

FINANCIAL STATEMENTS 2006



(ended March 31, 2006)

TABLE OF CONTENTS

Financial Section	1
Consolidated Balance Sheets	1
Consolidated Statements of Operations	2
Consolidated Statements of Stockholders' Equity	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
Report of Independent Auditors	15
Non-Consolidated Balance Sheets	16
Non-Consolidated Statements of Operations and Retained Earnings (Deficit)	17
Notes to Non-Consolidated Financial Statements	18
Report of Independent Auditors	23
Company Data	24

CONSOLIDATED BALANCE SHEETS

March 31, 2006 and 2005 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2006	2005	2006
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars) (Note 2)
Assets			
Cash and due from banks (Note 15)	¥ 341,898	¥ 266,423	\$ 2,910
Call loans and bills bought	95,272	164,987	811
Monetary receivables bought	71,284	64,780	606
Trading assets	6,016	3,176	51
Securities (Notes 3, 7 and 12)	1,911,968	1,624,844	16,276
Loans and bills discounted (Notes 4 and 7)	5,115,390	5,031,315	43,546
Foreign exchange assets (Note 4 and 5)	3,853	3,930	32
Other assets (Note 7)	56,112	57,935	477
Premises and equipment (Notes 6 and 7)	130,446	135,651	1,110
Deferred tax assets (Note 13)	5,342	13,215	45
Customers' liabilities for acceptances and guarantees (Note 11)	61,727	73,594	525
Reserve for possible loan losses	(83,703)	(91,148)	(712)
Total assets	¥ 7,715,610	¥ 7,348,707	\$ 65,681
Liabilities , minority interests and stockholders' equity			
Liabilities			
Deposits (Note 7)	¥ 6,695,189	¥ 6,561,849	\$ 56,994
Call money and bills sold (Note 7)	201,774	4,832	1,717
Payables under securities lending transactions (Note 7)	147,270	144,454	1,253
Trading liabilities	2,430	1,262	20
Borrowed money (Note 8)	45,572	58,009	387
Foreign exchange liabilities (Note 5)	231	265	1
Bonds payable (Note 9)	20,000	-	170
Bonds with stock subscription rights (Note 9)	24,165	47,229	205
Other liabilities	79,487	50,919	676
Reserve for employee retirement benefits (Note 10)	411	813	3
Deferred tax liabilities on land revaluation (Notes 6 and 13)...	34,560	35,781	294
Excess of net assets acquired over cost	88	75	0
Acceptances and guarantees (Note 11)	61,727	73,594	525
Total liabilities	7,312,910	6,979,088	62,253
Minority interests	1,261	1,259	10
Stockholders' equity			
Common stock	70,310	58,753	598
Capital surplus	48,515	37,008	412
Retained earnings(Note 20)	201,413	172,662	1,714
Land revaluation account (Note 6)	48,850	52,374	415
Unrealized gains on securities (Note 12)	43,103	48,374	366
Treasury stock	(10,754)	(812)	(91)
Total stockholders' equity	401,438	368,359	3,417
Total liabilities , minority interests and total stockholders' equity	¥ 7,715,610	¥ 7,348,707	\$ 65,681

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2006 and 2005 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2006	2005	2006
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars) (Note 2)
Income			
Income from funds under management:			
Interest on loans and bills discounted	¥ 91,861	¥ 93,961	\$ 781
Interest and dividends on securities	33,587	28,003	285
Interest on call loans and bills bought	194	144	1
Interest on due from banks	47	25	0
Interest on others	1,091	2,610	9
Trust fees	2	2	0
Fees and commissions	31,719	28,172	270
Trading income	1,488	1,351	12
Other operating income	7,770	7,223	66
Other income	6,739	4,189	57
Total income	174,503	165,685	1,485
Expenses			
Cost of fund-raising:			
Interest on deposits	3,128	2,559	26
Interest on call money and bills sold	378	64	3
Interest on payables under securities lending transactions	4,948	2,546	42
Interest on borrowed money	1,100	1,308	9
Interest on bonds payable	104	966	0
Interest on bonds with stock subscription rights	358	520	3
Interest on others	12,618	11,636	107
Fees and commissions	9,120	7,884	77
Other operating expenses	1,086	880	9
General and administrative expenses	74,815	73,032	636
Other expenses	15,466	19,571	131
Total expenses	123,126	120,969	1,048
Income before income taxes and minority interests	51,376	44,716	437
Provision for income taxes (Note 13):			
Current	10,127	704	86
Deferred	9,709	18,063	82
	19,837	18,767	168
Minority interests	114	(841)	0
Net income (Note 14)	¥ 31,425	¥ 26,789	\$ 267

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended March 31, 2006 and 2005 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2006	2005	2006
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars) (Note 2)
Capital surplus			
Balance at beginning of year	¥ 37,008	¥ 36,917	\$ 315
Exercise of stock subscription rights	11,506	90	97
Gains on sales of treasury stock	0	1	0
Balance at end of year	¥ 48,515	¥ 37,008	\$ 412
Retained earnings			
Balance at beginning of year	¥ 172,662	¥ 145,549	\$ 1,469
Net income	31,425	26,789	267
Transfer from land revaluation account	2,819	3,526	23
Cash dividends	(5,057)	(3,162)	(43)
Bonuses to directors and corporate auditors	(40)	(40)	(0)
Merger of a consolidated subsidiary.....	(396)	(-)	(3)
Balance at end of year	¥ 201,413	¥ 172,662	\$ 1,714

