

2018

Financial Statements

TOWA

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 2017, ended March 31, 2018, which are presented hereunder.

The Japanese economy in fiscal 2017 continued to expand gradually. Exports increased and production followed an increasing trend as growth rates in economies overseas gradually grew. Moreover, capital investment continued to increase amid improved corporate earnings and business sentiment. Consumer spending also increased on the back of improved employment and incomes. Due to these factors, the economy continued to expand gradually.

Under these economic conditions, the entire management and staff of the Bank worked hard together based on Plan Phoenix IV. Thus, we supported customers' main business operations, management improvement, and asset formation as part of our TOWA Customer Support Activities that form the core of our business model 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." As a result, we created shared value with our customers and increased the Bank's earning capabilities.

In supporting our customers' main business operations, we provided business-matching services, including solutions to expand sales channels and introduce products. Other initiatives included

proposal activities to help resolve management issues such as increasing productivity, developing new products, specialist staff shortages, and business succession. Moreover, in assisting customers interested in expanding overseas or in import and export business, we supported 175 overseas expansion projects through collaboration between the International Department and sales offices, and utilization of our network of 38 institutions in 58 countries. Specifically, we collaborated with the Kanto Bureau of Economy, Trade and Industry to introduce retired employees of major corporations who have specialist knowledge or expertise and customers who are struggling with shortages of specialist human resources with the Management Mentor Exchange Meeting program. Since becoming the first regional bank to hold a Management Mentor Exchange Meeting in July 2014, we have held four more in total in Gunma and Saitama Prefectures. We have also led other banks in being the first to offer assistance in applying for the Monozukuri Subsidy, where efforts by the Relationship Banking Promotion Department working with external coordinators to support application preparations resulted in our achieving the highest number of successful applications compared with other local financial institutions for a second consecutive year.

In efforts to support management improvement, the Credit Management Department's Business Rehabilitation Office worked in coordination with external specialist organizations to support management improvements and business rehabilitation for

customers experiencing difficult management conditions. Together they examined the circumstances, financial position, and future business potential of customers from multiple angles. Moreover, we supported formulation of management improvement plans, and provided repayment relief to all banks led by bank meetings and debt waivers, as well as making use of radical rehabilitation measures such as DDS. As a result, the number of cases where we helped to formulate management improvement plans through collaboration with external institutions during Plan Phoenix IV rose to 311. In other initiatives, we offered support using the designated expert dispatch system of the Regional Economy Vitalization Corporation of Japan (REVIC) in 70 cases. Furthermore, in December 2016, jurisdiction over customers with lending condition changes, which had previously been divided between the Credit Administration Department and the Credit Management Department based on credit rating, was unified within the Business Rehabilitation Office, which has expertise in management improvement and a strong performance record of links with external specialist organizations. In addition, the case managers at the Business Rehabilitation Office visited all such customers in person to assist with management improvements. As a result, the number of customers assisted with formulation of management improvement plans increased from 461 among 1,103 customers with lending condition changes (41.7%) as of March 31, 2016 to 799 among 956 customers (83.6%) as of March 31, 2018, an improvement of 41.8 percentage points. Through the steady achievement of these highly realistic and sweeping management rebuilding plans involving management improvements and business rehabilitation support, 65 companies improved their debtor classification during the period of Plan Phoenix IV.

In support for customers' asset formation, we formulated the Customer-Centric Operation Management Policy in July 2017 in order to strengthen our customer-oriented initiatives. We have been implementing this policy and striving to achieve the best returns for our customers. In October 2017, we established the Private Banking Department with the General Manager of the Securities Investment Department serving concurrently as manager of the new department. This arrangement enabled the knowledge and expertise of the Securities Investment Department to

be utilized in financial product sales to customers as we worked to help them stably form assets. In addition, in February 2018, we launched a financial Instruments Intermediary Service in collaboration with the largest Internet securities company, SBI SECURITIES Co., Ltd., aimed at providing customers with a tool for asset management. The new service enables customers to purchase diverse financial products and obtain information.

As a result of these and other efforts to support our customers' main businesses, improve their management, and support business rehabilitation, our deposit balance as of the end of March 31, 2018 increased ¥34.4 billion year on year to ¥1,949.3 billion, while our loan balance also increased by ¥25.2 billion to ¥1,407.1 billion. For fiscal 2017, we posted ¥15.5 billion in income before income taxes and ¥11.3 billion in profit attributable to owners of parent, mainly due to an increase in the loan balance from loans to SMEs.

The Towa Bank Group originated as two mutual financing companies in Gunma and Saitama Prefectures. Going forward, we will never forget our modest origins and work under our newly formulated business improvement plan to further strengthen and deepen our TOWA Customer Support Activities with a view to practicing "shared value creation" with customers and local communities. We would like to ask our shareholders for their continued support and encouragement in these endeavors.

September 2018



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)
	2018	2017	2018
Assets:			
Cash and due from banks	¥ 276,679	¥ 231,150	\$ 2,604,291
Call loans and bills purchased	2,825	1,402	26,600
Trading account securities	38	27	359
Money held in trust	1,999	—	18,819
Securities	589,084	594,156	5,544,846
Loans and bills discounted	1,407,149	1,381,948	13,245,003
Foreign exchange	775	522	7,298
Other assets	28,326	18,729	266,631
Tangible fixed assets	24,702	25,203	232,512
Buildings	4,567	4,714	42,992
Land	18,147	18,031	170,817
Lease assets (tangible)	109	146	1,030
Other tangible assets	1,877	2,311	17,672
Intangible fixed assets	1,427	1,713	13,435
Software	1,202	1,532	11,314
Other intangible assets	225	181	2,121
Deferred tax assets	994	259	9,364
Customers' liabilities for acceptances and guarantees	3,869	4,406	36,419
Reserve for possible loan losses	(6,513)	(7,321)	(61,305)
Total assets	¥2,331,360	¥2,252,199	\$21,944,278

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 ¥106.24 to US\$1.00, the rate prevailing on March 31, 2018.

<i>March 31,</i>	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Liabilities:			
Deposits	¥1,949,336	¥1,914,844	\$18,348,419
Call money and bills sold	27,000	—	254,141
Borrowed money	171,222	156,139	1,611,652
Foreign exchange	51	74	484
Other liabilities	10,643	11,976	100,180
Accrued employee bonuses	448	440	4,217
Net defined benefit liability	8,531	9,364	80,302
Reserve for director retirement benefits	2	0	21
Reserve for reimbursement of dormant deposits	534	440	5,032
Reserve for contingent loss	648	629	6,101
Deferred tax liabilities	13	16	128
Deferred tax liability for land revaluation	2,493	2,493	23,467
Acceptances and guarantees	3,869	4,406	36,419
Total liabilities	2,174,793	2,100,826	20,470,569
Net assets:			
Shareholders' equity:			
Capital stock	38,653	38,653	363,834
Capital surplus	31,155	31,160	293,257
Retained earnings	69,562	59,825	654,771
Treasury stock, at cost	(290)	(318)	(2,736)
Total shareholders' equity	139,081	129,322	1,309,126
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	12,350	17,513	116,251
Land revaluation account	3,093	3,093	29,118
Remeasurements of defined benefit plans	1,382	867	13,010
Total accumulated other comprehensive income	16,826	21,474	158,379
Stock acquisition rights	255	227	2,402
Non-controlling interests	403	348	3,799
Total net assets	156,566	151,372	1,473,708
Total liabilities and net assets	¥2,331,360	¥2,252,199	\$21,944,278

