ANNUAL REPORT 2000

HIROSHIMA BANK

Profile

Hiroshima Bank has put down deep roots in Hiroshima Prefecture, which has continually served as an economic, political and cultural center of the Chugoku and Shikoku regions.

During its long history, Hiroshima Bank has witnessed many economic and social changes, among the most notable of which is the unprecedented financial deregulation that has occurred in recent years. By adhering to sound management principles, the bank has been able to expand its earnings base and build a solid structural and organizational base capable of weathering change.

Hiroshima Bank has cultivated close ties to the local area and has made an ongoing effort to serve the region in which it makes its home. The bank's success undoubtedly stems from its having grown and developed as a "Hometown Bank" together with the community it serves. Having successfully laid the foundation to become one of the region's major financial institutions, Hiroshima Bank is now proud to count itself among Japan's largest regional financial institutions.

As of March 31, 2000, Hiroshima Bank had offices in 229 locations within Japan, securing it a place as one of the largest regional banks in the country. The bank has 3,832 employees, and assets totaling ¥5,689 billion (U.S.$53,597 million) on a non-consolidated basis.

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The Hiroshima Bank, Ltd.

Financial Highlights (Consolidated Basis)

March 31, 1999 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
For the Year:			
Total Income	¥ 166,766	**¥ 172,040**	**$ 1,620,725**
Total Expenses	160,985	**165,200**	**1,556,288**
Income (Loss) before Income Taxes	5,781	**6,840**	**64,437**
Net Income (Loss)	2,690	**3,367**	**31,719**
At Year-end:			
Total Assets	¥ 5,673,397	**¥ 5,643,161**	**$ 53,162,138**
Deposits	4,861,232	**4,941,861**	**46,555,449**
Loans and Bills Discounted	4,158,703	**3,858,804**	**36,352,369**
Securities	926,940	**956,030**	**9,006,406**
Stockholders' Equity	208,782	**209,150**	**1,970,325**

Note: The U.S. dollar amounts represent translation of Japanese yen at the exchange rate of ¥106.15 to U.S. $1.00 on March 31, 2000.

The Hiroshima Bank, Ltd.

Five Years of Growth (Non-consolidated Basis)

	Millions of Yen				
	1996	1997	1998	1999	**2000**
For the Year:					
Total Income	¥ 247,358	¥ 206,694	¥ 220,814	¥ 166,633	**¥ 171,868**
Total Expenses	276,057	200,690	259,730	161,611	**164,487**
Income (Loss) before Income Taxes	(28,699)	6,004	(38,916)	5,022	**7,381**
Net Income (Loss)	(43,023)	5,911	(39,032)	4,929	**4,595**
At Year-end:					
Total Assets	¥6,334,006	¥6,182,109	¥ 5,864,322	¥ 5,669,169	**¥ 5,689,322**
Deposits	5,478,785	5,270,534	4,907,268	4,862,592	**4,943,534**
Loans and Bills Discounted	4,402,049	4,359,682	4,306,542	4,174,474	**3,875,298**
Securities	1,096,285	1,145,870	919,843	927,480	**956,603**
Common Stock	51,980	51,980	51,980	51,980	**52,011**
Stockholders' Equity	176,514	179,363	137,268	170,011	**220,436**
Number of Offices	232	230	230	225	**229**
Number of Employees	4,313	4,201	4,006	3,892	**3,832**

Note: "Number of Offices" includes overseas branches and sub-branch offices.

Message from the Management

The financial industry is about to enter a period of unprecedented competition with the creation of mega-banks through mergers and consolidations of today's major banks. At the same time, groups from other sectors will begin targeting the banking business.

In anticipation of these changes, Hiroshima Bank appointed Makoto Uda and Sho Takahashi as Chairman of the Board and President, respectively, on June 29, 2000.

In so doing, it is our aim to maintain a competitive position in the region and prevail in the competition against other financial institutions. As prescribed under the Third Midterm Management Plan formulated in February 2000, we are concentrating management resources on our home ground and endeavoring to further satisfy customer needs.

We have also teamed up with the Bank of Fukuoka in sharing mainframe computer systems—an approach now drawing attention as a new form of affiliation. The project has been going according to schedule and will be completed by January 2003.

Management philosophies

1. Promote management and services that reflect the needs of the regional community
2. Devote ourselves to sound banking principles and solid operations
3. Provide comprehensive, cutting-edge financial services
4. Promote the creation of a cheerful, rewarding workplace

Q1. What were your biggest concerns when you became the new President of Hiroshima Bank?

What Hiroshima Bank has always wanted and will want most in the future is a management style that stays in touch with the region.

Hiroshima Bank announced its Structural Reforms: Promise for Our 120th Year in February 1998, prior to the opening of free competition with the Japanese Big Bang. Again, we manifested our credo—"staying with the banking business for the region"—by shifting a great deal of management resources from overseas and urban areas to our home ground. I am thoroughly convinced that this is the right approach and the bank will move forward in that direction indefinitely.

Hiroshima Bank not only functions as a financial intermediary in Hiroshima Prefecture but also provides related information rooted in the region. These functions, which only a regional bank can carry out, are critical to the regional economy, and I believe the proper performance of our role is the key element in Hiroshima Bank's relationship with the regional community.

Moreover, I intend to promote the transparency of management. Since it is the nature of this business that financial results continually fluctuate, we must gain the understanding and trust of the region, including our customers and stockholders, through the full disclosure of business conditions, whether positive or otherwise.

Q2. What image do you seek for the bank?

As Deputy President, I participated in the formulation of Reliance 21, the bank's long-term management plan, in August 1998. The management's vision toward the 21st century in Reliance 21 was defined as "the creation of a reliable Hiroshima Bank linked to the regional society by strong relationships of mutual trust."

To accomplish this, I want to build a bank that the regional community can rely on as a partner. We all know that it will be impossible to build that kind of relationship in a day, and all of us are committed to strive relentlessly toward that goal until we reach it. The important thing is that our efforts be genuine enough to win the community's trust.

Fortunately, Hiroshima Bank is blessed with the necessary management resources—human, infrastructural, monetary, and information-related. The regional community has also made big contributions to our management success. I will continue to make full use of these resources as we work to meet customer needs amid the bank's progressive, open culture.

Q3. How will you cope with future changes in the competitive environment?

The most important thing for a bank in an increasingly competitive environment is to develop and maintain sound management. In that regard, one of our philosophies is to "devote ourselves to sound banking principles and solid operations." That is why we have actively promoted write-offs and made steady reserves for bad assets even amid the recent economic recession. I believe we have succeeded in making satisfactory allowances for the bad assets that we expect to generate losses. We will keep safeguarding the integrity of our credit risk management system to stop more losses preemptively, before they occur.

As for services, we will be listening to the needs of all our customers in the region and providing support in various ways. The Third Midterm Management Plan fortifies our business power in the local region. The key to survival amidst the rising competition is to give customers in the region a sense of security: prove to them that they can always count on Hiroshima Bank for satisfying, comprehensive financial services. We should be at the top of the list of a customer's prospective banks—the bank that a customer trusts above all others.

Q4. What are the specifics of the Third Midterm Management Plan?

The First Midterm Management Plan was formulated along with the long-term plan, Reliance 21. At that time, the goal for net operating profit was set for ¥35.5 billion. In carrying out the associated Structural Reforms, however, we produced results faster than we had anticipated. We took advantage of this by upwardly revising the Second Midterm Management Plan of September 1999, and some months later we set more ambitious goals and revised the basic content of the plan. Our new strategy package was released in February 2000 as the Third Midterm Management Plan.

Basically, the management reforms that we have been carrying out under the New Structural Reforms of the Third Midterm Management Plan are in line with two core objectives: securing our competitive edge as a regional bank by restructuring more quickly, and increasing net operating profit to ¥55 billion by fiscal year 2002. The 'packaged' reform program consists of ten special-purpose programs, or "New Structural Reforms," including a drastic restructuring of operations through business strategy and channel reforms, as well as the execution of new human-resource policies matching the new era, including the realignment and retraining of the people working in our bank. For the time being, it is my mission to make sure that these reforms are properly executed.

Q5. What will the bank be doing to keep pace with the advancement of IT (information technologies)?

