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**2005**

**Financial Statements**

For the year ended March 31, 2005

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**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, 2005, we had a network of 91 branches covering the Kanto district, with a particularly strong presence in the prefectures of Gunma and Saitama. The balance of deposits was ¥1,672 billion (US\$15,577 million), while loans and bills discounted stood at ¥1,167 billion (US\$10,869 million).

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



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# CONSOLIDATED FINANCIAL HIGHLIGHTS

The Towa Bank, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2005 and 2004

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
<i>For the years ended March 31,</i>			
Total income	¥ 46,998	¥ 48,617	\$ 437,644
Total expenses	42,635	44,331	397,019
Income before income taxes and minority interests	4,362	4,286	40,625
Net income	2,329	2,475	21,692
Cash flows:			
Net cash provided by operating activities	¥ 43,430	¥ 18,178	\$ 404,421
Net cash used in investing activities	(43,165)	(12,541)	(401,954)
Net cash provided by financing activities	14,251	17	132,710
Cash and cash equivalent at end of year	84,975	70,455	791,283
<i>March 31,</i>			
Deposits and negotiable certificate of deposits	¥1,672,841	¥1,637,563	\$15,577,257
Loans and bills discounted	1,167,263	1,166,158	10,869,389
Securities	434,396	391,781	4,045,040
Total assets	1,791,379	1,740,159	16,681,063
Shareholders' equity	63,117	57,837	587,740
Per share of common stock (in yen and U.S. dollars):			
Net income	¥ 9.66	¥ 10.25	\$ 0.08
Shareholders' equity	261.48	239.55	2.43
Capital ratio	8.48%	6.51%	—

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 ¥107.39 to US\$1.00, the rate prevailing on March 31, 2005.

With thanks to the strong support shown us by our customers, we present the financial results covering the Bank's business activities for Fiscal 2004, ended March 31, 2005.

### Business and Financial Climate

In fiscal 2004, the Japanese economy showed some signs of improvement at the beginning of the period under review owing to increased exports amid favorable economic trends in overseas economies as well as higher industrial production and capital investment on the back of increased company earnings.

These favorable factors were offset by a softening of demand from overseas economies such as the U.S. and China. IT related industries adjusted production in advance of a build up of inventory, adding momentum to the slowdown.

### Actions Taken during the Fiscal Year

Facing these challenges, Towa Bank strove to improve the soundness of its assets, strengthen risk management systems, and enhance the efficiency of management as well as strengthen marketing capabilities and profitability in order to respond swiftly to future changes in the industry and effectively fulfill its role as a regional financial institution. Addressing an increasingly sophisticated information-intensive society, we actively promoted online banking services through the Internet to upgrade our services for customers. We created new marketing channels by utilizing the internet, enhanced our ATM functionality with such payment services as Towa Bank's "Pay-easy" system and implemented countermeasures against fraudulent card use. In addition we upgraded our lineup of investment trusts and individual annuities 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 2004 was a year that saw financial institutions face a number of issues with the Financial Services Agency's Finance Rehabilitation Program coming to fruition. Financial institutions are required to strengthen asset evaluation, bolster treasury stock, reduce non-performing loans, minimize the risk of holding stock as well as restructure companies and rehabilitate businesses.

Financial institutions are tackling non-performing loans head on. By ensuring a full and accurate evaluation of the economic value of loans, bolstering reserves based on this evaluation, as well as restructuring companies and rehabilitating businesses financial institutions are making every effort to bring financial



sector and industry together for the speedy and appropriate disposal of non-performing loans.

Through such efforts to address the issue of non-performing loans, many financial institutions reduced their non-performing loan ratio, allowing for non-performing loan disposal costs to remain within net business profits. Despite such measures to dispose of non-performing loans previously cutting deeply into the treasury stock of financial institutions, this is no longer the case indicating a bottoming out of the non-performing loan predicament.

