

■ 2001 ■

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# FINANCIAL STATEMENTS

For the year ended March 31, 2001

**THE TOWA BANK, LTD.**

**TOWA**

## PROFILE

Towa Bank has contributed to the development of the regional economy through the provision of comprehensive finance services under the management principles of a “useful bank,” a “trusted bank” and a “developing bank,” as a community bank that has had a deep-rooted foothold in the region since its establishment in 1917. The Bank is a regional financial institution with a network of 94 branches spread throughout the Kanto district covering Gunma, Saitama and Tochigi prefectures. The Bank had a deposit balance of ¥1,646 billion (US\$13,285.7 million), including NCDs, and a loan balance of ¥1,220 billion (US\$9,851.9 million) on a consolidated basis.

In the economic and financial environment expected to show a major change in the 21<sup>st</sup> century, the Bank aims to establish sales bases stronger than before by further expanding its sales force and services, meeting customers’ needs and dealing with further improvement in earnings power and management structure.

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## FINANCIAL HIGHLIGHTS

The Towa Bank, Ltd. and Consolidated Subsidiaries

<i>Years ended March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	<b>2001</b>	2000	<b>2001</b>
<b>For the year:</b>			
Total income .....	<b>¥52,440</b>	¥64,419	<b>\$423,249</b>
Total expenses .....	<b>59,057</b>	62,558	<b>476,658</b>
Income (loss) before income taxes and minority interests .....	<b>(6,617)</b>	1,861	<b>(53,409)</b>
Net income (loss).....	<b>(7,864)</b>	1,571	<b>(63,473)</b>
<b>Per share of common stock</b> (in yen and U.S. dollars):			
Net income (loss).....	<b>¥(41.07)</b>	¥ 9.58	<b>\$(0.33)</b>
Shareholders’ equity.....	<b>313.40</b>	401.97	<b>2.52</b>
<b>At year-end:</b>			
Deposits .....	<b>¥1,646,103</b>	¥1,603,189	<b>\$13,285,740</b>
Loans and bills discounted .....	<b>1,220,656</b>	1,172,590	<b>9,851,951</b>
Securities.....	<b>358,081</b>	443,127	<b>2,890,087</b>
Total assets .....	<b>1,784,910</b>	1,752,484	<b>14,406,059</b>
Shareholders’ equity.....	<b>60,011</b>	76,972	<b>484,354</b>
<b>Cash flows:</b>			
Net cash provided by (used in) operating activities .....	<b>¥(32,711)</b>	¥ 87,675	<b>\$(264,013)</b>
Net cash provided by (used in) investing activities.....	<b>64,727</b>	(82,565)	<b>522,414</b>
Net cash provided by (used in) financing activities .....	<b>(967)</b>	21,623	<b>(7,811)</b>
Cash and cash equivalent at end of year .....	<b>81,169</b>	50,105	<b>655,122</b>

Notes: 1. Yen figures have been rounded omitting numbers below the million mark, in accordance with the Japanese Commercial Code and generally accepted accounting principles and practices in Japan.

2. The United States dollar amounts represent translations of Japanese yen, for convenience only, at the exchange rate of ¥123.90 to US\$1.00, the rate prevailing on March 31, 2001.



We thank you for your continued patronage of Towa Bank, and would like to report below the sales results of Towa Bank for Fiscal Year 2000 (from April 1, 2000 to March 31, 2001).

### Economic and Financial Environment

On the review of the Japanese economy for fiscal year 2000, the economy showed a mild recovery trend with improving corporate revenues and increasing capital investment supported by the favorable trend of IT-related investment and increased exports until the middle of the fiscal year.

However, the later half of the fiscal year saw a slowdown of the overseas economy, mainly in the United States, which led to a slowdown in exports and production and a decline in domestic share prices. All these quickly increased the anxiety about the future economy.

The Bank of Japan cut the prime interest rate and took financial quantitative relaxation measures to cope with the situation in order to avoid a major decline in the economy and reduce deflationary pressures, while the Japanese government implemented emergency economic measures.

On the other hand, in the district covered by the sales activities of Towa Bank, recovery was seen in personal consumption in the sales of domestic appliances and passenger cars, but corporate production, which had shown an improving trend, started to slow down in the middle of the fiscal year due to the declining situation in the overseas economy.

