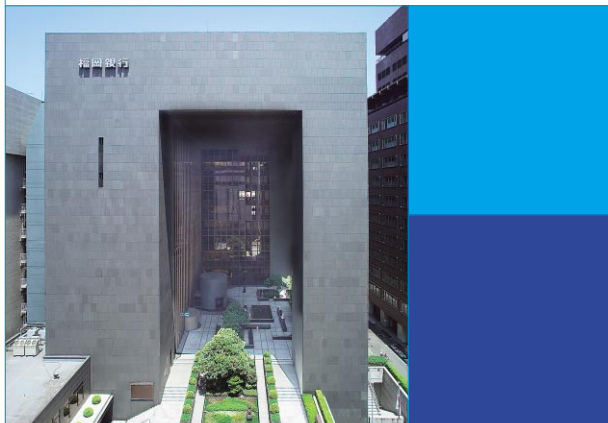


Financial  
Statements  
2007

(ended March 31, 2007)



## **TABLE OF CONTENTS**

Financial Section .....	1
Consolidated Balance Sheets .....	1
Consolidated Statements of Income .....	2
Consolidated Statements of Changes in Net Assets .....	3
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	7
Report of Independent Auditors .....	18
Non-Consolidated Balance Sheets .....	19
Non-Consolidated Statements of Income .....	20
Non-Consolidated Statements of Changes in Net Asset .....	21
Notes to Non-Consolidated Financial Statements .....	27
Report of Independent Auditors .....	33

## CONSOLIDATED BALANCE SHEETS

March 31, 2007 and 2006 The Bank of Fukuoka, Ltd. and Subsidiaries

	2007	2006	2007
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars ) (Note 2)
<b>Assets</b>			
Cash and due from banks (Note 16) .....	¥ 191,373	¥ 341,898	\$ 1,621
Call loans and bills bought .....	72,400	95,272	613
Monetary receivables bought .....	108,366	71,284	917
Trading assets .....	7,900	6,016	66
Securities (Notes 3, 7, 11 and 12) .....	2,046,071	1,911,968	17,332
Loans and bills discounted (Notes 4).....	5,373,526	5,115,390	45,519
Foreign exchange assets (Note 4 and 5) .....	2,758	3,853	23
Other assets (Note 7) .....	60,584	56,112	513
Premises and equipment (Notes 6 and 7) .....	-	130,446	-
Tangible fixed assets (Notes 6 and 7) .....	129,555	-	1,097
Intangible fixed assets .....	8,153	-	69
Deferred tax assets (Note 13) .....	8,026	5,342	67
Customers' liabilities for acceptances and guarantees (Note 11) .....	57,498	61,727	487
Reserve for possible loan losses .....	(77,686)	(83,703)	(658)
Total assets .....	¥ 7,988,529	¥ 7,715,610	\$ 67,670
<b>Liabilities , minority interests and stockholders' equity / Liabilities and net assets</b>			
<b>Liabilities</b>			
Deposits (Note 7) .....	¥ 6,916,897	¥ 6,695,189	\$ 58,592
Call money and bills sold (Note 7) .....	12,157	201,774	102
Payables under securities lending transactions (Note 7).....	120,309	147,270	1,019
Trading liabilities .....	3,832	2,430	32
Borrowed money (Notes 7 and 8).....	133,253	45,572	1,128
Foreign exchange liabilities (Note 5) .....	284	231	2
Bonds payable (Note 9) .....	111,074	20,000	940
Bonds with stock subscription rights (Note 9) .....	5,047	24,165	42
Other liabilities .....	90,751	79,487	768
Reserve for employee retirement benefits (Note 10) .....	434	411	3
Reserve for loss on interest repayments .....	1,141	-	9
Deferred tax liabilities on land revaluation (Notes 6 and 13)...	33,282	34,560	281
Excess of net assets acquired over cost .....	-	88	-
Negative goodwill.....	59	-	0
Acceptances and guarantees (Note 11) .....	57,498	61,727	487
Total liabilities .....	7,486,023	¥ 7,312,910	63,414
Minority interests .....	-	1,261	-
<b>Stockholders' equity</b>			
Common stock .....	-	70,310	-
Capital surplus .....	-	48,515	-
Retained earnings .....	-	201,413	-
Land revaluation account .....	-	48,850	-
Unrealized gains on securities .....	-	43,103	-
Treasury stock .....	-	(10,754)	-
Total stockholders' equity .....	-	401,438	-
<b>Total liabilities, minority interests and stockholders' equity</b>			
	-	¥ 7,715,610	-
<b>Net assets (Notes 15 and 21)</b>			
Common stock.....	¥ 79,890	-	\$ 676
Capital surplus .....	58,165	-	492
Retained earnings .....	231,025	-	1,957
Treasury stock .....	(10,758)	-	(91)
Total stockholders' equity .....	358,322	-	3,035
Net unrealized gains on other securities (Note12) .....	45,912	-	388
Net deferred hedge losses .....	(77)	-	(0)
Land revaluation account (Note 6) .....	46,955	-	397
Total valuation and transaction adjustments .....	92,790	-	786
Minority interests.....	51,393	-	435
Total net assets .....	502,506	-	4,256
<b>Total liabilities and net assets</b> .....	¥ 7,988,529	-	\$ 67,670

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2007 and 2006 The Bank of Fukuoka, Ltd. and Subsidiaries

	2007	2006	2007
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars ) (Note 2)
<b>Income</b>			
Income from funds under management:			
Interest on loans and bills discounted .....	¥ 97,822	¥ 91,861	\$ 828
Interest and dividends on securities .....	35,290	33,587	298
Interest on call loans and bills bought .....	501	194	4
Interest on due from banks .....	154	47	1
Interest on others .....	1,501	1,091	12
Trust fees .....	2	2	0
Fees and commissions .....	33,673	31,719	285
Trading income .....	2,448	1,488	20
Other operating income .....	7,999	7,770	67
Other income .....	4,115	6,739	34
<b>Total income .....</b>	<b>183,508</b>	<b>174,503</b>	<b>1,554</b>
<b>Expenses</b>			
Cost of fund-raising:			
Interest on deposits .....	8,009	3,128	67
Interest on call money and bills sold .....	527	378	4
Interest on payables under securities			
lending transactions .....	5,565	4,948	47
Interest on borrowed money .....	1,450	1,100	12
Interest on bonds payable .....	1,055	104	8
Interest on bonds with stock subscription rights .....	128	358	1
Interest on others .....	12,759	12,618	108
Fees and commissions .....	10,578	9,120	89
Other operating expenses .....	1,212	1,086	10
General and administrative expenses .....	74,247	74,815	628
Other expenses .....	11,850	15,466	100
<b>Total expenses .....</b>	<b>127,386</b>	<b>123,126</b>	<b>1,079</b>
<b>Income before income taxes and minority interests</b>	<b>56,121</b>	<b>51,376</b>	<b>475</b>
Provision for income taxes (Note 13):			
Current .....	23,928	10,127	202
Deferred .....	(1,953)	9,709	(16)
	<b>21,975</b>	<b>19,837</b>	<b>186</b>
<b>Minority interests .....</b>	<b>288</b>	<b>114</b>	<b>2</b>
<b>Net income (Note 14) .....</b>	<b>¥ 33,858</b>	<b>¥ 31,425</b>	<b>\$ 286</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	(Millions of yen)				
	Stockholders' equity				
	Common Stock	Capital Surplus	Retained earnings	Treasury Stock	Total Stockholders' equity
<b>Balance as of March 31, 2005</b>	¥58,753	¥37,008	¥172,662	¥(812)	¥267,661
Changes during the period:					
Exercise of stock subscription rights	11,557	11,506			23,063
Cash dividends			(5,057)		(5,057)
Bonuses to directors and corporate auditors (Note)			(40)		(40)
Net income			31,425		31,425
Acquisition of treasury stock				(9,945)	(9,945)
Disposition of treasury stock		0		3	4
Transfer from land revaluation account			2,819		2,819
Merger of a consolidated subsidiary			(396)		(396)
Net change in items other than stockholders' equity					
Total changes during the period	11,557	11,507	28,750	(9,942)	41,873
<b>Balance as of March 31, 2006</b>	¥70,310	¥48,515	¥201,413	¥(10,754)	¥309,484

	(Millions of yen)					
	Valuation and translation adjustments				Minority Interests	Total Net assets
	Net unrealized gains on other securities	Net deferred hedge losses	Land revaluation account	Total valuation and translation adjustments		
<b>Balance as of March 31, 2005</b>	¥48,374	¥ -	¥52,374	¥100,748	¥ -	¥368,359
Changes during the period:						
Exercise of stock subscription rights						23,063
Cash dividends						(5,057)
Bonuses to directors and corporate auditors						(40)
Net income						31,425
Acquisition of treasury stock						(9,945)
Disposition of treasury stock						4
Transfer from land revaluation account						2,819
Merger of a consolidated subsidiary						(396)
Net change in items other than stockholders' equity	(5,271)	-	(3,523)	(8,795)	-	(8,795)
Total changes during the period	(5,271)	-	(3,523)	(8,795)	-	33,078
<b>Balance as of March 31, 2006</b>	¥43,103	¥ -	¥48,850	¥91,953	¥ -	¥401,438

