

2009

Financial Statements

TOWA

THE TOWA BANK, LTD.

A Message from the President



I herewith present the financial results of Towa Bank for fiscal 2008, ended March 31, 2009, and I would like to take this opportunity to thank our customers for their loyal support.

In fiscal 2008, amid a global downturn triggered by the “once-in-a-century” financial crisis in the United States, the Japanese economy marked successive negative year-on-year growth figures for the first three quarters of the fiscal year. The economy’s deterioration was particularly

sharp in the Oct.-Dec. third quarter, with an annualized negative growth rate of 12.1% amid signs that the recession might be here to stay for a long time.

Against this backdrop, the management and staff of Towa Bank worked together to realize the goals under our seventh long-term management plan, as well as the Phoenix Plan, which we drew up as a blueprint for steps to improve profitability. These goals are centered on our fundamental mission of being a bank that is willing to extend a lifeline to customers in trouble, no matter how bad the business situation. Specifically, we aim to contribute to the growth and development of the regional community through the provision of reliable funding services to small and medium-sized companies.

To bolster our lineup of financial products, we developed and launched a series of new products and services, including new types of loans for businesses and individuals, defined contribution pension funds, and acting as a counterparty for foreign exchange risk hedging transactions conducted by our customers. In this way, we invested in the development of new products and services in line with our principle of “the customer comes first.” We greatly increased the frequency of our marketing visits to many of our customers, to make sure they are provided with full information about financial products that meet their needs, and we intend to maintain this active marketing stance so as to raise the Bank’s earning power. At the same time, to enable us to utilize our limited management resources to optimum efficiency, we are taking steps to improve the Bank’s earnings structure through such means as restructuring our asset investment portfolio, redesigning the Bank’s branch operations, and reorganizing our marketing system.

Measures taken by Towa Bank to facilitate the provision of funds to small and medium-sized corporate customers include the operation (in December 2008 and again in March 2009) of consulting services on weekends and holidays, when the Bank as a whole is closed. These services principally involve handling customers’ inquiries relating to cash flow issues. We also implemented an action program focused on the Bank’s commitment to supporting its corporate borrowers even in the worst of economic circumstances. This program involved all Bank branches, and consisted of offering loans under the government’s emergency guarantee system to help companies cope with the high price of raw materials.

During the reporting period we also took measures to reinforce our branch support system, by increasing our head office credit monitoring staff from three to six. This system enables branch staff to provide customers with proposals that perfectly address their business issues. The Bank will continue to put priority on the reliable supply of funding to local SMEs, while constantly maintaining an accurate grasp of its cus-

tomers’ business conditions and creditworthiness.

In the area of compliance, on the basis of our general compliance regulations and specific ethical rules for the Bank’s directors, corporate auditors, and other employees, we are working to strengthen our legal compliance system, including checking functions. Specifically, we have set up a committee composed of outside experts with no personal interests in the Bank, to monitor the performance of their duties by the Bank’s board of directors and committee of corporate auditors.

On September 30, 2008 Towa Bank filed a claim with the Maebashi District Court against former president Hiroo Masuda and a former director, for compensation for damages resulting from the provision of loans without due credit screening processes. The management recognizes that, as exemplified by the case, the level of legal compliance at the Bank has hitherto not been adequate.

We are also working to secure stable and adequate earnings for Towa Bank through the operation of an effective risk management system that addresses all the various categories of risk to which banks are exposed. In particular, we intend to substantially increase the frequency of visits to customers by our marketing staff to ensure adequate monitoring of their creditworthiness as an important means of managing credit risk.

Regarding steps to further strengthen the Bank’s capital adequacy, on December 19, 2008 we registered an issue of new shares over a predetermined period of one year and for an amount of ¥6 billion, to give us greater flexibility in new share issuance. On March 27, 2009, in accordance with the aforementioned registration, we made a capital increase through private placement of shares in the amount of ¥3.1 billion.

During the reporting period we took steps to cut costs. Specifically, we lowered personnel expenses by reducing directors’ compensation and employees’ bonuses, and also effected measures to reduce clerical costs. We plan to take further measures to cut personnel costs through efficient staff allocation, including a thorough review of our personnel system, while all non-personnel costs will be subject to review with the aim of paring down operating expenses to the minimum. In this way, we plan to effect a substantial improvement to the Bank’s overhead ratio (expenses as a percentage of gross business profit).

