

**2007**

Financial Statements

**TOWA**

THE TOWA BANK LTD.

## PROFILE

Amid the tremendous social and economic changes that have occurred since the establishment of the Towa Bank in 1917, we have always maintained close ties with the communities we serve. The Bank has consistently supported regional economic development through the provision of comprehensive financial services, based on its commitment to serve as “a bank that is beneficial, trustworthy and progressive.”

As of March 31, 2007 the Bank had a network of 91 branches, principally covering the prefectures of Gunma and Saitama, in addition to eight branches in the Tokyo Metropolitan Region and three in Tochigi Prefecture. The balance of deposits was ¥1,656.5 billion (US\$14,032 million), while loans and bills discounted stood at ¥1,181.9 billion (US\$ 10,012 million).

## A MESSAGE FROM THE PRESIDENT

I herewith present the financial results covering the business activities of Towa Bank for fiscal 2006, ended March 31, 2007, and would like to take this opportunity to thank our customers for their loyal support.

In fiscal 2006, the Japanese economy continued to stage a moderate improvement, driven by positive capital investment resulting from buoyant corporate earnings and a strong overseas economy. The strength of the corporate sector, however, was not fully mirrored in household expenditures or consumer spending, and thus some observers maintain that the economy has not yet entered the phase of full-fledged growth.

Nevertheless, Japan is now enjoying the longest period of uninterrupted economic expansion in the postwar period, exceeding the duration of the Izanagi Boom of 1965-1970.

Responding to the increasing briskness of the economy and a clearer upward trend in the price indexes, the Bank of Japan ended the zero interest rate policy it had maintained for five years and four months, and stepped up its efforts to normalize the financial market.

Despite the more positive circumstances, we decided to build substantial reserves for future possible loan losses. This was based on our understanding that we would be unable to realize a sound financial position or fully serve the regional economy without the complete disposal of nonperforming loans.

## BUSINESS PERFORMANCE

In the year under review, we worked to increase the value of deposits, but despite our efforts, the year-end balance of deposits slipped ¥9.5 billion from the year-earlier level, to ¥1,656.5 billion. This was largely the result of diversification in customers' investment target preferences.

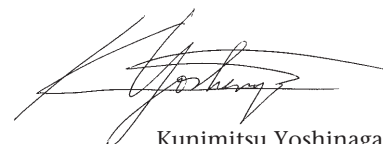
Investment trusts are becoming popular with our retail banking customers. The year-end balance of investment trusts stood at ¥119.7 billion, a ¥34.2 billion year-on-year increase. Annual sales of personal annuities reached ¥5.4 billion. We thus achieved relatively favorable results with respect to overall assets in custody.

To meet fund demand from individuals and small and medium-sized enterprises (SMEs), the Bank strengthened its community-based marketing to attain strong results in unsecured loans for SMEs and in mortgage loans. However, as a result of write-offs of non-performing loans amounting to ¥18.3 billion, the year-end balance of loans and bills dis-

Following this decision, we posted a significant loss and suspended dividend payments in fiscal 2006. We take seriously the inconvenience this represents for our stakeholders, and consequently we will revamp our management system to set up a new structure with close ties among customers, shareholders, and our officers and employees. In the years ahead, we will continue to focus our business resources on frontline marketing departments and branches to fulfill our role as a regional financial institution that assists in the development of local economies.

As a financial institution trusted by its stakeholders in the local community, the Bank's officers and employees are united in their commitment to meeting the expectations of shareholders and customers. We look forward to your continued support and cooperation.

August 2007



Kunimitsu Yoshinaga  
President & CEO



counted registered a decline of ¥1.6 billion from the preceding year-end, to ¥1,181.9 billion.

In the year under review, we carried out effective fund operations and streamlined our business operations by cutting personnel, non-personnel and other expenses in an attempt to bolster profitability. However, new bad loans emerged, and the operating conditions surrounding our principal borrowers deteriorated. Moreover, we conducted very strict self-assessment to report far higher credit costs than initially projected. Consequently, we posted a recurring loss of ¥22.1 billion and a net loss of ¥27.4 billion on a consolidated basis.

Our banking business posted a recurring loss of ¥21.8 billion, while our leasing business reported a recurring profit of ¥14 million. Recurring losses from other businesses totaled ¥340 million. Net loss per share was ¥113.60, and net assets attributable to shareholders per share came to ¥136.87. At the term-end, the Bank's capital ratio stood at 5.71% (domestic standard, consolidated basis).

