

# Financial Statements 2005

THE FUKUI BANK



# 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
	2005	2004	2003	2005
<b>For the Year:</b>				
Total income	¥ 48,876	¥ 48,780	¥ 58,803	\$ 455,135
Total expenses	42,259	43,568	53,089	393,517
Income before income taxes	6,617	5,211	5,713	61,618
Net income (loss)	2,414	(5,911)	2,429	22,483
Net income (loss) per share (yen and dollars)	9.94	(24.34)	9.90	0.09
<b>At Year-end:</b>				
Deposits	¥1,865,891	¥1,906,700	¥1,907,572	\$17,374,907
Loans and bills discounted	1,473,419	1,463,168	1,454,941	13,720,266
Trading account securities	1,251	1,860	2,409	11,650
Securities	467,314	474,565	359,853	4,351,565
Total assets	2,124,591	2,070,106	2,079,262	19,783,885
Shareholders' equity	87,919	84,097	93,284	818,690

Note: The U.S. dollar amounts represent translation of Japanese yen at the exchange rate of ¥107.39 per U.S.\$1.00 on March 31, 2005.

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

Under the conflicting pressures of positive and negative factors, the Japanese economy failed to make any real progress during the reporting period, and there was an undeniable increase in the feeling that economic activity was stagnating. In the second half of the term, a slowdown was seen in exports, which had played a leading role in the economy's growth. Moreover, the trend toward production adjustments in the manufacturing sector, which had begun in the digital electronic appliances field, spread across a widening range of industries. Private-sector capital investments, however, remained steady against the backdrop of improving corporate earnings, and consumer spending patterns showed a firm undertone in reflection of the improving employment situation. There were thus some signs that an economic recovery might be just around the corner.

Looking ahead, in view of the high level of prices of imported raw materials and fuels, notably petroleum, as well as the likelihood that the sluggish growth of exports will continue for some time, among other negative factors, it is impossible to say whether or not the economy has commenced, or will soon commence, a fully-fledged recovery.

Examining the economy of Fukui Prefecture alone, the corporate sector was generally favorable during the reporting period, and large-scale companies recorded a high level of earnings, while the earning power of SMEs also continued to improve. Against this backdrop, capital investment rose during the reporting period, and continues to do so.

Turning to household expenditures, however, it is clear that consumer spending is still some way from achieving a full-scale recovery. This comes against the background of rising anxiety about the employment and income situation, in which a notable recent development has been a rising proportion of the total workforce employed only on a part-time basis, including temp staff dispatch and lower-paid work for outsourced service providers. Amid these conditions, the prefecture's largest industry, textiles, appears to have set a timetable for winding down the scale of its operations. The various managements seem to have already determined the extent to which they should transfer their operations overseas, as they have clearly recognized that the only way forward is to transfer the majority of production operations to other East Asian countries, notably China.

Eyeglass frame makers, another major prefectural industry, have taken advantage of a rethinking by major brand-name eyeglass makers of the relative advantages of locating production in China and Japan. Previously, a majority of these makers had transferred their production contracts to Chinese companies under OEM arrangements. However, they had become dissatisfied with product quality levels at Chinese factories, and have switched production contracts back to makers in Fukui Prefecture – particularly for high-end models – in recognition of the superior product quality offered by firms in Fukui. Thanks to this trend, there has also been a notable move toward the production of high value-added products under the Japanese manufacturers' own brands.

The number of companies declaring bankruptcy in Fukui Prefecture during the reporting period was the lowest since 1998, and as a result of the absence of any bankruptcies by major corporations, total debt held by the bankrupt companies fell below the ¥20 billion mark for the first time in eight years.

## 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, business performance for the term was as follows.

In spite of a healthy rise in corporate deposits, the balance of deposits, which includes individuals' deposits as well as CDs, declined by ¥40.8 billion during the term to ¥1,865.8 billion (US\$17,375 million) at term-end, owing to a fall in the amount of public deposits.

Loans and bills discounted increased by ¥10.2 billion to ¥1,473.4 billion (US\$13,720 million) at term-end. This is attributable to a strong rise in demand for consumer loans, primarily mortgage loans, as well as loans to local governments and other public organizations, which more than offset the weakness of loan demand from the corporate sector.

