



# FINANCIAL STATEMENTS 2005

(ended March 31,2005)

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## CONSOLIDATED BALANCE SHEETS

March 31, 2005 and 2004 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2005	2004	2005
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars ) (Note 3)
<b>Assets</b>			
Cash and due from banks (Note 16) .....	¥ 266,423	¥ 207,691	\$ 2,480
Call loans and bills bought .....	164,987	142,779	1,536
Receivables under securities borrowing transactions (Note 4) .....	-	29,394	-
Monetary receivables bought .....	64,780	56,755	603
Trading assets .....	3,176	1,542	29
Money held in trust .....	-	985	-
Securities (Notes 4, 8 and 13) .....	1,624,844	1,350,126	15,130
Loans and bills discounted (Notes 5 and 8) .....	5,031,315	5,051,355	46,850
Foreign exchange assets (Note 5 and 6) .....	3,930	3,465	36
Other assets (Note 8) .....	57,935	74,786	539
Premises and equipment (Notes 7 and 8) .....	135,651	143,376	1,263
Deferred tax assets (Note 14) .....	13,215	35,605	123
Customers' liabilities for acceptances and guarantees (Note 12) .....	73,594	82,299	685
Reserve for possible loan losses .....	(91,148)	(101,244)	(848)
Total assets .....	¥ 7,348,707	¥ 7,078,919	\$ 68,430
<b>Liabilities , minority interests and stockholders' equity</b>			
<b>Liabilities</b>			
Deposits (Note 8) .....	¥ 6,561,849	¥ 6,263,657	\$ 61,102
Call money and bills sold .....	4,832	2,642	44
Payables under securities lending transactions (Note 8) .....	144,454	117,093	1,345
Trading liabilities .....	1,262	430	11
Borrowed money (Note 9) .....	58,009	74,088	540
Foreign exchange liabilities (Note 6) .....	265	261	2
Bonds payable (Note 10) .....	-	21,138	-
Bonds with stock subscription rights (Note 10) .....	47,229	47,410	439
Other liabilities .....	50,919	86,590	474
Reserve for employee retirement benefits (Note 11) .....	813	1,029	7
Deferred tax liabilities on land revaluation (Notes 7 and 14) .....	35,781	38,190	333
Excess of net assets acquired over cost .....	75	55	0
Acceptances and guarantees (Note 12) .....	73,594	82,299	685
Total liabilities .....	6,979,088	6,734,886	64,988
Minority interests .....	1,259	2,078	11
<b>Stockholders' equity</b>			
Common stock .....	58,753	58,662	547
Capital surplus .....	37,008	36,917	344
Retained earnings .....	172,662	145,549	1,607
Land revaluation account (Notes 7) .....	52,374	55,900	487
Unrealized gains of securities (Note 13) .....	48,374	45,586	450
Treasury stock .....	(812)	(662)	(7)
Total stockholders' equity .....	368,359	341,953	3,430
<b>Total liabilities , minority interests and total stockholders' equity</b> .....	¥ 7,348,707	¥ 7,078,919	\$ 68,430

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2005 and 2004 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2005	2004	2005
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars ) (Note 3)
<b>Income</b>			
Income from funds under management:			
Interest on loans and bills discounted .....	¥ 93,961	¥ 95,477	\$ 874
Interest and dividends on securities .....	28,003	26,646	260
Interest on call loans and bills bought .....	144	30	1
Interest on receivables under securities borrowing transactions .....	-	0	-
Interest on due from banks .....	25	3	0
Interest on others .....	2,610	1,709	24
Trust fees .....	2	2	0
Fees and commissions .....	28,172	27,029	262
Trading income .....	1,351	512	12
Other operating income .....	7,223	6,243	67
Other income .....	4,189	6,760	39
<b>Total income</b> .....	<b>165,685</b>	<b>164,416</b>	<b>1,542</b>
<b>Expenses</b>			
Cost of fund-raising:			
Interest on deposits .....	2,559	2,541	23
Interest on call money and bills sold .....	64	67	0
Interest on payables under securities lending transactions .....	2,546	1,898	23
Interest on borrowed money .....	1,308	1,916	12
Interest on bonds payable .....	966	1,369	8
Interest on bonds with stock subscription rights .....	520	521	4
Interest on others .....	11,636	10,824	108
Fees and commissions .....	7,884	7,675	73
Other operating expenses .....	880	413	8
General and administrative expenses .....	73,032	76,146	680
Other expenses .....	19,571	18,742	182
<b>Total expenses</b> .....	<b>120,969</b>	<b>122,119</b>	<b>1,126</b>
<b>Income before income taxes and minority interests</b>	<b>44,716</b>	<b>42,297</b>	<b>416</b>
Provision for income taxes: (Note 14)			
Current .....	704	629	6
Deferred .....	18,063	21,712	168
	<b>18,767</b>	<b>22,341</b>	<b>174</b>
<b>Minority interests</b> .....	<b>(841)</b>	<b>67</b>	<b>(7)</b>
<b>Net income</b> (Note 15) .....	<b>¥ 26,789</b>	<b>¥ 19,888</b>	<b>\$ 249</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended March 31, 2005 and 2004 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2005	2004	2005
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars ) (Note 3)
<b>Capital surplus</b>			
Balance at beginning of year .....	¥ 36,917	¥ 36,913	\$ 343
Exercise of stock subscription rights .....	90	3	0
Gains on sales of treasury stock .....	1	-	0
Balance at end of year .....	<b>¥ 37,008</b>	<b>¥ 36,917</b>	<b>\$ 344</b>
<b>Retained earnings</b>			
Balance at beginning of year .....	¥ 145,549	¥ 128,732	\$ 1,355
Net income .....	<b>26,789</b>	19,888	<b>249</b>
Transfer from land revaluation account .....	<b>3,526</b>	151	<b>32</b>
Cash dividends .....	<b>(3,162)</b>	(3,163)	<b>(29)</b>
Bonuses to directors and corporate auditors .....	<b>(40)</b>	(40)	<b>(0)</b>
Losses on disposition of treasury stock .....	(-)	(0)	(-)
Change of the scope of consolidation .....	(-)	(18)	(-)
Balance at end of year .....	<b>¥ 172,662</b>	<b>¥ 145,549</b>	<b>\$ 1,607</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2005 and 2004 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2005	2004	2005
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars ) (Note 3)
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests .....	¥ 44,716	¥ 42,297	\$ 416
Depreciation of premises and equipment .....	4,805	4,983	44
Impairment losses .....	3,315	-	30
Depreciation of excess of net assets acquired over cost...	19	27	0
Equity in income from investment in affiliates .....	(104)	-	(0)
Net change in reserve for possible loan losses .....	(10,096)	(79,967)	(94)
Net change in reserve for employee retirement benefits ...	(215)	10	(2)
Interest income .....	(124,746)	(123,868)	(1,161)
Interest expenses .....	19,601	19,140	182
Net (gain) loss related to securities transactions .....	2,385	5,843	22
Net (income) loss from money held in trust .....	(0)	(16)	(0)
Net exchange (gain) loss .....	(18)	(2,817)	(0)
Net (gain) loss from disposition of premises and equipment .....	1,894	1,047	17
Net change in trading assets .....	(1,634)	6,123	(15)
Net change in trading liabilities .....	832	265	7
Net change in loans and bills discounted .....	20,040	124,335	186
Net change in deposits .....	390,890	166,184	3,639
Net change in negotiable certificates of deposit .....	(92,697)	(55,639)	(863)
Net change in borrowed money (excluding subordinated borrowed money) .....	(78)	(975)	(0)
Net change in deposits with banks .....	(1,562)	1,372	(14)
Net change in call loans .....	(30,233)	(147,499)	(281)
Net change in receivables under securities borrowing transactions .....	29,394	(29,394)	273
Net change in call money .....	2,190	(52,167)	20
Net change in payables under securities lending transactions .....	27,360	314	254
Net change in foreign exchange assets .....	(464)	(1,003)	(4)
Net change in foreign exchange liabilities .....	3	37	0
Net change in bonds payable .....	(21,138)	-	(196)
Interest received .....	124,865	124,962	1,162
Interest paid .....	(19,073)	(20,359)	(177)
Bonuses to directors and corporate auditors .....	(40)	(40)	(0)
Other, net .....	(22,523)	5,561	(209)
Subtotal .....	347,688	(11,242)	3,237
Income taxes paid .....	(786)	(738)	(7)
<b>Net cash provided by (used in) operating activities</b> .....	<b>346,901</b>	<b>(11,980)</b>	<b>3,230</b>
<b>Cash flows from investing activities:</b>			
Payments for purchases of securities .....	(1,018,434)	(751,457)	(9,483)
Payments for purchases of stocks of subsidiaries .....	-	(75)	-
Proceeds from sale of securities .....	187,715	214,300	1,747
Proceeds from redemption of securities .....	558,441	561,741	5,200
Proceeds from decrease in money held in trust .....	985	543	9
Payments for purchases of premises and equipment .....	(2,049)	(1,025)	(19)
Proceeds from sale of premises and equipment .....	2,898	368	26
<b>Net cash provided by (used in) investing activities</b> .....	<b>(270,443)</b>	<b>24,395</b>	<b>(2,518)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of subordinated borrowed money .....	(16,000)	-	(148)
Dividends paid .....	(3,161)	(3,162)	(29)
Dividends paid for minority .....	(1)	(2)	(0)
Payments for purchase of treasury stock .....	(148)	(54)	(1)
Proceed from sale of treasury stock .....	5	2	0
<b>Net cash used in financing activities</b> .....	<b>(19,306)</b>	<b>(3,217)</b>	<b>(179)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b> .....	<b>18</b>	<b>(84)</b>	<b>0</b>
<b>Net increase in cash and cash equivalents</b> .....	<b>57,170</b>	<b>9,112</b>	<b>532</b>
<b>Cash and cash equivalents at beginning of the year</b> .....	<b>207,132</b>	<b>198,019</b>	<b>1,928</b>
<b>Cash and cash equivalents at end of the year (Note 16)</b> .....	<b>¥ 264,302</b>	<b>¥ 207,132</b>	<b>\$ 2,461</b>

