

2010

Financial Statements

TOWA

THE TOWA BANK, LTD.

A Message from the President



I herewith present the financial results of Towa Bank for fiscal 2009, ended March 31, 2010, and I would like to take this opportunity to thank our customers for their loyal support.

In fiscal 2009, Japan's economy began to pick up as exports and production increased, after the global economy hit bottom on economic stimulus measures implemented by various nations. At the same time, with its significant supply-demand

gap still unresolved, the domestic economy continued to be hampered by deflation, and the employment and income environments remained severe. Because of the fragility of its growth platform, the Japanese economy requires continued propping up through an accommodative monetary policy, while the risk accompanying increasing public debt means that Japan faces an urgent need to tackle fiscal reform.

Against this backdrop, to enable the Towa Bank Group to live up to the trust of its customers, and to establish a robust financial foundation in order to further facilitate the provision of funds for small and medium-sized businesses and contribute to the revitalization of the regional community, we cleared our accumulated losses in November 2009 through a reclassification of our capital account. Further, in December 2009, we drew up the Phoenix Plan II, a new business improvement plan based on the Act on Special Measures for Strengthening Financial Functions. Under the plan, we have set an improvement period of October 2009 to March 2012, and we also implemented a ¥35 billion capital increase with the support of public funds. As a result of these measures, our non-consolidated capital adequacy ratio as of March 31, 2010 stood at 9.2%.

Moreover, by the end of March 2010, we sold ¥20 billion worth of floating-rate Japanese government bonds, which had been exerting pressure on our earnings because of their low yield.

As we worked to eliminate unfavorable legacies such as these, we also strove to provide useful services to customers, such as by opening an Internet branch in March. Meanwhile, the management and staff of the Towa Bank Group came together as one in devoting their full energies toward realizing the goals of the Phoenix Plan II.

With regard to measures taken to facilitate the provision of funds, we dramatically increased visits to customers, responded to customers' diverse funding needs, and provided support for their various business issues. Going forward, we intend to offer new products and services to meet our customers' needs. At the same time, we will develop proactive marketing activities through steps such as increasing the number of corporate relations representatives and expanding our business support office so as to facilitate the provision of funding services to local small and medium-sized companies.

In the area of cost-cutting, we are working to reduce personnel expenses by lowering directors' compensation and employees' bonuses, and also implementing measures to reduce clerical costs. We plan to take further measures to realize the efficient allocation of personnel costs, including a review of our personnel system, while non-personnel costs will be included in an across-the-board review and paring down

of operating expenses. Through these measures, we will work toward a substantial improvement in the Bank's overhead ratio (gross business profit/expense ratio).

In order to respond to the growing complexity of the financial environment, increasingly advanced risk management is required. Therefore, we established a new Integrated Risk Management Office as part of our efforts to strengthen our risk management and establish a system geared toward advanced risk management methods.

As has been the case up until now, the Bank proactively endeavored to facilitate the provision of funds to small and medium-sized corporate customers. However, in light of the implementation of the Act on Provisional Measures for the Facilitation of Financing to Small and Medium-Sized Businesses, we made organizational improvements by establishing a financing facilitation promotion office within our credit monitoring office. This was done in order to further optimize our consulting functions, such as those relating to the provision of reliable funding and support for management improvements. We will continue to respond appropriately to customers' consultation requests in order to ensure smooth and reliable financing for small and medium-sized businesses.

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 an outside committee composed of third-party experts with no personal interests in the Bank to evaluate and offer suggestions on whether the surveillance and checking functions performed by the Bank's board of directors and committee of corporate auditors are functioning properly. In order to further enhance the objectivity of evaluations of the Bank's management, we will have the outside committee conduct checks on the state of progress of the Phoenix Plan II and on risks associated with new business projects. The Towa Bank Group as a whole will continue to address the enrichment and reinforcement of our compliance system as a top priority.

Even in the event that the situation remains severe for Japan's regional economies due to stagnant employment conditions and personal consumption, Towa Bank will continue to aim to be a bank that local communities can depend on. Through the appropriate optimization of our financial intermediary functions, we will dedicate ourselves to earning the trust of both our shareholders and business partners. To that end, I would like to ask our stakeholders for their continued support and encouragement.

August 2010

A handwritten signature in black ink, appearing to read 'Kunimitsu Yoshinaga'. The signature is stylized and fluid, written over a light background.

