

2011

Financial Statements

TOWA

THE TOWA BANK, LTD.

A Message from the President



We take great pride in our customer satisfaction and appreciate your continued patronage with The Towa Bank, Ltd. We wish to express our deepest sympathies to all affected by the East Japan Earthquake. It is our sincere wish that afflicted areas will experience a swift and

complete recovery. The Towa Bank has completed our financial statements for fiscal 2010, ended March 31, 2011. We will help your better understanding of us.

In 2010, the Japanese economy experienced a mild recovery last summer. This was largely from the growth of personal consumption, manufacturing activity and fiscal stimulus by the government. Thereafter, economic conditions stalled from autumn reflecting completion of a round of the government's stimulus measures and the impact of a slowdown in overseas economies. Despite growing signs that the Japanese economy had broken free from its temporary lull due to the export and production activity improvement, entering the New Year, this earthquake that struck the nation on March 11, 2011 again plunged Japan into a difficult period placing considerable downward pressure particularly on the manufacturing sector.

Under these circumstances, The Towa Bank concentrated to grasp customer needs, provide relevant high-quality information and facilitate the provision of funds. As a result, we witnessed a steady increase in deposits as well as loans and bills discounted while recording net income of ¥6.4 billion in its 106th business term.

The present business conditions in Japan have suffered the devastation caused by this disaster. Not so many our customers incurred both direct and indirect damage. Reacting swiftly to the earthquake disaster, we worked quickly to field requests and inquiries for finance from customers impacted by this disaster after undertaking steps to assess the extent to which our customers were affected and ascertaining actual conditions on individuals. Moving forward, we provided funds on an emergency basis in March. From April, every member

of our bank continues to provide funds by working to better understand the state of damage to customers as well as financing requirements.

We are committed to supporting our small and medium-sized enterprises in each region in spite of economic uncertainty.

First of all, The Towa Bank will provide essential funds for reconstruction from disaster in a timely manner and the necessary finance for new businesses as well as businesses in growth fields actively in order to support the growth and development of customers and regional areas.

Second, The Towa Bank will make effort to further enhance management consulting in collaboration with external specialists.

Third, The Towa Bank will arrange and reinforce the customer's business structures and systems. For instance, we established International department in April 2011.

This earthquake wreaked unprecedented havoc and enormous damage. We are dedicated to alleviating the impacts of this disaster and to supporting regional areas and our customers to the best of its abilities. As a bank that local communities can depend on, we will do our utmost to resolve any and all issues in partnerships with customers. Harnessing its financial intermediary function, we will make effort to play a vital role in supporting our customers. Cognizant of the importance of compliance, we will also upgrade, expand and reinforce our Group-wide compliance framework and work diligently to further increase our earning capacity while actively enhancing management efficiency. As we work toward achieving these established goals, we look forward to serving you with the best products and services for many years to come.

August 2011

A handwritten signature in black ink, appearing to read 'K. Yoshinaga', written in a cursive style.

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)
	2011	2010	2011
Assets:			
Cash and due from banks	¥ 34,216	¥ 28,538	\$ 411,502
Call loans and bills purchased	8,609	19,474	103,546
Commercial paper and other debt purchased	239	190	2,879
Trading account securities	27	31	331
Securities	470,044	454,603	5,652,973
Loans and bills discounted	1,225,693	1,197,415	14,740,757
Foreign exchange	2,819	2,040	33,909
Lease receivables and lease investment assets	6,425	6,820	77,279
Other assets	7,643	7,202	91,928
Tangible fixed assets	25,647	26,467	308,444
Intangible fixed assets	880	1,073	10,589
Deferred tax assets	5,218	3,628	62,764
Customers' liabilities for acceptances and guarantees	4,501	6,710	54,134
Reserve for possible loan losses	(16,719)	(19,357)	(201,075)
Total assets	¥1,775,249	¥1,734,840	\$21,349,966

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 ¥83.15 to US\$1.00, the rate prevailing on March 31, 2011.