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2005 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

### 1. Summary of Significant Accounting Policies

#### a. Basis of Presentation

The accompanying consolidated financial statements of The Bank of Fukuoka, Ltd. ("the Bank") and consolidated subsidiaries are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the consolidated financial statements prepared by the Bank as required under the Securities and Exchange Law of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

#### b. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and all companies controlled directly or indirectly by the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

The Bank does not have any companies over which the Bank exercise significant influence in terms of their operating and financial policies.

Differences between the cost and the underlying net equity at fair value of investments in subsidiaries at the date of acquisition is amortized over a period of 5 years on a straight-line basis.

#### c. Trading Assets and Liabilities

Trading account transactions are the transactions in which profit opportunities arise from the differences between different markets and short-term movements in rates and other indices, including interest rates, currency exchange rates, and dealing in marketable securities. These transactions are included in the consolidated financial statements as of the respective trading dates.

"Trading assets" and "Trading liabilities" are valued as follows: securities and monetary assets are valued at market price at the balance sheet date; swaps, futures, options and other derivative transactions are valued on the assumption that they were settled at the balance sheet date.

The gains and losses on specific transactions are recorded by adding or deducting differences between valuation gains or losses at the previous balance sheet date and those at the current balance sheet date to the interest earned or paid in the current year for securities, monetary assets, etc. With respect to derivatives, the differences between the gains and losses from assumed settlement at the previous balance sheet date and those at the current balance sheet date are added to or deducted from the inter-

est earned or paid in the current year.

#### d. Securities

Held-to-maturity debt securities are stated at cost or amortized cost (straight-line method).

Other securities whose market value are available are stated at the market value at the fiscal year end (cost of securities sold is calculated using the moving average method), and other non-marketable securities are stated at cost or amortized cost computed by moving-average method.

Unrealized gains and losses on other securities are included in stockholders' equity, net of income taxes.

#### e. Derivative transactions

Derivatives for purposes other than trading are stated at market value.

#### f. Premises and Equipment

Depreciation for buildings and equipment of the Bank is computed using the declining-balance method at rates principally based on the following estimated useful lives:

Buildings .....	3 years to 50 years
Equipment and furniture .....	2 years to 20 years

The subsidiaries primarily use the same method.

Costs of computer software developed or obtained for internal use are capitalized and amortized using the straight-line method for the estimated useful lives of 5 years.

### **g. Reserve for possible loan losses**

The Reserve for Possible Loan Losses is maintained in accordance with internally established standards for write-offs and provisions:

- For credits extended to obligors that are legally bankrupt under the Bankruptcy Law, Special Liquidation in the Commercial Law or other similar laws ("Bankrupt Obligors"), and to obligors that are effectively in similar conditions ("Substantially Bankrupt Obligors"), reserves are maintained at 100% of amounts of claims, net of expected amounts from the disposal of collateral and/or the amounts recoverable under guarantees.
- For credits extended to obligors that are not yet legally or formally bankrupt but who are substantially bankrupt, reserves are maintained at the amount deemed necessary based on overall solvency analyses, on the amount of claims less expected amounts recoverable from the disposal of collateral and/or the amounts recoverable under guarantees.
- For credit extended to obligors that are not yet legally or formally bankrupt but who are substantially bankrupt or the obligors whose credit terms are rescheduled or reconditioned and exceed the certain threshold, the Discounted Cash Flow Method (the DCF Method) are applied if cash flows on repayment of principals and collection of interest of the loan can be reasonably estimated. The DCF Method requires that the difference between the cash flows discounted by the original interest rate and the carrying value of the loan be provided as a reserve for possible loan losses.
- For credits extended to other obligors, reserves are maintained at rates derived from default experiences for a certain period in the past, etc.
- Reserves for Possible Losses on Loans to Restructuring Countries are maintained in order to cover possible losses based on the analyses of political and economic climates of the countries.

All credits are assessed by each credit origination department, and the results of the assessments are verified and examined by the independent examination department. Reserves for Possible Losses on Loans are provided for on the basis of such verified assessments.

Reserve for loan losses in the consolidated subsidiaries are provided by the actual write off ratio, etc.

### **h. Reserve for employee retirement benefits**

Reserve for employee retirement benefits, which is provided for the future pension payment to employees, is recorded at the amount accrued at the end of the fiscal year, based on the projected benefit obligation and the estimated pension plan asset amounts at the end of the current fiscal year. Prior service liabilities and actuarial gains or losses are amortized mainly as follows:

- Prior service liabilities are charged to operations as incurred.
  - Actuarial gains or losses are recognized as income or expenses from the following fiscal year under the straight-line method over the average remaining service period of the current employees (10 years).

### **i. Translation of assets and liabilities denominated in foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates.