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)
	2018	2017	2018
Income:			
Interest on loans and discounts	¥20,372	¥21,430	\$191,756
Interest and dividends on securities	6,733	7,197	63,377
Other interest income	116	120	1,097
Fees and commissions	6,485	6,503	61,047
Other operating income	6,988	3,524	65,783
Other income	7,609	4,786	71,623
Total income	48,305	43,561	454,685
Expenses:			
Interest on deposits	393	545	3,701
Negotiable certificates of deposit	—	0	—
Interest on call money and bills sold	(5)	(0)	(54)
Interest on payables under securities lending transactions	0	—	1
Interest on borrowings and rediscounts	28	69	267
Other interest expenses	1	2	10
Fees and commissions	4,223	4,348	39,757
Other operating expenses	168	1,103	1,582
General and administrative expenses	22,180	22,243	208,777
Other expenses	5,840	4,496	54,973
Total expenses	32,829	32,810	309,016
Income before income taxes	15,475	10,751	145,669
Income taxes:			
Current	2,936	1,204	27,637
Deferred	1,171	929	11,028
Total income taxes	4,107	2,133	38,665
Profit	11,368	8,617	107,003
Profit attributable to non-controlling interests	58	63	546
Profit attributable to owners of parent	¥11,309	¥ 8,553	\$106,456
Profit attributable to owners of parent per share (in yen and U.S. dollars):			
Basic	¥294.53	¥219.48	\$ 2.77
Diluted	172.42	11.37	1.62

Note: Effective from October 1, 2017, the Company consolidated its shares of common stock and Type 2 preferred stock at the ratio of ten shares to one share, but calculations assume that the shares were consolidated at the beginning of the previous fiscal year.

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)
	2018	2017	2018
Profit	¥11,368	¥ 8,617	\$107,003
Other comprehensive income:			
Net unrealized gains on available-for-sale securities	(5,165)	(4,053)	(48,620)
Remeasurements of defined benefit plans	514	458	4,841
Total other comprehensive income	(4,651)	(3,595)	(43,779)
Total comprehensive income	¥ 6,716	¥ 5,022	\$ 63,224
Total comprehensive income attributable to:			
Owners of parent	¥ 6,661	¥ 4,952	\$ 62,703
Non-controlling interests	55	69	520

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, 2017	¥38,653	¥31,160	¥59,825	¥(318)	¥129,322
Changes in items during the period:					
Profit attributable to owners of parent			11,309		11,309
Dividends from surplus			(1,572)		(1,572)
Purchase of treasury stock				(7)	(7)
Disposal of treasury stock		(5)		34	29
Changes in items other than shareholders' equity during the period (net amount)					
Total changes in items during the period	—	(5)	9,737	27	9,759
Balance at March 31, 2018	¥38,653	¥31,155	¥69,562	¥(290)	¥139,081

	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, 2017	¥17,513	¥3,093	¥ 867	¥21,474	¥227	¥348	¥151,372
Changes in items during the period:							
Profit attributable to owners of parent							11,309
Dividends from surplus							(1,572)
Purchase of treasury stock							(7)
Disposal of treasury stock							29
Changes in items other than shareholders' equity during the period (net amount)	(5,162)	—	514	(4,648)	27	55	(4,565)
Total changes in items during the period	(5,162)	—	514	(4,648)	27	55	5,193
Balance at March 31, 2018	¥12,350	¥3,093	¥1,382	¥16,826	¥255	¥403	¥156,566

	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2017	\$363,834	\$293,307	\$563,116	\$(2,995)	\$1,217,263
Changes in items during the period:					
Profit attributable to owners of parent			106,456		106,456
Dividends from surplus			(14,802)		(14,802)
Purchase of treasury stock				(66)	(66)
Disposal of treasury stock		(50)		325	274
Changes in items other than shareholders' equity during the period (net amount)					
Total changes in items during the period	—	(50)	91,654	259	91,863
Balance at March 31, 2018	\$363,834	\$293,257	\$654,771	\$(2,736)	\$1,309,126

	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, 2017	\$164,845	\$29,118	\$ 8,168	\$202,132	\$2,144	\$3,279	\$1,424,820
Changes in items during the period:							
Profit attributable to owners of parent							106,456
Dividends from surplus							(14,802)
Purchase of treasury stock							(66)
Disposal of treasury stock							274
Changes in items other than shareholders' equity during the period (net amount)	(48,594)	—	4,841	(43,752)	257	520	(42,974)
Total changes in items during the period	(48,594)	—	4,841	(43,752)	257	520	48,888
Balance at March 31, 2018	\$116,251	\$29,118	\$13,010	\$158,379	\$2,402	\$3,799	\$1,473,708

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)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 15,475	¥ 10,751	\$ 145,669
Depreciation and amortization	1,592	1,568	14,991
Loss on impairment of fixed assets	29	—	279
Increase (decrease) in reserve for possible loan losses	(808)	(905)	(7,609)
Increase (decrease) in reserve for employee bonuses	7	23	70
Increase (decrease) in reserve for reimbursement of dormant deposits	94	(7)	888
Increase (decrease) in reserve for contingent loss	19	(52)	178
Increase (decrease) in net defined benefit liabilities	(93)	(49)	(880)
Increase (decrease) in provision for directors' retirement benefits	1	(0)	13
Interest income	(27,221)	(28,748)	(256,231)
Interest expenses	417	618	3,926
Loss (gain) on disposal of tangible fixed assets	8	3	77
Loss (gain) on securities — net	(6,898)	(1,792)	(64,929)
Loss (gain) on money held in trust	0	—	5
Foreign exchange loss (gain) — net	285	(69)	2,684
Net (increase) decrease in loans	(25,200)	(30,258)	(237,205)
Net increase (decrease) in deposits	34,491	54,044	324,654
Net increase (decrease) in negotiable certificates of deposit	—	(700)	—
Net increase (decrease) in borrowings excluding subordinated debt	15,083	27,750	141,971
Net (increase) decrease in due from banks other than the Bank of Japan	90	355	854
Net (increase) decrease in call loans and others	(1,423)	21,099	(13,399)
Net increase (decrease) in call money and others	27,000	—	254,141
Net (increase) decrease in foreign exchange — assets	(253)	(15)	(2,381)
Net increase (decrease) in foreign exchange — liabilities	(23)	57	(216)
Interest received	27,654	29,346	260,306
Interest paid	(465)	(736)	(4,379)
Other	(9,520)	(5,410)	(89,631)
Subtotal	50,341	76,870	473,849
Income taxes paid	(1,223)	(1,588)	(11,512)
Net cash provided by (used in) operating activities	49,118	75,281	462,336
Cash flows from investing activities:			
Purchases of tangible fixed assets	(646)	(1,463)	(6,080)
Purchases of securities	(163,531)	(137,990)	(1,539,266)
Proceeds from sale of tangible fixed assets	—	25	—
Proceeds from sale of securities	51,843	40,767	487,987
Purchases of intangible fixed assets	(155)	(420)	(1,463)
Proceeds from redemption of securities	112,567	100,746	1,059,561
Payments for asset retirement obligations	(14)	(0)	(138)
Increase in money held in trust	(2,000)	—	(18,825)
Net cash provided by (used in) investing activities	(1,936)	1,663	(18,225)
Cash flows from financing activities:			
Proceeds from exercise of stock options	0	0	3
Purchases of treasury stock	(7)	(1)	(66)
Dividends paid	(1,572)	(1,237)	(14,802)
Net cash provided by (used in) financing activities	(1,579)	(1,239)	(14,865)
Effect of exchange rate changes on cash and cash equivalents	17	20	162
Net increase (decrease) in cash and cash equivalents	45,620	75,726	429,408
Cash and cash equivalents at beginning of year	230,257	154,531	2,167,336
Cash and cash equivalents at end of year	¥ 275,878	¥ 230,257	\$ 2,596,745

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>	2018	2018
Core capital: instruments and reserves	¥ 142,829	\$ 1,344,401
Core capital: adjustment amount of instruments and reserves	1,191	11,216
Total qualifying capital	¥ 141,637	\$ 1,333,184
Risk-adjusted assets:		
On-balance-sheet assets	¥1,136,025	\$10,693,013
Off-balance-sheet assets	7,684	72,331
Credit value adjustment amount	187	1,766
Risk-weighted credit equivalent amount	1,143,897	10,767,111
Amount related to operational risk-equivalent assets	59,324	558,404
Total	¥1,203,222	\$11,325,516
Capital ratio	11.77%	

Board of Directors and Audit & Supervisory Board

(As of June 26, 2018)

**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
Kazuyoshi Shiraishi
Toshiko Fusejima
Seiji Yamamoto

Executive Officers

Toru Kobayashi
Isao Kitazume
Masami Hashimoto
Ichiro Takenouchi
Hiroshi Nagasawa
Shinichiro Suzuki

**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, 2018)

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