HIROSHIMA BANK

ANNUAL REPORT 2002

広島銀行

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 yesrs. 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, 2002, Hiroshima Bank had offices in 217 locations within Japan, securing it a place as one of the largest regional banks in the country. The bank has 3,550 employees, and assets totaling ￥5,747 billion ($43,134 million) on a non-consolidated basis.

Contents

The Hiroshima Bank, Ltd. and consolidated subsidiaries

Consolidated Financial Highlights

March 31,	Millions of yen 2001	2002	Thousands of U.S. dollars (Note 1) 2002
For the Year:			
Total Income	¥167,275	**¥147,325**	**$1,105,629**
Total Expenses	155,069	**218,702**	**1,641,291**
Income (Loss) before Income Taxes	12,206	**(71,377)**	**(535,662)**
Net Income (Loss)	8,041	**(39,803)**	**(298,709)**
At Year-end:			
Total Assets	¥5,558,730	**¥5,697,592**	**$42,758,664**
Deposits	4,840,326	**4,972,362**	**37,316,037**
Loans and Bills Discounted	3,858,036	**3,861,924**	**28,982,544**
Securities	1,137,323	**1,191,841**	**8,944,398**
Stockholders' Equity	217,765	**188,776**	**1,416,705**

Note: The U.S. dollar amounts represent translation of Japanese yen at the exchenge rate of \133.25 to U.S.$1.00 on March 31, 2002.

The Hiroshima Bank, Ltd.

Non-consolidated Five-Year Summary

March 31,	Millions of yen 1998	1999	2000	2001	2002
For the Year:					
Total Income	¥220,814	¥166,633	¥171,868	¥165,689	**¥143,806**
Total Expenses	259,730	161,611	164,487	153,283	**215,804**
Income (Loss) before Income Taxes	(38,916)	5,022	7,381	12,406	**(71,998)**
Net Income (Loss)	(39,032)	4,929	4,595	7,597	**(41,534)**
At Year-end:					
Total Assets	¥5,864,322	¥5,787,975	¥5,689,322	¥5,620,520	**¥5,747,585**
Deposits	4,907,268	4,862,592	4,943,534	4,842,515	**4,973,305**
Loans and Bills Discounted	4,306,542	4,174,474	3,875,298	3,873,731	**3,861,924**
Securities	919,843	927,480	956,603	1,137,906	**1,192,467**
Common Stock	51,980	51,980	52,011	52,347	**53,906**
Stockholders' Equity	137,268	170,011	220,436	228,654	**188,674**
Number of Offices	230	225	229	221	**217**
Number of Employees	4,006	3,892	3,832	3,712	**3,550**

Note: “ Number of Offices ” includes overseas branches and sub-branche offices.

Message from the Management

The unexpectedly prolonged economic slump and the ¥10 million per-customer limit on deposit guarantees, so-called "Pay-Off system," scheduled to be fully implemented in April 2003 are expected to contribute to an even harsher operating environment for Japan’s financial sector. Today, more than ever, those responsible for managing financial institutions must prepare their organizations to foresee and be ready for changes in the environment.

In fiscal 2001, Hiroshima Bank determined that, in order to overcome the challenges that lie ahead, it needed to significantly improve its financial soundness by laying the foundation for stronger management in the future and for ensuring stable profitability from fiscal 2002 onward. Supported by the solid results of our regular banking business, we elected this year to realize a number of losses that otherwise would have been realized in future years, with the result that the Bank recorded a loss for the year. The officers and employees of the Bank are determined to bring about a rapid recovery in corporate performance for fiscal 2002, with an accompanying early recovery in the Bank’s shareholder value.

Strategies to achieve this turnaround include the adoption of the Bank’s Fourth Midterm Management Plan in May 2002, which calls for a solid operational foundation in the local community and a range of value-added products and services for our customers. We are working to fully leverage the unique strengths of the Bank, achieve a low-cost operating structure, and effectively apply new information technologies, such as the core business processing system we jointly develop with the Bank of Fukuoka. These and other initiatives are intended to enhance the value of the Bank and repay the trust placed in us by our customers.

Basic management policy

As set out in our "Reliance 21" long-term management plan and our guiding vision of "the creation of a reliable Hiroshima Bank linked to the regional society by strong relationships of mutual trust," we as a core financial institution for the region have adopted four management philosophies designed to contribute to the sound development 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 the region. Reflecting this commitment is the Bank’s strengthening of its financial position through increasing retained earnings while returning stable dividends to stockholders. Cash dividends have therefore been maintained at ¥5.00 per share for fiscal 2001.

Midterm and Long-term management strategies

The speedy implementation of the New Structural Reforms set out in the Third Midterm Management Plan, covering fiscal 2000 through fiscal 2002, is a crucial part in surpassing our competitors and earning the enduring trust of customers, shareholders and financial markets as called for in our "Reliance 21" long-term management plan. With the economic slump continuing for much longer than expected, however, and in light of the full implementation of the Deposit Insurance Corporation’s "Pay-Off system" in April 2003, it is expected that the operating environment for Japan’s financial institutions will grow harsher than ever.

In response to this deteriorating operating environment, we have formulated the Fourth Midterm Management Plan, for the three years from fiscal 2002 through fiscal 2004. Superceding the last year of the previous plan, the Fourth Plan calls for the continued implementation of the New Structural Reforms and establishes four strategies for the period, namely becoming a "First Call Bank," restructuring to strengthen profitability and lighten the balance sheet, establishing lower-cost operations, and strategically applying information technology through joint financial information processing systems.

Through its rigorous implementation of the Fourth Midterm Management Plan, the Bank is determined to achieve a rapid recovery in corporate performance for fiscal 2002 and ensure stable profitability in the future, thereby reinforcing the trust and respect of our customers, shareholders and financial markets.

Organizational changes

To ensure the Bank’s ability to accurately analyze and swiftly respond to the rapidly evolving operating environment, we are strengthening the strategic functions of the Board of Directors and streamlining our decision-making process.

We have more clearly defined the role of the Board, which is to establish management and other overarching policies, manage banking matters mandated by law, and establish policy on various issues related to the Bank's operations. The Board normally meets twice a month. We have also formed the Management Council, a working-level body made up of representative, senior managing and managing directors. The Council normally meets weekly to discuss and make decisions regarding the Bank’s overall operations in line with policy established by the Board of Directors.

To improve the transparency of its management, Hiroshima Bank works to make information available in a timely manner and through a variety of channels. Our proactive investor relations program includes information sessions for investors every six months. We recognize the importance of disclosure and are currently considering quarterly disclosure. We will also continue to improve the quality of the information we disclose.

Challenges ahead

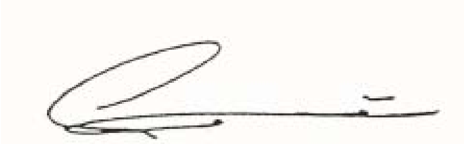
The environment in which financial institutions operate is becoming more demanding: the value of assets continues to decline under prolonged deflationary pressure, and with the implementation of the deposit insurance limit depositors can be expected to examine financial institutions more closely before making a decision to become a customer.

Squarely facing these challenges, Hiroshima Bank commits itself to playing a leading regional role and further advancing the confidence of its customers, shareholders and financial markets. As defined under our "Reliance 21" long-term management plan, we will continue to strengthen profitability and reinforce our operating base.

Having recorded a loss for the fiscal year, we believe that this action, together with the improved soundness of our assets, sets the stage for future progress. The Bank’s officers and staff are determined to work together to improve profitability and boost performance as outlined in the new midterm management plan, thereby upholding the trust placed in us by our customers.

As the leading financial institution in the region, we will continue to meet the needs of our customers as innovatively as possible, deepening our roots in the regional community to further establish ourselves through strong bonds of mutual trust. We will continue to make steady progress toward our goal of becoming the "First Call Bank," the bank that customers turn to first for all their financial needs.

July 2002



Sho Takahashi
President

Five-Year Review of Selected Financial Data (non-consolidated base)

March 31,	1998	1999	2000	2001	**2002**
					Millions of yen
Gross banking profit	102,174	103,124	105,693	104,903	**105,851**
Expenses	69,354	65,556	65,694	63,807	**62,637**
Core banking profit	32,819	37,567	39,998	41,096	**43,213**
Banking profit	39,398	35,181	32,803	42,629	**31,393**
Income (loss) before income taxes	(38,916)	5,022	7,381	12,406	**(71,998)**
Net income (loss)	(39,032)	4,929	4,595	7,597	**(41,534)**
Common Stock	51,980	51,980	52,011	52,347	**53,906**
					thousands of shares
Total shares issued	612,553	612,553	612,707	614,352	**621,994**
					Millions of yen
Stockholders' equity	137,268	170,011	220,436	228,654	**188,674**
Total assets	5,864,322	5,787,975	5,689,322	5,620,520	**5,747,585**
Deposits	4,907,268	4,862,592	4,943,534	4,842,515	**4,973,305**
Loans and bills discounted	4,306,542	4,174,473	3,875,298	3,873,731	**3,861,924**
					Yen
Net assets per share	224.09	277.54	359.77	372.18	**303.34**
Annual dividends per share	5.00	5.00	5.00	5.00	**5.00**
					Emoloyees
Number of employees	4,006	3,892	3,832	3,712	**3,550**
					%
Capital adequacy ratio (Japanese standard)	—	8.53	8.72	9.27	**8.16**

Note: "Gross banking profit" and "Core banking profit" exclude profits and losses from securities and provision for possible loan losses.
"Banking profit" is a profit indicator defined by the Ministry of Finance ("MOF") includes net interest income, net fee income, and other operating gains and losses, minus overhead.

Overview of Financial Results

Enhanced profitability

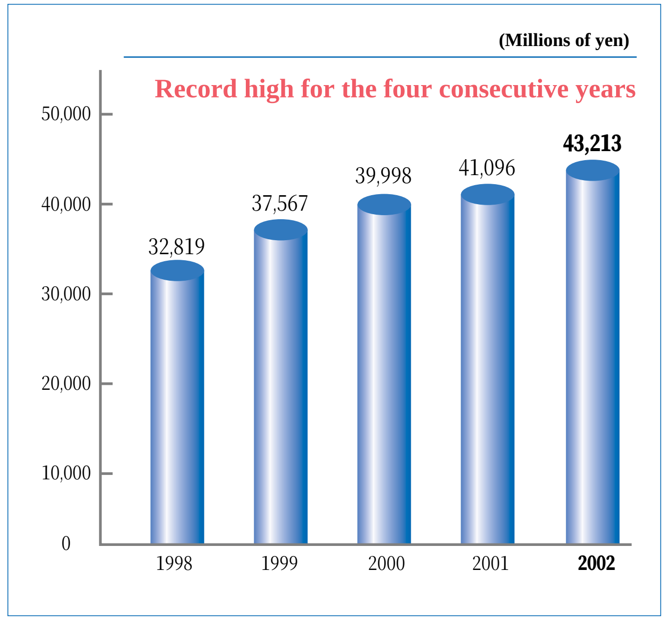
Gross banking profit ¥105.8 billion	Gross banking profit increased ¥900 million from last year to reach ¥105.8 billion. This gain was the result of greater profitability achieved through wider spreads on the rates applied to deposits and loans and revenues from new fee-based business.
Expenses ¥62.6 billion	Expenditures were reduced ¥1.2 billion from last year through personnel reductions and Bank-wide initiatives to reduce costs in all areas.
Core banking profit ¥43.2 billion	Core banking profit is a key indicator of a bank's true profitability. This fiscal year is Hiroshima Bank's fourth consecutive year of record results. Core banking profit rose ¥2.1 billion from last year to reach ¥43.2 billion for the fiscal year.

