

ANNUAL REPORT
2001

HIROSHIMA BANK

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, 2001, Hiroshima Bank had offices in 221 locations within Japan, securing it a place as one of the largest regional banks in the country. The bank has 3,712 employees, and assets totaling ¥5,620 billion (\$45,363 million) on a non-consolidated basis.

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Consolidated Financial Highlights

March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
For the Year:			
Total Income	¥172,040	¥167,275	\$1,350,081
Total Expenses	165,200	155,069	1,251,566
Income (Loss) before Income Taxes	6,840	12,206	98,515
Net Income (Loss)	3,367	8,041	64,899
At Year-end:			
Total Assets	¥5,643,161	¥5,558,730	\$44,864,649
Deposits	4,941,861	4,840,326	39,066,392
Loans and Bills Discounted	3,858,804	3,858,036	31,138,305
Securities	956,030	1,137,323	9,179,362
Stockholders' Equity	209,150	217,765	1,757,587

Note: The U.S. dollar amounts represent translation of Japanese yen at the exchange rate of ¥123.90 to U.S. \$1.00 on March 31, 2001.

Non-consolidated Five-Year Summary

March 31,	Millions of yen				
	1997	1998	1999	2000	2001
For the Year:					
Total Income	¥206,694	¥220,814	¥166,633	¥171,868	¥165,689
Total Expenses	200,690	259,730	161,611	164,487	153,283
Income (Loss) before Income Taxes	6,004	(38,916)	5,022	7,381	12,406
Net Income (Loss)	5,911	(39,032)	4,929	4,595	7,597
At Year-end:					
Total Assets	¥6,182,109	¥5,864,322	¥5,669,169	¥5,689,322	¥5,620,520
Deposits	5,270,534	4,907,268	4,862,592	4,943,534	4,842,515
Loans and Bills Discounted	4,359,682	4,306,542	4,174,474	3,875,298	3,873,731
Securities	1,145,870	919,843	927,480	956,603	1,137,906
Common Stock	51,980	51,980	51,980	52,011	52,347
Stockholders' Equity	179,363	137,268	170,011	220,436	228,654
Number of Offices	230	230	225	229	221
Number of Employees	4,201	4,006	3,892	3,832	3,712

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



Operating environment

In the year under review, competition in the banking industry reached new heights with the formation of several mega-banks due to mergers among major institutions. The strategy of such banks was to compete with prominent overseas financial institutions by becoming bigger and stronger. Meanwhile, other banks sought to survive by targeting deeper customer relationships within their business areas.

Facing these challenges, Hiroshima Bank has sought to become a “First Call Bank,” a bank that people call first when they need advice. To this end, we are striving to set up a framework that will enable us to provide high-value-added financial services, such as investment banking and private banking, in addition to traditional commercial banking services, such as deposits and loans. Such services require advanced financial knowledge and skills, so we are combining our human resources and know-how accumulated through our activities overseas and in urban areas. We believe this strategy will enable us to precisely meet the diversified needs of customers in our region.

Basic Management Policy

Based on “Reliance 21,” our long-term management plan, we are promoting sales activities aimed at realizing our vision of “the creation of a reliable Hiroshima Bank linked to the regional society by strong relationships of mutual trust.” As the core financial institution in our region, we have adopted four management philosophies aimed at contributing to the sound growth of regional society: (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, and (4) Promote the creation of a cheerful, rewarding workplace.

Dividend policy

The Bank is committed to fulfilling its public service mission as the leading bank in its region. Reflecting

this commitment, the Bank works to improve its financial position by increasing retained earnings while paying stable dividends. In fiscal 2000, cash dividends were maintained at ¥5.00 per share.

Mid- and long-term management strategies

In February 2000, we embarked on our Third Midterm Management Plan, covering the period to March 2003. Under the Plan, we are targeting speedy implementation of New Structural Reforms consisting of 10 reforms: awareness reform, business strategy reform, sales channel reform, human resource policy reform, personnel training reform, business processing reform, financial reform, organizational reform, risk management reform, and cost reduction reform. Through these reforms, we will build a robust operating base to win against the competition and earn strong praise and trust of customers, shareholders, and financial markets.

Organizational changes

To assure swift responses to the rapidly changing operating environment, we are taking steps to upgrade the deliberative functions of the Board of Directors and accelerate decision-making processes.

Specifically, we have clarified the role of the Board of Directors, which is to set basic management policies and determine legally designated matters and other important matters related to the Bank's operations. The Board, which meets twice a month, also monitors how effectively and how properly the directors are performing their duties. In addition, we have formed the Management Council, made up of representative, senior managing, and managing directors. The Council meets every week and decides important matters related to overall operations according to basic policies set by the Board of Directors.

To improve management transparency, Hiroshima Bank strives to disclose information in an appropriate and timely manner. We also pursue a proactive IR program that includes twice-yearly explanatory meetings

for investors. Ahead of the scheduled lifting of the ban on pay-offs, we fully recognize the increasing importance of disclosure in the future, and for this reason we will work to improve the quality of the information we disclose.

Future challenges

The operating environment surrounding financial institutions is becoming more and more difficult, with the entry of new participants from other sectors, as well as business alliances and other realignments in the industry. Under these circumstances, it is crucial that financial institutions respond to change with speed and dynamism while further reinforcing their profitability.

Facing these challenges, Hiroshima Bank is committed to winning against the competition and earning the praise and confidence of customers, shareholders, and financial markets. To this end, adhering to our long-term management plan, "Reliance 21," we will concentrate management resources in our region, strengthen profitability, and reinforce our operating base. We will also secure a sound financial position, further streamline operations, and improve our business performance while fortifying legal compliance. In these ways, we believe we can respond to the trust that the people place in us.

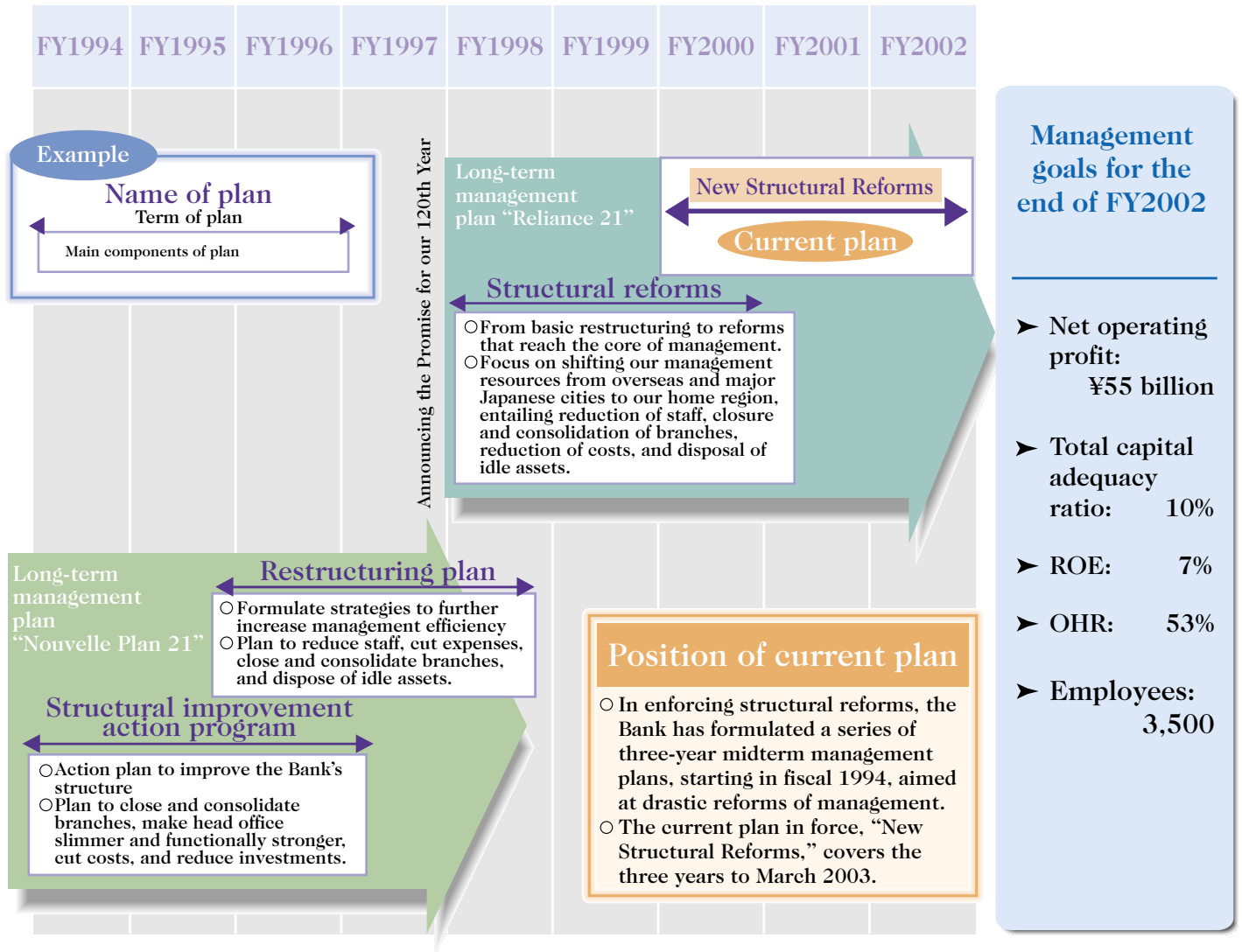
As the leading bank in our region, we will meet the needs of customers more broadly and deepen our roots in regional society to become a reliable bank linked to the regional society by strong relationships of mutual trust.