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Liabilities:			
Deposits.....	¥1,625,094	¥1,594,085	\$19,544,133
Call money and bills sold	—	30,000	—
Borrowed money.....	34,350	4,316	413,109
Foreign exchange	35	34	423
Other liabilities	9,389	8,105	112,920
Accrued employee bonuses.....	264	233	3,184
Reserve for employee retirement benefits	12,328	11,977	148,264
Reserve for director retirement benefits	52	248	636
Reserve for reimbursement of dormant deposits.....	261	241	3,141
Reserve for contingent loss	535	676	6,438
Deferred tax liabilities.....	20	32	247
Deferred tax liability for land revaluation.....	3,567	3,573	42,900
Acceptances and guarantees	4,501	6,710	54,134
Total liabilities.....	1,690,400	1,660,234	20,329,535
Net assets:			
Shareholders' equity:			
Capital stock	38,653	38,653	464,867
Capital surplus	31,205	31,205	375,292
Retained earnings.....	9,432	3,612	113,438
Treasury stock, at cost.....	(109)	(108)	(1,320)
Total shareholders' equity.....	79,181	73,362	952,278
Accumulated other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities	3,188	(1,183)	38,340
Land revaluation account	2,359	2,368	28,371
Total accumulated other comprehensive income	5,547	1,184	66,711
Stock acquisition rights.....	28	—	337
Minority interests.....	91	58	1,103
Total net assets.....	84,848	74,606	1,020,431
Total liabilities and net assets	¥1,775,249	¥1,734,840	\$21,349,966

Consolidated Statements of Income

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)
	2011	2010	2011
Income:			
Interest on loans and discounts.....	¥23,896	¥23,917	\$287,387
Interest and dividends on securities.....	6,825	5,098	82,091
Other interest income.....	151	142	1,825
Fees and commissions.....	4,704	4,475	56,578
Other operating income.....	343	596	4,134
Other income.....	6,592	9,173	79,278
Total income.....	42,514	43,403	511,295
Expenses:			
Interest on deposits.....	1,676	2,634	20,162
Interest on borrowings and rediscounts.....	214	260	2,579
Interest on corporate bonds.....	—	311	—
Other interest expenses.....	14	17	177
Fees and commissions.....	2,528	2,558	30,408
Other operating expenses.....	3,400	756	40,895
General and administrative expenses.....	22,328	22,496	268,529
Other expenses.....	8,099	10,945	97,405
Total expenses.....	38,262	39,980	460,157
Income before income taxes and minority interests.....	4,252	3,422	51,137
Income taxes:			
Current.....	189	304	2,284
Deferred.....	(2,431)	(163)	(29,241)
Total income taxes.....	(2,241)	141	(26,956)
Income before minority interests.....	6,493	—	78,094
Minority interests in income.....	40	494	485
Net income.....	¥ 6,453	¥ 2,786	\$ 77,608
Net income per share (in yen and dollar):			
Basic.....	¥18.71	¥8.08	\$0.22
Diluted.....	6.89	5.33	0.08

Consolidated Statements of Comprehensive Income

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)
	2011	2010	2011
Income before minority interests	¥ 6,493	¥ —	\$ 78,094
Other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	4,363	—	52,482
Total other comprehensive income	4,363	—	52,482
Total comprehensive income.....	¥10,857	¥ —	\$130,576
Total comprehensive income attributable to:			
Shareholders of the parent	¥10,824	¥ —	\$130,182
Minority interests	32	—	394

