

2002  
Financial Statements  
For the year ended March 31, 2002



TOWA BANK

## Profile

A financial institution with close ties to its community, the Towa Bank was established in 1917. Since then, we have continued to contribute as a community bank to regional economic development by offering comprehensive financial services to be a “useful bank,” a “trusted bank,” and a “developing bank” with the application of our business principles.

As of March 31, 2002, we had a network of 94 branches covering the Kanto area, with a particularly strong presence in Gunma and Saitama Prefectures. We are a regional financial institution with a deposit balance of ¥1,652 billion (US\$12,405 million) and a loan balance of ¥1,242 billion (US\$9,328 million).

Confronted by turmoil in the business and financial sectors, however, we will strive to reinforce our business base and improve the quality of our services to meet our customers’ diverse demands. At the same time, we will endeavor to increase profitability and streamline our bank’s business structure to create a stronger business foundation.

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# CONSOLIDATED FINANCIAL HIGHLIGHTS

The Towa Bank, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2002 and 2001

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
<i>For the years ended March 31,</i>	<b>2002</b>	<b>2001</b>	<b>2002</b>
Total income	¥ <b>48,623</b>	¥ 52,440	\$ <b>364,901</b>
Total expenses	<b>76,724</b>	59,057	<b>575,791</b>
Income (loss) before income taxes and minority interests	<b>(28,101)</b>	(6,617)	<b>(210,890)</b>
Net income (loss)	<b>(20,898)</b>	(7,864)	<b>(156,835)</b>

## Cash flows:

Net cash provided by (used in) operating activities	¥ <b>(43,620)</b>	¥ (32,711)	\$ <b>(327,357)</b>
Net cash provided by (used in) investing activities	<b>56,286</b>	64,727	<b>422,412</b>
Net cash provided by (used in) financing activities	<b>19,339</b>	(967)	<b>145,139</b>
Cash and cash equivalent at end of year	<b>113,181</b>	81,169	<b>849,392</b>

## March 31,

Deposits	¥ <b>1,652,960</b>	¥1,646,103	\$ <b>12,404,959</b>
Loans and bills discounted	<b>1,242,996</b>	1,220,656	<b>9,328,306</b>
Securities	<b>294,619</b>	358,081	<b>2,211,032</b>
Total assets	<b>1,784,930</b>	1,784,910	<b>13,395,350</b>
Shareholders' equity	<b>65,587</b>	60,011	<b>492,211</b>

## Per share of common stock (in yen and U.S. dollars):

Net income (loss)	¥ <b>(99.35)</b>	¥ (41.07)	\$ <b>(0.75)</b>
Shareholders' equity	<b>271.65</b>	313.40	<b>2.04</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 ¥133.25 to US\$1.00, the rate prevailing on March 31, 2002.

With deep thanks to our customers' support for Towa Bank, the following presents our financial results covering our business activities for Fiscal 2001, ended March 31, 2002.

### Business and Financial Climate

During Fiscal 2001, the Japanese economy slowed as exports and production decreased against a backdrop of the downturn in the U.S. economy, which was shackled by the sluggish performance of IT-related industries. In Japan, these difficulties constrained individual consumption and affected corporate employment. Moreover, the September 11th terrorist attacks in the U.S. clouded the prospects of the Japanese economy.

While harsh conditions still prevail for employment and personal income, signs of recovery have gradually been emerging in 2002. As the U.S. economy has regained strength, exports have hit bottom and inventories have been falling to set the stage for a rebound in production.

In our business area, tumbling corporate production in the mainstay electronic machinery and transport machinery industries resulted in growing apprehension over employment conditions and personal income. Since the beginning of this year, however, diminishing inventories started to stimulate the production activities of regional companies.

### Measures Taken during the Fiscal Year

Within this climate, we have made steady progress in improving the value of our assets, strengthening our risk management systems, enhancing the efficiency of our business management, and bolstering our business capabilities to boost profitability as a regional financial institution required to quickly respond to changes in the financial industry and to thoroughly fulfill its social mission.