July 2001

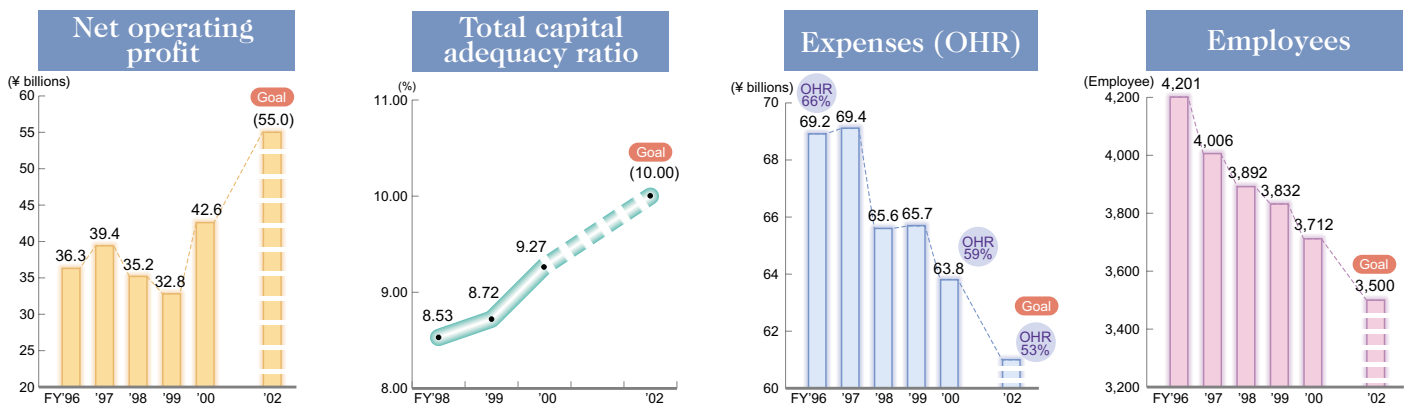


Sho Takahashi
President

Midterm Management Plan



Results and goals of management reforms



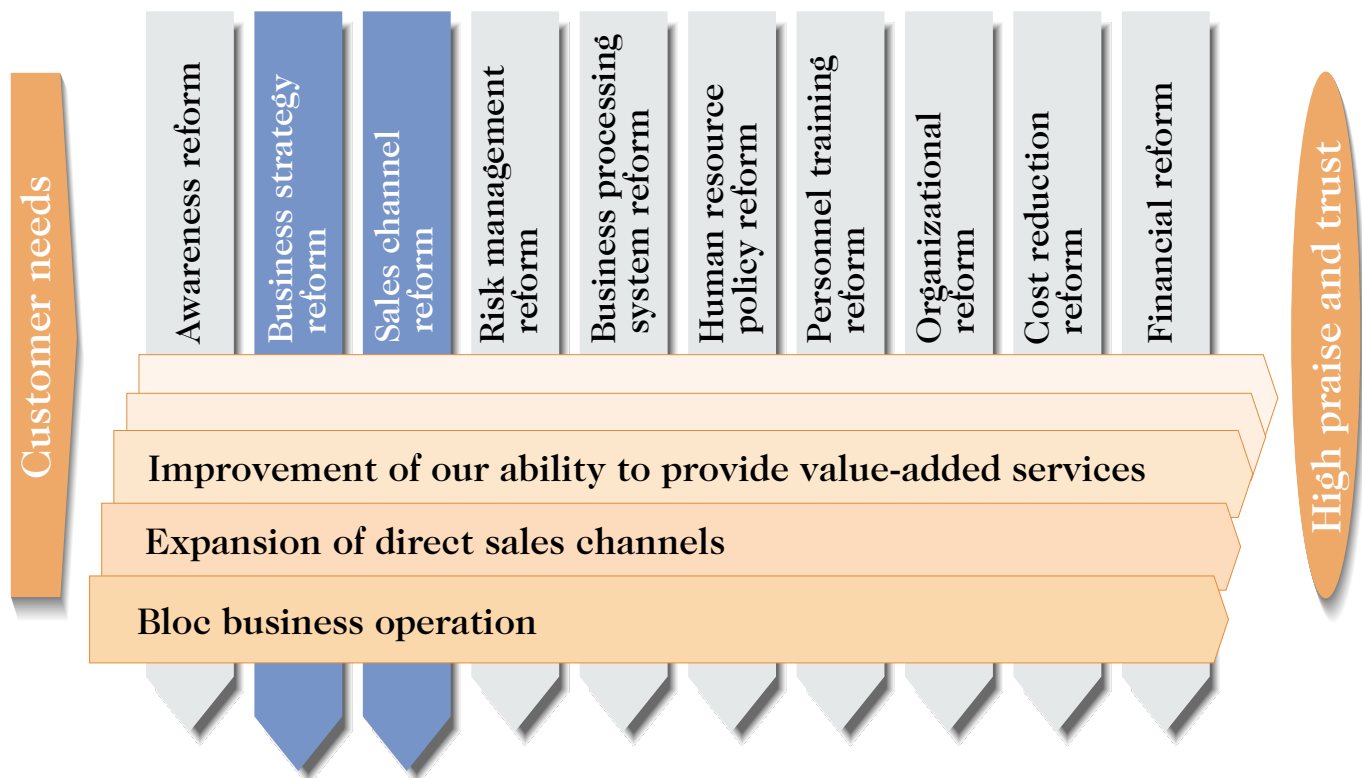
New Structural Reforms

This is a strategic package of comprehensive reforms that identifies 10 key areas for reform: Awareness reform, business strategy reform, sales channel reform, human resource policy reform, personnel training reform, business processing reform, financial reform, organizational reform, risk management reform, and cost reduction reform.

Key points of New Structural Reforms

- By always adopting the perspective of our regional customers and swiftly and appropriately meeting their diversified and complex needs, we will seek to become a “First Call Bank,” a bank that people call first when they need advice.
- We will build a strong operating base through further streamlining and efficiency enhancements, thus earning the praise and trust of customers and financial markets.

Everything starts from customer needs



- **Improvement of our ability to provide value-added services**
To satisfy customers' increasingly diverse and sophisticated needs, we will develop our capabilities in investment banking, such as M&A support and corporate bond issuance, and in private banking.
- **Expansion of direct sales channels**
We will reinforce telephone and Internet banking services in order to increase customer convenience.
- **Bloc business operation**
Based on market characteristics and customer needs, we will clarify the role of branches and centralize operations, thus increasing customer convenience and accelerating our responsiveness to their needs.

Key points

- We are committed to providing financial services that meet customers' advanced and diversified needs that cannot be satisfied by conventional commercial banking services, namely deposits and loans. To this end, we are providing investment banking services for corporate customers and private banking for individual customers.
- We are also developing new business in such areas as defined-contribution pension plans (Japanese version of 401K) and Internet-based businesses.

To meet customers' advanced and diversified needs, in June 2000 the Bank established the Investment and Private Banking Division, which exclusively handles new businesses, including investment banking, private banking, and insurance products. The Division is staffed by specialists who can provide high-value-added financial services.

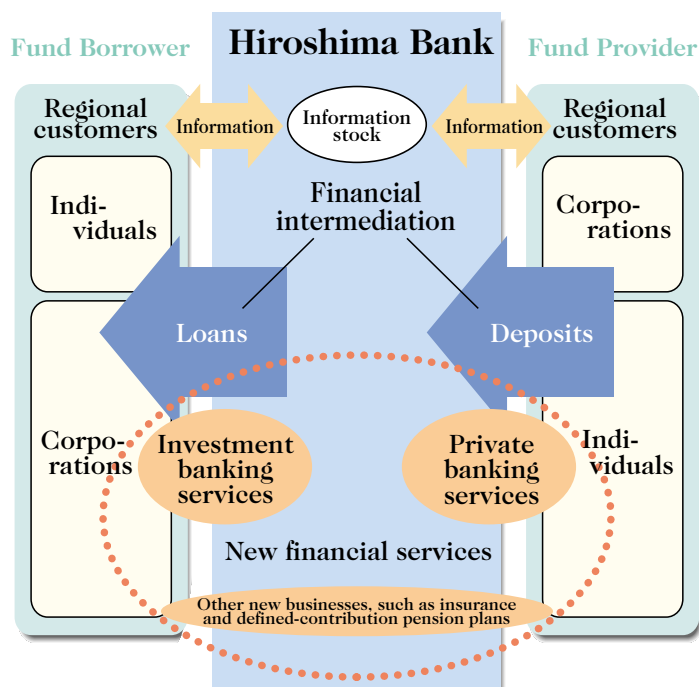
To meet the financial needs of corporate customers, we offer such services as syndicated loans, asset securitization, factoring, and bond issuance. To help them implement their increasingly diverse business and management strategies, we also propose various plans related to M&A, derivatives, and other areas.

In the private banking field, we help customers fulfill their individual life plans by providing advice in such diverse areas as asset management, inheritance strategies, business succession, and effective real estate utilization. We also proactively propose trust business solutions tailored to specific needs.

In new businesses, we began over-the-counter sales of insurance products in April 2001. We also quickly entered into other new areas, including defined-contribution pension plans and Internet banking.

In order to appropriately meet customers' diversified requirements, we will continue striving to provide innovative services.

Hiroshima Bank's business style



Overview and results of main businesses

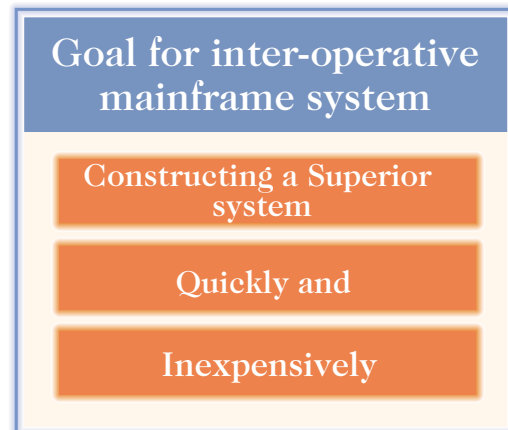
Business	Overview	FY 2000 results
M&A	Mediation in corporate acquisitions, sales, mergers, and business transfers	14 contracts
Bond issuance	Underwriting public offerings and private placements	45 issues
Syndicated loans	Arranging syndicated loans as arranger or agent	2 syndications as lead manager
Derivatives	In addition to providing measures for hedging interest rate and currency exchange risk, we have started providing weather derivatives as a new financial product to hedge weather risk.	32 contracts
Asset and real estate securitization	In order to meet the needs of customers for diversifying fund procurement and streamlining balance sheets, we help customers securitize accounts receivable and real estate.	7 cases handled
Sales of investment trusts and government bonds	Appropriate asset management advice tailored to specific customer needs	Sales volume Investment trust funds: ¥7.4 billion Government bonds: ¥17 billion
Asset management advice	Asset management advice in such areas as inheritance, business succession, and effective real estate utilization	184 consulting cases

Progress to date

In January 2000, Hiroshima Bank entered an agreement with the Bank of Fukuoka regarding joint development of a mainframe system. Specific system development is under way with a view to starting operation in January 2003.

