

2003 Financial Statements

For the year ended March 31, 2003



TOWA BANK

Profile

Since its establishment in 1917, the Towa Bank has maintained close ties to its local communities. We have continued fostering regional economic development by providing comprehensive financial services, based on our commitment to serving as a bank that is beneficial, trustworthy, and progressive.

As of March 31, 2003, we had a network of 94 branches covering the Kanto district, with a particularly strong presence in the prefectures of Gunma and Saitama. The balance of deposits was ¥1,653 billion (US\$13,756 million), while loans and bills discounted stood at ¥1,199 billion (US\$9,978 million).

Going forward, we will address the dramatically changing economic and financial environments by upgrading our sales and service capabilities and meeting the needs of customers. At the same time, we will work to raise profitability and streamline our business structure to create a robust operating foundation.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

The Towa Bank, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2003 and 2002

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
<i>For the years ended March 31,</i>	2003	2002	2003
Total income	¥ 50,638	¥ 48,623	\$ 421,282
Total expenses	57,363	76,724	477,235
Income (loss) before income taxes and minority interests	(6,725)	(28,101)	(55,952)
Net income (loss)	(13,033)	(20,898)	(108,432)

Cash flows:

Net cash provided by (used in) operating activities	¥ 48,510	¥ (43,620)	\$ 403,578
Net cash provided by (used in) investing activities	(96,838)	56,286	(805,640)
Net cash provided by (used in) financing activities	(31)	19,339	(260)
Cash and cash equivalent at end of year	64,815	113,181	539,227

March 31,

Deposits	¥1,653,487	¥1,652,960	\$13,756,138
Loans and bills discounted	1,199,389	1,242,996	9,978,278
Securities	381,681	294,619	3,175,389
Total assets	1,757,520	1,784,930	14,621,633
Shareholders' equity	54,395	65,587	452,542

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

Net income (loss)	¥ (53.96)	¥ (99.35)	\$ (0.44)
Shareholders' equity	225.26	271.65	1.87

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 ¥120.20 to US\$1.00, the rate prevailing on March 31, 2003.

A MESSAGE FROM THE PRESIDENT

With deep thanks to our customers' support for Towa Bank, the following presents our financial results covering our business activities for Fiscal 2002, ended March 31, 2003.

Business and Financial Climate

In fiscal 2002, ended March 31, 2003, the Japanese economy shows some signs of improvement in the middle of the year owing to increased exports amid favorable economic trends in the United States and other overseas countries, as well as higher industrial production output as manufacturers completed inventory adjustments.

By contrast, difficult employment and income conditions for individuals caused personal consumption to languish, while corporate capital investments declined, preventing an upturn in domestic demand.

In the latter half of the period, moreover, a slowdown in the U.S. economy caused exports to stagnate and industrial production output to move sideways. As a result, any evidence of economic recovery was extremely weak.

The region served by the Towa Bank Group saw signs of a turnaround in corporate production, especially in the mainstay electronic equipment and transportation machinery sectors, which were boosted by rising exports. Nevertheless, personal consumption and capital investments remained fragile, thus weakening expectations of economic recovery.

Actions Taken during the Fiscal Year

Facing these challenges, Towa Bank strove to improve the soundness of its assets, strengthen risk management, and enhance the efficiency of management in order to respond swiftly to changes in the industry and effectively fulfill its role as a regional financial institution.

Addressing the emergence of an information-intensive society, we actively promoted mobile banking services through the Internet and cellular phones to upgrade our services for customers. In each branch, we installed TowaCom Vision plasma displays, enabling customers to use their waiting times more productively, as well as easy-to-operate automated terminals that respond to customers' inquiries about pensions, home loans, taxation, and other matters.

Responding to ongoing deregulation of financial instruments, we upgraded our lineup of investment trusts and foreign currency-denominated financial products. We also started over-the-counter sales of life insurance policies following the removal of restrictions on such activities in October 2002. In these and other ways, we further reinforced our services as part of our aggressive response to customers' diversifying needs.

Future Challenges

The financial services industry has continued to confront difficult challenges, stemming from severe economic conditions both at home and overseas, as well as increases in bad debt due to

continuing high levels of bankruptcies. Falling share prices have also forced many institutions to increase writedowns of their securities holdings.

