



THE FUKUI BANK

*Financial Statements 2006*

# Profile

## Our Mission as a Regional Bank

Since its establishment in 1899, Fukui Bank has striven to maintain sound management, and to grow in parallel with the regional community. The Bank owes its position today to the generous support it has received over the years from its customers, shareholders, and other stakeholders.

The business environment in which financial institutions operate has been undergoing dramatic changes over the past few years, with a major reorganization of the financial sector including the entry of companies from other industries, in addition to the effects of the information revolution in the form of the advent of online banking. These changes have led to greatly intensified competition, which has been exacerbated by the capping of the insurance guarantee on time deposits at ¥10 million. Financial institutions are now being required not only to show efficient management and a sound earnings structure, but also to offer a much more extensive range of products and services, and to differentiate themselves from their competitors.

Against this background, the management of Fukui Bank will continue to work to strengthen the Bank's earnings and ensure the soundness of its financial position. At the same time, Fukui Bank will continue to play its role as a linchpin of economic growth in the regional community, and will work to help its customers achieve a higher standard of living.

## Maintaining a Triangular Balance

In view of the importance of basing management practices on global standards, with effect from fiscal 1999 we adopted a new balance of emphasis in our management practice, which we term a "triangular balance." Under this concept, we are moving away from the traditional Japanese banking practice of paying attention only to the needs of the bank itself, together with its affiliated companies, and the local community, including the bank's customers. In place of this framework, we are promoting a more modern approach to management that puts due focus on the interests of our shareholders as well as potential shareholders among investors on the market. From here on, we aim to achieve a "triangular balance" in our management decisions, whereby the interests of the bank and its group, our customers and the regional community as a whole, and actual and potential shareholders, are all equally addressed.

Customer satisfaction leads to the healthy business development of the Bank. This, in turn, is the basis of shareholder satisfaction, and keeps the Bank's reputation high in the stock market. Finally, by keeping its shareholders satisfied and maintaining a good reputation among investors in general, the Bank is able to enjoy business stability, which is vital for retaining the trust of its customers. In this way, the interests of the three parties involved in this triangular relationship are closely interrelated.

By keeping this relationship uppermost in our minds, we plan to cast off the traditional banking style, which relies excessively on unrealized gains on equity shares, and pursue management practices in line with global standards. To this end, we are continuing to strengthen the Bank's management base by dissolving share-crossholdings and placing an increasing emphasis on profitability.

## Consolidated Financial Highlights

The Fukui Bank, Ltd. and its consolidated subsidiaries

Years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
<b>For the Year:</b>				
Total income	¥ 54,649	¥ 48,876	¥ 48,780	\$ 465,218
Total expenses	38,503	42,259	43,568	327,770
Income before income taxes	16,145	6,617	5,211	137,447
Net income (loss)	8,986	2,414	(5,911)	76,499
Net income (loss) per share (yen and dollars)	36.86	9.94	(24.34)	0.31
<b>At Year-end:</b>				
Deposits	¥1,876,389	¥1,865,891	¥1,906,700	\$15,973,350
Loans and bills discounted	1,518,097	1,473,419	1,463,168	12,923,277
Trading account securities	1,199	1,251	1,860	10,213
Securities	416,973	467,314	474,565	3,549,613
Total assets	2,113,655	2,124,591	2,070,106	17,993,151
Shareholders' equity	93,100	87,919	84,097	792,547

Note: The U.S. dollar amounts represent translation of Japanese yen at the exchange rate of ¥117.47 per U.S.\$1.00 on March 31, 2006.

The inclusion of such dollar amounts is solely for convenience and is not intended to imply that Japanese yen have been or could be readily converted, realized, or settled in U.S. dollars at this or any other exchange rate.

# Performance Overview

## The Economic Environment

Japan's real GDP for the last three months of 2005 marked the fourth continuous quarter of growth, providing clear evidence that the Japanese economy had recovered from the temporary stagnation plaguing the second half of the preceeding fiscal year. Thus, the economy appears to be firmly on a growth path. Consumer spending and private capital investment continued to expand, and exports also showed a moderate increase. Regarding price trends, the consumer price index showed year-on-year growth, and the Bank of Japan, taking note of the steady improvements in the domestic economy and price trends, decided to discontinue its policy of quantitative easing of the money supply for the first time in five years.