The advancement of IT makes it possible to deliver financial products and services more quickly, and more tailored to the customer's needs, than ever before. That is why it is so important that we keep our systems as up-to-date as possible, especially our computer systems. This will ensure our ability to provide comprehensive, state-of-the-art financial services.

When we consider the rapid pace of IT development and the enormous costs to sustain that development, however, it is clear that we are no longer in an era when regional financial institutions can "go it alone" with regard to IT investment.

Therefore, we need to incorporate superior expertise from outside sources in order to minimize the burden of investment in computer systems. Among other things, this will mean dispensing with proprietary, internally-developed systems. The collaboration with the Bank of Fukuoka on a joint mainframe system, agreed upon in January 2000, forms the core of this strategy. I believe this endeavor will enable us to develop a better and less expensive computer system for the two banks more quickly than previously possible.

IT is expected to continue evolving in various directions in the future, so of course I will be keeping myself informed on the latest advancements. On an ongoing basis, the bank will be using IT to achieve sounder banking management.

July 2000
Sho Takahashi
President

The Third Midterm Management Plan

The New Structural Reforms of the Third Midterm Management Plan (for the period from fiscal year 2000 to 2002) reflect Hiroshima Bank's commitment to building management structure that can survive the intense competition while winning the trust of customers and the financial market. This package includes policies that reach even the very core of management, including business strategy human-resource policy, and business processing.

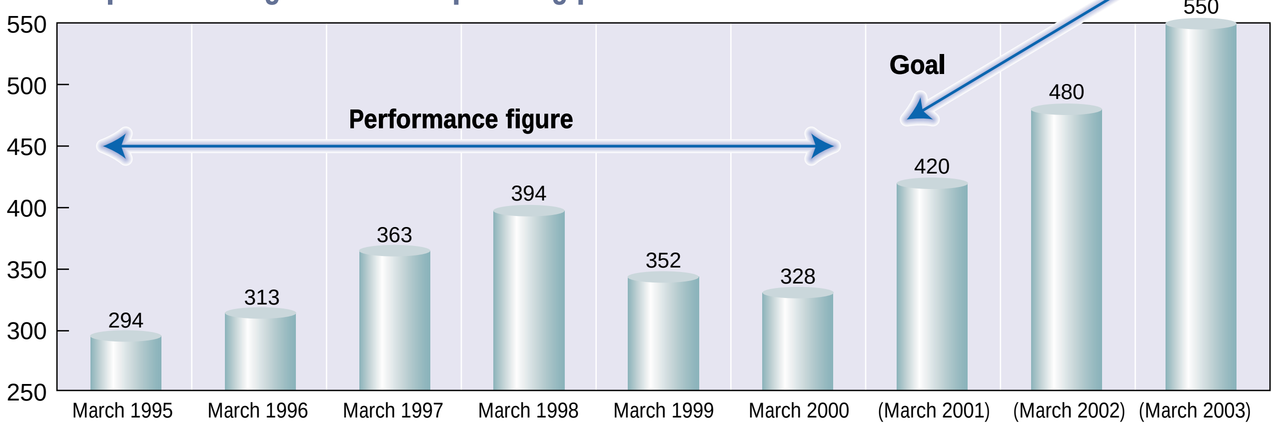
Management goals for the end of fiscal year 2002

Net operating profit	¥55 billion
Ratio of net worth to total capital (Tier 1 ratio)	10% (8%)
ROE (Note 1)	7%
OHR (Note 2)	53%
Number of employees	3,500

Notes: 1. ROE (return on equity) = Net income ÷ Shareholders' Equity
2. OHR (overhead ratio) = Operating Expense ÷ Gross profit

(Unit: ¥100 million)

Development and goals of net operating profit



The New Structural Reforms of the Third Midterm Management Plan have two new programs—"Reformation of awareness" and "cost reduction"—to go along with original eight ("business strategy reform," "sales channel reform," "human-resources policies reform," "personnel training reform," "business processing reform," "financial reform," "organizational reform," and "risk management"). Building up from the groundwork of these ten programs, we will strive constantly to promote the scope of the New Structural Reforms.

Progress of Joint System Development with the Bank of Fukuoka

On January 6, 2000, Hiroshima Bank entered an agreement with the Bank of Fukuoka regarding joint development of a mainframe system. By June 2000, the requirements from all the associated operations will be collected under a process known as “defining requirements.” Next, specific system design and system development phases will start from July 2000.

All joint systems will start operation in fiscal 2002, as scheduled before. However, systems ready for earlier introduction—such as the customer-data system for marketing and securities systems—should be put into use before fiscal 2002.

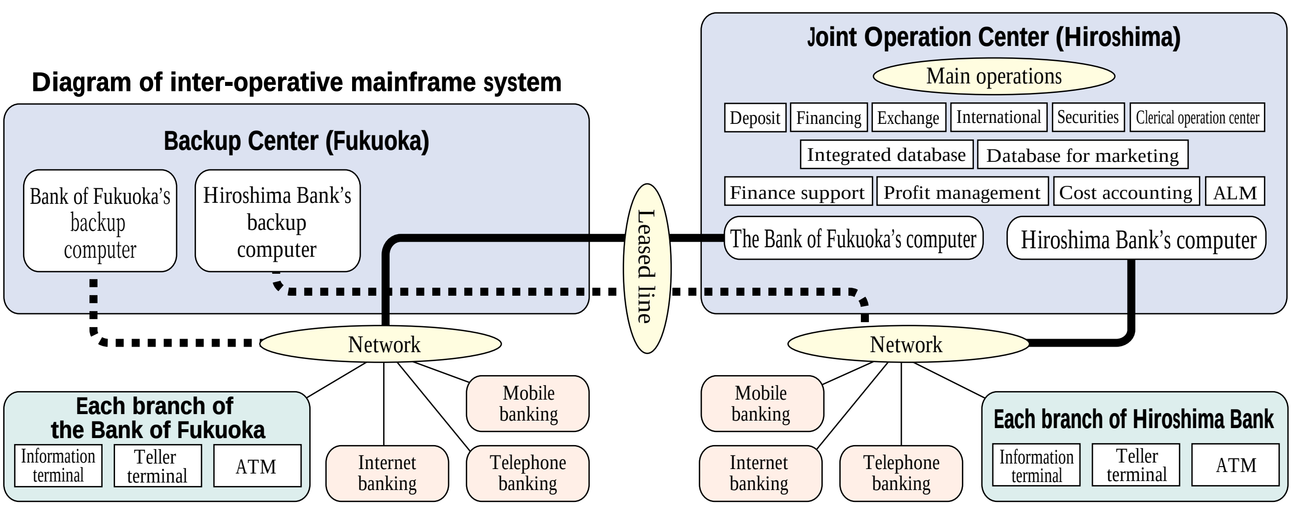
(1) Purposes of joint development in the mainframe system

1. Earlier implementation of competitive systems
   - The latest, state-of-the-art systems, which mark the highest level among Japanese banks, will allow us to provide quality products and services for our customers in the region.
   - Confident that the future will bring considerable growth in IT, we will invest surplus resources in our new IT strategy.
2. Cost reductions
   - Drastic reduction in development costs is expected.
   - We will consign the operation of the completed inter-operative mainframe system to IBM Japan.
   - New system functions will reduce system costs by approximately 30%.

(2) Content of joint development in the mainframe system

We will share the new joint-system as fully as possible in order to maximize its benefits. This will include systems for the transaction processing system, information, foreign exchange, securities, integrated databases, and various other functions.

Diagram of inter-operative mainframe system



Financial Review

Overview of Operations

During fiscal 1999, ended March 31, 2000, the overall Japanese economy began staging a mild recovery from the summer of 1999. Despite continued sluggish consumer spending, public investment maintained growth in response to government spending aimed at stimulating the economy, exports picked up on the back of economic recoveries in Asian countries, and housing investment increased. Consequently, brighter signs appeared as manufacturing activities achieved a gradual rise in capacity utilization rates after hitting bottom in the summer.

As with the national economy, the regional economy steadily turned upward, albeit with weak momentum. This recovery reflected such factors as an increase in Asian-bound exports and an improvement in housing investment. In the manufacturing sector, a greater number of industries attempted to raise their capacity utilization rates from the fall of 1999, especially export-oriented industries.

In the financial sector, market interest rates hovered at a low level because the official discount rate was held at 0.5%, the lowest level in history, and the Bank of Japan maintained its zero interest rate policy.

