

2017

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 2016, ended March 31, 2017, which are presented hereunder.

In fiscal 2016, exports increased and production followed a recovery trend as growth rates in economies overseas gradually grew. Recovery in capital investment and steady personal consumption also moved the economy toward a gradual expansion.

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 and improve their management 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 manufacturing and food processing 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 increasing sales and resolving management issues.

At local universities, including Gunma University, Takasaki City University of Economics and the Open University of Japan, executives of the Towa Bank Group conduct lectures eligible for approving credits, offering not only their specialized knowledge of finance and economics, but also our community-based banking services, credit administration and other work to fulfill our role as a regional financial institution.

In addition, to expand business opportunities for our customers, we proactively held joint business meetings with Tsukuba Bank, Ltd. and The Tochigi Bank, Ltd., and set up business-matching sessions with major corporations under a matching program

between upstream and downstream enterprises through cooperation between industry, government, academia and finance.

About the support of the growth industry that utilized the Towa Supporting Fund in Transition of Agriculture, Forestry and Fisheries to the Sextiary Sector, we offer proposals to owners of agriculture and forestry businesses to support a shift to the sextiary sector. By introducing those business owners to partners in secondary and tertiary industries, we assist them in generating business opportunities and creating value. We are also initiating efforts to support their growth strategies, including market expansion inside and outside the country, and have already selected a target for the fund's first investment deal.

In terms of providing support for corporate customers entering overseas markets, we are working to strengthen and expand our cooperation with outside institutions, utilizing our overseas network of 37 institutions in 58 countries for providing proactive assistance. We also support customers with application documents in coordination with the Japan International Cooperation Agency (JICA), and offer proposals based on a cofinancing program in cooperation with the Japan Bank for International Cooperation (JBIC), among others.

In the area of management improvement support, we worked to take advantage of our consulting function by utilizing the knowledge and support capabilities of outside institutions, including the SME Business Rehabilitation Support Council and the Regional Economy Vitalization Corporation of Japan. We also began cooperation for management improvement support with the Gunma and Saitama prefectural credit guarantee corporations, and based on appropriate assessment of business potential, are working to put in place a proactive approach to supplying funds that can contribute to customer management improvements.

As a result of these and other efforts to support our customers' main businesses, our deposit balance increased ¥54.0 billion year on year to ¥1,914.8 billion, while our loan balance also increased by ¥30.2 billion to ¥1,381.9 billion in fiscal 2016. Concerning earnings in fiscal 2016, we posted ¥10.7 billion in income before income taxes and ¥8.5 billion in profit attributable to owners of parent, mainly due to an increase in loan balances, primarily loans to SMEs.

The Towa Bank Group originated as two mutual financing companies in Gunma and Saitama Prefectures. Since our founding as the Gunma Savings and Finance Company on June 11, 1917, we have continued to support our SME customers as a people's financial institution, and this year successfully entered our 100th year in business. Going forward, we will work together to ensure support for our customers' main businesses, never forgetting our modest origins, and aid in the further vitalization of our communities, building a foundation for the next 100 years. We would like to ask our shareholders for their continued support and encouragement in these endeavors.

September 2017



Kunimitsu Yoshinaga  
Representative Director  
President & Executive Officer  
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)
	2017	2016	2017
<b>Assets:</b>			
Cash and due from banks .....	¥ 231,150	¥ 155,779	\$ 2,060,346
Call loans and bills purchased .....	1,402	22,501	12,500
Trading account securities .....	27	21	248
Securities .....	594,156	601,129	5,295,981
Loans and bills discounted .....	1,381,948	1,351,689	12,317,929
Foreign exchange .....	522	507	4,656
Other assets .....	18,729	13,043	166,944
Tangible fixed assets .....	25,203	24,922	224,653
Buildings .....	4,714	4,881	42,025
Land .....	18,031	17,960	160,721
Lease assets (tangible) .....	146	177	1,307
Other tangible assets .....	2,311	1,903	20,599
Intangible fixed assets .....	1,713	1,686	15,276
Software .....	1,532	756	13,661
Other intangible assets .....	181	929	1,614
Deferred tax assets .....	259	—	2,313
Customers' liabilities for acceptances and guarantees .....	4,406	3,023	39,276
Reserve for possible loan losses .....	(7,321)	(8,226)	(65,259)
<b>Total assets .....</b>	<b>¥2,252,199</b>	<b>¥2,166,077</b>	<b>\$20,074,866</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 conversions of Japanese yen, for convenience only, at the exchange rate of ¥112.19 to US\$1.00, the rate prevailing on March 31, 2017.