Looking ahead, the corporate sector's improved earnings performance will contribute to high levels of capital investment and improvements in household income, which will help boost consumer spending. The economy is therefore expected to maintain a steady recovery trend.

Turning to Fukui Prefecture, the economy is continuing to show signs of a moderate recovery, although consumer spending and manufacturing activity remain weak in some parts of the prefecture. Capital investment exceeded previous-year levels, reflecting the pickup in manufacturing activity and corporate earnings. However, a survey of small and medium-sized enterprises indicates that business will continue to show spurts of recovery followed immediately by downturns.

## Review of Operations (Consolidated basis)

During the term under review, the managements of Fukui Bank and its nine subsidiaries worked to improve operational efficiency and build a stronger management structure. As a result, business performance for the term was as follows.

In spite a decline in the amount of local government deposits, a steady rise in corporate and individual deposits, which includes CDs, led the balance of deposits to rise ¥10.4 billion to ¥1,876.3 billion (US\$15,973 million) at term-end.

Loans and bills discounted increased by ¥44.6 billion, to ¥1,518.0 billion (US\$12,923 million). This is attributable to a strong rise in demand for consumer loans, primarily mortgage loans, as well as loans to local government bodies and other public organizations, which more than offset the weakness of loan demand from the corporate sector.

The term-end securities balance came to ¥416.9 billion (US\$3,550 million) a decline of ¥50.3 billion from the previous term-end, largely as a result of careful monitoring of market trends to improve investment returns on securities. The balance of trading-account securities came to ¥1.1 billion (US\$10 million).

A segmental breakdown of the Group's business reveals that core banking assets decreased by ¥11.1 billion to ¥2,110.5 billion (US\$17,966 million) at the term-end, while assets for leasing increased, by ¥1.3 billion, to ¥16.4 billion (US\$140 million). Other business assets grew by ¥35 million, to ¥400 million (US\$3 million). These figures are prior to consolidation adjustment.

Turning to the Group's earning performance, we posted an extraordinary loss of ¥2,321 million (US\$20 million) as a result of the adoption of new accounting standards for the impairment of fixed assets. We also registered an extraordinary gain on the reversal of a reserve for possible loan losses. Moreover, there was no recurrence of the extraordinary loss of the previous term resulting from the liquidation of the Bank's corporate pension fund. Consequently, the Bank posted a net income of ¥8,986 million (US\$76 million), a ¥6,571 million improvement over the previous term. The Bank's capital ratio on a consolidated basis, which is the

principal indicator of financial soundness, stood at 9.48%, according to standards applied to banks operating solely in Japan.

Net cash used in operating activities amounted to ¥75,826 million (US\$645 million), as a result of an increase in loans and call loans, as well as a decrease in receivables under securities lending transactions. Compared with a net cash inflow of ¥5,269 million for the previous term, the net cash flow from operating activities deteriorated by ¥81,096 million. The substantial increases in loans and call loans, and the decline in receivables under securities lending transactions exceeded the cash inflow from the increase in deposits.

Net cash provided by investing activities amounted to ¥47,397 million (US\$403 million), up ¥35,217 million over the previous term, as cash inflow from the sale and redemption of securities exceeded cash outflow accompanying the purchase of securities.

Net cash provided by financing activities came to ¥2,920 million (US\$25 million), as a result of cash inflows from the issuance of subordinated bonds exceeding cash outflows for the repayment of subordinated loans. Net cash flows from financing activities improved from the previous-year level by ¥4,189 million, owing primarily to cash procurement through an issuance of subordinated bonds.

## Issues to be Addressed

The complete abolition of the system of unlimited government-backed guarantees on bank deposits (which went into effect on April 1, 2005, with the guarantee now capped at ¥10 million per deposit), and the full enforcement of the provisions of the Personal Information Protection Act the same day, have made bank customers even more selective in choosing the financial institution with which they do business. Banks are now allowed to undertake securities intermediary operations, and restrictions on the sale of insurance products have also been abolished. Regulations for banking agencies have also been reviewed. These developments have made it necessary for the Bank to revamp its system of retail branches, especially considering the anticipated intensified competition that will accompany further regulatory easing. Moreover, ahead of the future drafting and enactment of the new Financial Instruments and Exchange Law (J-SOX), it is becoming more important than ever for financial institutions to establish a system for explaining the ways in which they are meeting their responsibilities as a bank.