Measures to improve financial soundness

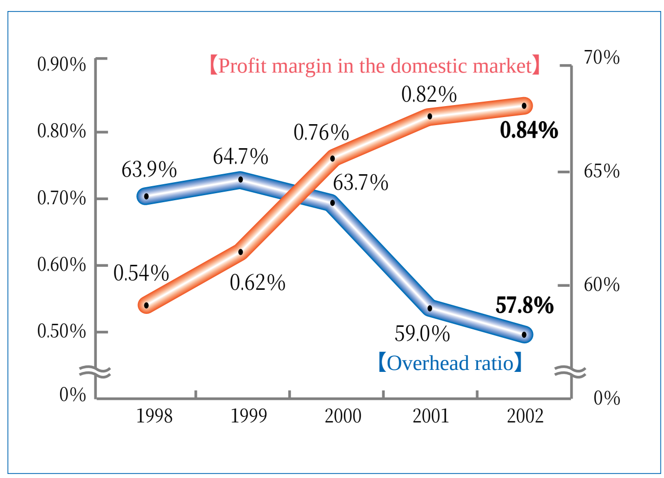
- **Write-downs in the book values of securities held**
- **Write-offs of bad debt**
- **Allocation made to increase the allowance for severance and retirement benefits to meet updated actuarial requirements**

As a result of the above, losses for the fiscal year totalled ¥41.5 billion.

Trends in core banking profit



Trends in overhead ratio (OHR) and profit margin in the domestic market

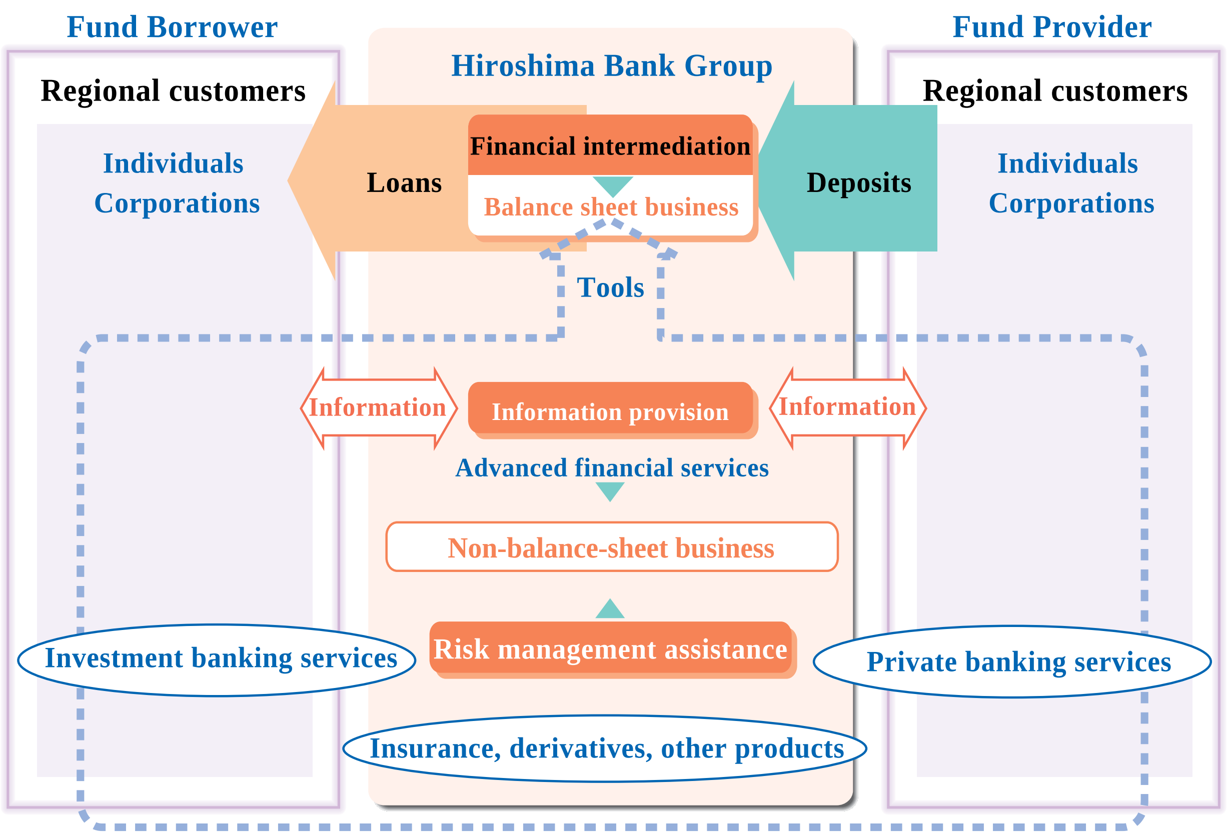


Formulation of the Fourth Midterm Management Plan

Under the Third Midterm Management Plan, which began in fiscal 2000, the Bank made successful efforts to win the trust of its customers, as defined under its "Reliance 21" long-term management plan, by rapidly implementing the New Structural Reforms and thereby moving ahead of its competition.
We expect the environment surrounding the financial sector to grow even more demanding as the economic slump continues and the "Pay-Off system" is implemented in April 2003.
Intended to guide the Bank through fiscal years 2002, 2003 and 2004, the Fourth Midterm Management Plan was formulated through the comprehensive review of the Third Plan with the aim of more strategically addressing the challenges facing management today and in the months and years to come.

Hiroshima Bank business model

To continue to accurately meet increasingly diverse and sophisticated customer needs and contribute to the regional economy and the people who live and work here, we provide much-needed products and services in the form of financial intermediation, information provision, and risk management assistance.



Playing a new regional bank role by offering new and indirect financing services to the region

With financial intermediation (balance sheet business) at the core, the Bank also uses advanced financial services as key tools.

Objectives of the Fourth Midterm Management Plan

The Fourth Midterm Management Plan sets out four objectives:

1. Become the "First Call Bank."

■Improve our ability to provide the comprehensive solutions, making available all of the products and services the Bank has to offer, in response to customer inquiries. The goal is to establish ourselves as the bank our customers call first to address their financial needs.

2. Strengthen profitability and lighten the balance sheet.

■Strengthen profitability for the Hiroshima Bank Group as a whole by aggressively developing a total solutions business.

■Remove bad debt from the balance sheet as quickly as possible, reduce exposure in relation to stock held and minimize holdings of low-return assets.

3. Establish lower-cost operations.

■Reduce operating expenses by reexamining the Bank’s cost structure and more aggressively implement streamlining efforts.

4. Strategically use information technology through joint financial information processing systems

■Fully exploit the features of the mainframe system we share with the Bank of Fukuoka to strengthen sales efforts, for example, by providing crucial products and services in a more timely fashion, enhancing risk control and profit management and increasing operational efficiency.

■New Structural Reforms

Awareness reform	Business processing system reform
Business strategy reform	Human resource policy reform
Risk management reform	Cost reduction reform

The ten key areas for reform defined in the Third Midterm Management Plan have been consolidated into six crucial areas: awareness reform, business strategy reform, risk management reform, business processing system reform, human resources policy reform, and cost reduction reform.

■Targets for fiscal 2004

	Target
Consolidated net profit	¥20 billion
Consolidated ROE (*1)	Between 7.5 and 8.0%
Consolidated Capital adequacy ratio	Between 9.5 and 10.0%
Tier 1 ratio	Between 6.0 and 6.5%

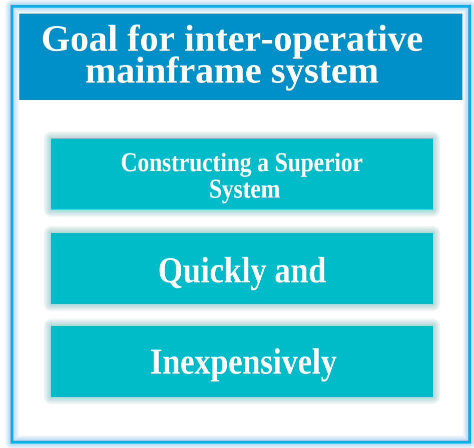
(Non-consolidated)

Banking profit	¥50 billion
OHR (*2)	53%

*1 ROE = net income divided by stockholders’ equity

*2 Overhead ratio = expenses divided by Gross operating profit

Joint System Development with the Bank of Fukuoka



Progress to date

In January 2000, Hiroshima Bank and the Bank of Fukuoka agreed to jointly develop a mainframe system. This project is well underway, with start-up scheduled for January 2003.

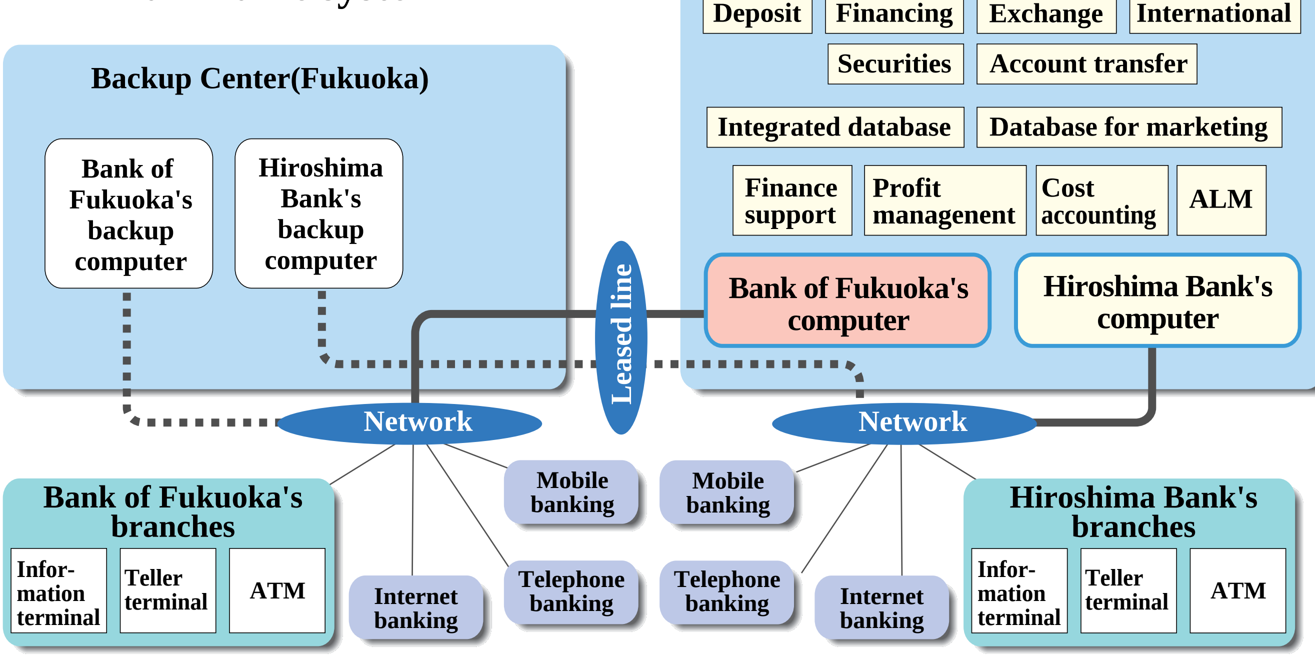
In August 2000, the two banks jointly established Kyodo Data Services Co., Ltd., a system development company. The role of this company is to speed up the development process and integrate decision-making at the development stage.

