

2008

Financial Statements

**TOWA**

THE TOWA BANK, LTD.

## A Message from the President



I herewith present the financial results of Towa Bank for fiscal 2007, ended March 31, 2008, and would like to take this opportunity to thank our customers for their loyal support.

In fiscal 2007 Japanese exports held firm, principally to the healthy economies of East Asia and other emerging economies, and both capital investment and consumer

spending also showed a firm undertone. However, while the economy as a whole continued to grow, the corporate operating environment became still more severe owing to the aftereffects of the U.S. subprime loan crisis, the ongoing rise in oil and raw materials prices, and the appreciation of the yen against the dollar. Private-sector companies, which have hitherto been the main driver of the economy's growth, seem set for a downturn in business performance, and the economy is likely to mark time.

Against this background, to enable the Towa Bank Group to meet the expectations of its shareholders and business partners, and to fulfill its corporate mission as a regional financial institution, we decided to take steps to increase the effectiveness of our seventh long-term management plan, which went into operation in April 2007, and to lay the groundwork for the future growth and development of the Bank. To this end, we drew up the Phoenix Plan, under which we will undertake a focused program of improvements from the latter half of fiscal 2007 to the end of fiscal 2009.

As a bank on which our local communities depend for the provision of reliable financial services, Towa Bank will offer community-based services that are beneficial to its customers, and thereby achieve a recovery in profitability. The management and staff of the Bank are working as one to realize this goal.

During the reporting term, despite our efforts to attract more individual and corporate depositors, the Bank suffered year-on-year decreases in deposits. This was the result of customers' shift toward alternative investment, and a deterioration of the Bank's business performance that caused the Kanto Financial Bureau to issue a business administrative improvement order, which caused harm to the Bank's reputation for trustworthiness. As a result, deposits by individuals at the reporting term-end were down by ¥27.7 billion, and deposits by corporate customers were down by ¥24.5 billion, compared with the previous term-end. The total balance of deposits thus declined by ¥53.1 billion to ¥1,603.3 billion.

Investment trusts have proved to be a popular way of investing financial assets, and the Bank sold investment trusts

in the amount of ¥24.9 billion during the reporting term. However, as a result of a fall in the base price, the net balance of investment trust assets in custody at the term-end came to ¥115.8 billion, down ¥3.9 billion from the previous term-end. Sales for the term of personal pension funds and public bonds were generally on target, amounting to ¥5.1 billion and ¥6.1 billion, respectively.

In the field of loans, we actively leveraged our community-based marketing network to meet the funding needs of retail customers and SMEs. As a result, the Bank's disbursement of Apartment Loans (loans to individuals wishing to construct apartment buildings, for rental management) increased by ¥8.5 billion over the previous year, while mortgage loans — our mainstay personal loan product — rose by ¥4.3 billion. As a result of ¥11.3 billion in write-offs of loans to improve the financial soundness of our asset portfolio and the sale of claims held by the Bank's subsidiary Towa Phoenix Co., Ltd. in the amount of ¥9.9 billion, the term-end loan balance stood at ¥1,165.5 billion, for a decrease of ¥16.4 billion from the previous term-end.

In line with the Phoenix Plan, we worked to achieve across-the-board management rationalization by improving asset investment efficiency and cutting costs, mainly by holding down both personnel and non-personnel expenses. Thanks to these efforts to enhance the Bank's earning power, we recorded ordinary income of ¥1,115 million and net income of ¥158 million, both on a consolidated basis, compared with ordinary loss and net loss figures for the previous business year.

To continue being the kind of bank that our local communities can depend on, we will press ahead with the implementation of the Phoenix Plan so as to regain the trust of our shareholders and business partners. We will work to firmly put in place a new management system that emphasizes harnessing the knowledge and expertise of the Bank's frontline staff in addressing customer needs. The management of Towa Bank are exerting their full efforts to meet the expectations of all the Bank's stakeholders, and I look forward to receiving your further support and encouragement.