On other fronts, the government capped insured bank deposits in April 2005, we adopted asset-impairment accounting for fixed assets and we are gearing up to meet the new capital adequacy ratio regulations which are expected to be introduced at the end of March 2007. In addition this year is set to become one that urgently requires aggressive efforts to strengthen management consultations and support functions as well as business rehabilitation based on the timeframe of the Financial Reform Program and the Action Program for the Promotion of Strengthening Functions of Regional Finance. Profit management systems will be bolstered, profitability enhanced and compliance frameworks put in place to achieve definite results.

For this purpose, we aim to achieve the objectives set out in our Sixth Long-Term Management Plan which is based on the principle of adopting a banking approach focused on the customer and contributing to the regional economy. At the same time, we are working to secure stable profits through expanding our business and reducing expenditure in order to meet the expectations of our stakeholders.

We look forward to your continued support and cooperation.

August 2005

A handwritten signature in black ink that reads "Hiroo Masuda". The signature is written in a cursive style with a long, sweeping line for the first letter 'H'.

Hiroo Masuda  
President & CEO

## Deposits

In the year under review, the Bank worked hard to increase stable deposits from individuals and corporations. As a result, deposits from individuals increased ¥14.1 billion and deposits from corporations increased ¥19.9 billion. This led the year-end balance of deposits to stand at ¥1,672.8 billion, up ¥35.2 billion from a year earlier.

In addition to deposits, investment trusts, which are an asset management product, proved popular with individual customers. The year end net asset balance stood at ¥50.8 billion, up ¥21.1 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, and since the launch of our New Power Loan in August last year, unsecured loans to small and medium-sized companies increased ¥38 billion, other finance 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 increased ¥1.1 billion, to ¥1,167.2 billion.

## Foreign Exchange Transactions

The Bank engaged in foreign exchange transactions amounting to US\$3,661 million, down US\$679 million from the previous year. This resulted from a US\$71 million increase in trade transactions, to US\$1,344 million, which was offset by a US\$1,010 million fall in capital transactions owing to a decrease in foreign currency deposits and other factors.

## Earnings

In the year under review, the Bank worked to improve earnings and boost profitability by pursuing efficient asset management activities while streamlining overall operations through reduced personnel and other expenses. As a result, we reported a recurring profit of ¥3.6 billion and a net income of ¥2.3 billion. The Bank has a consolidated capital adequacy ratio of 8.48% according to Japan business standards.

## Performance by Segment

Our banking business posted a recurring profit of ¥3,494 million, and our leasing business reported a recurring profit of ¥235 million. The recurring profits from other businesses totaled ¥159 million.

## Cash Flows

In fiscal 2004, cash flows from operating activities saw an inflow of ¥43,430 million, compared with a ¥18,178 million net inflow in fiscal 2003. This 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 ¥43,165 million, compared with a ¥12,541 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 ¥14,251 million, compared with a ¥17 million inflow in the previous year. The change stemmed primarily from the issue of corporate bonds.

As a result, cash and cash equivalents at end of year amounted to ¥84,975 million, up ¥14,520 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)
	2005	2004	2005
<b>ASSETS:</b>			
Cash and due from banks	¥ 86,826	¥ 72,370	\$ 808,511
Call loans and bills purchased	44,219	43,460	411,767
Commercial paper and other debt purchased	1,284	1,641	11,961
Trading account securities	140	379	1,310
Securities	434,396	391,781	4,045,040
Loans and bills discounted	1,167,263	1,166,158	10,869,389
Foreign exchange	1,004	1,107	9,355
Other assets	12,034	14,985	112,059
Premises and equipment	39,934	40,474	371,868
Deferred tax assets	17,178	18,917	159,960
Customers' liabilities for acceptances and guarantees	10,911	12,826	101,607
Reserve for possible loan losses	(23,815)	(23,943)	(221,768)
Reserve for possible losses on investment securities	—	—	—
<b>Total assets</b>	<b>¥1,791,379</b>	<b>¥1,740,159</b>	<b>\$16,681,063</b>
<b>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits	¥1,672,841	¥1,637,563	\$15,577,257
Call money and bills sold	1,181	1,796	11,000
Borrowed money	3,368	4,150	31,365
Foreign exchange	40	120	378
Corporate bonds	15,000	—	139,677
Other liabilities	7,505	8,659	69,888
Accrued employee bonuses	454	461	4,235
Reserve for employees' retirement benefits	13,765	13,616	128,178
Deferred tax liability for land revaluation	2,451	2,451	22,830
Acceptances and guarantees	10,911	12,826	101,607
<b>Total liabilities</b>	<b>1,727,520</b>	<b>1,681,646</b>	<b>16,086,420</b>
<b>Minority interests</b>	<b>741</b>	<b>675</b>	<b>6,902</b>
<b>Shareholders' equity:</b>			
Common stock:			
Authorized —400,000,000 shares			
Issued —241,597,650 shares	35,565	35,565	331,184
Capital surplus	14,517	14,518	135,189
Land revaluation account	3,612	3,612	33,638
Retained earnings	4,565	2,960	42,513
Net unrealized gains on other securities, net of taxes	4,919	1,231	45,808
Treasury stock, at cost	(60)	(48)	(565)
Parent company stocks held by subsidiaries	(3)	(3)	(29)
<b>Total shareholders' equity</b>	<b>63,117</b>	<b>57,837</b>	<b>587,740</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>¥1,791,379</b>	<b>¥1,740,159</b>	<b>\$16,681,063</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 ¥107.39 to US\$1.00, the rate prevailing on March 31, 2005.