### **j. Leases**

Non cancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating leases or finance leases), except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

### **k. Hedge accounting**

Hedge accounting for interest rate risks

In order to hedge the interest rate risk associated with various financial assets and liabilities, the Bank applies the deferred method which is stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No.24). The Bank assesses the effectiveness of such hedge for offsetting changes in interest rate, by classifying the hedge items (such as deposits and loans) and the hedging instruments (such as interest rate swaps) by their maturity. The Bank assesses the effectiveness of such hedges for fixing cash flows by verifying the correlation between the hedged items and the hedging instruments.

The deferred hedge losses and gains recorded on the Consolidated Balance Sheet resulted from the application of the macro-hedge method based on "Tentative Accounting and Auditing Treatment relating to Adoption of 'Accounting for Financial Instruments' for Banks" (JICPA Industry Audit Committee Report No.15), under which the overall interest rate risks inherent in loans, deposits and other instruments are controlled on a macro-basis using derivatives. These deferred hedge losses and gains on macro hedge are allocated to "Interest expenses" for 3 year period from the last term in accordance with their average remaining term.

The unamortized amount of Gross Deferred Hedge Losses under the macro-hedge method at the end of this fiscal term was ¥7,417 million.

Hedge accounting for foreign exchange risks

The Bank applies the deferred method of hedge accounting to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities as stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit



Committee Report No.25). The effectiveness of the currency-swap transactions, exchange swap transactions and similar transactions hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on comparison of foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

Deferred hedges based on one-to-one hedges are applied to certain assets and liabilities of the Bank.

#### L. Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

#### M. Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the stockholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 21.

#### N. Cash and cash equivalents

Cash and cash equivalents consist of cash and deposits with the Bank of Japan which are included in "Cash and due from banks" in the consolidated balance sheets.

### 2. Changes in Accounting Policies

Accounting Standard for Impairment of Fixed Assets

As permitted by "Accounting Standard for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (Business Accounting Council Report, August 9, 2002)) and "Guidelines on Implementation of Accounting Standard for Impairment of Fixed Assets" (Guidelines on Implementation of Business Accounting Standard No. 6, October 31, 2003) effective the fiscal year beginning April 1, 2004, the impairment accounting in accordance with the above standard and guidelines were applied. The effect of this change on operations was to increase net loss before income taxes by ¥3,315 million. In the banking industry, accumulated depreciation is directly deducted in accordance with the Bank Act enforcement regulations (Ministry of Finance Ordinance No.10 of 1982), and, accordingly, accumulated impairment losses are directly deducted from book values.

### 3. U.S. Dollar Amounts

readers outside Japan. The rate of ¥107.39 = U.S.\$1, the approximate rate of exchange on March 31, 2005, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

### 4. Securities

Securities at March 31, 2005 and 2004 were as follows:

	(Millions of yen)	
	2005	2004
National government bonds	¥ 506,299	¥ 462,148
Local government bonds	53,403	75,269
Corporate bonds	487,755	320,754
Equity securities	112,090	103,487
Other securities	465,294	388,466
<b>Total</b>	<b>¥ 1,624,844</b>	<b>¥ 1,350,126</b>

Information regarding marketable securities classified as other securities at March 31, 2005 is as follows:

	(Millions of yen)		
	Acquisition cost	Carrying value	Net unrealized gain
Listed securities:			
Stock	¥ 44,007	¥ 101,385	¥ 57,377
Bonds	1,008,162	1,018,048	9,886
Others	442,359	456,535	14,175
<b>Total</b>	<b>¥ 1,494,528</b>	<b>¥ 1,575,969</b>	<b>¥ 81,440</b>

Sales of securities classified as other securities amounted to ¥188,306 million with aggregate gain and loss of ¥2,726 million and ¥852 million, respectively, for the year ended March 31, 2005.

The redemption schedule for securities with maturity dates classified as other securities at March 31, 2005 is summarized as follows:

	(Millions of yen)			
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Bonds	¥ 132,485	¥ 592,752	¥ 119,280	¥ 202,940
Others	48,501	225,201	134,673	30,367
<b>Total</b>	<b>¥ 180,987</b>	<b>¥ 817,954</b>	<b>¥ 253,954</b>	<b>¥ 233,308</b>

The securities include ¥1,751 million of stock of subsidiaries.

As for the securities borrowing transaction, etc, that are permitted to sell or pledge without restrictions, ¥750 million of securities was held in hand at March 31, 2005.

Information regarding marketable securities classified as other securities at March 31, 2004 is as follows:

	(Millions of yen)		
	Acquisition cost	Carrying value	Net unrealized gain
Listed securities:			
Stock	¥ 44,706	¥ 94,042	¥ 49,335
Bonds	833,424	836,012	2,588
Others	359,707	384,503	24,795
<b>Total</b>	<b>¥1,237,839</b>	<b>¥1,314,558</b>	<b>¥ 76,719</b>

Sales of securities classified as other securities amounted to ¥205,887 million with aggregate gain and loss of ¥1,835 million and ¥1,140 million, respectively, for the year ended March 31, 2004.

The redemption schedule for securities with maturity dates classified as other securities at March 31, 2004 is summarized as follows:

	(Millions of yen)			
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Bonds	¥ 208,919	¥ 446,867	¥ 83,172	¥ 119,213
Others	25,105	196,702	146,733	10,191
<b>Total</b>	<b>¥ 234,024</b>	<b>¥ 643,569</b>	<b>¥ 229,905</b>	<b>¥ 129,405</b>

As for the securities borrowing transaction, etc. that are permitted to sell or pledge without restrictions, ¥29,516 million of securities are held in hand at March 31, 2004.

#### Changes in Presentation

"Law concerning the amendment of the Securities and Exchange Law" (Law No. 97 June 9, 2004) defined that equity interest in investment enterprise limited liabilities associations and associations under Civil Law and anonymous associations which are classified as investment enterprise limited liabilities associations are "securities" under the Securities and Exchange Law, and, accordingly, such equity interest which used to be included in "other assets" have been included in "other securities" effective the fiscal year ended March 31, 2005. Equity gain or loss generated by the operation of such associations are included in "Interest and dividends on securities" under the caption of "Income from funds under management" effective the fiscal year ended March 31, 2005, which used to be included in "Other ordinary income".

## 5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2005 and 2004 included the following loans:

	(Millions of yen)	
	2005	2004
Loans to borrowers in bankruptcy	¥ 9,224	¥ 10,828
Delinquent loans	83,149	115,036
Loans past due for three months or more	247	680
Restructured loans	76,835	73,761
<b>Total</b>	<b>¥ 169,457</b>	<b>¥ 200,307</b>

Loans are generally placed on nonaccrual status when the ultimate collectibility of either the principal or interest becomes doubtful because payments have been in arrears for a certain period of time or due to other reasons. Loans to borrowers in bankruptcy represent nonaccrual loans to borrowers in legal bankruptcy as defined in the Corporation Tax Law. Delinquent loans represent nonaccrual loans other than loans to borrowers in bankruptcy and restructured loans.

Loans past due for three months or more represent loans on which payments of principal or interest have been in arrears for three months or more, but do not meet the criteria for loans to borrowers in bankruptcy and delinquent loans.

Restructured loans are loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.), and are not classified in any of the above categories.

Notes discounted are recorded as cash lending / borrowing transactions in accordance with "Accounting and auditing treatments of the Application of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee, Report No. 24). The Bank has a right to sell or collateralize such bills at the discretion of the Bank.

Total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥81,283 million and ¥87,413 million at March 31, 2005 and 2004, respectively.