All joint systems are expected to commence operation in January 2003 as planned. However, a number of subsystems will be ready for use before that date and are being put online as they become operational. To date, subsystems that have become operational include the customer database system for marketing (October 2000), securities system (October 2000), the cost accounting system (April 2001) and the profit management system (January 2002).

Latest update

In January 2002, the joint mainframe system for the Bank of Fukuoka became operational at the Joint Operation Center in Hiroshima as scheduled, marking solid progress toward the goal of improved efficiency through shared resources.

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 intergrated database.

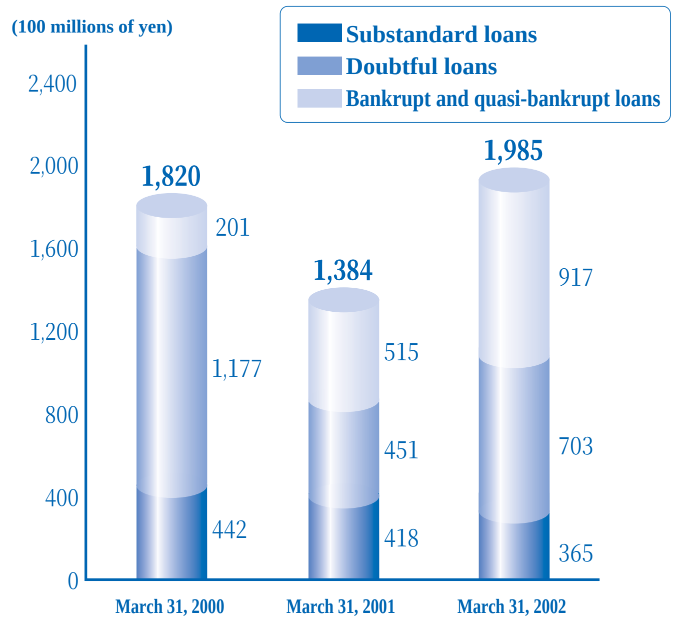
Disclosure under the Financial Revitalization Law (non-consolidated)

Loan classification As of March 31, 2002

	100 millions of yen
Normal loans	38,327
Substandard loans	917
Doubtful loans	703
Bankrupt and quasi-bankrupt loans	365

As of March 31, 2002	Substandard loans	Doubtful loans	Bankrupt and quasi-bankrupt loans	Total disclosed amount	Change from totals for March 31, 2001
				100 Millions of yen	
Disclosed totals (1)	917	703	365	1,985	+601
Portion covered by collateral (2)	338	288	357	983	+121
Portion covered by reserve(3)	137	307	8	452	+266
Cover (4)=(2)+(3)	475	595	365	1,435	+387
Coverage for total disclosure(4)/(1)	51.8%	84.6%	100.0%	72.3%	△3.4%
(Coverage for total disclosure as of March 31, 2001)	(41.3%)	(92.4%)	(100.0%)	(75.7%)	
Percentage of total outstanding loans	2.3%	1.7%	0.9%	4.9%	+1.5%

Trends in loans



Bank policy on non-performing loans

Notes on asset audit for fiscal year ended March 31, 2002

1. Disclosure under the Financial Revitalization Law

The performance of Japan's private sector has worsened with the prolonged economic slump, leading to an material increase in the value of substandard loans (loans three or more months past due or that have been granted relaxed repayment conditions). As a result, the amount disclosed for this fiscal year rose ￥60.1 billion from the amount disclosed at March 31, 2001 to reach ￥198.5 billion.

2. Coverage provided by collateral and reserve

The amount disclosed increased, but the coverage provided by collateral and by the reserve with respect to the total disclosed remained approximately the same as for the fiscal year ended March 31, 2001, indicating that the Bank has maintained sufficient coverage for risk.

3. Percentage of total outstanding loans

The percentage of total outstanding loans rose 1.5% from March 31, 2001 to 4.9% for this fiscal year.

Policies to enhance the quality of the Bank's loan portfolio

The Bank is strengthening its efforts to enhance the quality of its loan portfolio.

- **Use of a credit rating system that assesses individual credit risk.**
- **Enhancement of the credit management system used by the Bank's head and branch offices particularly in relation to loans affected by the poor economic situation.**
- **Strict management of the upper limit for unsecured loans to each customer.**

These actions are intended to improve the effectiveness of our credit risk management. In addition, we continue to implement programs to ensure that all officers and employees operate effectively at every stage of the credit process, from the loan application, to the evaluation of that application, to the management of any resulting loan, in order to maintain the quality of our overall loan portfolio.

Leasing tie-up with Diamond Lease

To continue to fully meet customers' requirements for leasing services, the Bank, through its leasing affiliate, Hirogin Lease Co., Ltd., has entered into a broad-based tie-up with Diamond Lease Co., Ltd.

This new relationship combines the strong regional customer base of the Bank with the highly competitive products and services, extensive sales expertise and field-proven systems of Diamond Lease. The goal is to create a new paradigm for the provision of financial service.

Customers dealing with Hirogin Lease will be able to take advantage of the full line-up of superior products and services offered by Diamond Lease when making investments in equipment and facilities.

Through this type of proactive tie-up with other financial institutions, the Bank not only receives the benefit of their specialized sales and management experience, but also is able to expand its range of transactions and increase profitability by providing even more valuable financial products and services to customers .

Expansion of the Housing Loans Center

At the Bank's five Housing Loans Centers, an expert staff has been assembled to field inquiries and process applications for housing loans. These centers are located in Hiroshima Prefecture, at Hiroshima, North-Hiroshima, Kure, Saijo and Fukuyama.

The staff of the Hiroshima Housing Loans Center was expanded on April 22, 2002, and on May 7, 2002, the Fukuyama Housing Loans Center relocated to a larger office adjacent to the Fukuyamanishi Branch, with a corresponding increase in staff. These improvements are all part of our ongoing plan to respond to customer needs more rapidly and accurately.

The Bank will continue to fulfill its responsibility as a regional financial institution, assisting customers in acquiring housing and working to constantly improve service by making consultations easier, responses faster, the Bank easier to use.

Business cooperation with leading financial institutions in Japan and overseas

Hiroshima Bank is actively instituting a number of cooperative relationships with leading banks in Japan and elsewhere to enable it to continue to fulfill the financial, trade and investment needs of its customers as they expand overseas. In June 2001, the Bank entered into an agreement on commercial cooperation with the Japan Bank for International Cooperation, followed by similar agreements with the Bangkok Bank Public Company Limited (Thailand) in September of that year and with the Korea Exchange Bank in February 2002. In July 2001, Hiroshima Bank became the first Japanese bank to offer Chinese yuan-denominated loans through a tie-up with the Bank of China's Tokyo Branch.

The Bank will continue to actively develop beneficial new relationships with leading financial institutions in the world to provide customers with global services, critical information and financing for expansion into world markets.

Adoption of an executive officer system

In June 2002, the Bank implemented an executive officer system.

Objectives of the executive officer system:

A number of the executive business functions formerly performed by the directors have been transferred to newly designated executive officers. The intention is to establish a quick-response executive system and decrease the day-to-day management responsibilities of the Board of Directors.

Role of the executive officer:

The executive officer operates under the direction and management of the directors to perform designated functions.

Financial Review

Overview

Fiscal 2001 saw Japan's economy experience a decline in exports and a resulting drop in production. Coupled with the prolonged slump in domestic demand, these factors led to an overall worsening of general economic conditions. In the second half of the year in particular, the deceleration of the American economy following the terrorist attack of September 11 occurred just as employment and income prospects in Japan were deteriorating in response to lower corporate profits and the structural reforms and retrenching taking place both in government and the private sector.

Hiroshima's regional economy continued to do poorly, with depressed personal consumption and sharp drops in housing and public works spending. In terms of industrial production, a continued decline was seen in the manufacture of electrical equipment, especially information technology, as well as in other major industrial sectors including automobiles and steel-making.

In finance, the Bank of Japan continued to implement policies providing quantitative easing, such as increasing the target for current account deposit balance that banks have with the Bank of Japan. Interest rates remained low, and a variety of restructuring and streamlining was seen in the financial sector as it prepared for the ¥10 million per-customer limit on deposit guarantees, so-called "Pay-Off system" to be partially implemented in April 2002.

Within this economic and financial environment, Hiroshima Bank continued its policy of serving the region and its customers first, with all members of the Hiroshima Bank Group working to provide comprehensive, seamless financial service.

Financial position

During the fiscal year, Hiroshima Bank pursued a strategy of business activity closely tied to the region, leading to increases in both individual and corporate deposits. As a result, total deposits increased by ¥174.5 billion, to reach ¥4,927 billion at the end of the fiscal year.

Faced with weak demand for funds due to the sluggish economy, and to maintain the soundness of assets, the Bank aggressively worked to reduce non-performing loans. As a result of the Bank's emphasis on individual and corporate customers in its service region, loans showed a healthy increase of ¥3.8 billion led by the increase of loans to individual, raising the total at the end of the fiscal year to ¥3,861.9 billion.

Performance

A determined effort was made to effectively procure and use funds while promoting rationalization in every aspect of the Bank's operations, thereby improving its profit-making capabilities. The Bank also recorded a number of losses in relation to the market-value accounting of securities, took a lump-sum depreciation to address current-value fluctuations in the retirement benefits reserve, wrote off non-performing loans, and increased loan reserves in line with its strict internal audit procedures, thereby improving the soundness of Bank assets but resulting in a pretax loss of ¥71.377 billion and a net loss of ¥39.803 billion for the fiscal year.

In fiscal 2002, we will continue to actively apply management resources to the region we serve, strengthening our sales efforts and working to further increase asset soundness. At the same time we will also rapidly implement the Fourth Midterm Management Plan to improve performance. We forecast net income of ¥6.5 billion for the first six months of fiscal 2002 and ¥14.1 billion for the year.