We suffered our third consecutive year of net losses as a number of large-scale corporate collapses in the final quarter added to its nonperforming loan balance, while declining share prices necessitated significant devaluation losses on its securities holdings. Regrettably, therefore, the Bank has decided not to declare an annual cash dividend for the second successive year. However, we will strive relentlessly to regain the confidence of shareholders and restore cash dividends at the earliest possible time.

Going forward, we will undertake extensive writedowns of loans deemed potentially problematic. We will also prepare ourselves for new regulatory frameworks, such as the introduction of new BIS capital adequacy requirements in the fiscal year to March 2007 and the adoption of asset impairment accounting in the year to March 2006. To this end, we must further strengthen our business foundation and establish a sound vision for the future.

To meet these challenges and properly fulfill our role as a regional financial institution that supports local businesses and fosters local economic development, we must place top priority on reinforcing profitability and upgrading our capital base.

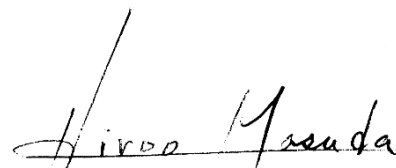
Under these circumstances, we will aim to make our banking operations more efficient and profit-oriented. For this purpose, we have formulated a seven-year profit plan. The first four-year period of the plan is called the Sixth Long-Term Management Plan, which we will actively implement.

In the early stages of the Sixth Long-Term Management Plan, we will implement various strategies aimed at achieving an annual gross banking profit of at least ¥10 billion and a capital ratio of 8% or higher. We will adopt a relationship banking approach to best benefit the region we serve. At the same time, we will harness the expertise of all directors and employees, encouraging them to embrace the challenges of the future.

Looking ahead, we and other member of our Group will improve the quality of their services in order to satisfy the diversified and sophisticated needs of customers. We will expand transactions with individuals and small and medium-sized companies while solidifying our business base and enhancing the efficiency of asset management. In these ways, we intend to meet our various performance targets.

We look forward to your continued support and cooperation.

August 2003



Hiroo Masuda
President

Deposits

In the year under review, the Bank worked hard to attract stable deposits from individuals and corporations. As a result, deposits from individuals rose ¥32.6 billion, but deposits from corporations declined ¥20.3 billion. The year-end balance of deposits stood at ¥1,653.4 billion, up ¥500 million from a year earlier.

Loans and Bills Discounted

Responding to the funding needs of individuals and small and medium-sized companies, the Bank aggressively promoted sales activities tailored to specific regional attributes. While loans to individuals, centering on housing loans, performed favorably, loans to small and medium-sized companies declined due to unstable demand amid long-term economic recession and the Bank's need to dispose of nonperforming loans. Consequently, the year-end balance of loans and bills discounted fell ¥43.6 billion, to ¥1,199.3 billion.

Foreign Exchange Transactions

The Bank engaged in foreign exchange transactions amounting to US\$2,910 million, up US\$851 million from the previous year. This resulted from a US\$116 million increase in trade transactions, to US\$1,084 million, as well as a US\$692 million rise in capital transactions owing to an increase in foreign currency deposits and other factors.

Earnings

In the year under review, the Bank worked to improve earnings by pursuing efficient asset management activities while streamlining overall operations through reduced personnel and other expenses. However, languishing share markets led to a devaluation loss on our securities holdings. In addition, we actively disposed of nonperforming loans as the business results of corporate customers deteriorated and the collateral value of real estate declined. To improve the soundness of our asset portfolio, we also increased the reserve for possible loan losses. Consequently, we reported an ordinary loss of ¥12.3 billion and a net loss of ¥13.0 billion.

Performance by Segment

Our banking business posted an ordinary loss of ¥13,593 million, and our leasing business reported an ordinary loss of ¥37 million. The ordinary losses from other businesses totaled ¥3 million.

Cash Flows

In fiscal 2002, cash flows from operating activities saw an inflow of ¥48,510 million, compared with a ¥43,620 million outflow in fiscal 2001. This improvement stemmed from positive changes in loans, deposits, call loans, and other items, as well as income from fund raising and fund management activities.