Line-of-credit agreements relating to overdrafts and loans are agreements which oblige the Bank to lend funds up to a certain limit agreed in advance. The Bank makes the loan upon the request of an obligor to draw down funds under such a loan agreement as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused line-of-credit balance relating to these overdrafts and loan agreements at March 31, 2005 and 2004 amounted to ¥1,798,511 million and ¥1,714,545 million, respectively. The amount related to overdrafts and loans with a term of one year or less or overdrafts and loans which permit unconditional cancellation at any time was ¥1,794,131 million at March 31, 2005.

As many of these contracts expire undrawn, the aggregate total of the undrawn amount does not necessarily affect the future cash flows of the Bank and its consolidated subsidiaries. Many of these contracts have stipulations that allow the Bank and its consolidated subsidiaries to turn down a loan request or reduce the amounts of the credit line if there is a change in financial conditions, a need to establish increased securities, or other similar reasons. In addition to obtaining necessary collateral (real estates, securities, etc.) at the time the commitment contract is entered into, the Bank and its consolidated subsidiaries assess the condition of the customer's business operations, and analyze other information, based on internal procedures and standards. If necessary, the contract is reviewed and revised, or additional steps are taken to secure the credit extended to the customer.

## 6. Foreign Exchange Assets and Liabilities

Foreign exchange assets and liabilities at March 31, 2005 and 2004 consisted of the followings:

	(Millions of yen)	
	2005	2004
<b>Assets</b>		
Due from foreign banks	¥ 981	¥ 1,020
Foreign exchange bills bought	1,020	419
Foreign exchange bills receivable	1,927	2,025
<b>Total</b>	<b>¥ 3,930</b>	<b>¥ 3,465</b>
<b>Liabilities</b>		
Foreign exchange bills sold	¥ 263	¥ 237
Foreign exchange bills payable	1	24
<b>Total</b>	<b>¥ 265</b>	<b>¥ 261</b>

## 7. Premises and Equipment

Land utilized for the Bank's business activities was revalued at March 31, 1998 on the basis prescribed in the Law Concerning the Revaluation of Land. The income tax effect on the difference between the book value and the revalued amount has been presented under liabilities as "Deferred tax liabilities on land valuation account" and the remaining balance has been presented under stockholders' equity as "Land revaluation account" in the accompanying consolidated balance sheets.

## 8. Pledged Assets

Assets pledged as collateral at March 31, 2005 and 2004 consisted of the follows:

	(Millions of yen)	
	2005	2004
<b>Assets pledged as collateral</b>		
Securities	¥ 446,477	¥ 315,413
Loans and bills discounted	50,000	304,155
<b>Liabilities corresponding to assets pledged as collateral</b>		
Deposits	38,534	29,849
Payables under securities lending transactions	144,454	117,093

In addition, securities totaling ¥233,052 million and ¥227,472 million were pledged as collateral for settlement of exchange and other or as variation margin at March 31, 2005 and 2004, respectively.

Premises and equipment included ¥1,943 million of guarantee money and deposits. Other assets included ¥12 million of deposit for clearing house.

## 9. Borrowed money

Borrowed money at March 31, 2005 and 2004 included subordinated borrowings amounting to ¥48,000 million and ¥64,000 million, respectively.

## 10. Bonds payable and convertible bonds

Bonds payable at March 31, 2004 represented unsecured 6.275% bonds, payable in U.S. dollars, due 2004.

Convertible bonds at March 31, 2005 and 2004 represented unsecured 1.1% subordinated convertible bonds, payable in yen, due 2007, which, unless previously redeemed, are convertible at any time up to and including September 28, 2007 into shares of common stock of the Bank at the option of the holders at a conversion price of ¥449 per share at March 31, 2004. Under the provisions of the issue, the conversion price is subject to adjustments in certain cases which include stock splits.

## 11. Retirement benefit plans

The Bank and subsidiaries have defined benefit plans, i.e., welfare pension fund plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

On August 1, 2003, according to the enactment of the Defined Benefit Pension Plan Law, the Bank obtained an approval of exemption from the substitutional portion of its future pension obligations by the Minister of Health, Labor and Welfare.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2005 and 2004 for the Banks and the subsidiaries defined benefit plans:

	(Millions of yen)	
	2005	2004
Project benefit obligation	¥(73,416)	¥(67,384)
Fair value of plan assets	71,423	63,019
(Retirement benefit trust included above)	36,929	32,130
Projected benefit obligation in excess of plan assets	(1,993)	(4,365)
Unrecognized net actuarial differences	6,162	6,977
Unrecognized prior service cost	(1,117)	(1,117)
Net liability recognized	3,051	1,494
(Prepaid pension cost)	3,865	2,524
(Reserve for employees' retirement benefits) ¥	(813)	¥ (1,029)

The components of retirement benefit cost for the year ended March 31, 2005 and 2004 are outlined as follows:

	(Millions of yen)	
	2005	2004
Service cost	¥ 2,200	¥ 2,396
Interest cost	1,674	1,918
Expected return on plan assets	(2,205)	(1,964)
Expense for prior service cost	-	(742)
Expense for net actuarial loss	1,144	2,689
Retirement benefit expenses	2,814	4,297
Gains from transfer of the substitutional portion of future pension obligations	-	(2,524)
Retirement benefit expenses	¥ 2,814	¥ 1,773

The assumptions used in the accounting for the above plans were as follows:

	2005	2004
(a) Discount rate:	2.0%	2.5%
(b) Expected return on plan assets	3.5%	3.5%
(c) Allocation basis of expect retirement benefits	Fixed	Fixed
(d) Amortization basis of unrecognized prior service cost	Charged to operations as incurred	Charged to operations as incurred
(e) Amortization term of unrecognized net actuarial loss	10 years	10 years

## 12. Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in this account. As a contra account, "Customers' liabilities for acceptances and guarantees" is shown on the assets side, which represents the Bank's right of indemnity from the applicants.

## 13. Net unrealized gains on securities

Net unrealized gains on securities at March 31, 2005 and 2004 consisted of the followings:

	(Millions of yen)	
	2005	2004
Gross unrealized gains on securities classified as other securities	¥ 81,440	¥ 76,719
Deferred tax liabilities applicable to unrealized gains	33,056	31,139
Unrealized gains on securities, net of the applicable income taxes before adjustment for minority interests	48,383	45,479
Minority interests	17	(6)
The Bank's interest in net unrealized gains on valuations of other securities held by affiliates accounted for by the equity method	7	-
Net unrealized gains on securities classified as other securities	¥ 48,374	¥ 45,586

## 14. Income Taxes

Income taxes applicable to the Bank and subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of 40.6 percent for 2005 and 2004.

The significant components of the deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	(Millions of yen)	
	2005	2004
Deferred tax assets:		
Reserve for possible loan losses	¥ 32,629	¥ 33,683
Reserve for employees retirement benefits	12,595	12,973
Loss carry forward for tax purposes	7,419	27,307
Depreciation of securities	2,488	2,384
Depreciation expenses	1,678	1,611
Other	3,993	2,959
Subtotal	60,867	80,920
Valuation allowance	(5,073)	(4,362)
Total	55,793	76,558
Deferred tax liabilities:		
Unrealized gain on securities	(33,056)	(31,139)
Retirement benefit trust	(8,945)	(9,223)
Reserve for special depreciation	(537)	(537)
Other	(38)	(53)
Total	(42,578)	(40,952)
Net deferred tax assets	¥ 13,215	¥ 35,605

With the implementation of the "Revision of the Local Tax Law" (Legislation No.9, 2003) on March 31, 2003, a part of the tax basis of enterprise taxes comprises "amount of added value" and "amount of capital" from the fiscal year commenced on April 1, 2004. As a result, enterprise taxes that are calculated based on "amount of added value" and "amount of capital" are included in "General and administrative expenses" from the fiscal year ended March 31, 2005 pursuant to "Practical Treatment for Presentation of External Based-Corporate Enterprise Taxes in the Statement of Income" (Accounting Standards Board, Practical Solution Report No.12).