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
<b>Liabilities:</b>			
Deposits .....	¥1,914,844	¥1,860,800	\$17,067,874
Negotiable certificates of deposit .....	—	700	—
Borrowed money .....	156,139	128,389	1,391,737
Foreign exchange .....	74	16	663
Other liabilities .....	11,976	10,637	106,752
Accrued employee bonuses .....	440	416	3,926
Net defined benefit liability .....	9,364	10,072	83,469
Reserve for director retirement benefits .....	0	1	7
Reserve for reimbursement of dormant deposits .....	440	447	3,924
Reserve for contingent loss .....	629	682	5,608
Deferred tax liabilities .....	16	864	148
Deferred tax liability for land revaluation .....	2,493	2,493	22,222
Acceptances and guarantees .....	4,406	3,023	39,276
Total liabilities .....	2,100,826	2,018,544	18,725,611
<b>Net assets:</b>			
Shareholders' equity:			
Capital stock .....	38,653	38,653	344,538
Capital surplus .....	31,160	31,170	277,751
Retained earnings .....	59,825	52,523	533,252
Treasury stock, at cost .....	(318)	(373)	(2,836)
Total shareholders' equity .....	129,322	121,974	1,152,706
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities .....	17,513	21,572	156,103
Land revaluation account .....	3,093	3,079	27,573
Remeasurements of defined benefit plans .....	867	409	7,735
Total accumulated other comprehensive income .....	21,474	25,061	191,412
Stock acquisition rights .....	227	217	2,031
Non-controlling interests .....	348	278	3,105
Total net assets .....	151,372	147,532	1,349,254
Total liabilities and net assets .....	¥2,252,199	¥2,166,077	\$20,074,866

# 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)
	2017	2016	2017
<b>Income:</b>			
Interest on loans and discounts .....	¥ 21,430	¥22,321	\$191,023
Interest and dividends on securities .....	7,197	7,384	64,152
Other interest income .....	120	149	1,072
Fees and commissions .....	6,503	6,357	57,966
Other operating income .....	3,524	388	31,411
Other income .....	4,786	4,530	42,660
<b>Total income .....</b>	<b>43,561</b>	<b>41,132</b>	<b>388,285</b>
<b>Expenses:</b>			
Interest on deposits .....	545	693	4,859
Negotiable certificates of deposit .....	0	1	7
Interest on call money and bills sold .....	(0)	—	(1)
Interest on borrowings and rediscounts .....	69	123	618
Other interest expenses .....	2	4	25
Fees and commissions .....	4,348	4,179	38,760
Other operating expenses .....	1,103	212	9,839
General and administrative expenses .....	22,243	21,646	198,267
Other expenses .....	4,496	3,774	40,079
<b>Total expenses .....</b>	<b>32,810</b>	<b>30,636</b>	<b>292,456</b>
Income before income taxes .....	10,751	10,495	95,829
<b>Income taxes:</b>			
Current .....	1,204	1,066	10,733
Deferred .....	929	1,225	8,284
<b>Total income taxes .....</b>	<b>2,133</b>	<b>2,292</b>	<b>19,018</b>
Profit .....	8,617	8,203	76,810
Profit attributable to non-controlling interests .....	63	44	569
<b>Profit attributable to owners of parent .....</b>	<b>¥ 8,553</b>	<b>¥ 8,158</b>	<b>\$ 76,240</b>
Profit attributable to owners of parent per share (in yen and U.S. dollars):			
Basic .....	¥ 21.94	¥ 20.80	\$ 0.20
Diluted .....	11.37	11.69	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)
	2017	2016	2017
Profit .....	¥ 8,617	¥ 8,203	\$ 76,810
Other comprehensive income:			
Net unrealized gains on available-for-sale securities .....	(4,053)	2,745	(36,130)
Revaluation reserve for land .....	—	133	—
Remeasurements of defined benefit plans .....	458	47	4,084
Total other comprehensive income .....	(3,595)	2,926	(32,045)
Total comprehensive income .....	¥ 5,022	¥11,130	\$ 44,764
Total comprehensive income attributable to:			
Owners of parent .....	¥ 4,952	¥11,086	\$ 44,143
Non-controlling interests .....	69	43	621