In August 2000, the two banks jointly established a system development corporation, Kyodo Data Services Co., Ltd., in order to speed up the system development process and integrate decision-making at the development phase.

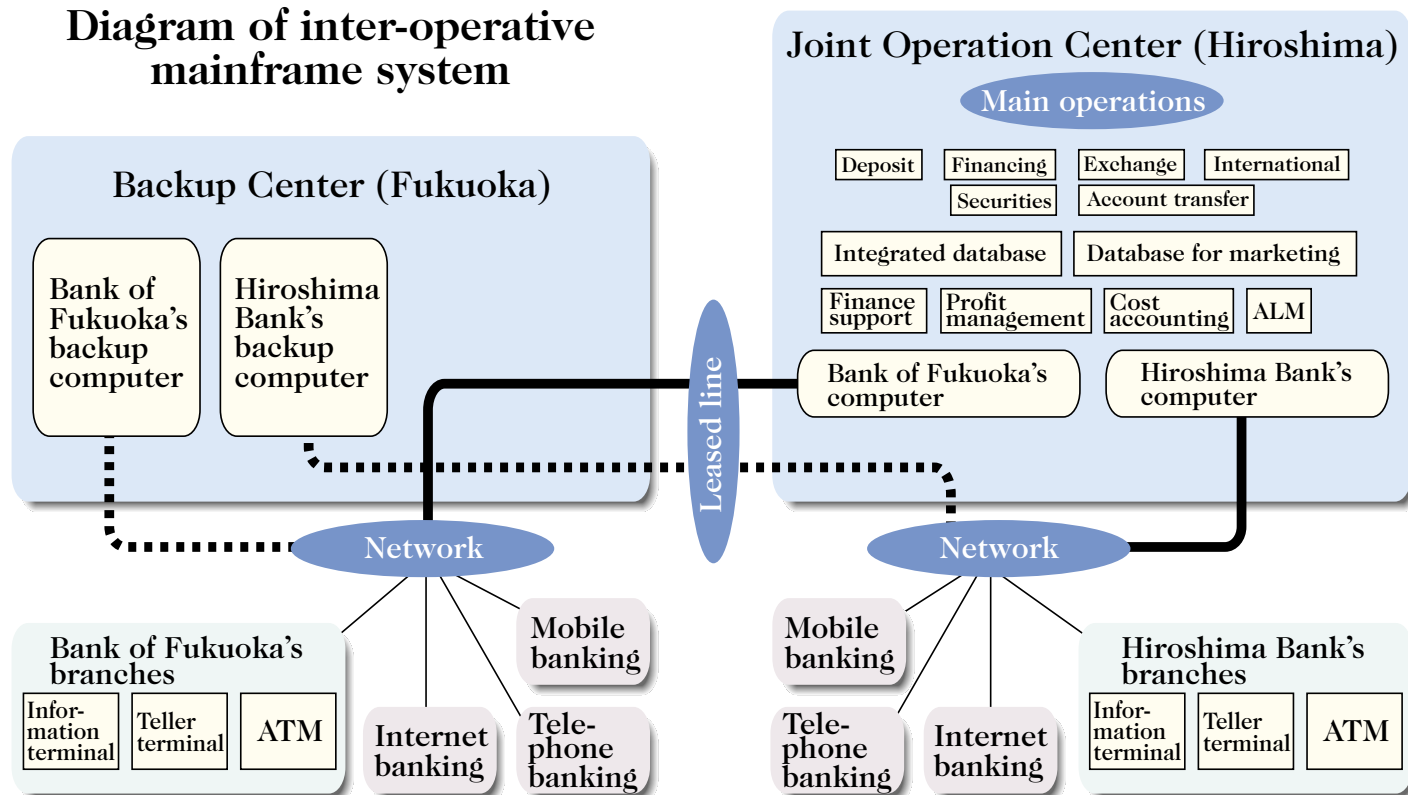
As originally scheduled, all joint systems will start operation in fiscal 2002. However, a number of systems will be ready for earlier introduction. The customer data system for the marketing and securities system has been in operation since December 2000.



Latest update

In January 2001, the two banks together began operating the Joint Operation Center in Hiroshima for the new securities system. Improved efficiency in development and operation is evidence of the advantages of the two banks' collaborative efforts.

Diagram of inter-operative mainframe system



Where possible, the two banks will integrate broader systems in order to maximize the benefits of joint system development in such areas as transaction processing, information, international business, securities, and integrated database.

In January 2001, Hiroshima Bank established the Automobile Industry Group, aimed at meeting the diversified needs of customers in the automobile sector, a core industry in the Bank's home territory.

The Group is staffed by eight people, including technical experts from an automobile manufacturing company. It provides comprehensive support for customers in the industry, including such services as information provision, financial and production management-related advice, and sales support through alliances with external entities.

By reinforcing the activities of the Group and the already established Corporate Finance Support Group, we will help corporate customers strengthen their management foundations and realize our goal of becoming a "First Call Bank," a bank the customers call first for all their financial needs.

Over-the-counter sales of insurance products

On April 2, 2001, the Bank started selling three insurance products: home loan-related long-term fire insurance, home loan-related debt repayment support insurance, and travel accident insurance. For customers with home loans or traveling overseas, we now provide insurance products that meet their needs in terms of content of coverage and premium levels. In this way, we are upgrading our services and enhancing customer convenience.

Website updated and regional portal site opened

Hiroshima Bank revamped its website (<http://www.hirogin.co.jp/>) on April 2, 2001. Seeking to create a site that is easy to understand and use and contributes to people's lives, we have included a FAQ (frequently asked questions) section, real-time data on investment trust standard prices and other financial products, and information about our regional and local

lifestyles. We also provide information to support corporate customers' IT strategies and help new entrepreneurs. In these and other ways, we are significantly expanding the supply of information that will help our customers' lives and businesses.

On May 25, 2001, the Bank opened the "Hiroshima Region Portal Lifestyle Information e-Service," an Internet portal site developed in an alliance with a local portal site operating company. The site (<http://www.ksnl.co.jp/hiroshima/>) provides information about finance, lifestyles, and business in the Hiroshima region and also has a shopping function. By supplying information that benefits people's lives and introducing local companies and their products and services, we aim to boost development of our region.

Overview

In fiscal 2000, ended March 31, 2001, the Japanese economy saw only modest recovery. Despite considerable growth in capital investments, especially by IT-related companies, personal consumption remained weak in the face of uncertain employment and income situations. Public sector capital spending and housing investments were also sluggish. Conditions were further exacerbated by the slowdown of the U.S.

economy in the last quarter of the period, which stunted exports. As a result, the economy became stagnant. In this environment, manufacturers, particularly of goods for export, moved to reduce production.

In the financial sector, interest rates remained a low levels. Due to increasing concerns about the economic recession, the Bank of Japan cut the official discount rate at the end of fiscal 2000 and aggressively implemented monetary easing policies, including quantitative easing. In the meantime, financial institutions continued to form alliances and mergers in an all-out effort to help stabilize financial markets.

The economy of the Hiroshima region also slowed in the face of stagnant personal consumption, declines in housing investments, and other factors. In the second half of the period, production activity weakened, due mainly to reduction of output by major industries in the region, such as the automobile and general equipment makers sectors.

Financial Position

During the year, Hiroshima Bank pursued business activities closely tied to the region. As a result, deposits from individual customers increased steadily. However, the Bank reduced deposits from financial institutions in order to improve fund-procurement efficiency. Accordingly, the year-end balance of deposits was ¥4,840.3 billion, down ¥101.5 billion from a year earlier.

Faced with weak demand for funds due to the sluggish economy, the Bank responded aggressively to the funding needs of local companies and individuals. As a result, loans to individuals increased. Loans to large corporations declined, however, and the Bank actively liquidated non-performing loans to improve the soundness of its assets. Accordingly, the balance of loans and bills discounted fell ¥700 million, to ¥3,858.0 billion at fiscal year-end.

The balance of securities at fiscal year-end was ¥1,137.3 billion, up ¥181.2 billion. This resulted from increased investments in short-term government bonds in line with efforts to manage assets by taking market trends into account.

Performance

In fiscal 2000, Hiroshima Bank reinforced profitability by raising asset management and fund-raising efficiency and streamlining overall operations. The Bank also wrote off and provided reserves for non-performing loans based on self-assessments, thus improving its financial position. As a result, consolidated net income for the year jumped ¥4,674 million, to ¥8,041 million.

Cash flows

Net cash provided by operating activities amounted to ¥30.5 billion, owing to increased efficiency in the Bank's asset management and fund-raising activities.

Net cash used in investing activities was ¥151.6 billion, due to increased purchases of securities aimed at addressing liquidity risk and otherwise strengthening the Bank's balance sheet.

Net cash used in financing activities totaled ¥18.5 billion, stemming mainly from repayment of subordinated loans.

As a result, cash and cash equivalents at fiscal year-end amounted to ¥170.7 billion, down ¥139.6 billion from a year earlier.

