

2013

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 2012, ended March 31, 2013, which are presented hereunder.

Following the start of the new government toward the end of 2012, the markets became increasingly enthusiastic about the government's moves to jolt the economy out of the deflationary stagnation it has endured for so many years. The appreciation of the yen on foreign exchange markets was alleviated fairly considerably over a very short period, and stock prices began to move upward. Then, in March, the Bank of Japan announced a bold policy departure with the adoption of a plan for "quantitative and qualitative monetary easing." This gave a boost to positive trends that had been set in motion in both the real economy and the financial markets, and the economy showed signs of a burgeoning recovery.

Amid this business environment, The Towa Bank Group have been pursuing the Phoenix Plan III, a business improvement plan, since April 2012. Under this plan, we have exerted our utmost efforts to

support our customers when and where needed by conducting interviews with each customer to collect the information required to accurately ascertain their situation. To enhance customer satisfaction, we provided support for customers' mainline business operations, and initiated "Towa Customer Support Activities" as part of our pursuit of a community-based financial service model. This enabled us to provide a smooth supply of funds to small and medium-sized enterprises, and we also provided consulting services on such matters as management improvement. The entire management and staff of the Bank worked together to support the development of the local economy and to firmly cement our reputation among the community as a bank that can be relied on.

As a result of our efforts, for its 108th business term, The Towa Bank Group recorded a steady increase in deposits as well as loans and bills discounted, posting record high figures in both ordinary income and net income. The Bank's business performance for the term under review surpassed the targets under our Phoenix Plan III business improvement plan in almost all respects, and we continue to record firm results.

Turning to the outlook for the Japanese economy, while there are hopes for a recovery on the back of the government's economic measures and the weaker yen exchange rate, the general outlook remains uncertain, with the continuing possibility of a downturn in overseas economies.

Amid these circumstances, in keeping with its role as a regional financial institution, the Group will continue putting its full efforts into supporting customers main line business operations through the smooth provision of the necessary financing, so as to contribute to the economic development of the local communities in which it operates. At the same time, we have assigned top management priority to

achieving more efficient management as a means of strengthening the Group's earning power.

In addition, since before the enforcement of "Act concerning Temporary Measures to Facilitate Financing for Small and Medium-Sized Enterprises (SMEs), etc.", our group has been offering consulting services and taking other steps to help its SMEs improve the quality of their management. Despite the fact that the Act ceased to be in effect at the end of March this year, the Group's stance on this matter has remained unchanged.

In fiscal 2013 we will continue to engage in "Towa Customer Support Activities" and to support our customers' mainline business operations.

The principal results of "Towa Customer Support Activities" in fiscal 2012 included the holding of 1,411 business matching sessions, of which 181 concluded in business transactions. In a joint development research project with Gunma University, we made proposals to 30 companies, and joint research has commenced with three of these enterprises. In collaboration with the Kanto Bureau of Economy, Trade and Industry we helped 28 companies successfully apply for subsidies, and applications are pending for a further 11 firms. Regarding application for the *Monozukuri* Subsidy for Small and Medium Enterprise Development Project, we helped 86 companies successfully apply, with a further 31 pending. Further, in collaboration with the Kanto Bureau of Economy, Trade and Industry and the Northern Kanto Association for the Study of Cooperation among Industry, Government, and Academia, we introduced 73 companies' specialist technical know-how to major corporations, and brought together buyers from leading food processing companies with representatives of 56 local companies, leading to successful transactions in five cases.

We also plan to reorganize the divisional structure at our head office to render the above measures even more effective. The Business Promotion Department

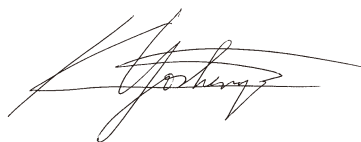
will be split into the Relationship Banking Promotion Department, which will be responsible for back-office promote business, and the Relationship Banking Strategy Department, which will be in charge of drawing up strategies and other aspects of planning. We believe this will create a structure enabling us to further strengthen the "Towa Customer Support Activities."

Regarding the Bank's efforts to support economic activities in growth fields, we will proactively provide financial and management consulting support for businesses newly started up in the fields of medical treatment, nursing care, and social welfare in general.

We will also provide support for corporate customers' entry into overseas markets, as well as support for intellectual property management, and advice on and financial support for business succession and inheritance. We will take an active stance on providing support through collaboration with external specialists.

