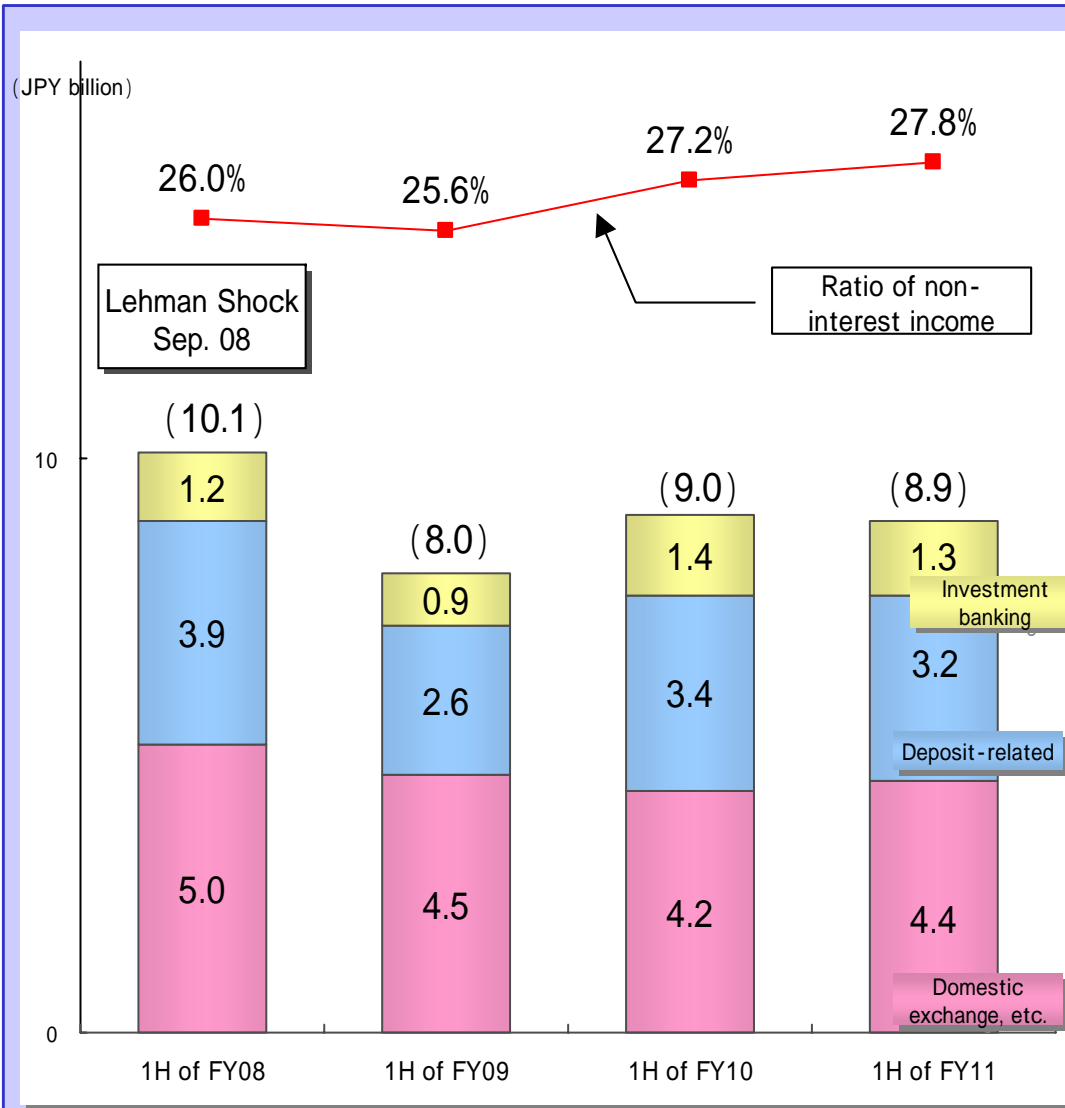
Regional Share of Wage and Pension Accounts



(7) Investment banking and sale of financial products

Hiroshima Bank's ratio of non-interest income is **one of the highest among leading regional banks**

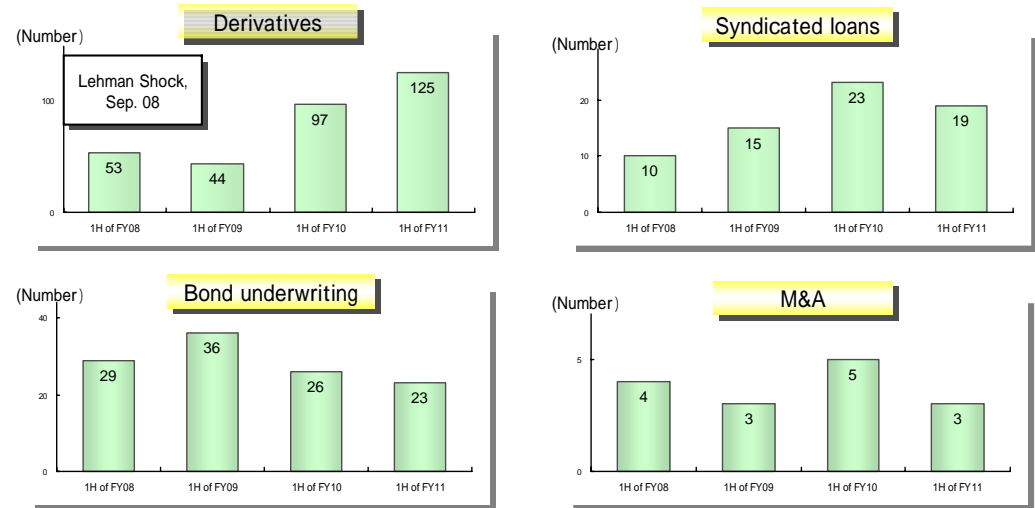
Ratio of non-interest income, income from services transactions, etc.



* Ratio of non-interest income: ratio of non-interest income to gross income from core business

The number of transactions **has been recovering steadily** since the Lehman Shock

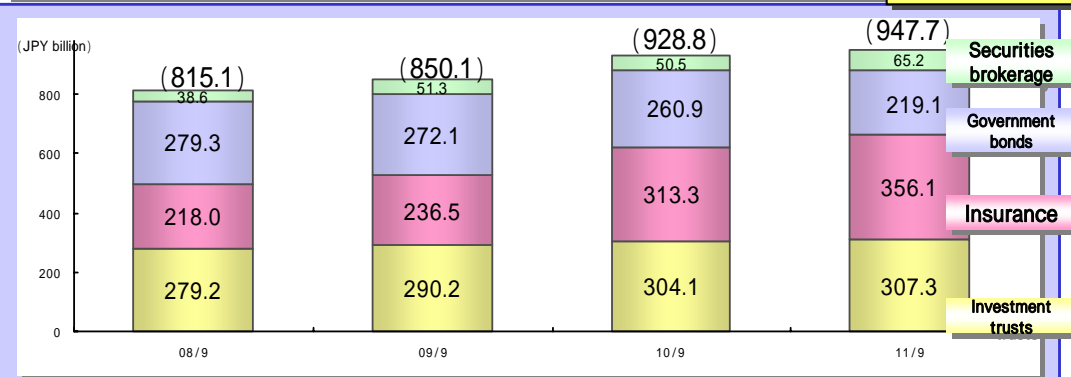
Investment banking



Total financial products under management **is growing firmly with +JPY 18.9 billion year-on-year.**