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)
	2011	2010	2011
Shareholders' equity:			
Capital stock			
Balance at end of previous year.....	¥38,653	¥ 41,153	\$464,867
Changes during year:			
Reduction of capital	—	(20,000)	—
Issuance of shares.....	—	17,500	—
Total changes during year.....	—	(2,500)	—
Balance at end of year	¥38,653	¥ 38,653	\$464,867
Capital surplus			
Balance at end of previous year.....	¥31,205	¥ 5,587	\$375,292
Changes during year:			
Reduction of capital	—	20,000	—
Reversal of capital surplus.....	—	(11,882)	—
Issuance of shares.....	—	17,500	—
Total changes during year.....	—	25,617	—
Balance at end of year	¥31,205	¥ 31,205	\$375,292
Retained earnings (accumulated deficit)			
Balance at end of previous year.....	¥ 3,612	¥(10,927)	\$ 43,441
Changes during year:			
Reversal of capital surplus.....	—	11,882	—
Decrease of retained earnings due to acquisition of the stock of consolidated subsidiaries	—	(157)	—
Cash dividends.....	(641)	—	(7,719)
Net income.....	6,453	2,786	77,608
Reversal of land revaluation account.....	8	27	107
Total changes during year.....	5,820	14,539	69,996
Balance at end of year	¥ 9,432	¥ 3,612	\$113,438
Treasury stock			
Balance at end of previous year.....	¥ (108)	¥ (106)	\$ (1,305)
Changes during year:			
Purchase of treasury stock.....	(1)	(1)	(15)
Total changes during year.....	(1)	(1)	(15)
Balance at end of year	¥ (109)	¥ (108)	\$ (1,320)
Total shareholders' equity			
Balance at end of previous year.....	¥73,362	¥ 35,707	\$882,297
Changes during year:			
Issuance of shares.....	—	35,000	—
Decrease of retained earnings due to acquisition of the stock of consolidated subsidiaries	—	(157)	—
Cash dividends.....	(641)	—	(7,719)
Net income.....	6,453	2,786	77,608
Purchase of treasury stock.....	(1)	(1)	(15)
Reversal of land revaluation account.....	8	27	107
Total changes during year.....	5,818	37,655	69,981
Balance at end of year	¥79,181	¥ 73,362	\$952,278

<i>For the years ended March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Accumulated other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities			
Balance at end of previous year.....	¥ (1,183)	¥ (4,337)	\$ (14,233)
Changes during year:			
Net changes in items other than shareholders' equity.....	4,371	3,153	52,574
Total changes during year.....	4,371	3,153	52,574
Balance at end of year	¥ 3,188	¥ (1,183)	\$ 38,340
Land revaluation account			
Balance at end of previous year.....	¥ 2,368	¥ 2,395	\$ 28,479
Changes during year:			
Net changes in items other than shareholders' equity.....	(8)	(27)	(107)
Total changes during year.....	(8)	(27)	(107)
Balance at end of year	¥ 2,359	¥ 2,368	\$ 28,371
Total accumulated other comprehensive income			
Balance at end of previous year.....	¥ 1,184	¥ (1,941)	\$ 14,245
Changes during year:			
Net changes in items other than shareholders' equity.....	4,362	3,126	52,466
Total changes during year.....	4,362	3,126	52,466
Balance at end of year	¥ 5,547	¥ 1,184	\$ 66,711
Stock acquisition rights			
Balance at end of previous year.....	¥ —	¥ —	\$ —
Changes during year:			
Net changes in items other than shareholders' equity.....	28	—	337
Total changes during year.....	28	—	337
Balance at end of year	¥ 28	¥ —	\$ 337
Minority interests			
Balance at end of previous year.....	¥ 58	¥ 4,439	\$ 708
Changes during year:			
Net changes in items other than shareholders' equity.....	32	(4,380)	394
Total changes during year.....	32	(4,380)	394
Balance at end of year	¥ 91	¥ 58	\$ 1,103
Total net assets			
Balance at end of previous year.....	¥74,606	¥38,204	\$ 897,251
Changes during year:			
Issuance of shares.....	—	35,000	—
Decrease of retained earnings due to acquisition of the stock of consolidated subsidiaries	—	(157)	—
Cash dividends.....	(641)	—	(7,719)
Net income.....	6,453	2,786	77,608
Purchase of treasury stock.....	(1)	(1)	(15)
Reversal of land revaluation account.....	8	27	107
Net changes in items other than shareholders' equity.....	4,423	(1,254)	53,198
Total changes during year.....	10,242	36,401	123,179
Balance at end of year	¥84,848	¥74,606	\$1,020,431

