

2004

Financial Statements

For the year ended March 31, 2004

TOWA

THE TOWA BANK, LTD.

Profile

Since its establishment in 1917, the Towa Bank has maintained close ties to its local communities throughout the various social and economic changes Japan has undergone. We have continued fostering regional economic development by supply comprehensive financial services, based on our commitment to serve as a bank that is beneficial, trustworthy, and progressive. As of March 31, 2004, 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 ¥1,637 billion (US\$15,494 million), while loans and bills discounted stood at ¥1,166 billion (US\$11,033 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, 2004 and 2003

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
<i>For the years ended March 31,</i>			
Total income	¥ 48,617	¥ 50,638	\$ 460,005
Total expenses	44,331	57,363	419,452
Income (loss) before income taxes and minority interests	4,286	(6,725)	40,553
Net income (loss)	2,475	(13,033)	23,418
Cash flows:			
Net cash provided by (used in) operating activities	¥ 18,178	¥ 48,510	\$ 172,000
Net cash provided by (used in) investing activities	(12,541)	(96,838)	(118,665)
Net cash provided by (used in) financing activities	17	(31)	161
Cash and cash equivalent at end of year	70,455	64,815	666,624
<i>March 31,</i>			
Deposits and negotiable certificate of deposits	¥1,637,563	¥1,653,487	\$15,494,022
Loans and bills discounted	1,166,158	1,199,389	11,033,762
Securities	391,781	381,681	3,706,893
Total assets	1,740,159	1,757,520	16,464,754
Shareholders' equity	57,837	54,395	547,240
Per share of common stock (in yen and U.S. dollars):			
Net income (loss)	¥ 10.25	¥ (53.96)	\$ 0.09
Shareholders' equity	239.55	225.26	2.26
Capital ratio	6.51%	6.12%	

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 ¥105.69 to US\$1.00, the rate prevailing on March 31, 2004.

A MESSAGE FROM THE PRESIDENT

With thanks to the strong support shown us by our customers, we present the financial results covering the Bank's business activities for Fiscal 2003, ended March 31, 2004.

Business and Financial Climate

In fiscal 2003, the Japanese economy showed some signs of improvement owing to increased exports amid favorable economic trends in the United States and East Asia as well as higher industrial production and capital investment on the back of increased company earnings.

These favorable factors had an impact on the domestic sector. Although difficult employment and income conditions for individuals prevailed, robust sales of digital appliances triggered an upturn in domestic demand.

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 as well as strengthen marketing capabilities and profitability in order to respond swiftly to changes in the industry and effectively fulfill its role as a regional financial institution. Addressing an increasingly sophisticated information-intensive society, we actively promoted mobile banking services through the Internet to upgrade our services for customers. We created new marketing channels and enhanced our ATM functionality in addition to upgrading our lineup of investment trusts and pensions in response to ongoing deregulation of financial instruments. In these and other ways, we further reinforced our services as part of our aggressive response to customers' diversifying needs.

Future Challenges

Fiscal 2003 saw a number of upward trends in economic indicators including a buoyant share market. However, these positive factors were offset by the struggle to climb out of the deflationary cycle Japan is mired in. Together with financial institutions' ongoing efforts to shrug off the burden of non-performing loans and the minimizing of risk through holding stock, it was a year of addressing key financial issues.

Many financial institutions reduced their non-performing loan ratio, allowing for non-performing loan disposal costs to remain within net business profits. As a result, it is apparent that Japan is passing the peak of its economic malaise.



On another front, in advance of the government capping insured bank deposits in April 2005, this year is set to become one that urgently requires our management plan and functional strengthening plan, based on the Action Program, to achieve definite results.

At Towa Bank we see the significance of 2004 as a year of many turning points. The Japanese government has stipulated that mega-banks must halve their non-performing loan ratio by the end of fiscal 2004, and from fiscal 2005 we will be adopting asset-impairment accounting.

For this purpose, we aim to achieve the objectives set out in our Sixth Long-Term Management Plan kicked-off in April 2003. At the same time, we will harness the expertise of directors, corporate auditors and employees, encouraging them to embrace the challenges of the future.

We and our other group companies will enhance the quality of its services with the aim of meeting the diverse and sophisticated needs of our clients. Furthermore, we are bolstering our business with individuals and small and medium enterprises to augment our marketing base and improve efficiency of assets under management in line with achieving the performance targets we have set ourselves.

We look forward to your continued support and cooperation.

August 2004

A handwritten signature in black ink that reads "Hiroo Masuda". The signature is written in a cursive, flowing style.