# Consolidated Balance Sheets

The Towa Bank, Ltd. and Consolidated Subsidiaries

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Assets:</b>			
Cash and due from banks.....	¥ 70,639	¥ 34,373	\$ 598,383
Call loans and bills purchased.....	4,234	43,932	35,866
Commercial paper and other debt purchased.....	621	1,118	5,267
Trading account securities.....	256	123	2,174
Securities .....	450,608	470,024	3,817,102
Loans and bills discounted.....	1,181,954	1,183,652	10,012,319
Foreign exchange.....	845	985	7,161
Other assets.....	10,698	11,195	90,628
Tangible fixed assets .....	36,174	—	306,430
Intangible fixed assets .....	1,948	—	16,509
Premises and equipment .....	—	37,464	—
Deferred tax assets .....	6,811	12,662	57,702
Customers' liabilities for acceptances and guarantees.....	9,777	9,880	82,824
Reserve for possible loan losses .....	(30,262)	(19,040)	(256,352)
<b>Total assets .....</b>	<b>¥1,744,309</b>	<b>¥1,786,372</b>	<b>\$14,776,019</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 ¥118.05 to US\$1.00, the rate prevailing on March 31, 2007.

3. New accounting standards for classification of net assets

Effective from the year ended March 2007, the Bank has been required to adopt new accounting standards for the classification of net assets pursuant to the Business Accounting Standard for Presenting Net Assets and Application Guidelines for the Application of Business Accounting Standard for Presenting Net Assets. The net asset section for the reporting term was prepared in accordance with revisions in regulations for preparing financial statements and Enforcement Regulations to the Banking Law.

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Liabilities:</b>			
Deposits .....	¥1,656,560	¥1,666,126	\$14,032,701
Call money and bills sold.....	1,180	1,174	10,000
Borrowed money .....	1,484	1,683	12,574
Foreign exchange.....	75	76	640
Corporate bonds .....	15,000	15,000	127,064
Other liabilities .....	8,796	10,713	74,517
Accrued employee bonuses .....	476	477	4,035
Reserve for losses on deposits refunded .....	110	—	931
Reserve for employee retirement benefits .....	13,053	13,616	110,578
Reserve for director retirement benefits .....	462	—	3,917
Deferred tax liabilities.....	124	160	1,056
Deferred tax liability for land revaluation .....	3,833	3,834	32,476
Acceptances and guarantees.....	9,777	9,880	82,824
Total liabilities .....	1,710,936	1,722,744	14,493,319
<b>Net assets:</b>			
Common stock:			
Authorized —400,000,000 shares			
Issued —241,597,650 shares .....	35,565	—	301,278
Capital surplus.....	14,516	—	122,971
Accumulated deficit.....	(21,737)	—	(184,139)
Treasury stock, at cost.....	(89)	—	(756)
Total shareholders' equity .....	28,255	—	239,354
Net unrealized gains on available-for-sale securities.....	2,429	—	20,577
Land revaluation account.....	2,340	—	19,830
Total valuation and translation adjustments .....	4,770	—	40,407
Minority interests .....	346	—	2,937
Total net assets.....	33,372	—	282,699
Total liabilities and net assets.....	¥1,744,309	—	\$14,776,019
Minority interests.....	—	464	—
<b>Shareholders' equity:</b>			
Common stock:			
Issued —241,597,650 shares .....	—	35,565	—
Capital surplus.....	—	14,517	—
Retained earnings .....	—	6,435	—
Land revaluation account.....	—	2,307	—
Net unrealized gains on available-for-sale securities.....	—	4,424	—
Treasury stock, at cost.....	—	(75)	—
Parent company stocks held by subsidiaries .....	—	(13)	—
Total shareholders' equity .....	—	63,163	—
Total liabilities, minority interests and shareholders' equity .....	—	¥1,786,372	—

# Consolidated Statements of Operations

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)
	2007	2006	2007
<b>Income:</b>			
Interest on loans and discounts .....	¥ 27,369	¥27,669	\$ 231,842
Interest and dividends on securities.....	3,797	3,398	32,171
Other interest income .....	134	147	1,137
Fees and commissions .....	5,706	5,701	48,343
Other operating income .....	205	513	1,739
Other income.....	7,288	10,001	61,741
<b>Total income .....</b>	<b>44,502</b>	<b>47,431</b>	<b>376,976</b>
<b>Expenses:</b>			
Interest on deposits .....	1,694	558	14,355
Interest on borrowings and rediscounts.....	99	88	843
Interest on corporate bonds .....	400	400	3,392
Other interest expenses .....	2	10	17
Fees and commissions .....	3,198	3,449	27,094
Other operating expenses.....	0	3	0
General and administrative expenses .....	23,680	24,184	200,597
Other expenses .....	36,860	12,049	312,247
<b>Total expenses.....</b>	<b>65,936</b>	<b>40,745</b>	<b>558,548</b>
Income (loss) before income taxes and minority interests.....	(21,434)	6,686	(181,571)
Income taxes:			
Current .....	109	85	929
Deferred.....	6,049	4,318	51,243
Minority interests in loss.....	177	427	1,506
<b>Net income (loss).....</b>	<b>¥(27,415)</b>	<b>¥ 2,710</b>	<b>\$(232,237)</b>
<b>Net income (loss) per share (in yen and dollar).....</b>	<b>¥(113.60)</b>	<b>¥ 11.23</b>	<b>\$ (0.96)</b>
<b>Retained earnings:</b>			
Balance at beginning of year .....	—	¥ 4,565	—
Addition:			
Net income.....	—	2,710	—
Deduction:			
Cash dividends.....	—	724	—
Land revaluation surplus.....	—	116	—
<b>Balance at end of year .....</b>	<b>—</b>	<b>¥ 6,435</b>	<b>—</b>

# Consolidated Statement of Changes in Net Assets

The Towa Bank, Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2007	Millions of yen (Note 1)				
	Shareholders' equity				Total
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance at March 31, 2006.....	¥35,565	¥14,517	¥ 6,435	¥(88)	¥ 56,431
Changes during year:					
Cash dividends* .....	—	—	(724)	—	(724)
Net loss.....	—	—	(27,415)	—	(27,415)
Purchases of treasury stock.....	—	—	—	(14)	(14)
Disposal of treasury stock.....	—	(1)	—	13	11
Transfer from land revaluation account ...	—	—	(33)	—	(33)
Net changes in items other than shareholders' equity .....	—	—	—	—	—
Total changes during year .....	—	(1)	(28,173)	(0)	(28,175)
Balance at March 31, 2007 .....	¥35,565	¥14,516	¥(21,737)	¥(89)	¥ 28,255
	Valuation and translation adjustments				
	Net unrealized gains on available-for-sale securities	Land revaluation account	Total	Minority interests	Total net assets
Balance at March 31, 2006.....	¥ 4,424	¥2,307	¥ 6,732	¥ 464	¥ 63,628
Changes during year:					
Cash dividends* .....	—	—	—	—	(724)
Net loss.....	—	—	—	—	(27,415)
Purchases of treasury stock.....	—	—	—	—	(14)
Disposal of treasury stock.....	—	—	—	—	11
Transfer from land revaluation account ...	—	—	—	—	(33)
Net changes in items other than shareholders' equity .....	(1,995)	33	(1,962)	(118)	(2,080)
Total changes during year .....	(1,995)	33	(1,962)	(118)	(30,255)
Balance at March 31, 2007 .....	¥ 2,429	¥2,340	¥ 4,770	¥ 346	¥ 33,372

For the year ended March 31, 2007	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				Total
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance at March 31, 2006.....	\$301,278	\$122,981	\$ 54,515	\$(748)	\$ 478,026
Changes during year:					
Cash dividends* .....	—	—	(6,133)	—	(6,133)
Net loss.....	—	—	(232,237)	—	(232,237)
Purchases of treasury stock.....	—	—	—	(118)	(118)
Disposal of treasury stock.....	—	(9)	—	110	100
Transfer from land revaluation account ...	—	—	(283)	—	(283)
Net changes in items other than shareholders' equity .....	—	—	—	—	—
Total changes during year .....	—	(9)	(238,654)	(7)	(238,672)
Balance at March 31, 2007 .....	\$301,278	\$122,971	\$(184,139)	\$(756)	\$ 239,354
	Valuation and translation adjustments				
	Net unrealized gains on available-for-sale securities	Land revaluation account	Total	Minority interests	Total net assets
Balance at March 31, 2006.....	\$ 37,481	\$19,546	\$ 57,028	\$ 3,937	\$ 538,992
Changes during year:					
Cash dividends* .....	—	—	—	—	(6,133)
Net loss.....	—	—	—	—	(232,237)
Purchases of treasury stock.....	—	—	—	—	(118)
Disposal of treasury stock.....	—	—	—	—	100
Transfer from land revaluation account ...	—	—	—	—	(283)
Net changes in items other than shareholders' equity .....	(16,903)	283	(16,620)	(1,000)	(17,620)
Total changes during year .....	(16,903)	283	(16,620)	(1,000)	(256,293)
Balance at March 31, 2007 .....	\$ 20,577	\$19,830	\$ 40,407	\$ 2,937	\$ 282,699

\*Appropriation of retained earnings approved at the ordinary general meeting of shareholders held on June 2006.

# 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)
	2007	2006	2007
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests.....	¥(21,434)	¥ 6,686	\$(181,571)
Depreciation and amortization .....	4,545	5,600	38,503
Loss on impairment of fixed assets .....	18	2,215	160
Amortization of consolidation differences.....	—	(13)	—
Increase (decrease) in reserve for possible loan losses.....	11,221	(4,775)	95,058
Increase (decrease) in reserve for employee bonuses .....	(1)	22	(11)
Increase in reserve for losses on deposits refunded.....	110	—	931
Decrease in reserve for employee retirement benefits .....	(562)	(148)	(4,762)
Increase in reserve for director retirement benefits .....	462	—	3,917
Interest income.....	(31,301)	(31,215)	(265,151)
Interest expenses.....	2,196	1,058	18,608
Loss (gain) on securities - net .....	270	(2,391)	2,292
Foreign exchange (gain) loss - net.....	(24)	9	(209)
Loss on disposal of tangible fixed assets .....	45	—	381
Loss on disposal of premises and equipment - net .....	—	14	—
Net increase in trading account securities .....	(133)	—	(1,128)
Net (increase) decrease in loans .....	1,698	(16,388)	14,384
Net decrease in deposits .....	(9,566)	(6,715)	(81,035)
Net decrease in borrowings excluding subordinated debt.....	(199)	(1,684)	(1,688)
Net (increase) decrease in due from banks other than the Bank of Japan .....	(342)	730	(2,900)
Net decrease in call loans .....	40,194	453	340,489
Net increase (decrease) in call money .....	5	(6)	49
Net decrease in foreign exchanges, assets .....	139	19	1,184
Net increase (decrease) in foreign exchange, liabilities .....	(0)	35	(8)
Interest received.....	32,377	32,897	274,273
Interest paid.....	(1,511)	(1,123)	(12,808)
Other.....	(191)	116	(1,621)
Subtotal .....	28,017	(14,602)	237,338
Income taxes paid.....	(82)	(436)	(700)
Net cash provided by (used in) operating activities .....	27,935	(15,038)	236,638
<b>Cash flows from investing activities:</b>			
Purchases of securities .....	(35,057)	(188,905)	(296,967)
Proceeds from sale of securities .....	24,825	132,853	210,296
Proceeds from redemption of securities .....	22,589	24,175	191,355
Purchases of tangible fixed assets.....	(3,902)	—	(33,057)
Purchases of premises and equipment .....	—	(4,257)	—
Proceeds from sale of tangible fixed assets.....	229	—	1,940
Proceeds from sale of premises and equipment.....	—	185	—
Net cash provided by (used in) investing activities .....	8,684	(35,948)	73,567
<b>Cash flows from financing activities:</b>			
Cash dividends paid .....	(724)	(724)	(6,133)
Cash dividends paid to minority interests.....	(2)	(2)	(18)
Purchases of treasury stock.....	(14)	(14)	(118)
Proceeds from sale of treasury stock.....	42	—	355
Net cash used in financing activities.....	(698)	(741)	(5,915)
Effect of exchange rate changes on cash and cash equivalents.....	1	6	13
Net increase (decrease) in cash and cash equivalents.....	35,923	(51,722)	304,305
Cash and cash equivalents at beginning of year.....	33,253	84,975	281,692
Cash and cash equivalents at end of year .....	¥ 69,177	¥ 33,253	\$ 585,998

# Consolidated Capital Ratio

Domestic Standard

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
Tier I capital .....	¥ 28,602	¥ 56,169	\$ 242,292
Tier II capital .....	22,691	21,413	192,221
Deduction .....	—	101	—
<b>Total qualifying capital.....</b>	<b>¥ 51,294</b>	<b>¥ 77,482</b>	<b>\$ 434,513</b>
Risk-adjusted assets:			
On-balance sheet exposure .....	¥824,812	¥919,359	\$6,986,978
Off-balance sheet exposure .....	11,582	11,377	98,116
Operational-risk exposure .....	61,487	—	520,862
<b>Total .....</b>	<b>¥897,883</b>	<b>¥930,736</b>	<b>\$7,605,957</b>
<b>Capital ratio .....</b>	<b>5.71%</b>	<b>8.32%</b>	



# Board of Directors and Corporate Auditors

(As of June 28, 2007)

## **President and Chief Executive Officer**

Kunimitsu Yoshinaga

## **Senior Managing Directors**

Tadashi Yamada  
Hitoshi Fukuda

## **Managing Directors**

Katsuhiko Kawashima  
Hideaki Haraguchi  
Katsuhiro Tamaoki  
Hideo Kabe

## **Directors**

Shinobu Fukuda  
Noboru Kogure  
Masayuki Kon

## **Corporate Auditors**

Kazuo Kojima  
Chiaki Suzuki  
Toru Ikehara  
Yoshikazu Katou

# The Towa Bank Network

(As of March 31, 2007)

## **Head Office:**

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## **Foreign Exchange Operation Center, Business Administration Department:**

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Phone: 027-234-1959  
Fax: 027-230-1735  
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## **Service Network:**