Meanwhile, we have utilized the Internet and cellular phones to provide mobile banking services and enrich our financial services for our customers as our communities grow more information-intensive. Additionally, we have installed a "TowaCom Vision" plasma display in each branch for our customers to make their waiting time productive, as well as automated terminals to answer their inquiries about financial matters. These terminals are easy to operate, enabling our customers to use them with no difficulties.

Moreover, we have enhanced our business activities to respond to the deregulation of financial instruments and expanded the range of our investment trust business and foreign-currency denominated financial products. We also have launched "Katakuri-no-Hana," a new general cash account with preferential deposit rates, and for which there are either preferential commissions or none at all. These features enable us to give individual attention to each of our customers and offer them expanded financial services.

### Objectives

In April this year, the lifting of restrictions on compensatory payoffs for time deposits at failed financial institutions ended the special measures to protect the full amount of the deposits. In April 2005, restrictions also are scheduled to be lifted on compensatory payoffs for ordinary deposits and other deposits at failed financial institutions. As a result, the special measures to fully protect these deposits will be terminated.

In the wake of these legislative developments, financial institutions need to intensify business activities and reinforce asset soundness while improving profitability and consolidating their capital base. At the same time, they must provide more complete disclosure of their financial information.

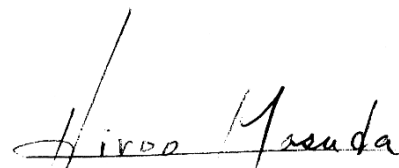
As illustrated by the amendments to the Banking Laws, there have been further advances in financial deregulation. This October, banks will begin sales of additional over-the-counter insurance products. As financial institutions are expected to hone their competitive edge and create more revenue channels by offering comprehensive financial services, they need to ride on the new wave of financial deregulation and prepare to aggressively diversify into new business opportunities.

Under these circumstances, we aim to make our banking operations more efficient and profit-oriented. For this purpose, we will further promote our initiatives in personnel management, business network operation, and business strategies. Concurrently, we continue to assiduously implement our Fifth Long-Term Management Plan designed to raise profitability, implement effective operations, and secure soundness in business management and proper business operations to fortify our capital base and establish a solid business foundation.

Concentrating our efforts on attracting individual deposits, and lending to SMEs in particular, we will strive to invigorate our bank's international business activities, securities business activities, and investment trust business activities. We also will devote more energy to controlling debts and preventing the occurrence of non-performing loans while adding more value to our asset portfolio. At the same time, we will endeavor to create more rigorous systems for compliance with laws and regulations, and self-inspection guidelines. Based on our understanding of our public mission and social responsibilities as a bank, we will spare no effort to provide our customers further satisfaction and buttress our financial position. In so doing, we will fulfill our mission as a regional financial institution.

We look forward to the continued support and cooperation of our customers and shareholders.

July 2002



Hiroo Masuda  
President

## Deposits

During the year under review, we made a concerted effort to acquire stable deposits from individuals and corporations. As a result, personal deposits increased ¥7.6 billion and corporate deposits rose ¥7.4 billion from the previous year. The year-end balance stood at ¥1,652.9 billion, a year-on-year increase of ¥13.9 billion.

## Loans Outstanding

Taking heed of the financial needs of individual customers and SMEs in our local communities, we have aggressively promoted business activities tailored to meet these needs. Despite the sluggishness in SME fund demand against a backdrop of the uncertainty in the economy, our housing loans steadily increased. Consequently, the year-end balance climbed ¥22.3 billion year over year to ¥1,242.9 billion.

## Foreign Exchange Transactions

We posted \$2,058 million in foreign exchange transactions, a year-on-year decline of \$334 million. This resulted from a \$174 million plunge in trade exchange from the year before to \$968 million and a year-on-year drop of \$149 million in capital transactions owing to a decrease in foreign currency deposits and other factors.