## 15. Net Income per Share

Net income per share for the years ended March 31, 2005 and 2004 was as follows:

	(yen)	
	2005	2004
Net income per share:		
Basic	¥ 42.23	¥ 31.33
Diluted	36.62	27.65

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the diluted potential of common shares to be issued upon the convertible bonds.

## 16. Supplementary Cash Flow Information

### Reconciliation of cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheets to cash and cash equivalents in the consolidated statements of cash flows at March 31, 2005 and 2004 were as follows:

	(Millions of yen)	
	2005	2004
Cash and due from banks	¥ 266,423	¥ 207,691
Interest-earning deposits with other banks	(2,121)	(558)
Cash and cash equivalents	¥ 264,302	¥ 207,132

## 17. Leases

### Lessees' Accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2005 and 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	(Millions of yen)	
	2005	2004
Equipment:		
Acquisition costs	¥ 15,499	¥ 12,523
Accumulated depreciation	6,116	5,273
Net book value	¥ 9,382	¥ 7,249

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥2,577 million and ¥2,237 million for the years ended March 31, 2005 and 2004, respectively. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms and the interest expense portion included in the lease payments amounted to ¥2,391 million and ¥179 million, respectively, for the year ended March 31, 2005, and ¥2,037 million and ¥125 million, respectively, for the year ended March 31, 2004.

Future minimum lease payments subsequent to March 31, 2005 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)
2006	¥ 2,581
2007 and thereafter	7,053
Total	¥ 9,635

## 18. Derivative transaction

The Bank has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates, interest rates and debt security prices.

Information regarding the derivative transactions outstanding at March 31, 2005 is as follows:

Interest-related transactions			
(Millions of yen)			
As of Mar. 31, 2005	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps	¥ 50,752	¥ 278	¥ 270
Receive/fixed and pay/floating	25,376	413	395
Receive/floating and pay/fixed	25,376	(135)	(124)
Interest swaptions	56,420	0	220
Sell	28,210	(288)	57
Buy	28,210	288	162
Caps	67,634	0	129
Sell	33,657	(200)	212
Buy	33,977	200	(82)
<b>Total</b>	<b>-</b>	<b>¥ 278</b>	<b>¥ 620</b>

  

(Millions of yen)			
As of Mar. 31, 2004	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps	¥ 41,010	¥ 193	¥ 183
Receive/fixed and pay/floating	20,505	188	166
Receive/floating and pay/fixed	20,505	4	16
Others	38,320	0	114
Sell	19,010	(250)	62
Buy	19,310	250	51
<b>Total</b>	<b>-</b>	<b>¥ 193</b>	<b>¥ 297</b>

Note: The derivative transactions accounted for as hedges have been excluded from the above table.

## Currency-related transactions

(Millions of yen)			
As of Mar. 31, 2005	Notional amount	Fair value	Unrealized gain (loss)
Currency Swap	¥ 205,068	¥ 692	¥ 681
Foreign exchange contract	39,592	296	296
Sell	19,711	1,524	1,524
Buy	19,880	(1,227)	(1,227)
Currency options	28,137	(0)	26
Sell	14,068	(210)	(41)
Buy	14,068	210	68
<b>Total</b>	<b>-</b>	<b>¥ 988</b>	<b>¥ 1,003</b>

  

(Millions of yen)			
As of Mar. 31, 2004	Notional amount	Fair value	Unrealized gain (loss)
Currency Swap	¥ 44,001	¥ 134	¥ 132
Foreign exchange contract	46,224	405	405
Sell	23,644	1,870	1,870
Buy	22,580	(1,465)	(1,465)
Currency options	128	(0)	(0)
Sell	-	-	-
Buy	128	(0)	(0)
<b>Total</b>	<b>-</b>	<b>¥ 539</b>	<b>¥ 537</b>

Note: The derivative transactions accounted for as hedges have been excluded from the above table.

The net amount of profit/loss or revaluation differences resulting from the hedge method is booked as a deferred hedge loss in other assets. The total amount of aforementioned deferred hedge loss before netting was ¥6,660 million and the total amount of deferred hedge profits was ¥568 million.

## 19. Segment Information

### (a) Business Segment Information

The Bank's operation includes guarantee and credit card business in addition to banking business. As such operations are immaterial, separate segment information are not disclosed.

### (b) Geographic Segment Information

The disclosure of geographical segment information has been omitted as operating income and total assets of the foreign operations constituted less than 10% of the consolidated totals.

### (c) Income from International Operations

	(Millions of yen)		
	Income from international operations	Consolidated operating income	Income from international operations / Consolidated operating income
Year ended March 31, 2005	¥ 22,372	¥ 165,639	13.5%
Year ended March 31, 2004	¥ 21,762	¥ 161,785	13.4%

The disclosure of income from international operations has been omitted, as income from international operations constituted less than 10% of consolidated operating income.

## 20. Related Party Transactions

### 1. For the fiscal year ended March. 31,2005

#### (1) Directors and principal individual shareholders

Attribute	Name	Address	Common Stock	Title	Equity Ownership	Relationship	Transactions	Transaction Amount	Account	Balance at end of year
Director	Hidemi Ashizuka	-	-	The Bank's corporate auditor Kyushu Electric Power Co.,Inc.'s Executive Vice-President and Representative Director	-	-	Loan	¥13,803 Million	Loan	¥41,106 Million
Director	Tsuguo Nagao	-	-	The Bank's corporate auditor Nishi-nippon Railroad Co.,Ltd.'s President and Representative Director	-	-	Loan	¥1,190 Million	Loan Acceptances and guarantees	¥7,228 Million ¥423 Million

Terms and conditions of the transactions are similar to those of others.

#### (2) Others

There are no relevant transactions with related parties to report.

### 2. For the fiscal year ended March. 31,2004

#### (1) Directors and principal individual shareholders

Attribute	Name	Address	Common Stock	Title	Equity Ownership	Relationship	Transactions	Transaction Amount	Account	Balance at end of year
Director	Hidemi Ashizuka	-	-	The Bank's corporate auditor Kyushu Electric Power Co.,Inc.'s Executive Vice-President and Representative Director	-	-	Loan	¥5,559 Million	Loan	¥54,909 Million
Director	Tsuguo Nagao	-	-	The Bank's corporate auditor Nishi-nippon Railroad Co.,Ltd.'s President and Representative Director	-	-	Loan	¥1,250 Million	Loan Acceptances and guarantees	¥5,996 Million ¥464 Million

Terms and conditions of the transactions are similar to those of others.

#### (2) Others

There are no relevant transactions with related parties to report.