Even in the event that the present economic downturn is a prolonged one, Towa Bank will continue to provide essential fund procurement services for its customers, particularly small and medium-sized businesses. Through the optimal use of our financial intermediary functions, we aim to recover the trust of both our shareholders and business partners. I look forward to receiving the continued support and encouragement of our stakeholders, as we endeavor to place the Bank on a firm foundation for future prosperity.

August 2009

A handwritten signature in black ink, appearing to read 'K. Yoshinaga', written over a horizontal line.

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)
	2009	2008	2009
Assets:			
Cash and due from banks.....	¥ 52,957	¥ 36,187	\$ 539,121
Call loans and bills purchased.....	3,273	25,389	33,321
Commercial paper and other debt purchased.....	205	377	2,092
Trading account securities.....	30	128	311
Securities	439,061	452,857	4,469,727
Loans and bills discounted.....	1,179,742	1,165,500	12,010,006
Foreign exchange.....	895	1,968	9,120
Lease receivables and lease investment assets.....	7,593	—	77,304
Other assets.....	7,450	7,544	75,848
Tangible fixed assets	27,138	34,857	276,280
Intangible fixed assets	1,322	2,278	13,461
Deferred tax assets	5,215	4,398	53,099
Customers' liabilities for acceptances and guarantees.....	7,478	8,410	76,131
Reserve for possible loan losses	(25,438)	(26,300)	(258,966)
Total assets	¥1,706,928	¥1,713,599	\$17,376,859

Notes: 1. Yen figures have been rounded omitting numbers below the million mark, in accordance with the Financial Instruments and Exchange Act of Japan 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 ¥98.23 to US\$1.00, the rate prevailing on March 31, 2009.

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Liabilities:			
Deposits	¥1,575,762	¥1,603,386	\$16,041,556
Call money and bills sold.....	41,300	21,001	420,441
Borrowed money	4,501	4,713	45,823
Foreign exchange.....	22	40	234
Corporate bonds.....	15,000	15,000	152,702
Other liabilities	8,177	8,043	83,249
Accrued employee bonuses	231	236	2,354
Reserve for reimbursement of dormant deposits	251	187	2,560
Reserve for employee retirement benefits.....	11,671	12,165	118,819
Reserve for director retirement benefits.....	177	272	1,806
Reserve for contingent loss.....	517	118	5,265
Deferred tax liabilities.....	40	63	409
Deferred tax liability for land revaluation	3,592	3,592	36,569
Acceptances and guarantees	7,478	8,410	76,131
Total liabilities	1,668,724	1,677,231	16,987,926
Net assets:			
Shareholders' equity:			
Capital stock	41,153	39,565	418,953
Capital surplus.....	5,587	4,000	56,885
Accumulated deficit.....	(10,927)	(7,117)	(111,244)
Treasury stock, at cost.....	(106)	(100)	(1,088)
Total shareholders' equity	35,707	36,347	363,505
Valuation and translation adjustments:			
Net unrealized losses on available-for-sale securities	(4,337)	(7,284)	(44,156)
Land revaluation account.....	2,395	2,395	24,391
Total valuation and translation adjustments.....	(1,941)	(4,888)	(19,765)
Minority interests	4,439	4,908	45,193
Total net assets.....	38,204	36,368	388,932
Total liabilities and net assets.....	¥1,706,928	¥1,713,599	\$17,376,859

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)
	2009	2008	2009
Income:			
Interest on loans and discounts	¥26,013	¥27,847	\$264,821
Interest and dividends on securities.....	4,248	3,776	43,250
Other interest income	118	124	1,207
Fees and commissions	4,689	5,230	47,743
Other operating income	213	261	2,173
Other income.....	7,286	11,246	74,180
Total income	42,570	48,486	433,376
Expenses:			
Interest on deposits	4,091	4,046	41,647
Interest on borrowings and rediscounts.....	383	272	3,901
Interest on corporate bonds	400	400	4,077
Other interest expenses	4	2	41
Fees and commissions	2,474	2,779	25,186
Other operating expenses.....	186	0	1,897
General and administrative expenses	22,026	22,718	224,234
Other expenses	17,613	15,684	179,313
Total expenses.....	47,179	45,904	480,300
Income (loss) before income taxes and minority interests.....	(4,609)	2,582	(46,923)
Income taxes:			
Current	71	141	728
Deferred.....	(790)	2,262	(8,046)
Minority interests in income (loss)	(80)	20	(820)
Net income (loss).....	¥ (3,809)	¥ 158	\$ (38,785)
Net income (loss) per share (in yen and dollar):			
Basic.....	¥ (16.71)	¥ 0.65	\$ (0.17)
Diluted.....	—	0.59	—