Report of Independent Public Accountants on Consolidated Financial Statements

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, 2000 and 2001, the related consolidated statements of income, and stockholders' equity, for the years ended March 31, 1999, 2000 and 2001, and the related consolidated statements of cash flows for the years ended March 31, 2000 and 2001, 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, 2000 and 2001, the consolidated results of their operations for the years ended March 31, 1999, 2000 and 2001, and their cash flows for the years ended March 31, 2000 and 2001 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, THE HIROSHIMA BANK, LTD. and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and research, development and other costs in the year ended March 31, 2000, and for financial instruments and employees' severance and retirement benefits in the year ended March 31, 2001.

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 28, 2001

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.

Consolidated Balance Sheets

As of March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
ASSETS			
Cash and due from banks (Note 13)	¥ 389,055	¥ 208,781	\$ 1,685,077
Call loans and bills purchased	169,186	63,449	512,098
Financial receivables purchased (Note 3)	4,141	11,780	95,077
Trading assets (Notes 2 and 3)	2,640	2,194	17,708
Securities (Notes 2, 3 and 5)	956,030	1,137,323	9,179,362
Loans and bills discounted (Notes 4 and 6)	3,858,804	3,858,036	31,138,305
Foreign exchanges	2,605	3,217	25,965
Other assets (Note 2)	24,467	28,481	229,871
Premises and equipment (Notes 2 and 5)	114,546	112,249	905,964
Deferred tax assets (Notes 2 and 11)	52,590	46,405	374,536
Customers' liabilities for acceptances and guarantees	132,848	123,103	993,567
Reserve for possible loan losses (Note 2)	(63,744)	(36,061)	(291,049)
Allowance for investment losses (Note 2)	(7)	(227)	(1,832)
	¥5,643,161	¥5,558,730	\$44,864,649
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits (Note 5)	¥4,941,861	¥4,840,326	\$39,066,392
Call money and bills sold (Note 5)	8,492	7,434	60,000
Trading liabilities (Note 2)	465	1,009	8,144
Borrowed money (Note 7)	158,089	114,145	921,267
Foreign exchanges	279	157	1,267
Bonds (Note 8)	74,500	139,500	1,125,908
Convertible bonds	36,082	35,411	285,803
Due to trust account	24	24	194
Other liabilities (Note 2)	45,062	51,444	415,206
Reserve for retirement allowances (Note 2)	8,047	—	—
Allowance for severance and retirement benefits (Notes 2 and 9)	—	601	4,851
Other reserves	5,982	5,549	44,786
Deferred tax liabilities for land revaluation reserve (Note 2)	22,280	22,262	179,677
Acceptances and guarantees	132,848	123,103	993,567
Total liabilities	5,434,011	5,340,965	43,107,062
Stockholders' equity:			
Common stock, par value ¥50 per share:			
Authorized—2,000,000,000 shares			
Issued—612,707,546 shares in 2000 and 614,352,147 shares in 2001	52,011	52,347	422,494
Capital surplus	28,073	28,408	229,282
Land revaluation reserve, net of tax (Note 2)	30,768	30,743	248,127
Retained earnings	98,300	103,303	833,761
Net unrealized holding gains on securities available for sale	—	2,967	23,947
Foreign currency translation adjustments (Note 2)	—	0	0
Common stock in treasury	(2)	(3)	(24)
Total stockholders' equity	209,150	217,765	1,757,587
	¥5,643,161	¥5,558,730	\$44,864,649

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2000 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	2000	2001	2001
INCOME				
Interest income:				
Interest on loans and discounts	¥104,927	¥ 98,890	¥ 94,886	\$ 765,827
Interest and dividends on securities	26,707	21,877	19,111	154,245
Other	7,190	5,313	5,401	43,592
Fees and commissions	15,365	15,777	16,655	134,423
Other operating income	3,623	1,927	8,290	66,909
Other income	8,954	28,256	22,932	185,085
	166,766	172,040	167,275	1,350,081
EXPENSES				
Interest expense:				
Interest on deposits	26,841	17,048	13,793	111,324
Interest on borrowings and rediscounts	10,151	6,860	5,401	43,592
Other interest expense	10,328	8,439	8,087	65,270
Fees and commissions	6,078	6,024	6,337	51,146
Other operating expenses	3,772	2,939	3,462	27,942
General and administrative expenses	65,241	65,436	63,049	508,870
Other expenses	38,574	58,454	54,940	443,422
	160,985	165,200	155,069	1,251,566
Income before income taxes	5,781	6,840	12,206	98,515
Income taxes (Notes 2 and 11):				
Current	98	8,457	180	1,453
Deferred	2,993	(4,984)	3,985	32,163
Net income	¥ 2,690	¥ 3,367	¥ 8,041	\$ 64,899

	Yen			U.S. dollars (Note 1)
	1999	2000	2001	2001
Amounts per share of common stock (Note 2):				
Net income	¥4.39	¥5.49	¥13.12	\$0.11
Diluted net income	—	5.15	11.81	0.10
Cash dividends applicable to the year	5.00	5.00	5.00	0.04

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 1999, 2000 and 2001

	Millions of yen								
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Land revaluation reserve, net of tax	Retained earnings	Net unrealized holding gains on securities available for sale	Foreign currency translation adjustments	Common stock in treasury	
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					
Common stock in treasury									
Cash dividends paid					(3,062)				
Balance at March 31, 1999	612,553	¥ 51,980	¥ 28,041	¥ 30,876	¥ 97,888	¥ —	¥ —	¥ (3)	
Net income					3,367				
Conversion of convertible bonds	154	31	32						
Land revaluation reserve, net of tax				(108)	108				
Common stock in treasury								1	
Cash dividends paid					(3,063)				
Balance at March 31, 2000	612,707	¥ 52,011	¥ 28,073	¥ 30,768	¥ 98,300	¥ —	¥ —	¥ (2)	
Net income					8,041				
Conversion of convertible bonds	1,645	336	335						
Land revaluation reserve, net of tax				(25)	25				
Net unrealized holding gains on securities available for sale						2,967			
Foreign currency translation adjustments							0		
Common stock in treasury								(1)	
Cash dividends paid					(3,063)				
Balance at March 31, 2001	614,352	¥ 52,347	¥ 28,408	¥ 30,743	¥103,303	¥ 2,967	¥ 0	¥ (3)	

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Land revaluation reserve, net of tax	Retained earnings	Net unrealized holding gains on securities available for sale	Foreign currency translation adjustments	Common stock in treasury	
Balance at March 31, 2000	\$419,782	\$226,578	\$248,329	\$793,382	\$ —	\$ —	\$(16)	
Net income				64,899				
Conversion of convertible bonds	2,712	2,704						
Land revaluation reserve, net of tax			(202)	202				
Net unrealized holding gains on securities available for sale					23,947			
Foreign currency translation adjustments						0		
Common stock in treasury							(8)	
Cash dividends paid				(24,722)				
Balance at March 31, 2001	\$422,494	\$229,282	\$248,127	\$833,761	\$23,947	\$ 0	\$(24)	

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Cash flows from operating activities:			
Income before income taxes	¥ 6,840	¥ 12,206	\$ 98,515
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	2,799	2,512	20,274
Minority interests in net income	2,179	(752)	(6,069)
Net change in reserve for possible loan losses	(54,047)	(27,684)	(223,438)
Net change in allowance for losses on sale of securities	7	220	1,776
Net change in reserve for possible losses on sale of loans	161	(432)	(3,487)
Net change in reserve for retirement allowances	(76)	(8,048)	(64,956)
Net change in allowance for severance and retirement benefits	—	601	4,851
Interest income	(126,080)	(119,398)	(963,664)
Interest expenses	32,347	27,281	220,186
Net (gains) related to securities transactions	(20,286)	(12,498)	(100,872)
Net (gain) loss from disposition of premises and equipment	321	(377)	(3,043)
(Gain) on securities contributed to employee retirement benefit trust	—	(3,220)	(25,989)
The amount of securities contributed to employee retirement benefit trust	—	8,954	72,268
Net change in trading assets	1,174	448	3,616
Net change in trading liabilities	(344)	544	4,391
Net change in loans	299,899	768	6,199
Net change in deposits	80,629	(101,534)	(819,483)
Net change in borrowed money excluding the amount for subordinated loans	—	(3,444)	(27,797)
Net change in due from banks excluding the amount for THE BANK OF JAPAN	(13,906)	40,664	328,200
Net change in call loans and bills purchased	37,931	98,099	791,759
Net change in call money and bills sold	(83,505)	(1,059)	(8,547)
Net change in collateral money for bond repurchase trade	(82,282)	—	—
Net change in foreign exchanges (asset account)	1,336	(611)	(4,931)
Net change in foreign exchanges (liability account)	(239)	(123)	(993)
Proceeds from issuance and maturity of ordinary bonds	40,000	40,000	322,841
Interest received	127,230	117,551	948,757
Interest paid	(37,810)	(32,118)	(259,225)
Other—net	8,876	(579)	(4,673)
Subtotal	216,314	25,765	207,951
Income taxes paid	(697)	(7,471)	(60,299)
Total adjustments	215,617	18,294	147,652
Net cash provided by operating activities	222,457	30,500	246,167
Cash flows from investing activities:			
Purchases of securities	(359,282)	(1,253,355)	(10,115,860)
Proceeds from sales of securities	206,794	646,929	5,221,380
Proceeds from maturity of securities	130,194	454,881	3,671,356
Purchases of premises and equipment	(2,257)	(1,126)	(9,088)
Proceeds from sales of premises and equipment	491	1,057	8,531
Net cash used in investing activities	(24,060)	(151,614)	(1,223,681)
Cash flows from financing activities:			
Proceeds from subordinated loans	—	5,000	40,355
Repayment of subordinated loans	—	(45,500)	(367,232)
Proceeds from issuance of subordinated bonds and convertible bonds	30,000	25,000	201,776
Dividends paid	(3,063)	(3,062)	(24,713)
Other—net	0	0	0
Net cash provided by (used in) financing activities	26,937	(18,562)	(149,814)
Foreign currency translation adjustments	6	66	532
Net change in cash and cash equivalents	225,340	(139,610)	(1,126,796)
Cash and cash equivalents at beginning of the year	85,003	310,343	2,504,786
Cash and cash equivalents at the end of the year (Note 13)	¥ 310,343	¥ 170,733	\$ 1,377,990

See accompanying notes.