With the aim of being a bank that local communities can depend on, we will work to build strong relationships with our corporate customers so as to raise the overall customer satisfaction level. In addition, we have positioned the strengthening of legal compliance functions across The 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 2013



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)
	2013	2012	2013
Assets:			
Cash and due from banks	¥ 35,725	¥ 32,392	\$ 379,861
Call loans and bills purchased	29,188	36,068	310,346
Commercial paper and other debt purchased	209	228	2,231
Trading account securities	13	4	146
Securities	505,329	475,729	5,372,985
Loans and bills discounted	1,275,715	1,245,485	13,564,226
Foreign exchange	874	959	9,294
Other assets	13,117	13,260	139,468
Tangible fixed assets	25,200	25,380	267,952
Buildings	5,051	5,250	53,710
Land	18,061	18,061	192,040
Lease assets (tangible)	323	257	3,439
Other tangible assets	1,764	1,811	18,762
Intangible fixed assets	896	905	9,527
Software	715	693	7,610
Lease assets (intangible)	7	23	82
Other intangible assets	172	188	1,834
Deferred tax assets	1,809	4,695	19,241
Customers' liabilities for acceptances and guarantees	4,014	4,555	42,682
Reserve for possible loan losses	(12,229)	(14,635)	(130,029)
Total assets	¥1,879,865	¥1,825,030	\$19,987,936

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 ¥94.05 to US\$1.00, the rate prevailing on March 31, 2013.

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Liabilities:			
Deposits.....	¥1,726,342	¥1,667,018	\$18,355,587
Borrowed money.....	14,984	32,794	159,319
Foreign exchange.....	37	62	400
Other liabilities.....	9,412	8,487	100,076
Accrued employee bonuses.....	393	376	4,181
Reserve for employee retirement benefits.....	12,135	12,601	129,030
Reserve for director retirement benefits.....	23	34	247
Reserve for reimbursement of dormant deposits.....	322	282	3,427
Reserve for contingent loss.....	559	565	5,947
Deferred tax liabilities.....	13	16	141
Deferred tax liability for land revaluation.....	3,019	3,019	32,108
Acceptances and guarantees.....	4,014	4,555	42,682
Total liabilities.....	1,771,257	1,729,813	18,833,152
Net assets:			
Shareholders' equity:			
Capital stock.....	38,653	38,653	410,991
Capital surplus.....	31,184	31,190	331,578
Retained earnings.....	22,651	16,238	240,847
Treasury stock, at cost.....	(423)	(180)	(4,507)
Total shareholders' equity.....	92,066	85,902	978,910
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	12,667	6,518	134,687
Land revaluation account.....	2,621	2,621	27,868
Total accumulated other comprehensive income.....	15,288	9,139	162,556
Stock acquisition rights.....	98	66	1,043
Minority interests.....	1,154	108	12,274
Total net assets.....	108,607	95,216	1,154,783
Total liabilities and net assets.....	¥1,879,865	¥1,825,030	\$19,987,936

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)
	2013	2012	2013
Income:			
Interest on loans and discounts.....	¥23,153	¥23,667	\$246,179
Interest and dividends on securities.....	7,884	7,721	83,836
Other interest income.....	120	196	1,284
Fees and commissions.....	5,567	5,052	59,192
Other operating income.....	401	450	4,273
Other income.....	5,577	5,048	59,298
Total income.....	42,704	42,137	454,065
Expenses:			
Interest on deposits.....	817	1,081	8,687
Interest on borrowings and rediscounts.....	116	214	1,234
Other interest expenses.....	7	9	84
Fees and commissions.....	3,606	3,169	38,344
Other operating expenses.....	682	1,797	7,255
General and administrative expenses.....	21,644	22,343	230,136
Other expenses.....	5,793	6,464	61,595
Total expenses.....	32,667	35,080	347,338
Income before income taxes and minority interests.....	10,037	7,056	106,727
Income taxes:			
Current.....	1,509	343	16,053
Deferred.....	697	(1,017)	7,417
Total income taxes.....	2,207	(674)	23,471
Income before minority interests.....	7,830	7,731	83,256
Minority interests in income.....	66	20	705
Net income.....	¥ 7,763	¥ 7,710	\$ 82,550
Net income per share (in yen and dollar):			
Basic.....	¥23.26	¥22.99	\$0.24
Diluted.....	9.74	10.41	0.10

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)
	2013	2012	2013
Income before minority interests	¥ 7,830	¥ 7,731	\$ 83,256
Other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	6,146	3,326	65,349
Land revaluation account.....	—	446	—
Total other comprehensive income	6,146	3,773	65,349
Total comprehensive income.....	¥13,976	¥11,504	\$148,605
Total comprehensive income attributable to:			
Shareholders of the parent	¥13,913	¥11,486	\$147,933
Minority interests	63	17	671

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)
	2013	2012	2013
Shareholders' equity:			
Capital stock			
Balance at beginning of year	¥38,653	¥38,653	\$410,991
Changes during year:			
Total changes during year	—	—	—
Balance at end of year	38,653	¥38,653	410,991
Capital surplus			
Balance at beginning of year	31,190	¥31,205	331,639
Changes during year:			
Exercise of stock options	(5)	(14)	(60)
Total changes during year	(5)	(14)	(60)
Balance at end of year	31,184	¥31,190	331,578
Retained earnings			
Balance at beginning of year	16,238	¥ 9,432	172,656
Changes during year:			
Cash dividends	(1,350)	(1,088)	(14,358)
Net income	7,763	7,710	82,550
Increase in retained earnings due to exclusion of subsidiary from consolidation	—	0	—
Reversal of land revaluation account	—	184	—
Total changes during year	6,413	6,805	68,191
Balance at end of year	22,651	¥16,238	240,847
Treasury stock			
Balance at beginning of year	(180)	¥ (109)	(1,919)
Changes during year:			
Purchase of treasury stock	(257)	(91)	(2,733)
Exercise of stock options	13	21	145
Total changes during year	(243)	(70)	(2,587)
Balance at end of year	(423)	¥ (180)	(4,507)
Total shareholders' equity			
Balance at beginning of year	85,902	¥79,181	913,367
Changes during year:			
Cash dividends	(1,350)	(1,088)	(14,358)
Net income	7,763	7,710	82,550
Purchase of treasury stock	(257)	(91)	(2,733)
Increase in retained earnings due to exclusion of subsidiary from consolidation	—	0	—
Reversal of land revaluation account	—	184	—
Exercise of stock options	7	6	84
Total changes during year	6,164	6,720	65,543
Balance at end of year	¥92,066	¥85,902	\$978,910

<i>For the years ended March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Accumulated other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities			
Balance at beginning of year	¥ 6,518	¥ 3,188	\$ 69,304
Changes during year:			
Net changes in items other than shareholders' equity.....	6,149	3,330	65,383
Total changes during year.....	6,149	3,330	65,383
Balance at end of year	¥ 12,667	¥ 6,518	\$ 134,687
Land revaluation account			
Balance at beginning of year	¥ 2,621	¥ 2,359	\$ 27,868
Changes during year:			
Net changes in items other than shareholders' equity.....	—	261	—
Total changes during year.....	—	261	—
Balance at end of year	¥ 2,621	¥ 2,621	\$ 27,868
Total accumulated other comprehensive income			
Balance at beginning of year	9,139	¥ 5,547	\$ 97,172
Changes during year:			
Net changes in items other than shareholders' equity.....	6,149	3,592	65,383
Total changes during year.....	6,149	3,592	65,383
Balance at end of year	¥ 15,288	¥ 9,139	\$ 162,556
Stock acquisition rights			
Balance at beginning of year	¥ 66	¥ 28	\$ 702
Changes during year:			
Net changes in items other than shareholders' equity.....	32	37	340
Total changes during year.....	32	37	340
Balance at end of year	¥ 98	¥ 66	\$ 1,043
Minority interests			
Balance at beginning of year	¥ 108	¥ 91	\$ 1,158
Changes during year:			
Net changes in items other than shareholders' equity.....	1,045	17	11,115
Total changes during year.....	1,045	17	11,115
Balance at end of year	¥ 1,154	¥ 108	\$ 12,274
Total net assets			
Balance at beginning of year	¥ 95,216	¥84,848	\$1,012,401
Changes during year:			
Cash dividends.....	(1,350)	(1,088)	(14,358)
Net income.....	7,763	7,710	82,550
Purchase of treasury stock.....	(257)	(91)	(2,733)
Increase in retained earnings due to exclusion of subsidiary from consolidation	—	0	—
Reversal of land revaluation account.....	—	184	—
Exercise of stock options.....	7	6	84
Net changes in items other than shareholders' equity.....	7,226	3,647	76,839
Total changes during year.....	13,391	10,367	142,382
Balance at end of year	¥108,607	¥95,216	\$1,154,783

