

THE FUKUI BANK
Financial Statements 2007

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.

With economic recovery in Japan continuing, centered on major urban areas, the Bank of Japan in July 2006 ended its zero interest-rate policy, which it had maintained for around six years. Progress in deregulation also drove a major expansion of business domains in banking. At the same time, enactment of the Financial Instruments and Exchange Law and application of the new BIS capital adequacy requirements (known as the Basel II accord, effective in Japan from March 31, 2007) combined with a new focus on CSR and environmental activities to bring dramatic change to the operating environment faced by the banking industry. Against this backdrop, financial institutions are under pressure to provide tailored services promptly and operate on a wider variety of fronts.

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.

Adoption of Committee-Based System of Corporate Governance

In June 2007, the Bank adopted the committee-based system of corporate governance, as defined in the Company Law, with the intention of enhancing the soundness and transparency of its governance system. This includes the separation of the Directors' function from that of management, and taking steps to ensure the effective functioning of the statutory committees. Under the system, the Board of Directors defines the areas for which each Corporate Executive Officer is responsible, and delegates to them the requisite decision-making authority, thereby facilitating prompt decision-making and promoting the efficient management of the Bank.

The Bank's statutory entities consist of the Board of Directors, which is appointed by resolutions of the general shareholders' meeting, and three committees: the Nominating Committee, Audit Committee, and the Compensation Committee, each of which includes a majority of outside directors.

The Bank's Articles of Incorporation also stipulate that Corporate Executive Officers shall be appointed by resolution of the Board of Directors.

Consolidated Financial Highlights

The Fukui Bank, Ltd. and its consolidated subsidiaries

Years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
For the Year:				
Total income	¥ 51,362	¥ 54,649	¥ 48,876	\$ 435,088
Total expenses	45,679	38,503	42,259	386,947
Income before income taxes	5,682	16,145	6,617	48,140
Net income	3,707	8,986	2,414	31,402
Net income per share (yen and dollars)	15.23	36.86	9.94	0.12
At Year-end:				
Deposits	¥1,902,269	¥1,876,389	¥1,865,891	\$16,114,095
Loans and bills discounted	1,529,811	1,518,097	1,473,419	12,959,010
Trading account securities	930	1,199	1,251	7,885
Securities	399,636	416,973	467,314	3,385,318
Total assets	2,124,608	2,113,655	2,124,591	17,997,528
Net assets	110,404	93,100	87,919	935,238

Note: The U.S. dollar amounts represent translation of Japanese yen at the exchange rate of ¥118.05 per U.S.\$1.00 on March 31, 2007.

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.

The Economic Environment

The last quarter of 2006 was the eighth continuous quarter of real growth in Japan's GDP, showing that overall the Japanese economy continues to expand moderately. Consumer spending is now on a firm footing and private capital investment continues to increase smoothly. Ministry of Land, Infrastructure and Transport statistics also showed that residential and commercial land values in Japan's three major urban areas began to rise again in 2006 after 16 years in the doldrums. With consumer and industrial prices now showing stability after a long period of deflation, the Bank of Japan reacted to signs of improvement in the economy by raising interest rates twice. Looking ahead, we can expect the economy to move onto a sustained growth path into the long-term, reflected in increased internal and external demand.

Turning to Fukui Prefecture, we expect year-on-year increases in private capital investment as well as improvement at manufacturing and nonmanufacturing industries as consumer spending picks up, as indicated by strong sales at electronics stores. In production activities, the overall trend is one of increase in capacity utilization ratios in both the electrical (parts) and general machinery sectors. However, we recognize that increases in the number of corporate bankruptcies and total indebtedness during the period indicate that pockets of hardship remain in the prefecture.

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.

The balance of deposits including CDs rose ¥25.8 billion year-on-year to end the term at ¥1,902.2 billion (US\$16,114 million). Loans and bills discounted also increased ¥11.7 billion year-on-year to ¥1,529.8 billion (US\$12,959 million). The balance of securities at the term-end declined ¥17.3 billion year-on-year to end the term at ¥399.6 billion (US\$3,385 million). The balance of trading account securities ended the term at ¥900 million (US\$8 million).