Not only must we prepare a response to such new crimes as the theft and forgery of ATM cards and data phishing, we must also be ready to meet the new capital adequacy requirements under Basel II, and strengthen our internal control system. Thus, we are facing a variety of new challenges.

Against this backdrop, we are working to create a sound financial position and a strong customer base, to become a truly strong bank that is capable of equally satisfying the needs and expectations of our customers, shareholders, and employees, as well as the subsidiaries and affiliates within our corporate group. To ensure that this is within our capacity, while at the same time fully performing the functions expected of us as a regional financial institution, we are focusing our management efforts on improving profitability so as to build a firm earnings base and a solid financial position.

We will continue working to provide the kind of high-quality customized services that only a regional bank can provide, backed by a fully reliable security system, with the goal of building a reputation for ourselves as a thoroughly trustworthy bank.

# Consolidated Balance Sheets

The Fukui Bank, Ltd. and its consolidated subsidiaries

March 31,	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Assets</b>			
Cash and due from banks .....	¥ 35,728	¥ 61,078	\$ 304,151
Call loans and bills purchased .....	51,922	31,145	442,007
Commercial paper and other debt purchased .....	12,437	16,536	105,877
Trading account securities .....	1,199	1,251	10,213
Money held in trust .....	1,200	—	10,217
Securities .....	416,973	467,314	3,549,613
Loans and bills discounted .....	1,518,097	1,473,419	12,923,277
Foreign exchange .....	2,835	2,553	24,138
Other assets .....	21,944	20,559	186,808
Premises and equipment .....	29,497	32,675	251,107
Deferred tax assets .....	10,813	15,021	92,054
Customers' liabilities for acceptances and guarantees .....	30,729	33,291	261,593
Reserve for possible loan losses .....	(19,723)	(30,254)	(167,903)
Total assets .....	<u>¥2,113,655</u>	<u>¥2,124,591</u>	<u>\$17,993,151</u>
<b>Liabilities, Minority Interests and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Deposits .....	¥1,876,389	¥1,865,891	\$15,973,350
Call money and bills sold .....	19,952	25,514	169,854
Payables under securities lending transactions .....	42,897	65,486	365,177
Borrowed money .....	3,313	19,354	28,205
Foreign exchange .....	116	214	991
Bonds .....	20,000	—	170,256
Other liabilities .....	15,499	15,065	131,948
Reserve for employees' bonuses .....	237	226	2,022
Employees' severance and retirement benefits .....	4,944	5,092	42,090
Deferred tax liabilities for land revaluation .....	4,756	5,074	40,494
Acceptances and guarantees .....	30,729	33,291	261,593
Total liabilities .....	<u>2,018,837</u>	<u>2,035,212</u>	<u>17,185,980</u>
<b>Minority Interests:</b>			
Minority interests .....	<u>1,717</u>	<u>1,459</u>	<u>14,624</u>
<b>Shareholders' Equity:</b>			
Common stock .....	17,965	17,965	152,937
Capital surplus .....	2,619	2,616	22,299
Retained earnings .....	64,462	55,916	548,758
Excess of land revaluation .....	6,497	7,476	55,315
Net unrealized holding gains on securities .....	1,680	4,210	14,308
Less: Common stock in treasury .....	(125)	(267)	(1,070)
Total shareholders' equity .....	<u>93,100</u>	<u>87,919</u>	<u>792,547</u>
Total liabilities, minority interests and shareholders' equity .....	<u>¥2,113,655</u>	<u>¥2,124,591</u>	<u>\$17,993,151</u>