In addition, we entered into an age of severe competition and a struggle for existence because of rapid progress in major restructuring efforts among financial institutions, coupled with the progress of deregulation resulting in the participation in the banking business of other sectors.

### Measures Taken during the Fiscal Year

Under these circumstances, the Bank strengthened its sales force and earnings power by making its assets sound, strengthening risk management and making management thoroughly efficient in order to carry out a sufficient role as a regional financial institution by quickly coping with the changing financial environment. Furthermore, the Bank expanded customer services further by providing direct services for which the Internet and mobile phones are used and applied new information-society-based technologies such as TV banking in a positive manner.

The Bank has also made preparations for functional expansion in IT-related businesses and the promotion of efficient dealing with administrative work in the future by operating a self-managed comprehensive on-line system. In addition, the Bank expanded its investment trust business and solidified foreign-currency-denominated financial product lines by dealing positively with product liberalization.

### Future Topics

The financial industry has entered into a period of severe financial competition which we have never experienced before. In such an environment the Bank created and has been carrying out its "Fifth Long-term Management Plan," since April 2001, in order to become a bank of true efficiency and high revenue by implementing thorough management efficiency and expanding lending operations—the Bank's two major management targets in order to succeed in this age of great financial competition.

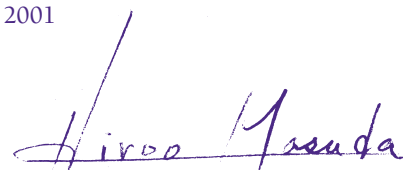
Being conscious of its public mission and social responsibility, the Bank will make every effort to carry out appropriate business operations by preparing a system to satisfy legal compliance and strengthening its self-checking system by carrying out the following six basic policies.

- (1) Towa Bank intends to reduce the number of employees to 1,600 by the end of March 2005 in order to raise personnel efficiency, aiming to become an efficient bank of high revenue.
- (2) The Bank will have core strategies that will strengthen sales power by reviewing its branch positioning to promote sales activities with further efficiency.
- (3) The Bank will secure customer trust as a community bank and will continue to strongly promote sales closely connected with the region as a regional financial institution in the future.
- (4) The Bank will deal with the expansion in fund revenues by improving the structure of fund raising and fund management and will put emphasis on rationalization of the management system.
- (5) The Bank will implement a drastic review of work duties in general and will improve the efficiency of work duties by thorough rationalization and mechanization of administrative work.
- (6) The Bank will secure management security by carrying out thorough control of various increasing risks and further expanding and putting emphasis on financial services.

Furthermore, the Bank would like to perform its mission as a regional financial institution by making efforts to improve customer services and strengthen its management structure even more.

We are very grateful for your continued support of Towa Bank.

July 2001



Hiroo Masuda  
President

### Deposits

The Bank has made efforts to accept stable deposits from individuals and corporations. Personal deposits and corporate deposits increased by ¥32.3 billion and ¥37.3 billion respectively from the end of the last term, and the year-end balance finished at ¥1,646.1 billion, an increase of ¥42.9 billion over the last term.

### Loans Outstanding

As a result of promotion of positive sales closely connected to the region in order to meet with demand for funding from individuals and small- and medium-sized enterprises, "housing loans" increased by ¥19.1 billion and general loans showed a favorable trend. The year-end balance rose by ¥48.0 billion to ¥1,220.6 billion over last year.

### Foreign Exchange Transaction

The amount of foreign exchange transactions increased by \$922 million to \$2,393 million due to an increase of \$490 million in trade exchange to \$1,143 million over last year and an increase of \$414 million in capital transactions, which was supported by an increase in foreign currency deposits and others.

### Earnings

On the profit front, the Bank has tried to strengthen its earnings power by making efforts to rationalize management by implementing expense reductions by means of restraining personnel expenses, non-personnel expenses, and so forth, as well as executing efficient fund management. As a result, total income declined by ¥11,089 million to ¥52,440 million, and loss before income taxes and minority interests came to ¥6,617 million. For the previous term, the Bank posted income before income taxes and minority interests in the amount of ¥1,861 million. Net loss for the term amounted to ¥7,864 million due to the lump-sum treatment of the shortfall of temporary-difference reserves amounting to ¥8,967 million in order not to carry forward the burden as a result of changes in the retirement and severance benefit accounting system.