Cash flows

Net cash provided by operating activities totalled ¥266.7 billion, an increase of ¥236.2 billion, fueled by strong individual deposits, while net cash used in investing activities decreased ¥63.2 billion to ¥88.3 billion due to increased liquidation of securities. Net cash used in financing activities decreased ¥7.9 billion to reach ¥10.6 billion, due to the decrease of repayment of subordinated loans, with the result that cash and cash equivalents at the end of the fiscal year increased ¥167.8 billion to ¥338.5 billion.

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, 2001 and 2002, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2002, 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, 2001 and 2002, the consolidated results of their operations and cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in Japan (Note 1) 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 as explained in Note 2, effective April 1, 2001, THE HIROSHIMA BANK, LTD. changed the method of amortizing net transition obligations of employees' severance and retirement benefits, with which we concur.

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 27, 2002

Consolidated Balance Sheets

As of March 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
ASSETS			
Cash and due from banks (Note 14)	¥208,781	¥358,500	$2,690,432
Call loans and bills purchased	63,449	10,177	76,375
Financial receivables purchased (Note 3)	11,780	14,308	107,377
Trading assets (Notes 2 and 3)	2,194	3,848	28,878
Securities (Notes 2, 3 and 5)	1,137,323	1,191,841	8,944,398
Loans and bills discounted (Notes 4 and 6)	3,858,036	3,861,924	28,982,544
Foreign exchanges	3,217	3,895	29,231
Other assets	28,481	29,820	223,790
Premises and equipment (Notes 2 and 5)	112,249	104,049	780,856
Deferred tax assets (Notes 2 and 12)	46,405	76,745	575,947
Customers' liabilities for acceptances and guarantees	123,103	112,464	844,007
Reserve for possible loan losses (Note 2)	(36,061)	(68,087)	(510,972)
Allowance for investment losses (Note 2)	(227)	(1,892)	(14,199)
	¥5,558,730	¥5,697,592	$42,758,664
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits (Note 5)	¥4,840,326	4,972,362	$37,316,037
Call money and bills sold (Note 5)	7,434	58,685	440,413
Trading liabilities (Note 2)	1,009	2,477	18,589
Borrowed money (Note 7)	114,145	104,166	781,734
Foreign exchanges	157	298	2,236
Bonds (Note 8)	139,500	139,500	1,046,904
Convertible bonds	35,411	32,293	242,349
Due to trust account	24	24	180
Other liabilities	51,444	48,267	362,229
Allowance for severance and retirement benefits (Notes 2 and 9)	601	11,266	84,548
Other reserves	5,549	5,158	38,709
Deferred tax liabilities for land revaluation reserve (Note 2)	22,262	21,856	164,023
Acceptances and guarantees	123,103	112,464	844,008
Total liabilities	5,340,965	5,508,816	41,341,959
Stockholders' equity (Note 11):			
Common stock :			
Authorized - 2,000,000,000 shares			
Issued - 614,352,147 shares in 2001 and 621,994,293 shares in 2002	52,347	53,906	404,548
Capital surplus	28,408	29,967	224,893
Land revaluation reserve, net of tax (Note 2)	30,743	30,182	226,507
Retained earnings	103,303	70,194	526,784
Net unrealized holding gains on securities available for sale	2,967	4,560	34,221
Foreign currency translation adjustments (Note 2)	(0)	(0)	(0)
Common stock in treasury	(3)	(33)	(248)
Total stockholders' equity	217,765	188,776	1,416,705
	¥5,558,730	¥5,697,592	$42,758,664

See accompanying notes.

Consolidated Statements of Operations

Years ended March 31, 2000, 2001 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	2001	2002	2002
INCOME				
Interest income:				
Interest on loans and discounts	¥ 98,890	¥ 94,886	¥ 90,086	$ 676,068
Interest and dividends on securities	21,877	19,111	16,012	120,165
Other	5,313	5,401	8,056	60,458
Fees and commissions	15,777	16,655	17,890	134,259
Other operating income	1,927	8,290	5,470	41,051
Other income	28,256	22,932	9,811	73,628
	172,040	167,275	147,325	1,105,629
EXPENSES				
Interest expense:				
Interest on deposits	17,048	13,793	12,038	90,341
Interest on borrowings and rediscounts	6,860	5,401	5,972	44,818
Other interest expense	8,439	8,087	3,885	29,156
Fees and commissions	6,024	6,337	5,721	42,934
Other operating expenses	2,939	3,462	2,001	15,017
General and administrative expenses	65,436	63,049	62,971	472,578
Other expenses	58,454	54,940	126,114	946,447
	165,200	155,069	218,702	1,641,291
Income (Loss) before income taxes	6,840	12,206	(71,377)	(535,662)
Income taxes (Notes 2 and 12):				
Current	8,457	180	283	2,124
Deferred	(4,984)	3,985	(31,857)	(239,077)
Net income (loss)	¥ 3,367	¥ 8,041	¥ (39,803)	$ (298,709)

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock (Note 2):				
Net income (loss)	¥ 5.49	¥ 13.12	¥ (64.62)	$ (0.48)
Diluted net income	5.15	11.81	—	—
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, 2000, 2001 and 2002

	Number of shares of common stock (thousands)	Millions of yen						
		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, 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)
Net income (loss)					(39,803)			
Conversion of convertible bonds	7,642	1,559	1,559					
Land revaluation reserve, net of tax				(561)	561			
Increase due to realization of unrealized gains on land held by subsidiary excluded from scope of consolidation					9,058			
Increase due to decrease in the unmber of consolidated subsidiaries					149			
Net unrealized holding gains on securities available for sale						1,593		
Foreign currency translation adjustments							(0)	
Common stock in treasury								(30)
Cash dividends paid					(3,074)			
Balance at March 31, 2002	**621,994**	**¥53,906**	**¥29,967**	**¥30,182**	**¥70,194**	**¥4,560**	**¥(0)**	**¥(33)**

	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, 2001	$392,848	$213,193	$230,717	$775,257	$22,266	$(0)	$(23)
Net income (loss)				(298,709)			
Conversion of convertible bonds	11,700	11,700					
Land revaluation reserve, net of tax			(4,210)	4,210			
Increase due to realization of unrealized gains on land held by subsidiary excluded from scope of consolidation				67,977			
Increase due to decrease in the unmber of consolidated subsidiaries				1,118			
Net unrealized holding gains on securities available for sale					11,955		
Foreign currency translation adjustments						(0)	
Common stock in treasury							(225)
Cash dividends paid				(23,069)			
Balance at March 31, 2002	**$ 404,548**	**$224,893**	**$226,507**	**$526,784**	**$ 34,221**	**$(0)**	**$(248)**

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2000, 2001 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	2001	2002	2002
Cash flows from operating activities:				
Income (Loss) before income taxes	¥ 6,840	¥ 12,206	**¥ (71,377)**	**$ (535,662)**
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:				
Depreciation and amortization	2,799	2,512	**2,505**	**18,799**
Minority interests in net (income) loss	2,179	(752)	**(3,324)**	**(24,946)**
Net change in reserve for possible loan losses	(54,047)	(27,684)	**32,012**	**240,240**
Net change in allowance for losses on sale of securities	7	220	**1,665**	**12,495**
Net change in reserve for possible losses on sale of loans	161	(432)	**(391)**	**(2,934)**
Net change in reserve for retirement allowances	(76)	(8,048)	**—**	**—**
Net change in allowance for severance and retirement benefits	—	601	**10,670**	**80,075**
Interest income	(126,080)	(119,398)	**(114,154)**	**(856,690)**
Interest expenses	32,347	27,281	**21,895**	**164,315**
Net (gains) losses related to securities transactions	(20,286)	(12,498)	**35,041**	**262,972**
Net (gain) loss from disposition of premises and equipment	321	(377)	**621**	**4,660**
Gain on securities contributed to employee retirement benefit trust	—	(3,220)	**—**	**—**
The amount of securities contributed to employee retirement benefit trust	—	8,954	**—**	**—**
Net change in trading assets	1,174	448	**(1,654)**	**(12,413)**
Net change in trading liabilities	(344)	544	**1,468**	**11,017**
Net change in loans	299,899	768	**11,502**	**86,319**
Net change in deposits	80,629	(101,534)	**130,584**	**979,993**
Net change in borrowed money excluding the amount for subordinated loans	—	(3,444)	**(2,479)**	**(18,604)**
Net change in due from banks excluding the amount for THE BANK OF JAPAN	(13,906)	40,664	**18,085**	**135,722**
Net change in call loans and bills purchased	37,931	98,099	**50,744**	**380,818**
Net change in call money and bills sold	(83,505)	(1,059)	**51,251**	**384,623**
Net change in collateral money for bond repurchase trade	(82,282)	—	**—**	**—**
Net change in foreign exchanges (asset account)	1,336	(611)	**(678)**	**(5,088)**
Net change in foreign exchanges (liability account)	(239)	(123)	**141**	**1,058**
Proceeds from issuance and maturity of ordinary bonds	40,000	40,000	**—**	**—**
Interest received	127,230	117,551	**117,767**	**883,805**
Interest paid	(37,810)	(32,118)	**(24,838)**	**(186,402)**
Other - net	8,876	(579)	**(66)**	**(495)**
Subtotal	216,314	25,765	**338,367**	**2,539,339**
Income taxes paid	(697)	(7,471)	**(240)**	**(1,801)**
Total adjustments	215,617	18,294	**338,127**	**2,537,538**
Net cash provided by operating activities	222,457	30,500	**266,750**	**2,001,876**
Cash flows from investing activities:				
Purchases of securities	(359,282)	(1,253,355)	**(1,204,175)**	**(9,036,960)**
Proceeds from sales of securities	206,794	646,929	**864,152**	**6,485,193**
Proceeds from maturity of securities	130,194	454,881	**251,538**	**1,887,715**
Purchases of premises and equipment	(2,257)	(1,126)	**(1,270)**	**(9,531)**
Proceeds from sales of premises and equipment	491	1,057	**1,324**	**9,936**
Proceeds from sale of equity of subsidiary resulting in change in the scope of consolidation	—	—	**101**	**758**
Net cash used in investing activities	(24,060)	(151,614)	**(88,330)**	**(662,889)**
Cash flows from financing activities:				
Proceeds from subordinated loans	—	5,000	**15,000**	**112,570**
Repayment of subordinated loans	—	(45,500)	**(22,500)**	**(168,855)**
Proceeds from issuance of subordinated bonds and convertible bonds	30,000	25,000	**—**	**—**
Dividends paid	(3,063)	(3,062)	**(3,070)**	**(23,039)**
Purchases of treasury stock	—	(53)	**(57)**	**(428)**
Proceeds from sale of treasury stock	0	53	**26**	**195**
Net cash provided by (used in) financing activities	26,937	(18,562)	**(10,601)**	**(79,557)**
Foreign currency translation adjustments	6	66	**(14)**	**(105)**
Net change in cash and cash equivalents	225,340	(139,610)	**167,805**	**1,259,325**
Cash and cash equivalents at beginning of the year	85,003	310,343	**170,733**	**1,281,298**
Cash and cash equivalents at the end of the year (Note 13)	¥ 310,343	¥ 170,733	**¥ 338,538**	**$2,540,623**

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 ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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, 2002, which was ¥133.25 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 control over 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 subsidiaries and affiliated companies not consolidated or accounted for by the equity method, 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.