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2006 and 2005 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2006	2005	2006
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars) (Note 2)
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 51,376	¥ 44,716	\$ 437
Depreciation of premises and equipment	5,022	4,805	42
Impairment losses	3,804	3,315	32
Depreciation of excess of net assets acquired over cost...	(251)	19	(2)
Equity in income from investment in affiliates	(540)	(104)	(4)
Net change in reserve for possible loan losses	(7,445)	(10,096)	(63)
Net change in reserve for employee retirement benefits ...	(402)	(215)	(3)
Interest income	(126,782)	(124,746)	(1,079)
Interest expenses	22,638	19,601	192
Net (gain) loss related to securities transactions	2,032	2,385	17
Net exchange (gain) loss	(75)	(18)	(0)
Net (gain) loss from disposition of premises and equipment	997	1,894	8
Net change in trading assets	(2,839)	(1,634)	(24)
Net change in trading liabilities	1,168	832	9
Net change in loans and bills discounted	(84,075)	20,040	(715)
Net change in deposits	107,437	390,890	914
Net change in negotiable certificates of deposit	25,902	(92,697)	220
Net change in borrowed money (excluding subordinated borrowed money)	(8,437)	(78)	(71)
Net change in deposits with banks	(7,212)	(1,562)	(61)
Net change in call loans	63,211	(30,233)	538
Net change in receivables under securities borrowing transactions	-	29,394	-
Net change in call money	196,942	2,190	1,676
Net change in payables under securities lending transactions	2,815	27,360	23
Net change in foreign exchange assets	76	(464)	0
Net change in foreign exchange liabilities	(33)	3	(0)
Net change in bonds payable	-	(21,138)	-
Interest received	126,562	124,865	1,077
Interest paid	(24,271)	(19,073)	(206)
Bonuses to directors and corporate auditors	(40)	(40)	(0)
Other, net	16,159	(22,523)	137
Subtotal	363,740	347,688	3,096
Income taxes paid	(1,265)	(786)	10
Net cash provided by operating activities	362,475	346,901	3,085
Cash flows from investing activities:			
Payments for purchases of securities	(657,370)	(1,018,434)	5,596
Payments for purchases of stock of subsidiaries	(210)	-	(1)
Proceeds from sale of securities	147,315	187,715	1,254
Proceeds from redemption of securities	216,161	558,441	1,840
Proceeds from decrease in money held in trust	-	985	-
Payments for purchases of premises and equipment	(2,842)	(2,049)	(24)
Proceeds from sale of premises and equipment	1,483	2,898	12
Net cash used in investing activities	(295,462)	(270,443)	(2,515)
Cash flows from financing activities			
Repayments of subordinated borrowed money	(4,000)	(16,000)	(34)
Proceeds from issuance of subordinated bonds	20,000	-	170
Dividends paid	(5,054)	(3,161)	(43)
Dividends paid for minority	(1)	(1)	(0)
Payments for purchase of treasury stock	(9,774)	(148)	(83)
Proceeds from sale of treasury stock	4	5	0
Net cash provided by (used in) financing activities	1,174	(19,306)	9
Effect of exchange rate changes on cash and cash equivalents	75	18	0
Net increase in cash and cash equivalents	68,262	57,170	581
Cash and cash equivalents at beginning of the year	264,302	207,132	2,249
Cash and cash equivalents at end of the year (Note 15)	¥ 332,564	¥ 264,302	\$ 2,831

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2006 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.

Affiliated companies over which the Bank exercises significant influence in terms of their operating and financial policies are accounted for by the equity method in the consolidated financial statements.

Differences between the cost and the underlying net equity at fair value of investments in subsidiaries at the date of acquisition are 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.

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 bal

ance sheet date are added to or deducted from the interest 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 life 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).

[Changes in Accounting Policies]

Effective the fiscal year ended March 31, 2006, the Bank adopted the "Partial Revision of the 'Accounting Standards for Employee Retirement Benefits' " (Business Accounting Standard No.3, March 16, 2005) and the "Guidelines on Implementation of the Partial Revision of the 'Accounting Standards for Employee Retirement Benefits' " (Guidelines on Implementation of Business Accounting Standard No.7, March 16, 2005).

The effect of this change on operations was to increase the income before income taxes and minority interests by ¥1,117 million.

[Additional Information]

With the implementation of the "Defined Contribution Pension Act," the Bank transferred a part of the lump-sum retirement benefit plans to the defined contribution pension plan, and the contributory pension plan and corporate pension plan to the defined benefit corporate pension plan in April, 2005, and, accordingly, the "Accounting Standards for Transfers in Employee Retirement Benefit Plans and Others" (Guidelines on Implementation of Business Accounting Standard No.1) has been applied. Due to this transfer, the income before income taxes and minority interests increased by ¥2,532 million.

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

For derivatives 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.

Hedge accounting for foreign exchange risks

The Bank applies the deferred method of hedge accounting for derivatives 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 20.

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. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.47 = U.S.\$1, the approximate rate of exchange on March 31, 2006, 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.

3. Securities

Securities at March 31, 2006 and 2005 were as follows:

	(Millions of yen)	
	2006	2005
National government bonds	¥ 620,828	¥ 506,299
Local government bonds	69,633	53,403
Corporate bonds	537,626	487,755
Equity securities	145,534	112,090
Other securities	538,346	465,294
Total	¥ 1,911,968	¥ 1,624,844

Information regarding marketable securities classified as other securities at March 31, 2006 is as follows:

	(Millions of yen)		
	Acquisition cost	Carrying value	Net unrealized gain(loss)
Listed securities:			
Stock	¥ 43,451	¥ 134,684	¥ 91,232
Bonds	1,205,670	1,184,274	(21,395)
Others	526,577	528,942	2,364
Total	¥ 1,775,700	¥ 1,847,901	¥ 72,201

Sales of securities classified as other securities amounted to ¥152,736 million with aggregate gain and loss of ¥2,011 million and ¥939 million, respectively, for the year ended March 31, 2006.

The redemption schedule for securities with maturity dates classified as other securities and securities classified as held-to-maturity securities at March 31, 2006 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	¥ 140,916	¥ 671,485	¥ 239,075	¥ 176,611
Others	49,847	228,382	166,723	54,199
Total	¥ 190,763	¥ 899,867	¥ 405,798	¥ 230,810

The securities include ¥2,261 million of stock of affiliates.

As for the securities borrowing transaction, etc., that are permitted to sell or pledge without restrictions, no such securities was held in hand at March 31, 2006.