By segment, core banking assets increased to ¥10.5 billion to ¥2,121.1 billion (US\$17,968 million). Assets for leasing increased by ¥2.6 billion to ¥19.0 billion (US\$161 million), and other business assets expanded by ¥12.4 billion to ¥12.9 billion (US\$109 million). These figures are prior to consolidation adjustment.

Turning to earnings, net income declined ¥5,279 million to ¥3,707 million (US\$31 million). The Bank's capital ratio (consolidated basis, domestic basis), the principal indicator of financial soundness, stood at 10.57% at term-end.

Net cash used in operating activities totaled ¥27,023 million (US\$229 million), chiefly reflecting an increase in lending and call loans and outflows due to declines in receivables under securities lending transactions. Net cash outflows were ¥48,803 less than in the previous term, due principally to a decline in outflows due to reduced growth in lending, and increased inflows from an increase in deposits.

Net cash provided by investing activities totaled ¥17,033 million (US\$144 million), with proceeds from redemption and sale of securities outweighing expenditures for the purchase of securities. Net cash inflows were ¥30,364 million less than in the previous term, due to reduced inflows from redemption of securities and a worsening securities trading performance.

Net cash provided by financing activities totaled ¥7,925 million (US\$67 million), with inflows from issue of issuance of preferred securities outweighing outflows from repayment of subordinated loans and dividend payments. Net cash inflows were ¥5,004 million higher than the previous year's level due to reduced outflows for repayment of subordinated loans and proceeds from issue of preferred securities, which outweighed the absence of cash inflows from issue of subordinated loans.

Issues to be Addressed

Further progress in financial deregulation has given customers a wider range of financial services and providers. Ahead of the enactment of the Financial Instruments and Exchange Law during fiscal 2007, financial institutions are coming under more pressure to position themselves to better explain their products to their customers. In addition, strengthening corporate governance has also become a priority.

In fiscal 2009 we will shift our core computer systems to one jointly developed with NTT Data's Regional Joint Center. This is not just an upgraded online accounting system. It will necessitate upgrading of ATM networks and peripheral systems as well as an overhaul of administrative procedures, and is expected to be a major project. We plan to make every effort to prepare ourselves for this change, working in close collaboration with NTT Data's Regional Joint Center.

Change continues to sweep over our sector from within and without. Our aim is to meet these challenges while responding fully to the expectations of our shareholders and customers.

Consolidated Balance Sheets

The Fukui Bank, Ltd. and its consolidated subsidiaries

March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Assets:			
Cash and due from banks	¥ 34,033	¥ 35,728	\$ 288,298
Call loans and bills purchased	79,367	51,922	672,322
Commercial paper and other debt purchased	12,125	12,437	102,717
Trading account securities	930	1,199	7,885
Money held in trust	1,200	1,200	10,166
Securities	399,636	416,973	3,385,318
Loans and bills discounted	1,529,811	1,518,097	12,959,010
Foreign exchange	2,963	2,835	25,107
Other assets	25,350	21,944	214,740
Tangible fixed assets	28,564	—	241,971
Intangible fixed assets	789	—	6,684
Premises and equipment	—	29,497	—
Deferred tax assets	10,796	10,813	91,458
Customers' liabilities for acceptances and guarantees	20,024	30,729	169,626
Reserve for possible loan losses	(20,986)	(19,723)	(177,778)
Total assets	<u>¥2,124,608</u>	<u>¥2,113,655</u>	<u>\$17,997,528</u>