When market values of available-for-sale securities with fair market values decline by 50% or more of the acquisition cost at the balance sheet date, the Bank writes down such securities to the fair market values and records the related writedowns as loss in its consolidated statement of operations. When market values of available-for-sale securities with fair market value decline by 30% or more but less than 50% of the acquisition cost, write-downs to the fair market values may be recognized for certain issuers based on evaluation of issuers' debtor classification.

The Bank wrote down available-for-sale securities with fair market value by ¥29,444 million ($220,968 thousand) and recognized a loss for the same amount in the year ended March 31, 2002.

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 except 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 their 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, the carrying value of the land was increased by ¥53,429 million to ¥71,380 million as of March 31, 1998, and the related net unrealized 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, 2001 and 2002 was ¥16,566 million and ¥21,507 million ($161,403 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.

Effective from the year ended March 31, 2001, in accordance with the audit treatment of new foreign currency transactions for banking industry issued by JICPA as of April 10, 2000, the Bank accounts for foreign currency translation in the same manner as previous years. Also, effective from April 1, 2000, 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.

Effective for the year ended March 31, 2002, the Bank has applied the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999, except for certain transactions which are subject to "Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (the "Report No. 20"), issued by Industry Audit Committee of JICPA.

Pursuant to the Report No. 20, for fund swap transactions, the amounts on the balance sheet are net yen-conversions of the principal equivalents of assets and liabilities using the fiscal-year-end exchange rate. Differences between spot and forward rates in fund swap transactions are booked in the interest income or expense account on an accrual basis for the period from the settlement of spot foreign exchange to the settlement date of forward foreign exchange. Therefore, accrued interest income or expenses are recognized at the fiscal year end.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange either bought or sold and forward foreign exchange either sold or bought. Such transactions are contracted for the purpose of funds lending or borrowing in a different currency. Fund swap transactions are used to convert the principal equivalent amount into spot foreign exchange bought or sold with regard to the corresponding funds borrowing or lending. Also, such transactions convert the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange either bought or sold.

For currency swap transactions which are for the purpose of funds borrowing/lending in different currencies and for which spot/forward are flat type, which means that paying or receiving amounts at the time of the currency swap contract are equal to receiving or paying amounts at the currency swap maturity dates and the swap rate applied to principal and interest is the current market rate (including the currency swap transactions which are that the principal amount of one counterparty is revised in order to reflect each exchange rate at the interest payment dates and are judged as spot/forward flat type for each interest payment date), the amounts on the balance sheet are net positions of financial asset and liability equivalents translated by using the fiscal-year-end exchange rate. The equivalent amounts of interest to exchange are booked in interest income and expense accounts on an accrual basis for the corresponding contract period. Therefore, accrued interest income or expenses are recognized at fiscal year end.

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, 2001 and 2002 amount to ￥77,828 million and ￥73,579 million ($552,188 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 severance and retirement benefits 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 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates. 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 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, which were to be recognized in expenses in equal amounts primarily over five years commencing with the year ended March 31, 2001.

Effective April 1, 2001, the Bank changed the method of accounting for its net transition obligations of employees' severance and retirement benefits and recognized all of the remaining net transition obligations brought forward from March 31, 2001 amounting to ￥12,117 million ($90,934 thousand), which would otherwise have been recognized equally in each year through the year ending March 31, 2005. As a result, loss before income taxes increased by ￥9,087 million ($68,195 thousand). The change was made because certain decreases are expected in the Bank's liabilities for employees' severance and retirement benefits and its aggregate personnel and pension expenses resulting from reduction in the number of its employees and reform of its personnel systems implemented by the Bank since the year ended March 31, 2001, in which the new accounting standard for employees' severance and retirement benefits was adopted.

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.

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 ¥5.15 and ¥11.81, respectively. Diluted net income per share for 2002 was not disclosed as the Bank suffered net loss. 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 2000 and 2001 consolidated financial statements have been reclassified to conform with the 2002 presentation.

3. Securities

A. Trading account securities included in "Trading assets", certificate of deposits with banks included in "Cash and due from banks", and trust beneficiary rights included in "Financial receivables purchased", which are separately reported from "Securities" in the consolidated balance sheets, are included 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 and 2002:

(a)Trading securities:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Book value	\1,006	**\771**	**$579**
Amount of net unrealized gains or losses included in the income statement	3	**0**	**0**

(b)Available-for-sale securities:

At March 31, 2001	Millions of yen				
Type	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, 2002	Millions of yen				
Type	Acquisition cost	Book value	Difference	Unrealized holding gains	Unrealized holding losses
Shares	\ 113,593	\ 118,633	\ 5,040	\ 11,204	\ (6,164)
Bonds:	847,361	853,060	5,699	7,423	(1,724)
National government bonds	367,931	370,095	2,164	2,269	(105)
Local government bonds	133,701	134,316	615	1,379	(764)
Corporate bonds	345,729	348,649	2,920	3,775	(855)
Others	212,831	209,948	(2,883)	742	(3,625)
Total	\ 1,173,785	\ 1,181,641	\ 7,856	\ 19,369	\ (11,513)

At March 31, 2002	Thousands of U.S. dollars				
Type	Acquisition cost	Book value	Difference	Unrealized holding gains	Unrealized holding losses
Shares	$852,480	$890,304	$37,824	$84,083	$(46,259)
Bonds:	6,359,182	6,401,951	42,769	55,707	(12,938)
National government bonds	2,761,208	2,777,448	16,240	17,028	(788)
Local government bonds	1,003,385	1,008,000	4,615	10,349	(5,734)
Corporate bonds	2,594,589	2,616,503	21,914	28,330	(6,416)
Others	1,597,231	1,575,595	(21,636)	5,568	(27,204)
Total	$8,808,893	$8,867,850	$58,957	$145,358	$(86,401)

C. The following tables summarize book values of securities with no available fair values as of March 31, 2001 and 2002:

	Book value		
	Millions of yen		Thousands of U.S. dollars
Type	2001	**2002**	**2002**
Available-for-sale securities:			
Unlisted stocks except for those traded over the counter	\ 6,127	**\ 5,990**	**$44,953**
Local government bonds	2,210	**2,027**	**15,212**
Asset backed securities	8,561	**1,961**	**14,717**
Certificate of deposits with banks	—	**7,500**	**56,285**
Foreign securities in foreign currency	54,552	—	—
Other unlisted domestic securities	2,606	—	—
Financial receivables purchased	5,607	**6,436**	**48,300**
Total	\ 79,663	**\ 23,914**	**$179,467**

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

At March 31, 2001	Millions of yen			
Type	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, 2002	Millions of yen			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Bonds:	\ 62,322	\ 433,936	\ 182,997	\ 173,805
National government bonds	23,730	112,107	62,357	171,901
Local government bonds	5,403	47,648	81,265	—
Corporate bonds	33,189	274,181	39,375	1,904
Others	54,450	100,173	15,251	26,467
Total	\ 116,772	\ 534,109	\ 198,248	\ 200,272

At March 31, 2002	Thousands of U.S. dollars			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Bonds:	$467,707	$3,256,555	$1,373,336	$1,304,353
National government bonds	178,086	841,328	467,970	1,290,064
Local government bonds	40,548	357,583	609,869	—
Corporate bonds	249,073	2,057,644	295,497	14,289
Others	408,630	751,767	114,454	198,627
Total	$876,337	$4,008,322	$1,487,790	$1,502,980

E. Total sales of available-for-sale securities sold in the years ended March 31, 2001 and 2002 amounted to ¥414,809 million and ¥870,629 million ($6,533,801 thousand), respectively, the related gains in the years ended March 31, 2001 and 2002 amounted to ¥22,863 million and ¥8,024 million ($60,218 thousand), respectively, and the related losses in the years ended March 31, 2001 and 2002 amounted to ¥3,409 million and ¥13,079 million ($98,154 thousand), respectively.

F. In March 2001, 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. Upon contribution of these securities, a "gain on securities contributed to employee retirement benefit trust" amounting to ¥3,220 million was recognized in the year ended March 31, 2001.

4. Loans and bills discounted

Doubtful loans of loans and bills discounted at March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	\ 21,067	**\ 20,564**	**$154,326**
Other delinquent loans	64,173	**84,987**	**637,801**
Accrual loans past due three months or more	3,912	**3,356**	**25,186**
Restructured loans, including loans to supported companies	48,064	**88,357**	**663,092**

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, 2001 and 2002, the following assets were pledged as collateral for certain liabilities of the Bank and subsidiaries.

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Securities	\ 12,039	**\ 13,777**	**$103,392**

The collateral was pledged to secure:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deposits	\ 3,847	**\ 3,790**	**$28,443**
Call money and bills sold	7,434	**7,995**	**60,000**

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as exchange settlements. These securities amounted to ￥238,135 million and ￥326,678 million ($2,451,617 thousand) at March 31, 2001 and 2002, respectively.

Guaranty money deposited, included in premises and equipment, amounted to ￥3,951 million and ￥6,039 million ($45,321 thousand) at March 31, 2001 and 2002, respectively.

6. Commitment line

Commitment line contracts on overdrafts and loans 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 and ￥1,157,855 million ($8,689,343 thousand) relating to these contracts at March 31, 2001 and 2002, respectively. All contracts are under condition that the terms 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 ￥86,500 million and ￥79,000 million ($592,871 thousand) at March 31, 2001 and 2002, respectively.

8. Bonds

Bonds included subordinated bonds totaling ￥59,500 million ($446,529 thousand) at March 31, 2001 and 2002.

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 sheets as of March 31, 2001 and 2002 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Projected benefit obligation	\ (69,338)	\ **(71,382)**	**$(535,700)**
Less fair value of pension assets	52,449	**54,511**	**409,088**
Less unrecognized net transition obligation	12,117	—	—
Less unrecognized actuarial differences	4,472	**6,268**	**47,039**
	(300)	**(10,603)**	**(79,573)**
Prepaid pension expenses	301	**663**	**4,975**
Allowance for severance and retirement benefits	\ (601)	\ **(11,266)**	**$(84,548)**

Included in the consolidated statements of income for the years ended March 31, 2001 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Service costs - benefits earned during the year	\ 1,448	\ **1,451**	**$10,889**
Interest cost on projected benefit obligation	2,395	**2,423**	**18,184**
Expected return on plan assets	(1,812)	**(2,097)**	**(15,737)**
Amortization of actuarial differences	—	**319**	**2,394**
Amortization of net transition obligation	3,049	**12,117**	**90,934**
Severance and retirement benefit expenses	\ 5,080	\ **14,213**	**$106,664**

The discount rate used by the Bank in 2001 and 2002 are 3.5% and 2.8%, respectively. The rate of expected return on plan assets used by the Bank in 2001 and 2002 are 4.0%. 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.