As a result, the Hiroshima Bank, Ltd., recorded the following consolidated business performance in the year under review.

Assets and Liabilities

Although the balance of outstanding loans was adversely affected by weak demand for funds stemming from stagnant economic conditions, the bank actively catered to the needs of regional companies and individual clients. Thus, the balance of loans extended to individual clients as well as small and medium-sized companies grew steadily. Nevertheless, the balance of loans extended to large companies and regional public entity declined, and the bank endeavored to accelerate the liquidation of non-performing loans to improve the soundness of its assets. Consequently, the overall loan balance reached ¥3,858.8 billion at the end of the fiscal year, representing a decrease of ¥299.9 billion during the year.

The balance of securities was ¥956.0 billion at the end of the fiscal year, marking a rise of ¥29.1 billion compared with the end of the previous year. This resulted from an increase in government bonds amid efforts to manage investments that take into account market trends.

As a result, total assets decreased ¥30.2 billion from the end of the previous fiscal year to ¥5,643.1 billion.

On the other hand, as the bank actively pursued business activities based on strong ties with the regional community, individual clients' deposits registered a favorable increase. Consequently, the balance of deposits grew ¥80.6 billion to reach ¥4,941.8 billion at the end of fiscal 1999.

Nevertheless, owing mainly to a decrease in call money and bills sold, as well as other liabilities, total liabilities declined ¥30.6 billion to ¥5,434.0 billion.

The ratio of net worth to total capital according to domestic standards was 8.44% as of March 31, 2000.

Income

During the year, the bank strove to invest and raise funds in an efficient manner and streamline management as a whole. The bank also made attempts not only to reinforce its earnings power but also to write off non-performing loans and set aside reserves for possible loan losses based on the voluntary and strict evaluation of our assets. As a result, net income rose ¥677 million to ¥3,367 million.

Cash Flows

Net cash provided by operating activities was ¥222.4 billion, as the bank endeavored to invest and raise funds in an efficient manner. In addition, while the bank considered the balance sheet in terms of liquidity and other such factors, net cash used in investing activities was ¥24 billion due to increased investment in securities. However, as the bank issued convertible bonds with the aim of strengthening its capital over the medium to long term, net cash provided by financing activities was ¥26.9 billion. As cash and cash equivalents recorded a net increase of ¥225.3 billion during the year, the balance at the end of the fiscal year was ¥310.3 billion on a consolidated basis.

Consolidated Balance Sheets

Years ended March 31, 1999 and 2000

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Cash and due from banks	¥ 149,807	**¥ 389,055**	**$ 3,665,144**
Call loans and bills purchased	174,372	**169,186**	**1,593,839**
Financial receivables purchased	36,886	**4,141**	**39,011**
Trading assets	3,814	**2,640**	**24,870**
Securities (Notes 2 and 4)	926,940	**956,030**	**9,006,406**
Loans and bills discounted (Notes 3 and 8)	4,158,703	**3,858,804**	**36,352,369**
Foreign exchanges	3,941	**2,605**	**24,541**
Other assets	24,006	**24,467**	**230,494**
Premises and equipment (Note 2)	115,588	**114,546**	**1,079,096**
Deferred tax assets (Note 7)	47,683	**52,590**	**495,431**
Customers' liabilities for acceptances and guarantees	149,448	**132,848**	**1,251,512**
Reserve for possible loan losses (Note 2)	(117,791)	**(63,744)**	**(600,509)**
Allowance for investment losses (Note 2)	–	**(7)**	**(66)**
	¥5,673,397	**¥5,643,161**	**$53,162,138**

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:			
Deposits (Note 4)	¥4,861,232	**¥4,941,861**	**$46,555,449**
Call money and bills sold (Note 4)	91,997	**8,492**	**80,000**
Trading liabilities	809	**465**	**4,381**
Borrowed money (Note 5)	158,089	**158,089**	**1,489,298**
Foreign exchanges	518	**279**	**2,628**
Bonds (Note 6)	34,500	**74,500**	**701,837**
Convertible bonds	6,145	**36,082**	**339,915**
Due to trust account	24	**24**	**226**
Other liabilities	125,551	**45,062**	**424,513**
Reserve for retirement allowances	8,123	**8,047**	**75,808**
Other reserves	5,821	**5,982**	**56,354**
Deferred tax liabilities for land revaluation reserve (Note2)	22,358	**22,280**	**209,892**
Acceptances and guarantees	149,448	**132,848**	**1,251,512**
Total liabilities	5,464,635	**5,434,011**	**51,191,813**
Stockholders' equity:			
Common stock, par value ¥50 per share:			
Authorized - 2,000,000,000 shares			
Issued - 612,553,143 shares in 1999 and			
612,707,546 shares in 2000	¥ 51,980	**¥ 52,011**	**$ 489,976**
Capital surplus	28,041	**28,073**	**264,465**
Land revaluation reserve, net of tax (Note 2)	30,876	**30,768**	**289,854**
Retained earnings	97,888	**98,300**	**926,048**
Common stock in treasury	(3)	**(2)**	**(18)**
Total stockholders' equity	208,782	**209,150**	**1,970,325**
	¥5,673,397	**¥5,643,161**	**$53,162,138**

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 1999 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
INCOME	1999	**2000**	**2000**
Interest income:			
Interest on loans and discounts	¥104,927	**¥ 98,890**	**$ 931,606**
Interest and dividends on securities	26,707	**21,877**	**206,095**
Other	7,190	**5,313**	**50,052**
Fees and commissions	15,365	**15,777**	**148,629**
Other operating income	3,623	**1,927**	**18,154**
Other income	8,954	**28,256**	**266,189**
	166,766	**172,040**	**1,620,725**
EXPENSES			
Interest expense:			
Interest on deposits	¥ 26,841	**¥ 17,048**	**$ 160,603**
Interest on borrowings and rediscounts	10,151	**6,860**	**64,625**
Other interest expense	10,328	**8,439**	**79,501**
Fees and commissions	6,078	**6,024**	**56,750**
Other operating expenses	3,772	**2,939**	**27,687**
General and administrative expenses	65,241	**65,436**	**616,448**
Other expenses	38,574	**58,454**	**550,674**
	160,985	**165,200**	**1,556,288**
Income before income taxes	5,781	**6,840**	**64,437**
Income taxes (Note 7):			
Current	98	**8,457**	**79,670**
Deferred	2,993	**(4,984)**	**(46,952)**
Net income	¥ 2,690	**¥ 3,367**	**$ 31,719**

	Yen		U.S. Dollars (Note 1)
Amounts per share of common stock:			
Net income	¥ 4.39	**¥ 5.49**	**$ 0.05**
Diluted net income	–	**5.15**	**0.05**
Cash dividends applicable to the year	5.00	**5.00**	**0.05**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 1999 and 2000

		Millions of Yen			
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Land revaluation reserve, net of tax	Retained earnings
Balance at March 31, 1998	612,553	¥51,980	¥28,041	¥ –	¥47,575
Cumulative effect of adopting deferred income tax accounting					50,685
Net income					2,690
Land revaluation reserve, net of tax				30,876	
Cash dividends paid					(3,062)
Balance at March 31, 1999	612,553	51,980	28,041	30,876	97,888
Net income					3,367
Conversion of convertible bonds	154	31	32		
Land revaluation reserve, net of tax				(108)	108
Cash dividends paid					(3,063)
Balance at March 31, 2000	612,707	¥52,011	¥28,073	¥30,768	¥98,300

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Land revaluation reserve, net of tax	Retained earnings
Balance at March 31, 1999	$489,684	$264,164	$290,871	$922,167
Net income				31,719
Conversion of convertible bonds	292	301		
Land revaluation reserve, net of tax			(1,017)	1,017
Cash dividends paid				(28,855)
Balance at March 31, 2000	$489,976	$264,465	$289,854	$926,048

See accompanying notes.