## 21. Subsequent event

The following appropriations of retained earnings of the Bank, which have not been reflected in the consolidated financial statements for the year ended March 31, 2005, were approved at a stockholders' meeting held on June 29, 2005:

	(Millions of yen)
Cash dividends (¥4.5 per share)	¥2,855
Bonuses to directors and statutory auditors	40
	¥2,895

At the Board of Directors meeting held on May 11, 2005, the Bank resolved to acquire the treasury stock under the Article 211-3-1-2 of the Commercial Law, and acquired the treasury stock on May 12, 2005 as follows;

• Kinds of stock	Common stocks
• Number of shares stock	14,885,000 shares
• Total acquisition cost of stock	¥9,585,940,000

## Report of Independent Auditors

### **The Board of Directors The Bank of Fukuoka, Ltd.**

We have audited the accompanying consolidated balance sheets of The Bank of Fukuoka, Ltd. and consolidated subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Bank of Fukuoka, Ltd. and consolidated subsidiaries at March 31, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

#### Additional information

As described in Note 2 to the consolidated financial statements, the Bank adopted accounting standards for impairment of fixed assets in the year ended March 31, 2005.

*Shin Nihon & Co.*

June 29, 2005



## NON-CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2005 and 2004 The Bank of Fukuoka, Ltd.

	2005	2004	2005
	(Millions of yen)	(Millions of yen)	(Millions of U.S. dollars ) (Note 3)
<b>Assets</b>			
Cash and due from banks .....	¥ 266,422	¥ 207,689	\$ 2,480
Call loans .....	164,987	142,779	1,536
Receivables under securities borrowing transactions (Note 4) .....	-	29,394	-
Monetary receivables bought .....	64,780	56,755	603
Trading assets .....	3,176	1,542	29
Money held in trust .....	-	985	-
Securities (Notes 4 and 8) .....	1,625,004	1,350,480	15,131
Loans and bills discounted (Notes 5 and 8) .....	5,034,272	5,054,430	46,878
Foreign exchange assets (Note 5).....	3,930	3,465	36
Other assets (Notes 7 and 8) .....	47,771	65,030	444
Premises and equipment (Note 6) .....	135,216	142,894	1,259
Deferred tax assets (Note 19) .....	10,033	33,568	93
Customers' liabilities for acceptances and guarantees (Note 14).....	73,594	82,299	685
Reserve for possible loan losses .....	(82,977)	(96,221)	(772)
Total assets .....	¥ 7,346,213	¥ 7,075,095	\$ 68,406
<b>Liabilities and stockholders' equity</b>			
<b>Liabilities</b>			
Deposits (Notes 8 and 9) .....	¥ 6,577,325	¥ 6,277,867	\$ 61,247
Call money.....	4,832	2,642	44
Payables under securities lending transactions (Note 8) .....	144,454	117,093	1,345
Trading liabilities .....	1,262	430	11
Borrowed money(Note 10).....	57,909	74,038	539
Foreign exchange liabilities .....	265	261	2
Bonds payable (Note 11).....	-	21,138	-
Bonds with stock subscription rights (Note 11) .....	47,229	47,410	439
Other liabilities (Note 12) .....	36,666	73,237	341
Reserve for employee retirement benefits (Note 13).....	440	695	4
Deferred tax liabilities on land revaluation (Note 6).....	35,781	38,190	333
Acceptances and guarantees (Note 14) .....	73,594	82,299	685
Total liabilities .....	¥ 6,979,761	¥ 6,735,303	\$ 64,994
<b>Stockholders' equity</b>			
Common stock (Note 15) .....	¥ 58,753	¥ 58,662	\$ 547
Capital surplus (Note 15).....	37,008	36,917	344
Legal reserve (Note 16).....	46,520	46,520	433
Voluntary reserve .....	91,438	75,480	851
Retained earnings .....	32,344	20,913	301
Land revaluation account (Note 6) .....	52,374	55,900	487
Unrealized gains on securities (Note 19) .....	48,351	45,592	450
Treasury stock .....	(339)	(195)	(3)
Total stockholders' equity .....	366,452	339,791	3,412
Total liabilities and stockholders' equity .....	¥ 7,346,213	¥ 7,075,095	\$ 68,406

See accompanying notes to non-consolidated financial statements.

## NON-CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Years ended March 31, 2005 and 2004 The Bank of Fukuoka, Ltd.

	2005	2004	2005
	(Millions of yen)	(Millions of yen)	(Millions of U.S. dollars ) (Note 3)
<b>Income</b>			
Income from funds under management:.....			
Interest on loans and bills discounted .....	¥ 93,543	¥ 95,071	\$ 871
Interest and dividends on securities .....	27,957	26,606	260
Interest on call loans .....	144	30	1
Interest on receivables under securities borrowing transactions .....	-	0	-
Interest on bills bought .....	0	0	0
Interest on due from banks .....	25	3	0
Interest on interest rate swap .....	1,695	1,392	15
Interest on others .....	918	319	8
Trust fees .....	2	2	0
Fees and commissions .....	28,481	27,341	265
Trading income .....	1,351	512	12
Other operating income (Note 17) .....	2,258	1,723	21
Other income (Note 17) .....	4,033	6,750	37
<b>Total income</b> .....	<b>160,412</b>	<b>159,755</b>	<b>1,493</b>
<b>Expenses</b>			
Cost of fund-raising: .....			
Interest on deposits .....	2,562	2,543	23
Interest on call money .....	64	67	0
Interest on payables under securities lending transactions.....	2,546	1,898	23
Interest on bills sold .....	-	0	-
Interest on borrowed money .....	1,307	1,914	12
Interest on bonds payable .....	966	1,369	8
Interest on bonds with stock subscription rights .....	520	521	4
Interest on interest rate swap .....	11,512	10,477	107
Interest on others .....	118	342	1
Fees and commissions .....	9,237	8,996	86
Other operating expenses (Note 18) .....	821	318	7
General and administrative expenses .....	70,271	73,195	654
Other expenses (Note 18) .....	14,040	16,421	130
<b>Total expenses</b> .....	<b>113,971</b>	<b>118,068</b>	<b>1,061</b>
<b>Income before income taxes</b> .....	<b>46,441</b>	<b>41,686</b>	<b>432</b>
Provision for income taxes (Note 19): .....			
Current .....	126	100	1
Deferred .....	19,240	21,923	179
<b>Net income</b> (Note 20) .....	<b>27,074</b>	<b>19,661</b>	<b>252</b>
<b>Retained earnings at beginning of year</b> .....	<b>20,913</b>	<b>8,536</b>	<b>\$ 194</b>
<b>Transfer from land revaluation account</b> .....	<b>3,526</b>	<b>151</b>	<b>32</b>
<b>Transfer from voluntary reserve</b> .....	<b>141</b>	<b>90</b>	<b>1</b>
<b>Appropriations</b>			
Cash dividends .....	3,171	3,171	29
Bonuses to directors and corporate auditors .....	40	40	0
Transfer to voluntary reserve .....	16,099	4,314	149
<b>Retained earnings at end of year</b> (Note 21) .....	<b>¥ 32,344</b>	<b>¥ 20,913</b>	<b>\$ 301</b>

See accompanying notes to non-consolidated financial statements.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2005 The Bank of Fukuoka, Ltd.

**1. Summary of Significant Accounting Policies****a. Basis of Presentation**

The accompanying non-consolidated financial statements of The Bank of Fukuoka, Ltd. ("the Bank") are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the non-consolidated financial statements prepared by the Bank as required under the Securities and Exchange Law of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying non-consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

**b. Accounting Policies**

The accompanying non-consolidated financial statements of the Bank have been prepared on the basis of the same accounting policies as those discussed in Note 1 to the consolidated financial statements. Accordingly, the accompanying non-consolidated financial statements should be read in conjunction with Notes to Consolidated Financial Statements.