Retail asset management

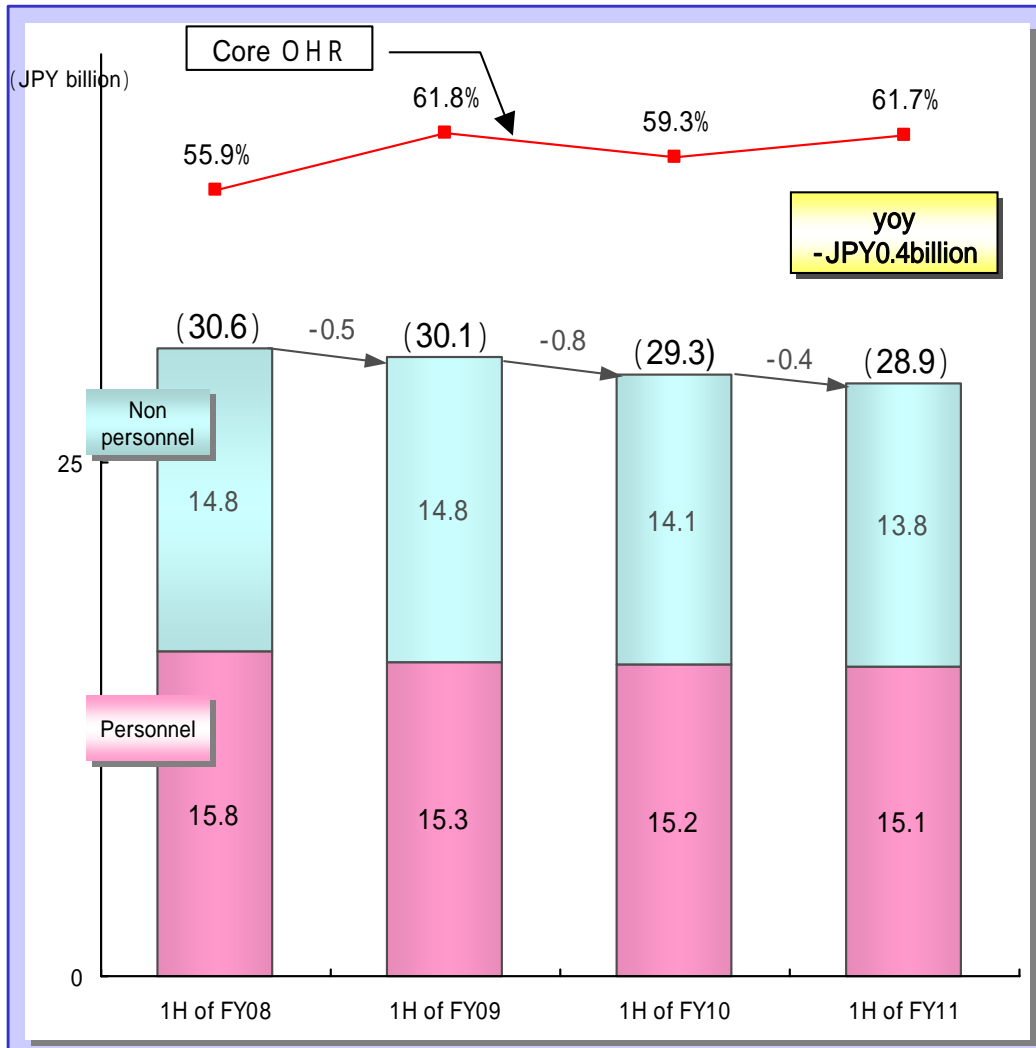
+JPY 18.9 billion (yoy+2.0%)



(8) Expenses

■ Enhanced cost reduction initiatives have lowered the expenses by JPY 0.4 billion year-on-year.

Expenses and Core OHR



Core OHR = Expenses/Core gross profit

Cost-reduction initiatives -

Pursue **Cost Structure Reform Project** with greater thoroughness

- Detailed review of existing expenses

Implement **Business Reform Project**

(being implemented progressively from October 2010)

- Wide-ranging review of business processes (reduction (concentration) of front-office operations (concentration)/simplification of back-office operations, etc.)
- Review of “joint-use basic system” outsourcing contract

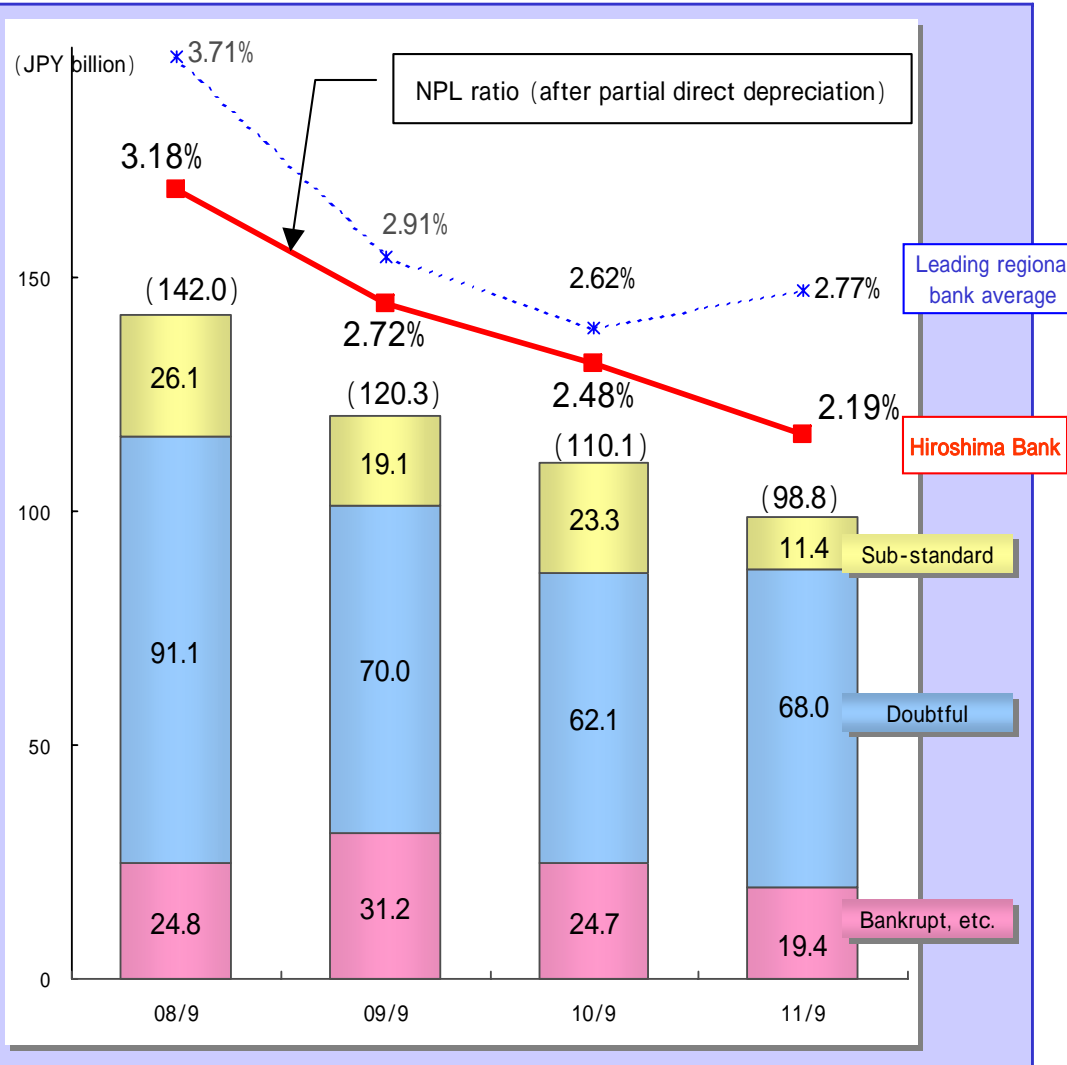
Cost-savings through Business Reform Project etc. (vs. FY2010)