# CONSOLIDATED STATEMENTS OF OPERATIONS

The Towa Bank, Ltd. and Consolidated Subsidiaries

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
<i>For the years ended March 31,</i>			
<b>Income:</b>			
Interest on Loans and discounts	¥28,819	¥29,527	\$268,359
Interest and dividends on securities	3,955	3,798	36,832
Other interest income	153	155	1,430
Fees and commissions	5,217	4,856	48,587
Other operating income	1,086	1,479	10,116
Other income	7,766	8,800	72,317
Total income	46,998	48,617	437,644
<b>Expenses:</b>			
Interest on deposits	551	707	5,138
Interest on borrowings and rediscounts	114	118	1,065
Interest on corporate bonds	68	—	633
Other interest expenses	47	72	445
Fees and commissions	3,403	3,264	31,690
Other operating expenses	384	21	3,581
General and administrative expenses	24,928	25,858	232,133
Other expenses	13,137	14,289	122,330
Total expenses	¥42,635	¥44,331	\$397,019
Income before income taxes and minority interests	4,362	4,286	40,625
Income taxes:			
Current	244	195	2,275
Deferred	1,745	1,322	16,255
Minority interests	43	292	401
Net income	¥ 2,329	¥ 2,475	\$ 21,692
		Yen	U.S. dollars (Note 2)
Net income per share	¥ 9.66	¥ 10.25	\$ 0.08

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)
	2005	2004	2005
<i>For the years ended March 31,</i>			
<b>Common stock:</b>			
Balance at beginning of year	¥ 35,565	¥ 35,565	\$331,184
Addition:			
New shares issued	—	—	—
Balance at end of year	¥ 35,565	¥ 35,565	\$331,184
Number of shares issued at end of year (thousands)	241,597	241,597	
<b>Capital surplus:</b>			
Balance at beginning of year	¥ 14,518	¥ 27,570	\$135,194
Addition:			
Gains on sale of shares of treasury stock, net of taxes	—	1	—
Deduction:			
Decrease in capital surplus due to withdraw of capital reserve	—	13,053	—
Loss by treasury stock retired	0	—	5
Balance at end of year	¥ 14,517	¥ 14,518	\$135,189
<b>Retained earnings:</b>			
Balance at beginning of year	¥ 2,960	¥ (12,568)	\$ 27,566
Addition:			
Net income	2,329	2,475	21,692
Increase in retained earnings due to withdraw of capital reserve	—	13,053	—
Deduction:			
Cash dividend	724	—	6,745
Balance at end of year	¥ 4,565	¥ 2,960	\$ 42,513