**2. Change in Accounting Policies**

Accounting Standard for Impairment of Fixed Assets

As permitted by "Accounting Standard for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (Business Accounting Council Report, August 9, 2002)) and "Guidelines on Implementation of Accounting Standard for Impairment of Fixed Assets" (Guidelines on Implementation of Business Accounting Standard No. 6, October 31, 2003) effective the fiscal year beginning April 1, 2004, the impairment accounting in accordance with the above standard and guidelines was applied. The effect of this change on operations was to increase net loss before income taxes by ¥3,315 million. In the banking industry, accumulated depreciation is directly deducted in accordance with the Bank Act enforcement regulations (Ministry of Finance Ordinance No.10 of 1982), and, accordingly, accumulated impairment losses are directly deducted from book values.

**3. U.S. Dollar Amounts**

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥107.39 = U.S.\$1, the approximate rate of exchange on March 31, 2005, has been used in

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

**4. Securities**

Securities at March 31, 2005 and 2004 were as follows:

	(Millions of yen)	
	2005	2004
National government bonds	¥ 506,299	¥ 462,148
Local government bonds	53,403	75,269
Corporate bonds	487,755	320,754
Equity securities	112,252	103,844
Other securities	465,292	388,464
Total	¥ 1,625,004	¥ 1,350,480

See Note 4 to the consolidated financial statements for the description of securities borrowing transaction, etc. and changes in Presentation.

**5. Loans and Bills Discounted**

Loans and bills discounted at March 31, 2005 and 2004 consisted of the following:

	(Millions of yen)	
	2005	2004
Bills discounted	¥ 80,262	¥ 86,994
Loans on bills	474,474	574,268
Loans on deeds	3,762,476	3,637,981
Overdrafts	717,059	755,186
Total	¥ 5,034,272	¥ 5,054,430

Loans and bills discounted at March 31, 2005 and 2004 included the following loans:

	(Millions of yen)	
	2005	2004
Loans to borrowers in bankruptcy	¥ 8,623	¥ 10,785
Delinquent loans	82,393	114,846
Loans past due for three months or more	247	680
Restructured loans	76,835	73,761
Total	¥ 168,100	¥ 200,074

See Note 5 to the consolidated financial statements for the description of these loans.

Total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥81,283 million and ¥87,413 million at March 31, 2005 and 2004, respectively.

The unused line-of-credit balance relating to overdrafts and loan agreements at March 31, 2005 and 2004 amounted to ¥1,737,655 million and ¥1,641,495 million, respectively.

See Note 5 to the consolidated financial statements for the description of the line-of-credit agreements.

## 6. Premises and Equipment

Premises and equipment at March 31, 2005 and 2004 consisted of the following:

	(Millions of yen)	
	2005	2004
Land	¥ 109,833	¥ 116,484
Buildings	67,876	68,206
Other	20,235	25,088
Total	197,944	209,779
Accumulated depreciation	(62,727)	(66,885)
Net book value	¥ 135,216	¥ 142,894

See Note 7 to the consolidated financial statements for the description of Land revaluation account.

## 7. Other Assets

Other assets at March 31, 2005 and 2004 consisted of the following:

	(Millions of yen)	
	2005	2004
Accrued income	¥ 13,638	¥ 14,177
Prepaid expenses	16	18
Financial derivatives	7,619	13,123
Deferred hedge losses	6,091	14,796
Other	20,404	22,915
Total	¥ 47,771	¥ 65,030

## 8. Pledged Assets

Assets pledged as collateral at March 31, 2005 and 2004 consisted of the following:

	(Millions of yen)	
	2005	2004
Assets pledged as collateral		
Securities	¥ 446,477	¥ 315,413
Loans and bills discounted	50,000	304,155
Liabilities corresponding to assets pledged as collateral		
Deposits	¥ 38,534	¥ 29,849
Payables securities lending transactions	144,454	117,093

In addition, securities totaling ¥233,052 million and ¥227,472 million were pledged as collateral for settlement of exchange and other or as variation margin at March 31, 2005 and 2004, respectively.

Other assets included ¥12 million of deposit for clearing house.

## 9. Deposits

A breakdown of deposits at March 31, 2005 and 2004 was as follows:

	(Millions of yen)	
	2005	2004
Current deposits	¥ 294,211	¥ 284,876
Ordinary deposits	3,265,661	2,953,289
Deposits at notice	28,640	30,376
Time deposits	2,451,787	2,477,910
Negotiable certificates of deposit	122,577	214,775
Other deposits	414,446	316,639
Total	¥ 6,577,325	¥ 6,277,867

## 10. Borrowed money

See Note 9 to the consolidated financial statements for the description of Borrowed money.

## 11. Bonds payable and Bonds with stock subscription rights

See Note 10 to the consolidated financial statements for the description of these bonds.

## 12. Other Liabilities

Other liabilities at March 31, 2005 and 2004 consisted of the following:

	(Millions of yen)	
	2005	2004
Domestic exchange settlement account, credit	¥ 678	¥ 27,956
Corporation tax	650	118
Accrued expenses	8,138	7,735
Unearned income	3,986	4,101
Employees' deposits	2,340	2,465
Financial derivatives	11,117	20,387
Other	9,754	10,471
Total	¥ 36,666	¥ 73,237

## 13. Retirement Benefit Plans

See Note 11 to the consolidated financial statements for the description of employee retirement benefit plans.

## 14. Acceptance and Guarantees

See Note 12 to the consolidated financial statements for the description of acceptance and guarantees.

### 15. Common Stock and Capital Surplus

Information with respect to the common stock and capital surplus of the Bank at March 31, 2005 and 2004 is as follows:

The authorized number of shares of common stock was 1.8 billion shares at March 31, 2005 and 2004.

	(Millions of yen)	
	2005	2004
Common stock:		
Balance at beginning of the year	¥ 58,662	¥ 58,658
Conversion of convertible bonds	90	3
Balance at end of year	¥ 58,753	¥ 58,662
(Shares issued and outstanding at end of year)	(635,166	(634,763
	Thousand shares)	thousand shares)
Capital surplus:		
Balance at beginning of the year	¥ 36,917	¥ 36,913
Conversion of convertible bonds	90	3
Gain on sales of treasury stock	1	-
Balance at end of year	¥ 37,008	¥ 36,917

### 16. Legal Reserve

Under the Banking Law of Japan, an amount equivalent to at least 20% of cash dividends and other cash appropriations of retained earnings shall be appropriated to the legal reserve from the retained earnings until such reserve equals 100% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to capital.