	FY2011forecast	FY2017plan
Building costs	-JPY 0.3 billion	-JPY 0.4 billion
Personnel costs	-JPY 0.1 billion	-JPY 1.8 billion
Total	-JPY 0.4 billion	-JPY 2.2 billion

(9) Non-performing loans (NPL) and credit costs

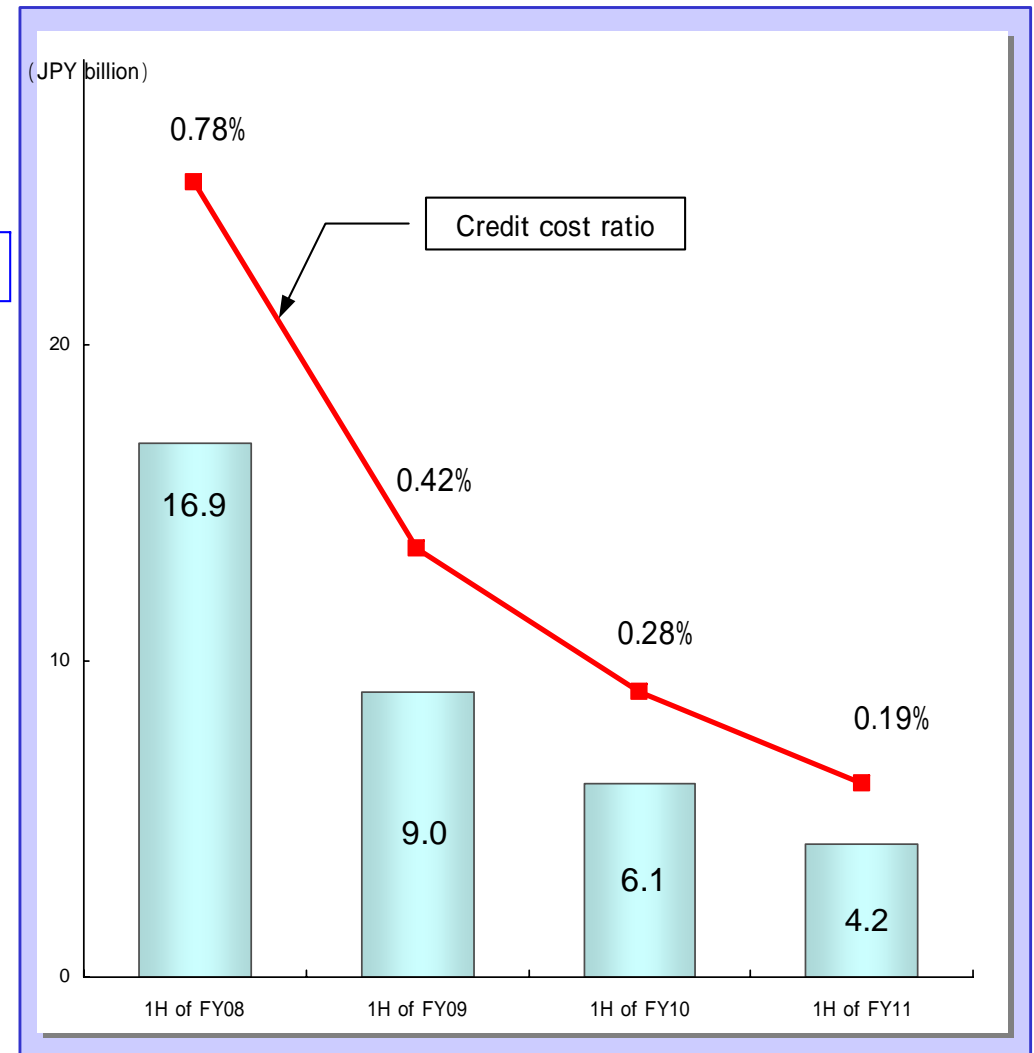
Enhanced support to revitalize customers businesses resulted in substantial decrease of NPLs, and lowered NPL ratio significantly.

NPLs (term-end balance) and NPL ratio



Credit costs has significantly dropped.

Credit costs and credit cost ratio



(10) Capital adequacy ratio

Consolidated capital adequacy ratio increased to **11.65%**, and consolidated Tier 1 ratio reached **8.24%**, both improving further.