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)
	2005	2004	2005
<i>March 31,</i>			
<b>Tier I capital:</b>			
Common stock	¥ 35,565	¥ 35,565	\$ 331,184
Capital surplus	14,517	14,518	135,189
Retained earnings	3,839	2,233	35,748
Minority interests of consolidated subsidiaries	741	675	6,902
Treasury stock	63	51	594
Others	—	—	—
Subtotal	54,600	52,942	508,430
<b>Tier II capital:</b>			
Land revaluation account, after 45% discount	2,728	2,728	25,411
General reserve for possible loan loss	5,544	5,345	51,625
Subordinated debt	15,000	—	139,677
Subtotal	23,273	8,074	216,714
Less	101	101	942
Total qualifying capital	¥ 77,772	¥ 60,916	\$ 724,202
<b>Risk-adjusted assets:</b>			
On-balance sheet exposure	¥903,661	¥922,139	\$8,414,760
Off-balance sheet exposure	13,317	12,808	124,012
Total	¥916,978	¥934,948	\$8,538,773
Capital ratio	8.48%	6.51%	



# 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>	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests	¥ 4,362	¥ 4,286	\$ 40,625
Depreciation and amortization	6,133	6,243	57,118
Net increase (decrease) in reserve for possible loan losses	(128)	(4,033)	(1,193)
Net increase (decrease) in reserve for possible losses on loans sold	0	(1,161)	0
Net increase (decrease) in reserve for employee bonuses	(6)	(36)	(64)
Net increase (decrease) in reserve for employees' retirement benefits	148	1,184	1,387
Interest income	(32,928)	(33,481)	(306,622)
Interest expenses	782	897	7,283
Loss (gain) on securities - net	(1,503)	(2,084)	(13,999)
Foreign exchange (gain) loss - net	(1)	1	(10)
Loss on disposal of premises and equipment - net	50	19	474
Net (increase) decrease in loans	(1,105)	33,230	(10,293)
Net increase (decrease) in deposits	35,278	(15,924)	328,508
Net increase (decrease) in borrowings excluding subordinated debt	(781)	(984)	(7,279)
Net (increase) decrease in due from banks other than the Bank of Japan	65	1,042	608
Net (increase) decrease in call loans	(402)	(6,967)	(3,747)
Net increase (decrease) in call money	(615)	(246)	(5,730)
Net (increase) decrease in foreign exchange assets	102	(293)	958
Net increase (decrease) in foreign exchange liabilities	(79)	88	(742)
Interest received	33,086	33,575	308,098
Interest paid	(695)	(1,133)	(6,474)
Other	1,820	4,152	16,951
Subtotal	43,585	18,374	405,857
Income taxes payable	(154)	(195)	(1,436)
Net cash provided by operating activities	43,430	18,178	404,421
<b>Cash flows from investing activities:</b>			
Purchases of stock and other securities	(293,672)	(382,035)	(2,734,638)
Proceeds from sales of stock and other securities	243,027	268,136	2,263,036
Proceeds from redemption of bonds	11,567	104,577	107,717
Purchases of premises and equipment	(4,088)	(3,219)	(38,075)
Proceeds from sales of premises and equipment	0	0	5
Net cash used in investing activities	(43,165)	(12,541)	(401,954)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of subordinated bond	15,000	—	139,677
Dividends paid	(724)	—	(6,745)
Dividends paid to minority interests	(2)	(2)	(21)
Purchases of treasury stock	(155)	(375)	(1,444)
Proceeds from sales of treasury stock	134	392	1,248
Increase in retained earnings from the sale of the Bank's share	(0)	1	(5)
Net cash provided by financing activities	14,251	17	132,710
Effect of exchange rate changes on cash and cash equivalents	3	(13)	34
Net increase in cash and cash equivalents	14,520	5,640	135,211
Cash and cash equivalents at beginning of year	70,455	64,815	656,071
Cash and cash equivalents at end of year	¥ 84,975	¥ 70,455	\$ 791,283

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 29, 2005)