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)
	2010	2009	2010
Assets:			
Cash and due from banks.....	¥ 28,538	¥ 52,957	\$ 306,729
Call loans and bills purchased.....	19,474	3,273	209,311
Commercial paper and other debt purchased.....	190	205	2,049
Trading account securities.....	31	30	334
Securities	454,603	439,061	4,886,111
Loans and bills discounted.....	1,197,415	1,179,742	12,869,896
Foreign exchange.....	2,040	895	21,936
Lease receivables and lease investment assets.....	6,820	7,593	73,312
Other assets.....	7,202	7,450	77,416
Tangible fixed assets.....	26,467	27,138	284,469
Intangible fixed assets	1,073	1,322	11,540
Deferred tax assets	3,628	5,215	38,999
Customers' liabilities for acceptances and guarantees.....	6,710	7,478	72,129
Reserve for possible loan losses	(19,357)	(25,438)	(208,057)
Total assets	¥1,734,840	¥1,706,928	\$18,646,179

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 ¥93.04 to US\$1.00, the rate prevailing on March 31, 2010.

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
Liabilities:			
Deposits	¥1,594,085	¥1,575,762	\$17,133,331
Call money and bills sold.....	30,000	41,300	322,441
Borrowed money	4,316	4,501	46,391
Foreign exchange.....	34	22	373
Corporate bonds.....	—	15,000	—
Other liabilities	8,105	8,177	87,114
Accrued employee bonuses	233	231	2,504
Reserve for employee retirement benefits.....	11,977	11,671	128,732
Reserve for director retirement benefits.....	248	177	2,667
Reserve for reimbursement of dormant deposits.....	241	251	2,590
Reserve for contingent loss.....	676	517	7,266
Deferred tax liabilities.....	32	40	354
Deferred tax liability for land revaluation	3,573	3,592	38,405
Acceptances and guarantees	6,710	7,478	72,129
Total liabilities	1,660,234	1,668,724	17,844,304
Net assets:			
Shareholders' equity:			
Capital stock	38,653	41,153	415,453
Capital surplus.....	31,205	5,587	335,399
Retained earnings (accumulated deficit).....	3,612	(10,927)	38,823
Treasury stock, at cost.....	(108)	(106)	(1,166)
Total shareholders' equity	73,362	35,707	788,510
Valuation and translation adjustments:			
Net unrealized losses on available-for-sale securities.....	(1,183)	(4,337)	(12,720)
Land revaluation account.....	2,368	2,395	25,451
Total valuation and translation adjustments.....	1,184	(1,941)	12,731
Minority interests	58	4,439	633
Total net assets.....	74,606	38,204	801,875
Total liabilities and net assets.....	¥1,734,840	¥1,706,928	\$18,646,179

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)
	2010	2009	2010
Income:			
Interest on loans and discounts	¥23,917	¥26,013	\$257,068
Interest and dividends on securities.....	5,098	4,248	54,794
Other interest income	142	118	1,526
Fees and commissions	4,475	4,689	48,105
Other operating income	596	213	6,407
Other income.....	9,173	7,286	98,598
Total income	43,403	42,570	466,499
Expenses:			
Interest on deposits	2,634	4,091	28,314
Interest on borrowings and rediscounts.....	260	383	2,803
Interest on corporate bonds	311	400	3,346
Other interest expenses	17	4	189
Fees and commissions	2,558	2,474	27,502
Other operating expenses.....	756	186	8,126
General and administrative expenses	22,496	22,026	241,789
Other expenses	10,945	17,613	117,638
Total expenses.....	39,980	47,179	429,711
Income (loss) before income taxes and minority interests.....	3,422	(4,609)	36,788
Income taxes:			
Current	304	71	3,272
Deferred.....	(163)	(790)	(1,752)
Minority interests in income (loss)	494	(80)	5,316
Net income (loss).....	¥ 2,786	¥ (3,809)	\$ 29,951
Net income (loss) per share (in yen and dollar):			
Basic.....	¥ 8.08	¥ (16.71)	\$ 0.08
Diluted.....	5.33	—	0.05

