

2012

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. To assist you in further understanding our current situation, we have completed the Bank's financial statements for fiscal 2011, ended March 31, 2012, which are presented hereunder.

The Japanese economy got off to a difficult start in fiscal 2011, largely as a result of the disruption of supply chains and an unstable electric power supply situation, both caused by the East Japan Big Earthquake of March 11 last year. An improvement in the economy was seen in the summer, but thereafter Japanese industry faced a sharp deterioration in the earnings environment due to the floods in Thailand and the economic downturn overseas, as well as the ongoing appreciation of the yen against the backdrop of the European sovereign debt crisis. These factors served to delay the economy's recovery.

While the Japanese economy's performance has remained largely unchanged since the beginning of 2012, there have been signs of a nascent recovery. At the same time, there remain many downside risks, including the further appreciation of the yen and the European sovereign debt crisis, and the outlook for the economy is still unclear.

Amid this business environment, at the Towa Bank

Group we pursued the Phoenix Plan II, a business improvement plan, under which we exerted our utmost efforts to support our customers when and where needed. We conducted interviews with each of our customers to collect the information required to accurately ascertain their situation, and on that basis we made revisions to our support measures, enabling us to provide a smooth supply of funds to small and medium-sized enterprises. We also provided consulting services on such matters as management improvement.

As a result of these activities, for its 107th business term, the Group recorded a steady increase in deposits as well as loans and bills discounted, posting net income of ¥7.7 billion for the reporting term. In addition, we achieved almost all our goals under the Phoenix Plan II, which we have been pursuing since October 2009.

Although the business situation is likely to remain difficult for some time to come, there are signs of improvement in domestic demand, including both personal consumption expenditure and capital investment, and we have hopes for an economic recovery against the background of special post-disaster reconstruction demand, among other factors. Conversely, the outlook is projected to remain unclear, due to continued downside risks stemming from the worsening European debt crisis and a general slowdown in the global economy. In this operating environment, at the Towa Bank Group we will continue to fulfill our mission as a regional bank by carefully ascertaining our customers' circumstances and sparing no effort to provide appropriate support. We regard it as a top-priority management issue to provide unstinting support for small and medium-sized enterprises, thereby assisting the development of the regional economy.

In keeping with its status as a regional financial institution, our bank has cultivated a close relationship with the regional economy and society throughout its history. From here on, we intend to further strengthen the ties between the Towa Bank Group and the local community. In their day-to-day interaction with our

customers, the entire management and staff of the Bank will do their utmost to understand the customer's problems and put themselves in the customer's place. We will live up to our high reputation as a regional financial institution by enthusiastically listening to our customers and offering them advice, so as to firmly establish our reputation in the local community as a bank that can be relied on. To realize this goal, we will actively engage in activities in the following five fields.

First, to raise customer satisfaction, the entire Bank will offer continuous support for the core operations of our corporate customers, including providing the information needed to help expand marketing channels and open up new business operations.

Second, we will provide support for growth areas. The fields of medical treatment, nursing care, and social welfare in general are expected to record further growth in the near future as a result of the falling birthrate and the rising average age of the population. This growth will provide new employment opportunities in the regions in which the Bank operates, due to the progress of medical technology. To assist this growth, we have set up a dedicated team within our head office to handle medical-related financing, and in collaboration with external medical consultants are actively offering financial support for the opening and of new hospitals and clinics, as well as funding for the operation of existing medical institutions and management consulting services.

Third, we will offer advice on and financial support for business succession and inheritance. We operate a management consultation service in collaboration with external experts, backed by a full follow-up system, including financial support, enabling our customers to pass on their businesses to their successors without problems.

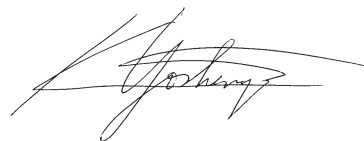
Fourth, we will provide support for corporate customers' entry into overseas markets. Overseas activities by the Bank's customers are on the increase. Moreover, those of our customers that are planning to enter

overseas markets or have already set up operations overseas face growing needs in the areas of financing, trade, and investment. To meet these needs, we have been taking steps to strengthen our support system, working closely with governmental agencies such as JICA (Japan International Cooperation Agency), JBIC (Japan Bank for International Cooperation), and JETRO (Japan External Trade Organization) to support our customers' efforts to set up business operations overseas.

Fifth, we will take steps to increase the number of female employees in the Bank's marketing divisions. From the current fiscal year onwards we will be actively appointing female staff to marketing positions, both as part of our commitment to widening the sphere of employment for female staff and as a means of enhancing the Bank's overall marketing potential.

With the aim of being a bank that local communities can depend on, at the Towa Bank Group, we will continue to fulfill our mission as a regional bank by carefully ascertaining our customers' circumstances and sparing no effort to provide appropriate support. We will visit our customers frequently to collect the necessary information, will work closely together with them to devise effective solutions to their business issues, and will support them in every way possible. In addition, we have positioned the strengthening of legal compliance functions across the entire Towa Bank Group as a top management priority, and will take vigorous measures to further reinforce the Bank's earning power and realize more efficient management. We would like to ask our shareholders for their continued support and encouragement in these future endeavors.

August 2012



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)
	2012	2011	2012
<b>Assets:</b>			
Cash and due from banks .....	¥ 32,392	¥ 34,216	\$ 394,115
Call loans and bills purchased .....	36,068	8,609	438,844
Commercial paper and other debt purchased .....	228	239	2,778
Trading account securities .....	4	27	52
Securities .....	475,729	470,044	5,788,172
Loans and bills discounted .....	1,245,485	1,225,693	15,153,738
Foreign exchange .....	959	2,819	11,673
Other assets .....	13,260	14,069	161,336
Tangible fixed assets .....	25,380	25,647	308,806
Intangible fixed assets .....	905	880	11,011
Deferred tax assets .....	4,695	5,218	57,132
Customers' liabilities for acceptances and guarantees .....	4,555	4,501	55,423
Reserve for possible loan losses .....	(14,635)	(16,719)	(178,073)
<b>Total assets .....</b>	<b>¥1,825,030</b>	<b>¥1,775,249</b>	<b>\$22,205,014</b>

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 ¥82.19 to US\$1.00, the rate prevailing on March 31, 2012.

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
<b>Liabilities:</b>			
Deposits.....	¥1,667,018	¥1,625,094	\$20,282,494
Borrowed money.....	32,794	34,350	399,006
Foreign exchange.....	62	35	754
Other liabilities.....	8,487	9,389	103,264
Accrued employee bonuses.....	376	264	4,583
Reserve for employee retirement benefits.....	12,601	12,328	153,315
Reserve for director retirement benefits.....	34	52	422
Reserve for reimbursement of dormant deposits.....	282	261	3,432
Reserve for contingent loss.....	565	535	6,883
Deferred tax liabilities.....	16	20	201
Deferred tax liability for land revaluation.....	3,019	3,567	36,741
Acceptances and guarantees.....	4,555	4,501	55,423
Total liabilities.....	1,729,813	1,690,400	21,046,523
<b>Net assets:</b>			
Shareholders' equity:			
Capital stock.....	38,653	38,653	470,297
Capital surplus.....	31,190	31,205	379,494
Retained earnings.....	16,238	9,432	197,570
Treasury stock, at cost.....	(180)	(109)	(2,196)
Total shareholders' equity.....	85,902	79,181	1,045,165
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	6,518	3,188	79,304
Land revaluation account.....	2,621	2,359	31,890
Total accumulated other comprehensive income.....	9,139	5,547	111,194
Stock acquisition rights.....	66	28	803
Minority interests.....	108	91	1,326
Total net assets.....	95,216	84,848	1,158,490
Total liabilities and net assets.....	¥1,825,030	¥1,775,249	\$22,205,014

# 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)
	2012	2011	2012
<b>Income:</b>			
Interest on loans and discounts.....	¥23,667	¥23,896	\$287,962
Interest and dividends on securities.....	7,721	6,825	93,941
Other interest income.....	196	151	2,389
Fees and commissions.....	5,052	4,704	61,478
Other operating income.....	450	343	5,485
Other income.....	5,048	6,592	61,423
<b>Total income.....</b>	<b>42,137</b>	<b>42,514</b>	<b>512,680</b>
<b>Expenses:</b>			
Interest on deposits.....	1,081	1,676	13,155
Interest on borrowings and rediscounts.....	214	214	2,610
Other interest expenses.....	9	14	119
Fees and commissions.....	3,169	2,528	38,562
Other operating expenses.....	1,797	3,400	21,871
General and administrative expenses.....	22,343	22,328	271,848
Other expenses.....	6,464	8,099	78,655
<b>Total expenses.....</b>	<b>35,080</b>	<b>38,262</b>	<b>426,823</b>
Income before income taxes and minority interests.....	7,056	4,252	85,856
<b>Income taxes:</b>			
Current.....	343	189	4,179
Deferred.....	(1,017)	(2,431)	(12,385)
<b>Total income taxes.....</b>	<b>(674)</b>	<b>(2,241)</b>	<b>(8,205)</b>
Income before minority interests.....	7,731	6,493	94,062
Minority interests in income.....	20	40	250
<b>Net income.....</b>	<b>¥ 7,710</b>	<b>¥ 6,453</b>	<b>\$ 93,812</b>
Net income per share (in yen and dollar):			
Basic.....	¥22.99	¥18.71	\$0.27
Diluted.....	10.41	7.12	0.12

# 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)
	2012	2011	2012
Income before minority interests .....	¥ 7,731	¥ 6,493	\$ 94,062
Other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	3,326	4,363	40,475
Land revaluation account.....	446	—	5,431
Total other comprehensive income .....	3,773	4,363	45,907
Total comprehensive income.....	¥11,504	¥10,857	\$139,970
Total comprehensive income attributable to:			
Shareholders of the parent .....	¥11,486	¥10,824	\$139,760
Minority interests .....	17	32	210

# 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)
	2012	2011	2012
<b>Shareholders' equity:</b>			
<b>Capital stock</b>			
Balance at beginning of year .....	¥38,653	¥38,653	\$ 470,297
Changes during year:			
Total changes during year .....	—	—	—
Balance at end of year .....	¥38,653	¥38,653	\$ 470,297
<b>Capital surplus</b>			
Balance at beginning of year .....	¥31,205	¥31,205	\$ 379,676
Changes during year:			
Exercise of stock options .....	(14)	—	(181)
Total changes during year .....	(14)	—	(181)
Balance at end of year .....	¥31,190	¥31,205	\$ 379,494
<b>Retained earnings</b>			
Balance at beginning of year .....	¥ 9,432	¥ 3,612	\$ 114,763
Changes during year:			
Cash dividends .....	(1,088)	(641)	(13,249)
Net income .....	7,710	6,453	93,812
Increase in retained earnings due to exclusion of subsidiary from consolidation .....	0	—	0
Reversal of land revaluation account .....	184	8	2,244
Total changes during year .....	6,805	5,820	82,807
Balance at end of year .....	¥16,238	¥ 9,432	\$ 197,570
<b>Treasury stock</b>			
Balance at beginning of year .....	¥ (109)	¥ (108)	\$ (1,335)
Changes during year:			
Purchase of treasury stock .....	(91)	(1)	(1,117)
Exercise of stock options .....	21	—	256
Total changes during year .....	(70)	(1)	(860)
Balance at end of year .....	¥ (180)	¥ (109)	(2,196)
<b>Total shareholders' equity</b>			
Balance at beginning of year .....	¥79,181	¥73,362	\$ 963,401
Changes during year:			
Cash dividends .....	(1,088)	(641)	(13,249)
Net income .....	7,710	6,453	93,812
Purchase of treasury stock .....	(91)	(1)	(1,117)
Increase in retained earnings due to exclusion of subsidiary from consolidation .....	0	—	0
Reversal of land revaluation account .....	184	8	2,244
Exercise of stock options .....	6	—	74
Total changes during year .....	6,720	5,818	81,764
Balance at end of year .....	¥85,902	¥79,181	\$1,045,165



<i>For the years ended March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
<b>Accumulated other comprehensive income:</b>			
Net unrealized gains (losses) on available-for-sale securities			
Balance at beginning of year .....	¥ 3,188	¥ (1,183)	\$ 38,788
Changes during year:			
Net changes in items other than shareholders' equity.....	3,330	4,371	40,516
Total changes during year.....	3,330	4,371	40,516
Balance at end of year .....	¥ 6,518	¥ 3,188	\$ 79,304
Land revaluation account			
Balance at beginning of year .....	¥ 2,359	¥ 2,368	\$ 28,702
Changes during year:			
Net changes in items other than shareholders' equity.....	261	(8)	3,187
Total changes during year.....	261	(8)	3,187
Balance at end of year .....	¥ 2,621	¥ 2,359	\$ 31,890
Total accumulated other comprehensive income			
Balance at beginning of year .....	¥ 5,547	¥ 1,184	\$ 67,491
Changes during year:			
Net changes in items other than shareholders' equity.....	3,592	4,362	43,703
Total changes during year.....	3,592	4,362	43,703
Balance at end of year .....	¥ 9,139	¥ 5,547	\$ 111,194
<b>Stock acquisition rights</b>			
Balance at beginning of year .....	¥ 28	¥ —	\$ 341
Changes during year:			
Net changes in items other than shareholders' equity.....	37	28	462
Total changes during year.....	37	28	462
Balance at end of year .....	¥ 66	¥ 28	\$ 803
<b>Minority interests</b>			
Balance at beginning of year .....	¥ 91	¥ 58	\$ 1,115
Changes during year:			
Net changes in items other than shareholders' equity.....	17	32	210
Total changes during year.....	17	32	210
Balance at end of year .....	¥ 108	¥ 91	\$ 1,326
<b>Total net assets</b>			
Balance at beginning of year .....	¥84,848	¥74,606	\$1,032,349
Changes during year:			
Cash dividends.....	(1,088)	(641)	(13,249)
Net income.....	7,710	6,453	93,812
Purchase of treasury stock.....	(91)	(1)	(1,117)
Increase in retained earnings due to exclusion of subsidiary from consolidation .....	0	—	0
Reversal of land revaluation account.....	184	8	2,244
Exercise of stock options.....	6	—	74
Net changes in items other than shareholders' equity.....	3,647	4,423	44,375
Total changes during year.....	10,367	10,242	126,140
Balance at end of year .....	¥95,216	¥84,848	\$1,158,490