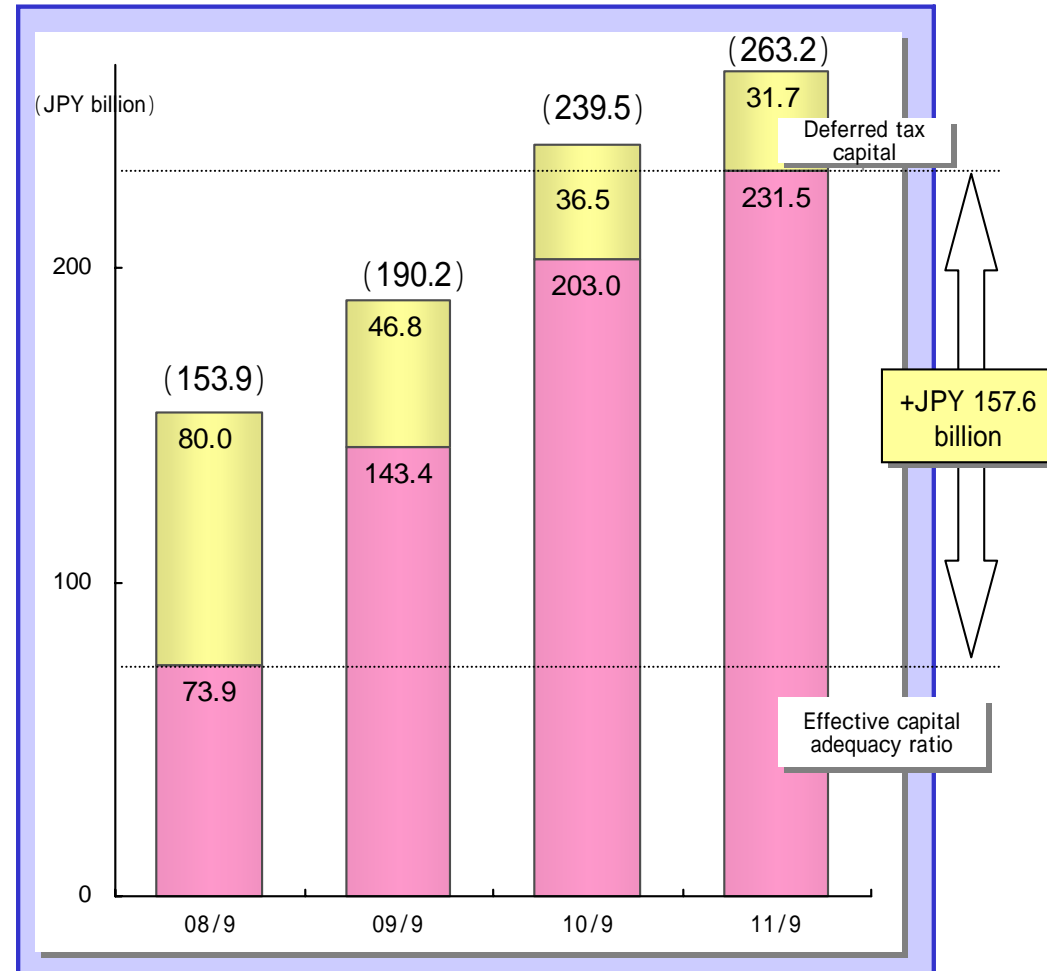
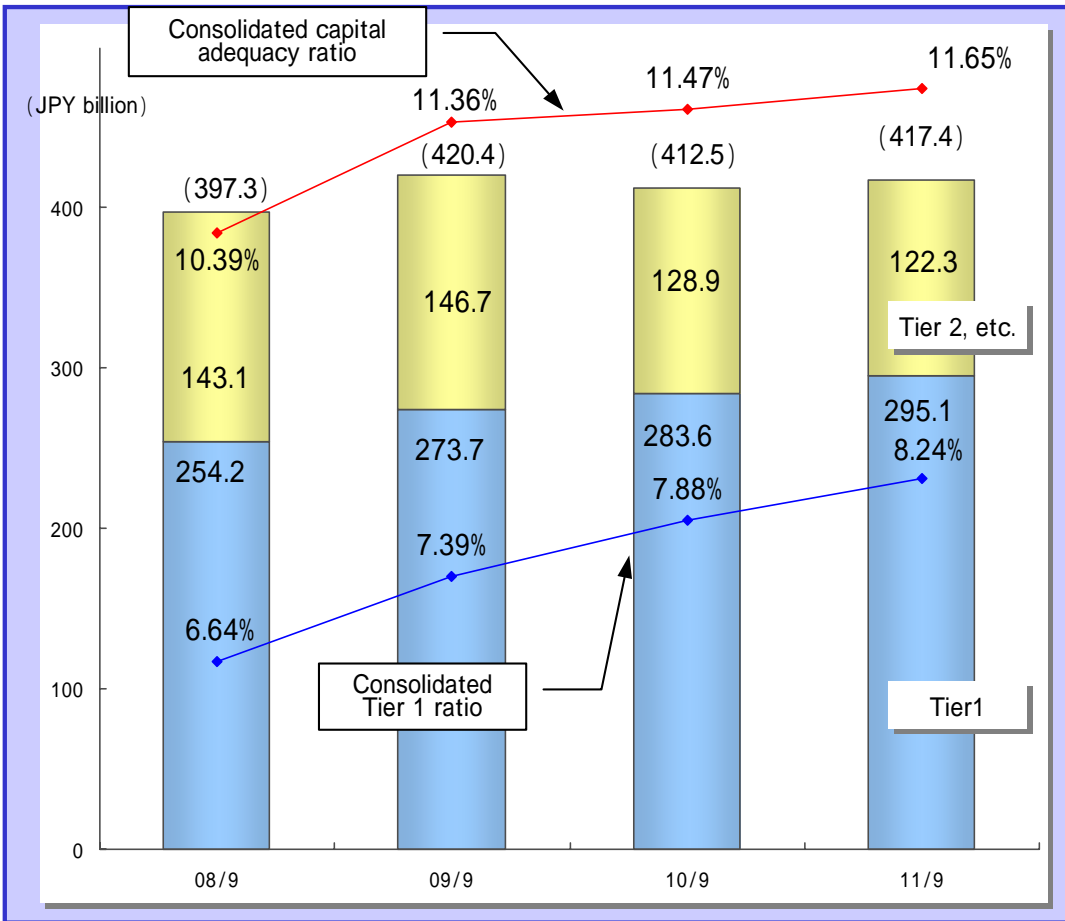
Tier1 Steady increase with accumulation of retained earnings

Tier2 JPY 5 billion of subordinated capital notes are reduced

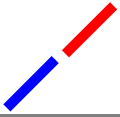
- Effective capital adequacy has increased due to accumulation of retained earnings.
- Deferred tax capital has fallen due to pursuit of tax exemption **financial base strengthened**

Trend of effective capital adequacy ratio

Consolidated capital adequacy ratio and Tier 1 ratio



* Effective capital adequacy ratio: shareholders equity deferred tax capital



2. Business strategies

(1) Summary of the Mid-term management plan (Key points for FY2011)

“STEPS” medium-term management plan

(FY2009-2011)

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

Top priority items

**Build strong
relationships with
customers**

**Establish solid
operational base**

**Enhance sustainable
profitability**

**Strengthen capital
base**

FY2011(Final year)

Be ambitious, use initiative and aim for high targets

➤Growth strategy

Enhance area sales staff system

Adapt to market shrinkage

Establish new sources of income

Turn support for customers establishing overseas operations into a profitable business

➤Implement radical business reforms

➤Further efforts to facilitate financing

Complete final stages of “STEPS” medium-term plan and prepare infrastructure for FY2012 onwards, with a view to long-term growth

(2) Growth strategy

Enhance area sales staff system

- Expand Hiroshima Bank's share in Hiroshima Prefecture by improving area sales staff system and actively developing retail customers

Area sales staff system

Number of Area sales staff: 380
at September end, 2011

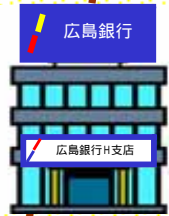
Branch H 'Sales area'

Area sales

Area sales

Personal customers

SMEs and other customers



Area sales

Only 32.9% of SMEs* use us as a main bank, compared to 42.2% among large/upper middle size corporate customers => big potential for development.