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 appropriate Local Finance Bureau of the Ministry of Finance 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 inclusion in the consolidated financial statements although such statements are not customarily prepared in Japan and not filed with the regulatory authorities.

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 readers, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 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, eight subsidiaries and five 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." 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 stated at market or fair value at the balance sheet date. Financial derivatives such as futures and option transactions are stated 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

Prior to April 1, 2000, securities of the Bank and its consolidated subsidiaries were stated at moving-average cost.

Effective April 1, 2000, the Bank and its consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, “trading securities”), (b) debt securities intended to be held to maturity (hereafter, “held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, “available-for-sale securities”).

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders’ equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the new accounting standard for financial instruments, including derivatives and hedge accounting, income before income taxes increased by ¥315 million (\$2,542 thousand).

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.

Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires all companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

Effective April 1, 2000, the Bank adopted the macro hedging approach to control, in the aggregate, interest rate risk arising from many financial assets and liabilities, such as loans and bills discounted and borrowed money. The macro hedging approach is classified in risk management, referred to as the risk adjusting approach, that is set forth in the Industry Audit Committee Report No.15 “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry”, and the Bank defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized. The Bank assesses the hedge’s effectiveness by considering whether interest rate risk is mitigated and whether risks relating to derivatives fall within the limits placed under the risk management policy.

For other assets and liabilities, the Bank defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized. Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Premises and equipment

Premises and equipment expect for certain land used for business operation, are stated at cost less accumulated depreciation.

The Bank and its consolidated subsidiaries depreciate its premises and equipment under the declining balance method over its estimated useful lives. Estimated useful lives are as follows:

Buildings: 22–50 years

Others: 3–20 years

Pursuant to the Law concerning Revaluation of Land (the “Law”), certain land for business operations as of March 31, 1998 was revalued at fair value. Due to the revaluation, land was appreciated by ¥53,429 million to ¥71,380 million as of 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 and 2001 was ¥11,652 million and ¥16,566 million (\$133,705 thousand), respectively.

Software cost

Software for used by the Bank is amortized over the term which can be used (five 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.

In accordance with the audit treatment of new foreign currency transactions for banking industry as of April 10, 2000 issued by JICPA, the Bank accounts for foreign currency translation in the same manner as previous years.

Pursuant to the revised accounting rules for consolidated financial statements, the Bank reports foreign currency translation adjustments in the stockholders' equity. The prior year's amount, which is included in assets, has not been reclassified.

Reserve for possible loan losses

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 estimated not to be collected through disposition of collateral or through execution of guarantees. Such amounts directly set off against those loans at March 31, 2000 and 2001 amount to ¥69,755 million and ¥77,828 million (\$628,152 thousand), respectively.

Employees' severance and retirement benefits

The Bank and its consolidated subsidiaries provide three types of post-employment benefit plans, unfunded lump-sum payment plans, funded contributory pension plans, and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

At March 31, 2000, the reserve for retirement allowances was 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. The Bank recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Bank and its consolidated subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Retirement Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Bank and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥15,166 million (\$122,405 thousand), which will be recognized in expenses in equal amounts primarily over five years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses using the straight-line method over fourteen years, which is not longer than the average of the estimated remaining service lives, commencing with the following period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥1,674 million (\$13,511 thousand) and income before income taxes increased by ¥1,545 million (\$12,470 thousand) compared with what would have been recorded under the previous accounting standard. Gain on securities contributed to employee retirement benefits amounted to ¥3,220 million (\$25,989 thousand) is included in income before income taxes.

Income taxes

The Bank and its consolidated subsidiaries recognize 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 basis 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 and 2001 was and ¥5.15 and ¥11.81 (\$0.10), respectively. 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. Securities

A. Trading account securities, included in "Trading assets," and trust beneficiary right, included in "Financial receivables purchased," both of which are separately reported from "Securities" on the balance sheet, are mentioned in this section.

B. The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2001:

(a) Trading securities :

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Book value	¥1,006	\$8,119
Amount of net unrealized gains or losses included in the income statement	3	24

(b) Available-for-sale securities :

At March 31, 2001

Type	Millions of yen				
	Acquisition cost	Book value	Difference	Unrealized holding gains	Unrealized holding losses
Shares	¥ 163,407	¥ 157,775	¥ (5,632)	¥26,309	¥(31,941)
Bonds:	795,079	805,950	10,870	11,486	(615)
National government bonds	383,935	388,110	4,175	4,242	(66)
Local government bonds	78,262	80,110	1,848	1,994	(146)
Corporate bonds	332,882	337,730	4,847	5,250	(403)
Others	99,327	99,284	(43)	626	(669)
Total	¥1,057,813	¥1,063,009	¥ 5,195	¥38,421	¥(33,225)

At March 31, 2001

Type	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Unrealized holding gains	Unrealized holding losses
Shares	\$1,318,862	\$1,273,406	\$(45,456)	\$212,341	\$(257,797)
Bonds:	6,417,102	6,504,843	87,732	92,704	(4,964)
National government bonds	3,098,749	3,132,446	33,697	34,237	(533)
Local government bonds	631,654	646,570	14,915	16,094	(1,178)
Corporate bonds	2,686,699	2,725,827	39,120	42,373	(3,253)
Others	801,671	801,323	(347)	5,052	(5,399)
Total	\$8,537,635	\$8,579,572	\$ 41,929	\$310,097	\$(268,160)

C. The following tables summarize book values of securities with no available fair values as of March 31, 2001:

Type	Book value	
	Millions of yen	Thousands of U.S. dollars
	2001	2001
Available-for-sale securities :		
Unlisted stocks except for trading over the counter	¥ 6,127	\$49,451
Local government bonds	2,210	17,837
Asset backed securities	8,561	69,096
Foreign securities in foreign currency	54,552	440,291
Other unlisted domestic securities	2,606	21,033
Financial receivables purchased	5,607	45,254
Total	¥79,663	\$642,962

D. Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

At March 31, 2001

Type	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Bonds:	¥186,869	¥383,901	¥117,178	¥118,002
National government bonds	119,711	116,692	33,705	118,002
Local government bonds	3,248	35,686	41,176	—
Corporate bonds	63,910	231,523	42,297	—
Others	23,592	115,080	15,437	14,096
Total	¥210,461	¥498,981	¥132,615	¥132,098

At March 31, 2001

Type	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Bonds:	\$1,508,224	\$3,098,474	\$ 945,747	\$ 952,397
National government bonds	966,190	941,824	272,034	952,397
Local government bonds	26,215	288,022	332,333	—
Corporate bonds	515,819	1,868,628	341,380	—
Others	190,412	928,814	124,592	113,769
Total	\$1,698,636	\$4,027,288	\$1,070,339	\$1,066,166

E. Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥414,809 million (\$3,347,934 thousand) and the related gains and losses amounted to ¥22,863 million (\$184,528 thousand) and ¥3,409 million (\$27,514 thousand), respectively.

F. In April 2000, the Bank contributed, receiving no cash, certain investment securities to its employee retirement benefit trust. The market value of the contributed securities at the time of contribution was ¥8,954 million (\$72,268 thousand). Upon contribution of these securities, a “gain on securities contributed to employee retirement benefit trust” amounting to ¥3,220 million (\$25,989 thousand) was recognized.

The unrealized gains on securities were ¥39,279 million at March 31, 2000.

4. Loans and bills discounted

Doubtful loans of loans and bills discounted at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	¥11,132	¥21,067	\$170,032
Other delinquent loans	25,150	64,173	517,942
Accrual loans past due three months or more	9,792	3,912	31,574
Restructured loans, including loans to supported companies	39,917	48,064	387,926

Effective for the year ended March 31, 2000, the Bank stopped accruing interest on loans to borrowers under bankruptcy proceeding and other delinquent loans, which was based on the results of self-assessment.

5. Assets pledged

At March 31, 2000 and 2001, the following assets were pledged as collateral for certain liabilities of the Bank and subsidiaries.

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Securities	¥26,389	¥12,039	\$97,167

The collateral was pledged to secure:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deposits	¥15,852	¥3,847	\$31,049
Call money and bills sold	8,492	7,434	60,000

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 and ¥238,135 million (\$1,921,994 thousand) at March 31, 2000 and 2001, respectively.

Guaranty money deposited, included in premises and equipment, amounts to ¥3,951 million (\$31,889 thousand).

6. Commitment line

Contracts of overdrafts and loan commitment limits are the contracts, under which the Bank lends to customers up to the prescribed limits in response to customers' application of loan as long as there is no violation of any condition in the contracts. The unused amount within the limits total ¥1,077,026 million (\$8,692,704 thousand) relating to these contracts. All contracts are under condition that the term of the contract are within one year or the Bank and its consolidated subsidiaries can revoke these contract voluntarily.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Bank and its consolidated subsidiaries can refuse customers' application for loan or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of contracts, the Bank and its consolidated subsidiaries obtain real estate, securities, etc. as collateral if considered to be necessary. Subsequently, the Bank and its consolidated subsidiaries perform periodic review of the customers' business results based on internal rules, and takes necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

7. Borrowed money

Borrowed money included subordinated loans totaling ¥127,000 million and ¥86,500 (\$698,144 thousand) at March 31, 2000 and 2001, respectively.

8. Bonds

Bonds included subordinated bonds totaling ¥34,500 million and 59,500 million (\$480,226 thousand) at March 31, 2000 and 2001, respectively.