As explained in Note 2, net transition obligations were initially amortized over five years commencing with the year ended March 31, 2001. However, in the year ended March 31, 2002, all remaining net transition obligations of the Bank was amortized.

10. Other guarantee

The Bank and The Bank of Fukuoka leased computers jointly and mutually guaranteed the other party's lease obligations amounting to ¥3,955 million and ¥4,166 million ($31,265 thousand) at March 31, 2001 and 2002, respectively, in accordance with the agreement regarding joint development of a mainframe system and joint lease of electronic calculating machine.

11. Stockholders 'equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as capital surplus.

Effective October 1, 2001, the Banking Law of Japan provides that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and capital surplus equals 100% of common stock. The legal reserve and capital surplus may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and capital surplus remains being equal to or exceeding 100% of common stock, they are available for distributions or certain other purposes by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

12. Income taxes

Income taxes in the consolidated statements of income consist of corporation tax, inhabitant taxes and enterprise tax. The statutory tax rate was approximately 42% in 2000, 2001 and 2002. 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, 2001 and 2002.

	2000	2001	**2002**
Statutory tax rate	42.0 %	42.0 %	**42.0 %**
Non-deductible expenses (Entertainment expense etc.)	2.3	1.3	**(0.2)**
Non-taxable income (Dividend income etc.)	(7.6)	(4.0)	**0.7**
Equity in losses (gains) of affiliated companies	13.4	(2.6)	**2.0**
Realized gain on sale of land	—	(1.8)	**—**
Other	0.6	(0.8)	**(0.3)**
Effective tax rate	50.7 %	34.1 %	**44.2 %**

Significant components of deferred tax assets as of March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Deferred tax assets:			
Reserve for possible loan losses	\ 31,594	**\ 50,213**	**$376,833**
Net operating losses carry forward	5,828	**7,818**	**58,672**
Allowance for severance and retirement benefits	2,762	**7,142**	**53,598**
Write-down of securities	3,446	**9,329**	**70,011**
Reserve for possible losses on sale of loans	2,331	**2,166**	**16,255**
Other	3,978	**4,729**	**35,490**
Total deferred tax assets	49,939	**81,397**	**610,859**
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trust	(1,352)	**(1,352)**	**(10,146)**
Net unrealized holding gains on securities available for sale	(2,182)	**(3,300)**	**(24,766)**
Total deferred tax liabilities	(3,534)	**(4,652)**	**(34,912)**
Net deferred tax assets	\ 46,405	**\ 76,745**	**$575,947**

13. 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 2000, 2001 and 2002 the Bank paid ¥2,900 million, ¥3,400 million and ¥5,800 million ($43,527 thousand) to HL, respectively.

14. Cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2000, 2001 and 2002, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	2001	**2002**	**2002**
Cash and due from banks	\ 389,055	\ 208,781	**\ 358,500**	**$ 2,690,432**
Current deposits with banks	(595)	(47)	**(43)**	**(323)**
Ordinary deposits with banks	(926)	(519)	**(542)**	**(4,068)**
Time deposits with banks	(15,005)	(5)	**(55)**	**(413)**
Foreign currency deposits with bank	(62,186)	(37,477)	**(6,822)**	**(51,197)**
Certificate of deposits with banks	—	—	**(7,500)**	**(56,285)**
Other deposits with banks	—	—	**(5,000)**	**(37,523)**
Cash and cash equivalents	\ 310,343	\ 170,733	**\ 338,538**	**$ 2,540,623**

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

	Millions of yen			Thousands of U.S. dollars
	2000	2001	**2002**	**2002**
Increase in common stock from conversion of convertible bonds	\ 31	\ 336	**\ 1,559**	**$11,700**
Increase in capital surplus from conversion of convertible bonds	32	335	**1,559**	**11,700**
	\ 63	\ 671	**\ 3,118**	**$23,400**

Assets and liabilities of Hirogin Real Estate Co., Ltd. ("HRE"), which was excluded from the scope of the Bank's consolidation due to the fact that the Bank sold equity of HRE during the year ended March 31 2002, are as follows:

	Millions of yen	Thousands of U.S. dollars
	2002	**2002**
Current assets	**\ 1,464**	**$10,987**
Fixed assets	**16,910**	**126,904**
Total assets	**\ 18,374**	**$137,891**
Current liabilities	**2,416**	**18,131**
Fixed liabilities	**15,683**	**117,696**
Total liabilities	**\ 18,099**	**$135,827**

15. 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, 2001 and 2002 were as follows:

Interest related :
Year ended March 31, 2001

		Millions of yen			
		Contracted amount			
	Type		Over one year	Market value	Unrealized gains (losses)
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, 2002

		Millions of yen			
		Contracted amount			
	Type		Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Interest rate swap (* 1) :				
	Receive fixed, pay variable	\ 17,321	\ 17,321	\ 791	\ 791
	Receive variable, pay fixed	17,321	17,321	(475)	(475)
	Receive variable, pay variable	20,000	—	1	1
	Other contracts (* 1) :				
	Sell	500	300	(4)	5
	Buy	506	300	4	(1)
	Total	—	—	317	321

Interest related :
Year ended March 31, 2002

	Type	Thousands of U.S. dollars			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Interest rate swap (* 1) :				
	Receive fixed, pay variable	$129,989	$129,989	$5,936	$5,936
	Receive variable, pay fixed	129,989	129,989	(3,565)	(3,565)
	Receive variable, pay variable	150,094	—	8	8
	Other contracts (* 1) :				
	Sell	3,752	2,251	(30)	38
	Buy	3,797	2,251	30	(8)
	Total	—	—	2,379	2,409

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

Currency related :
Year ended March 31, 2001

	Type	Millions of yen			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
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, 2002

	Type	Millions of yen			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Currency swap (* 2)	\462,096	\462,096	\493	\716
	Currency swap (* 3)	66,833	—	(3,732)	(3,732)
	Forward foreign exchange contracts (* 2) :				
	Sell	15,809	—	—	—
	Buy	12,792	—	—	—
	Currency option (* 2) :				
	Sell	1,254	—	—	—
	Buy	1,254	—	—	—

Currency related :
Year ended March 31, 2002

	Type	Thousands of U.S. dollars			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Currency swap (* 2)	$3,467,887	$3,467,887	$3,700	$5,373
	Currency swap (* 3)	501,561	—	28,008	28,008
	Forward foreign exchange contracts (* 2) :				
	Sell	118,642	—	—	—
	Buy	96,000	—	—	—
	Currency option (* 2) :				
	Sell	9,411	—	—	—
	Buy	9,411	—	—	—

(* 2) : The unrealized gains or losses on currency swap, forward foreign exchange contracts and currency option are charged to income.
(* 3) : The unrealized gains or losses on currency swap are not charged to income, pursuant to to "Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (the "Report No. 20"), issued by Industry Audit Committee of JICPA for the fiscal year ended March 31, 2002, while the Bank applied the audit treatment of new foreign currency transactions for banking industry as of April 10, 2000 issued by JICPA for the fiscal year ended March 31, 2001.

Stock related :
Year ended March 31, 2002

	Type	Millions of yen			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Equity securities forward contracts (* 4) :				
	Sell	\ 5.306	—	\ 5,602	\ (296)

Stock related :
Year ended March 31, 2002

	Type	Thousands of U.S. dollars			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Equity securities forward contracts (* 4) :				
	Sell	$ 39,820	—	$42,041	$(2,221)

(* 4) : The unrealized gains or losses on equity securities forward contracts are charged to income.

Credit derivative related :
Year ended March 31, 2001

	Type	Millions of yen			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Other contracts (* 5) :				
	Sell	\ 6,000	\ 6,000	\ (21)	\ (21)

Credit derivative related :
Year ended March 31, 2002

	Type	Millions of yen			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Other contracts (* 5) :				
	Sell	\ 17,500	\ 17,000	\ (301)	\ (301)

Credit derivative related :
Year ended March 31, 2002

	Type	Thousands of U.S. dollars			
		Contracted amount			
			Over one year	Market value	Unrealized gains (losses)
Items not traded on exchanges	Other contracts (* 5) :				
	Sell	$131,332	$127,580	$(2,259)	$(2,259)

(* 5) : The unrealized gains or losses on other contracts are charged to income, "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, 2001 and 2002, and the related non-consolidated statements of operations, and stockholders' equity for each of the three years in the period ended March 31, 2002, 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, 2001 and 2002, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in Japan (Note 1) 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 as explained in Note 2, effective April 1, 2001, THE HIROSHIMA BANK, LTD. changed the method of amortizing net transition obligations of employees' severance and retirement benefits, with which we concur.

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 27, 2002

Non-Consolidated Balance Sheets

As of March 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
ASSETS			
Cash and due from banks	¥208,781	¥358,500	$2,690,432
Call loans and bills purchased	63,449	10,177	76,375
Financial receivables purchased	11,780	14,308	107,377
Trading assets (Note 2)	2,194	3,848	28,878
Securities (Notes 2, 3 and 8)	1,137,906	1,192,467	8,949,095
Loans and bills discounted (Notes 4 and 9)	3,873,731	3,861,924	28,982,544
Foreign exchanges (Note 5)	3,217	3,895	29,231
Other assets (Note 6)	28,491	29,824	223,820
Premises and equipment (Notes 2 and 7)	106,554	104,002	780,503
Deferred tax assets (Notes 2 and 23)	47,526	76,655	575,272
Customers' liabilities for acceptances and guarantees (Note 16)	172,603	161,964	1,215,490
Reserve for possible loan losses (Note 2)	(35,481)	(68,087)	(510,972)
Allowance for investment losses (Note 2)	(231)	(1,892)	(14,199)
	¥5,620,520	¥5,747,585	$43,133,846
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits (Notes 8 and 10)	¥4,842,515	¥4,973,305	$37,323,115
Call money and bills sold (Note 8)	7,434	58,685	440,413
Trading liabilities (Note 2)	1,009	2,477	18,589
Borrowed money (Note 11)	163,645	153,666	1,153,216
Foreign exchanges (Note 5)	157	298	2,236
Bonds (Note 12)	90,000	90,000	675,422
Convertible bonds (Note 13)	35,411	32,293	242,349
Due to trust account	24	24	180
Other liabilities (Note 14)	50,752	48,014	360,330
Allowance for severance and retirement benefits (Note 2)	505	11,171	83,834
Other reserves (Note 15)	5,549	5,158	38,709
Deferred tax liabilities for land revaluation reserve (Note 2)	22,262	21,856	164,023
Acceptances and guarantees (Note 16)	172,603	161,964	1,215,490
Total liabilities	5,391,866	5,558,911	41,717,906
Stockholders' equity (Note 18):			
Common stock: Authorized - 2,000,000,000 shares; Issued - 614,352,147 shares in 2001 and 621,994,293 shares in 2002	52,347	53,906	404,548
Capital surplus	28,408	29,967	224,893
Legal reserve	39,753	40,153	301,336
Land revaluation reserve, net of tax (Note 2)	30,743	30,182	226,507
Retained earnings	74,390	29,943	244,713
Net unrealized holding gains on securities available for sale (Note 2)	3,013	4,556	34,191
Common stock in treasury	—	(33)	(248)
Total stockholders' equity	228,654	188,674	1,415,940
	¥5,620,520	¥5,747,585	$43,133,846

See accompanying notes.