Area sales



(SMEs* = companies with less than JPY 1 billion sales)

Actively promoting female Area sales staff (35 people)

Responsible for both personal and corporate customers within the area

Visit more customers per area
Increase the visits per customer

Assign branch staff who work in collaboration with Area sales
Branch will offer full support for area sales staff

➤ Increase face-to-face contact points with customers to meet the needs

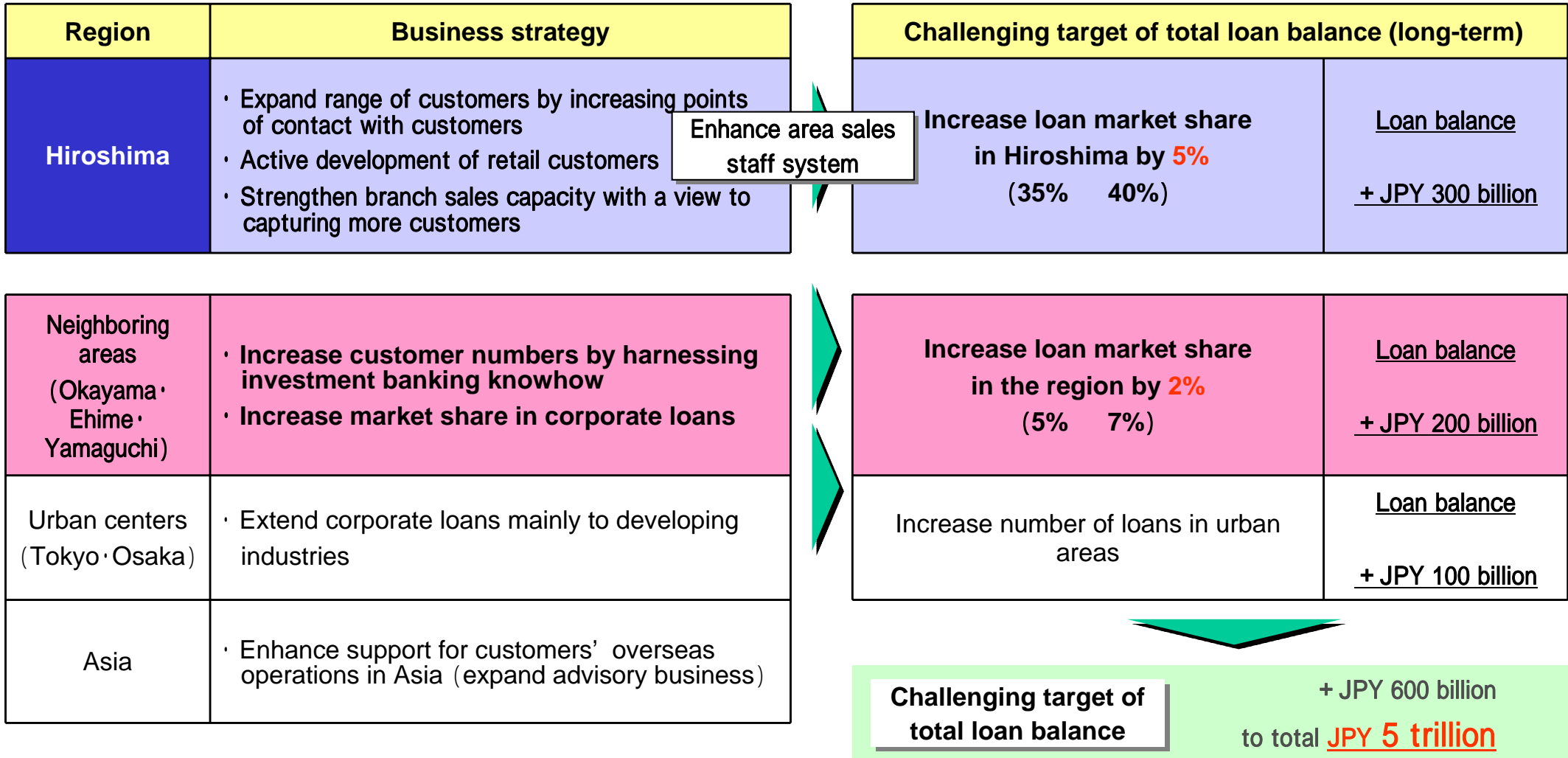


(2) Growth strategy Adapt to market shrinkage

■ Decrease in population and population aging

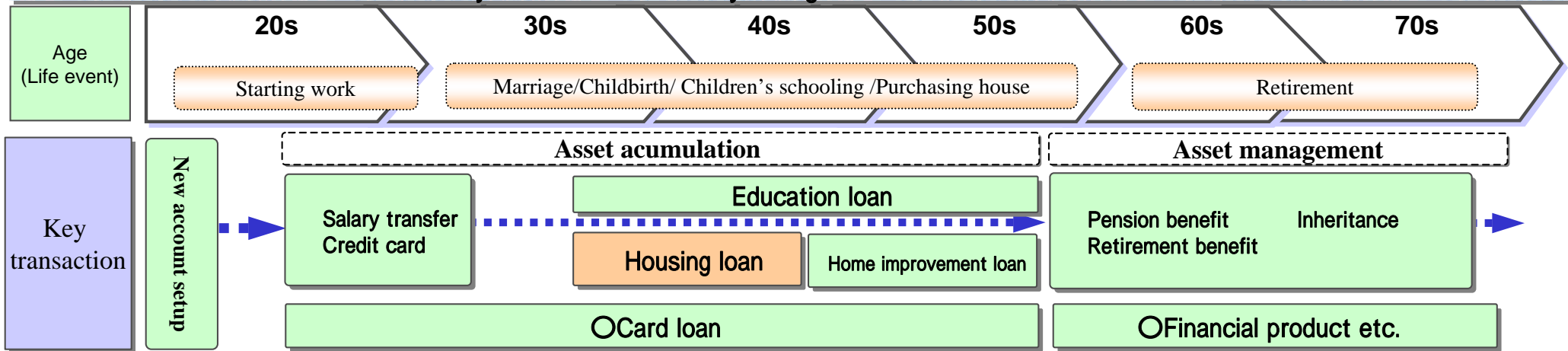
Shrinking domestic economy

➤ Enhancement of loans (outlook)



(2) Growth strategy Establish new sources of income (personal customer strategy)

■ **Salary transfer and housing loan** are the core transactions with our bank.
Promote cross-sell with the lifecycle of customers by using these transactions as drivers.



■ Acquire more business for salary transfer, card loan etc.