9. Employees' severance and retirement benefits

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Bank adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The allowance for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Projected benefit obligation	¥ 69,338	\$ 559,629
Less fair value of pension assets	(52,449)	(423,317)
Less unrecognized net transition obligation	(12,117)	(97,797)
Less unrecognized actuarial differences	(4,472)	(36,094)
Less unrecognized prior service costs	—	—
	300	2,421
Prepaid pension expenses	(301)	(2,430)
Allowance for severance and retirement benefits	¥601	\$4,851

Included in the consolidated statement of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Service costs—benefits earned during the year	¥ 1,448	\$ 11,687
Interest cost on projected benefit obligation	2,395	19,330
Expected return on plan assets	(1,812)	(14,624)
Amortization of prior service costs	—	—
Amortization of actuarial differences	—	—
Amortization of net transition obligation	3,049	24,608
Severance and retirement benefit expenses	¥ 5,080	\$ 41,001

The discount rate and the rate of expected return on plan assets used by the Bank are 3.5 % and 4.0 %, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

Actuarial gains and losses are recognized in expenses using the straight-line method over fourteen years, which is not longer than the average of the estimated remaining service lives, commencing with the following period. The net transition obligation will be recognized in expenses in equal amounts primarily over five years commencing with the year ended March 31, 2001. One subsidiary charged entire net transition obligation to net income in the year ended March 31, 2001.

10. Other guarantee

The Bank and The Bank of Fukuoka leased computers jointly and mutually guaranteed the other party's lease obligation amounted to ¥3,955 million (\$31,921 thousand) in accordance with the agreement regarding joint development of a mainframe system and joint lease of electronic calculating machine.

11. Income taxes

Income taxes in the statements of income consist of corporation tax, inhabitant taxes and enterprise tax. The statutory tax rate was approximately 47%, 42% and 42% in 1999, 2000 and 2001, respectively. The effective tax rates differ from the statutory tax rate primarily as a result of temporary difference.

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 and 2001.

	2000	2001
Statutory tax rate	42.0 %	42.0 %
Non-deductible expenses (Entertainment expense etc)	2.3	1.3
Non-taxable income (Dividend income etc)	(7.6)	(4.0)
Equity in losses (gains) of affiliated companies	13.4	(2.6)
Realized gain on sale of land	—	(1.8)
Other	0.6	(0.8)
Effective tax rate	50.7 %	34.1 %

Significant components of deferred tax assets as of March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deferred tax assets :			
Reserve for possible loan losses	¥42,133	¥31,594	\$254,996
Net operating losses carry forward	—	5,828	47,038
Allowance for severance and retirement benefits	2,086	2,762	22,292
Devaluation of securities	1,313	3,446	27,813
Reserve for possible losses on sale of loans	2,512	2,331	18,814
Depreciation	1,833	—	—
Other	2,713	3,978	32,106
Total deferred tax assets	52,590	49,939	403,059
Deferred tax liabilities :			
Gain on securities contributed to employee retirement benefit trust	—	1,352	10,912
Net unrealized holding gains on securities available for sale	—	2,182	17,611
Total deferred tax liabilities	—	3,534	28,523
Net deferred tax assets	¥52,590	¥46,405	\$374,536

12. 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, 2000 and 2001 the Bank paid ¥1,500 million, ¥2,900 million and ¥3,400 million (\$27,441 thousand) to HL, respectively.

13. Cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheet and cash and cash equivalents in the consolidated statement of cash flows at March 31, 2000 and 2001, were as follows.

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Cash and due from banks	¥389,055	¥208,781	\$1,685,077
Current deposits with banks	(595)	(47)	(379)
Ordinary deposits with banks	(926)	(519)	(4,189)
Time deposits with banks	(15,005)	(5)	(41)
Foreign currency deposits with bank	(62,186)	(37,477)	(302,478)
Cash and cash equivalents	¥310,343	¥170,733	\$1,377,990

Non cash transactions considered to be material are as follows.

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Increase in common stock from conversion of convertible bonds	¥31	¥336	\$2,712
Increase in capital surplus from conversion of convertible bonds	32	335	2,704
	¥63	¥671	\$5,416

14. 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 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 and 2001 were as follows:

At March 31, 2000

	Millions of yen		Thousands of U.S. dollars	
	Notional principal Amount	Unrealized gains (losses)	Notional principal amount	Unrealized gains (losses)
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	—

Interest related:

Year ended March 31, 2001

Type	Millions of yen				
	Contracted amount		Market value	Unrealized gains (losses)	
	Over one year				
Items not traded on exchanges	Interest rate swap (*1):				
	Receive fixed, pay variable	¥18,633	¥13,583	¥853	¥853
	Receive variable, pay fixed	16,633	11,583	(553)	(553)
	Receive variable, pay variable	24,000	20,000	5	5
	Other contracts (*1):				
	Sell	200	200	0	3
	Buy	575	220	0	(3)
	Total	—	—	305	305

Interest related:

Year ended March 31, 2001

Type	Thousands of U.S. dollars				
	Contracted amount		Market value	Unrealized gains (losses)	
	Over one year				
Items not traded on exchanges	Interest rate swap (*1):				
	Receive fixed, pay variable	\$150,387	\$109,629	\$ 6,885	\$ 6,885
	Receive variable, pay fixed	134,245	93,487	(4,463)	(4,463)
	Receive variable, pay variable	193,705	161,421	40	40
	Other contracts (*1):				
	Sell	1,614	1,614	0	24
	Buy	4,641	1,776	0	(24)
	Total	—	—	2,462	2,462

(*1): The unrealized gains or losses of interest rate swap and other contracts are charged to net income.

Currency related:

Year ended March 31, 2001

		Millions of yen			
Type		Contracted amount		Market value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Currency swap (*2)	¥ 74,821	¥74,821	¥ 131	¥ 131
	Currency swap (*3)	302,284	—	(4,392)	(4,392)
	Forward foreign exchange contracts (*2):				
	Sell	18,497	—	—	—
	Buy	19,832	—	—	—
	Currency option (*2):				
	Sell	1,170	—	—	—
Buy	1,170	—	—	—	

Currency related:

Year ended March 31, 2001

		Thousands of U.S. dollars			
Type		Contracted amount		Market value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Currency swap (*2)	\$ 603,882	\$603,821	\$ 1,057	\$ 1,057
	Currency swap (*3)	2,439,742	—	35,448	35,448
	Forward foreign exchange contracts (*2):				
	Sell	149,290	—	—	—
	Buy	160,065	—	—	—
	Currency option (*2):				
	Sell	9,443	—	—	—
Buy	9,443	—	—	—	

(*2): The unrealized gains or losses of currency swap, forward foreign exchange contracts and currency options are charged to net income.

(*3): The unrealized gains or losses of currency swap are not charged to net income, pursuant to the audit treatment of new foreign currency transactions for banking industry as of April 10, 2000 issued by JICPA.

Credit derivative related:

Year ended March 31, 2001

		Millions of yen			
Type		Contracted amount		Market value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Other contracts (*4):				
	Sell	¥6,000	¥6,000	¥(21)	¥(21)

Credit derivative related:

Year ended March 31, 2001

		Thousands of U.S. dollars			
Type		Contracted amount		Market value	Unrealized gains (losses)
		Over one year			
Items not traded on exchanges	Other contracts (*4):				
	Sell	\$48,426	\$48,426	\$(169)	\$(169)

(*4): The unrealized gains or losses of other contracts are charged to net income, and "Sell" represents acceptance of credit risks.

Report of Independent Public Accountants on Non-Consolidated Financial Statements

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, 2000 and 2001, and the related non-consolidated statements of income, and stockholders' equity for the years ended March 31, 1999, 2000 and 2001, 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, 2000 and 2001, and the non-consolidated results of its operations for the years ended March 31, 1999, 2000 and 2001 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, THE HIROSHIMA BANK, LTD. prospectively adopted new Japanese accounting standards for income taxes and research, development and other costs in the year ended March 31, 2000, and for financial instruments and employees' severance and retirement benefits in the year ended March 31, 2001.

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 28, 2001

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

As of March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
ASSETS			
Cash and due from banks	¥ 389,054	¥ 208,781	\$ 1,685,077
Call loans and bills purchased	169,186	63,449	512,098
Financial receivables purchased	4,141	11,780	95,077
Trading assets (Note 2)	2,640	2,194	17,708
Securities (Notes 2, 3 and 8)	956,603	1,137,906	9,184,068
Loans and bills discounted (Notes 4 and 9)	3,875,298	3,873,731	31,264,980
Foreign exchanges (Note 5)	2,605	3,217	25,965
Other assets (Notes 2 and 6)	24,369	28,491	229,951
Premises and equipment (Notes 2 and 7)	107,924	106,554	860,000
Deferred tax assets (Notes 2 and 23)	54,402	47,526	383,583
Customers' liabilities for acceptances and guarantees (Note 16)	167,348	172,603	1,393,083
Reserve for possible loan losses (Note 2)	(64,238)	(35,481)	(286,368)
Allowance for investment losses (Note 2)	(10)	(231)	(1,864)
	¥5,689,322	¥5,620,520	\$45,363,358
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits (Notes 8 and 10)	¥4,943,534	¥4,842,515	\$39,084,060
Call money and bills sold (Note 8)	8,492	7,434	60,000
Trading liabilities (Note 2)	465	1,009	8,144
Borrowed money (Note 11)	192,589	163,645	1,320,783
Foreign exchanges (Note 5)	279	157	1,267
Bonds (Note 12)	40,000	90,000	726,392
Convertible bonds (Note 13)	36,082	35,411	285,803
Due to trust account	24	24	194
Other liabilities (Notes 2 and 14)	43,837	50,752	409,621
Reserve for retirement allowances (Note 2)	7,974	—	—
Allowance for severance and retirement benefits (Note 2)	—	505	4,076
Other reserves (Note 15)	5,982	5,549	44,786
Deferred tax liabilities for land revaluation reserve (Note 2)	22,280	22,262	179,677
Acceptances and guarantees (Note 16)	167,348	172,603	1,393,083
Total liabilities	5,468,886	5,391,866	43,517,886
Stockholders' equity:			
Common stock, par value ¥50 per share:			
Authorized—2,000,000,000 shares			
Issued—612,707,546 shares in 2000 and 614,352,147 shares in 2001	52,011	52,347	422,494
Capital surplus	28,073	28,408	229,282
Legal reserve (Note 18)	39,046	39,753	320,847
Land revaluation reserve, net of tax (Note 2)	30,768	30,743	248,127
Retained earnings	70,538	74,390	600,404
Net unrealized holding gains on securities available for sale (Note 2)	—	3,013	24,318
Total stockholders' equity	220,436	228,654	1,845,472
	¥5,689,322	¥5,620,520	\$45,363,358

See accompanying notes.

