

2014

Financial Statements

TOWA

THE TOWA BANK, LTD.

A Message from the President



We greatly appreciate your continued patronage with The Towa Bank, Ltd.

Assisting in further understanding our current situation, we have completed the Bank's financial reports for fiscal 2013, ended March 31, 2014, which are presented hereunder.

Following the unprecedented implementation of monetary easing by the Bank of Japan, the Japanese economy started to recover in fiscal 2013, particularly in terms of domestic demand. And consumer spending picked up due to asset effects, including stock-price rise and higher corporate earnings as the strong yen corrected. As it became clear that Japan was emerging from the deflationary cycle supported by public investment, improving business sentiment resulted in higher capital expenditure and the economy continued to recover gradually, with additional support of last minute demand before the consumption tax went up.

Amid this business environment, The Towa Bank Group has been pursuing the Phoenix Plan III, a three-year business improvement plan that runs from April 2012 to March 2015 and aims to cement our

reputation among the community as a bank that can be relied on. The entire management and staff of the Bank have worked to support our customers' main business operations together with the following mottoes in mind: "supporting our customers when and where needed by conducting interviews to collect their information required to accurately ascertain their situation," and "never forgetting our modest origins."

Concerning support of our customers' main business operations, we have provided business-matching services at all branches, including solutions to expand sales channels and introduce new products; assisted with applications for various subsidies, such as business start-up subsidies and the Monodukuri Subsidy which supports trial product development and capital spending in the growing business areas for Small and Medium Enterprise Development Project that is linked with Kanto Bureau of Economy, Trade and Industry and the Organization for Small & Medium Enterprises and Regional Innovation and through joint research with Gunma University and Maebashi Institute of Technology; fostered

technology partnerships with major companies via Kanto Bureau of Economy, Trade and Industry and the Highland Kanto Liaison Organization which is established by universities and companies in Gunma and nearby prefectures led by Gunma University for the purpose of local industrial promotion; and been involved in proposal development, including commercial negotiations with major food processing and manufacturing buyers. Other activities include support in growing business areas such as healthcare; training for the next generation of managers and business succession and inheritance consultations using our network of external specialists, such as CPAs and licensed tax accountants; and even support on intellectual property matters. We have delivered steady business results in customer support services.

In terms of providing support for corporate customers' entry into overseas markets, we have formed new business partnerships with two overseas leasing companies and six financial institutions in Asia, and have developed links with the Japan International Cooperation Agency (JICA), Japan External Trade Organization (JETRO), Japan Bank for International Cooperation (JBIC), Japan Finance Corporation (JFC), and other bodies. We have expanded our support network through these efforts to be able to act as a one-stop-shop to help corporate customers move into overseas markets.

Having developed our customer support services in this way, in fiscal 2013, our deposit balance increased by ¥37 billion year-on-year to ¥1.7711 trillion and our loan balance also increased by ¥23.2 billion year-on-year to ¥1.3025 trillion compared with fiscal 2012. The number of business loan customer increased by 856 in comparison with the previous year, developing business relationships with around 2,000 companies

and generating results from our business introduction services. Over the two years since the start of the Phoenix Plan III business improvement plan, we have made 1,568 business loan customers.

Concerning the earnings in fiscal 2013, we posted record high earnings last year for ¥11.3 billion in core operating income, ¥11.9 billion in ordinary income, and ¥12.6 billion in net income, because of increases in the loan balance (especially loans to SMEs), net interest income, and service transaction profits from sales of investment trusts and other products.

I attribute these improvements in the deposit and loan balance, the number of business loan customer and our earnings power to customer's appreciation for our exhaustive visiting by entire management and staff working together and supporting customers' core business.

The Towa Bank Group started out as two mutual loan companies in Gunma and Saitama prefectures. We will work to visit even more of our customers and provide them with the necessary information and funds to support their main businesses, always keeping modesty in mind forever and ever. In this way, we hope to support the development and revitalization of regional communities. We would like to ask our shareholders for their continued support and encouragement in these future endeavors.