The term-end securities balance came to ¥467.3 billion (US\$4,352 million), a decline of ¥7.2 billion from the previous term-end. The balance of trading-account securities came to ¥1.2 billion (US\$12 million).

A segmental breakdown of the Group's business reveals that core banking assets grew by ¥53.8 billion during the reporting term, to ¥2,121.7 billion (US\$19,757 million) at term-end, while assets for leasing also increased, by ¥2 billion, to ¥15.1 billion (US\$141 million). Other business assets declined by ¥0.3 billion to ¥0.3 billion (US\$3 million). These figures are prior to consolidation adjustment.

Turning to the Group's earnings performance, we posted an extraordinary loss for the reporting term on the termination of the Bank's corporate pension fund accompanying the adoption of a defined-contribution pension system with effect from April 1, 2005. However, the Bank posted a net income of ¥2.4 billion (US\$22 million), an ¥8.3 billion improvement over the previous term, which is attributable to a reversal of the deferred tax assets associated with the reserve for possible loan losses in the previous term. This decision was based on the management's judgment that the reserve would be unlikely to be used within a reasonable period of time. The Bank's capital ratio on a consolidated basis, which is an important business indicator, stood at 9.09% according to standards applied to banks operating solely in Japan.

Net cash provided by operating activities amounted to ¥5.2 billion (US\$49 million), as cash inflow resulting from an increase in the value of collateral for securities lending transactions more than offset outflow resulting from the increase in funds loaned and the decline in deposits. Compared with the previous term, the net cash inflow decreased by ¥117.2 billion, which is attributable to a substantial decline in call loans for the previous term.

Net cash provided by investing activities came to ¥12.1 billion (US\$113 million) as cash inflow from the sale and redemption of securities exceeded cash outflow accompanying the purchase of securities. For the previous term, the Bank posted a net cash outflow of ¥128.1 billion, which is attributable to a larger amount used for the acquisition of securities.

Net cash used in financing activities came to ¥1.2 billion (US\$12 million), largely due to the payment of dividends. Compared with the previous business term, an increase in cash outflow resulting from the purchase of own shares caused the net cash outflow to increase by ¥0.01 billion.

As a result, cash and cash equivalents increased by ¥16.2 billion compared with the previous term-end, to ¥60.6 billion (US\$565 million).

## Issues to be Addressed

The complete abolition of the system of unlimited government-backed guarantees on bank deposits (the guarantee is now capped at ¥10 million per deposit), together with the full enforcement of the provisions of the Personal Information Protection Act, are spurring bank customers to be even more selective in choosing the financial institution with which they do business. At Fukui Bank, we believe that a truly strong bank is one that is capable of equally satisfying the needs and expectations of its customers, its shareholders, and its employees as well as the subsidiaries and affiliates within its corporate group. To ensure that this is within our capability, 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 as a top-priority measure so as to build a firm earning base and a solid financial position.