### Business Segment

As regards the sector-wise business performance, the current income of banking, leasing and other businesses amounted to ¥2,588 million, ¥191 million and ¥248 million respectively.

### Cash Flows

The state of cash flow for the current fiscal consolidated accounting year is as follows: Cash flows from operating activities amounted to minus ¥32,711 million due to changes in loans, deposits, call loans, and so forth, and income arising from fund management, fund raising and others fell by ¥120,386 million compared to last year.

Cash flows from investing activities amounted to ¥64,727 million due to income arising from the sale and redemption of securities exceeding expenditures to acquire securities, etc. and increased by ¥147,292 million over last year.

Cash flows from financing activities amounted to minus ¥967 million due to dividend payments and others, and fell by ¥22,590 million compared to the last year's results.

### Material Facts

The Bank moved the Takasaki Branch and the Maebashi South Branch to new locations in August 2000 and February 2001 respectively. In March, the Tokyo Branch was also relocated. The previous Takasaki Branch has been changed to the Sayamachi Sub-branch of the Takasaki Branch.

The Bank executed a sales assignment agreement with Niigata Chuo Bank Co., Ltd. on December 22, 2000 in which part of the sales work of the Maebashi Branch and the Takasaki Branch of the same bank is to be assigned to Towa Bank.

Furthermore, the self-managed on-line system, which the Bank has been preparing for a long time, started operations on January 4, 2001.

# CONSOLIDATED BALANCE SHEETS

The Towa Bank, Ltd. and Consolidated Subsidiaries

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
<b>ASSETS</b>			
Cash and due from banks.....	¥ 83,641	¥ 52,823	\$ 675,070
Call loans and bills purchased.....	22,378	11,815	180,620
Commercial paper and other debt purchased.....	7,909	6,641	63,841
Trading account securities.....	77	85	622
Securities.....	358,081	443,127	2,890,087
Loans and bills discounted.....	1,220,656	1,172,590	9,851,951
Foreign exchange.....	1,748	725	14,115
Other assets.....	22,671	10,922	182,982
Premises and equipment.....	47,630	50,810	384,430
Deferred tax assets.....	23,430	18,461	189,108
Customers' liabilities for acceptances and guarantees.....	24,140	25,983	194,840
Reserve for possible loan losses.....	(27,454)	(41,452)	(221,586)
Reserve for possible losses on investment securities.....	(3)	(51)	(25)
Total assets.....	¥1,784,910	¥1,752,484	\$14,406,059
<b>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits.....	¥1,646,103	¥1,603,189	\$13,285,740
Call money and bills sold.....	991	849	8,000
Borrowed money.....	7,495	10,788	60,492
Foreign exchange.....	43	41	353
Other liabilities.....	25,644	24,050	206,974
Reserve for employees' retirement benefits.....	15,358	—	123,962
Reserve for retirement allowances.....	—	6,232	—
Reserve for possible losses on loans sold.....	1,365	710	11,019
Deferred tax liability for land revaluation.....	2,542	2,670	20,522
Acceptances and guarantees.....	24,140	25,983	194,840
Total liabilities.....	1,723,685	1,674,517	13,911,907
Minority interests.....	1,213	994	9,798
<b>Shareholders' equity:</b>			
Common stock, par value ¥50 per share:			
Authorized—260,000,000 shares			
Issued —192,005,650 shares in 2001 and 2000.....	25,647	25,647	207,001
Capital surplus.....	24,219	24,219	195,476
Land revaluation account.....	3,549	3,727	28,645
Retained earnings.....	15,010	23,656	121,152
Net unrealized gains (losses) on other securities, net of taxes.....	(8,137)	—	(65,676)
Treasury stock, at cost.....	(0)	(1)	(6)
Parent company stocks held by subsidiaries.....	(277)	(277)	(2,237)
Total shareholders' equity.....	60,011	76,972	484,354
Total liabilities, minority interests and shareholders' equity.....	¥1,784,910	¥1,752,484	\$14,406,059

Notes: 1. Yen figures have been rounded omitting numbers below the million mark, in accordance with the Japanese Commercial Code and generally accepted accounting principles and practices in Japan.