Non-Consolidated Statements of Operations

Years ended March 31, 2000, 2001 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	2001	2002	2002
INCOME				
Interest income:				
Interest on loans and discounts	¥ 99,265	¥ 95,275	¥ 90,460	$ 678,874
Interest and dividends on securities	21,877	19,111	16,012	120,165
Other	5,313	5,401	8,056	60,458
Fees and commissions	15,836	16,657	17,851	133,966
Other operating income (Note 19)	1,303	7,695	4,961	37,231
Other income (Note 20)	28,274	21,550	6,466	48,525
	171,868	165,689	143,806	1,079,219
EXPENSES				
Interest expense:				
Interest on deposits	17,050	13,795	12,039	90,349
Interest on borrowings and rediscounts	6,859	6,587	6,071	45,561
Other interest expense	8,510	6,996	3,885	29,156
Fees and commissions	5,170	5,362	5,768	43,287
Other operating expenses (Note 21)	2,939	3,462	2,001	15,017
General and administrative expenses	66,057	63,985	63,153	473,943
Other expenses (Note 22)	57,902	53,096	122,887	922,229
	164,487	153,283	215,804	1,619,542
Income (Loss) before income taxes	7,381	12,406	(71,998)	(540,323)
Income taxes (Notes 2 and 23):				
Current	8,437	133	188	1,411
Deferred	(5,651)	4,676	(30,652)	(230,034)
Net income (loss)	¥ 4,595	¥ 7,597	¥ (41,534)	$ (311,700)

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock (Note 2):				
Net income	¥ 7.50	\ 12.39	\ (67.43)	$ (0.50)
Diluted net income	7.00	11.17	—	—
Cash dividends applicable to the year	5.00	5.00	5.00	0.04

See accompanying notes.

The Hiroshima Bank, Ltd.

Non-Consolidated Statements of Stockholders' Equity

Years ended March 31, 2000, 2001 and 2002

		Millions of yen						
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Legal reserve	Land revaluation reserve, net of tax	Retained earnings	Net unrealized holding gains on securities available for sale	Common stock in treasury
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	—
Net income(loss)						(41,534)		
Conversion of convertible bonds	7,642	1,559	1,559					
Land revaluation reserve, net of tax					(561)	561		
Net unrealized holding gains on securities available for sale							1,543	
Cash dividends paid						(3,074)		
Transfer to legal reserve				400		(400)		
Common stock in treasury								(33)
Balance at March 31, 2002	**621,994**	**¥53,906**	**¥29,967**	**¥40,153**	**¥30.182**	**¥29,943**	**¥4,556**	**¥(33)**

	Thousands of U.S. dollars (Note1)						
	Common stock	Capital surplus	Legal reserve	Land revaluation reserve, net of tax	Retained earnings	Net unrealized holding gains on securities available for sale	Common stock in treasury
Balance at March 31, 2001	$392,848	$213,193	$298,334	$230,717	$558,274	$22,611	$—
Net income (loss)					(311,700)		
Conversion of convertible bonds	11,700	11,700					
Land revaluation reserve, net of tax				(4,210)	4,210		
Net unrealized holding gains on securities available for sale						11,580	
Cash dividends paid					(23,069)		
Transfer to legal reserve			3,002		(3,002)		
Common stock in treasury							(248)
Balance at March 31, 2002	**$404,548**	**$224,893**	**$301,336**	**$226,507**	**$224,713**	**$34,191**	**$(248)**

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 ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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. Under Japanese GAAP, when a consolidated statement of cash flows is prepared, a non-consolidated statement of cash flows is not required. The Bank prepared consolidated statements of cash flows for each of the three years in the period ended March 31, 2002. Accordingly, no non-consolidated statements of cash flows have been prepared for such years.

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, 2002, which was ¥133.25 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 subsidiaries and affiliated companies not consolidated or accounted for by the equity method, 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.

When market values of available-for-sale securities with fair market values decline by 50% or more of the acquisition cost at the balance sheet date, the Bank writes down such securities to the fair market values and records the related writedowns as loss in its non-consolidated statement of operations. When market values of available-for-sale securities with fair market value decline by 30% or more but less than 50% of the acquisition cost, write-downs to the fair market values may be recognized for certain issuers based on evaluation of issuers' debtor classification.

The Bank wrote down available-for-sale securities with fair market value by ￥29,444 million ($220,968 thousand) and recognized a loss for the same amount in the year ended March 31, 2002.

The allowance for investment losses is provided as a valuation account for securitis 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 except 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 their 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, the carrying value of the land was increased by ¥53,429 million to ¥71,380 million as of March 31, 1998, and the related net unrealized 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, 2001 and 2002 was ¥16,566 million and ¥21,507 million ($161,403 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.

Effective from the year ended March 31, 2001, in accordance with the audit treatment of new foreign currency transactions for banking industry issued by JICPA as of April 10, 2000, the Bank accounts for foreign currency translation in the same manner as previous years. Also, effective from April 1, 2000, 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.

Effective for the year ended March 31, 2002, the Bank has applied the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999, except for certain transactions which are subject to "Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign

Currency Transactions in Banking Industry" (the "Report No. 20"), issued by Industry Audit Committee of JICPA.

Pursuant to the Report No.20, for fund swap transactions, the amounts on the balance sheet are net yen-conversions of the principal equivalents of assets and liabilities using the fiscal-year-end exchange rate. Differences between spot and forward rates in fund swap transactions are booked in the interest income or expense account on an accrual basis for the period from the settlement of spot foreign exchange to the settlement date of forward foreign exchange. Therefore, accrued interest income or expenses are recognized at the fiscal year end.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange either bought or sold and forward foreign exchange either sold or bought. Such transactions are contracted for the purpose of funds lending or borrowing in a different currency. Fund swap transactions are used to convert the principal equivalent amount into spot foreign exchange bought or sold with regard to the corresponding funds borrowing or lending. Also, such transactions convert the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange either bought or sold.

For currency swap transactions which are for the purpose of funds borrowing/lending in different currencies and for which spot/forward are flat type, which means that paying or receiving amounts at the time of the currency swap contract are equal to receiving or paying amounts at the currency swap maturity dates and the swap rate applied to principal and interest is the current market rate (including the currency swap transactions which are that the principal amount of one counterparty is revised in order to reflect each exchange rate at the interest payment dates and are judged as spot/forward flat type for each interest payment date), the amounts on the balance sheet are net positions of financial asset and liability equivalents translated by using the fiscal-year-end exchange rate. The equivalent amounts of interest to exchange are booked in interest income and expense accounts on an accrual basis for the corresponding contract period. Therefore, accrued interest income or expenses are recognized at fiscal year end.

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, 2001 and 2002 in the accompanying non-consolidated balance sheets included the reserve for the write-off of specific loans identified by management amounting to ¥15,173 million and ¥33,588 million ($252,068 thousand), respectively, and the reserve for possible losses for certain specific overseas loans amounting to ¥135 million and ¥14 million ($105 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, 2001 and 2002 amount to ¥77,828 million and ¥73,579 million ($552,188 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 severance and retirement benefits 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 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates. 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 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, which were to be recognized in expenses in equal amounts over five years commencing with the year ended March 31, 2001.

Effective April 1, 2001, the Bank changed the method of accounting for its net transition obligations of employees’ severance and retirement benefits and recognized all of the remaining net transition obligations brought forward from March 31, 2001 amounting to ¥12,117 million ($90,934 thousand), which would otherwise have been recognized equally in each year through the year ending March 31, 2005. As a result, loss before income taxes increased by ¥9,087 million ($68,195 thousand). The change was made because certain decreases are expected in the Bank’s liabilities for employees’ severance and retirement benefits and its aggregate personnel and pension expenses resulting from reduction in the number of its employees and reform of its personnel systems implemented by the Bank since the year ended March 31, 2001, in which the new accounting standard for employees’ severance and retirement benefits was adopted.

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. The cumulative effect of adopting the deferred income tax accounting is ¥48,830 million, which is directly added to the retained earnings brought forward from March 31, 2000.

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 ¥7.00 and ¥11.17, respectively. Diluted net income per share for 2002 was not disclosed as the Bank suffered net loss. 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 2000 and 2001 non-consolidated financial statements have been reclassified to conform with the 2002 presentation.

3. Securities

Securities at March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
National government bonds	¥388,110	**\370,095**	**$2,777,448**
Local government bonds	80,110	**134,316**	**1,008,000**
Corporate bonds	337,730	**348,649**	**2,616,503**
Shares	164,743	**125,471**	**941,621**
Other securities	167,213	**213,936**	**1,605,523**
	\1,137,906	**\1,192,467**	**$8,949,095**

4. Loans and bills discounted

Loans and bills discounted at March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Bills discounted	\138,381	**\123,741**	**$928,638**
Loans on notes	628,840	**594,256**	**4,459,707**
Loans on deeds	2,435,962	**2,533,349**	**19,012,000**
Overdrafts	670,548	**610,578**	**4,582,199**
	\3,873,731	**\3,861,924**	**$28,982,544**

Doubtful loans at March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Non-accrual loans:			
Loans to borrowers under bankruptcy proceedings	\21,067	**\20,564**	**$154,326**
Other delinquent loans	64,173	**84,987**	**637,801**
Accrual loans past due three months or more	3,912	**3,356**	**25,186**
Restructured loans, including loans to supported companies	48,064	**88,357**	**663,092**

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

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Assets:			
Due from foreign banks	\ 837	\ 1,715	$12,871
Foreign exchange bills bought	359	517	3,880
Foreign exchange bills receivable	2,021	1,663	12,480
	\ 3,217	\ 3,895	$29,231
Liabilities:			
Due to foreign banks	\ 6	\ 4	$30
Foreign exchange bills sold	145	290	2,176
Foreign exchange bills payable	6	4	30
	\ 157	\ 298	$2,236

6. Other assets

Other assets at March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Domestic exchange settlement account	\ 18	\ 7	$52
Prepaid expenses	56	47	353
Accrued income	9,662	8,490	63,715
Derivatives	3,189	2,552	19,152
Deferred loss on hedging instruments	1,505	369	2,769
Other	14,061	18,359	137,779
	\ 28,491	\ 29,824	$223,820

7. Premises and equipment

Premises and equipment at March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Land, buildings and equipment	\ 148,285	\ 145,452	$1,091,572
Construction in progress	47	3	22
Guaranty money deposited	6,396	6,023	45,201
	154,728	151,478	1,136,795
Less accumulated depreciation	48,174	47,476	356,292
	\ 106,554	\ 104,002	$780,503

8. Assets Pledged

At March 31, 2001 and 2002, the following assets were pledged as collateral for certain liabilities of the Bank:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Securities	\ 12,039	\ 13,777	$103,392

The collateral was pledged to secure:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deposits	\ 3,847	\ 3,790	$28,443
Call money	7,434	7,995	60,000

In addition, securities not included in the above schedules were pledged as collateral for operating transactions, such as exchange settlements. These securities amounted to ¥238,135 million and ¥326,678 million ($2,451,617 thousand) at March 31, 2001 and 2002, respectively.