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	(Millions of yen)				
	Stockholders' equity				
	Common Stock	Capital Surplus	Retained earnings	Treasury Stock	Total Stockholders' equity
<b>Balance as of March 31, 2006</b>	¥70,310	¥48,515	¥201,413	¥(10,754)	¥309,484
Reclassified balance as of March 31,2006 (Note21)					
Changes during the period:					
Exercise of stock subscription rights	9,580	9,537			19,117
Cash dividends (Note)			(3,010)		(3,010)
Cash dividends			(3,068)		(3,068)
Bonuses to directors and corporate auditors (Note)			(60)		(60)
Net income			33,858		33,858
Acquisition of treasury stock				(270)	(270)
Disposition of treasury stock		112		266	378
Transfer from land revaluation account			1,895		1,895
Changes in scope of consolidation			(3)		(3)
Net change in items other than stockholders' equity					
Total changes during the period	9,580	9,649	29,612	(3)	48,838
<b>Balance as of March 31, 2007</b>	¥79,890	¥58,165	¥231,025	¥(10,758)	¥358,322

	(Millions of yen)					
	Valuation and translation adjustments				Minority Interests	Total Net assets
	Net unrealized gains on other securities	Net deferred hedge losses	Land revaluation account	Total valuation and translation adjustments		
<b>Balance as of March 31, 2006</b>	¥43,103	¥ -	¥48,850	¥91,953	¥1,261	¥1,261
Reclassified balance as of March 31,2006 (Note21)						
Changes during the period:						
Exercise of stock subscription rights						19,117
Cash dividends (Note)						(3,010)
Cash dividends						(3,068)
Bonuses to directors and corporate auditors (Note)						(60)
Net income						33,858
Acquisition of treasury stock						(270)
Disposition of treasury stock						378
Transfer from land revaluation account						1,895
Changes in scope of consolidation						(3)
Net change in items other than stockholders' equity	2,809	(77)	(1,895)	836	50,131	50,967
Total changes during the period	2,809	(77)	(1,895)	836	50,131	99,806
<b>Balance as of March 31, 2007</b>	¥45,912	¥(77)	¥46,955	¥92,790	¥51,393	¥502,506

(Note) Appropriation of retained earnings was approved at the ordinary general meeting of stockholders in June 2006

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Millions of U.S. dollars )(Note 2)

	Stockholders' equity				Total Stockholders' equity
	Common Stock	Capital Surplus	Retained earnings	Treasury Stock	
<b>Balance as of March 31, 2006</b>	\$ 595	\$ 410	\$ 1,706	\$ (91)	\$ 2,621
Reclassified balance as of March 31,2006 (Note21)					
Changes during the period:					
Exercise of stock subscription rights	81	80			162
Cash dividends (Note)			(25)		(25)
Cash dividends			(25)		(25)
Bonuses to directors and corporate auditors (Note)			(0)		(0)
Net income			286		286
Acquisition of treasury stock				(2)	(2)
Disposition of treasury stock		0		2	3
Transfer from land revaluation account			16		16
Changes in scope of consolidation			(0)		(0)
Net change in items other than stockholders' equity					
<b>Total changes during the period</b>	81	81	250	(0)	413
<b>Balance as of March 31, 2007</b>	\$ 676	\$ 492	\$ 1,957	\$ (91)	\$ 3,035

(Millions of U.S. dollars )(Note 2)

	Valuation and translation adjustments				Minority Interests	Total Net assets
	Net unrealized gains on other securities	Net deferred hedge losses	Land revaluation account	Total valuation and translation adjustments		
<b>Balance as of March 31, 2006</b>	\$ 365	\$ -	\$ 413	\$ 778	\$ -	\$ 3,411
Reclassified balance as of March 31,2006 (Note21)					10	10
Changes during the period:						
Exercise of stock subscription rights						162
Cash dividends (Note)						(25)
Cash dividends						(25)
Bonuses to directors and corporate auditors (Note)						(0)
Net income						286
Acquisition of treasury stock						(2)
Disposition of treasury stock						3
Transfer from land revaluation account						16
Changes in scope of consolidation						(0)
Net change in items other than stockholders' equity	23	(0)	(16)	7	424	431
<b>Total changes during the period</b>	23	(0)	(16)	7	424	845
<b>Balance as of March 31, 2007</b>	\$ 388	\$ (0)	\$ 397	\$ 786	\$ 435	\$ 4,256

(Note) Appropriation of retained earnings was approved at the ordinary general meeting of stockholders in June 2006.

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2007 and 2006 The Bank of Fukuoka, Ltd. and Subsidiaries

	2007	2006	2007
	(Millions of yen)	(Millions of yen)	(Millions of U. S. dollars ) (Note 2)
<b>.Cash flows from operating activities:</b>			
Income before income taxes and minority interests .....	¥ 56,121	¥ 51,376	\$ 475
Depreciation of premises and equipment .....	5,250	5,022	44
Impairment losses .....	1,060	3,804	8
Depreciation of excess of net assets acquired over cost...	-	(251)	-
Amortization of negative goodwill .....	(29)	-	(0)
Equity in income from investment in affiliates .....	(218)	(540)	(1)
Net change in reserve for possible loan losses .....	(6,016)	(7,445)	(50)
Net change in reserve for loss on interest repayments .....	1,141	-	9
Net change in reserve for employee retirement benefits .....	22	(402)	0
Interest income .....	(135,270)	(126,782)	(1,145)
Interest expenses .....	29,498	22,638	249
Net losses related to securities transactions .....	781	2,032	(6)
Net exchange gains .....	(20)	(75)	(0)
Net losses from disposition of premises and equipment .....	-	997	-
Net losses on disposition of fixed assets .....	439	-	3
Net change in trading assets .....	(1,883)	(2,839)	(15)
Net change in trading liabilities .....	1,401	1,168	11
Net change in loans and bills discounted .....	(258,135)	(84,075)	(2,186)
Net change in deposits .....	215,700	107,437	1,827
Net change in negotiable certificates of deposit .....	6,007	25,902	(50)
Net change in borrowed money (excluding subordinated borrowed money) .....	93,680	(8,437)	793
Net change in deposits with banks .....	(17,502)	(7,212)	(148)
Net change in call loans .....	(14,209)	63,211	(120)
Net change in call money .....	(189,617)	196,942	(1,606)
Net change in payables under securities lending transactions .....	(26,960)	2,815	(228)
Net change in foreign exchange assets .....	1,095	76	9
Net change in foreign exchange liabilities .....	52	(33)	0
Issuance and redemption of bonds (excluding subordinated bonds) .....	31,074	-	263
Interest received .....	133,201	126,562	1,128
Interest paid .....	(27,384)	(24,271)	(231)
Bonuses to directors and corporate auditors .....	(60)	(40)	(0)
Other, net .....	(5,446)	16,159	(46)
Subtotal .....	(106,225)	363,740	(899)
Income taxes paid .....	(14,274)	(1,265)	(120)
<b>Net cash (used in) provided by operating activities .....</b>	<b>(120,499)</b>	<b>362,475</b>	<b>(1,020)</b>
<b>.Cash flows from investing activities:</b>			
Payments for purchases of securities .....	(539,239)	(657,370)	(4,567)
Payments for purchases of stock of subsidiaries .....	-	(210)	-
Proceeds from sale of securities .....	113,147	147,315	958
Proceeds from redemption of securities .....	288,322	216,161	2,442
Payments for purchases of premises and equipment .....	-	(2,842)	-
Payments for purchases of tangible fixed assets .....	(6,800)	-	(57)
Payments for purchases of intangible fixed assets .....	(2,760)	-	(23)
Proceeds from sale of premises and equipment .....	-	1,483	-
Proceeds from sale of tangible fixed assets .....	2,518	-	21
Proceeds from sale of intangible fixed assets .....	6	-	0
<b>Net cash used in investing activities .....</b>	<b>(144,806)</b>	<b>(295,462)</b>	<b>(1,226)</b>
<b>.Cash flows from financing activities</b>			
Payments of subordinated borrowed money .....	(6,000)	(4,000)	(50)
Proceeds from issuance of subordinated bonds .....	60,000	20,000	508
Proceeds from issuance of preferred fund certificates .....	50,000	-	423
Dividends paid .....	(6,077)	(5,054)	(51)
Dividends paid to minority stockholders .....	(413)	(1)	(3)
Payments for purchase of treasury stock .....	(270)	(9,774)	(2)
Proceeds from sale of treasury stock .....	17	4	0
<b>Net cash provided by financing activities .....</b>	<b>97,256</b>	<b>1,174</b>	<b>823</b>
<b>.Effect of exchange rate changes</b>			
<b>on cash and cash equivalents .....</b>	<b>20</b>	<b>75</b>	<b>0</b>
<b>.Net (decrease) increase</b>			
<b>in cash and cash equivalents .....</b>	<b>(168,027)</b>	<b>68,262</b>	<b>(1,423)</b>
<b>.Cash and cash equivalents</b>			
<b>at beginning of the year .....</b>	<b>332,564</b>	<b>264,302</b>	<b>2,817</b>
<b>.Cash and cash equivalents at end of the year</b>			
<b>(Note 16) .....</b>	<b>¥ 164,537</b>	<b>¥ 332,564</b>	<b>\$1,393</b>

See accompanying notes to consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2007 The Bank of Fukuoka, Ltd. and 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. Practical Solution Report concerning Investment Associations

"Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" (Practical Solution Report No. 20, September 8, 2006) has been applied commencing with this period, as the report took effect for the fiscal period ending on or after the announcement date. The effect on the consolidated financial statements of this application was immaterial.