**President and  
Chief Executive Officer**

Hiroo Masuda

**Senior Managing  
Directors**

Yuji Yamaguchi  
Kunimitsu Yoshinaga

**Managing Directors**

Tadashi Yamada  
Hitoshi Fukuda  
Katsuhiko Kawashima  
Rihei Ishikura

**Directors**

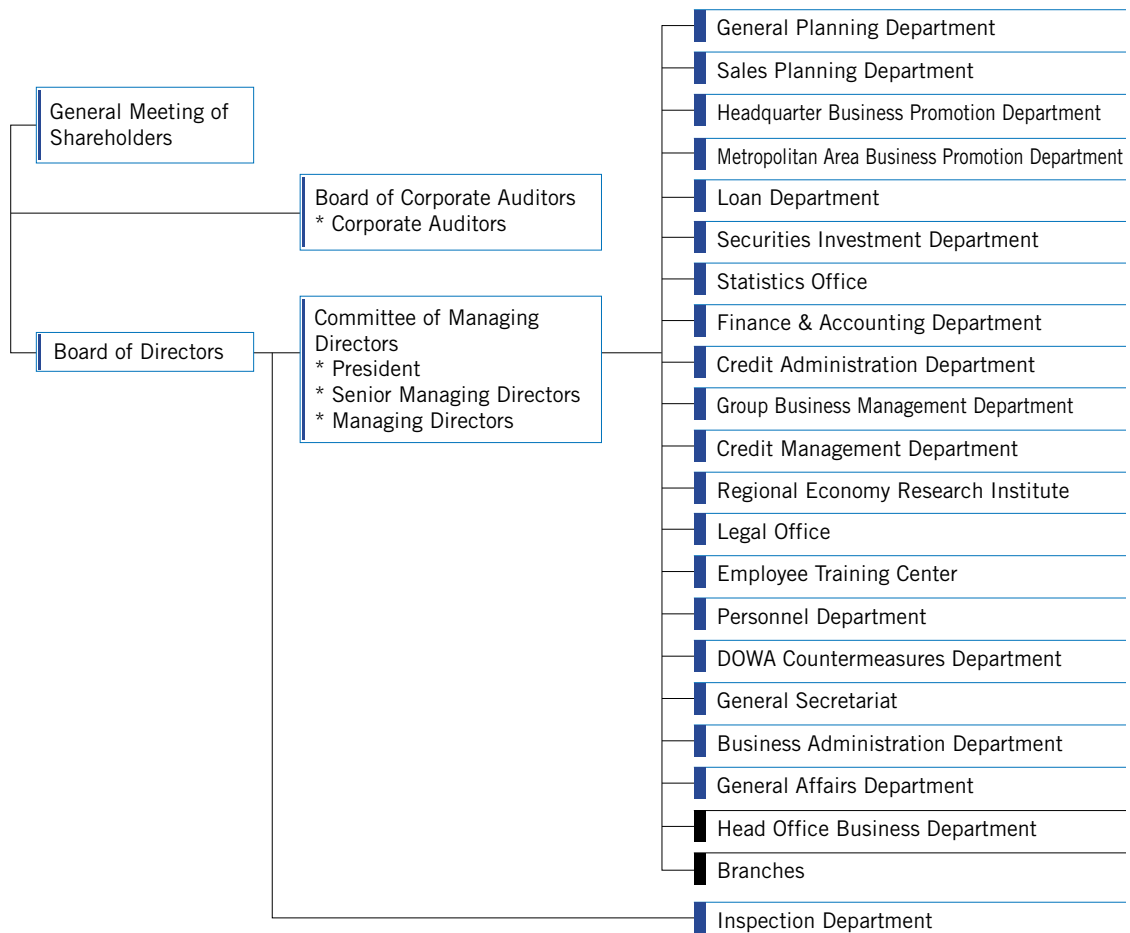
Hideaki Haraguchi  
Katsuhiko Tamaoki  
Hideo Kabe

**Corporate Auditors**

Yuji Endo  
Kazuo Kojima  
Toru Ikehara

## ORGANIZATION

(As of June 29, 2005)