# 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
<b>Balance at April 1, 2016</b> .....	<b>¥38,653</b>	<b>¥31,170</b>	<b>¥52,523</b>	<b>¥(373)</b>	<b>¥121,974</b>
Changes in items during the period:					
Dividends from surplus .....			(1,237)		(1,237)
Profit attributable to owners of parent .....			8,553		8,553
Disposal of treasury stock .....		(9)		57	48
Purchase of treasury stock .....				(1)	(1)
Increase (decrease) of items for some other reason .....			(13)		(13)
Changes in items other than shareholders' equity during the period (net amount) ....					
<b>Total changes in items during the period</b> .....	<b>—</b>	<b>(9)</b>	<b>7,301</b>	<b>55</b>	<b>7,347</b>
<b>Balance at March 31, 2017</b> .....	<b>¥38,653</b>	<b>¥31,160</b>	<b>¥59,825</b>	<b>¥(318)</b>	<b>¥129,322</b>

	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
<b>Balance at April 1, 2016</b> .....	<b>¥21,572</b>	<b>¥3,079</b>	<b>¥409</b>	<b>¥25,061</b>	<b>¥217</b>	<b>¥278</b>	<b>¥147,532</b>
Changes in items during the period:							
Dividends from surplus .....							(1,237)
Profit attributable to owners of parent .....							8,553
Disposal of treasury stock .....							48
Purchase of treasury stock .....							(1)
Increase (decrease) of items for some other reason .....							(13)
Changes in items other than shareholders' equity during the period (net amount) ....	(4,059)	13	458	(3,587)	10	69	(3,507)
<b>Total changes in items during the period</b> .....	<b>(4,059)</b>	<b>13</b>	<b>458</b>	<b>(3,587)</b>	<b>10</b>	<b>69</b>	<b>3,840</b>
<b>Balance at March 31, 2017</b> .....	<b>¥17,513</b>	<b>¥3,093</b>	<b>¥867</b>	<b>¥21,474</b>	<b>¥227</b>	<b>¥348</b>	<b>¥151,372</b>



	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2016</b> .....	<b>\$344,538</b>	<b>\$277,836</b>	<b>\$468,169</b>	<b>\$(3,333)</b>	<b>\$1,087,211</b>
Changes in items during the period:					
Dividends from surplus .....			(11,033)		(11,033)
Profit attributable to owners of parent .....			76,240		76,240
Disposal of treasury stock .....		(84)		513	429
Purchase of treasury stock .....				(17)	(17)
Increase (decrease) of items for some other reason .....			(124)		(124)
Changes in items other than shareholders' equity during the period (net amount) ....					
<b>Total changes in items during the period</b> .....	<b>—</b>	<b>(84)</b>	<b>65,082</b>	<b>496</b>	<b>65,495</b>
<b>Balance at March 31, 2017</b> .....	<b>\$344,538</b>	<b>\$277,751</b>	<b>\$533,252</b>	<b>\$(2,836)</b>	<b>\$1,152,706</b>