We will continue working to provide high-quality services 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
	2005	2004	2005
<b>Assets</b>			
Cash and due from banks .....	¥ 61,078	¥ 44,907	\$ 568,750
Call loans and bills purchased .....	31,145	25,055	290,019
Commercial paper and other debt purchased .....	16,536	13,878	153,988
Trading account securities .....	1,251	1,860	11,650
Securities .....	467,314	474,565	4,351,565
Loans and bills discounted .....	1,473,419	1,463,168	13,720,266
Foreign exchange .....	2,553	3,162	23,776
Other assets .....	20,559	20,419	191,447
Premises and equipment .....	32,675	33,516	304,267
Deferred tax assets .....	15,021	20,026	139,881
Customers' liabilities for acceptances and guarantees .....	33,291	31,772	310,001
Reserve for possible loan losses .....	(30,254)	(62,227)	(281,725)
Total assets .....	<u>¥2,124,591</u>	<u>¥2,070,106</u>	<u>\$19,783,885</u>
<b>Liabilities, Minority Interests and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Deposits .....	¥1,865,891	¥1,906,700	\$17,374,907
Call money and bills sold .....	25,514	1,585	237,590
Payables under securities lending transactions .....	65,486	—	609,801
Borrowed money .....	19,354	19,000	180,222
Foreign exchange .....	214	153	2,000
Other liabilities .....	15,065	14,579	140,290
Reserve for employees' bonuses .....	226	256	2,113
Employees' severance and retirement benefits .....	5,092	5,667	47,422
Deferred tax liabilities for land revaluation .....	5,074	5,074	47,254
Acceptances and guarantees .....	33,291	31,772	310,001
Total liabilities .....	<u>2,035,212</u>	<u>1,984,790</u>	<u>18,951,600</u>
<b>Minority Interests:</b>			
Minority interests .....	<u>1,459</u>	<u>1,218</u>	<u>13,595</u>
<b>Shareholders' Equity:</b>			
Common stock .....	17,965	17,965	167,292
Capital surplus .....	2,616	2,616	24,365
Retained earnings .....	55,916	54,715	520,690
Excess of land revaluation .....	7,476	7,477	69,625
Net unrealized holding gains on securities .....	4,210	1,544	39,205
Less: Common stock in treasury .....	(267)	(221)	(2,487)
Total shareholders' equity .....	<u>87,919</u>	<u>84,097</u>	<u>818,690</u>
Total liabilities, minority interests and shareholders' equity...	<u>¥2,124,591</u>	<u>¥2,070,106</u>	<u>\$19,783,885</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
	2005	2004	2005
<b>Income:</b>			
Interest on loans and bills discounted.....	<b>¥26,140</b>	¥26,669	<b>\$243,412</b>
Interest and dividends on securities .....	<b>5,720</b>	5,802	<b>53,265</b>
Other interest income .....	<b>128</b>	124	<b>1,196</b>
Fees and commissions.....	<b>7,267</b>	6,691	<b>67,673</b>
Other operating income.....	<b>7,962</b>	8,090	<b>74,147</b>
Other income .....	<b>1,658</b>	1,401	<b>15,442</b>
Total income .....	<b>48,876</b>	48,780	<b>455,135</b>
<b>Expenses:</b>			
Interest on deposits.....	<b>651</b>	807	<b>6,063</b>
Interest on borrowings and rediscounts.....	<b>455</b>	399	<b>4,238</b>
Other interest expenses .....	<b>12</b>	11	<b>118</b>
Fees and commissions.....	<b>1,567</b>	1,438	<b>14,592</b>
Other operating expenses.....	<b>7,262</b>	12,002	<b>67,631</b>
General and administrative expenses.....	<b>24,117</b>	25,266	<b>224,575</b>
Other expenses .....	<b>8,193</b>	3,643	<b>76,300</b>
Total expenses .....	<b>42,259</b>	43,568	<b>393,517</b>
<b>Income before income taxes and minority interests.....</b>	<b>6,617</b>	5,211	<b>61,618</b>
Income taxes – current.....	<b>554</b>	462	<b>5,166</b>
Income taxes – deferred.....	<b>3,421</b>	10,333	<b>31,858</b>
Minority interests.....	<b>226</b>	327	<b>2,111</b>
<b>Net income (loss).....</b>	<b>¥ 2,414</b>	¥ (5,911)	<b>\$ 22,483</b>
		Yen	U.S. dollars
<b>Net income (loss) per share.....</b>	<b>¥9.94</b>	¥(24.34)	<b>\$0.09</b>

## Current Credit Risk Management Position

### Result of Self-Assessment

For the year ended March 31, 2005	Millions of yen			
	Intensive control obligors	Substantially bankrupt obligors	Bankrupt obligors	Total
Total credit balance (A).....	¥65,566	¥9,263	¥1,201	¥76,031
Amount secured by collateral, etc. (B).....	34,262	7,905	1,117	43,286
Amount at risk of being unrecoverable (C) = (A) – (B).....	31,303	1,357	84	32,745
Reserve for specific borrowers (D).....	16,233	1,357	84	17,675
Reserve ratio (D) / (C) .....	51.85%	100.00%	100.00%	53.97%
Coverage ratio ((B) + (D)) / (A) .....	77.01%	100.00%	100.00%	80.17%