March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Liabilities:			
Deposits	¥1,902,269	¥1,876,389	\$16,114,095
Call money and bills sold	11,291	19,952	95,653
Payables under securities lending transactions	16,664	42,897	141,166
Borrowed money	15,487	3,313	131,193
Foreign exchange	138	116	1,170
Bonds	20,000	20,000	169,419
Other liabilities	18,315	15,499	155,151
Reserve for employees' bonuses	270	237	2,287
Reserve for directors' bonuses	24	—	204
Employees' severance and retirement benefits	5,034	4,944	42,649
Deferred tax liabilities for land revaluation	4,683	4,756	39,670
Acceptances and guarantees	20,024	30,729	169,626
Total liabilities	<u>2,014,203</u>	<u>2,018,837</u>	<u>17,062,290</u>
Net assets:			
Common stock	17,965	—	152,185
Capital surplus	2,635	—	22,325
Retained earnings	67,031	—	567,819
Treasury stock	(54)	—	(462)
Total shareholders' equity	<u>87,577</u>	<u>—</u>	<u>741,866</u>
Net unrealized holdings gains on securities	2,333	—	19,768
Net deferred gains on hedging instruments	0	—	0
Excess of land revaluation	6,389	—	54,122
Total valuation and translation adjustments	<u>8,722</u>	<u>—</u>	<u>73,890</u>
Minority interests	14,104	—	119,480
Total net assets	<u>110,404</u>	<u>—</u>	<u>935,238</u>
Total liabilities and net assets	<u>¥2,124,608</u>	<u>—</u>	<u>\$17,997,528</u>
Minority interests:			
Minority interests	—	1,717	—
Shareholders' equity:			
Common stock	—	17,965	—
Capital surplus	—	2,619	—
Retained earnings	—	64,462	—
Excess of land revaluation	—	6,497	—
Net unrealized holding gains on securities	—	1,680	—
Treasury stock	—	(125)	—
Total shareholders' equity	<u>—</u>	<u>93,100</u>	<u>—</u>
Total liabilities, minority interests and shareholders' equity	<u>—</u>	<u>¥2,113,655</u>	<u>—</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
	2007	2006	2007
Income:			
Interest on loans and bills discounted.....	¥28,008	¥26,321	\$237,261
Interest and dividends on securities	4,584	4,581	38,834
Other interest income	160	151	1,356
Fees and commissions.....	8,609	8,168	72,934
Other operating income.....	8,207	7,431	69,524
Other income	1,791	7,994	15,176
Total income	51,362	54,649	435,088
Expenses:			
Interest on deposits.....	2,289	749	19,390
Interest on borrowings and rediscounts.....	584	565	4,948
Other interest expenses	314	47	2,661
Fees and commissions.....	1,838	1,627	15,577
Other operating expenses.....	7,469	5,884	63,275
General and administrative expenses.....	24,002	22,822	203,326
Other expenses	9,180	6,807	77,767
Total expenses	45,679	38,503	386,947
Income before income taxes and minority interests.....	5,682	16,145	48,140
Income taxes – current.....	2,171	1,350	18,392
Income taxes – deferred.....	(540)	5,562	(4,580)
Minority interests.....	345	247	2,925
Net income	¥ 3,707	¥ 8,986	\$ 31,402
		Yen	U.S. dollars
Net income per share	¥15.23	¥36.86	\$0.12

Current Credit Risk Management Position

Result of Self-Assessment

For the year ended March 31, 2007	Millions of yen			Total
	Intensive control obligors	Substantially bankrupt obligors	Bankrupt obligors	
Total credit balance (A).....	¥52,337	¥11,148	¥1,075	¥64,561
Amount secured by collateral, etc. (B)	28,508	8,616	994	38,119
Amount at risk of being unrecoverable (C) = (A) – (B)	23,828	2,532	81	26,442
Reserve for specific borrowers (D)	13,577	2,532	81	16,190
Reserve ratio (D) / (C)	56.97%	100.00%	100.00%	61.23%
Coverage ratio {(B) + (D)} / (A).....	80.41%	100.00%	100.00%	84.12%