## Earnings

During this fiscal year, we have effectively managed our asset portfolio and attempted to raise earnings by rationalizing our business management. To achieve this, we have reduced outlays by cutting both personnel and non-personnel expenses. This year, however, mark-to-market accounting was applied for the first time to financial products. Also, the stumbling stock prices affected the write-off of evaluation losses on securities, which totaled ¥16.6 billion. In addition, the amount of non-performing loans disposed reached ¥14.1 billion as corporate performance deteriorated and the collateral value of real estate continued to fall. Moreover, our general reserve rose to ¥4.6 billion to enhance the soundness of our assets. Consequently, despite all our efforts, we reported an ordinary loss of ¥28.4 billion and a net loss of ¥20.8 billion.

## Business Segments

Broken down by segment, our banking business reported an ordinary loss of ¥28,259 million, with our leasing business recording an ordinary profit of ¥324 million. The ordinary losses of our other businesses totaled ¥82 million.

## Cash Flows

Our cash and cash equivalents at the end of this fiscal year are stated in the following.

Cash flows from operating activities sank to a negative ¥43,620 million, a decline of ¥10,909 million from the previous year, due to changes in loans, deposits, call loans, and other items despite an increase in fund management, fund raising, and other activities.

Cash flows from investing activities fell to ¥56,286 million, an ¥8,441 million decline from the year before, due to an increase in sales and redemption of securities, which exceeded the expenditures to acquire securities and other investment assets.

In contrast, cash flows from financing activities rose ¥20,306 million year over year to ¥19,339 million due to proceeds from issuing stocks.

As a result, our cash and cash equivalents for the current consolidated accounting year increased ¥32,012 million from last year to stand at ¥113,181 million.

## Other Facts

With the cooperation of our 2,247 customers, we allocated new shares of ¥19.8 billion worth of new shares to third parties in November 2001. After this capital increase, our capital totaled ¥35.5 billion.



# CONSOLIDATED BALANCE SHEETS

The Towa Bank, Ltd. and Consolidated Subsidiaries

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2002	2001	2002
<b>ASSETS:</b>			
Cash and due from banks	¥ 118,241	¥ 83,641	\$ 887,366
Call loans and bills purchased	47,531	22,378	356,711
Commercial paper and other debt purchased	4,196	7,909	31,493
Trading account securities	82	77	617
Securities	294,619	358,081	2,211,032
Loans and bills discounted	1,242,996	1,220,656	9,328,306
Foreign exchange	3,050	1,748	22,892
Other assets	19,165	22,671	143,830
Premises and equipment	42,976	47,630	322,523
Deferred tax assets	27,377	23,430	205,460
Customers' liabilities for acceptances and guarantees	21,317	24,140	159,982
Reserve for possible loan losses	(36,625)	(27,454)	(274,861)
Reserve for possible losses on investment securities	—	(3)	—
Total assets	¥1,784,930	¥1,784,910	\$13,395,350
<b>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits	¥1,652,960	¥1,646,103	\$12,404,959
Call money and bills sold	666	991	5,000
Borrowed money	6,641	7,495	49,839
Foreign exchange	38	43	289
Other liabilities	16,019	25,644	120,219
Accrued employee bonuses	667	—	5,007
Reserve for employees' retirement benefits	15,985	15,358	119,965
Reserve for possible losses on loans sold	2,347	1,365	17,614
Deferred tax liability for land revaluation	2,531	2,542	18,996
Acceptances and guarantees	21,317	24,140	159,982
Total liabilities	1,719,174	1,723,685	12,901,869
Minority interests	169	1,213	1,270
<b>Shareholders' equity:</b>			
Common stock, par value ¥50 per share:			
Authorized—260,000,000 shares			
Issued —241,597,650 shares in 2002	35,565	25,647	266,911
Capital surplus	34,137	24,219	256,194
Land revaluation account	3,533	3,549	26,514
Retained earnings	(6,102)	15,010	(45,796)
Net unrealized gains (losses) on other securities, net of taxes	(1,488)	(8,137)	(11,172)
Treasury stock, at cost	(10)	(0)	(82)
Parent company stocks held by subsidiaries	(47)	(277)	(360)
Total shareholders' equity	65,587	60,011	492,211
Total liabilities, minority interests and shareholders' equity	¥1,784,930	¥1,784,910	\$13,395,350

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 ¥133.25 to US\$1.00, the rate prevailing on March 31, 2002.