2. The United States dollar amounts represent translations of Japanese yen, for convenience only, at the exchange rate of ¥123.90 to US\$1.00, the rate prevailing on March 31, 2001.

# CONSOLIDATED STATEMENTS OF OPERATIONS

The Towa Bank, Ltd. and Consolidated Subsidiaries

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
<b>Income:</b>			
Interest on loans and discounts.....	¥31,948	¥32,563	\$257,859
Interest and dividends on securities.....	5,745	6,793	46,369
Other interest income.....	176	76	1,428
Fees and commissions.....	4,200	4,062	33,905
Other operating income.....	1,709	1,173	13,799
Other income.....	8,659	19,750	69,887
Total income.....	52,440	64,419	423,249
<b>Expenses:</b>			
Interest on deposits.....	3,871	4,670	31,249
Interest on borrowings and rediscounts.....	255	334	2,063
Other interest expenses.....	316	443	2,555
Fees and commissions.....	2,602	2,630	21,004
Other operating expenses.....	552	543	4,462
General and administrative expenses.....	29,944	31,379	241,684
Other expenses.....	21,513	22,556	173,639
Total expenses.....	59,057	62,558	476,658
Income (loss) before income taxes and minority interests.....	(6,617)	1,861	(53,409)
<b>Income taxes:</b>			
Current.....	325	7,065	2,628
Deferred.....	706	(6,140)	5,700
Minority interests.....	215	(634)	1,735
Net income (loss).....	¥(7,864)	¥ 1,571	\$(63,473)

Net income (loss) per share.....	Yen		U.S. dollars (Note 2)
	2001	2000	2001
	¥(41.07)	¥9.58	\$(0.33)

Notes: 1. Yen figures have been rounded omitting numbers below the million mark, in accordance with the Japanese Commercial Code and generally accepted accounting principles and practices in Japan.

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## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

The Towa Bank, Ltd. and Consolidated Subsidiaries

For the years ended March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
<b>Common stock:</b>			
Balance at beginning of year .....	¥ 25,647	¥ 14,391	\$ 207,001
Addition:			
New shares issued .....	—	11,256	—
Balance at end of year .....	¥ 25,647	¥ 25,647	\$ 207,001
Number of shares issued at end of year (thousands) .....	192,005	192,005	
<b>Capital surplus:</b>			
Balance at beginning of year .....	¥ 24,219	¥ 13,018	\$ 195,476
Addition:			
New shares issued .....	—	11,200	—
Balance at end of year .....	¥ 24,219	¥ 24,219	\$ 195,476
<b>Land revaluation account:</b>			
Balance at beginning of year .....	¥ 3,727	¥ 3,727	\$ 30,086
Balance at end of year .....	¥ 3,549	¥ 3,727	\$ 28,645
<b>Retained earnings:</b>			
Balance at beginning of year .....	¥ 23,656	¥ 22,935	\$ 190,933
Addition:			
Transfer from land revaluation account .....	178	—	1,441
Deduction:			
Cash dividends .....	960	821	7,748
Effect of the change in scope of consolidated subsidiaries and affiliates .....	—	28	—
Net income (loss) .....	(7,864)	1,571	(63,473)
Balance at end of year .....	¥ 15,010	¥ 23,656	\$ 121,152

Notes: 1. Yen figures have been rounded omitting numbers below the million mark, in accordance with the Japanese Commercial Code and generally accepted accounting principles and practices in Japan.

2. The United States dollar amounts represent translations of Japanese yen, for convenience only, at the exchange rate of ¥123.90 to US\$1.00, the rate prevailing on March 31, 2001.