9. Commitment line

Commitment line contracts on overdrafts and loans 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 and ¥1,157,855 million ($8,689,343 thousand) relating to these contracts at March 31, 2001 and 2002, respectively. 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, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Current deposits	\210,771	**\226,007**	**$1,696,113**
Ordinary deposits	1,242,461	**1,837,429**	**13,789,336**
Deposits at notice	60,365	**72,957**	**547,520**
Time deposits	2,804,462	**2,434,320**	**18,268,818**
Other	434,516	**356,772**	**2,677,463**
	4,752,575	**4,927,485**	**36,979,250**
Negotiable certificates of deposits	89,940	**45,820**	**343,865**
	\4,842,515	**\4,973,305**	**$37,323,115**

11. Borrowed money

Borrowed money included subordinated loans totaling ¥136,000 million and ¥128,500 million ($964,353 thousand) at March 31, 2001 and 2002, respectively.

12. Bonds

Bonds included subordinated bonds totaling ¥10,000 million ($75,047thousand) at March 31, 2001 and 2002.

13. Convertible bonds

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
1.8% due 2002, convertible into common stock at ¥994.70 per share	\6,145	\6,145	$46,116
0.4% due 2003, convertible into common stock at ¥408.00 per share	29,266	26,148	196,233
	\35,411	\32,293	$242,349

14. Other liabilities

Other liabilities at March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Domestic exchange settlement account	\864	\882	$6,619
Income taxes payable	118	123	923
Accrued expenses	15,636	12,838	96,345
Unearned income	2,295	1,990	14,935
Employees' saving deposits	1,326	1,201	9,013
Derivatives	4,459	3,301	24,773
Other	26,054	27,679	207,722
	\50,752	\48,014	$360,330

15. Other reserves

Other reserves at March 31, 2001 and 2002 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 mutually guaranteed the other party's lease obligations amounting to ¥3,955 million and ¥4,166 million ($31,265 thousand) in accordance with the agreement regarding joint development of a mainframe system and joint lease of electronic calculating machine.

18. Stockholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as capital surplus.

Effective October 1, 2001, the Banking Law of Japan provides that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and capital surplus equals 100 % of common stock. The legal reserve and capital surplus may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and capital surplus remains being equal to or exceeding 100% of common stock, they are available for distributions or certain other purposes by the resolution of shareholders' meeting.

19. Other operating income

Other operating income for the years ended March 31, 2000, 2001 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2000	2001	2002	2002
Gain on sales and maturities of government bonds	\ 360	\ 6,689	\ 3,743	$28,090
Foreign exchange gain	925	758	1,044	7,835
Other	18	248	174	1,306
	\ 1,303	\ 7,695	\ 4,961	$37,231

20. Other income

Other income for the years ended March 31, 2000, 2001 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2000	2001	2002	2002
Gains on sale of shares and other securities	\ 26,960	\ 16,519	\ 4,281	$32,128
Gain on money held in trust	—	—	—	—
Gain on disposal of premises	32	58	11	82
Gain on securities contributed to employee retirement benefit trust	—	3,220	—	—
Other	1,282	1,753	2,174	16,315
	\ 28,274	\ 21,550	\ 6,466	$48,525

21. Other operating expenses

Other operating expenses for the years ended March 31, 2000, 2001and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2000	2001	2002	2002
Loss on sales and maturities of government bonds	\ 2,939	\ 3,462	\ 1,413	$10,604
Other	—	—	588	4,413
	\ 2,939	\ 3,462	\ 2,001	$15,017

22. Other expenses

Other expenses for the years ended March 31, 2000, 2001 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2000	2001	2002	2002
Devaluation of securities	\ 2,407	\ 6,008	\ 29,668	$222,649
Losses on money held in trust	—	—	—	—
Provision for possible loan losses	45,225	9,457	43,857	329,133
Write-off of claims	192	32,120	19,967	149,846
Severance and retirement benefit expenses	—	5,032	14,174	106,372
Other	10,078	479	15,221	114,229
	\ 57,902	\ 53,096	\ 122,887	$922,229

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 42% in 2000, 2001 and 2002. 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%**

There were no significant differences between the statutory tax rate and the Bank's effective tax rate for the year ended March 31, 2002.

Significant components of deferred tax assets as of March 31, 2001 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Reserve for possible loan losses	\ 32,785	**\ 50,213**	**$376,833**
Net operating losses carry forward	5,826	**7,818**	**58,672**
Allowance for severance and retirement benefits	2,732	**7,110**	**53,358**
Write-down of securities	3,446	**9,329**	**70,011**
Reserve for possible losses on sale of loans	2,331	**2,166**	**16,255**
Other	3,940	**4,671**	**35,055**
Total deferred tax assets	51,060	**81,307**	**610,184**
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trust	(1,352)	**(1,352)**	**(10,146)**
Net unrealized holding gains on securities available for sale	(2,182)	**(3,300)**	**(24,766)**
Total deferred tax liabilities	(3,534)	**(4,652)**	**(34,912)**
Net deferred tax assets	\ 47,526	**\ 76,655**	**$575,272**

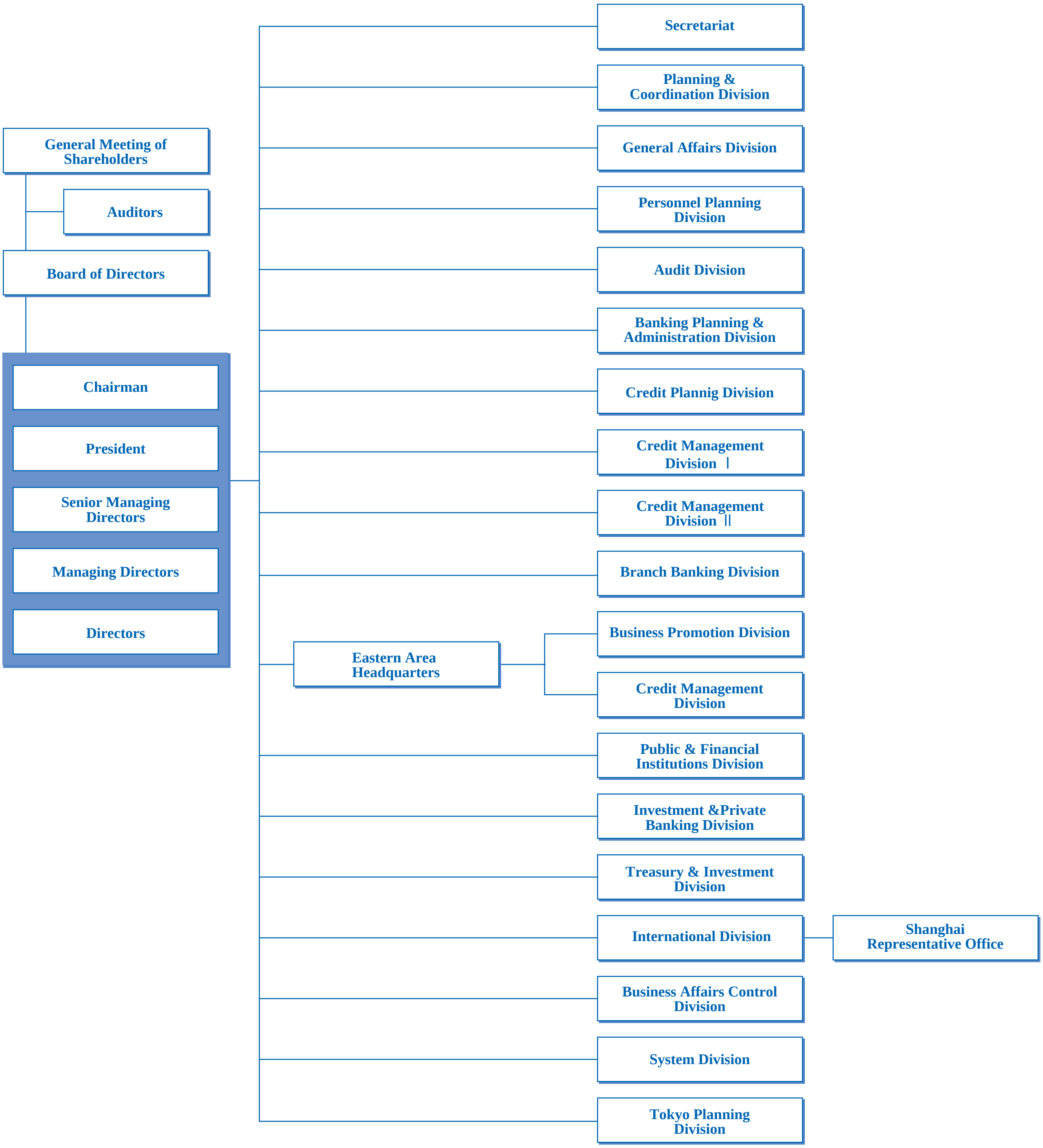
24. Subsequent event

The following appropriations of retained earnings applicable to the year ended March 31, 2002 were approved at the stockholders' meeting held on June 27, 2002.

	Millions of yen	Thousands of U.S. dollars
	2002	2002
Appropriations:		
Cash dividends (¥2.50 per share)	**\ 1,555**	**$11,670**
Transfer to legal reserve	—	—

Organization

(As of June 30, 2002)



Directory

(As of June 30, 2002)

Head Office

3-8 Kamiya-cho 1-chome, Nakaku, Hiroshiima
730-0031, Japan
Telephone: (082)247-5151
Fax: (082)240-5759

Date of Founding: November 1878
Paid-in Capital: ￥52,347 million
URL http://www.hirogin.co.jp/

International Division

3-8 Kamiya-cho 1-chome, Nakaku, Hiroshima
730-0031, Japan
Telephone: (082)247-5151
Fax: (082)240-5759
Cable Address: HIROSHIMABANK
SWIFT Address: HIRO JP JT

Shanghai Representative Office

Room 1713 Shanghai International Trade Center,
2201 Yan-an (West) Road, Shanghai
People's Republic of China
Telephone: 86-21-6275-2755
Fax: 86-21-6275-2702

Board of Directors and Corporate Auditors

(As of June 30, 2002)

Chairman

Makoto Uda

President

Sho Takahashi

Senior Managing Directors

Masao Tokunaga
Michifumi Yamashita

Managing Directors

Koji Oda
Isao Sumihiro
Akira Kitabayashi
Yushi Takahashi

Directors

Ken Sato
Yoshiaki Fujimura
Issei Mukai
Hiromi Mori
Yoshiharu Yokoyama
Atsuo Kambayashi
Masushi Okito
Toru Takahashi

Standing Auditors

Masaru Maeide
Masahiko Hayakawa

Auditors

Kazuya Nitta
Masaaki Usui

THE HIROSHIMA BANK, LTD.

Printed in Japan