**Head Office:**

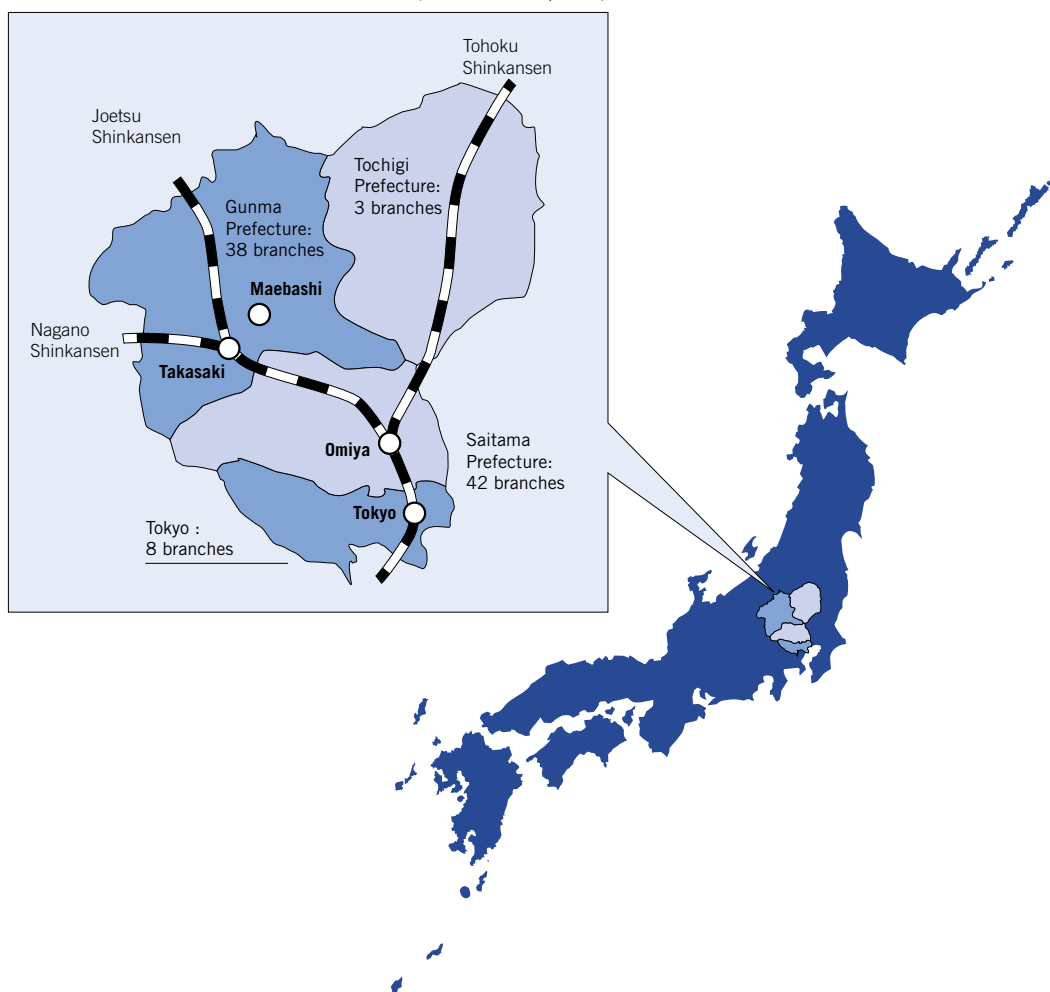
12-6, Honmachi 2-chome, Maebashi, Gunma 371-8560, Japan  
 Phone: 027-234-1111  
 URL: <http://www.towabank.co.jp>

**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, 2005)



**CONSOLIDATED SUBSIDIARIES** (As of March 31, 2005)

	Established	Capital (¥ million)	Equity Ownership	
			By Towa Bank	By its subsidiaries
The Towa Business Service Co., Ltd.	August 1976	¥ 20	100%	—
The Towa Office Service Co., Ltd.	March 1991	20	100%	—
The Towa Card Co., Ltd.	August 1989	50	5%	20%
The Towa Uni Ven Co., Ltd.	May 1986	20	5%	65%
The Towa Credit Guarantee Co., Ltd.	August 1997	50	5%	32%
The Towagin Lease Co., Ltd.	March 1974	100	5%	20%

**THE TOWA BANK, LTD.**

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