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
Total	¥1,494,528	¥1,575,969	¥ 81,440

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 and securities classified as held-to-maturity 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
Total	¥ 180,987	¥ 817,954	¥ 253,954	¥ 233,308

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

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

4. Loans and Bills Discounted

Loans and bills discounted at March 31, 2006 and 2005 included the following loans:

	(Millions of yen)	
	2006	2005
Loans to borrowers in bankruptcy	¥ 9,346	¥ 9,224
Delinquent loans	79,860	83,149
Loans past due for three months or more	379	247
Restructured loans	59,128	76,835
Total	¥ 148,714	¥ 169,457

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 treat

ments 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 ¥69,737 million and ¥81,283 million at March 31, 2006 and 2005, 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, 2006 and 2005 amounted to ¥1,936,365 million and ¥1,798,511 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 ¥1,909,978 million at March 31, 2006.

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.

5. Foreign Exchange Assets and Liabilities

Foreign exchange assets and liabilities at March 31, 2006 and 2005 consisted of the followings:

	(Millions of yen)	
	2006	2005
Assets		
Due from foreign banks	¥ 902	¥ 981
Foreign exchange bills bought	1,006	1,020
Foreign exchange bills receivable	1,944	1,927
Total	¥ 3,853	¥ 3,930
Liabilities		
Foreign exchange bills sold	¥ 231	¥ 263
Foreign exchange bills payable	0	1
Total	¥ 231	¥ 265

6. 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.

Accumulated depreciation for premises and equipment at March 31, 2006 and 2005 was ¥58,815 million and ¥63,609 million, respectively. The accelerated depreciation entry for premises and equipment amounted to ¥7,605 million at March 31, 2006.

The difference between the recoverable amount and the book value of the following assets was recognized as Loss on Impairment of Fixed Assets in this fiscal term.

(Impairment losses of assets, assets group and assets type)

Area	Principal purposes of use	Type	Impairment losses (¥ million)
Fukuoka Prefecture	Operating assets (to be disposed of) 5 items	Land and Premises	3,084
	Idle assets, etc. 4 items		

The Bank has revalued the land used for the Bank's business activities on March 31, 1998 in accordance with the Law Concerning Land Revaluation. The operating assets (to be disposed of) and idle assets cited above, which were mainly included in the revaluated land, included impairment losses and they would not generate cash flows in future, and, accordingly, book values were reduced to the recoverable amounts, recognizing impairment losses of ¥3,804 million.

Impairment losses were included in extraordinary losses.

(Summary of assets group and the way of grouping)

Classification	Summary of group	Grouping
Shared assets	Assets related to all banking activities (Head office, Computer system center, Company houses and dormitories, ATM, etc.)	Assets related to all banking activity are grouping as grouped as a unit.
Operating assets	Business premises	As a rule, operating assets are grouped at the operation branch level. But in case of branches which are mutually complementary relations with regional core branches as branches focused on personal service and satellite office, grouped together. As for assets to be disposed of, each asset is grouped as a separate asset.
Idle assets	Branch premises, Vacant lots of branch premises and company houses	Each asset is grouped as a separate asset.
Consolidated subsidiaries		Each asset of subsidiaries are grouped.

(Recoverable amounts)

In the year ended March 31, 2006 the recoverable amount was calculated based on net realizable value. Net realizable value was calculated based on the real estate appraisal values, etc.

7. Pledged Assets

Assets pledged as collateral at March 31, 2006 and 2005 consisted of the follows:

	(Millions of yen)	
	2006	2005
Assets pledged as collateral		
Securities	¥ 649,603	¥ 446,477
Loans and bills discounted	-	50,000
Liabilities corresponding to assets pledged as collateral		
Deposits	¥ 38,719	¥ 38,534
Call money and bills sold	194,600	-
Payables under securities lending transactions	147,270	144,454

In addition, securities totaling ¥254,834 million and ¥233,052 million were pledged as collateral for settlement of exchange and other or as variation margin at March 31, 2006 and 2005, respectively.

Premises and equipment included ¥1,941 million of guarantee money and deposits. Other assets included ¥25 million of deposit for clearing house at March 31, 2006.

8. Borrowed money

Borrowed money at March 31, 2006 and 2005 included subordinated borrowings amounting to ¥44,000 million and ¥48,000 million, respectively.

9. Bonds payable and Bonds with stock subscription rights

Bonds payable at March 31, 2006 represented callable (subordinated) debenture bonds, payable in yen, due 2015. Interest rates of the bonds payable are set at 0.96% a year for the period from September 16, 2005 to September 15, 2010 and at the 6-month Euroyen LIBOR plus 1.83% after September 15, 2010.

Bonds with stock subscription rights at March 31, 2006 and 2005 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. Under the provisions of the issue, the conversion price is subject to adjustments in certain cases which include stock splits.

10. Retirement benefit plans

The Bank and subsidiaries have defined benefit plans, i.e., corporate pension 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.

According to the enactment of the Defined Benefit Pension Plan Law, the Bank obtained an approval by the Minister of Health, Labor and Welfare of exemption from the substitutional portion of its future pension obligations and past pension obligations, on August 1, 2003 and April 1, 2005, respectively.

On April 1, 2005, the Bank changed its employee retirement benefit plans, transferring a part of the lump-sum retirement benefit plans to the defined contribution pension plans, and the welfare pension fund plans to the defined benefit corporate pension plans (cash-balance plan).