Consolidated Statement of Cash Flows

Year ended March 31, 2000

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2000	2000
Cash flows from operating activities:		
Income before income taxes	¥ 6,840	$ 64 ,437
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	2,799	26,368
Equity in losses(earnings) of affiliated companies	2,179	20,528
Net change in reserve for possible loan losses	(54,047)	(509,157)
Net change in allowance for investment losses	7	66
Net change in reserve for possible losses on sale of loans	161	1,517
Net change in reserve for retirement allowances	(76)	(716)
Interest income	(126,080)	(1,187,753)
Interest expenses	32,347	304,729
Net (gain) loss related to securities transactions	(20,286)	(191,107)
Net (gain) loss from disposition of premises and equipment	321	3,024
Net change in trading assets	1,174	11,060
Net change in trading liabilities	(344)	(3,241)
Net change in loans	299,899	2,825,238
Net change in deposits	80,629	759,576
Net change in due from banks excluding the amount for THE BANK OF JAPAN	(13,906)	(131,003)
Net change in call loans and bills purchased	37,931	357,334
Net change in call money and bills sold	(83,505)	(786,670)
Net change in collateral money for bond repurchase trade	(82,282)	(775,148)
Net change in foreign exchanges - asset account	1,336	12,586
Net change in foreign exchanges - liability account	(239)	(2,252)
Proceeds from issuance and maturity of ordinary bonds	40,000	376,825
Interest received	127,230	1,198,587
Interest paid	(37,810)	(356,194)
Other - net	8,876	83,617
Subtotal	216,314	2,037,814
Income taxes paid	(697)	(6,566)
Total adjustments	215,617	2,031,248
Net cash provided by operating activities	222,457	2,095,685
Cash flows from investing activities:		
Purchases of securities	(359,282)	(3,384,663)
Proceeds from sales of securities	206,794	1,948,130
Proceeds from maturity of securities	130,194	1,226,510
Purchases of premises and equipment	(2,257)	(21,262)
Proceeds from sales of premises and equipment	491	4,625
Net cash used in investing activities	(24,060)	(226,660)
Cash flows from financing activities:		
Proceeds from issuance of subordinated bonds and convertible bonds	30,000	282,619
Dividends paid	(3,063)	(28,855)
Other - net	0	0
Net cash provided by financing activities	26,937	253,764
Foreign currency translation adjustments	6	56
Net change in cash and cash equivalents	225,340	2,122,845
Cash and cash equivalents at beginning of the year	85,003	800,782
Cash and cash equivalents at the end of the year (Note 9)	¥310,343	$2,923,627

See accompanying notes.

Notes to Consolidated Financial Statements

March 31, 1999 and 2000

1. Basis of presenting consolidated financial statements

The Hiroshima Bank, Ltd., (the "Bank") and its consolidated subsidiaries principally maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Bank which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Bank and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of stockholders' equity have been prepared for inclusive in the consolidated financial statements although such statements are not customarily prepared in Japan and not filed with MOF.

The accompanying consolidated financial statements and the notes should be read in conjunction with the non-consolidated financial statements and notes thereto. In preparing the notes to consolidated financial statements, certain notes found in the non-consolidated financial statements have been omitted.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation – The consolidated financial statements include the accounts of the Bank and all of its majority-owned subsidiaries. The Bank includes the accounts of several companies which are less than 50% owned in the accompanying financial statements in case that the Bank has a controlling financial interests in these companies through cross-shareholdings, transfer of management by providing debt guarantees and loans. All significant intercompany balances and transactions have been eliminated.

Investments in 20% to 50% owned companies are carried at cost adjusted for equity in undistributed earnings or losses since acquisition (the equity method). The Bank also applies the equity method for investments in certain companies which are less than 20% owned in case that the Bank is able to exercise significant influence over these companies.

Consequently, the consolidated financial statements include the account of the bank, seven subsidiaries and four affiliated companies.

Consolidated Statements of Cash Flows and Cash Equivalents – In preparing the consolidated statements of cash flows, cash and due from THE BANK OF JAPAN are considered to be a cash and cash equivalents. In accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc."(the "New Standards"), effective from the ended year March 31, 2000, the Bank is required to prepare consolidated cash flow statements .

Trading assets and trading liabilities – The Bank adopted mark-to-market accounting for trading assets and trading liabilities including securities, monetary claims and financial derivatives for trading purpose. Trading assets and trading liabilities are recorded on a trade date basis, and revenues and expenses related to trading securities transactions are also recorded on a trade date basis. Securities and monetary claims for trading purpose are valued at market or fair value at the balance sheet date. Financial derivatives such as futures and option transactions are valued at a deemed settlement amount at the balance sheet date. Unrealized gains or losses incurred by the mark-to-market method are charged to income.

Securities
Securities are stated at cost, which is determined by the moving average method.

Effective from the year ended March 31, 2000, the allowance for investment losses is provided as a valuation account for securities on the balance sheet.

2. Significant accounting policies(cont'd)

Premises and equipment – Premises and equipment except for certain land used for business operations, are stated at cost less accumulated depreciation. The Bank and its most subsidiaries depreciate their premises and equipment under the declining balance method over their estimated useful lives as stipulated by the Japanese corporation tax regulations.

Pursuant to the Law concerning Revaluation of Land (the "Law"), certain land for business operations as at March 31, 1998 was revalued at fair value. Due to the revaluation, land was appreciated by ¥53,429 million to ¥71,380 million as at March 31, 1998, and the related net realized gain was reported in liabilities as "Land revaluation reserve ".Effective March 31, 1999, the Law has been revised for presentation of the unrealized gain. According to the revised Law, net unrealized gain reported in liabilities shall be reclassified in a separate component of stockholders' equity net of applicable income taxes as "Land revaluation reserve, net of tax" as of March 31, 1999. According to the revised Law, the Bank is not permitted to revalue the land at any time even in case that the fair value of the land declines. Such unrecorded revaluation loss as of March 31, 2000 was ¥11,652 million ($ 109,769 thousand).

Software cost
Software for using in the Bank is amortized in the term which can be used (5 years).

In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc.", the Bank accounts for software which was included in other assets in the same manner in 2000 as in 1999. The Bank includes software in other assets pursuant to the Uniform Rules of Bank Accounting Standard like previous year.

Foreign currency translation – The consolidated financial statements of the Bank are maintained in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates.

Reserve for possible loan losses – In accordance with the amended Banking Law of Japan, for the year ended March 31, 1998, the Bank revised its policies for write off of loans and making provisions for possible loan losses. And these policies have been applied in 1999 and 2000. For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to available security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after evaluating the customer's overall financial conditions. For other loans, the reserve for possible loan losses is provided based on the Bank's actual rate of loan losses in the past.

Consolidated subsidiaries provide the reserve for possible loan losses mainly based on the actual rate of loan losses in the past.

All branches and the credit supervision department evaluate all loans in accordance with the self-assessment rule, and their evaluations are audited by the asset audit section, which is independent from branches and credit supervision department, and the evaluations are revised as required based on the audits.

Secured and guaranteed loans which are for insolvent borrowers or in a similar financial condition are disclosed based on the amount of loans net of amounts expected not to be collected through disposition of collateral or through execution of guarantees. Such amount directly set off against those loans amount to ¥69,755 million ($657,136 thousand).

Effective from the year ended March 31, 2000, the reserve for possible loan losses is presented as a valuation account on the balance sheet. The change decreased the assets and the liabilities by ¥63,744 million ($600,509 thousand) at March 31, 2000 compared with the previous presentation.

Reserve for retirement allowances and pension plans – The reserve for retirement allowances of the Bank and subsidiaries represent s the amount which would be required if all employees were to voluntarily terminate their employment at the balance sheet date.

2. Significant accounting policies(cont'd)

In addition the Bank has an unfunded lump sum benefit plan and a funded pension plan, generally covering all employees.

Income taxes – The Bank and its consolidated subsidiaries adopt the accounting that recognizes tax effect of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

Under the accounting policy adopted in 1999, the provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities.

The cumulative effect of adopting deferred income tax accounting of ¥50,685 million was a credit to the retained earnings brought forward from March 31, 1998.

Accounting for certain lease transactions – Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Amounts per share – Computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share for 2000 was ¥5.15. Diluted net income per share is computed based on the weighted average number of shares of common stock and contingent issuance of common stock from convertible bonds.

Cash dividends per share represent the actual amounts declared as applicable to the respective years.