Consolidated Statements of Changes in Net Assets

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)
	2009	2008	2009
Shareholders' equity:			
Capital stock			
Balance at end of previous year	¥ 39,565	¥ 35,565	\$ 402,788
Changes during year:			
Issuance of shares.....	1,587	4,000	16,164
Total changes during year	1,587	4,000	16,164
Balance at end of year	¥ 41,153	¥ 39,565	\$ 418,953
Capital surplus			
Balance at end of previous year	¥ 4,000	¥ 14,516	\$ 40,720
Changes during year:			
Issuance of shares.....	1,587	4,000	16,164
Reversal of capital surplus.....	—	(14,516)	—
Total changes during year	1,587	(10,516)	16,164
Balance at end of year	¥ 5,587	¥ 4,000	\$ 56,885
Accumulated deficit			
Balance at end of previous year	¥ (7,117)	¥(21,737)	\$ (72,459)
Changes during year:			
Reversal of capital surplus.....	—	14,516	—
Net income (loss)	(3,809)	158	(38,785)
Reversal of land revaluation account	—	(54)	—
Total changes during year	(3,809)	14,619	(38,785)
Balance at end of year	¥(10,927)	¥ (7,117)	\$(111,244)
Treasury stock			
Balance at end of previous year	¥ (100)	¥ (89)	\$ (1,022)
Changes during year:			
Purchase of treasury stock	(6)	(11)	(66)
Total changes during year	(6)	(11)	(66)
Balance at end of year	¥ (106)	¥ (100)	\$ (1,088)
Total shareholders' equity			
Balance at end of previous year	¥ 36,347	¥ 28,255	\$ 370,026
Changes during year:			
Issuance of shares.....	3,175	8,000	32,329
Net income (loss)	(3,809)	158	(38,785)
Purchase of treasury stock	(6)	(11)	(66)
Reversal of land revaluation account	—	(54)	—
Total changes during year	(640)	8,091	(6,521)
Balance at end of year	¥ 35,707	¥ 36,347	\$363,505

<i>For the years ended March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Valuation and translation adjustments			
Net unrealized gains (losses) on available-for-sale securities			
Balance at end of previous year	¥ (7,284)	¥ 2,429	\$ (74,155)
Changes during year:			
Net changes in items other than shareholders' equity	2,946	(9,713)	29,998
Total changes during year	2,946	(9,713)	29,998
Balance at end of year	¥ (4,337)	¥ (7,284)	\$ (44,156)
Land revaluation account			
Balance at end of previous year	¥ 2,395	¥ 2,340	\$ 24,391
Changes during year:			
Net changes in items other than shareholders' equity	—	54	—
Total changes during year	—	54	—
Balance at end of year	¥ 2,395	¥ 2,395	\$ 24,391
Total valuation and translation adjustments			
Balance at end of previous year	¥ (4,888)	¥ 4,770	\$ (49,764)
Changes during year:			
Net changes in items other than shareholders' equity	2,946	(9,658)	29,998
Total changes during year	2,946	(9,658)	29,998
Balance at end of year	¥ (1,941)	¥ (4,888)	\$ (19,765)
Minority interests			
Balance at end of previous year	¥ 4,908	¥ 346	\$ 49,972
Changes during year:			
Net changes in items other than shareholders' equity	(469)	4,562	(4,779)
Total changes during year	(469)	4,562	(4,779)
Balance at end of year	¥ 4,439	¥ 4,908	\$ 45,193
Total net assets			
Balance at end of previous year	¥36,368	¥33,372	\$370,235
Changes during year:			
Issuance of shares.....	3,175	8,000	32,329
Net income (loss)	(3,809)	158	(38,785)
Purchase of treasury stock	(6)	(11)	(66)
Reversal of land revaluation account	—	(54)	—
Net changes in items other than shareholders' equity	2,477	(5,096)	25,219
Total changes during year	1,836	2,995	18,697
Balance at end of year	¥38,204	¥36,368	\$388,932

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)
	2009	2008	2009
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ (4,609)	¥ 2,582	\$ (46,923)
Depreciation and amortization	1,516	4,706	15,442
Loss on impairment of fixed assets	107	1,035	1,092
Amortization of goodwill	37	—	379
Amortization of negative goodwill.....	(77)	—	(789)
Decrease in reserve for possible loan losses.....	(862)	(3,961)	(8,777)
Decrease in reserve for employee bonuses	(4)	(240)	(48)
Decrease in reserve for employee retirement benefits	(494)	(888)	(5,030)
Decrease in reserve for director retirement benefits	(94)	(190)	(963)
Increase in reserve for reimbursement of dormant deposits	64	77	656
Increase in reserve for contingent loss	398	118	4,056
Interest income.....	(30,380)	(31,747)	(309,279)
Interest expenses.....	4,878	4,722	49,667
Loss (gain) on securities - net	4,991	(1,110)	50,811
Foreign exchange gain - net	(40)	(20)	(412)
Loss on disposal of tangible fixed assets	50	93	515
Net decrease in trading account securities	97	128	995
Net decrease (increase) in loans	(14,242)	16,453	(144,988)
Net decrease in deposits	(27,624)	(53,173)	(281,221)
Net decrease in borrowings excluding subordinated debt.....	(212)	(770)	(2,163)
Net decrease (increase) in due from banks other than the Bank of Japan	(215)	305	(2,194)
Net decrease (increase) in call loans and others	22,287	(20,910)	226,894
Net increase in call money and others.....	20,298	19,821	206,638
Net decrease (increase) in foreign exchanges - assets	1,072	(1,123)	10,921
Net decrease in foreign exchange - liabilities.....	(17)	(35)	(177)
Interest received.....	31,287	33,358	318,510
Interest paid.....	(4,577)	(3,796)	(46,603)
Other.....	19	73	200
Subtotal	3,655	(34,493)	37,210
Income taxes paid.....	(123)	(115)	(1,258)
Net cash provided by (used in) operating activities	3,531	(34,608)	35,952
Cash flows from investing activities:			
Purchases of securities	(72,445)	(80,704)	(737,504)
Proceeds from sale of securities	57,187	42,928	582,180
Proceeds from redemption of securities	25,663	25,617	261,263
Purchases of tangible fixed assets.....	(235)	(4,237)	(2,393)
Proceeds from sale of tangible fixed assets.....	27	426	282
Purchases of subsidiary shares.....	(96)	—	(978)
Net cash provided by (used in) investing activities	10,103	(15,970)	102,850
Cash flows from financing activities:			
Proceeds from issuance of subordinated debt.....	—	3,894	—
Proceeds from issuance of shares	3,094	7,959	31,506
Proceeds from issuance of shares to minority interests	—	4,583	—
Cash dividends paid to minority interests	(209)	—	(2,129)
Purchases of treasury stock.....	(6)	(11)	(66)
Net cash provided by financing activities	2,879	16,426	29,311
Effect of exchange rate changes on cash and cash equivalents.....	40	6	412
Net increase (decrease) in cash and cash equivalents.....	16,554	(34,145)	168,526
Cash and cash equivalents at beginning of year.....	35,031	69,177	356,625
Cash and cash equivalents at end of year	¥51,585	¥35,031	\$525,152

Supplementary Information

Consolidated Capital Ratio (Domestic Standard)

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Tier I capital.....	¥ 39,996	¥ 33,972	\$ 407,176
Tier II capital.....	27,352	25,227	278,451
Deduction.....	—	—	—
Total qualifying capital.....	¥ 67,349	¥ 59,199	\$ 685,627
Risk-adjusted assets:			
On-balance sheet assets.....	¥838,800	¥816,017	\$8,539,152
Off-balance sheet assets.....	10,703	12,774	108,959
Risk-weighted credit equivalent amount	849,504	828,791	8,648,111
Amount related to operational risk-equivalent assets	55,715	58,669	567,197
Total	¥905,219	¥887,461	\$9,215,309
Capital ratio.....	7.44%	6.67%	

Board of Directors and Corporate Auditors

(As of June 26, 2009)

President and Chief Executive Officer

Kunimitsu Yoshinaga

Deputy President

Hitoshi Fukuda

Managing Directors

Katsuhiro Tamaoki

Hideo Kabe

Noboru Kogure

Directors

Shinobu Fukuda

Masami Tsubuku

Seiji Tamura

Masanori Tsunoyama

Naoshi Sando

Masayuki Kon

Corporate Auditors

Kiyoshi Takei

Kazuo Kojima

Toru Ikehara

Yoshikazu Kato

The Towa Bank Network

(As of March 31, 2009)

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