

FINANCIAL STATEMENTS

2020

The background of the page is decorated with several overlapping, flowing blue lines that create a sense of movement and depth. These lines vary in shades of blue, from light to dark, and curve across the page, framing the central text.

TOWA

THE TOWA BANK, LTD.

Message from Management



Kunimitsu Yoshinaga

Representative Director
Chairman & Executive Officer



Hiroshi Ebara

Representative Director
President & Chief Executive Officer

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

On June 24, 2020, The Towa Bank appointed Mr. Kunimitsu Yoshinaga as Chairman & Executive Officer and Mr. Hiroshi Ebara as President & Chief Executive Officer. Looking forward, all of the executives and employees of The Towa Bank Group will contribute to mutual sustainable development of the Bank and customers with the following mottos 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 regional financial institution. We would like to ask our shareholders for their continued support and encouragement in these endeavors.

To assist further understanding of our current situation, we have completed the Bank’s financial reports for fiscal 2019, ended March 31, 2020, which are presented hereunder.

The Japanese economy in fiscal 2019 continued to expand gradually until last year, despite slightly weak trends in exports, production and corporate business sentiment moved by influence of deceleration of overseas economies, disasters and a rise in Japanese consumption tax rate. However, in 2020, Coronavirus Disease 2019 (COVID-19) spread all over the world, and interception of supply-chains and strict rules on the conduct businesses and consumers, among other factors restricted the supply and demand of economic activity. Consequently, the economic outlook has become uncertain. In addition, the financial

landscape continues to be marked by extreme easing in monetary policies with additional monetary easing measures taken to cope with COVID-19.

Under these economic conditions, we have aimed for mutual sustainable development of the Bank and customers based on our business improvement plan, Plan Phoenix V. Thus, we supported customers’ main business operations, management improvement and business rehabilitation, and asset formation as part of TOWA Customer Support Activities that form the core of our business model. As a result, we aimed to create shared value with our customers and increase the Bank’s earning capabilities. We believe that is what the Sustainable Development Goals (SDGs) are all about. Based on the theme of “Promoting customers’ and the Bank’s SDGs*,” we have strengthened and deepened our initiatives to support customers.

* We approach “Sustainable Development Goals” from the perspective of aiming for customers’ and our sustainable development.

In addition, we carefully have worked to understand the actual business conditions, cash flow situation and other aspects of customers such as small- and medium-sized enterprises, who have been affected directly or indirectly by the spread of COVID-19. Based on this understanding, we have taken steps to provide appropriate and timely financial support to customers.

In supporting our customers’ main business operations, we have provided financial and operational support with a focus on Environment, Social and Governance (ESG) priorities. We have made efforts to

promote widespread adoption of ESG finance. Notably, in September 2019, we were certified as a designated financial institution for the ESG Regional Finance Interest Subsidy Programme of the Ministry of the Environment (MOE) and certified as a supported regional financial institution for the ESG Regional Finance Promotion Program of MOE in July 2019. Moreover, in November 2019, we collaborated with JAPAN POST BANK Co., Ltd. to form the Towa Regional Vitalization Fund. The Fund aims to contribute to regional vitalization by supporting the business succession needs of small and medium-sized enterprises and middle-market firms, and assisting with tourism development and other priorities. We have provided business-matching services aimed at expanding customer's sales channels, set up sessions with major corporations to match upstream and downstream enterprises, and fostered commercial negotiations individually with major manufacturing and food processing companies. 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 financial institutions in the prefectures of Gunma and Saitama over the past four years. Moreover, we collaborated with the Kanto Bureau of Economy, Trade and Industry to bring together retired employees of major corporations who have specialist knowledge or expertise and customers who are struggling with shortages of specialist human resources at Management Mentor Exchange Meetings, of which we have held a total of six in the prefectures of Gunma and Saitama since becoming the first regional bank to hold one in July 2014. To assist customers interested in expansion overseas or import and export business, we have proactively offered support by providing information through our overseas network of 39 institutions in 58 countries via the International Department. We also bolstered and broadened our collaborative frameworks with business partners to offer proactive support.

In support for customers' improvements to management and business rehabilitation, we have striven to demonstrate consulting capabilities through such means as supporting the formulation of management improvement plans and offering management direction. We proactively utilized the knowledge of external specialist organizations and supporting capabilities. Concurrently, we have provided effective, fundamental business rehabilitation support based on more appropriate business feasibility assessments, according to the business conditions of each corporate customer.