### APPENDIX: BIS CAPITAL RATIO (DOMESTIC STANDARDS)

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
Tier I capital .....	¥ 57,187	¥ 73,752	\$ 461,564
Tier II capital:			
Land revaluation account, after 55% discount .....	2,741	2,879	22,125
General reserve for possible loan losses .....	4,257	5,557	34,362
Subordinary debt and other .....	—	—	—
Sub-total .....	6,998	8,437	56,487
Tier II capital included as qualifying capital .....	6,998	8,437	56,487
Less .....	101	—	816
Total qualifying capital .....	¥ 64,085	¥ 82,189	\$ 517,235
Risk-adjusted assets:			
On-balance sheet exposure .....	¥972,717	¥920,826	\$7,850,826
Off-balance sheet exposure .....	24,003	25,836	193,734
Total .....	¥996,721	¥946,662	\$8,044,560
Capital ratio .....	6.42%	8.68%	

## CONSOLIDATED STATEMENT OF CASH FLOWS

The Towa Bank, Ltd. and Consolidated Subsidiaries

For the years ended March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
<b>Cash flows from operating activities:</b>			
Income(loss) before income taxes and minority interests .....	¥ (6,617)	¥ 1,861	\$ (53,409)
Depreciation and amortization .....	6,023	5,532	48,615
Amortization of consolidation difference .....	(11)	(187)	(95)
Net (decrease) increase in reserve for possible loan losses .....	(13,997)	10,059	(112,976)
Net (decrease) increase in reserve for possible losses on investment securities .....	(48)	51	(390)
Net (decrease) increase in reserve for possible losses on loans sold .....	654	143	5,282
Increase in reserve for retirement allowances .....	(6,232)	163	(50,305)
Increase in reserve for employees' retirement benefits .....	15,358	—	123,962
Interest income .....	(37,870)	(39,433)	(305,657)
Interest expenses .....	4,444	5,447	35,868
Gain on securities – net .....	(15)	(10,705)	(122)
Gain on money trust investments – net .....	—	(56)	—
Foreign exchange (gain) loss – net .....	(6)	12	(51)
Loss on disposal of premises and equipment – net .....	234	102	1,890
Net (increase) decrease in loans .....	(48,066)	57,213	(387,943)
Net increase (decrease) in deposits .....	49,923	(6,880)	402,936
Net (decrease) increase in negotiable certificates of deposit .....	(7,010)	14,110	(56,577)
Net decrease in borrowings excluding subordinated debt .....	(3,293)	(2,469)	(26,580)
Net decrease in due from banks other than the Bank of Japan .....	246	947	1,992
Net (increase) decrease in call loans .....	(11,831)	15,250	(95,493)
Net increase (decrease) in call money .....	142	(476)	1,146
Net (increase) decrease in foreign exchange assets .....	(1,023)	277	(8,257)
Net increase in foreign exchange liabilities .....	2	8	18
Interest received .....	38,185	39,065	308,197
Interest paid .....	(5,695)	(6,616)	(45,967)
Other .....	329	4,430	2,657
Sub-total .....	(26,175)	87,848	(211,262)
Income taxes payable .....	(6,535)	(173)	(52,751)
Net cash provided by (used in) operating activities .....	(32,711)	87,675	(264,013)
<b>Cash flows from investing activities:</b>			
Purchases of stock and other securities .....	(168,089)	(286,233)	(1,356,652)
Proceeds from sales of stock and other securities .....	203,677	177,860	1,643,883
Proceeds from redemption of bonds .....	37,226	31,244	300,457
Net decrease in money trusts .....	—	1,486	—
Purchases of premises and equipment .....	(8,088)	(6,904)	(65,281)
Proceeds from sales of premises and equipment .....	1	0	8
Purchases of equity investments in subsidiaries .....	—	(20)	—
Net cash provided by (used in) investing activities .....	64,727	(82,565)	522,414
<b>Cash flows from financing activities:</b>			
Proceeds from stock issuance .....	—	22,457	—
Dividends paid .....	(960)	(821)	(7,748)
Dividends paid to minority interests .....	(8)	(12)	(69)
Purchases of treasury stock .....	(27)	(25)	(224)
Purchases from sales of treasury stock .....	28	25	230
Net cash provided by (used in) financing activities .....	(967)	21,623	(7,811)
Effect of exchange rate changes on cash and cash equivalents .....	16	(14)	133
Net increase in cash and cash equivalents .....	31,064	26,719	250,722
Cash and cash equivalents at beginning of year .....	50,105	23,385	404,399
Cash and cash equivalents increased due to expanded scope of consolidation .....	—	0	—
Cash and cash equivalents at end of year .....	¥ 81,169	¥ 50,105	\$ 655,122

Notes: 1. Yen figures have been rounded omitting numbers below the million mark, in accordance with the Japanese Commercial Code and generally accepted accounting principles and practices in Japan.