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, 2006 and 2005 for the Bank's and the subsidiaries' defined benefit plans:

	(Millions of yen)	
	2006	2005
Project benefit obligation	¥(67,797)	¥(73,416)
Fair value of plan assets (Retirement benefit trust included above)	94,436	71,423
Projected benefit obligation in excess of plan assets	26,639	(1,993)
Unrecognized net actuarial differences	(13,570)	6,162
Unrecognized prior service cost	-	(1,117)
Net liability recognized	13,068	3,051
Prepaid pension cost	13,480	3,865
Reserve for employees' retirement benefits	¥ (411)	¥ (813)

The components of retirement benefit expenses for the year ended March 31, 2006 and 2005 are outlined as follows:

	(Millions of yen)	
	2006	2005
Service cost	¥ 2,070	¥ 2,200
Interest cost	1,340	1,674
Expected return on plan assets	(2,499)	(2,205)
Expense for prior service cost	(1,117)	-
Expense for net actuarial loss	1,200	1,144
Retirement benefit expenses	¥ 944	¥ 2,814

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

	2006	2005
(a) Discount rate:	2.0%	2.0%
(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

11. 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.

12. Net unrealized gains on securities

Net unrealized gains on securities at March 31, 2006 and 2005 consisted of the followings:

	(Millions of yen)	
	2006	2005
Gross unrealized gains on securities classified as other securities	¥ 72,201	¥ 81,440
Deferred tax liabilities applicable to unrealized gains	29,086	33,056
Unrealized gains on securities, net of the applicable income taxes before adjustment for minority interests	43,115	48,383
Minority interests	24	17
The Bank's interest in net unrealized gains on valuations of other securities held by affiliates accounted for by the equity method	12	7
Net unrealized gains on securities classified as other securities	¥ 43,103	¥ 48,374

13. 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 40.3 percent and 40.6 percent for 2006 and 2005, respectively.

The significant components of the deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	(Millions of yen)	
	2006	2005
Deferred tax assets:		
Reserve for possible loan losses	¥ 30,659	¥ 32,692
Reserve for employees retirement benefits	9,318	12,595
Loss carry forward for tax purposes		7,419
Depreciation of securities	2,457	2,488
Depreciation expenses	1,667	1,678
Other	4,697	3,993
Subtotal	48,799	60,867
Valuation allowance	(4,896)	(5,073)
Total	43,902	55,793
Deferred tax liabilities:		
Unrealized gain on securities	(29,086)	(33,056)
Retirement benefit trust	(8,934)	(8,945)
Reserve for special depreciation	(533)	(537)
Other	(7)	(38)
Total	(38,560)	(42,578)
Net deferred tax assets	¥ 5,342	¥ 13,215

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).

14. Net Income per Share

Net income per share for the years ended March 31, 2006 and 2005 was as follows:

	(yen)	
	2006	2005
Net income per share:		
Basic	¥ 48.76	¥ 42.23
Diluted	43.63	36.62

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 conversion of the convertible bonds.

15. 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, 2006 and 2005 were as follows:

	(Millions of yen)	
	2006	2005
Cash and due from banks	¥ 341,898	¥ 266,423
Interest-earning deposits with other banks	(9,334)	(2,121)
Cash and cash equivalents	¥ 332,564	¥ 264,302

16. 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, 2006 and 2005, which would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	(Millions of yen)	
	2006	2005
Equipment:		
Acquisition costs	¥ 12,317	¥ 15,499
Accumulated depreciation	6,408	6,116
Net book value	¥ 5,909	¥ 9,382

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥2,771 million and ¥2,577 million for the years ended March 31, 2006 and 2005, 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 ¥2,595 million and ¥181 million, respectively, for the year ended March 31, 2006, and ¥2,391 million and ¥179 million, respectively, for the year ended March 31, 2005.

Future minimum lease payments subsequent to March 31, 2006 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)
2007	¥ 2,606
2008 and thereafter	4,094
Total	¥ 6,101

17. 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, 2006 and 2005 is as follows:

Interest-related transactions			
(Millions of yen)			
As of Mar. 31, 2006	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps	¥153,356	¥ 555	¥ 547
Receive/fixed and pay/floating	76,653	(898)	(930)
Receive/floating and pay/fixed	76,703	1,453	1,477
Interest swaptions	117,982	0	639
Sell	58,991	(2,015)	(994)
Buy	58,991	2,015	1,643
Caps	73,282	0	106
Sell	36,521	(475)	(96)
Buy	36,761	475	203
Total	-	¥ 556	¥ 1,293

(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)
Total	-	¥ 278	¥ 620

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, 2006	Notional amount	Fair value	Unrealized gain (loss)
Currency Swap	¥ 358,976	¥ 1,155	¥ 1,135
Foreign exchange contract	46,762	230	230
Sell	23,213	(339)	(339)
Buy	23,549	570	570
Currency options	23,214	0	1
Sell	11,607	(129)	2
Buy	11,607	129	(1)
Total	-	¥ 1,386	¥ 1,368

(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
Total	-	¥ 988	¥ 1,003

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 profit in other liabilities. The total amount of aforementioned deferred hedge losses before netting was ¥1,648 million and the total amount of deferred hedge profits was ¥1,784 million.

18. Segment Information

(a) Business Segment Information

The Bank's operation includes guarantee and other businesses 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, 2006	¥ 24,770	¥ 171,918	14.4%
Year ended March 31, 2005	¥ 22,372	¥ 165,639	13.5%

19. Related Party Transactions

1. For the fiscal year ended March. 31,2006

(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	¥7,548 Million	Loan	¥33,557 Million
Director	Tsuguo Nagao	-	-	The Bank's corporate auditor Nishi-nippon Railroad Co.,Ltd.'s President and Representative Director	-	-	Loan	¥827 Million	Loan Acceptances and guarantees	¥8,132 Million ¥346 Million

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

(2) Others

There were no relevant transactions with related parties to report.

2. 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 were no relevant transactions with related parties to report.

20. Subsequent event

1. The following appropriation of retained earnings of the Bank, which have not been reflected in the consolidated financial statements for the year ended March 31, 2006, were approved at the stockholders' meeting held on June 29, 2006:

	(Millions of yen)
Cash dividends (¥4.50 per share)	¥3,015
Bonuses to directors and statutory auditors	60
	¥3,075

2. On May 12, 2006, the Bank entered into a basic agreement with the Kumamoto Family Bank, Ltd. (Headquarters: Kumamoto city, President: Kazuyuki Kawaguchi) that the two banks would pursue a business and capital alliance and start discussion for future integration of management which includes formation of a joint holding company. The outline of the agreement is as follows:

(1) Purpose of the agreement

The Bank of Fukuoka and the Kumamoto Family Bank will pursue together to enhance customer services by expanding the operational network, contribute to the communities, realize sustainable growth of the corporate value, and improve the employee satisfaction, through the business and capital alliance and future integration of management.