Promoted customer of salary transfer

Students, Newly hired employees,
Employees of our trade partners

Enhance Total point services
(point award with transaction history)

Enhance Student-only membership club

Enhance Direct-banking services

Enhance Card loan business

For housing loan customers

Start offering special loan on deeds (for automobile, education loan etc.) (from July 2011)

Start offering exclusive Super card loan services (from October 2011)

Capture in early-stage Cross-sell

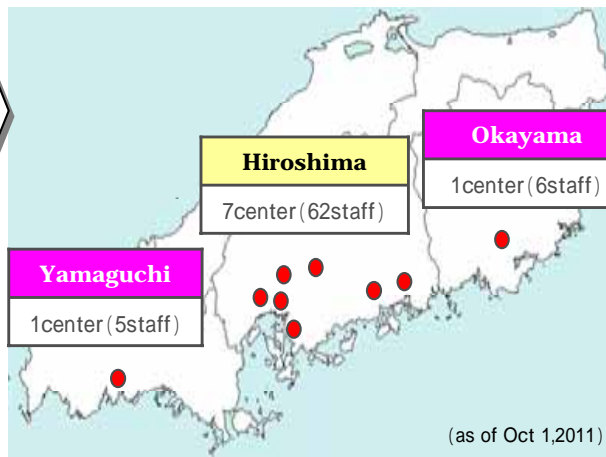
■ Promote the acquisition of housing loan business

Branch offices

Enhancement through area sales staff system

Housing loan center

Enhance the partnership with housing related companies



Repayment of housing loan

■ Acquire more business for pension receipt, financial products etc.

Promoted customer of pension receipt

Prospective customer of pension receipt,
Customer using other bank

Inheritance/gift

Offer high value added services with rich expertise and network with professionals



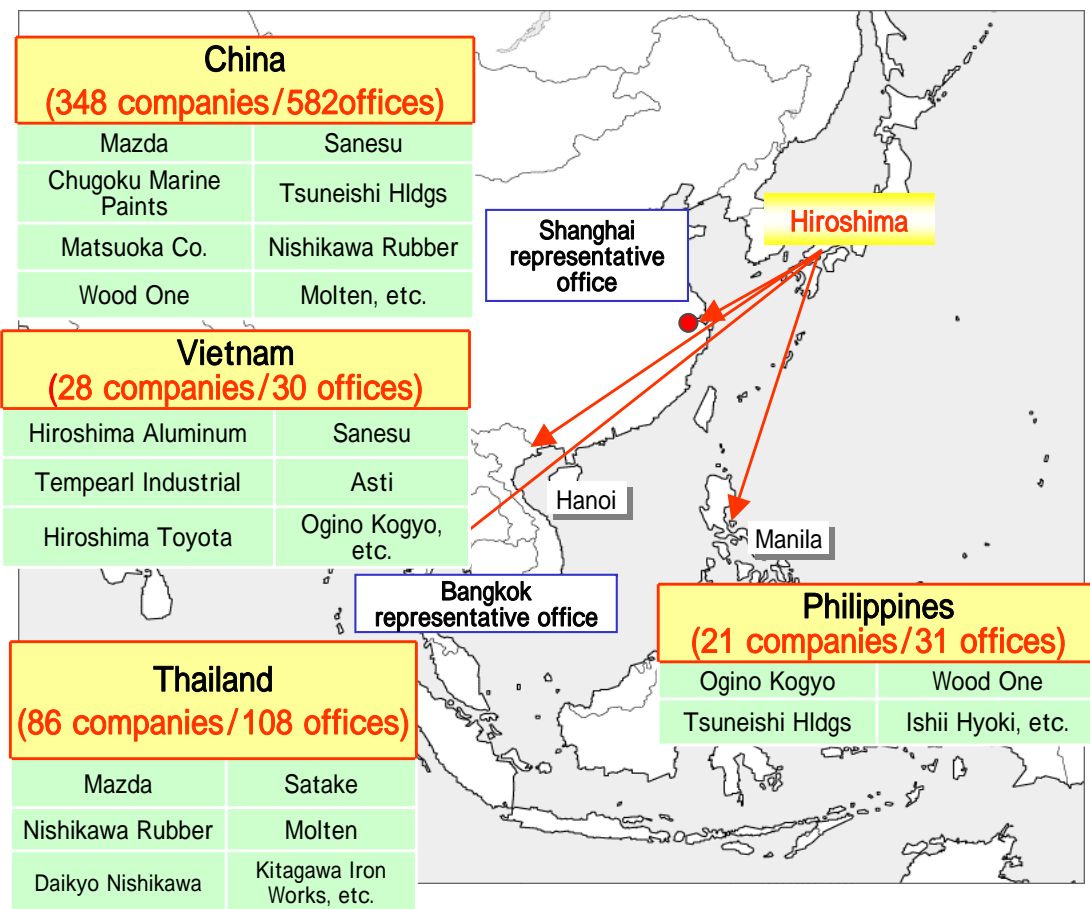
Strengthen the financial product marketing structure



(2) Growth strategy Turn support for customers establishing operations overseas into profitable business

424 companies that use Hiroshima Bank have established 900 offices in Asia, which is expected to see steady economic growth business opportunities are growing

Hiroshima Bank customers presence in Asia



An increasing number of companies, mainly from the manufacturing sector, are expected to set up operations in Asia, and business opportunities are likely to continue to grow

Using the "Asia Strategy Support Desk"

Providing a one-stop specialist solution, from business feasibility studies to realization

Expanding area covered by support services through expansion of alliances with other banks

Country	Partner banks
China	Bank of China / Bank of Communications / Balian Bank
Thailand	Bangkok Bank / Kasikorn Bank
Korea	Korea Development Bank / Korea Exchange Bank
Indonesia	Bank Negara Indonesia
Philippines	Metropolitan Bank
Asia	Standard Chartered Bank / Credit Agricole Bank / HSBC
Mexico	Bank of America

November 2011
 > Partnership with HSBC, a unit of world-leading financial/banking group HSBC Holdings.
 > Building support structure by utilizing business know-how and network of HSBC