2. The United States dollar amounts represent translations of Japanese yen, for convenience only, at the exchange rate of ¥123.90 to US\$1.00, the rate prevailing on March 31, 2001.

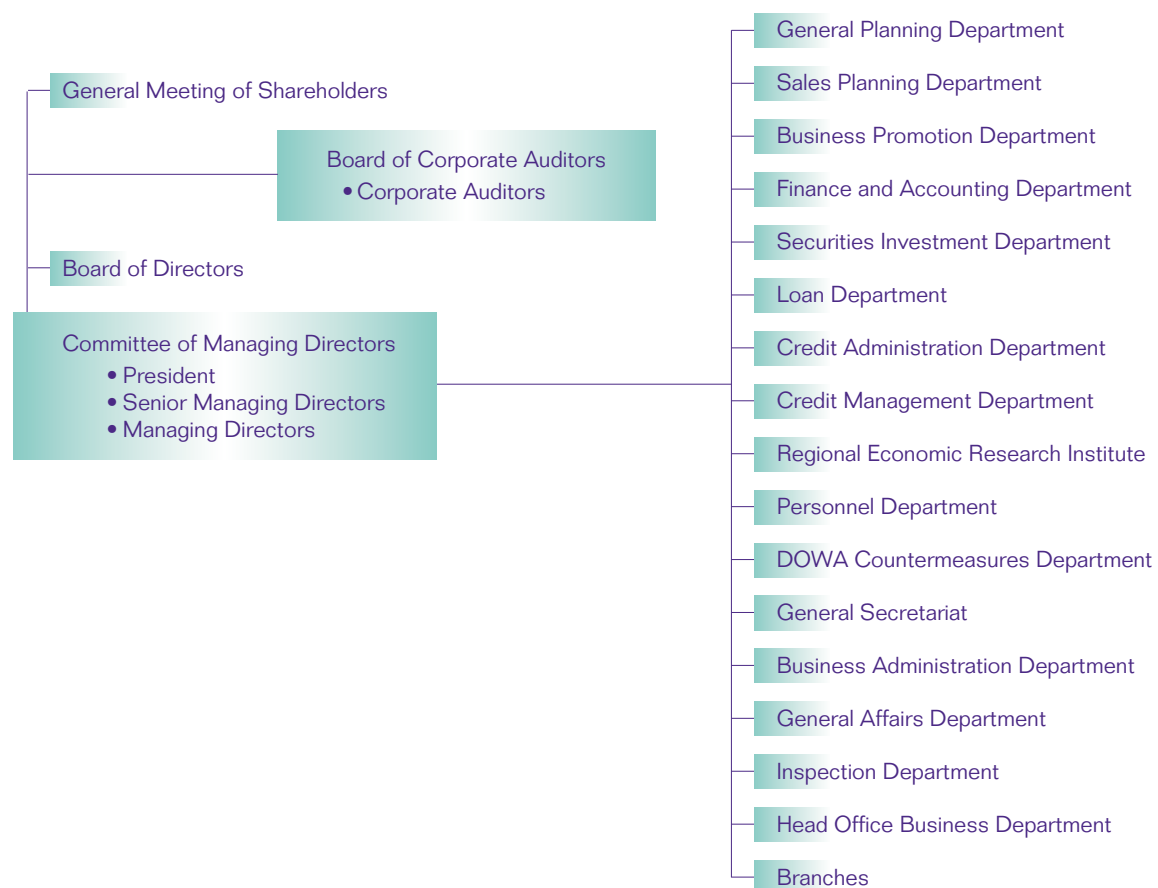
# BOARD OF DIRECTORS AND CORPORATE AUDITORS

(As of June 28, 2001)

President and Chief Executive Officer	Senior Managing Director	Managing Directors	Directors	Corporate Auditors
Hiroo Masuda	Junya Ohira	Yuji Yamaguchi Tatsuo Oshima Kiyoshi Takei Kaneyoshi Tashiro Takanori Narita Tadashi Yamada	Kinichi Goto Hiroya Yoshino Hitoshi Fukuda Katsuhiko Kawashima Shoji Kimoto	Akira Abe Yuji Endo Toru Ikehara