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
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests.....	¥ 6,617	¥ 5,211	\$ 61,618
Depreciation .....	5,554	5,666	51,722
Decrease in reserve for possible loan losses.....	(31,973)	(4,916)	(297,730)
Decrease in reserve for employees' bonuses.....	(29)	(48)	(277)
Decrease in employees' severance and retirement benefits.....	(575)	(346)	(5,355)
Interest and dividend income.....	(31,988)	(32,596)	(297,873)
Interest expenses .....	1,118	1,218	10,418
Loss (gain) on securities .....	(190)	5,751	(1,769)
Foreign exchange loss (gain).....	(1,444)	3,735	(13,446)
Loss (gain) on sale of premises and equipment.....	(259)	371	(2,413)
Net change in loans and bills discounted.....	(10,250)	(8,227)	(95,452)
Net change in deposits .....	(40,809)	(872)	(380,008)
Net change in due from banks (except deposits with the Bank of Japan).....	30	(248)	283
Net change in call loans and bills purchased.....	(8,748)	124,605	(81,461)
Net change in call money and bills sold .....	23,929	(3,222)	222,827
Net change in trading account securities .....	609	548	5,679
Net change in payables under securities lending transactions.....	65,486	—	609,801
Net change in foreign exchange (assets).....	608	(792)	5,670
Net change in foreign exchange (liabilities).....	61	112	568
Interest and dividend received.....	32,578	33,229	303,363
Interest paid.....	(1,233)	(1,833)	(11,486)
Other.....	(3,353)	(4,312)	(31,224)
Subtotal.....	5,740	123,035	53,455
Income taxes paid.....	(470)	(494)	(4,383)
Net cash provided by operating activities.....	5,269	122,541	49,072
<b>Cash flows from investing activities:</b>			
Payments for purchase of securities .....	(306,554)	(469,433)	(2,854,589)
Proceeds from sale of securities .....	276,786	291,402	2,577,393
Proceeds from redemption of securities .....	42,750	50,337	398,084
Payments for purchase of premises and equipment .....	(1,220)	(1,191)	(11,362)
Proceeds from sale of premises and equipment .....	417	761	3,891
Net cash provided by (used in) investing activities .....	12,179	(128,123)	113,417
<b>Cash flows from financing activities:</b>			
Cash dividends paid .....	(1,212)	(1,213)	(11,294)
Cash dividends paid to minority interests .....	(2)	(2)	(25)
Payments for purchase and/or proceeds from sale of treasury stock ...	(52)	(42)	(493)
Net cash used in financing activities.....	(1,268)	(1,257)	(11,812)
<b>Effect of exchange rate changes on cash and cash equivalents.....</b>	<b>20</b>	<b>8</b>	<b>186</b>
<b>Net change in cash and cash equivalents.....</b>	<b>16,201</b>	<b>(6,831)</b>	<b>150,863</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>44,458</b>	<b>51,290</b>	<b>413,995</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 60,660</b>	<b>¥ 44,458</b>	<b>\$ 564,858</b>

## BOARD OF DIRECTORS AND CORPORATE AUDITORS (as of June 30, 2005)

<b>President</b> Shichiro Ichihashi	<b>Directors</b> Tsuruo Matsubara (advisor) Tadaaki Ito Haruo Murata Naoyuki Nomura* <sup>1</sup>	<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>Managing Director</b> Junichi Mori		

\*<sup>1</sup> External Director

\*<sup>2</sup> Outside Corporate Auditor

## CORPORATE DATA (as of March 31, 2005)

<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> 1,368

## SERVICE NETWORK (as of March 31, 2005)

<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..... 72 Ishikawa Prefecture ..... 9 Toyama Prefecture..... 4 Tokyo ..... 1 Nagoya ..... 1 Otsu ..... 1 Kyoto..... 2 Osaka..... 2 Total ..... 92	<b>Correspondent Banking Network</b> 48 countries 184 cities 259 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.

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