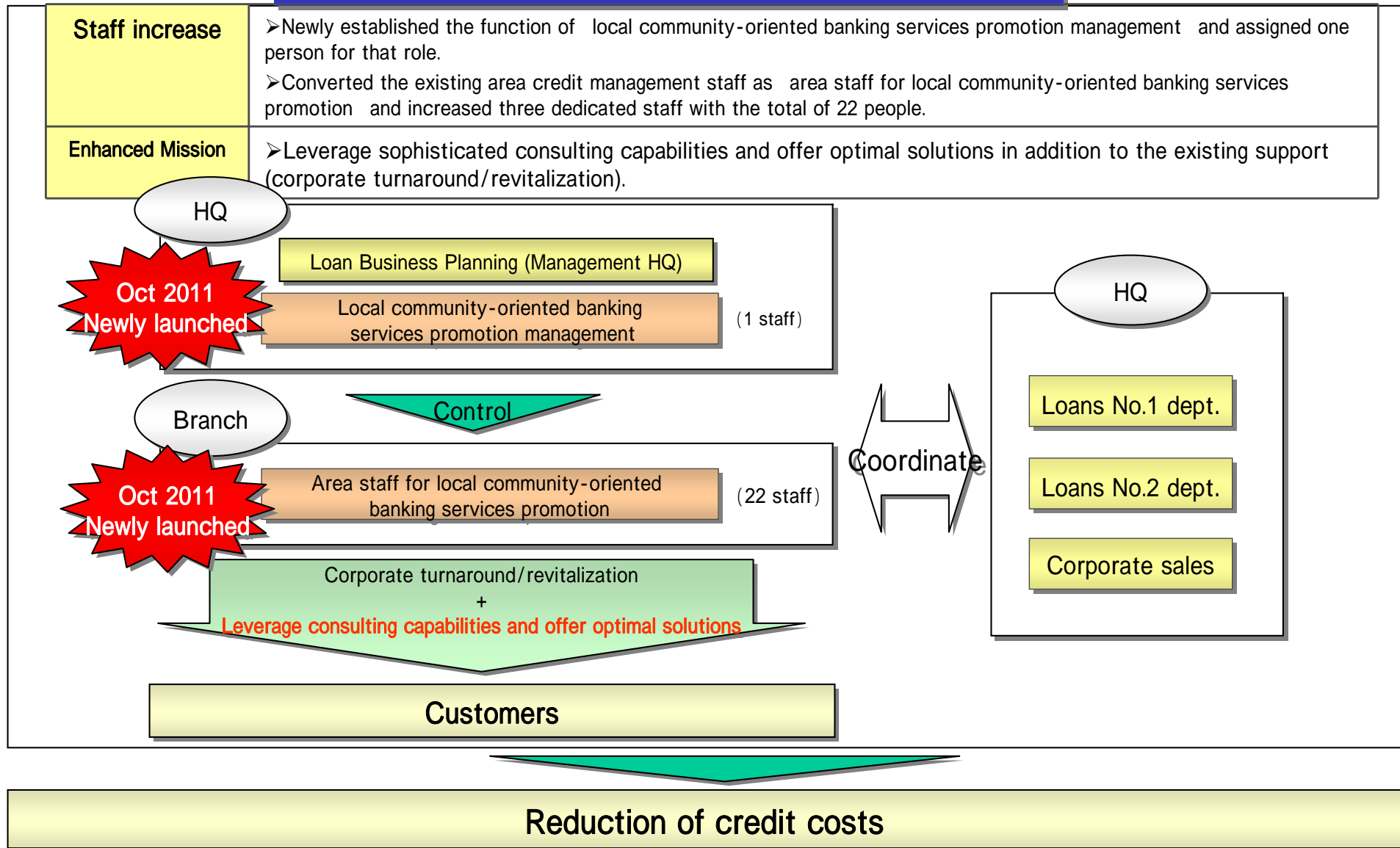
Holding trade fairs, business seminars, etc.

"Nitchu Monozukuri Shodankai@Shanghai 2011" (Japan-China Manufacturing Trade Fair@Shanghai 2011),
 "Kaigai Business Seminar" (Overseas Business Seminar), "Kaigai Business Teiki Sodankai" (Regular Overseas Business Consultation Session", "2011 Dairen-Chiho Ginko Business Shodankai" (2011 Dalian-Regional Bank Business Trade Fair)

(3) Promotion of local community-oriented banking services

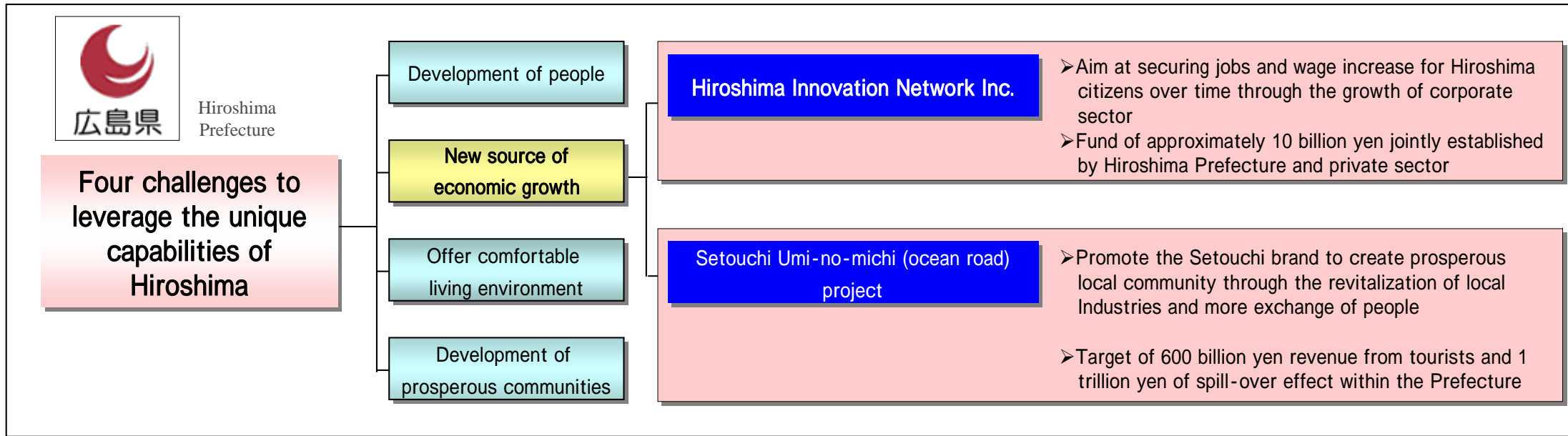
Further promote the local community-oriented banking services to strengthen our support to revitalize the customers businesses

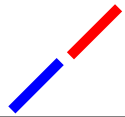
Structure to promote local community-oriented banking services



(3) Promotion of local community-oriented banking services

■ Proactive support for the growth of local community through collaboration with government sector





3. Earnings estimate for FY2011

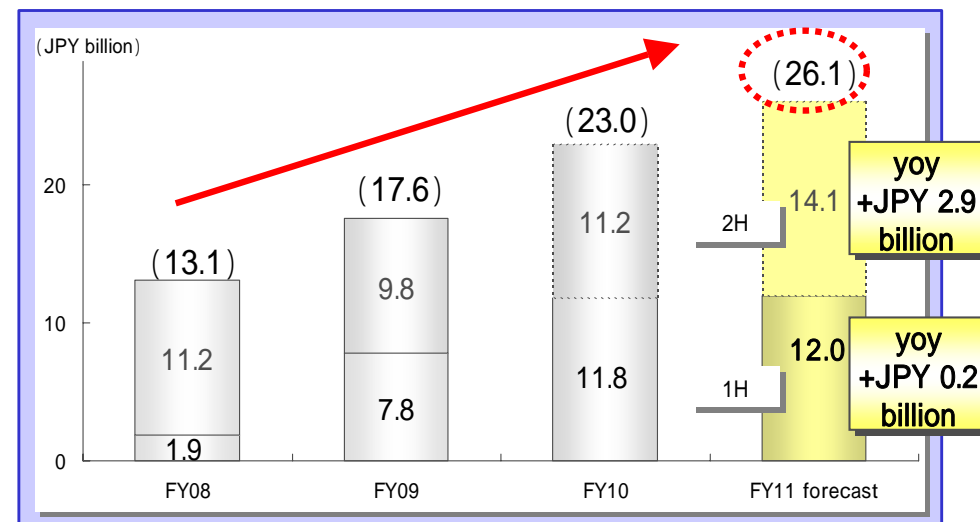
(1) Earning Estimate

Our plan is to increase both Ordinary Profit and Net Income for three consecutive years.

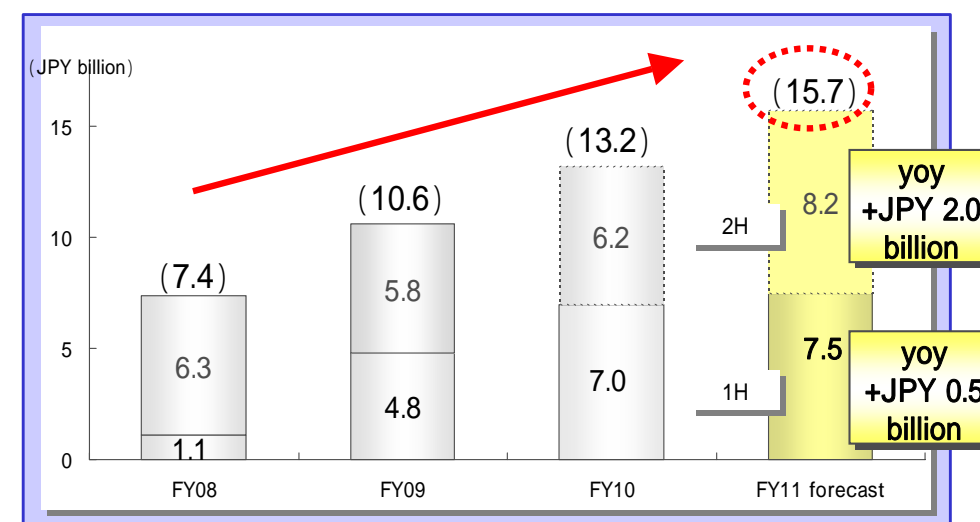
- Ordinary profit **JPY 26.1billion** (yoy +JPY 3.1 billion +13.5%)
- Net income **JPY 15.7 billion** (yoy +JPY 2.5 billion +18.9%)

	FY10 (Actual)	FY11 (forecast)	(JPY billion)	
			change	change
Net interest income	79.5	75.8	-3.7	-
Net fee and commissions	17.6	18.4	0.8	-
Core gross banking profit	97.1	94.2	-2.9	-3.0%
(-) Expenses	58.4	57.8	-0.6	-
Core banking profit	38.7	36.4	-2.3	-5.9%
Gains/Losses from securities	1.8	3.5	1.7	-
Core banking profit	40.5	39.9	-0.6	-5.9%
Gains/Losses from stocks	-4.6	-3.6	1.0	-
(-) Credit costs	11.9	9.2	-2.7	-
Ordinary profit	23.0	26.1	3.1	13.5%
Net Income	13.2	15.7	2.5	18.9%
Consolidated Net Income	13.8	16.1	2.3	16.7%

Ordinary Income



Net Income



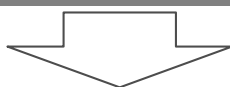
(2) Dividends

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

Dividend Policy and Payout Table

- (A) **Stable dividend**: Annual dividend of 5 yen per share
- (B) **Performance-based dividend**: If our consolidated net income exceeds JPY 18.0 billion, 20% of the surplus will be returned to our shareholders as dividend

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



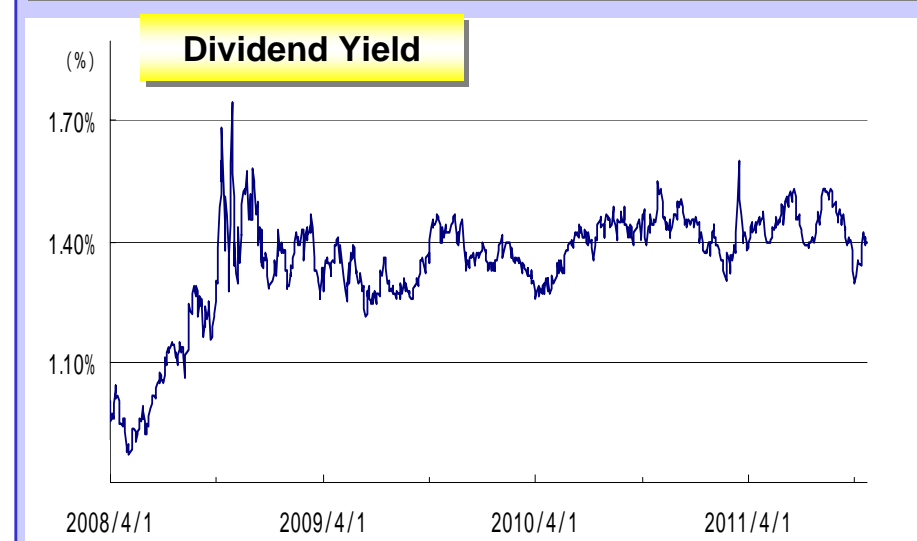
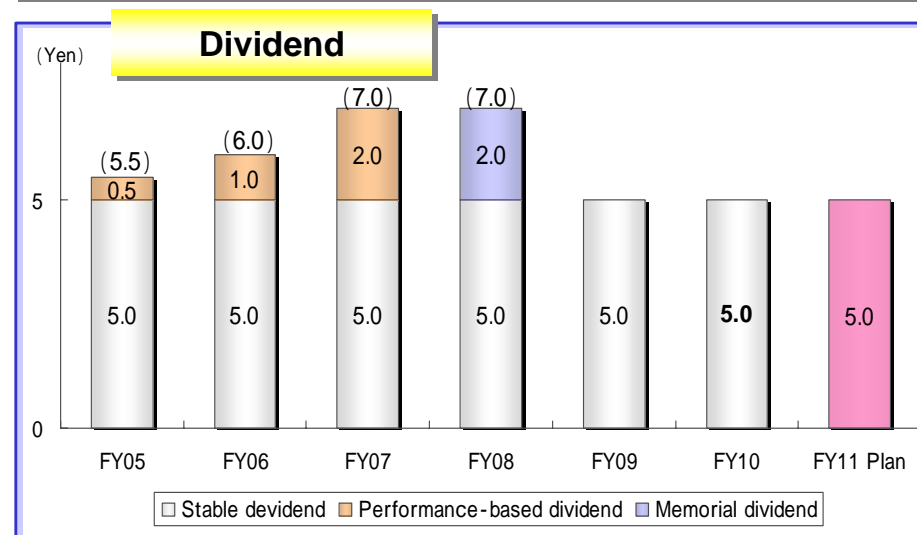
Dividend of 5 yen per share (annual) in FY2011 based on dividend policy and payout table.

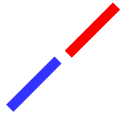
	Dividend per share (annual) FY11		
	Interim	Year-end(forecast)	
Dividend	2.5 Yen	2.5 Yen	5.0 Yen

Establishment of Preferential Time Deposit for Shareholders

To keep shareholders over a long period by making the bank the more attractive investment destination

Dividend and Dividend Yield





Reference for this material

This material contains statements about future business performance.

These statements do not guarantee future business performance and are subject to uncertainties.

Please note that actual future business performance may differ from our goals depending on changes in the business environment and other factors.

Management Planning Division, The Hiroshima Bank, Ltd.

Phone: 082-504-3823

FAX: 082-504-0171

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