In support for customers' asset formation, we commenced advisory-focused sales activities at all branches in July 2019 to preserve and grow customers' financial assets. We have worked to increase the financial assets of customers centered on a low-risk, low-return core fund. In parallel, we are focused on supporting asset formation through investment trusts in which customers can make investments, starting with small amounts, based on the themes of "long-term investment," "diversification," and "asset accumulation." Additionally, in April 2019, we opened Towa Bank SBI Money Plaza as a financial brokering service. Through this service, we support our customers' various needs for financial products.

As a result of these and other efforts to support our customers' main businesses, management improvement, business rehabilitation, and asset formation, our deposit balance as of the end of March 31, 2020 increased ¥24.3 billion year on year to ¥1,981.8 billion, while our loan balance increased ¥22.1 billion to ¥1,456.1 billion. Concerning earnings in fiscal 2019, we posted ordinary income of ¥5.9 billion and net income of ¥2.8 billion.

We believe that the highest priority is to make every effort to support regional small and medium-sized enterprises and other customers whose management, cash flow position and other aspects have been affected by the spread of COVID-19. Going forward, all executives and employees of the Towa Bank Group will work as one to provide timely, appropriate and flexible financial support to customers facing issues in their management, cash flow situation and other areas because of the coronavirus outbreak. Concurrently, we will further strengthen and deepen our TOWA Customer Support Activities at the core of our business model, thereby contributing to sustainable development of the regional economy as well as the Bank. We would like to ask our shareholders for their continued support and encouragement in these endeavors.

July 2020



Kunimitsu Yoshinaga
Representative Director
Chairman & Executive Officer



Hiroshi Ebara
Representative Director
President & Chief Executive Officer

Consolidated Balance Sheets

The Towa Bank, Ltd. and Consolidated Subsidiaries

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2020	2019	2020
Assets:			
Cash and due from banks	¥ 240,661	¥ 166,070	\$ 2,211,351
Call loans and bills purchased	4,647	2,086	42,700
Trading account securities	14	35	133
Money held in trust	9,998	9,999	91,873
Securities	561,280	635,904	5,157,408
Loans and bills discounted	1,456,130	1,434,002	13,379,865
Foreign exchange	551	442	5,068
Other assets	29,844	29,989	274,232
Tangible fixed assets	22,666	23,445	208,273
Buildings	4,418	4,590	40,596
Land	16,482	16,954	151,451
Lease assets (tangible)	55	71	507
Construction in progress	3	—	33
Other tangible assets	1,706	1,829	15,684
Intangible fixed assets	1,657	1,397	15,231
Software	1,156	1,020	10,628
Other intangible assets	500	377	4,602
Deferred tax assets	3,731	550	34,288
Customers' liabilities for acceptances and guarantees	4,156	4,069	38,193
Reserve for possible loan losses	(5,872)	(4,964)	(53,963)
Total assets	¥2,329,468	¥2,303,026	\$21,404,657

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 ¥108.83 to US\$1.00, the rate prevailing on March 31, 2020.

March 31,	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2020	2019	2020
Liabilities:			
Deposits	¥1,981,811	¥1,957,497	\$18,210,153
Call money and bills sold	27,000	27,000	248,093
Borrowed money	172,613	163,519	1,586,079
Foreign exchange	19	32	179
Other liabilities	7,238	8,772	66,508
Accrued employee bonuses	441	428	4,052
Net defined benefit liability	2,951	2,385	27,123
Reserve for director retirement benefits	1	2	9
Reserve for reimbursement of dormant deposits	368	555	3,388
Reserve for contingent loss	493	591	4,537
Deferred tax liabilities	8	11	80
Deferred tax liability for land revaluation	2,091	2,201	19,220
Acceptances and guarantees	4,156	4,069	38,193
Total liabilities	2,199,195	2,167,067	20,207,619
Net assets:			
Shareholders' equity:			
Capital stock	38,653	38,653	355,175
Capital surplus	17,501	17,500	160,813
Retained earnings	65,703	64,384	603,730
Treasury stock, at cost	(235)	(272)	(2,166)
Total shareholders' equity	121,623	120,265	1,117,552
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	5,765	11,690	52,979
Land revaluation account	2,334	2,427	21,449
Remeasurements of defined benefit plans	(191)	864	(1,758)
Total accumulated other comprehensive income	7,908	14,981	72,670
Stock acquisition rights	311	294	2,864
Non-controlling interests	429	418	3,948
Total net assets	130,273	135,959	1,197,037
Total liabilities and net assets	¥2,329,468	¥2,303,026	\$21,404,657

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)
	2020	2019	2020
Income:			
Interest on loans and discounts	¥19,239	¥19,827	\$176,787
Interest and dividends on securities	5,239	5,295	48,139
Other interest income	102	114	941
Fees and commissions	6,468	6,654	59,433
Other operating income	2,723	156	25,028
Other income	4,956	5,703	45,539
Total income	38,729	37,751	355,869
Expenses:			
Interest on deposits	287	314	2,640
Interest on call money and bills sold	(27)	(21)	(253)
Interest on payables under securities lending transactions	0	0	0
Interest on borrowings and rediscounts	34	30	316
Other interest expenses	0	0	1
Fees and commissions	3,929	4,104	36,109
Other operating expenses	190	240	1,754
General and administrative expenses	20,245	20,860	186,026
Other expenses	8,993	5,989	82,639
Total expenses	33,654	31,518	309,235
Income before income taxes	5,075	6,233	46,634
Income taxes:			
Current	2,431	1,560	22,341
Deferred	(266)	(141)	(2,452)
Total income taxes	2,164	1,418	19,889
Profit	2,910	4,814	26,745
Profit attributable to non-controlling interests	14	17	132
Profit attributable to owners of parent	¥ 2,896	¥ 4,797	\$ 26,612
Profit attributable to owners of parent per share (in yen and U.S. dollars):			
Basic	¥ 73.19	¥124.78	\$ 0.67
Diluted	50.97	90.99	0.46

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)
	2020	2019	2020
Profit	¥ 2,910	¥ 4,814	\$ 26,745
Other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities	(5,927)	(663)	(54,464)
Remeasurements of defined benefit plans	(1,055)	(518)	(9,698)
Total other comprehensive income	(6,982)	(1,181)	(64,163)
Total comprehensive income	¥(4,072)	¥ 3,633	\$ (37,417)
Total comprehensive income attributable to:			
Owners of parent	¥(4,083)	¥ 3,619	\$ (37,525)
Non-controlling interests	11	14	107

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, 2019	¥38,653	¥17,500	¥64,384	¥(272)	¥120,265
Changes in items during the period:					
Profit attributable to owners of parent			2,896		2,896
Dividends from surplus			(1,669)		(1,669)
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock		1		39	40
Reversal of revaluation reserve for land			92		92
Changes in items other than shareholders' equity during the period (net amount) ...					
Total changes in items during the period	—	1	1,319	36	1,358
Balance at March 31, 2020	¥38,653	¥17,501	¥65,703	¥(235)	¥121,623

	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, 2019	¥11,690	¥2,427	¥ 864	¥14,981	¥294	¥418	¥135,959
Changes in items during the period:							
Profit attributable to owners of parent							2,896
Dividends from surplus							(1,669)
Purchase of treasury stock							(2)
Disposal of treasury stock							40
Reversal of revaluation reserve for land							92
Changes in items other than shareholders' equity during the period (net amount) ...	(5,924)	(92)	(1,055)	(7,072)	16	11	(7,044)
Total changes in items during the period	(5,924)	(92)	(1,055)	(7,072)	16	11	(5,686)
Balance at March 31, 2020	¥ 5,765	¥2,334	¥ (191)	¥ 7,908	¥311	¥429	¥130,273

Thousands of U.S. dollars (Note 2)					
Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2019	\$355,175	\$160,801	\$591,603	\$(2,505)	\$1,105,073
Changes in items during the period:					
Profit attributable to owners of parent			26,612		26,612
Dividends from surplus			(15,336)		(15,336)
Purchase of treasury stock				(19)	(19)
Disposal of treasury stock		12		358	371
Reversal of revaluation reserve for land			851		851
Changes in items other than shareholders' equity during the period (net amount) ...					
Total changes in items during the period	—	12	12,127	339	12,479
Balance at March 31, 2020	\$355,175	\$160,813	\$603,730	\$(2,166)	\$1,117,552

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, 2019	\$107,419	\$22,301	\$ 7,939	\$137,660	\$2,709	\$3,840	\$1,249,284
Changes in items during the period:							
Profit attributable to owners of parent							26,612
Dividends from surplus							(15,336)
Purchase of treasury stock							(19)
Disposal of treasury stock							371
Reversal of revaluation reserve for land							851
Changes in items other than shareholders' equity during the period (net amount) ...	(54,439)	(851)	(9,698)	(64,989)	154	107	(64,726)
Total changes in items during the period	(54,439)	(851)	(9,698)	(64,989)	154	107	(52,247)
Balance at March 31, 2020	\$ 52,979	\$21,449	\$(1,758)	\$ 72,670	\$2,864	\$3,948	\$1,197,037

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)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes	¥ 5,075	¥ 6,233	\$ 46,634
Depreciation and amortization	1,360	1,394	12,504
Loss on impairment of fixed assets	605	112	5,561
Increase (decrease) in reserve for possible loan losses	1,316	(1,548)	12,095
Increase (decrease) in reserve for employee bonuses	12	(19)	114
Increase (decrease) in reserve for reimbursement of dormant deposits	(187)	21	(1,719)
Increase (decrease) in reserve for contingent loss	(97)	(57)	(893)
Increase (decrease) in net defined benefit liabilities	(951)	(6,890)	(8,739)
Increase (decrease) in provision for directors' retirement benefits	(1)	0	(17)
Interest income	(24,581)	(25,237)	(225,868)
Interest expenses	294	323	2,704
Loss (gain) on disposal of tangible fixed assets	21	(424)	196
(Increase) decrease in trading account securities	20	2	190
Loss (gain) on securities — net	(1,683)	(499)	(15,464)
Loss (gain) on sales of shares of subsidiaries	233	—	2,143
Loss (gain) on money held in trust	(2)	—	(22)
Foreign exchange loss (gain) — net	228	(325)	2,098
Net (increase) decrease in loans	(22,152)	(26,853)	(203,553)
Net increase (decrease) in deposits	24,313	8,161	223,404
Net increase (decrease) in borrowings excluding subordinated debt	9,094	(7,703)	83,561
Net (increase) decrease in due from banks other than the Bank of Japan	(2,664)	34	(24,486)
Net (increase) decrease in call loans and others	(2,560)	739	(23,526)
Net (increase) decrease in foreign exchange — assets	(109)	333	(1,005)
Net increase (decrease) in foreign exchange — liabilities	(12)	(19)	(115)
Interest received	25,996	25,719	238,875
Interest paid	(308)	(383)	(2,838)
Other	(512)	(778)	(4,711)
Subtotal	12,746	(27,662)	117,122
Income taxes paid	(741)	(3,753)	(6,814)
Net cash provided by (used in) operating activities	12,004	(31,415)	110,307
Cash flows from investing activities:			
Purchases of tangible fixed assets	(738)	(888)	(6,788)
Purchases of securities	(120,436)	(136,209)	(1,106,643)
Proceeds from sale of tangible fixed assets	—	1,509	—
Proceeds from sale of securities	53,413	12,576	490,800
Purchases of intangible fixed assets	(718)	(396)	(6,600)
Proceeds from redemption of securities	131,401	76,550	1,207,403
Payments for asset retirement obligations	(5)	(9)	(54)
Increase in money held in trust	—	(8,000)	—
Proceeds from decrease of money held in trust	2	—	26
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	1,360	—	12,496
Net cash provided by (used in) investing activities	64,279	(54,868)	590,639
Cash flows from financing activities:			
Proceeds from exercise of stock options	0	0	0
Purchases of treasury stock	(2)	(22,745)	(19)
Dividends paid	(1,669)	(1,553)	(15,336)
Net cash provided by (used in) financing activities	(1,671)	(24,299)	(15,355)
Effect of exchange rate changes on cash and cash equivalents	0	9	5
Net increase (decrease) in cash and cash equivalents	74,613	(110,574)	685,596
Cash and cash equivalents at beginning of year	165,303	275,878	1,518,913
Cash and cash equivalents at end of year	¥ 239,916	¥ 165,303	\$ 2,204,510

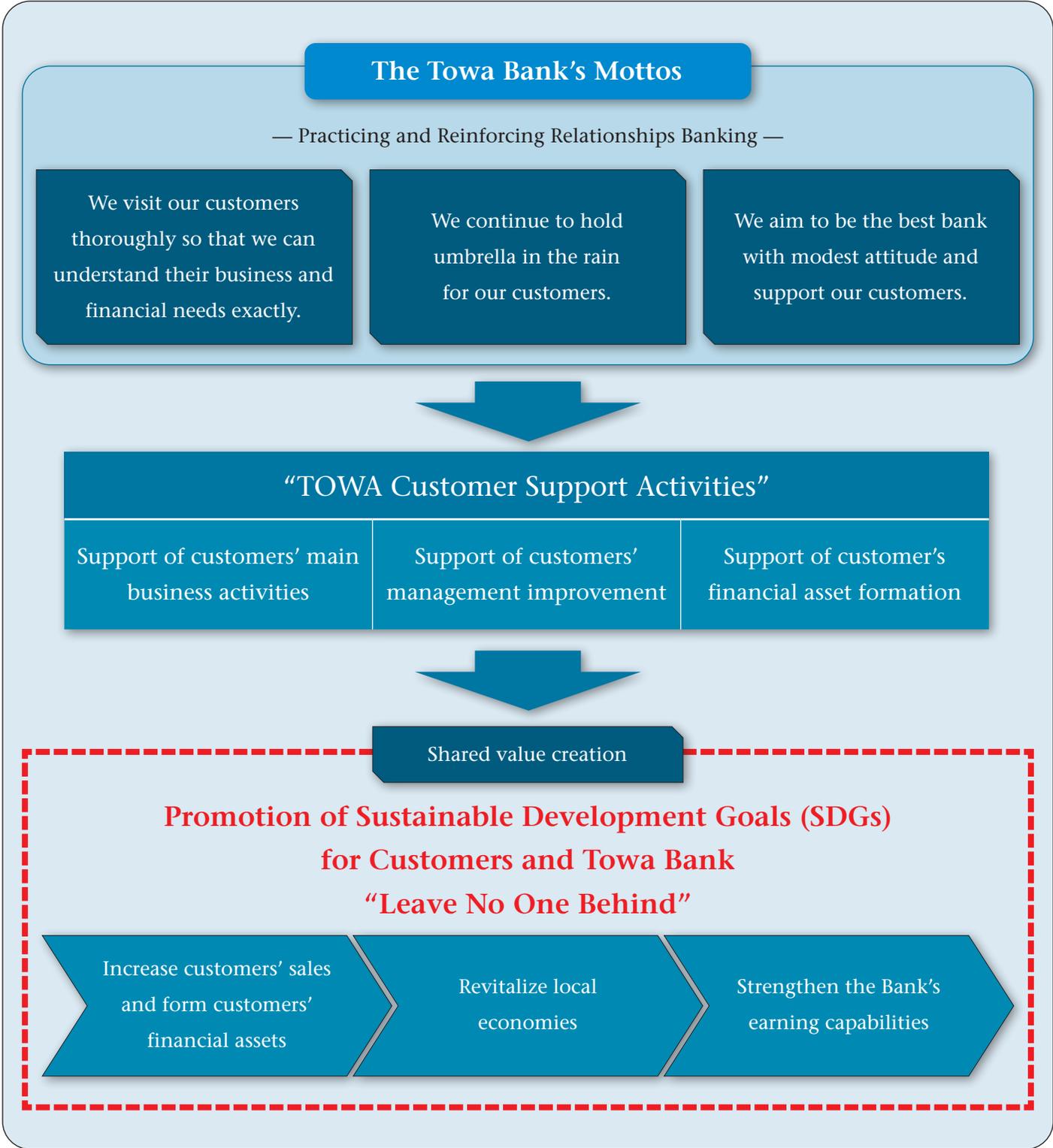
Supplementary Information

Consolidated Capital Ratio *(Domestic Standard)*

[Basel III]	Millions of yen (Note 1)	Thousands of U.S. dollars (Note 2)
<i>March 31,</i>	2020	2020
Core capital: instruments and reserves	¥ 123,613	\$ 1,135,842
Core capital: adjustment amount of instruments and reserves	1,747	16,059
Total qualifying capital	¥ 121,866	\$ 1,119,783
Risk-adjusted assets:		
On-balance-sheet assets	¥1,180,337	\$10,845,697
Off-balance-sheet assets	9,781	89,879
Credit value adjustment amount	280	2,573
Risk-weighted credit equivalent amount	1,190,398	10,938,151
Amount related to operational risk-equivalent	54,538	501,133
Total	¥1,244,937	\$11,439,284
Capital ratio	9.78%	

Business Model

The Towa Bank’s entire management and staff work in unity with a business model of “Shared value creation” to revitalize local economies and enhance the Bank’s earning capabilities by supporting customers’ main business activities, management improvement, and asset formation.



Directors, Executive Officers, and Audit & Supervisory Board Members

(As of June 24, 2020)

**Representative Director
Chairman & Executive
Officer**

Kunimitsu Yoshinaga

**Representative Director
President & Chief
Executive Officer**

Hiroshi Ebara

**Director
Deputy President &
Executive Officer**

Hiroyuki Sakurai

**Director
Senior Managing
Executive Officer**

Isao Kitazume

**Director
Managing Executive
Officer**

Shinichiro Suzuki

**Directors
(Non-Executive)**

Takeshi Mizuguchi
Rikako Onishi
Hideto Tago

**Managing Executive
Officers**

Kazuyoshi Shiraishi
Toru Kobayashi
Masami Hashimoto

Executive Officers

Ichiro Takenouchi
Hiroshi Nagasawa
Takahisa Wasada
Susumu Okabe
Yukihiko Tsukagoshi

**Audit & Supervisory
Board Members**

Kiyomi Osawa*
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, 2020)

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