



THE FUKUI BANK
**Financial
Statements**
..... 2004

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
	2004	2003	2002	2004
For the Year:				
Total income	¥ 48,780	¥ 58,803	¥ 68,828	\$ 461,540
Total expenses	43,568	53,089	64,156	412,228
Income before income taxes	5,211	5,713	4,671	49,312
Net income (loss)	(5,911)	2,429	2,590	(55,933)
Net income (loss) per share (yen and dollars)	(24.34)	9.90	10.66	(0.23)
At Year-end:				
Deposits	¥1,906,700	¥1,907,572	¥1,951,546	\$18,040,499
Loans and bills discounted	1,463,168	1,454,941	1,464,585	13,843,966
Trading account securities	1,860	2,409	4,245	17,608
Securities	474,565	359,853	350,041	4,490,168
Total assets	2,070,106	2,079,262	2,137,240	19,586,589
Shareholders' equity	84,097	93,284	89,508	795,697

Note: The U.S. dollar amounts represent translation of Japanese yen at the exchange rate of ¥105.69 per U.S.\$1.00 on March 31, 2004.

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 economy stagnated during first half of the term under review, due in part to the conflict in Iraq, the outbreak of SARS, and the impact of an unseasonably cool summer, and persistent deflationary pressure. From the autumn onward, however, growth in exports to China and other countries in East Asia — taking advantage of the brisk business situation in U.S. — gave an impetus to the Japanese economy, fueling a rise in capital investment and a firming of stock prices.

Regarding the private sector, the recovery trend seen among manufacturers — who enjoyed improved corporate earnings thanks to expanding exports and the effects of restructuring measures that included reductions in the cost of sales and payroll expenses — spread to the non-manufacturing sector as well, raising expectations of a full-scale economic recovery.

This recovery trend failed to filter through to household expenditures, with an unrealized recovery in consumer spending due to persistent concerns about employment and income amid continued corporate restructuring and consequent changes in the employment system, including a declining trend in lifelong employment.

Regarding the outlook for Japan over the foreseeable future, despite negative factors such as a pessimistic outlook for the U.S. economy and the strong yen, positive factors including rising exports of automobiles, TFT televisions and other digital household products are expected to bolster the economy.

In the Bank's home area of Fukui Prefecture, industrial production as a whole showed a moderate recovery trend, while consumer spending remained weak. In the prefecture's core industries of textiles and eyeglass frames, the manufacturers are regaining market shares lost to low-priced imports, and are recovering confidence in their ability to survive, as their customers have reassessed the importance of high product quality.

The total number of bankruptcies remained high and the value of debts of bankrupt companies reached the second-highest level in the post-war period. This is attributable to the impact of bankruptcies by large-scale companies.

Review of Operations (Consolidated basis)

During the term under review, the managements of Fukui Bank and its nine 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.

The balance of deposits, which includes CDs and individuals' deposits (primarily liquid deposits and foreign currency-denominated deposits) rose steadily, while corporate deposits declined as part of corporate customers' efforts to improve their financial positions. As a result, the total balance of deposits remained largely unchanged, down ¥0.8 billion to reach ¥1,906.7 billion (US\$18,040 million) at term-end.

Turning to loans and bills discounted, loans to corporate customers declined as a result of weak demand for funds. However, demand for consumer loans — primarily mortgage loans — as well as loans to local governments rose steadily, as a result of which loans and bills discounted increased by ¥8.2 billion during the term, to reach a term-end balance of ¥1,463.1 billion (US\$13,843 million). The term-end securities balance rose ¥114.7 billion compared with the previous term-end, to ¥474.5 billion (US\$4,490 million), as a result of the effective investment of funds, mainly in Japanese government bonds (JGBs). The balance of trading account securities totaled ¥1.8 billion (US\$17 million).

A segmental breakdown of the Group's business shows that core banking assets decreased by ¥9.9 billion during the term to ¥2,067.9 billion (US\$19,566 million), while assets for leasing increased by ¥0.1 billion to ¥13 billion (US\$12 million) at term-end, and other business assets declined by ¥0.3 billion to ¥0.7 billion (US\$6 million). The figures are prior to consolidation adjustment.

Regarding the Group's earnings performance, the Bank posted a net loss of ¥5.9 billion (US\$55 million), compared with a net income of ¥2.4 billion for the previous term. This was largely due to the posting the previous term 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, and a reversal of deferred tax assets regarding future loan losses. The decision was based on the management's judgment that the said deferred tax asset amount was deemed unlikely to have the effect of reducing income tax payments in the foreseeable future.

The partial reversal of deferred tax assets led to a decrease in total capital used for calculation of the capital ratio. On a consolidated basis, the capital ratio to 9.07% (based on the domestic standard). The quality of capital, however, improved.

Regarding cash flows, net cash provided by operating activities came to ¥122.5 billion (US\$1,159 million), mainly due to a decline in call loans, compared with a net cash outflow of ¥30.2 billion for the previous year.

Net cash used for investment activities increased by ¥116.2 billion, to ¥128.1 billion (US\$1,212 million), mainly due to a substantial decline in proceeds from sales of securities while payments for purchase of securities fell only slightly.

Net cash used in financing activities decreased ¥5.5 billion to ¥1.2 billion (US\$11 million), due primarily to a decline in the repayment of subordinated loans. The cash outflow is attributable to a cash dividend payment.

As a result, cash and cash equivalents declined ¥6.8 billion from the previous year, to stand at ¥44.4 billion (US\$420 million) at the term-end.

Issues to be Addressed

Various indicators suggest a favorable outlook for the Japanese economy, as indicated by the steady recovery in the earnings performance of large-scale companies. However, management conditions remain harsh for the local small and medium-sized firms underpinning the domestic economy. There are many issues facing the local economies in which regional financial institutions operate. Moreover, ahead of the ending of the government's unlimited guarantee on liquid deposits over ¥10 million yen scheduled for next April, and the adoption of the new BIS regulations, banks are being required to strengthen their financial positions and expand their line-up of distinctive financial services. Thus, the financial sector is in the process of a major transformation.

In the face of this situation, the management of Fukui Bank is committed to reinforcing its competitiveness in terms of both quality of services and fee levels. The Bank will work hard to provide superior services and firmly establish a management structure that will enable low-cost operations. At the same time, we will continue to work closely with our corporate customers to provide support for improving their business performance while enhancing the Bank's asset portfolio through the removal of non-performing loans from its balance sheet. In these ways, we aim to create a sounder financial position.

Consolidated Balance Sheets

The Fukui Bank, Ltd. and its consolidated subsidiaries

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Assets			
Cash and due from banks	¥ 44,907	¥ 51,490	\$ 424,896
Call loans and bills purchased	25,055	151,212	237,069
Commercial paper and other debt purchased	13,878	12,326	131,309
Trading account securities	1,860	2,409	17,608
Securities	474,565	359,853	4,490,168
Loans and bills discounted	1,463,168	1,454,941	13,843,966
Foreign exchange	3,162	2,370	29,920
Other assets	20,419	18,055	193,206
Premises and equipment	33,516	35,319	317,120
Deferred tax assets	20,026	29,149	189,485
Customers' liabilities for acceptances and guarantees	31,772	29,278	300,618
Reserve for possible loan losses	(62,227)	(67,143)	(588,776)
Total assets	<u>¥2,070,106</u>	<u>¥2,079,262</u>	<u>\$19,586,589</u>
Liabilities, Minority Interests and Shareholders' Equity			
Liabilities:			
Deposits	¥1,906,700	¥1,907,572	\$18,040,499
Call money	1,585	4,808	15,000
Borrowed money	19,000	19,000	179,771
Foreign exchange	153	41	1,455
Other liabilities	14,579	12,874	137,946
Reserve for employees' bonuses	256	304	2,429
Employees' severance and retirement benefits	5,667	6,013	53,626
Deferred tax liabilities for land revaluation	5,074	5,205	48,016
Acceptances and guarantees	31,772	29,278	300,618
Total liabilities	<u>1,984,790</u>	<u>1,985,098</u>	<u>18,779,359</u>
Minority Interests:			
Minority interests	<u>1,218</u>	<u>879</u>	<u>11,533</u>
Shareholders' Equity:			
Common stock	17,965	17,965	169,983
Capital surplus	2,616	2,614	24,756
Retained earnings	54,715	61,673	517,694
Excess of land revaluation	7,477	7,666	70,747
Net unrealized holding gains on securities	1,544	3,548	14,611
Less: Common stock in treasury	(221)	(184)	(2,094)
Total shareholders' equity	<u>84,097</u>	<u>93,284</u>	<u>795,697</u>
Total liabilities, minority interests and shareholders' equity...	<u>¥2,070,106</u>	<u>¥2,079,262</u>	<u>\$19,586,589</u>

Consolidated Statements of Operations

The Fukui Bank, Ltd. and its consolidated subsidiaries

For the years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Income:			
Interest on loans and bills discounted.....	¥26,669	¥28,635	\$252,337
Interest and dividends on securities	5,802	5,772	54,899
Other interest income	124	156	1,179
Fees and commissions.....	6,691	6,549	63,312
Other operating income.....	8,090	12,031	76,551
Other income	1,401	5,658	13,262
Total income	48,780	58,803	461,540
Expenses:			
Interest on deposits.....	807	1,588	7,639
Interest on borrowings and rediscounts.....	399	441	3,782
Other interest expenses	11	22	108
Fees and commissions.....	1,438	1,351	13,606
Other operating expenses.....	12,002	11,593	113,559
General and administrative expenses.....	25,266	27,132	239,062
Other expenses	3,643	10,960	34,472
Total expenses	43,568	53,089	412,228
Income before income taxes and minority interests.....	5,211	5,713	49,312
Income taxes – current.....	462	491	4,374
Income taxes – deferred.....	10,333	2,627	97,774
Minority interests.....	327	165	3,097
Net income (loss).....	¥ (5,911)	¥ 2,429	\$ (55,933)
		Yen	U.S. dollars
Net income (loss) per share.....	¥(24.34)	¥9.90	\$(0.23)

Current Credit Risk Management Position

Result of Self-Assessment

Year Ended March 31, 2004	Millions of yen			Total
	Intensive control obligors	Substantially bankrupt obligors	Bankrupt obligors	
Total credit balance (A).....	¥68,603	¥32,436	¥9,827	¥110,866
Amount secured by collateral, etc. (B).....	38,344	11,519	2,049	51,913
Amount at risk of being unrecoverable (C) = (A) – (B).....	30,258	20,916	7,777	58,952
Reserve for specific borrowers (D).....	17,160	20,916	7,777	45,855
Reserve ratio (D) / (C).....	56.71%	100.00%	100.00%	77.78%
Coverage ratio {(B) + (D)} / (A).....	80.90%	100.00%	100.00%	88.18%

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
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 5,211	¥ 5,713	\$ 49,312
Depreciation	5,666	6,013	53,611
Amortization of consolidation difference	—	(91)	—
Decrease in reserve for possible loan losses.....	(4,916)	(1,357)	(46,516)
Increase (decrease) in reserve for employees' bonuses	(48)	5	(454)
Decrease in employees' severance and retirement benefits.....	(346)	(4,974)	(3,276)
Interest and dividend income.....	(32,596)	(34,564)	(308,415)
Interest expenses	1,218	2,052	11,529
Loss on securities.....	5,751	2,757	54,418
Foreign exchange loss	3,735	1,827	35,348
Loss on sale of premises and equipment	371	1,209	3,511
Net change in loans and bills discounted	(8,227)	9,643	(77,842)
Net change in deposits	(872)	(43,973)	(8,253)
Net change in due from banks (except deposits with the Bank of Japan).....	(248)	2,600	(2,347)
Net change in call loans and bills purchased	124,605	(3,714)	1,178,969
Net change in call money.....	(3,222)	(4,052)	(30,492)
Net change in trading account securities	548	1,835	5,190
Net change in foreign exchange (assets)	(792)	6	(7,495)
Net change in foreign exchange (liabilities).....	112	(38)	1,063
Interest and dividend received.....	33,229	35,792	314,408
Interest paid.....	(1,833)	(2,803)	(17,348)
Other.....	(4,312)	(3,261)	(40,800)
Subtotal.....	123,035	(29,373)	1,164,121
Income taxes paid.....	(494)	(806)	(4,676)
Net cash provided by (used in) operating activities	122,541	(30,179)	1,159,445
Cash flows from investing activities:			
Payments for purchase of securities	(469,433)	(482,949)	(4,441,606)
Proceeds from sale of securities	291,402	450,503	2,757,141
Proceeds from redemption of securities	50,337	21,117	476,280
Payments for purchase of premises and equipment	(1,191)	(824)	(11,275)
Proceeds from sale of premises and equipment	761	271	7,203
Net cash used in investing activities	(128,123)	(11,881)	(1,212,258)
Cash flows from financing activities:			
Repayments of subordinated debt.....	—	(5,500)	—
Cash dividends paid	(1,213)	(1,214)	(11,479)
Cash dividends paid to minority interests	(2)	(2)	(26)
Payments for purchase and/or proceeds from sale of treasury stock	(42)	(96)	(398)
Net cash used in financing activities.....	(1,257)	(6,813)	(11,902)
Effect of exchange rate changes on cash and cash equivalents.....	8	24	79
Net change in cash and cash equivalents.....	(6,831)	(48,849)	(64,636)
Cash and cash equivalents at beginning of year	51,290	100,139	485,291
Cash and cash equivalents at end of year	¥ 44,458	¥ 51,290	\$ 420,654

BOARD OF DIRECTORS AND CORPORATE AUDITORS (as of July 31, 2004)

President Shichiro Ichihashi	Directors Tsuruo Matsubara Tadaaki Ito	Standing Corporate Auditor Okueemon Honda
Senior Managing Director Toshinori Mouri	Toshihiko Yasuma Haruo Murata	Corporate Auditors Kitaro Kumazawa Kazue Nomura Masaaki Sakashita Mamoru Mikami

CORPORATE DATA (as of March 31, 2004)

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 1,435

SERVICE NETWORK (as of March 31, 2004)

Head Office 1-1, Junka 1-chome, Fukui 910-8660, Japan Telephone: +81-776-24-2030	Number of Domestic Offices Fukui Prefecture..... 73 Ishikawa Prefecture 9 Toyama Prefecture..... 4 Tokyo 1 Nagoya 1 Otsu 1 Kyoto..... 2 Osaka..... 2 <u>Total 93</u>	Correspondent Banking Network 48 countries 175 cities 236 banks
International Division 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 Business Service Co., Ltd.
The Fukugin Staff Service Co., Ltd.
The Fukugin Office Service Co., Ltd.
The Fukugin Loan Work Co., Ltd.
The Fukugin Credit Guarantee Service Co., Ltd.
The Fukui DC Card Co., Ltd.
The Fukugin Lease Co., Ltd.
The Fukugin Sohgo Kanri Co., Ltd.
The Fukui Net Co., Ltd.

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