



THE FUKUI BANK
**Financial
Statements
2003**

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
	2003	2002	2001	2003
For the Year:				
Total income	¥ 58,803	¥ 68,828	¥ 68,915	\$ 489,214
Total expenses	53,089	64,156	113,949	441,679
Income (loss) before income taxes	5,713	4,671	(45,034)	47,535
Net income (loss)	2,429	2,590	(26,221)	20,212
Net income (loss) per share (yen and dollars)	9.90	10.66	(107.91)	0.08
At Year-end:				
Deposits	¥1,907,572	¥1,951,546	¥1,899,776	\$15,869,989
Loans and bills discounted	1,454,941	1,464,585	1,409,358	12,104,340
Trading account securities	2,409	4,245	3,558	20,045
Securities	359,853	350,041	440,943	2,993,787
Total assets	2,079,262	2,137,240	2,163,193	17,298,360
Shareholders' equity	93,284	89,508	92,032	776,074

Note: The U.S. dollar amounts represent translation of Japanese yen at the exchange rate of ¥120.20 per U.S.\$1.00 on March 31, 2003.

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

While deflationary pressure continued to increase during the term under review, from the start of 2002 Japan's economy had apparently entered a gradual recovery led by export-oriented industries. In the second half of the term, however, exports began to weaken in the face of growing fears of a slowdown in the U.S. economy, and against the background of a stagnant stock market in Japan, the economy came virtually to a halt.

Despite some notable corporate successes in turning around business performance through restructuring, the general trend of production did not show an improvement, and it is only now, in mid-2003, that the prospects for capital investment are beginning to look brighter. Even so, spending on plant and equipment remains at a low level, and the number of corporate bankruptcies is still high.

Turning to household expenditure, too, the picture is no better, with the unemployment rate remaining around 5.5% as a result of continued corporate restructuring. Incomes, too, are continuing to deteriorate, with the inevitable result that consumer spending is as slack as ever.

Regarding the outlook for the near future, pessimism may seem a reasonable attitude, given that the negative factors oppressing the Japanese economy are on the increase. For example, concern over crude oil prices persists in the aftermath of the conflict in Iraq, and U.S. consumer sentiment may well deteriorate against the background of an expanding U.S. federal budget deficit.

In the Bank's home area of Fukui Prefecture, production volume as a whole followed a recovery trend, but because two of the major manufacturing industries in the prefecture — textiles and spectacle frames — are suffering from long-term structural problems, the extent of recovery has fallen short of the national average, and the business environment is very difficult.

In the textile industry, production volumes in the clothing field are in decline owing to strategic changes made by textile manufacturers, involving a greater focus on value-added products, while in the spectacle frame industry production levels continue to decline in the face of stiff competition from rivals in China and other countries.

Amid these circumstances, the total value of debts of bankrupt companies reached a record-high level in the term under review, while the number of enterprises filing for bankruptcy was the largest in the past decade.

Review of Operations (Consolidated basis)

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

With interest rates remaining at historically low levels, we held down the acceptance of high-interest large-lot deposits and responded to our customers' diversifying fund operation needs through increased focus on the marketing of Japanese government bonds, investment trusts, and other financial products. As a result, the balance of deposits decreased by ¥43.9 billion during the term to reach a term-end balance of ¥1,907.5 billion (US\$15,870 million).

Turning to loans and bills discounted, although demand for consumer loans, including mortgage loans, stayed in line with expectations, corporate demand for funds remained weak, as a result of which loans and bills discounted declined by ¥9.6 billion during the term, to a term-end balance of ¥1,454.9 billion (US\$12,104 million). The term-end securities balance, by contrast, rose ¥9.8 billion compared with the previous term-end, to ¥359.8 billion (US\$2,994 million).

A segmental breakdown of the Group's business shows that core banking assets decreased by ¥57.0 billion during the term to ¥2,077.8 billion (US\$17,287 million), while assets for leasing stood at ¥12.9 billion (US\$108 million) at term-end, and other business assets

at ¥1.1 billion (US\$10 million). Regarding the leasing business, these figures have hitherto been included in "other business operations," but in view of the fact that both the ordinary income and ordinary profit of this business now amount to at least 10% of the respective total figures for all the Group's business segments on a consolidated basis, it has been separately classified as the "leasing business" with effect from the term under review. These figures are prior to consolidation adjustment.

Regarding the Group's earnings performance, ordinary income fell ¥14,531 million from the previous year to ¥54,289 million (US\$452 million). This was largely due to a decline in income from fund management owing to low interest rates, as well as a fall in income from investments in securities utilizing financial derivatives, the operation of which was deliberately held down as a matter of policy. Ordinary expenses shrank ¥12,118 million to ¥51,869 million (US\$432 million) as a result of lower costs of fund procurement and the aforementioned curtailment of operations in securities involving financial derivatives.

As a consequence of the foregoing, ordinary profit fell ¥2,413 million year-on-year to ¥2,420 million (US\$20 million). Net income posted a decline of ¥161 million compared with the previous year, at ¥2,429 million (US\$20 million), despite the posting of a one-time gain on recognition of surplus funds in the pension plan assets operated on behalf of the state-run employee welfare fund.

In a breakdown by operational segment, ordinary income from core banking operations amounted to ¥48,855 million (US\$406 million), down ¥14,692 million from the previous term, while ordinary profit declined by ¥2,427 million year-on-year, to ¥2,035 million (US\$17 million). The ordinary income of the leasing business for the term under review came to ¥6,717 million (US\$56 million) and ordinary profit to ¥302 million (US\$3 million).

In the "other business operations" segment, ordinary income amounted to ¥670 million (US\$6 million) and ordinary profit to ¥86 million (US\$1 million). These figures are inclusive of intersegment transactions and prior to consolidation adjustment.

Issues to be Addressed

Amid a prolonged economic slump and persistent deflation, in its action program for strengthening relationship banking functions, the Financial Services Agency has issued a number of guidelines for Japanese regional banks directed at assisting in the financial revival of small and medium-sized companies, as well as recovering financial soundness in the banks' assets portfolios and raising their profitability. The financial sector is thus faced with a still further period of major reform.

In the face of this situation, the management of Fukui Bank is committed to reinforcing the cost-competitiveness of the Bank by optimally leveraging its superiority in the provision of value-added services and by firmly establishing a low-cost management structure. At the same time, we will continue to work closely with our corporate customers to provide support for improving their business performance and realizing improved asset efficiency for the Bank itself through the disposal of non-performing loans. In these ways, we aim to create a sounder financial position.

To facilitate the transformation of Fukui Bank into the preeminent bank of choice for customers in the region, we have drawn up a new medium-term business plan, under the name of "DASH 21," under which management efforts will be focused on the four objectives of: 1) Enhancing our customer relationship management and information gathering and analysis functions, as well as the use of multiple marketing channels; 2) putting greater emphasis on profitability as opposed to scale expansion; 3) reorganizing our marketing network to focus on specific areas, with more autonomy for branches; and 4) strengthening our risk management system.

We hope that our shareholders and other stakeholders will continue to give us their support and encouragement.

Consolidated Balance Sheets

The Fukui Bank, Ltd. and its consolidated subsidiaries

March 31,	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Assets			
Cash and due from banks	¥ 51,490	¥ 102,940	\$ 428,375
Call loans and bills purchased	151,212	150,874	1,258,008
Commercial paper and other debt purchased	12,326	8,950	102,550
Trading account securities	2,409	4,245	20,045
Securities	359,853	350,041	2,993,787
Loans and bills discounted	1,454,941	1,464,585	12,104,340
Foreign exchange	2,370	2,376	19,718
Other assets	18,055	19,493	150,211
Premises and equipment	35,319	38,336	293,842
Deferred tax assets	29,149	33,740	242,508
Customers' liabilities for acceptances and guarantees	29,278	30,157	243,578
Reserve for possible loan losses	(67,143)	(68,501)	(558,602)
Total assets	<u>¥2,079,262</u>	<u>¥2,137,240</u>	<u>\$17,298,360</u>
Liabilities, Minority Interests and Shareholders' Equity			
Liabilities:			
Deposits	¥1,907,572	¥1,951,546	\$15,869,989
Call money	4,808	8,661	40,000
Payables under repurchase agreements	—	199	—
Borrowed money	19,000	24,500	158,070
Foreign exchange	41	79	345
Other liabilities	12,874	14,726	107,113
Reserve for employees' bonuses	304	299	2,535
Employees' severance and retirement benefits	6,013	10,988	50,033
Deferred tax liabilities for land revaluation	5,205	5,704	43,304
Consolidated difference	—	91	—
Acceptances and guarantees	29,278	30,157	243,578
Total liabilities	<u>1,985,098</u>	<u>2,046,954</u>	<u>16,514,966</u>
Minority Interests:			
Minority interests	<u>879</u>	<u>777</u>	<u>7,320</u>
Shareholders' Equity:			
Common stock	17,965	17,965	149,463
Capital surplus	2,614	2,614	21,749
Retained earnings	61,673	60,029	513,089
Excess of land revaluation	7,666	7,962	63,783
Net unrealized holding gains on securities	3,548	1,096	29,525
Less: Common stock in treasury	(184)	(16)	(1,535)
Less: Parent company stock held by subsidiaries	—	(143)	—
Total shareholders' equity	<u>93,284</u>	<u>89,508</u>	<u>776,074</u>
Total liabilities, minority interests and shareholders' equity...	<u>¥2,079,262</u>	<u>¥2,137,240</u>	<u>\$17,298,360</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
	2003	2002	2003
Income:			
Interest on loans and bills discounted.....	¥28,635	¥29,811	\$238,230
Interest and dividends on securities	5,772	7,338	48,020
Other interest income	156	336	1,305
Fees and commissions.....	6,549	5,881	54,488
Other operating income.....	12,031	24,381	100,098
Other income	5,658	1,079	47,074
Total income	58,803	68,828	489,214
Expenses:			
Interest on deposits.....	1,588	3,302	13,215
Interest on borrowings and rediscounts.....	441	777	3,675
Other interest expenses	22	95	188
Fees and commissions.....	1,351	1,201	11,240
Other operating expenses.....	11,593	23,482	96,451
General and administrative expenses.....	27,132	27,881	225,724
Other expenses	10,960	7,416	91,185
Total expenses	53,089	64,156	441,679
Income (loss) before income taxes and minority interests	5,713	4,671	47,535
Income taxes – current.....	491	1,302	4,089
Income taxes – deferred.....	2,627	592	21,857
Minority interests.....	165	185	1,377
Net income (loss).....	¥ 2,429	¥ 2,590	\$ 20,212
		Yen	U.S. dollars
Net income per share	¥9.90	¥10.66	\$0.08

Current Credit Risk Management Position

Result of Self-Assessment

Year Ended March 31, 2003	Millions of yen			Total
	Intensive control obligors	Substantially bankrupt obligors	Bankrupt obligors	
Total credit balance (A).....	¥99,190	¥27,073	¥9,477	¥135,740
Amount secured by collateral, etc. (B).....	53,532	11,278	3,179	67,989
Amount at risk of being unrecoverable (C) = (A) – (B).....	45,657	15,795	6,298	67,751
Reserve for specific borrowers (D).....	28,073	15,795	6,298	50,166
Reserve ratio (D) / (C).....	61.48%	100.00%	100.00%	74.04%
Coverage ratio {(B) + (D)} / (A).....	82.27%	100.00%	100.00%	87.04%

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
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 5,713	¥ 4,671	\$ 47,535
Depreciation	6,013	2,560	50,031
Amortization of consolidation difference	(91)	(91)	(764)
Increase (decrease) in reserve for possible loan losses.....	(1,357)	1,993	(11,297)
Increase in reserve for employees' bonuses.....	5	299	44
Decrease in employees' severance and retirement benefits.....	(4,974)	(2,548)	(41,381)
Interest and dividend income.....	(34,564)	(37,485)	(287,555)
Interest expenses	2,052	4,175	17,078
Loss on securities.....	2,757	14,315	22,937
Gain on money held in trust.....	—	(168)	—
Foreign exchange loss (gain).....	1,827	(1,209)	15,207
Loss on sale of premises and equipment	1,209	169	10,062
Net change in loans and bills discounted	9,643	(55,227)	80,230
Net change in deposits	(43,973)	51,769	(365,836)
Net change in due from banks (except deposits with the Bank of Japan).....	2,600	12,163	21,632
Net change in call loans and bills purchased	(3,714)	(23,446)	(30,901)
Net change in call money.....	(4,052)	8,204	(33,716)
Net change in trading account securities	1,835	(686)	15,272
Net change in foreign exchange (assets)	6	(276)	55
Net change in foreign exchange (liabilities).....	(38)	15	(317)
Interest and dividend received.....	35,792	38,986	297,774
Interest paid.....	(2,803)	(4,878)	(23,325)
Other.....	(3,261)	(8,757)	(27,137)
Subtotal.....	(29,373)	4,548	(244,371)
Income taxes paid.....	(806)	(5,761)	(6,707)
Net cash used in operating activities	(30,179)	(1,213)	(251,078)
Cash flows from investing activities:			
Payments for purchase of securities	(482,949)	(1,312,111)	(4,017,885)
Proceeds from sale of securities	450,503	1,295,112	3,747,953
Proceeds from redemption of securities	21,117	75,339	175,689
Proceeds from sale of money held in trust.....	—	5,465	—
Payments for purchase of premises and equipment	(824)	(1,904)	(6,859)
Proceeds from sale of premises and equipment	271	72	2,256
Net cash provided by (used in) investing activities	(11,881)	61,973	(98,846)
Cash flows from financing activities:			
Repayments of subordinated debt.....	(5,500)	(3,000)	(45,757)
Cash dividends paid	(1,214)	(1,214)	(10,103)
Cash dividends paid to minority interests	(2)	(2)	(23)
Payments for purchase and/or proceeds from sale of treasury stock	(96)	(27)	(799)
Net cash used in financing activities.....	(6,813)	(4,245)	(56,681)
Effect of exchange rate changes on cash and cash equivalents.....	24	31	205
Net change in cash and cash equivalents.....	(48,849)	56,546	(406,400)
Cash and cash equivalents at beginning of year	100,139	43,593	833,109
Cash and cash equivalents at end of year	¥ 51,290	¥ 100,139	\$ 426,708

BOARD OF DIRECTORS AND CORPORATE AUDITORS (as of June 22, 2003)

President Shichiro Ichihashi	Directors Tsuruo Matsubara Junichi Mori	Standing Corporate Auditor Kenshi Fukuoka
Senior Managing Director Toshinori Mouri	Tadaaki Ito Toshihiko Yasuma	Corporate Auditors Kitaro Kumazawa Yasushi Nakamura Mikio Morikawa
Managing Director Yukio Funaki		

CORPORATE DATA (as of March 31, 2003)

Date of Establishment December 19, 1899	Authorized Shares 565,647 thousand shares	Paid-in Capital ¥17,965 million
	Number of Shares Issued and Outstanding 243,446 thousand shares	Number of Employees 1,462

SERVICE NETWORK (as of March 31, 2003)

Head Office 1-1, Junka 1-chome, Fukui 910-8660, Japan Telephone: 0776-24-2030	Number of Domestic Offices Fukui Prefecture..... 85 Ishikawa Prefecture 12 Toyama Prefecture..... 4 Shiga Prefecture 1 Tokyo 1 Nagoya 1 Kyoto..... 2 Osaka..... 2 <u>Total 108</u>	Correspondent Banking Network 48 countries 175 cities 236 banks
International Division 1-1, Junka 1-chome, Fukui 910-8660, Japan Telephone: 0776-26-9841 Facsimile: 0776-26-9842 Telex: J24307FUKUIB SWIFT: FKUIJPJT		

CONSOLIDATED SUBSIDIARIES

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

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