August 2008

A handwritten signature in black ink, appearing to read 'Kunimitsu Yoshinaga'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Kunimitsu Yoshinaga  
President and CEO

# Consolidated Balance Sheets

The Towa Bank, Ltd. and Consolidated Subsidiaries

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
<b>Assets:</b>			
Cash and due from banks.....	¥ 36,187	¥ 70,639	\$ 361,193
Call loans and bills purchased.....	25,389	4,234	253,410
Commercial paper and other debt purchased.....	377	621	3,767
Trading account securities.....	128	256	1,280
Securities .....	452,857	450,608	4,519,989
Loans and bills discounted.....	1,165,500	1,181,954	11,632,904
Foreign exchange.....	1,968	845	19,649
Other assets.....	7,544	10,698	75,302
Tangible fixed assets .....	34,857	36,174	347,918
Intangible fixed assets .....	2,278	1,948	22,744
Deferred tax assets .....	4,398	6,811	43,896
Customers' liabilities for acceptances and guarantees .....	8,410	9,777	83,944
Reserve for possible loan losses .....	(26,300)	(30,262)	(262,505)
<b>Total assets .....</b>	<b>¥1,713,599</b>	<b>¥1,744,309</b>	<b>\$17,103,497</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 ¥100.19 to US\$1.00, the rate prevailing on March 31, 2008.

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
<b>Liabilities:</b>			
Deposits .....	¥1,603,386	¥1,656,560	\$16,003,458
Call money and bills sold.....	21,001	1,180	209,620
Borrowed money .....	4,713	1,484	47,048
Foreign exchange.....	40	75	403
Corporate bonds.....	15,000	15,000	149,715
Other liabilities .....	8,043	8,796	80,278
Accrued employee bonuses .....	236	476	2,356
Reserve for losses on deposits refunded .....	187	110	1,866
Reserve for employee retirement benefits.....	12,165	13,053	121,427
Reserve for director retirement benefits.....	272	462	2,716
Reserve for contingent loss.....	118	—	1,185
Deferred tax liabilities.....	63	124	629
Deferred tax liability for land revaluation .....	3,592	3,833	35,854
Acceptances and guarantees .....	8,410	9,777	83,944
Total liabilities .....	1,677,231	1,710,936	16,740,505
<b>Net assets:</b>			
Capital stock .....	39,565	35,565	394,908
Capital surplus .....	4,000	14,516	39,924
Accumulated deficit.....	(7,117)	(21,737)	(71,042)
Treasury stock, at cost.....	(100)	(89)	(1,002)
Total shareholders' equity .....	36,347	28,255	362,788
Net unrealized gains (losses) on available-for-sale securities .....	(7,284)	2,429	(72,704)
Land revaluation account.....	2,395	2,340	23,913
Total valuation and translation adjustments.....	(4,888)	4,770	(48,790)
Minority interests .....	4,908	346	48,995
Total net assets.....	36,368	33,372	362,992
Total liabilities and net assets.....	¥1,713,599	¥1,744,309	\$17,103,497

# 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)
	2008	2007	2008
<b>Income:</b>			
Interest on loans and discounts .....	¥27,847	¥ 27,369	\$277,946
Interest and dividends on securities.....	3,776	3,797	37,688
Other interest income .....	124	134	1,237
Fees and commissions .....	5,230	5,706	52,208
Other operating income .....	261	205	2,614
Other income.....	11,246	7,288	112,254
<b>Total income.....</b>	<b>48,486</b>	<b>44,502</b>	<b>483,950</b>
<b>Expenses:</b>			
Interest on deposits .....	4,046	1,694	40,391
Interest on borrowings and rediscounts.....	272	99	2,720
Interest on corporate bonds .....	400	400	3,997
Other interest expenses .....	2	2	22
Fees and commissions .....	2,779	3,198	27,745
Other operating expenses.....	0	0	0
General and administrative expenses .....	22,718	23,680	226,753
Other expenses .....	15,684	36,860	156,544
<b>Total expenses.....</b>	<b>45,904</b>	<b>65,936</b>	<b>458,174</b>
Income (loss) before income taxes and minority interests.....	2,582	(21,434)	25,775
Income taxes:			
Current .....	141	109	1,412
Deferred.....	2,262	6,049	22,583
Minority interests in income (loss) .....	20	(177)	202
<b>Net income (loss).....</b>	<b>¥ 158</b>	<b>¥(27,415)</b>	<b>\$ 1,577</b>
Net income (loss) per share (in yen and dollar):			
Basic.....	¥ 0.65	¥(113.60)	\$ 0.00
Diluted.....	0.59	—	0.00

# Consolidated Statements of Changes in Net Assets

The Towa Bank, Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2008	Millions of yen (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Accumulated deficit	Treasury stock	Total
Balance at March 31, 2007 .....	¥35,565	¥ 14,516	¥(21,737)	¥ (89)	¥28,255
Changes during year:					
Issuance of shares.....	4,000	4,000	—	—	8,000
Reversal of capital surplus.....	—	(14,516)	14,516	—	—
Net income.....	—	—	158	—	158
Purchases of treasury stock.....	—	—	—	(11)	(11)
Reversal of land revaluation account.....	—	—	(54)	—	(54)
Net changes in items other than shareholders' equity .....	—	—	—	—	—
Total changes during year .....	4,000	(10,516)	14,619	(11)	8,091
Balance at March 31, 2008 .....	¥39,565	¥ 4,000	¥ (7,117)	¥(100)	¥36,347
	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, 2007 .....	¥ 2,429	¥2,340	¥ 4,770	¥ 346	¥33,372
Changes during year:					
Issuance of shares.....	—	—	—	—	8,000
Reversal of capital surplus.....	—	—	—	—	—
Net income.....	—	—	—	—	158
Purchases of treasury stock.....	—	—	—	—	(11)
Reversal of land revaluation account.....	—	—	—	—	(54)
Net changes in items other than shareholders' equity .....	(9,713)	54	(9,658)	4,562	(5,096)
Total changes during year .....	(9,713)	54	(9,658)	4,562	2,995
Balance at March 31, 2008 .....	¥(7,284)	¥2,395	¥(4,888)	¥4,908	¥36,368

For the year ended March 31, 2007	Millions of yen (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Accumulated deficit	Treasury stock	Total
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
Reversal of 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
Reversal of 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

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

<i>For the year ended March 31, 2008</i>	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				
	Capital stock	Capital surplus	Accumulated deficit	Treasury stock	Total
Balance at March 31, 2007 .....	\$354,984	\$ 144,892	\$(216,963)	\$ (891)	\$282,022
Changes during year:					
Issuance of shares.....	39,924	39,924	—	—	79,848
Reversal of capital surplus.....	—	(144,892)	144,892	—	—
Net income.....	—	—	1,577	—	1,577
Purchases of treasury stock.....	—	—	—	(111)	(111)
Reversal of land revaluation account.....	—	—	(548)	—	(548)
Net changes in items other than shareholders' equity .....	—	—	—	—	—
Total changes during year .....	39,924	(104,968)	145,921	(111)	80,765
Balance at March 31, 2008 .....	\$394,908	\$ 39,924	\$(71,042)	\$(1,002)	\$362,788
	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, 2007 .....	\$ 24,245	\$23,365	\$ 47,610	\$ 3,461	\$333,094
Changes during year:					
Issuance of shares.....	—	—	—	—	79,848
Reversal of capital surplus.....	—	—	—	—	—
Net income.....	—	—	—	—	1,577
Purchases of treasury stock.....	—	—	—	—	(111)
Reversal of land revaluation account.....	—	—	—	—	(548)
Net changes in items other than shareholders' equity .....	(96,950)	548	(96,401)	45,533	(50,867)
Total changes during year .....	(96,950)	548	(96,401)	45,533	29,898
Balance at March 31, 2008 .....	\$(72,704)	\$23,913	\$(48,790)	\$48,995	\$362,992

# 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)
	2008	2007	2008
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests .....	¥ 2,582	¥(21,434)	\$ 25,775
Depreciation and amortization .....	4,706	4,545	46,974
Loss on impairment of fixed assets .....	1,035	18	10,338
Increase (decrease) in reserve for possible loan losses.....	(3,961)	11,221	(39,544)
Decrease in reserve for employee bonuses .....	(240)	(1)	(2,398)
Increase in reserve for losses on deposits refunded.....	77	110	768
Decrease in reserve for employee retirement benefits .....	(888)	(562)	(8,863)
Increase (decrease) in reserve for director retirement benefits .....	(190)	462	(1,899)
Increase in reserve for contingent loss .....	118	—	1,185
Interest income.....	(31,747)	(31,301)	(316,873)
Interest expenses.....	4,722	2,196	47,131
Loss (gain) on securities - net .....	(1,110)	270	(11,081)
Foreign exchange gain - net .....	(20)	(24)	(207)
Loss on disposal of tangible fixed assets .....	93	45	932
Net decrease (increase) in trading account securities .....	128	(133)	1,281
Net decrease in loans .....	16,453	1,698	164,224
Net decrease in deposits .....	(53,173)	(9,566)	(530,730)
Net decrease in borrowings excluding subordinated debt.....	(770)	(199)	(7,691)
Net decrease (increase) in due from banks other than the Bank of Japan .....	305	(342)	3,048
Net decrease (increase) in call loans and others .....	(20,910)	40,194	(208,712)
Net increase in call money and others.....	19,821	5	197,838
Net decrease (increase) in foreign exchanges - assets .....	(1,123)	139	(11,212)
Net decrease in foreign exchange - liabilities.....	(35)	(0)	(351)
Interest received.....	33,358	32,377	332,947
Interest paid.....	(3,796)	(1,511)	(37,891)
Other .....	73	(191)	734
Subtotal .....	(34,493)	28,017	(344,276)
Income taxes paid.....	(115)	(82)	(1,151)
Net cash provided by (used in) operating activities .....	(34,608)	27,935	(345,427)
<b>Cash flows from investing activities:</b>			
Purchases of securities .....	(80,704)	(35,057)	(805,518)
Proceeds from sale of securities .....	42,928	24,825	428,467
Proceeds from redemption of securities .....	25,617	22,589	255,693
Purchases of tangible fixed assets.....	(4,237)	(3,902)	(42,298)
Proceeds from sale of tangible fixed assets.....	426	229	4,254
Net cash provided by (used in) investing activities .....	(15,970)	8,684	(159,401)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of subordinated debt.....	3,894	—	38,872
Proceeds from issuance of shares .....	12,543	—	125,193
Cash dividends paid .....	—	(724)	—
Cash dividends paid to minority interests.....	—	(2)	—
Purchases of treasury stock.....	(11)	(14)	(111)
Proceeds from sale of treasury stock.....	—	42	—
Net cash provided by (used in) financing activities .....	16,426	(698)	163,954
Effect of exchange rate changes on cash and cash equivalents.....	6	1	64
Net increase (decrease) in cash and cash equivalents.....	(34,145)	35,923	(340,810)
Cash and cash equivalents at beginning of year.....	69,177	33,253	690,458
Cash and cash equivalents at end of year .....	¥35,031	¥69,177	\$349,648



## Supplementary Information

### Consolidated Capital Ratio (Domestic Standard)

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
Tier I capital.....	¥ 33,972	¥ 28,602	\$ 339,078
Tier II capital.....	25,227	22,691	251,796
Deduction.....	—	—	—
<b>Total qualifying capital.....</b>	<b>¥ 59,199</b>	<b>¥ 51,294</b>	<b>\$ 590,874</b>
Risk-adjusted assets:			
On-balance sheet assets.....	¥816,017	¥824,812	\$8,144,699
Off-balance sheet assets.....	12,774	11,582	127,500
Risk-weighted credit equivalent amount .....	828,791	836,395	8,272,200
Amount related to operational risk-equivalent assets .....	58,669	61,487	585,583
<b>Total .....</b>	<b>¥887,461</b>	<b>¥897,883</b>	<b>\$8,857,783</b>
<b>Capital ratio.....</b>	<b>6.67%</b>	<b>5.71%</b>	

# Board of Directors and Corporate Auditors

(As of June 27, 2008)

## **President and Chief Executive Officer**

Kunimitsu Yoshinaga

## **Senior Managing Director**

Hitoshi Fukuda

## **Managing Directors**

Katsuhiro Tamaoki

Hideo Kabe

Noboru Kogure

## **Directors**

Shinobu Fukuda

Masami Tsubuku

Seiji Tamura

Masanori Tsunoyama

Masayuki Kon

## **Corporate Auditors**

Kiyoshi Takei

Kazuo Kojima

Toru Ikehara

Yoshikazu Kato

## The Towa Bank Network

(As of March 31, 2008)

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### **Service Network:**