# Consolidated Statements of Income

The Fukui Bank, Ltd. and its consolidated subsidiaries

For the years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Income:</b>			
Interest on loans and bills discounted.....	<b>¥26,321</b>	¥26,140	<b>\$224,073</b>
Interest and dividends on securities .....	<b>4,581</b>	5,720	<b>39,003</b>
Other interest income .....	<b>151</b>	128	<b>1,286</b>
Fees and commissions.....	<b>8,168</b>	7,267	<b>69,537</b>
Other operating income.....	<b>7,431</b>	7,962	<b>63,263</b>
Other income .....	<b>7,994</b>	1,658	<b>68,055</b>
Total income .....	<b>54,649</b>	48,876	<b>465,218</b>
<b>Expenses:</b>			
Interest on deposits.....	<b>749</b>	651	<b>6,384</b>
Interest on borrowings and rediscounts.....	<b>565</b>	455	<b>4,812</b>
Other interest expenses .....	<b>47</b>	12	<b>403</b>
Fees and commissions.....	<b>1,627</b>	1,567	<b>13,852</b>
Other operating expenses.....	<b>5,884</b>	7,262	<b>50,089</b>
General and administrative expenses.....	<b>22,822</b>	24,117	<b>194,280</b>
Other expenses .....	<b>6,807</b>	8,193	<b>57,950</b>
Total expenses .....	<b>38,503</b>	42,259	<b>327,770</b>
<b>Income before income taxes and minority interests.....</b>	<b>16,145</b>	6,617	<b>137,447</b>
Income taxes – current.....	<b>1,350</b>	554	<b>11,493</b>
Income taxes – deferred.....	<b>5,562</b>	3,421	<b>47,353</b>
Minority interests.....	<b>247</b>	226	<b>2,103</b>
<b>Net income .....</b>	<b>¥ 8,986</b>	¥ 2,414	<b>\$ 76,499</b>
		Yen	U.S. dollars
<b>Net income per share .....</b>	<b>¥36.86</b>	¥9.94	<b>\$0.31</b>

## Current Credit Risk Management Position

### Result of Self-Assessment

For the year ended March 31, 2006	Millions of yen			
	Intensive control obligors	Substantially bankrupt obligors	Bankrupt obligors	Total
Total credit balance (A).....	¥47,448	¥9,061	¥1,119	¥57,629
Amount secured by collateral, etc. (B).....	27,389	7,044	921	35,356
Amount at risk of being unrecoverable (C) = (A) – (B).....	20,058	2,016	198	22,273
Reserve for specific borrowers (D).....	11,069	2,016	198	13,284
Reserve ratio (D) / (C) .....	55.18%	100.00%	100.00%	59.64%
Coverage ratio {(B) + (D)} / (A) .....	81.05%	100.00%	100.00%	84.40%

Note: The Reserve for specific borrowers is reserved in proportion to the amount at risk of being unrecoverable based on the Fukui Bank's asset assessment standard.