Non-Consolidated Statements of Income

Years ended March 31, 2000 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	2000	2001	2001
INCOME				
Interest income:				
Interest on loans and discounts	¥105,305	¥ 99,265	¥ 95,275	\$ 768,967
Interest and dividends on securities	26,707	21,877	19,111	154,245
Other	7,190	5,313	5,401	43,592
Fees and commissions	15,441	15,836	16,657	134,439
Other operating income (Note 19)	3,031	1,303	7,695	62,106
Other income (Note 20)	8,959	28,274	21,550	173,931
	166,633	171,868	165,689	1,337,280
EXPENSES				
Interest expense:				
Interest on deposits	26,844	17,050	13,795	111,340
Interest on borrowings and rediscounts	10,220	6,859	6,587	53,164
Other interest expense	10,328	8,510	6,996	56,465
Fees and commissions	5,223	5,170	5,362	43,277
Other operating expenses (Note 21)	3,772	2,939	3,462	27,942
General and administrative expenses	65,656	66,057	63,985	516,424
Other expenses (Note 22)	39,568	57,902	53,096	428,539
	161,611	164,487	153,283	1,237,151
Income before income taxes	5,022	7,381	12,406	100,129
Income taxes (Notes 2 and 23):				
Current	93	8,437	133	1,073
Deferred	—	(5,651)	4,676	37,740
Net income	¥ 4,929	¥ 4,595	¥ 7,597	\$ 61,316
Amounts per share of common stock (Note 2):				
Net income	¥8.04	¥7.50	¥12.39	\$0.10
Diluted net income	—	7.00	11.17	0.09
Cash dividends applicable to the year	5.00	5.00	5.00	0.04

See accompanying notes.

Non-Consolidated Statements of Stockholders' Equity

Years ended March 31, 1999, 2000 and 2001

	Number of shares of common stock (thousands)	Millions of yen					Retained earnings	Net unrealized holding gains on securities available for sale
		Common stock	Capital surplus	Legal reserve	Land revaluation reserve, net of tax			
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	—	
Net income						7,597		
Conversion of convertible bonds	1,645	336	335					
Land revaluation reserve, net of tax					(25)	25		
Net unrealized holding gains on securities available for sale							3,013	
Cash dividends paid						(3,063)		
Transfer to legal reserve				707		(707)		
Balance at March 31, 2001	614,352	¥ 52,347	¥ 28,408	¥ 39,753	¥ 30,743	¥ 74,390	¥ 3,013	

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Legal reserve	Land revaluation reserve, net of tax	Retained earnings	Net unrealized holding gains on securities available for sale	
Balance at March 31, 2000	\$419,782	\$226,578	\$315,141	\$248,329	\$569,314	\$ —	
Net income					61,316		
Conversion of convertible bonds	2,712	2,704					
Land revaluation reserve, net of tax				(202)	202		
Net unrealized holding gains on securities available for sale						24,318	
Cash dividends paid					(24,722)		
Transfer to legal reserve			5,706		(5,706)		
Balance at March 31, 2001	\$422,494	\$229,282	\$320,847	\$248,127	\$600,404	\$24,318	

See accompanying notes.

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 appropriate Local Finance Bureau of the Ministry of Finance 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 non-consolidated statements of stockholders' equity have been prepared for inclusion in the non-consolidated financial statements although such statements are not customarily prepared in Japan and not filed with the regulatory authorities.

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 readers, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 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 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 stated at market or fair value at the balance sheet date. Financial derivatives such as futures and option transactions are stated 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

Prior to April 1, 2000, securities of the Bank were stated at moving-average cost.

Effective April 1, 2000, the Bank adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the new accounting standard for financial instruments, including derivatives and hedge accounting, income before income taxes increased by ¥315 million (\$2,542 thousand).

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.

Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires all companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

Effective April 1, 2000, the Bank adopted the macro hedging approach to control, in the aggregate, interest rate risk arising from many financial assets and liabilities, such as loans and bills discounted and borrowed money. The macro hedging approach is classified in risk management, referred to as the risk adjusting approach, that is set forth in the Industry Audit Committee Report No.15 “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry”, and the Bank defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized. The Bank assesses the hedge’s effectiveness by considering whether interest rate risk is mitigated and whether risks relating to derivatives fall within the limits placed under the risk management policy.

For other assets and liabilities, the Bank defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized. Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Premises and equipment

Premises and equipment expect for certain land used for business operation, are stated at cost less accumulated depreciation.

The Bank depreciates its premises and equipment under the declining balance method over its estimated useful lives. Estimated useful lives are as follows:

Buildings:	22–50 years
Others:	3–20 years

Pursuant to the Law concerning Revaluation of Land (the “Law”), certain land for business operations as of March 31, 1998 was revalued at fair value. Due to the revaluation, land was appreciated by ¥53,429 million to ¥71,380 million as of 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 and 2001 was ¥11,652 million and ¥16,566 million (\$133,705 thousand), respectively.

Software cost

Software for use by the Bank is amortized over the term which can be used (five 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.

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.

In accordance with the audit treatment of new foreign currency transactions for banking industry as of April 10, 2000 issued by JICPA, the Bank accounts for foreign currency translation in the same manner as previous years.

Reserve for possible loan losses

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, 2000 and 2001 in the accompanying non-consolidated balance sheets included the reserve for the write-off of specific loans identified by management amounting to ¥45,518 million and ¥15,173 million (\$122,462 thousand), respectively, and the reserve for possible losses for certain specific overseas loans amounting to ¥241 million and ¥135 million (\$1,090 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 estimated not to be collected through disposition of collateral or through execution of guarantees. Such amounts directly set off against those loans at March 31, 2000 and 2001 amount to ¥69,755 million and ¥77,828 million (\$628,152 thousand), respectively.

Employees' severance and retirement benefits

The Bank provides three types of post-employment benefit plans, unfunded lump-sum payment plans, funded contributory pension plans, and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

At March 31, 2000, the reserve for retirement allowances was 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. The Bank recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Bank adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Retirement Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Bank provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥15,146 million (\$122,244 thousand), which will be recognized in expenses in equal amounts over five years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses using the straight-line method over fourteen years, which is not longer than the average of the estimated remaining service lives, commencing with the following period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥1,652 million (\$13,333 thousand) and income before income taxes increased by ¥1,567 million (\$12,647 thousand) compared with what would have been recorded under the previous accounting standard. Gain on securities contributed to employee retirement benefits amounted to ¥3,220 million (\$25,989 thousand) is included in income before income taxes.

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 temporary differences between the

financial statement basis and tax basis 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 at March 31, 2000 and increased net income by ¥5,651 million for the year then ended.

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 and 2001 was and ¥7.00 and ¥11.17 (\$0.09), respectively. 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 1999 and 2000 non-consolidated financial statements have been reclassified to conform with the 2001 presentation.

3. Securities

Securities at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
National government bonds	¥314,699	¥ 388,110	\$3,132,446
Local government bonds	91,893	80,110	646,570
Corporate bonds	254,812	337,730	2,725,827
Shares	195,575	164,743	1,329,645
Other securities	99,624	167,213	1,349,580
	¥956,603	¥1,137,906	\$9,184,068

4. Loans and bills discounted

Loans and bills discounted at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Bills discounted	¥ 125,316	¥ 138,381	\$ 1,116,877
Loans on notes	663,806	628,840	5,075,383
Loans on deeds	2,366,311	2,435,962	19,660,710
Overdrafts	719,865	670,548	5,412,010
	¥3,875,298	¥3,873,731	\$31,264,980

Doubtful loans at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	¥11,132	¥21,067	\$170,032
Other delinquent loans	25,150	64,173	517,942
Accrual loans past due three months or more	9,792	3,912	31,574
Restructured loans, including loans to supported companies	39,917	48,064	387,926

Effective for the year ended March 31, 2000, the Bank stopped accruing interest on loans to borrowers under bankruptcy proceeding and other delinquent loans, which was based on the results of self-assessment.

5. Foreign exchanges

Foreign exchange assets and liabilities at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Assets:			
Due from foreign banks	¥ 637	¥ 837	\$ 6,756
Foreign exchange bills bought	471	359	2,898
Foreign exchange bills receivable	1,497	2,021	16,311
	¥2,605	¥3,217	\$25,965
Liabilities:			
Due to foreign banks	¥ 13	¥ 6	\$ 48
Foreign exchange bills sold	257	145	1,171
Foreign exchange bills payable	9	6	48
	¥ 279	¥ 157	\$ 1,267

6. Other assets

Other assets at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Domestic exchange settlement account	¥ 17	¥ 18	\$ 145
Prepaid expenses	281	56	452
Accrued income	10,867	9,662	77,982
Derivatives	—	3,189	25,738
Deferred loss on hedging instruments	—	1,505	12,147
Other	13,204	14,061	113,487
	¥24,369	¥28,491	\$229,951

7. Premises and equipment

Premises and equipment at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Land, buildings and equipment	¥150,583	¥148,285	\$1,196,812
Construction in progress	62	47	379
Guaranty money deposited	6,602	6,396	51,622
	157,247	154,728	1,248,813
Less accumulated depreciation	49,323	48,174	388,813
	¥107,924	¥106,554	\$ 860,000

8. Assets Pledged

At March 31, 2000 and 2001, the following assets were pledged as collateral for certain liabilities of the Bank:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Securities	¥26,389	¥12,039	\$97,167

The collateral was pledged to secure:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deposits	¥15,852	¥3,847	\$31,049
Call money	8,492	7,434	60,000

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 and ¥238,135 million (\$1,921,994 thousand) at March 31, 2000 and 2001, respectively.