Hiroo Masuda
President

Deposits

In the year under review, the Bank worked hard to increase stable deposits from individuals and corporations. As a result, deposits from individuals rose ¥11.2 billion, but deposits from corporations declined ¥25.2 billion. This led the year-end balance of deposits to stand at ¥1,637.5 billion, down ¥15.9 billion from a year earlier.

In addition to deposits, investment trusts, an asset management product proved popular with individual customers. The year end net asset balance stood at ¥29.7 billion, up ¥11.6 billion from the previous year.

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 and the Bank's need to dispose of non-performing loans. Consequently, the year-end balance of loans and bills discounted fell ¥33.2 billion, to ¥1,166.1 billion.

Foreign Exchange Transactions

The Bank engaged in foreign exchange transactions amounting to US\$4,340 million, up US\$1,430 million from the previous year. This resulted from a US\$188 million increase in trade transactions, to US\$1,273 million, as well as a US\$1,188 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. Consequently, we reported a recurring profit of ¥3.6 billion and a net income of ¥2.4 billion.

Performance by Segment

Our banking business posted a recurring profit of ¥4,189 million, and our leasing business reported a recurring profit of ¥360 million. The recurring losses from other businesses totaled ¥66 million.

Cash Flows

In fiscal 2003, cash flows from operating activities saw an inflow of ¥18,178 million, compared with a ¥48,510 million net inflow in fiscal 2002. This stemmed from negative 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 ¥12,541 million, compared with a ¥96,838 million outflow 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 inflow of ¥17 million, compared with a ¥31 million outflow in the previous year. The change stemmed primarily from sales of treasury stock.

As a result, cash and cash equivalents at end of year amounted to ¥70,455 million, up ¥5,640 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)
	2004	2003	2004
ASSETS:			
Cash and due from banks	¥ 72,370	¥ 67,772	\$ 684,747
Call loans and bills purchased	43,460	36,173	411,204
Commercial paper and other debt purchased	1,641	1,960	15,532
Trading account securities	379	57	3,587
Securities	391,781	381,681	3,706,893
Loans and bills discounted	1,166,158	1,199,389	11,033,762
Foreign exchange	1,107	814	10,480
Other assets	14,985	19,543	141,785
Premises and equipment	40,474	41,984	382,956
Deferred tax assets	18,917	20,210	178,990
Customers' liabilities for acceptances and guarantees	12,826	15,910	121,361
Reserve for possible loan losses	(23,943)	(27,977)	(226,548)
Reserve for possible losses on investment securities	—	—	—
Total assets	¥1,740,159	¥1,757,520	\$16,464,754
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits	¥1,637,563	¥1,653,487	\$15,494,022
Call money and bills sold	1,796	2,043	17,000
Borrowed money	4,150	5,134	39,265
Foreign exchange	120	32	1,139
Other liabilities	8,659	9,609	81,932
Accrued employee bonuses	461	498	4,369
Reserve for employees' retirement benefits	13,616	12,431	128,830
Reserve for possible losses on loans sold	—	1,161	—
Deferred tax liability for land revaluation	2,451	2,451	23,197
Acceptances and guarantees	12,826	15,910	121,361
Total liabilities	1,681,646	1,702,761	15,911,118
Minority interests	675	363	6,395
Shareholders' equity:			
Common stock:			
Authorized—400,000,000 shares			
Issued —241,597,650 shares in 2003	35,565	35,565	336,511
Capital surplus	14,518	27,570	137,368
Land revaluation account	3,612	3,612	34,179
Retained earnings	2,960	(12,568)	28,010
Net unrealized gains (losses) on other securities, net of taxes	1,231	257	11,655
Treasury stock, at cost	(48)	(39)	(455)
Parent company stocks held by subsidiaries	(3)	(2)	(29)
Total shareholders' equity	57,837	54,395	547,240
Total liabilities, minority interests and shareholders' equity	¥1,740,159	¥1,757,520	\$16,464,754

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 ¥105.69 to US\$1.00, the rate prevailing on March 31, 2004.

CONSOLIDATED STATEMENTS OF OPERATIONS

The Towa Bank, Ltd. and Consolidated Subsidiaries

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
<i>For the years ended March 31,</i>			
Income:			
Interest on Loans and discounts	¥ 29,527	¥ 29,547	\$ 279,377
Interest and dividends on securities	3,798	3,341	35,942
Other interest income	155	168	1,467
Fees and commissions	4,856	4,464	45,952
Other operating income	1,479	1,486	14,002
Other income	8,800	11,629	83,263
Total income	48,617	50,638	460,005
Expenses:			
Interest on deposits	707	901	6,689
Interest on borrowings and rediscounts	118	142	1,121
Other interest expenses	72	228	682
Fees and commissions	3,264	2,699	30,889
Other operating expenses	21	1	200
General and administrative expenses	25,858	27,886	244,664
Other expenses	14,289	25,502	135,204
Total expenses	¥ 44,331	¥ 57,363	\$ 419,452
Income (loss) before income taxes and minority interests	4,286	(6,725)	40,553
Income taxes:			
Current	195	120	1,851
Deferred	1,322	5,933	12,515
Minority interests	292	254	2,766
Net income (loss)	¥ 2,475	¥ (13,033)	\$ 23,418
		Yen	U.S. dollars (Note 2)
Net income (loss) per share	¥ 10.25	¥ (53.96)	\$ 0.09

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)
	2004	2003	2004
<i>For the years ended March 31,</i>			
Common stock:			
Balance at beginning of year	¥ 35,565	¥ 35,565	\$ 336,511
Addition:			
New shares issued	—	—	—
Balance at end of year	¥ 35,565	¥ 35,565	\$ 336,511
Number of shares issued at end of year (thousands)	241,597	241,597	
Capital surplus:			
Balance at beginning of year	¥27,570	¥ 34,137	\$ 260,858
Addition:			
Gains on sale of shares of treasury stock, net of taxes	1	—	16
Deduction:			
Decrease in capital surplus due to withdraw of capital reserve	13,053	6,567	123,506
Balance at end of year	¥ 14,518	¥ 27,570	\$ 137,368
Retained earnings:			
Balance at beginning of year	¥(12,568)	¥ (6,102)	\$(118,914)
Addition:			
Net income	2,475	—	23,418
Increase in retained earnings due to withdraw of capital reserve	13,053	6,567	123,506
Deduction:			
Net loss	—	(13,033)	—
Balance at end of year	¥2,960	¥(12,568)	\$ 28,010

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)
	2004	2003	2004
<i>March 31,</i>			
Tier I capital:			
Common stock	¥ 35,565	¥ 35,565	\$ 336,511
Capital surplus	14,518	14,516	137,368
Retained earnings	2,233	482	21,134
Minority interests of consolidated subsidiaries	675	363	6,395
Treasury stock	(51)	(42)	(485)
Others	—	—	—
Subtotal	52,942	50,886	500,924
Tier II capital:			
Land revaluation account, after 45% discount	2,728	2,728	25,819
General reserve for possible loan loss	5,345	6,076	50,578
Others	—	—	—
Sub-total	8,074	8,805	76,398
Less	101	101	957
Total qualifying capital	¥ 60,916	¥ 59,590	\$ 576,365
Risk-adjusted assets:			
On-balance sheet exposure	¥922,139	¥956,359	\$8,724,949
Off-balance sheet exposure	12,808	15,892	121,190
Total	¥934,948	¥972,251	\$8,846,140
Capital ratio	6.51%	6.12%	

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>	2004	2003	2004
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥4,286	¥(6,725)	\$40,553
Depreciation and amortization	6,243	6,783	59,071
Net increase (decrease) in reserve for possible loan losses	(4,033)	(8,647)	(38,164)
Net increase (decrease) in reserve for possible losses on loans sold	(1,161)	(1,185)	(10,990)
Increase in accrued employee bonuses	(36)	(168)	(348)
Increase in reserve for employees' retirement benefits	1,184	(3,553)	11,205
Interest income	(33,481)	(33,058)	(316,786)
Interest expenses	897	1,273	8,494
Loss (gain) on securities - net	(2,084)	7,499	(19,721)
Foreign exchange (gain) loss - net	1	6	11
Loss on disposal of premises and equipment - net	19	31	186
Net (increase) decrease in loans	33,230	43,607	314,416
Net increase (decrease) in deposits	(15,924)	527	(150,673)
Net increase (decrease) in borrowings excluding subordinated debt	(984)	(1,507)	(9,310)
Net (increase) decrease in due from banks other than the Bank of Japan	1,042	2,102	9,862
Net (increase) decrease in call loans	(6,967)	13,593	(65,925)
Net increase (decrease) in call money	(246)	1,377	(2,333)
Net (increase) decrease in foreign exchange assets	(293)	2,236	(2,776)
Net increase (decrease) in foreign exchange liabilities	88	(6)	834
Interest received	33,575	34,011	317,681
Interest paid	(1,133)	(1,665)	(10,724)
Other	4,152	(5,985)	39,289
Sub-total	18,374	50,547	173,852
Income taxes payable	(195)	(2,037)	(1,852)
Net cash provided by (used in) operating activities	18,178	48,510	172,000
Cash flows from investing activities:			
Purchases of stock and other securities	(382,035)	(1,006,896)	(3,614,682)
Proceeds from sales of stock and other securities	268,136	352,592	2,537,007
Proceeds from redemption of bonds	104,577	561,783	989,474
Purchases of premises and equipment	(3,219)	(4,317)	(30,465)
Proceeds from sales of premises and equipment	0	—	0
Net cash (used in) provided by investing activities	(12,541)	(96,838)	(118,665)
Cash flows from financing activities:			
Proceeds from stock issuance	—	—	—
Dividends paid	—	—	—
Dividends paid to minority interests	(2)	(2)	(22)
Purchases of treasury stock	(375)	(28)	(3,548)
Proceeds from sales of treasury stock	392	—	3,716
Increase in retained earnings from the sale of the Bank's share	1	—	16
Net cash (used in) provided by financing activities	17	(31)	161
Effect of exchange rate changes on cash and cash equivalents	(13)	(7)	(128)
Net increase (decrease) in cash and cash equivalents	5,640	(48,366)	53,367
Cash and cash equivalents at beginning of year	64,815	113,181	613,256
Cash and cash equivalents at end of year	¥ 70,455	¥64,815	\$666,624

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 ¥105.69 to US\$1.00, the rate prevailing on March 31, 2004.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

(As of June 29, 2004)

**President and
Chief Executive Officer**
Hiroo Masuda

**Senior Managing
Director**
Yuji Yamaguchi

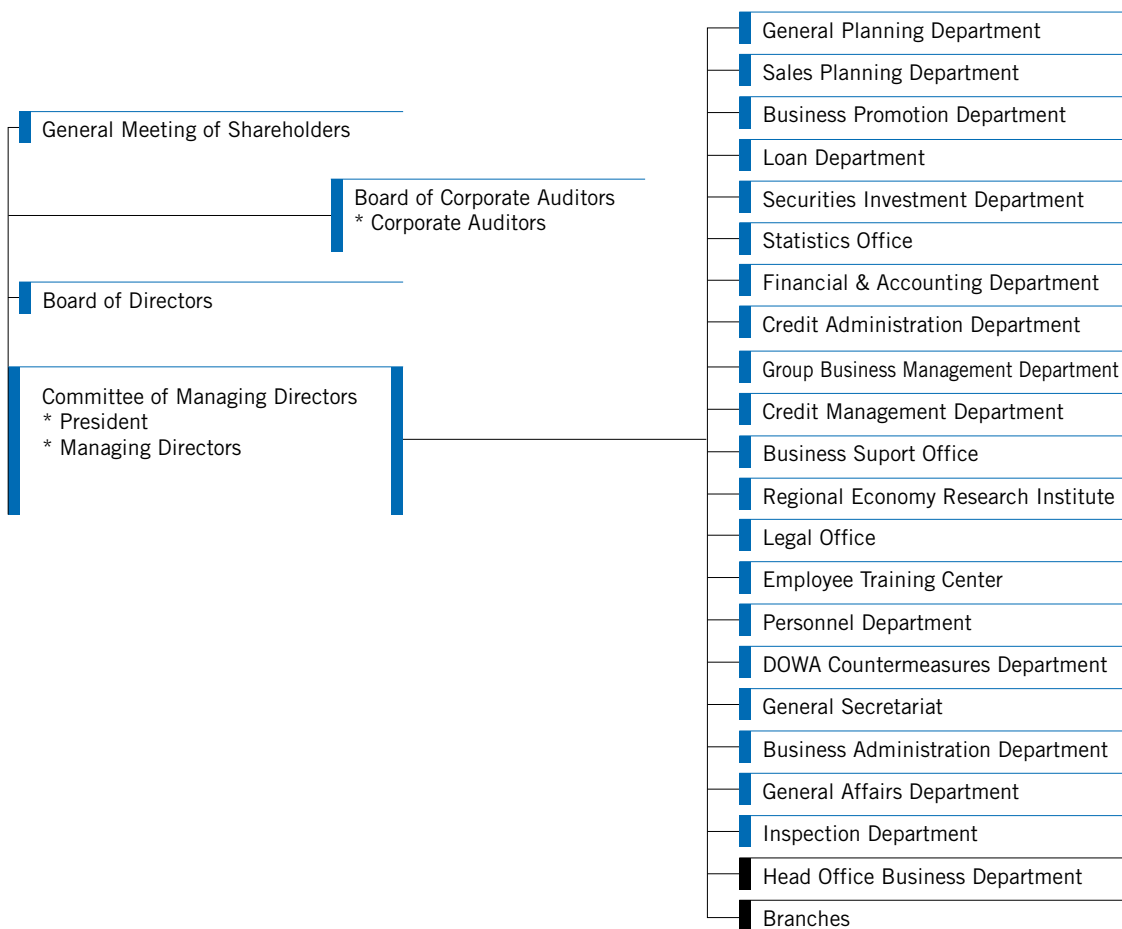
Managing Directors
Kaneyoshi Tashiro
Tadashi Yamada
Hitoshi Fukuda
Katsuhiko Kawashima
Rihei Ishikura

Directors
Shoji Kimoto
Hideaki Haraguchi

Corporate Auditors
Yuji Endo
Kazuo Kojima
Toru Ikehara

ORGANIZATION

(As of June 29, 2004)



Head Office:

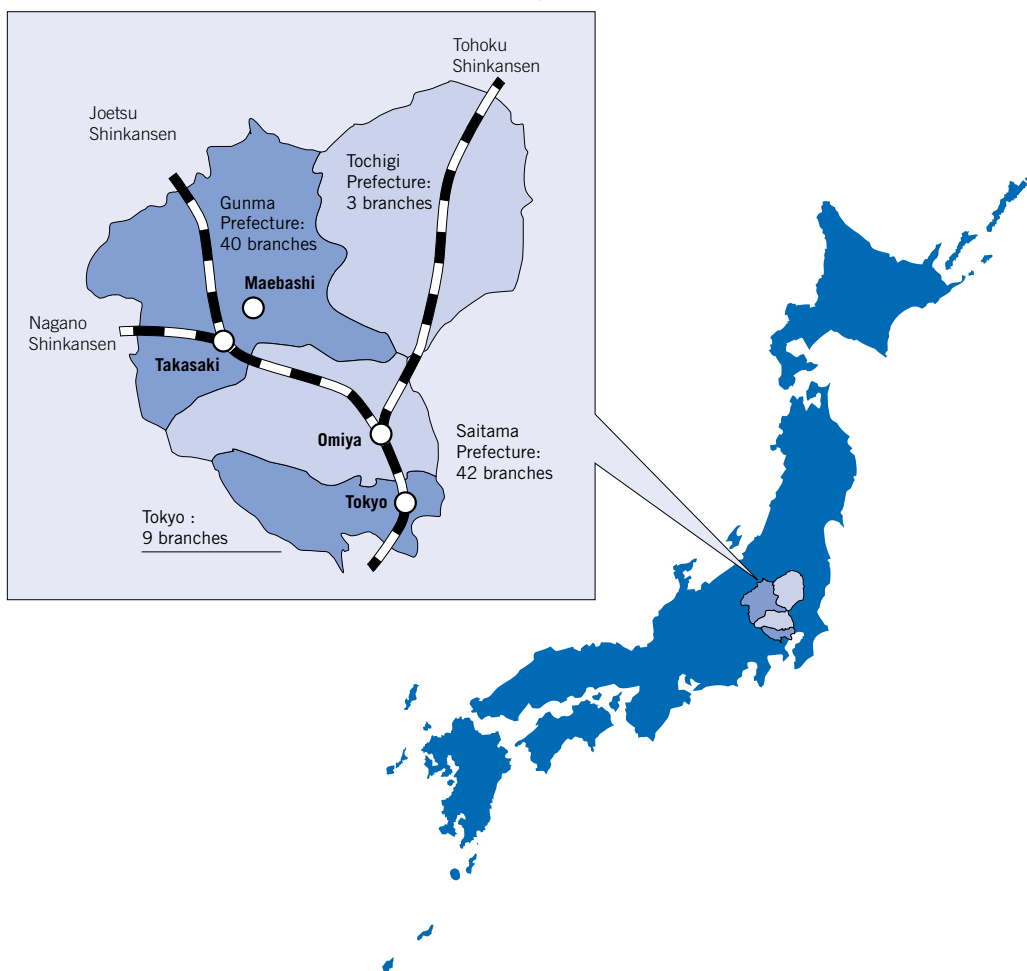
12-6, Honmachi 2-chome, Maebashi, Gunma 371-8560, Japan
 Phone: 027-234-1111
 URL: <http://www.towabank.co.jp>

**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:

(As of March 31, 2004)



CONSOLIDATED SUBSIDIARIES (As of March 31, 2004)

	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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