Cash flows from investing activities saw an outflow of ¥96,838 million, compared with a ¥56,286 million inflow in the preceding term. This was due mainly to purchases of stock and other securities, which outweighed proceeds from sales of such securities.

Cash flows from financing activities saw an outflow of ¥31 million, compared with a ¥19,339 million inflow in the previous year. The change stemmed primarily from purchases of treasury stock.

As a result, cash and cash equivalents at end of year amounted to ¥64,815 million, down ¥48,366 million from a year earlier.

CONSOLIDATED BALANCE SHEETS

The Towa Bank, Ltd. and Consolidated Subsidiaries

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2003	2002	2003
ASSETS:			
Cash and due from banks	¥ 67,772	¥ 118,241	\$ 563,834
Call loans and bills purchased	36,173	47,531	300,944
Commercial paper and other debt purchased	1,960	4,196	16,311
Trading account securities	57	82	478
Securities	381,681	294,619	3,175,389
Loans and bills discounted	1,199,389	1,242,996	9,978,278
Foreign exchange	814	3,050	6,774
Other assets	19,543	19,165	162,588
Premises and equipment	41,984	42,976	349,289
Deferred tax assets	20,210	27,377	168,138
Customers' liabilities for acceptances and guarantees	15,910	21,317	132,363
Reserve for possible loan losses	(27,977)	(36,625)	(232,757)
Reserve for possible losses on investment securities	—	—	—
Total assets	¥1,757,520	¥1,784,930	\$14,621,633
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits	¥1,653,487	¥1,652,960	\$13,756,138
Call money and bills sold	2,043	666	17,000
Borrowed money	5,134	6,641	42,712
Foreign exchange	32	38	267
Other liabilities	9,609	16,019	79,948
Accrued employee bonuses	498	667	4,148
Reserve for employees' retirement benefits	12,431	15,985	103,425
Reserve for possible losses on loans sold	1,161	2,347	9,663
Deferred tax liability for land revaluation	2,451	2,531	20,397
Acceptances and guarantees	15,910	21,317	132,363
Total liabilities	1,702,761	1,719,174	14,166,065
Minority interests	363	169	3,025
Shareholders' equity:			
Common stock:			
Authorized—400,000,000 shares			
Issued —241,597,650 shares in 2003	35,565	35,565	295,889
Capital surplus	27,570	34,137	229,369
Land revaluation account	3,612	3,533	30,053
Retained earnings	(12,568)	(6,102)	(104,559)
Net unrealized gains (losses) on other securities, net of taxes	257	(1,488)	2,145
Treasury stock, at cost	(39)	(10)	(331)
Parent company stocks held by subsidiaries	(2)	(47)	(23)
Total shareholders' equity	54,395	65,587	452,542
Total liabilities, minority interests and shareholders' equity	¥1,757,520	¥1,784,930	\$14,621,633

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 ¥120.20 to US\$1.00, the rate prevailing on March 31, 2003.

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>	2003	2002	2003
Income:			
Interest on Loans and discounts	¥ 29,547	¥ 31,191	\$ 245,823
Interest and dividends on securities	3,341	4,012	27,799
Other interest income	168	194	1,405
Fees and commissions	4,464	4,281	37,140
Other operating income	1,486	1,043	12,364
Other income	11,629	7,899	96,749
Total income	50,638	48,623	421,282
Expenses:			
Interest on deposits	901	2,147	7,502
Interest on borrowings and rediscounts	142	175	1,183
Other interest expenses	228	389	1,904
Fees and commissions	2,699	2,493	22,459
Other operating expenses	1	172	15
General and administrative expenses	27,886	28,488	231,999
Other expenses	25,502	42,856	212,170
Total expenses	¥ 57,363	¥ 76,724	\$ 477,235
Loss before income taxes and minority interests	(6,725)	(28,101)	(55,952)
Income taxes:			
Current	120	1,946	999
Deferred	5,933	(8,740)	49,364
Minority interests	254	(409)	2,114
Net loss	¥ (13,033)	¥ (20,898)	\$ (108,432)
	Yen		U.S. dollars (Note 2)
Net loss per share	¥ (53.96)	¥ (99.35)	\$ (0.44)

