
2006

Financial Statements

For the year ended March 31, 2006

TOWA



THE TOWA BANK, LTD.

PROFILE

Since its establishment in 1917, the Towa Bank has maintained close ties to the surrounding regions throughout the various social and economic changes Japan has undergone. We have continued fostering regional economic development by providing comprehensive financial services, based on our commitment for customers to serve as “a bank that is beneficial, trustworthy, and progressive.”

As of March 31, 2006, 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 ¥1,666 billion (US\$14,183 million), while loans and bills discounted stood at ¥1,183 billion (US\$10,076 million).

A MESSAGE FROM THE PRESIDENT

With thanks to the strong support shown to us by our customers, we present the financial results covering the Bank's business activities for Fiscal 2005, ended March 31, 2006.

In fiscal 2005, the Japanese economy showed some signs of improvement at the second half of the period under review owing to increased exports. Domestic demand also improved, with companies increasing capital investment on the back of increased company earnings. These positive factors are influencing employment and income, giving an overall picture of a rebounding economy. In March 2006, the Bank of Japan removed their quantitative easing of monetary policy, for the first time in five years, giving a definitive indication that the Japanese economy is moving away from deflation.

In this economic environment, Towa Bank strove to strengthen its marketing and profitability in addition to thoroughly improving management efficiency and reinforcing our retail business in order to become a regional financial institution that responds swiftly to changes in the business environment.

In accordance with our Financial Reform Program that was implemented last year as part of our two-year priority strengthening period, we bolstered profit management systems, enhanced profitability and put in place compliance frameworks to strengthen management capabilities. We are undertaking several such managerial measures to improve our financial condition as well as carrying out policies to smoothly provide finance to small and medium compa-

nies in addition to business-restoring services for customers.

At the same time we introduced our independently developed cash card multi-PIN system in order to provide further security to our customer's deposit accounts. The Bank also entered into an ATM tie-up with Seven Bank Ltd. allowing customers the convenience of using their cash cards at Seven Eleven stores.

In the future we will continue to take a banking approach focused on the customer and contributing to the regional economy. At the same time, we are ensuring sound management in order to meet the expectations of our customers and shareholders. We look forward to your continued support and cooperation.

August 2006



Hiroo Masuda
President & CEO

BUSINESS PERFORMANCE

In the year under review, the Bank worked hard to increase stable deposits, however diversification of asset management products caused a ¥6.7 billion decrease of the balance of deposits to post ¥1,666.1 billion.

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 ¥85.4 billion, up ¥34.6 billion from the previous year. Individual annuities also sold well, with annual sales reaching ¥5.7 billion, giving an overall favorable view of asset management products.

Housing loans performed favorably, and since the launch of our New Power Loans unsecured loans to small and medium-sized companies increased. Consequently, the year-end balance of loans and bills discounted increased ¥16.3 billion, to ¥1,183.6 billion.

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 in line with projections. Despite the application from this year of asset impairment and redemption of holding stock, recurring profits stood at ¥7.4 billion and a consolidated net income of ¥2.7 billion.

Our banking business posted a recurring profit of ¥5,180 million, and our leasing business reported a recurring profit of ¥245 million. The recurring profits from other businesses totaled ¥193 million.

Net income per share was ¥11.23 and net asset worth per share was ¥261.75. The Bank has a consolidated capital adequacy ratio of 8.32% according to Japan business standards.

CONSOLIDATED BALANCE SHEETS

The Towa Bank, Ltd. and Consolidated Subsidiaries

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
ASSETS:			
Cash and due from banks	¥ 34,373	¥ 86,826	\$ 292,615
Call loans and bills purchased	43,932	44,219	373,985
Commercial paper and other debt purchased	1,118	1,284	9,522
Trading account securities	123	140	1,051
Securities	470,024	434,396	4,001,228
Loans and bills discounted	1,183,652	1,167,263	10,076,210
Foreign exchange	985	1,004	8,387
Other assets	11,195	12,034	95,306
Premises and equipment	37,464	39,934	318,931
Deferred tax assets	12,662	17,178	107,797
Customers' liabilities for acceptances and guarantees	9,880	10,911	84,107
Reserve for possible loan losses	(19,040)	(23,815)	(162,089)
Reserve for possible losses on investment securities	—	—	—
Total assets	¥1,786,372	¥1,791,379	\$15,207,053
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits	¥1,666,126	¥1,672,841	\$14,183,422
Call money and bills sold	1,174	1,181	10,000
Borrowed money	1,683	3,368	14,333
Foreign exchange	76	40	651
Corporate bonds	15,000	15,000	127,692
Other liabilities	10,713	7,505	91,203
Accrued employee bonuses	477	454	4,067
Reserve for employees' retirement benefits	13,616	13,765	115,911
Deferred tax liabilities	160	—	1,369
Deferred tax liability for land revaluation	3,834	2,451	32,640
Acceptances and guarantees	9,880	10,911	84,107
Total liabilities	1,722,744	1,727,520	14,665,399
Minority interests	464	741	3,957
Shareholders' equity:			
Common stock:			
Authorized —400,000,000 shares			
Issued —241,597,650 shares	35,565	35,565	302,765
Capital surplus	14,517	14,517	123,588
Retained earnings	6,435	4,565	54,784
Land revaluation account	2,307	3,612	19,643
Net unrealized gains on other securities, net of taxes	4,424	4,919	37,666
Treasury stock, at cost	(75)	(60)	(640)
Parent company stocks held by subsidiaries	(13)	(3)	(111)
Total shareholders' equity	63,163	63,117	537,696
Total liabilities, minority interests and shareholders' equity	¥1,786,372	¥1,791,379	\$15,207,053

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 ¥117.47 to US\$1.00, the rate prevailing on March 31, 2006.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

The Towa Bank, Ltd. and Consolidated Subsidiaries

<i>For the years ended March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
Income:			
Interest on Loans and discounts	¥27,669	¥28,819	\$235,546
Interest and dividends on securities	3,398	3,955	28,931
Other interest income	147	153	1,252
Fees and commissions	5,701	5,217	48,537
Other operating income	513	1,086	4,368
Other income	10,001	7,766	85,141
Total income	47,431	46,998	403,777
Expenses:			
Interest on deposits	558	551	4,755
Interest on borrowings and rediscounts	88	114	752
Interest on corporate bonds	400	68	3,409
Other interest expenses	10	47	93
Fees and commissions	3,449	3,403	29,362
Other operating expenses	3	384	32
General and administrative expenses	24,184	24,928	205,877
Other expenses	12,049	13,137	102,573
Total expenses	¥40,745	¥42,635	\$346,855
Income before income taxes and minority interests	6,686	4,362	56,921
Income taxes:			
Current	85	244	724
Deferred	4,318	1,745	36,758
Minority interests	(427)	43	(3,635)
Net income	¥ 2,710	¥ 2,329	\$ 23,074
		Yen	U.S. dollars (Note 2)
Net income per share	¥ 11.23	¥ 9.66	\$ 0.09

<i>For the years ended March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
Capital surplus:			
Balance at beginning of year	¥ 14,517	¥ 14,518	\$123,588
Addition	—	—	—
Deduction	—	0	—
Balance at end of year	¥ 14,517	¥ 14,517	\$123,588
Retained earnings:			
Balance at beginning of year	¥ 4,565	¥ 2,960	\$ 38,865
Addition:			
Net income	2,710	2,329	23,074
Deduction:			
Cash dividend	724	724	6,164
Land revaluation surplus	116	—	990
Balance at end of year	¥ 6,435	¥ 4,565	\$ 54,784

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CONSOLIDATED STATEMENTS 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)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,686	¥ 4,362	\$ 56,921
Depreciation and amortization	5,600	6,133	47,678
Loss on impairment of fixed assets	2,215	—	18,858
Amortization of consolidation differences	(13)	—	(117)
Net increase (decrease) in reserve for possible loan losses	(4,775)	(128)	(40,649)
Net increase (decrease) in reserve for employee bonuses	22	(6)	195
Net increase (decrease) in reserve for employees' retirement benefits	(148)	148	(1,268)
Interest income	(31,215)	(32,928)	(265,730)
Interest expenses	1,058	782	9,010
Loss (gain) on securities - net	(2,391)	(1,503)	(20,362)
Foreign exchange (gain) loss - net	9	(1)	78
Loss on disposal of premises and equipment - net	14	50	120
Net (increase) decrease in loans	(16,388)	(1,105)	(139,513)
Net increase (decrease) in deposits	(6,715)	35,278	(57,164)
Net increase (decrease) in borrowings excluding subordinated debt	(1,684)	(781)	(14,340)
Net (increase) decrease in due from banks other than the Bank of Japan	730	65	6,217
Net (increase) decrease in call loans	453	(402)	3,861
Net increase (decrease) in call money	(6)	(615)	(56)
Net (increase) decrease in foreign exchanges assets	19	102	165
Net increase (decrease) in foreign exchange liabilities	35	(79)	305
Interest received	32,897	33,086	280,051
Interest paid	(1,123)	(695)	(9,563)
Other	116	1,820	994
Subtotal	(14,602)	43,585	(124,305)
Income taxes payable	(436)	(154)	(3,717)
Net cash (used in) provided by operating activities	(15,038)	43,430	(128,022)
Cash flows from investing activities:			
Purchases of stock and other securities	(188,905)	(293,672)	(1,608,120)
Proceeds from sales of stock and other securities	132,853	243,027	1,130,953
Proceeds from redemption of bonds	24,175	11,567	205,805
Purchases of premises and equipment	(4,257)	(4,088)	(36,243)
Proceeds from sales of premises and equipment	185	0	1,580
Net cash used in investing activities	(35,948)	(43,165)	(306,023)
Cash flows from financing activities:			
Proceeds from issuance of subordinated bond	—	15,000	—
Dividends paid	(724)	(724)	(6,164)
Dividends paid to minority interests	(2)	(2)	(20)
Purchases of treasury stock	(14)	(155)	(123)
Proceeds from sales of treasury stock	—	134	—
Increase in retained earnings from the sale of the Bank's share	—	(0)	—
Net cash (used in) provided by financing activities	(741)	14,251	(6,308)
Effect of exchange rate changes on cash and cash equivalents	6	3	54
Net (decrease) increase in cash and cash equivalents	(51,722)	14,520	(440,300)
Cash and cash equivalents at beginning of year	84,975	70,455	723,383
Cash and cash equivalents at end of year	¥ 33,253	¥ 84,975	\$ 283,083

BIS CAPITAL RATIO (DOMESTIC STANDARDS)

March 31,

Tier I capital	¥ 56,169	¥54,600	\$ 478,162
Tier II capital	21,413	23,273	182,291
Less	101	101	861
Total qualifying capital	¥ 77,482	¥ 77,772	\$ 659,592
Risk-adjusted assets:			
On-balance sheet exposure	¥919,359	¥903,661	\$7,826,331
Off-balance sheet exposure	11,377	13,317	96,856
Total	¥930,736	¥916,978	\$7,923,188
Capital ratio	8.32%	8.48%	

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BOARD OF DIRECTORS AND CORPORATE AUDITORS

(As of June 29, 2006)

President and Chief Executive Officer

Hiroo Masuda

Executive Vice President

Kunimitsu Yoshinaga

Senior Managing Director

Yuji Yamaguchi

Managing Directors

Tadashi Yamada

Hitoshi Fukuda

Katsuhiko Kawashima

Yuji Endo

Rihei Ishikura

Hideaki Haraguchi

Directors

Katsuhiro Tamaoki

Hideo Kabe

Shinobu Fukuda

Corporate Auditors

Kazuo Kojima

Chiaki Suzuki

Toru Ikehara

Yoshikazu Katou

THE TOWA BANK NETWORK

(As of March 31, 2006)

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