# ORGANIZATION

(As of June 28, 2001)

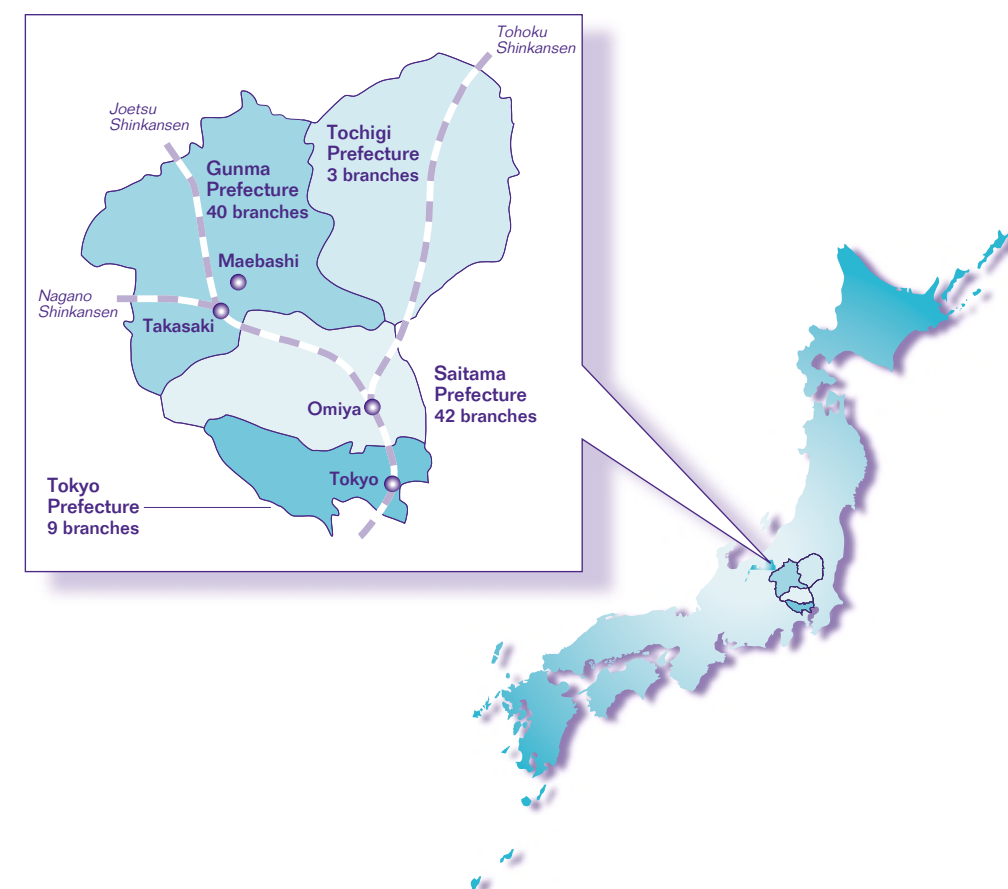


# THE TOWA BANK GROUP

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URL: <http://www.towabank.co.jp>

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Business Administration Department:**  
12-6, Honmachi 2-chome, Maebashi, Gunma 371-8560  
Phone: 027-234-1111  
Fax: 027-230-1735  
Telex: J33998 TWBKTK  
SWIFT: TOWA JPJT

## Service Network:



## Consolidated Subsidiaries (As of March 31, 2001)

	Established	Capital (¥ million)	De facto Ownership
The Towa Business Service Co., Ltd.	August 1976	¥20	100.0%
The Towa Office Service Co., Ltd.	March 1991	¥20	100.0
The Towa Million Card Co., Ltd.	August 1989	¥50	75.0
The Towa Uni Ven Co., Ltd.	May 1986	¥20	100.0
The Towa Credit Guarantee Co., Ltd.	August 1997	¥50	100.0
The Towagin Lease Co., Ltd.	March 1974	¥100	70.0
The Taiyo Building Service Co., Ltd.	September 1978	¥10	68.0
The Akagi International Country Club Co., Ltd.	June 1962	¥50	73.8

**THE TOWA BANK, LTD.**

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