### 17. Other Operating Income and Other Income

The composition of other operating income for the years ended March 31, 2005 and 2004 was as follows:

	(Millions of yen)	
	2005	2004
Other operating income		
Gains on foreign exchange transactions	¥ 1,023	¥ 1,654
Gains on sales of bonds	1,019	69
Gains on financial derivatives	210	-
Other	4	0
Total	¥ 2,258	¥ 1,723

The components of other income for the years ended March 31, 2005 and 2004 were as follows:

	(Millions of yen)	
	2005	2004
Other income:		
Gains on sales of stocks and other securities	¥ 1,707	¥ 1,755
Gains on money held in trust	0	31
Gains on dispositions of premises and equipment	0	-
Collection of written-off claims	2	9
Gains from transfer of the substitutional portion of future pension obligations	-	2,524
Others	2,323	2,429
Total	¥ 4,033	¥ 6,750

### 18 Other Operating Expenses and Other Expenses

The composition of other operating expenses for the years ended March 31, 2005 and 2004 was as follows:

	(Millions of yen)	
	2005	2004
Other operating expenses:		
Losses on sales of bonds	¥ 821	¥ 214
Losses on redemption of bonds	-	46
Derivative costs	-	57
Total	¥ 821	¥ 318

The components of other expenses for the years ended March 31, 2005 and 2004 were as follows:

	(Millions of yen)	
	2005	2004
Other expenses:		
Transfer to reserve for possible loan losses	¥ 3,554	¥ 5,085
Losses on sales of stocks and other securities	30	925
Losses on devaluation of stocks and securities	691	480
Losses on money held in trust	-	14
Losses on sales of loans	2,785	6,340
Losses on sales and disposal of premises and equipment	1,895	1,011
Additional early retirement payment	-	1,090
Impairment losses	3,315	-
Others	1,768	1,473
Total	¥ 14,040	¥ 16,421

## 19. Income Taxes

Income taxes applicable to the Bank comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rate of 40.6% for 2005 and 2004.

The significant components of the Bank's deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	(Millions of yen)	
	2005	2004
Deferred tax assets:		
Reserve for possible loan losses	¥ 29,751	¥ 32,147
Reserve for employee retirement benefits	12,444	12,840
Loss carry forward for tax purposes	7,405	27,283
Devaluation of securities	2,480	2,382
Depreciation expenses	1,676	1,609
Other	3,651	2,608
Subtotal	57,409	78,871
Valuation allowance	(4,839)	(4,362)
Total	52,570	74,509
Deferred tax liabilities:		
Unrealized gain on securities	(33,033)	(31,148)
Retirement benefit trust	(8,945)	(9,223)
Reserve for special depreciation	(537)	(537)
Other	(20)	(32)
Total	(42,536)	(40,940)
Net deferred tax assets	¥ 10,033	¥ 33,568

See Note 14 to the consolidated financial statements for the description of Externl Based - Corporate Enterprise Taxes.

## 20. Net Income per Share

Net income per share for the years ended March 31, 2005 and 2004 was as follows:

	(Yen)	
	2005	2004
Net income:		
Basic	¥ 42.61	¥ 30.93
Diluted	36.96	27.31

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the diluted potential of common stock to be issued upon the conversion of convertible bonds.

## 21. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2005 and 2004 which would have been reflected in the non-consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	(Millions of yen)	
	2005	2004
Equipment:		
Acquisition costs	¥ 14,944	¥ 12,077
Accumulated depreciation	5,935	5,178
Net book value	¥ 9,009	¥ 6,898

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥2,453 million and ¥2,161 million for the year ended March 31, 2005 and 2004, respectively. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms and the interest expense portion included in the lease payments amounted to ¥2,278 million and ¥165 million, respectively, for the year ended March 31, 2005, and ¥1,969 million and ¥119 million, respectively, for the year ended March 31, 2004.

Future minimum lease payments subsequent to March 31, 2005 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)
2006	¥ 2,476
2007 and thereafter	6,775
Total	¥ 9,251

## 22. Subsequent Event

The following appropriation of retained earnings, which have not been reflected in the non-consolidated financial statements for the year ended March 31, 2005, were approved at stockholders' meeting held on June 29, 2005:

	(Millions of yen)
Cash dividends (¥4.50 per share)	¥2,855
Bonuses to directors and corporate auditors	40
Voluntary reserve	26,000
	¥28,895

At the Board of Directors meeting held on May 11, 2005, the Bank resolved to acquire the treasury stock under the Article 211-3-1-2 of the Commercial Law, and acquired the treasury stock on May 12, 2005

- Kinds of stock Common stocks
- Number of shares stock 14,885,000 shares
- Total acquisition cost of stock ¥9,585,940,000

## Report of Independent Auditors

### **The Board of Directors The Bank of Fukuoka, Ltd.**

We have audited the accompanying non-consolidated balance sheets of The Bank of Fukuoka, Ltd. as of March 31, 2004 and 2005, and the related non-consolidated statements of income and retained earnings for the years then ended, all expressed in yen. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of The Bank of Fukuoka, Ltd. at March 31, 2004 and 2005, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the non-consolidated financial statements.

#### Additional information

As described in Note 2 to the non-consolidated financial statements, the Bank adopted accounting standards for impairment of fixed assets in the year ended March 31, 2005.

*Shin Nihon & Co.*

June 29, 2005

## COMPANY DATA

### BOARD OF DIRECTORS AND AUDITORS

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**President**  
Masaaki Tani

**Deputy Presidents**  
Kazunori Shibuta  
Kazuo Oniki

**Senior Managing Directors**  
Masazumi Tsuru  
Osamu Suematsu

**Managing Directors**  
Kazutoshi Nakamura  
Yukuo Osada  
Jun Tanaka  
Osamu Obata  
Takashige Shibato

**Directors**  
Masao Ito  
Hajime Suzuki  
Takashi Eguchi  
Masato Akashi  
Yu Misumi  
Takashi Yoshikai  
Fumio Sakurai

**Standing Auditors**  
Nobuhisa Eto  
Kenji Hayashi

**Auditors**  
Hidemi Ashizuka  
Yoichi Sugioka  
Tsuguo Nagao

(As of July 2005)

### HEAD OFFICE

---

13-1, Tenjin 2-chome, Chuo-ku,  
Fukuoka 810-8727, Japan  
Phone: 092-723-2131

### BUSINESS PLANNING DIVISION

---

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Fukuoka 810-8727, Japan

**International Planning Department**  
Phone: 092-723-2591 Fax: 092-716-3180

**Asian Center**  
Phone: 092-723-2591 Fax: 092-716-3180

### OPERATIONS ADMINISTRATION DIVISION

---

7-7, Momochihama 1-chome, Sawara-ku,  
Fukuoka 814-0001, Japan

**Trade & Foreign Business Operations  
Center**  
Phone: 092-844-6091 Fax: 092-844-6040  
SWIFT Address: FKBKJPJT

### TREASURY DIVISION

---

8-7, Yaesu 2-chome, Chuo-ku,  
Tokyo 104-0028, Japan  
SWIFT Address: FKBKJPJT

**Funds & Securities Group**  
Phone: 03-3242-6935 Fax: 03-3242-6921

**Trading Department**  
Phone: 03-3242-6931 Fax: 03-3242-6920

**Treasury Management Department  
Treasury Risk Management Group**  
Phone: 03-3242-6913 Fax: 03-3242-6918

**Treasury Administration Group**  
Phone: 03-3242-6930 Fax: 03-3242-6918

### OVERSEAS OFFICES

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**Hong Kong Representative Office**  
3101 Alexandra House, 18, Chater Road,  
Central, Hong Kong, S.A.R., P.R.C.  
Phone: 2524-2169 Fax: 2845-9250

**Shanghai Representative Office**  
Room 2010, Shanghai International  
Trade Center, 2201 Yan-an Road (West),  
Shanghai, P.R.C.  
Phone: 21-6219-4570 Fax: 21-6219-5614

**Dalian Representative Office**  
Room 622,623 Furama Hotel,  
Dalian, 60 Renmin Road,  
Dalian, P.R.C.  
Phone: 411-8282-3643 Fax: 411-8282-3644

Number of Offices	
Domestic:	
Fukuoka Prefecture .....	150
Other districts .....	17
International:	
Hong Kong/Shanghai/Dalian .....	3
<b>Total</b> .....	<b>170</b>

(As of July 2005)



THE BANK OF FUKUOKA, LTD.