#### d. 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 balance sheet date are added to or deducted from the interest earned or paid in the current year.

#### e. 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 the moving-average method.

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

#### f. Derivative transactions

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

#### g. Depreciation

- Depreciation of tangible fixed assets 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.

- Intangible fixed assets are depreciated using the straight-line method. Costs of computer software developed or obtained for internal use are deferred and amortized using the straight-line method for the estimated useful life of 5 years.

#### **h. 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 or 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.

#### **i. 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 losses from the following fiscal year under the straight-line method over the average remaining service period of the current employees (10 years).

#### **j. Reserve for loss on interest repayments**

Reserve for losses on interest repayments is related to the rights and obligations which were transferred from Fukuoka Card Co, Ltd. to the Bank when the subsidiary company was merged into the Bank during the fiscal year ended March 31, 2006. The reserve accounts for the necessary amount to prepare for possible losses on claims for repayments of interests on loans which exceed the maximum interest rate set by the Interest Limitation Law.

#### **k. 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.

#### **L. Leases**

Non cancelable lease transactions of the Bank and its domestic subsidiaries 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 Bank are accounted for as finance leases.

#### **m. 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.

#### n. 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.

#### o. Appropriation of retained earnings

Under the Corporation Law 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 22.

#### p. Scope of cash indicated in the consolidated statement of cash flows

The scope of cash indicated in the consolidated statement of cash flows covers cash and deposits with the Bank of Japan, etc. included in "Cash and due from banks" in the consolidated balance sheet.

## 2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥118.05 = U.S.\$1, the approximate rate of exchange on March 31, 2007, 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, 2007 and 2006 were as follows:

	(Millions of yen)	
	2007	2006
National government bonds	¥ 648,271	¥ 620,828
Local government bonds	73,560	69,633
Corporate bonds	559,508	537,626
Equity securities	187,244	145,534
Other securities	577,487	538,346
<b>Total</b>	<b>¥ 2,046,071</b>	<b>¥ 1,911,968</b>

Information regarding marketable securities classified as other securities at March 31, 2007 is as follows:

	(Millions of yen)		
	Acquisition cost	Carrying value	Net unrealized gain(loss)
Listed securities:			
Stock	¥ 65,098	¥ 144,875	¥ 79,777
Bonds	1,242,478	1,229,238	(13,240)
Others	535,394	541,878	6,483
<b>Total</b>	<b>¥ 1,842,971</b>	<b>¥ 1,915,992</b>	<b>¥ 73,020</b>

Sales of securities classified as other securities amounted to ¥105,260 million with aggregate sales gain and loss of ¥2,174 million and ¥811 million, respectively, for the year ended March 31, 2007.

The redemption schedule for securities with maturity dates classified as other securities and securities classified as held-to-maturity securities at March 31, 2007 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	¥ 199,449	¥ 696,190	¥ 228,992	¥ 156,707
Others	57,409	202,457	150,492	72,530
<b>Total</b>	<b>¥ 256,859</b>	<b>¥ 898,648</b>	<b>¥ 405,196</b>	<b>¥ 229,238</b>

The securities included ¥2,870 million of stock of affiliates.

Securities at March 31, 2007 included bonds offered through private placement. The Bank's guarantee obligation for such private placement bonds was ¥42,608 million

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
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
<b>Total</b>	<b>¥1,775,700</b>	<b>¥1,847,901</b>	<b>¥ 72,201</b>

Sales of securities classified as other securities amounted to ¥152,736 million with aggregate sales 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 were held in hand at March 31, 2006.

#### 4. Loans and Bills Discounted

Loans and bills discounted at March 31, 2007 and 2006 included the following loans:

	(Millions of yen)	
	2007	2006
Loans to borrowers in bankruptcy	¥ 9,703	¥ 9,346
Delinquent loans	70,163	79,860
Loans past due for three months or more	745	379
Restructured loans	51,017	59,128
Total	¥ 131,629	¥ 148,714

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 ¥82,925 million and ¥69,737 million at March 31, 2007 and 2006, 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, 2007 and 2006 amounted to ¥2,105,994 million and ¥1,936,365 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 ¥1,971,130 million at March 31, 2007.

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, 2007 and 2006 consisted of the followings:

	(Millions of yen)	
	2007	2006
Assets		
Due from foreign banks	¥ 692	¥ 902
Foreign exchange bills bought	330	1,006
Foreign exchange bills receivable	1,735	1,944
Total	¥ 2,758	¥ 3,853
Liabilities		
Foreign exchange bills sold	¥ 278	¥ 231
Foreign exchange bills payable	5	0
Total	¥ 284	¥ 231

## 6. Tangible Fixed Assets

Land used for the Bank's business activities has been revalued on the basis prescribed by the Law Concerning Land Revaluation (Proclamation No.34 dated March 31, 1998). As for the revaluation difference, the income tax account corresponding to the revaluation difference amount is included in liabilities as "Deferred tax liabilities on land revaluation account", and the revaluation difference, net of this deferred tax liability, is included in net assets as "Land revaluation account."

Date of revaluation: March 31, 1998

Revaluation method as stated in Article 3-3 Law Concerning Land Revaluation:

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No.119 dated March 31, 1998), after making reasonable adjustments.

Difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law was ¥38,842 million.

Accumulated depreciation for tangible fixed assets amounted to ¥57,998 million.

The accelerated depreciation entry for tangible fixed assets amounted to ¥7,563 million.

(The accelerated depreciation in FY2006 was nil.)

## 7. Pledged Assets

Assets pledged as collateral at March 31, 2007 and 2006 consisted of the follows:

	(Millions of yen)	
	2007	2006
Assets pledged as collateral		
Securities	¥ 653,858	¥ 649,603
Liabilities corresponding to assets pledged as collateral		
Deposits	¥ 26,949	¥ 38,719
Call money and bills sold	-	194,600
Payables under securities lending transactions	120,309	147,270
Borrowed money	94,000	-

In addition, securities totaling ¥261,725 million and other assets of ¥61 million were pledged at March 31, 2007, and securities totaling ¥254,834 million were pledged at March 31, 2006, as collateral for settlement of exchange and other or as variation margin.

None of the assets pledged as collateral was collateral pledged in

connection with borrowings by affiliate companies.

Other assets included deposits of ¥1,730 million at March 31, 2007.

## 8. Borrowed money

Borrowed money at March 31, 2007 and 2006 included subordinated borrowings amounting to ¥38,000 million and ¥44,000 million, respectively.

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

Bonds payable included callable (subordinated) debenture bonds of ¥80,000 million, payable in yen, due 2007 to 2017.

Bonds with stock subscription rights at March 31, 2007 and 2006 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, 2007 and 2006 for the Bank's and the subsidiaries' defined benefit plans:

	(Millions of yen)	
	2007	2006
Project benefit obligation	¥(69,513)	¥(67,797)
Fair value of plan assets (Retirement benefit trust included above)	107,862	94,436
Projected benefit obligation in excess of plan assets	38,349	26,639
Unrecognized net actuarial differences	(20,544)	(13,570)
Unrecognized prior service cost	-	-
Net liability recognized	17,805	13,068
Prepaid pension cost	18,239	13,480
Reserve for employees' retirement benefits	¥ (434)	¥ (411)

The components of retirement benefit expenses for the year ended March 31, 2007 and 2006 are outlined as follows:

	(Millions of yen)	
	2007	2006
Service cost	¥ 2,029	¥ 2,070
Interest cost	1,345	1,340
Expected return on plan assets	(3,305)	(2,499)
Expense for prior service cost	-	(1,117)
Expense for net actuarial loss	(707)	1,200
Retirement benefit expenses	¥ (637)	¥ 994

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

	2007	2006
(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.

The Bank guarantees total of ¥42,608 million for private placement corporate bonds. Relevant acceptances and guarantees and customers' liabilities for acceptances and guarantees have been recorded in the net amount, in accordance with the annex of the Enforcement Ordinance of the Banking Law, partially amended in April 2007.

### 12. Net unrealized gains on securities

Net unrealized gains on securities at March 31, 2007 and 2006 consisted of the followings:

	(Millions of yen)	
	2007	2006
Gross unrealized gains on securities classified as other securities	¥ 73,020	¥ 72,201
Deferred tax liabilities applicable to unrealized gains	27,101	29,086
Unrealized gains on securities, net of the applicable income taxes before adjustment for minority interests	45,919	43,115
Minority interests	6	24
The Bank's interest in net unrealized gains on valuations of other securities held by affiliates accounted for by the equity method	0	12
Net unrealized gains on securities classified as other securities	¥ 45,912	¥ 43,103

### 13. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	(Millions of yen)	
	2007	2006
Deferred tax assets:		
Reserve for possible loan losses	¥ 30,834	¥ 30,659
Reserve for employees retirement benefits	8,457	9,318
Depreciation of securities	2,574	2,457
Depreciation expenses	1,643	1,667
Other	5,832	4,697
Subtotal	49,342	48,799
Valuation allowance	(4,860)	(4,896)
Total	44,482	43,902
Deferred tax liabilities:		
Unrealized gain on securities	(27,101)	(29,086)
Retirement benefit trust	(8,819)	(8,934)
Reserve for special depreciation	(533)	(533)
Other	(0)	(7)
Total	(36,455)	(38,560)
Net deferred tax assets	¥ 8,026	¥ 5,342

#### 14. Net Income per Share

Net income per share for the years ended March 31, 2007 and 2006 was as follows:

	(yen)	
	2007	2006
Net income per share:		
Basic	¥ 49.56	¥ 48.76
Diluted	46.94	43.63

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 shares to be issued upon conversion of the convertible bonds.

