

2015

Financial Statements



THE TOWA BANK, LTD.

## A Message from the President



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

To assist further understanding of our current situation, we have completed the Bank's financial reports for fiscal 2014, ended March 31, 2015, which are presented hereunder.

At the beginning of fiscal 2014, the Japanese economy experienced negative growth due to the reactionary fall from last-minute demand caused by the consumption tax increase. However, in the second half, with the effects of the tax increase waning, consumer spending gradually recovered. The economy continued a modest recovery with additional monetary easing by the Bank of Japan in October. At the same time, continuing depreciation of yen and appreciation of stocks, some companies made improvements in corporate earnings, especially in export companies, and took an aggressive stance in making capital investments and boosting salaries.

Amid this business environment, The Towa Bank Group pursued the Phoenix Plan III, a three-year business improvement plan that ran from April 2012 to March 2015. Based on this plan, the entire management and staff of the Bank worked hard 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, in order 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, including solutions to expand sales channels and introduce new products, supported joint research with Gunma University and Maebashi Institute of Technology, and assisted with applications for various subsidies including the Monozukuri Subsidy. We have also 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.

Furthermore, in collaboration with the Kanto Bureau of Economy, Trade and Industry, we became the first regional bank to hold the "Management Mentor Exchange Meeting" which introduces our Group's customers to personnel with specialized knowledge who have retired from major corporations. We also established the "Towa Supporting Fund in Transition of Agriculture, Forestry and Fisheries to Sextiary Sector" to assist in the creation of new business opportunities and expand sales channels in Japan and overseas in collaboration with primary, secondary and tertiary industry operators. At the same time, we made a greater effort to foster corporate growth and create new employment by investing

in the Gunma Medical Engineering Cooperation Fund, which helped companies in different fields that were considering business expansion into medical-related industries.

In addition, we concluded the “Broad Partnership Agreement” with Tsukuba Bank and Tochigi Bank to expand business opportunities for customers including business matching, tourism promotion, and cross-partnerships with municipalities over a wide area. In order to support “Regional Comprehensive Strategy Measures” based on the “Communities, Sages & Jobs Rebirth Act,” we have been developing the system to address local economic revitalization such as establishing a “Regional Revitalization Promotion Office” within the “Relationship Banking Strategy Department.”

In terms of providing support for corporate customers’ entry into overseas markets, we have been utilizing our network of 22 institutions (including banks) in 42 countries to provide information and introduce local experts to customers with demand for entry into overseas markets such as production bases. We have also been providing import-export support and financial services such as impact loans, standby credit, and cross-border loans, and provided import-export support.

In the area of management improvement support, we deployed managers of the Business Rehabilitation Office to 10 blocks to help formulate management improvement plans and provide management guidance. We have also been providing management improvement support utilizing the knowledge and support capabilities of outside institutions including the SME Business Rehabilitation Support Co-operative and the Regional Economy Vitalization Corporation of Japan.

Viewing the creation of a sustainable business model looking ahead five or ten years into the future as an important issue, the Towa Bank Group’s officers and employees have been creating a business model that revitalizes the local economy and improves the earning capacity of the Group by supporting customers’ main business, management improvement and business rehabilitation. Furthermore, in order to strengthen inspection, supervision and oversight of business execution, we established an accountable management structure that ensured transparency of

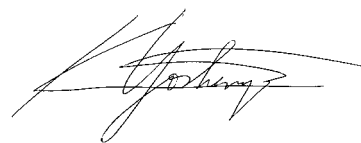
the decision-making process. This structure was achieved through multiple independent outside directors and evaluations of the suitability of management measures by an external evaluation committee based on the Corporate Governance Code.

As a result, in fiscal 2014, our deposit balance increased by ¥54.6 billion year-on-year to ¥1.8258 trillion and our loan balance also increased by ¥28.1 billion year-on-year to ¥1.3306 trillion compared with fiscal 2013. The number of business loan customer increased by 863 year-on-year to 13,572, developing business relationships with around 2,000 companies and generating results from our business introduction services.

Concerning our earnings in fiscal 2014, we posted earnings last year for ¥10.9 billion in core operating income, ¥12.3 billion in ordinary income, and ¥12.4 billion in net income due to an increase in the loan balance (especially loans to SMEs), net interest income remaining at the same level as the previous fiscal year, and increase in service transaction profits from sales of investment trusts and other products.

Hereafter, we will develop our system of customer support and improve our ability to assess business potential in order to further enhance the sustainability of our business model, which focuses on supporting our customers’ main business operations. At the same time, we will contribute to the revitalization of regional communities by expanding our support network with municipalities and local universities, developing and strengthening our human resources, building strong relationships with customers, and fortifying our management base. We would like to ask our shareholders for their continued support and encouragement in these future endeavors.

August 2015



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)
	2015	2014	2015
<b>Assets:</b>			
Cash and due from banks .....	¥ 110,388	¥ 41,408	\$ 918,603
Call loans and bills purchased .....	35,889	51,514	298,654
Trading account securities .....	22	20	186
Securities .....	553,225	517,576	4,603,687
Loans and bills discounted .....	1,325,649	1,296,781	11,031,455
Foreign exchange .....	800	844	6,659
Other assets .....	12,463	13,579	103,718
Tangible fixed assets .....	24,453	24,552	203,492
Buildings .....	4,683	4,848	38,973
Land .....	17,779	17,779	147,951
Lease assets (tangible) .....	209	256	1,746
Other tangible assets .....	1,781	1,667	14,820
Intangible fixed assets .....	1,060	964	8,823
Software .....	732	713	6,099
Other intangible assets .....	327	250	2,724
Deferred tax assets .....	1,984	3,066	16,512
Customers' liabilities for acceptances and guarantees .....	3,485	3,659	29,001
Reserve for possible loan losses .....	(9,004)	(12,091)	(74,934)
<b>Total assets .....</b>	<b>¥2,060,418</b>	<b>¥1,941,877</b>	<b>\$17,145,861</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 ¥120.17 to US\$1.00, the rate prevailing on March 31, 2015.

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
<b>Liabilities:</b>			
Deposits.....	¥1,823,324	¥1,763,826	\$15,172,879
Negotiable certificate of deposit .....	700	—	5,825
Borrowed money.....	74,382	32,779	618,973
Foreign exchange .....	96	34	802
Other liabilities .....	6,231	6,577	51,855
Accrued employee bonuses.....	415	391	3,455
Net defined benefit liability.....	10,371	10,339	86,304
Reserve for director retirement benefits .....	30	24	255
Reserve for reimbursement of dormant deposits.....	417	388	3,475
Reserve for contingent loss .....	677	441	5,638
Deferred tax liabilities.....	14	10	124
Deferred tax liability for land revaluation.....	2,673	2,949	22,243
Acceptances and guarantees .....	3,485	3,659	29,001
Total liabilities.....	1,922,820	1,821,421	16,000,835
<b>Net assets:</b>			
Shareholders' equity:			
Capital stock .....	38,653	38,653	321,659
Capital surplus .....	31,174	31,179	259,420
Retained earnings.....	45,509	34,068	378,706
Treasury stock, at cost.....	(392)	(409)	(3,264)
Total shareholders' equity.....	114,945	103,492	956,521
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	18,825	11,988	156,659
Land revaluation account.....	3,052	2,775	25,398
Remeasurements of defined benefit plans.....	361	875	3,012
Total accumulated other comprehensive income .....	22,239	15,639	185,070
Stock acquisition rights.....	177	136	1,477
Minority interests.....	235	1,188	1,956
Total net assets .....	137,597	120,456	1,145,025
Total liabilities and net assets .....	¥2,060,418	¥1,941,877	\$17,145,861

# 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)
	2015	2014	2015
<b>Income:</b>			
Interest on loans and discounts.....	¥22,880	¥23,154	\$190,403
Interest and dividends on securities.....	8,242	8,102	68,588
Other interest income.....	100	103	838
Fees and commissions.....	6,281	5,937	52,268
Other operating income.....	397	211	3,304
Other income.....	5,720	5,025	47,605
<b>Total income.....</b>	<b>43,622</b>	<b>42,534</b>	<b>363,007</b>
<b>Expenses:</b>			
Interest on deposits.....	724	725	6,033
Negotiable certificate of deposit.....	1	—	12
Interest on borrowings and rediscounts.....	58	35	483
Other interest expenses.....	5	7	49
Fees and commissions.....	4,020	3,789	33,460
Other operating expenses.....	239	71	1,995
General and administrative expenses.....	21,684	21,343	180,448
Other expenses.....	4,590	4,531	38,196
<b>Total expenses.....</b>	<b>31,325</b>	<b>30,506</b>	<b>260,679</b>
Income before income taxes and minority interests.....	12,296	12,027	102,328
<b>Income taxes:</b>			
Current.....	79	197	661
Deferred.....	(331)	(1,164)	(2,758)
<b>Total income taxes.....</b>	<b>(252)</b>	<b>(966)</b>	<b>(2,097)</b>
Income before minority interests.....	12,548	12,994	104,425
Minority interests in income.....	108	86	900
<b>Net income.....</b>	<b>¥12,440</b>	<b>¥12,907</b>	<b>\$103,525</b>
<b>Net income per share (in yen and dollars):</b>			
Basic.....	¥33.64	¥38.01	\$0.28
Diluted.....	17.15	17.68	0.14

# 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)
	2015	2014	2015
Income before minority interests .....	<b>¥12,548</b>	¥12,994	<b>\$104,425</b>
Other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	<b>6,842</b>	(681)	<b>56,940</b>
Revaluation reserve for land.....	<b>276</b>	—	<b>2,304</b>
Remeasurements of defined benefit plans .....	<b>(513)</b>	—	<b>(4,275)</b>
Total other comprehensive income .....	<b>6,605</b>	(681)	<b>54,968</b>
Total comprehensive income.....	<b>¥19,154</b>	¥12,312	<b>\$159,394</b>
Total comprehensive income attributable to:			
Shareholders of the parent .....	<b>¥19,040</b>	¥12,229	<b>\$158,448</b>
Minority interests .....	<b>113</b>	83	<b>946</b>

# Consolidated Statements of Changes in Net Assets

The Towa Bank, Ltd. and Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2014 .....	¥38,653	¥31,179	¥34,068	¥(409)	¥103,492
Cumulative effects of changes in accounting policies.....			282		282
Restated balance.....	38,653	31,179	34,350	(409)	103,774
Changes of items during the period.....					
Net income .....			12,440		12,440
Dividends from surplus .....			(1,281)		(1,281)
Purchase of treasury stock .....				(3)	(3)
Disposal of treasury stock.....		(5)		20	15
Changes in items other than shareholders' equity during the period (net amount).....					
Total changes of items during the period.....	—	(5)	11,159	16	11,170
<b>Balance at March 31, 2015 .....</b>	<b>¥38,653</b>	<b>¥31,174</b>	<b>¥45,509</b>	<b>¥(392)</b>	<b>¥114,945</b>

	Millions of yen						
	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	Stock acquisition right	Minority interests	Total net assets
Balance at April 1, 2014 .....	¥11,988	¥2,775	¥ 875	¥15,639	¥136	¥1,188	¥120,456
Cumulative effects of changes in accounting policies.....							282
Restated balance.....	11,988	2,775	875	15,639	136	1,188	120,738
Changes of items during the period.....							
Net income .....							12,440
Dividends from surplus .....							(1,281)
Purchase of treasury stock .....							(3)
Disposal of treasury stock.....							15
Changes in items other than shareholders' equity during the period (net amount).....	6,836	276	(513)	6,600	41	(953)	5,688
Total changes of items during the period.....	6,836	276	(513)	6,600	41	(953)	16,859
<b>Balance at March 31, 2015 .....</b>	<b>¥18,825</b>	<b>¥3,052</b>	<b>¥ 361</b>	<b>¥22,239</b>	<b>¥177</b>	<b>¥ 235</b>	<b>¥137,597</b>



	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2014 .....	\$321,659	\$259,462	\$283,499	\$(3,406)	\$861,214
Cumulative effects of changes in accounting policies.....			2,346		2,346
Restated balance.....	321,659	259,462	285,846	(3,406)	863,561
Changes of items during the period.....					
Net income .....			103,525		103,525
Dividends from surplus .....		0	(10,665)		(10,665)
Purchase of treasury stock .....				(32)	(32)
Disposal of treasury stock.....		(42)		174	131
Changes in items other than shareholders' equity during the period (net amount).....					
Total changes of items during the period.....	—	(42)	92,860	141	92,959
<b>Balance at March 31, 2015 .....</b>	<b>\$321,659</b>	<b>\$259,420</b>	<b>\$378,706</b>	<b>\$(3,264)</b>	<b>\$956,521</b>

	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	Stock acquisition right	Minority interests	Total net assets
Balance at April 1, 2014 .....	\$ 99,765	\$23,094	\$ 7,288	\$130,148	\$1,131	\$ 9,887	\$1,002,382
Cumulative effects of changes in accounting policies.....			0				2,346
Restated balance.....	99,765	23,094	7,288	130,148	1,131	9,887	1,004,728
Changes of items during the period.....							
Net income .....							103,525
Dividends from surplus .....							(10,665)
Purchase of treasury stock .....							(32)
Disposal of treasury stock.....							131
Changes in items other than shareholders' equity during the period (net amount).....	56,894	2,304	(4,275)	54,922	345	(7,930)	47,337
Total changes of items during the period.....	56,894	2,304	(4,275)	54,922	345	(7,930)	140,296
<b>Balance at March 31, 2015 .....</b>	<b>\$156,659</b>	<b>\$25,398</b>	<b>\$ 3,012</b>	<b>\$185,070</b>	<b>\$1,477</b>	<b>\$ 1,956</b>	<b>\$1,145,025</b>

# 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)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 12,296	¥ 12,027	\$ 102,328
Depreciation and amortization .....	1,159	1,150	9,648
Loss on impairment of fixed assets.....	—	359	0
Decrease in reserve for possible loan losses.....	(3,087)	(137)	(25,689)
Increase in reserve for employee bonuses .....	23	(1)	198
(Decrease) increase in provision for retirement benefits.....	—	(12,135)	—
Increase (decrease) in net defined benefit liabilities .....	(354)	11,694	(2,949)
Increase (decrease) in provision for directors' retirement benefits .....	6	0	55
Increase (decrease) in reserve for reimbursement of dormant deposits.....	29	65	247
(Decrease) increase in reserve for contingent loss.....	235	(117)	1,961
Interest income .....	(31,223)	(31,360)	(259,830)
Interest expenses.....	790	769	6,578
Loss on securities — net.....	6	(97)	50
Foreign exchange gain — net .....	(585)	(361)	(4,873)
Loss on disposal of tangible fixed assets.....	16	11	139
Net decrease (increase) in trading account securities.....	(1)	(7)	(12)
Net increase in loans.....	(28,868)	(21,066)	(240,228)
Net increase in deposits .....	59,498	37,483	495,120
Net increase in negotiable certificate of deposit .....	700	—	5,825
Net decrease in borrowings excluding subordinated debt .....	41,603	17,795	346,201
Net increase in due from banks other than the Bank of Japan.....	657	262	5,471
Net decrease (increase) in call loans and others.....	15,625	(22,116)	130,026
Net increase in foreign exchanges — assets .....	44	29	368
Net decrease (increase) in foreign exchange — liabilities .....	62	(3)	518
Interest received.....	(31,470)	31,813	261,881
Interest paid .....	(851)	(944)	(7,089)
Other .....	689	(1,128)	5,738
Subtotal .....	99,943	23,986	831,685
Income taxes paid.....	(111)	(1,398)	(930)
Net cash provided by operating activities .....	99,831	22,587	830,755
Cash flows from investing activities:			
Purchases of securities.....	(128,772)	(132,311)	(1,071,586)
Proceeds from sale of securities .....	25,559	22,928	212,692
Proceeds from redemption of securities .....	76,500	95,046	636,599
Purchases of tangible fixed assets .....	(809)	(631)	(6,733)
Purchase of intangible fixed assets .....	(350)	(314)	(2,915)
Proceeds from sale of tangible fixed assets .....	0	—	3
Payments for asset retirement obligations .....	(1)	—	(9)
Net cash used in investing activities.....	(27,873)	(15,282)	(231,948)
Cash flows from financing activities:			
Cash dividends paid to minority shareholders .....	(1,000)	—	(8,321)
Dividends paid .....	(1,281)	(1,337)	(10,665)
Cash distributions paid to minority shareholders .....	(66)	(49)	(555)
Purchases of treasury stock .....	(3)	(4)	(32)
Proceeds from exercise of stock options.....	0	0	1
Net cash used in financing activities .....	(2,352)	(1,391)	(19,573)
Effect of exchange rate changes on cash and cash equivalents .....	30	30	257
Net increase (decrease) in cash and cash equivalents .....	69,637	5,945	579,491
Cash and cash equivalents at beginning of year.....	38,903	32,958	323,740
Cash and cash equivalents at end of year .....	¥ 108,541	¥ 38,903	\$ 903,231

## Supplementary Information

### Consolidated Capital Ratio *(Domestic Standard)*

[Basel III]	Millions of yen (Note 1)	Thousands of U.S. dollars (Note 2)
<i>March 31,</i>	2015	2015
Core capital: instruments and reserves.....	¥ 120,423	\$1,002,110
Core capital: adjustment amount of instruments and reserves .....	592	4,929
<b>Total qualifying capital.....</b>	<b>¥ 119,831</b>	<b>\$ 997,181</b>
Risk-adjusted assets:		
On-balance sheet assets.....	¥1,028,512	\$8,558,813
Off-balance sheet assets.....	12,691	105,616
Credit value adjustment amount .....	155	1,291
Amount of credit risk assets for CCP-related exposure.....	—	—
Risk-weighted credit equivalent amount .....	1,041,359	8,665,721
Amount related to operational risk-equivalent assets.....	61,212	509,382
<b>Total .....</b>	<b>¥1,102,572</b>	<b>\$9,175,103</b>
<b>Capital ratio .....</b>	<b>10.86%</b>	

# Board of Directors and Audit & Supervisory Board

(As of June 25, 2015)

**President & Chief Executive Officer  
Representative Director**

Kunimitsu Yoshinaga

**Deputy President & Executive Officer  
Representative Director**

Hideo Kabe

**Senior Managing Executive Officer  
Director**

Kiyomi Osawa

**Managing Executive Officer Directors**

Hiroshi Ebara  
Hiroyuki Sakurai

**Directors**

Masayuki Kon  
Nobuko Inaba

**Senior Managing Executive Officer**

Hitoshi Ito

**Managing Executive Officers**

Masanori Tsunoyama  
Naoshi Sando  
Kiyoshi Tomizawa  
Kiyoshi Shibasaki

**Executive Officers**

Kazuyoshi Shiraishi  
Toshiko Fusejima  
Seiji Yamamoto  
Toru Kobayashi

**Audit & Supervisory Board Members**

Noboru Kogure  
Hideaki Minami  
Shintaro Ando  
Shinichi Kato

## The Towa Bank Network

(As of March 31, 2015)

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**Service Network:**