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>	2003	2002	2003
Common stock:			
Balance at beginning of year	¥35,565	¥25,647	\$295,889
Addition:			
New shares issued	—	9,918	—
Balance at end of year	¥35,565	¥35,565	\$295,889
 Number of shares issued at end of year (thousands)	 241,597	 241,597	
Capital surplus:			
Balance at beginning of year	¥34,137	¥ 24,219	\$284,009
Addition:			
New shares Issued	—	9,918	—
Deduction:			
Decrease in capital surplus due to withdraw of capital reserve	6,567	—	54,640
Balance at end of year	¥27,570	¥34,137	\$229,369
Land revaluation account:			
Balance at beginning of year	¥3,533	¥3,549	\$29,392
Balance at end of year	¥3,612	¥3,533	\$30,053
Retained earnings:			
Balance at beginning of year	¥(6,102)	¥15,010	\$(50,767)
Addition:			
Transfer from land revaluation account	—	16	—
Effect of the change in scope of consolidated subsidiaries	—	249	—
Increase in retained earnings due to withdraw of capital reserve	6,567	—	54,640
Deduction:			
Cash dividends	—	480	—
Net loss	(13,033)	(20,898)	(108,432)
Balance at end of year	¥(12,568)	¥(6,102)	\$(104,559)

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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BIS CAPITAL RATIO (DOMESTIC STANDARDS)

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
<i>March 31,</i>	2003	2002	2003
Tier I capital	¥ 50,886	¥ 62,221	\$423,349
Tier II capital:			
Land revaluation account, after 55% discount	2,728	2,728	22,702
General reserve for possible loan loss	6,076	6,414	50,553
Subordinary debt and other	—	—	—
Sub-total	8,805	9,143	73,256
Tier II capital included as qualifying capital	8,805	9,143	73,256
Less	101	101	841
Total qualifying capital	¥59,590	¥71,263	\$495,764
Risk-adjusted assets:			
On-balance sheet exposure	¥956,359	¥1,005,105	\$7,956,401
Off-balance sheet exposure	15,892	21,248	132,214
Total	¥972,251	¥1,026,354	\$8,088,615
Capital ratio	6.12%	6.94%	

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>	2003	2002	2003
Cash flows from operating activities:			
Loss before income taxes and minority interests	¥(6,725)	¥(28,101)	\$(55,952)
Depreciation and amortization	6,783	6,787	56,438
Amortization of consolidation difference	—	—	—
Net increase (decrease) in reserve for possible loan losses	(8,647)	9,189	(71,944)
Net increase (decrease) in reserve for possible losses on investment securities	—	(3)	—
Net increase (decrease) in reserve for possible losses on loans sold	(1,185)	981	(9,861)
Increase in accrued employee bonuses	(168)	681	(1,402)
Increase in reserve for employees' retirement benefits	(3,553)	635	(29,564)
Interest income	(33,058)	(35,398)	(275,028)
Interest expenses	1,273	2,713	10,590
Gain on securities - net	7,499	17,681	62,392
Foreign exchange (gain) loss - net	6	(3)	51
Loss on disposal of premises and equipment - net	31	71	264
Net (increase) decrease in loans	43,607	(22,939)	362,793
Net increase (decrease) in deposits	527	13,523	4,385
Net increase (decrease) in negotiable certificates of deposit	—	(7,100)	—
Net increase (decrease) in borrowings excluding subordinated debt	(1,507)	346	(12,537)
Net (increase) decrease in due from banks other than the Bank of Japan	2,102	(2,635)	17,488
Net (increase) decrease in call loans	13,593	(21,439)	113,094
Net increase (decrease) in call money	1,377	(324)	11,457
Net (increase) decrease in foreign exchange assets	2,236	(1,301)	18,603
Net increase (decrease) in foreign exchange liabilities	(6)	(5)	(52)
Interest received	34,011	35,847	282,958
Interest paid	(1,665)	(4,468)	(13,853)
Other	(5,985)	(8,241)	(49,794)
Sub-total	50,547	(43,503)	420,526
Income taxes payable	(2,037)	(116)	(16,948)
Net cash provided by (used in) operating activities	48,510	(43,620)	403,578
Cash flows from investing activities:			
Purchases of stock and other securities	(1,006,896)	(370,573)	(8,376,843)
Proceeds from sales of stock and other securities	352,592	247,151	2,933,380
Proceeds from redemption of bonds	561,783	184,473	4,673,741
Purchases of premises and equipment	(4,317)	(4,765)	(35,918)
Proceeds from sales of premises and equipment	—	—	—
Net cash (used in) provided by investing activities	(96,838)	56,286	(805,640)
Cash flows from financing activities:			
Proceeds from stock issuance	—	19,836	—
Dividends paid	—	(480)	—
Dividends paid to minority interests	(2)	(7)	(19)
Purchases of treasury stock	(28)	(22)	(240)
Purchases from sales of treasury stock	—	12	—
Net cash (used in) provided by financing activities	(31)	19,339	(260)
Effect of exchange rate changes on cash and cash equivalents	(7)	9	(60)
Net increase in cash and cash equivalents	(48,366)	32,015	(402,383)
Cash and cash equivalents at beginning of year	113,181	81,169	941,610
Cash and cash equivalents increased due to expanded scope of consolidation	—	(3)	—
Cash and cash equivalents at end of year	¥ 64,815	¥113,181	\$539,227

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 ¥120.20 to US\$1.00, the rate prevailing on March 31, 2003.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

(As of June 27, 2003)

**President and
Chief Executive Officer**
Hiroo Masuda

**Senior Managing
Director**
Yuji Yamaguchi

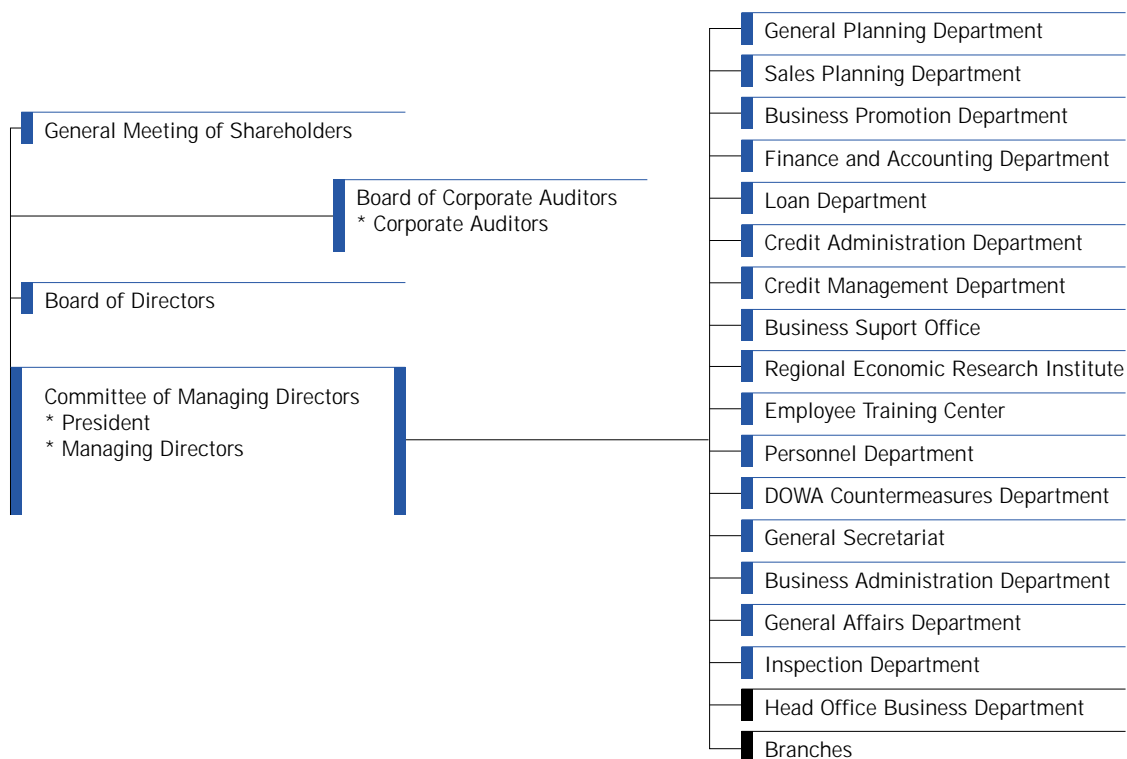
Managing Directors
Kaneyoshi Tashiro
Tadashi Yamada
Hitoshi Fukuda
Katsuhiko Kawashima

Directors
Shoji Kimoto
Rihei Ishikura
Hideaki Haraguchi

Corporate Auditors
Akira Abe
Yuji Endo
Toru Ikehara

ORGANIZATION

(As of July 25, 2003)



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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:

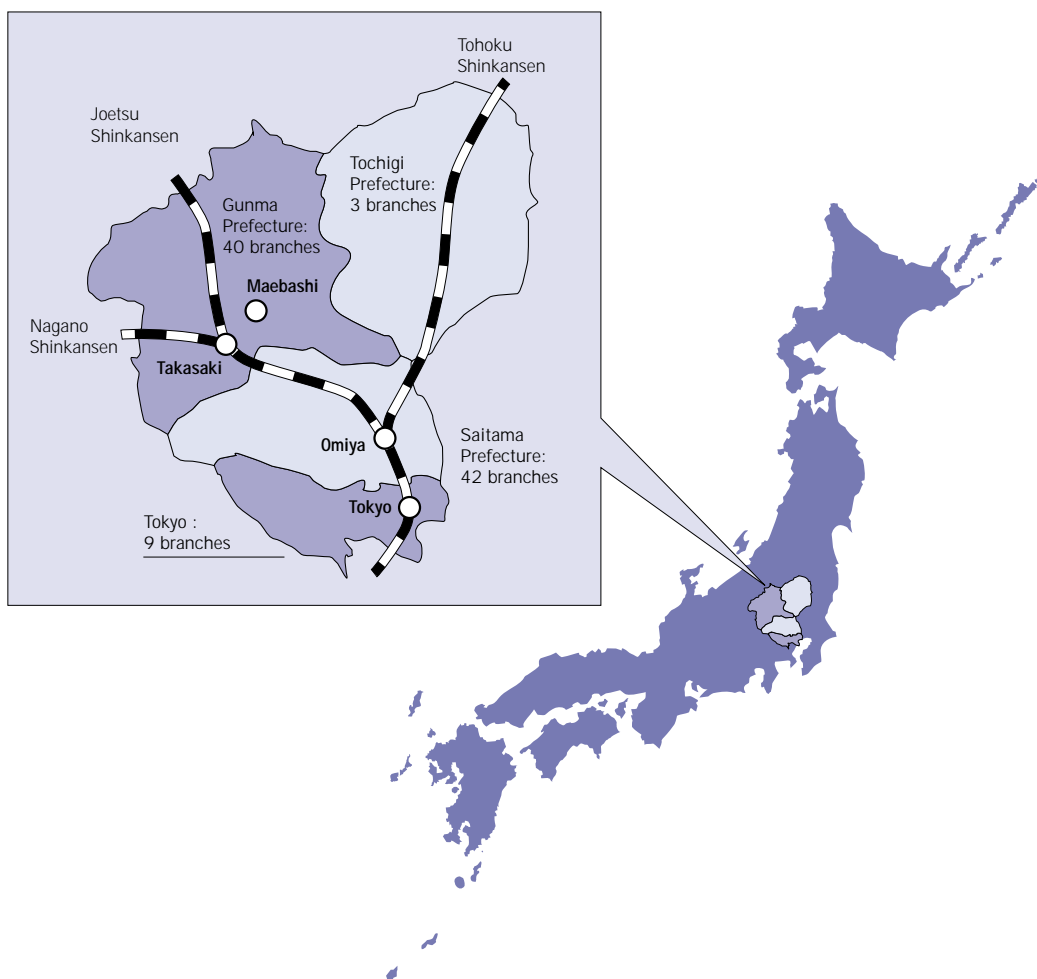
12-6, Honmachi 2-chome, Maebashi, Gunma 371-8560, Japan

Phone: 027-234-1959

Fax: 027-230-1735

SWIFT: TOWA JPJT

Service Network:



CONSOLIDATED SUBSIDIARIES (As of March 31, 2003)

	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	85.0
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.
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Maebashi, Gunma 371-8560, Japan