# Consolidated Statements of Cash Flows

The Fukui Bank, Ltd. and its consolidated subsidiaries

For the years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests.....	¥ 16,145	¥ 6,617	\$ 137,447
Depreciation .....	5,501	5,554	46,836
Impairment loss on fixed assets .....	2,321	—	19,764
Decrease in reserve for possible loan losses.....	(10,530)	(31,973)	(89,648)
Increase (decrease) in reserve for employees' bonuses .....	10	(29)	90
Decrease in employees' severance and retirement benefits .....	(148)	(575)	(1,263)
Interest and dividend income.....	(31,054)	(31,988)	(264,362)
Interest expenses .....	1,362	1,118	11,599
Loss on securities.....	(1,643)	(190)	(13,987)
Gain on sale of money in trust.....	(1)	—	(14)
Foreign exchange gain.....	(1,742)	(1,444)	(14,834)
Loss (gain) on sale of premises and equipment.....	73	(259)	628
Net change in loans and bills discounted.....	(44,677)	(10,250)	(380,335)
Net change in deposits .....	10,498	(40,809)	89,369
Net change in due from banks (except deposits with the Bank of Japan).....	(116)	30	(992)
Net change in call loans and bills purchased .....	(16,677)	(8,748)	(141,976)
Net change in call money and bills sold .....	(5,562)	23,929	(47,349)
Net change in trading account securities .....	51	609	437
Net change in payables under securities lending transactions .....	(22,589)	65,486	(192,297)
Net change in foreign exchange (assets) .....	(282)	608	(2,402)
Net change in foreign exchange (liabilities).....	(98)	61	(837)
Interest and dividend received.....	31,241	32,578	265,949
Interest paid.....	(1,515)	(1,233)	(12,899)
Other .....	(5,834)	(3,353)	(49,671)
Subtotal.....	(75,268)	5,740	(640,747)
Income taxes paid .....	(558)	(470)	(4,753)
Net cash provided by (used in) operating activities .....	(75,826)	5,269	(645,501)
<b>Cash flows from investing activities:</b>			
Payments for purchase of securities .....	(149,295)	(306,554)	(1,270,922)
Proceeds from sale of securities .....	123,701	276,786	1,053,047
Proceeds from redemption of securities .....	74,870	42,750	637,360
Increase in money held in trust.....	(1,200)	—	(10,215)
Payments for purchase of premises and equipment .....	(803)	(1,220)	(6,843)
Proceeds from sale of premises and equipment .....	124	417	1,061
Net cash provided by investing activities.....	47,397	12,179	403,488
<b>Cash flows from financing activities:</b>			
Repayments of subordinated loans.....	(16,000)	—	(136,205)
Proceeds from issuance of subordinated bonds .....	20,000	—	170,256
Cash dividends paid .....	(1,213)	(1,212)	(10,328)
Cash dividends paid to minority interests .....	(2)	(2)	(23)
Proceeds from sale and/or payments for purchase of treasury stock ...	136	(52)	1,165
Net cash provided by (used in) financing activities .....	2,920	(1,268)	24,866
<b>Effect of exchange rate changes on cash and cash equivalents.....</b>	<b>42</b>	<b>20</b>	<b>359</b>
<b>Net change in cash and cash equivalents.....</b>	<b>(25,466)</b>	<b>16,201</b>	<b>(216,787)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>60,660</b>	<b>44,458</b>	<b>516,388</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 35,194</b>	<b>¥ 60,660</b>	<b>\$ 299,601</b>

## BOARD OF DIRECTORS AND CORPORATE AUDITORS (as of June 30, 2006)

<b>President</b> Shichiro Ichihashi	<b>Managing Directors</b> Tadaaki Ito Haruo Murata	<b>Corporate Auditors</b> Okueemon Honda (standing) Kitaro Kumazawa* <sup>2</sup> Kazue Nomura* <sup>2</sup> Masaaki Sakashita* <sup>2</sup> Mamoru Mikami
<b>Senior Managing Director</b> Toshinori Mouri	<b>Directors</b> Tsuruo Matsubara (advisor) Naoyuki Nomura* <sup>1</sup> Junichi Mori	* <sup>1</sup> External Director * <sup>2</sup> Outside Corporate Auditor

## CORPORATE DATA (as of March 31, 2006)

<b>Date of Establishment</b> December 19, 1899	<b>Authorized Shares</b> 565,647 thousand shares	<b>Paid-in Capital</b> ¥17,965 million
	<b>Number of Shares Issued and Outstanding</b> 243,446 thousand shares	<b>Number of Employees</b> 1,319

## SERVICE NETWORK (as of March 31, 2006)

<b>Head Office</b> 1-1, Junka 1-chome, Fukui 910-8660, Japan Telephone: +81-776-24-2030	<b>Number of Domestic Offices</b> Fukui Prefecture..... 73 Ishikawa Prefecture ..... 9 Toyama Prefecture..... 4 Tokyo ..... 1 Nagoya ..... 1 Otsu ..... 1 Kyoto..... 2 Osaka..... 2 <u>Total ..... 93</u>	<b>Correspondent Banking Network</b> 50 countries 187 cities 266 banks
<b>International Division</b> 1-1, Junka 1-chome, Fukui 910-8660, Japan Telephone: +81-776-26-9841 Facsimile: +81-776-26-9842 SWIFT: FKUIJPJT		

## CONSOLIDATED SUBSIDIARIES

The Fukugin Lease Co., Ltd.  
The Fukugin Credit Guarantee Service Co., Ltd.  
The Fukui DC Card Co., Ltd.  
The Fukui Net Co., Ltd.  
The Fukugin Business Service Co., Ltd.  
The Fukugin Staff Service Co., Ltd.  
The Fukugin Office Service Co., Ltd.  
The Fukugin Loan Work Co., Ltd.  
The Fukugin Sohgo Kanri Co., Ltd.

# THE FUKUI BANK, LTD.

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