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)
	2010	2009	2010
Shareholders' equity:			
Capital stock			
Balance at end of previous year	¥ 41,153	¥ 39,565	\$ 442,323
Changes during year:			
Reduction of capital.....	(20,000)	—	(214,961)
Issuance of shares.....	17,500	1,587	188,091
Total changes during year	(2,500)	1,587	(26,870)
Balance at end of year	¥ 38,653	¥ 41,153	\$ 415,453
Capital surplus			
Balance at end of previous year	¥ 5,587	¥ 4,000	\$ 60,058
Changes during year:			
Reduction of capital.....	20,000	—	214,961
Reversal of capital surplus.....	(11,882)	—	(127,711)
Issuance of shares.....	17,500	1,587	188,091
Total changes during year	25,617	1,587	275,341
Balance at end of year	¥ 31,205	¥ 5,587	\$ 335,399
Retained earnings (accumulated deficit)			
Balance at end of previous year	¥(10,927)	¥ (7,117)	\$(117,450)
Changes during year:			
Reversal of capital surplus.....	11,882	—	127,711
Decrease of retained earnings due to acquisition of the stock of consolidated subsidiaries	(157)	—	(1,689)
Net income (loss)	2,786	(3,809)	29,951
Reversal of land revaluation account	27	—	299
Total changes during year	14,539	(3,809)	156,274
Balance at end of year	¥ 3,612	¥(10,927)	\$ 38,823
Treasury stock			
Balance at end of previous year	¥ (106)	¥ (100)	\$ (1,149)
Changes during year:			
Purchase of treasury stock	(1)	(6)	(16)
Total changes during year	(1)	(6)	(16)
Balance at end of year	¥ (108)	¥ (106)	\$ (1,166)
Total shareholders' equity			
Balance at end of previous year	¥ 35,707	¥ 36,347	\$ 383,782
Changes during year:			
Issuance of shares.....	35,000	3,175	376,182
Decrease of retained earnings due to acquisition of the stock of consolidated subsidiaries	(157)	—	(1,689)
Net income (loss)	2,786	(3,809)	29,951
Purchase of treasury stock	(1)	(6)	(16)
Reversal of land revaluation account	27	—	299
Total changes during year	37,655	(640)	404,727
Balance at end of year	¥ 73,362	¥ 35,707	\$ 788,510

<i>For the years ended March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
Valuation and translation adjustments			
Net unrealized gains (losses) on available-for-sale securities			
Balance at end of previous year	¥ (4,337)	¥ (7,284)	\$ (46,619)
Changes during year:			
Net changes in items other than shareholders' equity	3,153	2,946	33,899
Total changes during year	3,153	2,946	33,899
Balance at end of year	¥ (1,183)	¥ (4,337)	\$ (12,720)
Land revaluation account			
Balance at end of previous year	¥ 2,395	¥ 2,395	\$ 25,751
Changes during year:			
Net changes in items other than shareholders' equity	(27)	—	(299)
Total changes during year	(27)	—	(299)
Balance at end of year	¥ 2,368	¥ 2,395	\$ 25,451
Total valuation and translation adjustments			
Balance at end of previous year	¥ (1,941)	¥ (4,888)	\$ (20,867)
Changes during year:			
Net changes in items other than shareholders' equity	3,126	2,946	33,599
Total changes during year	3,126	2,946	33,599
Balance at end of year	¥ 1,184	¥ (1,941)	\$ 12,731
Minority interests			
Balance at end of previous year	¥ 4,439	¥ 4,908	\$ 47,714
Changes during year:			
Net changes in items other than shareholders' equity	(4,380)	(469)	(47,080)
Total changes during year	(4,380)	(469)	(47,080)
Balance at end of year	¥ 58	¥ 4,439	\$ 633
Total net assets			
Balance at end of previous year	¥38,204	¥36,368	\$410,628
Changes during year:			
Issuance of shares.....	35,000	3,175	376,182
Decrease of retained earnings due to acquisition of the stock of consolidated subsidiaries	(157)	—	(1,689)
Net income (loss)	2,786	(3,809)	29,951
Purchase of treasury stock	(1)	(6)	(16)
Reversal of land revaluation account	27	—	299
Net changes in items other than shareholders' equity	(1,254)	2,477	(13,481)
Total changes during year	36,401	1,836	391,246
Balance at end of year	¥74,606	¥38,204	\$801,875