# 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)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 7,056	¥ 4,252	\$ 85,856
Depreciation and amortization .....	1,289	1,296	15,685
Loss on impairment of fixed assets.....	299	122	3,644
Decrease in reserve for possible loan losses.....	(2,083)	(2,638)	(25,350)
Increase in reserve for employee bonuses .....	115	31	1,404
Increase in reserve for employee retirement benefits.....	272	350	3,319
(Decrease) increase in reserve for director retirement benefits .....	(18)	(195)	(221)
Increase in reserve for reimbursement of dormant deposits.....	20	20	254
(Decrease) increase in reserve for contingent loss.....	30	(140)	369
Interest income .....	(31,585)	(30,873)	(384,292)
Interest expenses.....	1,305	1,905	15,886
Loss on securities - net.....	1,682	4,621	20,475
Foreign exchange gain - net.....	(57)	71	(704)
Loss on disposal of tangible fixed assets.....	20	23	254
Net decrease in trading account securities .....	23	3	282
Net increase in loans.....	(19,791)	(28,278)	(240,805)
Net increase in deposits .....	41,886	31,009	509,627
Net decrease (increase) in borrowings excluding subordinated debt.....	(1,555)	30,033	(18,928)
Net increase in due from banks other than the Bank of Japan.....	(146)	(19)	(1,787)
Net decrease (increase) in call loans and others.....	(27,447)	10,815	(333,954)
Net decrease in call money and others.....	—	(30,000)	—
Net increase in foreign exchanges - assets.....	1,860	(778)	22,631
Net increase in foreign exchange - liabilities .....	26	0	326
Interest received.....	31,332	31,067	381,226
Interest paid .....	(1,874)	(2,269)	(22,804)
Other .....	1,135	301	13,811
Subtotal .....	3,797	20,734	46,205
Income taxes paid.....	14	(382)	173
Net cash provided by operating activities .....	3,811	20,352	46,378
Cash flows from investing activities:			
Purchases of securities.....	(99,370)	(175,740)	(1,209,033)
Proceeds from sale of securities .....	36,758	123,858	447,244
Proceeds from redemption of securities .....	59,171	37,947	719,935
Purchases of tangible fixed assets .....	(830)	(223)	(10,107)
Purchase of intangible fixed assets .....	(384)	—	(4,682)
Proceeds from sale of tangible fixed assets .....	6	71	73
Payments for asset retirement obligations .....	(6)	(1)	(80)
Proceeds from sale of stocks of subsidiary resulting in change in scope of consolidation .....	25	—	315
Net cash used in investing activities.....	(4,630)	(14,088)	(56,336)
Cash flows from financing activities:			
Dividends paid .....	(1,088)	(641)	(13,249)
Purchases of treasury stock .....	(91)	(1)	(1,117)
Proceeds from exercise of stock options.....	0	—	1
Net cash used in financing activities .....	(1,180)	(643)	(14,365)
Effect of exchange rate changes on cash and cash equivalents .....	28	38	342
Net increase (decrease) in cash and cash equivalents .....	(1,970)	5,659	(23,980)
Cash and cash equivalents at beginning of year.....	32,728	27,069	398,204
Cash and cash equivalents at end of year .....	¥30,757	¥ 32,728	\$ 374,223

## Supplementary Information

### Consolidated Capital Ratio (Domestic Standard)

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Tier I capital .....	¥ 84,726	¥ 78,212	\$ 1,030,864
Tier II capital .....	12,654	12,233	153,966
Deduction .....	—	—	—
Total qualifying capital.....	¥ 97,381	¥ 90,446	\$ 1,184,831
Risk-adjusted assets:			
On-balance sheet assets.....	¥904,907	¥889,907	\$11,009,941
Off-balance sheet assets.....	16,519	18,510	200,993
Risk-weighted credit equivalent amount .....	921,426	908,417	11,210,934
Amount related to operational risk-equivalent assets.....	57,151	54,371	695,352
Total .....	¥978,577	¥962,789	\$11,906,287
Capital ratio .....	9.95%	9.39%	

# Board of Directors and Audit & Supervisory Board

(As of June 26, 2012)

**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**

Shinobu Fukuda

Masanori Tsunoyama

Naoshi Sando

Hitoshi Ito

Kiyomi Osawa

**Executive Officers**

Hideaki Minami

Hiroshi Ebara

Hiroyuki Sakurai

**Audit & Supervisory Board Members**

Noboru Kogure

Seiji Tamura

Yasuhisa Fukuda

Shintaro Ando

## The Towa Bank Network

(As of March 31, 2012)

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**Service Network:**