3. Loans and bills discounted

Doubtful loans of loans and bills discounted at March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	¥34,374	**¥11,132**	**$104,870**
Loans past due six months or more	55,616	**25,150**	**236,929**
Accrual loans past due three months or more	16,777	**9,792**	**92,247**
Restructured loans, including loans to supported companies	¥56,283	**¥39,917**	**$376,043**

In addition the Bank stopped accruing interest based on the results of self-assessment, and loans to borrowers under bankruptcy proceeding increased by ¥63 million ($593 thousand), and loans past due six months or more increased by ¥4,502 million ($42,412 thousand), as compared with previous year.

4. Assets pledged

At March 31, 2000, the following assets were pledged as collateral for certain liabilities of the Bank and subsidiaries.

	Millions of Yen	Thousands of U.S. Dollars
	2000	**2000**
Securities	**¥26,389**	**$248,601**

The collateral was pledged to secure:

	Millions of Yen	Thousands of U.S. Dollars
	2000	**2000**
Deposits	**¥15,852**	**$149,335**
Call money and bills sold	**8,492**	**80,000**

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as, foreign exchange contracts, and forward exchange contracts. These securities amounted to ¥94,211 million ($887,527 thousand) at March 31, 2000.

5. Borrowed money

Borrowed money included subordinated loans totaling ¥127,000 million ($1,196,420 thousand) at March 31, 2000.

6. Bonds

Bonds included subordinated bonds totaling ¥34,500 million ($325,012 thousand) issued by Hiroshima Finance (Cayman) Limited, a consolidated subsidiary.

7. Income taxes

The Bank is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 47% for the year ended March 31, 1999. Effective April 1, 1999, the statutory tax rate is to be changed to approximately 42%.

The following table summarizes the significant differences between the statutory tax rate and the Bank's effective tax rate for financial statement purposes for the years ended March 31, 1999 and 2000.

	1999	2000
Statutory tax rate	**47.0%**	**42.0%**
Equity in losses of affiliated companies	**16.0**	**13.4**
Non-deductible expenses (Entertainment expense etc)	**4.0**	**2.3**
Non-taxable income (Dividend income etc)	**(9.0)**	**(7.6)**
Change of tax rates	**(6.2)**	**–**
Other	**1.6**	**0.6**
Effective tax rate	**53.4%**	**50.7%**

Significant components of deferred tax assets as of March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Reserve for possible loan losses	¥33,297	**¥42,133**	**$396,920**
Devaluation of securities	3,924	**1,313**	**12,369**
Other reserves	2,445	**2,512**	**23,665**
Net operating losses	2,320	**–**	**–**
Reserve for retirement allowances	2,074	**2,086**	**19,651**
Depreciation	2,011	**1,833**	**17,268**
Other	1,612	**2,713**	**25,558**
Total deferred tax assets	¥47,683	**¥52,590**	**$495,431**

8. Related party transactions

The Bank provided financial assistance to 5% owned Hirogin Lease Co, Ltd. (HL) for the purpose of supporting their charge-off of non-performing loans. In 1999 and 2000 the Bank paid ¥1,500 million and ¥2,900 million ($27,320 thousand) to HL, respectively.

9. Cash and cash equivalents

The reconciliation of cash and due from bank in the consolidated balance sheet and cash and cash equivalents in the consolidated statement of cash flows at March 31, 2000, is as follows.

	Millions of Yen	Thousands of U.S. Dollars
	2000	**2000**
Cash and due from banks	**¥389,055**	**$3,665,144**
Current deposits with banks	**(595)**	**(5,605)**
Ordinary deposits with banks	**(926)**	**(8,724)**
Time deposits with banks	**(15,005)**	**(141,357)**
Foreign currency deposits with bank	**(62,186)**	**(585,831)**
Cash and cash equivalents	**¥310,343**	**$2,923,627**

Non-cash transactions considered to be material are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2000	**2000**
Increase in common stock from conversion of convertible bonds	**¥31**	**$292**
Increase in capital surplus from conversion of convertible bonds	**32**	**301**
Decrease in convertible bonds	**¥63**	**$593**

10. Market value information and derivatives

The Bank actively enters into derivative transactions to mitigate interest rate risk and liquidity risk of foreign currencies in the normal course of asset-liability management.

The Bank also deals with forward exchange contracts, currency swaps and interest rate swaps to meet customers needs in the inter-bank markets. The Bank does not have large outstanding positions related to customers' deals. The Bank engages in derivatives such as forward currency exchange contracts and interest rate futures for its proprietary trading activity, considering risk management. The Bank does not trade high-risk products such as leveraged transactions.

Derivative transactions are accompanied by losses arising from credit risk and losses resulting from market risk. Credit risk represents the potential loss arising from the transaction partner's breaching the contract. Market risk represents the potential loss arising from fluctuations in interest and exchange rate. To cope with increasing risks, the Bank is strengthening its credit reviewing system, monitoring position limits, and establishing effective internal control organization.

The unrealized gains on securities were ¥39,279 million ($370,033 thousand) at March 31, 2000.

The notional principal amount and unrealized gains or losses of financial derivatives traded over the counter (OTC derivatives) held for non-trading purpose at March 31, 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Notional principal amount	Unrealized gains (losses)	Notional principal amount	Unrealized gains (losses)
At March 31, 2000:				
Interest rate swap and other contracts	**¥256,259**	**¥(1,920)**	**$2,414,122**	**$(18,088)**
Currency swap	**316,465**	**6,641**	**2,981,300**	**62,562**
Forward exchange	**31,008**	**–**	**292,115**	**–**
Currency option	**1,208**	**–**	**11,380**	**–**

Disclosure of market value information and derivatives at at March 31, 1999 was required only on a non-consolidated basis.

The unrealized gains or losses of forward exchange contracts and currency options were recorded in the accompanying statements of income.

11. Subsequent event

LIFE CO., LTD which is a customer of the Bank applied to the Tokyo District Court for application of the corporate reorganization law on May 19, 2000. Although the amount of the losses that the Bank may incur with respect to the loans and other receivables from LIFE CO., LTD is not determinable, the Bank expects that most part of these receivables will be covered by the collaterals and reserve for possible loan losses. The rest of the amount will be charged to income in the next interim fiscal period.

The amount of the loans and other receivables from LIFE CO., LTD amounted to ¥22,791million($214,705thousand) at June 29, 2000.

Report of Independent Public Accountants

To the Stockholders and the Board of Directors of THE HIROSHIMA BANK, LTD:

We have audited the accompanying consolidated balance sheets of THE HIROSHIMA BANK, LTD. and subsidiaries as of March 31, 1999 and 2000, the related consolidated statements of income, and stockholders' equity for the years ended March 31, 1999 and 2000, and the related consolidated statement of cash flows for the year ended March 31, 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of THE HIROSHIMA BANK, LTD. and subsidiaries as of March 31, 1999 and 2000, the consolidated results of their operations the years ended March 31, 1999 and 2000, and their cash flows for the year ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2000, THE HIROSHIMA BANK, LTD. and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and research, development and other costs.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1

Asahi & Co.

Hiroshima, Japan
June 29, 2000

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Non-Consolidated Balance Sheets

March 31, 1999 and 2000

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Cash and due from banks	¥ 149,807	**¥ 389,054**	**$ 3,665,134**
Call loans and bills purchased	174,372	**169,186**	**1,593,839**
Financial receivables purchased	36,886	**4,141**	**39,011**
Trading assets	3,814	**2,640**	**24,870**
Securities (Notes 2, 3 and 8)	927,480	**956,603**	**9,011,804**
Loans and bills discounted (Note 4)	4,174,474	**3,875,298**	**36,507,753**
Foreign exchanges (Note 5)	3,941	**2,605**	**24,541**
Other assets (Note 6)	23,624	**24,369**	**229,572**
Premises and equipment (Notes 7)	109,629	**107,924**	**1,016,712**
Deferred tax assets (Notes 2 and 20)	–	**54,402**	**512,501**
Customers' liabilities for acceptances and guarantees (Note 14)	183,948	**167,348**	**1,576,524**
Reserve for possible loan losses (Note 2)	(118,806)	**(64,238)**	**(605,163)**
Allowance for investment losses (Note 2)	–	**(10)**	**(94)**
	¥5,669,169	**¥5,689,322**	**$53,597,004**