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)
	2010	2009	2010
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 3,422	¥ (4,609)	\$ 36,788
Depreciation and amortization	1,428	1,516	15,354
Loss on impairment of fixed assets	55	107	592
Amortization of goodwill	—	37	—
Amortization of negative goodwill.....	—	(77)	—
Decrease in reserve for possible loan losses.....	(6,080)	(862)	(65,354)
Increase (decrease) in reserve for employee bonuses	1	(4)	18
(Decrease) increase in reserve for reimbursement of dormant deposits	(10)	64	(112)
Increase (decrease) in reserve for employee retirement benefits	305	(494)	3,284
Increase (decrease) in reserve for director retirement benefits	70	(94)	759
Increase in reserve for contingent loss	158	398	1,706
Interest income	(29,157)	(30,380)	(313,389)
Interest expenses.....	3,224	4,878	34,654
Loss on securities - net.....	1,693	4,991	18,201
Foreign exchange gain - net	20	(40)	216
Loss on disposal of tangible fixed assets	45	50	488
Net (increase) decrease in trading account securities	(0)	97	(6)
Net increase in loans	(8,247)	(14,242)	(88,644)
Net increase (decrease) in deposits.....	18,323	(27,624)	196,937
Net decrease in borrowings excluding subordinated debt.....	(185)	(212)	(1,988)
Net increase in due from banks other than the Bank of Japan	(96)	(215)	(1,039)
Net (increase) decrease in call loans and others	(16,186)	22,287	(173,971)
Net (decrease) increase in call money and others.....	(11,300)	20,298	(121,453)
Net (increase) decrease in foreign exchanges - assets	(1,145)	1,072	(12,307)
Net increase (decrease) in foreign exchange - liabilities	11	(17)	126
Interest received.....	29,578	31,287	317,907
Interest paid.....	(3,670)	(4,577)	(39,452)
Other.....	362	19	3,891
Subtotal	(17,378)	3,655	(186,789)
Income taxes paid.....	(128)	(123)	(1,381)
Net cash (used in) provided by operating activities.....	(17,507)	3,531	(188,171)
Cash flows from investing activities:			
Purchases of securities	(179,481)	(72,445)	(1,929,082)
Proceeds from sale of securities	113,871	57,187	1,223,898
Proceeds from redemption of securities	43,236	25,663	464,708
Purchases of tangible fixed assets.....	(195)	(235)	(2,104)
Proceeds from sale of tangible fixed assets.....	54	27	580
Purchases of subsidiary shares.....	(4,600)	(96)	(49,441)
Net cash (used in) provided by investing activities	(27,115)	10,103	(291,439)
Cash flows from financing activities:			
Proceeds from issuance of shares	34,933	3,094	375,470
Repayment of subordinated debt	(13,600)	—	(146,173)
Retirement by purchase of subordinated debt	(826)	—	(8,877)
Cash dividends paid to minority interests	(427)	(209)	(4,590)
Purchases of treasury stock.....	(1)	(6)	(16)
Net cash provided by financing activities	20,079	2,879	215,812
Effect of exchange rate changes on cash and cash equivalents.....	27	40	294
Net (decrease) increase in cash and cash equivalents.....	(24,516)	16,554	(263,504)
Cash and cash equivalents at beginning of year.....	51,585	35,031	554,446
Cash and cash equivalents at end of year.....	¥ 27,069	¥51,585	\$ 290,941

Supplementary Information

Consolidated Capital Ratio (Domestic Standard)

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
Tier I capital.....	¥ 72,780	¥ 39,996	\$ 782,244
Tier II capital.....	12,466	27,352	133,987
Deduction.....	—	—	—
Total qualifying capital.....	¥ 85,246	¥ 67,349	\$ 916,232
Risk-adjusted assets:			
On-balance sheet assets.....	¥858,060	¥838,800	\$9,222,490
Off-balance sheet assets.....	15,406	10,703	165,584
Risk-weighted credit equivalent amount	873,466	849,504	9,388,075
Amount related to operational risk-equivalent assets	53,351	55,715	573,420
Total	¥926,817	¥905,219	\$9,961,495
Capital ratio	9.19%	7.44%	

Board of Directors and Corporate Auditors

(As of June 29, 2010)

President & Chief Executive Officer
Representative Director

Kunimitsu Yoshinaga

Deputy President & Executive Officer
Director

Hitoshi Fukuda

Senior Managing Executive Officer
Director

Hideo Kabe

Directors

Sakae Morishige
Masayuki Kon

Managing Executive Officers

Noboru Kogure
Shinobu Fukuda

Executive Officers

Masami Tsubuku
Seiji Tamura
Masanori Tsunoyama
Naoshi Sando

Kiyomi Osawa
Hitoshi Ito
Hideaki Minami

Auditors

Kiyoshi Takei
Kazuo Kojima
Toru Ikehara
Yoshikazu Kato

The Towa Bank Network

(As of March 31, 2010)

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