(2) Contents of business and capital alliance

Business alliance

- a) Alliance in assistance for business revitalization
- b) No-charge for use of ATMs by each other's customers
- c) Alliance in business loan operations
- d) Alliance in corporate solution businesses
- e) Alliance in businesses for individuals
- f) Alliance in promotion of operational efficiency

Capital alliance

The Bank of Fukuoka submitted an offer through the Resolution and Collection Corporation to the Deposit Insurance Corporation of Japan that the Bank acquire from the Resolution and Collection Corporation all shares of the publicly-owned preferred stock of the Kumamoto Family Bank; consequently, the Bank acquired all shares of the stock on May 17, 2006.

<Acquisition by the Bank of Fukuoka of the publicly-owned preferred stock of Kumamoto Family Bank>

- Number of shares acquired 40,000,000 shares
- Acquisition cost per share ¥788.79 per share
- Total cost of acquisition ¥31,551,600,000
- Seller The Resolution and Collection Corporation
- Date of acquisition May 17, 2006

(3) Start of discussion for future integration of management, and methods and timing of the integration

The Bank of Fukuoka and the Kumamoto Family Bank will jointly establish a preparatory committee of integration to start discussion for formation of a holding company. The proportion of integration being decided based on appropriate assessment of both banks' assets and other means, the holding company will be established in the spring of 2007 by transferring stock of each bank, subject to approval of the stockholders and authorization by the relevant authorities.

3. Upon the resolution of the Board of Directors meeting held on June 9, 2006, the Bank issued the second callable subordinated debenture bonds of ¥30 billion on June 27, 2006 to secure stable capital.

The issuance is outlined in the following:

- Issue price: ¥100 per ¥100 par value
- Total amount issued: ¥30 billion
- Interest rate:
 - first 5 years (to June 27, 2011): 1.77% a year
 - following 5 years: 6 month Euro Yen LIBOR + 1.82%
- Maturity date: June 27, 2016

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, 2005 and 2006, 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, 2005 and 2006, 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, 2006 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 2 to the consolidated financial statements.

Additional information

As described in Note 1. h to the consolidated financial statements, the Bank adopted the "Partial Revision of the 'Accounting Standards for Employee Retirement Benefits' " in the year ended March 31, 2006.

As described in Note 20. 2 to the consolidated financial statements, on May 12, 2006, the Bank entered into a basic agreement with the Kumamoto Family Bank, Ltd. that the two banks would pursue a business and capital alliance and start discussion for future integration of management which includes formation of a joint holding company.

As described in Note 20. 3 to the consolidated financial statements, upon the resolution of the Board of Directors meeting held on June 9, 2006, the Bank issued the second callable subordinated debenture bonds on June 27, 2006.



June 29, 2006

NON-CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2006 and 2005 The Bank of Fukuoka, Ltd.

	2006	2005	2006
	(Millions of yen)	(Millions of yen)	(Millions of U.S. dollars) (Note 2)
Assets			
Cash and due from banks	¥ 341,887	¥ 266,422	\$ 2,910
Call loans	95,272	164,987	811
Monetary receivables bought	71,284	64,780	606
Trading assets	6,016	3,176	51
Securities (Notes 3 and 7)	1,909,061	1,625,004	16,251
Loans and bills discounted (Notes 4 and 7).....	5,114,967	5,034,272	43,542
Foreign exchange assets (Note 4)	3,853	3,930	32
Other assets (Notes 6 and 7)	51,391	47,771	437
Premises and equipment (Note 5)	129,995	135,216	1,106
Deferred tax assets (Note 18)	1,820	10,033	15
Customers' liabilities for acceptances and guarantees (Note 13)	61,727	73,594	525
Reserve for possible loan losses	(75,313)	(82,977)	(641)
Total assets	¥ 7,711,965	¥ 7,346,213	\$ 65,650
Liabilities and stockholders' equity			
Liabilities			
Deposits (Notes 7 and 8)	¥ 6,709,960	¥ 6,577,325	\$ 57,120
Call money.....	7,174	4,832	61
Payables under securities lending transactions (Note 7)	147,270	144,454	1,253
Bills sold (Note 7).....	194,600	-	1,656
Trading liabilities	2,430	1,262	20
Borrowed money (Note 9)	45,422	57,909	386
Foreign exchange liabilities	231	265	1
Bonds payable (Note 10)	20,000	-	170
Bonds with stock subscription rights (Note 10)	24,165	47,229	205
Other liabilities (Note 11)	65,634	36,666	558
Reserve for employee retirement benefits (Note 12)	-	440	-
Deferred tax liabilities on land revaluation (Note 5)	34,560	35,781	294
Acceptances and guarantees (Note 13)	61,727	73,594	525
Total liabilities	¥ 7,313,177	¥ 6,979,761	\$ 62,255
Stockholders' equity			
Common stock (Note 14)	¥ 70,310	¥ 58,753	\$ 598
Capital surplus (Note 14)	48,515	37,008	412
Legal reserve (Note 15)	46,520	46,520	396
Voluntary reserve	117,399	91,438	999
Retained earnings	34,614	32,344	294
Land revaluation account (Note 5)	48,850	52,374	415
Unrealized gains on securities (Note 18)	43,071	48,351	366
Treasury stock	(10,494)	(339)	(89)
Total stockholders' equity	398,787	366,452	3,394
Total liabilities and stockholders' equity	¥ 7,711,965	¥ 7,346,213	\$ 65,650

See accompanying notes to non-consolidated financial statements.

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

Years ended March 31, 2006 and 2005 The Bank of Fukuoka, Ltd.

	2006	2005	2006
	(Millions of yen)	(Millions of yen)	(Millions of U.S. dollars) (Note 2)
Income			
Income from funds under management:			
Interest on loans and bills discounted	¥ 91,764	¥ 93,543	\$ 781
Interest and dividends on securities	33,391	27,957	284
Interest on call loans	194	144	1
Interest on bills bought	0	0	0
Interest on due from banks	47	25	0
Interest on interest rate swap	347	1,695	2
Interest on others	746	918	6
Trust fees	2	2	0
Fees and commissions	32,125	28,481	273
Trading income	1,488	1,351	12
Other operating income (Note 16)	2,575	2,258	21
Other income (Note 16)	6,168	4,033	52
Total income	168,853	160,412	1,437
Expenses			
Cost of fund-raising:			
Interest on deposits	3,131	2,562	26
Interest on call money	374	64	3
Interest on payables under securities lending transactions	4,948	2,546	42
Interest on bills sold	4	-	0
Interest on borrowed money	1,098	1,307	9
Interest on bonds payable	104	966	0
Interest on bonds with stock subscription rights	358	520	3
Interest on interest rate swap	12,598	11,512	107
Interest on others	17	118	0
Fees and commissions	10,627	9,237	90
Other operating expenses (Note 17)	1,076	821	9
General and administrative expenses	71,984	70,271	612
Other expenses (Note 17)	12,584	14,040	107
Total expenses	118,910	113,971	1,012
Income before income taxes	49,943	46,441	425
Provision for income taxes (Note 18):			
Current	9,446	126	80
Deferred	10,278	19,240	87
Net income (Note 19)	30,218	27,074	257
Retained earnings at beginning of year	¥ 32,344	¥ 20,913	\$ 275
Retained earnings added through merger	301	-	2
Transfer from land revaluation account	2,819	3,526	23
Transfer from voluntary reserve	39	141	0
Appropriations			
Cash dividends	5,068	3,171	43
Bonuses to directors and corporate auditors	40	40	0
Transfer to voluntary reserve	26,000	16,099	221
Retained earnings at end of year (Note 21)	¥ 34,614	¥ 32,344	\$ 294

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. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.47 = U.S.\$1, the approximate rate of exchange on March 31, 2006, 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.

3. Securities

Securities at March 31, 2006 and 2005 were as follows:

	(Millions of yen)	
	2006	2005
National government bonds	¥ 617,805	¥ 506,299
Local government bonds	69,633	53,403
Corporate bonds	537,626	487,755
Equity securities	145,649	112,252
Other securities	538,346	465,292
Total	¥ 1,909,061	¥ 1,625,004

See Note 3 to the consolidated financial statements for the description of securities borrowing transaction, etc..

4. Loans and Bills Discounted

Loans and bills discounted at March 31, 2006 and 2005 consisted of the following:

	(Millions of yen)	
	2006	2005
Bills discounted	¥ 68,731	¥ 80,262
Loans on bills	432,413	474,474
Loans on deeds	3,923,656	3,762,476
Overdrafts	690,165	717,059
Total	¥ 5,114,967	¥ 5,034,272

Loans and bills discounted at March 31, 2006 and 2005 included the following loans:

	(Millions of yen)	
	2006	2005
Loans to borrowers in bankruptcy	¥ 8,773	¥ 8,623
Delinquent loans	79,059	82,393
Loans past due for three months or more	379	247
Restructured loans	59,128	76,835
Total	¥ 147,341	¥ 168,100

See Note 4 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 ¥69,737 million and ¥81,283 million at March 31, 2006 and 2005, respectively.

The unused line-of-credit balance relating to overdrafts and loan agreements at March 31, 2006 and 2005 amounted to ¥1,938,415 million and ¥1,737,655 million, respectively. The amount related to overdrafts and loan agreements with a term of one year or less or overdrafts and loan agreements which permit unconditional cancellation at any time was ¥1,912,028 million at March 31, 2006.

See Note 4 to the consolidated financial statements for the description of the line-of-credit agreements.

5. Premises and Equipment

Premises and equipment at March 31, 2006 and 2005 consisted of the following:

	(Millions of yen)	
	2006	2005
Land	¥ 105,108	¥ 109,833
Buildings	68,306	67,876
Other	14,359	20,042
Total	187,774	197,751
Accumulated depreciation	(57,778)	(62,534)
Net book value	¥ 129,995	¥ 135,216

The difference between the recoverable amount and the book value of the following assets was recognized as Loss on Impairment of Fixed Assets in the year ended March 31, 2006.

(Impairment losses of assets , assets group and assets type)

Area	Principal purposes of use	Type	Impairment losses (¥ million)
Fukuoka Prefecture	Operating assets (to be disposed of) 5 items	Land and Premises	3,789
	Idle assets ,etc. 4 items		

The Bank has revaluated the land used for the Bank's business activities on March 31, 1998 in accordance with the Law Concerning Land Revaluation. The operating assets (to be disposed of) and idle assets cited above, which were mainly included in the revaluated land, included impairment losses and they would not generate cash flows in future, and, accordingly, book values were reduced to the recoverable amounts, recognizing impairment losses of ¥3,789 million.

Impairment losses were included in extraordinary losses.

(Summary of assets group and the way of grouping)

Classification	Summary of group	Grouping
Shared assets	Assets related to all banking activities (Head office, Computer system center, Company houses and dormitories, ATM,etc.)	Assets related to all banking activity are grouping as grouped as a unit.
Operating assets	Business premises	As a rule , operating assets are grouped at the operation branch level. But in case of branches which are mutually complementary relations with regional core branches as branches focused on personal service and satellite office, grouped together. As for assets to be disposed of, each asset is grouped as a separate asset.
Idle assets	Branch premises, Vacant lots of branch premises and company houses	Each asset is grouped as a separate asset.

(Recoverable amounts)

In the year ended March 31, 2006 the recoverable amount was calculated based on net realizable value. Net realizable value was calculated based on the real estate appraisal values, etc..

6. Other Assets

Other assets at March 31, 2006 and 2005 consisted of the follow ings:

	(Millions of yen)	
	2006	2005
Accrued income	¥ 14,116	¥ 13,638
Variation margin	13	16
Prepaid expenses	55	-
Financial derivatives	5,940	7,619
Deferred hedge losses	-	6,091
Other	31,266	20,404
Total	¥ 51,391	¥ 47,771

7. Pledged Assets

Assets pledged as collateral at March 31, 2006 and 2005 consisted of the follows:

	(Millions of yen)	
	2006	2005
Assets pledged as collateral		
Securities	¥ 649,603	¥ 446,477
Loans and bills discounted	-	50,000
Liabilities corresponding to assets pledged as collateral		
Deposits	¥ 38,719	¥ 38,534
Payables securities lending transactions	147,270	144,454
Bills sold	194,600	-

In addition, securities totaling ¥254,834 million and ¥233,052 million were pledged as collateral for settlement of exchange and other or as variation margin at March 31, 2006 and 2005, respectively.

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

8. Deposits

A breakdown of deposits at March 31, 2006 and 2005 was as follows:

	(Millions of yen)	
	2006	2005
Current deposits	¥ 309,346	¥ 294,211
Ordinary deposits	3,483,202	3,265,661
Deposits at notice	19,321	28,640
Time deposits	2,381,965	2,451,787
Negotiable certificates of deposit	147,979	122,577
Other deposits	368,144	414,446
Total	¥ 6,709,960	¥ 6,577,325

9. Borrowed money

See Note 8 to the consolidated financial statements for the description of Borrowed money.

10. Bonds payable and Bonds with stock subscription rights

See Note 9 to the consolidated financial statements for the description of these bonds.

11. Other Liabilities

Other liabilities at March 31, 2006 and 2005 consisted of the followings:

	(Millions of yen)	
	2006	2005
Domestic exchange settlement account, credit	¥ 166	¥ 678
Corporation tax	9,206	650
Accrued expenses	7,072	8,138
Unearned income	3,768	3,986
Employees' deposits	2,285	2,340
Financial derivatives	19,163	11,117
Deferred hedge profits	135	-
Other	23,837	9,754
Total	¥ 65,634	¥ 36,666

12. Retirement Benefit Plans

See Note 10 to the consolidated financial statements for the description of employee retirement benefit plans.

13. Acceptance and Guarantees

See Note 11 to the consolidated financial statements for the description of acceptances and guarantees.

14. Common Stock and Capital Surplus

Information with respect to the common stock and capital surplus of the Bank at March 31, 2006 and 2005 is as follows:

The authorized number of shares of common stock was 1.8 billion shares at March 31, 2006 and 2005.

	(Millions of yen)	
	2006	2005
Common stock:		
Balance at beginning of the year	¥ 58,753	¥ 58,662
Conversion of convertible bonds	11,557	90
Balance at end of year	¥ 70,310	¥ 58,753
(Shares issued and outstanding at end of year)	(686,534)	(635,166)
Thousand shares) Thousand shares)		
Capital surplus:		
Balance at beginning of the year	¥ 37,008	¥ 36,917
Conversion of convertible bonds	11,506	90
Gain on sales of treasury stock	0	1
Balance at end of year	¥ 48,515	¥ 37,008

15. 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.

16. Other Operating Income and Other Income

The composition of other operating income for the years ended March 31, 2006 and 2005 was as follows:

	(Millions of yen)	
	2006	2005
Other operating income		
Gains on foreign exchange transactions	¥ 902	¥ 1,023
Gains on sales of bonds	949	1,019
Gains on financial derivatives	721	210
Other	1	4
Total	¥ 2,575	¥ 2,258

The components of other income for the years ended March 31, 2006 and 2005 were as follows:

	(Millions of yen)	
	2006	2005
Other income:		
Gains on sales of stocks and other securities	¥ 861	¥ 1,707
Gains on dispositions of premises and equipment	51	0
Collection of written-off claims	-	2
Gains on transition of employee retirement benefit plans	2,532	-
Others	2,723	2,323
Total	¥ 6,168	¥ 4,033

17. Other Operating Expenses and Other Expenses

The composition of other operating expenses for the years ended March 31, 2006 and 2005 was as follows:

	(Millions of yen)	
	2006	2005
Other operating expenses:		
Losses on sales of bonds	¥ 935	¥ 821
Losses on redemption of bonds	46	-
Amortization of bond issue costs	93	-
Total	¥ 1,076	¥ 821

The components of other expenses for the years ended March 31, 2006 and 2005 were as follows:

	(Millions of yen)	
	2006	2005
Other expenses:		
Transfer to reserve for possible loan losses	¥ 2,984	¥ 3,554
Losses on sales of stocks and other securities	4	30
Losses on devaluation of stocks and securities	92	691
Losses on sales of loans	467	2,785
Losses on sales and disposal of premises and equipment	1,029	1,895
Impairment losses	3,789	3,315
Retroactive payments for overtime premium and others	2,090	-
Others	2,126	1,768
Total	¥ 12,584	¥ 14,040

18. 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 40.3% and 40.6% for 2006 and 2005, respectively.

The significant components of the Bank's deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	(Millions of yen)	
	2006	2005
Deferred tax assets:		
Reserve for possible loan losses	¥ 27,407	¥ 29,751
Reserve for employee retirement benefits	9,165	12,444
Loss carry forward for tax purposes		7,405
Devaluation of securities	2,449	2,480
Depreciation expenses	1,665	1,676
Other	4,425	3,651
Subtotal	45,112	57,409
Valuation allowance	(4,762)	(4,839)
Total	40,350	52,570
Deferred tax liabilities:		
Unrealized gain on securities	(29,054)	(33,033)
Retirement benefit trust	(8,934)	(8,945)
Reserve for special depreciation	(533)	(537)
Other	(7)	(20)
Total	(38,529)	(42,536)
Net deferred tax assets	¥ 1,820	¥ 10,033

See Note 13 to the consolidated financial statements for the description of Externally Based - Corporate Enterprise Taxes.

19. Net Income per Share

Net income per share for the years ended March 31, 2006 and 2005 was as follows:

	(Yen)	
	2006	2005
Net income:		
Basic	¥ 46.83	¥ 42.61
Diluted	41.92	36.96

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 conversion of the convertible bonds.

20. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2006 and 2005 which would have been reflected in the non-consolidated balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	(Millions of yen)	
	2006	2005
Equipment:		
Acquisition costs	¥ 11,785	¥ 14,944
Accumulated depreciation	6,161	5,935
Net book value	¥ 5,624	¥ 9,009

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥2,651 million and ¥2,453 million for the year ended March 31, 2006 and 2005, 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 ¥2,485 million and ¥170 million, respectively, for the year ended March 31, 2006, and ¥2,278 million and ¥165 million, respectively, for the year ended March 31, 2005.

Future minimum lease payments subsequent to March 31, 2006 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)
2007	¥ 1,896
2008 and thereafter	3,907
Total	¥ 5,804

21. Subsequent Event

1. The following appropriation of retained earnings, which have not been reflected in the non-consolidated financial statements for the year ended March 31, 2006, were approved at the stockholders' meeting held on June 29, 2006:

	(Millions of yen)
Cash dividends (¥4.50 per share)	¥3,015
Bonuses to directors and corporate auditors	60
Voluntary reserve	27,503
	¥30,578

2. On May 12, 2006, the Bank entered into a basic agreement with the Kumamoto Family Bank, Ltd. (Headquarters: Kumamoto city, President: Kazuyuki Kawaguchi) that the two banks would pursue a business and capital alliance and start discussion for future integration of management which includes formation of a joint holding company. The outline of the agreement is as follows:

(1) Purpose of the agreement

The Bank of Fukuoka and the Kumamoto Family Bank will pursue together to enhance customer services by expanding the

operational network, contribute to the communities, realize sustainable growth of the corporate value, and improve the employee satisfaction, through the business and capital alliance and future integration of management.

(2) Contents of business and capital alliance

Business alliance

- a) Alliance in assistance for business revitalization
- b) No-charge for use of ATMs by each other's customers
- c) Alliance in business loan operations
- d) Alliance in corporate solution businesses
- e) Alliance in businesses for individuals
- f) Alliance in promotion of operational efficiency

Capital alliance

The Bank of Fukuoka submitted an offer through the Resolution and Collection Corporation to the Deposit Insurance Corporation of Japan that the Bank acquire from the Resolution and Collection Corporation all shares of the publicly-owned preferred stock of the Kumamoto Family Bank; consequently, the Bank acquired all shares of the stock on May 17, 2006.

<Acquisition by the Bank of Fukuoka of the publicly-owned preferred stock of Kumamoto Family Bank>

- Number of shares acquired 40,000,000 shares
- Acquisition cost per share ¥788.79 per share
- Total cost of acquisition ¥31,551,600,000
- Seller The Resolution and Collection Corporation
- Date of acquisition May 17, 2006

(3) Start of discussion for future integration of management, and methods and timing of the integration

The Bank of Fukuoka and the Kumamoto Family Bank will jointly establish a preparatory committee of integration to start discussion for formation of a holding company. The proportion of integration being decided based on appropriate assessment of both banks' assets and other means, the holding company will be established in the spring of 2007 by transferring stock of each bank, subject to approval of the stockholders and authorization by the relevant authorities.

3. Upon the resolution of the Board of Directors meeting held on June 9, 2006, the Bank issued the second callable subordinated debenture bonds of ¥30 billion on June 27, 2006 to secure stable capital.

The issuance is outlined in the following:

- Issue price: ¥100 per ¥100 par value
- Total amount issued: ¥30 billion
- Interest rate:
 - first 5 years (to June 27, 2011): 1.77% a year
 - following 5 years: 6 month Euro Yen LIBOR + 1.82%
- Maturity date: June 27, 2016

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, 2005 and 2006, 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, 2005 and 2006, 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, 2006 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 2 to the non-consolidated financial statements.

Additional information

The Bank adopted the "Partial Revision of the 'Accounting Standards for Employee Retirement Benefits' " in the year ended March 31, 2006.

As described in Note 21. 2 to the non-consolidated financial statements, on May 12, 2006, the Bank entered into a basic agreement with the Kumamoto Family Bank, Ltd. that the two banks would pursue a business and capital alliance and start discussion for future integration of management which includes formation of a joint holding company.

As described in Note 21. 3 to the non-consolidated financial statements, upon the resolution of the Board of Directors meeting held on June 9, 2006, the Bank issued the second callable subordinated debenture bonds on June 27, 2006.

Ernst & Young Shin Nihon

June 29, 2006

COMPANY DATA

BOARD OF DIRECTORS AND AUDITORS

President
Masaaki Tani

Deputy Presidents
Kazunori Shibata
Kazuo Oniki

Senior Managing Directors
Osamu Suematsu
Kazutoshi Nakamura

Managing Directors
Osamu Obata
Takashige Shibato
Hajime Suzuki

Directors
Ryuji Yasuda
Hideaki Takahashi

Executive Officers
Takashi Eguchi
Masato Akashi
Yu Misumi
Takashi Yoshikai
Fumio Sakurai
Toyoshi Tanaka
Jiro Furumura
Eiichi Yamakita
Hisaharu Isobe
Masayuki Aoyagi
Seio Yamakawa

Standing Auditors
Nobuhisa Eto
Kenji Hayashi

Auditors
Hidemi Ashizuka
Yoichi Sugioka
Tsuguo Nagao

(As of July 2006)

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Number of Offices

Domestic:	
Fukuoka Prefecture.....	150
Other districts	17
International:	
Hong Kong/Shanghai/Dalian	3
Total	170

(As of July 2006)