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:			
Deposits (Notes 8 and 9)	¥4,862,592	**¥4,943,534**	**$46,571,211**
Call money and bills sold (Note 9)	91,997	**8,492**	**80,000**
Trading liabilities	809	**465**	**4,381**
Borrowed money (Note 10)	192,589	**192,589**	**1,814,310**
Foreign exchanges (Note 5)	518	**279**	**2,628**
Bonds	–	**40,000**	**376,825**
Convertible bonds (Note 11)	6,145	**36,082**	**339,915**
Due to trust account	24	**24**	**226**
Other liabilities (Note 12)	124,257	**43,837**	**412,972**
Reserve for retirement allowances	8,100	**7,974**	**75,120**
Other reserves (Note 13)	5,821	**5,982**	**56,354**
Deferred tax liabilities for land revaluation reserve (Note 2)	22,358	**22,280**	**209,892**
Acceptances and guarantees (Note 14)	183,948	**167,348**	**1,576,524**
Total liabilities	¥5,499,158	**¥5,468,886**	**$51,520,358**
Stockholders' equity:			
Common stock, par value ¥50 per share: Authorized - 2,000,000,000 shares Issued - 612,553,143 shares in 1999 and 612,707,546 shares in 2000	¥ 51,980	**¥ 52,011**	**$ 489,976**
Capital surplus	28,041	**28,073**	**264,465**
Legal reserve (Note 15)	38,340	**39,046**	**367,838**
Land revaluation reserve, net of tax (Note 2)	30,876	**30,768**	**289,854**
Retained earnings	20,774	**70,538**	**664,513**
Total stockholders' equity	170,011	**220,436**	**2,076,646**
	¥5,669,169	**¥5,689,322**	**$53,597,004**

See accompanying notes.

Non-Consolidated Statements of Income

Years ended March 31, 1998, 1999 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
INCOME	1998	1999	**2000**	**2000**
Interest income:				
Interest on loans and discounts	¥110,832	¥105,305	**¥ 99,265**	**$935,139**
Interest and dividends on securities	39,928	26,707	**21,877**	**206,095**
Other	12,865	7,190	**5,313**	**50,052**
Fees and commissions	15,462	15,441	**15,836**	**149,185**
Other operating income (Note 16)	11,520	3,031	**1,303**	**12,275**
Other income (Note 17)	30,207	8,959	**28,274**	**266,359**
	220,814	166,633	**171,868**	**1,619,105**
EXPENSES				
Interest expense:				
Interest on deposits	¥ 47,160	¥ 26,844	**¥ 17,050**	**$160,622**
Interest on borrowings and rediscounts	12,127	10,220	**6,859**	**64,616**
Other interest expense	13,435	10,328	**8,510**	**80,169**
Fees and commissions	5,253	5,223	**5,170**	**48,705**
Other operating expenses (Note 18)	4,295	3,772	**2,939**	**27,687**
General and administrative expenses	69,608	65,656	**66,057**	**622,299**
Other expenses (Note 19)	107,852	39,568	**57,902**	**545,473**
	259,730	161,611	**164,487**	**1,549,571**
Income (Loss) before income taxes	(38,916)	5,022	**7,381**	**69,534**
Income taxes (Notes 2 and 20)				
Current	116	93	**8,437**	**79,482**
Deferred	–	–	**(5,651)**	**(53,236)**
Net income (loss)	¥ (39,032)	¥ 4,929	**¥ 4,595**	**$ 43,288**

	Yen			U.S. Dollars (Note 1)
Amounts per share of common stock:				
Net income (loss)	¥ (63.72)	¥ 8.04	**¥ 7.50**	**$ 0.07**
Diluted net income	–	–	**7.00**	**0.06**
Cash dividends applicable to the year	5.00	5.00	**5.00**	**0.05**

See accompanying notes.

Non-Consolidated Statements of Stockholders' Equity

Years ended March 31, 1998, 1999 and 2000

	Number of shares of common stock (thousands)	Millions of Yen				
		Common stock	Capital surplus	Legal reserve	Land revaluation reserve, net of tax	Retained earnings
Balance at March 31, 1997	612,553	¥51,980	¥28,041	¥36,928	¥ –	**¥62,414**
Net income (loss)						**(39,032)**
Cash dividends paid						**(3,063)**
Transfer to legal reserve				706		**(706)**
Balance at March 31, 1998	612,553	51,980	28,041	37,634		**19,613**
Net income						**4,929**
Land revaluation reserve, net of tax					30,876	
Cash dividends paid						**(3,062)**
Transfer to legal reserve				706		**(706)**
Balance at March 31, 1999	**612,553**	**51,980**	**28,041**	**38,340**	**¥30,876**	**20,774**
Net income						**4,595**
Conversion of convertible bonds	**154**	**31**	**32**			
Cumulative effect of adopting deferred income tax accounting						**48,830**
Land revaluation reserve, net of tax					**(108)**	**108**
Cash dividends paid						**(3,063)**
Transfer to legal reserve				**706**		**(706)**
Balance at March 31, 2000	**612,707**	**¥52,011**	**¥28,073**	**¥39,046**	**¥30,768**	**¥70,538**

	Thousands of U.S. Dollars (Note 1)				
	Common stock	Capital surplus	Legal reserve	Land revaluation reserve, net of tax	Retained earnings
Balance at March 31, 1999	**$489,684**	**$264,164**	**$361,187**	**$290,871**	**$195,704**
Net income					**43,288**
Conversion of convertible bonds	**292**	**301**			
Cumulative effect of adopting deferred income tax accounting					**460,010**
Land revaluation reserve, net of tax				**(1,017)**	**1,017**
Cash dividends paid					**(28,855)**
Transfer to legal reserve			**6,651**		**(6,651)**
Balance at March 31, 2000	**$489,976**	**$264,465**	**$367,838**	**$289,854**	**$664,513**

See accompanying notes.

Notes to Non-Consolidated Financial Statements

March 31, 1998, 1999 and 2000

1. Basis of presenting non-consolidated financial statements

The Hiroshima Bank, Ltd., (the Bank) maintains its accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying non-consolidated financial statements are a translation of the audited non-consolidated financial statements of the Bank which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Bank and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying non-consolidated financial statements, certain reclassifications have been made in the non-consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of stockholders' equity have been prepared for inclusive in the consolidated financial statements although such statements are not customarily prepared in Japan and not filed with MOF.

The non-consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Reporting entity – The financial statements report only the accounts of the Bank and the accounts of its subsidiaries are not consolidated. Investments in unconsolidated subsidiaries and affiliated companies (20% to 50% owned and certain others 15% to 20% owned) are stated at cost.

Trading assets and trading liabilities -The Bank adopted mark-to-market accounting for trading assets and trading liabilities including securities, monetary claims and financial derivatives for trading purpose. Trading assets and trading liabilities are recorded on a trade date basis, and revenues and expenses related to trading securities transactions are also recorded on a trade date basis. Securities and monetary claims for trading purpose are valued at market or fair value at the balance sheet date. Financial derivatives such as futures and option transactions are valued at a deemed settlement amount at the balance sheet date. Unrealized gains or losses incurred by the mark-to-market method are charged to income.

Securities

Securities are stated at cost, which is determined by the moving average method.

Effective from the year ended March 31 , 2000 , the allowance for investment losses is provided as a valuation account for securities on the balance sheet.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the declining balance method over their estimated useful lives as stipulated by the Japanese corporation tax regulations.

Also effective April 1, 1998, the Bank shortened the estimated useful lives of buildings, excluding building fixtures in accordance with revisions of the Japanese corporation tax regulations.

Pursuant to the Law concerning Revaluation of Land (the "Law"), certain land for business operations as at March 31, 1998 was revalued at fair value. Due to the revaluation, land was appreciated by ¥53,429 million to ¥71,380 million as at March 31, 1998, and the related net realized gain was reported in liabilities as "Land revaluation reserve". Effective March 31, 1999, the Law has been revised for presentation of the unrealized gain. According to the revised Law, net unrealized gain reported in liabilities shall be reclassified in a separate component of stockholders' equity net of applicable income taxes as "Land revaluation reserve, net of tax" as of March 31, 1999. According to the revised Law, the Bank is not permitted to revalue the land at any time even in case that the fair value of the land declines. Such unrecorded revaluation loss as of March 31, 2000 was ¥11,652 million ($ 109,769 thousand).

2. Significant accounting policies(cont'd)

Software cost
Software for using in the Bank is amortized in the term which can be used (5 years).

In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc.", the Bank accounts for software which was included in other assets in the same manner in 2000 as in 1999. The Bank includes software in other assets pursuant to the Uniform Accounting Standard like previous year.

Bond issuance cost
All costs incurred in connection with issuance of bonds are charged to expense as incurred.

Foreign currency translation – The financial statements of the Bank are maintained in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates.

Reserve for possible loan losses – In accordance with an amendment of the Banking Law of Japan, for the year ended March 31, 1998, the Bank revised its policies for write off of loans and making provisions for possible loan losses. And these policies has been applied in 1999 and 2000. For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to available security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after evaluating the customer's overall financial conditions. For other loans, the reserve for possible loan losses is provided based on the Bank's actual rate of loan losses in the past.

Reserve for possible loan losses at March 31, 1999 and 2000 in the accompanying non-consolidated balance sheets included the reserve for the write-off of specific loans identified by management amounting to ¥104,235 million and ¥45,518 million ($428,808 thousand), respectively, and the reserve for possible losses for certain specific overseas loans amounting to ¥709 million and ¥241 million ($2,270 thousand), respectively.

All branches and the credit supervision department evaluate all loans in accordance with the self-assessment rule, and their evaluations are audited by the asset audit section, which is independent from branches and credit supervision department, and the evaluations are revised as required based on the audits.

Secured and guaranteed loans which are for insolvent borrowers or in a similar financial condition are disclosed based on the amount of loans net of amounts expected not to be collected through disposition of collateral or through execution of guarantees. Such amount directly set off against those loans amount to ¥69,755 million ($657,136 thousand).

Effective from the year ended March 31 , 2000 , the reserve for possible loan losses is presented as a valuation account on the balance sheet. The prior year's amount, which was presented in the liabilities section, has been reclassified to conform to the 2000 presentation. This change decreased the assets and the liabilities at March 31, 2000 by ¥64,238 million ($605,163 thousand) compared with the previous presentation.

Reserve for retirement allowances and pension plans – The Bank has an unfunded lump sum benefit plan and a funded pension plan, generally covering all employees.

Under the terms of the lump-sum benefit plan, eligible employees are entitled, under most circumstances, upon reaching mandatory retirement age or earlier voluntary termination to a lump-sum retirement payment based on compensation at the time of retirement and years of service.

The reserve for retirement allowances is stated at an amount which would be required, less the amount of the pension fund, if all employees covered by the retirement benefit plan voluntarily terminated their employment at the balance sheet date.

2. Significant accounting policies(cont'd)

Income taxes – Income taxes are provided for amounts currently payable for the year ended March 31, 1999. Effective April 1, 1999, the Bank adopted deferred tax accounting based on the new accounting standard in Japan. As required, deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of asset and liabilities. Prior years' financial statements have not been restated. The effect of adopting deferred income tax accounting increased the assets and shareholders' equity by ¥54,402 million ($512,501 thousand) and increased net income by ¥5,651 million ($53,236 thousand).

Accounting for certain lease transactions – Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Amounts per share – Computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share for 2000 was ¥7.00. Diluted net income per share is computed based on the weighted average number of shares of common stock and contingent issuance of common stock from convertible bonds.

Cash dividends per share represent the actual amounts declared as applicable to the respective years

Reclassifications – Certain amounts in the 1998 and 1999 non-consolidated financial statements have been reclassified to conform with the 2000 presentation.

3. Securities

Securities at March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
National government bonds	¥308,121	**¥314,699**	**$2,964,663**
Local government bonds	38,679	**91,893**	**865,690**
Corporate bonds	226,248	**254,812**	**2,400,490**
Shares	212,090	**195,575**	**1,842,440**
Other securities	142,342	**99,624**	**938,521**
	¥927,480	**¥956,603**	**$9,011,804**

4. Loans and bills discounted

Loans and bills discounted at March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Bills discounted	¥ 137,489	**¥ 125,316**	**$ 1,180,556**
Loans on notes	711,858	**663,806**	**6,253,471**
Loans on deeds	2,482,031	**2,366,311**	**22,292,143**
Overdrafts	843,096	**719,865**	**6,781,583**
	¥4,174,474	**¥3,875,298**	**$36,507,753**

4. Loans and bills discounted (cont'd)

Doubtful loans at March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	¥34,374	**¥11,132**	**$104,870**
Loans past due six months or more	55,616	**25,150**	**236,929**
Accrual loans past due three months or more	16,777	**9,792**	**92,247**
Restructured loans, including loans to supported companies	56,283	**39,917**	**376,043**

In addition the Bank stopped accruing interest based on the results of self-assessment, and loans to borrowers under bankruptcy proceeding increased by ¥63 million ($593 thousand), and loans past due six months or more increased by ¥4,502 million ($42,412 thousand), as compared with previous year.

5. Foreign exchanges

Foreign exchange assets and liabilities are March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Assets:			
Due from foreign banks	¥ 132	**¥ 637**	**$ 6,001**
Foreign exchange bills bought	710	**471**	**4,437**
Foreign exchange bills receivable	3,099	**1,497**	**14,103**
	¥3,941	**¥2,605**	**$ 24,541**
Liabilities:			
Due to foreign banks	¥ 6	**¥ 13**	**$ 122**
Foreign exchange bills sold	208	**257**	**2,421**
Foreign exchange bills payable	304	**9**	**85**
	¥ 518	**¥ 279**	**$ 2,628**

6. Other assets

Other assets at March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Domestic exchange settlement account	¥ 181	**¥ 17**	**$ 160**
Prepaid expenses	341	**281**	**2,648**
Accrued income	11,918	**10,867**	**102,374**
Other	11,184	**13,204**	**124,390**
	¥23,624	**¥24,369**	**$229,572**

7. Premises and equipment

Premises and equipment at March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Land, buildings and equipment	¥154,681	**¥150,583**	**$ 1,418,587**
Construction in progress	160	**62**	**584**
Guaranty money deposited	6,732	**6,602**	**62,195**
	161,573	**157,247**	**1,481,366**
Less accumulated depreciation	51,944	**49,323**	**464,654**
	¥109,629	**¥107,924**	**$ 1,016,712**

8. Assets Pledged

At March 31, 2000, the following assets were pledged as collateral for certain liabilities of the Bank :

	Millions of Yen	Thousands of U.S. Dollars
	2000	**2000**
Securities	**¥26,389**	**$248,601**

The collateral was pledged to secure:

	Millions of Yen	Thousands of U.S. Dollars
	2000	**2000**
Deposits	**¥15,852**	**$149,335**
Call money	**8,492**	**80,000**

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as, foreign exchange contracts, and forward exchange contracts. These securities amounted to ¥94,211 million ($887,527 thousand) at March 31, 2000.

9. Deposits

Deposits at March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Current deposits	¥ 166,587	**¥ 175,691**	**$ 1,655,120**
Ordinary deposits	1,009,324	**1,138,946**	**10,729,590**
Deposits at notice	85,381	**101,365**	**954,922**
Time deposits	3,010,119	**3,015,055**	**28,403,721**
Other	561,081	**485,747**	**4,576,044**
	4,832,492	**4,916,804**	**46,319,397**
Negotiable certificates of deposits	30,100	**26,730**	**251,814**
	¥4,862,592	**¥4,943,534**	**$46,571,211**

10. Borrowed money

Borrowed money included subordinated loans totaling ¥161,500 million and ¥161,500 million ($1,521,432 thousand) at March 31, 1999 and 2000, respectively.

11. Convertible bonds

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
1.8% due 2002, convertible into common stock at ¥994.70 per share	¥ 6,145	**¥ 6,145**	**$ 57,890**
0.4% due 2003, convertible into common stock at ¥408.00 per share	–	**29,937**	**282,025**
	¥ 6,145	**¥ 36,082**	**$339,915**

12. Other liabilities

Other liabilities at March 31, 1999 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	**2000**	**2000**
Domestic exchange settlement account	¥ 1,541	**¥ 1,187**	**$ 11,182**
Income taxes payable	244	**7,868**	**74,122**
Accrued expenses	25,693	**20,453**	**192,680**
Unearned income	5,366	**5,260**	**49,553**
Employees' saving deposits	1,810	**1,492**	**14,055**
Securities loaned	82,282	**–**	**–**
Other	7,321	**7,577**	**71,380**
	¥124,257	**¥ 43,837**	**$412,972**

Securities lending activities are accounted for as financing transactions. Securities loaned that are cash collateralized are recorded in liabilities at the amount of cash collateral received.

13. Other reserves

Other reserves at March 31, 1999 and 2000 consisted of reserve for possible losses on sale of loans, which was provided for contingent losses arising from decline of market value of collateralized real estate for loans assigned to the Cooperative Credit Purchasing Company, Limited.

14. Acceptances and guarantees

All commitments and contingent liabilities arising in compliance with customers' needs in foreign trade and other transactions are included in "acceptances and guarantees". As a contra account "customers' liabilities for acceptances and guarantees" is shown on the asset side representing the Bank's right of indemnity from customers.

15. Legal reserve

The Banking Law of Japan provides that an amount equal to at least 20% of cash dividends and bonuses to directors and statutory auditors shall be appropriated and set aside as a legal reserve until such reserves equals 100% of common stock.

16. Other operating income

Other operating income for the years ended March 31, 1998, 1999 and 2000 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	1998	1999	**2000**	**2000**
Gain on sales and maturities of government bonds	¥10,663	¥1,966	**¥ 360**	**$ 3,391**
Foreign exchange gain	821	1,020	**925**	**8,714**
Other	36	45	**18**	**170**
	¥11,520	¥3,031	**¥1,303**	**$12,275**

17. Other income

Other income for the years ended March 31, 1998, 1999 and 2000 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	1998	1999	**2000**	**2000**
Gains on sale of shares and other securities	¥14,036	¥6,987	**¥26,960**	**$253,980**
Gain on money held in trust	26	–	**–**	**–**
Gain on disposal of premises	12,429	265	**32**	**302**
Other	3,716	1,707	**1,282**	**12,077**
	¥30,207	¥8,959	**¥28,274**	**$266,359**

18. Other operating expenses

Other operating expenses for the years ended March 31, 1998, 1999 and 2000 consisted of loss on sales and maturities of bond securities.

19. Other expenses

Other expenses for the years ended March 31, 1998, 1999 and 2000 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	1998	1999	**2000**	**2000**
Devaluation of securities	¥ 700	¥ 9,918	**¥ 2,407**	**$ 22,675**
Losses on money held in trust	1	–	**–**	**–**
Provision for possible loan losses	93,291	19,694	**45,225**	**426,048**
Write-off of claims	804	359	**192**	**1,809**
Other	13,056	9,597	**10,078**	**94,941**
	¥107,852	¥39,568	**¥57,902**	**$545,473**

20. Income taxes

Income taxes in the statements of income consist of corporation tax, inhabitant taxes and enterprise tax. The statutory tax rate was approximately 51%, 47% and 42% in 1998, 1999 and 2000, respectively. The effective tax rates differ from the statutory tax rate primarily as a result of temporary difference.

20. Income taxes(cont'd)

The following table summarizes the significant differences between the statutory tax rate and the Bank's effective tax rate for financial statement purposes for the years ended March 31, 2000.

	2000
Statutory tax rate	**42.0%**
Non-deductible expenses (Entertainment expense etc)	**2.1**
Non-taxable income (Dividend income etc)	**(7.0)**
Other	**0.6**
Effective tax rate	**37.7%**

Significant components of deferred tax assets as of March 31, 1999 and 2000 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2000	2000
Reserve for possible loan losses	**¥44,068**	**$415,148**
Reserve for possible losses on sale of loans	**2,512**	**23,665**
Reserve for retirement allowances	**2,064**	**19,444**
Depreciation	**1,833**	**17,268**
Devaluation of securities	**1,313**	**12,369**
Other	**2,612**	**24,607**
Total deferred tax assets	**¥54,402**	**$512,501**

21. Market value information and derivatives

The Bank actively enters into derivative transactions to mitigate interest rate risk and liquidity risk of foreign currencies in the normal course of asset-liability management.

The Bank also deals with forward exchange contracts, currency swaps and interest rate swaps to meet customers needs in the inter-bank markets. The Bank does not have large outstanding positions related to customers' deals. In the third place, the Bank engages in derivatives such as forward currency exchange contracts and interest rate futures for its proprietary trading activity, considering risk management. The Bank does not trade high-risk products such as leveraged transactions.

Derivative transactions are accompanied by losses arising from credit risk and losses resulting from market risk. Credit risk represents the potential loss arising from the transaction partner's breaching the contract. Market risk represents the potential loss arising from fluctuations in interest and exchange rate. To cope with increasing risks, the Bank is strengthening its credit reviewing system, monitoring position limits, and establishing effective internal control organization.

The unrealized gains on securities were ¥21,518 million at March 31, 1999.

21. Market value information and derivatives(cont'd)

The notional principal amount and unrealized gains or losses of financial derivatives traded over the counter (OTC derivatives) held for non-trading purpose at March 31, 1999 and 2000 were as follows:

The information of this year is included in the notes of consolidated financial statements.

	Millions of Yen	
	Notional principal amount	Unrealized gains (losses)
At March 31, 1999		
Interest rate swap and other contracts	**¥305,558**	**¥(7,179)**
Currency swap	**361,391**	**839**
Forward exchange	**26,670**	**–**
Currency option	**406**	**–**

The unrealized gains or losses of forward exchange contracts and currency options were recorded in the accompanying statements of income.

22. Subsequent event

The following appropriations of retained earnings applicable to the year ended March 31, 2000 were approved at the stockholders' meeting held on June 29, 2000.

	Millions of Yen	Thousands of U.S. Dollars
	2000	**2000**
Appropriations:		
Cash dividends (¥2.50 per share)	**¥1,531**	**$14,423**
Transfer to legal reserve	**400**	**3,768**

LIFE CO., LTD which is a customer of the Bank applied to the Tokyo District Court for application of the corporate reorganization law at May 19, 2000. Although the amount of the losses that the Bank may incur with respect to the loans and other receivables from LIFE CO., LTD is not determinable, the Bank expects that most part of these receivables will be covered by the collaterals and reserve for possible loan losses. The rest of the amount will be charged to income in the next interim fiscal period.

The amount of the loans and other receivables from LIFE CO., LTD amounted to ¥22,791 million ($214,705 thousand) at June 29, 2000.

Report of Independent Public Accountants

To the stockholders and the Board of Directors of THE HIROSHIMA BANK,LTD.:

We have audited the accompanying non-consolidated balance sheets of THE HIROSHIMA BANK, LTD. as of March 31, 1999 and 2000, and the related non-consolidated statements of income, and stockholders' equity for the years ended March 31, 1998, 1999 and 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of THE HIROSHIMA BANK, LTD. as of March 31, 1999 and 2000, and the non-consolidated results of its operations for the years ended March 31, 1998, 1999 and 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2000, THE HIROSHIMA BANK, LTD. prospectively adopted new Japanese accounting standards for income taxes and research, development and other costs.

Also, in our opinion, the U.S. dollar amounts in the accompanying non-consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Hiroshima, Japan
June 29, 2000

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Directory (As of June 30, 2000)

Head Office Address:	3–8 Kamiya-cho 1-chome Naka-ku, Hiroshima
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International Division Address:	3–8 Kamiya-cho 1-chome Naka-ku, Hiroshima
Telephone:	(082) 247-5151
Cable Address:	HIROSHIMABANK
Telex:	653211 HIROBK J
SWIFT Address:	HIRO JP JT
Date of Founding:	November 1878
Paid-in Capital:	¥52,011 million

Board of Directors and Auditors (As of June 30, 2000)

Chairman
Makoto Uda

President
Sho Takahashi

Senior Managing Directors
Masao Tokunaga
Shigeji Suzuki
Michifumi Yamashita

Managing Directors
Isao Naito
Kenichi Masukuni
Koji Oda
Isao Sumihiro

Director and Counselor
Shunsuke Kishida

Directors
Hiroshi Yamamoto
Hisashi Kanda
Akira Kitabayashi
Yushi Takahashi
Takashi Kawaguchi
Makoto Enoo
Ken Sato
Yoshiaki Fujimura
Issei Mukai
Hiromi Mori

Standing Auditors
Hiroyoshi Hamaoka
Masaru Maeide

Auditors
Kazuya Nitta
Masaaki Usui

Organization

(As of June 30, 2000)