	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
<b>Balance at April 1, 2016</b> .....	<b>\$192,285</b>	<b>\$27,449</b>	<b>\$3,650</b>	<b>\$223,385</b>	<b>\$1,940</b>	<b>\$2,483</b>	<b>\$1,315,020</b>
Changes in items during the period:							
Dividends from surplus .....							(11,033)
Profit attributable to owners of parent .....							76,240
Disposal of treasury stock .....							429
Purchase of treasury stock .....							(17)
Increase (decrease) of items for some other reason .....							(124)
Changes in items other than shareholders' equity during the period (net amount) ....	(36,182)	124	4,084	(31,972)	90	621	(31,260)
<b>Total changes in items during the period</b> .....	<b>(36,182)</b>	<b>124</b>	<b>4,084</b>	<b>(31,972)</b>	<b>90</b>	<b>621</b>	<b>34,234</b>
<b>Balance at March 31, 2017</b> .....	<b>\$156,103</b>	<b>\$27,573</b>	<b>\$7,735</b>	<b>\$191,412</b>	<b>\$2,031</b>	<b>\$3,105</b>	<b>\$1,349,254</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)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes .....	¥ 10,751	¥ 10,495	\$ 95,829
Depreciation and amortization .....	1,568	1,300	13,980
Loss on impairment of fixed assets .....	—	174	—
Increase (decrease) in reserve for possible loan losses .....	(905)	(778)	(8,068)
Increase (decrease) in reserve for employee bonuses .....	23	1	212
Increase (decrease) in reserve for reimbursement of dormant deposits .....	(7)	30	(66)
Increase (decrease) in reserve for contingent loss .....	(52)	4	(472)
Increase (decrease) in net defined benefit liabilities .....	(49)	(242)	(437)
Increase (decrease) in provision for directors' retirement benefits .....	(0)	(29)	(4)
Interest income .....	(28,748)	(29,856)	(256,247)
Interest expenses .....	618	823	5,509
Loss (gain) on disposal of tangible fixed assets .....	3	19	30
Loss (gain) on securities — net .....	(1,792)	(865)	(15,981)
Foreign exchange loss (gain) — net .....	(69)	189	(620)
Net (increase) decrease in loans .....	(30,258)	(26,039)	(269,709)
Net increase (decrease) in deposits .....	54,044	37,475	481,720
Net increase (decrease) in negotiable certificates of deposit .....	(700)	—	(6,239)
Net increase (decrease) in borrowings excluding subordinated debt .....	27,750	54,007	247,348
Net (increase) decrease in due from banks other than the Bank of Japan .....	355	599	3,164
Net (increase) decrease in call loans and others .....	21,099	13,387	188,065
Net (increase) decrease in foreign exchange — assets .....	(15)	293	(135)
Net increase (decrease) in foreign exchange — liabilities .....	57	(79)	515
Interest received .....	29,346	30,289	261,581
Interest paid .....	(736)	(829)	(6,565)
Other .....	(5,410)	(813)	(48,230)
Subtotal .....	76,870	89,557	685,178
Income taxes paid .....	(1,588)	(49)	(14,157)
Net cash provided by (used in) operating activities .....	75,281	89,507	671,021
Cash flows from investing activities:			
Purchases of tangible fixed assets .....	(1,463)	(1,648)	(13,048)
Purchases of securities .....	(137,990)	(147,389)	(1,229,972)
Proceeds from sale of tangible fixed assets .....	25	—	222
Proceeds from sale of securities .....	40,767	20,273	363,380
Purchases of intangible fixed assets .....	(420)	(915)	(3,752)
Proceeds from redemption of securities .....	100,746	87,400	897,999
Payments for asset retirement obligations .....	(0)	(0)	(2)
Net cash provided by (used in) investing activities .....	1,663	(42,280)	14,827
Cash flows from financing activities:			
Proceeds from exercise of stock options .....	0	0	5
Purchases of treasury stock .....	(1)	(2)	(17)
Dividends paid .....	(1,237)	(1,250)	(11,033)
Net cash provided by (used in) financing activities .....	(1,239)	(1,252)	(11,045)
Effect of exchange rate changes on cash and cash equivalents .....	20	15	178
Net increase (decrease) in cash and cash equivalents .....	75,726	45,990	674,981
Cash and cash equivalents at beginning of year .....	154,531	108,541	1,377,410
Cash and cash equivalents at end of year .....	¥ 230,257	¥ 154,531	\$ 2,052,392

## 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>	2017	2017
Core capital: instruments and reserves .....	¥ 133,047	\$ 1,185,910
Core capital: adjustment amount of instruments and reserves .....	1,415	12,614
<b>Total qualifying capital .....</b>	<b>¥ 131,632</b>	<b>\$ 1,173,296</b>
Risk-adjusted assets:		
On-balance-sheet assets .....	¥1,117,465	\$ 9,960,469
Off-balance-sheet assets .....	13,660	121,763
Credit value adjustment amount .....	471	4,204
Risk-weighted credit equivalent amount .....	1,131,597	10,086,436
Amount related to operational risk-equivalent assets .....	59,622	531,442
Total .....	¥1,191,219	\$10,617,879
<b>Capital ratio .....</b>	<b>11.05%</b>	

# Board of Directors and Audit & Supervisory Board

(As of June 27, 2017)

**Representative Director  
President & Executive  
Officer**

Kunimitsu Yoshinaga

**Representative Director  
Deputy President &  
Executive Officer**

Kiyomi Osawa

**Directors  
Senior Managing  
Executive Officers**

Hiroshi Ebara  
Hiroyuki Sakurai

**Outside Directors**

Masayuki Kon  
Nobuko Inaba

**Senior Managing  
Executive Officer**

Hitoshi Ito

**Managing Executive  
Officers**

Kiyoshi Tomizawa  
Kiyoshi Shibasaki  
Kazuyoshi Shiraishi  
Toshiko Fusejima

**Executive Officers**

Seiji Yamamoto  
Toru Kobayashi  
Isao Kitazume  
Masami Hashimoto  
Ichiro Takenouchi

**Audit & Supervisory  
Board Members**

Hideo Kabe\*  
Masahiro Sekine\*  
Shintaro Ando\*\*  
Shinichi Kato\*\*

\* Full-Time Audit & Supervisory Board Member  
\*\* Outside Audit & Supervisory Board Member

## The Towa Bank Network

(As of March 31, 2017)

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**Service Network:**