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)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 4,252	¥ 3,422	\$ 51,137
Depreciation and amortization	1,296	1,428	15,594
Loss on impairment of fixed assets.....	122	55	1,468
Decrease in reserve for possible loan losses.....	(2,638)	(6,080)	(31,729)
Increase in reserve for employee bonuses	31	1	381
Increase (decrease) in reserve for reimbursement of dormant deposits.....	20	(10)	242
Increase in reserve for employee retirement benefits.....	350	305	4,220
(Decrease) increase in reserve for director retirement benefits	(195)	70	(2,348)
(Decrease) increase in reserve for contingent loss.....	(140)	158	(1,691)
Interest income	(30,873)	(29,157)	(371,304)
Interest expenses.....	1,905	3,224	22,918
Loss on securities - net.....	4,621	1,693	55,583
Foreign exchange gain - net.....	71	20	855
Loss on disposal of tangible fixed assets.....	23	45	287
Net decrease (increase) in trading account securities.....	3	(0)	43
Net increase in loans.....	(28,278)	(8,247)	(340,094)
Net increase in deposits	31,009	18,323	372,934
Net decrease (increase) in borrowings excluding subordinated debt.....	30,033	(185)	361,200
Net increase in due from banks other than the Bank of Japan.....	(19)	(96)	(230)
Net decrease (increase) in call loans and others.....	10,815	(16,186)	130,074
Net decrease in call money and others.....	(30,000)	(11,300)	(360,793)
Net increase in foreign exchanges - assets.....	(778)	(1,145)	(9,363)
Net increase in foreign exchange - liabilities	0	11	5
Interest received.....	31,067	29,578	373,634
Interest paid	(2,269)	(3,670)	(27,292)
Other	301	362	3,628
Subtotal	20,734	(17,378)	249,364
Income taxes paid.....	(382)	(128)	(4,594)
Net cash provided by (used in) operating activities	20,352	(17,507)	244,769
Cash flows from investing activities:			
Purchases of securities.....	(175,740)	(179,481)	(2,113,534)
Proceeds from sale of securities	123,858	113,871	1,489,573
Proceeds from redemption of securities	37,947	43,236	456,379
Purchases of tangible fixed assets	(223)	(195)	(2,688)
Proceeds from sale of tangible fixed assets	71	54	859
Purchases of subsidiary shares	—	(4,600)	—
Payments for asset retirement obligations	(1)	—	(23)
Net cash used in investing activities.....	(14,088)	(27,115)	(169,433)
Cash flows from financing activities:			
Proceeds from issuance of shares.....	—	34,933	—
Repayment of subordinated debt	—	(13,600)	—
Retirement by purchase of subordinated debt	—	(826)	—
Dividends paid.....	(641)	—	(7,719)
Cash dividends paid to minority interests	—	(427)	—
Purchases of treasury stock	(1)	(1)	(15)
Net cash (used in) provided by financing activities	(643)	20,079	(7,734)
Effect of exchange rate changes on cash and cash equivalents	38	27	459
Net increase (decrease) in cash and cash equivalents	5,659	(24,516)	68,060
Cash and cash equivalents at beginning of year.....	27,069	51,585	325,546
Cash and cash equivalents at end of year	¥ 32,728	¥ 27,069	\$ 393,607

Supplementary Information

Consolidated Capital Ratio *(Domestic Standard)*

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Tier I capital	¥ 78,212	¥ 72,780	\$ 940,622
Tier II capital	12,233	12,466	147,125
Deduction	—	—	—
Total qualifying capital.....	¥ 90,446	¥ 85,246	\$ 1,087,747
Risk-adjusted assets:			
On-balance sheet assets.....	¥889,907	¥858,060	\$10,702,434
Off-balance sheet assets.....	18,510	15,406	222,616
Risk-weighted credit equivalent amount	908,417	873,466	10,925,050
Amount related to operational risk-equivalent assets.....	54,371	53,351	653,900
Total	¥962,789	¥926,817	\$11,578,951
Capital ratio	9.39%	9.19%	

Board of Directors and Corporate Auditors

(As of June 29, 2011)

**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

Masanori Tsunoyama
Naoshi Sando
Kiyomi Osawa
Hitoshi Ito

Hideaki Minami
Hiroshi Ebara
Hiroyuki Sakurai

Auditors

Kiyoshi Takei
Seiji Tamura
Toru Ikehara
Yoshikazu Kato

The Towa Bank Network

(As of April 1, 2011)

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