August 2014



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)
	2014	2013	2014
Assets:			
Cash and due from banks	¥ 41,408	¥ 35,725	\$ 402,338
Call loans and bills purchased	51,514	29,188	500,530
Commercial paper and other debt purchased	—	209	—
Trading account securities	20	13	203
Securities	517,576	505,329	5,028,923
Loans and bills discounted	1,296,781	1,275,715	12,599,899
Foreign exchange	844	874	8,205
Other assets	13,579	13,117	131,946
Tangible fixed assets	24,552	25,200	238,559
Buildings	4,848	5,051	47,110
Land	17,779	18,061	172,749
Lease assets (tangible)	256	323	2,494
Other tangible assets	1,667	1,764	16,205
Intangible fixed assets	964	896	9,368
Software	713	715	6,931
Lease assets (intangible)	—	7	—
Other intangible assets	250	172	2,436
Deferred tax assets	3,066	1,809	29,792
Customers' liabilities for acceptances and guarantees	3,659	4,014	35,554
Reserve for possible loan losses	(12,091)	(12,229)	(117,488)
Total assets	¥1,941,877	¥1,879,865	\$18,867,833

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 ¥102.92 to US\$1.00, the rate prevailing on March 31, 2014.

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Liabilities:			
Deposits.....	¥1,763,826	¥1,726,342	\$17,137,838
Borrowed money.....	32,779	14,984	318,490
Foreign exchange.....	34	37	331
Other liabilities.....	6,577	9,412	63,906
Accrued employee bonuses.....	391	393	3,802
Provision for retirement benefits.....	—	12,135	—
Net defined benefit liability.....	10,339	—	100,463
Reserve for director retirement benefits.....	24	23	233
Reserve for reimbursement of dormant deposits.....	388	322	3,769
Reserve for contingent loss.....	441	559	4,293
Deferred tax liabilities.....	10	13	99
Deferred tax liability for land revaluation.....	2,949	3,019	28,662
Acceptances and guarantees.....	3,659	4,014	35,554
Total liabilities.....	1,821,421	1,771,257	17,697,445
Net assets:			
Shareholders' equity:			
Capital stock.....	38,653	38,653	375,571
Capital surplus.....	31,179	31,184	302,950
Retained earnings.....	34,068	22,651	331,015
Treasury stock, at cost.....	(409)	(423)	(3,976)
Total shareholders' equity.....	103,492	92,066	1,005,559
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	11,988	12,667	116,486
Land revaluation account.....	2,775	2,621	26,965
Remeasurements of defined benefit plans.....	875	—	8,509
Total accumulated other comprehensive income.....	15,639	15,288	151,961
Stock acquisition rights.....	136	98	1,321
Minority interests.....	1,188	1,154	11,544
Total net assets.....	120,456	108,607	1,170,387
Total liabilities and net assets.....	¥1,941,877	¥1,879,865	\$18,867,833

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)
	2014	2013	2014
Income:			
Interest on loans and discounts.....	¥23,154	¥23,153	\$224,976
Interest and dividends on securities.....	8,102	7,884	78,725
Other interest income.....	103	120	1,008
Fees and commissions.....	5,937	5,567	57,686
Other operating income.....	211	401	2,051
Other income.....	5,025	5,577	48,824
Total income.....	42,534	42,704	413,272
Expenses:			
Interest on deposits.....	725	817	7,051
Interest on borrowings and rediscounts.....	35	116	348
Other interest expenses.....	7	7	76
Fees and commissions.....	3,789	3,606	36,821
Other operating expenses.....	71	682	696
General and administrative expenses.....	21,343	21,644	207,383
Other expenses.....	4,531	5,793	44,032
Total expenses.....	30,506	32,667	296,410
Income before income taxes and minority interests.....	12,027	10,037	116,862
Income taxes:			
Current.....	197	1,509	1,921
Deferred.....	(1,164)	697	(11,317)
Total income taxes.....	(966)	2,207	(9,395)
Income before minority interests.....	12,994	7,830	126,257
Minority interests in income.....	86	66	841
Net income.....	¥12,907	¥ 7,763	\$125,416
Net income per share (in yen and dollar):			
Basic.....	¥38.01	¥23.26	\$0.37
Diluted.....	17.68	9.74	0.17

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)
	2014	2013	2014
Income before minority interests	¥12,994	¥ 7,830	\$126,257
Other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	(681)	6,146	(6,621)
Total other comprehensive income	(681)	6,146	(6,621)
Total comprehensive income.....	¥12,312	¥13,976	\$119,636
Total comprehensive income attributable to:			
Shareholders of the parent	¥12,229	¥13,913	\$118,823
Minority interests	83	63	813

Consolidated Statements of Changes in Net Assets

The Towa Bank, Ltd. and Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balance at April 1, 2013	¥38,653	¥31,184	¥22,651	¥(423)	¥ 92,066
Changes of items during the period					
Dividends from surplus			(1,337)		(1,337)
Net income			12,907		12,907
Disposal of treasury stock.....		(5)		18	13
Purchase of treasury stock				(4)	(4)
Reversal of revaluation reserve for land			(154)		(154)
Exercise of stock options					
Changes in items other than shareholders' equity during the period (net amount).....		(5)	11,416	14	11,425
Total changes of items during the period.....	—	(5)	11,416	14	11,425
Balance at March 31, 2014	¥38,653	¥31,179	¥34,068	¥(409)	¥103,492