#### 15. Accounting Standards for Presentation of Net assets in the Balance sheet

“Accounting Standards for Presentation of Net Assets in the Balance sheet” (Business Accounting standards No.5, December 9, 2005) and “Guidance on Application of Accounting Standards for Presentation of Net Assets in the Balance Sheet” (Guidance on Application of Business Accounting Standards No.8, December 9, 2005) were adopted as the new accounting standards and guidance took effect for the fiscal year ended March 31, 2007.

The amount corresponding to former “Stockholders’ equity” as of the end of this fiscal year was ¥451,190 million.

Net assets in the balance sheet at March 31, 2007 were presented in accordance with the revised Financial Statements Regulations and Banking Law Enforcement Regulations.

#### 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, 2007 and 2006 were as follows:

	(Millions of yen)	
	2007	2006
Cash and due from banks	¥ 191,373	¥ 341,898
Interest-earning deposits with other banks	(26,836)	(9,334)
Cash and cash equivalents	¥ 164,537	¥ 332,564

Significant non-cash transactions provided were as follows:

Increase in capital due to exercise of stock subscription rights	¥9,580 million
Increase in capital surplus due to exercise of stock subscription rights	¥9,537 million
Decrease in bonds with stock subscription rights due to exercise of stock subscription rights	¥19,118 million

The above were due to conversion of convertible bonds payable issued under the old Commercial Code.

#### 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, 2007 and 2006, 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)	
	2007	2006
Equipment:		
Acquisition costs	¥ 12,431	¥ 12,317
Accumulated depreciation	7,648	6,408
Net book value	¥ 4,782	¥ 5,909

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥2,171 million and ¥2,771 million for the years ended March 31, 2007 and 2006, 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 ¥2,057 million and ¥136 million, respectively, for the year ended March 31, 2007, and ¥2,595 million and ¥181 million, respectively, for the year ended March 31, 2006.

Future minimum lease payments subsequent to March 31, 2007 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)
2008	¥ 1,679
2009 and thereafter	3,260
Total	¥ 4,940

## 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, 2007 and 2006 is as follows:

### Interest-related transactions

(Millions of yen)			
As of Mar. 31, 2007	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps	¥364,397	¥ 1,100	¥ 1,088
Receive/fixed and pay/floating	182,617	263	137
Receive/floating and pay/fixed	181,780	836	950
Interest swaptions	100,260	0	748
Sell	50,130	(455)	525
Buy	50,130	455	223
Caps	72,155	0	94
Sell	36,172	(216)	107
Buy	35,982	216	(12)
Floor	6,000	0	0
Sell	3,000	(29)	2
Buy	3,000	29	(2)
Total	¥ -	¥ 1,100	¥ 1,931

(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

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, 2007	Notional amount	Fair value	Unrealized gain (loss)
Currency Swap	¥ 599,324	¥ 1,426	¥ 1,395
Foreign exchange contract	57,711	196	196
Sell	28,972	(957)	(957)
Buy	28,738	1,153	1,153
Currency options	23,924	0	(5)
Sell	11,962	(122)	(5)
Buy	11,962	122	(0)
Total	¥ -	¥ 1,622	¥ 1,585

(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

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

### Bonds –related transactions

(Millions of yen)			
As of Mar. 31, 2007	Notional amount	Fair value	Unrealized gain (loss)
Bond futures	¥ 500	¥ 0	¥ 0
Sell	500	0	0
Buy	-	-	-
Total	¥ -	¥ 0	¥ 0

Note: Not applicable at March 31, 2006.



## 19. 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, 2007	¥ 25,890	¥ 183,508	14.1%
Year ended March 31, 2006	¥ 24,770	¥ 171,918	14.4%

## 20. Related Party Transactions

### 1. For the fiscal year ended March. 31,2007

#### (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	¥(8,314) Million	Loan	¥25,242 Million
Director	Tsuguo Nagao	-	-	The Bank's corporate auditor Nishi-nippon Railroad Co.,Ltd.'s President and Representative Director	-	-	Loan Debt guarantees	¥592 Million ¥52 Million	Loan Acceptances and guarantees	¥8,724 Million ¥399 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. 31,2006

#### (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.

## 21. Changes in Presentation

The appendix forms of "Banking Law Enforcement Regulations" (Ministry of Finance Ordinance No.10, 1982) was revised by the "Cabinet Office Ordinance to Amend Part of Detailed Enforcement Regulations on Mutual Loan Business Law and Banking Law" (Cabinet Office Ordinance No.60, April 28, 2006), in effect for the fiscal years beginning on or after April 1, 2006. In accordance with the revision, commencing with this fiscal year, presentation of financial statements has been changed as follows:

### 1. Consolidated balance sheet

- (1) The net losses (gains) from hedging instruments formerly included in "Other assets" ("Other liabilities") are presented as "Net deferred hedge losses (gains)" included in "Valuation and translation adjustments," net of applicable taxes.
- (2) "Minority interests" formerly listed after Liabilities is included in Net assets.
- (3) Former "Premises and Equipment" is classified into "Tangible fixed assets," "Intangible fixed assets" and "Other assets."
- (4) Software formerly included in "Other assets" is included in "Intangible fixed assets."
- (5) Former "Excess of net assets acquired over cost" is presented as "Negative goodwill" in Liabilities.

### 2. Consolidated statement of income

Former "Gains on dispositions of premises and equipment" and "Losses on dispositions of premises and equipment" are presented as "Gains on dispositions of fixed assets" and "Losses on dispositions of fixed assets," respectively, with the changes in presentation of the balance sheet discussed above.

### 3. Consolidated statement of cash flows

- (1) Former "Depreciation of excess of net assets acquired over cost" is presented as "Amortization of negative goodwill"
- (2) In accordance with the change in presentation of "Premises and Equipment" in the consolidated balance sheet, "Depreciation of premises and equipment" is presented as "Depreciation of fixed assets." "Net losses from disposition of premises and equipment" is also renamed as "Net losses from disposition of fixed assets." In addition, "Payments for purchases of premises and equipment" is classified into "Payments for purchases of tangible fixed assets" and "Payments for purchases of intangible fixed assets," and "Proceeds from sale of premises and equipment" is classified into "Proceeds from sale of tangible fixed assets" and "Proceeds from sale of intangible fixed assets."

## 22. Subsequent events

1. On April 2, 2007, the Bank and the Kumamoto Family Bank, Ltd. jointly established a holding company, Fukuoka Financial Group, Inc., through a joint share transfer. Consequently, the Bank became a wholly-owned subsidiary of Fukuoka Financial Group, Inc. due to change in the principal stockholder.

### (1) Purpose of Business Combination

The Bank and the Kumamoto Family Bank together aim toward realization of a financial group that exceed expectations of all stakeholders by enhancing customer services through expansion of the operational network and contributing to the regional community through financing and banking services as well as enhancing the employee satisfaction and achieving sustainable growth of corporate value of the both banks.

In addition, for realization of quick growth of the two banks, the banks will provide further extensive financial and banking services in further expanded areas through more efficient utilization of business resources and more effective enhancement of the brand value of the two banks.

### (2) Outline of Fukuoka Financial Group, Inc.

Corporate name: Fukuoka Financial Group, Inc.

Address: 13-1, Tenjin 2-chome, Chuo-ku, Fukuoka, Japan

Representative: Masaki Tani

Chairman of the Board of Directors and President

Capital: 100 billion yen

Business: Management of banks and companies that can be considered subsidiaries under the Banking Law, as well as related services

### (3) Change in Principal Stockholder

#### a) Name of principal stockholder

Fukuoka Financial Group, Inc.

#### b) Share transfer ratios and calculation method

- For each share of Common Stock of the Bank, one share of Common Stock of Fukuoka Financial Group, Inc.
- For each share of Common Stock of the Kumamoto Family Bank, 0.217 share of Common Stock of Fukuoka Financial Group, Inc.
- For each share of the First Series of First Class Preferred Stock of the Kumamoto Family Bank, one share of First Class Preferred Stock of Fukuoka Financial Group, Inc.
- For each share of the First Series of Second Class Preferred Stock of the Kumamoto Family Bank, one share of Second Class Preferred Stock of Fukuoka Financial Group, Inc.

In relation to calculation of the share transfer ratios, the Bank and the Kumamoto Family Bank both designated as a financial advisor, Mizuho Securities Co., Ltd., which then performed analyses of the share transfer ratios using the

market price method, the DCF method, and the net assets market value method.

In addition, for verifying the calculated share transfer ratios, the Bank appointed KPMG FAS Co., Ltd., and the Kumamoto Family Bank appointed Deloitte Tohmatsu FAS Co., Ltd. respectively. Each bank has obtained a written opinion that the share transfer ratios are reasonably fair from the financial perspective.

c) Numbers of shares issued

Common Stock: 755,916,290 shares

First Class Preferred Stock: 18,742,000 shares

Second Class Preferred Stock: 40,000,000 shares

d) Number and proportion of voting rights owned by principal stockholder:

Before change: - (- %)

After change: 729,113 (100%)

e) Date of change

April 2, 2007

2. Upon the resolution at the meeting of the Bank's Board of Directors held on April 17, 2007, the Bank entered into a share-to-share exchange contract with Fukuoka Financial Group, Inc. to make the Bank a wholly-owned subsidiary of Fukuoka Financial Group, Inc. in accordance with the Corporation Law Article 767.

(1) Purpose of Share-to-share Exchange

Fukuoka Financial Group, Inc. was incorporated through the joint share transfer, effective on April 2, 2007, by the Bank and the Kumamoto Family Bank, Ltd. However, as the Second Series of Unsecured Subordinated Convertible Bonds issued by the Bank are not to be succeeded by Fukuoka Financial Group, Inc., the share-to-share exchange will be carried out for the purpose of exchanging all common stock of the Bank provided upon conversion of the Convertible Bonds by the expiry of the conversion request period for common stock of Fukuoka Financial Group, Inc., thereby making the Bank a wholly-owned subsidiary of Fukuoka Financial Group, Inc.

(2) Share Exchange Ratio

For each share of common stock of the Bank, one share of common stock of Fukuoka Financial Group, Inc. is scheduled to be allocated and delivered.

Common stock of the Bank held by Fukuoka Financial Group, Inc. will not be subject to the above allocation and delivery.

(3) Basis for Calculation of the Share Exchange Ratio

The share exchange ratio was determined after obtaining a written opinion from KPMG FAS Co, Ltd. that the ratio is reasonable from the financial perspective. At the Bank's request, KPMG FAS Co., Ltd. estimated the equity value of both the Bank and Fukuoka Financial Group, Inc. using the

DCF method and the stock price multiple method under certain assumptions, opining about reasonableness of the share exchange ratio.

Based on the third party's opinion and the basis for the equity value estimation, the Bank determined the share exchange ratio, also by taking into consideration the extent of illiquidity of the Bank's stock and other conditions.

The share exchange ratio is the same ratio as the share transfer ratio between the common stock of the Bank and the common stock of Fukuoka Financial Group, Inc. at the time of the joint share transfer made by the Bank and the Kumamoto Family Bank, Ltd., effective April 2, 2007.

3. Fukuoka Financial Group Inc. and The Bank of Fukuoka, Ltd., and Kyushu Shinwa Holdings, Inc. and The Shinwa Bank, Ltd. decided, at their respective board meetings held on May 24, 2007, to sign the "Memorandum of Understanding in Management Support", undertaking management rehabilitation of and capital support to The Shinwa Bank through management integration under which The Shinwa Bank will become a wholly-owned subsidiary of Fukuoka Financial Group, subject to the approval of the shareholders and authorities concerned.

4. The following distribution of retained earnings of the Bank, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, was approved at a meeting of the Board of Directors held on May 14, 2007 and became effective June 25, 2007:

	(Millions of yen)
Cash dividends (¥4.5 per share)	¥3,205

## 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, 2006 and 2007, and the related consolidated statements of income, changes in net assets, 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, 2006 and 2007, 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, 2007 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 22. 1 to the consolidated financial statements, on April 2, 2007, the Bank and the Kumamoto Family Bank, Ltd. jointly established a holding company, Fukuoka Financial Group, Inc., through a joint share transfer.

As described in Note 22. 2 to the consolidated financial statements, upon the resolution at the meeting of the Bank's Board of Directors held on April 17, 2007, the Bank entered into a share-to-share exchange contract with Fukuoka Financial Group, Inc. to make the Bank a wholly-owned subsidiary of Fukuoka Financial Group, Inc. in accordance with the Corporation Law Article 767.

*Ernst & Young ShinNihon*

June 26, 2007

## NON-CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2007 and 2006 The Bank of Fukuoka, Ltd.

	2007	2006	2007
	(Millions of yen)	(Millions of yen)	(Millions of U.S. dollars ) (Note 2)
<b>Assets</b>			
Cash and due from banks .....	¥ 190,879	¥ 341,887	\$ 1,616
Call loans .....	72,400	95,272	613
Monetary receivables bought .....	100,620	71,284	852
Trading assets .....	7,900	6,016	66
Securities (Notes 3 and 7) .....	2,044,291	1,909,061	17,317
Loans and bills discounted (Note 4) .....	5,380,802	5,114,967	45,580
Foreign exchange assets (Note 4) .....	2,758	3,853	23
Other assets (Notes 6 and 7) .....	53,374	51,391	452
Premises and equipment .....	-	129,995	-
Tangible fixed assets (Note 5) .....	128,979	-	1,092
Intangible fixed assets .....	7,947	-	67
Deferred tax assets (Note 17) .....	3,653	1,820	30
Customers' liabilities for acceptances and guarantees (Note 13) .....	57,498	61,727	487
Reserve for possible loan losses .....	(67,105)	(75,313)	(568)
Total assets .....	¥ 7,984,001	¥ 7,711,965	\$ 67,632
<b>Liabilities and stockholders' equity</b>			
<b>/ Liabilities and net assets</b>			
<b>Liabilities</b>			
Deposits (Notes 7 and 8) .....	¥ 6,932,412	¥ 6,709,960	\$ 58,724
Call money .....	12,157	7,174	102
Payables under securities lending transactions (Note 7) .....	120,309	147,270	1,019
Bills sold (Note 7) .....	-	194,600	-
Trading liabilities .....	3,832	2,430	32
Borrowed money (Note 9) .....	184,049	45,422	1,559
Foreign exchange liabilities .....	284	231	2
Bonds payable (Note 10) .....	111,074	20,000	940
Bonds with stock subscription rights (Note 10) .....	5,047	24,165	42
Other liabilities (Note 11) .....	75,663	65,634	640
Reserve for employee retirement benefits (Note 12) .....	1,141	-	9
Deferred tax liabilities on land revaluation (Note 5) .....	33,282	34,560	281
Acceptances and guarantees (Note 13) .....	57,498	61,727	487
Total liabilities .....	¥ 7,536,752	¥ 7,313,177	\$ 63,843
<b>Stockholders' equity</b>			
Common stock .....	-	¥ 70,310	-
Capital surplus .....	-	48,515	-
Legal reserve (Note 14) .....	-	46,520	-
Voluntary reserve .....	-	117,399	-
Retained earnings .....	-	34,614	-
Land revaluation account .....	-	48,850	-
Unrealized gains on securities .....	-	43,071	-
Treasury stock .....	-	(10,494)	-
Total stockholders' equity .....	-	398,787	-
Total liabilities and stockholders' equity .....	-	¥ 7,711,965	-
<b>Net assets</b>			
Common stock .....	¥ 79,890	¥ -	\$ 676
Capital surplus .....	58,058	-	491
Retained earnings .....	227,265	-	1,925
Treasury stock .....	(10,752)	-	(91)
Total stockholders' equity .....	354,463	-	3,002
Net unrealized gains on other securities .....	45,908	-	388
Net deferred hedge losses .....	(77)	-	(0)
Land revaluation account .....	46,955	-	397
Total valuation and translation adjustments .....	92,785	-	785
Total net assets .....	447,249	-	3,788
Total liabilities and net assets .....	¥ 7,984,001	¥ -	\$ 67,632

See accompanying notes to non-consolidated financial statements.

## NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2007 and 2006 The Bank of Fukuoka, Ltd.

	2007	2006	2007
	(Millions of yen)	(Millions of yen)	(Millions of U.S. dollars) (Note 2)
<b>Income</b>			
Income from funds under management: .....			
Interest on loans and bills discounted .....	¥ 97,860	¥ 91,764	\$ 828
Interest and dividends on securities .....	35,318	33,391	299
Interest on call loans .....	501	194	4
Interest on bills bought .....	0	0	0
Interest on due from banks .....	154	47	1
Interest on interest rate swap .....	563	347	4
Interest on others .....	940	746	7
Trust fees .....	2	2	0
Fees and commissions .....	34,067	32,125	288
Trading income .....	2,448	1,488	20
Other operating income (Note 15) .....	2,305	2,575	19
Other income (Note 15) .....	3,667	6,168	31
Total income .....	<b>177,829</b>	168,853	<b>1,506</b>
<b>Expenses</b>			
Cost of fund-raising: .....			
Interest on deposits .....	8,023	3,131	67
Interest on call money .....	526	374	4
Interest on payables under securities lending transactions .....	5,565	4,948	47
Interest on bills sold .....	1	4	0
Interest on borrowed money .....	2,059	1,098	17
Interest on bonds payable .....	1,055	104	8
Interest on bonds with stock subscription rights .....	128	358	1
Interest on interest rate swap .....	12,743	12,598	107
Interest on others .....	15	17	0
Fees and commissions .....	12,612	10,627	106
Other operating expenses (Note 16) .....	1,199	1,076	10
General and administrative expenses .....	71,655	71,984	606
Other expenses (Note 16) .....	7,391	12,584	62
Total expenses .....	<b>122,980</b>	118,910	<b>1,041</b>
<b>Income before income taxes</b> .....	<b>54,849</b>	49,943	<b>464</b>
Provision for income taxes (Note 17): .....			
Current .....	22,962	9,446	194
Deferred .....	(1,098)	10,278	(9)
<b>Net income</b> (Note 18) .....	<b>32,984</b>	30,218	<b>279</b>
<b>Retained earnings at the beginning of year</b> .....	-	3,488	-
<b>Retained earnings added through merger</b> .....	-	301	-
<b>Transfer from land revaluation account</b> .....	-	2,819	-
<b>Interim dividends</b> .....	-	2,213	-
<b>Retained earnings at the end of year</b> .....	¥ -	¥ 34,614	\$ -

See accompanying notes to non-consolidated financial statements.

## NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

(Millions of yen)				
Stockholders' equity				
	Common Stock	Capital Surplus		
		Capital reserve	Other Capital surplus	Total Capital surplus
<b>Balance as of March 31, 2005</b>	¥ 58,753	¥ 37,007	¥ 1	¥ 37,008
Changes during the period:				
Exercise of stock subscription rights	11,557	11,506		11,506
Cash dividends				
Bonuses to directors and corporate auditors				
Reversal of reserve for accelerated depreciation				
Transfer to voluntary reserve				
Net income				
Acquisition of treasury stock				
Disposition of treasury stock			0	0
Transfer from land revaluation account				
Merger of a subsidiary				
Net change in items other than stockholders' equity				
Total changes during the period	11,557	11,506	0	11,507
<b>Balance as of March 31, 2006</b>	¥ 70,310	¥ 48,513	¥ 1	¥ 48,515

(Millions of yen)							
Stockholders' equity							
	Retained earnings				Treasury stock	Total Stockholders' equity	
	Appropriated reserve	Other retained earnings					Total Retained earnings
		Land revaluation account	Voluntary reserve	Retained earnings brought forward			
<b>Balance as of March 31, 2005</b>	¥ 46,520	¥ 718	¥ 90,720	¥ 32,344	¥ 170,303	¥ (339)	¥ 265,726
Changes during the period:							
Exercise of stock subscription rights							23,063
Cash dividends				(5,068)	(5,068)		(5,068)
Bonuses to directors and corporate auditors				(40)	(40)		(40)
Reversal of reserve for accelerated depreciation		(39)		39			-
Transfer to voluntary reserve			26,000	(26,000)			-
Net income				30,218	30,218		30,218
Acquisition of treasury stock						(10,158)	(10,158)
Disposition of treasury stock						3	4
Transfer from land revaluation account				2,819	2,819		2,819
Merger of a subsidiary				301	301		301
Net change in items other than stockholders' equity							
Total changes during the period		(39)	26,000	2,269	28,230	(10,155)	41,139
<b>Balance as of March 31, 2006</b>	¥ 46,520	¥ 679	¥ 116,720	¥ 34,614	¥ 198,533	¥ (10,494)	¥ 306,865

(Millions of yen)					
	Valuation and translation adjustments				Total Net assets
	Net unrealized gains on other securities	Net deferred hedge losses	Land revaluation account	Total valuation and translation adjustments	
<b>Balance as of March 31, 2005</b>	¥ 48,351	¥ -	¥ 52,374	¥ 100,726	¥ 366,452
Changes during the period:					
Exercise of stock subscription rights					23,063
Cash dividends					(5,068)
Bonuses to directors and corporate auditors					(40)
Reversal of reserve for accelerated depreciation					
Transfer to voluntary reserve					
Net income					30,218
Acquisition of treasury stock					(10,158)
Disposition of treasury stock					4
Transfer from land revaluation account					2,819
Merger of a subsidiary					301
Net change in items other than stockholders' equity	(5,280)		(3,523)	(8,804)	(8,804)
Total changes during the period	(5,280)	-	(3,523)	(8,804)	32,335
<b>Balance as of March 31, 2006</b>	¥ 43,071	¥ -	¥ 48,850	¥ 91,921	¥ 398,787



(Millions of yen)				
Stockholders' equity				
	Common Stock	Capital Surplus		
		Capital reserve	Other Capital surplus	Total Capital surplus
<b>Balance as of March 31, 2006</b>	¥ 70,310	¥ 48,513	¥ 1	¥ 48,515
Changes during the period:				
Exercise of stock subscription rights	9,580	9,537		9,537
Cash dividends (Note)				
Cash dividends				
Bonuses to directors and corporate auditors (Note)				
Reversal of reserve for accelerated depreciation (Note)				
Transfer to voluntary reserve (Note)				
Net income				
Acquisition of treasury stock				
Disposition of treasury stock			5	5
Transfer from land revaluation account				
Net change in items other than stockholders' equity				
Total changes during the period	9,580	9,537	5	9,543
<b>Balance as of March 31, 2007</b>	¥ 79,890	¥ 58,051	¥ 7	¥ 58,058

(Millions of yen)							
Stockholders' equity							
	Retained earnings				Treasury stock	Total Stockholders' equity	
	Appropriated reserve	Other retained earnings					Total Retained earnings
		Land revaluation account	Voluntary reserve	Retained earnings brought forward			
<b>Balance as of March 31, 2006</b>	¥ 46,520	¥ 679	¥116,720	¥ 34,614	¥198,533	¥(10,494)	¥306,865
Changes during the period:							
Exercise of stock subscription rights							19,117
Cash dividends (Note)				(3,015)	(3,015)		(3,015)
Cash dividends				(3,072)	(3,072)		(3,072)
Bonuses to directors and corporate auditors (Note)				(60)	(60)		(60)
Reversal of reserve for accelerated depreciation (Note)		(76)		76	-		-
Transfer to voluntary reserve (Note)			27,500	(27,500)	-		-
Net income				32,984	32,984		32,984
Acquisition of treasury stock						(270)	(270)
Disposition of treasury stock						12	17
Transfer from land revaluation account				1,895	1,895		1,895
Net change in items other than stockholders' equity							
Total changes during the period		(76)	27,500	1,308	28,732	(257)	47,597
<b>Balance as of March 31, 2007</b>	¥ 46,520	¥ 602	¥144,220	¥ 35,922	¥227,265	¥(10,752)	¥354,463

	(Millions of yen)				Total Net assets
	Valuation and translation adjustments				
	Net unrealized gains on other securities	Net deferred hedge losses	Land revaluation account	Total valuation and translation adjustments	
<b>Balance as of March 31, 2006</b>	¥ 43,071	¥ -	¥ 48,850	¥ 91,921	¥ 398,787
Changes during the period:					
Exercise of stock subscription rights					19,117
Cash dividends (Note)					(3,015)
Cash dividends					(3,072)
Bonuses to directors and corporate auditors (Note)					(60)
Reversal of reserve for accelerated depreciation (Note)					-
Transfer to voluntary reserve (Note)					-
Net income					32,984
Acquisition of treasury stock					(270)
Disposition of treasury stock					17
Transfer from land revaluation account					1,895
Net change in items other than stockholders' equity	2,836	(77)	(1,895)	863	863
Total changes during the period	2,836	(77)	(1,895)	863	48,461
<b>Balance as of March 31, 2007</b>	¥ 45,908	¥ (77)	¥ 46,955	¥ 92,785	¥ 447,249

(Note) Appropriation of retained earnings was approved at the ordinary general meeting of stockholders in June 2006.

(Millions of U.S. dollars )(Note 2)

	Stockholders' equity			
	Common Stock	Capital Surplus		
		Capital reserve	Other Capital surplus	Total Capital surplus
<b>Balance as of March 31, 2006</b>	\$ 595	\$ 410	\$ 0	\$ 410
Changes during the period:				
Exercise of stock subscription rights	81	80		80
Cash dividends (Note)				
Cash dividends				
Bonuses to directors and corporate auditors (Note)				
Reversal of reserve for accelerated depreciation (Note)				
Transfer to voluntary reserve (Note)				
Net income				
Acquisition of treasury stock				
Disposition of treasury stock			0	0
Transfer from land revaluation account				
Net change in items other than stockholders' equity				
Total changes during the period	81	80	0	80
<b>Balance as of March 31, 2007</b>	\$ 676	\$ 491	\$ 0	\$ 491

(Millions of U.S. dollars )(Note 2)

	Stockholders' equity						
	Appropriated reserve	Retained earnings			Total Retained earnings	Treasury stock	Total Stockholders' equity
		Land revaluation account	Voluntary reserve	Retained earnings brought forward			
<b>Balance as of March 31, 2006</b>	\$ 394	\$ 5	\$ 988	\$ 293	\$ 1,681	\$ (88)	\$ 2,599
Changes during the period:							
Exercise of stock subscription rights							161
Cash dividends (Note)				(25)	(25)		(25)
Cash dividends				(26)	(26)		(26)
Bonuses to directors and corporate auditors (Note)				(0)	(0)		(0)
Reversal of reserve for accelerated depreciation (Note)		(0)		0	-		-
Transfer to voluntary reserve (Note)			232	(232)	-		-
Net income				279	279		279
Acquisition of treasury stock						(2)	(2)
Disposition of treasury stock						0	0
Transfer from land revaluation account				16	16		16
Net change in items other than stockholders' equity							16
Total changes during the period		(0)	232	11	243	(2)	403
<b>Balance as of March 31, 2007</b>	\$ 394	\$ 5	\$ 1,221	\$ 304	\$ 1,925	\$ (91)	\$ 3,002

(Millions of yen)					
	Valuation and translation adjustments				Total Net assets
	Net unrealized gains on other securities	Net deferred hedge losses	Land revaluation account	Total valuation and translation adjustments	
<b>Balance as of March 31, 2006</b>	\$ 364	\$ -	\$ 413	\$ 778	\$ 3,378
Changes during the period:					
Exercise of stock subscription rights					161
Cash dividends (Note)					(25)
Cash dividends					(26)
Bonuses to directors and corporate auditors (Note)					(0)
Reversal of reserve for accelerated depreciation (Note)					-
Transfer to voluntary reserve (Note)					-
Net income					279
Acquisition of treasury stock					(2)
Disposition of treasury stock					0
Transfer from land revaluation account					16
Net change in items other than stockholders' equity	24	(0)	(16)	7	7
Total changes during the period	24	(0)	(16)	7	410
<b>Balance as of March 31, 2007</b>	\$ 388	\$ (0)	\$ 397	\$ 785	\$ 3,788

(Note) Appropriation of retained earnings was approved at the ordinary general meeting of stockholders in June 2006.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2007 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 ¥118.05 = U.S.\$1, the approximate rate of exchange on March 31, 2007, 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, 2007 and 2006 were as follows:

	(Millions of yen)	
	2007	2006
National government bonds	¥ 645,257	¥ 617,805
Local government bonds	73,560	69,633
Corporate bonds	559,508	537,626
Equity securities	187,278	145,649
Other securities	578,687	538,346
Total	¥ 2,044,291	¥ 1,909,061

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, 2007 and 2006 consisted of the following:

	(Millions of yen)	
	2007	2006
Bills discounted	¥ 82,595	¥ 68,731
Loans on bills	431,000	432,413
Loans on deeds	4,099,727	3,923,656
Overdrafts	767,479	690,165
Total	¥ 5,380,802	¥ 5,114,967

Loans and bills discounted at March 31, 2007 and 2006 included the following loans:

	(Millions of yen)	
	2007	2006
Loans to borrowers in bankruptcy	¥ 9,411	¥ 8,773
Delinquent loans	70,122	79,059
Loans past due for three months or more	745	379
Restructured loans	51,017	59,128
Total	¥ 131,295	¥ 147,341

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 ¥82,925 million and ¥69,737 million at March 31, 2007 and 2006, respectively.

The unused line-of-credit balance relating to overdrafts and loan agreements at March 31, 2007 and 2006 amounted to ¥2,114,669 million and ¥1,938,415 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 ¥1,980,705 million at March 31, 2007.

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

**5. Tangible Fixed Assets**

Tangible fixed assets at March 31, 2007 consisted of the following:

	(Millions of yen)	
	2007	
Land	¥ 100,701	
Buildings	68,084	
Other	17,120	
Total	185,905	
Accumulated depreciation	(56,926)	
Net book value	¥ 128,979	

Land used for the Bank's business activities was revalued on the basis prescribed by the Law Concerning Land Revaluation (Proclamation No.34 dated March 31, 1998). As for the revaluation difference, the income tax account corresponding to the revaluation difference amount is included in liabilities as "Deferred tax liabilities on land revaluation account", and the revaluation difference, net of this deferred tax liability, is included in net assets as "Land revaluation account."

Date of revaluation: March 31, 1998

Revaluation method as stated in Article 3-3 of the Law Concerning Land Revaluation:

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No. 119 dated March 31, 1998), after making reasonable adjustments.

Difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the Law was ¥38,842 million.

Accumulated depreciation for tangible fixed assets amounted to ¥56,926 million.

The accelerated depreciation entry for tangible fixed assets amounted to ¥7,563 million.

(The accelerated depreciation in FY 2006 was nil.)

## 6. Other Assets

Other assets at March 31, 2007 and 2006 consisted of the followings:

	(Millions of yen)	
	2007	2006
Accrued income	¥ 15,651	¥ 14,116
Variation margin	46	13
Prepaid expenses	41	55
Financial derivatives	6,741	5,940
Other	30,893	31,266
Total	¥ 53,374	¥ 51,391

## 7. Pledged Assets

Assets pledged as collateral at March 31, 2007 and 2006 consisted of the follows:

	(Millions of yen)	
	2007	2006
Assets pledged as collateral		
Securities	¥ 653,858	¥ 649,603
Liabilities corresponding to assets pledged as collateral		
Deposits	¥ 26,949	¥ 38,719
Payables securities lending transactions	120,309	147,270
Bills sold	94,000	194,600

In addition, securities totaling ¥261,725 million and ¥254,834 million were pledged as collateral for settlement of exchange and other or as variation margin at March 31, 2007 and 2006, respectively.

Other assets included ¥14 million of deposits for clearing house at March 31, 2007.

None of the assets pledged as collateral was collateral pledged in connection with borrowings by subsidiaries or affiliates.

Other assets included deposit of ¥1,835 million at March 31, 2007.

## 8. Deposits

A breakdown of deposits at March 31, 2007 and 2006 was as follows:

	(Millions of yen)	
	2007	2006
Current deposits	¥ 346,227	¥ 309,346
Ordinary deposits	3,695,039	3,483,202
Deposits at notice	21,724	19,321
Time deposits	2,379,577	2,381,965
Negotiable certificates of deposit	153,687	147,979
Other deposits	336,156	368,144
Total	¥ 6,932,412	¥ 6,709,960

## 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, 2007 and 2006 consisted of the followings:

	(Millions of yen)	
	2007	2006
Domestic exchange settlement account, credit	¥ 26	¥ 166
Corporation tax	18,667	9,206
Accrued expenses	9,353	7,072
Unearned income	3,045	3,768
Employees' deposits	2,060	2,285
Financial derivatives	23,097	19,163
Deferred hedge profits	-	135
Other	19,411	23,837
<b>Total</b>	<b>¥ 75,663</b>	<b>¥ 65,634</b>

### 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. 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.

### 15. Other Operating Income and Other Income

The components of other operating income for the years ended March 31, 2007 and 2006 was as follows:

	(Millions of yen)	
	2007	2006
Other operating income		
Gains on foreign exchange transactions	¥ 897	¥ 902
Gains on sales of bonds	567	949
Gains on financial derivatives	840	721
Other	0	1
<b>Total</b>	<b>¥ 2,305</b>	<b>¥ 2,575</b>

The components of other income for the years ended March 31, 2007 and 2006 were as follows:

	(Millions of yen)	
	2007	2006
Other income:		
Gains on sales of stocks and other securities	¥ 1,607	¥ 861
Gains on dispositions of premises and equipment	-	51
Gains on transition of employee retirement benefit plans	-	2,532
Others	2,059	2,723
<b>Total</b>	<b>¥ 3,667</b>	<b>¥ 6,168</b>

### 16. Other Operating Expenses and Other Expenses

The components of other operating expenses for the years ended March 31, 2007 and 2006 were as follows:

	(Millions of yen)	
	2007	2006
Other operating expenses:		
Losses on sales of bonds	¥ 809	¥ 935
Losses on redemption of bonds	-	46
Amortization of bond issue costs	305	93
Other	85	-
<b>Total</b>	<b>¥ 1,199</b>	<b>¥ 1,076</b>

The components of other expenses for the years ended March 31, 2007 and 2006 were as follows:

	(Millions of yen)	
	2007	2006
Other expenses:		
Transfer to reserve for possible loan losses	¥ 1,667	¥ 2,984
Losses on sales of stock and other securities	1	4
Losses on devaluation of stock and securities	486	92
Losses on sales of loans	453	467
Losses on sales and disposal of premises and equipment	-	1,029
Losses on disposal of fixed assets	439	-
Impairment losses	1,060	3,789
Retroactive payments for overtime premium and others	-	2,090
Transfer to the reserve for loss on interest repayments	1,141	-
Others	2,141	2,126
<b>Total</b>	<b>¥ 7,391</b>	<b>¥ 12,584</b>

## 17. Income Taxes

The significant components of the Bank's deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	(Millions of yen)	
	2007	2006
Deferred tax assets:		
Reserve for possible loan losses	¥ 26,857	¥ 27,407
Reserve for employee retirement benefits	8,294	9,165
Devaluation of securities	2,566	2,449
Depreciation expenses	1,642	1,665
Other	5,601	4,425
Subtotal	44,962	45,112
Valuation allowance	(4,860)	(4,762)
Total	40,101	40,350
Deferred tax liabilities:		
Unrealized gain on securities	(27,093)	(29,054)
Retirement benefit trust	(8,819)	(8,934)
Reserve for special depreciation	(533)	(533)
Other	(0)	(7)
Total	(36,447)	(38,529)
Net deferred tax assets	¥ 3,653	¥ 1,820

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

## 18. Net Income per Share

Net income per share for the years ended March 31, 2007 and 2006 was as follows:

	(Yen)	
	2007	2006
Net income:		
Basic	¥ 48.25	¥ 46.83
Diluted	45.71	41.92

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.

## 19. Accounting Standards for Presentation of Net assets in the Balance sheet

"Accounting Standards for Presentation of Net Assets in the Balance sheet" (Business Accounting standards No. 5, December 9, 2005) and "Guidance on Application of Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Guidance on Application of Business Accounting Standards No. 8, December 9, 2005) were adopted as the new accounting standards and guidance took effect for the fiscal year ended March 31, 2007.

The amount corresponding to former "Stockholders' equity" as of the end of this fiscal year was ¥447,327 million.

Net assets in the balance sheet at March 31, 2007 were presented in accordance with the revised Financial Statements Regulations and Banking Law Enforcement Regulations.

## 20. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2007 and 2006 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)	
	2007	2006
Equipment:		
Acquisition costs	¥ 11,905	¥ 11,785
Accumulated depreciation	7,303	6,161
Net book value	¥ 4,602	¥ 5,624

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥2,054 million and ¥2,651 million for the year ended March 31, 2007 and 2006, 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 ¥1,949 million and ¥128 million, respectively, for the year ended March 31, 2007, and ¥2,485 million and ¥170 million, respectively, for the year ended March 31, 2006.

Future minimum lease payments subsequent to March 31, 2007 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)
2008	¥ 1,567
2009 and thereafter	3,181
Total	¥ 4,749



## 21. Changes in Presentation

The appendix forms of “Banking Law Enforcement Regulations” (Ministry of Finance Ordinance No. 10, 1982) was revised by the “Cabinet Office Ordinance to Amend Part of Detailed Enforcement Regulations on Mutual Loan Business Law and Banking Law” (Cabinet Office Ordinance No. 60, April 28, 2006), in effect for the fiscal years beginning on or after April 1, 2006. In accordance with the revision, commencing with this fiscal year, presentation of financial statements has been changed as follows:

### 1. Balance sheet

- (1) Former “Stockholders’ equity” is presented as “Net Assets” and classified into “Stockholders’ equity, and “Valuation and translation adjustments.”
- (2) The net losses (gains) from hedging instruments formerly included in “Other assets” (“Other liabilities”) are presented as “Net deferred hedge losses (gains)” included in “Valuation and translation adjustments,” net of applicable taxes.
- (3) Former “Premises and Equipment” is classified into “Tangible fixed assets,” “Intangible fixed assets” and “Other assets.”
- (4) Software formerly included in “Other assets” is included in “Intangible fixed assets.”

### 2. Statement of Income

Former “Gains on dispositions of premises and equipment” and “Losses on dispositions of premises and equipment” are presented as “Gains on dispositions of fixed assets” and “Losses on dispositions of fixed assets,” respectively, with the changes in presentation of the balance sheet discussed above.

## 22. Subsequent Event

1. On April 2, 2007, the Bank and the Kumamoto Family Bank, Ltd. jointly established a holding company, Fukuoka Financial Group, Inc., through a joint share transfer. Consequently, the Bank became a wholly-owned subsidiary of Fukuoka Financial Group, Inc. due to change in the principal stockholder.

### (1) Purpose of Business Combination

The Bank and the Kumamoto Family Bank together aim toward realization of a financial group that exceed expectations of all stakeholders by enhancing customer services through expansion of the operational network and contributing to the regional community through financing and banking services as well as enhancing the employee satisfaction and achieving sustainable growth of corporate value of the both banks.

In addition, for realization of quick growth of the two banks, the banks will provide further extensive financial and banking services in further expanded areas through more efficient

utilization of business resources and more effective enhancement of the brand value of the two banks.

### (2) Outline of Fukuoka Financial Group, Inc.

Corporate name: Fukuoka Financial Group, Inc.

Address: 13-1, Tenjin 2-chome, Chuo-ku, Fukuoka, Japan

Representative: Masaki Tani

Chairman of the Board and President

Capital: 100 billion yen

Business: Management of banks and companies that can be considered subsidiaries under the Banking Law, as well as related services.

### (3) Change in Principal Stockholder

#### a) Name of principal stockholder

Fukuoka Financial Group, Inc.

#### b) Share transfer ratios and calculation method

- For each share of Common Stock of the Bank, one share of Common Stock of Fukuoka Financial Group, Inc.
- For each share of Common Stock of the Kumamoto Family Bank, 0.217 share of Common Stock of Fukuoka Financial Group, Inc.
- For each share of the First Series of First Class Preferred Stock of the Kumamoto Family Bank, one share of First Class Preferred Stock of Fukuoka Financial Group, Inc.
- For each share of the First Series of Second Class Preferred Stock of the Kumamoto Family Bank, one share of Second Class Preferred Stock of Fukuoka Financial Group, Inc.

In relation to calculation of the share transfer ratios, the Bank and the Kumamoto Family Bank both designated as a financial advisor Mizuho Securities Co., Ltd., which then performed analyses of the share transfer ratios using the market price method, the DCF method, and the net assets market value method.

In addition, for verifying the calculated share transfer ratios, the Bank appointed KPMG FAS Co., Ltd., and the Kumamoto Family Bank appointed Deloitte Tohmatsu FAS Co., Ltd. respectively. Each bank has obtained a written opinion that the share transfer ratios are reasonably fair from the financial perspective.

#### c) Numbers of shares issued

Common Stock:	726,224,635 shares
First Class Preferred Stock:	18,878,000 shares
Second Class Preferred Stock:	40,000,000 shares

#### d) Number and proportion of voting rights owned by principal stockholder:

Before change:	- (- %)
After change:	729,113 (100%)

e) Date of change  
April 2, 2007

2. Upon the resolution at the meeting of the Bank's Board of Directors held on April 17, 2007, the Bank entered into a share-to-share exchange contract with Fukuoka Financial Group, Inc. to make the Bank a wholly-owned subsidiary of Fukuoka Financial Group, Inc. in accordance with the Corporation Law Article 767.

(1) Purpose of Share-to-share Exchange

Fukuoka Financial Group, Inc. was incorporated through the joint share transfer, effective on April 2, 2007, by the Bank and the Kumamoto Family Bank, Ltd. However, as the Second Series of Unsecured Subordinated Convertible Bonds issued by the Bank are not to be succeeded by Fukuoka Financial Group, Inc., the share-to-share exchange will be carried out for the purpose of exchanging all common stock of the Bank provided upon conversion of the Convertible Bonds by the expiry of the conversion request period for common stock of Fukuoka Financial Group, Inc., thereby making the Bank a wholly-owned subsidiary of Fukuoka Financial Group, Inc.

(2) Share Exchange Ratio

For each share of common stock of the Bank, one share of common stock of Fukuoka Financial Group, Inc. is scheduled to be allocated and delivered.

Common stock of the Bank held by Fukuoka Financial Group, Inc. will not be subject to the above allocation and delivery.

(3) Basis for Calculation of the Share Exchange Ratio

The share exchange ratio was determined after obtaining a written opinion from KPMG FAS Co, Ltd. that the ratio is reasonable from the financial perspective. At the Bank's request, KPMG FAS Co., Ltd. estimated the equity value of both the Bank and Fukuoka Financial Group, Inc. using the DCF method and the stock price multiple method under certain assumptions, opining about reasonableness of the share exchange ratio.

Based on the third party's opinion and the basis for the equity value estimation, the Bank determined the share exchange ratio, also by taking into consideration the extent of illiquidity of the Bank's stock and other conditions.

The share exchange ratio is the same ratio as the share transfer ratio between the common stock of the Bank and the common stock of Fukuoka Financial Group, Inc. at the time of the joint share transfer made by the Bank and the Kumamoto Family Bank, Ltd., effective April 2, 2007.

3. Fukuoka Financial Group Inc. and The Bank of Fukuoka, Ltd., and Kyushu Shinwa Holdings, Inc. and The Shinwa Bank, Ltd. decided, at their respective board meetings held on May 24, 2007, to sign the "Memorandum of Understanding in Management Support", undertaking management rehabilitation of and capital support to The Shinwa Bank through management integration under which Shinwa Bank will become a wholly-owned subsidiary of Fukuoka Financial Group, subject to approval of the shareholders and authorities concerned.

4. The following distribution of retained earnings of the Bank, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, was approved at a meeting of the Board of Directors held on May 14, 2007 and became effective June 25, 2007:

	(Millions of yen)
Cash dividends (¥4.5 per share)	¥3,205

## 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, 2006 and 2007, and the related non-consolidated statements of income, and changes in net assets 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, 2006 and 2007, 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, 2007 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

As described in Note 22. 1 to the consolidated financial statements, on April 2, 2007, the Bank and the Kumamoto Family Bank, Ltd. jointly established a holding company, Fukuoka Financial Group, Inc., through a joint share transfer.

As described in Note 22. 2 to the consolidated financial statements, upon the resolution at the meeting of the Bank's Board of Directors held on April 17, 2007, the Bank entered into a share-to-share exchange contract with Fukuoka Financial Group, Inc. to make the Bank a wholly-owned subsidiary of Fukuoka Financial Group, Inc. in accordance with the Corporation Law Article 767.

*Ernst & Young ShinNihon*

June 26, 2007

THE BANK OF FUKUOKA, LTD.

<http://www.fukuokabank.co.jp>