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)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 10,037	¥ 7,056	\$ 106,727
Depreciation and amortization	1,200	1,289	12,769
Loss on impairment of fixed assets.....	—	299	—
Decrease in reserve for possible loan losses.....	(2,406)	(2,083)	(25,587)
Increase in reserve for employee bonuses	16	115	176
(Decrease) increase in reserve for employee retirement benefits	(465)	272	(4,951)
Decrease in reserve for director retirement benefits.....	(11)	(18)	(121)
Increase in reserve for reimbursement of dormant deposits.....	40	20	428
(Decrease) increase in reserve for contingent loss.....	(6)	30	(67)
Interest income	(31,158)	(31,585)	(331,300)
Interest expenses.....	941	1,305	10,006
Loss on securities - net.....	464	1,682	4,939
Foreign exchange gain - net.....	(492)	(57)	(5,234)
Loss on disposal of tangible fixed assets.....	58	20	621
Net decrease (increase) in trading account securities.....	(9)	23	(100)
Net increase in loans.....	(30,229)	(19,791)	(321,422)
Net increase in deposits	59,324	41,886	630,778
Net decrease in borrowings excluding subordinated debt	(13,810)	(1,555)	(146,840)
Net increase in due from banks other than the Bank of Japan.....	(1,132)	(146)	(12,039)
Net increase (decrease) in call loans and others.....	6,899	(27,447)	73,355
Net increase in foreign exchanges - assets.....	85	1,860	906
Net decrease (increase) in foreign exchange - liabilities.....	(24)	26	(258)
Interest received.....	31,096	31,332	330,639
Interest paid	(1,311)	(1,874)	(13,946)
Other	656	1,135	6,977
Subtotal	29,762	3,797	316,455
Income taxes paid.....	(589)	14	(6,262)
Net cash provided by operating activities	29,173	3,811	310,192
Cash flows from investing activities:			
Purchases of securities.....	(104,797)	(99,370)	(1,114,272)
Proceeds from sale of securities	28,138	36,758	299,187
Proceeds from redemption of securities	55,227	59,171	587,217
Purchases of tangible fixed assets	(776)	(830)	(8,258)
Purchase of intangible fixed assets	(276)	(384)	(2,944)
Proceeds from sale of tangible fixed assets	106	6	1,133
Payments for asset retirement obligations	(2)	(6)	(29)
Proceeds from sale of stocks of subsidiary resulting in change in scope of consolidation	—	25	—
Net cash used in investing activities.....	(22,380)	(4,630)	(237,967)
Cash flows from financing activities:			
Decrease in subordinated loans	(4,000)	—	(42,530)
Proceeds from issuance of shares to minority interests	995	—	10,587
Dividends paid	(1,350)	(1,088)	(14,358)
Cash dividends paid to minority interests	(16)	—	(179)
Purchases of treasury stock.....	(257)	(91)	(2,733)
Proceeds from exercise of stock options.....	0	0	1
Net cash used in financing activities	(4,628)	(1,180)	(49,213)
Effect of exchange rate changes on cash and cash equivalents	36	28	393
Net increase (decrease) in cash and cash equivalents	2,201	(1,970)	23,404
Cash and cash equivalents at beginning of year.....	30,757	32,728	327,033
Cash and cash equivalents at end of year	¥ 32,958	¥30,757	\$ 350,437

Supplementary Information

Consolidated Capital Ratio (Domestic Standard)

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Tier I capital	¥ 91,956	¥ 84,726	\$ 977,744
Tier II capital	7,955	12,654	84,592
Deduction	—	—	—
Total qualifying capital.....	¥ 99,912	¥ 97,381	\$ 1,062,337
Risk-adjusted assets:			
On-balance sheet assets.....	¥ 926,240	¥904,907	\$ 9,848,381
Off-balance sheet assets.....	15,577	16,519	165,626
Risk-weighted credit equivalent amount	941,817	921,426	10,014,008
Amount related to operational risk-equivalent assets.....	59,854	57,151	636,411
Total	¥1,001,671	¥978,577	\$10,650,419
Capital ratio	9.97%	9.95%	

Board of Directors and Audit & Supervisory Board

(As of June 26, 2013)

President & Chief Executive Officer
Representative Director

Kunimitsu Yoshinaga

Deputy President & Executive Officer
Director

Hideo Kabe

Managing Executive Officer Director

Kiyomi Osawa

Directors

Sakae Morishige

Masayuki Kon

Managing Executive Officers

Shinobu Fukuda

Masanori Tsunoyama

Naoshi Sando

Hitoshi Ito

Hideaki Minami

Hiroshi Ebara

Hiroyuki Sakurai

Executive Officers

Kiyoshi Tomizawa

Kiyoshi Shibasaki

Kazuyoshi Shiraishi

Audit & Supervisory Board Members

Noboru Kogure

Seiji Tamura

Yasuhisa Fukuda

Shintaro Ando

The Towa Bank Network

(As of March 31, 2013)

Head Office:

12-6, Honmachi 2-chome, Maebashi, Gunma 371-8560, Japan

Phone: +81-27-234-1111

URL: <http://www.towabank.co.jp>

International Department:

12-6, Honmachi 2-chome, Maebashi, Gunma 371-8560, Japan

Phone: +81-27-234-1959

Fax: +81-27-230-1735

SWIFT: TOWAJPJT

Service Network:

