

2016

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 2015, ended March 31, 2016, which are presented hereunder.

In fiscal 2015, despite weakness in both exports and production resulting from the impact of an economic slowdown in China and other emerging countries and a drop in oil prices, Japan's economy continued its modest recovery trend. On January 29, 2016, the Bank of Japan decided to introduce quantitative and qualitative monetary easing with negative interest rates in an effort to more quickly achieve its price stability target of 2%.

Under these economic conditions, the Towa Bank Group launched Phoenix Plan IV, a three-year business improvement plan scheduled to run from April 2015 to March 2018. Based on this plan, the entire management and staff of the Bank worked hard to support our customers' main business operations, improve their management, and support their business rehabilitation to help them increase sales and resolve management issues with the following mottoes in mind: "Supporting our customers when and where needed by meeting with them to collect information and accurately ascertain their situation" and "Never forgetting our modest origins."

In supporting our customers' main business operations, we have provided business-matching services, including solutions to expand sales channels and introduce new products. We also supported joint research with Gunma University and the Maebashi Institute of Technology, and assisted with applications for various subsidies, including the Monozukuri Subsidy, in partnership with the Kanto Bureau of Economy, Trade and Industry, the Organization for Small & Medium Enterprises and Regional Innovation and others. In another initiative, we fostered technology partnerships with major companies, including commercial negotiations with major food processing and manufacturing buyers.

Also in collaboration with the Kanto Bureau of Economy, Trade and Industry, we held the Management Mentor Exchange Meeting, which introduces our Group's customers to personnel with specialized knowledge who have retired from major corporations, and worked to offer proposals for assisting our customers with expansion overseas, increasing sales and resolving management issues.

In addition, in December 2014, we entered into the Broad Partnership Agreement with Tsukuba Bank, Ltd. and The Tochigi Bank, Ltd. to expand business opportunities for customers. Under this agreement, we proactively held joint business meetings and acted as the industry-to-industry coordinator for the Highland

Kanto Liaison Organization, promoting hiring of individuals with actual experience in supporting small- and medium-sized enterprises and dispatching our own staff to the Gunma Industry Support Organization. Through these and other efforts we aimed to improve our business assessment capabilities and develop and enhance infrastructure for supporting our customers' main business operations.

In the area of management improvement support, the Business Rehabilitation Office was primarily responsible for providing support, advice and so forth to our customers in developing management improvement plans, as we worked to take advantage of our consulting function. Meanwhile, to enhance the effectiveness of our management improvement support, we actively utilized the knowledge and support capabilities of outside institutions, including the SME Business Rehabilitation Support Councils and the Regional Economy Vitalization Corporation of Japan.

The Towa Bank Group has always been proactive in promoting women to executive positions, including as officers and branch managers. To further strengthen the structure supporting our business model, we are also working to expand our employees' range of activities. This involves supporting a balance between work and childcare by enhancing our parental leave program and establishing new childcare leave policies, as well as formulating an action plan for promoting the advancement of women with the goal of increasing the ratio of women in management and executive positions and the ratio of female hires. These and other efforts are aimed at creating an environment that will make it even easier for diverse personnel to play an active part in our business.

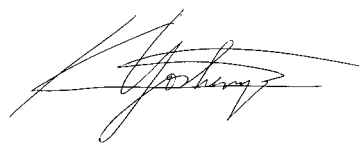
To strengthen audit and supervision of business execution, we have established an accountable management structure, based on the Corporate Governance Code. The structure ensures transparency in our decision-making process by having multiple independent outside directors, and also includes assessment of the suitability of management measures by an external evaluation committee.

As a result, in fiscal 2015, our deposit balance increased by ¥37.4 billion year on year to ¥1,860.8 billion, while our loan balance also increased by ¥26.0 billion year on year to ¥1,351.6 billion. The number of business loan customers increased by 821 year on year to 14,393, as we developed new business relationships with about 2,000 companies and generated results from our business introduction services.

Concerning earnings in fiscal 2015, we posted ¥9.7 billion in core operating income, ¥10.6 billion in income before income taxes, and ¥8.1 billion in profit attributable to owners of parent, mainly due to an increase in loan balances, primarily loans to SMEs.

In June of 2017, the Towa Bank Group, which originated as two mutual financing companies in Gunma and Saitama Prefectures, will mark its 100th anniversary. Moving forward, we will continue to keep our modest origins in mind as we develop our system of customer support and improve our business assessment capabilities 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 work to expand our support network with regional municipalities and local universities, strengthen our support for the advancement of female employees and specialized human resource development, build strong relationships with our customers, and fortify our management base. We would like to ask our shareholders for their continued support and encouragement in these endeavors.

August 2016



Kunimitsu Yoshinaga
President and CEO
The Towa Bank, Ltd.

Consolidated Balance Sheets

The Towa Bank, Ltd. and Consolidated Subsidiaries

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Assets:			
Cash and due from banks	¥ 155,779	¥ 110,388	\$ 1,382,491
Call loans and bills purchased	22,501	35,889	199,693
Trading account securities	21	22	190
Securities	601,129	553,225	5,334,834
Loans and bills discounted	1,351,689	1,325,649	11,995,826
Foreign exchange	507	800	4,500
Other assets	13,043	12,463	115,754
Tangible fixed assets	24,922	24,453	221,178
Buildings	4,881	4,683	43,319
Land	17,960	17,779	159,394
Lease assets (tangible)	177	209	1,571
Other tangible assets	1,903	1,781	16,893
Intangible fixed assets	1,686	1,060	14,965
Software	756	732	6,716
Other intangible assets	929	327	8,248
Deferred tax assets	—	1,984	—
Customers' liabilities for acceptances and guarantees	3,023	3,485	26,834
Reserve for possible loan losses	(8,226)	(9,004)	(73,009)
Total assets	¥2,166,077	¥2,060,418	\$19,223,261

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 conversions of Japanese yen, for convenience only, at the exchange rate of ¥112.68 to US\$1.00, the rate prevailing on March 31, 2016.

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Liabilities:			
Deposits.....	¥1,860,800	¥1,823,324	\$16,514,027
Negotiable certificate of deposit	700	700	6,212
Borrowed money.....	128,389	74,382	1,139,412
Foreign exchange	16	96	147
Other liabilities	10,637	6,231	94,400
Accrued employee bonuses.....	416	415	3,697
Net defined benefit liability.....	10,072	10,371	89,390
Reserve for director retirement benefits	1	30	11
Reserve for reimbursement of dormant deposits.....	447	417	3,974
Reserve for contingent loss	682	677	6,053
Deferred tax liabilities.....	864	14	7,672
Deferred tax liability for land revaluation.....	2,493	2,673	22,125
Acceptances and guarantees	3,023	3,485	26,834
Total liabilities.....	2,018,544	1,922,820	17,913,959
Net assets:			
Shareholders' equity:			
Capital stock	38,653	38,653	343,040
Capital surplus	31,170	31,174	276,627
Retained earnings.....	52,523	45,509	466,133
Treasury stock, at cost.....	(373)	(392)	(3,318)
Total shareholders' equity.....	121,974	114,945	1,082,483
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	21,572	18,825	191,449
Land revaluation account.....	3,079	3,052	27,329
Remeasurements of defined benefit plans.....	409	361	3,634
Total accumulated other comprehensive income	25,061	22,239	222,413
Stock acquisition rights.....	217	177	1,931
Non-controlling interests.....	278	235	2,472
Total net assets	147,532	137,597	1,309,301
Total liabilities and net assets	¥2,166,077	¥2,060,418	\$19,223,261

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)
	2016	2015	2016
Income:			
Interest on loans and discounts.....	¥22,321	¥22,880	\$198,096
Interest and dividends on securities.....	7,384	8,242	65,538
Other interest income.....	149	100	1,328
Fees and commissions.....	6,357	6,281	56,422
Other operating income.....	388	397	3,449
Other income.....	4,530	5,720	40,202
Total income.....	41,132	43,622	365,038
Expenses:			
Interest on deposits.....	693	724	6,151
Negotiable certificate of deposit.....	1	1	16
Interest on borrowings and rediscounts.....	123	58	1,096
Other interest expenses.....	4	5	40
Fees and commissions.....	4,179	4,020	37,093
Other operating expenses.....	212	239	1,884
General and administrative expenses.....	21,646	21,684	192,109
Other expenses.....	3,774	4,590	33,498
Total expenses.....	30,636	31,325	271,891
Income before income taxes.....	10,495	12,296	93,147
Income taxes:			
Current.....	1,066	79	9,465
Deferred.....	1,225	(331)	10,880
Total income taxes.....	2,292	(252)	20,346
Profit.....	8,203	12,548	72,801
Profit attributable to non-controlling interests.....	44	108	393
Profit attributable to owners of parent.....	¥ 8,158	¥12,440	\$ 72,407
Profit attributable to owners of parent per share (in yen and U.S. dollars):			
Basic.....	¥20.80	¥33.64	\$0.18
Diluted.....	11.69	17.15	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)
	2016	2015	2016
Profit.....	¥ 8,203	¥12,548	\$72,801
Other comprehensive income:			
Net unrealized gains on available-for-sale securities.....	2,745	6,842	24,368
Revaluation reserve for land.....	133	276	1,184
Remeasurements of defined benefit plans.....	47	(513)	422
Total other comprehensive income.....	2,926	6,605	25,974
Total comprehensive income.....	¥11,130	¥19,154	\$98,776
Total comprehensive income attributable to:			
Owners of parent.....	¥11,086	¥19,040	\$98,389
Non-controlling interests.....	43	113	386

Consolidated Statements of Changes in Net Assets

The Towa Bank, Ltd. and Consolidated Subsidiaries

	Millions of yen (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2015	¥38,653	¥31,174	¥45,509	¥(392)	¥114,945
Changes in items during the period:					
Profit attributable to owners of parent.....			8,158		8,158
Dividends from surplus			(1,250)		(1,250)
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock.....		(4)		21	16
Increase (decrease) of items for some other reason			106		106
Changes in items other than shareholders' equity during the period (net amount).....					
Total changes in items during the period	—	(4)	7,014	18	7,029
Balance at March 31, 2016	¥38,653	¥31,170	¥52,523	¥(373)	¥121,974

	Millions of yen (Note 1)						
	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 rights	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥18,825	¥3,052	¥361	¥22,239	¥177	¥235	¥137,597
Changes in items during the period:							
Profit attributable to owners of parent.....							8,158
Dividends from surplus							(1,250)
Purchase of treasury stock							(2)
Disposal of treasury stock.....							16
Increase (decrease) of items for some other reason							106
Changes in items other than shareholders' equity during the period (net amount).....	2,746	27	47	2,821	40	43	2,905
Total changes in items during the period	2,746	27	47	2,821	40	43	9,934
Balance at March 31, 2016	¥21,572	¥3,079	¥409	¥25,061	¥217	¥278	¥147,532

	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2015	\$343,040	\$276,664	\$403,879	\$(3,481)	\$1,020,102
Changes in items during the period:					
Profit attributable to owners of parent.....			72,407		72,407
Dividends from surplus			(11,094)		(11,094)
Purchase of treasury stock				(23)	(23)
Disposal of treasury stock.....		(36)		186	150
Increase (decrease) of items for some other reason			941		941
Changes in items other than shareholders' equity during the period (net amount).....					
Total changes in items during the period	—	(36)	62,254	163	62,380
Balance at March 31, 2016	\$343,040	\$276,627	\$466,133	\$(3,318)	\$1,082,483

	Thousands of U.S. dollars (Note 2)						
	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 rights	Non-controlling interests	Total net assets
Balance at April 1, 2015	\$167,073	\$27,086	\$3,212	\$197,372	\$1,575	\$2,086	\$1,221,137
Changes in items during the period:							
Profit attributable to owners of parent.....							72,407
Dividends from surplus							(11,094)
Purchase of treasury stock							(23)
Disposal of treasury stock.....							150
Increase (decrease) of items for some other reason							941
Changes in items other than shareholders' equity during the period (net amount).....	24,375	243	422	25,041	356	386	25,784
Total changes in items during the period	24,375	243	422	25,041	356	386	88,164
Balance at March 31, 2016	\$191,449	\$27,329	\$3,634	\$222,413	\$1,931	\$2,472	\$1,309,301

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)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes.....	¥ 10,495	¥ 12,296	\$ 93,147
Depreciation and amortization	1,300	1,159	11,541
Loss on impairment of fixed assets.....	174	—	1,552
Decrease in reserve for possible loan losses.....	(778)	(3,087)	(6,906)
Increase in reserve for employee bonuses	1	23	12
Increase in reserve for reimbursement of dormant deposits.....	30	29	267
Increase (decrease) in reserve for contingent loss	4	235	40
(Decrease) increase in net defined benefit liabilities.....	(242)	(354)	(2,153)
(Decrease) increase in provision for directors' retirement benefits.....	(29)	6	(260)
Interest income	(29,856)	(31,223)	(264,964)
Interest expenses.....	823	790	7,305
Loss on disposal of tangible fixed assets.....	19	16	176
Loss on securities — net.....	(865)	6	(7,681)
Foreign exchange gain — net	189	(585)	1,680
Net increase in loans.....	(26,039)	(28,868)	(231,095)
Net increase in deposits	37,475	59,498	332,584
Net increase in negotiable certificate of deposit	—	700	—
Net decrease in borrowings excluding subordinated debt	54,007	41,603	479,295
Net increase in due from banks other than the Bank of Japan.....	599	657	5,322
Net decrease (increase) in call loans and others.....	13,387	15,625	118,812
Net increase in foreign exchange — assets.....	293	44	2,601
Net (increase) decrease in foreign exchange — liabilities	(79)	62	(708)
Interest received.....	30,289	31,470	268,807
Interest paid	(829)	(851)	(7,361)
Other	(813)	689	(7,213)
Subtotal	89,557	99,943	794,794
Income taxes paid.....	(49)	(111)	(440)
Net cash provided by operating activities	89,507	99,831	794,354
Cash flows from investing activities:			
Purchases of tangible fixed assets	(1,648)	(809)	(14,627)
Purchases of securities.....	(147,389)	(128,772)	(1,308,039)
Proceeds from sale of tangible fixed assets	—	0	—
Proceeds from sale of securities	20,273	25,559	179,918
Purchases of intangible fixed assets.....	(915)	(350)	(8,122)
Proceeds from redemption of securities	87,400	76,500	775,650
Payments for asset retirement obligations	(0)	(1)	(3)
Net cash used in investing activities.....	(42,280)	(27,873)	(375,224)
Cash flows from financing activities:			
Proceeds from issuance of common stock.....	—	(1,000)	—
Proceeds from exercise of stock options.....	0	0	0
Purchases of treasury stock	(2)	(3)	(23)
Dividends paid	(1,250)	(1,281)	(11,094)
Dividends paid to non-controlling interests	—	(66)	—
Net cash used in financing activities	(1,252)	(2,352)	(11,116)
Effect of exchange rate changes on cash and cash equivalents	15	30	135
Net increase in cash and cash equivalents	45,990	69,637	408,149
Cash and cash equivalents at beginning of year.....	108,541	38,903	963,270
Cash and cash equivalents at end of year	¥ 154,531	¥ 108,541	\$ 1,371,420

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>	2016	2016
Core capital: instruments and reserves.....	¥ 126,521	\$ 1,122,842
Core capital: adjustment amount of instruments and reserves	1,175	10,435
Total qualifying capital.....	¥ 125,346	\$ 1,112,406
Risk-adjusted assets:		
On-balance sheet assets.....	¥1,063,029	\$ 9,434,054
Off-balance sheet assets.....	13,638	121,036
Credit value adjustment amount	474	4,211
Amount of credit risk assets for CCP-related exposure.....	—	—
Risk-weighted credit equivalent amount	1,077,142	9,559,302
Amount related to operational risk-equivalent assets.....	60,603	537,833
Total	¥1,137,745	\$10,097,135
Capital ratio	11.01%	

Board of Directors and Audit & Supervisory Board

(As of June 28, 2016)

President & Chief Executive Officer
Representative Director
 Kunimitsu Yoshinaga

Deputy President & Executive Officer
Representative Director
 Kiyomi Osawa

Managing Executive Officers/Directors
 Hiroshi Ebara
 Hiroyuki Sakurai

Directors
 Masayuki Kon
 Nobuko Inaba

Senior Managing Executive Officer
 Hitoshi Ito

Managing Executive Officers
 Naoshi Sando
 Kiyoshi Tomizawa
 Kiyoshi Shibasaki
 Kazuyoshi Shiraishi

Executive Officers
 Toshiko Fusejima
 Seiji Yamamoto
 Toru Kobayashi
 Masahiro Sekine
 Isao Kitazume

Audit & Supervisory Board Members
 Hideo Kabe
 Hideaki Minami
 Shintaro Ando
 Shinichi Kato

The Towa Bank Network

(As of March 31, 2016)

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