	Millions of yen			
	Accumulated other comprehensive income			Total accumulated other comprehensive income
	Net unrealized gains (losses) on available-for-sale securities	Land revaluation account	Remeasurements of defined benefit plans	
Balance at April 1, 2013	¥12,667	¥2,621	¥ —	¥15,288
Changes of items during the period				
Dividends from surplus				
Net income				
Disposal of treasury stock.....				
Purchase of treasury stock				
Reversal of revaluation reserve for land				
Exercise of stock options				
Changes in items other than shareholders' equity during the period (net amount).....	(678)	154	875	351
Total changes of items during the period.....	(678)	154	875	351
Balance at March 31, 2014	¥11,988	¥2,775	¥875	¥15,639

	Millions of yen		
	Stock acquisition rights	Minority interests	Total net assets
	Balance at April 1, 2013	¥ 98	¥1,154
Changes of items during the period			
Dividends from surplus			(1,337)
Net income			12,907
Disposal of treasury stock.....			13
Purchase of treasury stock			(4)
Reversal of revaluation reserve for land			(154)
Exercise of stock options			—
Changes in items other than shareholders' equity during the period (net amount).....	37	33	423
Total changes of items during the period.....	37	33	11,848
Balance at March 31, 2014	¥136	¥1,188	¥120,456

	Thousands of U.S. dollars				
	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balance at April 1, 2013	\$375,571	\$303,001	\$220,090	\$(4,118)	\$ 894,544
Changes of items during the period					
Dividends from surplus			(12,993)		(12,993)
Net income			125,416		125,416
Disposal of treasury stock.....		(51)		181	129
Purchase of treasury stock				(39)	(39)
Reversal of revaluation reserve for land			(1,498)		(1,498)
Exercise of stock options					
Changes in items other than shareholders' equity during the period (net amount).....		(51)	110,924	141	111,015
Total changes of items during the period.....	—	(51)	110,924	141	111,015
Balance at March 31, 2014	\$375,571	\$302,950	\$331,015	\$(3,976)	\$1,005,559

	Thousands of U.S. dollars			
	Accumulated other comprehensive income			
	Net unrealized gains (losses) on available-for-sale securities	Land revaluation account	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balance at April 1, 2013	\$123,079	\$25,466	\$ —	\$148,546
Changes of items during the period				
Dividends from surplus				
Net income				
Disposal of treasury stock.....				
Purchase of treasury stock				
Reversal of revaluation reserve for land				
Exercise of stock options				
Changes in items other than shareholders' equity during the period (net amount).....	(6,592)	1,498	8,509	3,415
Total changes of items during the period.....	(6,592)	1,498	8,509	3,415
Balance at March 31, 2014	\$116,486	\$26,965	\$8,509	\$151,961

	Thousands of U.S. dollars		
	Stock acquisition rights	Minority interests	Total net assets
	Balance at April 1, 2013	\$ 953	\$11,216
Changes of items during the period			
Dividends from surplus			(12,993)
Net income			125,416
Disposal of treasury stock.....			129
Purchase of treasury stock			(39)
Reversal of revaluation reserve for land			(1,498)
Exercise of stock options			—
Changes in items other than shareholders' equity during the period (net amount).....	368	328	4,111
Total changes of items during the period.....	368	328	115,126
Balance at March 31, 2014	\$1,321	\$11,544	\$1,170,387