9. Commitment line

Contracts of overdrafts facilities and loan commitment limits are the contract, under which the Bank lends to customers up to the prescribed limits in response to customers' application of loan as long as there is no violation of any condition in the contracts. The unused amount within the limits total ¥1,077,026 million (\$8,692,704 thousand) relating to these contracts. All contracts are under condition that the terms of the contract are within one year or the Bank can revoke these contract voluntarily.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Bank can refuse customers' application for loan or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of contracts, the Bank obtains real estate, securities, etc. as collateral if considered to be necessary. Subsequently, the Bank performs periodic review of the customers' business results based on internal rules, and takes necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

10. Deposits

Deposits at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Current deposits	¥ 175,691	¥ 210,771	\$ 1,701,138
Ordinary deposits	1,138,946	1,242,461	10,027,934
Deposits at notice	101,365	60,365	487,207
Time deposits	3,015,055	2,804,462	22,634,883
Other	485,747	434,516	3,506,990
	4,916,804	4,752,575	38,358,152
Negotiable certificates of deposits	26,730	89,940	725,908
	¥4,943,534	¥4,842,515	\$39,084,060

11. Borrowed money

Borrowed money included subordinated loans totaling ¥161,500 million and ¥136,000 million (\$1,097,659 thousand) at March 31, 2000 and 2001, respectively.

12. Bonds

Bonds included subordinated bonds totaling ¥10,000 million (\$80,710 thousand) at March 31, 2001.

13. Convertible bonds

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
1.8% due 2002, convertible into common stock at ¥994.70 per share	¥ 6,145	¥ 6,145	\$ 49,596
0.4% due 2003, convertible into common stock at ¥408.00 per share	29,937	29,266	236,207
	¥36,082	¥35,411	\$285,803

14. Other liabilities

Other liabilities at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Domestic exchange settlement account	¥ 1,187	¥ 864	\$ 6,973
Income taxes payable	7,868	118	952
Accrued expenses	20,453	15,636	126,199
Unearned income	5,260	2,295	18,523
Employees' saving deposits	1,492	1,326	10,702
Derivatives	—	4,459	35,989
Other	7,577	26,054	210,283
	¥43,837	¥50,752	\$409,621

15. Other reserves

Other reserves at March 31, 2000 and 2001 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.

16. 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.

17. Other guarantee

The Bank and The Bank of Fukuoka leased computers jointly and guaranteed the other party's lease obligation amounted to ¥3,955 million (\$31,921 thousand) mutually in accordance with the agreement regarding joint development of a mainframe system and joint lease of electronic calculating machine.

18. 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.

19. Other operating income

Other operating income for the years ended March 31, 1999, 2000 and 2001 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	2000	2001	2001
Gain on sales and maturities of government bonds	¥1,966	¥360	¥6,689	\$53,987
Foreign exchange gain	1,020	925	758	6,118
Other	45	18	248	2,001
	¥3,031	¥1,303	¥7,695	\$62,106

20. Other income

Other income for the years ended March 31, 1999, 2000 and 2001 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	2000	2001	2001
Gains on sale of shares and other securities	¥6,987	¥26,960	¥16,519	\$133,325
Gain on money held in trust	—	—	—	—
Gain on disposal of premises	265	32	58	468
Gain on securities contributed to employee retirement benefit trust	—	—	3,220	25,989
Other	1,707	1,282	1,753	14,149
	¥8,959	¥28,274	¥21,550	\$173,931

21. Other operating expenses

Other operating expenses for the years ended March 31, 1999, 2000 and 2001 consisted of loss on sales and maturities of bond securities.

22. Other expenses

Other expenses for the years ended March 31, 1999, 2000 and 2001 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	2000	2001	2001
Devaluation of securities	¥ 9,918	¥ 2,407	¥ 6,008	\$ 48,491
Losses on money held in trust	—	—	—	—
Provision for possible loan losses	19,694	45,225	9,457	76,328
Write-off of claims	359	192	32,120	259,241
Severance and retirement benefit expenses	—	—	3,029	24,447
Other	9,597	10,078	2,482	20,032
	¥39,568	¥57,902	¥53,096	\$428,539

23. Income taxes

Income taxes in the statements of income consist of corporation tax, inhabitant taxes and enterprise tax. The statutory tax rate was approximately 47%, 42% and 42% in 1999, 2000 and 2001, respectively. The effective tax rates differ from the statutory tax rate primarily as a result of temporary difference.

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 and 2001.

	2000	2001
Statutory tax rate	42.0 %	42.0 %
Non-deductible expenses (Entertainment expense etc)	2.1	1.3
Non-taxable income (Dividend income etc)	(7.0)	(3.9)
Other	0.6	(0.6)
Effective tax rate	37.7 %	38.8 %

Significant components of deferred tax assets as of March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deferred tax assets :			
Reserve for possible loan losses	¥44,068	¥32,785	\$264,608
Net operating losses carry forward	—	5,826	47,022
Allowance for severance and retirement benefits	2,064	2,732	22,050
Devaluation of securities	1,313	3,446	27,813
Reserve for possible losses on sale of loans	2,512	2,331	18,813
Depreciation	1,833	—	—
Other	2,612	3,940	31,800
Total deferred tax assets	54,402	51,060	412,106
Deferred tax liabilities :			
Gain on securities contributed to employee retirement benefit trust	—	1,352	10,912
Net unrealized holding gains on securities available for sale	—	2,182	17,611
Total deferred tax liabilities	—	3,534	28,523
Net deferred tax assets	¥54,402	¥47,526	\$383,583

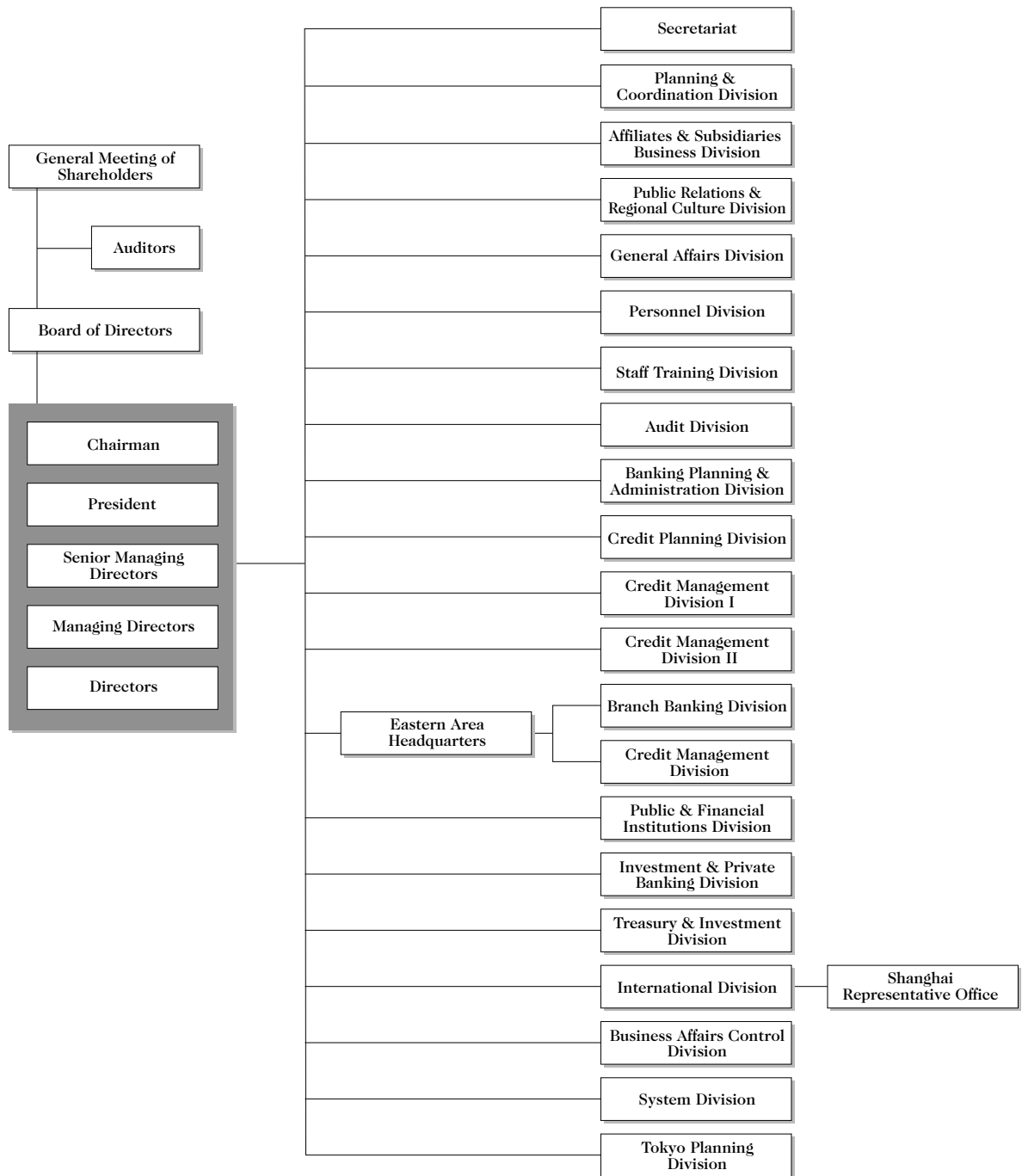
24. Subsequent event

The following appropriations of retained earnings applicable to the year ended March 31, 2001 were approved at the stockholders' meeting held on June 28, 2001.

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Appropriations:		
Cash dividends (¥2.50 per share)	¥1,535	\$12,389
Transfer to legal reserve	400	3,228

Organization

(As of June 30, 2001)



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