# CONSOLIDATED STATEMENTS OF OPERATIONS

The Towa Bank, Ltd. and Consolidated Subsidiaries

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
<i>For the years ended March 31,</i>	2002	2001	2002
<b>Income:</b>			
Interest on Loans and discounts	¥ 31,191	¥ 31,948	\$ 234,084
Interest and dividends on securities	4,012	5,745	30,110
Other interest income	194	176	1,459
Fees and commissions	4,281	4,200	32,132
Other operating income	1,043	1,709	7,832
Other income	7,899	8,659	59,284
Total income	48,623	52,440	364,901
<b>Expenses:</b>			
Interest on deposits	2,147	3,871	16,119
Interest on borrowings and rediscounts	175	255	1,319
Other interest expenses	389	316	2,924
Fees and commissions	2,493	2,602	18,710
Other operating expenses	172	552	1,295
General and administrative expenses	28,488	29,944	213,797
Other expenses	42,856	21,513	321,628
Total expenses	¥ 76,724	¥ 59,057	\$ 575,791
Loss before income taxes and minority interests	(28,101)	(6,617)	(210,890)
Income taxes:			
Current	1,946	325	14,611
Deferred	(8,740)	706	(65,592)
Minority interests	(409)	215	(3,075)
Net loss	¥ (20,898)	¥ (7,864)	\$ (156,835)
	Yen		U.S. dollars (Note 2)
Net loss per share	¥ (99.35)	¥ (41.07)	\$ (0.75)

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

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
<i>For the years ended March 31,</i>	2002	2001	2002
<b>Common stock:</b>			
Balance at beginning of year	¥25,647	¥25,647	\$192,477
Addition:			
New shares issued	9,918	—	74,435
Balance at end of year	¥35,565	¥25,647	\$266,911
 Number of shares issued at end of year (thousands)	 241,597	 192,005	
<b>Capital surplus:</b>			
Balance at beginning of year	¥24,219	¥ 24,219	\$181,760
Addition:			
New shares Issued	9,918	—	74,435
Balance at end of year	¥34,137	¥24,219	\$256,194
<b>Land revaluation account:</b>			
Balance at beginning of year	¥3,549	¥3,727	\$26,635
Balance at end of year	¥3,533	¥3,549	\$26,514
<b>Retained earnings:</b>			
Balance at beginning of year	¥15,010	¥23,656	\$112,652
Addition:			
Transfer from land revaluation account	16	178	121
Effect of the change in scope of consolidated subsidiaries	249	—	1,869
Deduction:			
Cash dividends	480	960	3,602
Net loss	(20,898)	(7,864)	(156,835)
Balance at end of year	¥(6,102)	¥15,010	\$(45,796)

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## BIS CAPITAL RATIO (DOMESTIC STANDARDS)

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
<i>March 31,</i>	2002	2001	2002
Tier I capital	¥ 62,221	¥ 57,187	\$466,950
Tier II capital:			
Land revaluation account, after 55% discount	2,728	2,741	20,480
General reserve for possible loan loss	6,414	4,257	48,140
Subordinary debt and other	—	—	—
Sub-total	9,143	6,998	68,620
Tier II capital included as qualifying capital	9,143	6,998	68,620
Less	101	101	759
Total qualifying capital	¥71,263	¥64,085	\$534,810
Risk-adjusted assets:			
On-balance sheet exposure	¥1,005,105	¥972,717	\$7,543,007
Off-balance sheet exposure	21,248	24,003	159,463
Total	¥1,026,354	¥996,721	\$7,702,470
Capital ratio	6.94%	6.42%	



# CONSOLIDATED STATEMENTS OF CASH FLOWS

The Towa Bank, Ltd. and Consolidated Subsidiaries

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
<i>For the years ended March 31,</i>	<b>2002</b>	<b>2001</b>	<b>2002</b>
<b>Cash flows from operating activities:</b>			
Loss before income taxes and minority interests	¥(28,101)	¥(6,617)	\$(210,890)
Depreciation and amortization	6,787	6,023	50,937
Amortization of consolidation difference	—	(11)	—
Net increase (decrease) in reserve for possible loan losses	9,189	(13,997)	68,967
Net increase (decrease) in reserve for possible losses on investment securities	(3)	(48)	(23)
Net increase (decrease) in reserve for possible losses on loans sold	981	654	7,367
Increase in accrued employee bonuses	681	—	5,112
Increase in reserve for retirement allowances	—	(6,232)	—
Increase in reserve for employees' retirement benefits	635	15,358	4,768
Interest income	(35,398)	(37,870)	(265,653)
Interest expenses	2,713	4,444	20,362
Gain on securities - net	17,681	(15)	132,695
Foreign exchange (gain) loss - net	(3)	(6)	(28)
Loss on disposal of premises and equipment - net	71	234	540
Net (increase) decrease in loans	(22,939)	(48,066)	(172,157)
Net increase (decrease) in deposits	13,523	49,923	101,491
Net increase (decrease) in negotiable certificates of deposit	(7,100)	(7,010)	(53,283)
Net increase (decrease) in borrowings excluding subordinated debt	346	(3,293)	2,597
Net (increase) decrease in due from banks other than the Bank of Japan	(2,635)	246	(19,781)
Net (increase) decrease in call loans	(21,439)	(11,831)	(160,895)
Net increase (decrease) in call money	(324)	142	(2,439)
Net (increase) decrease in foreign exchange assets	(1,301)	(1,023)	(9,767)
Net increase (decrease) in foreign exchange liabilities	(5)	2	(40)
Interest received	35,847	38,185	269,023
Interest paid	(4,468)	(5,695)	(33,535)
Other	(8,241)	329	(61,849)
Sub-total	(43,503)	(26,175)	(326,481)
Income taxes payable	(116)	(6,535)	(875)
Net cash provided by (used in) operating activities	(43,620)	(32,711)	(327,357)
<b>Cash flows from investing activities:</b>			
Purchases of stock and other securities	(370,573)	(168,089)	(2,781,039)
Proceeds from sales of stock and other securities	247,151	203,677	1,854,796
Proceeds from redemption of bonds	184,473	37,226	1,384,414
Purchases of premises and equipment	(4,765)	(8,088)	(35,762)
Proceeds from sales of premises and equipment	0	1	2
Net cash provided by (used in) investing activities	56,286	64,727	422,412
<b>Cash flows from financing activities:</b>			
Proceeds from stock issuance	19,836	—	148,869
Dividends paid	(480)	(960)	(3,602)
Dividends paid to minority interests	(7)	(8)	(53)
Purchases of treasury stock	(22)	(27)	(170)
Purchases from sales of treasury stock	12	28	96
Net cash provided by (used in) financing activities	19,339	(967)	145,139
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>9</b>	<b>16</b>	<b>69</b>
<b>Net increase in cash and cash equivalents</b>	<b>32,015</b>	<b>31,064</b>	<b>240,263</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>81,169</b>	<b>50,105</b>	<b>609,154</b>
<b>Cash and cash equivalents increased due to expanded scope of consolidation</b>	<b>(3)</b>	<b>—</b>	<b>(24)</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 113,181</b>	<b>¥81,169</b>	<b>\$849,392</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.

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# BOARD OF DIRECTORS AND CORPORATE AUDITORS

(As of June 27, 2002)

**President and Chief Executive Officer**  
Hiroo Masuda

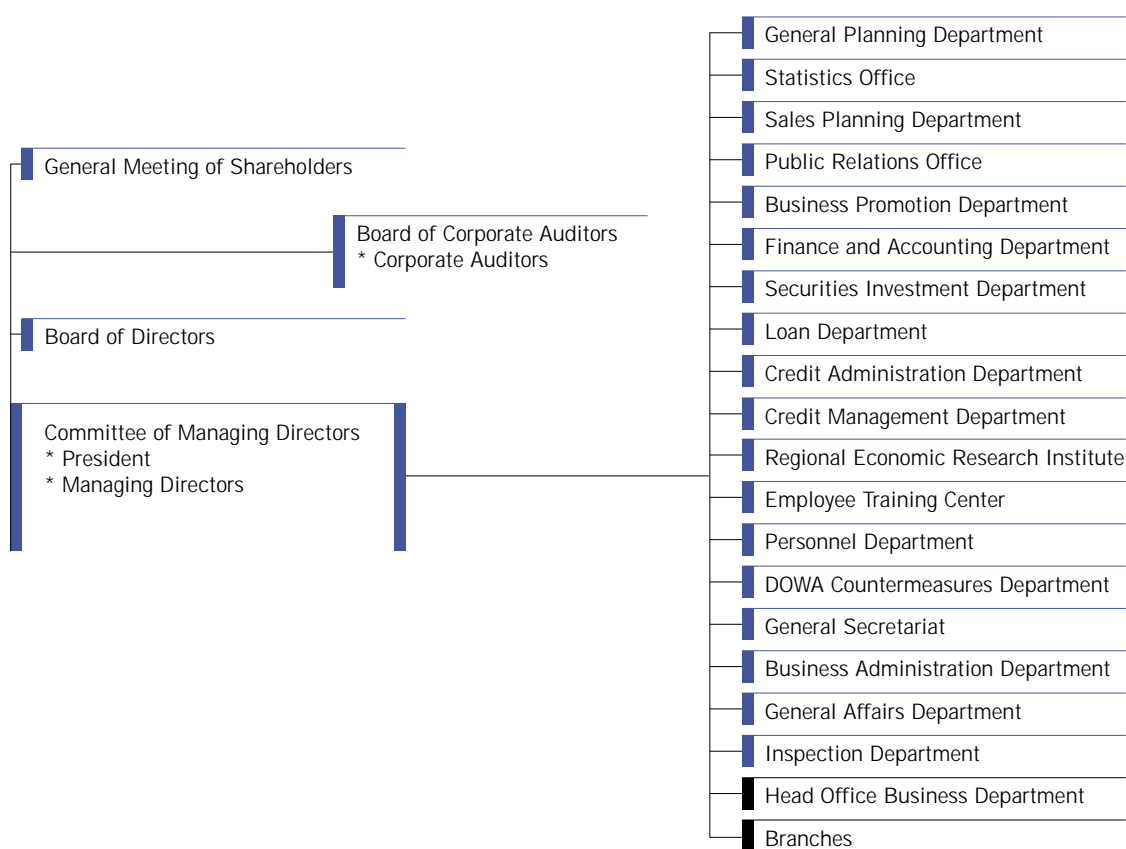
**Managing Directors**  
Yuji Yamaguchi  
Kiyoshi Takei  
Kaneyoshi Tashiro  
Takanori Narita  
Tadashi Yamada  
Hitoshi Fukuda

**Directors**  
Kinichi Goto  
Hiroya Yoshino  
Katsuhiko Kawashima  
Shoji Kimoto  
Rihei Ishikura

**Corporate Auditors**  
Akira Abe  
Yuji Endo  
Toru Ikehara

## ORGANIZATION

(As of June 27, 2002)



## Head Office:

12-6, Honmachi 2-chome, Maebashi, Gunma 371-8560, Japan

Phone: 027-234-1111

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

## Foreign Exchange Operation Center,

## Business Administration Department:

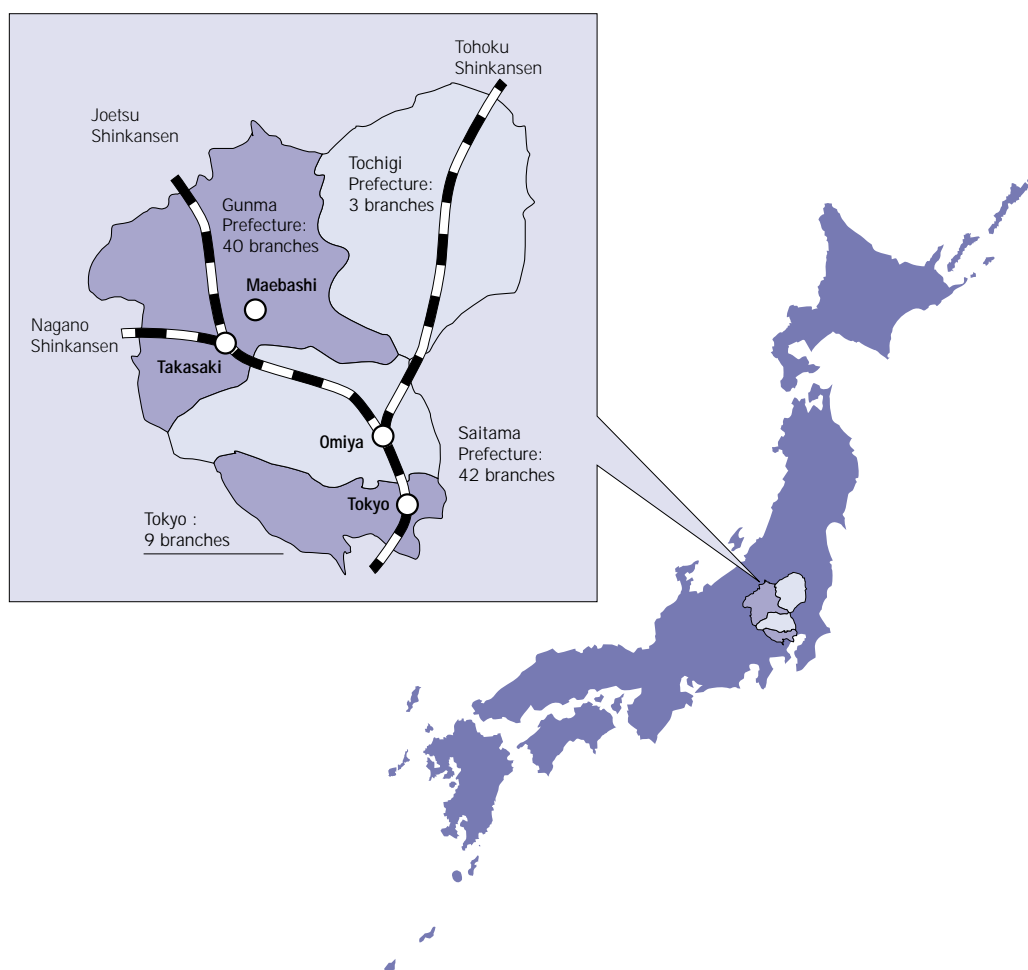
12-6, Honmachi 2-chome, Maebashi, Gunma 371-8560, Japan

Phone: 027-234-1959

Fax: 027-230-1735

SWIFT: TOWA JPJT

## Service Network:



## CONSOLIDATED SUBSIDIARIES (As of March 31, 2002)

	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 Card Co., Ltd.	August 1989	50	80.0
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	93.0

**THE TOWA BANK, LTD.**  
12-6, Honmachi 2-chome,  
Maebashi, Gunma 371-8560, Japan