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
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 5,682	¥ 16,145	\$ 48,140
Depreciation	5,829	5,501	49,378
Impairment loss on fixed assets	156	2,321	1,321
Increase (decrease) in reserve for possible loan losses	1,263	(10,530)	10,700
Increase in reserve for employees' bonuses	32	10	275
Increase in reserve for directors' bonuses	24	—	204
Increase (decrease) in employees' severance and retirement benefits	90	(148)	766
Interest and dividend income	(32,753)	(31,054)	(277,452)
Interest expenses	3,187	1,362	27,001
Loss (gain) on securities	125	(1,643)	1,062
Gain on sale of money in trust	(10)	(1)	(89)
Foreign exchange gain	(405)	(1,742)	(3,434)
Loss on sale of fixed assets	212	—	1,803
Loss on sale of premises and equipment	—	73	—
Net change in loans and bills discounted	(11,713)	(44,677)	(99,228)
Net change in deposits	25,879	10,498	219,226
Net change in borrowed money (excluding subordinated borrowings)	15,174	—	128,540
Net change in due from banks (excluding deposits with the Bank of Japan)	(329)	(116)	(2,790)
Net change in call loans and bills purchased	(27,133)	(16,677)	(229,847)
Net change in call money and bills sold	(8,660)	(5,562)	(73,366)
Net change in trading account securities	268	51	2,277
Net change in payables under securities lending transactions	(26,232)	(22,589)	(222,216)
Net change in foreign exchange (assets)	(128)	(282)	(1,088)
Net change in foreign exchange (liabilities)	21	(98)	184
Interest and dividend received	32,329	31,241	273,866
Interest paid	(2,455)	(1,515)	(20,803)
Other	(5,551)	(5,834)	(47,029)
Subtotal	(25,097)	(75,268)	(212,597)
Income taxes paid	(1,926)	(558)	(16,318)
Net cash used in operating activities	(27,023)	(75,826)	(228,915)
Cash flows from investing activities:			
Payments for purchase of securities	(35,286)	(149,295)	(298,910)
Proceeds from sale of securities	6,217	123,701	52,664
Proceeds from redemption of securities	47,748	74,870	404,475
Increase in money held in trust	—	(1,200)	—
Payments for purchase tangible fixed assets	(1,859)	—	(15,753)
Payments for purchase intangible fixed assets	(26)	—	(223)
Payments for purchase of premises and equipment	—	(803)	—
Proceeds from sale of tangible fixed assets	240	—	2,033
Proceeds from sale of premises and equipment	—	124	—
Net cash provided by investing activities	17,033	47,397	144,286
Cash flows from financing activities:			
Repayments of subordinated borrowings	(3,000)	(16,000)	(25,412)
Proceeds from issuance of subordinated bonds	—	20,000	—
Proceeds from minority shareholders	12,000	—	101,651
Cash dividends paid	(1,215)	(1,213)	(10,295)
Cash dividends paid to minority shareholders	(40)	(2)	(341)
Proceeds from sale and/or payments for purchase of treasury stock	180	136	1,532
Net cash provided by financing activities	7,925	2,920	67,134
Effect of exchange rate changes on cash and cash equivalents	40	42	345
Net change in cash and cash equivalents	(2,024)	(25,466)	(17,149)
Cash and cash equivalents at beginning of year	35,194	60,660	298,128
Cash and cash equivalents at end of year	¥33,169	¥ 35,194	\$ 280,979

DIRECTORS AND EXECUTIVE OFFICERS (as of June 30, 2007)

Director, President and Representative Statutory Executive Officer
Shichiro Ichihashi

Director and Representative Statutory Senior Managing Executive Officer
Toshinori Mouri

Directors	Managing Executive Officers
Masakazu Shimizu	Tadaaki Ito
Naoyuki Nomura*	Haruo Murata
Kazue Nomura*	
Nana Kikkawa*	

* Outside Directors

CORPORATE DATA (as of March 31, 2007)

Date of Establishment	Number of Shares Issued and Outstanding	Paid-in Capital
December 19, 1899	243,446 thousand shares	¥17,965 million
		Number of Employees
		1,283

SERVICE NETWORK (as of March 31, 2007)

Head Office	Number of Domestic Offices	Correspondent Banking Network
1-1, Junka 1-chome, Fukui 910-8660, Japan Telephone: +81-776-24-2030	Fukui Prefecture..... 79 Ishikawa Prefecture 10 Toyama Prefecture..... 4 Shiga Prefecture 2	48 countries 106 cities 256 banks
International Division 1-1, Junka 1-chome, Fukui 910-8660, Japan Telephone: +81-776-26-9841 Facsimile: +81-776-26-9842 SWIFT: FKUIJPJT	Tokyo 1 Nagoya 1 Kyoto..... 2 Osaka..... 2 <u>Total101</u>	

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.
Fukui Preferred Capital Cayman, Ltd.

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