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)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 12,027	¥ 10,037	\$ 116,862
Depreciation and amortization	1,150	1,200	11,175
Loss on impairment of fixed assets.....	359	—	3,497
Decrease in reserve for possible loan losses.....	(137)	(2,406)	(1,334)
Increase in reserve for employee bonuses	(1)	16	(18)
(Decrease) increase in provision for retirement benefits.....	(12,135)	(465)	(117,910)
Increase (decrease) in net defined benefit liabilities	11,694	—	113,629
Increase (decrease) in provision for directors' retirement benefits	0	(11)	0
Increase (decrease) in reserve for reimbursement of dormant deposits.....	65	40	637
(Decrease) increase in reserve for contingent loss.....	(117)	(6)	(1,141)
Interest income	(31,360)	(31,158)	(304,709)
Interest expenses.....	769	941	7,476
Loss on securities - net.....	(97)	464	(943)
Foreign exchange gain - net.....	(361)	(492)	(3,507)
Loss on disposal of tangible fixed assets.....	11	58	114
Net decrease (increase) in trading account securities.....	(7)	(9)	(69)
Net increase in loans.....	(21,066)	(30,229)	(204,684)
Net increase in deposits	37,483	59,324	364,198
Net decrease in borrowings excluding subordinated debt	17,795	(13,810)	172,901
Net increase in due from banks other than the Bank of Japan.....	262	(1,132)	2,550
Net decrease (increase) in call loans and others.....	(22,116)	6,899	(214,891)
Net increase in foreign exchanges - assets.....	29	85	287
Net decrease (increase) in foreign exchange - liabilities.....	(3)	(24)	(34)
Interest received.....	31,813	31,096	309,104
Interest paid	(944)	(1,311)	(9,176)
Other	(1,128)	656	(10,963)
Subtotal	23,986	29,762	233,056
Income taxes paid.....	(1,398)	(589)	(13,585)
Net cash provided by operating activities	22,587	29,173	219,471
Cash flows from investing activities:			
Purchases of securities.....	(132,311)	(104,797)	(1,285,576)
Proceeds from sale of securities	22,928	28,138	222,782
Proceeds from redemption of securities	95,046	55,227	923,499
Purchases of tangible fixed assets	(631)	(776)	(6,138)
Purchase of intangible fixed assets	(314)	(276)	(3,053)
Proceeds from sale of tangible fixed assets.....	—	106	—
Payments for asset retirement obligations	—	(2)	—
Net cash used in investing activities.....	(15,282)	(22,380)	(148,485)
Cash flows from financing activities:			
Decrease in subordinated loans	—	(4,000)	—
Proceeds from issuance of shares to minority interests	—	995	—
Dividends paid.....	(1,337)	(1,350)	(12,993)
Cash dividends paid to minority interests	(49)	(16)	(485)
Purchases of treasury stock.....	(4)	(257)	(39)
Proceeds from exercise of stock options.....	0	0	1
Net cash used in financing activities	(1,391)	(4,628)	(13,515)
Effect of exchange rate changes on cash and cash equivalents	30	36	295
Net increase (decrease) in cash and cash equivalents	5,945	2,201	57,765
Cash and cash equivalents at beginning of year.....	32,958	30,757	320,236
Cash and cash equivalents at end of year	¥ 38,903	¥ 32,958	\$ 378,001

Supplementary Information

Consolidated Capital Ratio (Domestic Standard)

[Basel II]

March 31,	Millions of yen (Note 1)	
	2013	
Tier I capital	¥	91,956
Tier II capital		7,955
Deduction		—
Total qualifying capital.....	¥	99,912
Risk-adjusted assets:		
On-balance sheet assets	¥	926,240
Off-balance sheet assets.....		15,577
Risk-weighted credit equivalent amount		941,817
Amount related to operational risk-equivalent assets.....		59,854
Total		¥1,001,671
Capital ratio		9.97%

[Basel III]

March 31,	Millions of yen (Note 1)		Thousands of
	2014		U.S. dollars (Note 2)
			2014
Core capital: instruments and reserves.....	¥	111,847	\$ 1,086,745
Core capital: adjustment amount of instruments and reserves		—	—
Total qualifying capital.....	¥	111,847	\$ 1,086,745
Risk-adjusted assets:			
On-balance sheet assets	¥	973,784	\$ 9,461,563
Off-balance sheet assets.....		10,194	99,052
Credit value adjustment amount		46	455
Amount of credit risk assets for CCP-related exposure		—	—
Risk-weighted credit equivalent amount		984,025	9,561,070
Amount related to operational risk-equivalent assets.....		60,864	591,373
Total		¥1,044,889	\$10,152,444
Capital ratio		10.70%	

Board of Directors and Audit & Supervisory Board

(As of June 26, 2014)

President & Chief Executive Officer
Representative Director

Kunimitsu Yoshinaga

Deputy President & Executive Officer
Director

Hideo Kabe

Managing Executive Officer Director

Kiyomi Osawa
Hiroshi Ebara
Hiroyuki Sakurai

Directors

Masayuki Kon
Nobuko Inaba

Managing Executive Officers

Masanori Tsunoyama
Naoshi Sando
Hitoshi Ito
Hideaki Minami
Kiyoshi Tomizawa
Kiyoshi Shibasaki

Executive Officers

Kazuyoshi Shiraishi
Toshiko Fusejima
Seiji Yamamoto

Audit & Supervisory Board Members

Noboru Kogure
Seiji Tamura
Shintaro Ando
Shinichi Kato

The Towa Bank Network

(As of March 31, 2014)

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:

